

3. MAPPING CORRUPTION AND ORGANISED CRIME IN THE EU

One of the study's objectives was to develop typologies of common ways organised crime and corruption relate to each other in different groups of EU Member States. An analysis of survey and statistical data on corruption and organised crime attempted to develop such typologies. **This statistical analysis** (presented below) **did not result in clearly circumscribed groups of countries, however**. The various statistical analyses resulted in identifying 7 and 11 groups of countries, with 5 countries forming a cluster of their own. The policy value of these results was limited, while the available statistical data on which they are based is questionable in many ways.

The second step in developing typologies involved an **analysis of qualitative information** from interviews and case studies. The case studies were selected so that they either represented one of the main clusters or had formed a single cluster (e.g. France, Spain, Italy). The collection of this information took into account the shortfalls of quantitative data analysis. The methodological and resource limitations meant that some compromises had to be made, and some countries were not included as a case study, although they were representative of a particular cluster. The results of the case studies and the interviews showed that assigning countries to a particular cluster would be speculative for the following reasons:

- In some countries, reliable public data on organised crime is only fragmental (e.g. studies on particular illegal markets AT, ES, IE, SK, SL) or totally absent (CY, LU, MT, PT). Other countries provide annual public reports on organised crime (DE, BE, IT, NL, UK), or at least independent criminological analyses that provide some insight.
- In some countries (CY, DK, IE, MT, PT), anti-corruption bodies or departments that were contacted were not able or willing to provide information on corruption or denied the existence of significant levels of corruption.
- In some cases, independent interviews and research (e.g. media sources and personal experiences) nevertheless pointed to the existence of corruption. At the same time, neither systematic studies either on corruption and organised crime had been conducted, nor were authorities able to provide reliable information.

Despite the above limitations, we present statistical evidence for two aspects relevant to the study in the sections below:

- Linking corruption and organised crime;
- Searching for **types of EU Member States** where corruption and organised crime relate in a specific way.

3.1 Selecting indicators

The first step of the statistical analysis was to select and analyse appropriate data. The team collected, reviewed and tested 125 different indicators on corruption, crime, and social and economic data (see An-

nex 8 on Statistical Analysis). The most challenging task was to select appropriate corruption and organised crime indicators. The following criteria were used in their selection:

- The indicators is generally accepted and against it there are no significant methodological concerns – the institutions developing these indicators have clearly demonstrated their measuring mechanisms;
- If two similar indicators comply with the first criteria, but are developed through different methodologies and by different institutions, both indicators were tested to provide different points of view;
- Indicator was applied for a sufficiently long period of time;
- Indicator was based on empirical data (e.g. police and court statistics);
- Data independent from official institutions (e.g. national representative surveys of drugs use by various segments of the population).

The table below lists the main corruption and organised crime indicators used in the analysis. These are broadly of two types: general (measuring

TABLE 6. LIST OF TESTED INDICATORS ON CORRUPTION AND ORGANISED CRIME

Type of indicator	Name of indicator	Source	
Corruption – general indicators:	Control of Corruption Index (2007)	IBRD 2000 – 2007	
	Extra Payments Bribes (2006)	CATO/GCR 2000 – 2006	
	Corruption in National Institutions (2007)	Eurobarometer 2002 & 2005	
	Grey Economy – Estimate as percentage of GDP (2003)	Friedrich Schneider	
Corruption – specific indicators:	Police corruption	Police Corruption (Experience & Perceptions)	Eurobarometer 2005 & 2007
		Police Corruption experience & perception of asking bribes	Eurobarometer 2005 and 2007
		Police Corruption perceptions & experience of offering bribes	Eurobarometer 2005 and 2007
	Customs corruption	Irregular Payments in Import Export permits (2005)	GCR 2001-2006
	Judicial corruption	Irregular payments in judicial decisions (2006)	GCR 2002-2006
		Judicial independence	GCR 2001-2008
	Admin. Corruption	Irregular payments in Public Contracts (2006)	GCR 2001-2006
	Political corruption	Corruption in Local Institutions (2007)	Eurobarometer 2002 & 2005
		Corruption in National Institutions (2007)	Eurobarometer 2002 & 2005
		Favouritism in decisions of government officials (2008)	GCR 2001- 2008
Organised crime: general indicator	Organised crime (2008)	GCR 2001 – 2008	
Organised crime: specific indicators:	Drugs	Prevalence use amongst adults of Cannabis, Cocaine, Amphetamines, Ecstasy, Heroin	EMCDDA (national surveys)
	Sex trafficking	Trafficking of people – Convictions and investigations 2007	UNODC 2003 – 2007
	Car theft	Police recorded thefts per 100,000 population	Eurostat 1999 – 2006
	Money laundering	Pervasiveness of Money Laundering through banks (2005)	GCR 2002 – 2005
		Pervasiveness of Money Laundering through Non-bank Channels 2004	GCR 2002 – 2004

overall levels of corruption or OC) and specific (measuring corruption in specific institutions, or specific organised criminal activities);²²

Tested indicators included corruption indicators for specific institutions (e.g. police, customs, judiciary, administrative and political institutions) and organised-crime indicators for various illegal markets and activities (e.g. drugs, sex trafficking, car theft and money laundering).

When selecting indicators for organised crime, the project team tried to identify indices from objectively registered crimes performed by organised criminal groups that were detailed in publicly available and consistent data. For instance, in the case of drug use in a given country, representative surveys of drug prevalence were used instead of police records.²³ In the case of motor vehicle theft, police statistics collected by Eurostat were considered appropriate, as a high share of victims report these crimes to comply with insurance requirements and avoid administrative sanctions.

3.2 Linking corruption and organised crime: statistical evidence

3.2.1 Links at the general level

In an attempt to bridge such corruption and OC data gaps, the study added indicators measuring the political, economic and social development of the Member States. These indirect factors reflected the corruption risks: e.g. problems in the tax and customs administrations, local authorities, judicial system, etc. Broader economic and social indicators also might either facilitate or restrict organised crime and corruption. The main hypothesis that was tested was that **organised crime contributes to higher levels of corruption**.

In trying to answer the question ‘What other factors besides organised crime might influence the level of corruption in a Member State?’ the current analysis builds upon and expands academics’ previous analyses (Buscaglia and van Dijk 2003). In particular, the analysis builds upon previous academic work by:

- adding a number of factors: grey economy, effectiveness of institutions and a range of socio-economic factors;
- studying relations between a range criminal activities (e.g. drugs, car-theft, trafficking, money laundering) and range of corruption targets (e.g. police, customs, politicians).

The main premise of the hypothesis that the statistical analysis tested was that organised crime uses corruption as a tool to achieve its goals.²⁴

²² Two additional indicators were considered but dismissed: illegal migrants – data by Frontex on illegal migrant arrest at borders – the data was highly volatile; Murder data – no recent conviction statistics were available to determine the level of organised crime related murders.

²³ These studies are collected on a regular basis by the EMCDDA (prevalence data for Cannabis, Cocaine, Amphetamines, Ecstasy and Heroin)

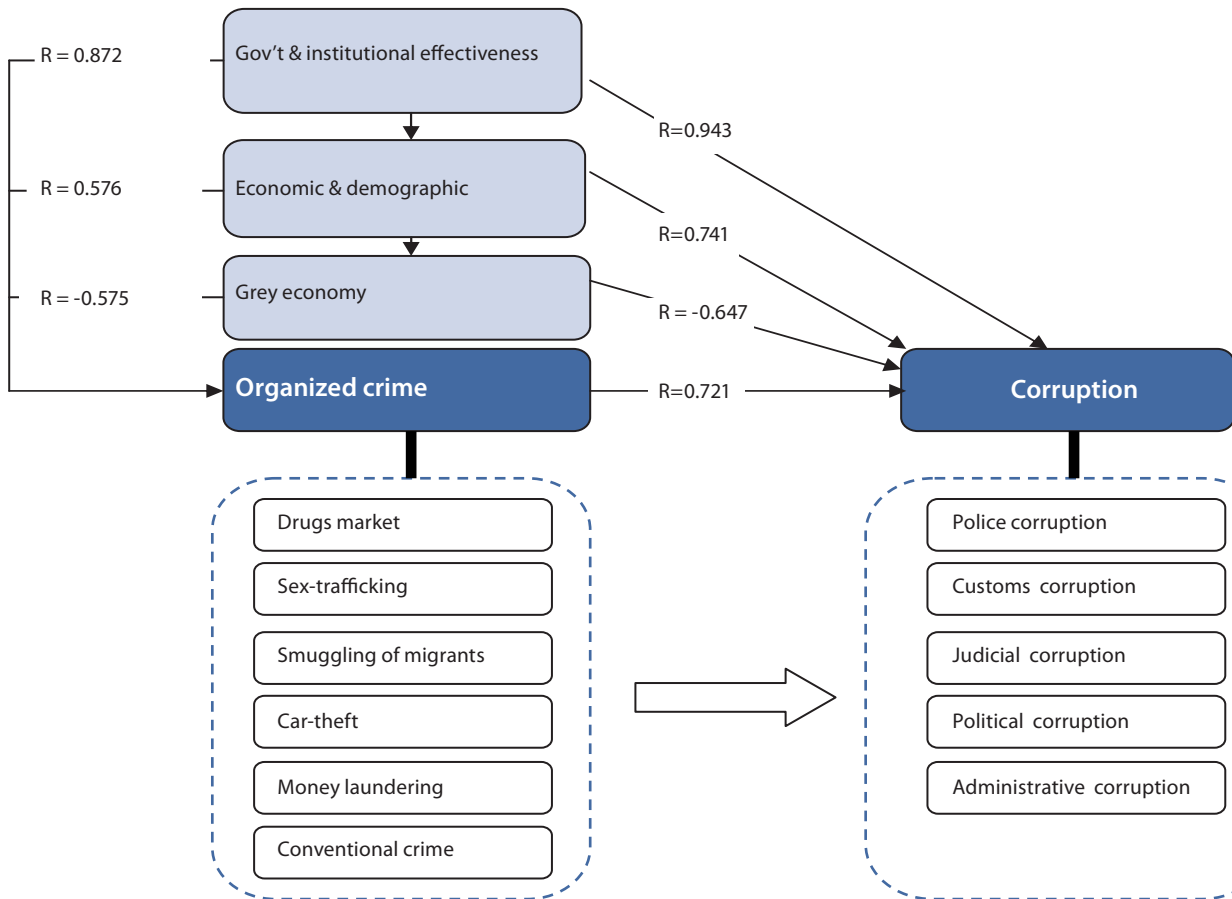
²⁴ The premise here is that in most of the Member States the reverse correlation is impossible due to the low levels of corruption. For instance, corruption income may be an objective, while initiating the contact, participating in and tolerating criminal activities is a means of securing this type of income by corrupt politicians, administrators, magistrates, police officers, etc. In cases of ‘state capture’ and mafia-type merging of state and organized crime, dependencies in both directions are possible. Furthermore, the high level of political, administrative, judicial and police corruption can serve as a good soil for growth of criminal activities.

The analysis below seeks to answer the following questions:

- Are available quantitative indicators able to measure the link between corruption and organised crime? If they do, then:
- What factors statistically have a significant influence on corruption levels?

This model included several other important factors that hypothetically might contribute to the levels of corruption: grey economy, government effectiveness and a set of economic and demographic independent variables. The first step was to test the general level indicators on corruption and OC (see Figure 8). The second step was to test how the specific criminal markets and institutional corruption related (see next sub-section). To test the impact of organised crime on corruption, a statistical model was created, using five indicators (see figure below).

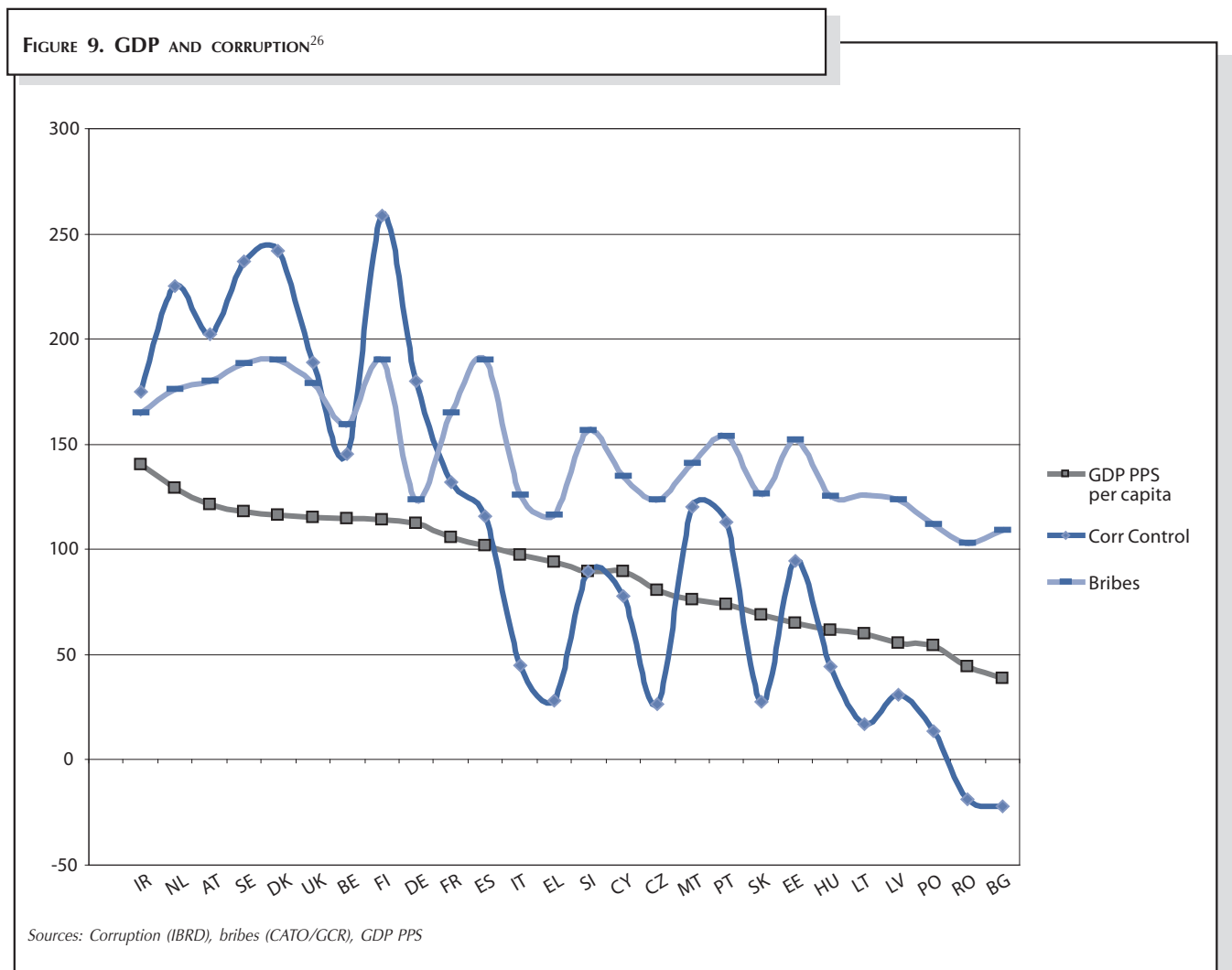
FIGURE 8. HYPOTHESIS TESTING MODEL: LINKS BETWEEN ORGANISED CRIME AND CORRUPTION



Source: see table 6 above.

The statistical analysis (see Appendix 9) confirmed the hypothesis that a statistically strong relation ($R=0.721$)²⁵ exists between organised crime and corruption. Further analysis revealed another noteworthy result. The effectiveness of government and institutions proved to have an even stronger ($R=0.943$) impact on corruption than organised crime. The effectiveness of government institutions also had strong impact on organised crime levels ($R=0.872$).

The model also demonstrated a statistically significant relationship between general economic indicators (GDP per capita in PPS), corruption ($R=0.741$) and organised crime. Therefore, general economic conditions have about the same impact on corruption as organised crime (e.g. bribes). The figure below illustrates the differences that could be observed between EU-17 and the south of Europe (ES, IT, EL), and EU-10E.



²⁵ "R" is a multiple correlation coefficient that ranges between 0 and 1. The closer it is to 1, the stronger the relation between the two indicators.

²⁶ The three indicators in this figure were rescaled for the sake of comparability. The higher levels of GDP PPS and better control of corruption are related to lower levels of bribery.

The hypotheses here were that (1) the lower a country's GDP, the higher the levels of corruption; i.e. high per-capita income/GDP could reduce public servants vulnerability to corruption. (2) High incomes, on the other hand, could create markets for certain services or goods provided by organised crime (e.g. cocaine use, sex industry, night/entertainment industry, immigration). Thus, economic resources may be concentrated in the hands of OC, generating huge financial capital for corruption in the political, judicial and corporate spheres.

The observed fluctuations between GDP PPS on the one hand, and the Control of Corruption Index and Extra payments/bribes, on the other, require additional analysis. Within the framework of this study, the most obvious explanation is the impact of institutions. The effectiveness of government and institutions has the strongest impact on corruption ($R=0.943$) among all reviewed indicators.

The possible explanation for these strong relations is that if the police and the judiciary are weak (i.e. are understaffed, not motivated, not well equipped, slow), their effectiveness in tackling both organised crime and corruption is diminished. Governments' inability to tackle organised crime and corruption allows criminals to use corruption to prevent the government from strengthening the police and judiciary, thus undermining their effectiveness further. That is why the relationship between effectiveness and corruption, and effectiveness and OC, are interchangeable.

Another tested hypothesis was that the grey economy could influence levels of corruption and organised crime. Schneider (2006) and Schneider and Dreher (2005) argue that the grey economy influences corruption in two ways:

- **Tax corruption:** companies could hide revenues by corrupting tax inspectors;
- **Administrative corruption:** Companies in the grey economy could corrupt various administrations (e.g. industry control institutions, including labour control) to avoid regulations or the use of illegal workers.

The analysis of EU-wide data demonstrated a statistically significant correlation between the grey economy and Corruption ($R = -0.647$),²⁷ although the interpretation of that significance remains a matter of speculation. A similarly significant relation exists between organised crime and the grey economy ($R = -0.575$), indicating that the expansion of grey economies is related to increases in organised crime. There are various explanations for this relation. One hypothesis is that large grey economy sectors (e.g. unregulated retailers) provide more opportunities for organised crime (e.g. distribution of illegal cigarettes or alcohol). It could be further argued that the connection could be reversed, that a deep presence of organised crime in certain industries, such as construction, night-time economy or tourism, leads to higher levels of informality. That is, such companies arguably are more likely to hide revenues or pay informally to reduce labour costs.

²⁷ The negative coefficient is due to the scale used for the corruption indicator, Control of Corruption Index. The higher the control of corruption, the lower the grey economy.

3.2.2 Linking criminal markets and institutional corruption: statistical evidence

The second level analysis aimed to test whether certain illegal markets have greater influence on corruption than others. The interpretation of qualitative data and additional tests revealed that the available statistical indicators were inadequate and could not be used to analyse links between particular criminal markets and institutional corruption.

The formulated hypothesis was that various types of illegal markets entailed different types of corruption and different OC targets in law-enforcement or public institutions. In particular, interviews indicated that the drugs and prostitution markets were most often related to police corruption. The following hypotheses were tested:

- **Drugs market:** the smuggling and distribution of drugs could affect police (drugs distribution), customs (smuggling), the judiciary and local politics.
- **Prostitution/Trafficking in human beings:** police and judiciary are the main corruption targets, although brothel owners might also target local municipal authorities. Data on prosecuted human traffickers or identified victims were used as proxies to measure the commercial sex market.
- **Car-theft:** while in some countries this type of crime exploits police corruption (e.g. to register stolen cars, to use police registers to find potential victims or to use police protection to steal cars or obtain information on ongoing investigations), in others the judiciary is the main corruption target. Customs corruption could also be an issue in smuggling of stolen cars through borders.

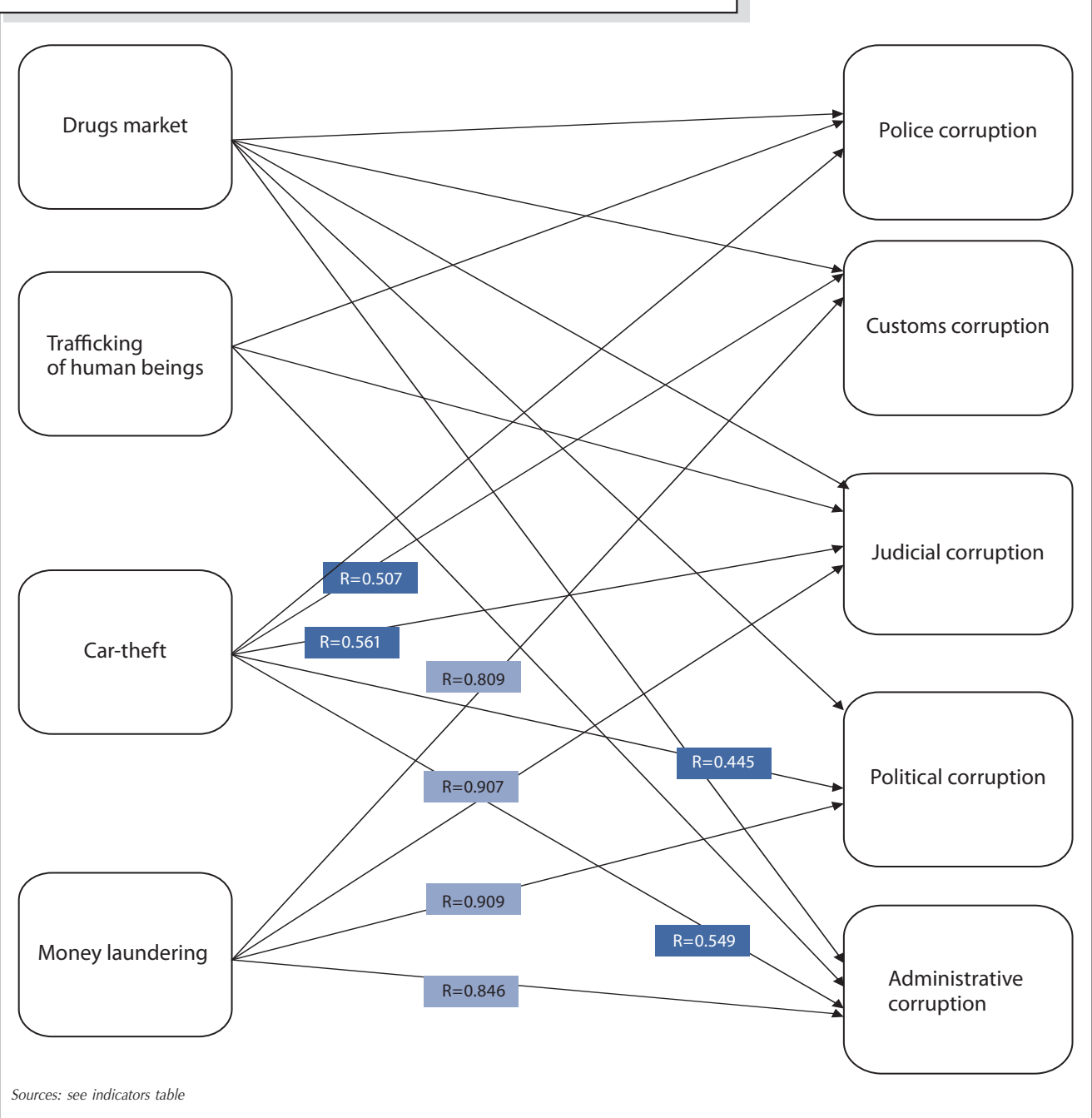
Statistical analysis showed that no particular connection existed between the size of some criminal markets and the level of corruption within the targeted institutions (see Figure 10 below). This finding alludes to possible flaws with the data as it sharply contrasts with evidence from interviews.

The analysis showed that Money Laundering (through non-bank channels) had the best defined relationship with four out of five types of institutions (i.e. customs, judicial, political and administrative corruption). Money laundering is crucial for the functioning of any type of white collar or organised crime activity. In this sense, it could serve as a proxy (indirect measurement) to organised crime in general. The analysis showed that the relationship between money laundering and most types of institutional corruption was very strong.

3.3 Clustering Member States – quantitative approach

Once the link between corruption and organised crime was established, as demonstrated in the preceding sections of this chapter, the team undertook another analysis. The main goal was to examine whether there are certain characteristics of the relationship between corruption and organised crime that might **group together** certain Member States (i.e. establish typologies).

FIGURE 10. HYPOTHESIS TESTING MODEL – ORGANISED CRIME: SPECIFIC INDICATORS



Two different statistical clustering methods were tested. The full results are presented in Annex 8 of the report. To group the EU Member States, the selected clustering method used 14 indicators (see Table 7).

Table 7 provides a quantitative picture of the characteristics of each cluster. For instance, if one takes “Control of Corruption” on average the countries included in Cluster 1 (Denmark, Finland, and Sweden) exercise better control over corruption than the countries in Cluster 2 (Ireland, UK, etc.) Statistical analysis has grouped the countries that cluster around similar values for all 14 indicators.

TABLE 7. AVERAGE VALUES OF INDICATORS USED BY CLUSTER (CALLED 'CLUSTER CENTROIDS')²⁸

		Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7
1	Control of Corruption Index _2007 (Range: -2.5 to 2.5 = high)	2.46	1.72	1.32	0.64	0.54	0.45	-0.09
2	Extra payments/ bribes _2006 (Range: 0-10 = high)	9.47	8.361	8.24	6.918	6.397	6.29	5.397
3	Organised crime_2008 (Range: 1 = OC imposes significant costs on businesses, 7 = OC does not impose costs)	6.6	6.056	5.9	6.15	5.983	3.6	4.433
4	Corporate Ethics Index _2004 (Range: 0 to 1 = high)	0.825	0.662	0.597	0.43	0.376	0.409	0.229
5	Rule of Law Index _2007 (Range: -2.5 to 2.5 = high)	1.905	1.587	1.317	0.75	0.836	0.426	-0.013
6	Drug Trafficking_2006 Registered crime 100 000 inhabitants	60.941	91.711	9.137	42.74	47.258	54.634	19.83
7	Theft of a motor vehicle _2006 Number of thefts per 100 000 inhabitants	439.48	183.84	383.6	129.7	139.85	473.81	31.43
8	Cocaine prevalence use in adult population (Range: 0-100% -EMCDDA)	0.567	1.289	0.6	0.35	0.35	2.1	0.2
9	Size of Government Index _2006 (Range: 0 to 10 = high)	6.42	5.17	4.11	6.35	6.31	5.99	5.28
10	Government Effectiveness Index _2007 (Range: -2.5 to 2.5 = high)	2.079	1.561	1.304	0.85	0.934	0.329	0.131
11	Overall Economic Freedom Score _2009 (Range: 0 to 100 = high)	74.867	73.356	63.3	69.475	67.217	61.4	62.7
12	GDP per capita in PPS_2008 (Unit: PPS)	116.13	131.69	105.7	63.525	78.5	97.6	45.7
13	Share of Envelope Wages _2007 (Range: 0 to 1 = high)	0.07	0.172	0.54	0.42	0.194	0.629	0.555
14	GINI_2007 (income equality measurement) (Range: 0-100%)	24.33	28.33	28	36.75	28.33	33	31

Source: see Annex

We draw attention to some indicators that distinguish country clusters below. We do not compare each indicator, as this can be done by looking at the table above.

Cluster 1 (Denmark, Finland, Sweden) combines the countries with the best scores in practically all indicators: low levels of organised crime (6.6) and corruption (2.459), with strong and effective institutions (2.079).

Cluster 2 (Austrian, Belgium, Germany, Ireland, Luxembourg, Slovenia, Spain, UK) is the largest by population and GDP. Together with

²⁸ See Appendix 9 for a full list of indicators and their source.

Cluster 1, these countries enjoy the best control of corruption (1.721), the lowest level of organised crime (6.0), the highest scores for rule of law and the highest GDP per capita. Still, there are some differences in scores between the two clusters. The Scandinavian countries have a clear advantage in terms of control of corruption, rule of law and effective government, while organised crime is about the same in the two clusters, and GDP is higher in Cluster 2 countries. Spain is probably the odd member of this cluster, and it verges on forming its own cluster.

Cluster 3 (France) France is unique by some key indicators and therefore could not be included in any of the other clusters. It is similar to cluster 2 by its large population and GDP. But in terms of its control of corruption and the frequency of bribes and the effective rule of law, France scores worse than clusters 1 and 2 (1.32, 8.24, 1.304).

Cluster 4 (Estonia, Latvia, Lithuania, Portugal) has one of the lowest levels of organised crime (6.15), but its scores on corruption and rule of law place it somewhere in the middle, with better indicators than Italy, Greece and the newer MSs and considerably worse only than the countries in Clusters 1. This cluster is also characterised by one of the lowest GDP per capita (63.525). Only Cluster 7 (Bulgaria, Poland and Romania have lower GDPs per capita).

Cluster 5 (Czech Republic, Cyprus, Greece, Hungary, Malta, Slovakia) is characterised by a relatively low control of corruption and frequent use of bribes (0.541, 6.397). At the same time, these countries do not have serious problems with organised crime (the level of OC is similar to Cluster 2 and even lower than France).

Cluster 6 (Italy), similar to France, Italy's key indicators have significantly different values that justify placing it in a cluster of its own. Italy has the highest level of organised crime (3.6) among the MSs, combined with one of the lowest scores for control of corruption and rule of law (0.449, 0.426). It also has the highest level of undeclared income.

Cluster 7 (Bulgaria, Poland, Romania) consists of countries where corruption control is lowest (-0.091) and organised crime is similar to Italy (4.43). These countries have the worst scores for the rule of law, effectiveness of government and corporate ethics. They also have the lowest GDP per capita among the MS.

The problem with this statistical approach is that the indicators **do not provide an explanation as to why** these countries are grouped together. Therefore, this clustering remains a descriptive tool that could support qualitative analyses.

3.4 Qualitative data mapping organised crime and corruption in EU

The clusters presented in the previous section are underpinned by different historic, cultural and socio-economic factors that have affected organised crime, as well as the peculiarities of national institutions in each of the countries. At the same time, many of the indices used reflect expert assessments and, to a very low degree, empirical data. As a result of this approach, various relationships were observed where the statistical approach could not be applied unambiguously. Interviews and case studies conducted as part of this project also identified these factors, which are described below. This analysis thus aims to enhance the interpretation of the quantitative methods.

3.4.1 Historical factors

Several clusters of EU countries could be hypothesized to have their roots in history as well as geography: Southern Europe (Italy, Southern France, Southern Spain), Eastern Europe (the Balkans, the Baltic region and Poland) and the Netherlands and UK.

The southwest hub, characterized by the oldest traditions in organised criminal activities, is centred around Southern Italy. It affects the whole of Italy and is connected to Corsica, Southern France and Spain, although its influence spreads to places in Germany or the Netherlands. The prehistory of this cluster's hub dates to the establishment of the Italian state. The specific agreement between the political elite of the country and the mafia families in Southern Italy was a prerequisite for the creation of a unique structure of total and systematic corruption in most of Southern Italian institutions. The influence of the Sicilian mafia and 'Ndrangheta, as well as other crime formations in the South of Italy, affects systematically other regions of the country and reaches as far as its central institutions, though their effect is not so intense there. The spreading Italian organised crime to neighbouring countries is a topic avoided in the EU, unlike in the USA. Heroin laboratories uncovered at the end of the 1960s in the so-called "French connection" removed for a short period the veil that covered heroin trafficking into Southern France (CS-FR). Only special services are likely to possess information about the fate of what remained of the organisations involved in heroin trafficking, how they adapted to changing circumstances, how the Italian mafia made its way into Southern Spain and the problems that continue in Corsica (CS-FR).

Following acts of violence against magistrates at the beginning of the 1990s and the introduction of new Italian policies aimed at crushing organised crime, there was a tangible reduction in the range of activities and the forms of influence exerted by big traditional crime groups (CS-IT). Despite the heavy damage that crime organisations suffered (e.g. over 100 city councils were dissolved in the past decade for links with organised crime), there is a tendency at present by traditional criminal structures to apply 'softer methods' that involve less violence, cronyism, the use of immigrant crime organizations, etc.

At the same time, the old methods still persist. There is clear evidence of extortion and racketeering in efforts to influence local authorities and

public tenders. Pressure by the Italian state, on the one hand, and the expansion of the common market, on the other, in addition to the lifting of Italy's national borders under the EU's Schengen Agreement, led to Italian OC exerting control over new forms of criminal activity, like cigarette smuggling, and new collaborations with other criminal structures from the Balkan countries, China, Latin America and Russia. The Italian-Spanish criminal networks established during the period of the 'French connection' got their golden chance for money laundering with the explosion of the real estate market in Spain. Taking of advantage of the Spanish state's preoccupation with terrorism, organised crime invested in construction and tourism. Simultaneously, organised crime groups based in Corsica, Southern France and Spain have maintained their presence, despite the expansion of immigrant involvement in organised crime and despite the emergence of flourishing new criminal markets in cocaine, prostitution, and money laundering via real estate.

Four key factors from the recent history of EU-10E countries should be taken into account:

- The informal networks of former communist elites, particularly of law-enforcement agents;
- The significance of privatisation process and the opening of borders in the origins of organised crime;
- The impact of criminal structures from the former Soviet Union at the beginning of the 1990s, and the ongoing instability in the Caucuses, Moldova and Ukraine;
- The wars in former Yugoslavia and the Yugoslav embargo in particular for Western Balkan countries, but also for countries neighbouring Serbia; and the ongoing instability in Bosnia and Kosovo.

Communist special services (State Security – BG, Securitate – RO, or Stasi-DE) and interior ministry officials have assumed a number of forms of symbiosis with organised crime. The number of law-enforcement officers and police informants in Eastern Europe before 1990 was at an entirely different scale than in Western Europe. With the dissolution of secret police services, many of them turned to various criminal activities (e.g. protection rackets, cross-border smuggling, and embezzlement in the massive privatisation process). These criminal networks from the 1990s eventually lost their power but were transformed into networks of companies that presently manage to influence both the formal economy and various grey areas of the criminal economy, in either case actively resorting to corruption. During the past two decades, the communist-era law-enforcement origins of these individuals provide them with law-enforcement connections that allow them to avoid prosecution. Probably the most influence is felt in Bulgaria, Poland, Romania and Slovakia (CS-BG, PL, RO). Networks of former East German *nomenklatura*, Ministry of Interior employees and criminal organizations can be also found in Germany (DE).

Former Mol or special services officers use the specific law-enforcement culture of loyalty to form networks that allow former officers access to police information, often resulting in competitive advantage in business projects or bids for public contracts. Many former officers turned to

being lawyers and became intermediaries between organised crime, law enforcement and the judiciary. The networks consist of current Mol/law-enforcement officers, prosecutors, or judges, as well as their families that often enter similar professions.

The historic legacy of privatisation of state assets: in the early 1990s, between 70% and 100% of property in EU-10E countries was state-owned. Instead of guarding the legality of this process, law enforcement and the judiciary often profited from it. As a result, today's economic elites are often part of the above described networks. The abuses of privatisation processes, much like public tenders today, attracted organised crime and provided it with opportunities to accumulate economic power and legitimacy. In a period when access to capital was limited and foreign investors wary, criminal profits were invested in privatisation.

The opening of borders in former communist countries allowed former security officers with connections to border police and customs to quickly assume key roles in controlling cross-border smuggling of consumer and excise-tax goods. Again, access to corruption networks was instrumental in assuming this role.

The Netherlands – UK logistical nexus – despite low corruption levels in Dutch institutions, the Netherlands has maintained a tradition of being a preferred centre for the redistribution of cocaine, heroin and marijuana to Central Europe, Germany, the Scandinavian countries and the UK (CS-NL, UK). It is the main producer of ecstasy pills and serves as a hub for providing precursors for the production of synthetic drugs in the EU. It also has a dominant position when it comes to the trafficking in women for sexual exploitation. The country's policy is to reduce the pressure exerted by organized crime on its institutions (where low levels of corruption have been maintained) through a number of legal regulations, such as legalizing prostitution and the use of marijuana. As a consequence, law enforcement agencies, as well as customs and tax administrations, follow a reactive and liberal approach (i.e. if there is no accident, no investigation follows). Secondly, a "grey zone" is created between the delivery of "risky goods" and retail sales. These conditions are extremely attractive to transnational crime organisations, as they create a system of "connected vessels," whereby violence and corruption are used extensively in the periphery of Europe and developing countries, yet the Netherlands and Western European countries (which could be accessed via the Netherlands) remain in the "grey area".

The Basque Country (Spain), Northern Ireland (UK), and Corsica (France) are the three regions where **terrorism and independence movements** are a continuing problem. The long history of terrorist activity has created networks of loyalties between terrorists, parts of law enforcement and local politicians. With the signing of peace accords in Northern Ireland, many former terrorists turned to organised crime, controlling the drugs trade or providing protection rackets of prostitution networks, occasionally drawing on historic loyalties from law enforcement to avoid prosecution (CS-ES, UK). The case study on France also shows in detail how the various independence groups have used (and continue to use)

criminal activities to fund their operations. It also shows how under the guise of independist movements certain groups facilitate their criminal operations.

3.4.2 Economic factors

- The significant differences in economic development and national institutions in the EU, especially since the latest enlargement in 2007, is one of the most important factors affecting clustering. The most affluent country in the EU is anywhere from three to five times richer than the poorest Member State, depending on whether nominal GDP per capita or GDP PPP²⁹ per capita figures are used. The differences are even more striking if regional disparities within and between countries are taken into account, as well. That is, if one were to compare the richest EU regions in some EU-17 countries to the poorest regions in Northwest Bulgaria, Northeast Romania, South-east Poland, etc. Such disparities create conditions, where low-paid public officials in poorer countries are much more likely to engage in corrupt behaviour. The disparities, on the other hand may influence the size of illegal markets. EU-17 illegal markets for drugs, illegal cigarettes, or prostitution are much larger than those in EU-10E countries.
- Other socio-economic factors, such as the absolute size of a country's economy and its demographics, also influence the structure of organised crime markets. In this manner, large economies such as those of France, Germany and the UK generate high levels of overall consumption and demand for illegal goods or services. On the other hand, criminal organisations find countries with high per capita incomes, yet smaller overall population levels, (such as Denmark, Finland, Ireland or Luxembourg) as less profitable than big markets. On the other hand in smaller countries, resources are highly concentrated in small public administrations, and few public officials there fall under more corruption pressure. Thus, despite the fact that the overall size of a country's economy drives levels of demand for illegal goods and acts as a significant factor in attracting organised criminals, highly affluent locations, such as big cities, act as magnets for the concentration of OC activities. For this reason, interviews indicated that organised criminal activity and corrupt practices were highly concentrated in cities like Amsterdam, Barcelona and London (CS-NL, CS-ES, UK).
- A more pronounced presence of multinational corporations (MNCs) in large EU economies also results in regular scandals and suspicions regarding white collar crime and private sector corruption. This rarely discussed topic relates to political parties that are dependent on corporations for their financing. All too often, arguments favouring MNC investments, because those are supposedly 'in the national interest', hide the reality of clientelistic relationships between transnational big business and national political elite.

²⁹ Calculated on Purchasing Power Parity.

- Differing taxation levels (of VAT or excise taxes) also lead to differing outcomes in organised crime markets. Thus, in countries such as Germany and the UK, higher excise taxes on cigarettes boost the market share of contraband cigarettes as well as corruption risks stemming from criminal networks engaged in the production or smuggling of the latter.
- Economic structures and the relative share of certain business sectors in overall MS economies also condition gray economic activities. Thus, tourism, construction, and transportation are characterised by high levels of grey or illegal economic activity, which naturally attracts criminal entrepreneurs who tend to utilize corrupt practices. In this manner, higher levels of gray economic activity are associated with higher corruption.

Specific socio-economic developments may affect the dynamics of certain organised crime markets. For instance, growth in night-time industries may lead to correspondingly higher levels of drug use (e.g. marijuana, cocaine, synthetic drugs, etc) as well as an expansion of markets for sex services.

3.4.3 Social and demographic factors

The social and cultural factors are probably most difficult to capture and study, especially through quantitative methods. Although the case studies make some references to the role of family, ethnic, or social structures and norms, these issues do not lend themselves to the methods and short time-frames of the present study. Yet, these factors should never be discounted or overlooked.

- Family-and-friends social networks in South and Eastern Europe may become the basis of criminals' influence over police, local authorities, magistrates (interviews and CS-BG, CS-EL, CS-IT, PT, RO).
- Worsening *demographic situations* are another significant socio-economic factor. *Migration flows* play a crucial role not only in EU-17, which is targeted by inflows *immigrants*, but also in EU-10E, which is often temporary point for immigrants who wish to relocate to the West.
- In EU-17 MS, immigrant communities have formed a sort of 'parallel universe', or a 'safety zone' for criminal organisations. In countries like Belgium, France, Greece, Italy, the Netherlands, Spain and the UK, organised crime networks that are mainly ethnic-based have emerged. Some of these are transnational in character and have operations in Africa, Asia, the Balkans, Latin America and the former Soviet Union. They organise their trans-border activities basing their 'headquarters' in highly corrupt countries. At the same time, since the cost of bribing public officials in low-corruption countries is high, and the risks involved are prohibitive, only 'expendable' lower-level foot-soldiers would typically operate.

- An interesting development has been observed in certain Northern European countries (FI, SE, DK) that traditionally have been characterised by low levels of organised criminal activity. There, immigrant communities have formed crime markets, while at the same time the social acceptance of corrupt practices in these (largely isolated) communities has led to increased corruption pressures on public officials in the recipient countries. (FI, BG)
- In various EU countries, local organised crime has started playing the role of intermediary between immigrant criminal groups and public institutions (IT, UK). In countries that have traditions of separatist movements, former terrorist organizations have assumed a similar role (ES, UK).