

Regional Report

Will Moscow Crack Down on Far Eastern Corruption?

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Summary

In the Far East, everyone is waiting to see how Moscow's high profile battle with corruption on the Russian-Chinese border will end. In recent months, several high level officials have been fired and the head of the Customs Service has been arrested. However, many local observers claim that recent events are not part of a real campaign against corruption, but simply an attempt by one group to exert its power over others. What the ultimate outcome will be remains unclear.

Problems with the Customs Service

During the last six months, the Far Eastern Customs Service, one of the most effective revenue generators in the Russian government, has struggled from scandal to scandal. Everyone has long ago become accustomed to the fact that corruption has pervasively invaded this state organization. Nobody even hoped that the battle against corruption would begin here. Nevertheless, it is taking place. President Vladimir Putin declared war, in pronouncing his famous phrase that in Russia business and the customs service had united in economic ecstasy. Many then had the impression that the president was speaking about the Far East and Primorskiy Krai in particular. And, indeed, the federal authorities are now working to separate business and customs beginning in the Far East.

The campaign began when the authorities detained 150 freight train cars of Chinese consumer products in Moscow in April 2005. The goods arrived by railroad after traveling across the country from the Primorsky port of Nakhodka. This shipment was hardly the only case of undeclared goods transiting across Russia. Two months before the authorities detained these goods, they uncovered a well-organized shipment route from China to Moscow. The goods on that route were sent by sea to the Vostochnyi port and then by train to Moscow, according to various Russian newspapers. The Russians who received and then forwarded the goods simply acted as fronts for the real owners. Ultimately, the goods ended up at the Cherkizov market, where they were distributed to Chinese businessmen, the real owners, for sale to the public.

As a result of that case, the authorities filed criminal charges against approximately 25 people. Within a few weeks investigators claimed that they had traced the trail to Primorsky Krai Federation Council member Igor Ivanov, who had previously served as a deputy governor under Governor Sergei Darkin. At that time, he was considered one of the most influ-

ential figures in the Far East in the field of foreign economic and customs relations. After the investigators conducted a search of his apartment, Federation Council Chairman Sergei Mironov "recommended" that Governor Darkin remove Ivanov from office and Darkin quickly complied. Given his position, it is conceivable that Ivanov could have helped set up ties in the Russian government and among the federal law enforcement authorities to facilitate the smuggling activities.

Shortly before Ivanov was forced out of the Federation Council, Ernest Bakhshetsian, the head of the Far Eastern Customs Service, and his deputy Aleksandr Vorobev were arrested and incarcerated in a Vladivostok prison. The procurator has accused them of abusing their office and a Vladivostok court is now considering the case. According to the investigator, they "illegally ordered their subordinates to expedite consumer goods through customs without oversight." Apparently, the testimony of former customs agents subordinate to Bakhshetsian facilitated the arrests.

Bakhshetsian's arrest raises interesting questions. One year before he was detained, he won appointment as the head of the Far Eastern customs service thanks to the backing of Minister for Economic Development German Gref. Bakhshetsian, who had no ties with the local elite, announced then that his goal was to root out corruption and the contraband trade while increasing the income the agency generated for the state. He started his new job by replacing the chief officials in the local customs service, forcing many out of their jobs. Additionally, he personally monitored the system for moving freight and making declarations.

Bakhshetsian told the local newspaper *Dal'nevostochnyi kapital* that he would return all of the customs inspection stations to the state. Both then and now, all of the infrastructure for inspecting automobiles on the Far Eastern border, and particularly in Primorsky Krai, belongs to private individuals. In Primorsky Krai, they are rich businessmen who are

members of the Krai Duma.

These plans immediately angered the local foreign trade elite. Individuals responsible for the greatest amount of Chinese trade sought the help of the Primorsky Krai administration, hoping to persuade the government to give them exclusive rights to establish a semi-governmental entity to manage all the auto inspection points in the Krai. The ostensible purpose was to improve service for tourists and freight shippers. They were not able to realize this goal.

Charges Against the Customs Chief

The new head of the Far Eastern Customs Service clearly had Moscow's support and Minister Gref blocked all attempts by the local oligarchs to remove him. Bakhshitsian also began to travel with two bodyguards and took other security measures. However, he had no defense against the law enforcement authorities, who now accuse him of working out a "separate agreement" with the smugglers. The gist of the deal allegedly is that the customs agents do not inspect all freight shipments passing through their stations, while the shippers pay an agreed amount for every cubic meter to the budget. Thus, in a relatively short period of time, the Customs Service was able to increase the amount of money it contributed to the state budget by 50 percent. As a result, several local observers claim that the major shippers faced significantly reduced profits since the new customs head was making life more difficult for them. Eventually they were able to get rid of him.

Many famous people in the kraï came to Bakhshetsian's defense after his arrest. Among them were members of the law enforcement community claiming that such an agreement was the only way to increase revenue for the budget. Increasing revenues was exactly what the federal authorities had asked Bakhshetsian to do. At the same time, other observers suggested that Bakhshetsian's mistake was that he did not seek to root out the smugglers completely, rather seeking a compromise with them.

Others Sought in the Case

The authorities are seeking a variety of other individuals for questioning. Currently, for example, they are looking for Vladimir Khmel, a former Primorsky Krai legislator and one of the region's richest residents. The authorities suspect that he was one of the co-organizers of the Rostek-DV Servis company, the largest shipper of Chinese consumer goods and meat products through Primorsky Krai. This firm has come under investigation several times. Allegedly, Khmel was in charge of transporting the goods, in-

cluding to Moscow. Notably, as soon as word leaked about the reasons for Ivanov's departure from the Federation Council and his possible relationship to the smuggling case, Khmel went into hiding in Spain. There are now rumors in Primorsky Krai that he is selling all of his business interests and does not plan to return. Another wanted figure is Denis Pavlov who is suspected of moving the money in the case. The authorities are also seeking Sergei Khe, currently a co-owner of one of the Nakhodka ports. He allegedly organized the smuggling of meat and consumer goods from China through the port.

All of these people associated with the company Rostek-DV Servis attracted the attention of the law enforcement authorities on many occasions over the last ten years, according to the local newspaper *Zolotoi rog*. However, all of the cases against them were closed without being prosecuted. That was what happened with the scandalous "meat affair" in 2003 in Nakhodka. Then customs agents detained a ship coming from China with more than \$3 million worth of meat on board. Documents claimed that the ship was only carrying one-tenth of that amount. The case went to the procurator, the ship with meat returned to China, and the owner only had to pay a fine. Similarly, the case surrounding the contract killing of Rostek Primore General Director Sergei Popov was settled quietly last year.

There have been several attempts to punish the smugglers. And, although investigators came up with promising leads, even high level officials of the law enforcement agencies were forbidden to continue this work. It seems that the most influential smugglers have their own people working within these agencies.

Moscow Sends in the Troops

It is not clear how things would have turned out in this case under ordinary circumstances. Most likely the customs chief would have received a light penalty and the authorities would have forgotten about the other corrupt officials and smugglers. However, in June Yury Chaika was appointed as Russia's new procurator general and began to pursue the customs case with new energy.

He sent Deputy General Procurator Yurii Gulyagin to Vladivostok, where he promptly announced that the most interesting cases were still to come. On the last day of October, around 30 fighters from the Vityaz special Interior Ministry unit and procurator staff arrived at the military airport in the suburbs of Vladivostok and began investigating the most influential politicians and businessmen connected with importing Chinese goods and meat in Primorsky Krai.

In their first stop, the group visited the office of Gennady Lysak, one of the krai's most influential entrepreneurs and a deputy of the krai legislature. Lysak is a tireless organizer of the border trade: there are more than 20 businesses registered at his address dealing with Russian-Chinese trade. The investigators thoroughly searched the premises and seized many documents. They also searched the "36 Hours" law bureau, which provided legal services to these firms and played a role in the case of the 150 train cars filled with smuggled goods in Moscow.

Even though these investigations were conducted in an atmosphere of secrecy and the arrival of the Muscovites was a complete surprise for the local law enforcement agencies, the targets of the investigations had been warned in advance. At least that is what people who are involved in the case think. Otherwise, how is it possible to explain how the documents that the Moscow investigators sought were not found in the offices they raided? Ultimately, there were many raids throughout the region and it is not clear what the results will be.

What Is Really Going On?

Everybody is trying to figure out the true purpose of these investigations. It would be fine if the authorities finally decided to get rid of the corruption in the customs service that is now fed by the smuggling and illegal interests of the region's powerful local oligarchs. However, the Primorsky Krai law enforcement authorities claim that what is happening now is closer to a classical redistribution of spheres of influence. These observers suggest that the Moscow-based investigators are working in the interests of groups in the capital that are seeking to gain control of black market financial flows.

Other observers argue that Moscow is now really trying to impose order on the Far East. In this far flung region many businessmen and public officials have long since stopped obeying the law. They associate the new crackdown with the appearance of a new presidential envoy, Kamil Iskhakov, in the Far East, the rise of General Procurator Yury Chaika, who has an intimate understanding of the Far East due to his

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previous experience there, and the most recent statements by Putin, who has called for legislation that would strengthen monitoring over the income and property of law enforcement employees, including those working in the Customs Service.

One wants to hope that the president's words will be translated into deeds. In Primorsky Krai, it is only possible to fight with the "gray schemes" drawing on strong support from the federal leadership. One honest general will not be able to address the problem of smuggling alone.

Kondratov Returns

In this sense it is interesting to examine how Governor Darkin has reacted to the customs scandal. Whether by chance or not, he has recently fired almost all of his deputy governors.

Moreover, shortly after the Moscow inspectors arrived in Vladivostok, he proposed replacing Federation Council member Ivanov with former Federal Security Service (FSB) General Viktor Kondratov. Lt. Gen. Kondratov is famous in the Far East above all for his conflict with former Governor Yevgeny Nazdratenko. In 1997-1998, Kondratov combined the posts as regional FSB chief and presidential representative in Primorsky Krai. He was not able to bring Nazdratenko into line and in April 1999 was moved to the FSB's central staff in Moscow and then sent as the FSB representative to Moldova and Transdnistria. More recently, Kondratov has lived in the krai. His reputation is not unblemished. His son Ruslan is one of the region's most prominent local businessmen and a member of the Krai Duma.

It is too difficult to say now how the case surrounding the Customs Service will end for its various participants. It is not clear if Moscow has the will to battle corruption from the Far East back to the capital. There is still time before the presidential elections. That means that the authorities must demonstrate that they are working to improve the life of ordinary citizens as well as fighting crime and corruption. For the Far East, and especially Primorsky Krai, these issues are especially timely.