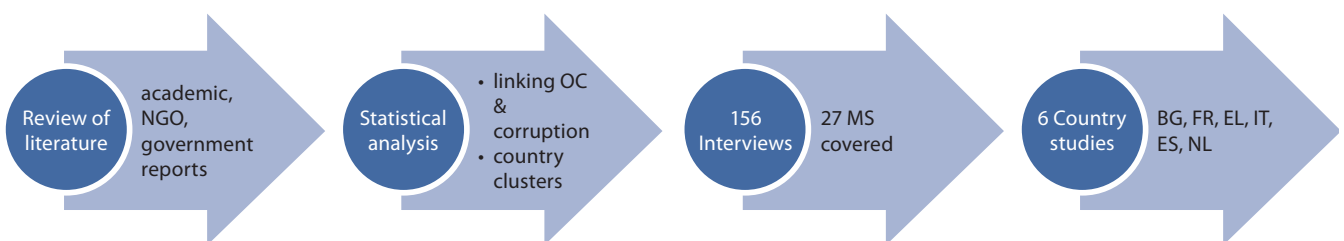


EXECUTIVE SUMMARY

The European Commission (EC) contracted the Center for the Study of Democracy (CSD)¹ to analyse the links between organised crime and corruption. The main objectives of the study were to identify:

- causes and factors that engender corruption by organised crime (*including white-collar criminals*)² within the public and private sectors,
- the scope and the impact of that corruption on society and institutions;
- organised crime's main corruption schemes, the areas or risks they create, and the related differences amongst European Union (EU) Member States (MS);
- best practices in prevention and countering corruption linked to organised crime;
- framework for a future assessment of trends in the link between organised crime and corruption, as well as corresponding counter measures.

To accomplish these objectives, the CSD used robust quantitative and qualitative methods. Following a comprehensive literature review (presented in Chapter 1 of this report) the team undertook a series of analyses of statistical and survey data indicators related to corruption and organised crime. The main evidence for the report comes from 156 semi-structured interviews conducted across all 27 Member States. The views consulted include those of anti-corruption bodies, law-enforcement, judiciary, private sector (lawyers, auditors, and fraud-investigators), academics and journalists. In-depth country studies, based on a larger number of face-to-face interviews and more comprehensive secondary sources were undertaken in six countries (Bulgaria, France, Greece, Italy, the Netherlands and Spain).



The above methodological approach, and in particular the reliance on qualitative measures and subjective (albeit expert) opinions, entail some limitations:

- the opinions of interviewees do not necessarily represent the general situation in a MS
- an interviewee's points made in one MS might be applicable to others. The interviews differed in quality and the types of interviewees were not the same in all contexts.

¹ The research was carried out through Project One, CSD's consulting arm between January and August 2009.

² Throughout the report the term 'organised crime' is inclusive of 'white collar criminals'.

Across the EU, there is **unequal understanding** about how organised crime uses corruption. Only a handful of governments have paid attention to the issue, and have analysed it in depth (UK). Some governments that declined to participate in the study, officially stating there was no organised crime (Cyprus) or corruption (Luxembourg) in their countries. Some countries also lack empirically grounded research on organised crime at all (Cyprus, Malta and Portugal). For most others, such research was at best patchy and incomplete.

For the above reasons the report avoids making assertions about the state of affairs in individual Member States. **The MS abbreviations indicate only the interviewee's country, not a conclusion that applies only to that MS.**

Key findings

The statistical analysis showed a distinctive picture that characterised the intensity of corruption in different Member States. Based on a statistical analysis of 14 indicators (measuring corruption, organized crime, the effectiveness of government, macro-economic indicators and the grey economy), seven clusters of countries emerged. Starting from the cluster where the manifestation of corruption and organized crime was weakest, the clusters were: (1) Denmark, Finland and Sweden; (2) Austria, Belgium, Ireland, Germany, Luxembourg, the Netherlands, Slovenia, Spain and the UK; (3) France; (4) Estonia, Latvia, Lithuania, and Portugal; (5) Czech Republic, Cyprus, Greece, Hungary, Malta and Slovakia; (6) Italy; and (7) Bulgaria, Poland and Romania.³

The study also noted that historic and social and economic differences throughout the EU modulate the ways organised crime uses corruption:

- Historic factors: large, informal economies and criminal transformations of security services in Eastern Europe have arisen amid economic transitions and privatisation processes; violent independence movements in France (Corsica), Spain (Basque Country) and the UK (Northern Ireland);
- Social factors: differing sizes of illegal markets and income disparity throughout the EU; differing size and specificity of immigration; closed professional networks (e.g. judiciary) or elite networks;
- Cultural specifics: levels of informality of social relations, or the importance of family ties.

The above factors require far more extensive research, but it is important that policy makers and analysts account for them in devising EU-wide policies and interpreting quantitative data.

The report presents two different analytical views of organised crime's use of corruption:

- First, it examines how politicians/ government administration, police, customs, the judiciary, and private companies are targeted.

³ The interview data was not representative enough to fully explain the differences amongst MS observed in the statistical analysis, and the clusters were not analysed in any depth in the report.

- Second, it depicts how corruption facilitates the operation of illegal markets (illegal cigarettes, drugs, prostitution, car-theft and extortion).

An in-depth analysis of illegal markets is not included in the Executive Summary, because it repackages data from other chapters. Still, the Executive Summary allows a thorough understanding of the systemic use of corruption.

The report concludes that prostitution and illegal drugs markets exert the most corruptive effect in the EU. It shows how some illegal markets, like the illegal cigarette trade, target primarily customs or local governments and law enforcement in border areas. In other illegal activities, such as motor vehicle theft and protection rackets, corruption is needed much less because of the nature of the criminal operations.

The prostitution market provides a good example of the wide-range of corruption tactics used by organised crime. The present research shows that members of police forces throughout the EU engage in corrupt exchanges with prostitution networks, even extorting bribes or even directly running brothels. Such criminal networks use corruption to obtain information on investigations, ensure continuity of operations, or even to develop monopolies in local markets. Immigration authorities, including embassy or border guards, have also been targeted to ensure legal entries or stays of prostitutes. In Member States with legalised prostitution (e.g. Germany and the Netherlands) criminal groups have corrupted some local administrative authorities in order to avoid brothel regulations. Finally, criminal networks also use prostitutes to lure law-enforcement officers, magistrates and politicians into inappropriate behaviour, later using evidence of the behaviour to blackmail the officials for protection or information.

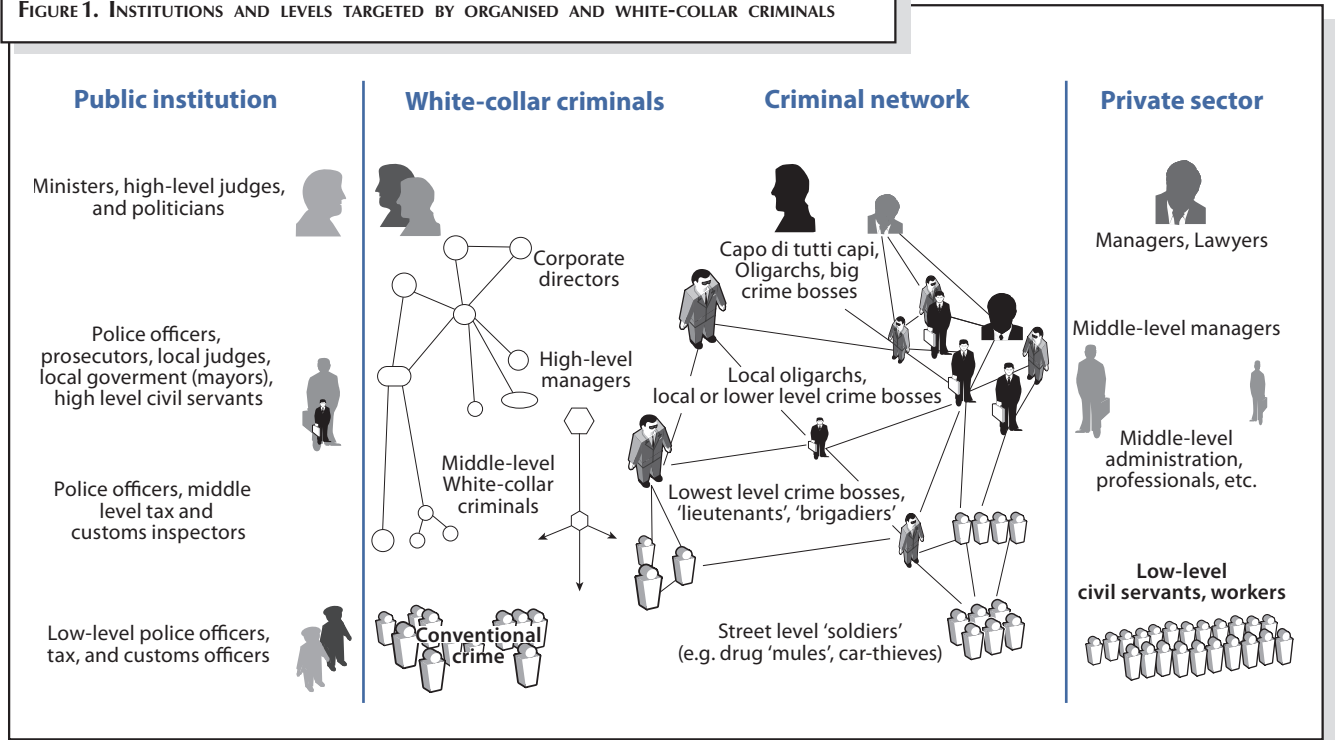
Targets of corruption

Due to the big differences among Member States' institutions, the criminal structures in the EU take advantage of corruption in a variety of ways. In some countries (IT, BG, RO), 'political patronage' creates a vertical system of corruption that functions from top to bottom in all public institutions: administrative apparatuses, the judiciary and law enforcement (i.e. police and customs). In other countries politicians, magistrates, and white-collar criminals form closed corruption networks that are not systematic in nature. White-collar crime at the middle level of government bureaucrats is common (at various degrees of intensity) to almost all Member States. In countries with low level of corruption, the cases are sporadic. The most wide-spread and systematic forms of corruption targeted by organised crime is associated with the low-ranking employees of police and public administration. Organised crime also targets tax administrations, financial regulators and any other regulatory body that might impact criminal activities,⁴ but in a less systematic and significant way.

⁴ For instance, environment regulators that might detect environmental crime; or forestry agencies that might prevent illegal timber exports; arms-exports control bodies; gambling industry regulators; anti-money laundering bodies; museum and national heritage regulators that impact trafficking in antiquities;

In addition to public institution, criminal networks have a special interest in the private sector. By targeting company employees they have great opportunities to extract significant revenues, avoid anti-money-laundering regulations, or facilitate operations of in illegal markets. Oftentimes, the efforts of organised crime to influence private sector employees fall outside the priorities of law enforcement and judicial institutions.

FIGURE 1. INSTITUTIONS AND LEVELS TARGETED BY ORGANISED AND WHITE-COLLAR CRIMINALS



Political corruption

Political corruption is organised crime’s most powerful tool. Two different opinions could be discerned. In most of the EU-17⁵ (except Greece and Italy) political corruption is primarily associated with ‘white collar crime’ (DM, FI, IE, SE, UK). In EU-10E countries (Greece and Italy), political-level corruption was occasionally linked to organised or white collar criminals (often referred to as ‘oligarchs’, ‘barons’, or ‘tycoons’). Organised-crime-related corruption amongst Members of Parliament (MPs) or high-level political appointees (heads of agencies, departments) were quoted by several MS (CS-BG, CS-EL, CS-IT, RO).

Local level administrative and political corruption was more commonly observed across the EU. Examples of mayors or city councillors convicted for associations with organised and white-collar criminals were found

⁵ In the process of the research a number of important differences (historical and social) emerged that allowed to make some generalization about two groups of Member States. The first group, to which we refer as **EU-10E** (to avoid confusion with the standard reference used EU-10) includes: the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Latvia, Lithuania, Estonia, Bulgaria and Romania. The second group **EU-17** includes Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. This is done to facilitate and simplify the referencing, and to avoid stereotypical labels such as ‘Western Europe’ and ‘Eastern Europe’.

throughout the EU (BG, CZ, DE, EL, ES, FR, HU, IT, NL, PO, RO). Local political corruption was especially observed in regions economically dependent on illegal markets (e.g. along EU's eastern land borders), the grey economy (tourist areas / booming real estate areas such as Costa del Sol in Spain) and areas with a strong presence of organised-crime-controlled businesses (Corsica, Greece, Southern Italy, and various small towns in EU-10E countries). In these regions, organised and white-collar criminals use their legitimate face to finance and support politicians or even directly participate in local politics.

The case studies on Bulgaria, France and Greece showed that anti-corruption activities and the public visibility of political corruption are especially strong when governments change.

Police corruption

Police have the most direct exposure and frequent contacts with organised crime and, as such, organised crime most often targets them. The main reasons why organised crime uses corruption are to obtain **information** on investigations, operations, or competitors, (FR, NL, UK) and protection for continued illegal activities. Occasionally, corrupt officers become directly engaged in criminal activities, running drug distribution rings or prostitution rings (CS-BG, CS-ES, CS-FR, UK).

Both institutional and external factors make the police vulnerable to corruption. In EU-10E countries, the low prestige level of police leads to organised crime's recruitment of officers with low educations and problematic behaviour. The closed nature of the police and their relative isolation from other institutions leads to a high level of loyalty between officers and protection of their colleagues. Nevertheless, in countries with less corruption, group loyalty has the opposite effect on police corruption: even though when police work is not considered prestigious or well remunerated, police officers report or put pressure on corrupt colleagues (DE, DK, FI, SE, NL, UK).

Political and judicial influences on police can facilitate corruption. In some MS, local government officials under the influence of criminal networks exercise pressure or even influence the appointment of high-level police officers (BG, FR, HU, IT, LV, RO). This type of influence can reach national levels, where large criminal entrepreneurs control appointments of staff in police forces and special services. Pressure from prosecutors and magistrates can obstruct police investigations of influential businessmen who are part of criminal networks.

Intermediaries, such as former police officers or special service agents, lawyers and informants can facilitate corrupt exchanges with criminal groups. Clientelist networks can also facilitate direct contacts between criminals and police officers. Such networks involving active or former police officers, investigators, magistrates, businessmen and politicians are typical for countries like Bulgaria, Cyprus, Greece, Portugal and other EU-10E MS.

Judicial corruption

In the majority of Member States, organised crime targets the judiciary, particularly the courts, much less than the police or politicians. In some MS, there have been hardly any detected cases in recent memory (DK, FI, NL, UK). White-collar criminals exert more pressure on the judiciary, as they have easier access to social networks that facilitate corruption. The most frequent reasons to corrupt magistrates are to avoid pre-trial detention, to delay court action (CS-BG, CS-EL, CZ, PO), or influence the trial outcomes. Judges, prosecutors and their administrative staff are also corrupted to leak information to criminals about ongoing investigations. Members of the judiciary are bribed to consult or advise criminal networks on avoiding detection and investigations (ES, NL). Finally, companies related to organised crime or white-collar criminals corrupt the judiciary (often via political influence) to rig public tenders (i.e. by disputing the result of tenders) (BG, IT, LT, PO, RO).

Political influence over the courts is a key factor of judicial corruption, especially in countries with high levels of political corruption. The relation of the Prosecutor General to the government and High Court Judges or Supreme Judicial bodies to the Parliament affect the independence of the judicial system. (CS-BG, CS-ES, CS-FR). The political dependence of prosecutors in countries where the Minister of Justice is also Prosecutor General was also highlighted (CS-BG, CS-FR, PL). Legislative loopholes that allow a high degree of judicial discretion also make the judiciary vulnerable to corruption (CS-BG, RO).

Criminal groups corrupt the judiciary by accessing magistrates via social, political, professional and family networks. Elite social networks allow criminals to enjoy direct contact with members of the judiciary. Professional networks also facilitate such contacts, where defence lawyers (often former prosecutors) intermediate between organised crime and the judiciary (BG, EL, PL).

Customs corruption

Corruption of customs officers mainly helps organised crime avoid detection of smuggled goods, avoid investigations (where customs possess investigatory powers) or facilitate the commitment of customs fraud (reduce import duties). It is particularly associated with the smuggling of excisable goods: particularly cigarettes (AU, BG, CZ, EL, HU, IE, LT, LV, MT, RO), alcohol (BE, BG, CZ, IE, MT, RO) oil and oil products (BG, CZ, EL, IE, MT, PL). Customs officers consider corruption related to drugs as risky, and it is rare (CS-BG, CS-EL, ES, FR, NL, UK), while VAT fraud schemes are likelier to involve customs officers (BG, DE, EL).

The *detected* levels of customs corruption in EU-10E and Greece are markedly different from the rest of the EU. There are numerous explanations for this difference. Eastern land border crossings are under the most pressure, particularly from cigarette traffickers, but also from smugglers of counterfeit or other consumer goods from outside the EU. In small-town border areas, family ties and local politicians also create

favourable environments or pressures facilitating customs corruption. In such areas, local economies are often dependent on cross-border trafficking or shuttle trade.

In most of Western Europe, big sea ports or airports used for smuggling have such large volumes of cargo traffic that smugglers prefer to rely on the low chances of being caught than on corruption. Lower salaries of customs officers in EU-10E countries also contribute to customs corruption. The involvement of law enforcement in customs-like duties (e.g. Civil Guard in Spain, Financial Guard in Italy) reduces corruption opportunities for customs officers in these countries. Finally, many customs agencies do not have internal investigation departments, which negatively impacts the detection of corruption (BE, DK, NL).

Another significant factor that impacts customs corruption is political influence. High-level customs officers (or those at potentially 'bribe-lucrative' border crossings) are often politically appointed (CS-BG, CS-EL). Police corruption may also go hand-in-hand with customs corruption where police officers can racketeer or establish collaborations with customs officials to protect the illegal goods smuggling (CS-BG, CS-EL). The large size of the grey economies of EU-10E and Greece predicates customs corruption that facilitates consumer goods smuggling.

Private sector corruption

Data on organised crime's corruption of the private sector was generally not available, as most governments do not collect such data. Fraud surveys of companies (e.g. Kroll's Global Fraud Survey) do not cover organised crime. Private sector corruption has only recently been included in legislations of (not all) Member States, following the adoption of **Council Framework Decision 2003/568/JHA on combating corruption in the private sector**. 'Collusion' is often a more appropriate way of describing professionals' corrupt behaviour, including that of lawyers, accountants, doctors and real-estate surveyors who provide services to organised crime.

The report has provided a long list of corrupt practices related to:

- the production and procurement of illegal goods (e.g. cigarette factory managers diverting production to illegal markets);
- illegal goods trafficking (e.g. transportation industry staff – drivers, ship, port staff) (AU, BE, IR, PL, RO, SE);
- distribution of such goods (e.g. club bouncers allowing drug sales (ES, UK); car dealers selling stolen vehicles (BG, EL).

Money laundering was identified as one of the key reasons to use corruption in the financial, gambling and real estate industries. In these cases, the most common issue is bribing employees so that suspicious activities won't be reported to regulatory authorities. The private security industry, where security firms are often instrumental in regulating the distribution of drugs in clubs, and the construction industry also cover up illicit cartels.

White-collar-crime-related corruption has a special characteristic in EU-10E countries (and also in Greece, Italy and Spain). In the 1990s, international corporations set up local offices, hiring local managers. In many cases, these local managers represented local criminal elites that facilitated the market entry of the multinationals. Still, at present they continue to use their clientelistic networks against the interest of the parent company, passively and actively using corruption.

Anti-corruption strategies and policies

At the end of each section (on political, police, judicial, customs, and private sector corruption) a list of anti-corruption strategies is provided. The main issue with most anti-corruption tools or policies mentioned by the respondents was the lack of convincing data to demonstrate their impact. It was not clear whether they would work in different cultural and institutional contexts. Therefore, these anti-corruption measures were not listed in the recommendations section, which contains only a couple viewed as most significant.

Country case studies

Countries were selected on the basis of quantitative analyses and initial data that emerged from the interviews. The aim was to include countries where statistical data gave little explanation for the links between organised crime and corruption. The full studies are included as annexes to the present report, but data from them is analysed throughout.

The case of **Italy** reveals that corruption and organised crime in the country are closely intertwined. When investigations into corrupt activities are launched, investigators usually discover some criminal organisation's involvement. By the same token, when organised crime is investigated, the involvement of corrupt politicians or entrepreneurs often comes to light. The relationship between corruption and organised crime in Italy, however, does not lend itself to conventional analyses suggesting the latter is the main cause of the former. In Italy, widespread corruption within the social, economic and political spheres attracts organised criminal groups, encouraging them to participate in corrupt exchanges and indirectly boosting other illicit activities.

Our research showed that corruption is largely a taboo issue in **France**. Neither government nor independent researchers have conducted comprehensive and empirically based analyses of the phenomenon in the recent past. In addition, the French government does not report publicly on organised crime, and academic research is very limited. The public information available nevertheless provides sufficient evidence that in certain geographic areas (Corsica, Southeastern France and large cities) or economic areas (public utility contracts, energy, real-estate or defence sectors) corruption is more often used. Lower level criminals often corrupt police officers (for information leaking or direct involvement in OC activities) and local authorities (regarding public contracts). At the higher level, judicial corruption and undue political influence over criminal justice processes occurs in relation to financial and corporate

crimes. Although single cases are observed in the media the scale of the corruption problem remains unclear due to the lack of comprehensive and systematically collected data. In Corsica, parliamentary reports indicate that the problem is commensurate with that in mafia-affected regions of Italy.

The **Netherlands** for many years has been considered one of the least corrupt countries in the world. Organised crime in the Netherlands can be described as 'transit-related,' involving illegal trade, trafficking and the smuggling of goods and services, taking advantage of the country's role as an important logistical hub. Low-level police corruption and information leakage related to drugs occasionally take place. Although national politicians and the judiciary are not considered corrupt, at the local government and administrative level, white-collar-crime-related corruption persists (in construction industry, in particular). As some officials admitted, however, monitoring is often not robust and detection of corruption low, due to the perceptions of low corruption (NL).

The case of **Spain** was of interest, as it involves a unique mix of historic, socio-economic and criminogenic factors, such as: strong pressures from drugs smugglers (cocaine and hashish); a big prostitution market; the largest recent increase in immigration in the EU; a terrorist problem with ETA, which is a police priority; a coastline that has attracted for years not only tourists but also criminals and money-launderers; and a culture where informal and family relations are of significant importance. The most serious issues identified concerned police corruption and local-level political and administrative corruption relating to real estate and construction. Political influence over the judiciary was also identified as playing a role in local-level corruption and, occasionally, is related to organised crime.

In **Bulgaria**, the borderline between the legal and the illegal economies is much less clear than most of the EU MS. Organised crime generating wealth from drugs, smuggling and prostitution has merged with corporations and groups that own privatised state-owned assets and has transformed its accumulated wealth into political and administrative power. This influence in the political and administrative structures allows companies to use corruption to win public tenders, avoid taxes, and systematically break laws to gain competitive advantages. Organised crime networks have infiltrated most public institutions, including the police, customs and prosecutors' offices. Organised crime highly influences the political elite and political parties at the local level, while some criminal structures have been able to influence MPs or national level politicians.

Although the official view of **Greek** institutions is that corruption is non-systematic and limited in frequency, criminals use it when dealing with the criminal justice process, customs, tax administration, the judiciary and local politicians. Investigations and trials in the past five years have revealed systematic and long-term corrupt relations permeating all these sectors, including political influence at all levels. Corruption pressures stem from both the important position of Greece as a transit point for

smuggled cigarettes, drugs and illegal migrants and human trafficking, and from the high levels of grey economic activity. Bureaucratic and political traditions based on nepotism and informal personal, family, or professional networks create an environment where criminals and their intermediaries easily tap into connections (in public and private sector institutions), allowing them to facilitate crimes or avoid justice.

Recommendations

Recommendations to the European Commission

- **Developing an independent corruption monitoring mechanism:** Although presently monitoring of anti-corruption policies is carried out through the OECD or Council of Europe's GRECO evaluation reports, neither of these assesses the nature or scale of corruption. The issue of corruption is of paramount importance to the EU, and an independent monitoring mechanism should be considered. The monitoring model adopted by EU 'watchdog' agencies like the Fundamental Rights Agency (FRA), is an appropriate approach to corruption monitoring as well. An independent body should collect information that governments might consider negative and, as a result, might not be forthcoming in supplying. This approach will allow the EC to take subsequent steps in developing a comprehensive corruption monitoring mechanism by:
- **Developing a network of independent information sources** that regularly collects, analyses, and transmits qualitative and quantitative data on corruption and anti-corruption policies to the EU corruption monitoring agency.
- **Developing data collection tools:** Periodic corruption surveys by Eurobarometer could be made annual or bi-annual and expanded to survey also businesses about corruption experiences **and** perceptions of corruption.
- **Developing benchmarking indicators:** such benchmarks should be developed to regularly monitor progress in anti-corruption policies and their implementation. They could also draw on criteria or monitoring tools developed under the UN Convention against Corruption.
- **Collect information on powers, capacity and policies of institutional anti-corruption units** (e.g. police, customs, judiciary, local governments. This data will allow watchdogs to adequately evaluate official statistics and develop benchmarks.
- **Include alternative sources of information:** Qualitative data is key to analysing corruption related to white-collar and organised crime. Aggressive methodologies that include interviews with offenders, private sector representatives, former law-enforcement, judiciary, or financial regulator employees, should be exploited for meaningful information.
- In line with Article 83 of the Lisbon Treaty (developing 'minimum rules concerning the definition' of corruption in MS legislation) the EC should **develop detailed guidelines to encompass a broad range of criminal offenses under the definition of corruption in national Penal Codes.**
- **Harmonise statistics on institutional corruption:** Comparable data on corruption in the police, customs, or the judiciary is key to monitoring Member States' anti-corruption efforts.
- **Adding a set of corruption-related questions to the *EU Survey to***

*assess the level and impact of corruption crimes against business:*⁶ This survey could potentially provide the most comprehensive understanding of corruption in the private sector.

- **Developing practical anti-corruption training programmes drawing on EU27 experiences:** The lack of sufficient empirical data and knowledge has meant that anti-corruption training has often remained at a theoretical level. Creating a database of corruption cases from across the EU would help develop adequate training materials.
- **Increase EU funding for empirically based research on corruption through instruments such as DG JLS grants or Framework Programme 7 research.** The report showed significant gaps in research in most MS. Additional empirical data would help law-enforcement better understand the phenomena, and stimulate anti-corruption policy changes.

Recommendations to the Member States

- **Conduct impact evaluation of anti-corruption policies.** Member States' adopt a variety of anti-corruption measures, whose impact is hardly ever being professionally evaluated. Audits and impact evaluations on key anti-corruption policies and measures should be carried out.
- **Public institutions should share information with independent researchers.** In some countries (BG, IT, NL, UK), public (especially police) institutions have open to work with academics and independent researchers. In others, even though no research is done internally, (EL, ES, RO) this cooperation has been discouraged.
- **Improve cooperation and sharing organised crime-related corruption information:** anti-corruption bodies or anti-corruption departments within government bureaucracies (including within the police) have poor understanding (1) of organised crime (2) of the corrupting influence of organised crime and (3) the threat it poses.
- **Increasing internal institutional detection capacities:** at present, public institutions (police or judiciary) follow reactive, rather than proactive, approach to detecting corruption. It is an approach that relies on discovery by chance, rather than on scrutinising or using aggressive methods, such as provocation. The use of internal corruption investigative departments leads to increased corruption detection rates and has a strong corruption prevention effect.
- **Develop internal monitoring and analysis mechanisms:** Key institutions (especially police and judiciary) should increase their understanding and analyse internal **corruption related to organised crime**. Employee surveys or case analyses could help identify vulnerable departments, positions or regions where there are heightened risks of corruption.
- **Increase training and raise awareness amongst public servants and the private sector:** In many Member States, the issue of corruption is a taboo. Complacency gives organised criminals an opportunity to exploit the absence of anti-corruption systems. Law-enforcement and the judiciary should conduct mandatory corruption-awareness training programmes.

⁶ The development of such study was started with Tender No. JLS/D2/2008/01 "The development of an EU Survey to assess the level and impact of crimes against business – Stage 1: Requirements gathering".

