

# How the Soviet Union is taking control of Europe's 'underground economy'

by David Goldman

One preliminary result of *EIR*'s investigations of the international "underground economy" suggests that the Soviet Union's foreign financial presence in Western Europe is becoming dominant in illegal money transfers, ranging from forbidden trade in high-technology goods to street-level narcotics traffic.

While the capture in November by Swedish customs officials of American computers illegally bound for the Soviet Union made headlines, the most important qualitative development in East-West trade relations went virtually unnoticed by the English-language media: the Nov. 16 meeting of the Swiss-Soviet trade commission in Moscow. The Soviets formally proposed, and the Swiss formally accepted, to correct the Soviets' trade deficit with Switzerland by purchasing Swiss technology and "know-how," not merely for domestic use, but for third-country projects undertaken by the Soviet Union. In this case, the *Neue Zürcher Zeitung* noted, Swiss firms would act as silent advisers and contractors for Soviet projects in third countries.

This event suggests that the publicity hype concerning the attempt to transport computers to Russia via South Africa and then Sweden is misleading. The alleged culprit, a German national named Richard Mueller, has already been arraigned before a Luebeck court on charges of collaboration with the financial side of Soviet intelligence. Mueller, operating through a Swiss-based shell corporation funded with the nominal minimum of 50,000 Swiss francs, reportedly employed Hamburg trading companies to arrange the sale, but was tracked by U.S. customs.

Implied is that a technology-weak Soviet Union, desperate to obtain Western computer technology unavailable at home, depends upon Western criminal networks to meet urgent requirements. To what extent the Soviets are, indeed, hurting for Western computer technology is open to question, but as every trading company in Hamburg and Zürich has known for years, both the Swiss and "northern" routes into the Soviet Union have been open for years. The Soviets have had access via Switzerland not merely to Western computer, but also military technology, to the extent they might need

it. Their satellite, Iran, has had open access to Western industrial goods, including weapons and spare parts, via the port of Hamburg, under the personal sponsorship of West German Foreign Minister Hans-Dietrich Genscher.

The stagnating volume of European-Soviet trade is not an accurate measure of the developing relationship between the Soviets and Switzerland, West Germany, and other European nations. First, there is no reason to assume that official statistics bear any relation to actual trade-volume levels. The Soviets now sell 600,000 barrels of oil per day on the European markets, according to the published estimate of Wharton Econometrics, in exchange for arms supplies to both Iran and Iraq, as well as Libya. In return for Soviet weapons, the warring parties in the Persian Gulf have handed the Russians the means to control the margin of price developments on the European oil market, with an annual cash value of close to \$7 billion. This amount is roughly equal to Soviet purchases of West German goods reported for 1982.

Most Soviet oil reaches Western Europe through Switzerland, although most of the oil bartered from the Arabs never touches the Soviet border; it will simply be credited to the Soviets' bank accounts after sale in Rotterdam or elsewhere.

What the Soviets do with these funds is not known. However, it has been widely reported (by the Paris newspaper *Le Monde* Nov. 19, and by former New York Federal Reserve official Scott Pardee in Philadelphia Dec. 5) that the Soviets have recently taken net foreign exchange positions of \$1 billion *per day*, speculating in favor of the U.S. dollar during the dollar's recent uptrend. It is not likely that the Soviets have the bank credit to conduct such speculative transactions, according to well-informed Western European banking sources, especially since both U.S. and German banks have been under pressure to reduce such lines to the Russians. More likely is that the Soviets are backing all such transactions with cash deposits.

Apart from the Soviets' growing importance on European oil markets, the already important presence of the Soviet Union on European gold markets is supplemented by 50 to 100 tons per annum of unregistered gold exports, largely

through the large London bullion houses, which are even less scrupulous about reporting than the Swiss. How difficult this is to trace may be seen, retrospectively, in light of the recent gold robbery at a Brinks warehouse in London. Days after the break-in, British police complained that the gold—all three tons of it—was probably already melted down and untraceable. Although the robbery itself had international repercussions (the amount involved was roughly triple the usual tonnage of gold traded in a day on the physical market) the extraordinary ease with which such an amount might be dispersed reflects a pre-existing network capable of handling as much gold as the Soviets might care to feed in, without risk of detection.

### **The northern route**

Although the Swedish computer case does not shed much light on Soviet technology dependency, it nonetheless provides an interesting lesson in geography. The large Digital Equipment computers ultimately en route to Russia were shipped, first, to South Africa, off-loaded for Hamburg, and sent on to Sweden for final delivery. One of the Hamburg's oldest and best-known financiers explained in a recent discussion, "To understand the city of Hamburg, the first thing to know is that we are 40 miles from the East German border. Hamburg was the principal trading city for Germany when the Elbe (the river dividing East and West Germany) was its principal river; our hinterland is now the East. Since our business was always based on our port, the center of German banking went south to Frankfurt after the division of Germany. But our business here has always looked eastwards."

The huge Hamburg port, inland from the mouths of the Elbe, is Europe's largest center for transshipment of goods, including goods going East; this may include American spare parts for Iranian equipment or weapons systems, or French weapons destined for the Mideast, or whatever the Soviets may care to buy. It is also the vehicle for a good deal of the Soviets' grain purchases in the West, through Hamburg firms closely associated with the large American grain-trading companies.

This is the only city in West Germany where bankers will speak frankly of European independence from the United States—the so-called "third way." It is also dominated by such figures as Erich Warburg, the principal advisor to former Chancellor Helmut Schmidt, and, until his bank failed in November, Alwen Münchmayer, the leader of Willy Brandt's trade delegations east during the 1960s and 1970s.

### **Narcotics traffic**

Information developed from Paris police sources suggests Soviet political protection for the sudden, massive expansion of the Paris heroin traffic, with dangerous implications for French internal politics. The Russians are buying their way into the higher levels of French political corruption, a step above the Marseilles gangs who have been pushed out of the market for heroin.

Heroin traffic, with annual turnover of several billion francs per year in Paris alone, is managed as an apparently "hermetically sealed operation" by Chinese networks operating out of the traditional Golden Triangle centers as well as Pakistan, but functions in France via "Indochinese refugees" entering France with British passports; the refugee traffic is protected politically by Régis Debray. Debray, the current minister without portfolio who made his name tramping through Bolivia with Ché Guevara, is a quasi-public Soviet asset.

Addiction is apparently geometrically increasing, although the French police have no hard data apart from (legally required) physicians' reports, which show a rise from a few hundred in 1979 to 2,500 addicts now. So far this year the police have seized 35 kilos of heroin and heroin-base in Paris, double the seizures of last year; this is turned into 5 percent purity stuff which sells for 600 to 1,000 francs per gram on the street. Although a big influx of supply last summer had a marginal effect on price, the price of heroin as well as quality has been remarkably stable.

What has the police most worried is the structure of the traffic. Formerly Paris was merely a stopping point for traffickers en route to Amsterdam; now it is becoming a center in its own right, as is Frankfurt, whose police force has the worst reputation in West Germany. The heroin is brought in by Southeast Asian refugees, coming from Singapore, Hong Kong, and other cities. The heroin is from the Golden Triangle or Pakistan; however, the transport of the Pakistani heroin is conducted by Chinese networks. The heroin is refined in Golden Triangle or other laboratories into heroin base, and turned into heroin in Paris microwave ovens; it is mixed with a good deal of caffeine.

The street-level sales are conducted by North Africans; these funds are shipped to their families, or taken out of the country. The most frustrating part of the operation is the clandestine banking side of it. None of the money, the police believe, touches French banks. It is all done in cash, through Chinese banking networks who operate by oath, on a triad-style basis. "We are most aware that we are not aware of it," said one source. Chinese traffickers have also been arrested while returning to Asian countries, with suitcases full of cash.

The French police insist that the "flow and reflow of narcotics and money is entirely self-contained within Chinese networks." They have missed the "purloined letter," in this case the disappearing narcotics revenues, because they are hidden where they are most evident, and most visible.

The financial impact of the narcotics traffic is visible on the street. With mass unemployment, particularly among North African workers, there is a huge, unregistered labor pool in Paris. The biggest racket in France now is the old New York "rehab" scam. You buy a rundown apartment building for perhaps 100,000 francs per apartment, hire North Africans to rehabilitate it, pay them with unregistered cash, and sell the apartments for 800,000 francs. Unregistered cash is used to pay the bills.