

The Economic, Financial & Social Impacts of Organised Crime in the EU

© DR MICHAEL LEVI

Professor of Criminology

Cardiff University

Levi@Cardiff.ac.uk +4429-20874376

The goals of the project

- to generate a best or minimum estimate for the economic and social costs of organised crime in the EU and to inform an evidence-based understanding of the issues
- Phase 1, to develop a conceptual framework
- Phase 2, to review more comprehensively the published or available material that exists in Europe and develop some data in key areas that we identified as feasible, alongside our reservations about data reliability and validity, and what we believe the data can properly be used for

Scottish Perceptions of Organised Crime

ABSTRACT IMAGES OF OC

Q. What types of illegal activity do you associate with organised crime?

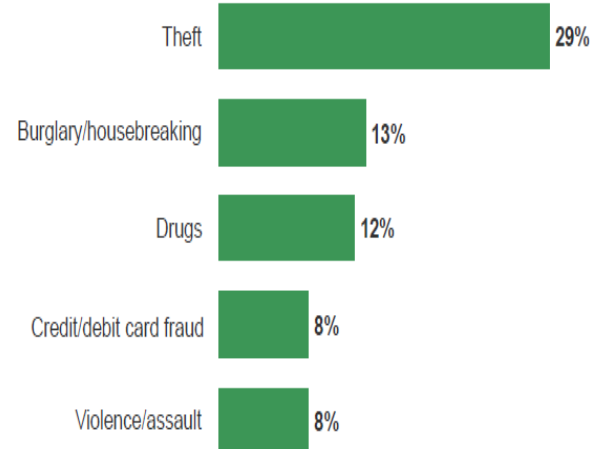


Base: All (1,001)
*Top 10 responses

Source: Ipsos MORI

PERSONAL DIRECT ATTRIBUTIONS (10% AFFECTED BY OC IN 3 YRS)

Q. Can you tell me how you have been affected by organised crime in the last three years?



Base: All who have been personally affected by organised crime in the last three years (102)
*Top 5 responses

Source: Ipsos MORI

Our analytic framework

Break down the evidence into:

- *Predatory and market based* organised crimes;
- Direct and indirect costs;
- Private, parochial and public costs –
 - Private costs: upon individuals directly connected to the victim;
 - Parochial costs: born through community ties, e.g. extortion threats or Ponzi fraud against a particular business community or ethnic group;
 - Public costs: impacts are shared between citizens who are not directly connected to each other.
- ‘Upstream’ and ‘downstream’ response costs

Losses from crime can greatly exceed benefits to offenders

- Predatory crimes
 - punishments for failing to pay extortion demands, interpersonal frauds, metal thefts, cyber-attacks, people trafficking and toxic waste dumping.
- ‘Market crimes’ (e.g. most drug use, migrant smuggling, and purchases of counterfeit fashion and leisure products – but not of counterfeit pharmaceuticals) are more like a contract for services.
- The harms may be
 - tangible – corruption, violence in the markets
 - intangible – popular concern about illegal immigration or about youths ‘enslaved’ to drugs, gambling or to online pornography.
 - the effects of organised crime are greater when there is no-one in legal authority to whom victims and bystanders can turn for redress against criminal threats in their personal and/or business environment

A core problem in estimating costs of organised crime

Because so much crime and so many adult criminals can meet the criteria of three or more persons acting together for a period of time for financial gain, need to decide whether organised crime means:

(1) Mafia-type organised crime - which most people would regard as dramatically oppressive to society – and/or

(2) much lower level and looser 'organised crime', which most people might not regard as 'organised crime' at all (e.g. Scottish research)

Disregarding solo frauds (which individually range from small to multi-millions of euros), (2) = the sum of all crimes committed for economic gain in Europe, plus the costs imposed by criminals' determination to control a geographic territory and a supply chain for illicit commodities.

Organised crime types	Organised crime types proposed to be excluded from the study <i>as types of crime</i> (though included in the main categories of crime)
<ul style="list-style-type: none"> ● Organised acquisitive crime types <ul style="list-style-type: none"> ○ Cash and Valuables in Transit (CViT) ○ Distraction burglary ○ Metal theft ○ Plant theft ○ Road freight theft ○ Vehicle crime ● Child Sexual Exploitation ● Counterfeit currency ● Illegal Drugs Manufacturing and Distribution ● Environmental crime ● Extortion ● Frauds – different sorts of individual, business and public sector victim + fraud against the financial interests of the EU ● Organised immigration crime <ul style="list-style-type: none"> ○ Abuse of legitimate entry ○ Human trafficking ○ People smuggling ● IP theft ● Wildlife crime 	<ul style="list-style-type: none"> ● Money laundering ● Cyber crime ¹ ● Corruption ● Identity fraud ● Violence

The cost of drugs-related organised crime

What share of drug-related harms should be attributed to organised crime is a matter of argument.

(1) all illicit drug consumption is ultimately facilitated by organised crime from the local to the transnational level: therefore all harm resulting from illegal drug use itself are part of the costs of organised crime.

(2) But some of those costs are at least in part the result of the way we deal with offences and offenders, and though the upper levels of distribution (export, smuggling, high level wholesale) involve complex organizations, and perhaps even large ones, much of the low end of the trade consists of individual sellers working on their own behalf.

The use of some illegal drug types considered within the scope of this report: cannabis, amphetamines, cocaine and heroin. To include other drugs would be over-ambitious, given the state of our knowledge.

Economic crime costs

- (1) Individuals within the EU (citizens and denizens),
- (2) Central, regional and local government departments (including the European commission budget),
- (3) Charities and other 'third sector' bodies,
- (4) EU businesses (though difficult for subsidiaries abroad)
- (5) The organisational costs of dealing with the frauds, and
- (6) The criminal justice system costs of prosecuting for a range of economic crime/corruption offences.

Geography and cost to whom?

Distribution of organised crime groups across the UK (June 2013)*



* Information provided by UK police and law enforcement agencies, collated by the NCA. Policing in Scotland and Northern Ireland is devolved. Information provided by Police Scotland shows a higher distribution of organised crime groups in the west of the country reflected in the map above.

Other major areas

- Human trafficking
 - Human smuggling
- Intellectual Property crimes
- Counterfeiting of currency
- Cybercrimes, money laundering, corruption, violence are very important
 - but they are facilitators or a component of other crimes, and should not be 'double-counted'

Costs of Crimes with Victims

Productivity losses

Medical and mental health care

Direct property losses

Indirect costs of victimization

- pain and suffering
- loss of quality of life
- loss of affection or enjoyment
- the legal costs of tort claims.

Minimum Costs of OC in the EU + UK

- Fraud against EU individuals - €97 billion
- Human trafficking - €30 billion
- Fraud against EU (VAT/MTIC fraud) - €20 billion
- Fraud against EU (cigarette smuggling) - €11.3 billion
- Unrecovered motor vehicle theft - €4.25 billion
- Fraud against EU (agricultural and structural funds) - €3 billion
- Payment card fraud - €1.16 billion
- Insurance fraud - €1 billion (in UK alone- no other EU data)
- + > 500 homicides, mainly in Italy, Belgium, Bulgaria (cost?)

Home Office estimate €29 billion costs for the UK (0.0006% of UK GDP)

- + 17 homicides by organised crime groups per annum

Cost of responses to organised crime

- The costs of responding to organised crime should be kept separate from the costs of crime themselves.
- The minimum response costs to organised crime *at an EU level* are €210 million (Europol/Eurojust/EMCDDA/Frontex only)
- In the UK alone, the 2013/14 budget for the SOCA was €498 m. excluding main UK policing or prosecutions costs. The Metropolitan Police Specialist Crime Directorate had budget of €490 million in 2012-13 (inc €17 million for reducing serious and organised crime by disrupting criminal networks; the budget for the Police eCrime Unit was €12 million).
- The Italian DIA's budget has dropped to around €10 million, but significant expenditures on organised crime by other Italian investigative bodies.
- Private sector costs on IP, frauds and money laundering/bribery
- These have not been reliably counted across the EU or in any individual MS, but > cost of EU-level anti-crime expenditures from the EU budget

Conceptual and Measurement Issues

- But data are a product of intelligence sources *and* attributions to OC
- How can we improve our intelligence away from traditional areas (e.g. drugs)?
- On what basis do we *actually/rationally* rank the importance of crimes against corporations & governments versus non-violent and violent crimes against individuals?

Avoiding Imaginary Data

In a number of areas, suitable data to prepare informed estimates of cost are lacking wholly, or in part. However, this does not mean that social harms cannot be identified, without producing imaginary numbers to gain attention to social problems. E.g. the human costs of collapsed bridges, buildings and roads due to bad quality corrupt construction contracts, whose costs far exceed the profits made, and the social anxieties and the destruction of entrepreneurial drive that such criminal monopoly or cartels creates.

Three dimensions of harm/risk

- **Economic costs (present/future) & impact upon victims and upon third parties who fear being defrauded**
 - **What difference does it make to us if victims are non-citizens?**
 - **Demographic features of victims and their impact**
- **What the media represent the risks to be**
- **Continuing risks arising from the kind of people who are committing financial crimes**
 - **'Organised criminals' with no stake in social respectability to constrain them and growing access to corruptible/pressurisable staff, especially in recession**
 - **What they spend their money on (terrorism, political corruption, business) - though a lot on 'offend to spend'**

Expansion and Diversification

- How many criminals *want* to expand?
- How many criminals have the *resources* to expand and what are their 'limits to growth'?
 - **Contacts (home & away) including 'fences'/launderers**
 - **Skill sets (including discipline) offence-variable**
 - **Confidence about diversification**
 - **Fear of enforcement & rivals**
- Why should we assume that patterns observed in one area would be repeated elsewhere?
- What factors would generate rapid change +/- in the exploitation of criminal business opportunities?
- How quickly would we know this was happening?

Key Summary

Organised Crime is a serious but variable problem in the EU. Minimum identifiable costs:

Fraud against EU (Cigarette smuggling) - €11.3 billion

Fraud against EU (VAT/MTIC fraud) - €20 billion

Fraud against EU (agricultural and structural funds) - €3 billion

Fraud against EU individuals - €97 billion

Human trafficking - €30 billion

Insurance fraud - €1 billion (in UK alone)

Payment card fraud - €1.16 billion

Unrecovered motor vehicle theft - €4.25 billion.

Costs of responding to organised crime include €210 million at EU-level; vastly more for MS costs in fighting organised crime (the UK spent > €1 billion in policing alone); and €34 billion on dealing with illegal drugs.

Use of these data

- They *are* measures of the financial and welfare impacts of organised crime upon European victims & on Europeans who are affected but not direct victims.
- They are *not* measures of the benefits to European offenders from crime, or the amounts of benefit from crime theoretically available for confiscation.
- The costs of organised crime are not adequate for determining investigative or prosecution resources, because the impact of different control measures on the losses and on the types of criminality needs to be factored in, and our knowledge of those is too limited.