

**COMBATING TRANSNATIONAL CRIME AND  
CORRUPTION IN EUROPE**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON EUROPEAN AFFAIRS  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
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## COMBATING TRANSNATIONAL CRIME AND CORRUPTION IN EUROPE

THURSDAY, OCTOBER 30, 2003

U.S. SENATE,  
SUBCOMMITTEE ON EUROPEAN AFFAIRS,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:41 p.m., in room D-419, Dirksen Senate Office Building, Hon. George Allen (chairman of the subcommittee), presiding.

Present: Senators Allen and Voinovich.

Senator ALLEN. Good afternoon. I thank all who are interested in this hearing of the European Affairs Subcommittee. We will be examining the issue of combating transnational crime and corruption in Europe I want to thank all the witnesses in the first panel and the second panel for being with us today. I'm glad to be joined by my colleague who is a leader and knowledgeable and experienced insofar as this issue is concerned. He was a key leader in bringing this issue to the attention of the subcommittee and I am happy to open this hearing.

Transnational crime is a term that unfortunately is quite familiar to Europeans and Americans today. It's crystal clear to us all here how the criminal elements in Europe and also in other parts of the world affect our daily lives. We need to work together to fight crime such as narcotics trafficking, terrorism and corruption.

Today more than ever, crime and corruption cannot be classified as just something here in the United States or in a European nation. It is a phenomenon that crosses geographical borders just as easily as e-mail messages over the Internet. And I would like to say here at the outset that the United States considers Europe as our closest allies in the struggle against organized crime and corruption on all levels and in all areas of law. Law enforcement officials in the United States stress the close cooperation that exists between law enforcement agencies in Europe.

The purpose of this hearing is to examine these bilateral efforts and to hear suggestions from experts in the field on how we can make them even more effective in combating this criminal activity. But I would also like to say that we in the United States recognize the homegrown problems we face with organized crime and corruption. We have never been shy here in the United States about admitting our own problems. But the difference between American and European societies compared with other societies that are not as free is that European and American societies are built upon the foundation of law and order and the rule of law. Our citizens insist

that law enforcement officials expose crime and corruption to the light of day and punish the criminals.

Hopefully we can use our institutions and expertise to help the newly independent countries avoid the mistakes and the harm caused by criminal activity and corruption in those countries. The prevalence of any sort of criminal activity or corruption in the country clearly would inhibit its ability to get investment in that country, thereby inhibiting its ability to attract jobs, as well as obviously affect the quality of life of its own citizens. And so while we're looking at emerging nations whether in Central Europe, Southeastern Europe, Eastern Europe, or wherever it may be in the world, if you don't have a safe place in which to do business where the rule of law and a concept of property rights and basic security is assured, you're simply not going to get investment.

It's no different here in the United States. If you have a high crime area, no one is going to want to put a business in that community. No one will want to shop or work in a place where they are worried about criminal activity.

And so, this crime is beyond random robberies. We're going to be examining more than random robberies and those sorts of things that happen from time to time.

The criminal elements that we're talking about, whether in the United States or Europe, are dynamic, they are large, they are ever changing their patterns and their methods of operation. And for this reason, we must be fluid in possibly looking at ways to improve our capabilities. To meet this challenge we have created a multitude of bilateral and multilateral initiatives, each focusing on its own particular specialized area of crime.

We are honored today to have before the European Affairs Subcommittee representatives from the top United States agencies directing these initiatives, as well as representatives from academia and the private sector. We welcome two representatives from the Department of State, Ambassador Steven Pifer, Deputy Assistant Secretary of the European and Eurasian Affairs Bureau. We also have Deputy Assistant Secretary Steve Schrage, from the Bureau of International Narcotics and Law Enforcement.

We have two representatives from the Department of Justice, Grant Ashley from the Criminal Investigative Division of the FBI, and Bruce Swartz, Deputy Assistant Attorney General of the Criminal Division.

From American University, we welcome Dr. Louise Shelley, who is the director of the Transnational Crime and Corruption Center. And an especially warm welcome to the president of Global Advisory Services from McLean, Virginia, Dr. Rensselaer Lee III.

I thank all our witnesses for appearing today. I know we look forward to reading and hearing and learning from your expertise and your insight on these issues and these problems facing us in the area of transnational crime and corruption. Your ideas certainly will be helpful to us in how we might address and combat these challenges.

With that I want to thank my colleague again, the respected and knowledgeable Senator Voinovich for his leadership, foresight and vision in recognizing the importance of this issue and preparing for this hearing. I will ask Senator Voinovich to take over as chair of

this subcommittee hearing because unfortunately something came up, and I can't be in two places at the same time.

So I thank our witnesses, and I turn the gavel over to you, Senator Voinovich, Mr. Chairman, for this subcommittee hearing.

Senator VOINOVICH [presiding]. Thank you very much, Senator. I just want to thank you and thank Senator Lugar and Senator Biden for allowing us to convene this hearing on what are certainly many challenges in the world today. I believe it's crucial that we raise awareness of these serious problems and discuss U.S. efforts to combat them. And I am hoping, Mr. Chairman, that perhaps as a result of this hearing and the testimony that we receive today that we might be able to elevate the problem to a higher priority in our government than it is today, because I really feel that crime and corruption pose even greater dangers today in the countries that are out there than terrorism, and much of this organized crime provides the money for terrorist activity, and unless we do something about it, we are, I think, going to be in deep trouble and I would hate to see some of these efforts being undermined by organized crime. I think that the assassination of Prime Minister Djindjic is an indication of what's going on, so I appreciate the fact that you called this hearing today and I will try to do a good job of running it.

Senator ALLEN. I know you will. Please excuse me.

Senator VOINOVICH. I would like to continue. As the United States continues to engage in the global campaign against terrorism, the danger of organized crime and corruption in many parts of the world have become even more pronounced. While many of these problems are not new, such as the illicit trade of diamonds, drug smuggling, trafficking of weapons and human beings, the urgent need to confront them is heightened in the aftermath of the terrorist attacks against our country on September 11.

The problems of organized crime and corruption serve not only to undermine efforts to promote democratic reforms and the rule of law in many developing countries, but they provide a stream of revenue, as I mentioned to Senator Allen, for illicit activity with the potential to do grave harm to the people of the United States and the world at large. These activities have the potential to bankroll terrorist organizations such as al-Qaeda, and it's crucial that we do all that we can to put an end to crime that provides financial resources to terrorists.

As the United States encourages democratic reforms in parts of Europe, including the Balkans, and as Europe's new democracies look to join transatlantic institutions, including NATO, it's crucial that the U.S. Government have a coordinated approach for combating organized crime and corruption in Europe, and to interface with our allies so that we have a multinational network that can combat a formidable organized crime syndicate in Europe and countries that were part of the former Soviet Union.

As our witnesses will testify, the problems of organized crime and corruption are pervasive and have the potential to seriously impact U.S. national interests. They significantly impeded our efforts to promote stability, security and the rule of law in Europe and elsewhere, and they are very dangerous if left unchecked.

Just as we are a leader in the global war against terrorism, I believe we must also be a leader in the effort to combat transnational crime. We should identify those members of the international community who are engaged in the fight against organized crime and corruption, and coordinate and collaborate with them to maximize time, effort and resources. This is a shared responsibility, and we should look to work together to improve our progress in this area.

We should also look to strengthen our efforts to promote democratic reform and the rule of law in Europe's new democracies. These efforts go hand in glove with the fight against organized crime and corruption, for without the presence of the rule of law and a judicial system with necessary infrastructure, including a criminal code, well-trained prosecutors and judges who are paid a decent wage so that they are not subject to being corrupted, our efforts are going to be less than fruitful.

This was evident to me when I was in Bulgaria in May of 2002. I remember talking, I spent an hour and a half with an FBI agent who working with the police officers in Bulgaria had arrested nearly 90 people for human trafficking, and I recall how frustrated he was that they were never prosecuted.

I believe this hearing is an important step toward highlighting the issue of transnational crime and its impact on our national interests. While we often spend time on specific issues that are tied to organized crime, such as human trafficking or the illicit drug trade, I believe it is imperative that we look at the big picture and identify the common themes tied to many of these problems. We should also discuss what the U.S. Government is doing to combat transnational crime and corruption, and how we might improve upon our efforts in this regard.

[The opening statement of Senator Voinovich follows:]

OPENING STATEMENT OF SENATOR GEORGE V. VOINOVICH

This afternoon, we are gathered to discuss the dangers of transnational crime and corruption in Europe. I would like to thank the Chairman, Senator Lugar, the Subcommittee Chairman, Senator Allen, and Senator Biden for allowing us to convene this hearing. While there are certainly many challenges in the world today, I believe it is crucial that we raise awareness of these serious problems and discuss U.S. efforts to combat them.

In my opinion, transnational crime and corruption pose an even greater danger to many developing countries in Europe than terrorism, with the potential to seriously undermine efforts to promote long-term stability, security and prosperity for many citizens of Europe. Unless these problems are addressed at the highest levels, they will continue to threaten future progress and modernization. The tragic assassination of Serbian Prime Minister Zoran Djindjic last March illustrates the dangerous nexus between organized crime, corruption and political reform.

As the United States continues to engage in the global campaign against terrorism, the dangers of organized crime and corruption in many parts of the world have become even more pronounced. While many of these problems are not new—such as the illicit trade of diamonds, drug smuggling, and the trafficking of weapons and human beings—the urgent need to confront them is heightened in the aftermath of the terrorist attacks against our country on September 11, 2001.

The problems of organized crime and corruption serve not only to undermine efforts to promote democratic reforms and the rule of law in many developing countries, but they provide a stream of revenue for illicit activity with the potential to do grave harm to the people of the United States and the world at large. These activities have the potential to bankroll terrorist organizations such as al-Qaeda, and it is crucial that we do all that we can to put an end to crimes that provide financial resources for terrorists.

As the United States encourages democratic reforms in parts of Europe, including the Balkans, and as Europe's new democracies look to join trans-Atlantic institu-



tions, including the NATO Alliance, it is crucial that the U.S. Government have a coordinated approach for combating organized crime and corruption in Europe, and to interface with our allies so that we have a multinational network that can combat a formidable organized crime syndicate in Europe and countries that were part of the former Soviet Union.

As our witnesses will testify, the problems of organized crime and corruption are pervasive and have the potential to seriously impact U.S. national interests. They significantly impede our efforts to promote stability, security and the rule of law in Europe and elsewhere, and they are very dangerous if left unchecked.

Just as we are a leader in the global war against terrorism, I believe we must also be a leader in the effort to combat transnational crime. We should identify those members of the international community who are engaged in the fight against organized crime and corruption, and coordinate and collaborate with them to maximize time, effort and resources. This is a shared responsibility, and we should work together to improve upon our progress in this area.

We should also work to strengthen our efforts to promote democratic reform and the rule of law in Europe's new democracies. These efforts go hand in glove with the fight against organized crime and corruption, for without the presence of the rule of law and a judicial system with necessary infrastructure—including a criminal code, well-trained prosecutors and judges—our efforts will be less than fruitful.

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I believe this hearing is an important step toward highlighting the issue of transnational crime, and its impact on our national interests. While we often spend time on specific issues that are tied to organized crime, such as human trafficking or the illicit drug trade, I believe it is imperative that we look at the big picture and identify the common themes tied to many of these problems. We should also discuss what the United States Government is doing to combat transnational crime and corruption, and how we might improve upon our efforts in this regard.

As we continue this discussion, I would like to welcome two distinguished panels of witnesses here this afternoon. We will first hear from witnesses from the Departments of State and Justice, and the Federal Bureau of Investigation, including:

- Ambassador Steven Pifer, who serves as Deputy Assistant Secretary at the Bureau of European and Eurasian Affairs at the State Department;
- Mr. Steve Schrage, who serves as Deputy Assistant Secretary in the Bureau of International Narcotics and Law Enforcement Affairs (INL) at the State Department;
- Mr. Bruce Swartz, who serves as Deputy Assistant Attorney General in the Criminal Division at the Department of Justice; and
- Mr. Grant Ashley, who is Assistant Director in the Criminal Investigative Division at the Federal Bureau of Investigation.

I look forward to their testimony regarding the U.S. Government's efforts to combat transnational crime and corruption. As we move forward in the fight against organized crime and corruption abroad, I believe it is important that we have a coordinated approach, and that we develop a strategic plan, and I am glad that they have agreed to be here this afternoon.

I would also like to welcome:

- Dr. Louise I. Shelley, who is the Director of the Transnational Crime and Corruption Center at the American University in Washington; and
- Dr. Rens Lee, who is President, Global Advisory Services in McLean, Virginia.

Both Dr. Shelley and Dr. Lee have extensive experience in the issues of organized crime and corruption, and I look forward to hearing their thoughts on the scope of the problem and efforts underway to combat these destabilizing trends.

Senator VOINOVICH. As we continue this discussion, I welcome our witnesses here today and think the chairman has done a good job of introducing you, and I think we should get started. And I will start with Mr. Pifer. Ambassador Pifer, we are delighted to have you here.

**STATEMENT OF HON. STEVEN PIFER, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Ambassador PIFER. Mr. Chairman, thank you very much for the opportunity to appear here today to talk about the problem of transnational crime in Europe, and I will speak to you from the perspective of Russia and Ukraine. Mr. Chairman, I believe that both you and Senator Allen captured a very good description of the problems that we face with crime and corruption in the former Soviet Union. With your permission, I will submit a written statement for the record and just summarize that statement in some brief oral remarks.

Senator VOINOVICH. I would like to point out that I would like all of you to summarize your statements in 5 to 7 minutes and then we will open it up for questions, and of course your written testimony will be part of the record.

Ambassador PIFER. Thank you, sir. I would divide the crime and corruption threat into two parts. First of all, it's in the United States' interest that the countries of the former Soviet Union develop stable economies, because that's going to contribute to the sort of more stable and more secure Europe that we seek. Organized crime and corruption frustrate the development of a stable and secure Europe that we hope to see in the future.

The second threat is more of a direct threat, and that is as organized crime increasingly engages in transnational activities, it comes to the shores of the United States, so we have over the last years increasingly made work on fighting corruption and on combating crime a part of our engagement strategies with the countries of the former Soviet Union. The strategy that we apply has many pieces, and it's very much a multiagency strategy. I'm very glad today here that we have three of the agencies but not certainly all of the agencies of the U.S. Government that engage in dealing with the problem of transnational crime and corruption overseas.

I would note five prongs of our strategy to deal with this problem. First of all, we seek to expand the rule of law and law enforcement programs with a particular focus on criminal justice reform and on enhancing capabilities of the law enforcement agencies overseas to cope with modern crime.

Second, we provide judicial and law enforcement training, and in the process we want to introduce modern crime fighting techniques, but also introduce a respect for human rights and a sense of professional integrity.

Third, we want to promote strong and positive working relationships between U.S. law enforcement agencies and their counterparts overseas.

Fourth, we wish to institutionalize cooperation through law enforcement agreements.

And fifth, we want to promote eventual integration of the countries of the Balkans and the former Soviet Union into multilateral and regional institutions.

In pursuit of this strategy, we have a variety of policy tools. First of all, we use law enforcement working groups. Earlier this month Mr. Swartz and I chaired via digital video teleconference, a meet-

ing of the U.S.-Ukraine Law Enforcement Working Group. We brought together on the American side the Department of State, the Department of Justice, FBI, the Drug Enforcement Agency, with our Ukrainian counterparts, to talk about the sorts of issues on which we could cooperate to combat crime.

A second tool is mutual legal assistance treaties. These provide institutional ways for us to cooperate, dealing with things such as collecting evidence and such.

A third set of tools are multilateral efforts and there are a variety here. I mentioned the Financial Action Task Force. These groups work to create better tools to deal with the money laundering problem.

The United Nations Office on Drugs and Crime has been increasingly involved in the former Soviet Union and recently has been working very closely with us to cope with the problem of narcotics coming out of Afghanistan.

The Organization for Security and Cooperation in Europe [OSCE] is very engaged in promoting the reform of legal systems and also training of judges and prosecutors. We have in the Balkans, in Bucharest, an anti-crime center which coordinates regional efforts against transnational crime. We think that has been a very successful effort, and we hope to replicate that in the countries of Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. We are hoping to establish a virtual law enforcement center in Baku that will promote among those five countries cooperation and coordination among law enforcement entities.

And finally we have bilateral assistance. Since 1995 with the Freedom Support Act, we have provided over \$160 million to promote legal reform and also efforts against crime, and this includes \$21 million in fiscal year 2003 alone.

The problem is as you said, it's a pervasive problem, a very serious problem, but we can point to some examples of success. I would just cite, given the shortness of time, two examples here.

On the question of trafficking in persons, when I served in Kiev 5 years ago in 1998, we were struggling to promote basic awareness of the problem. In the last 5 years, we have worked very closely with the Ukrainians and gave them more of an awareness of the problem. We've helped them shape new laws against trafficking. We have helped promote institutional links between police organizations and nongovernmental organizations, and we have begun to see results. In the last year Ukrainian prosecutors opened 169 cases involving trafficking, more than twice as many as in 2001, and those cases have resulted in 41 prosecutions and 28 convictions to date.

A second area of success is money laundering, and I will cite case with the success of Russia. We worked with Russia and the Financial Action Task Force to promote a financial committee that investigates and ensures that suspicious money transfers in Russia are investigated. And the Russians have improved their legislation and their practice to a point where this year they were accepted as a full member in the Financial Action Task Force.

Mr. Chairman, transnational crime remains a real threat to the former Soviet Union and the Balkans, but it is also a threat to American interests there. Progress is being made, but we must con-

tinue to work counter-crime issues as a very important part of our agenda with those countries. Thank you again for the opportunity to be here, and I will be happy to take your questions.

[The prepared statement of Ambassador Pifer follows:]

PREPARED STATEMENT OF HON. STEVEN PIFER, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to address the impact of transnational crime on U.S. priorities in Europe. I will focus my remarks today on Russia and Ukraine—two countries that are key to our efforts to combat transnational crime.

I would like to discuss briefly the historical context that has given rise to crime and corruption in the former Soviet Union following the collapse of the USSR and focus on some of the steps that the Russian and Ukrainian governments are taking to cope with these problems. I would also like to describe the strategy and some of the policy tools that the U.S. Government brings to bear to address these challenges.

#### HISTORICAL CONTEXT

Along with the positive and historic possibilities created by the collapse of the Soviet Union, the early 1990's were marked by an increase in criminal activities in the region, in large part because of a vacuum in institutions resulting from the breakup. The process of privatization of vast state resources often took place in the absence of any effective legal or regulatory structure, and many valuable state assets were privatized in "insider transactions." As a result, property rights were unclear, and disputes over property rights often could not be resolved in courts of law. Insiders and organized crime took advantage of this situation to take control of major assets, often having to pay no more than a small fraction of their true value.

Privatization took place roughly simultaneously with the development of small-scale private businesses. Again, because of the absence of an effective legal and regulatory system governing the activity of private enterprises, these businesses were ripe for extortion by street gangs. In order to protect themselves, small businesses often had to turn to other gangsters to provide a "krysha" (roof) of protection. Consequently, gangsters gained control of many small businesses and accumulated capital, which they frequently used to acquire larger businesses during the privatization process. They often then used these businesses to make more money and to acquire public status, which they then used to obtain political office.

Organized crime figures and groups have in some cases been linked with key government and business figures. Unfortunately, organized crime increasingly exercises both political and economic power, and there are numerous reports of corruption among government officials and members of legislative bodies. Corruption weakens the ability of a government to conduct normal business; it undermines political processes, allows the trafficking of illegal drugs and terrorist activities, impedes trade and investment, and hampers participation in the global economy. It is difficult to get an accurate picture of how widespread this problem is. The situation is very opaque, and we often have little more than anecdotal glimpses. The proliferation of organized crime groups has had reverberations in the United States, where many of the same organized crime groups that plague Russia and Ukraine now have a foothold.

We wish to see Russia and Ukraine develop as modern states, with democratic institutions and prosperous market economies, and we have since the end of the Soviet Union urged political and democratic reforms in these directions. We recognize the reform path will be, in both countries, a difficult and lengthy process. In order to succeed on this reform path, political leaders and law enforcement agencies will have to come to grips with and seriously tackle the problems of organized crime and corruption.

#### RUSSIA—REFORMS

To address organized crime, corruption and other threats to continued democratic and economic development, the Russian government has passed impressive legislation in the past several years.

In June 2002, the Russian Duma (parliament) passed a new Code of Criminal Procedure of the Russian Federation. The new Code substantially changes the previous Soviet-era criminal justice system. It establishes a more adversarial system

of justice, extending jury trials for significant crimes nationwide and giving defense counsel a greater role in the proceedings.

The Code also strengthens the powers and independence of the judiciary by requiring the approval of judges for search and arrest warrants and for the pretrial detention of defendants. Additionally, it broadens the rights of criminal defendants by requiring, among other things, the review of pretrial detention within 48 hours after arrest. After the introduction of the new Code the number of criminal cases opened by the Procuracy declined by 25 percent; the number of suspects placed in pretrial detention declined by 30 percent; and the courts rejected 15 percent of requests for arrest warrants. Judges released some suspects held in excess of allotted time when the government failed properly to justify its request for extension, and the Supreme Court overturned some lower court decisions to grant pretrial detention considered inadequately justified.

Human rights advocates reported that the strict new limits on time held in police custody without access to family or lawyers, and the stricter standards for opening cases, have discouraged abuse of suspects by police as well. As a result of the passage of the new Code, 83 of 89 regions in Russia have introduced jury trials, 713 jury trials have taken place during the first nine months of this year, resulting in 614 convictions and 99 acquittals. This system should reduce the potential for corruption.

#### UKRAINE—REFORMS

Ukraine has also taken significant steps in recent years to address deficiencies in its judicial system. Its ability to attract investment, and thus to sustain its recent economic growth, will depend on continued progress towards development of a legal infrastructure that protects investors' legal and contractual rights.

In 1999, the State Executive Service was established as a special department in the Ministry of Justice to execute court decisions. Its powers include enforcement of judgments in civil cases; decisions in criminal and administrative courts involving monetary compensation; and judgments of foreign courts, the Constitutional Court, and other authorities.

Legislation enacted in the past three years to regulate the court system and improve the administration of justice has brought Ukraine's legal framework more into line with the Constitutional requirements for an independent judiciary. Enactment in 2002 of the Law on the Judicial System of Ukraine and the Law on Enforcement of Foreign Court Decisions are hopeful signs, although these still need to be fully implemented. The Law on the Judicial System created an independent State Judicial Administration as well as a new appellate body, the Court of Cassation. Ukraine also enacted a new Criminal Code in 2001. The law also established a Judicial Academy to train new judges and continue the education of sitting judges.

Other legislative changes enacted in 2001 curtailed prosecutors' authority. The Procuracy no longer may initiate new criminal cases; its powers are limited to the observance of laws by law enforcement agencies only. In May 2001, the Constitutional Court ruled that citizens may challenge court actions by the prosecutors and investigative agencies, as well as government actions regarding national security, foreign policy, and state secrets.

While there has been significant progress in criminal justice reform in Russia and Ukraine, both governments must continue to make strides towards fully utilizing their justice systems to fight transnational crime.

#### POLICY TOOLS

The U.S. Government would, of course, like Russia, Ukraine and all of the states of Europe and Eurasia to have the capacity to enforce their laws in accordance with international standards while employing up-to-date practices. While recognizing that the responsibility for fighting organized crime and corruption lies first and foremost with the countries themselves, the U.S. Government has increasingly made efforts to fight money laundering, narcotics and trafficking in persons a central element of our engagement with Russia, Ukraine and the other states of the former Soviet Union.

The U.S. strategy for combating transnational crime in the former Soviet Union has five prongs: 1) expand rule of law and law enforcement programs with an emphasis on criminal justice reform and enhancing the capabilities of law enforcement agencies at all levels, 2) provide judicial and law enforcement training that introduces modern crime-fighting techniques while also promoting concepts of respect for human rights and professional integrity, 3) promote the development of working relationships among U.S. and regional law enforcement counterparts, 4) institutionalize cooperation through law enforcement agreements (MLATs), and 5) promote

the eventual integration of these countries into multilateral and regional institutions.

To implement this strategy, we have several policy tools:

*Law Enforcement Working Groups* with both Russia and Ukraine were established to provide high-level policy oversight and to serve as ongoing fora for the coordination of bilateral anti-crime efforts. Earlier this month I co-chaired a meeting of the U.S.-Ukraine Law Enforcement Working Group via digital video conference. We addressed four transnational crime threats: 1) intellectual property rights enforcement, 2) counternarcotics efforts, 3) money laundering and 4) trafficking in persons. Representatives of many Ukrainian government agencies took part, which gave us the ability to engage the full spectrum of Ukrainian entities dealing with these crime issues. We engaged at a substantive level, noting the progress that has been made on these issues and the areas where continued progress is necessary.

*Mutual Legal Assistance Treaties* (MLATs) are not a traditional policy tool; the purpose of an MLAT is to improve U.S. law enforcement abilities, by enabling U.S. authorities to obtain evidence and other types of law enforcement assistance from other countries. Conversely, foreign governments can use the MLAT to request assistance from the United States. Rule of law therefore is generally a consideration for the State Department and the Senate before a treaty is concluded; we do not want to create international legal obligations to provide assistance to criminal prosecutions in countries that do not respect the rule of law.

That said, an MLAT, by creating formal and regular bases for law enforcement cooperation, can help support other efforts towards promotion of rule of law. The dialogue and cooperation that is resulting from the MLATs with Russia and Ukraine advance the regularization and improvement of our joint law enforcement efforts. In the long term, these MLATs further the rule of law and help Russia and Ukraine regularize their law enforcement efforts overall. Having this kind of regularized process for seeking and obtaining evidence will help strengthen Russian and Ukrainian institutions and encourage the rule of law in these countries.

Our experience with the Ukraine MLAT has been particularly positive. Under the MLAT, the U.S. Government has sent the Ukrainian government requests in cases involving fraud, money laundering, homicide, computer crime, interstate transportation of stolen property, racketeering, corruption, and embezzlement. Each request has been executed promptly and thoroughly. In one high profile example—the prosecution of former Ukrainian Prime Minister Pavel Lazarenko—Ukraine has handled numerous requests with exemplary professionalism. According to Justice Department records, we have conducted more formal depositions in Ukraine in connection with that case than in any other country in connection with any other case.

*The U.S.-Russia Counterterrorism Working Group* serves as a forum for cooperation on transnational crime issues linked to the Global War on Terror. For example, through the working group our two countries promote counternarcotics activities that will reduce the trafficking of illicit drugs through Central Asia to major markets. These activities are aimed at identified needs on the ground, including our recent agreement to work together to develop a narcotics-detecting canine program in Central Asia.

*Multilateral efforts* to address transnational crime have also been successful. For example:

The international Financial Action Task Force (FATF), with the U.S. Government as an active participant, has begun to tackle the problem of money laundering in Ukraine and Russia. As a result of improvements in its legislation and overall practices against money laundering, Russia was admitted to FATF. Under the threat of sanction from FATF, Ukraine finally passed new legislation earlier this year to deal better with the money laundering problem. I will come back to these cases in more detail.

The United States, along with many member states of the European Union, is a major contributor to projects managed in Central Asia by the United Nations Office on Drugs and Crime (UNODC). UNODC, for example, established a senior level Drug Control Agency (DCA) in Tajikistan several years ago, and is now in the process, thanks to a U.S. contribution, of replicating that success in the Kyrgyz Republic. We have also contributed to a number of other diverse UNODC-managed projects, from assisting border control between Turkmenistan and Afghanistan, to providing video surveillance equipment for a major bridge crossing on the Uzbek-Afghan border, to helping the Uzbek prosecutor's office in archiving on a web site legal materials for the prosecution of narcotics cases across the country.

The Organization for Security and Cooperation in Europe is expanding its work in law enforcement and prison reform in Eurasia. In Ukraine, for example, the OSCE is supporting rule of law development through a project to train the staff of the Office of the General Prosecutor. We are also encouraging efforts to cooperate

regionally, based on the successful Bucharest Anti-Crime Center for Southeast Europe. A similar effort is underway with the GUUAM states (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), which aims at the creation of a virtual law enforcement center to strengthen regional cooperation among those states' law enforcement agencies. We are supporting this effort and are exploring the possibility of a second center in Central Asia.

*Bilateral assistance* is vital to our anti-crime strategy. Our assistance program targeting Russia, Ukraine and the other states of the former Soviet Union is the FREEDOM Support Act (FSA). FSA assistance and exchanges have played and are playing a key role in helping the governments of states such as Russia and Ukraine make progress to deal with crime and corruption issues. We greatly appreciate the strong support that Congress has provided since the breakup of the Soviet Union for the transition to democracy and market economies of the states that emerged from Communism.

Since the start of the Anti-Crime Training and Technical Assistance program with FSA funding in 1995, we have allocated roughly \$166 million to the states of the former Soviet Union for reforms, training and capacity-building in the areas of law enforcement and counternarcotics. Close to one-half of that total has been allocated to our efforts in Russia and Ukraine, given their size and importance in the region, and the potential role that Russia can play as a model of reform for all of the former Soviet states. An increasing proportion of our assistance will now go to the states of Central Asia, given the role they play as "front-line" states in the fight against terrorism and heroin smuggling out of Afghanistan. Congress, in fact, specifically appropriated \$22 million in Fiscal Year 2002 for law enforcement and counternarcotics efforts in Central Asia.

With regard to Russia, an important step forward was made in September 2002, when the United States and Russia signed our first bilateral agreement on law enforcement assistance. Under that agreement, over \$4 million in funds have been allocated to start a series of new projects. These will provide training and equipment to Russian units fighting drug trafficking along Russia's southern border with Kazakhstan and training and equipment to improve narcotics searches and seizures at key ports in the south of Russia and in areas that drugs transit in the northwest region of the country. Projects on fighting Internet child pornography and trafficking in persons will be started. Support to the new financial unit set up to combat money laundering will be provided, as will assistance to help implement the new criminal procedure code and the U.S.-Russia Mutual Legal Assistance Treaty. A further \$4.7 million in Fiscal Year 2003 funds will be allocated to such projects in Russia to maintain the momentum we have achieved.

We have made a major transition in our assistance programs in the last few years. In the past, most of our assistance went to training, much of it provided at the U.S.-led International Law Enforcement Academy in Budapest. Today, our FSA assistance has evolved and is focused on comprehensive, multidisciplinary institution-building, including major legal reforms, creating new forensics laboratories, setting up financial intelligence units to fight money laundering, helping introduce investigative methods that would eliminate the use of torture, creating "vetted" counternarcotics units, and more.

We are, of course, limited in what we can do by two things: the limits on the assistance we can provide and the political circumstances in the recipient countries. We cannot do it all. We continue to engage the European Union and its member states to increase their support for anti-crime and legal reform efforts.

#### PROGRESS

There are three areas of major progress in the battle against transnational crime I would like to highlight today. All three of these areas, trafficking in persons, money laundering and counternarcotics, are linked with organized crime.

##### *Trafficking in Persons:*

We have seen a concerted and welcome effort to combat trafficking in persons from our European partners this year. Russia and Ukraine have both shown some improvement, but at different paces and to varying degrees.

Our efforts to counter the Trafficking in Persons problem focus on three areas: prevention of trafficking; protection of the victims (and potential victims); and prosecution of those who perpetrate this crime. Progress on trafficking can be accomplished in a number of ways: legislation and amendments to criminal codes can be passed; public awareness of the trafficking in persons problem can be increased; and, most importantly, prosecution numbers can rise. In the State Department's Trafficking in Persons report from last year, the Bureau of European and Eurasian Affairs had eight countries in Tier 3, the lowest tier. Today, there are none.

*Russia*

Russia has begun to turn the corner on combating human trafficking. There is increasing recognition at the top of the problem. On October 27 President Putin said “trafficking in people is part of organized crime, it is one of the most serious and vital world problems.”

The UN has cited Russia as the largest source country for trafficked women throughout Europe. Making use of substantial U.S. technical assistance, the Duma Committee on Legislation drafted aggressive anti-trafficking legislation that would criminalize human trafficking and all related crimes. The legislation would also provide protection for victims and witnesses in human trafficking cases and mandate government-funded public awareness campaigns designed to raise awareness of the dangers of human trafficking.

An omnibus criminal code amendment bill is pending before the Duma that includes the anti-TIP criminal articles that were originally put in the anti-TIP law. It appears that the criminal code amendments are also going through some unwelcome changes, according to our Embassy in Moscow, which closely follows this issue. Passage of the anti-TIP articles included in the President’s Omnibus Criminal Code Reform Bill will require a concerted effort by key Duma members to gain the support of government agencies and regional governments. Currently, the Russians are using older and weaker laws to go after traffickers; last year Russia prosecuted some traffickers under lesser laws. We hope—and it will be important—to see convictions rise with the new legislation.

*Ukraine*

Ukraine is another large source country for trafficking victims to all parts of Europe and around the globe. The Ukrainian government has a comprehensive action plan for each government ministry to support public awareness, education, and prosecutions. The police opened 169 trafficking cases last year alone, double the number opened in 2001, and followed up with 41 prosecutions and 28 convictions. The Ministry of Internal Affairs has established 27 special anti-trafficking units at the national and oblast levels.

The Ukrainian anti-trafficking NGO community and police across the country have developed vital linkages that have resulted in prosecutions. We have seen political will on the part of the Ukrainians to engage on the trafficking issue but must continue to work with them to ensure further progress, and to ensure that such progress is not impeded by corruption.

*Money Laundering:**Russia*

In the last two years, Russia has made substantial strides in combating money laundering. On February 1, 2002, Russia’s new financial investigation unit, the Financial Monitoring Committee (“FMC”), began operation. The FMC is responsible for collecting suspicious activity reports from banks and coordinating all of Russia’s anti-money laundering and counterterrorist financing efforts.

In 1997, Russia passed amendments to the Criminal Code criminalizing money laundering. In 2002, additional amendments were passed, strengthening the 1997 legislation and criminalizing all financial transactions designed to conceal the source of any illegal proceeds.

Largely as a result of the passage of broad anti-money laundering legislation and the FMC’s successful monitoring work, in 2002, Russia was removed from the international Financial Action Task Force (FATF) Non-Cooperative Countries and Territories list. In 2003, following further progress, Russia was admitted to FATF. This was a major achievement. Since beginning operation, the FMC has received over a half million suspicious transactions reports. However, according to FATF, few criminal money laundering cases have been successfully prosecuted, and more needs to be done in this area.

*Ukraine*

The U.S. Government also engages with Ukraine on money laundering issues through FATF. In September 2001, FATF placed Ukraine on its Non-Cooperative Countries and Territories list, citing inadequacies in Ukraine’s anti-money laundering regime. In November 2002, Ukraine passed a comprehensive anti-money laundering law, but FATF’s Europe Review Group found it deficient in a number of areas and not in compliance with international standards.

In December 2002, FATF called on its members to impose counter-measures against Ukraine. The U.S. Government, in response, designated Ukraine a jurisdiction of money laundering concern under Section 311 on the USA PATRIOT Act. Following consultations between FATF and the Ukrainian government, and with assist-



ance from our Embassy in Kiev, the Ukrainian Rada passed amendments to the anti-money laundering law, the criminal code, and the banking law that brought Ukraine's anti-money laundering law into compliance with international standards. At its mid-February plenary, FATF rescinded its call for counter-measures. Early this month, Ukraine submitted to FATF an implementation plan; that plan must now be vetted by FATF's Europe Review Group. Until full and satisfactory answers are provided to the FATF review group, no decision will be taken by the FATF to undertake an on-site visit—the penultimate step prior to recommendation for removal from the FATF Non-Cooperative list. Ukraine's work with FATF nonetheless is an example of success—fundamental reforms, combined with close international scrutiny, resulting in real progress.

*Counternarcotics:*

*Russia*

The flow of Afghan heroin into and across Russia has increased tremendously. While overall seizures have yet to increase noticeably, we are now seeing instances of seizures of roughly 50 to 60 kilograms of heroin at a time.

Russia is a party to the 1988 UN Drug Convention and other UN agreements on combating drug trafficking. In 1998, the Russian government enacted the Law on Narcotics and Psychotropic Substances, which criminalized the purchase and possession of drugs and stiffened penalties for large-scale trafficking. More recently, the Russian government has taken additional steps that show promise for future progress in this area with the support of U.S. assistance programs.

In March 2003, President Putin took primary responsibility for the investigation of narcotics trafficking away from the Ministry of Internal Affairs and reassigned it to the newly formed "State Committee for the Control of Narcotics and Psychotropic Substances," known by its Russian acronym, GKN. GKN is still in the start-up process, so it is too early to evaluate its effectiveness. However, most observers view its creation, and the appointment of a close political ally of President Putin, Viktor Cherkessov, as its director, as signs that President Putin intends to take the war on drugs very seriously.

At the same time, Russian law enforcement authorities have come to support the use of drug demand reduction programs as a complement to their efforts to reduce the supply of drugs.

The U.S. Drug Enforcement Agency is also seeing hopeful signs of growing cooperation between Russian law enforcement and a new counter-narcotics Special Investigative Unit created and vetted by the DEA in Uzbekistan. Such bilateral cooperation will be an important component of any successful effort to halt the flow of drugs out of Afghanistan.

*Ukraine*

The Ukrainian Government takes effective steps to limit illegal cultivation of poppy and hemp. Ukraine is a party to the 1988 UN Drug Convention, and it follows the provisions of the Convention in its counternarcotics legislation. Combating narcotics trafficking continues to be a national priority for law enforcement bodies, although a lack of financial resources seriously hinders Ukrainian efforts. Corruption is also a problem, although it has rarely been linked to drug enforcement. Coordination between law enforcement agencies responsible for counternarcotics work has improved, but still remains a problem because of a lack of resources, some tendencies to resist interagency cooperation and sharing of information, and regulatory and jurisdictional constraints.

The National Counter-narcotics Coordinating Council, established in 1994 within the Cabinet of Ministers to coordinate the efforts of government and public organizations to combat drugs, is responsible for a counternarcotics program for the period through 2008. The main objective of the program is to make qualitative changes in the national strategy for combating narcotics. Although many of the measures in previous national counternarcotics plans (1994-1997, 1998-2000) were constrained by lack of funding, the Ministry of Internal Affairs is giving a high priority to counternarcotics actions and is providing overall support to the maximum extent available.

CONCLUSION

Transnational crime is a real threat to stability in the countries of the former Soviet Union as those countries move to develop more modern political and economic structures. However, in the last decade, with U.S. assistance, progress has been made in institutionalizing the rule of law, and developing criminal justice systems, especially in Eurasia.

While challenges remain, my colleagues will attest to the strengthened capacity of their law enforcement counterparts, and the strong law enforcement networks that have developed. Strengthening the capacity of countries such as Russia and Ukraine to deal with today's transnational crime problems, as well as improving bilateral and multilateral cooperation to counter these threats, will remain major parts of the U.S. agenda with these countries. We have made progress, but the challenges remain serious and will require our continued attention. Thank you.

Senator VOINOVICH. Thank you very much.  
Mr. Schrage.

**STATEMENT OF STEVE SCHRAGE, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Mr. SCHRAGE. Thank you, Mr. Chairman, good afternoon. I am extremely pleased to be back today appearing before a subcommittee of the Foreign Relations Committee after having served as counsel for the late Senator Paul Coverdell on Foreign Relations Committee issues during the 1990s. I have never known someone who was as committed to confronting the devastating impact of international terrorists and criminal organizations, including the drug cartels that Senator Coverdell regarded as posing a greater threat than the Mafias that plagued our own nation decades ago.

He also held a special place in his heart for this region, having led the Peace Corps into many of the countries we are discussing here today almost before the dust from the fall of the Berlin Wall had settled. He did this because he believed that our outreach to the people emerging from the bankruptcy of communism would be critical, not only given the special relationship we have with Europe but also as an example for the world of how trading totalitarian controls for freedom, liberty and democracy could lead to a new and better day. As a former Senate staffer working closely with this committee on these issues, I'm honored to be back here today, and I hope to build on and deepen the partnership with the Senate, which has also played a leading role.

I know that Senator Coverdell would be proud of the focus this subcommittee is showing, and our successes in these areas. As you have expressed, it is important that these successes and the new U.S. challenges in Iraq and Afghanistan do not obscure the great challenge which remains in areas that are critical to U.S. interests today. For example, the wide range of criminal activity engaged in by Russian organized crime groups likely exceeds in scale and economic impact that of the Cali Cartel at the height of its power. The threat of destabilizing Afghanistan is linked to this area. Interpol estimates that over 70 percent of the heroin trafficked in the U.S. arrives via the Balkans route or one of its many tributaries. Conservative estimates put the number of trafficked women in and through Europe in the tens of thousands. It's against this daunting background that I offer my testimony today.

The Bureau of International Narcotics and Law Enforcement Affairs or INL is just one part of the team that is working on these threats. It's a testament to the administration's interest in these issues that we also have my colleagues here to address questions related to the politics and specific situations in the region, and from the Department of Justice and FBI to address operational and

DOJ matters. For this reason, I will focus on three areas of relevance to my bureau, its roles and responsibilities, the programs and initiatives it helps manage in the region, and some of the key lessons learned.

I think it would be useful to begin by describing the role of INL, an acronym that may be less familiar to the subcommittee than EUR or the FBI, and we view this mission as both critical to your efforts to fight transnational threats and essential to help nations such as those emerging from Communist rules to build secure and prosperous democracies.

INL is responsible for developing policies and managing over \$1 billion in programs to combat transnational criminal threats and to strengthen the rule of law in emerging democracies. The bureau has special authorities that allow it to fund a full range of programs and activities necessary to address these issues, ranging from training a new police force in Iraq, to negotiating U.N. conventions against corruption and transnational crime, to funding so-called soft-side education and alternative development for coca farms.

INL works closely in a partnership with EUR and state and regional bureaus. It is different from these bureaus in that it has a large group of civil service employees, many with extensive law enforcement and military backgrounds, and law enforcement detailers who provide expertise and enable us to deepen our relationships to both U.S. and foreign law enforcement agencies. These law enforcement agencies, especially the Department of Justice and FBI, who are here today, are also critical efforts in all that we do.

Overall, much of our focus is in helping to coordinate U.S. international law enforcement cooperation and assistance to the many parts of the U.S. Government working with foreign law enforcement in these areas so we act as a team. Our work in Europe and the former Soviet Union has been in close partnership with the State Department's EUR bureau, which was granted special authorities and coordination responsibilities under the Freedom Support Act and the SEED Act, as well as with DOJ, the FBI and other law enforcement agencies. In these areas, INL manages over \$90 million in programs, and leads or co-chairs several important policy initiatives and mechanisms. It is often useful to divide these up as bilateral, by helping nations to develop and strengthen their own institutions, and those that focus multilaterally on building groups of nations and bringing them together to a more unified front.

Bilaterally we manage over \$86 million in law enforcement assistance in the region. Through this, we seek to encourage strategic thinking, long-term planning, build on previously funded efforts, and complement assistance provided by other entities. These initiatives address the broad cross-cutting section of areas including money laundering and terrorist finance, trafficking in persons, border controls, anti-corruption, police development, and assistance in judiciaries and prosecutors.

While it would take a great deal of time to detail all of its programs in the vast area covered by this hearing, some of the examples would include police assistance projects in places such as Albania and Hungary, broader efforts to build new and effective civilian

police forces in areas emerging from conflict such as Kosovo and Bosnia, and finally resident legal advisors or RLAs from the Justice Department, to work in countries such as Romania and Russia to give them constant on-the-ground advice. These bilateral initiatives help support our other global and multilateral efforts, as well as those such as the SECI Center funded directly by the EUR.

I would like to begin this discussion by highlighting an institution that started in this region and has been seen as a model here and abroad. The International Law Enforcement Academies, ILEAs focus on bringing together mid to senior law enforcement officials and other judicial officials from countries around the region for both basic and specialized law enforcement training. This process raises the professionalism of these officers and just as importantly builds critical networks between countries in the region with U.S. law enforcement.

ILEA Budapest opened in 1995 and since then over 2,500 law enforcement officers from over 25 countries in Europe and from countries comprising the former Soviet Union have successfully completed the core 8-week program. Also, since 1996, more than 4,000 criminal justice officials have participated in specialized training programs.

While the Department of State funds the ILEA, I want to note that it's truly a cooperative effort, with over 16 U.S. law enforcement agencies participating as well, involving concluded settlements from the participating nations and from Western European agencies as trainers.

In the interest of time, I will skip over some of these areas, since I know I'm going over that time right now, and just highlight quickly a couple of the other areas that we work in.

Some of the other areas, as Ambassador Pifer noted, are based on specific threats such as money laundering, terrorist finance and financial transactions, Council of Europe's MoneyVal, and other areas where we offer indirect assistance. And anticorruption in this region where we work with the Council of Europe's Group of States Against Corruption, GRECO, the Stability Pact SPAI initiative has set high standards as well as doing individual programs targeted at the recruiting country's capacity.

And finally, we work very closely with our European partners to partner with them as you mentioned to confront these together. Prime Minister Blair called a London conference in November of 2002, which I attended with DAG Swartz as well representing the U.S., with a representative from the EUR bureau. And also in addition, we work very closely with our G-8 partners to fight international crime and terrorism and other issues.

I will skip over some of the lessons learned that are discussed more in depth in my statement that's submitted for the record in the interest of time.

But in closing I would like to thank Senator Voinovich and others for inviting us to speak with you today. Based on my background and prior experience, I strongly believe we must work closely with Congress in addressing the issues you raise today. I also believe that our fundamental mission of building solid law enforcement structures in these nations and enhancing their capacity to be a vital part of an international net of law enforcement is as crit-

ical as ever. It is the essential foundation both for achieving security for our own people and for cementing the great progress that has been achieved in the region in the wake of the cold war. Thank you.

[The prepared statement of Mr. Schrage follows:]

PREPARED STATEMENT OF STEVEN SCHRAGE, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Thank you Mr. Chairman. Good afternoon. I'm extremely pleased to be here today appearing before a Subcommittee of the Foreign Relations Committee, after having served as counsel for the late Senator Paul Coverdell on Foreign Relations Committee issues during the 1990s. I have never known someone who was as committed to confronting the devastating impact of international terrorist and criminal organizations, including drug cartels that Senator Coverdell regarded as posing a greater threat than the Mafia presence our own nation struggled with decades earlier.

He also held a special place in his heart for Europe, having led the Peace Corps into many of the countries we are discussing here today almost before the dust had settled from the fallen Berlin Wall. He did this because he believed that our outreach to the people emerging from the evils of Communism would be critical, a reflection of the special relationship we have with Europe and an example to the world of how trading totalitarian controls for freedom, liberty and democracy could lead to a new and better day. As a former Senate staffer working closely with the Committee on these issues, I am honored to be back here today and hope to build on and deepen the Administration's partnership with the Senate, which has always played a leading role to help advance these issues.

I know that Senator Coverdell would be proud of this Subcommittee for holding this hearing and of our country's successes in these areas. Yet neither these successes nor new U.S. commitments in Iraq and Afghanistan should obscure the remaining great challenges to U.S. interests in Europe. For example, the wide range of criminal activity engaged in by Russian organized crime groups likely exceeds in scale and economic impact that of the Cali Cartel at the height of its power. Interpol estimates that the same drug producers that are destabilizing Afghanistan are responsible for nearly 80% of the heroin trafficked from Afghanistan into Europe, arriving via the Balkans route or one of the many new "tributaries" of this old smuggling route. Conservative estimates put the number of women trafficked globally between 800,000 and 900,000. The numbers on this are very elusive, particularly in Europe. We look forward to the CIA estimates on regional breakdowns that are due in January.

It is against this daunting backdrop that I offer my testimony today. As I mentioned and as is reflected in the line-up of today's panel, the Bureau of International Narcotics and Law Enforcement Affairs, or INL, is just one part of the team working on these threats. In this light, I will focus on three areas: INL's roles and responsibilities, programs and initiatives in the region, and some key lessons learned. I will defer to my European Bureau colleague for questions on political implications and other regional issues and to the Department of Justice and FBI representatives on operational matters.

#### ROLE AND MISSION OF THE INL BUREAU

I think it would be useful to begin by describing the role of INL and outlining why I believe INL's mission is critical to your efforts both to fight transnational threats such as crime and terrorism in Europe and around the globe, and to help nations such as those emerging from communist rule build secure and prosperous democracies.

INL is the Bureau in the State Department that is responsible for the development of policies and the management of over one billion dollars in programs globally to combat transnational criminal threats, including drugs, and strengthen the rule of law and relevant institutions in emerging democracies. INL has special authorities that allow it to fund a full range of programs necessary to address these problems, ranging from training the new police force in Iraq and Afghanistan, to negotiating global UN conventions against corruption, drug trafficking, and transnational crime, to leading the G8's Lyon Group in coordinating policies in our fight against international crime, to funding so called "softside" education and alternative development projects targeted at those involved in the production of narcotics.

INL works in close partnership with EUR, other bureaus of the State Department, and with the U.S. interagency. INL is different than traditional State Depart-

ment Regional Bureaus in maintaining a large group of civil service employees, including many with extensive law enforcement and military backgrounds, and officials detailed from key law enforcement agencies who can provide expertise and deepen our ties to foreign agencies to help advance U.S. goals. Overall, much of INL's work focuses on helping coordinate U.S. international law enforcement policy, cooperation and assistance so that the many parts of the U.S. Government working with foreign law enforcement and justice systems can act as a team.

#### INL INITIATIVES IN EUROPE

INL's work in Europe and Eurasia is done in close partnership with the State Department's EUR Bureau, the Department of Justice, the FBI and other law enforcement agencies. In particular, EUR was granted special authorities and coordination mandates by the Congress under the Freedom Support Act and the Support for East European Democracy or SEED Act. In these areas INL funds or manages over \$90 million (FY 03 SEED/FSA and FY 2002 FSA Supplemental) in programs and leads or co-chairs several important policy initiatives or mechanisms that are critical in this fight. In describing these programs and initiatives, it is often useful to divide them into two categories, those that focus bilaterally in helping nations develop and strengthen their own institutions and rule of law and those that are focused on bringing groups of nations together to address these threats as a more united front.

#### BILATERAL PROGRAMS AND INITIATIVES:

Through its over \$86 million in law enforcement bilateral assistance in the region, INL encourages strategic thinking and long-term planning and attempts to build on previously funded efforts, complement the assistance provided by other USG agencies/departments and other donors (particularly the European Union and the United Nations), and promote input from host governments, NGOs and the private sector. INL bilateral initiatives address a broad cross-section of law enforcement and criminal justice sector thematic areas including: counternarcotics; demand reduction; money laundering; financial crime; terrorist financing; smuggling of goods; illegal migration; trafficking in persons; domestic violence; border controls; document security; corruption; cyber-crime; intellectual property rights; law enforcement; police academy development; and assistance to judiciaries and prosecutors.

While it would take a great deal of time to detail all of INL's programs in the vast area covered by this hearing, some of our key programs in this region relate to our work in the following areas.

#### LAW ENFORCEMENT ASSISTANCE PROJECTS

A key part of INL's mission is to work with the Department of Justice in developing foreign law enforcement institutions to build the rule of law where most of the citizens of these nations will see it operating in their day-to-day lives. Key initiatives in this area are under way in the following countries.

*Albania.* INL funded a Department of Justice project to train Albanian police and prosecutors in modern investigative and prosecutorial techniques focused on disrupting and dismantling organized criminal enterprises. This project is linked to other, broad DOJ OPDAT/ICITAP assistance projects in Albania focused on modernization of the National Police, enhancing the capabilities of the prosecution service, and establishing international standards of border security at three major ports-of-entry.

*Hungary.* The Organized Crime Task Force (OCTF) was created as a key element of a six-point assistance plan in 1998. INL start up funding allowed the FBI to provide significant levels of training and technical assistance to the Hungarian OCTF. FBI agents have been assigned to Hungary to work side-by-side with their Hungarian National Police counterparts. In fact, DOJ/OPDAT and the FBI are jointly bringing members from the Hungarian OCTF and prosecution service to the United States in December to receive intensive training and insight into organized crime task forces and how they operate in this country.

*International Civilian Policing (CIVPOL).* Some areas of the Balkans are emerging from post-conflict situations that left basic institutions essentially destroyed. Establishing, restructuring and rebuilding basic policing functions in these areas has required efforts that go far beyond the police assistance described above. In areas such as Kosovo and Bosnia, the United States has worked with the United Nations and the Organization for Security and Cooperation in Europe (OSCE) to rebuild a stable police force that can serve as a backbone for establishing the rule of law in these areas. The Kosovo police program involves our assistance in both training a new police force and in providing U.S. police officers that, as part of a multi-national UN CIVPOL force, provide interim public security and serve as mentors alongside

the new Kosovo Police Service as it assumes its law enforcement responsibilities. This important program has been recognized as a model for establishing civilian security in post-conflict situations and much of the knowledge has been applied to other areas of the world, to include our efforts in Iraq.

#### RESIDENT LEGAL ADVISOR PROGRAMS

Another key part of INL's mission is working with our Department of Justice colleagues to provide Resident Legal Advisors or RLAs to countries to give them continuous, on the ground advice in how to establish appropriate legal institutions necessary for their own security and to confront transnational threats. INL RLA programs are active in Albania, Azerbaijan, Bulgaria, Bosnia Herzegovina, Georgia, Macedonia, Moldova, Romania, Russia, Serbia Montenegro/Kosovo, and Uzbekistan. Two brief examples of their work include:

*Romania.* The RLA program in Romania recently donated specialized investigative equipment (listening and communications devices) and provided training to the National Anti-Corruption Prosecutor's Office (PNA) in order for the PNA to more effectively investigate and prosecute corruption cases, particularly public corruption cases involving organized criminal activity.

*Russia.* The RLA in Moscow helped to introduce significant legal reforms and positive changes to the criminal procedure code, and we are now engaged in an effort to expand that process to include the states of Central Asia.

#### MULTILATERAL INITIATIVES:

While a key focus of our bilateral programs is to strengthen the internal ability of nations to confront criminal threats, other key initiatives and programs bring nations together in the realization that we will never effectively counter transnational criminal organizations unless we are able to effectively work across borders and jurisdictions to address common threats. I should note that INL also works closely with initiatives such as the Southeast European Cooperative Initiative's (SECI's) Anti-Crime Center in Bucharest, Romania. INL strives to make sure that our bilateral and multilateral initiatives are complementary to the important role of SECI in combating transnational crime.

##### ILEA Budapest

I would like to begin this discussion by highlighting an institution that was born in this region and that has made great strides in the global fight against crime—the International Law Enforcement Academies or ILEAs. ILEAs are being looked to at the highest levels in the United States and around the world as a model for advancing our common fight against international crime and promoting the rule of law that is essential for development and prosperity.

ILEAs—which focus training primarily on mid-to-senior-level law enforcement and other judicial officials—serve our interests in several critical ways. They establish and expand the long-term liaison relationships among law enforcement officials that are critical to combating international crime; they support democracy and stress the rule of law in international and domestic police operations; and they raise the professionalism of officers involved in the fight against crime.

Several fundamental precepts—such as respect for human rights and the rule of law, adoption of high ethical standards, and the promotion of international law enforcement cooperation—are emphasized throughout the ILEA program. The focus of instruction is not solely on the acquisition of technical skills, it also includes the development of leadership and management skills to deal with challenges facing law enforcement throughout the world.

ILEA Budapest opened in 1995 and since then over 2,500 law enforcement officers from 25 countries in Central Europe and the countries comprising the former Soviet Union have successfully completed the core eight-week program during more than 42 iterations. ILEA Budapest offers an entire week of instruction on organized crime during each 8-week core program. The FBI is the lead for this block of instruction and presents the enterprise theory of investigation, whereby police are taught to view the structure and behavior of organized crime as somewhat akin to that of a corporation, as an effective methodology to combat organized crime. The FBI helped spearhead the creation of the ILEA program and under the leadership of Director Dale Wegkamp of the FBI, ILEA Budapest has earned admiration and spawned similar programs around the globe.

The ILEAs also play host to focused regional seminars and specialized training programs. Over 4,000 criminal justice officials have participated in specialized training programs since 1996. One such specialized program, presented by the Justice Department's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), focuses on organized crime and is designed to familiarize prosecutors

and investigators with the special problems involved in pursuing organized crime cases and to provide practical exposure to specialized investigative tools.

Another offering from OPDAT is the money laundering seminar that is designed to familiarize law enforcement personnel, policymakers, and legislators with Financial Action Task Force (FATF) standards governing money laundering; and developing and using legislation, investigative techniques and prosecutorial tools in fighting money laundering, bank fraud, terrorist financing, and other complex financial crimes.

ILEA Budapest has also seen the successful introduction earlier this year of a pilot course taught, in coordination with the State Department's Office of the Coordinator for Counterterrorism (S/CT), by the Department's Bureau of Diplomatic Security, Office of Anti-Terrorism Training and Assistance (DS/ATA) entitled "Police Role in Combating Terrorism." This course focuses on the role of police as the first responders to terrorist incidents. Additionally, the ILEA hosts a "Weapons of Mass Destruction" course conducted by trainers from the Department of Defense's Defense Threat Reduction Agency (DTRA). This course targets senior-level officials involved with border security, customs, emergency response and frontier police operations in a WMD environment.

While the Department of State funds the ILEA, I want to note that 16 U.S. law enforcement agencies participate in the ILEA program. It is a cooperative and inter-agency program in every sense of the word. In addition to the strong partnership with Hungary, other participating nations are key in making this program a success. Nations and organizations such as the Ireland, Germany, Italy, Great Britain, Canada, Russia, INTERPOL, and the Council of Europe have also provided instructors to ILEA Budapest. Overall, this program is an example of what can be achieved by working together.

As I mentioned earlier, the success of ILEA Budapest, has spawned new ILEAs in Southeast Asia, Africa, and a graduate academy in the United States. Plans are underway to expand their reach even further geographically, and by using new technologies such as the Internet to link ILEA graduates around the globe, to explore using this ILEA network to more effectively confront cross-border crime. INL is also looking at adding courses focused on combating the threats posed by international networks that traffic persons for purposes of commercial or sexual exploitation.

#### MONEY LAUNDERING-TERRORIST FINANCING

Many of our other multilateral efforts are focused on special areas of emphasis, such as money laundering, where experts in a specific field work to establish standards and specialized institutions. Through participation in the Financial Action Task Force (FATF), INL plays an important role in formulating global anti-money laundering policies, and since 9-11, standards designed to thwart the financing of terrorism. For more than a decade, INL has designed, funded and coordinated the USG's interagency bilateral training and technical assistance programs that have assisted countries in former communist states in Europe in constructing viable anti-money laundering and terrorist financing regimes.

Globally, INL co-leads with the counter-terrorism (S/CT) bureau of the State Department a group that oversees the provision and implementation of our critical money laundering and terrorist financing assistance to key states. INL also funds and participates in the Council of Europe's anti-money laundering organization, MoneyVal. MoneyVal is comprised of 24 member states, conducts semi-annual plenary meetings to discuss international standards and their implementation and undertakes multilateral mutual evaluations of anti-money laundering regimes.

#### CORRUPTION

Another key area where INL plays a major role is working to combat corruption and coordinate U.S. law enforcement assistance efforts. INL is working on both a diplomatic and programmatic level to encourage and help European governments take effective action to address corruption problems. The most notable European multilateral effort involves the Council of Europe's Group of States Against Corruption (GRECO), whose members now include 34 European countries and the United States. Through GRECO, experts from the U.S. and other member countries have over the past three years made on-site visits to evaluate anti-corruption efforts of member states and provide constructive advice on how such efforts can be improved.

The U.S. also participates actively in and funds the Anti-Corruption Network for Transition Economies, which includes the nations of Eastern Europe, Russia, and the Trans-Caucasus. The Stability Pact has an anti-corruption arm—the Stability Pact Anti-Corruption Initiative (SPAI). SPAI provides a forum for Balkan member



states to meet and develop anti-corruption strategies. INL has worked closely with SPAI to develop sustainable project plans.

#### LONDON CONFERENCE

In November of 2002, Prime Minister Blair called a conference to rally the nations of Europe and their partners to address the issue of organized crime in the Balkans. I, along with representatives from the EUR bureau and the Department of Justice, represented the United States. The U.S. and the EU continue to work to implement the resulting action plans from this UK-hosted, international conference focused on developing national and regional capacity in the Balkans to combat organized crime, including through witness protection. We are also working closely with the EU and other European institutions to develop a Balkan regional witness protection strategy.

#### G8—LYON GROUP

As seen in the London Conference, our efforts in Europe also go beyond helping nations build the capacity to confront transnational threats. They extend to teaming with other committed nations to coordinate policies to more effectively protect our citizens and attack criminal conduct. In 1995, the nations of the G8 formed the Lyon Group to coordinate their efforts against international crime. INL has chaired the delegation, which includes strong representation from the Department of Justice as well as experts from law enforcement agencies outside of Justice. In the years since, the group has done important work in the areas of combating cyber crime and other high-tech crimes, setting international standards and identifying best practices in a variety of areas, including transportation security; and enhancing law enforcement cooperation against transnational crime and terrorism, including identifying and removing obstacles to cooperation and facilitating information sharing.

In the wake of September 11th, the Lyon Group has worked closely with the G8's Roma Group on counter-terrorism to ensure coordination in critical law enforcement efforts that are vital to our fight against terrorism. INL and S/CT co-chair the delegation to these meetings.

#### LESSONS LEARNED:

##### *Importance of Regional and International Cooperation*

Advancing our shared fight against crime by promoting the rule of law and fostering international law enforcement cooperation is a pre-eminent objective of U.S. foreign policy and of the international community of nations. To achieve proper coordination, we work closely with other program implementers—European bilateral implementers, the EU, the UN and its agencies, and more specialized groups such as the International Organization for Migration (IOM) and the OSCE—to share information about our programs and make sure our efforts are complementary. The rule of law and effective law enforcement form a foundation on which commerce and investment, economic development, and respect for human rights can be built.

Today, advances in technology have broken down barriers between nations and unprecedented opportunities exist for organized crime and other transnational threats. In confronting international crime, it is important that we extend internationally a web of effective law enforcement to eliminate safe havens and gaps in jurisdictions that allow criminal threats to fester and grow. While targeted intelligence and operations may remove specific terrorist, drug trafficking, or organized crime groups, unless we address the environments that allow them to thrive, we will have at best created a void that can be filled by others.

##### *Importance of Interagency Coordination*

In meeting its mission of coordinating law enforcement assistance efforts, INL has built bridges between different agency efforts as well as between the law enforcement community and the overall diplomatic mission of the State Department. It is our experience that the most progress is seen in countries when the various strengths of different agencies can be brought to bear as part of a unified strategy, with a strong recognition and respect for the great expertise brought to bear by U.S. law enforcement officials.

##### *Project Based Programs—Focused on Integrated Country Strategies*

INL moved aggressively, following a GAO report on assistance to Russia, to institute a project based approach to programs. INL no longer considers stand-alone training courses in our bilateral programs unless they form part of broader, sustainable projects that strive for lasting impact. INL now signs Letters of Agreement (LOA) with host governments that detail not only the various projects and funding

levels in our assistance programs but the obligations of the host government. For example, our LOA standard provisions exempt assistance projects from host government taxation, establish agreed upon methods of monitoring and evaluation, make contingent our assistance on host government adherence to human rights standards, and vet participants for past involvement in human rights abuses and narcotics trafficking.

*Country Strategies Linked to Crosscutting International Strategies*

In confronting threats that cross many borders and jurisdictions around the world, it is often critical that our efforts in different bilateral programs be coordinated so that we focus on areas that will have the greatest impact in promoting U.S. objectives. In this sense, country or regional strategies must also be coordinated with our overarching goals and objectives.

In closing, I want to thank the Chairman for inviting me to speak with you. Based on my background and prior experiences, I strongly and deeply believe that we must work closely with the Congress in addressing the issue of transnational crime in Europe. I also believe that the fundamental mission of building solid law enforcement and rule of law structures in these nations and enhancing their capacity to be a vital part of a net of law enforcement across the globe, is an essential foundation for achieving security for our people and cementing the great progress that has been achieved in this region in the wake of the Cold War.

Thank you.

Senator VOINOVICH. Thank you.  
Welcome back. Mr. Swartz.

**STATEMENT OF BRUCE C. SWARTZ, DEPUTY ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, WASHINGTON, DC**

Mr. SWARTZ. Thank you, Mr. Chairman, and thank you for the invitation to the Department of Justice to testify today on the topic of transnational organized crime. As you noted, Mr. Chairman, at the outset, this is a problem that the United States cannot afford to ignore. It cannot afford to ignore it both in its own right the effects that are already beginning to be felt in the U.S., but also with regard to its more extended effects.

As my colleagues have noted, the destabilization that results from organized crime can lead to consequences not only with regard to commerce, the effects on business, the effects on citizens of other countries, but can create conditions that will foster terrorism in the future. We simply cannot afford to let organized crime succeed in these states. It's also a problem, as my colleagues have noted, that must be dealt with in cooperation, in cooperation inter-agency in the United States, cooperation bilaterally with our law enforcement partners in Europe, and multilaterally, particularly with the European Union.

As Ambassador Pifer noted, and as my colleague Deputy Assistant Secretary Schrage just noted, the State Department and the Department of Justice work extremely closely together with regard to rule of law and technical assistance programs in European countries and in the former Soviet Union. In particular, we have sent approximately at the current time 15 Federal prosecutors to serve as resident legal advisors in Central Europe or Eurasia. Those resident legal advisors serve to help create new laws, to help advise nations with regard to rule of law issues, and help create conditions that have made possible expanded law enforcement relationships in many of these countries.

In particular, I note the work that was done in Russia with regard to the Russian criminal code, which in turn led the Senate to

recognize that it was appropriate to move forward on advice and consent with regard to the Russian Mutual Assistance Treaty.

In addition, as you noted, Mr. Chairman, it is critical in these countries, and we recognize that it is not enough to simply work on prosecution or police, they must go hand in hand. And the Department of Justice, again, through working with the Department of State through the ICT program, the International Criminal Training program, seeks to ensure that criminal training of police takes place as well so we can cooperate and create a rule of law system that will effectively lead not only to arrests but to prosecutions.

Bilaterally, our job is to ensure that we are working closely with our European partners on dealing with these organized crime issues, for while it is true that organized crime, particularly Balkan organized crime, was primarily felt in Europe, now we are beginning to see effects in the United States as well, direct effects in terms of our citizens being victims of that type of criminal activity. In that regard, the Department of Justice Criminal Division works extremely closely with our colleagues in the FBI, and my colleague Grant Ashley will discuss that as well. But we have with us today two of the leaders in that, the head of our organized crime racketeering section prosecutorial group, Bruce Orr, and W.K. Williams from the FBI.

I must say that Mr. Orr and Mr. Williams really have recognized at an early stage the critical nature of the organized crime problem in its international dimension and together have launched an initiative to travel to other countries, to make it clear to them that we stand ready to work with them bilaterally on particular cases and to try and work across state lines to deal with these issues.

We also have a number of other elements within the Criminal Division of the Department of Justice that are deeply engaged in this issue on a bilateral basis. Our Office of International Affairs every day deals with mutual assistance in extradition matters that directly involve organized crime issues. We also have a number of Federal prosecutors that have been closely involved in the Office of International Affairs in Rome, Brussels, London, and in Paris, with one expected to be in Moscow as well. Those individuals, unlike our resident legal advisors, can work on operational matters and particular cases, not simply the broader issues. They also serve to coordinate with the critical FBI program which has done so much to aid the United States in fighting organized crime.

Finally, a number of other sections in the Criminal Division, the computer crimes section, the fraud section in particular, are involved in organized crime work.

Multilaterally as well, particularly as the European Union increasingly moves to what they refer to as third pillar justice and human affairs issues, we find that organized crime is a central topic. As I'm sure the chairman is aware, in June of this year, Attorney General Ashcroft signed the first treaty between the United States and the European Union on law enforcement issues, addressing this topic of mutual legal assistance and extradition treaty. That treaty involved both extradition and mutual legal assistance as important provisions that let us deal with organized crime. In particular, the extradition treaty modernizes many of our older

extradition treaties, and the mutual legal assistance treaty provides for joint investigative teams and greater access to bank accounts. We expect both of these to be important tools.

Europol, the European police organization set up under EU auspices, we've worked closely with Europol to try and develop organized crime strategies. Members of Mr. Orr's organized crime group met with Europol representatives only last month in fact to discuss this very issue.

We are involved as well, as my colleagues have noted, with the OSCE with regard to the SECI center and more generally with regard to the Transnational Organized Crime Convention, which is now pending before many countries and has been signed by the United States.

We thank you again for the opportunity to discuss this important issue, and I would welcome any questions you might have. Thank you.

[The prepared statement of Mr. Swartz follows:]

PREPARED STATEMENT OF BRUCE C. SWARTZ, DEPUTY ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, WASHINGTON, DC

Good morning, Mr. Chairman and Members of the Subcommittee. I am grateful to have the opportunity to address you today, and to explain the critical role played by the Department of Justice—in partnership with the Department of State—in the fight against transnational organized crime.

During the past several years, the world has witnessed an unprecedented global expansion of organized crime groups. These organizations range from those focused predominantly on particular areas of crime, such as Colombian drug cartels, to those engaged in a broad range of criminal enterprises, such as Eurasian and Balkan crime groups. Technological advances allowing for easier communications and travel have resulted in multi-national cooperation among crime groups that had historically remained isolated and independent.

Europe has been particularly hard-struck by the expansion of criminal organizations. The freedoms that resulted from the fall of totalitarian regimes in the east and the opening of borders within the European union have been exploited not only by legitimate businesses, but also by well organized and ruthless organized crime syndicates that have spread their tentacles across Europe. Most of these groups have shown an uncanny ability to adapt to their new environments by creating niches in new, or previously unexploited, areas of crime, and by successfully integrating with home-grown criminal organizations. Transnational crime syndicates also have mastered the manipulation of the social, economic and legal systems of the west. They hide behind political freedoms and privacy rights and frequently move their members and criminal proceeds from country to country in an effort to outstrip the sharing of information among national police forces. It has been a difficult task for law enforcement authorities in Europe and the United States to keep pace with these groups in light of the freedom of movement that they enjoy.

In many former communist countries in the Balkans, Eastern Europe and the former Soviet Union, organized crime and its associated public corruption has reached epidemic proportions. A World Bank sponsored study by the Indem Foundation concluded that a \$38 billion is spent annually in Russia on bribes. The Russian interior ministry recently estimated that criminal groups have used Russian banks to illegally transfer \$9 billion out of Russia so far this year. European police organizations have estimated that Balkan organized crime groups control upwards of 70% of the heroin market in major European nations, and are rapidly taking over human trafficking, prostitution and car theft rings.

Nor is the United States immune from the rise of European organized crime groups. The United States, with its open society and free markets, has become an increasingly attractive target for foreign-based organized crime. Criminal gangs from the Balkans, Eastern Europe and the former Soviet Union are involved in all types of criminal activity in the United States, from drug trafficking to organized burglary and home invasion robbery rings, from money laundering and securities fraud to traditional organized crime gambling and extortion rackets.

The Department of Justice has taken on the multi-faceted challenge of coordinating much of our response to transnational organized crime groups, from working

on specific investigations and prosecutions against the most significant and dangerous transnational crime figures to helping to formulate policy in cooperation with the Department of State. The day-to-day activities of Criminal Division prosecutors and Assistant United States Attorneys in this area are extensive. I will attempt to broadly outline some of the most significant roles played by the Division.

Criminal Division attorneys play a leading operational role by handling or directly assisting in the majority of complex international investigations and prosecutions brought in the United States. Our prosecutors work closely with U.S. investigators, including special agents from the FBI, DEA, and the Department of Homeland Security, to navigate the complexities of international and domestic criminal law. This is particularly true where agents are investigating international criminal organizations with an eye towards prosecution in the United States.

Criminal Division attorneys have developed particular expertise in this area. They regularly work with agents on complex international cases that require extensive cooperation with foreign law enforcement authorities, and coordination among many U.S. law enforcement agencies and United States Attorney's Offices. Department attorneys work closely with Federal agents from the initial stages of these investigations to formulate and implement investigative and prosecutive strategies. As is common in the U.S. system, Department attorneys become deeply involved in these investigations, developing an expertise that parallels and complements the knowledge of the lead investigative agents.

Prosecutors from the Department of Justice handling international cases also interact frequently with their foreign counterparts in justice ministries. In many European countries, prosecutors or investigating magistrates play a supervisory role, directing and controlling the actions of their national police forces in particular investigations. European prosecutors and investigating magistrates frequently view U.S. prosecutors as their peers in the U.S. system. This enables Department attorneys to further the interests of the agents with whom they work by negotiating and coordinating investigative decisions and evidence sharing issues with their foreign counterparts.

Criminal Division attorneys handle a broad range of evidence sharing issues, from the issuance of mutual legal assistance treaty requests and letters rogatory, to the facilitation of informal evidence-sharing and cooperation. They also regularly coordinate different phases of multi-national investigations and prosecutions with their foreign counterparts. By understanding the complex rules governing discovery in various nations, Department attorneys play a critical role in counseling U.S. agents on timing and strategy issues in such cases. Criminal Division attorneys also handle international arrest issues by working with U.S. law enforcement agents to draft and submit provisional arrest warrant requests, INTERPOL red notices and extradition requests.

Criminal Division attorneys also play a crucial role in facilitating the necessary flow of information and evidence among both domestic and foreign law enforcement agencies. The Department of Justice has access to information from many different sources, both domestic and international. This includes information frequently obtained by Department attorneys serving or traveling abroad, such as Office of International Affairs trial attorneys and trial attorneys from the Division's litigating sections. Combining the Division's expertise in transnational crime with this wide access to information, Division attorneys are able to identify critical evidentiary links and facilitate the broader sharing of information among U.S. and foreign law enforcement agencies. Moreover, due to their reputation among domestic law enforcement agencies as central and neutral advocates of the interests of the United States, Department attorneys frequently are able to facilitate the sharing of information and cooperation among various federal agencies that might otherwise not even know of their common interest in particular targets.

Litigators from various sections of the Criminal Division are uniquely situated to handle international investigations. As they are authorized by law to appear and conduct investigations in any Federal District Court, they are not limited by the geographical boundaries of United States Attorney's Offices. Thus, Department attorneys frequently pursue leads and coordinate investigations that affect several different Federal districts—a task which would be much more difficult for an Assistant United States Attorney.

In the organized crime area, this ability to coordinate is greatly enhanced by the fact that, by special Justice Department regulation, all organized crime prosecutions in the 21 organized crime strike forces across the country are directly supervised by the Organized Crime and Racketeering Section (OCRS) in the Criminal Division in Washington, D.C. OCRS is therefore in the unique position of being able to coordinate the nationwide prosecutive attack on domestic and international organized

crime groups and present a single point of contact for organized crime cases to our prosecution counterparts in other parts of the world.

Criminal Division attorneys benefit from other built-in advantages when working international cases. For example, being based in Washington, D.C., Department attorneys have the benefit of easy access to the headquarters of various Federal law enforcement agencies. They also are able to quickly and easily exchange information with law enforcement attaches to various embassies, and with the Europol liaisons stationed in Washington, D.C.. Finally, through general venue provisions such as those contained in title 21, Criminal Division prosecutors are frequently able to centralize the prosecution of multinational and multi-district investigations in Washington, D.C.

The Criminal Division also coordinates with the Department of State and with other components in the Department of Justice and various Federal law enforcement agencies to help formulate U.S. foreign policy on law enforcement issues in Europe. This requires coordination not only with respect to law enforcement policies in Western Europe, but also regarding the development and implementation of programs to encourage the Eastern European and Eurasian countries, including EU accession states, to develop workable legal frameworks that will enable them to respond to the threat of organized crime while respecting the rule of law. Working with the Department of State, experienced Criminal Division attorneys regularly coordinate with EU and Council of Europe entities to implement and improve mechanisms to combat organized crime.

Along with the Department of State, the Department of Justice also plays a direct role in coordinating with the EU and other international organizations to provide technical training and assistance to developing European and Eurasian nations. Through its OPDAT resident legal advisors and ICITAP program managers, the Department provides essential aid and educational guidance on myriad criminal justice issues throughout the Balkans, Eastern Europe and the former Soviet Union. From the development of organized crime task forces to the assistance in legislative drafting, the Criminal Division plays a crucial role in promoting stability and establishing the rule of law throughout the region. Division employees often provide assistance and training in conjunction with law enforcement officials from Western Europe. While they work to improve the legal systems in these countries, these Criminal Division representatives develop valuable expertise in understanding the legal and cultural systems throughout Europe and Eurasia, enabling them to provide expert guidance and advice to prosecutors and agents in the United States.

The Balkans provide a particularly good example of the Criminal Division's training and assistance strategy. Working through the Office of Overseas Prosecutorial Development, Assistance and Training ("OPDAT") and International Criminal Investigative Training Assistance Program ("ICITAP"), the Criminal Division has emphasized the development of national task forces which can work both independently as well as with foreign counterparts, including the United States, and international organizations in the fight against transnational organized crime. OPDAT and ICITAP assist host countries in fostering team-building approaches to detect, investigate and prosecute organized crime, including multi-functional and multi-jurisdictional task forces. Additionally, the Criminal Division has provided assistance to the Southeastern Europe Coordinating Initiative (SECI) based in Bucharest, Romania, which provides regional coordination on transborder investigations and encourages the development of special task forces in the member countries. OPDAT and U.S. Federal law enforcement agencies, such as the FBI, DEA and Secret Service, have assisted in the development and establishment of these SECI-based task forces. Following the SECI example, certain Eurasian countries are developing a transborder law enforcement organization under the auspices of Guam, a regional entity composed of Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. The Criminal Division, through ICITAP, currently is providing assistance to Guam as it develops this mission.

The Criminal Division also works closely with Europol to develop stronger international cooperation on criminal matters. Again, due to their unique position within the U.S. law enforcement community and their broad access to information, Division attorneys are able to identify and focus upon particular areas where cooperation with Europol will be fruitful. By leveraging the benefits of Europol, such as their access to information throughout the EU and their strong analytical assets, the Criminal Division is attempting to foster greater information exchange with agents in the United States. At the same time, the Criminal Division is hoping to use the information it obtains from Europol to identify priority international targets for investigation, understanding that the best way to encourage international cooperation is by developing concrete cases that will lead to joint investigations and prosecutions.

While mentioning Europol I should also mention the work of the USNCB, the American part of INTERPOL. A Criminal Division attorney serves as counsel for the USNCB and plays an important role in INTERPOL's mission of international law enforcement cooperation and sharing police information among INTERPOL's 181 member countries. The attorney also serves on several INTERPOL committees developing policy for INTERPOL and plays a primary role in the USNCB's job as a point of contact for Europol.

In summary, the Criminal Division focuses on the issue of transnational crime in several ways, giving the Division the unique ability to meld the various functions it serves to achieve the final goal of successfully attacking organized crime. The Department understands that forging strong investigative and diplomatic relations is crucial. Whenever possible, we must coordinate our investigations, so that investigative and prosecutive steps taken in the us in pursuit of domestic strands of an international criminal network will not conflict with, and will instead enhance, similar steps taken in Europe. This can be achieved only through building close working relationships with our investigative and prosecutive colleagues in other countries. It also requires a thorough understanding of each others' laws and procedures so that we can make the cases come together and actually work. This job can only be tackled by U.S. agents, diplomats and other experts working closely together with Department prosecutors, from the Office of International Affairs, the Office of Prosecutorial Development, Assistance and Training, the United States Attorneys' Offices and litigating sections like the Organized Crime and Racketeering Section.

#### CONCLUSION

The Department appreciates the interest of the Committee in this matter. I am prepared to answer any questions the Committee may have.

Senator VOINOVICH. Thank you very much.  
Mr. Ashley.

#### **STATEMENT OF GRANT D. ASHLEY, ASSISTANT DIRECTOR, CRIMINAL INVESTIGATION DIVISION, FEDERAL BUREAU OF INVESTIGATION, WASHINGTON, DC**

Mr. ASHLEY. Thank you, Mr. Chairman, good afternoon. I appreciate the opportunity for the FBI to present comments regarding Eurasian organized crimes, a topic that is of great interest to committee and high in priority to the FBI.

We are developing a variety of anticrime efforts both here in the United States and abroad to combat these dangerous threats. One of the more effective ways to fight international crime is by building cooperative partnerships between the U.S. law enforcement and our overseas counterparts. Without these relationships there cannot be a commonality of purpose, or an open communication which is required for success. More and more of these bridges are being built and the successes are already evident.

A number of Russian and Eurasian organized crime groups and criminal enterprises are operating in the United States, the most significant being the Solntsevskaya criminal enterprise. These enterprises may be broadly categorized as structured criminal organizations like the powerful Solntsevskaya and Ismailovskaya enterprises. Both these groups are present in the United States and are attempting to gain a foothold in our country. They are engaged in extortion, kidnaping, drug trafficking, murder, prostitution, and a number of frauds.

The FBI currently has 245 ongoing cases dealing with Eurasian organized crime. In addition to the criminal activity we have cited above, the Eurasian organized crime enterprises have been identified in cases involving white slave trafficking, prostitution, hostage taking, transportation of stolen property for export, insurance fraud

which is generally staged auto accidents, and medical fraud involving false medical claims, engagement in counterfeiting, credit card forgery and murder.

During 1998, Russian organized crime suspects were arrested in Chicago for violation of visa fraud. The investigation determined that young females from Latvia were being recruited to the United States and held against their will. These women were forced to work at topless adult entertainment establishments which were owned and operated by Russian organized crime figures.

I would like to discuss one of our efforts, which I believe to be one of the most innovative approaches to cooperative law enforcement that you will find anywhere in the world. I'm speaking of the joint FBI-Hungarian National Police Organized Crime Task Force that's operating out of Budapest, Hungary. During 1999 it became imperative that the United States adopt a new approach to bring about broader cooperation in the international law enforcement community, as well as have a strategy for implementing approaches that would benefit both the United States and its international partners. Given the threat situation, Budapest, Hungary seemed to be the logical place to initiate this strategy.

Currently four FBI agents and 7 elite officers from the Hungarian National police are assigned to this task force and are collocated in Hungarian National Police space. These agents can acquire direct real time information and intelligence, which provides support for ongoing investigations of criminal activity throughout the country. As a result of the cooperation of the Hungarian National Police, the FBI has been able to develop intelligence involving Eurasian organized crime activities throughout Europe impacting the United States. This allows agents to thwart these organized criminal enterprises before they reach or become firmly established in the U.S. as a result of this cooperation, criminal activities impacting the U.S. have been identified.

The success of the Budapest task force has encouraged other foreign law enforcement counterparts to seek expansion of this concept to address the threat of transnational criminal enterprises at the source country before a nexus to the United States exists.

The Balkan Organized Crime Initiative consists of addressing organized criminal activity emanating from the following nations: Slovenia, Croatia, Serbia-Montenegro, Bosnia-Herzegovina, Albania, Kosovo, the former Yugoslav Republic of Macedonia, and Greece. It is a relatively new program but a very high profile endeavor on the part of the FBI and is a major focus. Balkan organized crime, specifically Albanian organized crime, is an emerging organized crime problem with international ramifications and has been identified and is being addressed in 12 FBI field offices throughout the United States.

I appreciate the interest of this committee and with your permission I would like to place a more detailed statement in the record and answer any questions you may have.

[The prepared statement of Mr. Ashley follows:]

PREPARED STATEMENT OF GRANT D. ASHLEY, ASSISTANT DIRECTOR, CRIMINAL INVESTIGATION DIVISION, FEDERAL BUREAU OF INVESTIGATION, WASHINGTON, DC

Good morning Mr. Chairman and members of the Subcommittee on European Affairs. On behalf of the Federal Bureau of Investigation (FBI), I would like to express



my gratitude to the subcommittee for affording us the opportunity to participate in this forum and to provide comment to the subcommittee on issues related to Eurasian organized criminal enterprises, a topic that is of great concern to the FBI as well as to this committee. It is our belief that the international growth of these very dangerous, criminally diverse and organized groups and their emergence in the United States has caused a significant expansion of our crime problem. The FBI and DOJ are taking an aggressive stance in addressing these organized criminal enterprises, domestically and internationally, to help other nations battle these groups and to prevent them from becoming entrenched in the United States.

Organized criminal enterprises are no longer bound by the constraints of borders. Such offenses as terrorism, organized crime, computer crime, and drug trafficking have spilled from other countries into the United States. Regardless of origin, these and other overseas crimes directly impact U.S. national security and the interests of our citizens. Eurasian organized crime, because of its size, wealth and international reach, poses some of the greatest threats in this regard.

We have developed a variety of anti-crime efforts both here and abroad to combat these dangerous threats. One of the most effective ways to fight international crime is by building investigator-to-investigator and prosecutor-to-prosecutor bridges between American law enforcement and our overseas counterparts. Without these relationships, there cannot be the commonality of purpose and open communication required for success. More and more of these bridges are being built, and successes are flowing from them.

We are using a number of approaches to develop cooperative law enforcement programs with other countries. For example, our Legal Attache program works closely with a large number of foreign police forces, forming a sort of distant early warning system to alert us to new and emerging crime threats. Interpol's United States National Central Bureau, to which the FBI has detailed four special agents and the criminal division one trial attorney, also plays an important role in coordinating with our European counterparts on a wide array of organized crime issues. Similar programs at other U.S. law enforcement agencies also render invaluable service in forging close bonds with our foreign counterparts and allowing us early identification of foreign criminal enterprises attempting to expand to the United States. Training is another powerful tool. The FBI, DOJ's Criminal Division, and other department components, in coordination with the Department of State, assist our foreign law enforcement counterparts through training here and abroad. Finally, the FBI's cutting edge technique for addressing transnational European organized crime is the joint FBI/Hungarian National Police Organized Crime Task Force. I will provide additional details on the task force and our broader efforts at cooperation and coordination later in my testimony.

#### DESCRIPTION OF THE THREAT

The subject of the committee's hearing today covers crime groups categorized by the FBI under three distinct labels—Eurasian organized crime, Italian organized crime and Balkan organized crime. I will discuss the problem primarily in terms of Eurasian organized crime first.

#### EURASIAN ORGANIZED CRIME

"Eurasian organized crime" is the term applied by the FBI, to the phenomenon of organized crime associated with persons originating from Russia, Eastern and Central European countries, as well as the other independent states created following the collapse of the Soviet Union. Most members of Eurasian organized crime groups in the United States originated in the territories of the former Soviet Union, particularly in Russia, the Ukraine, and to a lesser degree from the Baltic States, principally Lithuania and Latvia.

The fall of communism was one of freedoms greatest triumphs over oppression. However, the breakup of the old Communist states and the economic and social upheaval that followed in the 1990s also created fertile ground for the rapid rise of sophisticated, ruthless organized crime groups in many former Communist countries.

In many of those countries organized crime and its attendant public corruption have reached epidemic proportions. To cite but one example, the Russian Interior Ministry recently estimated that over half of the Russian economy, including significant portions of its vast energy and metallurgical sectors, is controlled by organized crime. The Russian Interior Ministry recently estimated that, in a country where by some accounts over half the population earns less than \$70 a month, in this year alone criminal groups in Russia have used Russian banks to illegally transfer \$9 billion out of the country. Similar sobering statistics can be cited for many other

countries in the region. In these countries the reality is that organized crime and corruption have become an accepted fact affecting almost every aspect of daily life.

The end of the cold war also provided significant, unintended opportunities for organized crime groups and criminal enterprises in former Communist countries to expand internationally to Western Europe and beyond. Evidence that organized crime activity from these areas is expanding and will continue to expand to the United States is well-documented. Criminal groups from the Balkans, Eastern and Central Europe and the former Soviet Union are involved in all types of criminal activity in the United States, from drug trafficking and human trafficking to burglary and home invasion robbery rings, from money laundering and securities fraud to traditional organized crime gambling and extortion rackets.

The FBI and DOJ prosecutors have many years of successful investigative and prosecutorial experience in the battle with *la Cosa Nostra* and other organized criminal enterprises here in the United States. We view organized crime as a continuing criminal conspiracy having a firm organizational structure, a conspiracy fed by fear and corruption. This definition also applies to the Eurasian organized crime threat facing Europe and Russia and now the United States.

A number of Russian/Eurasian organized crime groups and criminal enterprises operate in the United States. They may be broadly categorized as falling into two types. The first type may be more aptly called "fraud and other types of crimes, all designed to obtain money, perpetrated by Russian-speaking individuals." In this fraud/financial crime area, we often see what appear to be crimes of opportunity, sometimes perpetrated by a few individuals or by loosely-structured groups. The second type, structured organized crime groups, like the powerful Russian *Solntsevskaya* and *Ismailovskaya* criminal enterprises, have members here in the United States and are attempting to get a foothold in the U.U. These groups, when they resort to extortion, kidnaping, drugs, murder, prostitution and fraud for their main sources of revenue, are sometimes easier to identify, collect evidence against and ultimately convict and incarcerate. On the other hand, when well-organized groups deploy their full resources in money laundering or other complex white collar schemes such as stock market manipulation, health care fraud, and insurance fraud, they can be very difficult to detect and prosecute.

The genesis of Eurasian organized crime in the United States dates to the 1970's when significant numbers of Soviet emigres first arrived. Most of the estimated 100,000 emigres who entered the United States during the 1970's and 1980's were Soviet Jews fleeing religious persecution and political dissidents. A very small cadre of criminals within this otherwise law-abiding emigre population constituted the base of domestic Eurasian organized crime enterprises operating in the United States. The dissolution of the Soviet Union in 1991 fostered another wave of emigration to the United States, with thousands of emigres taking advantage of the lifting of travel restrictions to flee dismal economic conditions in the former Soviet Union. While the vast majority of these individuals in this wave were also hard-working and law-abiding, this exodus resulted in an increased presence in the United States of both domestic and foreign-based Eurasian organized crime enterprises. This emergence of foreign-based Eurasian organized crime enterprises following the advent of capitalism and privatization in the former Soviet Union after 1991 has changed the scope of the threat posed by Eurasian organized crime enterprises from a localized problem to one of international proportions. In the 1990's, Eurasian organized crime enterprises emerged as national and global threats.

The FBI currently has 245 ongoing cases dealing with Eurasian organized crime. Fraud, transnational money laundering, extortion, drug trafficking and auto theft are the most frequent violations cited in FBI Eurasian organized crime cases. Most significantly, nearly 60 percent of all FBI cases targeting Eurasian organized crime involve some type of fraud. In addition to the violations cited above, Eurasian organized crime enterprises have been identified in cases involving white slave trafficking/prostitution, hostage taking, extortion of immigrant celebrities and sport figures, transportation of stolen property for export, insurance (staged auto accidents) and medical fraud (false medical claims), counterfeiting, credit card forgery, and murder.

Examples of significant Eurasian organized crime cases abound. In 1991, the U.S. Attorney's office in Los Angeles charged 13 defendants in a \$1 billion false medical billing scheme that was headed by two Russian emigre brothers. On September 20, 1994, the alleged ringleader was sentenced to 21 years in prison for fraud, conspiracy, racketeering, and money laundering. He was also ordered to forfeit \$50 million in assets, pay more than \$41 million in restitution to government agencies and insurance companies victimized by the scheme.

The first significant Eurasian organized crime investigation involving a major underworld figure in the United States concerned Vyacheslav Ivankov, one of the most

powerful international Eurasian organized crime bosses. Ivankov led an international criminal organization that operated in numerous cities in Europe, Canada, and the United States, chiefly New York, London, Toronto, Vienna, Budapest, and Moscow. The investigation was initiated in 1993 after the FBI was alerted to Ivankov's presence in the United States by the Russian Ministry of the Interior (MVD).

In June 1995, Ivankov and five others were arrested by the FBI. In July 1996, Ivankov was found guilty on numerous counts of extortion and conspiracy and in January 1997, the Eastern District of New York sentenced Ivankov to 115 months of incarceration and 5 years of probation.

#### ITALIAN ORGANIZED CRIME

The second organized crime threat afflicting Europe and poised to attack the United States is composed of Italian organized crime (IOC) groups. The best known of these groups is the Sicilian Mafia, but other significant Italian organized crime groups include the Neapolitan Camorra, the Calabrian 'ndrangheta and the Puglian Sacra Corona Unita. Long dominant in some of the lesser-developed regions of Italy, there are increasing signs that elements of these criminal organizations are attempting to expand their reach beyond Italy's borders.

For example, pending investigations reflect that there continues to be a nexus between the United States' domestic la Cosa Nostra (LCN) families and the Sicilian Mafia. Travel by senior United States LCN members to Sicily has been noted on several occasions. Elements of Italian organized crime continue to traffick drugs to and from the United States and launder their money from criminal activity in the United States, and members/associates of the Neapolitan Camorra are engaged in the sale of counterfeit consumer goods in the New York/Newark metropolitan area, Chicago, Los Angeles, and San Diego.

In cooperation with our Italian law enforcement counterparts, we continue to attempt to identify and target members of traditional IOC groups engaged in criminal activity in both countries, as well as to identify and locate fugitives from our respective criminal justice systems.

The Direzione Investigativa Antimafia (DIA) has advised that with respect to traditional organized crime activity in Italy, the Calabrian 'ndrangheta has evolved from kidnappings for ransom to drug trafficking and the systemic corruption of public officials to gain lucrative municipal contracts. The Neapolitan Camorra is reportedly developing a more "entrepreneurial mentality" and is expanding its criminal activity beyond its traditional extortion rackets to the smuggling of counterfeit and non-taxed cigarettes. It is further reported that the Camorra is attempting to interject itself into the legitimate economies of Eastern Europe. The Puglian Sacra Corona Unita is allegedly taking advantage of its geographic proximity to the Balkans to align itself with Balkan organized criminal groups engaged in arms and cigarette smuggling, trafficking in humans, and alien smuggling.

Through the auspices of and in coordination with the FBI's office of the Legal Attache in Rome, operational relationships continue to be developed between FBI special agents and U.S. Federal prosecutors and their counterparts in Italy, to include investigative magistrates, the Italian national police, the Direzione Investigativa Antimafia, Carabinieri and Guardia d'finanza.

In conjunction with the cross border initiative with Canada, the Royal Canadian Mounted Police and the FBI have identified IOC enterprises criminally active in both countries, and are working jointly to address these criminal enterprises as I speak.

#### BALKAN ORGANIZED CRIME

The Balkan Organized Crime (BOC) Initiative, which consists of addressing organized criminal activity emanating from Slovenia, Croatia, Serbia-Montenegro, Bosnia-Herzegovina, Albania, Kosovo, the Former Yugoslav Republic of Macedonia (FYROM), and Greece, is a relatively new program, and a very high profile endeavor on the part of the FBI's Organized Crime Section (OSC) and DOJ's Organized Crime and Racketeering Section (OCRS). Balkan organized crime is an emerging organized crime problem with transnational ramifications that has been identified and is being addressed in 12 FBI divisions throughout the United States.

Balkan organized crime groups, particularly those composed of ethnic Albanians, have expanded rapidly over the last decade to Italy, Germany, Switzerland, Great Britain, and the Scandinavian countries, and are beginning to gain a foothold in the United States. In the last year or two, European nations have recognized that Balkan organized crime is one of the greatest criminal threats that they face. European police organizations now estimate that Balkan organized crime groups control up-

wards of 70% of the heroin market in some of the larger European nations, and are rapidly taking over human smuggling, prostitution and car theft rings across Europe.

Domestically, Albanian organized crime groups have been involved in murders, bank and ATM burglaries, passport and visa fraud, illegal gambling, weapons and narcotics trafficking, and extortion. In New York City, the Albanians have actually challenged the LCN for control of some traditional criminal activities which have historically been the mainstay of LCN family operations. Albanian OC groups have also formed partnerships with the Gambino, Genovese, and Luchese LCM families to facilitate specific crimes.

While the Albanian organized crime groups have a well-deserved reputation in underworld circles for extreme violence, they are also knowledgeable about United States sentencing guidelines. For example, rather than rob a bank at gun-point with employees and customers present, and potentially receive a long sentence, we have seen them burglarize the bank after hours by smashing into unguarded ATMs through brute force.

#### AN INNOVATIVE SOLUTION: THE JOINT FBI/HUNGARIAN NATIONAL POLICE ORGANIZED CRIME TASK FORCE

The Department and the FBI are working hard at many different levels to improve law enforcement cooperation between countries and engineer multi-national cases that attack the most dangerous transnational criminal enterprises operating between Europe and the United States. I would like to begin my discussion of our efforts by talking about one of the most innovative approaches to cooperative law enforcement to be found anywhere in the world—the joint FBI/Hungarian National Police Organized Crime Task Force in Budapest, Hungary.

The events that triggered the need for this task force arose from the collapse and fragmentation of the Soviet Union. As I previously noted, following the collapse, organized crime exploded throughout Russia, the new republics, and Eastern Europe. By the mid-1990s, the Moscow-based Solntsevskaya criminal enterprise emerged as the largest and most powerful Russian organized crime group. In 1995, one of the strongest Solntsevskaya factions, led by Semion Mogilevich, established its headquarters in Budapest, Hungary. Budapest was attractive to such groups because, among other things, it maintained a stable, sophisticated banking system, as well as contact with Western countries. Mogilevich employed the safe haven in Hungary to direct his criminal operations against the United States.

During 1999 it became imperative for the United States to adopt a new approach to bring about broader cooperation in the international law enforcement community, as well as a strategy for implementing an approach that would benefit the United States and its international partners. Given the situation, Budapest, Hungary seemed to be the logical place to initiate this new strategy.

The U.S. and Hungarian Governments accordingly agreed to set up a joint task force where FBI and Hungarian National Police officers would work side-by-side to investigate organized crime cases. Currently, four FBI agents and seven elite officers from the Hungarian National Police are assigned to the task force.

The impact of the task force was immediately apparent. The Ukrainian-born Mogilevich fled Budapest for Moscow. The enhanced assistance provided by the task force enabled United States prosecutors from the Philadelphia Organized Crime Strike Force to obtain indictments charging four subjects, including Mogilevich, with money laundering, securities fraud, and rico conspiracy.

With Eastern Europe as the center of the intelligence base, FBI agents can acquire evidence in direct, "real time." With the cooperation of the Hungarian National Police, FBI agents have been able to develop intelligence involving Eurasian organized crime networks throughout Europe. This allows agents to thwart Eurasian organized criminal enterprises before they reach the United States.

The task force has established itself as the most elite investigative unit in Hungary. Members employ sophisticated investigative techniques regularly used by the FBI and other U.S. investigative agencies but previously unknown in Hungary. As a result, organized crime investigations have been initiated throughout the world, as well as in a number of FBI field offices throughout the United States. The success of the Budapest task force has encouraged other foreign law enforcement counterparts to seek expansion of this concept to address the threat of transnational criminal enterprises at the source countries where links to the United States exist.

#### CONCLUSION

We appreciate the interest of the committee in this matter. I am prepared to answer any questions the committee may have.

Senator VOINOVICH. Thank you, Mr. Ashley. I have just been informed that I have to excuse myself and go vote, so we will take a little break and then continue with the questioning.

[Recess.]

Senator VOINOVICH. The hearing will come to order. The first thing I would like to discuss, Mr. Ashley, you were talking about some of these foreign operations here in this country, the Russians in Chicago, and I have heard about them in New York and New Jersey. Have we seen a marked increase in the involvement of foreign organized crime operations entities in the United States in the last several years?

Mr. ASHLEY. Yes, Senator. Not only have we seen an increase in the amount of the activity but the complexity of their crimes and the true transnational nature of the crimes is becoming more apparent.

Senator VOINOVICH. In other words, they are operating, it sounds to me like the old-time Cleveland Mafia, you know, shake downs, all the rest of that stuff that they do. And now they are, I was just thinking on the way over here, we are exporting a lot of our jobs overseas and they are importing all of their crime organizations here.

Mr. ASHLEY. We see basically two types of criminal activity that these groups are engaged in. Some of the localized, the extortion, the shake downs that they historically use, and the extreme violence which they are well known for. And then the more enterprise-related crimes that bleed over into western Europe, the United States, Baltic, and all these areas, and that's where the human trafficking, the drug trafficking, money laundering, weapons trafficking, all these types of very sophisticated crimes come in.

Senator VOINOVICH. So the Ukraine, from what I understand, is a big source of human trafficking, which they start there and they just line up these folks and then they figure ways to get them into the United States.

The question I would like to ask all of you is, do you have the resources here in the United States to deal with this? If it's escalating, it appears that more effort needs to be put out to make sure that it doesn't continue to spread, and I would like your comment on that.

Mr. ASHLEY. Senator, I'm a little uncomfortable to put myself in the position of estimating the Director's need for the resources of the FBI, but I can say that the problem is getting greater, the challenges to all law enforcement in the U.S. as well as overseas is going to stretch our available resources even more so.

Senator VOINOVICH. Is part of the problem the fact that more and more resources are going to deal with terrorism and as a result of that, there is some moving away from resources that would ordinarily be engaged in dealing with criminal organizations from overseas?

Mr. ASHLEY. We had a program approved by the House and Senate that did move some criminal resources. It's also important to note that these cases are very resource intensive. If we're going after the right transnational organizations and using the right techniques, there will be extensive wire taps, undercover activity,

financial transaction investigation, a lot of overseas work, and they take a lot of time and money.

Senator VOINOVICH. This is a side line, another area I have been working on for quite a few years, and that is the issue of human capital and resources, and you might be interested in knowing that we're looking at all law enforcement outside of homeland security in terms of the pay scale and the rest of it. We're hearing from some of your agents around the country who complain that their locational pay is so inadequate they have to live 60 miles out of town. A lot of what we're talking about here has got to do with people and with homeland security, you know, they are part of a new personnel system. But they're looking at that and I think it's important that we look at what's happening in the other law enforcement areas so we don't have this inconsistency there in terms of pay and so on, so that we can attract the people that you can and keep them on board.

In terms of the United States, I'm really interested in the organizational structure here, because I will be candid with you, and I have been briefed a couple of times confidentially about what's going on, and the fact of the matter, is it frightens me how organized these people are. And I think to myself, if we're going to do anything about this, it's really going to take some good organization, and the issue is, are you all organized here?

Is there coordination here among whatever resources you have, do you think going on, and I know it's a difficult question to answer, but in the United States, do you think that there is enough communication going on between the various agencies that are responsible for dealing with the people that have come here?

Mr. ASHLEY. Senator, I do believe that the coordination between the Federal agencies as well as the other partners in this in the United States is nothing short of exceptional. Yesterday, I had Department of Justice, other Federal agencies and other investigators involved with the Budapest project in a coordination meeting to ensure that everything we do is toward the stated objectives, fully coordinated on a national and international basis. It is the future threat for the United States and that's the only way we can operate effectively.

Senator VOINOVICH. So would you all agree with me?

Mr. SWARTZ. Mr. Chairman, if I may add, and I fully concur in Mr. Ashley's statement. I think from a law enforcement point of view, the coordination is outstanding. The Criminal Division, as I noted, has an organized crime and racketeering section, which in turn supervises 21 organized crime strike forces in the U.S. attorney's offices. And again, thanks to the work of Mr. Orr and Mr. Williams, I think it's fair to say that there is no matter on which we are not working directly together in this contest.

Similarly with regard to the international aspect, as my colleagues at the State Department have said, they are people we work with regularly on these cases.

Senator VOINOVICH. So in the United States, it seems that the coordination, you have these task forces now locally where there is a lot more coordination going on between you and local enforcement, so, that's good.

Ambassador Pifer.

Ambassador PIFER. Mr. Chairman, I also view this from another perspective from my experience in Ukraine, so I think there is really a need for coordination in the field. Under the auspices of our country team in Ukraine, we brought in a range of State Department sections but also other agencies to address the crime and corruption problems. For example, we had legal attaches working with their counterparts on specific legal cases. We also had a regional legal advisor who was doing various programs with Ukrainian law enforcement agencies in terms of providing equipment and training. We have various international development programs that were designed to attack crime from another area, programs to basically improve the judiciary and more broadly, civil society.

We also looked at crime and criminal issues with our public affairs section, ensuring that who do we want to send to the United States on exchange programs that would expose them to anti-corruption techniques and then bring those folks back. But we have very good coordination within the embassy and we want to make sure that the kind of coordination is replicated in the field, and I think that's the case in most of our areas.

Senator VOINOVICH. Mr. Schrage.

Mr. SCHRAGE. One of the reasons INL was created was to serve as a central point for much of the international law enforcement and we work very closely to help coordinate efforts to help obtain the unified front in this battle. We work extremely close and think we do, as everyone here said, see a lot of each other, we coordinate priorities and how we move forward in these areas.

Senator VOINOVICH. The coordinator in the United States is who, who coordinates it? Is that the Attorney General?

Mr. SWARTZ. Mr. Chairman, the Attorney General coordinates certainly the prosecution for organized crime matters within the United States, obviously Director Mueller and our other law enforcement agencies within the Department of Justice.

Senator VOINOVICH. And is the State Department also involved because of their relationship with some of these countries and so on?

Mr. SWARTZ. It is certainly closely coordinated with State when it has international implications. I have met with Ambassador Pifer on many occasions on these matters, so consistent with our obligations, yes, we do try and coordinate case matters when necessary. And then multilaterally, I think it's fair to say internationally, we work directly with State Department and we share responsibility there on policy issues.

Senator VOINOVICH. Ambassador Pifer, you said that you're impressed with what they are saying. Take the Ukraine for example. Is our Ambassador to the Ukraine in that office responsible for coordinating among those agencies? In other words, for example, I know many FBI agents may be on board and maybe even some CIA agents and so on and so forth, but that's being run by the Ambassador, is that how that works?

Ambassador PIFER. Sir, I cannot speak for my successor, but when I was in Kiev I had a practice of meeting once every 2 weeks with my legal attache, whether we had a fire or not. The idea was to make me think about for at least 20 minutes the sorts of issues he had to worry about. And when I was there, the Ambassador had

the authority and responsibility as the head of the country team for the coordination. What I normally did was ask my deputy chief of mission to hold regular meetings to ensure all the pieces were moving in the same direction.

And I very much suspect that my successor is doing something similar, Ambassador Herbst, who as part of his briefing process was very much made aware of some of the crime and corruption problems in Ukraine.

Senator VOINOVICH. Does the State Department have either public or confidential lists of the countries and the problems that are there, and where the infrastructure in the area of the criminal justice areas is important at that particular time, and a priority list so that there is a master plan of where we are vulnerable and where we need to do work and how we're doing and so on?

Mr. SCHRAGE. We do have prioritization processes or lists for country specific threats. For example, I briefed the Congress quite a bit about terrorist financing and money laundering, and I believe as you pointed out, in terms of personnel resources, some of the critical limits we face aren't always just dollars, it's the personnel to address some of these matters. I look at the threats related to terrorist financing and my office alone, I co-chair a process where we look around the world to look at the priorities, where we need to go to bolster our activities.

Senator VOINOVICH. That's the threat assessment, saying we're vulnerable, and worked through your embassy, I suppose?

Mr. SCHRAGE. We work through the embassy but we also work through the interagency group and representatives from the Justice Department, Treasury, NSC, from all the agencies involved, to come up with a unified strategy and plan.

Senator VOINOVICH. I was a big promoter of expansion of NATO to include Bulgaria and Romania, and we made it very clear to those folks that they needed to take action to combat corruption and promote the rule of law. Is there any document which shows whether or not they have made any progress in those areas? Who keeps track of that? Is that the State Department?

Ambassador PIFER. That's our tracking that we would have at the country desk based on the reports it gets from the embassy, but also with close coordination with INL, to make sure the problem was being managed better, or whether we need to feed new resources. As part of our assistance effort, we have an assistance coordinator who is in charge of the Freedom Support Act and also the SEED programs, but they also look for programs that INL works. We try to solve problems in a coordinated way, and we try to respond to what's going on. For example, there may be more resources devoted to the counter-narcotics problem in Central Asia because we see increasing flows of narcotics coming out of Afghanistan, but we have a multitasked effort.

Senator VOINOVICH. Has there been an increase, not to get away from this subject, but has there been an increase in this activity in Afghanistan?

Ambassador PIFER. My sense is, and please don't quote me, the problem on our part has certainly gotten increased attention. Over the last 2 years we've had an Afghanistan focus, and there's a spe-



cific group that looks at counter-narcotics, and we get cooperation there.

Senator VOINOVICH. It's a little hard to understand because we have troops over in Afghanistan, and if the problem is greater today than it was before, what's the reason?

Ambassador PIFER. I am not able to compare numbers with, say, 3 years ago, but it is certainly very important.

Senator VOINOVICH. Well, it gets back to the coordination now. So you are working with this individual desk, so you have some idea of where you need to build infrastructure, you have an idea where you need to put some resources—you have some problems with organized crime going on there with threat assessments coordination is important.

The next issue is on a bilateral basis, how much coordination do you do with other countries? For example, you've got the OSCE, somebody mentioned that they are in the business of building infrastructure, particularly infrastructure to promote the rule of law. Is there any interface with the OSCE? Does anybody coordinate with their efforts or perhaps another one of our allies that may have an interest there? How does that work?

Ambassador PIFER. Well, speaking from my experience in Ukraine, and I have no reason to believe that they have done away with this practice, our Agency for International Development mission in Kiev regularly had a donors meeting where we would bring together not just our contributing organizations, but also the European Union, and we would engage with countries that also had bilateral programs. We would bring in the World Bank, the IMF, those types of groups. And the idea there was let's look at the range of the assistance programs we're doing in Ukraine, and are there areas where we're duplicating efforts, and are there areas where we have left critical problems uncovered. So there was some coordination, it was certainly not as effective as within the U.S. Government, but there was some effort to make sure we were working in a very coordinated way.

Senator VOINOVICH. But that's bilateral U.S.-Ukraine interaction, and then you look around for other organizations that are there to see if you can work with them.

Ambassador PIFER. Right. And there are other examples. For example, looking at the narcotics problem and the issue of Central Asia, because we worked very closely with the United Nations Office on Drug and Crimes, and provided some assistance to them to help strengthen their presence for their work in Central Asia. Tajikistan established a fairly good drug enforcement agency, and we have been working with the United Nations Office on Drugs and Crime to take that model and replicate it in Kyrgyzstan, because we think there is a good model, it seems to work, and the focus here is aiding the host nation to gain the capacity to deal with this narcotics issue.

Senator VOINOVICH. So you have the U.N. involved in that?

Ambassador PIFER. Yes, sir.

Senator VOINOVICH. I know that Erhard Busek now has control of the Stability Pact, and you also put SECI underneath his jurisdiction. What kind of coordination is going on between SECI and the Stability Pact in terms of what you're doing over there?

Ambassador PIFER. Mr. Chairman, could I get back to you? I think there is close coordination, but in specifics, I think it would be better if I got back to you.

Mr. SWARTZ. I can comment briefly on our experience over there. We have met with Stability Pact representatives in regard to what steps can be taken to strengthen SECI. We also have our representative in Brussels from the Department of Justice Criminal Division and he has been involved in some of the SECI entities such as the anticorruption issue. In addition, our organized crimes representatives have attended meetings, most recently the ministerial.

Senator VOINOVICH. One of the things that seems to bother me is that they have lots of meetings over there, groups, everybody is going to meetings. The issue is, who really looks at, sits down and looks at the local operation over there? You have the United Nations, you have OSCE, you have SECI, the Stability Pact, the United States. You know, if the people that we're dealing with are organized and do franchising in places and have this thing really organized, what are we doing to develop the same kind of an organization that can counteract it? Understanding that we can't do it all by ourselves in the United States, who should be the person in your opinion that's sitting down in a room looking at what everyone is doing, an orchestra leader? We've got all these people out there in sections of the orchestra, and how do we orchestrate this thing?

For example, Richard Monk was in from the OSCE, and I happen to know a lot about what they're doing with building police capacity, because I have a former state trooper that I get e-mails from often. He used to work with the OSCE in Kosovo, and I knew more about what was going on sometimes than I think the State Department knew what was going on. Now they picked him up, and he works with Richard Monk and the OSCE in Vienna. But they have five people in that operation and they're going into countries and trying to build a police force, and I think to myself, are you the only ones that are doing that? Is the United States involved in your efforts here? Does the left hand know what the right hand is doing here?

Mr. SWARTZ. Mr. Chairman, I think that's a very valid inquiry, one that we certainly try to work at both from the Department of Justice and Department of State perspective. We were recently involved in a conference call from London, which was an attempt really to bring together the various groups. The position we've taken at the Department of Justice on this is that as you say, meetings are good, but we need to try where we can to develop some cases, investigations and prosecutions, and some practical programs such as witness protection programs. We will continue to work closely with State to push that issue forward, particularly in the EU context. I can't say that we've reached the stage of having a division of responsibilities but it is certainly one of the items that we are concerned with, and State may be able to add to that.

Mr. SCHRAGE. I just wanted to add that there are a number of different groups and there are a number of many different players, and we work very closely with those. For example, we worked very closely through the London conference to come up with action plans

to help coordinate assistance. Again, where the rubber meets the road is going to be trying some of these people and seeing that it has moved forward and actually results in real results. In addition, we are now quoting the efforts of the G-8 in something called the CTAG, the Counter-Terrorism Assistance Group that was set up during the last presidency of the G-8. It's led by the SIG group at the State Department, but many of the efforts that have been brought are involved with the law enforcement efforts, and we're looking with the major donors to look and see that we're not duplicating efforts. So I think there are numerous efforts underway in different organizations bringing different strengths, and we're trying to look across all those different area and make sure that these assets are managed in an effective manner. The EUR has special authorities and interests in terms of mutual assistance but also in terms of having more operational authority in terms of developing assistance programs, so we work very closely with the special region. INL looks both at the EUR and globally to see which pieces of this fit together well and how we can work with different partners.

Senator VOINOVICH. But you don't know whether the State Department has someone who was looking across the field to see what was going on? For example, somebody mentioned the SECI operation in Bucharest. From what I understand, you know, that doesn't have staff to undertake a lot. Does anyone do an analysis of whether or not they're doing the job they're supposed to be doing and whether or not they have the resources to do it? If we really wanted to do something about this problem and get organized against organized crime, then what entity in the Federal Government should be the one that brings these people to the table and says look, we need to get serious about this, and we have everybody doing these separate things, and we have to somehow bring this together so we can do a better job.

Ambassador PIFER. Mr. Chairman, the answer may be a little more ad hoc than I think your question suggests you would like. In terms of would you like to see a master mind concerning the U.S. Government effort, I think we would have a difficult time identifying that person. But what I can assure you is that when we get to specific issues, be it SECI or the organized crime problem in Russia, we do try to work in an organized way and ensure that we don't duplicate efforts. We're talking and we're working with our colleagues in INL, our counter-terrorism officers are reaching out to the Department of Justice and other agencies, because we are mindful that our ability to tackle this problem is going to be strengthened if it is done in a coordinated way. So it tends to be more ad hoc and geared toward the specific issue and specific problem, as opposed to having a one size fits all structure.

Senator VOINOVICH. Do you think it would be a good idea if someone sat down and looked at what everyone is doing and look at the resources that they have and how they are coordinating with each other, and trying to really figure out how you could put together a very vibrant operational effort that would maximize resources and improve the job?

Ambassador PIFER. I think we're trying to do that now, but I'm not sure it would lead to a single structure.

Senator VOINOVICH. That probably would come out of the State Department and get the Justice Department involved, get John Ashcroft involved and get Colin Powell involved. Who else would be involved sitting at a table and looking at this, what other Federal agencies?

Mr. SWARTZ. I think those would be the two leading agencies, particularly because we're dealing with the international foreign relations aspect and the law enforcement side.

Senator VOINOVICH. Do you know if there is ever a meeting, given all of the things in the Justice Department and the State Department, do they ever have big meetings and look at what's going on?

Mr. SWARTZ. Certainly in the context of the EU, which involves a meeting with our EU counterparts every 6 months. We regularly have meetings with Deputies and Assistant Secretaries to discuss these issues. We have meetings with Principal Deputy Assistant Secretary Charlie Ries from EUR to discuss ongoing issues, and which has actually provided some useful concrete results such as the extradition and mutual assistance treaties. We have tried back in the last month, as I mentioned, sent one of our prosecutors to Europol to see whether we might use Europol as a point of entry for an EU-wide approach, at least with regard to intelligence sharing. But we really—it's an ongoing problem.

Senator VOINOVICH. What's the jurisdiction of Europol?

Mr. SWARTZ. Europol is not a law enforcement agency per se in terms of operational efforts and it's a fledgling organization, but it does have jurisdiction for gathering information insofar as EU member states are concerned with respect to organized crime, narcotics and terrorism. It would be in our interest to allow shared data, personal data in regard to law enforcement investigations.

Senator VOINOVICH. In terms of organized crime and terrorism, how much of an impact does organized crime have on our ability to deal with terrorists? I mean, this country is very concerned about terrorism now, and so the issue then becomes, how does that interface with organized crime? Is it worse? Does organized crime enhance terrorists, and can you show linkages between terrorism and organized crime?

Mr. ASHLEY. Senator, I don't know that there has been a linkage between organized crime and terrorism established, but something that does concern all of us is the terrorism threat. The transnational threat is that the organized crime looks to break down the government through corruption and essentially negate the rule of law, and I think it's a pretty safe assumption beyond that, that in that environment that is going to certainly increase the terrorist threat to the United States. But with respect to actually drawing a straight line between organized crime and terrorism, I have not seen it at this point.

Mr. SWARTZ. Mr. Chairman, if I may add, certainly in some of our prosecutions involved in Colombia, for example, it does appear that in some instances you may find situations in which terrorist groups engaged in organized crime either because they are changing into organized crime entities or there is an interaction, but I fully agree with Mr. Ashley that the risk is both that organized crime helps foster failed states, which in turn promote a breeding

ground for terrorists, but also provide transit rooms for the terrorist threat, so even if the organized crime members are not terrorists. So on both of those grounds we see that as a risk in its own right and possibly leading on to terrorist actions as well.

Mr. SCHRAGE. If I could just add to the comments from the FBI, the programs that we make are focused on the idea that all these type of threats swim in the same type of swamp, which is, we try to build fundamental rule of law and international nets of law enforcement that catch a lot of threats which are terrorists or criminals. Whether these are per se terrorist groups, I would defer again to the intel community and the law enforcement community, but in terms of links, we have a lot of concerns and recognize that these terrorist groups are willing to use whatever means necessary to raise money for their illicit purposes. So the things that we put in place, whether it's for money laundering, whether it's anticorruption, whether it's things related to border security, have a broader impact and I think are a fundamental bedrock of all these areas.

Senator VOINOVICH. Ambassador Pifer, do you want to add anything?

Ambassador PIFER. I would just say, for example, that we address money laundering as a crime problem and put in stronger institutions for investigating and stopping money transfers. That also works against terrorism and we tried to promote that idea. I made reference in my opening comments to this virtual law enforcement center that the five GUUAM countries are setting up, and we have talked to them about it. There is a vehicle to promote law enforcement cooperation, counter-narcotics, counter-terrorism, but we see this as all parts of a problem that stronger law enforcement cooperation can attack in the same way.

Senator VOINOVICH. Well, from my perspective looking at the big picture, it seems to me if you're looking at the United States of America, first of all, we need to pump up the resources that we have dealing with these international crime operations that are operating in the United States, because if they're growing, it means we're not doing something that we should be doing, so I think that's No. 1. And then we should identify the linkages out there to wherever they are and focus our attention on those areas that are feeding that operation, and some of those are very very sophisticated and well organized.

Second of all, I observe that you feel that in respect to individual countries, you're doing a pretty good job on a bilateral basis, but it seems to me that the communication in various regions, are those various embassies coordinated with each other and talking with each other in terms of what's going on here and there?

And the last thing, of course, is the relationship with all the other agencies and organizations that are out there, and would you all agree that it might be in the interest of everybody for someone to really look at all the resources that we have and prioritize in an effort to figure out how we can better utilize those resources? That will help us identify areas where we need to put more resources, whether it's us or the United Nations or the EU, because the EU's biggest effort is what, through the OSCE, is in terms of crime and organized crime?

Mr. SWARTZ. They also act directly in picking some of the accession countries through advisors that have been paired up with member countries. They do operate with the OSCE and for the last several years have focused on the accession countries, but also had some security problems from the Balkan states as well.

Senator VOINOVICH. Well, I hope they're doing better with some of those tables and initiatives than the one that's supposed to be providing money to those people for infrastructure projects, because you remember after the war with Serbia, there were all kinds of promises made about money being made available and if somebody went back and revisited the issue, they would find out that a lot of that money wasn't forthcoming. I hope the resources are on the table that Mr. Busek is referring to.

Anybody want to make any last comments?

Mr. SCHRAGE. I just want to make one comment and that would be there is a distinction between operational efforts and assistance efforts. In terms of assistance efforts, INL looks across the world in terms of where we need specific types of law enforcement assistance, and attempts to craft a regional strategy in that area, but also pieces like the SET piece, we supplement that and work with all the agencies and with the regional bureaus as well as with our partners internationally.

In terms of operational effort, that's more toward the law enforcement entities and they will be coordinate with the Ambassadors but not coordinate directly when there is an issue of broad policy matters.

Senator VOINOVICH. Well, I would like to thank you very much for coming. I'm comforted that there seems to be a little more coordination than I anticipated, and that's good. And like I say, I'm hoping that somehow through my involvement with the OSCE and even with the NATO parliamentary assembly we can try to boost this thing up to the point where it gets a lot more attention. I think we really need to do this. Thank you very much.

And the next panel, I'm going to run out and come back, and I apologize for making you wait.

[Recess.]

Senator VOINOVICH. I want to thank you very much for coming today and I'm pleased that you were here so that you had an opportunity to hear the testimony of the first panel, because I was watching the expressions on your faces and it was interesting. So, Dr. Shelley, we'll start with you.

**STATEMENT OF DR. LOUISE I. SHELLEY, PROFESSOR AND DIRECTOR, TRANSNATIONAL CRIME AND CORRUPTION CENTER, AMERICAN UNIVERSITY, WASHINGTON, DC**

Dr. SHELLEY. In our discussions in the previous panel there was focus primarily on parts of the former Soviet Union and Eastern Europe on the problem of organized crime. I think we need to pay much more attention to organized crime because it's just front line and center in Western European thinking. You can't turn on the news, you can't conduct research analysis, without people thinking about what a major foreign policy issue this is.

Senator VOINOVICH. Is that in Western Europe?

Dr. SHELLEY. Western Europe, yes. Even in the interviews by the European press with some Foreign Ministers they discuss organized crime as a major part of their foreign policy agenda, including talk about immigration. It's part of the European Union presidency. And when you were asking earlier about European Union financing for it, there is a lot going on through Pillar III of the European Union and a lot more intellectual attention.

As an academic, and I can comment on some of the other issues because of some of the research I've done—

Senator VOINOVICH. Let me ask you something, the Pillar III is out of the EU?

Dr. SHELLEY. Yes.

Senator VOINOVICH. Who heads that up right now?

Dr. SHELLEY. You mean the European presidency or the European Parliament? It's the European presidency. Crime issues, immigration issues, human smuggling, it's a priority of the Italian presidency. I talk often to the Italian Embassy here in this period of the presidency on some of these issues.

And there are things that I felt in the discussion that was just held where the focus was on the operations side. We have, I think, a significant problem in addressing the transnational crime issue that is very different from the way the Europeans are addressing this issue. In Europe, the EU and individual countries, are investing very significant resources at the top universities in trying to analyze what the organized crime problem is in all its dimensions. The Europeans are addressing everything you mentioned when you introduced the hearing and many, many other crime areas including financial crime, ordinary crime, involvement of diaspora communities, human smuggling, human trafficking, drugs, the linkage between organized crime and terrorism.

There is a large analytical effort going on by some of the best minds in Europe. When I go visit and attend conferences with my European colleagues, some are interacting with members of the law enforcement community and intelligence communities in their countries. This research is being made available for the kind of strategic analysis that countries are doing to find out what's going on. And we're not—

Senator VOINOVICH. So the point is from your perspective, this analysis that I talked about our country doing in terms of the whole smorgasbord out there, you think that's happening in Europe?

Dr. SHELLEY. It's definitely happening. In fact, if you think about intellectual academic studies, there are very few areas in which I would say Europe is ahead of us. In the area of transnational crime Europe, I would say is close to a decade ahead of us in producing scholarship. It was a decade ago that I had a sabbatical at one of the preeminent centers in Europe and then research was just beginning. And that intellectual trend is just magnifying itself, and it is creating a very different type of approach to this problem than is going on here. And some of the research addresses some of the questions that you're asking; where is organized crime going? What are its dimensions? What is its impact? And I sometimes have joked that I have my monthly commute to Europe because there are so few Americans working on the organized crime issue, and

so few to participate in this transatlantic dialog. I can't even go to all the meetings. In Europe it is analysis that is driving policy. Maybe there is not enough in the Balkans as I wrote in my testimony. There is a weakness in how western Europeans are engaging with scholars from Eastern Europe.

In examining linkages between organized crime and terrorism, European analysts have found those links in Western Europe. They found parts of al-Qaeda funding themselves through counterfeiting, credit card fraud, illegal document production, so these terrorism-organized crime links exist there. In research we're doing with scholars in the Black Sea region, we're finding trafficking of nuclear materials. You know, this is a very, very serious problem. And if you're doing the analysis that we're doing, you will find that you need to think about the transnational crime problem differently than we're thinking about it.

For example, I heard today discussions about Eastern Europe, I heard discussions about the Balkans, but we're not focusing enough on the Black Sea. And this insight reflects back to the Ambassadors who are working with our research center, because they have had briefings in the transnational crime area. These retired ambassadors feel a compelling need to address transnational crime and corruption in their retirement. We don't know enough about the Black Sea region as I wrote in my testimony—Bulgaria, Romania, and the problems that link the regions of the former Soviet Union with Eastern Europe, with its proximity to Iraq. There is a lot more to look at in the areas of transnational crime and corruption that comes out of analysis and looking at trends, and seeing where you need to focus.

If we talk about coordination of law enforcement in that region, some of the people the United States is working with are very corrupt law enforcement. If our efforts at coordination amount to promoting coordination among some of the criminals, then this is not something the United States should be fostering. We need to be thinking much much more strategically about how we're assisting—how we are promoting assistance, who we are assisting and how we're doing it.

Furthermore, on this issue of terrorism and the balance between terrorism and organized crime, one of the things that I think is causing a gap between the United States and Europe is the over-emphasis that we're placing on the issue of terrorism. We are ignoring the issue of organized crime, which is affecting European security in all the different ways that I outlined in my testimony. And it's one of the things that they are finding particularly difficult in engaging with us on. Europeans wonder why there is this over-occupation with terrorism. Why not focus more on organized crime? And organized crime, as I outlined in my testimony touches every aspect of European society, economics, politics. We know that corruption in Western European systems has led to problems of political and economic development.

When we talk about the problems of the links between organized crime and terrorism, the only people that I know who said that they've broken these links are some of the Italian prosecutors who went to the Cosa Nostra in Sicily and appealed to their nationalism. They told them the criminals they were dealing with in Al-



bania were not just criminals but terrorists. And that's the only case I have ever heard of in which these organized crime-terrorism links have been broken. That is because the Cosa Nostra is a traditional crime group which responds to appeals to nationalism and not one of the more flexible crime groups one sees in the Balkans or coming out of the former Soviet Union, that provide transport services, communications, money laundering services to terrorists. In Europe, with its highly developed communications and transport networks, is providing a meeting place of lots of organized crime and some of that is involved in money laundering to our country, and manipulation of our stock market. There are very serious implications of this transnational crime that are affecting our allies that we need to pay much more attention to.

In August I visited NATO and had some very high level meetings. At NATO we discussed the attention that NATO is recently paying to the crime issue and how it needs to pay more. It's becoming much more of a strategic issue for our allies.

Organized crime is segmenting itself in its activities to capitalize on Western European markets. These activities are helping to fund and encourage organized crime in Latin America, and also providing funding for activity from Afghanistan. Europe is providing a market for the organized crime groups emanating from areas where we have strategic interests and providing financial support for those groups.

I'll be glad to answer any questions you might have.

[The prepared statement of Dr. Shelley follows:]

PREPARED STATEMENT OF DR. LOUISE I. SHELLEY, PROFESSOR AND DIRECTOR,  
TRANSNATIONAL CRIME AND CORRUPTION CENTER, AMERICAN UNIVERSITY, WASHINGTON, DC

STRATEGIC IMPLICATIONS OF EUROPEAN ORGANIZED CRIME FOR THE U.S.

The European Organized Crime and corruption problem has the following strategic implications for the United States. These implications can be classified as military-strategic, political, economic, and social.

- 1) There are important links between terrorism and organized crime—i.e. members of Al Qaeda network funded their activities in Spain through organized crime activity.
- 2) Undermines U.S. peacekeeping in the Balkans and stability in the Balkan region.
- 3) Undermines NATO alliances as corruption and organized crime in accession countries threaten military security and can block or undermine NATO action.
- 4) The expansion of the European Union to include countries which have serious organized crime problems means that the criminals will be able to move more freely within Europe and possibly have greater access to the United States.
- 5) Threatens the integrity of U.S. security markets—Italian prosecutors in Palermo have documented the investment of the Italian mafia in American stock markets.
- 6) European drug markets also threaten the United States. The enormous increase in Colombian drug sales in Europe enhances their revenues, thereby undermining U.S. efforts to combat Colombian drug trafficking. The European market of drugs from Afghanistan is undermining efforts to stabilize the situation in Afghanistan and to develop an economic and political system not based on a drug economy.
- 7) Human trafficking and smuggling are major social, political problems for Europe that have numerous implications for the United States. Among these is the rise of neo-fascist groups as a backlash against illegal immigration. Slavery

has reemerged as a contemporary problem because of the rise of human trafficking.

8) Organized crime contributes to the spread of HIV, AIDS, tuberculosis and drug-related infections.

9) Money laundering in Europe has spillover effects to the United States because the money shifts both ways. This leads to the expansion of the resources of the criminals and also to help fund terrorism.

10) Organized crime undermines investment in accession countries and affects Americans who invest in the region.

11) Foreign assistance in the countries of the Stability Pact is undermined by the very pervasive problem of organized crime.

12) Organized crime is a major foreign policy concern of our allies in Europe and therefore needs to be of concern to us.

The organized crime problem is a serious concern to the Europeans and outweighs their concern about terrorism. Many European countries have faced serious problems of terrorism for the past several decades. The problems of organized crime, which touch so many aspects of their lives, seem of equal if not greater significance.

#### EUROPEAN ANALYSES OF THEIR ORGANIZED CRIME PROBLEM

Different sectors of the European community have invested significant financial and human resources to understand the breadth and depth of their organized crime and corruption problem. At the present time, major intellectual centers in many of the larger European countries have on-going groups or research centers devoted to this topic. In addition, there are many EU funded activities that complement those at the national level. The following assessment of the crime situation in Europe is based on the reading of reports done by the European Union, the Council of Europe and Europol. Furthermore, valuable reports have been provided at the regional and national level. These include state reports in Germany, a three volume document of the National Assembly in France on human slavery addressing trafficking, Italian Parliament's Anti-Mafia Commission and the Dutch organized crime report. The European Union helps support research centers and projects in Spain and Italy, and national funding and private foundation funding is provided to leading researchers to address this problem. The author recently participated in a significant multi-national research team, hosted at the Max Planck Institute in Freiburg Germany, to provide national case studies of organized crime in over a dozen countries in Europe. Major research centers and universities in many European countries now have scholars working on organized crime.

The investment of European national and European Union funds in research and analysis in this area is in the range of several millions of dollars annually. Research is being conducted by top researchers and distinguished young people are working in the field. This contrasts sharply with the situation in the United States where there are few research and analytical centers either in academia, think tanks or government to address these issues. We are approximately five to ten years behind our European colleagues in this field today. To put this gap in perspective, at the American Society of Criminology meetings in which 2000 people attend, there is only one panel at which American researchers present on organized crime. At the three year old European Society of Criminology, established in part so that Europeans could address problems not addressed by their American colleagues, 20 percent of the panels deal with organized crime and corruption, even though the meeting is one-quarter the size of the American one. Organized crime issues are central to the European crime research agenda.

Analysis on organized crime in Europe is not done in isolation. Researchers work closely with law enforcement and intelligence. Many of them are provided access to the law enforcement data needed to conduct their analysis. They have created an analytical community in some European countries such as the Netherlands, Italy and more recently in France where there is interaction between research and practice.

The weakness of the European research on organized crime is that it is mostly domestically based. There is insufficient understanding of the problems of organized crime in the former socialist countries and the accession countries to the European Union and NATO. Insufficient bridges have been established with scholars from these countries and insufficient efforts have been made to foster research in this area. Therefore, the Europeans are aware of many of the aspects of the crime problem in Western Europe but do not understand enough and have not developed sufficient strategies to deal with this problem in an expanded Europe.

## THE SCOPE OF THE ORGANIZED CRIME PROBLEM IN EUROPE

At the present time, there is organized crime within every European country. Apart from Italy, there is little that is indigenous organized crime that has developed in Europe. Most of the organized crime has accompanied immigration either within Europe or from other parts of the world. The break-up of the former Soviet Union, the collapse of the Berlin Wall and the decline of border controls has led to an enormous increase in organized crime within the last fifteen years.

*Location*

The organized crime and corruption problems are most severe in the European countries with large economies, those that are closest to the Balkans, Eastern Europe and the Mediterranean and those with significant ports. Some countries in Europe have the full range of organized crime activities whereas others are the focus primarily of money laundering activities, receiving the profits from crimes committed in other regions. The Netherlands, which has been at the forefront in the past decade of identifying the variety of organized crime within its borders, has found over one hundred different ethnic groups operating on Dutch territory involved in a very wide range of offenses. The reasons that this country has attracted so many crime groups are its vibrant economy, excellent transport links, borders that are easy to cross and a law enforcement community that was not focused on these issues until the mid-1990s. The perpetration of organized crime is facilitated by the presence of large diaspora communities within the Netherlands. Members of the local business and professional communities help facilitate this organized crime by providing legal services and assisting in transport. The pattern of the involvement of diaspora communities and the provision of facilitating services by members of the national community is a pattern common throughout Europe but has been better documented in the Dutch case. Italy has four major organized crime groups of its own and outside of Sicily, where the mafia controls the territory completely, there are many diverse crime groups operating on Italian territory and in conjunction with the local crime groups.

*The Groups and their Links*

The crime groups in Europe originate from all parts of the world including Africa—in particular, North, South and West Africa—China and Southeast Asia, the Indian subcontinent, Middle East, Eastern Europe and the former Soviet Union, and Latin America (particularly in cases connected with the drug trade). These groups intersect in numerous ways. Groups from the former Yugoslavia provide women to brothel keepers in Western Europe. A triangle trade developed between the Balkans and Italy in the 1990s involving drugs, arms and people. The Colombians bring drugs through Spain into Europe and some of these are distributed by Italian organized crime groups. Russians launder money for the Colombian cartels in France. Tamil tigers from Sri Lanka move drugs in Western Europe through diaspora communities. Nigerian drug traffickers use Russian women as drug couriers within Western Europe. There are numerous permutations and complex crime operations that involve many different crime groups in different phases of the operation.

## THE CRIME GROUPS' ACTIVITIES

The major problems of organized crime which have been identified in Europe include the following:

*1) Drug Trade*

There are several important trends contributing to a rise in drug trade. First is the rise in the synthetic drug trade which has grown because of significant production capacity and trade from Eastern Europe. Heroin sales have increased from Afghanistan and Pakistan and the increased drug flows from this region flow to Western Europe often through the Balkans. Cocaine flows into Europe through its entry point in Spain, from where it is distributed throughout Europe.

*2) Illegal Immigration*

The rise in illegal immigration both for labor and for sexual trafficking is a great concern in Europe. There is extensive reportage in the mass media on these problems, including on the high fatality rate for individuals who attempt to be smuggled and die in transit. The illegal immigrants come from Asia, Africa, Latin America and the former socialist countries. Their illegal entry into Europe is aided their fellow countrymen often working in cooperation with domestic crime groups and facilitators. For example, in the case of the 58 smuggled Chinese who died en route between continental Europe and England, the truck driver was Belgian.

Many legislative hearings have been held, and bilateral and multilateral initiatives started to attempt to stem the flow of illegal immigration. For example, Italian authorities have worked with the Albanian government to stop the speed boats that transported smugglers and traffickers across the Adriatic. The Italian government is working with the Nigerian government to stem trafficking of Nigerian women into Italy.

### 3) *Rise in Human Trafficking and Child Exploitation*

A major shift has occurred in the countries of origin of the women who are trafficked into Europe for sexual exploitation. Before the 1990s, many of the women originated in Asia. In the last decade, these women have been largely replaced by African, Eastern European women and women from the countries from the former Soviet Union. Into Spain, flow women particularly from the Caribbean and South America. African and Balkan crime groups are particularly active in this trade and have replaced many other crime groups in this area. Women from Moldova, Romania and Ukraine are particularly victimized and many have found themselves in brothels in the Balkans frequented by peacekeepers.

There has been much attention paid to this problem by civil society and/or the government in the Netherlands, Italy, Belgium, Germany, France and Great Britain, which are among the countries where the problem is most pronounced. There has not been enough done in most countries in Europe on victims' assistance, prosecution of crime groups or reduction of demand.

Child exploitation continues through the dissemination of child pornography and child trafficking rings. A child trafficking ring involving Chinese children transiting through Italy was broken by law enforcement and there have been major scandals in Belgium connected with rings exploiting children that have implicated government officials and law enforcement

### 4) *Arms Trade and Trade in Weapons of Mass Destruction (WMD)*

The problem of weapons trafficking was most acute at the height of the Balkan conflict but the problem is far from over. A diverse range of crime groups, including those from Italy, the Balkans and the former Soviet Union, are particularly active in this trade. The Black Sea region figures strongly in this conflict and weapons from there are shipped to conflicts in Africa. The German authorities in the mid-1990s reported some cases of trafficking in nuclear materials. Those concerns exist but are much stronger in the Black Sea region, where law enforcement personnel have arrested shipments of trafficking in radioactive materials.

### 5) *Organized Crime Groups' Contribution to a Wide Range of More Conventional Crimes*

Organized crime groups from Europe and Eastern Europe are very involved in the theft of expensive automobiles and their shipment to the former socialist countries. This has been a particular problem in Germany, Italy and Poland, where many Eastern European crime groups operate. In many countries there has been a rise of burglaries, pick pocketing and lower level crimes tied to organized crime. These crime groups also engage in extortion, usury and racketeering. Those especially vulnerable to these crimes are the immigrant communities in Europe. This phenomenon has been particularly well documented by Dutch researchers but this problem exists in many other countries in Europe as well.

### 6) *Environmental Crime*

The trafficking in waste and hazardous waste has been a significant activity of Italian organized crime. There have been efforts to dispose of this waste in African countries and there has been dumping of this material in the Mediterranean Sea and on Italian farmland. This crime has aroused significant concern among Italian civil society. There is also a problem in trafficking in endangered species.

### 7) *Computer and IT Crime*

Computer and information technology (IT) related crime is a major problem for Europe with its extensive use of the Internet, computer systems and all forms of technology. Several years ago a Russian criminal entered the computer system of a British bank to steal ten million dollars. Attempts by Nigerian citizens to commit economic fraud against European citizens by means of the computer also present a problem.

### 8) *Counterfeiting, Credit Card and Document Fraud*

The counterfeiting of documents, airplane tickets and documents for a variety of functions is an increasingly frequent activity of organized crime in Europe. Credit card numbers are stolen particularly by Middle Eastern and post-socialist crime

groups. This form of organized crime has been documented as financing terrorism and helping terrorist operatives. Stolen and forged passports aid travel by criminals and terrorists. Al Qaeda operatives in Spain financed their activities by forging tickets and cheating on credit cards.

#### 9) *Financial Crime and Money Laundering*

A broad range of organized crime activity falls under this category, from significant financial frauds, the development of front companies and a wide range of money laundering activities. The possibility of depositing large sums of money obtained through corruption, tax evasion, and organized crime activity provides for a large unregulated economy that facilitates the movement of money for terrorist activity. A wide range of instruments are used to launder money including real estate, import-export firms, banks and stock markets. Italian prosecutors tracing the assets of Italian organized crime groups have found their investment in both domestic and U.S. stock markets. The privatizations that occurred in East Germany and the accession countries of Eastern Europe have led to the transfer of state assets to organized crime groups which have become major investors in their economy.

#### THE IMPACT OF ORGANIZED CRIME IN EUROPE

The rise of organized crime in Europe affects many aspects of daily life, security, economic life and the overall development of Europe. Many aspects of the organized crime problem are central elements of the foreign policy agenda of Europe, pillar III of the European Union devoted to justice and legal issues and the foreign and domestic policies of countries within Europe.

#### *Daily Life and Human Rights*

There is a rise in the sense of personal insecurity because of the growth of organized crime. There are large losses to property through increased thefts of personal property, automobiles and cybercrime. The rise in drug use, particularly among unemployed youth, is a concern to European authorities. It has enormous health costs for society, a deleterious impact on youth and its profits fuel and sustain organized crime. The presence of illegal immigrants results in significant labor violations and the presence of ateliers and sweatshops. The rise in human trafficking is contributing to the spread of venereal disease, HIV and related medical problems. Environmental crime is resulting in serious health risks to citizens particularly in the Mediterranean.

Illegal immigration is seen as a serious problem for a variety of reasons:

- 1) There are serious violations of human rights of trafficked women and those who are smuggled and are presently working in conditions of slavery.
- 2) The arrival of these immigrants is a serious threat to the social welfare systems of individual countries. In Europe, unlike in the United States, there are not strong advocates of immigration suggesting that legal and illegal immigrants contribute to the economy. Rather, this illegal immigration is largely viewed as an economic drain on Western European society.
- 3) European prisons are increasingly occupied by a very high percentage of foreigners and some of these are illegal immigrants. Therefore, they are seen as contributing to problems of crime and social order.
- 4) There are certain sectors of European society who see the rise of illegal immigration as a threat to national identity. This has fueled xenophobia in certain countries and contributed to a backlash against all immigrants.

#### *Security Issues*

There are many areas in which the rise of organized crime affects security. This includes such conventional problems as the trafficking of arms to rogue states, insurgents and terrorist groups. But it also includes many other ways in which organized crime undermines European security and the NATO alliance.

The intimidation of law enforcement in both Western and Eastern Europe undermines state capacity to move against organized crime. The corruption of different branches of the legal system by organized crime undermines the integrity of state and regional security.

Peacekeeping efforts in the Balkans are undermined by the failure to understand that organized crime is embedded in the communities where our peacekeepers are stationed. Peacekeepers who frequent brothels are placing additional resources in the hands of organized crime groups, making it more difficult to control their rise and influence in the area.

The expansion of the European Union and NATO bring the problems of organized crime much closer to the security agenda of these organizations. It is in this area that

there needs to be more attention to the linkage between transnational crime and terrorism. In the past year, organized crime involvement in WMD and other non-proliferation issues has become of much greater concern to NATO.

*Democratization*

Organized crime and corruption are major impediments to democratization in Eastern Europe because they are so deeply embedded in the societies and the political systems of the country. The recent murder of the prime minister of Serbia by organized crime groups brought home the enormous impact that these groups have on the political processes in their countries and their ability to undermine the possibilities for reform. The presence of organized crime groups within the government at all levels in the Balkans, their infiltration into the legal system and their ability to influence the adoption of laws undermines democratization. The enormous resources of organized crime groups have a corrupting influence on governments in all countries in Eastern Europe and to a lesser extent in some of the western European countries.

*Economic Development*

Organized crime and corruption are enormous deterrents to economic investment. This was first seen in Sicily, where foreign investors withdrew because they and their investments were threatened. This problem continues in many of the accession countries and also in the other socialist countries. Those countries in need of investment capital cannot receive legitimate investment because they cannot compete in a criminalized economy. In many countries in Eastern Europe, organized criminals are major investors in banks, real estate, and stock and commodities markets. The presence of significant investment by organized crime groups from the former USSR in the accession countries, in anticipation of these countries' new role in Europe, brings these problems even closer to Western Europe.

The Italian experience of using seized mafia assets for economic development provides a model for economic development for Eastern Europe. TraCCC, the research center that I direct, has supported delegations from Russia, Ukraine and Georgia to visit Sicily to look at this strategy and also to provide ideas for the Sicilians on how to make their practices more applicable to the accession countries.

RECOMMENDATIONS

*1) Develop more initiatives in the Black Sea region*

This region will be of critical importance in the coming decade to Europe and to the strategic interests of the United States. It deserves more research, analysis and assistance in addressing the problems of organized crime and weapons smuggling, in particular.

*2) Develop more research and analysis*

The United States is behind Europe in the area of organized crime research. It is unusual for our country not to be at the critical edge of research in an area of strategic importance. We must work to do the following:

- a) Develop research through grants, fellowships and through cooperation with our European colleagues who are leading in this area;
- b) Develop law enforcement programs and strategies based on this applied research;
- c) Provide support in this area through the U.S. military, Department of Justice, the intelligence community and NATO efforts in this area; and d) Develop Fulbright Scholars program and other research programs in the area of organized crime with European partners.

*3) Work in partnership with our European colleagues to develop analysis and human capacity in addressing organized crime in accession countries*

Senator VOINOVICH. Thank you.  
Dr. Lee.

**STATEMENT OF DR. RENSSLAER W. LEE III, PRESIDENT,  
GLOBAL ADVISORY SERVICES, McLEAN, VA**

Dr. LEE. Thank you very much, Senator, for inviting me to this hearing.

Picking up on one of Louise's main points, since the events of 9/11, fighting international terrorism has taken on a very high place on the U.S. national security agenda, clearly surpassing the fight against international organized crime. But organized crime, like terrorism, poses continuing threats to democratic institutions and global stability, although sometimes in ways that are insidious and not immediately apparent.

I would like to discuss today three reasons why our international counter-crime efforts should receive a higher priority than they do now, even while we continue to emphasize the terrorism and its manifestations abroad, and I will use examples from both Europe and other areas.

It's clear that organized crime corrupts, subverts the nation building process from transitional states in which the United States has a strategic interest. In the former Yugoslavia where you have national resistance movements, they rely heavily on smuggling various commodities, heroin, cigarettes and the like to break international embargoes and to gain weapons for self defense. But now the continuing presence of these criminal organizations in these emergent nations prevents the consolidation of political authority and in some cases the achievement of full statehood.

Elsewhere in the world, in Iraq you have the epidemic of free flowing violence, car jackings, kidnappings, assassinations, sponsored by criminal organizations that are demonstrably resistant to any kind of government authority, further delegitimizes the U.S. occupation forces and provokes nostalgia for the Saddam Hussein regime.

In Afghanistan, where U.S. forces are also deployed, the massive opium/heroin trade which is that country's top export fuels the separatist pretensions of regional warlords enabling them to buy advanced weaponry and to support their own territorial fiefdoms.

Second, the global expansion of organized crime is causally, I think, related to the growth in international terrorism. This does not mean the terrorists and criminals are necessarily in cahoots, that they plan together or they have alliances with each other. Sometimes they hate each other. For example, in Colombia, you have military forces fueled largely by or funded largely by cocaine exporting organizations compete with Marxist guerrillas for territory control and assets.

Terrorists are able to tap into established criminal networks in various ways. They buy goods or services from the criminals, sometimes for resale. They make use of criminals' transportation and money laundering services. Criminals are prime movers in building large illicit empires, but some of their wealth and know how inevitably gravitate to politically motivated groups such as freedom fighters, revolutionaries, and of course terrorists.

A third point that I would strongly emphasize here is that organized crime in its transnational guises greatly increases the risk of proliferation of weapons of mass destruction. This is especially the case because some states which had WMD programs have experienced political or economic upheavals or authority crises of some sort. For example, the collapse of the Soviet Union and the associated birth of criminality and corruption in the Soviet successor states precipitated a new and disturbing form of transnational

crime, the illegal export of radioactive materials. Since the early 1990s a flood of radioactive contraband has flowed westward and more than 400 cases of trafficking such material were recorded by the International Atomic Energy Commission, and 20 seizures of highly enriched uranium of mostly Russian origin. Most of these involved minuscule amounts, nowhere near enough to build an atomic bomb, but I think what is seized may be only a small fraction of what has been pushed into international smuggling channels, and most of the smugglers caught appeared to be carrying samples of merchandise to be shown to a potential buyer. Overall, the prevailing impression that I have is a lot of this stuff could have escaped from the control of government and be circling around the globe looking for a potential buyer, or already may have fallen into the hands of our adversaries.

There is no hard evidence of this, but an unverified Arab news report from 1998 claims that bin Laden's emissary negotiated with representatives of Russia's Chechnyan Mafia to obtain 20 Russian tactical nukes in exchange for \$30 million and two tons of Afghan opium. Well, I don't believe this story and one of the reasons I don't is had he had those weapons, he would have used them by now. But a couple of aspects of this story, I think merit our attention.

We know that al-Qaeda has connections with the Chechnyan separatists, so a liaison is not out of the question. It also is not unlikely that al-Qaeda, lacking direct access to Russian facilities, would employ the Chechnyan criminal diaspora or some other sympathetic Islamic criminals in its weapons procurement efforts.

Speaking of Islamic criminals, criminals would like to turn our attention away from Europe to address the dangers of the organized crime situation developing in Iraq, which I think has been underemphasized, and received insufficient attention. Under Saddam Hussein, Iraq had what amounted to state sponsored organized crime, a sophisticated smuggling apparatus designed to circumvent U.N. sanctions, import needed supplies, and generally to keep the regime afloat economically. Well, now the regime is gone but the networks are alive and well and operating on a broad front, trafficking in oil, small arms, cultural artifacts, narcotics and women, but this may not be all. It's not inconceivable that Iraqi organized criminals could have obtained access to Iraq's stockpiles of chemical and biological weapons or for that matter, to products of its prewar nuclear weapons program. These weapons, as we know, have proved elusive. Isn't it possible that in the chaos surrounding the U.S. invasion and the collapse of the Saddam regime, that some of them were looted and sold to the highest bidder, whether it's a neighboring state or some malevolent subnational entity. Iraqi criminals could work through well established channels and contacts to smuggle lethal weapons to the other mideastern states, to the Balkans, to Central Europe or to anywhere in the world. Thank you.

Senator VOINOVICH. Well, what would your observations be in regard to the questions I asked about the capacity here to deal with the growing threat of international crime syndicates in the United States? Do you have any insight into that in terms of, the answer was yes, it's growing.



Dr. LEE. The answer is yes, they're growing. I think this is largely a function of immigration, of wholesale immigration of people from some parts of the world where you have extensive criminal organizations, and in the case of the former Soviet Union these criminal organizations have been exported wholesale to the United States, you know, taken up root in major American cities. I think this is really coming on the back of this mass immigration, and the criminals also maintain links with parent organizations or counterpart organizations in their home countries, so it's not just we who has the problem. Again, as you emphasized over and over again in the hearing, that requires some coordinator who is looking at all these different aspects of the problem and can see their international linkages.

Senator VOINOVICH. How about resources? I know you had a comment, the resources seem to be not as significant as they should be?

Dr. LEE. I share this feeling. There are many parts in the world where I think the struggle against organized crime has taken a back seat to the war against terrorism, sometimes I think with very painful and long-term consequences for the countries involved. One example is Afghanistan. We have had to make compromises with certain people that are not of the highest social standing in that country as part of our consensus building efforts to remove the Taliban and al-Qaeda in that country, but I don't think that we can—I can't conceive of a successful nation building in that country until this huge opium/heroin traffic is brought under some kind of control.

And I see the same thing over and over again, putting lots of resources into seizing terrorist funds, \$136 billion in terrorist funds have been seized since 9/11, but are we seizing funds of Colombian cocaine exporters, the Russian Mafia, the Mexican Mafia, what are we doing on some of these other fronts? This I think is a question of resources.

Dr. SHELLEY. I wanted to add something. The National Institute of Justice has just done a major survey of American law enforcement and how many law enforcers are dealing with problems of organized crime and international organized crime within their jurisdictions. And the vast majority of them are now saying that they are encountering this in their work.

Senator VOINOVICH. Is there a report on that?

Dr. SHELLEY. Yes, there is a report on that and you could obtain it from them. But if you want to see what the dimensions are, what the trends are, there's almost nothing you can read on this. We're just not intellectually or logistically prepared for what the new challenges are, because if something arrives on our doorstep then we react to it. We don't have a long-term strategy. There is much more going on. I was just discussing with somebody from the IT area, that organized crime has been growing in terms of information technology because the criminals don't even need to be based on American territory to be affecting our critical infrastructure or economic infrastructure through the Internet. And so as the crime is globalized, there are just many, many more ways we have to react to it. And the resources of the criminals are growing because so much of it is in off-shore accounts and they are able to hire ex-

tremely good specialists. And we have a great problem also of people facilitating this crime, of organized crime retaining top specialists.

I've read investigations that revealed this trend. For example, a Chinese trafficking ring that brought hundreds and hundreds of people into the Washington area, was being helped by a Harvard educated man who provided them with false asylum claims. So there are people within our country with great educations that are helping to facilitate transnational crime.

Senator VOINOVICH. So, your conclusion is that it's a growing problem and we are not allocating resources that we should to deal with it, and so it's a threat to our country from that point of view.

Dr. SHELLEY. And the kind of resources that we're allocating. I couldn't agree with you more on the types of questions you were asking. They are not coordinated, there are not enough analyses of strategy, how we're going to interact with our allies on these issues. There needs to be a lot more strategic thinking.

And we're not training enough young people. Neither are we providing the sort of education or training for diplomats who are on the front lines dealing with these issues in lots of countries. We're not doing enough work with the military on these issues. I mean, there wasn't enough thinking before the invasion in Iraq on what we were dealing with in organized crime. We did not think of how 100,000 former security apparatus members were going to do as criminals in the future. I mean, we need to be thinking about transnational crime in every area of our domestic and international policy and it's not receiving that kind of attention.

Senator VOINOVICH. Well, just to emphasize what you said, for example, the sanctions we had against Serbia, what that did is put Milosevich into business. He controlled the whole black market and the network is there. And then I have read Ken Pollack's book on the case for invading Iraq. If you read that book, you can see how Saddam Hussein over the years had been co-opting and compromising, sold in sanctions, he was developing ways to get out, in and back and forth, and it had to be an enormous amount of pay-offs. Now he's gone, but the same people that were doing it are still there. Is that what you're saying? So what do you do, how do you deal with that problem?

In Afghanistan we are seeing more heroin flowing out of the country. So the emphasis of the military over there, they should be cracking down on this illegal stuff that these people are doing, but you're saying we probably are being compromised because we don't want them to get mad at us, and we have these warlords who are doing fine, and as soon as they are able to make a lot of money, the chance of them coming up with some kind of national army and dealing with that problem is going to continue, and we are going to see a continuation of a situation that has been there forever. Is that it?

Dr. LEE. That's an excellent statement, and that's my position also. Eventually we're going to have to make a painful choice of perhaps even sending the U.S. military after the drug trade, possibly after major heroin traffickers. The other side of this is we have to give Afghan farmers some other means of making a livelihood. Again, I would say that I can't see nation building in Afghan-

istan having the remotest chance of success until we get this heroin and opium monster under control.

Senator VOINOVICH. I just think about the nation building from Bosnia, how well we're doing and how long have we been there, since—

Dr. LEE. Actually, the Taliban did a fairly decent job of this; this was one of their few redeeming features, that they controlled opium trafficking.

Senator VOINOVICH. I would like to move to the coordinated effort between the various organizations. As I mentioned, SECI and the Stability Pact, and the United Nations, and you say that Pillar III of the EU is involved. You mentioned that there was a lot of strategic stuff going on, but beyond the strategic analysis, how much is happening, how many resources are being put into doing something about the analysis? Is it happening?

Dr. SHELLEY. In the last year I have been to OSCE meetings, met with members of the Stability Pact, met with EU people, and all of these seem to be parts of an orchestra that are not being coordinated, there is no central conductor. There's a lot of duplication and a lot of competition for resources among these organizations, and so that's one of the greatest problems. I find that a lot of what is going on in Western Europe is thinking about how transnational crime issues are affecting them, not how they have to engage with people in the Balkans, or in Eastern Europe in a cooperative way. It's more an impassioned concern with what are the crime issues and how we can combat them. But they have to work with the source countries on a lot of these problems and work together in some kind of fashion.

Senator VOINOVICH. So what you're seeing is that they're analyzing how this is impacting them, but that the emphasis would be, correct me if I'm wrong, just like right now, we're saying how do we deal with the threat, the immediate threat to our country is the big issue there, and the effort of going beyond that to the bigger picture of how do we coordinate with other people to deal with this because these networks are not just country wide, there's Italian, Russian, Albanian, and so they are very well coordinated country wide and they are multinational organizations. And you're saying that this is mostly their own national concerns without looking at the big picture of how do we work to deal with this big network.

Dr. SHELLEY. Absolutely, that's a good diagnosis of it.

Senator VOINOVICH. And they don't understand that they need to go beyond that. I guess maybe as evidence of that is the pittance that is being provided to the group that's trying to deal with organized crime in terms of the European Union, is it the job of the Stability Pact and SECI? For instance in the Balkans, is there anybody else doing anything? I know that OSCE have people there now doing work in human trafficking, but what are the instruments that the Europeans are using to deal with this problem?

Dr. SHELLEY. They are also using part of the Council of Europe. But their problem, as I was saying, is partially in their development of experts and they're not doing enough long-term coordination and human capacity building in the regions. They are doing even less than we are in that area. There are some European assistance programs that are working with civil society and some of

these groups are trying to work against trafficking, working against drug problems, providing shelters. But there is just not enough long-term engagement with colleagues from former socialist countries and a very, very long reaction time. It's a very top heavy procedure and it takes years to move on some of these issues in the European Union.

Senator VOINOVICH. So, I was impressed with, for example in the Ukraine, the coordination that goes on by the State Department through their embassy. They get information that we have a problem and they come, they get involved to try to do something about it. Is any other country doing as much as we are in that regard in terms of providing assistance to help build rule of law? You talk about U.S. Embassies in other countries than in the Ukraine, all these people there that are doing their thing. But is anybody else doing anything?

Dr. SHELLEY. Let me give you an example of what they're not doing. I work with researchers in Ukraine, building human capacity in the computer crime area and in the Black Sea region. This year at the European Society Criminology meetings, there would not have been much presence from Ukraine, Russia, Georgia, if we had not supported some of our researchers to travel there. At these meetings I talked to some of the European Union officials there and the president of the society, and said this is a disgrace. Americans are funding people from Eastern Europe to come to Helsinki for a European meeting. He said "why are we not doing it?" You know, we have specialists working on transnational crime in European countries, and they are not doing this outreach. So there isn't that much.

Senator VOINOVICH. So in a way, if we got involved with the Europeans, they are doing so much, you say, in terms of analyzing the data, doing an analysis of how this is permeating our society, but in terms of creating infrastructure rule of law in countries they are not doing very much.

Dr. SHELLEY. That's correct.

Senator VOINOVICH. And they don't have much in terms of resources for multinational efforts to deal across the various countries.

Dr. SHELLEY. They are doing more with the Stability Pact than in other areas, but other than that, there is—

Senator VOINOVICH. Do you have a feel for what SECI is doing?

Dr. SHELLEY. Well, I don't think SECI is doing very much. In terms of the Stability Pact, I've met some of those people that you talked about doing the law enforcement training and the Europeans are more involved in that than some other areas, but it's still not very much. The Europeans are working much more through the United Nations and funding some of the programs through the United Nations structure.

Senator VOINOVICH. Is the United Nations program any good?

Dr. SHELLEY. They're having a terrible crisis. You know, the past director was recently removed for corruption.

Senator VOINOVICH. The person charged to work on organized crime was removed for corruption?

Dr. SHELLEY. Yes.

Senator VOINOVICH. If I was going to go to an OSCE meeting and start talking to some of my colleagues, the effort that we're making in some of those countries through our embassies would probably be a benchmark. In other words, if we're doing this with our resources, what are you doing in terms of dealing with the infrastructure in *x* country that's exporting crime into Europe. So they're just not doing that?

Dr. SHELLEY. That's correct.

Senator VOINOVICH. So somebody has to be the orchestra leader or someone must call attention to this. One of the things I'm very involved with is antisemitism, and a couple years ago we got the OSCE, we got a resolution, we insisted that we have a separate meeting on antisemitism, we did our best to put pressure on the State Department to call for a special meeting on antisemitism by the OSCE. They had a meeting this year and we're trying to follow up on that to make sure it becomes institutionalized with the OSCE, and that the resources are there and so on and so forth. But someone needs to shove this problem of organized crime along and get it up on a priority list, get people talking about it and try to get things to happen. And from your perspective, that's not happening right now in terms of the United States, we're spending our time on terrorism. But in your opinion, we are ignoring the, or not ignoring but not putting as many resources into dealing with the organized crime issue, which you think contributes to the problem of terrorism. If not brought under control, this could even escalate the issue of terrorism because the criminals know how to make money, in terms of funding the terrorism organizations, in terms of moving weaponry, they can use those highways that are already all over Europe today. Any comment on that?

Dr. SHELLEY. I agree.

Dr. LEE. I would certainly agree with that. I think we have to understand that the terrorism and organized crime are essentially different animals, they come from different places, they have different motivations, and very often the relationship between terrorism and organized crime is not symbiotic, it's actually hostile. And we have seen this in Colombia and other parts of the world.

Senator VOINOVICH. Well, it's hostile because the terrorists want to take over the government in a kind of political way and the organized crime guys want to take it over so they can make as much money as they can.

Dr. LEE. Right. And some terrorists would like to redistribute power and wealth to someone else, so there are different motivations and very often, I think that the bigger the organized crime group or organization, the more likely it is that its members are going to feel that they have a stake in the society and you know, look disparagingly upon Marxist terrorist groups. But on the other hand, organized crime, you know, they have these networks, these transportation networks as you mentioned, financial money laundering networks, other types of services that these terrorists can also find and use for their own purposes. So, the growth of organized crime is certainly going to contribute to the growth of international terrorist activity.

Senator VOINOVICH. Just for the record, we have all agreed that international crime organizations are increasing their business

here in the United States, it's becoming more pervasive. Would you say that compared to 5 years ago that organized crime is more organized today in Europe and the former Soviet Union than they were 5 years ago?

Dr. SHELLEY. I say we are in a growth industry, those of us who study this problem. The links are better, the organizations are more sophisticated, types of specialists they have working for them are very very good.

Senator VOINOVICH. Do people like Putin understand that these organizations present a threat—the question is, does he have a relationship with them or does he look at them as undermining his leadership and what he wants to achieve in the Russian Federation?

Dr. LEE. I think he's certainly trying, you know, by installing a lot of his KGB colleagues in key administrative posts and by giving them a very high profile. The arrest of Mikhail Khodorkovskiy, I think was meant partly as a slap in the face of organized crime. Certainly Khodorkovskiy has a background of questionable activities in that area. I see organized crime as less free-wheeling today than it was in the Yeltsin era.

Senator VOINOVICH. So basically, he realizes that organized crime is not good?

Dr. LEE. I think he does, but he's moving very slowly and cautiously, but I think he's moving in the right direction on that front.

Dr. SHELLEY. Well, I must say, I woke up this morning and the head of the Kremlin administration was resigning and some commentator was saying this was something that was against business. But in some of my organized crime work and analysis and speaking with law enforcement people, I know that that person has very strong links to organized crime tentacles in all parts of the world. There was no mentioning of what we have been analyzing today. It was described namely as a conflict in the Kremlin as opposed to mentioning that some people in the Kremlin administration are corrupt.

Senator VOINOVICH. That is good, because the point is we get back to the priorities, you know, where you can deal with—I asked them about threat analysis and we're doing what we possibly can, but the fact of the matter is we need to have good leaders in those countries who are not corrupted. Take for example in Italy today, there are some real genuine efforts to deal with the Mafia. For years they just let it go, let it go, let it go, and now you have people saying no, we have to do something about this, and that's really important.

Serbia with Prime Minister Zoran Djindjic there before his assassination, and he was a fine man, but there were allegations that he wasn't so clean, so you have a new group in there to purge that and to get the judges, get the prosecutors and develop that infrastructure. That is also very important. You can talk about international organizations and everything else, but like for instance, Bulgaria and Romania, the Prime Minister of Bulgaria was talking about corruption and he said corruption is just part of the way things go here. I mean it was like, you know, aren't you upset about it, what are you going to do about it? Well, that's just the way things are. And I don't think he's corrupt, but the fact is that

there has to be a higher priority given to our efforts to try to get good people in leadership positions in those countries, wouldn't you say?

Dr. SHELLEY. Absolutely.

Senator VOINOVICH. Well, I have kept you here long enough. Do either one of you want to make a final comment?

Dr. SHELLEY. The Russians have an expression that the fish rots from the head, so you have to really be careful about who is at the head. I think that's really important. Ignoring crime and corruption issues in the interest of what we think as temporary stability just never guarantees stability. To put up with high level corruption, fixing elections, saying that's promoting stability, it is not in our long-term interests.

Senator VOINOVICH. Well, I thank you very much. The United States of America has an enormous amount on its plate, and I think we need to get our European friends involved in this too because they are as vulnerable or more vulnerable than we. And I thank you very much. I really enjoyed your testimony and am honored you were here to spend some time with us. Thank you.

The hearing is adjourned.

[Whereupon, the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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#### ADDITIONAL STATEMENT SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF CHARLES N. FRANGES, PRESIDENT OF NOBLE VENTURES, INC.

“THE EXPERIENCES OF ONE AMERICAN COMPANY-NOBLE VENTURES-IN ROMANIA”

Mr. Chairman, Members of the Committee, thank you for the opportunity to provide this Committee with testimony about the important issues you are raising in this hearing.

My name is Charles N. Franges and I am President of Noble Ventures, Inc. I am pleased to present this testimony to the Senate Foreign Relations Committee. I applaud the Subcommittee's efforts to investigate the issue of corruption in Europe and Eastern Europe.

In June 2000, I was part of a group that purchased the CSR Resita steelworks in Romania. The following testimony was prepared by my staff and I and is meant to serve as a description of our firm's experience in Romania, how corruption impacted our ability to operate and an analysis of the impact that corruption has on economic activity in a country such as Romania.

##### *Personal Background Information*

I was born and raised in Bethlehem, Pennsylvania, the home of Bethlehem Steel Corporation. Shortly after high school in 1966, I entered the U.S. Army. I served for four years and upon discharge held the rank of Infantry Captain.

I served in the Republic of Vietnam in 1967 and 1968, first as a platoon leader in the 4th Infantry and secondly as commander of the 1st Brigade Long Range Recon Patrol (LRRPs) unit in the tri-border area of the central highlands. I received numerous awards for my service including three awards of the Bronze Star, three awards of the Cross of Gallantry, one Purple Heart and the Combat Infantry Badge.

After my discharge and utilizing G.I. Bill benefits, I attended and graduated from Rider University with a degree in Accounting and Economics.

After graduation, I accepted a position in the Bethlehem Steel Management Training Program. I was employed by Bethlehem Steel for eleven years serving in positions in accounting, strategic business planning, operational management and business development at six (5) different plants and at the home office. While at Bethlehem I also attended and completed the Executive Management Course provided to Bethlehem by the Harvard University Business School.

I later became a principal in a consulting firm specializing in strategic planning and adaptive reuse of underperforming assets. My clients included large firms such

as Copperweld Steel Corporation and numerous municipalities such as the cities of Aliquippa and Midland, Pennsylvania.

During this period, I also became involved as a principal of Noble Ventures, Inc. along with Mr. John G. Roberts. Mr. Roberts, with whom I worked at Bethlehem Steel, is one of the most highly respected steel executives in the world.

During my tenure to date with Noble Ventures, we have worked in Poland at the massive Huta Katowice steel works and on acquisition projects at Bethlehem Steel and finally in Romania. Most of my time since 1997 has been devoted towards the Romania project.

*Overview:*

The following represents my experiences, observations and analysis of the current state of affairs concerning Romanian privatization efforts and Romanian government operating practices.

Under communism there were two broad classes of citizen, those in regime positions and those who were not. The current situation is broadly the same.

Those in power are able to enhance their personal position in several ways and also are obligated to support the party requirements. This is a complicated subject to deal with, but I will try to simplify the matter by using examples.

At the higher levels, when a party wins political control they get to place people in key positions like the head of privatization. Mr. Ovidiu Musetescu won this position in the current government. Mr. Musetescu also holds a high level position in the party and part of his responsibilities is to raise support funds.

As head of the privatization agency, he exercises almost total control over virtually all state owned businesses. He picks people to serve on the board of directors of all these firms. He picks the top management of these companies. Most importantly, he has the power to replace you if you don't tow the line.

The Romanian economy has operated and continues to operate on a very sophisticated domestic barter system. The system reeks of manipulation and camouflaged skimming.

The tricks of barter manipulation developed over time in Romania and have expanded to foreign trade transactions as well. All it takes is a willing off-shore party and it is very simple to implement because that is the way business has been conducted for years inside Romania.

For example, I personally discovered a highly questionable situation at CSR on a domestic transaction that was later discovered to have occurred as well on an export transaction. CSR shipped product to a domestic customer. The customer said 30% of the shipment was defective. CSR modified their invoice to reflect the adjusted tonnage. The defective material was never inspected nor was it ever returned to CSR. It disappeared forever in the accounting records, but not physically. We found that this now unrecorded product was processed by the customer and sold as prime product.

The same circumstances were discovered on a subsequent export transaction. The potential benefits are huge. Knowing that large portions of shipments will be erroneously rejected allows for proceeds from the sale of these rejected products to be easily sheltered from any transaction reporting in Romania. It allows for artificially raising reported prices, allowing for the avoidance of possible dumping complaints as well.

Thousands of tricks have been reportedly used to skim funds from economic activity in Romania. However, logic suggests the impact of this purported corruption must surface somewhere. I knew where to look to test the potential impact of corrupt practices these circumstances suggest.

I knew that if one is draining revenue from a company, sooner or later the company ends up technically insolvent. That is in normal conditions.

In Romania, State-owned companies report losses or manipulate figures to show marginal profits/solvency. In order to achieve solvency for these enterprises, the government, in an effort to support the poor workers, allows the company to not pay social taxes for example. As time passes, the company owes so much to government agencies that in any normal business climate the company would be shut down. But, the power brokers don't want that to happen and convince the government to continue subsidizing operations in order to help the poor workers survive. In return, the employees should not expect any increase in wages despite double-digit national inflation. And by the way, the workers should be beholden to the barons and union leaders who saved their workplaces.

In any event, state companies end up with balance sheets loaded with state debt. There is no funding to allow for capital investments or increases in wages. The companies operate in an atmosphere of constant desperation agreeing to almost any-



thing for just another days worth of material and energy so the employees get another day at their “workplaces”.

Being at a workplace is absolutely critical to the average citizen/employee. It has been bred in them. A designated workplace allows a citizen/employee to build credits in the pension, social security and medical benefits systems. You are in deep trouble if you don't have a workplace. If you don't have a workplace you could end up on the street a beggar. It happens often, so it is a real fear to be reckoned with. As a result of the excess labor in most complexes, the union leaders and local party bosses use this threat of no working place to stifle and silence opposition. Loyalty to the union (and party in most communities) is your safest way to ensure a working place when the downsizing begins. In our facility, black lists were posted on the front gates, management supporters were beaten and intimidated and refused their share of the government aid distributed by the union.

I believe the evidence clearly supports my analysis. Summarizing a few of the facts:

Virtually all state owned companies are technically insolvent. All owe the state huge amounts of money associated with taxes and social benefit tariffs. The sad aspect to this situation is that once you adjust the companies balance sheets for these questionable state debts most of these firms are not only viable, they are highly competitive given all the key attributes these firms typically possess.

Romania's relative performance has been dismal. None of the governments that have been in power have made progress. Coalition governments with short-term prospects for political survival have allowed continued manipulation and control by the vested interests that feed the party coffers. Paradoxically, the current government has more control of the legislative and executive branches than any other government since 1990 yet remains one of the most allegedly corrupt governments in all of Eastern Europe.

Despite all of the allegations in Romania, no significant corruption figure has been investigated, yet alone prosecuted. It is no wonder that this is the case since there is no practical independence between the judiciary and the executive branches in Romania. The Ministry of Justice controls the General Prosecutor and what prosecutor in their right mind is going to bring charges against one of his/her fellow party members who happen to be a Minister? A recent constitutional amendment vote included a clause to create an independent prosecutor in recognition of this problem.

Lawsuits in the thousands stack up at the Ministry of Privatization. Most relate to failures in honoring contractual obligations.

The bottom line is Romania started on the road to democracy with a substantial manufacturing and agriculture based economy with a huge positive trade balance. Since then the balances have disappeared and all economic sectors have retreated substantially.

The privileged have thrived. It doesn't take a rocket scientist to see it. Mansions are popping-up all over the suburbs of Bucharest and the resort areas in the mountains and on the Black Sea.

I also feel that Romania should be leading all others in economic growth and national prosperity given the comparable vastness of the country's assets. For example, Romania has huge agriculture properties, oil and Black Sea frontage. The people are highly educated and capable.

Romania is in the shape it is because the corrupt underworld that developed long before the Revolution is alive, well and still doing business at unprecedented levels. The theme most commonly expressed in the press, on the street and in the factories is the crooks continue being crooks, Ministers remains in their positions, referendum votes are still a farce and the masses continue to live hungry, fearful, suspicious and in utter despair.

#### *Noble Ventures Experience*

One could write a book concerning the experiences of Noble Ventures in Romania. We were the victims of the failure of the Romanian Government to honor their contractual obligations, intimidation, physical assault, and government-organized expropriation. These conditions are the basis of our ICSID lawsuit against Romania that is currently proceeding to final resolution.

The most effective way and maybe the only way that the current corrupt system can be challenged and exposed for what it really means to the Romanian public is by a demonstration of the benefits of a legitimate operation.

Noble Ventures plan and likelihood of success represented the alternative to the status quo. If we were allowed to perform, the company would have succeeded, the workforce would have appreciated the rewards from honest work and Resita could have become an example for others to follow. One article in a leading daily news-

paper titled 'An American in Resita' basically outlines that our biggest problem was our refusal to pay bribes.

*Significance of CSR mill:*

The CSR Resita mill was founded in 1771 and has a storied history in the annals of steel making in Europe. CSR was leased by the Austro-Hungarian Empire from a prominent Jewish family, the Aushnit family, for almost 80 years and provided the majority of the rail for the vast network spanning the empire. During WWII, Hermann Goering owned 35% of the shares and CSR provided military munitions for the Nazi war machine. The town of Resita with almost 120,000 persons is heavily dependent upon the operation of this mill. CSR itself employed almost 15,000 persons at one time. In addition, CSR was the primary tax contributor to the city and district budgets. CSR is the only Black Sea producer, outside of Ukraine and Russia, of large diameter round billets. These billets are the primary material for large diameter seamless pipes/tubes used for high-pressure oil/chemical pipelines and installations.

CSR directly facilitated the well-being of the Caras-Severin district community, a number of large industrial complexes dependent upon CSR production and indirectly those local communities and provided military material for the Romanian military services and export clients. Under Communism, CSR generated 'value' through its production for which management was never accountable resulting in direct and indirect organized siphoning of value for the privileged few.

For the purposes of this discussion we have divided the theft and corruption discovered at CSR into three primary areas:

*1. Internal manipulation*

a. Management of CSR & union collaboration:

- i. In the first several months of our assuming control of management, we identified a complex network of theft of finished product and raw materials that occurred in the mill. Theft of product included manipulation of steel output to produce separate stockpiles of material, which was sold for cash directly to clients. This business required collusion between the executive management, union section leaders and mill managers, transport sector and local railway chiefs.
- ii. Product was typically and deliberately misclassified as lower grade steel resulting in lower sales values for CSR.
- iii. Scales were rigged allowing for manipulation of weights for received material and for shipped finished product.

After Noble Ventures discovered the extent of these problems we took aggressive action to eliminate the possibility of continuation.

*2. Local/district manipulation*

Local agents helped facilitate the theft of materials from the plant, which were then resold back to the plant for profit. Essentially, raw materials would go out in the morning and the next day a local agent would appear with the same material that the Procurement office would buy for the mill at high "spot prices."

In addition, CSR owned a large variety of commercial real estate, which was rented at below market prices to local "friends". These leases included properties for the local Ministry of Labor, the City water company, the union, etc. Most significantly, assets were subjected to 'green mail' or outright black mail by the unionists. In one case we asked authorities to intervene to remove unionist trespassers, they refused and permitted the trespassers from allowing us from the site, a site to which we had clear title and rights.

Our management was repeatedly beaten and intimidated by the union. One such case was the sequestration of our senior management in the Company "cantina" with 600 workers for more than ten hours. A videotape shows union members pulling a U.S. manager off a table and beating him. This clip aired on the national news, penal charges were filed and not one person was arrested. On a number of other occasions, management was surrounded in its offices by, in some cases, as many as 3,000 workers who were breaking into the offices. Despite repeated requests for protection, the police did nothing to intervene.

The government failed to respect the rule of law by allowing the union to run rough shod over the entire City by blocking European Union highways, staging unauthorized demonstrations, etc. The punishment for this activity: no arrests, no fines.

As a private company you would expect management had the right to negotiate with the union. Not so in Resita! The union would threaten a social protest and run into the waiting arms of the local administration who would then bring in the na-

tional Ministers. The government would attempt to “intervene for the sake of social calm,” but would then sit on the side of the unionists. When the union is aware that the government will not enforce the labor code, collective bargaining agreement or the penal code of the country, it makes it impossible for any investor to manage effectively.

### 3. *National manipulation*

Romania’s economy historically has been highly dependent upon heavy industry for which the steel complexes were designed to provide the material to keep the industrial engine running. These industrial complexes generated high value products used both domestically and for export to generate hard currency. This hard currency and control of these complexes is controlled by the government since most large enterprises have remained majority owned by the State. Therefore the State appoints the Board of Directors and management of these companies.

Romania is not a land of PACs or lobbyists. It is a land where the ruling party manages the levers of power by controlling the primary drivers of the economy: banking, steel, oil and gas and electricity.

In addition, most of these complexes were labor intensive and therefore social pressures were controlled at a local level through strong collaboration between the unions and the political establishment. Following Ceausescu’s fall in late 1989, the political establishment continued its reliance on unions to control the social situation during the last ten years of democratic change and painful economic transition.

In conclusion it is my opinion that corruption is very broad based in Romania. It goes without saying. It is accepted and in fact is sometimes presented as an all-together reasonable practice since wages are so low and access to cash so highly limited, that people have to steal to survive.

I also believe that in Romania the impact has been most severe when compared to the experiences of other countries in the region (i.e. Poland and Hungary). I believe this is the case because the population of Romania has been so much more controlled and indoctrinated under Ceausescu than others in the region and therefore will not protest their miserable conditions as they might in the other countries. The powers-to-be can get away with it so they do.

Until the Romanian national leadership attacks corruption, exposing and prosecuting major perpetrators, the citizenship will not believe, honest investors will remain hesitant to invest and bribes and pay-offs will remain the order of the day in the Romanian economy.

If the controlling political entities remain reluctant to take action because of their implication in the corruption network themselves, then maybe the only way to affect change will be from external influences. From the international community in the form of the European Union, IMF, World Bank and democratic institutions such as this honorable committee of the United States Senate.

In any event, I believe, given a level playing field, the Romanian economy could easily become the strongest in the region. I also believe, given its strategic location, it is in our best interest to do all we can to ensure a stable social/economic condition prevails in Romania.

During my time in Romania, I came to respect enormously the Romanian people, their history and culture and their basic decency. They deserve a better system than what is currently in place and I hope with the help of the international community and new and courageous leadership, Romania can become a better place to live, work, raise a family and enjoy the blessings of freedom and real democracy.

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## RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD

RESPONSES OF HON. STEVEN PIPER, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, TO ADDITIONAL QUESTIONS FOR THE RECORD FROM SENATOR RICHARD G. LUGAR

*Question 1.* How are U.S. State Department programs that address crimes and trafficking across borders, such as those involving drugs, weapons or terrorists, being coordinated and integrated into each country’s assistance program plan? Are the embassies involved?

*Answer.* Our assistance funds for these purposes in the European and Eurasian region are coordinated in various ways, depending on the account under which funds are appropriated by the Congress, the nature of the criminal activity involved and those USG law enforcement and security agencies charged with combating it. In each case, however, the EUR Bureau’s Office of the Coordinator for Assistance

(EUR/ACE) and our U.S. Embassies in the region ensure that these processes are integrated into country assistance plans.

#### *Narcotics Trafficking*

EUR/ACE reviews these counter-narcotics and law enforcement assistance programs to ensure that they are consistent with the strategies developed by our embassies and the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) and that they propose an effective use of funds with clear objectives and sound budgets. EUR/ACE also reviews program implementation as a basis for further funding. EUR/ACE works with INL, other offices and bureaus of the State Department, and with the Departments of Justice, Defense and Homeland Security to ensure that the country assistance plans also serve overall policy objectives for the region.

At this time, one of the key objectives of these programs in the EUR region is to build, through our assistance for training, equipment and reforms, basic counter-narcotics and law enforcement capabilities that are still lacking or are inadequate in most of the states in transition from communist rule. While taking advantage of opportunities to encourage and assist law enforcement cooperation on a regional basis, we are mindful of the need for a strong foundation of such capabilities in each individual country if criminal activities that cross borders are to be successfully attacked. Much of our assistance for counternarcotics and law enforcement efforts is therefore allocated to bilateral programs at this time as we seek to build up those capabilities.

Before determining the allocation of law enforcement assistance for both bilateral and regional efforts, we assess the state of each country's law enforcement and counter-narcotics intelligence, enforcement and drug interdiction capabilities; the need for appropriate legislation to authorize new, modern methods of investigation and prosecution and adoption of those new procedures in each country; and the degree to which each country's government is willing and able to support U.S. law enforcement operations in the EUR region and/or engage in regional cooperation with its neighboring states.

Helped by the appropriation of \$22 million for drug interdiction and law enforcement reform in Central Asia, a part of the Operation Enduring Freedom supplemental for Fiscal Year 2002, EUR/ACE has undertaken to allocate resources through INL to each country across the former Soviet region in a manner that will best support existing or new operations across the region by U.S. law enforcement agencies, particularly those operations of our U.S. Drug Enforcement Administration. Examples include: a new, DEA-vetted-and-overseen, counter-narcotics unit that has been established in Uzbekistan with our assistance; new Drug Control Agencies that are being created and maintained under programs administered by the United Nations Office on Drugs and Crime (UNODC) with U.S. funding support in Tajikistan and the Kyrgyz Republic and that are intended to create a foundation for those countries' expanded cooperation with DEA; a counter-narcotics border program that has been initiated on Kazakhstan's southern border that stretches from China to the Caspian Sea; and, using assistance funds, the DEA is to oversee equipment and training that will soon be provided for selected counter-narcotics units on Russia's border with Kazakhstan. While all of the funds allocated in the above examples are provided to individual countries to build up their counter-narcotics and law enforcement capacities, the projects involved will easily lend themselves to greater cooperation across the region.

#### *Counter-terrorism*

Counter-terrorism assistance funds are provided by the Congress under the Non-proliferation, Anti-Terrorism, De-mining and Related Programs (NADR) account, and support the Antiterrorism Assistance (ATA) program, the Terrorist Interdiction program and regional workshops for senior level police. They are coordinated by the State Department Coordinator for Counterterrorism (S/CT). S/CT provides policy guidance on such programs, and, to ensure coordination of those programs in the EUR region, works closely with the Bureau for Diplomatic Security (DS), which implements the programs, the EUR Bureau and our embassies in the region to ensure that counter-terrorism programs and assistance are integrated into program plans for each country.

EUR/ACE and INL also work to support our counter-terrorism efforts through the allocation of counter-narcotics and law enforcement assistance funds appropriated for the EUR region under the SEED Act and FREEDOM Support Act. An example of that is a program that is now being funded for the Kyrgyz Republic to help create a new passport and document control system in that country. Kyrgyz passports are susceptible to counterfeiting by those who may engage in criminal activities in the

Central Asian region and beyond. The document control project, while technically a law enforcement effort, will certainly have a positive impact on our efforts to support the Kyrgyz Republic in fighting terrorist organizations while it works to apprehend those using falsified documents to engage in drug trafficking or other criminal activities that cross borders.

#### *WMD Proliferation*

EUR's Assistance Coordinator, together with EUR's Office for Policy and Regional Affairs (EUR/PRA), ensures interagency consultation on our various assistance programs targeted at preventing the proliferation of items and technology related to weapons of mass destruction in the EUR region. The Office of the Coordinator convenes regular, country-specific, interagency meetings, the goal of which is to ensure that USG objectives and strategies with respect to such WMD nonproliferation programs are coordinated amongst the several interagency implementers. Those meetings also rely on and take into consideration information and guidance received from our embassies.

*Question 2.* Who is responsible in the State Department for coordinating these programs and plans? Are Regional Bureaus in charge of assistance priorities in their countries or are functional Bureaus, such as the Bureau for Nonproliferation (NP) and the Bureau for International Narcotics and Law Enforcement Affairs (INL), in charge of those priorities?

Answer. The Bureau for European and Eurasian Affairs follows the guidance of the Secretary and Deputy Secretary and utilizes a specific Policy Coordinating Committee (PCC) process for broad policy issues having to do with the EUR region. The Assistant Secretary of the EUR Bureau chairs the PCC on Europe, which is structured to respond flexibly to important policy issues in the region, and, as necessary, can take up issues of law enforcement and counter-narcotics assistance in key sub-regions in Europe and Eurasia, including Southeast Europe and Central Asia.

The EUR Bureau utilizes an additional assistance coordination mechanism, embodied in the form of the Office of the Coordinator of Assistance to Europe and Eurasia (EUR/ACE). The Coordinator's office has the statutory authority to coordinate all USG assistance to the states of Eastern Europe and the former Soviet Union. On behalf of the EUR Bureau, EUR/ACE coordinates closely with INL, NP, and other bureaus with global responsibility for policy and programs to combat narcotics, crime, proliferation and other forms of criminal activity, to ensure that funds appropriated under different accounts and managed by different agencies are complementary and not duplicative.

Such coordination takes several practical formats:

- Coordination meetings are held several times each month that bring all relevant agencies and offices together. Each such meeting usually focuses on a specific country;
- Semi-annual program and budget reviews are held with U.S. Government entities that manage FREEDOM Support Act (FSA) and SEED Act funds for law enforcement programs; and
- Approximately four to five country reviews are held yearly that assess the effectiveness of all U.S. Government assistance in a given country, including our law enforcement and security programs.

In addition, EUR/ACE compiles an annual report to Congress on the use of U.S. Government assistance in SEED and FSA-assisted countries. That report contains a country-by-country assessment on security and law enforcement activities, as well as detailed budget information. Compilation of this report is used as a management tool to identify performance issues and improve coordination.

EUR/ACE also participates in the PCC process and consults with other EUR offices and with our embassies in the region, ensuring that the objectives and allocation of our law enforcement and security-related assistance take into consideration embassy views and priorities. The following example is illustrative: NP and INL are responsible for managing their respective programs and each relies on program advisors and contractors stationed at EUR embassies to help implement and coordinate NP and INL programs in each country. EUR/ACE ensures, however, that the NP and INL program and performance plans are considered within the larger context of the range of U.S. Government assistance to those countries and across the region, including assistance for counter-narcotics and law enforcement training and reform programs, nonproliferation, defense and border security programs, and other programs. EUR/ACE also maintains regular contact with Ambassadors in those countries to obtain their views on the program performance of NP and INL. This mechanism ensures program effectiveness and reduces the possibility of duplication

of assistance. Finally, our embassies use their Country Teams to ensure coordination of U.S. assistance efforts with the host country.

*Question 3.* Who has the authority to allocate law enforcement assistance resources by country to ensure priorities are consistent with U.S. policy?

Answer. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) holds the authority to allocate such assistance to countries around the world. In accordance with the SEED and FREEDOM Support Acts, however, the European and Eurasian Bureau's Office of the Coordinator for Assistance (EUR/ACE) holds the authority over the allocation of funds that are administered by INL for law enforcement assistance in the European and Eurasian region.

In the allocation of funds for law enforcement assistance in the EUR region, EUR/ACE acts on the basis of proposals from EUR embassies that take into account competing needs and objectives for assistance programs. These proposals are reviewed in Washington with INL. INL's input in this process reflects its expertise and responsibilities in overseeing and managing the many implementers of our law enforcement assistance, including agencies of the Departments of Justice and Homeland Security, international organizations such as the United Nations Office on Drugs and Crime, and, on occasion, non-governmental organizations.

Consultations with INL continue throughout the year to review programs in depth and gain INL's perspective on funding allocations, not only for each of the countries but for regional projects as well (such as the International Law Enforcement Academy in Budapest). INL's input on its regular interaction with other donors of law enforcement assistance in the region, such as the Organization on Security and Cooperation in Europe (OSCE) and the European Union (EU), also provides valuable insight on those ways in which U.S. law enforcement assistance can be allocated in order to leverage other donors' assistance or to address challenges overlooked by such donors.

Within each Embassy there is also a Law Enforcement Working Group that assesses key law enforcement challenges and the degree of receptivity on the part of the host government to our possible assistance initiatives. (The Law Enforcement Working Group is composed of U.S. personnel working on law enforcement assistance, including law enforcement representatives at the post—especially those from the Departments of Justice and Homeland Security—and other U.S. personnel working on related issues.) We have found the input of those on the ground in our Embassies—our Ambassadors and their Law Enforcement Working Groups—invaluable in our decision-making on allocations of law enforcement assistance.

As an example: A program now being started by INL in Uzbekistan with FREEDOM Support Act funding will address the alleged use of torture and abuse by police in that country during investigations. A coordinated process led by EUR/ACE brought together personnel from INL and the State Department's Bureau on Democracy, Human Rights and Labor (DRL) to design programs that would address this issue, an issue of importance to the Congress as well as to the Department of State. The resulting suggestions were then forwarded to our Embassy in Tashkent for review by our Ambassador and his Law Enforcement Working Group, which advised EUR/ACE and INL on the program it felt most appropriate.

