



Report on Wilton Park Conference WPS09/5

TACKLING ORGANISED CRIME: ASSESSING THE IMPACT OF THE ECONOMIC CRISIS

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in association with the Home Office

Summary

The definition of 'organised crime' and the absence of current data on trends can be problematic. However, its scale and the resulting damage to individuals, communities and ultimately the credibility of states and law enforcement should not be under-estimated. It is evident that criminal gangs are involved in a wide range of illegal activities and that they are frequently entrepreneurial in their ability to shift interests to meet new market demands. It is still too early to discern the impact of the economic downturn, although much of the large scale fraud and corruption which flourished in the global boom is now being brought to light under greater scrutiny and regulation. On the other hand, the downturn may create opportunities for criminals at a time when financial institutions are seeking investments from new sources.

There is a trend amongst organised criminals away from traditional hierarchical groups towards networks based on temporary coalitions often on a transnational basis. These can be more difficult to detect and dismantle. In some countries, the relationship between criminality and the state is blurred. This is typically the case with failing states but there are countries with robust structures which tolerate and, in some cases, support organised crime.

Cyber-crime is on the increase and is likely to rise exponentially with the availability of personal data and documents on the internet becoming more widespread. The internet is also widely used to facilitate other types of crime.

The most successful strategies to tackle organised crime require an international response with co-ordinated efforts between states and across public and private sector. Transnational criminality is often driven by a sense of inequality and this should be taken into account when seeking ways forward.

Understanding Organised Crime

1. One of the first and most profound challenges facing those who seek to analyse or combat organised crime is that of defining either what constitutes organised crime, or the scale of organised criminal activity. There is currently no universally recognised definition of organised crime and there are no credible estimates of its scale or its cost to society. Policy assessments in this area have tended to attract criticism for exaggerating the threat in order to secure funding. Occasionally the result has been to lift organised crime up the policy agenda, and to attract a commensurate rise in resources dedicated to the problem. However, this strategy has often been self-defeating. Weaknesses in the initial analysis preclude effective policy responses and public panic drives poorly directed law enforcement efforts. In the case of drugs, this scenario has been repeatedly played out around the world with enforcement activities being directed towards end users, despite the growing body of evidence showing this to be an ineffective use of resources.

2. Opinion remains divided on the merit of grouping various distinct types of criminality under the broader heading 'organised crime'. In extreme, this approach can group a huge spectrum of activities from street level drug dealing to cyber crime to State level corruption. This threatens to give the impression of an apparently impenetrable body of criminal activity so complex and pervasive in nature that attempts to address it are futile. More moderately, the tactic of grouping certain criminal activities under the heading of 'organised crime' has been adopted by numerous policy makers and agencies around the world. It is a tactic that has some utility for marking out jurisdictions and in so far as the same criminals are often involved in various

types of criminality and employ similar methods and organisational principles across them.

3. The United Nations (UN), in formulating its Convention Against Transnational Organised Crime chose not to employ a static, list approach to its definition. It chose to define the group of individuals concerned rather than the phenomena. This was in recognition of the fact that organised crime continues to evolve and would soon make any such list redundant. Some in the field are of the opinion that aggregating any different crimes together is ultimately unhelpful. While the public, policy makers and politicians are all comforted by simple headline figures, they rarely have much utility in practise.

4. The debate over what constitutes organised crime is complicated further by the historical and cultural lenses through which perspectives on organised crime internationally must be viewed. The legality of various activities has changed over time with the prohibition of alcohol being a notable example. More problematically, interpretations of legality shift across State and cultural boundaries. Activities which are commonly illegal in the West may not be so in other cultures. Even if they are technically illegal in other cultures, they may be morally and socially acceptable. Often activities such as growing crops producing drugs are rooted in local identity and, in the absence of constructive intervention, their continuance will be essential to community cohesion and the maintenance of an acceptable standard of living.

5. Having overcome the obstacles to establishing what does and does not properly constitute 'organised crime', policy makers are then faced with the challenge of collecting appropriate data to inform policy responses. Rigorous data is hard to generate for many of the activities labelled 'organised crime'. For example, money laundering and trafficking by their nature, elude the collection of empirical data. The data we have on other aspects of organised crime takes a long time to collect, typically a 2-3 year lead-time. Even after in-depth study, data around organised crime can be open to doubt. Official figures appear to suggest, somewhat incredibly, that 40% of cocaine produced internationally is intercepted by law enforcement. Efforts to speed

up the collection and dissemination of empirical data, such as the 'Pulse Check' project in the US, have not generally met with success.

6. Alternatively, there is an argument from an operational perspective that the academic collection of data, in addition to being un-actionably slow, only succeeds in producing dry technical distinctions that are not crucial to efforts to combat criminality. Here, short to medium term intelligence is much more useful and often readily available if collected from an imaginative range of sources, for example, hospital admission data. In addition, open source information remains to be fully exploited by government agencies.

7. This tension between the academic collection of data and the operational need for information is an important one for work in this area. Criminal organisations can be nimble and proactive, not constrained by definitional concerns. At the moment, journalism is often the only timely resource for developing trends. While the responses of states to evolving criminality must be similarly nimble, a proper definitional understanding of crime backed by empirical data is also important. For instance, establishing the difference between criminal enterprises which seek to evade the State and those which seek to challenge its authority.

Economic Impacts of Organised Crime

8. In the UK, the government is not resigned to the inevitability of a severe economic downturn driving a growth in crime. Figures collected so far demonstrate some flux, but no discernible trend. While previous recessions have been associated with increases in criminal activity, other contributing factors from those periods must also be taken into consideration. The recession which the UK endured in the early 1990s coincided with a growth in crime. However, that recession was entered at a point when general levels of criminal activity had been rising continually over a period of decades. The current recession coincides with a period when low level, acquisitive crime has been falling for over a decade. Measures such as increased numbers of

police officers, target hardening, incorporating crime in overall planning policy and improved offender management regimes, have all made society more resilient to low level crime.

9. It seems likely that the global economic boom accommodated a great deal of fraud and corruption. With the onset of the downturn much of this fraud and corruption is being brought to light. The difficulty of obtaining credit and the reluctance of banks to lend will likely serve as a barrier to much of the credit card and mortgage related crime which was previously rife.

10. In the finance sector more generally, there is the possibility that the sub-prime crisis will drive banks to be more diligent in understanding the assets which they hold on their books. This diligence may be bolstered by a closer regulatory regime. However, it seems just as likely that the downturn will present an opportunity to organised criminals and money launderers as banks, desperate for investment, become even less scrupulous and more willing to accept funds which come from dubious sources.

11. In some regions and sectors, such as the natural resources and international construction markets, the global boom fuelled corruption to such a extent that it is now endemic. Here, economic downturn can hardly drive any increase in an activity that has already reached saturation point!

12. Once again, definitional and data collection problems appear to preclude any concrete predictions in the field of organised crime. It is possible to adduce various plausible, but quite contradictory, implications around the impact of an economic downturn on organised crime. For example, it may be the case that the demand for counterfeit goods will increase as disposable incomes fall and fewer people can meet the cost of authentic luxury items. However, it might equally be the case that, in an era of growing austerity, absolute demand for luxury items, real or counterfeit, tails off, and the market for counterfeit goods goes into decline. The problem of identifying trends in the counterfeit goods market is compounded by the fact that there are few

reliable estimates of the current size of the market, and thus no real, credible starting point for the analysis.

13. In the case of narcotics specifically, it appears that the effect of an economic downturn will be negligible. There is no evidence that drug use has any correlation to the economic cycle. Rather, it appears to be driven by social trends. The dramatic upturn in violence which has been witnessed in Mexico has been consistent through both the boom and bust phases of the latest economic cycle.

14. Whatever the net effect on organised crime, it does seem inevitable that the economic downturn will be a source of upheaval in criminal enterprises. Some criminal organisations may be forced to move into new types of activities which are more resilient to the effects of recession. Criminals already active in these areas will be forced to defend their market share in the face of stiffened competition. This upheaval and the organisational change, new behaviours, competition and conflict which it may provoke could have the effect of making previously settled enterprises temporarily vulnerable to observation and penetration. To this end, the economic downturn can be seen to present law enforcement agencies with an opportunity.

15. In the labour market the downturn presents a further opportunity for law enforcement in terms of the numbers and quality of personnel which they can attract. The United States Border Guard struggled to attract appropriately qualified candidates when its recruitment drive coincided with a buoyant labour market offering other, often better paid, forms of employment.

Current Trends and the Organisation of Organised Crime

16. There has been a much observed trend amongst organised criminals away from traditional, hierarchically organised groups. Historically, these groups have sought to own territories or 'turf' on which they would control a range of criminal activities. Their structure was relatively static in nature and

the groups involved would rarely seek outside engagement. By contrast, easier international travel, the free movement of goods and improved communications have facilitated the rise of organised criminal networks. These networks are made up of temporary coalitions of criminals often acting on a transnational basis. Those involved bring together the skill sets, knowledge and regional access necessary for a specific criminal enterprise. The networks are temporary and those involved have shown a willingness to work across a range of cultural, religious and national divisions traditionally thought to be barriers to co-operation.

17. The effect of these networked structures is to compartmentalise conspiracies. Typically very few, if any, of those involved in a network will have knowledge of the entire crime. Organisationally, these groups have benefited from globalisation in the same way as many multi-national corporations. From a law enforcement perspective, the result appears to be networks made of cells which, due to their transitory nature, are easier to penetrate individually. However, tracing all the cells and bringing down an entire network appears to be increasingly difficult. The extent to which these new networked structures have replaced traditional hierarchical structures is unclear. Networked structures are certainly in the ascendancy and the organisation of most modern criminal enterprises now seem to be a hybrid between the two.

18. The relationship between organised crime groups is extremely heterogeneous and fluctuates with time. There is a general concern that even in countries most ostensibly free from corruption, organised crime interests were making increasing inroads towards the centres of power and authority. In the US for example, senior Eurasian figures associated with organised crime now have sophisticated lobby machines pursuing their interests. Those advocating these criminal interests are thought to include establishment figures, such as former heads of both domestic and foreign intelligence agencies.

19. In other cultures, the place of organised crime in mainstream life has been a feature for so long that it is now firmly ingrained. The Yakuza are extraordinarily well established, connected and tolerated in Japan. Their strength relies upon integration and tacit support from the State. Their representatives operate openly and senior figures offer perspectives to popular debates. Organised crime in Japan is now a mature, stable market. While authority is derived from menace and the threat of violence, there is little actual violence. In fact, the Yakuza serve a quasi-regulatory role by acting a barrier to other destabilising criminal actors operating in Japan.

20. Beyond tacit state acceptance of organised criminal activity, there are numerous places in the world where the distinction between the state and organised crime interests is increasingly blurred. Typically it is weak and failing states which are used as vehicles for powerful criminals to further their interests. However, Russia is a worrying example of an ostensibly powerful country in which criminality is increasingly perpetrated by, or with, the collusion of state institutions. The Federal Security Service of the Russian Federation (FSB), now effectively runs a national racketeering operation. In the private sector, businesses can no longer rely on the state to be a neutral arbiter of competing interests. Russian firms with close connections to the state increasingly employ a corrupt judiciary and officials to pursue their interests and facilitate hostile takeovers. Notably, the furniture retailer IKEA recently announced an end to its operations in the country citing levels of corruption and state complicity as factors.

21. The corrupt interference of the state in business matters has also spread to the banking sector. Deutsche Bank was recently frustrated from recovering a large bank loan from Alpha Group by the Russian judiciary. While the Russian government eventually intervened to repay the loan on behalf of Alpha Group the incident has been seen as a worrying precedent. An estimated \$420bn worth of loans are currently owed by Russian firms. The security of these loans has been increasingly cast in doubt. The growing involvement of the State in private business was a clear trend through the Putin presidency and the economic downturn has facilitated this trend even

further in recent years. It is understood that there is a 12% kickback on government bailouts, to be paid into unnamed Cypriot accounts.

22. The relationship between the state and the criminal enterprises within it can be a fluid one and changes in the dynamic can entail problematic upheaval. This has been evident in both Colombia and, more recently, Mexico. While the trend in other parts of the world has been toward the growing influence of organised crime on the state, in Mexico there have been concerted efforts to disestablish drug cartels. This has resulted in a reduction in corruption, but a huge upsurge in violence. Organised criminal interests, no longer able to buy the state, are seeking instead to bully it. If current trends are to be reversed, criminal interests will have to be disestablished from a multitude of weaker states around the world. Achieving this without the levels of violence witnessed in Mexico may present a serious policy challenge.

23. As well as facilitating most other types of organised crime, the internet has been home to a significant escalation in international cyber crime. While data on cyber crime remains somewhat unreliable, best estimates suggest that it has increased by 9% in the UK in the last year. Analysis suggests that this is currently a transition period and that, left unabated, there will be an exponential rise in cyber crime in the coming years.

24. As with other types of crime, a growing professionalism and profit motive has been witnessed amongst cyber criminals. There is less amateur and 'on-line vandalism' and a significant increase in money making activity between organised, loosely coupled groups. There are a number of observable factors with the potential to escalate cyber crime in the coming years. Firstly, the number of people with large amounts of personal information on the web continues to increase. In addition, access to the web is becoming easier and more widespread. However, criminals who indulge in cyber crime are likely to target the more affluent of the one billion people who currently use the web. The internet is becoming a web of data, as opposed to a web of documents, thereby increasing its susceptibility to criminal intervention.

Combating Organised Crime

25. As a result of its often insidious, low profile nature, organised crime rarely catches political or public imaginations. Nevertheless, continuing efforts against organised crime are essential. At a local level, many of the activities which come under the banner of 'organised crime' can have devastating effects on communities and on individuals. At national and regional levels, senior organised crime figures seek to corrupt and undermine key institutions whilst damaging confidence in the rule of law.

26. The UK is generally accepted as having a relatively strong regime for combating organised crime, guided by the strategy set out in the 'One Step Ahead' paper (2004). The strategy and subsequent acts of Parliament have equipped UK law enforcement agencies with a range of sanctions which are among the best in the world, in terms of the restraints and frustrations which they enable authorities to impose on criminals. In addition to the Serious Organised Crime Agency (SOCA) and a dedicated unit in the Crown Prosecution Service (CPS), the UK has employed regional organised crime squads and a national intelligence doctrine. Powers contained in the Policing and Crime Bill and a new strategy from the Prime Minister's Strategy Unit (PMSU) are intended to further invigorate work on organised crime. The PMSU will advocate a more strategic approach to the problem with a dedicated unit being located in the Home Office and direct ministerial responsibility. In acknowledgement of organised crime's cross-cutting nature, the new strategy will recommend activity across government departments to create an environment which is more inherently hostile to organised criminality. The proposals will include a push to recover criminal assets, increasing use of tax powers and the blocking of mobile phones in prisons.

27. It is likely that some countries, notably the US, have lost ground in the fight against organised crime since 9/11. By 2001, in response to the growing threat from transnational crime, the US had developed well resourced, robust intelligence and law enforcement structures. With the dramatic re-prioritisation which took place after the attacks on New York, these structures were

decimated by the re-deployment of manpower. In Europe a similar pattern was discernible. Interpol's 'Project Millennium', established in the late 1990's was similarly wound down. While the US and some European States have been rebuilding their capacity in recent years, the shift in focus towards terrorism coincided with a key period in the development of transnational crime interests. Since 2001, the fruits of globalisation and improved communications have become increasingly apparent to various criminal figures and, as a result, they have managed to establish and consolidate their networks and their influence. This is lost ground which must now be recovered.

28. Organised crime and efforts to combat it represent yet another area where the public and private sectors exist in an uneasy coalition. In the UK for instance, companies in the FTSE 250 may be spending in excess of £500 million a year dealing with aspects of organised crime. More co-ordinated public and private sector spending on complementary activities would greatly enhance the UK's ability to combat organised crime overall. However, both parties perceive broad barriers to effective co-operation. The private sector often sees law enforcement as a bottleneck in its efforts to protect itself from organised crime. There is also frustration at the public sector's reluctance to share intelligence with the private sector and that, in some cases, carefully collated prosecutions are not followed through.

29. Conversely, the private sector has been criticised for its failure to co-ordinate properly its activities. Effective action is dependent on companies ceasing to consider fraud as a competitive issue, and disclosing fully the impact which organised crime is having on them. The private sector's commitment to tackling organised crime is rarely motivated by concern for the public good and law enforcement, and prosecution authorities are rightly concerned about being seen to be policing narrow corporate interests. In some cases, the private sector's complaints about the failure to tackle organised crime are undermined by their complicity in it elsewhere.

30. Resisting the reactionary instincts of some elements of the press, public and political opinion are essential to well targeted measures against organised crime. Poorly thought out or populist policies can exacerbate the collateral damage resulting from organised criminal activity. The US-Mexico border serves as an example of this. Before 1990 the illegal movement of people across the border was disorganised. The decision to tackle illegal immigration at the border, rather than in the work place, can be viewed in hindsight as simplistic and politically expedient. The result was a boom in the people smuggling industry which has made crossing more dangerous, resulted in more individual immigrants and increased the concerns of the US border communities through which the flows of people are now channelled. This in turn has given rise to increased corruption and a vigilante culture.

31. The authorities can usefully target their efforts against the class of 'trustees' and offshore locations around the world which now underpin transnational organised crime. These offshore destinations have effectively 'sold' their sovereignty to criminal interests and act as channels for the legitimisation of dirty money. These locations and individual trustees are a nexus for various criminals and types of criminal activity. They thrive in the absence of genuine global leadership around the problem of organised crime and targeting them will require multi-lateral approaches which have been all too rare to this point. The existence of this band of trustees illustrates that international organised crime is not a problem which can be dealt with by arrests and seizures alone. In order to combat crime successfully, it is necessary to address the underlying problems of systems and environments rather than just relying on the traditional tools of law enforcement.

32. At its most basic level, transnational criminality is often a phenomenon driven by inequality. Huge swathes of the world have been left behind in the rapid development and rises in prosperity which the rest of us have enjoyed in recent decades. Solutions which are not sensitive to this, and do not attempt to address the problem at a developmental level, risk being judged as protecting the status-quo, policing the interests of the West and, ultimately, being both ineffective and illegitimate.

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