

The Threat of Transnational Crime

by Maxim Worcester

According to the international consultancy KPMG some 45 % of companies worldwide fell victim to some kind of economic crime in the two years preceding 2005. Large companies reported an average of 12 incidents per year and more than 10 % of small companies reported losses of more than \$ 1 million in the past two years from economic crime and fraud.

As states continue to struggle to maintain stability within and across borders, illicit crime is increasingly likely to take hold in a variety of forms. IP theft and counterfeiting also shows no sign of abating. The global trade in illicit goods is growing: the number of counterfeits has grown at eight times the speed of legitimate trade according to Interpol, resulting in global commercial losses in the region of \$ 500 billion. The pharmaceutical industry is today hit more than any other sector by counterfeiting: The US-based organisation Centre for Medicines in the Public Interest has forecast that counterfeit drug sales will reach \$ 75 billion globally in 2010, an increase of more than 90 % from 2005.

If this estimate proves correct, counterfeit drug sales will grow annually by 13 % through to 2010, outstripping the estimated 7.5 % growth for global pharmaceutical commerce. To put this into perspective: counterfeiting is equivalent to about 8 % of world trade and is built largely around the same complex global distribution chains associated with legitimate trade flows. Given that it can be assumed that the true extent of the problem is in fact greater than estimated by Interpol and other security services.

The common denominator across criminal groups is that they are based around maximising profit while taking the lowest possible risk. Activities are growing and include trafficking both of people and drugs, fiscal and non-fiscal fraud, counterfeiting, money laundering, identity theft and extortion. Organised crime has now moved into legitimate business to launder money and to provide cover for illicit activities. Given that the distribution chains are very similar on the surface to those of legitimate businesses give the argument that the problem is far greater than appreciated further credence.

It also raises the issue that terrorist organisations are using or will use these distribution chains and contacts for their purposes. We can expect such organisations to become increasingly sophisticated through the use of legitimate structures, specialisation and violence. Such organisations will become increasingly entrenched through corruption within their jurisdictions, in some countries ranging from Angola to Russia organised crime accounts for up to 50 % of the national economy.

Many such groups behind these criminal activities have a strict hierarchical structure, other collaborate on an ad hoc basis or are based around loose networks that are oriented around one or more prominent criminals. Such “God Fathers” have adopted a risk based approach to their activities by threatening violence, transferring risk to lower level criminals and using professional groups to handle the proceeds of their activities. Organisations specialising in such support activities have become highly sophisticated in finance, IT, forgery and transport and are often difficult to distinguish from legitimate operators. Indeed it can be assumed that such specialists work both for organised crime syndicates and legitimate business making it increasingly difficult to identify and prosecute such operators.

South Western Europe will increasingly become the leading player with regard to illegal immigration and cocaine and cannabis trafficking throughout the EU. South Eastern Europe will play a bigger role in the heroin market and North Eastern Europe will continue to see significant fraud around highly taxed products aimed at Nordic countries. Turkey, Colombia, Morocco and Nigeria will all present threats from outside the EU, within the EU the key threats come from synthetic drug shipments from the Netherlands; Hungary, Spain and Portugal will remain key transit points for narcotics.

Some regional trends are expected to develop in the coming years all of which point towards a significant increase in illegal activities directly affecting EU countries: In Italy, Mafia groups will continue to infiltrate and in some cases dominate public and business sectors further increasing their hold on the country. Lithuanian groups will become more important to international crime syndicates due to its status as a transit route into the EU. These groups also are sophisticated in money counterfeiting and retain good contacts to Russian criminal organisations. Dutch groups are specialised in both production and trafficking of drugs and Polish groups, who are among the fastest growing in the EU, will continue to expand throughout the region as Polish emigration rises. Ethnic Albanian groups will continue to pose a significant threat in drug and people trafficking and money laundering and are actively looking for new criminal markets. The same applies to Russian groups who are involved in practically all types of crime, including violent crime. Around 450 such groups operate in Russia with a total membership of around 400.000 currently and they often have a major influence or even stake in state institutions.

Chinese groups will become increasingly well established in the EU. They are heavily involved in illegal immigration and non-cash payment fraud, and increasingly in synthetic drugs-trafficking, money laundering, forgery and IP theft. China, in spite of recent legislation and clamp-downs on offenders remains a key counterfeiting offender with more than \$16 billion worth of counterfeit goods being sold each year in China, exports of such goods is running at even higher levels.

German groups are not often mentioned in transnational criminal activities which can stem from the fact that there are not many truly German organisations, however many ethnic organisations such as Italian or Albanian and Polish groups operating in Germany. They are however reported to produce significant profits and seem to be involved in types of crime that require a sophisticated network of international connections. This would suggest that their importance is underestimated. It also suggests that they are based in Germany using the excellent infrastructure to their advantage without operating significantly within the German borders.

Corruption is a key operational risk and is closely linked to transnational crime. Current estimates place the costs of bribes paid to gain business advantage at US\$ 1 trillion annually; the embezzlement of public funds or theft of public assets by corrupt officials, often in the

pay of criminal elements, is currently unquantifiable. The scale of global corruption shows no sign of abating. World Bank measures indicate that the former Soviet Union, sub-Saharan Africa, South Asia and Latin America remain weak in control of corruption, control in the OECD countries are generally considered to be significantly higher.

The linkage between corrupt practices and organised crime becomes clear when companies try to break out of such practices as this is seen to represent a breach of trust. The other party may react violently to the loss of income, even arguing that it is doing so out of principle. In a recent case a Western company active in Russia dismissed a locally based manager after discovering that he was paying bribes to the tax police. Soon afterwards the management started to receive death threats from organised crime groups linked to tax officials. This is not an isolated example and not confined to Russia or even the Former Soviet Union.

Greater awareness of the social and economic costs of corruption will also boost national and international reforms, but progress will remain uneven. Some countries will increase anti-corruption activities to attract foreign investment, however in those countries where organised crime is as powerful as the legitimate government it will be business as usual, not least as such organisations have benefited from inward investment due to high levels of corruption.

As laudable the efforts of international development banks and other international organisations in the fight against corruption are, corruption will remain as pervasive as ever as long as organised crime is allowed to dominate in certain markets and countries. This is especially the case in countries with a close linkage between government and organised crime.

Probably the strongest single factor contributing to the fight against corruption are the steps introduced by various governments in the wake of the September 2001 terrorist attacks which have resulted in a crack down on money laundering and which has made life for criminal organisations more difficult. Given however the ingenuity of the criminal mind, the economic rewards and even the tacit support of criminal organisations at a government level in certain countries the momentum could be difficult to maintain on this front.

As if this were not enough, future risks are just as threatening to the EU as are the expected increase in traditional organised criminal activity. One of the biggest new scams used by organised crime cells is “missing trader intra-community fraud” (MTIC). This exploits the movement of goods between states on the basis of VAT rebates by criminals purporting to sell goods into certain markets. Along similar lines, “carousel fraud” is a common feature of the retail industry. For instance, a German trader purchasing VAT-free goods from an EU state will sell them into a network of buffer companies before a final broker company buys the goods and sells them back to another EU member state. The broker then reclaims the VAT from German customs. The goods can be recycled many times before being discovered, hence the name of this lucrative scam which costs the public purse billions every year.

In this scam criminal organisations control the entire loop and often the goods are sourced and supplied from money laundering locations such as Dubai. British customs estimates that these criminal activities result in a direct cost of €3 billion per year, the total cost to the EU is in the region of €20 billion per year. Such scams illustrate the situation well: as soon as one loophole is closed, new ones will emerge for organised crime to move into. If substances are banned, a new market is created. Thus the internationalisation of certain drugs and their trade has resulted in a global narcotics market of \$ 334 billion, any future move to ban substances or radically increase prices through taxation will enhance this trade.

A threat which has emerged recently and is set for massive growth is Cyber crime. The absence of borders, technical complexity and low operating cost of internet activities offer organised crime a major advantage in competition with state-based law enforcement agencies. Cyber crime is by definition global and is often based upon loose networks collaborating on an ad hoc and need to know basis, making detection and prevention extremely difficult. As more and more legitimate financial systems migrate on line, so too will organised crime. State sponsored cyber attacks are today a concern and this threat will increase. The US government has identified China, Russia, North Korea and Iran as key offenders. Such cyber attacks are not only focused on governments with a view to change the political landscape but also increasingly such attacks are aimed at companies in key strategic sectors such as the arms industry or research organisations.

Whilst many of such attacks are assumed to be state sponsored there are indications that private organisations are using the internet to collect commercial information in order to reduce their own R&D activities and thus improve their market position at the expense of their competitors. It is only a matter of time before organised crime will offer their services in this field to companies wishing to short circuit the market.

An indication of this is the rapid increase in identity theft which cost consumers, business and government an estimated \$ 200 billion in 2003 with annual growth rates of anything up to 300 %. The damage to companies is not only financial, it can also affect reputation, market position and even share price. Just recently the British company, Norwich Union Life and Pensions, was fined by the FSA for putting its customers at risk of fraud by failing to protect confidential information. It has emerged, that fraudsters had attempted to cash in 74 policies after gaining access to customers names and other confidential details. An added concern is that as the value of a brand increases, the cost of corporate identity theft will grow.

There is a deep concern that the links between transnational organised crime and political violence will continue to grow. There are today examples of armed groups resorting to smuggling to finance violence and terrorist activities. Narcotics have or are being smuggled by the Kosovo Liberation Army, the Kurdish Workers Party, the Taliban and Hizbullah. In the most extreme cases the prominence of organised crime will serve to undermine law and order in parts of Latin America, Africa and the former Soviet Union, or at least become its substitute as it already has in certain regions.

Globalisation has acted as a facilitator of growth; it also serves to increase susceptibility to risk through interconnectedness between business, markets, people and nations. We have become a borderless society. In 1995 Bill Gates in his book "The Road Ahead" perceptively wrote the following: "The digital revolution will give us more control over our lives and allow experiences and products to be custom tailored to our interests. Citizens of the information society will enjoy new opportunities for productivity, learning and entertainment. Countries that move boldly and in contact with each other will enjoy economic rewards. Whole new markets will emerge, and myriad new opportunities for employment will be created".

He was right, only the digital revolution has also greatly benefited the criminal element of our society, and that is a trend which was not foreseen in the mid 90`s of the last century. At the same time, the pace of change, powered by the internet, has increased dramatically, meaning that the consequences of a risk event may become wider and more immediately felt than previously envisioned.

As much as globalisation has helped legitimate businesses to grow so it has also enabled organised crime to exploit both the structural change brought about by globalisation and the technology which has driven globalisation. If that is the case then it follows that national governments are powerless to contain global criminal activities as little as they can expect to control the process of globalisation. Organised crime is a global activity and can only be fought at a global not national level.

Remarks:

Opinions expressed in this contribution are those of the author.



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