

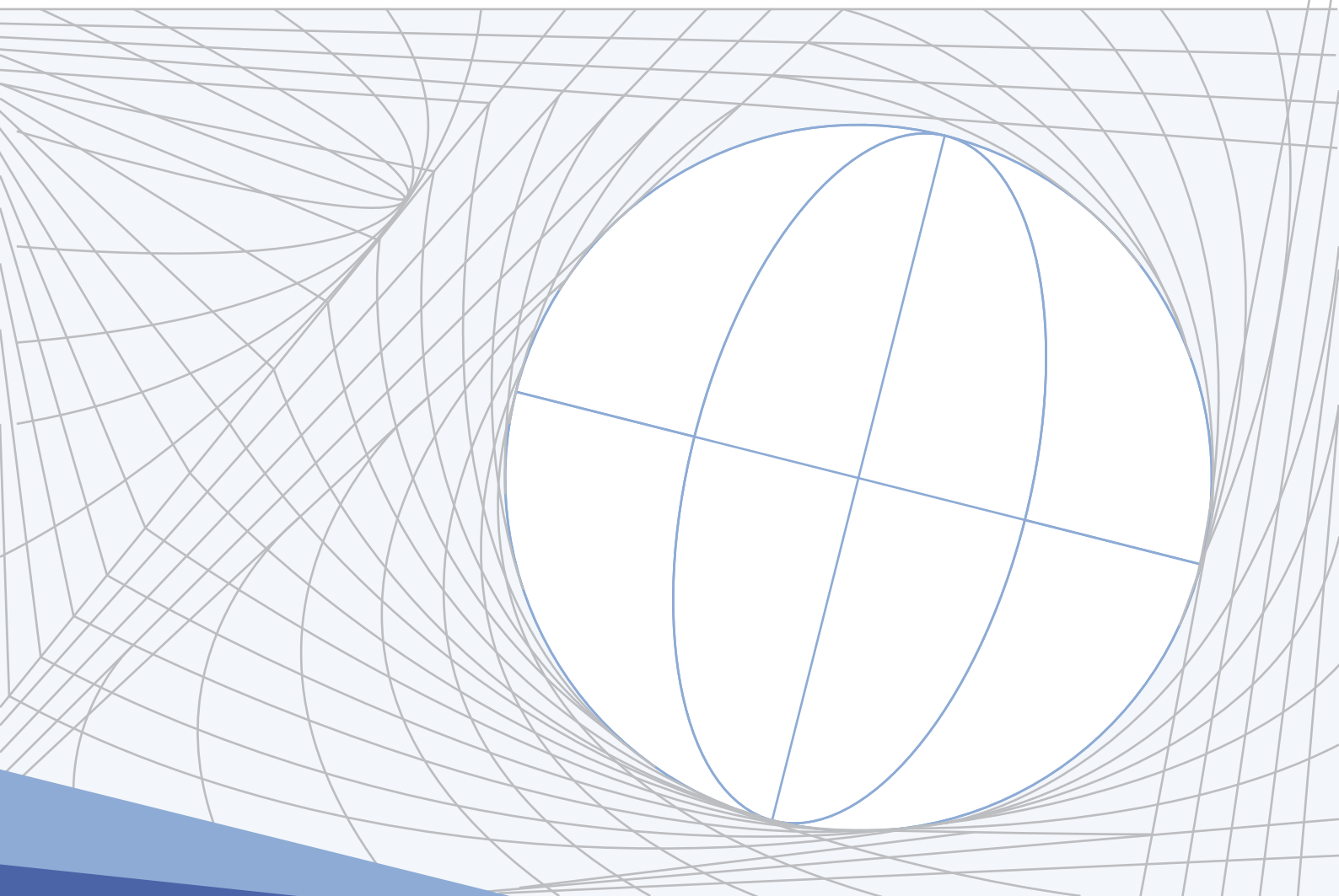


With the financial support of the Prevention of and Fight  
against Crime Programme  
European Commission – Directorate-General Home Affairs.

# **FROM ILLEGAL MARKETS TO LEGITIMATE BUSINESSES: THE PORTFOLIO OF ORGANISED CRIME IN EUROPE**

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**Final report of Project OCP  
Organised Crime Portfolio**







*With the financial support of the Prevention of and Fight against Crime Programme  
European Commission – Directorate-General Home Affairs.*



University of Utrecht



Poliisiammattikorkeakoulu  
Polisyrkeshögskolan  
Police College of Finland



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*From illegal markets to legitimate businesses: the portfolio of organised crime in Europe*

Final Report of Project OCP – Organised Crime Portfolio (HOME/2011/ISEC/AG/FINEC/4000002220)

[www.ocportfolio.eu](http://www.ocportfolio.eu)

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# Key Findings

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## 1. Where do organised crime proceeds come from?

- The main illicit markets in the European Union generate around 110 billion euro each year. This figure corresponds to approximately 1% of the EU GDP.
- Illicit drugs (heroin, cocaine, cannabis, amphetamines and ecstasy) remain the most profitable 'traditional' market (28 billion euro yearly at EU level). Among emerging criminal activities, fraud appears to be the most lucrative (29 billion euro each year from MTIC VAT fraud alone).
- Illicit revenues are shared by a plurality of organised crime groups and criminal actors. The use of business facilitators and of legitimate companies to cover illicit trade is also widespread.
- The poly-crime nature of criminal groups in Europe expands the economies of scale among illicit markets, reduces groups' operational costs and increases their profit margins.

## 2. Where are organised crime proceeds invested in the legitimate economy?

- Illicit proceeds are widely laundered in the European legal economy. Evidence of organised crime investments is found in almost all EU MS.
- In the 7 OCP countries, investments concentrate in areas with a strong presence of organised crime (e.g. Southern Italy), ones strategic for illicit trafficking (e.g. Andalusia), with key ports and airports (e.g. Amsterdam/Rotterdam), border regions (e.g. north-western Italy and south-western France), tourist areas (e.g. PACA or Costa del Sol) and large cities (e.g. Rome, Madrid, London, Paris, Berlin, Bucharest).
- Bars and restaurants, construction, wholesale and retail trade (especially of food products and clothing), transportation, hotels and real estate are traditional sectors of infiltration.
- There is growing evidence of infiltration into renewable energy, waste and scrap management, logistics, money transfer businesses (MTB) and VLT, slot machines, betting and gaming.

- Chinese OCGs, Russian/Georgian OCGs, Italian mafias, Motorcycle gangs and OCGs of British, Dutch and Turkish origin constitute the majority of cases. Differences in terms of investment strategy exist among criminal groups and countries.
- Drivers of criminal investments are profit, money laundering, control of the territory, influence on the political sphere, social consensus, personal benefit or concealment of criminal activities.

## 3. What proceeds are confiscated?

- According to the few available data, assets confiscated from OC are increasing in Europe in terms of both number and value.
- Most confiscated assets are movable goods (cash and vehicles) while there is almost no confiscation of companies.
- As a result, a gap exists between where OCGs invest and what is recovered by European authorities.

## 4. What research and policy implications?

- The study should extend to all 28 EU MS in order not to miss the transnational nature of organised crime investments.
- All the experts of the EU 28 MS (LEAs, AROs, FIUs, prosecutors, researchers, private organisations) should network to collect better data and cases of organised crime infiltration in legitimate businesses.
- An innovative methodology should be developed for shifting from a cold picture of past cases (such as this report) to an assessment of the factors facilitating criminal infiltration, in order to reduce the risk that this could occur.
- The organization of LEAs, FIUs and AROs should be reshaped so as to focus on these high-risk situations. So, the prevention activity of public agencies and private companies.
- At the same time, the confiscation of infiltrated companies should be improved, and the use of instruments alternative to seizure (e.g. administrative penalties and temporary suspensions) should be increased.

# Executive summary

This is the final report of **Project OCP – Organised Crime Portfolio** ([www.ocportfolio.eu](http://www.ocportfolio.eu)).<sup>1</sup> Aim of OCP is to carry out an **exploratory study** of the economics of organised crime in Europe, and in particular to address three research questions, which are covered by the three sections of this report:

- Where organised crime proceeds are generated, from which **illicit markets** (Part 1);
- Where these proceeds are then **invested in the legitimate economy**, in which regions, assets and business sectors (Part 2);
- The extent to which these proceeds are **confiscated** by European authorities (Part 3).

The project focuses on **seven EU member states** (Finland, France, Ireland, Italy, the Netherlands, Spain and the United Kingdom), represented by OCP partners, and for which provides an in-depth analysis. However, the report also presents a broader examination of the situation in Europe as a whole.

OCP deals with issues crucial from a policy standpoint but which are characterised by a lack of data and of previous studies. OCP addresses this research gap by adopting an **innovative methodology** and using a **wide range of information**, both qualitative and quantitative, deriving from very different sources.

Despite its pioneering nature and its data limitations, this report represents a **first step towards better understanding** of how the organised crime business works. In line with the Transcrime research agenda, it is a **starting point for a better identification and reduction of the opportunities** exploited by criminals to infiltrate illicit and legitimate markets in Europe.

In this sense, this report constitutes an important tool for both public and private institutions to improve the **assessment of the risks** of organised crime infiltration and to strengthen the **tracing and the confiscation** of criminal assets in Europe.

## Part 1: Where do organised crime proceeds come from? Illicit markets in Europe

Illicit markets in Europe are changing rapidly in size, products, actors, routes and flows, but they remain **key sources of proceeds** for organised crime in Europe.

To analyse their role in the economy of OCGs, Project OCP has produced one of the **first measurements at European level of the revenues from illicit markets**, and a review of the **main criminal actors** among which these revenues are shared.<sup>2</sup> In particular:

- For some markets (heroin, cocaine, trafficking of firearms, illicit trade in tobacco products, counterfeiting, MTIC fraud), OCP has calculated new estimates for all the 28 EU MS;
- For other markets it has collected existing estimates, in some cases available for all the 28 MS (cannabis, amphetamines, ecstasy, cargo theft) or only in few countries (trafficking in human beings, illegal gambling and match-fixing, extortion racketeering and usury).

Both when calculating and collecting estimates, OCP has employed a transparent and verifiable methodology, which is described in detail in Chapter 2 and in the Methodological Annex.

### How large are the revenues from illicit markets?

Appraising the magnitude of the revenues generated by illicit markets is not straightforward. Data are lacking, and there is the risk to produce 'mythical numbers' with no empirical proof. Taking into account these challenges, the estimates calculated by OCP reveal that:

- Illicit markets in the European Union produce **about 110 billion euro each year**.<sup>3</sup>

1. Project OCP has been carried out with the financial support from the Prevention of and Fight against Crime Programme of the European Union - European Commission, DG Home Affairs, and has been developed by an international consortium of eight partners: Transcrime – Joint Research Centre on Transnational Crime ([www.transcrime.it](http://www.transcrime.it)) of the Università Cattolica del Sacro Cuore di Milano and the Università degli Studi di Trento (Italy), coordinator of the project; Police University College (PCF – Finland); Agence de Gestion et de Recouvrement des Avoirs Saisis et Confisqués (AGRASC – France); An Garda Síochána - Criminal Assets Bureau (CAB – Ireland); Guardia di Finanza (GDF – Italy); Universiteit Utrecht (UU – The Netherlands); Universidad Rey Juan Carlos (URJC – Spain); Durham University (UDUR – United Kingdom).

2. Focus has been posed on ten main illicit markets: trafficking of illicit drugs (heroin, cocaine, cannabis, amphetamine, ecstasy), trafficking in human beings, illicit trafficking in firearms, illicit trade in tobacco products, counterfeiting, illegal gambling and match fixing, extortion racketeering, usury, fraud and organised property crime. Not all of them can be defined 'markets', as not all of them imply the existence of a demand and a supply, but they are often defined as 'markets' for the sake of simplicity. Corruption has not been considered as an illicit market per se but as an enabler on which organised crime often relies when active in the illicit and the legitimate economy.

3. This figure refers to the estimate of the annual revenues only from those illicit markets for which estimates were available or have been produced for all the 28 EU MS: trafficking of illicit drugs (heroin, cocaine, cannabis, amphetamines, ecstasy), illicit trafficking in firearms, illicit trade in tobacco products, counterfeiting, MTIC fraud and cargo theft. It does not include trafficking in human beings, illegal gambling and match fixing, extortion racketeering and usury, for which quantifications exist only in few countries. Estimates refer to different years, but most to 2010.



- This figure is **approximately 1% of the EU GDP**.<sup>4</sup> The weight on GDP is higher in southern and eastern European countries (see maps below).
- The seven OCP countries (Finland, France, Ireland, Italy, the Netherlands, Spain and the United Kingdom) produce **about 60% of this amount (64 billion)**.
- **Illicit drugs** are still the most profitable 'traditional' market (nearly 28 billion yearly at EU level, 20 in OCP countries alone); of which **heroin** is the most profitable (8 billion euro in the EU). However, **new synthetic substances** (such as methamphetamines) and the increase in **home-made illicit drugs** (such as home-grown cannabis) are reshaping this market (see Section 4.1).
- **Fraud**, in its various forms (e.g. MTIC fraud, VAT carousel fraud, plastic fraud, insurance fraud, social benefits fraud, etc. - see Section 4.9) is becoming one of the most profitable illicit activities, attracting many OCGs. **MTIC fraud** alone produces more than 29 billion euro at EU level each year according to the estimates calculated in this report.<sup>5</sup>

**Table 1 – Revenues from illicit markets per year – billion euro**

Illicit market	7 OCP countries	Whole EU
<b>Illicit drugs</b>	<b>20.2</b>	<b>27.7</b>
Heroin	5.7	8.0
Cocaine	5.3	6.8
<i>Cannabis</i>	<i>5.4</i>	<i>6.7</i>
<i>Amphetamines</i>	<i>1.6</i>	<i>2.8</i>
<i>Ecstasy</i>	<i>2.2</i>	<i>3.5</i>
<b>Trafficking in human beings (THB)</b>	Estimate available only in few EU MS	
<b>Illicit trafficking in firearms (ITF)</b>	-	<b>0.4</b>
<b>Illicit trade in tobacco products (ITTP)</b>	<b>5.2</b>	<b>9.4</b>
<b>Counterfeiting</b>	<b>21.6</b>	<b>42.7</b>
<b>Illegal gambling</b>	Estimate available only in few EU MS	
<b>Extortion racketeering</b>	Estimate available only in few EU MS	
<b>Usury</b>	Estimate available only in few EU MS	
<b>MTIC fraud</b>	<b>16.9</b>	<b>29.3</b>
<b>Cargo theft</b>	<b>0.36</b>	<b>0.42</b>
<b>TOTAL</b>	<b>64.2</b>	<b>109.9</b>

Source: Transcrime-OCP estimates. In italics estimates by other authors

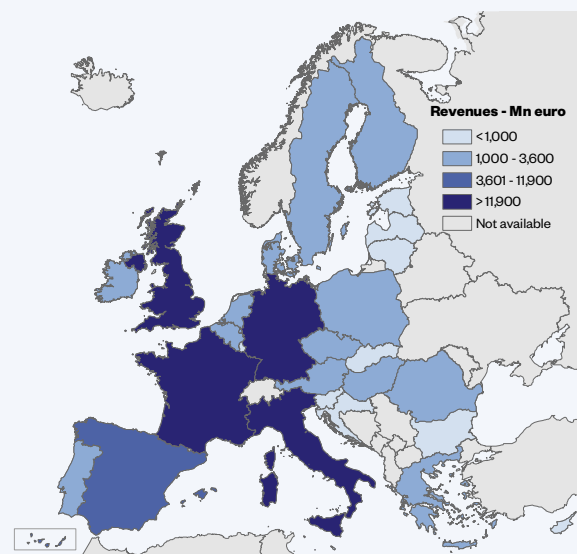
- **Counterfeiting** is *potentially* very profitable (estimated to produce 42 billion euro annually in the EU), given the willingness of European citizens to purchase counterfeit products. However, it is still unclear if and how the actual illicit supply is able to satisfy the potential demand (see Section 4.5).
- **Illicit trade in tobacco products** (see 4.4) is able to produce revenues equal to those of some illicit drugs (e.g. cocaine in OCP countries) according to estimates.

4. The rate has been calculated on the consolidated EU GDP 2010, reference year for most of the estimates.

5. Missing Trader Intra Community fraud refers to a particular type of organised VAT fraud producing a loss to the government budget and an extra profit for the fraudster. Typically, a company buys goods free of VAT from a supplier located in one EU MS, and sells it domestically, including the VAT in the price, but disappearing before remitting the VAT to the government (see Section 4.9).

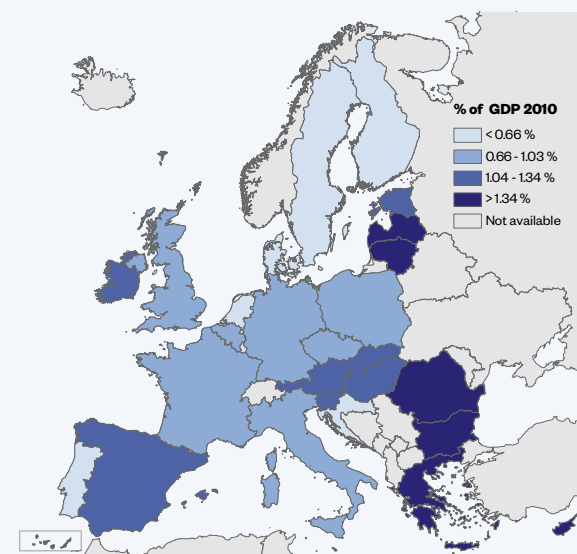
- **Trafficking in human beings** (for both sexual and labour exploitation purposes) is an important activity for OCGs, but estimates of the scale of revenues are almost non-existent (except in some countries).<sup>6</sup>
- There are few measures of the proceeds from **organised property crime** and **illicit trafficking in firearms (ITF)**. Especially the former has attracted a large number of criminal groups given the high returns and the low risks (for example the theft of medicines, see Section 4.10), but only limited figures on cargo theft are available (about 420 million euro in revenues at EU level).
- Given the lack of figures on these markets, the overall quantification (**110 billion**) may be underestimated.

**Figure 1 – Estimates of the revenues from illicit markets in the EU. Absolute values<sup>7</sup>**



Source: Transcrime elaboration on OCP estimates

**Figure 2 – Estimates of the revenues from illicit markets in the EU. Percentage of GDP 2010<sup>8</sup>**



Source: Transcrime elaboration on OCP estimates and Eurostat data

6. For example in Italy THB for sexual exploitation has been estimated to produce around 3 billion of euro annually (Mancuso, 2014; see Section 4.2).

7. It covers the following illicit markets and activities: heroin, cocaine, cannabis, amphetamines, ecstasy, ITTP, counterfeiting, illicit trafficking in firearms, MTIC frauds and cargo thefts.

8. It covers the following illicit markets and activities: heroin, cocaine, cannabis, amphetamines, ecstasy, ITTP, counterfeiting, illicit trafficking in firearms, MTIC frauds and cargo thefts.

### Who shares the illicit revenues? The actors

Revenues from illegal markets in Europe **are shared by a plurality of actors and not monopolized** by a few criminal organisations. The number, nature, composition and level of organisation of these actors change according to the country, the market, the opportunities and the particular stage of the illicit supply chain in which they are active:

- Although **large and structured groups** may be still important in those criminal activities entailing a high level of organisation, **smaller groups** and **free-lance criminals** have become central, especially in emerging markets such as synthetic drugs, home-grown cannabis, fraud or ITTP (see respectively 4.1, 4.4, 4.9).
- **Criminal groups composed of one dominant nationality or ethnicity** still play a key role in some markets (for instance Albanian and Turkish OCGs in heroin trafficking) but they are increasingly changing into **heterogeneous, multi-ethnic and inter-connected** OCGs.
- Also important are **functional links**, such as those with the countries of origin of illicit goods (e.g. the links of gangs from *quartiers sensibles* in France with North African groups in the trafficking of cannabis – see 5.2) and **cultural ones** (e.g. among different national chapters of **Outlaw Motorcycle gangs** - see 5.1).
- Some criminal groups **specialize in particular illicit activities** (e.g. some Eastern European OCGs in organised theft – see 4.10) and move across Europe to carry out these activities (e.g. property crimes or frauds).
- But most groups are increasingly involved in **multiple crimes**, i.e. active in more than one market simultaneously (e.g. Chinese OCGs in counterfeiting, sexual exploitation, illegal gambling and tax fraud in Italy – see 5.4).
- This may lead to economies of scale deriving from the use of the **same routes and channels** to traffic different illicit goods, which may **reduce operational costs** and increase **OCGs' profit margins**.

Given this fragmented and dynamic picture, it is **difficult to assess who earns how much** in illicit markets in Europe. Future research should seek a better understanding of how illicit proceeds are split among the different criminal actors and the different members of the same criminal group.

### Where and how will criminal groups produce illicit revenues in the future? Emerging trends

The evidence collected by project OCP has highlighted some emerging trends which must be taken into account to fully understand **how the revenues of illicit markets** may change in the future:

- First, there is evidence that OCGs may **gradually shift** from traditional markets (e.g. drugs or THB) to new, less risky, underrated but very profitable illicit activities, such as **fraud or organised property crime** (e.g. of medicines, vehicles, car parts). Besides creating new actors, these activities may also attract traditional OCGs (e.g. Italian mafias such as Camorra groups).
- Second, increasing use is made of **legitimate companies** in illicit markets, for example:
  - In **fraud schemes**, as shell companies in VAT carousels, excise or insurance frauds;
  - As **fronts for illicit activity** (e.g. . transport or shipping companies to hide the smuggling of drugs);
  - To **'launder' stolen products** (e.g. fake wholesalers in order to repack and sell stolen medicines back to hospitals and pharmacies, see 4.10).
- Third, **new products** are emerging in a **twilight zone between licit and illicit**. For example, *illicit white* cigarettes, which are legally produced in one country and illegally smuggled to other (see 4.4), are expanding; or firearm replicas which, when manipulated, can become illicit firearms (see 4.3).

These trends are reshaping illicit markets in Europe, but they are also important drivers of the **business strategies** of organised crime groups when they move from the illegal economy to legitimate markets (see Part 2).

### From the generation of illicit revenues to investments in the legitimate economy

Not all the proceeds generated by illicit markets are then available for investment in the legitimate economy. Criminal groups must cover a range of expenses, including:

- **Operational costs**, such as the purchase of wholesale drugs and transportation costs;
- **Management costs**, such as the payment of salaries of criminal group members or subsidies to their families;
- **Personal expenses**, to cover living expenses or the cost of a certain lifestyle;
- **Money laundering costs**, such as the fees paid to professionals hired to launder illicit proceeds;

Applying an innovative methodology (see chapter 6) to the heroin market, this report estimates that, for instance, **between 25% and 42% of the revenues** from heroin in the 7 OCP countries (between 1,160 and 3,160 million euro) may be available, after subtracting costs, for investment in the legal economy.<sup>9</sup>

9. The model developed in Chapter 6 covers the costs for purchase of raw materials and costs of living of the criminal actors involved in the supply chain. It does not cover transportation costs, management costs and money laundering fees.

## Part 2: Where do proceeds go?

### Organised crime investments in the European legitimate economy

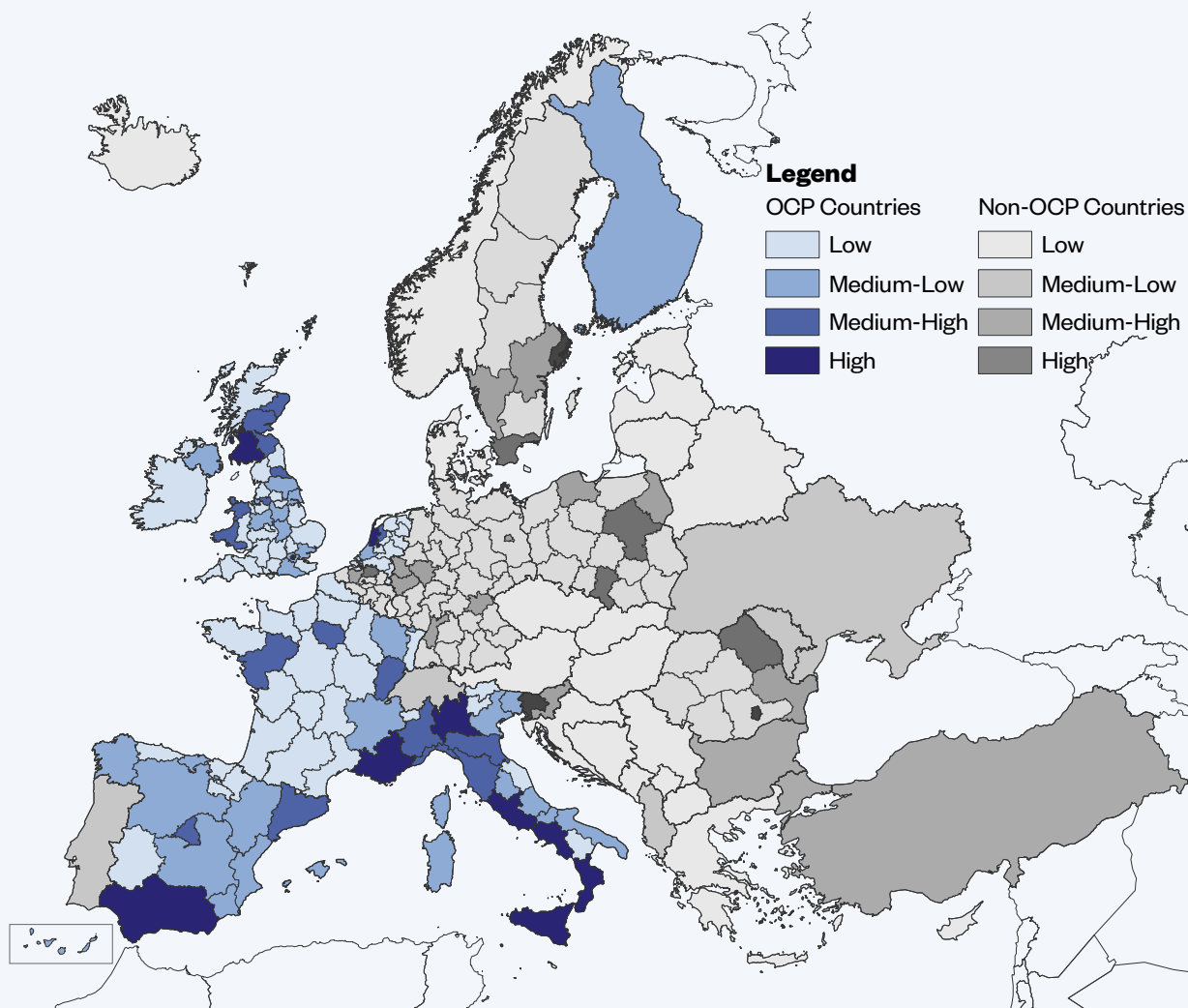
Once all the costs of illicit operations have been covered, where are the proceeds invested in the legitimate economy? OCP provides a **first exploratory overview of the investment portfolio** of organised crime groups in the 7 OCP countries. It considers:

- The **geographic regions** where investments occur;
- The **types of assets**;

- The **business sectors**;
- The different investment strategies of **criminal actors**;
- The **drivers** which could explain these different investments strategies.

To this end, given the lack of official data and in order to collect as much evidence as possible, a **broad definition of investment** was used (see Chapter 2) to conduct a **large-scale collection of cases** of investments from a wide **variety of sources** (judicial files, reports by LEAs, FIUs, AROs, academic studies, open sources).

**Figure 3a – European regions (NUTS 2) with evidence of organised crime investments - Percentages of the country total<sup>10</sup>**



Source: Transcrime elaboration on DOCI

10. Classes identified using Jenks natural breaks optimization. Although references to OCGs are available in most countries, in some cases they do not report indications about the relevant NUTS 2, or the number of references with NUTS 2 indication is too low to be meaningful and representative. Therefore, some countries (Austria, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Greece, Croatia, Hungary, Ireland, Lithuania, Luxembourg, Latvia, Malta, Portugal, Slovakia) are classified according to their national values

### *In which geographic areas do criminal investments occur?*

Although the analysis focused systematically only on the 7 OCP countries (which represent 70% of the evidence gathered), cases of organised crime investments **were found in almost all EU MS (24 out of 28)**, and in a large number of non-EU neighbouring countries as well.

A concentration of investments was found in specific regions:

- In **Italy**: the southern regions, Lazio and north-western regions (especially Lombardy);
- In **France**: PACA - Provence-Alpes-Côte d'Azur, Île-de-France and eastern border regions;
- In **Spain**: Andalusia, Madrid and, to a lesser extent, south eastern regions;
- In **UK**: the London area and south-western Scotland;
- In the **Netherlands**: Amsterdam and Rotterdam and their neighbouring areas;
- In **non-OCP countries**: some areas like Berlin, the Düsseldorf-Köln area, Bucharest and the Romanian border with Moldavia.<sup>11</sup>

According to this exploration, criminal investments tend to be larger in areas with a historically strong **presence of OCGs** (e.g. southern Italy), in **border regions**, or in areas which may play a **crucial role in illicit trafficking** (e.g. Andalusia, or Rotterdam and Marseille with their harbours), **large urban areas** (e.g. London, Amsterdam, Madrid, Berlin) and **tourist or coastal areas** (e.g. Côte d'Azur, Murcia, Malaga or European capitals) which can provide investment opportunities, for example in the real estate or hotel sector.

While some regions (e.g. southern Italy – see 8.4) witness the infiltration of **mainly local groups**, other areas record investments of a **wide range of OCGs**: for instance southern Spain has cases of investments by Italian mafias, Russian OCGs, Motorcycle gangs and other groups (see Section 8.6).

### *In which types of assets?*

Evidence collected by the OCP project shows that assets of all types make up the investment portfolios of organised crime groups:

- **Registered assets**, such as cars or boats, which are *instrumental* to many illicit activities (e.g. boats for drug transportation), as well as *status-symbols* for criminal group members and reflection of the criminal group's culture (e.g. "choppers" for motorcycle gangs);
- **Movable goods**, such as jewels, valuables, luxury-watches, but also financial instruments and bank accounts/cash;
- **Real estate properties**, ranging from lands, to villas, to flats. Immovable goods are considered safe investments by OCGs because they ensure high returns (especially in areas with buoyant real estate markets, such as PACA or

Costa del Sol – see 8.2 and 8.6) and profits in the forms of rents. Owning real estate can also facilitate illicit activities (e.g. houses can host brothels or deposits for illicit goods), fraud (e.g. mortgage frauds – see in Ireland 8.3) and control of the territory (e.g. in Italy, see 8.4);

- **Companies**, which are crucial investments and play a multifaceted role in the strategies of criminal organisations.

### *In which business sectors?*

According to the evidence collected, the business sectors with the most cases of criminal investments are (see Section 7.3):

- Bars and restaurants;
- Construction;
- Wholesale and retail trade, in particular of food products and of clothing;
- Transportation;
- Real estate activities;
- Hotels.

Other economic activities that, according to the collected data, have emerged in recent years as particularly attractive to organised crime investments are, among others, **renewable energy, waste and scrap management, money transfer businesses (MTB) and casinos, VLT, slot machines, betting and gaming** (see 7.3).

Although future research projects should examine the factors and vulnerabilities determining the attractiveness of these sectors, there seems to be a prevalence of:

- **Cash-intensive** sectors, which can facilitate money laundering;
- **Low-tech, labour-intensive and not export-oriented** sectors;
- Sectors with a high involvement of **public administration** and/or **public subsidies**;
- **Territorial-specific** sectors, which can benefit and/or facilitate the control of the territory by criminal groups.
- Sectors with **weak or developing regulation**, which may imply weaker monitoring or more infiltration opportunities (e.g. renewable energy or VLT and gaming).

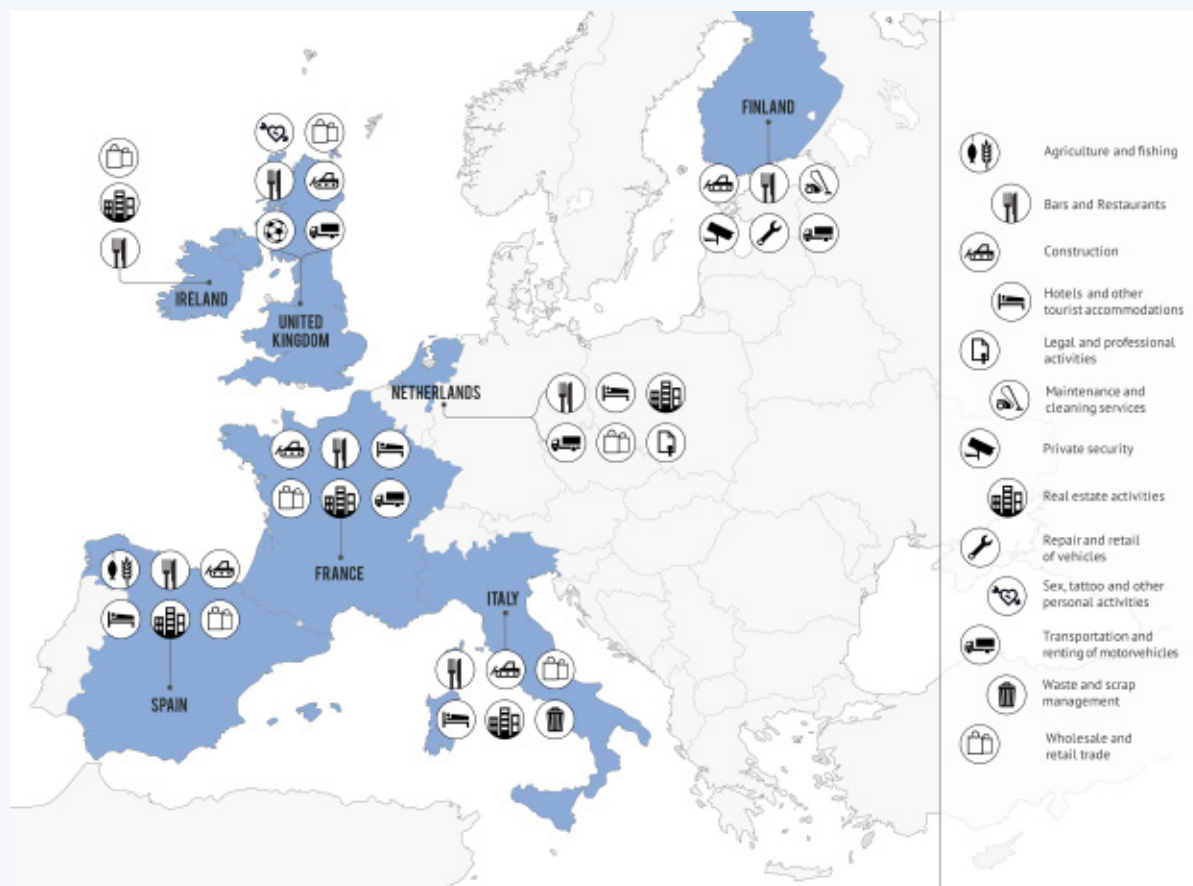
But above all, these sectors are **often functional for the commission of other illicit activities**: for example, transportation is often used as a front for the trafficking of illicit goods or MTB for transferring illicit funds.

Despite these general rules, there are **differences among countries**. These may depend on many variables, including the country's business structure and entrepreneurial culture (e.g. criminal investments in agriculture and fishery are higher in Spain than, for instance, in Finland – see 8.6), investment opportunities, differences in terms of national administrative and regulatory systems or the nature of the illicit activities conducted by the criminal groups active in the country (e.g. the infiltration of transportation companies is higher in *transit countries* like the Netherlands – see 8.5).

<sup>11</sup> Since the collection of cases was systematic only in the 7 OCP countries, the evidence collected in other EU MS should be interpreted cautiously and only as a preliminary picture of the situation.



**Figure 3b – Business sectors with highest evidence of organised crime investments - 7 OCP countries**



Source: Transcrime elaboration on DOCI

#### **What are the differences among actors?**

Besides countries and business sectors, there are also differences among **organised crime groups**.

- First, as in illicit markets, a **plurality of criminal actors**, ranging from large and structured organisations to smaller and looser criminal gangs, invest in the legitimate economy;
- Taking into account data biases<sup>12</sup> the criminal groups for which there is most evidence of investments in the legitimate economy are **Italian mafias** (especially Camorra and 'Ndrangheta), **Chinese OCGs**, **Russian/Georgian OCGs** but also **Motorcycle gangs** and criminal groups of **British, Dutch and Turkish** origin and nationality;
- Evidence of **Italian mafia** investments can be found not only in Italy but also in a large number of European countries, and in particular in real estate, construction companies, bars, restaurants and the wholesale and retail of food products;
- **Chinese OCGs** presence is especially high in the wholesale and retail trade, bars and restaurants, personal services (e.g. massage parlours) and money transfer agencies. Moreover, there is growing evidence of transfers of illicit proceeds generated in Europe (e.g. from counterfeiting, tax fraud or labour exploitation) to China (especially through MSB) (e.g. in Italy, Spain and UK);

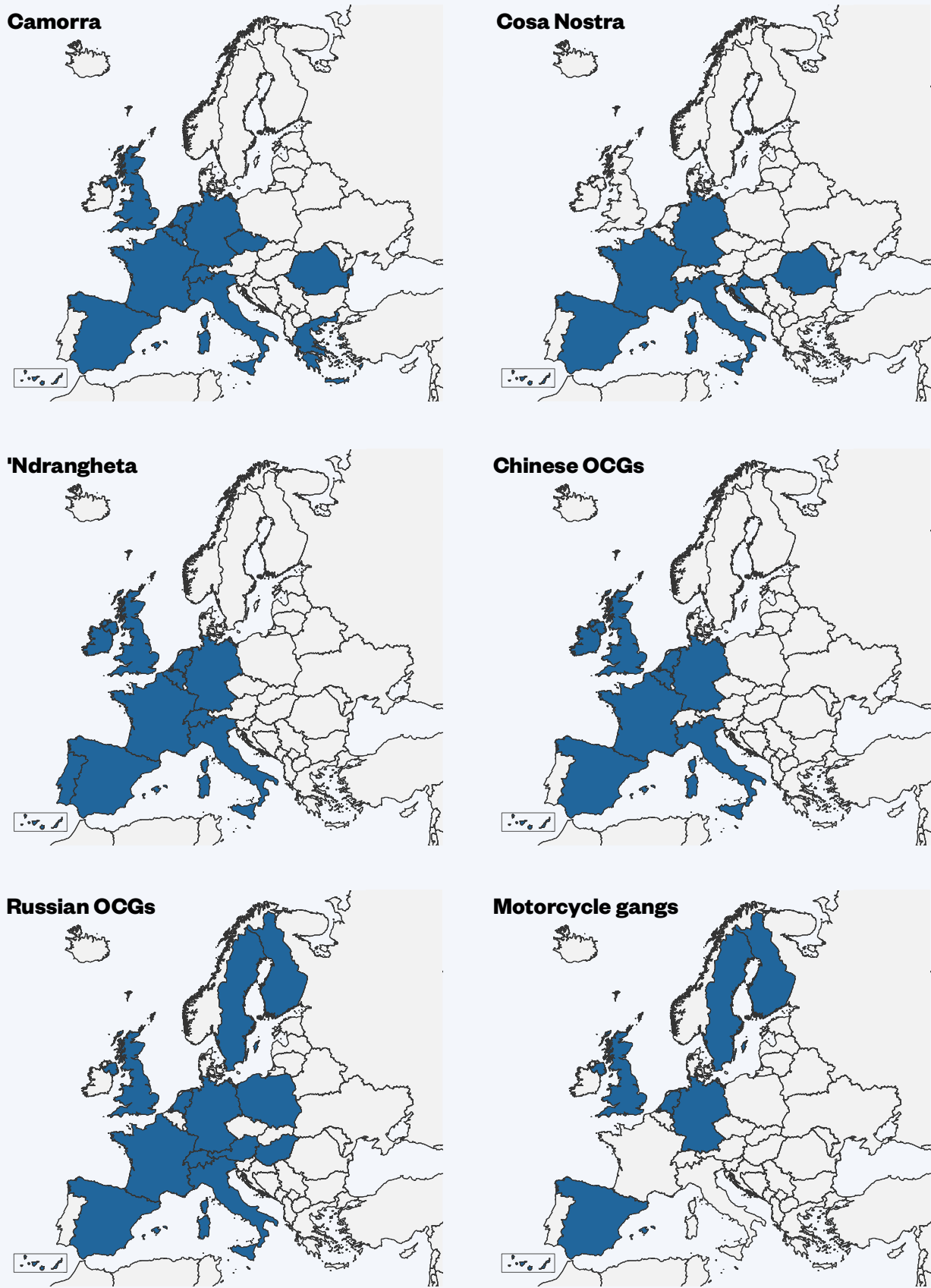
- **Russian/Georgian OCGs** are, according to the evidence collected, present in the largest number of EU countries, in particular in the wholesale and retail trade, bars, restaurants, real estate, hotels and casinos and gaming;
- Evidence can be found of investments by **Motorcycle gangs** in the private security industry, construction, renovation and repair and retail of vehicles, with an increasing level of sophistication and in a larger number of countries (including southern EU MS such as Spain – see 8.6);
- **Turkish, Colombian and North African OCGs** seem to prefer moving and investing the proceeds generated in Europe (e.g. from drug trafficking) abroad, often in their **country of origin** (e.g. in real estate), also using money transfer agencies under their control;

Other emerging issues should be highlighted:

- First, the evidence collected confirms the key role that **professionals** and **company service providers** may play especially in high-level money laundering and fraud schemes;
- Second, the growing role of **freelance entrepreneurs**, belonging to the so-called *grey area*, connected with multiple OCGs at the same time, and acting either as frontmen for criminal groups or as *facilitators* (e.g. of Cosa Nostra or Camorra investments in the wind power sector in Italy, see Section 8.4).

<sup>12</sup> The data collection, which focused on the 7 OCP countries, may overestimate the role and the weight of OCGs, such as Italian mafias or British OCGs, originating from the 7 OCP EU MS.

Figure 4 - European countries with evidence of organised crime investments - Selected categories of OCGs



Source: Transcrime elaboration on DOCI

- Third, the increasing number of cases of **cooperation** and **joint ventures** between different groups in the management of legitimate businesses and legitimate markets (e.g. between Camorra and Chinese OCGs in the clothing industry).<sup>13</sup>

#### *What are the drivers of organised crime investments?*

In summary, the OCP project shows that the investments in the legitimate economy are widely used by criminal groups to serve a variety of purposes, and in particular:

- To **launder criminal proceeds**;
- To increase **profits**, e.g. through speculation on the real estate market;
- To strengthen **control of the territory**, e.g. through investments in real estate properties or in highly territorial-specific businesses;
- To **infiltrate the local political, business and administrative** sphere, e.g. with companies active in public procurements;
- To increase **social consensus**, e.g. through the creation of jobs or the provision of public services;
- To satisfy **personal benefits**, including the purchase of status symbols;
- To **facilitate illicit activities**, for example through the investment in and control of:
  - Wholesale trade companies (especially of food products) as fronts for drug trafficking;
  - Transportation, logistics and import-export companies, to cover the smuggling of illicit, counterfeit or stolen goods;
  - Bars and restaurants, clubs and hotels as covers for prostitution rings or drug markets;
  - Money service businesses to facilitate the transfer of illicit funds across borders.
  - Oil and gas companies to commit fraud (e.g. tax frauds, excise frauds, fuel laundering, etc.).

Criminal groups in Europe do not invest in the legal economy solely to launder money; they use legitimate businesses as **tools to exert their power, influence** and to **exploit economies of scale** with the criminal activities in which they are involved. OCGs do not discriminate between illicit and legitimate markets, but **see them as a continuum** along which to grasp profit opportunities and expand their influence.

## **Part 3: What proceeds are recovered? The confiscation of criminal assets in Europe**

But to what extent are the proceeds generated by organised crime from illicit markets and then invested in the legitimate economy **recovered by the authorities**?

Despite the general consensus on the crucial role of the **confiscation of criminal assets** in the fight against organised crime in Europe (as confirmed by the introduction of the new Directive 2014/42/EU), answering this question is not simple.

First, because of the **lack of statistics**; second, because of the many **differences among the confiscation regimes** in EU countries (e.g. different types of confiscation, predicate offences and types of assets – see Chapter 10) which make it difficult to compare the available data.

In order to gain better understanding of these problems, and in an attempt to answer the question above, OCP has:

- Assessed the **level of availability of data** on confiscated assets throughout the 28 EU MS;
- Analysed, on the basis of the available data, the **amount and types of assets confiscated** for serious and organised crime across the 7 OCP countries.

#### *What is the availability of data on confiscated assets in Europe?*

According to the assessment conducted by OCP among EU AROs and AMOs, it emerges that (see Chapter 11 for details):

- Data on confiscated assets in Europe are **lacking and of poor quality**. While some countries (e.g. Italy, the Netherlands) collect good statistics, others do not;
- The use of **IT systems** to organise data is infrequent;
- Owing to the legislative differences, **methods and criteria** for the collection of data on confiscation vary widely across EU MS;
- Data are often collected within the same country by **several agencies**, involved in different stages of the asset recovery process or based in different geographic locations. This means that statistics are not often available in a centralized dataset, with uniform information;
- Data can refer to **different stages** of the asset recovery process and even provide overlapping information on the same court proceedings;
- It is often not possible to clearly distinguish the **main offence(s)** for which an asset was confiscated;
- Other **useful information** (e.g. location and condition of the confiscated asset, date of seizure/confiscation, type or name of the related criminal group) is often missing;
- In most cases, assets are **not associated with a unique ID** code throughout the recovery process, and this makes it impossible **tracing the assets** throughout the whole process.

13. Other interesting cases can be found among Italian mafias for the management of some important fruit markets in Italy (see 8.4) and a sophisticated money laundering scheme involving 'Ndrangheta, former Irish paramilitary members, and Spanish OCGs aimed at investing into tourist resorts in Southern Europe (see 8.4).

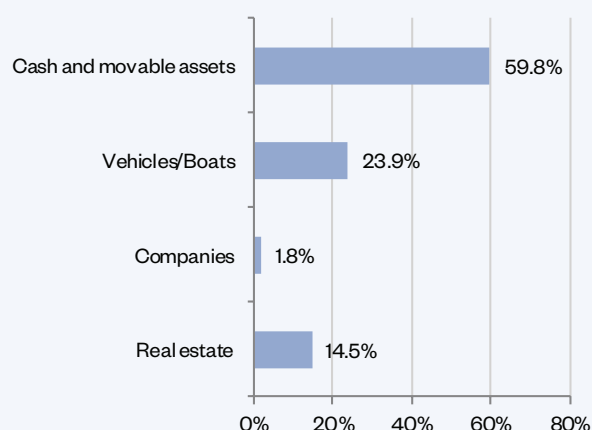
### How many and what types of assets are confiscated, according to the available data?

Despite these obstacles to determine a clear picture of the state of confiscation overall, the case by case analysis of the 7 OCP countries reveals that (see Chapter 12):

- **The number and value** of confiscated assets has increased over past ten years in most of the countries for which data are available;
- The majority of confiscated assets are **movable assets**. Cash, bank accounts, vehicles, boats and, to a much lesser extent, real estate are commonly seized (see below);
- Except for in Italy, there is a clear **absence of confiscated companies**. Confiscation of companies is not a widespread practice, despite the evidence of criminal investments across many different business sectors in EU MS.

The available data therefore show that **significant discrepancy between what criminals invest in and what is actually confiscated** by EU authorities, not only in terms of *amount* but also in terms of *types* of criminal assets.

**Figure 5 – Average percentages of types of assets confiscated in five OCP countries<sup>14</sup>**



Source: OCP analysis on AROs public reports and OCP data

14. The considered data is from Patja (Finland), AGRASC (France), CAB (Ireland), ANBSC (Italy) and PNSD (Spain). See chapter 12 for details.

### Research and policy implications

Given its pioneering nature, its data limitations and the limited number of EU MS covered, this report has to be considered only a **first step** towards a better understanding of the economics of organised crime in Europe, and a starting point for further studies in this field. In particular, the OCP report has highlighted several challenges which should be addressed by future research and policy initiatives (see Chapter 13).

From a research standpoint:

- This report provides a cold picture of the activity of OCGs in illicit and legitimate markets in Europe according to police and judiciary cases. However, there is the need to pass from cold pictures of past cases to **heat maps of risk**, which could highlight not only where risks of criminal infiltration are, but also where they could emerge in the future.
- In order to do so, it is necessary to **extend the study to all the 28 EU MS**, in order not to miss the *transnational* nature of criminal investments and to identify the areas where to focus research and policy initiatives.
- OCP has provided a 'wide-angle' picture, highlighting **macro patterns and trends** of OCGs in illicit and legitimate markets. There is the need to enrich this macro approach with a **micro approach** which could focus on more specific issues. Future research initiatives should integrate the findings of this study with other research projects, more limited-in-scope, conducted at EU level.<sup>15</sup>

From a policy perspective:

- This report has clearly highlighted that data in this field (e.g. on confiscated assets, on STRs, etc) across EU MS are lacking and of poor quality. EU agencies should **propel the collection of better data** across European countries and **guarantee access to researchers** active in this field.
- This report has shown that a discrepancy exists between what criminals invest in and what is confiscated by European authorities, in particular with regard to criminal investments in legitimate businesses. There is the need to **improve the confiscation of companies**, by improving their **tracing** (e.g. through strengthening the financial investigation skills of European LEAs and FIUs and giving them better access to centralised registries and IT tools),<sup>16</sup> by improving the **regulation** (e.g. widening the use *extended confiscation* or *third-party confiscation*) and improving the **management** of the companies once confiscated. Also the use **alternative instruments** to seizure (such as temporary suspension of business administration or administrative penalties for companies 'polluted' by organised crime) should be explored and expanded.

15. For example with the findings of Project ARIEL ([www.arielproject.eu](http://www.arielproject.eu)), funded by DG Home Affairs and expected to finish in spring 2015. ARIEL has been carrying out a script analysis of some selected cases studies of organised crime infiltration into legitimate companies in 5 pilot EU countries in order to better understand how OCGs acquire and keep control of European corporate entities.

16. For example EU funded Project EBOCS ([www.eboocs.eu](http://www.eboocs.eu)) will produce an IT prototype available to LEAs, FIUs and AROs to ease the collection and analysis of data on shareholders and administrators across different business registries of five EU MS. Should this pilot tool be extended to other countries, it would facilitate in a crucial way transnational investigations to identify the beneficial owners behind infiltrated legitimate businesses.



- Finally, this report has stressed the need for better **public-private partnerships** (e.g. through a more effective exchange of data and of best practices) to prevent that criminal groups could exploit loopholes in legal supply chains to carry out criminal activities such as theft, fraud, counterfeiting or money laundering.

Based on the current research gaps and the policy perspective, future projects should adopt a more **integrated approach** to better combat organised crime infiltration and prevent its spread in new areas of the European legitimate economy.

The **development of risk assessments** should be coupled with an holistic analysis of the opportunities that organised criminal groups exploit to infiltrate the legal economy. In turn this requires a micro-approach focusing also on the **contextual vulnerabilities**, such as legislation and the level and type of crime control policies. All **28 EU MS** need to collaborate in the systematic collection of homogenous and comparable data. The data collection process should require the **collaboration of experts from different countries and backgrounds** (including LEAs, FIUs and AROs, academic, public officials and representatives of the private sector) to allow for a better interpretation of information as well as to increase the shared knowledge regarding this phenomenon.

Finally, European institutions and national governments should provide human and technological resources in order to meet these challenges. The **organisation of LEAs, FIUs and AROs** could be reshaped in order these agencies can better **identify, assess and manage the risks** of criminal infiltration into illicit and legitimate markets.

Following an **opportunity reduction approach** and focusing on high-risk situations could lead to the achievement of these results with fewer resources and less costs for European citizens.

# Acronyms

<b>ACFE</b>	Association of Certified Fraud Examiners	<b>CJA</b>	Criminal Justice Act
<b>AGRASC</b>	Agence de la Gestion et Recouvrement des Avoirs Saisis et Confisqués (France)	<b>CJIB</b>	Centraal Justitieel Incassobureau (Netherlands)
<b>AML</b>	Anti-Money Laundering	<b>CMC</b>	Cannonball MC
<b>ANBSC</b>	Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati (Italy)	<b>COSC</b>	Central Office for Seizure and Confiscation (Belgium)
<b>ANDEMA</b>	Asociación Nacional para la defensa de la Marca (Spain)	<b>CPB</b>	Centraal Planbureau (Netherlands Bureau for Economic Policy Analysis)
<b>ARIEL</b>	Assessing the Risk of the Infiltration of Organized Crime in EU MSs Legitimate Economies	<b>DGDDI</b>	Direction générale des douanes et droits indirects (France)
<b>ARO</b>	Asset Recovery Office	<b>DIA</b>	Direzione Investigativa Antimafia (Italy)
<b>ASIC</b>	Australian Securities and Investments Commission	<b>DNA</b>	Direzione Nazionale Antimafia (Italy)
<b>ATO</b>	Australian Tax Office	<b>DOCI</b>	Database on Organised Crime Investments
<b>ATS</b>	Amphetamine-Type Stimulants	<b>DPP</b>	Director of Public Prosecutions (Ireland)
<b>AWP</b>	Amusement with prize	<b>EC</b>	European Commission
<b>BASCAP</b>	Business Action to Stop Counterfeiting and Piracy	<b>ECAB</b>	Europol Criminal Assets Bureau
<b>BMC</b>	Bandidos Motorcycle Club	<b>ECB</b>	European Central Bank
<b>BOOM</b>	Bureau Ontnemingswetgeving Openbar Ministerie (Criminal Assets Deprivation Bureau of the Public Prosecution Service) (Netherlands)	<b>EMCDDA</b>	European Monitoring Centre for Drugs and Drug Addiction
<b>BRIFN</b>	Brigade de recherches and d'investigations financières nationale (France)	<b>EMI</b>	Euromonitor International
<b>CAB</b>	Criminal Assets Bureau (Ireland)	<b>ESAET</b>	Environment Services Association Education Trust
<b>CARIN</b>	Camden Assets Recovery Interagency Network	<b>ETA</b>	Euskadi Ta Askatasuna
<b>CASE</b>	Center for Social and Economic Research	<b>ETS</b>	Emission Trading System
<b>CEART</b>	Centres of Excellence in Asset Recovery and Training	<b>EU</b>	European Union
<b>CENSIS</b>	Centro Studi Investimenti Sociali (Italy)	<b>FATF</b>	Financial Action Task Force
<b>CFT</b>	Combating the Financing of Terrorism	<b>FARC</b>	Revolutionary Armed Forces of Colombia
<b>CICO</b>	Centre of Intelligence against the Organized Crime (Spain)	<b>FCTC</b>	Framework Convention on Tobacco Control
		<b>FIU</b>	Financial Investigation Unit
		<b>GBP</b>	UK Pound Sterling
		<b>GDF</b>	Guardia di Finanza (Italy)
		<b>GDO</b>	Grande Distribuzione Organizzata
		<b>GDP</b>	Gross Domestic Product
		<b>GPS</b>	General Population Survey

<b>GRECO</b>	Group of Special Response to Organised Crime	<b>NFA</b>	National Fraud authority (UK)
<b>GTRIC</b>	General Trade-Related Index of Counterfeiting for Economies	<b>NHS</b>	National Health Service (UK)
<b>HAMC</b>	Hells Angels MC	<b>NPS</b>	New Psychoactive Substances
<b>HMRC</b>	Her Majesty's Revenue and Customs (UK)	<b>NUTS</b>	Nomenclature of Territorial Units for Statistics
<b>HLM</b>	Habitation à Loyer Modéré	<b>NWCU</b>	National Wildlife Crime Unit (UK)
<b>HRDU</b>	High Risk Drug Users	<b>OC</b>	Organised Crime
<b>HS</b>	code Harmonized System Code	<b>OCCT</b>	Organised Crime and Counter Terrorism Unit
<b>ICPR</b>	Institute for Criminal Policy Research	<b>OCG</b>	Organised Crime Group
<b>ILO</b>	International Labour Office	<b>OCJS</b>	Offending, Crime and Justice Survey
<b>ILU</b>	International Liaison Officers Units	<b>OCP</b>	Organised Crime Portfolio
<b>IMF</b>	International Monetary Fund	<b>OCTF</b>	Organised Crime Task Force
<b>INHESJ</b>	Institut National des Hautes Études de la Sécurité et de la Justice (France)	<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>IPOL</b>	National Police Intelligence Service (Netherlands)	<b>OFDT</b>	Observatoire Français des Drogues et des Toxicomanies
<b>IPR</b>	Intellectual Property Rights	<b>OLAF</b>	European Anti-Fraud Office
<b>IRA</b>	Irish Republican Army	<b>OMCG</b>	Outlaw Motorcycle Gangs
<b>ISS</b>	Internal Security Strategy	<b>ONDRP</b>	Observatoire National de la Délinquance et des Réponses Pénales (France)
<b>ISTAT</b>	Istituto Centrale di Statistica (Italian National Statistics Institute)	<b>OPC</b>	Organised property crime
<b>ITF</b>	Illicit Trafficking in Firearms	<b>OSCE</b>	Organization for Security and Co-Operation in Europe
<b>ITTP</b>	Illicit Trade in Tobacco Products	<b>PACA</b>	Provence-Alpes-Côte d'Azur
<b>JARD</b>	Joint Asset Recovery Database (UK)	<b>PACCO</b>	Action Plan Against Organised Crime
<b>KLPD</b>	Koninklijke Landelijke Politie Dienst (Netherlands)	<b>PCF</b>	Police college of Finland
<b>LEA</b>	Law Enforcement Agency	<b>PFRC</b>	Personal Finance Research Centre
<b>LECRIM</b>	Ley de Enjuiciamiento Criminal (Spain)	<b>PIAC</b>	Plateforme d'Identification des Avoirs Criminels (France)
<b>MAOC-N</b>	Centre Maritime Analysis and Operations against drug trafficking	<b>PNSD</b>	Plan Nacional Sobre Drogas (Spain)
<b>MC</b>	Motor Club	<b>POCA</b>	Proceeds Of Crime Act
<b>MHRA</b>	Medicines and Healthcare Products Regulatory Agency	<b>PPO</b>	Public Prosecution Office (Netherlands)
<b>MS</b>	Member State	<b>PIAC</b>	Plateforme d'Identification des Avoirs Criminels (France)
<b>MTB</b>	Money Transfer Businesses	<b>PIRA</b>	Provisional Irish Republican Army
<b>MTEC</b>	Missing Trader Extra-Community	<b>PSNI</b>	Police Service of Northern Ireland
<b>MTIC</b>	Missing Trader Intra-Community	<b>REITOX</b>	Réseau Européen d' Information sur les Drogues et les Toxicomanies (European information network on drugs and drug addiction)
<b>MOKAS-FIU</b>	Unit for Combating Money Laundering (Cyprus)	<b>RIRA</b>	Real Irish Republican Army
<b>MUP</b>	Ministry of the Interior (Croatia)	<b>SALW</b>	Small Arms and Light Weapons
<b>NACE</b>	Nomenclature Générale des Activités Économiques dans les Communautés Européennes	<b>SAC</b>	Servizio Analisi Criminale (Italy)
<b>NAO</b>	National Audit Office (UK)	<b>SCI</b>	Société Civile Immobilière (France)
<b>NBI</b>	National Bureau of Investigation (Finland)	<b>SEPI</b>	Sociedad Estatal de Participaciones
<b>NCA</b>	National Crime Agency (UK)		

	Industriales (Spain)
<b>SFO</b>	Serious Fraud Office (UK)
<b>SFO</b>	Strafrechtelijk Financieel Onderzoek (Netherlands)
<b>SGI</b>	Société de Gestion Immobilière (France)
<b>SIPPI</b>	Sistema Informativo Prefettura e Procure dell'Italia
<b>STRJD</b>	Service Technique de Recherches Judiciaires et de Documentation (France)
<b>SOCTA</b>	Serious and Organised Crime Threat Assessment
<b>SOCA</b>	Serious Organised Crime Agency (UK)
<b>TFEU</b>	Treaty on the Functioning of the European Union
<b>THB</b>	Trafficking in Human Beings
<b>TTI</b>	Texas Transportation Institute
<b>VAT</b>	Value Added Tax
<b>VLT</b>	Video lottery terminal
<b>VRT</b>	Vehicle Registration Tax
<b>UAE</b>	United Arab Emirates
<b>UB</b>	United Brotherhood
<b>UCO</b>	Central Operative Unit (Spain)
<b>UDEF</b>	Economic and Fiscal Crime Unit (Spain)
<b>UDUR</b>	Durham University (UK)
<b>UEFA</b>	Union of European Football Associations
<b>UIF</b>	Unità di Informazione Finanziaria (Italy)
<b>UK</b>	United Kingdom (Great Britain, Scotland, Wales and Northern Ireland)
<b>UN</b>	United Nations
<b>UNAFEI</b>	United Nations Asia and Far East Institute
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>UOKFK</b>	Unit Combating Corruption and Financial Crimes (Czech Republic)
<b>URJC</b>	Universidad Rey Juan Carlos (Spain)
<b>USD</b>	US dollars
<b>UU</b>	Utrecht University (Netherlands)
<b>WAP</b>	Weighted Average Price
<b>WEEE</b>	Waste Electrical and Electronic Equipment
<b>WHO</b>	World Health Organization
<b>WRT</b>	Wholesale and Retail Trade
<b>WODC</b>	Wetenschappelijk Onderzoek- en Documentatiecentrum (Research and Documentation Centre of the Dutch Ministry of Justice)

# 1. Introduction

Michele Riccardi (Università Cattolica del Sacro Cuore – Transcrime, Italy)

## Project OCP – Organised Crime Portfolio

This report presents the final results of **Project OCP – Organised Crime Portfolio** ([www.oportfolio.eu](http://www.oportfolio.eu)). Project OCP has been carried out with financial support from the Prevention of and Fight against Crime Programme of the European Union - European Commission, DG Home Affairs, and has been developed by an international consortium of **eight partners**:

- Transcrime – Joint Research Centre on Transnational Crime ([www.transcrime.it](http://www.transcrime.it)) of the Università Cattolica del Sacro Cuore di Milano and the Università degli Studi di Trento (Italy), coordinator of the project
- Police College of Finland (PCF – Finland)
- Agence de Gestion et de Recouvrement des Avoirs Saisis et Confisqués (AGRASC – France)
- An Garda Síochána - Criminal Assets Bureau (CAB – Ireland).
- Guardia di Finanza (GDF – Italy)
- Utrecht University (UU - The Netherlands)
- Universidad Rey Juan Carlos (URJC – Spain)
- Durham University (UDUR – United Kingdom)

The aim of OCP is to provide a **first exploration of the economics of organised crime** in Europe, and in particular to understand:

- Where organised crime proceeds are generated, from what **illicit markets**;
- Where these proceeds are then **invested in the legitimate economy**, in what regions, assets and business sectors;
- To what extent these proceeds are **confiscated and recovered** by European authorities.

## Background: the gap in the research

In the past thirty years, awareness has grown at international level that in order **to combat organised crime effectively, it is necessary first to disrupt its business cycle**: from the sources of its illicit proceeds to its investments in the legitimate economy.

In recent years, numerous **regulatory and policy measures have been introduced** at European level to address this issue. They include a range of legal instruments in both the **anti-money laundering** field (Riccardi & Savona, 2013; Unger et al., 2014, for a review) and that of the **confiscation and recovery of criminal assets**, such as the new Directive 2014/42/EC (European Commission, 2008; Forsaith et al.,

2012; European Parliament, 2014).

However, despite these advances, **numerous questions remain unanswered from a research perspective**: there is a lack of knowledge on how the economics of organised crime actually work: i.e. where organised crime proceeds are produced, from what illicit markets, where these proceeds are invested in the legitimate economy (in what geographic regions, types of assets and business sectors), and to what extent they are eventually confiscated by the public authorities.

This is due primarily to the **lack of data and information** that would enable comprehensive analysis of the phenomenon. Organised crime groups do not publish financial statements, and it is necessary to rely on indirect *proxies* for their business (see Chapter 2 for details), such as data on the portfolio of confiscated assets or other judicial evidence which affords understanding of how criminals make and then spend their money. But also this information is scarce: **statistics on confiscated assets** are very limited across Europe, and they are very difficult to compare owing to the different regulations (see Part 3). Similarly, also other useful information (e.g. on suspicious transaction reports, financial investigations, etc.) is very poor and fragmented.

For this reason, the **available studies in this field furnish only a partial understanding of the dynamics of the economics of organised crime**: they usually focus either on **specific countries** (see Chapters 4 and 8 for a review) and therefore miss the increasingly transnational nature of criminal investments; or they analyse only **specific illicit markets** (see Chapter 3), not taking account of the links that organised crime groups are able to establish between the illegal and the legitimate economy; and only a few studies explore the differences in terms of business strategies among different criminal groups.

This **lack of knowledge makes it more difficult for LEAs, FIUs and AROs in Europe** to obtain an overall picture of the mechanisms of the organised crime business, and thus determine where to focus their investigative and asset recovery resources. Similarly, also **public authorities and private companies** (including banks and the other entities subject to AML obligations) are unable correctly to assess where the risk of criminal investments is higher so that they can improve their preventive action and reduce the opportunities for organised crime infiltration.

### How Project OCP addresses this gap

Project OCP – Organised Crime Portfolio ([www.ocportfolio.eu](http://www.ocportfolio.eu)) aims to **address this knowledge gap**. It provides a **pioneering analysis** of the economics of organised crime groups (OCGs) in Europe, in particular by answering the three following research questions:

- Where do organised crime proceeds originate? From what illicit markets? What is their scale?
- Where are these proceeds invested in the legitimate economy? In what regions, assets and business sectors?
- To what extent are these proceeds and assets recovered and confiscated?

In order to address these questions, Project OCP builds on previous research initiatives,<sup>17</sup> primarily the project entitled **Gli investimenti delle mafie – Mafia investments** ([www.investmentioc.it](http://www.investmentioc.it)), carried out in 2012 by Transcrime with funding from the Italian Ministry of the Interior, and which analysed the illicit markets and investments in the legitimate economy of mafia groups in Italy (Transcrime, 2013a).

Employing the same approach as the Italian project, OCP extends the study to European level, and for the first time adopts a transnational perspective. It focuses on seven EU countries (**Finland, France, Ireland, Italy, the Netherlands, Spain and the United Kingdom**), represented by the OCP partners, but also presents a broader analysis of the situation in Europe as a whole.

In order to maximise the amount of usable data, OCP has collected a **wide range of information**, both qualitative and quantitative, deriving from **very different sources**, and including statistics on confiscated assets, data from police investigations, judicial evidence, academic literature and open sources, all of them analysed employing an **innovative methodology** (see Chapter 2 and the Methodological Annex).

Given the diversity of these data and the pioneering methodology, this report aspires to be **only a first exploration** of this phenomenon and a **first step towards better understanding** of how its business cycle works, from the origin of illicit proceeds, through its investments in the legitimate economy, to its disruption through confiscation.

### Structure of this report

The report is structured into three parts which precisely reflect the three research questions addressed by the project.<sup>18</sup> After a brief description of the **main methodological issues** in Chapter 2 (definitions, classifications, sources and data):

**Part 1** focuses on the origin of organised crime proceeds, i.e. illicit markets. In particular:

- **Chapter 3** provides a summary analysis at European aggregate level, with a measurement of the scale of the revenues from illicit markets and a review of the main criminal groups which share these proceeds;
- **Chapter 4** focuses on **10 illicit markets** (illicit drugs, THB, ITF, ITTP, counterfeiting, illegal gambling and match fixing,

extortion racketeering, usury, fraud, organised property crime);

- **Chapter 5** provides an in-depth analysis of illicit markets in the **7 European countries** covered by OCP (Finland, France, Ireland, Italy, the Netherlands, Spain, United Kingdom);
- **Chapter 6** constitutes a bridge between Part 1 and 2 by presenting an exploratory assessment of what proportion of the revenues generated by illicit markets may be available for investment in the legitimate economy.

**Part 2** analyses where (in what regions, types of assets, business sectors, and with what differences among criminal actors) organised crime proceeds are then invested in the legitimate economy. In particular:

- **Chapter 7** provides an analysis of organised crime investments at European aggregate level;
- **Chapter 8** focuses on criminal investments in the **7 OCP countries** (Finland, France, Ireland, Italy, the Netherlands, Spain, United Kingdom);
- Finally, **Chapter 9** explores the impact and the costs of organised crime investments on the European legitimate economy.

**Part 3** studies the extent to which organised crime proceeds are eventually confiscated by European authorities. In particular:

- **Chapter 10** provides an overview of the **regulatory framework** for criminal asset recovery in Europe, with a focus on the seven OCP countries;
- **Chapter 11** provides an **assessment of the availability of data** on confiscated assets in Europe;
- Finally **Chapter 12**, based on the available data, provides an **analysis of confiscated assets** in the 7 OCP countries.

The report concludes by examining the **research and policy implications** stemming from the analysis and discussing future research follow-ups on Project OCP.

### Who can benefit from this report?

Despite its data limitations and its pioneering nature, this report is a **starting point towards better comprehension** of the opportunities exploited by organised crime to infiltrate illicit markets and legitimate businesses in Europe.

17. For a complete list of related projects and research initiatives see <http://www.ocportfolio.eu/links.php>.

18. This report is also structured to reflect the activities of the project and to incorporate its deliverables. In particular, a single report has been produced (instead of a plurality of deliverables) so as to enable better comprehension of the results of the analysis carried out by OCP, and to provide an easy-to-handle product for policy-makers, investigators, researchers and other stakeholders. Specifically, Deliverable D1 is incorporated in Chapter 2 (description of the data available and collected) and in Chapter 11 (assessment of the availability of data on confiscated assets); Deliverable D3 is incorporated in Chapter 2 (description of the methodology developed for the analysis) and in the Methodological Annex; Deliverable D4 is incorporated in Part 1, in particular Chapters 3, 4 and 5 (estimate of the amount of organised crime proceeds from illicit markets) and in Part 2, in particular in Chapters 7 and 8 (Analysis of organised crime investments); Deliverable D5 is incorporated in Part 2, and in particular in Chapter 9 (assessment of the impact of OC investments on the European legitimate economy); Deliverable D6 is incorporated in Part 2, in particular in Chapters 7 and 8 (analysis of selected economic sectors with evidence of organised crime investments). The Final public conference (Deliverable D7) was held on 27 November 2014 in Brussels, at EU Commission premises, with the presentation of the final results of the Project.

In particular, it represents an invaluable support tool for:

- **LEAs and FIUs**, to identify the areas in the illicit and the legitimate economy on which to focus their investigative activity;
- **AROs**, to develop more effective confiscation policies;
- **Public authorities**, such as local governments and public contractors, as a basis for better assessment and prevention of the risk of criminal infiltration of the legitimate economy;
- **Banks and other AML covered entities** (e.g. auditing firms, law firms, real estate agencies, casinos), to respond better to AML obligations, and in particular to develop more effective CDD activities;
- **Private companies**, to determine more precisely the vulnerabilities in the supply-chain which may be exploited by criminal groups for illicit trade purposes.

The final report of Project OCP constitutes a solid basis for the future development of a **risk assessment tool** which could be used by both public and private institutions to **reduce the opportunities for criminal infiltration** of the legitimate economy, and thereby strengthen the prevention of organised crime business.

In addition, this report can also be used by European public authorities to determine **the gaps** that must be addressed from both a regulatory and policy standpoint, for example to **improve the availability of data** in this field (see research and policy implications in Chapter 13).

#### *What is new about this report?*

With respect to the existing literature in this field, this report provides a range of innovative contributions, including:

- One of the first quantifications at European level of the scale of the illicit revenues from illicit markets<sup>19</sup> (Part 1)
- A comprehensive literature review of the main criminal actors involved in illicit markets in Europe (Part 1)
- An estimation of how much remains of the revenues from illicit markets, after subtracting costs, for investment in the legitimate economy (Part 1)
- A map of the geographic regions in Europe with evidence of organised crime investments (Part 2)
- A list of the business sectors most exposed to organised crime investments (Part 2)
- A first assessment of the availability of statistics on confiscated assets across EU member states (Part 3)
- An analysis, based on the available statistics, of what assets are confiscated across EU MS (Part 3)

17. In particular, estimates of almost all of the 28 EU MS are available for the following illicit markets and activities: illicit trafficking in heroin, cocaine, cannabis, ecstasy, amphetamines, illicit trafficking in firearms, illicit trade in tobacco products, counterfeiting, MTIC frauds, and cargo theft.



# 2. Methodological remarks

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As a consequence of its exploratory nature, this report necessarily adopts a **pioneering methodology**, including the use of a wide range of data and sources, and **broad classifications**, in order not to limit the scope of the study excessively and thereby maximise the amount of collectable and analysable information.

Some of the methodological assumptions on which the next chapters are based are briefly discussed here, while more details are provided in the **Methodological Annex**. In particular **Section 2.1** addresses some definitory and taxonomical issues (the definition and classification of *organised crime* adopted by this study, the selection and classification of illicit markets, and definition of *organised crime investment*); while **Section 2.2** briefly explains what data and sources were employed, and how, for the analyses presented in the three parts of the report.

## 2.1. Definitions and classifications

### How organised crime has been defined

Organised crime is a **mutable concept, constantly evolving** and changing faster than academia and legislation can create taxonomies to define it (Finckenauer, 2005; Hagan, 2006).

Considering the **exploratory nature** of this study and the **lack of official data** on organised crime, it has been decided to keep the definition **as broad as possible** in order not to exclude any emerging phenomena, on the one hand, and to maximise the amount of collectable information on the other.

The focus is primarily on **what organised crime groups do** rather than on *who they are*. In particular, building on the definition of **serious and organised crime** adopted by Europol SOCTA 2013 (Europol, 2013a, p. 41), this report studies the economic activity of:

Any criminal actor (a large organisation, a smaller gang, or a loose network of individuals) which:

- can be profiled as a **criminal organisation** falling under the definition provided by the EU Framework Decision 2008/841/JHA;<sup>20</sup>

- is involved in **serious crimes** as identified by art. 83(1) of the Treaty on the Functioning of the European Union (often referred to as Euro crimes)<sup>21</sup> and in **other criminal activities** (illicit trade in tobacco products, counterfeiting, illegal gambling and match-fixing, extortion racketeering, usury, fraud and organised property crime) which are not listed in the TFEU but are considered relevant to the purposes of this study (see below for a broader discussion of the selection of illicit markets).

The adoption of such a broad definition has some drawbacks, but it also has some advantages:

- First, it is broad enough to overcome the **substantial differences** across EU MS in terms of organised crime legislation and legal definitions (see Calderoni, 2010; Allum & Boer, 2013, for a review).<sup>22</sup>
- Second, it **increases the amount of data and information** which could be collected and employed for the analysis: e.g. many sources (including the statistics on seized and confiscated assets) often do not specify if actors fall under the legal definition of *organised crime*, but instead indicate what are the main illegal activities in which these actors have been involved.<sup>23</sup>

20. The Framework Decision defines as a "criminal organisation any structured association, established over a period of time, of more than two persons acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or a more serious penalty, to obtain, directly or indirectly, a financial or other material benefit" (Council Framework Decision 2008/841/JHA of 24 October 2008 on the fight against organised crime, OJ L 300, 11.11.2008, p. 42).

21. "These areas of crime are the following: terrorism, trafficking in human beings and sexual exploitation of women and children, illicit drug trafficking, illicit arms trafficking, money laundering, corruption, counterfeiting of means of payment, computer crime and organised crime" Official Journal C 326, 26/10/2012 P. 0001 – 0390, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>

22. Substantial differences exist across EU MS in terms of organised crime legislation, for example with regard to defining criminal organisation offences, the types and number of related offences, penalties and sanctions (see Calderoni, 2010, p. 55-121 for a review).



- Third, it includes some **emerging criminal activities and illicit markets** (such as fraud or organised theft) which do not currently fall under the EU definition of organised or serious crimes but are increasing their *organised* nature and gaining prominence in the business cycle of criminal groups because of their low risk and high profitability (see Chapters 3 and 4).

It will be the task of **future research projects** in this area to sharpen the definitions, limit the scope of the analysis and focus on specific actors, offences or illicit conducts.

### How organised crime groups have been classified

Classifying criminal groups into a limited number of clearly identifiable categories is very difficult: as shown by this report and by previous studies (e.g. Kleemans, 2007; Europol, 2013a; Paoli, 2014), **a plurality of criminal actors**, ranging from large organisations to occasional networks of individual criminals, and with an increasing multi-ethnic nature, are active in Europe.<sup>24</sup>

However, in some parts of this report **a simplified classification of criminal groups**, based on the dominant geographical provenance and/or ethnicity of their members, has been adopted, resulting in **35 categories of OCGs**<sup>25</sup> (see the Methodological Annex for details). In some parts of the report an even more simplified classification into 5 macro-categories has been used.<sup>26</sup>

When possible, the **native nationality** of the members of the criminal organisation was taken (e.g. criminals with North African origin but with French citizenship have been classified

as 'North African'). However, it has to be underlined that the data sources **did not always specify if the nationality of the group** referred to the actual country of birth, to the ethnic background or to the country where these people lived.<sup>27</sup> For this reason this classification has to be taken prudently. If groups involved more than one nationality or ethnicity, when possible the one most frequently mentioned has been used to categorize the whole group.

### Which illicit markets have been selected, and why

As illustrated in the introduction, **Part 1** of this report presents the results of an analysis of **10 illicit markets and criminal activities**<sup>28</sup> that have been considered crucial, from both a financial and strategic point of view, for the economy of organised crime groups in Europe (Table 2).

Although the list of **serious crimes** (often referred to as *Euro crimes*) of art. 83(1) of the TFEU was used as a starting point for the selection, it was expanded to include additional crimes (Table 2). Some of them, despite not being listed by art. 83(1) (i.e. counterfeiting,<sup>29</sup> illegal gambling, extortion racketeering, usury, frauds and organised theft) were covered because of their increasing prominence in the economy of criminal groups in Europe.

On the other hand, some were not included in the analysis presented in Part 1 of this report. In particular:

- **Corruption** was considered not to be an illicit market *per se*, but rather as an *enabler* (Europol, 2013a; Riccardi & Sarno, 2013) employed horizontally by criminal groups across illicit markets and to infiltrate the legitimate economy;
- Also **cybercrime**, or computer crime, was not considered a market, but rather a facilitator of certain other illegal activities (e.g. identity theft to commit *plastic fraud*, see 3.9);
- **Money laundering** is in effect the topic of Part 2 which focuses on how illicit proceeds are integrated and invested in the legitimate economy.

### How organised crime investments have been defined

While Part 1 focuses on the source of organised crime proceeds (illicit markets), **Part 2** explores where (what regions, assets and business sectors) criminal groups invest these proceeds in the legitimate economy, and therefore how their **portfolios of holdings are composed**.

But whilst data on illicit markets are scarce, even less information is available on the assets of criminals and criminal

23. For example, in most EU countries asset recovery statistics (see Section 2.2 and Section 3) include only indications on the predicate main offences for which assets have been seized or confiscated, but they usually do not specify the type and nature of the criminal actor from whom assets have been confiscated. Similarly, media or open sources do not always specify if a criminal actor targeted by an investigation has been prosecuted on organised crime charges, but often report if the group was involved in drug trafficking, human trafficking or other illicit activities.

24. According to Europol SOCTA, 70% of the groups identified in Europe are multi-national in their membership (Europol, 2013a, p. 34); and especially in transit countries characterised by a multicultural population, such as France, Netherlands and the UK, multi-ethnic OCGs may be the general rule (see Chapters 4 and 8).

25. For the complete list of the categories and the methodology used to create them, see the Methodological Annex. The only identified categories of criminal groups that have not been classified according to their geographical origin are Camorra OCGs, 'Ndrangheta OCGs, Cosa Nostra OCGs, Apulian OCGs and Motorcycle gangs (which may have different national chapters in different countries but maintain a well-defined criminal identity). The approach of classifying OCGs according to their main geographical provenance has been employed also by previous reports and studies, including Europol SOCTA 2013 (Europol, 2013a). It should be noted that the ethnicity of criminal members is also one of items of information most frequently mentioned by open sources and media reports. In those countries where available data have made it possible to distinguish with a higher degree of detail the geographic provenance of each individual criminal (e.g. in the Netherlands), groups have been classified according to the geographic origin of the majority of their members (see 5.5 and the Methodological Annex for details).

26. Chinese-speaking OCGs, Russian/Georgian-speaking OCGs, Italian mafias – including Camorra, Cosa Nostra, 'Ndrangheta and other Italian mafias – Motorcycle gangs and Other OCGs. The five macro categories have been identified because they are those most represented in terms of references to investments in the legitimate economy (see Chapters 7 and 8).

27. For example, in the analysis of illicit markets in the Netherlands (see 5.5) it has not been possible to determine the native origin (e.g. Surinamese, Turkish, etc) of criminals included in the PPO database as Dutch citizens. It has also to be considered that national laws regulating the acquisition of citizenship may be different in some countries, and therefore the status of first and second generation immigrants may be recorded differently in different countries.

28. Although, for the sake of simplicity, in this report they are all termed "markets", some of them (e.g. fraud or extortion) do not necessarily imply the existence of a supply and demand but simply criminal activities able to generate illicit revenues.

29. In fact, art. 83(1) of the TFEU includes only counterfeiting of means of payment. It has been decided to extend the analysis of counterfeiting to other goods (e.g. clothes, medicines, car parts, etc) since it is a crucial business activity for some criminal groups, such as Chinese or Camorra OCGs (see Section 4.5).

**Table 2 - The 10 illicit markets analysed by Project OCP**

	Covered by OCP	Listed in art. 83(1) TFEU (Euro crimes)	"Crime areas" Europol SOCTA 2013	Sections OCP report	Collection of available estimates by OCP	Production of new estimates by OCP
Illicit drug trafficking (Heroin, Cocaine, Cannabis, Amphetamines, Ecstasy)	✓	✓	✓	4.1	✓	✓
Trafficking in human beings (THB)	✓	✓	✓	4.2	✓	-
Illicit trafficking in firearms (ITF)	✓	✓	✓	4.3	✓	✓
Illicit trade in tobacco products (ITTP)	✓	-	-	4.4	✓	✓
Counterfeiting	✓	Only of means of payment	✓	4.5	✓	✓
Illegal gambling and match-fixing	✓	-	-	4.6	✓	-
Extortion racketeering	✓	-	-	4.7	✓	-
Usury	✓	-	-	4.8	✓	-
Fraud	✓	-	✓	4.9	✓	✓
Organised property crime	✓	-	✓	4.10	✓	-
Corruption	-	✓	-	-		-
Computer crime	-	✓	✓	-		-
Money Laundering	-	✓	✓	-		-

groups in the legitimate economy (see Section 2.2). Firstly, the available information is usually not sufficient to clearly identify the **nature** (e.g. fully or partially owned), **purpose** (e.g. for personal use or for profit), **origin** (e.g. licit or illicit) and **actual status** (e.g. confiscated or not) of these assets. This makes it necessary to adopt a **very broad definition** of *investment* as:

This definition includes:

Any possession and/or acquisition of any type of asset in the legal economy (e.g. movable goods, registered assets, real estate properties, companies or their shares) by individuals belonging to a criminal group, acting on its behalf and/or involved in one of the criminal activities previously identified.

- Investments made by **individual** members of the criminal organisation or as a result of a business strategy of **the whole group**;
- Assets purchased directly with the **proceeds of crime**, with already-laundered money or even with **legal**

**incomes** (e.g. salaries or inheritances) of the members of the criminal group;<sup>30</sup>

- Assets acquired for **personal use/consumption** (e.g. a personal residence), with the expectation of **future appreciation** (e.g. investments in the stock market) or **instrumental for illicit activity** (e.g. a boat used to transport illicit drugs);
- Assets that **have been confiscated** as well as assets that **have not been confiscated** for various reasons (e.g. because the asset had been transferred and the relevant legislation does not allow for *third party confiscation*).<sup>31</sup>

It should be emphasised that the definition of investment adopted in this study always implies some form of **capital injection** in an asset by the criminal or the criminal group, while it **does not include** cases of **indirect control and influence** over legal companies through **intimidation or extortion racketeering**.

30. In the cases and evidence collected by this project (see 2.2 below) it is often not possible to determine a clear and direct link between the proceeds of crime and the investment in the legal economy. In these cases, assets are included in the analysis if they are acquired or possessed by a person belonging to or acting on behalf of a criminal group which has been identified as conducting or having conducted an illicit activity as above defined.

31. I.e. the confiscation of assets transferred to third parties (see Part 3).

## 2.2. Data, sources and methodology of analysis

This Section briefly describes the information, the data sources, the methodology of collection and of analysis employed in the three parts of the report.

### 2.2.1 Part 1: Illicit markets in Europe

For the 10 illicit markets identified above (see Table 2), the following activities were carried out:

- The collection, through a systematic literature review, of **available estimates**;
- The identification, through a systematic literature review, of the **criminal actors** involved;
- The **development of new estimates** for some illicit markets.<sup>32</sup>

#### Literature review

A **variety of sources** were consulted, including:

- Academic studies and research reports;
- Reports by LEAs, FIUs and AROs (e.g. annual reports by Italian DIA – Direzione Investigativa Antimafia, Dutch KLPD, etc.);
- Institutional reports (e.g. by FATF, OECD, etc.);

Priority was given to studies carried out in the last ten years.<sup>33</sup> Although the focus of the literature review was on the **seven OCP countries** (Italy, Spain, France, Ireland, UK, Netherlands and Finland), data on other European countries mentioned in the sources consulted were collected and analysed.

As a result of the literature review, information on actors and/or estimates was collected from 255 documents, and organised into a database (see the Methodological Annex for details). Table 3 shows the number of studies identified and consulted for each illicit market and each OCP country. In brackets, the number of available estimates.<sup>34</sup>

It is evident that the coverage is **not uniform**: existing studies and estimates focus on particular illicit markets (e.g. drug trafficking or THB) and on particular countries (e.g. Italy, UK and the Netherlands). This may be due to different **threat levels** (e.g. studies on extortion - see 4.7 - are much more common in Italy, where it is a traditional activity of mafia groups, than in Ireland) but also to the different **amounts of attention** that certain criminal activities **receive in academic and political circles and from the media** in certain countries (for example, illicit drugs have attracted more studies than organised theft, and illicit markets have been studied much more in Italy than in Spain).

For this reason, the above table is useful because it clearly identifies the areas for future investment in terms of **research, policy, and public awareness**. Because OCGs have been moving their resources and interests from traditional markets such as drugs to emerging ones such as fraud (see Chapter 3), academic research and media should change their priorities accordingly.

**Table 3 - Literature review on illicit markets: number of identified studies and of available estimates (in brackets) per illicit market and per OCP country**

	Finland	France	Ireland	Italy	Netherlands	Spain	UK	TOTAL
Illicit drugs	3 (5)	15 (8)	9 (9)	28 (32)	12 (6)	10 (10)	18 (17)	64 (87)
THB	3 (0)	6 (1)	3 (0)	19 (3)	4 (1)	3 (0)	7 (2)	42 (7)
ITF	2 (0)	3 (0)	3 (0)	14 (3)	7 (0)	2 (0)	3 (0)	33 (3)
ITTP	2 (0)	5 (0)	10 (1)	16 (3)	2 (0)	3 (0)	8 (1)	30 (5)
Counterfeiting	1 (1)	4 (1)	3 (1)	13 (4)	3 (1)	8 (2)	8 (4)	38 (14)
Illegal gambling	1 (0)	0 (0)	0 (0)	13 (4)	1 (1)	0 (0)	1 (1)	16 (6)
Extortion racketeering	1 (0)	1 (0)	2 (0)	14 (2)	2 (0)	2 (0)	3 (0)	9 (2)
Usury	0 (0)	0 (0)	0 (0)	9 (3)	1 (0)	0 (0)	1 (1)	10 (4)
Fraud	1 (0)	2 (1)	2 (1)	13 (1)	2 (2)	1 (0)	11 (5)	27 (9)
Organised property crime	1 (2)	1 (2)	3 (4)	5 (4)	2 (2)	2 (2)	4 (8)	10 (23)
<b>TOTAL</b>	<b>15 (8)</b>	<b>36 (13)</b>	<b>27 (16)</b>	<b>74 (59)</b>	<b>26 (13)</b>	<b>27 (15)</b>	<b>45 (39)</b>	<b>255 (248)</b>

32. Heroin (see Section 4.1), cocaine (Section 4.1), firearms trafficking (Section 0), illicit trade in tobacco products (Section 4.4), counterfeiting (Section 4.5) and fraud (specifically, MTIC fraud – see 4.9). New estimates were developed for those illicit markets where, thanks to the availability of data, it was possible to calculate a new estimation for all the 7 OCP countries and, in most cases, for all the EU 28 MS.

33. However, in the case of missing information, some studies conducted before 2005 on actors and trends in illicit markets or providing estimates were included.

34. This number does not include the estimates made by Transcrime for the specific purposes of Project OCP.

## Methodology of estimates

As mentioned above, **estimates** of the scale of illicit markets in Europe were:

- *collected*, from those available in the literature, for all the 10 illicit markets listed above, and
- *calculated*, specifically for the purpose of Project OCP, for selected markets.<sup>35</sup>

### What exactly do estimates measure?

The estimates of the scale of illicit markets gathered or developed by this report refer, for most markets, to the **magnitude of the revenues** produced, i.e. the value of the goods and services sold, most often at the **retail level**.

However, slight differences can be detected among different markets;<sup>36</sup> a detailed description of what was precisely estimated for each illicit activity is provided in the relevant Section of Chapter 4 and in the Methodological Annex.

### Which available estimates have been collected?

Only estimates satisfying the following criteria were collected from the literature review:

- Produced or published in the last ten years;<sup>37</sup>
- Covering at least one of the seven OCP countries;
- Using a transparent and verifiable methodology;<sup>38</sup>
- Measuring the revenues generated by illicit markets as a whole or earned by actors in the given market;<sup>39</sup>
- For which it was possible to determine the time-range in which the revenues were produced (e.g. annually, weekly, etc.).

### How have new estimates been calculated?

In the case of illicit markets<sup>40</sup> with a good **availability of data** across the seven OCP countries and the other EU 28 MS, it was decided to calculate new estimates. New figures were produced which could be more easily compared across countries and markets. Innovative methodologies building on previous studies and estimations were employed (see Chapter 4 and the Methodological Annex for a detailed description).

In most cases (e.g. cocaine, heroin, counterfeiting, ITTP), the

new figures refer to **demand-side** estimates (i.e. based on the number of actual or potential users/consumers), sometimes adjusted with **supply-side** variables (e.g. seizures by the police which decrease the actual supply of illicit goods).

## 2.2.2. Part 2: Organised crime investments in Europe

After the concept of organised crime investment had been defined (see 2.1) it had to be *operationalised* into one or more *proxies* which could allow the collection of data and information to be analysed. There follows a brief description of the **proxies adopted**, the **data sources** used to collect the information, the methodology employed for their **organisation into a database** (database DOCI) and for their **analysis**.

### Identification of the proxies

Building on previous studies (in particular Transcrime, 2013a; but also Schneider, 2004; van Duyn & Soudijn, 2009; Riccardi, 2014a; Soriani, 2013; Kruisbergen, Kleemans, & Kouwenberg, 2014), the original intent of Project OCP was to collect **data on assets confiscated from criminal groups** based on the assumption that they can be considered a good *proxy* for criminal investments.<sup>41</sup>

The idea was to analyse, as done in previous research (e.g. Transcrime, 2013a), some of the **characteristics of these assets** (e.g. their location, typology, ownership and, for confiscated companies, the related business sector) to present a picture of the preferences of criminal groups, in terms of geographic regions, types of assets and business sectors, when investing in the legitimate economy.

However, besides the bias and limitations usually attributed to confiscated assets as a proxy for criminal investments (see Transcrime, 2013a, p. 95, for a review),<sup>42</sup> it soon became evident that this was not possible for two main reasons:

- The **lack of data on confiscated assets across EU countries** (see Part 3, in particular Chapter 11): only few EU MS (such as Italy or the Netherlands) produce statistics on the asset recovery process in a systematic way, and only few of them provide disaggregated information for each confiscated asset which allow an in-depth statistical analysis;

35. Heroin (see Section 4.1), cocaine (Section 4.1), firearms trafficking (Section 0), illicit trade in tobacco products (Section 4.4), counterfeiting (Section 4.5) and fraud (specifically, MTIC fraud – see Section 4.9).

36. For example, the revenues from MTIC fraud refer to the percentage of the VAT gap attributable to organised VAT fraud (see 4.9)

37. However, in the case of missing information, studies issued before 2005 were also covered.

38. A much larger number of estimates and figures was found. However, many did not give any indication of how they had been calculated. It was decided not to include these figures in the literature review since they risked being “mythical numbers” not backed by empirical support or proof (see Chapter 3).

39. As illustrated in Chapter 3, it is often not possible to determine the share of the revenues earned by each actor in a given illicit market, and only aggregate figures on the magnitude of the proceeds generated by the market as a whole can be collected or produced.

40. Heroin (see Section 4.1), cocaine (Section 4.1), firearms trafficking (Section 0), illicit trade in tobacco products (Section 4.4), counterfeiting (Section 4.5) and fraud (specifically, MTIC fraud – see Section 4.9).

41. In Transcrime, 2013a, the universe of assets confiscated in Italy between 1983 and 2012 was used as a proxy for the investments of mafia groups in the country's legitimate economy. Similarly, the universe of companies confiscated from mafia groups has been analysed by Riccardi, 2014, as a proxy for companies controlled by mafia organisations in Italy.

42. In particular, the use of data on confiscation (a) may lead to underestimations or overestimations of certain types of assets depending on the focus of law enforcement on certain crimes, the ease of taking certain types of assets into custody, and the legal instruments at the disposal of prosecutors; (b) may furnish an outdated picture of criminal investments, because sometimes very long periods can elapse between the investigation, seizure and final confiscation of assets, resulting in a representation of the state of criminal investments many years prior to the confiscation; (c) makes it difficult to compare data across countries, since country regulations on asset recovery may vary widely (Transcrime, 2013a, p.95).

- The **unrepresentativeness of these data**: in most EU MS the majority of seized assets are cash and bank accounts, while, for example, the confiscation of companies or real estate properties is very limited, not because of the lack of criminal investments in these types of assets but because it is not foreseen by law or very seldom applied (see Part 3, Chapter 12).

These problems made it necessary to consider other possible proxies for criminal investments. A possible alternative solution could have been analysis of **personal holding statements** (e.g. from tax agency records) of recognised members of criminal groups (such in e.g. Meloen et al., 2003) but this would have implied problems of access due to privacy reasons and would have led to a very **limited number of cases** concentrated in few countries, while the aim of the project was on the contrary to provide a **broad exploration** of this phenomenon in the seven OCP countries and beyond.

For this reason it was necessary to extend the collection and analysis to **any evidence of organised crime investment**, as defined in 2.1, from a wide variety of sources, including both single cases and aggregate studies, for example:

- Seizures of assets from criminal groups during police operations;
- Findings from studies analysing the personal spending of members of a specific criminal organisation;
- Indications, taken from FIU reports, of the financial interest of certain criminal groups in specific business sectors

#### Data sources

This evidence was gathered from diverse **sources** (see the Methodological Annex for details), including:

- Judicial files;
- LEA reports and police operations files;
- Institutional reports (e.g. FATF, FIUs, etc.);
- Academic studies;
- Media reports.

Only sources including evidence of criminal investments in the legal economy occurring **between 2005 and December 2013** were considered.<sup>43</sup> Although the focus was primarily on the **7 OCP countries**, the review of sources also yielded cases occurring in **other EU member states**.<sup>44</sup>

Media reports were used as a **residual source of data** regarding police operations, seizures and confiscation when it was not possible to gather directly information from the official sources. In particular, media reports were collected using media aggregators and search engines but also by **developing a prototype software for the collection of newspaper articles** specifically on organised crime investments, organised crime infiltration and money laundering cases, called **iNotitium** (www.inotitium.com).

#### Box 1 – iNotitium: a search engine for media reports on organised crime news in Europe

The iNotitium platform was developed to collect news from open sources based on keywords. This platform compiles data based on logical (Boolean) operators combining concepts, and it processes the information using Natural Language Processing techniques in different languages (English, French, Italian, Spanish, Dutch and Finnish). It facilitated the analysis of most of the open source information used because it makes it possible to follow an item of information across countries and newspapers.

#### The collection of data and organisation in a database

For each case of organised crime investment, information was collected, if available, on the **geographic location** of the investment, the **type of asset**, the related **business sector** (if the case referred to an investment in a company) and the related **criminal group**.<sup>45</sup>

Once collected, this information was entered in a database called DOCI (Database on Organised Crime Investments). The database was structured so that each item of evidence could generate multiple records, in the manner described below (see the Methodological Annex for details). These records are called references or mentions of organised crime investments in this study.

#### Example 1:

"The police found evidence of infiltration in the economy of Côte d'Azur by Russian criminal groups and Italian Camorra".

- 2 references: 1) Russian criminal groups in Côte d'Azur and 2) Italian Camorra in Côte d'Azur.

#### Example 2:

"The Caligola Operation led to the confiscation of companies, controlled by the 'Ndrangheta, in the construction, wholesale trade and manufacturing sectors".

- 3 references: 1) 'Ndrangheta in the construction sector, 2) 'Ndrangheta in the wholesale trade sector, 3) 'Ndrangheta in the manufacturing sector.

Each reference does not necessarily correspond to a single asset (i.e. if the sentence says that "Three companies were seized in the construction sector" it is recorded only once as "construction"). Hence the number of references cannot be interpreted as the number of assets, of real estate properties, of companies, etc.

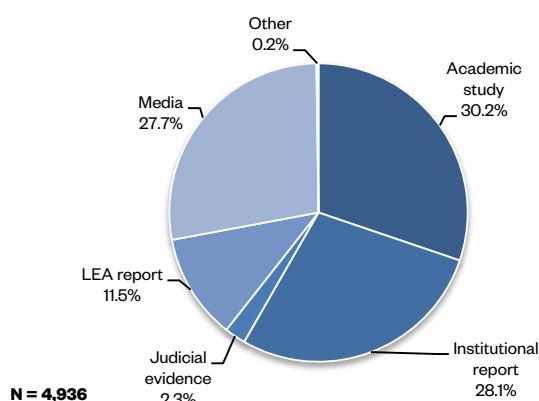
43. In some cases, it was not possible to determine the exact year and date of the investment. In this case, the date of the source was taken as a proxy.

44. For example, if a police operation conducted in an OCP country discovered that the criminal actor possessed or had acquired assets in another EU MS.

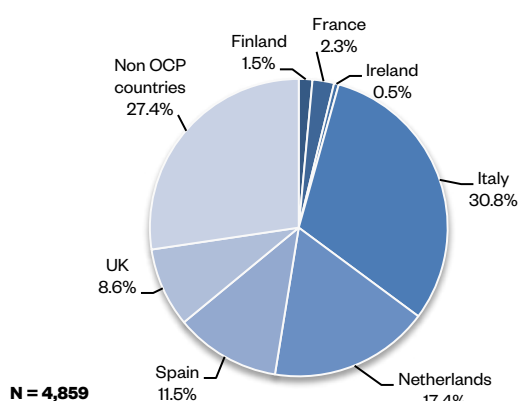
45. Details on the classification adopted for geographic regions, types of assets, business sectors and criminal groups are provided in the Methodological Annex.



**Figure 6 – Percentages of references collected by type of source<sup>49</sup>**



**Figure 7 – Percentages of references collected by OCP and non-OCP country**



Source: Transcrime elaboration on DOCI

As a result of the collection of data, **4,859 references to organised crime investments** were entered in the DOCI.<sup>46</sup>

Most of them (30.2%) came from academic studies, followed by institutional reports (28.1%), media (27.7%) and LEA reports (11.5%).<sup>47</sup> As mentioned, they came from both aggregate studies and cases. In particular, 1,244 cases were identified. In terms of geographic coverage, more than 70% of the references referred, as expected, to the **seven OCP countries**, most frequently to Italy and the Netherlands.<sup>48</sup>

46. Note that also references collected through the ARIEL project ([www.arielproject.eu](http://www.arielproject.eu)) were included in the database and used for the purpose of the OCP analysis.

47. To be stressed is that the proportion of different types of sources varied among countries. For example, while most of the references to the Netherlands and France came from academic studies, those to the UK and Spain came from the media (see the Methodological Annex for details):

48. Germany, Sweden and Slovenia were the non-OCP countries with the highest number of references to criminal investments. For Sweden and Slovenia, this was also due to the fact that they were covered by another project, coordinated by Transcrime (Project ARIEL – [www.arielproject.eu](http://www.arielproject.eu)), which led to the collection of a significant number of cases and investigations related to money laundering and criminal infiltration in the legitimate economy which were included in the DOCI and used for the purpose of the OCP analysis.

## Methodology of analysis, bias and limitations

The DOCI is an attempt to organise and systematically harmonise highly fragmented information from qualitative sources. Whilst collections of cases exist at the national level (e.g. the Organised Crime Monitor managed by the Dutch WODC – see 5.5), this is the first attempt to collect **cases and evidence from different European countries** in a **single dataset**.

However, given the wide definition of investment, the variety of the sources and the highly diverse nature of the evidence collected, it is evident that the **references included in the DOCI cannot be ‘counted’ and analysed from a strictly statistical standpoint**. On the contrary, any attempt to quantify its records must be made very cautiously.

For this reason, the analyses reported in Part 2 adopted a **predominantly qualitative approach**, and limited the analysis of the information included in the DOCI to simple descriptive statistics using classes (e.g. business sectors with *high* or *medium* or *low* evidence of criminal investments).

In fact, this kind of analysis is believed sufficient, given the aim of this report, which, as mentioned, is to provide not an in-depth analysis of a few cases but a **broader exploration** of the **‘macro patterns’** and **‘macro trends’** of the economics of OCGs in Europe.

## 2.2.3. Part 3: The confiscation of criminal assets in Europe

Building on the previous parts, Part 3 presents the results of two analyses:

- An assessment of **the level of availability of data on confiscated assets** in Europe;
- An analysis, on the basis of the available data, of the **assets confiscated** in the 7 OCP countries.

## Survey among EU asset recovery and asset management offices

To achieve the first objective, a **survey** was conducted among the EU asset recovery and asset management offices of the 28 EU MS using primarily a **questionnaire** (see the Methodological Annex). The results are reported in Chapter 11.

Additional information was sourced from **official reports** published by the agencies and **contacts** with agencies themselves for the purpose of the project.

## Data on confiscated assets: sources and analysis

To achieve the second objective, data were gathered from the relevant national agencies either:

- **by accessing directly**, when possible, the relevant databases;<sup>50</sup>

49. Note that in this chart the number on which percentages are calculated (4,936) is higher than the number of references (4,859) because 77 references are related to two or more sources.

50. For example, some data have been provided for the purpose of this project by the Criminal Asset Bureau (Ireland), Guardia di Finanza (Italy), PPO (the Netherlands) (see Chapter 12 and the Methodological Annex for details).

- or by **collecting** data published in public ARO and AMO reports (e.g. the annual reports on the activities of the agency).

Owing to the differences across EU MS in terms of confiscation regimes (e.g. types of confiscation allowed, predicate offences, etc. - see Chapter 10) and criteria for collecting and organising data (see Chapter 11), an attempt was made to **organize and harmonize the collected data according to a standard template** (see the Methodological Annex for details).

The **analysis** of the available data (see Chapter 12) then focused, when possible, on:

- Types of confiscated assets
- Trend of confiscated assets
- Geographical distribution of confiscated assets
- Organised crime group and nationality of owners
- Related offences
- Value of confiscated assets
- Limitations of the analysis

As mentioned above, the analysis of data on confiscated assets in Europe has some serious limitations due primarily to **legal differences among EU MS**, for example in terms of types of confiscation allowed, foreseen predicate offences, and classification of assets (see Chapter 10).

These diversities are heightened by the fact that often, in the same country, data are collected by **multiple agencies** active at different phases of the confiscation process or based in different jurisdictions.

In summary, it is almost impossible to gain a **clear picture of the overall situation** within and across EU countries. Data collected in different countries may measure different phenomena, thus making it difficult to adopt a comparative approach. However, some general conclusions have been drawn taking account of the limitations that emerged throughout the analysis.





# Part 1.

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## WHERE DO ORGANISED CRIME PROCEEDS COME FROM? ILLICIT MARKETS IN EUROPE

The first step in the study of the economics of organised crime groups is to identify the sources of their illicit proceeds. Accordingly, the aim of Part 1 is to **understand where organised crime revenues are generated**, and in particular **which illicit markets** produce the highest revenues and what are the **criminal actors** among whom these revenues are shared.

This Part is structured as follows:

- **Chapter 3** provides a summary analysis at European aggregate level;
- **Chapter 4** provides in-depth descriptions of **10 illicit markets** (illicit drugs, THB, ITF, ITTP, counterfeiting, illegal gambling and match fixing, extortion racketeering, usury, fraud, organised property crime);
- **Chapter 5** provides in-depth descriptions of the **7 European countries** covered by OCP (Finland, France, Ireland, Italy, the Netherlands, Spain, United Kingdom);
- **Chapter 6** constitutes a bridge between Part 1 and 2 by presenting an exploratory assessment of what fraction of the revenues generated by illicit markets may be available for investment in the legitimate economy.

# 3. Illicit markets and organised crime in Europe

Michele Riccardi, Diana Camerini and Jeltsje Cusveller (Università Cattolica del Sacro Cuore – Transcrime, Italy)

This chapter furnishes an overview at European level on:

- The **scale of the revenues** produced by illicit markets in Europe (Section 3.1);
- The **main criminal actors** among whom these revenues are shared (Section 3.2);
- The **emerging trends** as regards illicit markets in Europe (Section 3.3);
- The **costs arising from illicit markets** and suffered by the European society and economy (Section 3.4).

In doing so, it summarizes the detailed analyses conducted in Chapter 4 and 5, respectively on 10 illicit markets and 7 OCP countries. For the first time, after numerous estimates and studies at national level, a European-level comparative analysis of the role that illicit markets play in the economy of criminal groups is presented, including one of the **first quantifications of the illicit proceeds** generated at EU level.

## 3.1. Revenues from illicit markets

### *Estimating organised crime revenues from illicit markets*

Quantifying the amount of proceeds that organised crime groups earn from participating in illicit markets is far from easy.

First, illegal markets are by definition characterised by a **lack of data and high dark numbers**. Accounting standards do not apply to the criminal economy as they do to the legitimate one. Estimation methodologies vary widely across illicit markets and countries (see respectively Chapters 4 and 5), and this may lead to very different results even within the same country.<sup>51</sup> Despite the increasing number of exercises of this kind, estimation methodologies have not yet obtained general consensus.<sup>52</sup>

As a result, any quantification of illicit markets risks producing only **guess-estimations or mythical numbers** not backed by any empirical support or proof (Singer, 1971; Reuter, 1984; Calderoni, 2014c) more useful for lobbying purposes than for research or policy-making.

51. An example is provided by estimates of the illicit drugs market, for example cocaine (see 4.1 for details). Slight differences in consumption rates may entail huge differences in estimations of the total revenues at national level.

Second, whilst it is difficult to estimate the size of criminal markets as a whole, it is even harder to assess the **share of the markets attributable to organised crime**. As will be highlighted below, illicit markets are very seldom under the monopoly of one single criminal organisation (Transcrime, 2013a, p. 42). Instead, they are characterised by a **plurality of actors** varying from large traditional criminal organisations to small-scale actors and individuals. The role, nature, composition and level of cooperation among these actors constantly change, thus making it almost impossible to determine *how much* each of these actors may earn.

Third, still little is known about the **business strategy of organised crime groups**. E.g., how much of the proceeds of the wholesale of a shipment of cocaine is reinvested in cocaine trafficking? How much is used to cover the group's management expenses? And how much is laundered and invested in the legitimate economy? Despite their nature as enterprises, criminal groups publish neither financial statements nor balance sheets, so that these questions can only be addressed with hypotheses based on fragmented and not often comparable information.

### *The estimates provided by Project OCP*

Taking all these limitations into account, OCP has tried, as said, to measure the scale of the revenues from illicit markets through (a) a **collection of existing estimates** and (b) the **production of new estimates** for some selected markets (heroin, cocaine, ITF, ITTP, counterfeiting and MTIC fraud).

The results are presented in the following tables. In particular:

- Table 4 presents the estimates of the **annual revenues from all the illicit markets covered for the seven OCP countries**;
- Table 5 and Table 6, focusing on selected illicit markets, allow comparison between **OCP countries** and the rest of the **European Union**.

52. In this regard, the inclusion of some criminal markets in national accounting for the calculation of the GDP has been introduced as an obligation for European countries by 22 September 2014. According to Eurostat, "both declared and undeclared (which includes illegal) activities need to be taken into account in order to have a full and accurate picture of the value of production/consumption in a given period" (Eurostat, 2014). Although common methodological guidelines have been agreed between the European Commission and the Member States on the production and trafficking in drugs, and alcohol and tobacco smuggling, European MS, through their relevant statistical offices, are implementing this calculation by using various methodologies which are not often made publicly available. For Italy see ISTAT (2014).

**Table 4 - Estimates of the annual revenues from illicit markets in the seven OCP countries**

OCP countries – Estimates (million euro)							
Illicit Market	Finland	France	Ireland	Italy	Netherlands	Spain	UK
Heroin <sup>a</sup>	102	957	623	1,370	54	271	2,321
Cocaine <sup>a</sup>	17	755	90	1,699	85	1,200	1,452
Cannabis <sup>b</sup>	21	1,277	47	1,356	305	1,575	787
Amphetamines <sup>c</sup>	41	55	16	284	19	338	811
Ecstasy	47	190	30	639	73	558	702
Trafficking in human beings (THB)	N/A	3,000 <sup>d</sup>	N/A	3,082 <sup>e</sup>	460 <sup>f</sup>	N/A	151 <sup>g</sup>
Illicit trafficking in firearms (ITF)	N/A	N/A	N/A	93 <sup>h</sup>	N/A	N/A	N/A
Illicit trade in tobacco products (ITTP) <sup>a</sup>	146	2,083	277	546	249	635	1,304
Counterfeiting <sup>a</sup>	280	5,746	456	4,596	1,986	3,928	4,570
Illegal gambling	N/A	N/A	N/A	425 <sup>h</sup>	130 <sup>f</sup>	N/A	1,128 <sup>i</sup>
Extortion racketeering	N/A	N/A	N/A	5,253 <sup>j</sup>	N/A	N/A	N/A
Usury	N/A	N/A	N/A	4,634 <sup>k</sup>	N/A	N/A	N/A
Fraud (MTIC fraud) <sup>a</sup>	2,956	2,957	2,958	2,959	2,960	2,961	2,962
Organised property crime (Cargo theft) <sup>m</sup>	0.3	48	0.8	11	47	21	233
<b>TOTAL (Heroin, Cocaine, Cannabis, Amphetamines, Ecstasy, ITTP, Counterfeiting, MTIC frauds, Cargo theft)</b>	<b>1,084</b>	<b>16,010</b>	<b>1,708</b>	<b>15,993</b>	<b>3,428</b>	<b>10,834</b>	<b>15,142</b>
<b>TOTAL</b>	<b>1,084</b>	<b>19,010</b>	<b>1,708</b>	<b>29,480</b>	<b>4,018</b>	<b>10,834</b>	<b>16,596</b>

<sup>a</sup> Transcrime-OCP, 2014. For ITF, no estimates at national level have been produced by OCP but only aggregates at EU-28 level (see Table 5); <sup>b</sup> Caulkins, Kilmer, & Graf, 2013; <sup>c</sup> Kilmer & Pacula, 2009; <sup>d</sup> INHESJ, 2012; <sup>e</sup> Mancuso, 2014a, referring to THB for sexual exploitation; <sup>f</sup> Unger, 2007; <sup>g</sup> Mills, Skodbo, & Blyth, 2013; <sup>h</sup> Calderoni et al., 2014b; <sup>i</sup> Groom & Davies, 1998 (in UNODC 2011a); <sup>j</sup> Lisciandra, 2014; <sup>k</sup> Scaglione, 2014; <sup>l</sup> Ellison, Collard, & Forster, 2006; <sup>m</sup> Europol, 2009b.

In order to make these figures as harmonised and comparable as possible, preference has been given to **estimates that use the same methodology and data sets across different countries**.<sup>53</sup> Where not available, country-specific estimates, selected on the basis of their verifiability, consistency and level of update, have been used.<sup>54</sup>

#### Illicit revenues across markets

Although the purpose of these tables is not to provide a precise accounting of criminal proceeds, but only a **rough proxy of the magnitude of illicit markets** in OCP countries and the other EU member states, it is possible to highlight some key findings.

53. Estimates produced for the purpose of Project OCP on heroin, cocaine, ITTP, counterfeiting and MTIC fraud, were obtained by applying a common methodology and uniform datasets across countries for each illicit market. Also to obtain estimates of cannabis (Caulkins, Kilmer, & Graf, 2013), ecstasy and amphetamines (Kilmer & Pacula, 2009), and cargo theft (Europol, 2009b), within each market the methodology applied was the same for all countries. Details on how these estimates were calculated are presented in Chapter 4 and in the Methodological Annex.

54. Although in most cases a range, with a lower and a higher bound, was estimated, for the sake of simplicity Table 4 and Table 5 report only the midpoint of the range, i.e. the arithmetic mean. In other cases, an adjusted mean (often referred to as best estimate) has been used (see Chapter 4 and the Methodological Annex for details).

At European level, the magnitude of criminal revenues from a selected number of illicit markets (heroin, cocaine, cannabis, ecstasy, amphetamines, ITTP, counterfeiting, MTIC fraud and cargo theft) amounts approximately to at least **110 billion euro** per year. At least **around 64 billion euro** of revenues are generated on average every year in the seven OCP countries.

These figures represent, on average, about **0.9% of the GDP** of European countries in 2010<sup>55</sup> (Table 5), although for some European countries, especially Southern and Eastern ones, the rate is much higher (see Table 6 and Figure 8).

The overall **figures on illicit revenues may be very conservative**. Some important illicit markets, such as trafficking in human beings, both for sexual and labour exploitation purposes, or extortion, illegal gambling and other types of fraud different from MTIC fraud, lack estimates for most of the 28 EU MS, and thus are not included in this calculation.

In regard to the distribution across illicit markets, the estimates confirm a prominent role in terms of profitability of **illicit drugs** and **fraud**. The trafficking in **illicit drugs** (heroin, cocaine, cannabis, and amphetamine-type drugs) may alone produce annual revenues amounting to nearly 20 billion euro

55. The amount of proceeds has been compared with 2010 GDP because most of the estimates of illicit markets take 2010 as their reference year (see Chapter 4 and the Methodological Annex for details).

**Table 5 - Estimates of the revenues per selected illicit markets – OCP countries and EU as a whole**

Illicit Market	OCP countries (million euro)	% of GDP OCP countries (2010)	European Union (million euro)	% of GDP EU 28 (2010)
Heroin	5,696	0.08%	7,996 <sup>a</sup>	0.06%
Cocaine	5,297	0.07%	6,765 <sup>c</sup>	0.05%
Cannabis	5,368	0.07%	6,689 <sup>e</sup>	0.05%
Amphetamines	1,564	0.02%	2,778 <sup>c</sup>	0.02%
Ecstasy	2,239	0.03%	3,456 <sup>d</sup>	0.03%
<b>TOTAL DRUGS</b>	<b>20,163</b>	<b>0.28%</b>	<b>27,685 *</b>	<b>0.23%</b>
ITF	-	-	370 <sup>e</sup>	0.003%
ITTP	5,240	0.07%	9,373 <sup>b</sup>	0.08%
Counterfeiting	21,562	0.30%	42,711 <sup>e</sup>	0.35%
MTIC frauds	16,872	0.23%	29,329 <sup>f</sup>	0.24%
Cargo theft	361	0.005%	424 <sup>e</sup>	0.003%
<b>TOTAL</b>	<b>64,199</b>	<b>0.88%</b>	<b>109,891</b>	<b>0.89%</b>
<sup>a</sup> EU 19 and Norway. <sup>b</sup> EU 28. <sup>c</sup> EU 24. <sup>d</sup> EU 25. <sup>e</sup> EU 27. <sup>f</sup> EU 26. *The figures may not add up due to rounding.				

Source: Transcrime elaboration

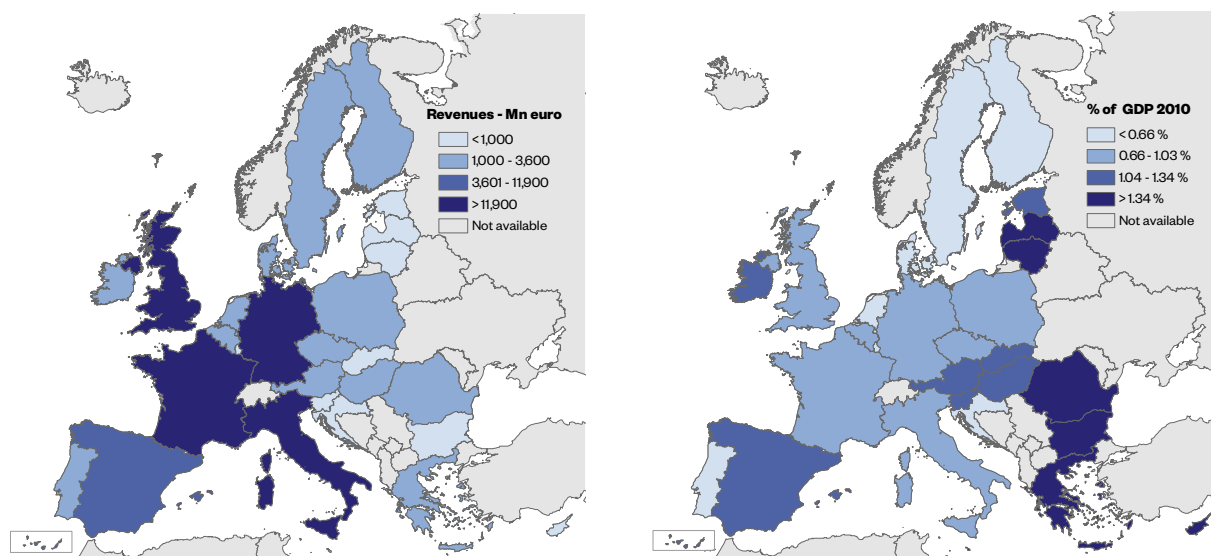
**Table 6 - Estimates of the revenues in EU 28 MS – aggregate figures**

EU Member State	Estimate* (million euro)	% of GDP (2010)	EU Member State	Estimate* (million euro)	% of GDP (2010)
Austria	3,246	1.1%	Latvia	514	2.8%
Belgium <sup>a</sup>	2,516	0.7%	Lithuania	455	1.6%
Bulgaria <sup>d</sup>	565	1.6%	Luxembourg <sup>b</sup>	161	0.4%
Croatia <sup>e</sup>	134	0.3%	Malta <sup>g</sup>	93	1.4%
Cyprus <sup>f</sup>	324	1.9%	Netherlands	3,427	0.6%
Czech Republic <sup>c</sup>	1,317	0.9%	Poland	2,584	0.7%
Denmark <sup>a</sup>	1,555	0.7%	Portugal <sup>a</sup>	1,072	0.6%
Estonia <sup>a</sup>	180	1.2%	Romania <sup>d</sup>	2,308	1.9%
Finland	1,084	0.6%	Slovakia	882	1.3%
France	16,010	0.8%	Slovenia	379	1.1%
Germany	17,645	0.7%	Spain	10,835	1.0%
Greece	3,583	1.6%	Sweden <sup>b</sup>	2,133	0.6%
Hungary	1,102	1.1%	United Kingdom	15,141	0.9%
Ireland	1,708	1.1%	<b>OCP COUNTRIES</b>	<b>64,199</b>	<b>0.9%</b>
Italy	15,994	1.0%	<b>EUROPEAN UNION</b>	<b>109,521<sup>h</sup></b>	<b>0.9%<sup>h</sup></b>

\*The estimates include only the following illicit markets: heroin, cocaine, cannabis, amphetamines, ecstasy, ITTP, counterfeiting, MTIC frauds, organised cargo theft. Estimates by: Transcrime-OCP research team, Caulkins, Kilmer, & Graf (2013) (cannabis), Kilmer & Pacula (2009) (ecstasy and amphetamine), and Europol (2009b) (Cargo theft).

<sup>a</sup>Heroin excluded; <sup>b</sup>Heroin and cocaine excluded; <sup>c</sup>Counterfeiting excluded; <sup>d</sup>Heroin, amphetamine and ecstasy excluded; <sup>e</sup>Only heroin, cocaine and ITTP included; <sup>f</sup>Heroin, cocaine and MTIC fraud excluded; <sup>g</sup>Cocaine and amphetamines excluded; <sup>h</sup>This sum includes estimate of counterfeiting for the 27 EU, so it is not a sum of the previous rows.

**Figure 8 - Scale of illicit markets in EU-28 MS. Estimates of the revenues from selected markets. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on OCP estimates and Eurostat data

in the OCP countries, and about **28 billion euro** in the EU as a whole (see Section 4.1 for details), thus confirming its central role in the economy of criminal groups.

In the OCP area, there are no substantial differences among heroin, cocaine and cannabis (all ranging between 5.3 and 5.7 billion euro per year). However, at EU level, revenues from the **heroin market** are substantially higher than those for any other substance: they amount to around 8 billion euro (see 4.1 for further comments).

As mentioned, also **fraud**, in its various forms (see Section 4.9), is becoming one of the most lucrative illegal activities for criminal organisations in Europe (PwC, 2011; Europol, 2013a; OLAF, 2013). Although estimates of the proceeds from fraud are scarce in the literature, this project's quantification of **MTIC (missing trader intra community) fraud**, a type of organised VAT fraud, confirms that it could generate revenues comparable to those produced by illicit drugs.

The proceeds from **counterfeiting** are significant. However, it should be borne in mind that the figures reported in Table 4 and Table 5 are estimates of the *potential* revenues that may be generated if the **potential demand** for counterfeit products, based on European citizens' inclination to purchase counterfeit products, is fully satisfied (see Section 4.5 for details). It is not clear if the actual supply is able to satisfy this demand.

Also substantial are the revenues from the **illicit trade in tobacco products** (more than 5 billion euro on average per year in the 7 OCP countries alone), which is emerging as a particularly profitable illicit trade, with a magnitude comparable to the trade in illicit drugs such as heroin or cocaine.

Finally, the available estimates on **organised property crime** are limited to a somewhat outdated quantification of the proceeds from cargo theft calculated by Europol in 2009 (Europol, 2009b). It can be hypothesised that, on extending the estimate to other forms of property crime (e.g. theft of medicines, car parts, fuel, metal, etc.), the figure is much higher.

#### Illicit revenues across countries

Cross-country comparisons are impeded by the fact that estimates, for some illicit markets, are available only in some EU MS.

Focusing on the illicit markets for which an estimate is available in most EU MS (see Table 6), it is not surprising that the **four biggest European economies** (Germany, Italy, France and UK) are those that produce the highest revenues from illicit markets. However, in terms of percentage ratio to GDP, **southern and eastern EU MS** are those that record the highest values (see Table 6 and Figure 8).

Focusing on OCP countries:

**Italy** and the **United Kingdom** are by far the countries with the highest amount of annual revenues from illicit drugs (respectively 5.0 and 5.3 billion euro per year). These two countries are followed by Spain (which records the largest revenues from the cannabis market, according to Caulkins, Kilmer and Graf's 2013 estimates) and France, both slightly above 3 billion euro.

**France** is instead the OCP country with the most significant level of revenues from ITTP and counterfeiting (see 4.4, 4.5 and 5.2). As for counterfeiting, this is also affected by the estimation methodology adopted, which takes account of the turnover in some legitimate manufacturing sectors (such as clothing or accessories) which in France are very large.

Italy also records high revenues from **extortion** (which is the traditional criminal activity producing the highest amount of annual revenues, as confirmed by previous studies, see 4.7) and **usury**, but there are no comparable estimates for other countries.

Finally, to be noted is that the methodology adopted to estimate most of these illicit markets – a methodology strongly influenced by the number of users or consumers of the illicit goods and services sold at the retail level (see Chapter 4) – may underestimate the magnitude of criminal proceeds in

countries such as the **Netherlands, Ireland and Finland**, which have smaller populations than the other OCP countries.

In particular, given the nature of the Netherlands as a **transit country** playing a crucial role in many illicit trades (see Section 5.5 for a detailed review), it is likely that the OCGs active here may be able to generate revenues much higher than those estimated above. In fact, proceeds produced at the wholesale level or outside the country do not enter the calculation.

Figure 8 shows the EU 28 MS according to the scale of selected illicit markets for which estimates are available for most of the countries: heroin, cocaine, cannabis, ecstasy, amphetamines, ITTP, counterfeiting, organised MTIC fraud and cargo theft.<sup>56</sup>

## 3.2. Actors

Illicit markets in Europe are characterised by a **plurality of criminal actors** ranging from large and 'traditional' OCGs to smaller gangs and loose networks supported by individuals hired on an occasional basis.

Most illicit markets, especially at the retail level, **are not under the monopoly** of few large, well-identifiable criminal organisations. And, given this fragmentation, determining *what amount* is earned by *each actor* is almost impossible.

Project OCP has examined the organised crime groups and other criminal actors **most frequently mentioned in the sources**, hypothesising that they are those that earn the highest revenues.

### *Organised crime groups and illicit markets in Europe: an overview*

Organised crime groups in Europe are increasingly characterised by greater flexibility, fluidity and permeability (Europol, 2013a; Interpol, 2014a). The evolution of **trafficking routes, marketplaces** (no longer solely physical but also virtual) and **means of payment** (such as bitcoins and other virtual currencies) has provided new opportunities for new flexible criminal networks operating on multiple dimensions (Europol, 2013a).

Criminal groups are increasingly **transnational** and **interethnic**, and they operate simultaneously in different **illicit markets**: according to Europol, of the 3,600 OCGs identified as active in Europe more than 30% are reported to be **poly-crime groups** and more than 70% are **multinational in their membership** (Europol, 2013a, p. 33).

Even those OCGs with strong territorial vocation are now **forced to move outside their area of control** in order to penetrate new illicit markets. The gradual shift towards a global perspective has altered the *modus operandi* and even the structures of many hierarchically organised OCGs (DNA, 2014, p. 364).

This trend may explain why in many illicit markets **OCG strategy is often oriented more towards cooperation than competition**. This applies, for example, to the drugs markets or product counterfeiting (see Sections 4.1.7 and 4.5), where traffickers of different origins are distributed along the supply chain.

All these elements also impact in terms of **who earns what**: the poly-criminal nature of OCGs and the use of the same routes and channels for different illicit trades may reduce transportation costs, generate **economies of scale** and hence **increase the profit margins** of criminal groups. On the other hand, the increasing cooperation among groups may impact on the way these groups **share illicit proceeds**.

Future research in this field should take account of these issues. It will be crucial to determine how illicit revenues are shared not only **across criminal groups** but also **within the same group** among different members and affiliates.

### *Profiling criminal actors in European illicit markets*

The most frequent 'profiles' of criminal actors operating in European illicit markets are the following:

- **Traditional mafia-type OCGs**, such as criminal groups affiliated to Italian mafias and to some Chinese criminal organisations, composed of permanent members often tied by (natural or fictive) kinship. In recent decades, many of them have reshaped their organisational structure, changing from hierarchical groups to networked organisations, especially when they are involved in certain illicit markets (Williams, 2001; Calderoni, 2012; Berlusconi, 2014). Most of these OCGs are able to operate simultaneously in multiple illicit activities, and they easily move commodities and capital across borders.
- **Hierarchical OCGs**: these have a strict division of tasks and roles within the organisation (Europol, 2013a). Since many OCGs are adopting more flexible structures or leadership, rigid hierarchical criminal groups seem to be a phenomenon that "less and less reflects the reality" (Bakowski, 2013). However, many OCGs operating in Europe are still hierarchically organised: for instance, Russian clans (Ionescu, 2011; Kegö & Molcean, 2011), outlaw motorcycle gangs (see Section 5.1.1.) or Vietnamese OCGs active in cannabis trafficking (EMCDDA & Europol, 2013a).
- **Loose criminal networks** represent more than 40% of OCGs active in the EU, according to Europol (2013a), and they exhibit a high degree of flexibility, mobility and ability to adapt to new market opportunities. They may involve, on an occasional basis and according to the opportunity and need, individual criminals or smaller groups that perform specific tasks or address specific requirements.
- **Criminal groups formed by ex-military members**, such as former soldiers of the armies of the former Soviet Union or the former Yugoslavia, who create criminal groups to exploit local institutional instability, as well as opportunities in grey markets, in particular in firearms trafficking (Borov & Bowers, 2002; UNODC, 2010a – see 4.3), and then move to other illicit markets.
- **Former paramilitary and separatist/terrorist groups** (such as former IRA, ETA or Corsican independentist group members), whose illegal actions, once instrumental to the pursuit of political and ideological goals, have gradually

56. The classes with absolute value were calculated on the basis of the following classification: Very Low as < -0.5 standard deviations from the average; Low as between -0.5 and 0.5 standard deviations; Medium as between 0.5 and 1.5 standard deviations and High as > 1.5 standard deviations. The value reported in figure are approximated. Regarding the % of GDP (2010, retrieved from Eurostat), the classes are divided according to percentiles (see the Methodological Annex).



**Table 7 - Categories of OCGs active in illicit markets in Europe**

Illicit market	HIGHER EVIDENCE OCGs	LOWER EVIDENCE OCGs
Heroin	Albanian, Balkan, Turkish, African	Bulgarian, Romanian, Other Eastern European, British, Dutch, Italian mafias, Other Italian, Lithuanian, Motorcycle gangs, Middle Eastern, Other Asian, North African
Cocaine	Colombian, African, Albanian, 'Ndrangheta, Spanish	British, Finnish, French, Other Italian, Motorcycle gangs, Other Western European, Balkan, Bulgarian, Romanian, Russian/Georgian, Mexican, North African, South American
Cannabis	Albanian, Chinese, Dutch, North African, Other Asian, Spanish	African, Russian/Georgian, Turkish, Italian mafias, British, Finnish, French, Irish, Motorcycle gangs
Other illicit drugs	British, Dutch, Lithuanian, Other Eastern European	British, Finnish, Motorcycle gangs, Other Western European, Albanian, Russian/Georgian, Turkish, Chinese, Other Asian
THB	African, Albanian, Balkan, Bulgarian, Romanian, Russian/Georgian, Other Eastern European, Chinese, Other Asian	British, Dutch, Finnish, Italian mafias, Other Italian, Lithuanian, Motorcycle gangs, Spanish, Other Western European, North African, Turkish, Japanese Yakuza, Colombian, South American
ITF	Albanian, Balkan, Turkish, Other Eastern European, Russian/Georgian, 'Ndrangheta, Other Western European	Dutch, ETA, Finnish, IRA, Other Italian, Motorcycle gangs, Romanian, Bulgarian, African, North African, Middle Eastern, Chinese, South American
ITTP	Russian/Georgian, Other Eastern European, Other Asian	Apulian, Albanian, Balkan, British, Irish, IRA, Bulgarian, Romanian, Lithuanian, Other Eastern European, Turkish, Chinese
Counterfeiting	Camorra, Chinese, Other Asian, Russian/Georgian, Other Eastern European	African, North African, Albanian, Bulgarian, Other Italian, IRA, Other Western European, Romanian, Lithuanian, Middle Eastern, Turkish, Japanese Yakuza
Illegal gambling and match fixing	Chinese, Other Asian, 'Ndrangheta	Other Italian, Other Eastern European, Russian/Georgian
Extortion racketeering	Italian mafias, Romanian, Russian/Georgian, Other Eastern European, Turkish, Middle Eastern, Chinese, Other Asian	British, Bulgarian, Dutch, ETA, Finnish, French, Irish, IRA, Lithuanian, Motorcycle gangs, Other Italian, Other Western European, Spanish, African, Colombian, South American
Usury	-	Italian mafias, Other Italian, Albanian, Balkan, Chinese, Other Asian
Fraud	Bulgarian, Romanian, Other Eastern European, Russian/Georgian, Chinese, Other Asian	British, Dutch, Irish, IRA, Lithuanian, Middle Eastern, North American, Italian mafias, Other Italian, Other Western European, Balkan, Turkish, African, North African
Organised property crime	Russian/Georgian, Other Eastern European	Albanian, Balkan, Bulgarian, Romanian, Turkish, French, Irish, Italian mafias, Other Western European, Chinese, North African

Source: Transcrime literature review (see Chapter 3, 4 and 5)

changed into pure profit-oriented criminal organisations. For example, former IRA members are now involved in fuel laundering and tobacco smuggling between Ireland and Northern Ireland (see 5.3), while Corsican groups (see 5.2) are involved in a wide array of illicit activities, from drug trafficking to extortion (An Garda Síochána & PSNI, 2012a; West Sands Advisory, 2012).

- **Current terrorist groups** that may have developed into “terrorist enterprises” or criminal groups active in the “market of violent products” (Myres, 2012, p. 698) directly engaged in criminal activities to fund and support their political action. Evidence has been found of cooperation between organised transnational terrorists and European OCGs (West Sands Advisory, 2012; EMCDDA & Europol, 2013a, p. 120).

- **Intermediaries and brokers** who operate in a twilight zone between legal and illegal, offering intermediation services and expertise to other criminal actors in several illicit markets (e.g. firearms trafficking, see 4.3). They often have a high degree of specialisation and may establish stable connections with traditional groups and other OCGs to help them organise local or international deals, launder criminal money, or exploit loopholes in countries’ regulations.

#### **Categories of OCGs per illicit market and per OCP country**

Despite the increasing inter-ethnic nature of criminal groups active in Europe, this study attempted to classify OCGs according to **main geographical provenance** and/or **ethnic origin** (see 2.1 for details about the classification).

**Table 8 - Evidence of organised crime groups active in illicit markets. 7 OCP countries (in at least one illicit market)<sup>60</sup>**

Country	HIGHER EVIDENCE OCGs	LOWER EVIDENCE OCGs
Finland	Finnish, Motorcycle gangs	Russian/Georgian, Romanian, Other Eastern European, Other Asian
France	French, African, North African, Albanian, Other Eastern European, Russian/Georgian	British, Corsican, Dutch, Italian mafias, Other Italian, Motorcycle gangs, Bulgarian, Romanian, Balkan, Turkish, Other Asian, South American
Ireland	Irish, IRA, British, Chinese	African, Bulgarian, Lithuanian, Other Asian, Other Eastern European, Romanian, Russian/Georgian
Italy	Italian mafias, Other Italian, Albanian, Bulgarian, Romanian, Other Eastern European, Russian/Georgian, Chinese, Other Asian, North African	African, Balkan, Turkish, French, Lithuanian, Spanish, Colombian, South American, Japanese Yakuza
Netherlands	Dutch, 'Ndrangheta, Bulgarian, Other Eastern European, Turkish, African, Chinese	Albanian, Balkan, Romanian, Other Italian, Other Western European, Colombian, South American, Japanese Yakuza
Spain	Spanish, Camorra, Bulgarian, Romanian, Russian/Georgian, Chinese, Colombian, Other South American	British, ETA, Irish, IRA, Motorcycle gangs, Other Italian, Romanian, Other Eastern European, Albanian, Balkan, Turkish, African, North African, Middle Eastern
United Kingdom	British, Irish, Chinese, Other Asian, Other Eastern European, Turkish	Dutch, IRA, 'Ndrangheta, Spanish, Other Western European, Albanian, Balkan, Lithuanian, Russian/Georgian, African, North African, Middle Eastern, Colombian, South American

Source: Transcrime literature review

In particular, drawing on the in-depth analyses reported by Chapters 4, 5 and Table 7 shows all the groups identified in at least one country of Europe,<sup>57</sup> classifying them between **higher evidence** groups (those mentioned in the literature in reference to at least three countries) and **lower evidence** groups (those mentioned in few countries, in any case fewer than three).<sup>58</sup>

Although the results may be biased by the fact that the literature review focused on the 7 OCP countries,<sup>59</sup> **Chinese OCGs** and **Italian mafia groups**, as well as **Russian/Georgian OCGs**, are those involved in the highest number of illicit markets. **Eastern European OCGs**, groups of **East Asian** origin and **Turkish OCGs** show quite substantial evidence of activity in illicit markets.

The results confirm what was said above: out of the 35 OC groups identified, it appears that only **very few operate exclusively in their home country**, or at least in those types of markets that were selected for this analysis.

### 3.3 Emerging trends

Criminal groups move across illicit markets as they move across borders, in search of **new opportunities** for profit and the activities and *modi operandi* which guarantee the highest return with the lowest risk.

Answering the question *where do criminal proceeds come from?* means also answering the question **what illicit markets are OCGs in Europe moving towards?** The evidence collected by Project OCP has highlighted some emerging trends which must be taken into account for fully understanding of how the revenues of illicit markets may change in the future.

#### *The shift from traditional to emerging illicit markets*

First, OCGs may shift from **traditional** markets (e.g. drugs or THB) to **new, less risky, underrated but equally profitable** illicit activities, such as fraud or organised theft.

As seen above, **illicit drug trafficking** still occupies a crucial role in the economy of criminal groups, in terms of both the illicit revenues generated and the number and type of actors involved. The **emergence of new synthetic substances**

57. Larger Europe has been considered here. It includes all EU 28 MS plus Switzerland, Norway, Iceland, Liechtenstein, Albania, Serbia, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Kosovo.

58. In particular, the literature frequently refers to "Europe" or the "European Union" without specifying the countries with OCG presence. In these cases, evidence is not reported in the table.

59. And this may overestimate the role and weight of OCGs originating from the 7 OCP countries, such as Italian mafias, Dutch OCGs or British OCGs.

60. Illicit drugs is considered one market (no disaggregation for heroin, cocaine, cannabis and other illicit drugs).



(such as methamphetamines), on the one hand, and the growth of **home-made illicit drugs** (such as home-grown cannabis) on the other, are reshaping this market, increasing profit margins (e.g. by abating transportation costs) but also attracting a wider range of actors (see Section 4.1).

But other new illegal activities have begun to play an increasingly central role in the economy of OCGs. In particular, **fraud**, in its multiple forms (e.g. **MTIC frauds**, **VAT carousel fraud**, **excise frauds**, **plastic frauds**, etc. - see Section 4.9 for details) is attracting a large number of actors, including 'traditional' criminal organisations such as Italian mafias (in particular Camorra OCGs, see 3.2 and 4.9), because of its high rewards and low risks (Europol, 2013a).

In this framework, the use of **cybercrime and ICT** for fraudulent or criminal purposes is an increasingly common element of OCGs' *modus operandi*: **mass-marketing** and **phishing** steal identities and financial data for use in payment card and other frauds (see Section 4.9); at the same time, the **internet** (and especially the **underground web**) multiplies the channels through which illicit goods such as drugs, counterfeit and stolen products can be sold (FATF, 2014).

Emerging illicit markets are also those that until recently were not considered characteristic of OCGs, but which have greatly strengthened their **organised nature**: this is the case, for example, of **organised property crimes** (see Section 4.10). The huge returns (with low risks) guaranteed by the theft of certain goods, for example medicines (mainly anti-cancer and immunosuppressive), are attracting numerous criminal actors, ranging from Eastern European OCGs to Italian mafias (Riccardi, Dugato, & Polizzotti, 2014).

Although **counterfeiting** is less perceived as a serious crime (Eurobarometer, 2011), it may *potentially* generate billions of euro of illegal proceeds, given the significant propensity of European citizens to buy counterfeit products (see 4.5).

Lastly, **illicit trade in tobacco products (ITTP)**, is a growing and evolving market characterised by a plurality of products (e.g. smuggled, counterfeit and *illicit whites*), criminal opportunities and criminal actors (see Section 4.4).

#### The overlaps among different illicit markets

Some illicit markets are crucial not only because of the high proceeds that they can generate, but also because they facilitate other criminal activities. For example, **illegal gambling** creates the ideal environment in which demand for loans may arise, thus facilitating **usury** (see 4.6 and 4.8).

Overlaps among different illicit markets may occur also in terms of products and sale channels. In this regard, **illicit trades are emerging as combinations of different illegal activities** (e.g. counterfeiting, smuggling, theft, fraud). Examples may include:

- **Medicines**: stolen medicines may be adulterated before being sold on both legal and illegal markets. At the same time, e-pharmacies sell both stolen and counterfeit medicines (Interpol 2014c; Riccardi, Dugato, & Polizzotti, 2014; see 4.10);
- **Vehicles and car parts**: stolen car parts are often used in the production of counterfeit goods. Vice versa, counterfeit documents may be used to steal and smuggle stolen cars (see e.g. Gounev & Bezlov, 2008; see 4.10);

- **Credit cards fraud**: the mass theft of financial and digital identities is often a precondition for carrying out *plastic frauds* or other types of fraudulent activity (see 4.9)
- **Tobacco products**: the same vendors at the retail level may sell both counterfeit and smuggled cigarettes (see Section 4.4);
- **Firearms**: firearms traffickers may handle stolen, converted or illegally manufactured weapons (see 4.3).

#### The increasing involvement of legitimate companies in illicit markets

Besides these trends, an increasing role of **legitimate businesses** in illicit markets can be identified. For example, companies are becoming crucial:

- for committing **fraud**: e.g. in VAT carousel schemes (through the setting up of shell businesses in various countries) and also in **fuel-related frauds** (e.g. fuel smuggling or excise tax frauds);
- as **fronts for illicit trafficking**: e.g. the use of transportation firms or wholesale food companies to smuggle drugs (see also Part 2, Chapters 7 and 8);
- for **product laundering purposes**: e.g. legal wholesalers may be exploited to acquire and then sell on the legal market (often using falsified documents or new packaging) stolen goods (e.g. medicines - see 4.10 - or car parts) or adulterated products (such as fuel).

#### New products in a twilight zone between licit and illicit

Equally important is the emergence of **new products on the boundary between legal and illegal** markets: this is the case, for example, of *illicit whites cigarettes* (see 4.4.1), produced legally in one country and then illegally distributed in others; or firearm *replicas*, which, manipulated, can become illegal firearms (see 4.3).

All these overlaps between illicit products and activities and legitimate markets must be taken into account also when analysing criminal investments, as in Part 2 of this report.

## 3.4. Social and economic costs

Although the focus of OCP is on the revenues from illicit markets, these crimes produce **costs for the European society and economy** that are significant and warrant brief discussion.

The main types of costs suffered by the victims of illicit markets and organised crime can be classified in the following categories, also by building on previous research (e.g. Levi et al., 2013):

- **Health and safety costs**: especially drugs and THB, as well as ITTP, seem to be associated with health damage. Medical harms arise from toxic substances present in drugs (Levi et al., 2013, p. 16) and in many counterfeit medicines. The trafficking in human beings also causes health costs for its victims, both in sexual exploitation and forced labour. Counterfeit products - toys, games, spare parts of vehicles - of poor quality pose a serious threat to consumers' safety (see 4.5).

- **Loss of taxes:** local governments, as well as the EU, suffer tax losses as a result of criminal activities like VAT fraud, excise fraud and ITTP. Because the price of cigarettes mostly consists of taxes (80.1%), the consumption of smuggled and counterfeit tobacco products causes significant losses for the state budget (see 4.4).
- **Loss of consumers' wealth:** some forms of illicit activities, such as fraud or organised property crime, directly target the possessions of individuals (Levi et al., 2013). The costs associated with replacing stolen possessions or other consequential costs may add to these figures.
- **Loss of legal companies' revenues:** companies may suffer direct losses from a variety of illicit activities. The loss caused by organised theft often exceeds the value of the stolen product. In the case of copper theft from a railway, the costs of repairing the damage to the infrastructure and the disruption of rail transport exceed the value of the actual copper (see Section 4.10). In addition, damage to a company's reputation may cause additional losses (e.g. if stolen medicines are adulterated and placed back on the legal market, causing harm to patients). When companies suffer considerable damage, job losses may ensue.
- **Distortion of market competition:** companies are not only victims of crime; they may also be (wittingly or not) accomplices or perpetrators. Companies that use illegal goods and services gain an unfair advantage over companies that do not. Furthermore, unfair competition can also arise from the counterfeiting and smuggling of a wide array of goods (UNICRI, 2011; Savona, 2014, p. 7).
- **Insurance costs and security costs:** organised theft and fraudulent activities (e.g. 'cash-for-crash' scams – see 5.7) victimize insurance companies, and this raises insurance costs. Moreover, sectors vulnerable to certain illicit activities (e.g. transport companies to cargo theft) may sustain higher costs to ensure protection and insurance.
- **Law enforcement costs:** although it is difficult to quantify the spending by LEAs specifically combating illicit markets and organised crime, the costs may exceed several hundred millions of euro, considering both LEAs at European level (e.g. Europol, Eurojust, OLAF) and National Police forces. In the UK alone, costs exceed 500 million euro, according to Levi et al, (2013). Additional costs derive from the prosecution and punishment of members of OCGs.
- **Violence:** it is difficult to determine exactly the *costs of violence* by criminal groups operating in illicit markets, but they may derive from an array of violent actions ranging from intimidation, vandalism, arson to homicides.

# 4. Focus on ten illicit markets

This chapter conducts in-depth analysis **focusing on 10 illicit markets**.<sup>61</sup> illicit drugs (cocaine, heroin, cannabis, amphetamines and ecstasy – see Section 4.1), trafficking in human beings (see 4.2), illicit trafficking in firearms (ITF – see 4.3), illicit trade in tobacco products (ITTP – 4.4), counterfeiting (4.5), illegal gambling and match-fixing (4.6), extortion racketeering (4.7), usury (4.8), fraud (4.9) and organised property crime (4.10).

As discussed in 2.1, these markets have been selected by drawing on the list of **serious crimes (Euro crimes)** provided by art 83 (1) of the TFEU because of their **profitability**,

**prominence and strategic role** in the economy of OCGs and, because of the **significant threat** posed to European society, economy and political environment (see 3.4).

For each illicit market, the analysis will cover two aspects:

- estimates of the scale of illicit revenues from a review of available estimates and a description of those calculated ex novo;
- the criminal actors involved in the market, with a specific focus on organised crime groups.

## 4.1 Illicit drugs market

Luca Giommoni (Università Cattolica del Sacro Cuore – Transcrime, Italy)

### 4.1.1. Introduction

Despite the emergence of new illegal markets, illicit drug trafficking is still **one of the main sources of income for OCGs** (Reuter & Truman, 2004; Europol, 2013a). The trafficking in illicit drugs from producer countries (e.g. Afghanistan, Colombia, Morocco, etc.) to consumer markets requires a minimum level of organisation and the participation of several actors (independent traffickers, OC groups, loose groups, etc.) with different roles along the supply chain. This trafficking generates a substantial flow of money, which OCGs may use to finance other illicit activities or to invest in the legitimate economy.

However, the fact that the drugs market may produce a large amount of money does not mean that all the actors involved in its supply are affluent. The presence of **numerous competitors** entails that drug suppliers are **unable to apply high profit margins** and do not have the power to charge more than their marginal costs (Reuter & Kleiman, 1986). Indeed, several studies (Reuter, MacCoun, & Murphy, 1990; Levitt & Venkatesh, 1998) have shown that many of the actors

supplying illicit drugs, especially those at the bottom, make modest incomes and may have a modest impact in terms of investment in the legal economy.

This Section reports estimates of the revenues of the illicit drugs market across European countries (Section 4.1.2) and analyses the **main OCGs** involved in drug trafficking (Section 4.1.7). The drugs considered in this Section are heroin, cocaine, cannabis and amphetamine-type drugs (which include amphetamines, methamphetamines and ecstasy).

The illicit drug market is **rapidly changing, with new substances** (e.g. cathinones, piperazines, etc.) adding to the classic drugs. However, the market for these new drugs is, currently, particularly volatile and their consumption seem restricted to small groups (EMCDDA & Europol, 2013). Although in the near future these substances may represent a possible source of income for several OCGs, there are currently few reasons to assume that they will have an impact on the legal economy.

### 4.1.2. Estimates of the illicit drugs market

Although it is widely acknowledged that the supply of illegal drugs represents a large share of the revenues of OCGs (Reuter & Truman, 2004; Transcrime, 2013a), estimating the amount of money that OCGs collect from the drugs market is **hampered by various factors**. First, it is difficult to estimate the scale of the market because of the lack and diversity of

61. As mentioned above (see 2.1), not all of them may be clearly defined as 'markets'. While some involve the voluntary exchange of goods between actors (e.g. illicit drugs or firearms), others do not (e.g. frauds). However, for the sake of brevity in this report they are all referred to as 'illicit markets' or 'illicit activities' or, in some cases, 'illicit trafficking'.

available data and sources; secondly, it is difficult to quantify how much of this amount of money goes to OCGs rather than to other non-organised actors.

Estimates of the illicit drug market may generate very different values according to the data, assumptions and methodology employed. In the past ten years there has been a **flourishing of estimates** of the value of the illicit drug market across European countries (Pudney et al., 2006; Kilmer & Pacula, 2009; Transcrime, 2013a). However, due to the differences in the data and methods adopted, the various attempts have produced different figures (see the Methodological Annex for details) that are often difficult to compare.

As regards the second difficulty, it should be borne in mind that **only some of the revenues generated by the illicit drug market go to OCGs**. As said above, numerous actors are involved in the supply of illicit drugs, with different roles along the supply chain (Reuter & Haaga, 1989; Caulkins & Reuter, 1998). Hence, the total revenues generated by the market must be divided among independent traffickers, retail dealers, criminal organisations, loose groups and other actors (Matrix Knowledge Group, 2007; Caulkins, Gurga, & Little, 2009). Scholars have not yet been able to fully understand how proceeds distribute along the supply chain, although some hypotheses can be made (see Chapter 6).

This Section presents the **estimates of the illicit markets** for heroin, cocaine, cannabis and amphetamines.

- In an attempt to produce comparable figures across countries and markets, the estimates for **heroin and cocaine** presented in this Section have been calculated by Transcrime specifically for the purpose of the OCP project on the basis of the methodology described in detail in the Methodological Annex. The new estimates will be compared with previous estimates reported in the academic literature.
- For **cannabis** and amphetamine-type drugs (**amphetamines** and **ecstasy**), no specific figures were calculated; rather the most updated and solid estimates available in the academic literature are reported and commented on.

It should be stressed that the figures presented here represent the **total value** generated by drug trafficking at the retail level in the 28 EU MS (i.e. the total expenditure of drug-consumers). They do not refer only to the revenues attributable to OCGs but to **all the actors involved** in the supply of illicit drugs.

Given the limitations described above, estimated for each country was a lower and upper bound as well as a *best value*.<sup>62</sup> Although the methodology adopted was consistent with the most recent literature in the field (see the Methodological Annex for details) these values must be taken cautiously and only as proxies for the magnitude of the wealth that criminal groups may obtain from the illicit drugs trade and then launder in the legitimate economy.

### 4.1.3. Estimates of the heroin market

Table 9 presents the revenues of the **heroin market** estimated by using the methodology described in the Methodological Annex. According to these figures, the European heroin

market may be quantified as amounting to **between 6.4 and 10.7 billion euro, with a mid-value of almost 8.0 billion euro**.<sup>63</sup> The 7 OCP countries alone, with an expenditure of 5.7 billion euro, account for 71% of the entire EU heroin market.

The **United Kingdom** is by far the biggest market in Europe for heroin, with a range estimated between 1.8 and 3.1 billion euro. Besides the United Kingdom, **Italy, Germany and France** are the biggest markets for heroin. The heroin market in Italy is estimated at between 1.1 and 1.8 billion euro, while the expenditure on heroin in Germany has been quantified at between 0.9 and 1.6 billion euro. Slightly lower is the value of the heroin market in France, which this study quantifies at between 0.7 and 1.3 billion euro.

Besides these four major markets, several other European countries record substantial expenditure on heroin, such as Ireland (623 million euro), Austria (317.5 million euro) and Spain (270.5 million euro).

As already said, minor changes in the estimation methodology may lead to remarkable differences in the final figures. Nevertheless, there are **important similarities between these figures and the previous estimates**, and this may confirm the consistency of the estimation. For instance, the mid-value of heroin expenditure for France, the Netherlands and Spain lay between the lower and upper bounds estimated in Kilmer and Pacula (2009). In the UK, in particular, Kilmer and Pacula (2009) quantified the national expenditure on heroin at 2.3 billion euro, a value which perfectly matches the best estimate provided here, which is also similar to the recent estimate by Kilmer et al. in 2013 (2.5 billion euro) but slightly higher than that by Mills, Skodbo and Blyth (2013) (1.5 billion euro).

The main differences between these estimates and previous ones regard **Ireland, Finland and Italy**. These discrepancies are mainly due to the **different methodological approaches** adopted in previous studies. For instance, Connolly (2005), using a seizure-based approach, estimated the heroin market in Ireland at about 54 million euro, which is far lower than the figure provided here. For the purpose of these estimates, it was preferred not to rely too closely on seizures, because they may be affected by factors other than consumption/demand, such as law enforcement effectiveness, illicit trade routes and supply (see the Methodological Annex for details).

### 4.1.4. Estimates of the cocaine market

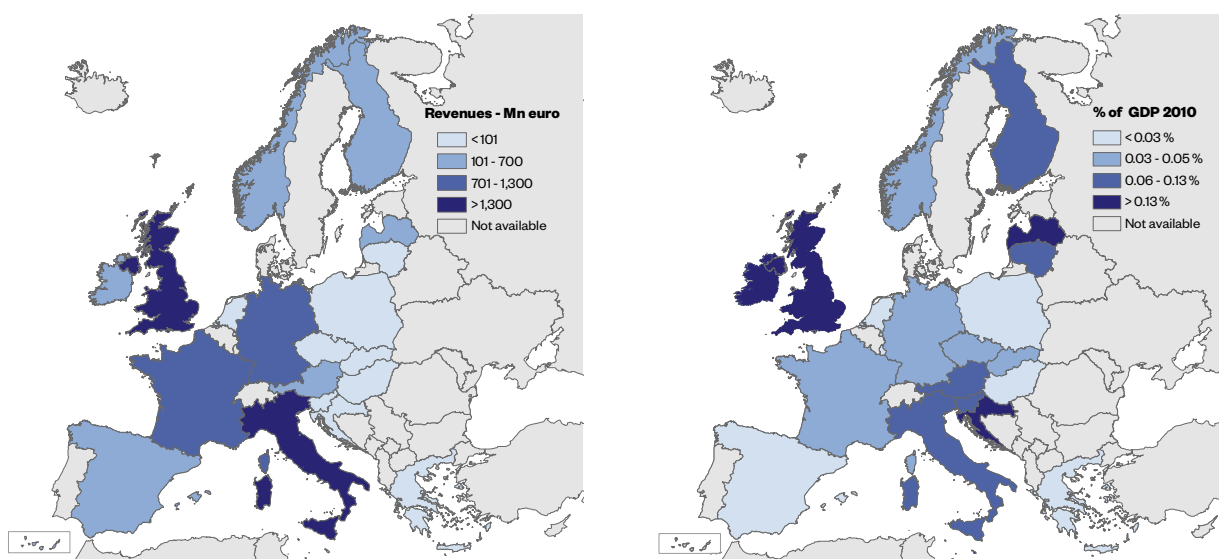
Table 11 presents the estimates, developed by Transcrime for the purpose of the OCP Project, of the cocaine market across EU MS. According to these figures, the **European cocaine market is worth between 5 and 7.5 billion euro**. The revenues of the 7 OCP countries are equal to 5.3 billion euro (mid-value), and they account for 78% of the entire EU market.

As in the case of heroin, **Italy and the United Kingdom** are the biggest markets for cocaine (respectively 1.7 and 1.5 billion euro according to midpoint estimates). After Italy and the UK, the countries with the highest expenditures on cocaine are Spain, France and Germany. To be noted is that, in Spain, revenues from the cocaine market are far higher than those from heroin (see also Section 5.6). This may reflect the greater

62. The best value is calculated using the most reliable (or best) assumptions for estimating the drugs market derived from the literature. These assumptions regard the number of users, the quantity of drug consumed per user, and drug purity (for more detailed discussion see the Methodological Annex).

63. It is worth stressing again that this figure represents the total revenues from the heroin market and not what OC groups earn from dealing in heroin. This means that the 8 billion euro must be shared among several different actors and that only part of the sum goes to OCGs.

**Figure 9 - Estimates of the scale of heroin market for the available EU MS. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 9 and Eurostat data

**Table 9 - Estimates of the revenues of the heroin market (EU 19 MS and Norway)**

Country	Best estimate (million euro)	Min (million euro)	Max (million euro)	Reference year
Austria	318	254	423	2011
Croatia	79	63	105	2010
Czech Republic	64	51	85	2012
Finland*	102	81	136	2005*
France	957	766	1,276	1999
Germany	1,193	954	1,590	2011
Greece	54	44	73	2012
Hungary	19	15	25	2010-2011
Ireland	623	498	830	2006
Italy	1,370	1,096	1,826	2012
Latvia	205	164	273	2010
Lithuania	36	29	48	2007
Malta	18	14	23	2012
Netherlands	54	43	72	2012
Norway	163	130	217	2008
Poland	84	67	111	2009
Slovakia	29	23	38	2008
Slovenia	37	30	50	2011
Spain	270	216	361	2011
United Kingdom	2,321	1,857	3,094	2010-2011
<b>Total OCP Countries</b>	<b>5,697</b>	<b>4,557</b>	<b>7,595</b>	
<b>Total EU 19 and Norway</b>	<b>7,996</b>	<b>6,395</b>	<b>10,656</b>	

\* Several indicators suggest that, over the past ten years or so, buprenorphine and other medical opioids have replaced heroin in Finland (see Varjonen, Tanhua, & Forsell, 2013).

Source: Transcrime elaboration on EMCDDA and Kilmer & Pacula (2009) data

**Table 10 - Previous estimates of the revenues of the heroin market for OCP countries**

Country	Best estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Finland	49	33	99	2005	Kilmer & Pacula, 2009	
France	577	430	1,031	2005	Kilmer & Pacula, 2009	
Ireland	213	142	427	2005	Kilmer & Pacula, 2009	
	54			2004	Connolly, 2005	
Italy	1,153			2011	Giommoni, 2014	
	1,842			2009	Transcrime, 2013a	
	2,453			2010	Fabi, Ricci, & Rossi, 2011	
	3,340			2009	Rossi, 2013	
	1,980			2008	Di Censi et al., 2010	
	1,623	1,326	2,649	2005	Kilmer & Pacula, 2009	
	<i>1,467</i>	887	2,046	2005	Baldassarini & Corea, 2009	
	862	855	868	2005	Canzonetti, 2009	
Netherlands	79	52	157	2005	Kilmer & Pacula, 2009	
Spain	360	240	721	2005	Kilmer & Pacula, 2009	
United Kingdom	1,508 <sup>a</sup>			2010	Mills, Skodbo, & Blyth, 2013	Crack cocaine and heroin; Whole UK; OCG share
	1,360 <sup>b</sup>			2010	Mills, Skodbo, & Blyth, 2013	Crack cocaine and heroin; England and Wales; OCG share
	2,500			2006	Kilmer et al., 2013	
	2,303	1,536	4,607	2005	Kilmer & Pacula, 2009	
	1,714 <sup>c</sup>	1,390 <sup>c</sup>	2,037 <sup>c</sup>	2003-2004	Pudney et al., 2006	
<sup>a</sup> Original figure: 1,300 million GBP, converted into euro using the 31/12/2010 exchange rate (Source ECB). <sup>b</sup> Original figure: 1,172 million GBP, converted into euro using the 31/12/2010 exchange rate (Source ECB). <sup>c</sup> The original figures were 1,207, 979 and 1,434 million GBP, converted into euro using the 31/12/2003 exchange rate (Source ECB). # Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						



**Table 11 - Estimates of the revenues of the cocaine market (EU 24 MS)**

Country	Best estimate (million euro)	Min (million euro)	Max (million euro)	Reference year
Austria	131	98	147	2008
Belgium	87	65	97	2008
Bulgaria	17	12	19	2012
Croatia	32	24	36	2012
Cyprus	N/A	N/A	N/A	N/A
Czech Republic	56	42	63	2012
Denmark	82	61	92	2013
Estonia	18	14	21	2008
Finland	17	13	19	2010
France	755	563	845	2010
Germany	823	615	922	2012
Greece	16	12	18	2004
Hungary	21	16	24	2007
Ireland	90	67	101	2011
Italy	1,699	1,268	1,902	2008
Latvia	6	4	6	2011
Lithuania	7	5	8	2012
Luxembourg	N/A	N/A	N/A	N/A
Malta	N/A	N/A	N/A	N/A
Netherlands	85	63	95	2005
Poland	83	62	93	2012
Portugal	24	18	27	2012
Romania	39	29	43	2010
Slovakia	11	8	12	2010
Slovenia	15	11	17	2012
Spain	1,199	895	1,343	2011
Sweden	N/A	N/A	N/A	N/A
United Kingdom	1,452	1,084	1,625	2012
<b>Total OCP countries</b>	<b>5,297</b>	<b>3,953</b>	<b>5,930</b>	
<b>Total EU 24</b>	<b>6,765</b>	<b>5,049</b>	<b>7,575</b>	

Source: Transcrime elaboration on EMCDDA and Frijns & Van Laar (2013)

availability of cocaine in Spain, given its role as destination country for shipments from South America (EMCDDA, 2014; see Section 5.6). Much smaller is the estimate of the revenues from cocaine in Finland, Ireland and the Netherlands.

Cross-checking the values reported in Table 11 with **previous estimates** (see Table 12 below) seems to confirm the validity of the OCP estimates. The figures provided here for France, Italy, the Netherlands and United Kingdom fall within the range estimated by Kilmer and Pacula (2009). As for the UK, the OCP estimate closely matches the assessment by Mills, Skodbo and Blyth (2013) considering powder cocaine alone (1,380.5 million euro). Although obtained using a seizure-based approach, also the estimate by Connolly (2005) for Ireland is

close to the one provided here and quantified at 75 million euro.

The main differences regard the Italian cocaine market, in particular when comparing the figure provided here with the results obtained by Fabi, Ricci and Rossi (2011), Rossi (2013) and Sallusti (2013). These differences may be due to the adoption of different consumption rates.<sup>61</sup> However, to be

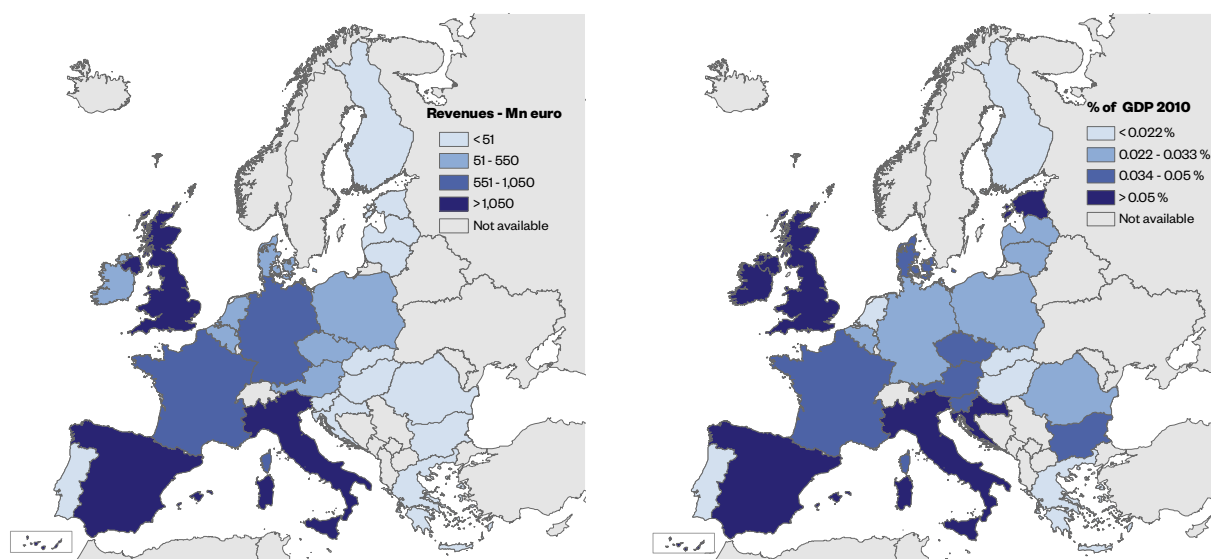
61. In particular, a higher rate per consumption was adopted by previous studies. For example, Fabi, Ricci and Rossi assumed 2 grams of cocaine per day per 300 days of consumption in a year. Sallusti (2013) assumed an annual consumption by frequent cocaine users of between 225 and 195 grams. The OCP estimate adopts a consumption rate based on previous studies, such as Frijns and van Laar et al. (2013) and Kilmer and Pacula (2009).

**Table 12 - Previous estimates of the revenues of the cocaine market for the OCP countries**

Country	Best estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
France	488	129	1,257	2005	Kilmer & Pacula, 2009	
Ireland	75			2004	Connolly, 2005	
Italy	1,171			2011	Giommoni, 2014	
	10,266			2009	Sallusti, 2013	
	1,711			2010	Transcrime, 2013a	
	9,771			2009	Fabi, Ricci, & Rossi, 2011	
	12,590			2008	Rossi, 2013	
	5,413			2005	Di Censi et al., 2010	
	2,489	658	6,415	2005	Kilmer & Pacula, 2009	
	3,231	2,774	3,688	2005	Baldassarini & Corea, 2009	
	4,030	3,963	4,096	2005	Canzonetti, 2009	
Netherlands	102	27	157	2005	Kilmer & Pacula, 2009	
Spain	1,963	519	721	2005	Kilmer & Pacula, 2009	
United Kingdom	1,067 <sup>a</sup>			2010	Mills, Skodbo, & Blyth, 2013	Powder cocaine; Whole UK; OCG share
	944 <sup>b</sup>			2010	Mills, Skodbo, & Blyth, 2013	Powder cocaine; England and Wales; OCG share
	3,133	828	8,073	2005	Kilmer & Pacula, 2009	
	3,484 <sup>c</sup>	2,545	4,607	2003-2004	Pudney et al., 2006	Sum powder and crack cocaine
<sup>a</sup> Original figure: 920 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB). <sup>b</sup> Original figure 814 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB). <sup>c</sup> Original figures: 973 (powder) and 1,480 (crack) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB). <sup>#</sup> Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						



**Figure 10 - Estimates of the scale of cocaine market for the available EU MS. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 11 and Eurostat data

noted is that the OCP estimate is consistent with Giommoni (2014), who quantified cocaine consumption in 2012 in Italy using data from wastewater analysis (1,171 million euro).

#### 4.1.5. Estimates of the cannabis market

Because no specific estimates have been calculated for the purpose of the OCP project, this Section reports the estimates provided by one of the most comprehensive studies on cannabis in Europe, i.e. Caulkins, Kilmer and Graf (2013). According to these figures (see Table 13), which combine information from a web survey and EMCDDA data, the cannabis market in Europe ranges **between 6.7 and 9.8 billion euro** before adjusting for the consumption gap.<sup>65</sup> The latter is defined as the difference between actual consumption and what would be estimated on the basis of surveys. As the Methodological Annex points out, there are several difficulties in estimating revenues from the drugs market. One of them is that estimates of the number of drug users through household surveys may not capture the entire user population but only part of it. Caulkins, Kilmer and Graf (2013) do not correct their estimate according to this factor but point out that the **reported values are conservative** and should be adjusted according to this **consumption gap**.<sup>66</sup>

65. Differences between lower (6.7 billion euro) and upper (9.8 billion euro) bounds reflect the different methods employed. One used a consumption-based approach, while the other used a spending-based method. For a more detailed discussion see Caulkins, Kilmer and Graf (2013).

66. As the authors write: "This paper does not calculate or advocate for the use of a particular "consumption gap" adjustment; we think this is best done ex post in a judgmental way, not via some calculation that creates an artificial sense of precision. If one believes that these survey-based estimates only capture half of the market (an estimate that is not uncommon in the alcohol literature, but generally larger than the figures typically used for cannabis), then the market would be 13.4 billion to 19.6 billion euro—still lower than UNODC's estimate (2005) and the upper bound offered by Kilmer and Pacula (2009). Those comfortable with the more conventional adjustment of bumping up by 25% would estimate the range to be 8.4 billion to 12.1 billion euro" (Caulkins, Kilmer, & Graf, 2013, p. 314).

The expenditure on cannabis for the **7 OCP countries represents about 80% of the entire cannabis market** in Europe. According to the estimates presented in Table 13, Spain, with 1.6 billion euro, is the biggest market for cannabis in Europe, followed by Italy (1.4 billion), France (1.3 billion) and the United Kingdom (0.8 billion).

Table 14 shows that cannabis has a **large variance** in terms of estimates across different studies. This may suggest the adoption by different authors of very different methods, data and sources. In particular, estimates by Caulkins, Kilmer and Graf (2013) present generally lower values with respect to previous studies (see Table 14). This is due to the results of a web survey suggesting a lower rate of consumption per user with respect to previous evidence (Caulkins, Kilmer, & Graf, 2013, p. 314).

#### 4.1.6. Estimates of the market of amphetamine-type drugs

Table 15 and Table 16 report the estimates by Kilmer and Pacula (2009) of the revenues for amphetamine-type drugs (namely **amphetamines, methamphetamines and ecstasy**) across European countries. Given the novelty of these substances and the scant literature about them, there are **many fewer studies** compared with those on cannabis, heroin and cocaine.

Owing to the lack of knowledge about these substances, in particular in terms of rate of consumption per user, no OCP-specific estimates are given here, but only the **figures provided by previous studies**, in particular Kilmer and Pacula (2009). Considering the scant information on consumption patterns, Kilmer and Pacula were not confident in providing a best estimate, but calculated "the largest, but still defensible range" (Kilmer & Pacula, 2009, p. 43). This produced a very large interval between the lower and the upper bound of the estimates.

According to the estimates by Kilmer and Pacula (2009), the value of the illicit market for amphetamine-type drugs for the 7 OCP countries ranges between **1.1 and 5 billion euro**, with

**Table 13 - Estimates of the revenues of the cannabis market (EU 27)**

Country	Estimate (million euro)	Reference year
Austria	52	2008
Belgium	125	2008
Bulgaria	17	2008
Cyprus	7	2009
Czech Republic	47	2010
Denmark	41	2010
Estonia	7	2008
Finland	21	2010
France	1,277	2010
Germany	563	2009
Greece	28	2004
Hungary	43	2007
Ireland	47	2010
Italy	1,356	2008
Latvia	9	2007
Lithuania	15	2008
Luxembourg	5	2005
Malta	0.7	2001
Netherlands	305	2009
Poland	134	2006
Portugal	62	2007
Romania	8	2010
Slovakia	43	2006
Slovenia	45	2007
Spain	1,575	2009
Sweden	69	2010
United Kingdom	787	2010-2011
<b>Total OCP countries</b>	<b>5,368</b>	
<b>Total EU-27</b>	<b>6,689</b>	

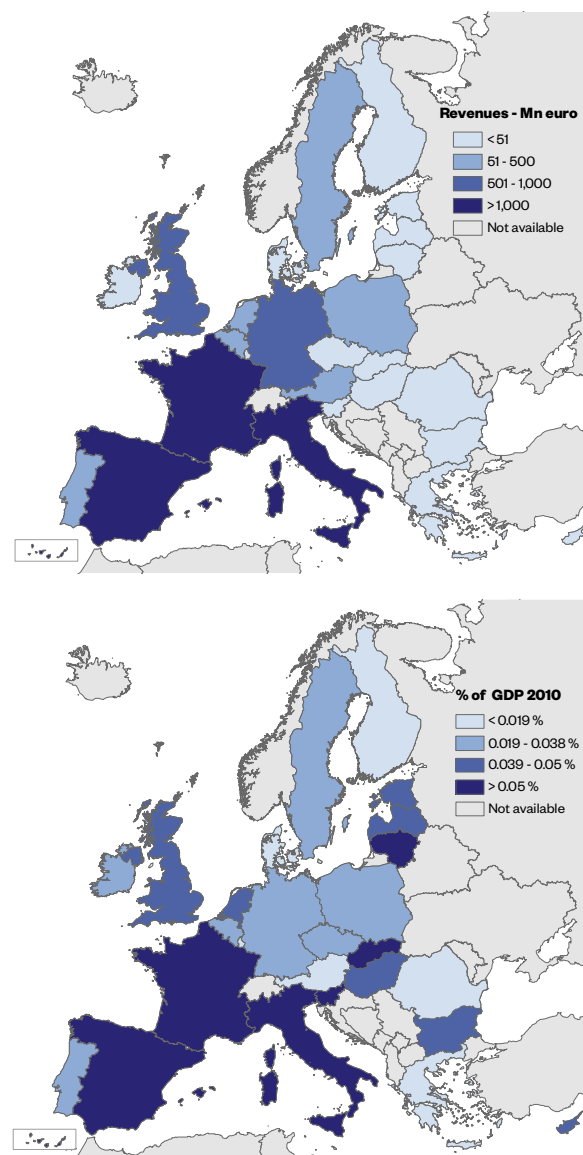
Source: Caulkins, Kilmer, & Graf, 2013

the ecstasy market worth between 486 and 2,515 million, and the amphetamine market between 610 and 2,516 billion. **Italy and UK** are the largest markets, among the OCP countries, for both ecstasy and amphetamines, followed by Spain.

#### 4.1.7. Actors

As reported in previous chapters, according to Europol there are 3,600 organised crime groups in Europe, of which at least 30% are involved in drug trafficking (Europol, 2013a). Owing to the involvement of complex criminal organisations, like Italian mafias, many popular accounts describe the drugs market as being controlled by few, big and very organised criminal

**Figure 11 - Estimates of the scale of cannabis market for the available EU MS. Absolute values (above) and percentages of GDP (below)**



Source: Transcrime elaboration on estimates reported in Table 13 and Eurostat data

organisations (e.g. Saviano, 2008; Glenny, 2009). However, the academic literature describes the organisation of the drugs supply-chain in almost the opposite terms.

Profits connected to the trafficking, low entry barriers, and combined repression by law enforcement agencies make the illicit drugs market a **competitive business with numerous competitors and few opportunities to monopolize the business** (Pearsons & Hobbs, 2001; Kenney, 2007). Some ethnicity-based OCGs (for instance Albanians and Turkish for heroin) may have a key role in the supply chain, also because of proximity to illicit trafficking routes. However, this does not mean that a few organisations monopolize the supply of drugs. As Zaitch points out with regard to the cocaine market, there

**Table 14 - Previous estimates of the revenues of the cannabis market for the OCP countries**

Country	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Finland	137	61	286	2005	Kilmer & Pacula, 2009	
France	2,233	997	4,647	2005	Kilmer & Pacula, 2009	
	789	746	832	2005	Legleye, Lakhdar, & Spilka, 2008	
Ireland	49	22	101	2005	Kilmer & Pacula, 2009	
	379			2004	Connolly, 2005	
Italy	547			2012	Giommoni, 2014	
	3,140	1,649	4,632	2008	Transcrime, 2013a	
	9,511			2010	Fabi, Ricci, & Rossi, 2011	
	7,030			2009	Rossi, 2013	
	3,579			2008	Di Censi et al., 2010	
	2,956	1,320	6,154	2005	Kilmer & Pacula, 2009	
	1,155	793	1,516	2005	Baldassarini & Corea, 2009	
	4,319	4,248	4,390	2005	Canzonetti, 2009	
Netherlands	387	173	805	2005	Kilmer & Pacula, 2009	
Spain	1,600	716	3,324	2005	Kilmer & Pacula, 2009	
United Kingdom	1,392 <sup>a</sup>			2010	Mills, Skodbo, & Blyth, 2013	Whole UK
	1,228 <sup>b</sup>			2010	Mills, Skodbo, & Blyth, 2013	England and Wales
	1,515	677	3,152	2005	Kilmer et al., 2013	
	1,464 <sup>c</sup>	850 <sup>c</sup>	2,078 <sup>c</sup>	2003-2004	Pudney et al., 2006	

<sup>a</sup> Original figure: 1,200 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).  
<sup>b</sup> Original figure: 1,059 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).  
<sup>c</sup> Original figures: 1,031 (average), 598.5 (min) and 1,463.5 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).  
<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

are numerous groups different in size, structure and means which collaborate and compete with several others in order to smuggle drugs to Europe (Zaitch, 2007).<sup>67</sup>

Indeed, according to many observers, the prime objective of any group supplying drugs is not to monopolize the supply of drugs and to control prices, but rather to **reduce the risk of arrests and violence** (Paoli, 2002, 2004; May & Hough, 2004; Kenney, 2007; Babor et al., 2010). According to the literature, although some criminal groups can gain a large share in the supply of some drugs, they do not seem able, nor willing, to fix drug prices (Paoli, 2002).

Despite the fragmentation of the drugs supply chain, the next Sections identify the **main criminal groups** active in the supply of illicit drugs (heroin, cocaine, cannabis and amphetamine-type drugs) across European countries, with a particular focus on the seven OCP countries. To be noted

67. For instance the Palermo 'maxi-trial', investigating the transcontinental trafficking in heroin during the 1980s, confirmed the competitiveness in the supply of illicit drugs, as well as the absence of a monopoly. As Letizia Paoli points out after examination of the judicial acts "A precise reading of the judicial acts reveals, however, that the various phases were managed by members of different mafia families who, rather than considering themselves part of the same economic unit, jealously guarded their own networks of clients and suppliers as well as their specializations" (Paoli, 2004, p. 198).

**Table 15 - Estimates of the revenues of the market for amphetamines in 24 EU MS (2005)**

Country	Estimate (million euro)	Min (million euro)	Max(million euro)
Austria	90	35	144
Belgium	34	13	55
Cyprus	2	1	3
Czech Republic	158	62	255
Denmark	57	22	92
Estonia	8	3	13
Finland	41	16	66
France	55	21	88
Germany	511	199	822
Greece	9	3	14
Hungary	67	26	107
Ireland	16	6	26
Italy	284	111	457
Latvia	25	10	40
Lithuania	5	2	8
Luxembourg	1.2	0.5	2
Netherlands	19	7	30
Poland	164	64	264
Portugal	12	5	20
Slovakia	39	15	61
Slovenia	3	1	5
Spain	338	132	544
Sweden	31	12	50
United Kingdom	811	317	1,305
<b>Total OCP Countries</b>	<b>1,564</b>		
<b>Total EU 24</b>	<b>2,778</b>		
# Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.			

Source: Kilmer & Pacula, 2009

again is that these groups may act either in collaboration or in competition with several other actors (both organised and structured or 'freelance').

#### 4.1.7.1. Actors in the heroin market

The **Balkan route** is the shortest path connecting **Afghanistan** (the main producer of opium) to Europe (EMCDDA, 2014). The heroin travels from Afghanistan to Western and Central Europe across Turkey. Once it has crossed the Turkish border, the Balkan route splits into three branches: the Northern, the Southern and the Western.

**Table 16 - Previous estimates of the revenues of the market for ecstasy in 25 EU MS (2005)**

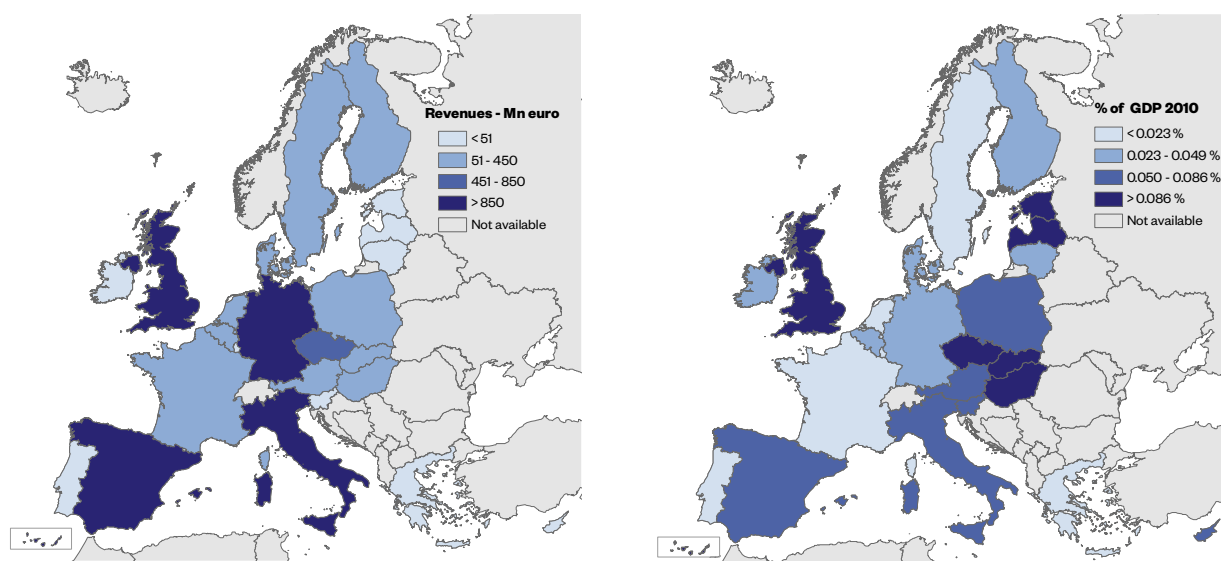
Country	Estimate (million euro)	Min (million euro)	Max(million euro)
Austria	95	21	169
Belgium	54	12	97
Cyprus	11	2	19
Czech Republic	304	66	542
Denmark	12	3	22
Estonia	19	4	33
Finland	47	10	83
France	190	41	338
Germany	430	93	767
Greece	35	8	62
Hungary	61	13	109
Ireland	30	7	54
Italy	639	139	1,140
Latvia	9	2	17
Lithuania	6	1	11
Luxembourg	3	1	5
Malta	0.8	0.2	1.5
Netherlands	73	16	130
Poland	19	4	35
Portugal	17	4	31
Slovakia	70	15	126
Slovenia	22	5	39
Spain	558	121	995
Sweden	48	10	85
United Kingdom	702	152	1,251
<b>Total OCP Countries</b>	<b>2,239</b>		
<b>Total EU 25</b>	<b>3,456</b>		
# Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.			

Source: Kilmer & Pacula, 2009

The Northern branch crosses Bulgaria and Romania to countries in Western and Central Europe. The Southern branch traverses Greece and Albania, heading mainly for Italy. The Western branch involves several Balkan countries (Croatia, Montenegro, Serbia, Bosnia and Herzegovina, Kosovo, Albania, the Former Yugoslav Republic of Macedonia, Slovenia) (UNODC, 2014b). A secondary source of supply is the Northern route, which crosses the Russian Federation to supply the Baltic states, Scandinavian countries, Germany and Bulgaria (EMCDDA, 2008).

The supply of heroin from South-West Asia to Europe seems to involve **numerous criminal groups**, such as independent

**Figure 12 – Estimate of the scale of amphetamine and ecstasy market for the available EU MS. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 14, Table 15 and Eurostat data

traffickers, OCGs, and loose networks. Table 17 reports the main OCGs involved in the supply of heroin across European countries, according to the evidence collected from the available literature with a focus on OCP countries (see Chapter 2 for details on the data collection methodology). As the table shows, although there are several groups supplying heroin in Europe, **Albanian and Turkish OCGs** seem to have key positions as both retailers and wholesalers in most EU countries (Kleemans, 2004; Paoli & Reuter, 2008; Reuter & Trautmann, 2009; EMCDDA & Europol, 2013).

There are **several reasons for their large presence**. Paoli and Reuter (2008) identify at least four reasons. First, their low social position within host countries with few opportunities for legal employment. Second, the immigrant diaspora of both Albanians and Turkish across several European countries. Third, the strong family ties of these communities, which create opportunities for business, as well as making them more resilient to law enforcement investigation. Fourth, the geographical proximity of Albania and Turkey to trafficking routes, which facilitates the access to raw materials (in this case heroin).

The large presence of Albanian and Turkish OCGs does not mean that they act as a single group or that they are able to monopolize the market (Paoli & Reuter, 2008). Although they may have the same ethnicity, this does not signify that they will necessarily cooperate; rather, they may compete against each other.

Besides Turks and Albanians, other groups involved in the distribution of heroin at various levels of the supply system are **Italian OCGs** like Cosa Nostra and Camorra in France and Italy, **African groups** in France and Denmark, and **Motorcycle gangs** in Germany and Scandinavian countries (Kinzig & Luczak, 2004; Kleemans, 2004; DIA, 2011b). These may compete or cooperate with Albanians and Turks with different roles along the supply chain.

#### 4.1.7.2. Actors in the cocaine market

**Bolivia, Colombia and Peru** are the only countries producing cocaine worldwide, with half of the production concentrated in Colombia (UNODC, 2014b). The trafficking of cocaine from South America to Europe requires numerous steps and a minimum level of organisation.

Table 18 reports the main groups involved in the supply of cocaine to Europe. Like heroin, numerous groups cooperate and compete in the cocaine market; however, **Colombians** seem to have a dominant position in the import and wholesale distribution of cocaine to Europe (Paoli & Reuter, 2008). As said in regard to the large presence of Albanians and Turks in heroin trafficking, four factors may explain the dominant role of Colombians in cocaine distribution: low socio-economic status, a large immigrant diaspora, strong family ties, and proximity to production countries (Paoli & Reuter, 2008).

Since the 1990s, owing to the high levels of violence in the most populated cities, many Colombians have fled their country, with many of them arriving in Europe. According to the Colombian Institute of Statistics, in 2005 there were almost 300,000 Colombians in Spain, where they represented the **largest community** outside America (Departamento Administrativo Nacional de Estadística, 2005). The large presence of the Colombian community, as well cultural and language similarities, may explain the key role of **Spain as the destination country** for cocaine shipments from South America. In fact, according to the EMCDDA (2014), Spain with 20.2 tons is the first European country for the quantity of cocaine seized (see also Section 5.6).

Owing to the importance of ports like **Rotterdam** and airports like **Schiphol-Amsterdam**, also the **Netherlands** is a hub-country for the shipment of cocaine to Europe, which may explain the involvement of Dutch OCGs in the European cocaine market (Kinzig & Luczak, 2004; Kleemans, 2004). However, the relatively low figures on Dutch cocaine consumption levels suggest that the Netherlands is more likely to be a transit country than a sole destination/consumer



**Table 17 - Criminal groups involved in the supply of heroin across European countries**

OCGs	European Countries	Sources
African OCGs	France, Denmark, Netherlands	Reuter, 2009; Reuter & Trautmann, 2009; DNA, 2011; REITOX, & EMCDDA, 2012a; EMCDDA & Europol, 2013
Albanian OCGs	France, Germany, Italy, Switzerland, Netherlands, UK	Reuter, 2008; REITOX, & EMCDDA, 2012a, 2013; EMCDDA & Europol, 2013; Europol, 2013a; Trautmann, Kilmer, & Turnbull, 2013; UNODC, 2014b, 2014c
Other Asian OCGs	UK, Germany	SOCA, 2012; Europol, 2013a
Camorra	Italy	DNA, 2011
Cosa Nostra	Italy, France	DNA, 2011
Other Eastern European OCGs	Finland, Sweden, UK	McSweeney, Turnbull & Hough, 2008; EMCDDA & Europol, 2013; UNODC, 2014b
Motorcycle gangs	Germany, Finland	REITOX & EMCDDA, 2013
Romanian OCGs	Italy, Romania	EMCDDA & Europol, 2013; UNODC, 2014b
Turkish OCGs	France, Germany, Netherlands, UK	Kleemans, 2004; Paoli & Reuter, 2008; Reuter, 2009; Reuter & Trautmann, 2009; SOCA, 2012; REITOX & EMCDDA, 2013; EMCDDA & Europol, 2013; Europol, 2013a

**Table 18 - Main groups involved in the supply of cocaine across European countries**

OCGs	European Countries	Sources
African OCGs	France, Italy, Netherlands, Spain, UK	KLPD-IPOL, 2009; Reuter et al., 2009; DNA, 2011; REITOX & EMCDDA, 2012a, 2012c; UNODC, 2010a, 2013b, 2014a; Europol, 2013a
Albanian OCGs	France, Netherlands, Italy, Germany, Switzerland	DNA, 2011; REITOX & EMCDDA, 2012a; EMCDDA & Europol, 2013; Trautmann et al., 2013
Camorra	Italy, Spain	DNA, 2011; Transcrime, 2013a
Colombian OCGs	Italy, France, UK, Spain, Netherlands	Kleemans, 2004; Paoli & Reuter, 2008; SOCA, 2012; UNODC, 2010a; DNA, 2011; EMCDDA & Europol, 2013; Europol, 2013a;
Dutch OCGs	Germany, Netherlands	Kinzig & Luczak, 2004; Kleemans, 2004
Motorcycle gangs	Denmark, Finland	Kerkelä, 2011; EMCDDA & Europol, 2013; OSAC, 2014a
'Ndrangheta	France, Netherlands, Italy, Germany, Spain	DIA, 2014; DNA, 2011, 2014
North-African OCGs	Italy, Netherlands, Spain	UNODC, 2010a; DNA, 2011; REITOX & EMCDDA, 2012c; EMCDDA & Europol, 2013
South American OCGs	Italy, UK, France	Reuter et al., 2009; UNODC, 2010a; DNA, 2011; Europol, 2013a
Spanish OCGs	UK, Spain, Italy	McSweeney, Turnbull, & Hough, 2008; DNA, 2011

country. Hence, once cocaine has been imported into the Netherlands, Dutch OCGs may take part in the business and move the drug to other consumer markets (in particular Germany).

**Italian OCGs have lost the primary role** in international cocaine trafficking that they had during the 1990s (Paoli, 2004; EMCDDA, 2014). Law enforcement counteractions, as well as the emergence of new criminal groups (e.g. African, Colombian) have limited the key role of the Italian mafias in cocaine trafficking in Europe. However, among the Italian mafia groups, the **Calabrian 'Ndrangheta** seems still to retain an active role in cocaine trafficking across EU countries. The ubiquity of 'Ndrangheta networks across Europe, strong family ties, and reluctance to collaborate with law enforcement authorities enable the 'Ndrangheta to retain an important role

in the Italian and German distribution of cocaine (Europol, 2013a).

In the past few years, also **African OCGs** have emerged as major actors in the supply of cocaine to Europe (Reuter, 2009), supported by the expansion of African communities in Europe and the new trafficking routes from West African States (UNODC, 2014b).

#### **4.1.7.3. Actors in the cannabis market**

Cannabis is the **most consumed and trafficked illicit psychotropic substance** in Europe (EMCDDA, 2014). According to various sources, the large size of the cannabis market and the domestic production of cannabis plants have

increased the involvement of OCGs in the supply of cannabis products (EMCDDA, 2012; EMCDDA & Europol 2013).

Unlike coca or opium, cannabis plants can be grown quite easily in almost any part of the world. According to UNODC data, Leggett and Pietschmann (2008) reported that cannabis is **produced in at least 172 countries** across the world: “it appears that many countries can satisfy much of domestic demand with locally produced cannabis [...], and this **trend appears to be growing in many important markets**” (Leggett & Pietschmann, 2008, p. 190). Indeed, an **increase in indoor-grown cannabis** has been recently highlighted by EU agencies (EMCDDA, 2012a).

Although cannabis can be easily produced in almost every part of the world, most of the drug destined to Europe is ascribable to five non-EU countries: **Morocco, Afghanistan and Lebanon** for resin cannabis (or hashish), and **Albania and South Africa** for herbal cannabis (marijuana) (EMCDDA, 2012).

**Moroccan groups** are the major producers of cannabis resin and also have a leading role in its import into Europe. Their presence is closely related to the main entry points of cannabis into Europe (primarily Spain, but also France, Italy and Portugal), which are also major consumer markets (Leggett & Pietschmann, 2008; Paoli & Reuter, 2008; EMCDDA, 2012a). **Albanian groups** in several countries close to Albania – such as Greece, Italy, Slovenia, Hungary – are involved in the trafficking of cannabis resin. In regard to the supply of cannabis products (both herbal and resin) from producer to consumer countries, Albanians and Moroccan OCGs seem to collaborate with several indigenous groups (EMCDDA, 2012a, 2014; EMCDDA & Europol, 2013). **Dutch groups**, in particular, seem to have extended their activities beyond national borders to act as brokers between the major suppliers and importers (EMCDDA & Europol, 2013).

In recent years, several European countries (e.g. the UK, see Section 5.7) have witnessed the involvement of **Vietnamese OCGs** in the indoor cultivation of cannabis plants (Silverstone & Savage, 2010; Silverstone, 2011; EMCDDA, 2012a). Vietnamese OCGs have been able to exploit a large immigrant high-skilled and low-cost gardening labour force. This has facilitated the spread of domestic herbal resin, replacing the more expensive Moroccan hashish (EMCDDA & Europol, 2013).

Similarly, **Chinese OCGs** have specialized in the production and wholesale distribution of herbal cannabis in the United Kingdom and Ireland (see also Sections 5.3 and 5.7) (EMCDDA & Europol, 2013).

#### 4.1.7.4. Actors in the market of amphetamine-type drugs

As synthetic products produced in laboratories, both amphetamines and ecstasy **can be produced almost everywhere**. However, **Belgium, the Netherlands, Poland and the Baltic countries** are commonly identified as the main European countries for the production and export of amphetamine-type drugs (EMCDDA, 2013, 2014).

Several criminal groups are involved in the supply of amphetamines. Table 20 reports the main groups involved in the trafficking of amphetamine-type drugs across European countries. The involvement of OCGs in the amphetamine business is mainly associated with retrieving precursors, production and import/export (Reuter, 2009; EMCDDA, 2013). **Dutch and Belgian OCGs** seem to play a prominent role in the large-scale production of amphetamines, given their expertise in chemical processing and amphetamine production, and the availability of raw materials (such as benzyl methyl ketone) (Paoli & Reuter, 2008).

Moreover, after the production, Belgian and Dutch OCGs seem to cooperate with several other groups in the trafficking of amphetamine-type drugs. **Polish OCGs**, besides engaging in small-scale production, are active in the large-scale supply to **Scandinavian and Baltic countries**, but also to the **United Kingdom and Ireland**. **Lithuanian groups** have a preeminent position in the brokering of amphetamine-type drugs destined for Baltic and Scandinavian areas, as well as for Russia and other Russian-speaking countries.

The production and import/export of amphetamine-type stimulants is undertaken by several criminal groups of various nationalities. However, the main actors in the retail supply are independent local dealers. As Paoli and Reuter (2008) point out, amphetamine-type drugs are **widespread in closed settings** (i.e. discos, parties, etc.) where ethnic groups are often less integrated than indigenous people.

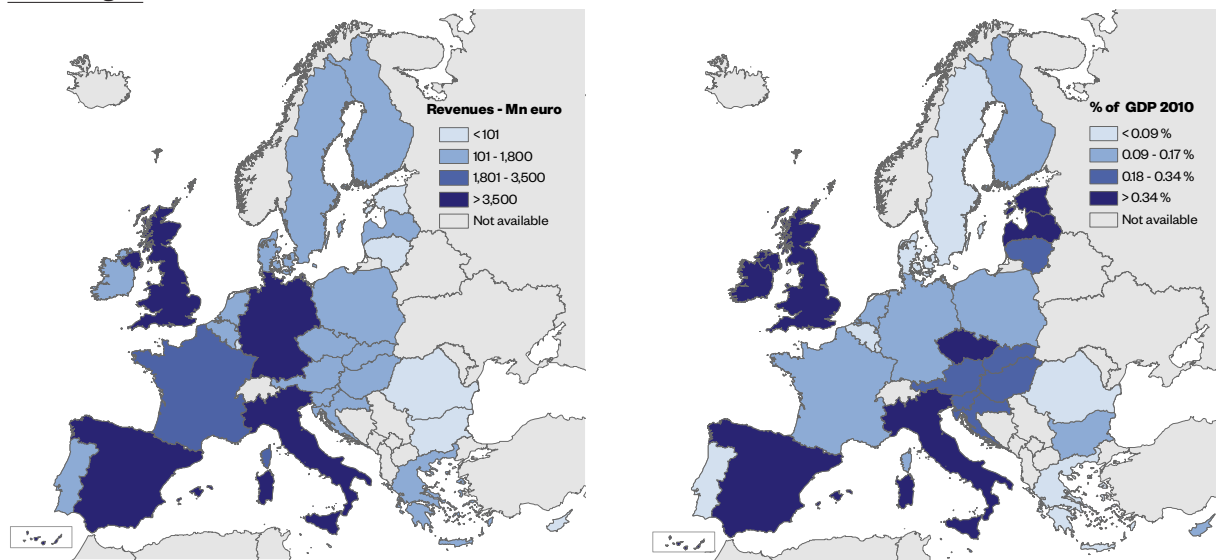
**Table 19 - Groups involved in cannabis trafficking across European countries**

OCGs	European Countries	Sources
Albanian OCGs	Greece, Italy, Slovenia, Hungary	DNA, 2011; EMCDDA & Europol, 2013; DIA, 2014; REITOX & EMCDDA (2012b)
Chinese OCGs	Ireland, UK	An Garda Síochána & PSNI, 2012; Silverstone, 2011; EMCDDA & Europol, 2013
Dutch OCGs	France, Italy, Netherlands, Portugal, Spain Belgium, Germany	Reuter et al., 2009; EMCDDA & Europol, 2013
North-African OCGs	Spain, Portugal, Germany, Italy, Netherlands, France	Paoli & Reuter, 2008; Reuter et al., 2009; Reuter & Trautmann, 2009; DNA, 2011; EMCDDA, 2012; REITOX, & EMCDDA, 2012b; EMCDDA & Europol, 2013
Other Asian OCGs	Belgium, Czech Republic, Germany, Ireland, France, Hungary, Netherlands, Poland, Slovakia, UK	McSweeney, Turnbull, & Hough, 2008; Reuter et al., 2009; Silverstone & Savage, 2010; Silverstone, 2011; An Garda Síochána & PSNI, 2012; EMCDDA & Europol, 2013
Spanish OCGs	Spain, Italy, Portugal	DNA, 2011; EMCDDA & Europol, 2013

**Table 20 - Groups involved in the trafficking of amphetamine-type drugs across European countries**

OCGs	European Countries	Sources
British OCGs	UK, Spain, Portugal	McSweeney, Turnbull, & Hough, 2008; EMCDDA & Europol, 2011; EMCDDA & Europol, 2013; Europol, 2013a
Chinese OCGs	Italy, Netherlands	DIA, 2012b; DNA, 2012; Iadeluca, 2012; EMCDDA & Europol, 2013
Dutch OCGs	Germany, Netherlands, UK, Spain, Portugal	McSweeney, Turnbull, & Hough, 2008; EMCDDA & Europol, 2013; Europol, 2013a
Lithuanian OCGs	Scandinavian countries, Baltic countries, Russia, Spain, Ireland, UK	EMCDDA & Europol, 2013; Europol, 2013a
Other Eastern European OCGs	Baltic countries, Ireland, Italy, Latvia, Scandinavian countries, UK	Toufik & Berber, 2011; EMCDDA & Europol, 2013; Europol, 2013a; OSAC, 2014b;
Other Western European OCGs	Germany, Portugal, Spain, UK	McSweeney, Turnbull, & Hough, 2008; BKA, 2012; EMCDDA & Europol, 2013; Europol, 2013a

**Figure 13 - Estimates of the scale of overall illicit drugs market for the available EU MS. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 4 and Eurostat data

#### 4.1.7.8. Conclusions

This Section has presented estimates of the revenues for the illicit drug market and the groups involved in drug trafficking. The estimates for heroin and cocaine have been specifically made by Transcrime for this report, whilst the estimates for cannabis and synthetic drugs are those reported by, respectively, Caulkins, Kilmer and Graf (2013), and Kilmer and Pacula (2009).

According to the estimates, the overall illicit drugs market for the 7 OCP countries is worth between **15.5 and 24.5 billion euro** (see Figure 13). Heroin (5.7 billion euro), cocaine (5.3 billion euro) and cannabis (5.8 billion euro) seem to be the biggest markets in term of revenues, while the scale of amphetamine-type drugs is smaller. **New drugs are rapidly emerging**, but their consumption seems still restricted to a few user groups. Further research in these new markets is needed to estimate their value.

**Several groups are involved** in the supply of these illicit drugs. Heroin and cocaine seem to involve the larger presence of some specific groups (Turkish and Albanian OCGs for heroin, and Colombians for cocaine). More fluid and dynamic is the market for cannabis and amphetamine-type drugs, where the involvement of organised groups is mainly confined to production or export across countries. The emerging trend of the **domestic production** of cannabis facilitates the involvement of immigrants in production (Vietnamese and Chinese) and Western country OCGs (i.e. Dutch) in high-level distribution.



## 4.2. Trafficking in human beings

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### 4.2.1. Introduction

Trafficking in human beings (THB) is a serious violation of human rights that affects many people around the world, especially women and children. This crime includes a **complex array of actions** with which perpetrators reduce their victims to what many experts describe as “**modern slavery**” (Danailova-Trainor & Belser, 2006; UNODC, 2009, p. 6; OSCE, 2010, p. 9). UNODC, that is responsible for assisting states in the implementation of the Trafficking in Persons Protocol,<sup>68</sup> groups the purposes for which THB is perpetrated into three different categories:

- **sexual exploitation**, which is aimed at obtaining “economic profits from forced commercial sexual activity” (UNODC, 2012b, p. 34);
- **forced labour and slavery**, whose purpose is to extract both economic (for example, reduced manpower costs) and non-economic advantages from the victims;
- **removal of organs**, which may be carried out for commercial purposes (UNODC, 2012b, p. 57).

Although the profits and financial gains from this market are “the area of trafficking about which the least is known” (OSCE, 2010, p. 53), according to experts and investigative evidence the proceeds from THB are “huge”, especially when the crime is undertaken by transnational groups (OSCE, 2010, p. 53). Therefore, **THB undoubtedly plays a crucial role** in the organised crime economy, and criminal networks structure themselves “like any other business, and every form, size, cooperation between networks, etc. is conceivable as long as it seeks to maximize profits” (UNODC, 2010a, p. 40).

The phenomenon of THB is **difficult to capture** because of its wide diffusion and the low reporting rate. However, there is a large body of literature on THB, and many experts and institutions have sought to determine the magnitude of this market since the late 1990s. For the purposes of this project, the **focus will be put on human trafficking for sexual exploitation**, which is the most frequently reported form of THB in the European Union (UNODC, 2012b). However some figures on human trafficking as a whole are also provided.

### 4.2.2. Estimates of the revenues from THB

The most recent study seeking to measure THB at global and regional level was conducted by the ILO (2014). This estimated at **150.2 billion US dollars** (114.2 billion euro) the annual global illegal proceeds generated in 2012 from forced labour (which includes forced sexual exploitation, domestic work and non-domestic slavery, with trafficking for the removal of organs

excluded). As regards Europe, the same study estimates the annual returns from forced labour at **46.9 billion US dollars** (corresponding to 35.6 billion euro), with forced sexual exploitation accounting for nearly 56%,<sup>69</sup> and non-domestic labour for around 43%.<sup>70</sup> This study does not determine the share that can presumably be attributed to organised crime.

As regards the European Union, UNODC (2010b) estimates that the value of transnational trafficking to Europe for sexual exploitation purposes is equivalent to 3 billion US dollars per year.

As far as country-level estimates are concerned, focusing in particular on OCP countries, few studies in Italy, Netherlands, UK, and a reference in France, have been found (see Table 21). The majority of these studies provide estimates only on sexual exploitation, with a few exceptions.

- **Italy** has been reported to be one of the **top destination countries** for trafficked people (UNODC, 2006, p. 20). According to SOS Impresa’s report on organised crime in Italy, in 2009 the overall THB market provided OCGs with 870 million euro of revenues (SOS Impresa, 2010, p. 7).<sup>71</sup> As far as sexual exploitation is concerned, the most recent result for Italy has been presented in Mancuso (2014a), who estimated the total revenues generated by the mafia and other criminals from outdoor and indoor exploitation of foreign women as ranging between 1.1 and 5.0 billion euro. Similar results on sexual exploitation were obtained by Transcrime (2013a, pp. 43–44), which reported revenues of between 1.8 and 7.5 billion euro.<sup>72</sup> According to the same study, OCGs presumably control between 20% and 40% of these proceeds (Transcrime, 2013a, p. 355).
- **Netherlands**: the unlawful earnings in 2003 from illegal prostitution in the Netherlands were reported to be equivalent to 460 million euro, whereas illegal work generated 490 billion euro. These results have been presented in Unger (2007, p. 66), on the basis of the studies conducted by Smekens and Verbruggen (2005) and WODC (2003, p. 60) (see also UNODC, 2011a, p. 24).

69. The proceeds of sexual exploitation were estimated on the basis of the likely average earnings generated by the victims per act of sexual intercourse. Starting from information collected by ILO and Kara (2008), the average earnings per encounter were multiplied by the number of monthly encounters. From the resulting figure, the monthly wages and costs were subtracted. The total over the 12 months was multiplied by the estimated number of victims in the region. The exploiters’ final net profits were obtained by assuming that they retain around 70% of the victims’ earnings.

70. For each region and each sector of forced labour (agriculture or other non-domestic work), the annual profits were obtained as the difference between the monthly value added generated by each victim and the monthly wage paid to him/her, with this total multiplied by 12 months and by the number of forced labourers.

71. This result was obtained by dividing the number of global revenues (32 billion US dollars) by the 2.7 million people exploited and then the total related to the number of irregular immigrants in four regions of Italy between 2000 and 2007. However, the methodology is not clearly described in the study.

72. These figures were obtained as the sum of the indoor sexual exploitation market in 2004/2005 and outdoor sexual exploitation market in 2008/2009. See Table 21 for the details.

68. The “Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime”, also called “Trafficking in Persons Protocol”, was adopted by General Assembly resolution 55/25. It entered into force on 25 December 2003. It is the first global legally binding instrument with an agreed definition of trafficking in persons. The Protocol is part of the “United Nations Convention Against Transnational Organized Crime and the Protocols Thereto”, signed in 2000 in Palermo. The full text of the Convention and of the supplemented Protocols is available at <http://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCbook-e.pdf>.

**Table 21 - Estimates of the revenues from sexual exploitation for OCP countries**

Country	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
France	3,000			N/A	INHESJ - ONDRP, 2012	
Italy	600			2009	SOS Impresa, 2010	Italian mafia's share
	<i>1,238</i>	702	1,774	2004-2005	Mancuso, 2014a	Indoor sexual exploitation of foreign women
	<i>1,844</i>	432	3,255	2008-2009	Mancuso, 2014a <sup>a</sup>	Outdoor sexual exploitation of foreign women
	<i>4,127</i>	1,170	2,957	2004-2005	Transcrime, 2013a	Indoor sexual exploitation of foreign women
	<i>2,597</i>	609	4,584	2008-2009	Transcrime, 2013a <sup>b</sup>	Outdoor sexual exploitation of foreign women
Netherlands	460			2003	Unger, 2007 (from WODC, 2003 and Smekens and Verbruggen, 2005)	
United Kingdom	151 <sup>c</sup>			2010	Mills, Skodbo, & Blyth, 2013	
	393 <sup>d</sup>			2003	Dubourg & Prichard, 2008	
<sup>a</sup> The total revenues from outdoor and indoor sexual exploitation of foreign women range between 1.1 and 5.0 billion euro. <sup>b</sup> The total revenues from outdoor and indoor sexual exploitation of foreign women range between 1.8 and 7.5 billion euro. <sup>c</sup> Original figure: 130 million GBP, converted into euro using the 31/12/2010 currency rate (source ECB). <sup>d</sup> Original figure: 277 million GBP, converted into euro using the 31/12/2003 currency rate (source ECB). <sup>#</sup> Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						

- **United Kingdom:** a recent study commissioned by the Home Office on the scale of several illegal markets revealed that the magnitude of sexual exploitation is probably around 130 million GBP (i.e. 151 million euro) (Mills, Skodbo, & Blyth, 2013). Similar figures were obtained in a previous study, which estimated sexual exploitation at around 277 million GBP (corresponding to 393 million euro) (Dubourg & Prichard, 2008, p. 18).
- **France:** INHESJ - ONDRP (2012) reported that the revenues deriving from sexual exploitation in France were equal to around 3 billion euro per year (INHESJ - ONDRP, 2012, p. 227), but this figure is not explained in detail.

As regards other OCP countries, estimates are lacking, although studies on how the market works (and who the relevant actors are) exist.<sup>73</sup>

### 4.2.3. Actors

If detailed information on THB in Europe, and its financial magnitude, is rather limited, **knowledge about the actors** involved, and in particular the role played by OCGs, is even more sparse. As illustrated above, there are few studies on the share of the market attributable to OCGs. The literature confirms that **loose criminal networks, hierarchical groups, smaller gangs and individual criminals are significant players** in THB (Aronowitz, 2009; UNODC, 2010b, p. 35; Vermeulen, Van Damme, & De Bondt, 2010) and many that all of them were found to launder the money received from THB activities (UNODC, 2010b, p. 52; see also Part 3). However, worldwide investigations and expert reports (OSCE, 2010, p. 22) show that THB is increasingly conducted by a number of

73. See Lethi & Aromaa (2002).

**loosely connected networks** of “specialists, all playing their own particular part in the criminal operation” (UNODC, 2010b, p. 34). This appears to apply also to the European Union. There are flexible and highly organized groups able to operate on a large scale, and more informal groups with a smaller number of members (Aronowitz, 2009; Vermeulen, Van Damme, & De Bondt, 2010).

As reported by Europol, “in many MS, the criminal groups and networks involved in THB meet most of the EU criteria for **defining them as organised crime** (OC). Although there are some indications of hierarchically structured OC groups, human trafficking networks are more likely to be organised in small groups, operating both independently and in cooperation with other crime groups” (Europol, 2011b, p. 6).

In terms of the main nationality and geographical provenance, according to Eurostat<sup>74</sup> (2013) the vast majority of criminal actors involved **seem to come from EU MS** (i.e. 76% of all convicted traffickers in 2010).<sup>75</sup> However, the literature on THB also highlights the active role of foreign criminal groups (Savona et al., 2003; Abbatecola, 2006; UNODC & SADC, 2007; Becucci & Garosi, 2008; Picarelli, 2009).

Criminal groups are often characterised by **strong familial and/or ethnic bonds** (Savona et al., 2003; Bosco, Di Cortemiglia, & Serojtdinov, 2009), and they have consolidated contacts in various countries (Europol, 2011b). Despite the increasing inter-ethnicity of these groups (see 3.2), **multi-ethnic groups** in the EU THB market are **more sporadic** (OSCE, 2010, p. 46). Also to be emphasised is that, in most cases, these groups exploit persons of the same geographical origin or ethnicity.<sup>76</sup>

According to Europol, the main criminal groups active in THB in the European Union are Nigerian, Chinese and Eastern European OCGs:

- **Nigerian OCGs** appear to be the groups most active in outdoor sexual exploitation in the European Union. They mainly exploit fellow countrywomen. Sex trafficking from Nigeria to EU is often organised and managed by ‘madams’, i.e. previously sexually exploited women who have become traffickers by attracting, hosting and subjugating young Nigerian women for prostitution purposes (OSCE, 2010, p. 45; Mancuso, 2014b). According to investigative and research evidence (see, e.g., operation *Black Leaves*, UNODC, 2010b, p. 54; Europol, 2011b; Fondation Scelles, 2012, p. 173), Italy and Spain represent for Nigerians the most important trafficking hubs. From Italy, most of the victims of Nigerian OCGs are trafficked to France,

Netherlands and other countries in northern Europe, or they are moved to Turkish and Greek illegal sex markets (UNODC, 2010b, p. 54).

- **Chinese OCGs:** Chinese-speaking criminal groups (including Chinese Triads) are active in THB in regard to both sexual and labour exploitation. Traditionally, forced labour takes place in textiles shops, restaurants and illegal clothing factories. However, Chinese OCGs are increasingly involved in trafficking for sexual exploitation in Europe (UNODC, 2010b), so that in 2008 Chinese were reported to be “the largest foreign group involved in sexual exploitation” (UNODC, 2010b, p. 51). The preferred locations for sexual exploitation are massage parlours and other indoor places. LEA reports have revealed that Chinese OCGs often operate in connection with other South Asian groups, particularly in Italy and the UK (e.g. see the *Qian Liu and Qian Ba Operations* by the Italian Guardia di Finanza, Section 8.4).
- **Eastern European OCGs:** Bulgarian-speaking criminal groups, with Albanian OCGs and other Balkan OCGs (UNODC, 2010b, p. 45), are considered to be among the most violent groups engaged in human trafficking activities (Europol, 2011b, p. 11). Romanian-speaking OCGs and Roma criminal groups are often mentioned in regard to women sexual exploitation (both indoor and outdoor), but also forced labour. Exploitation of Roma children by Romanian OCGs (and in some cases by Bulgarian and Albanian OCGs) is a crime widespread throughout the European Union. In the UK, between 2005 and 2008, Roma children were forced to commit petty crimes or to beg regularly in the streets (UNODC, 2010a). Interestingly, many of the people arrested were accused of money laundering.

Other most frequently reported organised groups in Europe are **Albanian-speaking OCGs, Russian OCGs, Hungarian OCGs and Turkish groups** (Europol, 2011b, p. 11). For a more complete review of the groups involved, see Table 22.

<sup>74</sup> Data on people suspected, prosecuted and convicted for human trafficking between 2008 and 2010 (Eurostat, 2013).

<sup>75</sup> However, it must be borne in mind that, in many cases, it is very difficult to identify and convict criminals coming from Africa and extra-EU countries because cooperation among the countries may be lacking and because of the difficulties in obtaining the extradition of these people.

<sup>76</sup> One of the most recent study on THB (UNODC, 2012b) reveals that 63.6% of victims exploited in Europe have European origins. Victims from Africa are the second most exploited group (17.6%), with a prevalence of abused people coming from West Africa (mainly Nigeria) (UNODC, 2012b, p. 58). Among EU-citizens victims, 40.1% are exploited domestically (i.e. in their country of residence), and 59.9% are victims of cross-border exploitation within the EU area. Eurostat data reveal that, in 2013, more than 68% of identified and presumed THB victims were adult women, whereas the male and female children detected as exploited in the EU represented 15% of total abused persons (Eurostat, 2013, p. 34).

**Table 22 - Main OCGs involved in THB across Europe**

<b>OCG</b>	<b>European Countries</b>	<b>Sources</b>
African OCGs	Austria, France, Germany, Greece, Ireland, Italy, Netherlands, UK	BJA, 2008, 2009, 2010, 2012; Dutch National Rapporteur on Trafficking in Human Beings, 2010; OSCE, 2010; Europol, 2011b; DIA, 2012a, 2013b; FEDPOL, 2013
Albanian OCGs	France, Italy, UK	INHESJ – ONDRP, 2010; OSCE, 2010; DIA, 2010a, 2010b, 2011a, 2011b, 2012a; 2012b; DNA, 2011, 2012
Balkan OCGs	France, Greece, Italy, UK, Switzerland	INHESJ – ONDRP, 2010; OSCE, 2010; UNODC, 2010b; DNA, 2010, 2012; FEDPOL, 2012, 2013
Bulgarian OCGs	Austria, France, Germany, Greece, Italy, Ireland, Netherlands, Poland, Spain	An Garda Síochána & Department of Justice, Equality and Law Reform, 2006; BKA, 2006, 2008; OSCE, 2010; DIA, 2010b, 2011a; Europol, 2011b; DNA, 2012; CSD, 2012, Fiscalía General del Estado, 2013
Chinese OCGs	Belgium, France, Germany, Italy, Ireland, Netherlands, Spain, UK	An Garda Síochána & Department of Justice, Equality and Law Reform, 2006; Ward & Wylie, 2007; INHES - OND, 2009; INHESJ – ONDRP, 2010; Lebov, 2010; OSCE, 2010; DNA, 2010, 2012
Other Asian OCGs	Germany, Italy, UK	OSCE, 2010; DIA, 2012a; DNA, 2010, 2011, 2012
Other Eastern European OCGs	Austria, Finland, France, Germany, Greece, Italy, Ireland, Latvia, Netherlands, Poland, UK	Viihko & Jokinen, 2009; OSCE, 2010; UNODC, 2010b; BKA, 2010, 2011, 2012; Jokinen, Ollus, & Aromaa, 2011; An Garda Síochána & PSNI, 2012a; INHESJ - ONDRP, 2012; DIA, 2012a, 2012b; OSAC, 2014b
Romanian OCGs	Austria, Finland, France, Greece, Ireland, Italy, UK, Spain, Switzerland	OSCE, 2010; Passi, 2011; DIA, 2012a, 2013a; DNA, 2010, 2012; FEDPOL, 2012; INHESJ - ONDRP, 2012; Fiscalía General del Estado, 2013
Russian/Georgian OCGs	Finland, France, Germany, Greece, Italy, Poland	Viihko & Jokinen, 2009; UNODC, 2010a; BKA, 2010, 2011, 2012; Cheloukhine & Habermeld, 2011; Kegö & Molcean, 2011; DNA, 2011, 2012; Iadaluca, 2012
Turkish OCGs	Belgium, Germany, Netherlands	BJA, 2009, 2010, 2011, 2012; OSCE, 2010; Dutch National Rapporteur on Trafficking in Human Beings, 2010

## 4.3. Illicit trafficking in firearms

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### 4.3.1. Introduction

According to the *UN Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition*, “**Illicit trafficking in firearms** shall mean the import, export, acquisition, sale, delivery, movement or transfer of firearms, their parts and components and ammunition from or across the territory of one State Party to that of another State Party if any one of the States Parties concerned does not authorize it in accordance with the terms of this Protocol or if the firearms are not marked in accordance with article 8 of this Protocol” (UN, 2001, p. 3).

Although **modest in terms of both the size and the number of criminal groups** involved at EU level (Europol, 2013a, p. 31), especially if compared with other illegal markets, illicit trafficking in firearms (ITF) nevertheless represents a crucial illicit activity for OCGs.

Weapons are not only a source of profit for OCGs; they are also **essential assets** for criminal activities: for example, to intimidate victims of sexual exploitation, or to protect the trafficking of other illicit goods (e.g. during the transport of illicit drugs (DG Home Affairs, 2013)). Consequently, the purchase of illicit firearms can be considered also an investment in criminal equipment (UNODC, 2012a).

Weapons and ammunitions are **durable goods, easy to stock and conceal**, and which can be used after decades if kept in good condition (Small Arms Survey, 2007, p. 43; UNODC, 2010a, p. 129). Their storage does not require any particular effort, nor specific trading skills. Low market entry and exit barriers, and low capital intensity make firearms a **liquid asset easy to trade and ready to be converted into cash**. These various drivers and opportunities, together with persistent demand by criminals and warlords in unstable world regions, make ITF an attractive business that may generate substantial proceeds to be reinvested in licit and (other) illicit activities (UNODC, 2011a).

There is strong evidence that Europe is a strategic context for OCGs involved in the illicit trade of firearms (European Commission, 2013b). Firstly, Europe is an **important trading marketplace and source area** for arms trafficked abroad – e.g. arms from new EU MS such as Croatia (Antoliš, 2007, p. 81), and in some cases produced also in Western European countries (Davis, Hirst, & Mariani, 2001, p. 21–24; UNODC, 2010a, p. 143; Wezeman, Wezeman, & Béraud-Sudreau, 2011, p. 36–37). It is a **transit area**, because these firearms are re-exported, in particular to regions engaged in armed conflicts, including neighbouring countries such as North Africa and Middle East (Davis, Hirst, & Mariani, 2001; Antoliš, 2007). But the European Union is also a **fruitful destination area** for arms imported from the Western Balkans and sold to the criminal underworld in Europe (Sagramoso, 2001; KLPD-IPOL, 2009, pp. 80–85).

### 4.3.2. Estimates of the illicit firearms market

The literature agrees that determining the actual size of the illicit firearms market is complicated and difficult (Small Arms Survey, 2001; Spapens, 2007), and it is even more difficult to determine the share of the market that can be attributed to OCGs. The present Section will illustrate that only few estimates exist, but they vary widely and are often based on unclear methodologies.

#### At international level

Since the early 2000s, only a limited number of studies on the international spread of illicit firearms have attempted to assess the magnitude of this market at international level. The Small Arms Survey (2001) reported that the worldwide ITF market amounted to **1 billion US dollars** annually, but the estimation methodology used is unclear. UNODC indicated far lower figures, reporting that “illicit trading in firearms brings in around \$170 million to \$320 million annually”<sup>77</sup> (UNODC, 2010a, p. 129), which would correspond to **10% and 20% respectively of the legitimate market**.

As regards worldwide cross-border financial flows linked to firearms trafficking, Baker (2005) produced an estimate of 6–10 billion US dollars annually in 2005, of which developing countries accounted for 3–4 billion US dollars.<sup>78</sup> A survey published by Haken (2011, p. 25) on the proceeds generated by transnational criminal groups in 12 criminal markets also included figures on illicit firearms trafficking proceeds. Exploiting information from Small Arms Survey and the UNODC, Haken assumed “the value of the illicit trade of SALW to be between \$ 300 million and \$ 1 billion”,<sup>79</sup> corresponding to 0.1% of the income (650 billion US dollars) generated by OCGs in all criminal markets.

#### At national level

Whilst few estimates exist at international level there are even fewer at the country one, and most of them focus on **Italy**.

Calderoni et al. (2014b) quantified this market at Italian level as ranging **between a minimum of 46.1 and a maximum of 140.9 million euro**. These results updated the estimates previously presented in Transcrime (2013a, pp. 306–307) with the same methodology. In particular, two estimation approaches were used in Transcrime (2013a): the first adopted a demand-side perspective, while the second used the standpoint of supply. The estimates run under the demand-side model revealed that the ITF market in Italy to yield between 74.4 and 148.8 million euro in 2010, this being

77. Equivalent to 127.5 and 240 million euro respectively using the 31/12/2010 exchange rate (Source ECB).

78. Equivalent to 5.1 and 8.5 billion euro respectively using the 31/12/2005 exchange rate (Source ECB).

79. Equivalent to 231 and 770 million euro respectively using the 31/12/2011 exchange rate (Source ECB).



**Table 23 - Estimates of the revenues on the ITF market in the European Union (EU 27) (2012)**

Type of firearms / Firearm parts	Estimate (million euro)	Min (million euro) <sup>a</sup>	Max (million euro) <sup>b</sup>
Revolvers and pistols	73	49	98
Shotguns, rifles, carbines and muzzle-loaders	116	78	155
Cartridges and other ammunition, projectiles and parts	180	120	240
<b>EU 27</b>	<b>370</b>	<b>247</b>	<b>493</b>
<sup>a</sup> Estimate of the ITF market equivalent to 10% of the legal market (EU 27).			
<sup>b</sup> Estimate of the ITF market equivalent to 20% of the legal market (EU 27).			

Source: Transcrime elaborations based on Eurostat data 2012

the result obtained as 10% and 20% respectively of the sum of import and export values plus the national production of legally traded small arms and ammunition. According to the supply-side perspective, which started from data on seizures and assumed that they represent 8-10% of total illicit firearms actually traded in the country, the revenues generated in Italy amounted to 46.7 million euro (Transcrime, 2013a).

Previous research exploring the size of the firearms market on Italy was conducted by SOS Impresa (2010), but as also highlighted by UNODC (2011a), the provided figure of 5.8 billion euro of income for organised crime in 2009 (equivalent to 0.03% of Italian GDP for 2009) may have been overestimated.

### New estimates

For the purpose of this study, an assessment of the size of the ITF was carried out as a percentage of the revenues of the legal firearms market for the European Union considered as a whole. Adopting the same demand-side approach as proposed by Transcrime (2013a) and by Calderoni et al. (2014b), the ITF market was estimated **to range between 246.5 and 493.0 million euro**, corresponding respectively to **10% and 20%** of the revenues obtained in 2012 by legal companies operating in the firearms industry. A full description on the methodology adopted, as well as sources and background data, is provided in the Methodological Annex.

### 4.3.3. Actors

The activities and the structure of organised crime groups engaged in firearms trafficking in Europe is still **largely unexplored** by the academic literature. Studies describing the role and *modi operandi* of actors involved in ITF across the EU are quite rare, because ITF is more crucial in unstable regions of Africa and other developing areas. However, detailed information on the **logistics of ITF and on the structure of the supply** (Antoliš, 2007; Spapens, 2007) is available and may aid understanding of the environment and the framework in which OCGs operate.

### The structure of the ITF market and types of actors

As said above, **not all forms of ITF necessarily require high levels of organisation**. Most of the illicit firearms circulating in Europe seem to derive from licit circuits (Spapens, 2007). Weapons and ammunition can be transferred to the illegal domain through on-paper fake exports, conversion of non-lethal firearms or reactivation of neutralized weapons, frauds

committed by registered owners, or simply by theft from private owners or official dealers (Stohl, 2004; Spapens, 2007, p. 365). Unauthorized production by official factories and illicit manufacturing (also by means of 3D printing technology) are also used.

Consequently, the ITF **does not need to be undertaken exclusively within the permanent or long-term structure of an organised crime group** (Shaw & Mangan, 2014). Burglars stealing guns from legitimate owners (Stohl, 2004, p. 22) provide the best example of actors involved in ITF outside the domain of organised crime (Hales, Lewis, & Silverstone, 2006).

For these reasons, the actors involved in the ITF can be divided into two broad categories. The first consists of **single individuals** who operate mainly independently and conduct their business on a small scale by selling small quantities of weapons or ammunition without a licence (Braga et al., 2002; Stohl, 2004). Their main target buyers are small scale/street criminals. As in the case of retailers in the illicit drugs market (see Section 4.1), it can be assumed that this **small-scale ITF** does not generate sufficient profits (exceeding living expenditures) to be laundered in the legitimate economy. Indeed, the “illegal trade of firearms is not very profitable itself” (KLPD-IPOL, 2009) and, as frequently remarked, is often a secondary source of profit for criminal actors (Europol, 2013a, p. 31).

The second category comprises actors (such as OCGs, terrorists, former military groups, arms brokers, and transfer intermediaries) who **systematically or periodically move significant quantities of arms and ammunitions**. The purpose of the trade may be military, political or also economic (i.e. the exchange of arms for other illicit goods). For these actors, firearms trafficking can be a strategic activity and also a substantial source of income.

### Organised crime groups involved in ITF

The literature reports a predominant role in the ITF by groups located in **eastern European countries** and the **western Balkans**,<sup>80</sup> which have accumulated significant surpluses in arms and ammunition since the Cold War and the conflicts that afflicted the Western Balkan regions during the 1990s (Soccoja, 2009; Europol, 2013a).

80. In particular, UNODC (2010a, p. 141) estimated the ITF from Eastern European countries as amounting to at least 33 million US dollars between 2007 and 2008.

**Table 24 - Main OCGs active in the ITF across Europe**

OCGs	European Countries	Sources
Albanian OCGs	Albania, Greece, Italy, Bulgaria, Romania	Davis, Hirst, & Mariani, 2001; Rynn, Gounev, & Jackson, 2005; DIA, 2006, 2012b, 2014; Vreja, 2007; Parente, 2010; DNA, 2011, 2012; Europol, 2011a; Iadeluca, 2012; Small Arms Survey, 2013
Balkan OCGs	Croatia, Bulgaria, France, Italy, Romania, Netherlands, Greece, Serbia, Spain, Switzerland, UK	Davis, Hirst, & Mariani, 2001; Rynn, Gounev, & Jackson, 2005; Antoliš, 2007; Vreja, 2007; Weenink & Laan, 2007; Arsovska & Kostakos, 2008; DNA, 2010; Europol, 2011a; Lavorgna, Lombardo, & Sergi, 2013
Other Italian/Italian not specified OCGs	Croatia, Germany, Poland, Spain, Switzerland	BKA, 2006, 2012; Antoliš, 2007; Europol, 2011a; FEDPOL, 2011, 2013; Transcrime, 2013a
IRA	Ireland, UK	Davis, Hirst, & Mariani, 2001; West Sands Advisory, 2012
Motorcycle gangs OCGs	UK, Scandinavian countries	Europol, 2011a, 2013a; Passi, Vähäsarja, & Pelli, 2013
'Ndrangheta	Belgium, Italy, Netherlands, Switzerland	Parente, 2010; DNA, 2010, 2011, 2012; DIA, 2011b, 2012b, 2013a, 2013b; KLPD-DNR, 2011; FEDPOL, 2013; Small Arms Survey, 2013; Transcrime, 2013a
Russian/Georgian OCGs	Italy, Poland, Romania, Spain, Georgia, Greece	Davis, Hirst, & Mariani, 2001; Baker, 2005; Arasli, 2007; Busuncian, 2007; Traugher, 2007; Vreja, 2007; Cheloukhine & Habelfeld, 2011; DNA, 2011, 2012; Iadeluca, 2012; Lavorgna, Lombardo, & Sergi, 2013
Turkish OCGs	Bulgaria, Germany, Italy, Romania, Netherlands	Rynn, Gounev, & Jackson, 2005; Vreja, 2007; KLPD-IPOL, 2009; BKA, 2012; Lavorgna, Lombardo, & Sergi, 2013

In particular, in the European Union the main OCGs active in this market are:

- **Former Yugoslavian** (mostly Kosovar and Croatian) **and Albanian OCGs**, which are reported to be responsible for the supply of significant quantities of weapons and ammunition stockpiled in the Western Balkans (Antoliš, 2007; Europol, 2013a) and purchased by European-based criminals. There is evidence that the destinations of firearms traded by these groups are the Netherlands (KLPD-IPOL, 2009), France (Davis, Hirst, & Mariani, 2001; Arsovska & Kostakos, 2008), and Italy. Italy is both a destination and transit country, where the ITF performed by Balkan groups fulfils the demand by Italian OCGs (Small Arms Survey, 2013); at the same time firearms may be re-traded or shipped, through southern Italian ports, to south American countries (Antoliš, 2007) or to North Africa.
- **“(Italian) mafias** have generally relied on the availability of weapons” (Small Arms Survey, 2013, p. 75), exploiting their connections with Albanian, Balkan and other groups based in Eastern European countries (Small Arms Survey, 2013), from which they often acquire firearms in exchange for other illicit assets (typically drugs). As said, Italian mafias are both final users of illicit weapons and facilitators of ITF towards non-EU countries, since they are reported to re-trade weapons to other European countries, South America (Antoliš, 2007, p. 82), as well as Africa (Black, 2009). ‘Ndrangheta members in particular have been found transferring weapons and ammunition from Europe to Canada (DNA, 2008, p. 131) and the USA (see the *New Bridge* Operation, 2014, conducted by the FBI and the Italian Police (The Associated Press, 2011)). Intense firearms trafficking is conducted both nationally (mainly

within the southern regions of Italy) (DNA, 2006, 2008) and between the two coasts of the Adriatic Sea, and it may also be connected with other Italian OCGs (Davis, Hirst, & Mariani, 2001; DNA, 2008).

- **Russian OCGs** seem to exploit illicit drug and human trafficking routes through Poland and Ukraine to conduct illegal weapon transactions. Russians have been found to transfer illicit weapons and ammunition from Eastern European countries to Spain (Costa del Sol), where they conduct other illicit businesses (Davis, Hirst, & Mariani, 2001; Cheloukhine & Habelfeld, 2011).
- **Turkish groups** are engaged in firearms trafficking in Europe (Europol, 2006) as wholesale suppliers of weapons originating from unstable regions in the Middle East. Turkish groups operate in the Netherlands (Spapens, 2007; KLPD-IPOL, 2009), where they rank third in importance as firearms traffickers after Dutch criminals and other western European groups (such as the ‘Ndrangheta).
- **Outlaw motorcycle gangs** are increasingly involved in the illicit firearms trade. Europol (2011a; 2013a) reported that such gangs engage in firearms smuggling from South-Eastern Europe to the Scandinavian countries.

As in other criminal markets, firearms trafficking in Europe is increasingly characterized by **groups of mixed ethnicity or nationality** (KLPD-IPOL, 2009), which facilitate cross-border transfers or access to other illicit businesses (Davis, Hirst, & Mariani, 2001).



## 4.4. Illicit trade in tobacco products

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### 4.4.1. Introduction

The illicit trade in tobacco products is defined by Article 1 of the World Health Organization (WHO) *Framework Convention on Tobacco Control* (FCTC) as “any **practice or conduct prohibited by law** and which relates to **tobacco production, shipment, receipt, possession, distribution, sale or purchase**, including any practice or conduct intended to facilitate such activity” (WHO, 2003).

The illicit cigarette market yields **remarkable criminal revenues in the European Union** (see below). According to the literature, the trade is managed either by OCGs, small groups or independent criminal entrepreneurs. Given the plurality of actors involved, assessing organised crime’s share of ITTP proceeds is difficult.

In contrast to other illegal markets, which are engendered by morally induced prohibitions on goods and services, the cigarette black market handles a substantially legal commodity and promotes an activity – cigarette smoking – which is neither illegal nor even deviant (von Lampe, 2002). Moreover, cigarettes are **highly taxed, widely consumed, relatively easy to transport, and possess an attractive weight-to-value ratio** (Allen, 2011).

Some of their intrinsic features make cigarettes the most illegally trafficked goods in the world.

- First, **taxes** account for a large share of cigarettes’ final retail prices (Merriman, Yurekli, & Chaloupka, 2000). In 2013, an average of 80.1% of the final retail price of cigarettes<sup>81</sup> in the EU consisted of taxes, from a minimum of 69.3% in Luxembourg to a maximum of 87.5% in Greece (European Commission, 2013d). Owing to **high taxation**, illicit tobacco has particular appeal for potential smugglers because they can make large profits by diverting tobacco products into the illicit market, where sales are largely tax free (Joossens & Raw, 2012, p. 232).
- Secondly, cigarettes are widely consumed in the EU. In 2012, an average 28% of Europeans smoked, with differences among Member States, from a minimum of 13% in Sweden, to a maximum of 40% in Greece (Eurobarometer, 2012b). Since 2009, **smoking prevalence** has remained relatively stable despite consecutive cigarette price increases. This shows that, due to its addictive nature, the demand for tobacco is inelastic and not particularly sensitive to price changes (Perucic, 2012).
- Thirdly, illicit tobacco trade is a **high-profit and relatively low-risk activity**. In particular, Western Europe has the highest cigarette prices in the world and offers large incentives to tobacco smugglers (Euromonitor International, 2013a). Moreover, the sanctions imposed on tobacco smugglers by the EU Member States are relatively mild and differ among countries (European Commission, 2013c, p. 13). Differing sanctions provide an opportunity for smugglers to choose their entry points into the EU according to where the lowest sanctions apply (European Commission, 2013c, p. 13).

- Other exogenous conditions facilitate the supply of illicit tobacco products. The presence of **informal distribution networks, corruption, organised crime, widespread street-selling**, as well as **public tolerance** of the ITTP, can influence the ITTP to a greater extent than cigarette prices and taxation (Joossens et al., 2000; Joossens et al., 2009). **Other ITTP facilitators** are geographical proximity to countries with cheaper cigarettes, the presence of Transit Trade Regimes that allow the suspension of customs duties, excise taxes, VAT on goods destined for third countries, and the misconduct of tobacco manufacturers (Joossens et al., 2000; Lakhdar, 2008; OCCRP, 2011).

The supply of illicit tobacco meets demand when its price is significantly lower than the legal one. Indeed, price is the main factor in determining the consumption of illicit tobacco. Illicit cigarettes cost on average between 25% and 90% less than legal cigarettes (Joossens et al., 2009). Moreover, smokers in low socio-economic circumstances are more likely to consume illicit tobacco, according to the literature (NEMS Market Research, 2009; Siggens, Murray, & Walters, 2010; Joossens et al., 2012).

### ITTP definitions and classification

The ITTP is a **multifaceted phenomenon comprising diverse activities**. The main categories are **tobacco smuggling**, which includes small-scale and large-scale cigarette smuggling, **illicit tobacco manufacturing**, which includes the counterfeiting of legal brands, and the **distribution of illicit whites**, cigarettes legally produced in one country but intended for smuggling into countries where there is no prior legal market for them (Allen, 2011).

- **Small-scale smuggling** comprises *ant-smuggling* and *bootlegging*. **Ant smuggling** is the border crossing by single individuals purchasing cigarettes within the legally allowed quantities, but with the purpose of reselling them (Joossens et al., 2000, 2009). **Bootlegging** is the purchase, by individuals or small groups, of small quantities of cigarettes in low tax jurisdictions with the aim of making extra income (Hornsby & Hobbs, 2007). Given its small scale, bootlegging accounts for a small share of global illegal cigarette smuggling (Joossens, Naett, & Howie, 1992). Large-scale smuggling involves the illegal transportation, distribution and sale of large consignments of tobacco smuggled over long distances (Joossens et al., 2000, 2009). Large-scale smugglers generally divert tobacco from the legal supply chain or smuggle counterfeit products (Joossens et al., 2009). This type of smuggling requires a more complex organisation. Illicit manufacturing is the production of tobacco products contrary to law (Joossens et al., 2009). It includes tobacco counterfeiting, and the production of cigarettes bearing false trademarks (Allen, 2011). According to KPMG, counterfeit cigarettes do not account for a large share of illicit cigarettes in Europe, around 5.8% in 2013 (KPMG, 2014).

81. Average total tax as % of the WAP (Weighted Average Price) in 28 EU Member States.

**Table 25 - Previous estimates of the revenues of the ITTP in OCP countries**

Country	Estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source
Ireland	156 <sup>a</sup>			2010	IBEC, 2012
Italy	<i>1,139</i>	1,002	1,276	2012	Calderoni, 2014 <sup>a</sup>
	<i>752</i>	661	842	2011	Transcrime, 2013 <sup>a</sup>
<sup>a</sup> Original figure: 3 million euro per week. # Estimates in italics are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.					

- **Illicit whites cigarettes** are legally produced in one country and then exported to other countries where they do not have legitimate distribution. In 2013, they accounted for 33% of all illicit cigarettes consumed in the EU and were mainly produced in Belarus (KPMG, 2014). The proximity of the EU's eastern border to non-EU countries, among them Belarus, makes the area particularly suitable for tobacco smuggling (Czyżowicz & Brodziński, 2013).

#### 4.4.2. Estimates of the ITTP market

##### Data availability

Several attempts have been made to estimate the size of the global illicit cigarette market; and according to the data and methodology used, either bottom-up or top-down estimates have been produced. Described below are the main data and methodologies used to assess the illicit tobacco market; further details on their possible limitations are provided in the Methodological Annex.

- **Cigarette exports minus cigarettes imports:** one indication of the size of the ITTP is the gap between official cigarette exports and official imports (Merriman, 2002).
- **Customs seizures of tobacco:** customs seizures, combined with other data, are used to produce ITTP estimates. The usual arithmetic is to multiply the total number of cigarettes seized by 10 (Euromonitor International, 2013a).
- **Surveys on tobacco users' purchasing behaviours:** these surveys collect self-reported data on illicit tobacco purchases, sources and prices. They can help assess the various forms of tax avoidance, such as cross-border shopping, direct purchases, and duty-free purchases (Joossens et al., 2012).
- **Official cigarette sales minus reported consumption:** with this method, the ITTP prevalence is calculated as the difference between registered cigarette sales and cigarettes declared as being smoked (Lakhdar, 2008).
- **Empty Pack Surveys (EPSs):** EPSs are an example of observational data collection (Joossens et al., 2012). Private market analysis companies, financed by the main tobacco manufacturers, periodically collect a sample of empty cigarette packs in a number of medium and large cities. The aim is to assess the share of domestic, non-domestic and counterfeit packs in each of the markets surveyed (KPMG, 2014).

##### Available estimates

Several studies have estimated the **size of the ITTP at global, continental and national level**. The presence of a cigarette legal market, the impact of the ITTP on the effectiveness of tobacco control policies, and governments' financial losses due to cigarette tax evasion, are important factors in estimating the illicit cigarette market (Transcrime, 2013a, p. 340).

Measuring the illicit tobacco trade is **methodologically challenging**. Illegal traders are unlikely to keep records; data on illicit trade are usually difficult to collect; estimations of illicit trade have limitations because they do not clearly describe their methodology; and the data source may bias the estimate (Joossens et al., 2009). Moreover, the agendas of the estimators may influence the ITTP estimation process. Tobacco manufacturers may prefer high figures to attract more attention by the law enforcement agencies; policy-makers may prefer lower figures in order not to raise inefficiency or corruption issues; and tobacco control activists may prefer either higher figures, for example to highlight the manufacturers' role in the ITTP, or lower ones, for example to minimise the unwanted effects of tobacco control measures (Calderoni, 2014a).

Despite the abundance of estimates, there is **no general consensus** on the methodology to use, and many existing studies are based on various sources collected at irregular intervals (Calderoni, 2014a). For this reason, a combination of methods and sources, including informed expert judgement, is often necessary to validate ITTP estimates (Joossens et al., 2009).

##### Estimates of the size of the ITTP at European level

- Joossens and colleagues estimated that 58 billion cigarettes in the EU in 2007 were illicit, around 8.5% of the European market (Joossens et al., 2009).
- According to Euromonitor International (EMI),<sup>82</sup> the total number of illicit cigarettes ranges between 67.3 billion cigarettes in 2007 (8.8% of total consumption) and 77.3 billion in 2012 (12.2% of total consumption) (Euromonitor International, 2013b).

<sup>82</sup> EMI, a private company providing yearly estimates in 80 countries worldwide, publishes periodic reports on the global (and regional) illicit tobacco markets, estimating their size, revenues and related tax losses (Euromonitor International, 2013a). Some authors argue that the methodology used is not detailed and challenge the reliability of its estimates (Blecher, 2010; Blecher et al., 2013). However, EMI is the only source providing yearly global estimates of the ITTP (Calderoni, 2014a).

- According to KPMG Project Sun, the total amount of illicit cigarettes in the EU ranges from a minimum of 56.8 billion cigarettes in 2006 to a maximum of 65.7 billion cigarettes in 2012. In 2013, the total amount of illicit cigarettes decreased to 58.6 billion, corresponding to 10.5 % of total consumption in Europe (KPMG, 2014).<sup>83</sup>

### Estimates of the proceeds of the ITTP

While several studies have attempted to measure the ITTP in terms of volumes of illicit cigarettes and in terms of penetration of the tobacco market, **few studies have estimated the proceeds of tobacco smugglers** in EU countries. According to the literature on OCP countries, previous estimates of ITTP proceeds are available for Ireland and Italy. In Ireland, in 2010, tobacco smugglers earned up to 3 million euro per week from tobacco smuggling (approximately 156 million euro per year). However, no clear details on how this figure was calculated are available. In Italy, the proceeds of the ITTP oscillated between 661.4 and 841.8 million euro in 2011, and between 1.0 and 1.3 billion euro in 2012 (see Table 25). HM Revenue & Customs, the British tax agency, annually estimates the market share of illicit tobacco out of total consumption, as well as the tax gap caused by tobacco tax evasion. In fiscal year 2012-2013, the tax evasion in the UK was 1.1 billion GB pound (1.3 million euro) (HMRC, 2014).

In an attempt to produce comparable estimates across countries, **for the purpose of the OCP project, a new estimate** – building on KPMG data on illicit cigarettes, EMI data on cigarettes legal prices, and the methodology adopted by Transcrime (2015) – was produced for each of the 7 OCP countries and the other EU MS in order to **assess the proceeds of the illicit cigarette market in 2013**.

The KPMG Project Sun does not provide estimates of the revenues and profits of the tobacco illicit market. However, because the ITTP is estimated at country level, KPMG is a good starting point for estimates of ITTP proceeds at continental and national level (Transcrime, 2013a).

The estimation reported here assumed that the price of an equivalent 20-cigarette pack in the illegal market is 66% of the price of a legal pack in any of the 28 EU countries. This assumption stemmed from the methodology adopted by Joossens and colleagues in 2009 (Joossens et al., 2009, p. 7).

However, unlike that study, which calculated illicit prices as a fraction of the Marlboro price and may have over-estimated illicit prices and proceeds, the OCP approach calculated two illicit prices, one as a fraction of the Marlboro brand, and one as a fraction of the cheapest brand sold in the country. Depending on the price used, a **minimum estimate** and a **maximum estimate** of the ITTP proceeds were produced. The results are presented in Table 26.

According to this approach, in 2013, the criminal proceeds of the ITTP in the 7 OCP countries ranged between 4.8 and 5.6 billion euro.

Considering the whole EU 28, the figure ranged between 8.4 and 10.3 billion euro. OCP countries are important in the European ITTP panorama: indeed, one fourth of EU countries (7 OCP countries) account for more than half of European ITTP proceeds.

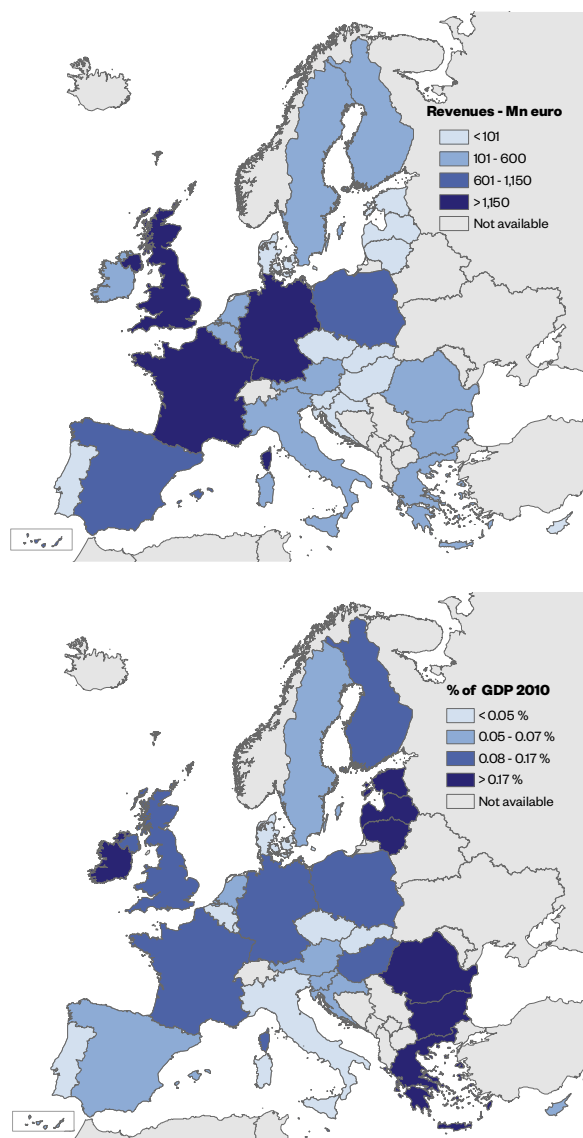
**Table 26 - Estimates of the revenues of the ITTP market (EU 28) (2013)**

Country	Estimate (million euro)	Min (million euro)	Max (million euro)
Austria	133	118	147
Belgium	130	117	142
Bulgaria	195	173	216
Croatia	23	17	28
Cyprus	9	7	10
Czech Republic	42	35	49
Denmark	40	36	44
Estonia	33	28	38
Finland	146	133	159
France	2,083	2,004	2,163
Germany	1,805	1,567	2,042
Greece	455	416	494
Hungary	73	63	83
Ireland	277	255	299
Italy	546	485	607
Latvia	61	51	71
Lithuania	80	69	91
Luxembourg	3	3	2
Malta	9	8	10
Netherlands	249	225	272
Poland	601	534	667
Portugal	25	23	27
Romania	251	207	296
Slovakia	12	10	13
Slovenia	24	22	27
Spain	635	577	694
Sweden	132	114	150
United Kingdom	1,304	1,154	1,453
<b>Total OCP Countries</b>	<b>5,240</b>	<b>4,833</b>	<b>5,647</b>
<b>Total EU 28</b>	<b>9,373</b>	<b>8,452</b>	<b>10,294</b>

Source: Transcrime elaboration on Philip Morris International and KPMG data

83. Since 2006, KPMG Project Sun, previously called Project Star, provides ITTP estimates at the national level for EU Member States. It is an example of combination of methodologies (Allen, 2011) and is based on data on legal sales, consumer surveys and empty packs surveys (EPSs) (KPMG, 2014, p. 313).

**Figure 14 - Scale of ITTP market in EU-28 MS. Absolute values (above) and percentages of GDP (below)<sup>84</sup>**



Source: Transcrime elaboration on estimates reported in Table 26 and Eurostat data

#### 4.4.3. Actors

The actors involved in tobacco smuggling **vary according to the *modi operandi* used**. Indeed, the sophistication and complexity of organisations depends upon the size and ambitions of the groups involved in the smuggling of tobacco (FATF, 2012b).

In particular, the potential profits associated with large-scale smuggling create incentives for the participation of **organised crime networks**, which adapt rapidly to smuggling counter-measures, and are flexible in their use of different methods

84. The classes with absolute value were calculated on the basis of the following classification: Very Low as < -0.5 standard deviations from the average; Low as between -0.5 and 0.5 standard deviations; Medium as between 0.5 and 1.5 standard deviations and High as > 1.5 standard deviations. Regarding the % of GDP (2013, retrieved from Eurostat), the classes are divided according to percentiles: Very Low < 25%; Low between 25 and 50%; Medium between 50 and 75% and High > 75%.

of tobacco transport and distribution (Joossens et al., 2000). Small-scale smuggling, on the other hand, does not require such a degree of organisation, and it is instead carried out by **single individuals or small gangs** that purchase cigarettes in relatively smaller quantities and use less sophisticated methods (FATF, 2012b).

According to various sources, stable and organised criminal groups, such as the Italian mafia-type organisations, Eastern European or Asian criminal organisations, are involved in different phases of the illicit tobacco trade (van Duyne, von Lampe, & Passas, 2002; von Lampe, 2005; Kegö, Leijonmarck, & Molcean, 2011). However, according to a study carried out in 2014 on the Italian ITTP, the presence of mafia-type organisations is an important driver of the ITTP, although it is not the main one. Indeed, the prevalence of the illicit tobacco trade may be as high or even higher also in Italian regions with a very low presence of mafias (Calderoni, 2014a). The literature agrees that those involved in the illicit tobacco trade are mainly **small groups or independent criminal entrepreneurs** (van Duyne, 2003; von Lampe, 2006, 2011; Hornsby & Hobbs, 2007; Calderoni, 2014a).

Other sources have repeatedly reported the involvement of tobacco manufacturers in tobacco smuggling. It has been argued that a cigarette black market of any significance is intrinsically linked to large-scale smuggling, and that large-scale smuggling would not be possible without the tacit connivance of **cigarette manufacturers** (Dantinne, 2001; Joossens & Raw, 2002). In many countries, governments have taken legal action over the fiscal losses caused by the industry's involvement in tax evasion and smuggling schemes by exploiting transit trade regimes (Beelman et al., 2000; Calderoni, 2014a). Moreover, in early 2000s, the European Commission filed a civil action against three major tobacco manufacturers: Philip Morris International, RJ Reynolds, and Japan Tobacco International (Framework Convention Alliance, 2008).<sup>85</sup> Increasing pressure on the tobacco industry resulted in **stricter controls on its supply chain**, the implementation of tracking and tracing measures, and the signature of cooperation agreements among the four major tobacco manufacturers (Philip Morris International-PMI, Japan Tobacco International-JTI, British American Tobacco-BAT, Imperial Tobacco Limited-ITL) and the European Anti-Fraud Office (OLAF) (Joossens, Ross, & Stokłosa, 2014).<sup>86</sup>

Finally, some sources report the **involvement of terrorist groups** in the illicit tobacco trade. According to these sources, terrorist groups exploit the cigarette trade to generate financial support for their terrorist actions (Coker, 2003; Shelley & Melzer, 2008). However, some scholars have argued that the involvement of terrorists in the ITTP is rare (Shen, Antonopoulos, & von Lampe, 2010; von Lampe, 2011).

85. In November 2000 in New York, the European Commission filed a civil action against Philip Morris International, RJ Reynolds, and Japan Tobacco International accusing the companies of "an ongoing global scheme to smuggle cigarettes, launder the proceeds of narcotics trafficking, obstruct government oversight of the tobacco industry, fix prices, bribe foreign public officials, and conduct illegal trade with terrorist groups and state sponsors of terrorism" (Framework Convention Alliance, 2008).

86. In 2004, the EU and Member States dropped the case against Phillip Morris International in return for a legally binding agreement. PMI agreed to pay the EC 1 billion US dollars over 12 years. In December 2007, JTI, having acquired RJ Reynolds, agreed to the payment of 400 million USD over 15 years. In July 2010, BAT agreed to pay 200 million USD over 20 years, and ITL, in September 2010, agreed to pay 300 million USD over 20 years. In addition, the four manufacturers agreed to make additional payments if authorities seize their genuine brands diverted from the legal supply chain (Framework Convention Alliance, 2008).

**Table 27 - Main actors of the ITTP in the 7 OCP countries**

Country	Nationality 1	Nationality 2	Nationality 3	Source (1;2;3)	OCGs	Source
Finland	Latvian	Russian	Finnish	Transcrime, 2015	-	-
France	Romanian	French	-	Transcrime, 2015	-	-
Ireland	Irish	Lithuanian	British	Transcrime, 2015	Irish criminal gangs	Gilsenan & Brophy, 2013
					-Chinese groups -Eastern European groups	IBEC, 2012
					-IRA	Kaplan, 2009
Italy	Italian	Ukrainian	Tunisian	Transcrime, 2015	-Camorra -Sacra Corona Unita	The European House Ambrosetti, 2011
					-Chinese criminal organisations -Romanian organised crime	DIA, 2010a, 2010b; The European House Ambrosetti, 2011
					-Eastern European groups	DNA, 2010, 2011, 2012; Virgilio, 2013
					'Ndrangheta	GdF, 2010
					Russian, Slavic, Ukrainian, Lithuanian, Bulgarian, Moldovan groups	DNA, 2010, 2011, 2012; Virgilio, 2013
Spain	Spanish	Polish	Chinese	Transcrime, 2015	-Romanian, British, Bulgarian and French criminal organisations	Baquero, 2013
					- British criminal organisations	Lalam et al., 2012
					- Asian groups -Spanish criminal groups	AEAT, 2014
					-Galician criminal groups	Europa Press, 2013
					-IRA	Páramo, 2013
Netherlands	Dutch	Middle Eastern	Polish	Van Duyne et al., 2007	-	-
United Kingdom	British	Polish	Irish	Transcrime, 2015	Chinese, Eastern European groups	O'Reilly, 2012

According to a study by Transcrime (2015), the majority of the ITTP actors involved in tobacco smuggling activities in the EU are **Eastern Europeans** (50%), mainly from **Romania, Lithuania** and **Poland**, and extra-EU Europeans (25%), mainly from **Ukraine, Moldova and Belarus**.

As far as OCP countries are concerned, Table 27 synthesises the three most prevalent nationalities of smugglers in each country. However, because the analysis is focused on law enforcement information concerning the actors reported

during tobacco seizures, it is not possible to determine whether they are **individual smugglers or members of larger organised crime networks**. According to the available literature, there is evidence of the presence of organised criminal groups in four out of seven OCP countries: Ireland, Italy, Spain, UK (see Table 27).



## 4.5. Counterfeiting

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### 4.5.1. Introduction

Counterfeiting<sup>87</sup> is one of the largest, most **lucrative and attractive businesses for organised crime groups**. Also UNODC comments that “as a global, multibillion dollar crime, organised criminal groups have not hesitated to cash in on the trade in counterfeit goods” (UNODC, 2014a, p. 2).

The main reason for counterfeiting’s attractiveness is its **low-risk/high-profit nature** (OECD, 2008; UNICRI & ICC BASCAP, 2013). Low risk is first of all associated with globalisation: intensification of international trade and delocalisation of production have complicated the full traceability of goods, thus making the detection of counterfeit goods extremely difficult (UNICRI, 2007; UNODC, 2010a). Secondly, **Internet-based commerce** has facilitated the uncontrolled promotion and spread of imitations around the globe. Moreover, if counterfeiting is compared to other illicit crimes, lower risks result from the milder legal and social penalties associated with it. Indeed, counterfeiting is socially more tolerated than other crimes because buying a fake product does not create in many consumers a sense of having supported criminal activities (UNICRI, 2007).<sup>88</sup>

Counterfeiting’s high profitability can be associated with the **high demand for counterfeit products** (see below) and very low production and distribution costs. OCGs can save money by exploiting forced labour and using the same logistics, storage and transportation means to move counterfeit products together with other illicit commodities (UNICRI, 2007, p. 109). Moreover, counterfeiting seems to facilitate money laundering (UNICRI, 2007; Hoorens et al., 2012). As reported in Part 2, the preferred business sectors for investments by the main OCGs involved in counterfeiting are the wholesale and retail trade of clothing, clothing accessories, car parts and food products, because legal shops serve both to launder illegal proceeds and to sell imitations on the legal market together with genuine products.

Owing to the **high degree of organisation** required by the supply chain of counterfeit items, as well as the large amount of initial capital to be invested in manufacturing capability (UNICRI, 2007), criminals involved in this market often operate as members of an **OCG** (UNODC, 2010a). However, “not all acts of counterfeiting are unequivocally ascribable to large criminal organizations” (UNICRI, 2007, p. 103). **Small groups of criminals**, usually involved in other illicit activities, seem to play a significant role in the “final endpoint distribution” of knockoffs on the retail market (UNICRI, 2007, p. 110).

87. Various definitions of counterfeiting can be found in the literature (for a review see Transcrime, 2010, p. 6-10). For the purpose of this report, counterfeiting is understood in its broadest sense as “infringement of intellectual property rights of any kind, including trademarks, patents, industrial designs, copyrights and related rights” (Transcrime, 2010, p. 6). The usual distinction between counterfeiting and piracy is not taken into account here.

88. According to many researchers, consumers are often unaware of the damage caused by counterfeiting in terms of its negative impact on the legal market, the state budget and consumers’ health and safety (IACC, 2005; OECD, 2008, p. 133-170; UNODC, 2014a).

The European Union is believed to be one of the **most lucrative destination areas** for imitations, with most of them originating from East Asia (UNODC, 2010a). However, Europe is also an important production, transit and sale area of counterfeit products (UNICRI, 2007, p. 112; Europol, 2013a, p. 22). As described in more detail below, criminal groups in Italy, Spain and Portugal have established important local production centres, often specializing in specific sectors or supply phases of product counterfeiting (see Section 5.4.2.5).

### 4.5.2. Estimates of the revenues from counterfeiting

Despite general agreement on the importance of the counterfeiting market, **estimates of its monetary size are scarce** and often non-comparable. Firstly, they vary in terms of methodology: some adopt a *consumer* approach, with surveys seeking to quantify consumers’ expenditure on fake products; others use a *supply-based* approach, estimating the size of the counterfeiting market as a share of legitimate production; and yet others adopt *enforcement-based* approaches (Hoorens et al., 2012) using mainly data from seizures. The available studies also differ by geographical scope - some provide global estimates, others national ones - and by the product categories included in the estimations.

The two most important studies on global counterfeit trade have been carried out by:

- **OECD (2008)**, which estimated the worldwide international trade in counterfeit tangible products (with pirated products excluded) to have reached 200 billion US dollars<sup>89</sup> in 2005 (OECD, 2008, p. 15).<sup>90</sup> Applying the same methodology to 2007 data, in 2009 OECD updated this estimate to 250 billion US dollars.<sup>91</sup>
- **Frontier Economics and BASCAP**, which adopted the same methodology as OECD but extended the computations to include non-tangible pirated products and products domestically produced and consumed. According to this exercise, the world counterfeit market ranges between 455 and 650 billion US dollars<sup>92</sup> (Frontier Economics, 2011).

89. Corresponding to 212 billion euro using the December 31 2005 exchange rate (source ECB).

90. This figure results from a calculation using the GTRIC index (General Trade – Related Index of Counterfeiting for Economies), which evaluates the likelihood of an economy producing counterfeit goods, weighted with the likelihood of products (identified with 2-digit Harmonised System codes) being susceptible to imitation or counterfeiting.

91. Like the previous figure, this estimate “does not include domestically produced and consumed products, or non-tangible pirated digital products” (OECD, 2009, p. 1).

92. Figure obtained by summing estimates of the value of the international counterfeit products market (285-360 billion US dollars), those concerning domestically produced and consumed counterfeit products (140-215 billion US dollars) and digitally pirated products (30-75 billion US dollars) (Frontier Economics, 2011, p. 5).

**Table 28 - Estimates of the revenues of counterfeit markets in the 7 OCP countries and EU**

Country	Type of market	Estimate # (million euro)	Reference year	Sources
Finland	Unlicensed PC software	162 <sup>a</sup>	2011	BSA, 2012
France	Unlicensed PC software	2,121 <sup>b</sup>	2011	BSA, 2012
Ireland	Unlicensed PC software	111 <sup>c</sup>	2011	BSA, 2012
Italy	Clothing, footwear, clothing accessories, jewellery and watches, electrical appliances, ICT equipment, CDs, DVDs, tapes, toys, watches and jewellery, perfumes and cosmetics, glasses	3,028 – 6,055	2008	Calderoni et al., 2014b; Transcrime, 2013a
	Food products, tobacco and alcohol, perfumes and cosmetics, clothing and accessories, electric appliances, ICT equipment, CDs, DVDs and software, watches and jewellery, spare parts of vehicles, games and toys, medicines	7,107	2008	CENSIS, 2009
	Clothing, fashion accessories, multimedia	3,300	2007	Confcommercio
	Fashion wear, consumer electronics, toys, perfumes and cosmetics, medicines, foodstuffs, other consumption goods	7,800	2009	SOS Impresa, 2010
	Unlicensed PC software	1,496 <sup>d</sup>	2011	BSA, 2012
Netherlands	Unlicensed PC software	498 <sup>e</sup>	2011	BSA, 2012
Spain	All products sold to retail customers	992	2012	ANDEMA, 2013
	Unlicensed PC software	940 <sup>f</sup>	2011	BSA, 2012
United Kingdom	Physical goods only	104 <sup>g</sup>	2010	Mills, Skodbo, & Blyth, 2013
	Clothing and footwear	4,483 <sup>h</sup>	2006	Ledbury Research, 2007
	Unlicensed PC software	1,502 <sup>i</sup>	2011	BSA, 2012
Total EU 27	Unlicensed PC software	10,820 <sup>j</sup>	2011	BSA, 2012

<sup>a</sup> Original figure: 210 million US dollars. Converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>b</sup> Original figure: 2,754 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>c</sup> Original figure: 144 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>d</sup> Original figure: 1,945 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>e</sup> Original figure: 644 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>f</sup> Original figure: 1,216 million US dollars, converted into euro using 31/12/2011 exchange rate (source ECB).  
<sup>g</sup> Original figure: 90 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).  
<sup>h</sup> Original figure: 3,009 million GBP, converted into euro using the 31/12/2006 exchange rate (source ECB).  
<sup>i</sup> Original figure: 1,943 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).  
<sup>j</sup> Original figure: 14,433 million US dollars, converted into euro using the 31/12/2011 exchange rate (source ECB).

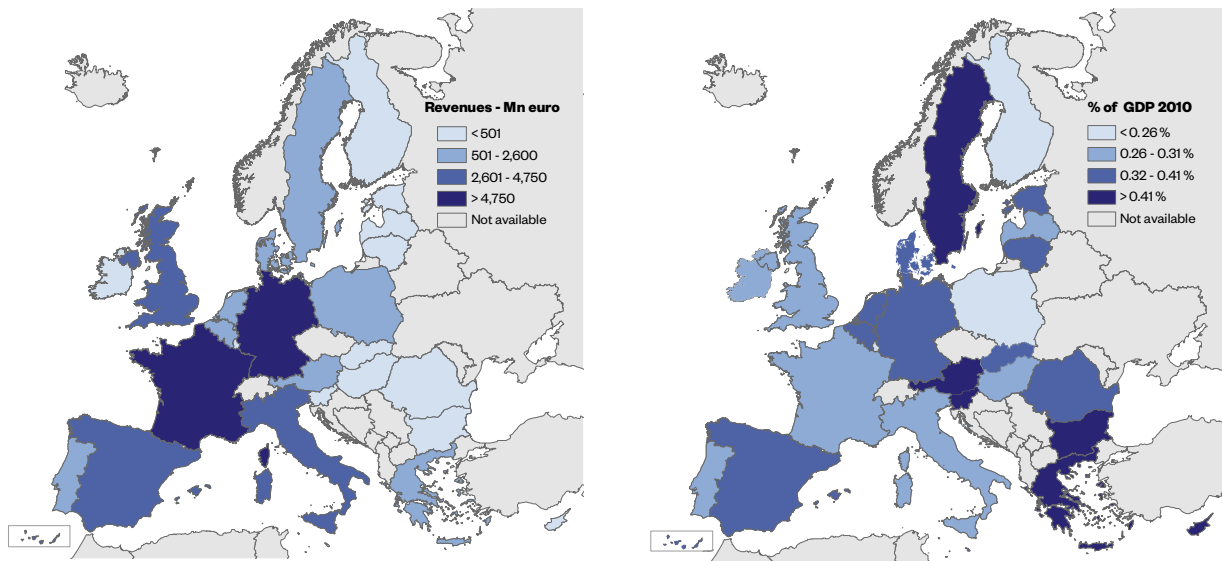
There are even fewer estimates at **European level**. As regards EU MS, estimates based on consumer surveys are available. They sometimes cover all market sectors (like the Spanish research conducted by ANDEMA, 2010) or focus on only a single industry, either in multiple countries (like the Business Software Alliance's country-level estimates on pirated software market) or a single area (like Ledbury's research on counterfeit clothing and accessories in the UK). As far as OCP countries are concerned, the following studies furnish estimates:

- In **Italy**, among the most recent estimates, those by Calderoni et al. (2014b) and Transcrime (2013a) both calculate the size of the counterfeiting market in Italy as 5% and 10% of the turnover obtained by legal companies operating in sectors exposed to counterfeiting risks.<sup>93</sup> According to these studies, the counterfeiting market in Italy was ranged between 3,028 and 6,055 million euro in 2008. In line with this figure is CENSIS's (2009) estimation of the turnover of counterfeiting in Italy at 7.1 billion euro in 2008, but the methodology used is not specified. Other estimates for Italy are set out in Table 28.

93. In particular clothing and accessories, sunglasses, CDs, DVDs and cassettes, computers and software, toys, perfumery and body care items, as well as jewellery and watches, with the tobacco sector excluded.



**Figure 15 - Estimates of the scale of the counterfeit market for the available EU MS. Absolute values (left) and percentages of GDP (right)<sup>97</sup>**



Source: Transcrime elaboration on estimates reported in Table 29

- In **Spain**, a survey commissioned by the Asociación Nacional Para la Defensa de la Marca (ANDEMA), and conducted on 1,000 people/individuals, estimated the average voluntary and involuntary expenditure on counterfeits in 2010 at around 38.16 euro per person, thus resulting in a total consumption of counterfeit goods for 505 million euro (ANDEMA, 2010). A more recent study by ANDEMA updated the magnitude of total expenditure in counterfeit products at around 992 million euro in 2012 (ANDEMA, 2013).
- In 2007, a study conducted by the Alliance Against IP Theft and Ledbury Research<sup>94</sup> revealed that 44% of **UK consumers** had bought an item of fake clothing or footwear at least once in the previous three years, spending overall around 3,000 million GBP per annum (Ledbury Research, 2007).

Also to be mentioned is the Business Software Alliance's (BSA) estimate of the commercial value of unlicensed PC software in the European Union at 14 billion<sup>95</sup> US dollars in 2011 (equivalent to 10.8 billion euro). Considering only OCP countries, the market magnitude was estimated at 8.8 billion dollars (equivalent to 6.8 billion euro)<sup>96</sup> (BSA, 2012).

#### New estimates

**New estimates have been calculated** for the purpose of this study. The methodology applied was the same as the one used by Calderoni et al. (2014b) and Transcrime (2013a), with a **further improvement** to take account of country-level differences in consumers' willingness to accept counterfeit products. The results are reported in Table 29 and Figure 15. A detailed description of the method, data, and assumptions used to generate these estimates is provided in the Methodological Annex.

Table 29 shows the results obtained using two different methodologies of estimate with the same baseline data. The second column sets out the new estimates of the counterfeit market in the European Union, which represent the revenues resulting from the **potential demand for counterfeit products in each EU MS**. These figures, in fact, have been calculated on the basis of the **share of consumers** that, in each country, **declared that they are strongly willing to accept counterfeit products** (according to the Eurobarometer 2011 survey). This country-specific share is indicated in the first column of Table 29. This share was multiplied by the total turnover of legal companies operating

94. Ledbury conducted a survey on 1,023 UK adults aged 16 years old and above to explore their attitudes towards the consumption of counterfeit clothing and footwear.

95. These figures reflect the commercial value of unlicensed PC software.

96. Exchange rate at December 31st 2011, as reported by ECB website <http://sdw.ecb.europa.eu/ourConverter.do>.

97. The classes with absolute value were calculated on the basis of the following classification: Very Low as < -0.5 standard deviations from the average; Low as between -0.5 and 0.5 standard deviations; Medium as between 0.5 and 1.5 standard deviations and High as > 1.5 standard deviations. Regarding the % of GDP (2013, retrieved from Eurostat), the classes are divided according to percentiles: Very Low < 25%; Low between 25 and 50%; Medium between 50 and 75% and High > 75%.

**Table 29 - Estimated scale of the market of counterfeit products.<sup>98</sup> (2010)**

Country	% of the respondents willing to accept counterfeit products	OCP estimate (million euro)	5% of the legal market (million euro)	10% of the legal market (million euro)
Austria	16.25%	1,899	584	1,169
Belgium	9.25%	1,320	714	1,427
Bulgaria	15.5%	244	79	157
Cyprus	28.0%	296	53	106
Czech Republic	9.00%	N/A	N/A	N/A
Denmark	13.50%	931	345	689
Estonia	10.75%	49	23	46
Finland	7.25%	280	193	386
France	10.0%	5,746	2,873	5,746
Germany	9.75%	8,198	4,204	8,408
Greece	16.25%	1,501	462	924
Hungary	9.00%	254	141	282
Ireland	8.5%	456	268	537
Italy	8.25%	4,596	2,785	5,571
Latvia	9.50%	53	28	56
Lithuania	13.50%	100	37	74
Luxembourg	6.75%	63	47	94
Malta	15.25%	61	20	40
Netherlands	10.25%	1,986	969	1,938
Poland	5.25%	676	644	1,287
Portugal	7.50%	512	341	682
Romania	17.75%	436	123	246
Slovakia	14.50%	257	89	177
Slovenia	18.25%	183	50	100
Spain	12.75%	3,928	1,540	3,081
Sweden	15.50%	1,706	550	1,101
United Kingdom	6.50%	4,569	3,515	7,030
<b>Total OCP Countries</b>	<b>9.07%</b>	<b>21,562</b>	<b>12,144</b>	<b>24,288</b>
<b>Total EU 26 (sum of the rows)</b>	<b>12.08%</b>	<b>40,214</b>	<b>20,676</b>	<b>41,353</b>
<b>EU 27</b>	<b>10.0%</b>	<b>42,711</b>	<b>21,356</b>	<b>42,711</b>

Source: Transcrime elaboration on Eurostat data and Eurobarometer, 2011

in the business sectors most vulnerable to counterfeiting<sup>99</sup> to obtain a monetary estimate of the counterfeit market.

The **third and fourth columns** instead report the size of the counterfeiting market assuming, as done by previous studies (e.g. Calderoni et al., 2014b; Transcrime, 2013a), that its size ranges between 5% and 10% of the total turnover of these sectors.

According to the OCP estimate, the size of the counterfeiting market in the 7 OCP countries is approximately **21.6 billion**

<sup>98</sup> Digital piracy is not treated here.

<sup>99</sup> The sensitive sectors were selected on the basis of OECD, 2008. In particular, they were selected according to the GTRIC-P index, which identifies and ranks the most sensitive goods according to data on seizures and total international trade (OECD, 2008, p. 124). According to this methodology, the ten most sensitive products are the following: headgear & other parts, leather articles and saddling, tobacco, umbrellas, clocks and watches, articles of apparel and clothing, footwear, special woven fabric, miscellaneous manufactured articles, toys, games, and sports equipment (product names were associated with product codes according to the 2-digit harmonised system classification – see HS code search at: <http://www.foreign-trade.com/reference/hscodet.htm>). See Methodological Annex for further details.

**Table 30 - Main OCGs active in the counterfeiting market across Europe**

OCGs	European Countries	Sources
Camorra	Belgium, France, Germany, Italy, Netherlands, Spain, UK	Union des Fabricants, 2003; Treverton et al., 2009; UNICRI, 2007, 2011; Eurojust, 2010; DIA, 2011b, 2012b, 2013a; DNA, 2011, 2012, 2014; Transcrime, 2013a; UNICRI & ICC BASCAP, 2013; UNODC, 2010a, 2013a, 2014a; UNICRI & UIBM, 2014
Chinese OCGs	Italy, Spain, UK	Union des Fabricants, 2003; Treverton et al., 2009; UNICRI, 2007, 2011; Silverstone, 2011; DIA, 2012a, 2012b, 2013a; DNA, 2011, 2012; Iadaluca, 2012; IRACIM & Przyswa, 2012; UNICRI & ICC BASCAP, 2013; UNODC, 2010b, 2014b; Wang, 2013; UNICRI & UIBM, 2014
Japanese Yakuza	Italy	UNICRI, 2007, 2011; DNA, 2011; UNICRI & ICC BASCAP, 2013; UNODC, 2014a
North African OCGs	Spain, Portugal, Italy	DNA, 2011; BBC News, 2013a
Other Asian OCGs	Italy, UK, Czech Republic	UNODC, 2010a; DNA, 2010, 2011; UNICRI, 2011; DIA, 2012b; UNICRI & ICC BASCAP, 2013; Interpol, 2014a, 2014c
Other Eastern European OCGs	Italy, Spain	UNICRI, 2007; UNODC, 2010a; DIA, 2012a
Russian/Georgian OCGs	UK, Italy	UNICRI, 2007, 2011; DNA, 2011; UNICRI & ICC BASCAP, 2013; Interpol, 2014a, 2014c
Turkish OCGs	France, Italy	UNICRI & ICC BASCAP, 2013; UNICRI & UIBM, 2014

**euro.** Considering the aggregate EU 27<sup>100</sup>, the figure amounts to **42.7 billion euro**, which is exactly equivalent to 10% of the total EU legal market according to the second methodology.<sup>101</sup> Obviously, these figures have various limitations. In particular, they assume that the *potential* demand for counterfeit goods (as proxied by consumers' propensity towards fake products as estimated by Eurobarometer) can be entirely fulfilled, without taking account of all the constraints (e.g. both technical and related to the level of law enforcement) to which counterfeiters are subject (see the Methodological Annex).

### 4.5.3. Actors

According to many scholars, and owing to the **high degree of organisation** and investments required to manufacture, move and distribute counterfeit products (UNODC, 2010a; UNICRI & ICC BASCAP, 2013; UNICRI & UIBM, 2014), OCGs seem to be the dominant players in this market.

The available evidence shows that the OCGs operating in the counterfeit market across Europe adopt some degree of specialisation in product counterfeiting (UNODC, 2010a). This may take the form of **specialisation along the supply chain**: some groups are expert in the manufacture of counterfeits, and establish, manage or run manufacturing clusters (mainly located in China). Other groups may deal only with wholesale and retail distribution. **Specialisation may occur by product sector as well.** In Europe, for example, Camorra is 'well-reputed' for the design and manufacture of clothing and accessories, and is also widely involved in DVD and CD piracy activities (Treverton et al., 2009). More marginally, Camorra

groups have been found to be involved in the counterfeiting of electronics, car parts or medicines, although some evidence has recently emerged in relation to the theft and adulteration of medicines stolen from Italian hospitals (Faucon, Plumridge, & Falconi, 2014; Riccardi, Dugato, & Polizzotti, 2014).

**Chinese groups** are often involved in the counterfeit market in Europe (UNICRI, 2007; UNODC, 2010a). Together with other Asian groups, they seem to engage in almost all phases of the supply chain: from illegal manufacturing with illegal production plants and laboratories also found in some EU MS such as Italy (e.g. UNODC, 2013a, p. 127, DNA, 2012), to the importation of knockoffs manufactured in China or the smuggling of CDs and DVDs, for example into the UK and Spain (Union des Fabricants, 2003; UNICRI, 2007). UNODC reports that 55% of the fake products seized in 2008 at the European Union's borders originated from China and 10% from Taiwan, often passing through free trade zones like the United Arab Emirates (UNODC, 2010a, p. 179, 2013a, p. 125). More often, Chinese groups operate in Europe in **partnership with other local criminal groups** (DNA 2012, 2014; UNICRI & ICC BASCAP, 2013). For example, cooperation is active with the Italian Camorra OCGs, as the latter groups were found to complete the production of imitation made in East Asia by labelling the goods with fake tags (Eurojust, 2011a, p. 42). Although limited, there is evidence that the illegal proceeds obtained by Chinese OCGs in the counterfeiting industry may be widely laundered in the legitimate European economy, especially in Italy (see Box 32).

As said, **Italian Camorra** is historically engaged in the counterfeiting market, especially in the counterfeiting of clothing and fashion accessories and the piracy of CDs and DVDs (Treverton et al., 2009; DNA, 2014). The southern Italian region of Campania, and in particular the areas of Naples and Caserta, are most frequently affected by the presence of illegal garment factories (UNODC, 2010a, p. 180; UNICRI, 2014). According to the literature, the role of the Camorra has evolved in recent decades, from the **manufacturing of low-**

100. he estimate does not cover all the EU 28 MS because data for Croatia are not available.

101. The average EU consumer's propensity to purchase counterfeit goods was about 10% of the respondents to the Eurobarometer survey.

**level products** to the **confection of original haute couture** fashion products (which may be diverted to the fake market) or to the importing of raw materials, textiles, tools and machinery from China and Asia to perform the final supply chain phases (UNODC, 2010a, p. 180). The available evidence shows that counterfeit garments are then exported to other European countries, such as Belgium, France, Germany, Ireland, Spain, Switzerland and UK (UNICRI, 2007). The illegal proceeds obtained in the counterfeiting market are then laundered by Camorra groups in a variety of sectors (UNICRI, 2011, p. 97).

Evidence of the participation of Russian, the Japanese Yakuza, and Northern African OCGs in the counterfeiting industry has also been reported. In particular, **Russian OCGs** are associated with the smuggling of CDs, DVDs and software, e.g. in the UK (UNICRI, 2007, p. 118). In Italy there is evidence of the **Japanese Yakuza**'s involvement in CD and DVD counterfeiting and credit card frauds (DNA, 2011, pp. 201, 671). **Northern African** smugglers of counterfeit products have been caught in Spain, Portugal and Italy (DNA, 2011, p. 281; BBC News, 2013a).

## 4.6. Illegal gambling and match-fixing

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### 4.6.1. Introduction

‘Gambling’ refers to **different forms of betting**, such as **casino games, lotteries and slot machines** (Calderoni et al., 2014b). Although gambling is legal in many countries, the demand for illegal gambling services even in these countries is growing.

The academic literature on this issue is scant, and some previous studies have minimized the involvement of OCGs in this field (e.g. Reuter & Rubinstein, 1982). However, the **connection between organised crime and illegal gambling** has been highlighted by several authors (such as Pinto & Wilson, 1990; Liddick, 1999; Transcrime, 2013a; Calderoni et al., 2014b), who provided evidence of organised crime’s management of illegal casinos, poker and slot machines in several countries. At the same time, there is increasing evidence of the involvement of OCGs in the **related illicit activity of match-fixing**, i.e. the manipulation of sports events in order to obtain a fraudulent profit from bets on them.

There are several reasons why OCGs may be interested and active in the illegal gambling market:

- First, illegal gambling requires a **high level of organisation and management expertise** to make it credible, and to handle finance, protection, security and debt collections. A complex gambling venue requires specialised workers such as dealers, supervisors, managers, security staff, cashiers etc. (Ferentzy & Turner, 2009, p. 112). A criminal organisation is one of the few actors able to provide these resources.
- Second, the available statistics on the legal market reveal high and still growing worldwide demand for gambling activities. OCGs may decide to **meet this demand with illegal gambling services**, especially in areas where legal casinos are banned or limited, or where regulation is weaker (Calderoni et al., 2014b).
- Third, both illegal and legal gambling can provide **opportunities for other illicit activities** (Ferentzy & Turner, 2009, p.119). Casinos and slot machine halls furnish criminals with places for recreation and socialisation, and can facilitate money laundering, theft, fraud, and usury (FATF, 2009, pp. 26-27; Europol, 2014a; McAfee, 2014). For example, criminal groups running illegal casinos or bingo halls can also provide loans, at usurious interest rates, to those who play and become short of cash.

This Section analyses the role that OCGs may play in Europe in **both illegal gambling** (e.g. unlicensed casinos, illegal betting, illegal lotteries and game machines) and **legal gambling activities**, since criminals can also control licensed casinos, video lotteries and slot machines, in particular as means to launder money (Banca d’Italia-UIF, 2014; Calderoni et al., 2014b, p. 111; Ministero dell’Economia e delle Finanze, 2014). It also analyses the related (and emerging) illegal activities of **match-fixing and match-manipulation**, which in some countries have proved to be important sources of revenues for organised criminals (see e.g. the Netherlands, Section 5.5).

As illustrated below, these **three dimensions often overlap** and cannot be clearly distinguished. For example, authorised licensees may disconnect licit gaming machines from the authorized control network and then alter them to produce *illegal* revenues (Calderoni et al., 2014b, p. 112). The overlap between these dimensions also makes it difficult to estimate the size of the illegal gambling market in the Europe, and the share of this market attributable to OCGs.

### Organised crime and illegal gambling

OCGs have been traditionally interested in illegal gambling activities. The conventional image of illegal gambling associates it with clandestine casinos, gambling halls, and illicit betting on horse races. But also in Europe there is growing evidence of new illegal gambling activities, such as adulterated gaming machines and illegal online gambling services (Ministero dell’Economia e delle Finanze, 2014, pp. 18-25).

### Organised crime and legal gambling

As said above, besides illegal gambling, organised crime groups have been historically attracted to legal gambling activities.<sup>102</sup> Owing to their cash-intensive nature, licensed casinos and bingo halls have always been used as **channels for money laundering**, both in Europe and in the USA and Canada (Ferentzy & Turner, 2009; FATF, 2009; Calderoni et al., 2014b).<sup>103</sup> VLT and betting services also constitute **one of the sectors most infiltrated** by OCGs, according to the analysis carried out in Part 2 (see in particular Chapter 7). Indeed, casinos and gambling providers are, like banks or accounting firms, among the entities **covered by EU anti-money laundering obligations** (Directive 2005/60/EC; Directive 2006/70/EC; see also the proposal for a fourth EU AML Directive).<sup>104</sup>

More recently, OCGs have benefited from technological advances, in particular the Internet, and from weak regulation of the Web, to extend their interests in two directions: the first comprises **online gambling and online betting websites**,<sup>105</sup>

<sup>102</sup> There is a large body of literature on, for instance, the involvement of mafias and other organised crime groups in the management of USA casinos, such as those of Las Vegas and Atlantic City (Ferentzy & Turner, 2009).

<sup>103</sup> In the late 1970s, it was estimated that 80% of slot machine sales were controlled by organised crime groups in the USA (Ferentzy & Turner, 2009, p. 127). Furthermore, video gaming and lottery machines appear to be a major source of income for OCGs in Canada, where the Hells Angels, Asian-based organised crime groups, traditional organised crime groups, and East European-based ones are all involved in the illegal operation of these machines (Ferentzy & Turner, 2009).

<sup>104</sup> EU Commission, Proposal for a Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, available on <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52013PC0045:EN:NOT>.

<sup>105</sup> In particular, the proliferation of gambling operators, games and betting services on the Internet facilitates money laundering and impairs the traceability of both the players and the beneficial owners behind these online platforms (Transcrime, 2013a).

the second **slot machines** (AWP) and **video-lottery terminals** (VLT).<sup>106</sup>

### *Organised crime and match-fixing*

**Match-fixing**, especially in football, is a **growing area of interest for many OCGs**. Criminals manipulate the results of matches by corrupting and/or intimidating players and/or referees in order to profit from (legal or illegal) betting on them. According to a recent study, 7% of 27,000 football games played per year under the UEFA rules are suspected of manipulation (De Sanctis, 2014, p. 97).

Although Asia is a critical region (Interpol, 2011), evidence of match-fixing can be found also in Europe; and it is reportedly often committed by **transnational criminal networks**. Several **police operations**, involving European countries and/or Europe-based criminal groups, have been carried out in this field: for example, investigations conducted during the 2008 European football championships, when 1 billion euro<sup>107</sup> of bets were interdicted and almost 12 million<sup>108</sup> euro in cash were seized, leading to the arrest of around 1,300 people (Interpol, 2011). In November 2009, the German Federal Police detected two hundred suspicious matches across nine countries, and one hundred suspected players, referees, coaches, league officials and criminals operating in Germany, Switzerland, Turkey, Greece, UK, Netherlands, Hong Kong and Malaysia (Hill, 2008, p. 10). In Italy, in 2010 alone more than 30 active investigations on illegal gambling related to match-fixing in connection with organised crime were reported (Interpol, 2011).

In 2006, Italy was also hit by the so-called **Calciopoli match-fixing scandal**, which involved high-profile football players and coaches (The Guardian, 2006); six years later, some Italian football clubs were again involved in a match-fixing scandal on an international scale from Singapore to South America to Europe, where even people in Hungary were arrested (Daily Mail, 2012).

### **4.6.2. Estimates of the illegal gambling market**

Owing to a lack of data, and to the overlap between legal and illegal gambling, estimating the proceeds of illegal gambling is difficult. **Only a few estimates exist**, and most of them either

focus on certain sectors (e.g. VLT or online gaming) or do not state the methodology used for the calculation.<sup>109</sup> In the OCP countries, the literature review revealed that:

- In the **UK**, according to Groom and Davies, illegal gambling's value added amounted 0.8 billion GB GBP (1.1 billion euro) in 1996, about 0.1% of GDP (Groom & Davies, 1998).
- In the **Netherlands**, according to Unger (2007), illegal gambling generated 130 million euro proceeds for criminals in 2003, about 0.8% of GDP at that time (UNODC, 2011a, p. 24).
- In **Italy**, the illegal gambling market has been estimated by a number of authors, who provided highly variable figures. SOS Impresa (2010) reported illicit profits amounting to 3.6 billion euro in 2009,<sup>110</sup> which 2.5 billion could be attributable to OCGs (SOS Impresa, 2010), but no information on the methodology employed was given. Later, Transcrime estimated revenues between 326 and 522 million euro in 2011, with almost 20% of them concentrated in Sicily (Transcrime, 2013a, p. 55). Other estimates carried out for Italy are mentioned in the Table 31.

### **4.6.3. Actors**

The role and structure of the OCGs engaged in illegal gambling in Europe are still **largely unexplored** by the academic literature.

Italian mafias appear to be active in illegal as well as legal gambling activities, both in Italy (Transcrime, 2013a; DIA, 2013b; DNA, 2012, 2014; Calderoni et al., 2014b) and abroad, e.g. in **Canada** (DNA, 2011). It is reported that almost **41 groups** (both Italian and foreign) are active in the Italian market (Libera, 2012). Camorra, 'Ndrangheta and Cosa Nostra, in particular, organise the supply and management of AWP and VLT game machines. They act as market regulators by establishing companies, issuing permits, extorting shops to rent their machines, and providing usury loans to pathological gamblers who run out of cash (Ferentzy & Turner, 2009, pp. 118-119; Transcrime, 2013a; Calderoni et al., 2014b).

There is evidence of similar practices by **Chinese criminal organisations** against Chinese nationals (Calderoni et al., 2014b), not only in Italy but also in other European countries, including the Netherlands and the UK (see Table 32).

106. There is growing evidence that OCGs have infiltrated companies operating in the provision and management of AWP and VLT, in particular in Italy (Transcrime, 2013a; Banca d'Italia-UIF, 2014; Ministero dell'Economia e delle Finanze, 2014, pp. 18-25). Involvement in this sector makes it possible not only to launder the proceeds from other illicit activities but also to earn significant profits, especially if AWP and VLT devices (which need state licensing) are disconnected from the central electronic network in order to avoid taxation (Calderoni et al., 2014b). There are several laundering techniques. For example VLT devices contain a technical fault because they draw a ticket with the cash-out without distinction between ended and interrupted games. Thus, if the player inserts 100 euro in the VLT device and interrupts the game before it starts, s/he gets a ticket which allows him/her to cash in 100 euro as if s/he has won that amount.

107. Original figure: 1.4 billion US dollars, converted into euro using the 31/12/2008 currency rate (source ECB).

108. Original figure: 17 million US dollars, converted into euro using the 31/12/2008 currency rate (source ECB).

109. Measurements of illegal gambling markets can be derived from statistics on the legal industry (e.g. Transcrime, 2013a; Calderoni et al., 2014b). Data on the number of customers and licensed casinos, bingo halls and betting agencies have also been used for indirect assessment of the demand for gambling and gaming services, and hence the market-opportunities for illegal gambling and OCG infiltration.

110. Income 2.50 billion euro and expenditure 1.75 billion euro (UNODC, 2011a).



**Table 31 - Estimates<sup>111</sup> of the revenues from illegal gambling in OCP countries**

Country	Estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Italy	425	327	522	2011	Transcrime, 2013a; Calderoni et al., 2014b	Illegal gaming machines
	4,000			2011	Sos Impresa, 2012	Whole market
	3,600			2011	Sos Impresa, 2012	OCG share
	2,500			2009	Sos Impresa, 2010	OCG share
	23,000			2009	Eurispes, 2010	
Netherlands	130			2003	Unger, 2007	
United Kingdom	1,128 <sup>a</sup>			1996	Groom & Davies, 1998	Value added of consumers' expenditure
<sup>a</sup> Original figure: 800 million GBP, converted into euro using the 01/04/1999 exchange rate (source ECB). # Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						

**Table 32 - Main OCGs in the illegal gambling market**

OCGs	European Countries	Sources
Apulian OCGs	Italy	Busa & La Rocca, 2011; DIA, 2011b, 2012a, 2013a; DNA, 2012; Libera, 2012
Camorra	Italy	DNA, 2010; Busa & La Rocca, 2011; Libera, 2012; DIA, 2013b, 2014
Chinese OCGs	Italy, Belgium, Spain, Germany, Austria, France, Netherlands, UK	Hill, 2008; DIA 2012b, 2013a; Iadaluca, 2012
Cosa Nostra	Italy	Busa & La Rocca, 2011; Libera, 2012; DIA 2012a; 2013a; DNA, 2011, 2012
'Ndrangheta	Italy, Romania, UK	Busa & La Rocca, 2011; DIA, 2012b; 2014; DNA, 2011, 2012, 2014; Libera, 2012
Other Eastern European OCGs	Germany, Italy	Ferentzy & Turner, 2009; DIA, 2011b
Russian/Georgian OCGs	Italy	DIA, 2012b

111. In the presence of an estimation range, estimate refers to the arithmetic mean or, only when specified, to an adjusted mean (referred to as best estimate). For more details see the Methodological Annex.



## 4.7. Extortion racketeering

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### 4.7.1. Introduction

Like other illegal activities, also **extortion racketeering**, i.e. the obtaining of cash or other utilities by means of intimidation and threats usually against businesses (Lisciandra, 2014, p. 93), may be carried out by **multiple criminal actors**. As some scholars highlight (Sciarrone, 2009; Lisciandra, 2014, p. 94), extortion racketeering is perpetrated not only by OCGs but also by individual criminals or non-organised groups. Nevertheless, it is still a predatory activity **typical of organised crime groups** (Albanese, 2004; Lisciandra, 2014) and an important source of illegal proceeds, especially for Italian mafias (Transcrime, 2013a; Lisciandra, 2014).

It is not easy to determine if and how extortion contributes to the 'portfolio' of organised crime groups and, hence, how it impacts in terms of money laundering and OCGs investments. The obstacles are numerous.

First, it is difficult to assess the extent of this criminal phenomenon: police or judicial statistics are usually characterised by a **high dark figures** because the victims of extortion racketeering do not usually report it to law enforcement (Silke, 1998; Mugellini & Caneppele, 2012);<sup>112</sup> and alternative direct or indirect measures are lacking.

Second, racketeers drain easy cash from the victims; but in many cases they have been found to extract **other advantages**, such as the **provision of other facilities** (like goods, services or manpower) (Transcrime, 2009, p. 31; Transcrime, 2013b, p. 62), which are very difficult to estimate in monetary values. Indirect benefits may also result from control of the territory (Transcrime, 2013a) and from the distortion of the market competition (Daniele & Marani, 2011). Through extortion, criminal groups act as both regulatory and enforcement 'agencies' in illicit markets, where disputes can be resolved only by informal means (Sung, 2004, p. 115; Transcrime, 2009, p. 23; Gounev & Ruggiero, 2012). Extortion thus impacts on OCGs investments not only because it is a source of illegal funds that will eventually be laundered, but also **because it shapes the market where OCG infiltration will then occur**.

Third, it is difficult to assess the **level of profitability of extortion** for racketeers. According to scholars, profitability varies according to numerous factors: for example, there is evidence that, in recessions, the amount of money extorted from businesses decreases. In general, it depends on the possibility of OCGs to exercise effective and extensive control over a given area, because extortion can be casual or systemic (Transcrime, 2009) depending on the extent to which OCGs act sporadically or are rooted in the territory.

Profitability also depends on the relationship between victims and perpetrators (for a review see Sciarrone, 2009, Transcrime, 2009): in the case of **'predatory' extortion**, less systematic cash flows are generated because victims

are requested to pay only once; in the case of **'parasitic' or 'symbiotic' racketeering**, in which the victims may be willing to pay in order to obtain protection for their businesses, regular payments in cash or physical goods are made, so that the racketeers can obtain larger proceeds, which can then be laundered through reinvestment in the legal economy (Baker, 2005; Transcrime, 2009).

It can be consequently hypothesised that, especially in areas **where control by OCGs is extensive** or where both legal and physical persons seek protection from illegal actors because "state protection is not regarded as adequate or reliable" (Paoli, 2003, p. 165), extortion racketeering is a **significant source of profits** for the criminal groups involved, also considering the low risks and the low costs necessary to perform this activity (Paoli, 2003).

### 4.7.2. Estimates of the revenues from extortion racketeering

Despite the crucial role played by extortion in the portfolios of OCGs, only a few studies have attempted to estimate the extent of its proceeds.

At global level, the only result available is the one illustrated by Baker (2005, p. 172), who estimated the global financial flows generated by racketeering at between a minimum of **50 billion and a maximum of 100 billion US dollars** over the 2000-2005 period. The extent to which this figure is attributable to revenues generated by OCGs is not specified.

The most comprehensive study on extortion racketeering at European level is Transcrime (2009), which does not provide estimates of the proceeds from extortion but instead provides a **detailed overview on the extent** of this criminal activity across Europe. In particular, by differentiating between casual and systemic extortion in each member state (see Table 33 reporting the results for the seven OCP countries), it yields understanding of the countries in which extortion racketeering may contribute most to the portfolio of OCGs, since, as mentioned above, proceeds are larger where racketeering is systemic.

Country-level studies on extortion racketeering are equally rare. Most of them **focus on Italy**, where, as anticipated, extortion plays a pivotal role in the economy of Italian mafias.

- **Lisciandra (2014)**, drawing on Transcrime (2013a) and using data on extortion episodes combined with information gathered by the Italian business victimisation survey (Mugellini & Caneppele, 2012), estimates the total revenues from extortion racketeering at between a minimum of 2.8 billion and a maximum of 7.7 billion euro, with the Campania region (dominated by Camorra groups) accounting for 30% of the money earned from extortion racketeering in the country as a whole.
- **Transcrime (2013a)**, drawing on a survey conducted by Fondazione Chinnici, estimates that, in 2011, criminal cash flows obtained through coercion by local OCG were

<sup>112</sup> In a business victimisation survey of Italian companies, Mugellini and Caneppele (2012) showed that only 6.6% of the surveyed companies victims of extortion racketeering reported the episode to the police.

**Table 33 - Type of extortion racketeering in the 7 OCP countries – excerpt from Transcrime (2009)**

OCP country	Extortion		Organised crime groups		Seriousness of extortion racketeering
	Type	Relationship	Type	Nationality	
Finland	CASUAL	Predatory	Local OC	National	Low
France	SYSTEMIC	Predatory, Parasitic, Symbiotic	Local OC, Foreign OC, Terrorist groups, Local gangs	National; Foreign (Turkish, Chinese, Albanian)	High
Ireland	CASUAL	n.a.	Local OC; Local gangs	National	Low
Italy	SYSTEMIC	Parasitic, Symbiotic	Local OC, Foreign OC, Local and foreign gangs	National; Foreign (Eastern European, Chinese, Other Asian)	High
Netherlands	CASUAL	Predatory, Parasitic	Local OC, Foreign OC, Local gangs	National; Foreign (Chinese, Turkish)	Medium
Spain	SYSTEMIC	Predatory, Parasitic, Symbiotic	Terrorist groups, Local gangs, Foreign OC	National; Foreign (Russian, Romanian, Colombian, Chinese)	High
United Kingdom	SYSTEMIC	Predatory, Parasitic, Symbiotic	Local OC, Foreign OC, Local gangs, Terrorist groups	National; Foreign (Turkish, Middle Eastern, Chinese)	High

Source: *Transcrime, 2009, pp. 8-10*

equivalent to 4.8 billion euro. It also emerges from this study that extortion racketeering is one of the largest illicit markets in Italy (Transcrime, 2013a, p. 65).

- A larger estimate has been produced by **SOS Impresa (2010)**, which calculated at 9 billion euro the proceeds generated in 2010 by protection racketeering. However, no details were provided about the methodology and the data sources used.

### 4.7.3. Actors

As mentioned in the introduction, extortion racketeering can also be carried out by **very small groups** and **even single offenders** (Transcrime, 2009; Lisciandra, 2014), who may sometimes pretend to belong to a criminal group in order to be more credible (examples are provided by Gambetta, 1993; Chu, 2002; Sciarrone, 2009).

However, the international literature agrees that extortion is more systemic, stable over time, and able to generate large proceeds **only when it is carried out by well-rooted OCGs** able to exert extensive control over the local territory and economy. Criminal groups may be local or transnational because OCGs may also be active in racketeering in foreign countries. But in this latter case, extortion is usually conducted in a 'predatory' style, in particular against businesses or persons of the same ethnic group, and it is often associated with the exploitation of victims of human trafficking or the control of trafficking routes (Transcrime, 2009).

In the European Union, transnational racketeering groups have been identified by Transcrime (2009) in **almost all EU MS** except Denmark, Finland, Ireland, Lithuania and Sweden. Local gangs engaged in extortion racketeering were found in

Austria, Belgium, Czech Republic, Denmark, France, Germany, Ireland, Italy, Netherlands, Slovakia, Slovenia, Sweden and the UK (Transcrime, 2009, p. 263).

There follows a brief overview on the **main OCGs** engaged in extortion racketeering across Europe.

- **Italian Mafia OCGs** have a complex and structured system of extortion racketeering (Transcrime, 2009), and they are apparently the ones that gain most illegal proceeds from this activity (Transcrime, 2013a, Lisciandra, 2014). They act mainly nationally, especially in the southern regions of Italy, where institutional and local community responses are weak and criminal control of the territory is stronger (Sciarrone, 2009; Transcrime, 2013a). In particular, Camorra OCGs appear to be the ones most involved in extortion and earning the highest proceeds (Transcrime, 2013a). However, their presence in the protection markets in foreign countries seems not to be significant. Only a few cases of extortion activities by Italian mafias abroad have been reported (see the case of the 'Ndrangheta in Germany reported by DNA (2001, p. 56)).
- **Russian-speaking OCGs** have been associated with racketeering in Spain, Finland, and many other European MS (Transcrime, 2008, pp. 8-10). In Spain, Russian and other foreign groups extort money from enterprises in the construction sector, real estate and the entertainment industry (Transcrime, 2009, pp. 217-218). Threats of violence against businesses have been made by Russian gangs also in Finland, according to Dunn (1997). In the countries of Eastern Europe, these groups instead operate mainly as private protection organisations (Savona, 2011; Gounev & Ruggiero, 2012).

**Table 34 - Main OCGs active in extortion racketeering in the EU MS**

OCGs	EU MS	Sources
Albanian OCGs	Bulgaria, Czech Republic, France, Greece, Slovakia	Europol, 2005; Transcrime, 2009; DIA, 2011b, 2012b, 2013a
Chinese OCGs	France, Italy, Portugal, Romania, Slovakia, Spain, Netherlands, UK	Transcrime, 2009; DNA, 2010, 2011; DIA, 2011a, 2011b, 2013a; Savona, 2011; Gounev & Ruggiero, 2012; Iadaluca, 2012
Other Asian OCGs	Czech Republic, Greece, Romania, Italy, Poland	Transcrime, 2009; DNA, 2010, 2011
Other Eastern European OCGs	Czech Republic, Estonia, Hungary, Italy, Latvia, Poland, Portugal, Romania, Slovakia, Slovenia	Transcrime, 2009; DIA, 2011a, 2012a; DNA, 2011; OSAC, 2014c
Other Western European OCGs	Austria, Belgium, Denmark, Greece, Germany, Poland, Portugal, Sweden	Transcrime, 2009
Russian/Georgian OCGs	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, Germany, Greece, Latvia, Poland, Romania, Slovakia, Spain	Transcrime, 2009; DNA, 2011
Turkish OCGs	Austria, Bulgaria, France, Germany, Romania, Netherlands, UK	Transcrime, 2009

- Among **Chinese groups**, extortion racketeering seems to be persistent and widespread in many European countries (Gounev & Ruggiero, 2012). In France, Faligot (2001) reported cases of Chinese merchants being forced to pay so-called 'tea-money' (ranging from 500 to 2,500 US dollars) to buy protection for their businesses. As in the case of Turkish groups, the victims are often their co-nationals. In the UK, Chinese gangs were found extorting money from the families of Chinese immigrants (Savona, 2011).
- **Turkish-speaking OCGs** are particularly active in extortion in some EU Member States, including OCP countries such as France, Netherlands, and the UK (Transcrime, 2009, pp. 8–10). In this case as well, the victims are often other Turkish groups or businesses.
- To be noted is that, in the past few years, racketeering has often been associated with Europe-based terrorist and separatist groups, which raise money through extortion to fund their activities. The **ETA in Spain**, paramilitary groups **in Northern Ireland**, and the **Corsican Separatist Movement** in France once forced people to pay the so-called 'revolutionary tax', theoretically to support movements for local freedom. Today, with the evolution of terrorist groups into criminal or "terrorist enterprises" active in the "market of violent products" (Myres, 2012, p. 698), the protection racket is used **more 'mafia-fashion'** to strengthen control of the territory, impose monopolies, or discourage businesses attracting tourists, as in Corsica (Transcrime, 2009, p. 103).

## 4.8. Usury

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### 4.8.1. Introduction

Usury, often referred to as **‘illegal lending’ or ‘loan sharking’**, is the lending of funds through illegal channels at a high interest rate to a person or a company usually in economic difficulties (Transcrime, 2013a, p. 60; Scaglione, 2014, p. 78)<sup>113</sup>. OCGs are increasingly involved in this illegal market, although the role of criminal groups has often been deemed minor compared to that of other actors.

For example, until the early 1980s usury was generally **ethically unacceptable** within Mafia groups in Italy, especially for the Sicilian group Cosa Nostra, which considered it (along with prostitution and gambling) to be prohibited - although some other Mafia OCGs, such as Camorra, have never shown prejudice against this type of crime (DIA, 2011b; DNA, 2011; Transcrime, 2013a; Scaglione, 2014). Some studies have highlighted the **role that individuals and relatives play in illegal lending**: in the UK, for example, a study conducted by Ellison, Collard and Forster (2006) showed that around 40% of payments are collected by the lenders themselves, which implies that the market is not necessarily controlled by large OCGs (Ellison, Collard, & Forster, 2006, p. 57).

Nevertheless, the **share of OCGs in the usury market is increasing**. This may be explained by several factors. First, **some level of management** is needed to establish a system of illegal lending, at least in terms of cash availability, and most OCGs possess these organisational banking skills. Second, usury appears to be **increasingly connected with other illegal markets** (Scaglione, 2014, p. 77). The money provided as loans often stems from the proceeds of other illegal activities (e.g. drug trafficking, firearms trafficking, sexual exploitation) conducted by OCGs. OCGs thus **launder their ‘dirty’ money by lending it** to borrowers who invest it in the legal economy. Lenders can also use the money to invest in the illegal economy, because cash is often needed for illegal activities such as drug trafficking (Shanty, 2008, p. 203). Another example is the link between **usury and gambling**. The sources provide evidence of players of VLT and slot-machines, casino gamblers, and sports-bettors, in both legal and illegal settings, who run short of cash and resort to usurers to finance their bets (Shanty, 2008, p. 203; Scaglione, 2014).

Third, individuals who are not backed by criminal groups may be less persuasive towards borrowers failing to repay his/her loan, whilst OCG lenders can **threaten physical violence to secure repayment** (Ellison, Collard, & Forster, 2006, p. 53). OCGs not only have more money to lend, they have more ways to ensure re-collection (Shanty, 2008, p. 202).

Fourth, OCGs can see usury as a **first step towards infiltrating legal businesses** and eventually taking them over (Scaglione, 2014, p. 82): companies in financial distress that are refused bank loans may ask for illegal credit provided

by OCGs. If the loan is not repaid, OCGs may extort a share (or the whole share capital) of the company as repayment, thereby acquiring ownership of the business. This form of **‘convertible bond’** was used, for example, by ‘Ndrangheta OCGs to take control of the Perego construction company in Italy (Za, 2012; Tornago, 2014).

The instrumental use of usury by OCGs appears to be **more frequent during economic recessions**. Desperate companies or families turn to criminal groups, which are among the few operators with disposable cash and liquid assets and are willing to extend loans. Indeed, generally speaking, financial crises, increased unemployment, loss of purchasing power, and low wages induce businesses and families to take out loans at usurious rates (Scaglione, 2014). According to Ellison, Collard and Forster (2006), 82% of those using illegal loans in the United Kingdom in 2006 did so because they had no other credit options (Ellison, Collard, & Forster, 2006, p. 20).

However, it should be noted that an economic crisis may also **deflate the usury market**, because an increase in bankruptcy rates can reduce the number of companies asking for (either legal or illegal) loans (Scaglione, 2014; Guiso, 1993). Usury has also been used in connection with corruption. In Bulgaria, usury seems widespread in the political sphere (CSD, 2012, p. 56).

Hence, although usury is not an OCG ‘core business’, it is **becoming an important activity for some criminal groups**, especially Italian mafias (Transcrime, 2013a), and in particular in the current situation of financial crisis and credit crunch. It may accordingly play a crucial role in the portfolios of OC groups and be an increasing source of proceeds that can be invested in the legitimate economy. For this reason it is important to review the available estimates on this market.

### 4.8.2. Estimates of the revenues from usury

Estimating the size of the usury market is challenging. First, it is **not easy to assess the number of victims** and the amount of profit gained by lenders. Police and judicial statistics are not reliable, because usury is usually characterised by **high dark numbers**, given the ‘cooperative’ relationship between usurer and borrowers (Mugellini & Caneppele, 2012).

Indirect methods have been adopted, such as calculating the number of victims of loan sharking by using the number of legal companies which have had their requests for **legal loans rejected**. The assumption is that those companies will have to find other ways to finance their activities (Guiso, 1995; Scaglione, 2014). Other studies (such as Ellison, Collard, & Forster, 2006, in UK) have conducted **surveys on businesses or households** in order to assess their vulnerability and predisposition towards loan sharking, and hence make estimations.

Most estimates focus only on a limited number of countries. In **Italy**, the most updated figures are provided by Transcrime

<sup>113</sup>. From a legal point of view, usury is distinguished from legal credit by the application of interest rates above a certain legal threshold. However, the interest rate is not the only discriminant since, as highlighted by some scholars, usury is characterized by a specific relation between the borrower and the illegal lender which makes it different from the traditional relationship between banks and their clients (Masciandaro & Battaglini, 2000; Transcrime, 2013a).

**Table 35 - Estimates of the revenues from usury in OCP countries**

Country	Estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source
Italy	2,243			2013	Transcrime, 2013a
	<i>4,634</i>	3,090	6,178	2012	Scaglione, 2014
	15,000			2009	SOS Impresa, 2010
United Kingdom	175 <sup>a</sup>			2005	Ellison, Collard, & Forster, 2006
<p><sup>a</sup>Original figure: 120 million GBP. Converted into euro using the 31/12/2005 exchange rate (Source ECB).</p> <p># Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.</p>					

(2013a), Scaglione (2014), and SOS Impresa (2010).<sup>114</sup> According to Transcrime's estimates, the size of the usury market in Italy, in terms of revenues, amounts to around 2.2 billion euro (Transcrime, 2013a, p. 61). SOS Impresa (2010) reports an income for OCGs of 15 billion euro in Italy in 2010, almost 20% of the total revenues of Italian organised crime. If compared to previous reports by SOS Impresa, the proceeds from usury grew in comparison to 2008 (12.6 billion euro). The increase may be due to the 2009 economic crisis, suggesting that organised crime groups have benefited from the credit crunch in the legal lending channels. The most updated empirical studies include **Scaglione (2014)**, which estimates that usury in 2012 generated revenues of between 3.1 and 6.2 billion euro, and affected 372,000 companies (Scaglione, 2014, p. 87).

Ellison, Collard, and Forster (2006) estimate that almost 165,000 households in the UK used illegal loans in 2005. Illegal lenders loan an amount of 58.4 million euro<sup>115</sup> yearly, and collect a profit of 175.1 million euro from those loans (Ellison, Collard, & Forster, 2006, p. 38).

### 4.8.3. Actors

The structure of the usury market in Europe and the role of usury actors, including OCGs, **remain largely unexplored** by the academic literature. As already noted, OCGs are not the only players in the usury market. Drawing on Scaglione (2014), two different categories of lenders can be identified:

- The first comprises actors that usually lend to households and small-medium enterprises to generate an income (*unstructured usury*). These actors (often **individuals or small, not necessarily organised**, groups) belong to a structure traditionally based on authority. They do not use significant violence but rely on **homogenous social environments** and common relationships (often parental). This is often referred to as 'neighbourhood usury', 'district usury' or 'family usury'.
- The second category comprises actors that lend money with the ultimate goal of absorbing the victim's wealth

(*structured usury*) and, in the case of lending to companies, eventually taking over the business. It is characterized by **higher levels of violence** to secure the repayment of loans, and it is usually conducted by **local crime groups or transnational OCGs**, including mafia-type associations.

Illegal lender operations are mostly small-scale and domestic. In the UK, usury is reported to lie largely outside the realm of organised crime and to be a business built on **social networks and family ties** (Ellison, Collard, & Forster, 2006). However, there is ample evidence of Italian mafias involved in usury in Italy, suggesting that the involvement of OCGs in usury is not uniform across Europe. UNODC (2011a) reports that OCGs controlled 38% of the 40 billion euro Italian usury market in 2009, but it does not provide usury data on any other European country (UNODC, 2011a).

As regards OCGs (see Table 36), the evidence on Italian mafias has already been mentioned. Cosa Nostra, 'Ndrangheta and, in particular, Camorra are increasingly associated with usury in Italy (Lo Forte, 2008; DNA, 2011; Transcrime, 2013a; Scaglione, 2014). In particular, Camorra makes widespread use of loan sharking in Campania (Lo Forte, 2008; Scaglione, 2014).

<sup>114</sup>. To compare SOS Impresa's results in different years see also UNODC (2011a).

<sup>115</sup>. Converted from GBP using <http://sdw.ecb.europa.eu/curConverter.do> (ref date 30/12/2005).

**Table 36 - Main OCGs involved in usury in Europe**

<b>OCGs</b>	<b>European Countries</b>	<b>Sources</b>
Albanian OCGs	Italy	DIA 2012
Apulian OCGs	Italy	SOS Impresa, 2010; DIA 2011a, 2011b, 2012b; DNA, 2010, 2011, 2012
Camorra	Italy	SOS Impresa, 2010; DIA, 2012b, 2013a, 2014; DNA, 2011, 2012; Transcrime, 2013a; Scaglione, 2014
Chinese OCGs	Italy	DIA 2010; 2011a; 2013a; DNA, 2011
Cosa Nostra	Italy	SOS Impresa, 2010; DIA, 2012a, 2012b, 2013a; DNA, 2011, 2012; Transcrime, 2013a; Scaglione, 2014
'Ndrangheta	Italy, Netherlands	SOS Impresa, 2010; DNA, 2010, 2011; KLPD-DNR, 2011; DIA, 2012b, 2013a, 2014; Scaglione, 2014
Other Italian/Italian not specified OCGs	Italy, France	Allum & Sands, 2004; SOS Impresa, 2010



## 4.9. Fraud

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### 4.9.1. Introduction

Fraud is one of the illicit activities most difficult to define. It may include **several types of criminal conducts** and may involve **different types of actors** which are not always labelled as criminals and which may not be necessarily organised crime groups. However, there is general consensus that fraud, in its various forms, is **becoming one of the most lucrative illegal activities for criminal organisations in Europe** (PwC, 2011; Europol, 2013a; OLAF, 2013).<sup>116</sup>

#### Types of frauds

As defined by the United Nations (2003), fraud may be understood as “**the acquisition of another person’s property by deception**” (UN, 2003, p. 91). According to the ACFE - Association of Certified Fraud Examiners (2014), it “includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means to it”. It is characterised by four elements (Golden, Skalak, & Clayton, 2006): false representation, intentionality, confidentiality and financial damage.

Many different forms of fraud exist. They can be carried out in a **wide range of ways**; they can be committed either by individuals or more structured organisations; they can concern **numerous economic sectors**, such as hotels and catering (INHESJ - ONDRP, 2012, p. 238), health care (Adamoli et al., 1998, p. 25), trade in mobile phones, computer parts, fuel or cars (Europol, 2009b), aid and cooperation (Adamoli et al., 1998, p. 43), renewable energy (Caneppele, Riccardi, & Standridge, 2013), and oil and gas supply (Transcrime, 2013a). They may be undertaken systematically or occasionally, and they can be linked to other illicit activities (NFA, 2013, p. 3). Moreover, fraud may involve a **wide range of victims**, including individuals, governments, and the private sector (Grant Thornton Ireland, 2013). Described below are some of the frauds that can generate the highest proceeds, and which are commonly related to OCGs.

#### VAT fraud

Value Added Tax (VAT) fraud constitute one of the most widespread types of tax fraud in Europe. Differences in taxation across different countries are exploited by OCGs in different ways. Most common are cross-border VAT frauds, usually known as **Missing Trader Intra-Community (MTIC)** fraud when only EU MS are involved, or **Missing Trader Extra-Community (MTEC)** fraud when perpetrated also through non-EU countries (Borselli, 2011). Typically, a company buys goods free of VAT from a supplier located in another EU MS<sup>117</sup> and sells it domestically, including the VAT

in the price. Eventually, the company fails to remit the VAT to the government, which as a consequence suffers a loss (FATF, 2007). **Carousel fraud** is a more complex and organised form of MTIC. It involves numerous shell companies operating in different MSs which repeat the MTIC scheme systematically until the ‘carousel’ ends with the goods being re-exported to the country of origin, where they are often sold at a lower price (FATF, 2007; PwC, 2011).

#### Card and bank account fraud

Bank account and payment card fraud, often referred to as **plastic fraud**, is related to the fraudulent use of payment cards (both debit and credit) or the unauthorized use of funds from a bank account. The **EU is the world’s largest market for payment card transactions**:<sup>118</sup> this creates numerous opportunities for OCGs (Europol, 2011a). In some cases, the payment card itself is stolen; in other cases, access to an account is obtained through **skimming, pharming and phishing techniques** (Europol, 2009a; Europol, 2011a; OCTF, 2012a; Levi et al., 2013), which makes this fraud type closely bound up with identity theft (see below). Also bank accounts that do not foresee payment cards, such as savings accounts, may be targeted (Pascual & Miller, 2013).

#### Public funds fraud

Public funds frauds directly victimise governments at local, regional, national and EU level. OCGs **misuse public procurements and subsidies**, or acquire them in fraudulent manner. These frauds can generate high proceeds: PwC (2011) reported that single cases of fraud with EU funds ranged between 5.5 thousand and 1 billion euro (PwC, 2011, p. 46). The *modus operandi* include using **falsified documents** (Waterfield, 2012; Caneppele, Riccardi, & Standridge, 2013), **corrupting public officials** (Europol, 2009a, p. 21), exploiting **conflict of interests** between the parties involved (e.g. kinship between a public official and the bidder) (OLAF, 2013, p. 10), and unauthorized use of the funds granted. EU structural funds and external aids appear to be the most misused type of public subsidies (OLAF, 2013).

#### Mortgage fraud, insurance fraud and benefits fraud

Mortgage fraud is a crime in which the fraudster omits or falsifies information in order to obtain a loan from a bank or a financial institution, or to obtain an amount larger than would otherwise have been approved. Other types of fraud cited in connection to OCGs include **insurance fraud** (Levi, Innes, et al., 2013, p. 38; OCTF, 2012a, p. 27), especially ‘**crash-for-cash**’ scams, and **benefits fraud** (Grant Thornton, 2013; NFA, 2013). There is evidence that these types of fraudulent schemes are common in the UK and Ireland, and often reported in connection to OCGs (see Sections 5.3 and 5.7).

116. The European Anti-Fraud Office (OLAF) received 1,294 reports of fraud in 2013, more than they ever received before, and opened 253 investigations in that year (OLAF, 2013, p. 12); Eurojust registered 382 fraud cases in 2012 (Eurojust, 2013, p. 28). These numbers of course represent only the tip of the iceberg. In fact, the risk of apprehension is quite low in fraud schemes because they often cross national and EU borders (Europol, 2013a).

117. In fact, in intra-EU transactions, VAT is not debited by the supplier but self-assessed by the buyer.

118. In 2011 alone, 3 trillion euro of legal transactions with EU issued cards were identified (Levi et al., 2013, p. 39).

### Frauds and other illicit activities

Frauds are often closely linked to other illicit activities that are not usually described as types of fraud but often appear in connection with fraud and can facilitate it.

#### Cybercrime, mass-marketing, identity theft

Technological developments and the non-regulation and anonymity of the Internet have facilitated fraudulent activities like payment card frauds, VAT carousels, and mass-marketing scams (Europol, 2011a). In particular, fraudsters can use modern communication methods (e.g. emails, phone calls, text messages) in order to **steal financial data, identity information, or simply money** from the victims. Victims are lured into scams by false promises of having won a prize, or they are invited to participate in a game with the promise of wealth (NFA, 2013, p. 40).<sup>119</sup>

#### Organised property crime

The organised theft of credit cards or financial details, either using cybercrime or by stealing physical credit or debit cards, is a precondition for the commission of plastic frauds (FATF, 2007; OCTF, 2012a). Another example is the theft of vehicles which can then be used to carry out frauds against car insurances (Levi & Maguire, 2004) (see also Section 5.7).

#### Corruption

In frauds related to public funds or public procurements, criminals may use corruption, bribery and embezzlement in order to obtain grants, donations, funds or procurements (Europol, 2009a; Gounev & Bezlov, 2010; OLAF, 2010).

#### Money laundering

Certain types of fraud may be committed either to launder the proceeds of criminal activities or to fund criminal activities themselves. For example, as will be discussed also in Section 12.4, **mortgage fraud** can be used to launder illicit proceeds (OCTF, 2012a), make profits, and acquire real estate property illegally (FINCEN, 2006).

There is also increasing evidence that fraud is used to **raise funds for other illicit activities** (Europol, 2009a; Borselli, 2011; Eurojust, 2011a; NFA, 2013), including drug trafficking (Aronowitz et al., 1996; FATF, 2007; Europol, 2011), human trafficking (FATF, 2007), tobacco and alcohol smuggling (Adamoli et al., 1998; OLAF, 2010; Europol, 2011a), fuel smuggling, counterfeiting (OCTF, 2012a; Grant Thornton Ireland, 2013), and terrorism (Europol, 2011a).

## 4.9.2. Estimates of the revenues from fraud

Because of the complexity of some fraud schemes and the overlap between legal and illegal activities, it is **virtually impossible** to estimate the proceeds of frauds accurately (PwC, 2011). A limited number of estimates exist, and the available figures present multiple problems.

- First, as in many other illicit markets, the available estimates **lack a clear indication of the methodology** adopted;
- Second, most of available measures refer only to **recovered amounts**<sup>120</sup> or to the **loss suffered by victims** (such as the loss to the state budget resulting from VAT frauds), but not to the actual proceeds of the criminals involved.

Nevertheless, empirical methods to quantify the size of the fraud market have been devised, and the existing estimates are presented below. Thereafter, a new estimate, specifically made by Transcrime for the purpose of Project OCP, of the revenues of MTIC frauds in all the EU 28 countries will be presented.

### Available estimates at EU level

As said, the available studies on, and estimates of, the fraud market at EU level address a wide variety of fraud-types, and mainly provide figures on losses (e.g. to the government budget). However, most of these studies do not focus on how much OCGs earn from these activities.

Levi et al. (2013) put the direct economic costs of **fraud against EU individuals** at a minimum of **97 billion euro**, and measured **fraud against structural and agricultural EU funds** at 3 billion euro (Levi et al., 2013). The EU Commission (2006) estimated that **fiscal fraud** cost the EU between 200 and 250 billion euro in 2006, 60 billion of which losses were due to **VAT fraud**. In regard to the growing carbon fraud market, fraud with ETS (Emission Trading System) allowances caused losses of more than 5 billion euro in tax revenues in 2009 (Europol, 2009c). As far as payment card frauds are concerned, estimates for the EU as a whole range from 1.16 billion (Levi et al., 2013) to 1.5 billion euro (Europol, 2011a, p. 30). See Table 37 for a more complete overview of previous estimates.

### Estimates at the national level

Estimates for OCP countries are discussed below and presented in Table 38.

- **Ireland.** In Ireland fuel fraud is prevalent, and is estimated at between 143 and 238 million euro annually (Grant Thornton Ireland, 2013). Online payment card fraud is valued at around 20 million euro (Grant Thornton Ireland, 2014, on data on Irish Payment Service Organisation).

119. According to a Eurobarometer survey, 12% of internet users across the EU have experienced online frauds and 8% have been exposed to identity theft (Eurobarometer, 2012a, p. 5).

120. The European Anti-Fraud Office (OLAF) investigates frauds against the EU based on information received from public (EU institutions and Member State authorities), and recommends which amounts the EU and member states can recover to their budgets. OLAF recommended 402.8 million euro be recovered in 2013, but a total of 117.05 million euro was actually recovered in 2013 EU-wide (OLAF, 2014). These figures are biased by the focus of investigations and available incoming information, and only represent a very small proportion of the fraud market.

**Table 37 - Estimates of the revenues from frauds at EU aggregate level<sup>121</sup>**

Type of Fraud	Estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Payment card fraud	1,160			2012	Levi et al., 2013	Direct economic cost of payment cards fraud
	1,500			2009	Europol, 2011a	Organised crime groups revenues derived from payment card fraud
EU funds fraud	3,000			2012	Levi et al., 2013	Direct economic cost of frauds against EU (agricultural and structural funds)
	5,000			2009	Europol, 2009c	Frauds using ETS allowances
Fiscal fraud	225,000	200,000	250,000	2006	EU Commission, 2006	Overall tax losses due to fiscal fraud
VAT fraud	100,000			2013	Europol, 2013a	EU annual losses from MTIC
	20,000			2012	Levi et al., 2013	Direct economic cost of fraud against EU (VAT/MTIC fraud)
	18,000	13,000	23,000	2009	Borselli, 2011	Annual amount of MTIC frauds in EU-27
	27,500	20,000	35,000	2009	Borselli, 2011	Overall volume of VAT frauds (MTIC, MTEC, fraud on tradable services and under-billing of imports)
	60,000			2006	EU Commission, 2006	Losses from VAT fraud
# Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						

- **Italy** can be considered one of the largest markets for the misuse of EU funds, but no estimates are available. Available estimates (e.g. SOS Impresa) do not state the methodology employed and make questionable assumptions.<sup>122</sup>
- **Netherlands:** Unger (2007) reported that financial, social security and tax fraud amounted to between 7.7 and 15.5 billion euro in 2003 in the Netherlands. A more recent report by PwC (2013) puts fraud in the Netherlands at a minimum of 11 billion euro, a figure which includes an estimated 4,238 million euro for fiscal frauds, 23 million for excise frauds, and 39 million for VAT frauds (PwC, 2013).

- **United Kingdom:** As mentioned above, the National Fraud Authority issues annual reports on fraud in the UK. It estimated a loss of 62.4 billion euro due to fraud for 2012-2013 (NFA, 2013). OCGs are estimated to generate between 10.9 and 23.3 billion euro of the fraud market (NFA, 2013, p.32). Other reports on the UK estimate that 15 percent of the fraud market is controlled by OCGs, making up a 10.3 billion euro market (Mills, Skodbo, & Blyth, 2013, p. 9).<sup>123</sup>

#### **An estimate of MTIC fraud in EU countries**

Given the very limited number of available estimates of frauds in Europe, and *in primis* the lack of estimates which could allow comparisons across EU countries, for the purpose of this study it was decided to measure the potential revenues from MTIC frauds in all EU MS. The result is **one of the first estimates of frauds covering the whole of Europe allowing cross-country comparison.**

<sup>121</sup>. In the presence of an estimation range, estimate refers to the arithmetic mean or, only when specified, to an adjusted mean (referred to as best estimate). For more details see the Methodological Annex.

<sup>122</sup>. SOS Impresa estimates that 100 percent of fraud in Italy is attributable to organised crime. According to their annual estimates, the amount of 4.6 billion euro was stable between 2006 and 2010 (for time trends see also UNODC, 2011a, p. 28).

<sup>123</sup>. As for Northern Ireland, fuel frauds are prevalent (see also Section 5.3 on Ireland). In the years 2011-2012, 363,000 litres of illegal laundered or mixed fuel were seized by HM Revenue & Customs officers, accounting for 1.6 million euro (OCTF, 2012a, p. 13). The UK is also considered the largest insurance market in Europe and the world's third largest after the USA and Japan (NFA, 2013). Levi et al. (2013) estimated a direct economic cost of 1 billion euro for insurance frauds in the UK alone, of which 482 million euro concerned motor vehicle fraud (Levi, et al. 2013, p. 38).

**Table 38 - Available estimates of the revenues from fraud in the OCP countries<sup>124</sup>**

Country	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Ireland	190	143	238	2012	Grant Thornton Ireland, 2013	Fuel fraud (Government loss to Exchequer)
	20			2012	Grant Thornton Ireland, 2014	Online payment card fraud
Italy	4,600			2009	SOS Impresa, 2010	Organised crime proceeds (type of fraud not specified)
Netherlands	11,593	7,735	15,450	2003	Unger, 2007	Financial, social security and tax fraud
	11,000			2013	PwC, 2013	All fraud - Minimum estimate
United Kingdom	17,100	10,950 <sup>a</sup>	23,250 <sup>a</sup>	2012	NFA, 2013	Fraud perpetrated by organised crime groups
	2,583 <sup>b</sup>			2012	NFA, 2013	Insurance (whole market - total estimated fraud loss in the private sector)
	1,000			2012	Levi et al., 2013	Direct economic cost of insurance fraud (OCG share)
	1,230 <sup>c</sup>			2012	NFA, 2013	Mortgage fraud (whole market - total estimated fraud loss in the private sector)
	477 <sup>d</sup>			2012	NFA, 2013	Plastic card fraud (whole market - total estimated fraud loss in the private sector)
	2,829 <sup>e</sup>			2012	NFA, 2013	Procurement fraud (whole market - total estimated fraud loss by local and central government)
	16,800 <sup>f</sup>			2011	NFA, 2013	Tax fraud and vehicle excise fraud (whole market - total estimated fraud loss of the Tax system)
	10,324 <sup>g</sup>			2010	Mills, Skodbo, & Blyth, 2013	
<sup>a</sup> Original figures: 8.9 and 18.9 billion GBP, converted into euro using the 31/12/2012 exchange rate (source ECB). <sup>b</sup> Original figure: 2.1 billion GBP, converted into euro using the 31/12/2012 exchange rate (source ECB). <sup>c</sup> Original figure: 1 billion GBP, converted into euro using the 31/12/2012 exchange rate (source ECB). <sup>d</sup> Original figure: 388 million GBP, converted into euro using the 31/12/2012 exchange rate (source ECB). <sup>e</sup> Original figure: 2.3 billion GBP, converted into euro using the 31/12/2012 exchange rate (source ECB). <sup>f</sup> Original figure: 14 billion GBP, converted into euro using the 31/12/2011 exchange rate (source ECB). <sup>g</sup> Original figure: 8.9 billion GBP, converted into euro using the 31/12/2010 exchange rate (source ECB). <sup>#</sup> Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						

It was decided to focus on MTIC frauds because of the high amount of **illicit proceeds** that they can generate, the **large losses** to EU governments, their **highly organised nature**, and in particular the important role that they have started to play in the OCG economy in Europe (see above).

The proceeds from MTIC frauds were calculated as **percentages of the VAT gap**<sup>125</sup> estimated in each EU MS by

CASE and CPB (2013). The portion of the VAT gap attributable to MTIC frauds was taken from previous studies and in particular from the review conducted by Borselli (2011, p. 16). This percentage varies between 11% and 19.4%.

It was believed that this estimate was a **better proxy for organised VAT fraud** than the VAT gap itself, because the latter includes all causes of tax loss (both with and without

124. In the presence of an estimation range, estimate refers to the arithmetic mean or, only when specified, to an adjusted mean (referred to as best estimate). For more details, see the Methodological Annex.

125. VAT gap can be defined as the difference between the theoretical tax liability according to the tax law and the actual revenue collected (CASE & CPB, 2013, p. 18).

**Table 39 - Estimates of the revenues from MTIC frauds (EU 26) (2011)**

Country	VAT gap attributable to MTIC frauds (million euro)		
	Average (15.2%)	Min (11%)	Max (19.40%)
Austria	527	381	673
Belgium	755	547	964
Bulgaria	92	66	117
Czech Republic	645	467	823
Denmark	390	282	498
Estonia	46	33	58
Finland	430	311	549
France	4,899	3,546	6,253
Germany	4,090	2,960	5,221
Greece	1,484	1,074	1,894
Hungary	562	407	718
Ireland	168	122	215
Italy	5,492	3,975	7,010
Latvia	145	105	185
Lithuania	206	149	262
Luxembourg	84	61	107
Malta	3	2	4
Netherlands	610	441	778
Poland	822	595	1,050
Portugal	420	304	536
Romania	1,573	1,138	2,008
Slovakia	421	305	538
Slovenia	50	36	63
Spain	2,310	1,672	2,948
Sweden	142	103	181
United Kingdom	2,962	2,144	3,780
<b>Total OCP Countries</b>	<b>16,872</b>	<b>12,210</b>	<b>21,534</b>
<b>Total EU 26</b>	<b>29,329</b>	<b>21,225</b>	<b>37,433</b>

Source: Transcrime elaboration on CASE & CPB (2013) data

criminal intentions) and all actors (including both unorganised and organised crime). The use of the VAT gap would therefore have led to a large overestimation of the OCG share in this type of fraud (see the Methodological Annex for details).

The results of the estimates are set out in Table 39. From these calculations, it appears that **Italy** exhibits the highest proceeds from MTIC fraud (i.e. organised VAT frauds), followed by **France** and **Germany**. The results are quite consistent with those in the previous literature (see e.g. Borselli, 2011).

### 4.9.3. Actors

The nature and the type of actors involved in fraud schemes may vary widely, ranging from **individuals** (Aronowitz, Laagland, & Paulides, 1996, p. 94) to extremely **structured criminal organisations**. Actors often overlap or cooperate<sup>126</sup> (e.g. organised crime groups may establish fraud schemes with the support of professionals or IT experts). Moreover, the

126. This is particularly true given the nature of certain fraud schemes. For example, the scheme behind MTIC or carousel VAT fraud is to circulate the goods as much as possible in order to steal the VAT each time (FATF, 2007, p. 3). This is a crucial inducement for OCGs to cooperate, on a 'international trade basis' rather than compete (FATF, 2007, p. 17).

**Table 40 - OCGs involved in fraud activities across Europe**

OCGs	European Countries	Type of fraud	Sources
African OCGs	France, Germany, Italy	Mass marketing fraud; Credit card fraud; Insurance fraud; Cyberfraud	Adamoli et al., 1998; Europol, 2009a; DNA, 2011, 2012; BKA, 2012; Le Figaro, 2012; OCTF, 2012a
Balkan OCGs	Belgium, Germany, Sweden	Product fraud (electronics); Financial fraud schemes	Adamoli et al., 1998; BKA, 2010, 2011, 2012; OSAC, 2014c
British OCGs	Ireland, Sweden, UK	VAT carousel; Mortgage fraud, Insurance frauds (e.g. 'crash-for-cash')	FATF, 2007; An Garda Síochána & PSNI, 2012a; Daily Record, 2013
Bulgarian OCGs	France, Italy	Cyberfraud	DIA, 2011a, 2011b; Europol, 2009a; Iadaluca, 2012; INHESJ - ONDRP, 2012
Camorra	Italy	EU funds and other public funds Fraud	DNA, 2012; Transcrime, 2013a
Chinese OCGs	Germany, Italy, UK	Payment card fraud, VAT fraud	Adamoli et al., 1998; BKA, 2006; DIA, 2013a; DNA, 2011, 2012; Europol, 2009a, 2011a; Wang, 2013
Cosa Nostra	Italy	EU funds and other public funds fraud; Carbon credit fraud; VAT fraud	Adamoli et al., 1998; DIA, 2013a; DNA, 2011, 2012; Europol, 2013a
Dutch OCGs	Belgium, Germany	Tax fraud	Adamoli et al., 1998; BKA, 2006, 2007, 2008, 2009, 2010
Irish OCGs	France, Ireland, UK	Fuel frauds	An Garda Síochána & PSNI, 2012a; INHESJ - ONDRP, 2012; Grant Thornton Ireland, 2013
'Ndrangheta	Italy	EU funds and other public funds fraud; Carbon credit fraud; VAT fraud	DNA, 2011, 2012; DIA, 2012b, 2014; Europol, 2013a; Transcrime, 2013a
Other Asian OCGs	Belgium, Germany, Italy	Credit card fraud; Insurance fraud; Product fraud (oil); Cyber fraud; Tax fraud	Adamoli et al., 1998; BKA, 2008, 2009, 2010; DNA, 2010, 2011, 2012; Europol, 2009a, 2011a
Other Eastern European OCGs	Germany, France, Sweden	Payment card fraud; VAT fraud; Tax fraud	Adamoli et al., 1998; BKA, 2010, 2011, 2012; Europol, 2011a; INHESJ - ONDRP, 2012; OSAC, 2014d
Other Italian/Italian not specified OCGs	Belgium, Germany	Fraud (not specified); VAT fraud	Adamoli et al., 1998; BKA, 2012; Eurojust, 2012
Other Western European OCGs	Germany	VAT fraud; Tax fraud	Europol, 2009a; BKA, 2010, 2011, 2012
Romanian OCGs	Italy, Romania, France	Cyberfraud	Europol, 2009a; DIA, 2010b, 2011a, 2011b; BKA, 2012; INHESJ - ONDRP, 2012
Russian/Georgian OCGs	Finland, Germany, Sweden, Switzerland, UK	VAT fraud; Payment card fraud; Insurance fraud	Adamoli et al., 1998; Helsingin Sanomat, 2007; Europol, 2009a; BKA, 2010, 2011, 2012; Cheloukhine & Habersfeld, 2011; Kegö & Molcean, 2011; FEDPOL, 2011, 2013; Interpol, 2014a; OSAC, 2014c
Spanish OCGs	UK	VAT carousel	FATF, 2007
Turkish OCGs	Germany	Tax fraud	BKA, 2010, 2011, 2012

Internet, which is increasingly used in certain fraud schemes (see above), makes it more **difficult to determine which groups operate in which locations** (Adamoli et al., 1998, p. 20; Europol, 2009a, p. 54).

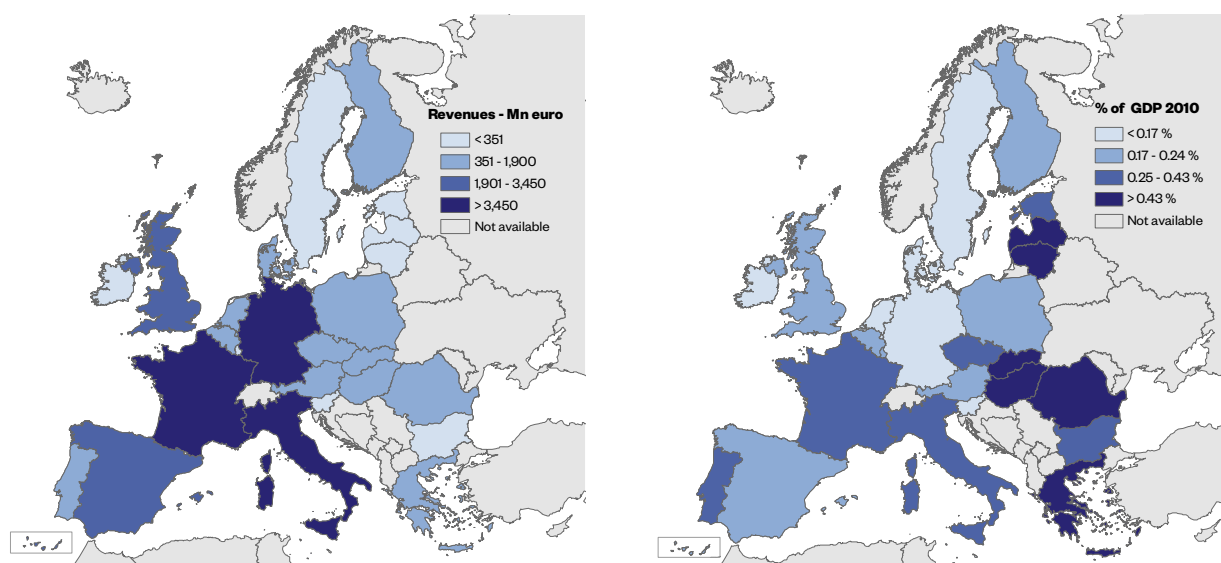
Although scholars acknowledge that gain is possible and serious damage may be inflicted by small individual operations, **large revenues are mainly generated by highly organised fraud schemes** (Aronowitz et al., 1996, pp. 87-90; NFA, 2013, p. 3). Usually, the more complex the scheme, and the more transnational the operations, the greater the gain of the criminals involved (OLAF, 2011; Levi, 2014, p. 12). This is certainly true of VAT or other excise frauds.<sup>127</sup>

Some fraud schemes require a **level of organisation and international connections** that individual fraudsters are unlikely to possess (Adamoli et al., 1998, p. 11). Complex schemes require a **specialised workforce** and a **strict division of labour** (Adamoli et al., 1998, p. 22; Van Duyne et al., 2007, p. 94). Each member involved in the operation has a specific task, and is often highly specialised. This may induce OCGs to resort to **freelancers and specialists hired on**

127. For example, a successful VAT carousel fraud or excise fraud scheme can be internationalised via off-shore banks (FATF, 2007), which may be located in the UAE or the Dutch Antilles (Europol, 2011a, p. 29), and may involve shell companies (Aronowitz et al., 1996; Adamoli et al., 1998, p. 44) established in offshore or tax havens to hide the ownership of the assets (Eurojust, 2011a, p. 27).



**Figure 16 - Estimates of the scale of MTIC frauds for the available EU MS. Absolute values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 39

**the legal market.** For example, there are frequent reports of OCGs hiring unemployed IT experts to commit cybercrime (INHESJ - ONDRP, 2012, p. 229).

Similarly, the overlap between illegal activities and the legitimate sphere, which has become wider in many illicit markets (see Sections 4.3, 4.5 and 4.6), is particularly apparent in the case of fraud. The use of **legitimate companies** has now become crucial for the establishment of fraud schemes, especially ones like VAT carousels, excise frauds related to the importation and supply of oil and gas, etc. The frequent involvement of companies by OCGs in the commission of frauds has further complicated detection of which criminal groups are involved (Europol, 2011a, p. 31).

Bearing these features in mind, it is possible to identify some broad categories of OCGs classified on the basis of the main area or country of origin (see Chapter 2 and the Methodological Annex) and the types of fraud in which they are most frequently involved.

## 4.10. Organised property crime

*Jeltsje Cusveller and Marco Dugato (Università Cattolica del Sacro Cuore – Transcrime, Italy)*

### 4.10.1. Introduction

Property crimes, such as thefts or robberies, can be offences committed by **common criminals**, but they may also be part of the **activities of OCGs** (Europol, 2014b). Organised property crime (OPC) is attractive to OCGs. First, it can be considered safer than other criminal activities. Indeed, LEA's often treat incidents of theft as **isolated events**, investigating them only locally (Europol, 2009b, 2013a). This reduces the likelihood of efficient countermeasures. Furthermore, the growth of global infrastructure for moving people and goods and the rapid development of e-commerce facilitate **the transport and sale of stolen products**.

Organised crime networks can exploit these new opportunities to relocate (physically or digitally) easily when under pressure or to make the LEAs' interventions more difficult (Europol, 2013a). Finally, OCGs usually target **products that are valuable and characterized by broad and stable demand**, which ensures large profits. These factors combine to make OPC a lucrative activity. Moreover, considering the high level of law enforcement against the more traditional activities carried out by OCGs, OPC may be viewed in terms of displacement as OCGs shift from riskier activities to these safer but equally profitable crimes (Riccardi, Dugato, & Polizzotti, 2014).

Starting from the consideration above, the targets of OPC are often determined by what is in demand, what is valuable, and what is easily transportable or hidden. **Demand for stolen and cheaper products** may arise when the legal supply of goods is insufficient or expensive (Gounev & Bezlov, 2008; Riccardi, Dugato, & Polizzotti, 2014). In regard to value, the few studies on this topic have found that **product price** is correlated with the number of thefts of certain products (Bowman, 2008; Sidebottom, Ashby, & Johnson, 2011; Sidebottom et al., 2014). Finally, further determinants of targeted products are **ease of theft, ease of transport, and ease of resale** (Europol, 2009b; Riccardi, Dugato, & Polizzotti, 2014). Among the products most frequently targeted are: motor vehicles, art and antiques, pharmaceuticals, and metal (see below).

Finally, it must be noted that OPC is often linked to other illicit markets. It may be the main enterprise of a group, or a side activity undertaken to finance the OCG (An Garda Síochána & PSNI, 2012a). The counterfeiting of car papers in order to transport stolen cars, the use of stolen pharmaceuticals as illicit drugs, the use of stolen vehicles for trafficking, the corruption of employees, police-officers or guards in order to commit a robbery, insurance fraud scams, and finally the use of stolen products to launder money are examples of the interactions between OPC and other organised criminal activities (Gounev & Bezlov, 2008; Interpol, 2014c; Riccardi, Dugato, & Polizzotti, 2014).

#### **Motor vehicle theft**

Although some cars are stolen for recreational purposes, a substantial amount of cars are stolen by **professional thieves** (Gounev & Bezlov, 2008). Those stolen by professional organised thieves serve often to commit other crimes (e.g. robberies or drug trafficking) or to make profit (Interpol, 2014b,

2014d). Cars that are stolen for profit are usually treated in one of four ways: returned for a ransom, smuggled abroad, stripped for parts, or cloned and sold domestically (Gounev & Bezlov, 2008). Therefore, a certain level of organisation is needed especially for storing, moving and eventually reselling the stolen vehicles, whole or dismantled in parts (Hignett, 2004). The vehicles principally targeted by transnational OCGs are **car models which are widely used** (e.g. Toyota) and **luxury cars** (Interpol, 2014b). There has recently been an increase in the theft of catalytic converters, which are stolen for the metals that they contain (Europol, 2013a; Europol, 2014d; NCA, 2014). Besides cars and car parts, agricultural and building machines (plant) are also the target of thefts (An Garda Síochána & PSNI, 2012a, Mills, Skodbo, & Blyth, 2013).

#### **Metal theft**

A **worldwide shortage** has created an incentive for the theft of metals such as aluminium, brass, zinc, nickel, platinum, lead and bronze (Bennett, 2008; Europol, 2009b; Bond, Hainsworth, & Lau, 2013). Prices for **lead and copper have doubled** in the past decade,<sup>128</sup> and metal theft has risen together with those prices (Bennet, 2008; Sidebottom et al., 2014). Copper is one of the metals most stolen since it is widely used, e.g. in railways, telecommunications and construction, and healthcare estate (Sidebottom, Ashby, & Johnson, 2011; Baillie, 2012; Mills, Skodbo, & Blyth, 2013; Sidebottom et al., 2014). Metals are relatively easy to access and are stolen both 'live' (in use) and from storage spaces (Sidebottom, Ashby, & Johnson, 2011). Recent studies also highlight the emergence of lead thefts from old churches or other historical buildings (Bond, Hainsworth, & Lau, 2013). Stolen metals do not require laundering before resale, and they are resold on the legal market via scrap yards (Bennet, 2008). However, stealing metal could be very dangerous (Curinga et al., 2010) and it usually requires that large amounts of metal have to be stolen for being profitable. This suggests a medium-high level of organisation and the involvement of several actors.

#### **Pharmaceuticals theft**

Although the counterfeiting of medicine is prevalent, also the **theft of medicine** is a substantial source of income for OCGs as well (Interpol, 2014c). The demand for medicine is large and stable. Areas where reimbursement is low and the legal supply is insufficient (e.g. Eastern Europe) are preferable destinations of stolen pharmaceuticals, although it cannot be excluded that these medicines are re-used on the internal illegal market or re-entered in the legal trade through fictitious wholesalers (Riccardi, Dugato, & Polizzotti, 2014). The most popular targets of pharmaceutical theft include high-priced medicine, (such as **cancer treatment**) and **lifestyle medicine (to treat erectile dysfunction)**. Besides being small, light, high in demand and valuable, pharmaceuticals are easy to sell via the Internet, features which make them an important target for OCGs (Interpol, 2014c). Research confirms the important role

128. Retrieved September 10 from <http://www.infomine.com/chartsanddata/chartbuilder.aspx?g=127681&od=1>.

played by organized crime for this type of theft. Specialized individuals and a **high organisation** are required to infiltrate or corrupt medical personnel and wholesalers and to identify, store, transport and resell stolen medicines (Riccardi, Dugato, & Polizzotti, 2014).

#### Cargo theft

OPCs are often grouped by type of product stolen, with the exception of cargo theft. The hijacking or stealing of goods while in transport is a **major problem in Europe**, and it causes billions of euro in losses to companies (Europol, 2009b; BKA, 2013). Cargo thefts occur in storage areas and on the road (Europol, 2009b). The products taken from lorries include electronics, clothes, medicine, oil, vehicles and tobacco (Jane's Information Group, 2013).

Other targets of OPC include: art and antiques, jewellery, optical instruments, electronics, smartphones, boat engines, oil, wildlife and plants (Moffatt & Fitzgerald, 2006; Bowman, 2011; Europol, 2013a; Mills, Skodbo, & Blyth, 2013).

#### 4.10.2. Estimates of the revenues from organised property crime

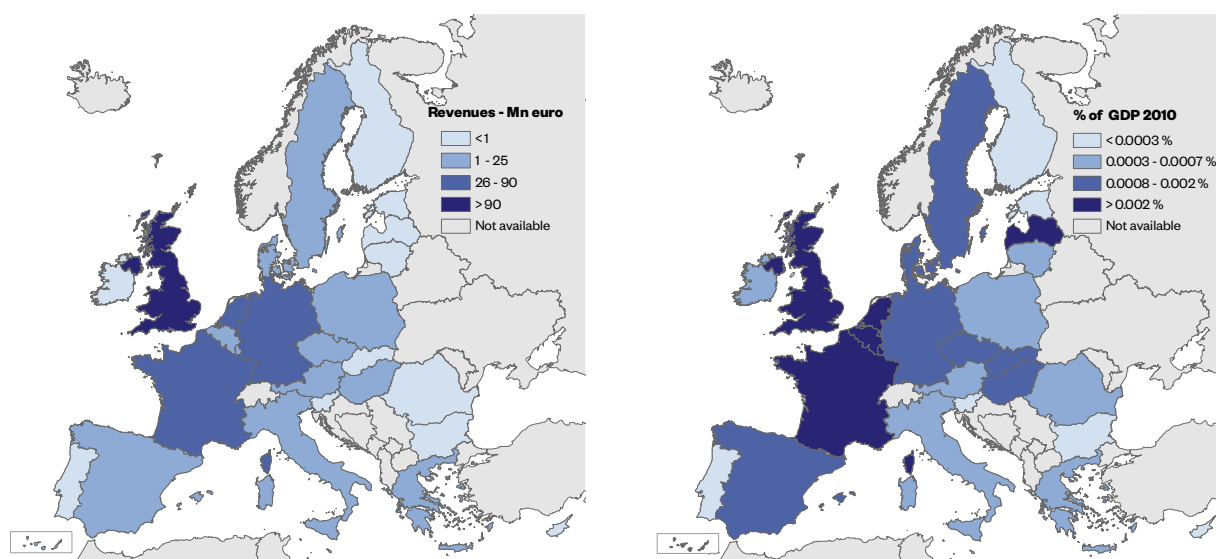
Important sources of estimates of this illegal market are the losses reported by insurance companies (e.g. Swiftcover, 2012; BKA, 2013). However, these estimates are problematic because the figures do not include an estimate of the **share caused by OCGs in the losses**. Moreover, a proportion of thefts is not reported (e.g. out of fear of reputation loss), and a number of reported thefts **are in fact insurance frauds** and not actual thefts (Nayler, 2008). Police data are not

**Table 41 - Estimates of the proceeds from organised property crime in the OCP countries and EU as a whole**

Country	Estimate (million euro)	Reference year	Source	Notes
Finland	0.34	2007	Europol, 2009b	Cargo theft
	182	2004	Van Den Engel & Prummel, 2007	Cargo theft
France	48	2007	Europol, 2009b	Cargo theft
	1,022	2004	Van Den Engel & Prummel, 2007	Cargo theft
Ireland	97	N/A	McMahon, 2013	
	4	N/A	McMahon, 2013	
	0.77	2007	Europol, 2009b	Cargo theft
	148	2004	Van Den Engel & Prummel, 2007	Cargo theft
Italy	0.33	2013	Riccardi, Dugato, & Polizzotti, 2014	Theft of medicine from hospitals (per episode of theft)
	11	2007	Europol, 2009b	Cargo theft
	619	2004	Van Den Engel & Prummel, 2007	Cargo theft
	90	2001-2012	Jane's Information Group, 2013	Cargo theft
Netherlands	47	2004	Europol, 2009b	Cargo theft
	329	2007	Van Den Engel & Prummel, 2007	Cargo theft
Spain	21	2007	Europol, 2009b	Cargo theft
	968	2004	Van Den Engel & Prummel, 2007	Cargo theft
United Kingdom	359 <sup>a</sup>	2011	Swiftcover, 2012	Car theft
	383 <sup>b</sup>	2010	Mills, Skodbo, & Blyth, 2013	Car theft
	28 <sup>c</sup>	2010	Mills, Skodbo, & Blyth, 2013	Metal theft
	60 <sup>d</sup>	2010	Mills, Skodbo, & Blyth, 2013	Road freight
	233	2007	Europol, 2009b	Cargo theft
	1,311	2004	Van Den Engel & Prummel, 2007	Cargo theft
EU 26	8,256	2007	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Original figure: 300 million GBP, converted into euro using the 31/12/2011 currency exchange rate (source ECB).  
<sup>b</sup> Original figure: 330 million GBP, converted into euro using the 31/12/2010 currency exchange rate (source ECB).  
<sup>c</sup> Original figure: 24 million GBP, converted into euro using the 31/12/2010 currency exchange rate (source ECB).  
<sup>d</sup> Original figure: 52 million GBP, converted into euro using the 31/12/2010 currency exchange rate (source ECB).

**Figure 17 - Estimates of the scale of cargo theft for the available EU MS. Monetary values (left) and percentages of GDP (right)**



Source: Transcrime elaboration on estimates reported in Table 42 and Eurostat data

**Table 42 - Estimates of the revenues of cargo theft (EU 27 MS)**

Country	Estimate (million euro)	Country	Estimate (million euro)
Austria	1.9	Lithuania	0.2
Belgium	11.5	Luxembourg	1.9
Bulgaria	0.03	Malta	0.004
Cyprus	0	Netherlands	46.8
Czech Republic	1.1	Poland	1.2
Denmark	2.7	Portugal	0.2
Estonia	0.01	Romania	0.3
Finland	0.3	Slovakia	0.5
France	47.7	Slovenia	0
Germany	32.3	Spain	21.2
Greece	1.6	Sweden	5.8
Hungary	1.7	United Kingdom	232.8
Ireland	0.8	<b>Total OCP countries</b>	<b>361.0</b>
Italy	11.4	<b>Total EU 27</b>	<b>424.4</b>
Latvia	0.5		

Source: Europol 2009b, pp. 5-6

always useful for the construction of estimates because they often report the type of offence and not the type of product stolen (Bowman, 2011; Interpol, 2014b). Table 41 presents the estimates of the size of the OPC market for available subtypes and countries.

### 4.10.3. Actors

Both **mafia-type groups** and smaller, **highly mobile networks** are reported to be involved in OPC (Europol, 2013a, Riccardi, Dugato, & Polizzotti, 2014). Given the high level of expertise that is needed for some OPCs (i.e. for counterfeit car papers, infiltrating a hospital) **specialization is common** among OCGs (Europol, 2014c; Interpol, 2014b; Riccardi, Dugato, & Polizzotti, 2014). However, groups that steal many different types of goods are also present (Europol, 2014b). Actors include both foreign and local OCGs.

**Eastern European OCGs** operate throughout Europe. Almost all South-Eastern European countries<sup>129</sup> were reported to be sites of organised car theft by Savona and Curtol (2004), and all but Bosnia and Herzegovina were found to be transit countries for stolen vehicles (Savona & Curtol, 2004). **Romania, Poland and Hungary** are the countries in which the largest number of European cargo thefts take place (Europol, 2009b). Bulgarian networks steal cars, mainly from Spain, in order to traffic them back to Bulgaria (Gounev & Bezlov, 2008). Polish and Turkish are respectively the second and third main nationalities of car theft suspects in Germany (BKA, 2013). Recently, a Hungarian group was apprehended for stealing antique maps throughout Europe (Europol, 2014c). Romanian OCGs are active in the theft of cargo from France (Europol, 2009b) and Italy. Albanian groups steal cargo in Italy (Section 5.4). Finland reports an increase in foreign Eastern

129. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Moldova, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Czech Republic, Macedonia, Turkey.

**Table 43 - Main OCGs active in organised property crime across Europe**

OCGs	European Countries	Type of theft	Sources
Albanian OCGs	Italy	Theft of medicines; trafficking in stolen vehicles	DIA, 2012b; Iadaluca, 2012; Riccardi, Dugato, & Polizzotti, 2014
Apulian OCGs	Italy	Theft of medicines; theft of vehicles; organised robbery	DIA, 2014; Riccardi, Dugato, & Polizzotti, 2014
Bulgarian OCGs	Italy, Bulgaria, Spain	Theft of medicines; trafficking in stolen vehicles	Gounev & Bezlov, 2008; Iadaluca, 2012; Riccardi, Dugato, & Polizzotti, 2014
Other Eastern European OCGs	France, Italy, Germany, Sweden, Portugal, South East Europe, Finland	Theft of medicines; car theft; burglaries; art theft	Europol, 2009b; BKA, 2013; NBI, 2013; OSAC, 2014b, 2014c; Riccardi, Dugato, & Polizzotti, 2014
Romanian OCGs	Italy, France	Theft of medicines; car theft	Savona & Curtol, 2004; Europol, 2009b; DIA, 2012a; Iadaluca, 2012; Riccardi, Dugato, & Polizzotti, 2014;
Russian/Georgian OCGs	Poland, Italy, Sweden	Theft of medicines; car theft; art theft	Cheloukhine & Haberfeld, 2011; OSAC, 2014d; Riccardi, Dugato, & Polizzotti, 2014

European/Baltic OCGs involved in property crimes targeting electronics, jewellery, vehicles and construction sites (NBI, 2013. See also Section 5.1). Romanian, Albanian and Georgian specialized OCGs are active in burglaries and thefts from residential houses in Italy (Polizia di Stato, 2014).

A characteristic of transnational property crime is the use of diaspora communities; many OCGs work with **locals of shared ethnicity** (Europol, 2013a; Interpol, 2014b). Bulgarian communities in Spain, north-African groups in France, and Chinese in the United Kingdom are among the immigrant communities involved in OPC (Gounev & Bezlov, 2008; Europol, 2009b; Wang, 2013).

Western Europe is mainly a source of targeted products. Besides Eastern European actors, local groups may also play a role. In Italy, the **Camorra and Apulian mafias** are involved in pharmaceutical theft, and Camorra and 'Ndrangheta are involved in robberies (Jane's Information Group, 2013; Riccardi, Dugato, & Polizzotti, 2014). French groups are involved in the commission of cargo theft in France (Europol, 2009b), British local groups are involved in organised robberies in the UK (NCA, 2014). Germans are the main of car theft suspects in Germany (BKA, 2013), and Irish groups are reported to operate in Ireland and the UK, in both metal theft and car theft (see also 5.3.2.8). Stolen cars are sold domestically or transported to Eastern Europe (An Garda Síochána & PSNI, 2012a).

# 5. Focus on seven European countries

This chapter is devoted to the analysis of illicit markets in the seven OCP countries: **Finland, France, Ireland, Italy, the Netherlands, Spain** and the **United Kingdom**.

For each country, the analysis will focus on:

- the available estimates on the **scale of the revenues** from illicit markets in the country;
- the **criminal actors** involved and among whom these illicit revenues are shared.

## 5.1. Finland

*Sarianna Petrell and Jarmo Houtsonen (Police University College, Finland)*

### 5.1.1. Introduction

Despite the lack of information on activity by criminal groups in Finland, it is evident that illicit markets play a crucial role in the country's **organised crime economy**. In particular, **drug trafficking and fraud** (especially in the form of tax evasion and black market labour) appear to be the two most profitable illegal businesses in Finland and the main areas of organised crime activity. This Section provides one of the first analyses of illicit markets in the country, focusing on (a) the amount of proceeds that are generated and available for laundering and (b) what criminal actors are involved.

#### *Data, sources and methodology*

There are **few studies on organised crime in Finland**, and especially on OCG involvement in illegal markets. Information on the prices of illicit goods and the market share attributable to criminal groups is inadequate or non-existent, so that any kind of estimation is speculative or even unreliable. Moreover, it is difficult to analyse the roles of each criminal group, because illicit markets cannot be clearly divided among different actors, and because OCGs constantly evolve in their pursuit of profit and adjust to the changing situations of illegal markets. Given the lack of literature and of data, the main sources used in this country profile of Finland are:

- Reports of the **National Bureau of Investigation (NBI)**,<sup>130</sup> and in particular NBI crime situation reports, threat assessments and annual reports.<sup>131</sup>
- **Media reports** (e.g. the Helsingin Sanomat newspaper).

#### *Organised crime groups in Finland*

Organised crime - as today understood as consisting of organised crime groups (OCGs) and other criminal alliances cooperating with extensive partner networks - is a **relatively new phenomenon in Finland** (NBI, 2012). Professional and organised forms of crime were apparent at least from the 1920s onwards, but it was not until the 1970s that the effects of organised crime became evident. The establishment of criminal gangs accelerated at the end of 1980s, and **the first international outlaw Motorcycle gangs (OMCG), Hells Angels and Bandidos, entered Finland during the 1990s**. The number of criminal groups has grown substantially during the 2000s, and the sphere of organised crime has

<sup>130</sup> NBI's main task is to combat serious, international and organised crime and produce up-to-date and reliable situational awareness on these crime areas. NBI has the most extensive updated information on OC in Finland. Its surveys are based on criminal intelligence gathered in cooperation between police authorities, Finnish Customs and Finnish Border Guard Service. The reports also include police and other agencies' reports, judicial evidence, crime and administrative statistics and open sources.

<sup>131</sup> Most of the NBI reports are not publicly available because they contain confidential information.



acquired more serious and professional features in the form of **skilled criminal alliances** that infiltrate both illegal and legal structures of society (NBI, 2012, 2013).

Organised crime is committed mostly by flexible networks in Finland. As elsewhere in Europe, **network-style criminal groups** based on the capacity to operate on an international basis with multiple partners and in multiple crime areas and countries are on the rise (see e.g. Bruinsma & Bernasco, 2004). For example, members of hierarchically structured OCGs like the Outlaw Motorcycle gangs cooperate in appropriate roles with other actors in both the criminal and the legal sphere (NBI, 2013). At the same time, Junninen, on the basis of his interviews with criminals, argues that at least in the 1990s Finnish organised "crimes do not comprise large, permanent or hierarchical criminal organisations. Instead, they are carried out in **flexible and opportunistic project groups with variable compositions**" (Junninen, 2009, p. 507).

Members of OCGs annually commit around 2,500 crimes, 80 percent of which are so-called 'habitual' crimes. The remaining **20 percent are aggravated offences in the fields of narcotics, violence, extortion, and the economy** (Nevala & Ranta, 2006). As regards aggravated offences, OCGs in Finland are mainly involved in the drugs business, but they seem increasingly to **favour financial crime in the form**

**The number of criminal groups** has **progressively increased** in Finland: in 2000, the criminal underground comprised eight outlaw gang chapters, which in autumn 2013 had increased to more than 60 (see Figure 18). At present, **OCGs are reported to have approximately 1,000 members** in total (NBI, 2013). Outlaw Motorcycle gangs wearing badges or tattoos as symbols are the most visible layer of organised crime in Finland, even though most OCGs are not outlaw Motorcycle gangs.

The largest, most active, and most notorious outlaw Motorcycle gangs in Finland are **Hells Angels MC (HAMC), Bandidos MC (BMC), Cannonball MC (CMC), and United Brotherhood (UB)**. The Finnish HAMC and BMC belong to the international organisations of Hells Angels and Bandidos, whereas Cannonball and United Brotherhood are indigenous groups. Finnish outlaw gangs cooperate, so that there are two larger 'camps' of gangs, one concentrated around the HAMC and the other around the BMC (NBI, 2013).

The main OCGs in Finland are constantly growing in strength, and they constitute an increasing threat to society. Although they are mostly present in densely populated regions with active economies, potential markets for illegal goods, and opportunities for cross-border crime, they are **spreading throughout the country and expanding their operations into new geographic areas**, particularly in regions logistically significant from the point of view of illegal activity, like **South-East Finland** close to the routes leading to Russia and to the sea, Northern Finland close to the land border between Finland and Sweden, and South-West Finland close to the sea routes to Sweden and other Baltic Sea ports (NBI, 2013).

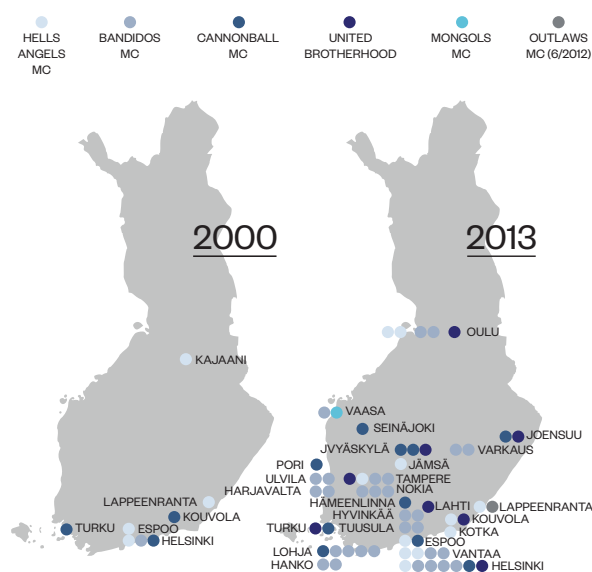
Organised crime in Finland is **heavily domestic**. Only a few OCGs comprise solely non-Finnish members. Finnish OCGs have some foreign members, who mainly come from the neighbouring countries. Nevertheless, organised crime operations of non-Finnish origin still extend to Finland, because non-Finnish crime groups supply illicit goods and services to Finnish groups, commit crimes in Finland, and route their activities through Finland. The Finnish OCGs engaged in drug crime have good contacts and cooperation partners abroad, especially in **Estonia, Russia, Lithuania and Sweden** (NBI, 2013).

### Structure of criminal groups and role of members

According to Mölsä (2008), the structures of the **Finnish Motorcycle gangs are hierarchic**, consisting of various positions such as the president, vice-president, treasurer, secretary, arms sergeant, members, prospective members, and 'hangarounds'. Formal rules defining authority, tasks and duties together with official symbols are important features of OMCs.<sup>132</sup>

**Certain members or cooperating gangs are also specialised** in particular criminal activities, such as contract violence, extortion, violent debt collection, economic crime and money laundering. Prospective members, hangarounds, or even wannabes often carry out the dirtiest tasks or take responsibility for criminal action.

**Figure 18 - Distribution of the main criminal groups in Finland (2000-2013)**



Source: Yle, 2013.

**off frauds**, tax evasion and black market labour because of the higher profits, lower risks and shorter sentences (Huhtanen, 2010).

For example, members of the OMCs, or persons closely cooperating with, them have recently been convicted of narcotics and doping offences, money laundering, firearms offences (Kerkelä, 2013), economic crime, extortion, violence, and property crime (Nevala & Ranta, 2006). Also the illegal serving of alcohol in order to gain economic revenues is a common activity among the members of the OCGs (Salovaara, 2013).

132. The executive level makes decisions and organises the activities. The middle level has a certain degree of independence and takes part in decision-making and distributes the tasks to the rank-and-file members and street gangs.

**Table 44 - Estimates of the revenues of illicit markets in Finland<sup>133</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin <sup>a</sup>	102	81	136	2005	Transcrime-OCP, 2014	
	49	33	99	2005	Kilmer & Pacula, 2009	
Cocaine	17	13	19	2010	Transcrime-OCP, 2014	
Cannabis	21			2010	Caulkins, Kilmer, & Graf, 2013b	
	137	61	286	2005	Kilmer & Pacula, 2009	
Other illicit drugs	47	10	83	2005	Kilmer & Pacula, 2009	Ecstasy
	41	16	66	2005	Kilmer & Pacula, 2009	Amphetamines
ITTP	146	133	159	2013	Transcrime-OCP, 2014	
Counterfeiting	280			2009	Transcrime-OCP, 2014	Demand side; Whole market <sup>b</sup>
	162 <sup>c</sup>			2011	BSA, 2012	Unlicensed PC software
Fraud	430	311	549	2011	Transcrime-OCP, 2014	MTIC fraud
Organised property crime	0.3			2007	Europol, 2009b	Cargo theft
	182			2004	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Several indicators suggest that, during the past ten years or so, buprenorphine and other medical opioids have replaced heroin in Finland (see Varjonen, Tanhua, & Forsell, 2013).

<sup>b</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

<sup>c</sup> Original figure: 210 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

**Table 45 - Criminal groups involved in illicit markets in Finland**

Illicit market	OCGs	Sources
Illicit drugs (not specified)	African OCGs, Finnish OCGs, Lithuanian OCGs, Other Eastern European OCGs, Russian OCGs	NBI, 2012, 2013, 2014
THB	Finnish OCGs, Other Eastern European OCGs, Romanian OCGs, Russian OCGs	Viuhko & Jokinen, 2009; NBI, 2011, 2014
ITF	Finnish OCGs, Motorcycle gangs	Passi, 2013; Passi, Vähäsarja, & Pelli, 2013
ITTP	Finnish OCGs, Russian OCGs	Transcrime, 2015
Illegal gambling	Foreign OCGs	Ikonen, 2013
Extortion racketeering	Finnish OCGs, Motorcycle gangs	Transcrime, 2009; NBI, 2013
Fraud	Bulgarian OCGs, Finnish OCGs, Other Eastern European OCGs, Romanian OCGs	NBI, 2012, 2013
Organised property crime	Finnish OCGs, Other Eastern European OCGs	NBI, 2013, 2014

**Underworld financiers**, who have built their wealth in both legal and illegal business, operate close to the top criminal authorities. A significant role is also played by **other professionals**, mainly in law and business. The lowest layer of the criminal community consists of habitual criminals, who commit crimes in order to satisfy their daily needs, which often relate to addictions (Perälä, 2011; NBI, 2013).

Palovaara (2011) argued that **organised crime groups are rather small in Finland**. The top-ranking members of the groups know each other and cooperate on major issues concerning e.g. criminal projects and territories. OCGs have had good and peaceful relationships with each other in recent years. They avoid disputes in order to ensure the smooth

<sup>133</sup> In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

operation of criminal activities. Nevertheless, there were occasional violent confrontations and shootings between groups in the 1990s and early 2000s (Yle, 2013). Palovaara (2011) also found that, since the HAMC is very effective in shielding its activities, its members are seldom caught in the commission of crimes. The HAMC mainly acts on a strategic level as the organiser and financier of crime, and it exploits its support gangs and other cooperative OCGs. Bandidos is the largest outlaw MC gang organisation in Finland, with eight full chapters and more than 200 members (NBI, 2013).

## 5.1.2. Illicit markets in Finland

This Section provides a review of the main illegal markets in Finland. It focuses on the one hand on the **amount of the illicit proceeds** generated by these markets at national level, and on the other, on **the criminal actors involved**. Table 44 and Table 45 summarize the main results. The following Sections will focus on each of the markets analysed.

### 5.1.2.1. Drug trafficking

Drug trafficking is the **main source of income** for OCGs in Finland. As highlighted by Varjonen, Tanhua, Forsell and Perälä (2012), **cannabis** products (i.e. cannabis resin and mostly domestic-grown marijuana), **amphetamine, ecstasy and pharmaceutical preparations** containing benzodiazepines or opiates (such as **subutex**)<sup>134</sup> remain the most popular illegal drugs. Cocaine and heroin occupy only a marginal position on the Finnish illegal drug scene. Data on drug seizures and narcotics offences indicate that the situation is rather stable.

There are only few estimates of the size of Finland's illegal drug market, and they are not very updated. According to recent estimates made by Transcrime for the purpose of the OCP project, the retail value of the heroin market in Finland in 2010 was **102 million euro**, and the retail value of the cocaine market was 17 million euro. These are **relatively small figures if compared to central and western Europe**.<sup>135</sup> Kilmer and Pacula (2009) estimated the size of the retail cannabis market in Finland at 137 million euro in 2005. Retail spending on amphetamines was estimated to be 41 million euro and on ecstasy 47 million euro, in 2005 (Kilmer & Pacula, 2009). However, it is difficult to determine how these proceeds are split among all the actors involved in drug trafficking in the country.

The **involvement of organised crime in drug trafficking has strongly increased** during the past decade, and almost all Finnish OCGs known to the authorities are at least to some extent active in drug trafficking. Foreign OCGs are mainly involved in the acquisition, manufacturing, transporting and smuggling of drugs to Finland, while in most cases Finnish OMCs organise the retail distribution. Money illegally earned from drug trafficking is laundered into business activities, e.g. by paying unreported wages, making investments and buying legal companies (see Section 8.1; NBI, 2012, 2013).

Most of the illegal narcotics are brought to the Finnish market via various routes from the South or West. **Estonian OCGs often have a primary role in smuggling drugs** to Finland, where their Finnish partners take responsibility for distribution and the collection of payments (see Box 2). Criminals of other nationalities are increasingly involved: for example, Lithuanian OCGs have a significant role in the trafficking of drugs, in particular amphetamines and methamphetamines. Moreover,

Russian criminal groups, and also members of Nigerian and Latvian OCGs, have been arrested for aggravated narcotics offences in Finland (NBI, 2013).

### Box 2 - Hells Angels' drug trafficking in Finland

In 2009–2011 police investigated a large-scale case of international trafficking of amphetamines and cocaine. For the first time, some of the perpetrators were high-ranking members of the Finnish Hells Angels Motorcycle gang (HAMC). The substances were smuggled by car from Central Europe to Finland. The street value of the seized amphetamine and cocaine would have been around 800,000 euro (Kerkelä, 2011). Small amounts of drugs together with 90,000 euro and over 50,000 Swedish crowns were confiscated from the leader of the Finnish HAMC (STT, 2011).

In 2013, five members of the Finnish BMC together with 20 Estonian criminals were suspected of smuggling amphetamines and ecstasy from the Netherlands to Finland. The operation was organised from a Finnish prison, and the substances were trafficked with the help of transport companies. A total of 76 kilograms of amphetamine were seized, with a street value in Finland estimated at 2 million euro (NBI 2014).

The cultivation of cannabis has been on the increase in Finland for several years. The great majority of cases are small-scale plantations with fewer than 50 plants grown in apartments or houses; but the organised and professional nature of cultivation is increasing, with cannabis plantations containing several hundreds of plants (NBI, 2013). According to Kerkelä (2011), also OMCs have started to cultivate cannabis in Finland. In 2009, more than 500 plants and tens of thousands of euro were seized from a large cannabis cultivation maintained by the Finnish HAMC.

Sippola (2010) found that also the **doping market** in Finland is dominated by organised crime. In order to obtain substantial proceeds, OCGs smuggle doping substances to Finland and other Nordic countries. The police estimate that doping trafficking is a business that amounts to at least 10 million euro.

### 5.1.2.2. Trafficking in human beings

Reliable estimates of the **economic size of human trafficking in Finland are not available**. The only available figure focuses on sexual exploitation and estimates an annual turnover in Finland in 2001 of tens of millions of euro (Transcrime, 2004). Other figures refer only to individual cases (see e.g. Box 3 below). According to Passi (2011a), during the 2000s there were some larger-scale THB cases in which Romanian organised criminals exploited their fellow citizens in Finland. In one of these cases, it emerged that the Romanian organisation transferred illegal proceeds amounting to 72,000 euro back to Romania.

<sup>134</sup>. Subutex or Suboxone are medications approved for the treatment of opiate dependence (Food and Drug Administration, 2014).

<sup>135</sup>. Several indicators suggest that, during the past ten years or so, buprenorphine and other medical opioids have replaced heroin in Finland (see Varjonen, Tanhua, & Forsell, 2013).

**Box 3 - The profits of the Red House of Kotka and of other prostitution rings**

An example of the volume of a pandering operation in Finland is provided by the case of the Red House brothel in the city of Kotka, where an Armenian man and a Russian woman earned a profit of over 1.3 million euro from their pandering business in 1996–2002. It has also been reported that an Estonian-based procuring organisation earned around 430 thousand euro in Finland in 2001–2002 and that a Russian OCG made a profit of 70,000–100,000 euro per month in 2007 (Viuhko & Jokinen, 2009). In 2012–2013 the NBI investigated a pandering case in which two Finnish men earned a profit of over 300,000 euro from pandering Estonian and Russian women around Finland (NBI, 2014).

However, most of the THB cases in Finland seem related to labour exploitation, especially in small-scale companies and shops run by foreign countrymen or relatives of the victims (NBI, 2013). According to Jokinen, Ollus and Aromaa (2011), the sectors with the most labour exploitation are construction, catering, cleaning and horticulture. THB for labour exploitation combined with grey economy has been found in Chinese and Turkish restaurants and pizza-kebab shops in Finland (NBI, 2014), in the construction business, and in street begging operated by Romanian criminal groups (Passi, 2011b).

Also in the case of THB for sexual exploitation, as in many other EU MS the perpetrators' nationality often corresponds to that of the victim (see also Section 4.2). The impact of **Estonian, Russian, and Romanian OC** in the field of sexual exploitation is remarkable (NBI, 2011, 2014). In general, the criminal networks involved in the pandering business in Finland are not very large, and the division of labour, the duration of the activity, and the use of violence and other control measures vary considerably. The criminal networks often consist of both foreign and Finnish actors (Viuhko & Jokinen, 2009).

### **5.1.2.3. Illicit trafficking in firearms**

No estimates of **the value of the illicit trafficking in firearms are available in Finland**. However, as noted by Passi (2013), the increase in the violent nature of criminal groups' activities is directly related to the increase in the quality and number of firearms possessed by criminal groups, and this in turn may lead to a growth of the proceeds from the illicit trafficking in firearms.

The police have recently seized **at least 5–10 weapons from all of the four central OCGs** in Finland. In 2012, a total of 175 weapons were seized from them. According to Passi, Vähäsarja and Pelli (2013), when investigating a large amphetamine case in 2013, police found 40 guns in the possession of the members of the Cannonball MC. Passi et al. (2013) also report that, in the summer of 2012, a Finnish couple who had contacts with OCGs were arrested while trying to smuggle 16 weapons and thousands of munitions in a car from the USA to Finland. Their intention was to sell them to the OCGs in the illegal gun market.<sup>136</sup>

### **5.1.2.4. Illicit trade in tobacco products**

The large-scale smuggling of cigarettes has continued in Finland during recent years (NBI, 2014). The lack of domestic production and high taxes may have increased the demand for low-priced smuggled cigarettes. According to the estimates carried out for this report, the **annual turnover from ITTP in Finland ranged between 132.9 and 159 million euro in 2013** (see Section 4.4). In regard to losses of tax revenue, it is difficult to assess their precise extent, but they are estimated at between 10 and 100 million euro (NBI, 2014).

Almost all tobacco smuggling seems to be attributable to organised crime, mainly **Russian OCGs cooperating with Finnish partners**, which distribute and sell the cigarettes to consumers (NBI, 2014). Owing to a large volume of transport, Finland also serves as a transit country for Russian criminal groups. The smuggling of cigarettes is becoming more systematic and professional. Most of the smuggling takes place via **land transport**, cigarettes being hidden in cars (NBI, 2014).

### **5.1.2.5. Illegal gambling and match-fixing**

One growing crime area is international match manipulation and gambling, which has already affected Finland in regard to football matches (see Peurala, 2013). Ikonen (2013) found that the **foreign OCG organising match-fixing in Finland in 2008–2011 was led and financed from Singapore**, and that the players involved in the Finnish leagues were from Zambia and Georgia. Millions of euro were transferred in the illegal gambling markets of Asia. According to the Finnish court, the crime group was able to earn between 0.5 and 1.5 million euro from each successfully fixed match.

### **5.1.2.6. Fraud**

Because of high profits and low risks, financial crime in the form of frauds, tax evasion and black market labour has become increasingly preferred by Finnish OCGs.

Financial crimes, particularly various types of frauds, are being committed within the framework of foreign trade transiting Finland to Russia (NBI, 2013). **Intra-community VAT frauds** arrived in Finland somewhat later than their first appearance elsewhere in Europe. From the Finnish point of view, a much more significant phenomenon – related to non-payment of wages and evasion of social security contributions – is the use of **black market cheap labour from Estonia and other Baltic countries**, Poland, and also to some extent other Eastern European countries. This occurs particularly in the construction sector and involves both OMCG and other OCG actors and their partners from abroad, particularly Estonia. Apart from aggravated tax offences, the criminal cases include other financial crimes such as **accounting crimes** (e.g. use of false receipts), debtors crimes, and fraud related to the purchase of materials (NBI, 2013). **Payment card frauds** are mainly committed by Bulgarian and Romanian OCGs (NBI, 2012, 2013).

<sup>136</sup> Also edged tools, gas weapons, electroshock weapons and explosives have been seized in growing numbers from the OCGs. Besides trafficking and stealing, the acquisition of guns, gun parts and deactivated guns can today be done via online shopping (Passi, Vähäsarja, & Pelli, 2013).



**Box 4 - An investigation of organised crime, frauds, tax evasion and black labour**

In 2012, the police started preliminary investigations into the activity of three limited companies supplying labour to third parties in metropolitan areas. Aggravated tax and accounting frauds, together with frauds regarding retirement contributions, were identified during the investigations. Profits from the frauds amounted to hundreds of thousands of euro. The persons in charge of the companies were strawmen and the three persons arrested belonged to Cannonball MC, one of the most notorious OMCGs in Finland (NBI, 2014).

### 5.1.2.7. Other illicit markets

In the field of property crime, members of the Finnish OCGs are mainly active in aggravated thefts and debt collection. These crimes are usually committed by the lowest-ranking members of the criminal community, who operate in order to satisfy daily needs often related to addictions. The stolen goods are items that can be easily changed into money (NBI, 2013).

The share of foreign nationals among suspects of property offences has increased substantially in recent years. The mobility of members, a large number of single crimes committed in a series, and the dispersion of criminal activities among several countries are characteristic of these foreign OCGs. **Migrant criminals typically originate from Estonia, Lithuania, Russia, Romania, Bulgaria, Belorussia, Poland, and Latvia.** Members of foreign OCGs especially commit **burglaries in private homes** and shops selling electronic equipment or jewellery, thefts from construction sites, and thefts of vehicles. They may also use **Finland as a route to transport stolen goods** to the market areas (NBI, 2013).

**Box 5 - Foreign criminal groups and organised robbery in Kuopio**

An impudent robbery of a jeweller's shop in the city centre of Kuopio, one early evening in spring 2013, is an example of a 'hit-and-run' operation committed by mobile criminals from Estonia. The rapidly executed aggravated robbery was planned and prepared well in advance. The criminals stole jewellery worth 500,000 euro from the shop (NBI, 2014).

**Counterfeiting** is not a significant illegal market in Finland. According to the Eurobarometer survey analysed in the counterfeiting Section (see the Methodological Annex and Eurobarometer (2011)), the percentage of consumers in Finland willing to accept counterfeit products is significantly below the European average.<sup>137</sup> On the basis of calculations by the Transcrime-OCP research team, in 2009 potential demand for fakes in Finland amounted to around **280 million euro**.

<sup>137</sup> In fact, on average only 6.5% of consumers declared that they were willing to accept counterfeit products in Finland, whereas this percentage was 10% in the EU as a whole (data source: Eurobarometer, 2011).

### 5.1.3. Concluding remarks

There is scant research literature on organised crime in Finland and its proceeds from illegal markets. A variety of sources, including the degree of OCG involvement in aggravated crime and the amount of assets confiscated from organised crime members, show that **drug trafficking and fraud are the two most profitable illegal activities** in Finland, and that they are crucial for the economy of organised crime.

Organised crime is a relatively new phenomenon in Finland. The establishment of criminal gangs accelerated at the end of 1980s, and the first international outlaw Motorcycle gang entered Finland during the 1990s. The number of criminal groups **grew substantially during the 2000s**. Today, OC has more serious and professional features taking the form of skilled criminal alliances that infiltrate both illegal and legal structures of society. At present, OCGs have approximately 1,000 members in total. **Outlaw Motorcycle gangs are the most visible layer of organised crime** in Finland, although most criminal groups are not 'bikers'. The largest, most active, and most notorious outlaw gangs in Finland are Hells Angels MC, Bandidos MC, Cannonball MC, and United Brotherhood (NBI, 2012, 2013).

Criminal groups in Finland have been mainly engaged in the illicit drugs business. However, they seem to increasingly **favour fraud and other financial crimes** because of the higher profits, lower risks, and shorter sentences. As regards other illicit markets, especially foreign OCGs operating in Finland are also involved in **human trafficking, firearms trafficking, illicit trade in tobacco products, illegal gambling** and **organised property crime**, but the importance of these illegal activities seems lower for the scope of the economy of organised crime.

The roles of groups operating in illicit markets vary because they **opportunistically exploit the markets that are the most profitable** at a certain time and place. Consequently, the Finnish criminal groups create new flexible networks and alliances for different criminal projects, and they cooperate with foreign OCGs and other partners when necessary (NBI, 2013).

## 5.2. France

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### 5.2.1. Introduction

Despite the **lack of studies on organised crime in France** (Gendarmerie Nationale-STRJD, 2013) and the relatively low and decreasing levels of crimes, corruption and informal economy (UNODC, 2012c; INHESJ - ONDRP, 2013), illicit markets are important sources of proceeds for criminal groups in France.

**Drug trafficking** is still the most important criminal market in the country, and one of the largest in Europe (see Table 46 and Chapter 4.1). Now emerging as major sources of criminal revenues are other illicit activities, in particular **frauds** (INHESJ - OND, 2009, p. 194; FATF, 2011b; INHESJ - ONDRP, 2012, p. 232) and **organised theft** (Gendarmerie Nationale-STRJD, 2013).

This Section provides a description of illicit markets in France, presenting, where possible, **estimates** of the magnitude of illicit proceeds and descriptions of the **main criminal actors** involved.

#### Organised crime groups in France

France's strategic geographical position in the middle of Europe makes it **an important transit country** for a range of illegal trafficking activities in Europe. For example, France is located midway along the **illicit drug route connecting North Africa** and Spain to **Northern Europe** (in particular for cannabis and cocaine), and along the route from the **Netherlands** to southern Europe (cannabis, cocaine, heroin and synthetic drugs) (OSCE, 2010; Europol, 2011a; Charpenel, 2012; Gendarmerie Nationale-SJRTD, 2013, p. 2). Moreover, since the 1930s, France has performed a crucial role in the processing and trafficking of heroin (in the so-called 'French Connection').<sup>138</sup>

However, there is evidence that traditional drug routes have been used for other forms of illicit trafficking, such as **ITTP** (Transcrime, 2015), or for **human trafficking** purposes (FATF, 2011b, p. 22). Moreover, itineraries linked to new criminal activities (such as the organised theft of metals, vehicles, car spare parts, etc.) are emerging.

Identifying what actors are active in these markets and along these routes is not easy, both because of a lack of systematic studies on criminal groups in France (Gendarmerie Nationale-STRJD, 2013) and because of **difficulties in finding a widely-accepted definition and classification of organised crime**, a term that first appeared in the public debate only in the 1990s (Lalam, 2004). According to available evidence, a plurality of actors are active in the country's illicit economy (see Table 47 below) and France appears, together with Spain, to be one of the **European countries attracting the widest range of OCGs**. Criminal groups are numerous, more or less

hierarchical, and often linked to foreign groups; but they are not always ascribable to international criminal organisations and are therefore often not clearly identifiable (Gendarmerie Nationale-STRJD, 2013).

The **plurality and diversity of criminal groups** not only affect the distribution of OCGs across illegal markets but also have an impact in terms of infiltration of the legitimate economy, because different OCGs usually opt for different investment and money laundering strategies (for a detailed discussion see Section 8.2).

Generally speaking, two broad categories of criminal actors can be identified:

- **Indigenous criminal groups**, including either:
  - The **French 'grand banditry'** (*grand banditisme traditionnel*) well rooted in southern France - Marseille, Nice, Toulon, etc. - and in Corsica, and involved in a wide range of illegal activities including drugs and extortion racketeering (Montel, 2008; Gounev & Bezlov, 2010; Gendarmerie Nationale-STRJD, 2013). In Corsica, these criminal organisations may be linked with former clandestine independence groups that have gradually moved from purely political action to borderline activities in the criminal markets (CSD, 2010).
  - **Gangs from the 'difficult suburbs'** (*quartiers sensibles*) of large urban areas, often of North African origin or linked with North African OCGs, and mainly involved in drug trafficking (both on the Netherlands-France and on the Morocco-Spain-France trafficking routes).
- **Foreign criminal groups**, constituted mainly by people of foreign nationality and occasionally living in France (Gendarmerie Nationale-STRJD, 2013). They may be either mafia-type criminal organisations (such as Italian 'Ndrangheta or Camorra), or more structured groups (such as Chinese or Russian/Georgian OCGs) or smaller and extremely mobile groups.

The ethnicity of these groups often depends on the origin/destination country of the goods trafficked, and it is at the same time influenced by **migration flows** and by **geographical and cultural links** with neighbouring countries (Bouvier, 2012). For example, **Moroccan** groups are active in the distribution of cannabis smuggled from North Africa (Europol, 2011a, p. 18; Gendarmerie Nationale-STRJD, 2013, p. 3), **Dutch** ones operate on the route to the Netherlands (EMCDDA & Europol, 2013, p. 64), and **Turkish-speaking OCGs** engage in the trafficking of heroin (EMCDDA & Europol, 2013, p. 33; Gendarmerie Nationale-STRJD, 2013). **Bulgarian-speaking OCGs** may operate in human trafficking from south-eastern Europe (OSCE, 2010, p. 90) while **other Eastern European groups** (e.g. Lithuanian, Moldovan, Polish, etc.) are often involved in the trafficking of the proceeds of organised theft to eastern Europe (Gendarmerie Nationale-STRJD, 2013).

138. The "French Connection" of the 1930s organised the purchase of opium in Turkey, processed it into heroin in laboratories operated by Corsicans in Marseille, and then smuggled the final product into the United States. It is estimated that, during the 1960s and early 1970s, the French Connection supplied a large amount of the heroin used in the United States (UNODC 2012c, p. 67).



**Table 46 - Estimates of the revenues of illicit markets in France<sup>139</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	957	766	1,276	1999	Transcrime-OCP, 2014	
	577	430	1,031	2005	Kilmer & Pacula, 2009	
Cocaine	755	563	845	2010	Transcrime-OCP, 2014	
	1,450 <sup>a</sup>			2005	UNODC, 2011a	
	488	129	1,257	2005	Kilmer & Pacula, 2009	
Cannabis	1,277			2010	Caulkins, Kilmer, & Graf, 2013	
	2,233	997	4,647	2005	Kilmer & Pacula, 2009	
	789	746	832	2005	Legleye, Lakhdar, & Spilka, 2008	
Other illicit drugs	190	41	338	2005	Kilmer & Pacula, 2009	Ecstasy
	55	21	88	2005	Kilmer & Pacula, 2009	Amphetamines
THB	3,000			unknown	INHESJ - ONDRP, 2012	Sexual exploitation
ITTP	2,083	2,004	2,163	2013	Transcrime-OCP, 2014	
Counterfeiting	5,746			2010	Transcrime-OCP, 2014	Demand side; Whole market <sup>c</sup>
	2,121 <sup>b</sup>			2011	BSA, 2012	Unlicensed PC software
Fraud	4,899	3,546	6,253	2011	Transcrime-OCP, 2014	MTIC fraud
Organised property crime	48			2007	Europol, 2009b	Cargo theft
	1,022			2004	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Original figure: 1,710 million USD, converted into euro using the 31/12/2005 exchange rate (source ECB)

<sup>b</sup> Original figure: 2,754 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>c</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

## 5.2.2. Illicit markets in France

Given the plurality and diversity of actors and the lack of data, it is almost impossible to determine how the revenues produced by illicit markets are shared among the various criminal groups. However, **providing an estimate of the illegal proceeds** is crucial for assessing the amount of money that these groups may launder in the legal economy.

Table 46 reports, for each main illicit market, the **available estimates** and those specifically calculated by Transcrime for the purpose of the Project OCP (see also Chapter 4). Table 47 instead sets out, for each market, the **main OCGs involved** in them as identified by the literature.

### 5.2.2.1. Drug trafficking

France is an **important transit and destination country** for drug trafficking. As said, France is located along drug routes connecting North Africa to northern Europe, and northern

Europe to other countries (EMODDA & Europol, 2013). As a destination country, it does not record **extremely high prevalence rates** among western European countries, with the exception of opioids (UNODC 2011b, p. 51).

According to the literature (see Table 46 above and Caulkins, Kilmer, & Graf, 2013), the revenues from the main drug markets (heroin, cocaine, cannabis) amount to about 3 billion euro yearly. How much of this amount can be attributed to OCGs is difficult to determine, although the media have reported that organised crime groups have an annual turnover of 2 billion euro (Leclerc, 2012).

#### Heroin

In the 1930s, during the **'French Connection'** period, the country was a crucial hub for heroin trafficking. Today France plays a less central role, although it is still an important transit country. In terms of consumption, the number of heroin consumers may amount to around 165 thousand users (UNODC, 2010a, p. 125) – although this figure is lower than in the UK, Italy and Germany.

According to Transcrime-OCP estimates, France's heroin market generates between 0.8 and 1.3 billion euro yearly (Table

<sup>139</sup>. In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

**Table 47 - Criminal actors active in France, by type of illicit market/activity**

Illicit market	OCGs	Sources
Drug trafficking	African OCGs, Albanian OCGs, Dutch OCGs, French OCGs, Motorcycle gangs, 'Ndrangheta, North African OCGs, Other Asian OCGs, Turkish OCGs	UNODC, 2010a; Europol, 2011a; REITOX, & EMCDDA, 2012a; DIA, 2013a; Europol, 2013a
THB	African OCGs, Albanian OCGs, Bulgarian OCGs, Chinese OCGs, Other Eastern European, North African, Other Asian OCGs, Romanian OCGs, Russian/Georgian OCGs, South American OCGs	INHES - OND, 2007, 2009; INHESJ - ONDRP, 2010; OSCE, 2010; INHESJ - ONDRP, 2012
ITF	Albanian OCGs, Balkan OCGs, Other Eastern European OCGs	Spapens, 2007
ITTP	Balkan OCGs, French OCGs, North African OCGs, Russian/Georgian OCGs	Le Monde du Tabac, 2012 <sup>a</sup> , 2012 <sup>b</sup>
Counterfeiting	Chinese OCGs, Camorra, Other Italian/Italian not specified OCGs, Turkish OCGs	DGDDI, 2011b; UNICRI & ICC BASCAP, 2013
Extortion racketeering	Albanian OCGs, Corsican OCGs, Chinese OCGs, Cosa Nostra, French OCGs, Other Italian/Italian not specified OCGs, Turkish OCGs	Transcrime, 2009; West Sands Advisory, 2012
Fraud	African OCGs, Bulgarian OCGs, Romanian OCGs, Irish OCGs, Lithuanian OCGs, Other Eastern European OCGs, Turkish OCGs, Middle Eastern OCGs	INHESJ - ONDRP, 2012; Leclerc, 2012; Gendarmerie Nationale-STRJD, 2013
Organised property crime	French OCGs, Other Italian/Italian not specified OCGs, Georgian OCGs, Romanian OCGs, Albanian OCGs, Lithuanian OCGs, Other Eastern European OCGs, South American OCGs	Gendarmerie Nationale-STRJD, 2013

9), ranking **third among European countries**. This figure is slightly higher than previous estimates, which valued the market at 576.5 million euro in 2005 (Kilmer & Pacula, 2009).

### Cocaine

Differently from cannabis, France **does not appear to be a large consumer of cocaine**. Despite a rapid increase in consumption, especially among young adults (from 0.5% in 2000 to 1.9% in 2010), the percentage of users remains below the European average of 2.1% (EMCDDA & Europol, 2013, p. 42).<sup>140</sup>

According to Transcrime-OCP estimates, cocaine revenues range between **563 and 845 million euro** per year (see Table 11). This figure is midway between Kilmer and Pacula's (2009) estimate (an average of 487.7 million euro in 2005, 0.03% of GDP) and UNODC's (2011a) estimate, which took both the retail and wholesale market into account, of about 1,710 million US dollars (1,450 million euro)<sup>141</sup> in 2005 (UNODC, 2011a, p. 85).

The nature of France as a transit country is even more evident in the case of cocaine. According to the UNODC (2010a), only 5% of the cocaine available in Europe was distributed in France in 2007-2008 (UNODC, 2010a, p. 5) while **a large amount was intercepted**, which puts France in third place between 2009 and 2011 (EMCDDA & Europol, 2013, p. 46) in terms of seizures.

### Cannabis

Cannabis is the **most widely consumed drug at national level** (UNODC, 2011b, 2012c). France ranks third among the

three biggest consumers of cannabis in Europe, according to a survey conducted for the EU Commission (Caulkins, Kilmer, & Graf, 2013, p. 304), and ranks highest in terms of **consumption among young people** (OFDT, 2009, p. 3).

Estimates by Caulkins, Kilmer and Graf (2013, p. 312) calculated the cannabis market in France at about 1.3 billion euro, the third biggest in Europe after Spain and Italy (see Table 13). As reported in Section 4.1.4, however, there is a wide variance in terms of previous estimates (see Table 46) which may be attributed mainly to methodological differences.

Also be noted is that France ranks **second, after Spain**, in terms of **amounts of cannabis seized** in Europe, with a quantity estimated at about 20% of the domestic consumption (EMCDDA & Europol, 2013, p. 62). This high value is due to the nature of France (as well as Spain) as a transit country for illicit drugs.

### Amphetamine-type drugs

In France **ecstasy and amphetamines are markets smaller** than those for other substances, with respectively around 160 thousand and 41 thousand users estimated in 2005 (Kilmer & Pacula, 2009, pp. 45-47). In 2010, cocaine consumption overtook that of ecstasy and amphetamines, with a 1.9% consumption rate among young adults, against 0.4% and 0.5% respectively (EMCDDA & Europol, 2013, p. 99). However, France is an important transit country on the route connecting the Netherlands, the traditional origin of synthetic drugs, to southern Europe or the UK. This is confirmed by the amount of substances intercepted, which, on average, is the largest seized amount of synthetic drugs (EMCDDA & Europol, 2013, p. 74).

140. 242,600 users were estimated in 2009 in France, behind Italy (824,500), UK (813,000), Spain (795,400), and Germany (489,900) (UNODC, 2011a, p. 75).

141. <http://sdw.ecb.europa.eu/curConverter.do>

In terms of revenues, considering all the methodological problems discussed in Section 4.1, the ecstasy retail market may have generated between 41 and 338 million euro in revenues, and the amphetamines market between 21 and 88 million euro in 2005 (Kilmer & Pacula, 2009).

### **Criminal actors and drug trafficking in France**

Although data on the presence and the activity of OCGs in France are scant (Gendarmerie Nationale-SJTRD, 2013), there is evidence of a **plurality of groups involved in drug trafficking in the country**. Local and foreign criminal actors seem to participate equally in the market (among the arrests reported by UNODC (2010a)) in 2006, 53% of traffickers were French and 47% were foreigners), albeit with different roles.

Groups are active both on the route connecting North Africa, through Spain, to France and northern Europe (cannabis and cocaine) and on the route heading south from the Netherlands (synthetic drugs, cocaine, heroin, cannabis). These groups may move across France or have contacts within local communities. In order to transport drugs across the country, especially from Morocco to Northern Europe, they may make use of **go-fast convoys**.<sup>142</sup>

As regards nationality, the main groups involved in the trafficking of cocaine and cannabis are **Turkish** OCGs (EMCDDA & Europol, 2013, p. 33), **Albanian-speaking** OCGs (Caulkins, Kilmer, & Graf, 2013), **Nigerian** OCGs (UNODC, 2010a, p. 101), **Dutch** OCGs (UNODC, 2010a, 101; EMCDDA & Europol, 2013, p. 64) but, more recently, also Italian mafias, in particular **'Ndrangheta** (DIA, 2013a).

However the main groups, especially for cannabis, are **North African and in particular Moroccan** (UNODC, 2010a, p. 98) groups whose contacts with well-established gangs from *quartiers sensibles* (i.e. dodgy areas), enable them to control the distribution of cannabis inland (Europol, 2011a, p. 18) and its transportation from North Africa through Spain (Paoli & Reuter, 2008, p. 21; Gendarmerie Nationale-STJRD, 2013).

The French police have identified what they call a secondary network, i.e. small organisations of user-resellers, within the cocaine and heroin markets. They maintain that this kind of structure has enabled these two markets to flourish (REITOX & EMCDDA, 2012a, p. 163). As pointed out by Europol, in some European countries including France, also Vietnamese groups are becoming more active in the indoor cultivation of cannabis (EMCDDA & Europol, 2013, p. 64).

### **5.2.2.2. Trafficking in human beings**

Together with Germany, Italy, Spain and the UK (FATF, 2011b, p. 22), France is one of the **main destination countries for trafficked persons**. The literature shows that OCGs operate in human trafficking in France for sexual exploitation and forced labour. According to estimates, the turnover of sexual exploitation in France reaches **almost 3 billion euro** and 20,000 victims per year (INHESJ - ONDRP, 2012, p. 227).

On the basis of the available evidence, also in France criminals and victims of THB for sexual exploitation mostly belong to the **same ethnic group or originate from the same country**

(INHESJ - ONDRP, 2012, 226). Evidence shows the presence of victims from Romania, Bulgaria, Albania, Nigeria, Sierra Leone, Cameroon and Malaysia (Département d'Etat, 2009) and from Central America and the Caribbean (Baker, 2005, p. 104).

OCGs appear to originate mostly from **Eastern Europe, West Africa, Asia, South America** (INHESJ - OND, 2009, p.192) and the **Maghreb** (INHESJ - ONDRP, 2010). Also French groups are active in prostitution (INHESJ - ONDRP, 2012, p. 227). There is also evidence of Albanian OCGs operating in southern France, particularly in the towns of Nîmes, Montpellier, Nantes, Toulouse and Nice, in contact with international OCGs (OSCE, 2010, p. 90).

France is also a strategic **transit country** (FATF, 2011b; Ministère des droits des femmes, de la ville, de la jeunesse et des sports, 2014) for victims destined for neighbouring countries such as Belgium, UK, Netherlands, Germany and Italy (OSCE, 2010; Marsh et al., 2012). Organised groups have been found transferring girls from Albania and Moldova to Belgium via France (Fondation Scelles, 2012). In one case, Russian, Moldovan and Israeli OCGs used France as a transit country for young women trafficked from Eastern Europe to Greece, the Netherlands, Germany, Italy, Israel and the UAE (OSCE, 2010).

### **5.2.2.3. Illicit trafficking in firearms**

According to Weidacher (2005), in 2002 France was the second largest European country for the legal arms industry with 13.8 billion euro turnover and 4.4 billion euro of exports (Weidacher, 2005, p. 37). The UNODC estimated the number of civilian firearm holdings at 19 million in 2007, which placed France fifth in the world (UNODC, 2010a, p. 8), and as one of the European countries with the highest rates of legally-held civilian firearms per 100 population units (EU Commission, 2013, p. 22).

Nevertheless, there are **only few references to illegal firearms trafficking**. As already mentioned in Section 4.3, for the purpose of OCP it was not possible to disaggregate the estimated figure of the size of the pan-European ITF market into country-level estimates. However there are signs that this trafficking **is growing**. According to a French report on arms trafficking in the Western Balkans cited by the EU Commission, 3,910 firearms were seized in France in 2011, with a 40% increase with respect to 2010 (EU Commission, 2012).

According to the available evidence, weapons shipped to or through France mainly originate from the **former Yugoslavia** (Soccoja, 2009). Spapens (2007) reported a case between 1998 and 2000 where 3,700 pistols supposedly sold by a Croatian company were found and confiscated in some western European countries, including France (Spapens, 2007, p.366).

As said in Section 4.3, former **Yugoslavian and Albanian OCGs** are among the main actors involved (Ministère de l'Intérieur, 2013). It is therefore likely that the same groups operate in France, although, as mentioned in 4.3, the role of freelance brokers and smaller groups is increasing in this field (Soccoja, 2009).

<sup>142</sup>. These are organised convoys of cars driven at high speed. They have been widely used, especially in France and Spain, for the transportation of hashish and cocaine (see e.g. Eurojust, 2013b).

#### 5.2.2.4. Illicit trade in tobacco products

There are several reasons that explain why France may be exposed to the illicit trade in tobacco products:

- First, its **geographical position** as a transit country, especially to the UK (DGDDI, 2011a, p. 5)
- Second, the **high taxation** on tobacco products (DGDDI, 2011a)
- Third, the fact that **five bordering countries have cheaper cigarettes** (Andorra, Spain, Italy, Luxembourg and Belgium) (OFDT, 2011)

This report estimates the turnover of ITTP in France at **between 2 and 2.2 billion euro in 2013** (Section 4.4), which was the highest turnover recorded in the EU (on the basis of the methodology adopted). Some other attempts to quantify the size of this market in France are also available in the literature. According to KPMG (2013), the amount of counterfeit and smuggled cigarettes consumed in France was 10.3 billion in 2012, around 15% of total cigarettes consumption (KPMG, 2013, p. 88), mainly originating from duty free areas (2.6 billion), Algeria (1.1 billion) and Spain (0.9 billion) (KPMG, 2013, p. 91).

The *Direction générale des douanes et droits indirects* (DGDDI) reported an overall 5% penetration of the legal market, whereas Euromonitor assessed it at 15.7%. However, **the sources do not evaluate the weight of organised crime groups in this market**. As previously highlighted, the role of smaller groups and individuals is important in this traffic, although well-organised groups also seem to be significant (DGDDI, 2011c).

In particular, some case studies have revealed the activity of various criminal groups, most of them foreign and mainly at the borders. **Illegal tobacco trade by go-fast convoys from Andorra** was managed by Georgian and Chechen groups (Le Monde du Tabac, 2012b). In 2012, an organisation led by a young Serbian and importing tobacco from Andorra was dismantled; according to the DGDDI, its profit reached 300,000 euro in three months (La Dépêche, 2012).

#### 5.2.2.5. Counterfeiting

According to the World Customs Organisation, France was among the main locations of seized counterfeits in 2010 (WCO, 2011, p. 8).

The data presented in Eurobarometer (2011) reveal that, on average, 10% of consumers interviewed in France were willing to accept counterfeit products. Using this information, estimates carried out for the present study (see Section 4.5) have calculated that the **counterfeit market in France would have yielded around 5.7 billion euro** in 2010 if the demand had been fully satisfied. Using older methodologies<sup>143</sup> this market is estimated to range **between 2.9 and 5.7 billion euro**.

The literature on counterfeiting reports that the market of unlicensed PC software in France alone in 2011 was likely to have reached 2.1 billion euro (BSA, 2012). BSA ranked France highest among the European countries and sixth worldwide in terms of the commercial value of unlicensed software (BSA, 2012, p. 6).

As regards actors, investigations reveal the presence in France **of Turkish and Italian criminal networks**, especially in the field of counterfeit clothes (UNICRI & ICC BASCAP, 2013). In particular, the **Camorra** is a historical Italian OCG exporting counterfeit clothes around Europe and France (Section 4.5.3), while, as in many other EU MS, **Chinese criminals** are active in the counterfeiting of commodities.

#### 5.2.2.6. Extortion racketeering

According to Transcrime (2009), extortion racketeering is a widespread problem in France. **More than 7,900 cases** were reported in 2008 by the authorities (Transcrime, 2009, p. 102). The diffusion of extortion may be linked with loopholes in the regulations and the weak protection of victims, witnesses, and justice collaborators (Transcrime, 2009, p. 101). Although regulatory and policy developments have been introduced, the phenomenon is still significant, **especially in the South** (e.g. Marseilles and Nice) and **in Corsica**, where the penetration of *grand banditisme* and local OCGs is more significant. As regards business sectors, **construction and entertainment** are those most affected (Transcrime, 2009, pp. 103-105).

Besides local OCGs, there is evidence of **French, Italian, Turkish, Chinese and Albanian groups** perpetrating extortion within their community (Section 4.7.3) to extort funds from businesses. Evidence is available that Italian Cosa Nostra and some **French criminal groups** finance themselves with extortion (Transcrime, 2009, p. 105). Also **(former) paramilitary groups** in Corsica are involved in extortion in order to control their territory (West Sands Advisory, 2012, p. 22; see also Section 4.7.3).

#### 5.2.2.7. Fraud

France is witnessing the development of a wide range of fraudulent activities. According to INHESJ - ONDRP, 2012, and the French Gendarmerie, **fraud** are, together with drug trafficking, the illicit activities that produce the highest amount of illicit proceeds.

Estimates of this illicit market are lacking. For the purpose of this project, Transcrime has estimated that the proceeds from MTIC frauds in France range **between 3.5 and 6.3 billion euro** (see Section 4.9 and the Methodological Annex), so that this type of fraud is one of the main sources of income for organised criminal groups.

As regards the criminal groups involved, the few results in the literature indicate, also in France, the presence of Eastern European OCGs, especially from Bulgaria and Romania, engaged in cybercrime (FATF, 2011a; INHESJ - ONDRP, 2012, p. 230; Gendarmerie Nationale-STRJD, 2013). Online fraud is widespread in France, and victims' losses amounted to 190 million euro in 2011, according to INHESJ (INHESJ - ONDRP, 2012, p. 230).

#### 5.2.2.8. Organised property crime

According to the French Gendarmerie, property crimes exhibit **high levels of organised crime involvement** in France (Gendarmerie Nationale - STRJD, 2013). Traffic of stolen property is a very common crime tackled by the public authorities (INHESJ - ONDRP, 2012), but studies attempting to quantify the amount of proceeds generated by this illicit activity are lacking.

<sup>143</sup>. For a complete review of the methodologies used and the product categories included see the Methodological Annex and Section 4.5.

Crimes are usually committed on French territory and then, according to the criminals involved, the **stolen goods are sold offshore**. For example, African and North African groups are active in France, especially in car theft; they export stolen cars back to their country of origin. Similarly, Bulgarian car thieves have moved from France to Spain but use the French territory as a transit to Eastern Europe (Gounev & Bezlov, 2008).

The French Gendarmerie have identified various groups operating on French territory. In particular, there is evidence of **Russian/Georgian, Romanian, Bulgarian, Lithuanian**, other **Eastern European, Italian, Albanian**, and Balkan groups all involved in organised property crime in France (Gendarmerie Nationale – STRJD, 2013).

The available literature addresses three particular sectors of organised theft: **armed robbery, cargo theft** and **car theft**. However very few estimates are available to quantify the weight of organised crime in this market. However, the literature reveals that:

- In 2011, the overall number of **armed robberies** decreased, as reported by INHESJ - ONDRP (2012), but there is substantial evidence of robberies committed by organised groups. The available literature does not evaluate the weight of armed robbery in terms of proceeds.
- **Cargo theft** is one of the most important organised theft activities. Although non-comparable given the different methodologies adopted, significant organised crime theft proceeds in France were estimated by Europol at about 48 million euro in 2007 (Europol, 2009b), compared with 1 billion euro in 2004 (Van Den Engel & Prummel, 2007). These activities are reported to be mainly concentrated in Paris, Lyon, Bordeaux and Marseilles (Europol, 2009b).
- In regard to **car theft**, France was, after the UK, the **second most affected European country** between 2003 and 2006 (Van Den Engel & Prummel, 2007, p. 22). According to the same source, Paris ranked fifth in terms of the number of cases in Europe. OCGs operating in France usually export the cars beyond the French borders: African, North African, Balkan and Eastern European countries are preferred destinations, but sometimes are only transit countries towards Arab countries (INHESJ - ONDRP, 2012). OCGs are often active in border areas, e.g. in north-eastern France on the route to Belgium (INHESJ-ONDERP, 2012, p. 221).



## 5.3. Ireland

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### 5.3.1. Introduction

According to the literature, illicit markets are essential sources of money for OCGs operating in Ireland. The most important markets, in terms of both revenues produced and functionality in OCGs' strategies, seem to be the **trafficking of illicit drugs, ITTP, fuel laundering and frauds**. However, the extent to which the OCGs control illicit markets is in many cases unknown, also because it is not always easy to identify well-distinguished groups which control different shares of illicit markets (see also Section 8.3).

As reported also in Section 5.3.2, the Irish context is characterized by **different types of criminal actors**, i.e. well-established OCGs involved in multiple criminal activities, loosely connected local networks, occasional criminal enterprises, and groups linked with foreign OCGs or with former local paramilitary groups (Council of Europe, 2001, p. 13; Transcrime, 2009, p. 136).

Van Dijk's country-level Composite Organised Crime Index (Van Dijk, 2008) reveals a sizeable presence of organised crime groups in Ireland, but statistics on the number of OCGs in the country are not homogeneous. In line with Europol's SOCTA definition, the Irish Police (An Garda Síochána) identified **9 different OCGs active in Ireland in September 2013**. Europol itself, in 2009, reported about 40 Irish gangs (including 9 'primary' gangs) operating in Europe at that time (O'Keeffe, 2009), with **Netherlands, Spain and Great Britain** being the **"key locations for foreign criminal liaisons"** (Grant Thornton Ireland, 2013, p. 15).

These figures reveal the **international profile** of these groups. Irish OCGs' internationalization appears to occur in two ways. First, in terms of **links with foreign criminal groups**: connections can be highlighted between OCGs operating in Ireland and Russian-speaking OCGs (An Garda Síochána & PSNI, 2012a), but also with Chinese OCGs and other Eastern European criminal groups (An Garda Síochána & PSNI, 2012a). Also important is **cross-border cooperation between OCGs based in Ireland** and Northern Ireland (An Garda Síochána & PSNI, 2012a), particularly on illicit activities such as smuggling and excise frauds (ITTP, VAT frauds, fuel frauds), counterfeiting and piracy, as well as human trafficking (OCTF, 2012b, p. 4).

Second, Ireland's records also a non-negligible presence of **foreign OCGs active in criminal markets/activities** such as human trafficking, drug dealing, firearms trafficking, illicit trade in tobacco products (ITTP) and vehicle theft (see Table 49).

Finally, to be noted is that today, after the decommissioning of many paramilitary dissident groups, terrorist actions driven by political beliefs have substantially diminished, and **terrorists are increasingly involved in illicit markets**, in some cases evolving into OCGs engaged only in criminal activities (West Sands Advisory, 2012). The links between OCGs and local terrorist groups are evident in many illicit trade markets, including counterfeiting (Grant Thornton Ireland, 2013).

As described in more detail below (Section 8.3), OCGs operate mainly in **large urban areas**, and mostly around the city of

Dublin. Large cities like Dublin and Cork are the main target areas for drug smuggling and vehicle thefts (McMahon, 2013). Moreover, also the land border region shows high vulnerability to OCGs' activities (An Garda Síochána & PSNI, 2012a).

### 5.3.2. Illicit markets in Ireland

The following table summarizes the **size of the local illicit markets**<sup>144</sup> according to the literature and to the Transcrime-OCP research team's estimates. A table on the main actors involved is also provided. To be pointed out is that not all of the markets covered in Chapter 4 are treated here, due to either a lack of information or to a negligible illicit market scale.

#### 5.3.2.1. Drug trafficking

Most OCGs in Ireland are involved in illicit drug trafficking. Ireland is not only a destination but also a **strategic transit country for illicit drugs** destined for the UK and other EU countries (REITOX & EMCDDA, 2014, p. 143). If compared to the average consumption of illicit drugs in the rest of the EU, Ireland records a relatively high illicit drug use, especially of **opioids and cocaine** (UNODC, 2014b, see annex tables). However, cannabis ranks first in terms of consumption prevalence, with cocaine and opioids in second and third place respectively (An Garda Síochána & PSNI, 2012a, p. 8). All three of these markets are important in terms of the illicit revenues produced.

The most consumed cannabis product is **herbal cannabis**, which is either imported by OCGs or domestically produced. As regards imported cannabis, Ireland's remote west coasts provide strategic access for sea shipments, sometimes coming directly from Morocco (EMCDDA & Europol, 2013, p. 62). The groups involved in this market are generally **local Irish criminals**. They often operate in connection with Russian OCGs based in Spain, which is commonly used as transit country for trafficking to Ireland (McDonald, 2008; An Garda Síochána & PSNI, 2012a). However, the large-scale indoor cultivation of cannabis, in particular conducted by **Chinese and Vietnamese OCGs**, is increasing (An Garda Síochána & PSNI, 2012a, p. 8; REITOX & EMCDDA, 2014). According to recent calculations (Caulkins, Kilmer, & Graf, 2013), the value of the local cannabis market is 47 million euro.

As revealed by UNODC data (2014b), Ireland also records a **high prevalence of cocaine** consumption. According to Transcrime estimates carried out for the OCP project (see Section 4.1) the Irish market ranges between 67.3 and 100.9 million euro (2006-2008 data). Despite a lower consumption prevalence, the Irish **heroin market** appears to yield significant criminal proceeds owing to the high price of heroin in the country. According to Transcrime-OCP estimates, the size of this market is 622.5 million euro, with a minimum bound of 498 million and a maximum one of 830 million euro (2011 data). Heroin seems mostly to arrive in Ireland by sea (Connolly, 2005, p. 79).

<sup>144</sup> Northern Ireland is excluded from the analysis



**Table 48 - Estimates of the revenues from illicit markets in Ireland<sup>145</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	623	498	830	2006	Transcrime-OCP, 2014	
	213	142	427	2005	Kilmer & Pacula, 2009	
	54				Connolly, 2005	
Cocaine	90	67	101	2011	Transcrime-OCP, 2014	
	75			2003	Connolly, 2005	
Cannabis	47			2010	Caulkins, Kilmer, & Graf, 2013	Cannabis expenditure
	49	22	101	2005	Kilmer & Pacula, 2009	
	379			2003	Connolly, 2005	
Other illicit drugs	30	7	54	2009	Kilmer & Pacula, 2009	Ecstasy
	16	6	26	2009	Kilmer & Pacula, 2009	Amphetamines
	129			2003	Connolly, 2005	Ecstasy
	10			2003	Connolly, 2005	Amphetamines
ITTP	277	255	299	2013	Transcrime-OCP, 2014	
	156 <sup>a</sup>			2010	EPS Consulting & Retail Ireland, 2012	
Counterfeiting	456			2010	Transcrime-OCP, 2014	Demand side <sup>o</sup>
	111 <sup>b</sup>			2011	BSA, 2012	Unlicensed PC software
	86			2010	Nunwood & Pfizer, 2010	Counterfeit medicines
Fraud	190	143	239	2012	Grant Thornton Ireland, 2013	Fuel fraud (Government loss to Exchequer)
	168	142	215	2011	Transcrime-OCP, 2014	MTIC fraud
Organised property crime	0.77			2007	Europol, 2009b	Cargo theft
	148			2004	Van Den Engel & Prummel, 2007	Cargo theft
	97			N/A	McMahon, 2013	
	4			N/A	McMahon, 2013	

<sup>a</sup> Original figure: 3 million euro per week.

<sup>b</sup> Original figure: 144 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>o</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

The groups most involved are reported to be Irish nationals **based in Ireland and the UK** (Connolly, 2005). However, in the past decade, together with Irish OCGs, foreign groups have increasingly engaged in heroin smuggling (Corless, 2003).

### 5.3.2.2. Trafficking in human beings

As reported by the European Commission (2013a), Ireland is mainly a destination country for people trafficked for sexual exploitation and forced labour. Typically, victims are foreign nationals originating mainly from **Nigeria, Albania,**

**Eastern Europe, China and Southeast Asia** (Ward & Wylie, 2007; Fondation Scelles, 2012), and they are often exploited by individuals or groups of their same ethnicity (An Garda Síochána & Department of Justice, Equality and Law Reform, 2006; Ward & Wylie, 2007). Irish-based OCGs are also involved, given the evidence of links between human trafficking and local terrorism financing that has emerged in recent years (FATF, 2011b, p. 40; West Sands Advisory, 2012).<sup>146</sup>

The most common purpose of THB in Ireland is **sexual exploitation**. Indeed, a “number of OCGs are currently involved in organised prostitution brothel keeping throughout

<sup>145</sup> In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

<sup>146</sup> Investigative evidence reveals some cases of the laundering of proceeds generated from sexual exploitation. In the Quest Operation, five persons were arrested for exploiting people in illegal brothels and for organising illegal prostitution, and they were also accused of money laundering.

**Table 49 - Organised crime groups' involvement by illicit market in Ireland**

Illicit market	OCGs	Sources
Illicit drugs (not specified)	Irish OCGs, Paramilitary groups (Irish & British)	Curtis & Karacan, 2002; West Sands Advisory, 2012
Heroin	Irish OCGs	Connolly, 2005
Cocaine	Chinese OCGs, Irish OCGs	REITOX & EMCDDA, 2012b
Cannabis	Chinese OCGs, Irish OCGs, Other Asian OCGs	McDonald, 2008; An Garda Síochána & PSNI, 2012a; EMCDDA & Europol, 2013
Other illicit drugs	Lithuanian OCGs, Other Western European OCGs	EMCDDA & Europol, 2011
THB	African OCGs, Chinese OCGs, Other Eastern European, Russian/Georgian OCGs	Corless, 2003; An Garda Síochána & PSNI, 2012a; West Sands Advisory, 2012
ITF	Paramilitary groups (Irish & British)	West Sands Advisory, 2012
ITTP	Chinese OCGs, Irish OCGs, Other Eastern European OCGs, Paramilitary groups (Irish & British), Russian/Georgian OCGs	West Sands Advisory, 2012; Calderoni, Rotondi, & Favarin, 2013; Interpol, 2014a
Counterfeiting	Irish OCGs	O'Riordan, 2013
Extortion racketeering	Irish OCGs	Transcrime, 2009, West Sands Advisory, 2012
Fraud	Irish OCGs, British OCGs	An Garda Síochána & PSNI, 2012a
Organised property crime	British OCGs, Irish OCGs	An Garda Síochána & PSNI, 2012a
Illicit fuel trafficking	Irish OCGs, Paramilitary groups (Irish & British)	Interpol, 2014a

the Island of Ireland” (An Garda Síochána & PSNI, 2012a, p. 20) with most of them engaging in other illicit activities. In some cases, foreign OCGs establish links with local criminals to run indoor prostitution in brothels or apartments. The number of brothels run by foreign OCGs is reported to be increasing (Bohan, 2014). As described in Reynolds (2003), the Irish prostitution racket seems to generate/produce a substantial amount of money, which in some cases is laundered (An Garda Síochána & PSNI, 2012b).

**Forced labour** in Ireland seems less widespread than sexual exploitation, but the upturn in migration inflows and the economic downturn have increased the number of vulnerable people (An Garda Síochána & PSNI, 2012a, p. 20). Notwithstanding a lack of reporting and the low number of cases detected, it can be hypothesised that criminals proceeds from forced labour account only for a small share of the total revenues generated by criminals in Ireland.

### 5.3.2.3. Illicit trafficking in firearms

Although Ireland is reported to have **low levels of illicit possession of civilian firearms** (Small Arms Survey, 2007), the illicit firearms market is a major issue for this country, especially in relation to the **terrorist activities of (former) paramilitary groups**. These groups, located in Ireland and Northern Ireland, act as both recipients of and traffickers in arms. As their military activity has diminished, they have become increasingly involved in weapons trafficking. In particular, they are reported to sell firearms in exchange for

drugs to Colombian (paramilitary) groups (including FARC groups), and to Croatia, where the narcotics received from Colombia are trafficked in exchange for firearms (Curtis & Karacan, 2002, pp. 6–8; West Sands Advisory, 2012). Other countries from which illicit weapons may originate are Iraq and Kosovo (Hales, Lewis, & Silverstone, 2006, p. 43). Moreover, Ireland may act as transit country for illicit firearms supplied to British criminals.

Firearms are mainly **sourced from abroad**, for two reasons: first, Ireland is no longer a producer of firearms, so that leakage from licit manufactures is hardly likely (Spapens, 2007); second, Ireland has one of the least permissive legislations on the possession of firearms in Europe, so that opportunities for OCGs to drain arms from their official owners are very limited.

### 5.3.2.4. Illicit trade in tobacco products

For OCGs operating in Ireland, the **illicit trade in tobacco products (ITTP) is one of the most important illicit markets** (Calderoni, Rotondi, & Favarin, 2013). According to some sources, it has recently replaced the cocaine market in terms of income (Grant Thornton Ireland, 2013, p. 31). Organised criminal groups, terrorists, and individual criminals in Ireland have long exploited this market to fund their illicit activities. Criminals are attracted by the **high profitability of the ITTP market in Ireland**, which is associated with different factors: first, the strong demand due to the high tax rates on tobacco products in Ireland feeding illegal consumption (Maguire, 2012; Calderoni, Rotondi, & Favarin, 2013); second,

the very low penalties imposed for this crime (Calderoni, Rotondi, & Favarin, 2013).

Estimates reveal the large size of this market compared with others. According to EPS Consulting & Retail Ireland (2012, p. 14), the ITTP may generate **3 million euro each week**. The estimates produced for the purpose of this study reveal (slightly) higher figures quantifying the size of this market at **between 255 and 299 million euro** (2013 data) (see Section 4.4.2).

**Irish organised criminals** are the main actors in this market, but foreign groups such as **Eastern European and Chinese OCGs** often play a crucial role, especially in the importing of raw materials and the counterfeiting of cigarettes brands (Calderoni, Rotondi, & Favarin, 2013, p. 61). Cigarettes smuggled into Ireland, in fact, have been traditionally linked with source countries like China and Malaysia, and connections with Vietnam and Cambodia are also emerging (An Garda Síochána & PSNI, 2012a, p. 22). Close cross-border cooperation between OCGs of Ireland and Northern Ireland is also reported (An Garda Síochána & PSNI, 2012a).

Cigarettes smuggling is also one of the main sources of funding for **(former) paramilitary groups in Northern Ireland** (Interpol, 2014a, p. 120) and Ireland, the latter with different roles: the Provisional IRA (PIRA) and the Real IRA (RIRA) were reported to be engaged in overseas trafficking of tobacco through containers. Trafficking conducted by the Loyalists takes place more as 'ant trade', since they have often been found to pay overseas journeys to single individuals who buy and illicitly import small quantities of tobacco (Calderoni, Rotondi, & Favarin, 2013, p. 88).

However, cigarette smuggling is not exclusively controlled of OCGs alone (Maguire, 2012; Calderoni, Rotondi, & Favarin, 2013, p. 63) because **single individuals** can introduce illicit cigarettes into the country without being involved in OCGs. In fact, individual thieves and foreign organised groups are reported to account jointly for 25% of the cigarettes smuggled into Ireland (Calderoni, Rotondi, & Favarin, 2013, p. 61).

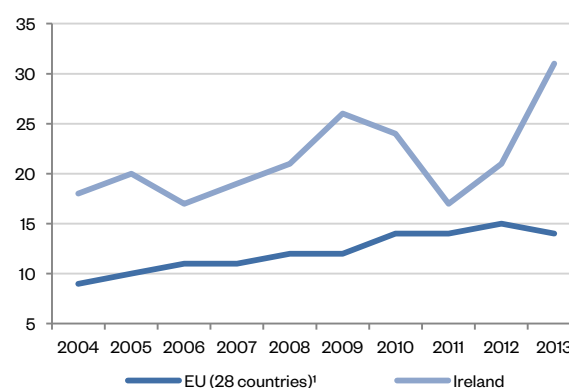
### 5.3.2.5. Counterfeiting

Although the extent to which OCGs are involved in product counterfeiting and digital piracy in Ireland is **little investigated by the literature**, according to some sources "crime gangs are behind the significant trade in counterfeit goods" (EPS Consulting & Retail Ireland, 2012; Grant Thornton Ireland, 2013).

According to Transcrime-OCP estimates (see Section 4.5), the **potential demand** for counterfeit products in Ireland may produce, if fully satisfied, revenues amounting to **around 456 million euro** (using 2010-2011 data). On using another methodology of estimate (specified in the Methodological Annex), this market is likely to yield between 268.3 and 536.6 million euro. How much of these proceeds can relate to OCGs is difficult to determine.

In this regard, it should be emphasised that Ireland is probably the most developed country in Europe in terms of **e-commerce** (see the chart in Figure 19 below). Not only is

**Figure 19 - Share (%) of e-commerce in enterprises' turnover**



<sup>1</sup> Until 2007 data refer to EU 27 MS.

Source: Transcrime elaboration on Eurostat data

the turnover from internet-based trade by Irish companies much higher than the EU average, but it is also increasing. This may facilitate the sale and distribution of fake products on the Internet.

The Irish authorities are increasingly concerned about **counterfeiting sub-markets like digital piracy, medicine counterfeiting, and food counterfeiting** (An Garda Síochána & PSNI, 2012a). As regards digital piracy, the commercial value of pirated software in Ireland was estimated at 144 million US dollars (i.e. around 110 million euro) in 2011 (BSA, 2012). Counterfeit clothing and clothing accessories are also common (O'Riordan, 2013). Another important issue for Ireland is the counterfeiting of pharmaceutical products: according to research commissioned by Pfizer, the value of the counterfeit medicines market in Ireland is 86 million euro each year (Nunwood & Pfizer, 2010). Again, the spread of e-commerce in Ireland may facilitate the purchase of fake medicines on the Internet.

To be noted is that probably the most important type of counterfeiting in Ireland concerns **fake cigarettes**, but this issue is discussed in the Section on ITTP.

### 5.3.2.6. Extortion racketeering

The seriousness of extortion racketeering in **Ireland seems to be low**, according to Transcrime (2009, p. 135). Among the few cases identified, organised criminal groups involved in extortion racketeering in Ireland seem to be mainly structured as networks. This crime appears to be committed by local OCGs and local gangs which engage in mainly casual<sup>147</sup> extortion racketeering. The majority of cases concern extortion racketeering perpetrated by terrorist groups (West Sands Advisory, 2012), also ones based in Northern Ireland.

### 5.3.2.7. Fraud

Despite the lack of statistics and data, fraud appears to be an **emerging illegal activity and a relevant source of proceeds for OCGs** in Ireland. Among the EU MS, Ireland

147. For the definition of casual extortion episodes refer to Section 4.7 on extortion racketeering.

records the **highest number of payment card frauds**<sup>148</sup> (Levi et al., 2013, p. 39). Payment card frauds are typically “dominated by well-structured and globally active organised crime groups” (Europol, 2012, p. 3).

The increase of fraud in Ireland is also related to **exploitation of the border with Northern Ireland and the different tax regimes**. Missing Trader Intra-Community (MTIC) and VAT frauds, which concern movable goods that cross the country’s borders, are quite significant (for a general description of MTIC and VAT frauds see Section 4.9). Cases of **VAT carousels** have also been reported by the Irish police (Palomo et al., 2009, p. 63; An Garda Síochána & PSNI, 2012a, p. 16). According to Transcrime-OCP estimates, this type of fraud may yield around **168 million euro** in Ireland (using 2011 data).

**Mortgage fraud** is a frequent type of fraud, as reported by the police (Breaking News, 2006; CAB, 2012, p. 13; O’Riordan, 2013). It may be related to the growth of the Irish real estate market in the 2000s, and to the interest of OCGs in investing in properties (see Section 8.3). Mortgages can also be used to launder money, and they are associated with intimidation by criminals against bank officials (in order to avoid mortgage repayments) (Sheenan, 2012).

### 5.3.2.8. Organised vehicle theft

**Organised vehicle theft is a widespread crime in Ireland**, and it appears to be a major source of proceeds for OCGs (An Garda Síochána & PSNI, 2012a, p. 23). Open data report that this business is worth 97 million euro each year (McMahon, 2013), but no description of the methodology of estimate is available.

Stolen vehicles are either resold entirely or dismantled to sell the pieces as spare parts. Car theft usually takes place on **demand originating from abroad**, but also the importing of stolen cars is reported.<sup>149</sup> The stolen vehicles (mostly commercial vehicles or tractors) are transferred overseas, either being transported to Northern Ireland or shipped to other European countries (usually in the UK, the Middle East and Africa) (An Garda Síochána & PSNI, 2012a). Cars are also stolen to commit crimes or for the removal and resale of their parts (Interpol, 2014b).

Strictly related to vehicle theft is **cargo theft**. Europol (2009b), in a study on cargo theft, estimated that the losses associated with this crime amount to around **765 thousand euro**. The groups engaged in organised vehicle theft are Irish ones, which have been found to cooperate with British OCGs (An Garda Síochána & PSNI, 2012a). However, it cannot be excluded that small-scale gangs or individual criminals engage in this trafficking in Ireland. In some cases, the trafficking is indirectly tied to drug trafficking: it has been reported that crime gangs

engaged in drug trafficking often force, or give small payments to, drug addicts to steal cars for the gangs (McMahon, 2013).<sup>150</sup>

### 5.3.2.9. Illicit fuel trafficking

Fuel laundering has long been a source of financing for illegal paramilitary organisations and for OCGs (often associated with paramilitary/terrorist groups, Interpol, 2014a, p. 116) in Northern Ireland and Ireland. These groups may exploit the **differentials in prices and tax regimes** between the two countries and among different products.<sup>151</sup>

Fuel laundering has emerged as the most common type of fuel fraud recorded in Ireland (Grant Thornton Ireland, 2013). Fuel laundering, which **often takes place cross-border**, usually entails the illegal trade of agri-diesel fuel with the dyes removed to make it look like vehicle fuel (An Garda Síochána & PSNI, 2012a). Once the dyes are removed, the laundered fuel is sold at a higher price as vehicle fuel, causing significant damage to road vehicle engines. Another widespread type of fuel crime is **fuel smuggling**, from which OCGs earn significant proceeds by exploiting the price differential between Northern Ireland and Ireland (Grant Thornton Ireland, 2013). Fuel laundering in Ireland has also been associated with money laundering activities, in particular committed through money business services (see An Garda Síochána & PSNI, 2012a, p. 16; Sections 8.3 and 12.4 for details).

148. According to the EU Fraud Prevention Expert Group, card frauds can occur in different ways. “There are many different typologies for card fraud. Industry generally groups them in four main categories: mail-non-receipt fraud (e.g. the physical card sent by the bank through the mail is intercepted); lost-and-stolen card fraud (e.g. you lose your card or your card is stolen); counterfeit card fraud (e.g. skimming of your card to produce a counterfeit one); and card-not-present fraud (e.g. remote payments such as phone or mail orders or internet transactions).” [http://ec.europa.eu/internal\\_market/fpeg/card-fraud\\_en.htm](http://ec.europa.eu/internal_market/fpeg/card-fraud_en.htm).

149. See An Garda Síochána website <http://www.garda.ie/controller.aspx?page=1645>.

150. The ‘coke-for-cars’ system is reported in Ireland, as well as in other countries of the world. <http://www.csmonitor.com/World/Americas/Latin-America-Monitor/2012/1023/Bolivia-plans-crackdown-on-cars-for-cocaine-trade>

151. For example, the price differential between agri-diesel fuel and road vehicle fuel is reported to be equivalent to 38 cents per litre (Grant Thornton Ireland, 2013, p. 19), the latter being more expensive. As reported below, OCGs cheat their customers by reselling un-dyed agricultural fuel as vehicle fuel.

## 5.4. Italy

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### 5.4.1. Introduction

There is a vast body of literature on the nature and the size of illicit markets in Italy. A large number of estimates are also available, but they often fail to disclose the methodology adopted (for a review see Transcrime, 2013a; Calderoni, 2014c; Savona, 2014).

According to the available studies, **illicit markets in Italy are huge in scale**, especially if compared with those of other OCP countries (see Table 4 and Table 50). This may be due to various factors, including the relative **size of the Italian legitimate economy** (third GDP among EU MS after Germany and France), the country's **strategic position** on important illicit trafficking routes (e.g. as a transit point from North Africa and the western Balkans for illicit drugs, trafficked persons, tobacco products, firearms, counterfeit products), and the historical presence of **permanent and well-rooted OCGs**, especially Italian mafias, particularly in southern regions (see below).<sup>152</sup>

On the basis of the available estimates (see Table 50) and LEA reports and judicial evidence, **illicit drug trafficking, fraud and extortion racketeering** are the largest illicit markets in Italy. Also usury, counterfeiting and human trafficking for sexual exploitation purposes play significant roles in the economies of OCGs.

#### Organised crime groups in Italy

As in many other EU MS, a wide range of criminal actors participate in Italy's illicit markets. Besides the **traditional Italian mafias**<sup>153</sup> (in particular OCGs connected with the Camorra, Cosa Nostra, 'Ndrangheta and to the Sacra Corona Unita - Apulian OCGs), on which most of the academic research has focused to date, a significant number of **foreign groups** operate in Italy.

**Chinese OCGs, Eastern European OCGs** (in particular of Albanian, Romanian, Moldovan and Bulgarian origin), **Russian/Georgian, Western Balkan, North African and Nigerian OCGs** play a crucial role in certain illicit activities such as counterfeiting, sexual exploitation, drug trafficking and organised property crime (DNA, 2011, p. 200; Ministero dell'Interno, 2013, pp. 18-24; DIA, 2014; DNA, 2014).

Besides structured OCGs, occasional and loose criminal networks of **individual criminals, freelance entrepreneurs and brokers** are also active in, e.g., the trafficking in firearms,

counterfeit goods, tobacco products, or in providing facilities and services for other criminal activities. These latter include, for example, the 'laundering' of stolen goods,<sup>154</sup> the setting up of business schemes to commit excise and VAT frauds, or the provision of money laundering services themselves (see also Section 8.4).

The role and type of OCGs vary largely according to the geographical area:

- In **southern regions**, Italian mafias maintain a dominant role (with Camorra in Campania, 'Ndrangheta in Calabria, and Cosa Nostra in Sicily) and they occasionally operate with foreign OCGs (Ministero dell'Interno, 2013, p. 18; Transcrime, 2013a; DNA, 2014).
- **Central Italy** is the area preferred by foreign OCGs (also in terms of investments, see Section 8.4), although Italian mafias are also active (for instance, Camorra in Tuscany, Umbria, Molise and Abruzzo – see Transcrime (2013a) and Calderoni (2014c, p. 147). The Lazio region (and in particular the area of Rome) records intense activities by both Italian mafias (especially Camorra and 'Ndrangheta) and foreign OCGs, while in Tuscany the presence of Chinese OCGs is significant in the counterfeiting, sexual and labour exploitation markets (Becucci, 2013, 2014).
- **Northern Italy** has a large number of different organised crime groups. The transplantation of Italian mafias has produced significant levels of infiltration, which in some cases has assumed the nature of *systematic rooting* in the social and economic fabric (e.g. Cassinelli & Garzillo, 2014). A large presence of 'Ndrangheta OCGs is registered in the North-West (Lombardy, Piedmont, Liguria) and in Emilia-Romagna. In these regions 'Ndrangheta is active both in illicit markets and in the infiltration of the legitimate economy (see also Section 8.4). Among foreign OCGs, Russian groups, Albanian, Romanian, Bulgarian and other eastern European OCGs are active in the trafficking of illicit drugs, sexual exploitation, and organised property crime. North African OCGs (drug trafficking) and Chinese and South East Asian OCGs (prostitution, especially indoor or in massage parlours) have also been reported (DNA, 2014).

### 5.4.2. Illicit markets in Italy

Table 50 presents a summary of some of the available estimates of the proceeds of criminal markets in Italy. Table 51 provides a review of the main OCGs active per illicit market in the country. The following Sections focus on the main criminal markets, commenting on estimates and the main active groups.

152. On the other hand, it must be borne in mind that illicit markets may have often been overestimated with exaggerated mythical numbers (as suggested also by UNODC, 2011a; see Transcrime, 2013a and Calderoni, 2014c, for a review).

153. The term "Italian mafias" refers here to the criminal groups belonging to the main Italian criminal organisations, namely Cosa Nostra, Camorra and 'Ndrangheta, and to other smaller criminal organisations (Sacra Corona Unita, etc.) (Transcrime 2013a). This category is widely accepted by the academic literature (see Calderoni, 2014b, for a review), and it is referred to by the Italian Criminal Code with the specific offence of mafia-type association (Art. 416-bis): "the provisions above apply also to the Camorra, the 'Ndrangheta and other associations, however known or called, even foreign, which use the intimidatory power of the group to achieve the goals typical of a mafia-type association" (Transcrime, 2013a).

154. For example by setting up fake wholesale companies to trade stolen medicines on the parallel trade (Riccardi, Dugato, & Polizzotti, 2014).



**Table 50 - Estimates of the revenues of illicit markets in Italy<sup>155</sup>**

Illicit market	Estimate # (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	1,370	1,096	1,826	2012	Transcrime-OCP, 2014	
	1,153			2011	Giommoni, 2014	
	1,842			2009	Transcrime, 2013a	
	2,453			2010	Fabi, Ricci, & Rossi, 2011	
	3,340			2009	Rossi, 2013	
	1,980			2008	Di Censi et al., 2010	
	1,623	1,326	2,649	2005	Kilmer & Pacula, 2009	
	1,467	887	2,046	2005	Baldassarrini & Corea, 2009	
	862	855	868	2005	Canzonetti, 2009	
Cocaine	1,699	1,268	1,902	2008	Transcrime-OCP, 2014	
	1,171			2011	Giommoni, 2014	
	1,711	772	2,649	2008	Transcrime, 2013a	
	10,226			2010	Sallusti, 2013	
	9,771			2010	Fabi, Ricci, & Rossi, 2011	
	12,590			2009	Rossi, 2013	
	5,413			2008	Di Censi et al., 2010	
	2,489	658	6,415	2005	Kilmer & Pacula, 2009	
	3,231	2,774	3,688	2005	Baldassarrini & Corea, 2009	
	4,030	3,963	4,096	2005	Canzonetti, 2009	
Cannabis	1,356			2008	Caulkins, Kilmer, & Graf, 2013	
	547			2012	Giommoni, 2014	
	3,141	1,649	4,632	2008	Transcrime, 2013a	
	9,511			2010	Fabi, Ricci, & Rossi, 2011	
	7,030			2009	Rossi, 2013	
	3,579			2008	Di Censi et al., 2010	
	2,956	1,320	6,154	2005	Kilmer & Pacula, 2009	
	1,155	793	1,516	2005	Baldassarrini & Corea, 2009	
	4,319	4,248	4,390	2005	Canzonetti, 2009	
Synthetic drugs	242			2008	Giommoni, 2014	Ecstasy
	199			2012	Giommoni, 2014	Amphetamines
	667	180	1,153	2008	Transcrime, 2013a	Ecstasy
	367	99	636	2008	Transcrime, 2013a	Amphetamines
	639	139	1,140	2005	Kilmer & Pacula, 2009	Ecstasy
	284	111	457	2005	Kilmer & Pacula, 2009	Amphetamines
THB	3,082	1,134	5,029	2004-2009	Mancuso, 2014a	Sexual exploitation (both indoor and outdoor) of foreign women
	4,660	1,778	7,541	2004-2009	Transcrime, 2013a	Sexual exploitation (both indoor and outdoor) of foreign women
	600			2009	SOS Impresa, 2010	Sexual exploitation only; Mafia revenues
	870			2009	SOS Impresa, 2010	Human trafficking; Mafia revenues

155. In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate). For more details, see Chapter 3 and Methodological Annex.



**Table 50 - Estimates of the revenues of illicit markets in Italy<sup>155</sup> (continues)**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
ITF	93	46	141	2010	Calderoni et al., 2014b	
	<i>111</i>	74	149	2010	Transcrime, 2013a	Demand side
	5,800			2009	SOS Impresa, 2010	
ITTP	546	485	607	2013	Transcrime - OCP, 2014	
	<i>1,139</i>	1,002	1,276	2012	Calderoni, 2014a	
	752	661	842	2011	Transcrime, 2013a	
Counterfeiting	4,596			2010	Transcrime - OCP, 2014	Demand side <sup>b</sup>
	<i>4,541</i>	3,028	6,055	2008	Calderoni et al., 2014b; Transcrime, 2013a	Demand side
	1,498 <sup>a</sup>			2011	BSA, 2012	Unlicensed PC software
	7,800			2009	SOS Impresa, 2010	Miscellaneous products <sup>c</sup>
	7,107			2008	CENSIS, 2009	Miscellaneous products <sup>d</sup>
Illegal gambling	425	326	522	2011	Calderoni et al., 2014b; Transcrime, 2013a	Gaming machines
	10,000			unknown	Libera, 2012	
	23,000			2009	Eurispes, 2010	
	2,500			2009	SOS Impresa, 2010	OCGs share
Extortion racketeering	<i>5,253</i>	2,762	7,743	2012	Lisciandra, 2014	
	4,763			2011	Transcrime, 2013a	
Usury	<i>4,634</i>	3,090	6,178	2012	Scaglione, 2014	
	2,243			2010	Transcrime, 2013a	
	15,000			2009	SOS Impresa, 2010	
Fraud	5,492	3,975	7,010	2011	Transcrime - OCP, 2014	MTIC fraud
	4,600			2009	SOS Impresa, 2010	OCG share (type of fraud not specified)
Organised property crime	330			2013	Riccardi, Dugato, & Polizzotti, 2014	Theft of medicines from hospitals (per episode of theft)
	0.33			2007	Europol, 2009b	Cargo theft
	619			2004	Van Den Engel & Prummel, 2007	Cargo theft
	90			2001-2012	Jane's Information Group, 2013	Cargo theft
Illicit waste management	405	304	507	2007-2010	Calderoni et al., 2014b	Special waste management
	567	378	756	2007-2009	Transcrime, 2013a	Special waste management
<sup>a</sup> Original figure: 1,945 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB). <sup>b</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles. <sup>c</sup> Fashion wear, consumers electronics, toys, perfumes and cosmetics, medicines, foodstuff, other consumption goods. <sup>d</sup> Food products, tobacco, alcohol, perfumes, cosmetics, clothing and accessories, electric appliances, ICT equipment, CDs, DVDs, software, watches, jewellery, spare parts of vehicles, games, toys, medicines. <sup>#</sup> Estimates in <i>italics</i> are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.						

**Table 51 - Organised crime groups in illicit markets in Italy**

Illicit market	Higher evidence OCGs	Lower evidence OCGs
Heroin	Albanian OCGs, Other Eastern European OCGs	Apulian OCGs, Camorra, Cosa Nostra, North African OCGs
Cocaine	Albanian OCGs, Camorra, 'Ndrangheta, North African OCGs	African OCGs, Balkan OCGs, Bulgarian OCGs, French OCGs, South American OCGs, Spanish OCGs
Cannabis	Albanian OCGs, Camorra, 'Ndrangheta, North African OCGs	Apulian OCGs, Cosa Nostra, French OCGs, Spanish OCGs
THB	African OCGs, Apulian OCGs, Albanian OCGs, Camorra, Chinese OCGs, Cosa Nostra, 'Ndrangheta, Other Asian OCGs, Romanian OCGs	Balkan OCGs, Bulgarian OCGs, Dutch OCGs, North African OCGs, Other Eastern European OCGs, Other Italian/Italian not specified OCGs, Russian OCGs, South American OCGs
ITF	Albanian OCGs, Apulian OCGs, Balkan OCGs, Bulgarian OCGs, Camorra, Cosa Nostra, 'Ndrangheta, Other Eastern European OCGs, Russian/Georgian OCGs	African OCGs, Chinese OCGs, North African OCGs, Other Italian/Italian not specified OCGs, Romanian OCGs, South American OCGs, Turkish OCGs
ITTP	Albanian OCGs, Apulian OCGs, Balkan OCGs, Bulgarian OCGs, Camorra, Chinese OCGs, Other Eastern European OCGs, Romanian OCGs, Russian OCGs	Cosa Nostra, Lithuanian OCGs, 'Ndrangheta, Other Italian/Italian not specified OCGs, Other Asian
Counterfeiting	Camorra, Chinese OCGs	African OCGs, Apulian OCGs, Balkan OCGs, Bulgarian OCGs, Cosa Nostra, Japanese OCGs, Other Italian/Italian not specified OCGs
Illegal gambling and match-fixing	Apulian OCGs, Camorra, Cosa Nostra, 'Ndrangheta, Other Italian/Italian not specified OCGs	Chinese OCGs, Other Eastern European OCGs, Russian/Georgian OCGs
Extortion racketeering	Apulian OCGs, Camorra, Chinese OCGs, Cosa Nostra, 'Ndrangheta	Albanian OCGs, Balkan OCGs, Other Asian OCGs, Other Eastern European OCGs, Other Italian/Italian not specified OCGs, Romanian OCGs, Russian OCGs, South American OCGs
Usury	Apulian OCGs, Camorra, Cosa Nostra, 'Ndrangheta	Albanian OCGs, Balkan OCGs, Chinese OCGs, Other Italian/Italian not specified OCGs, Other Asian OCGs
Fraud	Bulgarian OCGs, Camorra, Chinese OCGs, Cosa Nostra, Other Italian/Italian not specified OCGs, Romanian OCGs	African OCGs, Apulian OCGs, 'Ndrangheta, Other Asian OCGs
Organised property crime	Albanian OCGs, Apulian OCGs, Camorra, Romanian OCGs, Eastern European OCGs	Bulgarian OCGs, 'Ndrangheta, North African OCGs, Russian/Georgian OCGs

Sources: Ministero dell'Interno, 2013; DIA, 2011a, 2012b, 2013a, 2013b, 2014; DNA, 2010, 2010b, 2011b, 2011c, 2012, 2012b, 2014; Europol, 2011b; Eurojust, 2011a; Interpol, 2014a; Transcrime, 2009, 2013a; UNODC, 2010a; 2013a, 2013b; Antolisi, 2007; Calderoni et al., 2013b; Calderoni et al., 2014b; FATF, 2011b; Lisoandra, 2014; Riccardi, Dugato, & Polizzotti, 2014; Scaglione, 2014

#### 5.4.2.1. Drug trafficking

Italy is mainly a destination country for illicit drugs, especially **cocaine and cannabis**, but it is also a strategic transit country. According to the most recent drug prevalence data (UNODC, 2014b), the illicit substance most consumed in Italy is cannabis, followed in order by cocaine, heroin and amphetamine-type stimulants.<sup>156</sup> Many OCGs in Italy, of both Italian and foreign origin, are involved in drugs markets.

#### Heroin

Despite a low consumption prevalence, the heroin market is estimated to produce **very high revenues for traffickers** in

Italy. According to Transcrime estimates for Project OCP (see Table 9 and Table 50), annual revenues from heroin market are likely to amount to **between 1.1 and 1.8 billion euro**. Estimates provided by previous studies are rather heterogeneous because of differences among the methodologies used.

Like cocaine, the heroin circulating in Italy is **entirely imported**. The heroin shipped to Italy arrives mainly along the

156. Drug prevalence for cannabis is 4.0 (data 2012). For cocaine it is reported to be 0.6 (data 2012), whereas for opioids (heroin) the reported prevalence is 0.48. Finally, for ATS (Amphetamine-Type Stimulants) the prevalence is measured at 0.09, with a prevalence for ecstasy of 0.06 (data 2012). Data on the same substances for previous years are significantly different due to modifications of survey methodologies.

**Balkan route** starting in Afghanistan (UNODC, 2014c). The second most important source countries are those belonging to the *Golden Triangle* (Myanmar, Laos, Thailand, and now Vietnam). As recently reported by UNODC, also “East Africa appears to be emerging and enhancing as a heroin route to Italy” (UNODC, 2014c, p. 82).

Although highly competitive, the heroin market involves several OCGs deriving from a few groups of origin (see Table 51). Among foreign OCGs, **Albanian and Eastern European OCGs** play the leading role, often in cooperation with Italian mafia groups.

### Cocaine

Italy is one of the **most lucrative markets for cocaine in the EU**. It is mostly a destination country, while transit occurs less frequently. According to Transcrime-OCF estimates, the Italian cocaine market has a monetary value **ranging from 1.3 to 1.9 billion euro**. With the United Kingdom (see Table 4 and Section 5.7), Italy accounts for almost 60% of the revenues produced in the 7 OCF countries. Previous estimates (Table 50) vary widely due to differences in data and methodologies.

The cocaine circulating in Italy is imported mainly from **South America**, in particular **Colombia and Mexico**. As in many other EU MS, the cocaine trafficked in Italy usually crosses the Atlantic to reach Spain (sometimes through African countries) (UNODC, 2013b, p. 9) or the Netherlands. The high number of seizures at the **Italian port of Gioia Tauro** (Calabria) suggest the presence of important direct connections with South America and a crucial role of the ‘Ndrangheta (DNA, 2014, p. 420).

Evidence of involvement of **all Italian mafia groups** has been found to different extents:

- **Camorra** is highly dynamic in cocaine trafficking at international level, with frequent connections with other transnational groups such as Dutch, Spanish and Eastern European traffickers (DIA, 2014, p. 98; DNA, 2014, p. 902).
- **‘Ndrangheta** is one of the **leaders in European cocaine trafficking** (DNA, 2011, p. 653). It can rely on a large number of brokers operating worldwide, and it is able to establish direct contacts with traffickers in South America and Spain, Netherlands or Germany (DNA, 2014).
- Although less involved in recent years, **Cosa Nostra** affiliates are frequently cited in LEA reports as ‘qualified’ actors in cocaine markets (DNA, 2014, p. 420), often in connection with other Italian or Albanian OCGs.

Among **foreign OC groups** to be mentioned in particular are the following:

- **Albanian OCGs**, especially active in the importing of cocaine from the Netherlands or the Benelux area, where many Albanian-origin criminals are based (DNA, 2014, p. 201).
- **Nigerian OCGs** occupy a significant role in cocaine trafficking (UNODC, 2008), especially in the retail phase, where they can rely on drug mules of Nigerian (but also European) origin (DNA, 2014).
- **Bulgarian OCGs** are reported to import cocaine from

Spain, but also from other European sources, and often cooperate with Italian OCGs to smuggle the drug into Lombardy or other northern regions (DNA, 2014, p. 256).

As revealed by reports on drug seizures, cocaine is often smuggled in exchange for heroin or other illicit commodities, such as firearms (see 5.4.2.3).

### Cannabis

As reported above, cannabis is the illicit drug most commonly consumed in Italy (UNODC, 2014b). As in other EU countries, **competition among actors in the cannabis market is very strong**, which may explain its relatively low profitability.

Many scholars have attempted to quantify the market of cannabis products in Italy, obtaining rather different results (Table 50). Among the most recent estimates, Caulkins, Kilmer and Graf (2013) rate Italy as the second largest market of cannabis products after Spain, with 1,356 million euro of revenues per year, while Giommoni (2014), who used the GPS<sup>157</sup> 2012, valued the market at around 550 million euro.

The market for cannabis products is dominated by **resin cannabis** (EMCDDA, 2012) arriving from Morocco through Spain (EMCDDA, 2012; DNA, 2014, p. 413), from Afghanistan through Turkey (DNA, 2014, p. 413) and from Albania. The most frequently reported traffickers are **Albanian OCGs, Moroccan OCGs, Spanish OCGs** and several Italian OCGs. Herbal cannabis is imported into Italy from Mexico and Albania (DNA, 2014), and it is **increasingly home-grown cultivated** both by very small groups and important OCGs (e.g. Camorra in Campania (DIA, 2014)).

### Amphetamine-type drugs

Synthetic drugs **are not very widespread in Italy**. The size of this illicit market is rather small compared with those for other illicit drugs.

The available estimates are quite recent. As regards **ecstasy**, the most recent study has quantified its magnitude at around **242 million euro** (Giommoni, 2014). Previous research provided rather heterogeneous estimates, providing ranges between 139 and 1,140 million euro in 2005 (Kilmer & Pacula, 2009), and between 180 and 1,153 million euro for 2008 (Transcrime, 2013a). **Amphetamines** seem to generate lower returns. In Italy this market is believed to yield about **199 million euro** of revenues to traffickers (Giommoni, 2014). In other studies, Kilmer and Pacula (2009) calculated a likely market size of between 111 and 457 million euro, and Transcrime (2013a) came up with a similar range between 99 and 636 million euro in 2008.

Since these drugs can be synthesised almost everywhere and with low organisational barriers and entry costs, **trafficking routes are not well identifiable** and the criminals involved are not necessarily linked to OCGs. Among foreign OCGs, the criminal groups most cited consist of Philippines and Chinese nationals (DNA, 2010). In particular, Philippine OCGs are often associated with drugs called *shaboo* or *ice* (a type of methamphetamine) trafficked from Southeast Asia to Europe (DNA, 2010; 2014, pp. 866; 883).

157. General Population Survey.

### 5.4.2.2. Trafficking in human beings

As in many other EU countries, **most of the traffickers and reported victims of THB in Italy are of foreign origin** (Mancuso, 2014a). Domestic human trafficking is less frequently reported, and Italian exploiters are more common than Italian victims.<sup>158</sup>

As regards human trafficking for sexual exploitation, according to Europol (2011b) Italy is both a **destination** and a very important **transit country**. Forced labour is also common, and takes place as the exploitation of workers in small factories (e.g. Di Vico, 2014b) or in farming, usually run directly or facilitated by groups or individuals of the same ethnic origin as the labourers (e.g. Chinese).

#### Sexual exploitation

In Italy, sexual exploitation is the most commonly reported purpose of THB. Mancuso (2014a) quantified the revenues of the sexual exploitation market in Italy as ranging between **1.1 billion and 5.0 billion euro**, including both the proceeds from outdoor sexual exploitation (between 432 and 3,255 million euro, on 2008/2009 data) and indoor forced prostitution (between 701 and 1,774 million euro in 2004/2005) (see Section 4.2).

As far as organised criminal actors are concerned, both domestic and foreign exploiters are present in different proportions, and seem to perform different roles. **Italian mafia groups are only indirectly involved**, due to their cultural refusal to perpetrate this crime directly<sup>159</sup> (Mancuso, 2014a, p. 12), but they allow **foreign criminal gangs to organise outdoor sexual exploitation** in their home regions, often in **exchange for other illicit commodities** (DIA, 2014).<sup>160</sup>

Foreign OCGs operate directly on several routes and often exploit victims of the same ethnic origin (Mancuso, 2014a, p. 12). The most common routes are those from **Eastern Europe** (mainly from Ukraine, Moldova, Romania to Italy through Albania: see Vreja, 2007), **Africa** (especially of Nigerian girls exploited by Nigerian OCGs or mixed Italian-North African groups, as illustrated in Europol (2011b) and DNA (2011)) and **China and Southeast Asia** (with Chinese and south Asian victims exploited mostly indoors in massage parlours or apartments (DNA, 2014, p. 219)).

#### Forced labour

No estimates are available on the revenues from the exploitation of forced labour by OCGs in Italy, also because the **overlaps with irregular work**, which in Italy records one of the highest levels among EU MS (Savona, Di Nicola, & Vettori, 2008).

The most common examples of forced labour relate to **people trafficked from Africa** and forced to retail drugs, counterfeit products, tobacco, and gadgets on the streets, or to **Chinese**

**nationals** smuggled into Italy and forced to work in the manufacturing of (often counterfeit) clothing and accessories. Cases of immigrants (e.g. of **African or Eastern European** origin), exploited in the **agricultural sector** are frequent, and they evidence increasing cooperation between Italian mafias and OCGs formed by co-nationals (see e.g. OSCE, 2010; DNA, 2011). In some cases, labour and sexual exploitation often overlap, as in massage parlours managed by Chinese OCGs or in farms with Romanian workers, especially in southern Italy (Di Vico, 2014a).

### 5.4.2.3. Illicit trafficking in firearms

The few available estimates on the scale of ITF suggest that the **turnover generated in Italy is rather small** if compared to other illicit activities:

- Calderoni et al. (2014b, p. 121) estimate this market as ranging between 46 and 140 million euro in 2010.
- Transcrime (2013a, p. 46) values the ITF at between 74 and 148 million euro of annual revenues (demand side), whereas in terms of supply the market's size is estimated at 46 million euro (2010 data).
- SOS Impresa (2010) measured mafia revenues from ITF at 5.8 billion euro in 2009, but, as highlighted by UNODC (2011a), this figure is likely to have been overestimated.

As reported in Section 4.3, Italy is both a **destination country** (to fulfil the demand originating from local OCGs)<sup>161</sup> and a **transit country** for small arms and light weapons (Calderoni et al., 2014b, p. 109). Italy has been reported to serve as a platform for the transfer of weapons and ammunition from the Western Balkans to Northern Europe or North Africa. Firearms transiting through Italy are also destined for paramilitary groups in South America or warlords in Africa and the Middle East (Antoliš, 2007, pp. 81–82).

Illicit firearms follow different routes: they are often **shipped from Albania** directly to Apulia and other southern regions of Italy (Vreja, 2007, p. 36), or they are **smuggled from Croatia and other Balkan countries** through Slovenia to Northern Italy. Weapons are then diverted to southern Italy regions, where they are sold to local criminals or shipped from southern ports (e.g. Naples, Gioia Tauro) to Africa or South America (Antoliš, 2007, pp. 81–82; Black, 2009).

Both Italian mafias and foreign OCGs are reported to be involved in this market (Calderoni et al., 2014b, p. 110). Among foreign organised crime groups, the most involved criminals are reported to belong to **Russian OCGs, Bulgarian OCGs, Balkan OCGs and other Eastern European OCGs** (DNA, 2012).

### 5.4.2.4. Illicit trade in tobacco products

In the past few years, a surge in ITTP cases in Italy has been recorded (DIA, 2014). The literature confirms an increasing trend between 2008 and 2012, in terms of both **revenues** (Calderoni, 2014a) and of the **volume of illicit tobacco products trafficked** (KPMG, 2013, p. 28, 2014b, p. 166; Calderoni, 2014a).

<sup>158</sup>. The statistics published by Eurostat report no victims of Italian citizenship exploited for sexual or other labour purposes (Eurostat, 2013, p. 52).

<sup>159</sup>. Italian OCGs are also reported among the groups least involved in THB in Europe (Eurostat, 2013, p. 11).

<sup>160</sup>. Italian mafias and other Italian OCGs have been found to invest money in nightclubs and venues where the victims are exploited (Mancuso, 2014a) (see also Section 8.4).

<sup>161</sup>. Mainly mafia groups, which, according to the circumstances, may be either traffickers or end users.



According to the latest estimate of the ITTP market in Italy, in 2013 revenues amounted to **between 485 and 607 million euro** (Table 50 and Section 4.4). Despite the similar methodology adopted, this figure is lower than the one provided in Calderoni (2014a) for 2012 estimates (between 1.0 and 1.3 billion euro) owing to a decrease in the estimated consumption of illicit tobacco products.

As regards actors, both Italian and foreign groups participate in this market but with different roles (smuggling, counterfeiting, production of tobacco, and so on), and they cooperate on different trafficking routes. Apulia is a commonly reported entry point for cigarettes produced in **Montenegro and the Western Balkans** and shipped across the Adriatic Sea (Calderoni, 2014a, p. 56; DIA, 2014, p. 156). Along this route, connections between **Albanian OCGs, Balkan OCGs and Apulian OCGs** have emerged. **Camorra** is active in terms of imports from Eastern Europe (e.g. Romania and the Western Balkans) (Calderoni et al., 2013b), while Russian and Eastern European (mostly Ukrainian) OCGs are mostly involved in north-eastern routes (DNA, 2014, p. 209). Close connections between these groups and Chinese tobacco producers have been identified (Calderoni et al., 2013b).

Besides OCGs, **smaller groups and individual actors** (often travellers), crossing the borders via land routes or air routes, are reported. Typically, land routes are used by importers of Eastern European origin transporting small batches of cigarettes in their vehicles. On the other hand, ITTP is facilitated by the opportunities furnished by small-scale air routes connecting Italy to Eastern European and African countries (Calderoni et al., 2013b).

#### 5.4.2.5. Counterfeiting

Despite the overall declining trend recorded in the last decade, the number of cases of counterfeiting has increased in the past few years (DNA, 2011, p. 184; 2014, p. 214; DIA, 2014, p. 88). In terms of revenues, several estimates have been carried out in the past decade, producing a rather heterogeneous picture of this market's monetary value.

Transcrime-OCF research team has quantified the size of the potential demand of counterfeit products in Italy at around **4.6 billion euro** in 2010 (see also Section 4.5.2). This figure is quite close to those provided by Calderoni et al. (2014b, p. 121) and Transcrime (2013a), on similar product baskets, with a range between 3.0 and 6.1 billion euro in 2008. Previous studies report higher figures, but their methodologies are rarely disclosed.

The role of organised crime groups in counterfeiting seems to be central in Italy. The two major OC players are the **Camorra and Chinese groups**, who often cooperate in the production and distribution of counterfeit products (DNA, 2011, p. 182; 2012, p. 191). In particular, Camorra seems specialised in the counterfeiting of top-brand clothing and accessories (DNA, 2014, pp. 349–366), often investing illicit proceeds from the drug markets in retail shops selling those products (see also Section 8.4). Chinese OCGs (DNA, 2012, 2014) are traditionally involved in the importing of fakes from East Asia and in the production of low-quality counterfeit goods in factories located across Italy.

**Counterfeiting in Italy is often connected with other serious crimes**, including ITTP, labour exploitation and organised theft (e.g. theft and adulteration of medicines).

#### 5.4.2.6. Illegal gambling and match-fixing

The introduction of new gaming machines (such as **VLT, slot machines**) and the diffusion of uncontrolled gambling games via the Internet have created numerous opportunities for local and foreign criminals operating in Italy.

Illegal gambling in Italy is estimated to produce (with gaming machines only) revenues amounting to between **327 and 522 million euro** (Calderoni et al., 2014b, p. 121). Similar estimates have been previously reported by Transcrime (2013a, p. 55).<sup>162</sup>

As in other countries, also in Italy **illegal gambling is often (but not only) associated with organised crime**. As reported by Calderoni et al. (2014b, p. 112) around 30 law enforcement operations were concluded on gambling operations involving OCGs in 2010. In terms of the actors involved, mainly Italian mafias (**in particular the Camorra**) play a role in the establishment and management of both traditional betting halls and in new lucrative markets such as **slot machines and VLT** (Banca d'Italia-UIF, 2014; Calderoni et al., 2014b, p. 112; Ministero dell'Economia e delle Finanze, 2014). Italian OCGs (apparently not related to mafias) emerged in a large-scale investigation of match-fixing in 2007 (Baroncelli & Caruso, 2011).

#### 5.4.2.7. Extortion racketeering

Extortion racketeering, besides its strategic role in the control of the territory, has historically been a **major source of income for Italian mafias in Italy**, and one of the most lucrative illicit markets in the country, especially in its southern regions (Transcrime, 2009; Transcrime, 2013a). Lisciandra (2014) estimated the proceeds from racketeering at between **2.8 and 7.7 billion euro**. This range is not distant from the estimate previously provided by Transcrime (2013a), suggesting that extortion may have enabled OCGs to produce around 4.8 billion euro revenues in 2011.

As illustrated above, the main perpetrators are **traditional mafia groups**, which are also interested in using this crime to exercise control over their territory. However, a likely role of single criminal individuals and other OCGs can be identified. Among these actors, **foreign criminal groups** (in particular Chinese and other East Asian) are emerging as perpetrators of racketeering in their communities of co-nationals resident in Italy (Transcrime, 2009).

#### 5.4.2.8. Usury

Usury is a crime widespread throughout Italy and, according to the available evidence, it is more common than in other OCP countries. Scaglione, using information on rationed entrepreneurs and number of victims, has estimated that loan sharking produced revenues **between 3.1 and 6.2 billion euro** in 2012 (Scaglione, 2014, p. 86). Similar revenues from usury were reported at 2.2 billion euro by Transcrime (2013a).

<sup>162</sup> Previous studies indicated a greater monetary turnover of illegal gambling. For example, Libera (2012) measured its turnover at 10 billion euro, of which 2.5 generated by football betting. Previous research conducted by Eurispes (2010) quantified the total volume of illicit gambling at 23 billion euro. SOS Impresa (2010) evaluates illegal betting and gaming at 3 billion euro, of which 2.5 billion are controlled by the mafia groups. However, the methodology of these estimates is unclear.

**Italian mafia groups** may play a significant role in this market, with marginal participation by foreign groups, such as Chinese and Other Asian OCGs (DIA, 2013b; DNA, 2010, 2014), which mostly victimise their co-nationals. In particular, the lending of cash at high interest rates through **'informal banks'** is a strategic activity for OCGs, because it can be used by Italian mafias **to launder money** and also to obtain, indirectly, **control over legal businesses** (see Section 8.4.3 and in particular the *'Ndrangheta bank* case). The link between loan sharking and illegal gambling activities is also very strong, as highlighted by many reports of Italian LEAs (DIA, 2012a; DNA, 2010, 2011, 2012, 2014).

#### 5.4.2.9. Fraud

According to Transcrime-OCP estimates, fraud activities in Italy generate **between 4.0 and 7.0 billion euro** only from **missing traders (MTIC) fraud**. It is likely that the amount is much higher if other types of scams are considered.

The role of OCGs is growing, and also **mafia organisations** are increasingly attracted by the possibility to exploit the optimal combination between returns and risks offered by these illicit activities. This fact seems confirmed by evidence of the growing involvement of Italian mafias (in particular *'Ndrangheta* and *Camorra*) in **VAT frauds, tax evasion and false invoicing**, often carried out through complex schemes involving the use of shell companies (see e.g. Tornago, 2014). Ongoing research by Transcrime has identified more than 50 investigations against companies involved in **frauds in the oil & gas sector**, (e.g. excise frauds, VAT frauds, manipulation of fuel counters, product frauds, etc.), mostly related to the supply of fuel products. In most of these cases, the companies were indirectly linked to Italian mafias (especially *Camorra* and *Cosa Nostra*).

More traditional is the involvement of Italian OCGs in fraud related to the **misuse of public funds**, for example in renewable energy (e.g. Caneppele, Riccardi, & Standridge, 2013), and related to the **manipulation of public procurements** (see e.g. Caneppele, 2014).

The role of **legitimate businesses** is becoming increasingly crucial for the commission of these crimes, and consequently also the role of professionals and brokers providing company services to OCGs (see Section 8.4 for details).

#### 5.4.2.10. Organised property crime

In recent years, Italy has seen a significant increase in episodes of organised theft. As far as **organised vehicle thefts** are concerned, Italy is classified as being at 'high risk' of the theft of road commercial vehicles and their loads (Van Den Engel & Prummel, 2007). The southern regions of Italy (especially Apulia Region) record the highest prevalence of **robberies of cargoes and truck hijackings**.

**The organised theft of medicines** is also increasing. According to Riccardi, Dugato and Polizzotti (2014), between 2006 and 2013 one Italian hospital in every ten registered a theft, suffering on average a loss of medicines for a value of **330 thousand euro** per theft episode (Riccardi, Dugato, & Polizzotti, 2014, p. 3). Hospitals in Campania and Apulia are those most frequently victimised, while anti-cancer drugs are the most frequently targeted pharmaceuticals.

A recent investigation by Italian LEAs discovered that after these medicines are 'laundered' through fictitious wholesalers, and often adulterated, they **are resold on the legal market**, either in Italy or abroad. The involvement of *Camorra*, Apulian OCGs, Russian/Georgian OCGs and other Eastern European groups is likely (Riccardi, Dugato, & Polizzotti, 2014).

Eastern European OCGs are also involved in **organised metal theft**: according to the Italian Ministry of the Interior, about 40% of reported of copper theft offences are committed by Romanian individuals (Ministero dell'Interno, 2013). On the other hand, **Romanian, Albanian and Georgian OCGs** are frequently involved in house burglaries and robberies, and may set up import/export companies to conceal the transfer of stolen property abroad (see Section 8.4).

#### 5.4.2.11. Illicit waste management

Illicit waste management is a lucrative crime, which, according to investigations, is conducted in Italy mostly by Italian mafias. There are often synergies between waste management and investments in the construction and mining sector: after sand has been removed, **quarries become ideal illicit landfills in which to dump toxic waste** (DNA, 2014, p. 334). For this reason, OCGs involved in illicit waste management (e.g. the *Camorra*) are also highly active in the construction and mining sector (Transcrime, 2013a; Riccardi, 2014a; see also Section 8.4). However, it should be pointed out that the waste illicitly managed by Italian mafia groups can be also disposed of in illegal landfill sites in developing countries (Calderoni et al., 2014b, p. 113).

Estimates by Sarno, based on the differentials between waste production and legal waste management, reveal that the special waste market may generate revenues of **between 304 and 507 million euro** annually (in Calderoni et al., 2014b, p. 121). This estimate is close to the range of 378 and 756 million euro calculated by Transcrime (2013a, p. 57).



## 5.5. Netherlands

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### 5.5.1. Introduction

The main criminal groups in the Netherlands engage in **international smuggling activities** (drug trafficking, smuggling of illegal immigrants, human trafficking for sexual exploitation, firearms trafficking, trafficking in stolen vehicles) and **other transnational illegal activities**, such as money laundering and tax evasion (like cigarette smuggling and European Community fraud). The crimes committed are **mostly of a transit nature**; OCGs are involved in international illegal trade using the same opportunity structure that facilitates other Dutch economic activities. The Netherlands is not only a destination or transit country; it may also be a production country, especially for synthetic drugs (Kruisbergen et al., 2012, pp. 288-9).

Most of the research on organised crime in the Netherlands is conducted through the so-called **Organised Crime Monitors**. The **Dutch Scientific Research and Documentation Centre (WODC)** documents a cross-section of concluded large-scale police investigations (Kruisbergen et al., 2012).<sup>163</sup> This research, covering about two decades, concludes, among other things, that in the Netherlands 'mafia-type' organisations like those in Italy and the United States have not been identified.

This chapter explores what criminal groups are active in the Netherlands, in what illegal markets they operate, and how large these illegal markets are. This has been done by analysing the **database of the Dutch PPO (Public Prosecution Office)**. For the purpose of the OCP Project, access was granted to the complete PPO database, which was used to obtain an overview of organised crime in the Netherlands. Only the **most serious and relevant cases were selected** from the dataset (see the Methodological Annex for details). The PPO database, after filtering, consists of 12,946 suspects in 4,397 cases.

#### *Organised crime groups in the Netherlands*

To provide an idea of what OCGs are active in illegal markets in the Netherlands, this Section reports the frequency with which the various OCGs show up in the PPO database.

After classifying all suspects in the PPO database (see the Methodological Annex), 27 different categories of criminal groups were identified according to the nationality of their members.<sup>164</sup>

The majority of crimes are committed by **domestic OCGs** (68%), but a wide variety of nationalities can be identified, which may confirm the transnational nature of organised crime in the Netherlands (Table 52).

Apart from the (expected) high frequency of Dutch OCGs in the cases, **Turkish OCGs seem to be relatively active**. Note, however, that Turks are the largest foreign community in the Netherlands, with approximately 400,000 people (Dutch Central Bureau of Statistics).<sup>165</sup> Note also that the high ranking of South Americans is probably due to the fact that the category includes the **Dutch former colonies of Suriname and the Dutch Antilles**, which used to be part of the Netherlands until 2010.

**The Italian mafias rank relatively low**, despite the fact that the cases discussed in the literature more frequently mention them in relation to the Netherlands. The KLPD (Dutch police) report on 'Ndrangheta in the Netherlands concludes that there is at least **one cell of the 'Ndrangheta** operating in the country (with at least 12 members) involved in the drugs trade and smuggling, illicit trafficking in firearms, money laundering, and swindle companies (KLPD - DNR, 2011).<sup>166</sup>

**Chinese criminals also rank relatively low** on these lists and are hardly ever mentioned by the media in the Netherlands. Although between 1992 and 2007 48 Chinese were killed (almost all of them in the criminal circuit), they seem to hardly ever show up in the statistics. The main crimes committed by Chinese OCGs in the Netherlands are drugs trafficking (via Rotterdam harbour), extortion (of other Chinese), human trafficking, exploitation (of other Chinese), and illegal Chinese gambling houses (ACB Knowledge Centre, 2011). Since Chinese are the main victims of the Chinese OCGs and the Chinese hardly ever report crimes to the police (ACB Knowledge Centre, 2011), this may explain their relatively low presence in our PPO database.

**Motorcycle gangs** are usually more emphasized by the media than they appear on the list compiled from the database of the Dutch PPO. But it should be considered that the classification of Motorcycle gangs is relatively difficult in the PPO database, which may mean that some cases have been misattributed to other criminal groups, while Motorcycle gangs are the actual suspects.

### 5.5.2. Illicit markets in the Netherlands

This Section provides an analysis of illicit markets in the Netherlands, focusing on the amount of revenues generated and who the actors involved are. Besides the analyses provided as in the other country profiles (i.e. a review of the existing literature on illicit markets, with a collection of estimates; see Table 53), this Section also provides an **exploratory analysis** based on **PPO estimates** of the amount of illicit proceeds generated per each suspect involved.

163. This documentation began in 1996, when in the first sweep 40 cases were documented. Thereafter, three more sweeps of respectively 40, 40 and 30 cases were carried out. The WODC now has a wide cross-section of 150 cases.

164. Each case was identified by the nationality of the suspects related to the case (companies have no nationality). When multiple nationalities were present in a case, the most frequent one was chosen (in the case of equality, the foreign one was chosen). Cases where all suspects were companies could not be classified.

165. <http://statline.cbs.nl/StatWeb/>

166. It has to be noted, however, that concerning the use of police and/or PPO data, there is also a bias in the sense that suspects end up in police and/or PPO statistics based on where they are prosecuted. For example, the media reported that an important figure of the 'Ndrangheta was caught in the Netherlands, but this does not end up in the PPO database in the Netherlands, because this suspect was directly sent to Italy where he was already prosecuted.

**Table 52 - Frequency of involvement in Dutch PPO cases per OCG (2003-2014)**

OCG classification	Number of cases	% of total	Number of suspects	% of total
Dutch OCGs	2,670	68.0%	7,486	67.5%
Turkish OCGs	326	8.3%	766	6.9%
South American OCGs	181	4.6%	841	7.6%
Middle Eastern OCGs	141	3.6%	356	3.2%
African OCGs	108	2.8%	302	2.7%
Other Asian OCGs	105	2.7%	289	2.6%
North African OCGs	84	2.1%	239	2.2%
Other Western European OCGs	67	1.7%	116	1.0%
Other Eastern European OCGs	38	1.0%	95	0.9%
British OCGs	33	0.8%	97	0.9%
Chinese OCGs	30	0.8%	89	0.8%
Colombian OCGs	27	0.7%	125	1.1%
Russian/Georgian OCGs	26	0.7%	48	0.4%
Balkan OCGs	23	0.6%	49	0.4%
Bulgarian OCGs	14	0.4%	28	0.3%
North American OCGs	12	0.3%	36	0.3%
Romanian OCGs	9	0.2%	38	0.3%
Italian OCGs <sup>a</sup>	8	0.2%	20	0.2%
Lithuanian OCGs	6	0.2%	11	0.1%
Albanian OCGs	4	0.1%	16	0.1%
Motorcycle gangs	4	0.1%	27	0.2%
Irish OCGs	3	0.1%	11	0.1%
French OCGs	2	0.1%	2	0.02%
Japanese OCGs	1	0.003%	4	0.04%
Mexican OCGs	1	0.003%	3	0.03%
Spanish OCGs	1	0.003%	3	0.03%
<b>Total</b>	<b>3,924</b>	<b>100%</b>	<b>11,097</b>	<b>100%</b>
<sup>a</sup> Since only information on nationality was made available, it was not possible to determine whether these can be referred to as Italian mafias or as other Italian OCGs.				

Source: UU-OCF elaboration on PPO data

**Table 53 - Estimates of the revenues of illicit markets in the Netherlands<sup>167</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	54	43	72	2012	Transcrime-OCP, 2014	
	79	52	157	2005	Kilmer & Pacula, 2009	
Cocaine	85	63	95	2005	Transcrime-OCP, 2014	
	102	27	262	2005	Kilmer & Pacula, 2009	
Cannabis	305			2009	Caulkins, Kilmer, & Graf, 2013	
	387	173	805	2005	Kilmer & Pacula, 2009	
Other illicit drugs	73	16	130	2005	Kilmer & Pacula, 2009	Ecstasy
	19	7	30	2005	Kilmer & Pacula, 2009	Amphetamines
THB	460			2003	Unger, 2007	Sexual exploitation
ITTP	249	225	273	2013	Transcrime-OCP, 2014	
Counterfeiting	1,986			2010	Transcrime-OCP, 2014	Demand side; Whole market <sup>b</sup>
	496			2011	BSA, 2012	Unlicensed PC software
Illegal gambling	130			2003	Unger, 2007	
Fraud	610	441	778	2011	Transcrime - OCP, 2014	MTIC frauds
	11,000			2013	PwC, 2013	All frauds; Minimum estimate <sup>c</sup>
	11,593	7,735	15,450	2003	Unger, 2007	Financial, social security and tax fraud
Organised property crime	47			2007	Europol, 2009b	Cargo theft
	329			2004	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Original figure: 644 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>b</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

<sup>c</sup> 'Minimum estimate' because it refers to the lower bound estimate of the size of frauds.

<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

**Table 54 - Estimate of illegally obtained benefit per illegal market in the PPO database (2003 – 2014)<sup>169</sup>**

Illegal market	Number of suspects for whom the illegally obtained benefit was estimated	Total amount of estimated illegally obtained benefit (million euro)	Average illegally obtained benefit per suspect (million euro)
Drugs	95	300	3.2
THB	45	18	0.41
ITF	1	0.091	0.091
ITTP	0	-	-
Counterfeiting	49	7.6	0.16
Illegal gambling	4	71	17.8
Fraud	251	284	1.1

Source: UU-OCP elaboration on PPO data

<sup>167</sup> In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

### *An analysis of the profitability of illegal activities on the basis of PPO estimations*

In the Netherlands a judge may impose, in a separate judgement, the obligation to pay benefits illegally obtained (*wederrechtelijk verkregen voordeel*) from criminal actions to the state (Art. 36 and section 1 Dutch Criminal Code). For this to happen, the **illegally obtained benefits of criminal actions must be estimated** (or made reasonable). These estimates furnish interesting insights into – at least the lower bound – how much is made in the various illegal markets in the Netherlands.<sup>168</sup> The Table 54 reports for the various crimes a) how often the illegally obtained benefit is estimated, b) how much is estimated in total, and c) how much is estimated on average per suspect.

According to the Table 54, **drugs and fraud are the most profitable illegal markets** in the Netherlands. This is in line with the findings on other OCP countries and at European level (see Chapters 3 and 4) and with previous international research on the relative size of illegal markets (e.g. Reuter & Truman, 2004; Walker & Unger, 2009). Whilst the profitability of drug crimes is higher, the greater frequency of fraud means that each market adds up to a total of about 285 million euro of estimated criminal proceeds.<sup>170</sup>

It can be also seen (when comparing the above table with the frequency of crimes reported in the Methodological Annex) that the **illegally obtained benefit is relatively more often estimated for drugs than for fraud**. The estimates for illegal gambling instead seem to be outliers.<sup>171</sup>

As regards criminal actors, to gain an idea of the involvement of criminal groups in Dutch illegal markets, the PPO database was analysed to determine **what OCGs are linked with the different crimes and how often**. Table 55 shows, for the OCGs classified according to their main nationality, how often they are linked with OCP illicit markets as defined in Chapters 2 and 3.<sup>172</sup>

The previous section showed that in 68% of cases the category of Dutch OCGs were the suspects. This relative dominance of Dutch criminal groups is also evidenced by **the illegal markets of frauds (72%) and counterfeiting (67%)**, but much less so by crimes of an international nature, such as **drug trafficking (54%), firearms trafficking (52%)**

**and human trafficking (21%)**. ITTP and illegal gambling do not have enough observations for a conclusion to be drawn. Colombian and British OCGs are involved in drug crimes relatively more often. This may be related to the drug route where Colombia is a source country and the UK is one of the destination countries.

Even though this gives an idea of the involvement of OCGs in the various illegal markets in the Netherlands, the relative importance of these illegal markets is still unknown. Therefore the next Section provides an **in-depth analysis of their profitability**, with a review of available estimates.

#### **5.5.2.1. Drug trafficking**

The analysis of the PPO database shows that drugs are the most profitable illegal market in the Netherlands (measured by the estimated illegally obtained benefit per suspect). Unfortunately, the **PPO database does not allow differentiation among drugs**, although it is known that these have rather distinctive markets.

##### *Heroin*

Heroin is **relatively cheap in the Netherlands** if compared with other EU countries. The street price of 1 gram of heroin is between 20 and 40 euro. The wholesale price is estimated at 14,000 euro per kilo. The massively increased demand for heroin of the last decade in the EU **has not occurred in the Netherlands** (Boerman et al., 2013). The number of consumers in 2011 was estimated at between 17,300 and 18,100 (Trimbos Institute). The Transcrime-OCP estimation conducted for the OCP Project calculated the annual revenues from heroin in 2012 at about **54 million euro**, which was slightly lower than Kilmer and Pacula's (2009) estimate for 2005 (78.6 million euro).

##### *Cocaine*

**Cocaine is very popular** in the Netherlands, with 55,000 users and a total consumption estimated at 1,660 kilos per year (UNODC, 2010c). Consumption increased strongly from 1998 to 2006, but stabilized thereafter (Boerman et al., 2013). The profits in this illegal market are very high. One kilo of cocaine can be bought for about 3,600 US dollars (about 2,775 euro) in the source country and sold in the Netherlands for about 20,000 US dollars (about 15,420 euro) (Boerman et al., 2013).<sup>173</sup> According to the latest Transcrime-OCP estimate, the annual revenues of the cocaine market in the country (2005) amount to about **85 million euro**, slightly lower than the estimate by Kilmer and Pacula (2009), who evaluated the total size of the Dutch cocaine market at 101.7 million euro.

Also to be considered is that **Rotterdam in the Netherlands and Antwerp in Belgium are the main import harbours for cocaine in Europe** (see Section 4.1), which may imply that OCGs active in the Netherlands and exporting to other countries make larger proceeds than those estimated above, which are calculated only on the basis of internal consumption at the retail level.

168. Note that the data are only on caught criminals, which may not be representative and lead by definition to underestimation of the size of the illegal market. Moreover, note that a selection in the database of the Dutch PPO was made to focus on organised crime, which means that not all cases in each illegal market were per se included.

169. Note: The illegally obtained benefit is not estimated for all suspects, so that the totals reported in this table can only be interpreted as the lower bound of the actual illegally obtained benefit. The reported average benefit is not the actual average benefit of this crime, because the database comprises only the most serious and large-scale cases of the PPO (see the Methodological Annex). Including all cases of the PPO would reduce this average. See the Methodological Annex for our selection procedure. Moreover, the estimation of the illegally obtained profits could be done more often in bigger cases, affecting the representability of these figures.

170. Note that this is not a yearly total, but the total over the complete data period 2003-2014.

171. All four suspects for which the illegally obtained benefit was estimated were part of the same case file. All four suspects were eventually offered a settlement totalling 23 million euro.

172. Note that the suspects in our PPO database are not always convicted.

173. This means that a rough estimate of the total size of the cocaine market would be 33.2 million US dollars (about 25.6 million euro), resulting from the multiplication of annual consumption (1,660 kilos) by retail price (20,000 euro). And this may be a conservative estimate: using the estimated price of 55 euro per gram of cocaine in the Netherlands (Trimbos Institute, 2013), the total size of the cocaine market would be 91.3 million euro, which is close to both the Transcrime-OCP and Kilmer and Pacula (2009) estimates cited in the main text.

**Table 55 - Frequency of OCG involvement in the various illicit markets in the PPO database. Number of cases (2003 - 2014)**

OCG classification	Drugs	Human trafficking	ITF	ITTP	Counterfeiting	Illegal gambling	Fraud
Dutch OCGs	166	26	11	3	147	4	1,815
Turkish OCGs	29	7	4		18		241
South American OCGs	22	9	1		15		106
Middle Eastern OCGs	6	13	2	1	8		91
African OCGs	8	15			9		51
Other Asian OCGs	7	16			6		54
North African OCGs	9	4		1	5		43
Other Western European OCGs	4	2		2	2		43
Other Eastern European OCGs	3	7		2	6		14
British OCGs	12						19
Chinese OCGs	1	12			2		6
Colombian OCGs	17		1				4
Russian Georgian OCGs	2	3					16
Balkan OCGs	6	1	1				9
Bulgarian OCGs		4					8
North American OCGs	2	2	1				4
Romanian OCGs		3		1			4
Italian OCGs	2						4
Lithuanian OCGs	2	1					2
Albanian OCGs	3						1
Motorcycle gangs	3						
Irish OCGs	1						2
French OCGs							1
Japanese OCGs	1						
Mexican OCGs							
Spanish OCGs	1						

Source: UU-OCF elaboration on PPO data

## Cannabis

The personal production and use of cannabis are tolerated in the Netherlands. However, the **production of more cannabis than for personal usage is illegal and prosecuted**. According to the literature, the probability of being caught is relatively high, with estimates between 30% and 50% (van der Heijden, 2006). Europol (2013a) states that the Netherlands is

probably the **most important source country for seeds and cuttings, as well as growing technologies and knowledge**. The Dutch cannabis market is estimated to have been 480 tons in 2011 (Jansen, 2012). Caulkins, Kilmer and Graf (2013) estimate the size of the Dutch cannabis market at **305 million euro**.

### **Amphetamine-type drugs**

The synthetic drugs most widely consumed in the Netherlands are **ecstasy** (about 1.4% of the population in 2009) and **amphetamine** (used by 0.4% of the population in 2009) (Boerman et al., 2013). OCGs in the Netherlands and Belgium are the key producers and distributors of synthetic drugs according to Europol (2013a). Estimates of the production of synthetic drugs in the Netherlands vary widely, between 66 and 1,343 million tablets (Boerman et al., 2013). Therefore, when multiplying the price of 3 euro per tablet (Boerman et al., 2013) by the estimated amount consumed, the result is **between 198 million and more than 4 billion euro** per year. Kilmer and Pacula's (2009) estimate of the Dutch ecstasy market at between 16 and 130 million euro therefore seems a conservative one.

The total estimated illegally obtained benefit in the drugs market in the PPO database is almost 300 million euro between 2003 and 2014. The total size of the drugs market in the Netherlands has been estimated by Kilmer and Pacula (2009) at around 600 million euro per year. This would mean that on average about 5% of the total market is estimated in court. This is not an unrealistic figure, given a) that only a portion of the drug trafficking and trade is intercepted, b) that only the crimes linked with organised crime in the PPO database are selected and c) that in only some of the drugs cases is estimation made.

#### **5.5.2.2. Trafficking in human beings**

Prostitution is not illegal in the Netherlands, but it is illegal to exploit prostitutes. The exploitation of prostitutes is penalised in the Netherlands under trafficking in human beings in article 273f of the Dutch Criminal Code (Bottenberg, 2012, p. 14). The estimated number of victims of human trafficking for sexual exploitation in 2010 was 10,917 (Bottenberg, 2012). Trafficking is predominantly undertaken by **small criminal partnerships** (3 to 5 persons). An estimated average profit per prostitute of about 4,100 euro yields an estimation of the total size of the (prostitution-linked) human trafficking as around **45 million euro per year** (Bottenberg, 2012).

The PPO database indicates that, between 2003 and 2014, 45 times the illegally obtained benefit was estimated in court cases related to human trafficking, for a total of almost 18 million euro. This means that on average about 4% of total market is estimated in court. This proportion is in line with the one identified for the drugs market.

#### **5.5.2.3. Other illicit markets**

According to the literature, **fraud is the biggest illicit market in the Netherlands** with an estimated size of 7.7 to 15.5 billion euro (Unger, 2007), which amounts to about 1 to 2 % of the GDP of the Netherlands. According to the Transcrime-OCP estimate, **MTIC fraud** alone can annually produce **more than 600 million euro** of revenues for fraudsters. The large extent and profitability of fraud is confirmed by the estimated illegally obtained benefits found in the PPO database.

Also **illicit trafficking in firearms** may impact on the economy of OCGs in the Netherlands. Spapens (2007, p. 381) concludes that the EU Member States which restrict private firearm possession the most stringently may constitute the most important markets for illicit firearms; but, although "the Netherlands have, since long, one of the most restrictive weapon laws in Europe" (Spapens, 2007, p. 360), a limited number of cases can be identified in the PPO data.



## 5.6. Spain

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### 5.6.1. Introduction

Illegal markets in Spain are **important sources of proceeds for the economy of the organised crime groups (OCGs)**<sup>174</sup> active in the country, and a significant matter of concern for Spanish society (Lopez, 2012).

The presence of organised crime in Spain is not limited to recent decades, since gangs and organised smugglers have operated in the country throughout history (Resa Nestares, 2001). But Spanish OCGs are now able to create **alliances with foreign criminal groups**, and this has enabled them to increase their activities in diverse illegal markets (Castro Moral & Jiménez, 2010).

This situation requires the application of specialized measures in order to reduce the extent of illegal activities involving organised crime (Gimenez-Salinas, 2010). During 2010, the Spanish Presidency promoted a series of measures in the short to medium term to develop effective strategies against organised crime (Ministerio del Interior & CICO, 2013), while a wide array of **agencies and legal instruments** have been introduced (see below).

However, despite the importance of this phenomenon, it has not been extensively addressed by **academic research in Spain**, which in most cases is restricted to theoretical explanations rather than the conduct of empirical studies (see Section 8.6 for a literature review). The **lack of data and restrictions on access to official statistics on organised crime cases** may explain the lack of empirical studies and impede research on organised crime in Spain.

#### Organised crime groups in Spain

Europol has included Spain among the **five organised crime hubs stabilised in Europe** (Europol, 2011a). Various OCGs can be identified operating in the country in terms of illicit activities, but Spain may not have large weight as country of origin of major transnational OCGs. However, **smaller native organised crime groups**, operating as small independent cells (Jiménez, 2005), may work together with **foreign groups** like Colombian cartels, Russian or Italian mafias (see Table 58).

Since 2012, the Spanish Centre of Intelligence against the Organized Crime (CICO)<sup>175</sup> has classified OCGs into three different subtypes:

174. The definition of 'criminal group' is provided by Art. 570 ter of the Spanish criminal code (art. 570 bis defined it as a stable group formed of one or two persons for an indefinite term.). For the operational definition of organised crime group used in this report, see

175. Law 991/2006 of 8 September 2006 created the Centre of Intelligence against the Organized Crime (CICO), whose mission is the development of strategic intelligence in the fight against all forms of organised crime, as well as the establishment of criteria for the operational coordination of services in cases of coincidence or concurrence in investigations. The general tasks of the CICO include gathering and analysing information related to organised crime in order to develop strategic intelligence against OCGs. It also determines the criteria for coordination of the operational units of the Law Enforcement Agencies. Moreover, the CICO issues annual reports with relevant statistics on the situation of organised crime in Spain. Note that CICO has recently been renamed CITCO (Centre of Intelligence against Terrorism and Organised Crime) (BOE, 2014).

- **High-intensity** criminal groups (*grupos de alta intensidad*): transnational OCGs with a complex and extensive infrastructure that have the potential to create large company networks and are able to generate important economic profits. Moreover, they exhibit an extraordinary capacity to infiltrate social, economic and political institutions mainly to destabilise basic governmental structures.
- **Medium-intensity** criminal groups (*grupos típicos*): national and international OCGs with an important organisational structure and the potential, if they are able to stay active long enough, to 'upgrade' to high-intensity groups.
- **Low-intensity** criminal groups (*grupos de baja intensidad*): low economic capacity groups that operate at national level with few complex structures and are likely to become typical organised groups if not controlled in time.

According to the latest CICO report, a total of **497 criminal groups** were detected during 2013 (Table 56). About 73% of them involved individuals of different nationalities. Only 18% of the groups detected were composed only of Spanish individuals (Ministerio del Interior & CICO, 2014a).

Compared with previous years, the number of criminal groups detected has increased at national level. In 2012, 482 groups were identified, 69% of them were composed of more than one nationality. Moreover, a large number of these groups (67%) were involved in some kind of international activity (Ministerio del Interior & CICO, 2013). These data reveal the **transnational nature of the OCGs operating in Spain**, since Spanish groups are the least frequent in the official data.<sup>176</sup>

**Table 56 - Classification and number of OCGs active in Spain**

Types	No. of groups detected	
	2012	2013
High-intensity criminal groups	37	29
Medium-intensity criminal groups	363	383
Low-intensity criminal groups	82	85
<b>Total number of OCGs</b>	<b>482</b>	<b>497</b>

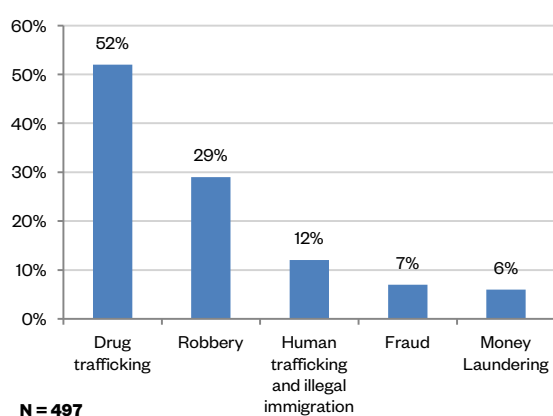
Source: URJC elaboration on Ministerio del Interior & CICO (2013-2014) data

176. As for investigations carried out by police forces, 16,642 individuals were investigated in 2012, with a total of 6,292 finally arrested. During 2013, a total of 17,358 persons were under investigation and 6,460 were arrested, following the pattern of previous years.

It emerges from the case studies collected (see Section 8.6) that when transnational OCGs establish in Spain, they seek to influence institutions and society as they do in their country of origin. In this regard, corruption, which is expanding in Spain at the political and business levels (Díez & Gómez-Céspedes, 2010), and which is perceived by the Spanish population as widespread in the country (European Commission, 2014c), may play a crucial role. Moreover, as highlighted by some experts, when native Spanish crime groups come into contact with outsiders they may adopt their *modus operandi* and organisational patterns (Sands, 2007).

OCGs in Spain are mainly active in the trafficking of **illicit drugs, illegal immigration, trafficking in human beings, frauds and money laundering** (Ministerio del Interior & CICO, 2014a). In particular, more than half of the identified OCGs in Spain are active in the illicit drugs market (Figure 20).

**Figure 20 - Main criminal activities of OCGs in Spain<sup>177</sup>**



Source: URJC elaboration on Ministerio del Interior & CICO (2014) data

Organised crime groups in Spain are generally based in major cities and touristic locations, mainly on the Mediterranean and southern coast. The main cities include Madrid, Barcelona, Alicante, Malaga, Valencia, Cadiz, Murcia and Seville (Ministerio del Interior & CICO, 2013; Diario de León, 2014). Other areas where OCGs are present include the south-west and the Balearic Islands.

### Authorities and platforms combating organised crime in Spain

A large number of authorities and agencies, at both the national and international level, are involved in the fight against organised crime and illicit markets.

Since criminal activities have increased in recent years, new police units have been created to fight this phenomenon. These include, for example, the GRECO (Group of Special Response to Organised Crime)<sup>178</sup> and the PACCO (Action Plan Against

177. Percentages of the 497 criminal groups identified by the Spanish authorities. Some of the groups are involved in different criminal activities, for which reason the total sum exceeds 100%.

178. Within the Spanish National Police, the special unit GRECO (Group of Special Response to Organised Crime) has been created with the main purpose of data gathering and combating organised crime groups and their illicit activities (Ministerio del Interior, 2013). The GRECO unit is present in locations with significant OC activity, such as Andalusia (Costa del Sol), Madrid and Barcelona. The GRECO unit is present in the following locations: Pontevedra, Las Palmas, Cádiz, Marbella, Málaga, Benidorm, Orihuela, Ibiza, Barcelona and Madrid.

Organised Crime).<sup>179</sup> As regards international cooperation, since 2009 CICO and the Special Anti-Drug Prosecution Office have been designated as the Spanish contact points for Asset Recovery Offices (Ministerio del Interior & CICO, 2013). Moreover, in order to coordinate and promote police cooperation with other countries in the fight against organised crime, the Ministry of the Interior has established the Office of International Police Cooperation. Finally, Spain is member of several international agencies involved in the fight against organised crime.<sup>180</sup>

## 5.6.2. Illicit markets in Spain

The following Sections provide a **review of the estimates of the revenues from the main illicit markets** in Spain. The estimates have been calculated specifically for the purpose of the OCP Project or, where not possible, collected from the literature (see Chapter 4 and the Methodological Annex for details). Estimates refer either to the whole market or, where available, to the share attributable to criminal groups. A brief review of the main criminal actors involved in each market is also provided.

As regards the actors involved, native OCGs often cooperate with foreign ones. According to the literature, the main role in the trafficking of illicit drugs is played, besides Spanish OCGs, by **North African OCGs** (cannabis) and **Colombian** ones (cocaine) but there is also evidence of **Albanian, Turkish OCGs, Italian mafias** (such as Camorra and 'Ndrangheta), **British and Dutch OCGs. Eastern European** organised groups have a notable presence in crimes against property, while **Chinese OCGs** are mainly involved in counterfeiting activities (Europol, 2013a). Moreover, there is evidence that **Russian OCGs** operate in Spain together with **Irish criminal groups** (An Garda Síochána & PSNI, 2012a; see also Sections 5.3 and 5.7).

### 5.6.2.1. Illicit drugs market

During the 1980s, drug trafficking was a large component of OCGs activities in Spain. Foreign organised groups, such as **Colombian criminal groups**, started to develop important alliances with **native groups (e.g. Galician)** in order to expand and control their activities. During that period, Sinti and Roma family clans monopolized the supply of heroin in the suburbs of various Spanish cities (Giménez-Salinas Framis, 2010).

179. The Civil Guard, following the example of the Spanish National Police, has created the Action Plan Against Organised Crime (PACCO). Within PACCO there has been an important reorganisation with the creation of new teams with the main purpose of centralizing information on organised crime. These new teams are in charge of collecting and analysing all the information that they report to Central Operative Unit (UCO) (Barras, 2014).

180. These include, among others, the Bogotá Platform (Centre for the fight against trafficking in cocaine); the JIATFS (Force Joint Interagency operations South); based in Key West, Florida (USA) and coordinating actions against drug trafficking from South America to North America; MAOC-N (Centre Maritime Analysis and operations against drug trafficking); located in Lisbon (Portugal), it provides support to eliminate illicit drug trafficking by air and sea across the Atlantic to Europe or West Africa; CECLAD-M (Centre for Combat Drugs in the Mediterranean); located in Toulon (France), it fights organised crime by air and sea around the Mediterranean area; ANTENNE OCRIS: located in Martinique Island (France), its mission is to coordinate and centralize the information provided by the French police in the Caribbean area; ILU (International Liaison Officers Units) African Platforms: established in Acora (Ghana) and Dakar (Senegal), it fights organised crime especially associated with the African cocaine route.

**Table 57 - Estimates of Illicit markets and activities in Spain<sup>176</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	271	216	361	2011	Transcrime-OCP, 2014	
	140			2011-2013	URJC-OCP, 2014	OCGs share
	360	240	721	2005	Kilmer & Pacula, 2009	
Cocaine	1,199	895	1,343	2011	Transcrime-OCP, 2014	
	768			2011-2013	URJC-OCP, 2014	OCGs share
	1,963	519	5,059	2005	Kilmer & Pacula, 2009	
Cannabis	572			2011-2013	URJC-OCP, 2014	Hashish; OCGs share
	1,575			2009	Caulkins, Kilmer, & Graf, 2013	
	1,600	716	3,324	2005	Kilmer & Pacula, 2009	
Other illicit drugs	49			2011-2013	URJC-OCP, 2014	Ecstasy; OCGs share
	558	121	995	2005	Kilmer & Pacula, 2009	Ecstasy
	338	132	544	2005	Kilmer & Pacula, 2009	Amphetamines
ITTP	635	577	694	2013	Transcrime-OCP, 2014	
Counterfeiting	3,928			2010	Transcrime-OCP, 2014	Demand side; Whole market <sup>b</sup>
	992			2011	ANDEMA, 2013	
	936 <sup>a</sup>			2012	BSA, 2012	Unlicensed PC software
Fraud	2,310	1,672	2,948	2011	Transcrime - OCP, 2014	MTIC frauds
Organised property crime	21			2007	Europol, 2009b	Cargo theft
	968			2004	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Original figure: 1,216 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>b</sup> Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

<sup>#</sup> Estimates in *italics* are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.

Ever since, drug trafficking has been **the most important organised crime activity** in the country, and in most cases it is exclusive to OCGs (Töttel & Büchler, 2011). Its importance for the economy of OCGs is increasing (Ministerio de Sanidad y Política Social, 2009), and this is confirmed by the number of arrests, which has remained stable (Public Prosecution Office, 2013).<sup>182</sup>

Because of its geographic location (Europol, 2013a), Spain is a **key transit point to the entire EU** for drug trafficking originating in **Latin America and North Africa**. The Spanish territory is considered to be the main **entry point of cocaine** for the continent from South American countries like Colombia, Peru and Bolivia (Castro Moral & Jiménez, 2010). On the other hand, Spain imports cannabis loads, originating in Morocco and controlled by North African OCGs (Giménez-Salinas Framis, 2012, p. 27), although there is recent evidence

that Spain is becoming a **producer of cannabis** in order to increase profits by reducing the intermediary cost (Gómez, 2014).

Given its nature as a *transit* country, Spain is also one of the **countries with highest amount of seizures**, which account for 3.12% of world seizures of cocaine and **44.4% within the EU** (Europol, 2013a, p. 41; Ministerio del Interior & CICO, 2014a; UNODC, 2014b).<sup>183</sup> Table 59 presents the amounts seized in 2011-2013 for the main types of illicit substances, with indications of the shares seized from OC groups (Ministerio del Interior & CICO, 2013; Ministerio del Interior & CICO, 2014a).

181. In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

182. In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).

183. In recent years, a large number of illegal cocaine production facilities have been found operating in Spain. A total of 25 cocaine laboratories were discovered in 2008 alone. In 2011 a cocaine processing laboratory was discovered near Madrid, and the national authorities confiscated 33 tons of basic chemicals for cocaine refinement.

**Table 58 - Organised crime groups in illicit markets in Spain**

Illicit market	OCGs	Sources
Heroin	Albanian OCGs, Turkish OCGs, Other Asian OCGs	Paoli & Reuter, 2008; EMCDDA & Europol, 2013; Transcrime, 2013a; DNA, 2014; UNODC, 2014c
Cocaine	Colombian OCGs, Camorra, 'Ndrangheta, North African OCGs	Paoli & Reuter, 2008; EMCDDA & Europol, 2013
Cannabis	North African OCGs, Spanish OCGs British OCGs, Dutch OCGs	Sands, 2007; Paoli & Reuter, 2008; Giménez-Salinas Framis, 2010; DNA, 2010, 2011; EMCDDA & Europol, 2013
Other illicit drugs	South American OCGs, British OCGs	Paoli & Reuter, 2008
THB	African OCGs, Bulgarian OCGs, Chinese OCGs, Romanian OCGs, Russian/Georgian OCGs South American OCGs, Spanish OCGs	UNODC, 2010a; Public Prosecution Office, 2013; Ministerio del Interior & CICO, 2014
ITF	Balkan OCGs, ETA, Russian/Georgian OCGs	Davis, Hirst, & Mariani, 2001; Cheloukhine & Habersfeld, 2011
ITTP	Chinese OCGs, Irish OCGs, Russian/Georgian OCGs	An Garda Síochána & PSNI, 2012a; Spanish Tax Agency, 2012
Counterfeiting	Camorra OCGs, Chinese OCGs, Other Eastern European OCGs	Union des Fabricants, 2003; Treverton et al., 2009; BBC News, 2013a; Transcrime, 2013a; UNODC, 2013a
Extortion racketeering	Chinese OCGs, Colombian OCGs, ETA, Motorcycle gangs, Romanian OCGs, Russian OCGs, Spanish OCGs	Transcrime, 2009; Savona, 2011; West Sands Advisory, 2012
Organised property crime	Bulgarian OCGs, Cosa Nostra	Gounev & Bezlov, 2008; Transcrime, 2013a

### Heroin

The annual revenues from the Spanish heroin market have been estimated by Transcrime-OCP at around **271 million euro**, a figure slightly lower than previous estimates by Kilmer and Pacula (2009) (360 million euro). **Marine transportation** seems to be the preferred method to introduce heroin into Spain for subsequent distribution in the EU. **Turkish OCGs** use small vessels, such as sailing boats or speedboats, to transport drugs from Turkey to the Spanish coast (UNODC, 2014c). Heroin seizures in Spain represent less than 1% of world seizures and almost 4% in the EU (Ministerio del Interior & CICO, 2014a).

### Cocaine

As regards cocaine, the Spanish market was valued at 1,963 million euro in 2005 by Kilmer and Pacula (2009), while the latest estimates carried out for the purpose of this study amount at about **1,200 million euro** (see Section 4.1 and Table 57). Although this may suggest a slight decrease, the Spanish cocaine market **remains one of the biggest in Europe** (see Section 4.1).

**Colombian OCGs** are mainly responsible for the introduction of cocaine into the EU through Spanish territory. It is estimated that around half a million Colombians live in Europe, and half of them are resident in Spain, which may help Colombian criminal groups to infiltrate the country (Paoli & Reuter, 2008). Moreover, there is evidence of Italian mafias, such as

**Table 59 - Illicit drug amounts seized in Spain (Total and share attributable to OCGs)**

Type of illicit drug	Amount seized						Average % seized from OCGs 2011-2013
	2011		2012		2013		
	Total Amount	Organised Crime	Total Amount	Organised Crime	Total Amount	Organised Crime	
Cocaine (kg)	16,609	8,097	20,754	14,509	26,701	19,599	64.0%
Hashish (kg)	355,904	94,174	327,198	119,187	319,257	146,708	36.3%
Heroin (kg)	413	140	282	224	291	103	49.6%
Ecstasy (MDMA) (units)	182,973	30,623	279,652	7,912	154,732	10,055	8.7%

Source: URJC elaboration on Ministerio del Interior & CICO (2013-2014) data

**Table 60 - Estimate of the shares of the illicit drugs market attributable to OCGs**

Type of drug	Illicit drug estimate (million euro)	Source	Average % seized from OC	Annual revenues attributable to OCGs (mn euro)
Heroin	270.5	Transcrime-OCP 2014	49.6%	134.1
Cocaine	1,199.5	Transcrime-OCP 2014	64.0%	767.6
Hashish/ Cannabis <sup>a</sup>	1,575	Caulkins, Kilmer, & Graf, 2013	36.3%	571.7
Ecstasy (MDMA)	558.3	Kilmer & Pacula, 2009	8.7%	48.6

<sup>a</sup>The OC share of the hashish market is based on the calculation by Caulkins, Kilmer and Graf (2013) for the cannabis market.

Source: URJC elaboration based on Transcrime-OCP estimates, Ministerio del Interior (2013; 2014), Kilmer & Pacula (2009) and Caulkins, Kilmer, & Graf (2013)

**‘Ndrangheta**, being involved in cocaine cases on Spanish territory (DNA, 2010, p. 106; Bakowski, 2013). The **Camorra** has also set up logistical and operational bases for cocaine trafficking from South America via Spain and Italy (Töttel & Büchler, 2011).

### Cannabis

Spain is the **largest cannabis market** in Europe (see Section 4.1). According to Kilmer and Pacula (2009), the Spanish cannabis market amounts to approximately 1,600 million euro (see Table 57). Spain also **ranks first in the number of seizures** of this specific type of drug (EMCDDA, 2014). In this regard, the country represents 23.3% of world seizures of hashish and over 73% in the EU (Ministerio del Interior, 2014a; UNODC, 2014b).

Although the consumption of drugs, such as cannabis or cocaine, by Spaniards has in the past been ranked among the highest in Europe (UNODC, 2012c), the latest report from the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) shows a change in **tendency towards lower levels** (EMCDDA, 2014, p. 35).

In regard to organised crime related to drug trafficking, groups and gangs from various countries have been found active in Spain. **Moroccan and other North African OCGs** introduce large amounts of cannabis (mainly hashish) into Spain.

### Other illicit drugs

Finally to be mentioned is the presence of smaller, but important, illegal drug markets such as those for ecstasy and amphetamines. Among the various illegal psychoactive substances, **ecstasy is ranked next in importance after cannabis and cocaine**. Although Spain is not an ecstasy producing country, it is considered an important gateway for ecstasy to America. Moreover, it represents 0.4% of total world seizures and almost 15% of them in the EU.

According to the Ministry of the Interior, during 2013 Spanish police forces seized over 10 thousand individual doses of ecstasy (MDMA) from diverse organised groups (see Table 59) (Ministerio del Interior, 2014a). On the other hand, **British traffickers resident in Spain** seem to control movements of large shipments of amphetamines in the country (EMCDDA & Europol, 2011). Spain is considered to have a middling consumer market for **amphetamines**, which is valued at **338 million euro**, and for **ecstasy** at **558 million euro** (Kilmer & Pacula, 2009).

### An estimate of the revenues of OCGs

Most of the estimates presented above represent revenues at the retail level which cannot be attributed solely to OCGs (see Section 4.1). On merging these estimates with statistics on seizures, it is possible to produce **an estimate of the share of the revenues from this market** which can be attributed to criminal groups (Table 60).

The results align with the findings in the literature, in the sense that a **weaker role and weight in terms of revenues** of OC groups can be identified in the trafficking of **ecstasy and hashish**, whereas they are stronger in the cases of cocaine and heroin. However, to interpret these results it should be borne in mind that Spain is a transit country for cocaine, heroin, and hashish, but for not ecstasy.

### 5.6.2.2. Trafficking in human beings

Trafficking in human beings is a serious and growing concern for the Spanish authorities. The Ministry of the Interior has included the fight against criminal groups engaged in human trafficking among its priority objectives (Ministra de Sanidad y Política Social, 2009).

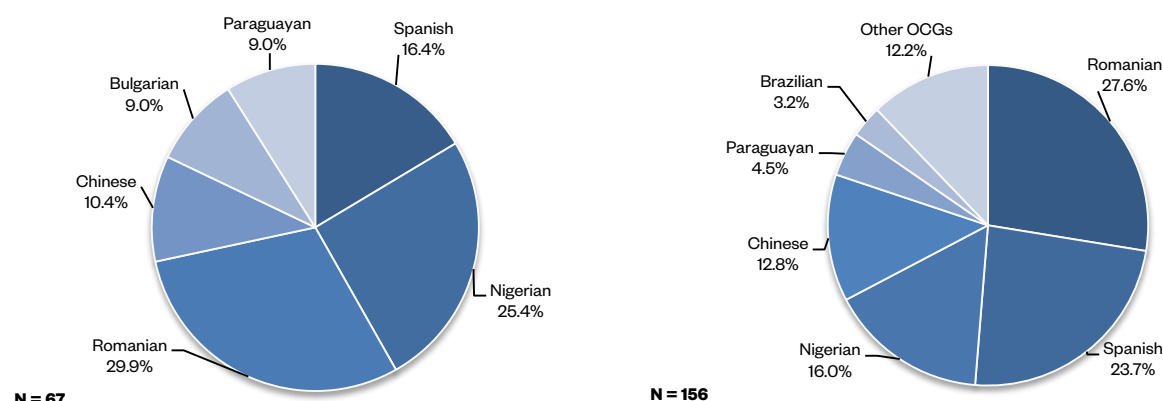
According to Europol, Spain is an **important hub in Europe for THB**. Together with Portugal, it is a main receiver of human trafficking victims, and it also redistributes them throughout Europe according to market demand (Europol, 2011b). However, no estimates on the volume of human trafficking in Spain are available from the academic literature and institutional reports.

Spain is considered to be a main destination, as well as transit country, for victims of sexual exploitation (Europol, 2011b). There is evidence of **Nigerian victims** being trafficked into Spain and forced to pay back their inflated smuggling fees. Also routes starting in **South America** often arrive in countries like Spain (Shelley, 2014). The organised crime component is often large (Defensor del pueblo de España, 2012). Clubs and hostess bars are the main destinations for victims trafficked for the purpose of sexual exploitation (Ministerio del Interior, 2014a).

Criminal groups may often manipulate their victims through their religion beliefs or by threatening their family members. Besides these methods, they also use **niños-ancha (anchor-infants)** in order to easily introduce their future victims into the country. The traffickers transport infants with their future victims in small boats (*pateras*) through the Strait of Gibraltar, knowing that infants and their mothers will be received instead of being repatriated (Public Prosecutions Office, 2013, p. 342).



**Figure 21 - Nationalities of the criminals involved in sexual exploitation cases in Spain (2012-2013)**



Source: URJC elaboration on data from Public Prosecution Office (2013, 2014)

### Actors

**Romanian OCGs** have an important role in this type of criminal activity; in some cases, they work together with Moldovan individuals (Public Prosecutions Office, 2013). Other groups found operating in this illegal market are **Nigerian ones**. There is also evidence of **Russian groups** cooperating with other organised groups (UNODC, 2010a, p. 49).

The latest report released by the Ministry of the Interior shows that a total of **96 OCGs were dismantled** by the Spanish police forces in 2013 in the field of human trafficking (Ministerio del Interior & CICO, 2014b). The previous year, 408 individuals (mainly Spanish, Chinese and Romanian) were arrested for offences regarding human trafficking for sexual exploitation purposes, and 345 individuals (mainly Spanish, Romanian and Nigerian) were detained on charges of human trafficking, **revealing a 33% increase** in arrested individuals and OCGs involved (Ministerio del Interior & CICO, 2014b).

Figure 21 gives a breakdown of the nationalities of the criminals, not necessarily members of organised crime groups, involved in sexual exploitation cases in 2012 and 2013 (Public Prosecutions Office, 2013, p. 342). Most of the nationalities involved are Nigerian and Romanian (25% and 30% of the total, respectively), followed, to a lesser extent, by Spanish and Chinese OCGs.<sup>184</sup> As for 2013, it seems that Spanish, Chinese and Romanians continued to be the largest national groups involved in cases related to human trafficking (Public Prosecutions Office, 2014, p. 381).

#### 5.6.2.3. Illicit trade in tobacco products

Another illegal market in which OCGs are active in Spain is the illicit trade in tobacco products (ITTP). The regions of Andalusia, Galicia and Catalonia are key locations for the illicit tobacco trade. Around 57% of ITTP is concentrated in **Andalusia: this may be due to its proximity with Gibraltar**, where taxes on tobacco products are substantially lower than in Spain and which may be often used by criminals to satisfy the demand for cheaper tobacco (Altadis, 2014b, p. 1).

184. In terms of the nationality of victims of human trafficking, most of them are Romanian, Nigerian and Paraguayan. As for sexual exploitation, Romanian, Chinese and Spanish victims are those most frequently mentioned (Ministerio del Interior & CICO, 2014b).

### Estimates

The Spanish illicit tobacco trade is estimated to have generated revenues of **between 577 and 694 million euro** in 2013 (Transcrime-OCG, 2014). According to Euromonitor, the illegal sales of cigarettes in the country have grown by 500% since 2011 (Euromonitor International, 2012, p. 7). It is likely that the **tax increase** introduced in 2010 by the Spanish Government in order to increase fiscal income has had a direct impact on consumers' propensity to buy tobacco from illegal sources (Altadis, 2014b).

The relatively low prices in Spain, as well as the street selling of tobacco products, contribute to high levels of illicit trade (European Commission, 2014b). During the first six months of 2013, 256.6 million illegal packs of cigarettes were introduced, representing a fiscal fraud of over 903 million euro (Fernandez, 2013). The European Anti-Fraud Office (OLAF) has intervened in order to facilitate judicial investigations on the illicit tobacco trade in Spain (González, 2014).

### Actors

**Organised groups**, together with **smaller groups with low levels of organisation** (see Section 4.4), have been able to exploit the demand for lower-priced tobacco products and make remarkable profits from counterfeit cigarettes (Bořkovec, 2012). As an example, the recent *Unicornio* operation dismantled a criminal group (composed of **Lithuanian, Latvians and Spanish individuals**) which was able to produce over 1.5 million packs of cigarettes a week. The fiscal fraud resulting from this illegal production was estimated at 4.5 million euro (El País, 2014).

With particular reference to tobacco smuggling from Gibraltar, the public authorities have reported the presence of **Spanish OCGs** operating exclusively in this illegal market (HM Government, 2014b). According to the Spanish authorities, the increase in tobacco imported by Gibraltar in recent years does not match its population's consumption, which supports the idea that large amounts of the tobacco are destined for the illicit trade (Kassam, 2014). There is also evidence that **Chinese OCGs** operate in this market by shipping overseas containers of counterfeit tobacco products sent from Chinese sea ports (see Box 6).



### 5.6.2.4. Counterfeiting

Counterfeiting is also an attractive market for OCGs in Spain. During 2012, over 3 million counterfeited products were seized by Spanish customs for intellectual property right violations (EU TAXUD, 2013).<sup>185</sup>

#### Estimates

##### **Box 6 - ITTP, counterfeiting and Chinese criminal groups: the operation Aguijón**

One of the largest operations regarding the illicit tobacco trade on the Spanish Mediterranean coast was mounted in 2012. The *Aguijón* operation seized a total of 35 tons of illegal tobacco with an estimated market value of over 4.2 million euro. The tobacco, intercepted by the Spanish customs police in Valencia, had originally been shipped from Shenzhen, in China. The intention was to introduce this large amount of tobacco illegally into Spain and then distribute it throughout Europe as rolling or pipe tobacco. The modus operandi used by the traffickers was to ship the tobacco in containers and officially declare the load as items for sale in bazaar stores. The tobacco was found concealed within marble tile pallets in seven containers sent between the months of May and June (Spanish Tax Agency, 2012).

Estimates of the Spanish counterfeiting market have been reported in various studies and in regard to different areas. First, according to the estimates carried out for the purpose of this study, counterfeiting in Spain could potentially yield about **3.9 billion euro in revenues** if the potential demand for counterfeit products were fully satisfied (see Section 4.5). From a different consumer perspective, it has been estimated that overall spending on counterfeited products in Spain amounts to more than 992 million euro, with an average expenditure of 30.2 euro<sup>186</sup> per person (ANDEMA, 2013) (Table 61). Regarding the **specific market of software piracy**, it has been estimated that the commercial value of unlicensed software products may reach a total amount of 936 million euro<sup>187</sup> (BSA, 2012, p. 9).

Following the trend of previous illicit markets, Madrid, Andalusia, Valencia and Catalonia have recorded a higher number of cases than the other regions (Ministerio De Industria, Energía y Turismo, 2014). Even though there are numerous places in which these counterfeited goods can be purchased, local 'swap meet markets' seem to be of key importance for disposal of products of this kind (ANDEMA, 2013).<sup>188</sup>

**Table 61 - Average spending per person per year on counterfeited products**

Products	Euro/ person	% of consumed items by persons
Home Appliances	204.9	3.7%
Tobacco	163.3	7.5%
Apparel	108.8	68.5%
Food and non- alcoholic drinks	105.4	6.9%
Audio-visual and photography equipment, computers and accessories	89.4	10.5%
Telephone equipment	85	7.4%
Car accessories	74.2	3.1%
Sports clothes	64.7	34.0%
Alcoholic beverages	64.4	4.9%
Perfume and cosmetics	62.7	35.8%
Watches and jewellery	59.7	24.7%
Footwear	51	26.5%
Toys	46	7.2%
Cleaning products	44	8.6%
Leather accessories and complements	42	35.2%
Medicines and pharmaceutical products	36	0.9%

Source: URJC based on ANDEMA (2013) data

185. Moreover, in 2013 the Spanish police forces detected and seized a total of 240,598 assets that did not fulfil intellectual patent rights. Seized assets violating industrial patent rights amounted to more than 5 million items with an estimated value of 812 million euro (Ministerio De Industria, Energía y Turismo, 2014).

186. The study is based on the frequency, reasons for, and amount spent by consumers on counterfeit products. The survey covered a sample of 1,000 interviewees aged 18-84 in Madrid, Catalonia, Valencia, Andalusia and the Canary Islands. The study also provides estimates of the share of respondents willing to purchase fake products and their spending patterns, and estimates of involuntary purchases of fake products.

187. The BSA Study quantifies the volume and value of unlicensed software installed in the previous year. Estimates of the market for PC software piracy are based on user surveys. The piracy rate given is obtained from the installed unlicensed software divided by the total software units installed. The commercial value of the software is obtained from the product of unlicensed software units \* average software unit price.

188. Other consumable products like alcohol beverages are also counterfeited. In regard to products of this type, it seems that counterfeited tags and seals are difficult to detect because of poor tracking systems. This factor is one of the major facilitators of the increasing volume of illegal alcohol sales (Cambra Cuesta, 2012, p. 10).

## Actors

In regard to criminal groups, there is evidence that **Chinese OCGs** have counterfeiting, mainly digital piracy, as their primary source of revenue in the Spanish market, together with THB and human smuggling (Treverton et al., 2009). The *Katana*<sup>189</sup> and *Sudoku*<sup>190</sup> police operations discovered a sophisticated piracy ring operating among 23 locations in the Autonomous Community of Madrid. The **biggest operation against counterfeiting in Spain, Talgo**, took place in 2008, and led to the confiscation of over 300,000 units of film and music copies (see Box 7).

### Box 7 - Counterfeiting and Chinese criminal groups: Operation Talgo

In 2008, during Operation *Talgo*, the Spanish LEAs captured the members of a Chinese organised group producing and selling illegal copies of CDs and DVDs in Madrid. After four months of investigations, 32 Chinese citizens were arrested and total of 162,000 DVDs and 144,000 CDs illegal copies were seized. This OCG was also involved in the human trafficking of Chinese citizens, who had to work in slavery conditions in order to repay their travel debts over a long period of time. The group's productive capacity was over 150,000 copies per day, which can be translated into a total of 600,000 euro per day on the illegal market (Ministerio del Interior, 2008).

In the academic field, it seems that this topic is not sufficiently covered in relation to its social and economic impact on the country. Measuring criminal groups' revenues and activities is a difficult task that cannot be performed satisfactorily with the data available. Therefore, although it is clear that further research is needed, **data accessibility restrictions** impede deeper qualitative and quantitative analysis (Giménez-Salinas Framis et al., 2009).

In regard to illicit trade, in the past decade Spain has become one of the most important transit countries and distribution centres for trafficked **cocaine and cannabis products**. ITTP is expected to grow, while legal sales continue to decline owing to the economic recession and increasing legal prices. In these circumstances, it is necessary to fight organised crime in order both to protect public and social health and to mitigate the negative impact on the country's economy. The large amounts defrauded through the illegal trade, in fact, are affecting the stability of businesses operating in legal markets via unfair low-price competition.

Spain's attractiveness to organised crime groups can be explained by various factors: for example, **its geographical location** and **cultural affinities**. Spanish authorities should develop targeted policies in order to decrease the activity of OCGs in the illegal markets. Further research is needed to determine why organised crime has established itself permanently in Spain and flourishes.

### 5.6.2.5. Extortion racketeering

Although the level of extortion racketeering in Spain can be considered high (Giménez-Salinas Framis et al., 2009), the Spanish authorities seem to have adequate measures in place to tackle the phenomenon. Extortion can be carried out by **national and foreign OCG** operating at local and transnational level. Moreover, terrorist groups like ETA or Motorcycle gangs like Hells Angels engage in extortion (West Sands Advisory, 2012; Pérez, 2013). Italian mafias, together with Russian and Colombian OCGs, have also been found to be active in this illegal activity (Transcrime, 2009).

### 5.6.3. Concluding remarks

The picture provided by this Section has shown the **importance of illicit markets for the economy and the activity of criminal groups in Spain**. A variety of illegal markets and criminal actors (from smaller domestic gangs to transnational OCGs) can be highlighted. Regardless of scant attention from the academic world, given the illegal revenues and the number of victims involved, illegal markets directly affect **Spain's society and its economy** (Barras, 2014).

189. In 2005, Spanish police forces dismantled a major Chinese OCG operating in Spain. Although the OCG operated at national level, its headquarters were in Madrid and Alicante. A total of 69 people were arrested during the operation and their main activity was copying film DVDs and music CDs. Their production capacity reached over 1 million copies per month, which produced a fiscal fraud of 17 million euro.

190. During the *Sudoku* Operation a total of 15 people were arrested within the autonomous community of Madrid. Their main illicit activity was the copying and duplicating, on a large scale, of film DVDs and music CDs. Several copies were found in warehouses and apartments, with a production capacity of up to 34,720 units per day. Moreover, this particular OCGs consisted entirely of Chinese nationals.

## 5.7. United Kingdom

David Wall and Yulia Chistyakova (Durham University, United Kingdom)

### 5.7.1. Introduction

The 2010 National Security Strategy and the 2013 Serious and Organised Crime Strategy identified organised crime as a **significant risk to the UK's national security** (HM Government, 2010, 2013).

Overall annual **costs to the UK economy** are currently estimated to be at least **24 billion GB pounds** (HM Government, 2013). Drug supply, organised fraud, and organised immigration crime are all thought to have major impacts on the UK (Mills, Skodbo, & Blyth, 2013); but also child sexual exploitation and abuse, criminal use of firearms, cybercrime, economic crime, and organised acquisitive crime are identified as key threats by the national authorities (NCA, 2014b).

In regard to geographical impact, organised criminal activity seems to be concentrated in London and the South-East, the North-West and West Midlands, but other areas of the country are also affected (HM Government, 2011, p. 9).

### Organised crime groups in the United Kingdom

As of December 2013, the number of OCGs operating in the UK was estimated by the NCA to be **at least 5,300, comprising approximately 36,600 organised criminals** (NCA, 2014b).<sup>191</sup> A Home Office study on the criminal profiles of organised criminals in the UK (Francis et al., 2013) has shown that the vast majority (87%) were UK nationals. Although the majority were convicted for drug-related offences (73%), only 12% of them specialised in a particular crime type.<sup>192</sup>

As in most other EU countries (see Chapter 3.2), OCGs in the UK can be characterised as:

- polymorphous, adaptable, loose, flexible and **fluid criminal networks** (Ianni, 1972; Hobbs, 1998; McIlwain, 1999; Abadinsky, 2003, Hornsby & Hobbs, 2007; Morselli, 2009; Rubin et al., 2013; von Lampe, 2013; Levi, 2014);
- a **continuum of criminal organisations**, from small and ephemeral to more reputed and formal (Morselli, Gabor, & Kiedrowski, 2010), **local** (Hobbs, 1998) and **socially embedded** (Kleemans, 2012);
- kinship and ethnicity remain important factors for group cohesion, but multiple **cross-ethnic networks** also play a role (Akhtar & South, 2000; Pearson & Hobbs, 2001; Kirby & Nailer, 2013) and may be more viable, successful, continuous, and reputed (Ruggiero & Khan, 2006).<sup>193</sup>

The following Sections provide an in-depth analysis of illicit markets in the United Kingdom, with a review of available estimates of their size and of the actors involved in each market.

191. This figure is an estimate and higher than some other estimates for OCGs in the UK. For example, according to Europol, there are an estimated 3,600 organised crime groups (OCGs) active in the EU, and around 1,500 OCGs are targeting the UK (Moon, 2013). The difference may be due to the different models of OC operating in the UK.

192. The study has also established that most of them were male (95%); the average age was 32 years; just over half of them were white Europeans (56%).

### 5.7.2. Illicit markets in the United Kingdom

Owing to the nature of organised crime, reliable evidence is limited and estimates of scale inevitably rely, at least to some extent, on informed assumptions (Dubourg & Prichard, 2008).<sup>194</sup>

The estimates presented here (Table 62) are **taken from several sources**. A recent study by the Home Office (Mills, Skodbo, & Blyth, 2013) provides the most wide-ranging and comprehensive estimate of illicit market revenues in the UK, and updates earlier Home Office studies (Dubourg & Prichard, 2008). Among the others, for the purposes of this study, estimates of heroin, cocaine, counterfeiting, ITTP and MTIC frauds are provided, while fraud estimates are taken also from the Annual Fraud Indicator (NFA, 2013).<sup>195</sup>

Two types of estimates are included in Table 62: (a) estimates of **revenues earned by OCGs** in each market; and (b) estimates that refer to the **whole market** (where no estimate of the OCG share has been available).<sup>196</sup> Different sources

193. As already widely discussed in Chapter 2 and 3, some scholars question the use of ethnicity/race to describe organised criminal groups, arguing that such descriptions are often meaningless; a more refined approach is needed to understand the role of ethnicity in criminal networks (Murji, 2007). As illustrated above, one of the challenges in this study has been the use of ethnicity as a descriptor of the type of OCG. Limited information in LEA reports and newspaper articles often makes it impossible to provide meaningful descriptions on the basis of this criterion. The sources often use the same words to describe nationality and ethnic origin, but do not always indicate to what they refer. In this chapter, ethnicity is used as a descriptor where more detailed information is available and when this factor appears to be significant. Other descriptors are also used where possible to provide a more specific identification: for example, 'British of South-Asian origin'. 'British' is used to refer to a group which consists, according to the source, of UK nationals and/or UK residents and when ethnic origin does not appear to be significant in the description of the group, or when it was not possible to establish whether it was a significant factor – for example, when the source only provided limited information (for example, only names were available) or when information about ethnicity/race was ambiguous (i.e. it was not clear to what it referred).

194. For many types of organised crime the data are insufficient or absent and in some areas only partial estimates are possible at best (Mills, Skodbo, & Blyth, 2013). Relatively more reliable information exists on the scale of drug markets. It is important to note that the latest Home Office study used in this report is likely to have underestimated the scale of illicit markets, because the authors only provided estimates when they were confident that the estimates were reasonably accurate. For this reason, and because of the risk of double counting in some areas, many markets such as money laundering, identity fraud, corruption, extortion, blackmail, kidnapping, violence and organised cybercrime are excluded from the estimates.

195. Earlier estimates of drug markets are drawn from (Pudney et al., 2006). Estimates of heroin and cannabis markets for 2006 and 2010 respectively are taken from the report by the Trimbos Institute, Rand Europe and ICPR (van Laar et al., 2013; Kilmer et al., 2013).

196. Most estimates in this table refer to the organised crime share of the illicit markets, not to the overall size of the markets. For drugs, the Home Office assumes that all drug markets have an organised crime element, and while there will be exceptions (e.g. a drug produced and used by the same person), they will not have a significant effect on estimates of scale. For other markets, Mills, Skodbo and Blyth (2013) and Dubourg and Prichard (2008) estimate the share of organised crime in the market; Transcrime (2014) provides estimates of the retail value of the overall heroin and cocaine markets and counterfeiting market (not the organised crime share), and Trautmann, Kilmer and Turnbull (2013) provide an estimate of the overall heroin market.

use different methodologies to estimate the revenues of illicit markets and the OCG share, and they rely on different definitions of organised crime.<sup>197</sup>

As can be seen from Table 62, the revenues generated by organised crime are substantial. **Fraud, drugs, counterfeiting and ITTP** appear to be the largest organised criminal activities in the UK. Other profitable markets appear to be trafficking for sexual exploitation and organised vehicle crime. As noted earlier, the actual scale of the markets, because of the conservative nature of the estimates, is likely to be higher.

As a result of the different methodologies used in different studies, there are discrepancies among estimates, for example in the case of the heroin and crack cocaine market<sup>198</sup> and in the counterfeit market.<sup>199</sup>

Whilst in general organised criminals in the UK are opportunistic and diversify their criminal activities when market opportunities present themselves, it is possible to identify certain specialisation patterns across OCGs: for example, **Vietnamese OCGs** are specialised in the cultivation of cannabis; **Chinese OCGs** in counterfeit DVDs, cigarette smuggling and sex trafficking; **British OCGs** are dominant in the cocaine market and compete (especially the Merseyside groups) with London-based **Turkish groups** in the heroin market. Organised robberies are typically performed by British OCGs. There is also evidence of **Eastern European OCGs** involved in sex trafficking and frauds. Table 63 provides a summary of an attempt to identify, based on this research, typical markets for each of the groups.

197. The latest Home Office study uses the definition from Local to Global: Reducing the Risk from Organised Crime (HM Government, 2011, p. 4) which defines organised crime as a crime that "involves individuals, normally working with others, with the capacity and capability to commit serious crime on a continuing basis. The motivation is often, but not always, financial gain". The Home Office estimates are based on 'the average value of the item associated with the particular offence multiplied by the annual volume of those offences' (Mills, Skodbo, & Blyth, 2013, p. 17). The earlier study (Dubourg & Prichard, 2008, p. 4) adopted a definition that specified an organised crime group (OCG) as: "a group of two or more persons, jointly engaged in continuing 'significant illegal activities', irrespective of national or other boundaries. The group's primary purpose is to generate 'significant profits or other gains'".

198. The earlier estimate is based on Pudney et al. (2006). The later Home Office study (Mills, Skodbo, & Blyth, 2013) considers the amount spent on illicit drugs separately for adults arrested in the last year and all other groups, and uses a different type of survey for 11 to 15 year olds (OCJS instead of the schools survey used in the previous study) and drops some of the assumptions about patterns of use, purity and price used in the previous estimate. The data for England and Wales have been scaled up to obtain the final data for the UK using population and arrest statistics. The EU study (Kilmer et al., 2013) employs a different methodology using its own interviews as well as other sources to estimate consumption; the expenditure figure is based on a group that had recently entered treatment and it likely to be a high estimate.

199. The 2003/4 estimate is for "non-excite intellectual property theft" based on "street values of counterfeit goods" (Dubourg & Prichard, 2008). The 2010/11 estimate is for "organised intellectual property crime and counterfeiting" and only includes seizures of physical goods. No estimate of cyber-crime involvement is provided (Mills, Skodbo, & Blyth, 2013). The "counterfeit currency" estimate has been added to the estimate of organised intellectual property crime and counterfeiting. Transcrime-OCF (2014) provides an estimate of the potential demand for specific counterfeit products (see Section 4.5).

## 5.7.2.1. Illicit drugs

### Heroin

Crack cocaine and heroin combined is, according to the available estimates, the **largest UK drug market**. According to the estimates carried out for the purpose of this study, the size of the market in the UK in 2010-11 was between **1,857 and 3,094 million euro** of revenues per year. The 2004 estimate of the heroin and crack cocaine market by Pudney et al. (2006) was 1,714 million euro. However it was re-estimated in 2013 by Mills, Skodbo and Blyth (2013) to be lower, 1,508 million euro, which is close enough to, although somewhat less than, the lower Transcrime estimate.<sup>201</sup>

NCA reports that "the amount of heroin estimated to be imported annually into the UK is between 18-23 tonnes". **Pakistan and Iran are major trafficking routes for Afghan opiates**, and ethnic and familial links play an important role. The Netherlands is also strategically important for organising trafficking to the UK (National Crime Agency, n.d.-a).

In regard to the actors involved, in Europe "**Turkish and Albanian ethnic groups** largely control the importation, high-level trafficking and open-air retailing of heroin" (Paoli & Reuter, 2008, p. 13); in particular, Turkish and Kurdish traffickers "continue to dominate the supply of heroin to the UK" (SOCA, 2006, p. 27).<sup>202</sup> **Merseyside crime groups** are identified as major UK suppliers of heroin competing with the London-based Turkish traffickers and keeping other groups (e.g. Eastern European and Russian) out of the market (Rossington, 2009). Besides Turks, there is also evidence of the involvement of British OCGs (in particular of South-Asian origin), and Colombian, Mexican, Lithuanian ones, also with links to the Netherlands and Pakistan.<sup>203</sup>

In 2010, the Home Office and UK Border agency reported a drop in trafficking via Turkey, an increase in the supply of heroin from Pakistan, and the **use of new methods such as shipping containers** (especially of food products, see also Section 8.7) **and the postal system**.<sup>204</sup>

201. To be reiterated is that the Home Office study assumes that there is no significant difference between the entire heroin, cocaine and cannabis markets and their organised crime share; therefore, it uses its estimate of the size of these markets as a proxy for the organised crime share of them. Transcrime, on the other hand, assumes that organised crime does not monopolise the entire drugs market, especially since estimations are made at the retail level, which involves a plurality of actors (see Section 4.1). The second study uses a new methodology sourcing youth data from the OCJS. This is still higher than its estimate of the current market, suggesting a reduction in the heroin and crack cocaine market between 2004 and 2010. In addition, an estimate of the heroin market for 2006 – 2,500 million euro – is provided by Kilmer et al. (2013). Crack cocaine and heroin were combined in Mills, Skodbo and Blyth (2013) because of the low number of non-arrestee users in their study.

202. It also states that heroin is sourced from Turkey by groups based in the Netherlands and is then supplied to UK OCGs. UNODC reports that in the UK heroin arrest statistics "British citizens predominate but a considerable number of Dutch citizens also show up in arrest statistics" (UNODC, 2010a, p. 125).

203. Locations identified in the reports included Merseyside, South Yorkshire, Sheffield, London, Hull, Birmingham, Manchester, Renfrewshire, Lanarkshire and Dunbartonshire. A network in London used a courier to import heroin and crack cocaine from Jamaica and then supplied the drugs to middle-level dealers in the boroughs of Croydon and Lambeth (Metropolitan Police, 2013).

204. Food shipments (red chilli powder) were used in one case to conceal the drug (see also Section 8.7); in another case, baby powder bottles were used to ship heroin from Pakistan (Home Office & UK Border Agency, 2011). In one case heroin was sent to the UK by Fedex in parcels claiming to contain dried food and dried fish, with heroin hidden inside bars of soap (Bennett, 2013).

**Table 62 - Estimates of the revenues of illicit markets in the UK <sup>200</sup>**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Heroin	2,321	1,857	3,094	2010-2011	Transcrime-OCP, 2014	
	1,508 <sup>a</sup>			2010	Mills, Skodbo, & Blyth, 2013	Crack cocaine and heroin; Whole UK; OCG share
	1,360 <sup>b</sup>			2010	Mills, Skodbo, & Blyth, 2013	Crack cocaine and heroin; England and Wales; OCG share
	2,500			2006	Kilmer et al., 2013	
	2,303	1,536	4,607	2005	Kilmer & Pacula, 2009	
	1,714 <sup>c</sup>	1,390 <sup>c</sup>	2,037 <sup>c</sup>	2003-2004	Pudney et al., 2006	
Cocaine	1,452	1,084	1,625	2012	Transcrime-OCP, 2014	
	1,067 <sup>d</sup>			2010	Mills, Skodbo, & Blyth, 2013	Powder cocaine; Whole UK; OCG share
	944 <sup>e</sup>			2010	Mills, Skodbo, & Blyth, 2013	Powder cocaine; England and Wales; OCG share
	3,133	828	8,073	2005	Kilmer & Pacula, 2009	
	1,382 <sup>f</sup>	1,003 <sup>f</sup>	1,762 <sup>f</sup>	2003-2004	Pudney et al., 2006	Powder cocaine; Whole market
	2,102 <sup>g</sup>	1,542 <sup>g</sup>	2,662 <sup>g</sup>	2003-2004	Pudney et al., 2006	Crack cocaine; Whole market
Cannabis	787			2010-2011	Caulkins, Kilmer, & Graf, 2013	OCG share
	1,392 <sup>h</sup>			2010	Mills, Skodbo, & Blyth, 2013	Whole UK; OCG share
	1,228 <sup>i</sup>			2010	Mills, Skodbo, & Blyth, 2013	England and Wales; OCG share
	1,464 <sup>j</sup>	850 <sup>j</sup>	2,078 <sup>j</sup>	2003-2004	Pudney et al., 2006	
Other illicit drugs	702	152	1,251	2005	Kilmer & Pacula, 2009	Ecstasy
	811	317	1,305	2005	Kilmer & Pacula, 2009	Amphetamines
	380 <sup>m</sup>	258 <sup>m</sup>	502 <sup>m</sup>	2003-2004	Pudney et al., 2006	Ecstasy
	443 <sup>n</sup>	327 <sup>n</sup>	559 <sup>n</sup>	2003-2004	Pudney et al., 2006	Amphetamines
THB	151 <sup>o</sup>			2010	Mills, Skodbo, & Blyth, 2013	Sexual exploitation - OCG share
	393 <sup>p</sup>			2003	Dubourg & Prichard, 2008	Sexual exploitation
ITTP	1,304	1,154	1,453	2013	Transcrime-OCP, 2014	
	3,596			2012-2013	Tobacco Manufacturers Association, 2013	Whole market
Counterfeiting	4,569			2010	Transcrime-OCP, 2014	Demand side; Whole market <sup>b</sup>
	104 <sup>q</sup>			2010	Mills, Skodbo, & Blyth, 2013	
	1,496 <sup>r</sup>			2011	BSA, 2012	Unlicensed PC software
	4,483 <sup>s</sup>			2007	Ledbury Research, 2007	Clothing and footwear
	1,125 <sup>t</sup>			2005	Dubourg & Prichard, 2008	OCG share
Illegal gambling	1,128 <sup>u</sup>			1996	Groom & Davies, 1998	
Usury	175 <sup>v</sup>			2005	Ellison, Collard, & Forster, 2006	

200. In the presence of an estimation range, estimate refers to the arithmetic mean or to an adjusted mean (referred to as best estimate).



**Table 62 - Estimates of the revenues of illicit markets in the UK (continues)**

Illicit market	Estimate <sup>#</sup> (million euro)	Min (million euro)	Max (million euro)	Reference year	Source	Notes
Fraud	2,962	2,144	3,780	2011	Transcrime-OCP, 2014	MTIC frauds
	<i>17,100</i>	10,950 <sup>w</sup>	23,250 <sup>w</sup>	2012	NFA, 2013	Fraud perpetrated by organised crime groups
	10,324 <sup>x</sup>			2010	Mills, Skodbo, & Blyth, 2013	
	6,781 <sup>y</sup>			2004	Dubourg & Prichard, 2008	OCG share
Organised property crime	116 <sup>z</sup>			2010	Mills, Skodbo, & Blyth, 2013	Plant theft; OCG share
	28 <sup>aa</sup>			2010	Mills, Skodbo, & Blyth, 2013	Metal theft; OCG share
	60 <sup>ab</sup>			2010	Mills, Skodbo, & Blyth, 2013	Road freight crime; OCG share
	41 <sup>ac</sup>			2010	Mills, Skodbo, & Blyth, 2013	OCG share - Distraction burglary
	14 <sup>ad</sup>			2010	Mills, Skodbo, & Blyth, 2013	OCG share - Cash and valuables in transit
	383 <sup>ae</sup>			2010	Mills, Skodbo, & Blyth, 2013	Organised vehicle crime; OCG share
	233			2007	Europol, 2009b	Cargo theft
	1,311			2004	Van Den Engel & Prummel, 2007	Cargo theft

<sup>a</sup> Original figure: 1,300 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>b</sup> Original figure: 1,172 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>c</sup> Original figures: 1,207 (aver), 979 (min) and 1,434 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>d</sup> Original figure: 920 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>e</sup> Original figure: 814 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>f</sup> Original figures: 973 (ave), 706 (min) and 1,241 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>g</sup> Original figure: 1,480 (ave), 1,086 (min) and 1,875 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>h</sup> Original figure: 1,200 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>i</sup> Original figure: 1,059 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>j</sup> Original figures: 1,031 (ave), 599 (min) and 1,463 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>m</sup> Original figures: 268 (ave), 182 (min) and 354 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>n</sup> Original figures: 312 (ave), 230 (min) and 394 (max) million GBP, converted into euro using the 31/12/2003 exchange rate (source ECB).

<sup>o</sup> Original figure: 130 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>p</sup> Original figure: 277 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>q</sup> Original figure: 90 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>r</sup> Original figure: 1,943 million USD, converted into euro using the 31/12/2011 exchange rate (source ECB).

<sup>s</sup> Original figure: 3,009 million GBP, converted into euro using the 31/12/2007 exchange rate (source ECB).

<sup>t</sup> Original figure: 839 million GBP, converted into euro using the 31/12/2005 exchange rate (source ECB).

<sup>u</sup> Original figure: 800 million GBP, converted into euro using the 01/04/1999 exchange rate (source ECB).

<sup>v</sup> Original figure: 120 million GBP, converted into euro using the 31/12/2005 exchange rate (source ECB).

<sup>w</sup> Original figures: 8.9 and 18.9 billion GBP, converted into euro using the 31/12/2012 exchange rate (Source ECB).

<sup>x</sup> Original figure: 8.9 billion GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>y</sup> Original figure: 4,781 million GBP, converted into euro using the 31/12/2004 exchange rate (source ECB).

<sup>z</sup> Original figure: 100 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>aa</sup> Original figure: 24 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>ab</sup> Original figure: 52 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>ac</sup> Original figure: 35 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>ad</sup> Original figure: 12 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

<sup>ae</sup> Original figure: 330 million GBP, converted into euro using the 31/12/2010 exchange rate (source ECB).

\* Counterfeit ICT equipment, electric appliances, CDs, DVDs, cassettes, clothing and accessories, jewellery, watches, games, toys, perfumes, body care articles.

# Estimates in italics are not present in the original study, but are instead the arithmetic mean of the minimum and maximum estimates calculated by the original authors.



**Table 63 - Organised crime groups in illicit markets in the United Kingdom**

Illicit market	OCGs	Sources
Heroin	Albanian OCGs, British OCGs, Dutch OCGs, Middle Eastern OCGs, Turkish OCGs	SOCA, 2006; Matrix Knowledge Group, 2007; Dubourg & Prichard, 2008; Rossington, 2009; Home Office & UK Border Agency, 2011; Leask, 2012; Kilmer et al., 2013
Cocaine	African OCGs; British OCGs, Colombian OCGs, Dutch OCGs, Middle Eastern OCGs, South American OCGs, Spanish OCGs, Turkish OCGs	Matrix Knowledge Group, 2007; Dubourg & Prichard, 2008; McSweeney, Turnbull, & Hough, 2008; Robertson, 2009; Home Office & UK Border Agency, 2011; SOCA, 2012; Engelbrecht, 2013; Jones, 2013; Kennedy, 2013; Siddle, 2013
Cannabis	British OCGs, Chinese OCGs, Colombian OCGs, Dutch OCGs, Irish OCGs, Other Asian OCGs, Turkish OCGs	Matrix Knowledge Group, 2007; Dubourg & Prichard, 2008; McSweeney, Turnbull, & Hough, 2008; Silverstone & Savage, 2010; EMCDDA & Europol, 2011; Silverstone, 2011; Stewart, 2011; An Garda Síochána & PSNI, 2012a; Bean, 2013; Trautmann, Kilmer, & Turnbull, 2013; Young, 2013
Other illicit drugs	British OCGs, Dutch OCGs, Other Western European OCGs	McSweeney, Turnbull, & Hough, 2008; Border Force, 2013; Coleman, 2013
THB	British OCGs, Chinese OCGs, Cosa Nostra, Lithuanian OCGs, Middle Eastern OCGs, Nigerian OCGs, Other Asian OCGs, Other Eastern European OCGs, Russian OCGs	Lebov, 2010; Jackson, Jeffery, & Adamson, 2010; Marsh et al., 2012; OSCE, 2010; Silverstone & Savage, 2010; Silverstone, 2011; An Garda Síochána & PSNI, 2012a; Annison, 2013; Davenport, 2013; House of Commons, 2013; Rachel, 2013; UKBA, 2013
ITF	British OCGs, Other Eastern European OCGs, Turkish OCGs	Davis, Hirst, & Mariani, 2001; Hales, Lewis, & Silverstone, 2006; Siddle, 2013
ITTP	British OCGs, Chinese OCGs, Irish OCGs, Middle Eastern OCGs, Other Eastern European OCGs	Silverstone, 2011; An Garda Síochána & PSNI, 2012a; Calderoni et al., 2013a; HMRC, 2013b, 2013c; Wang, 2013; Interpol, 2014a
Counterfeiting	British OCGs, Chinese OCGs, Other Eastern European OCGs, Russian/Georgian OCGs	Treverton et al., 2009; Mills, Skodbo, & Blyth, 2013; IP Crime Group, 2013; Silverstone, 2011; Wang, 2013
Extortion racketeering	British OCGs, Chinese OCGs, Russian/Georgian OCGs	Transcrime, 2009; Savona, 2011; Wells, 2011; Wang, 2013
Usury	British OCGs, Turkish OCGs	Leask, 2014
Fraud	British OCGs, Chinese OCGs, Italian OCGs, Lithuanian OCGs, Nigerian OCGs, Other Eastern European OCGs, Romanian OCGs, Russian OCGs	Dubourg & Prichard, 2008; Silverstone, 2011; An Garda Síochána & PSNI, 2012a; Collins, 2013; Mills, Skodbo, & Blyth, 2013; NFA, 2013; Wang, 2013; Levi, 2014
Organised property crime	British OCGs, Chinese OCGs, Irish OCGs, Romanian OCGs	Dubourg & Prichard, 2008; An Garda Síochána & PSNI, 2012a; Jarram, 2013; Mills, Skodbo, & Blyth, 2013; Wang, 2013
Environmental crime	British OCGs	McKinney, 2013; UTV News, 2013

## Cocaine

The size of the powder cocaine market according to Transcrime-OCF research team's estimate for 2012 was between **1,084 and 1,625 million euro**. A Home Office study provides a somewhat lower estimate of 944 million euro in 2010 in England and Wales and of 1,067 in the UK as a whole (Mills, Skodbo, & Blyth, 2013). According to the estimates, it is currently the **third largest drug market** in the UK after heroin and cannabis.

The NCA reports that the amount of cocaine entering the UK annually is 25-30 tonnes, and a large proportion comes from **Colombia, Venezuela and Ecuador** (National Crime Agency, n.d.-a). Matrix Knowledge Group describes the drug market as fragmented, with high and stable demand, very large mark-ups

for cocaine and heroin, a decline in prices over time, and price variations across areas (Matrix Knowledge Group, 2007).

There are a number of ways to smuggle cocaine into the UK, including **couriers** (usually of **Asian, Caribbean and African origin**) and the corruption of custom officials to transport cocaine into the UK on **planes**; other methods are **cars, ferries, trains, 'bent' lorry drivers, commercial air flights, DHL and boats** (Caulkins, Burnett, & Leslie, 2009). Also transportation companies play a significant part in many large-scale smuggling operations (of cocaine as well as other drugs), especially with large shipments (von Lampe, 2013).

**Local British groups** dominate this market (UNODC, 2010a). Also local groups with links to Turkish, Colombian, Dutch, and Nigerian groups, as well as a local group of African origin, have been identified. **Large** (even thirty or more people), **poly-drug**

(i.e. involved in the distribution of more than one drug) criminal organisations and networks, often with **transnational connections**, are frequent (see box below).<sup>205</sup>

Third countries (in particular **Spain** and **the Netherlands**) have been used as transits point and transshipment countries, a finding that is supported by international organisations (see e.g. Bureau of International Narcotics and Law Enforcement Affairs, 2013) and highlighted by Sections 5.5 and 5.6.

**Box 8 - Operation Eaglewood: a poly-drug and money-laundering transnational network based in London**

An extensive network of drug dealers and money launderers based in London (33 people convicted in connection with this case) supplied cocaine and cannabis and laundered money using a high street bureau de change in Bayswater, West London. The group laundered money from drug dealers in the Midlands and South-East of England. It also operated a taxi network which was their front business and acted as a 'clearing bank'. The network consisted of people of various ethnic origins and nationalities: white British, an Israeli-born Arab, an Egyptian, and an Iraqi, and it had links with Colombia, Spain, Israel, India, Dubai, Morocco and other North African states (Davies & Dodd, 2011).

## Cannabis

Cannabis is the **second largest drug market in the UK**, and it ranges from the 1,464 million euro of annual revenues estimated in 2004 (Pudney, et al., 2006) to the 1,392 million euro according to the Home Office's updated estimate (Mills, Skodbo, & Blyth, 2013). The latest Home Office study suggests a reduction in the cannabis market between 2004 and 2010. In addition, an estimate of the cannabis market – 787 million euro – which was the annual spending on cannabis in the UK in 2010 is provided by Caulkins, Kilmer and Graf (2013).

Although some cannabis is produced domestically, most of it is smuggled from **Afghanistan and Morocco** (cannabis resin) and **South African countries, the Caribbean and the Netherlands** (herbal cannabis) (National Crime Agency, n.d.-a).

The following groups have been identified as active in the cannabis market: Vietnamese, Chinese, British (especially of South-Asian origin), Turkish and Colombian OCGs. **Vietnamese illegal immigrant communities** have traditionally been involved in cannabis cultivation, mainly in London, and they apparently control around two thirds of cannabis cultivation in the UK (Silverstone & Savage, 2010). **Chinese OCGs** are prevalent in Scotland (Silverstone, 2011)

and in Chinatown (London), where they control cannabis cultivation (Wang, 2013).<sup>206</sup>

**Box 9 - Cannabis and money laundering by a Vietnamese OCG in the West Midland**

Five people, four of them involved in cultivation and one the head of money laundering, supplied cannabis to communities across the West Midlands. They had a number of factories set up in rented flats and established smurfing money-laundering schemes (making regular lump sum cash payments to multiple bank accounts). The group had eleven cultivation facilities and an estimated capacity to produce cannabis with a street value in excess of half a million GBP. They were also in possession of fake passports and ID cards (West Midlands Police, 2013).

## Amphetamines, ecstasy, LSD and other drugs

The latest Home Office study suggests a **significant reduction in this market between 2004 and 2010**: a combined estimate for these markets for 2010 of 282 million euro is provided by Mills, Skodbo and Blyth (2013) and it refers to England and Wales. This compares to 442 million euro in 2004, which is a figure lower than the estimate provided by Pudney et al. (2006) of 823 million euro.

In terms of actors, **British OCGs** in Merseyside, Belfast and Scotland and **Chinese Triads** in Scotland have been identified as distributing ecstasy/MDMA tablets. Home-synthesised amphetamine-type drugs have also been increasing.

### 5.7.2.2. Trafficking in human beings

As in other countries (see Section 4.2), also in the UK there is currently a **dearth of empirical data** on the nature of trafficking in human beings (Lebov, 2010). Human trafficking research has been traditionally victim-oriented and focused mainly on the sex industry. Other forms of THB have not been subject to sound empirical research (Kleemans, 2011).

Nevertheless, several estimates exist: **THB for sexual exploitation** was estimated to be worth 151 million euro in 2010 (Mills, Skodbo, & Blyth, 2013); whereas **organised people smuggling** was 102 million euro for the same year (Mills, Skodbo, & Blyth, 2013). Dubourg and Prichard (2008) estimated the market of trafficking for sexual exploitation to be worth around 393 million euro, but they used 2004 data.

According to the first annual report of the inter-departmental ministerial group on human trafficking, there were at least **2,600 female adult victims of sexual exploitation** in England and Wales in 2010, a further 9,600 were considered to be vulnerable (HM Government, 2012).<sup>207</sup> Lebov's research

205. In one case a gang from Liverpool dealt in cocaine and heroin; a West Yorkshire group trafficked cocaine, heroin and cannabis; a Glasgow-based network smuggled cocaine, amphetamines and cutting agents. In most cases, there was some evidence of transnational connections: for example, a London OCG bought cocaine from a Colombian gang operating in Spain; in other cases cocaine was smuggled from Venezuela and Dominican Republic. In one case police inquiries uncovered links with the Turkish heroin mafia and Colombian cocaine cartels (Davenport, 2011). The latter finding is supported by Paoli and Reuter, who stated that in Western Europe "Colombian groups dominate the importation of cocaine" (Paoli & Reuter, 2008, p. 13).

206. Other identified locations include Northamptonshire, Bristol, Staffordshire, Cambridge, Hull, Edgbaston, Scotland (cannabis factories/farms), Merseyside, South Yorkshire, Manchester (smuggling/distribution), Gatwick, Heathrow, Essex, Suffolk (attempted importation/smuggling).

207. A Home Office study reports that the prices charged per victim of sexual exploitation were 500 GBP to 8,000 GBP, with an average of between 2,000 GBP and 3,000 GBP in 2008. They also report that the size of debt bondage was 25,000 GBP and the facilitation of access to employment between 300 and 18,000 GBP (Marsh et al., 2012)

on sex trade in major Scottish cities shows an **increasing movement indoors** (from street locations to saunas, massage parlours and private residences), and the **increasing use of private flats and houses** to operate brothels.

Whilst the majority are victims of sexual exploitation, some are victims of **debt bondage** and of **labour exploitation** e.g. in restaurants and takeaways. Most are of Asian (in particular Chinese) or African origin, brought into the UK with fake documentation. Links with other organised and serious crimes (e.g. Chinese snakeheads, drug distribution, fraud, counterfeiting, money laundering and cigarette smuggling) have also been identified (Lebov, 2010).

The actors involved in THB in the UK are wide-ranging in terms of their ethnic origin and nationality, with many OCGs formed of people originating from **Eastern Europe, former Soviet Union and South Asia**, in particular Chinese, Russian, Lithuanians, Polish, Hungarian, Nigerian, Thai and Roma, Middle Eastern, Eastern-European, Pakistani, and Slovakian OCGs.<sup>208</sup>

#### Box 10 - Human trafficking by Polish and Chinese OCGs

Three Polish nationals smuggled prostitutes into the UK (South Wales). They arranged flights and accommodation and placed advertisements on websites. 11,500 GBP were seized along with a diary recording payments. The group was earning 3,000 GBP a week (Birmingham Mail, 2013).

A Chinese criminal group in Londonderry recruited victims to brothels by placing advertisements in Chinese in English newspapers. The advertisements offered 220 GBP per week for nannying, cleaning and babysitting jobs. After the women arrived in Northern Ireland, they were coerced to have paid sex, while customers were charged 70 GBP for 20 to 30 minutes (Londonderry Sentinel, 2012).

#### Box 11 - A modern slave trader

V.S., described by the police as “a modern day slave trader”, and his accomplices smuggled Eastern European nationals into the UK to work on farms in East Anglia and fish processing factories in Scotland. They employed 700 workers who received as little as 2 GBP an hour. The businesses that employed the illegal immigrants were not aware of Solomka's role. The smugglers provided their victims with fake IDs and shared accommodation for which they charged them. At the time of his arrest Solomka's earnings were 13,500 GBP a week (BBC News, 2005; Crown Prosecution Service, 2005).

208. In terms of locations, evidence has been identified in Scotland (Aberdeen), Northamptonshire, Leicestershire, Lincolnshire, and Leeds. Cases of sexual exploitation have been identified in London, Oxford, Cambridgeshire, Norfolk, South Wales, Northern Ireland (Belfast), Glasgow, Falkirk, Polmont, Stirling, Ipswich, Cardiff, Gravesend, Manchester, Leeds, and Sussex.

### 5.7.2.3. Illicit trafficking in firearms

Although some statistics exist as regards prices for weapons, imitation firearms, ammunitions, bullets, there are **no estimates on the size of the illegal market of firearms in UK**. The estimated costs of firearms supply are 138 million euro (Mills, Skodbo, & Blyth, 2013, p. 11).<sup>209</sup>

The main organised criminal actors involved are **Turkish and British OCGs** (Martin, 2009; Rossington, 2009). There is also evidence of involvement of **legitimate companies**: in 2009, “the United Kingdom began an investigation into companies registered in the UK that were sourcing arms from Ukraine for states in Africa in violation of British controls” (UNODC, 2010a, p. 143). In one case, three security firms involved in both legal and illegal business “employed violence to prevent the encroachment of competitors and extort licensed businesses”; the other goal was to create and maintain violent reputations (Windle, 2013, p. 382).

Some evidence suggests that one way to smuggle illicit weapons, firearm components, replicas or stun guns into the UK is by means of packages sent through the mail (Spapens, 2007).

### 5.7.2.4. Illicit trade in tobacco products

The size of ITTP has been estimated by Transcrime-OCP at between **1,154 and 1,453 million euro** of revenues in 2013, which is considerably lower than the estimate by the Tobacco Manufacturers Association in 2010/11<sup>210</sup> (3,596 million euro: see Tobacco Manufacturers Association, 2013). According to a recent Transcrime study on the illicit tobacco trade in the UK, there has been a **recent shift in consumer demand to cheaper products**, especially in the lower income socio-economic groups, which may have had an **impact on the illicit tobacco market** (Calderoni et al., 2013a).

As regards *modus operandi*, a **variety of routes** are used to smuggle and transport illicit tobacco products to and within the UK, including by air, road (in particular lorries), rail and sea and via the postal system. UK ports and airports are important entry points.<sup>211</sup> **Belgium and the Netherlands** have also been identified as transit countries for the importation of illicit tobacco into the UK (L'Hoiry, 2013).<sup>212</sup> Evidence of **illegal cigarette factories** in the UK has also been found (Calderoni et al., 2013a).

As far as the actors are concerned, a number of groups have been identified, including **British** (in particular of South-

209. Original estimate was £160 million, converted into euro using the 31/12/2010 exchange rate.

210. The Tobacco Manufacturers Association's estimate was calculated using the data on consumer spending on cigarettes and handrolling tobacco (15.1 billion in total, 85% of which are cigarettes), and then calculating the proportion of non-duty paid consumption (16% of cigarette and 48% of handrolling tobacco). This calculation gives the value of 3.1 billion GBP, which was then converted into Euro (3,596) using 1.16 as the conversion rate.

211. Other studies support the Transcrime finding that cigarettes are commonly imported via the postal system (Silverstone, 2011).

212. In L'Hoiry's case study of one cigarette bootlegger in the UK, the individual started to import cigarettes himself via air travel from Tenerife, then used coach travel, and then recruited a network of 'runners' paying them a fixed fee, and later on let them sell some of the cigarettes. He then returned to air travel as a safer method of transport (L'Hoiry, 2013).

Asian origin), **Polish, Iranian, Iraqi, Pakistani, and Chinese OCGs**,<sup>213</sup> although actors are often individuals operating on their own (Calderoni et al., 2013a).

In terms of the geographical distribution of illicit tobacco trade, the Transcrime report cites research indicating that the North-East has the biggest volume of illicit tobacco trading in England (16%), followed by the South-West (11%), Yorkshire and Humberside (9%), the North-West and West Midlands (7% each), and the South-East (3%) (Calderoni et al., 2013a).<sup>214</sup>

#### **Box 12 - Cigarette smuggling between Ireland and UK**

A local group from Northern Ireland attempted to smuggle 12.5 million non-duty paid cigarettes into the UK. They used false consignment information, a remote lock-up and 16 mobile phones to avoid detection. A van was hired to transport the cigarettes. The contents of the trailer were described as 'foodstuffs' (HMRC, 2013a)

#### **5.7.2.5. Counterfeiting**

Owing to the different methodologies adopted (see Section 4.5), **estimates of counterfeiting in the UK vary widely**, ranging from 1,225 million euro (in 2005, Dubourg & Prichard, 2008) to **4,569 million euro** (in 2010, according to the estimate produced by Transcrime for the purpose of Project OCP).<sup>215</sup> At the same time, UNODC reports that "counterfeit clothing and footwear consumption in the UK alone is estimated to be worth more than 2 billion euro" (UNODC, 2010a, p. 181). **Medicines are a growing problem**, and in 2013 MHRA netted UK record 12.2 million pound haul of counterfeit and unlicensed medicines (MHRA Press Office, 2013). Anti-cancer drugs stolen in Italy and then adulterated have been resold, through fake wholesalers, to UK pharmacies and hospitals (Riccardi, Dugato, & Polizzotti, 2014).

The actors involved are mostly **British OCGs** (CPS, 2006; North-Wales Daily Post, 2007; Crime and Justice, 2013; HMRC, 2013a; South-Wales Echo, 2013), often of **South-**

213. In particular Chinese OCGs in London are traditionally involved in the smuggling of cigarettes from China, particularly from the province of Fujian.

214. Other locations identified in this report include Wales, Gloucester, Birmingham, Belfast, Cambridge, Manchester, West Suffolk, Reading, Swindon, Bath, Bristol, Chippenham, Taunton, Westbury and Trym, Rochdale, Essex, Liverpool, Suffolk, London, Edinburgh, West Midlands, Northern Ireland (see, for example, Birmingham Mail, 2012; Churchill, 2013; South Wales Echo, 2013; HM Revenues & Customs, 2013b; HM Revenues & Customs, 2013d).

215. This estimates the market size of the piracy, counterfeiting and bootlegging sector in the UK and is based on industry estimates of the scale of counterfeiting and 'street values' of counterfeit goods. Their estimate includes such goods as games software, films, music, business software, perfumes and cosmetics, sportswear, clothing and clothing accessories, toys and games, and counterfeit medicine. A different approach is applied to each sector, and it is noted that industry estimates are problematic because they are likely to overstate the problem. Seizures of goods (such as, for example, games software) are scaled up to account for the goods that have not been seized, and assumptions are made about the proportion attributable to organised crime. The second estimate for 2010 is for 'organised intellectual property crime and counterfeiting' and it only includes seizures of physical goods. It is based on seizure data and therefore underestimates the overall scale of the market. It does not estimate cybercrime involvement, and the authors admit that their calculation 'will underestimate scale' (Mills, Skodbo, & Blyth, 2013). Transcrime instead estimates the potential demand of counterfeit products using the methodology explained in Section 4.5 and the Methodological Annex).

**Asian origin** (Asian Image Reporter, 2013; Churchill, 2013), but also **Chinese OCGs** (IP Crime Group, 2009; HMRC, 2013a) including Chinese triads (Leask, 2009).<sup>216</sup>

#### **5.7.2.6. Fraud**

A **large variety of types of fraud** has been identified in the UK: customs and excise frauds, VAT and missing trader (MTIC), *pump and dump* frauds, mortgage frauds or insurance frauds (e.g. *cash for crash* scams, see the box below).<sup>217</sup>

Up-to-date estimates of the size of organised fraud in the UK for 2012 are 17,100 million euro (NFA, 2013) and 10,324 million euro in 2010 (Mills, Skodbo, & Blyth, 2013). Dubourg & Prichard's estimate for 2004 combining excise frauds and non-benefit frauds (missing trader, plastic, cheque, telecommunications, vehicle leasing), was lower (6,781 million euro),<sup>218</sup> thus suggesting that there may have been an **increase in the extent of frauds between 2004 and 2010**. On the other hand, OCP-Transcrime's estimate of the percentage of the UK VAT gap attributable to organised **MTIC fraud** is much higher, indicating a range between **2.1 and 3.8 billion euro** using 2011 data.

According to the National Fraud Authority, 1,365 OCGs in the UK are linked to some form of fraudulent activity (NFA, 2013), being either **transnational organised crime networks, mobile small groups, or individuals** who can transplant fraudulent techniques wherever they go; others still commit very large **one-off frauds** without the need for involvement in a criminal organisation (Levi, 2008).

The identified cases involve a plurality of actors, such as Chinese OCGs, British OCGs (also operating abroad, and with connections in, for example, USA, Singapore, South Asia, Spain), Italian, African and Eastern European criminal groups (see Table 64).

#### **Box 13 - A Cash for crash scam in Durham**

A crime family organised a car insurance scam by staging car accidents and making false insurance claims. The main organiser P.W. was the director of PJ Auto Recovery limited, while his associate M.S. owned MJS Claims limited, situated next door. Both companies were acting as one enterprise, and were set up with the purpose of obtaining money through false insurance claims. The total profit from the scam was estimated to be around 3 million GB pounds (Durham Constabulary, 2013; Stewart, 2013).

216. Counterfeit DVDs and cigarettes are among the businesses of Chinese OCGs in London (Silverstone, 2011). They also produce and supply counterfeit credit and debit cards (Wang, 2013). The locations of counterfeiting cases are: South Wales, Nottingham, Glasgow, Bristol, Liverpool, Plymouth and Birmingham (counterfeit credit cards), Birmingham, London, Essex (counterfeit currency), Manchester, Felixstowe, York (counterfeit clothing), Wales, Glasgow, Manchester, Southampton (clothing and footwear), London, Gloucester, Birmingham, Cardiff, Dudley, Scotland, Reading, Swindon, Bath, Bristol, Chippenham, Taunton, Westbury and Trym, West Wales and The Valleys (counterfeit cigarettes), Scotland (counterfeit alcohol), Scotland, Felixstowe (fake medicines), Heathrow, Southampton, South Yorkshire, Manchester (bags, cosmetics and watches, designer goods), Coventry, Manchester (counterfeit DVDs).

217. Details of the case were received from the Durham police.

218. Calculated by the authors, and summing respectively 4,089 million euro from excise frauds and 2,679 million euro of non-benefit frauds.



**Table 64 - OCGs involved in fraud schemes in the United Kingdom**

OCG group	Role
British OCGs	Customs and excise fraud, missing trader and VAT fraud, share sale/'pump and dump' fraud, mortgage fraud, 'cash for crash' scam
Chinese OCGs	Customs and excise and VAT fraud
Nigerian OCGs	419 'advance fee' fraud
Russian/Georgian OCGs	Payment card fraud
Lithuanian OCGs	Payment card fraud
Romanian OCGs	Payment card fraud
Other Eastern European OCGs	Identity and VAT fraud, Tax credit and child benefit fraud

Source: Cheston, 2009; *The Evening Standard*, 2009; *Manchester Evening News*, 2011; Silverstone, 2011; HMRC, 2013b, 2013c, 2013d; Serious Fraud Office, 2011, 2013; Findlay, 2013; *the Northern Echo*, 2013; McCarthy & Ivery, 2013; Hunter, 2010; *Western Daily Press*, 2013; *BBC News*, 2013b; Collins, 2013; *York Press*, 2013; Wang, 2013; Hollingsworth, 2014.

#### 5.7.2.7. Organised property crime

The Home Office study provides estimates for **several types of organised property crime**: organised vehicle crime (383 million euro), plant theft (116 million euro), road freight crime (60 million euro), distraction burglary (41 million euro) and cash and valuables in transit (14 million euro) (Mills, Skodbo, & Blyth, 2013).

**Organised metal theft** is estimated at 28 million euro (Mills, Skodbo, & Blyth, 2013). Prices of metals may be one of the factors affecting the volume of metal thefts. Sidebottom, Ashby and Johnson, for example, found that changes in the price of copper are positively associated with variations in the volume of 'live' copper cable theft (Sidebottom, Ashby, & Johnson, 2014).

Actors involved in organised burglary include **British groups** (Birmingham Post, 2008; Masker, 2013; Rogers, 2013; Stewart, 2013; *Wakefield Express*, 2013), **Romanian OCGs** (The Sentinel, 2013) and **Chinese OCGs** (Wang, 2013).

#### 5.7.2.8. Other illicit markets

##### *Illicit waste trafficking*

Some sources suggest that **waste crime, including illegal dumping, is a significant threat**. The Environment Services Association Education Trust (ESAET) estimated the impact on the UK economy to be 8.7 million GBP (Taylor et al., 2014), but there are no estimates of the revenues produced by OCGs.

OCGs are attracted to illicit waste trafficking because of the **high profits and low risks, ineffective regulation and lenient sentencing**. Many of them are involved in other crimes: for example, criminal groups trafficking waste electrical and electronic equipment (WEEE) are also involved in theft, human trafficking, fraud, drugs, firearms and money

laundering. According to Taylor, Jones, Ettlinger, and Hudson, "Illegal export therefore provides the clearest evidence of waste crime's increasing role as part of a criminal gang's portfolio of illegal activity" (Taylor et al., 2014, p. 20).

##### *Fuel laundering*

Evidence of criminal groups (mainly Irish and Northern Irish) involved in fuel laundering has been found in **Northern Ireland** (see also Section 5.3.2.9).

##### *Wildlife and minerals trafficking*

Currently, no estimate of scale is possible. According to Mills, Skodbo and Blyth, organised wildlife crime "involves the illegal trade in endangered species and damage to protected UK species and habitats" (Mills, Skodbo, & Blyth, 2013, p. 44). However, it is reported to be a highly profitable crime, and the National Wildlife Crime Unit (NWCU) has identified **several UK-based OCGs involved in this type of crime** (Mills, Skodbo, & Blyth, 2013).

##### *Usury and Extortion racketeering*

No estimates of **revenues from usury** produced by OCGs are currently available. Among actors, there are Turkish OCGs (Cohen, 2009), British OCGs (*Manchester Evening News*, 2011, 2013; Slater, 2013) and OCGs of Sri Lankan origin (Newham Recorder, 2011).

Similarly, no estimates of the scale of **extortion** are available. As far as actors are concerned, some evidence points to Chinese triads and Russian OCGs. Chinese groups are also involved in **illegal gambling** activities (using VLT and other betting machines to launder cash).

### 5.7.3. Concluding remarks

#### *Relevance of illicit markets in the country for the OCGs economy*

Research indicates that the scale of organised illicit economies in the UK is significant; **illicit drug trafficking, frauds, ITTP and counterfeiting are the biggest markets**. While some markets appear to be shrinking (e.g. **heroin and cannabis**),<sup>219</sup> available evidence suggests that some others such as **organised frauds, ITTP** and new markets such as **waste and recycling and food fraud may be expanding**.<sup>220</sup>

These shifts in the OCG economy suggest that there has been a tendency to move to **less risky, but very lucrative market niches**, where detection of OCG activities is more difficult. Fraud are the most lucrative market for the OCGs operating in the UK. They include **VAT and excise fraud, investment fraud, mortgage fraud, cash for crash fraud, tax credit and child benefit fraud**, pension fraud and other types of

219. Although such comparisons should be treated with caution because of the different methods used to produce different estimates.

220. Again this is a tentative conclusion based on the available data. The two fraud estimates cited in this report are based on different methodologies and may not be fully comparable, but they represent the best available estimates.

fraud. There are other areas of significant OCG involvement, such as, for example, cybercrime<sup>221</sup> which is a growing concern in the UK but has not been possible to analyse due to lack of data and the high probability of double counting (see also Mills, Skodbo, & Blyth, 2013, p. 15).

### *OCGs and other criminal actors involved*

A wide range of actors are involved, including **British OCGs**, groups with international links and ethnicity-based groups occupying certain market niches: **Vietnamese** in cannabis cultivation, **Chinese** in counterfeiting and ITTP, **Turkish OCGs** in drugs and loan sharking, **Nigerians** in THB and fraud and Eastern European OCGs in human trafficking for sexual exploitation. There is also some evidence of the presence of **Italian mafias**, although it does not suggest that this presence is very significant. Generally, there is little evidence of narrow specialisation of particular OCGs on specific markets; rather, most groups operate as **opportunistic, adaptable and multi-commodity criminal networks**.

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221. The European Commission has defined cybercrime as consisting of three categories. The first covers traditional forms of crime such as fraud or forgery, although in a cybercrime context it relates specifically to crimes committed over electronic communication networks and information systems (hereafter: electronic networks). The second concerns the publication of illegal content on electronic media (i.e. child sexual abuse material or incitement to racial hatred). The third includes crimes unique to electronic networks, i.e. attacks against information systems, denial of service and hacking. (European Commission, 2007, p. 2). While some of the frauds recorded in the database are cyber frauds in the first sense (for example, payment card frauds – devices to steal card information or use of cloned cards), cybercrimes in the second and third sense were outside the scope of this study.



# 6. From the generation of illicit proceeds to investments in the legal economy

Luca Giommoni (Università Cattolica del Sacro Cuore – Transcrime, Italy)

This Section aims to estimate the **proportion of illicit proceeds**, generated by illicit markets, available for investment in the legal economy. In particular, it analyses this proportion with respect to the revenues produced by the **heroin market** in the 7 OCP countries.

## Introduction

The previous sections presented the estimates of the revenues for several illicit markets. As often mentioned, these values represent the total income generated from the sale of illicit goods/services. As such, they should be used only as proxies for the total possible income generated by OCGs. Firstly, several actors beside OCGs (such as independent entrepreneurs) may participate in these markets. Secondly, and more importantly, the estimates presented in the previous section are the **gross revenues** generated from the final sale of illicit goods or services.

In order to estimate the amount of money that may be available to OCGs for reinvestment in the legal economy, **it is necessary to subtract the costs** that suppliers incur in providing these goods/services. The provision of illicit goods, like illicit drugs, from producer to consumer countries entails several costs, such as those necessary to **buy or produce goods, transport costs, group operational expenses and living expenses**. By definition, costs are ‘a negative component’ in the accounting of what suppliers earn from supplying illicit goods. Indeed, what they spend in the provision of illicit goods cannot be registered as earnings. Hence, the net profits earned from supplying illicit goods, once the costs have been subtracted, are much less than the estimates reported for illicit markets.

The previous sections have already shown the shortage of information with which to estimate the value of illicit markets. **Even scarcer, and almost non-existent, are data with which to estimate costs** and hence profits for illicit markets. Accordingly, estimates of the revenues for illicit markets have

been considered to be the best proxy for determining the amount of money available to criminal organisations.

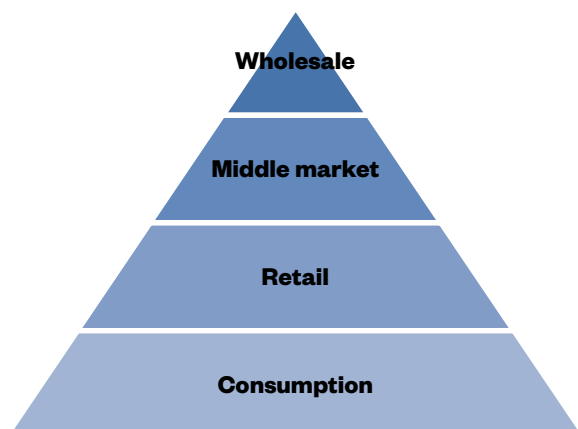
Trying to fill the gap between the amount of money originated from illicit markets (Part 1) and the investments made by criminal organisation in the legal economy (Part 2), this Section **estimates the net profits** originating from a specific illicit market, heroin, in the 7 OCP countries. Given the novelty and exploratory nature of this approach, the Section focuses on the heroin market alone. Among the illicit markets analysed in this section, the heroin market is the one for which there is the most comprehensive data-set, as well as more detailed knowledge about the market’s structure.

It has to be stressed also that the figures estimated in this Section do not indicate the *actual* amount of money reinvested in the legal economy. Instead they indicate the **potential amount of money**, originating from the trafficking of heroin, which may be invested in legal sectors. It is necessary to acknowledge, in fact, that traffickers may use the profits generated from heroin for **several purposes** and not only for spending in the legal economy: for example for **buying further heroin shipments**, investing in **other illegal activities** (e.g. trafficking in tobacco products), financing **group operational expenses**.

At the moment, there are **no means to distinguish among these different options** and consequently to evaluate the actual share of money invested in the legal economy. Therefore, the estimates provided in the following Section report the total amount of money that heroin suppliers may potentially invest in the legal economy in the awareness that they may use this money for other purposes as well.

As often mentioned, the **actors involved in the supply of heroin are of different kinds**. The supply of heroin may involve highly organised criminal groups (such as the mafias), ephemeral groups (formed according to business opportunities and dissolving once the shipment has been delivered), individual entrepreneurs acting individually or in collaboration with other groups, etc. For the above-mentioned reasons, it will be generally used the term ‘actor’ to refer to any subject (dealers, traffickers, brokers, etc.) involved in the supply of heroin.

**Figure 22 – Heroin market structure**



Source: Transcrime elaboration

The following Section describes the model applied and reports the estimates of the profits originating from the heroin market, selected because the greater availability of data. However, in the future it will be possible to **improve the model and apply it to several other illicit markets** depending on the availability of data.

## 6.1. Estimating the proceeds from the heroin market available for investment in the legitimate economy

Estimating the net profits originating from the heroin market starts with estimation of the revenues reported in Section 4.1. From the gross income received from the sales of heroin it is necessary to subtract the costs of supplying it at final consumption. This model directly quantifies two types of costs. The first are **raw material costs**, i.e. the amount of money necessary to buy heroin at each stage of the supply chain. The second are the **expenditure on goods or services** that actors supplying heroin make for the direct **satisfaction of individual needs**.<sup>222</sup> Hence, net profits (NP) are equal to revenues (R) minus raw material costs (RC) and living expenses (E):

Subtracting only raw material costs from revenues it is possible to estimate the so-called **'gross profits'** (GP).

Beside raw material costs and living expenses there are other costs that heroin suppliers may incur and that are not directly estimated here. These are, for instance, **costs of bribery, guard service, etc.** These components are implicitly taken into account through the price mark-up but **cannot be clearly identified**. Since suppliers are in the business to make profits, all the costs that they incur are charged to their buyers. The prices for bribery or guard service are implicitly included in the calculation process with the marginal value of the transaction between buyers and dealers.

In order to estimate the net profits originating from the heroin market, it is necessary to **reconstruct some specific features of the heroin supply chain** in Europe. According to the literature (Matrix Knowledge Group, 2007; Wilson & Stevens, 2008; Reuter et al., 2009; UNODC 2011a), the heroin market can be structured into **four layers**: three pertaining to the supply (respectively, from the bottom to the top) retail (RT), middle market (MM) and wholesale (WS), plus a final level representing heroin users: consumption (CS). This scheme does not mean perfect adherence to the reality (i.e. in some countries these layers can be integrated; in some others further layers may exist) but it approximates the supply chain with sufficient confidence, and indicates the economic transactions along it.

For each of the levels described above, it is possible to estimate revenues, raw material costs, living expenses and gross profits. In turn, the **total net profit** from the heroin market equals revenues minus raw material costs and living expenses for each level of the supply chain.<sup>223</sup>

As Section 4.1 outlines, estimation of the illicit drugs market applies a 'bottom-up' approach by estimating revenues from consumption. Similarly, raw material costs, living expenses and number of actors involved in the supply of heroin are estimated starting from the 'bottom' of the market, i.e. the consumption level.

Table 65 reports the estimates of the **net profits** generated from the supply of heroin according to the three levels of the chain (for more detailed discussion of the methodology employed see the Methodological Annex). The estimate does not report a 'best' value, as presented for the revenues, but only the lower and upper bounds.

On subtracting raw costs and living expenses, the **net profits generated by heroin trafficking in the 7 OCP countries are between 1,158.6 and 3,160.7 million euro**. As for revenues, Italy and the United Kingdom have the highest profits from the sales of heroin, quantified between 257.1 and 709.6 million euro for Italy and between 179.7 and 876.0 million euro for the UK. Despite some important differences between minimum and maximum, it seems that **wholesalers are those that earn the highest profits** from supplying heroin. This is somehow consistent with previous literature and in line with the functioning of other *legal* markets. The quantity of profits that arise from the retail selling of heroin varies widely, with the lower bound estimated at 78.1 and the maximum at 1,276.7 million euro. This large difference between minimum and maximum is due to **negative values** reported for the minimum bound in some countries (Italy, Netherlands and UK). The negative values do not refer to the possibility that heroin dealing at retail may generate an economic loss, but that **retail dealers cannot afford many of the living expenses** accounted in the calculation relying solely on the income generated by drug trafficking (see the Methodological Annex). This confirms the findings in the literature that **drug retail dealers (e.g. 'pushers') may earn little from drug selling** (Reuter, MacCoun, & Murphy, 1990; Levitt & Venkatesh, 1998; Caulkins, Burnett, & Leslie, 2009). To use Levitt and Dubner's apt expression, this explains "why drug dealers still live with their moms" (Levitt & Dubner, 2009).

222. Living expenses are collected from the Eurostat and include accommodation, laundry, food, travel, clothing, personal expenses, sport and entertainment.

223. The only exception is the consumption level, for which only revenues are estimated. Logically, there are no costs nor profits for the consumption level, which comprises only those who consume heroin. Indeed, the consumption level is included solely as a starting point for the calculation.

**Table 65 – Net profits generated from the supply of heroin for the seven OCP countries. Millions of euro**

Countries	Retail		Middle Market		Wholesale		Total	
	min	max	min	max	min	max	min	max
Finland	27.0	52.9	11.1	18.9	9.2	15.4	<b>47.3</b>	<b>87.1</b>
France	32.5	307.5	105.3	187.8	65.0	110.9	<b>202.8</b>	<b>606.2</b>
Ireland	284.2	505.0	97.4	163.6	19.8	33.3	<b>401.4</b>	<b>701.9</b>
Italy	-6.1	250.2	91.7	168.6	171.6	290.7	<b>257.1</b>	<b>709.6</b>
Netherlands	-3.9	8.6	2.8	6.6	3.9	7.7	<b>2.9</b>	<b>22.8</b>
Spain	16.8	67.9	17.9	33.2	32.8	56.1	<b>67.4</b>	<b>157.2</b>
United Kingdom	-272.4	84.7	115.4	222.6	336.6	568.7	<b>179.7</b>	<b>876.0</b>
<b>Total OCP Countries</b>	<b>78.1</b>	<b>1,276.7</b>	<b>441.7</b>	<b>801.3</b>	<b>638.8</b>	<b>1082.8</b>	<b>1,158.6</b>	<b>3,160.7</b>

Source: Transcrime elaboration

Table 66 reports revenues, gross and net profits, in millions of euro, as well as the **gross and net profit margins** of the heroin market for the seven OCP countries. The total revenues for the heroin market are those reported in Section 4.1, i.e. the total expenditure by user on heroin, which, in turn, is equal to the total revenues at retail level. In fact, the quantity of money spent by users is equal to the quantity of money earned by retail dealers. Likewise, the total revenues for each level of the supply chain correspond to the raw costs borne by those at the following level of the supply chain. Hence, revenues at middle market are equal to raw material costs at retail, and revenues at wholesale correspond to costs at middle market.

As said, **gross profits are calculated by subtracting raw costs but not living expenses**. Accordingly, their value is lower than revenues but higher than net profits and quantified at between 2,933.8 and 3,160.7 million euro. Gross margins, calculated as the ratio between gross profits and total revenues, are between 64% and 65%. As will be seen, despite the wide differences between the lower and upper bounds for revenues and profits, there are almost no differences between minimum and maximum profit margins. This is due to the calculation procedure used to estimate revenues, costs, and then profits. Indeed, the difference between minimum and maximum is given by the quantity of heroin consumed. In turn, also the quantity of the drug sold and purchased at each level of the supply chain depends on the quantity of heroin consumed. However, the margin rate is calculated by comparing minimum gross profits with minimum revenues and maximum gross profits with maximum revenues.<sup>224</sup>

To give an idea of the high margins that heroin suppliers may have, it is possible to **compare the gross margin rate with a similar measure for legal markets**. For instance the gross operating rate<sup>225</sup> for the transportation and storage sector,

which can be roughly compared with the concept of gross profits adopted here, is quantified by Eurostat at 13.6%; about 50 percentage points less than the heroin market.

Inspection of gross profits across the different levels of the supply chain shows that **gross margin profits are higher at retail than at the middle-market and wholesale level**. This reflects the high increase that illicit drugs have at retail – to **compensate for the greater risk of violence and incarceration** – but it does not indicate that retail dealers are richer than middle-market and wholesale dealers. Although the quantity of heroin at retail is equal to that trafficked at the middle-market and wholesale levels, the **actors dealing with it are much more numerous**. Indeed, the pro-capita gross profits for each actor are much higher at the middle-market and wholesale levels than at retail.

The last row of Table 66, reporting net profits, confirms this. The net margin, calculated as net profits on revenues, varies between 25% and 42%. However, **margins decrease from the top (wholesale) towards the bottom (retail)** of the chain. This is due to the **higher number of actors** dealing with heroin at retail. The low value of the net margin at retail indicates that, although heroin prices have a higher mark-up at retail, there are numerous actors selling heroin at this level of the supply chain. Once the living expenses of each actor have been subtracted, what remains as net profits at retail is a lower fraction of the total revenues. By contrast, much higher are the net profits for middle-market and wholesale actors, indicating that living expenses have a modest impact on the total revenues.

224. The tiny difference between minimum and maximum is given by seizures, which are constant for both minimum and maximum (see the Methodological Annex).

225. The Eurostat defines the gross operating rate as the surplus generated by operating activities after the labour factor input has been recompensed.

**Table 65 – Net profits generated from the supply of heroin for the seven OCP countries. Millions of euro**

	Retail		Middle Market		Wholesale		Total	
	min	max	min	max	min	max	min	max
Revenues	4,557.0	7,595.0	2,783.6	4,623.0	2,269.3	3,749.1	<b>4,557.0</b>	<b>7,595.0</b>
Gross profits	1,773.4	2,972.0	514.3	873.9	646.1	1,090.0	<b>2,933.8</b>	<b>4,935.9</b>
Net Profits	78.1	1,276.7	441.7	801.3	638.8	1,082.8	<b>1,158.6</b>	<b>3,160.7</b>
Gross margin (%)	39%	39%	18%	19%	28%	29%	<b>64%</b>	<b>65%</b>
Net margin (%)	2%	17%	16%	17%	28%	29%	<b>25%</b>	<b>42%</b>

Source: Transcrime elaboration



# Part 2.

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## WHERE DO PROCEEDS GO? ORGANISED CRIME INVESTMENTS IN THE EUROPEAN LEGITIMATE ECONOMY

After analysing and quantifying, in **Part 1**, the illicit proceeds generated by criminal groups in illicit markets in Europe, **Part 2** explores where and how these proceeds are then invested in the legitimate economy, and in particular:

- In what **geographic areas**;
- In what **types of assets**;
- In what **business sectors**;
- With what differences across **different criminal actors**;
- Because of what **drivers and purposes**.

Part 2 has a structure similar to that of Part 1 (illicit markets):

- First, it furnishes an analysis of organised crime investments at European aggregate level (**Chapter 7**);
- Then (**Chapter 8**) it focuses on the **7 OCP countries** (Finland, France, Ireland, Italy, the Netherlands, Spain, and the United Kingdom);
- Finally, **Chapter 9** explores the impact on, and the costs of organised crime investments for, the European legitimate economy.

The related methodological issues are discussed in Chapter 2 and in the Methodological Annex.



# 7. Organised crime investments in Europe

Michele Riccardi, Cristina Soriani and Priscilla Standridge (Università Cattolica del Sacro Cuore – Transcrime, Italy)

Where do **organised crime groups** invest the proceeds generated by illicit markets in Europe? In what countries and regions? In what assets and business sectors? And why? This chapter, summarizing the findings of the in-depth analysis at country level presented in Chapter 8, provides:

- An analysis of the **geography** of organised crime investments in Europe (Section 7.1);
- An analysis of the **types of assets** with the largest evidence of criminal investments (Section 7.2);
- An analysis of the **business sectors** with the largest evidence of criminal investments (Section 7.4);
- An illustration of the differences among the **main criminal actors** in terms of investment strategy (Section 7.5);
- Some concluding remarks on the **drivers and factors** which may explain organised crime investments in the legitimate economy (Section 7.5).

All these analyses are based on the evidence of criminal investments as defined in section 2.1 and collected in the **DOCI** according to the methodology described in section 2.2.

Although the **focus is on the 7 OCP countries**, the analysis provided in this chapter covers, where possible, Europe as a whole. In this sense, it furnishes a **first exploratory picture** of this phenomenon at European aggregate level.

## 7.1. Geography of organised crime investments

As mentioned in Chapter 2, **it is not possible to rank European countries** in terms of the amount of cases of organised crime investments, because data collection has been systematic only in the 7 OCP countries (which represent more than 70% of the references gathered, see 2.2.2).<sup>226</sup>

However, despite this bias, it is important to note that **evidence has been collected in almost all EU MS** (24 out of 28) and in most neighbouring countries (e.g. Switzerland, Turkey, Ukraine, Moldova, Albania, etc.).

Figure 23 shows the distribution of the references across OCP and non-OCP European countries.<sup>227</sup> Among the first group, **Italy** gathers most of collected evidence (about 30% of the whole dataset), followed by the **Netherlands** (about 17%), **Spain** (about 12%) and the **UK** (about 9%), and then, to a lesser extent, France, Finland and Ireland. But again, given the bias in the data collection, this ranking may be attributed, rather than to the different levels of criminal infiltration across

countries, primarily to **differences in the availability of data and information**.

It is more interesting to consider the distribution of the evidence on criminal investments **across European regions**. Figure 24 below expresses the weights of NUTS 2 areas as a percentage of each country total. **Some areas emerge** with a higher degree of infiltration. These include, among others:

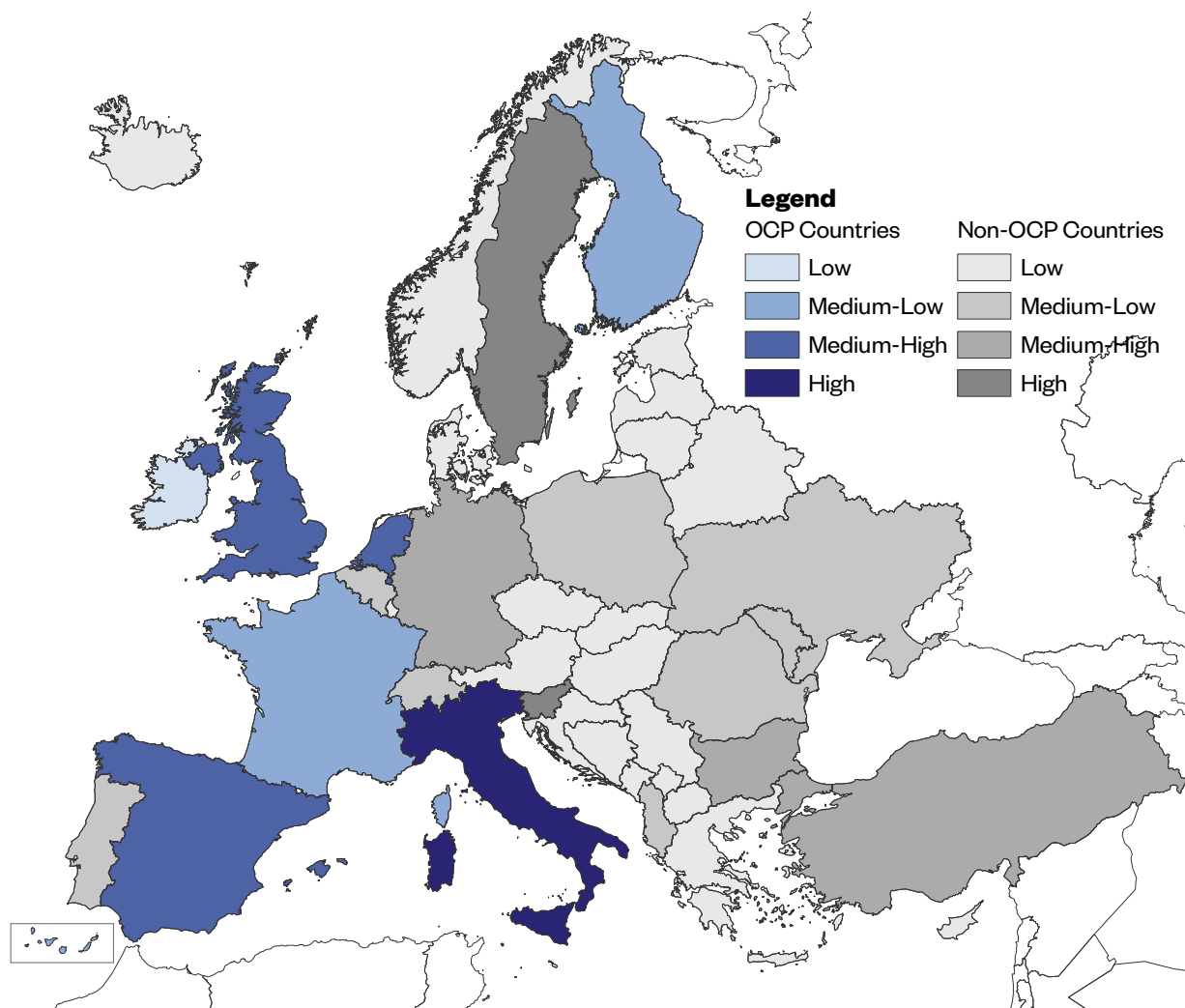
- Southern Italy, Lazio and north-western Italy (in particular Lombardy);
- PACA (Provence-Alpes-Côte d'Azur), in France;
- Andalusia and the Madrid area, in Spain;
- South-Western Scotland and the area of London, in the UK;
- The Amsterdam and Rotterdam areas, in the Netherlands;
- And, in **non-OCP countries**, regions such as the Berlin area, the Düsseldorf-Köln area, the Stockholm area, Bucharest and the Romanian border with Moldavia.<sup>229</sup>

<sup>226</sup>. To obtain an updated and non-biased picture of the phenomenon in the whole Europe, it would be necessary to extend the scope of this exercise to all the other EU MS and other European countries not covered by this project.

<sup>227</sup>. In order highlight that the focus of the data collection and analysis is on the seven OCP countries, OCP and non-OCP EU MS are marked with two different colours, respectively blue and grey. Classes are identified using Jenks natural breaks optimization.

<sup>229</sup>. Since the collection of cases was systematic only in the 7 OCP countries, the evidence collected on other EU MS should be interpreted cautiously and only as a preliminary 'snapshot' of the situation.

Figure 23 - European countries with evidence of organised crime investments<sup>228</sup>



Source: Transcrime elaboration on DOCI

Table 67 reports, for the seven OCP countries, the first three NUTS 2 and NUTS 3 regions in terms of number of references from the DOCI.

**What are the characteristics of these areas?** Although more in-depth analysis will be provided in Chapter 8 for each OCP country, the regions collecting most evidence are:

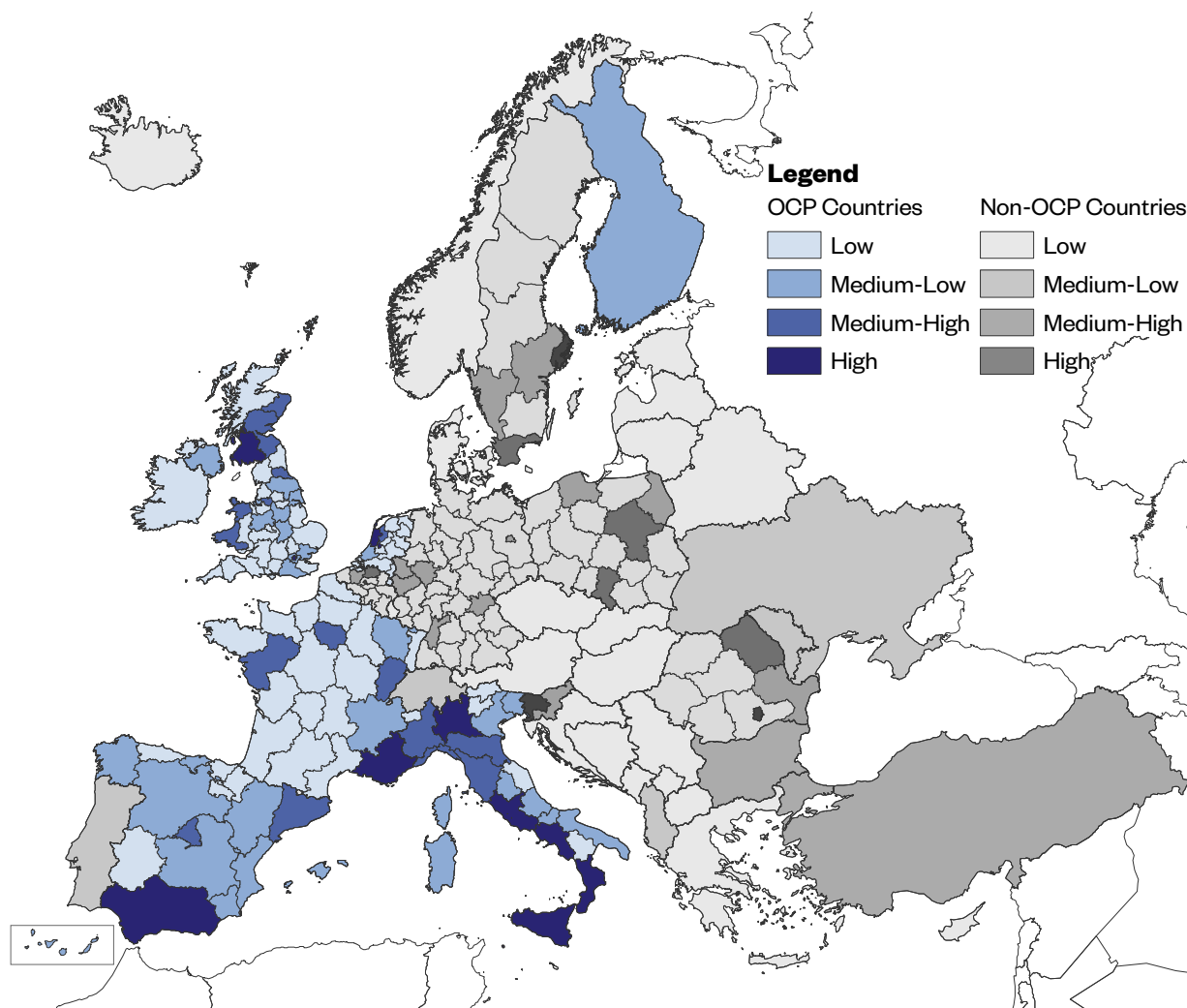
- Areas with a **historical or well-rooted strong presence of OCGs**, such as southern Italy (see Section 8.4), southern France (see 8.1) or Andalusia (see 8.6);
- **Border regions** (e.g. Andalusia, Lombardy, Franche-Comté and Lorraine, Bucureşti – Ilfov etc.) or areas with **important ports** (e.g. Noord-Holland and Zuid-Holland, Côte d'Azur/Marseille, etc.) which may play a crucial role in several kinds of illicit trafficking (see Part 1);
- **Large urban** areas (e.g. Madrid, Paris, London, Amsterdam, Berlin, etc.);
- **Tourist or coastal** areas (e.g. Côte d'Azur, Murcia, Malaga or European capitals).

Although the analysis should be more empirically grounded, it already suggests that organised crime investments may be more frequent in areas where **the activity of criminal groups in illicit markets and trades is greater** (see Part 1), where their **control of the territory is stronger**, or where **business opportunities** (such as a profitable real estate market) may arise.<sup>231</sup>

231. The relation with the economic environment is unclear, because some of the highlighted regions are among the poorest in Europe (e.g. Southern Italy and some Andalusian provinces) while others are among the richest (e.g. Côte d'Azur, Lombardy). At the same time, by focusing on the 7 OCP countries, this analysis may miss important issues, such as the role played by Eastern and South-Eastern Europe in terms of attracting criminal investments.

228. Classes identified using Jenks natural breaks optimization.

**Figure 24 - European regions (NUTS 2) with evidence of organised crime investments - Percentages of the country total<sup>230</sup>**



Source: Transcrime elaboration on DOCI

**Table 67 - First three NUTS 2 and NUTS 3 areas in terms of number of references from the DOCI (OCP countries)**

Country	NUTS 2	NUTS 3
Finland	Indications of NUTS 2 and NUTS 3 not available	
France	Provence-Alpes-Côte d'Azur; Franche-Comté; Île-de-France	Doubs; Alpes-Maritimes; Paris
Ireland	Southern and Eastern; Border, Midland and Western	Dublin; South-East; West
Italy	Lombardy; Sicily; Calabria	Milano; Roma; Reggio Calabria Palermo
Netherlands	Noord-Holland; Zuid-Holland	Groot-Amsterdam; Groot-Rijnmond; Agglomeratie Haarlem
Spain	Andalusia; Community of Madrid; Catalonia	Madrid; Malaga; Murcia
United Kingdom	South Western Scotland; Inner London; North Eastern Scotland	Glasgow City; Inner London - West; Aberdeen City and Aberdeenshire

Source: Transcrime elaboration on DOCI

230. Classes identified using Jenks natural breaks optimization. Although references to OCGs are available in most countries, in some cases they do not give indications of the relevant NUTS 2 or the number of references with NUTS 2 indication is too low to be meaningful and representative. Therefore, for some countries (Austria, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Greece, Croatia, Hungary, Ireland, Lithuania, Luxembourg, Latvia, Malta, Portugal, Slovakia), the national value is reported with the same classes as adopted in Figure 23.

### The transnational dimension of organised crime investments

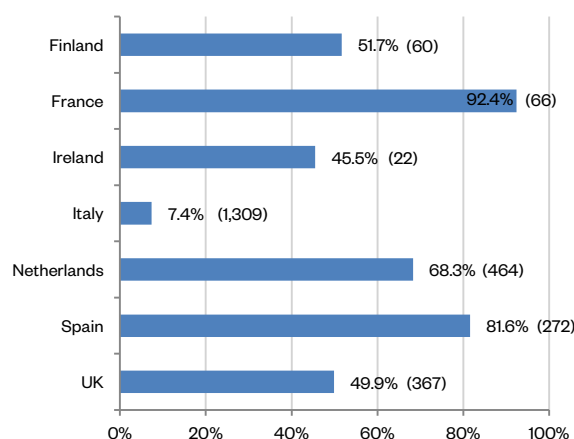
It seems that, as with illicit markets, when organised crime groups infiltrate the legitimate economy, they move across borders in pursuit of investment opportunities and profit. It is therefore crucial to understand the *international* dimension of criminal investments that has emerged from study of the 7 OCP countries.

According to the collected evidence, European countries may act both:

- As **origins of outward criminal investments**: the OCGs may invest the illicit proceeds generated in one country in others, often their country of origin. For example, there is evidence that North African OCGs and groups from *quartiers sensibles* active in the illicit drug trade in France have laundered their proceeds in the real estate sector in Morocco (see Section 8.3). Similarly, Turkish or Colombian OCGs active in the Netherlands, Germany or the UK have transferred the proceeds from heroin or cocaine trafficking back to their home countries (see 7 and 8.7). Finally, evidence can be found of Chinese OCGs moving the revenues from sexual exploitation and forced labour from Italy to China (see 8.4);
- As **recipients of inward criminal investments**: European regions can attract investments by foreign and non-local criminal groups. For example, there is evidence that Spain has collected investments by, among others, Italian Camorra groups or Motorcycle gangs (see 8.6); while Côte d'Azur has aroused the interest of Russian OCGs and Italian mafias (see 8.2).

In both cases, the transnational dimension of criminal investments poses a threat to the financial and **banking systems** of European countries, which may be used to facilitate cross-border illicit transfers. Moreover, OCGs may also use alternative channels to move their proceeds cross-border, including **money transfer agencies** (which have become a preferential business sector for investment, see below), **underground banking systems** (like *hawala* bankers - see e.g. Soudjin, 2014; Siegel & Van de Bunt, 2014), **trade-based** money laundering, **commercial** relations among companies or, often, **cash-transfers** by means of couriers and cash-mules.

**Figure 25 - Foreign OCG investments. Percentages of the total number of evidence per each OCP country**<sup>235</sup>



Source: Transcrime elaboration on DOCI

The transnational nature of criminal investments is evident especially in certain EU MS. Among OCP countries, **Spain** has the largest number of categories of OCGs<sup>232</sup> investing in the legitimate economy (28), followed by the **Netherlands** (25), the **UK** (17), France (16), Italy (13), Finland (5) and Ireland (4). Also some non-OCP countries record quite significant numbers (in particular Germany, Switzerland, Belgium).

**Transit countries**, such as France, Spain and the Netherlands, are also those with the highest percentages of the total number of references (respectively 92.4%, 81.6% and 68.3%) that can be attributed to **foreign (i.e. non-national) OCGs** (Figure 25).<sup>233</sup>

In the UK, Finland<sup>234</sup> and Ireland the database splits between local (i.e. British, Finnish and Irish groups) and foreign ones.

In **Italy, less than 10% of the references** refer to foreign OCGs, confirming both the 'Italian mafia' nature of criminal infiltration in the Italian economy and the lack of information

**Table 68 - Regions (NUTS 2) with the highest number of categories of OCGs investing in the area**

Region (NUTS 2)	Country	Number of categories of OCGs <sup>a</sup>
Andalusia	Spain	13
Community of Madrid	Spain	13
Catalonia	Spain	10
Balearic Islands	Spain	9
Inner London	UK	9
Community of Valencia	Spain	7
Galicia	Spain	7
Noord-Holland	Netherlands	7
Emilia-Romagna	Italy	6
Lazio	Italy	6
Lombardy	Italy	6
Tuscany	Italy	6

<sup>a</sup> The number includes also local (i.e. national) OCGs (e.g. British OCGs in UK, Camorra in Italy, etc.).

Source: Transcrime elaboration on DOCI

232. For details on how categories of OCGs have been classified, see Chapter 2 and the Methodological Annex.

233. As regards the Netherlands, analysis of the nationalities of suspects in the database of the prosecutors' office in the Netherlands (PPO) shows that most of cases involving investments can be referred to Dutch nationals (see Section 8.5). The difference with respect to the analysis of the DOCI may be due to both a different classification of OCGs (e.g. the PPO includes information on the place of birth but not on the ethnic group nor on the criminal group) but also to the different availability and type of information included in the two databases (see Section 8.6 for more details).

234. In this case also Motorcycle gangs are considered as 'foreign' although in most cases they may have a Finnish background, but it is not always possible to determine their geographic provenance.

235. In brackets number of references for which information on OCG is available.

on foreign OCGs in the country (see Section 8.4 for further discussion).

In regard to NUTS 2 regions, the areas which record the highest number of criminal investments are the Spanish communities, in particular **Andalusia** (13 OCGs) (Table 68 below). It is also worth noting that, among Italian regions, those with the highest number are **Lazio, Lombardy, Emilia Romagna and Tuscany** (6 OCGs each), which are not regions with a traditional mafia presence.<sup>236</sup>

## 7.2. Types of assets

Although in Europe most confiscations from criminal groups are limited to cash and registered assets such as cars and boats (see Part 3), the evidence collected shows that the **portfolio of organised crime** is composed of a **much wider variety of assets**, including real estate properties, companies, bonds, credits and other movable goods.

It is difficult to **provide a ranking** of what are the preferred types of assets. This depends on the investment strategy of each criminal organisation and on the scope of their criminal activities. However, some general considerations are suggested below.

### Registered assets

Registered assets (**cars, boats, motorcycles**, etc.) play an important role in the portfolio of OCGs in Europe. They are acquired both because they are *instrumental* to many illicit activities and because they are *status symbols* for many criminals.

In particular, they are central for the **transportation of illicit goods of any kind**. It is no coincidence that one of the preferred sectors for criminal investment is logistics (see 7.3): OCGs set up transportation companies as fronts, misusing companies' legitimate trucks or containers for illicit trade purposes.

**Boats** are widely used, for example, to transport trafficked persons and drugs: according to PNSD data, in Spain they represent a significant fraction of the assets confiscated for drug-related crimes (see Section 12.6). Boats are also used in ITTP (see 4.4), e.g. among Baltic states (Calderoni, Aziani, & Favarin, 2013; Calderoni et al., 2013a) and between Italy and south-eastern Europe.

In particular, **cargo ships** are often used to traffic counterfeit goods, illicit drugs, stolen assets and illicit tobacco products (UNICRI, 2011; WCO, 2014; Transcrime, 2015). The evidence collected shows that OCGs may directly control cargo companies, e.g. in the Netherlands for drug trafficking (Kruisbergen et al., 2012; Kruisbergen, Kleemans, & Kouwenberg, 2014; see Section 8.5).

236. This is consistent with the literature which assumes that in southern Italian regions (e.g. Sicily or Campania) the control by the local mafia groups on both illicit markets and business activities makes it difficult for foreign OCGs to 'enter the market' (see Sections 5.4 and 8.4).

237. In ITTP, trucks appear to be the type of vehicle most often used to smuggle and transport illicit tobacco products across borders (Transcrime, 2015).

238. These are organised convoys of cars driven at high speed (even more than 200 Km/h) along motorways. They have been widely used especially in France and Spain for the transportation of hashish and cocaine (see e.g. Eurojust, 2013b).

**Trucks** are widely used – individually or through the ownership of transportation companies – in many forms of illicit trafficking, from drugs to ITTP. Also **cars** are increasingly used, especially because of the growth of smaller crime gangs and freelance criminals (see Part 1) that cannot afford large-scale investments and vehicles and do not move large shipments of illicit products (e.g. the use of individual cars in ITTP cases is high.<sup>237</sup> see Transcrime, 2015). In France, the number of **go-fast convoys**<sup>238</sup> transporting cannabis or cocaine from Spain to northern Europe is increasing (see Section 5.2 and 8.1).

But registered assets also serve *prestige* purposes: cases of Ferrari, Lamborghini and other **luxury cars** confiscated from OCGs are quite common in many OCP countries (see Part 3). And also **yachts** and even **jets** and **helicopters** are not rare (see e.g. in Ireland, Sections 8.3 and 12.4). To be noted in this regard is the use of Pipers and other small aircraft as alternative means to transport drugs, persons, and other illicit goods from Morocco, the western Balkans or among EU MS (Europol, 2011a; Olimpo, Galli, & Santucci, 2014).

Finally, registered assets may be integral parts of OCGs' culture: the most immediate example is provided by motorbikes, and in particular **Harley Davidsons**, which represent a significant fraction of Motorcycle gangs' portfolios in Finland (see 8.1 and O). These OCGs are also often involved in the management of garages and **car-dealership** and **motor-dealership**.<sup>239</sup>

### Movable assets

Movable goods also represent important holdings in criminal groups' portfolios. They may range from cash and bank accounts to bonds, other financial instruments, artworks, valuables, jewels or fur coats.<sup>240</sup>

It is difficult to assess how much of the proceeds produced by OCGs in illicit markets is held in **cash and bank accounts**. Certainly, the investigations and seizures mentioned in this report have often involved large amounts (see e.g. Operation *Emperor* in Spain - Box 33 - and Operation *Octopod* in the UK - Box 38). The **availability and the capacity to manage liquidity** is crucial for any legitimate company (O'Regan, 2006, p. 230); but it may be even more so for criminal enterprises, which often have to pay their expenses in cash (e.g. for the purchase of cocaine shipments).<sup>241</sup>

Evidence of criminal investments in financial instruments like **bonds, stocks, options, futures**, etc. is not widespread. As suggested by a large body of literature (e.g. Transcrime, 2013a;

239. This business preference has been found also in relation to other criminal groups in other countries, such as Italy (see 8.4) and the UK (see 8.7). It has been hypothesized that, by managing garages, OCGs can also rent vehicles to other criminal partners for the commission of illicit activities (see in Finland 8.1) or also for cash-for-cash frauds (see in Ireland and the UK, 8.3 and 8.7).

240. For the classification of assets adopted in the report, see the Methodological Annex. Stocks are considered movable goods only if they are minority shares. If they are majority shares, or of an amount which allows control of the company, they are considered as 'companies' in themselves.

241. This may be a reason why the legitimate companies controlled by OCGs, for example in Italy by Italian mafias, have usually higher levels of current assets and cash than their peers (Standridge, 2012; Transcrime, 2013a; Riccardi, 2014a – see Section 8.4). In fact, on the one hand keeping the company's capital in cash proves useful because it may be misappropriated from the firm when expenses related to illicit activities have to be borne (e.g. payment of a drug order); on the other, current assets can be more easily liquidated in anticipation of asset confiscation by law enforcement agencies (Riccardi, Soriani, & Standridge, 2014).



Riccardi, 2014a; Kruisbergen, Kleemans, & Kouwenberg, 2014), criminal investments may not be particularly sophisticated; rather they search proximity and control of the territory (see drivers in 7.5). Findings at country level (Chapter 8) confirm this impression, although the growth of more sophisticated fraud schemes may entail a wider use of financial instruments.

Moreover, other forms of movable assets can be important, both for speculative reasons and, again, as *status symbols*: **paintings** and other **artworks** are often confiscated from criminal groups (see e.g. in the UK and the Netherlands), and they can be both symbols of prestige and investments in the art market. The same applies to goods like **jewels**, watches and **other valuables**, but also clothes like **fur coats**, which are often confiscated in many EU MS and mostly relate to fraud and money laundering (e.g. in the UK, the Netherlands and Spain).

Finally, also significant is the weight of **electronic appliances** (mobile phones, laptops, tablets, etc.) which have become crucial because of the increasingly ICT nature of criminal activities such as frauds, and which have been seized in many countries (e.g. in Spain – see 8.6).

### Real estate properties

**Houses, villas, flats** and other **immovable properties** are assets preferred for investment by many OCGs in most of OCP and other European countries.

In **Italy**, they constitute more than 50% of the goods confiscated from OCGs in the past thirty years, representing strategic assets for mafia organisations (see 8.4 and 12.5). In the **Netherlands** they are frequently found in the portfolios of criminal suspects identified in the PPO data (see 8.5) and, according to previous research (e.g. Meloen et al., 2003, p. 246), they are frequently involved in cases of money laundering.<sup>242</sup> In other OCP countries, such as **France**, **Spain** or the **UK**, the growth of the real estate market, especially in coastal areas and around capital cities, has collected a great deal of evidence on criminal investments (see respectively 8.2, 8.6 and 8.7).

There are numerous reasons why immovable properties attract OCG investments:

- First, real estate properties are **safe investments** (Ferwerda, 2012; Transcrime, 2013a): criminals may replicate the same investment behaviour of families across Europe, which consider investment in a house to be the best way to save money. Indeed, statistics show that, despite recent decreases, the volatility of the real estate market in Europe is still much less than that of the stock market.
- Second, properties can guarantee **high returns**, especially in areas characterised by a booming real estate market. Much evidence of criminal investments has been found, for example, in tourist areas such as Provence-Alpes-Côte d'Azur in France (one of the few regions in Europe with still rising house prices) (see 8.2 for details), Andalusia (and especially Costa del Sol), Balearic and Canary islands in

Spain (see 8.6), the Balkan coast on the Adriatic Sea and in European capitals (such as London, Paris, Madrid and Dublin where the recent crisis has affected the real estate market to a lesser extent).

- However, immovable properties can guarantee **profits also in the form of rents**: a house bought by an OCG with illicit proceeds, and then regularly rented, is effective for laundering money and producing periodic “white returns” (Ferwerda, 2012, p. 80; Transcrime, 2013a; Dugato, Favarin, & Giommoni, forthcoming).
- Fourth, real estate properties play a crucial role in **facilitating illicit activities**: in many OCP countries (e.g. Ireland, Italy, UK, Spain) they have served as either warehouses in which to stock illicit goods (such as drugs or counterfeit products, e.g. in Ireland, see 8.3) or places in which to exploit prostitution rings (e.g. the *Qian Liu* investigation case in Italy, see 8.4). Private houses have also been used to conceal criminals at large or as safe houses for members of criminal groups, or as laboratories to synthesise illicit drugs or to cultivate home-grown cannabis (EMCDDA, 2012, p. 29).
- Similarly, the purchase of real estate can itself generate opportunities to commit illicit activities: for example, **mortgage-frauds**, which, according to public authorities, are increasing in certain countries (e.g. in Ireland – see 8.3)
- Moreover, an investment in real estate can also guarantee **close control of the territory**: this seems to be the case of Southern Italy, where mafia investments in immovable properties seem much more frequent in areas and city neighbourhoods already characterised by a significant presence of criminal groups (Transcrime, 2013a; Dugato, Favarin, & Giommoni, forthcoming).
- Finally, real estate properties often also have value as **status symbols** and to gain prestige: OCGs investments in villas or luxury houses are common among local OCGs in areas such as southern France or Spain (see 8.2 and 8.6), but also for certain OCGs such as Russian-speaking criminal groups or Italian Camorra (see Box 29 on the *Sandokan villa* in 8.4).

### Companies

Although they are confiscated in only a few European countries (see Part 3), there is much evidence of OCG investments in legitimate companies in Europe. **More than 3,600 references** from the DOCI refer to companies, 82.7% in the seven OCP countries alone, and evidence has been found in 20 out of 28 EU MS.

Investments in legitimate businesses respond to a wide array of purposes and drivers, which are discussed below. The following section identifies the business sectors preferred by criminal investors and highlights some patterns as regards the companies active in those sectors.

## 7.3. Business sectors

A large number of business sectors record investments by OCGs in Europe. Table 69 shows those with higher and lower levels of evidence according to the number of references included in the DOCI.<sup>243</sup>

242. According to Meloen et al. (2003, p. 236), in about 40% of the cases of money laundering analysed, money was invested in real estate properties.

243. Taking into account only the 2,942 references stating the business sector. Business sectors have been defined according to the reclassification of the NACE categories illustrated in the Methodological Annex.



**Table 69 - Business sectors with evidence of organised crime investments in Europe**

Level of evidence <sup>a</sup>	Business sectors
Higher	Bars and restaurants; Construction; Wholesale and retail trade <sup>b</sup> ; Transportation; Real estate activities; Hotels
Medium	Waste and scrap management; IT and other services; Casinos, VLT and betting activities; Sex, tattoo and other personal activities; Banking and financial activities; Manufacturing; Clubs; Agriculture and fishing; Repair and retail of vehicles; Sports and gaming; Legal and professional activities
Lower	Money service businesses; Hospitals and residential care; Private security; Other sectors; Mining and quarrying; Renewable energy; Petrol and gas supply; Maintenance and cleaning services
<sup>a</sup> The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector. The classes are: <ul style="list-style-type: none"> <li>• High: <math>&gt; \text{mean} + 0.5 \text{ SD}</math></li> <li>• Medium: <math>\text{mean} + 0.5 \text{ SD} &lt; x &lt; \text{mean} - 0.5 \text{ SD}</math></li> <li>• Low: <math>&lt; \text{mean} - 0.5 \text{ SD}</math></li> </ul> <sup>b</sup> In particular, wholesale and retail trade of food products, clothing and textiles and gold and jewellery.	

Source: Transcrime elaboration on DOCI

At first glance, the business sectors with the highest levels of criminal investments have characteristics which, according to the literature, facilitate the infiltration by criminal groups of businesses or which better respond to OCGs' needs (see also 7.5):

- **Cash-intensive** sectors (e.g. bars and restaurants, retail trade, clubs, casinos), which may facilitate money laundering (Fijnaut & Paoli, 2004, p. 382; Ferentzy & Turner, 2009);
- **Territorial-specific** (e.g. real estate activities, construction, hotels), which can prove useful in monitoring the surrounding area and may benefit from stricter control over the territory of OCGs (Unger & Ferwerda, 2011; Standridge, 2012; Transcrime, 2013a; Riccardi, 2014a, p. 199);
- **Low-tech and labour-intensive** sectors (e.g. bars and restaurants, construction) which on the one hand may reflect the unskilled backgrounds and know-how of criminals, and on the other, build social consensus for OCGs by distributing jobs among a wide array of

244. As will be evident from many cases reported at country level (Chapter 8), members of the OCGs are often fictitiously hired as employees of the companies that they control so that they can be paid 'regular' salaries and, often, provided with alibis to cover illicit activities.

beneficiaries (including the members themselves of the OCG)<sup>244</sup> and enable the exploitation of irregular workers and forced labour (Gambetta & Reuter, 1997; Calderoni & Riccardi, 2011; Riccardi, 2014a).

- **Protected sectors**, characterised by inelasticity of demand and low openness to international competition, which may facilitate the establishment of local monopolies and rent-seeking positions (Gambetta and Reuter, 1997; Daniele and Marani, 2008; Transcrime, 2013a);
- Sectors with the high **involvement of the public administration or public resources/subsidies** (e.g. real estate, construction, renewable energy), so as to benefit from infiltration and corruption in the political and administrative system (Calderoni & Caneppele, 2009; Riccardi, 2014a);
- Sectors characterised by **small firms** and a weak commercial and infrastructural fabric, which OCGs can more easily infiltrate (Bertoni & Rossi, 1997; Masciandaro & Ruozi, 1999; Transcrime, 2013a, p. 420);
- Sectors functional to **illicit activities**, for example as fronts to conceal illicit trafficking (e.g. transportation and wholesale trade), or criminal activities (e.g. labour exploitation), useful for transferring illicit funds (e.g. money transfer businesses), or in which frauds can be easily committed (e.g. tax excise frauds in petrol and gas supply);
- Sectors characterised by a **weak or developing regulation**: e.g. construction and public procurement (Vander Beken, 2005; Savona, 2010; Caneppele, 2014), VLT and slot machine or renewable energy (Caneppele, Riccardi, & Standridge, 2013).

### **Criminal investments and sectors' profitability**

What about the returns on investment? Are the sectors with **higher levels of infiltration also those that are most profitable**? Answering this question is difficult because it entails individual analysis of the companies infiltrated by OCGs. This is not possible given the scope of the project and the data available.<sup>245</sup>

What can be done is conduct an aggregate examination of the gross profitability, on the basis of Eurostat structural business statistics, of the sectors with evidence of criminal investments (Table 70).

At first glance, it seems that the business sectors with higher levels of infiltration are not necessarily those characterised by the highest productivity, measured by value added per employee. Indeed, this is the finding of previous research (e.g. Standridge, 2012; Transcrime, 2013a; Riccardi, 2014a; Kruisbergen, Kleemans, & Kouwenberg, 2014), which shows that **profitability is not necessarily correlated with OCGs investments in legitimate businesses**.

245. In the DOCI, it is not always possible to identify exactly the companies involved, because in most cases names are not reported or only aggregate studies are available. Moreover, analysis of the financial accounts of OCG-controlled companies may be difficult due to accounting manipulations and unreliable financial representations (see Transcrime 2013a). A more detailed analysis of case studies on OCG infiltration of individual companies at European level is conducted by the EU-funded and Transcrime-coordinated project ARIEL ([www.arielproject.eu](http://www.arielproject.eu)).

**Table 70 - Gross profitability of business sectors with evidence of OCG investments**

Business sector	Value added/N. employees (EU-28 aggregate – 2013)	Level of evidence of criminal investments <sup>a</sup>
Mining and quarrying	6,604.5	LOWER
Renewable energy	5,773.6	LOWER
Real estate activities	3,892	MEDIUM
Legal and professional activities	1,585.5	LOWER
Manufacturing	1,559.2	LOWER
Transportation	1,293.2	HIGHER
Waste and scrap management	1,227.6	LOWER
Wholesale and retail trade	1,122.9	HIGHER
Construction	1,102.7	HIGHER
IT and other services	813.5	LOWER
Hotels and other tourist accommodations	782.7	MEDIUM
Bars and restaurants	552.6	HIGHER
Private security	670.2	LOWER
<sup>a</sup> See Table 69 above.		

Source: Transcrime elaboration on DOCI

### Focus on the most infiltrated business sectors

The following Sections focus on the business sectors that record the most criminal investments at European level:

#### Bars and restaurants

These register investments by a high number of OCGs (see Section 7.4 below). Due to their cash-intensive nature, they are widely used for money laundering purposes. Evidence of the infiltration of bars, clubs, pizzerias, kebab shops, fast food restaurants, street food stalls, and 'high-class' restaurants can be found in many OCP countries. They can also be used as fronts for criminal activities, for example to conceal the retail sale of illicit drugs (e.g. Operation *Shovel*, see Section 8.3), but also prostitution or forced labour.

Restaurants are also often linked to companies engaged in the wholesale of food products, which is another business sector

preferred by OCGs (e.g. see investments of a Camorra OCG in Spain in food import/export, catering services and pizzerias – Section 8.6). Finally, they are also important to maintain **public relations** with 'high-level' customers like managers, public officials, sports or entertainment stars (e.g. see Section 8.2 - France), especially if bars and restaurants are opened by OCGs in the proximity of public buildings (e.g. tribunals, ministries, public agencies, police stations) to 'capture' sensitive conversations between customers (see Section 8.4 - Italy).<sup>246</sup>

#### Construction

The construction sector is preferred for investment by many OCGs, primarily Italian mafias, although there is evidence of infiltration not only in Italy but also in **Finland, France, the Netherlands, Spain** and the **UK** (see Table 71 and Chapter 8). Public construction plays a crucial role in this sector (Sciarrone et al., 2010; Sacco, 2010; Transcrime, 2013a; Riccardi, 2014a), particularly in the public procurement area (Savona, 2010; Caneppele, 2014), where OCGs can exercise their capacity for corruption, intimidation and infiltration in the political and administrative sphere).

Criminal investment in construction companies is therefore a **more 'alarming' phenomenon** than simple money-laundering through restaurants or immovable properties, because this entails more capillary infiltration of the local political, business and social community (see e.g. cases in Italy, Section 8.4, and in France, 8.2).

Moreover, because construction companies (together with mining and quarrying) are necessary for the creation of other business activities (e.g. building a supermarket or a wind power plant – see below), they guarantee close monitoring of an entire area, thus facilitating control of the territory by OCGs (Transcrime, 2013a; Riccardi, 2014a).<sup>247</sup>

The presence of different types of criminal conducts within this sector has been confirmed by the high victimisation level of companies operating in construction across Europe (Dugato et al., 2013). In fact, this sector accounts for a quite large proportion of specific crimes committed to influence strategies and collude with public administrations (e.g. extortion, theft, bribery and protection money).

#### Wholesale and retail trade

This is the sector in Europe with the largest number of registered companies; hence its significant weight also for the OCG economy is not surprising. It is also the sector most victimised at EU level, in that it concentrates 44% of crimes against businesses in Europe (Dugato et al., 2013). Most of the evidence of criminal investments in this sector concerns:

- Wholesale and retail of **clothing and textiles**, particularly important for Chinese OCGs (see below) and Italian Camorra trading and selling counterfeit apparel (see Section 4.5).
- Wholesale and retail of **food products** which, besides reflecting food-culture specificities of countries (e.g. trade in olive oil from Andalusia, fish from Galicia, dairy products

246. Interestingly, according to the EU business victimisation survey conducted by Transcrime and Gallup in 2013, companies operating in accommodation and food services also experience high levels of victimisation across Europe (Dugato et al., 2013), being vulnerable to various criminal conducts, including protection racketeering, counterfeiting, vandalism, theft and burglary.

247. Finally, construction may conceal other illicit activities such as fraud or money laundering because low-quality, sub-standard and low-price materials (sand, cement, etc.) can be purchased and over-invoiced so as to create opportunities for trade-based money laundering and slush funds (see Section 8.4 - Italy); or illicit waste trafficking, because illegal waste can be dumped while preparing building sites or digging landfills.

in southern Italy, particularly Campania), have been widely used in many countries (see e.g. Italy, Spain, UK) as fronts to conceal the transnational trafficking of illicit drugs.

- **Import/export** companies, again used to hide the illicit drug trade but also, according to some evidence, by Eastern European OCGs to export cross-border goods stolen in organised property crime episodes (see Section 8.4 - Italy).

Other commercial sub-sectors with evidence of infiltration are the retail of **gold and jewellery** (especially in Italy with the rapid growth of 'compro-oro' shops – Section 8.4 - Italy) and also the **wholesale of medicines**, given that there are cases of fake companies established in various EU MS to trade stolen or adulterated medicines (see Section 4.10).

### Transportation

This sector shows much evidence of criminal investment. Transportation and logistics companies are crucial means to conceal illicit trafficking (e.g. drugs, counterfeits, firearms, etc.). There is evidence of infiltration of this sector, for example, across the border between Ireland and the UK (see 8.3 and 8.7) and in areas with major ports (e.g. the Netherlands, Italy, the UK, France), and even of **foreign shipping companies** (see Section on Netherlands, 8.5).

Moreover, to be noted is that transportation companies can play a key role in control of the territory (see e.g. the case of infiltration by 'Ndrangheta of TNT subcontractors in Northern Italy – Section 8.4) and may be related to cargo crimes in several EU MS (see 8.5).<sup>248</sup>

### Real estate companies and Hotels

Investments in real estate properties (see 7.2) can often be made by OCGs through real estate agencies and companies, which may provide anonymity and tax advantages (e.g. see the use of **societe civile immobiliere** in France, see 8.2). Complex networks of real estate companies have been used, for example, for the purchase of tourist resorts in southern Spain (see 8.6), in southern Italy (e.g. Operation *Metropolis*, see 8.3), and in the PACA region of France (see 8.2).

Similarly, **hotels and the tourist sector** attract the interest of OCGs in many OCP countries (e.g. France, Italy, the Netherlands and Spain, see Table 71) especially in areas with large tourism industries (e.g. Côte d'Azur, Sicily, Apulia) or in large urban areas.

### Emerging sectors

Finally, although they do not yet register *high* evidence of infiltration, according to DOCI, emerging business sectors are the following:

- **Renewable energy:** OCGs may take advantage of the large public subsidies offered by national and regional governments to incentivize the production of green energy. Important signals of infiltration can be found, for example, in the wind power sector in Italy (10% of installed wind power plants are under investigation for corruption or mafia association, according to Caneppele, Riccardi, & Standridge, 2013 – see Section 8.4).

- **Waste and scrap management (including renovation):** investments in this sector may be instrumental, among other things, to illicit waste trafficking, and they are widespread in Italy (especially in Campania, due to Camorra interests – see 8.4) but also in other EU MS (e.g. the companies managing the largest landfills in Europe near Bucharest, Romania, have been seized by Italian authorities on mafia and money laundering allegations).
- **Money transfer businesses:** alarm about the use of money service agencies to transfer illicit funds was raised already in the mid-2000s by FATF. However, there is new evidence of *direct* control of these companies by OCGs (e.g. in UK, Ireland, Italy and Spain – see Chapter 8).<sup>249</sup>
- **Casinos, VLT, betting, gaming:** as already highlighted in Section 4.9, these companies can often be used for money-laundering purposes (due to their cash-intensive nature) or may be connected to illegal gambling or match-fixing. Besides 'traditional' casinos, also smaller VLT and betting centres are emerging as vulnerable to OCG infiltration (e.g. Italy).

### Differences across countries

Although the sectors described show evidence of infiltration in almost all OCP countries and in many other EU MS, some distinctive features at country level are apparent. Table 71 reports for each OCP country the sectors with higher and medium numbers of references to investment.

Again taking the biases in the database into account, differences across countries may be due to various factors, including:

- The **business structure and entrepreneurial culture** of the country: e.g. construction has been historically a driver of the Italian economy (see 8.4); agriculture, fishery and the wholesale of food products are important in Spain, etc. (see 8.6);
- **Investment opportunities:** e.g. investments in hotels, bars, restaurants are stronger in countries and regions with large tourism industries (e.g. Andalusia, Côte d'Azur, etc.);
- Vulnerabilities in the national **administrative, political and regulatory systems:** e.g. evidence of investments in renewable energy (windpower) is widespread in Italy, where loopholes in the administrative procedures have been identified (Caneppele, Riccardi, & Standridge, 2013), while it is limited in other EU MS;
- The role played by the country in terms of **illicit activities:** in *transit* countries, such as the Netherlands, a more significant weight of criminal investments in transportation and cargo companies can be found (see 5.3 and 8.3); similarly, OCGs investments in waste and scrap management companies are higher in Italy owing to the interest of mafias in illicit waste trafficking (see 5.4 and 8.4);

248. In some cases of organised theft, instead of assaults on cargo vans, OCGs have preferred to set up fake transportation companies, obtain subcontracts from manufacturers, and then disappear (with the cargo truck and the company itself) with the transported goods (see e.g. with reference to medicines Riccardi, Dugato, & Polizzotti, 2014).

249. At least one case of an MSB controlled by Pakistani OCGs has been reported in the UK. In Italy, between 2010 and 2012, according to investigators at least 14 controlled MSB served Chinese OCGs to transfer more than 4 billion euro of illegal proceeds (from counterfeiting, sexual and labour exploitation) from Italy to China (see Operation Qian Liu and Qian Ba – Section 8.4).

**Table 71 - Business sectors with higher evidence of OCGs investments (OCP countries)**

Country	Higher*
Finland (61 <sup>a</sup> )	Construction; Repair and retail of vehicles; Bars and restaurants
France (87)	Wholesale and retail trade <sup>b</sup> ; Bars and restaurants; Real estate activities; Construction
Ireland (10)	Real estate activities; Wholesale and retail trade <sup>b</sup>
Italy (1369)	Construction; Bars and restaurants; Wholesale and retail trade <sup>c</sup> ; Waste and scrap management; Hotels and tourist accommodations; Real estate activities
Netherlands (610)	Transportation; Bars and restaurants; Wholesale and retail trade <sup>b</sup> ; Hotels and tourist accommodations; Real estate activities; Legal and professional activities; Sex, tattoo and other personal activities
Spain (107)	Real estate activities; Wholesale and retail trade <sup>d</sup> ; Bars and restaurants
United Kingdom (257)	Bars and restaurants; Wholesale and retail trade <sup>c</sup> ; Transportation
<sup>a</sup> Total number of references with information available on the business sector. <sup>b</sup> Including wholesale and retail trade (WRT) of food products, clothing and textiles and not specified WRT. <sup>c</sup> In which WRT of food products covers a significant role. <sup>d</sup> In which WRT of food products and of clothing and textiles cover a significant role. * The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector. The classes are: • High: $> \text{mean} + 0.5 \text{ SD}$ • Medium: $\text{mean} + 0.5 \text{ SD} < x < \text{mean} - 0.5 \text{ SD}$ • Low: $< \text{mean} - 0.5 \text{ SD}$	

Source: Transcrime elaboration on DOCI

- The **investment strategies** preferred by the OCGs active in the country: e.g. criminal investments in private security and repair of vehicles companies are higher in Finland because of the investment patterns of Motorcycle gangs.

While the country-specific analyses presented in Chapter 8 will explore the distinctive features at national level, the different investment patterns that characterise different OCGs are examined in the next section.

## 7.4. Actors

As in illicit markets, a **plurality of criminal actors** also invest in the legitimate economy. They range from 'traditional' organisations such as Italian mafias and large hierarchical OCGs to smaller criminal groups, loose networks and individuals (see Section 3.2).

### *Criminal actors and investments in the legitimate economy: emerging trends*

The evidence collected by Project OCP has highlighted the following features and emerging trends:

- An increasing role is played by **individual brokers** and **freelance entrepreneurs**. These may be in simultaneous contact with several criminal groups, and act either as **frontmen** for OCGs or as **facilitators**, in the sense that they ease criminal investments both in geographic areas not under the traditional control of OCGs and in business sectors requiring some level of expertise (e.g. the windpower sector in Italy - see Caneppele, Riccardi, & Standridge, 2013).
- Moreover, as often stressed by numerous international organisations (e.g. FATF, WEF and the European Commission), **financial institutions**, **professionals** (e.g. lawyers, accountants, etc.) and **company service providers** are key enablers, wittingly or otherwise, of money laundering by criminals and criminal organisations. In some cases they are integral parts of these criminal consortia, although it seems that some OCGs (such as 'Ndrangheta) prefer direct control over legitimate businesses without the involvement of external professionals and managers (Riccardi, Soriani, & Standridge, 2014).
- Also increasing is the number of cases of **joint ventures** between different groups in the management of legitimate businesses and legitimate markets: cases of cooperation can be identified, for example, between Camorra and Chinese OCGs in the clothing industry in relation to counterfeiting (see 8.4); various Italian mafia groups have set up cartels for the management of agri-food markets in Italy (see 8.4); while a high-level money-laundering scheme dismantled by Italian GDF involved Spanish OCGs, 'Ndrangheta OCGs and former Irish paramilitary members, which invested illicit proceeds in tourist resorts in Southern Italy (see 8.3 and 8.4).

### *The categories of OCGs most active in terms of investments*

Although, as underlined in Part 1 (see 3.2) OCGs active in Europe are increasingly **multinational and interethnic**, some categories of OCGs with a dominant geographical or ethnic origin<sup>250</sup> are more 'active' than others in terms of investment in the legal economy.

250. As illustrated in Chapter 2 and in the Methodological Annex, 35 categories of OCGs have been identified. The classification mainly relies on a nationality-based or ethnicity-based taxonomy (e.g. Turkish-speaking OCGs, Chinese OCGs, etc.).



**Table 72 - First three countries and five business sectors with the highest evidence of investment - Selected categories of OCGs**

Categories of OCG	First three countries	First five business sectors
Cosa Nostra OCGs	Italy; Spain; Romania	Construction; Wholesale and retail trade <sup>a</sup> ; Bars and restaurants; Manufacturing; Real estate activities
Camorra OCGs	Italy; UK; Spain	Wholesale and retail trade <sup>a</sup> ; Bars and restaurants; Construction; Waste and scrap management; Casinos, VLT and betting activities
'Ndrangheta OCGs	Italy; Germany; Spain	Construction; Bars and restaurants; Hotels and other tourist accommodations; Agriculture and fishing; Wholesale and retail trade <sup>a</sup>
Chinese OCGs	Italy; Netherlands; UK	Wholesale and retail trade <sup>a</sup> ; Bars and restaurants; Transportation and renting of motor vehicles; Real estate activities; Sex, tattoo and other personal activities
Russian OCGs	Spain; Italy; UK	Wholesale and retail trade <sup>a</sup> ; Bars and restaurants; Real estate activities; Hotels and other tourist accommodation; Casinos, VLT and betting activities
Outlaw Motorcycle gangs	Finland; Sweden; Netherlands	Bars and restaurants; Construction; Private security; Wholesale and retail trade <sup>a</sup> ; Repair and retail of vehicles
<sup>a</sup> Including WRT not specified, WRT of food, WRT of gold and jewellery.		

Source: Transcrime elaboration on DOCI

In particular, **Italian mafias** (especially **'Ndrangheta** and **Camorra**), **Chinese OCGs**, **Russian/Georgian OCGs** but also **British** and **Dutch criminal groups** (of various ethnic origins) are those for which the largest amount of evidence of investments has been found in the sources consulted. These categories of OCGs also appear to be the **most transnational ones**, i.e. those with evidence of investment in the largest number of countries (see Figure 26, Figure 27 and Figure 28).<sup>251</sup>

**Russian/Georgian OCGs** appear to be the most widespread in Europe in terms of infiltration of the legitimate economy. Although the focus of the data collection was on the 7 OCP countries, evidence of investments was found in 12 countries (see below). Among Italian mafias, Camorra and 'Ndrangheta are the most transnational ones. This is consistent with the findings of previous studies (see e.g. Forgione, 2009; Transcrime, 2013a; Calderoni et al., forthcoming). Chinese OCGs rank first, in terms of number of references, among non-European OCGs investing in Europe.

Table 72 presents, for the selected categories of OCGs identified above, the first three countries and five business sectors in terms of number of references to investment in and infiltration of the legitimate economy. The following sections comment on some of the main actors active in this field in Europe.

### Italian mafias

#### Cosa Nostra OCGs

Besides Italy, and in particular **Sicily** (see Section 8.4), evidence of investments by Cosa Nostra OCGs can be found in a variety of European countries.

In **Spain** (see Section 8.6), companies connected to the Sicilian mafia have been found in Andalusia, Galicia and Catalonia (Diario Cordoba 2008; Savio, 2009; Transcrime, 2013a). In particular, in 2008 in Galicia, Cosa Nostra members set up front-companies selling seafood products in order to launder proceeds from criminal activities, while in Andalusia they were active in the olive oil sector (La Opinión de Galicia, 2008; Faro de Vigo, 2008; Tojo, 2008, see 8.6). Evidence has also been found in Germany and Switzerland (Transcrime, 2013a), while in **France** there is evidence of money laundering by Cosa Nostra through casinos and hotels, especially in Côte d'Azur and Corsica (Chavane, 2005; Jérôme, 2006; Transcrime, 2013a, pp. 236-237).

The interest of Cosa Nostra OCGs in casinos is also apparent in **Croatia** and **Romania**. In the latter country, a large number of sectors (wholesale trade, transportation, real estate, waste management with involvement in the largest landfill in Europe, near Bucharest) has been infiltrated, often through local entrepreneurs and figureheads (Transcrime, 2013a; see Box 14). Particularly significant in this respect is the 2013 seizure by Italian authorities of the **waste management companies** controlling the biggest landfill in Europe, near Bucharest, whose beneficial ownership could be related to Cosa Nostra, according to police sources (Box 14).

In terms of business sectors, besides the historical interest in **construction** and **real estate activities** (e.g. Sacco, 2010; Savona 2010; Fondazione RES, 2013; Transcrime, 2013a; Riccardi, 2014a; see Section 8.4), **waste and scrap management** and **renewable energy** are attracting OCG attention. In particular, there are signals of infiltration of the wind power and photovoltaic sectors (Caneppele, Riccardi, & Standridge, 2013; De Paolo, 2013).<sup>252</sup>

251. In this regard, it should be stressed once again that the focus of the data collection was on the 7 OCP countries, while evidence on other European non-OCP countries was collected, but not systematically. Hence the analysis may be not fully representative outside the OCP area.

252. The large-scale Operation 'Via col Vento' conducted by Italian LEAs led to the seizure of dozens of wind energy companies believed to be connected with most wanted Cosa Nostra boss Matteo Messina Denaro (see 8.4).

As mentioned above, infiltration of the construction industry appears less significant in foreign countries, and legal companies serve primarily to facilitate illicit activities, such as drug trafficking (disguised by shell **wholesale trade** and **import-export** companies) and even fraud (e.g. in the olive oil sector in Andalusia - see Transcrime 2013a).

#### **Box 14 - Sicilian interests in Europe's largest landfill site near Bucharest**

In 2013, the Italian judicial authorities seized three companies in Romania that were managing the largest landfill sites in Europe (Gline and Tulcea) near Bucharest (Amadore, 2011; Lo Bianco & Lillo, 2012; Amadore, 2013).

According to the Italian prosecutors, the companies, active in the treatment and disposal of non-hazardous waste, could be indirectly linked to M.C., son of former Palermo mayor V.C. sentenced for mafia association. In particular, the prosecutors believed that these companies served to launder the proceeds of illicit trafficking by Cosa Nostra. Local entrepreneurs may have been used to set up these businesses (Amadore, 2011; Lo Bianco & Lillo, 2012; Amadore, 2013).

#### **Camorra OCGs**

Among Italian mafias, Camorra criminal groups are those emerging as most active in terms of investments at European level and outside the area of origin (Italy, in particular Campania, southern Lazio and northern Apulia). Abroad, major investments are made in **restaurants, pizzerias, bars, catering companies** and **wholesalers of food products** (especially dairy products). These last may be used also as fronts for the smuggling of illicit goods, especially drugs. However, there is also growing interest in **construction companies** in foreign countries.

In particular, strong infiltration can be found in the economy of **Spain** (see Section 8.6), where Camorra also plays a leading role in drug trafficking. In Spain, Camorra affiliates set up successful and profitable companies, and have even been able to manage the catering of events organised by the Italian Chamber of Commerce in Madrid and the Italian embassy (Transcrime 2013a), thus exhibiting a strong link with the local community; and they have also been able to acquire shares in large construction companies involved in the building of a real estate complex and tourist resort (see Operation *Laurel*, Box 35). Evidence has also been found in Scotland (Campana, 2011a; Transcrime, 2013a), Germany, Romania and Switzerland.

To be noted is that Camorra, among the OCGs covered by this study, is probably the one involved in the widest variety of business sectors (see Section 8.6): **wholesale and retail trade of food, dairy products, clothing** (crucial also for the marketing of counterfeit apparel), **flowers and plants, gold and jewellery** (through the so-called 'compro-oro' shops), **mining, quarrying and construction** and **VLT and slot machines** (Transcrime, 2013a; Transcrime, 2013b; Gruppo Antimafia Pio La Torre, 2014, p. 11; Riccardi, 2014a). In particular, significant differences in terms of investment

strategy and degree of *specialisation* can be found among different Camorra clans (Riccardi, 2014a).

Increasing investments are also made in **transportation**, and in particular **petrol stations**, both in Campania and other Italian regions (e.g. Emilia Romagna) (Cantone & De Feo, 2010; La Repubblica, 2013; Gruppo Antimafia Pio La Torre, 2014, p. 11). In particular, investment in petrol stations seems to serve both laundering purposes and control of the territory, but it is also instrumental to VAT frauds, excise frauds, product frauds (through alteration of fuel dispensers) and fuel smuggling.

#### **'Ndrangheta OCGs**

As already underlined in Part 1, 'Ndrangheta has rapidly expanded its illegal activities (from cocaine trafficking to ITF) outside its territory of origin (i.e. Calabria) into other Italian regions and other European countries.

In terms of investments in the legal economy, it seems that 'Ndrangheta has extended its businesses to several European countries. Evidence of 'Ndrangheta investments has been found in southern **France** (e.g. French Riviera) in the construction industry (see 8.4) and the real estate sector (Galliano, 2011; Le Mentonnais, 2012; Leclerc, 2012a; Transcrime, 2013a, p. 248).<sup>253</sup>

Several investments have been made by 'Ndrangheta in the real estate sector in **Italy, Spain, and the UK**. 'Ndrangheta's interest in the real estate market has also been underlined by Operation *Metropolis* (see Box 26), where 'Ndrangheta members established relations with real estate companies in Ireland, Spain and the UK in order to attract investments in tourist resorts in Calabria. According to the available information, the 'Ndrangheta also invests in **Germany**, especially in hotels and restaurants, construction, and the wholesale and retail of food, and in other European countries (e.g. in Portugal). In the **Netherlands**, despite the recognised presence of criminal affiliates in illicit markets (see 5.5), no specific evidence of investments has been identified.

Regarding business sectors, 'Ndrangheta invests in **construction, hotels, bars and restaurants, transportation and wholesale and retail trade** in both traditional and non-traditional territories (see 8.4 and Transcrime, 2013a; Caneppele, Riccardi, & Standridge, 2013; Riccardi, 2014a). In particular, to be noted is that some 'Ndrangheta groups have a sort of specialisation in infiltrating specific sectors (e.g. in Lombardy in construction, hotels, bars and restaurants – see 8.4).<sup>254</sup>

#### **Chinese OCGs**

Chinese criminal groups have diversified their activities and infiltrated the legal economies of several EU countries. They are the non-European criminal groups with the highest number of references, and evidence of their investments has

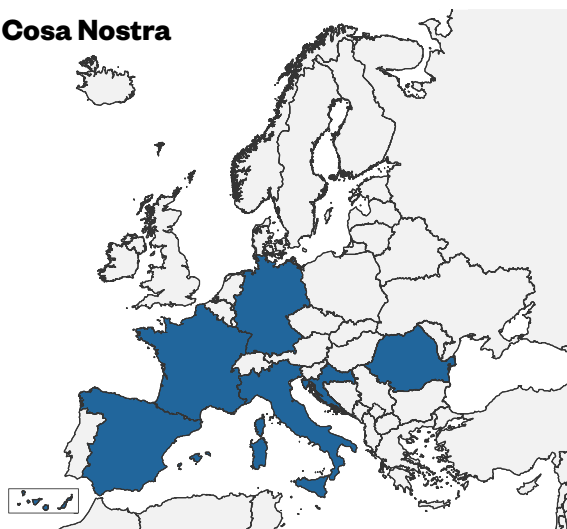
253. The investments by 'Ndrangheta in southern France and in particular the Côte d'Azur should be analysed in conjunction with its strong infiltration of the economic and administrative fabric in the Italian region of Liguria, and in particular in the province of Imperia, which adjoins the French Riviera (see 8.2).

254. Moreover, in some cases 'Ndrangheta groups have formed 'joint-ventures' with other Italian mafia groups: for example, with Camorra groups for the management of nightclubs on Lake Garda (see Box 28), or with Camorra and Cosa Nostra members for control of the fruit markets of Fondi (near Rome), Milan and Piacenza.

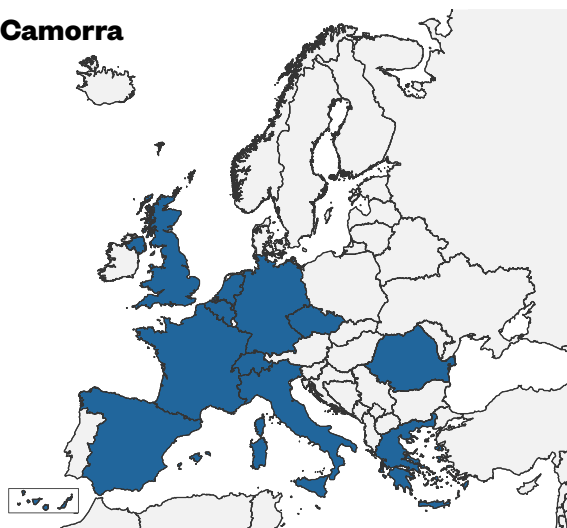


**Figure 26 - European countries with evidence of investments by Cosa Nostra, Camorra and 'Ndrangheta OCGs**

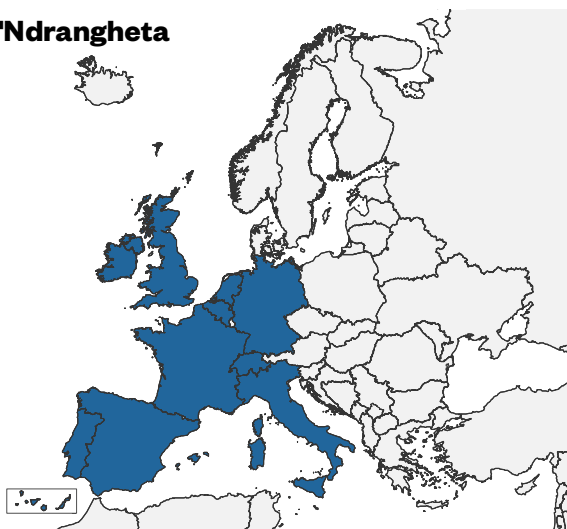
### Cosa Nostra



### Camorra



### 'Ndrangheta



Source: Transcrime elaboration on DOCI

been found in all the OCP countries (except Finland) and in several other European countries.

Chinese OCGs invest their money in various sectors. Investments in **bars and restaurants** have been discovered in Italy, France and the UK. In France and the UK investments in **real estate** as well as **wholesale and retail trade** relate to illegal activities (e.g. human trafficking, counterfeiting, money laundering, and drug trafficking) (El País, 2012b; Marraco, 2012).

In **Spain**, Chinese criminal groups set up businesses for money laundering purposes and operate in the hotels, restaurants and real estate sectors (see Box 33). Evidence in **Italy** has been found in various business sectors, including the wholesale and retail of clothing (also in connection with counterfeiting), bars and restaurants, real estate, massage parlours (as covers for sexual exploitation activities) and **money transfer businesses**, also used to transfer illicit funds to China (see Box 32).

### Russian and Georgian OCGs

Russian/Georgian OCGs appear to be the most widespread in Europe in terms of number of countries with cases of investment in the legitimate economy (see Figure 27).

In recent years, Russian criminal groups have invested particularly in **construction, transportation and logistics**, the **real estate** sector, the wholesale and retail trade, bars and restaurants, and **hotels**. Their activities in the legal economy are often related to schemes to launder the illicit proceeds of criminal activities (e.g. organised theft and firearms trafficking, etc.).

Russian OCGs set up businesses in **all OCP countries**. In **Finland** they have infiltrated the construction and transportation sectors, and their 'legal' activities are often functional for the commission of other crimes (e.g. fraud, money laundering – see 8.1). In **France**, cases are reported of the infiltration of the real estate sector in Paris and southern regions (INHES - OND, 2008; Gendarmerie Nationale-STRJD, 2013).

In **Italy** (see 8.4) there is evidence of investments related to *high-level* money-laundering schemes in hotels and restaurants and real estate; and also of smaller-scale investments in import-export, wholesale trade and transportation companies to conceal the transfer to Eastern Europe of goods stolen during organised thefts (Bianconi & Santucci, 2012).

In the **UK** there are cases of Russian OCGs running businesses active in sports and gaming, banking and the financial sector, and the wholesale and retail trade (see 8.7). Substantial evidence of Russian OCGs investments can be found in the real estate sector, bars and restaurants, and gas stations in Spain in relation to money laundering, frauds and human trafficking (Kegö & Molcean, 2011; La Vanguardia, 2013; Parjea, 2013, and see Box 15).

**Box 15 – Operation Clotilde: Russian criminal groups infiltrate Spanish economy**

Operation *Clotilde* targeted Russian criminals in Spain operating in various business sectors and laundering the illicit proceeds of crimes. According to investigative evidence, the Russian criminals had their headquarters in Lloret de Mar but were active in Catalonia and linked to representatives of the local economic and political system (La Vanguardia, 2013). They set up a complex money laundering scheme with construction companies, restaurants, retail shops, real estate businesses and gas stations.

**Motorcycle gangs**

Although **Outlaw Motorcycle gangs (OMCGs)** have historically been active in particular in Scandinavia and Northern Europe, there are signals of an **expansion and sophistication** of their financial interests in other European countries (see Figure 27).

Besides the laundering of illicit proceeds from criminal activities (e.g. drug trafficking) through both real estate and registered assets, in particular **motorbikes**, there is evidence of investments in legitimate businesses, mostly **bars and restaurants** and **construction** companies, but also **private security** (especially in Finland – see 8.1), wholesale and retail trade activities, **repair and retail of vehicles** and transportation.

**Box 16 – Operation Casablanca: Hells Angels across Europe**

Operation *Casablanca* was a large-scale international police operation involving Interpol, Europol and German, Austrian and Dutch authorities (Burgen, 2013). It led to the arrest of 25 members of the Hells Angels Motorcycle gang on suspicion of drug trafficking, trafficking in human beings, extortion and sexual exploitation. Illicit goods, movable and registered vehicles (e.g. luxury cars and motorcycles) were seized during the investigation, especially in Mallorca, where the OMCG had its headquarters. Apparently, the group was planning to invest in a F1 circuit to be built on the island (Burgen, 2013).

**Other organised crime groups**

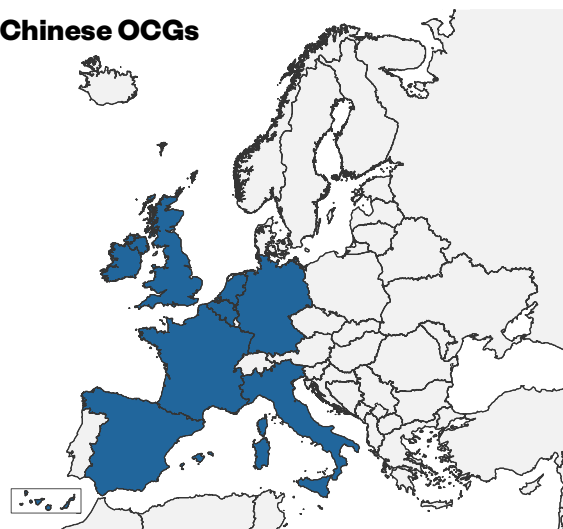
Among other types of criminal groups active in Europe in terms of investments in the legitimate economy, **Balkan** and other **South-Eastern European OCGs**, **Turkish OCGs** and **North African OCGs** are those that register the highest amount of cases in several European countries (see Figure 28).

Despite the large number of studies on, and investigative cases of, their activity in illicit markets across Europe (see Part 1), there are few references regarding infiltration of the legal economy.

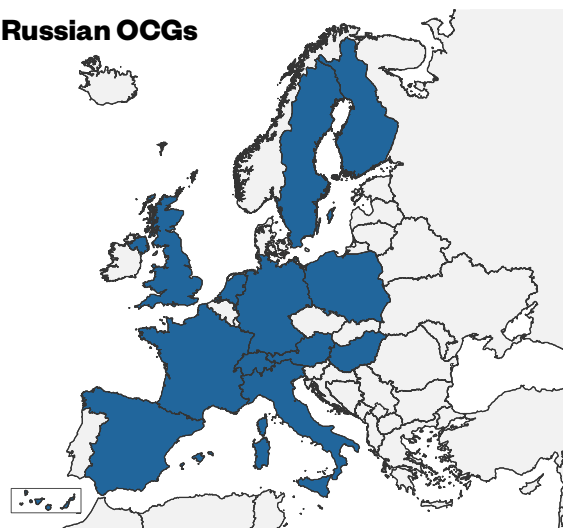
Cases have been found of North African criminal groups mainly involved in drug trafficking and investing dirty money

**Figure 27 - Countries with evidence of investments of Chinese OCGs, Russian/Georgian OCGs and OMCGs**

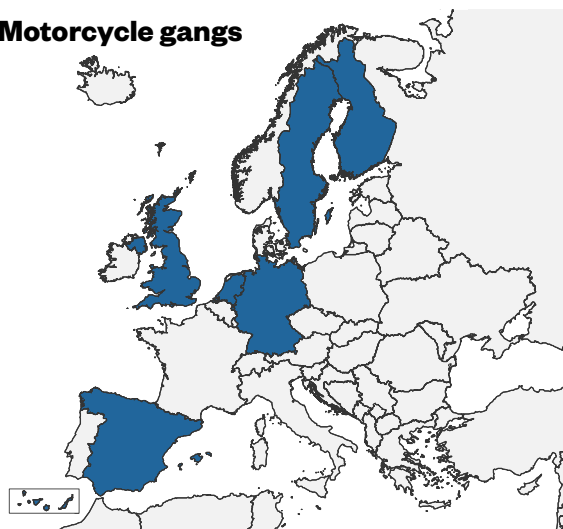
**Chinese OCGs**



**Russian OCGs**



**Motorcycle gangs**

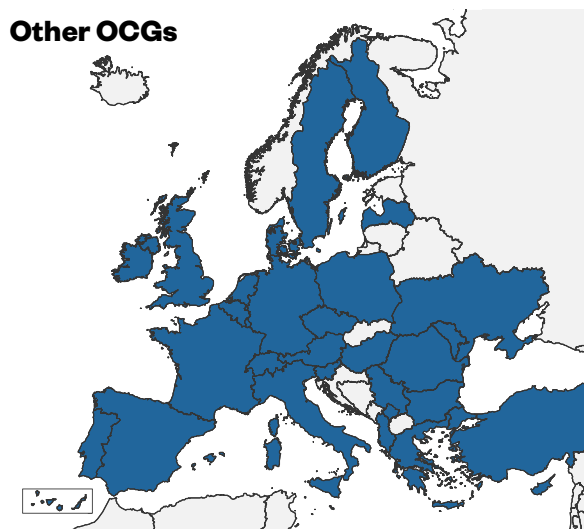


Source: Transcrime elaboration on DOCI

in fast-food restaurants (e.g. kebab shops) in France (see Box 21). The same applies to Turkish OCGs, which used a real estate company (*société civile immobilière*) to invest in immovable goods in the area of Metz, not far from the German border (Gendarmerie Nationale-STRJD, 2013).

However it has been frequently signalled that both North African and Turkish OCGs tend to transfer the illicit proceeds generated in Europe to **their countries of origin** (Gendarmerie Nationale, 2012; Gendarmerie Nationale-STRJD, 2013).

**Figure 28 - Countries with evidence of investments of other organised crime groups**



Source: Transcrime elaboration on DOCI

## 7.5. Drivers and concluding remarks

The analysis carried out by Project OCP has shown that organised crime investments not only respond to **money laundering** needs but serve a wider variety of purposes:

- First of all, investments in the legitimate economy, either in companies or other assets, may **facilitate the commission of illicit activities**, for example:
  - Criminal groups can use transportation companies, import/export and wholesale trade firms (especially of food products) as fronts to conceal the trafficking of illicit drugs or the smuggling of illicit, counterfeit or stolen goods;
  - They manage bars and restaurants, clubs and hotels as covers for prostitution rings or marketplaces for illicit drugs;
  - They buy real estate properties and use them to accommodate victims of sexual exploitation, stock illicit goods, or as laboratories to produce synthetic drugs;
  - They control money service businesses (MSB) to ease the cross-border transfer of illicit funds;
  - They exploit oil and gas firms or petrol stations to commit fraud (e.g. excise fraud, fuel laundering, product fraud, etc.).

- Second, **profit**: although the correlation with profitability is not clear, there is evidence that criminal groups invest in very profitable sectors (e.g. renewable energy) or in areas (e.g. PACA, Costa del Sol, etc.) characterised by a sustained real estate market.
- Third, **control of the territory**: investments in territorial-specific business activities such as construction, hotels, bars and the acquisition of real estate properties make it possible to monitor a certain area constantly.
- Fourth, investments in legal assets are also crucial for **infiltrating and expanding influence on the local politics, public administration and business community**. This has historically been a feature of Italian mafias, especially in their areas of origin (see 8.4); but it has started to characterize – according to the evidence collected and analysed – mafia investments outside the country of origin, and also the investment activity of foreign OCGs (e.g. Chinese, Motorcycle gangs, Eastern European OCGs), which, in a sense, seem to have increased their *mafia infiltration* behaviour.

It is evident that criminal groups use investments in the legitimate economy not only to launder money but also **to exercise their power and influence**, and to exploit economies of scale with the criminal activities in which they are involved. OCGs do not discriminate between illicit and legitimate markets; rather, they see them as a *continuum* along which to grasp profit opportunities and expand their power and economic gain.

Other patterns of criminal investment, especially in legitimate businesses, are emerging and should be stressed:

- First, the **expansion of criminal investments beyond 'traditional areas'**: examples are the investments by Italian mafias in northern Italy or in foreign countries (e.g. Cosa Nostra in Romania, Camorra in Spain, etc.) or the expansion of the financial interests of Motorcycle gangs in southern Europe.
- Second, the change in **control and ownership strategies**: there is evidence that criminal groups are accelerating the shift from more direct control (i.e. OCG members directly involved as shareholders or administrators of their companies) to more *indirect* control entailing the greater use of figureheads, freelance entrepreneurs hired on occasional bases, or the use of informal 'banking' services (i.e. the lending of funds) which most often result in a decisive influence on the decision-making process of the company itself (see so-called 'banks of the 'Ndrangheta' in Northern Italy – Section 8.4).
- Third, as mentioned above, the **increasing number of 'joint-ventures'** among different criminal groups for the management of legal companies, the control of legitimate markets, or the organisation of high-level money laundering schemes (see above).

This first exploration has important implications for the understanding of the dynamics of criminal investments but still leaves some crucial research questions unanswered. The results presented above must be interpreted cautiously, because OCGs do not necessarily think 'as one'.

It is instead necessary to determine at **what level of the criminal organisation** consumption patterns and investment strategies are determined. Who, in a criminal group, decides

whether to buy a real estate property or to acquire a share of a construction company? Is the decision taken at individual level, in the sense that the single OCG member may choose individually how to launder the illicit money that s/he earns? Answers to these questions indubitably constitute the most crucial area for research in the future.

This chapter is devoted to analysis of investments by criminal groups in the seven OCP countries: **Finland, France, Ireland,**

# 8. Focus on seven European countries

**Italy, the Netherlands, Spain and the United Kingdom.**

For each country, the analysis will follow the structure of Chapter 7, focusing on:

- the **geographical distribution** of the evidence on organised crime investments;
- the most frequently mentioned **types of assets**;
- the most frequently mentioned **business sectors**;
- the differences in terms of investment strategy among the **main criminal actors** active in the country.

## 8.1. Finland

*Sarianna Petrell and Jarmo Houtsonen (Police University College, Finland)*

### 8.1.1. Introduction

There is **not much literature or research on organised crime investments** in Finland. This may be due, among other factors, to the use of legitimate fronts and strawmen as *facades* behind which criminals, especially upper-level OCG members, use and control their property (Junninen, 2006).<sup>255</sup> The use of front men and shell companies not only hinders investigations but also **makes it difficult to obtain an overall and current picture of the situation on criminal investments** in Finland.

Also the Police Information System Patja, which is used as the main source for the analysis of confiscated assets (Section 12.2), gives a similar picture: the assets of the most experienced upper-level OCG members are hard to trace, while most of the activities of the Finnish lower-level OCG members appear to be quite small scale.

Bearing these limitations in mind, an attempt has been made to carry out an exploratory study, based on a variety of sources, of **where criminals may invest their illegal proceeds**. The analysis, the **first of this kind produced at national level**, does not aspire to producing a definitive description of the phenomenon, but can be considered a starting point for future research in this field.

<sup>255</sup> Unlike in some other countries, members of the Finnish OC are not listed openly as owners, managers or employers, and it is highly unusual if the names of the criminals appear e.g. in company documents.

### *Methodological remarks*

Owing to the lack of data on criminal investments, for the purpose of this analysis it was necessary to take account of a range of 'softer' sources, including:

- **Reports by LEAs**, and in particular crime situation reports, threat assessments, and annual reports produced by the National Bureau of Investigation (NBI);<sup>256</sup>
- Reports and **data on seized and confiscated assets** (see Section 12.2 for details);
- **Academic literature**;
- Open sources, in particular **media reports** (e.g. the Finnish newspaper *Helsingin Sanomat*).

The information collected from these sources yielded a limited set of references on criminal investments.<sup>257</sup> Where

<sup>256</sup> As mentioned in Section 5.1, the NBI's main task is to combat serious, international and organised crime, and produce up-to-date and reliable situational awareness on these crime areas. The NBI has the most extensive updated information on OC in Finland. Its surveys are based on criminal intelligence gathered in cooperation between police authorities, Finnish Customs and Finnish Border Guard Service. The reports include also police and other agencies' reports, judicial evidence, crime and administrative statistics and open sources. Most of the NBI reports are not publicly available since they contain confidential information. That is why they are referenced only with the name of the institution and the year of publication.

available, for each case, information about geographic region, type of asset or business sector, and type of criminal actor involved was collected. Given the limited amount of cases, the information collected hardly represents a representative sample, so that a **quantitative analysis would not be very informative**. Therefore the next sections will provide a more qualitative assessment. After some general considerations about the characteristics of criminal investments in Finland, the focus will be on geographical patterns, types of assets and business sectors, and on the criminal actors involved.

### **Organised crime investments in Finland: general considerations**

The reports by the NBI (2012–2014) indicate that OCGs use illicit proceeds to **cover the operating costs of illegal activities, to buy property, and to invest in the illegal and legal economy**. Money laundering and profit, together with facilitation of crime, seem to be important drivers behind investments. However, it is difficult to estimate **how illicit proceeds are divided according to different needs, goals, markets, offences and OC actors**. It is also hard to identify any patterns of investments for different OCGs.

Taking the structure of organised crime groups in Finland into account (see Section 5.1), it is possible to discern two main layers and roles in organised crime in the country, which may correspond to **two levels of criminal investments**:

- Most of the activities of the Finnish OCG members are quite **small scale**. The lowest layer of the criminal community lives hand-to-mouth and commits crimes only in order to satisfy daily needs. The small sums of money that these OCG members earn from criminal activities are used for everyday expenditure; there is nothing left to buy property or invest;
- The **upper level of organised crime in Finland** consists of the more organised and experienced OCG members, who are able to plan and commit serious and well-organised crimes in cooperation with other criminals, financiers and specialists (see Section 5.1). This upper level of OC is committed mostly in flexible ways and through networking: members of OCGs cooperate in appropriate roles with other actors in both the criminal and the legal sphere (NBI, 2013).

The most typical method used to launder illegal proceeds in Finland is still to report them as the property of close **intimates or other strawmen** (Junninen, 2006; NBI, 2013): wives, cohabitees, lawyers, children, friends, or any reliable person who may legally own and run a business (see Box 17). The front is used as a facade so that the authorities are unable to confiscate assets. The reliable front is formally responsible for ownership and management of the business in return for a small compensation.

Fronts seeking easy money are **not difficult to find in Finland** (Junninen, 2006). Needy or credulous people are willing to

### **Box 17 - The criminal's girlfriend as strawman of a large money laundering scheme**

In 2007, one OC figure, who had businesses in the car trade and the construction sector, both in Finland and Estonia, was arrested for aggravated narcotics offences. Despite being in prison, he continued his criminal activities during 2008–2010. The possessions acquired from narcotics and black economy businesses were laundered by transferring them with artificial arrangements under the name of his girlfriend. Altogether 16 apartments were registered in the name of the girlfriend, who was later suspected of aggravated money laundering. Also other relatives and the former trial counsel of the main suspect were suspected of aggravated money laundering and frauds. The prohibition of transfer ordered by the court covered property worth 1.8 million euro. The property consisted of several apartments, real estate and plots of land both in Finland and Estonia. Also a car and jewellery were confiscated (NBI, 2013).

serve the purposes of money launderers.<sup>258</sup> **False identities are rather easily available** in public data sources as well (NBI, 2012). Junninen (2006) stated that it is also possible to use ghost companies as fronts, or persons who themselves are not even aware of the fact that there are companies registered in their name. One method of hiding and re-investing the proceeds of crime is also to deposit the money abroad in different currencies, e.g. in Russia or tax haven countries.

Today, however, money laundering is increasingly carried out with systematic and professional methods, e.g. by making use of **business structures and companies both at home and abroad**, as well as by using the expertise of professional business and law specialists. Financiers of criminal projects operate in close cooperation with the OC figures because they know how to carry out both legal and illegal business operations. There are also a **number of underworld bankers** who finance criminal projects in Finland (NBI 2012).<sup>259</sup>

Even more sophisticated money laundering schemes are used. Illegal money obtained, e.g. in narcotics crime, is laundered by using business companies to pay **unreported wages** and make investments. The beneficiaries of criminal projects obtain their share (also laundered) as well as other **benefits like cars**. Vehicles are obtained by entering into agreements with car dealers cooperating with the OCGs<sup>260</sup> (Junninen, 2006).

258. Gullible persons interested in extra money and ready to lend their bank accounts are easily found on the Internet, and they are exploited by OCGs from abroad. Persons in difficult economic and social circumstances are also easily available in the criminal environment, and they are used as money mules to conceal the origin of proceeds.

259. For example, certain car dealers are specialised in serving criminal customers and providing them with underworld banking services. Holding companies are used to channel illegal proceeds into, for example, vehicles to be used by the perpetrators and organisers (NBI, 2013).

260. The cars used by criminals are often owned by car dealers specialised in serving criminal customers. The dealers know that the criminals work in illegal businesses and accept payments in cash. In return, they register the cars in the names of their companies.

257. In particular only about 70 references have been collected (see Chapter 2 and the Methodological Annex for details).



**Table 73 - Business sectors with evidence of organised crime investments in Finland**

Level of evidence*	Business sectors
Higher	Construction; Repair and retail of vehicles; Bars and restaurants
Medium	Maintenance and cleaning services; Private security; Transportation and renting of motor vehicles; Clubs; Sex, tattoo and other personal activities
*The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector (see Chapter 7). Information available for 61 references.	

Source: PCF elaboration on DOCI

Some of the money earned from black market operations and economic crime is redirected to the criminal groups by way of **tax and accounting fraud**. Criminal money is also used to **finance other criminal activities**, including drug trafficking and illegal bars (NBI, 2013). Moreover, Hietaniemi and Korpisaari (2005) reported that OC members use illegal profits gained from criminal activities to pay debts and living costs, and to **buy companies, intoxicants and luxury items**.

Moreover, an **overlap between illegal activities carried out by criminal groups and investment into legitimate businesses** can be identified. Huhtanen (2010) stated that OCGs in Finland are mainly engaged in the drugs business. However, they seem increasingly to favour financial crime almost as much, because of higher profits, lower risks and shorter sentences.

## 8.1.2. Geography

Given the limited amount of evidence, it is difficult to determine which geographic areas of Finland are most exposed to criminal infiltration and investments. Some information can be derived from analysis of confiscated assets (for details, see Section 12.2). According to this database, the locations of the confiscations vary from South to North Finland, **concentrating in areas where the influence of the OC is known to be strong**. Most of the confiscations have been recorded in the province of Uusimaa, which includes the three big cities of **Helsinki, Vantaa, and Espoo**. This seems to confirm what has been reported also in other OCP countries: that criminal investments concentrate mostly in populated urban areas or where the presence of criminal organisations is stronger.

## 8.1.3. Assets and business sectors

Although most confiscated assets are cash and vehicles (see Section 12.2), criminals' investments in Finland can be made in a variety of assets, including **real estate and legitimate companies, movable and registered assets** (e.g. cars, boats, etc.).

### Real estate properties

Only a few confiscated real estate properties were found regarding assets confiscated from OC members (see Section 12.2). Some of them had a value of up to 800,000 euro. However, it should be borne in mind that real estate properties are usually owned by legal fronts and reported under their name, which makes it difficult to determine if they are a preferred form of investment by criminal groups.

### Registered and other movable assets

Registered assets represent a substantial proportion of the assets confiscated from organised crime groups in Finland (see Section 12.2). The majority of them consist of **motor vehicles**, mainly cars and motorcycles. To be noted is that, as regards motorcycles, the most common make is **Harley-Davidson**.<sup>261</sup> **Motorbikes are an integral part of the OMCG culture**: they can serve both as 'investments' and as instruments to exercise power and to commit crimes.

Motor vehicles are confiscated especially in cases of aggravated narcotics offences and tax frauds (see Section 12.2). Instead, the cars used by criminals are often owned by **car dealers** specialised in serving criminal customers, which makes confiscation more difficult (Junninen, 2006).

As regards movable assets, cash is the asset most frequently confiscated. This suggests that **cash constitutes a significant part of OCGs' portfolios** (see Section 7). The sums confiscated vary from a few euro to hundreds of thousands. Also some bank accounts, jewellery, and stock certificates have been confiscated.

### Companies

According to media reports, police believe that hundreds of Finnish companies are in the grip of organised crime (Passi, 2011). It is estimated by the police that **more than half of the members of the most significant OCGs have companies of their own**, or they occupy responsible positions in other companies. Infiltration of business activities is an important means to gain influence, obtain crucial information, earn and launder illegal money, and carry out other criminal activities.

As mentioned above, infiltration by organised crime of companies is difficult to trace because the latter are usually owned by relatives, strawmen, or other legal fronts. Consequently, **no companies were found in the database regarding confiscated assets** (see Section 12.2).

The business sectors receiving investments from the OCGs in Finland (Table 73) are **construction and renovation, maintenance and cleaning, bars and restaurants, machine repair, second-hand machine and car retailing, tattoo and sex shops, and private security services** (including bouncers in popular nightclubs).

Business networks in these sectors provide several opportunities to **commit crime and launder money**. In addition to facilitation of crime, some activities (e.g. bouncers in nightclubs) are used to **gain influence and control over**

261. The values of motor vehicles were, instead, usually not available.

**the territory** (NBI, 2013). These are the branches in which the members of OC groups do invest for personal profit, and which they know and therefore use for their business activities.

OCGs have concentrated on **labour-intensive** (e.g. construction) and **low-tech** (e.g. bars and restaurants) sectors, and also on those **close to OCG cultures and lifestyles**, like sex and tattoo shops, motorcycle repair, and private security for the OMCGs. These are also branches in which OCG members can utilise the knowledge, skills and contacts that they typically possess. Also the **lack of supervision**, e.g. in the construction industry and the restaurant business, makes them vulnerable to exploitation by the OCGs. The resources to monitor these labour-intensive sectors are inadequate, and as a consequence the risk of being caught is rather low (NBI, 2013, 2014).

Numerous OCG members and their close acquaintances engage in business activities which serve the purposes of OC infiltration of society and its structures. Some sectors, e.g. the restaurant business, also enable the **laundering of stolen, smuggled or counterfeited products** (NBI, 2013).

Both **companies registered in Finland and abroad** are involved in money laundering by OC members. The companies related to OCGs are usually fairly small, but **multi-business firms** often provide a variety of services, such as security combined with various other services, like maintenance, cleaning, recruitment. These sectors can be used to gain entry to places that become targets of criminal activity (NBI, 2013).

OC members increasingly incorporate specialist support services into their networks, especially ones operating the fields of law and business. **Professionals and company service providers** are exploited in all phases of the criminal project, from preparation and commission to laundering of the proceeds. The infiltration of business by OC figures has brought financial crime-connected violence and extortion into companies (NBI, 2013). There follow comments on some representative business sectors.

### Construction

Police suspected that a criminal organisation linked to Bandidos MC (BMC) was behind an enormous series of economic crimes in the construction sector. Altogether 100 people were suspected of committing crimes in 200 different companies. Twenty million euro of suspicious money was transferred through these companies. At least 1 million euro were confiscated. The types of crime ranged from aggravated tax frauds to accounting offences. Most of the companies acted on the border between the legal and illegal sectors, and they used black labour and bogus receipts. The targets of the construction projects included a prison, a garrison, and a ministry building (Kerkeleä, 2006) (Box 18).

#### **Box 18 – From bikers to builders: the Hells Angels construction company**

In 2010, a Finnish minister discovered that the heating, piping, and air conditioning (HPAC) company that she had hired to renovate her mansion was owned by Hells Angels MC (Salovaara, 2013a). The same company had also been hired by a police station in south-east Finland (Nieminen, 2013). Another example of OC

activity in construction business is provided by a staffing company owned by a Romanian man who was also in charge of an OCG which brought 21 Romanians into Finland to work for very low wages on construction sites. The man was convicted of trafficking in human beings in Romania (Passi, 2011).

### Bars and Restaurants

One method commonly used to invest criminal money is to purchase a restaurant. OC members engaged in smuggling are often also involved in the restaurant business. Restaurants are constructed and renovated, and refurbishments are made by illegal workers using **stolen equipment and materials**. Alcohol and tobacco sold in these restaurants may **often be smuggled or stolen** (Junninen, 2006). Many OCGs, like Hells Angels MC (HAMC), have been accused of illegally selling alcohol in order to gain profits (Salovaara, 2013b).

Police suspect that a chapter of Bandidos MC earned tens of thousands of euro by running an **illegal drinking place** in their club house in South Finland. The activity lasted for at least a year and the customers were both members and non-members of the BMC. The alcohol was apparently bought in Estonia (Vähäsarja, 2011).

### Private security

In the security sector related to bars and restaurants, a significant phenomenon began in the early 2000s, when OCGs started to use their members as bouncers at the doors of night clubs or to establish their own companies in the door supervision sector. The **bouncer business** can be used **gain influence** and acquire a legal facade for criminal actions, since the same companies are also active in money laundering and the drug and doping business. Especially Cannonball MC has gained control of the doors to the big night clubs in Helsinki (Palovaara & Passi, 2012).

#### **Box 19 – The United Brotherhood company which sold security devices to public authorities**

A notable case arose in the security service sector at the end of 2013. Police authorities, the Finnish Customs, and the Ministry of Foreign Affairs had purchased security devices, mainly electronic tags, from a company partly owned by an investment company founded and headed by the sister of the leader of the OCG United Brotherhood. United Brotherhood is a new underworld alliance which was established by members of certain significant gangs in 2010. It is notorious for narcotics offences and the use of violence in, for example, debt collection. Half of its approximately 90 members are currently in prison. Also economic crimes, aggravated frauds, bribery and abuse of public office are connected to the case. Investigations are still under way (Passi & Reinboth, 2013).

### Sex and tattoo shops

The most significant outlaw Motorcycle gangs have established **tattoo shops in the biggest cities of Finland**. Setting up a tattoo business serves to mark the gang's foothold in the area and to support marketing and recruiting. These shops attract local young people interested in the biker lifestyle and perhaps to some extent already familiar with criminal subculture. The shops introduce them to the ideology and activities of the gang (NBI, 2013). Hells Angels MC, Bandidos MC and Cannonball MC have their own tattoo shops around Finland. HAMC and BMC also have stores where they sell their support products (Mölsä, 2008).

### Emerging sectors

The OC companies seek to avoid restrictions imposed by legislation and public regulation so that they can react to changes in the economy, legislation and consumer demand more rapidly than legal companies. By using black market cheap labour and avoiding taxes, OC companies can save money, offer cheap services, and win competitive biddings. Like all businesses, also OC is increasingly shifting its activities to the Internet, where anonymity, topicality and lack of borders are substantial advantages. Finland is among the top countries in combating corruption. Nevertheless, companies run by OCGs try to affect competition, for example in the construction business, by means of corruption and bribery (NBI, 2013).

#### Box 20 – A criminal gang's snow business

One feature of the OCGs is that they adjust rapidly to changes in society, and in different sectors. One example of how OCGs can extend their actions into new branches was apparent a few years ago during an exceptionally snowy winter. OCGs set up 'snow business' companies and offered to plough roads and clear roofs. The work was done by cheap black labour hired from abroad (Passi, 2011). When spring came, the house owners noticed that the workers had damaged their roofs, but the companies responsible for the snow clearance were no longer to be found. Instead, cheap repair work was soon on offer (NBI, 2013).

### 8.1.4. Actors

As described above, according to the available evidence, **Motorcycle gangs and other Finnish OCGs** are the criminal groups most active in investment in the country's legitimate economy. Their main areas and preferred business sectors for infiltration are those described above, although there are differences among groups in terms of investment strategy. However, there is also evidence of foreign financial interests, especially in the 'grey area' between legitimate companies and illegal markets.

Besides cooperation between Finnish OCGs, there is also cooperation between **Finnish and Estonian OCGs** in the field of financial crime. Estonian partners are able to provide black-market or low-wage labour for the purposes of OCG-related grey economy enterprises. In the case of joint criminal projects with Estonian criminals, especially in the construction sector, money is transferred to Estonia, for example using companies registered in that country (NBI, 2012). According

to Rajamäki (2006), the use of black-market cheap labour from Estonia and other Baltic countries occurs particularly in the metropolitan area, in the construction, catering and accommodation sectors.

Money laundering by **Russian OCGs** is a threat especially to the construction sector, because financing which originates from Russia may contain illegally obtained money, and therefore strengthen the strategies of action typical of Russian OC in the sector (NBI, 2012). In addition, Saarinen (2007) found that financial crime related to foreign trade and transportation via forwarding agencies<sup>262</sup> is conducted by Russian perpetrators with links to Russian criminal groups. Small **logistics and forwarding agencies** have been set up by Russian OCGs in Southern Finland in order to commit fraud and financial crime in connection with foreign trade and commercial transit transport to the Russian market.

### 8.1.5. Concluding remarks

The lack of research on OC investments in Finland makes it difficult to estimate the economic activities of the Finnish OCGs and to identify their investment patterns. Moreover, it is hard to gain a reliable overall picture of investments by analysing confiscated assets. Consequently, it has been necessary to rely on reports and estimates made by the **National Bureau of Investigation** and then included in the DOCI (see Chapter 2).

The concealment of criminal earnings is an integral part of organised crime. Criminal proceeds must be laundered to become part of the legal economy. In Finland, this is usually done by relying on **strawmen**, often chosen among close intimates. Today, however, money laundering is increasingly carried out in **systematic and professional ways**, e.g. by making use of business structures and companies both at home and abroad, as well as by using the expertise of professional business and law specialists. The use of fronts and facades to hide the real ownership of organised crime properties complicates not only investigations but also the production of analyses and situational awareness.

OCGs use illicit proceeds to **cover the operating costs of illegal activities, to buy property, and to invest in the illegal and legal economy**. Even so, there are no reliable estimates of how illicit proceeds are divided according to different needs, goals, markets, offences, and OC actors. Similarly, the patterns of investments by different OCGs are impossible to identify.

Finnish OCGs have hierarchical structures and flexible ties with various business experts that they need to plan and carry out operations. The largest proportion of criminal activity is undertaken by the lowest layer of the criminal community, whereas the upper level plans and commits serious and more sophisticated crimes in cooperation with other criminals, financiers, and business specialists (NBI, 2013). In Finland, **companies and real estate are seldom confiscated**, although they are often mentioned in NBI reports and analyses as important economic assets of organised crime. This may be because of the use of strawmen and relatives as nominal owners of property while the criminal figure maintains real control.

262. Forwarding agencies are companies that transport goods on behalf of other companies; therefore they are also responsible for customs clearance and other administrative issues related to import and export.

The business branches most typically with OCG involvement in Finland are **construction and renovation, maintenance and cleaning, bars and restaurants, machine repair, second-hand machine and car retailing, tattoo and sex shops, and private security service** (NBI, 2013). Business networks in these sectors provide several opportunities to commit crime and launder money.

## 8.2. France

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### 8.2.1. Introduction

Money laundering and **criminal infiltration constitute a threat for the legitimate economy of France** and a concern for the French public authorities (INHESJ - ONDRP, 2012, p. 233; Tracfin, 2013, p. 3). In recent years, regulatory changes have been made at national level to tackle money laundering and financial crime (FATF, 2011a) and a **variety of agencies** – investigative, judicial, and administrative – have been created for the identification and recovery of criminal assets (INHESJ - ONDRP, 2012, p. 232). They include, for example, the PIAC,<sup>263</sup> the BRIFN<sup>264</sup> and the French Financial Intelligence Unit TRACFIN. More recently, in 2011, the AGRASC (*Agence de la Gestion et Recouvrement des Avoirs Saisis et Confisqués*)<sup>265</sup> has been created with the purpose of managing seized and confiscated assets (see Section 10.4 and 12.3).<sup>266</sup>

There are various reasons why France is not exempt from money laundering but on the contrary may attract organised crime investments (some of them have been anticipated in Section 5.2).

- First, illicit markets in the country generate a **significant amount of illicit proceeds**. According to OCP estimates (see 5.2), France ranks third in terms of size of illicit markets among OCP countries (16 billion euro taking account only of illicit drugs, ITPP, counterfeiting, MTIC frauds and cargo theft). Although not all these revenues are attributable to organised crime groups and are laundered locally, a substantial proportion may enter the French legitimate economy.
- Second, France's central position at the intersection of various illicit trafficking routes (see 5.2) may also make it **a transit country for illicit fund transfers**, in particular across border areas (e.g. at the south-eastern frontier with Italy or the north-eastern frontier with Germany and Belgium).
- Third, and related to the previous point, the different ethnic origins of OCGs active in France (see 5.2) and their **interconnections with the motherland and other immigrant communities** worldwide, may expose the French banking and financial system, more than others, to illicit financial inflows and outflows.

263. The PIAC - *Plateforme d'Identification des Avoirs Criminels* is a specialised law enforcement unit established in 2005 and dedicated to financial and patrimonial investigation (see 12.3).

264. The BRIFN - *Brigade de recherches and d'investigations financières nationale* – provides operational support for investigations related to money laundering and other forms of organised crime in the economic and financial field (INHESJ - ONDRP, 2012, p.233).

265. The agency for the management and recovery of seized and confiscated assets is a public administrative institution under the joint supervision of the Ministry of Justice and Finance. It was created by law no. 2010-768, 9 July 2010 which aims to facilitate criminal seizure and confiscation (<http://www.justice.gouv.fr/justice-criminal-11330/agrasc-12207/>).

266. Moreover, to be noted is that France also hosts the Financial Action Task Force (FATF), a pivotal international organisation in the field of anti-money laundering.

- Fourth, France is a developed country still offering many **profitable investment opportunities**: for example in the real estate sector in certain regions such as Île-de-France and Côte d'Azur (see below). The proximity of centres of financial excellence like Luxembourg or the Principality of Monaco may also facilitate the establishment of businesses in the country (INHESJ - ONDRP, 2008, p. 211).
- Finally, according to TRACFIN (2013), the **recent economic crisis** has increased the risk of money laundering and criminal investments, because small companies in financial distress may be more easily infiltrated by OCGs (TRACFIN, 2013, p. 11).

However, despite the attention by public agencies, **criminal investments still remain understudied by scholars**, and large-scale studies are almost non-existent. This can be explained, as already mentioned in Section 5.2, on the one hand by the **lack of statistics on the activity of criminal groups** in France (Gendarmerie Nationale-STRJD, 2013), and on the other, by difficulties in **defining and classifying organised crime** in the country (Lalam, 2004): criminal groups are numerous, more or less hierarchical, often linked to foreign groups but not always ascribable to international criminal organisations and therefore not often clearly identifiable (Gendarmerie Nationale-STRJD, 2013).

Taking all these difficulties into account, this section attempts to provide a **first exploratory analysis of the investments by OCGs** in the French legitimate economy. It does so by drawing on the various sources described below.

#### Methodological remarks

Owing to the lack of statistics on money laundering and criminal assets, for the purpose of this analysis it has been necessary to draw on a **range of sources**, including:

- Reports by LEAs (e.g. Gendarmerie Nationale-STRJD, TRACFIN, etc.);
- Institutional reports (e.g. annual reports by INHESJ - ONDRP,<sup>267</sup> FATF, FIUs, etc.);
- Reports and data issued by asset recovery offices (e.g. annual reports by AGRASC)
- Open sources, in particular media reports;
- Academic literature.

Evidence of criminals' investments in the legitimate economy was collected from these sources and then **organised into the DOCI**. For each case, where available, information about geographic region, type of asset or business sector, and type of criminal actor involved was collected (see Chapter 2 and the Methodological Annex for further details).

This resulted in a **set of 114 references to organised crime investments**, most of them taken from institutional reports

267. The French National Institute for Advanced Studies in Security and Justice - INHESJ is a national public administrative institution under the supervision of the French prime minister, created by Decree no. 2009-1321 of October 28, 2009.



(e.g. INHESJ - ONDRP, Gendarmerie Nationale-STRJD, TRACFIN – see the Methodological Annex). To be highlighted is the lack of cases that could be collected from newspapers, which suggests **low media interest in this matter**. Given the limited amount of cases and the diversity of sources, the dataset collected does not represent a well-representative sample, so that a quantitative analysis would not be very informative. Instead, the next sections will provide a **more qualitative assessment** focused on the following issues: geography of criminal investments (8.2.2), types of assets and of business sectors (8.2.3), criminal actors involved and drivers behind investment (8.2.4).

## 8.2.2. Geography

Among the already limited number of references collected, those specifying the exact region of infiltration are even fewer. Therefore, a systematic mapping of criminals' investments across French regions is almost impossible. However, some trends can be highlighted.

### Organised crime illicit financial outflows

First, not all of the illegal proceeds produced in France are then laundered or invested locally. Instead, **OCGs (especially of foreign origin) operating in France may invest back in their home countries** or in those where they have strong ties (INHES - OND, 2008, p. 21; Gendarmerie Nationale-STRJD, 2013, p. 2).

In particular, there is evidence that **North African OCGs or gangs from 'difficult suburbs' (*quartiers sensibles*)** involved in the trafficking of illicit drugs have invested their proceeds abroad, for example in **Morocco in the real estate sector** (Gendarmerie Nationale-STRJD, 2013, p. 2). Similarly, Georgian OCGs involved in organised theft move their illicit proceeds from France to Russia and Georgia (Gendarmerie Nationale-STRJD, 2013, p. 4).

This trend not only **exposes French banks and money transfer agencies** to the risk of being victims of illicit fund transfers; it also constitutes a **double loss** for the French economy, because crimes are committed in the country and criminal proceeds are laundered abroad.

### Box 21 – Illicit proceeds from the French drugs market to Moroccan real estate

In 2012, the French Gendarmerie dismantled an international organisation trafficking drugs from Morocco via Spain. A Moroccan family, very well established in the city of Besançon, built an alliance with local criminals near Paris. Highly structured, the organisation controlled the entire supply chain, from production in Morocco to the retail market in France. It organised transportation of the drugs through Spain concealed among goods and semi-wholesale products (Gendarmerie Nationale-STRJD, 2013). The illegal proceeds, mostly generated in the French market of Besançon, were invested in France in fast food companies, but also abroad.

The second case involved a Moroccan family, located in Mayenne, which used the same strategy – local alliances and organised transportation – to smuggle drugs from Morocco to France. Their illicit profits were invested in real estate back in Morocco, where, according to documents discovered by the police during their raid, they purchased a residential property valued at 380,000 euro (Gendarmerie Nationale, 2012).

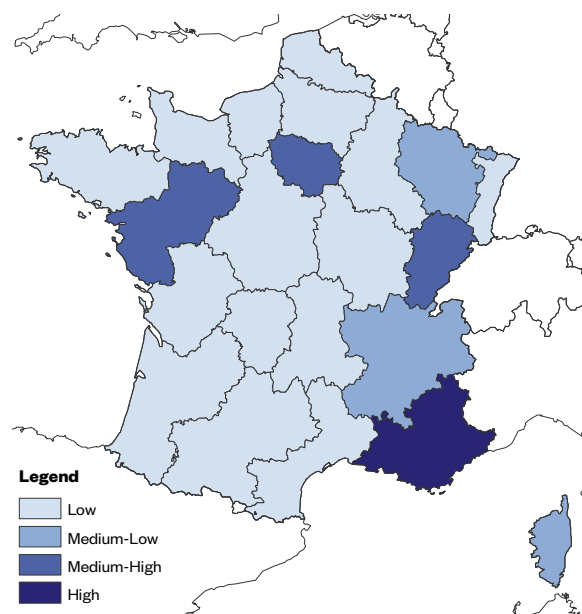
### Organised crime illicit financial inflows

As mentioned above, specific indications of the locality are given in only a limited number of cases. According to the evidence, the areas of France that seem to **attract most** criminal investments are:

- The **PACA region** (Provence-Alpes-Côte d'Azur);
- Île-de-France;
- **Corsica**;
- The **north-eastern border** (with Switzerland, Germany, Belgium), and in particular Rhone-Alpes, France-Comté and Lorraine.

South-eastern France, and in particular the **Côte d'Azur**, is a **crucial region** in terms of criminal infiltration of the legitimate economy for various reasons:

**Figure 29 - Geographical distribution of evidence of criminal investments in France (NUTS 2)<sup>268</sup>**



Source: Transcrime elaboration on DOCI

268. Classes identified using Jenks natural breaks optimization.



- First, since the 'French Connection' of the 1930s,<sup>269</sup> it has been, together with Corsica, an **area of influence of the French 'grand banditry'** (*grand banditisme traditionnel*) – especially around Marseille, Nice, Toulon (Montel, 2008; Gounev & Bezlov, 2010) – which has often been able to create an 'underworld' (*milieu*) of connections within the social and political fabric and infiltrate the political and economic system.
- Second, south-eastern France has often been **subject to infiltration by Italian mafias** (Cosa Nostra, Camorra, 'Ndrangheta), which have taken advantage of geographical proximity with Italy and language (most people in Côte d'Azur are able to speak Italian). To be stressed in this regard is the strong evidence of infiltration by '**Ndrangheta in the Liguria region, and in particular the province of Imperia**' (Demer, 2012; Transcrime, 2013b; Zancan, 2014; Pracchi, 2014; see also Section 8.4)<sup>270</sup> and that there is a risk that it may extend across the border, in particular into Côte d'Azur, thus creating a *continuum* open to criminal investments.
- Finally, Côte d'Azur is **attractive to foreign investors**, in particular in the real estate and hotel sectors. Properties in the areas record a surge in sales, unlike the rest of France and of Europe (Sullivan, 2014), and they account for 25% of all the international sales in the country (Sullivan, 2014). The **booming real estate market**, strong tourist appeal, together with proximity to centres of financial excellence like Monaco, may expose this area to high-level investments by both local and foreign OCGs.

South-eastern France is located (together with other European regions like Andalusia) at the **crossroads of the financial interests of numerous OCGs at the same time**, including the traditional *banditisme*, Italian mafias (in particular 'Ndrangheta) and other foreign groups (e.g. Russian). Moreover, 'joint ventures' among these organisations for investment purposes cannot be excluded (see Chapter 7).

As regards the other areas, **Corsica**, similarly to southern France, has been historically targeted for infiltration and investment by local OCGs because the criminal proceeds of Corsican groups are often laundered on the island (Gounev et al., 2010. See also 8.2.4 below). The **Paris area** is obviously exposed given its crucial role in terms of both business opportunities and criminal markets, while cases of money laundering by OCGs have also been found in north-eastern border regions such as **Lorraine and Franche-Comté**, in particularly related to illicit drug trafficking and fraud (Gendarmerie Nationale-STRJD, 2013). However, it is not possible to determine the magnitude of the phenomenon in these areas given the limited amount of information available.

269. The 'French Connection' of the 1930s organised the purchase of opium in Turkey, processed it into heroin in laboratories operated by Corsicans in Marseille, and then smuggled the final product into the United States. It is estimated that, during the 1960s and early 1970s, the French Connection supplied a large amount of the heroin used in the United States (UNODC, 2012, p. 67).

270. To provide an example, the councils of Ventimiglia (on the French border) and Bordighera, less than 20 km from Menton (Galliano, 2011), have been dissolved due to infiltration by 'Ndrangheta.

## 8.2.3. Assets and business sectors

There is evidence of criminal investments in **assets of all kinds**, including movable and registered assets (e.g. cars, boats, etc.), real estate and legitimate companies. The following sections describe the main trends for each type of asset, and provide a more detailed review of the most infiltrated business sectors.

### Real estate properties

Real estate is a **preferred form of investment for OCGs** active in France (Gendarmerie Nationale-STRJD, 2013; TRACFIN, 2011, p. 25), and it is often considered one of the first steps in infiltrating the local legal economy (Lalam, 2004, p. 382). Investments in real estate occur both in France and in the home country through transnational illicit flows (Gendarmerie Nationale-STRJD, 2013).

Properties also represent, in monetary value, the **most important asset confiscated** in relation to serious and organised crimes, according to AGRASC data (see Section 12.3), although it should be borne in mind that the confiscation of companies is almost non-existent in France.

According to the available information, the types of real estate most frequently mentioned (or confiscated) are **villas and luxury houses**, as well as apartments and land (Lalam, 2004, p. 382). This may suggest, as in other countries, patterns of luxury consumption by criminals.

In regard to related predicate offences, drug trafficking and fraud appear to be the main sources of illicit proceeds subsequently invested in real estate (INHES – OND, 2009, p. 194; FATF, 2011a; INHESJ – ONDRP, 2012, p. 232).

Investments may be made in personal names or through holding companies. There is evidence of the **increasing use of société civile immobilière (SCI) or société de gestion immobilière (SGI)** (INHESJ – ONDRP, 2012, p. 232; Gendarmerie Nationale-STRJD, 2013): these offer tax and management advantages, a wider range of possibilities in terms of the buying and selling of properties, and they make it more difficult to trace and seize assets.

As concerns the geography of criminals' investments in real estate, inspection of the distribution of confiscated immovable properties (see Section 12.3) shows that the most targeted areas have been Nord-Pas-de-Calais, Île-de-France, Lorraine, Rhône-Alpes, and Provence-Alpes-Côte-d'Azur (AGRASC, 2013, p. 39).

#### Box 22 - Corsican OCGs and real estate investments in Provence

In Aix-en-Provence, a number of affiliates to the Corsican *Brise de mer* OCG had invested in the real estate sector, making use of holding real estate companies (*société civile immobilière* - SCI). Among them was an important representative of the local hotel sector (L'Alsace, 2011). When this person was questioned in 2011, it was found that he had been laundering money through the purchase of a house in Corsica and shares in a holding company operating in Aix-Les Milles (Provence-Alpes-Côte d'Azur).

**Table 74 - Business sectors with evidence of criminal infiltration in France**

Level of evidence*	Business sectors
Higher	Wholesale and retail trade <sup>a</sup> ; Bars and restaurants; Real estate activities; Construction
Medium	Transportation and renting of motor vehicles; Hotels and tourist accommodations; IT and other services; Sport and gaming; Casinos, VLT and betting activities; Clubs
* The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector (see Chapter 7). The information is available for 87 references.	
<sup>a</sup> In particular, the wholesale and retail trade of food and of clothing and textiles.	

Source: Transcrime elaboration on DOCI

Finally to be noted is the interest of OCGs active in French illegal markets in the real estate sectors of foreign countries, more often the country of origin. For example, evidence of investments by North African drug traffickers (active in France) in **operations immobilières in Morocco** has been found, as well by **Russian/Georgian OCGs in properties in the motherland** (Gendarmerie Nationale-STRJD, 2013).

### Companies and business sectors

Criminal investments in legitimate businesses are **quite frequent in France**, regardless of the type of actor involved. They may be made by the *grand banditisme traditionnel*, foreign groups active in illicit trafficking in the country, smaller local gangs from difficult suburbs, or foreign mafia-type OCGs (Gendarmerie Nationale-STRJD, 2013).

Legitimate businesses serve a **plurality of purposes**, including money-laundering, profit-making, infiltration, and influence on the social and political community; or they can be used as fronts for illegal trafficking (e.g. transportation of drugs or of human trafficking) or they may host illegal activities such as usury and illegal gambling (INHESJ - ONDRP, 2012, p. 233; TRACFIN, 2013; Gendarmerie Nationale-STRJD, 2013).

Investments may be made through the acquisition of direct shareholdings or they may rely on more or less complex forms of 'layering', such as the use of **professionals or shell and fictitious companies**, often registered abroad (FATF, 2007, p. 18; STRJD, 2013, p. 2; TRACFIN, 2013, p. 13).

According to the data, criminal infiltration in France targets a variety of business sectors. Table 74 below lists the sectors with the highest and medium levels of evidence of criminal investment. Other sectors include **internet points and phone centres** (INHESJ - ONDRP, 2012, p. 233), **tobacconist shops** (INHESJ - ONDRP, 2012, p. 233), **car dealerships** (Gendarmerie Nationale-STRJD, 2013) and **casinos** (Transcrime, 2013a).

### Bar and restaurants

Evidence of infiltration in this sector by both local OCGs (e.g. see Box 23) and foreign ones (e.g. Chinese OCGs, see Berry et al., 2003, p. 10) can be found. Investments are usually made in **'pizzerias', fast food restaurants, street food stalls (e.g. kebabs) and bars** across the whole of France (Gendarmerie Nationale-STRJD, 2013; Saubaber & Monnier, 2013). As already noted, bars and restaurants do not require high-level management skills, are labour intensive (useful for exploiting or concealing irregular workers), can facilitate laundering due

to their cash-intensive nature, and are also crucial for *public relations* (Lalam, 2004, p. 382; Saubaber & Monnier, 2013). Moreover, bars may also host illegal activities such as illegal gambling and usury (see Chapter 4).

### Box 23 – A brewery in the south of France and a complex corporate ownership scheme

In 2012, while investigating night clubs in Aix-en-Provence, the police discovered a scheme to launder money via bars, restaurants, clubs and real estate. Criminal proceeds from extortion racketeering were invested in ALPHA,<sup>271</sup> a Swiss company created in 2000 for the sole purpose of buying BETA, a brewery in the South of France. When BETA's owner was arrested for organised money laundering, his shares were acquired by another company, GAMMA, which in turn acquired a restaurant, DELTA, through a Malian company, ETA, based in Bamako (Saubaber & Monnier 2013).

### Construction and public procurement

Investments in the construction sector are most common in **southern France and Corsica**, where cases of infiltration of the public administration have been most frequent (Cornevin, 2011; Le Mentonnais, 2012; Pelletier, 2012) and where the buoyant real estate market (see above) offers numerous opportunities for investment. The *grand banditisme traditionnel* has often been associated with infiltration of public works in the PACA region. More recently, cases of infiltration of construction companies operating on the French Riviera have also involved Italian mafia OCGs, in particular the **'Ndrangheta** (see Box 25 below). Infiltration of public procurements has also concerned **transportation and the waste management** sector (e.g. in Marseille, Verne, 2011; Bertrand & Lecadre, 2011; see Box 24).

### Box 24 – A case of corruption, money laundering and manipulation of public procurements in Marseille

This case concerns conflict of interest, money laundering, corruption, fraud and extortion. Two brothers from Marseille, one a high-level politician and the other an entrepreneur, helped each other by manipulating public procurements (Meeus, 2011).

271. The names of the companies are fictitious

In 2004, A.G. mandates a consulting company for bidding in waste management, to which he appoints a friend's firm. Police investigations revealed a 1 million euro fraud, perpetrated mainly through false invoices issued by A.G. and his friends. He used shell companies in the UK and Luxembourg to transfer the money. A.G. was able to obtain contracts for the La Ciotat centre and the police premises of Orgon in 2006; a 1.6 million euro contract for the construction of a building in June 2007; the rehabilitation of the General Council of the senior club Marseille Saint-Jérôme at 143,000 euro in 2008; and the maintenance of HLM houses in 2009 (Meeus, 2011).

### Hotels and other tourist accommodations

Infiltration of the French hotel sector has been mainly recorded in **southern France**, especially on the French Riviera and in Corsica. It regards both the traditional *grand banditisme* and foreign OCGs, in particular the Italian Cosa Nostra and 'Ndrangheta (Transcrime, 2013a, pp. 234-249). Cases of infiltration by Russian OCGs have also been reported.

### Casinos

As described in Chapter 4.6, **casinos and legal gambling activities** may often be used for laundering purposes. Judicial evidence shows that French OCGs have invested in casinos in Nice and Menton (Lalam, 2004, p. 383) and in entertainment bars in Paris (Saubaber, 2013). Evidence of investments by Italian Cosa Nostra in casinos on the Côte d'Azur can also be found (Transcrime, 2013a, p. 237).

### Wholesale and retail trade

The records reveal the interest of French OCGs, Italian mafias (in particular the Camorra in Rhône-Alpes, Provence-Alpes-Côte d'Azur and Île-de-France, see Forgione, 2009), and Chinese OCGs in this sector (Lalam, 2004; Le Parisien, 2012). Retail shops can be used to launder money or to sell counterfeit products such as **clothing and accessories**. Wholesale trade, and in particular **import-export companies**, are instead crucial as fronts for a variety of illicit trafficking, including drugs and the transfer of stolen goods.

### Movable and registered assets

Owing to the lack of data, it is not possible exactly to determine the role played by movable (e.g. bank accounts, financial assets, but also jewels, other valuables, etc.) and registered assets (cars, boats, etc.) in the portfolios of OCGs in France. In fact, none of the cases reported in the TRACFIN (2011, 2013) reports exclusively concerns the **purchasing of cars and boats**. However, the data on confiscated assets provided by AGRASC (see 12.3) suggest that these goods have a significant weight.

In particular, on the one hand registered assets like cars (Gendarmerie Nationale-STRJD, 2013) are often used for illicit trafficking, because most of the **illicit routes in France are by road** (see Section 5.2); on the other, the quantities of jewels, other valuables, and luxury cars and yachts that are seized suggest that movable and registered assets are used as **status symbols** and hence have a key role in the lifestyles of many affiliates of OCGs.

## 8.2.4. Actors

As discussed above (see also Section 5.2), a **plurality of criminal actors** operate in illicit markets in France. They differ from each other in terms of both levels of organisation and ethnic origin. They are active in a variety of illicit markets, some at more local and others at international level.

The same variety can be found when considering investments in the legitimate economy: traditional indigenous and well-rooted OCGs (such as the *grand banditisme* from Corsica or Marseille), former Corsican **independent groups converted into OCGs**, smaller criminal gangs originating from *quartier sensibles* and often linked to North-African groups, **Italian mafias** (in particular 'Ndrangheta), Russian-Georgian OCGs, Chinese criminal organisations, Turkish OCGs, south-eastern or eastern European groups (Albanian, Rumanian, Balkan, Lithuanian) are all, at different levels, investing in the French legitimate economy (Gendarmerie Nationale-STRJD, 2013, p. 1). This makes France, together with Spain, **the European country with the widest range of foreign OCGs**.

However, owing to the lack of data and the problems in classifying these groups (see 5.2 and 8.2.1); it is difficult to detect well-identifiable investment strategies. Nevertheless, some patterns can be highlighted.

### French OCGs

French criminal groups investing in the legitimate economy are **of two types**.

First, local OCGs linked to the traditional **'grand banditry'** (*grand banditisme*). Their infiltration of the legitimate economy is particularly significant in Provence-Alpes-Côte d'Azur (especially in the urban areas of Nice and Marseille) and in Corsica, where their influence on the local economy is substantial (Gounev et al., 2010). These groups exploit their **high-level connections and their corruption and intimidation potential by investing in sectors related to public procurements** such as construction, waste management, transportation, or real estate (Lalam, 2004; Meeus, 2011; Sarioglou & Guilledoux, 2011; Gendarmerie Nationale-STRJD, 2013). Moreover, there is evidence of investments in bars, restaurants, casinos and nightclubs (Lalam, 2004, p. 382; Saubaber & Monnier, 2013), which can be used also to build contacts and networks with politicians, celebrities, and 'élites' (Saubaber & Monnier, 2013).

The second category of indigenous criminal groups comprises **those originating from quartiers sensibles** ('difficult suburbs'), which can also be linked to North African OCGs. They are mainly involved in drug trafficking (both on the Netherlands-France route and the Morocco-Spain-France one) and they can invest either in France or abroad, for instance in the country of origin (especially Morocco) (Gendarmerie Nationale-STRJD, 2013, p. 2). They usually opt for **less sophisticated business activities** such as restaurants (kebab shops, fast-food restaurants, pizzerias, etc.), real estate and car dealerships (Gendarmerie Nationale-STRJD, 2013).

### Italian mafias

Southern France, especially the PACA region, has been targeted by Italian mafia investments in recent years (Leclerc, 2012). Evidence of **infiltration by the 'Ndrangheta** of the construction and real estate sector on the French Riviera is increasingly reported by the media (Galliano, 2011; Le Mentonnais, 2012; Transcrime, 2013a, p. 248). To be noted is the strong presence of the 'Ndrangheta in the neighbouring Imperia province in Liguria, which has even led to the dissolution of the councils of Ventimiglia and Bordighera, less than 20 kilometres from Menton, due to mafia infiltration (Galliano, 2011).

Evidence of investments by other Italian mafia can also be found. **Cosa Nostra** has invested in the south of Corsica and in the gambling sector in Nice (Transcrime, 2013a, pp. 236-237), while there are reports of Camorra interests in the wholesale and retail of clothing and textiles in Rhône-Alpes and Île-de-France (Forgione, 2009).

#### Box 25 – 'Ndrangheta on the Côte d'Azur: the Pellegrino case

A Calabrian family deemed close to 'Ndrangheta was spotted in the town of Menton in Provence-Alpes-Côte d'Azur. Although on the run, they were able to establish a legal registered company which obtained several construction contracts on the French Riviera (Le Mentonnais, 2012). In 2008, the French police intercepted the two Calabrian brothers while discussing a deal linked to money laundering. They heard the name of a luxurious building, the Royal Plaza, which turned out to have been built by a contracting company owned by the mafia. The municipality bought premises from a company owned by this family. This same company built 37 apartments and managed 5 construction sites. It even built police offices (Le Mentonnais, 2012).

### Russian/Georgian OCGs

There is evidence of Russian/Georgian OCG investments in the **real estate sector** in Paris (INHES - OND, 2008, p. 211) and in Southern France, mainly in the PACA region (Kegö, Leijonmarck, & Molcean, 2011, p. 39). It is likely that also the hotel sector on the French Riviera has attracted these inflows.

By contrast, **Georgian OCGs** (*Vor-y-Zakone*) active in illegal markets in France, in particular organised theft, may prefer to send the proceeds of crime back to their home countries (INHES - OND, 2008, p. 211; Gendarmerie Nationale-STRJD, 2013).

### North African OCGs

**North African groups** are mainly involved in drug trafficking along the Morocco-Spain-France-northern Europe route. Although, according to police evidence, they are more likely to invest back home (e.g. in the real estate sector in Morocco) (Gendarmerie Nationale, 2012; Gendarmerie Nationale-STRJD, 2013), some have laundered their illicit revenues through French fast-food restaurants (e.g. kebab shops) (see Box 21).

### Other OCGs

According to the sources, there is also evidence of **Dutch, British, North American, Western European and Chinese OCGs** groups (Berry et al., 2003, p. 10; WODC, 2012, p. 364), mainly in the Paris real estate sector (INHES - OND, 2008, p. 210). Chinese are also present in small-scale restaurants (Berry et al., 2003, p. 10; INHES - OND, 2008, p. 210), and in the wholesale and retail trade, which can also be used to sell counterfeit products (Le Parisien, 2012).

Evidence of money laundering by **Turkish OCGs** in real estate properties (through *société civile immobilière*) has been identified in the area of Metz, not far from the German border (Gendarmerie Nationale-STRJD, 2013).

## 8.2.5. Concluding remarks

This Section has attempted to provide the first picture of OCG investments in France. As said, the research encountered a number of problems, including the **lack of statistics and case studies** on criminal investments in France and difficulties in comparing evidence collected from a **variety of sources** (judicial evidence, institutional reports, police and LEA reports, media and newspapers). Nevertheless, some important findings have been obtained.

In particular, **two levels of infiltration of the legitimate economy** can be identified. The first characterises **smaller groups** like criminal gangs from *quartier sensibles* or foreign OCGs (such as North African OCGs or Georgian OCGs) active in drug trafficking or in organised theft and robberies. Such infiltration seems widespread across France. It consists in **low-scale investments in unsophisticated economic activities**, such as bars, fast-food restaurants and small shops, and appears to be mainly driven by money laundering purposes.

The second level is typical of the **grand banditisme traditionnel** and is a **more sophisticated and complex infiltration** which relies on a consolidated underground (*milieu*) network of contacts among political, economic and social actors. These contacts can be exploited for higher-level investments in real estate, construction, waste management, and any other activity related to public procurements and public resources. This type of infiltration may be more frequent in specific areas of France such as Corsica and the Provence-Alpes-Côte d'Azur (PACA). Besides the traditional Corsican or Marseille OCGs, there is evidence that also **Italian mafias (in particular the 'Ndrangheta)** are increasingly adopting this approach on the French Riviera.

Also to be noted is that some of the groups active in France **tend to invest back in their home countries**, rather than launder locally. This exposes the French financial system (traditional banking but also the system of money transfer agencies) to illicit fund transfers and outflows.



## 8.3. Ireland

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### 8.3.1. Introduction

It is not easy to provide a detailed overview of OCG infiltration of the Irish legitimate economy. Firstly, most of the available literature about OCGs in Ireland, at both academic and investigative level, **focuses on their role in illicit markets** (see Section 5.3) rather than on their money-laundering activities. Secondly, as in many other countries, it is not always possible to determine if a criminal conduct is ascribable to 'organised crime' and thus decide whether an asset or investment has been part of an organised crime group's strategy or of individuals' investment behaviours.

However, given the activity of OCGs in diverse illicit markets in Ireland (see Section 5.3), particularly the trafficking of illegal drugs, firearms, tobacco products, and more recently frauds (An Garda Síochána, 2011; An Garda Síochána & PSNI, 2012a; OCTF, 2013; CAB, 2013a; Grant Thornton Ireland, 2014), and considering Ireland's nature as a 'transit' country for a range of illicit goods, it is likely that illegal proceeds generated by these activities are laundered in the Irish legitimate economy.

There is a **growing attention to this issue in terms of media coverage** (an increasing number of reports have been devoted to OC infiltrations), public agencies' reports (e.g. An Garda Síochána, 2011; An Garda Síochána & PSNI, 2012a; CAB, 2012; CAB, 2013a), and studies by private organisations (e.g. Grant Thornton Ireland, 2014).

Moreover, it should be borne in mind that whilst Ireland was already one of the **most advanced jurisdictions in Europe in terms of criminal asset recovery** and efficiency of the law enforcement system (Calderoni, Rotondi, & Favarin, 2013, p. 51), the legislative framework has been further improved with the adoption of additional measures to combat money laundering and criminal infiltration of the legal economy (for a review of these measures see Davey, 2008; Mitchell, 2012; FATF, 2013b; Grant Thornton Ireland, 2014).

Despite this action, information on OCG investments is still scant, which makes it difficult to carry out any comprehensive and systematic analysis of this phenomenon. Therefore, for the purpose of this study, it was necessary to rely on a **variety of sources**, including:

- **Reports by Law Enforcement Agencies** (LEAs), such as the annual reports of the An Garda Síochána, of the Organised Crime Task Force (OCTF) and the Cross Border Organised Crime Assessments issued by An Garda Síochána jointly with the Police Service of Northern Ireland;
- **Annual reports** of the CAB - Criminal Assets Bureau;
- Reports by public and private organisations (e.g. FATF, MONEYVAL, Grant Thornton, etc.);
- **Academic literature**;
- **Media reports** and other open sources;

- Statistics on **seized and confiscated assets** (CAB, Offices of Director of Public Prosecutions and Revenue Customs – see Section 12.4 for details).

Relying on this information, it was possible to identify some evidence of OCG infiltrations, and a dozen important case studies that were examined in detail in the analysis reported below. Although the information may be not sufficient to reach any definitive conclusions on OCG investments in Ireland, the following issues and trends may be highlighted:

- First, as already mentioned in Section 5.3, it is difficult to identify a specific profile of Irish OCGs investing in the legal economy: they may take the form of **'occasional' criminal enterprises** or of **business-oriented criminal groups** with contacts among foreign groups (such as Italian 'Ndrangheta or Russian OCGs) and in foreign countries, or they may result from former paramilitary groups such as the IRA.
- The cases identified are **often transnational in nature**, in the sense that there is evidence that some foreign countries (in particular Spain, the UK and Italy) have received investments or witnessed money-laundering activities by Irish OCGs. It may happen that Irish OCGs use their international links with foreign groups not only for illegal trade but also for money laundering (see e.g. Operation *Metropolis* in Box 26).
- In most of the cases identified, the assets in which OCGs invested had not only a laundering role but also a **functional purpose**, in that they served for the commission of the illegal activity itself: e.g. OCGs invested in properties that were used also to store illegal drugs and smuggled goods, or in companies useful for transporting illicit drugs (e.g. wholesalers of food products, see below) or for selling them (e.g. bars and restaurants).
- Thus, it cannot be ruled out that **other Irish business sectors** that may be strategic for certain illegal markets are also targeted by OCG infiltration: e.g. petrol stations or oil supply companies for fuel laundering (see below, 5.3 and also Section 12.4), transportation companies for smuggling, or financial companies for committing frauds.
- However, considering the boom of the real estate market that has characterised Ireland in the past twenty years (see Section 8.3.3 and Figure 31), and taking account of the similarities with the UK environment, it cannot be excluded that also **real estate** has attracted investments by criminal groups, including foreign ones (e.g. Russian OCGs) and especially in large urban areas, for both 'speculative' or money-laundering purposes (McDonald, 2008; Quigley, 2013).
- Finally, new opportunities for OCGs investments or money laundering may have been created by recent developments in the financial system, such as the spread of **money service businesses** and pre-paid cards (An Garda Síochána & PSNI, 2012a, p. 16) or, more recently, by the emergence of bitcoins.<sup>272</sup>

These findings, which in some cases may appear speculative, confirm that further research is needed in this field, perhaps based on a larger amount of evidence and data. The following sections instead report the results of an exploratory analysis conducted on the information collected to date.

### 8.3.2. Geography

As said above, evidence of OCG investments can be found both in Ireland and foreign countries in which Irish OCGs operate (see Figure 30).

#### *In Ireland*

In Ireland, most of the cases of OCG investments identified according to the available information seem to be located in the **southern and eastern region**, especially in the **Dublin area**. The prevalence of large urban areas, in particular Dublin, may be explained on the one hand by the higher level of OCG activity (such as drug trafficking and sexual exploitation), and on the other, by the greater opportunities for investments, especially in the real estate market (see Figure 31).

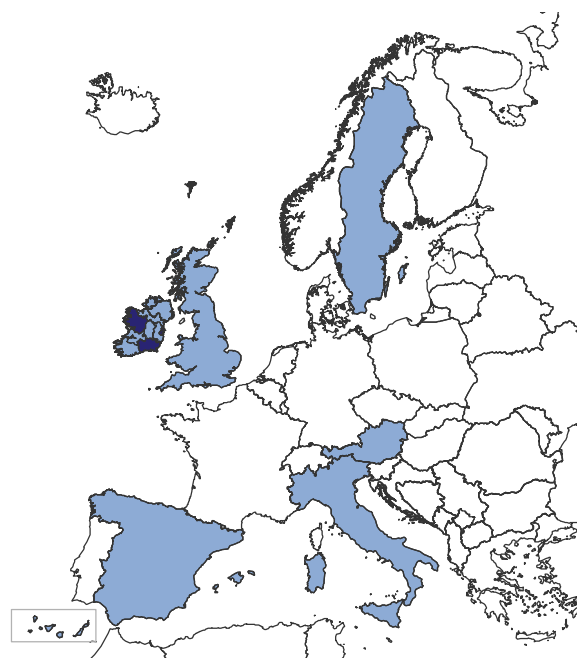
As will be discussed in Section 12.4, these patterns seem to reflect also the **distribution of confiscated assets**: in 2012 CAB was able to recover a large amount of assets identified as proceeds of crime, especially under the Proceeds Of Crime Act (POCA) legislation, in large cities, such as Dublin, Cork, Limerick and Waterford (CAB, 2012, p. 11). In particular, according to POCA, the Dublin region attracts the majority of investments in real estate, followed by eastern regions.

However, operations leading to the seizure of assets have been conducted also in the **western region** (e.g. Operation **Foolscape** (2009) - An Garda Síochána, 2010, 2011) or in the south-east of the country (e.g. Operation **Munster** (2014) - Gleeson, 2014).

Although it offers fewer 'market opportunities', also the **border with Northern Ireland** may not be exempt from OCG investments and money laundering. In particular, companies or businesses activities that could play a strategic role in illicit trafficking or smuggling (see above and Section 5.3) may be at risk of OCG infiltration. To be mentioned in this regard is the evidence of OCG intrusion into some Money Service Businesses (MSBs) in the border region, which are used to transfer illicit flows or to launder illegal proceeds (An Garda Síochána & PSNI, 2012a, p. 16).

Finally, there is evidence of infiltration of the Irish economy also by foreign criminal groups involved in illegal markets (e.g. human trafficking, drug dealing, ITTP) often in connection with local criminal groups (see Section 5.3). In particular, **British, Russian, Chinese and Eastern European OCGs** may invest or launder their illicit proceeds in the same country where they conduct the illicit activity (An Garda Síochána & PSNI, 2012a; Breen, 2014). British and Chinese nationals are among the owners of assets confiscated pursuant to sections 4 and 4A of POCA (see Section 12.4).

**Figure 30 - Countries and regions with evidence of Irish OCGs investments**



Source: Transcrime elaboration on DOCI

#### *From Ireland*

As said, Irish OCGs or other groups operating in Ireland may invest in **foreign countries** as well, in particular where Irish OCGs are active in illicit markets (e.g. foreign regions which act as logistical bases for drug trafficking) or where other foreign OCGs with which they have links are well-established (see Section 5.3).

Besides the USA, where the criminal and money laundering activities of Irish OCGs are well known (Cressey, 1969; Albanese, 2004), in Europe there is evidence of illegal activity by Irish gangs primarily **in Spain, the UK, the Netherlands** (McDonald, 2008; O'Keeffe, 2009; CAB, 2010, p. 27, 2011, p. 31; An Garda Síochána & PSNI, 2012a, p. 5; Belfast Telegraph, 2012; An Garda Síochána, 2013, p. 5; Breen, 2014), and **Sweden** (Europol, 2013b; PSNI, 2013; Nilsson, 2013). In particular, evidence of investments has been found in Spain, the UK, Sweden and, to a lesser extent, in **Italy** (see Figure 30 below) and other EU countries.

Spain seems to be an important logistical base not only for British OCGs (see 5.7) but also for Irish OCGs (see 5.3), in particular those involved in drug trafficking (CAB, 2010, p. 27, 2011, p. 31; An Garda Síochána & PSNI, 2012a, p. 5; An Garda Síochána, 2013, p. 5). Spain may thus be also a preferred destination for investment or money laundering activities (McDonald, 2008; Breen, 2014). **Operation Shovel** dismantled an Irish OCG with important connections abroad (Majidi, 2010; Sur in English, 2010; Drugs Info News Line Ireland, 2010; Malmström, 2011) and which had apparently invested in properties and companies in several countries, including Spain (Costa del Sol - see Box 27). In particular, around 200 trading companies used for laundering illegal proceeds were

272. Ireland seems to be one of the European economies more 'open' to the use of bitcoins. In fact, some private companies offering services for the accumulation and storage of bitcoins have been set up in the past year (TechCentral.ie, 2014), and even bitcoin ATMs have been installed in Dublin (O'Regan, 2014). According to some investigative reports, the first cases of seizures of bitcoins have been also registered.



identified by the Spanish authorities. Finally to be noted are properties confiscated by the Irish CAB under the POCA regime also in Alicante (see Section 12.4).

As regards the UK, which was also involved in Operation *Shovel*, it is **Northern Ireland** that is a money-laundering destination for groups operating on the border. In particular, OCG infiltration can occur in companies functional for the smuggling of goods between Ireland and the UK, such as transportation, oil companies, car sales and wholesale trade. Evidence of infiltration has been found in Money Service Businesses (MSBs) (An Garda Síochána & PSNI, 2012a, p. 16).

**Italy** has recently emerged in relation with **Operation Metropolis**, which uncovered a laundering scheme set up by Italian 'Ndrangheta in conjunction with former members of Irish paramilitary groups and Spanish criminals (Bone & Farmery, 2013; Cordova, 2013; Galullo, 2013; Macri, 2013; MNnews, 2013; Tribunale di Reggio Calabria, 2013). In particular, the OCGs invested in real estate and tourist resorts in Southern Italy (see Box 26).

As for **Sweden**, investments can be related to the presence of Irish OCGs involved in human trafficking and sexual exploitation (Europol, 2013b; PSNI, 2013) or to **Irish 'traveller' groups** (Europol, 2011c; Nilsson, 2013), which are known to be involved in certain illegal activities and to offer cheap construction labour, mainly as asphalt workers (Nilsson, 2013). Their construction businesses are suspected of being related to violent offences, tax evasion, and other illegal activities (e.g. labour exploitation and human trafficking) (Nilsson, 2013).

Also to be mentioned is the possibility that **Irish 'traveller' groups invest back in Ireland** (in real estate and other assets) the proceeds of illegal activities carried out throughout Europe, especially smuggling (e.g. of rhino horns and other crimes) (Europol, 2011c).

Finally, other countries can be used to set up companies or bank accounts related to Irish OCGs. To be cited in this regard are the investigations conducted by the Irish CAB in conjunction with foreign counterparts that led to the recovery of bank accounts in Austria and the Isle of Man linked to **Irish criminal Brian Meehan** (following his conviction for the murder of Veronica Guerin in Ireland in 1996) (CAB, 2012, p. 39).

### 8.3.3. Assets and business sectors

#### **Box 26 - Operation Metropolis. Italian 'Ndrangheta, Irish paramilitary groups and Spanish figureheads**

Operation *Metropolis* was conducted in 2013 in Italy. Police investigations led to the identification of members of Italian ('Ndrangheta), Irish and Spanish OCGs laundering illegal proceeds and infiltrating the legal economy, especially in Southern Italy.

In particular, Irish national H. J. F., former militant of a paramilitary organisation and already charged with terrorist offences, was believed to have set up in 2006, with members of the Italian 'Ndrangheta, a complex business structure of shell companies and offshore accounts to launder proceeds of illegal activities (including drug trafficking) in tourist resorts in Calabria,

in particular ALPHA, a holiday village located in Brancaleone, Italy.

The Italian police seized the holiday village and several companies used to launder proceeds of criminal activities, and they issued European arrest warrants for H. J. F. and other Italian and Spanish suspects (Bone & Farmery, 2013; Cordova, 2013; Galullo, 2013; Macri, 2013; MNnews, 2013; Tribunale di Reggio Calabria, 2013).

In fact, H.J.F. and Italian criminal A.V. shared ownership of BETA, a real estate company based in Dublin. The company was linked to Italian construction businesses, GAMMA and DELTA, with a contract to promote the Calabrian properties, sell real estate throughout Europe, and advise potential customers (Cordova, 2013; Galullo, 2013; Tribunale di Reggio Calabria, 2013). Similar laundering schemes were set up with companies registered in Spain (Bone & Farmery, 2013; Tribunale di Reggio Calabria, 2013).

The investigative evidence suggests that H. J. F. knew that A.V. and the Italian businesses had close links with the 'Ndrangheta (Morabito-Bruzzaniti-Palamara and Aquino families) that controlled the local construction industry (Cordova, 2013; Galullo, 2013; Tribunale di Reggio Calabria, 2013).

As said, according to the available data there is evidence of OCGs interest in properties and real estate, companies, intangible assets, vehicles, valuables, and jewels. But it is difficult to rank these types of assets in terms of OCGs investment preferences. However, some patterns are described below.

#### **Real estate properties**

As in other countries, also in Ireland immovable properties may be destinations for OCG investments. There is evidence of infiltration in the real estate market throughout the country and, in particular, in the large **urban areas of the southern and eastern regions**.

Moreover, real estate represents a significant proportion of the confiscated assets pursuant to sections 4 and 4A of POCA (see Section 12.4). Several police operations against criminal gangs have led to the seizure of real estate properties. For example, the above-mentioned **Operation Munster** (2014) led to the seizure of more than 40 properties from a criminal group involved in organised property crime and operating in the south-east of the country (Gleeson, 2014).

A significant number of properties were also recovered under **Operation Shovel** (2010) (see Box 27), in Ireland, Spain, and other countries. According to the sources, the majority of the money had been invested in the **real estate industry on the Costa del Sol** and also in various other locations worldwide. In Brazil this criminal network had six tourist complexes and luxury residences. However, it is difficult to determine where they were exactly located (Majidi, 2010; Sur in English, 2010; Drugs Info News Line Ireland, 2010; An Garda Síochána, 2011; Malmström, 2011).

Evidence of OCGs investments in real estate is also provided by **Operation Foolscape** (2009), which led to the identification of several premises (both private residences and professional offices) resulting from criminal activity in the Western region (An Garda Síochána, 2010, 2011), and by Operation *Metropolis* (2013), which, as said, dismantled a complex scheme to launder money through properties and tourist resorts in Southern Italy (Bone & Farmery, 2013; Cordova, 2013; Galullo, 2013; Macri, 2013; MNnews, 2013; Tribunale di Reggio Calabria, 2013). In this latter case, investments by OCGs related to former Irish paramilitary groups were made through a real estate company registered in Dublin (see Box 26).

**Figure 31 - Average house prices (euro) in Ireland (1980-2013)**

Source: Transcrime elaboration on data by Central Statistics Office

As regards the reasons why OCGs investments in real estate may occur, three main drivers can be identified:

- First, investments may have a **'speculative' nature**, in particular considering the **boom of the Irish real estate market in the late 1990s and 2000s** (see Figure 31) (OECD, 2011, p. 5; 10) that may have attracted the interest of legitimate actors and criminal organisations. Besides local OCGs, and given the similarities with the UK situation, it cannot be excluded that also foreign OCGs (e.g. Russian-speaking) invested in properties across the country (Breen, 2014). However, it should be stressed that the Irish real estate market has fallen greatly in value since 2008 (see also CAB, 2012, p. 13; Gray, 2013).
- Second, as highlighted by the Irish CAB, infiltration of real estate may also be used as a **means to launder illicit proceeds**, in particular through the payment of mortgages: "using funds obtained from criminal conduct to repay mortgage and other forms of borrowing has become more prevalent in recent years" (CAB, 2012, p. 13) and may also be related to **mortgage frauds** (see Section 5.3).
- Third, as described in Chapter 7, investment in real estate may also respond to **functional needs**, in that properties may be used to facilitate the illegal activity itself. For example the properties identified by Operation *Shovel* (see Box 27) were used as warehouses of smuggled goods or for the storage of illicit drugs. Generally speaking, there is extensive evidence that OCG infiltration of real estate is frequently associated with several kinds of illicit trafficking, including human trafficking (OSCE, 2010; FATF, 2011b).

#### **Box 27 - Operation Shovel: an Irish criminal gang and investments in Costa del Sol**

Operation *Shovel* was conducted in May 2010. The investigation started from a transnational drug trafficking case (more than 20 countries involved worldwide) and led to the identification of real estate and companies belonging to OCGs in Ireland, Spain and the UK (Majidi, 2010; Sur in English, 2010; Drugs Info News Line Ireland, 2010; Malmström, 2011).

Food trading companies, bars, and restaurants were set up in Ireland, Spain (Costa del Sol) and the UK for laundering and functional purposes. According to the Ministry of the Interior, since 2008 officers of UDEF (Economic and Fiscal Crime Unit) and the Costa del Sol *UDDYCO* had traced more than 200 trading companies that used to channel funds acquired by the group through illegal business deals (Sur in English, 2010).

Real estate properties were used by criminals as houses or warehouses in which to stock smuggled goods. Moreover, the food import-export company based in Ireland was run by Irish criminals who used the business to transport drugs from Spain to Ireland (Majidi, 2010; Sur in English, 2010; Drugs Info News Line Ireland, 2010; Malmström, 2011). Finally, once the drugs had entered Ireland, Irish criminals sold them to criminal gangs nationwide, making significant profits.

#### **Companies**

information on cases involving OCG infiltration of companies is weak and does not allow comprehensive analysis of this type of investment. However, some comments can be made.

First, there is evidence that Irish OCGs use companies to **facilitate smuggling or illicit trafficking**. As seen, the criminal group targeted by Operation *Shovel* controlled **wholesale food traders** used to export drugs from Spain to Ireland (see Box 27). This is somehow a 'golden rule' because also other foreign OCGs (especially Italian mafias, see Chapter 5 and 8) rely on food import/export companies to transport heroin and cocaine across countries.

Given this rule, it cannot be excluded that other business sectors are exposed to OCG infiltration due to their *functional* nature, although evidence cannot be found in the available sources. In particular, **transportation companies** can be of service to smugglers; or **fuel and gas supply companies** may be infiltrated by OCGs because they are instrumental to fuel laundering (see Section 5.3), which is particularly significant across the border with Northern Ireland (An Garda Síochána & PSNI, 2012a, p. 16). In this regard, it is worth considering that oil supply is one of the business sectors most involved in confiscations pursuant to POCA (see Section 12.4).

In the border region, **MSBs have been found to facilitate money laundering** and illicit flows from/to Ireland, so that some degree of involvement of OCGs in this sector may be hypothesised (An Garda Síochána & PSNI, 2012a, p. 16).

Given the interest in real estate, also **real estate agencies** may be at risk of OCG infiltration. The groups targeted by Operation *Metropolis* were running a real estate company based in Dublin and co-owned by a former Irish paramilitary

member and Italian entrepreneurs linked to the 'Ndrangheta (Bone & Farmery, 2013; Cordova, 2013; Galullo, 2013; Macri, 2013; MNnews, 2013; Tribunale di Reggio Calabria, 2013). This company was owned by another holding company (for which no information is available) and attracted overseas investments in tourist resorts in Southern Italy (see Box 26). According to the latest financial statements, the company had significant revenues (3.8 million US dollars in 2008, 2.1 million US dollars in 2009), but it is not possible to determine if it invested in other properties in Ireland or other countries, although it was connected with some Spanish and Italian companies as well (Cordova, 2013; Tribunale di Reggio Calabria, 2013).

**Bars and restaurants** may be used not only as money laundering channels but also to distribute illicit goods like drugs, smuggled cigarettes or illicit medicines. The Irish OCGs targeted by Operation *Shovel* possessed bars and restaurants in Ireland, the UK and Spain (see Box 27), although it is not possible to identify where exactly these businesses were located, how they were owned, or if they were profitable.

As regards Operation *Shovel*, according to the information available, money was also invested in other sectors: "Thanks to the vast profits made from drug trafficking and the sale of arms, the network had tried to introduce themselves into the sectors of **renewable energy, infrastructure, recycling, telecommunications and recreational activities**" (press release by Min. Interior mentioned in Sur in English, 2010).

Finally, although there is some evidence of connections of construction companies (especially abroad) with OCGs linked to Irish 'travellers' (see above), it is difficult to determine if **construction companies** in Ireland are at high risk of OCG infiltration. Construction often responds to the 'ideal' profile of OC companies (labour-intensive and cash-intensive businesses with strong territorial specificity and close to public administration and public procurements - see Chapter 7). Moreover, OCG infiltration of construction is more frequent in areas characterised by a booming (and deregulated) real estate market and large urban projects (e.g. Southern Italy, some Northern Italian large urban areas, southern France or the Spanish coastal area - see Chapter 8) and in this sense Ireland, especially Dublin, experienced a surging real estate market in the 2000s (see above). However concrete signals of OCGs infiltration of the construction industry in the country cannot be found.

To summarize, although evidence is much weaker than in other countries covered by this report, the business sectors with signs of OCG infiltration in Ireland or from Irish OCGs are the following:

- Wholesale and retail trade of food products;
- Bars and restaurants;
- Transportation;
- Car sales;
- Oil supply;
- Real estate agencies;
- Money service businesses.

There is evidence, limited to Operation *Shovel*, of infiltration also in the following sectors:

- Renewable energy;
- Infrastructure;

- Recycling;
- Telecommunications.

#### **Movable assets**

According to the literature, Irish OCGs are frequently associated with patterns of luxury consumption. In particular, the Irish Criminal Assets Bureau continues to acknowledge the interest of OCGs in **high-value cars** (CAB, 2012, p. 14), and some luxury cars (and even **helicopters**) have been recovered according to the proceeds of crime act.

Investments of criminal proceeds in **jewels, precious metals, luxury watches** is also frequent. In 2012 alone the CAB seized 5 Rolex, 1 Breitling and 1 Chanel watches under Part 2 of the POC Act, 1996 (CAB, 2012, p. 11). Also to be mentioned is that the CAB has been one of the first AROs in Europe to dispose of seized watches through e-commerce portals, obtaining important revenues for the state budget (Baker, 2013; O'Reilly, 2013).

According to statistics on confiscated assets in Ireland, registered assets (cars, vehicles, etc.) and movable assets (cash, bank accounts, deposits, etc.) still represent the **biggest share of confiscated goods** in Ireland (see Section 12.4 for details).

### **8.3.4. Concluding remarks**

This section has been a first attempt to provide a picture of OCG investments in Ireland. The research reported had limitations mostly due to the **lack of information available**. However evidence of criminal infiltration of the legal economy can be found.

Besides criminals' interest in luxury movable goods (cars, boats, jewels, watches, etc.), properties may have attracted the interest of both Irish OCGs and foreign groups (e.g. Russian), also because of the boom of the **Irish real estate market** in the late 1990s until 2008 and for functional reasons. More recently, investments by real estate companies related to Irish OCGs have been registered in foreign properties.

Legal companies may be used by Irish OCGs to launder illegal proceeds and facilitate illegal activities (e.g. smuggling, fuel laundering) or to conceal the transport and distribution of illicit drugs. The most frequently mentioned sectors are **catering, bars and restaurants, wholesale trade of food products, but also oil supply and money transfer businesses**.

## 8.4. Italy

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### 8.4.1. Introduction

Infiltration of the Italian legitimate economy by organised crime groups, in particular Italian mafias,<sup>273</sup> has been a **priority on the agenda of Italian governments, judicial authorities, law enforcement agencies, scholars and media** for the past thirty years (Transcrime, 2013a; Riccardi, 2014a).

In the belief that mafia groups could be better combated by “**following the money trail**” (Falcone & Padovani, 2004; Turone, 2007), a wide range of legislative measures have been introduced since the 1980s to ensure more effective identification and **confiscation of mafia assets** (see Section 10.6 for a review).<sup>274</sup>

However, despite this attention at the social, political and academic level, gaps still remain in the study of organised crime investments in Italy:

- First, the **lack of empirical analyses**: with some exceptions (see below), most of the research produced in this field is limited to sociological and qualitative studies (e.g. Catanzaro, 1988; Santino & La Fiura, 1990; Fantò, 1999; Arlacchi, 2007; Dalla Chiesa, 2012) rather than quantitative research; or it has focused more on assessing the quantity of illicit proceeds generated (see Part 1, in particular Section 5.4) than on how and where they are laundered.
- Second, the **lack of studies on investments by foreign organised crime groups**: most previous research has focused on Italian mafias, while, with some exceptions (e.g. CNEL, 2011; Becucci, 2013, 2014), infiltration by Chinese, Russian or Eastern European groups has never been subject of wide-scale analyses.

This section aims to **address these gaps**. It provides an analysis of the investments of both Italian mafias and foreign OCGs, considering their **geographical distribution** (Section 8.4.2), the types of **assets and business sectors** (Section 8.4.3), and the types of **actors involved** (8.4.4). The final considerations (8.4.5) discuss the drivers behind criminal investments in Italy and some research and policy implications.

#### Methodological remarks

Previous empirical studies (e.g. Transcrime, 2013a; Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014; Dugato, Favarin, & Giommoni, forthcoming) have used data on **assets definitively confiscated** in Italy from 1983 to 2012 as a **proxy**

**for the portfolio of investments of** organised crime groups in the country.<sup>275</sup>

Although this database is, at present, the best resource for statistical analysis in this field (Transcrime, 2013a, p. 96), it presents some **biases**, and its **representativeness** can be questioned (Transcrime, 2013a, p. 383):

- First, data on confiscated assets concern **almost exclusively Italian mafias**, because until 2013 almost no foreign groups were tackled by confiscation of their criminal assets;
- Second, they may provide an **out-of-date picture of the phenomenon** (since assets reach definitive confiscation only after some years, see 12.5) and hence miss, for example, territories and sectors characterised by emerging infiltration (e.g. renewable energy, see below) that have not yet been addressed by confiscation measures;
- Third, they may **overestimate assets, business sectors and territories** where confiscation is easier or is more intense (e.g. in provinces including the chief town of the region, see Figure 85).

For this reason, and in particular to address the first two issues, it was decided to extend the analysis beyond data on confiscated assets to a **wider variety of sources**, including:

- Judicial files (e.g. arrest warrants, seizure orders, etc.);
- LEA reports (e.g. reports by DIA – *Direzione Investigativa Antimafia*, *Guardia di Finanza*, *UIF-Unità di Informazione Finanziaria*, reports on selected police operations);
- Institutional reports (e.g. reports by DNA – *Direzione Nazionale Antimafia*, *Commissione Parlamentare Antimafia*, the FATF, FIUs, etc.);
- Academic literature;
- Media reports.

As a result, about **1,500 references** to organised crime investments were identified and included in the DOCI (see Chapter 6 for details).<sup>276</sup> They referred to the period 2005-2013 and covered both Italian mafias (92.6% of the total) and foreign groups (7.4%). Most of the evidence regards **police operations which have led to the seizure of companies and other assets**. Although, as already pointed out in other country profiles, it is not possible to analyse these references from a strictly quantitative point of view, the inclusion of this information makes it possible to provide a **more updated and complete picture of the phenomenon**.

273. As illustrated in Section 5.4, the term ‘Italian mafias’ refers here to the criminal groups belonging to the main Italian criminal organisations, namely Cosa Nostra, Camorra and ‘Ndrangheta, and to other smaller criminal organisations (Sacra Corona Unita, etc.) (Transcrime 2013a).

274. Confiscation has probably proved the most powerful – and feared – tool in the wider strategy against mafia in Italy, becoming a model for the rest of Europe and a landmark for the new EU confiscation directive under finalization (see Section 3). There is evidence that members of all the main mafia organisations (Cosa Nostra, Camorra, ‘Ndrangheta, Sacra Corona Unita) are particularly afraid of having their assets seized, and would much prefer prison sentences to having their belongings (movable assets, businesses, properties) confiscated (Transcrime 2013a).

275. The database on definitively confiscated assets (*beni confiscati in via definitiva*) in Italy is managed by ANBSC – *Agenzia Nazionale per l’amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata*. The database (see Section 12.5 for further details) includes more than 20,000 records covering a wide range of assets, including movable goods, cars, real estate properties and companies confiscated as a result of preventative and criminal confiscation in relation to the serious and organised crime offences foreseen by article 51, Section 3-bis of the Italian Code of Criminal Procedure, e.g. mafia related crimes, organised crime, counterfeiting, trafficking in human beings, etc.

276. References have been collected from 432 documents. As for the type of source, about half of the references (51%) come from media sources, 47% from LEA reports and judicial evidence, and the remaining 2% from academic studies.



## 8.4.2. Geography

The geographical distribution of criminal investments in Italy **differs widely if only Italian mafias or also foreign criminal groups are considered**. In fact, as suggested in Section 5.4, while some southern regions have a traditional, well-rooted and almost exclusive presence of Italian mafias, central and northern regions also witness infiltration by a plurality of criminal organisations. This distinction is taken into account below.

### Geography of the investments of Italian mafias

As mentioned in Section 5.4, while attempts to map and measure the *presence* of Italian mafias can be frequently found in the literature (for a review see Calderoni, 2011; Transcrime, 2013a; Calderoni, 2014b), atlases of the *investments* of Italian mafias are much fewer. The **most recent mapping of Italian mafia investments has been produced by Transcrime (2013a)** using, as said above, confiscated assets as a proxy (see Figure 32). Further studies have then mapped the distribution of confiscated companies (Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014) and of confiscated real estate (Dugato, Favarin, & Giommoni, forthcoming).

On the other hand, the geographical distribution of the references to organised crime investments included in the DOCI is reported in Figure 33.<sup>277</sup>

**Strong similarities** between the two figures can be identified: **Sicily, Calabria, Campania** – areas of origin of the main Italian mafias, respectively Cosa Nostra, 'Ndrangheta, Camorra – and **Lombardy** collect most of both confiscated assets and references to criminal investments in the DOCI.

The **vulnerability of southern Italy** to mafia infiltration in the legitimate economy has been acknowledged by a large body of literature (see Transcrime, 2013a and Sciarrone, 2011, for a review). Previous studies (e.g. Daniele & Marani, 2011; Transcrime, 2013a, p. 208; Riccardi, 2014a, p. 202; Calderoni, 2014b) have shown that the distribution of criminal investments concentrates in areas with a **high and traditional mafia presence** but also characterised by **low levels of openness towards international trade** and foreign investments, **low levels of R&D** and of infrastructural development, **high levels of tax evasion and of money laundering** suspicious transaction reporting.

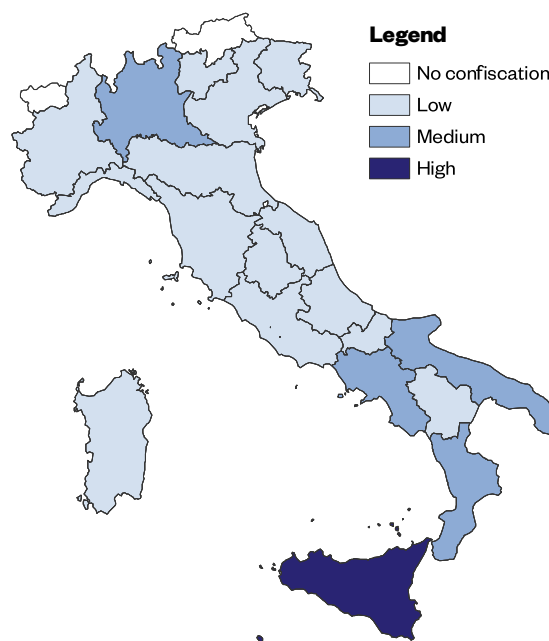
The analyses suggest that Italian mafias prefer to invest in **'traditional' territories under their strict control** (Transcrime, 2013a; Riccardi, 2014a; Dugato, Favarin, & Giommoni, forthcoming) or where the social, economic and financial environment is weaker and more vulnerable (Sciarrone, 1998; Polo, 2011). It is difficult to determine the extent to which mafia infiltration is **a cause or a consequence of the underdevelopment** of these economies, but, as pointed out by some scholars (e.g. Pinotti, 2012, p. 5), it is more likely that the **causality goes in both directions**.

277. Out of 1,497 total references in Italy, for 292 mentions (19.5%) it was not possible to identify the NUTS 2. Indication of NUTS 3 is not available for 766 references (51.2%).

278. Classes identified using Jenks natural breaks optimization.

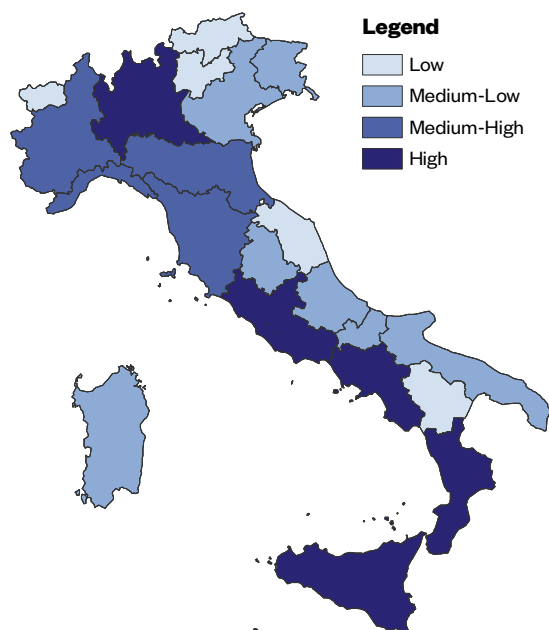
279. Classes identified using Jenks natural breaks optimization.

**Figure 32 - Geographical distribution of evidence of confiscated assets in Italy (1983-2012, NUTS 2)<sup>278</sup>**



Source: Transcrime elaboration on ANBSC

**Figure 33 - Geographical distribution of evidence of OCGs investments in Italy (NUTS 2)<sup>279</sup>**



Source: Transcrime elaboration on DOCI

However, the **importance of northern Italy** and of 'non-traditional regions' increases if consideration is made of not only confiscated assets but also more recent judicial and police evidence, such as that included in the DOCI (see Figure 33 and Table 75). Indeed, the **diffusion of mafia investments in northern regions** has been widely recognised by both public authorities (e.g. Presidenza del Consiglio dei Ministri, 2014; DIA, 2014) and scholars (e.g. Forgione, 2008; Campana, 2011a; Varese, 2011; Transcrime, 2013a; Sciarrone & Storti, 2014), but it may be not yet fully reflected, for various reasons, in terms of confiscations.<sup>280</sup>



**Table 75 - Weights of Italian regions in terms of distribution of confiscated assets and of references to organised crime investments**

Macroregion	% of total number of confiscated assets (1983-2012)	% of total number of DOCI references (2005-2013)
Northern Italy <sup>a</sup>	17.2%	27.7%
Central Italy <sup>a</sup>	5.9%	19.4%
Southern Italy <sup>b</sup>	63.7%	33.3%
Location N/A	13.2%	19.5%
<sup>a</sup> Including Sardinia.		
<sup>b</sup> Apulia, Basilicata, Calabria, Campania, Sicily.		

Source: Transcrime elaboration on DOCI

The transplantation of mafia financial interests to the north **follows business opportunities** (such as those offered by the new large-scale public works (*grandi cantieri*) in Lombardy, Piedmont or Emilia Romagna, see 8.4.3 below for details) and also better chances of infiltrating the **local political, business and social community**, often relying on the support of local entrepreneurs and politicians, or on 'joint ventures' with other criminal groups (see Box 28).

In this regard, recent studies have highlighted that mafias may have shifted their investment strategy **from large urban conurbations** (e.g. Palermo, Naples, Milan) to **smaller municipalities and peripheral areas**, where they can hide better, are less monitored, and can more easily infiltrate or corrupt the public administration (Caneppele, Riccardi, & Standridge, 2013; Osservatorio sulla Criminalità Organizzata dell'Università degli Studi di Milano, 2014, p. 10).<sup>281</sup>

#### **Box 28 - Mafia on Lake Garda and on the Riviera dei Fiori: Italian mafia investments in non-traditional territories**

In the early 1990s some members of a family close to a Camorra clan settled on the Lombardy side of Lake Garda. There they established a number of companies active in the management of discotheques and nightclubs (Tribunale di Brescia, 2007; Corte di Cassazione 2010). Another group, presumed to be linked with 'Ndrangheta, started to be interested in the lucrative nightlife business and sought to break the Camorra group's monopoly through intimidation and extortion. Eventually, the two groups decided to forgo confrontation and instead to form a 'joint venture' for management of the sector. The economic and criminal

association was established with the creation of an ad hoc corporate ownership scheme with, on top, a Swiss fiduciary holding the financial interests of the two factions (Transcrime, 2013a).

In recent years, there have been a growing number of episodes of infiltration in the local economy of the Liguria region, characterised by collusion with politicians and with representatives of the local public administration. Two councils (Ventimiglia and Bordighera) were dissolved due to mafia infiltration, and in October 2014 the court of Imperia sentenced for mafia-association about twenty members of 'Ndrangheta groups active on the *Riviera dei Fiori*, where they had invested in various business activities and fraudulently obtained public procurements (Gavino, 2014).

#### **Geography of the investments of foreign OCGs**

Figure 35 is the **first attempt in the literature to map investments by foreign organised crime groups in the Italian legitimate economy**. It shows the geographical distribution at NUTS 2 level of the evidence on investments by foreign OCGs taken from open sources (judicial evidence, LEA reports, institutional reports, media, etc.) and organised in the DOCI. Despite the limited amount of cases collected<sup>282</sup> some trends can be already highlighted:

- First, there is almost no overlap with the map of confiscated assets: this is because, as said, **confiscation in Italy has to date addressed almost exclusively Italian mafias**.<sup>283</sup>

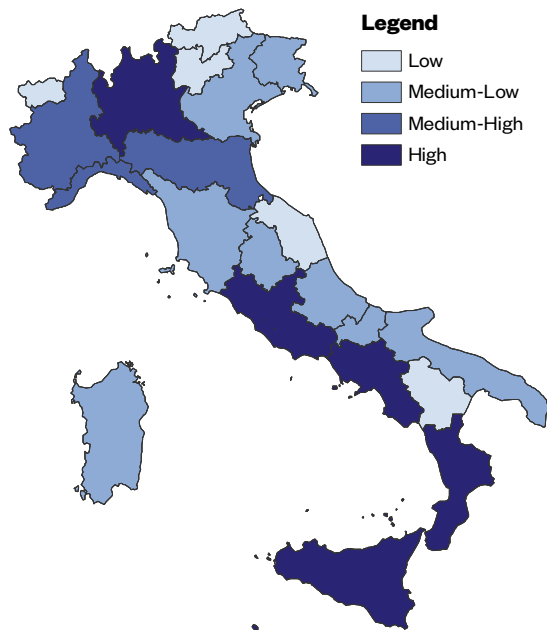
281. Again, this phenomenon is not fully reflected in terms of confiscated assets. Most confiscations concentrate in provinces characterised by large urban areas or which contain the chief town of the region (e.g. Palermo, Naples, Milan, Rome) where the judicial authorities are probably better-equipped or have longer experience in identifying and confiscating mafia assets.

282. As mentioned above, the DOCI in Italy includes about 210 references to foreign OCGs investments, of which only 100 have indication of NUTS 2 location.

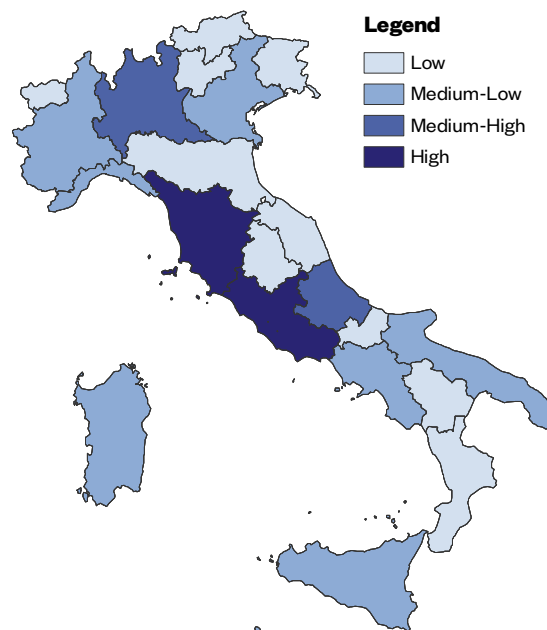
283. In recent years, operations by the Italian *Guardia di Finanza* have led to the seizure of a large amount of companies and properties from Chinese organised crime groups (see Section 8.4.4 and in particular Operation *Qian Liu* and *Qian Ba* - Box 32). However, these assets (at the end of 2013) have not yet been confiscated and they do not appear in the database ANBSC.

280. As mentioned above, confiscated assets may not provide an updated picture of the phenomenon, because it may take years for a seized asset to reach definitive confiscation (see Section 12.5). For example, the database on confiscated assets does not yet include hundreds of assets (companies, real estate properties, registered goods) seized in important operations against the 'Ndrangheta in Lombardy and Piedmont (such as the *Infinito/Crimine* and *Minotauro* Operations).

**Figure 34 - Geographical distribution of evidence of Italian mafia investments (NUTS 2)**



**Figure 35 - Geographical distribution of evidence of foreign OCG investments in Italy (NUTS 2)**



Source: Transcrime elaboration on DOCI

- Second, regions with a traditional presence of Italian mafias, such as Sicily or Calabria or Campania, show very low levels of foreign OCG investment, which instead **concentrates in 'non-traditional mafia regions'** such as Tuscany, Lazio, Abruzzo, Piedmont, Lombardy and Veneto.

Some hypotheses can be put forward to explain these patterns:

- First, it may be that foreign OCGs prefer to avoid territories, such as southern Italy, already under 'monopolistic' control by Italian mafias, and thus prefer to invest **where infiltration by mafias has been historically weaker** (e.g. central Italy, rather than the north), and where **business opportunities have not yet been fully absorbed by 'incumbent' OCGs**.
- Second, foreign criminal groups may invest in territories characterised by an already **strong presence of communities of the same ethnic origin**, which may, unwittingly or not, ease criminal investments (e.g. by providing contacts, a wide customer base or illegal manpower): for example, Tuscany (and in particular the provinces of Prato and Florence) for Chinese OCGs (CNEL, 2011, p. 30; Becucci, 2013).
- Third, they may invest in **areas where they are already involved in illicit activities** (see Section 5.4): if for example Chinese OCGs have workshops producing counterfeit clothes in the Prato cluster, they may launder their money in the same area (not necessarily in the clothing sector – see Box 32). Similarly, Russian/Georgian OCGs and Eastern European criminal groups active in organised property crime may invest in import/export businesses on the Italian Adriatic coast (from Veneto to Apulia), from which it is easier to receive or dispatch illicit goods from/to Eastern Europe (e.g. stolen medicines: see Riccardi, Dugato, & Polizzotti, 2014).

### 8.4.3. Assets and business sectors

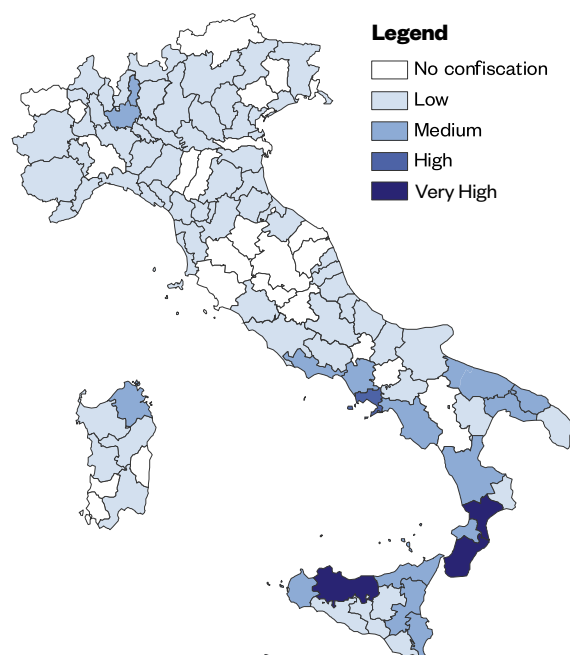
Assets of all types are represented in the portfolio of organised crime in Italy: **real estate properties, legitimate companies** active in a wide array of business sectors, **movable goods** ranging from financial instruments to jewels, **cars, boats, and other registered assets**. Although the DOCI mostly collects cases of infiltration of legitimate businesses, useful information can be derived also from the statistics on confiscated assets, which are analysed in detail in Section 12.5. In what follows, the focus is on two main types of investment: real estate properties and companies. For the latter, a detailed review of the most infiltrated business sectors will be also carried out.

#### Real estate properties

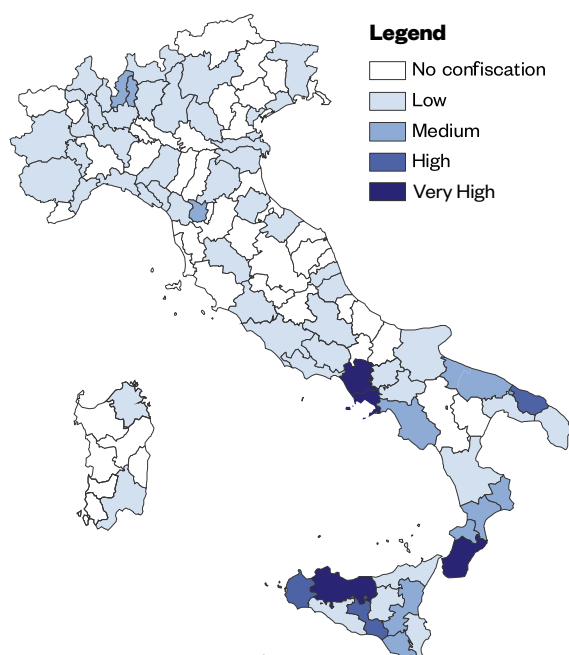
Immovable properties are a **preferred form of investment and laundering for Italian mafias** (Transcrime, 2013a, pp. 114-144). About 50% of the assets confiscated in Italy between 1983 and 2012 (as mentioned above, almost exclusively from mafias) were real estate properties, mainly residences (34% of the total real estate) and land (20%), while villas and independent houses constituted only a minor share (8%) (see Section 12.5).

These results may be unsurprising, given that it is well known that real estate is also the **form of investment most preferred by Italian families** and, in economic value,

**Figure 36 – Confiscated flats: rate per 100,000 buildings (1983-2012)**



**Figure 37 - Farmland confiscated every 1000 km<sup>2</sup> of agricultural surface (1983-2012)**



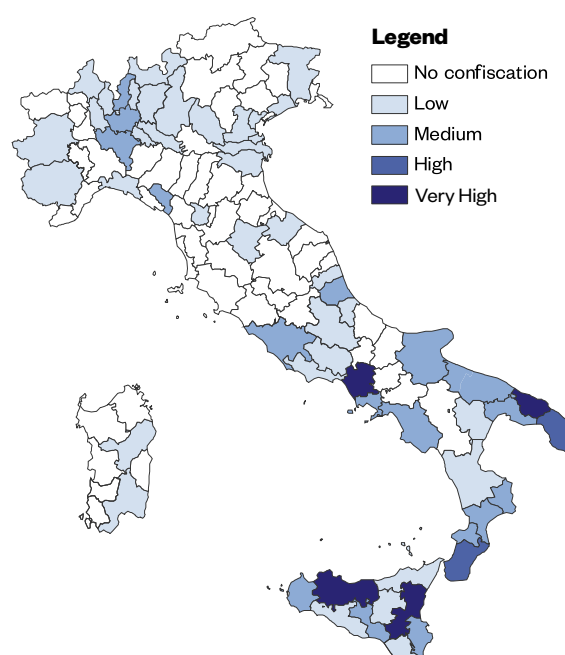
Source: Transcrime, 2013a

represents the largest share of their portfolios (Banca d'Italia, 2013, p. 9).

Some scholars have attempted to determine whether the distribution of confiscated real estate, shown in the figures below, is correlated with variables such as real estate market prices or the presence of mafia groups.

According to previous studies (Transcrime, 2013a; Dugato, Favarin, & Giommoni, forthcoming) real estate investment concentrates in **areas with a high mafia presence**, while the correlation with market prices is not always significant (Transcrime, 2013a, p. 126; Dugato, Favarin, & Giommoni,

**Figure 38 – Confiscated detached houses and mansions: rate per 100,000 buildings (1983-2012)**



Source: Transcrime, 2013a

forthcoming). These findings suggest that OCGs do not invest in properties for 'speculative' profit purposes, but instead use real estate for **residential purposes (personal use or for criminal affiliates)**, as well as instruments to strengthen **control of the territory** or as a **status symbols** in the communities which they already dominate (Transcrime, 2013a, p. 145; Dugato, Favarin, & Giommoni, forthcoming).

Although not grounded on equally rich statistics, there is evidence that also foreign OCGs, in particular **Chinese and Russian/Georgian**, may invest in properties. In particular, cases have been reported of Chinese OCGs buying properties in Tuscany and throughout Italy (CNEL, 2011) and of **Russian-speaking OCGs**, especially in central and northern Italy, doing so on Lake Garda (Toresini, 2014) or on the Adriatic coast (La Repubblica, 2002).

#### **Box 29 – Luxury real estate as a status symbol: the Scarface villa in Casal di Principe**

F. S. (aka Sandokan) was a boss of the Casalesi clan, an important Camorra criminal group. He built a villa in Casal di Principe (Caserta, Italy) that was a reproduction of the Tony Montana mansion in the Scarface movie by Brian De Palma. The entrance was lined with doric columns and the property featured colonnades, arches and stairs covered with marble. The villa was a landmark and a visible sign of the clan's power over the local community.

**Table 76 - Business sectors with evidence of OCG investments in Italy**

Level of evidence*	Business sectors
Higher	Construction; Bars and restaurants; Wholesale and retail trade <sup>a</sup> ; Waste and scrap management; Hotels and other tourist accommodations; Real estate activities
Medium	Transportation and renting of motor vehicles; Casinos, VLT and betting activities; Agriculture and fishing; Manufacturing; Hospitals and residential care; IT and other services; Mining and quarrying; Renewable energy (in particular wind power); Sex, tattoo and other personal activities; Clubs; Private security; Banking and financial activities
Emerging sectors	Retail trade of gold and jewellery ('compro oro'); Money transfer businesses; Petrol and gas supply; Wholesale of pharmaceutical products
* The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector (see Chapter 7). The information is available for 1,369 references.	
<sup>a</sup> In particular, wholesale and retail trade of food and of clothing and textiles.	

Source: Transcrime elaboration on DOCI

### Companies

As already underlined, the infiltration of companies plays a **crucial role in the strategy of Italian mafias** (Sciarrone, 1998; Transcrime, 2013a; Sciarrone, 2014; Riccardi, 2014a). According to the available information, there is also growing evidence that foreign criminal groups invest in legitimate businesses (see below).

Since the 1960s, Italian mafias have increasingly become **'entrepreneurial criminal organisations'**, involved also in legitimate businesses (Santino & La Fiura, 1990; Commissione parlamentare d'inchiesta, 2003; Arlacchi, 2007). The reasons may be:

- On the one hand, traditional mafia activities (such as extortion racketeering) were no longer sufficient sources of profit and control of the territory, and this may have increased the activities of criminals in the legal economy (Fantò, 1999; Arlacchi, 2007).
- On the other hand, the **surplus generated in the 1980s by drug-trafficking** required other forms of laundering besides real estate properties and movable goods (Riccardi & Savona, 2011).
- Third, legal companies started to fulfil a crucial role as **fronts for emerging illegal activities** by Italian mafias (in particular those connected to the Camorra, see Section 5.4), such as illicit waste disposal, counterfeiting, or the smuggling and resale of stolen goods (e.g. medicines).
- But more importantly, legal companies rapidly became the most powerful tool in the hands of Italian mafias to **infiltrate the political, social and economic environment**, and to connect with the public administration (Sciarrone, 1998; Fantò, 1999; Santino, 2006; Arlacchi, 2007).

This explains the widespread distribution of mafia investments in companies across Italy (Figure 33), both in northern and southern regions. But what are the **most infiltrated business sectors**?

According to the evidence collected in the DOCI (see above), the business sectors with the highest levels of infiltration are those reported in Table 76 below. **Construction, bars and restaurants, wholesale and retail trade** (in particular of food products and of clothes and apparel), **waste management, hotels** and **real estate activities** are the sectors concentrating most of the references to organised

crime investments in Italy. To a lesser extent, other sectors may be identified, including **transportation** and **casinos**.

These results are in line with the findings of previous research. In particular, **analysis of confiscated companies** (Transcrime, 2013a; Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014) reveals that hotels and restaurants and wholesale/retail trade accounted for about half of all the businesses confiscated from mafias between 1983 and 2012 (Table 77).<sup>284</sup>

Although this 'snapshot' of confiscated companies may miss some important trends,<sup>285</sup> it is useful for determining the **relative weight of some sectors** with respect to the legitimate economy. For example, construction is almost **two times more important among mafia companies than among legitimate businesses** (1.8), while the wholesale and retail trade has the same weight (a ratio of 1.0), thus indicating an equal distribution between criminal and legitimate companies. The weight of mining and quarrying is fully 16 times higher among confiscated than registered companies in Italy, confirming the crucial role played by this activity in the economy of organised crime (Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014; see below).

The following sections provide brief descriptions of the business sectors that have the highest evidence, and most importance for, OCG infiltration in Italy.

284. Note that the classification of sectors of confiscated companies (based on NACE 2002 standard) slightly differs from the one adopted in Project OCP and illustrated in Chapter 2 and in the Methodological Annex.

285. As mentioned above, some emerging sectors, like renewable energy, which have recently witnessed dozens of company seizures, are not represented here because they have not yet reached definitive confiscation. Again, the analysis of confiscated companies may provide an outdated picture of the phenomenon.

286. In particular, in Sicily over three decades (1950s-1970s) urban areas were radically reshaped by the booming and often uncontrolled construction of new buildings, behind which the involvement of Cosa Nostra families has been widely proved (on this, and on the so-called *sacco di Palermo* (sack of Palermo) see Dickie, 2004).

**Table 77 - Business sectors of confiscated companies in Italy (1983-2012)**

Business sector <sup>a</sup>	% of the total	Rate every 10,000 registered companies <sup>b</sup>	Relative weight in the legal economy <sup>c</sup>
Construction	26.3%	0.6	1.8
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	25.9%	0.3	1.0
Other sectors	9.8%	0.5	1.6
Hotels and restaurants	9.3%	0.5	1.5
Real estate, renting and business activities	7.8%	0.2	0.7
Agriculture, hunting and fishing	5.9%	0.1	0.4
Other community, social and personal service activities	5.0%	0.3	1.0
Transport, storage and communication	3.6%	0.2	0.7
Manufacturing	2.1%	0.1	0.2
Financial intermediation	1.5%	0.3	0.8
Mining and quarrying	1.3%	5.1	16.1
Health and social work	1.0%	0.6	1.8
Electricity, gas and water supply	0.4%	0.5	1.5

<sup>a</sup> Classified according to NACE 2002 code 1 digit.

<sup>b</sup> Rate calculated by dividing the number of companies confiscated in each business sector by the number of companies registered in Italy in the same sector.

<sup>c</sup> Calculated as the relative weight of business sector i comparing confiscated companies and registered companies.

i.e. where  $Wi = \frac{c_i}{\sum c_i} : \frac{R_i}{\sum R_i}$  C = confiscated companies; R = registered companies and i = business sector. If  $Wi > 1$ , then the weight of sector i among confiscated companies is higher than among registered companies, i.e. in the legal economy. If  $Wi < 1$ , then business sector i weighs more on the legal economy than among confiscated assets. If  $Wi = 1$ , then the business sector has the same weight between confiscated and registered companies (Transcrime, 2013a; Riccardi, Soriani, & Standridge, 2014).

Source: Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014

## Construction and Mining

The construction industry has historically represented one of the preferred targets for mafia investments in Italy. It has offered numerous business opportunities owing to the leading role that it played in the **post-war Italian economic boom**, in particular in Sicily (Sacco, 2010).<sup>286</sup> Since then, by investing in construction companies, mafia groups have been able **exploit their capacity for intimidation and corruption to manipulate and obtain public procurements** (Sciarrone et al., 2010; Savona, 2010; Caneppele, 2014). It is not by chance that most mafia investments occur in public construction companies (Transcrime, 2013a; Riccardi, 2014a).

Moreover, as already illustrated in Section 7.2, construction has certain **characteristics which facilitate infiltration and money laundering**: e.g. a low technological level, high labour intensity, high cash-intensiveness, plenty of individual companies, and wide use of subcontracts (Sciarrone et al., 2010; Sacco, 2010; Riccardi, 2014a). Furthermore, it makes it possible to commit related illegal activities, such as frauds (e.g. the use of low-cost and low-quality materials, see Transcrime 2013a, p. 189), use of **black labour, extortion or illegal waste disposal**.<sup>287</sup>

Also to be stressed is the **central position occupied by construction in any business supply chain** (for example, to operate a supermarket, you first have to build it) and this

allows criminal groups to maintain capillary monitoring on the local economy in a certain area (Savona & Riccardi, 2011).

Recent investigations have demonstrated that Italian mafia investments in this sector are widespread also in northern and 'non traditional' regions: for example, in **Piedmont** in the building of the high-speed train railway (Galullo, 2014a, 2014b; Legambiente, 2014) or of the Turin 2006 Olympic games sites (Molinaro, 2010; Ciccarello, 2012; Voci, 2014); in **Lombardy**, e.g. in the construction of the EXPO 2015 International exposition site (Milosa, 2014; De Riccardis, 2014); in **Emilia Romagna**, again in high-speed railway (Trigari, 2011; Università di Bologna, 2012, p. 46), and in **Liguria** (DIA, 2011a, p. 113; Giacalone, 2013).

Given the level of control over the construction industry by Italian mafias, it is not surprising that **foreign OCGs** appear less involved in it.<sup>288</sup>

287. This applies in particular in the case of mining, because abandoned quarries become ideal sites for the stocking of illicit or toxic waste (Transcrime, 2013a; Transcrime 2013b; Riccardi, 2014a). See also Box 30.

288. Indeed, only well-rooted and infiltrated criminal groups, have the power to connect with the public administration and use corruption and intimidation in order to manipulate public bids. It is no coincidence that the construction sector is far less important for Italian mafia investments abroad, where they have weaker infiltration of the political and economic sphere (see Chapter 7).



### Box 30 - The Camorra entrepreneur and the Casalesi clan's interests in the construction industry

The entrepreneur R.S., sentenced in 2005 for mafia association (Anselmo & Braucci, 2008, p. 325), served as one of the figureheads of the Casalesi Camorra clan in the construction industry in Campania. His business covered all the phases of the cement cycle from the extraction to the production of concrete, to construction companies themselves. Relying on mafia methods, the criminal consortium obtained several public procurements, even the supply of concrete for construction of the prison of Santa Maria Capua Vetere (Anselmo & Braucci, 2008, p. 259). R.S. was also involved in illicit waste disposal, because his companies' mines were considered ideal sites for the final storage of hazardous waste (Commissione Parlamentare D'inchiesta, 2000). Indeed, in 1998 the Italian Commissione parlamentare di inchiesta sui rifiuti described R.S. as "one of the most important exponents throughout the entire cycle of toxic waste disposal" (Commissione Parlamentare D'inchiesta, 1998).

### Wholesale and retail trade

Wholesale and retail play an important role for the economies of both Italian mafias (in particular Camorra) and foreign OCGs active in Italy (in particular Chinese). Most of the evidence on infiltration refers to specific subsectors:

- **Trade in food products:** this is widely used as a front to conceal illicit drug trafficking (see Chapter 7) but it is also driven by mafia culture and geographical proximity to 'food clusters';<sup>289</sup>
- **Trade in clothing and textiles:** this is crucial for the economies of OCGs (such as the Camorra or Chinese OCGs) closely involved in the counterfeiting of clothes and apparel (see Section 5.4);
- **Department stores:** emerging cases of investments in *GDO – Grande Distribuzione Organizzata* - by Italian mafias (in particular Cosa Nostra) can be identified, especially in Sicily (Brunello, 2011);
- **Import-export companies:** these have interested also foreign OCGs (mainly Eastern European and Russian/Georgian OCGs) because they are useful for certain illegal activities (e.g. smuggling and 'product laundering' of stolen goods).
- **Trade in gold and jewellery:** a booming sector in the past 2-3 years, this may be used for money-laundering purposes (due to its cash-intensive nature) or to 'launder' stolen jewels.

### Transportation and logistics

Transportation, in particular road freight, has always been crucial for the Italian legitimate economy (Maggi, 2009).

But it has proved vulnerable to criminal infiltration because of certain characteristics (e.g. a high number of **individual enterprises**, the wide use of **subcontractors**, regulatory loopholes).

Infiltration by Italian mafias has often been associated with episodes of drug trafficking, corruption, extortion and intimidation (see the Operation *Decollo Ter* in the box below); more recently, there have been concerns about infiltration, also by foreign OCGs (mainly Eastern European), of **logistics and transportation companies**, especially in Emilia Romagna and Lombardy. Such infiltration is often associated with the use of irregular workers, often of Eastern European origin (Di Vico, 2014b) and even with episodes of cargo theft, in particular in pharmaceutical transportation (Riccardi, Dugato, & Polizzotti, 2014).

### Box 31- Cocaine, extortion and transportation in Calabria: the Operation Decollo Ter

In July 2014 several members of an organised crime group linked to 'Ndrangheta were convicted by the Tribunal of Vibo Valentia for drug trafficking and extortion committed against a well-known German discount supermarket chain with branches in Southern Italy (Cn24tv, 2014). The 'Ndrangheta members laundered the proceeds from large-scale trafficking of cocaine from South America into a range of transportation companies, which obtained, through extortion and intimidation, monopoly over transportation of the supermarket chain's goods in Southern Italy. Despite the numerous countermeasures adopted, including the use of armed escorts, the Italian branch of the German company was unable to use alternative transportation brokers because of numerous acts of intimidation and violence committed by the 'Ndrangheta group (Cn24tv, 2014).

### Emerging sectors

Besides the traditional sectors described above, some others have recently emerged in police investigations, although most of them have not yet been addressed by the confiscation of companies:

- **Renewable energy**, in particular **windpower**: according to Riccardi, Caneppele and Standridge (2013), at least 15 on-going investigations, corresponding to approximately 10% of the installed windpower in Italy, have involved windpower plants with reference to cases of corruption, fraud, criminal and mafia association.<sup>290</sup>
- **Petrol and gas supply:** infiltration of this sector has concerned Camorra and Cosa Nostra groups in particular (DIA, 2012a, 2013b; Transcrime, 2013a; Trnews, 2014). Through the infiltration of petrol stations, mafias have increased their control over the territory (Cantone & Di Feo, 2010; Transcrime, 2013b) and produced illegal extra-

289. For example, the trade in dairy products for Camorra criminal groups, see Transcrime, 2013a and 2013b.

290. According to Caneppele, Riccardi and Standridge (2013), this sector is attracting the interest of Italian mafias for various reasons, including copious public subsidies, strong territorial specificity, and vulnerabilities in the regulation, especially at the regional and local level. In 2013 Operation *Eolo* led to the seizure of 40 windpower companies controlled (directly or indirectly) by a man considered a figurehead for the Cosa Nostra most-wanted boss Matteo Messina Denaro (Marazziti, 2010).

profits through a wide range of fraud schemes including VAT fraud, excise frauds, and manipulation of fuel counters. There is also evidence that Cosa Nostra has infiltrated gas supply companies (in particular LPG, Transcrime, 2013a).

- **Money transfer businesses:** between 2010 and 2012 around 15 money transfer agencies were seized by Italian LEAs from Chinese OCGs. According to police reports, through these companies, which were directly controlled by the criminal group, about 4.5 billion euro of illicit proceeds (from counterfeiting, sexual and labour exploitation) produced in Italy had been transferred back to China (see Box 32).

### Ownership and management strategies

According to recent studies (Standridge, 2012; Transcrime, 2013a; Donato, Saporito, & Scognamiglio, 2013; Soriani, 2013; Riccardi, Soriani, & Standridge, 2014) mafia companies exhibit some **frequent characteristics** in terms of ownership and management strategies:

- Most of them are **limited liability companies** (*S.r.l. – Società a responsabilità limitata*), which represent the easiest form to incorporate and manage but are also among the most effective means to conceal beneficial ownership<sup>291</sup> (Transcrime, 2013a; Soriani, 2013; Riccardi, Soriani, & Standridge, 2014);
- Whilst there is evidence of the **widespread use of figureheads and strawmen** (according to Soriani, 2013, 54% of the companies confiscated from mafias are controlled through figureheads), in most cases they are chosen from within the family and among relatives, thus suggesting the need to maintain **direct, familistic and ‘in-house’ control** over the company, especially by ‘Ndrangheta<sup>292</sup> (Transcrime, 2013a; Soriani, 2013; Riccardi, Soriani, & Standridge, 2014);
- At the same time, there is evidence of the widespread use of complex cross-shareholdings and **‘Chinese box’ ownership schemes** (Transcrime, 2013a, p. 207);
- From a management (and accounting) point of view, it emerges that, on average, mafia companies (Standridge, 2012; Transcrime, 2013a):
  - Have lower levels of **financial debt** with respect to their ‘legitimate’ peers and higher levels of **current assets** (e.g. cash, receivables, etc.) and of trade payables;
  - Often employ **more staff than necessary** (Riccardi, Soriani, & Standridge, 2014);
  - Are often **not well managed**;
  - And as a result, their **profitability is lower or equal to that of legal peers**;

291. In Italy an S.r.l. can be set up with only 10,000 euro of minimum share capital. They do not need external accountants but at the same time they can well conceal the real beneficial owner (if a plurality of shareholders are used) and defend against confiscation.

292. According to available studies, ‘Ndrangheta is the mafia most concerned to maintain direct and ‘in house’ control over the company, which may also reflect the organisational and familistic structure of most of its groups. Other mafia groups, such as Cosa Nostra and the so-called Banda della Magliana, apparently make wider use of limited companies and joint-stock companies (Transcrime, 2013a; Soriani, 2013; Riccardi, Soriani, & Standridge, 2014).

- These findings suggest that most of these companies act merely as ‘empty boxes’ useful for money laundering purposes but with **no productive intent**<sup>293</sup> (Arlacchi, 2007; Transcrime, 2013a; Riccardi, Soriani, & Standridge, 2014).

However, **more indirect forms of control** have emerged from recent investigations, particularly in the North (Livesicilia. it, 2013; Il Quotidiano della Calabria, 2014).<sup>294</sup> For example, to be monitored are the cases of **‘informal banks’** set up by mafias (in particular ‘Ndrangheta’) lending to legal companies at usurious interest rates, and conditioning, in practice, the management of these businesses towards actual control (Il Messaggero, 2014).

## 8.4.4. Actors

As anticipated in 5.4, a plurality of criminal groups invest in the Italian legitimate economy: **traditional mafia groups**, more or less structured **foreign OCGs**, smaller **criminal groups**, **loose networks** of individuals including **brokers**, and **freelance entrepreneurs**.

According to the available evidence, the lion’s share is still attributable to the main Italian mafia organisations (Cosa Nostra, Camorra, ‘Ndrangheta). Although **Cosa Nostra** is the most represented in terms of assets (definitively) confiscated, in the more recent investigations included in the DOCI, the role of **‘Ndrangheta** has been increasing. Similarly, also **foreign OCGs** are emerging.<sup>295</sup>

There follows a brief description of the investment patterns of the main Italian mafia and foreign groups.

### Italian mafias

#### Cosa Nostra

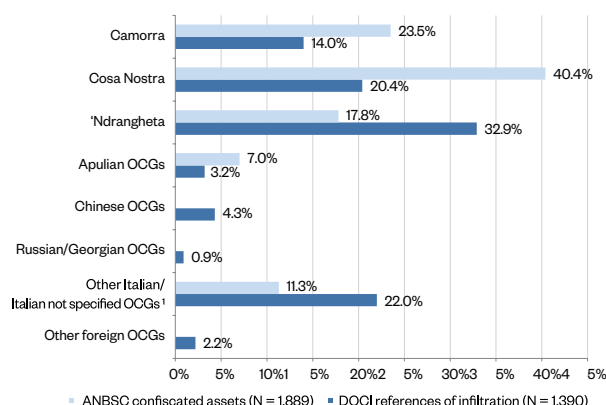
This was the mafia most able to infiltrate the legitimate economy until the early 1990s, and then the one **most targeted** by financial investigations and confiscations in the 1990s and 2000s. Most of the evidence of infiltration by Cosa Nostra concentrates in Sicily, in particular in the provinces of **Palermo, Catania and Trapani** (where most confiscated companies are located). Outside Sicily, evidence of infiltration can be found in both central Italy (e.g. Tuscany) and in the North, mainly Lombardy (Milan, Varese, Bergamo, Pavia) and Liguria.

293. On the other hand, recent studies have highlighted that, between the start of the investigation and the seizure, these companies may undergo a disinvestment strategy by the criminal group, which seeks to liquidate as many of its assets as possible in order to avoid their confiscation (Donato, Saporito, & Scognamiglio, 2013). This may explain, among other things, the high level of current assets and cash.

294. The EU-funded ARIEL Project ([www.arielproject.eu](http://www.arielproject.eu)) will hopefully provide further insights into how OCG companies are controlled and managed in Europe.

295. As mentioned above, the data on the definitive confiscation of assets (companies, in this case) do not include foreign OCGs because some companies seized from non-Italian criminal groups have not yet reached final confiscation. As anticipated and as will be specified in Part 3, the development of confiscation regulation in Italy has historically been driven by the need to hit the financial interests of Cosa Nostra in Sicily. It is therefore not surprising that, initially, it was used primarily against Cosa Nostra, which accounts for the majority of confiscated assets.

**Figure 39 - Main organised crime groups involved in investments in the legitimate economy in Italy<sup>296</sup>**



<sup>1</sup> "Other Italian/Italian not specified OCGs" includes for the ANBSC those Italian criminal groups not necessarily linked to mafia groups or the DOCI OCGs includes references from which was not possible to distinguish between the Italian mafias or regarding other Italian criminal groups.

Source: Transcrime elaboration on DOCI and ANBSC data

As regards business sectors, most Cosa Nostra groups have been historically active in the **construction industry** (Sacco, 2010). It is not by chance that almost half (42%) of the companies confiscated from Cosa Nostra are in this sector (Transcrime 2013a, p. 170). However, more recently some sort of 'diversification' has been apparent, particularly into related sectors like **real estate activities**, oil and **gas supply**<sup>297</sup> and renewable energy, in particular **wind power** (Caneppele, Riccardi, & Standridge, 2013; De Paolo, 2013).

### Camorra

Investments by Camorra groups appear to be relatively **widespread in terms of both territories** and of **business sectors**. The geographic area recording the highest level of infiltration is the one extending from Campania (in particular the provinces of **Naples and Caserta**) to **Lazio** (with Latina, Frosinone and Rome). But also northern regions, such as **Lombardy** and **Emilia Romagna** (especially on the 'A14 Highway axis') are emerging (Tizian, 2012; DIA, 2013b, p. 294).

As regards business sectors, Camorra exhibits a quite **marked diversification** among its clans (Transcrime, 2013a; Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014). Whilst the Casalesi group has a substantial control over the **mining and construction sector** in the province of Caserta (Transcrime 2013a, p. 173; Transcrime 2013b), other clans seem more involved in the **wholesale and retail trade** (mainly in clothing and textiles, food and dairy products, flowers and plants – Transcrime 2013a; Riccardi, 2014a) and in bars and restaurants. Other sectors with significant and

296. Percentages not including references for which indication of OCGs was not available. A 'criminal affiliation' was attributed by Transcrime (2013a) only to confiscated companies; it could not be attributed to real estate and to other types of confiscated assets (see Transcrime, 2013a, p. 387 for further details). "Other foreign OCGs" includes African, Albanian, Romanian, Balkan, African, Irish, Romanian and other criminal groups.

297. Given the lack of railway infrastructures, in Sicily road freight and road transport still play a crucial role. Controlling petrol stations may yield important profit margins, as well as opportunities for fraud schemes (VAT fraud, fuel counter manipulations, etc.). At the same time, gas supply, in particular LPG, is still important, given that it is widely used for heating in private houses. To be cited in this regard is a business group constituted by several companies and controlled by Cosa Nostra families which had the monopoly over the distribution of LPG in Western Sicily (Transcrime, 2013a, p. 187) until it was confiscated by the Italian judicial authority.

emerging evidence are **petrol stations** and **transportation** (La Repubblica, 2013; Gruppo Antimafia Pio La Torre, 2014, p. 11).

### 'Ndrangheta

This has emerged as one of the most powerful OCGs able to penetrate the legitimate economy, not only in its area of origin (**southern Calabria**), where control over the legal economy is extensive, particularly in the construction, transportation, and health sectors, but also in **north-western regions** (Varese, 2011; Transcrime 2013a): in particular **Lombardy** (where investigations such as *Infinito* have led to the seizure of hundreds of 'Ndrangheta companies), **Piedmont** (see for example Operation *Minotauro*) and **Liguria** at the border with France (see also Box 28).

In all these regions, **city councils have been dissolved** for 'Ndrangheta infiltration (Sciarrone, 1998, pp. 281–307; Commissione parlamentare d'inchiesta, 2003, pp. 94–97; Varese, 2011; Commissione parlamentare d'inchiesta, 2013, pp. 104, 125; Gazzetta Ufficiale della Repubblica Italiana, 2013), and several investigations into the **manipulation of public procurements** have been carried out. More recently, expansion into 'non-traditional' regions such as **Emilia Romagna**, e.g. in the transportation sector, has also been reported (Fondazione Antonino Caponnetto, 2014, p. 77; Gruppo Antimafia Pio La Torre, 2014, p. 10).

As regards business sectors, there is evidence of investments by 'Ndrangheta in **traditional sectors** such as **construction, transportation, bars and restaurants**. Some sort of specialisation by 'Ndrangheta groups in specific sectors can be also highlighted<sup>298</sup> (Transcrime, 2013a, p. 175; Riccardi, 2014a). More recent evidence also concerns the **windpower** sector (Caneppele, Riccardi, & Standridge, 2013) and **call centres**.

### Joint-ventures among different mafias?

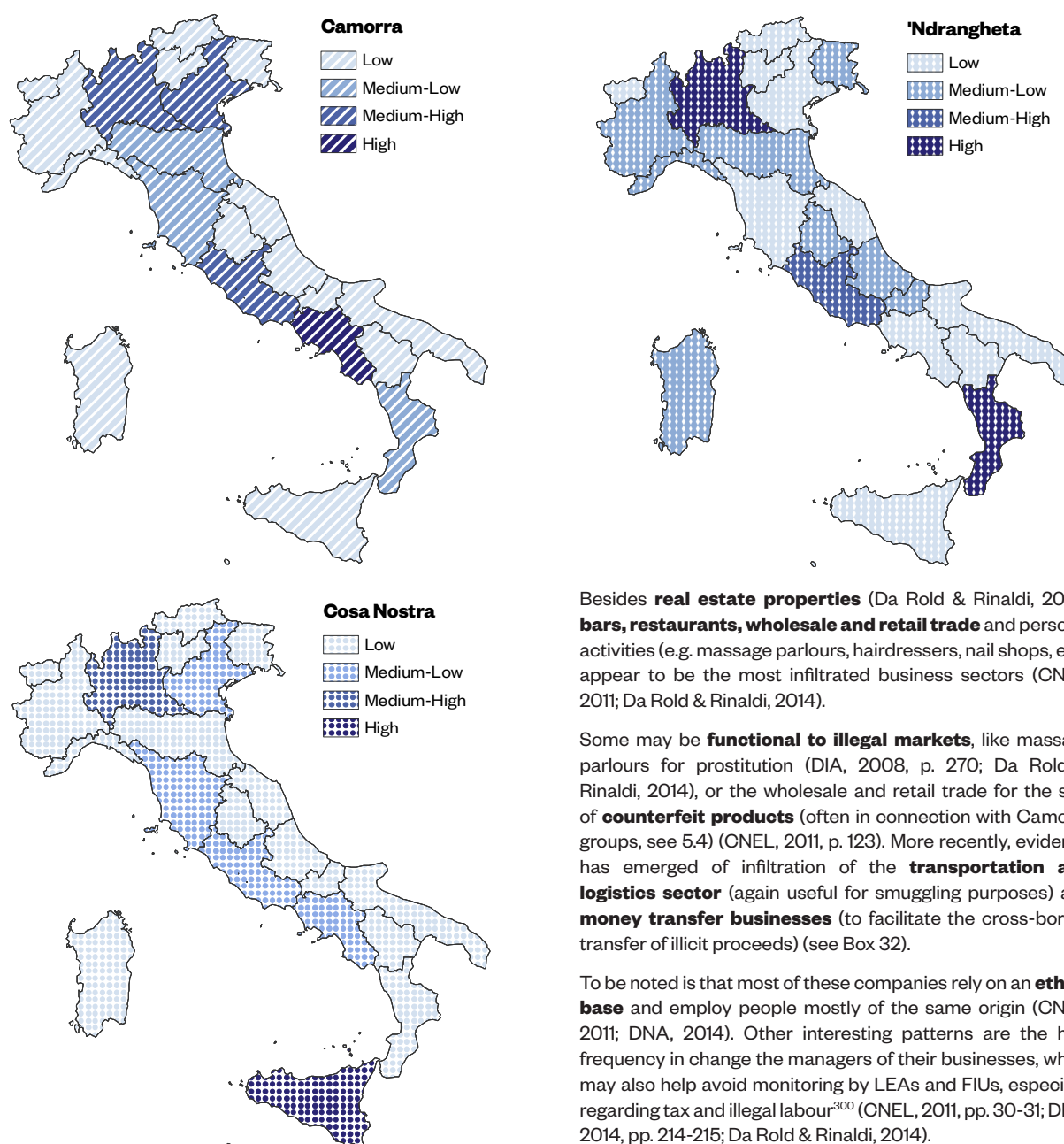
Recent investigations, in particular in 'non-traditional' regions like Lombardy or Lazio, have uncovered an increasing number of cases in which different mafias cooperate for the management of one or more legitimate businesses (Transcrime, 2013a, p.169). This may be considered a further development of the joint ventures between mafias in **illicit markets**, such as drugs, during the 1980s.<sup>299</sup>

Examples are the cooperation between Camorra and 'Ndrangheta for control of nightclubs on **Lake Garda** (see Box 28), the 'cartel' set up by Camorra (*Casalesi* clan), Cosa Nostra (*Santapaola-Ercolano*) and 'Ndrangheta to control transportation services in the key fruit markets of Fondi near Latina (*Sud Pontino* and *Iblis* Investigations), Milan (*For a King* and *Esperanza* Investigations), and Piacenza (Fondazione Antonino Caponnetto, 2014, p. 64).

298. For example, while the Coco-Trovato-Flachi clan in Lombardy seems active in the hotels, bars and restaurants sector, other clans like the Morabito are more involved in the construction industry. These differences may be due to the different opportunities provided by the territory, or they may be determined by individual members' investment preferences (Transcrime, 2013a, p. 175; Riccardi, 2014a, p. 203).

299. Classes identified using Jenks natural breaks optimization.

**Figure 40 - Geographical distribution of evidence of investments by Camorra, Cosa Nostra and 'Ndrangheta in Italy (NUTS 2)**<sup>300</sup>



Source: Transcrime elaboration on DOCI

### Foreign organised crime groups

#### Chinese OCGs

Analysis of the activity of Chinese criminal groups in illicit markets in Italy was widely addressed in Section 5.4. However, large evidence of their infiltration of the legitimate economy can also be found (CNEL, 2011; Becucci 2013, 2014), in particular in central Italy (e.g. **Tuscany and Lazio**) and in the north (in particular **Lombardy**), where the Chinese community is also larger (CNEL, 2011, p. 26; DIA, 2013a, p. 195). In Tuscany, in the province of Prato (near Florence), there is a high likelihood that some Chinese-controlled legitimate businesses are used for money laundering purposes (CNEL, 2011, p. 30).

Besides **real estate properties** (Da Rold & Rinaldi, 2014), **bars, restaurants, wholesale and retail trade** and personal activities (e.g. massage parlours, hairdressers, nail shops, etc.) appear to be the most infiltrated business sectors (CNEL, 2011; Da Rold & Rinaldi, 2014).

Some may be **functional to illegal markets**, like massage parlours for prostitution (DIA, 2008, p. 270; Da Rold & Rinaldi, 2014), or the wholesale and retail trade for the sale of **counterfeit products** (often in connection with Camorra groups, see 5.4) (CNEL, 2011, p. 123). More recently, evidence has emerged of infiltration of the **transportation and logistics sector** (again useful for smuggling purposes) and **money transfer businesses** (to facilitate the cross-border transfer of illicit proceeds) (see Box 32).

To be noted is that most of these companies rely on an **ethnic base** and employ people mostly of the same origin (CNEL, 2011; DNA, 2014). Other interesting patterns are the high frequency in change the managers of their businesses, which may also help avoid monitoring by LEAs and FIUs, especially regarding tax and illegal labour<sup>300</sup> (CNEL, 2011, pp. 30-31; DNA, 2014, pp. 214-215; Da Rold & Rinaldi, 2014).

#### Box 32 – Investments by Chinese OCGs: the Qian Liu, Qian Ba I and Qian Ba II Operations

The *Qian Liu*, *Qian Ba I* and *Qian Ba II* Operations, conducted by the Italian Guardia di Finanza (GDF) between 2010 and 2012, were the first large-scale investigations targeted on infiltration by Chinese

300. Classes identified using Jenks natural breaks optimization.

301. In fact, companies are frequently set up for a limited period of time (about two years) and then formally shut down, changing their names and the formal owners (CNEL, 2011; DNA, 2014, pp. 214-215; Da Rold & Rinaldi, 2014). This mechanism may enable Chinese criminals to evade their tax obligations and resume the same business under the names of strawmen, maintaining the same equipment, personnel, customers and suppliers (Da Rold & Rinaldi, 2014).



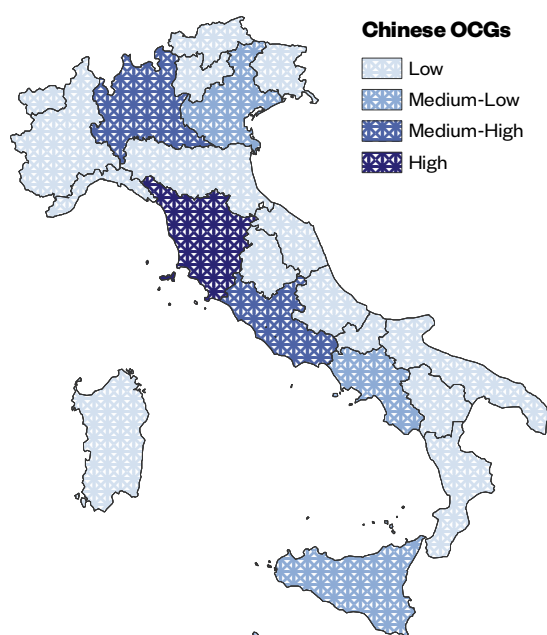
organised crime of Italy's legal economy. The investigations discovered a galaxy of businesses in various Italian regions, among them Tuscany, Lazio, Emilia Romagna, Lombardy, Apulia and Campania, which could be related to a Chinese criminal group. Around 200 companies active in the wholesale and retail of clothing, bars and restaurants, import-export and money transfer businesses were seized. The money earned from illicit activities (e.g. sexual exploitation and forced labour, counterfeiting) was laundered through money transfers, the use of figureheads and tax havens (CNEL, 2011; Tribunale di Firenze, 2010, 2011, 2012). In particular, the GDF estimated that about 4.5 billion euro of illicit proceeds had been transferred to China.

#### Russian/Georgian criminal groups

There is evidence of investment by Russian/Georgian OCGs throughout Italy in both real estate and companies (Kegö & Molcean, 2011; Varese, 2011; Corriere Del Mezzogiorno, 2013; DNA, 2014, pp. 207–212). Two types of investment strategy may be identified:

- The first is linked to **larger-scale and high-level money laundering schemes** through hotels and real estate, in particular in tourist areas like Sardinia, Lake Garda (Toresini, 2014) or the Adriatic coast (La Repubblica, 2002);
- The second is **smaller scale and often functional to the illegal activity**: for example, import-export, wholesale trade and transportation companies controlled by Georgian *Vor-Y-Zakone* criminal groups, set up in several

**Figure 41 - Geographical distribution of evidence of Chinese OCGs in Italy (NUTS 2)<sup>302</sup>**



Source: Transcrime elaboration on DOCI

302. Classes identified using Jenks natural breaks optimization.

Italian regions, have been used to conceal the transfer of goods stolen during organised thefts (Bianconi & Santucci, 2012).

#### Eastern European criminal groups

Although other Eastern European criminal groups (in particular Albanian, Bulgarian and Romanian) are increasingly active in illegal markets in Italy (see Section 5.4), information on their **money laundering activity is still scant**. There is evidence that they infiltrate legal businesses (Berticelli, 2008; Kruisbergen et al., 2012; Ministero dell'Interno, 2013), but comprehensive analysis of territories and business sectors is not possible given the limited amount of data.

### 8.4.5. Concluding remarks

Italy is an attractive country for the laundering of illicit money and in which criminal groups, both Italian mafias and foreign OCGs, can invest in the legitimate economy. Historical and well-rooted infiltration by Italian mafias (in particular Cosa Nostra groups, Camorra groups and 'Ndrangheta groups) may weaken the investment ambitions of foreign OCGs, especially in Southern 'traditional' regions.

However, other areas, such as the Centre (in particular Lazio and Tuscany) and the North (in particular Lombardy, Piedmont, Liguria and Emilia Romagna) exhibit **more fluid situations where both the main Italian mafia groups and foreign ones invest**. To be monitored in these regions are new and more subtle forms of infiltration, such as **'joint ventures'** between different mafia groups (see Box 28), the use of local **'freelance' entrepreneurs and brokers**, and **informal banking services** (usually at usurious interest rates) which are in fact used to influence the control and management of a company (see above).

It is evident that investments by OCGs in Italy move where **opportunities arise** and where **law enforcement control, regulation, and the socio-economic environment** are more vulnerable. The evidence shows that they serve a plurality of criminal purposes, including money laundering, control of the territory, and gaining social consensus (see Table 78).

To conclude, it appears that, while Italian mafias use legitimate businesses primarily to exercise control over the territory and to infiltrate the political and administrative sphere, foreign OCGs use investments for functional purposes related to their illegal activities or for money laundering. But these patterns may change because also foreign criminal groups may **increasingly adopt a 'mafia-style' approach** in the local community.

Although this chapter has sought to provide a comprehensive picture of criminal investments in Italy, the **analysis should be improved** by identifying more precisely the vulnerabilities (particularly in the North), regulations, and business sectors in order to produce more effective *risk assessments* useful for both prevention and investigation purposes in the private and public sector.



**Table 78 - The drivers of criminal investments in Italy**

<b>Driver</b>	<b>Examples</b>
Money laundering	Using cash-intensive businesses such as bars and restaurants to conceal the illicit origin of money and launder illicit proceeds
Profit	Investing in sectors characterised by high profit margins, also guaranteed by copious public subsidies (e.g. renewable energy)
Control of the territory	Investing in territorial-specific business sectors, such as petrol stations or construction, which allow capillary monitoring of the territory and its economic activities
Influencing the political and administrative sphere	Investing in sectors with a strong public sector role, such as public construction or the health system, in order to infiltrate the local political and public administration system
Increasing social consensus	Offering jobs, either regular or irregular, in strongly labour-intensive sectors, or setting up businesses easily recognisable by the population
Facilitating illegal activities	Investing in business sectors (e.g. transportation, wholesale of food products, import/export companies) useful for concealing the illicit trafficking of drugs, counterfeits, stolen goods or in sectors (e.g. oil&gas supply, financial services) where it is easy to commit VAT frauds, excise frauds etc.

## 8.5. Netherlands

Joras Ferwerda and Brigitte Unger (Utrecht University, the Netherlands)

### 8.5.1. Introduction

Especially in the 1990s, there were concerns in the Netherlands about criminals taking over (parts of) city centres, with an especial focus on Amsterdam (Commission Van Traa, 1996). The Netherlands consequently developed the so-called BIBOB-law that allows administrative institutions to revoke or reject licences to open for instance a bar when links with crime are suspected. In terms of crime, the Netherlands is mostly a transit country where the major OCGs engage mainly in smuggling activities and other international crimes. It is therefore not surprising that the transportation sector is one of the sectors that attracts the most investment. It has been suggested that the Netherlands is susceptible to money laundering because of the relative size of its financial sector, its openness to trade, and the amount of criminal proceeds (FATF, 2011c).

#### Methodological remarks

Two different databases have been used to identify the investment patterns of organised crime in the Netherlands:

- the **database of the Dutch PPO**, to which full access was granted for this project. For details on the selection and operationalization of this database see Section 5.5, and the Methodological Annex;<sup>303</sup>
- to address, at least in part, the bias due to the use of seizures and confiscations,<sup>304</sup> **another database**, a selection of references from the DOCI (see Chapter 2 and the Methodological Annex), has been used. This database is a collection of all the Dutch cases that could be found in the public domain. The sources of this database were, among others:
  - the **WODC Organised Crime Monitors**, which are discussed earlier in this report in Section 4.5.1.
  - **Previous academic literature** (e.g. Ferwerda et al., 2007; Fijnaut & Bovenkerk, 1996; van de Bunt et al., 2011).

The relevant part of the DOCI analysed consists of **859 references to organised crime investments**. Business sectors in which OCGs had invested were identified in 613 of these references.

The next two Sections analyse the two databases in regard to several aspects: geographical patterns (8.5.2), type of assets and business sectors of investments (8.5.3), and the criminal actors involved (8.5.4). It concludes with a review of the drivers of investments (8.5.5).

303. For all the 12,946 suspects data on both seizures and confiscations related to organised crime. As regards confiscation, unfortunately only the total amount confiscated and not a detailed list of all the confiscated goods is available. It was therefore decided to focus on seized goods and cash to gain an idea of the investment patterns of organised crime in the Netherlands.

304. Although the analysis of seized assets may provide important information on the composition of the 'portfolios' of criminal groups, it may be biased by the level of enforcement or by how the regulation is applied. For example, the amount of seized companies is low despite the large evidence on criminal infiltration of companies in the Netherlands.

### 8.5.2. Geography

#### Organised crime investments in the Netherlands

Analysis of the geographical patterns of criminal investments in the Netherlands can be carried out by considering the **distribution of the 541 seized real estate properties**,<sup>305</sup> which are the only seizures for which the location can be determined.

Before analysing seized real estate abroad, examination is made of the geographical distribution of the domestic properties. Table 79 below reports how many assets have been seized in the **various provinces** of the Netherlands (NUTS 2).<sup>306</sup>

Most real estate has been seized in and around the capital Amsterdam in the province of **North Holland (NH)**, and in and around the international harbour of Rotterdam in the province of **South Holland (ZH)**. This in itself may not be surprising, because these are the most populated provinces of the Netherlands. To gain a better idea of where there are relatively many properties seized, the number of seized properties per million inhabitants was calculated for each province (Figure 42).<sup>307</sup>

As will be seen from the map and the table, after the number of seizures have been corrected for the number of inhabitants of each province, those generally mostly associated with crime in the Netherlands (North Holland (NH) and South Holland (ZH)) are no longer at the top of the list. **Flevoland, a relatively new province in the Netherlands, reclaimed from the sea in 1986**, is at the top of the list. Closer inspection of the data shows that the seized real estate is primarily located in Almere, which is sometimes described as a **suburb of the capital Amsterdam**.<sup>308</sup>

#### Organised crime investments from the Netherlands

Kruisbergen, Kleemans, and Kouwenberg (2014, p. 364-370) note that the investment location seems often related to the **country of origin of the criminal(s)**. To verify the extent to which this can also be seen in the database of the Dutch PPO, the table below shows what criminal groups were related to the

305. The database officially refers to immovable registered goods in general, but closer inspection shows that nearly all of the listed goods are real estate. For readability the term 'real estate' is therefore used for the rest of this chapter.

306. Information about the locations of real estate properties are in open text fields. Therefore the location had to be determined by hand. As a result, it was possible to determine the location for only 328 objects, of which 311 were located within the Netherlands and 17 abroad.

307. Note that with 'only' 328 assets divided among 12 provinces, the results are relatively sensitive; one large-scale investigation involving many seized real estate properties can influence the results significantly. For example, there are a couple of large-scale investigations involving more than 20 real estate properties, which is more than can be found in total in most provinces.

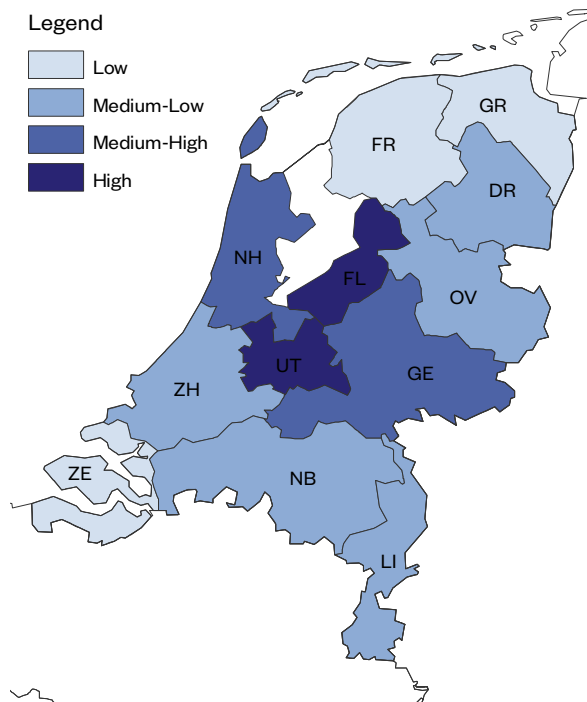
308. This is for instance mentioned by the designer of the city of Almere, Brans Stassen: <http://www.omroepflevoland.nl/Nieuws/54774/almere-almere-blijft-altijd-voorstad-amsterdam>.

**Table 79 - Number of real estate properties seized from OCGs in the Netherlands (2003-2014) per province (NUTS 2)**

Province	NUTS 2 Name	Number of seized real estate properties	Population	Seized real estate properties per million inhabitants
NH	Noord-Holland	72	2,719,764	26.5
ZH	Zuid-Holland	57	3,560,205	16.0
GE	Gelderland	46	2,013,903	22.8
UT	Utrecht	40	1,243,161	32.2
NB	Noord-Brabant	34	2,470,184	13.8
OV	Overijssel	18	1,138,571	15.8
LI	Limburg	17	1,121,483	15.2
FL	Flevoland	14	397,772	35.2
DR	Drenthe	7	489,912	14.3
FR	Friesland	4	647,239	6.2
GR	Groningen	1	582,161	1.7
ZE	Zeeland	1	381,202	2.6

Source: UU elaboration on PPO database

**Figure 42 - Number of real estate properties seized from OCGs in the Netherlands (2003-2014) per million inhabitants at province level (NUTS 2)<sup>309</sup>**



Source: UU elaboration on PPO database

17 real estate properties seized outside the Netherlands (Table 80). Although there is evidence that Turkish OCGs active in the Netherlands invest back in Turkey, there are insufficient data to reach reliable conclusions on this matter.

### 8.5.3. Assets and business sectors

In the Netherlands there is evidence of organised crime's investment in, or possession of, a wide variety of assets (e.g. real estate, company, movable goods, jewellery, vehicles). They can be analysed from two perspectives: first by looking at the 'portfolio' that can be deduced from an **analysis of the seized assets (database PPO)**, and secondly by analysing the **database on references to organised crime investments (DOCI)**, which includes almost solely companies.

#### *A breakdown of the portfolio of organised crime assets*

The seizures in the Dutch PPO database have been analysed to gain an idea of the goods on which OCGs spend their (illegally obtained) money (Table 81). In the Netherlands, investments are rarely made by a crime organisation as a central strategy; capital is personal and not in the hands of the organisation (Kruisbergen, Kleemans, & Kouwenberg, 2014).

A substantial amount of **luxury items are being seized, together with jewellery, cars and ships**. This is in line with former studies on the spending of criminals in the Netherlands (see e.g. Naylor, 2002, p. 20-21; Kruisbergen, Kleemans, & Kouwenberg 2014).

Cash in foreign currency is sometimes specified in the database, detailing the amount of money and which currency, but this is not done often enough to enable a good estimate of the total amount of money involved. For domestic money, the total value is filed for only 66 of the 664 pre-judicial seizures.

309. Classes identified using Jenks natural breaks optimization.

**Table 80 - Number of real estate properties seized from OCGs (2003-2014) that were located outside the Netherlands**

Country	Number of seized real estate properties	Type of OCG					
		Dutch	British	Other Eastern European	Romanian	South American	Turkish
Belgium	1			1			
Curaçao	4	3			1		
Germany	1	1					
UK	1	1					
France	2	2					
Portugal	1	1					
Spain	3	3					
Suriname	1					1	
Thailand	1		1				
Turkey	2						2

Source: UU elaboration on PPO database

**Table 81 - Number of assets seized from OCGs in the Netherlands (2003-2014)<sup>310</sup>**

Type of assets seized	N. assets under criminal seizures	N. assets under pre-judicial seizures
Shares <sup>a</sup>	0	9
Jewelry	47	1,354
Cars	28	526
Cash (in foreign currency)	92	162
Cash (in domestic currency)	1,338	664
Alive and dead animals	25	10
Weapons	23	5
Immovable property	0	540
Other / not specified	643	2,243
Ships	0	29
Narcotics	5	0
Collections	2	157
Food and drinks	0	54
Assets/claims <sup>b</sup>	28	1,156
<sup>a</sup> Including whole companies (as majority shares of a company). <sup>b</sup> Including movable assets such as bank accounts, claims to companies, cheques, insurance policies, third-party accounts, tax refunds, delayed pay-checks, mortgage claims.		

Source: UU elaboration on PPO database

310. In the Netherlands two types of seizures are distinguished, criminal seizures (art. 94 Dutch Criminal Procedure Code) and pre-judicial seizures (art. 94a Dutch Criminal Procedure Code). Whilst criminal seizures are made primarily for objects relevant to the investigation or in court (such as an administration or a t-shirt bearing a bloodstain), pre-judicial seizures are made to ensure that there are goods to be confiscated later. For a more detailed description, see Chapter 11. In the database, all criminal seizures without any value (which is mostly paperwork) were filtered out to limit the size of the database, and because they said nothing about the investment patterns of OCGs. The table shows the amount of objects seized in the two different categories.

**Table 82 – Business sectors with evidence of OCG investments in the Netherlands**

Level of evidence <sup>a</sup>	Business sectors
Higher	Transportation and renting of motor vehicles; Bars and restaurants; Wholesale and retail trade; Hotels and other tourist accommodations
Medium	Real estate activities; Legal and professional activities; Sex, tattoo and other personal activities; Banking and financial activities; IT and other services; Repair and retail of vehicles
Lower	Manufacturing; Other; Construction; Casinos, VLT and betting activities; Money service businesses; Clubs; Sports and gaming; Waste and scrap management; Wholesale and retail of food; Wholesale and retail of clothing and textiles; Petrol and gas supply; Private security; Agriculture and fishing; Hospitals and residential care; Maintenance and cleaning services; Mining and quarrying; Wholesale and retail of gold and jewellery; Renewable energy
<sup>a</sup> The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector (see Chapter 7). The information is available for 859 references.	

Source: UU elaboration on DOCl

The amount of seized cash in domestic currency in OCG cases ranges **from 750 euro to 4.6 million euro, with an average of about 290,000 euro.**<sup>311</sup>

The category 'food and drinks' contains mostly expensive bottles of alcohol. Assets/claims are mostly money in **bank accounts**, but can be any financial claim, such as cheques, insurance policies, tax refunds, delayed pay-checks, mortgage claims, etc. The total value of the assets/claims is filed for 106 of the 1156 pre-judicial seizures. The amount of money in these bank accounts or the financial value of the claims range from **40 euro to 26 million euro, with an average of 1.2 million euro.**<sup>312</sup> There are **no companies seized and shares are only pre-judicially seized in four investigations.** In all four of the investigations, the OCG was Dutch. According to Meloen et al. (2003) criminal proceeds are also used for lending, often with ridiculously high interest rates. These loans do not show up in our database.

311. The median value is 25,000 euro, indicating a very skewed distribution.

312. The median value is 130,000 euro, indicating a very skewed distribution.

### Real estate properties

As mentioned above, the PPO-database lists at total of **541 seized real estate properties**. Investing in real estate has advantages and disadvantages for criminals. The advantages are the high prices and volume and the **non-transparent price determination** (Van Gestel et al., 2008; KLPD – IPOL, 2009, p. 141). The disadvantage is that the money is **relatively immobile after the investment** (Soudijn, 2011, pp. 44-45).

The database reports an estimated value for only 37 properties.<sup>313</sup> The estimated values range from 16,000 euro to 3.6 million euro, with an **average value of about 720,000 euro.**<sup>314</sup> As mentioned above, a total of 17 properties outside the Netherlands were seized.

### Companies and business sectors

Although biased (see Chapter 2), the only available information on infiltrated companies and business sectors concerns those included in the DOCl, i.e. collected from **judicial or police investigation cases** (e.g. those reviewed by the WODO). The DOCl consists of 859 references to the Netherlands, of which the invested sector could be identified in 613 references. The table below shows in which of the 28 different sectors OCGs in the Netherlands invested, and to what extent.

Criminals in the Netherlands prefer to invest in sectors with which they are familiar (Kruisbergen et al., 2012). The most popular sectors for OCG investments are: **transportation and renting of motor vehicles, bars and restaurants, wholesale and retail trade, and hotels and other tourist accommodations.**

Kruisbergen, Kleemans and Kouwenberg (2014, pp. 364-370) draw a similar conclusion after analysing 150 organised crime cases in the Netherlands. The sectors in which they found most investments were: **real estate, horeca** (Dutch abbreviation for hotels, restaurants and bars) and **transport companies**. However, it should be noted that there is some overlap between the cases that were used in this study and the references in the DOCl. Kleemans et al. (2014) conclude that money laundering purposes are also important for investment decisions, like the abundant use of cash in 'horeca' and car dealerships. The descriptive results of the analysis on the DOCl point in the same direction, with **relatively cash-intensive sectors high on our list** (bars, restaurants, hotels, tourist accommodations, sex, tattoo and other personal services).

- **Bars, restaurants, hotels and other tourist attractions.**  
The Van Traa parliamentary committee signalled already in 1996 that criminals were investing in Horeca (Dutch abbreviation for hotels, restaurants and bars) in Amsterdam. Consequently, a new law was designed that made it possible for administrative institutions to reject or revoke licences for these type of businesses if there are suspicions that the businesses are related to crime. This so-called BIBOB-law is intended to prevent criminals from taking over certain business sectors in city centres.

313. We use the so-called kpi estimated value. Kpi stands for key performance indicator (literal translation from Dutch: Kriteieke Prestatie Indicator).

314. The median value is 350,000 euro, indicating a rather skewed distribution.



**Table 83 - Frequency of investment in different sectors by the various OCGs**

OCG	Business sectors with higher evidence	Business sectors with medium-low evidence
Dutch OCGs	Bars and Restaurants; Hotels and other tourist accommodations; Legal and professional activities; Manufacturing; Repair and retail of vehicles; Sex, tattoo and other personal activities; Transportation and renting of motor vehicles; Wholesale and retail trade	Casinos, VLT and betting activities
Turkish OCGs	Bars and restaurants	-
other Asian OCGs	Bars and Restaurants	Wholesale and retail of clothing and textiles
Other Eastern European OCGs	-	Legal and professional activities; Repair and retail of vehicles; Transportation and renting of motor vehicles; Wholesale and retail trade
Motorcycle gangs	Bars and restaurants	Hotels and other tourist accommodations

Source: UU elaboration on DOCI

**Table 84 - Number of seized real estate properties (2003-2014) per OCG per province (NUTS-2 level) in the Netherlands**

OCG	DR	FL	FR	GE	GR	LI	NB	NH	OV	UT	ZH	ZE
African								2				
Chinese											1	
Colombian											1	
Dutch	5	12	2	45	1	16	30	61	7	35	36	
Middle Eastern	2	2								4		
North African						1		1				
Other Asian				1				2	2	1		
Other Eastern European							1					1
Romanian									1		16	
South American				2				1	2		3	
Turkish							2	3	9			

Source: UU elaboration on PPO data

However, bars, restaurants, hotels and other tourist attractions are still popular businesses to invest in for criminals in the Netherlands, as in the rest of Europe (see Section 7.2.2). Not only are these sectors very familiar to criminals, they also involve numerous cash transactions, which may foster money laundering.

- **Transportation and renting of motor vehicles** is also a sector with which criminals are relatively familiar (Kruisbergen et al., 2012), especially, of course, Motorcycle gangs and OCGs involved in illicit trafficking activities. Investing in this sector, moreover, creates possibilities to use for instance trucks or ships belonging to the company for drug trafficking, human trafficking, or ITTP (see cases 1, 11, 24, 25, 28, 86 and 103 in Kruisbergen et al., 2012)

- **Wholesale and retail trade** is the biggest sector in the legitimate economy and may therefore also be found relatively often in the investment portfolios of OCGs (see Section 7.2.2). Moreover, this sector involves numerous cash transactions, which creates money laundering opportunities.

A result in the literature that seems to align somewhat less with the results in Table 82 is Meloen et al.'s (2003) finding that the most infiltrated sectors in the Netherlands are mining and quarrying, construction, wholesale and retail trade (among others: dairy products, leather clothes, flowers and plants), and hotels and restaurants (Meloen et al., 2003, p. 161). Especially for mining and quarrying, Table 82 indicates only a low amount of evidence.

#### 8.5.4. Actors

Different criminal groups may have different investment strategies in terms of territories and business sectors for investments. To gain a better insight into the investment patterns of different OCGs, the DOCI was analysed to differentiate among OCGs and the territories and sectors in which they invest.

As regards business sectors, note that the amount of references diminishes even further, because not only the references in which the invested sector could not be identified (246 cases) are omitted but also the cases in which the OCG could not be identified (497 cases). Table 83 gives an **overview of which OCGs invested in which sectors**.<sup>315</sup>

Since the amount of observations decreases substantially, it is somewhat harder to draw strong conclusions from this table. What seems salient is that Turkish OCGs, other Asian OCGs, and motor cycle gangs invest primarily in bars and restaurants. **Outlaw bikers are related to the legal sectors of horeca** (a Dutch abbreviation for hotel, restaurant and café) and **security** (note on outlaw bikers from the Dutch Ministry of Security and Justice to the Dutch Second Chamber on 17 August 2012), which seems to be in line with our results.

The table below instead shows the geographical distribution, across Dutch provinces, of seized real estate properties (the only seized goods with information about location, see above) according to the relevant OCG (Table 84).

Again, the relatively low number of observations makes it difficult to draw firm conclusions, but our data seem to indicate that the **provinces with the country's main airport** (Schiphol in **North Holland, NH**) and the **main harbour** (Rotterdam in South Holland, **ZH**) have **more real estate investments by foreign OCGs**. This may be due to the more international focus of these OCGs.

#### 8.5.5. Concluding remarks

Criminals in the Netherlands seem to invest primarily in sectors with which they are familiar and that can assist them with their (international, trafficking) crimes. Moreover, sectors with numerous cash transactions seem to attract criminal investments, which may be related to the accompanying money laundering opportunities. In order to limit criminal investments in businesses such as bars and restaurants, the Netherlands has enacted the so-called BIBOB-law, which allows administrative institutions to revoke or reject licences when there are suspicions of links with crime. There are indications that international OCGs in the Netherlands prefer to invest back in their countries of origin, but there are not enough international confiscations to draw firm conclusions on this point. The regions with most criminal investments are located around Amsterdam with its international airport, and Rotterdam with its international harbour.

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315. All OCGs for which not a single sector investment could be identified are omitted, and so too are all sectors in which not a single OCG investment could be identified.

## 8.6. Spain

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### 8.6.1. Introduction

According to the available evidence, Spain is emerging as a **major location for investments in the legitimate economy** by a wide number and range of criminal groups (see below). As already mentioned in 4.6, this phenomenon seems to be of **significant importance in the Spanish public debate and on the political agenda**, and aligned with the international concern regarding the increasing threat that OCGs represents to the EU (Barras, 2014).

The Spanish government has recently implemented **measures to fight this phenomenon**. In this regard, over the past few years law enforcement action against organised crime, drug trafficking, and money laundering **has reduced Spain's attractiveness as an entry point** (U.S. Department of State, 2014). As a result of implementation of the Organic Law 5/2010,<sup>316</sup> the number of cases in which confiscation is allowed without a criminal conviction being necessary has been extended (Di Giovanni, 2011). Moreover, the most important measure against organised crime investments has been the regulation on extended confiscation included in the Spanish Criminal Code in recent years (Jiménez & Villarejo, 2012) (see Section 10.8). As regards information technology, the development in 2004 of a Unified Index (centralized database)<sup>317</sup> system has enhanced the involvement of notaries in the AML-CFT regime (SEPBLAC, 2008; Palomo et al., 2012).

Several governmental efforts have been recently made to **combat money-laundering practices as well as to tackle Spain's submerged economy**. In 2012, a new anti-fraud law was enacted to limit cash transactions between businesses and professionals to 2,500 euro<sup>318</sup> (BOE, 2013, p. 2). Moreover, the creation of the 'Financial Ownership File', in order to prevent money laundering and terrorism financing, established the obligation of conducting periodic reviews on Spanish credit institutions (Decree 304/2014).<sup>319</sup> Together with **regulatory developments**, new **police units** as well as

**coordinating agencies** have been created in order to fight organised crime and money laundering (see 5.6.1).<sup>320</sup> Today, Spain is considered to be one of the European countries in which the incidence of organised crime is most significant (Diez Alcalde, 2013), and this applies also in terms of criminal investments and infiltration of the legal economy.

There are various reasons why Spain may be an **attractive and a preferred destination for organised crime investments**:

- First, as mentioned above, the **extent of proceeds from illegal markets in Spain is significant** (see 5.6). For example, Spain ranks first in Europe as regards proceeds from the illegal cannabis market and third for the cocaine market (5.6). Although none of these proceeds may be laundered locally, some of them may pollute the local Spanish economy.
- Second, the nature of **Spain as a 'transit' country** for a wide range of illicit trafficking (e.g. of illicit drugs, tobacco products, humans, see 5.6) makes it vulnerable also to illicit financial inflows and outflows. In this regard, Spain's geographical proximity with 'producer' countries (e.g. North Africa) may create vulnerabilities in terms of criminal investments as well.
- Related to the previous point, Spain shows the **multiple presence of a variety of different criminal groups** (see 7.4). This 'competition' suggests that Spain still offers a wide array of opportunities for both illegal activities and legitimate businesses.
- Another reason may be related to the **tourism industry**. The massive flows of tourism arriving each year in Spain generate a multicultural scenario that facilitates anonymity for individuals trying to invest their illicit funds (EFE, 2014a).
- A further important factor is Spain's **proximity to tax havens like Gibraltar or Andorra** (Presidencia del Gobierno, 2013), which may facilitate the establishment of businesses because of the low tax rate or high incentives (Rodríguez, 2013).
- Moreover, especially in some sectors, Spain offers **important investment opportunities**: for example, the surge in the prices of immovable properties in Spanish in recent years has also helped OCGs to launder their illicit profits in the country's **real estate market** (FSC, 2012, p. 14).

316. Until 2003 the Spanish Criminal Code only allowed confiscation based on drug trafficking or money laundering. In 2010, the implementation of the Organic Law 5/2010 has expanded the cases in which confiscation is allowed without a criminal conviction. No conviction-based confiscation allows to confiscate goods related to the criminal offence, confiscation of goods when they are hidden, destroyed or inaccessible after the final sentence or the sentence in a plea bargain for specific crimes; or mafia-type criminal association and serious crimes.

317. The Unified Index (centralized database) contains all the transactions performed by notaries (there are 230 types of operations codified). The information from notaries is entered into the database every two weeks through a secure and confidential network using a certified signature process. The database is a public instrument for other competent authorities which may access it using a special card with a CIP (Personal Identity Code) and a password.

318. Transactions that fail to comply with this cash limitation may be subject to administrative fines equal to 25% of the cash amount. Moreover, Spanish law does not allow more than 100,000 euro in cash to be carried within Spain. If an individual is found carrying more than 100,000 euro in cash, the Spanish authorities can seize the money until the individual is able to prove its licit origin (Law 7/2012).

319. For each account and deposit, the file includes specific data, such as numbers of each product, date of opening or cancellation, but also information about the persons involved (identification of the holders of any other person with powers of disposition, etc.)

320. Some improvements have been made to international cooperation order to fight organised crime efficiently. In 2009, CICO and the Special Anti-Drug Prosecution Office were designated as the Spanish contact points for Asset Recovery Offices (CICO, 2012). Also, in line with the EU Drug Strategy (2013-2020), Spain has established the "Bogotá Platform" (Colombia) with other Member States that want to cooperate with it (Ministerio del Interior, 2013). The objective of this Platform is to exchange strategic and operational information on cocaine trafficking from the Andean region to Europe. The choice of Bogotá is particularly pertinent since actions in the region where cocaine is produced will have a more disruptive impact on the cocaine traffic. Finally, collective action will better support the efforts of the Colombian government. (Council of the European Union, 2013).

As a result, several major organised crime groups have chosen Spain to launder their illicit earnings (see 9.6.4), including **Italian mafias** (Camorra, 'Ndrangheta and Cosa Nostra above all), **Russian** organised crime groups, **Chinese, British OCGs and others**. Russian mafias arrived in the country after the break-up of the USSR, investing their illicit profits obtained in their home country in the Spanish real estate and service sectors (Giménez-Salinas Framis, 2010).

More recently, there has been growing evidence of **connections between organised crime and political corruption**, denoting a **'higher level'** type of infiltration of the legitimate economy, with the involvement of criminal groups, entrepreneurs, and representatives of the political and administrative system (CSD, 2010).

### Methodological remarks

The available information on criminal investments in Spain is still less than data on illegal markets (see Section 5.4). No extensive data on confiscation are available (see 10.8 and 12.7), so that evidence had to be drawn from a **wide variety of sources**, including:

- **Judicial acts** (e.g. Court sentences related to cases involving organised crime);
- **LEAs reports** (e.g. reports by the CICO, press releases by the Civil Guard and National Police, etc.);
- **FIU reports** (e.g. annual reports by SEPBLAC);
- **Institutional reports** (e.g. reports from the Plan Nacional sobre Drogas (PNSD), reports by Public Prosecution Office, etc.);
- **Academic literature**;
- **Open sources** and media reports.

The evidence was collected using the methodology described in Chapter 2. In particular, the **iNotitium platform**<sup>321</sup> was used to gather cases from the media. The evidence collected in Spain was organised in the DOCI according to the criteria described in Chapter 2. As a result, a total number of **577 references to organised crime investments** were identified.<sup>322</sup>

As regards the academic literature, to be noted is the very limited number of studies addressing this topic. A bibliometric analysis showed that out of 2,436 articles published on organised crime,<sup>323</sup> only 12 covered Spain. This once again shows the limited access that researchers have to Spanish data on organised crime (see Section 5.6.1).

Despite the significant amount of evidence collected, the bias in the methodology (see Chapter 2) precludes drawing specific conclusions on the trends and patterns of the investments by the criminal groups identified.

321. iNotitium is a software developed by the Universidad Rey Juan Carlos to collect information specifically on issues regarding organised crime infiltration and money laundering in seven countries (Finland, France, Italy, Ireland, Netherlands, Spain and United Kingdom). See Box 1 in Chapter 2 for details.

322. Most of the references came from 147 case studies. In terms of type of source, 69% came from media sources, 13% from court sentences, 9% from institutional reports, 5% from academic studies, and 4% from investigative evidence and newspaper articles.

323. Mapped through the SCOPUS Database.

## 8.6.2. Geography

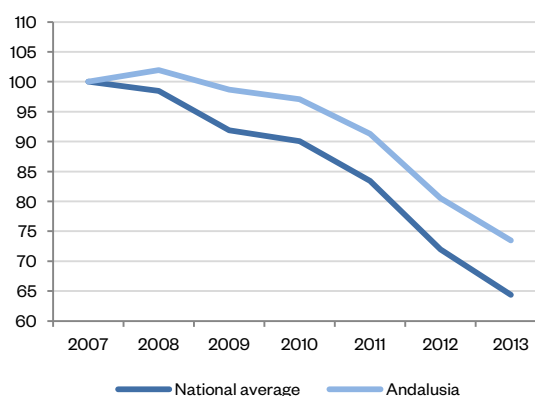
Regarding the geographical distribution of criminal investments in Spain, all the regions (Autonomous Communities, *Comunidades Autonomas*) show evidence of them (see Figure 44). But in particular **three areas** record high or medium evidence of infiltration:

- **Andalusia**;
- Autonomous Community of **Madrid** and Catalonia;
- **Eastern Spain**.

The region with by far the highest amount of evidence on investments is **Andalusia**. This may be due to various reasons, which recall the drivers already highlighted for Spain as a whole:

- Because of its strategic geographical position, Andalusia is **the 'entry point' to a variety of illicit markets**, in particular drugs (mainly cannabis from North Africa and, to a lesser extent, cocaine (together with Galicia), illicit tobacco products, and human trafficking.
- The nature of Andalusia as an entry point and transit country explains the **wide array of criminal groups active** in the area (Ministerio del Interior & CICO, 2014). This may imply a significant level of money laundering and/or high levels of illicit financial inflows and outflows (Almoguera et al., 2012).
- The **high luxury living standards** (especially on the coast), also due to foreign investments (see Box 34, Operation *Ballena Blanca*) may provide a good front behind which to conceal high-level standards of criminals investing in the legitimate economy. In this regard, Andalusia seems to be above the average in reception of **flows of tourists** visiting Spain and leading tourist's speeding in the country together with the Canary Islands. Moreover, there is evidence of Russian tourists increasing their average spending in Spain (Ministerio De Industria, Energía y Turismo, 2013; TURESPAÑA, 2014; EFE, 2014b)
- There is wide array of **investment opportunities**, in particular in the real estate market and the tourist sector: Moreover, the House Price Index (*Índice de Precios de Vivienda*) for Andalusia seems to have been above the national average during the economic recession years (see Figure 43).

**Figure 43 - House Price Index variation for Andalusia (2007-2013)**



Source: URJC elaboration on INE data

As a result, in this region, there is evidence of investments in companies, real estate, registered and movable assets by a wide variety of criminal groups.<sup>324</sup>

At the medium level category, **Madrid seems also to have a notable presence** of criminal investments. In this region, over 45% of the identified references involved movable assets and concerned companies investing in real estate, probably because of the opportunities in this sector offered by the capital's urban area. The autonomous communities of **Valencia and Catalonia** show medium evidence of infiltration in the legitimate economy, which may be related also to tourism.

As already mentioned (see Section 7), the geographical location of Spain gives OCGs opportunities to move their illicit money to nearby tax havens like **Andorra**, located in the north-east region of Spain, and **Gibraltar** situated close to the autonomous community of Andalusia (Olmos Jiménez, 2013).

#### Illicit outflows

Also, under the common practice of immigrants to **repatriate profits** from their legal activities, **money transfer agencies** (also referred to as wire transfer services or money business services) are frequently used also to launder money and to transfer illicit proceeds. These transfer services offer an easy way to move cash all around the world. A significant **number of transfers that originate in Spain usually end up in Latin America countries, especially in Colombia**. Wire transfer services can be found in non-bank outlets such as call centres (so called **locutorios**) (small communication centres that offer

money transfer services) (International Narcotics Control Strategy Report, 2013). There is also evidence of **cross-border cash smuggling**, for example related to Chinese criminal groups (see Box 33 – Operation *Emperador*).

### 8.6.3. Assets and business sectors

Although evidence of criminal investments in Spain have been collected with regard to **all types of assets**, it is difficult to rank what type of assets are preferred by criminal groups. In this regard, once again to be noted is that criminal investments regard real estate, companies, motor vehicles, watercrafts, electronics, as well as jewels and other movable assets.

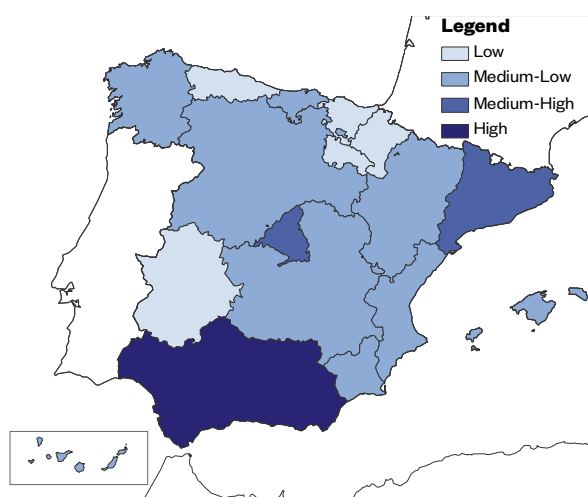
#### Real estate properties

The real estate market in Spain seems to be an **attractive option** for OCGs seeking to launder their illicit earnings. Although real estate does not represent an important part of the assets confiscated and managed by the PNSD (see Section 12.7), some cases showed that large part of criminals' illicit earnings **are invested in properties** (An Garda Síochána, 2010; Diario Jurídico, 2011; El País, 2012a; Agencia Tributaria, 2013; EFE, 2014c; Europa Press, 2014). In particular, to be noted is that most of the cases involved drug trafficking (63% of all the references involving real estate in Spain) and money laundering (79%).

An important operation regarding real estate, *Operacion Emperador* (Box 33), was able to **seize around 130 real estate properties related to a Chinese criminal group** established in Spain. These properties were distributed around various regions of Spain with the purpose of money laundering (El País, 2012b; EFE, 2012), for example by buying and selling properties (Diario Jurídico, 2011; EFE, 2013).

As regards the drivers behind investments, the **housing boom** experienced by Spain since the second half of the 1990s has increased real estate prices to unprecedented levels (European Commission, 2014; see Figure 45). This trend may have caught the attention not only of legal entrepreneurs but also of criminal groups and other individuals seeking to launder their illicit profits through the real estate market (FSC, 2012, p. 14). Moreover, there is also evidence of **luxury houses and apartments** being used by individuals related to criminal groups as their main residences and safe shelters (El País, 2012b; Europa Press, 2014b; Diario de Mallorca, 2014).

**Figure 44 – Autonomous communities with evidence of organised crime investments in Spain**<sup>325</sup>

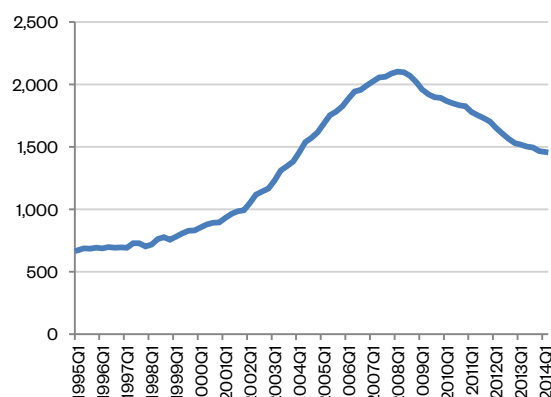


Source: URJC elaboration on DOCI

324. Various criminal groups have been found operating in Andalusia, including Camorra, 'Ndrangheta, Russian and Western OCGs: see below.

325. Classes identified using Jenks natural breaks optimization.

**Figure 45 - Average price (euro) per square meter of housing in Spain (1995-2013)**



Source: URJC elaboration on INE data



In this regard, to be noted is that real estate is the preferred target for criminal investments especially in the **coastal areas of the south and east of Spain** (Diario Jurídico, 2011; U.S. Department of State, 2014; Europa Press, 2014b; see Figure 44). It is not by coincidence that southern Spain, and in particular **Andalusia**, also comprises most of the real estate confiscated in relation to illicit drug trafficking (see 12.7).

Because in most of the cases analysed there was no of the specific type of real estate asset, it is difficult to make comparisons or to rank the different types of property. However, houses and apartments appear more frequently than other categories (EFE, 2013; Europa Sur, 2013; Moltó, 2013). As will be discussed in 14.6, nor do the data on confiscated assets distinguish among types of real estate (PNSD, 2014a).

### **Box 33 – Operation Emperador: the Spanish real estate market and the money laundering schemes of a Chinese OCG**

Operation *Emperador* dismantled a major Chinese OCG after three years of rigorous investigations by the Spanish authorities. Its leader, G.P., had been able to launder between 200 and 300 million euro per year through a complex financial network in which Spanish criminals were also involved. The main goal of this organisation was to find companies and individuals willing to launder its illicit money (Policía Nacional, 2012).

The money was laundered using a complex network of companies. Family members of G.P. had specific tasks in order for the laundering process to be successful. One of the methods used to launder revenues concern bringing on customs the illicit money generated in Spain on journeys that members of the organisation made to China. Moreover, one of the members was arrested at the Madrid-Barajas airport carrying over 380,000 euro in cash (Ceberio Belaza & Altozano, 2012).

Another method used by the criminal group was based on the smurfing technique through wire transferring business always below 3,000 euro. The criminal group also used extortion within the Chinese community by charging higher loan rates to irregular Chinese immigrants in Spain. During the Operation, 83 individuals were arrested and a total of over 11.6 million euro were seized in cash plus another 11 million in bank accounts. A total number of 124 real estate properties were seized together with firearms, jewellery, motor vehicles and works of art (EFE, 2012).

### **Companies and business sectors**

Although the data are not sufficient for deep and extensive analysis (Díez & Gómez-Céspedes, 2008) – also because the **wide use made of fake societies**, screen companies and tax havens makes it difficult to identify companies related to criminal groups – there is evidence that organised crime in Spain invests widely in legitimate companies (Giménez-Salinas Framis, 2010; Eurojust, 2012; see above for details). As described above, investments are made in a **wide array of regions** (including the Madrid area, Andalusia, Galicia, Valencia and Catalonia) and **business sectors**; and there

is also evidence concerning a **large number of criminal groups**, including Italian mafias, Chinese criminal groups, Russian/Georgian OCGs, Motorcycle gangs, Irish criminal groups, and other local and foreign criminal groups (Sur in English, 2010; Kegö & Mocelan, 2011; Transcrime, 2013a).

As regards business sectors, those collecting the most evidence are reported in Table 85. In particular, **real estate activities, wholesale and retail trade, and bars and restaurants** record the largest amount of references to investment, followed by **agriculture, construction, hotels and tourist accommodations and transportation**. However, other sectors are emerging in terms of attractiveness to criminal groups. The table also reports the number of identified OCGs involved in the sectors so as to provide another measure of the level of attractiveness and 'competition'. There follow brief comments on the main sectors.

### **Real estate activities**

Real estate activities in Spain have for long attracted investments by organised crime (Sands, 2007). In particular, according to several police and judicial investigations, and as already mentioned, the **Costa del Sol area** has become one of the main areas of significant organised crime money laundering through the real estate market (Díez & Gómez-Céspedes, 2008). In this region, police operations (such as Operation *Ballena Blanca*, see Box 34) have dismantled complex financial structures composed of drug traffickers (including Italian individuals) and created to launder illicit proceeds through real estate agencies investing in Costa del Sol, as well as in other countries like the Netherlands and Brazil (El Mundo, 2006).

### **Box 34 – Operation Ballena Blanca. Drug trafficking and criminal investments in Costa del Sol**

The operation began in 2005 and represents a milestone for the anti money-laundering in Spain. The Spanish Anti-Corruption Prosecutor's Office uncovered a complex laundering network that operated through a law firm in Marbella (Andalusia) which managed more than 500 different companies. The operation found branches of this criminal group in various countries, including the United States, Canada, Russia, Turkey, Algeria, Iran and Morocco (El País, 2011).

The law firm was the main hub of the money-laundering network. It channelled multimillion investments by criminal groups dedicated to drug trafficking, arms trafficking, prostitution, kidnapping and fraud. Moreover the network was made up by notaries and a large number of companies which headquarters were based in tax heavens such as Gibraltar, Cayman Islands and Panama (Pagola & Muñoz, 2013).

In this operation, a significant number of companies were investigated by police forces, and it was found that more than 250 million euro from organised crime were being laundered with different methods. The seized assets included a total number of 251 real estate properties in the Costa del Sol area. During the operation over 50 people were arrested, including Dutch and Russian individuals (EFE, 2014b).

**Table 85 - Business sectors with evidence of OCG investments in Spain**

Level of evidence*	Business sectors	Number of identified criminal groups involved in the sector
Higher	Real estate activities	HIGHER
	Bars and restaurants	HIGHER
	Wholesale and retail trade <sup>a</sup>	HIGHER
Medium	Agriculture and fishing	HIGHER
	Construction	MEDIUM-LOW
	Hotels and other tourist accommodations	MEDIUM-HIGH
	Sports and Gaming	MEDIUM-LOW
	Transportation	MEDIUM-LOW
	IT and other services	MEDIUM-LOW
	Petrol and gas supply	
Emerging sectors	Renewable energy	MEDIUM-LOW
	Repair and retail of vehicles	MEDIUM-LOW
	Waste and scrap management	MEDIUM-LOW
* The classes are divided according to the value of the mean plus $\pm 0.5$ standard deviations of each sector (see Chapter 7). The information is available for 610 references.		
<sup>a</sup> Including in particular wholesale and retail trade of food and of clothing and textiles.		

Source: URJC elaboration on DOCI

## Construction

There is evidence of investments by organised crime in the construction sector. Following the pattern shown by real estate, there is evidence that criminal groups invest in **Costa del Sol** (Sur in English, 2010) and the **Canary Islands** (Civil Guard; 2013). In this business area, the various stages of Operation *Laurel* showed that foreign criminal groups used investment in the Spanish construction and real estate market as the main means to launder their illicit revenues (see Box 35).

### Box 35 – Operation Laurel: Camorra investments in construction companies in Spain

Since 2009, the Spanish Civil Guard has addressed infiltration by Camorra members in Spain. Various investigations in collaboration with the Carabinieri have made it possible to dismantle some of the paranze (Camorra operative cells) and to arrest key members of the organisation operating in Spain (Operation *Laurel VII*). Camorra members had established in Spain a highly complex money laundering scheme in collaboration with Spanish criminals, who were in charge of logistics and management for the clan (Lázaro, 2013)

The results from this network allow the creation of an important business group in Spain as well as in Italy, by investing illicit profits in real estate, shopping malls, and clubs. During the next operation, *Laurel VIII*, 30 members of the Polverino clan were arrested in

Spain (69 in Italy), and 136 real estate properties were seized together with a large number of luxury motor vehicles. The clan's main activity was laundering the revenues from the illegal trafficking of hashish. In this particular case, Spain was a transit country as well as serving money-laundering purposes. The revenues were invested in companies related to construction: for example, the Spanish company ALPHA, listed on the Spanish stock exchange (formerly listed on the Madrid IBEX 35 index) (Guardia Civil, 2013).

## Bar and restaurants

The bar and restaurant sector also seems to attract the attention of organised crime. There is evidence that **Russian and Italian** organised crime, as well as **Spanish OCGs**, infiltrate the sector in order to launder their illicit revenues from drug trafficking (Diario Jurídico, 2011; Kegö & Mocelan, 2011; García, Castedo, & Carranco, 2013). There is also evidence of **North African and other western European groups** (including British and Irish ones) using bars and restaurants in the south-west region of Spain as screen companies to justify their illicit earnings and sustain their high living standards (Olles & Peris, 2013; Europa Sur, 2013).

## Agriculture and fishing

As regards the agriculture and fishing sector, there is evidence of Italian mafias, such as Camorra or Cosa Nostra, operating in this economic area. The Spanish fishing sector occupies a distinctive place in the world, since Galicia is one of the most

important regions in terms of **fish and shellfish** canning (Amigo and Garza, 2008). In 2008, in Galicia, individuals related to Camorra and Cosa Nostra were found to be using a range of screen companies (see box below) (Tojo, 2008; La Opinión de Galicia, 2008; Faro de Vigo, 2008, see Box 36). There is also evidence of Italian mafias investing in the **olive oil sector**, particularly in the Andalusia region (Transcrime, 2013a). In this case, the mafia groups also carried out frauds and thefts of products from legitimate competitors.

#### **Box 36 - Cosa Nostra and Camorra cooperating in autonomous community of Galicia**

In 2008, the GRECO police unit together with the Spanish Civil Guard uncovered a network of companies, exporting shellfish and fish, used by Camorra and Cosa Nostra to launder their illicit profits. The companies were used as screen companies in order to launder illegal revenues from drug trafficking, human trafficking, and the firearms trade (Tojo, 2008).

There is evidence that the companies, most of them based in Vigo (Galicia), began their money-laundering activities back in 2006. The illicit proceeds laundered through these companies were diverted to Italy in amounts less than the legal limit in order not to arouse suspicions (La voz de Galicia, 2008).

### **Wholesale and retail trade**

The wholesale and retail trade sector also seems to attract criminal investments (An Garda Síochána, 2010; Kegö & Molcean, 2011). The available data do not provide enough information to rank all the various types of businesses in the wholesale and retail trade sector, but some patterns can be highlighted. In this regard, there is evidence of different OCGs operating in this sector (**Chinese, Russian/Georgian, British, Irish and Spanish**) but none of them seems to stand out.

### **Money transfer agencies**

Although this sector does not show the same level of infiltration as the other business activities described above, there is growing evidence that it is frequently used to launder profits from drug trafficking and other illicit markets. As mentioned in Section 9.6.2, some criminal groups, especially foreign ones, tend to **transfer abroad (in particular in the home country)** the illicit proceeds generated in Spain. Using the so-called *smurfing* technique (Prieto et al., 2010), wire transfers, usually of small amounts (below the legal threshold), are made through money business services to send money of illicit origin to individuals related to the criminal organisation and resident in other countries. According to recent evidence, criminal groups do not only use money transfer agencies; they **have started to invest directly and set up their own businesses in this sector**, with the main purpose of laundering and transferring abroad the proceeds from their illegal activities (SEPBLAC, 2008; El Economista, 2011; Álvarez, 2011; Muñoz, 2013).

In addition, some sectors are emerging in terms of attractiveness to criminal investment. They include:

- Sports and gaming;
- Renewable energy;
- Repair and retail of vehicles;
- Transportation and renting of motor vehicles;
- Waste and scrap management;
- IT and other services.

Finally, it is worth noting that some of these business sectors seem to attract a **wider array of criminal groups**. Table 85 shows, in the third column, the number of criminal groups which, according to the collected evidence, operate in the sector. Higher numbers may denote the existence of **more ‘opportunities’ to be exploited** by criminal actors in this field and/or higher levels of attractiveness (e.g. because of higher profit margins, public subsidies, weaker controls, etc.). On the other hand, higher numbers may imply a **higher level of ‘competition’** among criminal groups. Future studies should pay attention to this specific phenomenon in order to determine whether **criminal groups operating in the same sector challenge each other or whether they reach agreements and set up joint ventures** (as increasingly frequently happens in Italy, see 8.4)

### **Movable assets and cash**

Official data on confiscated movable assets, such electronics or jewels, indicates that these types of assets have historically attracted the attention of organised crime (PNSD, 2014 – see 12.7). According to the available information, and the data contained in the DOCI, there is large evidence of seizures and confiscations of cash during police investigations (El Periodic, 2011, 2013; El Faro de Vigo, 2013; Europa Press, 2014c). According to recent data issued by the Ministry of the Interior, during 2013 a total of 30 million euro in **cash and bank accounts** was seized from organised crime in Spain (Ministerio del Interior & CICO, 2014). As for other types of movable assets, criminals’ proceeds have also been invested in **jewellery, other luxury goods, cellphones and other electronics** (see Table 86) (El País, 2012; 20 minutos, 2014; Aragón Digital, 2014;). In many cases, these goods (especially cellphones, weapons and electronic equipment) besides having an ‘investment’ or personal consumption nature, are also widely used in the commission of illicit activities, and this may explain the large amounts seized.

### **Registered assets**

Registered assets, too, play a crucial role in the economies and illegal activities of organised crime groups. They are **instruments** either for commission of the criminal activity itself (e.g. cars or watercraft are widely used to transport drugs between North Africa and Southern Spain), for **personal use and recreation**, or as a **form of ‘investment’**.

The most frequently mentioned registered assets in the DOCI are **cars followed by watercraft** (in particular inflatables and outboard boats). Data from official sources show also a high number of vehicles and watercraft among the seizures from organised crime (see Table 86), and in terms of assets confiscated and managed by Plan Nacional Sobre Drogas in relation to **illicit drug trafficking** (see Section 12.7).

A significant number of registered assets were recovered by the Operation *Laurel VII* carried out by Spanish and Italian law enforcement agencies against the Camorra (Polverino clan) in Spain (see Box 35 above): a total number of 117 vehicles were confiscated from the clan, as well as 62 trucks and 23 motorcycles (Guardia Civil, 2012; Tobella, 2013; Fernandez Diaz, 2013; Muñoz, 2013).

**Table 86 – Assets seized from OCGs in Spain**

Type of assets	Num. of seized assets	
	2012	2013
Vehicles	1,670	2,102
Boats	118	119
Aircrafts	2	6
Firearms	549	558
Sharp weapons	201	630
Computers	615	909
Cellphones	6,455	4,498
Euro (cash)	44 million	30 million

Source: URJC elaboration on data by the Ministerio del Interior - CICO

## 8.6.4. Actors

Given the lack of reliable hard data, it is difficult to understand if, in Spain, **different criminal actors have different investment strategies**. Nevertheless, there are some general characteristics that can be highlighted.

### Italian mafias

Even though Italian mafias have a significant presence in Spain (see e.g. Transcrime, 2013a), it is difficult to determine their investment patterns. The evidence shows a significant number of cases where Italian mafias, such as Cosa Nostra, Camorra and 'Ndrangheta, have invested in the real estate sector (see Table 85) (Diario Jurídico, 2012; Transcrime 2013). There is also evidence of infiltration by Camorra and Cosa Nostra in companies related to the **agriculture sector and construction** (see Section 8.6.3). Other economic sectors with evidence of mafia infiltration are **bars and restaurants, transportation and renting of motor vehicles**. The related illegal activities are money laundering, drug trafficking, human trafficking, extortion and counterfeiting.

### Russian organised crime groups

Activities by Russian OCGs indicate that they invest money in diverse economic areas. There is also a high presence of Russian OCG investments in the **real estate sector as well as in bars and restaurants**. Their illegal activities range from drug trafficking and money laundering to human trafficking and fraud (Kegö & Molcean, 2010; La Vanguardia, 2013; El País, 2013).

### Chinese organised crime groups

Chinese OCGs are also present in various business sectors. Evidence of investments in **real estate** as well as **wholesale and retail trade** is forthcoming. The related illegal activities include human trafficking, counterfeiting, money laundering, and smuggling (Marraco, 2012; El País, 2012b).

### Western European organised crime groups

Although research and intelligence reports on these groups are almost non-existent, evidence of investments by other western European OCGs has been found: criminal networks with French, Portuguese, Spanish and British members belong in this category together with other European OCGs. Various sectors have been infiltrated: they range from real estate to the bar and restaurant business sector. In particular, it seems that Spanish OCGs collaborate with other foreign organised groups to provide them with the tools and infrastructure necessary to launder their illegal incomes in the country (Europa Sur, 2013; Olles & Peris, 2013).

### Colombian organised crime groups

Evidence on Colombian OCGs is not closely related to investment in Spain, but rather to **illicit financial outflows to the home country**. In particular there is evidence that Colombian OCGs have developed professional and complex laundering systems (El Economista, 2011, including wire transfer services, to launder proceeds from drug trafficking. In addition, a high percentage of the transactions detected had **Colombia and Dominican Republic** as the final destination countries (Ministerio del Interior, 2014). Related illegal activities include drug trafficking, fraud, money laundering and theft (El Economista, 2011; Álvarez, 2011).

## 8.6.5. Concluding remarks

As discussed, the analysis provided here may have limitations due to the lack of hard data and statistics. In order to remedy this gap, a wide range of sources have been used. This has yielded a comprehensive picture of the phenomenon; however, the **biases in the data collection approach make it difficult to provide a quantitative and systematic analysis** of criminal investments across the Spanish regions, business sectors, and criminal groups active in the country.

As regards the drivers which may explain criminal investments, the evidence indicates a variety of purposes, including **money laundering, profit, control of the territory and economies of scale with illegal markets**. Even though there is a wide array of criminal groups investing in Spain, no evidence has been found regarding the presence of a **'dominant' OCG in the country**. In business sectors like real estate or bars and restaurants, **a significant number of OCGs have been identified**, which may indicate that there is a wide range of investment opportunities for them (see e.g. Table 85). It is important to note that no evidence has been found for analyse the level of competition in those business sectors.

In particular, as regards legitimate businesses, organised criminal groups **use companies for money laundering purposes**, investing their illicit proceeds in a wide variety of business sectors (see Tojo, 2008; Faro de Vigo, 2008; SEPBLAC, 2008; Olles & Peris, 2013). Furthermore, these

**Table 87 – The drivers of criminal investments in legitimate companies**

Role or functions	Examples
Conceal illicit traffics	Real estate, business premises, and industrial buildings used to hide illicit assets such as drugs, arms, counterfeited products, etc.
Money laundering and tax evasion	Screen companies created to justify their illicit benefits (bar, restaurants, real estate, construction, financial services, hotel and tourist accommodations, petrol and gas supply)
Fraud	Establishment of companies to generate false documents such as invoices or statements
Shelter	Real estate properties might be used to hide criminals and OCG members from the authorities
Human trafficking	Clubs used, in some cases, for human trafficking related to sexual exploitation
Distribution channels	Wholesale and retail companies used to sell counterfeited products. Fitness places as distribution channels for drugs

Source: URJC elaboration

companies are more capital than labour-intensive. Hence, when confiscated, these companies are easily liquidated by the value of the property subtracting debts at the time of seizure. According to the data, **real estate** has a significant presence of OCGs seeking to launder their illegal revenues (U.S. Department of State, 2014). Other business sectors, such as wholesale and retail trade, bars and restaurants, hotels, but also construction and transportation, have shown much evidence of infiltration (see DOCI). Also, in banking and financial services have been found evidences of OCGs operating activities (Álvarez, 2011). Finally, screen companies may be established by OCGs in order to cover other illegal activities such as fraud, drugs and arms trafficking, and human trafficking (see Table 87).

As regards the geographical distribution of investments, there are **some regions with more evidence of OCG investments**. The autonomous community of **Andalusia**, together with **Madrid**, appears to attract OCGs wanting to invest their illicit profits. Movable assets, such as jewellery, electronics and cell phones, represent a high percentage of the cases found. Regarding the weight of organised crime investment, the data collected do not provide enough information with which to measure its impact on Spain's legal economy.

Patterns of investment are unclear, and they cannot be associated with a particular OCG. The purposes of investments in business sectors range from creating screen companies, through justifying illicit profits, to hiding criminals from the authorities. In addition, there is evidence of **groups collaborating** in carrying out illicit activities and money laundering.



## 8.7. United Kingdom

David Wall and Yulia Chistyakova (Durham University, United Kingdom)

### 8.7.1. Introduction

Income from organised crime can be used for personal consumption, saved (cash or money in bank accounts), invested in assets (properties, valuables etc.) or used as capital for legitimate or other criminal enterprises. **Evidence of all these types of spending, saving and investment is present in the UK** and can be inferred from the data collected, although the prevalence of each type could not be estimated. Evidence suggests that investment in assets (registered, movable or real estate) is more common than investment in companies, and that the latter is **predominantly for use as a front for illicit business, not as investment per se**.

Organised crime is an increasing concern for public opinion and institutions, mostly in terms of its costs to the economy and the lifestyle enjoyed by the members of organised crime groups. Since the introduction of the 2002 Proceeds of Crime Act (POCA), law enforcement agencies have become increasingly concerned with developing effective responses to money laundering and the confiscation of proceeds of crime. There is **growing concern about the infiltration of legitimate businesses and economic sectors by OCGs**. Currently a new Serious Crime Bill is under consideration in the Parliament and which will, among other things, create a new offence of “participation in an organised crime group” with a penalty of up to five years in prison (Travis, 2014).

The National Crime Agency’s (NCA) National Strategic Assessment of Serious and Organised Crime 2014 has highlighted the **attractiveness of the UK’s financial system for the laundering of international and domestic criminal money** because of high transaction volume, language, developed financial services businesses and political stability; this makes the laundering of criminal proceeds a strategic threat to the UK’s economy (National Crime Agency, 2014b). This is in the form of money in bank accounts, stocks and shares or real estate. However, **proceeds generated in the UK are not laundered only in the country but also abroad** (for example, British OCGs invest in properties or holiday complexes in Spain, see Section 8.6).

The main driver of investments in the UK appears to be the ability to **satisfy personal/family consumption needs and lifestyle preferences**, and secondly the **possibility to facilitate illegitimate businesses** (rather than the legitimisation of proceeds or control of the territory).

It is also important to note that **some, particularly low-level, offenders, will never make enough money to invest**. They will “offend and spend” rather than “save and legitimise” (Levi, 2014). As noted by Ruggiero and Khan “small dealers do not normally manage to get out of the drug market and start a legitimate business except on rare occasions” (Ruggiero & Khan, 2006, p. 478).

#### Methodological remarks

Given the lack of information available on cases of organised crime infiltration in the legitimate economy (see Chapter 6), and of statistics on confiscated assets (see Part 3), a wide variety of sources have been reviewed, including:

- **Institutional reports** (e.g. LEA reports, FIU reports, etc.);
- **Investigation files** (including interviews with law enforcement officials about cases of criminal investments);
- **Academic literature**;
- **Media reports** (in particular local newspapers) of OCG activities and cases of confiscation of proceeds (e.g. accessed through search engines such as Lexis Professional database, see details in the Methodological Annex).

As illustrated in Chapter 2, the evidence collected from these sources **has been organised** into the DOCI. The section of the database regarding the UK contains **419 references (from 171 cases)**, of which the majority came from media sources, academic and institutional reports (see Chapter 2 and the Methodological Annex).

As already widely discussed in Chapter 6, the use of these data poses significant methodological challenges. First, newspaper reports, academic articles and LEA reports of confiscated assets capture some investments, but they **are not representative of the whole range of OCG investments**. Some assets are never discovered by law enforcement bodies and they include bank accounts, cash, stocks and shares, valuables or properties in the UK or abroad.

Secondly, although it has been possible to identify various types of investments, it is difficult to say, **based on the sample, what investments are prevalent**, or attribute particular types of investments to particular groups, with some exceptions.

**Hidden investment** is another issue: no doubt there are investments abroad or in relatives/friends names. Often it is difficult to say whether an investment (for example, in bars, restaurants, retail etc.) is for criminal purposes or an attempt to save and legitimise.

### 8.7.2. Geography

**What UK regions** collect most cases of investments?

Based on the evidence captured by the DOCI, **London (including inner and outer London)** emerges in terms of number of references. But there is also a very significant presence in terms of infiltration of companies in **some parts of Scotland (North East, East and South West)**.

However, as mentioned, there is also evidence of a significant presence of British OCG investments in companies and real estate abroad: in particular in **Spain** (e.g. Andalusia, Catalonia and Community of Madrid) and also in **Ireland, Netherlands and France**.

Investment in **real estate in London is attractive** for those looking to invest large sums of money because of the **increase in property prices**, and it is a good ‘**buy to let**’ investment.<sup>326</sup>

326. Investment in residential properties which are privately rented. With low cost mortgages, for those able to raise a big deposit this can be a better investment than some other options, such as savings accounts; it is also less volatile than stocks and shares.

It is also likely to attract more investment in companies and other assets because of better economic opportunities in London compared to any other area in the country. **Glasgow** appears to be another city with high concentration of OCG investments in various business activities. Figure 46 shows the geographical distribution of references to criminal investments across UK regions.

### 8.7.3. Assets and business sectors

There is evidence that **the following types of assets are represented in the portfolios of organised crime groups** in the UK: real estate, movable assets, registered assets, and companies. It is difficult to rank different types of assets, but it is possible to say what assets were mentioned more frequently in the sample. Companies prevail, followed by real estate, movable assets and registered assets. Below a brief description of evidence on the four types of assets is provided.

#### Real estate

Real estate (in the form of property and land (non-specified), houses, apartments, villas, cottages) is a **fairly common type of investment**, and is mentioned in about a quarter of all UK records on the database DOCI. Large urban areas in the UK are more exposed (London, Glasgow in particular), but there is also evidence of British OCGs investing in real estate in foreign countries (e.g. Spain).

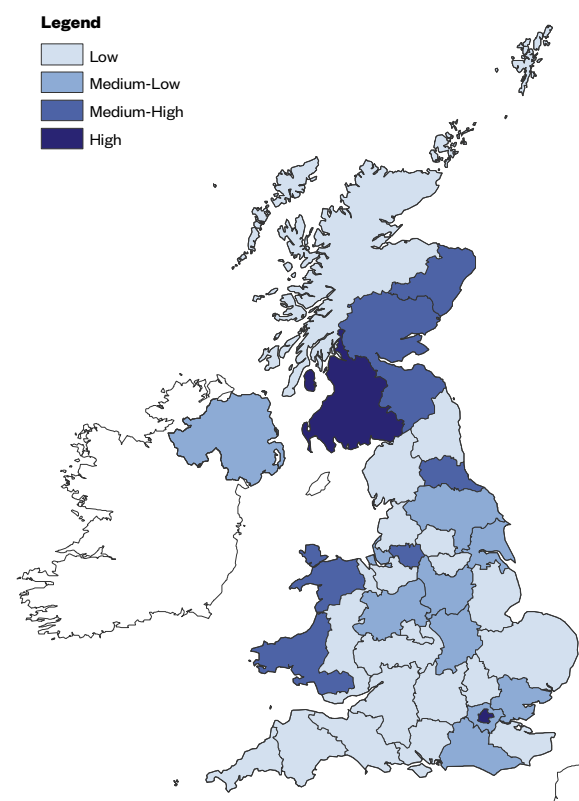
The areas with relatively more evidence of investments in real estate are **London** and **South Western Scotland**.

The preferred real estate is **properties that can be rented** for profit, but also properties that can be used to facilitate **human trafficking**. Houses appear to be the most common type, although apartments seem to be fairly common too. This seems to be explained by the fact that houses are the predominant type of real estate in the UK. As regards investments abroad, interest in **real estate in Spain** has increased because of gradual economic recovery and low prices (Global Property Guide, 2014; see also Section 8.6).

**The drivers behind the purchase of real estate by OCGs** range from investment purposes, personal use, or as a means to perform or facilitate a criminal activity. For example, houses and flats are used to accommodate **victims of sex trafficking or illegal immigrant labour** (often in poor and crowded conditions) or as 'indoor' cultivations to grow cannabis. Non-residential properties (storage) are used to **store illegal goods**. Sometimes illegal means are used to obtain real estate: for example, housing and council tax benefit fraud is used to **finance mortgage repayments** (see Sections 4.9 and 5.7; see also Hampstead and Highgate Express, 2011).

OCG investments have followed **real estate market trends**. From 1975 onwards UK property prices **grew faster than in other countries in Europe** because of immigration, low interest rates, London's financial boom and weak construction activity (Global Property Guide 2014). This made the real estate market in the UK, **especially in London and surrounding areas**, an attractive investment opportunity for anyone wishing to invest large amounts of money in real estate, including for OCGs. After a slump in 2008-2010 prices started rising again, fuelled by low interest rates and limited supply of new properties.

**Figure 46 – Geographical distribution of evidence of organised crime investments in the UK (NUTS 2)**<sup>327</sup>



Source: UDUR elaboration on DOCI

#### Box 37 – VAT missing trader fraud and luxury properties

The boss of a criminal gang, author of the UK's largest ever VAT MTIC frauds on import and export of mobile phones, bought luxury properties on the Thames at Putney Wharf, Chelsea Harbour, and in Spain and Gibraltar (HMRC, 2013). Once convicted and already jailed for laundering his share of a £250 million VAT fraud, he was ordered to repay criminal profits of £14 million, within nine months, or remain in jail for a further ten years. Fifteen other career criminals were also jailed for almost 100 years for their part in the conspiracy.

#### Movable assets

A wide array of movable assets has been identified in relation to cases of OCG investment. They include **cash, stocks and shares, trusts, bonds, life insurance, pension funds, bank/building society account, jewellery and gold** but also designer clothing, artwork, other luxury items, watches, computers, race horses, fur coats and cosmetics.<sup>328</sup>

The most common type of movable assets found in the criminal portfolio is **cash**. This may be due to the fact that

<sup>327</sup> Classes identified using Jenks natural breaks optimization.

<sup>328</sup> References to movable assets have been found in a number of UK areas. West Wales and The Valleys, East Yorkshire and Northern Lincolnshire, Greater Manchester, Leicestershire, Rutland and Northamptonshire and South Western Scotland are the areas where these recoveries appear to be most common (Table 28).

cash seizures appear to be the most common type of asset recovered (see also Section 12.8). This is followed by valuable consumer goods such as **luxury watches and high value jewellery**, bank accounts, and designer clothing. **Luxurious holidays** were also frequently mentioned in newspaper reports as criminal expenditure, supporting the idea of 'lifestyle' investments or consumption patterns.

A luxury lifestyle, but also investment in high-value items appear to be among the drivers behind the purchase of movable assets. High-value goods such as **antiques, artworks, and jewellery may be a way to invest in something of high and stable value**, and/or a way to launder money (Thompson, 2003). **Cash and money in bank accounts** are extremely important as enablers of future/ongoing criminal activities (see also Section 7.2), but since POCA allows the seizure of cash, criminals are getting better at hiding it from seizure; for example, by using mules, or placing money in condoms and swallowing them (HMIC, HMCPsi, & MCSI, 2004, p. 12).

**It can be speculated that the POCA has provided an incentive for offenders to spend their money fast rather than save and invest it**, knowing that they have to pay the money back, and most certainly part with at least some of their assets if they get caught.<sup>329</sup>

**Box 38 - Operation Octopod: Rolexes and computers for the criminal gang**

In a series of raids in February 2014 police arrested fifteen members of a London-based organised crime group – the Adams syndicate. The members of the group were charged with fraud, money laundering, conspiracy to assault and criminal damage. Police confiscated around £275,000 in cash as well as guns and luxury items like Rolexes, computers and phones (Luke Garratt, 2014).

**Registered assets**

Evidence of purchase and investment in registered assets include **cars** (most frequently mentioned), **bicycles, number plates, boats**, and even **private jets and helicopters**. They are important first of all as symbols of success (Hobbs, 2013) and patterns of luxury lifestyle. However, they can also play a **functional role** in criminal activity: for example, boats are used to transport illegal goods (e.g. drugs).

**Companies**

Companies play a **crucial role in the investment portfolios of OCGs** in the UK and **represent most of the references** found in the DOCI in the country (266 references). They include a wide variety of economic activities and business

329. Based on an interview with a law enforcement official.

330. However, it is interesting to list the full set of sectors which has been found so as to provide an idea of the wide array of financial interests of OCGs in the country. In particular, references to organised crime investments have been found in retail outlets, grocery shops, small restaurants, supermarkets, jewellers, music shops, petrol stations, convenience stores and off-licences, bars, pubs, clubs, sun bed parlours, tanning salons, hair and nail salons, hotels, video shops, auto recovery companies, claims management companies, scrapyards, taxi firms, private security, second-hand car dealerships, second-hand furniture businesses, warehouses, plumbing businesses, construction businesses, property development, painting and decorating companies, catering businesses, cheque cashing services.

**Table 88 - Business sectors with evidence of criminal investments in the UK**

Level of evidence*	Business sectors
Higher	Bars and restaurants; Wholesale and retail trade <sup>a</sup> ; Transportation
Medium	Construction; Sports and gaming; Sex, tattoo and other personal activities; Money service businesses; Casinos, VLT and betting activities; Repair and retail of vehicles; Banking and financial activities; IT and other services
* The classes are divided according to the value of the mean plus ±0.5 standard deviations of each sector (see Chapter 7). The information is available for 257 references. <sup>a</sup> Including WRT not specified, WRT of food, WRT clothing and textiles.	

Source: UDUR elaboration on DOCI

sectors, from retail outlets and grocery shops, to restaurants, taxi firms and construction companies.<sup>330</sup>

The sectors with the higher evidence of infiltration are **wholesale and retail, bars and restaurants** and **transportation**. Below more details about relevant infiltrated sectors are provided.

**Wholesale and retail trade**

Evidence of infiltration in this sector by British OCGs, Italian mafias (Camorra and 'Ndrangheta), but also by Irish, Chinese, Russian/Georgian, Turkish and other Asian OCGs has been identified. Most of the cases concentrate in London, Scotland (Northern and Southern) and Greater Manchester. Companies in this sector are used either as an investment, as **fronts for criminal activities**, or to perform an illegal activity, for example, to sell fake designer goods (Kington, 2009).

In particular **wholesale and retail of food**, such as convenience stores and off-licences, are typically fronts for illicit activities (Silverstone & Savage, 2010) or are used to sell illicit goods (e.g. alcohol) or may be offered **illicit goods** by OCGs (Tilley & Hopkins, 2008); food importing by Italian mafia for restaurants in Scotland is both for profit purposes but also to facilitate the criminal activity (Campana, 2011b).

**Bars and restaurants**

In this sector, several OCGs have been identified: they include British, Italian mafias (Camorra), Chinese, Irish, Turkish and Other Asian. Geographically, most of the cases were found in Scotland, London, East and West Midlands and Greater Manchester. Bars and restaurants are used as either investments or fronts for criminal activities (Hobbs, 1998; Silverstone & Savage, 2010; Leask, 2010; Fellstrom, 2014).

**Box 39 - A gang leader involved in fraud and money laundering invests in real estate, properties, a golf club and a restaurant**

The wealthy co-owner of a football club made a 1 million GBP loan to a company controlled by a man considered head of an organised crime network involved in fraud, money-laundering and 'extreme violence'. The loan was secured against several of this man's properties, including a golf club and a restaurant once owned by famous actors and footballers (Fellstrom, 2014).

## Transportation and renting of motor vehicles

Turkish and British OCGs have been found in this sector. Most of the cases were discovered in London and Scotland (South-West and East). Companies in this sector are often used as fronts for criminal activities (for example, taxi firms are used as fronts for money laundering and drug trafficking activities), but also as part of a criminal activity: for example, haulage businesses are used to transport illicit goods (drugs, illicit or counterfeit cigarettes, alcohol and other counterfeit goods), and warehouses are used for the storage of illicit goods or as venues for the 'cutting up of loads and distribution of stolen goods' (D. Hobbs 1998, 413). Auto-recovery companies can be used as part of a criminal business (auto-recovery as part of a 'crash for cash' scam) (Leask 2010, D. Hobbs 1998, Durham Constabulary 2013).

## Construction

OCGs found in this sector include Italian mafias (Camorra and other not specified groups), British and Irish OCGs. Geographically, most cases were found in East Anglia, Essex, Kent, North Eastern Scotland, Tees Valley and Durham and West Wales and The Valleys. Construction companies are usually a form of investment. Based on the records collected, money from drugs, trafficking, cigarette smuggling, arms sales, money laundering and other crimes is invested in a construction/renovation/decoration business or infrastructure (Hobbs, 1998; Sur In English, 2010).

## Other sectors

A low amount of evidence does not necessarily mean that these sectors have less infiltration. It may mean that less evidence is available because of perhaps the relative ease of concealing illegal activities in some sectors such as waste management, traditionally less attention of law enforcement authorities to these sectors, and other reasons.

For example, **waste management** is now highlighted as a potentially highly infiltrated sector, but there is often insufficient evidence to link it directly to OCGs. As noted in Section 5.7.2.8, organised crime involvement in the waste sector is recognized by the Environmental Agency as a growing threat. Northern Ireland is viewed as particularly vulnerable by the independent Mills report, but the whole of the UK is claimed to be at risk (Kenning, 2014).<sup>331</sup>

Similarly, **legal and professional activities** (financial agents, accountants, solicitors, and others) have traditionally not been targeted by law enforcement agencies as enablers of organised crime because these links are difficult to prove. But the new Serious Crime Bill aims to address the gap by introducing a new offence of 'participation in an organised crime group' (Travis, 2014).

**Sports and gaming.** Italian mafias (Camorra and Apulian OC), British, Chinese and Russian/Georgian OCGs have been found to invest in this sector. They invested in Scotland (east, south-west, north-east, Highlands and Islands), Essex, Outer

London and Berkshire, Buckinghamshire and Oxfordshire. Companies in this sector are used for investment and money laundering. Football and other sports clubs are typical investments (Fellstrom, 2014).

**Money service businesses.** These include foreign currency exchange, money transfer, and cheque cashing services. British, Turkish and Colombian OCGs have invested in this sector. Evidence of investments has been found in London, Greater Manchester, North Yorkshire and West Yorkshire. Money service businesses are typically used for money laundering (Thompson, 2002).

**Purchase of financial products** (mortgages and investments) is also a way to launder money (National Crime Agency, 2013). Mortgage fraud is often used to buy real estate. **Payday loan companies**<sup>332</sup> offer good legal covers for laundering income from drugs, prostitution and racketeering.

**Sex, Tattoo and other personal activities.** This includes nail bars, tanning salons, hair salons, massage parlours, sunbed parlours, and escort companies. A wide range of OCGs are involved in this sector, including British, Chinese and Vietnamese OCGs. Investments in this sector have been found in London, Scotland (south-west, eastern), East Wales, Derbyshire and Nottinghamshire. These businesses are usually used as fronts for criminal activities. For example, nail bars are used by Vietnamese communities as fronts for human and drug trafficking (Silverstone & Savage, 2010).

**Hotels.** British, Irish, Italian and Turkish OCGs have been found to own hotels in several locations, including Calabria (Italy), Andalusia (Spain), Turkey, Surrey, East and West Sussex. Hotels are typically purchased as an investment, but they are also used as fronts for criminal activities and to launder money. This includes investments in holiday villages and tourist complexes in tourist/beach resort areas of Italy, Spain and Turkey, or in southern parts of the UK (Thompson, 2002; Surinenglish, 2010).

Other sectors with some evidence of OCG investments include *casinos, VLT and betting activities; IT and other services; real estate activities and repair and retail of second hand vehicles.*

The role of **foreign countries as destinations for investment** in companies is also growing. For example, a Northern Irish OCG was reported to have invested proceeds of illegal drug trade in several tourist complexes in Costa del Sol and Brazil, as well as in the sectors of renewable energy, infrastructure, recycling, telecommunications and recreational activities (Sur In English, 2010).

To conclude, there are various drivers behind investments in companies: some are functional/directly linked to the performance of an illegal activity (conceal, or enable/assist illegal activity); others are to 'save and legitimize' illegal proceeds, or consume them ('offend and spend'), see Table 89 below.

331. For example, ESAET cites a recent case in Northern Ireland: at a site in Mobuoy, near Londonderry, "516,000 tonnes of waste were found to have been illegally dumped in sand and gravel pits by an apparently legitimate firm" (Taylor et al., 2014, p. 8). The Scottish Environment Protection Agency set up a new Waste Crime Team in December last year to help tackle serious and organised crime (Scottish Environment Protection Agency, 2013). Food supply networks are considered to be another vulnerable sector because of the ease of penetration, the possibility of making high profits from food fraud, and relatively low risks of detection (Elliott, 2013).

332. A payday loan company is a lending company in the UK that loans typically small amounts of money (up to £500) to be repaid over short term, and charges a very high interest rate (1000% APR or more).



**Box 40 – A drug baron invests in a pub chain, beer distribution business, private hire taxis, an art gallery, an accountancy business and a nursery**

A drug baron invested in properties, a pub chain, a beer distribution firm, several hundred private hire taxis, an accountancy business and a children's nursery. He also founded an art gallery, and was involved in mortgage fraud and money laundering. He owned a 1.5 million GBP home (Findlay, 2013).

**Table 89 – Drivers of OCGS investments in companies**

Purpose of investment	Business sectors
To assist illicit business	Haulage businesses (transportation of drugs and illicit tobacco), banking and financial (claim management, cash for crash scams), petrol stations (fuel laundering), convenience stores (sale of illicit goods)
Money laundering	Betting shops, sports and gaming, money-service businesses, cash businesses, businesses based on trust (jewellers)
As a front for criminal activities	Wholesale and retail trade, sex, tattoo, tanning and nail salons, saunas, hotels, repair and retail of second hand vehicles, payday loans
Legitimization of illicit proceeds	Wholesale and retail trade, bars and restaurants, construction, hotels, clubs, real estate activities, renewable energy, infrastructure, recycling, telecommunications, sports and gaming, manufacturing, wholesale and retail of clothing and textiles, private security

Source: UDUR elaboration

## 8.7.4. Actors

### British OCGs

Most frequently mentioned in the database, British OCGs are involved in a **broad range of sectors**. It also seems that in terms of geographical distribution of investments these criminal groups are **represented in all areas of the UK**,<sup>333</sup> not just London and big cities, and that they are linked to a wide range of criminal activities. They are involved in a range of sectors, with most frequent records of bars and restaurants and wholesale and retail of food.

British OCGs of South Asian origin in particular seem to specialise in the wholesale and retail of clothing and textiles, money service businesses, bars and restaurants, other

wholesale and retail (music shops), private security and construction (Ruggiero & Khan, 2006).

### Italian mafias

Three Italian OCGs have been identified as active in the UK: Camorra, Ndrangheta and Apulian OCGs (Parisi clan). **Camorra** seems to be the most diversified group, involved in a range of **sectors**, including wholesale and retail trade, bars and restaurants, construction, real estate activities, sports and gaming, and casinos. However, there is a clear prevalence of records concerning food-related sectors: food import-export, restaurants, pubs, and secondly, sports and gaming, and casinos. **The Apulian (Parisi Clan)** is involved in sports, gaming and casinos. Less information is available on **Ndrangheta**, who were found to be involved in hotels and real estate activities. **Geographically**, most evidence of investments by these groups has been found in Scotland (most records), London and Calabria (Italy). **The illegal activities** in which these groups are involved include drug trafficking, extortion and racketeering, money laundering, murder, arms trafficking.

### Chinese OCGs

Chinese OCGs invest in sports and gaming, sex, tattoo and personal activities, wholesale and retail trade and bars and restaurants. Evidence of these investments has been found in London, South Wales, Nottingham, Glasgow, Bristol, Liverpool, Plymouth and Birmingham (Wang, 2013), Scotland (Silverstone, 2011) and Northern Ireland. The investments are often related to **the illicit activities** in which these groups are involved, such as drug trafficking, sex trafficking, counterfeiting, and fraud.

### Turkish OCGs

Turkish OCGs invest in hotels, bars and restaurants, money service businesses, transportation and renting of motor-vehicles. Most of these investments have been found in London, Brighton and Hove, and Lancashire. **The illicit activities** in which Turkish OCGs are involved include drug trafficking, money laundering and illegal gambling.

### Vietnamese OCGs

Vietnamese OCGs invest in bars and restaurants, jewellers, wholesale and retail of food, wholesale and retail trade, sex, tattoo and personal services. Evidence of investments has been found in London and Birmingham. Vietnamese OCGs are involved in the following **illicit activities**: Illegal immigration, drug trafficking (cannabis cultivation) and money laundering (see Table 90).

There does not seem to be a clear pattern of investment linked to particular groups or types of crime; rather, it appears that groups and networks operate opportunistically and invest where there are opportunities to use a business for money laundering, use it as part of an illegal activity, or legitimise illegal proceeds. As noted earlier, investments are often dictated by the group's criminal activities. Groups involved in human trafficking will often own nail, hair or tanning salons or buy or rent houses to house the victims and/or to use the properties as brothels. Similarly, houses are bought to use for cannabis cultivation. Shops, hotels, bars and restaurants, taxi hire firms

333. In particular South-West Scotland, London, Yorkshire, East Scotland and foreign countries (especially Spain, Costa del Sol).



**Table 90 - Types of OCGs and types of investments**

OCG	Infiltrated business sectors	Related illegal activities
Camorra	Wholesale and retail trade, wholesale and retail of food, bars and restaurants, construction, real estate, sports and gaming, casinos	Drug trafficking, extortion racketeering
'Ndrangheta	N/A	N/A
Apulian (Parisi Clan)	Sports and gaming, casinos (a betting company)	Murder, drugs smuggling and money-laundering
British OCGs (no distinct ethnic identity)	Renewable energy, construction, real estate activities, waste management, IT, sports and gaming, hotels, wholesale and retail of food and clothing, transportation, bars and restaurants, clubs, petrol and gas supply, manufacturing, sex, tattoo and personal activities, money service businesses, banking, private security, repair and retail of second hand vehicles	Drug trafficking, fraud, counterfeiting, gambling, distraction burglaries, robberies, theft, extortion, money laundering, prostitution, brothel keeping, sex racket
British South-Asian OCGs	Wholesale and retail of food and clothing, money service businesses, bars and restaurants	Drug trafficking, immigration crime, fraud
Chinese OCGs	Sports and gaming	Drug trafficking, sex trafficking, counterfeiting, fraud
Turkish OCGs	Hotels, bars and restaurants, money service businesses, wholesale and retail trade, repair and retail of vehicles, transportation and renting of motor-vehicles	Drug trafficking, money laundering, illegal gambling
Vietnamese OCGs	Bars and restaurants, jewellers, wholesale and retail of food, wholesale and retail trade, sex, tattoo and personal	Illegal immigration, drug trafficking (cannabis cultivation), money laundering

Source: UDUR elaboration on DOCI

are often used as fronts for a number of criminal activities (drugs and sex, illicit alcohol and cigarettes, counterfeit goods). Drugs money is invested in all business sectors, as well as lifestyle items; an example is Willie O'Neil's OCG in Scotland, which was involved in heroin trade and mortgage fraud, invested money in a pub chain, a beer distribution company, private hire taxis, an accountancy business, a children's nursery and an art gallery, as well as properties and arts (Findlay, 2013).

Some investments may be driven by cultural preferences, for example, there were several mentions of Italians investing in food import/export and restaurants (the La Torre clan owned an olive oil and prosciutto-importing business and a restaurant in Aberdeen); they were also linked to investments in sports, gaming and casinos. However, cases of other groups investing in bars and restaurants and sports and gaming have also been found. Vietnamese OCGs are linked, according to the data, to restaurants, takeaways and nail bars. According to one estimate, 'nail bars' may account for more than 60% of all Vietnamese businesses (Silverstone, 2011, p. 27). According to the British police, they are sources of work for illegal immigrants and means to launder the proceeds from cannabis cultivation (Silverstone, 2011). The findings are summarised below in Table 90.

### 8.7.5. Concluding remarks

While no quantitative measure can be provided at present, the research indicates that there **is some presence of**

**OCG investments in some sectors of the economy**, such as wholesale and retail trade, bars, restaurants and hotels, sex, tattoo and personal services, money service businesses and cash-intensive businesses, sports and casinos and transportation. However, **none of the sectors are monopolised or fully controlled** by organised criminal groups. There is also evidence of a growing presence in the sectors of renewable energy, waste and recycling and food supply. The main purpose of investments in these sectors is to create fronts for illicit activities, although the businesses can in some cases provide profits in their own right.

**London, North East (Aberdeen) and East Scotland (Edinburgh), and Essex** appear to be places with the highest frequency of investments in companies. While at the upper levels of organised crime there may be opportunities for large investments in the legal economy, low-level offenders typically 'offend and spend' by investing in everyday consumption and lifestyle items. In terms of assets, there is evidence of investments in real estate, especially in **London and South-West Scotland**, although other areas in the UK have been affected as well. There is also evidence of investments in real estate abroad (especially Spain).

**The following types of investment behavior have been identified:**

- **Lifestyle investments** (Hobbs, 1998; L'Hoiry, 2013; Ruggiero & Khan, 2006; Dubourg & Prichard 2008).
- **Symbolic investments** (personalized number plates, designer watches, luxurious cars, boats)

- **Fronts and money laundering** – use of businesses as fronts for illicit activities or to launder illicit proceeds (Silverstone, 2011; Annison, 2013)
- **Functional:** to perform criminal activities (for example, use of warehouses, transport etc.) (Hobbs, 1998; Silverstone & Savage, 2010; Jackson et al., 2010).

The research has found that organised crime groups invest in a broad and expanding range of sectors of economy. There is evidence of large-scale investments in assets worth several millions of GBP. That said, it is **not possible at present to provide an accurate quantitative estimate of the ‘size’ of investments** generated by illicit proceeds in the legal economy.

# 9. The impact of organised crime investments on the European legitimate economy

John Walker (John Walker Crime Trends Analysis)

## 9.1. How to measure the impact of organised crime investments on the legal economy? An exploratory analysis

This chapter attempts to describe how **the impact of OCG investments on the European legal economy might be measured**. It explores the many ways in which organised criminals' investment patterns impact on the legal economy itself, and it attempts to describe in some detail the ways in which these investment patterns are **economically sub-optimal**, how they distort the legitimate markets and damage legitimate businesses, how they impact on ordinary citizens in terms of environmental and health costs and on significantly lowered life quality, and how they impact even at the highest levels of democratic government.

Earlier sections of this Report have focused on the issues of the generation of illicit proceeds from crime by organised crime groups in the EU, and where it is invested. Chapter 7 has shown that:

- Almost all EU Member States register evidence of investments by criminal groups in the legitimate economy;
- Legal companies are often used by OCGs to cover illicit activities and as ways to infiltrate the local political and business community and the public administration;
- Bars and restaurants, construction, wholesale and retail trade (in particular of food products), transportation, real estate and hotels show high and medium evidence of infiltration by organised crime. Emerging sectors are waste and scrap management, renewable energy, casinos VLT and slot machines, money service businesses;
- Differences exist across countries and across different OCGs.

### *The costs of crime and the impact of organised crime investments*

It is not too many years since the first **studies of the costs of crime** emerged (Walker, 1992).<sup>334</sup> Early research into the costs of crime typically focused on the **direct costs of the crimes themselves**, in terms of impacts on victims, and the costs of crime prevention, law enforcement and justice, with indirect costs being relegated to a secondary role, in part because of the inherent difficulties of measurement. However, researchers such as Mayhew (Mayhew, 2003a, 2003b) and Brand and Price (2000) established that these **indirect costs** were indeed measurable (although with difficulty) and significant. More recently, the European Commission has issued a formalised approach entitled **"Mainstreaming Methodology for Estimating Costs of Crime"** (University of York, 2009), which aims to encourage a standard "costs of crime" approach across European Union countries. Building on this history of research, the EC's approach includes, in its "Costs as a consequence of crime" section, some elements that would have been considered rather 'third-order' impacts in early attempts to measure the costs of crime. Together with 'traditional' elements such as property losses and medical and mental health care costs, they include productivity losses, household services, lost school days, pain, suffering and lost quality of life, victim support services, tort claim expenses and 'long-term consequences'. They are described in the report as follows:

- **Productivity loss:** the time lost from work, by victims of crime, as a result of criminal victimisation.
- **Household services:** the interruption of normal daily activities as a result of crime that leaves victims either relying on other household members to increase their service contribution or having to employ external suppliers of these services.

334. This report was recognised by the U.N. International Crime Research Institute as being the first attempt to measure the costs of crime in a country.

- **Lost School Days:** the interruption to education that may result for victims still in full-time education.
- **Medical and Mental Health Services:** the costs to health services (whether funded through the public sector or otherwise) incurred in treating victims of crimes involving violence, or the threat of violence.
- **Pain, suffering and lost quality of life:** the pain and suffering resulting from personal injury in an assault, which may include psychic loss or post-traumatic stress disorder.
- **Victim Support Services:** the costs of supplying support to victims in the immediate aftermath of a crime.
- **Tort Claim expenses:** the costs incurred by victims on bringing their own private actions against offenders.
- **Long-term Consequences of Victimization:** the longer-term effects of crime: for example victims may want to relocate following a crime. There may also be longer-term consequences of business crime. Businesses may leave an industry or an area in extreme circumstances if they have incurred significant or sustained loss from crime.

When the focus is on the **impacts (i.e. the costs, but more broadly defined) of investments made by organised crime** from their significant profits, these elements can be taken as a starting point, because we are considering similar types of 'costs'. But it is necessary to **focus on the costs imposed by the OCGs' patterns of investment, rather than the costs imposed by the crimes committed by the OCGs**. It is therefore necessary to look much more closely into, for example, business management, labour markets, real estate values, and the corrosive impacts of corruption on public and private life.

The findings earlier in this Report do not permit actual measurement, because of the extreme scarcity of hard data on the magnitude of the problem. However, several significant threads emerge from the research. They can be classified: **Sub-optimal investments, Market distortion, and Interference in Government and Judicial decision making**.

### 9.1.1. Sub-optimal investments

According to Italian studies (e.g. Arlacchi, 1983; Transcrime 2013a; Riccardi, 2014a) most of the companies controlled by OC **are not well managed**, are **not necessarily profitable**, have **more employees than necessary**, and stay in the market only because they use **corruption, accounting manipulations and other criminal means**. In this sense the business activities managed by OCGs may be somehow '**sub-efficient**' or '**sub-optimal**' thus implying loss of productivity and profitability.

Impacts of sub-optimal investments include:

- Irregular work:
- Consequences of confiscations
- Environmental and health implications

#### Irregular work

According to the cases analysed in previous studies (see above) and previous sections (see e.g. Sections 5.4.2.2, 7.3, 8.2.3 and 8.4), most of the companies controlled by OCGs use

**more employees than necessary and often hire irregular workers** (or even exploit the labour of trafficked persons), making them dependent on welfare or petty crime to generate income. Australian studies, for example Australian Tax Office (2014), show that OCGs, particularly those operating in the building and construction industries, may systematically run a company into debt, and transfer the assets into a new company to avoid paying creditors, tax or employee entitlements (this is known as 'Phoenix activity' after the mythical bird that is continually reborn from its own ashes). The new company, usually operated by the same director, continues the business under a new structure to avoid responsibilities to creditors, but the employees are abandoned without hope of receiving their entitlements. Australian Tax Office studies are underway to estimate the costs and impacts of the use of such schemes by OCGs in Australia.

To the extent that this is true, then:

- **Productivity losses** occur across the part of the workforce that is employed by OCG-controlled businesses;
- **Tax losses** occur as a result of tax-evasive business practices by OCG-controlled businesses and as a result of the lower incomes paid to employees;
- **Dependency on welfare** may become an issue for income support for poorly paid and laid-off workers, and for their dependents;
- **Stress, related to working conditions**, may lead to long-term physical and mental health problems for employees of OCG-controlled businesses, and for their dependents;
- Children of poorly paid and laid-off workers may miss out on **educational opportunities**, with the consequence of long-term disadvantage.

#### Consequences of confiscations

Once confiscated, criminal assets are **often not efficiently managed and hence soon lose productivity or fail**. For example, most confiscated companies in Italy go bankrupt or are liquidated (Riccardi, 2014a) - Transcrime research found that 65-70% of the businesses confiscated from OCGs ended in liquidation, 15-20% went bankrupt, while only 15-20% remained active. This will result in further loss of jobs, of productivity and of wealth.

#### Environmental and health implications

Most companies controlled by OCGs use criminal means to survive in the market. For example, in order to reduce operating costs they **avoid any kind of rule regarding waste disposal** (including toxic waste) or use **lower-quality products** (e.g. cement with high percentages of sand, chemical additives in food products, etc.) which represent risks from the environmental and public health points of view. This will result in:

- Sickness, miscarriage and birth defects from tainted food (CSPI, 2000), and
- Some forms of illegal dumping such as chemicals or asbestos can
  - lead to pollution of the environment, and
  - directly cause harm or injury to humans and wildlife.

A clear example of this is the contamination of the Caserta plain (near Naples) due to environmental damage caused by Camorra companies. It is often referred to as the 'Triangle of death' (Senior and Mazza, 2004), and, for example, the annual death rate per 100,000 inhabitants from liver cancer is close to 34.5 for men and 20.8 for women, as compared to the national average of 14.

### 9.1.2. Market distortion

The ability of OCGs to pay 'over-the-top' prices for the purchase of registered assets (cars, boats, motorcycles etc. moveable assets (such as fine arts, jewels or fur coats), real estate properties and companies (including hotels, bars and restaurants, construction, wholesale and retail trade etc.) as identified in Section 7.2, as part of their money laundering activities, can **drive out legitimate investors from these markets**. The use of corruption, intimidation and impositions (e.g. on suppliers' materials, etc.) by the companies controlled by OCGs, reducing their operating costs relative to legitimate forms of business, produces further **distortions for legal competitors in the market**, again leading to **sub-optimal economic equilibrium**. Of particular concern is the ability of OCG-controlled businesses to corrupt and co-opt professionals, including accountants and lawyers, **distorting the markets for professional services**.

Impacts of market distortion may include:

- Price bubbles for registered assets, moveable assets, real estate properties and companies
- Loss of confidence in the professions
- Capital loss and capital flight amongst competitor businesses
- Loss of neighbourhood prestige/reputation
- Reduced municipal services, and
- Fear of crime.

#### *Price bubbles for registered assets, moveable assets, real estate properties and companies*

For example, the World Economic Forum Global Agenda on Organised Crime, (WEF, 2011) stated that "Purchase of expensive homes by crime figures and corrupt officials shows that crime really does pay. Economic bubbles can be exacerbated by money laundering into real estate and ordinary citizens can be priced out of markets distorted by money launderers". There is consequently the risk that these markets will collapse when the OCGs investment strategies change. Legitimate investors in these markets risk losing much of their investment, mirroring the impacts of the residential housing 'bubbles' experienced in many EU countries during the global financial crisis.

#### *Loss of confidence in the professions*

The employment of professionals, including corrupted accountants, police and lawyers, to facilitate the operations of businesses operated by OCGs, may drive out legitimate operators from these professions. This will result in:

- Significant loss of confidence by the community in the **integrity of these professions**;

- A reluctance, by legitimate businesses, to engage the services of these professionals, due to **fears that they may infiltrate their business**. Failure to employ legitimate professionals may lead to reduced efficiencies and/or productivity;
- A reluctance, by legitimate businesses, to use the courts to resolve business disputes (for example, customers who fail to pay for goods and services provided), due to **fears that they may have been corrupted by OCGs**. Failure to pursue such civil cases may reduce profitability;
- The **loss of professionals who may leave the profession or the area** as a result of intimidation or in search of more legitimate careers, reducing the attractiveness of the region for investment and employment opportunities.

#### *Capital loss and capital flight amongst competitor businesses*

Legitimate businesses may lose revenues, or leave an industry or an area in extreme circumstances if they have incurred significant or sustained loss from the **unfair competition of OCG-controlled companies**, or have been threatened by standover men. Or businesses that would otherwise have invested in the region prefer to invest in less OCG-controlled regions. As an extreme example, the American University's 'InSightCrime' research group estimated that extortion and threats by OCGs led to the shutdown of 17,500 small businesses in Honduras during 2012 (Cawley, 2014). Citing La Prensa, they estimated that "some 25,000 Hondurans are affected either directly or indirectly by the closure of these businesses, which include stores, restaurants, transportation companies, and street vendors". To the extent that this is typical of regions with high OCG investment, it will result in

- Loss of services and amenities to the community, including retail outlets, cafes and restaurants;
- Loss of jobs in the region, and consequent emigration to more prosperous regions;
- Reductions in productivity, as better qualified staff leave the businesses, and
- A spiral of economic decline.

#### *Loss of neighbourhood prestige/reputation*

Although studies on the impact of criminal investments on neighbourhoods are lacking, there is evidence that the levels of crime may affect property prices and the reputation of neighbourhoods. Linden and Rockoff (2006) combined data from the housing market with data from the North Carolina Sex Offender Registry to estimate how individuals value living in close proximity to a convicted criminal. Houses within a one-tenth mile area around the home of a sex offender fall by four percent on average (about USD 5,500) while those further away show no decline. Linden and Rockoff estimated victimization costs of over 1 million USD – far in excess of estimates taken from the criminal justice literature. In a study of several USA cities, Shapiro and Hassett (2012) found that "The largest economic benefits, however, arise from the impact of lower rates of violent crime on the housing values in the cities sampled here". On average, a reduction in a given year of one homicide in a zip code causes a 1.5 percent increase in housing values in that same zip code the following year. To the extent



that OCG-controlled businesses use violence, or are even reputed to use illegal business practices, this may impair the reputation of the neighbourhood, reducing property values to legitimate property owners.

### Reduced municipal services

Shapiro and Hassett (2012) estimated savings for municipal budgets from a 25 percent reduction in violent crime ranging from 6 million USD per year in Seattle to 12 million USD per year in Boston and Milwaukee, to 42 million per year in Philadelphia and 59 million for Chicago. Lower out-of-pocket medical costs were also identified for those who would otherwise have been victims, as well as their averted pain and suffering. Again, to the extent that OCG-controlled businesses use violence, or are even reputed to use illegal business practices, this may impact on municipal budgets and hence on services.

### Fear of crime

As discussed above, there is copious evidence to show that fear of crime itself, and the knowledge of criminal activity in the neighbourhood, impacts on real estate prices. Fear of crime can also have a range of other negative impacts on a community. Poor health caused by **fears of intimidation in OCG controlled businesses/industries** may impact on workers' performance, and therefore on company profits. World Bank findings suggest that fear of crime "leads to loss of output because of reduced hours of operation (including avoiding night shifts) or loss of workdays arising from outbreaks of violence, and avoidance of some types of economic activity" (The World Bank, 2003).

## 9.1.3. Interference in Government and judicial decision making

The costs of justice in the civil and criminal courts have increased, along with costs caused by delays in proceedings, due to the ability of **OCGs to pay high fees to lawyers and accountants to protect their investments**. The cost of tax scrutiny is increased, and the heightened need for vigilance by tax authorities imposes delays and costs on honest tax payers. **Corrupt payments to politicians, public servants, police, court and customs officials result in loss of public confidence** in government and state officials.

In an interview with L'Espresso in 2008 (Di Feo and Fittipaldi, 2008), the boss of the Casalesi clan, G.V., admitted to systematically working for 20 years to bribe local police, politicians and officials to facilitate dumping toxic waste in the Caserta Plain referred to previously.

A submission to the Parliamentary Joint Committee on the Australian Crime Commission (Commonwealth of Australia, 2009), said "organised criminal activity in South Australia involves .....a reliance ... on professionals, such as lawyers and accountants, to create complicated structures to hide the proceeds of their crimes".

Impacts of interference in government and judicial decision making include:

- **Higher costs to all legitimate users of the courts:** While hard evidence is impossible to find, it is inevitable that law enforcement and civil litigants face higher costs in courts as a result of OCGs' ability to pay high fees for lawyers. It is

perhaps significant that many law firms – particularly in the USA – stress their competence in fighting charges relating to organised crime.

- **Corruption of public officials:** This Section has already identified instances in which OCGs have employed or bribed corrupt public officials in order to protect their investments. World Bank and IMF studies (World Bank Group, 2013) find that "corruption and bribery is a regressive tax. Not only smaller enterprises pay a higher share of their revenue in bribes than their larger counterparts, but also poorer households bear a disproportionate share of the bribery burden, paying a much higher share of their incomes than higher income households - often for public services that were expected to be provided for free".

Researchers at the International Monetary Fund, utilizing worldwide data on income distribution, also find that corruption is associated with increased income inequality. Gupta, Davoodi, and Alonso-Terme (Chapter 17, IMF, 2002) provide evidence of significant adverse distributional effects of corruption. They find that high and rising corruption is associated with higher income inequality and poverty. A worsening of the corruption index of a country by one standard deviation increases the Gini coefficient by 11 points, and one standard deviation increase in the growth of corruption reduces income growth of the poor by 4.7 percentage points a year.

Lanza (2004) finds that:

- Institutionalized bribery also introduces a new set of transaction costs – the costs of negotiating, monitoring and enforcing illicit agreements and avoiding detection by those not a party to the agreement. And since corruption involves the arbitrary use of discretionary power, uncertainty – the 'great bogeyman' of business confidence – grows, and the business environment becomes less secure;
- Political corruption undercuts free markets and hampers efficiency; firms with political connections can be less cost-conscious since they are shielded from competition, and
- Corruption distorts the allocation of resources toward projects that can generate (illicit) payoffs. Besides the undesirable efficiency consequences arising from this distortion, the effect is likely to aggravate social inequalities, because the poor and powerless suffer, by definition, a comparative disadvantage in securing special favours.

UNAFEI (2013) finds that "Even minor acts of corruption are damaging, breeding feelings of distrust and unfairness toward the government among ordinary citizen. As a consequence, it may ultimately weaken or collapse the national or local ruling government and economic structure of a country".

## 9.1.4. Conclusions

This chapter has attempted to describe – in the absence of hard data – the impacts of OCGs investments on the European legal economy. Impacts are **widespread and impose very significant costs on society and the legitimate economy**. Moreover most – if not all – of these impacts *could* be measured. Indeed, most of the impacts described here have been measured, at least in some context and at some point in time.

In the same way that the development of population surveys of crime victimisation, during the 1980s and later, provided

much-needed data on the costs of crime in general, it may be possible to **develop appropriately targeted data-gathering techniques to address the impacts of OCGs and their investment strategies**. Owing to the transnational nature of the problem, such techniques themselves would inevitably have to involve international collaboration.



# Part 3.

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## WHAT PROCEEDS ARE RECOVERED? THE CONFISCATION OF CRIMINAL ASSETS IN EUROPE

After analysing in which illicit markets organised proceeds are produced (**Part 1**) and where they are then invested in the European legitimate economy (**Part 2**), this section explores the extent to which they are recovered by European authorities, with an analysis of the current state of confiscation in Europe and in particular in the 7 OCP countries.

The Part has the following structure:

- **Chapter 10** provides an **overview of the regulatory framework** on criminal asset recovery in Europe, with a focus on the seven OCP countries (Sections 10.3 – 10.9); The related methodological issues are discussed in Chapter 2 and in the Methodological Annex.
- **Chapter 11** provides an **assessment of the availability of data** on confiscated assets in Europe
- Finally **Chapter 12**, based on the available data, provides **a first comparative analysis of confiscated assets** in the 7 OCP countries in relation to serious and organised crime, focusing, when possible, on their trend and their distribution per type, geography and related offence.

Methodological issues related to this Part are discussed in Chapter 2 and in the Methodological Annex.

# 10. The regulatory framework: confiscation in Europe

## 10.1. Introduction

In Europe awareness is growing of the **crucial role that the confiscation of criminal proceeds and criminal assets can play** in fighting organised crime, interrupting its business cycle, protecting the legal economy against infiltration and returning criminal profits to European citizens (European Commission, 2008; European Commission, 2012).

In recent years, confiscation has been the topic of a **number of new legislative measures and framework decisions**,<sup>326</sup> as well as a strategic priority of the EU Internal Security Strategy (ISS). Since 2014 a **new EU Directive** focuses on the freezing and confiscation of instrumentalities and proceeds of crime (Directive 2014/42/EU). The Directive has been adopted with the aim of making it easier for Member States to confiscate and recover the proceeds of serious and organised crime. At the same time, **operational networks**, such as the EU Platform of National Asset Recovery Offices (AROs), have been established, with the cooperation of the Europol Criminal Assets Bureau (ECAB), in order to strengthen the cooperation and mutual recognition of seizure/confiscation among EU countries and agencies involved in this field (European Commission, 2008).

But to **what extent are criminal assets actually being recovered? How much of the criminal proceeds and criminal investments** estimated and mapped in Part 1 and Part 2 **have been actually confiscated?**

Answering this question is far from easy. First of all because there is a **wide range of confiscation regimes** across European member states (Forsaith et al., 2012). Although Directive 2014/42/EU will lead to greater harmonisation, many differences exist among countries in terms of measures that can be used by LEAs (e.g. in some countries *non-conviction based* confiscation is allowed, while in others it is not foreseen), the extent of their application in practice, and finally among the national legal definitions and taxonomies.<sup>327</sup> As a result,

although an asset may be eligible for confiscation in one country, it may be impossible to recover in another one. This makes it almost impossible to assess and compare the extent of the recovery of criminal assets across EU MS (see Section 12.1).

Secondly, even though the new Directive will explicitly require the collection of statistics on seizure and confiscation (see art. 11),<sup>328</sup> at present **only few countries gather, at a central level, data on seized and confiscated assets** (see Chapter 11). The availability of statistics on this topic in Europe is, with some exceptions, very poor. And often, when available, **data are fragmented, partial, refer to different stages of the confiscation process or lack important details** and metadata (such as the related offences or the connected criminal group) which make it almost impossible to produce a solid statistical analysis.

Taking these limitations into account, this section attempts to provide an answer to the above question. In particular by:

- presenting an **overview of the regulatory framework** on criminal asset recovery in Europe, with a focus on the seven OCP countries (Chapter 10);
- providing an **assessment of the level of availability of data** on confiscated assets in Europe (Chapter 11);
- providing an **analysis of the available data on confiscated assets** with a focus on the seven OCP countries (Chapter 12).

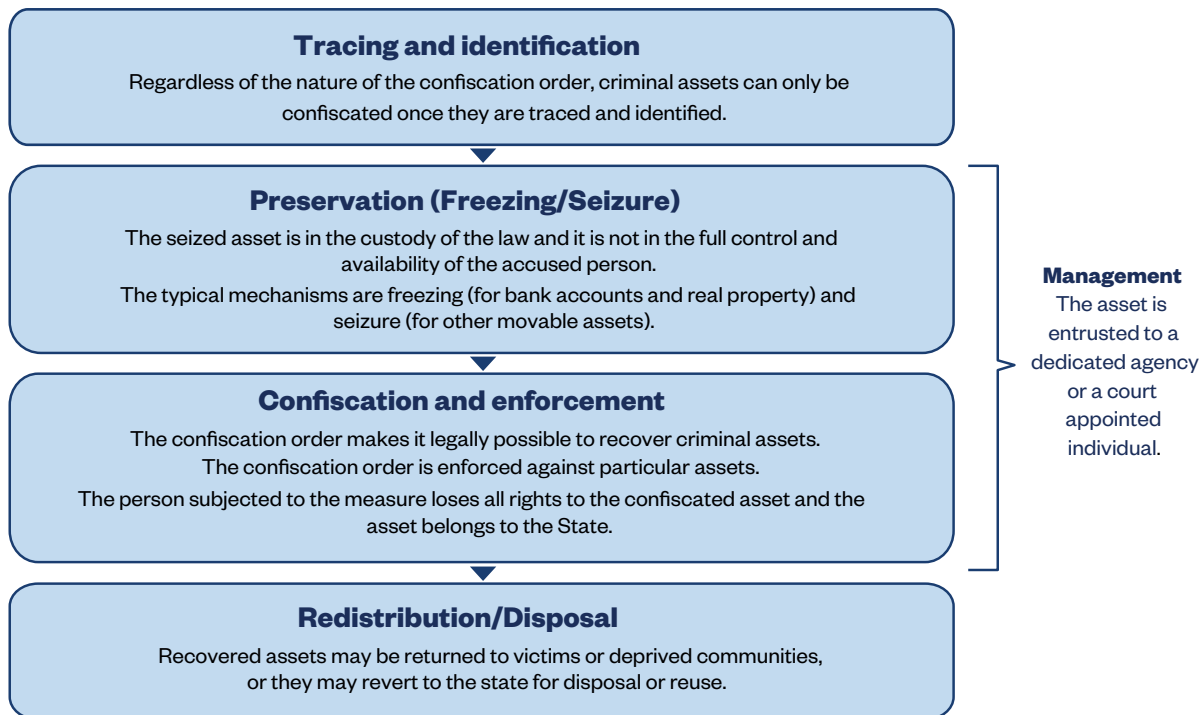
325. Among the others, the Framework Decisions 2001/500/JHA, 2003/577/JHA, 2005/212/JHA, 2006/783/JHA and 2007/845/JHA.

326. For example, what in one country is called asset freezing, in other countries may be called asset seizure. Similarly, in some countries the term forfeiture is preferred to confiscation.

327. "Member States shall regularly collect and maintain comprehensive statistics from the relevant authorities. The statistics collected shall be sent to the Commission each year and shall include: (a) the number of freezing orders executed; (b) the number of confiscation orders executed; (c) the estimated value of property frozen, at least of property frozen with a view to possible subsequent confiscation at the time of freezing; (d) the estimated value of property recovered at the time of confiscation. 2. Member States shall also send each year the following statistics to the Commission, if they are available at a central level in the Member State concerned: (a) the number of requests for freezing orders to be executed in another Member State; (b) the number of requests for confiscation orders to be executed in another Member State; (c) the value or estimated value of the property recovered following execution in another Member State. 3. Member States shall endeavour to collect data referred to in paragraph 2 at a central level" (Directive 2014/42/EU, art. 11).



**Figure 47 – The asset recovery process in Europe**



Source: Forsaith et al., 2012

## 10.2 A review of the confiscation process in Europe

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Any analysis of data on confiscated assets at national level would be impossible without prior understanding of how the confiscation process works. It is therefore necessary to **examine the regulatory framework** on criminal asset recovery in Europe in order to:

First, highlight the differences in terms of confiscation regimes across member states and **which must be taken into account for a comparative analysis**;

Second, **clarify from which stage of the confiscation process the data derive**: in fact, as outlined below, in some countries (e.g. Finland and the Netherlands) the available statistics refer to assets at the moment of seizure by the police, while in other cases (e.g. France and Italy) the data refer to definitive confiscation.

Generally speaking, the asset recovery process moves through various stages (see Figure 47) which usually start with the **identification and tracing** of criminal assets (Forsaith et al., 2012). This phase involves law enforcement investigations (usually with the supervision of a public prosecutor) and requires substantial financial investigation skills which may even involve foreign authorities in cases where the asset is located outside the national territory.

Once identified, assets can be seized, usually by a **freezing** or **seizure** order of a court. Meanwhile assets “should be

properly managed between the time when they are frozen and the time when a confiscation order is issued, so that their value is maintained” (European Commission, 2012).

Then, after the issue of a **confiscation** order, assets can be confiscated. Once the confiscation has been enforced, they can be **returned** to the community in various ways, including **social reuse** of the asset or **disposal** aimed at compensating victims or funding future police or judicial activities (Forsaith et al., 2012; Matrix Insight, 2009, p. 61).

Even though this process is, in principle, similar in most EU countries, a wide range of variations on these general rules exists. For example, in order to keep up with the evolution of laundering techniques used by criminals (see Part 2) together with *ordinary confiscation* newer forms of confiscation have been introduced (Forsaith et al., 2012, p. 1-2), including:

- **Value confiscation**, i.e. the recovery of assets of equivalent value when specific criminal assets cannot be located or identified;
- **Third party confiscation**, i.e. the confiscation of assets transferred to third parties;
- **Mutual recognition of confiscation orders** among asset recovery agencies of different countries, which helps when criminal assets are located outside the national jurisdiction.

At the same time, national confiscation powers have been extended with the introduction of legal developments (Forsaith et al., 2012) such as:

- **Extended confiscation**, in which confiscation is applied not only to those assets associated with the specific crime related to the criminal conviction, but also additional property which the court determines to constitute the proceeds of other crimes;

- **Non-conviction based confiscation**, in which the asset is recovered, for example, through civil or administrative procedures;
- **Extended criminalisation**, which widens the applicability of confiscation to a range of non-traditional crimes.

However, not all these tools are adopted uniformly across European countries. The new directive will bring higher harmonisation but wide differences still exist, for example in terms of application of *third party* and *extended* confiscation (Forsyth et al., 2012, p. 22). Also *non-conviction based* confiscation is widely used in some countries (e.g. Ireland, UK, see Chapter 12) but is not foreseen in others. As a result, each country **employs a combination of various confiscation tools and legislative instruments**.

Unfortunately, **an updated picture of how the confiscation process works in each European country does not exist** at present. The study commissioned in 2008 by the European Commission, DG JLS, from the Matrix Knowledge Group (Matrix Insight, 2009), and the impact assessment carried out by the European Commission in preparation of the Directive on confiscation (Forsyth et al., 2012) explored the issue, but did not cover the most recent legislative developments introduced in certain member states.

In order to provide a framework for the analysis of data on confiscated assets in Chapter 12, there follows a **brief description of how asset recovery works in the seven OCP countries**. In each country, the stage of the confiscation process from which the statistics analysed in Chapter 12 derive will be specified.

## 10.3. Finland

Jukka Korkiatupa (National Bureau of Investigation, Finland)

### 10.3.1. General overview

In the Finnish criminal justice system, forfeiture is based on the criminal policy principle that **no-one should benefit from a crime**, and the proceeds of crime shall be ordered forfeit to the State. Forfeiture of the proceeds of crime can also prevent new crimes. For example, in connection with a narcotics offence, ensuring the enforcement of forfeiture using coercive measures and enforcing forfeiture may prevent the financing of new crimes.

The above principle is taken into account in a very concrete manner from the beginning of the criminal process, i.e. the **criminal investigation**. Pursuant to Chapter 1, Part 2(1)(2) of the Finnish Criminal Investigation Act (805/2011), the issues to be clarified in a criminal investigation include the possibilities for the return of property obtained through the offence and for enforcement of forfeiture to be ordered as a consequence of the offence, or for compensation to be paid to an injured party. In addition, to ensure the enforcement of forfeiture, it should also be noted that in the Finnish Criminal Justice System, pursuant to the Finnish Criminal Procedure Act (689/1997), on the request of the injured party, the public prosecutor who has brought a charge is to **pursue the civil claim of the injured party**, arising from the offence for which the charge has been brought, as against the defendant in the criminal case.

If compensation of the injured party is ordered in the criminal case, forfeiture shall not be ordered in so far as the proceeds of crime have been returned to the injured party.

### 10.3.2. Description of the confiscation process in Finland

#### Preventative measures

Finland has not implemented preventative or precautionary forfeiture independently of the criminal process. However, this type of **preventative action may be applicable in two scenarios**. If a person is suspected, accused or found guilty of a **terrorist offence** as defined in Chapter 34a of the Criminal Code of Finland, his or her assets may be frozen pursuant to the Finnish Act on the Freezing of Funds with a View to Combating Terrorism (325/2013). Pursuant to the same legislation, assets may be frozen based on a request for legal assistance pertaining to the investigation of a terrorist offence, provided that the conditions stipulated by law are met. Pursuant to the legislation, the assets of internal terrorists in the European Union are frozen on the basis of a list published by the EU. The decision on the freezing of funds is made by the Finnish National Bureau of Investigation.

In Finland, criminal investigations are carried out and led by the police, the customs and the border guard. They can use seizure and seizure for security to ensure forfeiture and the enforcement of compensation to the injured party

#### Conviction based measures

(within the criminal proceeding)

#### Extended measures

(within the criminal proceeding)

**PREVENTATIVE SEIZURE/ RESTRAINT ORDER:** freezing asset is in the custody of the law and it is not in the full control and availability of the suspect or accused person, but it is administrated by the pre-trial authorities or the Execution Office.

Finnish Coercive Measures Act, seizure, restraint order

**FORFEITURE/COMPENSATION FOR VICTIM:** the natural or juridical person subjected to the measure loses all rights to the confiscated asset and the asset belongs to the Finnish State. Asset can be used as compensation for the victim.

#### FORFEITURE

Criminal Code of Finland,  
Chapter 10, Sections 2, 4, 5, and 8,  
Criminal Code of Finland,  
Chapter 32, Section 12  
Finnish Tort Liability Act, Chapter 1,  
Section 1, Chapter 5, Section 1

#### EXTENDED FORFEITURE

Criminal Code of Finland,  
Chapter 10, Section 3

Sections 2 and 3 Criminal Code of Finland, Chapter 10

The second scenario applies to cases in which tax authorities impose a **punitive tax increase on a taxpayer** in an administrative procedure. Such cases are not subject to a criminal process due to the *ne bis in idem* principle (Chapter 29, Part 11(2) of the Criminal Code of Finland (782/2013)). As a rule, the tax authorities decide whether to report the offence to the police or impose a punitive tax increase.

#### **Forfeiture based on criminal sentence**

Forfeiture based on a criminal offence is decided by the court on the request of the prosecutor; the injured party may also request forfeiture when prosecuting charges on his or her own. The primary legislative provisions on forfeiture are contained in Chapter 10 of the Criminal Code of Finland (875/2001).

Pursuant to Chapter 10, Part 1 of the Criminal Code of Finland, **the prerequisite for forfeiture is an act criminalised by law**. A forfeiture order may also be applied to a person who has not attained the age of fifteen years or is without criminal capacity. A corporation can also be subject to a forfeiture order pursuant to corporate criminal liability (Chapter 9 of the Criminal Code of Finland) even if the individual committing the offence cannot be identified or sentenced to a punishment for some other reason.

Pursuant to Chapter 10, Part 2(1), the **proceeds of crime shall be ordered forfeit to the State**. The forfeiture shall be ordered on the offender, a participant or a person on whose behalf or to whose advantage the offence has been committed.

Pursuant to Part 2(2), if there is no evidence as to the amount of the proceeds of crime, or if such evidence is difficult to present, the **proceeds shall be estimated**, taking into account the nature of the offence, the extent of the criminal activity and the other circumstances.

Part 2(3) states that forfeiture of the proceeds of crime shall not be ordered in so far as they have been returned to the injured party, or in so far as they have been or will be ordered to be reimbursed to the injured party by way of compensation or restitution. If a claim for compensation or restitution has not been filed or if the claim has not been decided when the request for forfeiture is being decided, the forfeiture shall be ordered.

In other words, pursuant to Section 3 above, **compensation to the injured party ordered in a criminal procedure supersedes forfeiture**.

Chapter 32, Part 12 of the Criminal Code of Finland contains provisions on the forfeiture of property that has been the **target of money laundering**. *Property that has been the target of money laundering shall be ordered forfeit to the State*. Pursuant to Section 3 of Part 12, property that is the target of money laundering may instead of being ordered forfeit to the State be ordered as compensation or restitution to the person injured by the predicate offence. If the nature of the property is not suitable for this, the property shall be ordered forfeit to the State.

Pursuant to Chapter 10, Part 4 of the Criminal Code of Finland, **an instrument of crime shall be ordered forfeit to the State**. These include firearms, edged weapons and other similar lethal instruments, as well as any other objects or property the possession of which is punishable. An object or property that has been used in the commission of an intentional offence, and an object or property that is closely connected to an intentional offence for which the proceedings have been brought, when it has been obtained or prepared solely or

mainly for the intentional offence or where its characteristics make it especially suitable as an instrument of an intentional offence, may also be ordered forfeit to the State. Pursuant to Part 4(3), in the assessment of the need for forfeiture, special consideration shall be taken of the prevention of further offences.

Pursuant to Chapter 10, Part 5 of the Criminal Code of Finland, an object or property which has been produced, manufactured or brought about by way of an offence, or at which an offence has been directed, shall be ordered forfeit to the State if its possession is punishable.

Pursuant to Chapter 10, Part 6 of the Criminal Code of Finland, an object or other property referred to in Part 4 or 5 may not be ordered forfeit if it belongs in full or in part to someone other than the offender, a participant or a person on whose behalf or with whose consent the offence has been committed. However, the object or property may be ordered forfeit from a person to whom it has been conveyed after the commission of the offence, if, when receiving it, he or she knew or had justifiable reason to believe that the object or property was linked to an offence, or if he or she has received it as a gift or otherwise free of charge.

**Regardless of ownership**, an object or property shall be ordered forfeit also if the owner would commit an offence by **having the object or property in his or her possession**.

Pursuant to Chapter 10, Part 8 of the Criminal Code of Finland, if an object or property referred to in Part 4 or 5 cannot be ordered forfeit owing to a restriction referred to in Part 6, Section 1, or because the object or property has been hidden or is otherwise inaccessible, a full or partial forfeiture of the value of the object or property may be ordered on the offender, a participant or a person on whose behalf or with whose consent the offence has been committed, instead of forfeiture of the object or property itself. In addition, forfeiture of value may be ordered on a person to whom the object or property has been conveyed, if, when receiving it, he or she knew or had justifiable reason to suspect that the object or property was linked to an offence, or if he or she has received it as a gift or otherwise free of charge.

Chapter 10, Part 11 of the Criminal Code of Finland contains provisions on situations in which the **forfeiture liability of someone other than the suspect** or the defendant is being considered. This may apply in cases in which the suspect is deceased.

#### **Extended forfeiture of the proceeds of crime**

Full or partial forfeiture of property to the State may be ordered pursuant to the provisions contained in Chapter 10, Part 3 of the Criminal Code of Finland.

This applies in **aggravated offences subject to a maximum penalty** (a minimum of four years' imprisonment) and the type of offence. For extended forfeiture to apply, the court must have found the offender guilty of at least one such offence; *provided that the nature of the offence is such that it may result in considerable financial proceeds and that there is reason to believe that the property is fully or partially derived from criminal activity that is not to be considered insignificant*.

The provision applies to a **participant** in an offence and to a **person on whose behalf or to whose benefit** the said offence has been committed.

Section 2 applies to situations where ***there is reason to believe that the property has been conveyed to a natural person*** or corporation that has a close relationship to the offender *in order to avoid forfeiture or liability*.

The participants in an offence generally have joint and several liability in the case of forfeiture.

#### **Enforcement of forfeiture**

Forfeiture is enforced by the **police**, except forfeiture in money, which is enforced by the **bailiff**, unless the funds in question are in the possession of the police (Finnish Enforcement of Fines Act, 672/2002).



## 10.4 France

Priscilla Standridge (Università Cattolica del Sacro Cuore – Transcrime, Italy)

### 10.4.1. General overview

In the past decade, there have been **major changes in the French criminal justice system regarding the seizure and confiscation** of criminal assets. The French Penal Code in article 131-21 includes provisions for the criminal confiscation of assets both connected to the crime (instruments and the direct and indirect objects or products) as well as the property of a convicted individual who cannot prove the legal origin of the assets (a form of **extended confiscation**). The amendment in 2010, known as the *Warsmann Law* (n° 2010-768 of July 9<sup>th</sup> 2010), instituted special seizure measures to facilitate criminal confiscation.

Law 2010-768 also established the national agency for the management of seized and confiscated assets (**Agence de gestion et de recouvrement des avoirs saisis et confisqués - AGRASC**)<sup>338</sup> and the adoption of measures to improve international cooperation in asset recovery, including **mutual recognition of confiscation orders** in accordance with the Framework Decision 2006/783/JHA of the European Union.

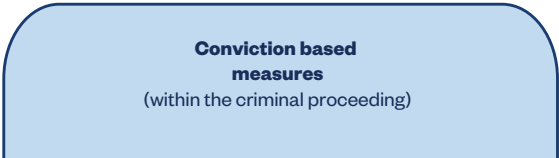
The French judicial system **does not foresee civil confiscation, but only criminal confiscation**. Confiscation in France is a complementary criminal sanction along with imprisonment and/or a fine or an alternative to incarceration. **Confiscation cannot be non-conviction based** (*in rem*) due to the unjustifiable origin of the asset, but only as a consequence of a guilty verdict with regard to the owner (*in personam*) (FATF, 2011a; Ministère de la Justice, 2013).<sup>339</sup> The assets that can be subject to seizure and confiscation in France fall into **four categories**:

- **The instruments, objects and products of a crime:** in the case of felonies and misdemeanours for which the penalty is a year or more of imprisonment. With the exception of assets that are subject to restitution to victims of the crime, instruments or products of counterfeiting and in cases explicitly foreseen by law or regulations (Art. 131-21, paragraph 1-3 of the Criminal Code).
- **Assets for which the accused person cannot prove the legal origin:** in the case of felonies and misdemeanours for which the penalty is five years or more of imprisonment and provided there is a direct or indirect profit to the author (Art. 131-21, paragraph 5 of the Criminal Code).
- **All or part of the assets of the convicted person:** in the case of serious crimes foreseen by law (see below) regardless of the origin of the assets (Art. 131-21, paragraph 6 of the Criminal Code).

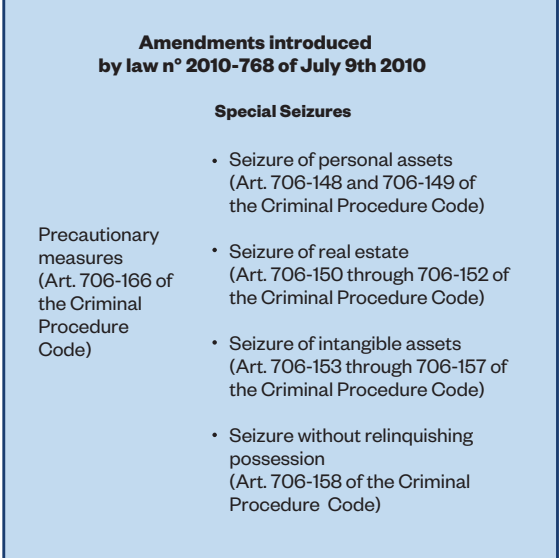
- **Assets regarded as dangerous or harmful by law** or regulation, or the possession of which is illegal: confiscation is mandatory regardless of whether or not they are owned by the condemned person (Art.131-21, paragraph 7 of the Criminal Code).

It is also possible to confiscate the **equivalent value of the estimated profits of the crime** (Art. 131-21, paragraph 2 of the Criminal Code) or of an asset that cannot be seized or recovered (Art. 131-21, paragraph 8 of the Criminal Code). In the following Section, the process of seizure and confiscation in France will be presented in a flow chart and described in more detail.

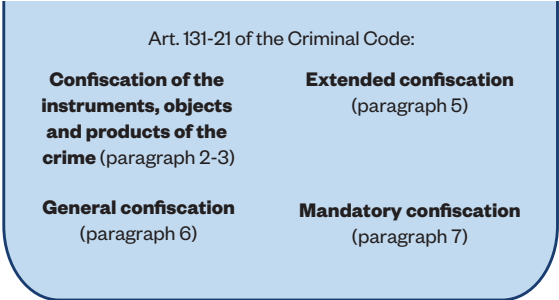
### 10.4.2. Description of the confiscation process in France



**SEIZURE** : the seized asset is in the custody of the law and it is not in the full control and availability of the accused person, but it is administrated by AGRASC, with the exception of seizure without relinquishing possession when it is controlled by a third party under the supervision of the court.



**CONFISCATION:** the person subjected to the measure loses all rights to the confiscated asset and the asset belongs to the French State.



338. The functions of the AGRASC are described in Section 12.3.

339. Previous legislation allowed for the seizure of "articles, documents or electronic data useful for the discovery of the truth" (article 56, paragraph 6 of the Criminal Procedure Code) but the seizure of assets was executed according to the rules of the Civil Procedure Code (Art. 706-103 of the Criminal Procedure Code). This form of seizure followed the logic and processes of civil procedures and magistrates were less inclined to pursue these measures (Bacarese & Gomes Pereira, 2010; Charpenel, 2012).

## Seizure

Law 2010-768 of July 9th 2010 introduced into the French criminal justice system the procedure for the seizure of assets in preparation of a criminal confiscation. It also **created the national agency for the management and recovery of seized and confiscated assets (AGRASC)** which can be entrusted with custody of the assets by the public prosecutor with the authorization of the judge of freedom and detention except in cases of seizure without relinquishing possession (see 12.3).

The possible types of seizure include:

- **Precautionary measures** (Art. 706-166 of the Criminal Procedure Code): in the case of the investigation of crimes punishable by not less than three years imprisonment, contained in Title I of Book III of the Criminal Code, the judge of freedom and detention, upon request of the public prosecutor, may order the seizure of the assets, movable or immovable, jointly or entirely owned by the investigated person to ensure payment of fines and, if applicable, compensation for victims.
- **Special seizures:** based on the type of asset four different types of seizure can be applied:
  - **Seizure of personal assets** (Art. 706-148 and 706-149 of the Criminal Procedure Code): in the case of felonies and misdemeanours for which the penalty is five years or more of imprisonment and provided a direct or indirect profit to the author (Art. 131-21, paragraph 5 of the Criminal Code) and of crimes foreseen by law regardless of the origin of the assets (Art. 131-21, paragraph 6 of the Criminal Code) when the accused person cannot prove the legal origin of the assets. The judge of freedom and detention, upon request of the public prosecutor, authorizing the seizure at the Treasury's expense, may order the seizure of the property. The judge of the investigation may, upon motion of the public prosecutor or independently upon notice of the prosecution, order the seizure under the same conditions.
  - **Seizure of real estate** (Art. 706-150 through 706-152 of the Criminal Procedure Code): in the case of crimes interrupted in the act or preliminary investigations, the judge of freedoms and detention, upon request of the public prosecutor, may authorize at the Treasury's expense, the seizure of real estate for which confiscation is foreseen in Article 131-21 of the Criminal Code. The judge of the investigation may, when hearing new information, order the seizure under the same conditions.
  - **Seizure of intangible assets** (Art. 706-153 through 706-157 of the Criminal Procedure Code): in the case of crimes interrupted in the act or preliminary investigations, the judge of freedom and detention, upon request of the public prosecutor, may authorize at the Treasury's expense, the seizure of intangible property for which confiscation is foreseen by Article 131-21 of the Penal code. The judge of the investigation may, when hearing new information, order the seizure under the same conditions.
- **Seizure without relinquishing possession** (Art. 706-158 of the Criminal Procedure Code): in the case of crimes interrupted in the act or preliminary investigations, the judge of freedom and detention, upon request of the public prosecutor, may authorize at the Treasury's expense, the seizure of assets for which confiscation is foreseen by Article 131-21 of the Penal Code without divesting the owner of possession. The judge of the investigation may, when hearing new information, order the seizure under the same conditions. This option is also used to avoid incurring maintenance costs that would be prohibitive for AGRASC by instead paying an administrator designated by the court to maintain, conserve and use the asset in the ways specified in the seizure order (AGRASC, 2013).

## Confiscation

Article 131-21 of the Criminal Code establishes the cases in which confiscation can be applied as a complementary criminal sanction along with imprisonment and/or a fine or an alternative to incarceration:

- **Confiscation of the instruments, objects and products of the crime** (paragraph 2-3): In the case in which a link can be proven between assets and the instruments, objects and products of felonies and misdemeanours for which the penalty is a year or more of imprisonment. With the exception of assets that a subject to restitution to victims and products of counterfeiting. It is also possible to confiscate the equivalent estimated value.
- **Extended confiscation** (paragraph 5): In the case in which a person convicted of felonies or misdemeanours, for which the penalty is five years or more of imprisonment and that provided a direct or indirect profit to the author, cannot prove the legal origin of the assets.
- **General confiscation** (paragraph 6): all or part of the assets of the convicted person in the case regardless of the origin of the assets in the case of the following crimes foreseen by law:
  - Money laundering offences (Part 12 of Art. 324-7 of the Criminal Code);
  - Conspiracy to commit an offence punishable by 10 years of imprisonment (Art. 450-5 of the Criminal Code);
  - Violations of the legislation on drugs (Art. 222-37 to 222-49 of the Criminal Code);
  - Counterfeiting (Art. 442-16 of the Criminal Code);
  - Terrorism (Art. 422-6 of the Criminal Code);
  - Human trafficking and prostitution (Art. 225-25 of the Criminal Code);
  - Organized corruption of minors and dissemination of child pornography (Art. 227-22 and 227-23 of the Criminal Code);
  - Crimes against humanity (Art. 213-1 and 213-3 of the Criminal Code).

- The inability to prove the legal origin of assets of an individual in habitual contact with persons convicted of human trafficking, extortion, organized crime or drug trafficking (Art. 450-5 of the Criminal Code)
- **Mandatory confiscation** (paragraph 7): assets regarded as dangerous or harmful by law or regulation or the possession of which is illegal regardless of whether or not they are owned by the condemned person.

## 10.5. Ireland

Cristina Soriani (Università Cattolica del Sacro Cuore – Transcrime, Italy)

### 10.5.1. General overview

During the **1990s**, the Irish criminal justice system underwent **important changes** due to both the increase of criminal activities related to organised crime and the growing perception of organised crime as a threat to the society (King, 2014a). Therefore, several legislative measures were adopted to trace, seize and confiscate the proceeds of criminal activities.

In 1994, Ireland introduced the criminal confiscation of proceeds of drug-related crimes and other serious crimes. The **Criminal Justice Act 1994 (CJA)** was the first regulatory framework containing provisions to combat money laundering and activities related to criminal organisations (Office of the Director of Public Prosecutions, 2008, p. 24–25; McKenna & Egan, 2009; King, 2014a; European Commission, DG Home Affairs, & Europol, Forthcoming).

In 1996 the government introduced a civil measure targeting illegal proceeds of crime: the **Proceeds of Crime Act 1996 (POCA)** (Cassidy, 2009; King, 2014a). In addition, the Criminal Assets Bureau Act 1996 established the **Criminal Assets Bureau (CAB)**, an independent agency in charge of targeting and confiscating the assets obtained from the commission of criminal activities (Vettori, 2006, p. 72; McKenna & Egan, 2009; King, 2014a; European Commission, DG Home Affairs, & Europol, Forthcoming).

The Irish legislative framework identifies **two different systems** for the seizure and confiscation of criminal assets (McKenna & Egan, 2009; King, 2014a; European Commission, DG Home Affairs, & Europol, Forthcoming). On the one hand, the CJA 1994, as amended, foresees the confiscation of criminal assets after a conviction, as it acts *in personam*. On the other hand, the POCA 1996, as amended, created a **non-conviction based system** for confiscation of proceeds of crime that operates outside the conventional criminal justice system and acts *in rem* (McKenna & Egan, 2009; Mitchell, 2012; King, 2012, 2014a).

The two systems have some similarities:

- They both act for **direct and indirect proceeds of crime** (Criminal Asset Bureau, 2013a; McKenna & Egan, 2009). This means that if it can be proved that some criminal assets have been transferred to a third party to conceal their nature, those assets may be subject to a confiscation order.
- Moreover, the seizure or restraint of access to the criminal assets may be applied for ensure that the property will be available for a future confiscation (McKenna & Egan, 2009; Criminal Asset Bureau, 2012, 2013a).
- In addition, the standard<sup>340</sup> of proof applied for confiscation is the civil one. Thus, the burden of proof is reduced in respect to the criminal proceeding to the **“balance of**

**probabilities” standard** (Vettori, 2006 p. 71; McKenna & Egan, 2009).

- Finally, both the CJA and the POCA can be applied to proceeds of crime committed **both by an entity and an individual** (Vettori, 2006 p. 71; McKenna & Egan, 2009).

There follows a brief description of the double system for the seizure and confiscation of criminal assets according to the Irish legislation.

### 10.5.2. Description of the confiscation process in Ireland

Investigation activities, freezing and confiscation measures can be carried out by the Irish police or the Criminal Assets Bureau (CAB) and proposed by different subjects

**Non-conviction based measures**  
(independent from the criminal proceeding)

**Criminal measure**  
(within the criminal proceeding)

**SEIZURE:** the seized asset is in the custody of the law. The person cannot dispose or deal with the property. A receiver can be appointed by the court to administrate and preserve the property

(Section 2, POCA)  
(Section 3, POCA)

(Section 24, CJA)  
(Section 38 CJA)

**CONFISCATION:** the interested party loses all rights to the property, which is transferred to the Minister for Finance and the Minister for Public Expenditure and Reform or to others

(Section 4, POCA)  
(Section 4A, POCA)

(Section 4, CJA)  
(Section 9, CJA)  
(Section 39, CJA)

#### Non-conviction based measures

The Irish legislation foresees **non-conviction based measures for seizure and confiscation** of criminal assets as independent from the criminal proceeding. The Proceeds of Crime Act 1996 (POCA), as amended, includes the provisions for targeting criminal proceeds of crimes. Actually, the CAB targets assets deriving from serious criminal conducts, e.g. **drug trafficking, fraud, theft, illicit trade and smuggling of fuel and the illicit trafficking in tobacco products** (Criminal Asset Bureau, 2012).

340. The “balance of probabilities” standard (or preponderance of the evidence) requires the plaintiff to prove that his or her version of events is, on balance, more likely or more believable than that of the defendant. This is often explained to juries in court as “which story would you believe” or “which story is the more likely”. Thus, it has a lower burden of proof than “beyond a reasonable doubt”.

As already mentioned, the order is determined on the **civil burden of proof** and it targets both direct or indirect assets that have been identified as proceeds of criminal activities (McKenna & Egan, 2009; Greenberg et al., 2009; Mitchell, 2012; Criminal Asset Bureau, 2012, 2013a; King, 2012). Moreover it can be issued against an individual or a legal entity.

According to the provision, the State has to prove that the **property constitutes the proceeds of a criminal activity** (King, 2014a). The act can target money and all other properties (movable or not), inside or outside the State, that have a value not less than 13,000 euro (McKenna & Egan, 2009; Greenberg et al., 2009; Mitchell, 2012; Criminal Asset Bureau, 2012, 2013a).

The non-conviction based system relies on three main types of order: an interim order, an interlocutory order and, finally, a disposal order through which the property is transferred to the Minister for Finance and the Minister for Public Expenditure and Reform or to other persons, according to the Court decision (for a review see Vettori, 2006; McKenna & Egan, 2009; Greenberg et al., 2009; Mitchell, 2012; Criminal Asset Bureau, 2012, 2013a; King, 2012).

In particular, if an interim or an interlocutory order is in force, the High Court can appoint a receiver over the asset that it is in charge of, take possession of the property, preserve and managed it (section 7 POCA) (Vettori, 2006; McKenna & Egan, 2009; Criminal Asset Bureau, 2012, 2013a; King, 2012).

Finally, it may happen that the asset is already subject to seizure or confiscation under the CJA (McKenna & Egan, 2009; King, 2012).

### **Criminal measures**

The Irish criminal system foresees the **seizure and confiscation of criminal assets following a conviction for both drug-related crimes and other crimes**. The confiscation can be executed only after the interested party has been sentenced (Vettori, 2006, p. 71).

The Criminal Justice Act 1994 (CJA) is applied if the person tries to conceal or transfer outside the state any property that is the proceeds of criminal activities. The measure can be determined for properties that can be direct or indirect connected to the subject (Office of the Director of Public Prosecutions, 2008, p. 24; McKenna & Egan, 2009).

As already underlined, the burden of proof for the confiscation is **“balance of probabilities” (the standard used in civil proceeding)** and it can be issued against an individual or a legal entity. It is important to note that the standard of proof required for the conviction of the defendant must still be **“beyond any reasonable doubt”** (Vettori, 2006, p. 70-71).

In addition, the Irish regulation contains provisions for **the seizure and freezing of assets** in anticipation of confiscation (Part 24 and 38 CJA):

- Under **Part 24**, the Court can issue a restraint order freezing the assets of the accused person once the Office of the Director of Public Prosecutions (DPP) has started the prosecution. According to this measure, a receiver can be appointed before the conviction (Part 24 CJA) or after the confiscation order has been made (Part 20 CJA) in order to manage and eventually dispose or sell the assets (Office of the Director of Public Prosecutions, 2008, p. 24).

- **Part 38** allows the seizure of cash if there is suspicion that the cash represents the proceeds of any criminal conduct. The cash is seized by Garda or Customs (Office of the Director of Public Prosecutions, 2008, p. 24).

Then, the confiscation can be applied by the DPP if the person is convicted of any offence and if it is proved that the criminal activity has produced some benefits. Moreover, if necessary, the property of the convicted person can be taken into possession and sold to satisfy the confiscation order (Vettori, 2006, p. 70; Office of the Director of Public Prosecutions, 2008, p. 24). Therefore, the confiscation refers to the amount/sum of money indicated by the court after a sentence.

The **confiscation** is foreseen under sections **4, 9 and 39 of the CJA** (Office of the Director of Public Prosecutions, 2008, p. 24-25):

- **Part 4** allows for criminal confiscation in cases of drug offences. The Court must identify the proceeds of drug trafficking through a mandatory investigation after the final sentence (Office of the Director of Public Prosecutions, 2008, p. 24).
- **Part 9** allows for confiscation in cases of non-drug offences after a final sentence. The amount of money to be confiscated is the amount of money the court addressed as appropriate, according to the particulars of the offence.
- **Part 39** allows for forfeiture of cash if there is suspicion that it represents the proceeds of crime after a final sentence. In this case, the proceedings are conducted under the civil burden of proof. The seizure and confiscation of cash can be undertaken by a LEA officer belonging to the Garda Síochána or the Revenue Customs.



## 10.6. Italy

Cristina Soriani (Università Cattolica del Sacro Cuore – Transcrime, Italy)

### 10.6.1. General overview

Since the **Rognoni - La Torre law of 1982**,<sup>341</sup> the first measure specifically targeting the proceeds of mafia-type organised crime, the legislation on the freezing and confiscation of criminal assets has been developed over time with the inclusion of **new provisions** (e.g. extended confiscation, confiscation of equivalent value, etc.). In 2011 the new **Antimafia Code** (d.lgs. n. 159/2011) was adopted: it collects all the existing laws and legal tools used to target organised crime and illegal assets. The Italian regulatory framework allows for **two main types of confiscation**:

- **criminal or conviction-based confiscation**: issued within the criminal proceeding and includes both criminal and *extended* confiscation (see below).
- **preventative confiscation**: developed specifically to target serious and organised crime offences. It can be issued outside the criminal proceeding and not necessarily as a result a criminal conviction. This measure shifts the focus from the individual to specifically target the asset itself.

All the types of seizure and confiscation have the same **common prerequisites** (Fraschini & Putaturo, 2014, p. 15):

1. Assets which are the **proceeds, product or price of a crime**<sup>342</sup> at the disposal of an accused person or a third party.
2. An **unjustifiable disproportion** between the declared income and the real economic activity of the subject.
3. Absence of a **clear explanation of the licit origin of the assets**, which suggests that they have illegal origin.

Despite these similarities, different characteristics can be identified (Fraschini & Putaturo, 2014, p. 15):

<b>Criminal confiscation:</b>	<b>Preventative confiscation:</b>
Applied in connection to a definitive conviction.	Applied in the case of a potentially socially dangerous conduct of the subject.
The seized/confiscated assets must have a direct link with the criminal conduct.	Assets of licit origin unrelated to the crime can be object of seizure and confiscation.
Applied to a wide range of crimes (including but not limited to serious and organised crimes).	Applied only in relation to specific serious and organised crime offences (e.g. criminal association, mafia-related crimes, drug trafficking, trafficking in human beings, etc. – see below).

It is important to highlight that the legislation on the confiscation of criminal assets targets not just natural persons but also **legal entities** in the case of specific crimes (art. 9 d.lgs. 231/2001).

### 10.6.2. Description of the confiscation process in Italy<sup>343</sup>

#### *Preventative measures*

**Preventative seizure and confiscation** of criminal assets are foreseen by Italian legislation for specific serious and organised crime offences<sup>344</sup> **independently of the criminal proceeding** (see *Antimafia Code* d.lgs. n. 159/2011). The measures shift from the prosecution of the person accused of being member of an OCGs to the prosecution of the asset *per se*. The prerequisite of the application of a preventative measure is the potentially socially dangerous conduct of the subject, e.g. potential affiliation to a criminal organisation or involvement in certain serious and organised crimes (Art 4 of d.lgs. n. 159/2011).

In anticipation of confiscation, Italian legislation foresees the seizure of criminal assets. In this case the **preventative seizure** (*sequestro di prevenzione*, art. 20 et seq., d.lgs. n. 159/2011) is issued *inaudita altera parte* (i.e. without the presence of the other party) but is void if it is not confirmed by a court order. It is foreseen for specific offences, including organised crime, if:

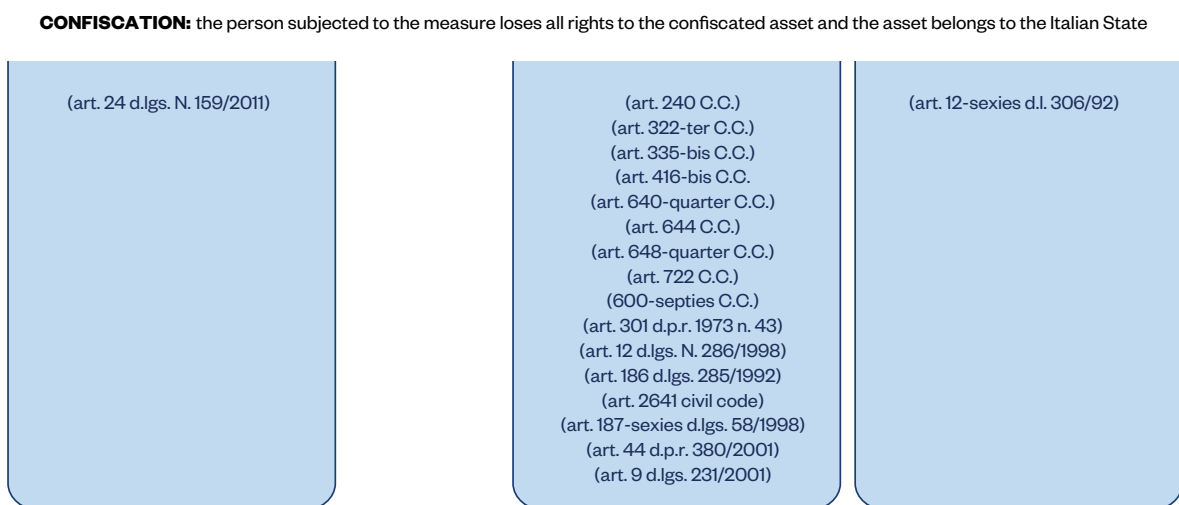
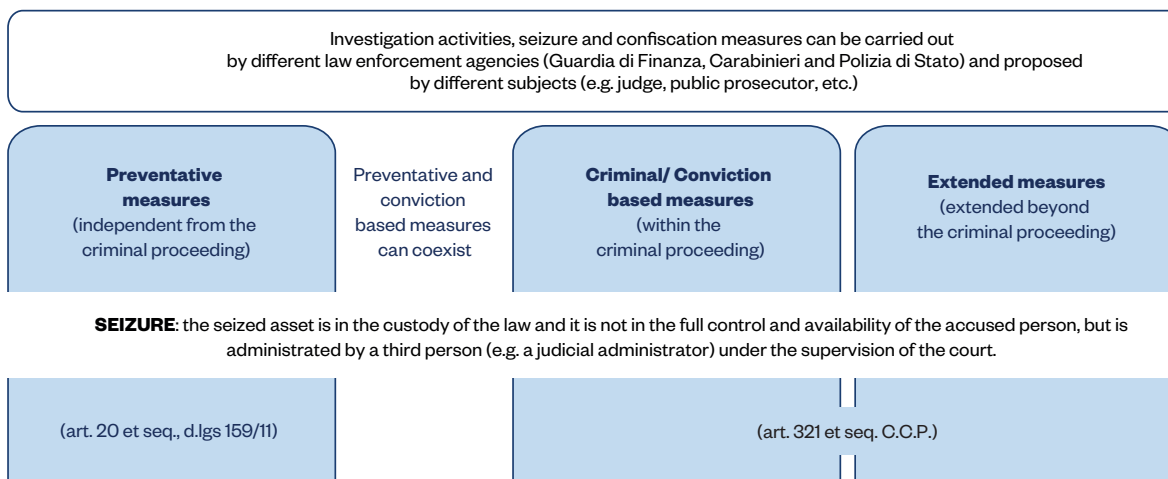
1. there is **sufficient evidence** that the assets are the proceeds of crime, or
2. there is a **disparity** between the defendant's wealth and income (art. 1 and 2 d.lgs. n. 159/2011).

341. L. 646/1982 (Legge 13 settembre 1982, n. 646, Disposizioni in materia di misure di prevenzione di carattere patrimoniale ed integrazioni alle leggi 27 dicembre 1956, n. 1423, 10 febbraio 1962, n. 57 e 31 maggio 1965, n. 575. Istituzione di una commissione parlamentare sul fenomeno della mafia).

342. With "proceeds" the law refers to the economic gain (direct or indirect) from the commission of the crime; the term "product" means the results from the commission of the crime (e.g. assets or goods bought, obtained or created from the criminal conduct); "price" means the amount of money give or promised for the commission of the offence (Fraschini & Putaturo, 2014, p. 12).

343. C.p.p. refers to the Italian Criminal Procedure Code (Codice di procedura penale); c.c. refers to the Italian Criminal Code (Codice penale).

344. Art. 4 d.lgs. n. 159/2011: individuals suspected of belonging to mafia-type organisations; individuals indicted for crimes of slavery, child prostitution, child pornography, tourism aimed at child prostitution, trafficking in human beings, buying and selling of slaves; crimes against the intellectual and industrial property, trade of counterfeit goods; members of criminal organisations involved in drug trafficking; members of organized crime groups involved in tobacco smuggling; members of organisations involved in the smuggling of waste; individuals engaged in smuggling or the unjustified possession of valuables; socially dangerous individuals referred to in Article 1; individuals involved in committing crimes against the State and public security, including kidnapping and terrorism; former members of fascist organisations; those who have violated the rules on the use and possession of weapons; instigators and financiers of the offenses listed above; instigators and facilitators of violent actions during sporting events.



In particular, the different types of preventative measures are:

- **Seizure** (*sequestro*, art. 20 d.lgs. n. 159/11): seizure of goods under the direct or indirect control of the accused person.
- **Early seizure** (*sequestro anticipato*, art. 22, paragraph 1, d.lgs. n. 159/2011): seizure of assets in tangible danger of being consumed, misappropriated or transferred for which confiscation is foreseen according to art. 24 d.lgs. n. 159/2011 (issued before setting the hearing).
- **Urgent seizure** (*sequestro urgente*, art. 22, paragraph 2, d.lgs. n. 159/2011): seizure of assets in tangible danger of being consumed, misappropriated or transferred for which confiscation can be requested according to art. 24 d.lgs. n. 159/2011 (in the course of the proceeding).
- **Seizure and confiscation of equivalent value** (*sequestro e confisca per equivalente*, art. 25, d.lgs. n. 159/2011): when the goods that should be confiscated are hidden, destroyed or inaccessible, or if the assets have been transferred in good faith to third parties (if the suspect had the intent to avoid the measure).
- **Delayed seizure** (*sequestro differito*, art. 24, paragraph 3, d.lgs. n. 159/2011): the seizure of goods is applied following the application of other preventative measures.
- **Judicial administration of goods** (*amministrazione giudiziaria dei beni personali*, art. 33 d.lgs. n. 159/2011): if there is adequate evidence that the free access to the assets of the subject will facilitate socially dangerous conduct.
- **Judicial administration of assets related to economic activities** (*amministrazione giudiziaria dei beni connessi ad attività economiche*, art. 34 d.lgs. n. 159/2011): if there is the suspicion that certain economic activities are subject to intimidation or misuse by organised crime described in art. 416-bis c.c. (either directly or indirectly) or can facilitate the criminal activities of individuals subject to investigation.
- **Preventative confiscation of criminal assets** (*confisca di prevenzione*, art. 24 d.lgs. n. 159/2011): is applied in the course of the implementation of preventative measures. The confiscation of assets is applicable to assets not directly owned by the suspect but transferred to third parties (*intestazione fittizia* art. 26 d.lgs. n. 159/2011).

Finally, according to the preventative approach the measures listed above are issued even **in case of death of the defendant** (within 5 years of the death) (*Applicazione delle misure di prevenzione patrimoniali. Morte del preposto* art. 18 d.lgs. n. 159/2011).

Confiscation can be revoked according to the art. 28 et seq., d.lgs. n. 159/2011 (*Revocazione della confisca*), **even after a definitive conviction**. The revocation is foreseen if:

- new crucial judicial evidence came to light after the end of the proceeding,
- it is proven that the conditions of applicability of the measure were lacking or
- the confiscation order was based solely or decisively on false documents.

### **Criminal or conviction-based measures**

The **criminal seizure and confiscation of criminal assets** is foreseen in connection to a **final sentence**. In terms of seizure/freezing, within the conviction-based system it can be mandatory or optional (*sequestro preventivo*, art. 321 et seq. c.c.p.):

- **optional seizure** (*sequestro facoltativo*, art. 321, paragraph 2 c.c.p.): to ensure an expected confiscation (according to the art. 240 c.c.) in order to disrupt the connection between the accused person and the asset even before the conviction, or
- **mandatory** (*sequestro obbligatorio*, art. 321, paragraph 1 c.c.p.): in the case of goods related to the criminal offence in order to avoid the facilitation of the commission of other offences.

**General confiscation**, according to art. 322-ter c.c., similarly, can be optional (art. 240, paragraph 1 c.c.) following a conviction or mandatory (art. 240, paragraph 2 c.c.). It can be applied even when the goods that should be confiscated are hidden, destroyed or inaccessible after the final sentence or a plea bargain for specific crimes (art. 321 c.c. and art. 322-bis paragraph 2 c.c.).

Conviction-based confiscation can be applied in relation to the crimes listed below:

- **Crimes committed by public officials against the public administration** (art. 335-bis c.c.: the confiscation of goods and proceeds of crime after a final sentence for offences foreseen in art. 314-320 c.c.).
- **Mafia-type criminal association** (416-bis c.c.): confiscation of the means used for commission of the crime and the price, products, proceeds of crime owned by members of organised crime groups (in this case, there must be evidence of a causal link between the confiscated good and the offence).
- **Fraud** (art. 640-quarter c.c.);
- **Usury** (art. 644 c.c.);
- **Money laundering** (art. 648-quarter);
- **Illegal gambling** (art. 722 c.c.);
- **Human trafficking and sexual exploitation of children and women** (art. 600, 600-bis, 600-ter, 600-quarter, 600-quinquies, 600-septies, 601, 602 c.c.)

- **Contraband** (art. 301 D.P.R. 23/01/1973 n. 43);
- **Human smuggling** (art. 12 d.lgs. n. 286/1998);

**Alcohol-related conduct** (art. 186 d.lgs. 285/1992);

- **Economic crimes** (art. 2641 civil code, art. 187-sexies d.lgs. 58/1998);
- **Unauthorized construction** (art. 44 D.P.R. 380/2001);
- **Criminal liability of legal entities** (art. 9 d.lgs. 231/2001).

### **Extended measures**

Article 12-sexies of the d.l. n. 306/1992 (*confisca allargata*) contains provisions for **confiscation of the assets of criminal organisations even when not connected to a crime** for specific offences typically related to the activity of criminal groups.<sup>345</sup>

Extended confiscation is applied to specific crimes listed in the law and does not take into account the social danger of the subject. It can be issued if:

- there is an **unjustifiable disproportion** between the declared income and the real economic activities of the subject, regardless of whether or not the property can be associated with the offence object of the criminal proceeding and
- the **defendant is not able to prove the licit origin** of these assets even beyond the direct proceeds of the crime foreseen by the final conviction.

In anticipation of confiscation, art. 321 et seq. c.c.p. foresees the seizure of criminal assets. It is issued before a final confiscation, which occurs after a final sentence or a plea bargain.

Furthermore, confiscation of equivalent value is foreseen by the art. 12-sexies, paragraph 2-ter d.l. n. 306/1992.

345. E.g. criminal association (art. 416, paragraph 6 c.c.); human trafficking (art. 600-601-602 c.c.); mafia-type association (art. 416-bis c.c.); kidnapping for the purpose of extortion (art. 630 c.c.); Usury (art. 644 c.c.); resale of stolen valuables (art. 648, paragraph 1 c.c.); money laundering (art. 648-bis c.c.); crimes related to drug trafficking and terrorism; crimes involving public administration art. 314 et seq. c.c.

## 10.7. Netherlands

Joras Ferwerda and Brigitte Unger (Utrecht University, the Netherlands)

**SEIZURE:** the accused person loses all rights to the seized assets. Can be performed as soon as suspicion is established.

### Criminal seizure

objects are taken to be used  
in the investigation or in court  
(Art. 94 Dutch Criminal Procedure Code)

### Pre-judicial seizure

objects are taken to ensure that there  
are goods to be confiscated  
(Art. 94a Dutch Criminal Procedure Code)

**CONFISCATION:** in a separate judgment the judge imposes the obligation to pay the illegally obtained benefit to the state.

### Confiscation procedure

goal of the confiscation process is  
to cause the financial position  
of the defendant to be equal to that before or  
without the criminal acts; therefore an estimation  
of the illegally obtained benefit is made.  
(Art. 36e Dutch Criminal Code)

### Withdrawal

objects are destroyed because they are  
illegal to possess (like guns and drugs)  
(Art. 36b Dutch Criminal Code)

### Settlement

Agreement between defendant  
and prosecutor, without involvement of a judge  
(Art. 511c Dutch Criminal Procedure Code)

### Forfeiture

objects are generally put up for  
auction by the state  
(Art. 33a Dutch Criminal Code)

**COLLECTION PROCESS:** collection of the sum determined by a judge  
(illegal obtained benefit) or that is agreed upon by settlement

### Collection procedure

Undertaken by the Dutch Central Judicial Collection Agency  
If the defendant does not accept the payment, seizure is possible.  
If the defendant does not fulfil the payment, while there are substantive indications he/she could do so, he/she can  
be sentenced to imprisonment for a maximum of 3 years (Art. 577c Dutch Criminal Procedure Code).  
This is a coercive measure that does not replace the obligation to pay.

Note that this overview focuses on the Dutch Criminal Code and the Dutch Criminal Procedure Code.  
In the Netherlands there are more possibilities to deprive criminal gains: through fiscal legislation,  
administrative law and civil law.

### 10.7.1. Description of the confiscation process in the Netherlands

#### Criminal seizure and sequestration

After suspicion is established, there are **two types** of seizure possible in the Netherlands: **criminal seizure** and **pre-judicial seizure**. Criminal seizure (art. 94 Dutch Criminal Procedure Code) is when objects are taken to be used in the

investigation or in court. A typical example might be a shirt with a bloodstain on it. Another example may be an administration and/or bank statements that can be used to estimate the illegally obtained benefit. Pre-judicial seizure (art. 94a Dutch Criminal Procedure Code) is when objects are taken before the judgment takes place to secure the goods that might later be eligible for confiscation. Typical examples can be jewellery, cars or real estate.<sup>346</sup>

#### Confiscation

To ensure that crime does not pay, the Dutch Criminal Code contains an article on the **confiscation of possessions** of Dutch defendants (art. 36e Dutch Criminal Code, also known

<sup>346</sup> Seizure is also possible by the Dutch Tax Office (via administrative or criminal proceedings), but this is considered to be outside the scope of this project.

as the '*Pluk ze-wet*', which can be literally translated as *Pluck-them law*). A judge may impose, in a separate judgement, the **obligation to pay illegally obtained benefit** (*wederrechtelijk verkregen voordeel*) **to the state** (Art. 36e paragraph 1 Dutch Criminal Code). This can be applied against both natural and legal persons. The goal of the confiscation process is to cause the financial position of the defendant to be equal to that before the criminal act(s) (BOOM, 2013a).

To determine the amount of the payment for the defendant, his/her **illegally obtained benefit has to be estimated**. A judge decides the amount of this payment on the basis of financial investigations. When it is plausible that a defendant has obtained some benefit with one or several criminal acts, a judge may make some assumptions to estimate this benefit. A judge may impose that all expenses that the defendant has made and all possessions (both physical and financial) obtained by the defendant in the six years before the criminal act, may fall under the scope of illegally obtained benefit. This is the case only if there are no indications that these expenses and possessions have been paid by legal income; **there is no need to prove the illegal nature** (Art. 36e section 3 Dutch Criminal Code).<sup>347</sup> The value of the possessions is estimated according to current market value and may incur cost savings. Although this is rarely put into practice (after 2003), the judge may set the amount of the payment lower than the estimated benefit, for example when the financial capacity of the defendant is not sufficient (Art. 36e section 5 Dutch Criminal Code). Compensations to injured parties are subtracted from this estimated benefit (Art. 36e section 8 Dutch Criminal Code).

Investigations may start at any given time when indications arise that the defendant received substantial benefit from his criminal acts. These **financial investigations** are conducted by financial detectives from the investigation service concerned (*Functioneel Parket*, a division of the Dutch Public Prosecutors' Office). The investigations are mostly led by the public prosecutor of the case, but may be led by a special confiscation prosecutor in the case of large benefits (>100,000 euro) in cooperation with the public prosecutor of that case (BOOM, 2013b). The confiscation investigations are separate from the criminal case, because of possible complexities of the financial investigations and the possibility of international affairs. The sentence of the criminal case is therefore separate from the confiscation sentence. For thorough financial investigations (including preliminary conservatory confiscations) a judge needs to give permission for a criminal financial investigation (SFO) (BOOM, 2013c). These investigations eventually lead to a report which estimates the illegally obtained benefit of the defendant (BOOM, 2013d).

If the confiscation prosecutor has sufficient evidence, the prosecutor can start a **confiscation case**. The confiscation case can also be completed by a settlement between the defendant and the prosecutor (Art. 511c Dutch Criminal Procedure Code). Either way, collection of the sum will be undertaken by the CJIB (Dutch Central Judicial Collection Agency) (BOOM, 2013e). The CJIB and the defendant can reach a **payment agreement**, but if the defendant does not accept this agreement, the **CJIB may seize properties and claims of the defendant**. If it is difficult and not directly

possible to seize properties to satisfy the payment set by the judge, the CJIB cooperates with BOOM (Dutch Asset Recovery Office) to seize properties which are hard to trace. If a defendant does not fulfil the payment but there are substantive indications that he/she is able to do so, he/she can be sentenced to imprisonment for a maximum of three years, under article 577c of Dutch Criminal Procedure Code (BOOM, 2013f). According to the law, the defendant must make it plausible that he/she is not able to fulfil the payment, but in practice the Public Prosecutors' Office often already tries to show that he/she is able to pay.

### **Withdrawal and Forfeiture**

A public prosecutor (with written permission from the magistrate, Art. 103 Dutch Criminal Procedure Code) can forfeit property from a defendant (Art. 33a Dutch Criminal Code). A judge can decide to **withdraw property from a defendant** (Art. 36b-d Dutch Criminal Code). Generally, withdrawal is used for all types of property that are illegal to possess (or are in contrast to the public interest, Art. 36c, Dutch Criminal Code), like guns and drugs, and which are therefore destroyed afterwards. No conviction is needed to withdraw goods. **Forfeiture** is used for all property that cannot be withdrawn. These goods will in general be put up for auction by the state. It should be noted that, for instance, in a money-laundering case, the illegally obtained benefit can be withdrawn or forfeited without a confiscation measure.

Note that this overview focuses on the Dutch Criminal Code and the Dutch Criminal Procedure Code, but in the Netherlands there are other possibilities to deprive criminal gains: through fiscal legislation, administrative law and civil law (Staatscourant, 2013).

<sup>347</sup> However, the judge must be convinced with indications if the benefit comes from crimes for which the defendant is not convicted.



## 10.8. Spain

Jesús Palomo, Marta Chinnici and Nuria Ruiz (Universidad Rey Juan Carlos, Spain)

### 10.8.1. General overview

The Spanish legal system has undergone **major changes in relation to the aspects of confiscated assets**. Prior to 2010, it was not possible to apply the civil recovery of assets to criminals. Also, there was no specialised asset recovery law designed to tackle proceeds of criminals better. The organic law 5/2010, of 22<sup>nd</sup> June transposes the European Union (EU) Council Framework Decision 2005/212/JHA, of 24<sup>th</sup> February on Confiscation of Crime-Related Proceeds, Instrumentalities and Property (Cereijo, 2010).

The current regulation of confiscation is mainly covered by **Article 127 of the Spanish Criminal Code**. This particular article allows judges and courts to order the confiscation of the proceeds of a crime, including goods, means and tools used to commit it. The early realization of seized assets is, in some cases, regulated by the Articles 367 bis et seq. of the Spanish Criminal Procedure Code (Zaragoza, 2006). The Spanish criminal code and the code of criminal procedure are under deep review in order to adapt the procedures on confiscation and property management to fit today's necessities<sup>348</sup> (G20, 2014).

Also worth mentioning are the difficulties that the Spanish legal system has encountered. First, the **absence of a centralised banking registry** is a major impediment to the efficient localization of bank accounts related to organised crime. Secondly, the procedure for obtaining **real estate data** seems to be slow and very complex, owing to the difficulties in locating assets. Finally, the organisational structure of the Spanish justice system constricts the judiciary's ability to handle the current high volume of organised crime cases because of the complex structure of the system and the different appeals process (Matrix Insight, 2009).

### 10.8.2. Description of the confiscation process in Spain

#### Preventative measures

Preventative measures need to be proposed by the public prosecutor or the judge as a temporary measure. **Preventative seizure** (*medidas precautelares*, arts. 589 LECRIM) is designed to ensure the effective enforcement of the judgment. It is levied on the accused's assets and is intended primarily to ensure the financial responsibility that may be designated in civil or criminal proceedings. This measure can be enforced regardless of the trial verdict if an individual defendant is considered socially dangerous or the criminal trial involves certain specific offences. These offences may vary depending on the case and the type of preventative seizure (Montero 2012). There are only two types of preventative seizure:

#### PREVENTATIVE MEASURES (*Embargo preventivo*) (Art. 597 LECRIM)<sup>1</sup>

(Within the criminal proceeding) The accused person loses all rights to the seized assets, which are administrated by a third person (e.g. a judicial administrator or civil person).

Requirements: art. 357 quáter

<b>Seizure</b> (Arts. 619 and 620 LECRIM)	<b>Subsidiary seizure</b> (Arts. 597 to 614 LECRIM and art. 614 LEC) <sup>2</sup>
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#### CONVICTION-BASED MEASURES (*decomiso*) (Art. 127 C.C.)<sup>3</sup>

(Within the criminal proceeding)

**CONFISCATION:** the sentenced person loses all rights to the confiscated assets and the assets belong to the Spanish State

<b>Confiscation</b> (Art. 127.1 C.P Conviction based measure and related with Organised Crime)	<b>Extended confiscation</b> (Art. 127. 3 y 4 C.P further extended measures)
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**Non-conviction based confiscation**  
(127.4 C.P. in relation to article 367 quáter LECRIM.)

The management and disposal of confiscated assets related to the **illicit traffic of drugs**, and other crimes associated with it, is carried out by *Plan Nacional Sobre Drogas* (PNSD). Currently, this is the only source of data regarding confiscated assets in Spain.

The judge carries out the management and disposal of the confiscated assets related to other crimes (not related to drug trafficking).

1. LECRIM denotes the Criminal Procedure Code (*Ley del Procedimiento Criminal*).
2. LEC denotes the Civil Procedure Code (*Ley de Enjuiciamiento Civil*).
3. C.C. denotes the English translated version of the Spanish Criminal Code (*Código Penal*).

- **Seizure** (*secuestro u ocupación de bienes o cosas*, arts. 619 and 620 LECRIM): this seeks to ensure the restitution of the assets and to cover any possible civil responsibility.
- **Subsidiary seizure** (*embargo subsidiario*, arts. 597 to 614 LECRIM and art. 614 LEC): this is only applied if the deposit is not paid by the accused. The seizure should be equivalent in value to the deposit.

#### Conviction based measures

The Official English translated version of the Spanish Criminal Code uses the term **seizure** (instead of *confiscation*)

348. Today, in the mentioned review, articles 127 et seq of the Criminal Code are subject to close analysis, since the government is seeking to regulate the sale of illegal effects in advance and the management and recovery of the seized assets.

349. The term 'seizure' refers to a preventive measure, whereas the term 'confiscation' is defined as the power of a court to take from an offender any benefit derived from a committed crime.

regarding the **confiscation procedure**.<sup>349</sup> Conviction-based measures are applied during the criminal proceeding. The judge, the public prosecutor or the civil party proposes them after having verified criminal liability of the suspect (Cereijo, 2010). According to art. 127.1 C.C. the confiscation is foreseen for all types listed below:

- Confiscation of **goods related to the criminal offence**. It is foreseen for assets obtained therefrom and of the goods, means or instruments with which they were prepared or executed, as well as the gains obtained from the felony or misdemeanour, whatever the transformations these may have undergone. Except when the goods belong to third person in good faith, who is not responsible for the felony, and has acquired them legally.
- **Criminal or terrorist organisation or group**. It is applied for the confiscation of the means used for the commission of the crime and the price, products, proceeds of crime owned by members of organised crime groups (there must be evidence of a causal link between the confiscation of goods and the offence). For the legal definition of criminal organisation and groups see Section 4.6.1 and art. 570 bis C.C. (General Attorney, 2011)

Following article 127.2 C.C., when the sentence of imprisonment exceeds one year for committing an imprudent felony, the instruments and the gains related with this offences should be confiscated.

The confiscation of other assets for an **equivalent value** is applied when the goods that should be confiscated are hidden, destroyed or inaccessible after the final sentence or the sentence in a plea bargain for specific crimes. If the confiscation is not possible, the confiscation of equivalent value is foreseen (art. 127.3 C.C.). All these types of confiscation may be used, provided that the unlawful status of the assets is proven, even when there is no punishment for the person involved.

### Extended Confiscation

**Extended confiscation** can occur according to art. 127.3 and 127.4 C.C. Extended confiscation (*ampliación del decomiso penal*) art. 127.3 and 127.4 C.C. modified by LO 5/2010) is applied if there is an unjustifiable disproportion between the declared income and the real economic activities of the subject, regardless of whether or not the property can be associated with a particular offence (unless the defendant is able to prove it is of licit origin). This means that the property of each and every one of the persons found guilty of felonies committed within the criminal or terrorist organisation or group or of an offence of terrorism that is disproportionate in relation to the revenue lawfully obtained by each one of those persons shall be deemed to have been obtained by the criminal activity (González, 2006).

Article 5 of the European Directive 42/2014 defines what kinds of offences shall include the notion of 'criminal offence'.

Spain's regulation of extended confiscation in articles 127.3 and 127.4 C.C. includes only the notion of offences relating to participation in a criminal organisation. Consequently, the Spanish regulation<sup>350</sup> does not take the following notions into account: active and passive corruption in the private sector; causing or recruiting a child to participate in pornographic performances; illegal system interference and illegal data interference, or a criminal offence that is punishable by a custodial sentence of a maximum of at least four years.

### Non-Conviction Based Confiscation

Currently, article 127.4 C.P in relation with article 367 quáter of LECRIM regulates cases of **non-conviction based asset confiscation** if:<sup>351</sup>

- the owner expresses abandonment of the assets
- conservation and deposit costs are greater than the value of the object itself
- conservation may be dangerous to public health or safety
- there is a substantial reduction of its value
- may seriously affect the normal use and operation of the assets.

### Collected and analyzed confiscation data

The **National Plan on Drugs (PNSD)** is a governmental initiative to establish a Fund of confiscated assets. This Fund manages the group of assets coming from Illegal drug trafficking and related proceedings (see Section 12.7). The PNSD works as follows: first the court notifies the definitive sentence in no more than three days, and then, if cash/money is confiscated, the court deposits it directly in the PNSD account. The court and the PNSD work together in order to identify and recover the confiscated goods. Once the assets are located, identified and valued, the PNSD decides their disposal.

350. Note that the Spanish regulation was established in 2010 and the European Directive in 2014. Probably the next review of the Spanish Criminal Code will take these notions into consideration.

351. As already mentioned in the previous note, the Spanish Criminal Code is subject to review; a new article will regulate some more cases like death, illness, risk of prescription, etc. (G20, 2014).

## 10.9. United Kingdom

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### 10.9.1. General overview

In the UK, confiscation of criminal assets is currently regulated by the **Proceeds of Crime Act (POCA) 2002** (Proceeds of Crime Act, 2002). Lister and Bullock (2014) trace the development of UK confiscation legislation that started in 1986 in England and Wales with the Drug Trafficking Offences Act. A similar regime was introduced in Scotland by the Criminal Justice (Scotland) Act 1987. In Northern Ireland, the Criminal Justice (Confiscation) (Northern Ireland) Order 1990 introduced powers to confiscate both the proceeds of drug trafficking and other crimes (UK Government, n.d.). Nine more acts were introduced between 1988 and 1998, progressively extending and consolidating legislative provisions in this area.

Despite this legislative activity, note Lister and Bullock, concerns about law and practice remained (Lister & Bullock, 2014). Loopholes in the law, the lack of expertise and lack of prioritisation of this area appeared to reduce the effectiveness of the law. The POCA 2002 “consolidated, updated and reformed previous UK legislation relating to money laundering and criminal property” (NCA, n.d.b). This considerably **improved the capacity of law enforcement agencies to recover the proceeds of crime** (Crown Prosecution Service, 2014). However, some loopholes remaining in the law allowed criminals to retain their criminal proceeds.<sup>352</sup>

#### Agencies involved

**Criminal investigation and preparing the case:** Financial investigators and accredited ‘confiscators’ from a range of organisations including: police forces, HM Revenue & Customs, the Department for Work & Pensions, Crown Prosecution Service, National Crime Agency and other organisations such as Trading Standards.

**Prosecution, confiscation hearing and the judgment:** Crown Prosecution Service, Serious Fraud Office, HM Courts & Tribunals Service, Judiciary.

**Enforcing a confiscation order:** HM Courts & Tribunals Service, Crown Prosecution Service, Serious Fraud Office, National Offender Management Service and Magistrates.

Other key stakeholders include: the Home Office, which is responsible for the policy and legislation surrounding

confiscation orders, the National Crime Agency (its Proceeds of Crime Centre is responsible for training, accrediting and monitoring the performance of financial investigators in England, Wales and Northern Ireland), the Association of Chief Police Officers, and the Cabinet Office (Controller and Auditor General, 2013, p. 11).

This next section provides a description of the process of confiscation of criminal assets in the UK. The figure below describes the four types of asset recovery: (a) recovery of cash in summary proceedings; (b) confiscation; (c) civil recovery in court; (d) taxation, and it is followed by a brief description of each process.

### 10.9.2. Description of the confiscation process in the United Kingdom

#### Recovery of cash in summary proceedings

Chapter 3 of Part 5 of POCA 2002 has widened the ability of the courts and police or customs offices to seize cash during searches. Under the previous law there was no power to forfeit cash unless a person was prosecuted. POCA introduced power to search premises and persons (POCA 2002 s289) and power to seize and detain cash (POCA 2002 s294-296). A magistrates court may forfeit the cash detained or any part of it if it is satisfied that it is recoverable property or intended by any person for use in unlawful conduct (POCA 2002, s 298(1)–(2)). A person who claims that detained or forfeited cash, or any part of it, belongs to him may apply to a magistrates’ court for the cash to be released to him (POCA 2002, s 301(1)).<sup>353</sup>

#### Confiscation

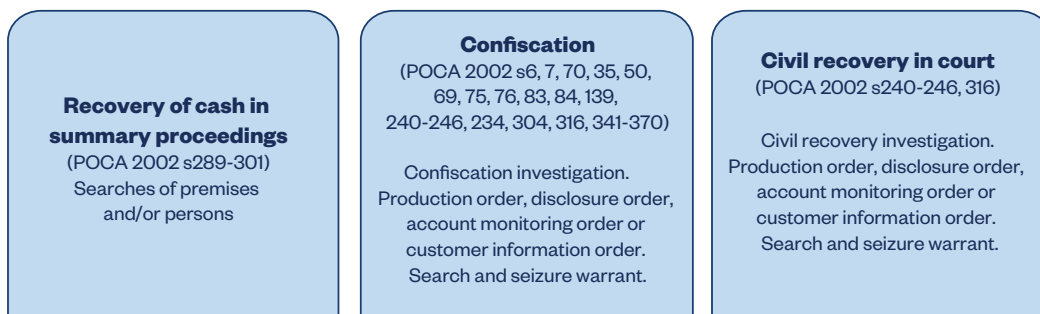
- **Confiscation order** Confiscation orders are made by the Crown Court and impose on a defendant the obligation to pay a sum of money that reflects the benefit he received from his criminal conduct.<sup>354</sup>
- **Confiscation investigation** a confiscation investigation is an investigation into whether a person has benefited from his criminal conduct, or the extent or whereabouts of his benefit (POCA 2002, s 341(1)).
- **Production order** A production order requires the person specified, as appearing to be in possession or control of material, to produce it to an appropriate officer for him to take away, or give the appropriate officer access to the

352. For example, if an offender has absconded, law enforcement agencies cannot access his/her bank account to seize his/her money. Also, confiscation is difficult when assets are in spouses’ or third parties’ names. The penalties for non-payment of confiscation orders also appear to be not strong enough and some offenders still prefer a jail term to paying off confiscation orders. In response to these issues, the Serious Crime Bill (at the time of writing at the committee stage in the House of Lords) is aimed to amend the Proceeds of Crime Act. In particular, it will:

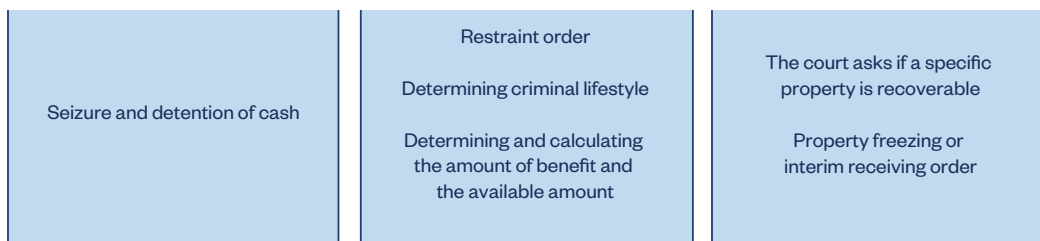
- a) Increase prison sentences for failure to pay confiscation orders.
- b) Ensure that criminal assets cannot be hidden with spouses, associates or other third parties.
- c) Require courts to consider imposing an overseas travel ban for the purpose of ensuring that a confiscation order is effective.
- d) Enable assets to be restrained more quickly and earlier in investigations.
- e) Reduce the defendant’s time to pay confiscation orders.
- f) Extend investigative powers so that they are available to trace assets once a confiscation order is made (HM Government, 2014).

353. Under Part 6 of POCA 2002, NCA can assume the taxation functions of Her Majesty’s Revenue and Customs in order to recover proceeds of crime (POCA 2002, s 317(2)). Tax legislation is applied to the income and a tax assessment is then raised against the respondent.

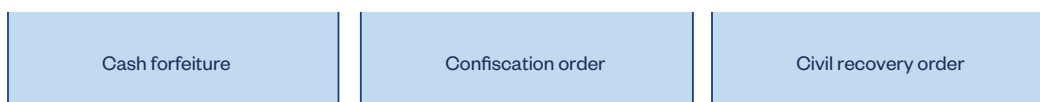
354. There are two conditions for the making of a confiscation order. The first condition is that either the defendant has been convicted of an offence in proceedings before the Crown Court, or he is committed to the Crown Court for sentence in respect of an offence under s 3, 4 or 6 of the Powers of Criminal Courts (Sentencing) Act 2000 or POCA 2002, s 70 (POCA 2002, ss 6(2)(a), (b) & (c)). The second condition is that the prosecutor asks the court to proceed under this section or the court believes it is appropriate to do so (POCA 2002, s 6(3)).



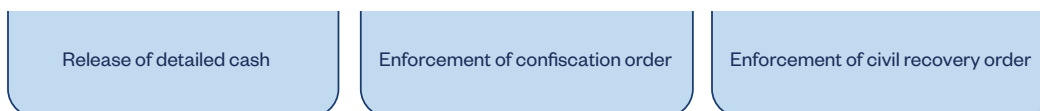
**SEIZURE:** the accused person loses all rights to the seized assets



**CONFISCATION:** the illegally obtained benefit becomes property of the state



**COLLECTION PROCESS:** collection of the sum that is determined by a judge (illegally obtained benefit)



material (POCA 2002, s 345(4)). The order will be granted if it can be shown that the person specified in the application is in possession or control of the material (POCA 2002, s 346(3)).

- **Disclosure order** Disclosure orders authorize an appropriate officer to give notice, in writing, to anyone they consider to have relevant information to the investigation to disclose it (POCA 2002, s 357(4)).
- **Account monitoring order** an account monitoring order requires a financial institution to provide specified account information to an appropriate officer for a period not exceeding 90 days (POCA 2002, s 370(6) & (7)). 'Account information' is information relating to an account held at the financial institution by the specified person, whether held solely or jointly with another (POCA 2002, s 370(4)).
- **Customer information order** A customer information order requires that a specified financial institution must, on being given notice in writing given by an appropriate officer, provide any such customer information as it has relating to the person specified in the application (POCA 2002, s 363(5)). 'Customer information' is information about whether a person holds, or has held any accounts at the financial institution and information surrounding that account including all personal details (POCA 2002, s 364(1), (2) & (3)).

- **Search and seizure warrant** A search and seizure warrant is a warrant authorising an appropriate person to enter and search the premises specified and seize and retain any material found there which is likely to be of substantial value to the investigation for the purposes of which the application is made (POCA 2002, s 352(4)).
- **Restraint order** prohibits a defendant from 'dealing with' any realisable property that is held by him/her and is potentially liable for confiscation (Proceeds of Crime Act 2002, s 69(1)). Realisable property is defined as any free property held by the defendant or the recipient of a tainted gift (POCA 2002, ss 83(a) & (b)).
- **Determining criminal lifestyle:** a defendant is considered to have a criminal lifestyle if one of the following three criteria are satisfied:
  - (a) the offence for which he/she has been convicted is one of those specified in Schedule 2, for example money laundering, people trafficking and arms trafficking (POCA 2002, s 75(2)(a)); or
  - (b) the offence for which he/she has been convicted constitutes conduct forming part of a course of criminal activity (POCA 2002, s 75(2)(b)); or

(c) the offence for which he/she has been convicted was committed over a period of at least six months and the defendant has benefited from the conduct which constitutes the offence (POCA 2002, s 75(2)(c)).

- **Determining and calculating the amount of benefit from criminal conduct and the available amount:** if a defendant has a criminal lifestyle the Court calculates the benefit from general criminal conduct (all the criminal conduct of the defendant). It is immaterial whether or not the conduct occurred before or after the passing of POCA 2002. If he or she does not have a criminal lifestyle, the Court will calculate the benefit from particular criminal conduct (the defendant's criminal conduct which constitutes the offence concerned or any offences in the same proceedings or that will be taken into consideration when deciding the defendant's sentence for the offence) (POCA 2002, s 76(3)). The amount recoverable is the amount equal to the defendant's benefit from the conduct concerned (POCA 2002, s 7(1)). However, if the defendant shows that the available amount is less than the benefit, the recoverable amount is the available amount (POCA 2002, s 7(2)). The burden of proof rests with the defendant to show that the recoverable amount is less than the defendant's benefit from the conduct concerned.
- **Enforcement** Confiscation orders are enforced by the magistrates' court (POCA 2002, s 35(2)). When the court makes a confiscation it must also fix a term of imprisonment in default of payment (POCA 2002, s 139(2); Powers of Criminal Courts (Sentencing) Act 2000).

#### *Civil recovery in court*

It is not always possible to commence criminal proceedings where, for example, the criminal offender has kept him/herself distant from the crime he/she is controlling or is outside the United Kingdom. Also, there are occasions where a criminal dies leaving recoverable assets or simply transfers them to a third party. In such situations, where the Crown Prosecution Service has decided that it is not in the public interest to prosecute, the use of civil recovery to recover the proceeds of unlawful conduct will be considered.

- **Civil recovery investigation** A civil recovery investigation is an investigation into whether property or associated property is recoverable, who holds it, and its nature, extent and whereabouts (POCA 2002, s 341(2)). The focus of an investigation can be a person or property (Crime and Courts Act, 2013).
- **Property freezing order** A property freezing order is an order that prohibits any person whose property the order specifies from dealing with that property in any way (POCA 2002, s 245A(2)).
- **Interim receiving order** An interim receiving order is an order for the detention, custody and preservation of property and the appointment of an interim receiver (POCA 2002, s 246(2)).
- **Recoverable property** Recoverable property is property obtained through unlawful conduct (POCA 2002, s 304(1)).



# 11. Assessing the availability of data on confiscated assets in Europe

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## 11.1. The availability of data on confiscated assets in Europe

Analysis of the criminal assets confiscated in Europe is complicated not only by the wide variety of asset recovery regimes and legislative tools that exist across EU MS (as seen above in Chapter 10) but also by the **lack of publicly available statistics in this field**. At present, there is no systematic information on the amount or value of criminal assets seized, frozen and confiscated across Europe.

Article 11 of the new confiscation Directive (2014/42/EU) has introduced the **requirement for EU Member States to regularly collect statistics** on the asset recovery process,<sup>355</sup> but to date each country has had its own specific system.

Since, as anticipated in Section 10.1, one of the specific **objectives of Project OCP** was to **understand what and where data on criminal investments in the EU are available**, including statistics on confiscated assets, an assessment of the existing information on criminal assets recovered in Europe has been conducted.

### **Why assess the level of availability of the data on confiscated assets?**

The assessment of the level of available statistics has not been solely the basis of an evaluation of the amount of criminal

proceeds that are recovered by law enforcement, **it can prove crucial for other purposes as well**.

First, the functions of agencies involved in the tracing, seizing and managing seized and confiscated assets are complex and multifaceted. To guarantee a transparent and accountable functionality of these agencies, it is crucial that **these activities and the assets with which the agency comes into contact be documented in an efficient manner** (Brun et al., 2011; FATF, 2012a; OAS, 2011, 2014a; Stephenson, Gray & Power, 2011).

Second, improvement in the collection of data on seized and confiscated assets **can increase the efficiency of these agencies** by providing updated and readily available information on assets. It can also **aid national investigations and trials** by providing information regarding assets associated with various criminal individuals and groups (OAS, 2014a). Developing centralized data collection systems can better integrate the activities of **LEAs and financial crime investigators with asset management agencies** (Stephenson, Gray, & Power, 2011; OAS, 2011, 2014a). This in turn can also **facilitate international cooperation** by expediting the exchange of information regarding seized and forfeited assets, particularly in the case of transnational organized crime (FATF, 2012a; OAS, 2011, 2014a; Stephenson, Gray, & Power, 2011).

Third, as pointed out by the 2014 Directive itself, the collection of statistics is crucial to **evaluate the degree of implementation of this Directive** as well of other regulation in this field.<sup>356</sup>

Accordingly, the assessment of available data on confiscated assets, and their collection, carried out under Project OCP and presented in this section, will not only provide the EU Commission with instruments to **encourage the production of harmonised statistics** but also make it possible to evaluate the **efficiency of current confiscation regimes**, at both national and EU level, and to **identify where and**

355. "Member States shall regularly collect and maintain comprehensive statistics from the relevant authorities. The statistics collected shall be sent to the Commission each year and shall include: (a) the number of freezing orders executed; (b) the number of confiscation orders executed; (c) the estimated value of property frozen, at least of property frozen with a view to possible subsequent confiscation at the time of freezing; (d) the estimated value of property recovered at the time of confiscation. 2. Member States shall also send each year the following statistics to the Commission, if they are available at a central level in the Member State concerned: (a) the number of requests for freezing orders to be executed in another Member State; (b) the number of requests for confiscation orders to be executed in another Member State; (c) the value or estimated value of the property recovered following execution in another Member State. 3. Member States shall endeavour to collect data referred to in paragraph 2 at a central level" (Directive 2014/42/EU, art. 11).

356. "[...] To allow for the evaluation of this Directive, it is necessary to collect a comparable minimum set of appropriate statistical data [...]" (paragraph 36 of Directive 2014/42/EU).

**how these measures could be improved** and made more effective against serious and organised crime.

### How the assessment has been conducted

**Three main sources** have been used to perform the assessment:

- The findings of a **survey specifically designed by the OCP research team and administered among national agencies** involved in the recovery and management of criminal assets at European level (see Section 11.2);
- The **reports** published by some of these national asset recovery or asset management agencies;
- The **evidence emerging from previous research in this field**, and in particular from the work of the EU Asset Recovery Office Platform and of Europol Criminal Assets Bureau (ECAB).<sup>357</sup>

### General findings

Besides a detailed discussion on the results of the survey, presented below, some general findings can be highlighted:

- First, as mentioned above, the **methods and criteria used to collect data on confiscated assets vary widely** across European countries: the taxonomy and classification of assets, format of the information, type and amount of the data collected are often different from country to country;<sup>358</sup>
- Second, in the same country **data may be collected by different agencies**:
  - Involved in different stages of the asset recovery process (e.g. at the seizure/freezing phase or the management phase);<sup>359</sup>
  - Active at different levels (e.g. at a national/centralized or regional/peripheral level);<sup>360</sup>
- These agencies may often adopt different data collection methods. As a result, in the same country different databases on seized/frozen/confiscated assets may exist at the same time but **with no connection and unable to 'talk' to each other**. Similarly, unique ID numbers attributed to criminal assets throughout the recovery process are very seldom used.

357. Since January 2014, in the framework of the EU ARO Platform activity, ECAB has been collecting statistics on asset recovery, and specifically on the amount of criminal assets that are identified, frozen and finally confiscated in the EU. The results of the data collection will be published in the next months.

358. As will be better described in 11.2, the type of information collected varies also in accordance to the confiscation regime. In countries where, for example, only value confiscation is applied, it is difficult to obtain information on the type of assets confiscated, while it is easier to obtain information on their value.

359. For example in Italy a database exists, managed by the ANBSC – Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata, which contains data on assets definitively confiscated and under the agency's management; at the same time, a database exists (SIPPI, now SIT-MP), managed by the Ministry of Justice, which includes statistics on seized assets and confiscated assets. Although there are overlaps between the two databases, it is difficult to understand what differences exist between the two. In parallel, other databases exist which include only the assets seized by certain law enforcement agencies or judicial authorities (Transcrime, 2013a).

360. According to some preliminary evidence from the EU ARO Platform, only 46% of the designated AROs collect data at a centralised level.

- This makes it impossible in most the countries, with some exceptions (e.g. the Netherlands, see Sections 10.7 and 12.6), to trace a criminal asset, and to connect it to the indicted natural or legal person, **from the beginning of the process** (e.g. the investigation) **to the end** (e.g. the disposal of the asset or its reuse).
- As a result, the available databases often provide a **very partial picture of asset recovery** in a country. It is very hard, for example, to determine how many of the seized assets are actually confiscated, or how much of the estimated value of the proceeds of crime returns to the public, or to measure any kind of *attrition rate*.<sup>361</sup>
- The **use of IT systems to organise data is very infrequent**. Information on confiscated assets is often only available in hardcopy, while the use of electronic databases is not widely adopted.
- The **lack of detailed and disaggregated data**: often only aggregate data are available, while specific information on each asset is not collected or available.
- The **lack of publicly available data**: according to the survey, in most cases data are collected but cannot be shared for research purposes and as such could not be accessed under Project OCP.
- Countries that tend to adopt a value-based confiscation system are the **least inclined to collect disaggregate data**: in these countries, the available information is almost exclusively on the total confiscated value. To gather data on the types of assets it would be necessary to extract each case file.
- The calculation of the **value of the asset can also be problematic**. Estimation criteria vary according to the national legislation. Besides the market value of the asset *per se*, in some countries the valuation also includes the estimated economic damage; in some others it is based on the estimated benefit that the criminals have gained from the asset or the criminal conduct (e.g. in the Netherlands, see 10.7 and 12.6).

In this situation, the best scenario would be to **obtain aggregate data** on the total number of assets confiscated in a certain country (or on their total value) in a **given timeframe**. More ambitious inquiries (e.g. the number of assets related to certain offences and nationality of the owner and located in a specific territory) would be feasible only in few European countries.

Considering the significant developments that the collection and analysis of data on suspected, prosecuted, convicted and imprisoned persons have undergone in the past 20 years at European level,<sup>362</sup> it is not encouraging to see how **still underdeveloped the collection of statistics on criminal assets is**. It is to be hoped that the new Directive will push national AROs and AMOs to achieve the same level of excellence of national statistical offices in the field of crime and criminal justice statistics.

361. In crime and criminal justice statistics, attrition is a measure of "which proportion of cases entering the system are duly resolved, closed or dispensed with by criminal justice agencies" (Shaw, Van Dijk, & Rhombert, 2003, p. 51-52). In the case of asset recovery, it refers to the proportion of confiscated and disposed assets out of the traced and then seized ones.

362. See [http://epp.eurostat.ec.europa.eu/portal/page/portal/about\\_eurostat/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/about_eurostat/introduction).

## 11.2. Results of a survey across European countries

In order better to assess the level of availability of the information on confiscated goods, a survey was conducted among the agencies involved in Europe in the recovery and management of criminal assets.

The survey covered both the official **Asset Recovery Offices designated at a national level** and **other public agencies** that may collect, store or manage information on the asset recovery and management process.<sup>363</sup> In particular, the assessment was conducted through analysis of:

- **Questionnaires**<sup>364</sup> administered to the national designated Asset Recovery Offices through the EU ARO Platform system;
- **Annual reports and other public documents** issued by national AROs and other agencies involved in the recovery and management of criminal assets;
- **Databases of confiscated assets** that are publicly available or for which it was possible to obtain access for the purpose of Project OCP.<sup>365</sup>

For each of the datasets analysed, the type of information available **for each confiscated asset** was assessed. Four categories of information were identified:

1. General information
2. Information about real estate
3. Information about companies
4. Information about registered (i.e. cars, motorcycles, boats and other vehicles) and other movable assets.

The general information (e.g. the date of confiscation or the location) concerns all types of assets, while other information applies only to certain categories (e.g. the make or the model of a confiscated car). Three levels of information availability were classified:

- **Information available and public:** collected by the agency and made publicly available (e.g. through annual reports or on the official website);
- **Information available but not public:** collected at national level and not public but can be obtained upon request from LEAs, FIUs, AMOs or in certain cases for statistical purposes;

363. Council Decision 2007/845/JHA1 obliges Member States to set up or designate national Asset Recovery Offices ("AROs") as national central contact points which facilitate, through enhanced cooperation, the fastest possible EU-wide tracing of assets derived from crime. For a list of the designated national AROs, please see Report From The Commission To The European Parliament And To The Council based on Article 8 of the Council Decision 2007/845/JHA of 6 December 2007 concerning cooperation between Asset Recovery Offices of the Member States in the field of tracing and identification of proceeds from, or other property related to, crime. Note that in some countries more than one agency has been designated (e.g. in France both a police-based agency – PIAC – and a judicial agency – AGRASC – are ARO contact points at European level: see Section 12.3).

364. The full questionnaire is available in the Methodological annex.

365. The categorization of assets is available in the Methodological annex.

- **Information not available:** not collected or not available at national level.

### Results

While all the designated AROs of the EU 28 MS gave a feedback to the request for participation in the survey, **24 agencies from 16 EU MS** provided a written answer, a completed questionnaire or access, full or in part, to the relevant database.<sup>366</sup> For 17 databases a detailed analysis of the type of available information for *each confiscated asset* was possible. It is presented below.

Figure 48 shows the **status of availability of general information** on seized and confiscated assets. Data on the type of asset, date of confiscation and/or of seizure and location (at least at NUTS 2) seem to be collected by most of the surveyed agencies, but are not often publicly available in reports or websites. Information about the owner (e.g. name, nationality, criminal affiliation) and on the condition of the assets (in terms of both physical situation and legal status) are not always collected; nor is information on the related offence(s), on the asset value and type of confiscation.

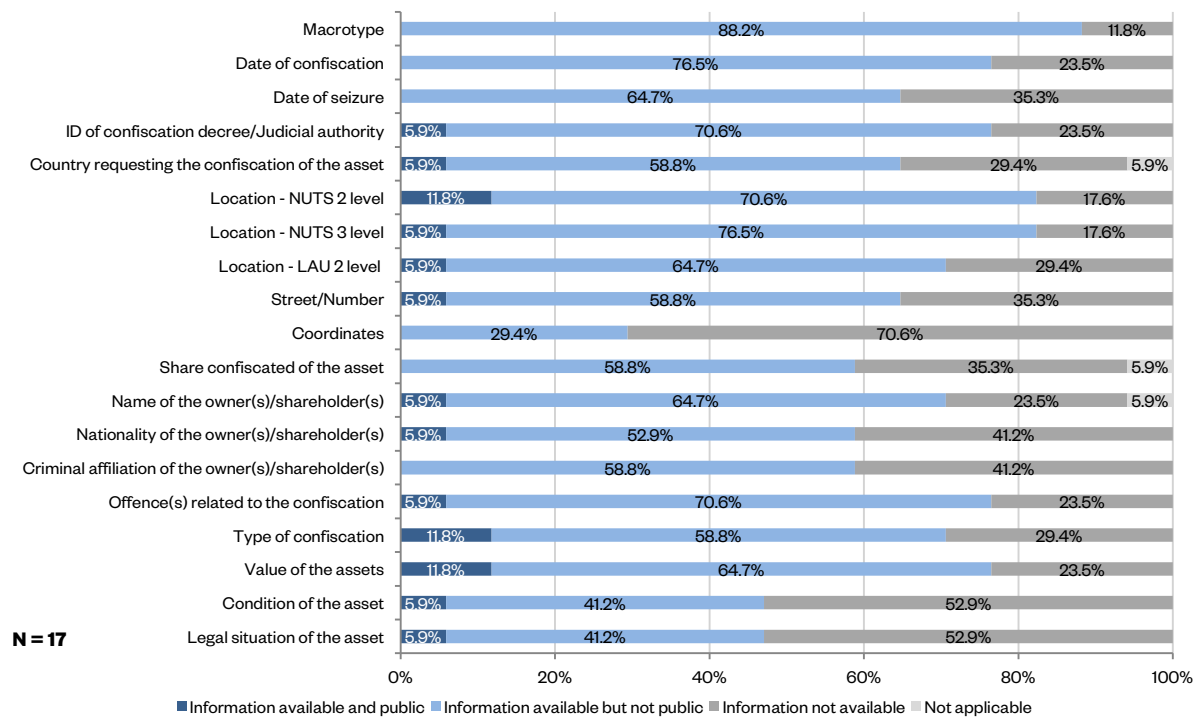
In regard to the different macro types of assets, it emerges that for **real estate information** on the type of property (e.g. house, villa, flat, garage, etc.) **is available** in most of the agencies that provided feedback to the survey (Figure 49).

By contrast, with regards to **confiscated companies** (Figure 50), **much less information** is collected (e.g. the company name, the legal form or the business sector) and only in a couple of cases are data publicly available. Moreover, in most cases (those identified as *not applicable*) no answer has been provided. The main reason is that in these countries **companies are often not confiscated at all** (see Chapter 12).

Finally, in regard to registered and movable assets it seems that information on these assets is available in most of the AROs included in the survey.

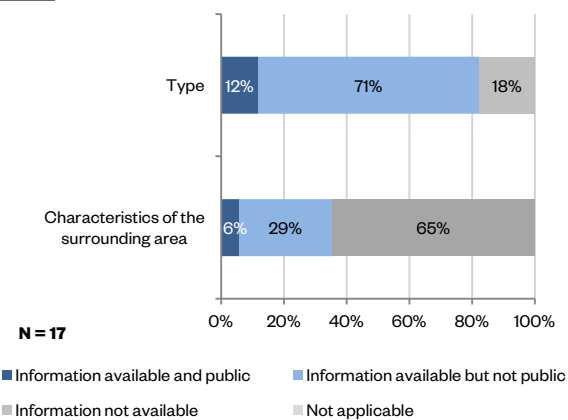
366. In particular the following seventeen agencies have provided detailed information for the analysis through the questionnaire: Organe Central pour la Saisie et la Confiscation (Central Office for Seizure and Confiscation – COSC), Belgium; Ministry of the Interior (MUP), Criminal Police Directorate, National Police Office for Suppression of Corruption and Organized Crime, Economic Crime and Corruption Department, Croatia; Unit for Combating Money Laundering (MOKAS-FIU), Cyprus; Unit Combating Corruption and Financial Crimes (UOKFK), Czech Republic; State Prosecutor for Serious Economic Crime (Statsadvokaten for Særlig Økonomisk Kriminalitet), Denmark; National Police Board, Ministry of the Interior, Finland; Agency for the management and recovery of seized and confiscated assets (Agence de gestion et de recouvrement des avoirs saisis et confisqués – AGRASC), France; Federal Office of Justice (Division III 1: Extradition, Transfer of Prisoners, Mutual Legal Assistance, European Judicial Network in Criminal Matters), Germany; Criminal Assets Bureau (CAB), Ireland; Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata (ANBSO), Italy; Guardia di Finanza (GdF), Italy; Servizio Analisi Criminale (SAC), Ministry of the Interior, Italy; Criminal Police (Lietuvos kriminalinės policijos biuras), Lithuania; Criminal Assets Deprivation Bureau of the Public Prosecution Service (Bureau Ontnemingswetgeving Openbaar Ministerie – BOOM), Netherlands; The Public Prosecutor's Office for serious fraud, environmental crime and asset confiscation (PPO), Netherlands; Fiscalía Especial para la Prevención y Represión del Tráfico Ilegal de Drogas, Spain; Plan Nacional Sobre Drogas (PNSD), Spain. In addition, seven agencies provide a feedback: Bundeskriminalamt (Division SO 35 – VIVA – Asset Recovery Office), Germany; Ministry of Justice (Sistema Informativo Prefettura e Procura dell'Italia – SIPPI), Italy; National Office for Crime Prevention and for Asset Recovery, Ministry of Justice, Romania; Financial Intelligence Unit of the Bureau of Combating Organised Crime of the Presidium of the Police Force, Slovakia; Crown Prosecution Service (CPS), United Kingdom; National Crime Agency, United Kingdom; Organised Crime and Counter Terrorism Unit (OCCT) of Police Scotland, United Kingdom.

**Figure 48 – Availability of general information on confiscated assets (all type of assets)**



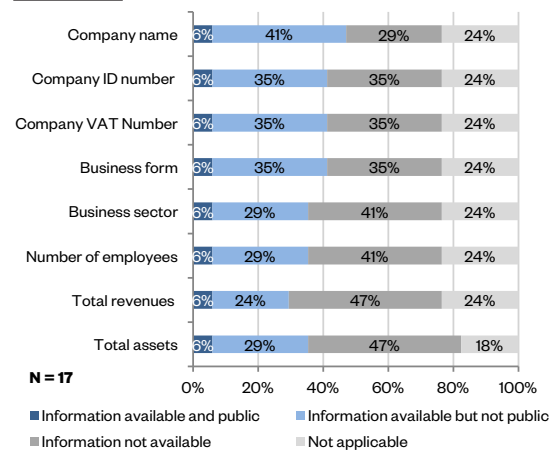
Source: Transcrime elaboration on OCP survey data

**Figure 49 – Availability of information on confiscated real estate**



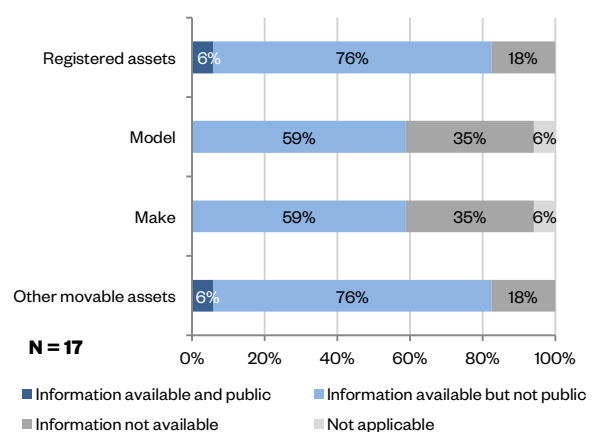
Source: Transcrime elaboration on OCP survey data

**Figure 50 – Availability of information on confiscated companies**



Source: Transcrime elaboration on OCP survey data

**Figure 51 – Availability of information on confiscated registered and movable assets**



Source: Transcrime elaboration on OCP survey data

# 12. Focus on seven European countries

## 12.1. A comparative analysis among the seven OCP countries

Priscilla Standridge and Michele Riccardi (Università Cattolica del Sacro Cuore – Transcrime, Italy)

Previous chapters showed that any examination of confiscated assets in Europe is complicated on the one hand by the **complexity and diversity of the regulatory framework** on the asset recovery process across EU countries (see Chapter 10), and on the other, by the **lack of available statistics** and usable data (see Chapter 11).

Taking these limitations into account, this chapter **provides an analysis of the assets confiscated in the seven OCP countries:** Italy, Spain, France, Ireland, UK, Netherlands and Finland. This task has been possible only thanks to the statistics provided, for the purpose of Project OCP, by the relevant asset recovery and asset management offices of these countries.<sup>367</sup>

In particular, for each of the seven OCP countries, full or partial access to some data was granted. In some cases, access was possible only to **aggregate statistics** (e.g. in Spain with PNSD) while in others to **disaggregated information** per each asset (e.g. in Italy with ANBSC or in Ireland with CAB). Data from different countries differ in terms of the **stage of the asset recovery process** (see Figure 52) and **types of confiscation**; and they may also cover different types of **related offences** (e.g. PNSD data in Spain refer only to drug-related offences; ANBSC data in Italy to organised crime offences). Specifically:

- In **Finland** data from the Police Information System (Patja) have been accessed. Although they may refer to the tracing/investigation stage, it is not possible to say exactly in which phase of the confiscation process the data are collected (see Section 12.2);
- In **France** access has been possible to aggregate data on *seized* assets and to detailed data on a limited set of *confiscated* assets, both provided by AGRASC (see 12.3);

- In **Ireland**, Criminal Asset Bureau (CAB) provided three datasets referring to three different types of confiscation (see 12.4);
- In **Italy**, disaggregated information on assets *definitively confiscated* (ANBSC) and on assets *seized* by a specific LEA, the *Guardia di Finanza* (GDF) have been used, while limited access to few aggregate statistics provided by Min. Justice (SIPPI) and Min. Interior (SAC) has also been possible (see 12.5);
- In the **Netherlands**, statistics on confiscation provided by the Dutch Public Prosecutor's Office (PPO) have been used (12.6);
- In **Spain**, aggregate data on assets confiscated due to drug-related offences, provided by *Plan Nacional Sobre Drogas* (PNSD), have been accessed (12.7);
- In the **United Kingdom**, limited access to some aggregate data from the JARD (Joint Asset Recovery Database) of the National Crime Agency (NCA) has been possible (see 12.8).

Given the differences in terms of regulatory framework and data availability among the seven countries, **performing a comparative assessment would be neither easy nor very meaningful**. Therefore it has been preferred to perform a detailed analysis of the data by adopting a country-specific focus (Sections 12.2– 12.8). However the Section below provides a very basic statistical analysis across the 7 OCP countries of two aspects: the typological breakdown and the trend of seizures/confiscation.

### What types of assets are confiscated in the seven OCP countries?

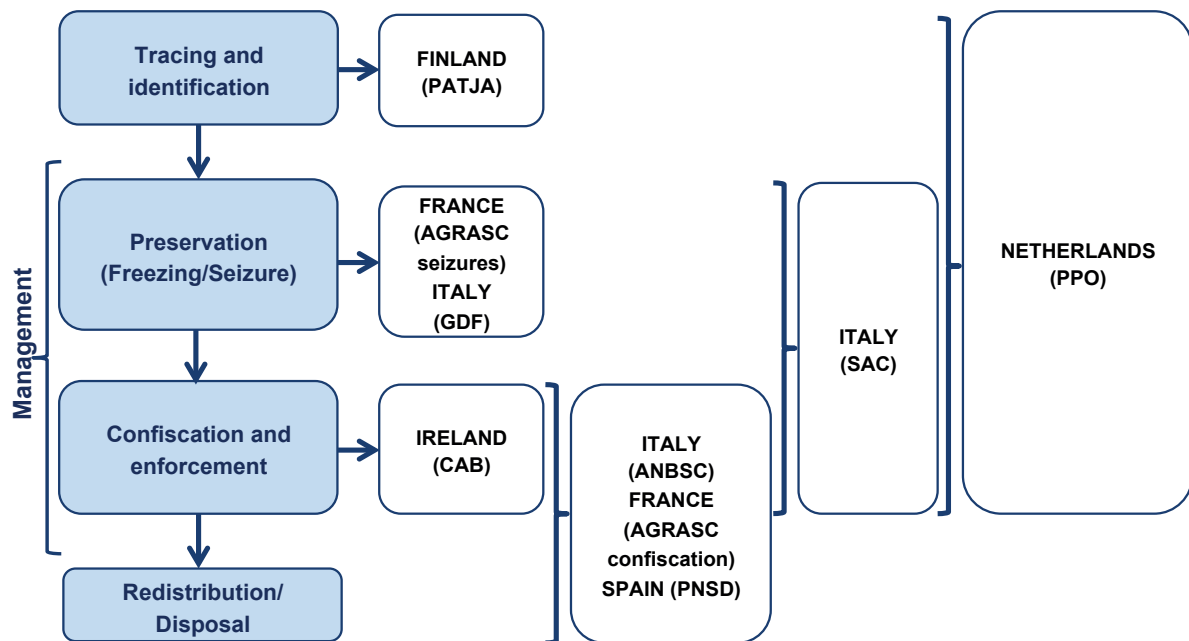
Table 91 shows how **confiscated assets break down across different macro types** in each of the seven OCP countries. Owing to the lack of statistics, it has not been possible to present data on assets at the same stage of the confiscation process, or to consider only the same types of offences. The table therefore specifies the sources, the stage of the process, and the related offences for which assets have been seized/confiscated.<sup>368</sup>

367. In particular, in Italy data from ANBSC which is responsible for asset management but not asset recovery. To be recalled is that Guardia di Finanza, AGRASC and Criminal Asset Bureau are associate partners of the project.

368. Where possible, the focus has been on those assets seized or confiscated for serious and organised crimes; but in some countries only general statistics or ones on certain offences (e.g. drugs) are available. For more details, see country profiles (Sections 10.3-10.9).



Figure 52 – Stages of the asset recovery process originating the data used in Chapter 12



In analysing this table, all the limitations regarding the possibility to compare data across EU MS must be borne in mind. In particular, it should be considered that data at different stages of the asset recovery process can tell **very different stories**, since some assets may be liquidated or sold in due course, and this often happens especially with some types of goods, such as movable goods or companies, which may therefore be underrepresented in later stages of the confiscation process.<sup>369</sup>

Bearing these biases in mind, it is evident that:

- in most countries, most of the goods seized or confiscated for serious and organised crimes are **registered assets (cars, motorcycles, vehicles, etc.)** and **movable assets (mainly cash and bank accounts)**;
- the share of **real estate** is substantial only during the final stage of the process (final confiscation) and only in some countries (e.g. Italy, France);
- Instead, **companies represent a tiny share** of seized and confiscated assets in all the European countries (in analysis), except for Italy.<sup>370</sup>

At present, it seems that the seizure of cash, bank accounts,

cars, motorbikes, boats and, to a lesser extent, real estate is a common practice in most EU states, while **the confiscation of companies is not a widespread practice**. Italy is an

These results are somehow in contradiction with the findings of the analysis of criminal investments conducted in Part 2. There seems to be a inconsistency between what criminals invest in and what is actually confiscated. This is especially clear for legitimate companies.

exception, with a much higher weight of companies and immovable goods. Although the focus here is on the seven OCP countries, there is reason to believe that this situation is shared by the other European countries.

The reasons why the companies are less subject to confiscation are many, and they deserve a wider discussion which will be conducted in the conclusions of this report (Chapter 13). However, they can be summarised in the three following issues:

- First, it can be **difficult to trace and identify legitimate businesses** controlled by criminals. Increasingly complex money laundering and concealment techniques exist (e.g. Chinese boxes, off-shore banking, etc.) which make it harder for investigators to identify the criminal beneficial owners behind corporate entities (Madinger, 2011; van der Does de Willebois et al., 2011; Transcrime, 2013a; Soriani, 2013; Gray et al., 2014; Riccardi, 2014a;).
- Second, as anticipated in Chapter 10, there may be **gaps in the regulation** of European countries which make it difficult to seize legitimate businesses (Allum & Boer, 2013; Calderoni, 2010; Brun et al., 2011; Mendell, 2006; Stephenson, Gray & Power, 2011). For example, extended confiscation, which would allow for wider application of the confiscation of companies, is available only in a few countries (see 10.3 - 10.9);

369. The entire asset recovery process may take several years from start to finish. The custody of assets after seizure can be a very costly process, both in terms of expenses related to maintaining and preserving their value, and in terms of the time and energy of specialized personnel involved in the management of more complex assets, such as real estate and companies. A solution sometimes adopted in these cases (e.g. in France and in Spain) is the advance sale of the assets for which management is not financially viable or for which the passing of time can cause serious deterioration or loss of value (OAS, 2011). This means that an analysis of criminal assets in later stages of the process (e.g. at the time of final confiscation or disposal) may not provide an accurate picture of the nature and volume of recovered assets in a country.

370. This is often due to the fact that, during the asset recovery process, movable assets such as cash, bank accounts and vehicles can be disposed, depending on each country's regulatory framework, before the final confiscation occurs. This means that, at the final confiscation stage, the share of these goods decreases, while that of real estate can increase, relatively speaking.

**Table 91 – Breakdown by type of the assets seized/confiscated for serious and organised crime in the seven OCP countries**

Country	Number	Real estate	Companies	Registered assets	Movable assets	Source	Years	Asset recovery process stage	Type of offence
Finland	302	3.0%	0.0%	34.1%	62.9%	PATJA	2003-2013	Seizure	Serious and OC offences <sup>371</sup>
France	18,373	0.7%	0.0%	3.1%	96.2%	AGRASC, Rapport d'activité 2012	2008-2012	Seizure	Drug related offences
	56	87.5%	0.0%	5.4%	7.1%	AGRASC	2008-2012	Confiscation	Serious and OC offences <sup>372</sup>
Ireland	301	16.8%	1.0%	9.8%	72.4%	CAB	2005-2012	Confiscation	Serious offences <sup>373</sup>
Italy	24,014	51.3%	8.1%	23.2%	17.4%	ANBSC	1983-2012	Confiscation	Serious and OC offences <sup>374</sup>
	16,824	28.5%	15.3%	27.6%	28.5%	GDF	2000-2013	Seizure	Serious and OC offences <sup>375</sup>
	113,753	47.7%	6.7%	20.1%	25.5%	SIPPI	2009-2013	Seizure and confiscation	OC offences
	12,567	44%	5%	18%	33%	SAC	2007-2011	Seizure	All offences
Spain	27,541	1.0%	0.0%	49.1%	49.9%	PNSD, Informe de gestión 2012	1996-2012	Confiscation	Drug related offences
Netherlands	N/A <sup>376</sup>	N/A				PPO	2008-2013	Confiscation	OC offences <sup>377</sup>
United Kingdom	N/A <sup>378</sup>	N/A				JARD	2003-2013	Confiscation	Proceeds of crime <sup>379</sup>

Source: Transcrime elaboration on ANBSC, GDF, SIPPI, SAC, PNSD, AGRASC, PATJA, CAB, PPO, JARD data

371. These include aggravated narcotics offences, money laundering, fraud, payment card fraud, tax fraud, extortion, receiving offences, accounting offences, registration offence, usury and alcohol offences, including aggravated forms of these economic crimes. See Section 0 and the Methodological Annex for details.

372. A selection of cases relevant to OCP was extracted from AGRASC for the study.

373. Crimes foreseen by the POCA under Section 4, 4A and the CJA under sections 4 and 9.

374. Assets confiscated as a result of preventative and criminal confiscation in relation to serious and organised crime offences foreseen by article 51, paragraph 3-bis of the Italian Code of Criminal Procedure, e.g. mafia-related crimes, organised crime, counterfeiting, trafficking in human beings, etc. For a detailed breakdown of the types of offences related to the data for which the analysis has been carried out see 12.5 and Methodological Annex.

375. Assets seized and confiscated in relation to serious and organised crime offences, including organised crime, mafia-related crimes, drug trafficking, trafficking in human beings, etc. For a detailed breakdown of the types of offences related to the data for which the analysis has been carried out see 12.5 and Methodological Annex.

- Third, there are **problems in the disposal/management phase**: confiscated companies are difficult to manage (Transcrime, 2013a; Donato, Saporito, & Scognamiglio, 2013; OAS, 2014b and Section 12.5) and this may lead to the sub-optimal use of confiscation against businesses, or may induce prosecutors to avoid the seizure of companies unless strictly necessary.

376. Only the total value of confiscated assets is available, so it is not comparable to the other available data in this table.

377. OC offences: drugs, human trafficking, weapon trafficking, ITTP, counterfeiting, illegal gambling, fraud (see Table 102 and the Methodological Annex).

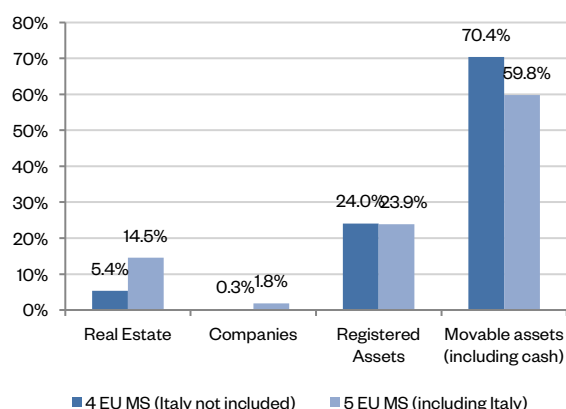
378. Only the total value of confiscated assets is available, so it is not comparable to the other available data in this table

379. Under the Powers of Criminal Courts (Sentencing) Act 2000 or POCA 2002. See Section 12.8.

Each of these three issues needs to be addressed separately: from an **investigative** perspective, e.g. by improving financial investigation techniques, from a **regulatory perspective**, e.g. allowing *extended confiscation* and easing the seizure of companies, as well from a **management perspective**, by improving the management of confiscated companies, for example by supporting judicial administrators with stronger managerial skills (see Chapter 13 for a wider discussion on research and policy implications).

Figure 53 shows the average percentages, for each of the four macro types of assets, calculated on five out of the seven OCP countries (Finland, France, Ireland, Italy, Spain. For the Netherlands and UK only data on value are available and are not taken into account). **Movable assets (including cash)**

**Figure 53 – Average percentages per macro type of assets confiscated in five OCP countries<sup>362</sup>**



Source: Transcrime elaboration on ANBSC, CAB, PATJA, PNSD and AGRASC data

represent approximately **60% of the total number of assets** confiscated. The percentage is even higher after excluding Italy.

### What is the trend of confiscated assets in the seven OCP countries?

However, despite the problems highlighted above, it should be pointed out that the **number of seizures and confiscations** in relation to serious and organised crime assets **has been increasing** throughout Europe, and especially in certain countries.

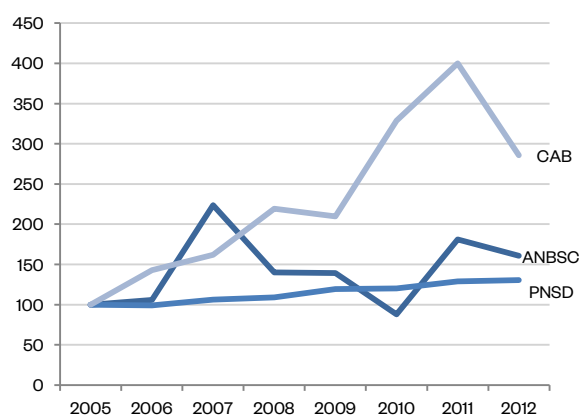
This trend will gain further momentum with **implementation of the Confiscation directive** (Directive 2014/42/EU) and with stronger international cooperation among national AROs, in the framework of EU ARO Platform or the Camden Assets Recovery Interagency Network (CARIN).

Although the trend is similar in most EU MS, Figure 54 focuses on **3 OCP countries** for which data are available with a significant time series: Ireland (CAB), Italy (ANBSC) and Spain (PNSD).

In addition, it should be noted that together with an increase in the number of confiscated assets, many countries also record an **increase in their value**. In **France**, according to AGRASC, the total value of confiscated assets increased five times in two years, from 212.8 million euro in 2011 to 1,148.5 euro in 2013 (see 12.3). Also in the **Netherlands** a significant increase since 2005 can be highlighted (see 12.6).

In the following Sections the specific situation of the 7 OCP countries will be described providing an in-depth analysis of the application of seizure and confiscation in the field of serious and organised crime at national level.

**Figure 54 – Trend in the number of confiscated assets in three OCP countries (2005-2012)**



Source: Transcrime elaboration on ANBSC, CAB and PNSD data

362. Arithmetic average calculated on five databases: ANBSC (Italy – see 12.5), CAB (Ireland – see 12.4), PATJA (Finland - 12.2), PNSD (Spain – see 12.7) and data on seizures from AGRASC (France – see 12.3).

## 12.2. Finland

Sarianna Petrell and Jarmo Houtsonen (Police University College, Finland)

### 12.2.1. Introduction

Data on confiscated assets – forfeiture based on a criminal offence decided by the Court on the request of the prosecutor (see Section 10.3 for details) – that are confiscated from organised crime **are not recorded systematically** by any organisation in Finland.

Moreover, only the Police database **includes a category for classifying cases as organised crime** (see below), while all the other databases, including those of the Finnish Asset Recovery Office, Financial Intelligence Unit, National Administrative Office for Enforcement, National Board of Patents and Registration of Finland and Legal Register Centre, do not. For this reason it is very difficult to identify cases or to collect statistics on confiscated assets in relation to serious and organised crime.<sup>381</sup>

For this reason, although, as widely illustrated in Section 8.1, OCGs in Finland largely invest illicit proceeds in the legitimate economy, it is hard to estimate how much and which of these criminal assets **are actually recovered by the Finnish authorities**.

#### Methodological remarks

In order to obtain quantitative and qualitative information on assets confiscated from OCGs in Finland, the best option is to use the **Police Information System (Patja)**, which is maintained by the National Police Board (under the Ministry of the Interior). The police record in Patja information about crime reports and measures of executive assistance. Information is available e.g. on crimes, suspects' personal details, locations, addresses, crime-related assets, and coercive measures such as prohibition of transfer and confiscation for security. The added value of Patja is that it **includes a classification and definition of organised crime**,<sup>382</sup> so that registered cases regarding OC can be filtered and identified accordingly.

However, there are some weaknesses in the Patja register:

- First, the **OC classification is not used systematically**, e.g. if the connection to OC is found later during the pre-trial investigations, it is not always marked retrospectively.
- Similarly, nor are the changes in the state of the seizure **recorded in the Patja retrospectively** after the trial, so that the final outcome of the seizure or the type of confiscation, e.g. if it is forfeiture based on criminal offence decided by the court, is unknown.
- It is also **impossible to say in which phase of the confiscation process the data are collected**.<sup>383</sup>
- In addition, the results of the searches are not comprehensive, because access is forbidden to those sections and cases in Patja that **contain confidential and restricted information**. It is also practically impossible to assess the proportion of lost information.
- In addition, the **number of cases is not shown** in the database, so that it is impossible to say whether the confiscations pertain to one or more cases.<sup>384</sup>

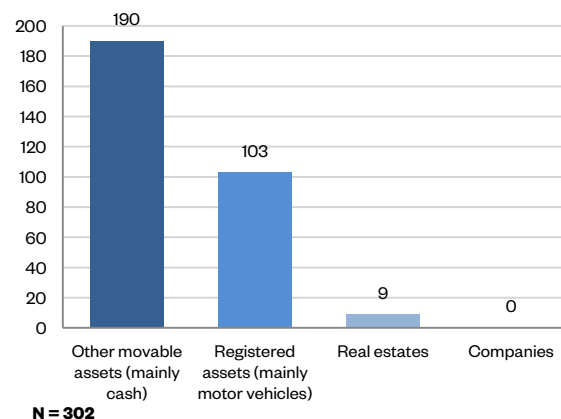
### 12.2.2. Analysis

#### Types and trends

The results come from two different searches conducted in the Patja register, both of them with the timeframe from **January 1, 2005 until June 30, 2013** (see details in the Methodological annex). The confiscated assets were classified into four macro-types, as explained above: real estate, companies, registered assets, and other movable assets.

As depicted in Figure 55, there were altogether **302 assets** confiscated for serious and organised crime between January 2005 and June 2013. Most of the confiscated assets in both the databases are **movable assets**. The other notable **macrotype is registered assets**.

**Figure 55 – Confiscated assets per macrotype in Finland (2005-2013)**



Source: PCF elaboration on data from Police Information System, Patja

381. Options regarding the registers of the above-mentioned organisations would have been either to make searches with titles of crimes typical of OC or to use personal details of OCG members. The crimes typical of OC comprise a large set of mixed titles, and most of these crimes are typically committed by persons other than OC members. Therefore this search strategy would produce a mass of search results of cases with a potential linkage to OC, making the analysis very laborious. Moreover, in order to use the personal details of the members of the OCGs, separate permission would have been needed from the National Police Board and the Office of the Data Protection. The search in the above-mentioned registers would also have cost a notable sum of money since there is a charge for some of the registers.

382. The classification for OC in the Patja includes four criteria which slightly differ from the EU criteria for OC. A case can be classified as pertaining to OC if the actions meet all the following minimum criteria:

1. There is cooperation between more than two persons.
2. There is a suspicion of the commission of serious offences.
3. It has been going on for a long time.
4. It is motivated by substantial profit or power.

383. The state of the confiscation can be "precautionary measure", "seizure", "confiscation" or "returned to owner".

384. Another caveat, as already mentioned in Section 8.1, is the impossibility of obtaining extensive lists of the possessions from the OC, since especially the most experienced OC members launder illegal proceeds by reporting the assets under the names of strawmen. This, as mentioned, makes it difficult for the law enforcement authorities to trace the assets to criminals or the real owners. Therefore, data on confiscated assets gathered from Patja can be seen as a proxy for assets confiscated from criminal groups which indirectly indicates OC assets, but this is not a comprehensive and updated picture of the situation of the OC portfolio in Finland.

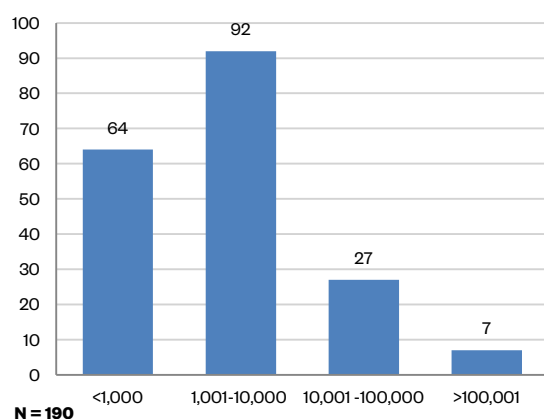
Movable assets represent about 63% of the total (190 items) and consist **mainly of cash** (about 85 % of the confiscated movables). The sums vary from a few euro to hundreds of thousands of euro. Also some bank accounts (11), jewellery (6) and stock certificates (11) of e.g. apartments (with values up to 800,000 euro) have been confiscated.

#### Box 41 - Confiscation of movable assets between Finland and Estonia

Significant sums of euro and Estonian crowns, stock certificates and money in bank accounts were confiscated in an OC case of aggravated tax fraud in which large amounts of alcohol and tobacco were brought from Estonia and resold in Finland (Patja)

An analysis of the values of movable assets (cash, bank accounts, jewellery and stock certificates) is shown in Figure 56.

**Figure 56 - Confiscated movable assets per number and value in Finland (2005-2013)**



Source: PCF elaboration on data from Police Information System, Patja

As anticipated in 8.1, the other notable macro-type was registered assets (103 items, about 34% of the total), of which the majority were motor vehicles, mainly **cars and motorcycles**. As discussed in 8.1, these may be linked to some OCGs' cultures (e.g. **motorcycles for OMCs**) or used in illegal activities. The values of the motor vehicles were usually not available, but, when available, it varied from a few thousand to 50,000 euro. The motor vehicles were confiscated especially in cases of aggravated narcotics offences and tax frauds.

#### Box 42 - Ferrari and BMWs as proceeds of aggravated drug and money-laundering offences

An expensive Ferrari Testarossa was confiscated in a case of aggravated money laundering, in which an attempt was made to conceal the origin of the proceeds of crime and loan arrangements by bringing the valuable car from Spain to Helsinki. In another

case of aggravated money laundering, which included also aggravated narcotics offences, the suspect tried to transfer his possessions, for example a valuable BMW, under the name of his girlfriend in order to avoid confiscation measures. Also several stock certificates, with values up to 800,000 euro, were confiscated because they had been used to cover illegal profits and change them into cash (Patja).

The search of the Police Information System revealed the confiscation of only nine real estate properties, and not a single company. **Real estate properties represented roughly 3%** of all confiscated items. The values of the properties varied from 15,000 euro to 200,000 euro, while in three cases the value was unknown. The offences related to confiscated real estates were two frauds and one drug trafficking, tax fraud, money laundering, extortion, doping offence and alcohol offence.

#### Box 43 - Amphetamines, strawmen, luxury cars and real estate properties

In a large-scale amphetamines case, the money acquired from the illegal drug trafficking was invested in a house and an expensive Mercedes-Benz, which were registered under the names of companies owned by close relatives of the suspect (Patja).

In all cases, the country requesting confiscation of the asset was Finland. Almost all of the confiscations were also made in Finland, except for one carried out in Tallinn, Estonia (cash from a Finnish suspect in a drug trafficking case) and two in Stockholm, Sweden (two cars from a Finnish suspect in a case regarding professional receiving offences).

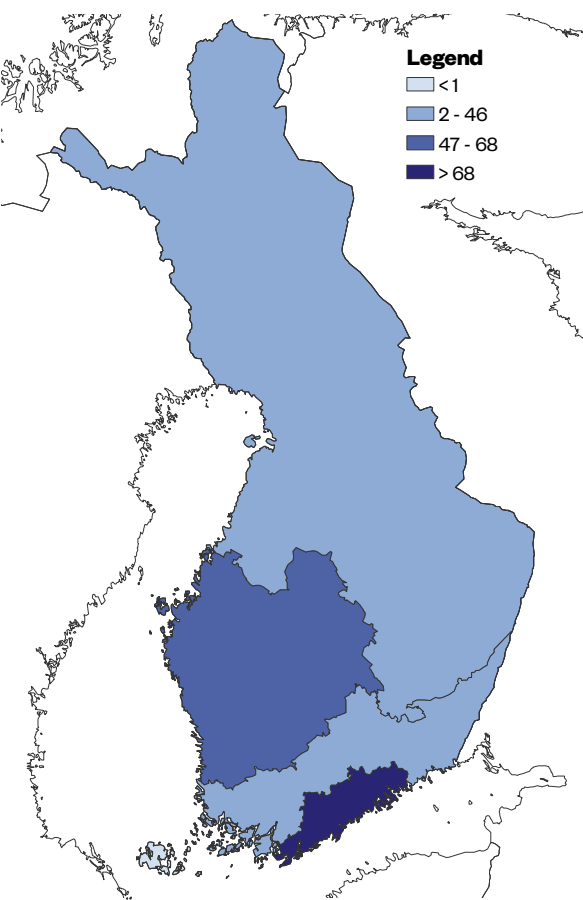
#### Geographical distribution

The locations of the confiscations vary from South to North Finland, concentrating in the richest areas with large populations and criminal opportunities where the influence of the OC is known to be strong (see Section 4.1). Most of the confiscations were recorded in the **province of Uusimaa (147 items)**, which includes the three big cities of the Helsinki metropolitan area: **Helsinki (56), Vantaa (44) and Espoo (20)**. Other cities that often appeared in the databases were Tampere (25), Joensuu (15), Rovaniemi (9), Turku (8), and Oulu (8), which are also rich regions of the Finnish OCGs (see Figure 57 and Figure 58).

The most significant groups are active throughout the country and are **expanding their operations in new areas** logistically significant from the point of view of illegal activity (see Sections 5.1 and 8.1). Confiscated assets concentrate in the areas which are strong regions of the Finnish OCGs, like the Helsinki metropolitan area, the city of Tampere, South-East Finland close to the routes leading to Russia and to the sea, Northern Finland close to the land border between Finland and Sweden, and South-West Finland close to the sea routes to Sweden and other Baltic Sea ports (NBI, 2013).

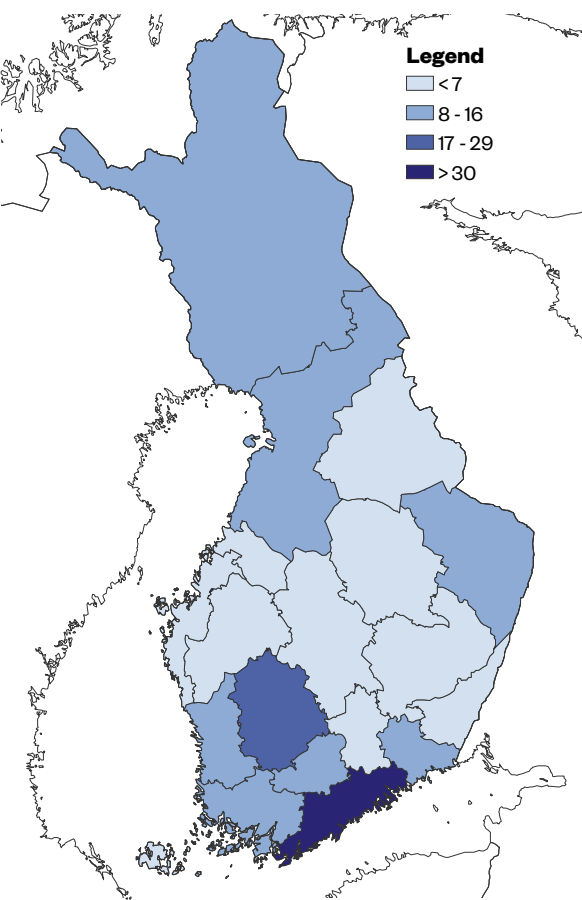


Figure 57 – Geographical distribution of assets confiscated in Finland (NUTS 2)<sup>385</sup>



Source: PCF elaboration on Patja data

Figure 58 – Geographical distribution of assets confiscated in Finland (NUTS 3)<sup>386</sup>



Source: PCF elaboration on Patja data

Related offences

**Illicit drug trafficking** was the most common offence (120 assets, about 40 % of the total). Another common type of offence in connection with the confiscations was **economic crime**. There were tax frauds (40), frauds (23), money laundering (21), extortions (13), counterfeiting of means of payment (9) and accounting offences (7). Almost all of these offences were of **aggravated form**.

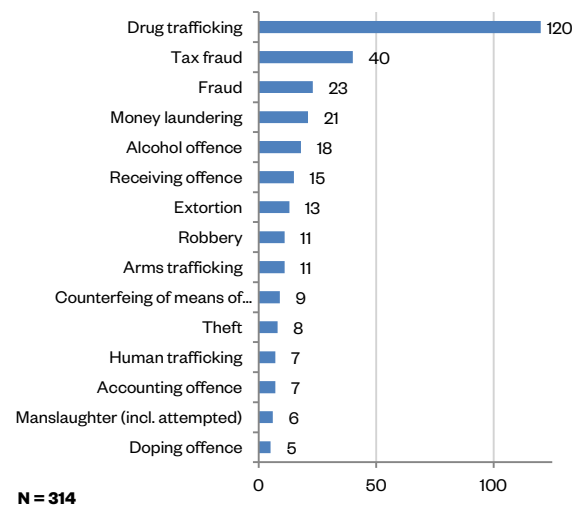
The confiscations were also connected to alcohol offences (18), receiving offences (15), illicit arms trafficking (11), robberies (11), thefts (8), human trafficking (7), manslaughter or attempted manslaughter (6), and doping offences (5). It was not possible to include all different offences in the search.

Organised crime group and nationality of owners

Almost 57%, or 171 out of the 302 items, was confiscated from the four largest OCGs (of which three are **motorcycle gangs** used in the second search in the Police Information System. Of this figure, the relative share of *Bandidos MC* was 44 % (75), Cannonball MC 38 % (65), United Brotherhood 12 % (20) and Hells Angels MC 6 % (11). There were also some references to **Estonian OCGs** in the databases.

However, it is necessary to be cautious in drawing conclusions because the name of the OCG was not mentioned in every

Figure 59 – Confiscated assets per type of offence in Finland

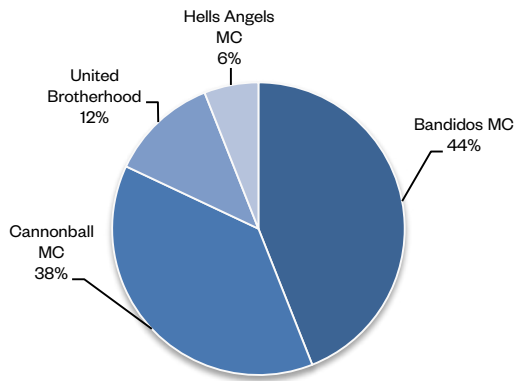


Source: PCF elaboration on Patja data

385. Classes identified using Jenks natural breaks optimization.

386. Classes identified using Jenks natural breaks optimization.

**Figure 60 – Assets confiscated from the main criminal groups in Finland**



**N = 302**

Source: PCF elaboration on Patja data

case. Moreover, because most of the confiscated assets for all the groups were cash or motor vehicles, it was not possible to differentiate criminal groups in terms of their asset portfolios or investment strategies solely on the basis of an analysis of confiscated assets

In almost all cases the **nationality of the owner of the asset was Finnish** (280 items, or about 93 %). Other nationalities

#### **Box 44 - Confiscation from Russian criminal groups involved in sexual exploitation**

In an aggravated pandering case, notable sums of money were confiscated from Russian suspects. In another case, a Russian suspect hid over 50,000 euro inside his jacket when being arrested for aggravated counterfeiting of means of payment (Patja).

which appeared more than once in the databases were **Russian (12), Estonian (4), and Swedish (2)**. This can be seen as a consequence of the fact that the cooperation partners of the Finnish OCGs mainly come from the neighbouring countries of Estonia, Russia and Sweden.

The dates of the seizures and confiscations together with the type/state of the confiscation are not recorded systematically in the Patja, nor marked retrospectively after the trial. Consequently, they are excluded from the analysis. It is impossible to say in which phase of the confiscation process the data were collected.

### **12.2.3. Concluding remarks**

The data on confiscated assets gathered from the Police Information System, Patja, give examples of the types and values of the **assets confiscated from organised crime in Finland**. Also the data on actors, offences and locations of the confiscations must be taken as proxies without aspiring to provide a comprehensive and actual picture of the phenomenon.

However, the information analysed reaffirms the overall picture of the state of OC in Finland, in particular in terms of **typical criminal activities** (with illicit drug trafficking and economic crimes offences most frequently related to confiscation) and **geographical distribution** (with confiscation concentrating in areas where the influence of criminal groups is known to be strong).

In terms of types of assets, there are only few confiscated real estate properties and no companies at all. Patja yields a picture of an organised crime portfolio consisting mostly of **cash and motor vehicles**. But the police intelligence reports give more diverse information: as well described in Section 8.1, based on intelligence, court cases and media reports there is **evidence that criminal groups do invest in real estate properties and can exploit company structures** (e.g. in construction and the restaurant business).

Especially in recent years, money laundering has become more systematic and professional, employing business structures, companies and professionals both at home and abroad. Especially in the field of financial crime, the exploitation of legitimate businesses is an integral part of the illegal activity of upper-level OC in Finland. As illustrated in Section 8.1 infiltration of business activities is an important means not only to establish relations with the licit sphere, gain influence, and obtain critical information, but also to make and launder illegal money and carry out other criminal activities.

Therefore, it is quite likely that companies and real estate properties cannot be found in the Police Information System because the holdings of the upper-level OCG members, who probably invest in companies and immovable properties, are often reported under legal fronts and reliable facades which may **make it harder for the police to trace and confiscate the assets**. But it is also conceivable that the law enforcement agents have limited capabilities to confiscate companies and real estates, whereas **cash and motor vehicles are easier targets**.

Finally, it is worth noting that, as said in Section 8.1, most of the activities of Finnish OCG members may be quite small scale. The lower-level members of crime groups live hand-to-mouth and commit crimes **only in order to satisfy their daily needs**. The small sums of money that they earn from criminal activities go to everyday costs, and **there may be nothing left to buy properties or invest**. This can be seen in the data gathered from the Patja register: altogether, there were not that many confiscated assets, and the ones found were mainly quite small sums of money or motor vehicles. But is this the real picture of the phenomenon?

## 12.3. France

Diana Camerini and Michele Riccardi (Università Cattolica del Sacro Cuore – Transcrime)

### 12.3.1. Introduction

As highlighted in Section 10.4, the recent improvements in the regulation on asset recovery in France and the creation of the AGRASC agency have led to **expansion and enrichment in the quantity and the quality of data** on confiscated assets. At the national level, statistics are collected by two main institutions (Ministère de la Justice, 2013):<sup>387</sup>

- **PIAC (Plateforme d'Identification des Avoirs Criminels)**, which is a specialised law enforcement unit, established in 2005, dedicated to financial and patrimonial investigation and to identifying and centralizing all information on criminal assets (including properties, movable assets and financial flows and assets identified as illegal and detected both in France and abroad).
- **AGRASC (Agence de Gestion et de Recouvrement des Avoirs Saisis et Confisqués)**, which is in charge of the management of seized and confiscated assets, including cash, bank accounts and the money received from assets sold before judgement (see Section 10.4).

Thanks to the collaboration of AGRASC, two types of statistics were accessed for the purpose of the analysis presented in this Section:

1. The **aggregate data on seized and confiscated assets** provided in the AGRASC's annual reports for 2011, 2012 and 2013 (respectively AGRASC, 2012; AGRASC, 2013; AGRASC, 2014).
2. A limited dataset, provided by AGRASC for the purpose of the OCP Project in June 2013, including information on **56 assets definitively confiscated** between 2008 and 2012 in relation to serious and organised crime.<sup>388</sup>

The following Sections present an analysis of confiscated assets in France focusing mainly on the first database. A short analysis of the second set of statistics is also provided.

387. Other agencies that collect and exchange information that might be linked to/related to criminal assets are: 1) the FICOBA, a centralised bank system which registers and exchanges (upon judicial request) information on any kind of bank account; 2) The Real Estate Property registry, which contains information on real estate properties, developed land and non-developed land; 3) The National Asset Database (BNDP), that keeps track of any transfer of ownership, regardless of the exchange of payment; 4) The Register of Commerce and Companies (Registre du Commerce et des Sociétés - RCS) identifies ownership and shareholders as well as providing financial information on any business and commercial activity. (Ministère de la Justice, 2013) Note that in France other company registers exist.

388. Provided for each record are details on the type of assets (house, boats, cars), sub-type of assets, location of the asset at Local Administrative Unit (LAU 2) level, crime associated with the confiscated asset, as well as information on the nationality of the perpetrators. Some information on the value of the assets is also available for a few records.

### 12.3.2. Analysis

#### Types and trends

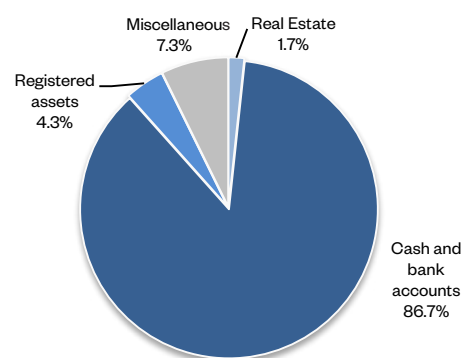
- As a result of the developments in the legislation and the introduction and consolidation of new tools in the asset recovery and management process in France (see Section 10.4), the number and the value of seized and confiscated assets managed by AGRASC have **grown steadily since its establishment** (Table 91).

In 2013, the seized and confiscated assets managed by AGRASC reached almost 57,000 units, increasing by **more than 6 times since 2011**, the first year of activity (AGRASC, 2014). In turn, the value of managed assets increased from 212 million euro in 2011 to 1.1 billion euro (+440%) in 2013.

Inspection of the breakdown by type of assets shows, as in most EU member states, that the **vast majority of seized and confiscated assets in France consist of cash and bank accounts**, which represent more than 85% of the total (see Figure 61 and Figure 62). Real estate represents a minor share (1.6% on average), but in any case higher than that of companies (only two companies were confiscated between 2011 and 2013). However, in terms of value, **real estate represents more than 50% of the total value** of seized and confiscated assets, and increased by 45% between 2012 and 2013 (see values in Table 91).

On average, **real estate** has the **highest value per asset** (more than 600 thousand euro), followed by **companies** (Table 93). Also the value of other movable assets is high, due mainly to the contribution of receivables/credits (about 90 thousand euro on average).

**Figure 61 - Breakdown by macro-type of seized and confiscated assets in France (stock 2013)**



N= 56,947

Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

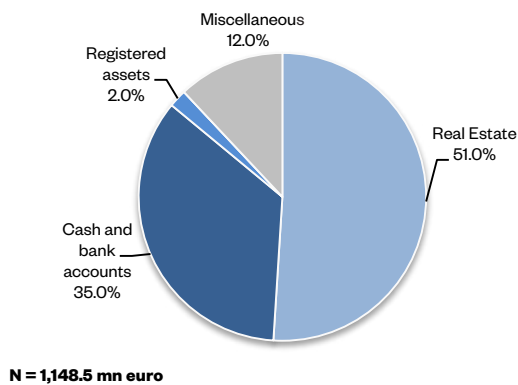
**Table 92 - Stock of seized and confiscated assets per year and macrotype – Number and value**

Macrotype	2011		2012		2013	
	Number	Value (mn euro)	Number	Value (mn euro)	Number	Value (mn euro)
Real Estate	225	97.2	621	402.4	967	586.7
Cash and bank accounts	11,698	102.8	32,961	401.7	49,362	404.1
Registered assets	717	7.5	1,922	1.6	2,438	20.4
Companies	1	0.3	1	0.3	2	0.5
Other movable assets	532	5.0	1,844	171.8	2,739	135.9
Miscellaneous	181	0.1	945	2.1	1,439	0.9
<b>TOTAL</b>	<b>13,354</b>	<b>212.8</b>	<b>38,294</b>	<b>979.8</b>	<b>56,947</b>	<b>1148.5</b>

<sup>a</sup>Totals may not sum up due to rounding

Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

**Figure 62 - Breakdown of macro-type of seized and confiscated assets by value in France (stock 2013)**



Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

### Geographical distribution

In terms of geographical distribution, the areas recording the highest number of seized and confiscated assets are those that concentrate also the **most evidence of organised crime infiltration** (see Section 8.1). In particular, they concentrate in the **Île-de-France** region (Paris area). According to the statistics on cash and real estate seizures published by AGRASC (2013), **Île-de-France** records the highest percentage of cases of seized real estate (27.6%), whereas the value of cash seized in this region accounts for 47% of all cash seizures registered in France. The second most represented regions are **Provence-Alpes-Côte d'Azur** for seized cash (in terms of value) and Nord-Pas-de-Calais, followed by Rhône-Alpes for real estate (in terms of number of seizures registered). This is consistent with findings on investments by OCGs (see Section 8.2).

**Table 93 - Average unitary values of seized assets (stock 2013)**

Asset macro-category	Average values (euro)
Real Estate	607,000
Cash and bank accounts	8,000
Registered assets	8,000
Companies	250,000
Other movable assets	50,000
Miscellaneous	1,000
<b>TOTAL</b>	<b>20,000</b>

Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

**Large urban areas account for an important part of assets recovered in France:** in regions where the population density is higher than 100 people per square km, seized cash amounts on average to 2.73 million euro in less populated regions; the average amount of cash seized is equal to 0.49 million euro. The same goes for real estate seizures (with 8.86 real estate seizures in densely populated regions, versus 2.91 in departments with lower population density).

### Related offences

**Drug trafficking** is the most frequent related offence recorded in the AGRASC database (AGRASC, 2013). Assets seized for drug crimes remarkably increased in 2013 (+ 54.2% with respect to the previous years), constituting 67.5% of total seized assets. The AGRASC data reveal that **thefts are in second place**, but their number is significantly lower than drug

**Table 94 - Total and average seized cash (in value) and total and average regional real estate (in number) seizures (2011-2012)**

Region	Cash		Real estate	
	Total cash seizures (in million euro)	% of total cash seizures	Total number of real estate seizures	% of total real estate seizures
Alsace	2.6	1.9%	7	1.4%
Aquitaine	4.8	3.6%	27	5.4%
Auvergne	1.2	0.9%	4	0.8%
Basse-Normandie	1.3	1.0%	5	1.0%
Bourgogne	1.0	0.8%	10	2.0%
Bretagne	1.8	1.3%	23	4.6%
Centre	3.5	2.6%	6	1.2%
Champagne-Ardenne	1.3	0.9%	12	2.4%
Corse	0.5	0.4%	3	0.6%
Franche-Comté	1.2	0.9%	6	1.2%
Haute-Normandie	1.7	1.3%	13	2.6%
Île-de-France	63.5	47.0%	138	27.6%
Languedoc-Roussillon	5.0	3.7%	7	1.4%
Limousin	0.8	0.6%	17	3.4%
Lorraine	4.0	3.0%	24	4.8%
Midi-Pyrénées	2.7	2.0%	34	6.8%
Nord - Pas-de-Calais	9.4	6.9%	55	11.0%
Pays de la Loire	1.1	0.8%	6	1.2%
Picardie	1.3	1.0%	5	1.0%
Poitou-Charentes	0.8	0.6%	12	2.4%
Provence-Alpes-Côte d'Azur	15.7	11.6%	32	6.4%
Rhône-Alpes	10.0	7.4%	54	10.8%
<b>TOTAL</b>	<b>135.2</b>	<b>100%</b>	<b>500</b>	<b>100%</b>

Source: AGRASC, 2013

cases. The classification of crime-types adopted in the table below is the one provided by AGRASC in its annual reports

On reclassifying the offences into OCP criminal activities and illicit markets covered in Part 1,<sup>391</sup> it emerges that the latter represent more than **three quarters of cases linked to seized and confiscated assets** in the AGRASC database (Figure 65).

On distinguishing between **drug-related and other offences**, it emerges that **cash and real estate** constitute the assets with the highest value seized (44% and 37% respectively), while for other offences they are real estate (41%) followed by bank accounts (29%). It is interesting to note that these patterns have been identified also in other countries (see for example Section 12.4 on Ireland).

<sup>391</sup> Drugs, corruption, counterfeit money, money laundering, betting and gaming, procuring, extortion, environment, misappropriation of public funds, obtaining property by deception. For a detailed description of the crimes covered by this report see Chapter 2

### **Focus on individual confiscated assets**

Besides the publicly available AGRASC reports, it was possible to access also an additional portion of the AGRASC dataset containing a **limited set of data on 56 assets confiscated definitively between 2008 and 2012** and under the management of AGRASC. The assets were selected because they related to serious and organised crime.

For each asset of the database, the following information is available

- Year of confiscation
- Macro-type of confiscated asset (e.g. real estate, registered asset, company, etc.)
- Type of confiscated asset (e.g. flat, villa, car, etc.)
- Country of the authority requesting confiscation of the asset



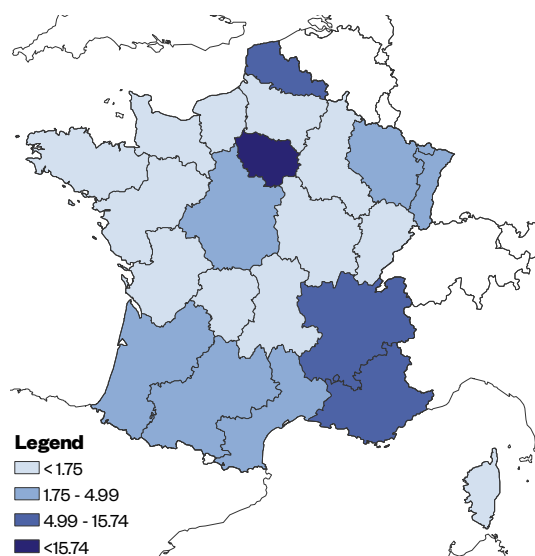
**Table 95 - Type of offences connected with seized and confiscated assets**

Type of offence <sup>a</sup>	2011-2012		2013	
	Number of assets	% of Total	Number of assets	% of Total
Drugs	24,264	55.3%	37,411	67.5%
Theft	5,902	13.5%	8,719	15.7%
Obtaining property by deception	2,623	6.0%	3,807	6.9%
Money laundering	641	1.5%	970	1.7%
Illegal labour	621	1.4%	908	1.6%
Procuring	534	1.2%	722	1.3%
Betting and gaming	252	0.6%	430	0.8%
Forgery	193	0.4%	286	0.5%
Illegal immigrants	192	0.4%	281	0.5%
Tax evasion	102	0.2%	160	0.3%
Non-justification of wealth	96	0.2%	135	0.2%
Taking unfair advantage of weaknesses	78	0.2%	113	0.2%
Corruption	50	0.1%	71	0.1%
Terrorism	41	0.1%	54	0.1%
Counterfeit money	27	0.1%	45	0.1%
Extortion	23	0.1%	36	0.1%
Misappropriation of public funds	13	0.0%	18	0.0%
Environment	2	0.0%	3	0.0%
Other	8,189	18.7%	1,293	2.3%
<b>TOTAL</b>	<b>43,843</b>	<b>100%</b>	<b>55,462</b>	<b>100%</b>

<sup>a</sup> Classification provided by AGRASC in annual report 2013

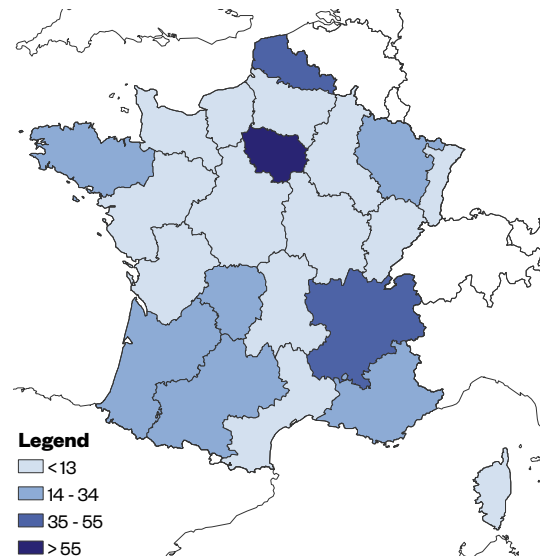
Source: AGRASC, 2013, 2014

**Figure 63 - Value of seized cash (mn euro) in France (NUTS 2)<sup>389</sup>**



Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

**Figure 64 - Number of real estate seizures in France (NUTS 2)<sup>390</sup>**

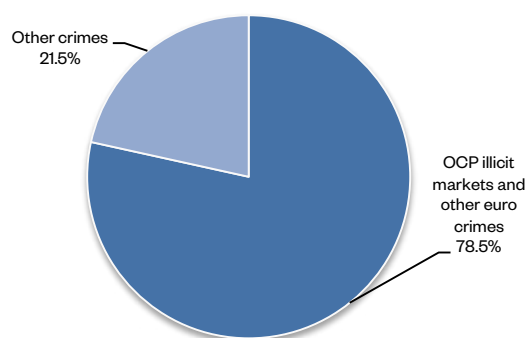


Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

389 Classes identified using Jenks natural breaks optimization.

390. Classes identified using Jenks natural breaks optimization.

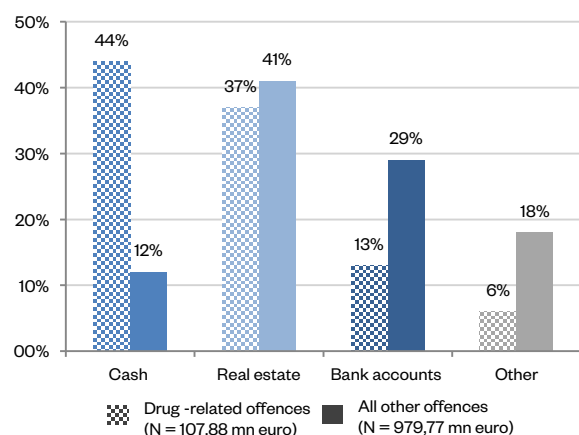
**Figure 65 - Macro-type of crime associated with asset seized and confiscated in France (stock 2013)**



**N = 55,462**

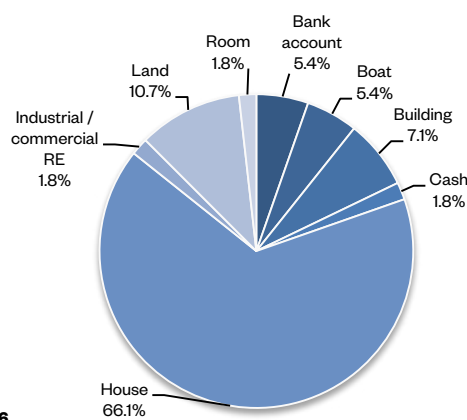
Source: Transcrime elaboration on AGRASC Data (AGRASC 2014)

**Figure 66 - Breakdown of assets seized for drug-related offences versus other offences, in values (2011-2012)**



Source: Transcrime elaboration on AGRASC Data (AGRASC 2013)

**Figure 67 - Breakdown of confiscated assets by type of asset in France**



**N = 56**

Source: Transcrime elaboration on AGRASC Data 2012

- Country of location of the asset, with details up to LAU2 level (municipality)
- Nationality of the owner/shareholder
- Confiscation-related offence
- Type of confiscation: conviction-based versus extended conviction
- Value of the asset (many data are missing)
- Other information

Despite the limited number of assets, given the **many details available**, this dataset aids understanding of some characteristics of confiscated assets in France that cannot be identified with the analysis of AGRASC aggregate statistics provided in annual reports.

Out of 56 confiscated assets, 49 are real estate properties (88%), 3 are registered assets (5%) and 4 are movable non-registered assets. No companies are included in the dataset. As regards real estate, 37 assets are **confiscated houses**, 4 are buildings, 6 are registered as 'land'. The three registered assets **are all boats**, whereas among the non-registered assets the dataset reports only on confiscation of cash and bank accounts (Figure 67).

In terms of geographic location, 48 assets are located in France (as at the moment of confiscation), whereas the others are located in **Spain, Romania** (2 assets each), and the remaining ones in **Italy, Belgium, Germany and Switzerland**.

Among the assets located in France, the great majority of them are located in **Île-de-France** (37.5%), **Rhône-Alpes** (16.7%) and in **Provence-Alpes-Côte d'Azur** (10.4%). It is interesting to note that almost all assets confiscated in the Île-de-France region are located outside the Department of Paris, whereas those in the Provence-Alpes-Côte d'Azur are all in the extreme south-east Department of Alpes-Maritimes.

As far as the actors are concerned, most criminals from whom assets have been confiscated are French nationals (70%), followed by **Algerian** nationals (16%), and by **Italians and Romanians**. Assets linked to Italian shareholders or owners are real estate located in the Alpes-Maritimes Department, whereas those linked to Algerians are located in the regions of Rhône-Alpes and Île-de-France. Although the number of observations in the dataset is not significant, these figures reflect the geographical distribution of OCG investments as described in Section 8.2 on investments in France.

### 12.3.3. Concluding remarks

On the basis of the analysis, some issues can be highlighted:

- As in many other European countries (see Chapter 11 and 12.1), most of confiscated assets in France refer to **cash and bank accounts**. Real estate represents a minor share (in terms of number), while confiscation of companies is almost non-existent.
- In **terms of value**, also **real estate** constitutes a significant portion of the portfolio confiscated from criminal organisations, thus confirming that properties (especially high-valued villas or houses) can be a preferred target for the investment of illegal proceeds (see Section 8.2).
- In terms of the geographical distribution of assets, confiscation activity by French agencies seems to address

primarily those regions that, according to the evidence collected and discussed in Section 8.2, are particularly affected by OCG infiltration. In particular, most seized and confiscated assets concentrate in the region of **Paris (Île-de-France)** and in regions at the **borders of the country**, in particular in Southern France (**Rhône-Alpes and Provence-Alpes-Côte D'Azur**) and on the border with Belgium (**Nord-Pas-de-Calais**).

- This, as anticipated in Section 8.2, may be due to the **presence in these regions of criminal groups active in both illegal markets and laundering activities**. In particular, evidence of investments by local OCGs, Italian OCGs (especially 'Ndrangheta) and Russian OCGs in the real estate sector of Southern France (in particular Côte d'Azur) has been found.
- Similarities can be also highlighted in terms of the **actors involved**: besides French nationals, assets have been confiscated from North African (in particular Algerians), Italian and Romanian criminals. The first mainly invest in the Rhône-Alpes while Italians' assets were detected in the Department of Alpes-Maritimes (which includes a portion of the Côte D'Azur).

In conclusion, criminal asset recovery in France has significantly improved in recent years due to the **introduction of new legislative tools** (see 10.4) and the **full implementation of good practices** in the identification and seizure of criminal assets, and in the management of confiscated ones. The strengthened activity has led to a growth not only in the number and value of goods but also in **international cooperation**, with an increasing number of assets confiscated abroad (mostly in neighbouring countries).

However, **future challenges** remain: despite the interest of criminal organisations in investments in companies in France, including both small kebab kiosks and larger businesses (see 8.2), the **number of confiscated companies is still very limited**. This gap needs to be addressed in order more effectively to undermine the portfolios of criminal groups and stop their infiltration of the legitimate economy.

To this end, it seems particularly important to **improve the management of confiscated companies** in the country: good management is a necessary pre-condition for effective confiscation. In this regard, **recent initiatives promoted at national level** (such as the conference "Thorough management of seized and confiscated assets: How are the AGRASC's institutional partners involved?" organised on the 20th June 2014 by AGRASC in cooperation with the *Conseil Supérieur du Notariat*) can ensure a wider dissemination of best practices and more effective cooperation with foreign agencies with particular regard to the management of confiscated businesses.

## 12.4. Ireland

Cristina Soriani (Università Cattolica del Sacro Cuore – Transcrime)

### 12.4.1. Introduction

As already underlined in previous chapters, Ireland has been adopting effective measures to contrast money laundering activities and OCGs infiltration in the legal economy and to remove proceeds of crimes from criminal organisations (see Section 8.3 and 10.5). The creation of an *ad hoc* institution for the recovery, management and disposal of criminal assets, the **Criminal Assets Bureau (CAB)** (see Section 10.5), has not only given further impetus to this process but also made it possible to keep aggregate statistics on seized and confiscated goods.

For the purpose of this study, thanks to the collaboration of the CAB, data from **three different data sources** have been accessed. Each data source comprises a different set of information and different levels of detail:

- The first data set contains 301 assets confiscated by the CAB since 2005 to 2012 in application of the Proceeds of Crime Act (POCA) 1996/2005 (hereinafter *POCA database*). In particular, the assets are confiscated under **Sections 4 and 4A of POCA** (mostly related to serious crimes, see Section 10.5 for details) and are managed by the CAB. For each asset, information on the macro type of the asset, date of confiscation, location, related main offence and nationality of owner is reported.
- The second data set refers to 385 confiscation orders issued by the Office of the **Director of Public Prosecutions (DPP)** under the provisions of the Criminal Justice Act (CJA) 1994, as amended (see Section 10.5) and in particular pursuant to **Sections 4, 9 and 39**.<sup>392</sup>
- The third data set contains 87 records gathered from the **Revenue Customs** and related to the seizure and confiscation of cash pursuant to **Part 39 CJA 1994**, as amended.

Whilst the first database can be extensively analysed, the second and third databases include limited information about the sum or the monetary amount confiscated. They can therefore be subjected only to a narrow statistical analysis.

It is important to underline **some limitations** regarding these data. First, as mentioned in previous Sections, seized and confiscated assets represent only a sample of the universe of criminal assets. Second, the databases do not include data about foreign requests for confiscation. Third, although assets covered by the three datasets are mostly related to serious crimes, it is not always possible to identify, according to public sources, whether they were related to OCGs.

### 12.4.2. Analysis

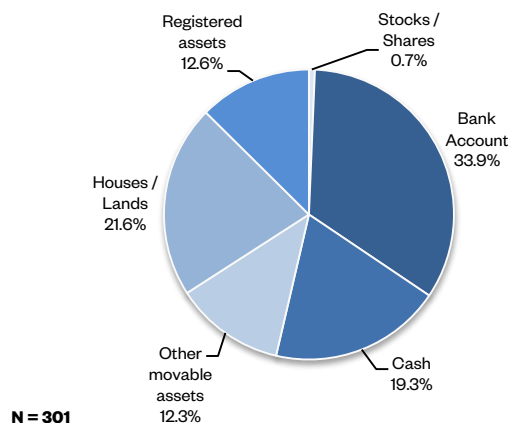
The POCA database includes 301 assets confiscated under section 4 and 4A of the Proceeds of Crime Act 1996/2005 from 2005 to 2012. The analysis will **focus on the POCA database** for several reasons:

- First, it includes different types of assets (e.g. real estate, registered assets, movable goods), while the DPP's and Revenue Customs' databases contain only confiscated sums or cash.
- Second, for each asset it provides a range of information including location, nationality of the owner/shareholder, type of criminal affiliation, business form (where available) and related business sector (where available).
- Third, it allows consistent comparisons and correlations with the aggregate figures reported by CAB annual reports (e.g. CAB, 2010, 2011, 2012).

#### Types and trends

According to the available data, 64% of confiscated assets are movable goods, and in particular bank accounts and cash (see Figure 68). 13% refers to registered assets (e.g. vehicles), while 22% to houses and lands. Stocks and shares represent only less than 1% of the total number of assets.

**Figure 68 – Confiscated assets in Ireland by types (POCA, 2005-2012)**



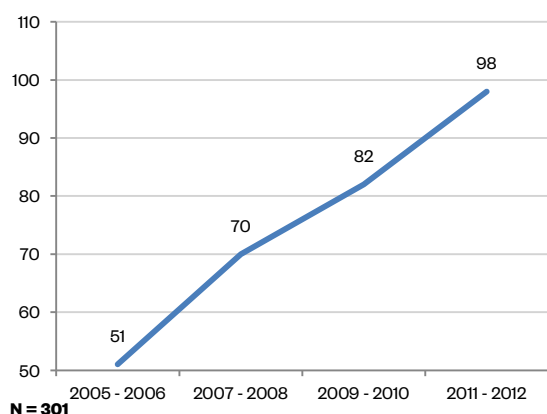
Source: Transcrime elaboration on CAB data

The number of confiscated assets constantly **increases** from 51 assets confiscated in the two-year period 2005-2006 to 98 in 2011-2012 (Figure 69). However, relatively speaking, the confiscation of registered assets (i.e. vehicles) and of properties (i.e. houses/land) increases more than cash and movable assets (Figure 70).

As in many other EU MS covered by this report, movable goods represent, in terms of number of records, the majority of confiscated assets. In this regard, Ireland is in line with the EU average (see Chapter 11). Most movable assets refer to **bank accounts (33%) and cash (19%)** (Figure 68). Other movable assets include other types of accounts (e.g. online betting accounts), jewels and valuable goods, credit and other assets

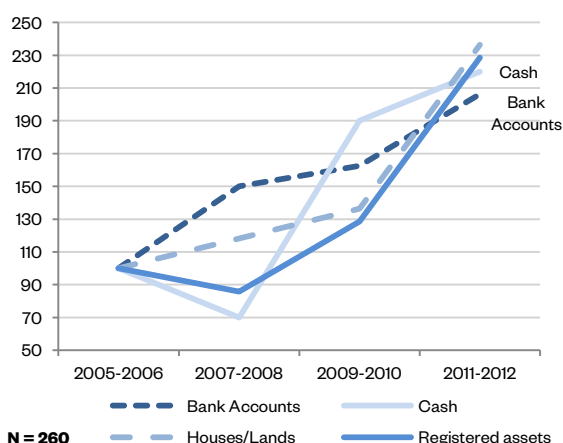
<sup>392</sup>. In particular, a confiscation order for cash pursuant to section 39 CJA can be applied both by the Garda Síochána and the Revenue Customs. In this group, the data on confiscation of cash are those collected from the Garda Síochána.

**Figure 69 – Trend of confiscated assets in Ireland (POCA, 2005-2012)**



Source: Transcrime elaboration on CAB data

**Figure 70 – Trend of confiscated assets by type 2005-2012 in Ireland (Index 2005=100)**



Source: Transcrime elaboration on CAB data

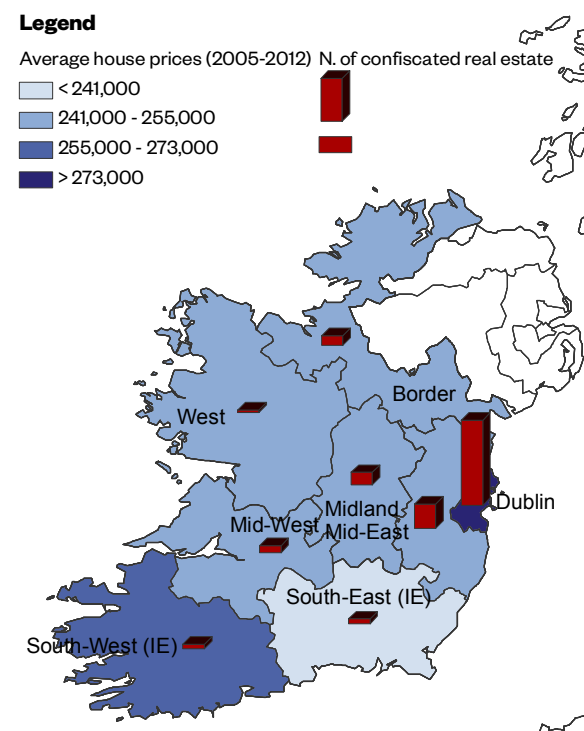
not specified, while evidence of confiscation of **bitcoins and virtual currencies** is also emerging (CAB, 2014).

About 22% of assets confiscated under section 4 and 4A of POCA is **real estate**, including both land and houses (see Figure 68), which is a **quite significant share if compared to that of other countries** analysed in this report. As mentioned, the number of properties confiscated has also **increased in recent years** with respect to other types of assets (Figure 70). In fact, real estate may be considered not only a solid and safe investment for OCGs (see the analysis below in comparison with market prices) but also as functional for some illegal activities, because properties can be used as deposits or as laboratories for synthesising drugs or cultivating cannabis, warehouses for storing illicit or smuggled goods, or as houses for concealing OCG members or victims of sexual exploitation (see Section 5.3 and 8.3).

### Geographical distribution

Most of confiscated real estate properties concentrate in the **Dublin area** and, in general, in Eastern counties (Figure 71). The location of 'criminal' real estate may be explained by where the illicit activity was carried out (e.g. if the building was used as a warehouse, laboratory or brothel), or where the criminals lived, or linked to real estate market prices (if the property

**Figure 71 – Number of confiscated real estate properties (2005-2012) and average house prices in Ireland (2005-2012, euro)<sup>393</sup>**



Source: Transcrime elaboration on CAB and Central Statistics Office data

was intended as form of investment). Figure 71 compares the distribution of confiscated properties with values of the **real estate market** in Ireland (average house prices 2005-2012). A strong correlation can be found in County Dublin, while it is weaker in other Irish regions. However, the available data do not allow more detailed analysis as carried out instead on other countries such as Italy (see Sections 8.4 and 12.5).

To be noted is that the POCA database also includes one confiscated property in **Alicante (Spain)** in 2009. As already mentioned, Spain is used by Irish OCGs as a logistical base for illicit trades, mainly drug trafficking, and also as a place for laundering money (see Section 5.3 and 8.3).

Although the database includes only **4 cases of confiscation of shares**,<sup>394</sup> so that no comprehensive elaboration is possible, in two cases the share refers to an **oil supply company**, and the related main offence is precisely **fuel smuggling**,<sup>395</sup> therefore confirming the 'instrumental' use that may be made of legal companies in the commission of illicit activities in Ireland as elsewhere (see Section 8.3 for details).

Similar results come from an analysis of the business sectors of the companies whose bank accounts were confiscated (Figure 72). Information on the business sector is available<sup>396</sup> for 33 out of the 102 confiscated bank accounts in the

393. Classification obtained using Jenks natural breaks optimization.

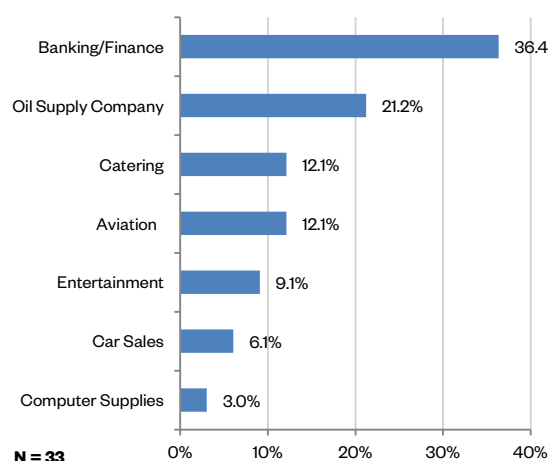
394. Two confiscation decrees, both in 2007.

395. In the other case, the business sector of the company is not available and the related offence is drug trafficking.

396. Moreover, 7 out of 8 investment bonds confiscated refer to oil supply companies.



**Figure 72 – Business sectors of companies related to confiscated bank accounts in Ireland: percentages of total<sup>397</sup>**



Source: Transcrime elaboration on CAB data on confiscation orders under POCA

database. **Oil supply companies** represent 21.2% of the database (excluding N/A, not available).<sup>374</sup> Another activity that can be instrumental for illicit activities is **car sales** (6.1%), possibly related to car theft and illicit trafficking of spare parts (see Section 5.3). On the other hand, banking and financial companies (36.4%) may perform different functions, while the significant weight of **entertainment** and **catering** companies (more than 21% altogether) which are also cash-intensive businesses, suggests the importance of these sectors in receiving OCG investments for money laundering purposes, as hypothesised in Section 8.3.

### Criminal groups and nationality of owners

As regards the nationalities of the individuals against whom confiscation orders have been issued (Table 96), **Irish nationals** are the most frequently targeted, followed by **Chinese, British** and **Dutch** nationals. Apart from Russians, these nationals appear to be those most linked to the Irish criminal environment (see Section 5.3). In particular, there is evidence of Chinese involvement in both illegal markets (especially ITTP and human trafficking) and infiltration in the legal economy in Ireland. Instead, strong ties of Irish OCGs

**Table 96 – Nationality of persons subject to a POCA confiscation order (2005-2012)**

Nationality of the owner	Number of confiscated assets	% of Total (N = 301)
Irish	266	88.4%
Chinese	16	5.3%
British	15	5.0%
Dutch	1	0.3%
N/A	3	1.0%

Source: Transcrime elaboration on CAB data on confiscation orders under POCA

397. The total does not include companies for which information on the business sector was not indicated

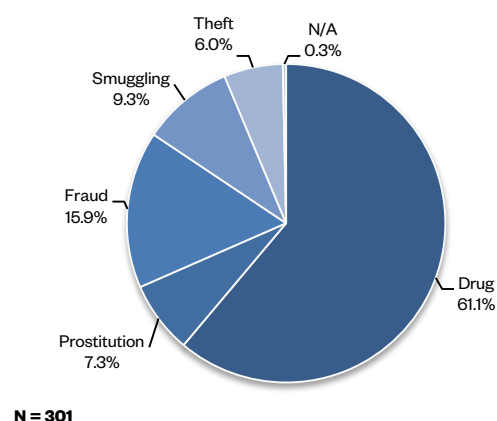
with both the UK and the Netherlands (see Section 5.3 and in particular An Garda Síochána & PSNI, 2012a, An Garda Síochána, 2013; Europol, 2013c; PSNI, 2013; Nilsson, 2013) are also registered.

### Related offences

All the three databases provide information on the **main predicate offence** to which the confiscation is related. In particular, both the POCA and the Revenue Customs' datasets include detailed information on the main offence, while the DPP distinguishes only between drug-related and non-drug-related confiscations.

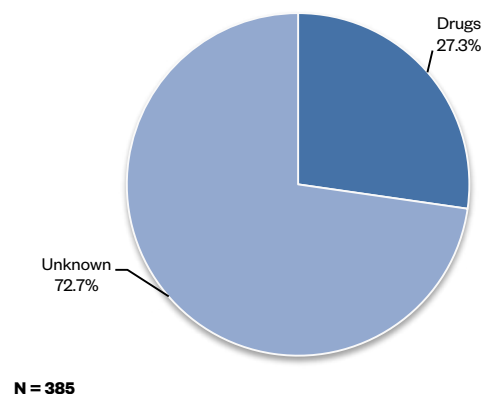
The distribution of assets per main offence is reported below (Figure 73, Figure 74 and Figure 75). In all the three cases, most of the confiscated assets relate to **drug trafficking** (as the main predicate offence) in terms of both numbers (POCA database) and values (Revenue Customs' database). Drug offences also represent a significant share (43% of the total value) of the DPP dataset, although it is not possible to

**Figure 73 – Number of confiscated assets by main offence in Ireland (POCA, 2005-2012)**



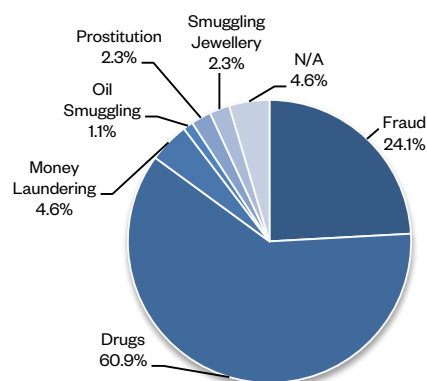
Source: Transcrime elaboration on CAB data

**Figure 74 – Number of confiscation orders by main offence in Ireland (DPP, 1997-2013)**



Source: Transcrime elaboration on data on confiscation orders under CJA legislation (DPP)

**Figure 75 – Number of confiscation orders by main offence in Ireland (Revenue Customs, 2007-2012)**



N = 87

Source: Transcrime elaboration on data on confiscation orders under CJA legislation (Revenue Customs)

distinguish among other crimes.

Crossing the analysis by type of assets and type of offence, it is possible to identify whether patterns exist in terms of portfolio preferences according to the main offence. The exercise can be conducted only on the POCA database, which is the only one specifying the type of the assets confiscated. Figure 76 shows some interesting results:

- **Bank accounts** represent the most frequently confiscated assets in cases involving, as the main offence, **prostitution, fraud and smuggling**.
- In **frauds**, and especially drug trafficking, **houses/land** predominate.
- **Registered assets** represent more than 50% of the assets confiscated when **theft** is the main offence. This is likely to be particularly true in cases involving car theft, which is

particularly common in certain Irish regions (see Section 5.3).

Unfortunately, as already underlined, the location of the asset is available only for real estate confiscated under the POCA. Crossing location of properties by main offence shows that the majority of assets confiscated in the Dublin region and in the Mid-East are related to drug trafficking.

### Value

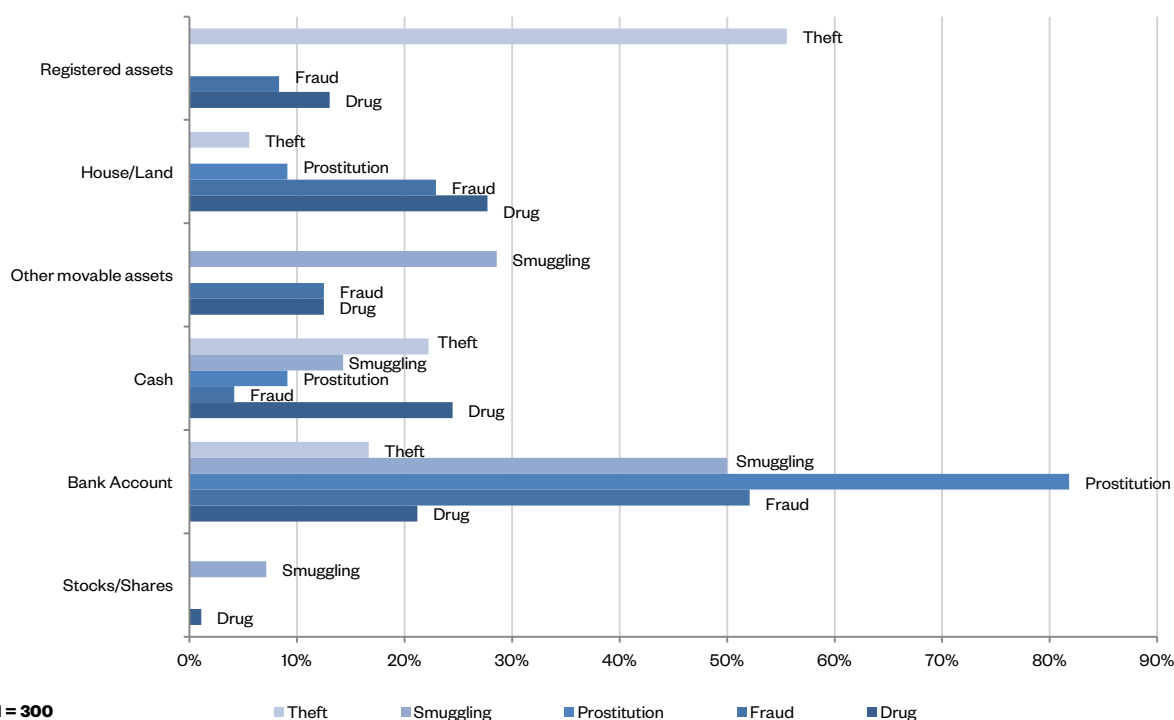
Finally, it is interesting to determine if and how the value of confiscated assets (cash and movable assets), available in the Customs Revenues' and DPP's databases, varies across different offences.

The total value recovered under confiscation orders included in the DPP database is **9,090,445 euro** (1997-2013; about 8 million euro were collected between 2005 and 2013 - Figure 77). Of these, about 3.8 million euro, i.e. 43% of the total value, was related to **drug crimes**.

This figure is confirmed by Revenue Customs' statistics, where the total value of cash confiscated between 2007 and 2012 amounted to around 4.7 million euro: the confiscation of cash is related most to drug trafficking (71%) and fraud offences (16%).

In terms of average values, i.e. the amount of money collected per each confiscation order, quite marked differences emerge (Table 97). In particular, from the DPP database a mean value of more than 23 thousand euro is collected by each confiscation order. In the case of drug-related crimes, this amount increases to 37,000 euro (Table 97).

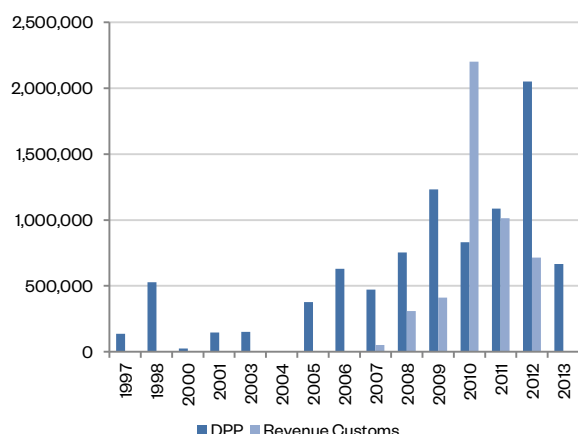
**Figure 76 – Type of confiscated assets by main offence under POCA in Ireland: percentages of total, N/A excluded**



N = 300

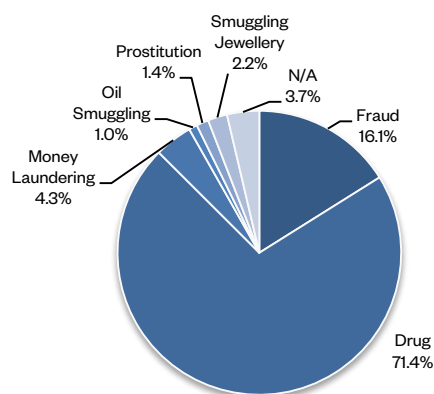
Source: Transcrime elaboration on POCA data

**Figure 77 – Value (euro) recovered from confiscation orders by DPP (1997-2013) and Revenue Customs (2007-2012) in Ireland**



Source: Transcrime elaboration on data on confiscation orders under CJA legislation (DPP and Revenue Customs)

**Figure 78 – Value recovered from confiscation orders by Revenue Customs by main offence in Ireland (2007-2012)**



**N = 4,702,108.88 euro**

Source: Transcrime elaboration on data on confiscation orders under CJA legislation (Revenue Customs)

In the Customs' Revenues dataset, the highest average sum collected relates to drug trafficking (63 thousand euro), followed by money laundering, smuggling of jewellery and of oil.

These results are useful because, on the one hand, they suggest the portfolios available to criminals involved in certain crimes i.e. the 'profitability' of each illegal activity; on the other, they allow the design of law enforcement strategies better able to target illicit proceeds of crimes.

### 12.4.3. Concluding remarks

Although it has not been possible to access all the statistics on confiscated assets in Ireland, analysis of the three datasets for which data were available reveals some interesting issues:

- First, as in many other EU countries, **movable assets, and in particular cash**, represent the biggest share, in numerical terms, of confiscated goods. The main offences related to confiscated bank accounts are drug crimes, fraud and human trafficking (in particular for sexual exploitation purposes). Cash is instead mainly linked to theft and drug-

**Table 97 – Average value by main offence of the amount recovered by confiscation orders of Revenue Customs (N = 87 confiscation orders, 4,702,108.88 euro collected, 2007-2012)**

Main offence	Average values (euro)
Fraud	36,025
Drugs	63,335
Money Laundering	50,635
Oil Smuggling	45,132
Prostitution	32,612
Jewellery Smuggling	51,806
N/A	43,084
<b>ALL OFFENCES</b>	<b>54,047</b>

Source: Transcrime elaboration on data on confiscation orders under CJA legislation (Revenue Customs)

related offences.

- However, also **real estate** represents a significant fraction of confiscated goods in Ireland, at least those recovered according to **section 4 and 4a of POCA**. Properties are mainly located in Dublin, which is also the area in Ireland with the highest real estate value (see Figure 71). These figures suggest a *speculative* purpose of OCG investments, although, as also underlined in Section 8.3, investments in real estate properties may be driven by *functional* needs (e.g. as brothels, massage parlours, deposits for illicit goods, etc.).
- Whilst data on confiscated companies are not available, it is possible to determine the business sectors most involved by considering those related to the confiscated bank accounts. According to this information (see Figure 72), **banking/finance** (36.4%), **oil supply** (21.2%) and **bar, restaurants, catering and entertainment** (21.2% altogether) are the most frequently related. These findings may confirm the relative importance of these sectors in the OCGs' economies, as highlighted also in Section 8.3.
- Irish nationals** are most frequently associated with confiscation, followed by **British and Chinese**, who are also the ethnic groups most frequently related to illegal markets (see Section 5.3) and infiltration of the legal economy.
- Finally, inspection of the value of confiscated goods (available only for the datasets made available by the DPP under the provisions of the Criminal Justice Act (CJA) 1994 and by the Revenue Customs pursuant to Part 39 CJA) shows that the highest average values are associated with confiscation orders in which **drug trafficking** was the main offence, suggesting the higher 'profitability' of this crime, or at least a higher availability of resources.

## 12.5. Italy

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### 12.5.1. Introduction

As described in Section 10.6, Italy has developed a **complex asset recovery system** characterised by **variety of legislative tools, confiscation measures, and actors involved** in all the stages of the recovery process (see Section 10.6). Each of these actors collects and stores statistics specific to the stage in which they are involved.

As said, this may result in a **plurality of databases** on seized and confiscated assets at national level, while a centralised dataset tracing criminal assets from the beginning to the end of the process is at present unavailable (Transcrime, 2013a).<sup>398</sup>

After examining available data sources, and building on previous literature (in particular Transcrime, 2013a), the following datasets were identified:

- **SIPPI (SIT-MP) Database:**<sup>399</sup> managed by the Ministry of Justice, this includes data on seized and confiscated assets since 2007, aggregated according to the 26 Italian districts of the Court of Appeal.<sup>400</sup> The database does not provide publicly disaggregated information per each individual asset (e.g. address, value, legal form, etc.) (Transcrime, 2013a, p. 366);
- **SAC Database:** managed by the Criminal Analysis Service – *Servizio Analisi Criminale* (SAC) of the Ministry of the Interior, this contains information on goods seized and confiscated in Italy since 2007 as the result of criminal proceedings and preventative measures (Transcrime, 2013a, p. 366). Information on individual assets is not available for the purpose of analysis.<sup>401</sup>

398. The information system foreseen by the D.Lgs 159/2011 (Antimafia code) to be managed by the Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata is still under development at the time of this project. The new database should be able to keep record of assets since the beginning of the investigation phase, through freezing, confiscation, management, until the disposal phase (Transcrime, 2013a, p. 96).

399. See <http://bit.ly/1G2v06j>

400. The 26 districts do not coincide exactly with the distinction at either regional or provincial level. See <http://bit.ly/1G2v06j>

401. Information is provided only at aggregate level: by year (since 2007), geographic area (NUTS 2 or NUTS 3), macrotype (real estate, other movables, companies, registered assets) or mafia membership (Cosa Nostra, 'Ndrangheta, Camorra, Apulian Organised Crime and Other criminal organisations), the latter classification being only available at NUTS 2.

402. Assets confiscated as a result of preventative and criminal confiscation orders in relation to serious and organised crime offences foreseen by article 51, Section 3-bis of the Italian Code of Criminal Procedure, e.g. mafia-related crimes, organised crime, counterfeiting, trafficking in human beings, etc.

403. As said, the database is still under development and has increased the amount of information stored so as to include data on related offence(s), previous owners, and information that would ensure full traceability of the asset from the beginning of the asset recovery process to the end (Transcrime, 2013a, p. 366). At present, it does not include information on the criminal/criminal group from whom the asset has been confiscated. As mentioned in Chapter 7, previous research (Standridge, 2012; Transcrime, 2013a; Soriani, 2013; Riccardi, 2014a; Dugato, Favarin, & Giommoni, forthcoming) has established a connection between assets (only companies and real estate) and the criminal group by relying on open sources (see the Methodological Annex for details). Some findings of the analysis of confiscated assets and criminal groups are reported in Chapter 8.4.

- **ANBSC Database:** managed by the ANBSC – Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata, of the Minister of the Interior, this includes data on assets definitively confiscated because of organised and mafia-related crimes<sup>402</sup> in Italy since 1983. Information is available at disaggregate level for each asset, but does not include information on the specific related offence or the criminal/criminal group to which beneficial ownership of the asset can be attributed (Transcrime, 2013a).<sup>403</sup>
- **Guardia di Finanza (GDF) Database:** This contains data on all the assets seized and confiscated<sup>404</sup> from 2000 to 2013 as a result of GDF investigations of specific offences related to serious and organised crimes.<sup>405</sup> Although not publicly available, the database has been made partially accessible (with some information per each asset) for the purpose of this analysis.<sup>406</sup>

#### Methodological remarks

Given the plurality of databases, it was decided to focus the analysis only on the two with data at disaggregate level, i.e. per each asset: the **ANBSC database** and the one of the **Guardia di Finanza (GDF)**.<sup>407</sup>

As discussed in Section 8.4, data on confiscated assets from the ANBSC database have been already widely used as a **proxies of mafia investments** in previous research (Transcrime, 2013a; Transcrime, 2013b; Riccardi, 2014a; Riccardi, Soriani, & Standridge, 2014; Dugato, Favarin, & Giommoni, forthcoming). However, this causes a **major bias** which have been discussed above (see 8.4). Moreover, to be noted is that the SIPPI and SAC databases **do not show substantial differences** in terms of typological and geographical distribution with respect to the ANBSC database (Transcrime, 2013a),<sup>408</sup> but on the other they furnish a smaller amount of information. Hence the ANBSC dataset may be preferred.

404. The database includes assets resulting from five types of seizure/confiscation (see the Methodological Annex for details). For the purpose of the analysis they are grouped together without distinction.

405. Assets seized and confiscated in relation to serious and organised crime offences, including criminal association, mafia-related crimes, drug trafficking, trafficking in human beings, etc. For a detailed breakdown of the types of offences related to the data on which the analysis was carried out see 12.5 and Methodological Annex.

406. For each asset, information is available regarding type of asset, location (since 2007), main offence and number/amount/value of the asset. It includes seizures of both legal and illegal goods (e.g. drugs, counterfeit goods). To be noted is that the database does not include statistics on seizures made by other law enforcement agencies (e.g. Carabinieri, Polizia di Stato), which, in turn, manage their own databases.

407. The assets included in the two databases analysed have been reclassified in order to make them as comparable as possible (see the Methodological Annex for details).

408. In particular, the correlation with ANBSC in terms of geographic distribution (NUTS 2) is always very high: 0.985 between ANBSC and SIPPI; 0.961 between ANBSC and SAC (confiscations); 0.826 between ANBSC and SAC (seizures) (Transcrime, 2013a, p. 367).

**Table 98 – Breakdown of assets seized and confiscated in Italy for serious and organised crime offences**

Database	Ref. years	N. Assets	Real Estate (%)	Companies (%)	Registered assets (%)	Other movable assets (%)	Source
ANBSC	1983-2013	24,014	51.3%	8.1%	23.6%	17.0%	Transcrime elaboration on ANBSC data
SIPPI	2009-2013	113,753	47.7%	6.7%	20.1%	25.5%	Min. Giustizia (2013)
SAC (Seizures)	2007-2011	57,619	44%	5%	18%	33%	Transcrime, 2013a, p. 367
SAC (Confiscations)	2007-2011	12,567	46%	4%	27%	24%	Transcrime, 2013a, p. 367
GDF	2000-2013	16,824	28.5%	13.3%	24.4%	33.7%	Transcrime elaboration on GDF data

Source: Transcrime elaboration on ANBSC, SIPPI, SAC and GDF data

At the same time, it was decided to extend the analysis to the GDF database because it can provide, in addition to ANBSC, more details on the related offence, although it may offer a partial account because it is related only to seizures executed by GDF, not by the other law enforcement agencies.

The Sections below, building on previous research, will provide descriptive statistics on the two ANBSC and GDF datasets focusing on the following issues: **type and trend** of confiscated assets, **geographical distribution**, types of **related offences**, and **value**. References to the SIPPI and SAC databases will also be provided.

## 12.5.2. Analysis

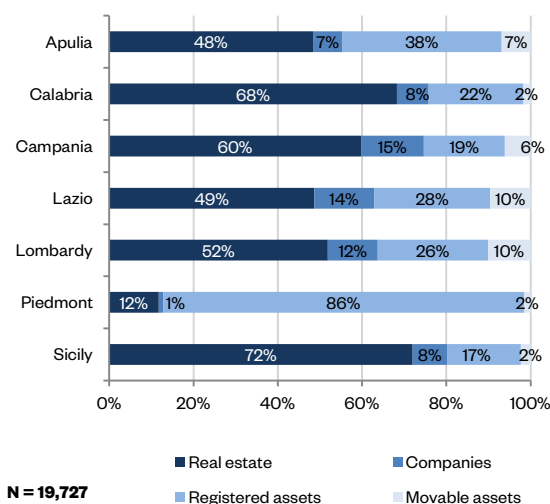
### Types of confiscated assets

Analysis of the types of recovered assets across the available databases in Italy shows that **real estate** is the macrotype with the highest number of confiscations and seizures (Table 98). However, to be noted is also the significant weight of **companies** (between 5% and 15% across all the databases), which confirms that Italy is **one of the few European countries seizing legitimate businesses**, due to the powerful asset recovery regulatory framework (see 10.6) but also to the wide experience of Italian law enforcement agencies in identifying and tracing criminal assets.

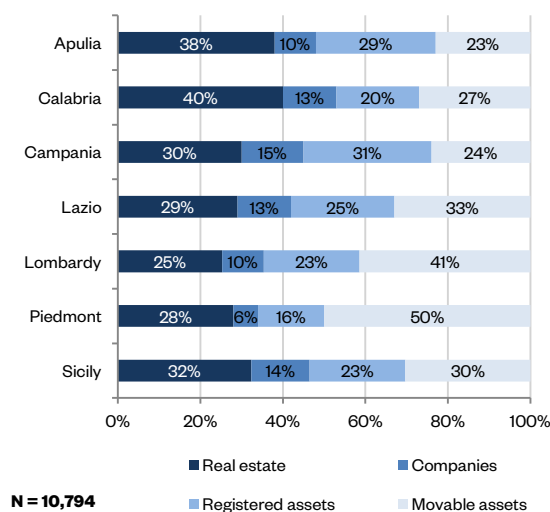
Comparison of the five datasets under consideration shows that the results are consistent and similar. The lower number, relatively speaking, of movable assets and registered assets in the ANBSC database with respect to the other datasets may be due to **their liquidation or disposal before the final confiscation stage** (Florio, Bosco, & D'Amore, 2014, p. 712; 722; see also Section 10.6). At the same time, the higher percentage of movables in the GDF dataset may be due to the fact that movable assets can also be seized as evidence in the course of the investigation and trial (e.g. drugs and weapons).

Despite these general patterns, differences exist from a geographical point of view, in that the **confiscated portfolio may differ from region to region**. Figure 79 and Figure 80 show the typological breakdown of the ANBSC and GDF databases in the seven Italian regions with the highest number

**Figure 79 – Breakdown of definitively confiscated assets by type of assets in seven Italian regions (ANBSC, 1983-2012)**



**Figure 80 – Breakdown of assets seized by GDF in seven Italian regions (2000-2013)**



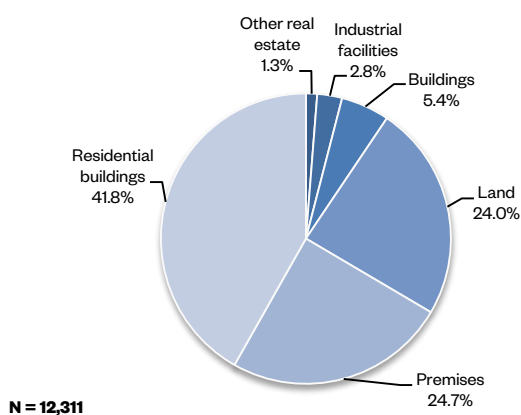
Source: Transcrime elaboration on data on confiscation orders under C.J.A legislation (Revenue Customs)



of confiscated and seized assets. Although the figures refer to different stages of the asset recovery process, some similarities between the two databases can be identified.

In particular, confiscation of **real estate** seem to have a **higher incidence in southern regions** (e.g. Apulia, Sicily and Calabria) while the **weight of companies** and of movable and registered assets **is higher in northern** and central regions (e.g. Lombardy, Lazio and Piedmont). This may be due, among other reasons, to a stronger inclination of criminal groups, and in particular mafia organisations, to invest in real estate in areas where they have **closer control of the territory** (Transcrime, 2013a; Dugato, Favarin, & Giommoni, forthcoming), or where the economic system is weaker and provides fewer opportunities for investment in legitimate businesses (see Section 8.4).<sup>409</sup>

**Figure 81 – Breakdown of confiscated real estate properties in Italy (1983-2012)**

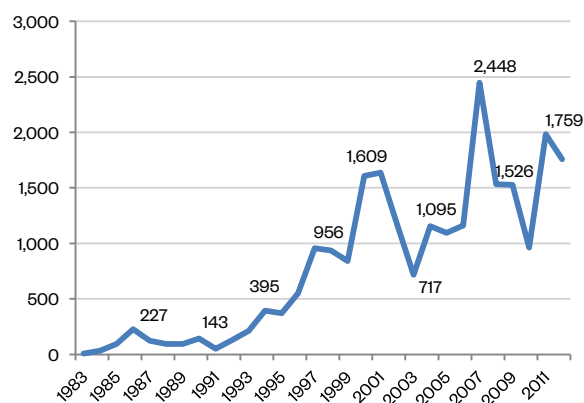


Source: Transcrime elaboration on ANBSC data

Focusing on **real estate properties**, according to the Transcrime elaboration on ANBSC data, the category most frequently mentioned is **residential buildings** (41.8% of the total number of real estate properties at final confiscation), followed by premises (24.7%) and land (24%) (Figure 81). Among residential properties, flats (33.5%) prevail over detached houses and villas. This may be due, as anticipated in Section 8.4, to the propensity of criminal groups to invest in immovable goods for **personal use or for 'buy and rent'** purposes (Transcrime, 2013a; Dugato, Favarin, & Giommoni, forthcoming; see Section 8.4).

409. These are not the only possible reasons. Generally speaking, these statistics are highly influenced by the number and nature of the operations carried out by law enforcement agencies and judicial authorities. For example, the high percentage of confiscated registered assets in Piedmont evident from the ANBSC database is the result of a single operation that led to the final confiscation of hundreds of vehicles. In addition, it should be borne in mind that, as anticipated in Section 8.4, statistics on confiscated assets from the ANBSC database may provide a not very updated overview of seizures in the country. For example, it is likely that the composition of the portfolio of confiscated assets in Piedmont and Lombardy may significantly change when the seizures made in investigations such as Minotauro or Infinito reach the final confiscation. These investigations, in fact, have been characterised by the freezing of hundreds of companies (see Section 8.4).

**Figure 82 – Number of definitively confiscated assets per year in Italy (1983-2012)**



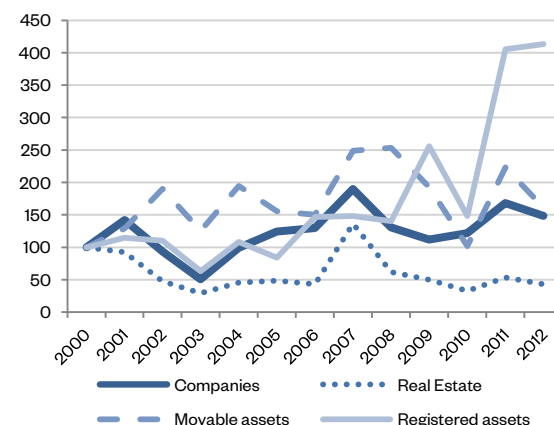
Source: Transcrime elaboration on ANBSC data

### Trend of confiscated assets

According to **ANBSC data**, the number of final confiscations in relation to serious and organised crime offences in Italy has **steadily increased since the early 1990s** (Figure 82). It is likely that the timings reflect the introduction of the new legislative measures (since the *Rognoni-La Torre law* in 1982, see Section 10.6) which took several years to be fully implemented and to bring assets to final confiscation (Transcrime, 2013a, p. 99).

The upward trend is confirmed by data from the **Ministry of Justice** (Ministero della Giustizia, 2013), which show an increase of +220% between 2009 and 2012 (Fraschini & Putaturo, 2014) and from the **Guardia di Finanza**. According to GDF statistics, the number of assets annually seized increased from 422 in 2000 to 6,174 in 2012 (about +1400%).

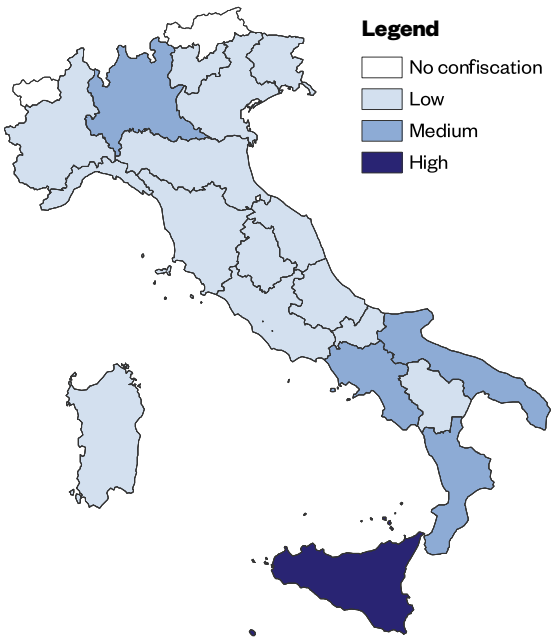
**Figure 83 – Number of definitively confiscated assets per year and macrotype in Italy (Index 2000=100)**



Source: Transcrime elaboration on ANBSC data

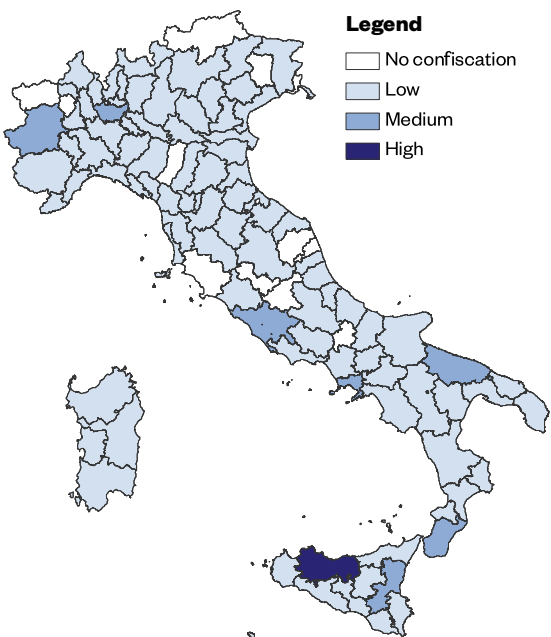
However, different types of assets show different tendencies. In particular, on considering ANBSC data, **a relative increase in companies and registered assets** with respect to other types of assets (including real estate) can be highlighted in terms of definitively confiscated assets (Figure 83). The increasing weight of companies may reflect on the one hand the evolution of criminal groups towards **'more sophisticated' forms of investments**, including legitimate

**Figure 84 – Distribution of definitively confiscated assets across Italian regions (NUTS 2) (1983-2012)** <sup>410</sup>



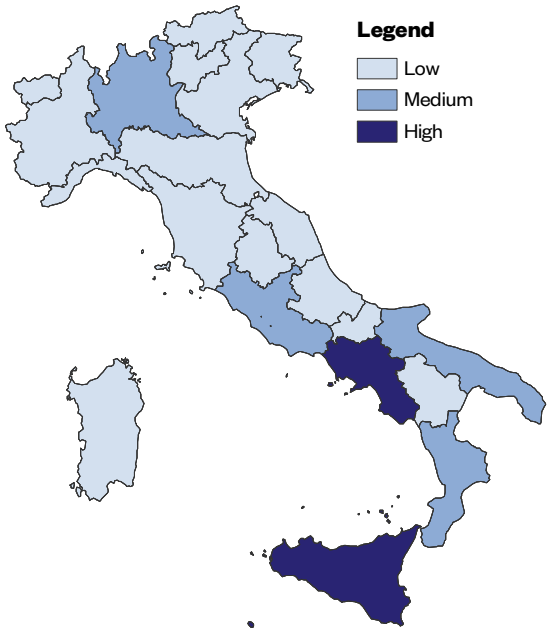
Source: Transcrime elaboration on ANBSC data

**Figure 85 – Distribution of definitively confiscated assets across Italian provinces (NUTS 3) (1983-2012)** <sup>411</sup>



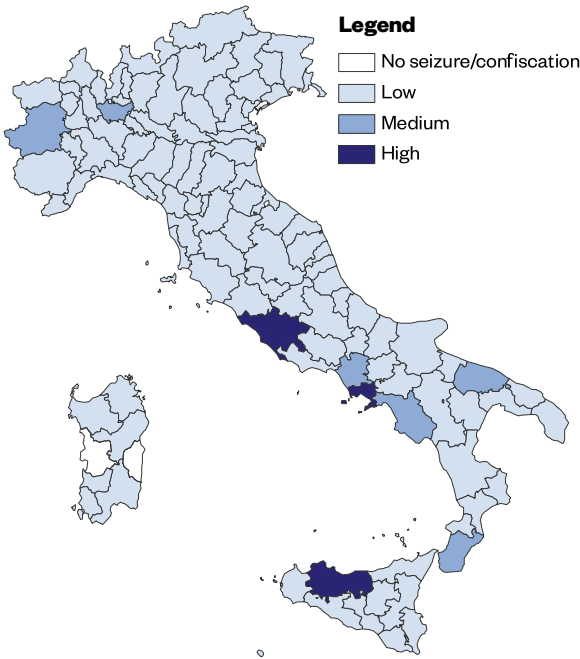
Source: Transcrime elaboration on ANBSC data

**Figure 86 – Distribution of seized and confiscated assets by GDF across Italian regions (NUTS 2) (2007-2013)** <sup>412</sup>



Source: Transcrime elaboration on GDF data

**Figure 87 – Distribution of seized and confiscated assets by GDF across Italian provinces (NUTS 3) (2007-2013)** <sup>413</sup>



Source: Transcrime elaboration on GDF data

410. Classification based on Jenks natural breaks optimization.

411. Classification based on Jenks natural breaks optimization.

412. Classification based on Jenks natural breaks optimization.

413. All other Italian regions.

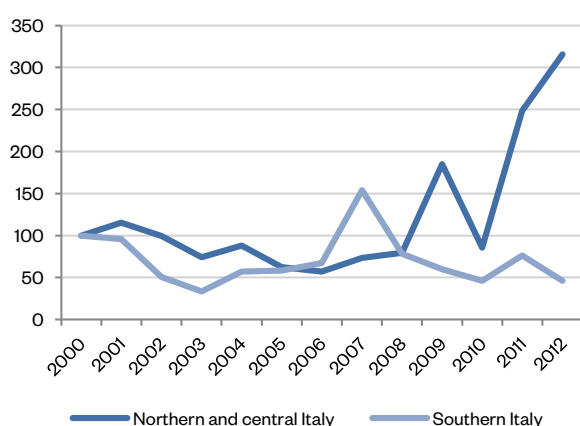
businesses (as hypothesised in Section 8.4), and on the other, the improved capacity of law enforcement to trace, identify and seize companies.

However, to obtain a more updated picture of the evolution of seizure and confiscation in Italy, in particular in the latest 5-10 years, it is necessary **to take a picture at 'earlier stages'** of the asset recovery process, i.e. at the investigation or seizure/freezing stage. In Italy it may take years for an asset to reach final confiscation. Any recent trend in terms of seizures will be visible in the ANBSC database only in some years' time.

### Geographical distribution

Figure 84 and Figure 85 present the geographical distribution of the definitively confiscated assets for serious and organised crime between 1983-2012, and recorded by the ANBSC database, respectively across Italian regions (NUTS 2) and provinces (NUTS 3). As anticipated in Section 8.4, most of the assets concentrate in a few regions: **Sicily, Calabria, Campania, Apulia and Lombardy**.

**Figure 88 – Number of definitively confiscated assets per year and location in Italy (Index 2000=100)**



Source: Transcrime elaboration on ANBSC data

In particular, as mentioned above, higher number of assets can be found in provinces characterised by **large urban areas** (e.g. Rome, Milan, Naples, Palermo, Turin) or which comprise the chief town of their region, where, as noted in Section 8.4, judicial authorities may be **better-equipped or have longer experience in identifying and confiscating mafia assets**, thus generating a higher number of confiscations.

Figure 86 reports the distribution of assets seized by **Guardia di Finanza (2000-2012)** across Italian regions, which is similar to the distribution based on ANBSC data, with a stronger weight of the provinces of Naples (Campania) and Rome (Lazio).

Although southern Italy and capital provinces still collect most of the confiscated assets, **the weight of northern regions and of smaller provinces is growing**. Figure 88 shows that the confiscation trend in southern regions<sup>414</sup> is increasing at a rate lower than that of northern and central ones.<sup>415</sup> The **upward trend of 'non-traditional' geographic areas** is confirmed by the data of the Ministry of Justice (SIPPI) which highlight an increase in the number of seized and confiscated assets especially in large urban areas of northern and central Italy (e.g. Rome, Milan, Turin, Bologna) (Ministero della Giustizia, 2013).

This evolution may be due, on the one hand, as already widely described in Section 8.4, to the **expansion of mafia investments in northern regions** (Sciarrone & Storti, 2014; Osservatorio sulla Criminalità Organizzata dell'Università degli Studi di Milano, 2014; Transcrime, 2013a; Varese, 2011; Campana, 2011a), and on the other, to a **wider adoption of confiscation measures in 'non-traditional' areas** (also because of the growing application of confiscation measures against foreign criminal groups such as Chinese OCGs or Eastern European ones, which are prevalent in central and northern regions, see 8.4).

### Related offences

The ANBSC database does not provide data on the type of offence related to the confiscation. Consequently, analysis of how **asset recovery distributes across crimes** can be conducted only through examination of the data on GDF seizures.

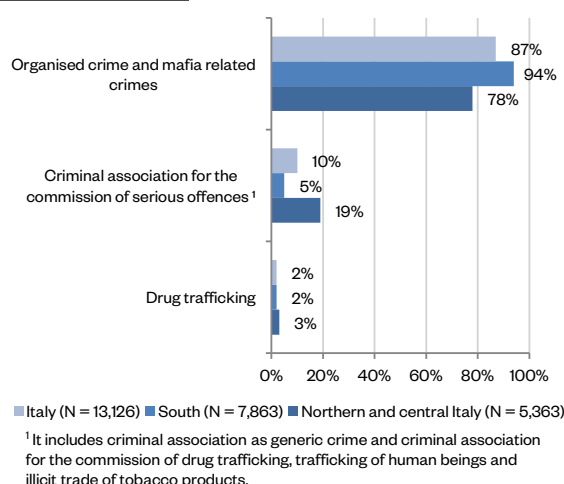
Seized assets are classified by GDF according to **four categories of main offences** that can be related to serious and organised crimes.<sup>416</sup> **Organised and mafia-related crimes** (87%) are the most frequent main offences, followed by criminal association (10%) and, to a lesser extent, drug trafficking and illicit trafficking of waste. As to be expected, mafia association as the main offence is **higher in southern regions** (94% of assets) than in northern and central ones (78%), while criminal association is more frequently applied in northern ones (Figure 89).

If assets are analysed according to their macrotype and main offence (Figure 90), it emerges that **real estate represents the largest share of mafia-related crimes**, followed by registered and movable assets. By contrast, movable and registered assets represent a large share of criminal association for offences such as counterfeiting or smuggling of tobacco. This may be due to the seizure of vehicles used by criminals to transport smuggled goods (such as tobacco products).

414. Basilicata, Calabria, Campania, Puglia and Sicily.

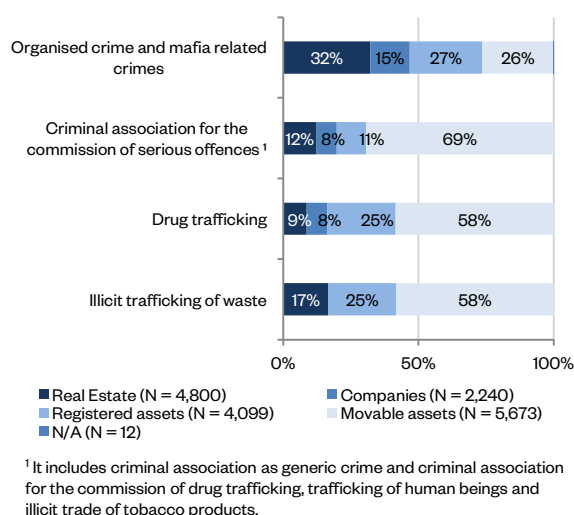
415. All other Italian regions.

**Figure 89 – Main offence related to seizure by macro area in Italy (2000-2013)**



Source: Transcrime elaboration on GDF data

**Figure 90 – Main offence related to seizure by type of asset in Italy (2000-2013)**



Source: Transcrime elaboration on GDF data

### 12.5.3. Concluding remarks

Analysis of the data on confiscated assets in Italy, with a particular focus on the statistics on definitively confiscated assets (provided by ANBSC) and on the assets seized by Guardia di Finanza, highlights some important issues:

- In the past twenty years, full implementation of confiscation measures and the introduction of new measures has led to an **increase in the total number of confiscated assets**.
- Confiscation has been growing more steadily in **northern and central regions** than in southern ones. This may be explained, as suggested, by the expansion of mafia investments in northern regions (see 8.4) and by the wider application of confiscation in 'non-traditional' mafia regions;
- Real estate still represents the **majority of assets seized and confiscated in Italy**, confirming the 'traditional' and territorial specific nature of the investments of organised crime groups, as widely discussed in Section 8.4 and confirmed also in other countries (e.g. the Netherlands, see 12.6).
- However, **confiscation of companies** and of movable/registered assets is increasing to a much greater extent than the confiscation of immovable goods, again suggesting

that companies have an increasingly important role in the portfolios of criminal organisations, both Italian mafias and foreign OCGs, in Italy (see Section 8.4).

- In terms of related offences, although the available data do not allow a comprehensive analysis, statistics shows that confiscation has been **primarily used against organised and mafia-related crimes**, although the weight of other offences seems higher in northern regions.
- In conclusion, the confiscation of assets in Italy seems to respond, **better than in other European countries**, to the developments and new trends of criminal investments, in both geographic terms (e.g. the expansion of mafia investments towards northern regions) and typological ones (e.g. the increasing importance of companies and other more movable assets in the criminal portfolio).

Particularly important is the capacity of the Italian public authorities to target legitimate businesses: Italy **is one of the few European countries seizing companies** thanks to the powerful 'arsenal' of confiscation measures and to the wide experience of Italian law enforcement agencies in identifying and tracing criminal assets. Other EU MS should take this experience into account in order to improve their confiscation systems, and Italy should be able to **transfer this know-how to international partners**.

However, some aspects can still be improved:

- most confiscation orders are still issued by the courts of large cities and chief-towns while **more attention should be paid to the application of confiscation measures in smaller towns and more 'peripheral' courts**, considering the expansion of OCG infiltration in these understated areas (see Section 8.4).
- similarly, the use of confiscation measures should be **increased against foreign OCGs**: to date, they have been extensively adopted against mafia groups, but evidence of investments by foreign criminals (especially Chinese, Russian/Georgian and Eastern European OCGs) is rapidly emerging (see 8.4).

Finally, the **management of confiscated assets**, in particular of confiscated companies, should improve rapidly. Good management is the necessary requisite for effective confiscation: there is the risk that problems in the management of assets (Riccardi, 2014b; Frascini & Putaturo, 2014; La Repubblica, 2014) and their deterioration and depreciation during the course of judicial administration (see above) may induce prosecutors to use confiscation **less extensively and more reluctantly** against criminal assets (especially companies) in order not to lose jobs, wealth and business opportunities in already weak areas.

In this sense alternative instruments than confiscation could be explored and used more extensively, such as the temporary suspension of the business administration (art. 34 of the Antimafia code) or administrative bans and disqualifications (e.g. interdittive). Effective results could be obtained against companies infiltrated by organised crime without necessarily resorting on their definitive confiscation (on this see Visconti, 2014).

416. As said above, the four categories are: Drug trafficking, Criminal association for the commission of serious offences (including human trafficking, counterfeiting, smuggling of tobacco products and other crimes), Organised crime and mafia-related crimes, and Environmental crimes (see the Methodological Annex for details on the classification of GDF data).

## 12.6. Netherlands

Joras Ferwerda and Brigitte Unger (Utrecht University, the Netherlands)

### 12.6.1. Introduction

In the Netherlands, the **public prosecutor's office** records all criminal confiscations in the Netherlands in its databases,<sup>417</sup> to which full access has been granted for this research. Although there is a database specifying all detailed seizures – which has already been analysed in Section 8.5 – the same database only has the total amount confiscated, without specifications.

The analysis in this Section therefore focuses on the **descriptive statistics of the confiscations** and which OCGs and crimes are related to the. Furthermore, the relation between the amount confiscated and the amount estimated as criminal profits will be analysed. For this analysis, the same database as used in Sections 5.5 and 8.5 and described in the methodological annex will be used. This means that the database is tailored to represent only organised crime cases as much as possible. The figures presented here will consequently be lower than general figures on confiscations in the Netherlands.

The database lists the imposed confiscation amount and the actual confiscated amount. The table below gives some descriptive statistics on the **imposed and actual confiscations**. As will be seen, the distribution of the amounts confiscated is rather skewed, as indicated by the large difference between the average and the median. Hence there are a couple of very large confiscations and many relatively

small ones. What is also obvious from the descriptive statistics below is that the actual confiscations are many fewer than the imposed ones.

Therefore Table 100 shows the descriptive statistics for the 69 suspects for which **the imposed and the actual confiscation is known**. It shows that the difference between the imposed and actual confiscations is small and most often (85.5%) even the same in most cases. This indicates that, in general, the imposed confiscation is accepted. It also means that the wide difference between the imposed and actual confiscations is explained by large imposed confiscations that have not been accepted as actual confiscations (yet). The main reason for this is that large-scale cases may take more time and are therefore less often already concluded in terms of the overall process in court.<sup>418</sup> To make sure that this bias does not affect the results presented in this chapter, the imposed confiscation amount instead of the actual confiscation amount will be the unit of analysis.

Confiscations in the Netherlands can be based on pre-judicial (art. 94a) and criminal seizures (art. 94 of the Dutch Criminal Procedure Code), as described in Section 10.7. In general, the amount of confiscations based on criminal seizures in the database is comparable to the amount based on pre-judicial seizures. This is interesting, since pre-judicial seizures have the purpose of conserving the assets so that they can be confiscated later, while criminal seizures<sup>421</sup> have the

**Table 99 - Descriptive statistics on confiscations from organised crime suspects (2003-2014)**<sup>419</sup>

	Number of suspects	Average	Median	Lowest	Highest
Imposed confiscations	321	505,846.85	40,000.00	336.00	25,733,754.45
Actual confiscations	176	294,907.06	16,643.76	750.00	12,500,000.00

Source: UU elaboration on PPO database

**Table 100 - Descriptive statistics on the 69 suspects for whom an imposed and an actual confiscation is known (2003-2014)**<sup>420</sup>

	Number of suspects	Average	Median	Lowest	Highest
Imposed confiscations	69	44,619.75	7,900	750	720,000
Actual confiscations	69	43,475.70	7,500	750	720,000

Source: UU elaboration on PPO database

417. It has to be noted, however, that concerning the use of police and/or PPO data, there is also a bias in the sense that suspects end up in police and/or PPO statistics based on where they are prosecuted. For example, the media reported that an important figure of the 'Ndrangheta was caught in the Netherlands, but this does not end up in the PPO database in the Netherlands, because this suspect was directly sent to Italy where he was already prosecuted.

418. Note that the PPO database consists of cases that are closed in terms of the investigation by the PPO, but that the process in court may not yet have concluded.

419. All numbers except the number of suspects are in euro. A confiscation amount of 0 euro is considered a no confiscation amount.

420. All numbers except the number of suspects in euro.

421. Of the 321 suspects for which the imposed confiscation amount is known, 60 cases are based on pre-judicial seizures, 60 are based on criminal seizures, 83 on both, and it is unknown for the remaining 118. Of the 176 suspects for which the actual amount confiscated is known, 26 cases are based on pre-judicial seizures, 22 are based on criminal seizures, 24 on both, and it is unknown for the remaining 104.



primary goal of ensuring that the assets can be used for the investigation and in court. Apparently, these goals are hard to separate in practice and often overlap.

## 12.6.2. Analysis

### Organised crime groups and nationalities of owners

This section explores the extent to which the OCGs active in the Netherlands are subject to confiscations and to which crimes is the latter are related. Most confiscations are related to Dutch OCGs, but this is not surprising since the majority of the OCGs in the Netherlands are Dutch. Therefore this section compares its results with the actual presence of OCGs already set out in Section 5.5.

Since the database consists of 11097 suspects (see Section 5.5), with an imposed confiscation for 321 of them, the **amount on which a confiscation order is imposed is about 3%**. Table 101 shows that the suspects of Dutch OCGs represent the entirety? in this respect. Most striking is that all 27 suspects belonging to a **Colombian OCG** have a confiscation order imposed upon them. It should be noted that these 27 suspects come from 4 large-scale cases, which means that this result may easily be due to coincidence. The relative high percentage of suspects related to French OCGs is uninformative due to the low amount of observations.

### Related offences

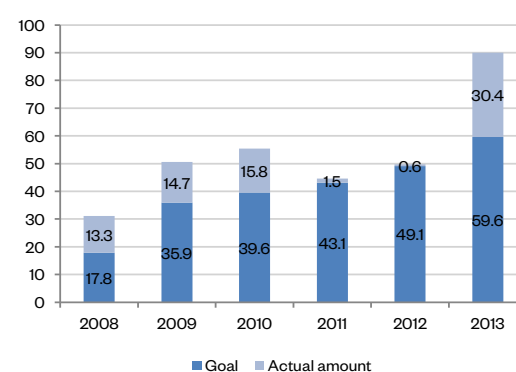
Table 102 shows the extent to which the imposed confiscations are related to the different types of crimes committed by

OCGs. As can be seen in the table, confiscations are only related to OCGs that commit fraud, drugs crimes, human trafficking and counterfeiting. In itself this may not be too surprising since these are the main crimes of OCGs in the Netherlands (see Section 5.5).

### Value

In recent years, confiscation has received considerable attention in the Netherlands. In 2010, the institutions involved started a complete programme with extra resources to increase the effectiveness of confiscations. (Dutch PPO, 2013) When the effectiveness is measured in terms of the amount of assets confiscated, this programme seems successful. In 2013 the total amount of confiscated assets reached the record-high amount of 90 million euro; this was **more than enough to meet the prescribed goal of almost 60 million**.

Figure 91 - Confiscation in the Netherlands (mn euro, 2008-2013)



Source: Dutch PPO (2013)

Table 101 - OCG relation of the suspects on which a confiscation order has been imposed (2003-2014)<sup>422</sup>

OCG	Number of suspects with imposed confiscations	Number of suspects in the database	% of suspects on which a confiscation order has been imposed
Dutch	208	7486	3%
Colombian	27	27	100%
Turkish	20	326	6%
Other Asian	16	105	15%
South American	14	181	8%
African	10	108	9%
North African	9	84	11%
Chinese	4	30	13%
Other Eastern European	4	38	11%
Balkan	2	23	9%
Middle Eastern	2	141	1%
British	1	33	3%
French	1	2	50%
North American	1	12	8%
Total <sup>423</sup>	321	11097	3%

Source: UU elaboration on PPO database

422. The OCGs for which none of the suspects has an imposed confiscation have been omitted from the table.

### Confiscations related to the estimated illegally obtained benefit

Almost all cases (98%) in which a confiscation is imposed also have an estimation of the illegally obtained benefit (for 316 of the 321 suspects). This in itself is not surprising since the confiscation/recovery procedure in the Netherlands is based on the idea that **illegally obtained profits must be paid back**, which therefore has to be estimated. This makes it possible to compare what amounts of illegally obtained profits are estimated and how much is consequently imposed as confiscation.

**Table 102: The crime relation of organised crime suspects with an imposed confiscation, 2003-2014**<sup>424</sup>

Crime	Number of imposed confiscations
Drugs	97
Human trafficking	31
Weapon trafficking	0
ITTP	0
Counterfeiting	24
Illegal Gambling	0
Fraud	106

Source: UU elaboration on PPO database

estimated illegally obtained benefit. In the other 210 cases, the imposed confiscation is lower.<sup>426</sup> The judge has the freedom to reduce the amount initially estimated by deducting business costs or for other moderation reasons, such as a disabled drug dealer who has less chance of obtaining paid work (Van Duyne, de Zanger, & Kristen, forthcoming).

As has been often found by other studies (Levi and Osofsky, 1995; van Duyne & Soudijn, 2010 and Van Duyne, de Zanger, & Kristen, forthcoming) here it is once again evident that

criminal proceeds and the related confiscated assets are **very unevenly distributed** (indicated here by the wide differences between the average and median values). The use of offshore corporate vehicles is often mentioned in the literature as a *modus operandi* of OCGs (FATF, 2006), but this is rarely found in Dutch confiscation data (Meloan et al., 2003, Van Duyne, 2003 and Van Duyne, de Zanger, & Kristen, forthcoming). Also the research for this report supports this finding in light of the underlying seizures discussed in Section 8.5.

### 12.6.3. Concluding remarks

The database of the Dutch PPO provides insight into the total amount of confiscations and how they relate to the different OCGs and different types of crime. **About 3% of the suspects in the PPO database face a confiscation procedure.** Most confiscations are related to Dutch OCGs and to drugs and fraud offences. The general trend is that the amount of confiscations in the Netherlands is clearly **increasing over time**.

Although it was possible to analyse the confiscation data and retrieve some descriptive statistics to make general observations, the confiscation data in the Dutch PPO database did not allow more advanced analyses like those on seizure data in Section 8.5 without relying on very labour-intensive case-by-case analysis. Confiscation data specified like seizure data **would improve the research possibilities**. Another item on a researcher's wish-list might be the location where the seizure/confiscation has been performed, so as to make geographical analysis possible. However, it should be noted that the Dutch PPO database itself is not intended for research but for administration purposes. In this sense, it is clear that the data have the **potential to allow for policy and science-relevant research in the future** (especially when improvements such as those mentioned above are made). The data themselves are quite complete and of a relatively good quality, have a relatively long history (same data storage methodology since 2003), and have information from different institutions in one database, which is rarely seen internationally.

**Table 103 - The relation between the estimated illegally obtained profit and the imposed confiscation (2003-2014)**<sup>425</sup>

Source: Dutch PPO (2013)	Number of suspects	Average	Median	Lowest	Highest
Imposed confiscations	316	509,316.00	37,399.00	336.00	25,733,754.45
Actual confiscations	316	694,631.84	76,229.50	1200.00	25,733,754.45

423. Note that the OCG could not be identified in all cases, especially when all the suspects are companies.

424. Note that the crime for which the OCG was suspected could not be identified in our categories in all cases. These are therefore omitted from the table.

425. All numbers except the number of suspects are in euro. The five suspects for which a confiscation has been imposed without a (documented) illegally obtained profit estimated are omitted from this table to make the comparison more pure.

426. It should be noted that the data show that the illegally obtained benefit is often estimated (or at least registered) for the whole case, with multiple suspects, while the imposed confiscation is on the suspect only. This means that in a hypothetical case with three suspects the estimated illegally obtained benefit could be 3 million euro, while the imposed confiscation is 1 million per suspect. The data then report three times that the illegally obtained profit is estimated at 3 million, while the imposed confiscation is only 1 million, creating a difference between the total amount of estimated illegally obtained benefits and the imposed confiscation of 6 million euro (2 million difference for each suspect). This issue is hard to resolve with the database in its current form.

## 12.7. Spain

Jesús Palomo, Jerónimo Márquez and Pilar Laguna (Universidad Rey Juan Carlos, Spain)

### 12.7.1. Introduction

As seen in previous chapters, Spanish institutions have been developing new methods in order to be more efficient in terms of data management (see Section 8.6 and 10.8). The present chapter will focus on the analysis of data regarding different aspects of the confiscation of assets in Spain.

Criminal assets recovery and management is implemented by different governmental institutions. The Intelligence Centre against Organised Crime (CICO) (see Section 10.8) and the Special Anti-Drug Prosecution Office (Fiscalía Special Anti Drogas) have been designated as the Spanish contact points for asset recovery (Palomo et al., 2009). At present, Spain has not yet officially designated an asset recovery office. The **Plan Nacional sobre Drogas (PNSD)**<sup>427</sup> was created to manage confiscated assets related to the illicit traffic of drugs and money laundering in relation to drug trafficking offences, and it could be considered an Asset Management Office for assets of these types.

#### Methodological remarks

The **PNSD publishes an annual report** on its website with updated data concerning different aspects of confiscated assets, such as estimated values or geographical location (Ministerio del Interior, 2013). Accordingly, the annual reports from 2001 to 2013 have been analysed from different perspectives. The statistics in the PNSD reports are the **only available data on confiscated assets in Spain**, and they will constitute the only set for this analysis. Initially, this may be regarded a limitation since all the confiscated assets considered will derive from drug trafficking and money laundering offences. However, because most confiscation orders regarding organised crime in Spain concern drug-trafficking and money-laundering offences (see Section 5.6), we do not expect biased results, and the analysis may be taken as the current general view of Spanish confiscation.

### 12.7.2. Analysis

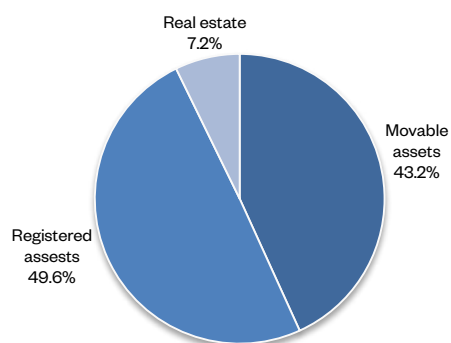
#### Types and trends<sup>428</sup>

The different types of assets managed by the PNSD are classified into five categories (boats, vehicles, objects, jewels and real estate). However, according to the classification adopted by Project OCP (see the Methodological Annex), they have been grouped into the four OCP categories.<sup>429</sup>

427. Founded in 1985, its main goal is to address the complex phenomenon of drug dependency with a holistic and multidisciplinary approach. Later, in 1995, the Spanish government decided to establish a fund of confiscated assets integrated in the PNSD. Among its duties, the PNSD is involved in the management and disposal of confiscated assets related to the illicit traffic of drugs and other crimes related to it. In addition, the PNSD promotes social programmes regarding the prevention of drug use as well as special social assistance rehabilitation programmes. It is regulated by Royal Decree No. 846, of 6 June 1997, adopting the regulation of the fund originating from property confiscated on account of drug trafficking and other related offences (PNSD, 2014).

According to the latest data available, **49%** of the confiscated assets fall within the category of **registered assets, including watercrafts and vehicles**; 43% are movable assets (objects and jewels); and the rest (7%) are real estate properties, including companies' properties. As regards bank accounts and cash, there are no available data on the number of cases in which money has been confiscated. However, confiscated cash amounts can be found in the annual reports of the PNSD.

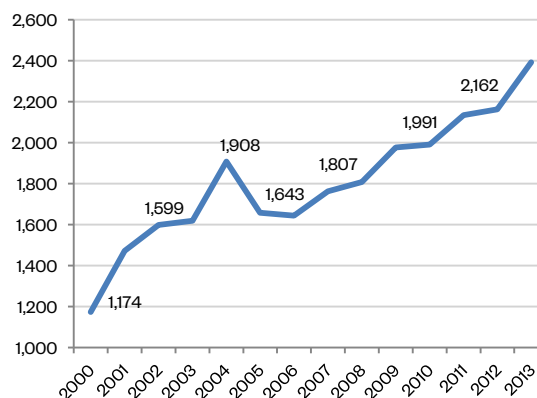
Figure 92 - Confiscated assets by type of assets in Spain



N = 2,391

Source: URJC elaboration on PNSD data

Figure 93 - Trend of confiscated assets in Spain (2000-2013)



Source: URJC elaboration on PNSD data

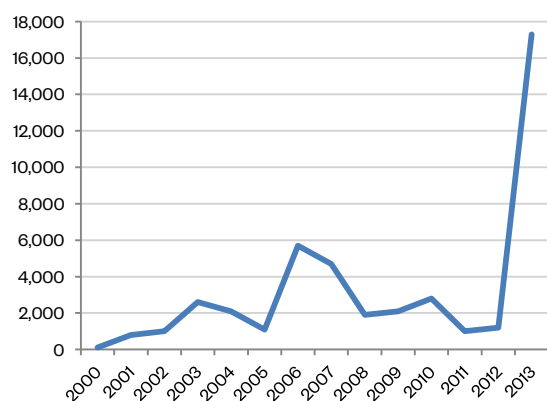
428. The information regarding confiscated assets is provided by each autonomous community. However, some important cases are handled by the Spanish National High Court and the Spanish Supreme court located in Madrid. This causes the appearance of confiscated assets (such as boats or vessels) in Madrid when they may have been originally confiscated in another region.

429. Cash and bank accounts: liquid money amounts and bank accounts; Other Movable Assets: e.g. objects (clothes, cellphones, furniture, electronics, appliances, etc) and jewels (watches, gold and silver ornaments and precious stones); Registered Assets: e.g. watercrafts (e.g. vessels and boats) and vehicles (cars, vans, motorcycles, trucks, etc); Real Estate: houses, apartments, ranches, parking spaces, business premises, etc.; Companies. Company properties have been included in the real estate category.

The **number of confiscated assets increased** from 1,762 in 2007 to 2,391 in 2013. The total amount of confiscated assets managed by the PNSD between 2000 and 2013 rose to 25,296.

As Figure 94 shows, the confiscation of real estate properties has surged in recent years. Although movable assets decreased between 2004 and 2006, in recent years it is evident that they have constantly increased. Moreover, registered assets seem to have increased the most since 2000 (see Figure 95).

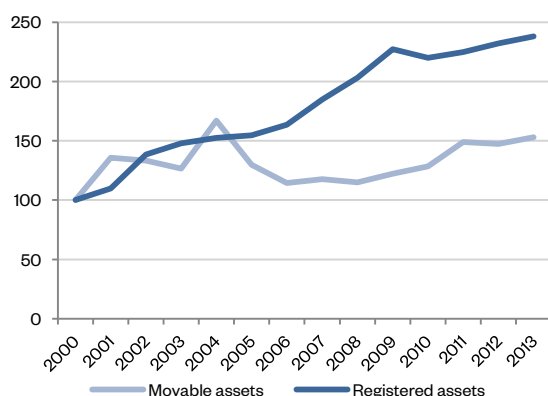
**Figure 94 – Trend of confiscated real estate properties in Spain (2000-2013)**



Source: URJC elaboration on PNSD data

Movable assets include objects such as clothes, cell phones, furniture, electronics, appliances, etc., while the jewellery category comprises various items, including watches, gold, silver ornaments and precious stones. During 2013, jewellery represented only about 14% of total movable assets, while objects reached 86%.

**Figure 95 - Trend of confiscated movable and registered assets in Spain (2000-2013)**

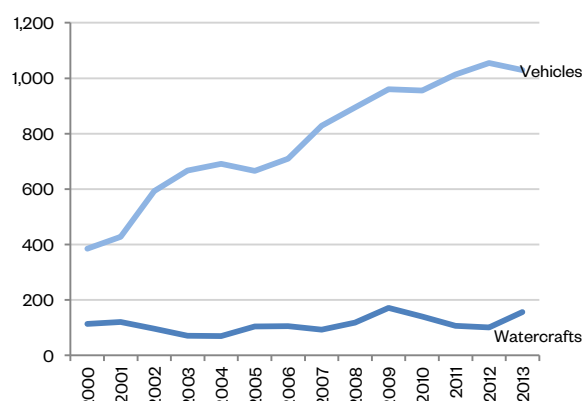


Source: URJC elaboration on PNSD data

As mentioned, registered assets represent the majority of confiscated assets (49.6%). This percentage includes watercrafts (boats, vessels, jet skis, sailboats, etc.) and motor vehicles (cars, vans, motorcycles and trucks) managed and disposed by the PNSD. The number of vehicles has increased noticeably since 2000, reaching the amount of 10,872 confiscated vehicles and representing 87.4% of total registered assets.

In terms of confiscated companies, as mentioned earlier, there is a significant number of **real estate agencies and screen companies** with little activity and mainly focused on money laundering. After confiscation, when the PNSD starts the administration process, there is usually not much to manage in these companies and, in most cases, the **value of the company equals the value of its assets** (mainly real estate properties). Occasionally, some company shares are confiscated and the court integrates the liquid amounts of money attributable to these shares into the process. However, in some cases confiscated companies have a real economic activity. In a particular case, there were 27 confiscated companies subject to management, and twelve of them remained under judicial administration and had actual activity in the real estate sector (PNSD, 2014).

**Figure 96 – Number of confiscated vehicles and boats in Spain (2000-2013)**



Source: URJC elaboration on PNSD data

There have been two cases (Pazo Bayón in Galicia and a public parking lot "Parking el Molino" in Marbella, Málaga) where the conviction included confiscation of companies that had **real economic activity and actively working employees**. In these cases, management was undertaken by the PNSD (Award Board) until the final sentence. Owing to the lack of staff with professional qualifications to carry out the management task, the PNSD has contracted COFIVACASA, a state company belonging to the SEPI group,<sup>430</sup> to assist the Coordinating Board (PNSD, 2013) in profitability analysis of the companies confiscated.<sup>431</sup>

430. The SEPI (Sociedad Estatal de Participaciones Industriales) is a Spanish public entity created under Royal Decree 5/1995 with the main goal of managing public business participations.

431. In both cases, the PNSD contacted a public auditing company to estimate the economic situation of the business and its potential future profitability after confiscation. In the former case, the vineyard was judicially administrated and managed by the PNSD for more than eight years until it was successfully auctioned to the private sector with a remarkable social reuse programme implemented. In the latter case, after the large taxes, debts and loans had been paid, it was decided to liquidate the company since profitability was not guaranteed for a future public auction of the company (PNSD, 2014).

#### Box 45 – Pazo Bayón: confiscation and management of a wine production company

During the investigation of the Pazo (Palace) Bayón case, several real estate and movable assets were seized in the autonomous community of Galicia. One of the main activities of the seized companies was a vineyard producing a well-known high quality white wine in Spain (Albariño). The trial began in 1994 and lasted until 2006, becoming the biggest operation against the Oubiña criminal family. The various companies seized were temporarily managed by a specialized private company (Freixenet) in order to preserve their activities and employees' employment conditions. After the final confiscation order in 2006, a public auction was announced in 2007 specifying not only the economic aspects on the bids but also other requirements such as: maintaining transparency in the sale process, preventing future speculation with the assets, obtaining profits not only for the Spanish state but also for the region of Galicia and its population. A Galician company submitted the best offer and the entire property was sold for 15,102,000 euro in July 2008.

#### Geographical distribution

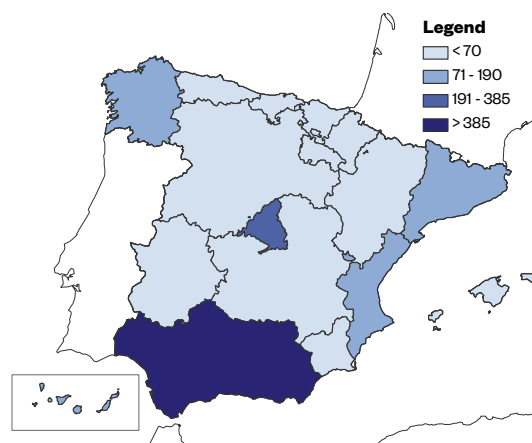
According to the data, confiscated assets can be found in all the autonomous communities in Spain. However, some regions record a higher number than others (see Figure 97).

In 2013, within the southern region, the **autonomous community of Andalusia** heads the list in terms of number of confiscated assets, with a total number of 751 (PNSD, 2014), more than 30% of all the assets confiscated in 2013 in Spain. The Mediterranean coast also records a large number of assets. In this area, the region of Valencia together with Catalonia concentrates most of the confiscated assets. Another important area is the **autonomous community of Madrid** where 385 confiscated assets (16%) were reported also in 2013. The distribution of confiscated assets reflects the distribution of evidence on criminal investments (see Section 8.6). Finally, Galicia, the Canary Islands and the autonomous city of Ceuta recorded high levels of confiscation in 2013.

On focusing on the **geographical distribution of real estate properties** (Figure 98), it emerges that most confiscated properties are concentrated in Andalusia, with a total amount of 42 confiscations since 2000. Andalusia is followed by Galicia (18) and Valencia (11). However, the available data do not make it possible to determine whether these confiscated properties are related to organised crime. As mentioned in Chapter 8.6, it seems that the location of the real estate properties in Andalusia may have some relation to its higher house price index (see Section 8.6).

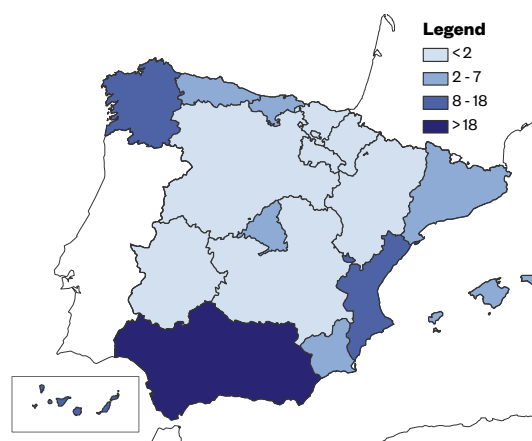
Both maps show that coastal areas, especially Andalusia, present high levels of confiscations. It is also worth mentioning that the results obtained from the DOCI investments database present some similarities with the level of confiscated assets (see Section 8.6). Even though figures cannot be directly

Figure 97 – Number of confiscated assets per region in Spain (NUTS 2, 2013)<sup>432</sup>



Source: URJC elaboration on PNSD data

Figure 98 – Geographical distribution of confiscated real estate in Spain (2000-2013)<sup>433</sup>



Source: URJC elaboration on PNSD data

compared,<sup>434</sup> it is apparent that **regions with high levels of investments also have high numbers of confiscated assets**. Following this tendency, regions with low levels of organised crime investment also have a low number of confiscated assets.

#### Value

Even though the classification of confiscated assets can be found in the data provided by the PNSD, there is no detailed explanation for each specific asset. Nevertheless, the

432. Classes identified using Jenks natural breaks optimization.

433. Classes identified using Jenks natural breaks optimization.

434. The information on confiscated assets is provided to the PNSD by each autonomous community court. However, some important cases are handled by the Spanish National High Court and the Spanish Supreme Court which are located in Madrid. Consequently, some of the assets originally confiscated by regional courts may be included in the number of assets confiscated in Madrid.



available data allow calculation of the average sale value per each category.<sup>435</sup>

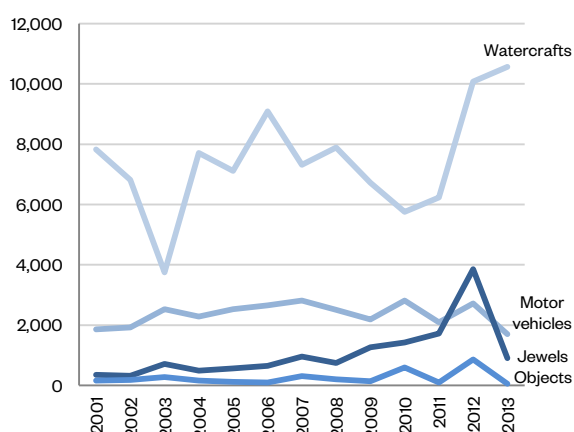
According to the latest data, the **current economic crisis** has had an impact on the confiscated asset value of some assets. The average sale value of objects has decreased by almost 50% since 2012. As for watercrafts, there are no significant changes in their respective average sale values in recent years (see Table 104). The total value of the assets disposed in 2013 was 1,765,268 euro with an increase of 85% in the number of disposed assets, mainly due to the lower value of the objects and vehicles being auctioned (PNSD, 2014, p. 16).

**Table 104 – Average sale value of assets 2012-2013**

Type of assets	2012	2013
Real estate	63,871.88	55,774.20
Motor vehicles	2,717.65	1,704.15
Watercrafts	10,076.87	10,562.60
Jewels	3,854.17	900
Objects	864.15	51.57

Source: URJC based on data from the PNSD 2014

**Figure 99 – Asset average selling value 2001-2013 excluding real estate in Spain (euro)**



Source: URJC elaboration on PNSD data

On the other hand, time series for the average sale value of confiscated assets show a growing trend over the years. Watercrafts seem to have the highest sale value over the years, with a moderate tendency to grow.

As for the average value per sentence,<sup>436</sup> the figure below shows its tendency over the available years. In general, it seems that the trend of the average value per sentence has undergone moderate growth. In 2008 a notable change is apparent, due

435. The average selling value has been calculated on the basis of data on public auctions and direct divestitures managed by the PNSD. Data from selling values in different years has been collected in order to produce a diverse number of times series for each type of asset.

436. Note that a court sentence can order the confiscation of diverse goods of different natures, as well as in terms of number of assets.

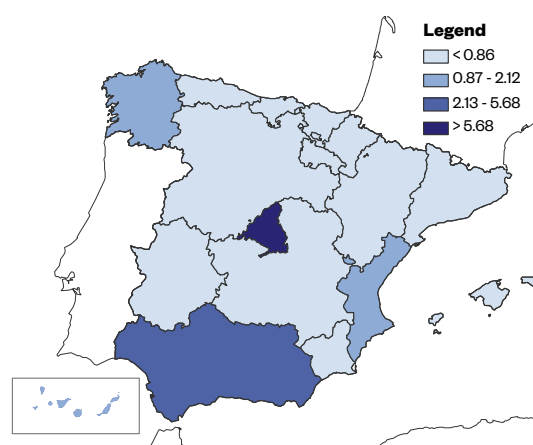
437. A total number of 16 real estate properties were sold. Stocks and shares are also included in the value shown for real estate properties.

to the fact that a high number of real estate properties were sold. In particular, over 60% of the real estate properties sold during 2008 were owned by three companies.<sup>437</sup> Moreover, the estimated average value per sentence for the period 1999-2013 was barely 1,300 euro.

The real estate sale value, including prices obtained from public auctions and direct sales, may fluctuate due to a wide variety of reasons, such as the current situation of the real estate market, the location of the properties being sold, or changes in the legislation regulating real estate valuation (Navarro and Perez, 2006). Owing to data limitations, no major analysis can be carried out in terms of sale prices; however, it is worth mentioning that the real estate trend is similar to the decrease in real estate prices due to the economic recession (see Section 8.6). Nevertheless, it is also necessary to point out that real estate confiscations have increased in recent years with a maximum and minimum sale value of 145,992 and 55,744 euro respectively (PNSD, 2014).

As for the **monetary values** confiscated in each Spanish region, it seems that a substantial number of them range between the medium and high levels. Madrid, Andalusia, Valencia, Galicia and the Basque Country are the highest in terms of monetary value in Spain. After these regions,

**Figure 100 – Value of confiscated assets (mn euro) by autonomous community in Spain<sup>438</sup>**



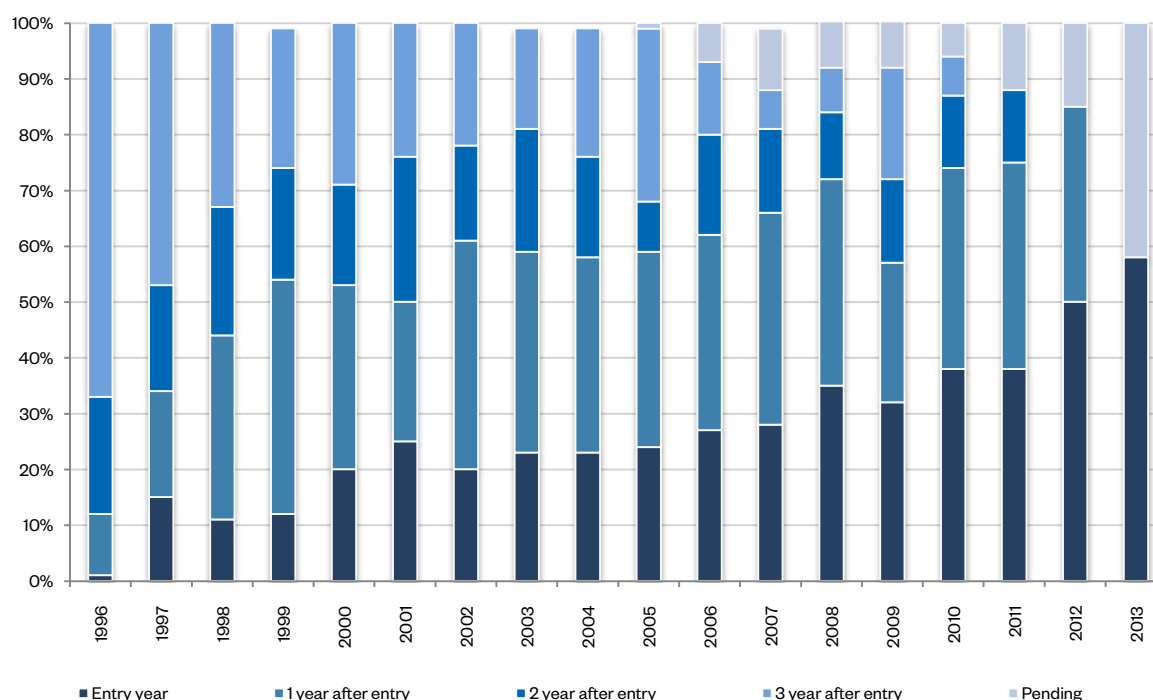
Source: URJC elaboration on PNSD data

Castilla León, Castilla La Mancha, and Catalonia form another important group for the value of confiscated assets. As shown in Section 8.6, Andalusia and coastal areas seem again to record levels higher than those of other regions, which suggests that the large number of confiscated assets and investments in these regions is related to organised crime.

Although the main purpose of confiscated assets is their final disposal, processing time plays a key role in terms of asset depreciation. According to data, between 1996 and 2013, a total of 27,523 confiscated assets were completely processed by the PNSD, which represents about 92% of the total amount of assets managed by this institution (PNSD, 2014).

438. The map shows contribution by each autonomy community based on the value of the assets confiscated. The types of assets used for the map include registered assets, movable assets, real estate and cash. Classification based on Jenks natural breaks optimization.

Figure 101 – Asset processing time in relation to its entry (Spain, 1996-2013)<sup>439</sup>



Source: URJC elaboration on PNSD data

The latest data show a clear tendency towards a **reduction in the processing time of the assets being managed**. Noticeable in Figure 101 is the increasing number of assets being completely processed (60%) within the same year that they enter the PNSD. Nevertheless, the data cannot be used to perform a yearly depreciation value analysis for each type of asset.

### 12.7.3. Concluding remarks

Because data on confiscated assets are limited, deeper analysis has not been possible. However, despite this difficulty, some general conclusions can be drawn. First, it seems that the number of assets confiscated in the period analysed **increased over the years**. In terms of assets allocation, the **autonomous community of Andalusia** headed the list of the number of confiscated assets, as well as showing high levels of investment evidence. Moreover, together with Andalusia, coastal areas like Catalonia, Valencia and Madrid also exhibit the same trend in terms of confiscated assets.

As regards the most common types of confiscated assets, **registered and movable assets represent the majority of confiscated goods**. Motor vehicles appear very often in the data provided by the PNSD, as well as in those of the DOCI. Regarding confiscated real estate properties, low levels of confiscation have been found to date. Hence, examination of

the value of confiscated goods, and time series for the average sale value of confiscated assets, showed a rising tendency over the years. When findings in Chapter 8.6 were compared to the data obtained from the PNSD, **a wide gap was apparent between the high level of investments made by OCG in businesses and the low confiscation numbers** in terms of companies related to drug trafficking.

The geographical location of assets seems to be aligned with the level of investments found in the southern region of the country and in the coastal areas. Moreover, the processing time of assets managed by the PNSD shows a decreasing tendency towards more efficient managing protocols. Nevertheless, the **impossibility of accessing disaggregated data** (on a case-by-case basis) on confiscated assets has restricted the possibility to perform an analysis richer in terms of statistical results.

439. Figure 101 shows the evolution and tendency of asset-processing time over the years. The main goal of PNSD is to protect the value of the confiscated assets by increasing the number of assets processed within the same year as their entry.

## 12.8. United Kingdom

David Wall and Yulia Chistyakova (Durham University, United Kingdom)

### 12.8.1. Introduction

The **JARD (Joint Asset Recovery Database)** database contains data on confiscated assets.<sup>440</sup> The JARD is a central repository of information relating to seizures of the proceeds of crime.<sup>441</sup> The data are not public. The database records all restraint, confiscation, cash seizure and civil recovery orders made in England, Wales and Northern Ireland, together with brief details of the assets taken into account in making such orders (Crown Prosecution Service, n.d.a). It also shows the balance outstanding on confiscation orders at any time (Millington & Sutherland Williams, 2010, p. 262). 4,500 users have access to the database, including financial investigators, prosecutors and enforcement staff across the UK. The database is listed in the CEART Project White Paper as a best practice in asset recovery (Palomo et al., 2009).

For the purpose of this project, **limited access to a subset of the JARD data** was kindly provided by the NCA (formerly SOCA) with the help of the Home Office. The dataset includes the following information: (a) monetary value (in GBP) of annual confiscation receipts broken down by type of crime and by type of authority, 2003-2013, and (b) monetary value of annual confiscation orders made that relate to these receipts, 2003-2013 (an aggregate value for each year).

Analysis of asset recovery in the UK is impeded by the lack of complete and consistent published data. The predecessor of NCA, SOCA, did not provide a complete set of asset recovery figures, and those that were published made comparisons difficult because of some lack of clarity over the meaning of the terms used in its reports (Sproat, 2011).

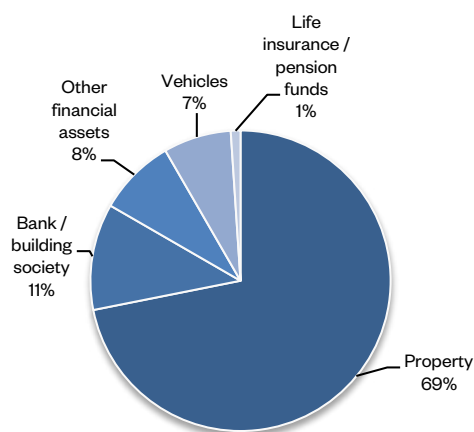
### 12.8.2. Analysis

#### Types and trends

Based on a JARD data analysis conducted by Fleming (2006, cited in Dubourg & Prichard, 2008, p. 74) the largest stock of investment (in terms of the **value** of assets) is in **real estate properties** and areas of land, followed by **bank accounts, vehicles, financial products** (pensions, investments and shares) and other assets: see Figure 102.

**Types of seized/restrained goods:**<sup>443</sup> the records of confiscations recorded in the investments database included a wide range of assets, such as properties (houses and flats),

**Figure 102 - Assets held by offenders in the UK (stock measure of the value of assets)**<sup>442</sup>



Source: adapted from Dubourg & Prichard, 2008

plots of land, cars, motorbikes, boats, number plates, jewellery and other valuables, designer clothes, cash, bank accounts. **Cash seems to be a fairly commonly recovered asset.** Even though evidence of cash seizures was not systematically collected, this provides an indication that this type of asset is recovered fairly frequently.

#### Geographical distribution

The assets were recovered from a **range of locations** across the UK.<sup>444</sup> The locations include London, Surrey, East and West Sussex, Edinburgh, Glasgow, North Eastern Scotland, Eastern Scotland, South Western Scotland, Greater Manchester, Tees Valley and Durham, West, North and South Yorkshire, York, Lincolnshire, Hampshire, Derbyshire and Nottinghamshire, Kent, Merseyside, Lancashire, Southampton, Leicestershire, Rutland and Northamptonshire, West Wales and The Valleys, Shropshire and Staffordshire, East Anglia, Berkshire, Buckinghamshire and Oxfordshire.

#### Criminal groups and nationality of owners

There were very few records of confiscations where it was possible to establish the nationality of the owner. In the majority of these cases, the owners of confiscated assets were **British OCGs** whose assets included property and land, cars, gold, other valuables, and bank accounts; there were several records of confiscations from **Eastern European OCGs** whose assets included cars, bank accounts, vehicles and houses. In the case study of a 'crash for cash' scam in County Durham, restrained assets included several properties, land, vehicles, private registration numbers and cash.

440. Assets obtained as a result of enforcement of confiscation orders, see 'Confiscation' in the previous section, under s 3, 4 or 6 of the Powers of Criminal Courts (Sentencing) Act 2000 or POCA 2002, s 70 (POCA 2002, ss 6(2)(a), (b) & (c)), and under s 6(3) of POCA 2002

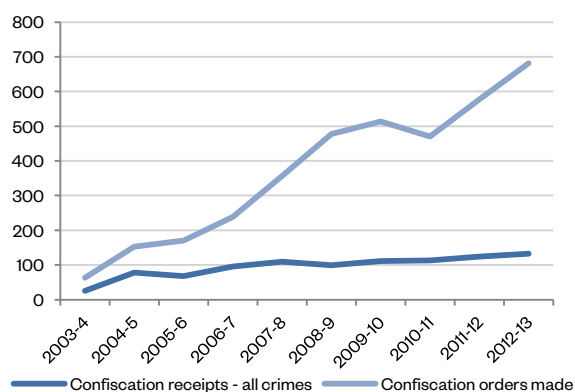
441. It is worth noting here that JARD does not only relate to organised crime. It records all confiscations related to acquisitive crimes, both organised and unorganised.

442. 'Bank/building society' refers to money in bank accounts or in building society accounts. The source does not specify what 'other financial assets' refer to.

443. This is based on the data been collected from open sources (the 'investments' database).

444. The locations are based on the data collected from open sources (the 'investments' database). The JARD dataset with which we worked did not contain a breakdown of data by geographical location.

**Figure 103 - Value of confiscation receipts and of confiscation orders in the UK (mn GBP, 2003-2013)**

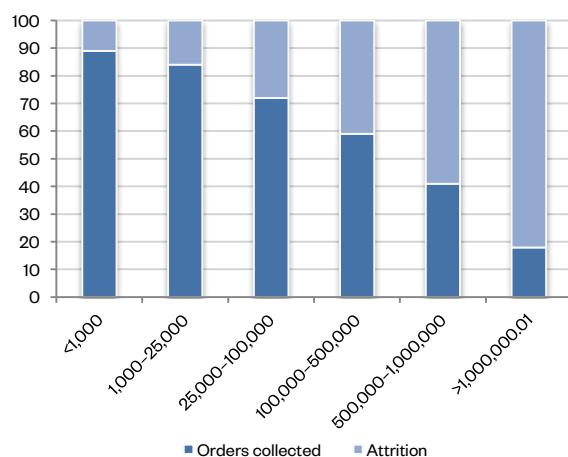


Source: University of Durham analysis of JARD data

### Value

According to the JARD data,<sup>445</sup> in total **960 million GBP of criminal assets** were recovered in the UK between 2003/4 and 2012/13. In 2012/13, around 133 million GBP was recovered. The value of assets recovered (confiscation receipts)<sup>446</sup> in the UK between 2003 and 2013 shows an **upward trend** (see Figure 103). But the confiscation orders made exhibit a much steeper upward trend, showing that the value of confiscation orders made has been growing at a higher rate compared to the value of confiscation receipts that relate to these orders.

**Figure 104 - Percentage collected of the total value of confiscation orders by size of confiscation order in the UK (orders imposed since 1987)**



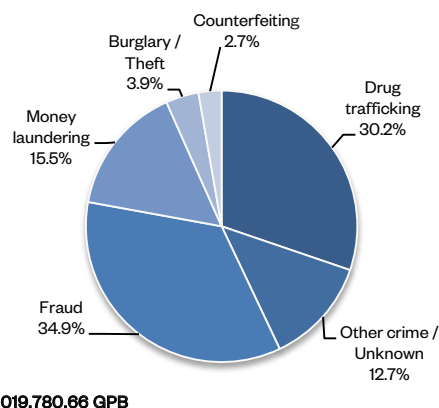
Source: adapted from Controller and Auditor General, 2013, p. 15

445. Provided by the NCA and the Home Office for the purposes of this project.

446. Confiscation order is the amount of money that the offender is ordered to pay by the court. Confiscation order receipt is the amount that has actually been paid by the offender. The two values are in most cases different, with confiscation order receipts usually lower than confiscation orders. There are a number of reasons for the attrition (the loss of the value of assets in the process of enforcement of the confiscation order). In many cases, offenders fail to pay part or all of the confiscation order that they have been given.

According to the National Audit Office, the estimated amount confiscated for every 100 GBP of criminal proceeds in 2012-13 was 26 pence. This is based on the use of the fraud figure as a proxy. This figure increases to 35 GBP if all other asset recovery measures are included (Controller and Auditor General, 2013). According to the same source, **76% of the**

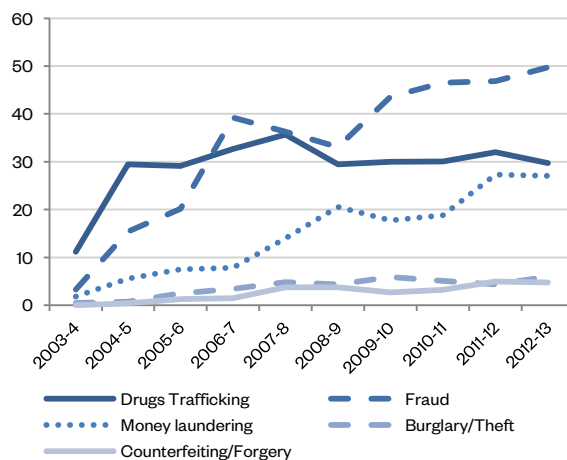
**Figure 105 - Share of the value of assets confiscated for each type of offence in the total value of confiscated assets in the UK (GBP 2003-2013)**



N = 957,019,780.66 GBP

Source: University of Durham-OCP analysis of 2003-2013 confiscation data held on the JARD database

**Figure 106 - Trend in the value of confiscation receipts per type of offence in the UK (2003-2013)**



Source: University of Durham-OCP analysis of 2003-2013 confiscation data held on the JARD database

**amount recovered** using confiscation orders each year was **spent on enforcing confiscation orders**. Enforcement agencies collected 133 million GBP from confiscation orders in 2012/13, while the estimated annual cost of the confiscation order process was 102 million GBP (Controller and Auditor General, 2013).

**Size of orders:** in the UK the majority of orders (80%) are for **relatively small amounts** (25,000 GBP and under). The reason for this, according to the National Audit Office, is that low-value orders are **easier to enforce**; and while the success rate is high for orders under 1,000 GBP (90%), it is much lower for orders over 1 million GBP (18%), see Figure 104.

## Related offences

Examination of the relative value of confiscation receipts by type of offence, using the JARD dataset,<sup>447</sup> shows that of the total value of the receipts, the largest value was recovered from **frauds (35%)**, closely followed by **drug trafficking (30%)** and **money laundering (15%)**. Burglary/theft and counterfeiting/forgery contribute relatively little to the overall value of confiscation receipts (4% and 3% respectively, see Figure 105). This certainly is not an unexpected finding, which shows that most of the value of assets obtained through confiscation orders is recovered from the **two largest illicit markets in the UK**: frauds and drugs, showing that the structure of confiscations generally reflects the structure and profitability of the illicit economies (see Section 5.7).

Examination of the changes in the value recovered from each offence since 2003 (Figure 105) shows that the value of assets recovered from different offences follows different trends. For drugs, after an initial increase in the value of confiscation receipts between 2003 and 2004, the trajectory then ‘flattens’, showing recovery of around 30 million GBP a year between 2008/9 and 2012/13. Recoveries from **frauds**, however, follow a remarkably different trajectory: they continue to **grow rapidly between 2003/4 and 2006/7**, reaching 40 million GB GBP in 2006/7; there is then a fall in the next two years, to 33 million GBP in 2008/9. Thereafter, confiscations from frauds resume an upward trend, which continues until 2012/3, reaching nearly 50 million GBP in 2012/13. For **money laundering**, an **upward trend** starts slowly, but becomes much more pronounced around 2006/7 and then stabilising around 27 million GBP in 2011/12. Recoveries from counterfeiting and burglary/thefts also experienced clear upward trends between 2003/4 and 2012/13, although the increase in recoveries from these offences was much more modest. It must be noted here that the Fraud Act was adopted in 2006, and Anti-Money Laundering Regulations in 2007. It is also important to note that in 2006 the Asset Recovery Agency that was initially created to lead the process of asset recovery in the UK was abolished and the Serious and Organised Crime Agency was set up. These legislative and institutional changes may to some extent explain the increase in recoveries from both frauds and money laundering after 2005/6.

**Table 105 - Mean value of confiscation orders per type of offence, thousand GBP**

Type of offence	Mean value (GBP)
VAT fraud	336,000
Money laundering	255,000
Fraud/deception	51,000
Robbery	21,500
Drug trafficking	20,000
Burglary/theft	14,500

Source: Adapted from Bullock, Mann, Street, & Coxon, 2009, p. 13

Bullock and colleagues used the JARD database to examine the distribution of the number of confiscation orders per type of offence, as well as the value of orders (Bullock et al., 2009). The majority of confiscation orders were for drug-related offences. This was followed by fraud and burglary/theft (Table 105). They also looked at mean values of confiscation orders. When ranked according to their value, confiscation orders with the **highest mean values were VAT frauds** (366,000 GBP), followed by money laundering offences (255,000 GBP) and drug offences (20,000 GBP).

This analysis shows that recoveries from drug-related offences consist of a large number of confiscation orders of relatively low value, while recoveries from frauds consist of a smaller number of orders of higher value.

## The process of attrition

Bullock and colleagues (Bullock et al., 2009) used the JARD to examine attrition and concluded that the levels of attrition were high: the attrition between value of orders sought and value of orders imposed was **38% for drug supply cases** (71.5 million GBP vs. 44 million GBP), and 34 per cent for all non-drugs offences (120 million GBP vs. 79.1 million GBP). These findings are supported by the recent National Audit Office report (Controller and Auditor General, 2013). The following case study illustrates how the process of attrition affects the amount of assets recovered.

“An offender was convicted in September 2008 for a complex fraud relating to precious metals trading. The confiscation case was heard in August 2010, with the judge ruling that the offender had benefited by over £1 billion. However, the actual order made was for £20 million, much of which was considered hidden overseas. There were significant complications to this case including monies being transferred through multiple trust funds, bankruptcy imposition on the various companies set up for the crime, and the offender’s wife claiming ownership of assets. The offender has paid just £200,000 as of September 2013 and is currently serving a seven-year default sentence for non-payment” (Controller and Auditor General, 2013, p. 13).

Lister and Bullock’s analysis of the development and

### Box 46 – Case study: Metal trading fraud

“An offender was convicted in September 2008 for a complex fraud relating to precious metals trading. The confiscation case was heard in August 2010, with the judge ruling that the offender had benefited by over £1 billion. However, the actual order made was for £20 million, much of which was considered hidden overseas. There were significant complications to this case including monies being transferred through multiple trust funds, bankruptcy imposition on the various companies set up for the crime, and the offender’s wife claiming ownership of assets. The offender has paid just £200,000 as of September 2013 and is currently serving a seven-year default sentence for non-payment” (Controller and Auditor General, 2013, p. 13).

447. See above for details on the data made available for the analysis.



operation of the regime of confiscation law in England and Wales concludes that the **effectiveness of 'confiscation' to secure its crime control objectives is uncertain** (Lister & Bullock, 2014). This is supported by the recent reports by the National Audit Office (Controller and Auditor General, 2013). The NAO reports identifies several key problems (a) a flawed incentive scheme with limited oversight; (b) lack of good performance data or benchmarks for organisations means that there is a limited perspective on which cases to pursue; (c) outdated and slow ICT systems and numerous data-entry errors are also problems; (d) the central sanctions used to enforce confiscation orders, which include prison sentences and 8% interest on the amount, 'do not work'; (e) not enough being done to enforce the orders; (f) the bodies involved with confiscation do not have enough information (Controller and Auditor General, 2013; House of Commons Committee of Public Accounts, 2014).

### 12.8.3. Concluding remarks

Due to incompatibility of the data on investments (see Section 8.7) and confiscations as seen in this Section) it is difficult to draw conclusions about the differences and similarities between investments and confiscations. However, a few observations can be made. According to a source cited in this chapter, the largest stock of assets held by offenders (in terms of the value of assets) is in **real estate properties** and areas of land, followed by **bank accounts, vehicles, financial products** (pensions, investments and shares) and other assets. This is based on the JARD data, that is, information on cases where a confiscation order was granted. On the other hand, the analysis of the investments database (see Section 8.7) suggested that most *frequently mentioned* investments were companies, followed by properties and other (movable and registered) assets (but there was no measure of the relative 'value' of each type of investments). From the available data, if companies are not taken into consideration, confiscations appear to be broadly in line with investments.

With regard to cash, a proportion of **cash seizures** were recorded in the 'illicit markets' database, but because data on confiscations could not be collected systematically from open sources, it was impossible to say whether cash seizures were more or less common than other confiscations.

Properties appear to be the assets that are commonly used to pay confiscation orders. It is likely that a significant proportion of money from frauds and money laundering ends up as property investments in the UK and abroad or investments in other high-value assets. An analysis of the 'investments' database shows that frauds recorded in the database were relatively frequently associated with investments in real estate (31 mentions out of 96 mentions of frauds, or 32%). While interpretation and explanation of such quantitative measures should be approached with great caution, these data may suggest that **a considerable proportion of investments in real estate comes from frauds**, and that LEAs that are increasingly focused on frauds since the introduction of the POCA 2002 are **recovering increasingly more real estate as an asset readily available for confiscation**. Certainly, the POCA 2002 has widened the number of institutions required to file suspicious activity reports, and thus widened the 'net', making it possible to identify more suspicious transactions, link them to criminal activities and identify assets available for confiscation.

**Companies do not seem to be an asset commonly 'recovered' by LEAs in the UK.** First, it may not be easy to identify and detect connections between companies and specific criminal activities. Secondly, this may be explained by the specifics of law in the UK. Companies enjoy their own legal personality separate and distinct from the offender. The Crown Prosecution Guidance explains that, in normal circumstances, "they do not constitute realisable property of the defendant", however, "where a defendant is in control of a company and it has been used to facilitate the criminal conduct complained of, the court may pierce the corporate veil of the company and treat it as the realisable property of the defendant. The Court will not, however, permit the restraint order to operate at the pre-conviction stage in such a way as to preclude the company engaging in legitimate trading activity" (Crown Prosecution Service, n.d.).

In other words, the company **will be allowed to continue to operate**, but the court may appoint a management receiver to enable continuous operation of the company pending the resolution of the case. Examples of such businesses include haulage firms, factories and bureaux de change. It is however often difficult to prove that a company was used for criminal conduct, because these companies are often used as fronts for illicit activities (Laver, 2013). It is more common in the UK to make confiscation orders against individuals (Murray, 2011). Other possible causes cannot be excluded: for example, the problems in tracing back the company to its beneficial owner and also possibly 'reluctance' by prosecutors to confiscate companies that may still keep on working and produce profits.

It is also important to mention the problem of attrition. In the UK, offenders are required to "repay a sum of money equivalent to the amount adjudged to have been made from crime", rather than hand over the actual assets in which they invested (Bullock et al., 2009, p. 1). In other words, it is the **value of the proceeds** that is being sought, not the actual proceeds. Bullock and colleagues identify a number of reasons for attrition, including, "shortfall between the **expected value** of assets when orders are made and the **actual value** they fetch when sold; difficulties faced by imprisoned offenders in selling assets to pay their orders; complications around the position of **third parties** in asset ownership, preventing the sale of property in particular; actions on part of some offenders to avoid recovery, e.g. hiding assets; offenders absconding, dying, or being deported" (Bullock et al., 2009, p. iii). Their conclusions agree with those of the NAO: in particular, they point out the need for greater clarity on the scope of POCA's use, a more systematic and strategic approach to confiscation, and improved coordination.

# 13. Conclusions

Michele Riccardi (Università Cattolica del Sacro Cuore - Transcrime, Italy)

This report has presented the final results of **Project OCP – Organised Crime Portfolio** ([www.ocportfolio.eu](http://www.ocportfolio.eu)),<sup>448</sup> to furnish a **first study of the economics of organised crime** in Europe. In particular, it has answered three research questions addressed by the three sections of the report.

- **Part 1** has analysed where organised crime proceeds are generated, and from what **illicit markets**;
- **Part 2** has studied where these proceeds are then **invested in the legitimate economy**, in what regions, assets and business sectors (Part 2);
- **Part 3** has studied the extent to which these proceeds are **confiscated and recovered** by European authorities (Part 3).

The report has focused on **seven EU countries** (Finland, France, Ireland, Italy, the Netherlands, Spain and the United Kingdom), represented by the OCP project partners, but it has also provided a broader overview on the situation in Europe as a whole.

Considering the limited number of **previous studies** and the **lack of data** in this field, the report has provided only an **exploratory analysis**, conducted with an **innovative methodology** and a **wide variety of data sources** (statistics on confiscated assets, judicial evidence, police reports, academic literature, open sources – see Chapter 2 and the Methodological Annex).

Given its pioneering nature and its data limitations, the report should be considered only a **first step towards better understanding** of how the business cycle of organised crime in Europe works, and a starting point for future **risk assessment tools** aimed at **reducing the opportunities for criminal infiltration** of the legitimate economy, and therefore to strengthen the prevention of organised crime business.

## Where do criminal proceeds come from? Illicit markets in Europe

The report has provided a **first quantification of the revenues produced by the main illicit markets** in Europe. According to this estimation, developed on the basis of a

transparent and verifiable methodology (see Chapter 2 and the Methodological Annex), illicit markets in the European Union produce around **110 billion euro every year**,<sup>449</sup> equivalent to approximately **1% of the EU GDP**, with a higher weight in southern and eastern European countries (see Section 3.1). The seven OCP countries represent about 60% of this total amount.

Although traditional markets such as **drug trafficking** (annual revenues of 28 million euro at EU level, see Section 4.1) still play a crucial role in the economics of organised crime groups, other illicit activities are emerging as key sources of proceeds for such groups, primarily **fraud** in its various forms (such as organised VAT fraud, excise fraud or credit card fraud: see 4.9). According to the OCP estimates, also **counterfeiting** is *potentially* very profitable (see 4.5); and so too are emerging activities like **ITTP** (with annual revenues comparable to those of heroin at EU level: see 4.4) and **organised property crime** (especially thefts of car parts, medicines and other high-valued products which may be ‘laundered’ and re-sold on the legal market: see 4.10). OCGs in Europe may shift from traditional illicit markets such as drugs or THB to these high-return and low-risk criminal activities (see 3.3).

The revenues produced by illegal markets in Europe are **not monopolized by a few criminal organisations**; rather, they are shared among a **plurality of actors** (see 3.2). It is not easy to determine *who earns what amount*: the number of **smaller groups and freelance criminals** is increasing, especially in emerging illicit activities such as synthetic drugs, home-grown cannabis (see 4.1), fraud (see 4.9) or ITTP (see 4.4).

Although some ethnic-based groups still play a crucial role (e.g. Albanian or Turkish OCGs in heroin trafficking), OCGs in Europe are increasingly **multi-ethnic, heterogeneous and interconnected** (see 3.2). While some groups are specialising in specific illicit activities (e.g. Eastern European OCGs in organised property crime: see 4.10), most OCGs are involved in **multiple crimes**. In this regard, the use of the same channels, routes, and *modus operandi* for different illicit trades may generate **economies of scale**, reduce operational costs, and **increase OCGs’ profit margins**.

However, it should be borne in mind that the number, nature, composition, and level of organisation of these criminal actors change according to the **country, the market, the opportunities, and the particular stage of the illicit supply chain** in which they are active. For example, while illicit markets in southern **Italy** seem to be dominated by local mafia groups,

448. Project OCP has been carried out with financial support from the Prevention of and Fight against Crime Programme of the European Union - European Commission, DG Home Affairs, and it has been developed by an international consortium of eight partners: Transcrime – Joint Research Centre on Transnational Crime ([www.transcrime.it](http://www.transcrime.it)) of the Università Cattolica del Sacro Cuore di Milano and the Università degli Studi di Trento (Italy), coordinator of the project; Police college of Finland (PCF – Finland); Agence de Gestion et de Recouvrement des Avoirs Saisis et Confisqués (AGRASC – France); An Garda Síochána - Criminal Assets Bureau (CAB – Ireland); Guardia di Finanza (GDF – Italy); Utrecht University (UU - The Netherlands); Universidad Rey Juan Carlos (URJC – Spain); Durham University (UDUR – United Kingdom).

449. The figure refers to the estimate of the annual revenues from those illicit markets for which a figure was available or has been produced for the EU MS for which the data were available. This figure includes trafficking in heroin, cocaine, cannabis, amphetamines, ecstasy, illicit trade in tobacco products, counterfeiting, illicit trafficking in firearms, MTIC frauds and cargo theft (see Chapters 3 and 4 for details).

central or northern Italian regions witness the presence of different actors (see 5.4). Similarly, *transit* countries like **France**, the **Netherlands** or **Spain** register numerous OCGs (see respectively 5.2, 5.5 and 5.6) characterised by different ethnic backgrounds and often functionally linked to local groups.

Finally, not all the illicit revenues produced are available for investment in the legitimate economy. OCGs must bear **operational, management and other costs**. Employing an innovative methodology applied to the heroin market (see Chapter 6), this report has estimated that **between 25% and 42%** of the revenues from heroin in the 7 OCP countries may be available for laundering (see 6.1).

### *Where are criminal proceeds invested in the legitimate economy?*

Having determined how much is produced by illicit markets, and how much may be available for laundering, the report has analysed **where these illicit proceeds are then invested by OCGs** in the legitimate economy. To this end, it has carried out a **large-scale collection of evidence** on criminal investments by drawing on many sources, including judicial files, police reports, FIU reports, academic literature and open sources (see Chapter 2 for details on the data collection).

In terms of **geographical distribution** (see 7.1), criminal investments seem to concentrate in regions characterised by the traditional presence of OCGs (e.g. southern Italy), in border regions which play a strategic role in illicit traffics (e.g. Andalusia, south and eastern France), in areas with important ports or airports (e.g. Amsterdam-Rotterdam, PACA-Provence-Alpes-Côte d'Azur), in large urban areas (e.g. Rome, Madrid, Paris, London), or in tourist and coastal areas which can provide investment opportunities (e.g. PACA or Costa del Sol).<sup>450</sup> While some of these regions collect investments by a few local criminal groups (e.g. southern Italy – see 8.4), others seem to attract a variety of both local and foreign OCGs (e.g. Spain – see 8.6).

As regards the **types of assets** composing the portfolios of criminal groups (see 7.2), there is evidence that all types – movable goods (from cash to jewels to financial instruments), registered assets (cars, motorbikes, boats, helicopters, etc.), real estate properties and companies – are the targets of OCG expenditure and investments. Particularly important is the role of companies. In this regard, the preferred **business sectors** (see 7.3) are bars and restaurants, construction, transportation, real estate activities, hotels, and wholesale and retail trade, in particular of food products and clothing. Also emerging are cases of criminal investments in waste and scrap management, renewable energy, money transfer businesses (MTB), casinos, VLT, slot machines, betting and gaming.

However, differences exist across countries (see Chapter 8) and across criminal organisations (see 7.4). For example, while Italian mafia OCGs prefer construction activities (in Italy) and wholesale trade of food products (abroad – see 7.4 and 8.4), Motorcycle gangs show a preference for, e.g., private security or renovation activities (see 7.4 and 8.1), and Chinese OCGs for wholesale and retail trade and bars and restaurants (see 7.4).<sup>451</sup>

In general, it seems that the selection of these sectors responds to different OCG needs (see 7.5): to **launder money** (with cash-intensive businesses), but also to gain **control of the territory** (with territorial-specific economic activities), to **infiltrate the public administration** and the local political sphere, to **facilitate illicit trafficking** (e.g. transportation companies can be used as fronts for the smuggling of drugs and other illicit goods), and to maximise the return while **minimising the risk** of being traced, for example by investing in new sectors characterised by weak or developing regulation (e.g. renewable energy or VLT and slot machines).

According to the analysis carried out, it is evident that criminal groups use investments in the legitimate economy not only to launder money but also as **tools to exert their power and influence**, and to exploit **economies of scale** with the criminal activities in which they are involved. OCGs do not discriminate between illicit and legitimate markets, but instead see them as on a **continuum along which to seize profit opportunities and expand their power and economic gain**.

### *To what extent are these proceeds confiscated by European authorities?*

In seeking to answer this question, the report has encountered two main difficulties. The first is the wide **differences in terms of regulatory framework** that exist among EU countries (see Chapter 10): types of confiscation, of predicate offences, of confiscable assets differ from country to country and make it difficult to perform a comparative analysis. The second difficulty is the **lack of data on confiscated assets** (see Chapter 11). This report has assessed what information is available in Europe in terms of seizures and confiscations, and the result is not encouraging: statistics are **lacking and of poor quality**; the use of IT systems to organise data is infrequent, they lack useful information (e.g. the related offence or the asset location), and in the best of cases different databases exist in the same country but are managed by different agencies, refer to different stages of the confiscation process, and are unable to 'talk to each other'.

In this situation it has not been easy to analyse what is recovered from OCGs in Europe. According to the available data, it has emerged that most confiscated assets are **movable goods** (in particular **cash**) and **registered assets** (e.g. cars, etc.) (see 12.1). The confiscation of real estate properties is not very frequent, and that of **companies is almost non-existent**, with the exception of a few countries (e.g. Italy – see 12.5).

In summary, a **significant discrepancy** has emerged between **what criminals invest in** and **what is actually confiscated** by European authorities, not only in terms of *amount* but also in terms of *types* of criminal assets. This applies in particular to the confiscation of companies. However, it is encouraging that, in all the countries analysed by this report, confiscation is increasing (in number of assets and/or in value – see 12.1), and the growth has received further impetus from the new Directive 2014/42/EU.

450. Other European areas outside the 7 OCP countries recording a higher number of cases are Berlin, the area of Duisburg, the French-German border, Bucharest, and the Romanian border with Moldova.

451. Similarly, there are differences among groups also in terms of geographical patterns: while some criminal groups prefer to invest locally, there is evidence that others (e.g. North-African or Colombian OCGs involved in drug trafficking) tend to transfer and invest abroad the illicit proceeds generated in Europe, in particular in their home country (see 7.4, 8.2 and 8.5).

## Research and policy implications

Given its pioneering nature, its data limitations and the limited number of EU MS covered, this report should be considered only a **first step** towards better understanding of this phenomenon, and a **solid basis** for forthcoming studies in this field. In particular, the OCP report has **highlighted several challenges** which should be addressed by future research and policy initiatives at European level.

From a **research** standpoint:

- This report has provided a picture of the activity of OCGs in illegal and legitimate markets on the basis of police and judicial cases. However, to strengthen the prevention of OC infiltration, it is necessary to move from *cold pictures* of past cases to **heat maps of risk** highlighting not only where risks of criminal infiltration are, but also where they *could emerge in the future*. In other words it is necessary, starting from this study, to develop **risk assessment models** which take account also of **contextual variables** (e.g. the current and proposed regulation, economic incentives, the level and type of crime control policies) which affect the probability of criminal infiltration occurring. To improve the prevention, it is necessary first to determine where **opportunities of criminal infiltration can emerge** and then develop policies to **reduce them**.
- In order to do so, it is also necessary to **extend the study** to the other EU MS not covered by Project OCP. This report has shown that criminal investments are intrinsically *transnational*, and it is not possible to limit their analysis within country borders. There is the need to extend the data collection and analysis to **all the 28 EU MS**, e.g. by setting up a **monitoring network** in order to gain a detailed picture of this phenomenon throughout Europe and identify the areas on which to focus research and policy initiatives.
- OCP has provided a 'wide-angle' picture of the economics of OCGs, highlighting **macro patterns and trends** in the activity of criminal groups operating in illicit and legitimate markets. It is necessary to enrich this account with a **micro approach** which focuses on specific issues: for example, how investment decisions are taken and agreed among different members of the same OCG. Future research initiatives should **integrate the macro findings of OCP with the micro results** of other limited-in-scope research projects conducted at EU level,<sup>452</sup> so as to produce more focused and practical knowledge in this field.

From a **policy** perspective:

- This report has highlighted that **data in this field are lacking and of poor quality across EU MS**. This applies above all to statistics on confiscated assets but also to STRs, financial investigations, and administrative statistics related to financial crimes. The lack of data makes any study in this area arduous and partial. European agencies should propel the **collection of better data** across EU countries and **guarantee access to researchers** active

in this field. As regards statistics on confiscations, the EU Commission, relying on Article 11 of the new Directive 2014/42/EU, should improve the collection of **harmonised data**, e.g. by disseminating standard templates among EU AROs in order to facilitate the exchange of information across countries and allow comparative analyses.

- This report has shown that there is a discrepancy between what criminals invest in and what is confiscated by European authorities, in particular with regard to criminal investments in legitimate businesses. There is a need to **improve the confiscation of companies**. To do so, it is necessary to intervene at three levels. First, **the tracing** of criminal assets should be improved by strengthening the financial investigation skills of European LEAs and FIUs. This can be achieved for example with courses and workshops and by providing investigators with better access to registries and more effective IT tools.<sup>453</sup> Second, **regulation** should be improved, e.g. by widening the use of *extended confiscation* or *third-party confiscation* which in some countries (e.g. Italy) has greatly facilitated the confiscation of enterprises. Third, **the management** of confiscated companies should be improved: in some European countries, prosecutors may avoid the seizure of companies because they are difficult to manage once confiscated. It is necessary to develop effective management policies which keep, when possible, companies and jobs alive. EU policymakers could **learn from those countries (such as Italy)** where confiscation of companies has long been successfully implemented and has proven to be one of the most effective instruments with which to fight organised crime.
- for better **public-private partnerships**. Public authorities and private companies should cooperate through the more effective **exchange of data and best practices** in order to prevent criminal groups from exploiting loopholes in legal supply chains (to commit, e.g., theft, fraud or counterfeiting) and using corporate entities as fronts for their illicit trade or for money laundering purposes.

European institutions and national governments should provide human and technological resources in order to meet these challenges. This may also require **reshaping the organisation of LEAs, FIUs and AROs** so that they are able not only to apply crime control policies but also to **identify, assess and manage the risks** of criminal infiltration of illicit and legitimate markets. Adopting an **opportunity reduction approach** and focusing on high-risk situations could lead to achievement of these outcomes with fewer resources and lower costs for European citizens.

452. For example with the findings of Project ARIEL ([www.arielproject.eu](http://www.arielproject.eu)), funded by DG Home Affairs and expected to finish in spring 2015. ARIEL has been carrying out a script analysis of some selected cases studies of organised crime infiltration into legitimate companies in 5 pilot EU countries in order to better understand how OCGs acquire and keep control of European corporate entities.

453. For example, EU funded Project EBOCS ([www.eboocs.eu](http://www.eboocs.eu)) will produce an IT prototype available to LEAs, FIUs and AROs to facilitate the collection and analysis of data on shareholders and administrators across different business registries of five EU MS. If this pilot tool were extended to other countries, it would crucially facilitate financial investigations at transnational level – the most important in transnational organised crime cases – aimed at identifying the beneficial owners behind infiltrated companies and corporate entities.



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