

# MAPPING THE RISK OF SERIOUS AND ORGANISED CRIME INFILTRATION IN EUROPE

Final report of the MORE project





 transcrime  
Joint Research Centre on Transnational Crime



UNIVERSITÀ  
CATTOLICA  
del Sacro Cuore

**bra**  
The Swedish National  
Council for Crime Prevention

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs





Co-funded by the Internal Security Fund of the European Union

*Mapping the risk of Serious and Organised Crime infiltration in European Businesses*  
Final report of the MORE Project (HOME/2014/ISFP/AG/EFCE/4000007212)

[www.transcrime.it/more](http://www.transcrime.it/more)

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# **EXECUTIVE SUMMARY**

# EXECUTIVE SUMMARY

## PARTNERS & FUNDING

The MORE project ([www.transcrime.it/more](http://www.transcrime.it/more)) was **co-funded by the European Commission**, Internal Security Fund.

### Coordinator:



### Research partners:

- ▶ Brå – Swedish National Council for Crime Prevention (Sweden)
- ▶ SWP – German Institute for International and Security Affairs (Germany)

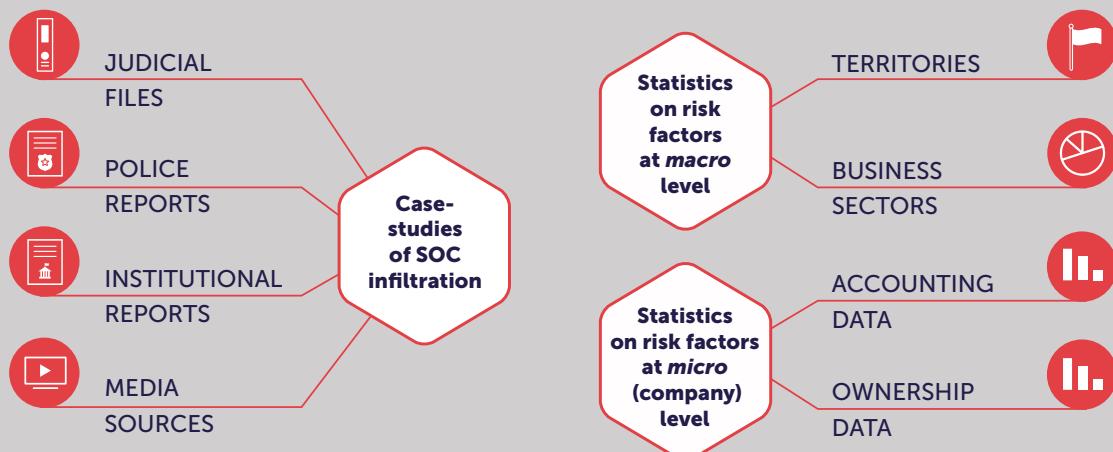
### Associate partners:

- ▶ Europol
- ▶ Ministero dell'Interno (Italy)
- ▶ BKA – Bundeskriminalamt (Germany)

While all the associate partners contributed to the project by helping in the collection of data and case studies and by providing crucial feedback, the three research partners UCSC, Brå and SWP take sole responsibility for everything written in this report.

## OBJECTIVE & METHODOLOGY

The MORE project has **mapped cases and risk factors of serious and organised crime (SOC) infiltration** in legitimate businesses across European countries, regions and business sectors.



## SOME FIGURES

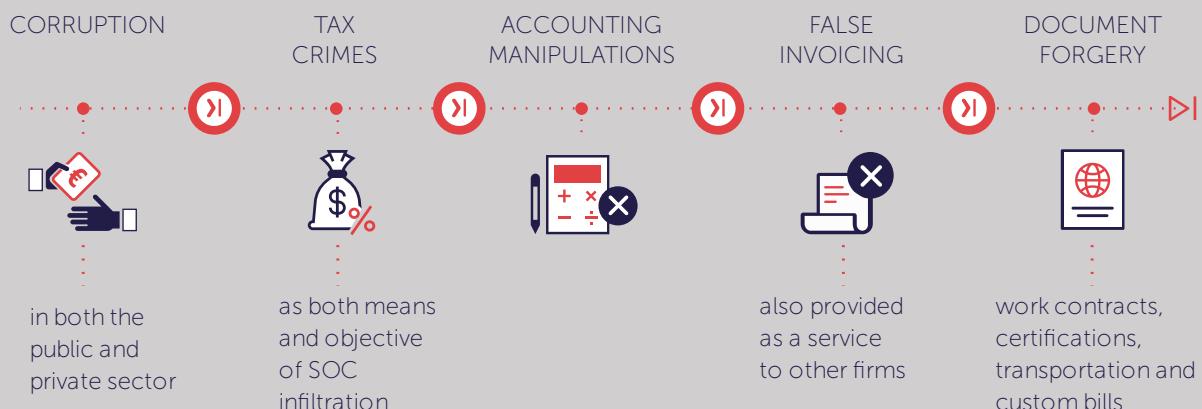


# KEY MESSAGES

## SOC INFILTRATION: DEFINITION

- Any case in which a natural person belonging to a **criminal organisation**, as defined by Art. 1 of the EU Framework Decision on the Fight against Organised Crime (2008/841/JHA), or involved in a serious crime as defined by art. 83(1) of the Treaty on the Functioning of the European Union, or an already infiltrated legal person, **invests financial and/or human resources** to participate in the decision-making process of a legitimate business.

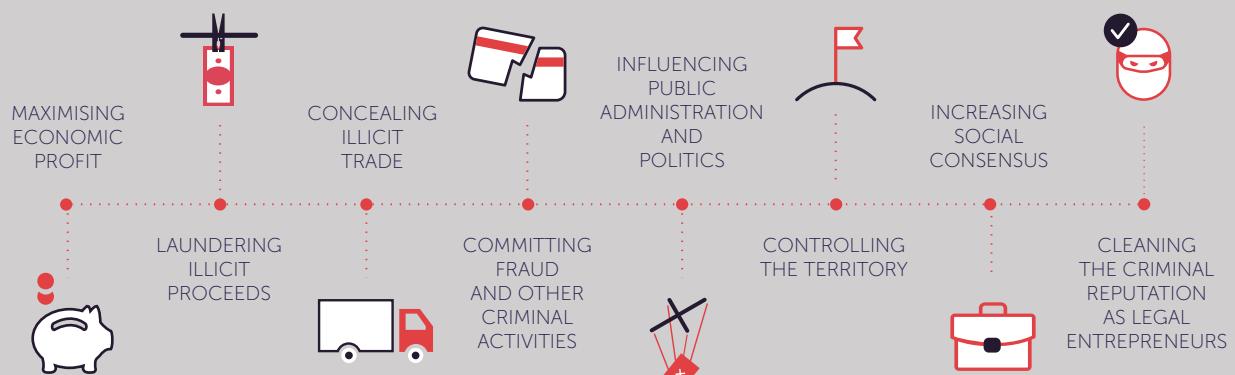
**Not necessarily a crime but rather a process encompassing a range of sentinel crimes**



The frequent commission of these offences by infiltrated companies narrows the gap between **organised crime** and **white-collar crime**.

Traditional OCGs, including mafia-type organisations – normally involved in drugs, firearms, human trafficking, extortion and other offences – increasingly treat tax fraud and false invoicing as **core activities, not only as ancillary sources of profit**.

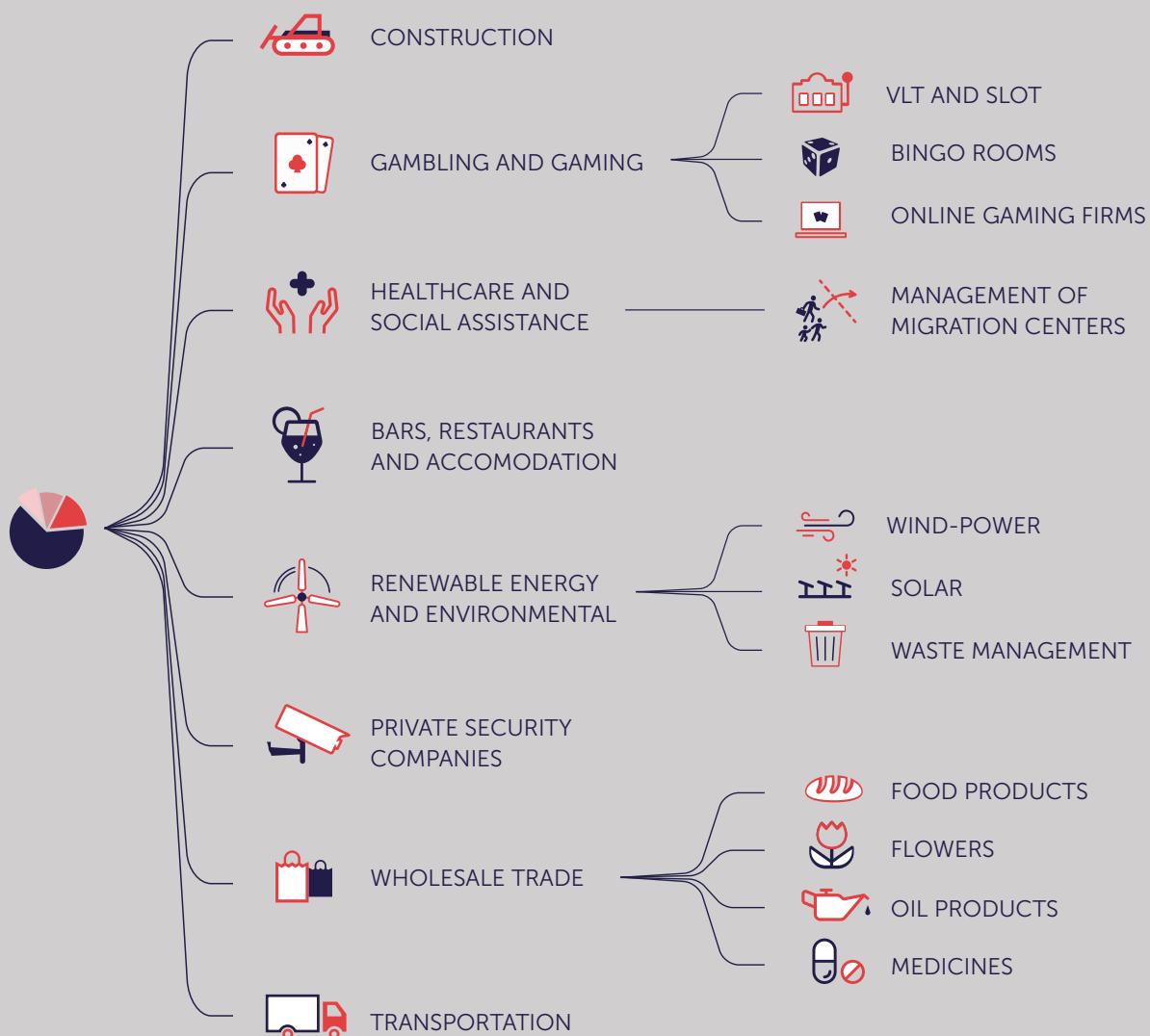
## DRIVERS OF SOC INFILTRATION



## MODI INFILTRANDI

CASH AND CASH-INTENSIVE BUSINESSES	FIGUREHEADS	COMPLEX CORPORATE OWNERSHIP STRUCTURES	SECRECY JURISDICTIONS	GOLDEN VISA
<p>to make it harder to trace the illicit origin of money</p>	<p>relatives (often female ones), but also entrepreneurs and foreign figureheads 'on demand'</p>	<p>to conceal real beneficial owners</p>	<p>firms set up not only in Caribbean tax havens, but also EU MS with lower transparency requirements</p>	<p>to exploit loopholes of immigrant investor programs across EU MS</p>

## BUSINESS SECTORS



# RISK FACTORS OF SOC INFILTRATION



## CASH-INTENSITY & UNDERGROUND ECONOMY

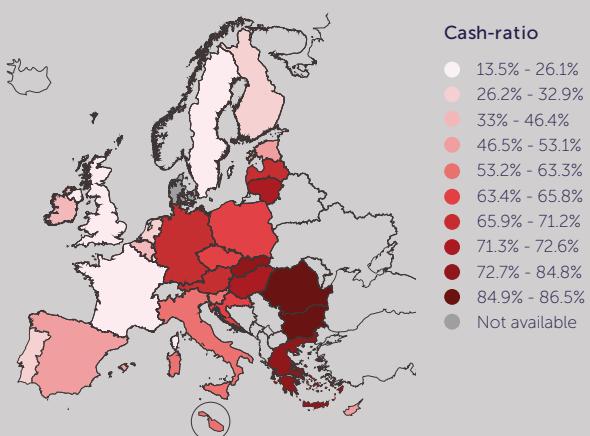
The **diversity of cash usages and of cash purchase limits** across EU MSs can be exploited by OCGs with a displacement effect: they infiltrate businesses where it is easier to be paid and make purchases in cash - especially high value goods.

The analysis demonstrates that cash is correlated with measures of **shadow economy, irregular labour and corruption**, which in turn correlate to OC infiltration.

Infiltrated companies keep **parallel off-the-record cash accounts** - to pay undeclared work and as black funds for bribery or for paybacks in false invoicing schemes.

### Cash-ratio

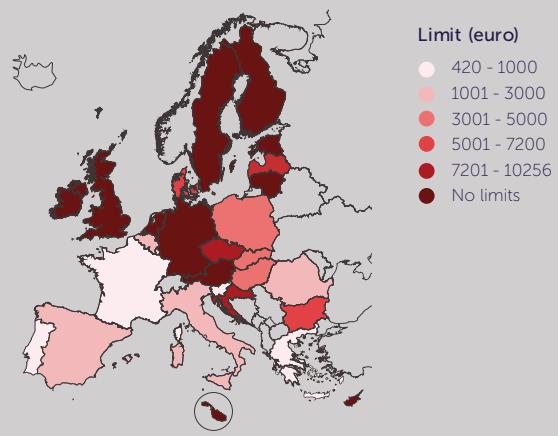
On average, 55% of daily payments in Europe are still made in cash, with wide differences across EU MS



Source: Transcrime elaboration of ECB data

### Cash payment limits

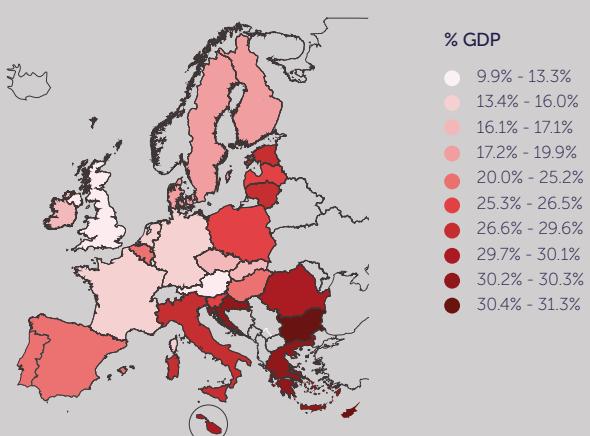
Lowest limit on cash payments (B2B) is 420 euro (Slovenia). 12 MS do not have cash purchase limits.



Source: Transcrime elaboration of open sources

### Shadow economy

Shadow economy is higher than 30% of GDP in 5 EU MS: Cyprus, Bulgaria, Greece, Romania and Croatia



Source: Medina and Schneider (2018)

### Undeclared work

Most commonly reported sectors for undeclared work by the EU 28 MS



Source: EEPO (2016)

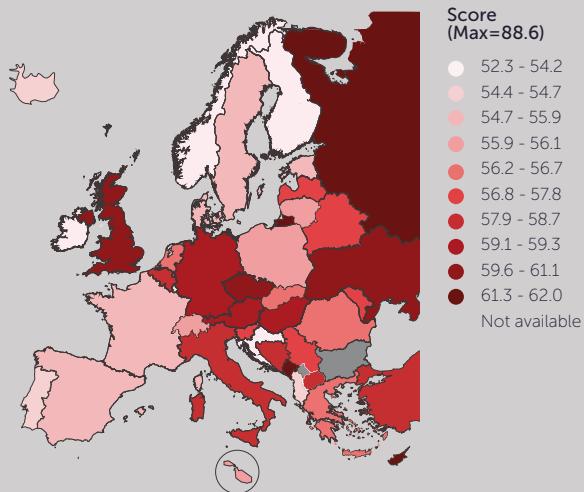
## OPACITY OF BUSINESS OWNERSHIP

OCGs often adopt **complex and opaque business ownership structures**. However, MORE cases show that European OCGs, rather than using notorious off-shore countries in the Caribbean, the Middle East or South Asia, may prefer to infiltrate businesses in EU MSs characterised by lower corporate transparency requirements.

These countries are **culturally, economically and geographically closer** — and by definition not included in official EU blacklists, which allow them to raise less suspicion.

### Business owners from secrecy countries

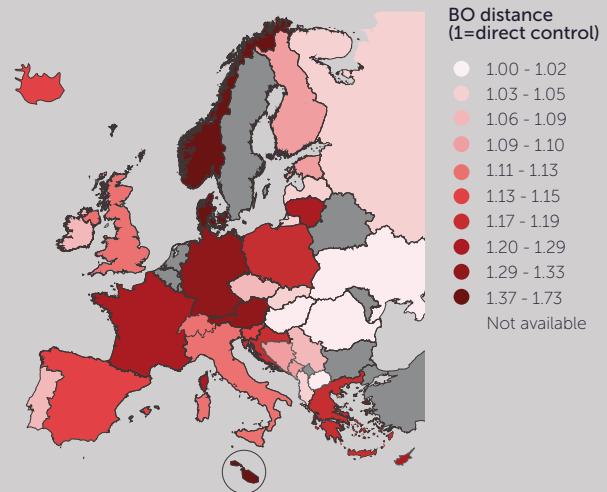
Businesses in Cyprus, Czech Republic and the UK record the highest number of owners from secrecy jurisdictions



Source: Transcrime elaboration of BvD and TJN data

### Business ownership complexity

Businesses in Malta, Denmark and Luxembourg show the longest ownership chain to reach the beneficial owner.



Source: Transcrime elaboration of BvD data

### Sectors with high business ownership complexity and opacity



#### H 50 - Water transport

Cargos and shipping companies can be infiltrated by OC groups to hide illicit trafficking (e.g. drugs, firearms, counterfeits, oil, migrants)

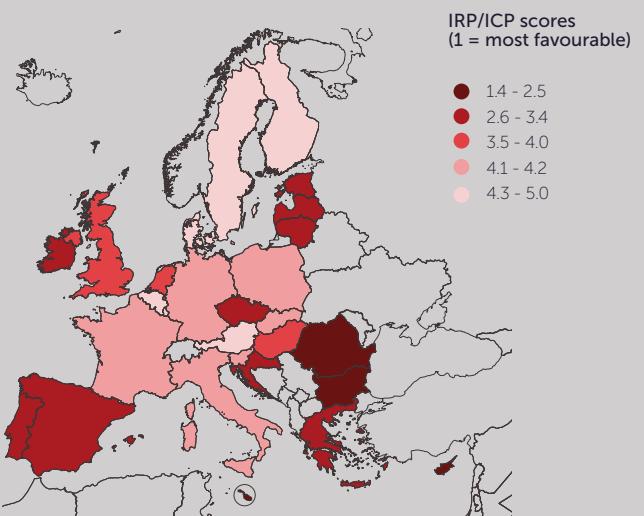


#### L 68 – Real estate activities

Criminal money is often attracted by property market

## GOLDEN VISAS

Some EU countries offer citizenship/residency in return of investments in businesses or properties. They may attract criminals from third countries willing to **launder money** and obtain **at the same time the EU status** — with the set of additional rights this entails (including free movement across Europe and easier establishment of businesses in other countries).



Source: Transcrime elaboration of Džankić (2018)

# OWNERSHIP AND ACCOUNTING RED-FLAGS

In terms of **company ownership** patterns, that is, *micro risk-factors*, our analysis confirms:



## Wide use of limited liability companies

They are easier and cheaper to incorporate while providing the benefits of limited liability (i.e., company fragmentation and legal protection, including against confiscation).



## Use of figureheads 'within the family'

Use of figureheads 'within the family' is still a preference – although the relationship with colluding and friendly entrepreneurs is strengthening and the use of foreign figureheads 'on-demand' is also observed

In **accounting terms**, the following red flags emerge:



Infiltrated firms have significantly **less financial debt**, as illicit revenues make bank loans unnecessary



Funds are provided using **trade credit or shareholders' loans**, which are higher on average in infiltrated firms' balance sheets



**Current assets** are on average higher, but **liquid assets** are lower: criminals hold off-the record cash accounts also to avoid confiscation - bank accounts are easier to confiscate



Criminals have **above average tax payables** in their firms



The **variance of total assets** year-to-year emerges as a significant predictor.

## NEGATIVE IMPACT OF SOC INFILTRATION



**ARTIFICIAL INCREASE IN PRICES**



**DESTRUCTION OF MARKET COMPETITION**



**ALLOCATION OF RESOURCES IN NON-PRODUCTIVE SECTORS**



**DETERIORATION OF POLITICS AND PUBLIC ADMINISTRATION**



**RISK ON CONSUMERS' HEALTH**  
(e.g. firms trading adulterated food or medicines)

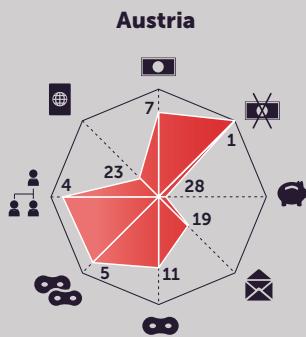


**RISK ON CITIZENS' SECURITY**  
(e.g. firms using low-quality construction materials)



**REPUTATIONAL DAMAGES**

# COUNTRY CHARTS



## How to read

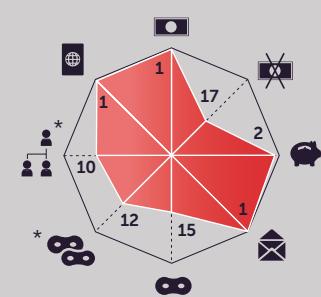
EU MS ranked from 1 to 28, where 1 = highest value and highest risk.

The wider the coloured area, the higher the overall risk.

\* → EU average value

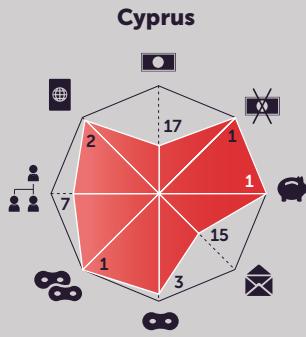


## Bulgaria

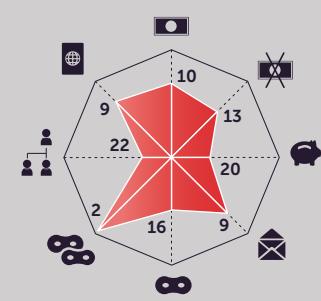


## Risk factors - Legend

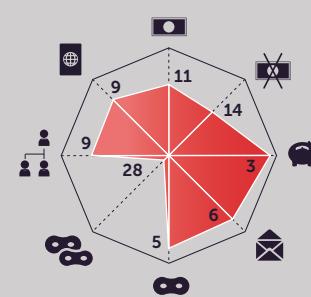
- Cash-intensity
- Cash payment limits
- Shadow economy
- Control of corruption
- Financial secrecy
- Business owners from secrecy countries
- Business ownership complexity
- 'Golden Visas'



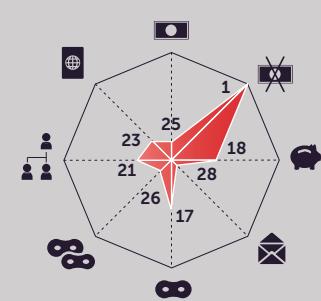
## Czech Republic



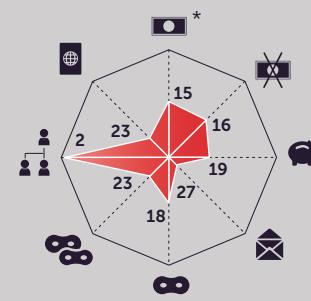
## Croatia



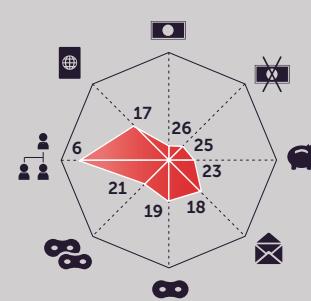
## Finland



## Denmark



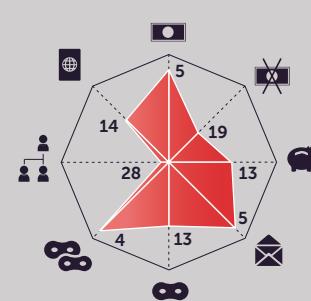
## France

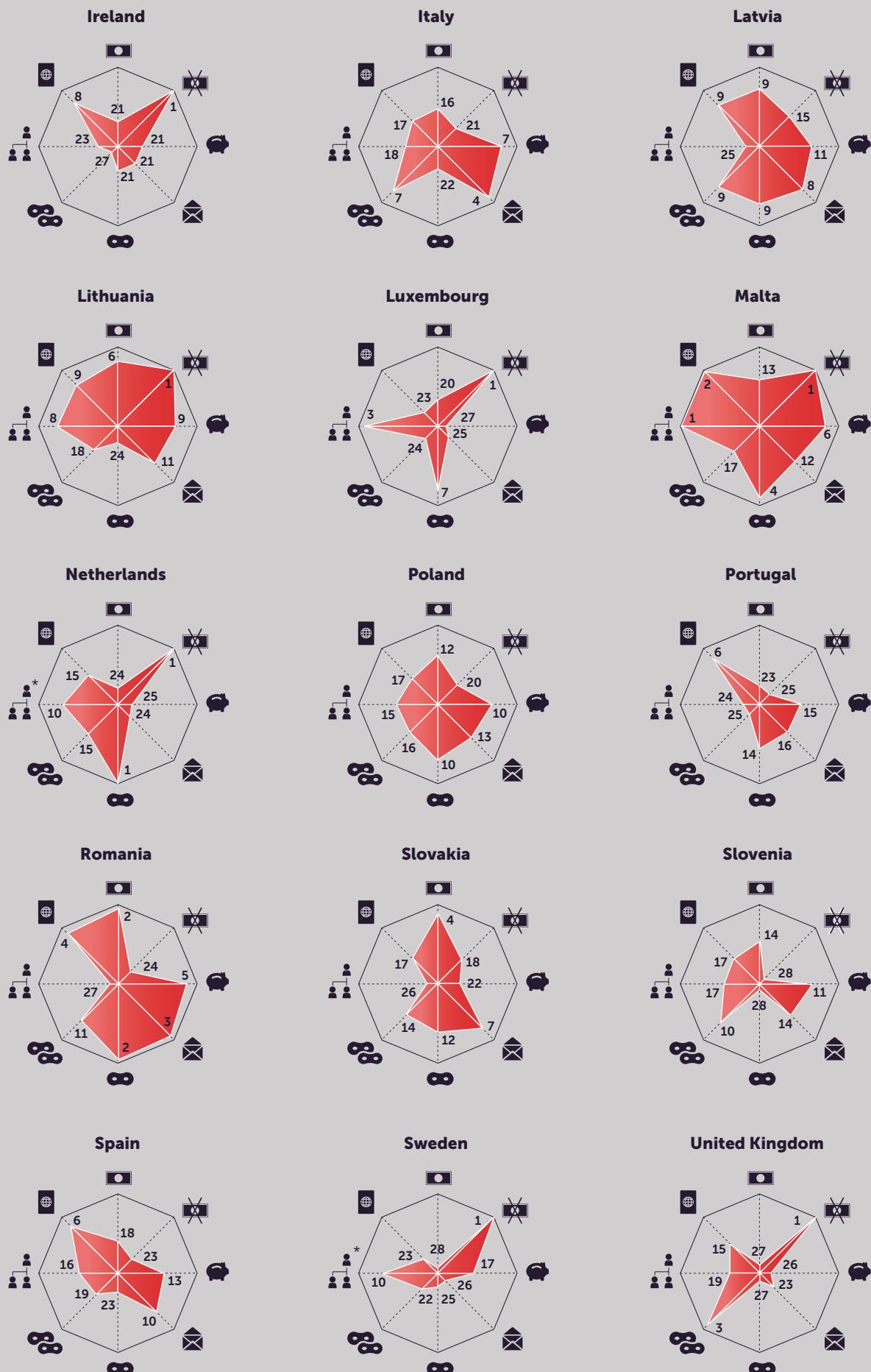


## Greece



## Hungary





Source: Transcrime elaboration of ECB (2016), Medina and Schneider (2018), World Bank (2016), Tax Justice Network (2018), Bureau van Dijk (2016), Džankić (2018), open sources.

# POLICY & RESEARCH IMPLICATIONS



## Targeting **sentinel crimes of infiltration**:

- ▶ Corruption
- ▶ False invoicing and tax crimes
- ▶ Document forgery



## Preventing risk factors of SOC infiltration by reducing asymmetries across EU MS:

- ▶ Harmonising cash limits and cash regulations
- ▶ Harmonising company transparency requirements
- ▶ Minimising loopholes of "Golden Visa" citizenship/residence schemes



## Increasing monitoring of risky targets:

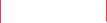
- ▶ Emerging vulnerable business sectors:
  - Private security
  - Social care and migrant assistance
  - Renewable energy
  - Gaming/gambling
- ▶ Intermediaries not subject to AML obligations, which often act as brokers in infiltration schemes:
  - Wholesalers (e.g. food, medicines, apparel or chemicals)
  - Import-export brokers
  - Shipping and transportation companies
  - Professionals in construction and public procurement activities



## Keeping the mapping of SOC infiltration continuous:

- ▶ Making it systematic and widespread
- ▶ Monitoring geographic areas and sectors, also in neighbouring countries
- ▶ Pushing authorities to collect (and make available) better information, e.g.:
  - Judicial cases
  - Cash statistics
  - Business ownership data
  - Requests of investor-based residency/citizenship
- ▶ Creating a network of European researchers in the area of SOC infiltration
- ▶ Strengthening the link between academics, LEAs and public authorities
- ▶ Networking with other groups active in this domain – e.g. working group on UN SDG 16.4 'Illicit financial flows'

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# **GLOSSARY & LEGEND**

<b>AML</b>	Anti-Money Laundering
<b>ANBSC</b>	Agenzia Nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati (Italy)
<b>ARO</b>	Asset Recovery Office
<b>ATM</b>	Automated Teller Machine
<b>BO</b>	Beneficial Owner
<b>BvD</b>	Bureau van Dijk
<b>BVI</b>	British Virgin Islands
<b>B2B</b>	Business to Business
<b>B2C</b>	Business to Consumer
<b>CSA</b>	Crime Script Analysis
<b>DIA</b>	Direzione Investigativa Antimafia (Italy)
<b>DNA</b>	Direzione Nazionale Antimafia (Italy)
<b>EMM</b>	European Media Monitor
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>EU</b>	European Union
<b>FATF</b>	Financial Action Task Force
<b>FDI</b>	Foreign Direct Investments
<b>FIU</b>	Financial Intelligence Unit
<b>FSI</b>	Financial Secrecy Index
<b>FSS</b>	(Financial) Secrecy Score
<b>GBP</b>	Great British Pound (UK Pound Sterling)
<b>GDP</b>	Gross Domestic Product
<b>GVA</b>	Gross Value Added
<b>ICP</b>	Investor-based Citizenship Programmes
<b>IIP</b>	Immigrant Investor Programmes
<b>IMF</b>	International Monetary Fund
<b>IRP</b>	Investor-based Residence Programmes
<b>LEA</b>	Law Enforcement Agency
<b>MS</b>	Member State(s)
<b>NACE</b>	Nomenclature Générale des Activités Économiques dans les Communautés Européennes

<b>NCA</b>	National Crime Agency (UK)
<b>NUTS</b>	Nomenclature of Territorial Units for Statistics
<b>OC</b>	Organised Crime
<b>OCG</b>	Organised Crime Group
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OFAC</b>	Office of Foreign Assets Control (US)
<b>OMCG</b>	Outlaw Motorcycle Gangs
<b>PACA</b>	Provence-Alpes-Côte d'Azur
<b>PEP</b>	Politically Exposed Persons
<b>POS</b>	Point-Of-Sale
<b>SOC</b>	Serious and Organised Crime
<b>SOCTA</b>	Serious and Organised Crime Threat Assessment
<b>TBML</b>	Trade-based money laundering
<b>TCN</b>	Third-Country National
<b>TJN</b>	Tax Justice Network
<b>VAT</b>	Value Added Tax
<b>VLT</b>	Videolottery
<b>UK</b>	United Kingdom (Great Britain, Scotland, Wales and Northern Ireland)
<b>UN</b>	United Nations
<b>USD</b>	US Dollars

## Business sectors legend

NACE Rev. 2 - Section	Sub-section
	Accommodation and food service activities (I)
	Administrative and Support Service Activities (N)
	Agriculture, forestry and fishing (A)
	Arts, entertainment and recreation (R)
	Construction (F)
	Electricity, gas, steam and air conditioning supply (D)
	Financial and insurance activities (K)
	Human health and social work activities (Q)
	Information and communication (J)
	Manufacturing (C)
	Mining and quarrying (B)
	Professional, scientific and technical activities (M)
	Real estate activities (L)
	Transportation and Storage (H)
	Water supply; sewerage, waste management and remediation activities (E)
	Wholesale and retail trade (G)
 	Construction of residential and non-residential buildings
	Football sector
	Land transport and transport via pipelines; other passenger land transport
	Manufacture of soft drinks/production of mineral waters and other bottled waters
	Private security activities
	Wholesale trade of pharmaceutical goods
	Wholesale trade of flowers and plants
	Wholesale trade of meat and meat products



# INTRODUCTION

The MORE research project was co-funded by the **European Commission, DG Home Affairs**, and carried out by an international consortium co-ordinated by **Transcrime – Università Cattolica del Sacro Cuore** (UCSC).

The **other partners** are:

Brå – Swedish National Council for Crime Prevention (Sweden);

SWP – German Institute for International and Security Affairs (Germany).

The consortium also involved, as **associate partners**:

Ministero dell'Interno (Italy)

Bundeskriminalamt (Germany)

Europol

While all the associate partners contributed to the project by helping in the collection of data and case studies and by providing crucial feedback, the three research partners UCSC, Brå and SWP take sole responsibility for everything written in this report.

#### *Background, objectives, methodology*

MORE aimed to analyse, model and map the risk factors of serious and organised crime (SOC) infiltration in legitimate European businesses. It focused on risk factors at two levels:

- **Macro level**, i.e., across countries, regions and business sectors;
- **Micro level**, i.e., at the firm level, in terms of ownership and accounting red flags.

MORE built on two previous studies also co-funded by the EU Commission:

- **The OCP project**, which analysed the economy of organised crime in 7 EU MSs (Finland, France, Ireland, Italy, the Netherlands, Spain and the UK) from a *macro* perspective;
- **The ARIEL project**, which analysed the script of OC infiltration in businesses in 5 EU MSs (Italy, the Netherlands, Slovenia, Sweden and the UK) from a *micro* perspective.

The MORE project combined the two perspectives and extended the analysis to the whole EU 28. To do so, it adopted a **mixed qualitative and quantitative method** — which is the only possible way to address a complex issue such as SOC infiltration in businesses. And in the process, it performed:

- The collection of data, cases and evidence from **a wide variety of sources** (judicial documents, police reports, institutional reports and media news), relying also on a widespread network of **national contact points**.
- An **in-depth crime-script analysis** of 24 case studies of SOC infiltration (equivalent to more than 500 companies in all EU MS);

- A **macro analysis** of statistics on selected risk factors across regions, countries and business sectors;
- A **micro analysis** of ownership and accounting data from a sample of more than 1,000 firms confiscated from OC.

MORE is only a **first exploratory step** towards a systematic monitoring of the problem of SOC infiltration in businesses across the EU MSs, but it shows that such monitoring would be essential to mitigate and prevent SOC in Europe.

#### *Structure of the final report*

To reflect the logic behind the MORE approach, the final report is structured as follows: **Chapter 2** provides the relevant definitions (including that of SOC infiltration) and describes the methodological approach; **Chapter 3** is an overview of the main results of the crime-script analysis of case studies; **Chapter 4** presents an analysis of key risk factors and vulnerabilities to SOC infiltration across EU geographic areas and sectors and a comparative overview across countries; **Chapter 5** provides the statistical analysis of ownership and accounting data at the firm level; **Chapter 6** presents country profiles of the 28 EU MSs and an in-depth analysis of selected geographic areas. Finally, **Chapter 7** discusses the research and policy implications. The script analysis of the case studies, in full, is reported in the Annex A1.

# 2



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## DEFINITIONS AND METHODOLOGY

## 2.1. Definitions

The starting point of the analysis was to define the concept of **serious and organised crime (SOC) infiltration** in legitimate businesses. Building on previous research — including the OCP and ARIEL projects — MORE defined it as:

Any case in which a natural person belonging to a criminal organisation, as defined by Art. 1 of the EU Framework Decision on the Fight against Organised Crime (2008/841/JHA)<sup>1</sup>, or involved in a serious crime as defined by Art. 83(1) of the Treaty on the Functioning of the European Union<sup>2</sup>, or an already infiltrated legal person, invests financial and/or human resources to participate in the decision-making process of a legitimate business.

As noted by Riccardi and Berlusconi (2016, p.19), this notion requires four elements:

- **A criminal organization**
- One or more **individuals** acting on behalf of the organization (as affiliates, supporters, figureheads)
- An **investment**, of either financial resources (e.g., the acquisition of a share of the firm's capital, a loan or a stock option) or human resources (e.g., the appointment of a director, a manager or an employee)

• **Participation in the decision-making process** of the legitimate business, in the sense of being able to influence the actual management of the company and future decisions regarding investment strategies, employment, subcontracting and the selection of suppliers and customers.

Some scholars have previously criticised this approach. The **vagueness of the concept** of 'criminal organisation' adopted at the EU level (Calderoni, 2008; Finckenauer, 2005; Hagan, 2006; von Lampe, 2004) may risk hindering the identification of "who exactly is infiltrating legitimate businesses" (von Lampe 2017, p. 224). But, given the state of the art and the current level of available data, this is the **only possible definition** that allows for exploratory research covering the whole EU28 and encompassing the **variety of criminal actors and OC legislations** across the different EU jurisdictions.

### *A process made of sentinel crimes*

It is also important to note that SOC infiltration of legitimate businesses, as such, is **not necessarily a crime** in itself. In some EU jurisdictions, the fact that a member of an OC group is a shareholder or a manager of a firm may generate suspicion but might not be automatically criminalised — especially in those countries with a high level of freedom of association (e.g., Sweden; see Chapter 6) — unless one or more predicate offences are proven or the illicit origin of the funds invested in the company is demonstrated.

In this sense, infiltration should not be considered an individual offence but rather a **process encompassing a range of offences**, which we refer to here as **sentinel crimes** (see Chapter 3): corruption, document forgery, accounting manipulations, tax evasion and other crimes which on the one hand enable infiltration and on the other signal that an infiltration process is ongoing.

### Actor-centred vs. activity-centred approach

As noted by some authors, there are two perspectives in studying organised crime and, in particular, the relationship between SOC and legitimate businesses: **actor-centred** and **activity-centred** approaches (von Lampe, 2017; van Duyne & van Dijck, 2007). The first focuses on who — the individuals and the related

1. 'For the purposes of this Framework Decision: 1. "criminal organisation" means a structured association, established over a period of time, of more than two persons acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or a more serious penalty, to obtain, directly or indirectly, a financial or other material benefit; 2. "structured association" means an association that is not randomly formed for the immediate commission of an offence, nor does it need to have formally defined roles for its members, continuity of its membership, or a developed structure' (Council of the European Union 2008, Art. 1).

2. 'The European Parliament and the Council may, by means of directives adopted in accordance with the ordinary legislative procedure, establish minimum rules concerning the definition of criminal offences and sanctions in the areas of particularly serious crime with a cross-border dimension resulting from the nature or impact of such offences or from a special need to combat them on a common basis. These areas of crime are the following: terrorism, trafficking in human beings and sexual exploitation of women and children, illicit drug trafficking, illicit arms trafficking, money laundering, corruption, counterfeiting of means of payment, computer crime and organised crime. On the basis of developments in crime, the Council may adopt a decision identifying other areas of crime that meet the criteria specified in this paragraph. It shall act unanimously after obtaining the consent of the European Parliament' (European Union 2012).

## 2.2. Methodology

criminal groups — infiltrates the businesses; the second on what the businesses (or the criminals, through the businesses) eventually do in terms of criminal activity. MORE inclines towards an actor-centred approach: it explores why and how individuals investigated/prosecuted for organised crime take control of legitimate businesses (see operationalisation in Section 2.2 below).

However, it is **not often easy to distinguish between the two perspectives**. First, in the collected cases it is not always clear if the investigation/prosecution for organised crime took place before or during the infiltration, in other words, whether the infiltrated businesses were part of the organised crime scheme. The results of the analysis (Chapter 3) also show that the boundary between traditional OC and white-collar crime is progressively getting thinner, in the sense that 'traditional' OC groups (such as Italian mafias, biker gangs, Russian-speaking or Eastern European OC) **make wider use of 'traditional' corporate crimes** such as corporate bribery, tax evasion and accounting fraud — both as a means and as an objective of the infiltration. And the nature of the relationship between OCGs and business owners/managers may assume different shades, ranging from 'structured association' to occasional partnership. To focus either on actors only or on activities only, therefore, is very challenging — and probably not very meaningful.<sup>3</sup>

As described in Chapter 1, the objective of the MORE project is to analyse the risk factors that facilitate SOC infiltration at two levels:

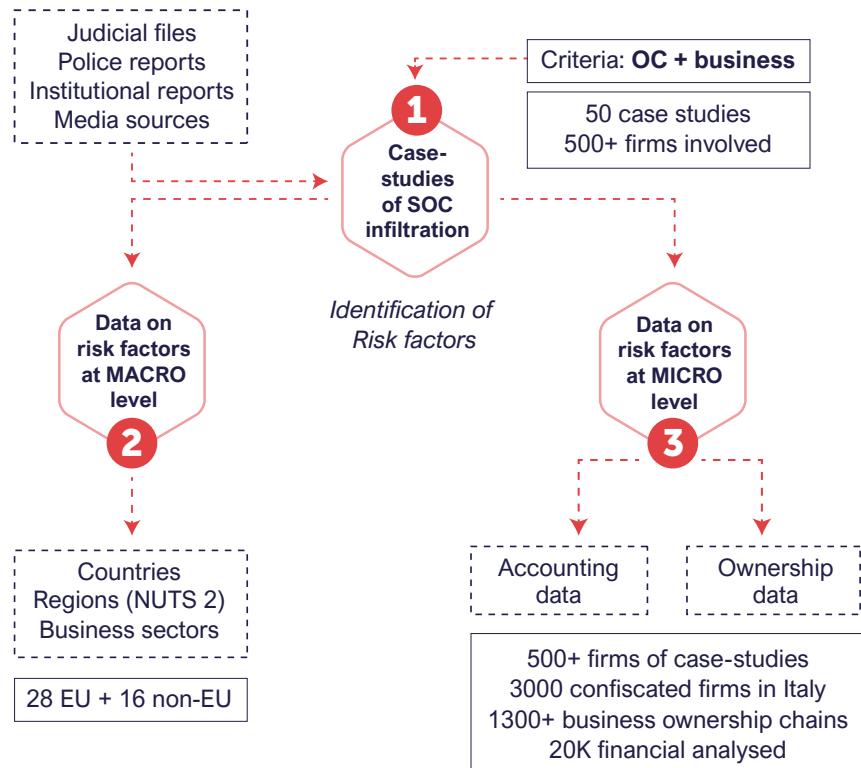
- The **macro level**, i.e., across territories and business sectors
- The **micro level**, i.e., at the firm level, in terms of accounting and ownership factors

In order to achieve this objective, and to adapt to a complex phenomenon such as criminal infiltration, MORE adopted a **mixed qualitative and quantitative** approach that can be summarized in three steps as follows:

1. The collection and script analysis of **cases of SOC infiltration** of businesses across EU MSs
2. The collection and statistical analysis of **data on risk factors at the macro level**, i.e., at the country, region and business sector level
3. The collection and statistical analysis of **data on risk factors at the micro level**, i.e., at the firm level, for a set of infiltrated firms

The three steps are interconnected, as depicted in Figure 1 below.

**Figure 1 - MORE methodological approach: the three steps**



3. An alternative approach to address this issue could be to focus on individuals rather than on cases, and to collect samples of individuals prosecuted/convicted in the past for OC or known to be members of OC and then to analyse their portfolios of assets and shares in legitimate businesses. For example, this approach was adopted by the Comune di Milano (2017), which identified business owners and directors previously investigated for a variety of crimes (including OC-related offences) and then studied the distribution of the businesses connected to these persons across territories, business sectors and legal forms. Similarly, Meloen et al. (2003) studied the portfolio of 52 Dutch criminals, including (but not limited to) their financial assets and shares in businesses. This approach, however, has some shortcomings, too: first, it is difficult for privacy reasons to access the personal records of convicted/investigated individuals (e.g., the mentioned analysis in Italy was carried out by the Italian secret service); second, this approach maps only direct links between individuals and assets, and is not able to catch indirect connections — e.g., the control of businesses exercised through figureheads — that are very relevant when talking about SOC infiltration and could instead be detected through in-depth analysis of case studies (see for details Riccardi and Berlusconi 2016, p.23).

## Analysis of case studies

The analysis of case studies was aimed at identifying the **stages of the infiltration process** and the risk factors that facilitate and characterise SOC infiltration, which are then analysed in depth in the *Macro* and *Micro* sections (Steps 2 and 3). The case studies, in particular, identify:

- *Sentinel crimes* of SOC infiltration
- Drivers
- *Modi infiltrandi*
- Business sectors

### *Identification of case studies*

The cases were collected from a variety of sources, but preference was given to **judicial and police investigation files**. Given the lack of a legal status for SOC infiltration, the relevant judicial cases were selected based on two criteria:

#### 1. The presence of organised crime:

- a) Cases including 'organised crime', as defined by the relevant national legislation, in the list of notified/prosecuted offences
- b) Cases classified as 'organised crime' by the relevant law enforcement authority

#### 2. The presence of legitimate businesses:

At least one legitimate business involved in the case, in which (in line with the definition provided above), the individual(s) investigated/prosecuted for organised crime invested, directly or indirectly, financial and/or human resources.

### *Collection of case studies*

Requests for cases meeting the above criteria were sent by Transcrime to its **network of contact points** within law enforcement agencies (LEAs), financial intelligence units (FIUs) and asset recovery offices (AROs) in the 28 EU MSs. Crucial support was provided in the data collection stage by the MORE partners, by Europol and by the European Commission – DG Home affairs.

For each identified case, information was sought on the following:

- Number and types of offences prosecuted/investigated (beyond organised crime)
- Description of the *modi infiltrandi*
- Number (and, where possible, name) of the involved legitimate businesses
- List of the involved business sectors
- Information on the business ownership structure (i.e., the nature of the shareholders and beneficial owners, ownership connections with other firms, etc.)
- Information on the business financial situation (i.e., financial reports, profit and loss accounts, balance sheets or other accounting documents)

The extent of available information varied widely in the cases. When not directly provided by the authorities, the information was **supplemented using other sources**, e.g.:

- **Business registers** and business data providers (e.g., Bureau van Dijk Orbis database), for ownership and financial information
- **Media reports**, for descriptions of the *modi infiltrandi* and of the businesses and business sectors involved
- **Interviews** with selected experts (e.g., prosecutors, police investigators, public officers, journalists)

### MORE crawling and data management system

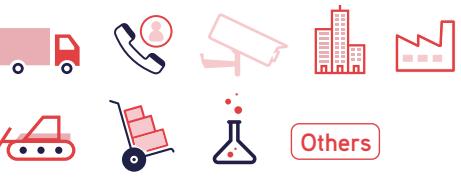
In order to facilitate the collection of information on case studies and on contextual risk factors, the research group developed an **ad-hoc crawling and data management system**. The tool allows searches, by keyword, of the relevant cases in judicial documents and police and institutional reports uploaded in the system's library; it also allows a search of media news — crawling, in particular, the news collector EMM Newsbrief (<http://emm.newsbrief.eu/>), covering all the EU, and national press agencies (like the ANSA press agency). The tool also served to organise and systematise the statistics on the countries and business sectors used for the analysis of risk factors at the macro level (see below).

Eventually, it was possible to identify and collect a sufficient number of information for **more than 50 case studies (not previously analysed)** covering almost all the EU MSs. The quality and quantity of information collected allowed an in-depth crime script analysis of **24 cases**, corresponding to more than **500 legitimate businesses**<sup>4</sup> (see Table 1 in the next page).

4. The number of legitimate businesses should be taken cautiously, especially for those cases for which it was not possible to access full and detailed judicial or police information.

**Table 1 – Case studies subject to crime-script analysis**

N.	ID case	EU countries involved	N. businesses involved	Business sectors involved (see 'Glossary and Legend' section)
1	ALPHA	CY, GR, HU, IT, LV, RO, SK, SI	24	
2	BETA	SI	19	
3	GAMMA	SE	49	
4	DELTA	DE	1	
5	EPSILON	IE, IT, ES	34	
6	ZETA	AT, DE, BE, ES, FI, FR, IE, NL, RO, SK	35	
7	ETA	NL, IT	3	
8	THETA	BG, RO	1	
9	IOTA	SE	1	
10	KAPPA	MT, IT	25	
11	LAMBDA	PT	1	
12	MU	RO, IT	4	
13	NU	IT, AT, MT, RO, ES, GB	35	

N.	ID case	EU countries involved	N. businesses involved	Business sectors involved (see 'Glossary and Legend' section)
14	XI	GB	2	
15	OMICRON	AT, HR, IT, RO, SI	68	
16	PI	SE	2	
17	RHO	IT	35	
18	SIGMA	DE, CZ, DK, LU, ES	43	
19	TAU	ES	3	
20	PHI	FR	29	
21	CHI	IT	22	
22	PSI	ES, FI, FR, LU, NL, SE, GB	500+	N/A
23	UPSILON	IT, DE	8	
24	OMEGA	EE, LT, LV	25+	N/A

### Is the analysed sample sufficiently representative?

The scope of the crime-script analysis was to highlight the different stages and patterns of the infiltration process, the modi infiltrandi and the vulnerabilities that facilitate infiltration. The collected sample does not aim to provide a representative picture of the actual distribution of SOC infiltration across territories, business sectors and criminal groups. Instead, it mirrors the availability of judicial documents, and in particular it is biased towards those countries — like Italy, Germany or Sweden — where MORE researchers could access judicial and police files more easily. However, the researchers took care not to focus excessively on certain countries or OCGs (e.g., Italian mafias). In this sense, it must be stressed that most cases involve **multiple companies** and have a **cross-border nature** involving more than one EU country.

### *Analysis of case studies: the crime-script approach*

The collected cases were analysed adopting a **crime-script analysis (CSA)** approach. In line with the literature (see e.g. Tompson and Chainey, 2011; Cornish, 1994), MORE used the CSA to identify and investigate the different stages of the infiltration process (as in a script for movies or theatre). The **four scenes** traditionally followed in CSAs (see e.g. Savona, 2010) **were adapted** to answer specific questions related to the infiltration process (see Table below).

While the CSAs are fully reported in Annex A1, the relevant facets of some selected cases are briefly discussed in boxes within the report.

**Table 2 – Case studies subject to crime-script analysis**

CSA scene	Research question	Analysed factors
<b>1 PREPARATION</b>	Why was the infiltration carried out?	<ul style="list-style-type: none"> <li>○ Infiltration drivers and purposes</li> <li>○ Opportunities targeted by OCG</li> </ul>
<b>2 PRE-ACTIVITY OR ENABLING CONDITIONS</b>	How was the OCG able to infiltrate and control the firm(s)?	<p><b>Business Ownership strategy:</b></p> <ul style="list-style-type: none"> <li>○ Infiltration of pre-existing companies vs. ad-hoc incorporation</li> <li>○ Business legal form adopted</li> <li>○ Type of owners and shareholders</li> <li>○ Use of straw men (and their characteristics)</li> <li>○ Use of special legal entities and complex ownership structure</li> <li>○ Use of off-shore entities</li> </ul>
<b>3 ACTIVITY</b>	How were the firm(s) managed by the OCG?	<p><b>Management and financial strategy:</b></p> <ul style="list-style-type: none"> <li>○ Type of managers and administrators</li> <li>○ Profitability of the business(es)</li> <li>○ Financing sources</li> <li>○ Type of legal/illegal management strategies adopted</li> </ul>
<b>4 POST-ACTIVITY OR POST-CONDITIONS</b>	What happened at the end of the infiltration process?	<ul style="list-style-type: none"> <li>○ Achievement of the objectives of the infiltration by the OCG (yes/no)</li> <li>○ Interruption of the infiltration process by the law enforcement/judicial authority</li> </ul>

## Analysis of risk factors at the macro level

Chapter 4 provides a statistical analysis of the risk factors of SOC infiltration, previously identified in the CSA, at the **macro level**, i.e., across:

- European territories (countries and regions)
- Business sectors (NACE classification)

The analysis covered all the **28 EU member states**, and for some risk factors it was able to cover another **16 European** (non-EU) countries.

Adopting the FATF taxonomy on ML risk assessment (see Savona and Riccardi, 2017 for details), we focussed on the **vulnerabilities** that, according to the CSA, seem to best facilitate the SOC infiltration process. Each of these risk factors was operationalised in one or more proxy variables so it could be **measured and mapped**.

The variables were selected based on data availability and building on the previous literature, and were collected from a variety of sources, including **providers of business and socio-economic data**, academic **libraries, papers and institutional reports**, or by issuing specific requests to EU institutions (e.g., central banks,

in the case of cash statistics). Table 3 below lists the analysed vulnerabilities and the relevant proxies.

In terms of **threats** — e.g., offences that, as sentinel crimes, facilitate the infiltration process — the analysis focussed on **corruption** only, studied together with cash intensity in Section 4.1. Although the CSA also identified other relevant sentinel crimes — like tax evasion, document forgery and false invoicing (see Chapter 3) — available data did not allow us to conduct a sound comparative analysis across EU countries. This is one limitation of the study that should be addressed by future research (if data quality and quantity improve).

**Table 3 – Vulnerabilities and relevant proxies analysed at the macro level**

Vulnerabilities	Proxy variable(s)	Source
<b>CASH-INTENSITY</b>	Cash Ratio	Transcrime elaboration of ECB data
	Max cash purchase limit	Transcrime elaboration of open sources
	Liquid assets over total assets	Transcrime elaboration of BvD data
<b>UNDERGROUND ECONOMY</b>	Shadow economy as % of GDP	Medina and Schneider (2018)
	Undeclared work as % Gross Value Added	Williams et al. (2017)
<b>OPACITY OF BUSINESS OWNERSHIP</b>	Level of financial secrecy	Tax Justice Network (2018)
	Business owners from secrecy jurisdictions	Transcrime elaboration of TJN and BvD data
	Complexity of business ownership	Transcrime elaboration of BvD data
<b>'GOLDEN VISAS'</b>	Investment obligation of investment based-residency/citizenship schemes	Transcrime elaboration of Džankić (2018) and open sources
	Status obligation of investment based-residency/citizenship schemes	Transcrime elaboration of Džankić (2018) and open sources

## Analysis of risk factors at the micro level

The analysis at the *micro* level (Chapter 5) aimed at investigating, through a statistical approach, the **firm-level factors** that facilitate and signal SOC infiltration. The analysis explored two dimensions:

- the company's **ownership structure**
- the company's **accounting/financial management**.

For each dimension, a number of variables were taken into account, as detailed in Table 4 below. The accounting analysis considers a wide array of **financial ratios** (see Section 5.2 for details).

This approach is similar to the ARIEL project one (Savona and Berlusconi, 2015), but MORE introduced some innovations that improved the quantity and the quality of the firms under investigation and also addressed some weaknesses of the previous study.

First, ARIEL conducted the firm-level analysis on a **very heterogeneous sample**, made of firms infiltrated in 5

EU MSs, in different periods, for very different purposes (e.g. money laundering, VAT fraud or social welfare fraud) and subject to different accounting standards and transparency obligations. Because of this heterogeneity, the ARIEL statistical analysis was not able to identify unambiguously common red flags across all these firms to be used in the risk assessment models.

For this reason, it was decided by MORE not to perform the financial analysis on the 500+ businesses identified through the CSA (see Table 1) — which would pose the same problem as the ARIEL sample — but to focus on a single, but very homogenous, set: that of **firms confiscated from OC in Italy** in the last 30 years.

This choice has numerous advantages: first, it allows to greatly **expand the sample of firms under investigation**, since it is possible eventually to study the ownership structure for more than **1,300 firms** and the financial reports for more than **400 firms**<sup>5</sup> (in ARIEL, there were only 54 firms), ultimately improving the statistical significance of the model.

Second, having data from 1983 to 2016, it allowed for an analysis that highlights how **ownership and financial strategies have changed over the years**. As a result, the statistical analysis produces more unambiguous findings, which could be more easily included as red flags in risk assessment models by practitioners in this field (such as public investigators or AML officers).

This approach obviously also has some down sides. By focusing on only one country, it provides a picture of the ownership and financial strategy related to a **specific type of SOC infiltration**, that carried out by Italian mafias, which cannot be regarded as representative of the infiltration strategy of other groups, in other contexts and for other drivers. But the qualitative investigation performed in the CSA could, at least partially, address this gap. Future research should carry out the same analysis on other, equally homogenous, samples of firms, possibly in other countries and related to other type of OC groups.<sup>6</sup>

**Table 4 – Micro analysis of business ownership and accounting/financial management**

Company dimensions	<b>BUSINESS OWNERSHIP</b>		<b>BUSINESS FINANCIAL/ACCOUNTING MANAGEMENT</b>		
Proxy variable(s)	Type of legal form	Type of owner: • Natural person vs. legal person • Male vs. female • Relative(s) of the OC member	Income statement, e.g.: • Turnover • Operating costs • Profit/loss	Assets, e.g.: • Cash & equivalents • Current assets • Receivables • Other credits	Liabilities, e.g.: • Financial debt • Payables • Tax liabilities • Other debts
	<ul style="list-style-type: none"> <li>• Business data providers (BvD, CRIF)</li> <li>• Italian confiscation agency (ANBSC)</li> </ul>		<ul style="list-style-type: none"> <li>• Business data provider (BvD)</li> <li>• Italian confiscation agency (ANBSC)</li> </ul>		

5. As will be shown in more detail in Chapter 5, for each of the confiscated firms, a sample of non-confiscated peer firms was taken as a control group. All told, the accounting analysis therefore processed the financial reports of more than 20,000 firms.

6. During the project, similar sets of firms were sought. For example, an official request was sent to the Senate Department for Urban development and housing of Berlin in order to obtain the blacklist of companies involved in corruption cases, so as to repeat the same statistical analysis made on Italian confiscated companies. There was also an attempt to get the list of companies related to members of OC groups in Sweden. In both cases, the request was denied for sensitivity/privacy reasons.





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# SOC INFILTRATION IN EUROPE: AN OVERVIEW

The analysis of case-studies reveal that infiltrated businesses in Europe are **instruments** used by OCGs to **implement their overall criminal strategy**. Companies are not only a method by which criminals can benefit from illicit proceeds, once laundered, but serve the OCGs in achieving a variety of objectives.

The firms themselves **become actors** in the criminal scheme: some criminal setups would not be possible without establishing legal companies. This is the reason why SOC infiltration can be observed in a wide variety of areas and business sectors and in connection with numerous criminal groups and predicate offences.

Despite this variety, the analysis points out some **common trends and recurrent patterns** in terms of drivers, sentinel crimes, *modi infiltrandi* and business sectors that are discussed below, referring, where useful, to case studies analysed in depth in Annex A1 and other supporting evidence.

## Main findings



### DRIVERS

OCGs infiltrate legitimate businesses for **various reasons**: making profit, laundering money, concealing illicit trade and fraud, controlling the territory, influencing public administration, increasing social consensus, cleaning up their criminal reputation.



### SENTINEL CRIMES

SOC infiltration schemes are often accompanied by **corruption** (also in the private sector), **tax crimes**, **false invoicing**, **document forgery**. The commission of these sentinel economic offences shortens the gap between OC and white collar crime.



### MODI INFILTRANDI

When infiltrating businesses, OCG make wide use of **cash and cash-intensive sectors**, **figureheads** (of various nature), complex business ownership structures, **off-shore countries** and EU MS with lower corporate transparency requirements. Also, they exploit the loopholes of some 'Golden Visas' schemes.



### BUSINESS SECTORS

SOC infiltration concerns a wide variety of business sectors, the most frequent being **construction, bars and restaurants, wholesale trade** (e.g. of food products), **transportation**, but also **gaming/gambling, private security and renewable energy businesses**.



### ACTORS

In the evolving European OC scenario (characterised by fragmentation and submersion trends), actors of SOC infiltration are **many, multi-ethnic and ranging from hierarchical organisations to loose networks**. Among the most active, the organisations with the best ability to connect with the socio-economic fabric: Italian mafias, Russian-speaking OCGs, Chinese OCGs, Outlaw motorcycle gangs.

## 3.1. Drivers

SOC infiltration in European legitimate businesses responds to the following different drivers, which may co-exist simultaneously:

### Making a profit

First, as profit-oriented organisations, OCGs try to **grasp profit opportunities** wherever they emerge, whether they are in illicit or legitimate markets (Europol, 2017c). In the legal economy, companies are the tools OCGs use to operate. For example, the recent refugee crisis in Europe has led to a huge demand for residential care homes, which was promptly seized upon by criminal groups, which infiltrated firms in this sector (see box below). Sectors involving **public funding** also provide opportunities to do business: for example, public procurement (see the DELTA case), renewable energy (UPSILON case) or EU aid funds for underdeveloped areas (THETA case).

### Laundering money

Legitimate businesses are often the best way to launder illicit proceeds. They provide **fronts behind which to hide the criminal identity** or the illicit origin of funds, and they allow inflows/outflows of illicit funds to be concealed through **cash-based transactions, false invoices or trade-based money laundering (TBML)** techniques. Not surprisingly, money laundering appears in the list of notified/prosecuted offences in most of the analysed cases.

OCGs also offer other criminals or entrepreneurs **money laundering services through infiltrated businesses**. This is demonstrated by various MORE case-studies (e.g., GAMMA, ZETA, NU, OMICRON, RHO and SIGMA).

### Case IOTA: Organised crime and residential care for migrants

In Sweden, an individual with close ties to a well-established OCG incorporated a firm in order to provide residential home care for unaccompanied young migrants. The organisation used figureheads and document forgery and obtained a contract from some local municipalities despite not having the mandatory authorisations. In this set-up, the OCG benefited from the weakened public controls over this sector due to the urgency of the refugee crisis (see the IOTA case in Annex A1 for details).

The same scheme was exercised in other countries. In Italy, the Mondo di Mezzo investigation revealed an OCG's infiltration of a reception centre for immigrants in Sicily, one of the largest in Europe; other cases concern migrant centres in Calabria (Orsini & Sergi, 2018) or Lazio (Il Fatto Quotidiano, 2018). In some Eastern European countries, the involvement of private security companies in the management of the migrant influx has raised concerns about possible involvement of OCGs, given the vulnerability of this industry to criminal infiltration (see below).

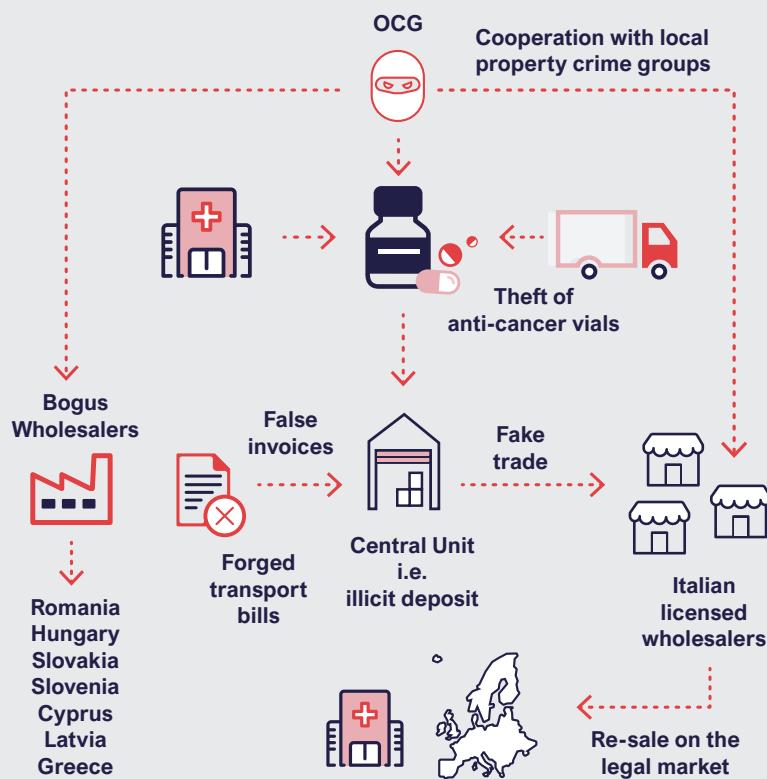
### Concealing illicit trade

Companies serve as fronts to conceal illicit trafficking of persons or goods. In particular, **transportation, import-export and wholesale trade businesses** are used to hide the trafficking of drugs or firearms (see, for example, the ZETA, ETA, SIGMA and XI cases) or of smuggled and counterfeit goods (the ALPHA, ETA and KAPPA cases). Firms in other sectors such as restaurants, bars and clubs, massage parlours, hairdressers and travel agencies may instead cover trafficking in human beings or sexual and labour exploitation (see, for example, the BETA case).

Infiltration of companies is particularly useful when there is the need to '**launder**' stolen products: companies may produce fake invoices or transportation or customs bills that are then used to misrepresent the legitimate origin of the merchandise, thus easing its reintegration into the legal market without the need to sell it underground (see, for example, the ALPHA, ETA and KAPPA cases).

### Case ALPHA: Trade in stolen anti-cancer medicines through infiltrated wholesale businesses

An OCG linked to the Italian Camorra set up, through figure-heads, a network of bogus pharmaceutical wholesalers (most of them in Eastern Europe) that served to traffic stolen medicines, mainly anti-cancer drugs. Medicines were stolen from Italian hospitals and lorries and then, by issuing false invoices and forged transportation bills, ‘laundered’ so they could eventually be resold on the legal market to other pharmacies and hospitals in several EU countries (mostly Germany), placing at risk the health of thousands of patients. This criminal scheme was possible only through the use of infiltrated companies in a number of EU MSs.



## Committing fraud

Often SOC infiltration is aimed at carrying out fraud, and many infiltrated businesses commit fraud regardless of the final objective of the infiltration (Skinnari, Korsell & Rönnblom, 2016; Wall, Chistyakova & Bonino, 2016). Fraud may be of various kinds:

- **Tax and excise fraud** (e.g., the ALPHΑ, GAMMA, KAPPA, NU, RHO and PSI cases)

- **VAT and ‘carousel’ fraud** (e.g., the OMICRON case)
- **Welfare fraud** (e.g., the PI case)
- **Fraud in EU funds** (e.g., the THETA case)
- **Accounting fraud** (e.g., the THETA case)
- **Bankruptcy fraud** (e.g., the RHO, CHI and PSI cases)

The connection between fraud and organised crime has been increasingly pointed out by both scholars and policy makers (Europol, 2017c; May & Bhardwa, 2018; National Crime Agency, 2015). The low risk/high reward nature of these activities, and the advent of IT, makes fraud a preferred domain for OCGs. Legitimate businesses are key tools in this respect.

### Operation Vertigo

In 2015, a large-scale investigation, led by authorities from the Czech Republic, Germany, the Netherlands and Poland and supported by Eurojust and Europol, disrupted a criminal organisation behind a major-scale carousel fraud case

involving different EU member states. In this carousel fraud case, the OCG behind the criminal activity used a **sophisticated infrastructure** (buffer companies, missing traders and companies used as ‘alternative payment plat-

forms’ to facilitate money laundering and crime-related money transfers) spread over various EU MSs and a number of third-party states, defrauding EU citizens of approximately 320 million euro in tax revenues (Eurojust, 2016).

## Controlling the territory

Some OCGs, especially mafia-type ones, are interested in keeping strict control over certain geographic areas. Infiltration of legitimate businesses may also serve this purpose, and several scholars have demonstrated empirically that **proximity counts** for OCG-related investments (Kruisbergen, Kleemans, & Kouwenberg, 2015; Riccardi, 2014; Riccardi, Ferluga, & Maggioni, *mimeo*). Construction firms, hotels, restaurants and gas stations have a **strong territorial specificity** and are preferred by OCGs for this reason (Cantone & Di Feo, 2010; Transcrime, 2013). The same goes for transportation companies (of both goods and passengers), which allow a wide-ranging network to be set up in the territory (see, for example, the PHI case on controlling an important harbour in France).

## Influencing politics and public administration

Controlling the territory means also connecting with the political and economic elite. This is crucial for OCGs to expand their power and networks. Infiltration of business sectors where the public administration plays a crucial role, such as **public works, energy supply, waste management or social services and health care**, allows OCGs to influence policy-makers, benefit from their corruptive power and extract high rents (see, for example, the DELTA, EPSILON, IOTA and MU cases and others).

## Increasing social consensus and cleaning up criminal reputations

Finally, appearing to be legal entrepreneurs often helps criminals to clean up their criminal reputation, to provide an **appearance of legitimacy and to increase their social consensus**. This driver should not be underestimated: it is key for Italian mafias, biker gangs, Russian or Eastern European groups and other OCGs to legitimize the investment of (dirty) proceeds in the legal economy. Money laundering is not only done through a set of accounting or financial schemes, but also by **gaining the support of the customer base**. The best way to do this is by offering jobs, wealth and fringe benefits — including a renewed football team (see box below). *Panem et circenses*.

### Cases LAMBDA and TAU: Organised crime and football clubs

A number of investigations revealed a scheme by Russian OCGs (it is not clear if they were connected to each other) to infiltrate football clubs in Europe. The criminal groups identified minor league clubs in financial distress and then injected fresh funds of illicit origin to rescue them. Among the targeted firms were some **second- and third-tier clubs in Spain and Portugal**. The entrepreneurs presented themselves as home-town heroes seeking the football supporters' appreciation so as to clean up their criminal reputation — along with laundering illicit proceeds.

## 3.2. Sentinel crimes

As noted, in most EU jurisdictions, infiltration is **not a crime in itself** but a process encompassing a range of offences. These **sentinel crimes** both

enable infiltration to happen and signal that an infiltration process is on-going. By identifying (where possible) the list of offences notified/prosecuted in the

collected case studies, the analysis of case studies provided a picture of the most frequent sentinel crimes.<sup>7</sup>

### Corruption

The MORE cases reveal the role of corruption as a main catalyst of SOC infiltration. Corruption is used at various stages of the infiltration process and in various contexts. In the public sector, for example, it serves for:

- **Infiltrating public procurement**

Companies controlled by OCGs use bribery of public officials to gain favour in public bids. Evidence is abundant on the use of corruption by Italian mafias in the public works sector (ANAC, 2017; Caneppele, 2014 for a review) as well as by other organisations. Within the ‘submersion’ strategy of mafia-type groups such as Italian mafias or Russian OCGs, corruption and other exchanges of influence replace violence and intimidation in helping OCGs to expand their power and their networks (DIA, 2016a; Varese, 2011; CyprusMail, 2017). Cases occurred in several countries and industries, such as passenger transport (e.g., the PHI case in France), management of EU funds (e.g., the THETA case in Bulgaria) and construction (e.g., the DELTA case in Germany).

- **Avoiding control by supervisory authorities**

Once awarded, infiltrated firms can bribe representatives of supervisory authorities to avoid audits or get ‘friendly’ audits. This was the case with an infiltrated company in Germany that bribed a public auditor so as to avoid in-depth screening of financial information and the status of the work (the DELTA case).

- **Facilitating cross-border trafficking**

Corruption of customs officials and port and airport authorities is used by infiltrated companies to facilitate the movement of illicit goods (e.g., drugs, firearms, stolen or counterfeit products). In the KAPPA case study, the criminal group was allowed to trade oil stolen from refineries in Libya with fake certificates of origin into European ports.

Many cases also demonstrate the widespread use of **private corruption** by infiltrated firms, for example to obtain contracts illicitly or to manipulate competitors.

Despite the key role of corruption in SOC infiltration, in most EU countries, corruption and OC are still treated — from investigative, judiciary and media perspectives — as **two distinct and parallel domains**, which means different police departments, prosecutors’ offices, investigative approaches, technologies and information flows. This divergence may make it difficult to target SOC infiltration in the most comprehensive and effective manner, while a synergistic approach is most necessary (on this issue, see also Section 6.1 on Germany).

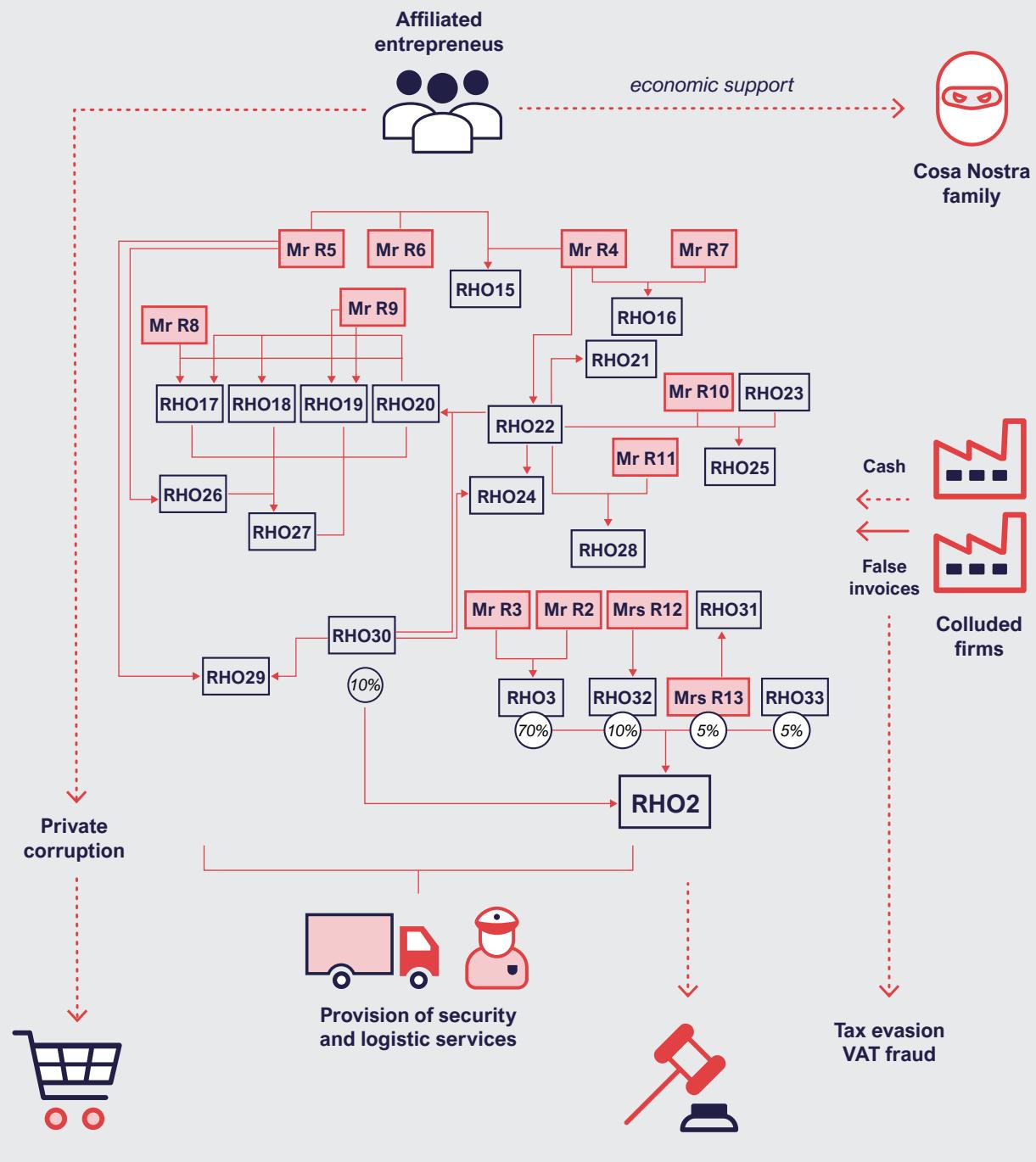
7. Although money laundering frequently appears among notified/prosecuted offences in case studies, it is not discussed here. Rather than ‘sentinel crime’, it instead represents either an objective or an output of the infiltration process. As such, it is discussed in the ‘Drivers’ section.

### Case RHO: Bribes, supermarkets and private security

In northern Italy, a group of entrepreneurs connected to a Cosa Nostra family set up a complex network of firms that obtained contracts to provide security

and logistics services to several branches of a large foreign discount retailer (later put under judicial administration). The OCG bribed the managers of the super-

market group using black funds generated by false invoicing and other illicit activities (see the RHO case in Annex A1 for details).



## Tax crimes

Tax crimes appear frequently among sentinel offences as both a **means and an objective of SOC infiltration**. While some companies are set up on purpose to carry out complex fiscal offences, others simply evade taxes as part of their daily business management — thus mirroring the behaviour of many other firms in the legal market that are not related to organised crime.

The tax crimes of infiltrated businesses may take various forms, ranging from **complex schemes to petty tax evasion**:

- VAT and ‘carousel’ fraud (e.g., the OMICRON case)
- Evasion of excise duties related to oil products, tobacco and alcohol (e.g., the KAPPA case of oil smuggling from North Africa to Europe)
- Evasion of income taxes on gambling (e.g., the NU case)
- Evasion of corporate income taxes (e.g., the GAMMA, OMICRON, RHO, CHI and PSI cases)

Both the *macro* and the *micro* analyses confirm the strict association between tax evasion and SOC infiltration. The first highlights the correlation with the **shadow economy** across territories in Europe (Section 4.1). The second demonstrates empirically that infiltrated businesses have higher **tax payables** (or debts) than non-infiltrated ones (Chapter 5).

## False invoicing

In relation to tax evasion, false invoicing (i.e., issuing invoices for non-existing operations, or their over- and under-valuation) also emerges as a frequent sentinel crime among MORE cases. False invoicing is a **multi-tasking economic offence**:

- it allows the artificial inflation of production costs, therefore **reducing taxable income**;
- it allows the generation of **false VAT credits**;
- it can be used to **conceal illicit financial inflows and outflows** with other firms (in the form of trade receivables and payables; see Chapter 5);

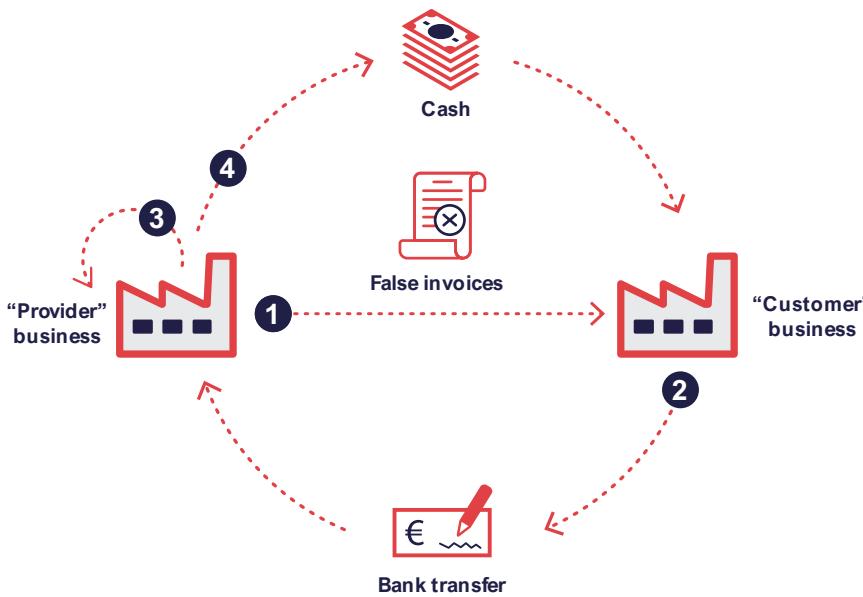
- and, finally, it can help in the ‘**laundering**’ of stolen products (see, for example, the ALPHA case, in which bogus wholesalers issued false invoices to legitimize the use of stolen anti-cancer medicines by colluding pharmacies).

False invoicing plays a key role in Trade Based Money Laundering (TBML), which is one of the most frequent ML techniques involving legitimate businesses (see case ZETA).

A recurrent false invoicing scheme found among the cases analysed is presented in the bottom page.

In this scheme, the infiltrated businesses may act **both as ‘providers’** (as in the GAMMA or OMICRON cases, where a complex network of infiltrated shell companies offered false invoicing services to other OCGs) and as **‘customers’** (as in the RHO case). In the first scenario, their earnings derive from the service fees; in the second, from the undeclared income that they would then use as black funds for corruptive or illegal purposes.

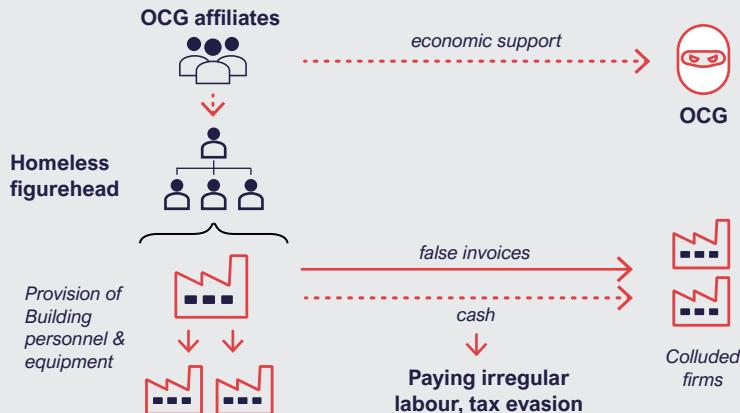
**Figure 2 – A typical false invoicing scheme**



- 1 A ‘provider’ business issues false invoices to other ‘customer’ businesses (either connected with the OCG or not)
- 2 The ‘customer’ businesses pays an equivalent amount through legal channels (e.g., bank transfers)
- 3 The ‘provider’ business keeps a fee for the false invoicing service
- 4 Then, relying on figureheads and black funds, it gives the same amount of cash back to the ‘customer’ businesses off the record (after subtracting the service fee)

### Case GAMMA: a building company as provider of false invoicing services

The GAMMA company in Sweden was incorporated by an OCG using figureheads of foreign nationality. While the company was formally renting personnel and equipment, it specialised in offering false invoicing services to some dozens of other entrepreneurs wishing to reduce their taxable income and generate VAT credits. After the setup was dismantled, most of the companies filed for bankruptcy.



#### From cocaine to false invoices?

It is nothing new to observe false invoicing triangulation among legitimate firms. But it is significant that companies infiltrated by **OCGs traditionally operating in other criminal markets** — drugs, firearms, prostitution, extortion — **specialised in providing these services**. For example, in recent years, the Italian authorities have highlighted the involvement of mafia organisations (especially Camorra and 'Ndrangheta) in such activity, with companies established ad hoc to provide false invoicing services to other local entrepreneurs — see, for example, the *Aemilia* investigation against 'Ndrangheta in northern Italy (DIA, 2016a; ANSA, 2015).

#### Document forgery

As highlighted by Europol in its latest SOCTA, ‘the use of **fraudulent documents in the EU has significantly increased** [...] it is also expected to emerge as one of the fastest growing criminal markets over the coming years’ (Europol, 2017c, p. 20). As such, the Council of the EU indicated forgery in May 2017 as **one of the 10 priorities** for the fight against serious and organised crime between 2018 and 2021.

The MORE cases confirm the key role document forgery also plays in **facilitating SOC infiltration** in legitimate businesses in various stages of the process and for various purposes. For example, the following may be forged:

- **Personal ID documents** (e.g., the IOTA and THETA cases), filed with business registries and supervisory authorities to incorporate companies with fake identities or in the name of (often unwitting) figureheads.
- **Work contracts** (e.g., the GAMMA and PI cases), to pretend that companies conduct actual businesses with employees, or to provide alibis for criminals who are falsely declared to be company employees.<sup>8</sup>
- **Company certifications** (e.g., the THETA case), regarding previous work, security or quality certifications. These help infiltrated businesses appear to be authorized to participate in public procurement or to make pretences of actual business activity (while the companies exist only on paper).

- **Certificates of origin of the product:** For example, in the KAPPA case, an infiltrated Maltese wholesale trade company was able to market in Europe oil stolen from Libyan refineries using false certificates of origin stating that the oil was coming from Saudi Arabia (see box, below). In the ALPHA case, fake packaging and bills allowed an OCG to ‘launder’ and reintroduce on the legal market (and in hospitals) expensive stolen vials of anti-cancer medicines. This scheme is also common in the food industry: for example, the use of forged certificates allowed an OCG related to Cosa Nostra to export stolen and adulterated olive oil from Spain to other European countries (Palomo, Márquez, and Laguna 2016).

- **Customs and transportation bills:** These facilitate the trafficking of stolen or counterfeit goods (as in the ALPHA, KAPPA and ETA cases); they also allow criminals to transfer or bring across borders huge amounts of cash justified as payments (see the ZETA case).

OCGs can be found that specialise in offering forged documents to other legal or illicit entrepreneurs (Europol, 2017c).

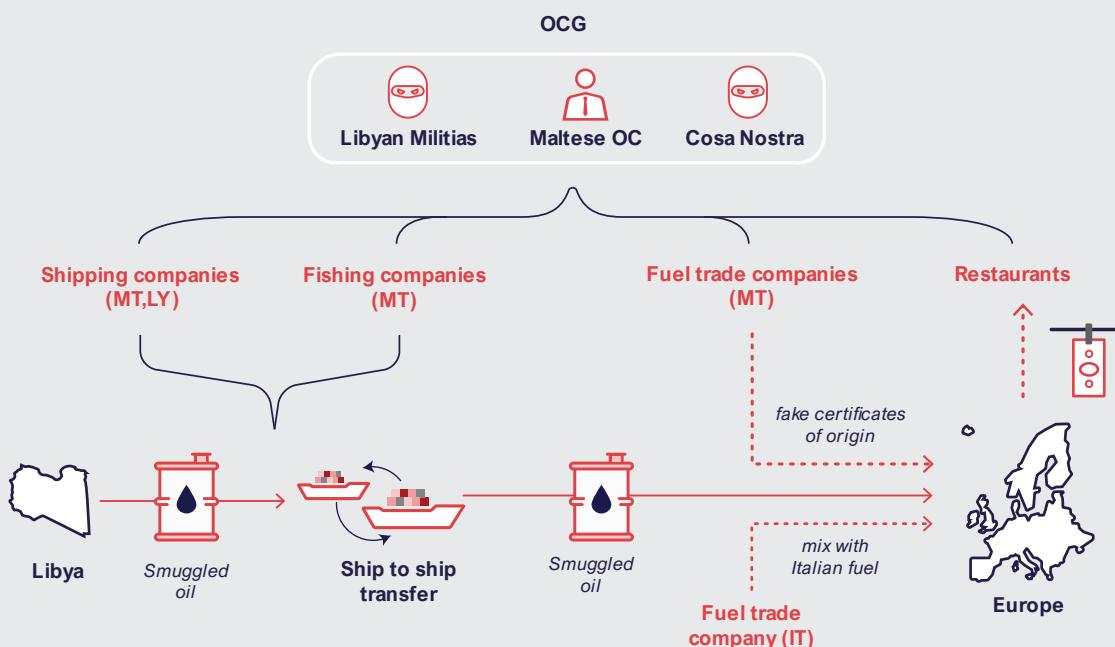
8. For example, in one case a member of 'Ndrangheta was officially enrolled as an employee in a building firm that he actually controlled through some figureheads. He used some false company documents stating he was working on a construction site as an alibi to defend himself from the tribunal's accusation about his involvement in an extortion racketeering episode (Transcrime, 2013, p. 191). More often, criminals use fake work contracts to pretend they are earning a salary as legitimate workers. This helps them to avoid the seizure of goods due to consumption habits that are out of proportion to an absent (legitimate) income.

### Case KAPPA: Shipping and fishing companies and forged certificates of origin

A criminal network composed of Maltese individuals, members of Libyan militias and with links with Italian Cosa Nostra was able to use a number of legal firms (based in various countries, including Libya, Malta, Italy) active in the shipping, fishing and wholesale trade sectors to

provide legal fronts for illicit activities, in particular the smuggling of stolen oil products from North Africa to Europe. To do so, it used, among other strategies, forged documents provided by public officials who stated that the oil was coming from Saudi Arabia. The use of these fake

certificates, together with the mixing of the gasoline with Italian petroleum, allowed them to export and transport the goods to several ports in Southern Europe (US Department of Treasury, 2018; Procura della Repubblica di Catania, 2017) (see Annex A1 for sources and details).



### Infiltrated firms as 'criminal service providers' and the growth of the grey economy

As highlighted by various authorities across Europe, and confirmed by several MORE cases, a specific type of infiltrated firm is emerging: one **offering criminal services** to other legal entrepreneurs. For example, infiltrated firms may act as providers of:

- False invoicing services
- Money laundering services

- Document forgery services
- Informal banking services
- Illegal waste management services (see below)

The fact that some companies controlled by OCGs exist that provide services to legal entrepreneurs shortens the gap between the 'black economy' and the legitimate economy; in other

words, it expands the grey market of firms willing to obtain unfair advantages with taxes or business competition. SOC infiltration acts as a **multiplier of illegality in the whole economy**, easing the commission of 'petty' economic crimes by legal entrepreneurs as well as helping OCGs expand their networks of potential partners and customers.

## 3.3.Modi infiltrandi

SOC infiltration of legitimate businesses is carried out through a wide variety of techniques. The MORE case studies confirm the results of previous research in this area like the OCP and ARIEL projects, but definitely stress the importance of the following *modi infiltrandi*:

### Cash

Cash and cash-intensive businesses are still king in SOC infiltration. **Cash facilitates the laundering of illicit funds** by businesses because it is anonymous and cannot normally be traced. It is a bearer negotiable instrument that gives no details on either the origin of the proceeds or the beneficiary of the exchange (Riccardi & Levi, 2018).<sup>9</sup>

OCGs prefer infiltrating companies in **cash-intensive sectors** (such as bars, restaurants, retail trade, car washes and car rentals, videolottery, bingo and gaming agencies; see below) because illicit proceeds can be more easily reported there as legitimate revenues, deposited in the firms' bank accounts, and then laundered (Gilmour & Ridley, 2015; Transcrime, 2013).

Infiltrated businesses exploit the differences across EU MSs in terms of cash regulation and **maximum cash purchase thresholds** (see Section 4.1), and benefit from those places where they can purchase in cash (with illicit proceeds) high-value goods, which can then be sold by firms and laundered through trade-based mechanisms (see the ZETA case, box below).

But this strategy **does not necessarily require high-value cash purchases**. Infiltrated businesses have a much easier time in all the countries characterised by high cash use: for example, they can launder money by paying suppliers in cash or constantly renovating shops and restaurants and then making (undeclared) cash payments to builders or plumbers. Indeed, our analysis demonstrates a clear correlation between **cash-intensity, the shadow economy and tax evasion**, which all appear to increase the risk of SOC infiltration (see Section 4.1).

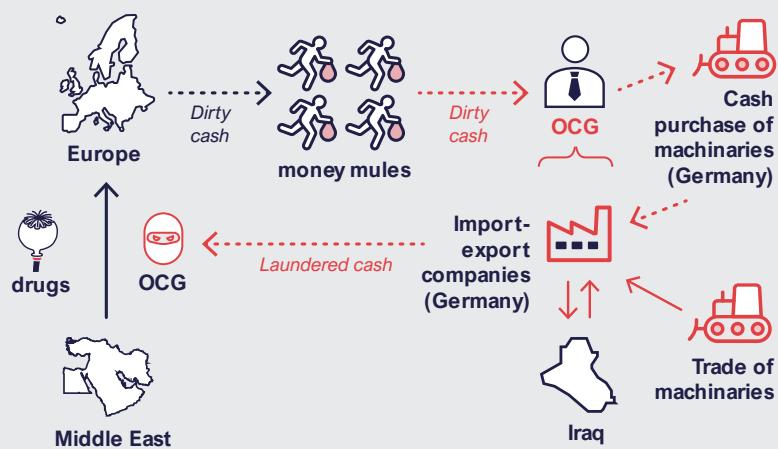
Even in 'cash-free' countries such as Sweden, infiltrated businesses hold **parallel off-the-record cash accounts** that are used to:

- pay illegal workers (e.g., the BETA and GAMMA cases)
- carry out false invoices and payback loan schemes (e.g., GAMMA, OMICRON, RHO and SIGMA), in which 'provider' companies pay back 'customer' firms through illegal cash transactions
- create black funds for corruptive and other illegal purposes (e.g., DELTA, ZETA, KAPPA, NU, RHO and SIGMA)

This means that infiltrated businesses would report, on average, **lower bank accounts and cash & equivalents** in their balance sheets than legal companies, because all the necessary cash would be kept off the record. This hypothesis is proven both in the **macro analysis** (Section 4.1), where we show that the EU regions with lower business cash ratios are those with the largest irregular economy, and in the **micro analysis** (Chapter 5). In the latter, we demonstrate that infiltrated companies, despite having greater current assets, do not have higher cash equivalents for the reason illustrated above and also because reducing the volume of the firms' bank accounts would mitigate the effects of confiscation.

### Case ZETA: drug trafficking, excavators and trade-based money laundering

An Iraqi OCG based in Germany provided money laundering services to other drug trafficking groups. The OCG collected proceeds in Europe through money mules. Then, it purchased in cash second-hand machinery and excavators in Germany, exploiting the absence of cash purchase limits. The machinery was exported by infiltrated companies to Iraq, where the products were resold. The laundered money was given back to the drug traffickers (see the ZETA case, Annex A1).



9. Because it is difficult to trace, cash is also difficult to measure. Only indirect proxies (such as cash ratio, see Section 4.1) can be used. Moreover, despite being the oldest means of payment, statistics on cash use are lacking. As part of the MORE project, requests to all the EU MS central banks were issued in order to collect data on cash withdrawals at the regional level (NUTS 2): aside from Italy, no central bank was able to satisfy the request.

## Figureheads

Figureheads are widely used in SOC infiltration schemes, especially in four setups: as **formal owners** of the infiltrated businesses, as **directors**, as **employees/workers** or as **holders of bank accounts** then used in the corporate criminal scheme (e.g., the GAMMA case). In all cases, the use of straw men aims to create **formal layers** between infiltrated companies and their criminal beneficial owners.

In selecting figureheads, OCGs need to find a balance between the need to conceal themselves and the need to keep the business under control. Therefore, the type of chosen figurehead depends on the **cultural and organizational habits** of the criminal group: if Italian mafias (especially 'Ndrangheta and Cosa Nostra) are keener to keep strict control of the company, they therefore lean towards *internal* figureheads (like family members), while looser criminal networks may rely on external straw men.

This variety was represented in the MORE case studies shown aside.

It is not easy to disentangle all these shades of partnership and to understand whether an individual acted only as a **figurehead or as an active member** in the criminal scheme. In a scenario in which companies become actors themselves in SOC schemes, what is the responsibility of the company owners? The dilemma is evident in the case of Italian mafias: **while women are, on average, more than 30% of the shareholders of mafia firms, they are only 2.5% of those convicted of mafia associations**. This issue presents important implications both in legal terms and from a research point of view (for further discussion, see Berlusconi, 2016; Catino, 2018).



### FIGUREHEADS 'ON-DEMAND'

For example, **homeless or poor people** who agree to provide their identity for a few euro (e.g., the THETA case and the GAMMA case, in which a foreign citizen living on the street is brought by an OCG to Sweden to incorporate a company and several bank accounts in exchange for a few dozen euro).



### COLLUDING BUSINESSMEN

These are legal entrepreneurs who, in exchange for some **favour or economic advantage**, incorporate or manage their firms on behalf of the criminal group (e.g., the ALPHA, GAMMA, EPSILON, KAPPA, NU and OMICRON cases and many others).



### UNWITTING FIGUREHEADS

People whose identity is stolen and who unwittingly become business owners, directors and workers on behalf of OCGs. **Identity theft and document forgery** play a crucial role in this. In the IOTA case, a criminal group used the identity of the emigrated brother of one of the criminal members to incorporate a social and health-care company in Sweden and be awarded contracts by local municipalities to provide assistance to migrants.



### FAMILY MEMBERS

Relatives make ideal figureheads, especially for Italian mafias. Although not necessarily affiliates in the criminal ring, they are within the family and therefore can be easily monitored and trusted (see Chapter 5). In particular, **women (wives, daughters, fiancées, partners)** play a key role, as they are usually less suspicious than males (Soudijn, 2010). According to our analysis, female owners are almost twice as numerous in businesses confiscated from OC in Italy than in the legal economy (see Chapter 5).



### PROFESSIONALS

**Lawyers, notaries, accountants and other professionals** may provide money laundering services to OCGs. These may include the incorporation of firms on their behalf, especially when established in off-shore and secrecy jurisdictions (e.g., the EPSILON, OMICRON and PSI cases).

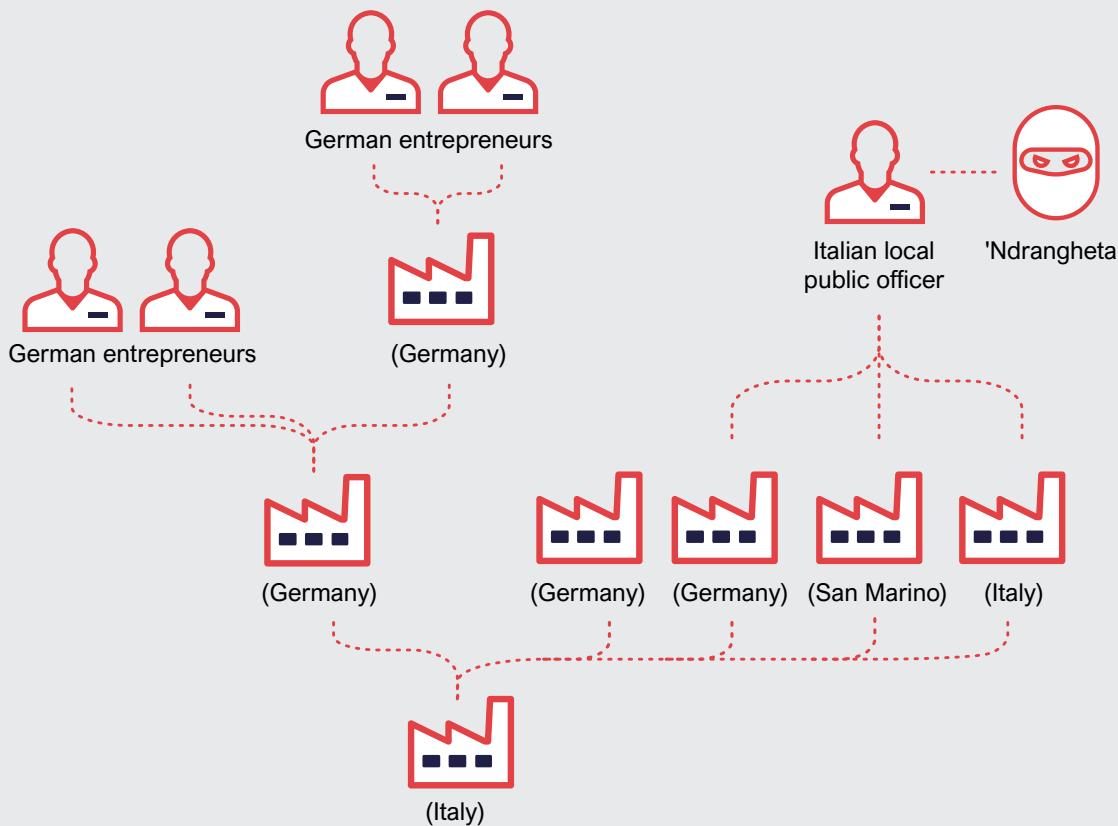
### Cases GAMMA and UPSILON: Homeless, foreign entrepreneurs and public officials as figureheads

In the GAMMA case, a criminal group infiltrated a company in Sweden by using a **foreign homeless person as a figurehead**. The man was living in a shelter for alcoholics and addicts when he was approached by a member of the criminal group who offered him 40 euro to go to Stockholm for unspecified tasks. There, he was picked up by another man and taken to the tax agency. He was registered as a resident in Sweden using forged proof of employment. After this first visit, he returned several times to Sweden where he received further fake

documents, including a new job and residential address. After the third trip, he had a Swedish ID, nine bank accounts and a company registered in his name, which was then used to set up a false invoicing scheme (see Annex A1 for details).

In the UPSILON case, the investigation by Italian authorities proved that a large wind-power plant in southern Italy was in fact funded and controlled by a 'Ndrangheta family clan. The control was carried out through the use of a set of figureheads, among them several **German**

**entrepreneurs** and an Italian individual who, despite a position as a **low-level employee of the local municipality**, had shares in some of the companies controlling the wind farm. The public official was, in fact, the brother and nephew of notorious members of the 'Ndrangheta. The investigators proved he was acting as a figurehead for the crime syndicate (Galullo, 2017). The ownership scheme was further complicated by the use of holding companies registered abroad, including in Germany and San Marino.



## Complex corporate structures

As with figureheads, criminals can also hide behind complex business ownership structures featuring:

- Numerous **interlocking links**
- ‘**Chinese boxes**’ schemes
- **Frequent changes** in company ownership, names or legal nature

All these strategies make it harder for law enforcement agencies and FIUs to conduct financial investigations and **trace the beneficial owners** of the infiltrated firms.

Intricate corporate structures are very common in **false invoicing and VAT fraud schemes** (e.g., the GAMMA, OMICRON, RHO and PSI cases) in which false or non-existing financial transactions need to be concealed.

Complex ownership schemes are even more effective when they have a **cross-border** nature, i.e., if firms are established in more than one country, and if they are combined with secrecy jurisdictions (see below). Our analysis at the *macro* level showed that **Malta** is the EU MS in which businesses have, on average, the highest ownership complexity, even ahead of countries such as Luxembourg or the Netherlands that are characterised by a high number of multinational companies (see Section 4.2).

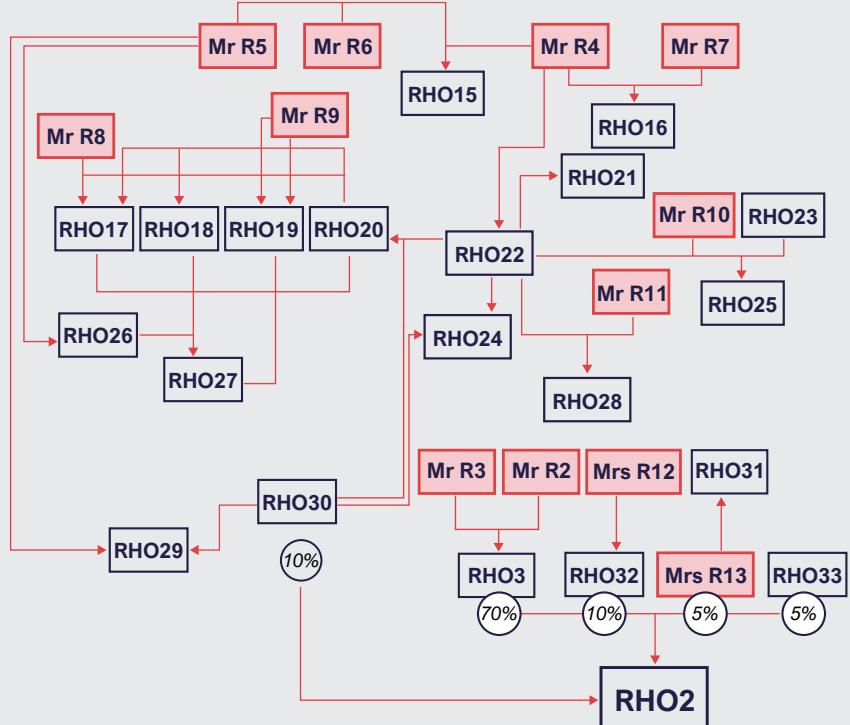
It must be stressed that formal ownership structures are not always necessary: OCGs can set up **informal corporate networks** made of firms that are not officially linked themselves with common owners or subsidiaries, but are linked in essence.

For example, these schemes can be used to manipulate public procurement in order to make bids in a **coordinated way and increase the likelihood of being awarded contracts** (Conley & Decarolis, 2016; Imhof & Karagok, 2017). Links among firms in these informal corporate networks can be seen in accounting terms as an anomalous volume of trade receivables or payables (see Chapter 5).

**Case RHO: ‘Chinese boxes’ schemes and German discounts**

In the RHO case discussed above, the OCG bribed some retail managers to obtain illicit contracts to provide logistics and security services to a supermarket firm, and at the same time systematically issued false invoices and conducted VAT fraud on a large scale.

The OCG used a complex network of firms (see figure aside), with numerous interlocking ownership links and frequent changes in registered offices, legal names, legal forms and structures. The criminals liquidated the companies when they accumulated excessive tax payables, and soon incorporated new firms replacing the previous ones (see Annex A1 for details).



## Secrecy jurisdictions

The use of countries with **low levels of financial and corporate transparency** for organised crime or money laundering purposes is well known (Does de Willebois, Van der Halter, Harrison, Park, & Sharman, 2011; FATF, 2014, 2016; van Duyne & van Koningsveld, 2017). The MORE case studies also confirm that OCGs infiltrate businesses established in these jurisdictions to make it harder to identify the actual (criminal) beneficial owner.

However, they also show that criminal groups active in Europe pay attention when going abroad and may tend to choose closer secrecy jurisdictions over notorious tax havens. Any company incorporated in the Caribbean islands or Far East countries needs spe-

cific expertise that would necessarily involve **external professionals, tax advisers and accountants**, who can also threaten the integrity and secrecy of OCGs.

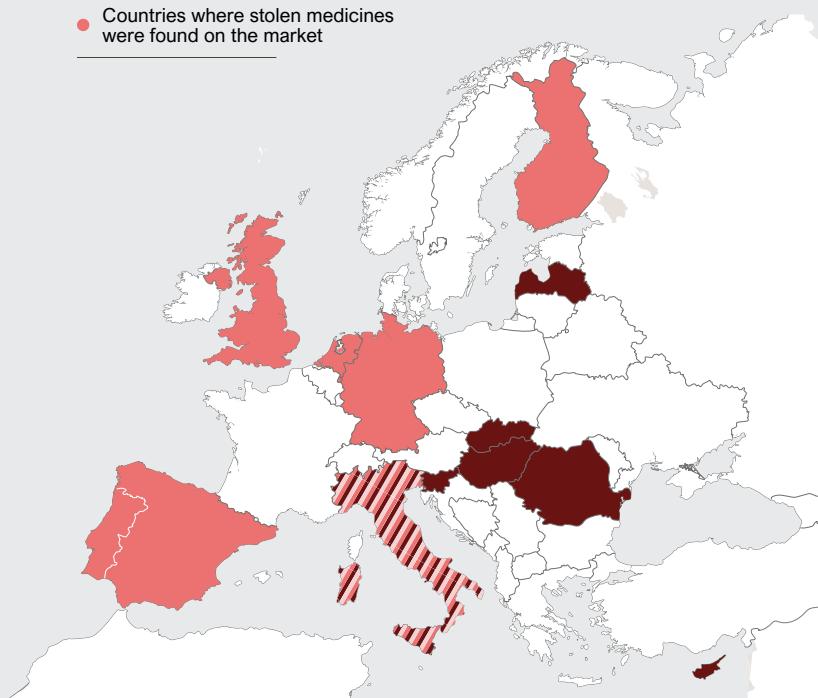
Instead, there seems to be a preference for using '**on-shore European jurisdictions**' that, according to well acknowledged measures (e.g. the Financial Secrecy Score of the Tax Justice Network), require less corporate and financial transparency. These are, for example, Eastern Europe (particularly Romania, Hungary, Slovakia and the Czech Republic), Cyprus, Malta and United Kingdom (in particular if including European crown dependencies such as Jersey, Guernsey and the Isle of Man).

All these countries have laxer corporate transparency requirements than the EU average (see Section 4.2) and are **geographically and culturally closer** than off-shore jurisdictions, with **similar languages, regulations** and (often) the **same currency**. Moreover, they may raise less suspicion than other notorious tax havens: they are part of the EU (and therefore, by definition, **not in the official list of non-cooperative jurisdictions** issued at the EU level<sup>10</sup>) and often outside of the media focus, which concentrates on the 'usual suspect' countries like Panama, the Cayman Islands or BVI (and because of successful media investigations like the *Panama Papers* or *Paradise Papers*).

### Case ALPHA: Bogus pharmaceutical wholesalers in Eastern Europe

In the ALPHA case involving 'laundering' anti-cancer medicines stolen from hospitals and trucks in Italy, an OCG used figureheads to establish a number of shell companies that acted as bogus wholesalers, issuing false invoices and fake certificates of origin for products to represent these medicines as legally purchased. The shell companies were established in a number of EU countries, namely Cyprus, Greece, Hungary, Latvia, Romania, the Slovak Republic and Slovenia, by the same individual, an Italian/Canadian entrepreneur acting as a figurehead for the OCG based in Naples, Italy. According to investigators, these jurisdictions were chosen due to their relative facilitation of company incorporation, their laxer corporate transparency systems and the option to produce invoices in a language difficult to interpret by auditing agencies (see Annex A1 for details).

- Countries where medicines were stolen
- Countries where involved pharma wholesalers are registered
- Countries where stolen medicines were found on the market



10. See the Common EU list of third-country jurisdictions for tax purposes, agreed upon by EU MSs on 5 December 2017 and subsequent amendments (European Commission, 2018)

**Case NU: Online gaming,  
shell companies, off-shore  
and on-shore countries**

In the NU case study, an OCG linked to the 'Ndrangheta established a platform providing illegal online gambling services through a widespread and complex network of gaming companies established in Italy and in several other EU MSs, including Malta, Romania, Austria and Spain. Malta, in particular, served as a business hub for the whole organisation (DNA, 2016, p. 17). The system also used licenses issued by Panama and Dutch Antilles (see Annex A1 for details).

**'Golden visas'**

A variety of EU MSs offer investor-based residence and citizenship programs (IRP and ICP) as a way to **attract affluent third-country nationals and therefore foreign capital** (see Section 4.3). However, if not accompanied by an in-depth due diligence of the applicants, these schemes may also attract criminals from third countries willing to invest and launder illicit money and interested in obtaining EU status (Transparency International, 2018). The legal status obtained might be an opportunity:

- to evade law enforcement and prosecution in the criminals' home country (Global Witness, 2018);
- to gain a second passport — and with it a new identity — so as to clean up their criminal reputation;

- to help with free movement in other EU MSs and further investments, as a sort of 'multiplier' of money laundering effects.

Various media investigations and policy reports have reported evidence of dubious investments by **Chinese and Russian individuals** facilitated by golden visa schemes (Cooper, 2016; Transparency International, 2018) in Cyprus (Farolfi et al., 2018; Schultz, 2018) and in some Eastern European countries such as the Czech Republic and Hungary, where it was signalled the use of document forgery to obtain illicitly residency/citizenship (Ministry of the Interior, 2015, 2016).

**“**

**These schemes may also attract criminals from third countries willing to invest and launder illicit money and interested in obtaining EU status**

**”**

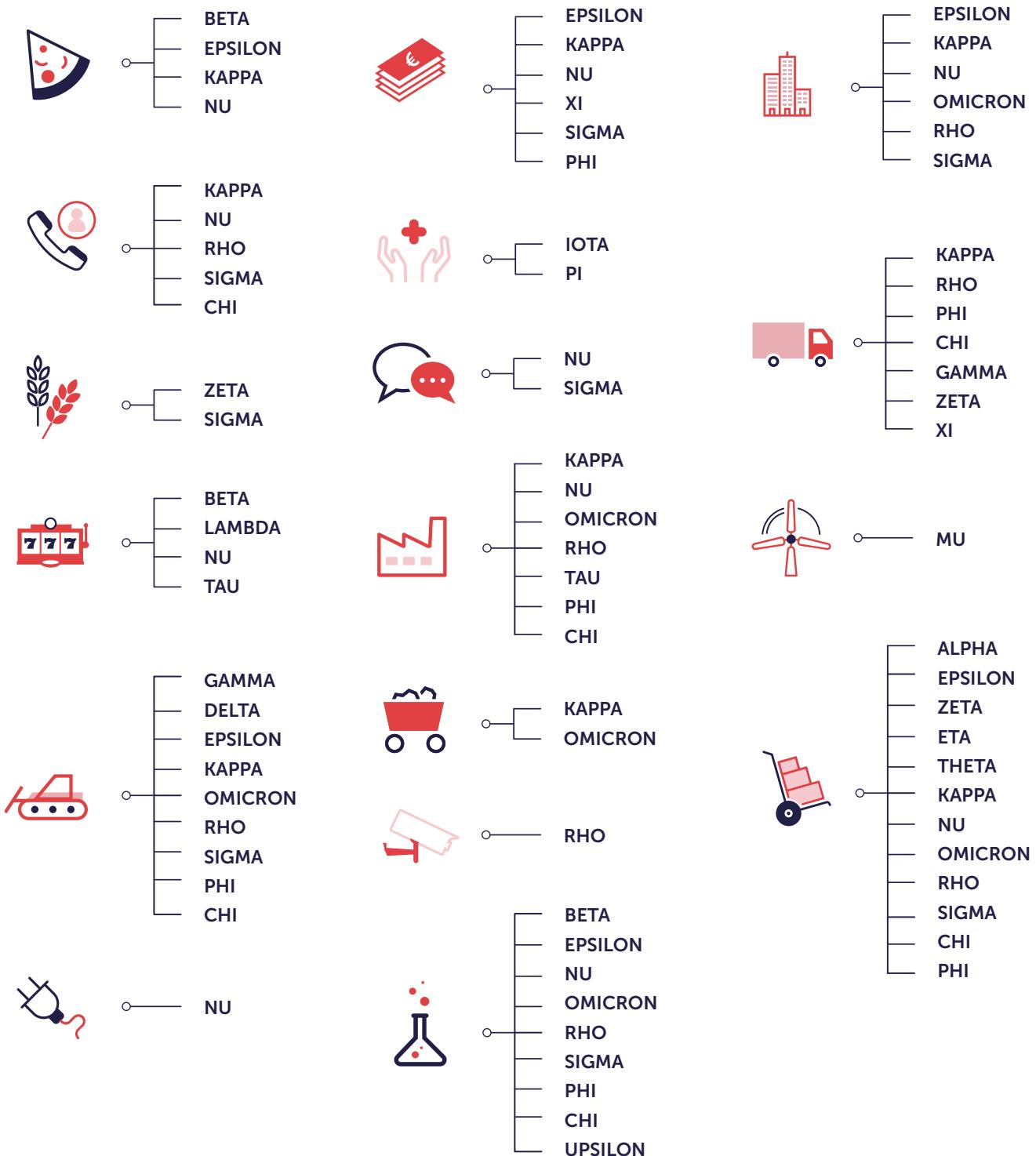
## 3.4. Business sectors

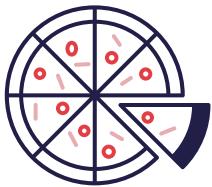
The MORE case studies reveal the wide variety of business sectors tar-

geted by SOC infiltration. The industries involved in the 24 cases analysed

in depth are listed in the figure. Comments are provided below on the most frequently used sectors.

**Figure 3 – Business sectors of infiltration in the MORE cases**





## Bars, restaurants and hotels

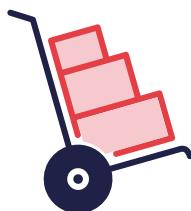
Bars, cafés, pizzerias, clubs, kebab shops and fast food outlets are **cash-intensive businesses**, and for this reason commonly used to launder money by a wide variety of OCGs. They can also be used as fronts to conceal illicit activities, such as **sexual or labour exploitation** (e.g., the BETA case) in bars, restaurants and hotels (Paraskevas & Brookes, 2017) or the retail sale of illicit drugs (e.g., in the law enforcement operation *Shovel*, a number of food stalls in Spain were found to be connected to an Irish OCG involved in drug trafficking).



## Construction

Numerous MORE cases, in a number of countries and for a variety of OCGs (Table 1), include infiltrated businesses in the construction industry, thereby confirming the evidence provided by previous research in this area (Kruisbergen et al., 2015; Levi, 2015; Savona, Riccardi, & Berlusconi, 2016). The most vulnerable sub-sector is the one related to **public procurement**, where OCGs can exploit their potential for corruption and intimidation. As noted by some authors, infiltration in the building industry is more alarming than in other sectors, as it requires a higher-level capacity to connect with the local political, business and social community (Sacco, 2010; Transcrime, 2013). The relationship between bribery and construction has been highlighted by the latest EU Eurobarom-

eter: according to the survey, 79% of European companies in this sector say that **corruption is widespread** — 43% say it is ‘very widespread’ (European Commission, 2014, p. 22).



## Wholesale trade

Wholesale (to a much higher extent than retail trade) trade businesses commonly suffer SOC infiltration, especially related to concealing illicit trafficking of drugs, firearms and counterfeit and stolen goods. The following sub-sectors stand out in this regard:

- **Wholesale trade in oil products:** The evidence in this sector points to SOC infiltration aimed at smuggling stolen or illicit oil and committing excise fraud. Evidence of this traffic can be found throughout Europe — for example at the Irish border, the Eastern European border or in the south Mediterranean. An increase in this criminal activity was observed after the civil wars in North Africa and the Middle East, in particular coming from Libya after the collapse of the Gaddafi regime (L'Espresso, 2017). Infiltrated businesses active in oil smuggling often exploit the same routes and channels used for trafficking firearms and drugs and smuggling migrants — and offer legal fronts for these activities, too (see the KAPPA case).

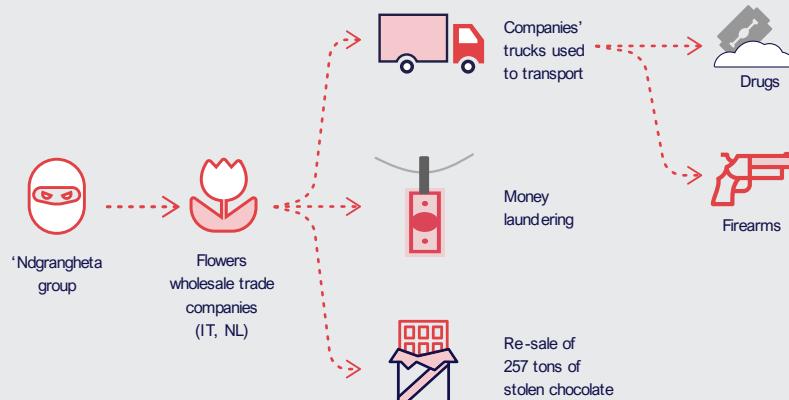


## Transportation and logistics

For the same reasons mentioned above, the transportation sector is often an ideal legitimate front for concealing illicit trafficking. **Logistics firms, shipping companies and truck rental businesses** are used by OCGs to transport drugs, arms and stolen goods or to smuggle migrants. Evidence was found in many countries and criminal organisations (see DIA, 2014; Ferwerda & Unger, 2016; Kruisbergen, Kleemans, & Kouwenberg, 2015; Palomo, Márquez, & Laguna, 2016). Two types of transport firms are infiltrated: small ones acting as **sub-contractors** and often employing irregular labour, and bigger ones using cargoes and vessels flying the flags of tax havens. According to the macro analysis, shipping companies (NACE Division H50) are the sector with the **largest number of owners** from secrecy jurisdictions

### Case ETA: Wholesale and transportation firms concealing traffic in drugs, firearms and stolen goods

An OCG linked to the Italian 'Ndrangheta set up wholesale flower companies in the Netherlands and Italy. The firms were also used to launder money and to traffic drugs and firearms to/from Italy (hidden in company lorries) and also to 'launder' several tons of Swiss chocolate stolen from a warehouse near Milan (see Annex A1 for details). Without such companies, most of these criminal activities could not have been carried out.



### Gambling/Gaming

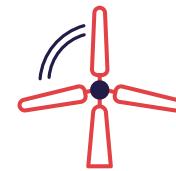
One of the business sectors with the most evidence of SOC infiltration — especially related to Italian mafias — is the gambling/gaming industry, in all its subsectors:

- Casinos
- Bingo games
- Videolottery (VLT) and slot machine stalls
- Online gaming websites

Gaming is a cash-intensive industry with increasing demand. IT developments are expanding the business opportunities as well as the vulnerabilities, given the possibility for criminals to set up servers in **secrecy jurisdictions** that make it difficult for LEAs to trace online transactions. The combination of IT, financial secrecy and growing demand makes this sector very attractive for OCGs (e.g., the NU case study).

As illustrated in Chapter 6, **Malta** is specialising as a preferred location for firms active in this sector (NACE divisions R92, R90 and R93). Thanks to its tax and management incentives, Malta has attracted a number of entrepreneurs in this area, with one of the largest number of B2B gaming licences in the EU28. However, despite the strict controls of the local supervisory authorities, some OCGs were able to infiltrate Maltese firms active in this sector, as documented by the number of investigations (see Chapter 6 for details).

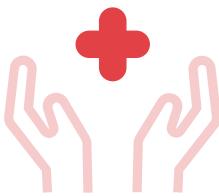
SOC control of gambling firms may also benefit from infiltration in the sports industry (e.g., the LAMBDA and TAU cases) because **match fixing** can multiply the illegal earnings by criminal groups.



### Environment, Waste management and Renewable energy

The MORE cases also demonstrate OCG interest in environmental businesses. Criminal groups infiltrate **waste management** firms for several reasons: a) they may act as 'service providers', offering other entrepreneurs **illegal disposal** of their waste residuals; and b) they may benefit from public contracts obtained illicitly from local authorities. Cases of SOC infiltration in this industry can be found in Italy, France, Romania and outside Europe e.g., in Canada (Savona & Riccardi, 2015). In the MU case, a criminal group was suspected of laundering illicit proceeds from Cosa Nostra in environmental firms managing a landfill in Romania, one of the biggest in Europe (see Annex A1 for details).

The **renewable energy** sector (especially wind, solar and biomass) is also attracting OC investments: the availability of large public subsidies, ample EU funds and the economies of scale in construction and public procurement make the sector vulnerable (e.g., the UPSILON case). Cases of fraud involving public funds and VAT scams have been observed in this sector.



## Social and Healthcare

SOC infiltration in social services and healthcare is usually aimed at committing **welfare fraud** and **insurance fraud** (see, for example, the IOTA and PI cases, as well as Skinnari, Korsell, and Rönnblom, 2016). In recent years, infiltration of social care also increased as a result of the refugee crisis, which opened huge business opportunities for firms performing **assistance to migrants** (see Section 3.1 and the IOTA case).



## Private security

Finally, a sector that is raising concerns is the private security industry. Evidence of SOC infiltration in this sector can be found:

- in Italy, both related to **Italian mafias** and other OC groups (see, for example, the RHO case, and Chapter 6)
- in Finland, Sweden, the Netherlands and Germany, with **biker gangs** (Petrell and Houtsonen 2016; Boeselager 2016)
- in France, with **Russian and Balkan OCGs** (SIRASCO, 2013; Riccardi and Camerini, 2016)
- in the United Kingdom, with security firms suspected of being controlled by local **British OC members** (Campana & Varese, 2018)

When infiltrating the private security industry, OCGs can **legitimise and sell on the legal market their criminal reputation** as organisations able to keep order using violence. Paradoxically, the more powerful OCGs are in the territory, the more their services as bouncers, guardians or security officers would be trusted (see the case below).

Concerns about private security firms also arise from their involvement in some EU countries, especially Eastern European ones, in the **management of migration flows**, which — as mentioned — is also attracting OCGs because of the related business opportunities (e.g., management of reception centres, residential care, etc.). The refugee crisis and the fear of terrorist attacks has increased the demand for private contractors and strengthened the relationship between these private firms and public LEAs (The Economist, 2016), creating an opportunity for OCGs willing to get closer to public authorities.

### Organised crime and links to private security firms in north-western England

An array of security firms active in the greater Manchester area was suspected of being under the beneficial ownership of a notorious British gangster nicknamed 'Mr Big' who was killed in 2015 amidst gang clashes. The OC mobster had been involved in several criminal activities (including attempted murder) and was also suspected of having set up private security companies through figureheads (Campana & Varese, 2018). These provided guardianship and bouncer services to public and private clients, while helping the OCG to launder illicit proceeds — although ML accusations have never been formally filed against him. These companies remained active after the man's murder (The Guardian, 2015).

While the mentioned sectors represent well-known targeted industries, others have been highlighted by European LEAs as particularly vulnerable. For example, **money transfer businesses** and **currency exchange services** see various evidence of infiltration. They play a key role when transferring illicit proceeds abroad (see e.g. case ZETA) or when exchanging crime revenues in high denomination banknotes (see e.g. case XI).

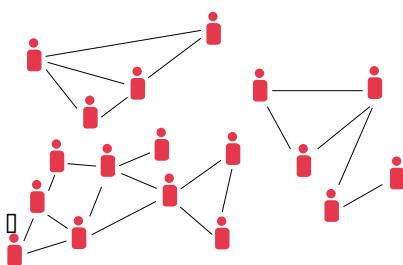
## 3.5. Actors

### The current scenario of OCGs in Europe

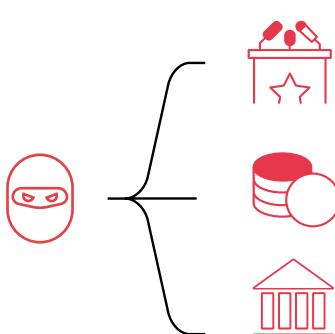
The analysis of MORE cases and of other collected evidence demonstrated that SOC infiltration involves a multitude of criminal groups and networks. As highlighted by previous studies, OCGs in Europe range from **large hierarchical organisations** to **smaller criminal groups and loose networks** (Europol, 2017c, 2013; Savona & Riccardi, 2015). These actors co-exist and often cooperate and recombine in a flexible way.

Generally speaking, two main trends on OCGs in Europe can be observed:

#### Fragmentation



#### Submersion



#### 1. Fragmentation

Europol's latest SOCTA reported an **increase in OCGs** from 3,600 in 2013 to 5,000 OCGs in 2017. Although the 'count' of OCGs varies depending on how OC is defined and classified — e.g., the NCA officially reports 4,629 OCGs in the UK alone (NCA, 2018) — the growth of criminal groups can be interpreted as "the emergence of **smaller criminal networks**" (Europol, 2017, p.14), especially in criminal markets related to the Internet or in activities such as fraud or cybercrime.

Fragmentation of OCGs also takes the form of an **increase of gangs**. In recent months, violent street gangs of young people active in criminal markets (drugs in particular) emerged in several EU regions (such as the urban areas of **London, Paris and Naples**).<sup>11</sup> Although our knowledge of these groups is still very weak, they appear to be closer to 'American-style' street gangs than to traditional criminal organisations, although they can still be recognised as profit-oriented (mainly in drug markets) and keen to control the territory where they are active (see Varese, 2018 for an interesting discussion on gangs in London). In this respect, it is interesting to note that gangs have also emerged in areas where the presence of mafia groups was historically strong, such as Naples, somehow filling the void left by traditional Camorra organisations (see Chapter 6).

#### 2. Submersion

This is another, somehow opposite, trend. Some traditional OCGs, including mafia-type organisations, are progressively shifting from **subversion and violence** in favour of a **submersion** strategy aimed at expanding OCG power in a more understated manner, for example through:

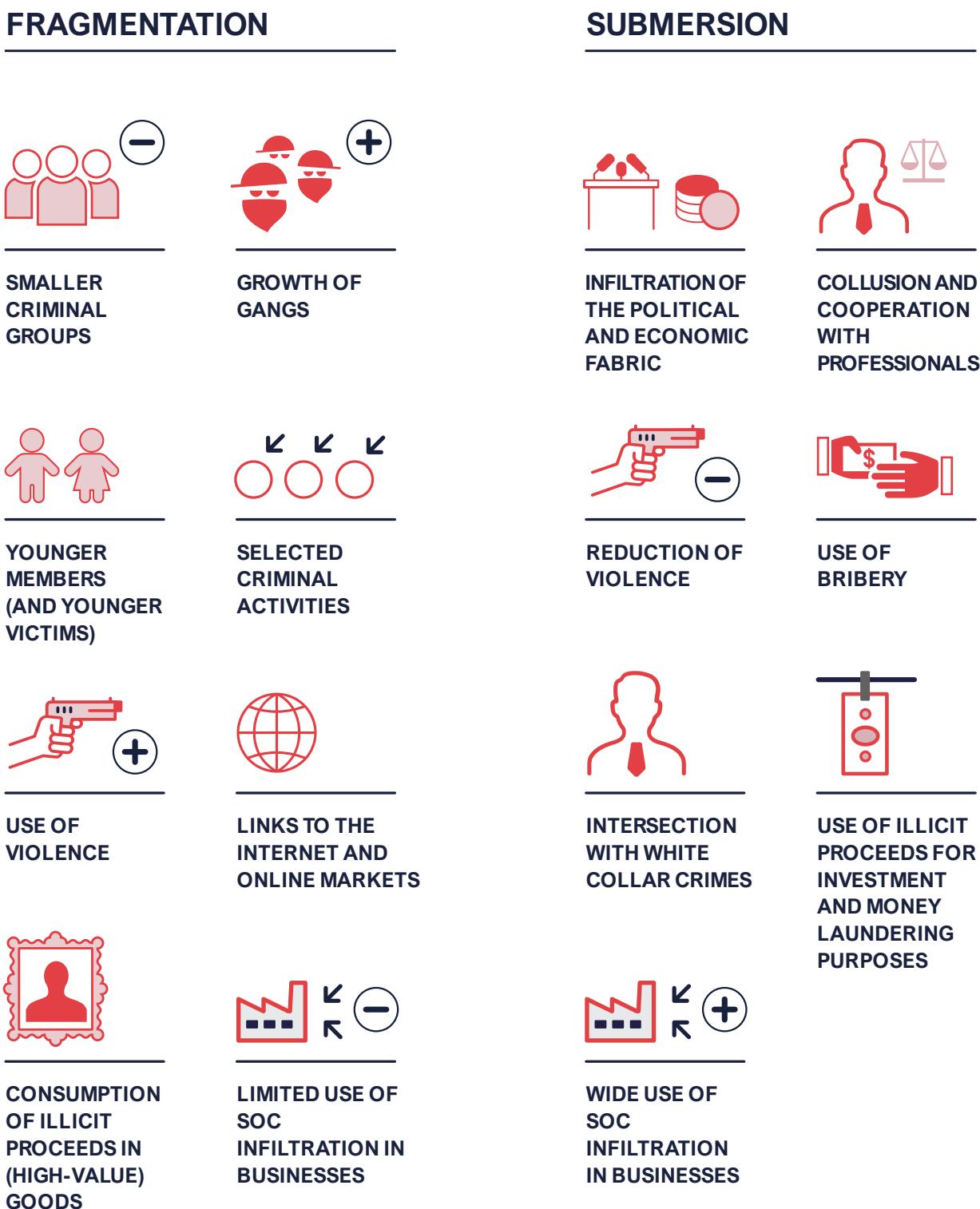
- Infiltration of the political and economic fabric
- Collusion and cooperation with professionals, public officers, facilitators, brokers and entrepreneurs
- Use of bribery and trade in influence (including political and electoral exchanges) instead of violence

As discussed in Sections 3.1, 3.2 and 3.3, **infiltration of legitimate businesses** plays a key role in this scenario. OCGs infiltrating firms can more easily connect with economic and political actors and expand their influence and power network. As entrepreneurs, criminals can more easily stay off the radar of law enforcement.

The submersion of OC in the legal economy also narrows the gap between **black markets and legal markets**: as observed, infiltrated businesses may benefit from the support of legal entrepreneurs, and at the same time provide criminal services to legal firms (e.g., false invoicing, illicit waste management or debt recovery). Not surprisingly, in the analysed cases, OC groups are found to be frequently involved in 'petty' **white collar crimes**.

11. In London, this has led to an increase in violence and murders. Clashes between young street gangs led to a rapid surge of homicides, with 80 killings in the first 6 months of 2018.

Figure 4 - Two trends in European OCGs : Fragmentation and submersion



## Actors in SOC infiltration

With this scenario in the background, it is difficult to create clear-cut profiles of the OC actors involved in SOC infiltration schemes. The **multi-ethnic nature** of criminal groups in Europe (Europol, 2013, 2017c) further complicates this exercise. Focusing on the best known and acknowledged criminal organisations, the following evidence can be provided.

### Italian mafias

Infiltration of legitimate businesses by Italian mafias — mainly **Cosa Nostra, Camorra and 'Ndrangheta** — is well known in Italy (see Chapter 6) and abroad. While some countries are used to establish shell companies with little or no real productive activity, in others the presence and infiltration of mafias is more established (see box p.59).

In **Spain**, Camorra groups invested in restaurants and the wholesale trade of food products as well as the building industry (e.g., see the operation *Laurel* involving Camorra investments in the construction of a real estate and tourist resort). Evidence was also found of involvement by 'Ndrangheta (see, for example, the EPSILON case, Annex A1) and Cosa Nostra (Palomo, Márquez, & Laguna, 2016; Transcrime, 2013).

In the **Netherlands** and **Germany**, a key role is played by 'Ndrangheta groups, for example, in the wholesale trade sector and logistics (e.g., the ETA case) as well as in restaurants (e.g., the *Stige/Styx* and *Meltemi/Safran* operations; see Chapter 6), construction and real estate. **France**, especially the PACA region, sees signs of infiltration by 'Ndrangheta in real estate and public works (Riccardi & Camerini, 2016; SIRASCO, 2013)

**Malta** frequently figures in investigations targeting Italian mafia infiltration in the **gambling sector**: the island was occasionally used as a hub by entrepreneurs linked to 'Ndrangheta, Cosa Nostra and Camorra to manage illegal gaming platforms or to establish shell companies in this industry (see the NU case and Chapter 6 for more investigations). Also, **Cyprus** is mentioned regarding the incorporation of shell companies (e.g., the ALPHA case).

A new area of expansion of mafia infiltration is **Eastern Europe**: for example, Romania has seen entrepreneurs linked to Cosa Nostra (e.g., the MU case), Camorra (Saintourens, 2018) and 'Ndrangheta (e.g., the NU and OMICRON cases). Evidence was also found in Hungary, Slovenia (e.g., the ALPHA case) and Slovakia, where on-going investigation is revealing the economic interest of entrepreneurs suspected of connections with 'Ndrangheta in the agricultural, environmental and renewable energy industries (Kuciak, OCCRP, & IRPI, 2018).

### Russian-speaking OCGs

Much attention is being paid to '**suspicious' investments by Russian entrepreneurs** all over Europe, especially in the real estate sector of large metropolitan areas (London, Berlin and Paris). It is not always easy, however, to detect a direct link between these individuals and Russian-speaking OCGs (including 'thieves in law' or *vory v zakone* groups).

Evidence of infiltration can be found, for example, in **Spain** and **Portugal** in the football sector (the LAMBDA and TAU cases) and in real estate, bars, restaurants and gas stations in Spain (Palomo, Márquez, & Laguna, 2016). In recent years, several operations conducted by Spanish authorities against Russian OCGs were carried out, like the *Clotilde*, *Troika* and *Oligarkh* operations.

In **France**, cases of infiltration in the real estate sector in Paris and the PACA region were reported (Gendarmerie Nationale-STRJD, 2013), while in **Germany** the cases were concentrated in real estate and the healthcare sector (see Chapter 6 for details). In **Italy**, local police authorities highlight the risk of money laundering by Russian-speaking OCGs in the real estate and hotel sector in tourist locations on the *Riviera Romagnola* (see DIA, 2017a, p.186) and in the logistics sector in Apulia.

In the **United Kingdom**, concerns focus on the real estate sector, with several reports pointing out the role of London as a 'laundromat' for Russian criminals, although the link between these individuals and criminal syndicates is not always clear (Transparency International UK, 2015). Some media reports stress the role of **Cyprus** as a hub for Russians willing to set up paper companies to further invest in other European states, which is also facilitated by 'golden visa' schemes (see Section 4.3 and Chapter 6).

### South-eastern European OCGs

Criminal groups from **Romania, Bulgaria and the Western Balkans** are well known for their activity in **criminal markets** such as drug trafficking, firearms trafficking, human smuggling and organised property crime. But information about their investments in legitimate businesses is weak — both in 'home' countries and abroad. It is unclear if the lack of cases is due to weak intelligence and investigation or because these groups tend to carry out more basic laundering strategies such as the purchase (in cash) of (high-value) consumption goods.

Evidence was found of the infiltration of **Bulgarian-speaking OCGs** into businesses in Romania, Bulgaria and Cyprus (e.g., the THETA case), of **Serbian OCGs** (in particular the Šarić's group) in the Czech Republic (Ministry of the Interior, 2016; Transcrime, 2015) and of other local groups in several former Yugoslavian countries. The most complete study of SOC infiltration in the Balkans focused on Slovenia (Meško et al., 2015; Slak, Modic, Eman, & Ažman, 2016) and provided evidence of investments in bars, restaurants, clubs and transportation companies (see also the BETA case).

#### Outlaw motorcycle gangs

Outlaw motorcycle gangs (OMCGs) represent an **emerging OC threat** in Europe. Their number has doubled in the last ten years and even tripled in some countries (e.g., Germany; see Chapter 6). OMCGs are also very active in legitimate businesses: their economic interests span countries and business sectors. Although they are particularly active in **Scandinavia and Northern Europe**, current evidence of infiltration can also be found in other EU MSs such as Germany, the Netherlands and Spain.

The traditional sectors for infiltration are the businesses that are 'culturally close' to bikers: e.g., **tattoo shops, sex shops and clubs**. Links can be found to the **private security industry**, as in Finland (Petrell & Houtsonen, 2016), Germany (Boeselager 2016; see also Chapter 6) and the Netherlands (Ferwerda & Kleemans, 2018). However, infiltration has also shifted to sectors financed by public resources such as **construction and social care** in Finland (Petrell & Houtsonen, 2016) and Sweden (see Chapter 6 and the GAMMA and IOTA cases). In 2013 in Spain, the large-scale **operation Casablanca** targeted a Hells Angels motorcycle gang planning to invest in an F1 circuit to be built on the island of Mallorca (Burgen, 2013).

#### Chinese OCGs

According to various authors, Chinese-speaking criminal groups are, along with Italian mafias, the most active in terms of infiltration into the legal economy. As reported by a Chinese cooperating witness in Italy, "everybody here have a white head and a black head", meaning that groups are active both in **criminal markets and legal ones** (Becucci, 2017, p. 14).

“  
**Everybody  
here have a  
white head  
and a black  
head**  
”

Not necessarily related to Chinese Triads, Chinese-speaking OCGs are active in a variety of sectors including **bars, restaurants, wholesale trade and logistics and massage parlours**, for example in France (Riccardi & Camerini, 2016), Spain (Palomo, Márquez, & Laguna, 2016) and Italy (Becucci, 2013; Becucci & Carchedi, 2016). In those countries, they are able to establish business partnerships with local entrepreneurs, public officials and professionals and even enter into joint ventures with firms controlled by other OCGs (e.g., Camorra in Italy).

In recent years, several large-scale operations conducted by European LEAs against Chinese OCGs have revealed their ability to infiltrate the legal economy: in Spain, **operation Emperador** dismantled a complex corporate scheme through which a Chinese OCG was laundering money and evad-

ing taxes on an industrial scale, leading to the largest cash seizure ever in the country: 10 million euro in one day (Europol, 2015b, p. 16). An even bigger investigation — **operation Snake** — dismantled a Chinese criminal organization that provided money laundering services from Spain through corporate and banking networks to other criminal groups operating in various EU MSs, including Belgium, France, Italy, the Netherlands, Portugal and the United Kingdom (Europol, 2015d).

In Italy, operations **Qian Liu** and **Qian Ba I and II**, conducted by the Guardia di Finanza between 2010 and 2012, discovered a galaxy of businesses controlled by Chinese groups operating in Italy, through which they transferred to China an estimated 4.5 billion euro in illicit proceeds (Tribunale di Firenze, 2010, 2011, 2012). Finally, last January, the Italian anti-mafia prosecutors' office carried out the **Chinatruck** investigation of a Chinese-speaking group based in Tuscany. Although some of the charges (including that of mafia association) were rejected during the trial, the operation revealed the group's economic interests in many sectors, including an almost monopolistic control of transportation companies active in the delivery of Chinese goods across several EU countries (Carolan, 2018).

Usually, legal firms are used by Chinese OCGs as fronts to conceal criminal activities such as tax evasion, labour exploitation, sexual exploitation and the manufacture and sale of counterfeit goods. A typical modus operandi seen in Italy requires Chinese entrepreneurs to **shut down legal firms a few months after incorporation** (usually between 6 and 24 months after), leaving significant tax payables but staying off the radar of the tax agency, immediately re-opening the business using different legal forms and different figureheads (Becucci, 2017, p. 24).

### Box - Italian mafia presence and infiltration in European countries

The first systematic mapping of the presence of Italian mafias abroad was conducted by Transcrime in 2013 using the references for foreign countries included in the annual reports of the Italian Anti-mafia prosecutors' office (DNA) and in the half-yearly reports of the Italian Anti-mafia Police directorate (DIA) (Calderoni, Berlusconi, Garofalo, Giommoni, & Sarno, 2015). Although DNA and DIA

only highlight the main operations carried out, and do not report the universe of actions undertaken against Italian mafias (both in Italy and abroad), these documents provide a good proxy of where mafias are active, what they are doing and for what purpose.

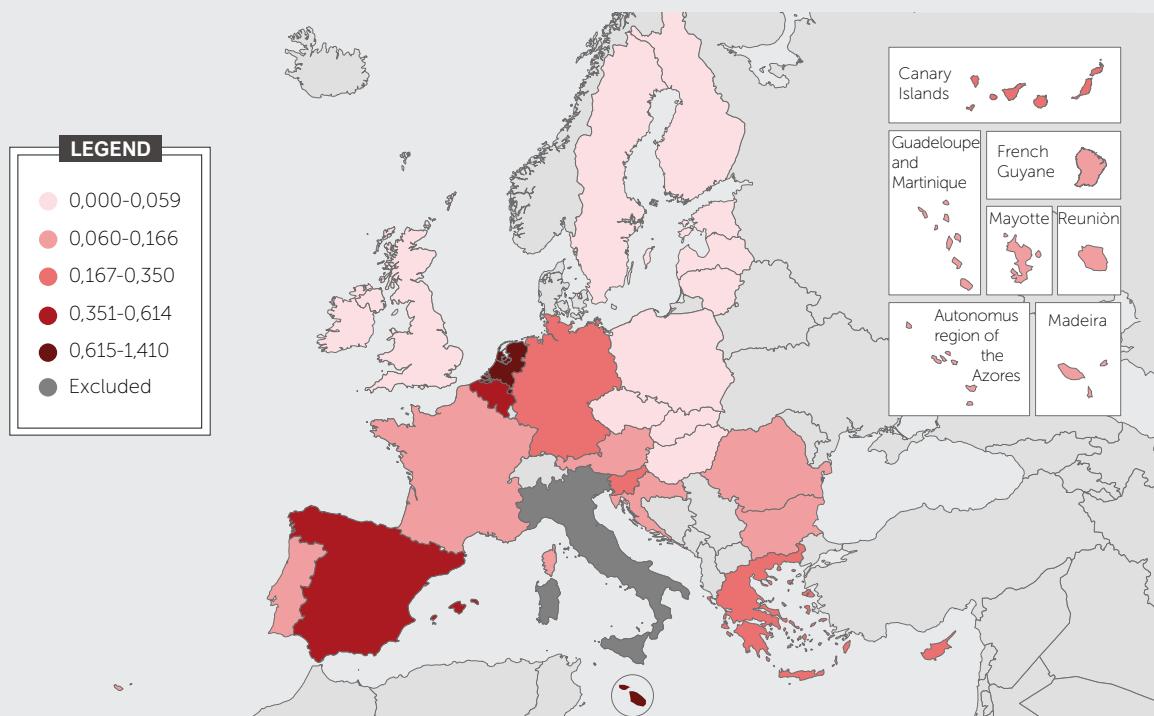
The update on this exercise, with coverage of the DIA/DNA reports between 2000 and 2016

(first six months), we provide the map below, where the volume of references in each country has been weighted on the national population.

While Spain, Germany and the Netherlands rank highest in terms of the number of mentions in DIA/DNA reports, Malta, Luxembourg and the Netherlands rank higher if the number of references is weighted by the local population.

#### Italian mafia presence across EU MS – Weighted on local population

Source: Transcrime elaboration of DIA/DNA reports. Years 2000-2016 (1st six months)



#### Number of references – Top 7 EU MSs

Spain
Germany
The Netherlands
France
Belgium
United Kingdom
Romania

#### Number of references weighted by population – Top 7 EU MSs

Malta
Luxembourg
The Netherlands
Spain
Belgium
Cyprus
Germany



# 4



## RISK FACTORS AT THE *MACRO* LEVEL

The analysis of sentinel crimes and *modi infiltrandi* across MORE case studies reveals some **key risk factors** of SOC infiltration. Adopting the risk-assessment taxonomy of the Financial Action Task Force (FATF, 2013), they can be classified as **threats** and **vulnerabilities**.

This chapter aims at mapping how these risk factors vary across **EU countries, regions and business sectors**. Focus is posed on vulnerabilities, which

appear to be the most relevant as enablers of the SOC infiltration process.

Moreover, available data do not allow to provide a comprehensive analysis of threats, and in particular of tax evasion and document forgery. **Comparable statistics** on tax crimes (harmonised across EU MS) are missing, with the exception on estimates on VAT fraud (see e.g. CASE & CPB, 2013) which constitute only a part of the problem. Docu-

ment forgery instead still represents an **underestimated and understudied** phenomenon: while administrative data do not provide a reliable picture, in-depth studies of this crime are not available.

Some analysis of **corruption** and the **irregular economy** (and undeclared labour) will be instead provided, in particular their relationship with the use of cash will be in-depth explored (see Section 4.1).

## Threats

They are the most frequent predicate offences recurrent as *sentinel crimes* across cases:



### Corruption



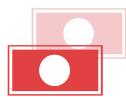
### Tax evasion



### Document forgery

## Vulnerabilities

They are factors at social, economic and financial level which allow SOC infiltration to happen:



### Cash-intensity



### Opacity and complexity of business ownership



### 'Golden visas'

## 4.1.Cash intensity and the underground economy

Benj  m  n Vill  nyi, Universit   Cattolica del Sacro Cuore-Transcrime

### Cash usage

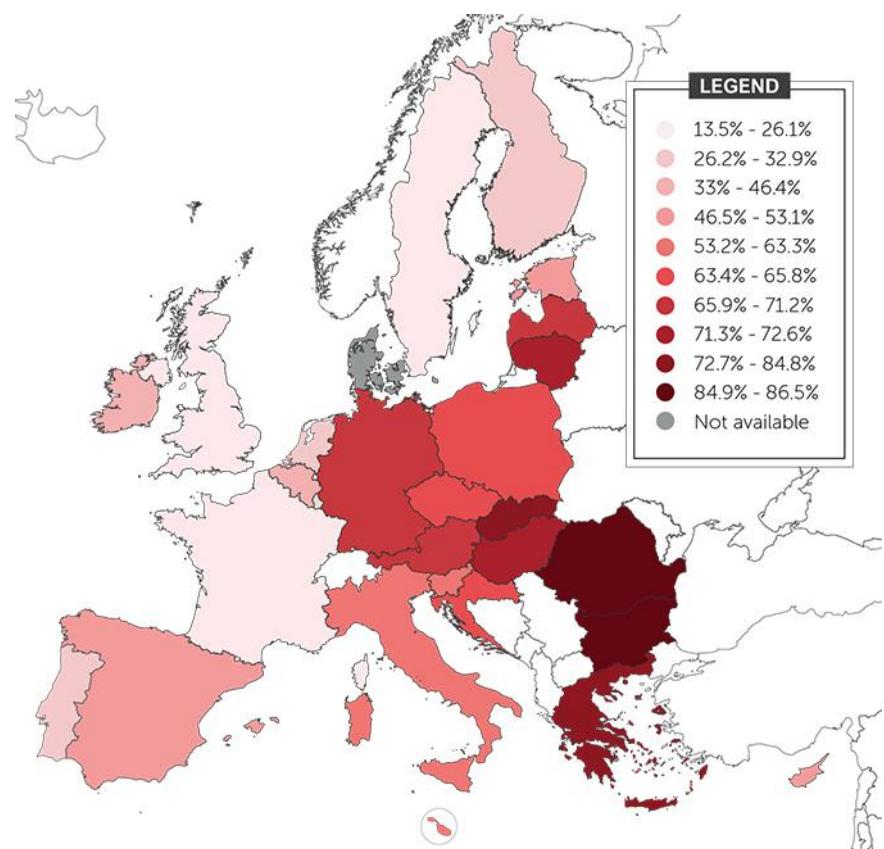
The use of physical cash is one of the major risk factors that facilitates the laundering of illicit revenues, especially during the integration phase, when these revenues are converted to seemingly legitimate funds using infiltrated companies (van Duyne, 2003, p. 79). In contrast with bank cards and wire transfers, cash is **anonymous and untraceable**, and therefore it can be used by people who would like to hide their activities for criminal reasons.

In recent years, payments at POS terminals have been increasing steadily in almost all EU member states, while in the last 3-4 years the nominal amount of withdrawn cash has started to decline in some more developed countries like Sweden, Finland and Belgium, according to ECB statistics. Despite the general trend, **Eastern European countries** continue having less developed cashless payment systems, whereas **Germany and Austria** are traditionally attached to cash usage, which still plays an important role in their everyday economic activities.

Figure 5 illustrates the cash intensiveness of the EU member states. The map shows a **proxy for the cash ratio**, cash payments as a fraction of the total amount of daily payments using all payment methods. In particular, the ratio of ATM withdrawals divided by the sum of all ATM withdrawals and POS payments was calculated (Ardizzi & Iachini, 2013, p.16; Sisak, 2011, p.14; Transcrime, 2017, p.56). It is a very transparent, comparable and easily available measure across EU countries, although it does not consider hoarding, bank transfers and certain decreasingly used payment methods (e.g., cheques, OTC withdrawals).

**Figure 5 - Cash ratio – ATM cash withdrawals divided by the sum of ATM cash withdrawals and POS payments (2016)**

Source: Transcrime elaboration of ECB data



The highest cash ratio in 2016 could be observed in **Bulgaria (86%)**, **Romania and Greece (85%)**, while the lowest ones were in **Sweden (13%)** and the **United Kingdom (22%)**. It is noteworthy that in many more developed countries (e.g., Sweden, Finland, Netherlands, Belgium) the nominal value of ATM cash withdrawals started to decrease around 2014.

Although high cash usage is not a sufficient condition to increase the shad-

ow economy, both the EU (see the 4th Anti-Money Laundering Directive<sup>12</sup> [AMLD] and the 5th AMLD, currently in progress) and certain individual member states have initiated **regulations to reduce the use of cash** in order to tackle money laundering, terrorist financing and other illicit activities. These interventions can be grouped into three main categories:

- Maximum banknotes denomination
- cross-border cash movements
- cash payment limits

12. Directive (EU) 2015/849 came into force on 26 June 2017.

In May 2016, the European Central Bank decided to **discontinue the production of the 500 euro banknote** at the end of 2018 due to “concerns that this banknote could facilitate illicit activities”. However, the banknotes already issued will remain legal tender (European Central Bank, 2016). Moreover, the EU set a **10,000 euro limit** on free cross-border cash movement in Regulation 1889/2005. Above this threshold, all natural persons have to declare to the border control authorities the amount they are carrying (Riccardi & Levi, 2018).

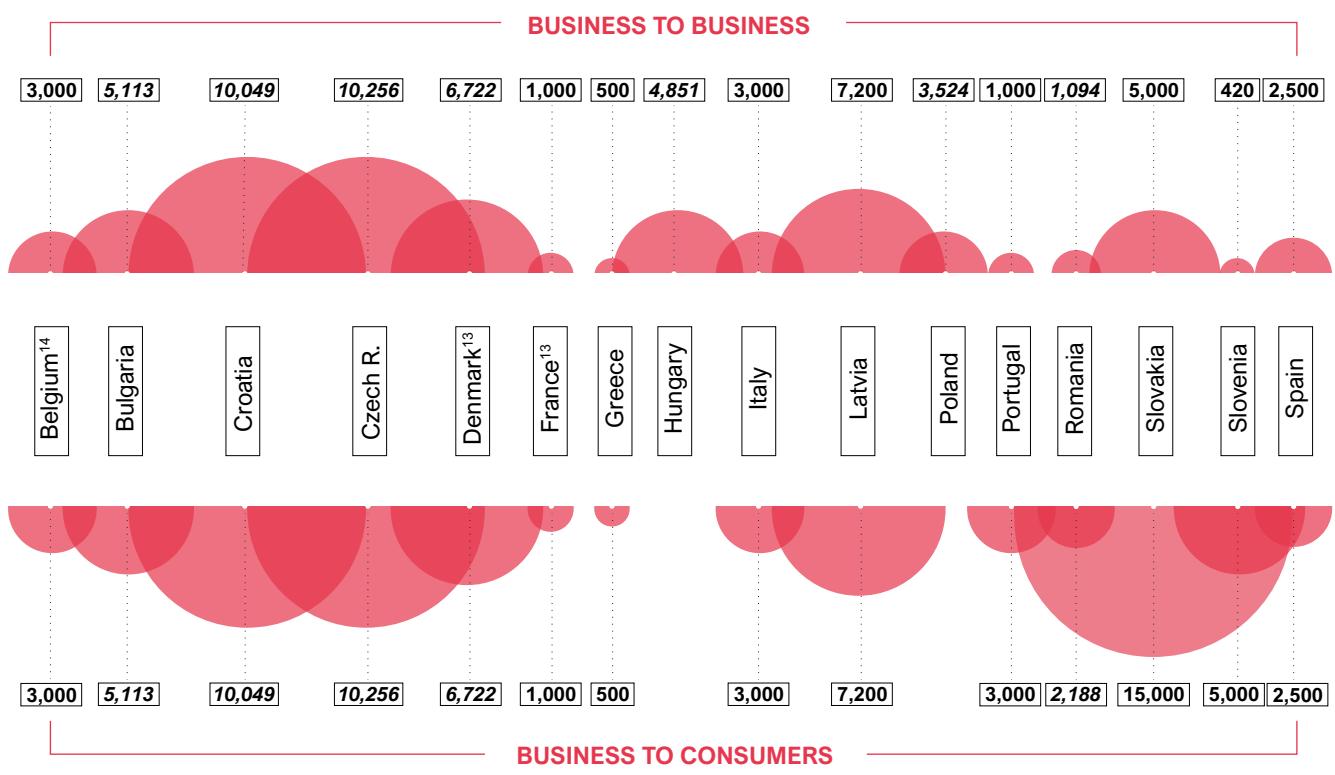
The situation is **more fragmented regarding cash payment regulations** (Table 2). Most Eastern and Southern European countries have limited the maximum amount of cash payments among businesses and between consumers and businesses. Many people in other countries, such as in Sweden (see the *Kontantupproret* movement, for example) consider such rules to be a limitation of the legal tender or other fundamental rights, and a similar attitude is typical in Germany and Austria, as mentioned (Bild, 2016; Mai, 2016).

As a result, a variety of limits exist, ranging from **420 euro** (Slovenia, B2B) to **15,000 euro** (Slovakia, B2C), while **12 EU MS still do not have maximum thresholds in place**. This diversity can facilitate displacement effects among OCGs, who may decide to incorporate businesses exactly in those countries where cash-payments and cash-purchases (especially of high value goods) are much easier (see box below).

**Figure 6 - Cash payment limits in euro**

Source: Transcrime elaboration of open sources

Figures in italics refer to the euro equivalent based on the average 2017 rate.



13. Certain exceptions apply for real estate or wages, while there is joint responsibility of the buyer and the seller above 10,000 kr in Denmark.

14. The name has to be revealed above €10,000.

### Case ZETA: Drug trafficking, cash-smuggling and OC infiltration in import/export businesses

The case study ZETA (see Annex A1 for details) provides a nice example of how cash facilitates illicit trade and OC infiltration of legitimate businesses. An OCG active in the trafficking of drugs from the Middle East to Europe relied on the services provided by another OCG, mainly made of Iraqi nationals active in Germany, which: a) using money mules, smuggled illicit cash, the proceeds of drug sales, from Spain, the Netherlands and other EU countries to Germany; b) with the illicit cash in Germany it acquired, thanks to the lack of cash purchase limits, machinery, excavators and expensive second hand vehicles; c) by setting up and infiltrating legitimate companies in the wholesale trade sector, it exported the machinery to the Middle East (to Iraq in particular). The legitimate trade served on the one hand to launder the criminal proceeds and on the other hand as an opportunity to produce fake invoices and forged customs bills which could be used to justify the transfer of cash from one country to another by affiliates of the criminal group.

## Cash-intensive businesses

In addition to analysing cash usage in daily payments, it is also useful to take a look at the **cash intensity of legitimate European businesses**. More cash-intensive economic sectors may suggest higher vulnerability to crime infiltration. To test this hypothesis, we analysed the average structure of corporate balance sheets across the 28 EU member states, which results in some interesting patterns.

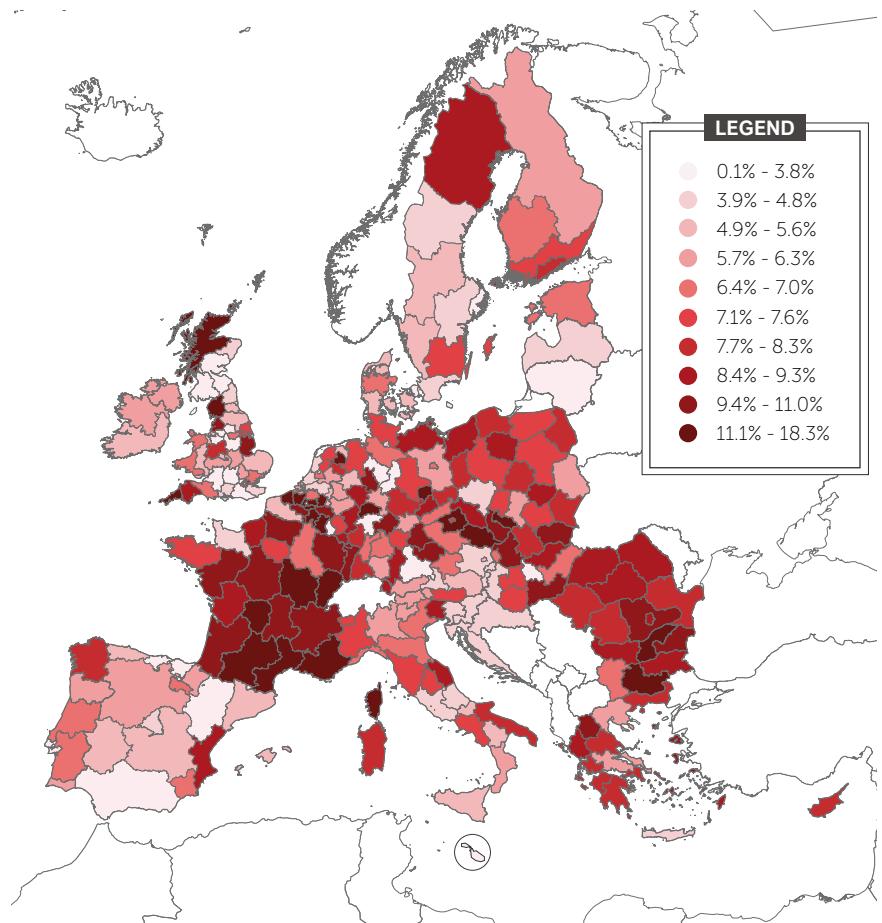
Besides fixed assets like real estate and machinery, firms need more currency assets for their activities, especially cash, either in physical form or in a bank account. **A regular cash flow is**

**necessary to pay workers and suppliers**, and even though its level may not be the same in different economic sectors and countries, a high variance may raise concerns. For the analysis, the mean **ratios of cash equivalents on total assets** were considered in a given sector and region using firm-level data from Bureau van Dijk (BvD), a business intelligence provider.

In Figure 7, one can observe a quite **remarkable variance in this cash level among the European regions**, even in the same country. Since the different weight of business sectors in each country may influence the results, we focussed on selected industries.

**Figure 7 - Cash equivalents divided by total assets – All sectors (2015)**

Source: Transcrime elaboration of BvD data



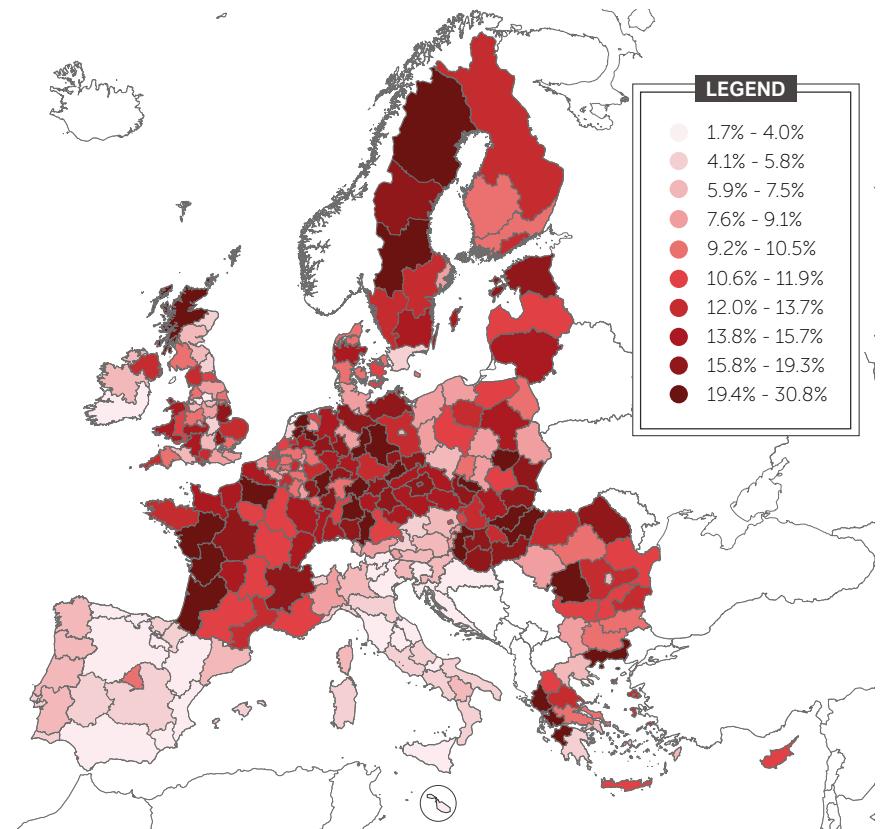
Previous research has shown that certain specific sectors are more prone to crime infiltration and money laundering (Savona et al., 2016, p.42-44, 122-125) or have a higher share of the informal economy in general (Schneider, 2013, p.30). Such NACE divisions included **Construction** of buildings (F41), **Retail trade**, except for motor vehicles and motorcycles (G47) or **Food and beverage service activities** (I56), and in these sectors a few countries emerged as being remarkably different than others.

**Portugal, Spain, Italy and Croatia** (and **Romania** as regards I56) have the lowest ratios of liquid assets for both construction and food and beverage services sectors. One may reasonably assume that this counterintuitive result is a **consequence of unreported activities** (see Section 3.3). If there is a large underground economy, companies can use undeclared income in physical cash to pay workers and suppliers. They neither deposit this cash in banks nor declare it in financial reports, also in order to minimise the effects of a possible confiscation.

So a seemingly **lower liquidity is enough for the everyday operation** – and may become itself a factor of risk or a **red-flag**. Compared to other sectors, this effect can be particularly large in construction and food and beverage services, as these activities are highly labour intensive and they are still the ones most plagued with undeclared workers (European Employment Policy Observatory, 2016, p.3). Due to the nature of the shadow economy, this phenomenon is unfortunately hard to observe, and comparable inspection data is not available EU-wide to prove this hypothesis.

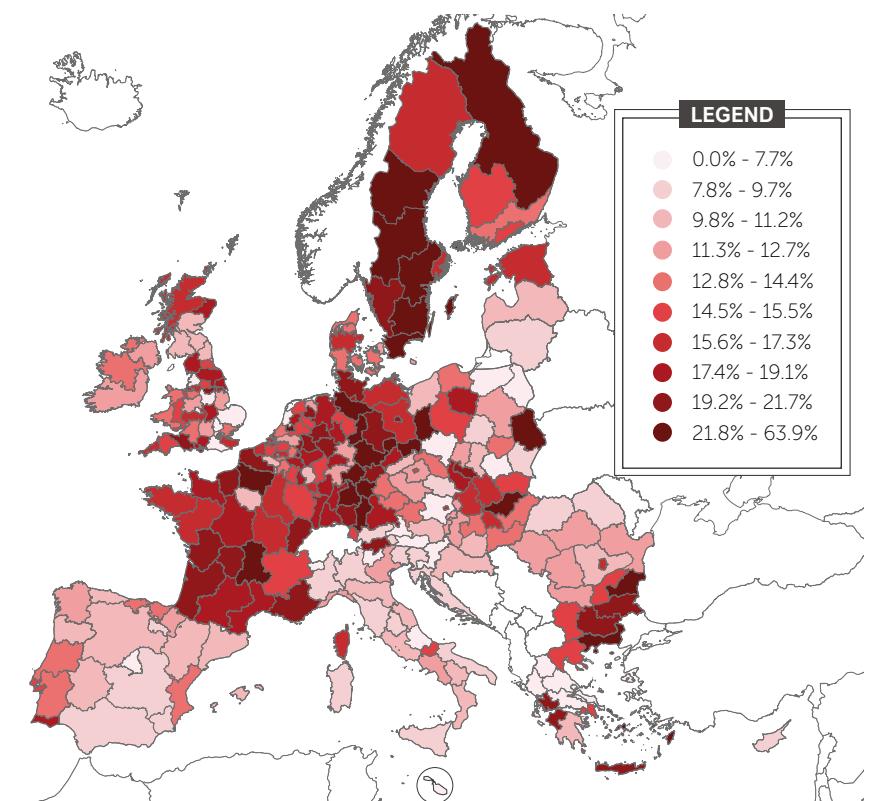
**Figure 8 - Cash equivalents divided by total assets – F41 Construction (2015)**

Source: Transcrime elaboration of BvD data



**Figure 9 - Cash equivalents divided by total assets – I56 Food and beverage services (2015)**

Source: Transcrime elaboration of BvD data



## Cash, corruption and the underground economy

Physical cash can be used in the underground economy to pay **employees on an unofficial payroll or suppliers not providing a proper invoice for their goods**. If this is a widespread behaviour in the formally legal economy, criminals can more easily engage in infiltration because they can launder their criminal revenues with less difficulty.

Several attempts were made to quantify the extent of the **shadow economy or undeclared labour** in particular. Schneider and his co-authors regularly publish an estimate of the extent of the shadow economy (Medina & Schneider, 2018). The EU member states with the highest figures are **Cyprus and Bulgaria (31% of the GDP)**, Croatia and Greece (30%), followed by other former socialist or Southern European countries (Figure 10).

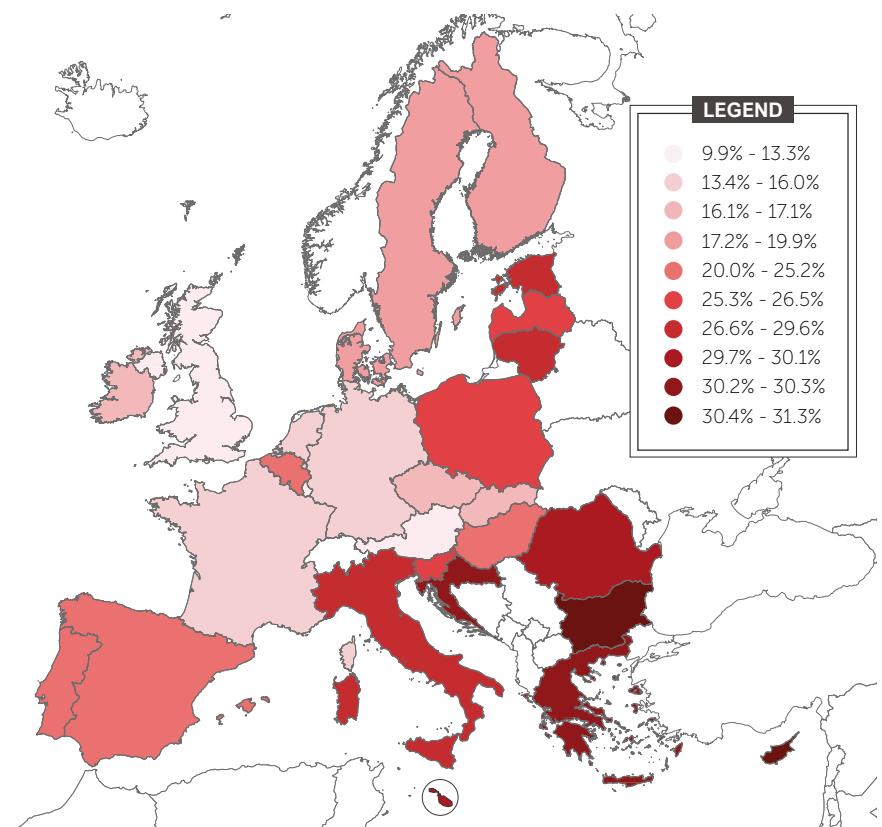
A similar situation can be observed in the case of undeclared work. **Poland and the Baltic countries** have a somewhat higher share of undeclared work, but it's interesting to note that for both estimates the Czech Republic and Slovakia have lower figures than other former Eastern bloc countries.

Different measures of the **shadow economy and cash usage are highly correlated**, as Figure 12 shows. As pointed out before, although Germany, Austria and Luxembourg still heavily rely on cash, they have a moderate underground economy. Alternatively, the highest cash users, **Bulgaria, Romania and Greece**, rank among the countries with the largest shadow economy.

*Worldwide Governance Indicators, Rule of Law and Control of Corruption* in particular, have a high correlation with these measures (Figure 13). **Cash usage is lower in countries with more efficient control of corruption**, while one can find less undeclared labour where there is respect for the law and it is enforced. A similar result

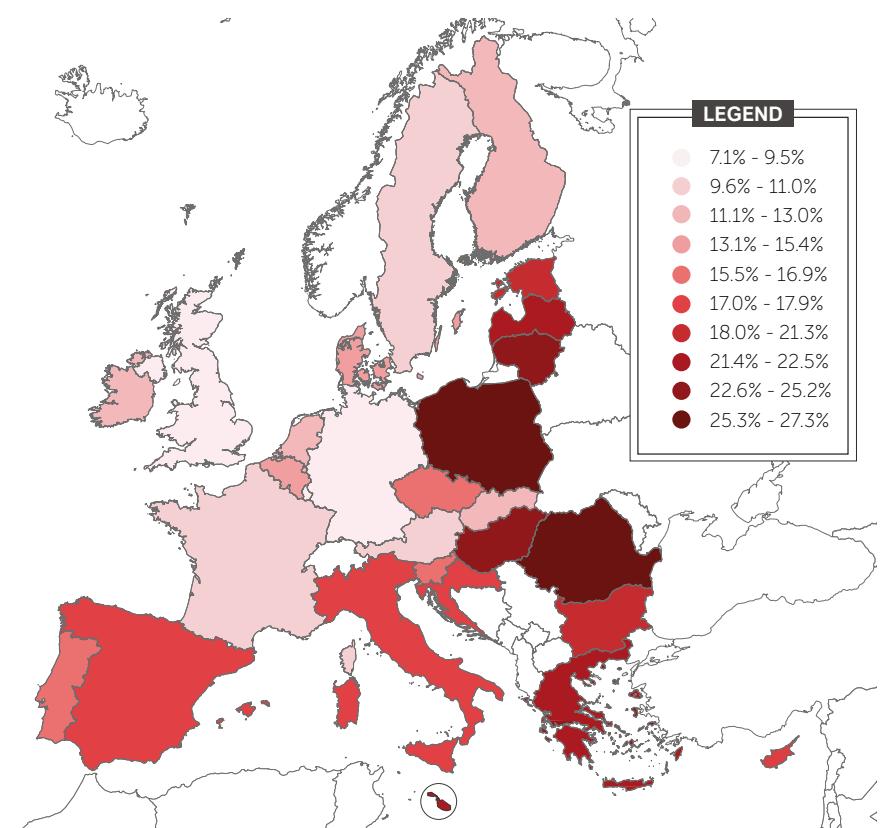
**Figure 10 - Estimate of the shadow economy in percentages of GDP**

Source: Medina & Schneider (2018)



**Figure 11 - Undeclared work in the private sector as percentages of GVA (2013)**

Source: Williams et al. (2017)



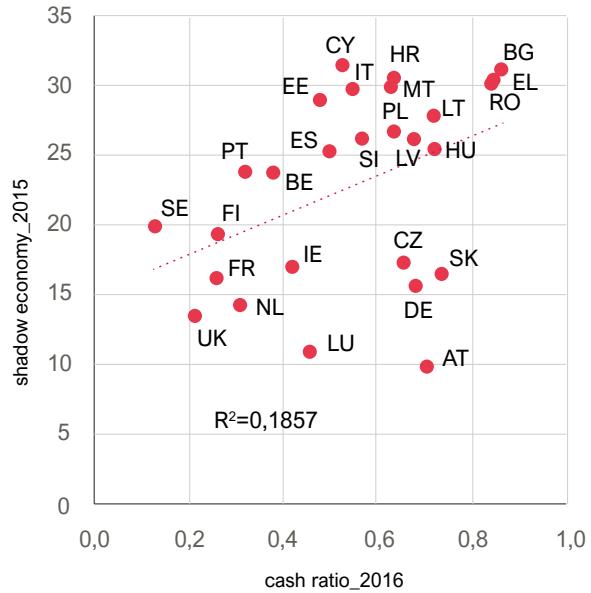
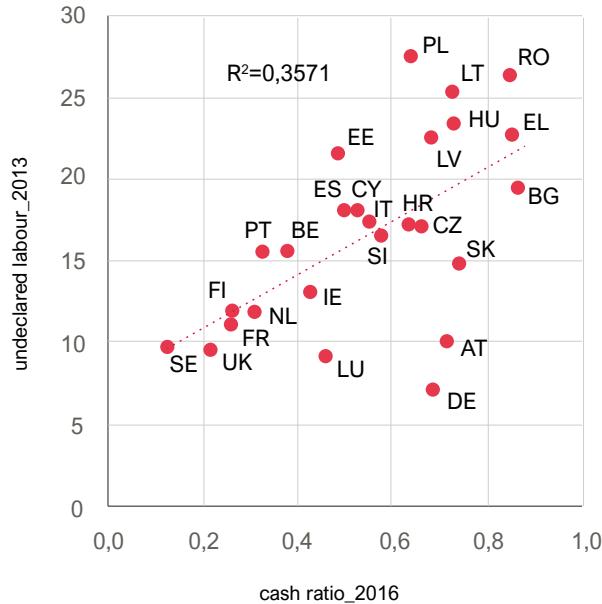
emerges if **regional estimates** of the shadow economy (Tafenau, Herwartz, & Schneider, 2010) are compared with various components of the *European Quality of Government Index*. The underground economy has a higher share where citizens have doubts about the impartiality of law enforcement (correlation of -0.50) or have a high perception of corruption (-0.56).

Based on these figures, one can conclude that the **effort to increase the share of electronic payments** may not only decrease tax evasion, but it may also make it more difficult to launder criminal proceeds in infiltrated firms. A **more harmonised EU-wide regulatory framework on cash usage** could significantly enhance the effect of such efforts, as the current rules can be eas-

ily circumvented by using a member state without any limitations. If an infiltrated firm cannot pay its suppliers in cash, criminals have to look for more complex and expensive solutions to integrate these illicit funds into the legal economy. On the other hand, law enforcement has to be prepared for these new emerging forms of placement of criminal revenues, as **cryptocurrencies** may replace cash in this process.

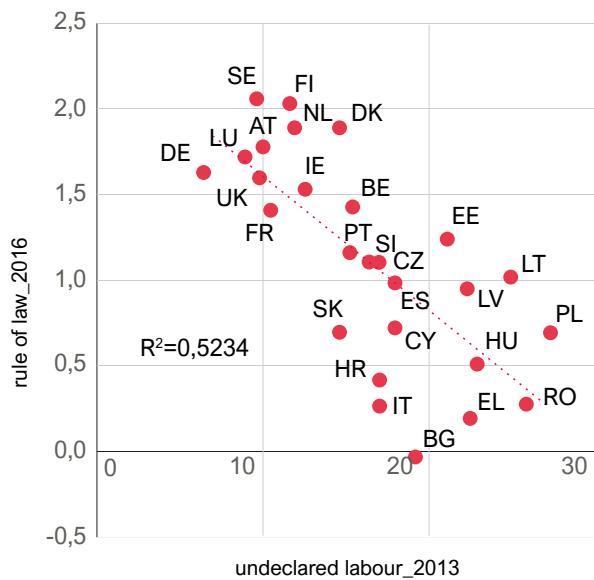
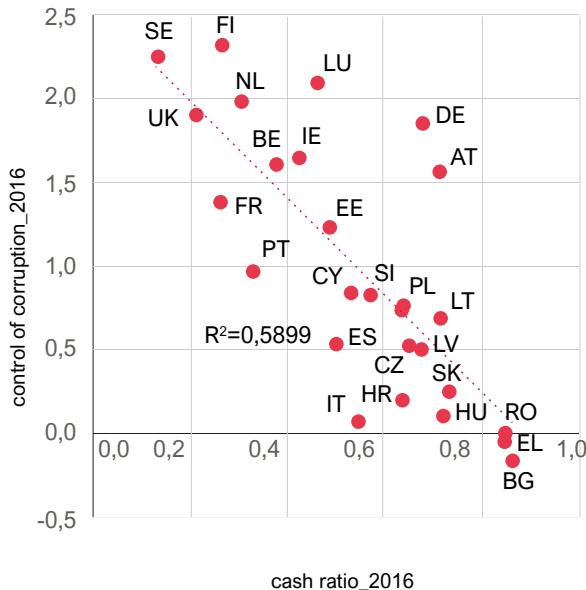
**Figure 12 - Cash usage and the shadow economy**

Source: Transcrime elaboration of Medina & Schneider (2018), Williams et al. (2017), ECB



**Figure 13 - Cash, corruption and the shadow economy**

Source: Transcrime elaboration of Medina & Schneider (2018), Williams et al. (2017), ECB, WGI (2016)



### Criminal infiltration in a cash-free era

What would be the effect on money laundering and OC infiltration of businesses if cash were legally restricted? And on crime? Some authors tried to provide an answer to this question (see, for example, Riccardi & Levi, 2018 for a review). It can be expected that the impact would be heavier on ‘petty’ money laundering schemes, like those related to small-scale tax evasion, which heavily relies on cash. Also affected would be traditional OCGs (including mafias) which, according to the evidence, seem to prefer to launder their money in cash-intensive businesses. A cashless economy would make it harder to stay underground. The impact of cash reduction on higher-level ML schemes, such as those related to major corruption involving the use of complex corporate structures and off-shore jurisdictions, would likely be less significant – despite the

fact that these types also require some cashing out or cash smuggling at some point.

However, as noted, it is not likely that profit-driven crime would disappear without cash. Displacement effects could occur: e.g., the termination of 500-euro banknotes could lead criminals to adopt alternative high value notes for cash-smuggling or hoarding purposes, such as the 1,000-Swiss franc or the 200-euro bill. Or they may switch to smaller notes, simply changing their smuggling habits and techniques – which could become costlier because, for example, a higher number of couriers would need to be employed to transfer the same value. There is even the possibility that criminals might decide to keep the ‘old’ 500-euro bills for their own illegal transactions (e.g., in the wholesale drug market) or as stores of value – in

the end, these banknotes will remain legal tender and they would keep their value, though their use in the licit economy might generate even more suspicion than at present.

Cash restriction could also lead to an increase in barter, e.g., exchanging drugs for firearms or other assets. And this could reshape criminal networks and partnerships. The trend towards virtual marketplaces, such as the dark web, and virtual currencies, could accelerate. And companies could be used more frequently for ‘laundering the product’ and for providing a legitimate façade for (certain) illicit goods which could then be sold on the legal markets. Finally, as widely highlighted in the literature, the reduction of cash could lead OCGs to move from traditional (and cash-intensive) criminal activities to cybercrime.

## 4.2. Opacity of business ownership

*Antonio Bosisio, Università Cattolica del Sacro Cuore-Transcrime*

The opacity of business ownership is a key risk factor which facilitates SOC infiltration in the legal economy. Complex corporate structures, especially if established in secrecy jurisdictions, can help in **concealing illicit financial flows** and the **identity of beneficial owners** (Does de Willebois, Van der et al., 2011; FATF, 2014a, 2016c; Gambetta & Reuter, 1997, p.20; Riccardi, Milani, & Camerini, 2017). Members of OC groups may use opaque businesses to launder the proceeds of a number of illicit activities like drug trafficking, migrant smuggling or tax fraud.

Although widely acknowledged as a key vulnerability, the opacity of corporate structures is very **hard to operationalise and measure**. In the MORE context, three sub-dimensions are analysed across EU countries and business sectors:

- The **level of financial secrecy**;
- The proportion of business owners coming from **secrecy jurisdictions**;
- The **complexity of the ownership structure** of registered businesses.

### Financial Secrecy

Criminals wishing to infiltrate legitimate businesses can be attracted by countries characterised by **high levels of financial and corporate secrecy**: here, they can best conceal the criminal origin of their proceeds and their identity as beneficial owners.

But the reasons why we are examining foreign shareholders of companies registered in a certain country (or sector) are not exclusively related to secrecy. They can be related, for example, to (Riccardi, Ferwerda, & Aziani, 2017):

- geographic **proximity** to other countries;
- the presence of **foreign residents** who could decide to start a business;
- the attractiveness of the country in terms of low costs of starting a business or the **efficiency of bureaucracy and institutions** (World Bank, 2011);
- the volume of **international trade** movements or of **foreign direct investments (FDI)**;
- the presence of **tax incentives** for corporations or individuals (OECD, 2011).

Using Bureau van Dijk business ownership data, it is possible to estimate the volume of foreign shareholders across different European countries.<sup>15</sup>

As shown in Figure 14, the countries with the highest percentages are very small jurisdictions. Among the EU28 countries, the top scoring ones are **Luxembourg, Estonia, Croatia, Ireland and Cyprus**. When considering the largest European countries, a significant presence of foreign owners is recorded in the **United Kingdom** (9.1% of all shareholders of UK companies). Among non-EU countries, the highest percentages are in **San Marino** (94% of all shareholders are foreign), **Gibraltar** (87.3%), Andorra (83%) and Monaco (67%).

“

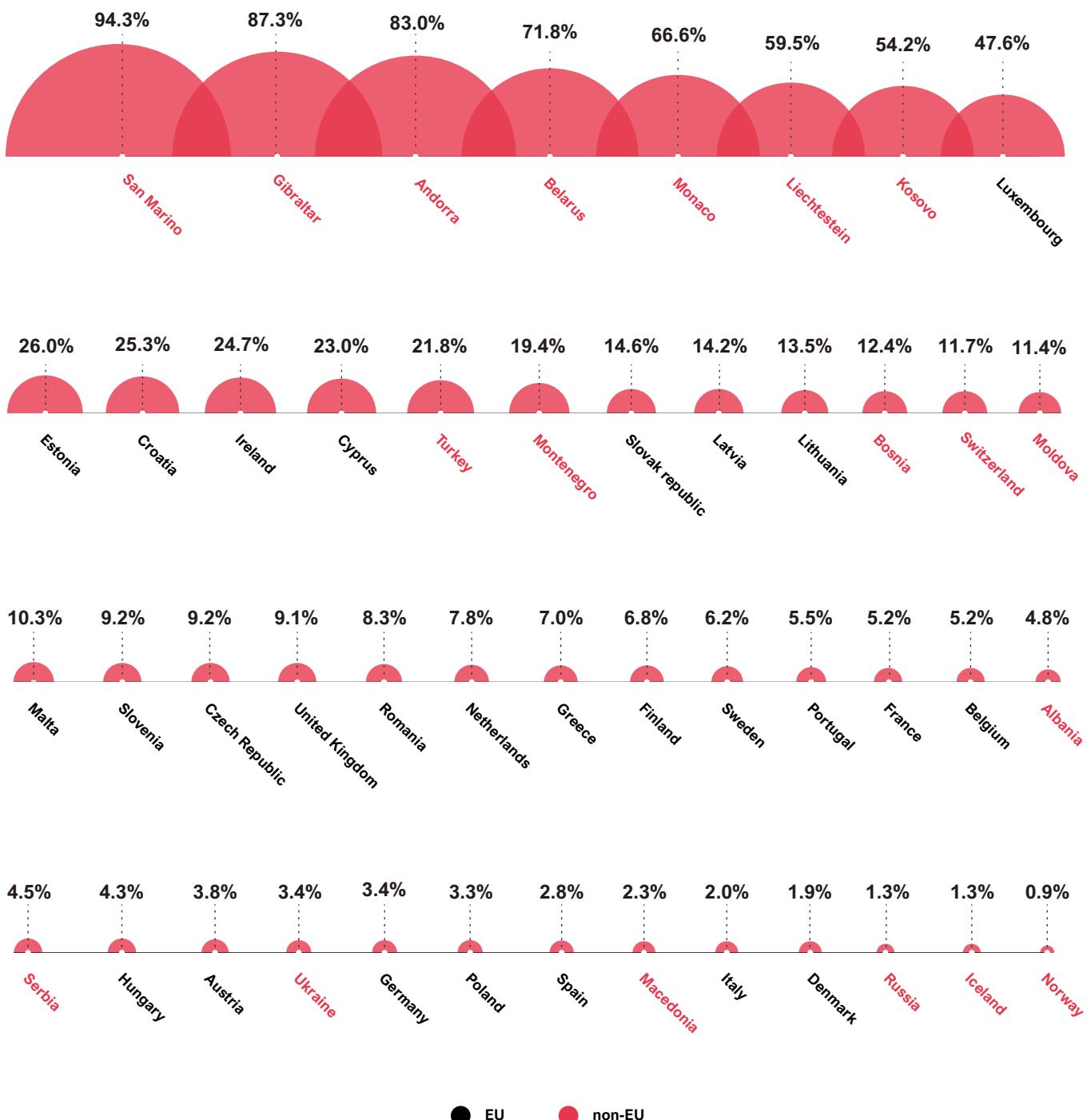
**Criminals can be attracted by countries with high levels of financial secrecy**

”

15. For the purpose of the analysis, only shareholders at the first level of ownership were considered. Unlike the analysis of business ownership complexity (see below), the analysis in this case covers all company types, including unlimited companies and partnerships.

**Figure 14 - Percentage of foreign shareholders across European countries (2015)**

Source: Transcrime elaboration of BvD data



The differences observed may be related to **corporate tax incentives** (e.g., Andorra, Monaco, Luxembourg and Ireland all have favourable corporate tax regimes and may attract foreign investors), to the effectiveness of their financial hubs or to the ease of starting a business. But financial secrecy may also play an important role.

In order to measure secrecy across EU MSs, it is possible to use the **Secrecy Score (FSS)**, a component of the Financial Secrecy Index (FSI), a composite indicator issued by the **Tax Justice Network (TJN)** every two years<sup>16</sup>. It is widely acknowledged to be one of the best measures of the level of secrecy across jurisdictions because of its independence and transparency in the underlying methodology (Cassetta, Pauselli, Rizzica, & Tonello, 2014; Gara & De Franceschis, 2015; Riccardi, Milani, & Campedelli, 2016; Savona & Riccardi, 2017). The FSS combines **20 qualitative secrecy indicators** obtained by analysing a country's legislation and its banking and financial sector. Among other things, it includes measures of:

- the level of banking secrecy
- the accessibility of beneficial ownership information
- the level of transparency of corporate information
- the efficiency of tax and financial regulations
- the level of compliance with international AML standards and Financial Action Task Force FATF recommendations
- the extent of AML international co-operation

The analysed dimensions are combined into a score ranging from 41.83 (Slovenia) to 88.58 (Vanuatu).

**Table 5 - Secrecy Score (TJN), EU28 countries (2018)**

Source: Transcrime elaboration of Tax Justice Network

COUNTRY	FSS	FSS WORLD RANKING
United Kingdom*	85.4	3
Netherlands	66.0	59
Romania	65.5	60
Cyprus	61.3	72
Malta	60.5	75
Croatia	59.3	80
Germany	59.1	81
Luxembourg	58.2	83
Greece	57.9	84
Latvia	57.4	85
Poland	57.4	86
Austria	55.9	89
Slovakia	54.9	92
Hungary	54.7	93
Portugal	54.7	95
Bulgaria	54.2	96
Czech Republic	52.9	97
Finland	52.7	98
Denmark	52.5	100
France	51.7	103
Estonia	50.9	104
Ireland	50.7	105
Italy	49.5	107
Spain	47.7	107
Lithuania	46.8	108
Sweden	45.5	109
Belgium	44.0	110
United Kingdom	42.4	111
Slovenia	41.8	112

\*(including Overseas Territories and Crown Dependencies)<sup>17</sup>

16. For the purpose of the analysis, since the focus is on the level of secrecy of jurisdictions, and not on the dimension of each jurisdiction in terms of financial flow, only the FSS component of the Financial Secrecy Index is considered. The FSI combines the Secrecy Score (a qualitative measure) with the global weighting that measures how large an offshore financial centre is.

17. UK has a significantly different financial secrecy score if computed with or without considering Overseas Territories (OTs) and Crown Dependencies (CDs). When OTs and CDs are considered, the FSS of UK is 85.40, at the top of the Secrecy Score ranking among EU28 countries (and third globally after Vanuatu and Antigua and Barbuda). For details, see <http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf>.

Some of the countries that are able to attract high percentages of foreign shareholders also display a high level of secrecy as measured by the FSS (Table 5). As Figure 15 shows, **the correlation between the percentage of foreign shareholders and the level of financial secrecy is positive (0.52)** and highly significant. Among EU28 countries, the most evident cases of this positive relation are Luxembourg, Cyprus, Malta and Croatia.

When looking at the sub-dimensions of the Financial Secrecy Score, it can

be seen that some EU28 countries are top scorers for some of the qualitative measures considered. For instance, **Malta and the Netherlands** lack transparency and ease of access to Trust and Foundation registers; on the other hand, **Romania, Cyprus, Germany, Luxembourg, Austria, Bulgaria and Finland** have the highest values in the sub-dimension measuring the lack of requirements for companies to submit information on beneficial ownership, as well as lack of ownership transparency for real estate and valuable assets stored in freeports.

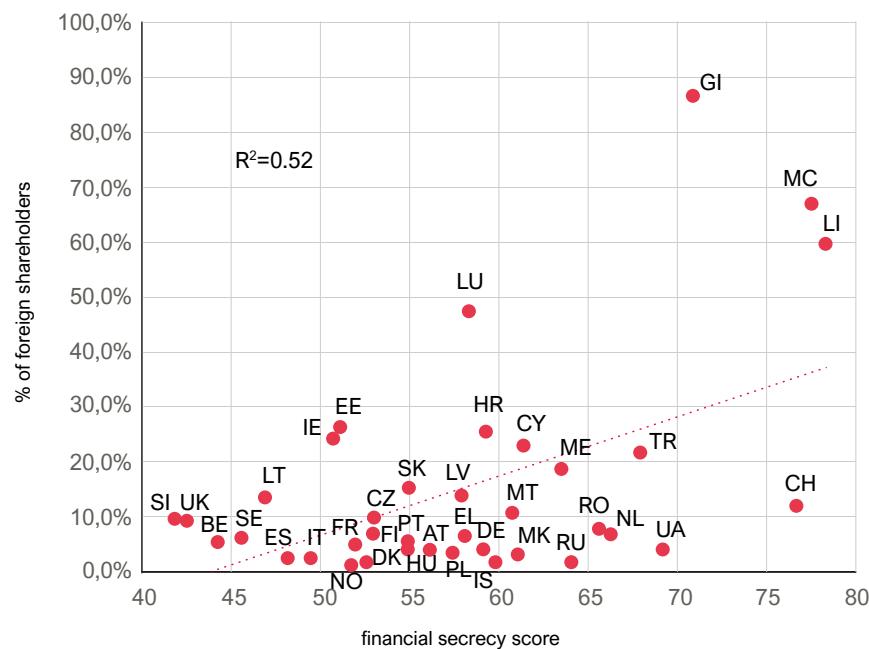
### Case ALPHA: exploiting financial secrecy to set up bogus pharmaceutical wholesalers

Operation *Volcano*, conducted in Italy in 2014, identified the infiltration of legitimate companies by an organised criminal group in order to conceal illicit trafficking of medicines (AIFA, 2015). The OCG commissioned the theft of vials of anti-cancer drugs from Italian hospitals and trucks to local criminals. Stolen medicines were sent to a deposit and matched with fake invoices provided by **bogus companies** active in the wholesale trade of medicines and located abroad, mainly in Eastern Europe (Romania, Hungary, Slovakia and Cyprus, among others). In this way, the stolen vials could appear to be legitimately acquired, so as they could be ‘laundered’ and re-introduced into the legal market (see Annex A1 for details).

The bogus unlicensed wholesalers were established ad hoc in countries with **low company transparency requirements**. In particular, Romania and Cyprus, which rank second and third, respectively, for their Financial Secrecy Scores among the EU28, were heavily involved in the fraud scheme, as were Hungary, Latvia and Slovakia (all above the EU average FSS value). The opacity of company registers in these jurisdictions was exploited in order to circumvent possible controls. After concealing their false origin, the products were sold into the legal supply chain in Europe (mainly Germany) by licensed Italian pharmaceutical wholesalers (AIFA, 2017).

**Figure 15 - Financial Secrecy Score and percentage of foreign shareholders (Europe)**

Source: Transcrime elaboration of BvD and TJN data



**Figure 16 - Top scorers in FSS components (EU28, 2018)**

Source: Transcrime elaboration of Tax Justice Network

FSS COMPONENT	HIGHEST RANKING COUNTRIES <sup>18</sup>
Trust and Foundations Register	Malta, Netherlands
Recorded Company Ownership	Netherlands, Romania, Cyprus, Croatia, Germany, Luxembourg, Greece, Poland, Austria, Bulgaria, Finland, Denmark, Spain
Other Wealth Ownership	Romania, Cyprus, Malta, Germany, Luxembourg, Latvia, Austria, Hungary, Portugal, Bulgaria, Finland, France, UK
Consistent Personal Income Tax	Cyprus

18. High rankings correspond to low transparency in the selected component.

## Ownership connections with secrecy jurisdictions

Beyond the level of financial secrecy of the country itself, the opacity of a country can also be analysed by looking at the **ownership connections with shareholders coming from secrecy jurisdictions**: a certain country may be not particularly opaque, but the owners of the companies registered there may be. The idea is that the higher the number of owners from opaque countries and the more difficult it is to carry out financial investigations and trace the beneficial owners, the higher the risk that these companies are used to hide individuals and proceeds related to SOC activities (Tavares, 2013; Tax Justice Network, 2015).

In order to understand the level of business ownership links with secrecy jurisdictions, in each country or sector, the percentage of foreign shareholders by each nationality is multiplied by the relevant FSS value, so that:

$$\text{Secrecy\_Links}_i = \sum_{(j=1)}^J \text{FSS}_j \cdot \left( \frac{x_{ji}}{\sum x_i} \right)$$

Where:

$x$  = number of foreign shareholders

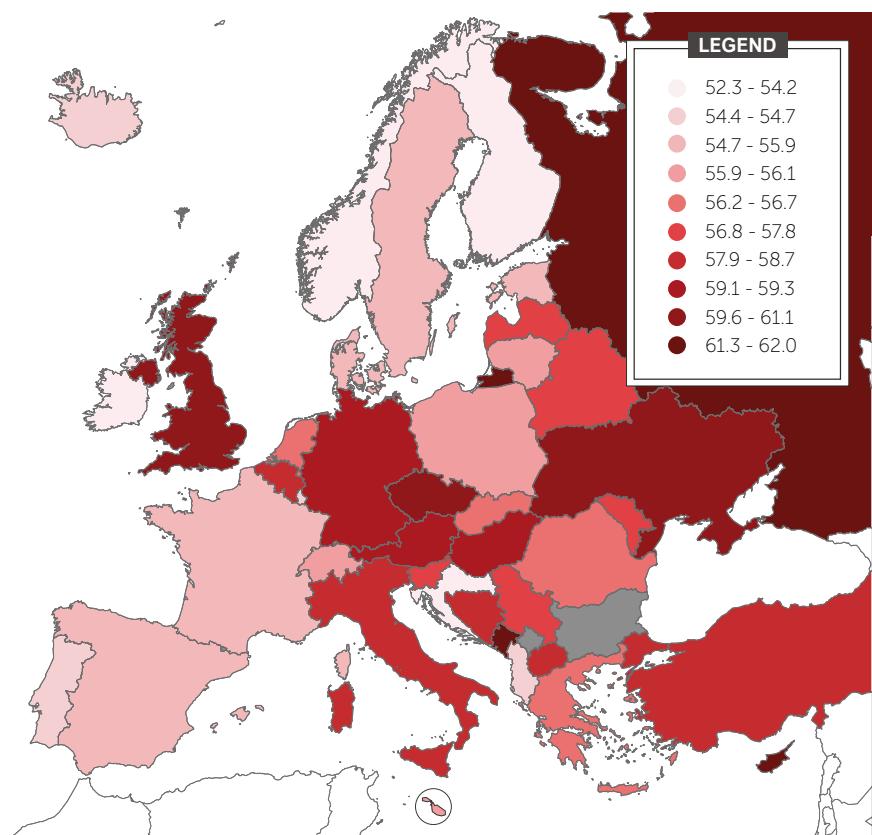
$j$  = nationality of foreign shareholders

$i$  = country or region or NACE sector of registration of the company

This metric was calculated for 44 European countries, i.e., 21 million companies and about 74 million recorded shareholders. The risk scores calculated at the country level are displayed in Figure 17.

**Figure 17 - Business ownership links with secrecy jurisdictions by country (2015)**

Source: Transcrime elaboration of BvD and TJN data. Only foreign shareholders considered.



Among EU28, the businesses registered in **Cyprus, Czech Republic** and the **United Kingdom** show the highest volume of links with owners from secrecy jurisdictions, while the lowest values are shown for Croatia, Ireland and Portugal. Among other European (non-EU) countries, the highest number of links with secrecy jurisdictions are registered by Liechtenstein, Montenegro, Russia and Ukraine.

Also, we estimated the volume of shareholders coming from the countries listed in the common EU 'blacklist' and 'greylist' of non-cooperative

tax jurisdictions (which are all third countries, i.e. non-EU).<sup>19</sup> The results are reported in Table 6. Again the country with the highest number of shareholders' links to greylist and blacklist countries is **Cyprus, followed by the United Kingdom, Malta and Luxembourg**. In most cases the top 'greylisted' country is Switzerland, with the exception of Cyprus and Luxembourg (British Virgin Islands), Estonia (Panama), Netherlands (Curacao) and Romania (Turkey). In Chapter 6, the first ten 'greylisted' jurisdictions in terms of ownership links will be reported for each EU MS.

19. The list is part of the EU's work to fight tax evasion and avoidance and aims to create a stronger deterrent for countries that consistently refuse to play fair on tax matters. Two lists are available: a 'black list' (Annex I), that refused to engage with the EU or to address tax good governance shortcomings, and a 'grey list' (Annex II), of countries which have resulted to be vulnerable according to the EU screening, are monitored but committed in a dialogue with the EU. The lists were agreed by Member States on 5 December 2017, and published the same day. Modifications were issued in the subsequent months. For the purpose of the analysis, the last update of 25 May 2018 is taken into account which includes, in the blacklist the following countries: American Samoa, Guam, Namibia, Palau, Samoa, Trinidad and Tobago, US Virgin Islands. In the grey list, further 65 jurisdictions, among them Switzerland, Panama, Isle of Man, Liechtenstein, Jersey, Guernsey, Turkey. For full details see [https://ec.europa.eu/taxation\\_customs/tax-common-eu-list\\_en](https://ec.europa.eu/taxation_customs/tax-common-eu-list_en)

**Table 6 - % shareholders from 'EU greylist/blacklist' countries**

Country	% on total shareholders	% on total foreign shareholders	Top 'EU Greylist/blacklist' country
Austria	0.54%	13.95%	Switzerland (8.6%)
Belgium	0.24%	4.56%	Switzerland (3.1%)
Bulgaria	NA	NA	NA
Croatia	1.66%	6.56%	Switzerland (2.5%)
Cyprus	7.33%	31.96%	British Virgin Islands (17.3%)
Czech Republic	0.47%	5.17%	Switzerland (1.5%)
Denmark	0.15%	7.90%	Switzerland (3.9%)
Estonia	2.08%	8.00%	Panama (2.9%)
Finland	0.35%	5.25%	Switzerland (2.4%)
France	0.53%	10.10%	Switzerland (6.3%)
Germany	0.63%	18.57%	Switzerland (13.1%)
Greece	0.55%	7.78%	Switzerland (3.9%)
Hungary	0.50%	11.50%	Switzerland (3.3%)
Ireland	1.84%	7.46%	Switzerland (2.1%)
Italy	0.30%	15.13%	Switzerland (10.1%)
Latvia	0.51%	3.58%	Switzerland (0.8%)
Lithuania	0.51%	3.77%	Switzerland (2.3%)
Luxembourg	6.04%	12.69%	British Virgin Islands (3.7%)
Malta	1.65%	16.01%	Switzerland (3.3%)
Netherlands	0.99%	12.58%	Curacao (4.0%)
Poland	0.16%	4.78%	Switzerland (2.9%)
Portugal	0.49%	8.92%	Switzerland (2.5%)
Romania	0.75%	9.10%	Turkey (4.7%)
Slovakia	0.46%	3.12%	Switzerland (1.3%)
Slovenia	1.14%	12.42%	Switzerland (3.8%)
Spain	0.20%	7.25%	Switzerland (4.7%)
Sweden	0.33%	5.35%	Switzerland (3.5%)
United Kingdom	1.39%	15.38%	Switzerland (5.2%)

The analysis at the economic sector level is displayed in Figure 18. Apart from other services (such as NACE divisions T98 - Undifferentiated goods and services producing activities and S95 - Repair of computers and personal and household goods), the sectors registering the highest percentage of business owners from secrecy jurisdictions are related to **shipping and cargo companies** (H50 - Water transport) and **real estate activities** (Division L68).

This result is particularly relevant: there is wide evidence that both industries can be used for criminal purposes, the first to conceal or facilitate the **trafficking of illicit goods** (e.g., drugs, firearms, contraband, counterfeit products, but also for smuggling migrants) and the second because of the attractiveness of the **property market for money laundering** (especially in large European metropolitan areas such as London or Berlin — see (Savona & Riccardi, 2015; Transparency International UK, 2012)).

#### Cargo shipments and secrecy jurisdictions: Operation Rose of the Winds

Operation *Rose of the Winds* was a major police operation supported by Europol and involving the Italian, French and Spanish authorities. It led to the arrest of a Moroccan-speaking organized crime group involved in drug trafficking. In particular, in 2016, the authorities intercepted a **cargo ship flying the flag of Panama** which was transporting more than 19 tons of hashish. This example confirms the widespread use of shipping companies incorporated in offshore countries in illicit trafficking. Panama's level of financial secrecy was exploited in order to easily set up the company and circumvent possible controls. The investigation also revealed clear links between irregular migration and drug trafficking (Europol, 2017c).

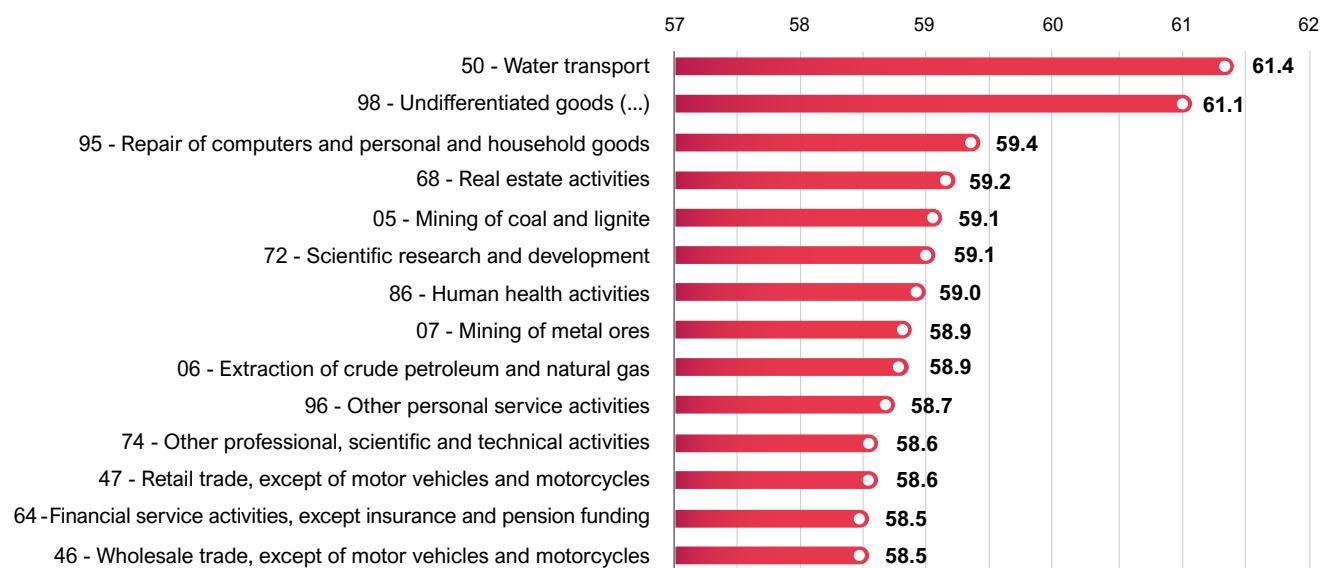
Other sectors with high secrecy links are Mining and Oil & gas extraction (Division B05, B07 and B06) and R&D activities (M72). Especially in these latter sectors, secrecy links may be related to the presence of large **multinational companies** with holdings and parent firms located in low-tax jurisdictions (Savona & Riccardi, 2017).

Therefore, the analysis could be repeated after weighting for the average company size in order to control for the presence of multinational firms. In this scenario, the analysis identifies **arts and entertainment activities** (R90) and **food and beverage services** (I56) among the sectors registering more links to secrecy jurisdictions. This result

is in line with previous research showing that these two industries are prone to crime infiltration and money laundering, particularly for being mostly **cash and labour intensive** (Savona et al., 2016). Other sectors with high secrecy links are mostly related to agriculture and forestry (Divisions A01 and A02) and veterinary activities (M75).

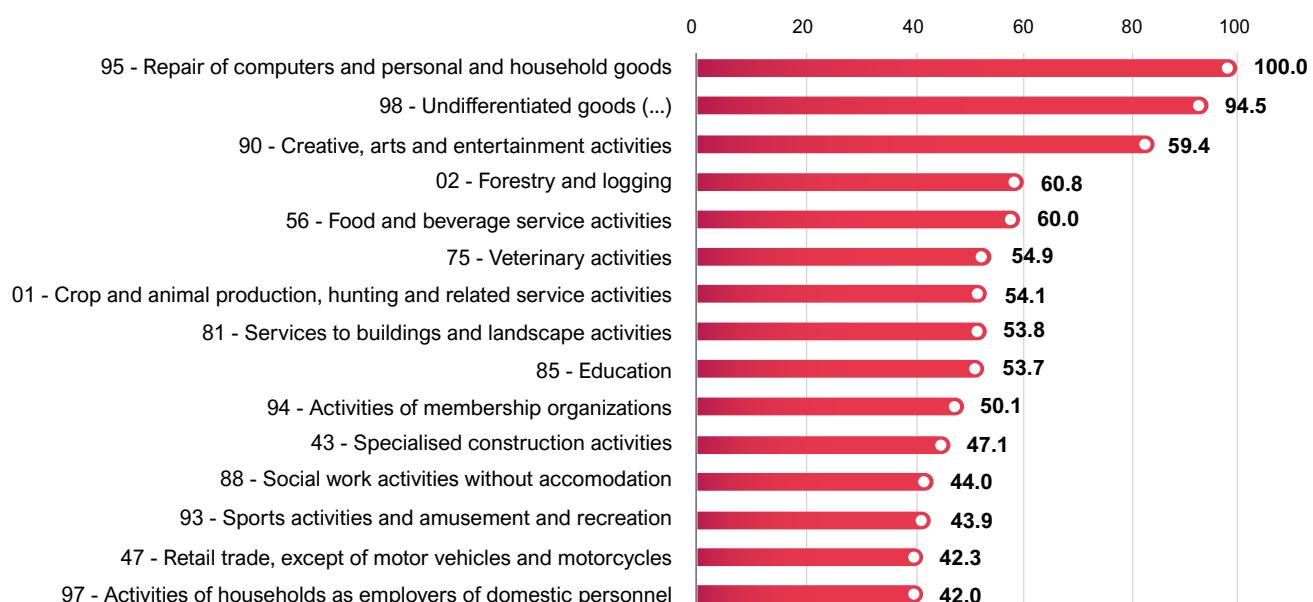
**Figure 18 - Ownership links with secrecy jurisdictions by NACE division (2015)**

Source: Transcrime elaboration of BvD and TJN data



**Figure 19 - Ownership links with secrecy jurisdictions by NACE division, weighted by average company size (2015)**

Source: Transcrime elaboration of BvD and TJN data



## Complexity of business ownership structure

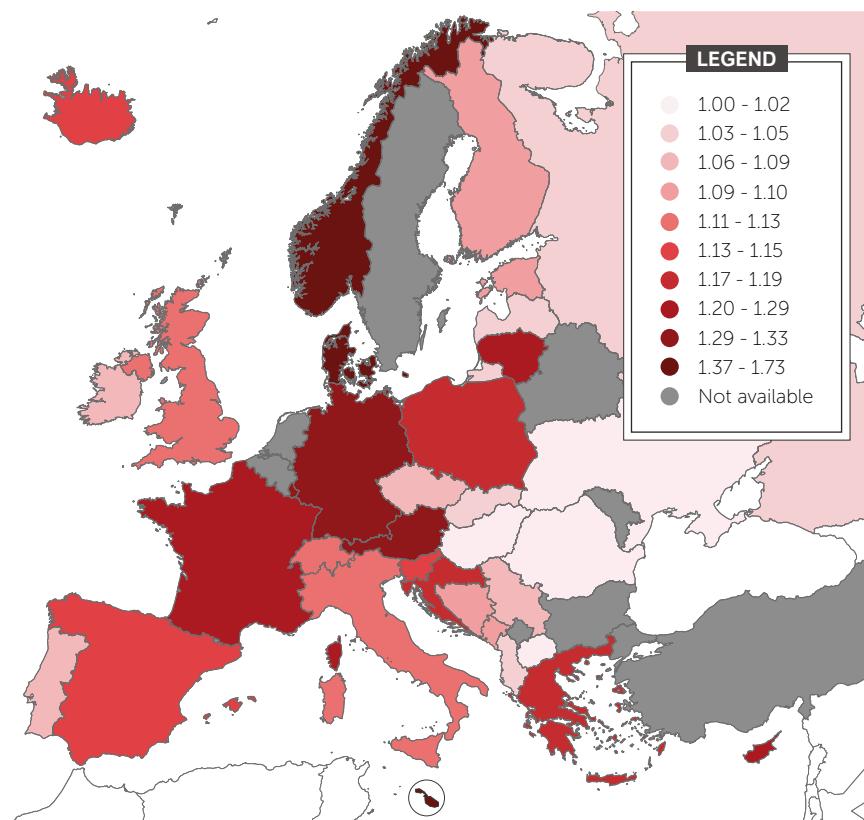
The third facet of business opacity is related to the **complexity of business ownership** in EU MSs. This is analysed by looking at what is known as the **BO (beneficial ownership) distance** provided by Bureau van Dijk (BvD). This measure represents the number of steps that separate a company from its beneficial owner(s)<sup>20</sup>. When the BO distance equals 1, the company is directly controlled by its BO(s). The higher the BO distance, the greater the level of complexity of the company structure, the more difficult it is to trace the beneficial owners, and the higher the risk that the company could be used to conceal criminal profits or individuals.

Using BvD data, information on the BO distance of companies in 44 European countries was collected at the individual level, aggregated for each company and then at the country and sector level. In order to guarantee cross-country and cross-sector comparability, only **limited companies** were considered for this section of the analysis<sup>21</sup>.

Information on 12.5 million limited companies and about 20 million BOs was retrieved and analysed. Average values were then computed for each country and for each business sector (NACE division level). In order to ensure the comparability of the results, the countries for which BvD BO data cover less than 10% of registered limited companies were excluded from the analysis.

**Figure 20 - BO distance, average value across countries (2015)**

Source: Transcrime elaboration of BvD data



The average company BO distance at the European level is **close to one (1.1)**. It could be lower if we took into account individual and unlimited companies as well. Nevertheless, significant differences can be observed across countries and business sectors.

The country that displays the highest average BO distance among EU28 countries is **Malta (1.73)**, followed by **Denmark (1.47)** and **Luxembourg (1.33)**. On the other hand, the lowest values are observed in Hungary (1.01), Romania (1.02) and Slovakia (1.05).<sup>22</sup>

Part of the observed differences might be due to the larger number of FDI and multinational companies in some areas, countries and sectors.

20. The beneficial owners of a company (or entity) are the individuals who ultimately own or control it. Bureau van Dijk identifies them by reconstructing the ownership chain of the company, until finding natural persons with shareholding above a certain level. Since there is no consensus on the notion of control, for the purpose of this study we set the minimum threshold at 10% of shareholding at each level of the company ownership chain. This threshold is in line with the current development of the EU AML Directives.

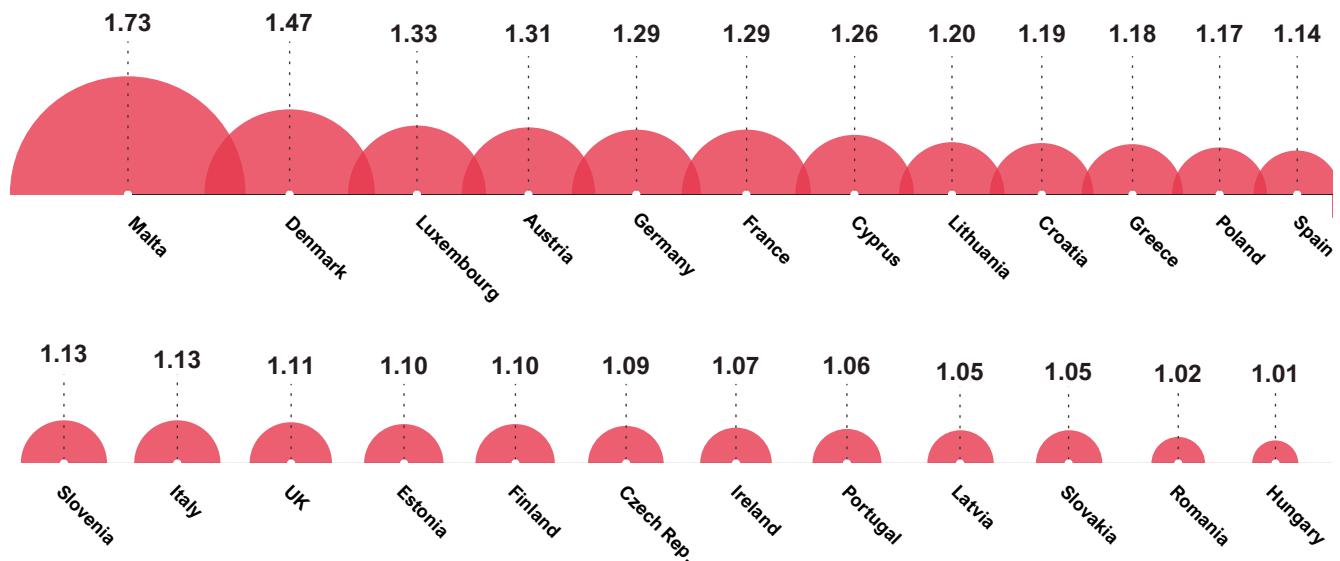
21. BvD data coverage of unlimited companies and partnerships is not homogeneous across European jurisdictions. For this reason, the analysis only focused on private and public limited companies.

22. Among EU28 countries, a higher BO distance is registered by three countries for which BO information is available for less than 10% of the limited companies registered in BvD Orbis, respectively, the Netherlands (BO distance of 4.04, coverage of 1.33% of limited companies), Sweden (3.19, coverage 1.08%), Belgium (1.87, coverage 2.72%). Bulgaria has no coverage of BO information.

23. As for the country level analysis, the average BO distance calculated for each business sector (NACE-division) is standardised by the average total assets of the sector at the European level and normalised in a 0-100 scale. The downside of this measure is that it can no longer be interpreted as the number of steps separating a company from its BO(s).

**Table 7 - BO distance, average value across EU28 countries (2015)**

Source: Transcrime elaboration of BvD data



Differences are also wide when analysing business sectors (Figure 21). NACE divisions **50 (water transport)**, **35 (electricity and gas supply)** and **65 (insurance)** record the highest BO distances (considering, again, only limited companies). Most of these business sectors are characterised by high market concentration, high barriers to entry, and therefore a high number

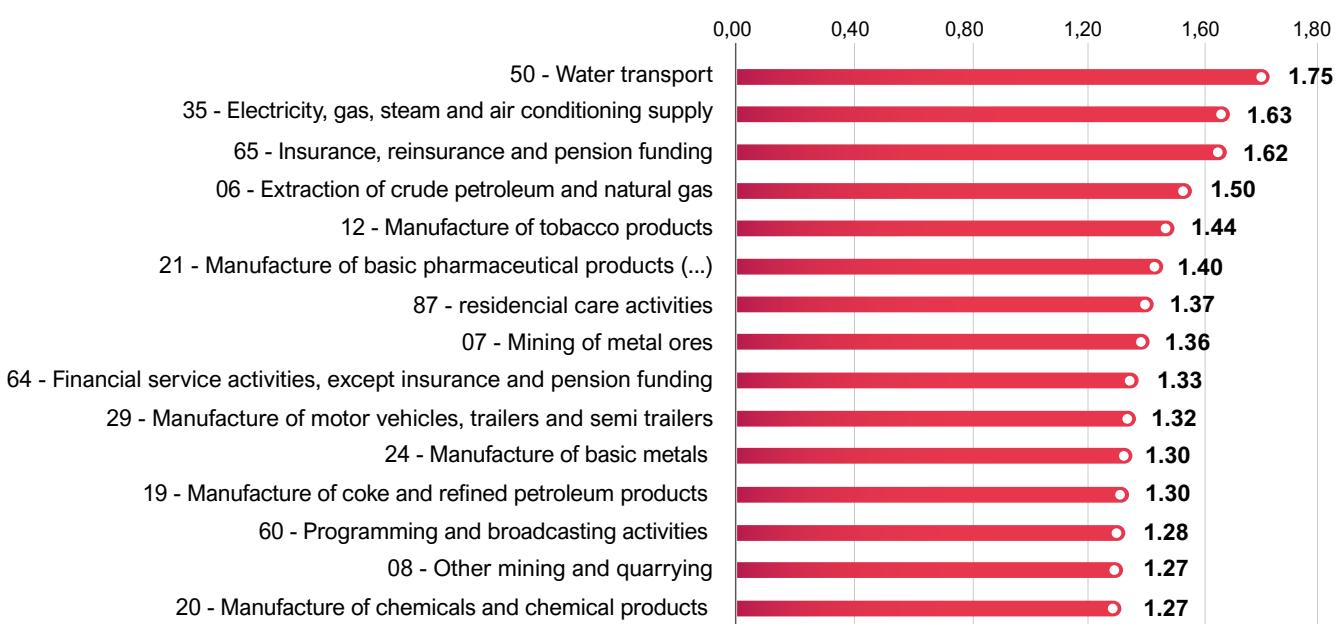
of large companies. These factors may increase the number of multinational companies, thus *ceteris paribus* increasing the BO distance.

In order to identify actual anomalies, and find the sectors where, on average, **companies seem to have an unnecessarily complex corporate structure**, the scores are weighted by a proxy of average company size.<sup>23</sup>

The results are shown in Figure 22. Again, some of the sectors found to be more inclined to crime infiltration and money laundering by previous research (Savona et al., 2016) also appear among the top scoring ones, such as, for instance, divisions 56 (food and beverage service activities), 43 (specialised constructions) and 47 (retail trade).

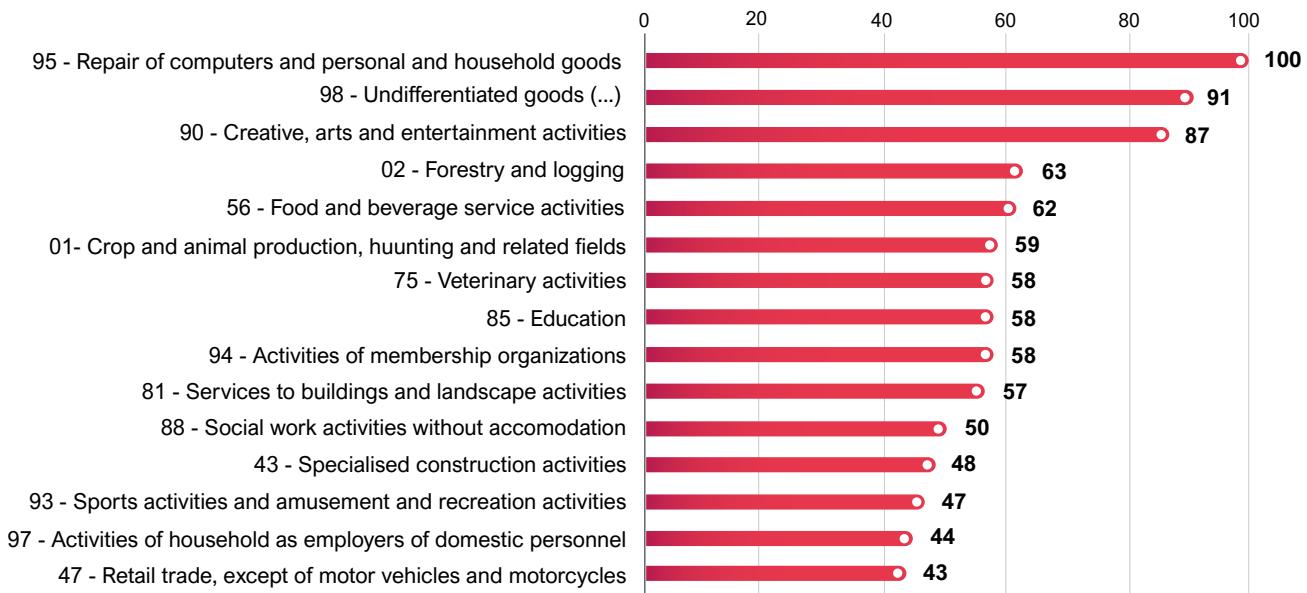
**Figure 21 - BO distance, average value across business sectors, top 15 NACE divisions (2015).**

Source: Transcrime elaboration of BvD data



**Figure 22 - BO distance, average value across business sectors, weighted by average company size, top 15 NACE divisions (2015). Index 100 = Highest**

Source: Transcrime elaboration of BvD data



## Concluding remarks

Opacity of corporate structures is a key vulnerability for SOC infiltration in the legal economy. This risk factor can be measured at a micro and macro level by looking at:

- financial secrecy
- ownership links with secrecy jurisdictions
- complexity of ownership structures

These metrics vary widely across different European countries and sectors, indicating where possible vulnerabilities may arise. Nevertheless, it is important to stress that **these measures alone should not be considered as unambiguous red flags of SOC infiltration**, since other factors (e.g., taxes, attractiveness of financial hubs, ease of establishing and managing businesses) may play a role in shaping the business ownership structure of European businesses.

Some of the analysed countries score high in only one of the three dimensions considered: this is the case, for

instance, with **Denmark**, where companies show a high average level of complexity, but the level of secrecy (as measured by the FSS) and the connection to secrecy jurisdictions are below the EU28 average values. Similarly, **Czech Republic** presents a high volume of links with secrecy jurisdictions, even though it does not rank high when looking at complexity and financial secrecy.

Other countries, such as **Malta**, show high values in more than one dimension: the island ranks among top scorers as regards both *financial secrecy*<sup>24</sup> (fourth) and ownership complexity (first by far). Also, the **United Kingdom** shows relatively high values in two of the three considered values, respectively *financial secrecy* (first) and *links with secrecy jurisdictions* (third). This might indicate that the extraordinary capacity of this country to attract foreign investments (for a variety of reasons) can be partially linked to an opaque legislative framework (especially for Overseas Territories and Crown Dependencies).

Finally, some of the analysed countries have particularly high values in all the considered measures; the most evident case is **Cyprus**, which ranks third (among the EU28) in terms of its level of *financial secrecy*, first in terms of links with secrecy jurisdictions, and seventh for average complexity of ownership structures. **Germany** also ranks among the top 10 countries for the three measures considered. High values in these three metrics should be read as a vulnerability for SOC infiltration in the local economy.

This approach — and these proxies — could also be extremely useful if implemented at a micro/firm level in order to identify anomalies in the corporate structure (e.g., small companies with unnecessarily complex and opaque ownership chains). If these metrics are transformed into tools, they could help investigators in the early detection of businesses at risk on which to focus their investigative resources.

24. When taking into account the overall FSS obtained by considering Overseas Territories (OTs) and Crown Dependencies (CDs) jointly with the United Kingdom.

## 4.3. 'Golden Visas'

*Georgiana Musat, Università Cattolica del Sacro Cuore -Transcrime*

This section is aimed at mapping the different **Immigrant Investor Programmes** (IIPs), commonly referred to as '**golden visas**', across the European Union and highlighting the vulnerabilities that may attract criminals from third countries willing to invest and launder illicit money.

IIPs are policies developed by most EU MSs that **naturalise or give residency and/or citizenship to third-country nationals** (TCNs) on the grounds of economic interests, e.g., an investment carried out in the country (Džankić, 2015, 2018). They differ from other migration policies in offering facilitated residency or citizenship according to monetary contributions and are therefore only available to a selected few high-net-worth TCNs (Transparency International, 2018).

### Investment-based residency and citizenship programmes across EU MSs

The eligibility criteria for the IIPs are different across the EU. They entail:

- **Investments of different types:** e.g., in legitimate businesses, real estate, government bonds, special projects (e.g., cultural contribution), research activities, creation of jobs, etc. (Džankić, 2015; Transparency International, 2018)
- **Different values of monetary contribution:** ranging from a few hundred thousand to several million euro
- **Different status required:** in some countries, the applicant can obtain citizenship only on grounds of monetary contribution, whereas in other countries the applicant must have prior residence over a certain period (e.g., 6 months of physical presence). Moreover, some EU countries offer only a temporary residence permit, and the naturalisation process follows the ordinary citizenship laws (Džankić, 2015).

The different programmes across the European Union can be classified in four categories (Džankić, 2015):

- fully discretionary naturalisation on grounds of national interest
- entrepreneurial programmes
- investor residence programmes (IRP)
- investor citizenship programmes (ICP)

#### *Fully discretionary naturalisation on grounds of national interest*

According to the GLOBALCIT (2017) database, **22 countries** out of the 28 EU MSs have the discretion to naturalise individuals on grounds of special achievements, which might be economic, cultural, sports-related or scientific. In particular, as for economic achievement, 4 EU MSs, namely **Austria, Bulgaria, Slovakia and Slovenia**, allow for the provision of citizenship on grounds of economic interest.

#### *Entrepreneurial programmes*

The entrepreneurial programmes grant TCNs only a **temporary renewable residence** permit. The naturalisation process is established through **ordinary citizenship laws** and is not regulated by specific regulations (Džankić, 2015). The aim of this programme is to foster investments in the countries.

#### *Investor residence programmes (IRP)*

Most EU MSs allow TCNs to obtain residency upon monetary contribution. TCNs can apply if they respond to selected criteria, provided by **specific residence laws**, in terms of level of monetary contribution and other matters. The residency status facilitated through these programmes is a **fast-track route to citizenship** (Global Witness, 2018). The granting of citizenship is usually bounded by a certain period of residency that is, however, less than the one required by ordinary migration laws.

#### *Investor citizenship programmes (ICP)*

Few EU MSs allow citizenship to be obtained through an investment. Among EU MSs, only **Cyprus** grants citizenship without eligibility criteria in terms of status and residency. The acquisition of citizenship is based only on the investment made by the applicant. Other EU MSs, namely **Bulgaria, Malta and Romania**, also offer ICPs, but the applicant must meet other eligibility criteria. A period of residence is necessary to obtain and maintain the legal status obtained (Džankić, 2015).

Despite the differences in the criteria adopted, they are all based on a monetary contribution, i.e., an investment that entails the provision of a legal status, either residency or citizenship. Therefore, following Džankić (2018), the IIPs can be further classified based on **two dimensions**:

- the **investment obligation**
- the **status obligation** of each programme

For each dimension, Džankić (2018, p.66) assigns a score from 1 to 5. For the first dimension, the investment can range from 100 thousand to a few million euro:

1. Very low (less than 100,000 euro)
2. Low (between 100 and 500 thousand euro)
3. Medium (between 500 thousand and 1 million euro)
4. High (between 1 million and 5 million euro)
5. Very high (more than 5 million euro)

For the second dimension, Džankić (2018, p.67) provides a ranking that measures how easy it is to obtain the required status (from easiest to hardest):

1. Citizenship obtained with no visit to the country (just one day to obtain the passport)

2. Citizenship obtained with registered residence but little physical presence is required  
 3. Registration of residence and multiannual continuous physical presence, but the programme results in citizenship

4. Residence rights maintained by registration, but limited physical presence is required and investors are subject to a special tax status  
 5. Residence rights maintained by registration, physical presence of more than 6 months and all taxes regularly paid

The scores for each country are reported in the first two columns of Table 1. Some EU MSs (Bulgaria, Cyprus, Malta and Romania) offer different types of programmes and therefore only the first best option has been reported. The countries that do not offer programmes or that have full discretion in providing it (such as Austria) are not scored. (For full details, see Džankić, 2018).

**Table 8 – Classification of IRPs and ICPs in the European Union**

Source: Transcrime elaboration of Džankić (2018) and open sources

Country	Investment score	Status score	Total	Rank <sup>25</sup>
Austria	N/A	N/A	5	23
Belgium	N/A	N/A	5	23
Bulgaria	2	5	1.4	1
Croatia	1	5	3.4	9
Cyprus	4	2	1.6	2
Czech Republic	1	5	3.4	9
Denmark	N/A	N/A	5	23
Estonia	1	5	3.4	9
Finland	N/A	N/A	5	23
France	5	5	4.2	17
Germany	N/A	5	4.2	17
Greece	2	4	2.8	5
Hungary <sup>26</sup>	2	5	3.6	14
Ireland	4	4	3.2	8
Italy	N/A	5	4.2	17
Latvia	1	5	3.4	9
Lithuania	1	5	3.4	9
Luxembourg	N/A	N/A	5	23
Malta	4	2	1.6	2
The Netherlands	4	5	4	15
Poland	N/A	5	4.2	17
Portugal	3	4	3	6
Romania	4	3	2.4	4
Slovakia	N/A	5	4.2	17
Slovenia	N/A	5	4.2	17
Spain	3	4	3	6
Sweden	N/A	N/A	5	23
UK	4	5	4	15

25. Countries ranked by ease of obtaining an ICP or IRP citizenship (the lower the overall score, the higher the ranking).

26. The programme was suspended on 31 March 2017.

Table 8 also reports an overall score calculated by Transcrime. First, using (Džankić, 2018), the GLOBAUCIT, 2017 database and open sources, we updated the original *Investment* and *Status* scores.<sup>27</sup> Then we computed a **weighted average score** of the two dimensions, where the status score has a weight of 80% and the investment is 20%, based on the assumption that a wealthy TCN willing to acquire a legal status in a EU MS would prefer the best option regardless of the amount of the investment. Based on the same *first best option* assumption, for those countries that offered different programmes, we selected only the one that entails citizenship.

Based on this overall score, the countries that offer the **best conditions to obtain investment-based citizenship** are **Bulgaria, Malta, Cyprus and Romania**. As mentioned above, these countries are the only ones in the EU that use specific migration laws to regulate the acquisition of citizenship through a monetary contribution.

#### *Bulgaria*

The Bulgarian Citizenship Law establishes that a TCN willing to obtain a permanent residence permit should invest **at least 1.04 million euro** (Džankić, 2018). After 1 year of permanent residence, the TCN can apply for citizenship. To maintain it, **6 months and one day of physical presence** in the country and a clean criminal record in Bulgaria are required.

#### *Malta*

The Maltese Citizenship Act (Government of Malta, 2014) requires an overall investment contribution of **at least 1.15 million euro**, which could be split as follows: 650,000 euro as direct contribution, real estate worth 350,000 euro or rental of a property for

at least 16,000 euro per year, plus an additional investment of 150,000 euro. However, the naturalisation process requires a clean criminal record, an oath of allegiance and **1 year of effective residence**, but a minimum physical presence is not regulated by the Citizenship Act.

#### *Cyprus*

Among the EU MSs, Cyprus has a high investment score (an investment of **at least 2 million euro**, plus real estate worth 500,000 euro) but it scores the lowest rank in the status obligation score since it **grants citizenship without further eligibility criteria**. The acquisition of citizenship is based only on the investment made by the

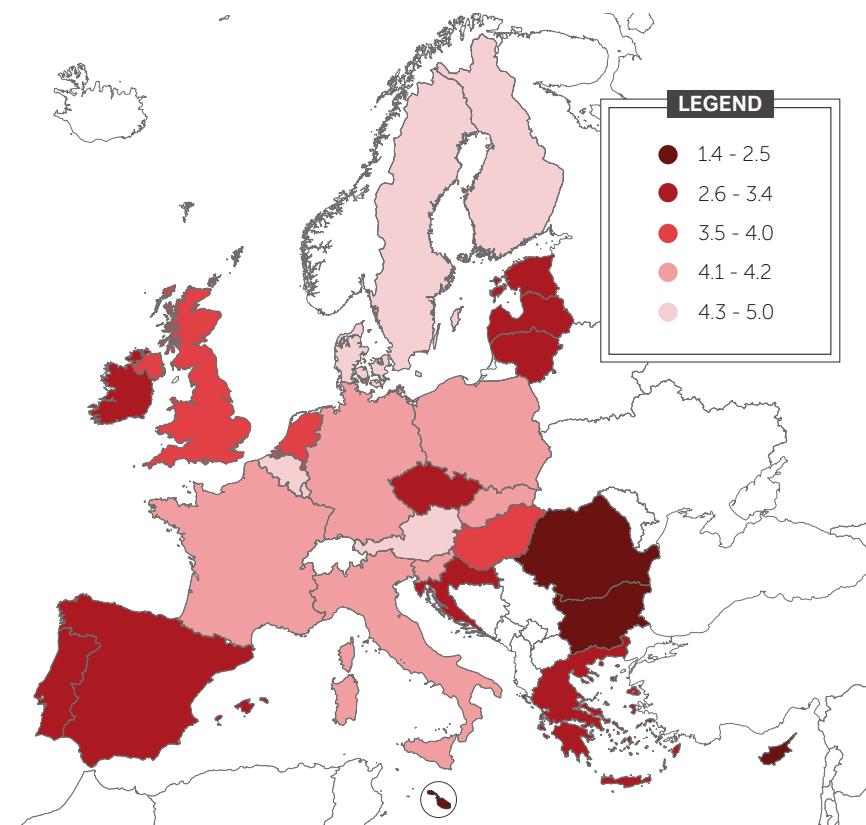
applicant, and the TCN does not have to fulfil prior residence criteria. It does, however, require a clean criminal record (Ministry of Interior, 2016).

#### *Romania*

Citizenship is granted after fulfilling different criteria. The Romanian Citizenship Act (Romanian Parliament, 2010), **requires 1 million euro** as a monetary contribution that entails the provision of a **residence permit**. After 4 years of permanent residence, the TCN can apply for citizenship. It requires a period of at least 6 months of physical presence in order to apply for citizenship. Other criteria include a clean criminal record and knowledge of the language, culture, constitution and national anthem.

**Figure 23 – Investment-based residency and citizenship programmes, average values in the European Union**

Source: Transcrime elaboration of Džankić (2018) and open sources



27. Specifically, the status score was rescaled on a 1-5 basis and the countries not having programmes were assigned a score of 5 by default for the missing dimension.

## Vulnerabilities in terms of SOC infiltration

'Golden visa' programmes were first adopted in a few countries like the Caribbean island of **St. Kitts and Nevis**, **Australia**, **Canada** and the **United States**. After the financial crisis of 2007, the number of countries that developed these systems increased and, to date, most EU MSs use them (Džankić, 2015; OCCRP, 2018).

As mentioned above, this kind of migration policy aims at **attracting affluent third-country nationals** and therefore foreign capital. If not accompanied by an in-depth screening of the applicants, however, investment-based residency and citizenship programmes may also attract **criminals from third countries** willing to invest and launder **illicit money while obtaining EU status** (Transparency International, 2018). The legal status obtained might be an opportunity:

- to **evade law enforcement** and prosecution in their home country (Global Witness, 2018)
- to gain a second passport — and with this a "new identity" — to **clean up their criminal reputation** (see Chapter 3)
- to help with **free movement in other EU MSs** and making further investments, as a sort of 'multiplier' of money laundering effects

As shown in Figure 1, the countries that offer the best conditions to obtain EU '**golden visas**' are also ranked first in terms of other risk factors (see sections 4.1 and 4.2 in this chapter). Criminal TCNs willing to infiltrate legitimate businesses for ML purposes can be attracted by those countries offering such a mixture: **favourable tax systems**, high levels of **financial and corporate opacity**, a strong **shadow economy**, high levels of **cash intensity** — and favourable **immigrant investor programmes**.

Furthermore, it is important to note that most applications come from countries such as **China and Russia** (Cooper, 2016; Transparency International, 2018) that are frequently reported as sources of illicit financial flows (Global Witness, 2018; Kar & Spanjers, 2014). In particular, Russian citizens may exploit the IIPs in order to avoid the sanctions Europe imposes on Russia (Cooper, 2016).

A report by the European Commission on the different IIPs in Europe is due by the end of the year (Transparency International, 2018).

### Residency bonds and a suspected international money laundering network

#### 'Golden visas' and Russian oligarchs in Cyprus

Since 2008, Cyprus has granted citizenship to 1,685 high-net-worth TCNs, most of them from Russia but some also from China, Iran and Saudi Arabia (Farolfi, Harding, & Ophanides, 2018).

Recent media investigations revealed that Cyprus granted citizenship to identified Russian oligarchs against whom the U.S. Department of the Treasury's Office of Foreign Assets Control issued sanctions (Farolfi et al., 2018; Schultz, 2018).

On January 2014 the **European Parliament** warned about the risks of IIPs, stressing that EU MSs should not provide citizenship or residency only on the grounds of economic contribution and should also consider other criteria involving risks with this kind of programme, especially money laundering (**Resolution 2013/2995[RSP]**) – (European Parliament, 2014).

The **European Commission** also warned about the risks connected to IIPs and how these programmes may undermine the concept of European citizenship and all the related benefits (Galindo, 2018).

Moreover, recent media investigations revealed that the governments offering these investment schemes cannot always perform a **proper due diligence process** (Global Witness, 2018), specifically, checking the origin of the investment made by the TCN (Transparency International, 2018).

A media investigation revealed that some suspects were granted residency permit in Hungary thanks to the acquisition of Hungarian state bonds. The suspects include a Syrian man in custody of the Italian authorities because suspected to be a member of an international criminal network involved in trafficking of human beings, weapons, drugs and money laundering, and another Syrian individual present on the US OFAC blacklist (Erdélyi, Zöldi, & Sáling, 2018).

The used scheme allows TCNs who invest 250-300 thousands euro in state bonds to get a local Hungarian residency permit (which could be also extended to family members). According to sources, between 2013 and 2017, Hungary handed out nearly 20,000 permanent residence permits for residency bond investors and their family members, but their names are not disclosed for privacy reasons (Erdélyi, Zöldi, & Sáling, 2018).

The case, initiated by the Italian law enforcement with the legal assistance of Hungarian authorities uncovered a criminal network operating in Italy, Hungary, Morocco, Libya and Egypt, mostly involved in money laundering. Some of the members had founded several companies (including a money exchange agency) in Hungary.

## Concluding remarks

The ultimate goal of IIPs is to attract foreign investors and capital in order to contribute to a country's economy, but this should not pose risks to the overall security of the country. Governments must ensure the integrity of these programmes, focusing especially on the **origin of the monetary contribution** to ensure that it is not connected to money laundering and terrorist financing.

Furthermore, EU MSs should provide **clear eligibility criteria** and ensure there is a **proper due diligence process** based on a **risk assessment approach**, for instance by checking sanctions and terrorist lists, links with PEPs, previous negative judicial events and information on other foreign assets and businesses owned, such as financial reports, lists of other shareholders (current or former), board managers and ultimate beneficial owners.

## 4.4. Country overview

In order to provide a better comparative country overview across EU MS, the following radar charts are created. Each chart provides the ranking of the EU country under consideration in terms of **8 indicators** which are taken as a synthetic proxy of the key risk factors of SOC infiltration analysed in previous sections.

For each indicator, EU countries are ranked from 1 to 28, where 1 means **highest value and, therefore, highest risk**. All indicators are rescaled so as they point out risk in the same direction.<sup>28</sup> Countries whose national scores are not available are attributed the EU average.

The charts can also be read from another perspective, looking at the area drawn across the diagonals: **the wider the coloured area, the higher the overall risk** of SOC infiltration according to the risk factors taken into account.

While some countries rank high only with respect to selected indicators, some other EU MS show quite **high values for a variety of vulnerabilities**. All the countries are analysed in Chapter 6, discussing the current scenario of SOC infiltration and commenting each risk factor. Moreover, an in-depth analysis of the three EU MS specifically covered by the study (**Germany, Italy and Sweden**) is provided.



### Cash-intensity

Ratio of cash payments on all payments types (Transcrime elaboration of ECB, 2016)



### Cash payment limits

Threshold on the use of cash for B2B purchases (Transcrime elaboration of open sources)



### Shadow economy

Estimate of shadow economy as % of the GDP (Medina & Schneider, 2018)



### Control of Corruption

Composite indicator measuring the governance capacity of a country to effectively control corruption (World Bank, 2016)



### Financial secrecy

Composite indicator measuring the level of financial and banking secrecy of a country (Tax Justice Network, 2018)



### Business owners from secrecy jurisdictions:

Volume of resident businesses' shareholders coming from secrecy countries (Transcrime elaboration of BvD and TJN, 2018)



### Business ownership complexity

Average complexity of the ownership structure of resident businesses (Transcrime elaboration of BvD data)



### 'Golden visas'

Overall facility to obtain investment-based citizenship and residence (Transcrime elaboration of Džankić, 2018).

28. For Control of corruption, being 1st means highest risk of corruption.

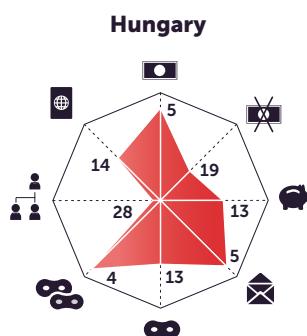
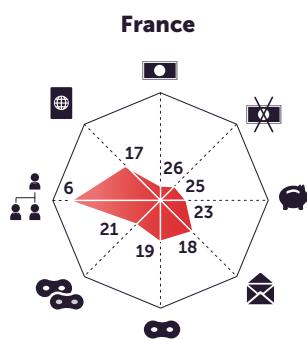
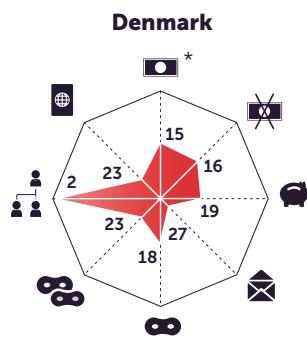
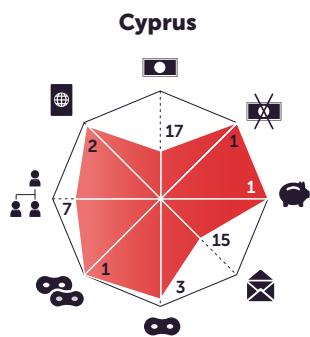
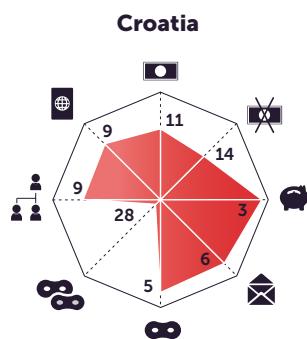
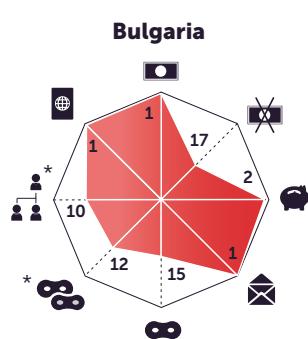


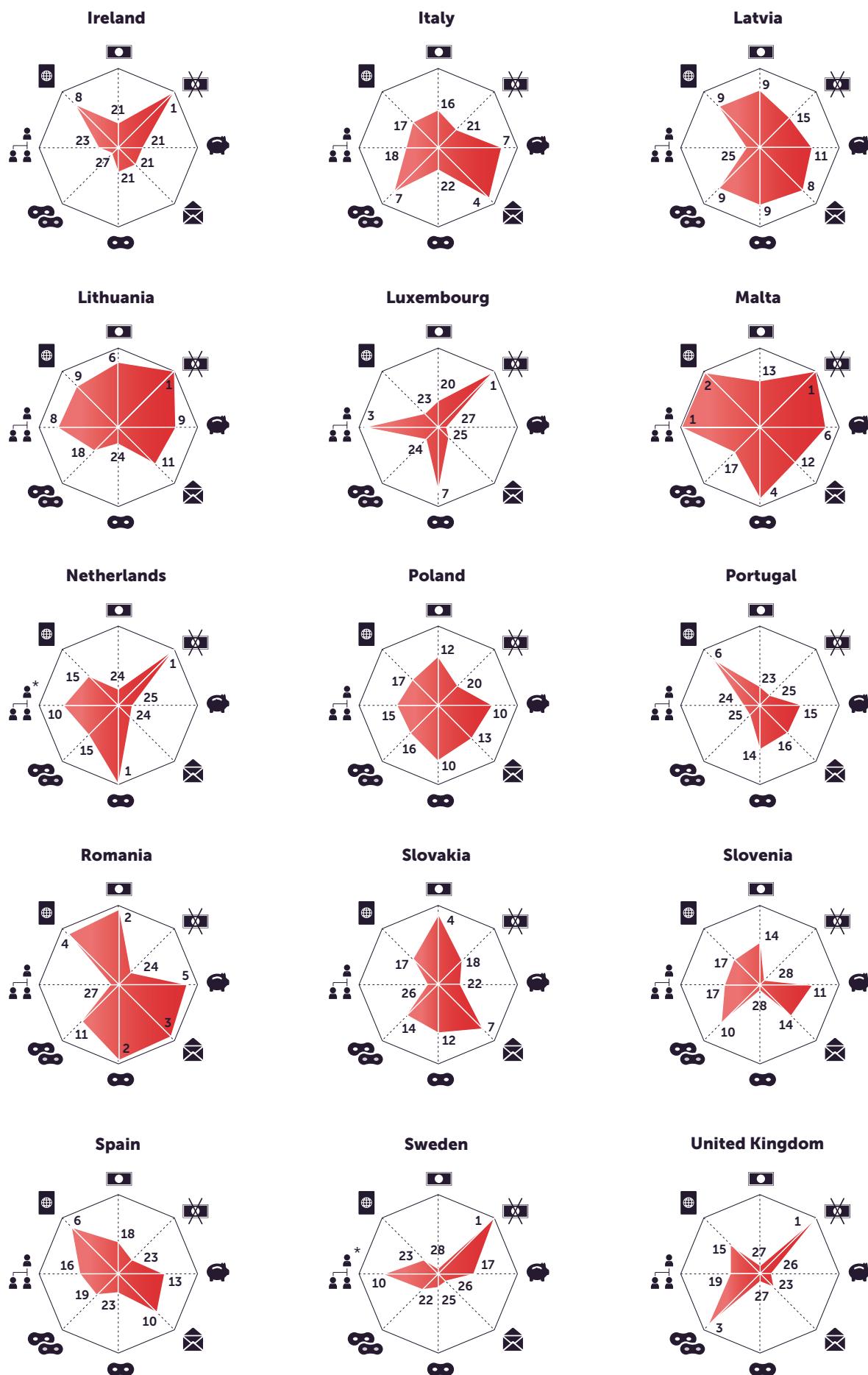
### How to read

EU MS ranked from 1 to 28,  
where 1 = highest value and  
highest risk.

The wider the coloured area,  
the higher the overall risk.

\* → EU average value







# 5

## 3.

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## RISK FACTORS AT THE *MICRO* LEVEL

The analysis at the micro level aimed to better understand how SOC infiltration works and what observable traits at the firm level can be used to identify such companies. As mentioned in Chapter 2, the analysis was carried out on a **large sample of firms confiscated from Italian OC** in the last 30 years.

Italy is not only unique with regard to its long history of organised crime, but also because of its **special legal framework**, which allows the authorities to seize and then confiscate infiltrated firms under the suspicion of links with SOC offences (Riccardi & Berlusconi, 2016, pp. 21–22). Unfortunately, such legal solutions are not available in most member states, and in any case they are used elsewhere to a much lesser extent. Even in countries with similar regulations, the number of cases is too low for a similar analysis.

As mentioned in Chapter 2, **project ARIEL** previously attempted to address this issue by conducting a firm-level analysis on a sample of infiltrated (but not necessarily confiscated) firms in 5 EU MSs identified through a snowball approach (Di Bono, Cincimino, Riccardi, & Berlusconi, 2015). However, the sample was too heterogeneous and the analysis did not produce the sound results that would have enabled further quantitative analysis. Therefore, our in-depth study considers only Italy, but practitioners can **adapt the results to the local environment** based on their own experience.

## Main findings



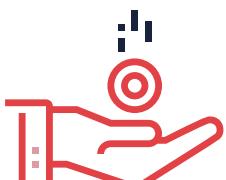
Private limited companies (s.r.l.) are extensively used because they can be quickly created, managed and controlled and do not incur high costs.



The ratio of female owners is above the national average, as there is evidence that women are used as figureheads.



Infiltrated firms have significantly less financial debt, as illicit revenues make bank loans unnecessary.



Funds are provided using trade credit or shareholders' loans.



Criminals overweight current assets but underweight cash equivalents to avoid confiscation.

## 5.1. Ownership red flags

The first set of indicators concerns **business ownership characteristics**: it is a descriptive one, based on 1,944 Italian firms that were confiscated from Italian mafia-type organised crime groups between 1984 and 2012. It

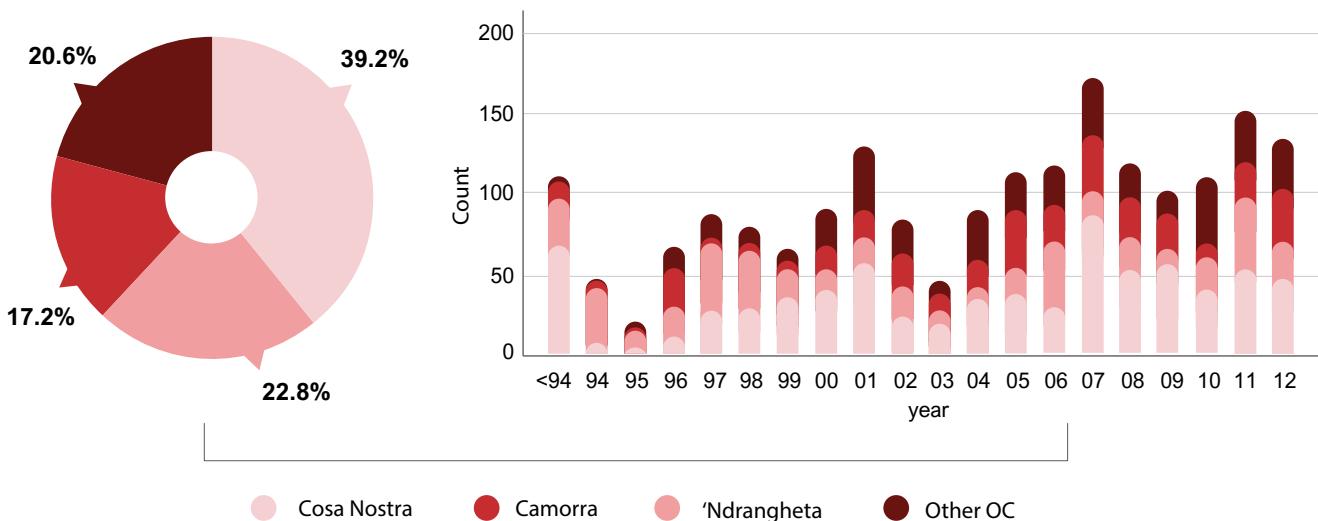
shows that there was an increase over time of confiscations (Figure 24).

The most typical economic sectors are **construction** (F – 26%)<sup>29</sup>, wholesale and retail trade (G – 26%), **hotels and**

**restaurants** (H – 9%) and **real estate related activities** (K – 8%). Except for trade, these sectors are over-represented compared to the overall Italian economy (Riccardi, Soriani, & Giampietri, 2016, p. 123).

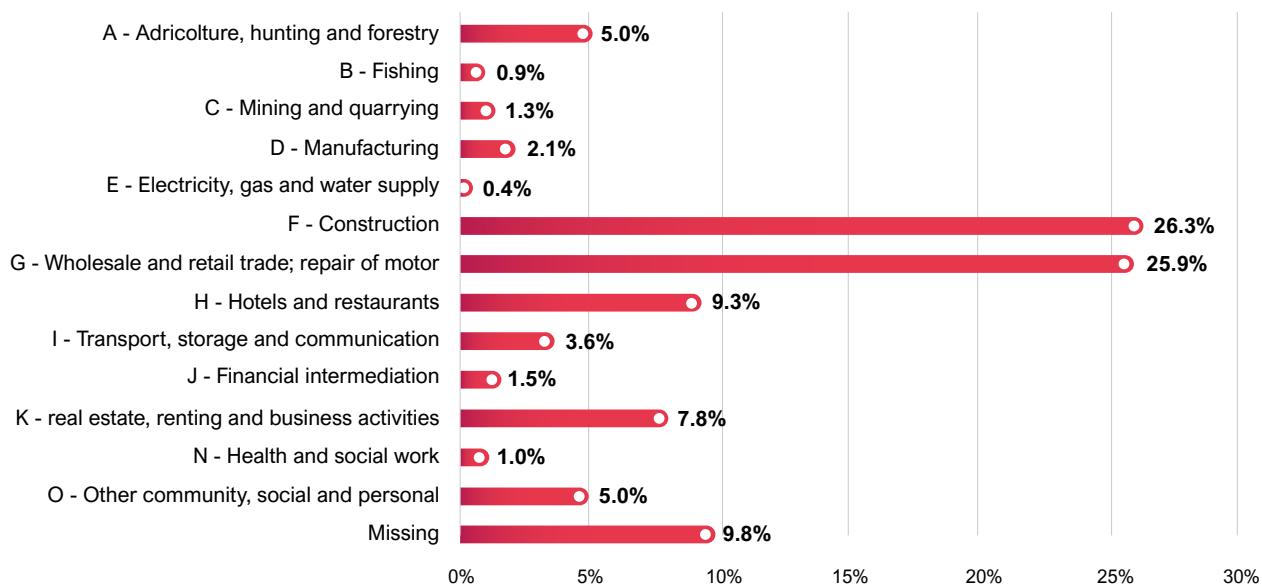
**Figure 24 - Number of confiscated firms over time and their OC affiliation**

Source: Transcrime elaboration of ANBSC data



**Figure 25 - Economic sector – NACE Rev. 1.1**

Source: Transcrime elaboration of ANBSC data



29. NACE Rev. 1.1/Ateco 2002 section codes and percentages in parenthesis

## Type of legal form

The same comparison regarding the legal form of the firms yielded similarly interesting results.

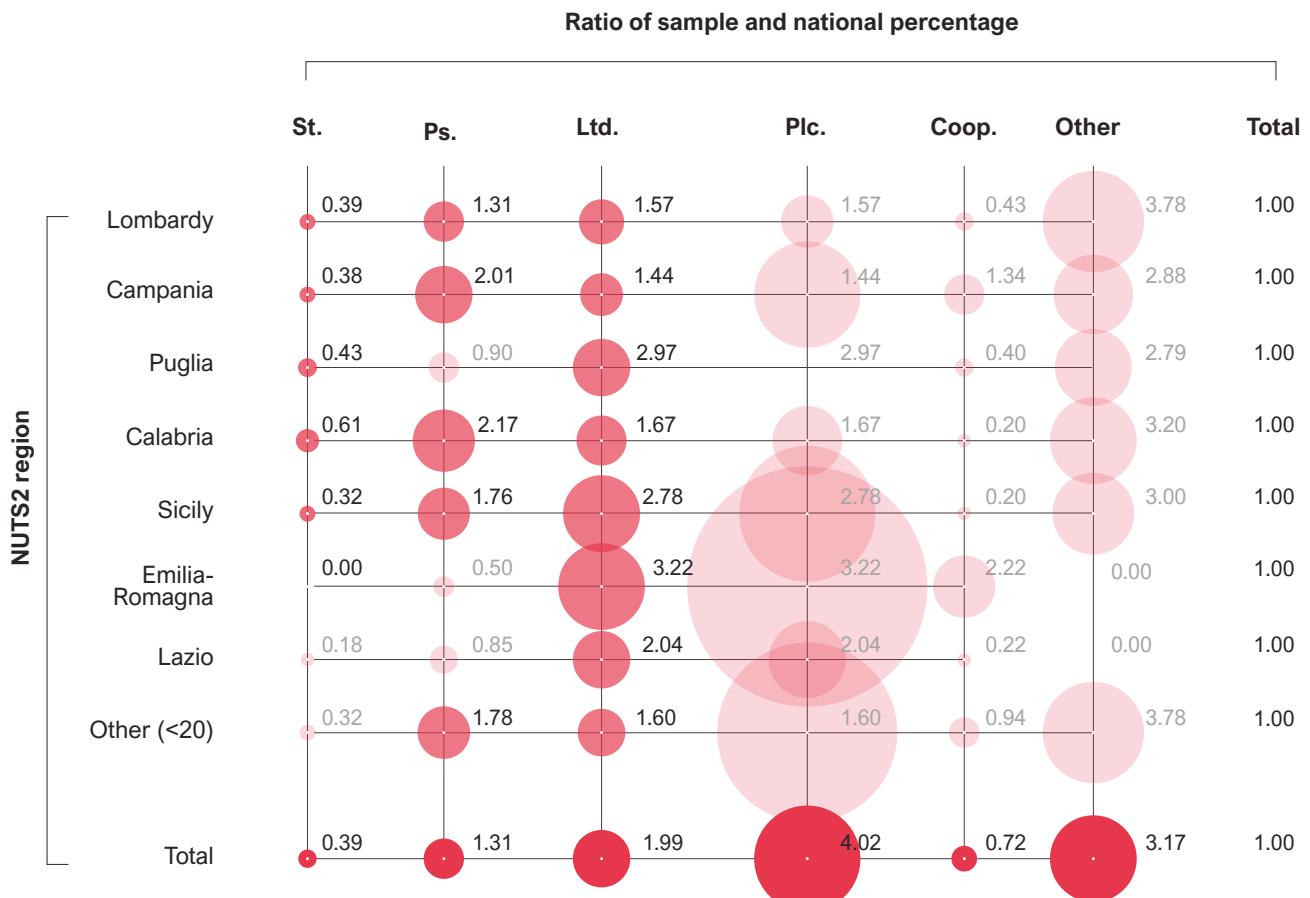
Table 9 shows that certain legal forms were more common among confiscated firms than in the legal economy in general. Proportionally, there were significantly more **private limited companies** (*s.r.l.* in Italian — almost double the national percentage) and partnerships (*s.s.*, *s.n.c.*, *s.a.s.*), while there were fewer sole traders (*im-*

*prese individuali*). Criminals may prefer these forms because they are **easy and cheap** to incorporate, and their administration does not incur high costs (Garofalo, 2016, pp. 197–198; Gup & Beekarry, 2009). Moreover, by using figureheads at partnerships and private limited companies, they can still avoid being formally connected to these firms. Case studies (Chapter 3) also confirmed a preference for Ltd. types of firms by OCGs in other EU countries, too.

Different criminal organisations have different preferences for legal forms (Table 10). Cosa Nostra and certain groups active in the Rome area in particular (classified as *other OC*) have a strong preference for limited companies. On the other hand, Camorra and 'Ndrangheta have a higher rate of partnerships, and the high number of sole traders affiliated with the latter group suggests that '**Ndrangheta may prefer to have more direct control of firms**'. This is in line with the organisational model of the 'Ndrangheta, leaning towards a more familialistic and unitary type of control (Catino, 2014a, p. 190).

**Table 9 - Legal form and region**

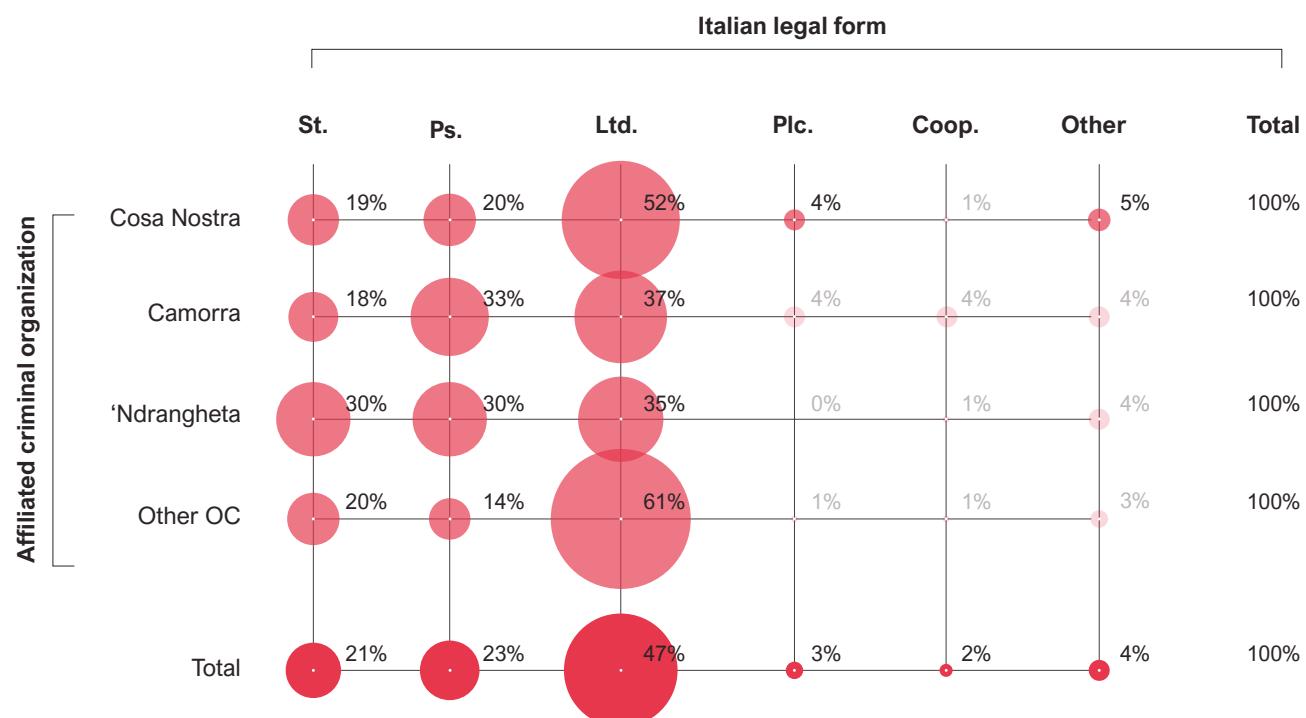
Source: Transcrime elaboration of ANBSC data



Abbreviations: st. – sole trader (*imprese individuali*), ps. – partnership (*s.s.*, *s.n.c.*, *s.a.s.*), ltd. – private limited company (*s.r.l.*), plc. - public limited company (*s.p.a.*), coop. – cooperative. Numbers in grey: less than 20 observations

**Table 10 - Legal form and affiliation**

Source: Transcrime elaboration of ANBSC data



## Type of owners

Information was also collected on the type of owners the companies in the sample had. The share of **legal person owners** was 2%, which is very low compared to other analysed samples (and compared to the evidence emerging from the case studies). And most of these businesses were established in Italy; only a few were founded abroad and not many were established in secrecy jurisdictions. There can be

various explanations for these results. First, from the law enforcement perspective, it is **harder to identify and confiscate assets** abroad, especially in tax havens. Second, in many cases, **no formal complex ownership network** is needed, since criminals can move funds between companies using trade credit or other similar solutions without interlocking ownership links. Moreover, a significant portion of the

companies in the sample were from the 1990s or early 2000s, when **communication was still an issue**, and it was difficult to keep control of complex networks or companies, especially if they were registered in secrecy jurisdictions. The advent of the Internet and other IT platforms has made it possible for OC members to incorporate firms abroad and manage them quite easily (on this see – Galullo et al, 2018).

### A network of foreign companies controlled by the 'Ndrangheta

Operation *Metropolis* revealed the investment strategy of two 'Ndrangheta groups and Irish and Spanish OCGs in the construction and tourism sectors in Calabria. Through a **network of infiltrated companies situated in Italy and abroad** (e.g., Spain and Ireland), the OCG man-

aged to obtain control over the construction, and subsequent commercialisation, of dozens of tourist-residential compounds built along Calabria's Ionian coast (Tribunale di Reggio Calabria, 2013). The investigation revealed that the OCGs used the legitimate businesses to launder

money from illicit activities (presumably from cocaine trafficking and extortion). Furthermore, the foreign companies were also used to launder money from the IRA's terrorist activities and other crimes in the construction of the tourist resort (Galullo, 2013).

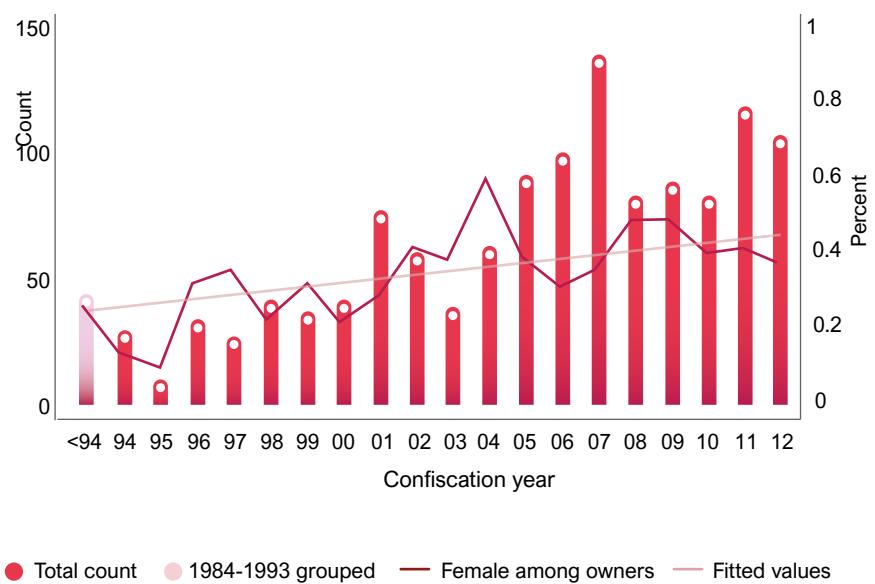
The gender of the convicts and business owners was also available in our dataset. While 90% of the convicts were male, **only 65% of the owners were men and 33% were women**. Although precisely equivalent nationwide data is not available, the Italian Chamber of Commerce published data showing a 22% share for female majority firms<sup>30</sup> (Unioncamere, 2018). It is remarkable that the proportion of confiscated companies having at least one female owner is far higher than this figure and is increasing over time (Figure 26). It is also striking that, despite the crucial role played by **women as owners of mafia-controlled firms**, on average only 2.4% of the criminals imprisoned for mafia-type association<sup>31</sup> were women during the 2000–2016 period, based on ISTAT data.

The share of female owners is a relevant measure, since many previous papers suggested the **important role of women as figureheads** (Soudijn, 2010; Savona, Riccardi, & Berlusconi, 2016, p. 199). When using figureheads, criminals have to strike a balance between maintaining control and their need to conceal the beneficial owners of their firms. An ideal choice can be the use of female family members (e.g., wives, partners, daughters), because they raise less suspicion (Fiandaca, 2007).

Unfortunately, family ties cannot be identified using the dataset, but the names of the convicts and the owners can be easily compared to use them as a proxy. Table 11 gives evidence that **relatives were indeed used as straw men** in our sample. In 261 firms (20%), the convicts were not the proprietors, who were their relatives with the same surname. Criminals increasingly used this method over time, as Figure 26 suggests.

**Figure 26 - Presence of female owners over time**

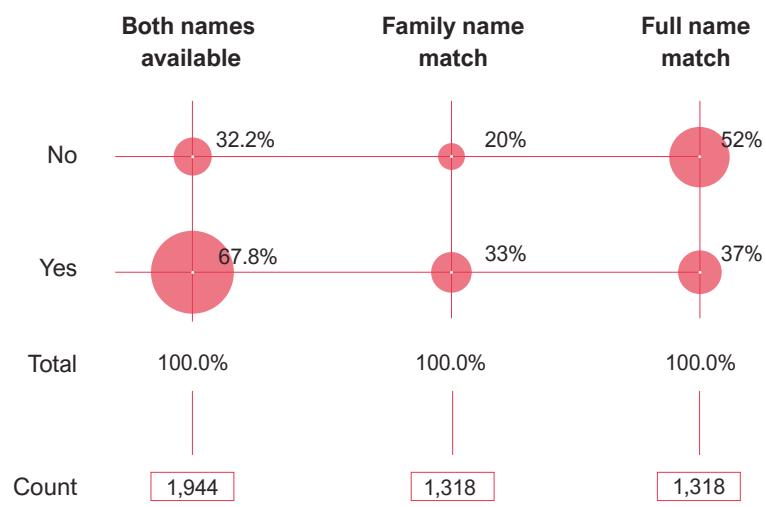
Source: Transcrime elaboration of ANBSC data



● Total count ● 1984-1993 grouped — Female among owners — Fitted values

**Table 11 - Match among convicts and owners**

Source: Transcrime elaboration of ANBSC data



30. Data from the Italian Chamber of Commerce; female majority means 60% for partnerships and cooperatives, 66% for companies either among owners or in management.

31. Art. 416-bis of the Italian Penal Code.

It should be noted that married women retain their maiden names in Italy, therefore the lack of a match can still mean there were wives or fiancées among the owners. Nonetheless, there is quite a remarkable difference in the proportion of female owners based on the name match in Table 12. If the convict or a person with the same surname is not present among the owners, there are twice as many female owners as males.

In certain regions such as **Lazio, Puglia and Lombardy**, the ratio of firms with female owners can be double the proportion of firms with a female majority. This geographical variation can also be found among criminal groups, as criminals from the Rome area (i.e., the former Banda della Magliana and other more recent organisations) used the most female owners, followed by 'Ndrangheta and Cosa Nostra (37%–37%), while **Camorra used this strategy to a lesser extent** (28%). As figureheads are usually passive participants, this can confirm the **more active role of women in Camorra** (Allum, 2007, p. 9).

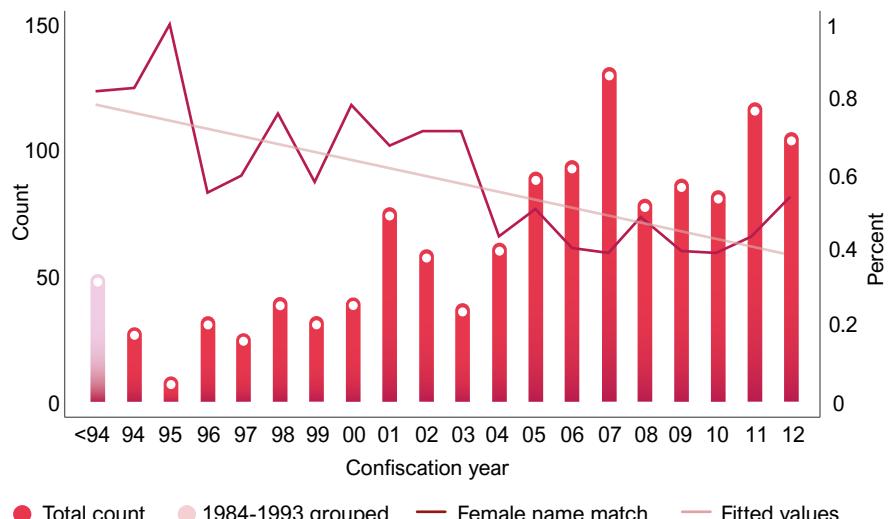
“

**Wives,  
partners,  
daughters  
raise less  
suspicion**

”

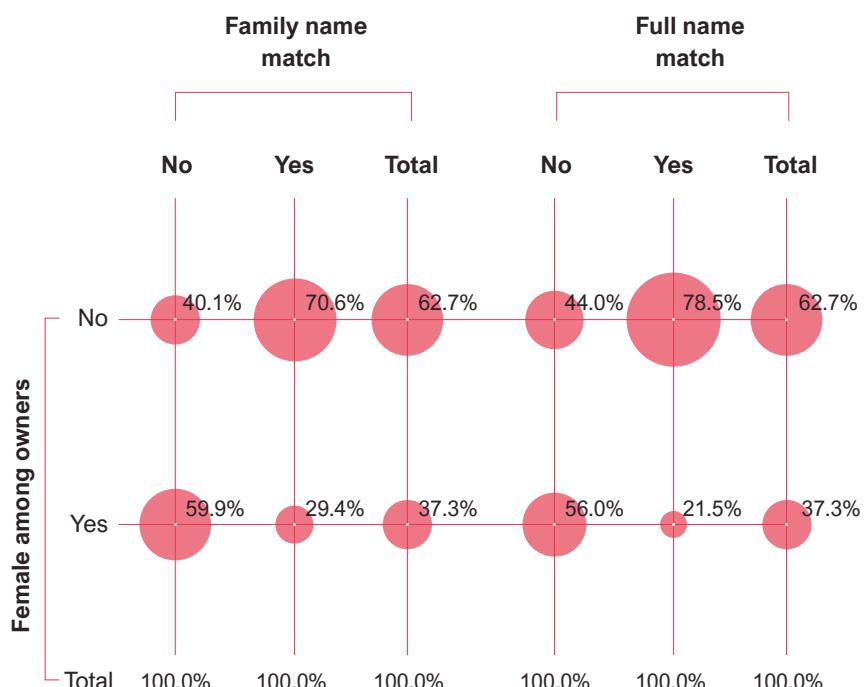
**Figure 27 - Name matching over time**

Source: Transcrime elaboration of ANBSC data



**Table 12 - Matching names and female owners**

Source: Transcrime elaboration of ANBSC data

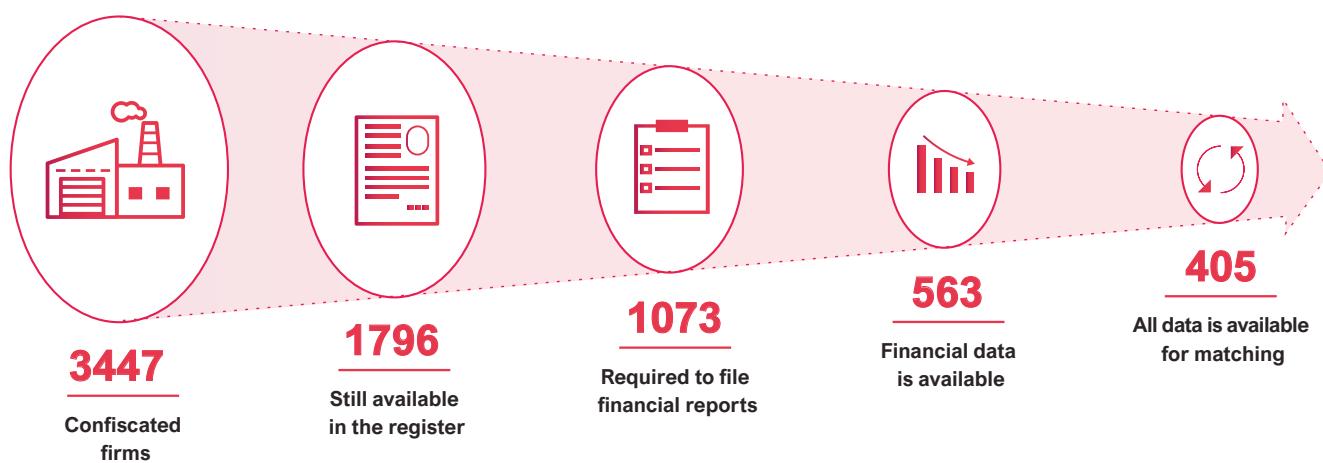


## 5.2. Financial red flags

Only a subsample of the database contained information about the convicts being affiliated with certain firms and their formal owners. This information was not available for an updated da-

taset that included **3,447 confiscated firms** in total. We analysed this larger dataset to identify financial red flags. Unfortunately, many bankrupt companies were eventually deleted from the

register, and only private and public limited companies are required to file detailed financial reports (51% of the original sample). Therefore, the financial analysis eventually was conducted on 405 companies.



We used a matching technique to get for each confiscated company a **peer group of 100 firms** located in the same province (i.e., the NUTS 3 area)<sup>32</sup> and operating in the same NACE Rev. 2 class. Theoretically, these firms

should not differ from the confiscated companies except in being confiscated. Although the first attempts to investigate the financial reports of confiscated companies date back to 2013 (Transcrime, 2013), it is only recently

that some authors carried out financial analyses in a more systematic way to detect infiltration red flags (Ravenda, Argilés-Bosch, & Valencia-Silva, 2015; Fabrizi, Malaspina, & Parbonetti, 2017). Our selection of variables can be connected to five main hypotheses:

**Table 13 - Hypotheses on financial red-flags**

Hypothesis	Consequence in financial reports
1 Infiltrated firms do not need external financing, because they are laundering illicit funds.	Low level of financial debt
2 Infiltrated firms may reallocate money in the (not necessarily formal) corporate network.	High level of payables and receivables
3 They do not invest much in fixed assets, because their main objective is not formal profit maximisation, and these assets are also prone to confiscation.	High level of current assets
4 They do not need high liquidity on paper due to the large amount of illicit cash revenues and the risk of confiscation of bank accounts.	Low level of cash equivalents
5 They try to avoid paying taxes and social contributions.	High level of tax payables

32. If there were fewer than 100 such companies, the scope was widened to the NUTS2 regional level.

In our panel model, we used controls for location, activity, firm size, firm age and calendar year,<sup>33</sup> and we considered **5 years prior to the earliest**

**legal intervention.** We included a binary variable to mark the confiscated companies, and if these turned out to be significant during the Monte Carlo

simulation,<sup>34</sup> we could conclude that the given financial ratio is significantly different for infiltrated firms. These results are summarised in Table 14.

**Table 14 - Results of the panel model**

Source: Transcrime elaboration of ANBSC data

Financial ratio	Mean coefficient	Mean p-value
<b>Assets of connected firms</b>	<b>0.0001</b>	<b>0.5382</b>
<b>Other financial assets</b>	<b>-0.0009</b>	<b>0.5013</b>
<b>Accounts receivables</b>	<b>-0.0077</b>	<b>0.6350</b>
<b>Loans given to connects firms</b>	<b>0.0040</b>	<b>0.4782</b>
<b>Tax receivables</b>	<b>0.0097</b>	<b>0.2432</b>
<b>Other current assets</b>	<b>0.0478</b>	<b>0.0139</b>
<b>Short term current assets</b>	<b>0.0495</b>	<b>0.0645</b>
<b>Cash</b>	<b>0.0001</b>	<b>0.5979</b>
<b>Accrued revenues</b>	<b>-0.0006</b>	<b>0.5508</b>
<b>Financial debt</b>	<b>-0.0730</b>	<b>0.0090</b>
<b>Shareholder loans</b>	<b>-0.0046</b>	<b>0.5629</b>
<b>Accounts payables</b>	<b>0.0353</b>	<b>0.2467</b>
<b>Debt owed to connected firms</b>	<b>-0.0074</b>	<b>0.3077</b>
<b>Tax payables</b>	<b>0.0499</b>	<b>0.0277</b>
<b>Other debt</b>	<b>-0.0026</b>	<b>0.5539</b>
<b>Short term debt</b>	<b>0.0248</b>	<b>0.4119</b>

The results were mostly in line with our hypotheses. The largest and most significant difference was for financial loans, which confirms *Hypothesis 1. Infiltrated firms do not need formal bank loans*, and even if such a demand existed, the banks would mostly reject such requests due to the obvious risks — if we assume the banks are able to detect firms suspected of being infiltrated by OCGs. The proportion of **tax payables** among liabilities was higher for confiscated firms, which means that these taxes are ac-

tually paid to a lesser extent compared to non-infiltrated firms. The **other** and **short-term current assets** were also significantly higher, which confirms *Hypothesis 3* about fixed assets.

However, cash and cash equivalents over total assets was not significantly different for the two groups. One should note that regression considers the average effect, which may be cancelled out by different strategies. Also, in the most infiltrated sectors (e.g., construction, food and beverage

services) this ratio is very low due to its high share of the shadow economy (see Chapter 4). This makes it difficult to tell the criminal firms apart from the companies evading taxes.

We analysed the database using a **logistic model**, where the outcome variable was an indicator of being confiscated. Since a practitioner cannot observe the criminal infiltration in advance, we considered 5 fiscal years prior to confiscation, a time-averaged model (avg.) and a panel (*pan.*) one as well.

33. The data was reorganised on a relative time scale, where T0 was the year of the earliest available intervention (seizure, “emission” or final confiscation) in order to filter out the economic effect of the confiscation.

34. Each time, we selected a single control firm, estimated the model, and eventually calculated the average of these estimates.

**Table 15 - Results of the logistic model**

Source: Transcrime elaboration of ANBSC data

Financial ratio	Relative year						Average	Panel
	-5	-4	-3	-2	-1	0		
Logarithm of total assets	**	**	**	**	**	**	**	*
Standard deviation of total assets	*	**	**	**	**	*	**	
Loans given to connected firms (-)						*		
Tax receivables (-)					*			
Other current assets						**		
Accrued revenues	**		*					
Financial debt (-)	*	**	**		**	*	**	*
Shareholder loans (-)			**					
Debt owed to connected firms (-)		**	*	**			*	**
Tax payables		**						
Other debt (-)			*					
Short term debt (-)	*					*		

Abbreviations: avg.: time average of the [-5;0] time period, pan.: panel model

Significance levels: \* – 10%, \*\* – 5%

Corresponding to the panel model, in Table 15, financial debt had a significantly negative coefficient in almost all specifications, which means that firms with higher financial debt had a lower probability of being eventually confiscated. The overall size of the assets is usually a relatively stable measure that changes with the longer-term development of a company. Confirming this hypothesis, a **high variance of this measure means higher risk**. The significantly negative coefficient of **debt**

**owed to connected firms** can be traced back to the absence of corporate groups among confiscated firms. In our sample, the infiltrated companies had more total assets on average, thus the positive coefficient of this measure.

To detect **non-linear effects** in order to enhance our models, we used a decision tree technique (CHAID). Each financial ratio was split into 5 quintiles, and the method detected heterogeneous groups based on these binned

ratios. This technique enabled identification of the **variables that create the most diverse groups** with respect to confiscation. In terms of assets (Figure 28), the group with the **lowest accruals and the highest receivables** contained 6.15 times more confiscated companies than their proportion in the overall sample (8.86% compared to 1.44%). Having receivables in excess may suggest informal financing of other companies, as false invoicing can provide a front for moving illicit funds.

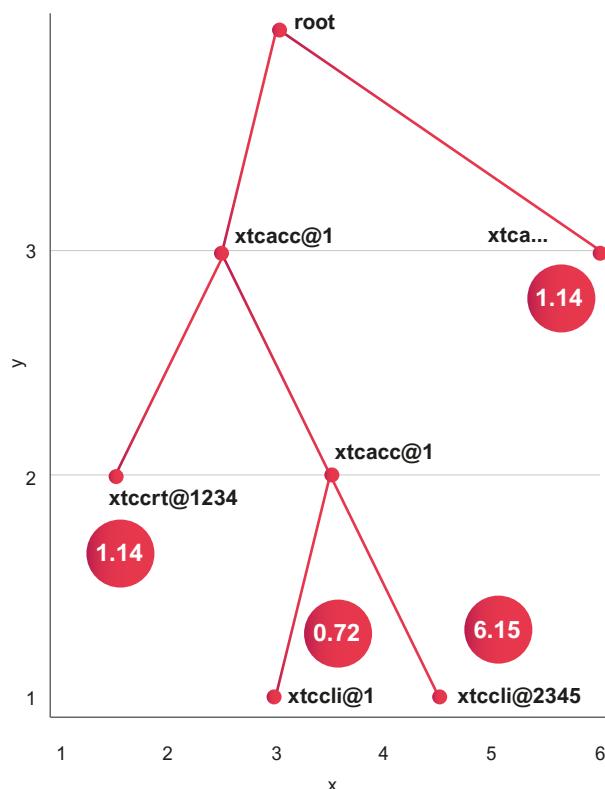
With regard to liabilities, the linear effect of bank loans was present here as well (Figure 29); that is, the confiscated firms had less financial debt on average. It is remarkable, however, that a different, non-typical form of financing was used far more. In the

group with **the lowest financial debt and the highest shareholder loans**, the proportion of confiscated firms was 3.80 times higher (5.52%/1.51%). This suggests that instead of normal bank loans and shareholders' capital, owners lend to infiltrated companies

to provide the necessary funds for operation. This strategy has also been confirmed by financial investigators of Italian law enforcement agencies during interviews. Conversely, the most indebted companies have the lowest rates of infiltration.

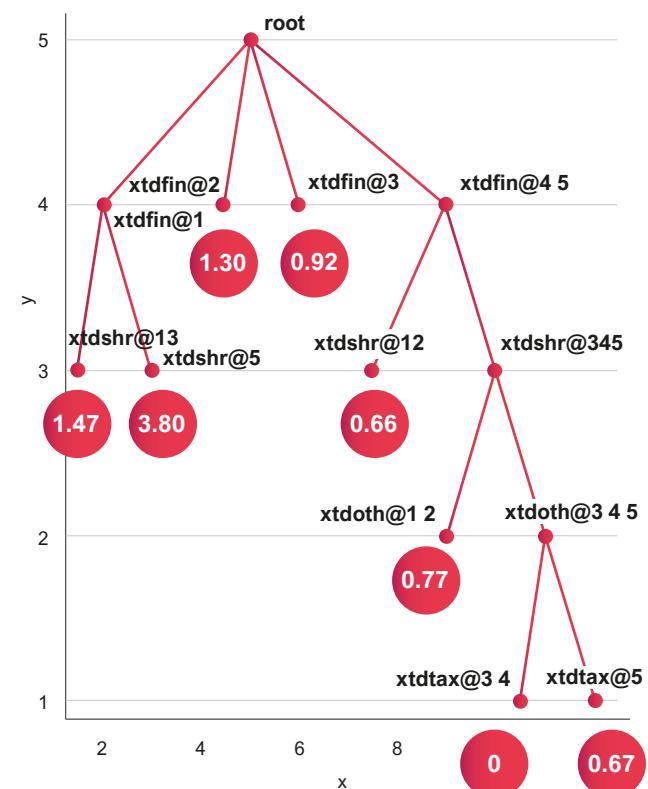
**Figure 28 - Decision tree – Assets**

Source: Transcrime elaboration of ANBSC data



**Figure 29 - Decision tree – Liabilities**

Source: Transcrime elaboration of ANBSC data



Better knowledge of these strategies will contribute to the efficiency of **screening infiltrated firms**. As the evidence suggests, certain legal forms and an above-average presence of

female owners mean a risk in certain sectors that are especially prone to crime infiltration. If these details are combined with financial information such as indebtedness, the propor-

tion of short-term assets and client receivables, practitioners can create a **risk-based ranking** of the firms to better allocate the available resources to check for potential crime infiltration.



# 6



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## COUNTRY PROFILES



This chapter provides an analysis of the collected evidence of SOC infiltration **across European member states** and a comment to the **most important risk factors**. It provides:

- **Country profiles** for each EU MS;
- More in-depth analyses of **the three countries specifically covered by MORE research partners**, namely:<sup>35</sup>

- Germany
- Italy
- Sweden

The level of detail in each country depends primarily on the **availability of data**. Lack of cases in some countries should not necessarily be interpreted as a sign that SOC infiltration is not present. In most countries, further investigation should be carried out, and a more systematic collection of data and cases (which is beyond the scope of the MORE project) would be required.

In this sense, the analysis of the risk factors shows where vulnerabilities are and therefore where **SOC infiltration can emerge in the future** (or where it is present already but not demonstrated by police or judicial evidence).

The chapter first discusses the three MORE countries (Germany, Italy and Sweden, in sections 6.1, 6.2 and 6.3, respectively) and then provides the country profiles for the other EU MSs (from section 6.4 to 6.28).

35. The three MORE research partners are, respectively, Transcrime-Università Cattolica del Sacro Cuore, from Italy (coordinator); the Bra – Swedish National Council for Crime Prevention (Sweden); and SWP – German Institute for International and Security Affairs (Germany).

# 6.1. GERMANY

Verena Zoppei, Stiftung Wissenschaft und Politik - German Institute for International and Security Affairs<sup>36</sup>

## Introduction

Organised crime (OC) infiltration in the legal economy has been long recognized as a crucial threat in Germany (Klima, Vander Beken, & Van Daele, 2009; Roth, 2010; von Lampe, 1995, 2002). As the former Minister of the Interior, Dr Thomas de Maizière, stressed in a speech, infiltration of the legal economy remains one of the **main challenges in the fight against OC in the country** (Bundesministerium des Innern, 2017). Despite this, the research on this issue remains weak, mainly due to a lack of data but also to a lack of awareness of the problem among researchers.<sup>37</sup>

This chapter aims at **filling the gap in the literature**: early studies on OC in Germany tracing back to the late 1980s focused on the internal development of criminal groups in the context of the new security challenges of the post-Cold War era (Rebscher & Vahlenkamp, 1988; Sieber, Zachert, & Bögel, 1993; Weschke & Heine-Heiß, 1990). Those publications were relevant as they provided information on structures, working methods and general trends in OC groups (OCG) in Germany; however, they mainly represented a police perspective and thus schematically illustrated the statistical data on criminal investigations and, overall, **failed to focus on the economic and entrepreneurial patterns of OCGs**.

Landmark academic research on the proliferation of OCGs in the economic field was conducted by **von Lampe** (1995, 2002, 2003, 2015, 2016). Also, the German Ministry of the Interior (BMI) and the Ministry of Justice (BMJV) advocated for a switch in the criminal justice approach to OC from offender-oriented investigations to an '**enterprise approach**' that **focuses on the structures and logistics** of OC syndicates (Bundesministerium des Innern & Bundesamt für Justiz, 2006, p. 483). Von Lampe introduced one of the most influential views in the study of OCGs in Germany, known as the '**illegal enterprise perspective**' (2015, 2016), linked to concepts such as 'trade crime' or 'enterprise crime' (Mack & Kerner, 1975; van Duyne, 1996), which he has applied, for instance, in the study of the illegal cigarette trade (von Lampe, 2015, 2016).

Recently, the collaboration between academics and economic practitioners has produced important articles on the economic dimension of organised crime (Bussmann, 2015). However, the scientific production has so far focused on **particular areas of crime (e.g., money laundering or cigarette smuggling)**. Project MORE, instead, considers different methods of infiltration and thus provides an overview of the various types and areas of crime and modi operandi used by OCGs to infiltrate legitimate business sectors.

This section starts by describing our analysis **methodology** and the sources and data used; in doing so, it clarifies the concept of OC infiltration adopted by the study in Germany. Then it presents the **main findings** of our analysis: first, by providing an overview of the **threats**, i.e., of the bright field regarding OC and corruption in the German legal economy; second, by providing a review of the **vulnerabilities** that attract or facilitate OC infiltration. Then we report on an in-depth analysis of some **case studies of OC infiltration**. Finally, the section concludes by discussing some **implications for policy and investigations**.

36. Simona Autolitano and Mario Serjoscha Beying collaborated in drafting the report.

37. For a complete overview of the state of empirical research on OC in Germany, see Sinn, 2016, p. 15ff.

## Methodology

This section is based on the same methodological approach as the rest of the report. First, we identified and collected case studies of OC infiltration of legitimate businesses in Germany (see definition below “*Clarifications on the concept of OC infiltration*”). The investigation of the case studies identified the risk factors (*threats and vulnerabilities*), which were then analysed at a macro level (i.e., by territory and business sector).

### *Data and sources used*

The analysis used a **variety of sources and data**, as follows.

- Judicial cases selected and collected as described below
- Police reports (e.g., BKA OC situation reports, LKA reports on OC)
- Other institutional reports (e.g., FIU, Europol, etc.)
- Interviews with selected experts<sup>38</sup>
- Media reports

Especially for the analysis of vulnerabilities, the study relied also on **hard data**, e.g.:

- Data on cash-ratio and cash use (Transcrime elaboration of ECB data)
- Estimates of the shadow economy and irregular labour (EEPO, 2016; Medina & Schneider, 2018)
- Data on financial secrecy, business owners from secrecy jurisdictions and business ownership complexity (Transcrime elaboration of Bureau van Dijk and Tax Justice Network data)

The analysis is mainly qualitative, using some **descriptive statistics** to support and justify the comments. Input and feedback have also been collected through participation in a number of **seminars and conferences**<sup>39</sup> and through our interviews with selected experts referred to above.

### *Clarifications on the concept of OC infiltration*

It is important to clarify how the concept of OC infiltration was defined and operationalised with respect to the German context, and therefore how the judicial cases and other evidence were selected for the analysis.

### Defining the concept of OC

In Germany, there are at least three definitions related to serious and **organised crime** (SOC) that need to be kept in mind. First, the definition of organised crime provided by the **Federal Criminal Police Office (BKA - Bundeskriminalamt)**:

*'Organised crime is the systematic commission of criminal offences motivated by the striving for profit or power which, individually or as a whole, are of considerable significance if more than two persons, each with his/her own assigned tasks, collaborate for a longer or indefinite period of time in the following way: a) by using commercial or business-like structures, b) by using violence or other means of intimidation, or c) by exerting influence on politics, the media, the public administration, the judiciary or the business sector'.* (Bundeskriminalamt, 1990);

Secondly, the concept of a **gang** (*Bandenkriminalität*) set by the **Federal Court**:

*'The concept of 'Bande' or gang presupposes the association of at least three persons who have come together with the will to commit, for a certain duration, a number of independent and in detail still undetermined offences of the type of offence referred to by the law. A "consolidated intention of being part of a gang or a certain level of conspiracy is not required".'*<sup>40</sup>

Such a definition, despite requiring the involvement of a minimum of three persons, demands a lower level of organisation than the first and the following, which is the legal definition of **Forming criminal organisations** set in the **German Criminal Code (GCC)** under section 129:

*'(1) Whosoever forms an organisation the aims or activities of which are directed at the commission of offences or whosoever participates in such an organisation as a member, recruits members or supporters for it or supports it, shall be liable to imprisonment not exceeding five years or a fine. (2) Subsection (1) above shall not apply*

- 1. if the organisation is a political party which the Federal Constitutional Court has not declared to be unconstitutional;*
- 2. if the commission of offences is of merely minor significance for the objectives or activities or 3. to the extent that the objectives or activities of the organisation relate to offences under sections 84 to 87. (3) The attempt to form an organisation as indicated in subsection (1) above shall be punish-*

38. The author conducted 13 interviews with police and customs forces, deputies, government officials and experts. In particular, interviews were conducted with Thomas Spaniel, head of the Fight against Crime Department (Krimbek); Norbert Cioma, former head of the GdP (Police Union); Stefan Uecker, an SPD government official; Peter Nath, head of the Asset Recovery Office (ARO) at the BKA; Andreas Frank, anti-money laundering expert; Bernd Finger, former director of the OC department of the LKA Berlin; Frank Adelsberger, Head of the OC Department of the LKA Brandenburg; Mr Trostorff, head of the money laundering investigations unit of the LKA Brandenburg; Mr Käppel, head of the Corruption Department of the LKA Brandenburg; Franz-Josef Meuter, Head of the Corruption department of the LKA Nord Rhein Westphalia; Dr Peter Keller, head of the OC Division of the Federal Customs Criminal Office; and Lothar Döscher, head of the OC Department of the Federal Customs Criminal Office.

39. The author participated in the following conferences: Internationale Fachtagung zur Arzneimittelkriminalität, 20-21 June 2016, Osnabrück; Fachsymposium zur Geldwäschebekämpfung: Schmutziges Geld: Das lautlose Gift in den Adern der Gesellschaft, 29-30 June 2016, Bergisch Gladbach; ‘Recovery and reuse of confiscated assets as a tool to fight organised crime’ international conference, 7 July 2016, Brussels; and ‘Taking Stock: Recent Trends in Transnational Organised Crime and Networked Responses’ workshop, 7 December 2016, SWP.

40. Own translation. The original text is quoted here: ‘Der Begriff der Bande setzt den Zusammenschluß von mindestens drei Personen voraus, die sich mit dem Willen verbunden haben, künftig für eine gewisse Dauer mehrere selbständige, im einzelnen noch ungewisse Straftaten des im Gesetz genannten Deliktstyps zu begehen. Ein "gefestigter Bandenwillen" oder ein "Tätigwerden in einem übergeordneten Bandeninteresse" ist nicht erforderlich’ (BGHSt, 22/03/2001).

*able. (4) If the offender is one of the ringleaders or hintermen or the case is otherwise especially serious, the penalty shall be imprisonment from six months to five years; the penalty shall be imprisonment from six months to ten years if the aim or the activity of the criminal organisation is directed at the commission of an offence set out in section 100c (2) No. 1 (a), (c), (d), (e), and (g) with the exception of offences pursuant to section 239a or section 239b, (h) to (m) Nos. 2 to 5 and 7 of the Code of Criminal Procedure. [...]<sup>41</sup>*

Given the low number of convictions under section 129 GCC and the highly controversial debate underlying the use of such a legal instrument, **this project uses a combination of the first two definitions in order to define the research sample** (Kilchling, 2004; Kinzig, 2003a, 2003b, 2004; Sinn, 2016). In 2016, 9 people were convicted under section 129 of the GCC. Since 2013, the number of convictions per year has varied between 6 in 2014 and 13 in 2015 (Federal Statistical Office, 2017, p. 94).

For the purpose of this project, we used a definition of OC that includes 'loose networks of collaborating criminals' (Europol, 2013). The BKA definition is narrower and requires that the members have assigned tasks and collaborate for a longer or indefinite period of time, thus excluding modern forms of 'fluid' criminal networks. To **operationalise the notion**, a wider definition was necessary, and thus further databases were taken into consideration. In fact, there is a debate even among German experts about the necessity of updating the BKA definition in order to include new developments in OC. In particular, the **interviewed experts would welcome a new definition that includes the political, economic and financial dimensions of OC**. In relation to this, it has been observed that it would be useful to have a report deal-

ing comprehensively with corruption, economic crimes and the other different aspects of OC, which to date have been tackled separately by the BKA. This chapter is a first attempt to address this gap.

### **Defining and operationalising the concept of infiltration: the selection of judicial cases**

In the absence of data on seized and confiscated companies (as in the Italian case, for example), the approach adopted was to **identify and collect judicial cases involving OC that also involved the use of businesses**. In particular, judicial cases were selected based on the BKA annual reports. Given the lack of a single comprehensive report, data was taken from three different types of reports published annually by the BKA:

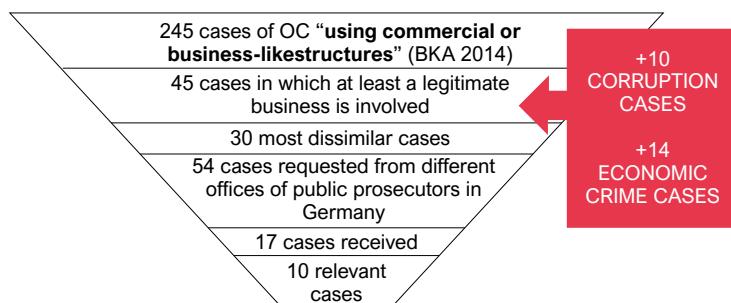
- the **OC report<sup>42</sup>**
- the **corruption report**
- the **economic crimes report<sup>43</sup>**

All these reports were **based on investigations** that were concluded by the police and were passed to the offices of public prosecutors in order to press charges. With regard to the OC report, the selected cases related to proceedings initiated between 2010 and 2013, so that it was assumed that all of them had also been concluded judicially at the time we conducted the research project (2016-2018).

Regarding the corruption report, investigations concerning the **restriction of competition through agreements in the context of public tenders** without the involvement of OC have also been considered. Given the involvement of at least three offenders and the quite advanced level of coordination, notwithstanding the lack of a criminal structure, such cases can in fact be considered to have been perpetrated by a gang according to the Federal Criminal Court's definition.

The BKA provides the possibility of identifying OC cases in which criminal organizations act 'by using commercial or business-like structures'. As Figure 30 shows, out of the 245 proceedings listed in the database and classified as 'using commercial or business-like structures', **45 cases were identified in which legitimate businesses had been infiltrated by OC**. In addition, in the BKA 2010 through 2014 annual reports on corruption, 19 cases were listed in which at least three people were involved, so that potentially the definition of gang could apply. The 2014 economic crimes report contains 14 cases of crimes that are considered to be potential red flags for OC infiltration, e.g., fraudulent insolvency and bankruptcy of businesses. Among the collected cases, **a total of 54 cases were selected on a most-dissimilar cases basis** for business sector and modus operandi (30 OC cases, 10 corruption cases and 14 economic crime cases) (see Table 16). Out of the **54 criminal cases requested**, access to judicial files was granted for only **17 cases** (a success rate of 26%).<sup>44</sup>

**Figure 30 - Funnel describing the research sample**



41. Translation available at: [https://www.gesetze-im-internet.de/englisch\\_stgb/englisch\\_stgb.html#p1209](https://www.gesetze-im-internet.de/englisch_stgb/englisch_stgb.html#p1209).

42. Since 1992, the BKA has published a report annually providing statistical data on the OC situation in Germany. See [https://www.bka.de/EN/CurrentInformation/AnnualReports/OrganisedCrime/organisedcrime\\_node.html](https://www.bka.de/EN/CurrentInformation/AnnualReports/OrganisedCrime/organisedcrime_node.html)

43. Given that corruption cases need usually longer time to be clarified than OC cases, corruption proceedings were selected from older reports, in order to be sure that at least some of them would be concluded judicially by the time the research was done.

The access granted to judicial files varied among the offices of public prosecutors. In nine cases, access was **granted to the extensive judicial**

**files**, while in the remaining cases access was granted only to the final sentences. Still, further information could be obtained through direct contact

with law enforcement agencies or other institutional sources (e.g., reports published by local authorities).

**Table 16 - Main contested crimes in the collected cases**

#### 12 OC CASES

- Money laundering (4 cases)
- Human smuggling (2 cases)
- Handling stolen goods, theft, forgery
- Handling the profits of tax evasion
- Human trafficking
- Violation of the drug law (placing of medical products for doping purposes)
- Computer fraud
- Giving bribes, theft, arson, handling stolen goods, fraud committed by a member of a gang or on a commercial basis

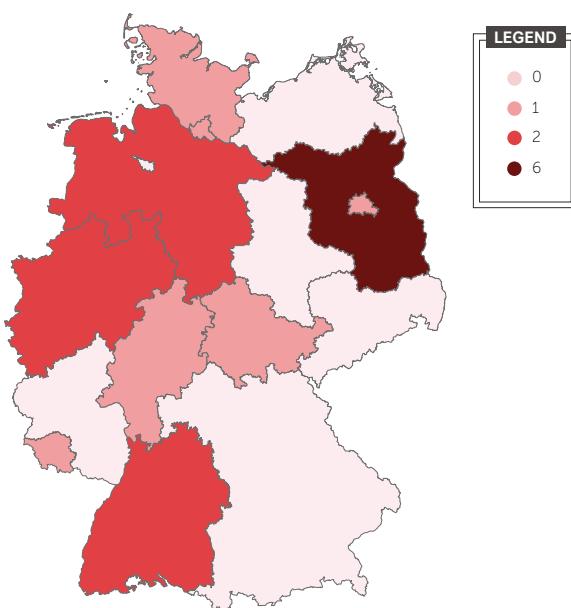
#### 5 CORRUPTION CASES

- Accepting (and giving) bribes intended as an incentive to violate one's official duties, export duties evasion
- Restricting competition through agreements regarding public bids
- Anti-competitive agreements in public procurement
- Corruption, bribery

Corruption in business transactions, fraud, bribery in business transactions

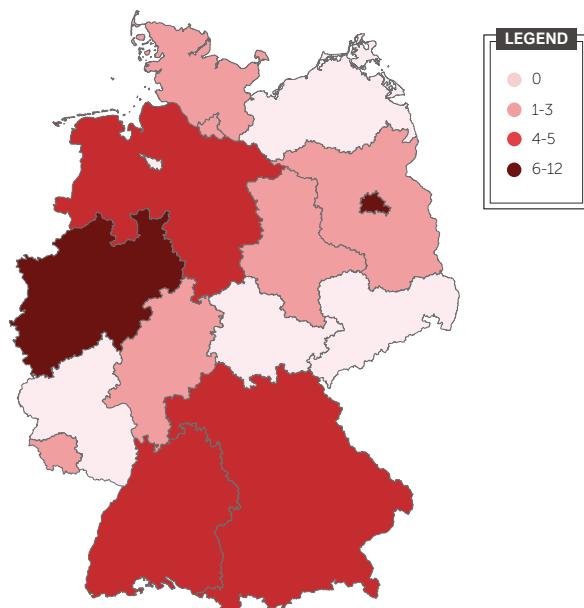
**Figure 31 - Map of collected cases**

Source: SWP elaboration of judicial files from German Prosecutors' Offices



**Figure 32 - Map of business involved**

Source: SWP elaboration of BvD data and judicial files from German Prosecutors' Offices



44. The collection of judicial files from the correspondent office of the public prosecutors was time consuming and very challenging. Out of 54 cases requested, only 17 were provided. Requests were rejected for the following reasons: the public interest in the project was considered proportionally lower than the interest of the suspects (privacy); the files had been deleted (including the final sentence); the proceedings had just been concluded (or had not been completed yet or were still undergoing review).

Figure 31 shows the distribution of the collected cases. **The sample cannot be representative of the whole phenomenon** of SOC infiltration across the whole country, because the public prosecutors' offices in certain regions did not grant access to judicial files. However, it does offer relevant qualitative information on the diverse modi operandi, drivers, business sectors and control and management strategies. In this regard, reports and estimates on dark-area criminal activities and interviews with experts contributed to our assessment of the problem. Furthermore, given the **cross-border nature of most cases** (88% or 15 out of 17), the representative nature of the sample by region becomes less relevant.

**Ten out of the 17 collected cases** were considered relevant for the purposes of our research. In these cases, it was indeed possible to acquire information on OC infiltration in the legal economy through the use of business structures. In these 10 cases, we identified **92 businesses**, which were then analysed on the basis of information retrieved using commercial business data providers (Bureau Van Dijk ORBIS and others). Figure 32 shows the distribution of the business involved. For three cases (DELTA, ZETA, SIGMA), an **in-depth crime script analysis** was performed (see Annex A1).

### SOC infiltration across territories

The analysis first provided an overview of **OC infiltration across territories, sectors and criminal groups** in Germany, then a review of the main **risk factors of infiltration: threats**, i.e., the 'sentinel crimes' related to OC infiltration such as corruption and document forgery; and the main **vulnerabilities** that facilitate and ease OC infiltration in the country, including the level of cash intensiveness, the size of the underground economy, the links to off-shore and risky jurisdictions and the regulatory vulnerabilities and loopholes.

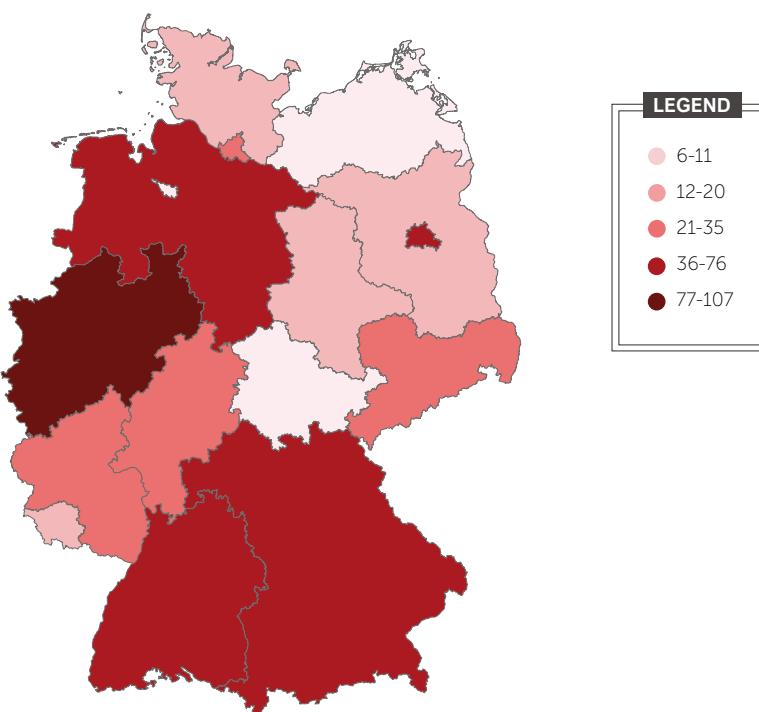
One of the contextual risk factors for OC infiltration is the presence of OC in the territory (see Figure 33). Data on the OC presence in Germany was retrieved from **BKA Situation reports**. For 2016, the BKA recorded **563 investigations involving OC**. Over the last ten years, the average number of OC cases recorded annually by the BKA was 580.

The main field of OC activity in Germany remained drug trafficking and smuggling (36.2% of all investigations). In 212 OC investigations, there were references to **money laundering, or 37.7% of OC investigations** recorded in 2016. Almost 80% of all cases had an international dimension; specifically, links were established between Germany and a total of **125 different countries**. Most investigations had links to the Netherlands (173), Poland (90) and Italy (88) (see Figure 34).

The BKA provides information on the economic damages<sup>45</sup> and the economic dimension of OC in Germany. The estimated **financial losses totalled 1.01 billion euro** and the identified proceeds of crime were **840 million euro**. In the vast majority of OC investigations (503 out of 563), the use of commercial or business-like structures by OCGs was established. The field in which the most damages were detected was OC associated with the business world (i.e., approximately 684 million euro, or 68% of the total). The total assets provisionally seized in all OC investigations was approximately 61 million euro, which confirms the trend of the last five years, even though the amount of criminal proceeds identified has been fluctuating. The BKA deduces that OC still poses a great threat because the **seized assets in OC-related cases amounted to 14.4% of all criminal assets seized** in Germany in the same year (Bundeskriminalamt, 2017b, p. 10).

**Figure 33 - Distribution of OC investigations by German States**

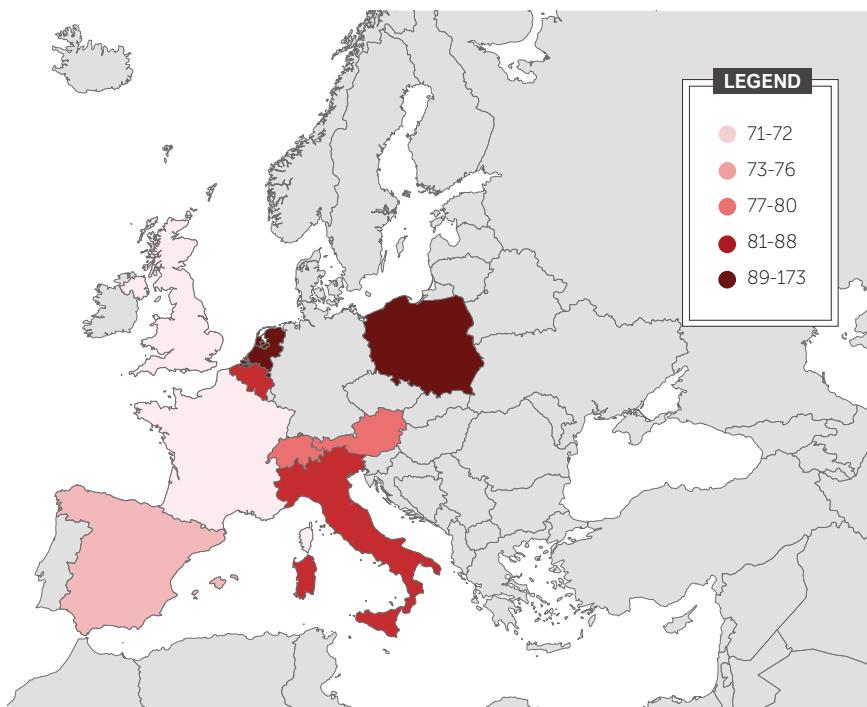
Source: SWP elaboration of judicial files from German Prosecutors' Offices



45. The damages are calculated as the monetary value of the unlawfully obtained goods (BKA 2017, p.10).

**Figure 34 - OC investigation links to foreign countries**

Source: SWP elaboration of BKA 2017



## SOC infiltration across groups

The BKA also analyses trends in OC. In particular, they focus on OC groups that traditionally present the greatest threats, such as **Italian OC (IOC)**, **Russian-Eurasian OC (REOC)** and **Outlaw Motorcycle Gangs (OMCGs)**. Such groups are able to adapt to technological and social developments (Bundeskriminalamt, 2017a, p. 42) and are the most likely to infiltrate the legitimate economy.

### Outlaw Motorcycle Gangs (OMCG)

One of the specific OC structures recorded by the BKA in Germany is Outlaw Motorcycle Gangs (OMCGs). According to Europol, there has been steady growth in the membership of OMCGs worldwide since 2005. In Europe, the number of clubs has more than doubled. In Germany, since 2006, the **number of subsidiaries and members of OMCGs has tripled**.

The main threat to public security from these gangs stems from their propensity for **extreme forms of violence**, which serves to exert control over group members, rival gangs and others, such as victims of extortion. OMCGs typically feature hierarchical structures, the use of motorbikes, a self-image publicly demonstrated by clothes or symbols, and an unwillingness to cooperate with the police. OMCGs are very reluctant to cooperate with the investigative authorities. The main OMCG groups active in Germany are the '**Hells Angels Motorcycle Club**', the '**Bandidos Motorcycle Club**', and the '**Gremium**'. Each group is composed of different chapters that are independent in their internal organisation. The data on such structures is recorded at a state level by the Landeskriminalamt (LKAs), which keep updated statistics on the **OMCGs (Rockergruppe)**,<sup>46</sup> and on similar structures, the so-called **OMCG-type groups** (*rockerähnliche Gruppierung*)<sup>47</sup> active in their territories.

46. A "Rockerguppe" - or outlaw motorcycle gang (OMCG) - is the association of several persons with a strict hierarchical structure, close ties among the members, a low willingness to cooperate with the police and self-created codes. The shared identity of the group members is expressed by wearing the identical clothing, badges and insignia. Criminal offences committed by single members or by a number of members whose motivation is related to the affiliation and solidarity with the group are considered "Rockerkriminalität" or OMCG. In order to classify the offence as involving an OMCG it is sufficient to undergo a criminalistic observation. Own translation from: *Eine Rockergruppe ist ein Zusammenschluss mehrerer Personen mit strengem hierarchischem Aufbau, enger persönlicher Bindung der Gruppenmitglieder untereinander, geringer Bereitschaft mit der Polizei zu kooperieren und selbst geschaffenen strengen Regeln und Sitzungen. Die Zusammengehörigkeit der Gruppenmitglieder wird durch das Tragen gleicher Kleidung oder Abzeichen nach außen dokumentiert. Rockerkriminalität umfasst alle Straftaten von einzelnen oder mehreren Mitgliedern einer Rockergruppe, die hinsichtlich der Motivation für das Verhalten im direkten Zusammenhang mit der Zugehörigkeit zu dieser Gruppe und der Solidarität zu sehen sind. "Rockerkriminalität" wird über die Motivation für die begangenen Straftaten, die in direktem Zusammenhang mit dem Motorradclub (MC) steht, definiert. Für die Zuordnung reicht die durch kriminalistische Erfahrung untermauerte Betrachtung des Tatgeschehen Rockerkriminalität wird über die Motivation für die begangenen Straftaten, die in direktem Zusammenhang mit dem Motorradclub stehen, definiert. Für die Zuordnung reicht die durch kriminalistische Erfahrung untermauerte Betrachtung des Tatgeschehens.*

The spread of OMCG-type groups is a relatively new trend, recorded by the BKA since 2014. Such groups are very similar to the OMCGs in their structures and field of action, yet **the motorbikes play a minor role in them**. One of the OMCG-type groups that is rapidly growing in Germany is the 'Osmanen Germania'. The recorded investigations targeting OMCGs mainly concerned drug trafficking and smuggling (primarily synthetic drugs, cocaine and cannabis products) and violent crime (extortion and homicide offences). In territories with a lower presence of other OCGs, OMCG members extort money from drug dealers in order to exercise control over the drug market. Although they are strongly anchored to their territory, the OMCGs are expanding beyond Germany's borders, in particular towards the **Netherlands, Austria and Switzerland**. In the neighbouring countries, OMCGs commit property offences, violations of the Narcotic Drugs Act, trafficking in human beings and serious bodily injuries (Bundeskriminalamt, 2016b, p. 36). In these countries, the violent internal fights among OMCG groups have attracted law enforcement attention. According to an interviewed expert, to balance the fact that they are perceived as dangerous by the public, and due to the numerous bans issued by the authorities in recent years, the Hells Angels in Schwerin have donated large sums to the local hospital to show their **support for the local community**.

OMCG members have long infiltrated the legitimate economy. For instance, experts warn about infiltration in the **security services sector**. Therefore, even though an OMCG's involvement in legal businesses does not emerge directly from official data, for the purpose of this study the presence of such OCGs is considered to be a risk factor for OC infiltration: the stronger the presence of OMCGs, the higher the likelihood businesses will be infiltrated by biker gangs. According to the information collected through interviews, OMCG members operate as follows: they set up private security companies in the name of straw men and, using extortion and other violent methods, they **impose their security services on club and restaurant owners**. In addition, they arrange agreements with other security companies in order to **restrict competition** in public or private bids.

Given that the victims of such violations, namely, law-abiding security firms, often do not report these offences to the police because they fear revenge, the law enforcement authorities assume there is a **large dark area of OMCG infiltration**. There is a strong suspicion, confirmed by interviews with experts, that OMCG members also exercise control over **tattoo studios**, and that no one can open a studio without first receiving a 'license' from the gang. The difficulty for investigators is exactly the fact that OMCGs often conduct legal and illegal businesses in parallel. Especially in the field of red light districts or night life, it is hard to draw a line between lawful and unlawful activities.

#### Box: Outlaw Motorcycle Gangs' infiltration of the legal economy

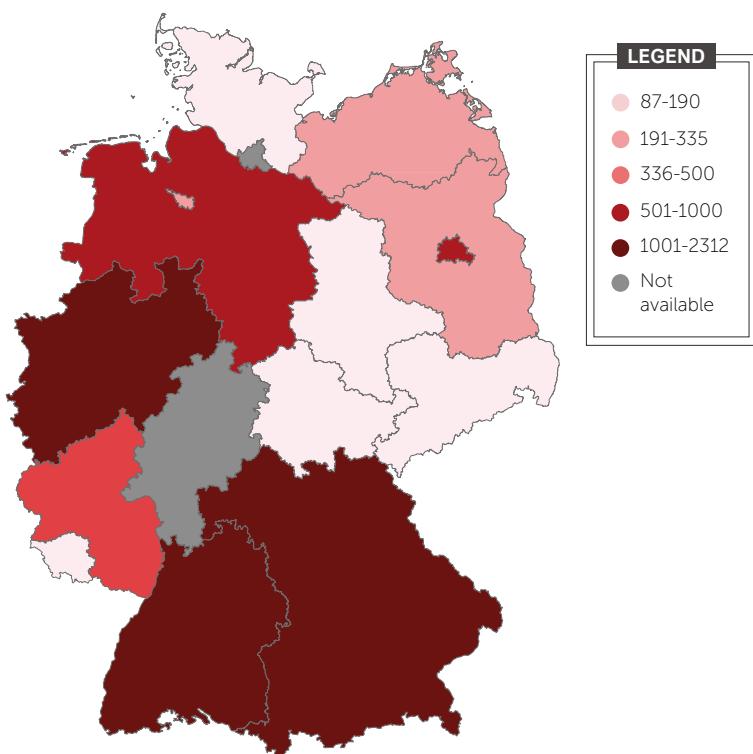
A cross-border investigation conducted in 2015 revealed how OMCGs were exploiting legal economic structures for criminal purposes. The group was not only trafficking and smuggling drugs, but also producing and trading illegal medicines between Germany, the Czech Republic and Austria. The modus operandi was

the following: the offenders were using existing and newly founded companies in order to legally export the necessary means for drug production to Germany. Drugs were then sold via intermediaries and small dealers hired from OMCGs structures (Bundeskriminalamt, 2016b, p. 36).

47. 'A rocker-like grouping is an association of several persons with common connecting symbols, signs or names, which creates an atmosphere of violence and intimidation through its public appearance. These groups are characterized by a strict hierarchical structure, a close bond among the members, a low willingness to cooperate with the police and self-created rules and statutes. Their fields of activity are much the same as those of the "Rockergruppen". The criminality of a rocker-like grouping encompasses all criminal offences by the single or multiple members that are directly related to the motivation for the offence, to the affiliation and solidarity with the group and to its retention or extension of power. The observation [or examination] of the offence, underpinned by criminalistic experience, is sufficient for the classification [or attribution]. Examples are the "United Tribuns" and the "Black Jackets".' Own translation from: Eine rockerähnliche Gruppierung ist eine Vereinigung von mehreren Personen mit gemeinsamen verbindenden Symbolen, Zeichen oder Namen, die durch ihr öffentliches Auftreten eine Atmosphäre der Gewalt und Einschüchterung schafft. Diese Gruppierungen zeichnen sich durch hierarchischen Aufbau, enge persönliche Bindung, geringe Bereitschaft zur Kooperation mit der Polizei sowie selbst geschaffenen Regeln und Satzungen aus. Ihre Betätigungsfelder gleichen in weiten Teilen denen der Rockergruppierungen. Die Kriminalität der rockerähnlichen Gruppierungen umfasst alle Straftaten von einzelnen oder mehreren Mitgliedern, die hinsichtlich der Motivation für das Verhalten im direkten Zusammenhang mit der Zugehörigkeit und Solidarität zu einer Gruppierung sowie dem Machterhalt/-ausbau zu sehen sind. Für die Zuordnung reicht die durch kriminalistische Erfahrung untermauerte Betrachtung des Tatgeschehens aus. Beispiele davon sind die „United Tribuns“ und die „Black Jackets“.

**Figure 35 - Distribution of OMCG members by German State in 2017**

Source: SWP elaboration of LKA reports and figures collected by the author from the different LKAs in Germany.



#### *Camorra, Cosa Nostra and 'Ndrangheta*

Another peculiar type of OCG recorded by the BKA in Germany is **Italian OC (IOC)**, in particular the **mafia type**. The presence of Camorra, Cosa Nostra, and 'Ndrangheta members in the German territory is considered a risk factor for the purposes of this study due to the well known ability of those OCGs to infiltrate the legal economy.

In 2016, the BKA recorded **13 cases connected to IOC**; seven investigations targeted members of 'Ndrangheta, two were directed against members of Cosa Nostra, one targeted members of Camorra, one members of Stidda and one members of the Apulian OC (Bundeskriminalamt, 2017a, p. 21). These investigations revealed that their main activities are linked to **cocaine trafficking and smuggling, money laundering**, currency counterfeiting, extortion and property crimes connected to motor vehicles. In 2016, the BKA also recorded members linked to two still unknown IOC groups.

#### **Box: The criminalisation of OMCGs in Germany**

Given the significant expansion of OMCGs and chapters over the last few years, the German Parliament tightened the law regulating associations in March 2017 to address associations used as a cover for serious and OC (Bundestag Drucksache 18/9758). The new law, which was triggered by a decision of the Federal Court in 2015, bans the public use of symbols representing OMCGs prohibited by the judiciary. The German legal system is unique in that it requires that an OMCG be declared illegal by a court in order for its members to become crimi-

nally liable for acting on behalf of the gang. Mere membership is not punished. The legal novelty should have made it easier for law enforcement to prosecute OMCGs, but the law has been criticized by some parties as being symbolic rather than a law that is effective in fighting OMCGs. The difficulty, according to experts, is proving that crimes committed by individual perpetrators are committed on behalf of one of the prohibited gangs (Europol, 2017a; Ministerium für Inneres und Kommunales des Landes Nordrhein-Westfalen, 2017, p. 8).

It can be hypothesized that the small number of investigations into such groups might be the consequence of their infiltration strategy for new territories. It has been observed that in order to establish a social network based on acceptance and trust, **Mafia members tend to keep a lower profile (submersion strategy)** — see sections 3.5 and 6.3). For example, they may infiltrate legal businesses so as to increase social consensus and launder illicit proceeds. Given the difficulties for law enforcement authorities in proving the commission of an offence or at least the intent to commit further offences, often Mafia members are not found in OC investigations.

Two investigations, one in July 2017 and one in January 2018, conducted jointly by German and Italian LEAs against IOC active in Germany are worth mentioning here (see box).

**Box: The *Meltemi/Safran* and *Stige/Styx* investigation**

***Meltemi/Safran***

An investigation conducted in co-operation with the German criminal police of Rottweil, the prosecutor's office of Konstanz (Baden Württemberg) and the Italian finance police of Palermo (Sicily) revealed the existence of front businesses in Germany used by offenders linked to Cosa Nostra to conceal the trafficking of cocaine and hashish and the laundering of the proceeds of crime. Specifically, the two main suspects arrested owned restaurants, clothes shops and companies trading in slot machines in Germany. One of the suspects was already the object of investigations due to an at-

tempted murder, which according to the attorney general was clearly an attempt to intimidate the victim (Von Marc, 2017). The main suspects were supported by relatives and by middle-class people above suspicion and perfectly integrated in the local community in Baden Württemberg, according to Wolfgang Rahm, LKA expert (Spiegel Online, 2017b). A total of 20 suspects have been arrested in Italy and Germany for drug trafficking committed by a gang, extortion, robbery, arson and attempted murder (Fiscal police of Palermo, 2017; Police Headquarter Tuttlingen, 2017). No information about the measures taken against the targeted companies is available.

***Stige/Styx***

Collaboration by Italian and German LEAs led to the arrest of 11 persons suspected of belonging to the Farao-Marincola 'Ndrangheta clan in Baden-Württemberg, Bayern and Hessen und Nordrhein-Westfalen. Another 158 suspects were arrested in Italy as part of the same operation. The OCG were allegedly illegally forcing the purchase of products like fish, wine and pastries on Italian food and wine businesses. The OCG was then investing the ill-gotten gains in northern Italy and in Germany (Bundeskriminalamt, 2018a).

**Russian-Eurasian OC (REOC)**

OCGs are classified as Russian-Eurasian OC (REOC) by the BKA if they are 'dominated by persons who were born outside of a successor state to the former Soviet Union but consider themselves members of an **ethnic group of one of the post-Soviet states** due to their culture, history, language, traditions or ancestors' (Bundeskriminalamt, 2016b, p. 22). Such groups are closely associated with the ideology of the so-called **thieves in law (vory v zakone)** who have their own code of conduct and a system of standards and values implemented by the criminals. REOC expanded to Western Europe for two main purposes: investment and retreat.

Recently, REOC groups have been infiltrating the legitimate economy in Germany, causing estimated damages of about one billion euro (Bundeskriminalamt, 2016b, p. 37). In particular, **high-value fraud** was committed through **document forgery and false accounting in the field of healthcare services** (see box). The phenomenon has also been noted by Europol as a trend linked to the aging of Europe's population (Europol, 2015b): 'OCGs will increasingly engage in various forms of fraud involving pension schemes and social benefits'. According to the 2016 BKA report on economic crimes, the phenomenon is actually declining (Bundeskriminalamt, 2018b, p. 17); however, one of the experts interviewed by the author declared that there are ongoing investigations in this field of crime that might reveal more cases in the coming years.

An example of this is **the infiltration of the healthcare sector**. Health care provision is an increasingly profitable service industry, and specifically health care services aimed at providing care for the elderly is a growth sector, so OCGs may be tempted to enter this lucrative business (Europol, 2015b, p. 33).

### Box: Russian OC fraud in healthcare

OCGs linked to REOC have been committing fraud to the detriment of health insurance companies and nursing care funds as well as social welfare offices. The phenomenon, known as 'The Russian nursing services' (Russische Pflegedienste), has been under observation by the BKA since 2015. The term 'Russische Pflegedienste' was used for the first time in an investigation in 2013 targeting persons coming from the former Soviet Union; however, the suspects involved in such fraudulent schemes often are German nationals. The modus operandi is the following: so-called 'Schleppers' or 'intermediaries' were recruiting 'customers' (persons that simulated illnesses in order to receive special pension benefits or special healthcare treatments and medications). Corrupt doctors were issuing fake medical

documentation such as medical certificates, reports and medical assessments to prove the simulated illnesses, or providing false information about the employed staff and their annual advanced training courses in order to receive higher reimbursements. If pension benefits were denied by the social courts, affiliated lawyers would contest the court decisions and defend the recruited 'customers' (Bundeskriminalamt, 2017a, p. 32). In a case recorded by the BKA, the intermediaries were receiving between 2,000 and 8,000 euro monthly from each unlawfully obtained pension (Bundeskriminalamt, 2017b, p. 32).

Investigations revealed a total of 230 Russian-Eurasian businesses — ambulatory nursing services — operating in Germany in 2017 that were suspected

of committing accounting fraud. The businesses were operating primarily in Berlin and North Rhine-Westphalia, but also in Lower Saxony, Brandenburg and Bavaria. The single companies of ambulant nursing services were part of a corporate network with connections throughout the whole country (Frankfurter Allgemeine, 2017). Suspected contract killers are allegedly behind the criminal networks in ambulatory care services. The profits were re-invested in the same sectors, for instance in the building of nursing infrastructure or geriatric institutions. Most of the ill-gotten gains were also used to maintain a very luxurious lifestyle, and thus invested, for example, in other branches of real estate (Ministerium für Inneres und Kommunales des Landes Nordrhein-Westfalen, 2017, p. 19).

#### *Arab clans*

An OCG, which has not yet been in the focus of BKA annual situation reports, is the one known as Arab clans. Such OCGs are primarily active in **Berlin, North Rhine-Westphalia, Bremen and Lower Saxony**. They are known as 'large Arab families' or 'Kurdish-Lebanese clans' or 'Mhalamiye-Kurdish', because their members belong to the migration flow that stemmed from **South-Eastern Turkey and then moved to Beirut** in the early 1900s. Most of them arrived in Germany from Lebanon in the 1980s after the Lebanese civil war. According to experts, failure to integrate into German society is one of the reasons behind the development of criminal structures around strong traditional family ties

(WELT, 2017). According to the BKA annual situation reports on OC, the Lebanese nationality is a small minority among the list of groups classified by nationality of those holding leading positions. In the latest report, Lebanese nationals did not appear at all in the statistics (Bundeskriminalamt, 2017a).

These OCGs are active in different criminal fields such as **drug trafficking, money laundering and violent crimes** (Bundeskriminalamt, 2016a, p. 20). The media also reported cases of extortion, burglary, fraud and attempts to infiltrate public institutions. An emerging field of criminal activity is the **facilitation of illegal immigration**,

in which these OCGs exploit asylum seekers by offering false visas and travel documents for high prices. The allegations of clan members having infiltrated the Berlin police and other sectors of the criminal justice system reported by the media in 2017 triggered a controversy among politicians and representatives of law enforcement agencies (Focus Online, 2017; Spiegel Online, 2017a; Wichmann, 2017; Zeit Online, 2017).

As the third script analysis shows, Arab clans have been using corporate structures to launder the proceeds of criminal activities in cooperation with other OCGs (see the ZETA case).

## SOC infiltration across business sectors

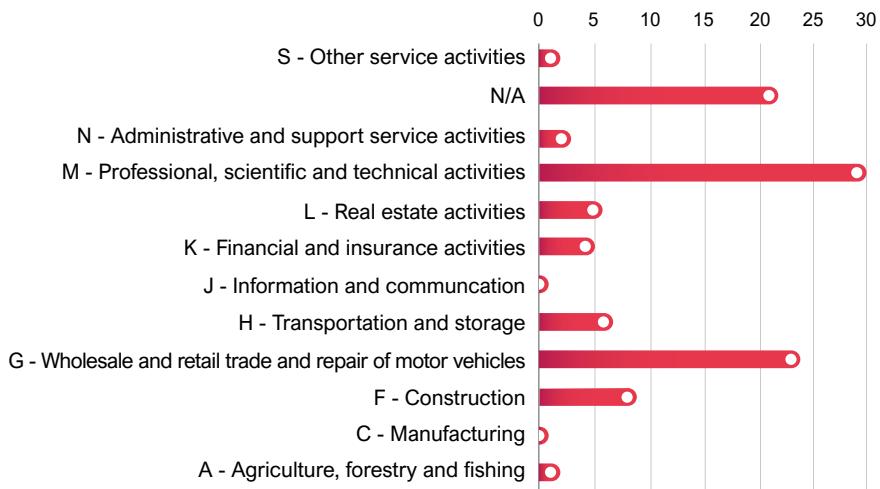
The 92 businesses involved in the infiltration cases described above were also analysed by business sector, geographical distribution and legal form. Regarding legal form, the vast majority of legal persons involved are **limited liability companies**. This confirms that limited liability companies are the preferred legal form for infiltrating the legal economy (see Chapter 5).

The analysis of the business sectors in which the involved entities are operating partially confirm the risk areas identified by former research into OC infiltration. The most popular businesses sectors are **wholesale and retail trade, transportation and storage, construction and real estate**. In addition, emerging sectors are professional, scientific and technical activities. As the following figure illustrates, many of the analysed businesses are active in the specific economic area of wholesale and retail trade. In our sample of OC cases, one large-scale investigation included a large number of businesses active in that economic sector and used for criminal purposes (the SIGMA case).

The analysis of the geographical distribution of the involved entities shows that Germany is headquarters for more than 50% of the businesses, while among the other countries, some secrecy and offshore jurisdictions appear (e.g., the British Virgin Islands).

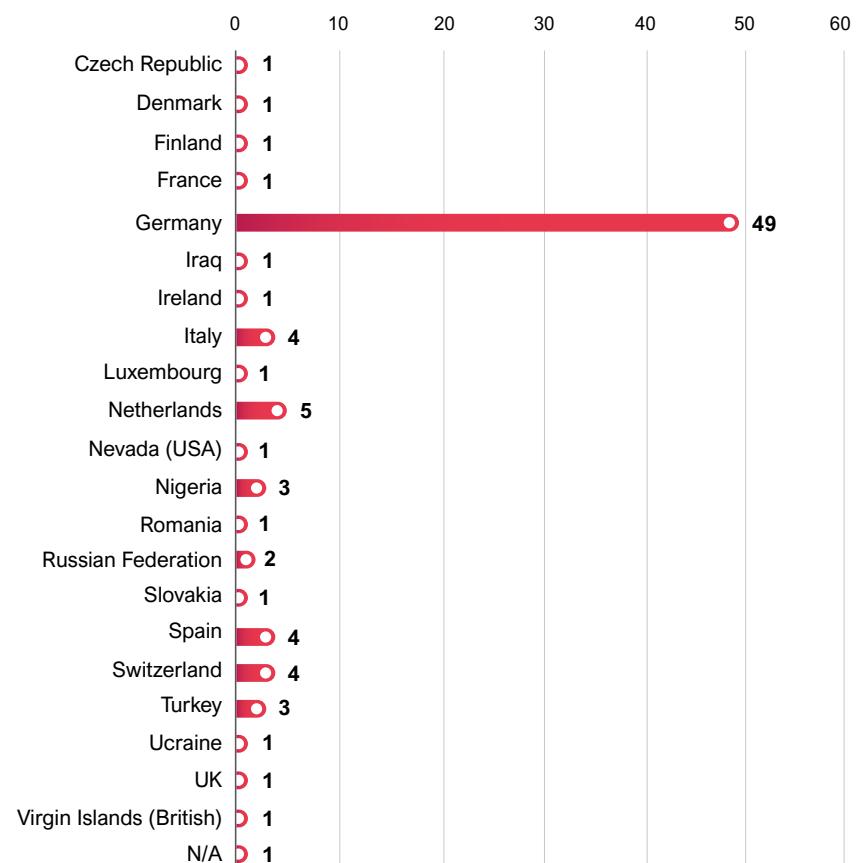
**Figure 36 – Infiltrated business sector**

Source: SWP elaboration of BvD data and judicial files from German Prosecutors' Offices



**Figure 37 – Geographical distribution of the involved companies**

Source: SWP elaboration of BvD data and judicial files from German Prosecutors' Offices



## Risk factors for SOC infiltration - Threats

### Corruption

Germany is generally considered to be below the international average for perceived corruption and to have a **good framework for repressing and preventing it** (Transparency International, 2017). Germany scores quite well in terms of respect for the rule of law and the control of World Bank corruption indicators when compared to other EU countries (see section 4.4). In 2016, the BKA recorded **6,502 investigations into corruption**, the main business sectors being **logistics, construction and services**. Bribes are paid mostly in cash; in most cases, there was involvement by the public administration (Bundeskriminalamt, 2017a).

Despite the fact that corruption cases in Germany only rarely have links to OCGs, the threat posed by the vast amount of criminal proceeds accumulated by OCGs, which might be used for corruptive purposes, has long been recognized (Transparency International Deutschland & Friedrich-Ebert-Stiftung, 2013). Connections to corruption are noted in only **two investigations into organised crime** recorded by the BKA in its OC report of 2016 (Bundeskriminalamt, 2017a, p. 5). Yet the highest sum seized in a single OC investigation recorded by the BKA in 2015 involved corruption-related offences. In that case, 27 million euro were seized in a case of bribery and illegal price-fixing agreements in the procurement for medical equipment (Bundeskriminalamt, 2016a, p. 12).

Corruption is considered a risk factor for criminal infiltration. The underlying assumption is that a **corrupted environment facilitates the infiltration of**

**OC into the legal economy** because it allows OC to commit further crimes, taking advantage of an already unlawful situation, and because it allows criminal groups to increase their business opportunities (e.g., participating in public procurement). Previous research has shown that OC has an interest in winning public contracts in order to access public funds and exercise control over the labour market (see, for example, Canepple, 2014). A corrupted system of public procurement, in which there is a widespread and diffuse use of agreements among companies participating in tenders, forms a **social and economic fabric that is particularly permeable by OC**. This assumption has also been confirmed through interviews with experts.

In the public procurement sector, a recent study published by the Hertie School of Governance shows that the German procurement sector appears to be at **high risk for contracts below EU thresholds** (Kukutschka, 2015, p. 22). Among the vulnerabilities identified by the authors, we note the large amount of money allocated, constituting almost a third of total public spending; the **lack of transparency in contract awarding** below EU thresholds; the decentralised system and the **co-existence of different procurement regulations** in different states (Kukutschka, 2015, pp. 19–21). Germany's public procurement expenditure is estimated to be between 300 and 500 billion euro per year (European Commission, 2014b; Kienbaum, 2014). The country has by far the highest expenditures in the EU, exceeding France by 30% and the United Kingdom by 40% (Kukutschka, 2015, p. 5). The authors emphasize that Germany has the **lowest publication rate in the EU** and that documentation on procurement procedure decisions are not publicly accessible. In fact, between 2009 and 2013, the publication rate

did not exceed 1.4% of GDP, while the regional average is consistently above 3% (European Commission, 2014b). The German Ministry of the Interior refers to public procurements in which vast portions of the budget are involved as sectors with a particularly high risk of corruption (Bundesministerium des Innern, 2015, p. 19).

Yet, **often such cases are indicated as OC** because the perpetrators do not belong to traditional OCGs. One well-known example is the '**Cologne waste scandal**', in which a group of well-organized business managers were planning 20 years in advance for the illegal construction and management of a waste incineration plant through corrupt practices (Bundesministerium des Innern & Bundesamt für Justiz, 2006, p. 477). The Cologne waste scandal arose in the early 2000s, yet it involved corrupt practices dating back to the early 90s. The case was finally closed in 2005 by the federal court, which confirmed the convictions. The persons convicted included a politician and the CEO of the waste disposal company. The court estimated a total of about **11 million euro had been paid as bribes** for the construction of the waste incineration plant (BGH 5 StR 119/05).

Corrupt practices in the business sector have been a great concern in recent years. In fact, in certain economic sectors, for instance in the automotive industry, the use of corrupt practices is quite widespread among mid-sized legitimate businesses, as confirmed by interviewed experts. Even though such cases are not categorised as OC, their typical modus operandi is well structured and organised. Often such cases are linked to **public bids for large-scale construction work**. One example of a recent case involving well-known multinational businesses is analysed in the box below.

### Box: Corruption in public procurement for a large-scale construction project

A major public construction project has been in the public eye for long delays and cost overruns. The project has been hit by two separate corruption scandals. The media reported in 2016 the attempted poisoning of a management engineer who was working at the construction site (Deutsche Wirtschafts Nachrichten, 2016). In 2015, Transparency International, the best-known worldwide anti-corruption NGO, which was monitoring the project externally, decided to stop the collaboration because the corruption charges were not taken seriously enough by the players involved (Fröhlich, 2015). Among other things, the former manager of the multinational company was arrested on charges of passive corruption (see description of the case below). More than 60 million euro were allegedly paid to the businesses involved in the construction of the fire-safety system for the large-scale infrastructure project (Metzner, 2015). The multinational company went bankrupt in 2015 (Süddeutsche Zeitung, 2016).

Subcontractors and employees or advisors of the developer and the operator of Company A were involved in the scandals. Overall, three other companies were significantly involved in the two cases.

In case 1, the CEO and a regional manager of the subcontractor, Company B, agreed to pay 150,000 euro in cash to a senior manager at Company A, the developer, to clear and speed up the disputed payment (around 66 million euro) for allegedly provided work under an additional agreement due to the delays and cost overruns.

In case 2, the CEO and sole shareholder of Company D, working as the head of a working group at the developer, Company A, offered to use his position of trust to push for the award of an inflated contract to the subcontractor, Company C. In return, a payment was demanded (equal to the difference between the previous calculation and the inflated offer) via a subcontract with Company D or a software purchase from Company D.

The two cases reveal the large public construction project's vulnerability to corruption during the public procurement process and later during the settlement process for the allegedly rendered services. In both cases, the offenders from the subcontracting companies did not act for reasons of personal enrichment but under pressure from (or to avoid damage to) their companies due to cash-flow problems or a dreaded loss of reputation.

The offenders from Company B were employees, the CEO and a regional manager who did not have any significant stake in the company. The offender from Company A in this case was hired as a business unit manager shortly before the offense. One of the offenders from Company B and the offender from Company A were acquaintances from previous business dealings.

The offenders from Company C were a business unit manager with statutory authority as well as a project lead responsible for the project related to Company A. Neither had a significant stake in the company. The offender from Company A was the head of a working group at Company

A and the sole shareholder and CEO of Company D.

In case 1, three offenders were convicted and ordered to serve a total of 6 years and 8 months in prison sentences as well as fines totalling 150,000 euro. The crimes committed were passive corruption ('Bestechlichkeit' under §§ 332 Section 1 and Section 3 no. 2, 335 Section 1 no. 1 and Section 2 nos. 1 and 73, Section 1 clause 1, 73a StGB), bribery ('Bestechung'; under §§ 334 Section 1 and Section 2 No. 2, 335 Section 1 no. 1 and Section 2 No. 1, StGB), and accessory to bribery ('Beihilfe zur Bestechung' under §§ 334 Section 1 and Section 2 no. 2, 335 Section 1 no. 1 and Section 2 no. 1, 27 StGB).

In case 2, three offenders were convicted for a total of 1 year in prison as well as fines totaling 17,200 euro. The crimes committed were corruption in business transactions, fraud and attempted fraud, ('Bestechlichkeit im geschäftlichen Verkehr in Tateinheit mit versuchtem Betrug sowie Betrugs' under § 263 Sections 1 and 2, § 299 Section 1, § 300 S. 2 no. 1, §§ 22 ff., 25 Section 2, 52, 53 StGB), bribery in business transactions ('Bestechung im geschäftlichen Verkehr in Tateinheit mit versuchtem Betrug' under § 263 Sections 1 and 2, § 299 Section 2, 22, 23, 52 StGB), and accessory to attempted fraud ('Beihilfe zum versuchten Betrug' under § 263 Sections 1 and 2, §§ 22, 23, 27 Section 1 StGB).

(Source: Judicial Files and Final Verdicts 2014, Office of the Public Prosecutor in Neuruppin)

In Germany, countering corruption falls under the jurisdiction of the 16 states. Therefore, **every local authority can develop and apply different methods to prevent and fight corruption**. The State of Berlin, for instance, introduced in 2014 a registry listing companies whose managers have been convicted of corruption-related offences and other white-collar crimes (see box below).<sup>48</sup> Institutions that do work through public procurement are required to consult the registry and avoid granting a contract to businesses listed. Given the differences between the different states' legal frameworks and the fact that most companies operate across state borders and internationally, in April of this year the German Ministry of the Economy drafted **a law to establish such a registry at the federal level**. The purpose of the 'competition registry', which is supposed to be available from 2019 onwards, is to prevent companies involved in previous corruption cases from participating in public tenders.

#### Box: A blacklist in public procurement

At the time our research was performed, a total of 2,000 firms and natural persons were listed in the Berlin registry. As of 2017, the registry contained 213 companies, mostly limited liability companies registered in Berlin. Regarding legal violations, 105 companies were listed citing section 266a of the GCC (non-payment and misuse of wages and salaries) and 93 were listed citing section 370 of the Fiscal Code of Germany (tax evasion). Other violations cited section 298 (restricting competition through agreements in the context of public bids); section 263 of the GCC (fraud); Section 266 of the GCC (embezzlement and abuse of trust) and section 334 of the GCC (giving bribes as an incentive for the recipient to violate his official duties).

#### *Document Forgery*

Another crime that was found to be a potential red flag for OC infiltration of the legal economy is document forgery (see Chapter 3). Document forgery might serve different criminal purposes, from smuggling to tax evasion. Generally, OC is interested in disguising illegal economic activities through fake documentation.

#### Document forgery for the smuggling and irregular employment of immigrant workers

In one of the analysed cases of smuggling and irregular employment of immigrant workers in Germany, document forgery was used in different phases of the process. Based on falsified invitation letters, tourists' Schengen visas were first issued by the German Embassy in the country of origin. Once the migrants arrived in Germany, those temporary visas were converted into permanent residence permits through forged marriage certificates or family reunifications with European nationals 'recruited' during the commercial activities of the businesses involved. Counterfeit identity cards, university degrees and language certificates were provided by two professionals residing in Italy. The migrants were exploited as irregular workers in small businesses across Germany.

(Source: Judicial files 2013, Office of the Public Prosecutor in Hannover)

#### *Fraud and tax crimes*

Another sentinel crime for SOC infiltration discovered in the MORE cases is fraud. The BKA links OC to economic crimes mostly through fraud. In 2016, 53 OC cases handled by **the BKA were related to business and economic life, half of which were fraud cases** (Bundeskriminalamt, 2017a). It is a recurring fact that damages in OC cases related to business amount to more than half of the damages in all OC cases. In 2016, the BKA noted a heavy increase in so-called CEO fraud, accounting fraud in the care sector and **systematic benefit abuse committed by OCGs** (Bundeskriminalamt, 2017a). The latest report on economic crimes confirms the **heavy increase in fraud** connected to financial crimes, breach of trust and accounting fraud, especially in the field of nursing services (See box below: Bundeskriminalamt, 2018). The BKA observes that criminals who were previously active in traditional fields of economic crimes such as financial crime and breach of competition now offer these criminal services to various OCGs. Yet, the BKA warns that in the field of OC involving in fraudulent acts, the dark area is particularly large (Bundeskriminalamt, 2018b, p. 24).

Another element that is considered a risk factor for SOC infiltration is the tendency to evade taxes. According to the last BKA situation report, **10% of OC cases are linked to tax and customs crimes** (Bundeskriminalamt, 2017a, p. 24), while 5% of them are linked to tax evasion in the field of cigarette smuggling.

Estimates of yearly tax evasion in Germany range from 30 billion euro (Zeit Online, 2017) to 100 billion euro (Focus Online, 2015). Between 2010 and 2015, 123,175 voluntary self-disclosures of tax evasion were collected, meaning an average of 20,546 per year (Statista, 2018).

48. The registry was introduced in 2016 by the law 'Gesetz über die Einrichtung und Führung eines Registers über korruptionsauffällige Unternehmen in Berlin – Korruptionsregistergesetz' – 19 April 2006 (Gesetz- und Verordnungsblatt für Berlin, Ausgabe no. 16/2006, S. 358); and amended in 2010 (Gesetz- und Verordnungsblatt für Berlin, Ausgabe no. 30/2010, S. 535). Access to anonymised data from the registry was granted by the Berlin Senate.

### Box: VAT fraud in Germany

Between 2009 and 2010, an OCG was smuggling textiles, medical products, cigarettes and other goods into Germany using corruptive methods. The modus operandi was the following: the OCG corrupted a customs official in charge of classifying the imported goods to classify them as being further exported outside of the EU. In this way, the containers were not charged for VAT. The goods were then illegally sold on the European market through shell companies registered in Dubai and in Russia. These businesses acted to disguise the illegal origin and marketing of the goods.

(Source: Final verdict 2010, Office of the Public Prosecutor in Neuruppin)

## Risk factors for SOC infiltration — Vulnerabilities

### *The underground economy*

According to the estimates reported in Chapter 4, Germany has a moderate sized underground economy. In 2018, the underground economy was estimated by Medina and Schneider as **15.6% of the GDP** (Medina & Schneider, 2018), Germany being one of four countries with smaller shadow economies (Medina & Schneider, 2018). The FATF estimated that the German informal sector amounts to 400 billion euro (FATF, 2010, p. 9).

As part of the volume of the underground economy, illegal employment is estimated. In this field, too, Germany scores very well when compared to the other EU member states (EEPO, 2016). Damages resulting from illegal

employment were calculated at more than 800 million euro in 2014 (Zoll, 2015). In 2014, a total of approximately **60,000 natural persons and legal persons were convicted for violations related to black market labour**. Most cases were in construction, transportation and the food service industry (Bundesamt für Justiz, 2014).

### *Cash-intensity*

As stressed in the previous chapters (see Section 4.1), Germany is traditionally attached to cash usage, and cash still plays an important role in its everyday economic activities. Germany's **cash ratio amounts to 68% of daily payments**, being the eighth country in Europe in the use of cash. In fact, there is a general perception in the country that it is time to consider rules that limit the use of cash as a breach of fundamental rights. Partially, the reasons of such scepticism against limits on cash circulation are historically-rooted in the collective trauma deriving from the two inflations during the 20<sup>th</sup> century, when the German middle classes lost most of their assets. The current German debate on the limitation on cash transactions is a prime example of the difficulty of striking the delicate balance between criminal prosecution and economic interests. As reported by Europol (2015b), the use of cash is almost unavoidable at a certain stage in the laundering process, even when virtual currencies or complex financial subterfuges are utilized. Yet, cash is, in principle, a legitimate payment method.

In partial fulfilment of the 4AMLD's national risk assessment requirements, the German government commissioned a 'dark area' study on money laundering in the non-financial sector. The study was released in 2015 and found that **cash transactions in the non-finance sector are especially susceptible to money laundering** (Bussmann, 2015). From the government's perspective, the anonymity of cash transactions (as well as prepaid cards and e-currencies) especially facilitates the financing of terrorism and thereby creates a security risk. Addi-

tionally, the cash transaction limits in other EU member states have led to a **displacement of cash transactions towards other EU countries, for example, Germany** (Deutsche Bundesbank, 2016). A report found that the declared imports of cash into Germany alone totalled around 56 billion euro in 2012. Additionally, it is estimated that the amount of undeclared cash smuggled into Germany is also significant (Henn, Mewes, & Meinzer, 2013). To launder money obtained from illegal activities, organised crime is suspected of using cash transactions to buy real estate and luxury items such as cars, art and gold, although other sectors with smaller average transactions in cash, such as the food service industry, are also used by OC.

Yet bans/limitations on cash transactions are **very controversial in Germany**. Cash is the most used form of payment in Germany. More than half of expenditures and 80% of transactions at points of sale are done in cash (Deutsche Bundesbank, 2016, p. 5). According to a Bundesbank study on the use of cash (2015), the average German carries 103 euro in cash and uses cash for the majority of transactions below 50 euro. For transactions over 100 euro, less than one third of transactions — and one fourth of transactions over 500 euro — are paid in cash. The younger generation (under 24 years of age) carries smaller amounts of cash and is in general much less favourable to cash transactions than older generations. Currently there is no limit on cash transactions in Germany.

A political driver for the discussion on limits on cash transactions is the 4AMLD. **Since June 2017, anonymous cash transactions in Germany have been limited to a maximum of 10,000 euro**. For larger transactions, the buyers need to identify themselves. In the event of non-compliance with the new law, punishment for businesses is harsh. Pursuant to section 56 (2) of the German Anti-Money Laundering Act, '*For serious, repeated or systematic infringements, the*

*law introduces higher maximum fines of one million euro — or a fine up to double the economic advantage the company has obtained from the infringement'. There are concerns that the measures are inefficient or ineffective at combatting illegal activities and that the government is aiming to phase out cash completely in the medium to long term.*

#### *Corporate opacity: links to off-shore countries and risky jurisdictions*

Despite ranking quite well in the shadow economy and corruption categories, Germany stands out among European countries for being **one of the six countries with the most exposure to off-shore countries and risky jurisdictions** (see Section 4.2). In particular, it is the sixth EU MS in financial secrecy according to the Financial Secrecy Score, with a score of 59.1, after the Netherlands, Romania, Cyprus, Malta and Croatia (Tax Justice Network, 2018), and the sixth EU MS in terms of ownership connections to risky countries (section 4.2).

Germany is also the second country in the EU in terms of percentage of shareholders from EU 'greylisted' countries, i.e., jurisdictions included in Annex II of the official EU list of tax non-cooperative jurisdictions (see section 4.2 for details). About **18.6% of foreign shareholders of German companies come from a jurisdiction in this greylist**, most of them Swiss and Turkish owners (see table 17). However, 'greylisted' owners are less than 1% of the total shareholders in German firms, as national owners are the large majority.

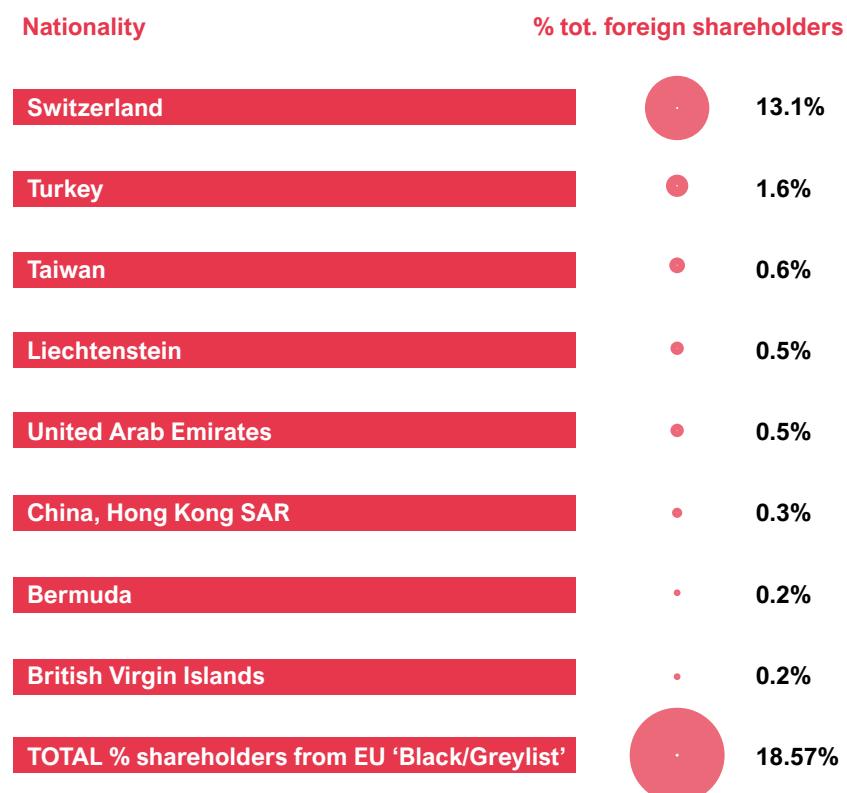
Germany also occupies the fifth place among EU countries in **beneficial ownership distance**, with an **average BO distance of 1.3**.

This result finds confirmation in the analysis of the Suspicious Transactions Reports (STRs) filed in 2015 with the German Financial Intelligence Unit (FIU) (data was not available for 2016) by the obliged entities and the

revenue authorities. Information on the corporate headquarters was provided for 3,490 registered companies. While 70% of businesses were domiciled in Germany, the remaining 30% included both EU MSs and tax havens, namely the UK, Cyprus, Switzerland, the British Virgin Islands, the Russian Federation, the Netherlands, Hong Kong, China, the United States and Panama (Financial Intelligence Unit, 2017a).

**Table 17 - Percentage of shareholders from EU 'Black/Greylist' of non-co-operative tax countries – top 8 countries (% of total foreign shareholders of German firms)**

Source: Transcrime elaboration of BvD data



### *Loopholes in the Anti-Money Laundering framework*

The volume of money being laundered in the country is **estimated to be between 15 and 100 billion euro annually** (Bussmann, 2015; Schneider, 2016). The big discrepancy between the two estimates can be explained with the supposedly very large dark area, upon which experts disagree. In 2010, the FATF and the IMF estimated the volume of proceeds of crime generated in Germany that is potentially subject to money laundering at between 43 and 57 billion euro annually (FATF, 2010b).

High- and medium-risk economic sectors are (Bussmann, 2015):

- real estate
- construction
- art and antiquities
- boats and yachts
- trustee and management companies
- hotels and restaurants
- traders in goods
- insurance

Common features among those sectors are the **high volume of cash involved** and the **high prices paid** for the goods (which allow potential overestimations of assets). Small and medium businesses, which lack the resources to perform proper due diligence and which fear retaliation by their own customers, are especially hesitant to share information on suspicious activities with law enforcement agencies.

It is worth noting that although banks file the largest share of STRs with the FIU, thus showing a high level of compliance, some major German banks have been involved in major money laundering scandals. The Panama Papers mentioned **28 names of German credit institutions** (Süddeutsche Zeitung, 2016). Renowned banks such as Commerzbank, Deutsche Bank and

Hypovereinsbank have been investigated by foreign law enforcement agencies because of their suspected involvement in money laundering schemes (Rosbach, 2015; Spiegel Online, 2015; Tagesspiegel Online, 2015). For example, Deutsche Bank agreed to pay 630 million USD in fines to US and UK regulators for having failed to prevent an estimated 10 billion USD money laundering (Treanor, 2017).

One of the loopholes is that some entities belonging to the non-financial sector are still reluctant to take AML measures, although their risk for money laundering has long been recognized. The vast majority of STRs — an index of AML engagement — are filed by the financial sector (99.4%), particularly by credit institutions (35,038 in 2016) and financial service providers, while **the non-financial sector filed only 0.6% of all reports** (Financial Intelligence Unit, 2017a).

Real estate has been long recognized as a risk sector (Bundeskriminalamt, 2012; Bussmann, 2015; Financial Intelligence Unit, 2017b), but the **number of STRs filed by real estate agents is still relatively low**. For example, while the volume of real estate transactions was 22 billion euro in 2011, zero real estate STRs were filed with the FIU (Bundeskriminalamt, 2012; Financial Intelligence Unit, 2012). In recent years, the number of STRs filed by real estate agents has increased, reaching 34 in 2015 and 28 in 2016 (Financial Intelligence Unit, 2017a). The assumption, confirmed by a recent study (Bussmann, 2015) is that there is a rather large volume of unreported money-laundering transactions.

According to experts, the AML framework is insufficient to counteract this phenomenon. One of the main loopholes is a lack of transparency in commercial structures. In June 2017, Germany made the fourth European Anti-Money Laundering Directive (AMLD) into national law and introduced a **national register of beneficial owners**. Although this is an important step towards disclosing the identity of the real owners or nominees otherwise hidden behind a veil of anonymity, critics have pointed out the insufficient level of transparency mandated by the law. Specifically, the **restricted access to the registry granted by the legislation** is seen as hindering participation by civil society members like journalists and NGOs, who, as the Panama Papers and other leaks have showed, are crucial in detecting abuses of the financial system.

### Cross-border money laundering as a service

A German-based criminal network was offering worldwide money laundering services, from Germany to Australia. The OCG was using a combination of newer and older transaction methods in order to avoid law enforcement detection. Import-export companies were used to move cash and justify the transfers through fictitious invoicing. The use of shell companies allowed criminals to conceal their identities. In addition, the OCG used so-called 'cuckoo surfing', a method of money laundering based on the informal Hawala banking value-transfer system. Offenders acting as legitimate Hawala remitters took advantage of customers by replacing their licit monies with ill-gotten gains. Meanwhile, the same amount of illicit cash was collected in the country of destination and transferred to the designated recipient. Using informal payment methods, the criminal syndicate was able to act for long periods without being detected by the supervisory authorities that monitor financial transactions.

(Source: Judicial Files 2012, Office of Public Prosecutor in Düsseldorf)

In addition, the current law allows companies to register a **legal representative or managing partner** when a beneficial owner cannot be identified. Firms that fail to register a beneficial owner or indicate the wrong person are **not subject to any punishment**. These two elements allow nominee directors to be registered, thus frustrating the goal of limiting the existence of shell companies. Yet, as amendments to the European Directive are currently being negotiated, the controversial parts of the German Anti-Money Laundering Act may soon come under review again.

The disclosure of beneficial corporate ownership is not the only solution to the problem. Supervisory and investigative authorities should receive further support to ensure the data collected is processed effectively. Banks and real estate agents, which are required by law to collect data on customers, should be provided with information about the risks presented by the infiltration of illegal monies, demolishing the idea that *pecunia non olet* (Autolitano & Zoppei, 2017).

Our analysis of the received cases revealed that one of the major issues in criminally prosecuting money laundering is that **often the proceedings are dismissed without pressing charges** under Section 170 of the GCC. Investigations are time consuming and resource intense, and it is very difficult to collect the evidence required to press charges. In fact, according to the FIU, 95% of money laundering criminal proceedings for which the FIU received feedback in 2016 were **dropped due to lack of evidence** (Financial Intelligence Unit, 2017).

## Conclusions

The most striking revelations from our research are the **transnational dimension of the phenomenon of SOC infiltration**, which goes beyond German and EU borders, the coexistence and overlap of traditional OCGs and new forms of liquid networked criminality, and the combination of old and new methods to transfer money to disguise its illicit origin (e.g., Hawala, cash and offshore companies).

Criminal networks consist of flexible alliances between professionals acting internationally that regulate themselves based on market logic rather than violent conflicts. Such networks offer expertise and illegal services (*crime as service*). In this context, Germany **may play a role as a headquarters** for legal persons used by OCGs to conceal illegal profits (e.g., import-export firms, charities, companies in the real estate sector and money-exchange providers).

The actions we recommend are:

- effective prosecution of economic crimes
- intensified investigations of crime enablers
- more resources devoted to conducting prolonged financial investigations
- consistent regulation of cash transactions and other financial instruments
- public access to the register of beneficial owners
- the integration of national registers into a European and worldwide one

## 6.2. ITALY

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### Introduction

Much has been written about SOC and SOC infiltration in Italy by policy-makers, law enforcement, academic researchers and journalists. Italy is the country where the **phenomenon of infiltration of legitimate businesses (by mafias) was first acknowledged**. It is also the country that, as a consequence, has developed what observers believe to be the most effective set of investigative and regulatory tools to tackle infiltration — primarily the powerful asset recovery system introduced by the *Rognoni-La Torre* law in 1982 (European Commission, 2012).

Building on previous studies and evidence collected from police and judicial sources, this section provides an update to current knowledge and offers some ideas about how SOC infiltration of Italian businesses **could evolve in the future**.

First, it provides an illustration of the **main trends in SOC activity** in the country, distinguishing between foreign and Italian OCGs. Then, it **focuses on SOC infiltration**, highlighting the emerging strategies and the business sectors subject to infiltration. Finally, it provides a discussion of the **most important risk factors** that enable OCGs to acquire control of legal firms.

#### Foreign OCGs

Italy witnesses stable activity by a number of foreign OCGs in **various illicit markets** — in particular, drug trafficking, firearms and trafficking and smuggling of human beings (DIA, 2017a, 2017b). The most active groups are (Becucci & Carchedi, 2016; DIA, 2017a; Savona & Riccardi, 2015):

- **Albanian-speaking** (drugs, sexual exploitation)
- **Balkan-speaking** (firearms trafficking, drugs, other smuggling)
- **Romanian-speaking** (organised property crime, labour and sexual exploitation)
- **Russian/Georgian** (organised property crime, drug trafficking, firearms trafficking)
- **Chinese-speaking** (labour and sexual exploitation, extortion, counterfeiting, fraud, money laundering)
- **North African** (drugs, human smuggling)

To a lesser extent, African OCGs and Latin American street gangs are also active in Italy (the latter especially in Milan).

According to some sources, the role of foreign OCGs is **gradually expanding**. In particular, the annual report by the Italian anti-drug authority stresses that Albanian and North African OCGs can now **compete with local mafias** (like 'Ndrangheta) in the wholesale and retail trade of heroin (Repubblica, 2018).

While foreign criminal groups in **Southern Italy** may 'request authorisation' from native mafia organisations in order to operate, in **Central and Northern Italy** they can benefit from greater independence, not disdaining to cooperate with or even challenge the Italian OCGs if necessary (DIA, 2017b).

Some scholars have observed that **evidence on infiltration of legal businesses** by foreign OCGs is scant despite the key role it plays in criminal markets. In other words, there is a "*missing link between illicit markets and the legitimate economy*" when it

comes to these groups (Riccardi, Sorriani, & Giampietri, 2016, p. 131). We can assume that most proceeds generated by foreign OCGs in Italy are transferred to the country of origin — mainly through bulk cash smuggling or money transfer methods — where the funds are reinvested in the local economy.

The only exception is **Chinese organised crime**. These groups have shown that they can control numerous businesses, especially in certain regions (e.g., the province of Prato and to a lesser extent Florence, Rome and Milan) and **economic sectors**, for example:

- clothing retail trade
- import/export companies
- bars and restaurants
- transportation firms
- massage parlours
- hair dressers and nail studios (Becucci & Carchedi, 2016; CNEL, 2011; Riccardi et al., 2016).

Legal businesses often help Chinese criminals to **cover up illicit activities** (e.g., massage parlours to conceal exploitation of prostitution, retail workshops to employ irregular workers — often working in slavery conditions) and are managed through a **typical modus operandi**: the companies are dissolved soon after their incorporation, just before any controls are done by the tax agency, abandoning significant tax payables, and then are quickly re-opened thanks to the complicity of figureheads and local professionals, but employing more or less the same human or technical capital (Becucci, 2017).

### Italian OCGs

Italian mafias are **constantly evolving**, adapting to changes in Italian society and seizing new business opportunities emerging in the Italian economy. Each major mafia organisation — Camorra, Cosa Nostra, 'Ndrangheta and Sacro Corona Unita — is developing in its own peculiar way, but we can identify two main trends:

- **Fragmentation:** There are signals of an increased number and independence of groups and clans within the traditionally hierarchical structures. For example:

- For **Cosa Nostra**, the death of Salvatore Riina (November 2017) led to a transition period during which, apparently, the top post of the *Cupola* has not been assigned. This may have caused an increase in the autonomy of some clans and crime families in Western Sicily (DIA, 2017a, p. 244).

- In **Campania**, especially in the centre of Naples, the void left by the disruption of some important Camorra families as a consequence of LEA operations has been filled in some cases by **youth gangs**, not always related to the historical clans, characterised by a lot of violence and involvement in extortion and drug trafficking activities, and less willing to submit to hierarchical governance (Di Gennaro & Marselli, 2018; DIA, 2017b; Nocera, 2018).

- In **Lazio**, the simultaneous presence of "autonomous and autochthonous criminal groups" (Pignatone & Prestipino, 2015) especially in the Rome area, has created a fragmented scenario where OCGs occasionally come together to take advantage of profit opportunities but are soon ready to challenge each other in a multi-faceted environment.

• **Submersion:** There is widespread evidence that Italian mafias are progressively shifting from *subversion and violence* in favour of a submersion strategy aimed at expanding OCG power in a more understated manner (Balsamo, 2016; DIA, 2017a, 2017b). This may be accomplished through:

- Infiltration of the political and economic fabric
- Collusion and cooperation with professionals, public officers, facilitators, brokers and entrepreneurs
- Use of bribery and trade in influence (including political and electoral exchanges) instead of violence

As discussed, **infiltration of legitimate businesses plays a key role** in this strategy. Mafia-backed entrepreneurs can more easily connect with economic and political actors, expand their networks and stay off the radar of law enforcement. As noted by investigative and judicial authorities, all the main mafia organisations have undertaken this strategy, with the **'Ndrangheta** able to deploy networks of entrepreneurs and public officers in the so-called 'grey area', especially in Northern Italy and abroad (DIA, 2017b, 2017a; DNA, 2016).

These two trends (*fragmentation* and *submersion*) may have opposite effects: on the one hand, fragmentation (especially the rise of street youth gangs) can **increase violence** and insecurity; on the other hand, submersion tends to decrease violence and **replace it with corruption and collusion**, in turn facilitating the establishment of a *pax mafiosa*.

But these trends can originate from the same common ground — **erosion of the social capital**. This makes it easier for mafias to infiltrate the social and economic fabric (where they can find fewer institutional and ideological obstacles), but it may also push unaffiliated youngsters to undertake an alternative career in criminality, thereby nourishing OCGs or generating new gangs.

Along with these two trends, another development to be noted is the emergence of a **fourth (or a fifth) mafia organisation**, which some institutions and scholars call **Roman organised crime** ("criminalità romana", (DIA, 2017b, p. 203). Rather than a consolidated and structured organisation, it appears to be the combination of various native groups and crime families — e.g., the Fasciani, the Spada, the Casamonica, and the Carminati/Buzzi group investigated in the *Mondo di Mezzo* operation (Crime&Tech, 2018; Osservatorio Tecnico-Scientifico per la Sicurezza e la Legalità della Regione Lazio, 2018; Pignatone & Prestipino, 2015). While the **mafia nature of these OCGs** is pretty evident from a sociological perspective — both in terms of *modus operandi* and criminal activities — from a strictly legal point of view, the judicial authorities have confirmed their OC nature but, in the first strands of the many on-going trials in Rome, have discarded the allegation of mafia associations (i.e., under art. 416-bis of the Italian penal code).

The judicial events in Rome may be seen as a further confirmation that Italian mafias are now floating between the traditional mafia paradigm — one based on rituals, secrecy, intimidation and obedience (Catino, 2014) — and a new universe in which they mingle up and network with the 'grey' facets of Italian society: **street criminals, colluding entrepreneurs, corporate tax evaders and corrupt politicians**. This new paradigm is very evident when focusing on SOC infiltration of legitimate businesses (see below).

**“ A purely quantitative or qualitative approach alone is not enough to allow us to fully understand the infiltration phenomenon ”**

## SOC infiltration in legitimate businesses: the past, the present and the future

### Previous studies

Previous studies analysing SOC infiltration of Italian firms can be classified in two broad categories — **quantitative or qualitative** studies.

The first group consists of analyses of **companies seized or confiscated** from mafias, taken as a proxy for *infiltrated* firms. The Italian authorities are among the few in Europe able to trace and seize legitimate businesses from SOC groups — more than 2,500 in the last thirty years (see Chapter 5). This abundance of statistics allowed Italian researchers to carry out meaningful statistical analyses. These studies took either:

- A **macro** perspective, analysing the distribution of these firms by region and sector as well as in relation to contextual factors (Riccardi, 2014; Riccardi, Ferluga, & Maggioni, mimeo; Transcrime, 2013).

- A **micro** perspective, analysing the characteristics of these firms in terms of accounting or ownership (Dona-to, Saporito, & Scognamiglio, 2013; Fabrizi, Malaspina, & Parbonetti, 2017; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015). The analysis in Chapter 5 of this report also adopts this perspective.

The use of data on seized assets has been promising, but has a **number of limitations** and some bias (see Riccardi & Berlusconi, 2016, for a review). In order to address some of these limits, other studies tried to enrich the statistics on seizures with other data, e.g.:

- Data on investigations of companies taken from **DIA and DNA reports** (see, for example, Riccardi et al., 2016)
- Data on firms targeted by administrative measures as an alternative to asset recovery — i.e., **interdictions (interdittive)**
- Data on legitimate Italian businesses whose owners include individuals **convicted for OC offences** (Comune di Milano, 2018)

A number of more **qualitative studies** exist. These studies investigated infiltration by analysing case studies, judicial evidence, institutional reports and interviews with experts. These include some historical (but still very current) contributions such as Arlacchi (1983), Catanzaro (1988), Santino and La Fura (1990). More recent papers have analysed the relationship between organised criminals and entrepreneurs and the role of the latter as brokers or supporters of OC. These include Catino (2018); Sciarrone (2011); Sciarrone & Storti (2014).

Over the years, it has become clear that a **purely quantitative or qualitative approach alone is not enough to allow us to fully understand the infiltration phenomenon**, as both perspectives are necessary. The following paragraphs therefore take this combined approach in examining the problem.

**“ New universe in which mafias mingle up and network with the ‘grey’ facets of Italian society: street criminals, colluding entrepreneurs, corporate tax evaders and corrupt politicians. ”**

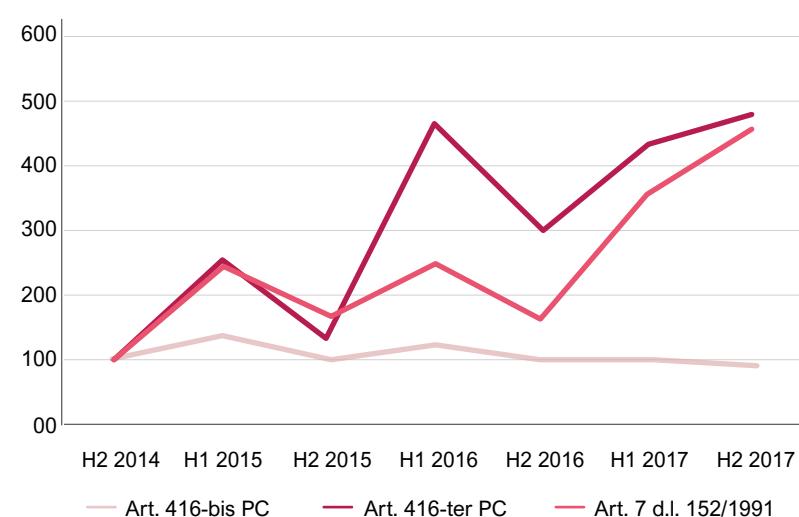
*Strategies of infiltration:*

In the *submersion* strategy used by mafias, a gradual shift can be observed from a **traditional mafia-association approach** based on violence and intimidation to a **more understated and subtle infiltration of legitimate businesses** based on collusion with entrepreneurs and political figures. The related statistics reported by the DIA are shown in the figure aside.

Relatively speaking, the number of persons arrested for **mafia association** (416-bis) is decreasing in comparison to those arrested for **political and electoral exchanges** (416-ter) and for using the so-called **mafia method** (Art. 7 of D.L. 152/91).<sup>49</sup> Although the number of individuals arrested under article 416-ter is still very low as compared to those arrested under 416-bis (29 vs. 1,104 in the second half of 2017), the number of those arrested under art. 7 has exceeded the mafia-associated reports, including in absolute terms (2,590 vs. 1,104)

**Figure 38 – Persons arrested/reported to the police by offence**

Source: Transcrime elaboration of DIA half-yearly reports 2014-2017. Index 2014=100



These data obviously show a change of strategy by Italian public prosecutors. But they can also be interpreted as the rise of a **more ‘liquid’ form of infiltration** by mafia groups, one based on **mutual cooperation with entrepreneurs and policy-makers** not forming

part of the mafia association but acting as supporting actors. The members of mafias establish partnerships with colluding representatives of the private and public sectors, and **all the actors involved benefit from such a joint venture** (DIA, 2017a), because of:

49. The aggravating circumstance of the ‘mafia-method’ foreseen by Art. 7 of the d.l. 152/1991 is a very debated legislative instrument which intends to sanction the behavior of all those people contiguous and supporting – but not integrating part of - mafia organisations (“fiancheggiatori”). For an in-depth discussion on the application of such article see Reccia (2015).

- Coordinated behaviour in **bid-rigging** (on this issue, see, for example, Conley & Decarolis, 2016; Fazekas, Sberna, & Vannucci, 2016; Milani, Calderoni, Carbone, & Rotondi, 2018)
- Exchange of favours through **sub-contracts and supply services**
- Provision of (criminal) services to reduce costs, for example:
  - **illegal waste disposal services**
  - supply of **irregular labour**
  - supply of illegal capital (e.g., stolen machinery)

It may be a change of strategy: while in Arlacchi (1983) the 'mafia firms' (*'imprese mafiose'*) benefited from the competitive advantage they gain from their criminal nature (i.e., they themselves intimidated competitors or workers), in the new scenario, **the firms infiltrated by mafias offer these competitive advantages to other non-mafia firms**. In return, they can increase their (illegal) profits, expand their business and political networks and receive social legitimisation.

The companies indirectly controlled by mafia groups that **provide false invoicing** to other non-infiltrated (but colluding) firms are a clear example of this approach. The police operation *House of Cards*, for instance, revealed

a network of **companies controlled by 'Ndrangheta** operating in Emilia Romagna that provided false invoices to other entrepreneurs (Gazzetta di Reggio, 2015). This strategy allowed the infiltrated firms to increase their illegal cash proceeds, which were then used for other criminal purposes (such as corruption), and the colluding firms were able to reduce their taxable income — although the scheme could work just as well the other way around. The **GAMMA** and **OMICRON** cases also revealed similar setups, but the firms involved were related to Cosa Nostra and other OCGs in those cases.

Such new types of infiltration also entail some **implications for investigations and judicial actions**. New figures and new behaviours are emerging that are difficult to classify under the traditional labels developed over the years by Italian anti-mafia legislation. For example:

- It becomes difficult to distinguish between entrepreneurs playing an integral role in the OC group and those simply 'colluding' or benefiting from the services provided by infiltrated firms.
- New roles are emerging, such as what Catino (2018) labels '*knowledge brokers*' and '*knowledge providers*'.

- The distance between mafia-type offences, OC offences and white-collar offences — primarily corruption and tax evasion — has narrowed.

As noted, these developments can be clearly seen in the relative increase of uses of Art. 7 of D.L. 152/1991 and of Art. 416-ter of the penal code. In other words, it can be assumed that **416-bis is no longer enough to capture a snapshot of the infiltration phenomenon (and perhaps the mafia phenomenon in general)** and that other crime categories — the set of *sentinel crimes*, as defined in Chapter 3 — should be considered.

#### *Business sectors*

An in-depth review of the business sectors infiltrated by mafia-related OCGs in Italy was carried out by (2016). The situation **has not changed much** in terms of business preferences. While **bars and restaurants** and **public procurement** (including **construction, waste management** and other public works) still represent the lion's share, other sectors have emerged. The following table reports some of the most recent LEA investigations for each industry.

We note the degree of infiltration in the **gambling sector**, which attracted the interest of all the mafias (and other criminal organisations — see the box below).

#### **Box: Corruption in public procurement for a large-scale construction project**

In northern Italy, a group of entrepreneurs connected to a Cosa Nostra family set up a complex network of firms that obtained contracts to provide security and logistics services to several branches of a large foreign discount retailer (later put under judicial administration) and to the local Tribunal (see the RHO case in Annex A1 for details). The OCG bribed the managers of the supermarket group using black funds generated by false invoicing and

other illicit activities that were carried out with the complicity of another network of colluding firms external to the organisation.

The following offences were observed (see Annex A1):

- Criminal association
- Exchange of illicit influence
- Corruption between private parties
- Fraudulent invoices
- Omitted tax declarations

- Issuance of invoices or other documents for fictitious operations
- Embezzlement
- Fencing
- Fraudulent transfer of goods
- Aggravating circumstances due to the use of the mafia method

In its pre-trial detention order, the Milan Prosecutor's Office called these offences "satellite economic crimes" ('reati economici satellite', (Tribunale di Milano, 2017, p. 28)).

**Table 18 - Infiltrated business sectors according to the most recent LEA investigations**

SECTOR	SELECTED ITALIAN LEA INVESTIGATIONS (in brackets main OCG involved and arrest/seizure dates)
<b>Bars and restaurants</b>	Becco d'oca (2016, 'Ndrangheta) Pizza Ciro (2016, Camorra) Babilonya (2016, Camorra, Sacra Corona Unita, Rome based OCG)
<b>Construction</b>	Metropolis (2013, 'Ndrangheta) Aemilia (2015, 'Ndrangheta) Giotto (2015, Cosa Nostra) Rent (2016, 'Ndrangheta) U patri nostru (2017, 'Ndrangheta) Domus Area 2 (2017, Camorra)
<b>Social care and migrant assistance</b>	Mondo di Mezzo (2015, Rome based OCG) Jonny (2017, 'Ndrangheta)
<b>Renewable energy (mainly wind power)</b>	Via col vento (2018, 'Ndrangheta) Isola del Vento (2015, 'Ndrangheta) Visir (2017, Cosa Nostra) Eolo (2010, Cosa Nostra)
<b>Wholesale trade (food, flowers) and transportation</b>	Acero-Krupy (2015-17, 'Ndrangheta) Gea (2015-16, Camorra) Il Principe (2015, 'Ndrangheta) Volcano (2015-17, Camorra) Poseidone-Passion fruit (2016, Camorra)
<b>Gaming/videolottery/slot machines</b>	Jonny (2017, 'Ndrangheta) The Imitation Game (2016, 'Ndrangheta, Camorra, local OC) Gambling (2015, 'Ndrangheta) Babylonia (2016, Camorra, Sacra Corona Unita, Rome based OCG) Ndragames (2016, 'Ndrangheta) Game Over (2017, 'Ndrangheta) Rischiatutto (2016, Rome-based OC)
<b>Private security</b>	Security (2016, Cosa Nostra) Metronotte Roma (2014, 'Ndrangheta and Rome-based OCG)

### Box – Mafia infiltration of the gaming/gambling sector

Numerous investigations reveal the interest all mafia groups have in this industry. The reasons for this attraction are various:

- the large and growing demand base
- the high cash intensity, which facilitates money laundering schemes
- the difficulty of tracing game transactions, especially in the on-line gaming sector and especially using servers located abroad

- the opacity of the ownership structure of the legitimate businesses involved, often ones registered or authorised in off-shore countries and other foreign jurisdictions (e.g., Cyprus, Malta, Romania)
- the economies of scale with other illegal activities (e.g., usury services for the players)
- the economies of scale with other business sectors (e.g., bars that can be equipped with slot machines and VLT terminals and other infiltrated goods)

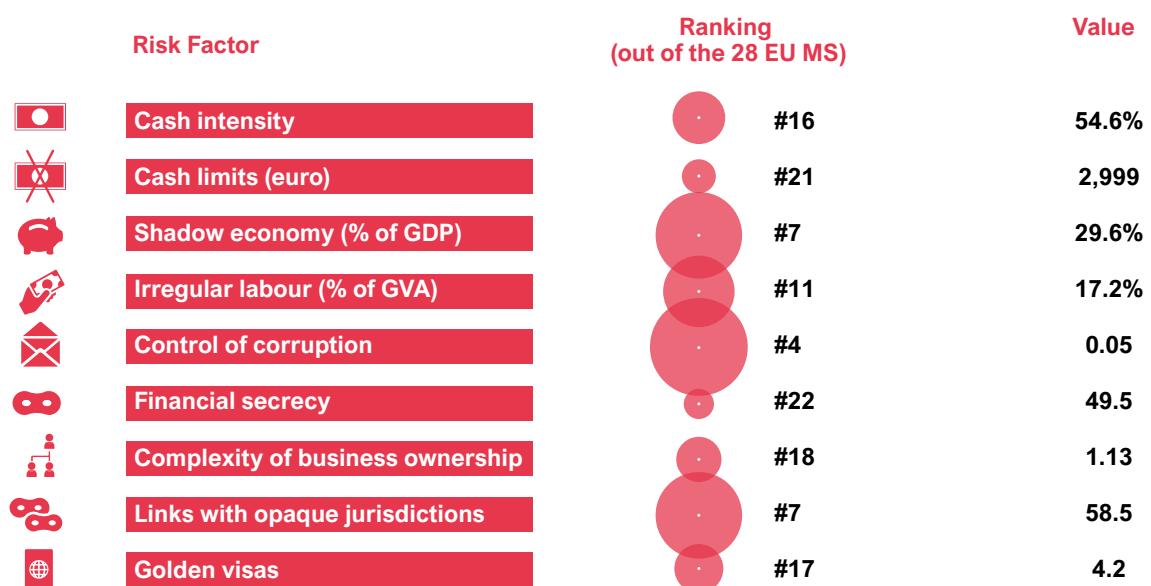
- possibilities for carrying out large-scale tax fraud, in terms of excise evasion through off-shore schemes, illegal on-line gaming platforms and modified terminals

We also note the widespread mafia infiltration of legitimate businesses active in this sector and established in some EU jurisdictions, Malta and Romania in particular (see the relevant country profiles).

## Risk factors of SOC infiltration in Italy

**Table 19 - MORE risk factors of SOC infiltration in Italy**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### Previous studies

While Italy has scores in line with the EU average for most of the risk factors for SOC infiltration considered by the MORE project, it should be noted that **some geographic areas in Ita-**

**ly are far above the EU benchmark** and appear to be particularly vulnerable to infiltration.

The recent analysis of **money laun-**

**dering risk** in Italy conducted by the IARM project (Riccardi, Milani, & Camerini, 2017) highlighted some specific geographic and sector vulnerabilities, which are summarised below.

### Cash intensity and cash limits

Italy is average for the EU in terms of cash intensity, with a **cash ratio of around 55%**. It should also be noted that Italy has one of the highest rates of POS per capita (Riccardi & Levi, 2018). However, the economy of some geographic areas in the country — especially in the south and on the islands — is still almost **exclusively cash-based**.

Sardinia (especially the provinces of Ogliastra, Carbonia-Iglesias and Sassari) and Calabria (Crotone, Vibo Valentia) are the regions with the highest cash ratio. In some areas, such as Crotone or Vibo Valentia, more than **90% of daily transactions are made in cash** — much higher than the rate in the top EU countries (see Riccardi et al., 2017 for details).

In 2008, Italy introduced a **maximum on cash purchases**, which has changed over the years from 15,000 euro in 2008 to 1,000 euro (the lowest in Europe at the time). Since 1 January 2016, only cash payments of up to 3,000 euro are allowed (Legge di Stabilità, 2016). The same law also introduced requirements for merchants and professionals to accept payments with debit and credit cards, although implementation decrees have not yet been introduced.

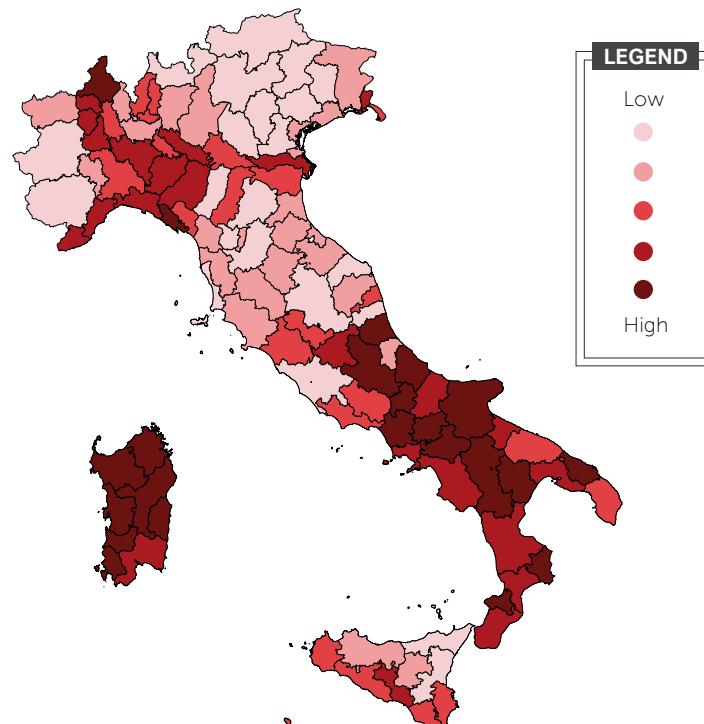
### Shadow economy and irregular labour

According to the latest FATF Mutual Evaluation Report and the money laundering NRA, **tax evasion is the main ‘proceeds-generating crime’** in Italy (FATF, 2016b, p. 17). According to the national industrial association, total tax and contribution evasion amounted to 122 billion euro in 2015 — about 7.5% of GDP (CSC, 2015) — an estimate in line with the ISTAT one on the underground economy.

Medina and Schneider (2018) also stress Italy's high score for its **shadow economy**: 29.6% of the GDP, the seventh highest value in the EU MSs. And Italy's level of **irregular labour** is also high, at the European level — 17.2% of the GVA.

**Figure 39 – Cash ratio of Italian provinces**

Source: Riccardi, Milani & Camerini (2018)



### Corruption

The strong presence of OC, the frequent use of cash (especially in some regions), the large irregular economy and public interventions are acknowledged by scholars and policy-makers as the most important way to generate a perfect **environment for corruption to grow**. According to the World Bank's *Control of corruption* indicator, Italy has the fourth lowest level out of the EU MSs. As noted by observers, despite advancements and the establishment of ad-hoc agencies (such as ANAC, the Italian anti-corruption authority), over the last thirty years, Italy has proven to be unable to address and mitigate substantially its corruption problem — which has become 'systemic' and 'organised' (Vanucci, 2017).

The link between SOC infiltration and corruption is evident in the **public procurement** domain. As mentioned, under the new submersion strategy, mafias have often replaced violence and intimidation with corruption and collusion. The illegal links established

between mafia groups and local (and central) public administration representatives have allowed OC to create new profit opportunities — especially from **public works, waste management, local transport, health care and social care** (see, for a review, Caneppele, 2014; Fazekas et al., 2016; Milani et al., 2018).

### Financial secrecy, business ownership opacity and complexity

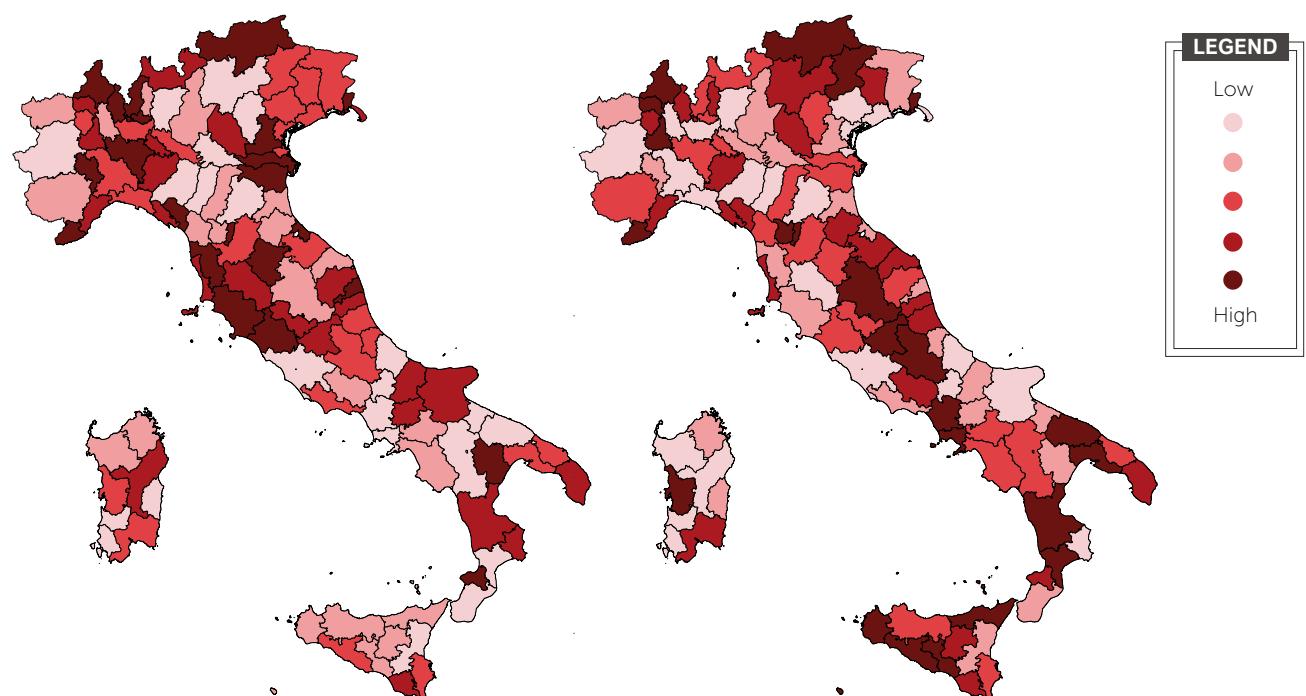
Italy does not score high in terms of **financial secrecy**, according to the Tax Justice Network's Secrecy Score (Tax Justice Network, 2018). It is, however, one of the countries in Europe with the highest volume of **business ownership links with shareholders from secrecy jurisdictions** (7<sup>th</sup> out of the EU MSs). It is also one of the member states with the greatest volume of owners from the **EU ‘Blacklist’ and ‘Grey list’** of non-cooperative tax jurisdictions: 15.1% of total foreign shareholders, mainly due to the high number of **Swiss shareholders** (more than 10% of all foreign owners — see Table 20).

**Table 20 - Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data

**Figure 40 - Business ownership links with secrecy jurisdictions (left) and average BO distance of Italian firms (right)**

Source: Transcrime elaboration of BvD data in Riccardi, Milani and Camerini (2018)



The situation, however, varies quite a bit depending on the region and the business sector. For example, some **northern provinces, especially on the border** (Imperia, Verbano Cusio

Ossola, Trieste and Alto Adige) usually record higher numbers of links with secrecy jurisdictions as well as, on average, a higher BO distance. While Italian **firms usually do not denote a**

**complex ownership structure**, there are some exceptions, both in certain regions (e.g., the Imperia or Catanzaro provinces) and in certain industries (e.g., energy, mining, finance).

## Concluding remarks

SOC infiltration of Italian companies is evolving and changing form in light of the **submersion strategy** adopted by most Italian mafias. The traditional 'mafia firm' (Arlacchi, 1983), used by criminals to launder money and intimidate competitors and workers, is being replaced by a **new type of infiltration** that benefits from collusion with external entrepreneurs, brokers and public officers. In this scheme, **corruption, tax evasion and other 'satellite economic crimes'** (Tribunale di Milano, 2017) play a key role.

As a consequence of the narrowing gap between the mafia paradigm and white-collar crimes, **contextual risk factors in Italian society and the Italian economy** are assuming a pivotal importance, as they allow 'petty economic crimes' to be committed and, in turn, facilitate the activity of mafia businessmen, too. These risk factors include:

- the **cash-intensity** of the economy, especially in some geographic areas
- high levels of **tax crimes** – including 'petty' tax evasion and larger scale fiscal fraud and false invoicing schemes
- the large **underground economy and prevalence of irregular labour**
- systemic levels of **corruption**, especially in the public procurement sector
- anomalies in terms of **business ownership opacity** in some industries and specific regions

All these factors create not only a vulnerability to petty criminals but an ideal habitat for mafia infiltration to **spread and grow**.

While Italian judicial and law enforcement agencies have proven to be well equipped to trace and **fight mafias and SOC infiltration** once it has occurred — and they are a benchmark for the whole EU — future interventions in this area should of necessity focus on **preventing these risk factors**. It is now time for policy-makers, rather than police and prosecutors, to make a step forward to mitigate the problem.

## 6.3. SWEDEN

Erik Nilsson, Johanna Skinnari, Lars Korsell – BRÅ - Brotsförebyggande rådet - Swedish National Council for Crime Prevention (Sweden)

### Main findings



Thirty-eight infiltration cases were collected through interviews with representatives of regional intelligence centres, contacts with other government officials, media reports and court records.



The results largely confirm previous research about business infiltration in Sweden: Infiltrators are typically loosely structured networks, and important contextual factors include the relative simplicity of starting a business in Sweden and the relative permissiveness of the Swedish approach to freedom of association.



The material underscores the presence of OCGs in legitimate markets — at least 25 of the 38 collected cases are connected to pre-existing organised crime groups.



In the collected cases, the construction sector is used the most (9 cases), followed by import companies (6 cases) and the social services and health-care sectors (5 cases).



There are some indications that OCGs are becoming more competent at using companies as crime tools or, in some cases, more adept at collaborating with people with such competence.



Various kinds of tax fraud, welfare fraud, and credit fraud are among the most common crimes in the collected cases.



While the prevalence of OCGs in public procurement in Sweden is difficult to assess, welfare and construction appear to be the sectors at risk.



Cases connected to procurement typically do not involve direct involvement in a procurement process but instead some variant of simplified procurement (in the welfare sectors) or subcontracting from larger companies (the construction sector). Nonetheless, these setups put public funds in the pockets of OCG actors.

## General remarks

By and large, the Swedish MORE data confirms previous findings presented in the ARIEL report (Brå, 2016b; Savona & Berlusconi, 2015; Skinnari, Korsell, & Rönnblom, 2016). Infiltrators of Swedish businesses and markets are typically loosely structured networks rather than stable organisations or hierarchical groups. Contextual factors deemed significant by ARIEL — the relative simplicity of starting a business in Sweden and the relative permissiveness of the Swedish approach to freedom of association — continue to be important. Geographical concentration in urban areas also remains significant. This chapter adds additional weight to these and related findings.

There are also important differences in the Swedish MORE and ARIEL data. Most notably, the presence of established criminal organisations is much more marked in the MORE cases. At least 25 of the 38 collected cases are connected to pre-existing organised crime groups. This does not, however, simply contradict the previous emphasis on loosely structured networks. The typical scenario is rather that of a network formed from one or more OC groups. This is also confirmed by recent research on how OCGs in Sweden generally operate (Brå, 2016c).

The difference between the MORE and ARIEL results, then, is one of nuance. It is also likely that it reflects methodological differences (in the way cases are identified and collected) rather than shifts in the structure of crime itself. The picture that emerges from MORE should thus be understood as a complement to ARIEL rather than a chronological update. This chapter reflects this aim by focusing on what MORE adds to the picture of OC infiltration in Sweden that emerged from previous research.

In keeping with the general aims of MORE, specific attention will be given to cases that involve public procurement or are particularly relevant to risk

assessment in procurement processes. Not a lot is known in Sweden about OC infiltration in public procurement. It is only recently that large-scale fraud, tax crimes and OC involvement in these processes became known and a topic in the media. Added to this is an increased awareness of OCGs establishing themselves in publicly financed markets such as personal assistance, residential care and residential care (see, for instance, SOU, 2017; Brå, 2016; NUC, 2017). This chapter is the first explorative study to look into these processes.

### *Notes on methodology*

A problem identified in the Swedish contribution to ARIEL was difficulty in 'distinguishing between organized and network-related economic crime' (Savona & Berlusconi, 2015, p. 57) in the Swedish cases. Partly in response to this difficulty, MORE's methodology was adjusted to be able to pick up the most clear-cut cases of OC infiltration possible. This was accomplished by working with intelligence data specifically pertaining to individuals and groups in the organized crime milieu or those classified as 'organized crime' by the police. Consequently, the cases collected have a stronger OCG component. The trade-off in this methodological decision is that many companies must remain anonymous (because investigations are still on-going) and details in the cases remain un-investigated and uncertain.

It is in this sense that the Swedish MORE data complements ARIEL. In ARIEL, case identification largely went through government agencies that audit and investigate companies. The assumption was that infiltration is complex and insight into the process of infiltration would require high-resolution data about the companies involved. It turned out, however, that many cases of infiltration are rather straightforward, and that the companies typically are quickly discarded. Furthermore, agen-

cies involved in auditing seldom know much about OC connections. MORE approached the issue from the other end, starting with OCGs and then looking for connections with companies.

Most of the information presented in this chapter is derived from interviews with representatives of regional intelligence centres. The centres play an important part in the Swedish authorities' strategy against organised crime. They were set up in 2009 to facilitate intelligence information sharing between government agencies involved in the fight against organised crime: the police, the tax agency, etc. Their work centres on a regularly updated list of 'strategic individuals' deemed to be of special importance to the organised crime milieu. In 2017, Brå received clearance through their national board to try to identify cases through the centres. Contact was then established with the coordinator of each centre, who nominated a representative to be interviewed. Five of eight centres were able to participate, all in all submitting 28 cases of infiltration — though some of these cases contained multiple companies and operations — connected to strategic persons. In addition, 10 cases identified through media reports, through contacts with the tax agency and through public tips, were included in the data set. Thus, in total, 38 cases were analysed.

Furthermore, a seminar was held with public officials who were active in preventing or investigating crimes connected to public procurement. The participants worked at the National Tax Agency, the Swedish Transport Administration and several municipalities.

### *Identified cases*

Table 21 summarises the 38 cases identified in the data collection. The construction sector is the most often involved (9 cases), followed by import companies (6 cases) and the social services and healthcare sectors (5 cases).

**Table 21 - Overview of Swedish cases**

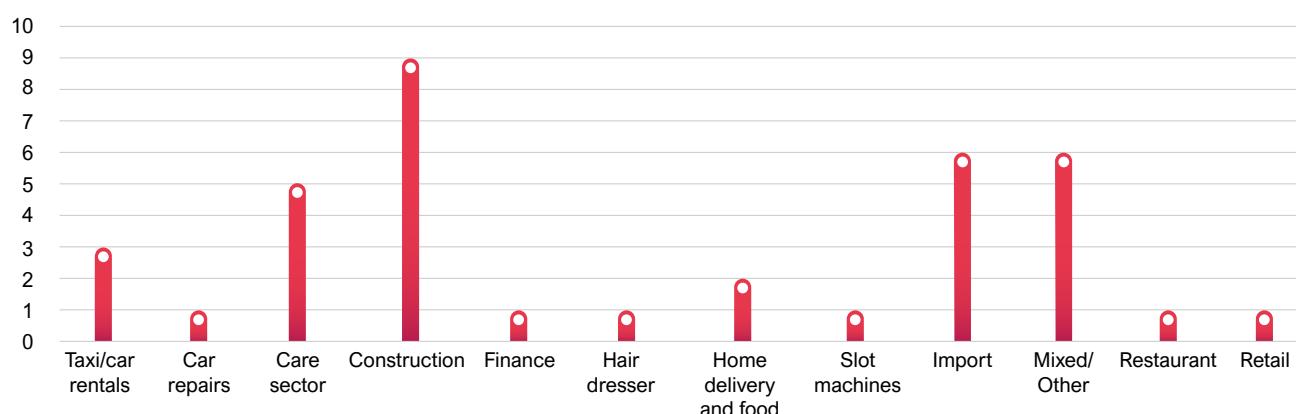
Source: Brå elaboration

ID	Sector	Type of procurement procedure	Control over company	Crime committed/Company function
1	Car rentals		Unknown	Service to criminals with debt
2	Car rentals		Unknown	Service to criminals with debt, tax fraud
3	Car repairs		Ownership	Theft, breach of trust
4	Care sector	Simplified	Unknown	Welfare fraud
5	Care sector	Simplified	Unknown	Unclear, obverted
6	Care sector	Simplified	Unknown	Unclear
7	Care sector	Simplified	Establishment of new company	
8	Care sector	Simplified	Unknown	Welfare fraud, possible untaxed labour
9	Construction	Subcontractor	Acquisition and burn-out	Untaxed labour, possible insider at large contractor
10	Construction	Subcontractor	Unknown	Unclear
11	Construction	Subcontractor	Ownership	Untaxed labour
12	Construction		Use of wife as figurehead and insider	Bank insider - construction, selling houses
13	Construction	Construction contract	CEO, middle management	Money and goods into own pockets
14	Construction		Board member	False invoices
15	Construction	Subcontractor	Front men, ownership etc.	Untaxed labour, false invoices, etc.
16	Construction		Board member, de facto CEO	False invoices, fax fraud, etc.
17	Construction	Subcontractor	Acquisition	Untaxed labour
18	Finance		Investment and marginalisation of owners	Fraud, finance
19	Food		Girlfriend on company board	Laundry
20	Food		Unknown	Laundry
21	Hairdresser		Harassment and buy-out	Cash in pocket, possible laundering
22	Home delivery, food		Unclear take-over	Untaxed labour, welfare fraud, narcotics

ID	Sector	Type of procurement procedure	Control over company	Crime committed/Company function
23	Illegal slot machines		Front man	Illegal slot machines
24	Import, alcohol		Regular ownership	Illegal import of alcohol
25	Import, cigarettes		Straw man, newly started	Tax evasion
26	Import, cigarettes		Unknown	Tax fraud
27	Import, cigarettes		Threats	Tax fraud
28	Import, oil products		Regular ownership	Tax fraud
29	Import, oil products		Owner, possible insider	Tax fraud
30	Mixed/Unclear		Take-over, companies with problems	Credit fraud, untaxed labour
31	Mixed/Unclear		Acquisition	Depletion of assets, credit fraud
32	Mixed/Unclear		Ownership through middlemen	Credit fraud, false invoices, fax fraud
33	Mixed/Unclear		Regular ownership	Tax fraud
34	Mixed/Unclear		CEO plus two companies with front men	False invoices
35	Mixed/Unclear		Board members abroad, hijacked IDs	Government fraud, other kinds of fraud
36	Restaurant		Not known	Unclear
37	Retail		Internship	Welfare fraud (obverted)
38	Taxi		Threats and violence	Black taxi, narcotics, violence

**Figure 41 – Cases by sector**

Source: Brå elaboration



## Infiltration: Drivers, methods and management

The ARIEL report's findings regarding drivers of infiltration, methods of infiltration and management strategies all remain relevant and will not be reiterated in full here. Instead, the previous findings will be briefly referenced, related to the new cases and, when necessary, adapted in accordance with them. Generally speaking, though, the MORE cases confirm the previous findings.

### *Drivers for infiltrating the legitimate companies*

As made clear by previous research, OC infiltration of business more or less always aims at making money. This basic motive may take various forms. Six typical reasons for infiltration were identified:

- to launder money
- to obtain sensitive information
- to gain access to social benefits
- to create employment for friends and relatives
- to gain status within the criminal or legal sphere
- to gain access to markets for stolen or illicit goods

Three of these are particularly prominent in the MORE cases: laundering money, gaining access to social benefits, and getting access to markets for stolen or illicit goods.

### *Methods of infiltration, control, and management*

ARIEL identified multiple methods of (or bordering on) infiltration: starting new businesses, legal acquisition, hijacking of legal business, threats and extortion and bribery/mutual benefits. While these methods are also represented in the MORE material, two seem vastly more important than the others: starting and buying companies, often using straw men.

It should be noted, however, that in roughly half of the cases the exact nature of the infiltration and control of the companies remains unclear — including because of the sensitive nature of the information collected.

In terms of management strategies, the MORE data confirms ARIEL's conclusion that short-term strategies, where the company in question is quickly 'used up', dominate, but it also includes a number of notable cases of long-term involvement. Furthermore, the MORE data indicates that it may be worthwhile in some cases to differentiate between the productive company — which may be a long-term endeavour — and the shell company — which may be easily discarded. These findings confirm previous studies and both research and situation reports (Brå, 2011, 2012, 2016a; NUC, 2017).

## Analysis of cases

The following section delves more deeply into the identified cases. The cases have been grouped according to one or more prominent characteristics pertaining to sector, modus operandi or the overall function of the companies in question.<sup>50</sup>

### *The construction industry*

Previous research has identified the construction industry as a risk sector in relation to OC infiltration. Reasons for this are manifold. Frequent use of sub-contractors makes the market opaque. Work is often carried out as projects in which different companies carry out different tasks. Previous research also shows that the construction industry attracts people from OCGs, especially motorcycle gangs (Brå, 2009, 2011). Regardless of whether they were workers before they became members of organised crime groups, even the respected construction company that finds out that staff members are affiliated with organised

crime has limited opportunity to act on this information, since OCGs in themselves are not illegal in Sweden (Brink, 2003; Savona & Berlusconi, 2015). One specific example in the MORE data involves a company owned by an OC member. When local media made politicians aware of the fact that the municipality bought services from this company, the politician in charge condemned it and said they would stop using this firm. However, the officials could not find any formal grounds to end the contract, as the work was of high quality and the company followed regulations and paid its taxes and fees (Brå elaboration of media reports).

MORE data confirms these previous findings. Nine out of the 38 identified cases involve construction companies, making construction the most prevalent sector in the data. Most of these cases involve tax evasion setups that are well known from previous studies (Brå, 2007, 2011, 2012; Savona & Berlusconi, 2015; Skinnari et al., 2016). Typically, reported and unreported labour is often mixed, making it harder for the authorities to identify irregularities. While undeclared labour remains a relatively small proportion of the labour market in Sweden (see Section 4.1), its occurrence in industries like construction and transportation is considered significant. The Swedish Competition Authority have warned that the prevalence of unreported labour in the construction industry is large enough to affect market prices for labour and skew competition (Konkurrensverket, 2013; see also Grönberg and Sjöblom 2013).

Some of the cases in the MORE data also involve business strategies that are more elaborate. In one case, investigators suspect that OCG members involved in systematic tax evasion managed to place an insider at a larger construction company. How this was accomplished remains unclear, but the insider was in a position to help the OCG members secure subcontracts.

50. The organisation emphasizes noteworthy points of overlap or complementarity with the ARIEL data, and is not intended to replace the typology of risk sectors presented in the ARIEL report.

When the company went bankrupt, the insider helped move the contract to the OCG actor's next company. Similar setups have been identified by the authorities (NUC, 2017). In a previous study on organised tax crimes, several interviewed offenders claimed that it was not difficult to find insiders. They offered substantial bribes to get in as subcontractors on a large-scale construction project, and local staff who could make that happen offered their services to these offenders. The reason was said to be that it was a known practise, and it paid off for the involved parties (Brå, 2011). Another study on public officials acting as insiders concludes that OC members are often skilled at identifying willing insiders and developing what the insider believes is a close friendship. This can lead to repeated situations where the OC member gets valued help and expertise that facilitates the criminal enterprise (Brå, 2014b).

Another case involves a company set up to issue false invoices to construction companies interested in evading taxes (see the script analysis of Swedish case 1 for details). By funnelling money through this 'service company' and back, funds for black wages and untaxed gains were freed up. Some twenty foreign citizens were brought into the country to register as residents and set up bank accounts. Their identities and accounts were then used to set up the company and transfer money back and forth between the companies (see script analysis for details). Other studies have identified similar dynamics and concluded that this is a recent development (Brå, 2015, 2016a; NUC, 2017).

It is noteworthy that several of the construction companies in the data, including some of the companies involved in the case with false invoices described above, have done work on large-scale, publicly funded construction projects. However, none of the construction companies in the list

seem to have been main contractors themselves, while they acted as subcontractors. Nonetheless, it could be argued that they exerted an effect on procurement, since over time they may affect market prices. Furthermore, regardless of whether a contract is a subcontract or not, it puts public funds into the pockets of OCG actors. As long as subcontracting pays off, seeking contracts through direct procurement may be an unnecessarily risky route for some OCG actors.

The companies used in the tax evasion schemes are often unstable and quickly discarded while perpetrators continue their operation (see also Italian case studies RHO and OMICRON). As one interviewee stated, the infiltrated companies themselves are, in fact, often little more than an organisational number (i.e., a shell company) used for a short period of time. In a certain sense, then, the productive company may be one involving long-term investment and effort, while the shell companies are not.

It is worth noting that the data also contains examples of OCG involvement in the construction sector through companies that are relatively stable, well run, and, at least as far as is known, not involved in criminal activity. Interviewees emphasize that some OC actors may divide their time between legitimate business and suspected criminal activity. The companies may sustain the lifestyle pursued by these individuals and thus, indirectly, their involvement in organised crime, but are not illegal as such. Sweden employs a permissive approach to the freedom of association, and known OCG actors are by no means automatically excluded from running businesses (Savona & Berlusconi, 2015). A trading prohibition may apply in some cases, but media reports indicate how easily they can be circumvented, not least through the use of straw men or companies registered abroad (NUC, 2017; SOU, 2017).

### *'Service companies' in a variety of sectors*

As stated above, a company selling false invoices might be construed as a criminal 'service company', since it aids other companies in committing systematic tax fraud. The MORE data also contains analogous examples of service companies in other sectors. A common problem for many actors in the OCG milieu, for instance, is the risk of asset seizures by the enforcement agency. Actors in OCGs typically have debts but lack licit income. On the other hand, conspicuous consumption — for instance, driving an expensive car — is an important part of the criminal lifestyle (Brå, 2014a; Hall, Winlow, & Ancrum, 2008). Two companies in the collected cases provide a solution to this problem: they specialised in renting vehicles to people in the OCG milieu. Another company in the identified list that could be labelled as a 'service company' specialised in acquiring companies and reselling them to OCGs and other criminal actors.

### *Welfare fraud in the care sector*

Welfare fraud committed in the care sector is another important overlap between the MORE and ARIEL cases. The residential care sector fraud identified by ARIEL was in very few cases not connected to any pre-existing OCGs and should be thought of as 'organised crime' only in a broader sense: the fraudulent activity was itself highly organised and required coordination between multiple agents.

One interesting result of MORE — due to the possibility of going through the regional intelligence centres — is that MORE identifies cases that actually involve pre-existing OCGs. In one case, for instance, a residential care company suspected of fraud had hired individuals connected to OCGs and convicted of serious crime as care assistants — 'a rather unusual recruitment', as stated by one interviewee.

The contract with the company was not renewed by the municipality when it expired. According to the interviewee, the modus in these suspected frauds was largely predicated on having consumers without a full medical history in Sweden, which makes it easier to overstate the need for care. It is important to note, however, that similar frauds can, and have been, perpetrated using consumers with a Swedish medical history.

In other instances, individuals from established OCGs started residential care homes for children and young people or consulting companies in the residential home care sector. Part of the socio-political context of these cases was the refugee crisis of the latter part of 2015, when Sweden received an unprecedented number of asylum seekers. The logistical challenges of this situation were substantial. One particularly pressing problem was housing, and government agencies and municipalities were forced to employ unconventional solutions to meet the demand. For a short time, it was the seller's market indeed. As illustrated by several cases, OCGs seem to have noticed this (see, for example, Swedish case study no. 3 below).

In one case, social services in two municipalities placed children and teenagers in the care of a residential home care company even though they seem to have been aware that it lacked both the required licence and qualified personnel. A representative from the social services explained: 'Seven children sat in the central station, and there wasn't a hotel in town that would take them. We had no choice' (Brå elaboration of media reports). It was revealed later that at least one person running the company had known connections to an OC group.

While only a handful of similar cases have surfaced, our interviews also indicate that similar attempts were made by other groups. At least two of the interviewees had noticed in late 2015 or early 2016 that individuals connected

to OCGs were starting companies with names that indicated they were to be active in the care sector. The interviewee's conclusion was that these actors were planning to enter the migrant housing market but missed the opportunity: when the Swedish government took measures to radically reduce the inflow of migrants, the demand quickly plummeted.

One case in the collected documents illustrates particularly well the often complicated structure of procurement in the care sector. The central actor, who had been active in several business sectors, had prior connections to organised crime. In 2015, he joined the board of an existing company that was active in a different sector. The company started operating support housing for unaccompanied children and teenagers. Then the sector was put under stricter regulations and the company was not granted permission to operate in residential care. Instead, it began operating as a consultant and was contracted by the social welfare committee to find foster homes for children and provide them with guidance.

#### *Asset depletions and fraud*

Some of the most common uses for companies in previous research implied in-depth infiltration but in a very short time span. Companies would be acquired, quickly 'used up' and discarded. In some cases, the financial capital of the company was quickly depleted. Various kinds of fraud, on the other hand, use the intangible capital of the company — its reputational capital (Power, 2007), credit worthiness and so on — to defraud customers or other companies. The MORE data contains additional cases of this kind. One case concerned an online vendor; two others concerned multiple companies in various sectors. Several interviewees emphasized that OCG actors typically manage companies in this short-sighted manner. One particularly prolific individual in the list, for instance, had been involved in more than 50 companies over the course of just a few years' time.

One particularly interesting, and more sophisticated, strategy could also be taken as exemplary of an increasing proximity between organised and economic crime. This was noted in the ARIEL report and has been alluded to by Swedish authorities as well. This particular case involved a former biker gang member who, along with a small group of partners, started or acquired shares of small companies in various sectors. Through false accounting, the value of the companies was increased beyond their 'real' value. Stock issuance is done through risk investment companies to attract investment. At this point, the perpetrators suddenly sell their shares and the companies eventually go bankrupt. This kind of sophisticated financial fraud hardly seems typical of former OC members, but an investigator mentioned it in relation to what he saw as a trend towards 'competence development' in the OC milieu.

#### *Longer term involvement*

While quick asset depletion thus remains important, five or six cases in the MORE material involved what seems to be longer-term OC involvement in the future of companies. They span different kinds of OC actors and various sectors. A quite well known example concerned a taxi company in the south of Sweden that had been in the hands of different OC actors over a number of years. The events around the company, which has been terminated since then, have been referred to in the media as 'the taxi wars' and included serious violence and large-scale tax fraud.

In another case, members from a well-known OCG took control of a business in a cash-intensive market by first harassing the previous owners and then buying the company out. Investigators suspected that the business was being used for money laundering purposes. The fact that this kind of setup is not more common in the identified case studies probably reflects the fact that

Sweden is one of the most cash-free countries in the world (see Chapter 4, especially section 4.1). OCGs thus have to rely more heavily on other means of money laundering.

In two other cases, possibly linked to each other, investigators noticed that entire chapters of OCG members have been employed by companies in the food industry. Relatives were installed in the management of at least one of the companies. While some regular activity seemed to have taken place within the companies, suspected additional uses included money laundering and obtaining social benefits for those employed.

#### *Cigarettes and oil*

Six cases in the list involved tax fraud connected to the import or purchase of taxable goods — oil products and cigarettes. OCG involvement in these sectors is well known and the modus has been described elsewhere (Brå, 2011, p. 7; Skinnari & Korsell, 2016). They made use of permission to delay tax payment (in the case of cigarettes) or of the right to reimbursement (in the case of oil). The terms of these permissions or rights were then violated, and the untaxed goods were sold at a substantial profit. Interviewees identified oil in particular as an important source of income for well-known OCGs in the south of Sweden (confirming evidence also found in other countries like Malta, Italy and Eastern Europe; see Chapter 3). The companies involved were sometimes partly legitimate, like a transportation company doing actual work, and sometimes a front or paper company. In several cases, boat ownership — purportedly used for fishing or transportation — legitimized the purchase of untaxed oil products that were then sold at a profit. In at least one case, investigators also suspected help from an insider at a company selling oil.

## Conclusions

There are some indications that OCGs are becoming more competent in using companies as crime tools or, in some cases, more adept at collaborating with people with such competence. The collected material contains a number of cases involving longer-term involvement in the future of companies, in complex criminal operations involving multiple companies or in companies providing services to other OCG actors or to legitimate companies involved in, for instance, tax fraud. In other words, the Swedish scenario also seems to confirm the general trend observed in the rest of Europe (see Chapter 3).

The OCG presence in the welfare sector may also be seen as a part of this possible development. These set-ups involve on-going fraud against the state and require an actor motivated and competent to maintain a company over time and able to handle contacts with authorities. Involvement in the welfare sectors also underscore OCG adaptability to new opportunities arising from new legislation, quickly rising demand for services, or other shifts in the markets (such as, for example, the crisis of refugee migrants).

Still, many identified cases of infiltration involved known risk sectors and well-documented criminal setups. Smuggling of cigarettes and oil products remain important sources of income for some groups. The construction sector continues to be attractive for OCG actors, who can hide illicit labour.

The occurrence of OCGs in public procurement in Sweden is difficult to assess. Welfare and construction appear to be risk sectors in this regard, but the cases we have identified typically do not involve direct involvement in a procurement process but rather some variant of simplified procurement (in welfare sectors) or subcontracting from larger companies (the construction sector). Nonetheless, these setups put public funds in the pockets of OCG actors.

The material also points toward a problematic grey area regarding OCGs and procurement. For example, there were examples of municipalities that suspected OCG involvement in procurement but saw little room for counter measures. Cases recently reported in the Swedish media illustrate this situation. The affected business sectors included private security and moving companies. In one case, a municipality contracted with a construction company that was owned and run by a high-profile member of a well-known OCG. In a seven-year period, the company received payments of tens of millions of SEKs for their services. Media commentators were deeply critical, and the municipality opened an investigation into the contract with the company. But as far as is known at this point, no crime has been committed by the company.

According to the Swedish Public Procurement Act (Ch. 13, subsect. 1) companies represented by individuals convicted of certain forms of organised and economic crime are to be excluded from public contracting. In practice, however, this is often problematic. Since OCG membership is not criminalised, the Procurement Act instead point to crimes typically associated with OCGs: narcotics, robbery, human trafficking and so on. But none of these crimes necessarily qualify as organised crime. In many cases, then, it does not suffice to review someone's criminal record to know if it demands exclusion. One must also know the specifics of the crimes in question to be able to assess whether a company representative has been convicted of organised crime. Needless to say, procurement agencies typically have neither the time nor the competence to carry out this kind of evaluation.

In a larger perspective, OC infiltration may be seen as an extreme pole of a spectrum of issues affecting procurement in various markets. Recent efforts against unsound competition by the Swedish authorities suggest that many employers, especially in the construction and transportation industries but also in the hotel, restaurant, taxi and agricultural sectors, deem it difficult to be competitive in the market without cutting corners and breaking rules. There are also reports that small companies avoid bidding on contracts, something that may leave the market more vulnerable to economic crime and OC infiltration (Konkurrensverket, 2013; Grönberg and Sjöblom 2013) .



# **Other EU Member States**

## 6.4. AUSTRIA

### Introduction

Information on SOC and SOC infiltration in Austria is weak, both in terms of (public) investigative evidence and academic research.

Austria's acknowledged role as an **important financial centre** and its **geographical position** on the Balkan Route may make the country vulnerable to a number of illicit activities, such as **drug trafficking, arms trafficking, human trafficking and smuggling and money laundering** (Neumann & Basra, 2018a) (US Department of State, 2016c). According to the available evidence, OCGs active in Austria are also involved in **racketeering, counterfeit money** (Neumann & Basra, 2018a), **phishing, fraud, tax crimes** and, in particular, **VAT fraud** (FATF, 2016a).

In terms of actors, beside local OCGs, a **variety of foreign criminal groups** is active: Italian mafias and Turkish-speaking, Russian-speaking and Balkan criminal groups (FATF, 2016a; Neumann & Basra, 2018a).

Further research should be conducted to address this knowledge gap. The following paragraphs will focus mainly on the few case studies collected and on the main risk factors for SOC infiltration considered by the MORE project.

### SOC infiltration of the legal economy: cases and evidence

According to the 2016 *FATF Mutual Evaluation Report*, criminal groups in Austria use cash-intensive businesses such as **hotels, restaurants** and **cafés** to launder the proceeds of illicit activities (FATF, 2016a, p. 16). These businesses are usually established and managed through **figureheads**.

The MORE project found few cases of **infiltration of Austrian businesses by Italian mafias**. Despite not being one of the historical foreign locations for Italian OCGs, the country could be attractive due to its **proximity to Italy's Italian borders** and its **favourable business tax system**. By counting the number of references in Italian DIA/DNA reports to the activity of Italian mafias abroad, Austria ranks **9<sup>th</sup> among EU MSs** in terms of the number of mentions (see section 3.5) and **11<sup>th</sup>** when weighted on the population.

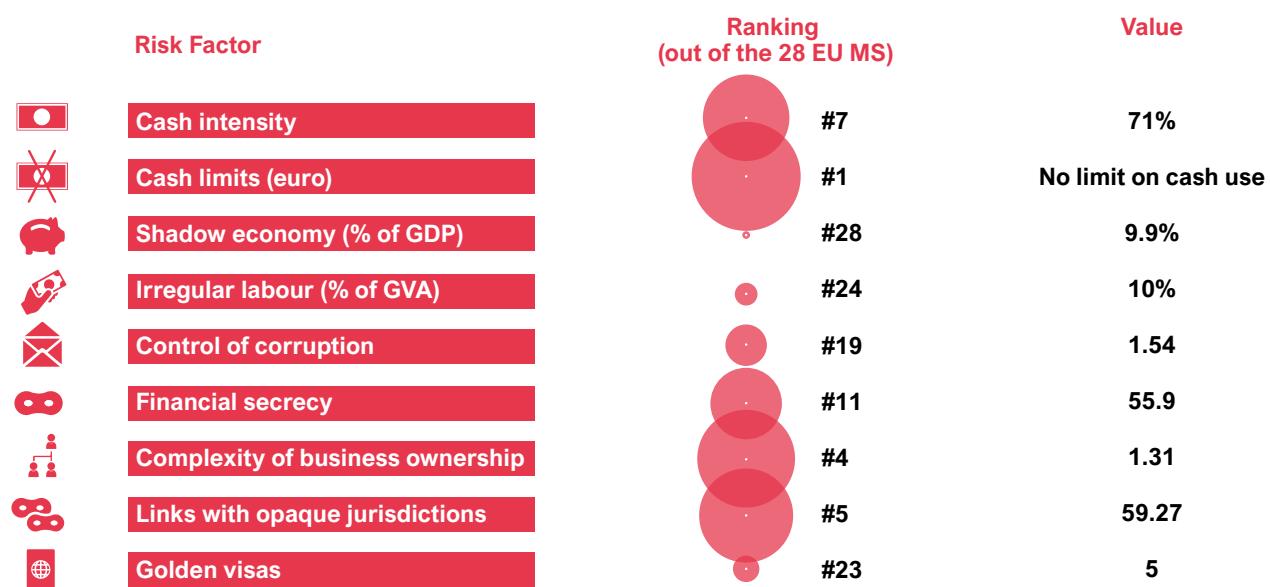
In two MORE case studies, Italian mafias set up shell companies in Austria (see Annex A1):

- **The NU case:** this operation, carried out by the Italian DIA, Carabinieri, Police and Guardia di Finanza, revealed a global network of gaming businesses, some of them established in Austria, used by the Italian 'Ndrangheta to commit various offences (DIA, 2017a);
- **The OMICRON case:** An Italian OCG connected to 'Ndrangheta (Tribunale di Reggio Calabria, 2018) established a large network of connected businesses located in Italy and abroad — including Austria and neighbouring countries — aimed at providing fictitious invoices and joint-venture contracts used to facilitate a variety of illicit activities.

## Risk factors for SOC infiltration in Austria

**Table 22 – MORE risk factors of SOC infiltration in Austria**

Source: Transcrime elaboration of European Central Bank (2016), Medina & Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources



Among the risk factors analysed by the MORE project, Austria appears to be particularly vulnerable in the areas of financial secrecy, business ownership opacity, cash limits and cash intensity (see Table 22).

### Cash intensity and cash limits

Historically, Austria is a **very cash-intensive country**. Its cash ratio (71%) is among the highest in the EU (7<sup>th</sup> out of the EU MSs). Furthermore, there is **no maximum limit** on cash purchases. The cash-intensive nature of the country and the absence of thresholds may facilitate money laundering activities by OCGs through the purchase of high-value goods.

### *Shadow economy and control of corruption*

As in Germany, despite the frequent use of cash, the **shadow economy** in Austria is small, according to the study by Medina & Schneider (2018), the lowest in the EU MSs at 9.9% of its GDP. **Undeclared labour** and **estimated corruption** are also not points of concern for Austria (Williams et al., 2017; World Bank, 2016).

### *Financial secrecy, business ownership opacity and complexity*

Austria appears to be quite vulnerable if we consider the three dimensions of financial opacity considered by the MORE project. It has medium-high levels of **financial secrecy** based on the Tax Justice Network's Secrecy Score (Tax Justice Network, 2018), ranking 11<sup>th</sup> among EU MSs. Also, Austrian businesses have one of the highest levels of **complexity of business ownership** chains, with an average BO of 1.31 (4<sup>th</sup> highest out of the EU MSs).

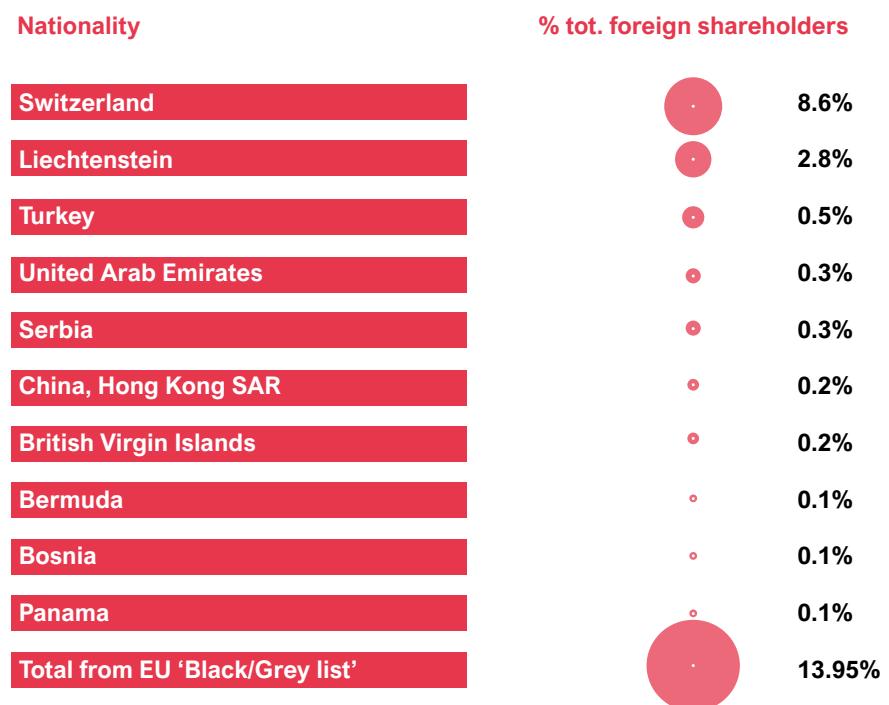
Austrian firms also have a high volume of **business ownership links with secrecy jurisdictions** (the 5<sup>th</sup> highest value in the EU at 59.27). Although most shareholders are domestic (96.2%) according to Transcrime elaboration of BvD data, among foreign owners, 14% come from jurisdictions in the EU 'Greylist'/'Blacklist' of non-cooperative tax countries (see section 4.2). The top country foreign owners live in is Switzerland (8.6% — see table 23).

### *'Golden visas'*

Austria does not have a specific immigrant investor program, but, according to local regulations, it has the **discretion to naturalise individuals** on grounds of economic interest. Based on the overall score assigned by Transcrime using the investment and status score elaborated by Džankić (2018), Austria ranks 23rd out of the EU MSs.

**Table 23 – Shareholders from ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

The evidence collected by the MORE project reveals that Austria could be exploited for **establishing shell companies** to be used to conceal illicit activities, conduct fraud (e.g., VAT carousel) and launder money. In particular, infiltration of legitimate Austrian businesses could be facilitated by:

- The lack of **limits on cash purchases**
- The **cash-intensive nature** of the local economy
- The moderately high levels of **financial secrecy**, especially in the sub-dimension measuring a lack of requirements for companies to submit information on beneficial ownership
- The average high **complexity of Austrian businesses'** ownership structure
- The relatively high volume of **links to opaque jurisdictions**, if compared to other EU MSs

The risk may be higher for infiltration by **Italian mafias**, which may look at Austria due to its proximity to Italy and its favourable corporate tax system.

## 6.5. BELGIUM

### Introduction

There is scant and fragmented information on SOC infiltration of legitimate businesses in Belgium. The available public reports from law enforcement are not fully updated, and academic research in this field is poor. While the country's role as a **transit centre for drug trafficking** is well acknowledged — especially because of the **port of Antwerp**, one of the main entry points for cocaine reaching Europe from South America — it is believed that most illicit proceeds are not invested locally but are **moved outside the country** (US Department of State, 2018b).

In these illicit financial outflows, **bulk cash smuggling** takes the lion's share, again benefiting from the massive volume of shipments dispatched from the port of Antwerp (US Department of State, 2018b). **Money transfer businesses** and **diamond traders** (Belgium is one of the main international markets for diamonds) are also quite vulnerable to being misused for ML purposes, as was also highlighted by the FATF in its latest mutual evaluation report (FATF, 2015).

The Annual Report on Organized Crime in Belgium (Service de la Politique criminelle, 2010) issued in 2010 by the Belgian police stressed that Belgium is also exposed to **cybercrime**, **trafficking in human beings**, **smuggling of humans**, **organised theft** and **organised vehicle theft**.

In terms of actors, beside the local OCGs, **77 different nationalities** are active in Belgium, including Dutch-speaking, Eastern European, Italian mafia-related, Moroccan-speaking, French-speaking, Indian-speaking, Turkish-speaking and Albanian-speaking OCGs and, to a lesser extent, Chinese-speaking and Bulgarian-speaking criminal groups (Service de la Politique criminelle, 2010). When it comes to **Italian mafias**, according to investigative evidence, Belgium is a preferred location for drug trafficking activities as well as investment of the money stemming from different illicit activities (DIA, 2017a). When counting the number of references to foreign countries in Italian DIA/DNA reports, Belgium ranks 5<sup>th</sup> among EU MSs (excluding Italy), also when weighted on the population.

As regards the infiltration of businesses, the Annual Report on Organised Crime in Belgium (Service de la Politique criminelle, 2010) highlighted OCG use of companies, mainly **private limited companies** and **SA – anonymous companies** active in different sectors. The report identified three types of businesses infiltrated: completely legitimate businesses active in the **retail** and **real estate sectors**, businesses that perform both legal and illegal activities in the **transportation**, **banking** and **food** sectors, and shell companies active in the **import/export trade** (Service de la Politique criminelle, 2010). The companies active in the transportation, banking and food sectors are mainly related to prostitution and drug trafficking and are used both for money laundering purposes and to conceal illicit activities.

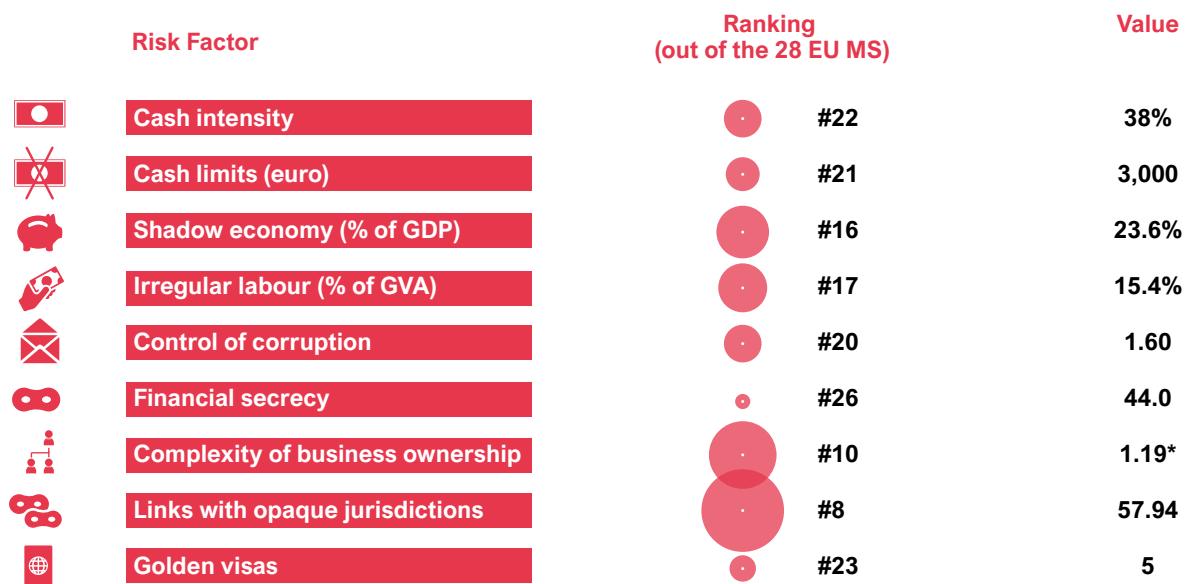
From the 24<sup>th</sup> annual report issued in 2017 by the Belgian Financial Intelligence Processing Unit (CTIF-CFI, 2017), we find the use of wide networks of fictitious companies serving different purposes such as **social services fraud**, **tax fraud**, **money laundering** and **submitting fictitious invoices**.

Further research, however, should be conducted to address these knowledge gaps. Therefore, the following paragraphs will only comment on the main risk factors for SOC infiltration taken into account by the MORE project.

## Risk factors for SOC infiltration in Belgium

**Table 24 – MORE risk factors of SOC infiltration in Belgium**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



According to the analysis by the MORE project, Belgium does not appear to be particularly vulnerable with respect to the risk factors analysed. Table 27 summarises Belgium's ranking on risk factors among the 28 EU MSs, where 1 is the highest value and highest risk.

### Cash intensity and cash limits

Belgium is quite a cash-adverse economy, since the level of **cash intensity** is among the lowest in the EU — 38% of all daily payment transactions are made in cash, and thus the country ranks 22<sup>nd</sup> among the EU MSs. The **maximum limit** in terms of cash purchases between businesses is set at 3,000 euro.

### Shadow economy and control of corruption

In terms of the **shadow economy**, based on Medina and Schneider (2018) estimates and **undisclosed labour** (Williams et al., 2017), Belgium

scores values quite in line with the EU average, ranking 16<sup>th</sup> and 17<sup>th</sup> in the latest index. Also, **estimated corruption** is not a matter for concern: in terms of World Bank – Control of corruption criteria (World Bank, 2016), Belgium ranks 20<sup>th</sup>.

### Financial secrecy, business ownership opacity and complexity

If we consider **financial opacity**, Belgium appears to be quite vulnerable on two of the three sub-dimensions considered. In terms of **financial secrecy** based on the Tax Justice Network FSS – Financial secrecy score (Tax Justice Network, 2018), it ranks 26<sup>th</sup>. Regarding the risks related to **complexity of business ownership**, it was not possible to conduct an analysis due to the lack of data, so it was assigned the EU average value. And if we look at the risks connected to **ownership links with secrecy jurisdictions**, Belgium scores 57.94 and thus ranks 8<sup>th</sup> among the EU MSs.

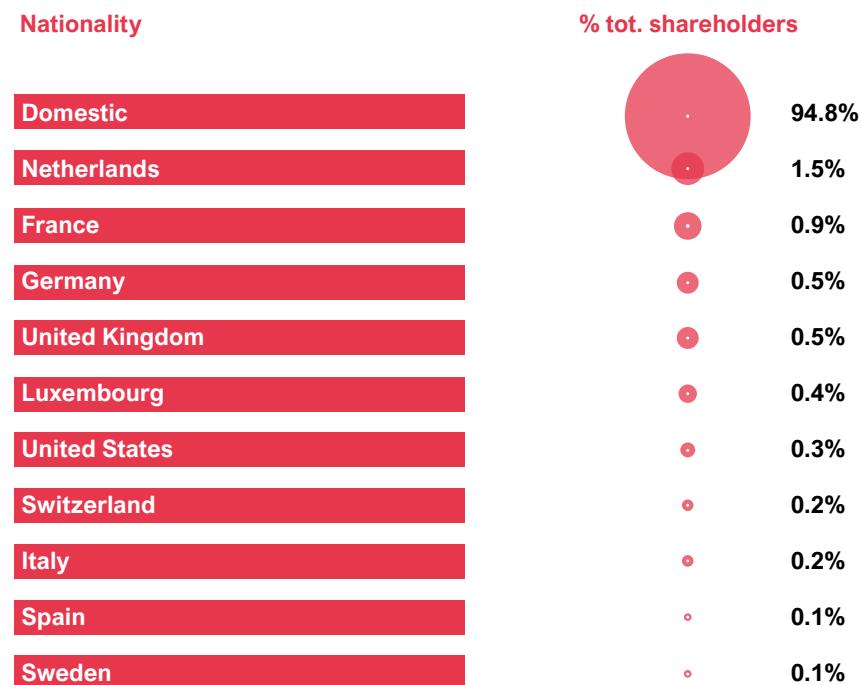
When it comes to the presence of foreign owners in Belgium, Table 28 shows the nationality and percentage of shareholders, and Table 29 shows the percentage of shareholders from the top 10 EU black- or grey-listed countries in the total of foreign shareholders. We can observe that most of the shareholders are domestic (94.8%), and most of the foreign shareholders from EU black- or grey-listed countries are from Switzerland (3.1%).

### 'Golden visas'

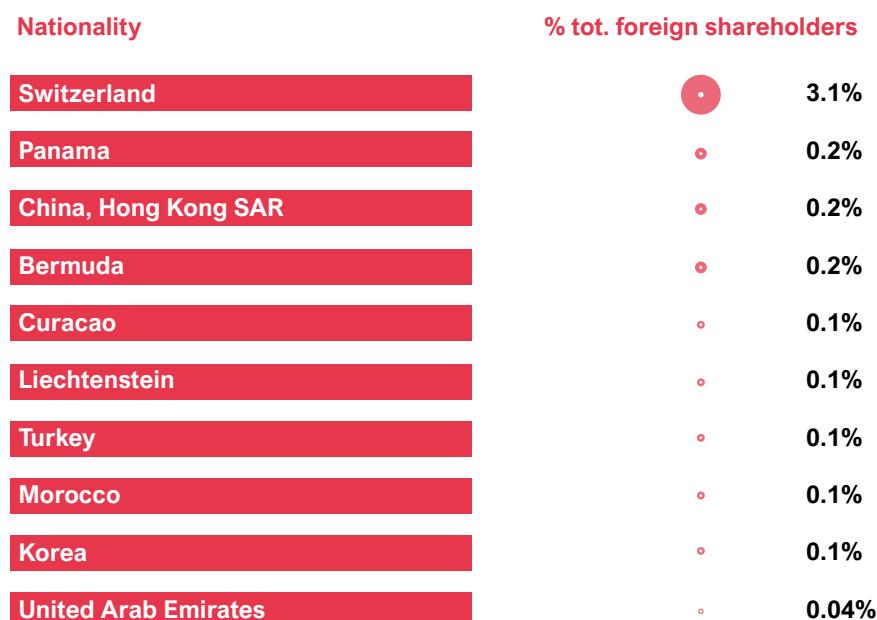
In terms of risks posed by its **immigrant investor programme**, Belgium offers residency facilitated through investment but does not specify a specific monetary contribution. Therefore, based on the overall score calculated by Transcrime using the investment and status score elaborated by Džankić (2018), Belgium ranks 23<sup>rd</sup> among the EU MSs.

**Table 25 – Nationality of shareholders**

Source: Transcrime elaboration of BvD and EU Commission data

**Table 26 – Percentage of shareholders from EU black- or grey-listed countries**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

Belgium is compliant with KYC and STR rules and recently adopted the EU's forth AML directive (US Department of State, 2018b). The evidence

collected by the MORE project revealed that Belgium appears to be particularly vulnerable due only to the **complexity of business ownership**

and its **ownership links with secrecy jurisdictions**; however, it scores values in line with the EU average.

## 6.6. BULGARIA

### Introduction

Due to its geographic position on the Balkan route, Bulgaria is a **source, transit** and **final destination** for various illicit activities. It is a transit country for **drug trafficking**, mainly heroin from Afghanistan but also synthetic drugs like amphetamine and ecstasy. Bulgaria is also an entry point for **illegal migration** from bordering non-EU countries (Turkey, FYR Macedonia and Serbia) and **tobacco smuggling** (Calderoni, Brener, Karayotova, Rotondi, & Zorč, 2016b).

The OCGs active in Bulgaria are very much involved in these drug routes (trafficking in heroin and synthetic drugs) and in cocaine trafficking from South America. However, according to the report *Serious and Organised Crime Threat Assessment* (hereinafter SOCTA) by the Center for the Study of Democracy (CSD, 2012), **trafficking in human beings**, i.e., sexual exploitation, labour exploitation, mendicity and pick-pocketing and the sale of new-borns, is still the main source of illicit proceeds for the criminal groups active in the country. According to the International Narcotics Control Strategy Report (KnowYourCountry, 2018a), other illicit activities connected to Bulgarian OC are **tax and custom offences, cybercrime, ATM and credit fraud** and the **smuggling of goods**.

After the economic crisis, **illegal lending** was also a big business opportunity. The economic crisis forced companies to accept loans from OCGs because of difficulties in getting funds from legal financial institutions. Furthermore, since real estate values dropped, criminal groups shifted their investments to this highly rewarding new market (CSD, 2012). The crisis in real estate also led to the investment of illicit proceeds in construction, agriculture and clean energy (CSD, 2010).

One nexus between these different illicit activities is **corruption**. In the 90s, political corruption nourished the rise of the so-called *oligarchs* (CSD, 2012), i.e., white-collar criminals who, taking advantage of their legitimate façades and contacts with the public administration, got involved in different illicit activities such as manipulation of public procurement, tax crimes and racketeering and trafficking of human beings. Corruption is used by OCGs as a tool to facilitate their illicit activities and to avoid criminal prosecution (CSD, 2012).

The other nexus between different illicit activities in Bulgaria is money laundering. Due its position on the EU border and its high levels of perceived corruption (KnowYourCountry, 2018a), Bulgaria is a **hub for transferring and laundering illicit proceeds** by both Bulgarian-speaking OCGs and foreign ones (CSD, 2012).

### SOC infiltration of the legal economy: cases and evidence

According to the national SOCTA (CSD, 2012) and the US Department of State INSCR, the proceeds stemming from various illicit activities are mainly invested in:

- **wholesale trade**
- **retail trade**
- **construction**
- **gambling**
- **hotels and tourism**
- **health care**
- **energy**
- **casinos**
- **nightclubs**
- **car dealers**
- **shopping centres**

Some legitimate businesses are used merely for money laundering purposes, whereas others have a more productive nature. For instance, OCGs may use companies in the **transport sector** or **employment agencies** as a façade to conceal human trafficking and smuggling of goods (CSD, 2012).

Criminal groups may establish **pawn shops** or **food stores** (CSD, 2012) for illegal lending. Furthermore, Bulgarian-speaking OCGs are involved in the theft of cars in Bulgaria and other EU countries. Often, the criminals involved in this illicit activity also control legal **car dealers**, allowing them to 'launder' the stolen cars and sell them (CSD, 2012).

The expansion of the European Union and Bulgaria's accession in 2007 created further opportunities for OCGs, especially for organised **EU funding fraud** or **VAT fraud**, which are a major source of illicit gain. The INSCR notes that the proceeds from VAT fraud are usually transferred to foreign accounts in **offshore countries** and then reintroduced in Bulgaria as **loans** (KnowYourCountry, 2018a).

For instance, the **THETA case** (see Annex A1), an investigation carried out by the European Anti-Fraud Office and the Romanian National Anti-Corruption Directorate, revealed that a Bulgarian-speaking criminal group, formed of members of two well-known **Bulgarian OCGs called 'The Universal'** and **'The Killers'**, used the legal premises of a shell company to commit fraud with European funds meant to finance a free food programme for deprived people (OLAF, 2017). The investigation revealed that the company controlled by the criminal gang awarded 2 out of the 11 tenders published by the Romanian paying agency for agriculture

(APIA) despite not meeting the stated tender requirements (Guineva, 2015). The scheme was aided by senior APIA officials, who were bribed by the criminal group. The illicit proceeds were transferred to an account in **Cyprus** and then into the accounts of off-shore companies (Биволь, 2015a, 2015b).

The evidence collected by the MORE project also revealed infiltration by **Italian mafias**. Despite not being an historical location for Italian OCGs, according to the investigative evidence, in recent years Bulgaria, along with Romania, has been emerging as a preferred location for **establishing shell businesses used to launder money or conduct illicit activities**, and a preferred location to move companies in order to avoid seizure of assets (DIA, 2016, 2017; DNA, 2014).

The operation ***Grecale Ligure*** carried out by the Italian anti-mafia police directorate (DIA, 2017a) revealed an Italian OCG connected to 'Ndrangheta that established different companies formally owned by figureheads in Bulgaria and Romania in order to commit bankruptcy fraud. Operation ***Matrios-ka***, carried out by the Italian Guardia di Finanza, revealed that an Italian OCG used trucks formally owned by companies established in Bulgaria and Romania to transport fuel previously stolen from Austria, Germany and Poland (DIA, 2016b).

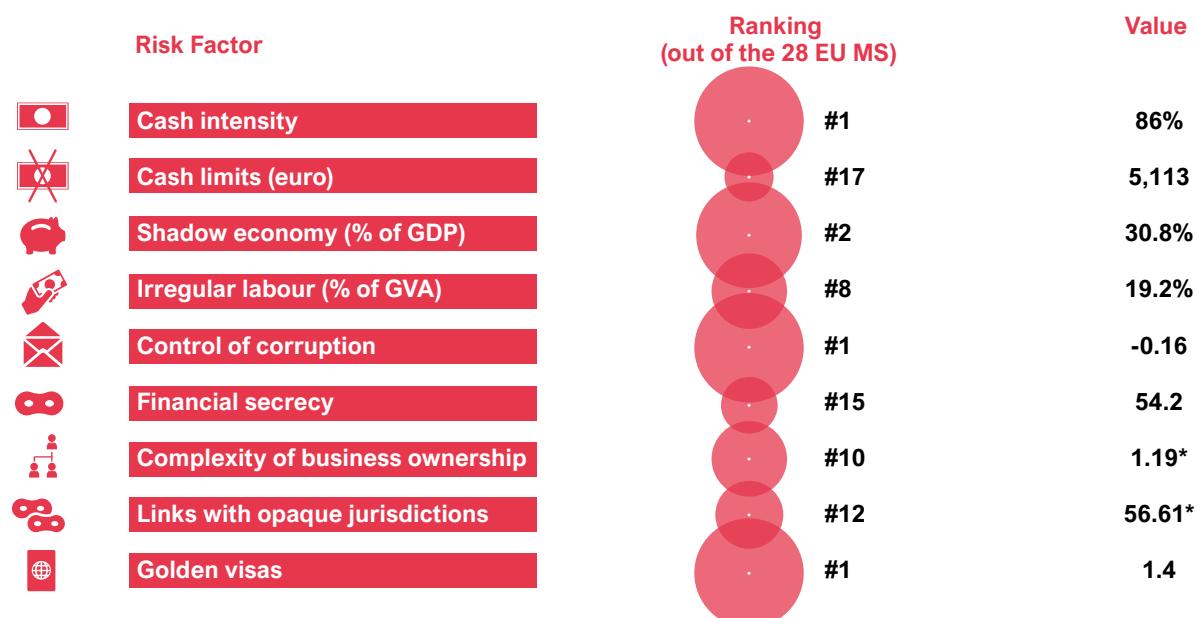
When counting the number of references to foreign countries in Italian DIA/DNA reports, Bulgaria ranks **11<sup>th</sup>** among the EU MSs (**12<sup>th</sup>** when weighting the references by population).

## Risk factors for SOC infiltration in Bulgaria

According to the MORE project analysis, Bulgaria appears to be particularly vulnerable to SOC infiltration due to some of the risk factors analysed. Table 30 reports Bulgaria's ranking among the 28 EU MSs for the MORE risk factors (1 is the highest rank and highest risk).

**Table 27 – MORE risk factors of SOC infiltration in Bulgaria**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



*Cash intensity and cash limits*

Bulgaria's **cash intensity** is the highest among the EU MSs: 86% of all daily payments, on average, are made in cash. Bulgaria, however, with the Limitation of Cash Payments Act in 2011 (which became effective in 2016), introduced a B2B limit for cash purchases of 5,113 euro (BGN 10,000) (EY, 2016).

*Shadow economy and control of corruption*

As regards **estimated corruption**, Bulgaria ranks 1st among EU MSs for the World Bank's Control of corruption indicator; that is, it is the country in Europe with the lowest ability to control corruption (World Bank, 2016). As already noted by scholars and authorities, corruption is the nexus between the legal economy and organised crime, and it is used by OCGs to facilitate their illicit activities and to avoid criminal prosecution (CSD, 2012).

Bulgaria ranks 2nd in terms of its **shadow economy**, based on an analysis by Medina and Schneider (2018), estimated at 30.8% of the GDP. The level of undeclared labour is also high at 19.2% of GVA, the 8th highest in the 28 EU MSs (Williams et al., 2017).

*Financial secrecy, business ownership opacity and complexity*

As regards **business ownership opacity**, Bulgaria is average for an EU MS. It is 15<sup>th</sup> among the EU MSs in terms of **financial secrecy** based on its Tax Justice Network FSS (financial secrecy score) (Tax Justice Network, 2018). Its lack of requirements for companies to submit information on beneficial ownership (Tax Justice Network, 2018) is noteworthy. In terms of **ownership links with secrecy jurisdictions** and the **complexity of business ownership** chains, it was not possible to conduct an analysis due to the lack of data, so Bulgaria was assigned the EU average score.

*'Golden visas'*

Bulgaria offers one of the best investor-based residency and citizenship programmes in the EU. The Bulgarian Citizenship Law established that a third-country national wishing to obtain a permanent residence permit must **invest at least 1.04 million euro** (Džankić, 2018), and after **1 year of permanent residence** he can **apply for citizenship**. To maintain citizenship, a physical presence in Bulgaria is required for 6 months and one day, along with a clean criminal record. Therefore, according to the score developed by Transcrime based on data from Džankić (2018), Bulgaria ranks 1<sup>st</sup> among the 28 EU MSs (see section 4.3 for details on our methodology).

A recent media investigation (Биволь, 2018) revealed that there could be **several loopholes** in the Bulgarian IIP programmes. Some TCNs allegedly received citizenship based on an investment that was never made, since it is possible to apply for an IIP by using a bank loan to meet the investment requirement, without the need to prove an actual investment.

**Concluding remarks**

According to the evidence collected by the MORE project, Bulgaria appears to be relatively vulnerable to SOC infiltration due to some of the risk factors infiltration analysed. Specifically, Bulgaria:

- plays a **key role in illicit trafficking** (especially heroin and illegal migration) due to its strategic location bordering Turkey and the Balkans
- is a very **cash-intensive** country (first in Europe in terms of its cash ratio)
- scores high values for **estimated corruption**, according to the World Bank
- has a large **irregular economy** (the 2<sup>nd</sup> largest shadow economy in the EU MSs and 8<sup>th</sup> in terms of undeclared labour)
- lacks some requirements for companies to submit information on **beneficial ownership** (Tax Justice Network, 2018), despite not having particularly high scores for financial secrecy
- has a **lack of business ownership data** that does allow further investigation of links with risky third-country jurisdictions
- offers one of the most **attractive 'Golden visa' schemes** in the EU MSs, with some risk posed by loopholes that may facilitate the injection of illicit money by third-country criminals

## 6.7. CROATIA

### Introduction

In contrast with the other former Yugoslavian EU member state - Slovenia (that gained its independence in the Ten-Day War) - Croatia fought a 4-year-long war between 1991–1995, which meant that a significant part of the population was mobilised and **equipped with high firepower guns**. This had a huge impact on the crime scene of the Balkans for two reasons. Many former members of **paramilitary units became involved with organised crime**,<sup>51</sup> while criminals gained easy access to firearms. Besides a recent official trade to *Arab Spring* countries, there is an **extensive weapons smuggling** from former Yugoslavian republics to Europe (Savona & Mancuso, 2017, p. 29). During a 2016 raid on a terrorist cell in Paris, the police seized Croatian firearms, and Syrian extremist militias have also been able to obtain Croatian rifles (The Economist, 2016). The porous borders contribute to the fact that the Adriatic coast is one of the major routes not only for firearms but also for other types of illicit goods — including South American cocaine entering the European Union (US Department of State, 2018a, p. 120 - see also the case 'Nana', mentioned below).

### SOC infiltration in legitimate businesses

All these contextual factors facilitate the **rise of OCGs** in the country. SOC infiltration of Croatian businesses helps in the laundering of illicit proceeds by these groups; it also results in the use of Croatian firms to **commit fraud and other economic crimes**.

A recent operation against Croatian organised crime led to the arrest of one of the most important bosses in a Croatian **drug trafficking network**. Operation *Nana* involved the joint work of various member states, Colombia, Europol and the United States' Drug Enforcement Administration (Europol, 2018a). The criminal leading the group was caught in March 2018 in the Slovenian capital, Ljubljana, and Croatian police seized 100 kg of cocaine hidden in scrap metal in the Rijeka port (IndexHR, 2018b). On this see also [this media report](#). Authorities accused the man of laundering 14 million euro by **buying real estate** and other things for his siblings and mother (IndexHR, 2018a). The case also involved the use of food companies to facilitate the trafficking.

The OMICRON case (see Annex 1) turned up a large **network of shell companies** established in various countries, including Croatia, by an Italian OCG connected to 'Ndrangheta (Tribunale di Reggio Calabria, 2018). The businesses were used to provide **fictitious invoices and joint-venture contracts** to facilitate the commission of VAT fraud and for a variety of other illicit purposes.

Other investigations conducted by the Italian authorities with the cooperation with local agencies revealed the involvement of criminals in **football match fixing schemes** both in Croatia and Italy (Corriere della Sera, 2012). The use of legitimate businesses in this respect is not clear.

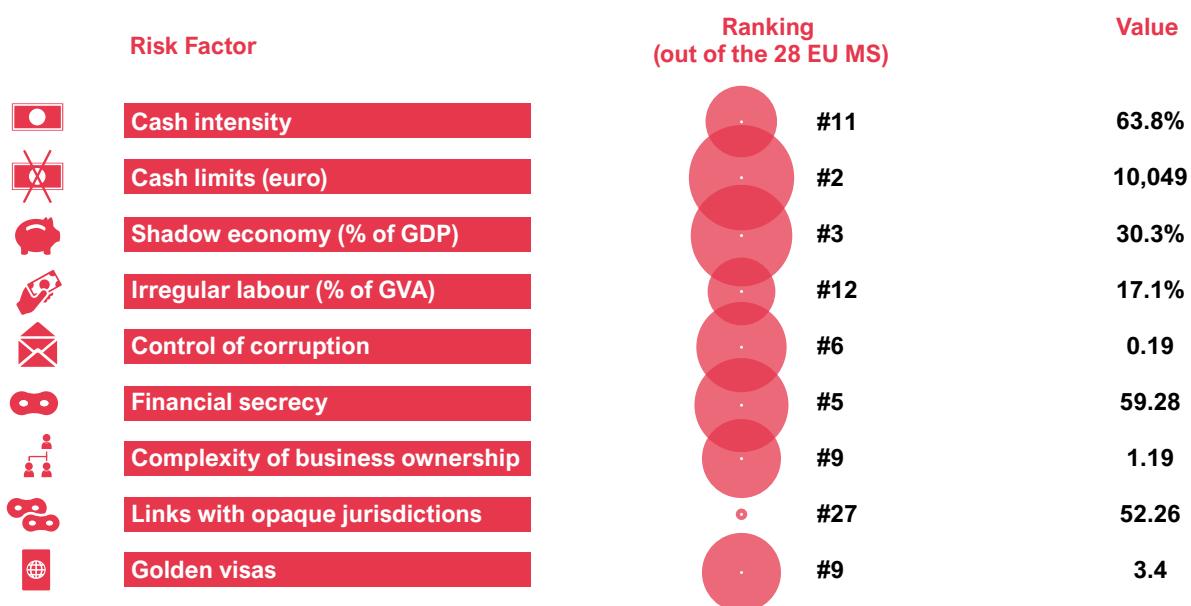
We note the involvement of some important **local financial institutions** in some money laundering schemes (see below).

51. The most notorious example is the Serbian Željko Ražnatović

## Risk factors for SOC infiltration in Croatia

**Table 28 – MORE risk factors of SOC infiltration in Croatia**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### *Cash intensity and cash limits*

Cash usage is relatively high compared to the EU average, although it is moderate compared to neighbouring countries with similar backgrounds. Croatia set a **ceiling on cash transactions of 105,000 Croatian Kuna (HRK)**, which was decreased to HRK 75,000 in 2017. The latter figure is equivalent to 10,049 euro at the 2017 mean exchange rate, which is the second highest figure after the Czech Republic.

### *Shadow economy and control of corruption*

As with other member states from South Eastern Europe, Croatia has an **extensive shadow economy** based on the estimates of Medina and Schneider (2018), although irregular labour is moderate according to Williams et al. (2017). And **corruption may be an issue** in Croatia based on the World Bank *Control of Corruption* indicator. A former prime minister was

arrested in Austria in 2010 and spent 5 years in detention for operating a complex corruption scheme involving a leading Austrian bank. Besides high-ranking politicians, several criminals were involved in laundering the proceeds of this corruption (Margetić, n.d.). Due to the extreme complexity of the case, multiple verdicts were overturned and many of them are still in the investigation phase. To be noted also that in Croatia a **specific department of the National Police (PN USKOK)** deals with corruption and organised crime together, strengthening the joint investigations across the two areas.

### *Financial secrecy, business ownership opacity and complexity*

Croatian companies have the **third highest rate of foreign ownership** in the EU (25.3%). The leading investors are from Slovenia (5.6%), Austria (3.8%) and Australia (3.2%). Among the countries on the EU black- and grey-list of non-cooperative tax ju-

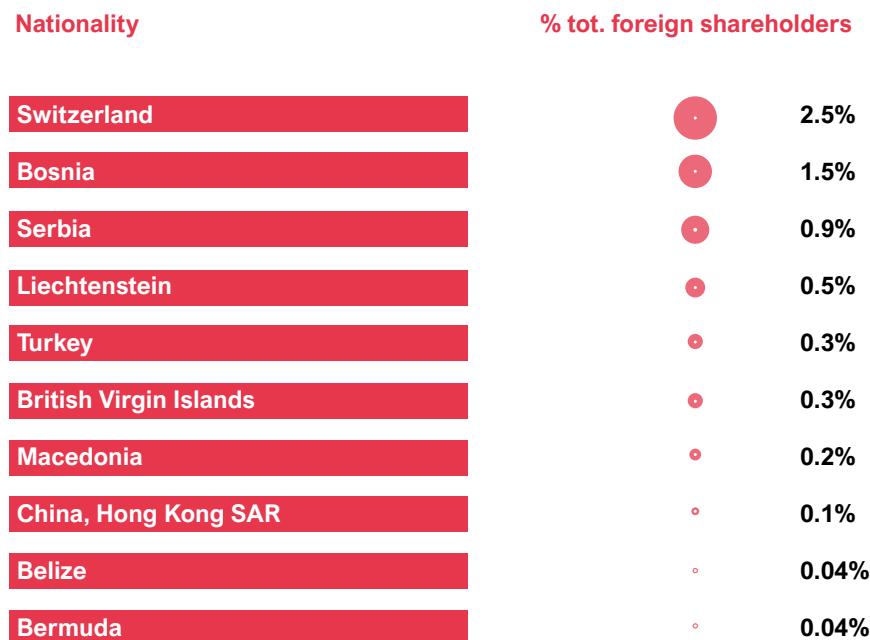
risdicitions (equivalent to **1.7% of all shareholders of Croatian firms**), Switzerland predominates, followed by neighbouring Bosnia–Herzegovina and Serbia (Transcrime elaboration of BvD data – see Section 4.2). According to the Tax Justice Network, Croatia also has one of the highest **financial secrecy scores** in the EU (Tax Justice Network, 2018), and, on average, a relatively high **complexity of business ownership** structure in its firms (with an average BO distance of 1.2).

### *'Golden visas'*

Croatia has an immigrant investor programme **that requires a very low investment**. The applicant either has to own a company worth 13,200 euro or has to invest 26,400 euro, and in both cases 3 Croatian citizens have to be employed. A relatively strict, **183-day-long stay** is also required. The programme is comparable to others in the Baltic countries, while it is among the less severe ones in the EU (Džankić, 2018).

**Table 29 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

As in many other countries in the Balkan region, Croatia faces issues with illicit trafficking — especially of **drugs and firearms**. The former Yugoslavian republics are important routes for drug traffickers from Asia, and several terrorists acquired weapons from the region, Croatia included. The recent

corruption scandals revealed some vulnerabilities in the **financial system**, and, according to international indicators, local businesses have a higher level of opacity than the EU average, which could facilitate SOC infiltration, including by foreign OCGs (see

the OMICRON case, which involved an Italian entrepreneur connected to 'Ndrangheta who used firms in Croatia and neighbouring countries to commit fraud). Recent efforts by the authorities might help to reduce these risks in the future.

## 6.8. CYPRUS

### Introduction

There is scant and fragmented information on SOC infiltration in legitimate businesses in Cyprus. Most of our information came from media investigations, which did not allow us to assess precisely what the extent of the problem is, so **further research** is needed. The evidence collected by the MORE project reveals a **low level of domestic OC risk**; it also shows a risk that Cyprus could suffer infiltration from foreign OC that could then play a role in **money laundering and OC infiltration schemes** and use it as a location for the establishment of **shell companies**.

According to the International Narcotics Control Strategy Report (US Department of State, 2018b), OC activities in Cyprus are mainly related to **investment fraud, advance fee<sup>52</sup> fraud, phishing and drug trafficking**. The INCSR highlights the vulnerability of the **banking sector** to attempts to launder proceeds deriving from SOC and corruption, mainly from **Russia, Ukraine and the Eastern European countries**.

Its proximity to **Northern Cyprus**, an area administrated by Turkish Cypriots, could be a matter of concern. The INCSR stresses the vulnerability of the area to the offshore banking sector and the lack of comprehensive regulations against ML, particularly with businesses like casinos, gaming and currency exchange houses, which are especially vulnerable due to the lack of a legislative framework addressing ML (US Department of State, 2018b).

The major vulnerabilities highlighted by the MORE project are related to the **opacity of business ownership of Cypriot firms**, and to the risk that **investor-based citizenship schemes** can be exploited by TCNs willing to launder money and obtain EU status.

### SOC infiltration in the legal economy: cases and evidence

The evidence collected by the MORE project shows that Cyprus has been used by various OCGs as a location for incorporating shell companies.

#### *Russian-speaking OCGs*

According to the European Council on Foreign Relations (ECFR), Cyprus is vulnerable to infiltration by **Russian-speaking OCGs**, which could use legal business structures on the island to conceal and launder illicit proceeds and to strengthen links to businesses in the UK and Greece (ECFR, 2017). It is estimated that more than 25% of bank deposits and about 37% of foreign investments in Cyprus come from Russia, encouraged by the double tax agreement that has attracted Russian investments, especially in the tourism and construction sectors (European Parliament, 2011). In this environment, illicit money stemming from former Soviet countries can be easily mingled with legitimate transfers.

#### *Eastern European OCGs*

The THETA case (see Annex A1) revealed that a **Bulgarian-speaking OCG** used a bank account in Cyprus to transfer the proceeds of a large-scale fraud committed with EU funds between Bulgaria and Romania. From Cyprus, illicit proceeds were then transferred to off-shore companies established in the Seychelles, British Virgin Islands and Hong Kong (see Annex A1).

#### *Italian mafias*

The ALPHA case revealed the use of bogus **pharmaceutical import-export companies** established in Cyprus (among other countries) by an Italian OCG linked to Camorra to 'launder' anti-cancer medicines stolen in Italy (AIFA, 2015).

An investigation carried out by the Italian DIA, Carabinieri, Police and Guardia di Finanza revealed a wide network of **gaming businesses**, some of them established in Cyprus, used by the Italian 'Ndrangheta to commit different offences (DIA, 2016a).

Furthermore, a recent operation supported by Europol and Eurojust revealed infiltration of legitimate businesses by an **Italian-, Spanish- and Portuguese-speaking OCG** in order to commit major EU **VAT fraud**. The OCG established more than 100 shell companies in different EU countries, among them Cyprus (Europol, 2018c).

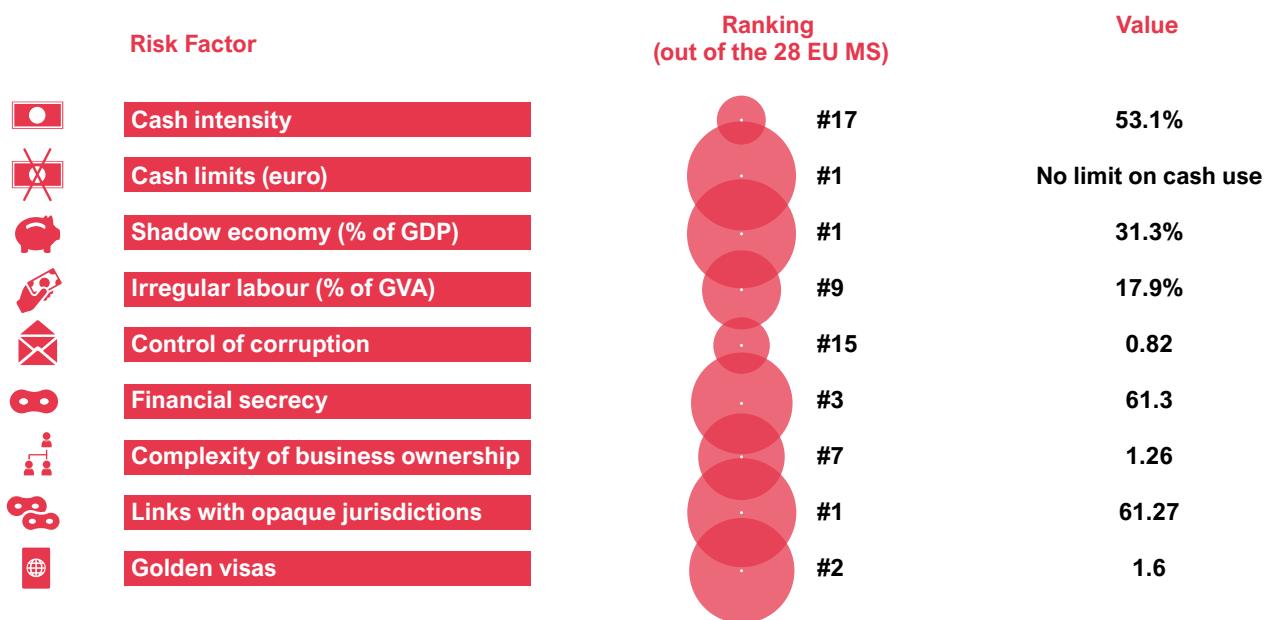
Generally speaking, Cyprus is not a usual destination for **Italian mafias**, but it is increasingly mentioned in DIA/DNA (anti-mafia police and judicial directorates) reports. In particular, **Cyprus ranks sixth** among EU MSs in terms of number of mentions (if weighted by country population — see section 3.5).

52. The modus operandi for advance fee frauds is to promise a large amount of money in exchange for an advance payment, which the criminal claims to be for covering his costs (US Department of State, 2018).

## Risk factors for SOC infiltration in Cyprus

**Table 30 – MORE risk factors of SOC infiltration in Cyprus**

Source: Transcrime elaboration of European Central Bank (2016), Medina & Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Cyprus ranks high in various risk factors for SOC infiltration considered by the MORE project (see Table 33, where 1 is the highest value and highest risk).

### *Cash intensity and cash limits*

The level of **cash intensity** is in line with the EU average cash ratio of 53.1% of all daily payments — making Cyprus 17th among EU MSs. Cyprus is one of the countries in the EU in which there is **no maximum limit** on cash purchases. As discussed (see section 4.1), this lack of a threshold may facilitate money laundering by OCGs.

### *Shadow economy and control of corruption*

Cyprus's **estimated corruption** is in line with the EU average (15th among EU MSs in the World Bank Control of Corruption indicator). However, Cyprus has recently experienced **high-profile corruption cases**, mainly in banking, public procurement and

land administration (Bliss, 2018). The strict link between **OC and corruption by public authorities** (including law enforcement) has also been acknowledged by the Cyprus police, and measures have been taken against it (Cyprus Mail, 2017). The size of Cyprus's **shadow economy**, based on estimates (Medina & Schneider, 2018), is also very high, with Cyprus ranking first among EU MSs with an estimated irregular economy worth 31.3% of its GDP. Irregular labour is also high, at 17.9% of gross value added (Williams et al., 2017).

### *Financial secrecy, business ownership opacity and complexity*

The risk factors for which Cyprus is most vulnerable are those related to the **opacity of business ownership**. Cyprus ranks third among EU MSs in term of **financial secrecy**, according to the Secrecy Score calculated by the Tax Justice Network (Tax Justice Network, 2018). In particular, Cyprus appears to be particularly vulnerable in three areas:

- lack of recorded company ownership information
- lack of other wealth ownership information
- inconsistent personal income tax

Cyprus is the first European country in terms of business **ownership links with shareholders from secrecy jurisdictions** (source: Transcrime elaboration of BvD data — see Section 4.2). It is also the first EU MS in terms of number of shareholders coming from the jurisdictions included in the **EU 'blacklist' and 'greylist'** of non-cooperative tax jurisdictions. In particular, **7.3% of the owners** of Cypriot firms (**32% of foreign owners**) are nationals from a grey/blacklisted country. Most of them come from the British Virgin Islands (see Table 34).

As for the complexity of business ownership chains, companies in Cyprus have, on average, a BO distance of 1.26, one of the highest in the EU (7th among EU MSs).

**Table 31 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



#### *‘Golden visas’*

As mentioned, Cyprus is among the EU MSs offering the **most favourable investor-based residency and citizenship programmes** ('golden visas'). According to the overall score assessed by Transcrime on data from Džankić (2018), Cyprus ranks second among EU MSs when status and investment requirements are combined. It has a high investment score — an injection of **at least 2 million euro**, plus real estate worth 500,000 euro — but it scores the lowest in terms of *status* obligation: it may **grant citizenship without further eligibility criteria** (Ministry of Interior, 2016). Acquisition of citizenship is based only on the investment made by the applicant — provided that the TCN applying has a clean criminal record.

There is investigative evidence that immigrant investor programmes in Cyprus could have been exploited by Russian and Chinese individuals with

suspicious wealth to obtain EU status (OCCRP, 2018). Recent media investigations revealed that Cyprus granted citizenship to identified **Russian oligarchs** against whom the U.S. Department of the Treasury's Office of Foreign Assets Control issued sanctions — the so-called **OFAC lists** (Farolfi, Harding, & Ophanides, 2018; Schultz, 2018).

#### Concluding remarks

As mentioned above, there is **scant and fragmented information on SOC infiltration** of legitimate businesses in Cyprus, and further research on this topic is needed. However, beyond the cases and evidence collected, the **MORE analysis of risk factors reveals some vulnerabilities** that can be exploited by criminals willing to infiltrate the legal economy. Cyprus has:

- high estimated **levels of corruption**, with recent cases in the banking sector, public administration, public procurement and land administration
- high levels of business ownership opacity, specifically:
  - high levels of **financial secrecy** according to the Tax Justice Network (third EU MS);
  - many business owners from secrecy jurisdictions, including the most business owners from jurisdictions in the **EU ‘blacklist’ and ‘greylist’** (more than 7% of all the shareholders of Cypriot firms)
  - high levels of **business ownership complexity**
- Favourable '**Golden Visa**' schemes, which may be misused by third country nationals willing to launder money, especially entrepreneurs linked to Russian OCGs

- the largest **shadow economy** as a percentage of GDP in the EU MSs
- **no maximum limits** on cash purchases

## 6.9. CZECH REPUBLIC

### Introduction

The Czech Republic was one of the **fastest-growing EU countries** in the last ten years, with an average GDP growth of 1.6% in the 2006-2016 period (Eurostat data). Its growth was especially violent in the mid-2000s after EU accession (2004). The many emerging **business opportunities and its strategic geographic position** as a link between South-eastern and Western Europe makes the country particularly vulnerable to a number of illicit markets (Neumann & Basra, 2018b).

Traditional **illicit markets** coexist with financial crimes. **EU funding fraud** and **VAT fraud** in particular are a major source of illicit gain for criminal groups in the Czech Republic (Neumann & Basra, 2018b; US Department of State, 2016). A number of major investigations dismantled OCGs involved in carousel scams across the Czech Republic and its neighbouring countries — see below.

According to the *Report on Internal Security and Public Order in the Czech Republic in 2015* issued by the Czech Republic Ministry of Interior (2016), and according to Neumann and Basra (2018b), the main criminal markets are:

- **Theft of luxury goods**
- **Financial and economic crimes**, e.g., VAT fraud, tax evasion, EU funding fraud, leasing or credit fraud, etc.
- **Pick-pocketing**
- **Drug trafficking** (e.g., cocaine, marijuana, methamphetamines — and crystal meth in particular)
- **Trafficking in human beings, human smuggling and illegal immigration**
- **Trafficking in firearms**
- **Cybercrime**
- **Money counterfeiting**
- **Illicit trade in pharmaceutical goods**

According to the same report, the most significant OCGs in the Czech Republic are:

- **Local OCGs** (Czech), usually loosely organised into networks
- **Russian-speaking OCGs**, which are hierarchically organised
- **Asian OCGs** (i.e., **Chinese speaking** and **Vietnamese speaking**), which are hierarchically organised. The Vietnamese OCGs are well rooted in the country, with stable, strong control over drug trafficking (both production and distribution), illicit trade in goods and tax fraud.

Other minor OCGs identifiable by their ethnic origins are **Albanian**, **Nigerian**, **Romanian** and **Bulgarian** (Ministry of the Interior of the Czech Republic, 2016).

### SOC infiltration of the legal economy: cases and evidence

According to the *International Narcotics Control Strategy Report* (INCSR) issued by the US Department of State in 2016, OCGs active in the Czech Republic infiltrate '**development and investment companies, real estate agencies, currency exchange offices, casinos, gaming establishments, antique shops, pawnshops, restaurants, taxi companies, (executive) auction halls, imaginary research centres, and advisory companies**' in order to launder money from different illicit activities (US Department of State, 2016a, p. 138).

As mentioned, VAT fraud and EU funding fraud are the main drivers of SOC infiltration, and the Czech Republic is, according to the collected evidence, the location for a number of **shell companies established to run these scams**.

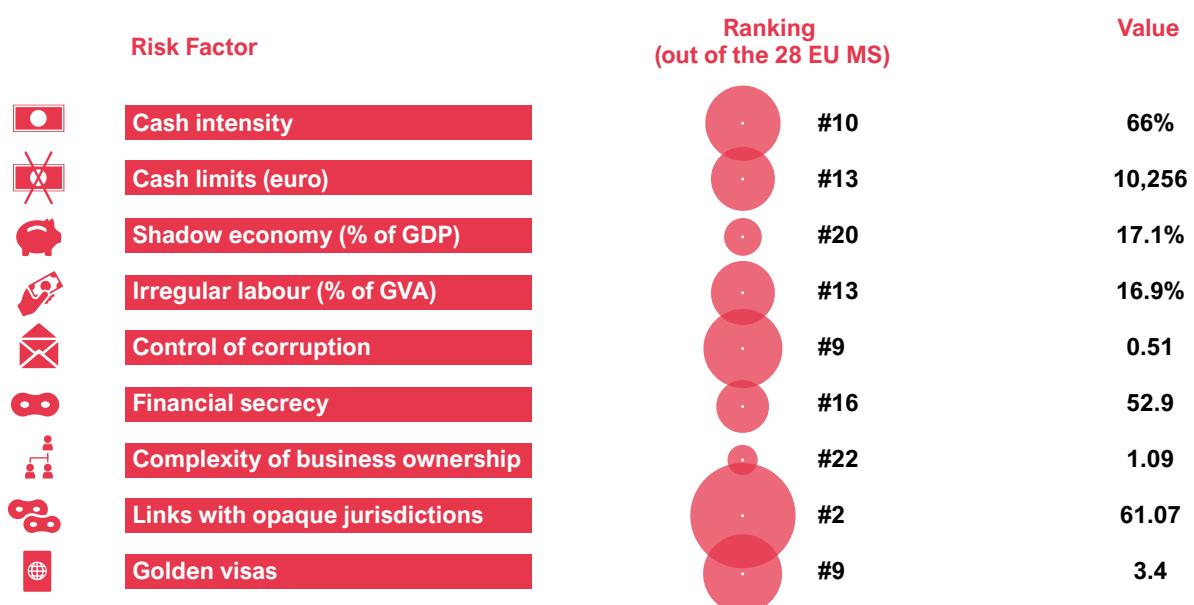
For instance, a large-scale investigation carried out by Czech, German, Dutch and Polish LEAs, and supported by Eurojust and Europol, disrupted a criminal group behind a **major-scale carousel fraud** case. The OCG established different shell companies, some of them in the Czech Republic, functioning as buffer companies, missing traders, and alternative payment platforms in order to transfer and launder the money derived from a variety of illicit activities (Eurojust, 2016). The Unit for Detecting Corruption and Financial Crime (UCFC) identified further cases in which criminal groups set up fictitious companies in order to commit **VAT fraud, mainly in the oil and natural gas sector** (Ministry of the Interior of the Czech Republic, 2016).

According to the Ministry of the Interior, **Czech OCGs use 'destinations abroad to legalise proceeds from crime, as well as to cover the true nature of their relations to legal persons through which they committed illegal activities'** (Ministry of the Interior of the Czech Republic, 2016, p. 37). Generally speaking, the OCGs also establish companies in **offshore countries or EU MSs** 'where the process of legal assistance in cases of investigating financial crime is lengthy' (Ministry of the Interior of the Czech Republic, 2016, p. 4).

## Risk factors for SOC infiltration in Czech Republic

**Table 32 - MORE risk factors of SOC infiltration in the Czech Republic**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



**Business ownership links with secrecy countries** is one of the risk factors analysed by the MORE project where the Czech Republic has high scores (see table above).

### Cash intensity and cash limits

The level of **cash intensity** in the Czech Republic is quite high — with a cash ratio of 66%, it is the 10th highest in the EU. The Czech Republic has limited the maximum amount of cash payments among businesses at **10,256 euro** (euro equivalent), one of the highest thresholds in the EU MSs that have introduced limitations.

### Shadow economy and control of corruption

In terms of the **shadow economy** and **irregular labour**, the Czech Republic is average for the EU — with the first factor estimated by Medina and Schneider (2018) at 17.1% of GDP and the second at 16.9% of the GVA (Williams et al., 2017).

The country's risks in terms of **estimated corruption**, however, are higher when considering the World Bank's *Control of corruption indicator*. The Czech Republic has the 9<sup>th</sup> lowest score in the EU MSs — 0.51 (World Bank, 2016). As noted by the Ministry of the Interior Report on Internal Security (2016), corruption may be an important tool used by OCGs to achieve their goals and specifically to facilitate OC infiltration of the judicial system and government authorities.

### Financial secrecy, business ownership opacity and complexity

In terms of **financial secrecy**, based on the Tax Justice Network's Secrecy Score (Tax Justice Network, 2018), the Czech Republic scores 52.9, which is in line with the average for the EU MSs. The same can be said about the **complexity of business ownership** chains in the country, as it has an average BO distance of 1.09.

On the other hand, as mentioned, Czech firms have the second highest volume in the EU MSs of **business ownership links with secrecy jurisdictions** (source: Transcrime elaboration of BvD data — see section 4.2). About 10% of Czech businesses' owners are foreign, mainly coming from Russia, Ukraine, Slovakia and other neighbouring countries (see the table below). The percentage of shareholders from non-EU countries listed in the **EU 'blacklist'** and **'grey list'** of non-cooperative tax jurisdictions is about 5% — the top nationality being that of Switzerland.

**Table 33 - Nationality of shareholders of Czech firms**

Source: Transcrime elaboration of BvD data

**Table 34 - Shareholders from EU 'Blacklist' and 'Grey list' countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



### 'Golden visas'

The Czech Republic legally regulates ways to obtain residency as a result of making an investment. According to the Act on the *Residence of Foreign Nationals*, a TCN willing to obtain a **temporary residence permit** in the Czech Republic must establish a **limited company having capital of at least 7,300 euro**. The applicant must also provide proof of possessing 50 times the minimum monthly subsistence expenses, and to maintain the permit he/she must reside in the country for at least 6 months and 1 day (Džankić, 2018). Therefore, according to the overall score assessed by Transcrime on Džankić (2018), the Czech Republic scores 3.4, the 9<sup>th</sup> most favourable 'golden visa' program in the EU MSs. A media investigation revealed that a number of TCNs linked to **Balkan criminal groups** may have established several companies in the Czech Republic in order to obtain a residence permit (Dojcinovic & Holcova, 2015).

### Concluding remarks

The role of the Czech Republic as a **transit hub** for a variety of **illicit trafficking activities** and the presence of **multiple OCGs** may expose the Czech Republic to infiltration of legitimate businesses. Its major vulnerabilities and attractiveness may be the following:

- the **business opportunities** offered by an economy that is among the fastest-growing in the EU
- the high level of **cash intensity** (10<sup>th</sup> in the EU MSs) and the high cash limits (10,256 euro), which can ease the injection of illicit funds

- the moderate levels of (estimated) **corruption**, as was noted in the latest report on internal security released by the Ministry of the Interior (2016)
- the high **volume of business ownership links with secrecy jurisdictions** (2<sup>nd</sup> out of the EU MSs), with frequent links to some Eastern European countries
- a tempting **investor-based residency** scheme, which may attract third-country criminals interested in injecting illicit money into the economy and obtaining EU status

## 6.10. DENMARK

### Introduction

The information available on SOC and SOC infiltration in Denmark is poor, and mostly limited to institutional reports by FATF and the local AML authority. According to these documents, OCGs in Denmark are mainly involved in **fiscal and VAT fraud** as well as **drug trafficking, forgery of documents, other types of fraud, human trafficking, smuggling of arms and tobacco and alcohol** (FATF, 2017a).

In terms of the infiltration of legal businesses and money laundering activities, the National Risk Assessment (NRA) highlights as particularly vulner-

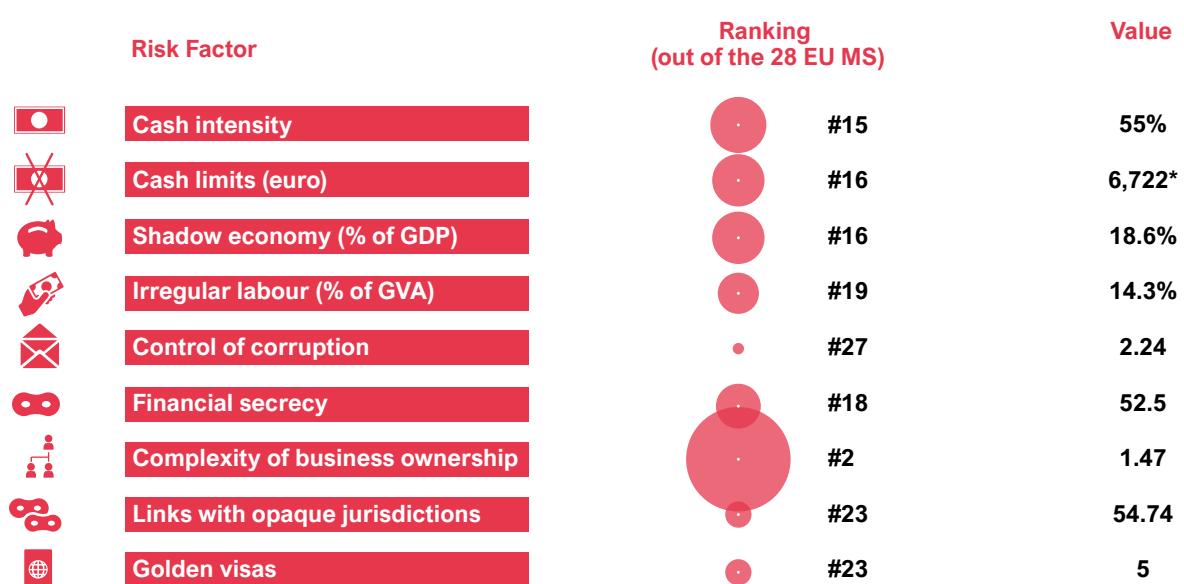
able **bureaux de change, money remittance services, banks, life insurance companies, service providers** (which may be used for such things as setting up companies or offering facilities such as postal address or conference rooms) and the **gambling** and **real-estate** sectors (FATF, 2017a; Prosecution Service, 2015). Legitimate businesses are mainly used to launder the proceeds from illicit activities (Prosecution Service, 2015). And most OCGs rely on the use of figureheads to establish and manage businesses and bank accounts — with some foreign OCGs using migrants as figureheads (Prosecution Service, 2015, p. 11).

Further research should be done to address the knowledge gap and assess more precisely the extent of the problem. The following paragraphs will focus only on the main risk factors for SOC infiltration that were considered by the MORE project.

### Risk factors for SOC infiltration in Denmark

**Table 35 – MORE risk factors of SOC infiltration in Denmark**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Denmark scores high on only one of the risk factors for SOC infiltration analysed by the MORE project — complexity of business ownership (see the table).

#### *Cash intensity and cash limits*

It was not possible to measure the level of cash intensity in Denmark due to a lack of data — and therefore it was assigned the EU average score. The **maximum limit** for cash purchases between businesses is set at approximately 50,096 DKK (6,722 euro) placing Denmark 16<sup>th</sup> in the EU MSs.

#### *Shadow economy and control of corruption*

According to international indicators, Denmark historically has one of the **lowest levels of (estimated and**

**perceived) corruption** in the world. Looking at the World Bank's Control of corruption score, Denmark has the second-best governance capacity to fight corruption in the EU MSs.

Denmark's risks related to **undeclared labour** and the **shadow economy**, based on Williams et al., (2017) and Medina & Schneider (2018) estimates, are also low and below the EU average.

#### *Financial secrecy, business ownership opacity and complexity*

In terms of **financial secrecy** based on the Tax Justice Network's Secrecy score (Tax Justice Network, 2018), Denmark scores low (18<sup>th</sup> out of the EU MSs) and it scores even lower in terms of business **ownership links with secrecy jurisdictions** (23<sup>rd</sup>).

If we consider the **complexity of business ownership** chains, however, businesses registered in Denmark do have the second greatest BO average distance after Malta: 1.47.

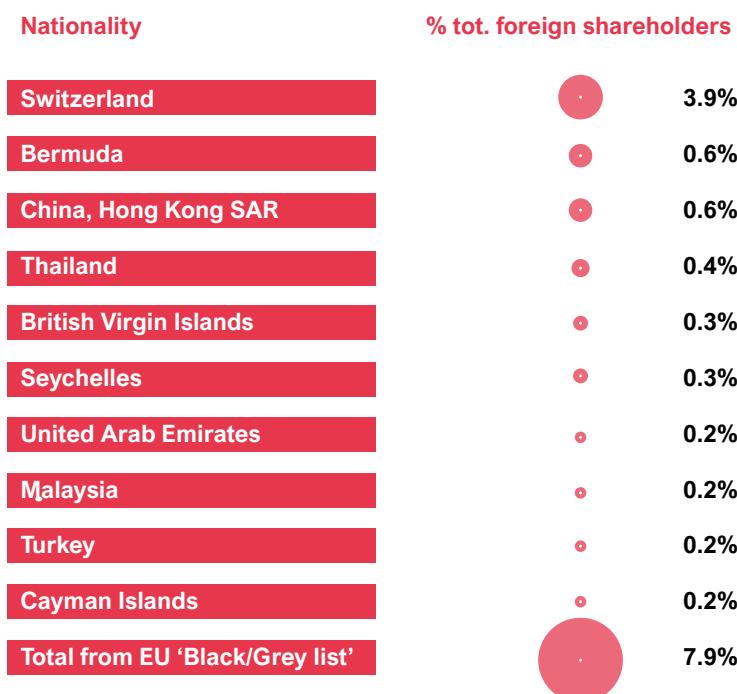
According to Transcrime elaboration of BvD data, most Danish firms are owned by domestic shareholders (98.1% — see table 39 below). Of the remaining firms, 7.9% are owned by shareholders from **jurisdictions included in the EU 'grey list' and 'blacklist'** of non-cooperative tax countries — the top nationality is that of Switzerland (3.9%).

#### *'Golden visas'*

Denmark does not have any specific immigrant investor programme. Based on the overall score assessed by Transcrime using the investment and status score elaborated by Džankić (2018), it ranks last (23<sup>rd</sup>) among EU MSs.

**Table 36 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## 6.11. ESTONIA

### Introduction

Estonia gained its independence from the Soviet Union in 1991, but it still has a significant Russian minority of 25%, while Estonians are ethnically related to Finnish people. Evidence suggests that **criminal groups** have the strongest links with these two countries, especially for drug smuggling and money laundering.

**Outlaw motorcycle gangs** have had a growing presence in Estonia since the second half of the 2000s. The Bandidos and Hells Angels in particular started to operate bars and nightclubs (see the Finland country profile). The initial allegations about their connection to crime was later confirmed by investigations. In 2009, the Estonian and Finnish police uncovered a **drug smuggling group** that transported hundreds of kilograms of illicit drugs and prescription medicines worth 6 million euro to Finland (The Baltic Times, 2009), while three Estonian individuals were sentenced to

more than 10 years in prison for similar activities (Postimees, 2011). In many cases, passengers smuggle drugs in their suitcases or cars as they travel on ferry boats to Finland (Finland Times, 2016). In other Estonian-Finnish drug smuggling cases, the involvement of the Bandidos (Prokuratuur, 2013) and Cannonball (Postimees, 2011) gangs was explicitly established by the authorities.

### SOC infiltration of legitimate businesses

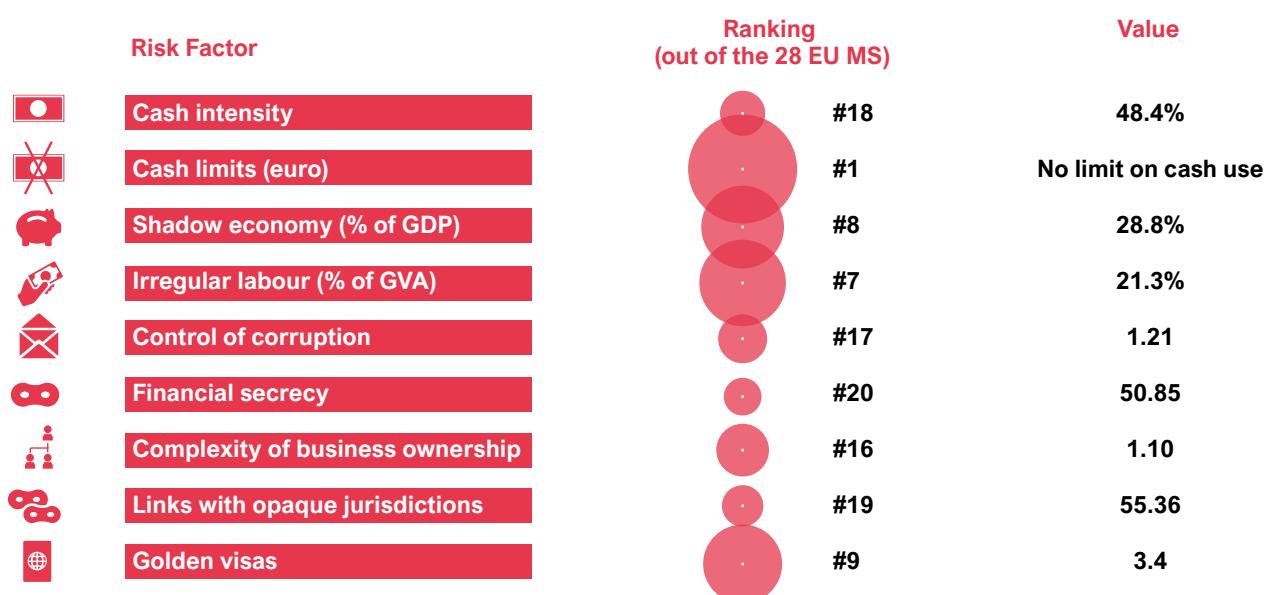
Although the motorcycle gangs operate many clubs that are connected to illicit drugs and prostitution, in the 2009 case, drug revenues were invested in more traditional assets such as real estate and expensive vehicles. A more complex international case involving a fictional arbitration court is discussed in the section on Latvia (see section 6.17 of this Chapter). However, at least two **serious money laundering schemes** were discovered in recent years, both of them connected to Russian individuals.

In 2013, a money laundering network was caught that legalised at least 64 million euro. The illicit funds from **Russia and Latvia were transferred through different payment services to Estonia**, where it was withdrawn in cash by local straw men to be smuggled back to the criminals. Besides organised crime, politicians, police officers and businesses were also involved (US Department of State, 2014, p. 151). In recent months, investigative journalists suspected that Danske Bank's Estonian branch was used to launder billions of dollars originating from Russian PEPs (Harding, 2018), but it was also involved in vague transactions by Azerbaijani lobbyists (Harding, Barr, & Nagapetyants, 2017). The case is still being investigated. With recent technological innovations, another growing concern is the laundering of revenues from cybercrime (US Department of State, 2016c, p. 161).

### Risk factors for SOC infiltration in Estonia

Table 37 – MORE risk factors of SOC infiltration in Estonia

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



## Risk factors for SOC infiltration in Estonia

### Cash intensity and cash limits

Although cash usage is not as low as in Finland, compared to the Estonian GDP per capita, **cash is used far less than the European average**. On the other hand, as in most Nordic and Baltic countries, there is **no limitation on cash usage**. Despite the aforementioned scandals, Estonia's banking sector is highly developed and transparent, and the further growth of cashless payment methods would help tackle the concerns physical cash usage presents (US Department of State, 2016c, p. 161).

### Shadow economy and control of corruption

The analysed risk factors showed that, as with many former Eastern bloc countries, the **shadow economy and irregular labour is still an issue**,

based on the estimates of Medina & Schneider (2018) and Williams et al. (2017). Many Southern and Eastern European countries, however, have worse figures. On the other hand, control of corruption is moderate compared to the previous indicators.

### Financial secrecy, business ownership opacity and complexity

Estonian firms have one of the **highest proportions of foreign shareholders**. Besides domestic owners, shareholders mostly come from Finland (7.8%), Sweden (2.7%) and Russia (1.7%), roughly corresponding to Estonia's biggest trade partners, which are Finland, Sweden and Latvia. In terms of shareholders from countries on the EU 'blacklist' and 'greylist' of non-cooperative tax jurisdictions, Estonia ranks 14th among the member states, with **8% of foreign owners** being nationals of the listed countries, with the top nationality being that of Panama (Transcrime elaboration of BvD data

— see section 4.2). Estonia is not one of the leading secrecy jurisdictions in the EU (Tax Justice Network, 2018).

### 'Golden visas'

Estonia offers a **facilitated neutralisation process** for people with special merits, but there is an annual limit of 10 such persons. Another possibility is the local **immigrant investor program** that requires a very low investment (65,000 euro) but a much stricter 183-day-long stay in Estonia. Compared to other programmes, the requirements are similarly difficult to meet as those in the other two Baltic countries, Latvia and Lithuania, while it is among the less severe ones in the EU (Džankić, 2018).

## Concluding remarks

The two main issues with organised crime in Estonia are the illicit drug traffic to Finland and the money laundering schemes that were recently discovered by the authorities and investigative journalists. In the first one, many members of **motorcycle gangs** were involved, but there is scarce evidence of how these criminals wanted to infiltrate legal businesses to launder this money. Despite the well-regulated banking sector, many criminals managed to operate networks to hide the illicit origins of their mainly Russian assets.

**Table 38 – Shareholders from EU 'blacklist' and 'greylist' countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## 6.12. FINLAND

### Introduction

Organised crime is a relatively new phenomenon in Finland, and it is mostly related to the activity of **outlaw motorcycle gangs (OMCGs)** (NBI, 2012; Petrell & Houtsonen, 2016). The number of biker groups increased constantly over the past 10 years, from eight chapters in 2000 to more than 60 groups in late 2013, with an **estimated 1,000 members** (NBI, 2013). While most of these gangs are national chapters of international organisations, such as **Hells Angels or Bandidos**, other are domestic groups such as **Cannonball MC or United Brotherhood** (Petrell & Houtsonen, 2016, p. 160). Most groups consist almost exclusively of Finnish individuals but have good contacts and partnerships in neighbouring countries, especially Estonia, Russia, Lithuania and Sweden (NBI, 2013).

According to the available literature, the criminal activity of these groups is varied and depends on which level of the hierarchy the criminals belong to. Low-level members may be involved in **petty crimes** to satisfy their daily needs, but do not disdain violent acts (which may also be necessary for their career advancement). Mid-level and higher members are involved in the management of **drug trafficking, extortion, violent debt collection and money laundering** (Perälä, 2011; Petrell & Houtsonen, 2016).

### SOC infiltration of legitimate businesses

Information on SOC infiltration cases is scant. The official figures on seizures and confiscations (from the Police Information System, or PATJA) show that the majority of seized assets are movables (mainly **cash and bank accounts**) and registered assets (mainly **motor vehicles**) (Petrell & Houtsonen, 2016, p. 163). Most seizures are the proceeds of drug trafficking, with tax fraud and other fraud second in terms of predicate offences. About 60% of the assets confiscated between 2005 and 2013 belonged to the **three major OMCGs**: Bandidos motorcycle gangs, Cannonball MC and Hells Angels.

To provide an exploratory picture of SOC infiltration of businesses, it is therefore necessary to go beyond the statistics on asset recovery and collect investigative evidence and intelligence reports. These show that OC groups in Finland occasionally infiltrate **labour-intensive and low-tech business sectors** and those industries 'culturally closer' to biker gang culture. Evidence of infiltration can be found in the following sectors (Petrell & Houtsonen, 2016):

- Construction and renovation
- Bars, restaurants and clubs
- Tattoo shops
- Private security

Biker infiltration of **building companies** was made evident by an investigation into a criminal organisation linked to the Bandidos MC, which was suspected by the police to have conducted large-scale tax fraud and accounting manipulation through 200

different companies (Kerkelä, 2006; Petrell & Houtsonen, 2016). Another relevant case referred to the involvement of a heating and piping company owned by Hells Angels in the **renovation of the house of a Finnish minister in 2010** (Petrell & Houtsonen, 2016, p. 168). The same company was hired by a police station in southern Finland (Nieminen, 2013).

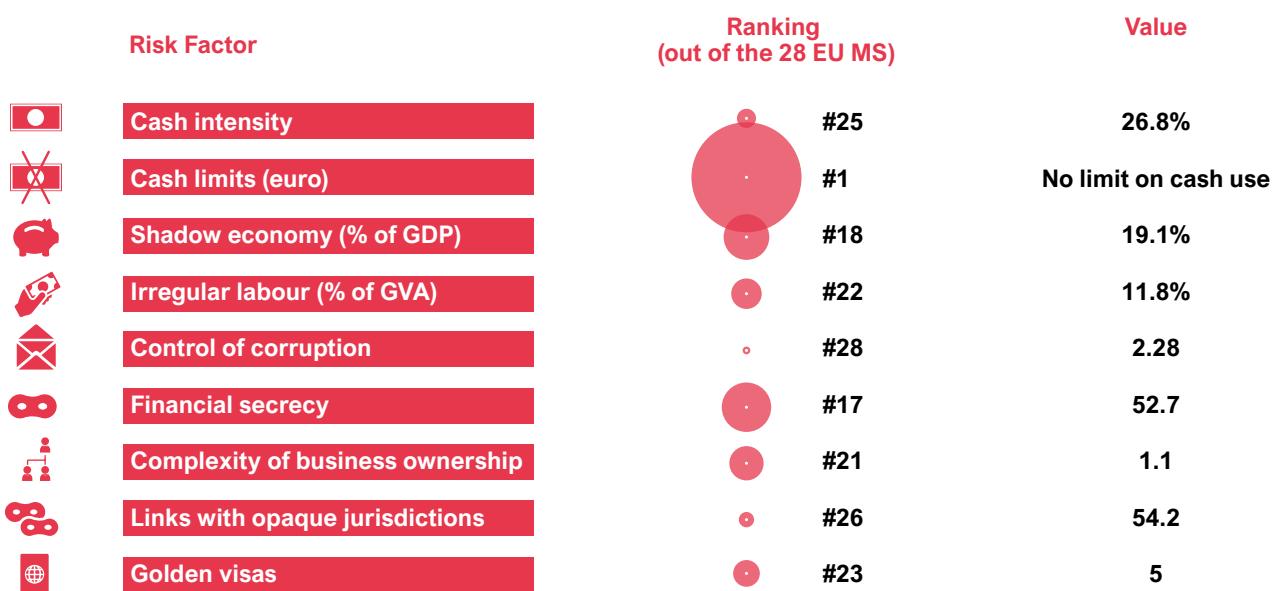
As in other countries (for example, Sweden, Netherlands, Germany and the United Kingdom — see Chapter 3 for a review), OMCGs in Finland have economic interests in the **private security industry**. Companies owned by bikers were hired by several nightclubs and bars to provide '**bouncer' services**'. As in other countries, the criminal reputation of the individuals behind the firms serves as proof of their reliability as security providers. According to the grey literature, in 2013 a company indirectly owned by the sister of the leader of United Brotherhood was even able to provide **security devices and electronic tags** to Finnish police authorities, customs and the Ministry of Foreign Affairs.<sup>53</sup> The case also involved **aggravated fraud, bribery and abuse of public office** (Petrell & Houtsonen, 2016).

53. United Brotherhood is a new underworld alliance established by the former members of different gangs in 2010. The OCG is known to be involved in drug trafficking and (violent) debt collection. It is estimated to have around 100 members, half of them in prison (Passi & Reinboth, 2013).

## Risk factors for SOC infiltration in Finland

**Table 39 – MORE Risk factors of SOC infiltration in Finland**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Finland does not emerge as a particularly vulnerable country with respect to the risk factors taken into account by the MORE project (see Table 39). The national money laundering risk assessment (NRA), issued in September 2015 by the Police University College, stressed that the main ML/TF risks are associated with **real estate investments, transport of cash, front companies, online services, online shadow financing markets and customer fund accounts**. Another critical issue is the lack of analysis and data at the FIU level (Jukarainen & Mutilainen, 2015).

### Cash intensity and cash limits

Despite the **absence of limits on cash purchases**, Finland (like other Nordic countries) is not a cash-intensive economy, with an average cash ratio of 26.8% (2016 data), the 3rd most cash-

averse EU MS. The lack of maximum thresholds, however, may facilitate the purchase of high-value goods with illicit proceeds and subsequent trade-based money laundering schemes by organised crime.

### Shadow economy and control of corruption

Finland ranks 18<sup>th</sup> among EU MSs in the size of its **shadow economy**, which, according to Medina and Schneider, can be estimated at 19.1% of the GDP (Medina & Schneider, 2018). Undeclared work is limited in the country, with 11.8% of the GVA. **Corruption** is not traditionally a matter for concern, despite a few cases (see above). Finland ranks first among EU MSs in terms of control of corruption (World Bank), while no significant situations involving vulnerability have been reported by the latest Eurobarometer.

### Financial secrecy, business ownership opacity and complexity

Among the EU 28, Finland ranks 17<sup>th</sup> in terms of financial secrecy as measured through the Secrecy Score (Tax Justice Network, 2018). The risks related to **ownership links with secrecy jurisdictions and complexity of business ownership** are also low. According to Transcrime elaboration of BvD data, most shareholders (93%) are domestic, and the rest are in Sweden (1.6% of total shareholders), the United States (0.7%), Estonia (0.6%), Russia (0.5%) and others at a lower rate.

Only **5.3% of foreign shareholders** (0.3% of total shareholders) of Finnish firms come from jurisdictions included in the **EU ‘Greylist’ and ‘Blacklist’** of non-cooperative tax jurisdictions, most of them being Swiss (see Table 40).

Finnish companies (despite the presence of some multinational enterprises) have on average a low business ownership complexity, with an **average BO distance of 1.1**.

**Table 40 – Shareholders from EU ‘Blacklist’ and ‘Greylist’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data

*Golden visas*

Finland **does not have specific investor-based residency (IRP) and**

**citizenship (ICP) programmes**, and there is no evidence of exploitation of

these schemes for injecting suspicious financial resources into the economy.

## 6.13. FRANCE

### Introduction

The nature of SOC infiltration into France's legitimate economy reflects the **plurality of organised crime groups** active in the country: there are well-rooted *grand banditisme* organisations using mafia-type methods to infiltrate legal businesses and public procurements; there are also criminal groups, either indigenous or foreign (e.g., North African or Turkish-speaking groups) that occasionally launder money in local companies while often carrying out illicit transfers abroad.

Their activities, in turn, reflect the role played by France in the geography of illicit trade: France is a **transit country, especially on two drug routes**: the one from North Africa to Northern Europe — cannabis, cocaine — and the one from Northern Europe (the Netherlands, Belgium, north-eastern Europe) to the southern countries — cocaine, heroin, synthetic drugs. France is also a **destination country**, with large consumption markets for drugs (EMCDDA, 2014, 2015) and illicit firearms, which is a trade also related to the activity of terrorist groups.

Two broad categories of organised crime actors can be identified (Riccardi & Camerini, 2016):

- **Indigenous (*autochtone*) groups:**

- Groups related to the historical French grand banditry (***grand banditisme traditionnel***), active in the Provence-Alpes-Côte d'Azur (PACA) area, especially Marseille, Toulon and Corsica, and active in international drug trafficking and, to a greater extent, the infiltration of legitimate businesses and procurement

- Gangs from the suburbs and ***quartiers sensibles***, traditionally active in the trade of resin cannabis from North Africa, but with a key role in the trafficking of firearms and an increasing interest in controlling the territory (SIRASCO, 2013)

- **Foreign groups:** with cultural links to neighbouring countries and foreign communities with an historical presence in France. We note in particular (Gendarmerie Nationale-STRJD, 2013; SIRASCO, 2013):

- Moroccan and North African OC groups, active in drug trafficking, mostly cannabis
- Turkish-speaking OC groups, active in heroin trafficking, extortion and money laundering, especially on the French-German border
- Eastern European OC groups — with Albanian, Romanian and Georgian members — active in their specialities of organised property crime activities, sexual exploitation, drug trafficking and cyberfraud
- Russian-speaking OCGs, including *Vor-y-zakone* groups, active both in illegal markets and investments in the legal economy (see below)
- Italian mafias, with the presence of *latitanti* (fugitives) from the 'Ndrangheta, Camorra and Cosa Nostra OCGs, and suspected infiltration activity in the PACA region due to its proximity to the province of Imperia, where the presence of 'Ndrangheta is acknowledged (Riccardi et al., 2018; Rizzoli & Colombié, 2015).

### SOC infiltration in the legal economy: cases and evidence

SOC infiltration of French businesses reflects this variety of actors and activities. Unfortunately, the French police and judicial authorities in the asset recovery domain (PIAC and AGRASC) have not published public reports since 2015. Until that date, AGRASC data revealed that **most confiscated assets were still related to drug offences**, and that infiltrated companies **still represented a minor share of goods** under management (AGRASC, 2013, 2014). The confiscation statistics, however, may be only a fraction of the actual volume of infiltration.

Adding investigative and intelligence information to this, Riccardi and Camerini (2016) classify the infiltration cases in three categories:

#### *Occasional money laundering*

An unsophisticated type of money laundering carried out mostly by foreign groups that are likely to transfer the proceeds of criminal activities (primarily drug sales) into their country of origin using cash smuggling, money transfer businesses or informal channels (e.g., *hawala*). They also **occasionally invest money in local businesses**, mostly **restaurants**. Examples of this scheme include the investigations into a North African organisation laundering proceeds of the cannabis trade in kebab and fast food restaurants in the area of Besançon and abroad (Gendarmerie Nationale-STRJD, 2013) or the cases of Turkish-speaking OCGs laundering proceeds of the heroin trade in bars and restaurants in the area on the French-German border (SIRASCO, 2013).

### Fraud-driven infiltration

This type of SOC infiltration refers to the tax fraud carried out mostly by **Chinese OCGs** through a traditional scheme well-known throughout Europe: firms accumulate tax payables and, after a few months, disappear without honouring their debt, but soon re-incorporate using other names and figureheads (SIRASCO, 2013).

Investigative evidence also revealed infiltration by OCGs for the purpose of **VAT fraud, welfare benefit fraud and employment fraud** (TRACFIN, 2015, 2018).

### Mafia-type infiltration

Infiltration with '**mafia methods**' includes the penetration of legitimate businesses and the public administration through the use of intimidation, corruption and political/electoral exchanges. This method has been widely adopted by *grand banditisme* in the **area of Marseille and PACA**, with evidence of this activity in the public transportation sector, waste management and public works (Riccardi & Camerini, 2016).

Recently, suspicions about possible infiltration in public works by '**Ndrangheta, especially in Côte d'Azur**', have been raised by several NGOs and media channels (FLARE Network France, 2011; Grasso, 2015). The establishment of an ad-hoc anti-corruption agency, with investigative powers and a multidisciplinary approach, may reveal further links between SOC and corruption/collusion in French public procurement.

### Case PHI: Infiltration in the Vieux port of Marseille

For years, a local family clan controlled the ferry service between the old port of Marseille and the Frioul archipelago. The organisation set up a double-ticketing system that allowed it to conceal several million euro from the tax authorities from 1996 to 2006. To facilitate the fraud scheme, the group established a complex network of shell companies, some of them in tax havens. The group was accused of tax fraud, money laundering, bankruptcy fraud and asset misappropriation (Tribunal de Marseille, 2009).

### Sectors and areas

Combining statistics on confiscated assets, investigative evidence and media reports, the areas with the highest levels of infiltration appear to be the Paris metropolitan area and the PACA region and, to a lesser extent, the French-German border (Nord-Pas-de-Calais, Lorraine, Alsace and France-Comté).

As for sectors, summarising what was outlined above, the evidence is concentrated in the following industries:

- Bars and restaurants (pizzerias, kebab restaurants and food stalls)
- Nightlife and clubs
- Private security
- Gaming/gambling
- Public procurement (construction work, waste management, public transportation), the so-called BTP – *batiments et travaux publics*

### Risk factors for SOC infiltration in France

In terms of the vulnerabilities of the socio-economic system, **none of the analysed dimensions emerges as a particular risk factor for SOC infiltration in France**. The country has a mature and developed economy, with a strong AML system (according to the latest FATF mutual evaluation) and a good asset recovery system (although statistics have not been made public for the last 3 years).

### Cash intensity and Cash limits

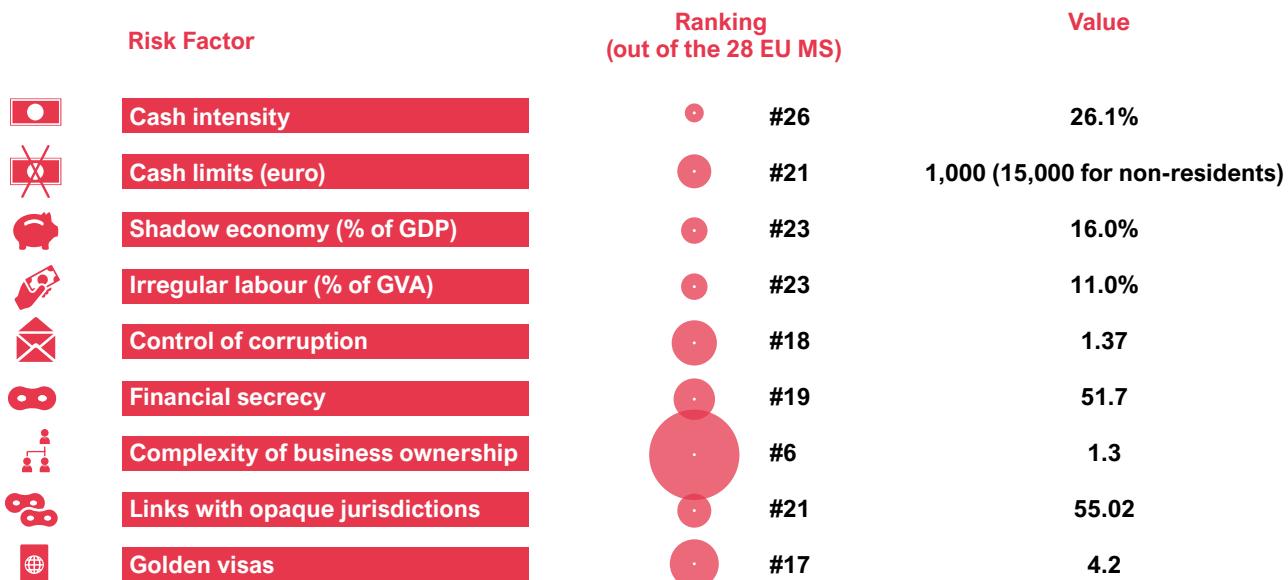
France is one of the **least cash-intensive countries in Europe**, with a cash ratio estimated at 26.1% (data 2016), placing the country 26st among the 28 EU MSs in the use of cash. Its cash intensity may have been further diminished by the recent introduction of a lower maximum cash purchase limit in response to concerns about terrorist financing after the November 2016 attacks in Paris: the new maximum of **1,000 euro** (for residents) is one of the lowest in all the EU MSs (see section 4.1). The vulnerabilities related to the higher cash limit of 15,000 euro (for non-residents) has yet to be assessed.

### Shadow economy and control of corruption

The shadow economy has been estimated in France at 16% of GDP, while undeclared labour is 11% of the GVA, one of the **lowest percentages in the EU MSs**. Concerns about corruption are traditionally lower in France than in other European states (including neighbouring states): the centralisation of the public administration also reduces opportunities for corruption/collusion by public officials in local government. Despite this, evidence of **corruption in public procurement** (especially in the BTP sector) and **international bribery** in the French private sector (especially given the large number of French multinational companies— see the 'Oil for food' case) raise issues that the new anti-corruption agency (AFA) should address and monitor.

**Table 41 – MORE Risk factors of SOC infiltration in France**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



#### *Financial secrecy, business ownership opacity and complexity*

France ranks 19<sup>th</sup> among the EU 28 in terms of **financial secrecy** measured through the FSS (Tax Justice Network, 2018). The risks related to the volume of **ownership links with secrecy jurisdictions** are overall medium-low. A

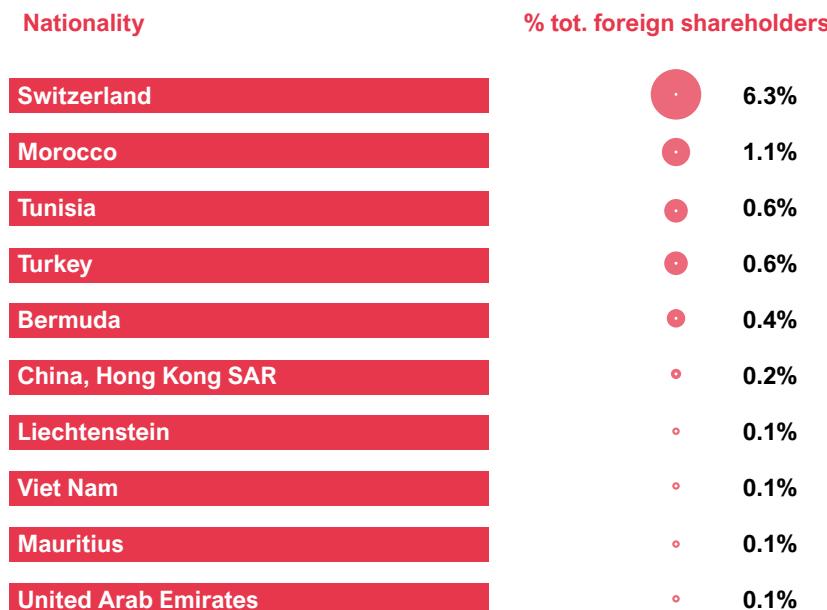
total of **10.1% of foreign shareholders** of French companies (0.53% of all shareholders) come from countries included in the EU ‘greylist’ and blacklist of non-cooperative tax jurisdictions. The most frequent nationalities are reported below.

On the other hand, French businesses

rank 6<sup>th</sup> in terms of **average complexity of business ownership structure**, with an average beneficial ownership distance of 1.3. This value should be read in conjunction with the relevant number of multinational companies registered in France (especially in certain sectors like oil, gas, automotive and pharmaceutical) and the high volume of FDI.

**Table 42 – Shareholders from EU ‘Blacklist’ and ‘Greylist’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

Despite scoring low for most of the risk factors analysed by the MORE project, the risk of SOC infiltration of French businesses is a function of the ***transit nature of the country*** (especially for illicit drugs), which generates consistent illicit proceeds. However, it is not fully clear to what extent these revenues are eventually laundered locally or are instead transferred abroad.

The evidence of SOC infiltration collected by the MORE project reflects the **business opportunities** offered by the country's economic environment (especially the southern tourism regions and the Paris conurbation) as well as the **plurality of OCGs** active on the territory, ranging from local organised crime (especially in the PACA region and in Corsica) to foreign groups.

In particular, the ***submersion strategy*** adopted by some of these groups — local *Grand Banditisme*, Russian-speaking, Eastern European OCGs and Italian mafias, especially — with an increasing adoption of corruption and white-collar offences, may make it difficult to assess the extent to which these groups are able to **infiltrate firms** and **launder illicit proceeds** in the local economy.

More research is needed on this strategy, possibly supported by a **wider set of public statistics** (e.g., on seized assets) and **organised crime situational reports** (e.g., the SIRASCO reports, despite being very informative, unfortunately are not public).

## 6.14. GREECE

### Introduction

The geographic position of Greece on the Balkan route makes the country particularly vulnerable to a number of illicit trades (Ministry of Public Order, 2005). Being on the external borders of the European Union and the Schengen area, and due to its extensive coastline and numerous islands, Greece is particularly vulnerable to illicit trade and is a **source, transit and final destination** country (CSD, 2015; Jeffray, 2017) for:

- **Drug trafficking**, mainly heroin from Afghanistan, but also cocaine from South America
- **Tobacco smuggling** from Asia or North Africa to Europe
- **Trafficking in human beings, human smuggling and illegal immigration** entering the EU from Turkey and North Africa (CSD, 2010, p. 2; Jeffray, 2017)
- **Trafficking in stolen vehicles**, stolen mainly in other EU countries like Italy, France, Germany and Spain (Ministry of Public Order, 2005) as well as in Greece itself, which are then transferred to Albania (CSD, 2010)
- **Smuggling of alcohol, oil and other goods** (CSD, 2010)

According to the *Annual Report on Organized Crime in Greece* (Ministry of Public Order, 2005), a not very recent but very informative public report, besides **local OCGs** there are different foreign criminal groups active in Greece:

- **Albanian-speaking OCGs**, typically involved in drug trafficking, robberies and thefts
- **Turkish-speaking, Egyptian, Iraqi, Chinese and Pakistani-speaking OCGs** involved in human smuggling
- **Bulgarian-speaking OCGs** involved in counterfeiting and forgery
- **Ukrainian and Russian-speaking OCGs** involved in tobacco smuggling and money laundering
- **Romanian-speaking OCGs** involved in THB and thefts

As noted for other EU MSs, the differences in prices between EU countries fosters a black market, especially for primary goods such as medicines. In particular, according to the information available, Greece is emerging both as a source country for the **parallel trade in medicines** (Jeffray, 2017) as well as a possible destination market due to cuts in the supply of medicine made during the financial crisis (Riccardi, Dugato, Polizzotti, & Pecile, 2015).

### SOC infiltration of the legal economy: cases and evidence

Despite Greece's role as a hub for illicit trade and the many OCGs active there, **evidence of infiltration and money laundering is scant**, and the research in this field is poor. According to the *Financing of organised crime report* (CSD, 2015), OC in Greece usually infiltrates legitimate businesses active in **logistics, transportation, import and export, retail, restaurants, hotels and bars**. Some of these companies are used to conceal illicit activities (e.g., transportation companies used for drug trafficking), or are used for money laundering. There is also evidence of infiltration in **football and basketball clubs** — and other entertainment businesses such as lotteries (CSD, 2015, p. 15).

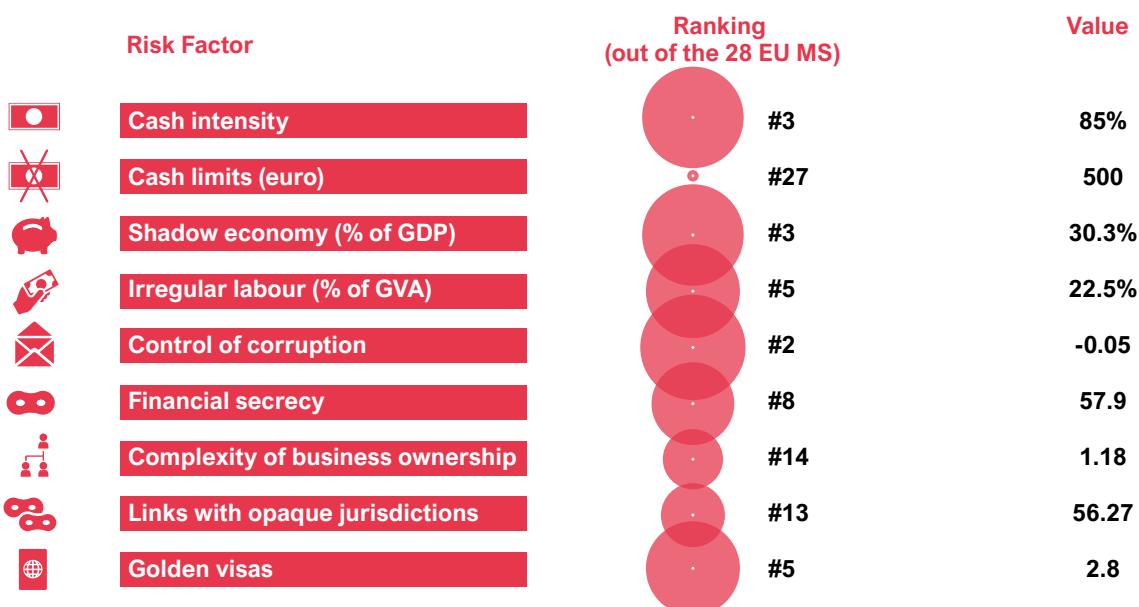
OCGs also use legitimate companies, either existing ones or ones established ad hoc, to conceal illicit trafficking, as with tobacco products. For instance, OCGs established different companies in Bulgaria and Greece doing a **legitimate trade in cigarette import and export** in order to conceal ITTP (CSD, 2015). Evidence of infiltration by foreign OCGs can also be observed (for example, by a Latin American OCG — see CSD, 2015).

As mentioned above, Greece is also a source country for the parallel trade in pharmaceuticals (Jeffray, 2017, p. 16). MORE (see the ALPHA case) revealed the use of a **bogus pharmaceutical import-export company** established in Greece, along with others established in neighbouring countries, to launder anti-cancer medicines stolen in Italy (AIFA, 2015).

## Risk factors for SOC infiltration in Greece

**Table 43 – MORE risk factors of SOC infiltration in Greece**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Greece has high scores for some of the risk factors analysed by the MORE project (see Table 43).

### *Cash intensity and cash limits*

Despite the **limit on cash purchases** (500 euro, one of the lowest in Europe), Greece is a very **cash intensive** country. Its cash ratio (85%) is one of the three highest in the 28 EU MSs.

### *Shadow economy and control of corruption*

Greece has the second lowest score among the EU MSs for the control of corruption indicator (World Bank, 2016). *The Annual Report on Organised Crime in Greece* highlights the use of **corruption and bribery** in a variety of illicit activities such as illegal immigration or forgery of documents for foreigners (Ministry of Public Order, 2005).

For the risks due to its irregular economy, Greece has a **large estimated shadow economy** (30.8% of the GDP

- Medina & Schneider (2018), the third largest in Europe, and has a large proportion of irregular labour (22.5% of the GVA, fifth among EU MSs).

### *Financial secrecy, business ownership opacity and complexity*

Greece scores quite high in terms of **financial secrecy** based on its Tax Justice Network Secrecy Score: a value of 57.9, which places the country 8<sup>th</sup> among EU MSs. Greece appears to be especially vulnerable in the sub-dimension measuring the lack of requirements for companies to submit information on ownership (Tax Justice Network, 2018).

In terms of **ownership links with secrecy jurisdictions**, Greece has a medium risk (13th in the EU). It should be noted that most shareholders of Greek firms are domestic (93%), according to Transcrime elaboration of BvD data. The second largest group of shareholders are Cypriot individ-

uals or companies, with 1.1% of total shareholders. Shareholders from **EU grey- and black-listed jurisdictions** (those in the list of non-cooperative tax countries) are about 7.8% of the total foreign shareholders in Greece, with the top nationality that of Switzerland (table 44).

As for the **complexity of business ownership** chains, Greek firms are also in line with the EU average, with an average BO distance of 1.18.

### *'Golden visas'*

Regarding the risks related to Immigrant Investor Programmes ('**Golden visas**'), Greece ranks fifth among the 28 EU MSs in terms of favourable schemes. according to the Transcrime elaboration of the score developed by Džankić (2018). Greece's national law requires a third-country national wishing to obtain a 5-year (temporary) renewable residence permit to invest **at least 250,000 euro** in real estate (Džankić, 2018).

**Table 44 – Shareholders from EU Blacklist and Greylst countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD Data



## Concluding remarks

The role of Greece as **transit hub** for many illicit trafficking activities, and the presence of **many OCGs** (including foreign ones, with some evidence of Russian OC activity), may expose Greece to infiltration of legitimate businesses. The following risk factors may also facilitate infiltration, although administrative and judicial measures adopted (e.g., the set of maximum cash thresholds) may help mitigate these risks.

- Greece is the **third most cash-intensive** country in the EU.
- It scores the second highest value in the EU in terms of **estimated corruption** (*Control of corruption* by the World Bank).
- Its proportion of **irregular labour and the shadow economy** are relatively large (the third largest in the EU as compared to GDP).

- It has a relatively high score for **financial secrecy** (Tax Justice Network), with some connections to other risky jurisdictions within and outside the EU.
- It offers a favourable **investment residency program**, which may attract TCNs to make economic contributions of doubtful origin.
- It has many **business and investment opportunities** (especially in the tourism sector, or in private harbours).
- The **lack of liquidity suffered by legal companies** as a result of the financial crisis may also facilitate the injection of illicit funds (as has happened in other EU MSs).

## 6.15. HUNGARY

### Introduction

Organised crime was very active in Hungary in the 1990s and early 2000s. According to estimates, in the 1990s criminals evaded approximately 3,500 million dollars in fuel duties in the so-called '**oil bleaching' scheme** (Anett, 2007). These individuals benefited from the fact that heating fuel had a lower taxation rate than diesel fuel for social reasons. These were identical products, however, so these criminals either bribed customs officers to avoid adding a colouring agent to the imported fuel or they developed a chemical process to get rid of it (The Budapest Times, 2007).

This created a **huge amount of illicit capital that had to be laundered** in subsequent years, and due to the complexity of the cases many verdicts were reached only recently. The most notorious cases, such as the Aranykéz Street bombing and the assassination of János Fenyő and József Prisztás, are all related to a criminal, PT, who was sentenced in 2017 to 13 years in prison for being the instigator of the bombing and the Fenyő murder (BÍRÓSÁG, 2017) and to 15 years in 2016 for the Prisztás murder (Fővárosi Ítélezőtábla, 2013). PT was a leading figure in the Energol company, which had the biggest share in the oil bleaching scheme. As a result of the new regulation in 1998 and the numerous murders among these criminals, organised crime became more fragmented by the second half of the 2000s.

### SOC infiltration in legitimate businesses

Most evidence of SOC infiltration is connected to the criminals involved in this oil bleaching scheme. One of the most notorious cases involves an individual (PT) who was sentenced in 2017 for murder and bombing (BÍRÓSÁG, 2017; Fővárosi Ítélezőtábla, 2013), and who was a **leading figure in the energy company** that had the biggest share in the oil bleaching.

A key figure in downtown Budapest nightlife was VL, who had a strong relationship with PT. VL started as a taxi driver who transported prostitutes to nightclubs, but in 1989 he started his own business and soon he became the most important figure in this field. Although it was widely alleged, for various reasons it was never proved that he was laundering PT's illicit income. He was also accused of bribing police officers and other officials to avoid his nightclubs and to raid his rivals' bars. In the end, 61 police officers were acquitted in 2015 due to lack of evidence or because the statute of limitations had expired, but he is still involved in another bribery case along with 22 other suspects. In 2017, a first instance court sentenced him to 7 years in prison and confiscated 2 million euro for his evasion of 3.5 million euro in taxes between 2010–2012. To hide the origins of his revenues, he operated a network of 16 companies that were formally managed and owned by his fiancée and her parents (Fővárosi Törvényszék Sajtó Osztály, 2017).

The reason for the Prisztás murder was a conflict between PT and Prisztás. In the 1990s, LA wanted to create a bank to launder the money from illicit oil revenues, but he went bankrupt and offered the same collateral to them, which in turn created a feud between the two criminals (BÍRÓSÁG,

2014). LA escaped abroad, but he returned, and in 2009 he started to set up a network of companies registered in Romania in the name of foreigners and people who were financially broke. His network registered with sites looking for transport companies, and using benevolent contractors, he had them deliver the goods to his own warehouse instead of their proper destination. The total loss was more than 1 million euro (Debreceni Törvényszék, 2017). LA was caught in 2015 in Brazil and the first instance verdict was remanded for further investigation in 2018.

This year the police caught a similar network of **Hungarian and Slovakian criminals, who bought transportation companies** using figureheads to steal goods worth more than 3 million euro between 2012–2015 (ORFK Kommunikációs Szolgálat, 2018).

Since the fall of this group, only smaller organised cases have been discovered. Beginning in 2008, **Vietnamese-speaking criminals** started to relocate from the Czech Republic to rent houses from unsuspecting owners and to turn their properties into **cannabis farms**. Thirty-two such farms were discovered in 2009, where mostly illegal Vietnamese migrants were taking care of the plants (Mráv, 2010). Even though in most cases a final verdict has been reached by now, it is not clearly known at this point how these illegal funds were laundered.

There are multiple cases of **pharmaceutical companies infiltrated** and used to trade in stolen medicine. A leading pharmaceutical wholesaler was fined 1.5 million euro for not having proper records of their stocks. It turned out that in 2012 some criminals offered the company some can-

cer medicine that had been previously stolen from the warehouse of a leading French producer (Élő, 2015). Documents of origin were forged, and the stolen goods were sold to Romania.

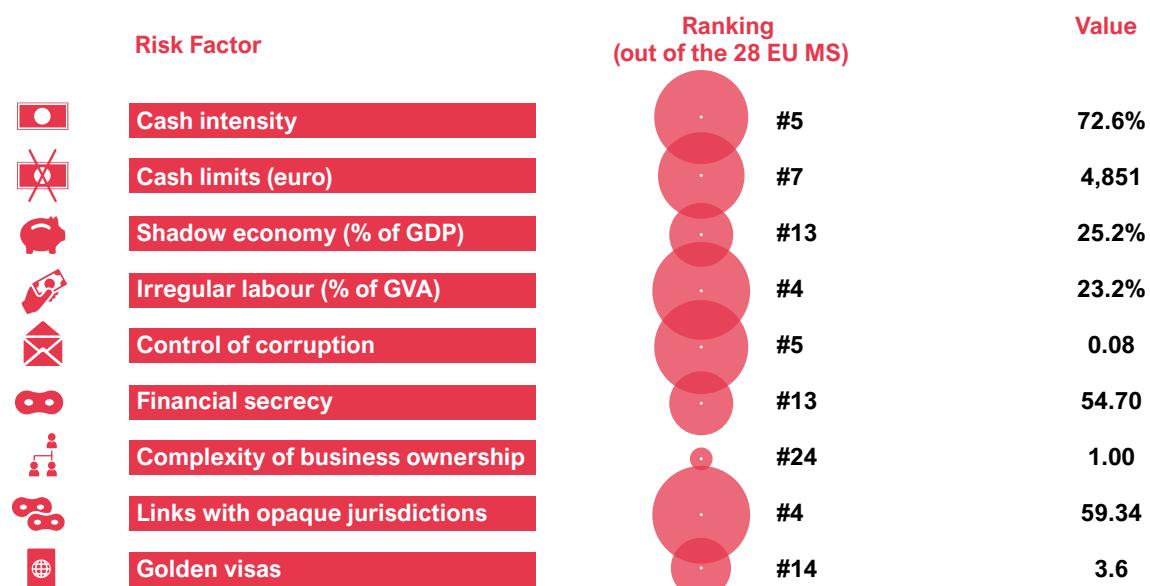
Operation Volcano revealed another three **Hungarian pharmaceutical**

**companies** that were set up by an **Italian OCG** through figureheads to trade and 'launder' breast cancer medicine stolen in Italy (the ALPHA case; see Annex A1) (AIFA, 2015). Besides being fences, these companies risked the health of many patients, as these products are extremely sensitive to storage conditions.

## Risk factors of SOC infiltration in Hungary

**Table 45 – MORE risk factors of SOC infiltration in Hungary**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### *Cash intensity and cash limits*

Hungary has a relatively **high usage of cash** that is similar to its neighbouring countries like Austria (71%) and Slovakia (74%). Recent technological developments helped more people to have a bank account. To illustrate the situation, the biggest regular cash transactions in the country are at the arrival of salaries and pensions, which are usually withdrawn in cash at once to pay utility bills on the same day on posts (Magyar Posta Zrt., 2015). On the other side, wire transfers are taxed since 2013, while banks are required to provide all clients two free monthly cash withdraw-

als (Wolters Kluwer, 2012). **Cash limit corresponding to 4,851 euro (2017 mean exchange rate)** is set for all entities that are required by law to have a bank account, which means most firms in practice (Wolters Kluwer, 2017).

### *Shadow economy and control of corruption*

Hungary has an **extensive shadow economy** compared to Western member states. Slovakia and Czech Republic from the Visegrád countries have a far smaller underground economy based on Medina and Schneider (2018), while other neighbours like Croatia and

Romania have a much higher figure. Hungary has one of the **worst irregular labour figure in the EU** based on the estimates of Williams et al (2017), which is the most severe in **construction, tourism and retail sectors**. Despite the efficient legal framework, the perception of corruption is very high (according to World Bank – *Control of corruption indicator*), mostly due to the work of investigative journalists, who uncovered cases involving high ranking politicians and EU funded projects that were also investigated by OLAF (Reuters, 2018). Hungary expressed its will not to join the European Public Prosecutor's Office (Cabinet Office of the Prime Minister, 2018).

### *Financial secrecy, business ownership opacity and complexity*

Hungary has a very **low foreign ownership in its businesses** (4.3%) compared to other member states. Among the non-cooperative tax jurisdictions, the most frequent countries are **Switzerland, Seychelles and Panama** (Transcrime elaboration of BvD data – see Section 4.2). As in many countries, multiple politicians were suspected to be affiliated with off-shore companies based on the ‘Panama Papers’ (András, 2016). Hungary is not among the leading secrecy jurisdictions in the EU (Tax Justice Network, 2018), owners of firms and financial reports are available for free from public registers.

### *‘Golden visas’*

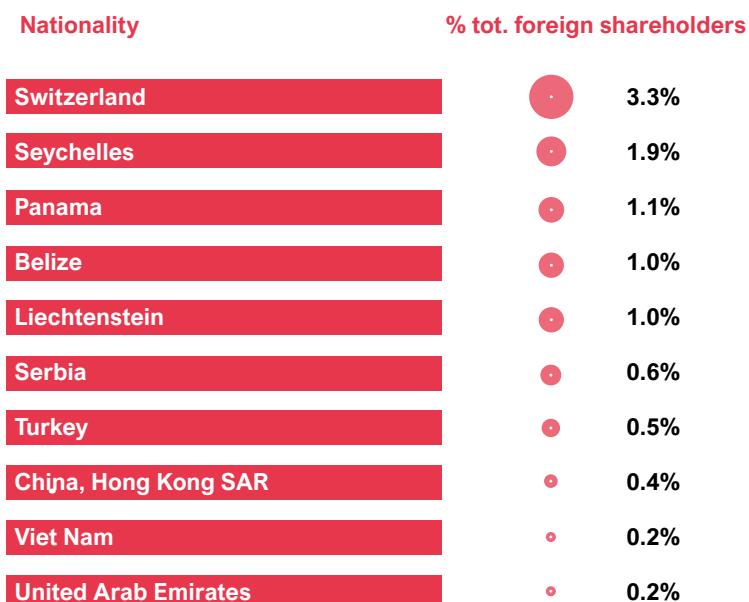
Hungary has introduced its **immigrant investor programme in 2013**, where initially a 250,000, while from 2015 a 300,000 euro bond were to be bought by the applicants (Wolters Kluwer, 2012). The globe was split among certain agencies that were chosen without a procurement, and most of them had an off-shore background, while the only company among them registered in Hungary was robbed in 2017.<sup>54</sup> The programme was criticised for paying an above market interest rate (approx. 55 million euro loss for the state) besides an unusually high transaction fee (approx. 500 million euro) (Bence, 2018). Concerns also exist about the

strength of the controls on the origin of the invested money nor the security risk. Investigative journalists found evidence that a **Syrian individual related to an international money laundering network** and a high ranking official of the Syrian regime could get a residence permit without problems (see Box in Section 4.3) (Blanka & Gergő, 2018). These people were eventually arrested by the cooperation of the Hungarian and the Italian police, as they were suspected for working for criminals active in illicit drugs, firearms and human smuggling. The **program was eventually suspended in 2017**.

**Table 46 – Shareholders from EU Blacklist and Greylist countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD Data



### **Concluding remarks**

The many notorious cases related to the ‘oil bleaching’ scheme of the 1990s had a final verdict only in the recent years. This activity created a huge illicit capital that was laundered by several people, many of them were later murdered. The organised crime has become much fragmented since then, but **different fraudster groups using networks of companies were caught by the authorities**. Another vulnerability was the investor immigration programme between 2013–2017 that, according to media sources, enabled people posing significant security threats to the EU to obtain a residence permit in exchange for funds mostly from non-transparent origins.

54. According to the press, burglars had a key, knew the alarm system of the office and robbed more than 1 million euro in cash and several important documents. The CEO of the company had close relationship to a leading politician of the governing party ([https://index.hu/belfold/2017/10/17/arton\\_betores\\_kotvenybiznisz\\_belso\\_munka/](https://index.hu/belfold/2017/10/17/arton_betores_kotvenybiznisz_belso_munka/))

## 6.16. IRELAND

### Introduction

The roots of organised crime in Ireland lie in the second half of the twentieth century and have mostly developed in conjunction with the **expansion of the drug market** (Hourigan, Morrison, Windle, & Silke, 2018). Nowadays, the Irish context is characterized by a **plurality of criminal actors** (Savona & Riccardi, 2015), i.e.:

- well-established (local) OCGs (such as Kinahan and Hutch gangs),
- loosely connected local networks,
- occasional criminal enterprises,
- groups linked with foreign OCGs (including Italian 'Ndrangheta or Russian-speaking OCGs)
- groups linked with former local paramilitary groups. In this regard, according to the UK National Crime Agency (NCA, 2018), more than 20% of the OCGs known to and investigated by the Northern Ireland Police have direct links with paramilitary (both loyalist and republican) organisations.

In particular, in the last two years Ireland witnessed a surge in the **number of OC-related murders and attempted murders**, mostly related to a feud between two gangs and to the control of the local drug market (DublinLive, 2018; McDonald, 2018).

Under a geographical perspective, Ireland is both a **strategic transit country** and an important destination country for several illicit trades (EMCDDA & Europol, 2013; European Commission, 2013). Among these, illicit drug trafficking, human trafficking and migrant smuggling, and – especially across the border with Northern Ireland - illicit **fuel laundering and trafficking** (FATF, 2017b; Savona & Riccardi, 2015). However, evidence of other relevant OC activities concern trafficking in firearms, illicit trade in tobacco products, counterfeiting, extortion racketeering, and fraud (including VAT fraud), organized

vehicle theft (FATF, 2017b; Savona & Riccardi, 2015). As a consequence of these activities, it is likely that criminal actors infiltrate the Irish legitimate economy to launder their illegal proceeds.

### SOC infiltration in legitimate businesses

In 2015 the **OCP Report** (Savona & Riccardi, 2015) provided an in-depth picture of the investments of organised crime in the Irish legal economy, and also of the assets seized by the **Irish Criminal Asset Bureau**, one of the most active in the EU in terms of recovery and management of criminal assets. Relying on this work, it is possible to identify the main features of SOC infiltration in Ireland:

- infiltrated businesses often have a **functional purpose**, i.e. they are useful for the commission or concealing illegal activities itself. For instance:
  - properties used also to store illegal drugs and smuggled goods
  - companies used to transport illicit drugs (e.g. wholesalers of food products) or to sell them (e.g. bars and restaurants)
  - petrol stations or oil supply companies employed for fuel laundering;
  - financial companies as a coverage for committing frauds
  - legal companies used to launder illegal proceeds.
- **Irish OCGs do not disdain investments abroad**, for example UK, Spain or Italy (see box below on Operation Shovel). Case EPSILON (see Annex A1) revealed that a real estate company related to a former IRA member invested funds together with 'Ndrangheta in tourist resorts in Southern Italy.

- **The Irish real estate market** has experienced a considerable boom from the late 1990s until 2008. It could be likely that this situation attracted investments by local and foreign criminal groups (e.g. Russian OCGs), especially in large urban areas.
- OCGs may have seen new opportunities for infiltration in the development of the financial system, such as the spread of **money service businesses and pre-paid cards** or, more recently, on **virtual currencies**. In particular, the use of bitcoins seems to be particularly frequent in Ireland and in recent years the police was frequently involved in seizure of bitcoin wallets.

#### Box - Operation Shovel: Irish criminal gangs and investments in Costa del Sol

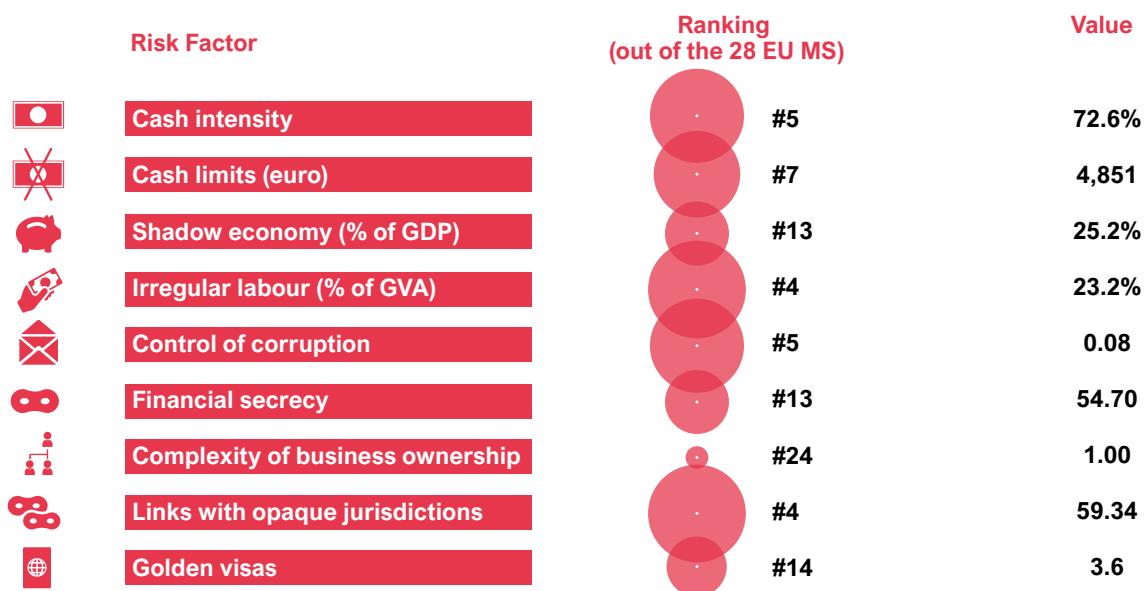
Operation Shovel was conducted in 2010. The investigation started from a transnational drug trafficking case (more than 20 countries involved worldwide) and led to the identification of real estate and companies belonging to Irish OCGs. Food trading companies, bars, and restaurants were set up in Ireland, Spain (Costa del Sol) and the UK for laundering and functional purposes (Drugs Info News Line Ireland, 2010; Majidi, 2010; Malmström, 2011; Sur in English, 2010).

Real estate properties were used by criminals as houses or warehouses in which to stock smuggled goods. Moreover, the food import-export company based in Ireland was run by Irish criminals who used the business to transport drugs from Spain to Ireland (Drugs Info News Line Ireland, 2010; Majidi, 2010; Malmström, 2011; Sur in English, 2010). Once the drugs had entered Ireland, Irish criminals sold them to criminal gangs nationwide, making significant profits.

## Risk factors of SOC infiltration in Ireland

**Table 47 - MORE risk factors of SOC infiltration in Ireland**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



The **favourable tax regime** and the **business opportunities** offered by the Irish economy may constitute a factor of attractiveness for foreign OCGs willing to invest in the legal economy. However, looking specifically at the MORE risk factors, Ireland generally scores low, with the exception of two aspects (i.e. **cash limit and golden visas**). Table 50 reports Ireland's ranking among the 28 EU MS on MORE risk factors (1 = highest rank and highest risk).

### Cash intensity and cash limits

According to MORE elaboration of BvD data, Ireland does not have a high level of **cash intensity**, that appears to be slightly lower than the EU average - 43% of all daily payment transactions is made in cash thus the country ranks 21<sup>st</sup> among the EU MS. However, Ireland is one of the countries in the EU in which there is **no maximum limits** on cash purchases. As discussed (see Section 4.1) lack of thresholds may

facilitate money laundering activities carried out by OCGs. Also the latest report of the Financial Action Task Force warns that "although decreasing, cash continues to be an important part of the domestic economy and cash-intensive sectors such as dealers in high value goods, money remittance and currency exchange, as well as retail banks, pose vulnerabilities for money laundering/terrorist financing" (FATF, 2017b, p. 7).

### Shadow economy and control of corruption

In regard to both shadow economy and undeclared work, Ireland respectively ranks 21st and 20th among EU MS. More specifically, **shadow economy** is estimated to constitute the 16.9% of the GDP (Medina & Schneider, 2018), whereas the **undeclared labour** 13% of GVA (Williams et al., 2017).

Neither **corruption** represents a matter of concern: on the basis of the values reported by the World Bank – Control of corruption (World Bank, 2016), Ireland has been ranked 21<sup>st</sup> among EU MS. Despite the estimates indicate a low risk of corruption, the **perception of the citizens** is partially the opposite. For instance, almost a third of businesses report that corruption has been an obstacle for the possibility to win a public tender in the past three years; and according to around half of citizens the risks of corruption is increased because of the close ties between politicians and businesses (European Commission, 2014b). It is interesting to note that in Ireland the evidence of cartels controlling certain sectors, of bid price rigging, and corrupt evaluation processes, even if concrete investigations are scarce (Waring, 2016). Indeed, the national Tribunals of Inquiry found evidence throughout Ireland's public administration of conflicts of interest, corruption and collusion between politicians and businesspeople (KnowYo-

urCountry, 2018b). As a consequence of this, Ireland is experiencing some **administrative reforms** to increase administrative transparency, accountability and anti-corruption standards.

#### *Financial secrecy, business ownership opacity and complexity*

As regards **financial secrecy** based on Tax Justice Network's Secrecy Score (Tax Justice Network, 2018), Ireland ranks 21<sup>st</sup> among EU MS. According to Transcrime elaboration of BvD data, the **complexity of business ownership** of Irish firms is leaning, on average, towards a direct control (BO Distance of 1.07), despite the presence of various multinational enterprises (which, however, have in Ireland their parent companies on top of the business chain).

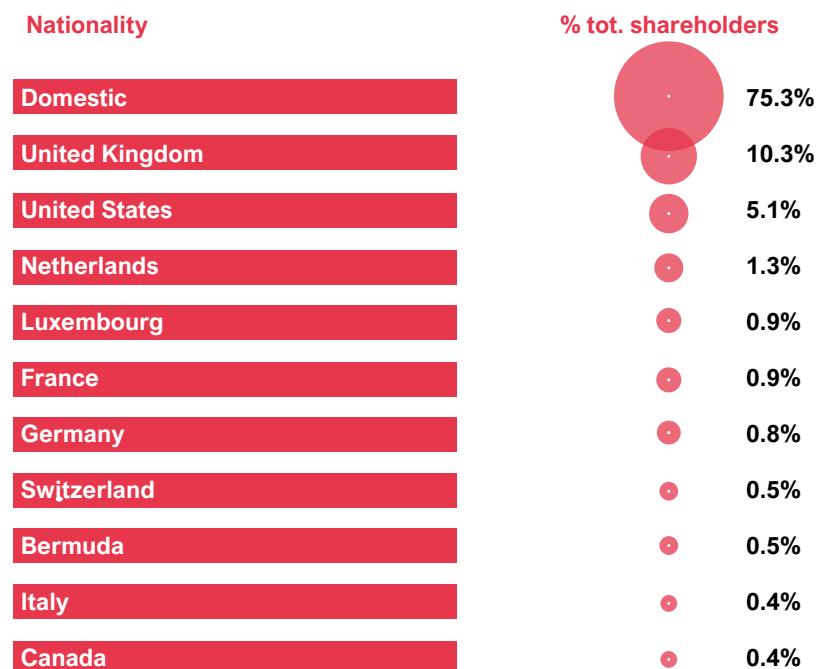
Ireland also scores low in terms of **business ownership links with secrecy jurisdictions** (27<sup>th</sup> among the EU MS, with a score of 52.57). The majority of shareholders of Irish firms are domestic (75.3%), although the percentage of foreign is high (about 25%). Most common foreign nationality is English (10.3%), US (5.1%), Dutch (1.3%) – Table 51. The percentage of shareholders from jurisdictions included in the EU 'Blacklist' and 'Grey list' of non-cooperative tax countries (see Section 4.2) is about 7.5% of foreign shareholders (1.8% of all shareholders). Most of them come from Switzerland – Table 52.

#### *Golden Visas*

Ireland offers favourable **investor-based residency and citizenship programmes** ('Golden Visas'). According to the overall score assessed by Transcrime on Džankić (2018), Ireland ranks 8<sup>th</sup> among EU MS combining the status and the investment requirements. In order to obtain a **temporary residence permit**, the Irish IIP establishes as monetary criteria: an investment of 1 million euro in investor bonds; an investment of 0.3 million in an Irish company (must be held for 3 years); a property purchase and investment (total of 0.95 million euro); a 0.5 million euros donation in an approved fund (Džankić, 2018).

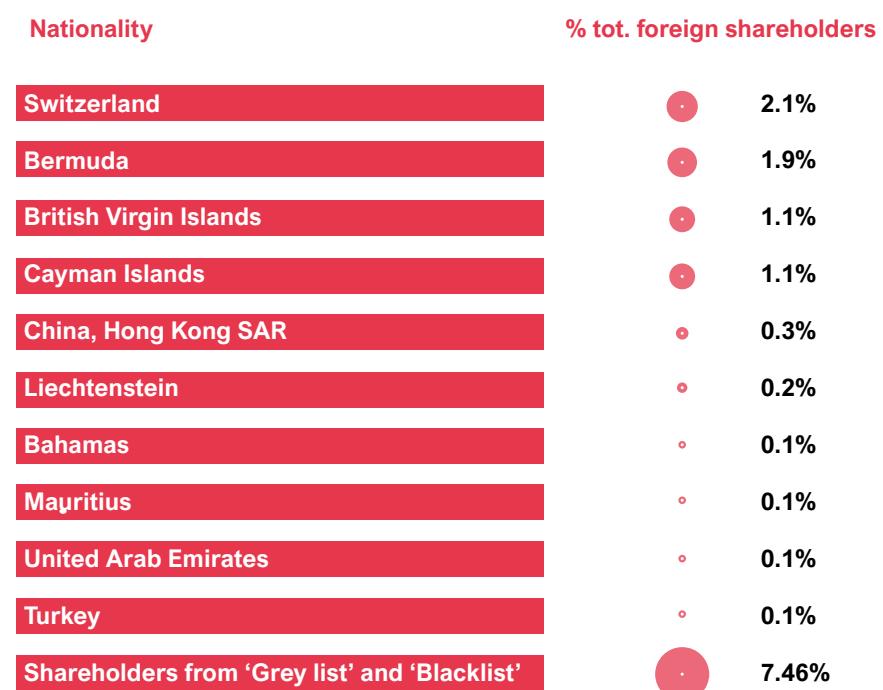
**Table 48 – Nationality of shareholders of Irish firms**

Source: Transcrime elaboration of BvD and EU Commission data



**Table 49 - Shareholders from EU 'Blacklist' and 'Grey list' countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD Data



## Concluding remarks

Ireland constitutes an important **transit and destination** country for a variety of illicit traffics, drugs and smuggled fuel overall. The **surge in OC-related violence** of the last two years (with a number of murders and attempted homicides) confirms the strength of **well-rooted local OC gangs** which have also been able to well infiltrate the legal economy (also abroad, e.g. Spain).

Moreover, the profitable illicit markets, the **favourable tax regime** and the **business opportunities** offered by the Irish economy may constitute a factor of attractiveness also for **foreign OCGs** willing to invest in the legal economy.

However, looking specifically at the risk factors analysed by project MORE, only the **absence of cash limits** and the presence of **favourable ‘Golden Visas’** schemes may play a role in increasing the vulnerabilities of Ireland to SOC infiltration. In the end, the **level of corruption** – which according to international indicators is below the EU average - leaves room for divergent views between institutions' and citizens' perceptions, suggesting further monitoring on the issue, especially in the public procurement field.

## 6.17. LATVIA

### Introduction

Latvia is a former republic of the Soviet Union that gained independence in 1991. Just like its northern neighbour, Estonia, it has a 25% Russian minority. Its biggest foreign trade partner is Lithuania, but it enjoys strong commerce with Estonia, Russia and Germany as well (Central Statistical Bureau of Latvia, 2018). Previous research has found evidence of intensive **smuggling activity along the Russian and Belarusian border**. In 2014, Latvia had the highest share in the EU (29%) of **illegal tobacco products**, most of them coming from Grodno, Belarus (Calderoni, Brener, Karayotova, Rondoni, & Zorč, 2016a, pp. 16–19). Other sources of criminal revenues are mostly **fraud and prostitution**. Being a regional financial centre, more than half of the total deposits in Latvia come from foreign clients (US Department of State, 2016a, p. 261).

### SOC infiltration in legitimate businesses

The country's biggest money laundering scheme, known as the 'Russian laundromat', was discovered by investigative journalists. Authorities were able to track 20 billion dollars in this network, but a much higher overall amount may have been laundered between 2010 and 2014. Journalists suspected close ties to leading Russian groups. The **network registered companies in the United Kingdom with off-shore owners** to lend large amounts of money to other firms in the network, which was guaranteed by Russian companies with Moldovan figureheads (see also the box in the UK country profile). This money of vague origin was sent through a Moldovan bank to the lender's account in Latvia, which seemingly had valid documentation (OCCRP, 2014). The participating Latvian bank's license was later revoked by the ECB (FKTK, 2016).

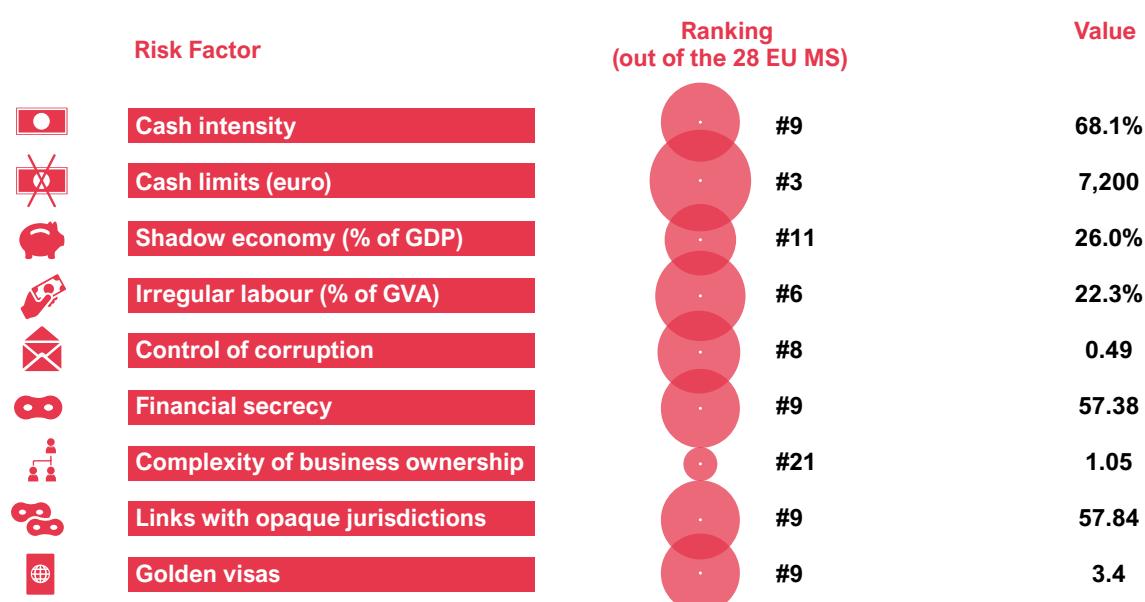
In its 2016 report, INCSR listed Latvia as one of the **major money laundering countries** (US Department of State, 2016b). US authorities accused **Latvia's third biggest bank** of money laundering, bribery and breaching the sanctions against North Korea. Clients started to withdraw their money from the institution, which led the ECB to express concerns in 2018 regarding the bank's viability, eventually triggering a voluntary liquidation (Koranyi & Gelzis, 2018).

Another **international fraud case** was detected in 2016. The authorities in Poland and Estonia discovered that criminals founded **two fictitious arbitration courts** in the Latvian capital, Riga, and in Warsaw. They filed false documents from these courts with Polish and Estonian bailiffs in order to seize property from unsuspecting companies. The total loss was 5 million euro (Centralne Biuro Śledcze Policji, 2016a).

### Risk factors of SOC infiltration in Latvia

**Table 50 – MORE risk factors of SOC infiltration in Latvia**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### Cash intensity and cash limits

Latvia is the only one of the Baltic and Scandinavian states that **has introduced a cash limit**. Since 2017, the 7,200 euro maximum ceiling rule has applied to individuals as well, although this limit is not a particularly low one for the EU. **Cash usage is relatively high** in the member states, and in the region only Lithuania (72%) has a higher figure.

### Shadow economy and control of corruption

The **level of irregular labour** is comparable to Estonia's, but still higher than the EU average (Williams et al., 2017), putting Latvia in 6th place out of the EU MSs. Similarly, the **underground economy** accounts for more

than 25% of the total gross domestic product (Medina & Schneider, 2018). The World Bank's corruption indicator reflects a **widespread perception of corruption** in the country (8<sup>th</sup> highest in the EU MSs). Amidst the financial turmoil of February 2018, the governor of the Latvian central bank was accused of taking bribes and could face a trial after being formally charged (Gelzis, 2018).

### Financial secrecy, business ownership opacity and complexity

The proportion of **foreign shareholders in Latvia is relatively high compared to the rest of the EU (14%)**. The three biggest foreign owners are from **Russia, Lithuania and Estonia**. There is only moderate foreign ownership from the EU official 'blacklist' and

'grey list' of non-cooperative tax jurisdictions, and even the highest figure (for Switzerland) is below 1% (Transcrime elaboration of BvD data — see section 4.2). Latvia has the highest score for links to secrecy jurisdictions in the EU's Baltic and Nordic countries (Tax Justice Network, 2018).

### 'Golden visas'

The Baltic countries have similar requirements for obtaining a residence permit. In Latvia, there is a **35,000–280,000 euro requirement** that depends on the type of investment (company, real estate or deposit). On the other hand, a **much stricter, 183-day-long stay** is required by the authorities (Džankić, 2018). If the two rules are combined, this puts Latvia in the middle range in terms of attractive investor-based residency programmes in the EU.

## Concluding remarks

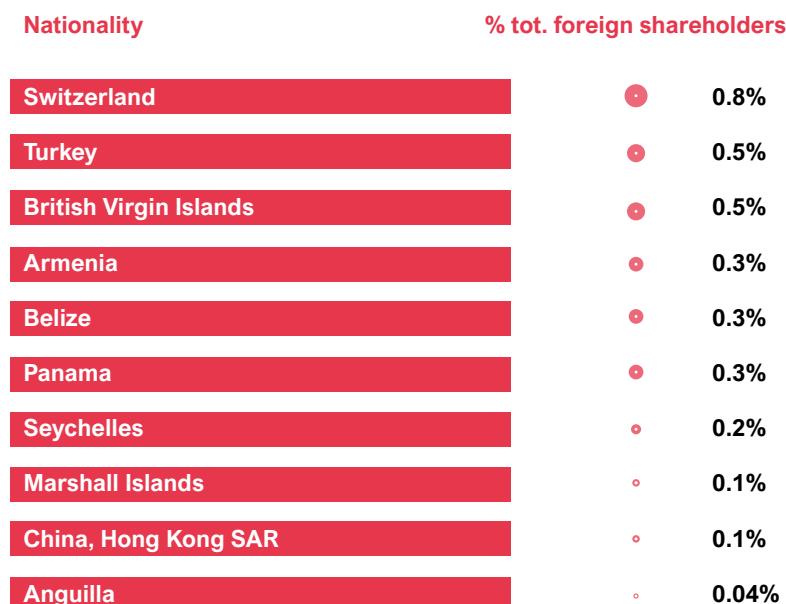
Besides the smuggling of different items from Russia and Belarus, the evidence collected by the MORE project highlights the risks for the **Latvian banking and financial system**. Recent scandals (still under investigation) have shown that Latvia's local financial intermediaries could be exploited by organised criminals or corrupt politicians to launder illicit funds and move elsewhere in the EU.

Latvia's relatively **high degree of financial secrecy** (according to the Tax Justice Network), the international nature of Latvian firms, their high volume of **ownership links with risky jurisdictions** and the country's high **cash intensity, large shadow economy and widely perceived corruption** (especially as compared to other countries in the region) may be further vulnerabilities to SOC infiltration.

**Table 51 – Shareholders from EU 'Blacklist' and 'Grey list' countries.**

### Top 10 nationalities

Source: Transcrime elaboration of BvD and EU Commission data



## 6.18. LITHUANIA

### Introduction

After regaining their independence from the Soviet Union in 1991 during the so-called ‘Singing Revolution’, the Baltic states joined the European Union in 2004. Lithuania shares a border with both Belarus and the Russian exclave, Kaliningrad. These neighbours and the proximity of Ukraine contributed to the fact that Lithuania became an **important transit hub for smuggling of goods**, e.g. a location of distribution illegal tobacco products in the EU (Calderoni, Angelini, et al., 2014, pp. 62–64), while 28% of the local consumption is from illegal sources (Calderoni et al., 2016a, p. 16).

Lithuania is also an **important route for illicit drug smuggling on the north-eastern route**. Heroin usually arrives from Russia and Belarus to be redistributed on the European market (EMCDDA, 2018a), while the Klaipėda

port is an important entry point for cocaine. A recent catch in 2017 of 610 kg from Ecuador worth 49 million euro was hidden in moulds (15min, 2017), but 905 kg of hashish and 170 kg of amphetamines were also seized by the customs officers. This contributed to the fact that 2017 had the highest number of drug confiscations in Lithuania (DELF1, 2018).

### SOC infiltration in legitimate businesses

Information on SOC infiltration in the country is very weak, and academic research is almost absent. Therefore, only case studies or informed assumptions can be provided. One of the main source of revenues of the OCGs is the previously mentioned **smuggling of illicit drugs and goods subject to excise tax**. In April 2018 the special forces of the Lithuanian police were

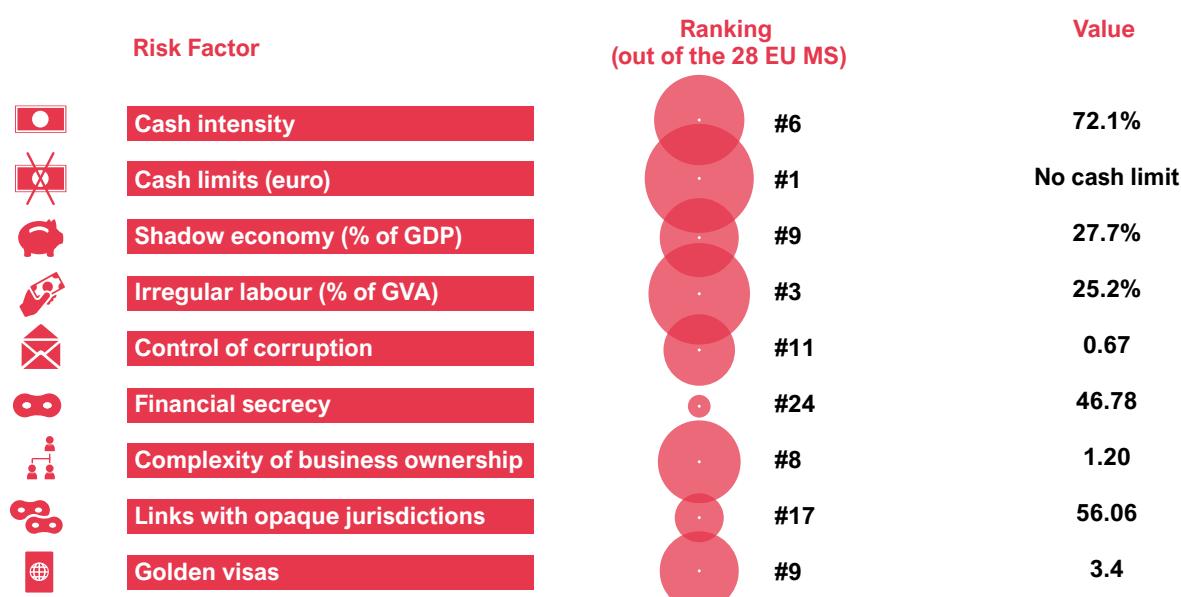
deployed to arrest 19 suspects by performing more than 100 searches. Besides valuables, the authorities seized high firepower weapons and explosives (Lietuvos kriminalinės policijos biuras, 2018). The criminals are suspected to have participated in smuggling of illicit drugs and firearms and serious bodily injury (Kaunas kasvyksta lt, 2018). The authorities reported that the network used sophisticated means to hide the illicit origin of their revenues worth several million euro, including **different limited companies and spouses as figureheads** (Meers, 2018, p. 19). The case is still being investigated.

Cybercrime is a growing issue in Lithuania (OSAC, 2017) besides the more traditional VAT fraud schemes and systematic underreporting of imported goods (US Department of State, 2016a, p. 276). The criminals of the country are also active in counterfeiting euro banknotes (Europol, 2016a).

### Risk factors of SOC infiltration in Lithuania

**Table 52 – MORE risk factors of SOC infiltration in Lithuania**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### Cash intensity and cash limits

Lithuania has the highest **cash usage** among the Baltic and Nordic member states, and its figure is between Hungary and Austria in the EU. However, it did not adopt a threshold on cash usage either, which, as mentioned previously, can represent a possible vulnerability for the injection of illicit funds in the economy. In contrast with the neighbouring Latvia, Lithuania is not a main financial centre of the region, while, according to the US Department of State, it has a transparent banking system with an adequate regulation (US Department of State, 2016a, p. 277).

### Shadow economy and control of corruption

Regarding the extent of the **shadow economy**, Lithuania ranks among the top third in the EU (Medina & Schneider, 2018). Irregular labour is an even more serious issue, as the country has the **third worst figure among EU member states** with one quarter of the private sector's GVA generated by unreported workers (Williams et al., 2017). Control of corruption is slightly better compared to the previous measures, and Lithuania is close to the EU average.

### Financial secrecy, business ownership opacity and complexity

Lithuania has a **significant (14%) foreign ownership** in its firms. The nationalities having the highest share of Lithuanian firms are **Denmark, Germany, Estonia and Sweden respectively**, all having a holding around 1%. The share of owners from non-cooperative tax jurisdictions is similar to the matching figure of Latvia (3.8% of foreign shareholders). From these countries only Switzerland has a relevant part (Transcrime elaboration of BvD data – see Section 4.2). Lithuania is **not among the secrecy jurisdictions** in the EU (Tax Justice Network, 2018).

### 'Golden visas'

Lithuania offers a similar scheme as its Baltic neighbours. A prospective applicant needs to **register a company** with a capital larger than 28,000 euro and has to own at least the half of this amount. A physical presence of 6 months is also required (Džankić, 2018).

**Table 53 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries.  
Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



### Concluding remarks

Besides the recent police operations, the evidence for organised crime is moderate in Lithuania – but also research on the issue is almost absent. Further investigation would be needed in this respect. The main source of revenue is **smuggling of illicit drugs, cigarettes and fuel** along the borders with the Kaliningrad exclave and Belarus. The income of these activities is similarly laundered as in other countries, usually by withdrawing it in cash from the accounts of **infiltrated companies**. The results of the recent police investigation will shed more light on these methods.

## 6.19. LUXEMBOURG

### Introduction

Much is known about Luxembourg's role as **global financial centre**, while there is little information on the level of organised crime and of SOC infiltration of legitimate businesses in the country. It could be assumed that, given its small size (it is the second-smallest EU MS), domestic OC can be considered to be negligible, while **concerns about infiltration by foreign OCGs** could arise.

In particular, institutional reports by FATF (2010a, 2014b) and the US Department of State (2016c) and media investigations — mainly those on the '**LuxLeaks' scandal**' — have shown how the country's financial sector, and its **favourable tax system**, can attract individuals and corporations wishing to launder money and commit other financial crimes. But it must be said that

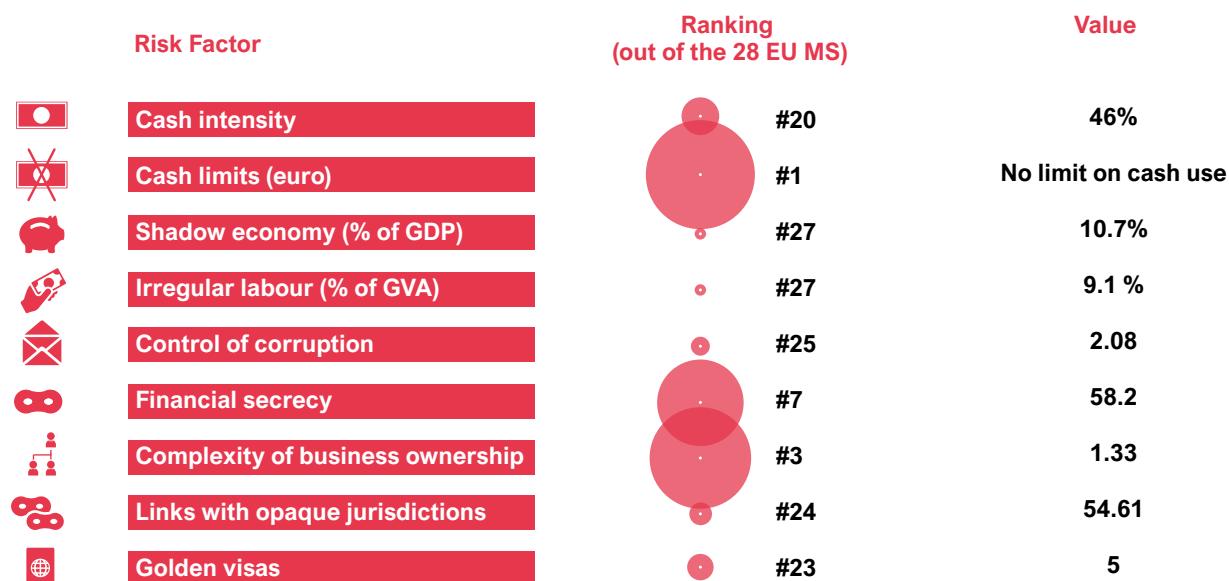
most of the evidence points to multinationals or PEPs rather than OCGs.

Further research is needed to assess more precisely the extent to which Luxembourg's financial sector — and other industries — are exploited by OCGs. Therefore, the following paragraphs focus only on the main risk factors for SOC infiltration.

### Risk factors of SOC infiltration in Luxembourg

**Table 54 – MORE risk factors of SOC infiltration in Luxembourg**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



According to the MORE project's analysis, Luxembourg scores high on some risk factors, primarily its level of **business opacity**, and there are some concerns about its **use and management of cash** (Table 54).

#### *Cash intensity and Cash limits*

The level of **cash intensity** is among the lowest in the EU — with a cash ratio of 46%. Luxembourg, however, is one of the EU countries where there is **no maximum limit** on cash purchases. As discussed (see section 4.1), a lack of ceilings may facilitate money laundering by OCGs through the purchase of high-value goods and deposits of significant cash sums in banks. Despite its low cash use, Luxembourg is, according to a recent Europol report (citing ECB statistics), **the European country issuing the highest value of banknotes** as compared to its GDP — 194% in 2013, as opposed to, for example, 16% in Germany and 9% in Italy (Europol, 2015c, p. 14). The report noted that most of these banknotes were high-denomination (500 euro overall), whose risks in terms of cash-smuggling and money laundering are well known (see Riccardi & Levi, 2018; Soudijn & Reuter, 2016, for a review).

#### *Shadow economy and control of corruption*

According to the statistical indicators considered by the MORE project, Luxembourg has no concerns either in terms of its **shadow economy** or **undeclared labour** and **estimated corruption**, ranking at the lowest levels in the EU MSs.

#### *Financial secrecy, business ownership opacity and complexity*

The set of risk factors for which Luxembourg emerges as most vulnerable are those related to **business opacity**. Luxembourg ranks 7<sup>th</sup> out of the 28 EU MSs in terms of **financial secrecy**, according to the Secrecy Score calculated by the Tax Justice Network. Luxembourg has the highest values in the sub-dimension measuring a lack of requirements for companies to submit information on beneficial ownership (Tax Justice Network, 2018).

Luxembourg also has the third highest **complexity of business ownership**, with an average BO distance of 1.33 (Transcrime elaboration of BvD data). As seen in section 4.2., Luxembourg is the EU MS with the highest **presence**

**of foreign firm owners:** **47.6%** (table below). This large presence of multinationals may also explain its high values for the BO distance of companies registered in the country. While ownership links with secrecy jurisdictions are not the highest (as most ownership connections are in other EU MSs), the percentage of shareholders coming from jurisdictions included in the EU 'black-list' and 'grey list' of non-cooperative tax jurisdictions is very high: 12.7% of foreign shareholders and **6.04% of all shareholders**, the **second highest after Cyprus**. The top nationality is represented by the British Virgin Islands (3.7% — see table below).

#### *'Golden visas'*

In terms of risks related to '**Golden visas**', Luxembourg does not provide specific immigrant investor programmes. Based on the overall score assigned by Transcrime on Džankić (2018), it ranks 23rd out of the EU MSs.

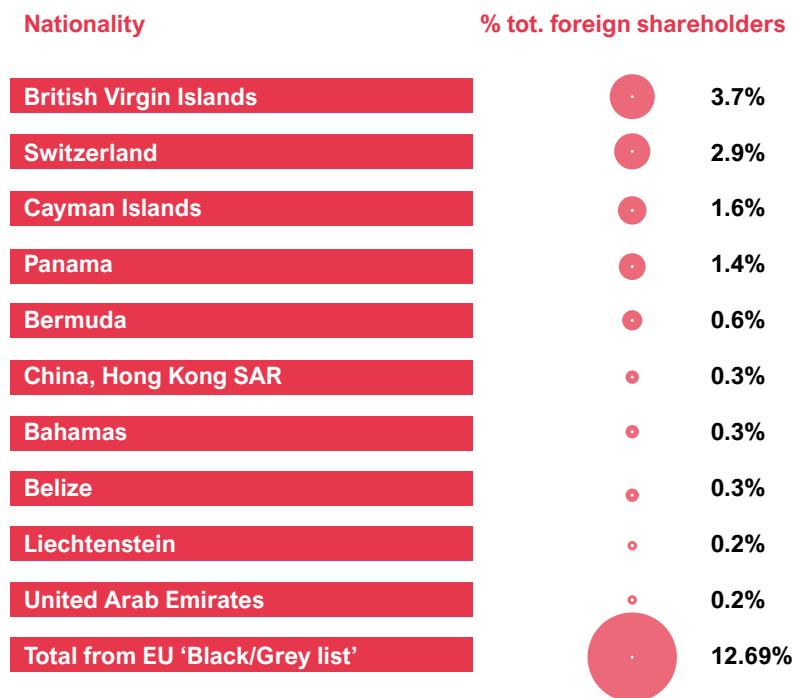
**Table 55 – Nationality of shareholders of companies in Luxembourg**

Source: Transcrime elaboration of BvD and EU Commission data



**Table 56 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

As mentioned above, there is **scant information on OC and SOC infiltration** into legitimate businesses in Luxembourg, and further research in this respect is needed. There are, however, concerns about the vulnerabilities of the local financial sector; as noted by the *International Narcotics Control Strategy Report*, ‘the size and sophistication of its financial sector create opportunities for money laundering, tax evasion, and other financial crimes’ (US Department of State, 2016c, p. 168).

The most significant risk factors are those related to:

- Luxembourg’s **absence of cash limits** and the many (high-denomination) banknotes issued, despite the low cash intensity of the local economy
- The **relatively high levels of financial secrecy**, according to the Tax Justice Network’s Secrecy Score, particularly regarding BO disclosure
- The high complexity, on average, of companies established in the country, with the **third highest BO distance** in the EU
- The high proportion of ownership links with **‘Blacklisted’ and ‘Grey listed’ non-cooperative tax countries**, about 6% of all local firms’ shareholders — the second highest after Cyprus

## 6.20. MALTA

### Introduction

Despite the high volume of media news in recent months, especially after the murder of journalist Daphne Caruana Galizia, **information about OCG presence and infiltration in Malta is scant and fragmented** in terms of both research and publicly available institutional reports.

The evidence the MORE project collected from EU LEA and FIU reports, along with the grey literature, shows that Malta, due to its **geographic position in the middle of the Mediterranean Sea**, could be misused by some OCGs as a **strategic hub** for a range of illicit trafficking.

#### *Drug trafficking*

The *Balkan* and *Proelio* investigations by law enforcement led to the seizure of drugs about to be transferred from Southern Italy to Malta, and revealed the connection between Italian mafias and Albanian-speaking and Balkan-speaking groups in trafficking in illicit drugs (DIA, 2016a);

#### *Illicit firearms trafficking*

A joint investigation by Europol and the Italian Carabinieri in June 2016 revealed that Malta was used as a hub for collecting and then dispatching reactivated weapons. There is a suspicion that the firearms may have been used by criminal groups and terrorist organisations in the region (Europol, 2016a);

#### *Oil-smuggling*

Several law enforcement and media investigations revealed that Malta could be used as a transit point for the illicit trafficking of oil products stolen or smuggled from North African refineries. The KAPPA case (see Annex 1) revealed an international criminal network — composed by members

of Libyan militias, Maltese and Italian entrepreneurs, the latter with links to Cosa Nostra — who smuggled oil stolen from Libyan refineries to Europe using legal companies (Anesi & Bagnoli, 2017; Procura della Repubblica di Catania, 2017; US Department of Treasury, 2018a).

Another operation by the Italian authorities revealed another transnational fuel smuggling scheme: fuel for trucks was illicitly imported from refineries in Germany, Poland and Austria and then transported by Romanian and Bulgarian truck companies with fake invoices to Greece, UK, Malta and Cyprus (DIA, 2016a, p. 284).

#### *Illicit trafficking of tobacco products (ITTP)*

Malta has a medium-high level of ITTP. In 2013, illicit cigarettes accounted for 14.4% of the cigarette market (KPMG, 2014; Transcrime, 2015a). The country is both a **destination and transit point for an illicit stream of cigarettes**. Illegal tobacco products intended for the Maltese market originate mainly from Libya, Bulgaria, Russia, Ukraine and Belarus, while cigarettes from Turkey and China are sent through Malta and destined for Panama and Libya (KPMG, 2014). The Maltese port authorities seize some of the largest amounts of illicit cigarettes in Europe (Transcrime, 2015a).

#### *Human trafficking and smuggling*

Due to its geographic position, Malta has become a key hub for human smuggling in recent years and a **desired destination for many migrants** leaving the North Africa coast. Some research has been done on this subject (see e.g. Zahra, 2013), and various media investigations showed that the same routes used by OCGs to smuggle

firearms, drugs or oil products could also be used to transport migrants.

Because of Malta's strategic position for these illicit trades, the presence and activity of both local and foreign OCGs could not be discounted. In particular, despite not being an historical foreign location for **Italian mafias** (as are Germany or Canada), according to investigative evidence, in recent years Malta has become:

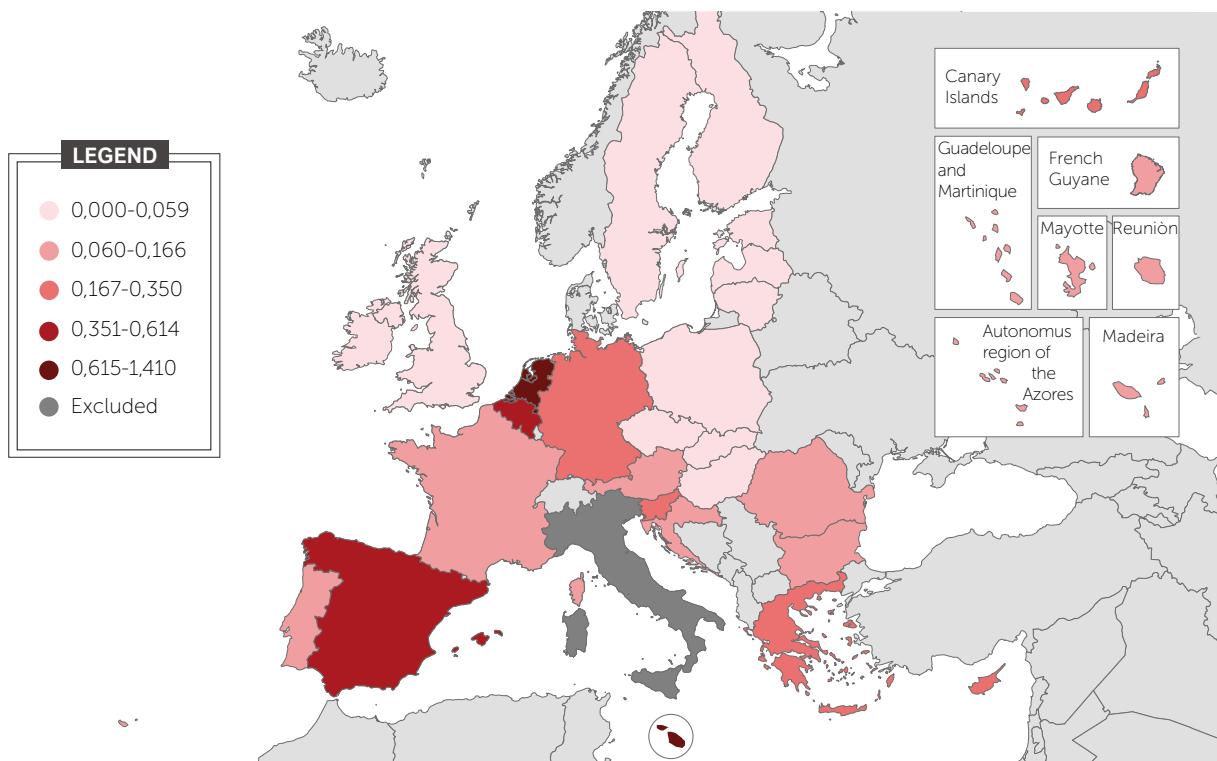
- A destination for **Italian mafia criminals on the run (latitanti)**;
- A location for establishing shell businesses that are used to **launder money** or conduct illicit activities

When counting the number of references to foreign countries in Italian DIA/DNA reports, Malta ranks **20<sup>th</sup> out of the EU MSs**. But when weighted on the population, it is the **top foreign country** (outside of Italy) in terms of number of references to Italian mafias.

The reasons for Malta's vulnerability to Italian mafias could be threefold:

- a) **geographic proximity** (the distance between Rome and La Valletta is about 650 km; it is about 95 km between Pozzallo in Sicily and La Valletta, or 1.45 hours of ferry boat travel)
- b) the **cultural and language links** between the two countries
- c) the **business opportunities** for Italian entrepreneurs (and other Europeans) offered by the Maltese economic system, especially in some sectors (e.g., gaming; see below)

The **increased cooperation between Maltese and Italian authorities** have started producing results in terms of investigations, seizures and arrests, as documented below.



## SOC infiltration in the legal economy: cases and evidence

The evidence of SOC infiltration in Maltese businesses should be taken seriously because the companies established on the island could be used to conceal various types of illicit trade or to launder money.

For example, in the **KAPPA case** mentioned above, the OCG, made of North African and Maltese individuals, used a number of **companies registered in Malta (in the fishing, transportation and wholesale trade sectors)** to 'launder' oil stolen from Libyan refineries. According to the investigative evidence, the oil was sold as a product from Saudi Arabia (using forged certificates of origin) and then mixed with Italian fuel and sold in the rest of Europe (Anesi & Bagnoli, 2017; Procura della Repubblica di Catania, 2017; US Department of Treasury, 2018a).

The evidence collected also shows that an economic sector specially targeted for OC infiltration in Malta is the **gambling and betting industry**. The sector plays a crucial role in Malta's economy, amounting to 12% of the country's GDP ('MGA Malta Gaming Authority', 2016). Malta has attracted businesses in this industry from all over the world (see box below).

The relocation (or incorporation) in Malta of foreign-owned gaming companies may also have facilitated **infiltration by organised crime**, as documented by many investigations and case-studies, especially related to Italian mafias, for example:

- Operation Gambling, by the Italian DIA, Carabinieri, Police and Guardia di Finanza, which revealed a global network of gaming businesses, some of them established in Malta, used by the Italian 'Ndrangheta to run illegal gambling activities (DIA, 2017a, p. 198);

- Operation **Jonny**, conducted by Italian authorities, which again revealed infiltration of a Maltese gaming company by 'Ndrangheta OC groups (DIA, 2017a, p. 202);
- Operation **Jamm Jamm**, which revealed the use of Maltese companies by Italian Camorra and 'Ndrangheta to establish an illegal online gaming platform (DIA, 2016a, p. 135);
- Operation **Jackpot**, which discovered an illicit online gaming platform with unauthorised servers established in Romania and Malta (DIA, 2016a, p. 141);
- Operation **Imitation Game**, which targeted an international OCG that used servers controlled by foreign companies (also in Malta) to provide online gaming services that were not declared to the state monopoly (DIA, 2016a, p. 146);
- Operation **Master Bet**, which revealed that an Italian OCG collected illegal bets in Italy on behalf of Maltese companies that did not have the proper licenses to operate (DIA, 2016a, p. 235).

### Box: The gambling and gaming industry in Malta

In recent years, Malta has been able to attract numerous gambling companies from all over the world. As a result, the industry is now one of the leading sectors on the island. If, on average, the roughly 42,000 gambling and betting companies (NACE Sector R.92) registered in Europe account for 0.07% of all European companies, the sector represents 0.6% of all Maltese firms, about 10 times the EU average (Transcrime elaboration of BvD data).

The Remote Gaming (or iGaming) sector has experienced exceptional growth. The number of gaming licences utilising B2B services licensed by the Malta

Gaming Authority (MGA) reached 490 as of June 2016, one of the highest numbers of licensed businesses in any of the European countries.

The increase benefited from several incentives provided by the Maltese government, which included ('MGA Malta Gaming Authority', 2016):

"Wide-ranging incentives available to employees of remote gaming businesses, including reduced rates of income tax on personal income"

"Exemptions on income derived from patents, refunds on divi-

dends and double taxation relief"  
"All the advantages linked to the free movement of goods and services within the EU"

Any non-resident who opts to relocate to Malta:

"benefits from some very attractive tax planning opportunities. These include the High Net Worth Individuals Scheme and the Global Residence Programme"

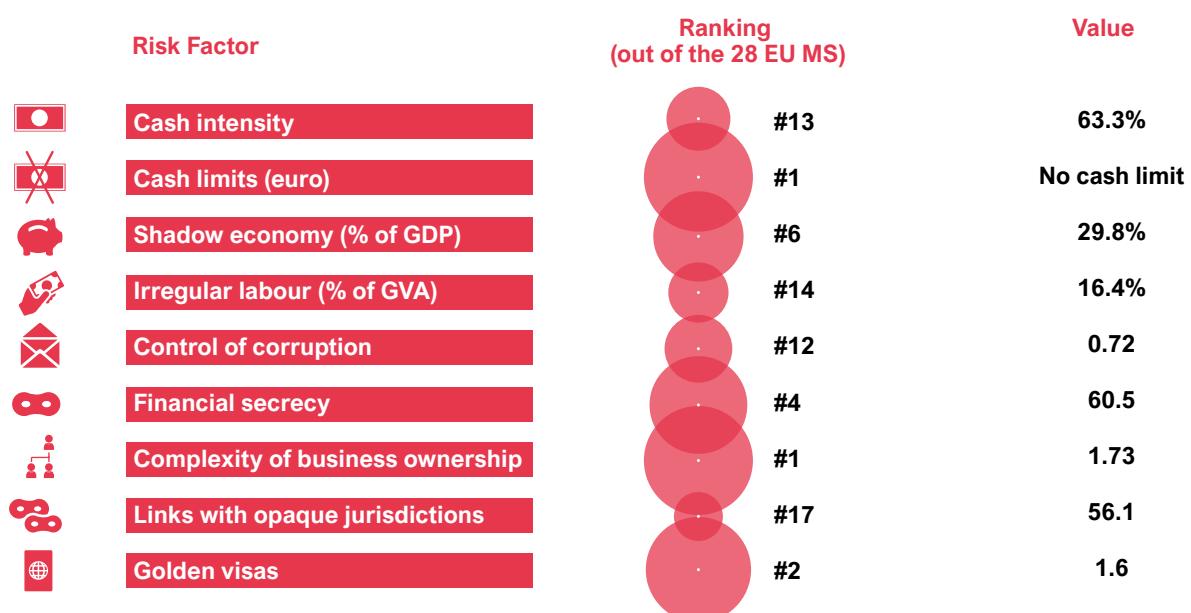
"A Company Re-domiciliation Act that further serves to enhance Malta's appeal"

"A very favourable Participation Holding Exemption regime".

## Risk factors of SOC infiltration in Malta

**Table 57 – MORE risk factors of SOC infiltration in Malta**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Malta scores high on some of the risk factors of SOC infiltration analysed by the MORE project (see Table 57).

#### *Cash intensity and Cash limits*

Malta is about average for an EU MS in terms of the cash intensity of its economy, with a **cash ratio of 63.3%**. Malta is one of the EU MS that do not have limits on cash purchases. As mentioned, the lack of a ceiling may facilitate the integration of illicit cash funds into the legal economy through the purchase of high-value goods.

#### *Shadow economy and control of corruption*

Malta has a large shadow economy, according to Medina and Schneider (2018) estimates, totalling **29.8% of its GDP** (the sixth largest in the EU), while undeclared labour represents 16.4% of the GVA. In terms of its level of corruption, Malta ranks 12<sup>th</sup> in the EU according to the World Bank *Control of corruption* indicator.

#### *Financial secrecy, business ownership opacity and complexity*

Malta scored a high (fourth among EU MSs) **Financial Secrecy Score** with the Tax Justice Network (2018). The sub-dimensions for which Malta is rated as more vulnerable are ‘Trust and foundations registers’, ‘Other wealth ownership’, and ‘Corporate tax disclosure’ (for more details, see <https://www.financialsecrecyindex.com/PDF/Malta.pdf>).

Maltese firms are about average for the EU in terms of ownership links with secrecy jurisdictions (17<sup>th</sup> out of the EU MSs), although they have **one of the highest percentages of shareholders from ‘Blacklisted’ and ‘Grey listed’ jurisdictions** (i.e., those on the EU list of non-cooperative tax countries, see section 4.2): 16% of foreign shareholders and about 1.7% of all shareholders (about 10.3% of Maltese firms’ shareholders are foreign). The most frequent nationality among these jurisdictions is that of Switzerland.

Maltese firms are, on average, those with the most complex ownership structure in the EU, if measured in terms of **average distance to beneficial owner(s)**: Malta’s score is 1.73, the highest in the EU. As mentioned, this metric is not itself a measure of SOC infiltration, because it could also mirror the presence of multinational companies with many subsidiaries and parent companies. It is, however, an indication of how complex the ownership chains of local firms are on average, and therefore how difficult financial investigations could be.

#### *‘Golden visas’*

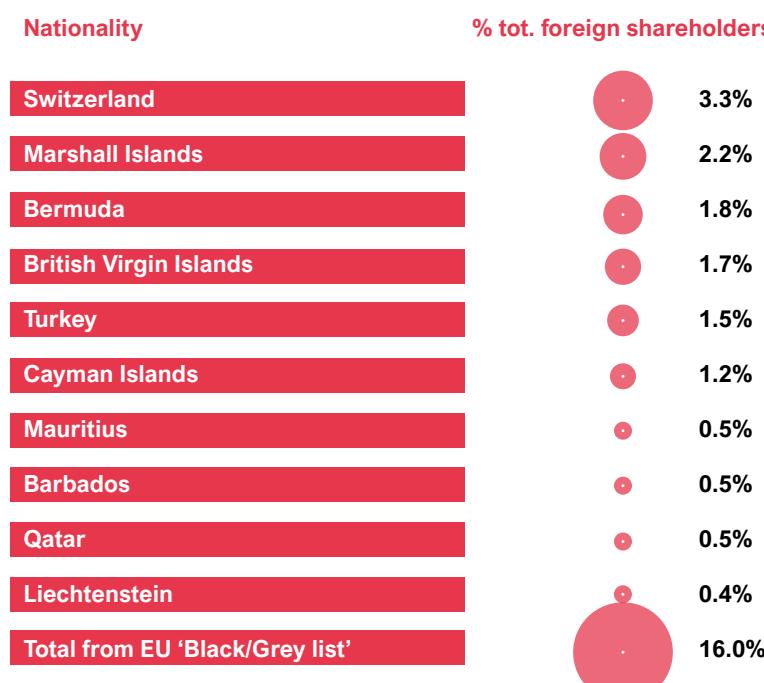
Malta has one of the most favourable **investment-based residency/citizenship schemes** among the EU MSs. According to the score elaborated by Transcrime on Džankić (2018), it is the second EU country (tied with Cyprus, and after Bulgaria) in terms of ease of attaining citizenship.

The **Maltese Citizenship Act** (Government of Malta, 2014) requires a total investment contribution of at least 1.15 million euro, which could be split as follows: 650,000 euro as a direct contribution, real estate worth 350,000 euro or rental of a property for at least 16,000 euro per year, plus an additional investment of 150,000 euro. However, the naturalisation process requires a clean criminal record, an oath of allegiance and 1 year of effective residence, but a minimum physical presence is not regulated by the Citizenship Act.

**Table 58 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

Its strategic position in the middle of the Mediterranean makes Malta a potential hub for OCGs involved in a variety of illicit trafficking routes: **drugs, firearms, oil-smuggling and human smuggling**. This feature, combined with Malta's attractiveness in terms of favourable tax systems and business opportunities, may incentivise OCGs to establish companies in the country.

The evidence collected by the MORE project — mostly taken from selected EU LEA reports (mainly Italian agencies) and media investigations — seems to confirm this risk, with firms used **to conceal stolen or smuggled goods** (as in the KAPPA case; see Annex 1) or for laundering money, e.g., as done in the **gaming industry** by Italian mafias. Cooperation between Maltese and other EU authorities have led to a number of police investigations resulting in arrests and asset seizures.

The following risk factors may also make Malta vulnerable to SOC infiltration:

- Lack of **limits on cash purchases**
- Higher **financial secrecy** than the EU average, according to one of the most acknowledged sources in this field (Tax Justice Network, 2018)
- **High complexity** of Maltese businesses' ownership structure (the most complex in Europe)
- Relatively high volume of **links with opaque jurisdictions**, with one of the highest percentages of shareholders listed in the EU 'Blacklist' and 'Grey list' of non-cooperative tax countries
- **Favourable Golden Visas schemes** that may facilitate the injection of illicit money from Third Country Nationals (especially Russian OCGs)
- Favourable support schemes, including **tax incentives**, for companies willing to relocate to Malta, especially in the gaming industry

## 6.21. THE NETHERLANDS

### Introduction

#### Research on OC and on OC infiltration in the Netherlands is abundant.

Apart from some case studies, the MORE project does not add anything new to this branch, but only reports the main findings of previous studies, and provides a comment to the most important risk factors of SOC infiltration. Among the many studies, some which have looked specifically at the OC capacity to infiltrate the Dutch economy are van Duyne and Soudijn (2009), Kruisbergen, Kleemans, and van de Bunt (2012), Kruisbergen, Kleemans and Kouwenberg (2015), Ferwerda and Unger (2015, 2016), Soudijn and Reuter (2016), Ferwerda and Kleemans (2018), Soudijn (2018).

Historically, the Netherlands are considered as a **crucial transit country**, both for legitimate trade (with a merchant economy dating back to the 16<sup>th</sup> century) but also for several **illicit trades** (Kleemans, 2007). This is mostly due to the presence of two major transport hubs in Europe: the **Rotterdam port** and the **Schiphol airport**, both key entry points for illicit goods – especially cocaine. However, the Netherlands is also a **destination and production country**, especially for synthetic drugs (Ferwerda & Unger, 2015; Kruisbergen et al., 2012).

According to the statistics of the Dutch Public Prosecution Office (Ferwerda & Unger, 2015), the major **OCGs** operating on the territory are **domestic** (Dutch), immediately followed by **Turkish** and **South Americans** OCGs (in particular Colombian). **Italian mafias** (mostly 'Ndrangheta), **Chinese criminals** and **Outlaw motorcycle gangs** are also present, but to a lesser extent. The **main illicit activities** in which they are involved, with an international dimension, are (Ferwerda & Unger, 2016):

- drug trafficking
- smuggling of illegal immigrants
- human trafficking for sexual exploitation
- firearms trafficking
- trafficking in stolen vehicles
- money laundering
- tax fraud
- cigarette smuggling.

- **Brothels;**

- **Financial intermediation** services, such as money transfer businesses.

Building on this study, and on other collected evidence, Ferwerda and Unger (2015, 2016), as part of the OCP project, noted that OCGs in the Netherlands tend to invest in sectors with which they are familiar and that can be suitable for illicit purposes as well, such as:

- **Sectors attractive for transit crime:**

- Transportation and renting of motor vehicles
- Wholesale and retail trade

- **Cash-intensive sectors:**

- Bars and restaurants
- Hotels and other tourist accommodations

**Case ETA:**  
**Wholesale and transportation firms concealing traffic in drugs, firearms and stolen goods**

An OCG linked to the Italian 'Ndrangheta set up wholesale flower companies in the Netherlands and Italy. In the Netherlands, they were active in the Aalsmeer market, one of the most important flowers centres in the world. The firms were also used to launder money and to traffic drugs and firearms to/from Italy (hidden in company lorries) and also to 'launder' several tons of Swiss chocolate stolen from a warehouse near Milan (see Annex A1 for details). Without such companies, most of these criminal activities could not have been carried out.

The study also identified the more frequent **infiltrated business sectors**:

- **Wholesale and retail trade, repair**, that provide a good coverage for different types of crimes, such as drug trafficking, human smuggling/trafficking and illegal arms trade (see Section 3.4 Case ETA);
- **Transportation companies**;
- **Hotels, bars and restaurants**;

A recent study by Ferwerda and Kleemans (2018), as part of the IARM project, developed an indicator to assess the risk of money laundering across Dutch business sectors. With respect to previous studies, this exercise also took into account **risk factors of infiltration** such as the links with opaque jurisdictions (see below). According to their study, the top sectors in terms of estimated ML risk are:

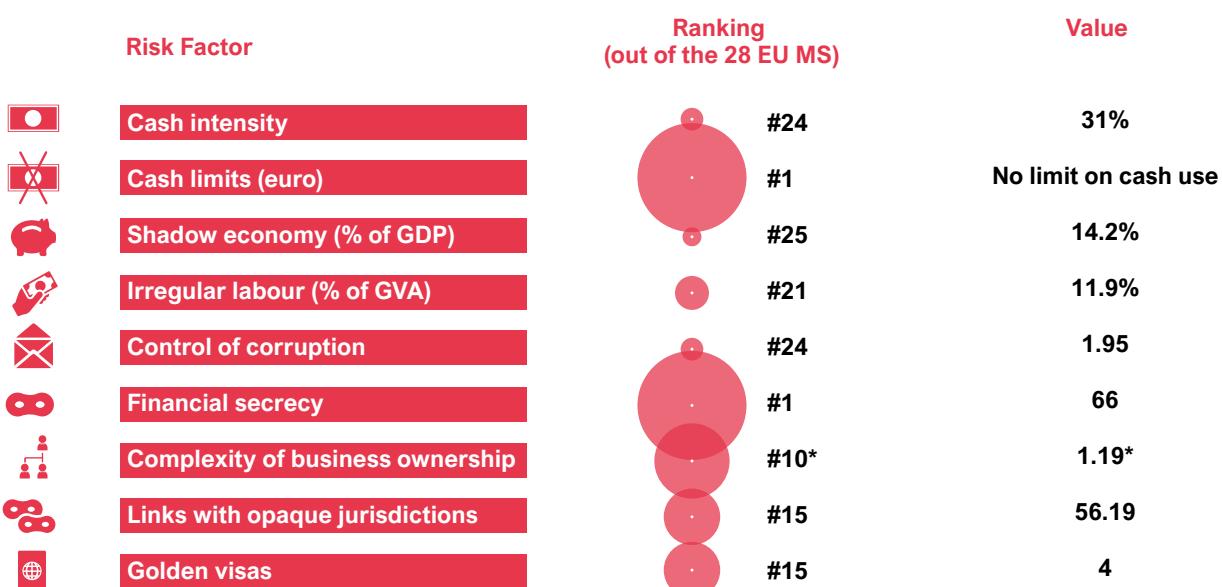
- **Gambling and betting activities;**
- Accommodation;
- Creative, arts and entertainment activities;
- Security and investigation activities (in which also evidence of infiltration by OMCGs can be found);
- Repair of computers and personal and household goods;
- Travel agencies, tour operator reservation service and related activities.

However, also technological developments must be considered. Soudijn (2018), through an analysis of the last 20 years' waves of OC situational reports in the Netherlands, stress that, together with traditional ML techniques (such as cash), also sectors characterized by high use of **virtual/crypto-currencies** may emerge as vulnerable (Soudijn, 2018).

## Risk factors of SOC infiltration in the Netherlands

**Table 59 - MORE risk factors of SOC infiltration in the Netherlands**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



According to project MORE analysis, the Netherlands scores low or on the EU average for most of the risk factors of SOC infiltration. The only two exceptions are represented by the **lack of cash limits** and, in particular, the indicators related to **financial secrecy and business opacity** (see Table 62).

### Cash intensity and cash limits

The **use of cash** in the Netherlands is not high, corresponding to the 31% of

all daily payments. However, according to other source of information and despite the low cash intensity and the increase in the use of debit and pre-paid cards (Soudijn, 2018), the **use of cash is still preferred** to other instruments of payment in the Netherlands (van der Cruijzen, Hernandez, & Jonker, 2015). Evidence of massive **cash-smuggling** from the Netherlands to other countries, mainly Colombia, can also be found (Soudijn & Reuter, 2016). The **absence of maximum limits for cash purchases** can therefore represent a potential vulnerability to be exploited by OCGs.

**Shadow economy and control of corruption**

The percentages of **shadow economy** and **irregular labour** estimated for the Netherlands on the basis of Medina and Schneider (2018) and Williams and colleagues (2017) do not represent a matter of concern for SOC infiltration. The former corresponds to

the 14.2% of GDP, whereas the latter to the 11.9% of GVA, well below the EU average. Looking at **international indicators of corruption**, such as World Bank's *Control of corruption*, the Netherlands historically did not presented high risks of corruption (24<sup>th</sup> among EU MS).

#### *Financial secrecy, business ownership opacity and complexity*

On the other side, the Netherlands, due to their favourable tax regimes and the attractiveness of its financial sector, have raised among scholars more than one concerns in terms of **business and financial opacity**. The Secrecy Score of the Tax Justice Network (2018) displays for the Netherlands the **highest value for financial secrecy** (66) among EU MS. The Tax Justice Network (2018) commented this result indicating the country as a useful conduit for "special financial institutions" (SFI's), because of its combination of favourable fiscal arrangements and business opacity.

Lack of business registers data do not allow to measure the **complexity of the business ownership in the Netherlands** (the EU average value is attributed), but this lacking statistics can be read itself as a difficulty to fully trace the ownership structure of Dutch firms.

The nature of the owners of Dutch firms is, mirroring the merchant nature of the country, international. According to Transcrime elaboration of BvD data, despite the majority of shareholders of Dutch firms are domestic, the fraction of foreign shareholders is **much above the EU average: 7.8%**, with US nationals (1.6%) on top. Among them, shareholders from '**greylisted**' and '**blacklisted**' jurisdictions included in the EU list of non-cooperative tax countries, constitute around the **11.6% of total foreign shareholders**, with the top nationalities represented by Curacao (4.0%) – former Dutch colony, and still constituent country of the Kingdom of the Netherlands - Switzerland (3.7%) and Turkey (1.0%) (Table 63).

#### *'Golden visas'*

The Netherlands offers the possibility to obtain **investment-based citizenship** ('Golden Visas' schemes), but the requirements are quite strict, placing the country in line with other EU MS in the risk assessment of Project MORE. In order to obtain a **temporary residence**, the TCN needs to invest at least 1.25 million euro in a company located in the Netherlands (Džankić, 2018).

### Concluding remarks

Evidence of **SOC infiltration** in the Dutch economy, and in Dutch legitimate businesses, is wide, but also because the research in this field has been abundant (if compared to other EU countries).

The main risk factors of concern in terms of SOC infiltration are related to the **financial and business opacity**. The Netherlands score the highest Secrecy Score (Tax Justice Network, 2018) among EU MS (except when adding Overseas Territories and Crown Dependencies to UK, see UK country profile). Since the 1950s, the country developed a strong financial infrastructure that attracts multinational corporations and rich individuals, but that can also cause a higher risk of criminal presence. The Netherlands is home to 12,000 SFI's normally used by foreign multinational companies to maximize profit margins (Tax Justice Network, 2018), but which, due to their opacity, could also be **exploited by OCGs**. Moreover, the transit nature of the country – and the presence of the Rotterdam port and Schiphol airport – could increase the risk that **transportation and wholesale trade** companies are established by criminal groups to conceal illicit trafficking and facilitate the import/export of illicit goods.

**Table 60 - Shareholders from EU 'Blacklist' and 'Grey list' countries.**

#### Top 10 nationalities

Source: Transcrime elaboration of BvD and EU Commission data



## 6.22. POLAND

### Introduction

Poland has an **important geographic location**, as it shares borders with former republics of the Soviet Union on the east, while Germany is its neighbour on the west. This gives it a key role in **drug trafficking between Western and Eastern Europe**, but in 2018 INCSR reported that most synthetic drugs were smuggled from Poland to Ukraine (US Department of State, 2018b, p. 279). An earlier report emphasised the strong **Chinese and Vietnamese OCG** presence in Wólkowice, Rzgów and Jaworzno, where it is suspected that organised criminals undervalue imported goods using false invoices to avoid paying customs and value added tax. An extensive trade in counterfeit goods and illicit drugs is also alleged to occur in these places. **Fuel and cigarette smuggling** along the border of the Russian enclave Kaliningrad creates a significant amount of illicit revenue to be laundered (Calderoni, Aziani, & Favarin, 2014, p. 75). In many cases, companies in the recycling industry are used for such purposes, but the role of electronic payments and cryptocurrencies has been growing in recent years (US Department of State, 2018b, p. 368).

### SOC infiltration of legitimate businesses

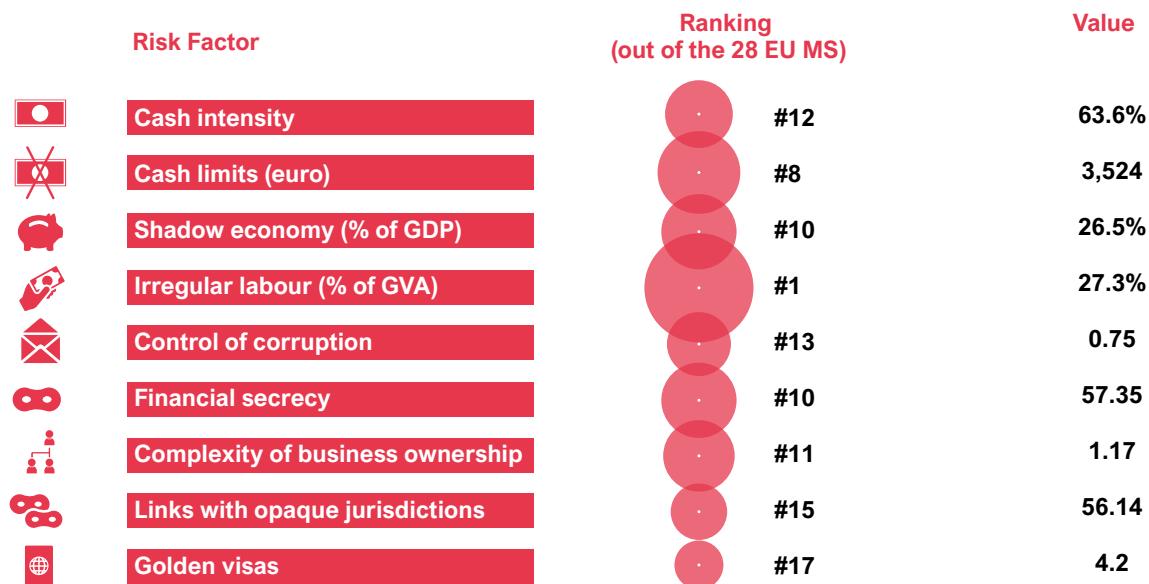
Polish authorities reported various crime infiltration schemes in the legal economy. In 2017, the police discovered a network of firms that was registered in the **name of various figureheads** who were just signing different documents to enable criminal activities. These companies were used to **get revolving loans from banks based on false financial reports**. When the loans were granted, the criminals directed these funds to private accounts and eventually withdrew the money. The authorities arrested 23 suspects who managed to obtain close to 1.8 million euro (Centralne Biuro Śledcze Policji, 2017). In 2016, a smaller fraud scheme used **forged income statements to get loans from banks**. These documents were confirmed by companies that had been set up by the perpetrators. The arrested suspects included former bank employees (Centralne Biuro Śledcze Policji, 2016b).

The ease of registering companies in various member states makes it easier for criminals to commit VAT fraud. The biggest such international network was caught during **Operation Vertigo**, where more than 10 million euro was unlawfully reimbursed in Poland alone (Eurojust, 2016; Europol, 2015a). Another large scheme caused a loss of more than €1 million to the Polish state. In this latter case, criminals with more conventional police records **registered firms and started to trade in photovoltaic panels**. On paper, these products were to be imported from the Czech Republic and Slovakia. To create evidence of trade activity and obtain VAT refunds, **fake invoices and bank transfer certificates were created and filed with the authorities** (Centralne Biuro Śledcze Policji, 2018). Another international case involving a fictional arbitration court that tried to extract money from many Polish companies is discussed in the Latvia country profile (see Section 6.17 of this Chapter).

## Risk factors of SOC infiltration in Poland

**Table 61 – MORE risk factors of SOC infiltration in Poland**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



### Cash intensity and cash limits

As in many former socialist countries, cash usage is quite high in Poland (which has a cash ratio of 63.6%), but it is the second lowest among the Visegrád and Baltic countries after Estonia. In 2017, the government reduced the **cash payment limit to PLN 15,000** (3,524 euro at the mean 2017 exchange rate), which must be observed between businesses.

### Shadow economy and control of corruption

Poland has a **significant shadow economy**. Among the Visegrád countries, Hungary has a comparable figure, while both the Czech Republic and Slovakia have a smaller underground economy. This is obviously not independent from the fact that, according to the estimates of Williams et al. (2017) out of all the member states, the problem of **unreported employ-**

**ment is most severe in Poland.** Corruption is still an issue in Poland, but the launch of the Central Anti-Corruption Bureau in 2006 has helped to address this issue in recent years (Central Anti-Corruption Bureau, 2018).

### Financial secrecy, business ownership opacity and complexity

Poland has one of the **lowest rates of foreign ownership** in its firms: German shareholders are the majority of these with only 0.6% of total holdings in Polish firms. Similarly, its share of grey- or black-listed countries (in the EU list of non-cooperative tax jurisdictions) is very low. Owners from Switzerland are the most prevalent. Regarding **business ownership complexity**, the country ranks 15<sup>th</sup>, but the other Visegrád countries (the Czech Republic, Hungary and Slovakia) typically have, on average, a smaller distance from the beneficial owners (Transcrime elaboration of BvD data – see Section 4.2).

### 'Golden visas'

The **Poland Aliens Act** does not specify a fixed amount that should be invested to obtain citizenship, but it enables the state to grant a residence permit to those who perform economic activities important to the Polish state (ISAP Internetowy System Aktów Prawnych, n.d.). Therefore a nationally significant amount might be assumed, which places Poland among the less risky countries in the EU from this point of view (Džankić, 2018).

**Table 62 – Shareholders from EU ‘Blacklist’ and ‘Greylist’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

Besides smuggling by Russian and Chinese individuals to avoid taxes and customs, there were several VAT fraud schemes in Poland, where criminals established large networks of companies to produce the false documents necessary for such activities. The biggest organisation that was caught during Operation *Vertigo* caused a loss of 10 million euro for the Polish state. Other fraudsters obtained various loans from banks in the name of companies and individuals, and later tried to disappear with the withdrawn money.

## 6.23. PORTUGAL

### Introduction

Research on SOC infiltration in Portugal is very scant. The available public reports by law enforcement are not fully updated, and do not allow us to fully appreciate the extent of the presence of organised crime in the Portuguese economy.

Portugal has low rates of violent crimes, and there have only been a few investigations into OC in the past few years. Due to its geographic position, however, Portugal is a transit country for drug **trafficking** activities between Latin America and West Africa and Europe (FATF, 2017c; KnowYourCountry, 2018c), and the OCGs involved in this activity may accumulate various illicit proceeds, whose destination, however, is not fully clear. According to the first national money laundering risk assessment (NRA) issued in June 2015, the main ML predicate offences in Por-

tugal are **tax crimes, fraud and corruption** (KnowYourCountry, 2018c; Minister for State and Finance, 2015).

According to Europol's 2013 SOCTA, there are more than **60 nationalities of criminals** operating in Portugal, which are active in more than 35 countries (Europol, 2013). In terms of its vulnerability to SOC infiltration of legitimate businesses, the NRA found that some investments were made through large **networks of companies**, most of them connected to **offshore countries** (Minister for State and Finance, 2015, p. 28), and the main ML/TF risks are associated with the **banking sector** and the **acquisition of high-value goods**, including **real estate** investments and **online gaming** (KnowYourCountry, 2018c; Minister for State and Finance, 2015).

One of the cases examined by the MORE project (the LAMBDA case) revealed the infiltration of a **Russian-speaking OCG** into Portuguese businesses (Europol, 2016b). Specifically, the criminals infiltrated a **Portuguese third division football club** in order to launder money from illicit activities. In order to carry out the acquisition, the Russian-speaking criminal group used figureheads and a complex ownership structure that concealed the beneficial owners and the source of funding (Europol, 2016b). Once control of the football clubs was obtained, the OCG used the clubs to launder money and for illegal betting activities (ECFR, 2017) — see the LAMBDA case, Annex A1.

Further research should be conducted to assess precisely the magnitude of SOC infiltration in the country.

### Risk factors of SOC infiltration in Portugal

**Table 63 – MORE risk factors of SOC infiltration in Portugal**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average

Risk Factor	Ranking (out of the 28 EU MS)	Value
● Cash intensity	#23	33%
☒ Cash limits (euro)	#25	1,000 euro
₪ Shadow economy (% of GDP)	#15	23.8%
👉 Irregular labour (% of GVA)	#16	15.5%
✉ Control of corruption	#16	0.96
⌚ Financial secrecy	#14	54.7
🔗 Complexity of business ownership	#24	1.06
🌐 Links with opaque jurisdictions	#25	54.39
🌐 Golden visas	#6	3

Portugal generally scores low on the risk factors for SOC infiltration considered by the MORE project, with the exception of some cash transactions and ‘Golden visa’ schemes (Table 66).

#### *Cash intensity and Cash limits*

Portugal is a **cash-adverse economy**, with an average cash ratio of 33%, and is ranked 23<sup>rd</sup> out of the EU MSs. Its **limits on cash purchases** are set quite low, at 1,000 euro. However, despite being a cash-adverse economy with a ceiling on cash purchases, the NRA noted a risk related to the **anonymity of real estate transactions**, making it difficult to trace the ultimate beneficiary or the origin of the money (Minister for State and Finance, 2015).

#### *Shadow economy and control of corruption*

Portugal’s **shadow economy**, according to the study by Medina & Schneider (2018), has been estimated at 23.8% of the GDP — in line with the EU average. In terms of irregular labour (Williams et al., 2017), Portugal’s scores are in line with the other EU MSs with the 16<sup>th</sup> highest EU value. Portugal also ranks 16<sup>th</sup> for **estimated corruption** out of the 28 EU MSs on the World Bank – Control of corruption rating (World Bank, 2016).

#### *Financial secrecy, business ownership opacity and complexity*

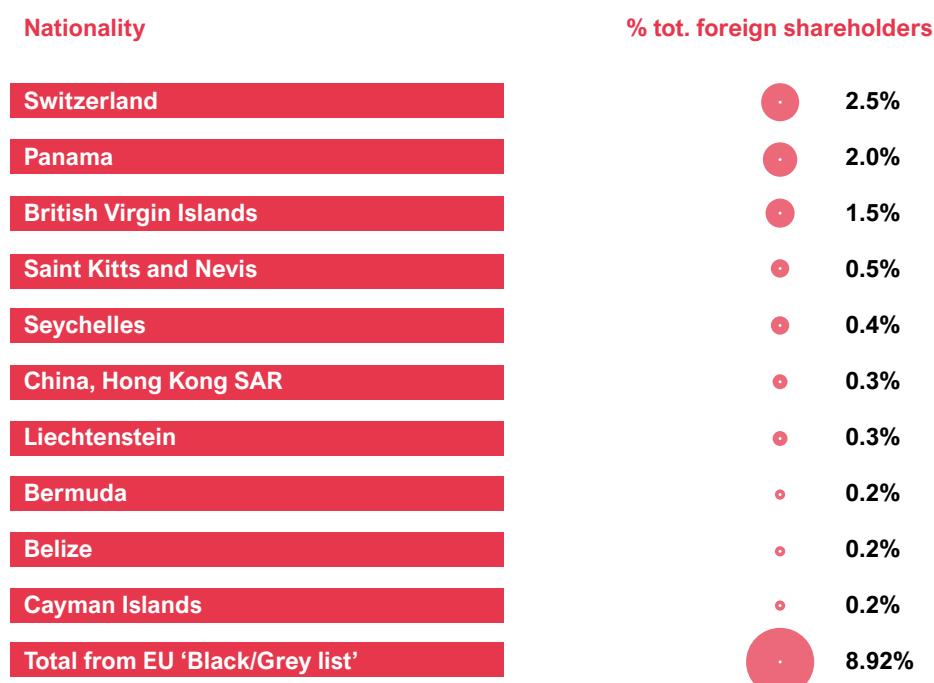
Portugal also has low scores on indicators of **business opacity**. It is in the EU median for **financial secrecy** as measured by the Tax Justice Network’s

Secrecy score. It has one of the lowest values in the EU in the sub-dimension measuring a lack of requirements for companies to submit information on “Other Wealth Ownership” (Tax Justice Network, 2018). Portuguese firms also have relatively few business **ownership links with secrecy** jurisdictions, and in terms of **complexity of business** ownership chains, it has an average BO distance of 1.06.

Domestic shareholders own 94.5% of Portuguese companies, while foreign owners mostly come from the neighbouring countries. Almost 9% of foreign shareholders come from countries on the EU **‘blacklist’ and ‘grey list’** of non-cooperative tax jurisdictions — the top nationality being that of Switzerland (2.5%) but with a significant percentage of owners based in Panama (2% of foreign shareholders — see the table below).

**Table 64 – Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



### 'Golden visas'

According to Džankić (2018), Portugal has a **quite favourable investor-based residency programme**. The *Residence Permit for Investment* issued by the Portuguese Government in 2012 established that the monetary contribution can range from the creation of 10 jobs to an investment of 1 million euro, which must be maintained for 5 years in order to obtain *permanent residence*. The beneficiaries of this scheme are not obliged to reside in Portugal, since they need to stay only 7 consecutive days per year or 14 if not consecutive (Džankić, 2018).

According to the Portuguese Immigration and Borders Service (SEF), about **1,292 residence permits were issued** in 2017 based on an investment (Minister for State and Finance, 2015). The total investment made by TCNs amounts to 844,088,898 euro, most of them in **real estate** investments. Most of the beneficiaries are from China, followed by Brazil, South Africa, Turkey and Russia (Ribeiro, Estrela, Rosa, & Machado, 2018).

### Concluding remarks

According to the MORE project's analysis, Portugal does not emerge as a country particularly vulnerable to SOC infiltration. The **level of transparency of the available information on legal persons and on beneficial owners is good; also good** is its legal framework in terms of confiscation powers, achieving fine results in terms of assets seized at an early stage of ML investigations (FATF, 2017c, p. 65).

However, there are some vulnerabilities that may attract investments from OCGs, especially **foreign ones**:

- The **profitable real estate market**, which has recorded a significant price surge in recent years, and which is still characterised by frequent cash-based transactions
- The favourable **investor-based residency programme**, which may attract third country criminals willing to inject illicit money in the economy in order to obtain EU status, if not monitored with proper due diligence
- The **business ownership links with some off-shore countries** such as Panama and BVI: although low on average, they are higher than the EU standard and higher than those of neighbouring countries like Spain.

## 6.24. ROMANIA

### Introduction

Romania is a **source** as well as a **transit** location and **final destination** for various **illicit trades** such as human smuggling and trafficking, drug trafficking, firearms trafficking and trade in counterfeit items — and, more recently, an illicit trade in alcohol and pharmaceutical products (Haenlein & Eyal, 2017; Nita, 2012). Romania's **geographical position** plays a key role in this respect: the **Balkan region** is a crucial area for illegal markets (especially tobacco or heroin trafficking) and the Romanian main port Constanta is one of the key entry points (Caunic, Prelipcean, & Suciu, 2010; DIA, 2017a; Haenlein & Eyal, 2017; Savona & Riccardi, 2015).

**Organised crime** is not a new phenomenon in Romania. During the communist regime, the strict control of the economy and the limitation of primary goods led to the development of a significant **black market** aimed at satisfying the increasing demand for goods, which also produced a favourable environment for criminals and allowed them to gain consistent earnings, which they reinvested as soon as market liberalisation took place (Nita, 2012; Pasca, 2014).

Since then, the economic transition, the political instability after the fall of the regimes, the new freedom, the opening of the borders and the increased mobility of people, goods and capital have become the **main drivers of OC development in Eastern Europe countries** (Nelsen & Siegel, 2017). The high level of **corruption** — including in state enterprises, customs and border police — has also

facilitated the rise of criminal groups (Nelsen & Siegel, 2017; Nita, 2012; Pasca, 2014). In Romania, moreover, **joining the European Union in 2007** created further opportunities exploited by OCGs, especially for organised **VAT fraud**, which is a major source of illicit gains. By way of example, Romania recorded the highest VAT gap in 2015 — 37.18% or 7,659 million euro (Poniatowski, Bonch-Osmolovskiy, & Belkindas, 2017). OCGs based in Romania are well known and active in cybercrime such as **card-skimming and phishing** (Europol, 2017b; Spiridon, 2016).

The local OC scene consists mainly of former members of the **Communist regime** involved in extortion and money laundering activities, the so-called **Romanian 'white collars'** mainly involved in public procurement fraud (Pintilei, 2016), and the so-called **interlopi**, that is, OC clans involved in different illicit activities such as extortion, loansharking, racketeering, prostitution and fraud (Nelsen & Siegel, 2017).

Besides **local OC groups**, various foreign OCGs — such as **Italian mafias, Eastern Europe OCGs, Turkish-speaking OC, Asian OCGs and Arab OCGs** — are also active in Romania, especially because of the country's geostrategic position and business opportunities (Nita, 2012).

### SOC infiltration into the legal economy: cases and evidence

Some of these local and foreign OCGs were involved in the case studies of SOC infiltration collected by the MORE project. Media and police investigations revealed that the proceeds gained by local OC from illicit activities are further invested and laundered through bars, restaurants and night clubs (Ilie & Dumitru, 2015; Ministerul Public, 2010). Evidence was also found of the transfer of **illicit cash proceeds generated abroad by Romanian-speaking OCGs** (involved, for example, in drugs, property crime or cybercrime in France, Italy and Spain) **coming** back to Romania, where it is laundered into legal assets (including real estate).

The THETA case involved a **Bulgarian-speaking OCG** that used the legal premises of a Bulgarian shell company to commit fraud with European funds meant to finance a free food program for deprived people. The investigation revealed that the company controlled by the criminal gang awarded the tenders although they did not meet the stated requirements. The success of this strategy was ensured with the help of senior officials with Romania's Agency for Payments and Intervention for Agriculture (APIA) who were bribed by the criminal group (OLAF, 2017).

Romania's geostrategic position also attracted the interest of **Asian criminal groups** such as Chinese and Vietnamese OCGs, which are mainly involved in migrant smuggling and illegal trade in goods (Nelsen & Siegel, 2017). In 2015, an investigation carried out by the Directorate for Investigating Organized Crime and Terrorism revealed that a criminal group composed of **Romanian, Chinese and Turk-**

**ish-speaking** individuals established different shell companies in Romania and Bulgaria in order to **import illegal goods from China and Turkey**, to be sold again in various shopping centres (DIICOT, 2015).

Romania is not historically one of the foreign locations for **Italian mafias** but, according to investigative evidence (DIA, 2016b; DNA, 2014), in recent years it has indeed been revealed as:

- A destination for Italian mafia criminals on the run (*latitanti*)
- A preferred location for establishing shell businesses that are then used to launder money or conduct illicit activities (see the ALPHA case as an example)
- A location to move companies in order to avoid seizure

When counting the number of references to foreign countries in Italian DIA/DNA reports, Romania ranks 7<sup>th</sup> among EU MSs (excluding Italy). And when weighted against the population,

it is the 10<sup>th</sup> foreign country in terms of number of references to Italian mafias. The reasons for the significant presence/infiltration of Italian mafias could be threefold:

- d) the **geographical proximity** and the good transport connections
- e) the **cultural and language** connections between the two countries
- f) the **business opportunities** and economic exchanges between the two countries

Among the evidence we found on Italian mafia infiltration of Romanian businesses, the following cases are noteworthy:

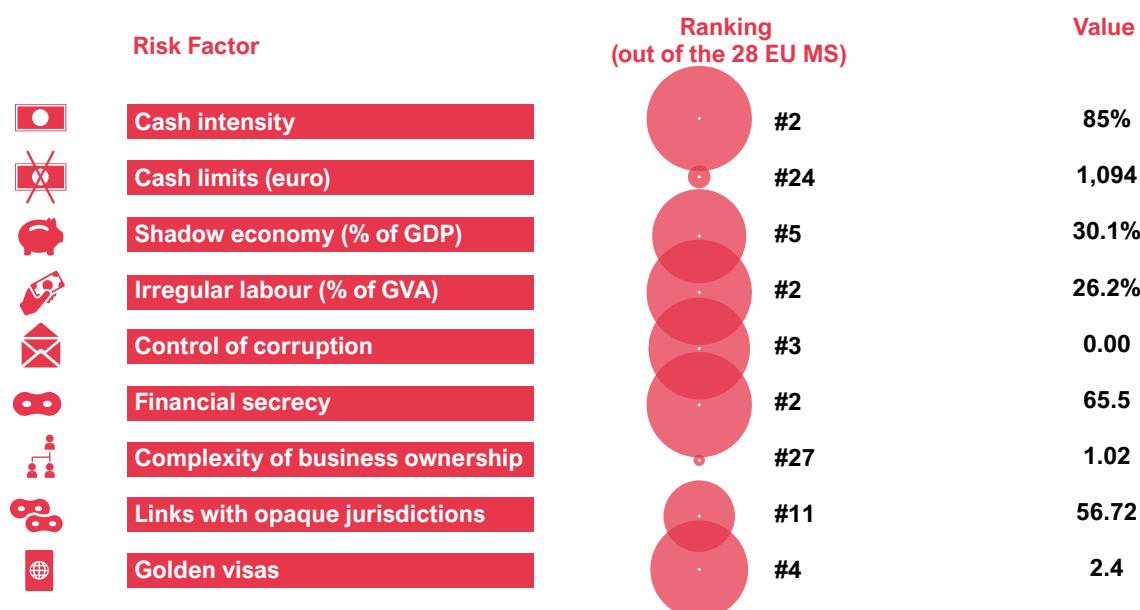
- The ALPHA case: This case revealed the use of **bogus pharmaceutical wholesale trade companies** established in Romania by an Italian OCG to produce fake invoices and 'launder' anti-cancer medicines stolen in Italy (AIFA, 2015).

- The NU case: This investigation, carried out by the Italian DIA, Carabinieri, Police and Guardia di Finanza, revealed a **global network of gaming businesses**, some of them established in Romania, used by the Italian 'Ndrangheta to commit different offences (DIA, 2017a). Other similar investigations (e.g., operations *Black Monkey* and *Gambling*) can be found as well.
- The MU case: This operation carried out by the Italian authorities (DNA, 2014) revealed Italian entrepreneurs suspected to have connections with Cosa Nostra infiltrating Romanian businesses doing **treatment and disposal of non-hazardous waste** (DNA, 2014);
- The OMICRON case: An Italian OCG connected to 'Ndrangheta (Tribunale di Reggio Calabria, 2018) established a wide network of connected businesses located in both Italy and Romania (and in Austria, Croatia, Romania and the United Kingdom) to provide **fictitious invoices and fake joint-venture contracts** (see Annex A1).

## Risk factors for SOC infiltration in Romania

**Table 65 – MORE risk factors of SOC infiltration in Romania**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



According to the MORE project's analysis of risk factors, SOC infiltration in Romania can be facilitated by a number of elements (Table 68).

#### *Cash intensity and cash limits*

Romania is a very cash-intensive country. It scores second among EU MSs in terms of **cash ratio**: on average, 85% of daily payments occur in cash. The highly cash intensive nature of the economy may facilitate the injection of illicit proceeds and purchase of goods and services for money laundering purposes. However, Romania has limited the **maximum amount of cash payments** with the introduction of a threshold on B2B transactions of 1,094 euro (5,000 RON — Romanian Parliament, 2015).

#### *Shadow economy and control of corruption*

According to the study by Medina & Schneider (2018), the **shadow economy** in Romania has been estimated

to be 30.1% of the GDP, which places the country fifth among the EU MSs. Romania also has a high level of **undeclared labour**, totalling 26.2% of GVA (Williams et al., 2017), the second highest in Europe. As mentioned above, **corruption** often can be a facilitator and a nexus between the legal economy and OC in the country. In particular, Romania ranks third among EU MSs in terms of weaknesses in controlling corruption (World Bank, 2016). Corruption was also identified as one of the main vulnerabilities in the National Defence Strategy of Romania (The Presidential Administration, 2015).

#### *Financial secrecy, business ownership opacity and complexity*

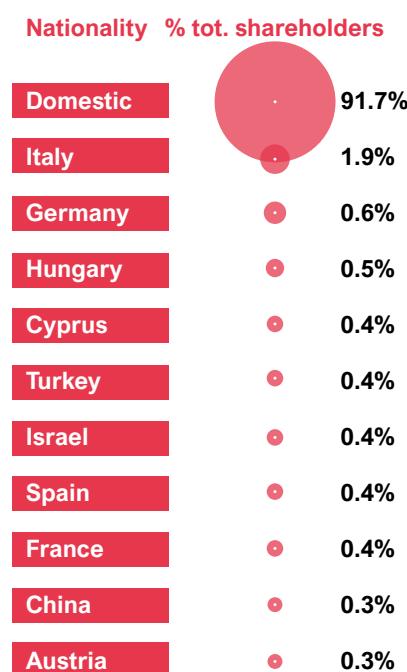
As for **financial opacity**, Romania ranks second among EU MS in terms of **financial secrecy** based on its Tax Justice Network FSS — Financial secrecy score (Tax Justice Network, 2018). In particular, Romania scores the highest values in the sub-dimen-

sion measuring lack of requirements for companies to submit information on beneficial ownership. Despite its high level of financial secrecy, Romania scores low on the two other risk dimensions analysed by MORE: in terms of **ownership links with secrecy jurisdictions**, Romania scores 56.72, placing the country 11<sup>th</sup> among the EU MSs. Also, Romania ranks 27<sup>th</sup> among the EU MSs in **complexity of business ownership** chains, with an average BO close to one, i.e., to a direct control (1.02). On average, indeed, Romanian businesses have quite a direct and easy corporate structure.

Regarding the nationality of shareholders of businesses recorded in Romania, we can observe from table 69 that 91.7% are domestic shareholders, followed by Italy and other EU and extra-EU countries. Moreover, regarding foreign shareholders from EU black- or grey-listed countries, we can observe from table 67 that most part of them are from Turkey (4.7%).

**Table 66 – Nationality of shareholders**

Source: Transcrime elaboration of BvD and EU Commission data



**Table 67 - Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



### *Golden Visas'*

Romania is among the EU countries that offer the best conditions to obtain **investment-based citizenship**. In particular, it regulates both programmes for residency and citizenship that is facilitated through an investment. As mentioned in section 4.3., of the countries offering different programmes, we selected only the one that entails citizenship; therefore, according to the overall score assessed by Transcrime using the investment and status score elaborated by Džankić (2018), Romania ranks fourth among EU MSs. According to the Romanian Citizenship Act, citizenship is granted after fulfilling different criteria (Romanian Parliament, 1991). It **requires a monetary contribution of 1 million euro**, which entails the provision of a **residence permit**. After 4 years of permanent residence, the TCN can apply for citizenship. It requires a period of at least 6 months of physical presence in order to apply for citizenship. Other criteria include a clean criminal record and knowledge of the language, culture, constitution and national anthem (Džankić, 2018).

### Concluding remarks

Organised crime in Romania is characterised by a shift from traditional black markets and actors towards (Haenlein & Eyal, 2017; Nita, 2012):

- activity in new illicit trades such as trafficking of alcohol and pharmaceutical products;
- involvement of local OCGs in cyber-crime activities and commercial piracy (carding, skimming and phishing activities)
- the increased (economic) interests of foreign OCGs — e.g., Italian mafias — in the legitimate Romanian economy.

The following emerged as key vulnerabilities for SOC infiltration in Romania:

- **Geostrategic position:** entry point for different illicit trades on the eastern route between Asia, the Western Balkans and Western Europe (e.g., heroin)
- A large **shadow economy and lots of irregular labour** (respectively 5<sup>th</sup> and 2<sup>nd</sup> among EU MSs)
- High levels of **cash intensity** (2<sup>nd</sup> among EU MS), despite the existence of cash limits
- High value in terms of **financial secrecy** (2<sup>nd</sup> among EU MSs)
- Favourable **investor-based residency and citizenship** schemes that may increase the attraction of third country criminals willing to inject illicit money into the economy
- **Corruption** risk, as demonstrated both by World Bank and EU surveys and by the numerous cases of arrests of officials because of their involvement in illicit activities

## 6.25. SLOVAKIA

### Introduction

Organised crime is not a relatively new phenomenon in Slovakia. The presence of both local and foreign OCGs is well-acknowledged to the Slovak authorities since the 90s (Neumann & Basra, 2018b). Due to its geographic position Slovakia is a **transit country for cross-border smuggling**, in particular for (Neumann & Basra, 2018b; US Department of State, 2016a):

- **Drug trafficking;**
- **Human trafficking** – mainly for sexual exploitation;
- **Firearms trafficking** - mainly through the Ukrainian border;
- **Counterfeiting and smuggling of goods.**

OCGs active in Slovakia are also involved in **economic and financial crimes, property crime, extortion and racketeering, and vehicle theft**. In the last years a shift and expansion towards less violent and risky criminal activities promptly emerged, in particular highly rewarding offences such as **bank fraud and VAT fraud** (Hangáčová & Strémy, 2018; Neumann & Basra, 2018b).

Slovakia is one of the EU countries which **mostly grew in the last ten years**: the GDP growth is forecasted to exceed 4% in 2019, while between 2006 and 2016 it increased, on average, by 3.1%, the **third highest GDP increase after Ireland and Malta** (European Commission, 2018b). In particular, Slovakia witnessed a rapid expansion in the mid-2000s after the EU accession – occurred in 2004. The booming investment and business opportunities driven by the strong

economic growth, and the strategic geographic position in between the South-Eastern and Western Europe has attracted a plurality of economic actors – and with them also OCGs willing to invest in the local economy.

In terms of **local OCGs**, according to available information there are **four main mafia-type criminal groups**, named after their leaders (Neumann & Basra, 2018b, p. 6):

- Takáčovci;
- Piťovci;
- Borbélýovci;
- Jakšíkovi.

According to the same source, these local criminals can be mainly divided in:

- *vlamači*, involved in burglaries;
- *autičkári*, involved in large-scale car thefts;
- *defektári*, involved in businessmen robberies (Neumann & Basra, 2018b, p. 6).

Beside the local OCGs, different **foreign criminal groups** are active in Slovakia, mainly involved in drug trafficking activities (Neumann & Basra, 2018b). Most groups are from the **former Soviet Union, Eastern Europe, or the Western Balkans**. However in the last few years also signals of interest and investment by **Italian mafias** emerged, especially 'Ndrangheta groups which are active in drug and arms trafficking but also financial crimes (Neumann & Basra, 2018b).

### SOC infiltration in the legal economy: cases and evidence

One of the most important drivers of business infiltration is fraud. Wide evidence, at both investigative and academic level, reveal a significant volume of **VAT fraud (in particular MTIC fraud)** in Slovak Republic and neighbouring countries. For example, of MTIC fraud schemes involving sugar (Hangáčová & Strémy, 2018). According to the Slovak FIU, criminal groups rely on wide networks of shell companies to commit fraud, most of them registered to Hungarian and Chinese individuals and companies (US Department of State, 2016a).

Legitimate businesses are also used to launder the proceeds stemming from illicit activity. For instance, the leader of the Borbélýovci criminal group infiltrated a **security company** in order to win public tenders and to mingle money from extortion and racketeering activities (Neumann & Basra, 2018b, p. 8).

Slovakia is **not an historical location** for Italian mafias abroad. By counting the number of references of foreign countries in Italian DIA/DNA reports, Slovakia ranks only 19<sup>th</sup> among EU MS (excluding Italy) (see section 3.5 for details). The references about the presence of Italian mafias in Slovakia and neighbouring countries **have started appearing only in the most recent reports** of the Italian police, especially after the murder of the journalist Ján Kuciak (February 2018). For example 'Ndrangheta is mentioned for the first time with reference to Slovakia in the Italian antimafia police report of 1<sup>st</sup> semester 2017 (DIA, 2017a).

In case OMICRON (see Annex 1), an Italian economic crime group connected to 'Ndrangheta established a wide **network of shell businesses** located both in Italy and abroad – including Slovakia and neighbouring countries – aimed at providing fictitious invoices and joint-venture contracts used to facilitate a variety of illicit purposes (Tribunale di Reggio Calabria, 2018).

Recent media investigations revealed also that several Italian-speaking individuals allegedly connected to 'Ndrangheta infiltrated:

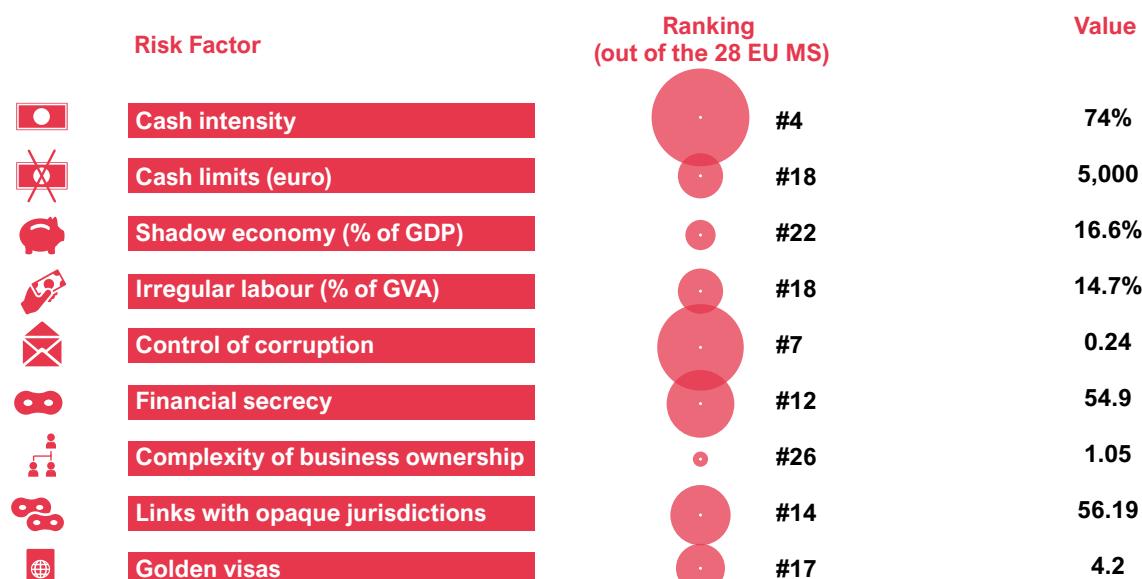
- **agricultural companies;**
- **renewable energy companies** (in particular in the solar power field);
- **private security companies;**

serving different purposes, among them: to benefit from EU farm subsidies, to commit tax fraud, to launder money, to conceal illicit trade of livestock and other fraud (e.g. false invoicing, document forgery, tax fraud) (Kuciak et al., 2018).

## Risk factors for SOC infiltration in Slovakia

**Table 68 – MORE risk factors of SOC infiltration in Slovakia**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



Among the main factors of attractiveness of Slovakian businesses are, as mentioned, the **rapid economic growth** of the country, and the wide amount of EU funds. However, also other factors, according to the MORE analysis, may increase the vulnerability of the country to OC infiltration. Among them, **cash intensity** and (estimated) corruption (see table 71).

### Cash intensity and Cash limits

Slovakia is a very **cash-intensive country**. Its cash-ratio (74%) is among the fourth highest in the EU, despite the introduction, in 2012, of a **limit for**

**B2B cash transactions** set at 5,000 euro and **B2C cash transactions** at 15,000 euro. In both cases, not among the lowest limits in the EU.

### Shadow economy and control of corruption

Despite the high use of cash, the levels of **shadow economy** and **undeclared labour** are not as high as in other (also neighbouring) MS. The shadow economy is estimated to be 16.6% of the GDP (Medina & Schneider, 2018), whereas undeclared labour 14.7% of GVA (Williams et al., 2017).

However, Slovakia scores high when looking at **estimated corruption**. On the basis of the World Bank – *Control of corruption* indicator (World Bank, 2016), Slovakia is the seventh EU MS with the lowest capacity to address corruption. And this in turn could constitute a major vulnerability in terms of OC presence and infiltration, in particular considering the so-called "*clientelism*", a form of collusion between criminal groups and high rank officials and politicians (Neumann & Basra, 2018b, p. 8).

### *Financial secrecy, business ownership opacity and complexity*

Slovakia is slightly above the EU average in terms of **financial opacity**. Looking at the **Secrecy Score** of the Tax Justice Network (2018) - 54.9 – it is the 12<sup>th</sup> EU MS. Also the (mean) complexity of business ownership is low: Slovak businesses are on average among those with the **easiest ownership chain**, with an average distance to BO of 1.05 (see Section 4.2).

When looking at the **ownership links with secrecy jurisdictions**, Slovak businesses are in line with the EU average. However, they count for one of the highest percentages of foreign shareholders (about 15%), although only 3.1% of them come from jurisdictions included in the **EU ‘Grey list’/‘Blacklist’ on non-cooperative tax countries** (see Section 4.2) – the top nationality represented by Switzerland (1.3% - see table 72).

### *‘Golden visas’*

Slovakia offers **residency facilitated through an investment** but does not have a specific monetary contribution requirement. In order to maintain the residence permit, more than 6 months of physical presence in Slovakia are required. Based on the overall score assessed by Transcrime using the investment and status score elaborated by Džankić (2018), it is on the low-average class among EU MS in terms of facility to obtain ‘golden visas’ (17<sup>th</sup> - see section 4.3 for details). Moreover, according to the national naturalisation law, Slovakia has the **discretion to naturalise individuals** on grounds of economic interest.

### **Concluding remarks**

In terms of SOC situation, Slovakia is characterized by:

- the role as a transit hub for a number of illicit trades on the East – West corridor;
- the presence of a plurality of OCGs, both local actors and foreign ones;
- evidence of establishment of legitimate businesses, often shell companies, to conceal illicit trade (e.g. of medicines, livestock) and to commit fraud (e.g. false invoicing, document forgery, tax fraud);
- in particular, wide evidence of VAT and Carousel fraud, also involving neighbouring
- evidence of the interest of Italian mafias in the Slovak legitimate economy.

Further research would be needed to assess exactly the extent of SOC infiltration in Slovak businesses. The most important risk factors of infiltration regard:

- the increasing business opportunities, also as a result of the **rapid economic growth** (third growth rate in the EU between 2006 and 2016);
- the abundant **EU funds and subsidies**, especially in some sectors (e.g. energy, farming, crop, livestock);
- the **strategic location** on the border with extra-EU countries (Ukraine) and on the higher band of the Balkan route;
- the highly **cash-intensive** nature of the domestic economy;

relatively high levels of **corruption**, as demonstrated by international metrics in this field (e.g. World Bank indicator), EU surveys and by the various cases of arrests of public officials because due to the involvement in illicit activities.

**Table 69 – Shareholders from ‘Blacklist’ and ‘Grey list’ countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data

Nationality	% tot. foreign shareholders
Switzerland	1.3%
Korea	0.4%
Turkey	0.3%
Panama	0.3%
Viet Nam	0.1%
Liechtenstein	0.1%
United Arab Emirates	0.1%
Bosnia	0.1%
China, Hong Kong SAR	0.1%
Bahamas	0.02%
<b>Total from EU ‘Black/Grey list’</b>	<b>3.12%</b>

## 6.26. SLOVENIA

### Introduction

After the collapse of the Soviet Union and Yugoslavia, Slovenia — along with the Balkan countries and Eastern Europe in general — experienced significant geo-political transformations that had a deep impact on the national economy. These changes led to increasing unemployment, social stratification, uncontrolled privatisation of common and state property and, therefore, to the development of new illegal activities (Meško, Dobovšek, & Kešetović, 2009). **Criminal actors** started to be more **organised** in order to seize the emerging opportunities and took on an **international dimension**.

According to official police statistics, organised crime in Slovenia does not constitute a relevant threat, especially when compared to its neighbouring countries (OSAC, 2018; Slak et al., 2016). However, the country's location on the Balkan route makes Slovenia an important transit and destination country for some **illegal trades**, such as trafficking of drugs, firearms and counterfeit goods, human trafficking and smuggling of migrants (Europol, 2018b; Mesko & Kury, 2009; Slak et al., 2016).

Usually, the main actors in these criminal activities are **local OCGs** or **OCGs connected to other Balkan countries**. Foreign criminal groups (including **Italian mafias**) are also present and active (see below). Along with these, Slovenia also has organisations staffed by **white-collar criminals** and linked with the **top echelons** of Slovenian society, who dedicate themselves to profit-oriented crimes (Slak et al., 2016).

### SOC infiltration in legitimate businesses: cases and evidence

The evidence of SOC infiltration into Slovenian legitimate businesses involves both foreign and local OCGs.

Infiltration by local (and Balkan) OCGs In 2015, the **ARIEL project** (Savona & Berlusconi, 2015; Slak et al., 2016) presented several case studies about the infiltration of **Slovenian OCGs in legitimate businesses**. The report noted that all of the businesses involved were usually small-scale businesses, even if they sometimes were able to manage large amounts of money (millions of euro). According to the ARIEL project, the most frequently infiltrated business sectors in Slovenia are foodservice and beverage (e.g., restaurants and bars); amusement and recreation (e.g., nightclubs); and taxi services and trucking. These activities mostly provide **cover for human trafficking and exploitation of prostitution** (see the BETA case in Annex A1) as well as the trafficking and retail sale of drugs. More recent sources of information also indicate **gambling and betting** activities as profitable sectors for infiltration by OCGs in Slovenia (OSAC, 2018).

Looking at the type of business sectors infiltrated, the OCGs operating in Slovenia fall into two categories:

- **Local OCGs** (i.e., with members of Slovenian origin) are more often engaged in forced prostitution and human smuggling, and thus, they mostly infiltrate economic sectors that are suitable for their illicit activities (e.g., taxi and transportation services, hotels, bars, restaurants, clubs, nightclubs, gambling establishments)

- **OCGs connected to Balkan groups** (mostly coming from the former Yugoslavia) are more often engaged in drug trafficking activities and exploit foodservice and beverage businesses for this purpose

#### *Infiltration by foreign OCGs*

On the other hand, the case studies collected by the MORE project show the risk that Slovenia could be a preferred location for the establishment of shell companies by **foreign OCGs**, especially Italian mafias:

- **The ALPHA case** revealed that *borgus* pharmaceutical wholesalers were established in Slovenia (and in other Eastern European countries) to 'launder' illicit medicines stolen by a Neapolitan OCG and then re-sold abroad (see Annex 1).
- **The OMICRON case** revealed infiltration by an OCG with links to 'Ndrangheta, Cosa Nostra and Camorra in a large network of legitimate businesses operating in the metal trading business sector. These firms were located in Italy and other foreign countries, including Slovenia, and were used to commit large-scale VAT fraud (see Annex 1).

More evidence of infiltration in Slovenia is related to the **use of a Slovenian bank by Italian groups**. The media investigation (Il Sole 24 Ore, 2017) followed an internal audit of the Slovenian Central Bank (Banka Slovenije - BS) that revealed how Italian citizens conducted their financial transfers through a Slovenian bank and operated some small firms in Slovenia to launder their illicit profits abroad to avoid control by the Italian law enforcement agency (Il Sole 24 Ore, 2017).

## Risk factors for SOC infiltration in Slovenia

**Table 70 - MORE Risk factors of SOC infiltration in Slovenia**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average

Risk Factor	Ranking (out of the 28 EU MS)	Value	
	Cash intensity	#14	57%
	Cash limits (euro)	#28	420
	Shadow economy (% of GDP)	#11	26%
	Irregular labour (% of GVA)	#15	16.4%
	Control of corruption	#14	0.8
	Financial secrecy	#28	41.8
	Complexity of business ownership	#17	1.13
	Links with opaque jurisdictions	#10	56.84
	Golden visas	#17	4.2

Slovenia ranks about average for the EU on most of the risk factors for SOC infiltration analysed by the MORE project (see Table 70).

### Cash intensity and Cash limits

The **cash intensity** of the economy in Slovenia is average for the EU, with a **cash ratio of 57%**. The use of cash is limited to 420 euro for payments between businesses, but it rises to 5,000 euro when the economic partner is not from Slovenia (see section 4.1). The higher amount of money allowed for transnational financial transactions could be considered a matter of concern, mostly if read together with the infiltration of foreign OCGs in the country.

### Shadow economy and control of corruption

According to Medina and Schneider (2018) estimates, Slovenia has a quite large **shadow economy**, at **26% of the GDP** while the extent of its **irregular labour** is lower, representing **16.4% of the GVA**.

The **control of corruption** for Slovenia is in line with the EU average. This indicates a medium risk for Slovenia in regard to corruptive behaviours that could in turn facilitate SOC infiltration (CSD, 2012). Indeed, the perception of corruption is high in the public procurement sphere, and in particular between business and the public administration (KnowYourCountry, 2018d).

### Financial secrecy, business ownership opacity and complexity

The Tax Justice Network's (2018) **Secrecy Score** ranks Slovenia 28<sup>th</sup> among EU MSs, indicating a very low risk in regard to the country's financial opacity. Similarly, the **complexity of business ownership** of Slovenian firms does not appear to be problematic, with an average BO distance of 1.13.

Slovenia is, however, among the top 10 countries in the EU in terms of **business ownership links with secrecy jurisdictions**. The percentage of foreign shareholders is quite high with respect to other EU MSs (about 10%), with foreign shareholders most frequently living in Italy (1.9%), Austria (1.5%), Germany and Croatia (both 1.0%) — Table 71. The percentage of shareholders from '**Blacklisted**' and '**Grey listed**' jurisdictions according to the EU list of non-cooperative tax country is quite high (12% of foreign shareholders, 1.1% of all shareholders). On top are Swiss shareholders (3.8%); see Table 72.

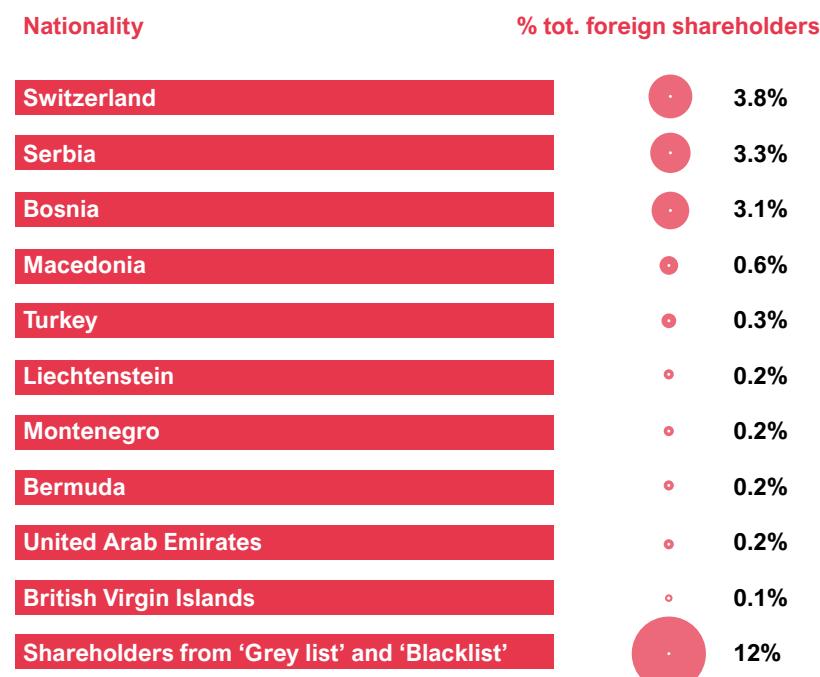
**Table 71 – Nationality of shareholders of Slovenian firms**

Source: Transcrime elaboration of BvD and EU Commission data



**Table 72 - Shareholders from EU ‘Blacklist’ and ‘Grey list’ countries. Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



### *'Golden Visas'*

According to the information provided by Džankić (2018), Slovenia offers an **investor-based residency programme** only. Obtaining residency requires an investment of an unspecified amount in the Slovenian economy. The Slovenia Aliens Act (Articles 20 and 51) just states that the permits for investors and business people should be in the interest of the state. Indeed, as for Austria, Bulgaria and Slovakia, ‘economic’ or ‘commercial’ interest is mentioned in the nationality law as grounds for facilitated naturalisation (Džankić, 2018).

## 6.27. SPAIN

### Introduction

Studies on SOC in Spain are few. Analyses of SOC infiltration are even fewer, and nearly limited to the **study conducted as part of the OCP project** (Palomo et al., 2016). Spain is not an historical country of origin for organised crime, but it is a well-acknowledged location of foreign OCGs — as shown by Europol's inclusion of Spain as one of the five crime hubs established in Europe (Europol, 2011). Moreover, it is an **important transit hub**, especially for cannabis and hashish trafficking (from North Africa), for cocaine (through the African route) and, increasingly, for human smuggling (EMCDDA, 2018b; Europol & INTERPOL, 2016; Keeley, 2018).

The Spanish police intelligence centre against organised crime, CITCO (previously named CICO), periodically publishes intelligence reports on the status of OC in the country. On average, about **500 OCGs** are reported to be active in the country. About **80% are of them are of foreign nationality** or composed of more than one nationality — especially when considering 'high-intensity groups' (CICO, 2014).

The analysis of LEA reports by Palomo, Márquez and Laguna (2016) and further evidence collected through judicial and media sources revealed a number of foreign OC actors of various ethnic origins:

- **Moroccan and North African OCGs**, mainly involved in hashish trafficking
- **Colombian OCGs**, mainly involved in cocaine trafficking (often with the cooperation of Spanish nationals)
- **Chinese OCGs**, mainly involved in a trade in counterfeit goods, human trafficking and fraud
- **Russian OCGs**
- **Italian mafias**: Cosa Nostra, 'Ndrangheta and Camorra in particular

Moreover, police operations revealed the presence of OCGs from Western European countries such as **Great Britain, Ireland and Germany** and **outlaw motorcycle gangs** (see operation Casablanca, mentioned in section 3.5.).

### *Geographic areas*

It is not surprising, then, that the areas with the most evidence of SOC infiltration are the largest cities (**Madrid and Barcelona**), the region of **Andalusia** and tourist areas in the south like **Costa del Sol** (Palomo et al., 2016).

These areas were also the ones with the highest volume of **assets seized** — mostly vehicles, cash, other movable assets and, to a lesser extent, real estate (Palomo et al., 2016; PNSD, 2014). It should be emphasized that Spain is also one of the few countries that confiscate legitimate companies involved in OC cases, although not to the same extent as, for example, Italy.

### *Business sectors and strategies of infiltration*

Previous research has found cases of SOC infiltration in a variety of business sectors (Palomo et al., 2016, p. 75):

- Spain is a common location for **criminals on the run** (like Italian latitanti or British/Irish criminals), who may invest in legal businesses as a cover or as part of their Spanish residence.
- It is located, as mentioned, on **important illicit trafficking routes**, but it is also a large destination market (e.g., for cannabis and cocaine).
- It is **well connected** to all EU countries (and to most countries in the world).
- Its **tourist attractions** — especially in some geographic areas — facilitate the integration of illicit proceeds in the economy and generate business opportunities.
- It is close to well-known financial centres (and offshore countries) such as **Gibraltar or Andorra**.

In particular, the **wholesale trade** has attracted the interest of many OCGs: the **Italian Camorra** (with import-export food companies), **Chinese OCGs** (as demonstrated by operations *Emperador* and *Alquimia*; see section 3.5) and **British/Irish OCGs**. In most cases, the companies have been used as fronts for illicit trade — especially drugs (e.g., for Italians or British/Irish OCGs) and counterfeit products (e.g., for Chinese OCGs).

### Operation Laurel VII

Operation *Laurel VII*, run by the Spanish Civil Guard along with the Italian Carabinieri, dismantled one of the most important and powerful ‘paranzas’, a Camorra operative cell. The Camorra members infiltrated several construction and real estate companies in order to launder the proceeds of drug trafficking activities (Savona & Riccardi, 2015).

More recent operations reveal the infiltration of other business sectors, for example **football clubs** (see, for example, the TAU case).

### Case TAU – Russian OCG infiltration of a Spanish football club

According to the Oligarkh investigation, a Russian-speaking criminal group connected to two well-known Russian mafia groups infiltrated a Spanish third division football club, a water company and a golf club for money laundering purposes (Europol, 2017d; Guardia Civil, 2017).

In terms of infiltration techniques, scholars and investigative authorities have noted the use of **complex corporate structures** with links to offshore countries (see, for example, the PSI case). However, some scholars (Steinko, 2012) have also stressed how SOC infiltration strategies are more basic than expected.

### Money laundering through ‘Locutorios’

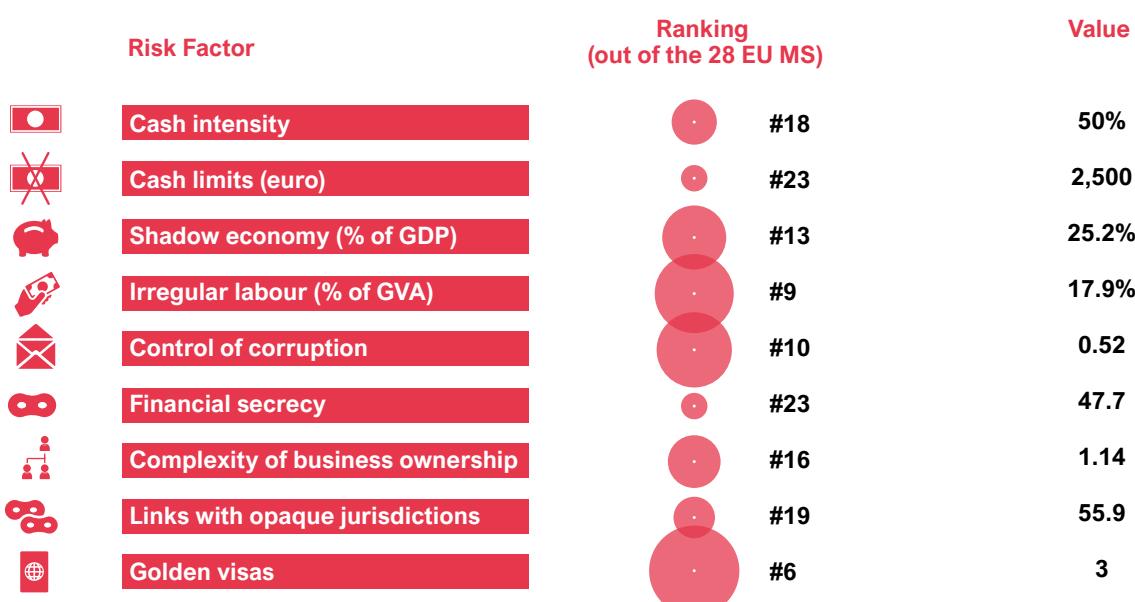
Different operations carried out by the Spanish police revealed the use of telephone and Internet centres ('locutorios') by South-American OCGs (like Colombian cartels) in order to launder the proceeds of drug trafficking activities, mainly cocaine. The modus operandi consisted of establishing both legal and shell company businesses, which were then used to transfer small sums of money very frequently through figureheads and ‘smurfs’ to the OCGs in South America, especially in Colombia (Administración de Justicia, 2010, 2011, 2014; Álvarez, 2011; Audiencia Provincial de Madrid, 2012).

Researchers and authorities have also pointed out the risk of a growing connection between OC and political corruption, denoting a ‘higher level’ type of infiltration, with the involvement of entrepreneurs, public officials and brokers (Palomo et al., 2016, p. 64).

## Risk factors for SOC infiltration in Spain

**Table 73 - MORE risk factors of SOC infiltration in Spain**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



According to our analysis, Spain scores low or around the EU average for most of the risk factors for SOC infiltration. The only exceptions are its **shadow economy, undeclared labour, estimated corruption and golden visas**.

#### *Cash intensity and cash limits*

The **use of cash** in Spain is not among the highest in the EU, with a cash ratio corresponding to 50% of all daily payments. Spain has also introduced a **maximum limit for cash purchases** that is among the lowest in the EU — 2,500 euro both for B2B and B2C cash transactions. The maximum limit rises to 15,000 euro, however, when the economic partner is not domestic (see section 4.1), which could indeed facilitate the injection of cash funds for some higher-value transactions.

#### *Shadow economy and control of corruption*

Spain's **shadow economy, irregular labour and estimated corruption** are relatively significant, according to international indicators. Medina and Schneider (2018), figure Spain's shadow economy to be 25.2% of GDP. Irregular labour represents 17.9% of GVA — well above the EU average. The risks in terms of estimated corruption are also high: the World Bank's *Control of corruption* indicator for Spain is the 10<sup>th</sup> lowest score in the EU MSs at 0.52 (World Bank, 2016).

#### *Financial secrecy, business ownership opacity and complexity*

None of the three dimensions of **financial opacity** considered by the MORE project is a matter of concern

for Spain. The country has one of the lowest levels of financial secrecy based on the Tax Justice Network's Secrecy Score, 47.7 (Tax Justice Network, 2018), ranking 23<sup>rd</sup> among EU MSs. Also, Spanish businesses have, on average, low levels of **complexity of business ownership** chains (average BO of 1.14, which is below the EU average) and **business ownership links with secrecy jurisdictions**, 55.9 (Source: Transcrime elaboration of BvD data).

According to Transcrime elaboration of BvD data, the majority (97.2%) of shareholders of Spanish companies are domestic. Of the foreign ones, 7.25% come from jurisdictions in the EU 'Greylist'/Blacklist' of **non-cooperative tax countries** (see section 4.2). The top nationality in this list is Switzerland (4.7%; see Table 74).

#### *'Golden visas'*

According to Džankić (2018), Spain offers one of the **most favourable investor-based residency programme** in Europe. The *Ley de Emprendedores* adopted in 2013 established multiple options for monetary contributions in order to obtain a permanent residence, specifically:

- at least 500,000 euro invested in real estate
- at least 1 million euro invested in Spanish companies or banks
- at least 2 million euro invested in Spanish debt bonds (Džankić, 2018).

The applicant is not obliged to reside in the country in order to maintain residence status. Therefore, based on the overall score assigned by Transcrime using the investment and status score elaborated by Džankić (2018), Spain ranks 6<sup>th</sup> in this respect among the EU MSs (see section 3.5).

**Table 74 - Shareholders from EU 'Blacklist' and 'Grey list' countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



## Concluding remarks

Research on **SOC infiltration** of legitimate Spanish businesses is poor, despite evidence of the presence of and investments by a large **number of OCGs**. Spain's role as a *transit country* (especially for illicit drugs) is relevant in this respect, as are its business opportunities, especially in the **tourism sector**. Based on the evidence found by the MORE project, the main risk factors of concern in terms of SOC infiltration are related to:

- the presence of numerous **criminals on the run** with various OCGs — including Italian mafias, Russian and British organised crime and outlaw motorcycle gangs
- the relatively high proportion of **un-declared labour** and the size of the **shadow economy**
- the relatively high values in terms of **estimated corruption** according to the World Bank
- the possibility of exploiting one of the most **favourable 'Golden Visa schemes'**, which may facilitate the injection of illicit money (and obtaining EU status) by third-country criminals.

## 6.28. UNITED KINGDOM

### Introduction

The latest NCA's *Serious and Organised Crime Threat Assessment* confirms the **significant threat posed by OC** to the UK economy and society (NCA, 2018). While modern slavery and **human trafficking** (MSHT) crimes are continually and gradually increasing, **firearms offences** also increased by 27% in 2016/2017, reaching an unprecedented number of **homicides and attempted homicides** in 2018 (mainly due to gang feuds in London; see below). **Drugs deaths** are at their highest level since 1993, while fraud offences reached 3.4 m in spring 2017 — one third of all crimes. According to the UK government's estimates, SOC costs to the UK economy are at least 24 billion GB pounds yearly (HM Government, 2013).

The latest UK SOCTA mapped **4,629 OCGs in the UK**. This figure confirms the plurality and variety of the criminal actors involved. A recent study by Campana and Varese (2018) — focusing on selected UK areas, Salford and Derbyshire — proves that while some are profit-oriented occasional groups, other OCGs show an **illegal governance dimension** intended to keep a more stable control on the territory — and causing more harm to local communities.

Building on NCA OC situational reports, and on previous research (Wall & Chistyakova, 2015; Francis, Humphreys, Kirby, & Soothill, 2013; Campana & Varese, 2018; Wall & Bonino, 2015) the following OCG-types can be found in the UK:

- **Well rooted British OCGs** (e.g., Merseyside gangs, or the crime families active in the London or Greater Manchester areas) with both local

and international dimensions and mostly active on the drug market as well as being able to intimidate and infiltrate legitimate businesses in the UK and abroad (e.g., Spain)

- **Looser, profit-oriented networks**, e.g., involved in fraud (see below) or other profit-oriented activities
- **Street gangs**, mostly active in the London conurbation. They are made of very young people (even below 18-years old), controlling small city portions (blocks), active especially in drug markets. They emerged in the last few months because of the rapid rise of homicides in London — about 70 by the end of May 2018 — almost all related to gang warfare. This phenomenon can be read as part of the general fragmentation of OC in some European areas (see Section 3.5).

According to Francis et al. (2013), **87% of convicted OC members are UK nationals**. However, there is also evidence of the presence and activity of **foreign OCGs** (on this subject, see Wall & Chistyakova, 2015):

- Turkish-speaking OCGs (active especially in heroin markets)
- Albanian-speaking OCGs (illicit drugs, organised property crime)
- Vietnamese-speaking OCGs (cannabis cultivation and trade)
- Chinese-speaking OCGs (trade in counterfeits, sexual and labour exploitation)
- Russian-speaking OCGs
- Italian mafias (Camorra, 'Ndranghe, Sacra Corona Unita)

The latter three, in particular, have demonstrated an ability to **invest in the UK legal economy** for money laundering purposes (see below).

### SOC infiltration in the legal economy: cases and evidence

Despite the large volume of research on OC in the UK, the study of SOC infiltration is poor. Some exceptions are the analyses carried out within the **OCP and ARIEL projects** (see Wall et al., 2016, for a review). These two projects show that, in the UK, SOC infiltration of legitimate businesses is not often an investment per se but serves as a **front to cover or commit illicit acts**.

One of the main drivers of SOC infiltration is fraud. According to the National Fraud Authority, more than **1,300 OCGs in the UK are linked to fraudulent** activities (National Fraud Authority, 2013). Almost one third of all SOC offences are fraud-related (NCA, 2018), and the link between OC and scams is constantly strengthening (May & Bhardwa, 2018). In most cases, OCGs infiltrate **legitimate businesses to carry out scams**, e.g., in (HM Treasury & Home Office, 2017; Wall et al., 2016):

- 'Crash for cash' fraud (or insurance fraud)
- VAT carousel fraud
- Bankruptcy fraud
- Mortgage fraud

Some authorities have also highlighted the risk of '**phoenix companies' fraud**', i.e., the setting up of sequences of limited companies for illicit purposes, which are then dissolved just before they are required to submit accounts.

However, recent studies and institutional reports — including the latest Money Laundering **National Risk Assessment** (HM Treasury & Home Office, 2017) — have also stressed the attractiveness of **UK (and overseas) businesses for money laundering of cross-border SOC**, too.

A recent report by Transparency International on the use of UK companies to launder the proceeds of corruption (Transparency International UK, 2017) reveals Great Britain's role as an **alternative location to secrecy havens**, for the following reasons:

- the **low cost** of starting a business
- the **ease and speed** of starting a new firm
- the **UK's respectable business reputation**, which lends legitimacy to shell companies

In particular, these reports highlight the attractiveness of:

- the **UK financial sector**
- the **UK real estate market**, especially in the London area

#### *Financial sector*

The UK is one of the largest **global financial centres**, accounting for 17% of the total value of international bank lending and 41% of foreign exchange trading. While recognizing that most transactions are legitimate, the government also acknowledges that the sector is 'particularly vulnerable to **money laundering threats overseas**', especially for illicit proceeds stemming from **Russia and China** (HM Treasury & Home Office, 2017, pp. 27–28). Several cases of exploitation of UK financial and accounting services for ML purposes can be found in institutional and media reports (see box).

#### **UK accounting firms and money laundering across Europe**

A professional body supervised accountant was a joint director of a UK-registered company, along with a Russian national. Using this company, the accountant established structures to move more than \$60 million through jurisdictions including **Russia, Cyprus, Latvia, the Czech Republic and the British Virgin Islands**. The stated purpose of the company was to provide high-end leisure services. The accountant and their co-director intended to use the company and associated company structures to provide money laundering opportunities to sanctioned individuals in Russia, and more generally to assist in the movement of illicit assets from Russia (source: HM Treasury & Home Office, 2017, p. 48).

#### *Real estate sector*

Concerns about foreign OCGs (Russian and Arab clans in particular) laundering illicit proceeds in the British property market (especially the residential one) are also high. A 2016 study by Transparency International and Thomson Reuters revealed that **44,022 London land titles are held by overseas companies, in 91% cases through secrecy jurisdictions**, which may conceal illicit proceeds stemming from SOC or corruption committed abroad (Transparency International UK, 2015; Transparency International UK & Thomson Reuters, 2016)

According to Home Office and HM Treasury's analysis of SARs<sup>55</sup> linked to property, 27% showed the presence of **companies and trusts in property transactions**, 36% showed the attempted use of professional intermediaries and 17% reported **large cash payments** (HM Treasury & Home Of-

fice, 2017, p. 59). The artificial injection of illicit money is acknowledged by some sources as one of the reasons behind the tremendous surge in house prices in the UK.

Considering the high associated risks for the financial and real estate sector, it is not surprising that, according to the empirical-based assessment of money laundering risk in the UK carried out by Hopkins & Shelton in 2018, the **City of London emerges as the top ML risky area**, followed by the Metropolitan Police and Greater Manchester.

#### *Other business sectors*

OCP and ARIEL reports also identified other infiltrated business sectors by collecting evidence from academic papers, police reports and media investigations. The list includes, among other things:

- **Wholesale and retail trade shops**: e.g., food stores managed by Vietnamese, Asian or Chinese-speaking OCGs)
- **Transportation and renting**: see case XI (Annex A1)
- **Bars and restaurants**: used as fronts for money laundering or sexual exploitation
- **Private security companies**: evidence of British crime families investing in security firms and 'bouncer' services has been reported by Campana & Varese, 2018 in the Greater Manchester area. Here, the criminal reputation of UK-based clans becomes a valuable company asset that allows them to be recognized as 'monopolistic' providers of security services (see box in section 3.4).
- **Sports and gaming**, with investments by both local OCGs (managing casinos and slot rooms) and foreign groups such as the Italian Apulian mafia Parisi clan (Wall & Chistyakova, 2015)
- **Sex shops, tattoo shops, other personal activities**

55. Suspicious Activity Reports issued by AML obliged entities.

Organised crime and links to private security firms in north-western England
An array of security firms active in the greater Manchester area was suspected of being under the beneficial ownership of a notorious British gangster nicknamed 'Mr Big' who was killed in 2015 amidst gang clashes. The OC mobster had been involved in several criminal activities (including attempted murder) and was also suspected of having set up private security companies through figureheads (Campana & Varese, 2018). These provided guardianship and bouncer services to public and private clients, while helping the OCG to launder illicit proceeds — although ML accusations were never formally filed against him. These companies remained active after the man's murder (Townsend, 2015). The same scheme was adopted by a rival criminal family, which also set up a private security firm.

### Legal forms

UK investigative authorities — see, for example, the 2017 and 2015 ML NRA — emphasize the risks associated with the following legal forms:

- **Private limited liability companies**, due to the separate legal personality, the ease and low cost for incorporation and dissolution, and the possibility of using company accounts to deposit illicit funds (the same risks were also found in other countries — see Chapter 5)
- **Limited partnerships**, due to the limited reporting obligations (e.g., no need to submit annual accounts to Companies House, but only to HMRC for tax reasons)
- In particular, **Scottish limited partnerships (SLPs)**, which are governed by Scottish law and have fewer reporting and transparency obligations than other legal forms (on this, see also Transparency International UK, 2017)

### Risk factors for SOC infiltration in the UK

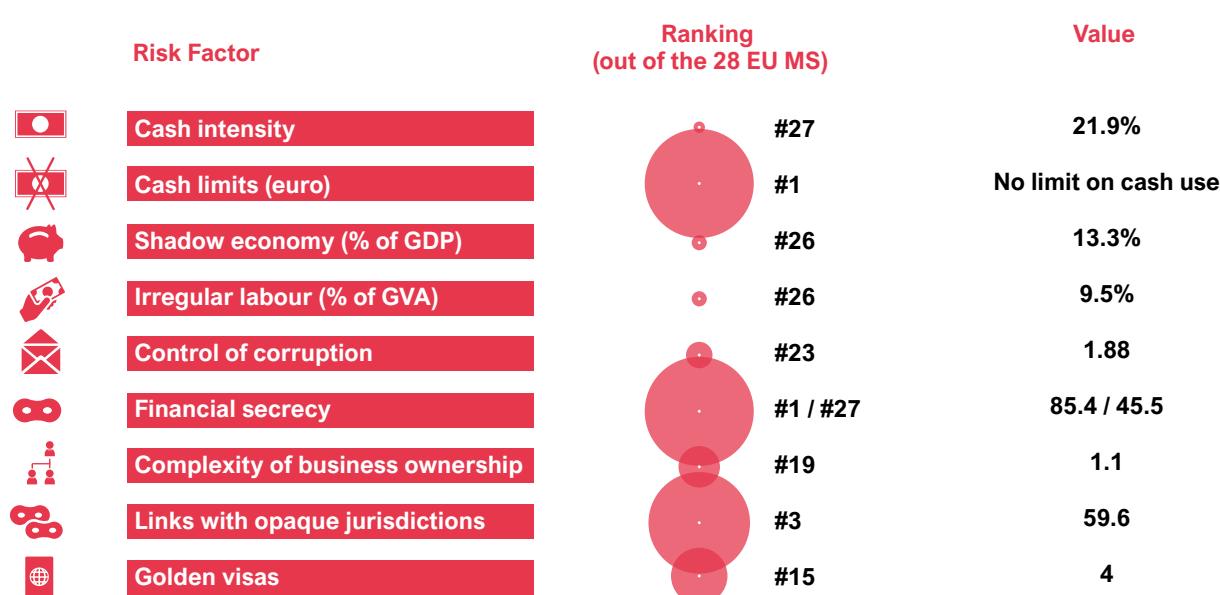
As recognized by UK agencies, 'the same factors which make the UK attractive for legitimate financial activity, **also make it attractive for criminals** and terrorists' (HM Treasury & Home Office, 2017, p. 8). UK got high scores for some of the risk factors analysed by the MORE project (see Table 75).

#### Cash intensity and Cash limits

Despite the **absence of cash purchase limits**, the cash intensity of the UK remains one of the lowest in the European Union (a cash ratio of 21.9%, the second lowest after Sweden). However, according to the latest ML NRA, cash and cash-intensive sectors, remain favoured methods for criminals and OCGs to move and launder illicit funds. **High-value cash purchases**

**Table 75 - MORE risk factors of SOC infiltration in the United Kingdom**

Source: Transcrime elaboration of European Central Bank (2016), Medina and Schneider (2018), Williams et al. (2017), Džankić (2018), World Bank (2016), Tax Justice Network (2018), BvD data (2016), open sources. \* EU average



remain a matter of specific concern, especially given the increased attractiveness of **high-value dealers** (HVD) as a possible result of displacement from money service businesses (HM Treasury & Home Office, 2017, p. 85). As noted, the real estate sector is also vulnerable to cash-related ML schemes: about 20% of property purchases reported in SARs involved high-value cash transactions. In this regard, the limit on cash use may facilitate the injection of illicit funds in the economy, especially in the absence of appropriate due diligence by HVD and real estate agents.

#### *The shadow economy and control of corruption*

Generally speaking, the UK is among the EU countries with the lowest (estimated) proportion of a **shadow economy** — 13.3% of the GDP, according to Medina and Schneider (2018) — and of **irregular labour** (9.5% of the GVA), although cases of labour exploitation

by OCGs in some migrant communities (especially Asian ones) are numerous. **Corruption historically has not been a major vulnerability** in the UK, and this is mirrored by the country's low score in international metrics, including the World Bank — *Control of corruption* indicator (for which UK is the fifth least corrupt of the EU MSs). It may be better to say that domestic corruption is not a problem, while the UK remains a **very attractive location for bribery proceeds generated elsewhere** — former Soviet countries and Asian, African and Middle Eastern countries overall. As mentioned, corporate structures, the financial and real estate markets are the most vulnerable.

#### *Financial secrecy, business ownership opacity and complexity*

This is the factor for which the UK (and especially its related overseas jurisdictions) raises the highest concerns in terms of SOC infiltration. According to the Tax Justice Network (2018), while

the UK itself has a low **financial secrecy** score (41.8, 27<sup>th</sup> among EU MSs, 111<sup>th</sup> worldwide), when including the **14 Overseas Territories** (among them the Caymans, the British Virgin Islands and Bermuda) and the **3 Crown Dependencies** (Jersey, Guernsey and the Isle of Man), the score rises to 85.4: the **first among EU MSs and the third globally** after Vanuatu and Antigua and Barbuda.<sup>56</sup>

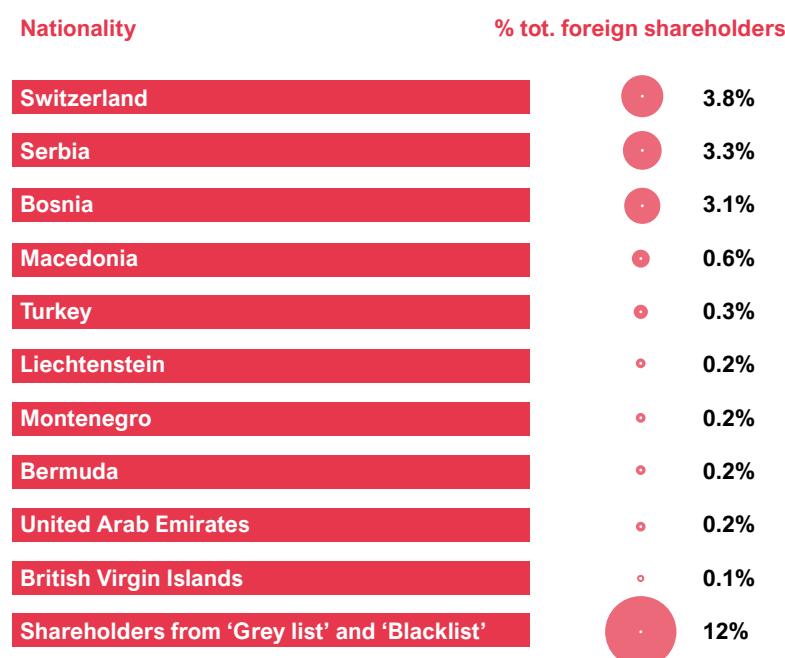
When considering the UK alone, its major weaknesses, according to Tax Justice Network, are its lack of 'Other Wealth Ownership' data and the transparency of **Limited partnerships** (as also noted by the UK Home Office and Treasury; see above).

The analysis of the **links with high-secrecy countries** focuses only on Britain and its Crown dependencies<sup>57</sup>, without taking into account overseas territories. In this case, UK firms rank very high, being the **third in the EU** in terms of number of shareholders from secrecy jurisdictions after Cyprus and the Czech Republic. The UK is also the **fourth EU MS when counting the number of business owners from 'Grey listed' and 'Blacklisted' countries** on the EU list of non-cooperative tax jurisdictions. About 15.4% of the foreign shareholders of British firms come from one of these locations, with Switzerland, Bermuda, Cayman and BVI in the lead (see Table below).

**Table 76 – Shareholders from EU 'Blacklist' and 'Grey list' countries.**

#### **Top 10 nationalities**

Source: Transcrime elaboration of BvD and EU Commission data



The **average complexity of the ownership structure** of British firms is about average for the EU, according to Transcrime analysis of BvD's beneficial ownership distance. But there are some exceptions. The same analysis conducted in the IARM project and reported by Hopkins and Shelton (2017) shows that companies in the **Channel Islands and the Isle of Man** are on average required to pass through three further layers of intermediary companies before identifying their ultimate owners (see Table 77).

56. These jurisdictions have a strong independence on internal political matters, but Britain controls them on some economic and institutional issues. For a detailed review: <http://www.financialsecrecyindex.com/PDF/UnitedKingdom.pdf>

57. Namely, Jersey, Guernsey and Isle of Man.

**Table 77 – BO distance of firms established by UK area. Top 5 areas**

Source: Savona and Riccardi (2015, p. 157)

Nationality	Average BO distance
Channel Islands	3.7
Isle of Man	3.4
South Yorkshire	2.5
Greater Manchester	2.0
Norfolk	1.7

#### 'Golden visas'

The United Kingdom does not offer investor-based citizenship programmes, but only has **temporary residence**. According to Džankić (2018), UK Immigration Rules for Tier 1 (Investor), as of 19 November 2015, require the possession of 1.17 million euro available in the UK, or the ownership of assets of a minimum of 2.34 million and 1.12 million euro loaned by a UK bank. This would allow temporary residence, although some physical presence (no absences over 90-180 days) is required.

## Concluding remarks

The **risk of infiltration of UK businesses is high**. There is scant evidence of local OCGs, and what there is mainly regards the use of front businesses for fraud or occasional money laundering (with some exceptions of more 'mafia-type' infiltration in selected industries, e.g., private security). There is, however, an abundance of evidence of exploitation of UK corporate structures by foreign criminals, or people involved in corruption cases.

As recognized by UK agencies, 'the **same factors which make the UK attractive for legitimate financial activity**, also make it attractive for criminals and terrorists' (HM Treasury & Home Office, 2017, p. 8). Among these risk factors, the following are noteworthy:

- the **low cost, ease and speed** of starting a business
- the efficiency of the **London financial centre**, a leading global hub
- the attractiveness of the **UK real estate market**, especially around London and other major cities
- the high degree of **financial secrecy**, especially when considering the UK Overseas Territories and Crown Dependencies

- the abundant **business ownership links with other secrecy jurisdictions** (the UK is the third EU MS in terms of number of shareholders from secrecy countries)
- concerns about high-value cash purchases, which are facilitated by the **lack of maximum cash limits**

While UK law enforcement agencies in this field demonstrate a high awareness of these risks, and a strong capacity to identify and target SOC crimes, the situation should be monitored in light of the country's **post-Brexit evolution**. In particular, as suggested by some experts, the UK leaving the EU and the impact of this on trade and FDI could further push the UK to evolve in a 'tax haven' direction, thereby increasing the risk of attracting illicit financial flows from opaque jurisdictions.



# CONCLUSIONS AND POLICY IMPLICATIONS

## 7.1. Summary of findings

MORE has **mapped cases and risk factors of SOC infiltration** in legitimate businesses across EU countries, regions and business sectors.

There is **evidence of SOC infiltration in the whole EU**, although it is difficult to determine exactly the extent of the infiltration in each Member State. Also, the variety of business sectors and criminal actors involved is wide.

Despite this variety, it is possible to identify some **common patterns and trends**.

### *Sentinel crimes*

The following **offences often accompany SOC infiltration**. They enable it and signal that an infiltration process is on-going.

- **Corruption**, including private corruption
- **Tax crimes**, both as a means and as an objective of the infiltration
- **False invoicing**, also provided as a service to other colluding entrepreneurs not related to OC
- **Document forgery**, for example, of employment contracts, company certifications, customs and transportation bills and certificates of origin for goods

The frequent commission of these offences narrows the gap between **organised crime** and **white-collar crime**. Traditional OCGs, including mafia-type organisations — normally involved in drugs, firearms, human trafficking, extortion and other offences — increasingly treat tax fraud and false invoicing as core activities, not only as ancillary sources of profit.

### *Modi infiltrandi*

The following methods and strategies are frequently used according to the MORE cases analysed:

- Use of **cash and cash-intensive** businesses
- Use of **figureheads**, often chosen from among relatives and long-time collaborators
- Adoption of **complex and opaque business ownership structures**
- Exploitation of loopholes in '**golden visa**' programmes

### *Cash*

The **diversity of cash usages and of cash regulations** (e.g., maximum cash purchase limits) across EU MSs can be easily exploited by OCGs with a displacement effect: they infiltrate businesses where it is easier to be paid and make purchases in cash - especially high value goods (see Section 4.1). Among these countries, Germany and most Eastern European countries.

The analysis at the macro level demonstrates that cash is correlated with measures of **shadow economy, irregular labour and corruption**, which in turn correlate to OC infiltration. While OCGs commonly infiltrate cash-intensive businesses and sectors (e.g., bars, restaurants, gas stations, gambling and gaming agencies), infiltrated businesses tend to keep **parallel off-the-record cash accounts** through which they pay for undeclared work and supplies and which they use for criminal purposes (e.g., as black funds for bribery or for repayments in false invoicing schemes).

### *Corporate opacity*

OCGs often adopt **complex and opaque business ownership structures**. However, MORE cases show that European OCGs, rather than using notorious off-shore countries in the Caribbean, the Middle East or South Asia, may prefer to infiltrate businesses in EU MSs characterised by lower corporate transparency requirements: these countries are **culturally, economically and geographically** closer — and by definition not included in official EU blacklists, which allow them to raise less suspicion.

In particular, according to the three metrics considered by the MORE study (**financial secrecy, links with business owners from secrecy countries and business ownership complexity**), Malta, Cyprus, Romania and the United Kingdom (especially when including crown dependencies) may be more vulnerable in this respect.

### *'Golden visas'*

Also, the **diversity in terms of investor-based residence and citizenship programmes** across EU MSs can be exploited by OCGs willing to infiltrate legitimate businesses. In particular, criminals from third countries can exploit these schemes to invest and launder illicit money while obtaining EU status — with the set of additional rights this entails (including free movement across Europe and easier establishment of businesses in other countries). According to the analysis, the best conditions for obtaining 'golden visas' are offered by **Bulgaria, Malta, Cyprus and Romania**.

### *Ownership and accounting red flags*

In terms of company ownership patterns, that is, micro risk-factors, our analysis confirms the wide infiltration of **limited liability companies**, because they are easier and cheaper to incorporate while providing the benefits of limited liability (i.e., company fragmentation and legal protection, including against confiscation). Also, the use of figureheads ‘within the family’ is still a preference — although the relationship with colluding and friendly entrepreneurs is strengthening.

In **accounting terms**, the following red flags emerge:

- Infiltrated firms have significantly **less financial debt**, as illicit revenues make bank loans unnecessary.
- Funds are provided using **trade credit or shareholders' loans**, which are higher on average in infiltrated firms' balance sheets.
- **Current assets** are on average higher, but **liquid assets** are lower: criminals hold off-the record cash accounts also to avoid confiscation (because bank accounts are easier to confiscate);
- Criminals have **above average tax payables** in their firms.
- The **variance of total assets** year-to-year emerges as a significant predictor.

## 7.2. Research and policy implications

These findings lead us to offer the recommendations below.

### *To target sentinel crimes*

SOC infiltration is not itself a crime but a process encompassing a range of sentinel crimes, most of them **white collar offences**. While addressing SOC infiltration directly — from an investigative and legal perspective — may be difficult (including due to the **cultural and political divergences** around the concept of organised crime), it is recommended strengthening the **fight against sentinel crimes**, for which there is broader agreement among EU MSs. This means, for example:

- Improving investigative powers to target these offences
- Designing specific regulations against economic crimes, if used in OC context (e.g., by specifying aggravating circumstances)
- Strengthening the sanctions against some petty economic crimes (e.g., tax evasion, accounting manipulations and document forgery)
- Improving the study of economic crimes (e.g. assessing the risk of false invoicing and trade-based money laundering across the EU MS).

### *To reduce asymmetries across EU MSs*

OCGs exploit asymmetries across EU MSs and displace to those areas where infiltration is easier thanks to laxer regulation or controls. To prevent this '**shopping among jurisdictions**' it is necessary to harmonise regulations in various areas in the European Union, starting with:

- **Cash purchase limits** and cash regulation — also to avoid distortions of the EU internal market.
- **Business transparency requirements** — especially on if, how and when data on shareholders, directors, owners, and financial reports has to be made public and communicated to EU MS business registers. This is important in particular because EU official blacklists only cover non-EU countries.
- **Investor residence and citizenship programmes** — again, diversity in the area of 'golden visas' may be exploited by OCGs and cause unequal treatment of third country nationals by different EU MS.

### *To increase monitoring of risky targets:*

Investigators, policy-makers and researchers should do increased monitoring of:

- **Emerging vulnerable business sectors**, especially those not covered by other compliance programmes (e.g., AML, anti-corruption and health policies) and those with weak or evolving regulations (including due to urgent matters). These include:
  - Private security
  - Social care and migrant assistance
  - Renewable energy
  - Gaming/gambling
- **Intermediaries not subject to AML obligations**, which often act as key brokers in SOC infiltration schemes:
  - Wholesalers (e.g., of food, medicines, apparel or chemicals)
  - Import-export brokers
  - Shipping and transportation companies
  - Professionals in activities related to construction and public procurement

*To keep the mapping continuous*

It is necessary to continue analysing and mapping where SOC infiltration occurs throughout Europe (in which areas and sectors) and what the risk factors are. Doing so requires:

- making this exercise **systematic and widespread**, and repeated at least annually
- pushing authorities to collect (and make available) **better information**, especially in the field of **cash statistics<sup>58</sup>** and **business ownership data**
- In particular, a better knowledge of cross-border (licit and illicit) cash movements should be sought.
- creating a **network of European researchers** in the area of SOC infiltration and money laundering, and strengthening the link between academics, LEAs and public authorities
- networking with other groups active in this domain, e.g., the FATF or the group supported by United Nations to **measure illicit financial flows** as part of the Sustainable Development Goals (SDG) project.

*To support EU LEAs, AROs and FIUs with IT tools*

European investigative authorities should be equipped with IT tools to operate **more quickly**, especially in **cross-border cases**. These should, among other things, include tools for:

- **Early detection** of businesses at risk for SOC infiltration (based on the red flags highlighted by empirical research)
- Tracing business **ownership across multiple jurisdictions**, because establishment of registers of beneficial owners would not be sufficient
- Identifying cross-border licit cash flows which can be exploited for TBML reasons and by criminal cash couriers
- Sharing **intelligence information** and best practices among authorities
- **Seizing businesses** and managing seized businesses

*To improve international cooperation among LEAs and FIUs*

The cooperation among European LEAs and FIUs should be strengthened. Joint investigation teams, joint workshops, electronic platforms for sharing intelligence and judicial documents should be expanded. In particular, a better connection among FIUs should be sought with an improved capacity to freeze assets.

58. No central banks in EU MSs — except Italy — collect data on cash withdrawals at the regional NUTS 2 level.





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