

MAPPING THE RISK OF SERIOUS AND ORGANISED CRIME INFILTRATION IN EUROPE

ANNEX A1: CRIME SCRIPT ANALYSIS OF CASE STUDIES



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Mapping the risk of Serious and Organised Crime infiltration in European Businesses

Annex to the Final report of the MORE Project (HOME/2014/ISFP/AG/EFCE/4000007212)

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ANNEX A1 — CRIME SCRIPT ANALYSIS OF CASE STUDIES

This Annex provides the **full details of the crime script analysis (CSA) of the 24 case studies** analysed in depth by the MORE project.

The analysis focused on the *modus operandi* and the infiltration scheme used, so there is no need to report the names of the legal and natural persons involved in the case. To the extent possible, the **cases were anonymised** to comply with EU regulations on privacy and personal data protection. In particular:

- The names of companies and other legal persons were replaced with the label of the case (e.g., ALPHA, BETA, GAMMA, etc.) and a sequential number (e.g., ALPHA1, ALPHA2, etc.)
- The names of individuals were replaced with a prefix (Mr/Mrs) and the first letter of the case label (e.g., Mr A in the ALPHA case).

Details on the methodology used for the CSA are provided in Chapter 2 of the main body of the final report.

1. ALPHA CASE

1.1. Case summary

This case involved shell companies infiltrated by a criminal group to **'launder' and sell on the European legitimate market medicines that had been stolen** from Italian hospitals and distribution lorries. In the 2000s, Italy had to face a serious problem with thefts of medicines. Between 2006 and 2013, **70 cases of theft were identified** in Italian hospitals, but many others occurred in lorries and transportation vessels (Riccardi, Dugato, Polizzotti, & Pecile, 2015). As a consequence of the increase in thefts, the Italian Medicine Agency (AIFA) established a prevention unit and a shared database with relevant stakeholders (e.g., pharmaceutical manufacturers, wholesalers and hospitals) to contain information about stolen medicines (e.g., name, manufacturer and batch number) and help investigations (AIFA, 2015). Furthermore, a blacklist of stolen medicines was created and made public.

In 2014, an alert from a German parallel distributor about a medicine on the blacklist began what became known as **Operation Volcano**. This German parallel distributor received a defective vial of an anti-cancer medicine (*Herceptin*) from a wholesaler in the United Kingdom. The alerts led to several investigations by European law enforcement agencies (AIFA, 2015).

The Italian authorities revealed that vials of anti-cancer drugs that had been stolen from Italian hospitals and lorries were manipulated and then **re-introduced on the legal market using fake receipts provided by unlicensed wholesalers located mainly in Eastern Europe**. A criminal organisation based in Italy managed this illicit trade by:

- a) commissioning local criminals to steal medicines from hospitals or lorries
- b) sending the stolen medicines to a central unit, i.e., an illicit storage facility in Italy
- c) matching the stolen medicines with fake receipts provided by non-licensed (**bogus**) **wholesalers located in Cyprus, Hungary, Latvia, Romania, the Slovak Republic and Slovenia**, which served to conceal their fake origin
- d) simulating a fake exchange of the medicines between these bogus wholesalers and licensed Italian wholesalers
- e) distributing the 'laundered' medicines through licensed Italian wholesalers into the legal supply chain in Europe, mainly in Germany but also in Finland and the United Kingdom

The investigation led to the **seizure of falsified and manipulated vials** and to the suspension of some of the pharmaceutical wholesalers involved (AIFA, 2015, 2017; La Presse, 2014).

Further investigation by the Italian authorities revealed that **two additional medicines** stolen in Italian hospitals were re-introduced on the legal market using the same scheme (AIFA, 2015; La Presse, 2014).

1.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration of legal businesses was carried out mainly to **conceal illicit trade**, i.e., the theft and 'laundering' of stolen medicines. The bogus unlicensed wholesalers were established ad hoc abroad (mainly in Eastern European countries) specifically to produce fake invoices to be matched with

stolen medicines, while licensed Italian wholesalers were used to distribute the stolen medicines in Europe once they were ‘laundered’.

The theft and sale of stolen medicines was, for a few years, a **big business opportunity for criminals**. The reasons were many. First, some medicines can only be administered in public hospitals and, until the introduction of some special security measures in 2015, **hospital pharmacies were not strongly protected** and could be easily robbed (AIFA, 2017).

Second, the high value of the goods: the stolen and manipulated medicines were mostly Class H products, which are used to treat serious diseases such as cancer or Hepatitis C and, despite usually being covered by the NHS, command **very high prices** (e.g., a few thousand euro for a single vial). This high value/volume ratio made them appealing for criminals, who could increase their profit margins by reselling the stolen medicines through parallel sales in countries where the price was higher.

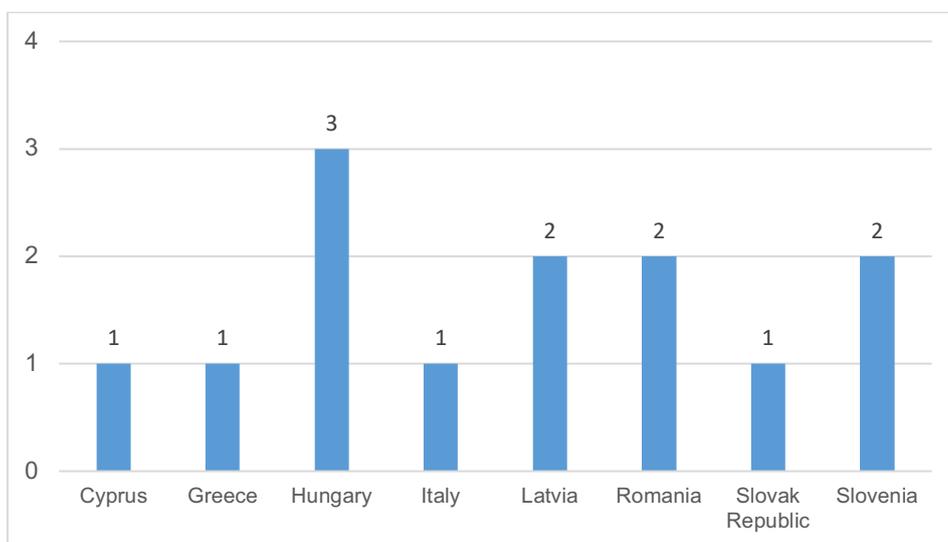
Third, the **penalties for this illicit trade are less severe** than for other serious crimes such as drug trafficking. In summary, theft of medicines can be a criminal activity with low risks and high profitability (Riccardi et al., 2015).

Lastly, as noted by some authors, the **pharmaceutical parallel trade market** allows the (stolen) medicines to be sold in countries with high prices for additional profit from the price differentials; for example, Germany has higher prices than other EU MSs (AIFA, 2017). And there are some loopholes (e.g., low verification standards) that make pharmaceuticals vulnerable to criminal infiltration.

1.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

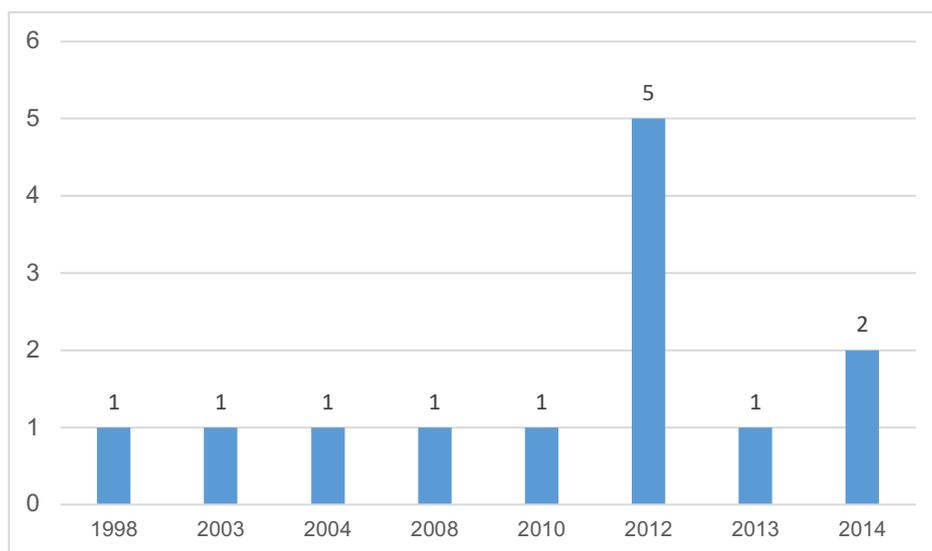
The investigation revealed **13 bogus pharmaceutical wholesalers** involved in the illicit trade (AIFA, 2015; La Presse, 2014). As mentioned, the companies were established ad hoc abroad, mainly in Eastern European countries (see figure below).

Figure 1 – Country of registration of the bogus pharmaceutical wholesalers (N=13)



Source: Transcrime elaboration of BvD Data

Figure 2 – Year of incorporation of the pharmaceutical wholesalers (N=13)

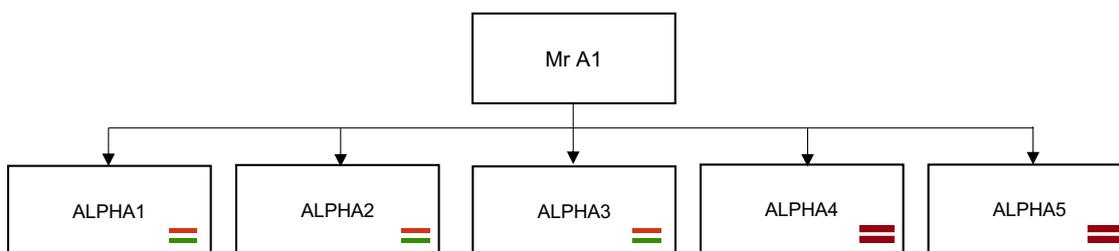


Source: Transcrime elaboration of BvD Data

According to available sources, the wholesalers involved were of two types:

- **firms established ad hoc using figureheads:** according to BvD data, ALPHA1 (Hungary), ALPHA2 (Hungary), ALPHA3 (Hungary), ALPHA4 (Latvia) and ALPHA5 (Latvia), although established in different countries, are/were owned by the same individual, an Italian-Canadian citizen — we can call him Mr A1 — living in Campania (Italy) who registered the companies using two slightly different first names (see Figure 3).
- **existing businesses:** some of the businesses were already in operation, in some cases in different sectors than the pharmaceutical industry — e.g., ALPHA6 (Cyprus) was operating in the oil sector. There are no indications that the owners of these business were threatened or forced to get into the business.

Figure 3 – Companies established ad hoc using figureheads

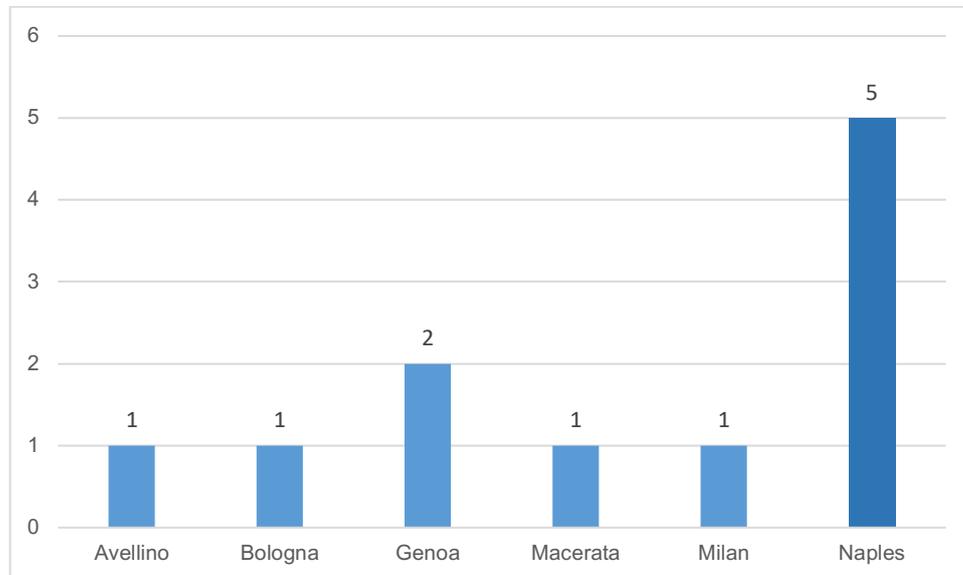


Source: Transcrime elaboration of BvD Data

The bogus wholesalers were **private limited liability companies**. Some of these firms are still active, although most were shut down as a result of the investigation.

The bogus wholesalers then illicitly sold the stolen medicines to some **licensed Italian wholesalers**, which then distributed the whitewashed medicines in the rest of Europe (in most cases, through a parallel trade). As shown in Figure 4, most of them were located in the Campania region (mostly in Naples and in Avellino), but other firms in other regions were also used.

Figure 4 – City of registration of Italian licensed wholesalers (N=11)



Source: Transcrime elaboration of BvD Data

As for the legal form, most firms were **private limited liability companies (s.r.l.)** or one-person companies with limited liability (*s.r.l. a socio unico*). During the investigations, the license of some operators was suspended and, to date, most of them are no longer active. In some cases, the investigation revealed these firms to be victims of the OCG (AIFA, 2015).

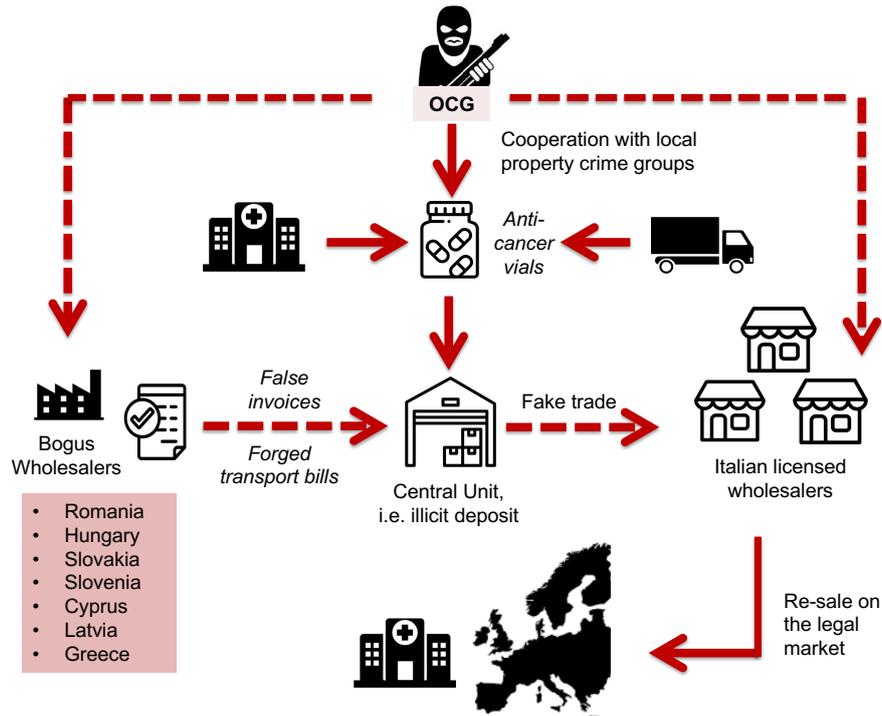
According to the available sources, the Italian wholesale company distributed the manipulated vials to the German distributor but by the time the investigations started, the company **had already been closed and dismantled**. To date, there is no information about any trials involving this company and its owners.

Furthermore, according to the available sources, it seems that the Camorra had a minor involvement in the illicit trade.

1.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned, the OCG managed this business by **first commissioning local criminals to do the thefts**. Then, the stolen medicines were sent to a central unit, i.e., a deposit, and matched with fake receipts provided by bogus wholesalers established in Eastern Europe. The countries were apparently chosen because of the ease of establishing businesses there and the barrier posed by a **difficult foreign language to be interpreted by the public auditors** charged with checking the products' invoices and certificates of origin. Finally, these products were sold into the legal supply chain in Europe (mainly Germany) by licensed Italian pharmaceutical wholesalers.

Figure 5 - How the infiltration scheme worked



Source: Transcrime elaboration of La Presse (2014), AIFA (2015) and BvD data.

1.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

As mentioned, the criminal activity was conducted by a group of affiliated individuals who controlled a wide network of figureheads and shell companies located abroad. Some of the firms involved in the illegal trade are still active, while most have been liquidated.

Several strategies were adopted to fight medicine theft. First, since one of the main vulnerabilities identified was the **lax security in hospital pharmacies**, an ad-hoc project called the 'Padlock 1.0 project' was implemented to better securitize the pharmacies. Second, a **range of different tools** — web platforms, shared databases and good practices among European MSs — were adopted. Finally, given the **loopholes in the pharmaceutical parallel trade** that facilitated criminal penetration of the legitimate supply chain, a better standard of verification was proposed (AIFA, 2015).

Due to the combination of these measures, the **theft of medicines decreased** in the last two years — particularly the number of attacks on transportation lorries — although it has not been completely eradicated (AIFA, 2017).

Some loopholes remain, however: as mentioned above, the **penalties for this illicit trade are lower** than for other criminal activities, and the low risk/high value ratio keeps on attracting OCGs; second, it is not always easy to prove the **willingness of some pharmaceutical operators** to benefit from the criminal scheme: some of the involved wholesalers are considered victims of the OCG and are still able to operate on the legal market.

1.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Profiting from a business opportunity • Concealing illicit trade
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of private limited liability companies • Use of figureheads • Use of shell companies registered abroad
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Matching stolen products with false invoices issued by bogus pharmaceutical companies to simulate a fake trade • Use of falsified invoices in the original (Eastern European) language to make it harder for Italian public auditors to verify the document
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Liquidation of the firms involved • Some Italian licensed wholesalers are still authorised to operate

2. BETA CASE

2.1. Case summary

In this case, a Balkan OCG set up different legitimate businesses, particularly **nightclubs**, as a front to cover **prostitution activities** in Slovenia. The women employed for this activity were brought to Slovenia from Ukraine and the Dominican Republic (Furlan-Rus, 2009). The members of the OCG headed by Mr B1 established different businesses (BETA1 being the main one) that were used to obtain the documentation the women needed to enter Slovenia. These women were then employed in various nightclubs or bars in Slovenia, where they were supposed to give erotic artistic performances; in many cases, however, they were also exploited for prostitution.

Mr B1 had a business partnership with Mr B2. Through Mr B2's company BETA2, women from Latin America were supplied to Mr B1's bars. Women were also supplied to various other bars in Slovenia.

Mr B1 was under investigation for crimes of exploitation through prostitution and human trafficking. The investigation, however, did not lead to a conviction and the people involved were acquitted. Although there is undisputable evidence that prostitution had taken place in the involved bars, the court believed that the women **still received about half of the earnings**. The court stated that in such cases it cannot be said that there was 'exploitation through prostitution'. The main reason is that many of the women involved were **sending funds back home** using money transfer services, in amounts well beyond their official earnings.

2.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The nightclubs or bars served as **fronts for activities related to prostitution**. They were established precisely to provide legitimate employment for women from Ukraine and the Dominican Republic who were then involved in prostitution activities.

2.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

The main company owned by Mr B1 and used to acquire permits and legal documents was BETA1. Mr B1 established BETA1 in 1995. The firm also served as the parent company of other firms and bars. With some, the individual only signed a **technical contract** and used them as a cover for collecting fees from the women he had supplied, who were acting as prostitutes in those bars. He owned another company, BETA3, that basically performed the same activities as BETA1.

Through BETA1, Mr B1 managed BETA4, a **strip bar** used as a cover for prostitution. The bar was listed as a BETA1 subsidiary. In 2008, BETA4 was registered as a subsidiary of BETA5. According to the business registry, another business was registered at the same address: BETA6.

As mentioned, Mr B1 and Mr B2 provided women to various bars in Slovenia engaging in prostitution and took a certain fee from the earnings of the bars. Through Mr B2's company BETA2, women from Latin America were offered to the bars, while Mr B1 provided women from Ukraine. BETA2 is a sole proprietor type of business incorporated in 2002 and declared to be engaged in **business and other management consultancy** activities.

According to the dates of incorporation of the businesses involved in the case, it cannot be demonstrated that the companies were established *ad hoc* in order to achieve the objectives of the criminal group. As for the legal form of the majority of the businesses, they were **private limited liability companies** and sole proprietorships.

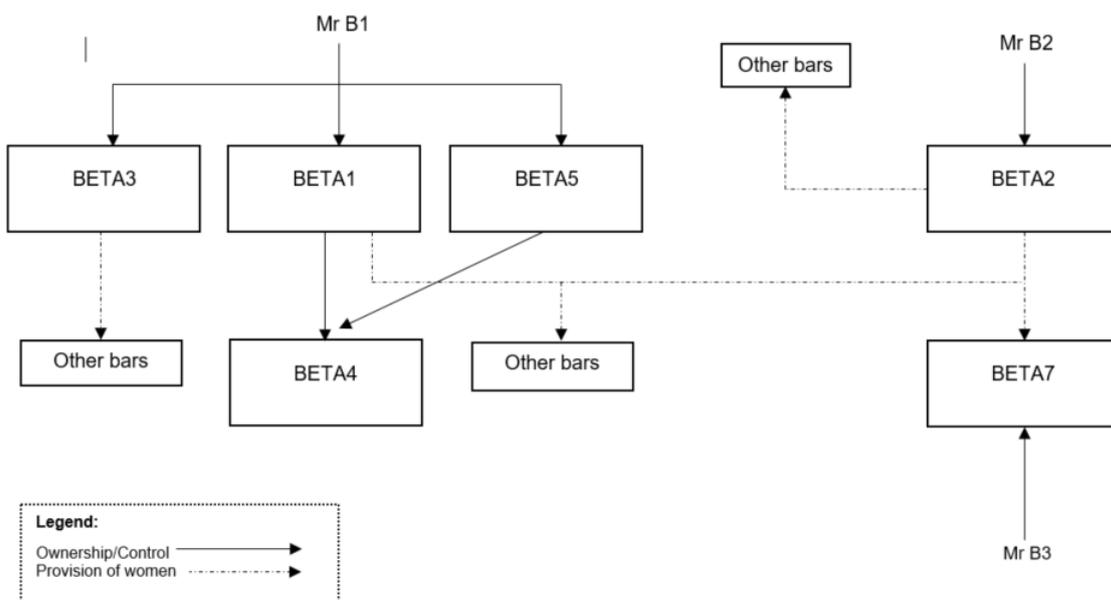
2.4. Activity — Management strategy: How was the firm managed by the OCG?

The police investigation revealed the connection of Mr B1 with **19 different bars and clubs**. He actually had a **contract for business and technical cooperation** with 10 of those bars. As mentioned, most of them were listed as **subsidiaries** of BETA1, according to the *Agency of the Republic of Slovenia for Public Legal Records and Related Services*.

He billed the night clubs monthly for ‘renting’ the dance floors. In fact, the rent was a fee that the entrepreneur **received because he was procuring prostitutes for bars and nightclubs**. The payment was based on the number of women he provided to the bar and the volume of activity these women carried out. Mr B1 and Mr B2 provided consulting to the owners of the bars and provided the necessary work documents for the women that worked there. They also managed the process of **recruiting, obtaining documents and transporting the women** to the different nightclubs. They were also in charge of solving disputes between the women and the bartenders. Mr B1 and Mr B2 also decided how to allocate women upon their arrival in Slovenia.

The police investigation found that between January 10, 2007, and February 4, 2008, these clubs transferred 267,907.78 euro to BETA1.

Figure 1 - Shareholders and main companies involved



Source: Transcrime elaboration of data from the District Prosecutor's Office in Ljubljana (2008)

2.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

During the trial, all the people involved were acquitted and the companies continued to operate. Loopholes in **work and traveling regulations** were found and exploited by the perpetrators:

- Even though exploitation through prostitution is criminalized, the latter was hard to prove and investigate because many of the women who came to Slovenia did know what they would have to do but felt uncomfortable admitting this in court.
- In one of the higher court decisions, it was established that women are **exploited only if they receive roughly a third of the money that they earned** by prostitution and/or if they are restricted in their movement or in any other way forced or extorted (e.g., by not having working permits, a reported residence, etc.).

Since these women were paid a sum of money amounting to **almost half of the earnings** (and besides, they received an official salary stipulated in their working contracts), the court stated that in such cases **sexual exploitation through prostitution could not be proven**. Moreover, many of the women involved sent funds back home using money transfer services, in amounts well beyond their official earnings.

2.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Covering prostitution and human trafficking
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of limited liability companies • Use of 'Chinese boxes' schemes
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Signing contracts for business and technical consulting • Transferring money through company subsidiaries
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Sexual exploitation could not be proven because of the (excessively) high salaries of the women assumed to be being exploited • The companies continued to operate

3. GAMMA CASE

3.1. Case summary

This case involved at least six companies in the **construction and transportation sectors** used by a network of perpetrators to carry out **large-scale economic crimes** in the Stockholm area in Sweden. A shell company at the centre of the criminal operation — we can call it GAMMA1 — was started in 2014, using the identity of a **figurehead**, i.e. a foreign citizen without prior connections to Sweden. In the spring of 2014, he was brought into the country in order to register him as a resident, arrange a Swedish ID card for him and open a Swedish bank account in his name. His identity and his accounts were then used to set up GAMMA1. As far as has been established, no real work was carried out by the company — its sole purpose was to **issue false invoices** and act as a funnel for illicit money (Brå elaboration of court records and media reports).

The other component of the criminal scheme was a set of ‘**customer companies**’ that made payments to GAMMA1. Representatives of five such companies were prosecuted and convicted, but an additional 43 companies were revealed to have paid false invoices issued by GAMMA1. Several of the companies were **subcontractors for large-scale, publicly funded construction projects**, like hospitals and schools. The companies carried out real work, using a mix of licit and illicit labour. By simulating the rental of personnel and equipment, parts of the gains were then diverted into GAMMA1 — all in all, some 65 million SEK. Part of the money was withdrawn from cash machines, again using accounts held by people temporarily brought into the country as part of the scheme, and returned to the customer companies as untaxed gains and untaxed salaries. The rest of the funds were transferred to the bank accounts of the central perpetrators and their extended family — all in all, some 200 individuals (Brå elaboration of court records and media reports).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Economic crimes	Abetting gross bookkeeping crime	Ch. 11 para. 5 and Ch. 23 para. 4, <i>The Swedish Penal Code</i>
	Abetting gross tax crime	Para. 4, Tax Offences Act (1971:69) samt Ch. 23 kap para. 4, <i>The Swedish Penal Code</i>
	Gross money laundering crime	Para. 3 and 5, <i>Money Laundering Act</i>
	Gross bookkeeping crime	Chap. 11 para. 5, <i>The Swedish Penal Code</i>
	Gross tax crime	Para. 4, Tax Offences Act (1971:69)
Document forgery	Use of forged documents	Ch. 14 kap para. 1 and 9, <i>The Swedish Penal Code</i>

Source: Brå elaboration of court records and media reports

3.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The criminal activity surrounding GAMMA1 would have been impossible without considerable planning and preparation. The goal of the infiltration seems simply to have been to make money illicitly. Considered more broadly, the operation also **provided a service** to real companies active in the legal economy. The reasons why these real, functioning companies used GAMMA1's services may have included **lowering production costs** (e.g., decreasing labour costs by not paying labour taxes) in order to increase competitiveness (Brå elaboration of court records and media reports).

3.3. Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

A number of preparatory activities preceded the active crime phase. At least four distinct phases of preparation took place:

- Recruitment of straw men
- Establishment of identities and bank accounts
- Establishment of the shell company
- Recruitment of customer companies

The man whose identity was used to set up GAMMA1 described the events as follows. In 2014, he was living in a shelter for alcoholics and addicts, making his living from temporary construction jobs. He **was approached by a man with an offer**: for 40 euro he was to make a short visit to Stockholm, Sweden, to help with some unspecified task. He agreed to this. In Stockholm, he was picked up by another man and taken to the tax agency. The man helped him register as a resident in Sweden using **fake proof of employment**. He then returned to his home country and received his payment of 40 euro. In the coming weeks, he made two more trips to Stockholm, during which other details of his fake existence there were arranged. On paper, he was hired by a construction company and moved into an apartment in a municipality south of Stockholm. After the third trip, **he had a Swedish ID and nine bank accounts**. Soon after this, a **private company, GAMMA1, was registered in his name**. In reality, though, he was living on the street in Berlin. All his paperwork, as well as the code boxes for bank account access, was left in Stockholm, in the hands of the main perpetrators (Brå elaboration of court records and media reports).

The man was not the only one used in this manner. Up to **twenty individuals** were brought into the country to register and start bank accounts. Information about these individuals is scarce, but it is reasonable to assume there were similarities with the recruitment process described above (Brå elaboration of court records and media reports).

Since most of the defendants have contested the accusations, information about the recruitment of customer companies is also scarce. During police interrogations, however, the owner of one of the customer companies confirmed at least some of the accusations made against him. According to his statement, he had first met one of the principal offenders at a bar in a Stockholm suburb 4 to 6 months before their collaboration began. They both speak Russian and began to talk. The man had at some point offered to help out with **issuing false invoices, explaining that 'everybody does it'** (Brå elaboration of court records and media reports).

Essentially, the control over the company was secured in the preparation phase. The main figures were in possession of the ID and bank code boxes for the figurehead — and the additional twenty individuals — to use as they saw fit (Brå elaboration of court records and media reports).

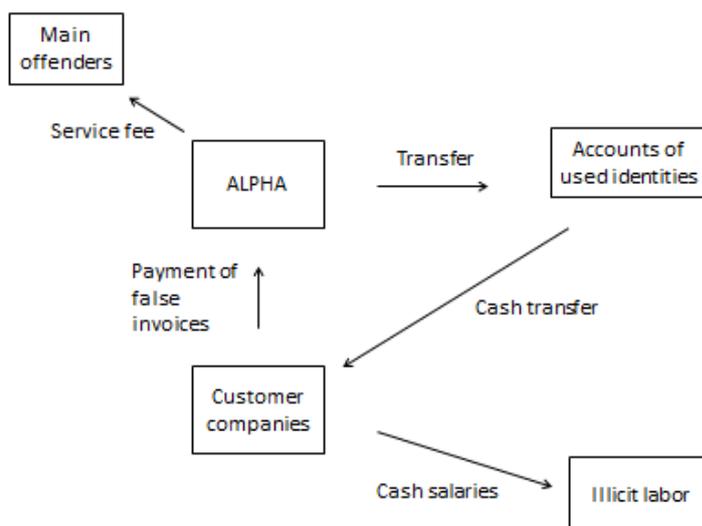
The customer companies included in the indictment against GAMMA1 (as mentioned, there were additional companies suspected of involvement) were often **smaller companies** with only one or two employees and turnover of a few million SEK a year that had been in existence for up to five years. The largest and most well-established among them was started in 2012, had between 20 and 30 employees and a yearly turnover fluctuating between approximately 15 and 20 million SEK. All of the companies have **now filed for bankruptcy** (Brå elaboration of court records and media reports).

3.4. Activity — Management strategy: How was the firm managed by the organised crime group?

Nothing indicates that GAMMA1 actually rented out personnel or equipment. Essentially, the company functioned **as a service provider to real companies in the construction and transportation sectors**. Some of these companies were subcontractors to well-established companies and were involved in large, tax-funded construction projects in the Stockholm area. Instead of legally hiring enough workers to carry out the contracted work, GAMMA1 enabled the companies to hire illicit labour without paying tax or social costs. **GAMMA1 issued invoices and received payment for hired personnel and equipment they never delivered**. All in all, approximately 65 million SEK passed through GAMMA1 over the course of a little less than two years (Brå elaboration of court records and media reports).

Phone surveillance indicates how this was carried out. A representative of one of the customer companies called GAMMA1 and asked for an invoice number. A payment with that number was deposited and an invoice matching the payment was subsequently written up. **Most of the money was then returned in cash to the customer companies** as untaxed gains and salaries. It was for this part of the operation that the bank accounts of the additional 20 individuals not living in the country were used. The funds were transferred first into these accounts and then from them to the workers and owners of the customer companies (Brå elaboration of court records and media reports).

Figure 1 – Structure of the setup



Source: Brå elaboration of court records and media reports

3.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

For their services, GAMMA1 took a percentage of the paid invoices — somewhere **between 12 and 20 percent**. Their share was transferred to bank accounts owned by themselves and their extended families. All in all, the bank accounts of some 200 individuals in their proximity were used for this purpose (Brå elaboration of court records and media reports).

The investigation interrupted this criminal scheme. After the investigation, GAMMA1 activity terminated and most of its customer companies filed for bankruptcy.

3.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Making money illicitly • Providing 'services' to real companies
<i>To Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Recruitment of straw men • Establishment of fake identities and bank accounts • Establishment of a shell company • Recruitment of 'customer' companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • False invoices paid by real companies • Fund transferred back to companies in cash via the straw men's accounts • Withdrawal of money from the straw men's accounts

		<ul style="list-style-type: none">• Service fee: 12-20%
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none">• Liquidation of most of the firms involved

4. DELTA CASE

4.1. Case summary

Between 2012 and 2013, a Germany-based business (DELTA1) operating in the **construction of residential and non-residential buildings** (NACE sector F41) was awarded large-scale public contracts in the field of public works through illegal means. The company was controlled by a **four-member criminal gang** that was sabotaging other competitors in public procurement by setting on fire or stealing their construction machinery. In addition, the owner of DELTA1 **bribed the public officials** responsible for the public tender in order to avoid financial control and thus commit further fraud (Office of the Public Prosecutor in Saarland, 2013).

Investigation

The investigation was triggered by an informant's report and was conducted by the OC department of a German State Criminal Police Office. The police used undercover investigative methods to collect evidence of the suspected crimes. The amount of damage caused by the crimes was estimated to be **more than 1 million euro**. During the investigation, proof was found of **further corrupt actions** allegedly taken by DELTA1's owner in connection with public procurement. Legal proceedings were thus initiated (Jungmann, 2013).

Main offences

The four offenders were sentenced to a total of 8 years and 9 months in prison and 6,000 euro in fines for the following crimes:

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Corruption	<i>Giving bribes</i>	Section 333 of the GCC
Economic crimes	<i>Fraud committed as a member of a gang or on a commercial basis</i>	Section 263 (1), 263 (3) of the GCC
Other crimes	<i>Theft</i>	Section 242 (1) of the GCC
	<i>Arson</i>	Section 306 (1) of the GCC
	<i>Handling stolen goods</i>	Section 259 (1) of the GCC
Aggravating circumstances	<i>Fraud committed as a member of a gang</i>	Section 243 (1) of the GCC Section 244a of the GCC Section 260 (1) of the GCC
	<i>Aggravated theft</i>	
	<i>Aggravated gang theft</i>	
	<i>Handling stolen goods on a commercial basis or as a member of a gang</i>	

Source: SWP elaboration of Office of the Public Prosecutor in Saarland (2013)

The offenders were considered to be part of a gang in which the business owner played the leading role. The case was **classified by the BKA as organised crime**. The business owner was sentenced to 4 years and 3 months in prison, the construction manager was sentenced to one year and nine months, the main offender's wife's nephew received a sentence of two years and nine months, and the last gang member was ordered to pay a fine of 6,000 euro. Besides the criminal gang, the public

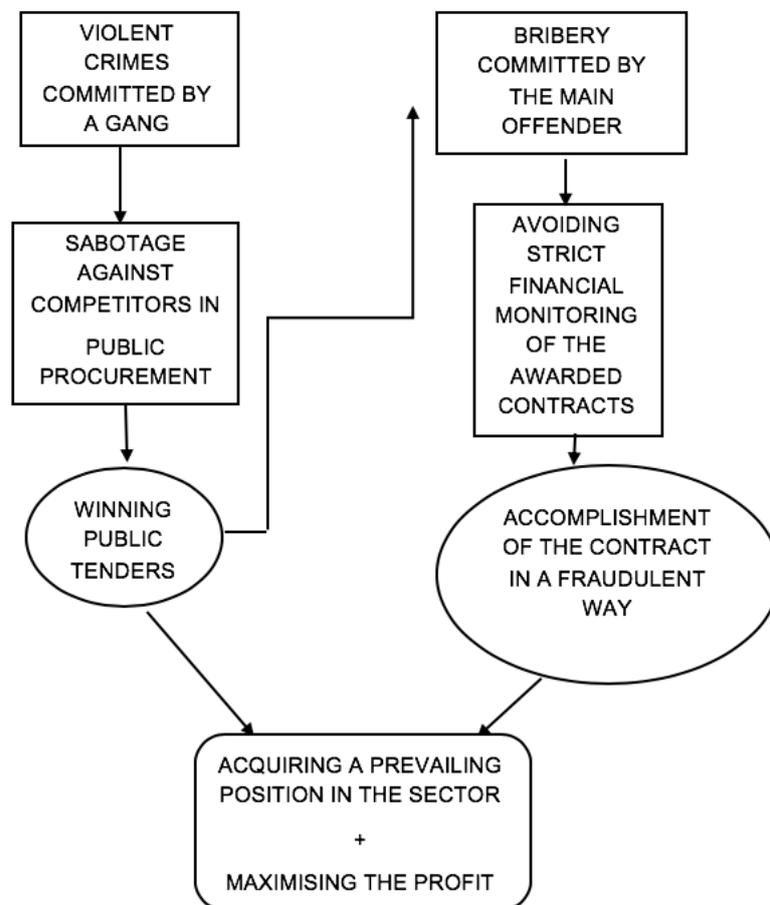
official responsible for the public contract was also convicted of taking bribes in another criminal proceeding.

4.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration of the construction firm served the main purpose of **winning public procurements**, specifically:

- Acquiring a **dominant position against other competitors** in the field of civil engineering and construction in the German state where the business was based (Saarland)
- Maximising profit, and **minimising taxes**, by fraudulently obtaining the procurement contract

Figure 1 - Steps and objectives of the illicit dynamics



Source: SWP elaboration of Office of the Public Prosecutor in Saarland (2013)

4.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

Information on the ownership structure of the company is scant. According to available data:

- DELTA1 was a **limited liability company**.
- It undertook **changes in legal form** and in its **legal name** in due course.
- The **owners** were the main gang member (also the managing director) with 49.99%, and one relative (also the chief executive officer) who owned the other 50%.

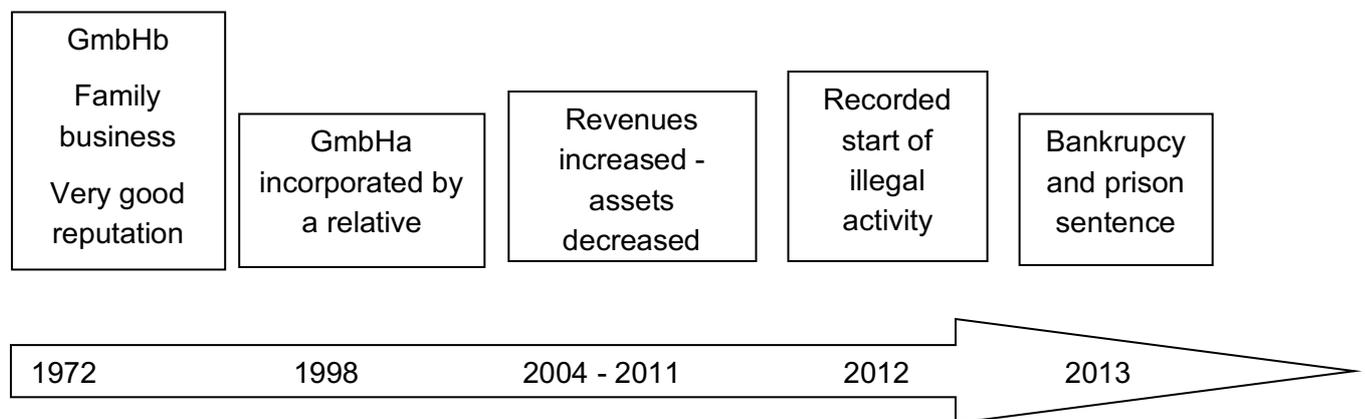
The business was incorporated in 1998. Previously, between 1972 and 1998, the business had a different name and it was a family business (*GmbHb*). In 1998, a close relative of this firm's owner took over and founded DELTA1. The latter was enjoying a **very good reputation until the criminal proceeding** became public knowledge (Wagner, 2012). According to open media, the DELTA1 owner was photographed with well-known politicians (Ihl W, 2013). Yet, due to the investigations, the business suffered damages to its reputation (Saarbrücker Zeitung, 2013).

The **techniques and *modi infiltrandi*** used to acquire the ownership and then keep control of the firm(s) were:

Firm incorporation: The main offender acquired a family business directed by a relative and changed its name

DELTA1 was **officially owned by a relative of the main offender**; a gang member is also related through family ties to the main offender.

Figure 2 - Evolution of DELTA1



Source: SWP elaboration by the Office of the Public Prosecutor in Saarland (2013) and BvD data

4.4. Activity — Management strategy: How was the firm managed by the OCG?

DELTA1 obtained different public contracts by illegal means ranging from **arson to corruption**. In order to dissuade competitors or make them unable to participate in public tenders, the main offender commissioned several violent acts **damaging other construction companies** (Office of the Public Prosecutor in Saarland, 2013). Specifically, the offenders committed **arson and serious thefts**, including thefts of heavy construction machinery, from several legitimate businesses. The stolen machinery was then sold. The crimes were coordinated by the main offender and were mostly committed at night by the members of the gang.

In addition, the main offender was personally bribing individuals who had decision-making power over public contracts for the construction of the large-scale public infrastructure. The **payments were made in cash** (Office of the Public Prosecutor in Saarland, 2013).

The director of the public procurement office, who was sentenced for taking bribes, was responsible for checking the invoices and other financial documents, and for **checking whether the company was complying with the rules** provided by the procurement monitoring authority. Through intermediaries, the main offender was offering help and financial support to the director of the public project. In addition, the main offender would invite the director for dinner, both at home and in expensive restaurants. The goal of the bribing activity was to **avoid or limit financial monitoring of the contracts** in order to illegally maximise profits through minimising taxable income. For this purpose, for example, **inflated invoices for materials** were issued (Office of the Public Prosecutor in Saarland, 2013).

Between 2004 and 2011, DELTA1's revenues increased, although its assets decreased. The reason for the decrease in assets and the related increase in current assets may have been due to the entrepreneur's **disinvestment strategy** to facilitate the liquidation of the company if necessary, while preparing for a bankruptcy proceeding (Office of the Public Prosecutor in Saarland, 2013).

The **actual management** of the infiltrated firms, specifically from an **economic and financial point of view**, could be summarized as follows:

- The business apparently performed a legal economic activity.
- Due to its good reputation and the fact that it employed many people, its illegal way of conducting business remained undetected for a while.
- By committing arson and thefts, the company damaged competitors and prevented them from competing in the same bids.
- By bribing public officers, it avoided accurate financial supervision and thus obtained the public contract in a fraudulent way.
- Finally, the firm minimised taxes by inflating the costs of construction and resources.

4.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

DELTA1 went bankrupt in 2013, and in the same year its manager was sentenced to prison (Ihl, 2013).

4.6. Summary table

Summary table of the main findings of the CSA.

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Acquiring public work • Acquiring a dominant position in the construction market in the German state of Saarland

		<ul style="list-style-type: none"> • Minimising taxable income and committing tax fraud • Maximising illegal profits
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads, mainly relatives • Use of an existing company • Change of company name and legal form • Use of the limited liability company legal form
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of mafia methods (intimidation, arson) • Use of corruption • Accounting manipulation and use of fraud (e.g., over-invoicing)
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Most OCG members were sentenced • The firm went bankrupt

5. EPSILON CASE

5.1. Case summary

The police operation *Metropolis* revealed the investment strategy of two '**Ndrangheta groups** (*'ndrine*), headed by Mr E1 and Mr E2, in the **construction and tourism sectors** in the Italian region of **Calabria**. Through a network of infiltrated companies active in Italy and abroad, for example, Spain and Ireland, the two *'ndrine* managed to obtain control over the construction, and then the sale, of seventeen tourist resorts (equivalent to nearly 1,500 compounds – DNA (2013) built along Calabria's Ionian coast (Tribunale di Reggio Calabria, 2013).

The strategy worked out by the mafia was based on a precise investment scheme called the '**Sistema Calabria**' ('Calabria system') devised by one of the criminal actors involved in the case (Tribunale di Reggio Calabria, 2013). The scheme worked as follows:

- a) Different Italian companies directly/indirectly owned by mafia members were assigned to the **construction of residential-tourist compounds** in Calabria
- b) The main financiers of the construction were **foreign companies** based in Spain and Ireland used to hide the identity of Italian beneficial owners linked to 'Ndrangheta (as well as former members of the **Irish IRA**)
- c) The tourist-residential compounds were **sold to investors (families and companies)** in Italy and abroad based on the territorial sovereignty principle: foreign companies were in charge of the sale to foreign investors/buyers (mainly in the Netherlands and in the UK), and the Italian companies were in charge of the sale to Italian buyers (Tribunale di Reggio Calabria, 2013).

The cornerstone of the investment scheme described above was the company **EPSILON 1**, which can be considered a 'joint venture' of the *'ndrine*. It served two purposes: First, it was the owner of some tourist-residential compounds and was directly involved in their construction, but it was also in charge of the sale of the compounds in Italy (Tribunale di Reggio Calabria, 2013).

Besides EPSILON1, the investigation demonstrated that the same *'ndrine* controlled other companies established in Italy that were involved in the construction of the tourist resort (e.g., EPSILON2, EPSILON3, EPSILON4, EPSILON 5 and EPSILON6), and foreign ones involved in the financing operations (e.g., EPSILON7 and EPSILON8) (La Presse, 2017).

The success of this strategy was ensured by the **ability of the OC groups to control the territory** and the local public administration, e.g., by **obtaining building permits** or solving problems that emerged during the construction. A key role was played by a relative of the mafia family who was **director of the technical office of one of the municipalities** where the building took place, and who abused the powers related to his office, favouring the criminal interests of the 'Ndrangheta (Tribunale di Reggio Calabria, 2013).

The infiltration involved a large number of satellite economic crimes repeated over time and aggravated by the mafia association (see Table 1).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Mafia-type association	Art. 416-bis Criminal Code
Economic crimes	Use of money, goods or benefits of unlawful origin (<i>'Impiego di denaro, beni o utilità di provenienza illecita'</i>)	Art. 648-ter Criminal Code
	Fraudulent transfer of goods (<i>'Trasferimento fraudolento di valori'</i>)	Art. 12-quinquies Legislative Decree 306/1992 ¹
Other crimes	Formal complicity (<i>'Concorso formale e continuato'</i>)	Art. 81 Criminal Code
	Sanction for those who are involved in the crime commission	Art. 110 Criminal Code
	Abuse of office	Art. 323 Criminal Code
	Ideological forgery (<i>'falsità ideologica'</i>) committed by a functionary (<i>'pubblico ufficiale'</i>) carrying out his/her public activities	Art. 479 Criminal Code
	Error caused by misleading others (<i>'Errore determinato dall'inganno altrui'</i>)	Art. 48 Criminal Code
	Transnational offence	Art. 3,4 Law no. 146/2006 ²
Aggravating circumstances	Aggravating circumstances for crimes committed with the circumstances foreseen by art 416 bis Penal Code (<i>'Aggravante ad effetto speciale in caso di delitto commesso avvalendosi delle condizioni previste dall'art. 416-bis C.P.'</i>)	Art. 7 Law no. 203/91 ³

Source: Court of Reggio Calabria (2013)

5.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the investigation, the infiltration conducted by the two *'ndrine* served a variety of needs: among others, a) to **offer job opportunities** to the population, in order to stimulate social consensus in Calabria; b) to achieve **good social respectability** as fictitious businessmen, c) to **generate illicit funds** to be used for corruptive purposes; c) to **provide economic support** to the *'ndrine*; and d) to **launder money** from illicit activities, presumably from cocaine trafficking and extortion (DNA, 2013, 2015; Tribunale di Reggio Calabria, 2013).

¹ Legislative Decree 306/1992: Urgent modifications of the new Code of Criminal Procedure and of counter-measures to mafia-crimes (Legislative Decree no. 306 of 8 March 1992, 'Modifiche urgenti al nuovo codice di procedura penale e provvedimenti di contrasto alla criminalità mafiosa')

² Law 146/2006: Ratification of the UN Convention against Transnational Crime and its Protocols (Law no. 146 of 16 March 2006, 'Ratifica ed esecuzione della Convenzione e dei Protocolli delle Nazioni Unite contro il crimine organizzato transnazionale, adottati dall'Assemblea generale il 15 novembre 2000 ed il 31 maggio 2001')

³ Law 203/91: Conversion in law with some modifications of the Decree Law 13 May 1991, no 152, regarding extraordinary provisions for the fight against organised crime and for transparency and proper administrative activity (Law no. 203 of 12 July 1991, 'Conversione in legge, con modificazioni, del decreto-legge 13 maggio 1991, n. 152, recante provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa')

It should be noted that foreign companies were also used to launder money from other groups. In particular, some of the illicit funds came from Mr E3, a **former member of the Irish terrorist organisation IRA**. According to the investigators, he funnelled the dirty money from IRA's terrorist activities and other crimes into the construction of the tourist resort (Il Sole 24 ORE, 2013).

5.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

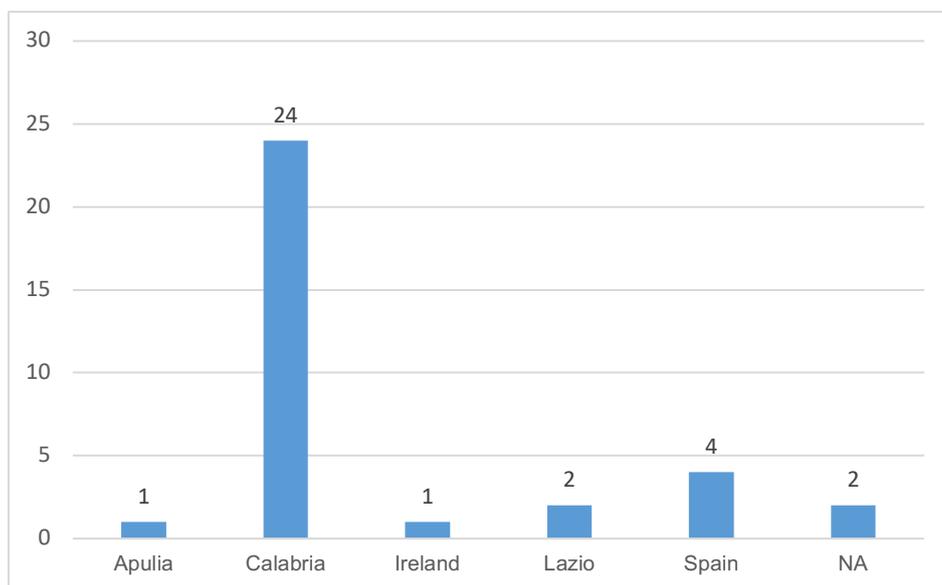
The investigation revealed that the OCG could rely on a wide network of companies in order to obtain control over the construction, and then the sale, of various tourist resorts.

In particular, at least 34 companies were identified, which can be divided as follows:

- a) 15 businesses controlled by the OCG established in **Italy**
- b) 5 businesses controlled by the OCG established **abroad**
- c) 14 business controlled by **colluding entrepreneurs**, owners of some of the residential compounds

As depicted in Figure 1, most of the Italian companies were established in Calabria, whereas the foreign companies were established in Spain and Ireland.

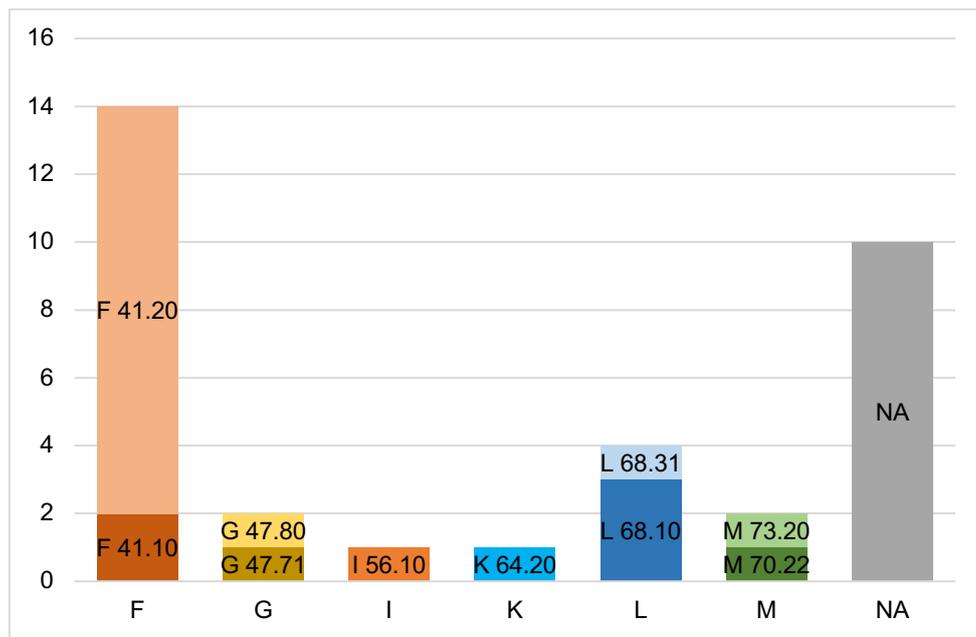
Figure 1 – Country of registration of the involved companies (N=34)



Source: Transcrime elaboration of BvD Data

As shown in Figure 2, most of the firms involved were active in the **Construction** (NACE Section F) and **Real estate fields** (NACE Section L).

Figure 2 – Infiltrated companies by business sector (N=34)

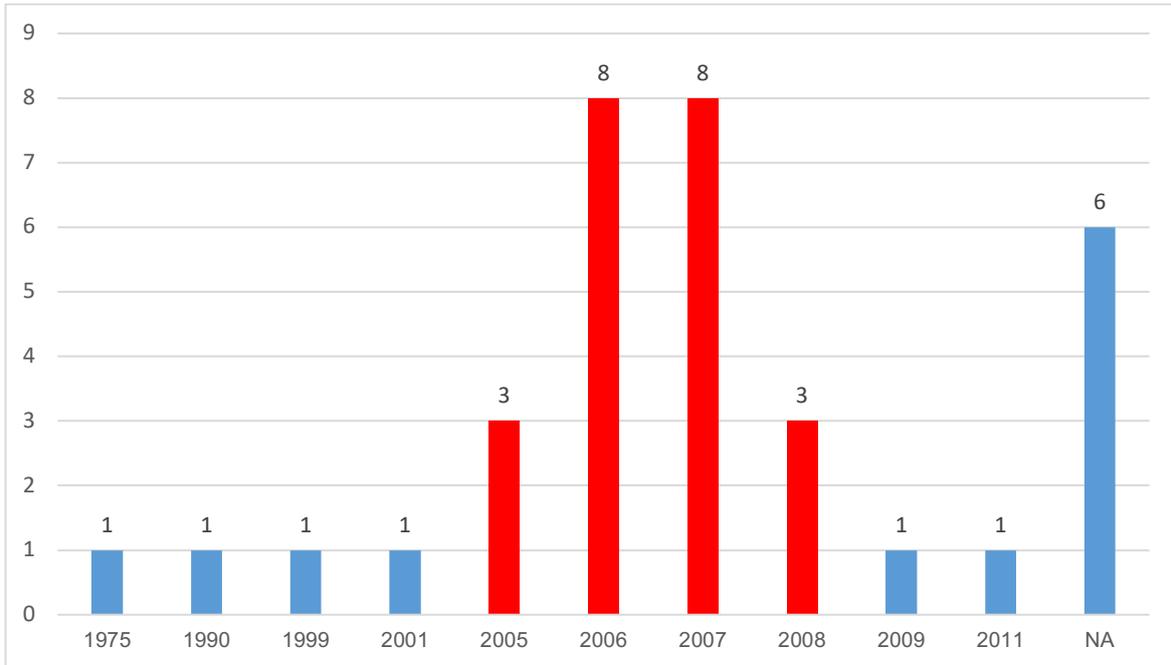


F 41.10	Development of building projects	L 68.10	Buying and selling of own real estate
F 41.20	Construction of residential and non-residential buildings	L 68.31	Real estate agencies
G 47.71	Retail sale of clothing in speciality stores	M 70.22	Business and other management consultancy activities
G 47.80	Retail sale via stalls and markets	M 73.20	Market research and public opinion polling
I 56.10	Restaurants and mobile food service activities	NA	NA
K 64.20	Activities of holding companies		

Source: Transcrime elaboration of BvD Data

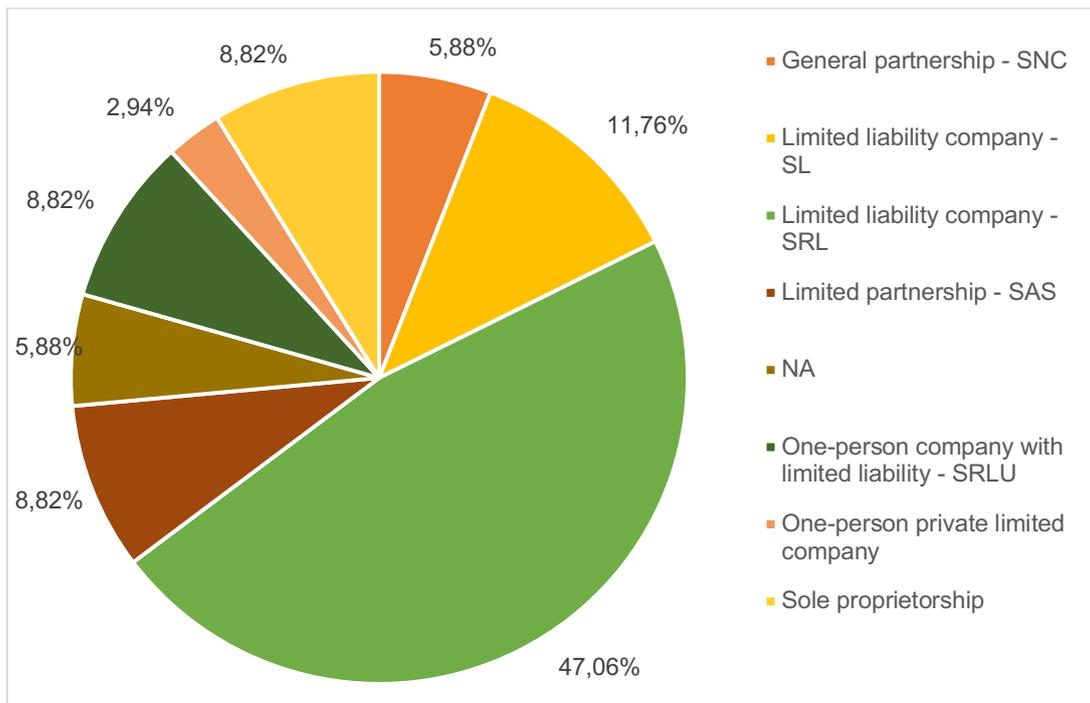
According to our analysis of the dates of incorporation of the businesses involved in the case, most of them were established *ad hoc*, in the sense that **they were incorporated in the same year or a few months before the start** of the construction and sale activity, therefore revealing their ‘shell company’ nature (see Figure 3). As for the legal form, most firms were **private limited liability companies** (see Figure 4) — a preferred legal form according to previous studies (Riccardi, Soriani, & Giampietri, 2016; Savona & Berlusconi, 2015) and an analysis of the confiscated firms reported in Chapter 5.

Figure 3 – Year of incorporation of the businesses involved (N=34)



Source: Transcrime elaboration of BvD Data

Figure 4 – Legal form of the businesses involved (N=34)



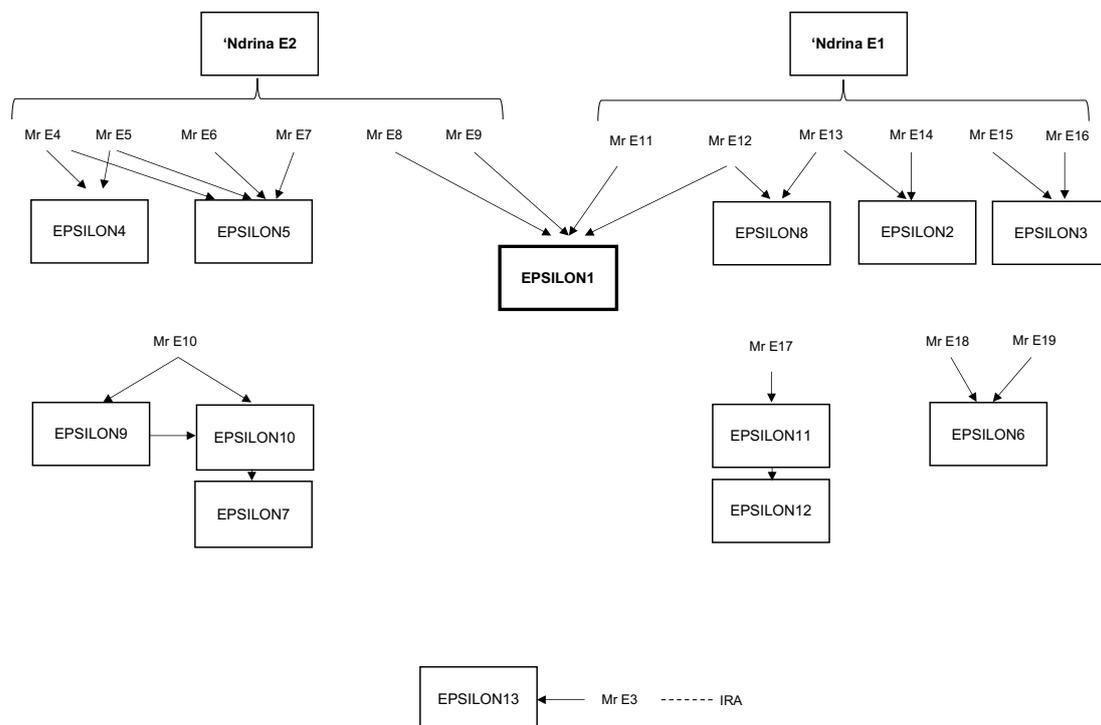
Source: Transcrime elaboration of BvD Data

The investigation revealed that the mafia members could rely on **figureheads, also of foreign nationality, connected by kinship** and, in most cases, fully aware of the economic crimes committed by the group.

The cornerstone of the mafia's investment scheme was the company **EPSILON1**, which **can be considered a 'joint venture' of the two 'ndrine**. Its share capital was split among four figureheads, each of them owning 25% of the shares: two of them referred to the 'ndrina E1; the other two referred to the 'ndrina E2 (Tribunale di Reggio Calabria, 2013). As mentioned above, EPSILON1 was involved in the construction and sale of the tourist resort.

The investigation revealed a key role also played by other companies established in Italy and abroad. The relationship between the OCG and the companies can be represented as follows:

Figure 5 – Ownership links of the companies controlled by the OCG



Source: Transcrime elaboration of Court of Reggio Calabria (2013) and BvD data

5.4. Activity — Management strategy: How was the firm managed by the OCG?

The companies controlled by the OCG played **four roles in the infiltration scheme**:

- as firms involved in the construction of the tourist resort
- as owners of the land where the resort was built
- as owners of the resorts themselves
- as resellers of the tourist compounds once they were built

The companies owning the resorts signed a **special type of contract** (*'contratto di mandato a titolo oneroso ed esclusivo di mediazione'*) with EPSILON1, which allowed this company to gain control over the management and future sale of real estate properties to foreign investors/buyers, in exchange for an advance payment of 47% of the entire value of the resort to fund its construction.

In turn, EPSILON1 signed further agreements and formed partnerships with other **foreign advertising & marketing companies (mostly in Spain)** to sell the tourist resorts abroad (mostly in the Netherlands and in the UK).

Through this scheme, it was possible to justify the injection of illicit proceeds, which were then used to fund the construction of the tourist resorts, as **advances paid by prospective foreign buyers** of the tourist compounds.

More specifically, the investigation revealed a continuous flow of money exchanged among the Spanish companies EPSILON7 and EPSILON8 and the Italian companies EPSILON1, EPSILON4 and EPSILON5.

5.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The 'Ndrangheta group was able to carry out the **infiltration scheme for seven years** (approximately from 2005 to 2013) and earn a very significant amount of illicit profits (400 million euro – DNA (2015)). To date, most companies have been either **seized by the judicial authorities or liquidated**. Most of the members of the OCG have been definitely sentenced for mafia-type association and other crimes reported in the table above (DNA, 2017).

5.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • To achieve good social respectability as fictitious businessmen • To offer job opportunities to the population, stimulating social consensus • To accumulate illicit funds for personal and corruptive purposes • To provide economic support to a mafia family • To launder the money from other illicit activities
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads, most of them relatives of the mafia members • Use of complex ownership structures and 'Chinese box schemes', including cross-border ones • Use of limited liability companies • Use of colluding entrepreneurs
<i>Activity</i>	<i>How were the firms managed by the group?</i>	<ul style="list-style-type: none"> • Joint ventures between different firms and different criminal groups • Special type of contract with the construction companies ('<i>contratto di mandato a titolo oneroso ed esclusivo di mediazione</i>') • Private agreements for the sale of the tourist-residential compounds

		<ul style="list-style-type: none"> • Use of accounting manipulations (e.g., declaration of payment advances by prospective clients to justify the illicit origin of the investments)
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Seizure of companies, tourist-residential compounds

6. ZETA CASE

6.1. Case summary

This case, classified as 'organised crime' by the Federal Criminal Police Office, involved the **infiltration of legitimate businesses** trading in machinery by an internationally active organised crime group. The infiltration was specifically aimed at concealing **drug trafficking** activities and **laundering illicit proceeds**. The illicit activity took place approximately from August 2011 to October 2013 (Office of the public prosecutor in NRW, 2014).

The offenders bought the narcotics from Turkey and trafficked them mostly in Spain, the United Kingdom, Italy and the Netherlands. The **cash proceeds** were collected by 'money-mules' and laundered through legitimate businesses operating in the **wholesale trade**, especially of **machinery and vehicles**. The import-export businesses were used to conceal the transfer of money between Germany, Iraq and Turkey and to hide the drug trafficking, with drugs hidden in the machinery (Figure 1).

The investigation against the OCG was carried out mainly in Germany by a joint investigative team from the Federal Criminal Police Office (BKA) and the German Customs Investigation Bureau (ZKA) on behalf of the prosecutor's office in NRW, as well as in Spain, the Netherlands, Turkey and Hungary, with assistance from Europol and Eurojust (Europol, 2016a). It was estimated that the OCG laundered about 18 million euro (Focus Online, 2014).

Three offenders were sentenced to a total of 19 years and 9 months in prison for the following crimes:

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Economic crimes	Money laundering	261 (1) of the GCC
Aggravating circumstances	Aggravated case of money laundering — money laundering committed for commercial purposes or by members of a gang	261 (4) of the GCC

The offenders were committing conspiracy and consciously trying to avoid detection. According to the final sentence, the offenders were **acting in the form of a gang** even though not all of the members were actively taking part in all the crimes, nor did they all share all the profits. In fact, the offenders agreed that they had creating a group by 2009 devoted to laundering the proceeds of drug trafficking through the apparently legitimate business in construction machinery. It was proven that the main offender was involved in 104 cases of money laundering, for a total of 12,546,420 euro illegally transported. There was evidence of involvement by the second offender in three cases of money laundering for a total amount of 254,000 euro. In addition, 96 cases of money laundering were proven to have been committed by the whole OCG, for a total of 10,934,420 euro (Office of the public prosecutor in NRW, 2014).

Between 2012 and 2013, the **bank account of the company controlled by the OCG received 29.7 million euro and 64.3 million US dollars**. Although the large sums could not be justified through the companies' activity, it was not possible in the proceedings to clarify the origin of these

sums. Between 2010 and 2013, about 9 million euro were transferred to Europe through the Hawala-banking system (Office of the public prosecutor in NRW, 2014).

6.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration of legal businesses served two main purposes:

- to conceal an illicit activity, **drug trafficking**
- to **launder money** from drug trafficking

Specifically, the apparently legitimate purpose of trading vehicles and construction machinery was used to **hide the cash in the shipments and to justify the wired transfers of money** between businesses/shell companies.

6.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the investigation, the money laundering services were conducted by a group of affiliated individuals who controlled a **wide network of figureheads and companies** situated in **Germany** and abroad, e.g., **Romania and Iraq**. Analysing the dates of incorporation of the businesses involved in the case, it seems that **most of them were established *ad hoc***, but the criminals also infiltrated existing companies. As for the legal form, most of the firms were **private limited companies**.

The cornerstones of this network were ZETA1 and ZETA2.

- **ZETA1 Ltd:** a limited company **established in Iraq** with a **branch in Romania** aimed at importing used vehicles from Germany to Kurdistan. Later on, ZETA1 expanded its business to the **import of construction machinery** from other EU countries such as the Netherlands, France, Spain, Portugal, the United Kingdom, Italy and Greece. Besides the import-export business, the limited company was also involved in other legitimate business such as trade in foreign currencies and **international money transfers**.
- **ZETA2 GmbH:** a shell company established by the OCG in 2009. ZETA2's legitimate purpose was **trading in construction machinery, vehicles and lorries**, the import-export of goods, and trade in real estate. In the beginning, one offender owned 92% of the shares. Yet, according to the investigators, ZETA2 was a shell company established for the **mere purpose of disguising the laundering activities**. No bookkeeping documentation related to the import-export facade activities was found in the company's offices or in its tax advisor's office. In 2012, the owner sold 40% of ZETA2's shares to the second business, ZETA1. The owner kept 60% of the shares until 2013, when a further 8% of the shares was transferred to a relative of the second offender.

The two offenders were **linked through family ties**. The third offender was **initially hired as an intern** for the limited company, and in 2012 that person was hired by ZETA2. Following the acquisition of shares by ZETA1 in 2012, the GmbH had an explosive increase in the amount of money flowing through its bank accounts (Office of the public prosecutor in NRW, 2014).

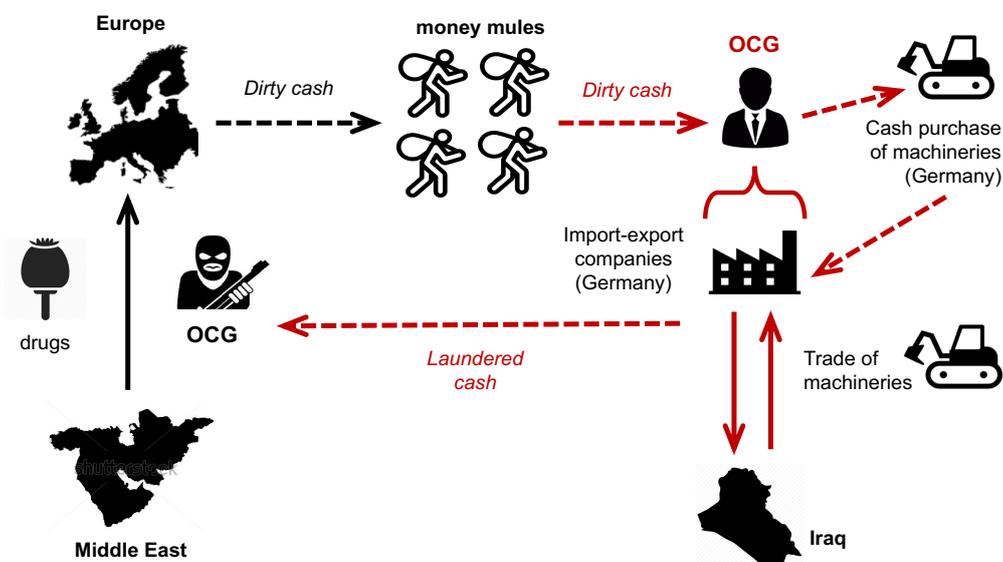
6.4. Activity — Management strategy: How was the firm managed by the OCG?

The strategy used by the OCG worked as follows:

- '**money-mules**' picking up the **cash proceeds** from the drug trafficking activities
- purchases (in cash) of expensive **used cars, heavy machinery and construction equipment** in Germany
- using the import-export firms as front companies for laundering the illicit proceeds through **trade-based money laundering** techniques:
- sending the goods to **Iraq to be sold** (purchases mainly in cash)
- funnelling the cash proceeds back to Europe using **Money Service Businesses** and unregulated financial channels (e.g., the **Hawala** system)

This strategy allowed the group to avoid investigation and conceal the origin of its illicit funds.

Figure 1 – Steps in the SOC infiltration and ML scheme



Source: SWP elaboration of data from the Office of the public prosecutor in NRW (2014)

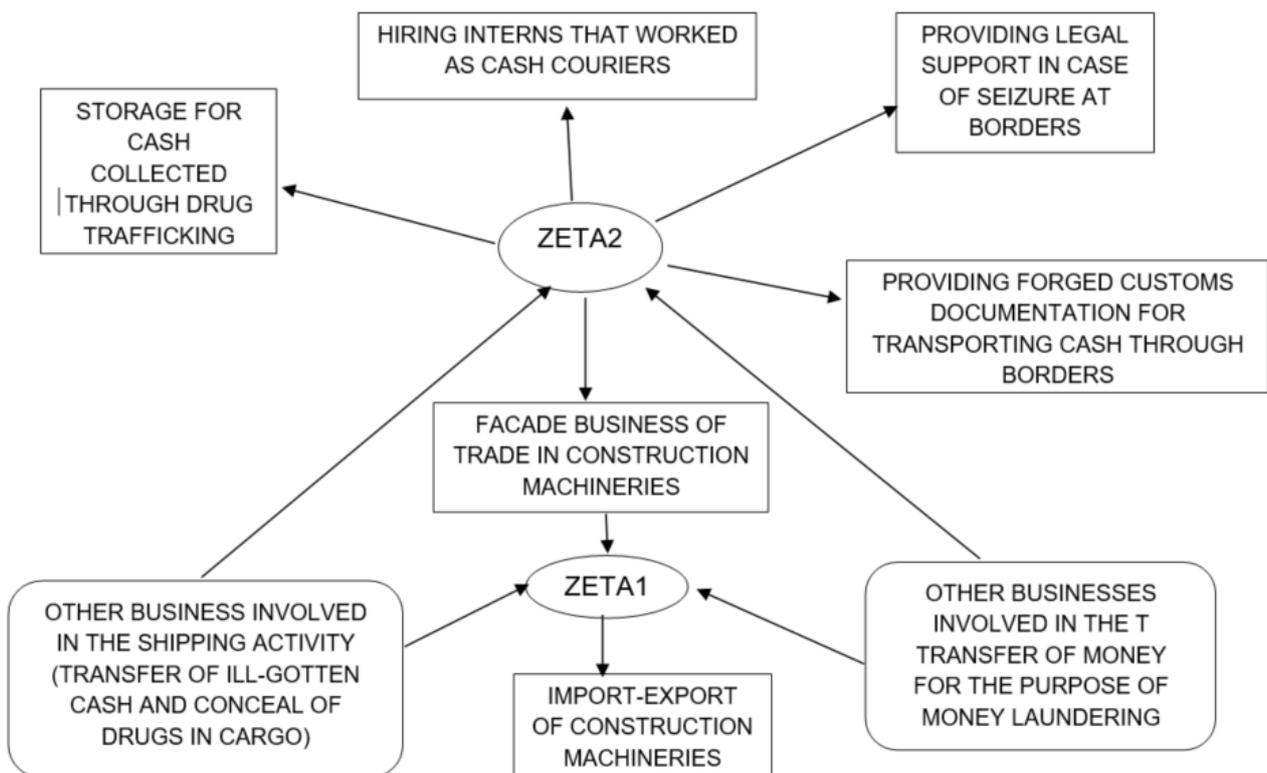
The OCG could rely on a **cross-border network of trusted persons linked to their families** and based around Europe and in Iraq to take care of the cash transportation, the contacts with the drug dealers and the organisation of the shipping. The 'money-mules' concealed the illicit proceeds **through family trips**, whose travel itineraries were constantly modified in order to thwart investigations, but also by justifying the cash transfers with **fake customs and transportation bills** for the import-export businesses. In order to avoid cash declarations at the border, the 'money-mules' often transported sums **below than the 10,000 euro allowed** (Office of the public prosecutor in NRW, 2014).

The companies controlled by the OCG played different roles in this scheme. For ZETA2, one of the cornerstones was working as a **payment office**: it was transferring the money through its bank accounts or through invoices paid in cash to ZETA1. The owner of ZETA2 had **ten bank accounts**

in seven different banks, and the ZETA2 company itself had eleven bank accounts in four different banks. ZETA2 was also hiring personnel, mostly interns, used as couriers for the transportation of cash. The OCG members were receiving a fixed salary for the money laundering services, totalling approximately 1,600 euro per month. This also served as storage for the cash collected. In addition, ZETA2 was issuing invoices to legitimise the transactions and providing fake customs documentation for cash transport in order to cross borders without being detected, and providing the support of lawyers in case of seizure.

According to the investigators, the OCG in charge of the money laundering scheme was receiving a commission of around 1.5% of the laundered money (Office of the public prosecutor in NRW, 2014).

Figure 3 – The role of the businesses in the illegal activity



Source: SWP elaboration of information from the Office of the public prosecutor in NRW (2014)

6.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

One of the main businesses is currently undergoing insolvency proceedings. Other companies involved in the shipping business are still active (as of 2017). Despite the large losses (estimated by the investigators as more than 1 million euro) involved in the cash transportation due to fraudulent behaviours by the couriers and seizure from law enforcement authorities, the OCG kept on using this method because of its proven advantages. Even when the ill-gotten cash was detected by law

enforcement, it **was difficult to prove the origin of the cash**, which was further hampered by the lack of shipping documentation.

Tapped phone calls showed that although the offenders were afraid of the criminal consequences of money laundering, they were assuming that it would **not be easy for investigators to establish the connection** between them, the cash seized and the drug trafficking (Office of the public prosecutor in NRW, 2014).

The money laundering scheme was successfully ending when the laundered proceeds of heroin and cocaine trafficking were distributed back to the drug cartels. The investigation led to the **disruption of the criminal scheme**. Most OCG members were definitely **convicted of money laundering** and sentenced to 19 years and 9 months in prison (Office of the public prosecutor in NRW, 2014).

A total of 191,601.99 euro was confiscated as the sum of the estimated amount of money illegally obtained by the OCG through the money laundering activity. Given that the actual ill-gotten gains could not be confiscated because they were intermingled with legally gained profits, the court ordered the **confiscation of monetary value** pursuant to Sections 73 (1) and 73a (1) of the GCC (*Conditions of confiscation, confiscation of monetary value*). In addition, 14,550 euro in cash that was found in the apartment of one OCG member was confiscated pursuant to Section 261. 7 of the GCC (*Objects related to the money laundering may be subject to a deprivation order*) because the court could not prove any legal origin for the money (Office of the public prosecutor in NRW, 2014).

The final verdict was issued on 21 January 2016 by the German Federal Court (Landgericht Essen, 2016).

The case was also cited by Europol as an example of an OCG acting as an '**illegal service provider of money laundering services**' and as a very successful proof of the importance of cross-border cooperation in fighting serious organised cross-border crime (Europol, 2017a, p. 19).

The case confirms that **cash remains at the core of the money laundering business** (Europol, 2017a, p. 18), and that offering money laundering services has become a business model for OCGs (Wolf, 2017). In particular, Europol estimates that commissions for laundering operations varies between 5% and 8% of the volume of money laundered (Europol, 2017a, p. 18).

6.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Concealing drug trafficking • Laundering money
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of companies established ad hoc • Use of figureheads, most of them relatives • Use of limited liability companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of fake invoices • Use of fake freight documentation • Use of cash and of cash purchases • Use of money transfer businesses • Use of informal money transfer systems (e.g., <i>Hawala</i>)
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Most OCG members were sentenced for money laundering • Seizure of the illicit proceeds

7. ETA CASE

7.1. Case summary

The operation *Acero-Krupy Connection* revealed the investment strategy of three 'Ndrangheta families active in their traditional area of influence (Calabria) as well as in Canada and the Netherlands, and operating in the **wholesale trade of flowers and plants** (DNA, 2017; Tribunale di Reggio Calabria, 2017).

The three mafia families infiltrated legitimated businesses operating in the wholesale trade of flowers and plants to **conceal their illicit drug trafficking**. Offenders bought cocaine from Colombia, trafficked it to the Netherlands through a company that traded flowers and plants and then, through other companies, brought flowers and drugs to Italy. The investigation revealed that the OCG was also involved in **trafficking in firearms** from Canada to Europe and was able also to **sell tons of previously stolen chocolate** (Tribunale di Reggio Calabria, 2017).

Previous police investigations revealed that one of the clans had previously laundered money through **off-shore companies established in tax havens** like the Turks and Caicos Islands owned through figureheads, namely a colluding Canadian lawyer (Rubino & Anesi, 2015).

The infiltration involved a large number of satellite economic crimes repeated over time and aggravated by the mafia association (see Table 1).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Mafia-type association	Art. 416-bis Criminal Code
Economic crimes	Fencing (' <i>Ricettazione</i> ')	Art. 648 Criminal Code
	Fraudulent transfer of goods (' <i>Trasferimento fraudolento di valori</i> ')	Art. 12-quinquies Legislative Decree 306/1992 ⁴
Other crimes	Formal complicity (' <i>Concorso formale e continuato</i> ')	Art. 81 Criminal Code
	Sanction for those who are involved in the commission of a crime	Art. 110 Criminal Code
	Unlawful production, trafficking and possession of narcotic drugs or psychotropic substances	Art. 73 Presidential Decree no. 309/90 ⁵
	Criminal association aimed at trafficking of narcotic drugs or psychotropic substances (' <i>Associazione finalizzata al traffico illecito di sostanze stupefacenti o psicotrope</i> ')	Art. 74 Presidential Decree no. 309/90

⁴ Legislative Decree 306/1992: Urgent modifications of the new Code of Criminal Procedure and of counter-measures to mafia-crimes (Legislative Decree no. 306 of 8 March 1992, 'Modifiche urgenti al nuovo codice di procedura penale e provvedimenti di contrasto alla criminalità mafiosa').

⁵ Presidential Decree 309/90: Consolidation of the laws governing drugs and psychotropic substances, the prevention, treatment and rehabilitation of drug addicts (Presidential Decree no. 309 of 9 October 1990, 'Testo unico delle leggi in materia di disciplina degli stupefacenti e sostanze psicotrope, prevenzione, cura e riabilitazione dei relativi stati di tossicodipendenza').

	Transnational offence	Art. 3, 4 Law no. 146/2006 ⁶
	Carrying concealed weapons (<i>'Armi clandestine'</i>)	Art. 23 Law no. 110/75 ⁷
	Provisions for the control of arms	Art. 1, 2, 7, 7.2 Law no. 895/1967 ⁸
	Recidivism	Art. 99 Criminal Code
Aggravating circumstances	Aggravating circumstances for crimes committed by persons subject to prevention measures or for crimes connected to mafia activities	Art. 7 Law no. 152/91 ⁹
	Aggravating circumstances for crimes committed with the circumstances foreseen by art. 416-bis Penal Code (<i>'Aggravante ad effetto speciale in caso di delitto commesso avvalendosi delle condizioni previste dall'art. 416-bis C.P.'</i>)	Art. 7 Law no. 203/91 ¹⁰
	Aggravating circumstances	Art. 80 Presidential Decree no. 309/90

Source: Tribunale di Reggio Calabria (2017)

7.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the investigation, the infiltration of legitimate businesses by the 'Ndrangheta OCGs had various purposes: a) concealing trafficking of **illicit drugs**; b) concealing **illicit firearms** trafficking; c) concealing an illicit trade in **stolen goods** (chocolate, specifically); d) generating illicit proceeds to be laundered for new investments, especially in the **real estate sector**; e) to provide **economic support** to the 'Ndrangheta families (Tribunale di Reggio Calabria, 2017).

7.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

The OCG directly owned three private limited liability companies active in the wholesale of flowers and plants, specifically, two companies that operated in **Aalsmeer (North Holland)**, one of the largest flower wholesale markets in Europe, and one located in Italy near the wholesale market of **Fondi (Latina, Lazio)**:

⁶ Law 146/2006: Ratification of the UN Convention against Transnational Crime and its protocols (Law no. 145 of 15 March 2006, 'Ratifica ed esecuzione della Convenzione e dei Protocolli delle Nazioni Unite contro il crimine organizzato transnazionale, adottati dall'Assemblea generale il 15 novembre 2000 ed il 31 maggio 2001').

⁷ Law 110/75: Supplementary regulations of current rules for the control of arms, munitions and explosives (Law no. 110 of 18 April 1975, 'Norme integrative della disciplina vigente per il controllo delle armi, delle munizioni e degli esplosivi').

⁸ Law 895/1967: Provisions for the control of arms (Law no. 895 of 2 October 1967, 'Disposizioni per il controllo delle armi').

⁹ Decree Law 152/1991: Extraordinary provisions for the fight against organised crime and for the transparency and the proper administrative activity (Decree Law no. 152 of 13 May 1991, 'Provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa').

¹⁰ Law 203/91: Conversion in law with some modifications of the Decree Law 13 May 1991, no 152, regarding extraordinary provisions for the fight against organized crime and for the transparency and the proper administrative activity (Law no. 203 of 12 July 1991, 'Conversione in legge, con modificazioni, del decreto-legge 13 maggio 1991, n. 152, recante provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa').

- **ETA1**, Italy
- **ETA2**, the Netherlands
- **ETA3**, the Netherlands (with three subsidiaries)

According to the available data, it is not possible to determine if the companies were established *ad hoc* to achieve the objectives of the criminal group or if they were pre-existing firms that were infiltrated. The OCG also owned other businesses (including **bars and fish shops**), which were formally controlled by figureheads in order to avoid financial investigations and possible seizures (Tribunale di Reggio Calabria, 2017).

7.4. Activity — Management strategy: How was the firm managed by the OCG?

The OCG, exploiting **loopholes in customs controls for fresh product shipments**, used legitimate businesses operating in the wholesale trade of flowers and plants to conceal illicit trafficking of drugs (Rubino & Anesi, 2017).

The flowers were **imported from South America to the Netherlands** and further distributed to flower wholesalers, mainly in Italy but also in other European countries. Along with the flowers, the OCG transported drugs, mainly **cocaine, hidden in wooden pallets** and dispatched in Italy by different company lorries with full awareness of the illicit activities. The same lorries later returned to the Netherlands carrying the **cash proceeds** from the drug trade (DNA, 2017; Tribunale di Reggio Calabria, 2017; Tribunale di Roma, 2012).

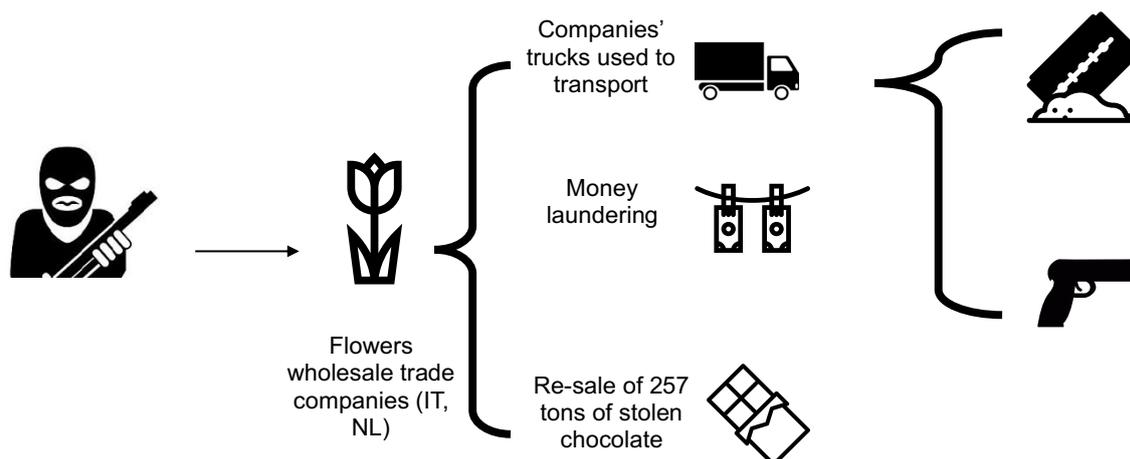
The OCG imported and transported cocaine mainly:

- through wholesalers of vegetables, fruits and *panettoni* from South America (Brazil) and from the port of Halifax in Canada
- through **cargo shipping companies** travelling to the Antwerp and Rotterdam ports
- through direct flights operated by **charter airlines** from Santo Domingo to Milan Malpensa
- through **fishing boats** from Mazara del Vallo (Sicily, Italy) to Gibraltar

According to media investigations, the companies established in the Netherlands cooperated with different **Dutch businessmen**, who however told the Dutch authorities that they were unaware of the criminal ownership of the companies and of the illicit activities (Anesi & Rubino, 2017).

Furthermore, the investigation revealed that the Dutch companies controlled by the OCG were involved in a **fictional supply of flowers to shell companies**, while the goods were actually sold to Italian wholesalers without paying tax to the tax authority. The cash proceeds from this illegal trade were transported as mentioned above (Tribunale di Reggio Calabria, 2017, p. 702).

Figure 1 - Infiltration steps and businesses involved



Source: Transcrime elaboration of data from the Court of Reggio Calabria (2017) and Anesi and Rubino (2017)

7.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

Trials against the OCG were held both in Italy and the Netherlands, but the most important one was in Italy, where the members of the criminal group were convicted of **mafia-type association, economic crimes and drug offences** and received sentences from 3 years and 4 months to 30 years of imprisonment. To date, according to available data, ETA1 is no longer active, while ETA3 and its subsidiaries are still active.

7.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Concealing drug trafficking • Concealing firearms trafficking • Concealing illicit trade in stolen goods (e.g., chocolate) • Generating illicit proceeds as illicit funds for new investments • Providing economic support to the 'ndrine
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of limited liability companies • Use of figureheads
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of transportation companies to ship illicit goods • Use of false invoices
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Sentences for money laundering and drug offences — from 3 years and 4 months to 30 years of imprisonment

8. THETA CASE

8.1. Case summary

This case involved the infiltration of a legitimate business by a **Bulgarian-speaking criminal gang**. An investigation by the European Anti-Fraud Office (OLAF) and the Romanian National Anti-Corruption Directorate (DNA), revealed that the OCG used the legal premises of a shell company to commit fraud with European funds that were meant to finance free food programmes for deprived people (OLAF, 2017).

The *Fund for European Aid to the Most Deprived* (FEAD) was funded by the EU but locally managed by the Romanian paying agency for agriculture (APIA). The investigation revealed that the company controlled by the criminal gang **was awarded 2 out of 11 tenders** published by APIA despite **not meeting the stated tender requirements** (Guineva, 2015).

According to the contracts awarded, the company should have provided sunflower oil worth 20 million euro, and flour in return for barley (worth 6 million euro — Биволь 2015а). But once the payment was made by APIA, the **company disappeared and never delivered the goods**.

The investigation revealed that the company was awarded the bids although the **documents submitted were mostly forged**. Furthermore, the proposed price of the sunflower oil was much lower than the retail price (3 RON compared to 5.2 RON). The success of this strategy was ensured with the help of APIA's **officials who were bribed by the criminal group** (Биволь, 2015а, 2015с). The OLAF investigation revealed that the criminal group performed illegal activities in at least **eight different countries** (OLAF, 2017).

To date, **trials are on-going** both in Romania and Bulgaria. In Romania, the APIA's employees have been investigated for corruption and abuse of office, while in Bulgaria the authorities are investigating the criminal group for economic crimes.

8.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the investigation files, the criminal group infiltrated the legitimate business mainly to **commit fraud with European funds**.

Fraud in EU-funded projects has been a big business opportunity for OCGs in the last few years. A recent report by OLAF (2017) revealed the vulnerability of the public procurement sector in particular.

8.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

The investigation revealed that the company was **formally owned by a Bulgarian-speaking homeless man**, involved as a figurehead, who was unaware of the illicit activities of the criminal group. He was approached by one of the members of the criminal group, who offered him some money in **exchange for his personal data and signature** (Биволь, 2015b).

According to the Romanian prosecutors, the company was actually controlled by a Bulgarian-speaking criminal group. The head of the group is a member of **Bulgarian organised crime**, on

Interpol's most-wanted list for tax fraud and money laundering. He indirectly managed this illicit activity through his business partners, including the leader of a second Bulgarian OCG (Биволъ, 2015c).

According to BvD Data (last available year, 2011), the company managed by the group is still active:

- Business sector: **Wholesale of meat and meat products**
- Legal form: **one-person private limited company**
- Year of incorporation: 2008
- Number of employees: 3

According to media investigations, the company is registered in a residential compound where other companies controlled by the criminal group are also registered (Биволъ, 2015а).

To be awarded the tenders, the company relied on **two other service companies**: a Bulgarian company, which ensured the **transport of the goods at a low price**, and which according to media investigations was controlled by the leader of the second Bulgarian OCG through a **Panamanian off-shore company**. There was also a Romanian company that collaborated with the criminal group and that had been investigated by Romanian prosecutors for tax evasion and money laundering offences in a previous operation.

8.4. Activity — Management strategy: How was the firm managed by the OCG?

The investigation revealed that the criminal group obtained the tenders using only photocopied or forged documents — **none of them were originals or certified**. Since the company did not meet the stated tender requirements, the criminal group **manipulated the financial information** (e.g., sales and balance sheet data) and completed the documents using an inaccurate and incomplete process. This strategy was helped by APIA officials who were **bribed by the OCG and made false declarations** (OLAF, 2017; Биволъ, 2015а). The company also needed a bank guarantee, which was issued by a corrupt employee of an Bulgarian bank.

After winning the two bids, the company sent a note to APIA in which it stated that the money was not to be transferred to the Bulgarian bank's account but to **another bank account held by the company in Cyprus**. The corrupt senior officials authorised the advance payments and the delivery of flour as stated. The money was transferred from the company's account to a Romanian private account, then to another private account and finally ended up in the company's account in Cyprus (Биволъ, 2015а).

According to a media investigation, the money was further transferred from Cyprus to **off-shore companies in the Seychelles and British Virgin Islands**, and then to other off-shore companies established in Hong Kong (Биволъ, 2015b).

8.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

Through this criminal scheme, the OCG was able to earn about **26 million euro** (the money transfer authorised by the corrupt senior officials) plus an additional **6 million euro** from the illicit sale of the flour received (OLAF, 2017).

To date, **trials are on-going both in Romania and Bulgaria**. In Romania, the APIA employees have been investigated for corruption and abuse of office — but some of them are still working in other departments, according to media sources (Digi24, 2017). APIA, however, did not manage to recover the money transferred to the shell company.

8.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Committing fraud with EU funds • Gaining illicit proceeds
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads • Use of shell companies set up in the EU and in off-shore jurisdictions
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of document forgery • Use of corruption • Use of accounting manipulations • Transfer of the fraud money to off-shore companies and bank accounts
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • On-going trials

9. IOTA CASE

9.1 Case summary

The case revolves around Mr I (pseudonym), an individual who is known to have close ties to a well-established OCG. Using the **identity of his brother**, who has emigrated from Sweden, as a figurehead, he started a limited company along with his wife and two other individuals. The company, which provided **residential home care** for children and young people, had contracts with **at least two municipalities**. By starting and running the business, Mr I and his companions violated the mandatory requirement for authorisation for this kind of service. Mr I is also suspected of **forgery of administrative documents** and fraud for pretending to be his brother, having an ID card issued in his name, and signing documents without his consent.

By starting this company, Mr I sought to benefit from the situation in Sweden in the fall of 2015, when a large number of migrants entered the country, many of them unaccompanied children and teenagers. Because of the **large influx of migrants**, Swedish municipalities were urged to find accommodations. Private actors were in a position to supply accommodations at steep rates, more or less regardless of standards of housing or care, and sometimes also without having the mandatory authorisations.

Without a permit from The Health and Care Inspectorate, this company took care of 20 unaccompanied refugee children, young people who had come to Sweden without parents or other legal guardians. They were placed in the company's care by the municipalities, although the company **lacked the required authorisations**. The company was paid with public funds for providing this service. The municipalities and The Health and Care Inspectorate learned about Mr I's connection with OC when he and two others involved in the company were arrested for **fraud and money laundering**. The municipalities then terminated the contract and moved the children elsewhere. The Health and Care Inspectorate was also made aware of the fact that the company supplied home care without a permit and demanded termination of the activity.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Economic crimes	Fraud	Ch. 9 para. 3 The Swedish Penal Code
Other crimes	Forgery of official documents	Ch. 14 para. 1 The Swedish Penal Code

Source: Bra elaboration of NBI data

9.2 Preparation — Infiltration drivers: Why was the infiltration carried out?

The purpose of the infiltration was to enter the migrant assistance market that was known, during this period, to be able to **generate large profits**. The OC infiltrated the company to take advantage of the unusually high demand for housing for unaccompanied children and young people and to exploit the temporary lack of controls over this sector.

During the fall of 2015, a large number of migrants arrived in Sweden. Foreign citizens under the age of eighteen who immigrate to Sweden unaccompanied by a legal guardian can be placed either

in a family home, i.e., in a family that receives payment to cover the costs (family homes may be procured and paid directly), or through a private party who recruits families and manages transfers between municipalities and families. Some of these parties also provide support to the host families. This service is also contracted and paid for by the municipality.

Unaccompanied children and young people may also be placed in **residential home care** or in supported living. In these arrangements, several people live together and hired personnel care for the residents. Some of these residential homes are run entirely by the municipality, while others are run **by private contractors**. Municipalities may also rent places on a daily rate from these private companies. Regardless, during the whole period of residence, the municipality is responsible for the minors. This is to make sure that the arrangements are safe and of proper quality, that the living environment is suited to the resident's needs, and that children are treated properly and efficiently. The municipality also must make sure that the required authorisations are in order.

In order to be allowed to provide residential home care or supported living, private contractors must have **authorisations issued by The Health and Social Care Inspectorate**. A precondition for this is that the applicant can demonstrate its suitability and that it can meet the requirements for quality and safety. The assessment of suitability includes a **review of board members' criminal records** and any records of relevant prior or parallel economic activity.

Because of the large influx of migrants in the fall of 2015, municipalities were **urged to find accommodations** for the children and young people in their care. This increased the demand for both family homes and private actors dramatically. Established actors in the sector were able to demand higher prices for their services than usual. In conjunction with long office turnaround times for permits, these economic opportunities also meant that **many actors started care homes without the proper permits**. Due to high demand, municipalities in many cases overlooked lack of authorisations and became **less selective in the procurement process**. The large workload of municipal officials and the fact that contracted facilities often were located far away from the responsible municipalities also undermined control and auditing.

The strained situation also induced the Swedish government to announce a **temporary law reducing the requirements** for residential care home or supported living suppliers. Given the situation, new actors entered the market without previous experience in the health and care sectors. Many of them had expertise in the construction, restaurant, and transportation sectors or selling used cars.

9.3 Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

Mr I is **connected to a known OCG**. Among other things, he has been on the lease of their club, he employed a well-known leader of the OCG and he has prior convictions. By using the identity of his emigraté brother, he was able to circumvent controls by municipalities and The Health and Social Care Inspectorate and start a company that received public funds.

By pretending to be his brother, he induced the bank to issue a credit card in his brother's name. Using this identity, he created a **limited company** for which he was the authorised signatory and owner of half the share capital, purchased a property jointly with one of his partners, signed a contract with the municipalities to take in unaccompanied children and young people and applied to The

Health and Care Inspectorate for an authorisation to provide residential home care for children and young people.

9.4 Activity — Management strategy: How was the firm managed by the organised crime group?

The company's activities were quickly interrupted by the arrest of the owners: the property was acquired in the middle of October 2015, the company was registered in early November and the arrests occurred in the middle of December. During that short time, the company had some **twenty children and young people in their care** at the property acquired for the purpose. It is unclear whether any profit was generated.

9.5 Post-activity — End of infiltration: What happened at the end of the infiltration process?

In December of 2015, Mr I and two of his colleagues were arrested. He was suspected of **forgery of administrative documents**, and the two others were suspected of aiding and abetting Mr I. The suspicions against his colleagues were withdrawn as they claimed to have been convinced that Mr I was actually his brother. Mr I was held in police custody for a few months. At present, suspicion remains but Mr I has not yet been prosecuted.

The municipalities and The Health and Care Inspectorate learned of Mr I's connection with an OCG at the same time as his arrest. **The municipalities then terminated the contract** and moved the children elsewhere. The Health and Care Inspectorate was also made aware of the fact that the company lacked authorisations and submitted a demand to terminate the activity.

An extra shareholders' meeting was held. It was decided that the **company would be dissolved**. Mr I attended the meeting over the phone, claiming to represent his brother but, lacking a warrant, he was not granted the use of his brother's votes. The company was then put into bankruptcy and dissolved. The bankruptcy was completed without substantial assets, and Mr I's partner submitted funds to cover its debts. In the time span between the bankruptcy and the relocation of the last of the residents, the facility was run by another company. While no legal action was taken based on the failure to comply with the mandatory authorisation process, it led the Health and Care Inspectorate to deny a permit to this second company.

9.6 Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Taking advantage of the strong demand for residential home care for children
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Hijacking of identity • Establishment of limited company

<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Document forgery • Purchase of property • Contract with at least two municipalities
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Contract with the municipalities was terminated • Company put into bankruptcy and dissolved • Investigation of forgery and fraud

10. KAPPA CASE

10.1. Case summary

This case regards the infiltration of legitimate companies used by a criminal group to **'launder' and sell smuggled oil** on the legitimate European market. Operation *Dirty Oil* carried out by the Italian authorities revealed an internationally active criminal network involved in illicit fuel smuggling from Libya to Italy and other EU countries through Malta (US Government, 2018; UN, 2017; Procura della Repubblica di Catania, 2017; Malta Today, 2018).

The OCG involved **Maltese individuals** (including a former football player), North African individuals (including a presumed commander of a **Libyan militia**) and Italian entrepreneurs, some of them having suspected links with **Cosa Nostra families** (Procura della Repubblica di Catania, 2017). The OCG could rely on a **wide network of connected businesses** located in Malta, Italy and Libya and mentioned in the US OFAC list (Anesi, Rubino, & Bagnoli, 2018; US Government, 2018).

According to the investigation files, the criminal network **managed the oil-smuggling trade** by:

- a) buying the stolen fuel from Libyan criminals at a lower than market price
- b) transferring the stolen fuel on the open sea ('ship to ship transfer')
- c) matching the stolen fuel with fake certificates and transportation bills provided by a Maltese company, which concealed the illicit origin of the oil
- d) distributing the 'laundered' fuel around Europe through legitimate companies (mainly Maltese and Italian)
- e) occasionally, mixing the stolen fuel with an Italian product once it was in Italian ports

According to the investigation files, the scheme allowed them to transport more than **80 million kilos** of gasoline per year, worth about **30 million euro** (Procura della Repubblica di Catania, 2017).

10.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration of legal businesses was done mainly to **carry out and conceal the illicit trade**, namely illicit fuel smuggling from Libya to Europe (Malta and Italy in particular).

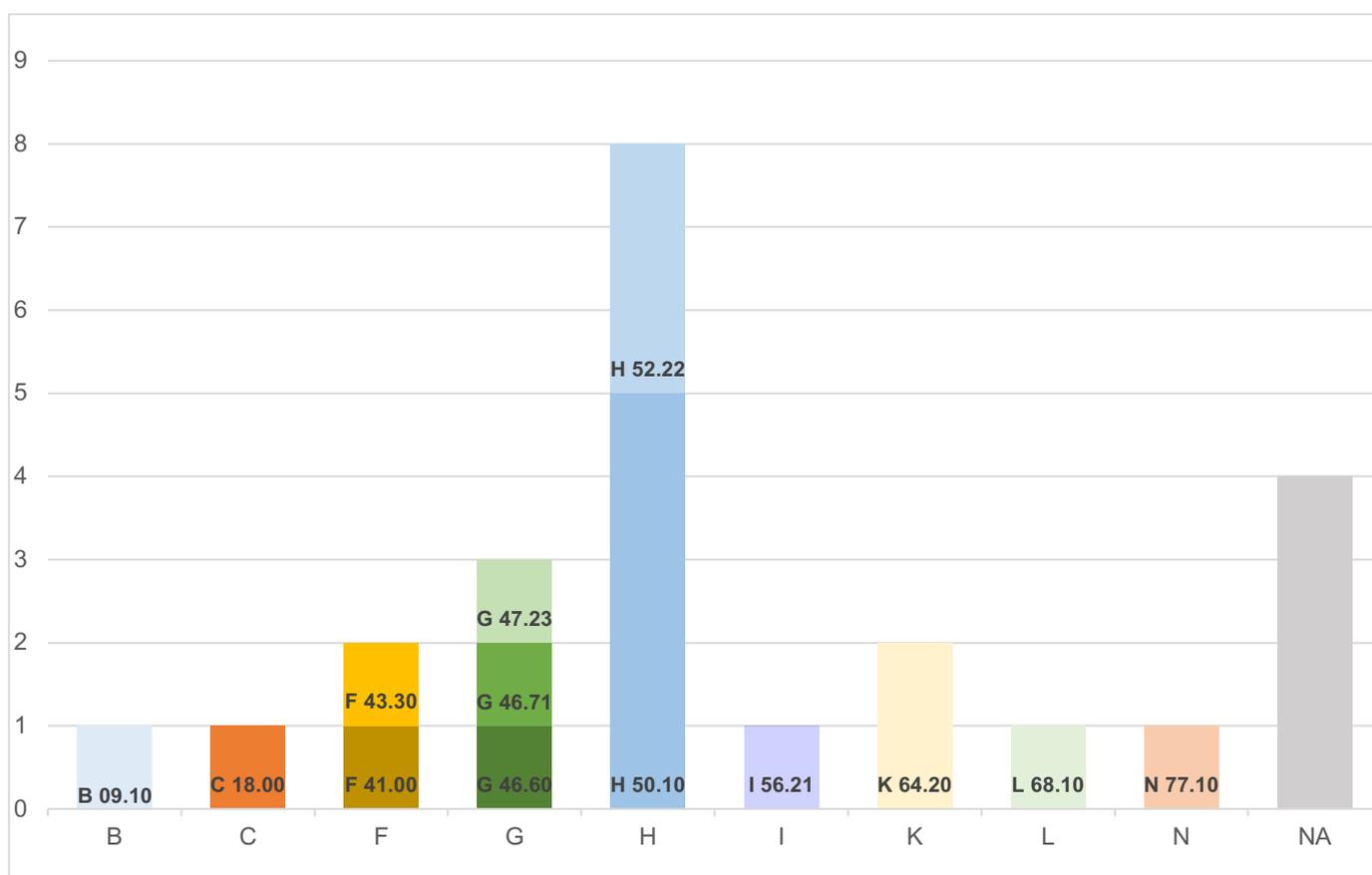
It also **exploited profit opportunities**, since illicit oil smuggling was a big business opportunity for criminals in the last few years, especially in the southern Mediterranean. After the 'Arab spring', most of the Libyan refineries fell under the control of different militias. The political crisis and military escalation led to the **exploitation of migrants and fuel smuggling as sources** of financing by armed groups and criminal networks (Europol & INTERPOL, 2016; FATF, 2016; UN, 2017). The militias in charge with the military activity have often been involved in thefts and sales on the black market as well (Bagnoli, Rubino, & Anesi, 2018).

10.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

The investigation revealed that the activity of the criminal group relied on a wide network of connected businesses. The U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) **identified and issued sanctions against 24 companies** involved/controlled by the members of the criminal group.

The legal form of most of the businesses was **private limited liability company**. As for the business sector, the companies operated in a variety of business sectors, mainly transportation (**shipping companies** in particular) but also the wholesale trade of **fuel products** and **fish products** (see Figure 1):

Figure 1 - Infiltrated businesses by economic sector (NACE group) (N=25)

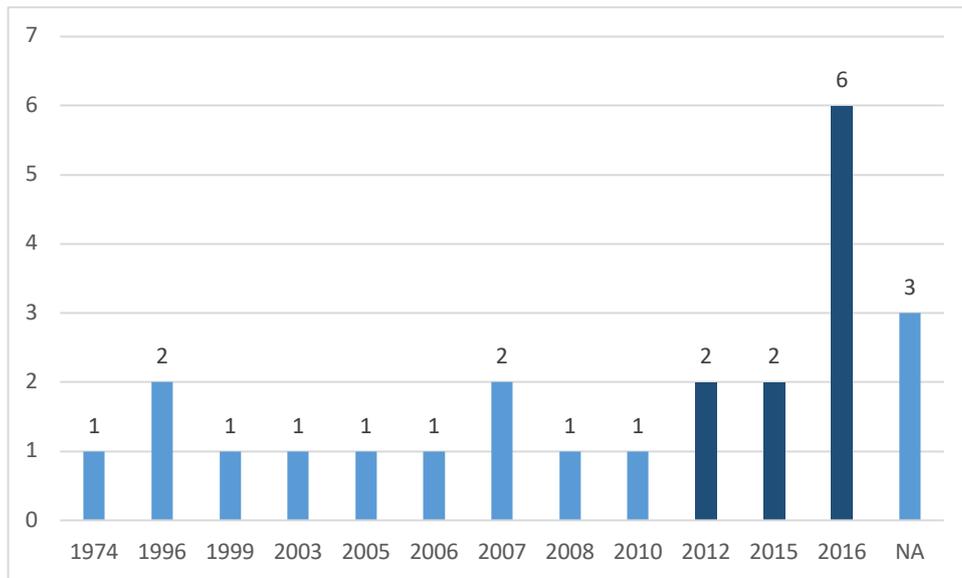


B 09.10	Support activities for petroleum and natural gas extraction	H 50.10	Sea and coastal passenger water transport
C 18.00	Printing and reproduction of recorded media	H 52.22	Space transport
F 41.00	Construction of buildings	I 56.21	Event catering activities
F 43.30	Building completion and finishing	K 64.20	Activities of holding companies
G 46.60	Wholesale of other machinery, equipment and supplies	L 68.10	Buying and selling of own real estate
G 46.71	Wholesale of solid, liquid and gaseous fuels and related products	N 77.10	Renting and leasing of motor vehicles
G 47.23	Retail sale of fish, crustaceans and molluscs in specialised stores		

Source: Transcrime elaboration of OFAC (2018) and BvD data

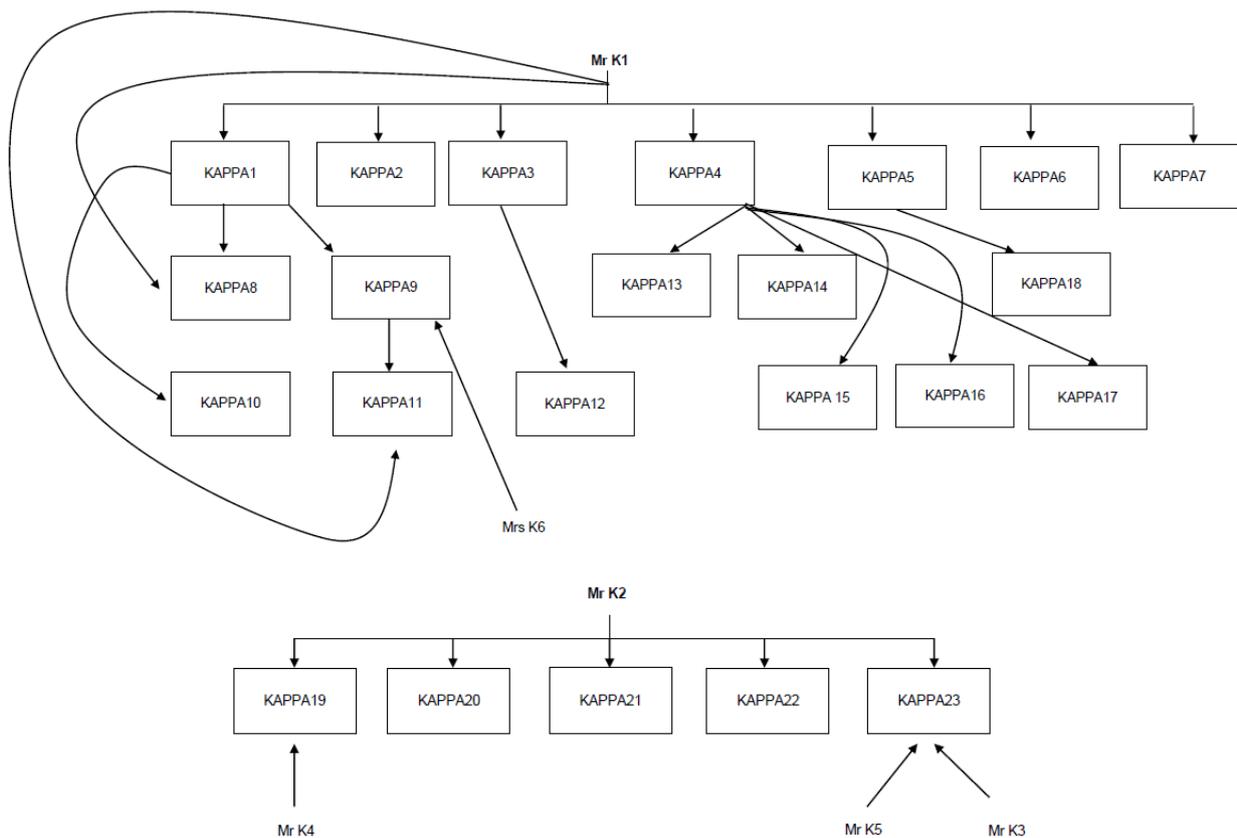
According to the analysis of the dates of incorporation of the sanctioned businesses, it is not possible to prove that the companies were established *ad hoc*, but it can be observed that **most of them were incorporated only between 2012 and 2016** (see Figure 2).

Figure 2 – Year of incorporation of the connected businesses (N=25)



Source: Transcrime elaboration of US Department of Treasury (2018) and BvD data

Figure 3 – Ownership links among companies and individuals



Source: Transcrime elaboration of US Department of Treasury (2018) and BvD data

10.4. Activity — Management strategy: How was the firm managed by the OCG?

According to investigative evidence, those who controlled the criminal network started their partnership in the **fishing industry**, then expanded their activities to the **oil smuggling business**, using the fishing boats as tankers at first and then acquiring bigger ships.

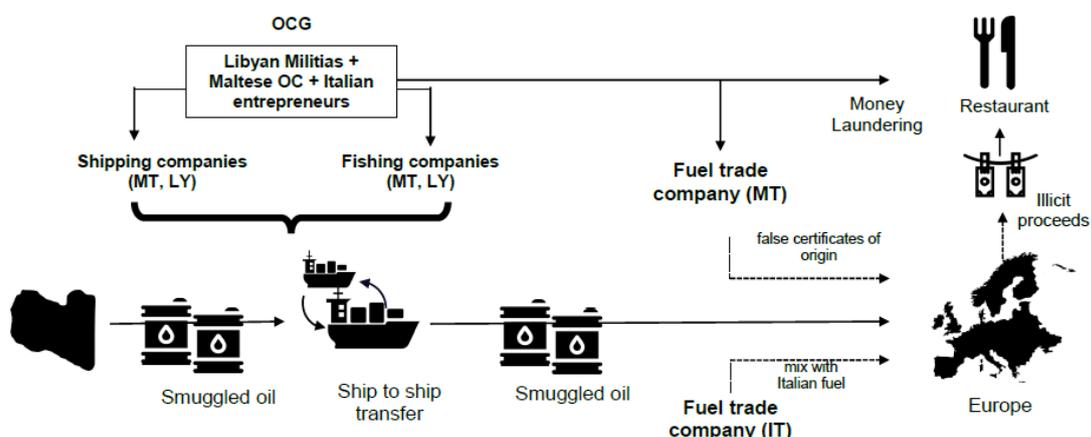
As mentioned above, the criminal network managed the oil-smuggling trade by doing the following (Procura della Repubblica di Catania, 2017; UN, 2017):

- buying the fuel from Libyan militia members, who had access to an **oil refinery** in Zawiya (Libya) from which the fuel was stolen
- transporting the fuel to **international waters**, where it was discharged into other tankers, including fishing boats (**ship-to-ship transfer**)
- matching the stolen fuel with **fake certificates of origin and transportation bills** provided by a Maltese company, which served to avoid controls and conceal the illicit origin of the fuel
- occasionally, **mixing the smuggled oil with Italian products**, so as to facilitate transportation to other EU countries
- distributing the 'laundered' fuel to companies around Europe, mainly in Italy but also in other countries such as **Spain and France**

The stolen fuel was introduced into the legal market by using fake certificates provided by a Maltese company already operating in the fuel brokerage field. This company issued forged certificates stating that the **origin of the fuel was Saudi Arabia**. The forged certificates were sent to the Libyan-Maltese Commercial Chamber, where a colluding employee certified their authenticity (Anesi et al., 2018).

Once in Italy, the Libyan fuel was mixed with Italian fuel and sold on the legal market at higher prices despite its low quality, though at a very competitive price as compared to legally acquired petrol. This strategy allowed the criminals to evade VAT taxes estimated at 11 million euro (Procura della Repubblica di Catania, 2017) systematically.

Figure 4 – SOC infiltration scheme and oil-smuggling trade



Source: Transcrime elaboration of data from Anesi et al. (2018)

10.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The criminal illicit trade was conducted by a group of affiliated individuals who controlled a wide network of legal companies situated in Malta, Italy and Libya. Most of the companies involved in the illicit trade are still active, while **others have been liquidated**. It was estimated that the criminal network imported oil worth 30 million euro (Procura della Repubblica di Catania, 2017).

The members of the criminal network were **arrested in Italy**, and to date they are awaiting trial (Bagnoli et al., 2018). The **OFAC issued sanctions** against the members of the criminal network and 24 businesses involved in the oil smuggling, plus several vessels (US Government, 2018).

Despite the arrests and the sanctions against this criminal group, the illicit oil smuggling activities in the Mediterranean Sea **seem not to have finished**. According to media sources, some entrepreneurs not involved in the investigation established companies doing fuel brokerage on the same route (Bagnoli et al., 2018).

10.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Concealing illicit fuel smuggling • Evading VAT and other taxes • Generating illicit proceeds
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of already existing companies operating in the fuel brokerage • Use of limited liability companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of fake certificates/document forgery • Product mixing • Ship-to-ship transfers in international waters
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Criminal network members under house arrest • Sanctions issued by OFAC against criminal group members and the businesses involved

11. LAMBDA CASE

11.1 Case summary

This case involved the infiltration of companies in the football sector by a **Russian-speaking** organised crime group. According to the investigation *Matrioskas*, the OCG infiltrated a **Portuguese third division football club** in order to launder money stemming from illicit activities (Polícia Judiciária, 2016).

According to Europol, the Russian criminal network's *modi infiltrandi* was the following:

- identifying European football clubs, most of them in **minor leagues** and often in financial distress
- providing the club with financial support in the form of **short-term donations**
- then expanding the investment by **acquiring ownership of the football clubs**, often through a complex network of shell companies and figureheads
- once control of the football clubs was obtained, the OCG used them to **launder money** and for **illegal betting activities** (ECFR, 2017)

They would also forge players' documents in order to over- or under-value football players on the transfer market, or to exploit deals for television rights (Europol, 2016b).

11.2 Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the investigations, the OCG infiltrated the football clubs in order to:

- Launder money
- Commit fraud by over- and under-evaluating football players for transfer
- Gain illicit profits from betting activities
- Gain social respectability and increase social consensus

11.3 Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the (scant) information available, the Russian criminal network identified existing football clubs active in minor leagues (e.g., third division) and in financial distress (Europol, 2016b).

As a first step, the group injected illicit money through donations; then it acquired the club's property through **capital investments**. The investment was often minor because the clubs were usually deeply in debt.

In order to make the acquisition, the Russian-speaking criminal group **used figureheads and a complex ownership structure** aimed at concealing the beneficial owners and the source of funding (Europol, 2016b).

11.4 Activity — Management strategy: How was the firm managed by the OCG?

As mentioned above, once the OCG controlled the football club it used it as ‘laundromat’ for illicit proceeds from Russia. They **forged documents to over- or under-valuate football players** on the transfer market or exploited deals for **television rights** for further gains. Furthermore, the club was used for illegal betting activities in order to launder and generate further illicit proceeds (Europol, 2016b).

According to media investigations, after the infiltration by the Russian OCG, the number of transfers of foreign football players increased. Several of them were represented by an agency also controlled by the president of the football club (Theilade, 2016).

11.5 Post-activity — End of infiltration: What happened at the end of the infiltration process?

According to the information available, the OCG members are still under investigation in Portugal for money laundering, tax fraud, document forgery and criminal association.

11.6 Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Money laundering • Committing fraud through transfers of over- and under-valued football players • Generating illicit proceeds through betting • Obtaining social legitimisation and increased consensus
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Injection of illicit funds through donations • Use of anonymous athletic societies • Use of figureheads • Complex ownership structure
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Over- and under-valuation of football players • Document forgery • Deals on television rights • Betting activities
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Ongoing investigations for money laundering, tax fraud, document forgery and criminal association

12. MU CASE

12.1. Case summary

This case involved **infiltration by entrepreneurs linked to Italian mafias** in Romania. The investigation by the Italian authorities revealed that Mr M1 — son of the former mayor of Palermo, sentenced for **mafia association and corruption** — controlled a Romanian company called MU1 with the help of other Italian and Romanian individuals (Mr M5, Mr M6 and his wife Mrs M7, Mr M8, two brothers Mr M3 and Mr M4, and Mr M2) (Candea & Ozon, 2005; DNA, 2011, 2014; Fittipaldi, 2012; Procura Generale della Repubblica, 2016).

MU1 is the administrator of the **biggest landfill in Europe**, on the outskirts of Bucharest. At the time of the investigation, MU1 was owned by MU2, a Romanian company which had a member of Mr M1's family on its board of directors. MU3, an Italian joint stock company previously owned by Mr M1, owned 51% of the shares in MU2 (Candea & Ozon, 2005).

According to the judicial files, in 2005 the Italian authorities asked their Romanian counterparts to seize the shares MU3 owned in MU2 on the **suspicion that the companies were used to launder proceeds** that Mr M1's family earned from mafia activities.

The **investigation done by the Romanian authorities** — the Directorate for Investigating Organised Crime and Terrorism (DIICOT), which referred it to the National Anticorruption Directorate (DNA) — did not lead to any sentences for the two brothers and Mr M2 due to a lack of evidence (ICCJ, 2014).

In 2014, the Italian authorities issued a **European arrest warrant on money laundering charges**, and Mr M2 and the two brothers were arrested in Bucharest (ICCJ, 2014; IGPR, 2014). To date, the trial against Mr M2, Mr M3 and Mr M4 is still pending.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Economic crimes	Money laundering	Art. 648-bis Penal Code
	Use of money, goods or gains of unlawful origin (<i>'Impiego di denaro, beni o utilità di provenienza illecita'</i>)	Art. 648-ter Penal Code
	Common aggravating circumstances	Art. 61 Penal Code
Aggravating circumstances	Aggravating circumstances for crimes committed by persons subject to prevention measures or for crimes connected to mafia activities (<i>'Circostanze aggravanti e attenuanti per reati commessi da persone sottoposte a misure di prevenzione o per reati connessi ad attività mafiose'</i>)	Art. 7 Decree Law 152/1991

Source: Transcrime elaboration of data from the Procura Generale della Repubblica (2016)

12.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the investigations, the infiltration of the Romanian and Italian companies served mainly to **launder money**, particularly the proceeds of the activities carried out by the father of Mr M1, the former Mayor of Palermo who was sentenced for mafia-type associations and corruption.

12.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the judicial files, Mr M1 could rely on a complex and wide network of **figureheads and shell companies**. Most figureheads were long-time collaborators of Mr M1, but there were also external individuals such as Mr M2, a Romanian individual recruited by the two brothers, who in turn were well-known entrepreneurs in the construction industry in central Italy.

The main companies involved in money laundering were:

- MU1
- MU2
- MU3
- MU4

The legal form of the businesses was the private limited liability or joint-stock company. MU1, however, is a company with bearer shares which **already existed at the time of acquisition**. According to BvD data, MU1 is still owned by Mr M2, Mr M3 and Mr M4. Over the years, the ownership of these companies was transferred between several individuals and legal persons.

According to BvD data, the two brothers managed other businesses besides MU1 and MU2. Their main field is **waste collection and recycling**, but they own also restaurants, a private investigation agency and an employment agency.

12.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned, the complex and widespread network of shell companies and figureheads was necessary to launder the illicit profits from previous activities carried out by Mr M1.

According to the judicial files, after 2005 the OCG carried out a **money laundering scheme** as follows:

- The manager and shareholder of MU1, Mr M2, demanded a loan of 1 million euro, which was guaranteed by MU2, its main shareholder.
- The loan was not paid, and the shares owned by MU2 (the guarantor) were sold at a public auction.
- The public auction was won by MU4, controlled by another figurehead, Mr M8. Although it was evaluated at 250 million euro, the company was sold only for 1 million euro.

- By law, the capital stock of companies should be increased. In this case, the capital stock of MU2 should have increased by 3,500 euro. MU3 did not expand the capital subscription and consequently MU5, owned by the two brothers, became the only shareholder.

There were also frequent changes in the management and ownership of the connected businesses in order to conceal the real ownership and avoid the risk of a seizure order issued by the Italian authorities. In the end, the criminal group was planning to **sell the company to a holding established in Luxembourg**. The sale was stopped by the Italian authorities (Fittipaldi, 2012).

12.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

As mentioned, two separate proceedings — in Italy and Romania — were initiated and are still on-going (Caporale, 2014).

12.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Money laundering
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads • Limited liability companies • Use of shell companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Change of management • Setup of a public auction selling strategy
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • On-going trials, decision still pending

13. NU CASE

13.1 Case summary

The 2015 police investigation *Gambling* revealed the infiltration of 'Ndrangheta groups into a wide network of legitimate businesses operating in the **online gaming sector in Italy** and abroad — **Austria, Malta, Romania, Serbia and Spain** — and with licenses from **Panama and Dutch Antilles** (DNA, 2015; Tribunale di Reggio Calabria, 2015).

With the help of colluding entrepreneurs and foreign companies, the OCG was able to connect several **hundred gambling dens** spread all over Italy with **servers located abroad** and not authorised by the Italian gambling supervisory authority. The scheme allowed the OCG to collect cash from customers, **evade Italian taxes** and **launder illicit proceeds** (Tribunale di Reggio Calabria, 2015, p. 50).

The operation led to the seizure of **45 Italian firms** operating in the gambling sector, **11 foreign companies**, **1,500 gambling dens** (*'centri trasmissione dati – CTD'*), **88 on-line gaming websites** located in Italy and abroad and a number of real estate assets and bank accounts, with an estimated total value of 2 billion euro (DNA, 2015, p. 17). In the final judgment, the Tribunal of Reggio Calabria confirmed the allegations against most of the individuals involved (Calabrò, 2018). According to the judicial files, the scheme revealed **cooperation between Camorra, Cosa Nostra and 'Ndrangheta**. In particular, in 2006 OCGs related to the three main Italian mafias signed an informal agreement on how to allocate different gambling businesses in southern Italy (Tribunale di Reggio Calabria, 2015, p. 195).

As shown in Table 1, according to the theory of the Italian prosecutors (confirmed by the first instance judgment), the OCG committed a large number of **economic offences** and other associated crimes related to the performance of their business activities, aggravated by the involvement of the 'Ndrangheta.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Criminal association	Art. 416 Penal Code
	Mafia-type association	Art. 416-bis Penal Code
Tax crimes	Failure to file a tax declaration (<i>'Omessa dichiarazione'</i>)	Art. 5 Decree Law 74/2000
Other economic and business crimes	Collection and use of business secrets (<i>'Rivelazione ed utilizzazione di segreti di ufficio'</i>)	Art. 326 Penal Code
	Illicit competition with threats or violence (<i>'Illecita concorrenza con minaccia o violenza'</i>)	Art. 513 bis Penal Code
	Fraud	Art. 640 Penal Code
	Money laundering	Art. 648-bis Penal Code
	Unauthorised practice of gaming and gambling activities (<i>'Esercizio abusivo di attività di giuoco o di scommessa'</i>)	4, subsections 1 and 4-bis, Law no. 401/1989 ¹¹

¹¹ Law 401/1989: Interventions in the clandestine game and gambling sector and safeguard of the correctness in the implementation of official competitions (Law no. 401 of 13 December 1989, 'Interventi nel settore del giuoco e delle scommesse clandestini e tutela della correttezza nello svolgimento di competizioni agonistiche')

	Fraudulent transfer of goods (<i>'Trasferimento fraudolento di valori'</i>)	Art. 12-quinquies Decree Law 306/1992 ¹²
Aggravating circumstances	Aggravating circumstances	Art. 112 Penal Code
	Aggravating circumstances for crimes committed by persons subject to prevention measures or for crimes connected to mafia activities (<i>'Circostanze aggravanti e attenuanti per reati commessi da persone sottoposte a misure di prevenzione o per reati connessi ad attività mafiose'</i>)	Art. 7 Decree Law 152/1991 ¹³
	Aggravating circumstances for crimes committed with the circumstances foreseen by art 416 bis Penal Code (<i>'Aggravante ad effetto speciale in caso di delitto commesso avvalendosi delle condizioni previste dall'art. 416-bis c.p.'</i>)	Art. 7 Law no. 203/91 ¹⁴
Other crimes	Formal complicity (<i>'Concorso formale e continuato'</i>)	Art. 81 Penal Code
	Sanctions for those who are involved in the commission of a crime	Art. 110 Penal Code
	Refusal of official acts. Omission. (<i>'Rifiuto di atti d'ufficio. Omissione.'</i>)	Art. 328 Penal Code
	Personal aiding (<i>'Favoreggiamento personale'</i>)	Art. 378 Penal Code

Source: *The Court of Reggio Calabria (2015)*

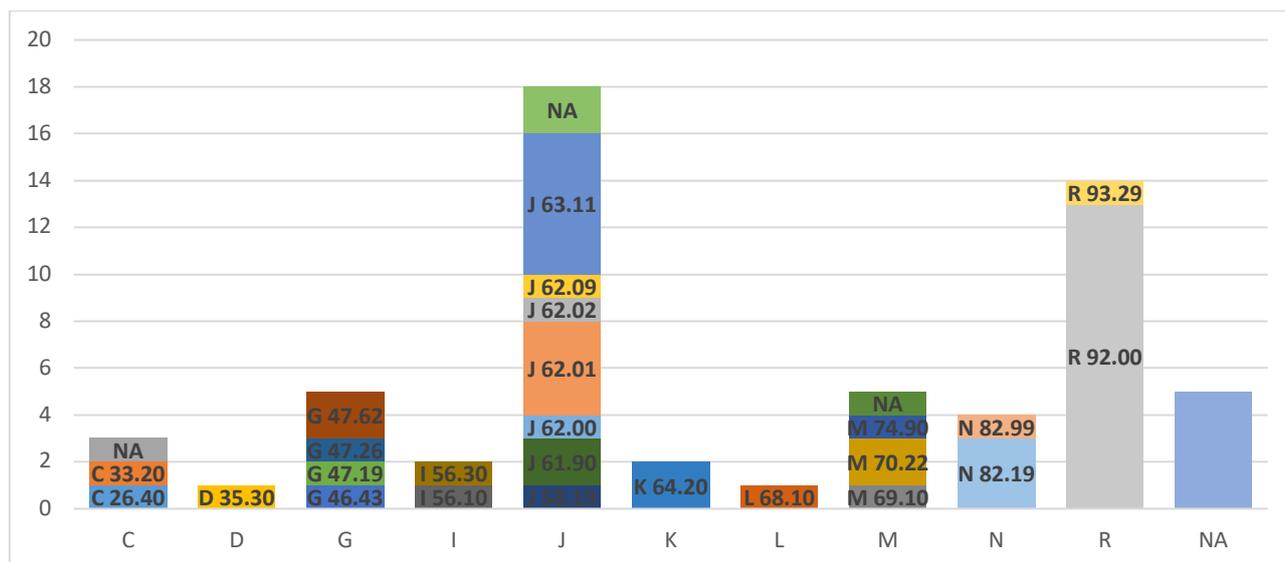
Most of the firms involved were active in the 'Information and communication' (NACE Section J) and 'Arts, entertainment and recreation' (NACE Section R) business sectors (Figure 1). As mentioned, the controlled businesses included **gambling dens ('centri trasmissione dati') connected with foreign online gaming websites**, which, being hosted by servers located in foreign countries (Malta, Austria, Romania), operated without the necessary licenses required by the Italian authorities. In this way, the OCG was able to produce profits not subject to the Italian tax system, which were then re-invested to buy other businesses, licenses and assets (Tribunale di Reggio Calabria, 2015, p. 49).

¹² Decree Law 306/1992: Urgent modifications of the new Code of Criminal Procedure and of counter-measures to mafia-crimes (Decree Law no. 306 of 8 March 1992, 'Modifiche urgenti al nuovo codice di procedura penale e provvedimenti di contrasto alla criminalità mafiosa')

¹³ Decree Law 152/1991: Extraordinary provisions for the fight against organised crime and for the transparency and the proper administrative activity (Decree Law no. 152 of 13 May 1991, 'Provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa')

¹⁴ Law 203/91: Conversion in law with some modifications of Decree Law no. 152 of 13 May 1991 regarding extraordinary provisions for the fight against organised crime and for the transparency and the proper administrative activity (Law no. 203 of 12 July 1991, 'Conversione in legge, con modificazioni, del decreto-legge 13 maggio 1991, n. 152, recante provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa')

Figure 1 - Number of infiltrated businesses by economic sector (NACE group) (N=35)



C 26.40 Manufacture of consumer electronics

C 33.20 Manufacture of musical instruments

D 35.30 Steam and air conditioning supply

G 46.43 Wholesale of electrical household appliances

G 47.19 Other retail sale in non-specialised stores

G 47.26 Retail sale of tobacco products in specialised stores

G 47.62 Retail sale of newspapers and stationery in specialised stores

I 56.10 Restaurants and mobile food service activities

I 56.30 Beverage serving activities

J 58.19 Other publishing activities

J 61.90 Other telecommunications activities

J 62.00 Computer programming, consultancy and related activities

J 62.01 Computer programming activities

J 62.02 Computer consultancy activities

J 62.09 Other information technology and computer service activities

J 63.11 Data processing, hosting and related activities

K 64.20 Activities of holding companies

L 68.10 Buying and selling of own real estate

M 69.10 Legal activities

M 70.22 Business and other management consultancy activities

M 74.90 Other professional, scientific and technical activities n.e.c.

N 82.19 Photocopying, document preparation and other specialised office support

N 82.99 Other business support service activities n.e.c.

R 92.00 Gambling and betting activities

R 93.29 Other amusement and recreation activities

NA not available

Source: Transcrime elaboration of Court of Reggio Calabria (2015) and BvD data

13.2 Preparation — Infiltration drivers: Why was the infiltration carried out?

The main purposes of the SOC infiltration schemes were:

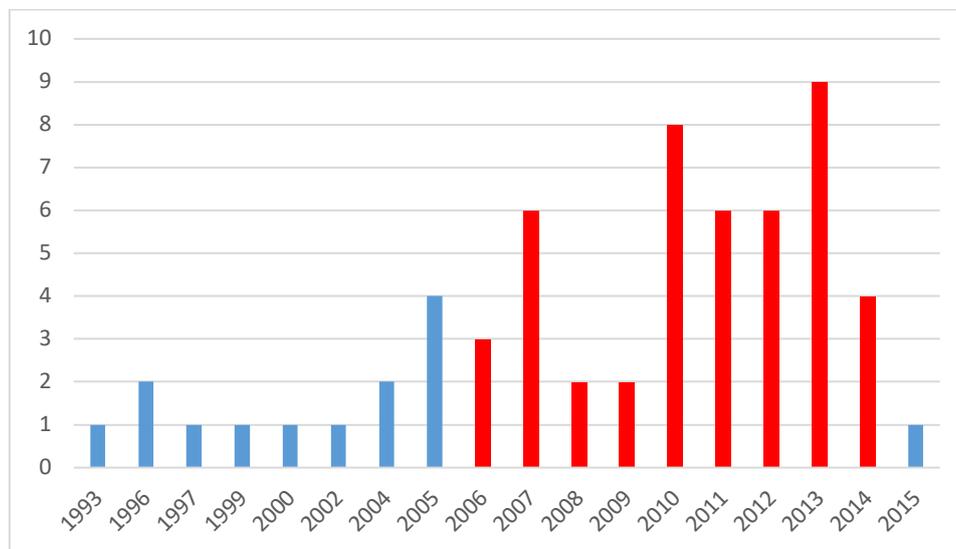
- **Evading taxes and earning illicit profits**, by setting up a betting system outside the control of the Italian gambling authority and of the Italian tax system (Tribunale di Reggio Calabria, 2015, p. 154).
- **To launder money** from illicit activities that were reinvested in the same network of gambling agencies and in other assets (Tribunale di Reggio Calabria, 2015, p. 46).

The '*dominus*' of the entire criminal network was Mr N1, an entrepreneur who supported the economic interests of the 'Ndrangheta as a partner (Calabrò, 2018; Tribunale di Reggio Calabria, 2015, pp. 162, 318).

13.3 Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

At the beginning, the OCG operated through some illicit gambling websites, but then it improved its *modus operandi*. It started to operate through businesses that were **formally allowed to operate** (through regular licenses) in the gambling sector but that acted illegally by providing **its clients with covert access to illegal online websites** (Tribunale di Reggio Calabria, 2015, pp. 48–49). The scheme was made possible by a complex system of straw men and shell companies controlled by the OCG (Tribunale di Reggio Calabria, 2015, p. 49). As shown in Figure 2, most of the businesses involved in the case were incorporated between 2006 and 2014.

Figure 2 - Number of connected businesses by year of incorporation (N=60)



Source: Transcrime elaboration of Tribunale di Reggio Calabria (2015) and BvD data

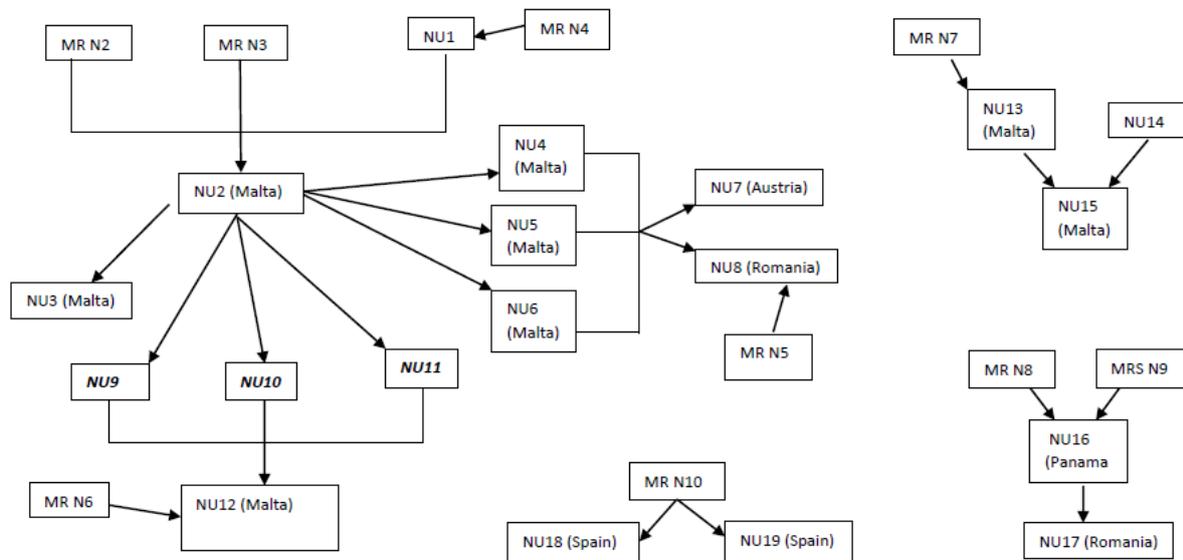
The prosecutors grouped the companies in five categories (Tribunale di Reggio Calabria, 2015, p. 810):

- 1) 7 businesses **taken over by the OCG** and used as legal cover, including companies in Malta, Austria and Romania
- 2) 5 businesses **infiltrated by the OCG** in order to commit crimes, which were controlled in whole or in part by important members of the OCG
- 3) 2 **foreign** companies **indirectly controlled by the OCG**
- 4) 2 **foreign** companies **directly controlled by the OCG**
- 5) 38 **Italian** businesses **directly controlled by the OCG**

As shown by Figure 3, some of the businesses involved in the case were connected to the foreign companies through **ownership links** (as shareholder or subsidiaries). The OCG employed not only figureheads but also some of **its own members** as managers or shareholders. Moreover, through the **mafia method** (i.e., **use of intimidation**), the OCG was able to persuade the legitimate owners

of the gambling agencies/data transmission centres (*Centri di Trasmissione Dati, CTD*) to connect to the foreign online websites managed by the OCG (Tribunale di Reggio Calabria, 2015, p. 51).

Figure 3 - Shareholders and subsidiaries of the companies involved in the case¹⁵



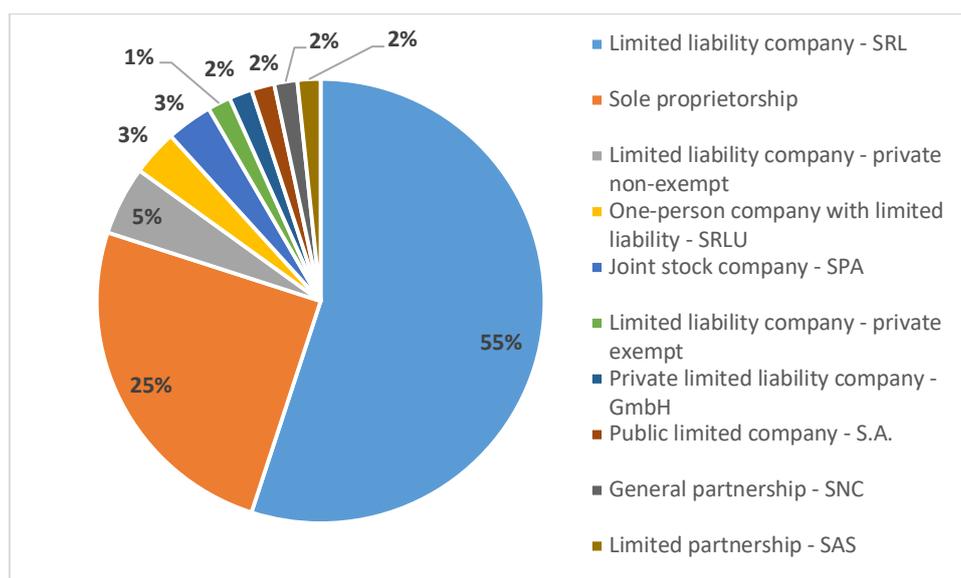
Source: Transcrime elaboration of Court of Reggio Calabria (2015) and BvD data

The most common legal form is the **private limited liability company** (*società a responsabilità limitata*) and other limited liability companies, as well as sole proprietorships (see Figure 4). As stressed the literature, these legal forms are the most frequent in the legitimate economy but, from a criminal's point of view, they allow the managers to minimise their financial liability and the impact of financial investigations and seizures. Limited liability companies can be established with a small initial share capital compared to other types of entities, and their accounting management does not require advanced expertise (Riccardi et al., 2016; E. Savona & Berlusconi, 2015). The Companies Act, Chapter 386 of the Laws of Malta, also introduced the private exempt company, which is a special type of limited liability company that is less strictly regulated (CSB Group, 2018; Gonzi and Associates, 2018). The main characteristics of a private exempt company are:

- The associates must be natural persons and there cannot be more than fifty
- No corporate body can act as a director of the company, and neither the company nor any of the directors can be a party to an arrangement whereby the company's policy could be determined by persons other than the directors, members or debenture holders.

¹⁵ The pre-trial detention order cited 54 companies involved in the case. The chart reports only some of them, to show how they are interconnected. The three companies in bold and italics were not cited in the judicial files, but they were reported in the chart because they were an important connection to other firms involved.

Figure 4 - Legal forms of the connected businesses (N=60)



Source: Transcrime elaboration of Court of Reggio Calabria (2015) and BvD data

13.4 Activity — Management strategy: How was the firm managed by the organised crime group?

As mentioned, the scheme implemented by the OCG was based on a **mix of on-line and off-line** gaming businesses:

- The OCG was managing a wide network of several hundred **gambling dens** distributed throughout Italy and presented as **data transmission centres** (*Centri di Trasmissione Dati – CTD*).
- These were connected to **foreign bookmaker companies** authorised by the Maltese authority (but not by the Italian one) through a fictitious ‘contract for the provision of services’ (*contratto di prestazioni di servizi*) and connected to **online gaming websites** hosted by foreign servers (Approdo News, 2015).
- The collection of the bets, however, **did not occur through on-line transactions** but in **cash (or by cheque)** to the managers of the centres (Approdo News, 2015; Tribunale di Reggio Calabria, 2015, p. 163), and so the transactions were completed in Italy.
- The managers of the centres kept a fee and **transferred the rest of the money** to the administrative management located abroad (Tribunale di Reggio Calabria, 2015, p. 50).

The OCG was involved (Tribunale di Reggio Calabria, 2015, p. 7):

1. **In the national territory (Italy) in:**
 - a. marketing the brand
 - b. collecting the amounts obtained from the physical collection of money
 - c. transferring the money abroad
 - d. granting credit lines to the individual gaming and betting rooms
 - e. resolving technical/IT problems
2. **Abroad in:**
 - a. acquiring licenses

- b. administrative and financial management
- c. preparing servers and software
- d. maintenance, development and technical/IT updates

This strategy allowed the OCG to earn profits from the betting activity **outside the control of the Italian authority** and the Italian tax system, and to launder a great amount of money (Tribunale di Reggio Calabria, 2015, p. 157).

The OCG acted as a **single association until 2011** and then separated in **two groups**, each of them consisting of a network of companies controlled, at the top, by foreign companies (Tribunale di Reggio Calabria, 2015, pp. 7–8).

13.5 Post-activity — End of infiltration: What happened at the end of the infiltration process?

The OCG was able to carry out the objectives of the infiltration for about ten years (approximately 2006-2015) and accumulate a huge amount of illicit profits. The police investigation led to the arrest of the individuals involved and the seizure of the companies in 2015 and consequently to the interruption of the criminal activity.

13.6 Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Profiting from the gambling sector • Evading taxes • Laundering money • Providing economic support to the 'Ndrangheta
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads (colluding entrepreneurs) • Use of shell companies and circular ownership structures • Use of shell companies located abroad (Austria, Malta, Romania, Spain) • Use of limited liability companies and sole proprietorships
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Connection of gambling agencies in Italy to foreign gambling companies and online gaming websites • Collection of the bets in cash locally and transfers to the foreign companies • Eluding the control of the Italian authority • Omitting VAT deposits
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Seizure of the companies and of the OCGs' assets

14. XI CASE

14.1. Case summary

Operation *Eaglewood*, carried out by the British Police in 2011, revealed an OCG's infiltration of a legal business in order to **launder money** stemming from the trafficking of cocaine and cannabis. Two Central London companies were involved: a **legitimate taxi company**, which we can call XI1, and a **bureau de change**, or XI2. The business was headed by Mr X1, owner and director of XI1, through the help of the company secretary, the manager and an employee (Savona & Riccardi, 2015).

CHI1 was a 'one-stop shop' for a **vast money laundering network**. The OCG used the premises of the company and the *bureau de change* to help a gang of criminals to launder around 80 million GBP of drug money. The job of Mr X2, manager of XI2, was to **exchange the cash into 500-euro banknotes**. This was done at a nearby euro wholesaler that was unaware of the criminal activities (Davies & Dodd, 2011).

The OCG's strategy worked as follows: a) **money mules delivered pound notes** to XI1; b) with the help of Mr X2 as manager of XI2, the drug money was converted to euro notes (at a 5% commission fee); c) using the wholesaler of euro banknotes, which was unaware of the criminal activities, the money was converted into **500-euro banknotes** (for example, 1M GBP held in 500-euro notes weighs 2 kg; held in 20 GBP notes, it would weigh 50 kg).

The **ten-month-long police investigation** ended with the conviction of 33 people involved in money laundering and drug trafficking. They received sentences varying from 20 months to 30 years of jail.

This case highlighted the very vulnerable nature of **cash-intensive businesses** for money laundering purposes (especially money service businesses and *bureaux de change*) and for drug offences (e.g., the logistical support that taxi companies can offer). As consequence of this case, the issuance of 500-euro notes by British banks was drastically reduced.

14.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The investigation revealed that the activities run by the OCG were mainly aimed at **money laundering**. Using a taxi company and an exchange bureau, the OCG laundered money from a criminal gang involved in drug trafficking. XI1 was a **front company** as it did not provide any taxi service but was used as a base for importing and dealing cocaine and cannabis.

14.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

The OCG used two existing companies to launder the money from illicit activities:

- **XI1** was incorporated in late 2003, and it was a 'one-stop shop' for the money laundering network. Unlike other cases, it had real premises and was not a mere shell company, but in fact was a front company which did not provide any taxi service: its premises were actively used for the money laundering and drug dealing activities (Summers, 2011).

- Money laundering activities were facilitated by a criminal associate, Mr X2, the manager of a legitimate high street *bureau de change* called **XI2**. As the owner of this *bureau de change*, Mr X2 became known to another euro exchange agency, and could buy very large amounts of euro banknotes from that source every day. It is believed that the exchange agency was unaware of being misused for money laundering purposes.

14.4. Activity — Management strategy: How was the firm managed by the OCG?

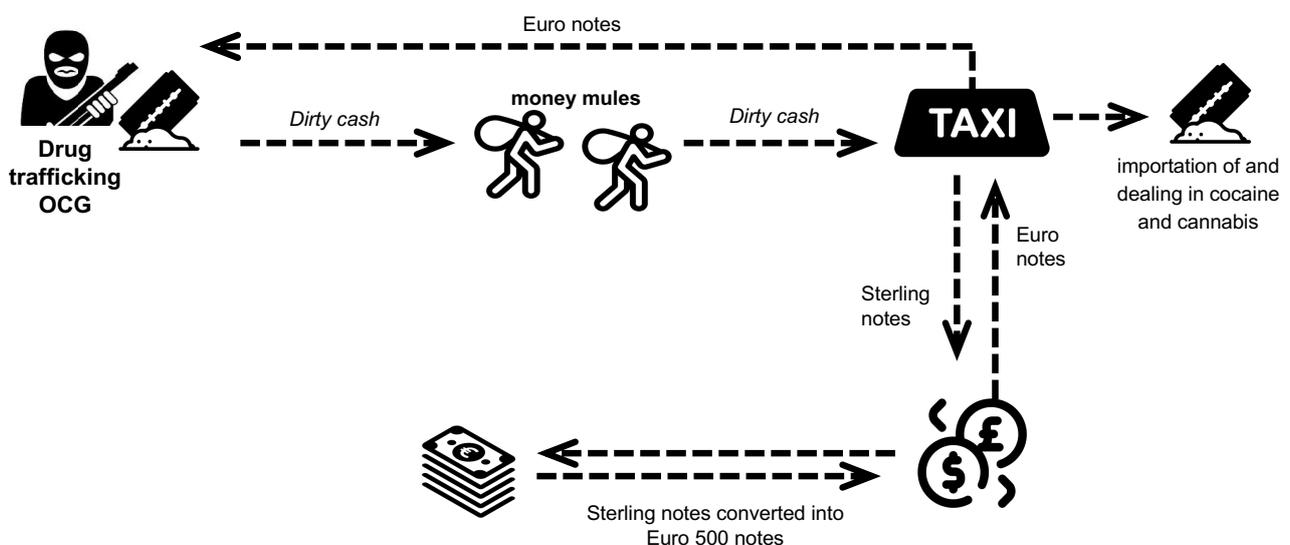
The OCG's scheme worked as follows:

- Money mules delivered pound notes to **XI1**.
- With the help of Mr X2 as manager of the **XI2**, the drug money was converted to euro.
- The funds were then converted to 500-euro notes at another money exchange agency that was unaware of the criminal activities.

XI1 was dissolved in 2005 but the premises were used between 2007 and 2008 for criminal activities. During that period, XI1 was **essentially a front business**. Criminals brought millions of pounds, which were the proceeds of drug dealing, to this firm and then to the money exchanger. The firm's headquarters was also used as a base for the **storage and point of sale** for the imported cocaine and cannabis.

In November 2007, the OCG also relied on an alternative. The money was transported by a wealthy man, who would have an apparent explanation for converting large amounts of foreign currency and splitting up the euros into smaller quantities. Nevertheless, this man was stopped and caught at Malaga Airport with an excessive amount of euros.

Figure 1 – The SOC infiltration and ML scheme



Source: Transcrime elaboration of data from Davies and Dodd (2011)

14.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The police investigation began in April 2007 after undercover police officers followed some drug smugglers and ended in February 2008 after ten months of surveillance. The criminal group operated between 2007 and 2008, and it was estimated that they laundered between 70 to 80 million GBP. This case highlighted the highly vulnerable nature of money service businesses, specifically *bureaux de change*. The sector as a whole has been infiltrated by criminals who use it to launder money. Law enforcement agencies and banks recognise that money service businesses are very risky businesses. As consequence of this case, the issuance of 500-euro notes by British banks has been significantly reduced. To date, the members of the OCG have received sentences varying from 4 and a half years to more than 30 years of jail. The other criminals received sentences between 20 weeks and 27 years. The company has been dissolved.

14.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Laundering money • Concealing illicit activity, i.e., drug trafficking
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of limited liability companies • Use of colluding entrepreneurs managing money exchange businesses
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Use of legitimate businesses to justify the conversion of dirty proceeds (in GBP) to euros • Use of company premises as storage and a point of sale for drugs
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Individuals sentenced to between 20 weeks and 30 years of imprisonment

15. OMICRON CASE

15.1. Case summary

The *Martingala*, *Vello d'oro*, *Cumbertazione* and *Ceralacca* investigations by the Italian authorities revealed the infiltration of legitimate businesses in different economic sectors by an OCG that **provided false invoices services** to several other criminal groups, including 'Ndrangheta families, Camorra and Cosa Nostra (Tribunale di Reggio Calabria, 2018).

The OCG was headed by an entrepreneur, whom we can call Mr O1 and who could rely on a **large network of connected businesses located in Italy and abroad** (e.g., Austria, Croatia, Romania and the United Kingdom). The main activity of the businesses infiltrated by the OCG was to provide fictitious invoices and joint-venture contracts used to **serve a variety of illicit purposes**. The 'customers' of these fictitious invoices paid through bank transfers. Mr O1 then paid the 'customers' back the **equivalent in cash off the record** after deducting the commission for his 'services' (see Chapter 3 for an in-depth discussion of false invoicing schemes).

A number of entrepreneurs ('**customer companies**') affiliated mainly with the 'Ndrangheta but also with the Camorra and Cosa Nostra accessed the 'services' offered by Mr O1 in order to:

- a) commit systematic tax fraud
- b) launder money
- c) obtain tenders, procurements and advance payments from public institutions

The proceeds from those activities were **used to fund mafia groups and other illicit activities**, i.e., usurious lending to legitimate entrepreneurs operating in Italy (e.g., in Tuscany) (Il Fatto Quotidiano, 2018).

The investigations revealed that Mr O1, in turn, relied on a number of entrepreneurs colluding with the 'Ndrangheta — in particular, Mr O2 (pseudonym) — to launder the illicit proceeds of its activity and **commit tax fraud himself** using a similar scheme based on the issuance of false invoices in which, in this case, he was himself the 'customer' (Tribunale di Reggio Calabria, 2018).

The infiltration involved a large number of satellite economic crimes repeated over time and aggravated by the mafia method (see Table 1).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Criminal association	Art. 416 Penal Code
	Mafia-type association	Art. 416 bis Penal Code
Tax crimes	Issuance of invoices or other documents for fictitious operations (' <i>Emissione di fatture o altri documenti per operazioni inesistenti</i> ')	Art. 8 Legislative Decree 74/2000 ¹⁶

¹⁶ Legislative Decree 74/2000: New regulation of crimes about taxes on income and added values (*Legislative Decree no. 74 of 10 March 2000, 'Nuova disciplina dei reati in materia di imposte sui redditi e sul valore aggiunto'*)

	Hiding or destroying accounting books (<i>'Occultamento o distruzione di documenti contabili'</i>)	Art. 10 Legislative Decree 74/2000
Other economic crimes	Fencing (<i>'Ricettazione'</i>)	Art. 648 Penal Code
	Money laundering	Art. 648-bis Penal Code
	Use of money, goods or revenues of unlawful origin (<i>'Impiego di denaro, beni o utilità di provenienza illecita'</i>)	Art. 648-ter Penal Code
	Extortion racketeering	Art. 629 Penal Code
	Usury	Art. 644 Penal Code
	Fraudulent transfer of goods (<i>'Trasferimento fraudolento di valori'</i>)	Art. 12-quinquies Decree Law 306/1992 ¹⁷
	Predatory Lending (<i>'Abusiva attività finanziaria'</i>)	Art. 132 Legislative Decree 385/1993 ¹⁸
	Bankruptcy fraud (<i>'Bancarotta fraudolenta'</i>)	Art. 216 Royal Decree 267/1942 ¹⁹
	Bankruptcy (<i>'Bancarotta semplice'</i>)	Art. 217 Royal Decree 267/1942
	Aggravating and mitigating circumstances (<i>'Circostanze aggravanti e circostanza attenuante'</i>)	Art. 219 Royal Decree 267/1942
	Fraudulent behaviour (<i>'Fatti di bancarotta fraudolenta'</i>)	Art. 223 Royal Decree 267/1942
	Aiding an offence	Art. 379 Penal Code
Other crimes	Formal complicity (<i>'Concorso formale e continuato'</i>)	Art. 81 Penal Code
	Sanctions for those involved in the commission of a crime	Art. 110 Penal Code
Aggravating circumstances	Aggravating circumstances	Art. 112 Penal Code
	Aggravating circumstances for crimes committed with the circumstances foreseen by art 416-bis of the Penal Code (<i>'Aggravante ad effetto speciale in caso di delitto commesso avvalendosi delle condizioni previste dall'art. 416-bis c.p.'</i>)	Art. 7 Law no. 203/91 ²⁰

Source: Transcrime elaboration of data from the Tribunale di Reggio Calabria (2018)

¹⁷ Legislative Decree 306/1992: Urgent modifications of the new Code of Criminal Procedure and of counter-measures to mafia crimes (Legislative Decree no. 306 of 8 March 1992, 'Modifiche urgenti al nuovo codice di procedura penale e provvedimenti di contrasto alla criminalità mafiosa')

¹⁸ Legislative Decree 385/1993, Consolidated Law on Banking (Legislative Decree no. 385 of 1 September 1993, Testo unico delle leggi in materia bancaria e creditizia)

¹⁹ Royal Decree 267/1942 Bankruptcy Law (Royal Decree no. 267 of 16 March 1942, 'Disciplina del fallimento, del concordato preventivo, dell'amministrazione controllata e della liquidazione coatta amministrativa')

²⁰ Law 203/91: Conversion in law with some modifications of Decree Law no. 152 of 13 May 1991 regarding extraordinary provisions for the fight against organised crime and for transparency and proper administrative activity (Law no. 203 of 12 July 1991, 'Conversione in legge, con modificazioni, del decreto-legge 13 maggio 1991, n. 152, recante provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa')

15.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The **two groups of companies** involved in the scheme — first, the companies controlled by Mr O1, then the ‘customer companies’ of his services — had different purposes (Tribunale di Reggio Calabria, 2018).

The infiltration carried out by Mr O1 into his businesses aimed at:

- gaining illicit profits through the provision of false invoice services
- committing systematic tax fraud
- laundering money

The ‘customer companies’ infiltrated by ‘Ndrangheta, Camorra and Cosa Nostra aimed at:

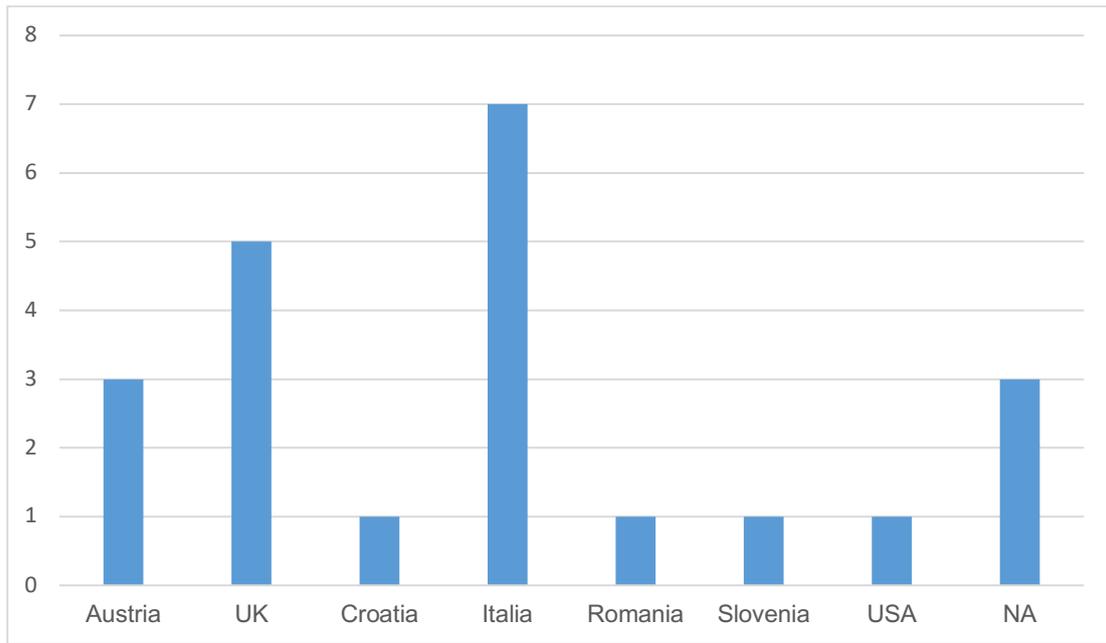
- committing systematic tax-fraud, by reducing taxable income through false invoices
- creating illicit funds to be used for other illicit activities, e.g., usury
- laundering money
- obtaining public tenders and procurements using fake documentation
- providing economic support to ‘Ndrangheta, Camorra and Cosa Nostra families

15.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the investigation, Mr O1 could rely on a complex and wide network of **shell companies and figureheads** — most of them either relatives or long-time collaborators — to run the businesses that offered false invoicing services.

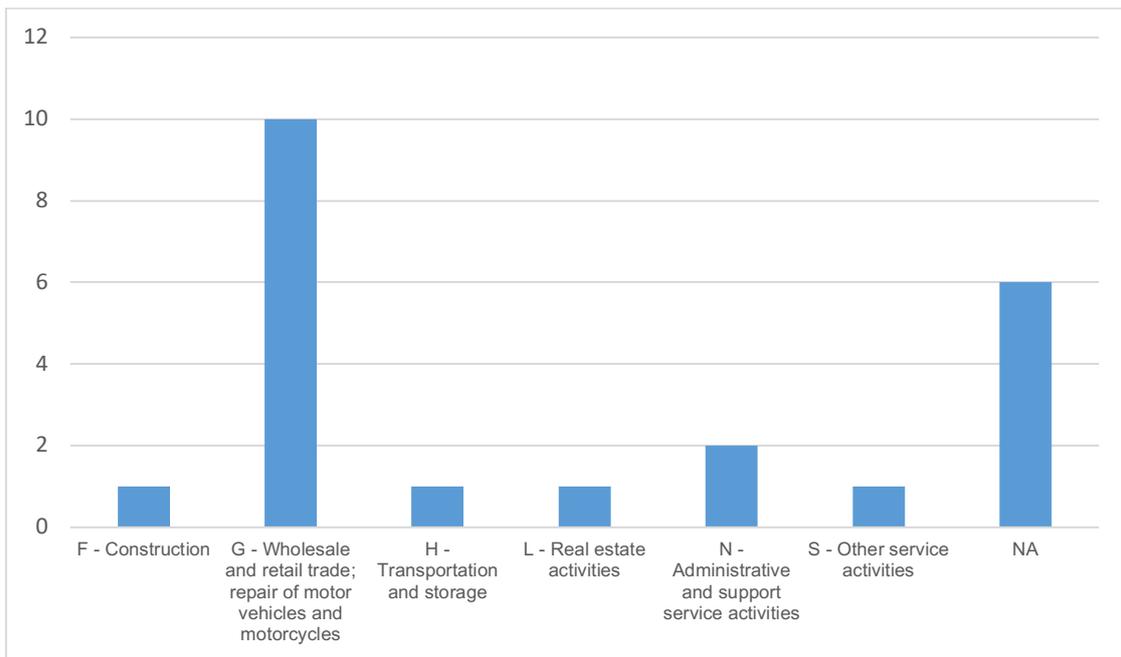
Some of them were **either directly owned by Mr O1** (8 companies), while others were run using figureheads (14 companies). Most of these companies were established in Italy, but some were established **abroad** (see Figure 1). Most of them operated in the **Wholesale trade** sector (NACE section G).

Figure 1 – Country of registration of the companies offering false invoicing services (N=22)



Source: Transcrime elaboration of BvD Data

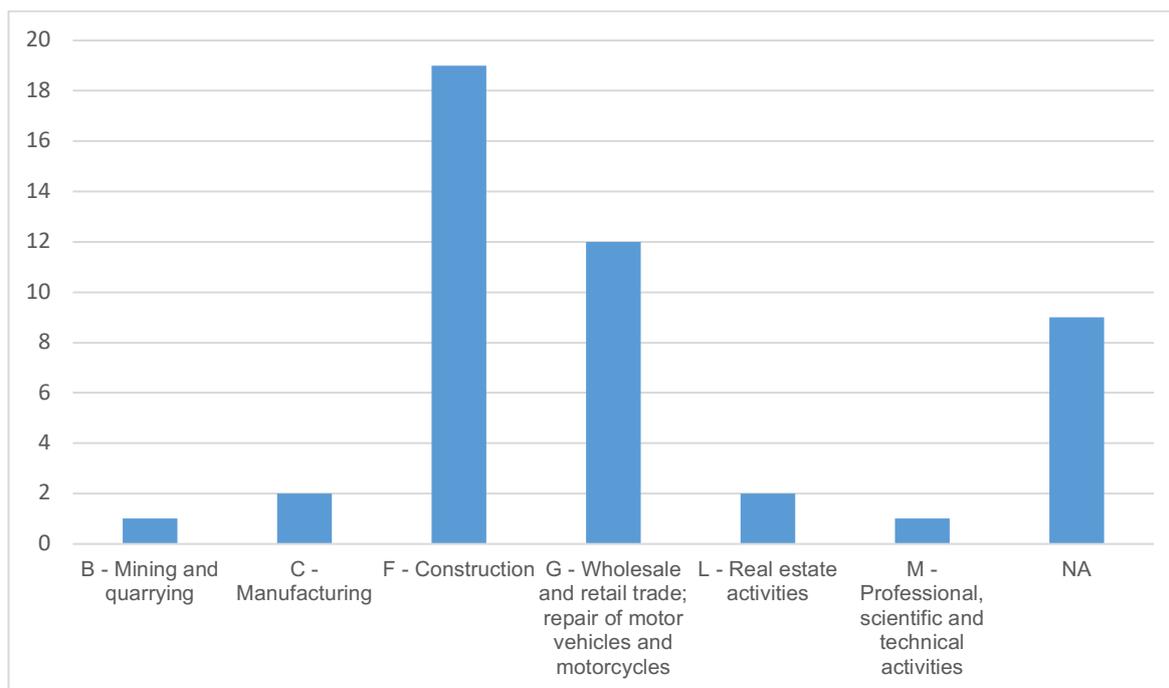
Figure 2 – Business sector of the companies offering false invoicing services (N=22)



Source: Transcrime elaboration of BvD Data

The 'customer' companies were all established in Italy and operating mainly in the construction sector (NACE Section F) and in wholesale trade (G) (see Figure 3).

Figure 3 – Business sector of the ‘customer’ companies (N=46)



Source: Transcrime elaboration of BvD Data

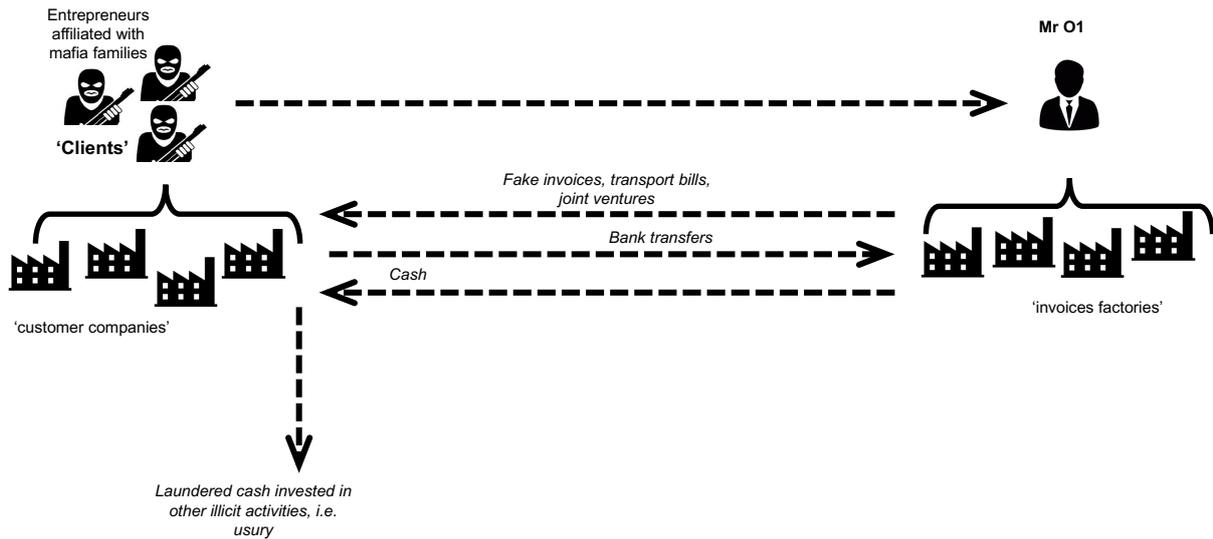
As for the legal form, most of the firms involved were **private limited liability companies**.

15.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned above, the extensive network of Mr O1’s businesses issued false invoices, which were then accessed by a **number of colluding entrepreneurs** (‘customer companies’). Mr O1’s businesses received **payments via bank transfers** and paid the ‘customers’ back the equivalent in **cash (off the record)** after deducting a commission for his ‘services’. He also provided transportation bills and joint-venture contracts.

Mr O1 also committed ‘**carousel**’ fraud. Since the aim, however, was not only to commit VAT fraud but also to launder money and issue false invoices, the shell companies were not immediately liquidated (as in the typical *modus operandi* using missing traders) but moved abroad. The companies established in Italy, Austria, Croatia and Slovenia were **moved to the United Kingdom** (usually in two years’ time) with changes to the company name so as to escape monitoring by the Italian tax agency and make it harder for investigators to trace the money flow (Tribunale di Reggio Calabria, 2018, p. 366). When the companies were established abroad, Mr O1 relied on **local (foreign) business consultants** who were unaware of the illegal activities.

Figure 4 – SOC infiltration scheme



Source: Transcrime elaboration of data from the Court of Reggio Calabria (2018).

15.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

A **request for seizure** was issued by the Italian authorities for most of the companies involved in the scheme, including the foreign ones. Some of these firms are still active, while most have been liquidated, as they were 'empty' shell companies established ad hoc for criminal purposes.

15.6. Summary table

CSA Scene	Question	Findings
Preparation	Why was the infiltration carried out?	<p>For Mr O1's related businesses:</p> <ul style="list-style-type: none"> • Gaining illicit profits through the provision of false invoicing services • Committing systematic tax fraud • Laundering money <p>For the 'customer companies' infiltrated by mafias:</p> <ul style="list-style-type: none"> • Committing systematic tax fraud • Creating illicit funds to be used for other illicit activities such as usury • Laundering money

		<ul style="list-style-type: none"> • Providing economic support to 'Ndrangheta, Camorra and Cosa Nostra families • Obtaining tenders and procurements
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads, mostly relatives and long-time collaborators • Use of limited liability companies • Use of shell companies, some established abroad • Use of colluding entrepreneurs
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Issuing false invoices for fictitious expenses • Document forgery regarding false joint-ventures • Use of VAT carousel fraud • Cashing out and smuggling proceeds in cash • Liquidation or changes of registered offices and management of 'missing traders'
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Liquidation of firms when too exposed • Replacement with new firms • Seizure by judicial authorities

16. PI CASE

16.1. Case summary

This was a case of organised, **large-scale benefits fraud** against a municipality and the Swedish Public Employment Service. The fraud was committed through two different companies in the care sector, PI1 and PI2 (pseudonyms), which were consecutively controlled by the same group of owners and managers. The companies had contracts with a municipality to provide **residential home care for elderly people**. By recruiting false clients pretending to need care or exaggerating their needs and employees pretending to do work, the companies received payment from the municipality for services they did not perform. The companies also applied for and received benefits for creating new jobs. Twenty-three individuals were convicted of charges related to this fraud.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Economic crimes	Gross fraud	Ch. 9, para. 3, the Swedish Penal Code
	Attempted gross fraud	Ch. 9 para. 3 and 11, and Ch. 23 para. 1, the Swedish Penal Code

Source: Bra elaboration of NBI data

16.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The motive was obviously to **make money illicitly**. As a side effect, a number of people secured formal employment that gave them access to social benefits. The fraud scheme took advantage of a range of loopholes in the system municipalities use to provide residential home care in Sweden. In 2012 and 2013, when the fraud was carried out, a new law had recently passed allowing **private companies to provide publicly funded health care**, care for the elderly and disabled, schooling and other services (*Law on Freedom of Choice - LOV*). There is no limit on how much profit can be made by the companies. The fraud in this case consisted of the companies submitting reports to the municipality stating that employees provided care when, in fact, they did not.

Deregulation of the residential care sector may generally be part of the reason for what seems to be an **increase in welfare fraud**, since the reform has meant more private, profit-driven actors. In addition, this sector has **little transparency**, since it takes place in private homes. Therefore, municipalities and government agencies cannot verify that the rules are followed and the work reported is performed. The setup in this case took specific advantage of some municipalities permitting **hiring of relatives or others** close to the care recipient as caregivers.

Residential home care is sometimes highlighted as especially vulnerable to irregularities (see Section 6.3 of the main report). While some approaches only require one person to fabricate or exaggerate his or her disability and a couple of care assistants to take part in the fraud, **large-scale and organised arrangements require a legitimate company** and multiple employees.

16.3. Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

In this case, the infiltration scheme involved considerable preliminary activity. The prosecutor of the case argued that **seven individuals in the ownership and management of the companies** had devised and prepared the setup in concert, recruited accomplices and carried out the fraud. The court ruled, however, that only two of the main defendants could be shown to have been aware of the criminal operation. Several steps had to be taken to make the fraud possible:

- **Starting and registering the companies:** It is noteworthy that the first of these, PI1, was a joint stock company, while the second one was a limited company
- **Securing a municipal contract**
- **Recruiting participants** to participate in the fraud by faking or misrepresenting their need for care and accepting less care than granted to them by the municipality
- **Recruiting and employing relatives** of participants to participate in the fraud by falsely reporting work not performed and, in some cases, participating in applying for benefits from the Swedish Public Employment Service on false grounds

Since those convicted of the fraud maintained their innocence and claimed that the level of care granted by the municipality was appropriate, little information is available about the preparatory steps taken. It is clear, however, that recruitment of care recipients and employees willing to participate in the fraud largely depended on **existing acquaintances and networks**. The network analysis conducted by the prosecution showed that most of the accomplices had family connections.

16.4. Activity — Management strategy: How was the firm managed by the organised crime group?

PI1, a company in the care sector, was founded in 2011-2012. When it went bankrupt in 2012-2013, PI1's operations were transferred over to PI2, which was controlled by the same individuals. PI1, and later PI2, obtained **contracts with a municipality**. In 2012 and 2013, they provided home services to elderly people. The fraud, with a few exceptions, involved what is known as 'relative care', which means that a **close relative was employed by the companies** to care for their relatives.

The district court found that a total of 13 users received no home care service and that the relative **did not perform any compensatory home care**. Nevertheless, PI1 and PI2 invoiced the municipality for compensation as if all granted home services had been provided. In three cases, PI1 and PI2 clearly **issued cash compensation** to the participants instead of home care.

The trial also involved **gross fraud against the Swedish Public Employment Service**. PI1 and PI2 improperly received tax subsidies in the form of a start-up benefit by stating that the relative who would perform home services **was unemployed** at the time of the application, although that was not the case and although the employment was essentially a criminal act. The support from this benefit programme made up a **substantial part of the income** — 43% during the first half of 2013, according to media reports. All in all, the prosecuted fraud totalled more than 6 million SEK.

16.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The criminal investigation into PI1 and PI2 was part of a **larger offensive against organised crime** in the region. Audits of large private welfare providers were initiated in part because of irregularities in the markets. Before the implementation of the Law on Freedom of Choice, the cost of home services in the municipality in question totalled 191 million SEK a year. Two years later, the cost was 313 million. At first, politicians believed that the spending growth reflected a previously hidden need — that old and sick people had not received the help they needed. But a detailed analysis showed **all the new costs stemmed from new private actors with previous clients**, that is, clients who suddenly seemed to have become much worse — which is unusual.

Three of the main offenders were sentenced to imprisonment. The **CEO was sentenced to 3 years and 4 months in prison**. The criminals were ordered to pay the municipality and the Swedish Public Employment Service a total of approximately 5.6 million SEK. The two home service companies were sentenced to pay a total of 4 million SEK in company charges.

Of the 25 cases in which participants and ordinary employees were charged, 20 people were convicted of fraud and given probationary sentences and fines of varying sizes. One employee was sentenced to a year's imprisonment because, in that case, the municipality and the Swedish Public Employment Service were tricked into paying large sums for work that was never done, totalling approximately 900,000 SEK.

16.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> Producing illicit gains for several actors: owners, employees, care recipients
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> Establishment of limited companies Recruiting of false users (care recipients) Recruiting of false employees (caregivers)
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> Overstating users' need Securing municipal contracts Falsifying employees' work records
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> Claiming compensation from municipality Interruption of the municipal contract

17. RHO CASE

17.1. Case summary

The 2016-2017 *Security* investigation revealed the infiltration of legitimate businesses by an OCG connected to a **Cosa Nostra family**. The infiltration occurred in an area where the mafia family has traditionally had influence (Catania, in Sicily) as well as in non-traditional regions in northern Italy (Lombardy and Piedmont).

The infiltration, approximately between 2009 and 2016, involved a number of **satellite economic crimes** (*'reati economici satellite'*, as defined by Tribunale di Milano, 2017, p. 28) that were financially small but committed repeatedly and aggravated by the mafia method (see Table 1).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Criminal association	Art. 416 Penal Code
Corruption	Exchange of illicit influences (<i>'Traffico di influenze illecite'</i>)	Art. 346-bis Penal Code
	Corruption between private parties (<i>'Corruzione tra privati'</i>)	Art. 2635 Civil Code
Tax crimes	Fraudulent declaration by mean of invoices or other documents for fictitious operations (<i>'Dichiarazione fraudolenta mediante uso di fatture o altri documenti per operazioni inesistenti'</i>)	Art. 2 Decree Law 74/2000 ²¹
	Failure to make a tax declaration (<i>'Omessa dichiarazione'</i>)	Art. 5 Decree Law 74/2000
	Issue of invoices or other documents for fictitious operations (<i>'Emissione di fatture o altri documenti per operazioni inesistenti'</i>)	Art. 8 Decree Law 74/2000
	Failure to make a VAT deposit (<i>'Omesso versamento di IVA'</i>)	Art. 10-ter Decree Law 74/2000
Other economic crimes	Embezzlement (<i>'Appropriazione indebita'</i>)	Art. 646 Penal Code
	Fencing (<i>'Ricettazione'</i>)	Art. 648 Penal Code
	Fraudulent transfer of goods (<i>'Trasferimento fraudolento di valori'</i>)	Art. 12-quinquies Decree Law 306/1992 ²²
Aggravating circumstances	Common aggravating circumstances	Art. 61 Penal Code
	Aggravating circumstances for crimes committed by persons subject to prevention measures or for crimes connected to mafia activities	Art. 7 Decree Law 152/1991 ²³

²¹ Decree Law 74/2000: New regulation of crimes involving taxes on income and added values (Decree Law no. 74 of 10 March 2000, 'Nuova disciplina dei reati in materia di imposte sui redditi e sul valore aggiunto')

²² Decree Law 306/1992: Urgent modifications of the new Code of Criminal Procedure and of counter-measures to mafia crimes (Decree Law no. 306 of 8 March 1992, 'Modifiche urgenti al nuovo codice di procedura penale e provvedimenti di contrasto alla criminalità mafiosa')

²³ Decree Law 152/1991: Extraordinary provisions for the fight against organised crime and for the transparency and the proper administrative activity (Decree Law no. 152 of 13 May 1991, 'Provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell'attività amministrativa')

	('Circostanze aggravanti e attenuanti per reati commessi da persone sottoposte a misure di prevenzione o per reati connessi ad attività mafiose')	
Other crimes	Formal complicity ('Concorso formale e continuato')	Art. 81 Penal Code
	Sanctions for those who are involved in the commission of a crime	Art. 110 Penal Code

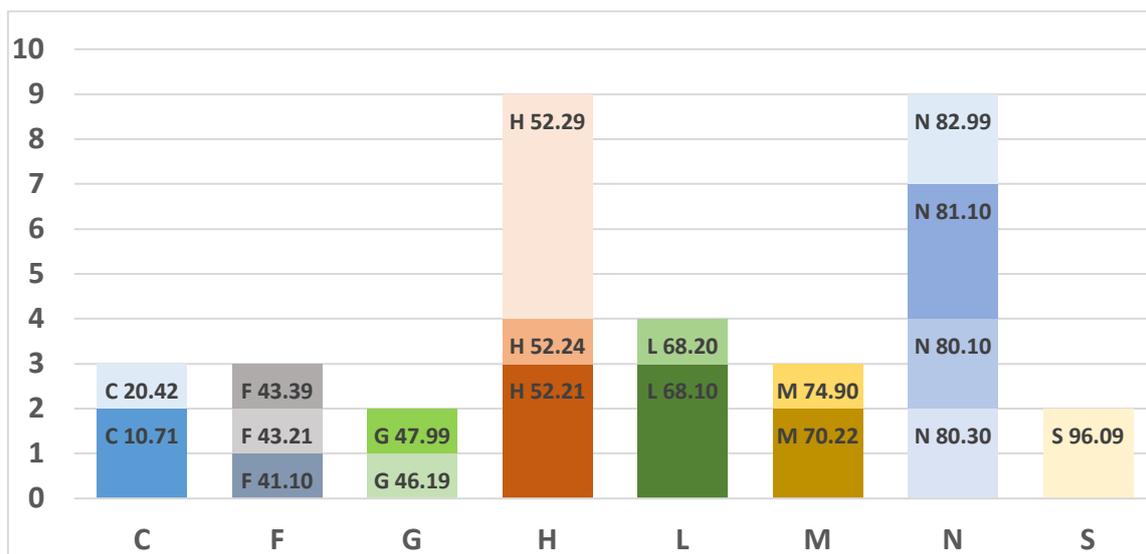
Source: Court of Milan (2017)

The criminal activity was conducted by a group of affiliated individuals — not always involving members of the criminal organisation — who controlled a **large network of figureheads and shell companies**. Three entrepreneurs — whom we call Mr R1, Mr R2 and Mr R3 — strictly connected to the Cosa Nostra family (Tribunale di Milano, 2017, pp. 7, 37) ran a **limited liability consortium** (*società consortile*) named RHO1, which was then replaced by another consortium, RHO2. The consortia involved a galaxy of cooperatives (which we will call *connected businesses*) operating in a variety of business sectors (see Figure 1) and managed through straw men.

The OCG used these *connected businesses* to commit systematic **tax fraud** (involving VAT taxes and social contributions) which allowed the group to accumulate a large volume of illicit proceeds and illicit funds. The activity was supported by **other 'colluding' entrepreneurs who issued false invoices** (in exchange for a fee). The illicit money was used to finance the mafia family and for other illicit purposes, mostly **private and public corruption**.

In addition to the consortium of Mr R1, Mr R2 and Mr R3, the same illicit strategy also involved **private security businesses** managed by two brothers — Mr R4 and Mr R5 — connected with the first group through direct and indirect shareholdings. The two brothers were closely connected to the Cosa Nostra family and were even able to get the public tender for security services for the Court of Milan (Tribunale di Milano, 2017, p. 6).

Figure 1 - Number of infiltrated businesses by economic sector (NACE group) (N=35)



C 10.71	Manufacture of bread; manufacture of fresh pastry goods and cakes	L 68.10	Buying and selling of own real estate
C 20.42	Manufacture of perfumes and toilet preparations	L 68.20	Rental and operating of own or leased real estate
F 41.10	Development of building projects	M 70.22	Business and other management consultancy activities
F 43.21	Electrical installation	M 74.90	Other professional, scientific and technical activities n.e.c.
F 43.39	Other building completion and finishing	N 80.30	Investigation activities
G 46.19	Agents involved in the sale of a variety of goods	N 80.10	Private security activities
G 47.99	Other retail sale not in stores, stalls or markets	N 81.10	Combined facilities support activities
H 52.21	Service activities incidental to land transportation	N 82.99	Other business support service activities n.e.c.
H 52.24	Cargo handling	S 96.09	Other personal service activities n.e.c.
H 52.29	Other transportation support activities		

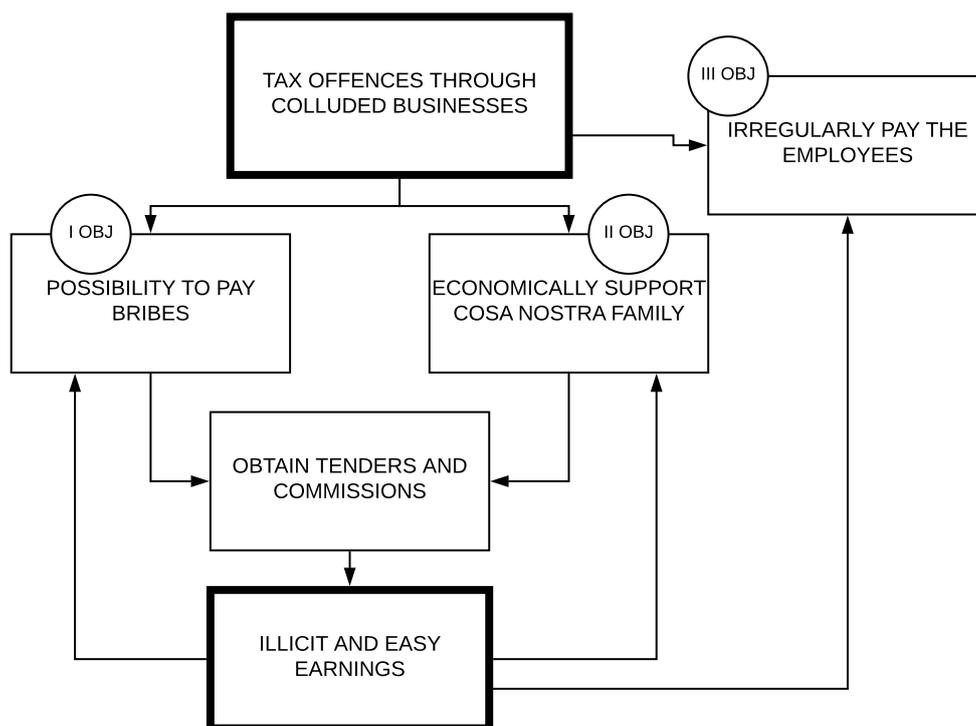
Source: Transcrime elaboration of Court of Milan (2017) and BvD data

17.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration served different purposes (see Figure 2 – Steps and objectives of the SOC infiltration). Mainly, the tax fraud allowed them to generate significant illicit proceeds, which were then used:

- as **illicit funds** for corruptive purposes (with both private and public entities) to obtain tenders and procurements
- to **provide economic support** to the Cosa Nostra family
- to **pay employees illicit salaries**

Figure 2 - Steps and objectives of the SOC infiltration



Source: Transcrime elaboration of data from the Court of Milan (2017)

Moreover, the infiltration addressed other needs the criminal group had, namely (Tribunale di Milano, 2017, p. 27):

- to provide criminals with **fictitious job positions and salaries**, to help them justify purchases made with illicit money
- to achieve **social respectability** as fictitious businessmen
- to maintain other illicit activities
- to **launder money**
- to offer job opportunities to the population, stimulating **social consensus** (mostly in Sicily)

17.3. Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

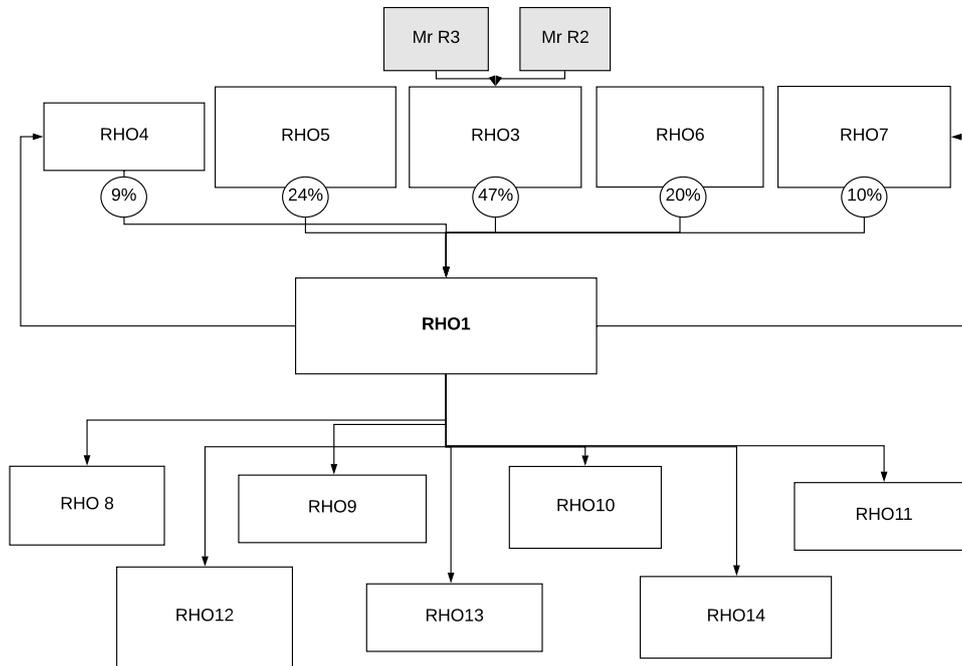
The infiltration of the Cosa Nostra family relied on the activity of some colluding entrepreneurs (Mr R1, Mr R2, Mr R3 and the two brothers). In particular, Mr R1 is the contact point for the Cosa Nostra family in Lombardy and he **considered himself a family member** (Tribunale di Milano, 2017, p. 37).

Mr R1, Mr R2, Mr R3 and the two brothers set up the limited liability consortium RHO1, which could control **other cooperatives acting as sub-contractors for tenders and contracts**. To further complicate the shareholding structure, some RHO1 shareholders were also controlled by the same consortium, creating circular ownership patterns (see Figure 3). RHO1 was then replaced by the

consortium RHO2, which was also connected to the companies managed by the two brothers (see Figure 4).

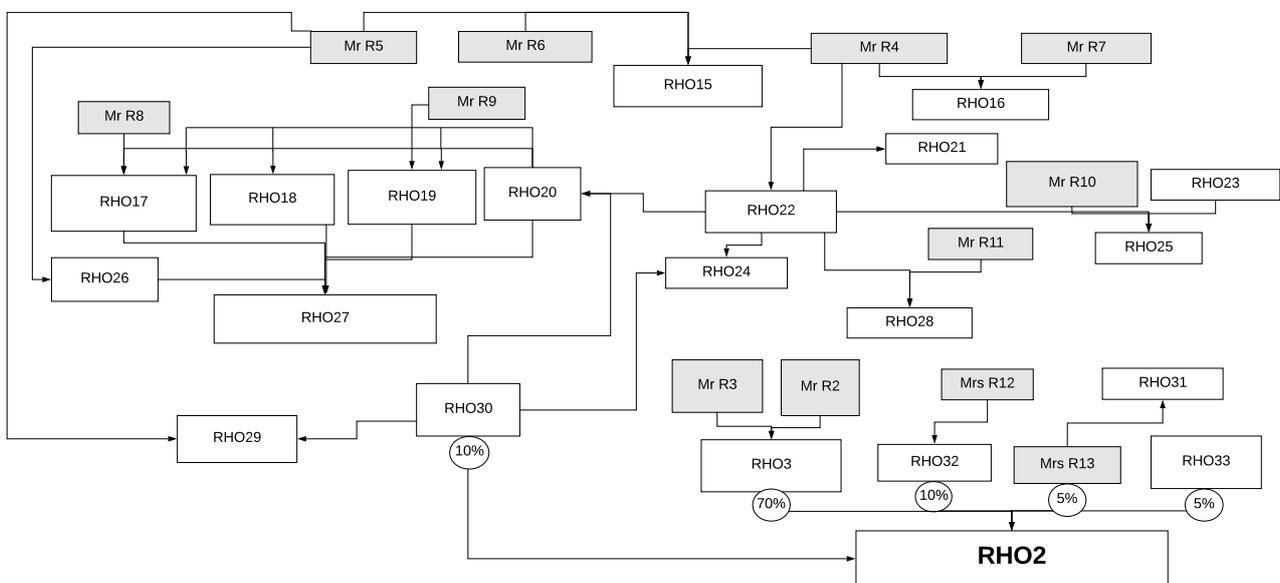
The consortia relied on a large, complex network of figureheads and shell companies.

Figure 3 – RHO1 shareholders and subsidiaries



Source: Transcrime elaboration of Court of Milan (2017) and BvD data

Figure 4 – Shareholders and subsidiaries of RHO2 and Mr R4 and Mr R5's companies



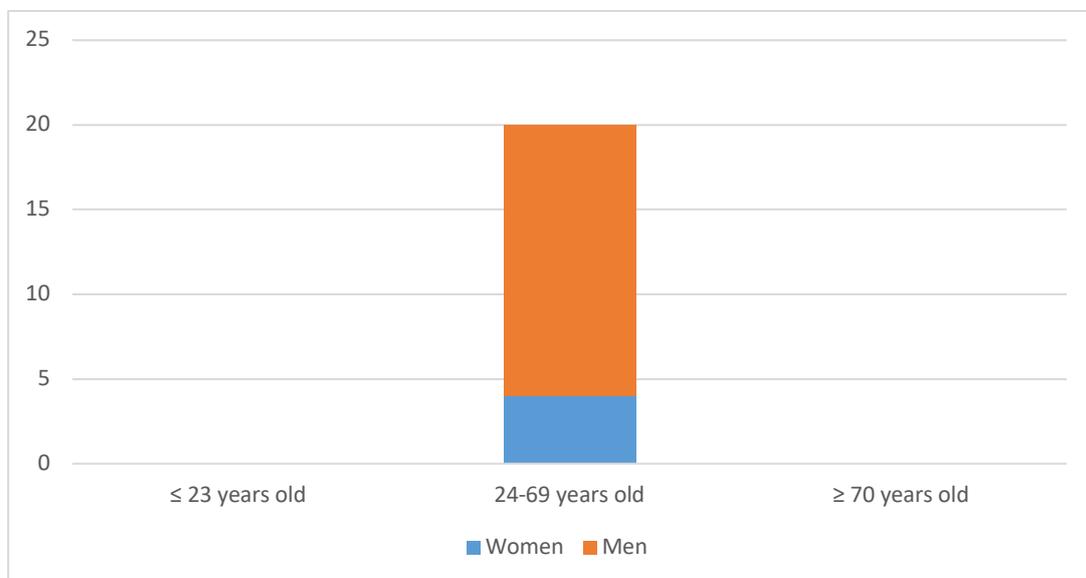
Source: Transcrime elaboration of Court of Milan (2017) and BvD data

Some of the figureheads who controlled the *connected businesses* composing the consortium were **relatives (e.g., brothers and wives)** of the OCG members, but most of them were **external individuals recruited by some local actors** (Tribunale di Milano, 2017, p. 52). The straw men received economic rewards for their support, but no details were revealed about who they were and what type of relationship they had with the OCG.

According to some of the literature (Riccardi et al., 2016; Riccardi, Soriani, & Standridge, 2015), the involvement of relatives in management positions in infiltrated firms is a popular strategy for OCGs. In particular, women, young individuals (≤ 23 years old) and the elderly (≥ 70 years old) may act as figureheads, as they are usually less likely to be involved in judicial investigations. In this case, the number of **female shareholders is significant (20% of the total)**, whereas the average age of the individuals does not differ from the general population (see Figure 5).

Some of the shareholders of the connected businesses, as well as their directors, managers and global ultimate owners, were also highlighted in WorldCompliance²⁴ as connected to previous negative judicial events (see Figure 6), revealing a **weak due diligence process** by the companies that entered into business relationships with the infiltrated ones.

Figure 5 – Shareholders’ gender and age (N=20²⁵)

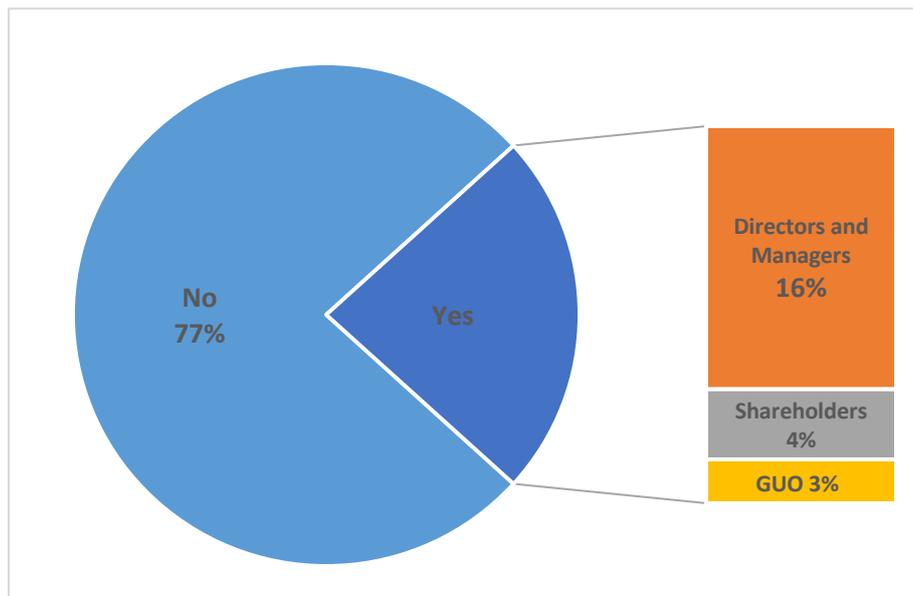


Source: Transcrime elaboration of Court of Milan (2017) and BvD data

²⁴ LexisNexis WorldCompliance Data delivers customized access to the industry’s most comprehensive and current database of sanctions, enforcements, PEP and adverse media. See: <http://www.lexisnexis.com/risk/intl/en/worldcompliance-data.aspx>

²⁵ The shareholders and directors were counted in the analysis. If a person is a shareholder or director in more than one company, that person is counted each time. Legal person shareholders are not included in this analysis.

Figure 6 – Presence of directors and managers, shareholders and global ultimate owners (GUO) of the connected businesses in WorldCompliance (N=183²⁶)



Source: Transcrime elaboration of Court of Milan (2017) and BvD data

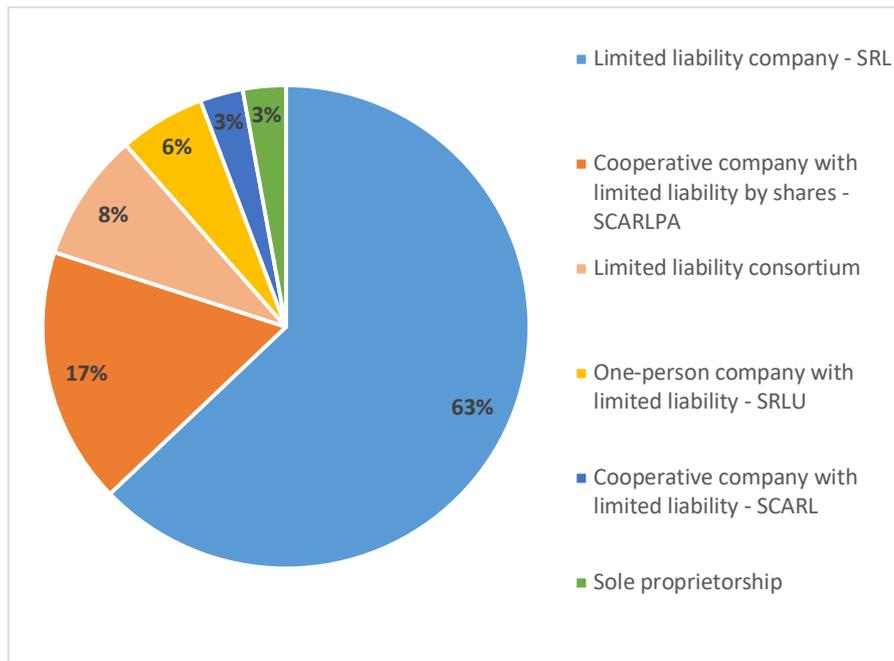
As shown in Figure 7, the legal form of most of the connected firms was:

- private limited liability company (*società a responsabilità limitata*)
- cooperative

As stressed in the literature, these legal forms allow criminals to minimise the financial liability of the managers and the impact of financial investigations and seizures. Limited liability companies can be established with a low initial share capital compared to other types of entities, and their accounting management is not very difficult (Riccardi et al., 2016; Savona & Berlusconi, 2015).

²⁶ In the analysis, if a person is the shareholder or director of more than one company, that person is counted each time.

Figure 7 - Legal forms of the connected businesses (N=35)



Source: Transcrime elaboration of Court of Milan (2017) and BvD data

17.4. Activity — Management strategy: How was the firm managed by the organised crime group?

As mentioned, the complex galaxy of *connected businesses* was necessary for generating illicit proceeds by using **false invoices and reimbursement of fictitious expenses**. In particular, the system relied on other colluding entrepreneurs who issued false invoices for fictitious operations, received payment through bank transfers and then paid back the equivalent in cash after deducting VAT and a commission for their 'penal risk' (Tribunale di Milano, 2017, p. 2). The companies that produced false invoices were operating in:

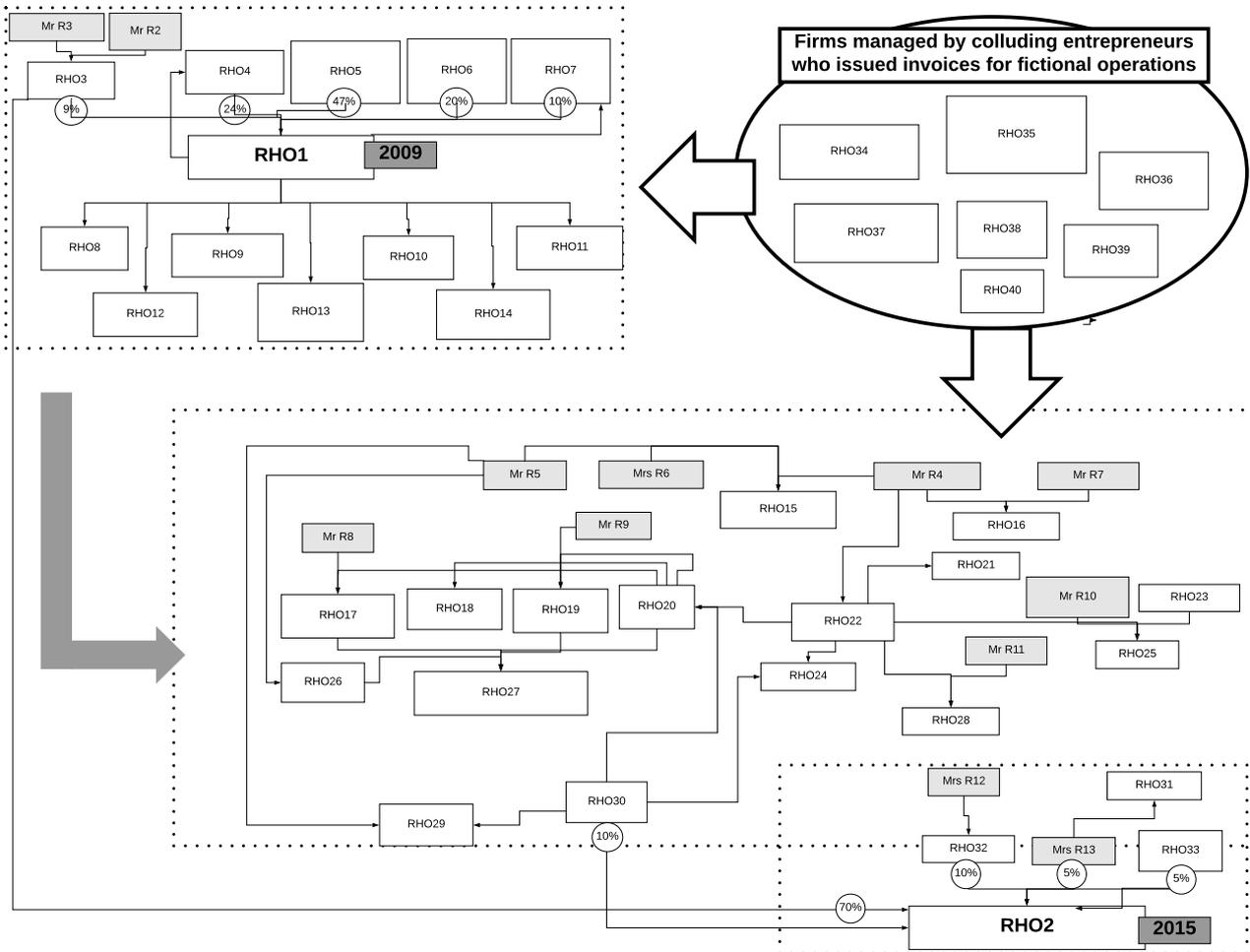
- marine fishing
- motor vehicle maintenance
- freight transport by road, restaurants and mobile food service activities
- business and other management consultancy activities
- other business support service activities
- hairdressing and other beauty treatments

The mechanism allowed the criminals to accumulate a significant amount of illicit proceeds from **failure to make tax deposits (especially VAT, but social contributions as well)**, as described in Table 2.

When the *connected businesses* became too financially exposed (due to the systematic tax fraud), they were **closed, liquidated, removed from the consortium and replaced by other 'new' businesses** set up for the same purpose. The old companies were a) put in liquidation, with their assets and manpower transferred to the new ones; or b) moved to other locations considered less risky for the Bankruptcy Law. Because cooperatives in Italy are subject to ministerial controls every

two years, they usually did not last more than 24 months.²⁷ The new companies were incorporated with the same purpose as the old ones, creating a ‘continuum’ in the business activity to benefit from relationships with the old trading partners (see Table 2).

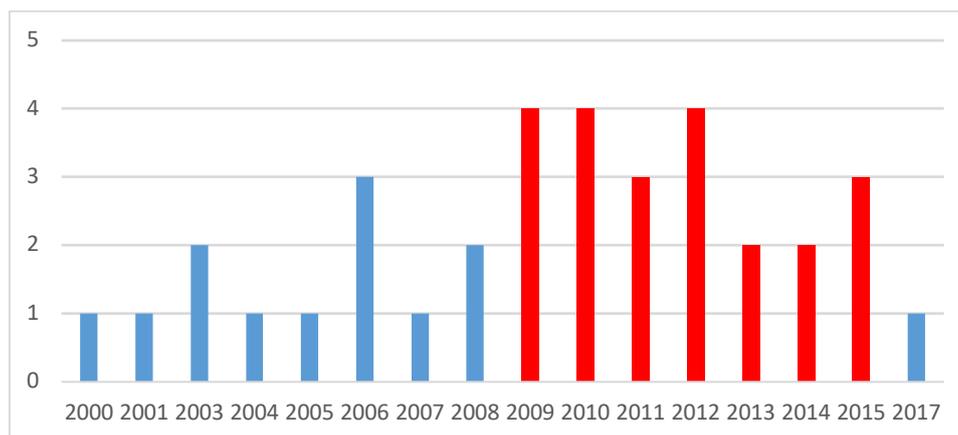
Figure 8 – General structure involving some of the connected businesses in the case



Source: Transcrime elaboration of Court of Milan (2017) and BvD data

²⁷ <http://www.sviluppoeconomico.gov.it/index.php/it/component/content/article?id=2012036:vigilanza>

Figure 9 – Number of connected businesses by year of incorporation (N=35)



Source: Transcrime elaboration of Court of Milan (2017) and BvD data

As can be seen in Figure 9, the incorporation of new businesses increased in the years 2009-2015, exactly when the OCG was very active.

Table 2 – The generation of illicit proceeds due to failure to make VAT deposits

Year	Description of the activity
2009	The business group started the criminal activity and had a modest business volume.
2010	The group expanded its economic activity; RHO1 more than doubled its turnover: <ul style="list-style-type: none"> • RHO10 was liquidated and its shares in RHO1 were acquired by RHO14.
2011	As a result of the improved business, the VAT amount increased but, even if had been declared, it was not deposited by the businesses
2012	The VAT amount not deposited by the group increased (more than 120,000 euro): <ul style="list-style-type: none"> • RHO14 started to present some financial criticalities. • RHO9 left the group and its shares in RHO1 were acquired by RHO6, RHO11 and RHO12.
2013	The VAT amount not deposited increased further (more than 700,000 euro). <ul style="list-style-type: none"> • RHO14 was liquidated and the assets of RHO1 were acquired by RHO3. • RHO11 and RHO12 started to present some financial criticalities.
2014	The VAT amount not deposited by the group reached almost 1 million (920,000 euro). At the end of 2014, the RHO1 group's turnover was about 14 million euro, but its tax debts amounted to 1 million euro. For this reason, Mr R1, Mr R2 and Mr 3 decided to close the consortium and declared inactivity. <ul style="list-style-type: none"> • RHO11 was liquidated and its shares in RHO1 were acquired by RHO43. • RHO12 was removed from the group and its shares in RHO1 were acquired by RHO7. • RHO8 started to present some financial criticalities.
2015	In January, RHO2 was incorporated with the same characteristics and functions as RHO1 and took over the fraudulent economic activity done by the previous consortium.

Source: Court of Milan (2017)

The illicit proceeds produced by the *connected businesses* with this tax crime mechanism served, as mentioned, primarily to support the Cosa Nostra family in Sicily financially but also to **infiltrate tenders in Lombardy, Piedmont and Sicily**. To achieve this objective, **corrupting behaviours**

were performed in the public (e.g., council members and majors) and private sectors (e.g., firms' managers and employees). The support of the Cosa Nostra family was necessary to obtain tenders in Sicily involving **courtesy and security services** (managed by the two brothers) and logistics services (managed by the consortium of Mr R1, Mr R2 and Mr R3). The same objective was also achieved by bribing company managers.

The group was connected to two members of the public administration (in the **provincial government and health-care system**) who, despite being retired at the time of the events, were able to exploit their connections within the Milan municipality to obtain tenders for the consortium.

In the private domain, the group obtained tenders and contracts with two **multinational discount supermarket companies** (through their Italian branches). Here, a central role was played by two managers in one of the discount companies (the project leader and the manager of branch renovations), who were able to provide many subcontracts to the *connected businesses* (e.g., by disclosing the bids of competitors) (Tribunale di Milano, 2017, p. 270). The connected businesses provided the discount companies with two services:

Logistic services:

- RHO2 managed a warehouse where the construction material necessary for the renovation of one of the discount's stores was maintained.
- RHO2 provided technical staff for one of the discount renovation activities.

Security and courtesy services:

- RHO41 and RHO24 provided courtesy services to one of the discount companies.
- Beginning in 2008, RHO42 and RHO28 replaced the previous two agencies because one of the discount companies requested investigation services.
- RHO1 provided courtesy services to the other discount company from 2014 to 2015 and then was replaced by RHO2. These activities were subcontracted to RHO3.

17.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

As mentioned, when the *connected businesses* became too financially exposed due to the serial tax frauds, they were closed down, removed from the consortium and replaced by other 'new' businesses set up for the same purpose. This strategy allowed the consortium to survive several years (2009-2017), to avoid financial investigations and to accumulate a significant volume of illicit proceeds (Tribunale di Milano, 2017). The police investigation began in 2015 and was able to definitively **reveal the criminal system in 2017** (Guardia di Finanza, 2017).

17.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Conducting tax fraud • Accumulating illicit funds for corruptive purposes • Accumulating illicit funds to pay employees illicitly • Providing economic support to a mafia family
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads (colluding entrepreneurs) • Use of shell companies and circular ownership structures • Use of a limited liability consortium • Use of limited liability companies and cooperatives
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Issuance of false invoices for fictitious expenses • Failure to make a VAT deposit • Corruption of public officials • Private corruption of managers of private companies
<i>Post-activity</i>	<i>What happened at the end of the infiltration process</i>	<ul style="list-style-type: none"> • Systematic liquidation of firms when too exposed • Replacement with new firms • Change of management • Cashing out and smuggling of proceeds in cash

18. SIGMA CASE

18.1. Case summary

Since 2012, a joint investigation team composed of the **state criminal police department** responsible for drug crimes and the **customs** agency conducted investigations on behalf of a public prosecutor's office over an international OCG suspected of **smuggling cocaine** and other things from South and Central America to Germany.

The OCG was using a **non-profit organisation to conceal its transport of narcotics**. In addition, the OCG is suspected of having used the non-profit organisation to **launder millions of euros** since 2007. The investigations concluded in 2014 without any charges because the court could not collect enough evidence about the methods and logic of the drug smuggling. Even though the investigators could establish that cocaine was smuggled to Germany, the prosecutor had to dismiss the proceeding according to section 170 (2) of the GCCP, due to a **tabloid media leak that endangered the investigations** (Nowack & Bütikofer, 2013). Nevertheless, the information collected by the LEAs provides interesting insight on the modus operandi of the international OCG (Office of the Public Prosecutor in Brandenburg, 2017).

The suspects were charged under the law on narcotic drugs, section 29a (**drug trafficking and drug smuggling**). In addition, money laundering investigations were initiated against the suspects based on a **suspicious transaction report** issued by a big German bank. As it was not possible to prove that the suspicious transactions originated from one of the predicate crimes for money laundering according to section 261(1) of the GCC, the proceeding on the laundering activities was also dismissed without preferring charges pursuant to section 170 (2) of the GCCP (see).

The main suspects were German nationals who did not belong directly to any established OCG but had contacts with well-known OCGs. Nevertheless, the case was classified as '**organised crime**' by the Federal Criminal Police Office (BKA). A parallel investigation proved regular contacts with the main suspect and one of the **Arabic clans** in Berlin, yet this investigation also concluded without charges.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Drug smuggling and trafficking	Breaking the narcotic drugs law	Section 29-a Betäubungsmittelgesetz - BtMG
Money laundering	Hiding unlawfully obtained financial benefits	Section 261 (1) Strafgesetzbuch - StGb
Tax offences	Tax evasion	Section 370 Abgabenordnung (AO)

Source: SWP elaboration of data from the Office of the Public Prosecutor in Brandenburg (2017)

The centre of the criminal activities was an **association based in Germany** with domicile in the USA, South Africa and Denmark. The front project for the association was the **protection of exotic animals**, which were imported from South and Central America to Europe. The association was active in Brazil, in the Caribbean and in Mexico. Even though the investigations found evidence of real activity involving the exotic animals, there was no evidence of legal activities that could justify the association's income. In fact, those activities were used to conceal imports of cocaine. The

association was also allegedly used to launder money for other criminal groups such as **Arabic clans** in Berlin and **Outlaw Motorcycle Club Gangs** (OMCGs) (Office of the Public Prosecutor in Brandenburg, 2017).

18.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The infiltration served **various purposes**:

- To smuggle cocaine from South and Central America to Europe
- To launder the profits of drug trafficking
- To evade taxes
- To buy luxury goods and afford a very luxurious lifestyle

18.3. Pre-activity — Ownership strategy: How was the OCG able to infiltrate and control the firm?

The OCG controlled a **wide network of companies**, mostly shell companies, to conceal its drug trafficking activities and launder its illicit proceeds.

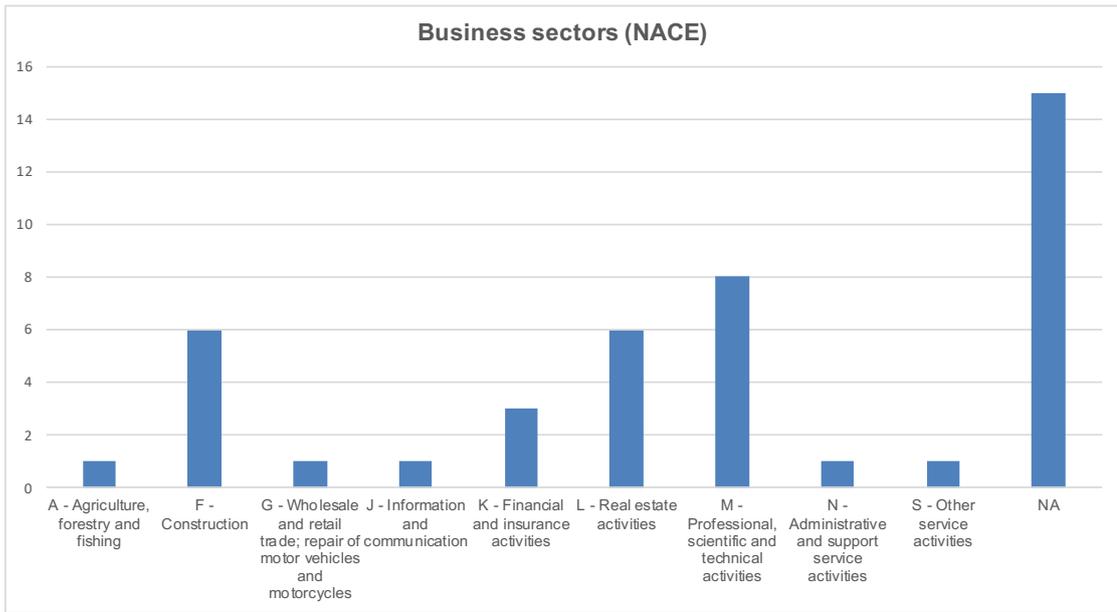
The cornerstone of the investment scheme, the **non-profit association** (NPO), was managed by the head of the OCG along with relatives and collaborators. The NPO was established in Germany in 2006; it changed its name in 2014 due to the ongoing investigations. To date, the entity is still active.

The investigation revealed another **43 businesses involved** in the money laundering and tax evasion scheme. According to the available data, the legal form of most of the businesses was private limited liability company. Most of them were small or medium-sized companies. A significant number of them were active in the real estate and construction fields (see Figure 1).²⁸

Most of the businesses were established in Germany but some were established abroad, including in offshore jurisdictions (see Figure 2).

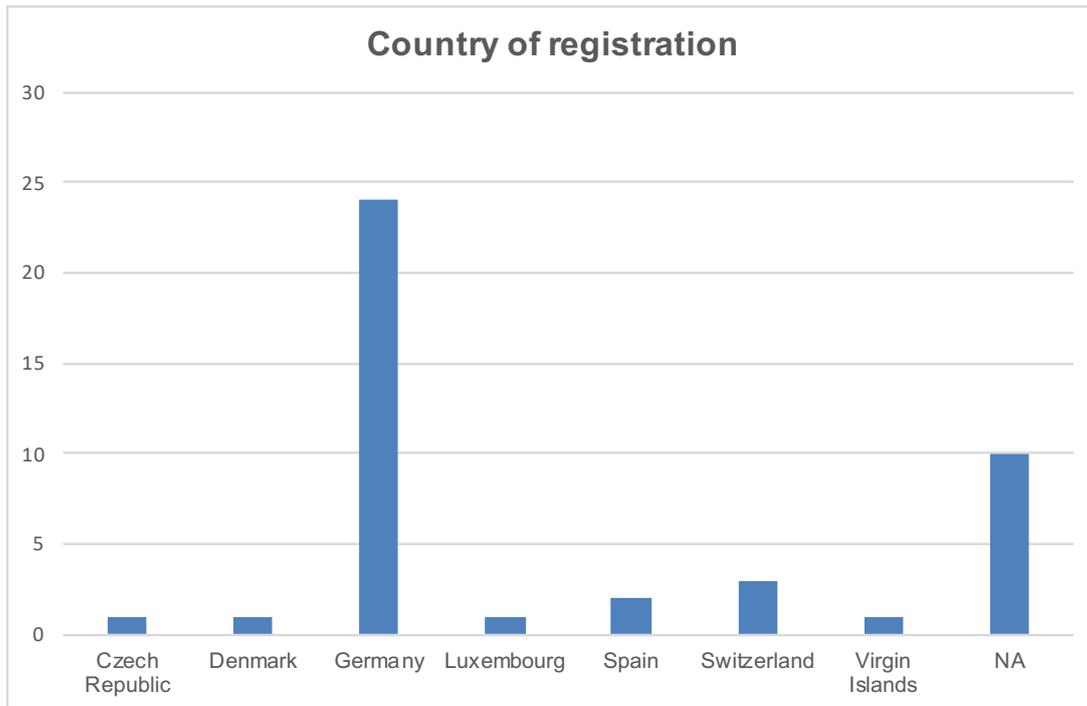
²⁸ Many businesses that were officially classified as being active in the field of professional, scientific and technical activities actually did real estate management.

Figure 1 - Infiltrated businesses by economic sector (NACE Section) (N=32, for 9 no information was available)



Source: SWP elaboration of Office of the Public Prosecutor in Brandenburg (2017) and BvD data

Figure 2 – Country of incorporation of the involved businesses (N=32, for 9 no information was available)



Source: SWP elaboration of Office of the Public Prosecutor in Brandenburg (2017) and BvD data

18.4. Activity — Management strategy: How was the firm managed by the organised crime group?

The investment scheme worked as follows: businesses in the network were **making donations and offering loans** to the association, which then paid them back in cash and added a return on the investment. In this way, the businesses could profit from a tax-free income; also, the proceeds of cocaine trafficking were laundered through the **payback scheme**, and the association disposed of the donations and loans in order to fund the imports of cocaine (Office of the Public Prosecutor in Brandenburg, 2017).

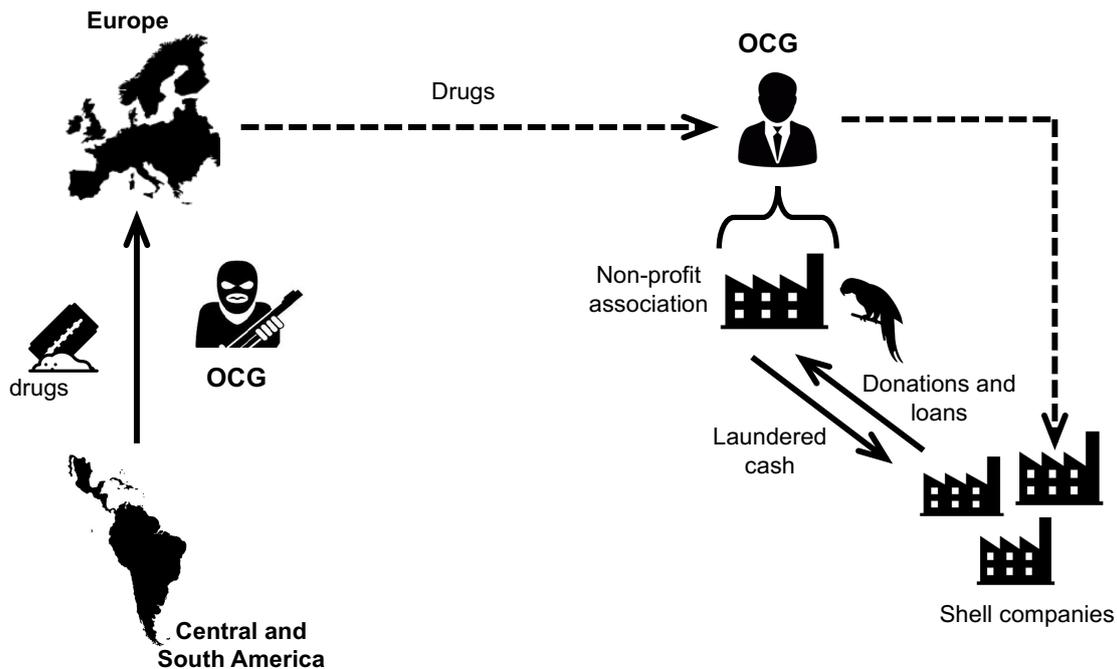
The investigations found evidence of **large sums**, up to 500,000 euro, transferred to the association's bank account by different businesses and individuals. A **network of connected businesses** was detected by tracing the transfers. According to BvD data, the same persons managed different companies. The money transfers were justified as 'investments' as part of the association's non-profit activity; some of the funds should have been allocated for the purchase of warehouse facilities to protect the exotic animals (Office of the Public Prosecutor in Brandenburg, 2017).

The investigators established that the main suspect often travelled to countries in **Central and South America** from which narcotics are typically exported to Europe. The suspect was meeting with other high level OCGs members during these trips. The suspicion is that those journeys, apparently taken in order to manage the exotic animal project, were instead used to **smuggle cocaine**. In addition, the main suspect was allegedly able to gain the complicity of high-ranking public officials in Central America to facilitate the delivery of drugs by offering them 'financial support' (Office of the Public Prosecutor in Brandenburg, 2017).

For example, the investigations proved that a limited liability company — SIGMA1 — was established on behalf of the main suspect, whom we can call Mr S1, by another person involved in the case, Mr S2, who belonged to a different OCG. SIGMA1 received a loan from another limited liability company, SIGMA2, whose managers were the main suspect Mr S1 and another suspect, Mr S3. SIGMA2 was active in animal protection, so that the loan of 4 million euro was expressly linked to the specific purpose of purchasing appropriate real estate and equipment for warehouses to house the protected birds. Through this loan, SIGMA2 acquired a percentage of SIGMA1's shares. The money invested by SIGMA2 allegedly derived from illegal activities.

The investigators could not find any commercial activity between the two businesses. In exchange for the establishment of SIGMA1, Mr S2 received an expensive gift from Mr S1. The investigators suspected that this action was creating the basis of a money laundering scheme involving SIGMA1 and SIGMA2, and initiating cooperation between Mr S1 and Mr S2. The investigations found evidence of large sums like 500,000 euro transferred to the association's bank account by different businesses and individuals. A network of connected businesses was detected by tracing the origins of the transfers. According to BvD data, the same persons managed various companies. The money transfers were justified as 'investments' in the association's non-profit activity; some of them were connected, for instance, to the purchase of warehouses and warehouse facilities for the protection of exotic animals.

Figure 3 – SOC Infiltration scheme



Source: SWP elaboration of Office of the Public Prosecutor in Brandenburg (2017) and BvD data

18.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

As previously reported, the laundered money was indeed invested in the purchase of **luxury goods** including **expensive cars and real estate** by the main suspect and the relatives. In addition, the loans received by the NPO were re-invested in smuggling cocaine to Europe.

But the investigation terminated due to a **media leak**. After gaining access to the judicial files on a related investigation that had concluded without charges, the main suspect became aware of the use of hidden investigative tools by the police and passed the information along to the other suspects. Consequently, the police had to stop the investigations and could not prefer charges with the evidence collected at that point.

After the criminal case was exposed by the media leak, the non-profit association changed its name.

18.6. Summary table

CSA Scene	Question	Findings
Preparation	Why was the infiltration carried out?	<ul style="list-style-type: none"> • Conducting tax fraud • Accumulating illicit funds for corruptive purposes • Accumulating illicit funds to pay employees illicitly • Providing economic support to an OCG mafia family
Pre-activity	How was the OCG able to infiltrate and control the company?	<ul style="list-style-type: none"> • Establishment of a non-profit association • Use of shell companies • Use of offshore jurisdictions

		<ul style="list-style-type: none"> • Use of limited liability companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Smuggling narcotic drugs using a façade activity • Loan payback scheme to launder money from different OCGs • Tax evasion
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Change of name after the criminal case was exposed by the media leak

19. TAU CASE

19.1. Case summary

The investigation *Oligarkh* revealed the infiltration by a **Russian-speaking** OCG of a **Spanish third-division football club** (TAU2 — pseudonym), a **water bottling company** (TAU1), and a **golf club** (TAU3), in order to launder money from illicit activities (Europol, 2017b; Guardia Civil, 2017, 2018).

According to the Guardia Civil (2017), the criminal group was part of two well-known Russian crime syndicates acknowledged for their ability to infiltrate and invest in the legal economy. In Russia, these two OCGs are competitors, but in Spain they established a business partnership in order to launder money from illicit activities, presumably from racketeering, drug trafficking and robberies. The strategy developed by the OCG was based on a precise investment scheme: a) identifying European companies, mainly football clubs, in **financial distress**; b) acquiring the companies by paying a **minor entity**; c) using them as money 'laundromats' (Crime Russia, 2017).

According to the Spanish authorities, the criminal group was headed by one of the alleged leaders of one of the Russian syndicates and could rely on a large network of colluding businessmen and figureheads (ABC Sevilla, 2017; Guardia Civil, 2017, 2018).

The investigation led to the arrest of 11 Russian-speaking individuals who were investigated for **money laundering, criminal association, crimes against the public administration, tax fraud** and **document forgery** (Guardia Civil, 2017, 2018).

19.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The investigation revealed that the OCG infiltrated the three companies mainly for (Guardia Civil, 2017, 2018; Crime Russia, 2017):

- **Laundering money**
- Gaining **social respectability**
- Increasing **social consensus**

19.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the information available, the Russian-speaking OCG identified existing companies in financial distress to be used as fronts for money laundering activities. The investigation involved **at least 21 companies** (Guardia Civil, 2018). Three of them played a crucial role in the investment strategy:

- **A third-division football club (TAU2):** purchased by a Russian businessman and member of the OCG when the club was overwhelmed by debts. First, the group injected illicit money through donations, and then it acquired the club's property through capital investments. The extent of the investment was symbolic (1 euro) but then the OCG-related shareholders paid the 250,000 euro debt (Crime Russia, 2017).
- **A golf club (TAU3)**

- **A water bottling company (TAU1):** acquired by the OCG when it was in pre-bankruptcy. One of the Spanish shareholders of this business was highlighted in WorldCompliance as connected to previous negative judicial events involving drug trafficking (El País, 2008a).

Table 1 – Companies involved in the SOC infiltration scheme

Company name	National legal form	Status	Economic sector (NACE group)
TAU1	Joint stock company	Active	C 11.07 Manufacture of soft drinks; production of mineral waters and other bottled waters
TAU2	Sports joint stock company - SAD	Active	R 93.19 Other sports activities
TAU3	Limited liability company – S.L.	Active	R 93.19 Other sports activities

Source: Transcrime elaboration of BvD Data

19.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned above, one of the purposes of the OCG was to gain **social respectability and increase social consensus**, especially by managing the football club. The strategy adopted by the president of the football club was to:

- Acquire and train **local players** to gain the consensus of the local residents
- Report each financial transaction involving the football club to the local citizens in a transparent way
- Entertain with the employees, supporters of the football team and officials.

According to the police investigation, the Russian businessman invested in and controlled other businesses, mainly hotels, in order to launder money and **to connect with local politicians and businessmen** who could facilitate and indirectly support the illicit activities (Guardia Civil, 2017).

19.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The Spanish authorities arrested 11 Russian-speaking people allegedly involved in the money laundering scheme. The criminal group was able to **carry out the infiltration scheme** for approximately 3 years (from 2013 to 2016) and it was estimated to have laundered **at least 30 million euro** through the infiltrated companies (ABC Sevilla, 2017; Guardia Civil, 2017).

According to the information available, at this time the OCG members are still under investigation in Spain for money laundering, criminal association, crimes against the public administration, tax fraud and document forgery. Some of them were released on bail, however (Carranco, 2018).

19.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Money laundering • Obtaining social legitimacy • Increasing social consensus
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Injection of illicit funds through donations • Use of athletic associations • Use of figureheads • Use of a complex ownership structure
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Acquisition of local football players • Transparent reporting to local citizens on the club's activity of the club • Entertaining with employees, supporters, and public officials
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Ongoing investigation for money laundering, criminal association, and document forgery • Arrest of some individuals

20. PHI CASE

20.1. Case summary

This case involves an OCG that used a mafia method to infiltrate some of the transport companies active in the *Vieux-port* of Marseille, France, and had the **monopoly on the ferries** to the Frioul archipelago (Le Parisien, 2009).

Two families controlled the ferry business first with a company called PHI1, established in 1973, which had an **agreement with the city of Marseille** to have a legal monopoly on the ferry service. After the contract's expiration in 2000, a **new subsidiary was established**, controlled by the companies PHI2 (owned by two brothers we'll call Mr PHI2) and PHI3 (owned by two other brothers, Mr PHI3), to provide this service. In 2004, PHI1 was replaced by another company also owned by PHI2, which we can call PHI4 (Le Monde, 2009).

The investigation — which led to sentences of up to two years imprisonment — revealed that the families related to Mr PHI2 and Mr PHI3 set up a complex **fraud and money laundering scheme** including a **double ticketing system**, which also involved off-shore companies (Tribunal de Grande Instance de Marseille, 2009). The investigation also showed that the two families had a lifestyle inconsistent with the declared revenues that was sustained only by cash payments.

The OCG established a number of companies — **directly owned or controlled through figureheads** — in **France or in tax havens** with intent to conceal the fictitious trade, which was only a means of garnering illicit funds. These companies served a number of purposes: a) **concealing the real ownership** of the companies and ferries in order to avoid seizure; b) creating a **parallel ticketing system**; c) **laundering non-declared proceeds** from the parallel ticketing system; d) building/repairing the ferries through irregular contracts and without providing invoices; e) committing **tax fraud, misappropriation and diversion of company funds** and assets; f) embezzlement; g) bankruptcy; h) opening bank accounts in which to transfer the illicit proceeds.

Furthermore, the investigations revealed that the OCG was able to discourage their competitors using a **mafia method**, i.e., through threats, **violence and intimidation**.

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Criminal association	Art. 450-1, 450-3, 450-5 Criminal Code
Other economic and business crimes	Offences involving limited liability companies	L. 241-3 4°, 241-9 Commercial Code
	Criminal bankruptcy	L.654-1, L.654-2, L.654-3, L.654-5, L.654-6, L.626-15 Commercial Code
	Money laundering	Art. 324-1, 324-2, 324-3, 324-4, 324-5, 324-6, 324-7, 324-8 Criminal Code

	Extortion	Art. 312-1, 312-8, 312-9, 312-13 Criminal Code
	Complicity	Art. 121-6, 121-7 Criminal Code
Other crimes	Intimidation	Art. 222-18, 222-44, 222-45 Criminal Code
	Obstructing justice: threats issued during legal proceedings	Art. 434-15, 434-55 Criminal Code
	Misappropriation	Art. 314-1, 314-10, 314-11 Criminal Code
	Forgery	Art. 441-1, 441-6, 441-9, 441-10, 441-11 Criminal Code

Source: Transcrime elaboration of data from the Tribunal de Grande Instance de Marseille (2009)

20.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The companies infiltrated by the OCG served a **number of purposes**, including:

- Committing tax fraud
- Committing social welfare fraud
- Misappropriating and embezzling private and public funds
- Money laundering

20.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the judicial files, the families related to Mr PHI2 and Mr PHI3 could rely on a **complex and extensive network of companies** managed directly or indirectly through figureheads. Most figureheads were connected by kinship and by working relations, and most were fully aware of the economic crimes committed.

The companies can be grouped as follows:

- a) 20 companies located in **France** and directly owned by the two families
- b) 5 shell companies located in France and owned by figureheads
- c) 2 shell companies located in **Morocco** and owned by figureheads
- d) 2 offshore companies located in **Virgin Islands**

According to BvD data, most of the businesses were incorporated when the OCG was active and are no longer active. The primary business sectors involved was **sea and coastal passenger water transport** sector, but they also operated in **construction, real estate and repair and maintenance of ships and boats**. As for the legal form, most firms were **private limited liability companies**.

20.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned, the OCG set up an infiltration scheme that involved:

- establishing a **parallel ticketing system**
- **laundering the proceeds** from the parallel ticketing system
- **concealing the real ownership** of the ferries

The off-shore companies situated in tax heavens served, among other things, to open **bank accounts** where the revenues from the parallel ticketing system could be transferred.

20.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

According to the judicial files, the OCG was able to **carry out its illegal activity from 1996 to 2005**, and to earn a significant amount of illicit profits. It was estimated that the undeclared revenues totalled **16 million euro** (La Marseillaise, 2009; Tribunal de Grande Instance de Marseille, 2009).

The trial led to several convictions, including **several years' imprisonment** for the individuals involved in the case and the **seizure of the used ferries**.

20.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Committing tax fraud • Committing welfare fraud • Misappropriating and embezzling public and private funds • Laundering money
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads • Use of shell companies established in France and abroad • Use of limited liability companies • Use of offshore countries and tax havens
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Establishment of a double ticketing system • Setting up fictitious trade between shell companies • Use of mafia methods (threats, intimidation and violence) against competitors
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Investigation by the French authorities • Imprisonment of the involved individuals • Seizure of the involved ferries

21. CHI CASE

21.1. Case summary

The 2014-2016 police investigation *Giotto* discovered the infiltration of legitimate businesses in Lombardy by **entrepreneurs connected to a Cosa Nostra family** (Brescia Today, 2016; Tribunale di Milano, 2016). The illicit activity took place approximately from 2011 to 2016 and included the commission of many **economic crimes** aggravated by the intent to finance a mafia syndicate (see Table 1).

Table 1 – List of notified offences

Offence category	Offence	Reference to Article and Code/Law
Organised crime	Criminal association	Art. 416 Penal Code
Tax crimes	Fraudulent declaration by mean of invoices or other documents for fictitious operations (<i>‘Dichiarazione fraudolenta mediante uso di fatture o altri documenti per operazioni inesistenti’</i>)	Art. 2 Decree Law 74/2000 ²⁹
	Failure to file a tax declaration (<i>‘Omessa dichiarazione’</i>)	Art. 5 Decree Law 74/2000
	Issuance of invoices or other documents for fictitious operations (<i>‘Emissione di fatture o altri documenti per operazioni inesistenti’</i>)	Art. 8 Decree Law 74/2000
	Failure to make a VAT deposit (<i>‘Omesso versamento di IVA’</i>)	Art. 10-ter Decree Law 74/2000
	Fraudulent abstention from tax payments (<i>‘Sottrazione fraudolenta al pagamento di imposte’</i>)	Art. 11 Decree Law 74/2000
Other economic crimes	Embezzlement (<i>‘Appropriazione indebita’</i>)	Art. 646 Penal Code
	Money laundering	Art. 648 bis Penal Code
	Use of money, goods or proceeds of unlawful origin (<i>‘Impiego di denaro, beni o utilità di provenienza illecita’</i>)	Art. 648 ter Penal Code
Aggravating circumstances	Common aggravating circumstances	Art. 61 Penal Code
	Aggravating circumstances for crimes committed by persons subject to prevention measures or for crimes connected to mafia activities (<i>‘Circostanze aggravanti e attenuanti per reati’</i>)	Art. 7 Decree Law 152/1991 ³⁰

²⁹ Decree Law 74/2000: New regulation of crimes involving taxes on income and added value (*Decree Law no. 74 of 10 March 2000, ‘Nuova disciplina dei reati in materia di imposte sui redditi e sul valore aggiunto’*)

³⁰ Decree Law 152/1991: Extraordinary provisions for the fight against organised crime and for the transparency and the proper administrative activity (*Decree Law no. 152 of 13 May 1991, ‘Provvedimenti urgenti in tema di lotta alla criminalità organizzata e di trasparenza e buon andamento dell’attività amministrativa’*)

	<i>commessi da persone sottoposte a misure di prevenzione o per reati connessi ad attività mafiose'</i>)	
	Aggravating circumstances	Art. 4 Law 146/2006 ³¹
Other crimes	Formal complicity (' <i>Concorso formale e continuato</i> ')	Art. 81 Penal Code
	Sanction for those who are involved in the crime commission	Art. 110 Penal Code

Source: Transcrime elaboration of data from the Court of Milan (2016)

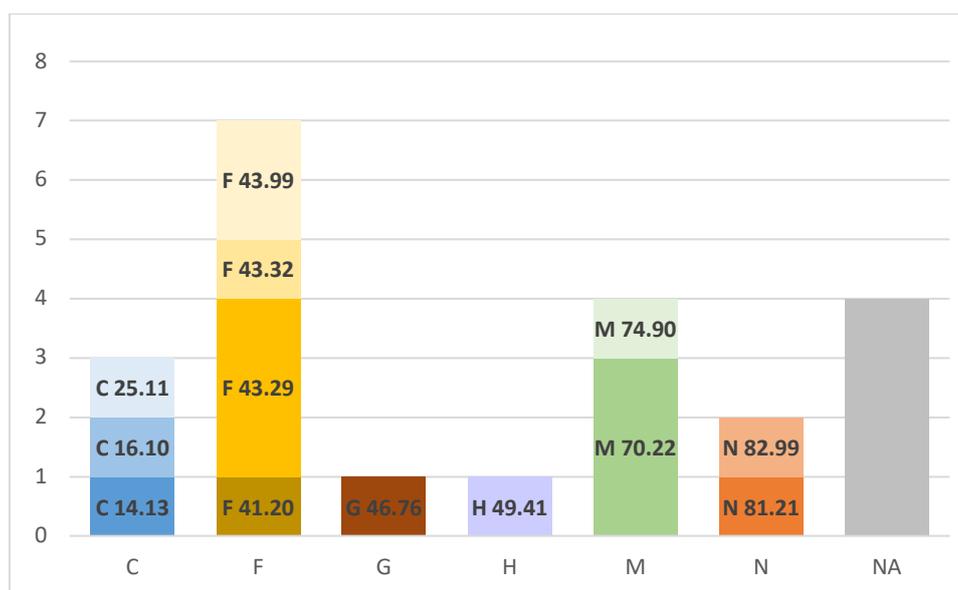
The main individual involved in the case was the entrepreneur Mr C1, who ran (indirectly, through his father) the **limited liability consortium** ('*società consortile a responsabilità limitata*') CHI1, a contracting firm active in the organisation and management of exhibition fairs (mostly setting up and portering). Mr C1 and his business partner, Mr C2, along with other individuals acting as figureheads, formed an organised crime group (OCG) with specific roles and functions assigned to each member. The OCG committed **systematic tax fraud** (involving VAT taxes) and **other economic crimes**, which allowed it to accumulate a significant amount of illicit proceeds and illicit funds. The illicit money was laundered and used for personal benefits and to fund a Cosa Nostra family in Central Sicily.

Through their figureheads, Mr C1 and Mr C2 managed some **operative businesses** (which did perform an economic activity) as well as many **shell companies** that issued false invoices. The businesses operated in a variety of business sectors (see Figure 1).

While the OCG was active, CHI1 and its associated businesses worked closely with CHI2, a subsidiary controlled by an exhibition fair company **listed on the Italian Stock exchange**, which managed the primary business fair in Italy — one of the largest in the whole EU (Tribunale di Milano, 2016, pp. 27–28). This connection allowed the OCG to take part in **important public tenders in Lombardy**, including an international fair.

³¹ Law 146/2006: Ratification and execution of the ONU Convention and Protocols against transnational organised crime, implemented by the General Assembly on 15 November 2000 and 31 May 2001 (Law no. 146 of 16 March 2006, 'Ratifica ed esecuzione della Convenzione e dei Protocolli delle Nazioni Unite contro il crimine organizzato transnazionale, adottati dall'Assemblea generale il 15 novembre 2000 ed il 31 maggio 2001')

Figure 1 - Number of infiltrated businesses by economic sector (NACE group) (N=22)



C 14.13	Manufacture of other outerwear	G 46.76	Wholesale of other intermediate products
C 16.10	Sawmilling and planing of wood	H 49.41	Freight transport by road
C 25.11	Manufacture of metal structures and parts of structures	M 70.22	Business and other management consultancy activities
F 41.20	Construction of residential and non-residential buildings	M 74.90	Other professional, scientific and technical activities n.e.c.
F 43.29	Other construction installation	N 81.21	General cleaning of buildings
F 43.32	Joinery installation	N 82.99	Other business support service activities n.e.c.
F 43.99	Other specialised construction activities n.e.c.		

Source: Transcrime elaboration of Court of Milan (2016) and BvD data

21.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The main purposes in infiltrating the firms were:

- Committing fraud
- Obtaining public tenders through illegal means
- Providing economic support for a Cosa Nostra family

According to the police investigation files, it emerged that the illicit proceeds generated by the OCG's activity were not only used for personal benefit, but also to **economically support a family related to Cosa Nostra** in in-land Sicily (Tribunale di Milano, 2016, pp. 22–23). Mr C2 was previously charged as a member of the mafia family and in the current case he emerged as a contact point for this family. Moreover, Mr C1 himself is connected to the mafia's social environment through his wife's family and a shared geographic origin (Tribunale di Milano, 2016, pp. 154–155).

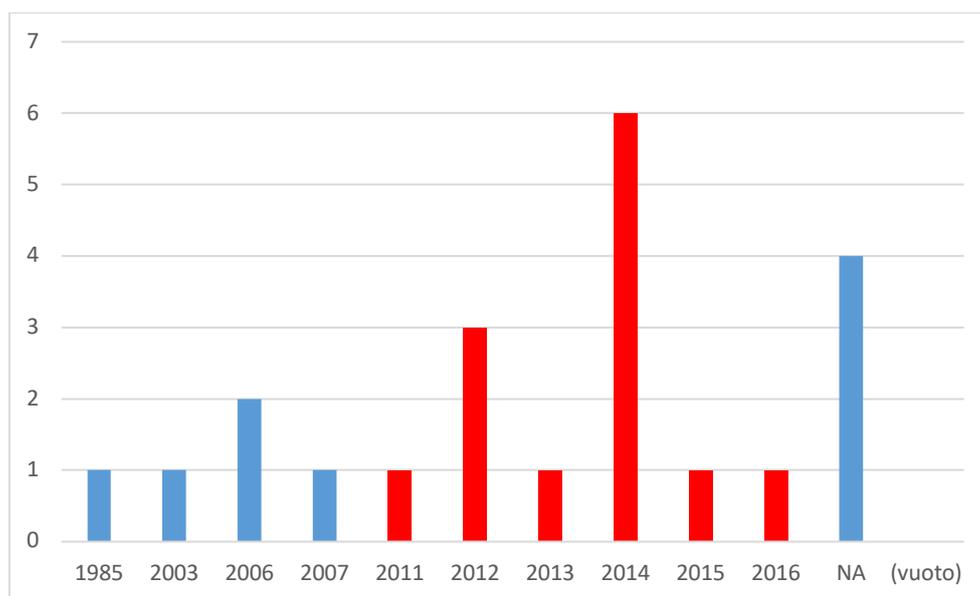
The Cosa Nostra family itself **did not intervene in the economic management of the businesses**, and the entrepreneurs were very careful to avoid direct contact with them. According to the judicial

files, however, the entrepreneurs were subject to the will of the mafia group — which was exercised through financing, presents, favours and donations of money to various causes.

21.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

Mr C1 established CHI1 at the end of 2011 (Tribunale di Milano, 2016, p. 26), probably for the **specific purpose of committing tax fraud** and other economic crimes. According to the analysis of the dates of incorporation of the businesses involved in the case, most of them were incorporated during the 2011-2014 period, suggesting that they could have been **established *ad hoc*** to achieve the criminal group's objectives (Figure 2).

Figure 2 - Number of businesses by year of incorporation (N=22)

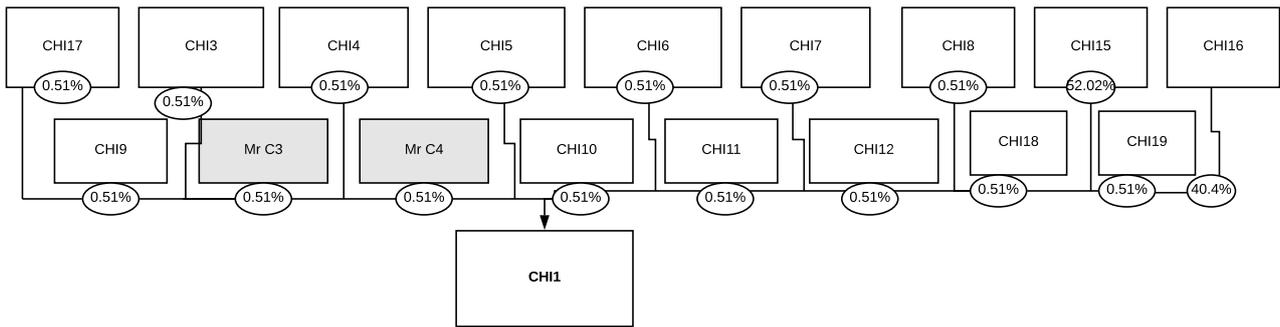


Source: Transcrime elaboration of Court of Milan (2016) and BvD data

According to our elaboration of data from the Court of Milan (Tribunale di Milano, 2016), CHI1 was controlled by numerous shareholders (see Figure 3).

The consortium relied on a complex and widespread network of figureheads and shell companies.

Figure 3 – Shareholders and subsidiaries of CHI1



Source: Transcrime elaboration of data from the Court of Milan (2016)

The actual management of the companies was done by Mr C1 and Mr C2, but formal ownership and management was by **figureheads connected with them through kinship or working relationships**. Most of them were fully aware of the economic crimes committed by the group. In some cases, the figureheads were also living quite far from the business headquarters (e.g., they lived in Sicily, while the companies were in Lombardy). Their signatures were often falsified because of their absence.

It is interesting to note that most of these **figureheads were women** (see Figure 4) — a possible red flag for infiltration, as noted in Chapter 5 and in the literature (Riccardi et al., 2016).

Moreover, as Figure 5 shows, most businesses were private **limited liability companies** (*società a responsabilità limitata*); a few were **cooperative companies with limited liability by shares** (*società consortile a responsabilità limitata*). In both cases, these legal forms can be established with less initial share capital than other types of entities and can limit the financial liability of the managers, therefore minimising the potential impact of financial investigations and seizures (Riccardi et al., 2016; Savona & Berlusconi, 2015).

Figure 4 – Shareholders’ gender and age (N=16)

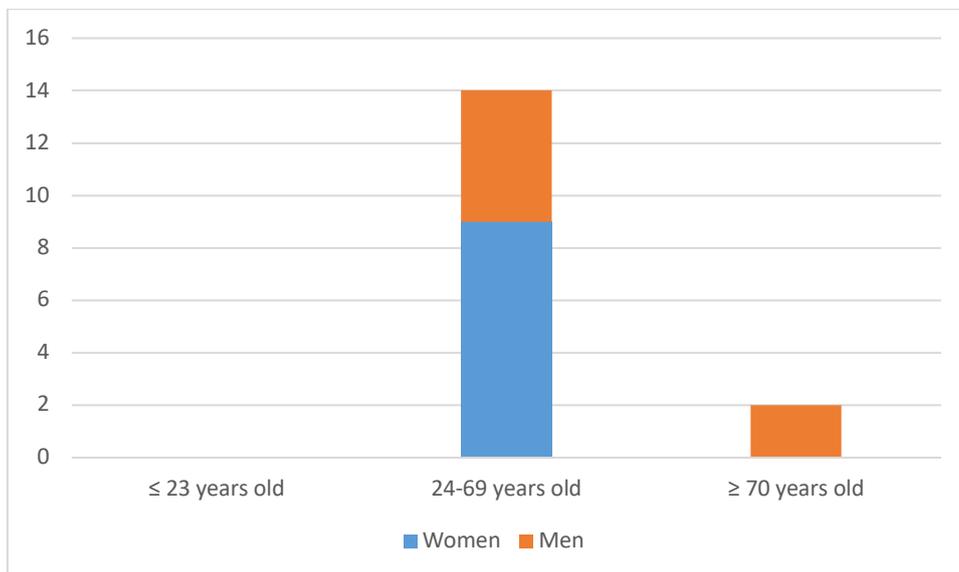
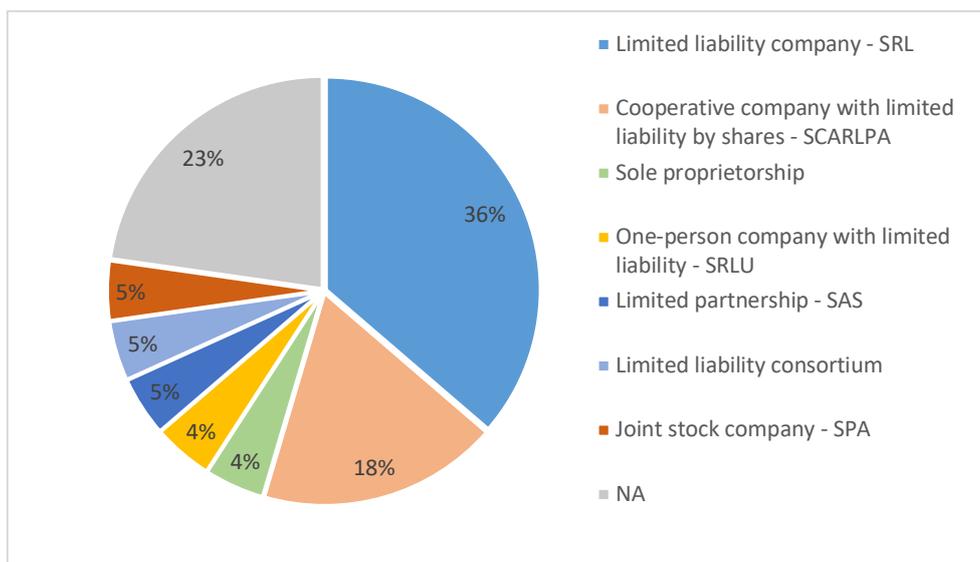


Figure 5 - Legal forms of the connected businesses (N=20)



Source: Transcrime elaboration of Court of Milan (2016) and BvD data

21.4. Activity — Management strategy: How was the firm managed by the OCG?

Mr C1 acted as a **'shadow director'**, **controlling every single transaction** or activity in the consortium: trading agreements, marketing strategies, accounting, hiring, personnel management and institutional relationships (Tribunale di Milano, 2016, p. 32).

As mentioned, the businesses controlled by the OCG could be divided into **'operative' companies** and **shell companies**. The latter were used to (Tribunale di Milano, 2016, p. 3):

- issue invoices for fictitious operations
- open bank accounts where payments of the false invoices could be transferred

More in detail, the businesses issuing false invoices for fictitious operations (sometimes even without justification) received bank transfers and then **paid back the equivalent in cash** after deducting a commission for their 'penal risk' (Tribunale di Milano, 2016, pp. 23, 76). In this case, the *modus operandi* differed from the 'traditional' one (see Chapter 3 and the GAMMA, OMICRON and RHO cases) in the sense that **both the 'provider' and 'customer' businesses were indirectly controlled, through figureheads, by the same individual, Mr C1** (Tribunale di Milano, 2016, p. 122).

In order to use the illicit profits, experts laundered the money through transfers to certain foreign bank accounts (e.g., in **Slovenia, Bulgaria and Romania**) (Tribunale di Milano, 2016, pp. 17, 211). Money was also self-laundered through trade in real estate properties (Tribunale di Milano, 2016, p. 137).

21.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

As mentioned, the OCG was able to carry out the objectives of the infiltration for years (2011-2016). Because of the money laundering, the entrepreneurs benefitted from the illicit profits and provided economic support to a Cosa Nostra family.

The police investigation began in 2014 with tips from some former employees of the businesses involved (Tribunale di Milano, 2016, pp. 56, 58, 64, 68, 197). The two main actors and partners in the business — Mr C1 and Mr C2 — also turned on each other.

The police investigation ended in 2016 and led to the arrest of the members of the OCG and the judicial administration of the exhibition fair company listed on the stock exchange to which the network of infiltrated businesses provided their services (Tribunale di Milano, 2016).

21.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Conducting tax fraud • Accumulating illicit funds for personal purposes • Providing economic support to a mafia family
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads • Shell companies • Use of a consortium • Limited liability companies and cooperatives
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • False invoices for fictitious expenses • Failure to make a VAT deposit
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Change of management • Money laundering activity in Italy and abroad

22. PSI CASE

22.1. Case summary

The *Ballena Blanca* investigation — carried out by the Spanish National Police with the cooperation of Europol, Interpol and other foreign LEAs — revealed a complex money laundering scheme set up by a Chilean lawyer, Mr P1, who headed a large **network of figureheads, shell companies and colluding notaries** (El País, 2008b).

Mr P1 was the owner of PSI1, a law firm based in Marbella providing **advice to foreign investors willing to invest in Spanish real estate businesses**. Through PSI1, Mr P1 created a system based on a precise business ownership scheme: the cornerstone was PSI1, whose main task was to establish companies in the USA, in particular in the **state of Delaware** to exploit loopholes allowing concealment of the ultimate beneficial owners; c) the US companies were established through an American agent company, PSI2, in exchange for a 500-euro fee; d) the US-based companies were used as the parent company of Spanish firms, which included some of **Mr P1's figureheads** as shareholders. The scheme allowed foreign clients willing to launder money in Spanish real estate to conceal their beneficial ownership (Mercado, 2008; Tribunal Supremo, 2012).

The investigation revealed that most clients were **members of criminal groups** dedicated to drug trafficking, arms trafficking or prostitution or they had been prosecuted for money laundering in other countries, e.g., in France (El País, 2008b).

Moreover, Mr P1 used the investment scheme for his own benefit. To launder his proceeds from the illegal business, he had shares in **194 foreign companies** located in Delaware (143 companies) and other tax havens (39 companies) (Tribunal Supremo, 2012).

Ballena Blanca was one of the **biggest anti-money laundering operations** ever carried out in Europe, not to mention Spain, leading to the freezing of hundreds of bank accounts and properties worth **at least 350 million euro**. It involved **more than 500 companies** and it lasted six years. Since the companies and the members of the OCG were also active in other countries, the Spanish police collaborated with Europol and Interpol.

22.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

According to the judicial files, the main purpose of the infiltration of companies was to launder money:

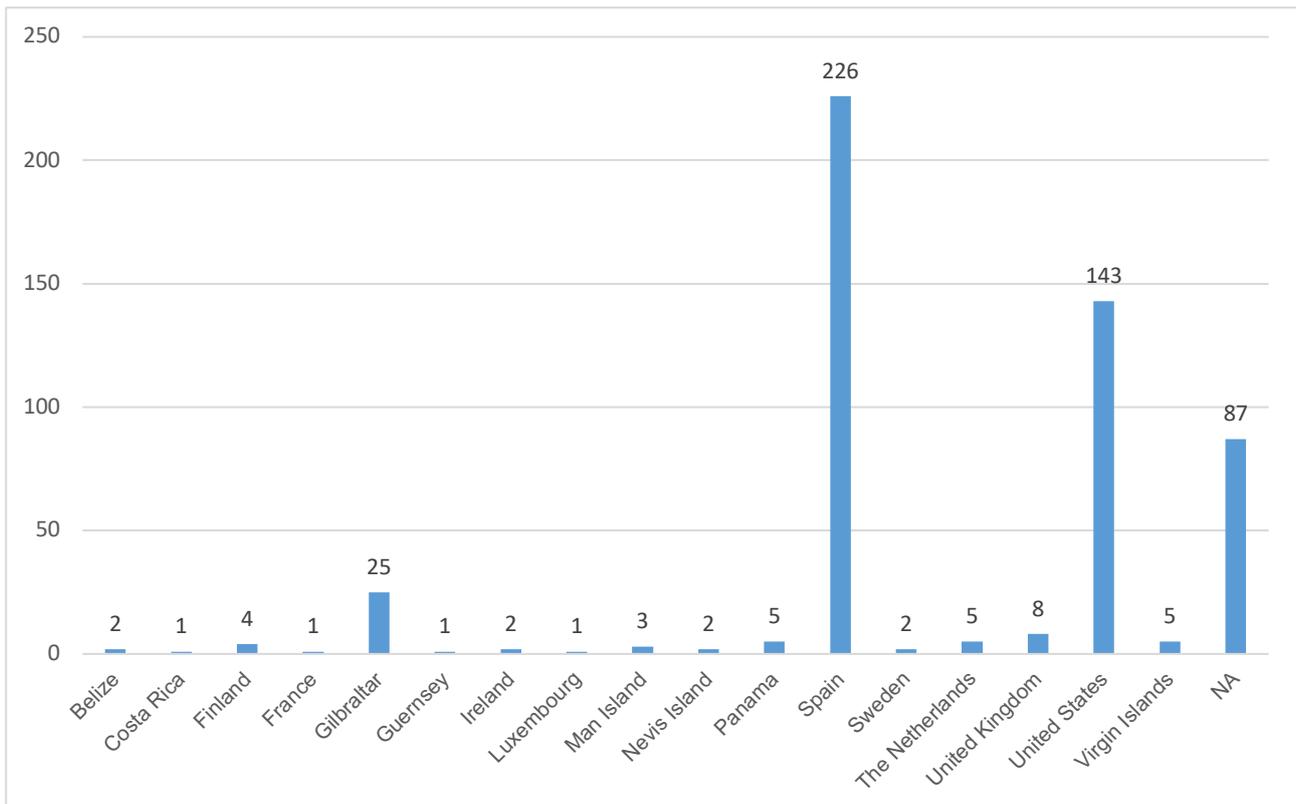
- On behalf of **foreign clients** — most of them were members of criminal groups involved in drug trafficking, arms trafficking, prostitution or money laundering (e.g., in France and Sweden)
- For **himself/the same OCG**

The system was also used to produce false tax declarations in order to commit tax fraud.

22.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

As mentioned above, Mr P1 could rely on a broad, complex network of **figureheads and shell companies** based in Spain and various tax havens. Most of the figureheads were long-time collaborators of Mr P1. According to the available data, more than 500 companies were involved in the scheme, mostly in Spain and the USA (including Delaware), with some in **off-shore countries** and jurisdictions offering lower transparency requirements — such as Gibraltar, Guernsey, the Isle of Man, Kitts and Nevis, Panama and the Virgin Islands (see Figure 1).

Figure 1 – Country of registration of the business involved (N=500)



Source: Transcrime elaboration of Tribunal Supremo (2012)

The legal form of most companies was **private limited liability**. As mentioned above, most were established ad hoc to conceal the beneficial ownership of the ‘criminal customers’ of Mr P1.

22.4. Activity — Management strategy: How was the firm managed by the OCG?

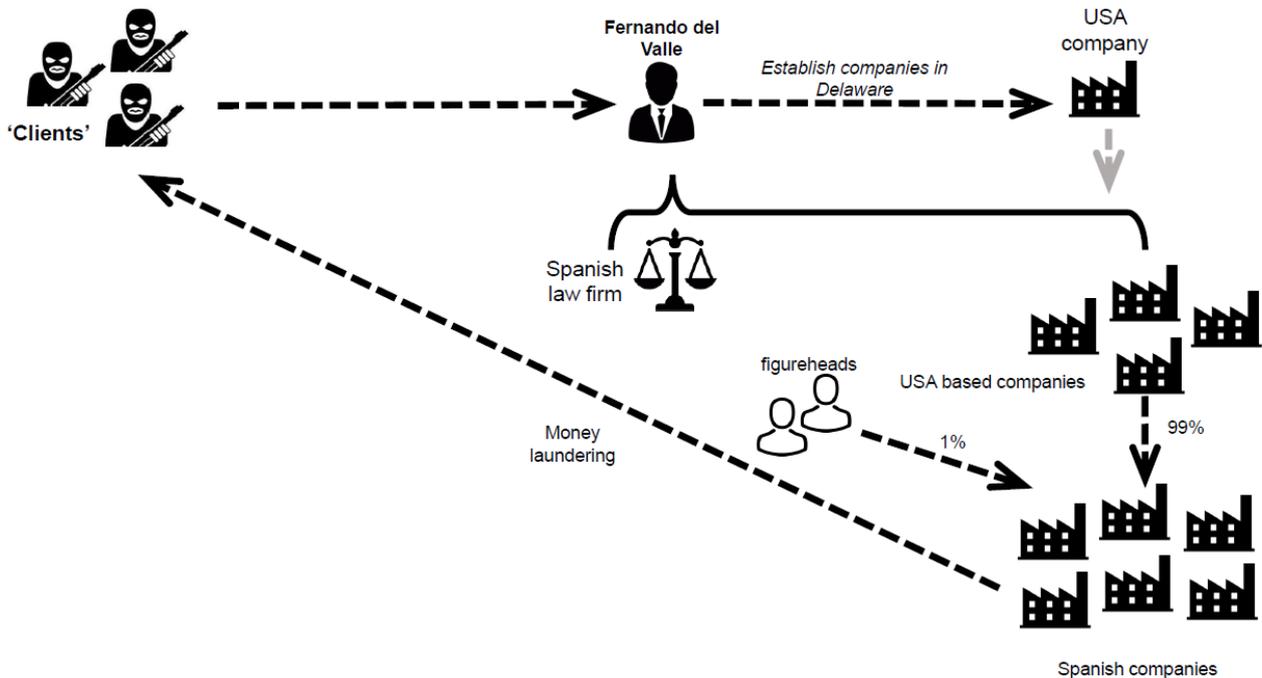
As mentioned, the strategy devised by Mr P1 was based on a precise business ownership scheme:

- The cornerstone was PSI1, whose main task was to establish companies in the USA, in particular in the **state of Delaware**, to exploit loopholes allowing concealment of the ultimate beneficial owners.

- The US companies were established through an American agent company, PSI2, in exchange for a 500-euro fee.
- The US-based companies were used as the parent company of some Spanish firms that had some of **Mr P1's figureheads** as shareholders.

The scheme allowed foreign clients willing to launder money in Spanish real estate to conceal their beneficial ownership (Mercado, 2008; Tribunal Supremo, 2012).

Figure 2 – SOC infiltration and ML scheme



Source: Transcrime elaboration of Tribunal Supremo (2012)

22.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The OCG was able to launder money for about **ten years (1995-2005)** and accumulate a huge amount of illicit profits. Operation *Ballena Blanca* led to the seizure of hundreds of bank accounts and properties worth at least 350 million euro.

Since most of the companies were **established ad hoc** to serve the OCG's purposes, most of them have been closed down. It is estimated that the OCG laundered more than 250 million euro (El País, 2011; UNODC, 2012).

Beside Mr P1, five other people were investigated and accused of money laundering. During the first instance judgment, the prosecutors asked for 17 years of imprisonment, but then the trial was moved to the Supreme Court, which partially accepted some of the defendants' claims and reduced the sanctions (El País, 2011). The Supreme Court finally sentenced Mr P1 and his collaborators **to one to five years of imprisonment and the payment of a fine** (Tribunal Supremo, 2012).

22.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Money laundering • Committing tax fraud
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of figureheads • Use of limited liability companies • Use of shell companies
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Establishment of foreign companies in the US state of Delaware and tax havens • Concealment of the beneficial ownership of 'criminal' clients
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Seizure of proprieties, bank accounts • Sentences for money laundering and other charges

23. UPSILON CASE

23.1. Case summary

The investigation carried out between 2011 and 2017 by the Italian Guardia di Finanza and coordinated by the anti-mafia prosecutors of Catanzaro (Calabria, Italy) revealed the infiltration by a member of the 'Ndrangheta of some companies involved in the management of a **large wind-power plant** in southern Italy, considered one of the biggest in Europe, with an estimated value of about 350 million euro. The investigation led to the preventative seizure of that wind power plant (Brambilla, 2018; Galullo, 2017).

The story was more complex than it appeared. The wind farm was mainly funded through investments made by **German entrepreneurs and companies** and supported by a loan from a **German bank** specialising in funding environmental projects. Previous investigations were unable to ascertain the illicit origin of these funds.

Mr U (pseudonym) — the **brother of a well-known mafia boss** murdered in 2004 — was among the shareholders in the complex network of companies managing the wind power site. Mr U is not an entrepreneur but a **middle-level public official in the local municipality** where the wind farm was built (Isola Capo Rizzuto, in the Crotona province). The investigators proved a disproportion between the individual's income and the amount invested in the company, and on that basis — allowed by Italian asset recovery legislation — seized his shares in the companies and, as a result, the whole wind farm (Galullo, 2017).

23.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

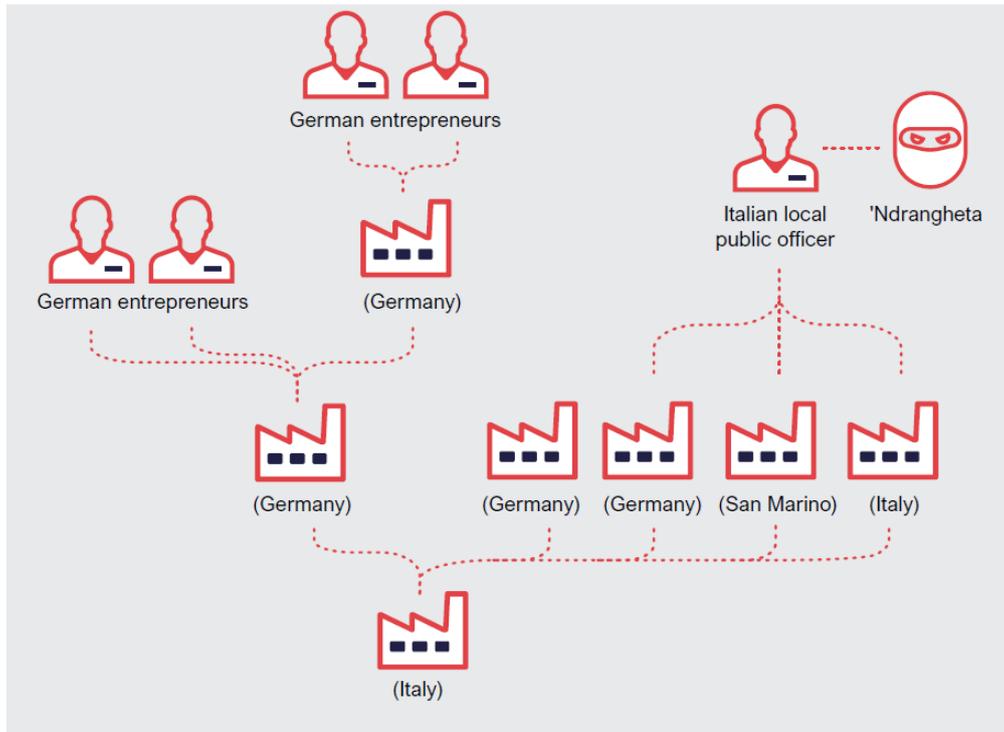
According to the available information, the infiltration of the companies by the OCG related to Mr U's family was driven by:

- A need for **money laundering**
- **Profit** opportunities
- A need to control a large investment project located in the **territory** where the 'Ndrangheta family exercised firm control

23.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the investigators, Mr U was the contact point between the 'Ndrangheta OCG and the wind power business. He owned **shares, both directly and through some relatives, in one of the companies** involved in the ownership structure of the **limited liability company** ultimately controlling the wind farm (UPSILON1 Srl) — See Figure 1 below.

Figure 1 – Business ownership structure of wind power company



Source: Transcrime elaboration of open sources and BvD data

While the German entrepreneurs invested in the project through **German businesses** (left side of the business ownership chart), the member of the family related to 'Ndrangheta invested through a **company based in Italy**. The ownership structure was further complicated by the involvement of a company registered in **San Marino**.

23.4. Activity — Management strategy: How was the firm managed by the OCG?

Not many details are available on how the companies were managed. As mentioned, the large investment (230 million euro) was made possible through financing from a **German bank** (UPSILON2) specialising in green energy projects, which provided the loan to a number of German businesses. According to authorities, no Italian individuals were involved in the contract with the bank (Brambilla, 2018). Previous investigations could not prove the illicit origin of the money provided by these companies.

The role of Mr U — as the contact point for the whole 'Ndrangheta OCG — was to **facilitate the investment** (as *dominus* of the local community, and as member of the local municipality technical office), receiving in exchange a share of the investment. This share was guaranteed by the participation of some companies indirectly controlled by the the mafia family in the whole ownership structure.

23.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The investigation is still in progress, but the Tribunal **confirmed the seizure** of Mr U's shares in the company and the whole wind farm. According to some sources, the investigation could have an impact on efforts made by the German business partners (whose role, however, is still under scrutiny) and in general on future foreign investments in southern Italy (Brambilla, 2018).

23.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none"> • Laundering money • Exploiting profit opportunities • Keeping the territory under strict control
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none"> • Use of a complex network of Italian and foreign companies (Germany and San Marino) • Use of figureheads, all related to the crime family
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none"> • Involvement of a member of the crime family, also a public official in the local municipality
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none"> • Seizure of the wind farm by the judicial authorities

24. OMEGA CASE

24.1. Case summary

An international OCG active in Estonia, Latvia and Lithuania established several shell companies whose purpose was to **provide fictitious invoices to at least 25 Lithuanian ‘customer’ companies** operating in sectors such as construction, wholesale trade and consulting services (Finansinių nusikaltimų tyrimo tarnybos, 2018).

According to the authorities, the OCG had a highly organised structure with specific duties for each member. The group could rely also on **business consultants and tax experts** (Janušytė, 2012). As a result of the infiltration, the OCG was able to commit **large-scale fraud** estimated at 1 million euro (Janušytė, 2012). To date, most members of the OCG are being tried and could face up to 8 years of prison (Finansinių nusikaltimų tyrimo tarnybos, 2018).

24.2. Preparation — Infiltration drivers: Why was the infiltration carried out?

The two groups of companies involved in the scheme — the **‘provider’ companies** controlled by the OCG and the **‘customer’ companies** — had the same goals:

- committing systematic tax fraud
- earning illicit proceeds

According to available sources, the false invoicing scheme also served to commit **fraud with EU funds** and carousel fraud (Finansinių nusikaltimų tyrimo tarnybos, 2018). As previously described (see Chapter 3), **missing trader intra-community fraud** (MTIC) is estimated to be the biggest source of tax evasion in the EU (European Commission, 2017) and is a significant business opportunity for criminals.

24.3. Pre-activity — Ownership and control strategy: How was the OCG able to infiltrate and control the firm?

According to the investigation, two different types of companies were involved in the fraud scheme:

- a) Shell companies established in **Estonia, Latvia and Lithuania** that acted as ‘providers’ of false invoicing services
- b) The **‘customer companies’** based in Lithuania, with real business premises and activities (**Finansinių nusikaltimų tyrimo tarnybos, 2018**)

The companies offering false invoicing services were owned directly by the OCG or through figureheads. Most figureheads were **unemployed people or individuals in financial distress** (Finansinių nusikaltimų tyrimo tarnybos, 2018) who had been approached by the members of the criminal group, who probably offered them money in exchange for personal data and signatures.

According to the scant available data, the ‘customer companies’ were active in a number of sectors like construction, business consulting services and wholesale trade in various products (Janušytė, 2012). It is not clear if the ‘providers’ and ‘customers’ are still active.

24.4. Activity — Management strategy: How was the firm managed by the OCG?

As mentioned above, the shell companies issued fictitious invoices for various products, including **construction materials, electrical cables and consulting and advertising services** (Finansinių nusikaltimų tyrimo tarnybos, 2018). The payment of these false invoices allowed the ‘customer companies’ to increase costs and reduce their taxable income.

According to available sources, some of the companies also adopted a **carousel fraud *modus operandi***, although no details are available about how the missing trader scheme was carried out.

24.5. Post-activity — End of infiltration: What happened at the end of the infiltration process?

The investigation revealed that the OCG was able to earn illicit proceeds estimated at 1 million euro (Janušytė, 2012). To date, most of the **members of the OCG are being tried** and could face up to 8 years of prison (Finansinių nusikaltimų tyrimo tarnybos, 2018).

24.6. Summary table

CSA Scene	Question	Findings
<i>Preparation</i>	<i>Why was the infiltration carried out?</i>	<ul style="list-style-type: none">• Committing systematic tax fraud through false invoicing schemes• Committing fraud with EU funds
<i>Pre-activity</i>	<i>How was the OCG able to infiltrate and control the company?</i>	<ul style="list-style-type: none">• Use of shell companies• Use of figureheads
<i>Activity</i>	<i>How were the firms managed by the OCG?</i>	<ul style="list-style-type: none">• Provision of false invoices for fictitious expenses• Use of VAT carousel fraud <i>modus operandi</i>
<i>Post-activity</i>	<i>What happened at the end of the infiltration process?</i>	<ul style="list-style-type: none">• Ongoing trial

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