

**THE UNITED KINGDOM
THREAT ASSESSMENT
OF
ORGANISED CRIME**

2009/10

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INTRODUCTION

Scope and purpose

- 1.** The United Kingdom Threat Assessment (UKTA) describes and assesses the threats posed to the UK by organised criminals and considers how these threats may develop. The RESTRICTED UKTA is intended to inform UK law enforcement priorities for tackling organised crime and other relevant initiatives, such as changes to legislation, regulation or policy.
- 2.** Improving general awareness of organised crime is critical to combating the various threats and reducing the harms they cause. Public and private sector organisations need to be informed of the threats in order to develop 'target hardening' measures, and the public also need this information in order to protect themselves from becoming victims of serious organised crime.

Sources of information

- 3.** The UKTA is based on information and intelligence drawn from a wide range of sources, both in the UK and abroad, and is the product of an extensive consultation process which tests each part of the assessment to ensure that it represents the best and most up-to-date understanding of those agencies most closely concerned with tackling the various threats.

Structure

- 4.** The threats described in the UKTA are clustered under five main headings: Criminals and their businesses; Cross cutting; Drugs; Organised immigration crime; and Fraud. These are further broken down into 16 chapters covering specific threats, for example Firearms; The 'upstream' cocaine trade; and Non-fiscal fraud. In practice, many organised criminals are engaged across a range of criminal activities and markets, including activities that are undertaken essentially to enable or to profit from other crimes, and the first two 'clusters', in particular, recognise these connections and overlaps.

The UK Organised Crime Control Strategy

- 5.** The UK's response to the threats identified in the UKTA is set out in the RESTRICTED UK Organised Crime Control Strategy ('Control Strategy'), which is published separately by SOCA. The Control Strategy consists of 16 'programmes of activity' aligned to the UKTA chapters in 'clusters'. Each 'programme' has its own multi-agency action plan, deliverables and governance arrangements, and oversight of the Control Strategy as a whole is the responsibility of a Senior Assurance Group (SAG) made up of all of the key contributors. The overarching aim of the Control Strategy is to achieve a tangible and lasting reduction in the harm caused to the UK by organised crime. It looks to do this through effective information-sharing and collaborative working, by using criminal justice and other measures to make the UK a hostile operating environment for organised criminals, and by targeting criminal profits.

The National Intelligence Requirement

- 6.** The National Intelligence Requirement (NIR) acts as a guide to agencies that hold or collect information and intelligence of relevance to organised crime. It is structured in line with the UKTA and Control Strategy.

Other Relevant Assessments

- 7.** Throughout the year, SOCA and other agencies produce assessments of particular aspects of the threat to the UK from organised crime, either in response to new information or as part on a planned process. These assessments are made available to relevant 'customers' as they are produced, while the key elements are consolidated into the subsequent UKTA.
- 8.** The UKTA also takes full account of other annual and ad hoc assessments which touch on or deal with organised crime.

Harm

9. Defining harm in the context of organised crime is difficult. To underpin the Control Strategy and provide a sound basis for decision-making, any definition needs to be comprehensive enough to reflect the complexity and breadth of all the threats and their direct and indirect impacts and consequences at all levels, from the harms that affect individuals to those that affect the UK as a whole. At the same time, it needs to be sufficiently inclusive to engage the commitment of all those agencies and others who need to contribute towards harm reduction throughout the public and private sectors, and including the general public. This argues against a simple definition.

10. Instead, during 2008/09, a Harm Framework (see Annex 1) was developed, which looks to describe the harms caused directly and indirectly by organised crime in “real world” terms, breaking them down into five types (Physical, Social, Environmental, Economic and Structural) and three levels (Individual/Local, Community/Regional, UK/International). The Framework provides a common language with which to discuss different perspectives and priorities, and to reach a shared understanding of the problems and what needs to be done about them. From November 2008, the Framework has been used in the planning of Control Strategy Operations and Projects, and the thinking has been incorporated into the 2009/10 UKTA (and NIR and Control Strategy).

Measuring Harm

11. While defining harm is difficult, measuring it is at least as great a challenge. It is clear that a single measurement of harm would be as unhelpful as a simple definition. The answer is a basket of measures and indicators, derived from various sources and of varying degrees of precision and proximity to the harms themselves, from which the most relevant can be selected and applied to each circumstance. Some work has been done to identify appropriate measures or indicators of the size, seriousness, incidence etc. of the various harms described in the Harm Framework. This will be developed throughout 2009/10, learning through practical experience of what works.

12. Key to judging the success or otherwise of any planned intervention to reduce harm, whether at a local, tactical level or in terms of an overall criminal trade, will be a matter of establishing the ‘before’ and ‘after’ state. As well as being built in to the planning process for Control Strategy Operations and Projects, this approach will be reflected in regular impact assessment. It will be in place for 1 April 2009, and will continue to evolve and improve as the outcome of particular interventions become easier to predict and calibrate. While there will always be some difficulty in isolating the effects of an intervention from outside influences, positive and negative, particularly for some larger-scale harms, and especially when there is a time-lag between action and outcome, the more this approach is used the more reliable a guide it will be to operational planning.

Practising Harm Reduction

13. Currently, the applicability of the Harm Framework, and related measures and indicators, is easiest to appreciate at the individual level and around the physical harms. The harm caused to an individual or group of individuals in the form of injury, illness or death as a direct consequence of drug abuse, or as a victim of human trafficking, or organised crime-inspired violence, is simple enough to understand if not always straightforward to prevent. For example, interrupting the supply of drugs may seem like an obvious step, but without involving the treatment agencies and ensuring that the supply is not simply replaced by one that is less safe it could result, at least in the short term, in greater physical harms for the users affected. This is not an argument for inaction, since there will always be the risk of unintended consequences in any intervention, but it does emphasise the importance of knowledge, planning, and collaboration.

14. At the other end of the scale, it is possible to see how by changing a system which is being exploited by organised criminals so that it is no longer vulnerable to abuse it can reduce the harm to the UK as a whole from that particular source. Good examples would be the introduction of new security features into UK passports, making them harder to forge or falsify and therefore reducing their vulnerability to abuse by people smugglers or human traffickers; and various initiatives to reduce the vulnerability of tax and benefit systems to abuse, including the payment of benefits directly into bank

accounts rather than by payment orders, which were vulnerable to organised thefts. Similarly, working “upstream” with international partners to disrupt the flow of drugs and illegal migrants to the EU, although sometimes difficult to connect directly to a UK outcome, clearly has the effect of reducing harm at the national level.

15. The most difficult but arguably most rewarding application of the Framework is at the community level. The difficulty comes partly from the scale of the problem, partly because of the degree of co-ordination required if any reductions in harm are to be sustained and consolidated. While there are particular concentrations of organised criminals, in London, the North West, and the Midlands, towns and cities all over the UK are affected by organised crime, with areas plagued by drug abuse and associated volume crime; by organised immigration crime, including the exploitation of illegal migrants in the sex trade and as cheap labour; by violent crime, particularly the availability and use of firearms; by fraud, including the corruption of public officials.

16. Although logistically challenging, a shared agenda around harm reduction where there is an assumed causal link, whether direct or indirect, to organised crime creates the opportunity for a broad range of local and national agencies and bodies to come together to deliver multi-layered, community-focused responses, each tailored to the particular circumstances. With their responsibilities for PSA 23 (Making communities safer) and 25 (Reducing the harm caused by alcohol and drugs), the Government Offices for the Regions have a key part to play, and have been consulted in developing the Harm Framework and in working out how to produce a joined-up response, particularly in locations of common interest, specifically areas of high deprivation where crime is a persistent factor.

The Threats

17. The UKTA reaches a number of key judgements about each of the threat areas, some more definitively than others, reflecting the fact that while knowledge and understanding is improving the picture is still incomplete and uneven. The key judgements are listed at the end of this Introduction.

18. As far as the relative scale and significance of the threats, it is still the case that most of those identified as involved in organised crime are engaged in drugs trafficking and distribution. The profits to be made from drugs up and down the supply chain continue to attract criminals of all levels. They support criminal lifestyles, sustain the drugs trades, foster other criminal activities, and fuel acts of extreme violence. The harms caused to individuals, to families, to communities, and in some instances to states, are often only too visible. However, it is important to recognise that drugs have been a priority for law enforcement in the UK and overseas for many years, and as a result more is known about the drugs threat than about, for example, organised immigration crime or fraud, the true scales and significance of which are therefore harder to assess.

19. Defining organised crime in terms of specific threats is a practical way of understanding and tackling it. However, the threats as defined reflect the law and organisational responsibilities for its enforcement as much as they do the way the criminals themselves work. While some organised criminals may ‘specialise’ in a particular criminal trade, many are entrepreneurial and opportunistic by nature, and significant numbers of crime groups, especially the larger, more established ones, are involved in two or more profit-making criminal activities, excluding money-laundering, which is common to nearly all groups of any consequence or durability.



William F Hughes

Chair, Senior Assurance Group

KEY JUDGEMENTS

1 The overall threat to the UK from organised crime is high. Broad estimates value the economic and social costs of organised crime, including the costs of combating it, at upwards of GBP 20 billion a year.

Criminals and their businesses

Organised criminals, their businesses structures and logistics

2 Criminal structures vary. Successful organised crime groups often consist of a durable core of key individuals, around which there is a cluster of subordinates, specialists, and other more transient members, plus an extended network of disposable associates. Many groups are in practice loose networks of criminals that come together for the duration of a criminal activity, acting in different roles depending on their skills and expertise. Collaboration is reinforced by shared experiences (such as prison), family or ethnic ties, or recommendation from trusted individuals.

3 Organised criminals make use of 'specialists' who provide a service, sometimes to a range of criminal groups. Services include transport, money laundering, debt enforcement, or the provision of false documentation (identity crime underpins a wide variety of organised criminal activities).

4 Violence or the threat of violence is often implicit in the activities of organised criminals, and some are willing to commit or sponsor kidnapping, attacks, and murder, to protect their interests, including the recovery of debts. Violence also stems from personal disagreements and gang-based rivalries. In some instances, violence or intimidation is used to coerce innocent victims into facilitating crime.

5 Corruption has a damaging effect to the perception of the integrity of the UK internationally and on the public and private sector institutions that it affects. Organised criminals use corruption to secure assistance from those with information or influence in order to protect or enhance their criminal activities. Officials in law enforcement and criminal justice agencies have access to the most useful information, and are particularly attractive to organised crime groups.

6 The ability to communicate securely is essential, and organised criminals make extensive use of face-to-face meetings and 'pay as you go' mobile telephones to conduct their criminal business. Additionally, Internet-based communication methods are increasingly used as a speedy and relatively secure means to co-ordinate criminal activity, to make new criminal contacts, and to procure goods and services.

Lifetime management of organised criminals and the prisons programme

7 Organised criminals often enjoy lifestyles funded by a lifetime of crime. "Career criminals" are criminally active throughout their lives, therefore law enforcement and the wider criminal justice community has to adopt an equally thorough and persistent approach.

8 Imprisonment does not necessarily stop organised criminals from continuing with their criminal activities. Some have shown they are capable of running criminal businesses from prison.

Criminal finances and profits

9 Criminal cash is often moved out of the UK to a foreign jurisdiction for placement in the legitimate financial system, investment in property, or used to pay for illicit commodities or services. This can be done using couriers or via money transmission services. However, many organised criminals make use of financial and legal professionals to handle their financial affairs. This often involves using property purchases and legitimate or quasi-legitimate businesses, typically those with a high cash turnover, to launder criminal proceeds as well as to provide cover for the purchase, delivery and sale of illicit goods.

10 A significant amount of the criminal proceeds generated in the UK is laundered overseas. The United Arab Emirates (UAE), the Far East and South East Asia (particularly Hong Kong, Singapore and Shanghai) and Spain are attractive to money launderers.

11 The number of criminals who specialise in money laundering alone, providing more sophisticated laundering services to other criminals, is believed to be small, compared to the total number of criminals engaged in money laundering activity. However, they are responsible for laundering a significant proportion of all proceeds of crime and their ability to process more value per transaction increases the likelihood that serious organised criminals will be interested in using their services.

Cross cutting

Firearms

12 Crimes involving firearms remain relatively rare in the UK. Fear of firearms crime by the public is, relatively speaking, much higher than for other types of violent crime and some communities in the UK perceive that they have become stigmatised as “gun culture hotspots”. Around two thirds of recorded gun crime in England and Wales takes place in four police force areas: London (the Metropolitan Police District), Greater Manchester, Merseyside and the West Midlands, and is linked predominantly to street gangs.

13 Organised criminals at all levels are unlikely to have difficulty in acquiring a firearm.

14 Around 8-9,000 firearms continue to be deactivated in the UK each year. They pose a threat as they are legally available and may easily be mistaken for conventional firearms. Converted firearms constitute just under half of all lethal-barrelled weapons recovered by the police in England and Wales. They are easier to acquire and cheaper than real firearms and therefore more attractive to criminals.

UK Borders

15 Most forms of serious organised crime involve commodities, criminal assets or serious organised criminals themselves at some point crossing the UK border, in many cases illegally.

16 Many serious organised criminals travel frequently from and to the UK in pursuit of their criminal business, preferring the greater security of face-to-face meetings with other criminals when negotiating deals and the movement of goods. Sometimes they travel under their own names but often they will use false identities and documents.

17 The UK's direct control over the border is limited by international agreements and by the sheer volume of legitimate traffic. Enforcement of controls has to be balanced with the requirement to facilitate legitimate trade. Successful serious organised criminals ensure that they or their transporters are knowledgeable about border controls and about related law enforcement measures and techniques.

18 The UK's channel ports and major airports have been targeted for many years by organised smugglers of drugs, people and other illicit commodities, who exploit the enormous volumes of RoRo traffic and other freight movements, private vehicles, foot passengers and legitimate air traffic to conceal their activities.

19 Illicit commodities such as Class A drugs and contraband tobacco are also smuggled into the UK in the post and through fast parcel services.

Other and emerging threats

20 The opportunistic and entrepreneurial nature of many organised criminals means they can be involved in a variety of crimes at any time or in quick succession. There is also a seasonal factor for some criminal

activities with 'peaks' and 'troughs'. Therefore, the actual and potential significance of different criminal activities, such as armed robbery, is subject to change. Regional or local factors may also make a particular activity more or less of a priority for action for a police force or other local agency. In addition, the changing economic climate impacts on the profitability, and therefore attractiveness, of some crimes.

21 Sophisticated armed robberies, targeting greater rewards (such as cash holding centres) are rare in comparison to the more opportunistic robbery often undertaken by an individual acting alone. In 2008, both police forces in England and Wales and PSNI recorded a decrease in the number of cash-in-transit robberies.

22 The value of goods stolen during road freight crimes has increased by five percent in England and Wales on 2007. Organised road freight criminals travel extensively to commit offences. The most affected areas are along the M1/A1 and M40/M6 corridors, and arterial roads serving ports and airports, such as the M25/M20 and M4.

23 The London 2012 Olympic Games will be the one of the largest events ever staged in the UK, with a budget of GBP 9.3 billion, and will present organised criminals with a range of money-making opportunities. Fraud, organised immigration crime, intellectual property crime, e-crime and money laundering are likely to be the main threats with criminal activity starting well in advance of the Games themselves.

Drugs

The 'upstream' heroin trade

24 At least 90% of the UK's identified heroin supply originates in Afghanistan. The primary route to the UK is overland from Afghanistan via Iran, Pakistan, Turkey, the Balkans and the Netherlands. Pakistan is of particular significance to the supply of heroin to the UK due to its geographical position and its strong ethnic, tribal, family and business ties in both Afghanistan and in the UK.

25 The United Arab Emirates (UAE) and northern Cyprus act as centres for financing and are seen as locations for conducting business.

26 The overall area of poppy cultivation in Afghanistan fell in 2008 by 19% leading to opium production falling by 6%. The UNODC now estimates that 90% of Afghan opiates are converted into morphine and heroin in Afghanistan. There have been shortages of illicitly-procured acetic anhydride (AA), the main precursor chemical for heroin.

The 'upstream' cocaine trade

27 An estimated 65-70% of UK's identified cocaine supply is believed to be produced in Colombia, or in the border areas of neighbouring Venezuela and Ecuador. Peru and Bolivia account for the vast majority of the remaining 30 – 35% of cocaine imported into the UK. A significant percentage of the cocaine is shipped from Venezuela by sea and air to destinations including Europe.

28 West Africa is used by the cocaine trade as a consolidation point and as a centre for logistics, command and control. Colombian groups pay up to one third of their consignment to west African criminals in return for protection and logistical support. The bulk of cocaine that remains in the control of the Colombian traffickers is moved to the European market. However, the payment in cocaine to the west African groups has created a secondary supply to Europe.

29 Some British and European organised crime groups have the ability to source cocaine directly from contacts in South America or west Africa. British traffickers are increasingly dealing with Colombian groups upstream to source cheaper cocaine, giving them greater control of shipments and profits.

Drugs trafficking from the EU to the UK including synthetic drugs

- 30** British organised crime groups based in Spain and the Netherlands dominate the supply of heroin (alongside ethnic-Turkish criminals in the Netherlands), cocaine and cannabis from the EU to the UK. The UK synthetic drugs market is dominated by British traffickers working in collaboration with Dutch and Belgian criminal producers based in the Netherlands and Belgium.
- 31** The Iberian Peninsula, particularly Spain, and to a much lesser extent Portugal, continues to be the most important entry point into Europe for cocaine. Spain is also an important transshipment point for UK bound cannabis mainly from the north African coast. The Netherlands is the most important secondary distribution point for the importation of heroin, cocaine and synthetics to the UK.
- 32** Most organised crime groups appear to sub-contract transport to trusted specialists, including drivers, with whom they have built up a level of trust. British organised crime groups will often share transport to reduce costs and risks and to maximise profits. Traffickers continue to make significant use of UK-bound Heavy Goods Vehicles (HGVs), concealing drugs either in a variety of legitimate loads or in specially constructed compartments.
- 33** The UK is the major market for amphetamine and MDMA in the European Union. The Netherlands and Belgium are the primary production countries.

The illegal drugs trade in the UK

- 34** According to the British Crime Survey (BCS)¹, overall levels of illegal drug use in England and Wales have decreased over the period 2002/03 to 2007/08². The level of Class A drug use has decreased from 3.4% in 2006/07 to 3% in 2007/08, but this is still higher than ten years ago when Class A drug use was 2.7% of the population. This increase over the last ten years is mainly due to the increase in cocaine powder use. London, Liverpool and Birmingham are significant centres for drugs distribution to all parts of the UK. However, distribution also takes place from other smaller cities and towns and the overall picture is complex and diverse.
- 35** A large number of foreign nationals are involved in the illegal drugs trade in the UK. London-based Turkish and Kurdish criminals control much of the heroin trade in the UK, with criminals from Pakistan and other south Asian countries exploiting family connections to supply and distribute heroin particularly in north of England and the Midlands.
- 36** Cocaine use continues to rise across the EU, including in the UK, where it is now the second most used illegal drug after cannabis. There appears to be a two-tier market for cocaine in the UK both at wholesale and at street level, with dealers selling cheaper, more heavily 'cut' cocaine to some customers and higher purity cocaine to those willing to pay more.
- 37** During 2008 the wholesale price of cocaine rose to between GBP 36,000 and 40,000 per kilo in December 2008 and in March 2009 has reached GBP 45,000. The purity of cocaine available at street level dropped to less than 20% in March 2009 demonstrating that cocaine is being extensively cut to maintain profit margins.

¹ *The British Crime Survey is a household survey measuring the amount of crime in England and Wales; by its nature it does not necessarily reach problematic users, especially the homeless. BCS figures are likely to underestimate the overall use of drugs and in particular opiates and crack cocaine.*

² *Unless otherwise stated, figures relating to drug use for England and Wales are taken from the British Crime Survey (BCS); those for Scotland are taken from the Scottish Crime and Victimisation Survey (SCVS) and Northern Ireland from the Drug Use in Ireland and Northern Ireland Drug Prevalence Survey.*

38 The health impact of the cutting agents is not known but some are believed to be carcinogenic. This may be exacerbated by the use of unregulated pharmaceuticals at all levels of the trade in the UK.

39 Cannabis and synthetic drugs, such as Ecstasy, are widely available in the UK. Organised criminals are involved in importing and supplying these drugs. Some amphetamines are being manufactured in the UK, although this appears to be on a relatively small scale compared to the overall synthetic drugs market. There is evidence that intensive commercial cultivation of cannabis, particularly the more potent skunk variety, is now widespread throughout the UK.

Organised Immigration Crime

40 The scale of people smuggling exceeds that of human trafficking. Both provide organised criminals with opportunities to exploit migrants, often placing them at physical risk, in order to make money. In the case of people smuggling, the physical risk occurs mostly in transit, when various clandestine means of travel are used, some of them hazardous. Human trafficking victims continue to be exploited once they have arrived at their destination, and are controlled often through the use of violence and intimidation.

Organised immigration crime: source countries and nexus points

41 There is a regular flow of illegal migrants to the UK from China and South-East Asia, the Indian Sub-Continent, eastern Europe/Balkans (particularly Albania) the Middle-East (particularly Afghanistan, Iraq and Iran), Africa and South and Central America.

42 There are almost limitless options for routes, methods, and timings. At nexus points where routes converge, migrants congregate to make use of locally available services to facilitate their onward journeys. Outside the EU, Bangkok, Belgrade, Istanbul, Kiev, Sarajevo, Tripoli and the Libyan Coast, and Moscow are key nexus points. Within the EU, Athens and the Greek islands, Lampedusa and Rome, are also important nexus points, while those seeking to enter the UK congregate in the Pas de Calais, Brussels and Zeebrugge.

43 Organised immigration crime attracts criminals of many types and levels; some may provide “end to end” facilitation packages from source country to the UK, while others may provide discrete services at a single stage of the journey.

44 The prices charged to illegal migrants vary significantly depending on a range of factors including geographical location, routing and level of risk.

45 Abuse of legitimate means of entry is widely practised. Fraudulently acquired work permits and student visas, along with bogus marriages, are common methods of abuse, as is exploitation of family visit visas and transit without visa regulations, along with overstaying their conditions of legitimate entry. There are also attempts by illegal migrants to enter the UK using false documents, primarily passports, visas and national identity cards.

Organised immigration crime into, within and out of the UK, including the exploitation of migrants in the UK

46 The UK is predominantly a destination for illegal migrants but is used occasionally as a source or transit country for victims of trafficking for sexual exploitation.

47 Organised immigration crime is an enabler of other types of organised crime, providing a ready workforce to work in criminal sectors, such as DVD counterfeiting, cannabis cultivation and prostitution, which causes further economic and social harms at community and national levels.

48 UK-based people smugglers are often linked ethnically to the migrants they facilitate, although there is also co-operation between different nationalities and ethnicities. The structure of UK-based groups varies

considerably. People smugglers often work in larger, more cellular, loose-knit network structures rather than rigid hierarchies.

49 Victims trafficked for the purposes of sexual exploitation have been identified throughout the UK. Any off-street sex establishment in the UK may be employing trafficking victims. High profits, combined with relatively a low risk of detection, also attract organised criminal groups into the gangmaster business to exploit illegal migrants smuggled or trafficked into the UK as cheap labour. Legal migrants who may be unaware of their rights are also vulnerable to various forms of exploitation, including those from new European Union (EU) member states.

50 Profits generated by foreign criminals operating in the UK, including as gangmasters, may be transferred overseas, either in cash or via Money Service Businesses. Overseas labour providers may divert the income from the supply of labour to offshore tax havens rather than have payments made to accounts in their home country where they may come to the attention of the local tax authorities.

Fraud

Technology-enabled crime

51 Organised criminals are increasingly exploiting the Internet, in particular its use in commerce and finance, to develop new crimes and transform traditional ones. Criminals at all levels are able to buy compromised private data, often to access bank accounts and payment card details.

52 Networks conducting e-crime activity operate virtually, with those involved seldom, if ever, meeting in person and being known only by nicknames or aliases.

53 Organised criminals use Information and Communications Technology (ICT) to support other offences, such as drug trafficking.

Non-fiscal fraud

54 Organised criminals are involved in a wide range of frauds that cause significant harm to UK individuals, businesses and institutions, and to the Exchequer. Fraud is recognised as causing economic harm, but is often perceived to be a victimless crime. In reality, many frauds are targeted against individuals, including those who have their identities stolen and used criminally, directly threatening their livelihood and savings.

55 Organised criminals are dynamic in identifying new opportunities to commit fraud and ways to overcome counter-measures. They use “enablers” such as false and stolen identities to commit non-fiscal frauds and other crimes. New technology facilitates this, making personal data increasingly available through a variety of media.

56 Mass marketing frauds can result in potentially large profits for relatively low risks. Criminals often specifically target vulnerable groups, such as the elderly. Lists of potential victims are thought to be shared amongst criminals.

57 Mortgage and insurance frauds can be highly organised and make multi-million pounds profits. In the current economic climate, detected instances of these types of crime are likely to increase.

Identity fraud and counterfeiting (including intellectual property crime)

58 Identity fraud is widespread, and many organised crime groups are known to produce, supply or use false or stolen genuine personal identities. Many documents commonly used to support identity such as utility bills are easy to produce on home computers. However more secure documents such as UK passports are less easily falsified.

59 In 2006, the Gowers Review of Intellectual Property estimated that intellectual property crime (IPC) in the UK was worth GBP 1.3 billion, with GBP 900 million of this accruing to organised crime.

Fiscal fraud

60 As with frauds against large companies, fraud against the Exchequer may appear to be a victimless crime. In practice, everyone is affected; Fiscal fraud causes significant economic harm to the UK, which is felt locally, regionally and nationally. As well as directly reducing the money available to government to invest in services, fiscal fraud affects the ability of legitimate businesses to retain market share, leading to loss of profits, potential job losses and higher prices for customers.

61 The number of attempted Missing Trader Intra-Community (MTIC) frauds fell in 2007/08. The impact on VAT receipts fell to an estimated GBP 0.5 billion to GBP 2.0 billion. MTIC fraud requires criminals to work with a host of other people. Some of those involved in MTIC fraud, such as hauliers and freight forwarders, may be involved in other crimes such as drugs trafficking and excise smuggling.

62 There is a substantial market for illicit and counterfeit cigarettes in the UK. Increasing numbers of brands not normally sold in the UK (known as cheap white brands) are being targeted at the UK market.

63 The diversion of duty suspended alcohol to the UK market is currently assessed to be the highest revenue risk from alcohol fraud.

64 The Registered Dealers in Controlled Oil (RDCO) scheme has changed the pattern of oils fraud in the UK. The scheme has reduced the open market availability of Marked Gas Oil (MGO).

65 The annual estimate for actual losses to organised attacks on the tax credit system is GBP 20 million. It appears that action against networks of individuals who hijack identities to instigate fraudulent new tax credit claims or hijack existing legitimate claims may be displacing criminals to undertake "singleton" frauds, where a single legitimate claimant is used to falsely claim additional benefits in excess of their entitlement.

66 According to Department for Work and Pensions figures, around GBP 800 million was lost to benefit fraud in 2007/08, with actual losses from organised fraud accounting for between GBP 50-100 million.

CRIMINALS AND THEIR BUSINESSES

Organised Criminals, their Business Structures and Logistics

Criminal Structures

Organised Crime Groups and Networks

1 Criminal structures vary. Successful organised crime groups often consist of a durable core of key individuals, around which there is a cluster of subordinates, specialists, and other more transient members, plus an extended network of disposable associates. Organised crime affects most areas of the UK. Police data confirms that most groups in the UK are, in practice, loose networks of “career criminals”, who come together only for the duration of specific criminal ventures. In such cases, the lead can switch depending on who has access to a commodity or criminal opportunity at the time. Similarly, a criminal who is seen as having key skills in one area of criminality may be less influential in another. Individuals may be involved with a number of groups fulfilling a different position in each and are therefore engaged in a number of separate criminal ventures at any one time. Certain minority ethnic criminal groups rely on trusted members of the same family or ethnic group to carry out their criminal activity, making their dealings more secure.

2 Different criminal activities require different structures. To carry out successful armed robberies against hardened targets requires a tightly knit group with clearly assigned roles, as it demands coordination, speed and quick decision making. Meanwhile, networks smuggling illicit commodities may adopt a cellular structure, with

particular cells fulfilling specific functions or stages of the supply chain. This restricts the information that law enforcement or criminal competitors are able to gain by penetrating a particular cell, and also allows certain parts of the supply chain to be outsourced, for example to specialist couriers or hauliers. Drug trafficking groups in source and upstream transit countries are often part of large organisations, sometimes operating as armed militias controlling large geographical areas. At the other end of the spectrum, “members” of some networks involved in Internet-enabled frauds may not be personally known to one another with all contact being managed across the Internet using nicknames and aliases.

How Crime Groups and Networks Evolve

3 Over time, the activities of established serious organised criminals can become more complex and sophisticated as they look to handle larger quantities of illicit commodities, diversify into new areas of criminal activity, conceal accumulated assets, guard against the threats from other criminals and law enforcement and seek to distance themselves from illegal activity. Successful criminals develop a range of useful criminal contacts; the use of routes and methods becomes more flexible and adept, and criminal organisations more resilient and security conscious. Opportunities may also arise for some individuals to establish specialist or niche roles.

“Criminal structures vary. Successful organised crime groups often consist of a durable core of key individuals, around which there is a cluster of subordinates, specialists, and other more transient members, plus an extended network of disposable associates. Many groups are in practice loose networks of criminals that come together for the duration of a criminal activity, acting in different roles depending on their skills and expertise. Collaboration is reinforced by shared experiences (such as prison), family or ethnic ties, or recommendation from trusted individuals.”

“ *Organised criminals make use of ‘specialists’ who provide a service, sometimes to a range of criminal groups. Services include transport, money laundering, debt enforcement, or the provision of false documentation (identity crime underpins a wide variety of organised criminal activities).* ”

The Role and Importance of Criminal Contacts

4 Criminal collaboration is at the heart of organised crime. Organised criminals routinely collaborate with people outside their immediate circle, not least with the criminals that they buy from and sell to, and those that provide them with a service, such as money laundering or transportation.

5 Although essential, criminal contacts also pose a risk to organised criminals. A contact may turn out to be unreliable or indiscreet, become a rival or an informant. The Serious Organised Crime and Police Act 2005 allows for immunity from prosecution or reduction in sentence for assisting offenders and this has increased the risk to serious organised criminals from their criminal contacts. Most serious organised criminals try to manage these risks by working in the main with people they know well and trust. Shared experience is clearly important to establishing trust. Common nationality or ethnicity is also important, particularly to criminals from relatively small, close-knit minority communities in the UK.

Criminal “Specialists”

6 Organised criminals often have a “business” need for individuals with specialist skills or know-how. The range of criminal “specialists” is very wide. It includes chemists, lawyers, accountants, IT specialists, those with access to particular goods and services, such as firearms or false passports, or those willing to carry out specific tasks, such as murder or debt enforcement. Some specialists are low-level individuals used on a one-off basis or sporadically, but many others are “career criminals” who provide their services on a continuing basis. Alternatively, specialists can be professionals who act as a “gatekeeper” to particular services, such as finance.

Criminal Use of Legitimate Businesses

7 Organised criminals cannot operate exclusively in a criminal underworld, most have to make use of businesses to present a legitimate front for their criminal activity. Some criminals run businesses themselves, some of which are set up specifically for criminal purposes and have no legitimate trade. “Off the shelf” companies, company formation agents and accommodation addresses present easy opportunities for organised criminals to obtain an overtly legitimate front for their activities. In other cases, criminals collude with, coerce or deceive the owners or employees of businesses in order to hide their criminal activity behind the true business dealings.

Criminal Logistics

What are Criminal Logistics?

8 Most organised criminal trades are complex and pose logistical problems that require forward-planning and real-time management. These may involve the manufacture or procurement of goods, their transportation, storage, distribution and sale, the deployment of personnel and other assets, and the laundering of the criminal proceeds. Working capital must be found to fund criminal deals. Facilities, such as safe houses, may be needed for storage, along with materials and equipment, for example vehicles with built-in concealments to move contraband. Throughout, the criminals must protect themselves and their illicit consignments from both law enforcement and rival criminals.

Smuggling

9 Most forms of serious organised crime involve commodities, criminal assets or serious organised criminals themselves at some point crossing the UK border, in most cases illegally. Criminals involved in this activity face a particular set of logistical problems. The consignment must be collected, couriers recruited (and provided

“ *The ability to communicate securely is essential, and organised criminals make extensive use of face-to-face meetings and ‘pay as you go’ mobile telephones to conduct their criminal business. Additionally, Internet-based communication methods are increasingly used as a speedy and relatively secure means to co-ordinate criminal activity, to make new criminal contacts, and to procure goods and services.* ”

with tickets and documentation), a means of transport acquired, concealment methods devised, a route planned, a point of entry chosen and a secure delivery point established. Some criminals stick to tried and tested methods, but others continually modify their techniques, changing routes, couriers and modes of transport in order to reduce the risk of detection.

10 A number of factors influence the logistical choices criminals make, including the source and nature of the commodity, the capabilities of the criminals themselves, and their perception of risk and understanding of law enforcement methods.

11 Criminals go to considerable lengths to minimise the risk that their contraband will be detected. They use legitimate goods as cover, both physically, with contraband hidden amongst legitimate goods, or packaged as something innocent, and in terms of the paper trail. Contraband, including people, may be hidden in the structure of the vehicle in elaborate purpose-built concealments. In the case of small quantities of drugs and diamonds, it may be swallowed or inserted into body cavities by couriers, with little regard for the risks to those involved. Criminals may also use chemicals and packaging techniques to mask the odour of the commodity from any possible search. Perishable or hazardous cover loads are an attractive option for criminals because they pose a particular challenge to law enforcement due to the special handling required.

12 Established criminals accept that losses are inevitable and plan on that basis. Some protect their interests by insisting that the cost of any loss is borne by whoever is responsible for the contraband at the time it is seized or stolen. Others may opt for the “little and often” smuggling technique, splitting large consignments into smaller loads for shipment, and thereby reducing the impact of any single seizure or loss, although adding to the logistical difficulties.

Communications

13 Any modern enterprise relies on effective communication to succeed. In the case of organised criminals, communication needs to be sufficiently difficult to penetrate and so avoid giving law enforcement advanced notice of what is planned or the ability to piece together evidence that a crime has been committed. As might be expected, the preferred method appears to be face-to-face contact. However, criminal businesses usually involve complex logistics, with people and goods moving around internationally and in the UK, with deals and transfers to be done with other criminals, and with timings and locations to be managed against a background of unreliable partners and active opposition in the form of law enforcement. In practice, this means criminals must make extensive use of telecommunications to monitor the progress of their criminal activity.



“ Violence or the threat of violence is often implicit in the activities of organised criminals, and some are willing to commit or sponsor kidnapping, attacks, and murder, to protect their interests, including the recovery of debts. Violence also stems from personal disagreements and gang-based rivalries. In some instances, violence or intimidation is used to coerce innocent victims into facilitating crime.”

Overseas Travel and Residence by Criminals who Operate in the UK

14 Many serious organised criminals causing harm to the UK live and run their criminal businesses from abroad. Some of these are UK nationals living as expatriates; others are operating from their countries of origin. The traditional preference for face-to-face business, and the desire, for reasons of cost and reliability, to deal directly with significant upstream suppliers, may explain why some UK-based drugs traffickers, or their subordinates, travel overseas.

Violence and Intimidation

Violence and Intimidation as a Tactic

15 Violence and intimidation remains a feature of most organised crime. It takes many forms, from unspoken intimidation, where criminals trade on a reputation for violence and ruthlessness, to the ready use of extreme violence or murder. Some criminal activities are intrinsically coercive, such as robbery or extortion. These aside, violence and intimidation are most marked among crime groups involved in drugs supply, particularly multi-drugs suppliers (especially those that sell both heroin and crack cocaine). Undoubtedly, there is substantial under-reporting of coercion, because many of the victims are themselves criminals and unlikely to report incidents either because they fear reprisal, or are reluctant to draw attention to their own criminal activities, or simply prefer to deal with the matter themselves.

16 Violence and intimidation are used to maintain the discipline and compliance of group members and criminal associates, and to enforce criminal business deals and recover debts. Retribution may be taken for double-crossing the group, making mistakes, not following orders, or being suspected of providing information to law enforcement agencies. Violence sometimes erupts because of a dispute between criminal groups,

although only a small proportion become involved in disputes over local markets or local territory. Threats and actual violence are used to force individuals to act against their will, for example, women trafficked to the UK to work as prostitutes. Violence is also used or threatened as a means of self-protection, as a display of power, to maintain a reputation, satisfy honour or gain revenge.

Kidnap, Abduction and Associated Crimes

17 The threat of kidnap continues to cause grave concern for UK communities, law enforcement, and commerce and industry throughout the world, despite the fact that the UK is acknowledged by the United Nations as a world leader in reducing the harm caused by kidnap and blackmail offences. High profile acts of kidnapping especially in foreign jurisdictions causes harm at the international, community and regional level.

18 During 2007/08 Police Forces reported 2,000 kidnaps to the Home Office, a continued fall from 2,367 reported in 2006/07. However, the true figure is not known. It is likely that many kidnaps go unreported, since it is often the case that the hostage and the victim (the person subject to the kidnappers' demands) are themselves criminals and have no wish to involve law enforcement. These are described as “criminal vendetta” kidnaps, and generally revolve around disputes over debts, typically for monies outstanding from a drugs deal, often for quite small sums.

19 “Tiger” kidnaps involve the holding of a hostage, usually a close relative of the victim, to force the victim to facilitate a robbery. This tactic has been used successfully in major robberies, including of cash repositories, for example the Tonbridge cash centre in February 2006.

20 Overseas, UK nationals are at risk of kidnap in areas of conflict, particularly Afghanistan, Iraq and Somalia. In Afghanistan and Iraq, UK nationals have been abducted by

“ *Corruption has a damaging effect to the perception of the integrity of the UK internationally and on the public and private sector institutions that it affects. Organised criminals use corruption to secure assistance from those with information or influence in order to protect or enhance their criminal activities. Officials in law enforcement and criminal justice agencies have access to the most useful information, and are particularly attractive to organised crime groups.* ”

organised criminals and sold on from group to group, sometimes ending up in the hands of terrorists. In a number of kidnap cases in Iraq, ransom demands have been made to Iraqi nationals based in the UK. There has also been an increase in the kidnapping of nationals from Afghanistan, Bangladesh and Pakistan with ransom demands being made to overseas family members, including those in the UK. In South Africa, criminals commit fraud by deceiving people to invest in items such as scrap metal and then lure victims to the country to be kidnapped to obtain ransom money. This technique has previously been associated with criminals in west Africa including Nigeria.

Blackmail and Extortion

21 Blackmail³ covers a multitude of criminal activities, including product contamination, and uses threats to secure material advantage, in most instances money, although other demands may also be made. As with kidnaps, the true extent of blackmail and extortion offences (including “protection rackets”) by serious organised criminals is not known. Fear, and damage to reputation in the case of retail businesses, may make victims unwilling to report instances to law enforcement. In 2007/08 the Home Office recorded 1,197 blackmail offences.

Corruption

Law Enforcement Corruption

22 Organised criminals are keen to acquire law enforcement information, and look to corrupt staff in law enforcement agencies to provide it. Criminals want such information for a variety of reasons, but principally in order to avoid detection, to identify “leaks” in their organisation, to build their understanding of law enforcement tactics, to stay ahead of their

criminal competitors and to increase their credibility amongst criminal peers. Corrupt law enforcement personnel tend to be tasked by criminals to obtain specific information, which is usually held either on national databases or on local law enforcement intelligence systems.

Corruption in the Wider Criminal Justice System

23 Organised crime groups have maintained corrupt relationships not just with those involved in “front line” law enforcement, but also with others throughout the criminal justice system. Officials in such organisations can potentially provide serious organised criminals with information on the prosecution case against them, or assist them in continuing their criminal activities from prison.

Other Targets for Corruption

24 There are also examples of organised criminals cultivating corrupt relationships with central and local government officials in the UK and overseas, with accountants and with a range of other professionals. These relationships give organised criminals access to systems which allow them to create false but officially recognised identities or to facilitate other criminal activities. Organised crime groups involved in high-value thefts and robberies often use employees, security staff or other contractors from the companies they target to provide them with information to assist in their plans, such as details of the transit or shipment of goods and of security measures. The risk of infiltration to call centres is a threat to the banking sector, particularly to online and telephone banking, with customer details being used to facilitate fraud and money laundering by corrupt employees in the service of organised crime groups.

³ Blackmail is defined by Section 21 Theft Act 1968 in England and Wales as an unwarranted demand with menaces with a view to gain (for themselves or another) or intent to cause loss to another. Extortion (Scotland) is a crime against Common Law of obtaining money, or any other advantage, by threats. The motive and the manner in which the threat is made are immaterial.

Lifetime Management of Organised Criminals and the Prison Programme

“ Organised criminals often enjoy lifestyles funded by a lifetime of crime. “Career criminals” are criminally active throughout their lives, therefore law enforcement and the wider criminal justice community has to adopt an equally thorough and persistent approach. ”

25 Organised criminals operating at a national and international level often enjoy lavish lifestyles funded by a lifetime of crime. These “career criminals” are criminally active throughout their lives, including any spells in prison. To be successful in combating them, and to cause any lasting damage to their criminal infrastructures, law enforcement and the wider criminal justice community has to adopt an equally thorough and persistent approach.

26 The law enforcement response to organised crime has been enhanced by the creation of a range of controls and restraints designed to be used alongside existing powers. By systematically imposing measures throughout a criminal’s lifetime that restrict their ability easily and freely to continue with their criminal business, such as Financial Reporting Orders, Serious Crime Prevention Orders and Travel Restriction Orders, law enforcement is in a position to maintain a level of control over the criminal and to disrupt or frustrate their activities. Although relatively new and as yet not widely used, it is clear that criminals view these Orders as a burden.

27 Prison provides organised criminals with good opportunities to network, due to the concentration of “experts” in all areas of organised crime. There is clear evidence of organised criminals developing their knowledge and expertise while in prison, as well as expanding their networks of criminal associates. For example, importers and distributors of Class A drugs have forged new relationships with overseas supplier networks, and criminals involved in frauds have identified and developed new methods and contacts. The main constraint in prison is the inability to meet associates freely. Prison forces criminals to change their methods of communication and to delegate the day-to-day running of their criminal businesses to those on the outside. The ability to communicate clandestinely with these associates is seen as crucial.

28 The National Offender Management Service (NOMS) makes strenuous efforts to ensure that proper restrictions are in place. However, it faces continuing challenges from organised criminals exploiting advances in communication and information technologies to circumvent these controls.



29 A significant number of the organised criminals causing harm to the UK are foreign nationals. Some never set foot in the UK, but others either visit or are resident here, in some cases having arrived illegally or by remaining illegally, for example having overstayed their landing conditions. Organised criminals make extensive use of false or stolen identities and are able to circumvent pre-arrival checks and to

frustrate efforts to locate and remove them from the UK. However, where identified, foreign nationals known to be involved in crime can be excluded or removed from the UK and can even have their UK citizenship revoked if they have been naturalised. These powers, if properly applied, can be an effective tool against organised criminals.

“ Imprisonment does not necessarily stop organised criminals from continuing with their criminal activities. Some have shown they are capable of running criminal businesses from prison. ”

Criminal Finances and Profits

Nature and Scale

30 Most organised criminal activity is directly or indirectly aimed at making money, and therefore criminal finances and profits underpin organised crime. Typically, a proportion of the money made from any activity is used to pay for the goods and services needed to support that activity, and another to re-invest in the next venture. Some organised criminals spend most of what they make through their crimes on sustaining a lavish lifestyle, spending large sums of money on purchases such as vehicles, jewellery and social activities. Police data suggests that over one third of known organised crime groups are motivated in this way. Others accumulate wealth in cash and assets, which may be held in the UK or overseas. However, most will be involved to a greater or lesser extent in laundering money in order to hide its true origins and to enjoy the profits.

31 Assessing the scale of this illicit and usually hidden activity is problematic. The most recently available figures from the Home Office (2006) estimate that the revenue made by organised crime in the UK from the markets for illicit goods and services, such as Class A drugs, and the criminal abuse of legitimate markets, such as fiscal fraud, is in the order of GBP 15 billion per annum.

32 However, it is possible to identify the market structures, revenues, costs, transaction types and financial flows for the main types of organised crime. For example, the supply of drugs involves a segmented, international supply chain with tens of thousands of operators at the lower levels. The vast majority of transactions involve cash, which at street level is mostly in small denominations, with significant amounts being moved around the UK and exported to

pay for drug consignments. A proportion of drug purchases at most levels of the market is made on credit. Organised immigration crime and fraud depend to a lesser extent on large cash transactions, and the money flow through the supply chain is different due to the different shape of the criminal activity.

33 The proceeds of acquisitive crime are usually generated as cash. Where the illicit activity is part of organised crime, this cash is consolidated as it moves up through the organised crime group. This cash represents a considerable risk to criminals. It increases the possibility of exposure, theft by rival criminals and seizure by law enforcement. Cash is also bulky and cumbersome to handle in large quantities. When cash enters the legitimate economy, it is particularly vulnerable to identification and law enforcement intervention. To avoid this, criminals take action to prevent the proceeds of crime being presented to the Regulated Sector (those businesses whose activities are listed in Schedule 9 of the Proceeds of Crime Act 2002, extended by the 2005 and 2007 Money Laundering Regulations) in a way that attracts suspicion. While many of the methods used to disguise the origins of the cash are well known and recognised, criminals are constantly looking to develop new ways of placing cash into the Regulated Sector.

Inland Movement of Illicit Cash

34 In the UK, most criminal proceeds are generated in large metropolitan areas, which is where most organised criminal activity is concentrated. Criminals seek out the money placement and exchange services they need

“Criminal cash is often moved out of the UK to a foreign jurisdiction for placement in the legitimate financial system, investment in property, or used to pay for illicit commodities or services. This can be done using couriers or via money transmission services. However, many organised criminals make use of financial and legal professionals to handle their financial affairs. This often involves using property purchases and legitimate or quasi-legitimate businesses, typically those with a high cash turnover, to launder criminal proceeds as well as to provide cover for the purchase, delivery and sale of illicit goods.”

depending on the risk and amount of cash they need to move.

Cash Smuggling

35 Criminals move cash overseas to avoid detection by the regulated sector; to pay for goods and services; and to hide criminally acquired assets. Illicit cash is consolidated in the UK, and then moved overseas. Compared to the UK, there is a lower risk of attracting the attention of the authorities in some countries when placing cash into the legitimate financial system, whether directly or by such means as purchasing property.

36 Cash smuggling techniques are adaptable. Cash can be smuggled in a number of ways. It can be transported by courier, freight, post, or moved through the various points of exit from the UK. Methods used to conceal cash range from the relatively simple, such as in a car boot or a traveller's suitcase, to more elaborate methods, for instance internal body concealments. General Aviation (any non-military flight which is neither scheduled nor chartered for commercial purposes) is also used to circumvent border controls.

37 Cash smugglers use other currencies, in addition to sterling. In particular, the euro is popular with criminal networks, because of the availability of high denomination notes which mean less bulk and also because the use of the euro more effectively disguises the origin of the cash and the location of the criminality. The value of cash smuggled to and from the UK in euros is believed to exceed the sterling figure.

The Regulated Sector

38 Once criminal proceeds are placed into the banking system they are effectively

transferred from a physical form (cash) to an electronic value, which is favoured by money launderers as more flexible and transferable. Banks and other financial institutions are critical to all non-cash based transactions. Money laundering cannot take place without some interaction, direct or indirect, with retail banks or other deposit takers. This risk is recognised by the Money Laundering Regulations 2003, which define the Suspicious Activity Reporting regime (SAR) and Customer Due Diligence (CDD) measures. The regulations aim to minimise the exploitation of legitimate systems, and ensure that an audit trail exists to assist investigation when abuse is detected. Reporting responsibility under the legislation extends to the legal profession, Informal Value Transfer Systems⁴ and High Value Goods Dealers⁵.

Laundering Money Through Businesses

39 Businesses with a high cash turnover and those involved in overseas trading are particularly attractive to criminals. The former allows illicit cash to be integrated into company accounts and paid into bank accounts as apparently legitimate business income. The latter allows illicit funds to be placed into company accounts or sent overseas as apparently legitimate payments.

Financial and Legal Professionals

40 Where criminal organisations do not themselves have ready access to the more sophisticated means of laundering the proceeds of crime, they make use of witting or unwitting "gatekeepers" such as solicitors and accountants to manage assets on their behalf using their professional knowledge and expertise.

⁶ A form of money transmitter, such as the "Hawala" system, which relies on a global network of largely unregistered bankers, that enables individuals to arrange for money to be paid out to named recipients worldwide, without any cash having to be moved overseas in most cases.

⁷ Firms or sole traders, who trade in goods, including auctioneers, and receive cash payments of EUR 15,000 or more for any single or multiple transaction.

“ A significant amount of the criminal proceeds generated in the UK is laundered overseas. The United Arab Emirates (UAE), the Far East and South East Asia (particularly Hong Kong, Singapore and Shanghai) and Spain are attractive to money launderers. ”

“Specialists”

41 The number of criminals who specialise as money launderers, providing more sophisticated laundering services to other criminals, is believed to be small, compared to the total number of criminals engaged in money laundering activity. However, they are responsible for laundering a significant proportion of all proceeds of crime and their ability to process more value per transaction increases the likelihood that organised criminals will be interested in using their services.

42 Specialist money launderers will often launder money for several criminal groups and charge commission. Commission rates are influenced by the amount of money to be laundered; the level of trust between the specialist launderer and the criminals; and law enforcement activity, specifically around cash seizures.

43 Trust is an important part of the relationship between organised criminals and specialist money launderers. This is often reflected in family and kinship links.

Money Service Businesses

44 Money Service Businesses (MSBs), which include bureaux de change, money transmission agents and cheque cashers, are frequently used by organised criminals to launder the proceeds of crime. Criminals may make small value transactions in high volume through legitimate MSB outlets that are not aware that their services are being abused, while complicit MSBs knowingly facilitate large volumes of currency exchanges on behalf of criminal customers.

“ The number of criminals who specialise in money laundering alone, providing more sophisticated laundering services to other criminals, is believed to be small, compared to the total number of criminals engaged in money laundering activity. However, they are responsible for laundering a significant proportion of all proceeds of crime and their ability to process more value per transaction increases the likelihood that serious organised criminals will be interested in using their services. ”

Informal Value Transfer Systems (IVTS)

45 Informal Value Transfer Systems (IVTS) in the UK falls within the regulated MSB sector. Like other MSBs, they are vulnerable to exploitation by organised criminals. They are traditional in some ethnic communities, and a preferred and legitimate means of sending money to family members back in their countries of origin. From an organised criminal perspective their attraction is their cultural and ethnic links to the areas to which the proceeds of crime need to be sent, and that they work outside the Regulated Sector, making them a safe and secure way of making payments or moving profits around the world.

Criminal Assets

46 A proportion of the money generated by organised crime in the UK is reinvested in the UK to support further criminal activity.

47 More successful organised criminals may use their criminally acquired wealth to own, or enjoy access to, a range of high value goods and assets.

48 Organised criminals may invest in property, shares, trusts and pensions, and hedge funds, as well as accumulating high value goods, such as jewellery, vehicles, art and other collectable items. These assets may be held in the names of friends or family to conceal their true ownership.

International Money Flows

Jurisdictions of Risk

49 A significant amount of the criminal proceeds generated in the UK is laundered abroad, in some cases because the risk of discovery is lower than in the UK, but also because some locations offer more attractive financial facilities and because of the ties of the criminals involved. Additionally, serious organised criminals make use of offshore business and banking services which attract high volumes of commercial activity to launder their money. Jurisdictions that provide these are particularly attractive, especially where they offer high levels of banking and commercial confidentiality. They are used primarily to obscure the origin of funds and to conceal the ownership of criminal assets. Recent evidence indicates that overseas labour providers may divert the income from the supply of labour to offshore tax havens rather than have payments made to accounts in their home country where they may come to the attention of the local tax authorities.

50 The United Arab Emirates (UAE) is particularly attractive to those wishing to launder criminal proceeds, and a number of specialist money launderers have set up business there.

This is due to its infrastructure (including the free ports), large expatriate population, business environment, “light touch” regulatory regime, “cash culture”, well developed financial markets and borders which are difficult to control. However, the increasing ease with which global financial systems can transfer value results in money laundering taking place across several jurisdictions.

51 Money launderers are also attracted to the Far East and South East Asia. Hong Kong and Singapore are well-developed, westernised financial centres comfortable for expatriate organised crime groups to operate in, where English is widely spoken. Singapore also has strong banking privacy laws, which organised crime groups believe work to their advantage. Shanghai is the major financial centre for China and, as such, attracts widespread money laundering.

52 Spain continues to provide cash placement opportunities for criminal proceeds attracting a significant quantity of smuggled cash from the UK. UK criminals based in Spain play a central role in facilitating the transfer and placement of criminal cash generated in the UK and by supporting further criminal activity, particularly drug smuggling.



CROSS CUTTING

Firearms

“Crimes involving firearms remain relatively rare in the UK. Fear of firearms crime by the public is, relatively speaking, much higher than for other types of violent crime and some communities in the UK perceive that they have become stigmatised as “gun culture hotspots”. Around two thirds of recorded gun crime in England and Wales takes place in four police force areas: London (the Metropolitan Police District), Greater Manchester, Merseyside and the West Midlands, and is linked predominantly to street gangs.”

Nature and Scale

53 The availability and use of firearms by criminals makes the criminal world more volatile, and puts innocent members of the public and law enforcement officers at risk of physical and psychological harm. Firearms crime also causes economic and social harm to the UK through increased costs in terms of law enforcement, criminal justice, the National Offender Management Service (NOMS) and health service expenditure. It has a deeply corrosive effect on the well-being of communities and damages public confidence in the rule of law. Fear of firearms crime by the public is, relatively speaking, much higher than for other types of violent crime and some communities in the UK perceive that they have become stigmatised as “gun culture hotspots”.

54 In reality, firearms crime is still relatively rare in the UK, and accounts for 0.4% of all recorded crime. This proportion is halved when air-weapons are excluded. Less than a quarter of firearms offences resulted in any sort of injury. Home Office crime figures for 2007/08 show that there were 9,865 recorded firearms offences⁶ in England and Wales (excluding air weapons), an increase of 2% following a 13% fall in 2006/07. Of these, 53 were homicides and 541 resulted in serious injuries. In 2007/08, one police officer was killed and 24 others injured by a firearm, three seriously, although 15 of these were caused by CS gas. In Scotland, firearms

crime is relatively low compared to England and Wales, but is increasing. Scottish Police recorded 1,245 firearms offences in 2006/07, the latest year for which figures are available, and an increase of 17% from the previous year and the highest level in the last 10 years. In 2007/08, 5 out of 6 firearm-enabled murders in Scotland were related to organised criminal activity. The Police Service of Northern Ireland (PSNI) recorded 100 firearms offences for 2007/08, a 9% decrease on 2006/07.

55 However, statistics for reported firearms crime do not always accurately reflect the experience of communities. Firearms crime often goes unreported particularly when it involves “criminal on criminal” shootings or victims who fear reprisals should they contact the police. Changes in reported firearms crime figures may not be the result solely of an actual change in criminal activity, but may also reflect a change in public confidence in reporting such crimes to the police. Whatever the true figures, there has been an increase in the more “chaotic”, street-level firearms offences. The perpetrators and victims in these cases are often young people, and the offences are linked to gang activity, and are a real concern to the communities affected.

Possession and Use of Firearms

56 Some organised criminals routinely have access to firearms, and many others are able to

⁶ “Firearms” included in these statistics are handguns, shotguns, rifles, imitation firearms, disguised firearms, machine guns, pepper spray, stun guns and other specified weapons (the majority of which are paintball guns). Firearms are taken to be involved in an offence if they are discharged, used as a blunt instrument against a person or used in a threat.

acquire one should they wish. They carry them to protect themselves, their assets and, in some instances, as a status symbol. Firearms tend to be used to intimidate, recover debts, and enforce discipline, as well as to commit acts of violence and to enable criminal activity such as robbery and kidnap. Organised criminals are most likely to threaten to use firearms against other criminals, close associates or members of their own community.

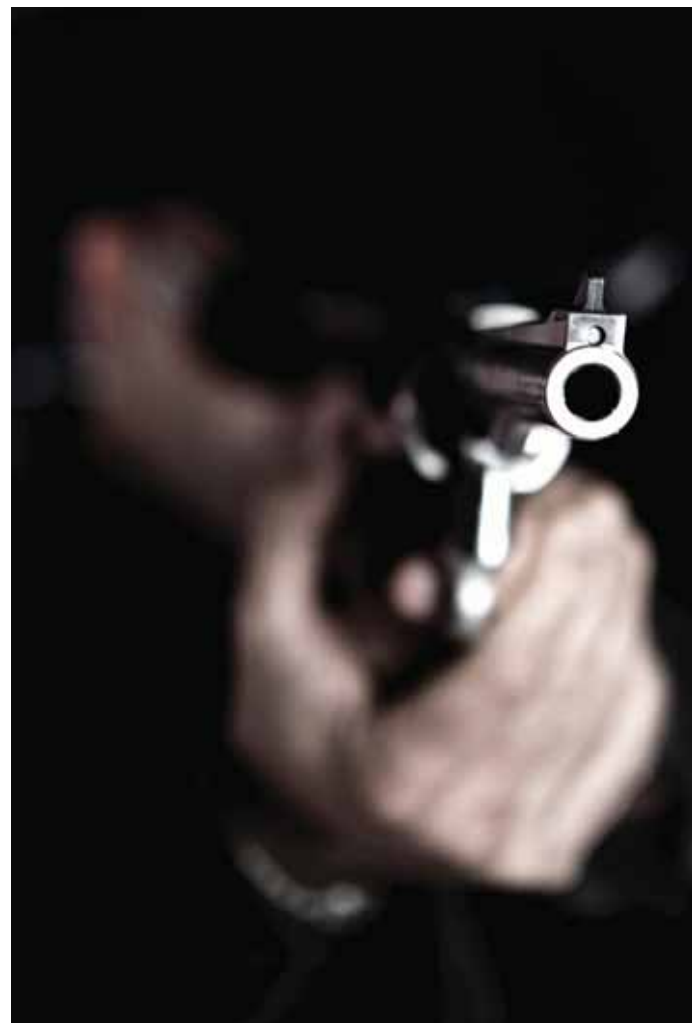
57 Well-established criminals will often use others to take the “hands on” risks, for example, to act as enforcers and to recover debts, effectively distancing themselves from firearms activity.

58 The last decade has seen a general trend away from armed robberies at banks and building societies towards the use of firearms in cash in transit robberies, and in residential and “street” robberies. This reflects improved security and target hardening at the former, and an apparent increased willingness by some criminals to use firearms in opportunistic robberies. Between 1996 and March 2008, armed robberies at building societies decreased from 144 to 14. Firearm-enabled robberies of garages and service stations fell from 109 in 2006/07 to 65 in 2007/08, a decrease of 40%. Robberies on the public highway now represent one third of all firearm-enabled robberies.

Firearms, the Class A Drugs Trade and Street Gangs

59 Firearm crime occurs in most police force areas, but around 60% of recorded firearms crime (excluding air-weapons) in England and Wales occurs in four police force areas: Greater Manchester, London (the Metropolitan Police District), Merseyside and the West Midlands, and is linked in the main to street gangs. The Tackling Guns and Gangs (TGAP) Action Programme was established in September 2007 to target the four “hotspots”. Between October 2007 and February 2008 there was a 51% reduction in firearms injuries in the four areas.

60 A key driver behind the increase in criminal possession and use of firearms in the UK, and the spread from large metropolitan



cities, has been the expansion over recent years of the markets in Class A drugs (especially crack cocaine) and the associated gang culture at street level. Criminal gangs often control their share of a drugs market through violence, implied or actual, and use firearms as a show of strength, to recover debts, or for self-protection. A major factor behind the desire to be armed is the perception among these criminals that their rivals are similarly armed.

61 In some areas, “territory” is a more significant driver for gun use than protecting a share of the drugs market. While those engaged in territorial disputes tend to be younger and more prepared to discharge firearms to maintain their reputation, some organised criminals involved in the sale of drugs are known to have established a “modus vivendi” to safeguard their respective profits.

“ Around 8-9,000 firearms continue to be deactivated in the UK each year. They pose a threat as they are legally available and may easily be mistaken for conventional firearms. Converted firearms constitute just under half of all lethal-barrelled weapons recovered by the police in England and Wales. They are easier to acquire and cheaper than real firearms and therefore more attractive to criminals.”

62 There is an increase in the carrying of and willingness to use firearms by less organised, lower-level street gangs, who have adopted a culture in which possession of firearms is related to image and bravado. Gang members are increasingly quick to resort to firearms to settle disputes. This has led to an increase in disorganised (“chaotic”) firearms incidents including “tit-for-tat” revenge shootings over petty matters. There is a trend towards younger perpetrators of this type of “chaotic” firearms crime, with around half of those accused of firearm offences in London aged between 14 and 21 years. This trend is visible in other parts of England and Wales, but not in Scotland, where the use of knives is more common.

63 While there are regional differences, police forces are increasingly reporting a move away from gangs formed predominantly along ethnic lines to multi-ethnic “postcode gangs”, whose membership is determined by where individuals live or went to school.

The UK Firearms Market

64 UK criminals at all levels prefer handguns, as they are easier to carry and conceal. The Firearms (Amendment) Act 1997 progressively banned possession of handguns (with limited exceptions), but it is unlikely that those held by criminals were handed in. The use of shotguns by armed criminals continues to decline.

65 The use of automatic weapons by criminals is relatively rare. However, they can be highly sought after in certain criminal circles as they carry greater kudos.

66 Problems in distinguishing by sight between real, imitation and deactivated firearms results in weapons being used in crime are difficult to classify if they are not recovered. As well as hampering the ability of law enforcement

agencies to investigate crimes, this can impede the early identification of trends.

Imitation Firearms

67 Twenty-six per cent of offences (excluding air weapons) involve imitation firearms. The importation, manufacture, and sale of Realistic Imitation Firearms (RIFs) were banned under the Violent Crime Reduction Act (VCRA) 2006, which also limits the purchase and sale of primers to firearms licensees.

Deactivated Guns

68 Around 8 - 9,000 firearms continue to be deactivated in the UK each year. The standards set in 1988 for a weapon to be considered deactivated were ineffective, so in 1995 a more stringent standard was imposed. However the standards were not applied retrospectively, therefore deactivated models to the 1988 standard are still in circulation.

Converted Firearms

69 Converted firearms, specifically converted blank-firing weapons and air weapons designed for use with a self-contained gas cartridge system, constitute just under half of all lethal-barrelled weapons recovered by the police in England and Wales. In London 61% of seized live-firing handguns have been converted. Converted firearms are easier to acquire than real firearms, and cheaper, and therefore more attractive to some criminals.

Disguised Firearms

70 Although in small numbers, various forms of disguised firearms have been recovered in the UK. While the threat is low, they nonetheless present a risk management issue for law enforcement.

Sources and Prices of Firearms and Ammunition

71 Firearms seized at the UK border in 2008 have originated from Albania, Bosnia and Herzegovina, Bulgaria, Croatia and Lithuania. However, firearms are produced all over the world and can be obtained almost anywhere.

72 There is no evidence that firearms are trafficked into the UK on a significant scale. The Internet provides an alternative means of obtaining firearms and component parts for UK buyers who lack the necessary criminal contacts. Real firearms are rarely sourced via the Internet,

but pressure bearing component parts are, and these can be useful in the conversion and reactivation of weapons. Attempts to tackle this threat have included the publication of “warning notices” on co-operative overseas websites, outlining UK firearms prohibitions and penalties. This may deter some of those who are seeking to flout the law, and help to prevent the unwitting purchase of illegal weapons. Instructions can be purchased online to enable a lethal firearm to be manufactured from scratch, although s.45 of the Serious Crime Act 2007 criminalises the publication of such material⁷.

“ *Organised criminals at all levels are unlikely to have difficulty in acquiring a firearm.* ”

⁷ *This is only if it is capable of encouraging or assisting an offence, believing it will be committed.*

UK Borders

“Most forms of serious organised crime involve commodities, criminal assets or serious organised criminals themselves at some point crossing the UK border, in many cases illegally.”

The UK Border

73 Most forms of organised crime involve commodities, criminal assets or organised criminals themselves at some point crossing the UK border, in many cases illegally.

74 The UK has over 12,429 kilometres of coastline encompassing more than 650 ports, harbours, quays and piers, almost innumerable beaches, coves and potential landing points, two international rail links, and over 3,000 airports, airfields, helipads and landing strips. There is also a land border between Ireland and Northern Ireland that stretches for 360 kilometres with around 150 vehicle crossing points.

75 The UK also has an “offshore” border, where for example UK officials are placed overseas to manage controls at the point of embarkation to the UK, or where “authority to carry” is given overseas. This puts a premium on the effectiveness of international cooperation, the validity of juxtaposed border controls and the collection and checking of data concerning the movement of goods and people, incorporating new biometrics and e-Borders standards⁸.

76 The UK’s direct control over the border is limited by international agreements and by the sheer volume of legitimate traffic.

Enforcement of controls has to be balanced with the requirement to facilitate legitimate trade. Successful serious organised criminals ensure that they or their transporters are knowledgeable about border controls and about related law enforcement measures and techniques.

77 Many serious organised criminals travel frequently from and to the UK in pursuit of their criminal business, preferring the greater security of face-to-face meetings with other criminals when negotiating deals and the movement of goods. Organising an illegal importation, for example, can mean a great deal of international travel by whoever is behind the conspiracy or by a trusted associate. When it comes to the importation itself, the main players look to avoid being “hands on” at the border and to use lower level members of the group or others to carry the risk, such as couriers and HGV drivers.

International Travel by Serious Organised Criminals

78 Serious organised criminals frequently travel in their own name, but many also have access to false identities and documentation, enabling them to travel undetected.

“The UK’s direct control over the border is limited by international agreements and by the sheer volume of legitimate traffic. Enforcement of controls has to be balanced with the requirement to facilitate legitimate trade. Successful serious organised criminals ensure that they or their transporters are knowledgeable about border controls and about related law enforcement measures and techniques.”

⁸ e-Borders is a 24/7 alert system that relies on the capture of passenger and crew information from carriers in advance of travel. e-Borders is currently increasing its data volumes and is expected to cover 60% of passenger and crew movements by December 2009, 95% by December 2010 and 100% by March 2014. The captured data is screened against watch-lists and allows law enforcement agencies to be alerted in advance of the arrival in or departure from the UK of persons of interest.

“Many serious organised criminals travel frequently from and to the UK in pursuit of their criminal business, preferring the greater security of face-to-face meetings with other criminals when negotiating deals and the movement of goods. Sometimes they travel under their own names but often they will use false identities and documents.”

Cross-border Smuggling

Air

79 Scheduled and chartered flights are used to gain illegal entry for people and to smuggle illegal goods by subverting controls. Individual couriers or groups can carry illegal commodities into or out of the UK. Drugs can be swallowed or concealed internally in an attempt to avoid controls. Depending on their point of departure, couriers may have a limited choice of UK destinations.

80 “Rip-off” teams or individuals are airport baggage handlers, cargo/freight handlers, cleaners and airside ramp agents who work at UK ports but undertake “rip on/rip off” crimes on behalf of other criminals. “Rip-off” teams do not organise illegal importation but are believed to offer their services to organised criminals for an agreed fee in order to facilitate the importation.

81 Serious organised criminals are known to make use of General Aviation (GA), which covers any non-military flight that is neither scheduled nor chartered for commercial purposes, though the extent of this use is unclear. It is a known method for cash smuggling. Any strip of land can be used as an airfield for up to 28 days per year without planning permission and there are more than 3,000 known airfields and helipads. Illegal activity in GA is most likely to involve the smuggling of drugs, cash or firearms. GA flights have also been detected smuggling illegal migrants and used by serious organised criminals to enter or leave the UK without having to pass through border controls.

“The UK’s channel ports and major airports have been targeted for many years by organised smugglers of drugs, people and other illicit commodities, who exploit the enormous volumes of RoRo traffic and other freight movements, private vehicles, foot passengers and legitimate air traffic to conceal their activities.”

Sea

82 The UK sea ports industry is the largest in Europe in terms of freight tonnage (around 95% by volume and 75% by value of the UK’s international trade is transported by sea) handling almost 600 million tonnes of foreign and domestic traffic in 2007. Organised criminals can hide their movements of illicit commodities in the large volume of legitimate traffic passing through the UK border. It has been previously estimated that between 60 and 80 tonnes of heroin and cocaine needs to be imported to the UK each year to supply the UK drugs market.

Roll-on/Roll-off (RoRo) Traffic

83 Roll-on/roll-off (RoRo) traffic poses the greatest risk in terms of the clandestine entry into the UK of commodities such as Class A drugs and people. Heavy Goods Vehicles (HGV), cars, vans, motor homes and caravans using RoRo shipping have all been used to smuggle commodities and people through UK ports. In the case of commercial vehicles the goods may be concealed within a legitimate load, or in the driver’s cab, or in the fabric of the vehicle. The latter concealment technique is also sometimes used with private vehicles, as is simple concealment amongst personal baggage, a technique also used by foot passengers and those travelling on coaches. While some drivers will be unaware that the load they have collected has illegal goods concealed within it, organised criminals frequently use complicit HGV drivers or drivers who are aware that what they are doing is illegal but do not know exactly what or who they are carrying. “Groupage” loads, where consignments for different customers are consolidated into one load, are frequently used as cover for illegal importations.

Containerised Freight

84 Containerised freight is the main method used in the importation of cigarettes. Containerised freight enters the UK either on specialised container ships, on HGVs via RoRo routes, or by rail through the Channel Tunnel. The smuggled items are either in the load, as Groupage, within the fabric of the container (which is less common) or are “ripped-on/off”.

85 Globalisation and an increasing world population are driving the greater movement of goods from low cost producers to international markets. The most efficient solution to this demand is the container industry, which is likely to continue to increase. Importers and exporters will also continue to press for faster clearance through UK ports.

Other Shipping

86 There are similar risks associated with other forms of shipping especially bulk cargoes such as ores, timber and steel. These can present challenges for law enforcement as it requires time, space and specialist equipment to examine them. However, although they are known to be used by criminals, bulk loads are not as great a threat as containerised traffic, because the criminals face similar logistical difficulties in using these loads.

General Maritime

87 Much of the UK’s coastline is accessible to small vessels such as yachts or rigid hulled inflatable boats (RIBs) which can be driven to secluded coves or beaches to offload their illicit cargo before proceeding to a harbour or marina to make their journey appear legitimate. Yacht traffic does not have to report its arrival immediately, although this will change once e-Borders is introduced. Ocean-going vessels capable of carrying large quantities of illicit commodities do not have to dock at a designated port, but can instead stand offshore and act as a

“mother ship” offloading to other smaller inshore vessels (known as “coopering”). Cruise liner traffic is also vulnerable to smuggling, particularly where crew members are complicit.

Rail

88 Organised criminals exploit the UK’s two international rail links. The link between England and France via the Channel Tunnel carries three types of rail traffic, each with its own vulnerabilities. The second international rail link is between Northern Ireland and Ireland, which carries both passenger and freight traffic. This too is vulnerable to exploitation by organised criminals, as there are no permanent immigration or customs checks on this route in line with legislation that governs the Common Travel Area.

Ireland

89 Criminals exploit the land border between Northern Ireland and Ireland to move commodities into and out of the UK. They are also able to launder money from one jurisdiction to another. The border, or more specifically the differentials in rates of tax and duty in the UK and Ireland on certain goods, creates the conditions for certain types of crime. Meanwhile, some British organised criminals use Irish ports as an entry point for Class A drugs destined for the UK, in particular cocaine, and Northern Ireland is used as a transit route in both directions by people smugglers and human traffickers.

90 Police Service of Northern Ireland and the Irish police (An Garda Síochána) produce a bi-annual Cross-Border Organised Crime Assessment, which provides an insight into the organised crime issues affecting both jurisdictions. This report is available at <http://www.nio.gov.uk>.

Post and Fast Parcels⁹

91 Illicit commodities, especially Class A drugs and contraband tobacco, are also smuggled into the UK in the post or through fast parcel services.

⁹ *Fast parcels is a generic term for packages sent via courier companies.*

“ Illicit commodities such as Class A drugs and contraband tobacco are also smuggled into the UK in the post and through fast parcel services. ”

Cumulatively, large quantities of heroin are sent to the UK from Pakistan and Afghanistan in the post or through fast parcels. There is no upper size limit to a fast parcel. The fact that parcels can be sent quickly and cheaply anywhere in the world, effectively hidden in the huge volume of legitimate post and parcel traffic, makes this method attractive to them.

The European Union Border

92 The effectiveness of UK border controls is directly linked to the effectiveness of border control across the EU. Some illicit goods, for example counterfeit cigarettes, originate in the EU, but most come from outside the EU

and have to be smuggled in. Once organised criminals have succeeded in smuggling their illicit goods into an EU country any subsequent movements around the EU, including to the UK, are relatively easy.

93 On 21 December 2007, nine of the ten Member States which joined the EU in 2004 (with the exception of Cyprus) joined Europe's "Schengen" free-travel area. Land, sea and air border controls are lifted between the "Schengen" countries, and there have been indications of the increased use of false identity and travel documents from some of the new Member States to facilitate organised immigration crimes.

Other and Emerging Threats

“ The opportunistic and entrepreneurial nature of many organised criminals means they can be involved in a variety of crimes at any time or in quick succession. There is also a seasonal factor for some criminal activities with ‘peaks’ and ‘troughs’. Therefore, the actual and potential significance of different criminal activities, such as armed robbery, is subject to change. Regional or local factors may also make a particular activity more or less of a priority for action for a police force or other local agency. In addition, the changing economic climate impacts on the profitability, and therefore attractiveness, of some crimes.”

94 Organised criminals are opportunistic and entrepreneurial, often involved in more than one criminal activity at any one time, so the significance of criminal activities does not remain static. Variations are also seen at a local or regional level and at different times of the year.

Organised Armed Robbery

95 According to Home Office statistics there were 4,014 offences of robbery where firearms (including air weapons) were reported to have been used in England and Wales in 2007/08, 82 in Scotland and 124 Northern Ireland. The security costs, actual losses, and risks to individuals from armed robbers remain substantial.

96 The majority of armed robberies are unsophisticated and/or opportunistic, often committed by criminals acting alone, who mainly target cash to fund their immediate needs. Highly sophisticated armed robberies, targeting greater rewards (such as cash holding centres) are much rarer. These robberies require the resources of an organised group and need a great deal of planning and expertise in order to succeed, including the use of extensive intelligence gathering, corruption, coercion and techniques to counter surveillance and forensic investigation.

97 The most attractive target for armed robbers is cash. In 2008, both Police Forces in England and Wales and PSNI recorded a decrease in the number of cash-in-transit robberies. In Northern Ireland the number of reported cash-in-transit robberies has seen a significant decrease over the past few years, with figures down 81% from 134 robberies in 2002 to 25 in 2008. Proactive action in both Northern Ireland and England and Wales to work with the private sector is thought to have led to this decrease. Most cash-in-transit robberies are planned and executed as attacks at a point of transfer, when security personnel are outside their vehicles and involve groups of criminals armed with firearms or other weapons, which they are prepared to use.

98 London (the Metropolitan Police District), Greater Manchester and the West Midlands police force areas account for almost half of all cash-in-transit offences.

Road Freight Crime

99 Road freight crime is relatively low risk, and potentially highly profitable, and as such it attracts organised criminals. Some organised crime groups are known to have made millions of pounds from road freight crime. In 2008, goods were stolen with a minimum value of GBP 84,430,000, a year on year increase of 5%. Not all road freight crime is reported to the police,

“ Sophisticated armed robberies, targeting greater rewards (such as cash holding centres) are rare in comparison to the more opportunistic robbery often undertaken by an individual acting alone. In 2008, both police forces in England and Wales and PSNI recorded a decrease in the number of cash-in-transit robberies.”

“ The value of goods stolen during road freight crimes has increased by five percent in England and Wales on 2007. Organised road freight criminals travel extensively to commit offences. The most affected areas are along the M1/A1 and M40/M6 corridors, and arterial roads serving ports and airports, such as the M25/M20 and M4. ”

and not all data on reported road freight crime is submitted to Truckpol, so the actual losses are likely to be much higher.

100 Organised criminals mainly target easily disposable, high value loads, such as alcohol, cigarettes, designer clothing and electrical and computer equipment, including computer chips.

101 Organised road freight criminals travel extensively to commit offences. The most affected areas are along the M1/A1 and M40/M6 corridors, and arterial roads serving ports and airports, such as the M25/M20 and M4.

Organised Vehicle Crime

102 For criminals, vehicle crime offers large profits at relatively low risk. Some organised criminals are involved in organised vehicle crime principally to profit from reselling stolen vehicles (cars, motorcycles, commercial vehicles and plant) and parts. Some of the profits fund other crime. Stolen vehicles are also used in the commission of armed robberies and ATM raids.

103 Recent years have seen a significant decrease in the total number of vehicles stolen in the UK, with much of this decrease due to improved anti-theft technology. However, during the same period the proportion of vehicles which are not recovered by law enforcement has increased from 40% to 51%, indicating that organised crime groups have increased their market share.

104 One consequence of improved anti-theft technology in new cars has been a rise in thefts of keys, primarily by house burglary (including the use of violence if confronted) and break-ins at commercial premises. Vehicles are also obtained through fraudulent means (obtaining vehicles on finance agreements and then not making payments or hiring cars with the intention of stealing them), and “carjacking”.

105 Some vehicles stolen in the UK are re-introduced into the UK market using false or forged vehicle identities. However, large numbers are also shipped overseas.

106 Vehicles stolen by organised criminals often have their identities changed through “ringing” and “cloning”. The identities of vehicles broken up for parts are used to “ring” (provide an apparently legitimate identity for) stolen vehicles. Although businesses involved in dismantling vehicles or trading in insurance write-offs are required to register with local authorities, only a small proportion are believed to be registered, leaving a vast number unregulated and therefore open to criminal exploitation.

Emerging Threats

107 Where identified, new and emerging aspects of established organised crime threats affecting the UK are reflected in the relevant UKTA chapters. The threats set out below stand alone.

Metal Theft

108 Increased world demand for metals, together with speculative investment in base metals by financial investors, saw the international price of lead and copper reach an all time high in the summer of 2008, closely followed by other metal prices, such as zinc, nickel and aluminium. This resulted in an increasing number of organised attacks. Metal theft is estimated to cost the UK economy GBP 360 million per year and in 2008, impacted on national infrastructure (railways, air traffic control, power networks, telecommunication networks and law enforcement communications). The price declined in early 2009 as a result of the general economic downturn. While there is no specific intelligence to indicate that established organised criminals are involved in metal theft, the volatility of the market and the potential profits available may attract them to it.

High Value Communications Hardware

109 The theft of high value communications hardware has been highlighted by private industry as on the increase. Criminals have been

committing burglaries at telecommunications data centres since 2001/02. The items stolen are usually “blades” (also referred to as “cards” or “routers”), which are hardware that routes data across networks. Thefts of “blades” can have a significant impact on the national infrastructure, causing the loss of critical communications and IT systems, and recent thefts have impacted on health, law enforcement and other emergency service systems.

I 10 There is no reliable estimate of the financial impact of these thefts although it is significantly greater than the direct costs to the network providers. One industry group estimates the total financial losses from UK data centre thefts since 2006 as GBP 30 million. Although a degree of organisation is essential in carrying out these thefts, there is no intelligence to suggest that organised criminals are currently involved.

“ The London 2012 Olympic Games will be the one of the largest events ever staged in the UK, with a budget of GBP 9.3 billion, and will present organised criminals with a range of money-making opportunities. Fraud, organised immigration crime, intellectual property crime, e-crime and money laundering are likely to be the main threats with criminal activity starting well in advance of the Games themselves. ”

London 2012 Olympic Games

I 11 The London 2012 Olympic Games will be the one of the largest events ever staged in the UK, with a budget of GBP 9.3 billion, and will present organised criminals with a range of money-making opportunities. Fraud, organised immigration crime, intellectual property crime, e-crime and money laundering are likely to be the main threats with criminal activity starting well in advance of the Games themselves.

I 12 The construction phase started in February 2008 at the Olympic park in London. This is one of the largest construction sites in Europe. Opportunities exist for fraud, labour exploitation and theft of plant and materials due to the size and complexity of the build.

DRUGS

The 'Upstream' Heroin Trade

“ At least 90% of the UK's identified heroin supply originates in Afghanistan. The primary route to the UK is overland from Afghanistan via Iran, Pakistan, Turkey, the Balkans and the Netherlands. Pakistan is of particular significance to the supply of heroin to the UK due to its geographical position and its strong ethnic, tribal, family and business ties in both Afghanistan and in the UK. ”



113 More than 90% of the heroin which ends up on the UK's streets is derived from Afghan opium, the majority of which has probably transited Iran, either directly from Afghanistan or via Pakistani Baluchistan. From Iran, heroin is moved through Turkey where a large proportion is then transported through the Balkans overland to the European Union (EU). Most of the heroin moved along these routes ends up in the Netherlands before entering the UK.

114 The heroin trade causes harm to individuals, communities and countries throughout the chain from source to street.

The most obvious harms are to the health and well-being of heroin users, but it also causes social, economic, environmental and structural harms. The latter include harm to the UK's attempts in Afghanistan to help with stabilisation, capacity-building and good governance, which are undermined by the corrupting influence of the opiate trade. Drug trafficking is carried out primarily for criminal gain but in Afghanistan it is also directly linked to the insurgency by providing financial and logistical support, enabling attacks on British and other coalition forces.

“ The overall area of poppy cultivation in Afghanistan fell in 2008 by 19% leading to opium production falling by 6%. The UNODC now estimates that 90% of Afghan opiates are converted into morphine and heroin in Afghanistan. There have been shortages of illicitly-procured acetic anhydride (AA), the main precursor chemical for heroin. ”

115 The area under poppy cultivation in Afghanistan decreased overall by 19% in 2008, according to United Nations Office of Drugs and Crime (UNODC) estimates. However, there was only a 6% reduction in opium production, from 8,200 tonnes in 2007 to 7,700 tonnes in 2008, due to a good harvest and increased yield. Up to 10 tonnes of opium are required to produce one tonne of heroin. Afghan poppy cultivation is now heavily concentrated in seven provinces in the south of the country, with two thirds of all Afghan poppy being grown in Helmand province. Eighteen of Afghanistan's 34 provinces were declared “poppy free”¹⁰ by the UNODC in 2008.

116 The 2008 Afghan poppy yield is believed to be more than enough to supply the global heroin market and has probably led to traffickers stockpiling large quantities of opium in the Afghanistan/Pakistan border region. The huge increase in the Afghan opium production in 2007, largely sustained in 2008, meant that farm-gate prices in Afghanistan for both fresh and dry opium fell by around 20% in 2007.

117 Fluctuations in levels of poppy cultivation in Afghanistan do not generally affect supply to the UK market for 12-18 months, so it is too early to assess the full impact of possible stockpiling in Afghanistan. In the right conditions, opium can be kept without a loss in quality for up to two years, during which time it can be converted to morphine and heroin “to order”.

118 There has been a change in the pattern of heroin processing between 2002 and 2008. The UNODC now estimates that around 90% of Afghan opiates are converted into morphine and heroin in Afghanistan, whereas in the past the majority of the processing of heroin from morphine-base for the European market was understood to take place in Turkey. Therefore more processed heroin is available in Afghanistan

for traffickers to move directly to heroin markets in Asia and Europe.

119 Large-scale heroin producers in Afghanistan are increasingly producing and supplying heroin hydrochloride, also known as “crystal heroin”¹¹. It is currently unknown how much heroin hydrochloride is being produced. Heroin hydrochloride has a typical purity of up to 90%, compared with a typical purity range of 50-60% for traditional brown heroin.

120 Precursor chemicals are essential for the conversion (“acetylation”) of morphine-base into heroin. The most efficient acetylating agent is Acetic Anhydride (AA), the use of which is regulated in most countries. The legitimate uses for AA include the production of plastic, textiles, dyes, photochemical agents, perfumes, explosives and aspirin. AA is not manufactured or widely used in industry in Afghanistan, and has to be obtained illegally from other countries. It may be diverted from the legitimate market in Asia, particularly from China, or from Pakistan's thriving textiles trade, or from Europe. AA buyers and brokers use front companies, contacts overseas or obtain AA from unscrupulous traders. In 2008, large seizures of AA were made at Karachi Port, Pakistan, and at Bandar Abbas, Iran. These shipments had been sourced from South Korea and were en route to processing laboratories in Afghanistan.

121 The UN reports that poppy cultivation increased in South East Asia (including the “Golden Triangle”) by 22% in 2007, following six years of decline, with around 470 tonnes of opium being produced. Historically, where South East Asian opiates are brought to the UK it is generally by air passengers in smaller quantities for personal use or onward sale to local South East Asian communities. The impact on the UK of poppy cultivation from other regions is assessed as low.

¹⁰ A region is defined as poppy-free when it is estimated to have less than 100 ha of opium cultivation (UNODC Afghan Opium Survey –Nov 2008).

¹¹ “Crystal” is a term commonly used in Afghanistan for injectable heroin hydrochloride of good quality.

122 The UNODC estimates that there are 12 million or more heroin users worldwide, and most of the heroin consumed is likely to be of Afghan origin. In 2006, the number of opiate consumers in Western and Central Europe was estimated at 1.5 million, close to 90% of which were assessed to use heroin. Meanwhile, the domestic Afghan market is estimated to consume 90 tonnes of opium and 9.6 tonnes of heroin annually. This is equal to around 4% of its output in 2008. According to the UNODC, other sizeable markets include the Central Asian Republics, Pakistan, the Russian Federation and China. The latter may also source opiates from South East Asia.

Key Routes and Locations

Routes

123 It is difficult to assess with accuracy what proportions of opiates (opium, morphine and heroin) leave Afghanistan by which exit route and what quantities are trafficked along each of the many transit routes used to reach the UK market. The most frequently identified heroin trafficking routes include those set out here.

Overland from Afghanistan to Europe

124 Currently, the primary route to the UK is assessed to be overland from Afghanistan to Europe. Iran, Pakistan, Turkey, the Balkans and the Netherlands are all key locations along this route. The UNODC suggest that half of Afghanistan's opiates are smuggled directly to Iran, and a further third crosses the border directly into Pakistan. A significant proportion of the latter is subsequently smuggled into Iran. From Iran, heroin is moved through Turkey, and then through the Balkans overland to the Netherlands and into the UK.

From Pakistan Directly to the UK

125 The UNODC also estimates that half of the heroin and morphine processed in Afghanistan is trafficked to Pakistan. Heroin smuggled abroad from Pakistan, other than

that going to Iran or in small quantities to India, goes through major airports such as Islamabad, Karachi, and Lahore, and through post or parcel depots in major cities or major sea ports. Cumulatively they represent a significant market share.

126 Because of its geographical position, the ethnic, tribal, family, and business ties between Pakistan and Afghanistan, and its direct links to large and established Pakistani communities in the UK, Pakistan is particularly well-placed to supply heroin to the UK. Its ability to do so on a greater scale is directly linked to the increase of opiate conversion to morphine/heroin in Afghanistan, and its availability to Pakistan-based traffickers.

Other Routes

127 UNODC figures indicate that around 15% of the opiates that leave Afghanistan enter the Central Asia Republics. This route is believed to supply markets in Russia and surrounding republics, with smaller quantities being trafficked to China.

Locations

Pakistan

128 Most opiates entering Pakistan do so in bulk shipments, of opium, morphine or increasingly as heroin, sometimes shipped as multi-commodity loads, which are driven across the Afghan border into either Baluchistan or the North West Frontier Province (NWFP), from where the major routes run west to Iran or south to the Makran coast crossing Baluchistan.

129 Pakistan also provides major opiate traffickers with a relatively safe base from which to co-ordinate the movement of drugs, conduct business and safeguard their assets.

130 Opiate trafficking in Pakistan is underpinned by extensive formal financial exchange systems and Informal Value Transfer Systems (IVTS). Karachi is the major financial centre in Pakistan, and individuals offering or practising IVTS operate out of many of the main cities and bazaars in Baluchistan and the NWFP.

“ The United Arab Emirates (UAE) and northern Cyprus act as centres for financing and are seen as locations for conducting business. ”

United Arab Emirates (UAE)

I31 The United Arab Emirates (UAE) is a key business centre for heroin traffickers where deals are made, shipments arranged and contacts established and maintained. Dubai is a key financial centre, both for cash movements and money laundering. The UAE offers a luxurious, cash-based environment which is well served by transport and telecommunications.

Iran

I32 The majority of opiates destined for Europe transit Iran, moving from Afghanistan and Pakistan onwards to Turkey. Money launderers based in Iran operate IVTS across international borders, “cuckoo smurfing”¹² and cash smuggling, which supports the opiate trade. Some of these launderers interact with UK distributors in the UK and money launderers in Dubai.

Turkey and Northern Cyprus

I33 Turkey is both a transit country for the majority of heroin destined for western Europe from Afghanistan and a location where traffickers organise the supply and transportation of heroin across Europe, including to the UK. The unique political situation in northern Cyprus means that some criminals view northern Cyprus as a safe haven, basing themselves there to escape UK law enforcement attention.

Major Traffickers and Suppliers

Afghan Heroin Traffickers

I34 Major Afghan traffickers are often high-status tribal or official figures, or are closely associated with such figures, and use their influence to build their opiate business.

I35 Since around 2002, Afghan traffickers have increased the number of laboratories

processing morphine base into heroin and are more and more moving heroin, rather than opium or morphine, across the extensive desert borders with Iran and Pakistan. Heroin is smaller in volume and higher in value, which makes smuggling easier and produces higher profits. Increased heroin processing in Afghanistan may also be giving Afghan traffickers a greater control over the flow of heroin to the European market.

Drug Trafficking Organisations in Pakistan

I36 At the top level, there are a few opiate traffickers based in the NWFP and in Baluchistan, most with tribal and family links on both sides of the Afghan/Pakistan border.

Drug Trafficking Organisations in Iran

I37 Iranian traffickers are involved in the movement of opiates from Afghanistan and Pakistan to Turkey and to the Central Asian Republics. They facilitate direct deals between Afghan or Pakistani traffickers and Turkish traffickers, or are traffickers in their own right, who buy, sell and broker deals. Iranian traffickers also supply a large domestic market in Iran.

Drug Trafficking Organisations in Turkey

I38 Traffickers from Turkey continue to dominate the supply of heroin to Europe, including the UK. The majority are from the south east Kurdish regions of Turkey, where opiates enter the country, but many groups also have bases and contacts in Istanbul. In addition, they will have members living in key European locations along the supply chain, such as the Balkans, the Netherlands and the UK, in order to facilitate heroin transportation and transactions.

¹² Cuckoo Smurfing is the use of legitimate third party accounts not under the control of a money laundering group to dispose of the proceeds of crime. Proceeds of crime are “smurfed” into these accounts in cash usually in payment of a debt owed from abroad, typically using MSBs. Large amounts of cash are also put into legitimate business accounts to pay for services and goods provided abroad.

I39 Traffickers based in Turkey interact with Iranian or Afghan traffickers to source heroin for the west European market.

I40 Many Turkey-based traffickers will sell heroin to organised crime groups based in the Netherlands or Germany for onward sale and distribution, some of which is destined for the UK. Traffickers supplying groups in the Netherlands avoid the risks associated with smuggling heroin into the UK. Their involvement with the consignment ceases once they have handed it over.

I41 Heroin brokers based in northern Cyprus connect Turkish suppliers with UK-based importers. Their reputations and unique understanding of both languages and cultures enables them to create and exploit international networks of contacts. Northern Cyprus functions as a “business hub” with criminals from the UK and Turkey travelling to conduct business at meetings facilitated by northern Cyprus-based brokers.

Prices, Costs and Profits

I42 Trafficking heroin to the UK entails costs similar to those of legitimate import/export businesses, as well as additional costs in the form of bribes for officials and payments to couriers for the risks they are taking. Costs vary from group to group and from deal to deal. Similarly, the wholesale price of heroin is affected by its quality, the amount purchased, the relationship between the supplier and purchaser, the involvement of brokers, and currency exchange rates. Therefore, it is difficult to gauge what the profit margin is for any shipment.

I43 However, the wholesale price per kilo of heroin increases at each stage where the commodity is sold whilst en route to the UK from Afghanistan, and therefore profit margins are greater when heroin is sent directly to the UK from Pakistan and Afghanistan.

I44 Being primarily a cash business, heroin importers in the UK face the logistical problem of storing, laundering and repatriating large amounts of cash on a regular basis. Money laundering networks linked to the upstream heroin trade are known to operate in Dubai, Iran and Pakistan.

The 'Upstream' Cocaine Trade

“ An estimated 65-70% of UK's identified cocaine supply is believed to be produced in Colombia, or in the border areas of neighbouring Venezuela and Ecuador. Peru and Bolivia account for the vast majority of the remaining 30 – 35% of cocaine imported into the UK. A significant percentage of the cocaine is shipped from Venezuela by sea and air to destinations including Europe. ”



Introduction

I45 An estimated 65-70% of UK's identified cocaine supply is believed to be produced in Colombia, or from the border areas of neighbouring Venezuela and Ecuador. Peru and Bolivia account for the vast majority of the remaining 30 – 35% of cocaine imported into the UK. A number of routes and methods are used to get the cocaine to the UK. Traditionally, most of the cocaine destined for Europe, including the UK which is one of Europe's largest markets, has crossed the Atlantic by ship and entered via Spain. More recently, traffickers appear to be making increasing use of west Africa as a staging post for their European shipments.

I46 The cocaine trade causes harm to individuals, communities and countries throughout the chain from source to street.

Crack cocaine, in particular, causes harm to the health and well-being of users, while the overall cocaine trade causes widespread social, economic, environmental and structural harms. The President of Colombia has cited cocaine use as having a major economic and environmental cost to his country. The former includes the undermining of economic development due to the hold the cocaine trade has, while the latter, which also affects Colombia's neighbours, is caused by the destruction of substantial areas of rain forest and by the processing laboratories discharging waste into the water supply. The cocaine trade also has a significant influence on the political process in Colombia and is linked to and funds domestic terrorism. Downstream, the increased use of west Africa and involvement of west African criminal groups is harmful to the stability of the countries targeted by the traffickers.

Coca Cultivation and Cocaine Production

147 According to the Interagency Assessment of Cocaine Movements (IACM) for 2007¹³, global cocaine production was estimated at 865 tonnes, a decrease from 930 tonnes the previous year. Colombian production was estimated at 535 tonnes, down from 550 tonnes in 2006, while in Peru cocaine production decreased from 265 tonnes in 2006 to 210 tonnes in 2007. In contrast, production in Bolivia in 2007 increased, and was estimated at 120 tonnes, up from 115 tonnes in 2006. About a third of global production is destined for the European market and this proportion is expected to rise as a direct result of the increased demand and the higher prices the traffickers can charge relative to other markets, particularly the United States.

148 The 2007 estimates put the coca cultivation area in South America at over 232,000 hectares (the same size as Cheshire), a slight increase from 225,000 in 2006. However, as the result of relocating harvest areas and the effects of the eradication programme by the Colombian authorities, many plantations contain immature crops which will yield less coca than mature ones¹⁴.

149 Precursor chemicals used in cocaine production are diverted from wider industrial use to illicit markets. The main sources are legitimate markets in China and India. In addition, there is some illicit production of precursor chemicals in South America. An example is potassium permanganate which creates the “whitening” effect of cocaine and therefore an important ingredient to the process. It is produced illicitly in South America specifically for the cocaine trade.

150 Activity by the Colombian government has resulted in the displacement of some Revolutionary Armed Forces of Colombia Fronts

(FARC). The FARC control considerable parts of the production and distribution process in Colombia, and have relocated to border areas near Venezuela and Ecuador as a result of continued Colombian government pressure and law enforcement activity. In 2006, a rival political group, the United Self-Defence Forces/Group of Colombia (AUC) agreed to disband in return for pardons against prosecution by the Colombian government. After receiving pardons, some ex-AUC members continue to operate as cocaine traffickers.

Key Locations

Routes

151 There are numerous routes and methods used by traffickers to move cocaine from South America to Europe, including to the UK, and to other markets. It is difficult to assess with any accuracy their relative importance, although some are more frequently identified than others.

From South America

152 Colombian trafficking groups continue to dominate the worldwide trade in cocaine, but pressures placed on these groups in Colombia have resulted in their increased use of neighbouring countries for its distribution. A significant percentage of the cocaine is shipped from Venezuela by sea and air to destinations including Europe. In 2007, 94% of the illicit air traffic transporting cocaine from South America departed from Venezuela, up from 24% in 2004, due to Colombia operating a “shoot down policy”. There is also evidence of substantial bulk movement of cocaine through Argentina, Bolivia, Brazil, Ecuador, Guyana, Peru, and Suriname, although a proportion of this cocaine will be for the growing domestic market in countries such as Argentina and Brazil.

¹³ IACM figures are recorded at 100% purity. By comparison UNODC figures show production to be Colombia 600 tonnes, Peru 290 tonnes and Bolivia 104 tonnes at 80% purity.

¹⁴ Typically a coca plant may take up to 2-3 years to fully mature

Direct from South America to Europe

I53 Most cocaine destined for Europe is moved in bulk maritime shipments on general cargo, fishing vessels and yachts. These are often on-loaded in international waters or air-dropped to vessels at sea, typically off the Colombian and Venezuelan coast, but also to a lesser extent around Brazil, Guyana, and Suriname. Maritime sea containers are also used for transportation, either directly to the UK or to mainland Europe with the Netherlands and Spain being favoured destinations. Direct scheduled flights (particularly to Madrid and Amsterdam) using couriers or airfreight shipments, and fast parcels sent directly to the UK, are also used for smaller shipments, which add up to significant amounts when taken overall.

South America to West Africa and on to Europe

I54 Traffickers, predominantly Colombian organised crime groups, traffic cocaine via west Africa. Cocaine is typically moved from Colombia, Venezuela, Suriname and Brazil via maritime and air routes to west Africa. General cargo and fishing vessels are used, although air transport provides a quick and efficient way to transport the drugs with little chance of interdiction. Until mid June 2008, small twin propeller aircraft and jets flew mainly from Venezuela to the west Africa coastline (principally Guinea, Guinea Bissau, Ghana and Togo). Since mid June 2008, the airbridge has been disrupted. However, it is too early to fully assess the longer term impact on traffickers' decisions regarding transportation.

I55 These countries in west Africa are used as consolidation points, centres for command and control and for logistical needs, such as refuelling.

I56 West African organised crime groups receive up to a third of the drugs as payment for protection and logistical support provided to Colombian criminals. This has led to an emerging trafficking network run by west African crime groups who exploit traditional links between the UK, Gambia, Ghana, Nigeria and Sierra Leone. They transport cocaine to Europe in container traffic, but also use a significant number of air couriers. Some air couriers travel directly to the UK, while some use indirect routes in order to disguise point of departure. Increasingly, shipments are being routed to Europe through eastern and southern African countries such as Mozambique and Namibia.

I57 The bulk of cocaine that remains in the control of the Colombian traffickers is moved to the European market via the Iberian Peninsula. Some is sold to British and other European organised criminals who travel to west Africa to take responsibility for its transportation to Europe, including to the UK. The euro is the preferred form of currency, and the financial transactions are likely to occur in Europe rather than in west Africa.

South America to the Caribbean and on to Europe

I58 Large quantities of cocaine destined for Europe are trafficked from Colombia and Venezuela to the Caribbean for onward transmission to the UK by air couriers. Trafficking groups also use containers and fast parcels to traffick drugs to the UK.

“ West Africa is used by the cocaine trade as a consolidation point and as a centre for logistics, command and control. Colombian groups pay up to one third of their consignment to west African criminals in return for protection and logistical support. The bulk of cocaine that remains in the control of the Colombian traffickers is moved to the European market. However, the payment in cocaine to the west African groups has created a secondary supply to Europe. ”

159 There are many instances of corrupt port employees facilitating the movement of drugs by evading customs controls, “ripping-on” consignments of drugs throughout the Caribbean and arranging for the load to be “ripped-off” at its destination.

160 Cocaine trafficking by yacht from the Caribbean to the UK, masked by seasonal legitimate yachting traffic, is favoured by some British traffickers. Many of the vessels are crewed by eastern European nationals. The criminals refuel, rest and lay-up in Caribbean Island states, while waiting for consignments to be delivered. Deliveries usually take place by air-drop in off-lying areas of the Caribbean.

South America to Central America and on to Europe

161 Central American traffickers appear to be attracted to Europe by the price of cocaine compared to the US market. Small quantities of cocaine have been trafficked from Mexico, Costa Rica and Panama direct to the UK to test the market. Larger quantities have been delivered direct to mainland Europe.

Major Traffickers and Suppliers

162 Colombian traffickers dominate the control of bulk cocaine supply to Europe. This is a market they perceive as lower risk from law enforcement action and more lucrative in terms of profit. Many of the major Colombian traffickers previously involved in targeting Europe have been arrested, extradited or killed by infighting, but new Colombian traffickers continue to emerge.

163 Some of the large-scale trafficking networks supplying the UK have a clear structure with lines of command and established supply routes. Until the cocaine has been sold on to a buyer, Colombians, in particular, prefer to control the trade throughout each stage, and place their representatives strategically along the supply

chain. However, increasingly, many smaller, more disorganised trafficking groups without the same end-to-end involvement or control have appeared. These groups will use others, as and when required, to move their cocaine along the supply chain, while still retaining ownership of it.

164 Historically, Colombian traffickers have felt relatively comfortable operating in Europe. However, there is evidence that some now prefer to avoid it, and are prepared to accept lower profit margins rather than risk law enforcement attention in Europe, particularly Spain. Previously, when faced with a similar situation, some Colombians entered into partnerships with Mexican crime groups to supply the US market, transferring the risks of detection to the Mexican traffickers. The same pattern may be followed with regard to the European market, with Colombians passing on the risks, and a greater share of the profits, to west African and European traffickers.

165 British traffickers have traditionally sourced cocaine from Spain or the Netherlands alongside other drugs, such as cannabis, MDMA and amphetamine. Some organised crime groups have the ability to source cocaine directly from contacts in South America or west Africa. British traffickers are increasingly dealing with Colombian groups upstream to source cheaper cocaine, giving them greater control of shipments and profits, albeit with higher transportation costs and greater risks of detection.

166 The presence of west African communities in South America, notably Nigerians in Brazil, enables west African criminals to obtain cocaine directly from source, including bulk quantities for shipment to west Africa and Europe. Cocaine is also provided to west African groups in west Africa by Colombians as payment for services. This may result in local cocaine markets emerging in west Africa if these groups cannot gain sufficient access to markets in Europe.

“ Some British and European organised crime groups have the ability to source cocaine directly from contacts in South America or west Africa. British traffickers are increasingly dealing with Colombian groups upstream to source cheaper cocaine, giving them greater control of shipments and profits.”

Prices, Costs and Profits

167 European organised crime groups can typically expect to pay a deposit of up to 30% of the agreed wholesale price¹⁵. Pricing is set and agreed in euros, and therefore the profits for British traffickers can be affected by

fluctuations in exchange rates. Some European groups collaborate with one another to raise the necessary capital. While cocaine can be replaced, seizures affect high-level Colombian traffickers by disrupting their cash flow and damaging their credibility.

¹⁵ Netherlands - EUR 30,000, Spain - EUR 25,000 to 30,000, Italy - EUR 33,000 to 35,000

Drugs Trafficking from the EU to the UK including Synthetic Drugs

“ British organised crime groups based in Spain and the Netherlands dominate the supply of heroin (alongside ethnic-Turkish criminals in the Netherlands), cocaine and cannabis from the EU to the UK. The UK synthetic drugs market is dominated by British traffickers working in collaboration with Dutch and Belgian criminal producers based in the Netherlands and Belgium. ”

168 Drugs trafficking, and the various forms of criminality that are associated with it, including serious violence, causes significant harm throughout the EU, damaging individuals, communities and countries. The UK drugs market is a particularly profitable one for organised criminals importing drugs into, and distributing them across, the EU. The levels of drug use in the UK continue to be amongst the highest in the EU.

The Dominance of British Organised Crime Groups in Supplying the UK

169 British organised crime groups are criminally active in many EU countries, arranging the supply of all drugs to the UK, causing difficulties for local law enforcement agencies and damaging the UK's reputation with its EU partners. British organised crime groups based in Spain and the Netherlands dominate the supply of heroin (alongside ethnic-Turkish criminals in the Netherlands), cocaine and cannabis from the EU to the UK. The UK synthetic drugs market is dominated by British traffickers working in collaboration with Dutch and Belgian criminal producers based in the Netherlands and Belgium.

170 Most British traffickers do not enjoy the same access to suppliers in source or upstream transit countries as traffickers with ethnic or family links, and need to use brokers who have those

links, or to deal with Europe-based crime groups. Conversely, overseas groups looking to exploit UK markets but with no infrastructure in the UK are likely to have to rely on British criminal groups, which may explain why British groups are able to continue to dominate UK supply.

171 Many UK traffickers, particularly British criminals, import and distribute more than one type of drug, including a mixture of Class A, B and C drugs. Shipments direct from Spain to the UK will often include cocaine and cannabis. Shipments from the Netherlands or Belgium may include any mixture of drugs.

British Criminals in Spain and the Netherlands

Iberian Peninsula

172 The Iberian Peninsula, particularly Spain, and to a much lesser extent Portugal, continues to be the most important entry point into Europe for cocaine. Spain is also an important transshipment point for UK-bound cannabis. Most of the cocaine destined for the UK market that transits Spain is controlled by British organised crime groups, who have members based in Spain. A key benefit for British criminals operating in Spain is direct access to the principal upstream suppliers. Shared ethnicity seems much less relevant once the drugs have been imported into Europe, and criminals involved in

“ The Iberian Peninsula, particularly Spain, and to a much lesser extent Portugal, continues to be the most important entry point into Europe for cocaine. Spain is also an important transshipment point for UK bound cannabis mainly from the north African coast. The Netherlands is the most important secondary distribution point for the importation of heroin, cocaine and synthetics to the UK. ”

“ Most organised crime groups appear to sub-contract transport to trusted specialists, including drivers, with whom they have built up a level of trust. British organised crime groups will often share transport to reduce costs and risks and to maximise profits. Traffickers continue to make significant use of UK-bound Heavy Goods Vehicles (HGVs), concealing drugs either in a variety of legitimate loads or in specially constructed compartments. ”

wholesale distribution will typically do business with other criminals regardless of where they are from.

I73 British criminals in Spain also continue to be heavily involved in the cannabis trade, which is equally important to some of those who traffick cocaine.

The Netherlands

I74 The Netherlands is the most important secondary distribution point for the importation of heroin, cocaine and synthetics to the UK due to its strategic location and transport infrastructure (the port of Rotterdam is the largest and busiest in Europe). English is widely spoken, making the Netherlands an easy place for British organised criminals to operate.

I75 The Dutch wholesale heroin market supplies a number of European markets, but British criminals supplying the UK appear to be the largest purchasing group. In the case of cocaine, most British organised crime groups operating in Spain have representatives based in the Netherlands. Cocaine is normally moved to the Netherlands from Spain before onward transportation to the UK.

Transportation and Routes

Movements in the EU

I76 Most of the cocaine and cannabis that leaves the Iberian Peninsula does so by road, exploiting the Schengen status of France, Spain and the Benelux countries. Most heroin transiting the EU bound for the UK by road will move through Germany, the Netherlands, Belgium and France.

I77 While some organised crime groups have their own transport, which they may allow other groups to use, most appear to sub-contract transport to trusted specialists, including drivers with whom they have built up a level of trust. British organised crime groups will often share

transport to reduce costs, risks and to maximise profits. Drugs are concealed in a variety of cover loads, including mixed loads.

Importation into the UK

I78 The Channel Tunnel, Dover, Felixstowe, Folkestone and Harwich continue to be the most commonly identified entry points into the UK for Class A drugs. Traffickers continue to make significant use of UK-bound Heavy Goods Vehicles (HGVs), concealing drugs either in a variety of legitimate loads or in specially constructed compartments. They also conceal drugs shipments in smaller vehicles. Some British organised crime groups routinely import drugs in private and hire cars and small vans, some of which have professionally-built concealments. A proportion of the drugs imported into the UK are brought in by couriers, hidden in baggage or on their person, including in body cavities, although this method of importation is more readily associated with couriers arriving from further afield, such as the Caribbean.

Risk Management

I79 Well-established trafficking groups take steps to protect themselves and their consignments including: the careful concealment of illicit loads; the use of coded or clandestine communications; the varying of routes and methods; and the use of cellular structures and of facilitators to keep the different parts of the trade separate and more secure. Organised criminals will monitor and respond quickly to law enforcement actions and techniques, making use of corruption where they can. They will also make extensive use of false or falsified identification documents, especially driving licences and passports. Organised criminals based in Europe will also use violence and intimidation, including the use of firearms, when they think it necessary.

I80 They commonly look to transfer the greater, “hands on” risks to lower-level criminals.

“ The UK is the major market for amphetamine and MDMA in the European Union. The Netherlands and Belgium are the primary production countries. ”

Low-level couriers and drivers are often used to transport drugs into the UK, where the trafficking group or the buyer recovers them. “Little and often” importations by couriers also spread the risk of losses from law enforcement detections. Overall, traffickers see the risks as manageable given the profits to be made from drugs trafficking.

Synthetic Drug Production

181 Synthetic drugs are defined as artificial substances produced for the illicit market, almost entirely manufactured from chemical compounds in illicit laboratories. Those most commonly seen in the European Union and seen trafficked to the UK are known as amphetamine type stimulants (ATS): amphetamine, methylamphetamine and 3, 4 methylenedioxymethamphetamine (MDMA¹⁶). The UK continues to be considered as the major market for amphetamine and MDMA in the European Union.

The Netherlands and Belgium

182 Local criminals in the Netherlands and Belgium produce synthetic drugs, collaborating with British criminals, who typically arrange transportation to the UK and control UK distribution. Synthetic drugs production in

the Netherlands and Belgium relies heavily upon precursor chemicals made in China. Most PMK (piperonal-methyl-ketone) used in Ecstasy production is obtained through criminal networks from Chinese companies. Laboratories require little or no adaptation in order to switch production from one synthetic drug to another. When there has been some disruption of the supply of PMK from China, many illicit laboratories have simply switched from producing Ecstasy (methylenedioxymethamphetamine or MDMA) to amphetamines. China is also a major supplier of ephedrine and its plant source, ephedra, which is used in the production of methylamphetamine. BMK (benzyl-methyl-ketone) is used in the production of amphetamines. Since 2004, BMK has been legally produced in the Russian Federation for use in the polymer industry. As a result, there has been an observed increase in BMK being sourced from Russia rather than China.

Stockpiling

183 The stockpiling of drugs, which occurs particularly in Spain and the Netherlands, enables organised crime groups to identify buyers, arrange onward transportation, including suitable cover loads or concealments, and to control availability and therefore influence prices.

¹⁶ MDMA is commonly seen in pill form and marketed as Ecstasy but is also trafficked in powder and liquid form

The Illegal Drugs Trade in the UK

“ According to the British Crime Survey (BCS)¹⁷, overall levels of illegal drug use in England and Wales have decreased over the period 2002/03 to 2007/08¹⁸. The level of Class A drug use has decreased from 3.4% in 2006/07 to 3% in 2007/08, but this is still higher than ten years ago when Class A drug use was 2.7% of the population. This increase over the last ten years is mainly due to the increase in cocaine powder use. London, Liverpool and Birmingham are significant centres for drugs distribution to all parts of the UK. However, distribution also takes places from other smaller cities and towns and the overall picture is complex and diverse.”

The Scale of Illegal Drugs Use in the UK

184 According to the British Crime Survey (BCS)¹⁷, overall levels of illegal drug use in England and Wales have decreased over the period 2002/03 to 2007/08¹⁸. The level of Class A drug use has decreased from 3.4% in 2006/07 to 3% in 2007/08, but this is still higher than ten years ago when Class A drug use was 2.7% of the population. There are different reporting methods for Scotland and Northern Ireland, making comparisons between different parts of the UK difficult. However, in Scotland, reported Class A drug use is relatively higher than for England and Wales while use in Northern Ireland remains the lowest in the UK (heroin and crack use is reported by less than 0.1% of the population, and cocaine by 1.9%).

185 It is evident from law enforcement activity and from other independent sources, including treatment services and drugs charities, that Class A drugs, specifically heroin, cocaine, crack cocaine and Ecstasy, are widely available throughout the UK, although the crack and heroin markets are much smaller in Northern Ireland. Based on estimates of the numbers of users and levels of consumption and drug purity,

in 2003 the UKTA put annual imports of cocaine powder to supply the UK cocaine powder and crack cocaine markets at 35-45 tonnes, and heroin at 25-35 tonnes. These figures have not been revised, and the actual volumes currently being imported remain uncertain.

The Harms Caused by Illegal Drug Use

186 The illegal use of drugs, particularly Class A drugs, causes a wide range of direct and indirect harms to individuals, communities and to the UK as a whole.

Individuals

187 Individuals who use illegal drugs put their personal health at serious risk. While this is true for all illegal drug users, it is most acute for problematic drug users¹⁹. In 2008, published figures estimated there were around 400,000 problematic drug users in the UK in 2007, of which around 156,000 were injecting drug users. Injecting drug users are at increased risk of becoming infected with blood-borne viruses such as HIV, and Hepatitis B and C. In 2007, there were 829 heroin and morphine related deaths in England and Wales (an increase of 16% on

17 The British Crime Survey is a household survey measuring the amount of crime in England and Wales, by its nature it does not necessarily reach problematic users, especially the homeless. BCS figures are likely to underestimate the overall use of drugs and in particular opiates and crack cocaine.

18 Unless otherwise stated, figures relating to drug use for England and Wales are taken from the British Crime Survey (BCS), those for Scotland are taken from the Scottish Crime and Victimisation Survey (SCVS) and Northern Ireland from the Drug Use in Ireland and Northern Ireland Drug Prevalence Survey.

19 A Problematic Drug User (PDU) is defined as a person who experiences social, psychological, physical or legal problems related to intoxication, regular consumption or dependence of their own use of drugs. (Drug Treatment Demand Model Version 2 – User Guide. Home Office Web Site)

“ A large number of foreign nationals are involved in the illegal drugs trade in the UK. London-based Turkish and Kurdish criminals control much of the heroin trade in the UK, with criminals from Pakistan and other south Asian countries exploiting family connections to supply and distribute heroin particularly in north of England and the Midlands. ”

the previous year) and 289 in Scotland. Deaths involving cocaine also increased in 2007, with 196 reported deaths in England and Wales, the highest number on record, and 47 in Scotland.

188 The extensive use of cutting agents (adulterants and diluents used by drugs suppliers to increase the bulk of the drugs they are selling and therefore their profits) may pose serious health risks to users. Cutting agents such as phenacetin, which is used to cut cocaine, are carcinogenic, whilst others, such as levamisole, are not meant for human consumption in the form used.

189 The harms caused to individuals by illegal drugs are not confined to the users themselves. Illegal drugs use can lead to violence, and the breakdown of families and other relationships, again particularly in the case of problematic drug users, although not exclusively so.

Communities

190 Illegal drug use has a significant harmful impact on communities. In 2007/08, 228,958 drug offences (including Trafficking, Possession and other offences) were recorded in England and Wales, an increase of 18% on 2006/07, largely attributable to increases in the recording of cannabis possession offences. In the same period, 2,720 drug offences were recorded in Northern Ireland, an increase of 319 on 2006/07, and 40,746 in Scotland, a decrease of 376 on 2006/07²⁰. A Home Office study in 2007 concluded that around half of all acquisitive crimes are committed to fund an ongoing drug habit. As well as placing a significant burden on the police and the criminal justice system, the high numbers of drug offences and drug-related acquisitive crimes contribute significantly to public concern about crime and to the fear of crime, particularly in and nearby those areas directly affected.

191 Illegal drug use causes serious harms to communities beyond those caused directly by the users themselves through activities such as: drug related violence; kidnap; the use of firearms amongst the criminal fraternity; and other criminal activities to fund drug use. Drug dealing in communities has a negative influence on social cohesion; for example, young drug dealers driving expensive cars being perceived, by some, as people to admire and respect.

UK

192 The UK's high levels of illegal drug use, particularly of Class A drugs, causes significant harm to the social and economic well-being of the country as a whole, including to its reputation overseas. In 2003/04, the social and economic costs of Class A drug use in England alone were estimated to be between GBP 15.3 billion and GBP 16.1 billion. In 2008, problematic drug use was estimated to cost Scotland approximately GBP 2.6 billion.

The Involvement of Organised Crime

The Activities of UK-based Organised Crime Groups

193 All the indications are that the UK illegal drugs market remains extremely attractive to organised criminals. The prices charged at street level are some of the highest in Europe, and are sufficient to repay the costs of smuggling the drugs into the UK. In 2003/04, the size of the illicit drugs market in the UK was estimated to be between GBP 4 billion and GBP 6.6 billion per annum. In 2007, Home Office-sponsored research estimated that there are 300 major drugs importers supplying the UK, and 3,000 wholesalers and 70,000 street dealers in the UK. The traditional distinction between international importers and the UK-based wholesalers is

²⁰ These figures do not include the acquisitive crime such as theft and robbery committed to fund drug use.

“ The health impact of the cutting agents is not known but some are believed to be carcinogenic. This may be exacerbated by the use of unregulated pharmaceuticals at all levels of the trade in the UK. ”

becoming more blurred, with some regional wholesalers travelling to the near Continent to arrange their own importations.

194 British organised criminals are active at all levels of the UK drugs trade, from importation to street-level distribution. A large number of foreign nationals are heavily involved in the illegal drugs trade in the UK. Ethnic ties to source or transit countries for the main commodities allow credibility to be established more easily, making it easier for them to enter at higher levels of the trade.

UK Distribution

195 Once the drugs have been successfully brought into the UK, they have traditionally been transported to major conurbations, such as London, Liverpool and Birmingham before being distributed. Many other cities and large towns act as secondary distribution points, with drugs being moved to them in bulk before being sold on to local dealers. Drugs destined for Wales, Scotland and Northern Ireland are mostly routed via England, reflecting the extensive use of the Channel ports, although there are indications that direct importation to Scotland continues to increase. The Scottish 'ready rocked' crack cocaine market in the Grampian region, linked to the heroin market, continues to be supplied predominantly from Liverpool, the Midlands and London.

196 Changes in drugs prices are managed in different ways, depending on the position in the distribution chain. The cash nature of the market at street level means that drugs are typically priced in denominations of GBP 5, leaving little scope for marginal price changes. Profit is recouped by changing the quality or quantity of the drug being sold, often through the process of "cutting" where other substances such as chemicals or similar coloured powders are added to the primary drug to increase the volume of the drug being sold. Wholesale (multi-kilo) dealers have more flexibility and will increase the kilo price when supply is limited. For example, in the summer of 2008, the UK wholesale heroin market experienced a sudden price increase in a

matter of months. Despite this, the street price remained fairly static, ranging from GBP 10 to GBP 20 per deal, but with wide variations in the quality and quantities of the drug being sold.

“Cutting”

197 Most drugs are "cut" to increase their volume and thus the suppliers' profits. This can happen at any point in the chain, and more than once. Sometimes "cutting" is in response to increases in the price a supplier has to pay for his supply, but this does not have to be the case. Cutting agents can be anything that mimics the appearance or effects of the drug being cut. Cutting of cocaine occurs regularly at both wholesale and street level in the UK. There is less evidence of cutting taking place in the UK within the heroin market, particularly at wholesale level. The amount of cutting agent used can vary considerably.

The UK Heroin Market

198 The number of heroin users in the England and Wales has remained relatively stable at around 0.1% for at least the last 8 years. Scotland reported an admitted use rate of 0.5% (2006) and Northern Ireland less than 0.1% of the population (2006/07) however there is evidence that the heroin market in Northern Ireland is expanding. The average purity of wholesale and street level brown heroin has gradually risen over the past 5 years from an average of 30 - 40% to a current range 51 - 60%. To wholesale purchasers, the kilo price of brown heroin dropped from a high of GBP 22,000 in 2001 to GBP 15,000 in mid-June 2008. Since mid-June 2008, the kilo price has increased to a high of GBP 19,000 possibly due to reduced availability, or a perception of reduced availability, in large parts of the UK due to a combination of law enforcement actions and seizures, the ongoing conflict in Afghanistan and the high exchange rate between the euro and sterling.

199 Street prices for brown heroin vary widely depending where it is purchased, with prices of GBP 30 per gram in London and Manchester,

“ Cocaine use continues to rise across the EU, including in the UK, where it is now the second most used illegal drug after cannabis. There appears to be a two-tier market for cocaine in the UK both at wholesale and at street level, with dealers selling cheaper, more heavily ‘cut’ cocaine to some customers and higher purity cocaine to those willing to pay more. ”

and up to GBP 100 per gram in Belfast. Average prices have fallen consistently from GBP 70 per gram in 2000, to a range of GBP 40 – 50 per gram in 2009. In practice, in street deals brown heroin tends not to be sold by the gram but in smaller amounts, typically for GBP 10 - 20.

200 Heroin hydrochloride, also known as “crystal heroin”, has begun to emerge in the UK drugs market. It is white or off-white in colour and is purer than traditional heroin (up to 90% in some cases). The drug has been seized by UK law enforcement in varying amounts, from street size deals to multi-kilo amounts, and is believed to be trafficked along traditional Turkish heroin routes and also directly from Afghanistan to the UK.

The UK Cocaine Market

Cocaine Powder

201 Cocaine powder continues to be the most widely used Class A drug in the UK. Cocaine use has increased three-fold in England and Wales since 1995, increasing from 0.6% to 2.3% in 2007/08. Use in Scotland has increased from 1% in 1996 to 3.7% in 2006, and use in Northern Ireland has increased from 0.5% in 2002/03 to 1.9% in 2006/07.

202 Average purity of cocaine at importation is over 70%, with the remaining 30% being cutting agents added upstream. The wholesale price of cocaine has been rising steadily over the last decade. In 1999, it was between GBP 22,000 and GBP 25,000 per kilo. In December 2008, a kilo of high purity cocaine cost between GBP 36,000 and GBP 40,000 and continues to rise. Once it enters the UK market, the cocaine is routinely adulterated or diluted with other substances reducing its purity, with a corresponding drop in price to between GBP 22,000 and GBP 26,000 per kilo on the UK wholesale market.

203 The average purity of street-level cocaine has halved over the same period from 62% in 1999 to 31% in July 2008. However, the 31% figure is made up of a broad range of some much

higher and lower purity levels. Further analysis of cocaine seizures weighing 25-50gram between October and December 2008 has shown purity is now an average of 23%. The fall in average purity is aligned to a steady decrease in the price of what is sold as cocaine at street level. A two tier market has developed for street-level cocaine, with lower purity cocaine available at a lower price, and higher purity, higher-priced cocaine available to those who can afford it.

204 There has been a move away from benign cutting agents, such as mannitol, to pharmaceutical agents, such as benzocaine, lignocaine and phenacetin by organised criminals. These pharmaceutical agents mimic the effects and appearance of cocaine, so are less likely to be detected by potential purchasers. Also, they do not burn off in the conversion process into crack cocaine. Forensic testing indicates that phenacetin is commonly found in cocaine seized at importation, whereas benzocaine and lignocaine are found in seizures made in the UK, indicating that the latter are routinely added in the UK.

205 In December 2008, the wholesale price of a kilogram of cocaine experienced a sudden rise, increasing from a range of GBP 32,000 to GBP 36,000, to a range of GBP 36,000 to GBP 40,000. This increase in price could be linked to limited availability attributable to a number of factors, including a suspension of drug flights between South America and west Africa in the latter half of 2008 following law enforcement action, large seizures in the UK and Ireland, and the falling value of sterling. In March 2009 the wholesale price had risen to GBP 45,000 per kilo and the purity of street-level cocaine was typically less than 20%.

206 Cutting agents used today mimic the effects of cocaine. Therefore most users are unaware that what they are buying as cocaine is less than one third cocaine hydrochloride, the remainder being a mixture of different cutting agents. The cutting of cocaine with other products allows street dealers to stretch their supplies to meet demand.

“ During 2008 the wholesale price of cocaine rose to between GBP 36,000 and 40,000 per kilo in December 2008 and in March 2009 has reached GBP 45,000. The purity of cocaine available at street level dropped to less than 20% in March 2009 demonstrating that cocaine is being extensively cut to maintain profit margins. ”

Crack Cocaine

207 Crack cocaine use in England and Wales decreased slightly in 2007/08 with 0.1% of the population admitting to using it. The latest figure for Scotland is 0.4%, and for Northern Ireland less than 0.1%. The use of crack cocaine is more common amongst marginalised and deprived sections of the population and it continues to be sold to heroin users, with dealers continuing to offer the drugs together, usually with a discount. The cost of a 0.2gram “rock” of crack cocaine in 2007 ranged from GBP 10 to GBP 50. However, average purity has also been decreasing.

208 Most crack cocaine consumed in the UK is produced in the UK from imported cocaine powder. Until recently, crack cocaine use and production was concentrated in large urban areas.

The UK Synthetics Market

Ecstasy

209 Ecstasy use in England and Wales continues to decline. In 2007/08, 1.5% of the population admitted to using it, its lowest level since 1997. 1.8% of the population in Northern Ireland admitted using it, but in Scotland the percentage was 3.2%. Average street prices have fallen from about GBP 9 per tablet in 2000, to an average of GBP 3 per tablet in 2009, while at the same time average content of the active ingredient has fallen by more than 50%, with the tablet predominantly cut with caffeine, but also amphetamine, piperazines and occasionally ketamine. There appears to be a two-tier market for Ecstasy type drugs. Some pills sold as Ecstasy contain no 3, 4 methylenedioxymethamphetamine (MDMA) and are made from amphetamine base. Some users are therefore willing to pay more for crystal or powder MDMA, which is seen as being of a higher quality than Ecstasy tablets and can be consumed either in tablet or powder form. The average price is GBP 38 per gram.

Amphetamine

210 Amphetamine use continues to fall in England and Wales, dropping to 1.0% in 2007/08, its lowest recorded level. Use in Scotland is reported at 2.2% and 1.0% in Northern Ireland. The majority of amphetamine used in the UK is believed to be manufactured in, and distributed from, the Netherlands and Belgium. Amphetamine has an average importation purity of 38%, but street level purity is commonly within the 1 – 6% range.

Methylamphetamine

211 Methylamphetamine use in the UK remains low compared to other Class A drugs, possibly because of the ready availability and low street prices of cocaine and Ecstasy. There is no evidence that the feared increase in use,



“ Cannabis and synthetic drugs, such as Ecstasy, are widely available in the UK. Organised criminals are involved in importing and supplying these drugs. Some amphetamines are being manufactured in the UK, although this appears to be on a relatively small scale compared to the overall synthetic drugs market. There is evidence that intensive commercial cultivation of cannabis, particularly the more potent skunk variety, is now widespread throughout the UK. ”

repeating the pattern seen in the United States, is in fact happening, although it is still a risk.

The UK Cannabis Market

212 Cannabis remains the most widely used drug in the UK. However, use in England and Wales continues to fall, with 7.4% of the population admitting use in 2007/08, the lowest level since 1995, and lower than the peak of 10.9% in 2002/03. Use in Scotland was reported at 11% (2006) and cannabis use in Northern Ireland increased from 5.4% (2002/03) to 7.2% (2006/07). Cannabis was reclassified from a Class C drug back to a Class B in January 2009.

213 Significant quantities of cannabis resin and herbal cannabis continue to be imported into the UK. However, the market is becoming increasingly dominated by the high potency skunk strain, some of which is grown in the UK.

214 Growers use domestic and industrial premises, employing intensive cultivation methods capable of producing multiple crops per year.

Prescription Drugs

215 The misuse of prescription drugs in the UK is small when compared to use of other drugs. In 2007, there was less than half as many samples of prescription drugs submitted to the FSS as there were heroin samples. There is little intelligence to suggest the involvement of organised criminals in the importation of prescription drugs, with an increasing use of the internet to purchase these products through online pharmacies. Some of these sites are properly registered, however there is a number offering unlicensed, counterfeit or prescription only medicines without a prescription.

ORGANISED IMMIGRATION CRIME

Organised Immigration Crime: Source Countries and Nexus Points

“ The scale of people smuggling exceeds that of human trafficking. Both provide organised criminals with opportunities to exploit migrants, often placing them at physical risk, in order to make money. In the case of people smuggling, the physical risk occurs mostly in transit, when various clandestine means of travel are used, some of them hazardous. Human trafficking victims continue to be exploited once they have arrived at their destination, and are controlled often through the use of violence and intimidation. ”

People Smuggling and Human Trafficking

216 The term “organised immigration crime” covers two types of criminal activity: people smuggling, where the illegal migrants are essentially willing participants and where the organised criminals profit mainly from facilitating their migration; and human trafficking, where the intention behind the facilitation is to exploit the illegal migrants in the UK, and in many cases during their journey to the UK. The UN Protocols on people smuggling and human trafficking provide an internationally agreed distinction between the two.

217 People smuggling is defined under the Protocol as:

“The procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of illegal entry of a person into a State Party of which the person is not a national or permanent resident.”

218 Human trafficking, as defined under the Protocol, highlights the exploitation element:

“Trafficking in persons shall mean the recruitment, transportation, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall

include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs.”

The Scale and Nature of Organised Immigration Crime

219 There is a regular flow of illegal migrants to the UK from China and South-East Asia, the Indian Sub-Continent, eastern Europe/Balkans (particularly Albania) the Middle-East (particularly Afghanistan, Iraq and Iran), Africa and South and Central America. Detection of illegal entrants at both the border and in the UK is increasing annually.

220 All the indications are that human trafficking takes place on a much smaller scale than people smuggling. However, the nature of human trafficking makes it harder to identify and therefore gauge. There are also cases where illegal migrants who set out to be smuggled become victims of trafficking during their journey or find themselves vulnerable to exploitation on arrival at their destination.

221 Illegal migrants use two main methods to attempt entry to the UK: overt entry where deception is used often supported by false, forged or counterfeit identity and travel documents; or clandestine entry, typically concealed within commercial or private vehicles. The majority of detections and subsequent service of illegal entry papers are made at Dover,

“ There is a regular flow of illegal migrants to the UK from China and South-East Asia, the Indian Sub-Continent, eastern Europe/Balkans (particularly Albania) the Middle-East (particularly Afghanistan, Iraq and Iran), Africa and South and Central America. ”

Calais, Coquelles and Dunkirk by the United Kingdom Border Agency (UKBA) and the Calais Chamber of Commerce.

222 The UK, in common with other western European countries, remains a favoured destination for illegal migrants. The UK is viewed worldwide as a stable, diverse and tolerant society, which attracts significant numbers of illegal migrants due to a number of “pull” factors. These include a perceived strong economy, employment opportunities in the formal and informal economy, state support (benefits, education, housing, etc), and established communities into which both legal and illegal migrants can be easily absorbed.

Facilitation Methods

223 Organised criminal facilitators, able to arrange transportation, document provision and the circumvention of border controls, operate in source countries, at nexus points and in destination countries (including the UK). Some facilitators will actively recruit customers in source countries.

224 Prospective illegal migrants in some countries are able to purchase end-to-end facilitation “packages”, often including documents and/or guaranteed employment after arrival, the latter potentially as a means of paying off their facilitation fee. Their passage will be arranged by a local agent/recruiter, usually working on behalf of higher-level people smugglers. Prior to departure they agree the facilitation method and payment terms, although both may subsequently have to change. Other illegal migrants will have to arrange their passage a stage at a time, a process which may lead to their journey taking months or even years. On reaching a transit country/nexus point they will have to seek out a facilitator willing and able to arrange the next stage, sometimes needing to find work in order

to pay their facilitation costs and consequently falling into debt bondage.

225 Arrival in the UK may be via any port (or across the land border between Ireland and Northern Ireland). The Channel Ports are used most commonly for clandestine entry, while the largest volume of document-supported illegal entry is detected at London airports (mainly Heathrow and Gatwick), particularly from long-haul locations such as China and the Indian Sub-Continent.

The Types of Criminals Involved

226 Organised immigration crime attracts all types and levels of criminals: established crime groups, some with close-knit, cellular and hierarchical structures, and global reach; loose criminal networks or associations, including middlemen and fixers who arrange contacts between facilitators and with prospective illegal migrants; criminal groups and individuals not solely concerned with organised immigration crime; and low-level, small-scale criminals. Some can provide end-to-end facilitation “packages”, including transportation, documents and work placements, while others may provide discrete services at a local level only, such as single-stage facilitation.

227 Although most of the criminals known to be involved in this area are motivated by the amount of money to be made, there is limited evidence that some organised crime groups are also motivated by the opportunity to enhance their status in their community by assisting prospective illegal migrants.

228 Within source countries, prospective illegal migrants will usually be recruited by criminals of the same nationality. A shared language and culture makes it easier for recruiters

“ Organised immigration crime attracts criminals of many types and levels; some may provide “end to end” facilitation packages from source country to the UK, while others may provide discrete services at a single stage of the journey. ”

“ The prices charged to illegal migrants vary significantly depending on a range of factors including geographical location, routing and level of risk. ”

to establish the trust of their customers. However, most organised criminals will deal with illegal migrants of any nationality or ethnicity if the opportunity arises and they can make a profit. At nexus points, illegal migrants attempting to arrange the next stage of their journey (or acquire the documents to enable this) may approach a number of facilitators to compare the nature and cost of the services provided.

229 Organised crime groups will often employ the services of “specialists”, such as forgers and money launderers, who in many cases may work for more than one group. Other “specialist” roles include couriers of false documents, escorts for illegal migrants, debt collectors, and professionals, such as solicitors, who act as the “gatekeeper” to particular services. The individuals carrying out these roles may be permanent members of crime groups or associates employed on a casual basis, and will not always be of the same nationality or ethnicity.

Criminal Finances

230 Prices charged to illegal migrants vary substantially and depend on a number of factors: source country; destination; facilitation route and method; level of risk; costs incurred; and any additional services provided. In general, document-supported facilitation methods are more expensive than clandestine methods. In 2007, at the top end of the scale illegal migrants were charged up to GBP 25,000.



231 Payment plans also vary. Facilitation costs can be prepaid in advance of the migrant's journey; in stages; on arrival; or after arrival. Trafficking victims will often be debt bonded, obliged to repay their costs, which are typically inflated, through work they are forced to take up. Traffickers responsible for recruiting victims in source countries, particularly for the sex trade, will sometimes sell them to criminal associates on arrival in the UK, receiving cash payments before returning home.

232 Children are also trafficked into the UK. Payments are occasionally made by families up front in the source country for a package including transportation to the UK, accommodation and the promise of work or education for their child. Parents will often borrow from money lenders linked to trafficking or facilitation networks to pay this fee up front. Organised immigration crime is lucrative enough to attract and maintain the interest of serious organised criminals.

Key Nexus Points and Routes

233 Several common migration routes are used by illegal migrants to reach the UK, with nexus points established where these routes converge, and where local conditions lead to the availability of a range of services which illegal migrants can access to facilitate their onward journeys. These include transportation, provision of documents, employment opportunities and safe houses. Illegal migrants travelling overland to the UK typically congregate in Northern France or Belgium en route, making the Pas de Calais, Brussels and Zeebrugge key nexus points.

234 Many illegal migrants make multiple attempts to enter the UK clandestinely from the Pas de Calais, concealed in vehicles or on trains.

235 Facilitators range from highly organised networks to lower-level individuals operating independently. Although many of the networks and relationships are ethnically-based, most are prepared to facilitate illegal migrants of any ethnicity for the right price.

“ There are almost limitless options for routes, methods, and timings. At nexus points where routes converge, migrants congregate to make use of locally available services to facilitate their onward journeys. Outside the EU, Bangkok, Belgrade, Istanbul, Kiev, Sarajevo, Tripoli and the Libyan Coast, and Moscow are key nexus points. Within the EU, Athens and the Greek islands, Lampedusa and Rome, are also important nexus points, while those seeking to enter the UK congregate in the Pas de Calais, Brussels and Zeebrugge. ”

The Main Routes into the EU

Via Central and Eastern Europe

236 Large numbers of illegal migrants from China, the Indian Sub-Continent and parts of South East Asia travel to Kiev, mainly by air either directly or via Moscow. From there they travel onwards, by air or overland, to the EU, with many entering through Slovakia or Poland. Sri Lankan organised crime groups have based members in Kiev and other nexus points in Ukraine and in Poland to facilitate the onward movement of illegal migrants.

Via North and West Africa

237 Illegal migrants from sub-Saharan Africa and the Indian Sub-Continent transit the north African coast (primarily Egypt and Libya) before crossing the Mediterranean to Italy, Greece and Malta. The key nexus point for bulk maritime people smuggling is Egypt. Vessels originating from Egypt are likely to target Greek or Italian coastlines and are likely to have immigrants of multiple nationalities on-board, including those from the Indian sub-continent.

Via the Eastern Mediterranean and the Balkans

238 The Greece/Turkey border continues to be one of the most commonly used EU entry points for illegal migrants.

Nexus Points

239 Along these three main routes, certain nexus points stand out. These include Athens and the Greek Islands, Istanbul, Kiev, the Italian island of Lampedusa, Moscow, Rome and Tripoli. Further afield, illegal migrants from Bangladesh, China, the Philippines, India and Iran, embark from Bangkok to destinations worldwide. Illegal migrants travel to Bangkok to acquire false travel documents for their onward journeys. There are a number of nexus points on other migration routes less commonly used by illegal migrants travelling to the UK.

Abuse of Legitimate Entry to the UK

240 There is widespread abuse of legitimate entry to the UK. Fraudulently acquired work permits and student visas, along with bogus marriages, are common methods of abuse, as is exploitation of family visit visa and transit without visa regulations, along with overstaying their conditions of entry following legitimate entry. Compared to other facilitation methods, abuse of legitimate entry is often safer, presents lower risks and is more cost effective for the illegal migrant and the criminal.

False Travel Documents

241 There are regular attempts by illegal migrants to enter the UK using false documents, primarily passports, visas and national identity cards. As forgery detection methods improve, and the technical complexity of modern documents makes forgery more difficult, the

“ Abuse of legitimate means of entry is widely practised. Fraudulently acquired work permits and student visas, along with bogus marriages, are common methods of abuse, as is exploitation of family visit visas and transit without visa regulations, along with overstaying their conditions of legitimate entry. There are also attempts by illegal migrants to enter the UK using false documents, primarily passports, visas and national identity cards. ”

numbers of illegal migrants detected attempting to enter the country as impersonators using genuine travel documents is increasing.

242 In the UK, illegal migrants frequently use false identity and travel documents to support illegal working, fraudulent applications for state benefits and health care, and to facilitate various other frauds.

The New Points Based System for UK Visa Applications

243 In 2008, the UKBA started rolling out a new Points Based System (PBS) for visa applications. The PBS is intended both to tighten up and to simplify the process of acquiring a visa for non-EU foreign nationals. Migrants looking to enter the UK with a visa will need to pass a points-based assessment before they can gain permission to enter or leave to remain in the UK.

244 There is a new emphasis on placing responsibility on sponsorship to determine applications. Sponsors will typically be prospective employers or places of study. This

emphasis on sponsorship in turn presents potential opportunities for organised criminals to provide false documentation which enhances or creates sponsorship profiles.

Work Permits

245 Organised criminals abuse the work permit system in a number of ways. Some illicitly use the details of legitimate UK businesses to advertise fictitious jobs or to apply for work permits on behalf of prospective illegal migrants. Others establish bogus businesses or employment agencies to support false work permit applications.

Student Visas

246 Student visa abuse appears to be increasing. It is likely that the majority of foreign nationals using fraudulently acquired student visas to enter the UK are economic migrants. However, some criminals facilitating this type of activity are known to have links to organised immigration crime and other forms of criminality.

Organised Immigration Crime into, Within and out of the UK, Including the Exploitation of Migrants in the UK

“ The UK is predominantly a destination for illegal migrants but is used occasionally as a source or transit country for victims of trafficking for sexual exploitation. ”

The Nature of the Problem

247 For those illegal migrants who have used the services of people smugglers, the relationship with their facilitator may end once they have reached the UK and paid for the journey. Alternatively they may be helped to find accommodation and work. Human trafficking victims may be brought into the UK often unaware that they are under the control of traffickers and face exploitation, or may have been abused and exploited en route. Regardless how they have arrived in the UK, illegal migrants who need to find work, often to pay off their facilitators or to avoid detection, can fall into a cycle of exploitation which may include them becoming involved in criminal activities. Legal migrants are also vulnerable to various forms of exploitation, especially those from the new European Union (EU) member states as they represent a large proportion of economic migrants and can work legally without a visa, therefore not requiring facilitation or false documentation, making them more attractive to exploitative employers.

248 The most apparent and often most acute harm faced by illegal migrants is the harm to their health and well-being while undertaking their journey to the UK or when in the UK as victims of exploitation by organised criminals. However, organised immigration crime results in other harms. For example, illegal working causes economic harm in the form of lost revenue to businesses and to the Exchequer; the gathering of illegal immigrants in certain areas can harm community cohesion; and reports of large-scale

illegal immigration can harm public confidence in the integrity of the UK's borders and our ability to safeguard national interests. Organised immigration crime is also an enabler of other types of organised crime, providing a ready work-force to work in criminal sectors, such as DVD counterfeiting, cannabis cultivation and prostitution, which causes further economic and social harms at community and national levels.

The UK as a Source or Transit Country for Organised Immigration Crime

249 The UK is predominantly a destination for illegal migrants. However, the UK is used occasionally as a source or transit country for victims of trafficking for sexual exploitation.

The Types of Criminals Involved in the UK

250 UK-based people smugglers are often linked ethnically to the migrants they facilitate, although there is also co-operation between different nationalities and ethnicities. For example, Turkish criminals have worked alongside Chinese people smugglers to move Chinese illegal migrants into the UK.

251 Migrants who have entered the UK clandestinely or by using false or fraudulently obtained documentation often wish to regularise their immigration status in the UK. This creates opportunities for UK based organised crime groups. Such groups specialise in the provision

“ UK-based people smugglers are often linked ethnically to the migrants they facilitate, although there is also co-operation between different nationalities and ethnicities. The structure of UK-based groups varies considerably. People smugglers often work in larger, more cellular, loose-knit network structures rather than rigid hierarchies. ”

“ Victims trafficked for the purposes of sexual exploitation have been identified throughout the UK. Any off-street sex establishment in the UK may be employing trafficking victims. High profits, combined with relatively a low risk of detection, also attract organised criminal groups into the gangmaster business to exploit illegal migrants smuggled or trafficked into the UK as cheap labour. Legal migrants who may be unaware of their rights are also vulnerable to various forms of exploitation, including those from new European Union (EU) member states. ”

of documentation designed to circumvent UK entry or indefinite leave to remain requirements, which can involve the use of stolen identities of UK nationals.

Human Trafficking Victims (Adults)

252 Those who have been smuggled into the UK and who seek to work illegally can also find themselves victims of exploitation. The immigration status of such individuals invariably leaves them powerless to seek redress. Most victims are trafficked to the UK for sexual or labour exploitation although other forms of exploitation have been seen.

253 Criminals trafficking victims for benefit fraud generate profits either from selling their

victims to third parties or by organising the frauds themselves. The hidden nature of trafficking for domestic servitude and benefit fraud makes it extremely difficult to assess the extent these activities. Many victims will be minors, with little contact outside their abusers or any opportunity to escape.

254 The criminal exploitation of illegal migrants, including trafficking victims, is often possible only with the knowledge and collusion of those making use of their services. Brothel owners, for example, will know that some of the foreign women working in their establishments are trafficking victims. Similarly, some agricultural producers are likely to know or suspect that the foreign workers they employ are illegal migrants, not least because they are prepared to work for less than the national minimum wage, work extremely long hours, and are obliged to live in squalid conditions.

Sexual Exploitation

255 Victims trafficked for the purposes of sexual exploitation have been identified throughout the UK. In practice, any off-street sex establishment in the UK may be employing trafficking victims. Demand for sexual services remains strong, with the off-street sex trade employing an increasing number of foreign women, a proportion of whom are trafficking victims. Much of the demand for victims appears to be generated by the criminals controlling them, who can make greater profits by forcing victims under their control to work longer hours and provide a wider range of sexual services, while allowing them to keep only a small fraction of their earnings.

256 The capabilities, level of organisation and geographical reach of human trafficking groups varies considerably. While some are involved in “end-to-end” trafficking (recruitment, movement, control, exploitation, and placement of victims), many do not have this capacity.



“ *Organised immigration crime is an enabler of other types of organised crime, providing a ready work-force to work in criminal sectors, such as DVD counterfeiting, cannabis cultivation and prostitution, which causes further economic and social harms at community and national levels.* ”

257 It is more common for trafficking victims to enter the UK on either genuine or false documents, rather than by clandestine methods. Once in the UK, victims often have their documents removed by the traffickers. This is both a means of control and an enabler to recycling documents.

258 Control is also exerted in other ways, including actual or threatened violence, rape or sexual assault, the threat of violence towards or exposure to family back home, ritual control²¹ and limited freedom of movement, including transportation to and from places of work for which the victim is charged. Meanwhile, provision of accommodation, which the victim rents from the criminals controlling them, allows the criminals to keep a larger proportion of their victim’s earnings, and leaves the victim trapped: if they complain about their poor living conditions and leave, they have no earnings; if they refuse to work, they lose their home.

Labour Exploitation

259 Consumer demand for cheap goods and services in the UK creates a market for cheap labour which attracts migrant workers, both those in the UK legally and illegal migrants who have been smuggled or trafficked. Migrants are employed, in some cases against their will, in regulated and unregulated sectors, including agriculture, horticulture, marine farming, textiles, catering, construction, nail bars, care homes, and car washes, and in criminal ventures, such as cannabis cultivation and pirate DVD selling.

260 Labour intensive, low paid commercial sectors that rely on casual workers, such as agriculture, construction and textiles, naturally attract large numbers of migrant workers. They are to be found wherever the work is. The seasonal nature of some of these sectors means

that the demand for labour can vary hugely during the year. Some illegal migrants find work for themselves after arriving in the UK, possibly by word-of-mouth or advertised in foreign language newspapers. Others are offered work as part of the facilitation “package” they purchase. On arrival they may be debt-bonded and forced to pay back their facilitation costs from their wages. Victims of labour exploitation are likely to come from the same areas as those trafficked for sexual exploitation, as well as from the Middle East and Indian sub-Continent. Migrant workers will sometimes end up in locations, doing particular jobs or with working conditions that are markedly different to those promised, but will feel compelled to accept their situation. In other cases, treatment or working conditions will deteriorate gradually, leading them to believe that the exploitation is only temporary.

Human Trafficking Victims (Minors)

261 The scale of child trafficking into, within and from the UK is difficult to quantify. Between March 2007 and February 2008, 325 children were identified in the UK as potentially being trafficked or exploited from a total of 52 different countries of origin, the most frequently encountered in order of prominence being China, UK, Afghanistan, Nigeria, Romania and Vietnam. Most children were identified as being trafficked into the UK, many were also identified as being trafficked internally (mainly British girls) but only a few children were identified as being trafficked from or transiting the UK.

262 Children and young people trafficked into the UK are predominantly identified as previously living in poverty, orphans or living away from their family. Traffickers promise a better life; the prospect of an education, employment or a family are significant pull factors. The child will commonly be put under debt bondage to cover

²¹ *Ritual control is especially prevalent among west African nationalities, where cultural ceremonies involving placing of curses (commonly known as voodoo in the West) are widely used before migrants leave the country.*

the cost of transportation, accommodation and agent's fee. A section of minors appear to be trafficked into the UK with the agreement of their parents or responsible guardians. Trafficking networks vary from large highly organised networks to more opportunistic agents who operate on their own.

263 Organised trafficking networks are continuing to exploit asylum and accommodation procedures to traffick or facilitate large numbers of unaccompanied minors into the UK; unaccompanied Chinese minors are the biggest threat. Trafficking networks 'coach' children in successfully passing through immigration controls and employ covert measures to maintain communication and onward transportation in the UK. Some of those who go missing have been identified as being forced to work in brothels (females) and restaurants, or forced to sell illegal DVDs. Most exploitation occurs at private premises or is otherwise hidden away.

Criminal Gangmasters

264 Gangmasters are in business to supply workers to an employer, often through a sub-contractor or via intermediaries. They operate by ensuring they are in a position to provide large numbers of workers at short notice on demand, thereby helping employers to manage fluctuations in demand for labour. High profits, combined with relatively a low risk of detection, attract organised criminal groups into the gangmaster business. There are clear opportunities for those criminals who are involved in organised immigration crime to make money from exploiting the illegal migrants they have smuggled or trafficked into the UK as cheap labour, and many more groups are likely to be involved than have been detected to date.

265 Since April 2004, gangmasters operating in certain sectors have had to comply with the Gangmasters (Licensing) Act 2004. This requires gangmasters providing labour to the agriculture, horticulture, shellfish-gathering and associated processing and packaging industries to be licensed by the Gangmasters Licensing Authority (GLA). As of January 2009, there were 1,210 licensed gangmasters in the United Kingdom; 55 licences



had been refused; and 77 revoked, with an additional eight revoked with immediate effect. This includes the first refusal and revocations of overseas labour providers. Additionally 337 businesses have been reported to have ceased trading in the areas regulated by the GLA. Some gangmasters have chosen to operate without a licence, thereby committing a criminal offence, or have moved to unlicensed sectors, particularly the construction industry to avoid registering with the GLA. Open sources suggest that as many as 70% of the gangmasters who were operating before April 2004 have moved sectors.

266 Criminal gangmasters, with or without licences, routinely exploit the workers under their control. This may be by misinforming legal migrants, including those from newer EU Member States, about their right to travel and work in the UK, or not making them aware of the restrictions on their ability to work.

267 Other abuses by criminal gangmasters include misleading migrant workers about their rights under UK health and safety legislation, including provision of correct safety equipment and clothing; about the number of hours they will be expected to work; or through the imposition of various charges as a condition of employment, and the tying in of these charges to high interest loans arranged in the migrant's country of origin, which may be illegal both in that country and the UK. There is evidence that while some migrant

“ Profits generated by foreign criminals operating in the UK, including as gangmasters, may be transferred overseas, either in cash or via Money Service Businesses. Overseas labour providers may divert the income from the supply of labour to offshore tax havens rather than have payments made to accounts in their home country where they may come to the attention of the local tax authorities. ”

workers are unaware of the conditions they will face in the UK, there are those who knowingly accept the pay and conditions offered, judging them to be better than those at home. Criminal gangmasters may therefore fail to comply with relevant legislation, such as the Asylum & Immigration (Treatment of Claimants) Act 2004, and statutory financial or worker obligations.

268 Most criminal gangmasters are content to use workers of any nationality, although some prefer EU nationals due to their legal immigration status and lack of visa requirements. Criminal gangmasters operating in the UK often have links to organised crime groups in source countries, allowing the control of workers from the recruitment stage through to the work site.

Criminal Profits

269 Criminals involved in trafficking for sexual exploitation make money in one of two ways: either by selling their victims; or by hiring them out and taking a share of their earnings.

270 Criminal gangmasters can make significant profits through paying workers below the national minimum wage, making spurious deductions from their wages and housing them in substandard accommodation while charging excessive rent.

271 Profits generated by foreign criminals operating in the UK, including as gangmasters, may be transferred overseas, either in cash or via Money Service Businesses. Recent evidence indicates that overseas labour providers may divert the income from the supply of labour to offshore tax havens rather than have payments made to accounts in their home country where they may come to the attention of the local tax authorities.

FRAUD

272 Organised criminals are involved in a wide range of frauds that cause significant harm to UK individuals, businesses and institutions, and to the Exchequer. Fraud is recognised as causing economic harm, but is often perceived to be a victimless crime. In reality, many frauds are targeted against individuals, for example frauds which encourage investment in bogus schemes with the promise of high returns, which are often specifically targeted against the elderly or other vulnerable groups. Individuals who are victims of fraud, including those who have their identities stolen and used criminally, may lose their livelihood and savings.

273 As well as the theft of assets and loss of profits, frauds targeted against businesses, including the production and sale of counterfeit goods, some of which pose a health and safety risk, can damage the reputation and trading position of companies, some of whom may be driven to bankruptcy as a result. This in turn affects individuals, since it may lead to job losses, increased prices and higher insurance premiums. Frauds against institutions, such as banks, can in extreme cases lead to collapse, but more typically serves to undermine public and customer confidence in the integrity of systems, including internet-based services, and the security of their personal data and assets.

274 At a national level, large scale frauds targeted against the Exchequer, such as organised child benefit fraud, have a similar effect on public confidence, as well as reducing the revenue available for public spending and services. The increasing cost of measures to combat fraud also has the latter effect. Fraud can also result harm to the reputation of the UK as a safe country in which to do business and therefore have a negative effect on the economy.



Technology-enabled Crime

“ Organised criminals are increasingly exploiting the Internet, in particular its use in commerce and finance, to develop new crimes and transform traditional ones. Criminals at all levels are able to buy compromised private data, often to access bank accounts and payment card details. ”

Criminals and the Internet and Information and Communications Technology

275 Organised criminals are increasingly using Information and Communications Technology (ICT) to support a wide range of traditional and newer criminal activities, to enhance their communications and operational security and to gain access to criminal markets. The Internet, in particular, has provided criminals with various money-making and other opportunities, and as commercial and business use of the Internet has developed, its exploitation by organised criminals has also grown. Alongside this increased use of technology, criminals have become more aware of the value of information, especially personal data, as a money making source. This has led to a growing criminal market for large volumes of personal data taken from vulnerable computer systems, which is traded and exploited in a range of frauds, and for the tools and techniques required to commit these offences.

E-Criminality - A Criminal Market for Stolen Data

276 The driver behind the majority of data thefts is the profitability of compromised private information, particularly detailed financial information. Criminals compromising large quantities of data sell it either directly to those able to realise its monetary value through fraud, or to those who act as data brokers, aggregating data from different sources and selling it to other criminals. Internet crime has no “middle-market” as it rarely requires the movement of a physical commodity. Criminals of all types and levels, including individuals looking to carry

out small-scale, high-volume frauds are able to buy compromised private data directly from the primary sources.

277 Most of the data traded provides the means to access and defraud online accounts, or the ability to defraud payment card accounts using actual counterfeit cards or through card-not-present (CNP)²² fraud. Although UK cards are protected by Chip and PIN technology, the data encoded onto the magnetic stripe on the card can be copied and transferred to counterfeit cards, which can be used fraudulently in countries where Chip and PIN technology is not in use. Meanwhile, foreign “unchipped” cards are used to commit frauds in the UK.

UK Vulnerabilities to Data Theft

278 Individuals are targeted primarily for user names and passwords to enable criminals to access, and in some cases to control, online accounts, usually bank accounts but also other types, such as online brokerage accounts. Individuals are also targeted for private details of their payment card accounts. This is achieved by tricking the account holder into revealing private data through fake emails and websites (“phishing”) or by infecting the account holder’s computer with malicious software (“malware”) that automatically intercepts and forwards data to the criminal. Although public awareness of these threats is improving, the attacks are becoming increasingly sophisticated.

279 Centrally-held data typically consists of bulk payment card and identity data stored in a database. This data is targeted by criminal hackers who try to overcome security measures protecting the data so they can steal it in bulk.

²² Card-not-present (CNP) transactions are those where neither the card nor its holder are present at the point of sale, eg: orders by mail, telephone, fax or the Internet.

Highly skilled criminals are constantly scanning operating systems and application software for new security vulnerabilities. Once discovered, they develop and deploy new attack tools (“exploits”) to breach the security of these systems. Where known security vulnerabilities are not addressed by organisations it results in successive data breaches. This, together with instances of inadequate implementation of data security standards, highlights the fundamental need for the public and private sectors to do more to protect the security of data they hold on customers and clients. As with attacks on individuals, stolen data is used for frauds, including identity crime.

280 Private data being transmitted between individuals and businesses, typically through point of sale terminals and payment processing or shopping cart software, is also vulnerable to attack. E-Commerce software, used to manage credit applications or process payments for online retailers, is also subject to attack. If undetected, malicious software can gather (“sniff”) private information being passed through these systems and forward the stolen data to criminals. There is growing evidence of successful “sniffing” attacks on UK retailers.

E-Crime Networks

281 The most significant e-crime criminal activity is conducted within multi-skilled, virtual criminal networks, whose structures are different to traditional organised crime groups. Virtual criminal networks are often focused around an online meeting place, either a web forum or Internet Relay Chat (IRC) channel. Members rarely meet in person and individuals are known only by their online alias or nickname.

Money Laundering Online

282 Criminals engaged in online fraud operate anonymously and internationally and therefore require a fast and reliable system to enable them to do business with each other. They have adopted electronic currency systems as their

preferred method. These systems share features that appeal to online criminals engaged in fraud: they are anonymous and almost instantaneous; they charge relatively low commissions; and payments are irrevocable. Criminals are therefore confident that once they payment has been received it cannot be reversed, unlike payment card transactions where payment may be reversed (“a chargeback”) by the card-holder or issuer.

Emerging E-Crime Threats

283 It is likely that e-criminals will become more sophisticated, for example through the use of more advanced “malware” and “botnets” (networks of compromised internet-connected computers) which will allow them to steal more private data and effectively conceal their activity. E-criminals will continually adapt their tactics, as new defences are implemented by software and anti-virus vendors, in order to serve the illicit market in compromised private data.

284 Permanent Persistent Virtual Worlds (PPVW) and Massively Multiplayer Online games (MMOG) continue to develop, creating new opportunities for money laundering, criminal communications, and compromise of private data. Some of these online environments have millions of users and many employ internal electronic currencies to allow their members to buy and sell goods and services. These systems could be exploited by criminals for money laundering and identity theft.

285 The increasing diversity of web-based technologies, for example through hybrid web applications, will create new vulnerabilities that e-criminals can use to access and exploit victims and conceal their own activities. This type of web content is often more vulnerable because it is generated by users rather than large corporations. User generated applications may be more likely to contain security vulnerabilities than those developed by professionals.

“ Networks conducting e-crime activity operate virtually, with those involved seldom, if ever, meeting in person and being known only by nicknames or aliases. ”

“ Organised criminals use Information and Communications Technology (ICT) to support other offences, such as drug trafficking. ”

Wider Uses of ICT by Organised Criminals

286 Organised criminals involved in other types of criminal activity are increasingly using ICT, especially mobile telephony, particularly “pay as you go” mobile telephones. There has been an increase in the use of Instant Messaging (IM) services to communicate and exchange data and photographs with associates.

287 The choices that organised criminals make with regard to ICT is based on their perceptions of security, anonymity and cost, expertise and experience and their location, particularly where some countries may not have Global System for Mobile communications (GSM) coverage. The nature, scale and scope of organised criminal use of newer technologies are not well understood, but it is reasonable to assume that the general take-up of new or emerging technology will increase over time, in line with the trends in society as a whole.

Non-Fiscal Fraud

“ Organised criminals are involved in a wide range of frauds that cause significant harm to UK individuals, businesses and institutions, and to the Exchequer. Fraud is recognised as causing economic harm, but is often perceived to be a victimless crime. In reality, many frauds are targeted against individuals, including those who have their identities stolen and used criminally, directly threatening their livelihood and savings. ”

Nature and Scale

288 The term “non-fiscal” describes frauds against the financial services industry, businesses and members of the public. It occurs when criminals take money but fail to supply the goods, services or rewards promised; receive goods or services but fail to pay for them; obtain loans but fail to repay them; manipulate bank systems in order to steal money; obtain money to which they are not entitled; or subvert other systems or markets to obtain financial benefit.

289 There is no accurate assessment of the overall scale of non-fiscal fraud in the UK or the extent to which organised criminals are involved. Not all frauds are discovered, not all discovered frauds are reported and not all reported frauds are investigated. More is known about some areas, such as mass marketing fraud, and with some types of fraud, for example payment card fraud and insurance fraud, the organisations affected look to measure the costs. However, methodologies for measuring non-fiscal frauds vary and are not always robust, making it difficult to aggregate the figures. Nonetheless, it is clear that non-fiscal fraud causes significant harm to UK individuals, businesses and institutions, economically and other ways, including damaging consumer confidence and the UK’s international reputation as a safe place to do business and to invest.

290 There is a common thread to most non-fiscal frauds. Criminals find or create weaknesses in the systems, controls or procedures operated or used by their victims. Whether the economy is booming or in recession, criminals are quick

to exploit the wide availability of goods and services, including the availability of credit, or the vulnerability of those in debt.

291 Over the last 2 years, there have been instances where firms or individuals of questionable integrity have applied for access to the financial markets. This trend is expected to continue during the economic downturn.

Fraud Enablers

292 “Enablers” are factors which facilitate criminal activity. They range from weaknesses in procedures, such as security checks, to the easy availability, often via the Internet, of the necessary supporting materials, such as false documentation, to legitimate services intended to assist individuals and businesses, such as mail redirection. As well as posing serious challenges for the private and public sectors, including for law enforcement, they present opportunities for intervention and target-hardening measures at a systemic level, which would have an impact beyond fraud, since most fraud enablers also facilitate other types of criminal activity.

293 Key fraud enablers include: access to personal information, such as credit reference information; use of corrupt or negligent professionals and collusive insiders; identity crime, especially the use of false identity documents; exploitation of legitimate businesses and services, such as accommodation addresses and telephone platform services, particularly by foreign-based criminals purporting to be based in the UK; and technology, such as carding forums on the internet, which enables the criminal trade

“ Organised criminals are dynamic in identifying new opportunities to commit fraud and ways to overcome counter-measures. They use “enablers” such as false and stolen identities to commit non-fiscal frauds and other crimes. New technology facilitates this, making personal data increasingly available through a variety of media. ”

in fraudulently obtained payment card and bank account details, which can be used for identity crime and card-not-present (CNP) fraud.

National Fraud Strategy

294 The launch of the National Fraud Strategic Authority (NFSA) in October 2008 provided a new national lead on fraud, plus a source of support and expertise to law enforcement. The National Fraud Reporting Centre, to be launched by 2010, will increase the focus on fraud and, as a consequence, there is likely to be a rise in frauds reported in 2010/11. The NFSA is developing the UK's first National Strategy on fraud and its activities will aim to enhance co-operation between the public, private sector and law enforcement. As a result, knowledge of fraud cases and the levels of reported fraud should increase.

Types of Non-Fiscal Fraud

Mass Marketing Fraud

295 The 2008 International Joint Threat Assessment on Mass-Marketing (an initiative led by the US Department of Justice, involving the UK, Belgium, the Netherlands, Spain, Canada and Nigeria) highlighted how highly complex networks working across multiple international jurisdictions target large numbers of victims. They use legitimate business services and new technologies such as spam email, bulk mailing accounts and telemarketing to reach a large potential victim base and to aid their own anonymity. The frauds include advance fee fraud (also known as "419 fraud"), fake foreign lotteries, sweepstake and prize draw scams, and Internet sales frauds. The potentially large profits, relatively low risk of detection and the perceived sentences in the UK, have attracted organised criminals, who are adaptable and constantly change their methods and techniques to reduce the risks of law enforcement detection and investigation and to respond to consumer and business awareness of their activities.

296 In most mass marketing frauds, it is typical for victims to be told that they are entitled to a large sum of money, or other benefit, and to be invited to forward a sum of money in order to secure its release. Those who are fooled and part with their money get either nothing or something of no value in return. Victims are often elderly or otherwise vulnerable individuals and these frauds can cause substantial financial and emotional harm, with some victims parting with thousands of pounds. Some criminals involved in mass marketing fraud create so-called "suckers lists" of victims who are known to have responded in the past to mass marketing correspondence. The Office of Fair Trading (OFT) believes the lists are shared amongst criminals and the victims on the list are targeted repeatedly.

297 A study published in 2006 by the Office of Fair Trading reported that mass marketing frauds cause losses to UK consumers totalling up to GBP 3.5 billion per year. An estimated 3,200,000 UK adults have been a victim of a mass marketing scam, although fewer than 5% of victims report the fraud to the authorities. A number of nationalities, ethnic groups and locations have been identified as being involved in mass marketing fraud. West African, predominantly Nigerian, criminals are probably the most widely reported, particularly in advance fee fraud.

Share Sales Fraud ("Boiler Room Fraud")

298 Share sales fraud occurs when investors are duped into purchasing worthless or over-priced stock in companies with little or no value. These include "pump and dump" scams, in which an investor or group of investors promoting a stock they hold and selling once the stock price has risen following the surge in interest as a result of the endorsement. The group behind the fraud increase the demand and trading volume in the stock and this new inflow of investors leads to

“ Mass marketing frauds can result in potentially large profits for relatively low risks. Criminals often specifically target vulnerable groups, such as the elderly. Lists of potential victims are thought to be shared amongst criminals.”

a sharp rise in its price. Once the price rise has formulated, the group will sell their position to make a large short-term gain.

299 Some criminals form companies or purchase stock, typically specialising in energy, new technology or new medical products, and claim the company is due to release a new product imminently which will result in high value returns. The criminals set up telesales centres, referred to as “boiler rooms”, and employ staff to target investors. Cold calls are made to victims, generally selected from historic shareholder or mailing lists, using high-pressure telephone sales tactics, supported by brochures and well-designed websites that maintain the claims of a high yield return on investment. The victims do not expect an instant return, and it may take several months before they realise that they have been defrauded. It is likely that they will be put on a “suckers list” and continue, in the interim, to receive cold calls from other “boiler rooms”.

300 Most “boiler rooms” targeting the UK are based in Spain, particularly Barcelona, Madrid and Malaga, but some have been based in other EU countries as well as in Switzerland, the United States and Thailand.

301 Recovery Room Fraud specifically targets those victims of share sales fraud by offering them a way to recoup their losses for an advanced fee. This fraud may expand due to the current economic downturn. The amount of money known to be lost each year is at least GBP 150 million.

Market Abuse

302 Market abuse is a broad term which covers a range of activities both casual and pre-meditated which offer unfair advantage to those involved in the acts and hinders the operation of an efficient market. More specifically, market abuse is defined by seven key illicit activities: insider dealing, improper disclosure, misuse of information, manipulating transactions, manipulating devices, dissemination of false information, and distortion.



Payment Card Crime

303 APACS report that fraud losses on UK payment cards increased by 25% to GBP 535.2 million in 2007, up from GBP 427 million in 2006. The rate of losses continues to rise, with losses in the first 6 months of 2008 recorded at GBP 301.7 million, an increase of 14% compared with the same period in 2007. Nearly 40% of the fraud is against UK payment cards in other countries, which rose by 77% in 2007.

304 Chip technology remains secure. However, organised criminals are using increasingly sophisticated means to compromise card data. Criminals have found it possible to insert data logging devices into PIN Entry Devices (PEDs), overcoming inbuilt anti-tamper features. In 2008, examples were found of compromised PEDs incorporating a mobile phone modem accessible from anywhere in the world, removing the need to recover the PED to access the compromised data, both reducing the risk and extending the period during which data can be captured.

305 Card-not-present (CNP) fraud (including by phone, Internet and mail order) continues to rise and represents over half (54%) of all fraud on UK payment cards. In 2007, CNP fraud cost GBP 290.5 million, up from GBP 212.7 million in 2006. Interim data for 2008 indicates this fraud continues to increase. However these losses need to be seen in the context of increasing

“ Mortgage and insurance frauds can be highly organised and make multi-million pounds profits. In the current economic climate, detected instances of these types of crime are likely to increase.”

numbers of online retailers and ever growing numbers of online transactions: from 2001 to 2007 this type of fraud doubled, while the value of card transactions for online shopping alone increased four fold.

Account Takeover and Application Fraud

306 Account takeover fraud, also known as “facility takeover”, occurs when a customer’s facility, for example a bank account, is hijacked by a criminal. The criminal makes unauthorised transactions, such as transferring money out, changing the address on the account or requesting new cards. Criminals typically target online banking customers through “phishing”, “keylogging” and “spyware” scams, rather than targeting banks’ systems as these have proved difficult to penetrate. Criminals may also arrange to intercept deliveries of payment cards and statements in order to take over an account, divert or fraudulently order goods.

307 According to CIFAS, in the period January to September 2008, the number of reported cases of account takeover fraud was 13,295, increased from 4,844 (up 174%) in the same period in 2007. The comparative figures for “misuse of facility” were 29,364, increased from 16,841 (up 74%). In this type of fraud the criminal obtains an account, policy or other facility with the purpose of using it fraudulently. In the same period, there were 59,810 cases of “application fraud”, increased from 57,321 (up 4%). Application fraud relates to applications or claims made using false information or false supporting documentation. The proportion of application fraud cases identified after the application was approved increased by 19% compared with the same period in the previous year.

308 APACS estimate that losses from online banking fraud between January and June 2008 were GBP 21.4 million increased from GBP 7.5 million (up 185%) for the same period in 2007.

Mortgage Fraud

309 There are indications that the relatively high profit and low risk nature of mortgage fraud has led to some organised criminals and corrupt professionals specialising in this area. Organised criminals use mortgage fraud to generate and launder criminal funds or, in some cases, to acquire property as a base for criminal activity. The full scale of mortgage fraud losses is not known, but it is at least GBP hundreds of millions, making it a significant part of the UK’s overall exposure to fraud. Losses to the financial sector from mortgage fraud vary considerably, and range from GBP tens of thousands to tens of millions.

310 Artificially inflated valuations and high loan values are commonly used to maximise profit. A wide range of criminal techniques are employed: falsely declaring income on mortgage applications; involving corrupt or negligent professionals to support false identities; hijacking genuine conveyancing processes; and changing title deeds to allow the sale of property without the owner’s knowledge and to manipulate property prices.

311 As a result of recent economic conditions, falling house prices and restrictive lending criteria have reduced the opportunities for mortgage fraud and squeezed the potential profits. Although it is now more difficult to place fraudulent loans, mortgage fraud will remain attractive to criminals for as long as the mortgage system has vulnerabilities they are able to exploit. Indications from the US are that criminals could also expand into repossession and other frauds directed against individuals and families who find themselves in financial difficulty.

312 As the number of mortgages defaulting increases and repossessions rise, it is likely that more frauds will be uncovered as lenders investigate their losses. This is likely to increase the detection of frauds perpetrated by organised criminals, and to an increase in reports to law enforcement and to regulators. However, the actual frauds may have been perpetrated in previous years.

Insurance Fraud

313 In 2007, the Association of British Insurers (ABI) estimated the amount of fraud suffered by insurers on commercial, motor, household and other personal insurance at GBP 1.6 billion a year. Most of this can be attributed to fraudulent claims by individuals, but organised criminals are also active in these frauds.

314 Organised criminals have become involved with motor insurance fraud, looking to get large payouts from insurance companies by submitting fraudulent third party or multiple claims. This is a low risk, high gain fraud.

Criminal Businesses, Finance and Profits

315 Many criminals involved in fraud employ techniques that are innovative and require confidence to execute. The level of skill required varies between fraud types. Employees who commit fraud or act as an “insider” for a criminal range from junior staff to Chief Executives. Increasing personal debts, a grudge against the employer, and the ease with which it was possible to commit the offence, have all been cited as motives.

Identity Fraud and Counterfeiting (including Intellectual Property Crime)

316 The use of false identities by organised criminals is common in all types of organised crime. Criminals deliberately misrepresent their identity in order to carry out or enable criminal activity where evidence of an identity is a key requirement, such as fraud, financial crimes, people smuggling or illegal working. They also use false travel documents to conceal their movements into and out of the UK, making law enforcement detection harder, and use other false identities to protect their criminal assets from confiscation. Criminals use three main methods: modification of some aspect of their own identity; creation of a wholly fictitious identity; or theft of someone else's identity, either living or deceased.

317 Many organised crime groups are known to produce, supply or use false personal identities. In order to avoid detection, some organised criminals will use false identities on a very large scale, sometimes running into thousands of individual identities. They also use other forms of misrepresentation, for example documents that give false information on company or vehicle identity, consignments, business accounts and transactions.

False Identity Documents

318 Since public and private sector organisations routinely demand proof of identity, criminals need passports, driving licences and other documentation to support their false identities. Documents commonly used to support identity, such as utility bills and bank statements, are easy to produce on home computers. Other documents, notably UK passports, are less easily falsified and are therefore difficult for organised criminals to produce. This is particularly true of the new generation of biometric passports which

incorporate chip technology in their security features.

319 Criminals tend to obtain more complex false documents from specialist producers, or fraudulently obtain genuine documents, either by misrepresentation or theft. New security features, together with the introduction of official document verification services, may see an increase in demand for fraudulently obtained genuine documents.

320 False travel documents that are to be used at UK border controls need to be high quality forgeries or fraudulently obtained genuine documents if they are to pass the specialist scrutiny applied at points of entry. Such documents command higher prices. Lower quality ones, which are cheaper and more easily sourced, may not be good enough to pass through border controls, but may satisfy checks made in the UK (such as KYC checks at regulated financial institutions) that give access to benefits and services.

321 The increased availability and ease of access to personal information and business records online makes it easier for criminals to steal information and use it fraudulently. The theft of personal data from both the public and private sectors can enable the creation of false identities. To make counterfeit or forged travel and identity documents criminals also need manufacturing equipment and materials. Most of the "forgery factories" detected in the UK are located in small premises, such as private residences, but are capable of turning out large quantities of false documents to support fraud, financial and other crime.

322 Criminals have no difficulty obtaining false identity documents. There are many suppliers in the UK and elsewhere providing organised

“ Identity fraud is widespread, and many organised crime groups are known to produce, supply or use false or stolen genuine personal identities. Many documents commonly used to support identity such as utility bills are easy to produce on home computers. However more secure documents such as UK passports are less easily falsified. ”

criminals with forged, counterfeit, stolen or fraudulently obtained versions of the key identity (passports, driving licences, birth certificates) and supporting documents. Criminals will often sell higher quality documents only to customers whose criminal credentials are established. Some providers of false documentation offer travel and identity “packages”, which include passports as well as supporting documents, such as a driving licence, national insurance card or utility bills. This supporting documentation can enable the holder to attempt to work illegally and/or allow them to attempt to claim benefits and services fraudulently.

323 The implementation of a Points Based System to obtain a UK visa, and a more general shift towards entitlement to services, such as health care, based on evidence of identity, will increase the reliance on supporting documents.

Intellectual Property Crime (IPC)

324 Intellectual property crime (IPC) involves the counterfeiting and piracy of goods including: digital media, such as software and games; fashion wear; luxury clothing and footwear goods; and sophisticated manufactured items, such as pharmaceuticals, automotive parts and electrical goods. Counterfeiting and distributing these goods requires different levels of expertise or techniques and attracts criminals of all types. For organised criminals IPC is attractive because it offers a high financial return from, typically, a low investment and the risk of detection is comparatively low.

325 Globally, IPC occurs on a vast scale. More open borders and increased international trade make it easier for counterfeit goods to flow across continents. Advances in technology have also facilitated counterfeiting, by enabling speedy reproduction of high quality counterfeit goods, the best of which are difficult to differentiate from the genuine article.



326 While no robust figures are available, the December 2006 Gowers Review of Intellectual Property²³ estimated that criminal gain from IPC in the UK was worth GBP 1.3 billion, with GBP 900 million of this accruing to organised crime. Up to half of the total was accounted for by digital media, particularly software and film.

327 IPC is widely perceived to be a victimless crime, but consumers are at risk from poor quality or unsafe goods, such as counterfeit pharmaceuticals or sun care products, some of which contain no active ingredients. In practice, businesses suffer economic harm through loss of sales which can lead to jobs losses, and reputational harm to their brands. Harm to the

²³ *The Gowers Review of Intellectual Property (published November 2006) commissioned by HM Treasury*

“ In 2006, the Gowers Review of Intellectual Property estimated that intellectual property crime (IPC) in the UK was worth GBP 1.3 billion, with GBP 900 million of this accruing to organised crime. ”

public includes higher prices, extra costs to law enforcement and loss of tax revenue.

328 Counterfeit pharmaceuticals are a significant threat to public safety in many parts of the world. Although in the past it was very rare for counterfeit medicines to infiltrate the UK supply chain, there are indications that this is happening more frequently. Counterfeit pharmaceuticals are widely available over the Internet, and there is a significant market in the UK for counterfeit erectile dysfunction products (EDPs), which are often marketed as a recreational drug. Counterfeit drugs for serious conditions such as cancer, heart disease and schizophrenia are also available from online suppliers to individuals in the UK.

329 Price, location at the point of sale and packaging are three indicators to whether goods are counterfeit. Counterfeit goods produced to be passed off as genuine are made to resemble the genuine article as closely as possible, and the packaging will carry the trade marks of trusted, genuine manufacturers. Many counterfeits are of inferior quality, and may be purchased in the mistaken belief that they are “end of line” or stolen rather than fake. Poorer quality counterfeit goods can also be disguised through good quality packaging. In some sectors, for example luxury goods including expensive brand watches, high quality counterfeits are offered for sale at or near the normal price to reinforce the idea that they are genuine. There is concern by manufacturers that higher quality counterfeit goods are entering the genuine supply chain at wholesale level.

330 Most counterfeit products in the UK are imported from the Far East, with China being the most significant source. Counterfeit clothing and footwear is usually manufactured overseas, principally in China, and imported into the UK for distribution.

331 In the past, counterfeit CDs, DVDs and other digital media were imported into the UK in bulk, mostly produced in the Far East by organised, large-scale counterfeiting operations. However, they are now increasingly being manufactured in the UK by UK-based

criminals using readily available technology, such as personal computers with CD/DVD burners and industrial DVD pressing machines. Materials are imported into the UK, largely by UK-based South East Asian criminals who use legitimate companies as cover.

332 Mainland Chinese organised crime groups are heavily involved in the distribution and sale of counterfeit DVDs in the UK, exploiting illegal migrants to produce the discs and sell them on the street in the UK. Other crime groups involved in IPC in the UK are also engaged in other forms of serious crime, such as Class A drugs trafficking, although the links between these activities are not well understood.

333 The Internet and advances in digital technology have presented criminals with an efficient, high speed and anonymous way to conduct IPC. The creative industry (film, music and software) is particularly vulnerable. Counterfeit films, software and music can be placed on peer-to-peer (P2P) and other file sharing sites and accessed globally. Trading websites offer large volumes of counterfeit goods for sale. Internet auction sites provide a marketplace for the sale and distribution of large volumes of counterfeit products.

334 Research conducted on behalf of BPI (British Recorded Music Industry) found that there are 6.2 million people regularly file sharing music in the UK (16% of UK Internet users). On average there are more than 600,000 people downloading music from “peer2peer” networks in the UK at any moment. The research showed that illegal downloading cost the industry GBP 159 million in lost sales in 2007. This figure is predicted to rise to GBP 180 million in 2008.

Currency Counterfeiting

335 Organised criminals involved in currency counterfeiting in the UK produce a variety of banknote types, including Bank of England and Scottish Sterling and euro notes. The volume of counterfeit Bank of England banknotes taken out of circulation fell by 24% between 2006 and 2007. However, since late 2007 there has been

a marked increase in counterfeiting, focused on the 'Adam Smith' GBP 20 note.

336 The counterfeit currency market has changed over the last ten years. Higher quality counterfeit notes produced by skilled printers using traditional offset lithographic methods, the same techniques used for the legitimate manufacture of banknotes, still present the major threat to the UK. However, organised groups are also producing digitally printed counterfeits, using laser or inkjet printing techniques. The increasing sophistication and usability of computers, scanning equipment, photocopiers and digital image manipulation software has encouraged this shift in counterfeiting techniques. Offset lithographic printing remains the more serious threat, not just because of the high quality but because notes can be produced extremely quickly using this method. However, the quality of desktop counterfeiting has been steadily improving and desktop counterfeiters are increasing their productivity by linking several printers together.

337 Organised criminals involved in currency counterfeiting are increasingly coming together to operate as linked networks. While groups may produce their own unique counterfeits, some will "finish" or distribute counterfeits from other groups, or supply them with "finished" and "unfinished" counterfeit notes for their own onward production or distribution.

338 In order to get counterfeit banknotes into circulation, large batches are broken down for distribution, usually by "middle-men" and street-level criminals to distance the producers from this high risk task. The distributors either pay for the counterfeit currency "up front" at a reduced rate, or pay a percentage of the profit realised back to the producer.

339 The level of euro counterfeiting increased Europe wide, with an estimated rise from EUR 45 million in 2004 to EUR 49 million in 2005. UK-based organised criminals are producing high quality counterfeit euro banknotes using both lithographic and desktop counterfeiting techniques. However, the number of counterfeit euros detected in the UK is a small fraction of the total.

32 Finishing is a term that refers to the process of adding the foil security features to the printed counterfeit note. It is a separate process to the printing and in most cases the counterfeit notes are taken to a separate venue for the foil features, such as the counterfeit hologram, to be added. It is time consuming process requiring each counterfeit hologram to be added to each counterfeit note one at a time.

Fiscal Fraud

“ As with frauds against large companies, fraud against the Exchequer may appear to be a victimless crime. In practice, everyone is affected; Fiscal fraud causes significant economic harm to the UK, which is felt locally, regionally and nationally. As well as directly reducing the money available to government to invest in services, fiscal fraud affects the ability of legitimate businesses to retain market share, leading to loss of profits, potential job losses and higher prices for customers. ”

340 The term ‘fiscal fraud’ describes frauds against government funds, and includes the theft or evasion of revenue due to HM Government, involving mainly those duties and taxes collected by HM Revenue and Customs (HMRC), and welfare benefits administered by HMRC, the Department for Work and Pensions (DWP), and local authorities. Fiscal fraud causes significant economic harm to the UK, which is felt locally, regionally and nationally. As well as directly reducing the money available to government to invest in services, fiscal fraud affects the ability of legitimate businesses to retain market share, leading to loss of profits, and potential job losses and higher prices for customers.

341 Serious organised crime groups are heavily involved in fiscal fraud. The serious organised criminals who commit fiscal fraud are likely to commit other types of fraud, often at the same time, and be involved in other types of crime.

Missing Trader Intra-Community Fraud

342 Fraud exploits the free movement of goods between European Union (EU) states allowing goods to be sold free of VAT and duty between Member States. MTIC fraud can be split into two categories. The first is Acquisition fraud, where goods are acquired VAT-free from the EU and brought into the UK by a VAT

registered trader, who then sells them to a buyer in the UK and the goods become available on the UK market. The importer goes missing without completing a VAT return or an Intrastat declaration, and/or without paying the VAT due on the onward supply of the goods. The second is Carousel fraud, similar to acquisition fraud in the early stages, but the goods are not sold for consumption in the UK. Instead, they are sold through a series of companies in the UK and then exported to another EU Member State, at which point the VAT is reclaimed. The goods may change hands between UK “buffer” companies several times before a final “broker” company sells them back to another EU Member State. The goods are then sold on in the other EU Member State and may be despatched back to the UK. This type of fraud takes its name from the circular or “carousel” pattern of trade.

343 Both the number of attempted MTIC frauds and the impact on VAT receipts fell in 2006/07 and again in 2007/08. Attempted fraud and the impact on UK VAT receipts for 2007/08 has been estimated at between GBP 0.5 billion and GBP 2.0 billion.

344 MTIC fraud requires criminals to work with a host of other people, such as freight forwarders to move goods into and out of the UK; cash and carry wholesalers; company formation agents; accountants; and solicitors.

“ The number of attempted Missing Trader Intra-Community (MTIC) frauds fell in 2007/08. The impact on VAT receipts fell to an estimated GBP 0.5 billion to GBP 2.0 billion. MTIC fraud requires criminals to work with a host of other people. Some of those involved in MTIC fraud, such as hauliers and freight forwarders, may be involved in other crimes such as drugs trafficking and excise smuggling. ”

“ The diversion of duty suspended alcohol to the UK market is currently assessed to be the highest revenue risk from alcohol fraud. ”

Organised Criminal Groups

345 Due to the nature of carousel fraud, which allows numerous traders to exploit the system without affecting the profit levels of others, MTIC groups do not compete against each other. There is evidence that criminal groups share knowledge and resources, including via web forums. The speed with which criminals react to law enforcement actions indicates a degree of co-ordination and contact between the different groups. Specialists exist who will work for any “controlling mind”. Should one group be closed down, these specialists move on to work with other syndicates.

Criminal Finance and Profits

346 There are strong links between MTIC fraud and other forms of serious organised crime, such as drugs and excise smuggling, money laundering, the use of firearms, violence and intimidation. Initially, MTIC criminals require start-up funds, which may come from other crimes, but they quickly make enough profit from MTIC fraud to fund bigger and more complex frauds, involving increasing numbers of individuals and chains that are often intertwined.

347 MTIC criminals launder money through established money laundering destinations such as Hong Kong, Singapore and Dubai.

Commodities

348 A Reverse Charge was introduced into the UK in June 2007. It changed the way in which VAT is accounted for and collected along a supply chain, removing the mechanism by which criminals are able to steal VAT. This measure was implemented for the goods that had

featured most commonly in MTIC fraud cases, including mobile telephones and computer chips, significantly reducing the use of these goods in MTIC fraud. MTIC criminals have therefore begun to concentrate on metals and consumer electronics. However, a wide variety of commodities are still being found in MTIC frauds, including soft drinks and alcohol.

Alcohol Fraud

349 The diversion of duty suspended alcohol to the UK market is currently assessed to be the highest revenue risk. The Duty Stamps regime for spirits introduced in October 2006 was designed to make it more difficult for criminals to divert non UK Duty Paid products onto the UK market.

Tobacco Fraud

350 There is a substantial market for illicit and counterfeit²⁵ cigarettes in the UK. Official estimates are not yet available for 2007/08, however revenue losses in 2006/07 were estimated at between GBP 1.1 and 2.2 billion, or 9-17% of the UK cigarette market. Cigarette smuggling is a global, high profit business and serious organised criminals are heavily involved.

351 Criminals have adapted their methods in response to law enforcement successes. They are moving away from direct shipment to the UK. Increasingly, containers are being transported to ports in mainland Europe, the contents broken down and transferred to roll on/roll off (Ro-Ro) freight. China continues to be a major source country predominantly for counterfeit cigarettes, but there are indications that the production is being displaced to other countries in the Far East and to eastern Europe.

“ There is a substantial market for illicit and counterfeit cigarettes in the UK. Increasing numbers of brands not normally sold in the UK (known as cheap white brands) are being targeted at the UK market. ”

²⁵ Illicit non UK duty paid or legitimately purchased overseas and brought into the UK for resale on the illicit market i.e. not for personal use. This also includes independent brands. Counterfeit are trademarks/brands copied without brand owner's permission.

“ The Registered Dealers in Controlled Oil (RDCO) scheme has changed the pattern of oils fraud in the UK. The scheme has reduced the open market availability of Marked Gas Oil (MGO). ”

352 The integration in the UK of counterfeit cigarettes smuggled in the post with other counterfeit goods indicates that cigarette smuggling is part of a wider criminal enterprise.

353 The brand mix in the UK illicit cigarette market has diversified. In addition to traditionally smoked “UK sensitive” brands, increasing quantities of brands not normally sold in the UK are being targeted at the UK illicit market. Some of these brands are popular in eastern Europe, but others are so called “cheap white” brands, made legitimately by small, independent tobacco companies.

354 Smuggling of hand rolling tobacco (HRT) continues to be a substantial problem for the UK, with the illicit market in 2006/07 estimated at between 48% and 59% of the total market. This would suggest revenue losses of GBP 610 million to 900 million. Smuggled HRT is largely genuine product bought in EU Member States with low duty rates.

Oils Fraud

355 Figures for the UK market in illicit oils are best split into Great Britain (GB) and Northern Ireland, as the latter’s land boundary with the Republic of Ireland presents unique problems. In 2006/07, it was estimated that illicit diesel had a 5% share of the overall oils market in GB, creating a provisional mid-market estimated revenue loss of GBP 750 million.

356 Increased competition in fuel prices in Northern Ireland and the fall in the value of sterling has affected the level of cross border shopping for legitimate fuel in Ireland, making it a financially less attractive option. The Registered Dealers in Controlled Oil (RDCO) scheme,

introduced in 2003, has reduced the open market availability of Marked Gas Oil (MGO).

357 Oil laundering continues to pose a threat in Northern Ireland and mainland UK. Once the criminals have sourced rebated fuel, either through front companies or illicit supplies from RDCO distributors, the fuel is laundered. Criminal groups prefer to establish laundering plants in remote locations, but where the movement of HGVs will not arouse suspicion. Therefore, farms, barns and industrial estates make ideal locations for laundering plants. Recently, bio fuel plants have been used as a “front” for laundering plants.

358 Misuse of rebated fuels continues to be an ongoing threat to UK revenue. Companies and individuals source rebated fuels (often for legitimate purposes) but then use the rebated fuel on the road.

Tax Credit Fraud

359 The annual estimate for 2007/08 of actual losses to organised attacks from tax credit fraud is GBP 20 million, with a further GBP 66 million prevented from payment by HMRC Compliance activity.

360 Organised tax credit fraud traditionally involves networks of individuals who hijack identities to instigate fraudulent new tax credit claims or hijack existing legitimate tax credit claims on a large scale. Action against these types of fraud is causing some criminals to adopt an organised singleton approach where a single legitimate claimant is used to falsely claim additional benefits in excess of their entitlement.

361 Migrant communities are commonly targeted in organised singleton frauds, as they

“ The annual estimate for actual losses to organised attacks on the tax credit system is GBP 20 million. It appears that action against networks of individuals who hijack identities to instigate fraudulent new tax credit claims or hijack existing legitimate claims may be displacing criminals to undertake “singleton” frauds, where a single legitimate claimant is used to falsely claim additional benefits in excess of their entitlement. ”

are often more vulnerable and susceptible to coercion by criminals who take a proportion of false tax credit claims allegedly to help them gain housing or employment.

Income Tax Self Assessment (ITSA) Repayment Fraud

362 Organised attacks against the Income Tax Self Assessment (ITSA) system involve the multiple claiming of tax repayments. Tax repayments are usually claimed by submitting a tax return as customers seek repayment of overpayments of income tax arising from excess income tax deducted under the Construction Industry Scheme or under PAYE (as a result of claims for allowable losses, certain travel and subsistence costs or other expenses), or arising from payment of tax at the wrong rate.

363 Organised attacks against ITSA repayments are co-ordinated by two distinct groups; corrupt agents and organised criminals. Corrupt agents typically represent genuine taxpayers, submitting fictitious details to maximise repayments and taking a large cut of the repayments as fees. Organised criminals, use a range of companies, to submit claims for multiple, hijacked or fictitious identities. Temporary migrant workers leaving the UK are at particular risk of having their identities hijacked.

364 ITSA returns can be submitted through the Internet, which enables organised attacks to be mounted from outside the UK. Companies that provide serviced offices, telephone answering and mail forwarding enable agents based overseas to appear to be trading from the UK.

Criminality in Tax Avoidance

365 Tax avoidance, whether of direct or indirect taxes, is estimated to cost the Exchequer

GBP billions a year. Although tax avoidance itself is not illegal, some avoidance schemes can include fraudulent elements, particularly in the way that the scheme is implemented. In recent years, there has been a significant growth in schemes that are wholly or in part fraudulent.

366 Tax avoidance schemes are sold to companies and high income earners in the UK who seek to reduce their tax liabilities. There is a requirement to disclose most avoidance schemes to HMRC but some schemes may be engineered so that they can be said to be outside UK disclosure requirements. The nature of the fraud within tax avoidance is usually hidden behind complex structures.

Benefit Fraud

367 The Department for Work and Pensions (DWP) estimates that approximately GBP 800 million was lost to benefit fraud in 2007/08, with actual losses from organised fraud accounting for between GBP 50 million and 100 million. Anti-fraud measures have more than halved overall losses since 2001. Additionally, the replacement of order books by direct payment into bank accounts has reduced opportunities to present forged or counterfeit instruments of payment.

368 Overall benefit cheque losses have fallen slightly in line with decreasing levels of cheques issued. The continuing manipulation of cheques and the fraudulent encashment of cheques through third party bank accounts are highly dependent on the use of false or stolen identity details. This, coupled with the use of false identity details in an attempt to obtain National Insurance Numbers for the purposes of either work or benefits, makes identity crime a key enabler.

“ According to Department for Work and Pensions figures, around GBP 800 million was lost to benefit fraud in 2007/08, with actual losses from organised fraud accounting for between GBP 50-100 million. ”

Annex A - Harm Framework for Organised Crime

This Framework sorts the harms caused or affected by serious organised crime by type and scale. Some harms are the direct and immediate result of specific serious organised criminal activities, others are wholly or partially the consequence or long-term effect of such activities

	INDIVIDUAL/LOCAL	COMMUNITY/REGION	UK/INTERNATIONAL
PHYSICAL	<p>Individual death, injury or illness:</p> <ul style="list-style-type: none"> through use of commodities or services controlled by serious organised criminals (e.g. through drug abuse, or as a facilitated illegal migrant) as a consequence of personal involvement in serious organised criminal activity (e.g. as a victim of inter-gang violence) 	<p>Incidence of deaths, injuries or illnesses within a particular community or geographical area:</p> <ul style="list-style-type: none"> through use of commodities or services controlled by serious organised criminals (e.g. concentrations of drug-related deaths, or of sexually exploited human trafficking victims) as a consequence of direct involvement in serious organised criminal activity (e.g. drug debt kidnaps or spates of SOC-linked violence) 	<p>Levels and patterns of deaths, injuries, illnesses within UK (broken down as appropriate into England, Scotland, Wales and Northern Ireland):</p> <ul style="list-style-type: none"> through use of commodities or services controlled by serious organised criminals (e.g. total annual drug-related deaths) as a consequence of direct involvement in serious organised crime (e.g. drug debt kidnaps or spates of SOC-linked violence)
SOCIAL	<p>Damage to individuals through their criminal and other undesirable behaviours, and the effects on others:</p> <ul style="list-style-type: none"> behaviour of those involved in serious organised crime or using its commodities or services (e.g. propensity to violence, prolific offending resulting from drug addiction, spiralling criminal behaviour) negative influences on others (e.g. young people drawn to criminal lifestyles by easy money and power) effects on victims of serious organised criminal activity (e.g. distress/inconvenience caused to a victim of identity fraud) 	<p>Damage to sense of 'well-being' in a particular geographical area, or within or between ethnic or other identifiable social groups:</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity (e.g. low levels of confidence in local law enforcement and wider criminal justice system) as a result of the availability of its commodities or services (e.g. high rates of acquisitive crime near drug markets leading to increased fear of crime and community tension) 	<p>Damage to UK society, undermining social responsibility, belief in the rights of others, respect for the law:</p> <ul style="list-style-type: none"> as a consequence of serious organised criminal activity, or the availability of its commodities or services (e.g. 'low-level' criminal/non-compliant behaviours, such as 'recreational' drug use or personal tax evasion; unwillingness to support the criminal justice system, for example to act as witness to a crime or to perform jury service)
ENVIRONMENTAL	<p>Degeneration of a locality (inc. a single property):</p> <ul style="list-style-type: none"> as a result of serious organised criminal activities (e.g. physical damage to a dwelling or other premises used to manufacture or sell drugs; or through its use for prostitution linked to human trafficking) or of the actions of those using its commodities or services (e.g. discarded drug paraphernalia) 	<p>Damage to an area (e.g. an estate, neighbourhood, town):</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity, including any hidden health and safety hazards (e.g. unsafe disposal of chemical waste from drug production) from those using its commodities or services (e.g. the creation of deprived/abandoned areas through the concentration of drug users or illegal immigrants, leading to further degeneration) 	<p>Damage to the UK as a whole, or to large areas, or to other countries:</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity, or the availability of its commodities or services (e.g. demand in UK for class A drugs causing devastation in South America)
ECONOMIC	<p>Costs to/economic impacts on individuals or families:</p> <ul style="list-style-type: none"> using serious organised crime commodities or services (e.g. loss of current employment and long-term employability through drug addiction) costs to victims and the wider public (e.g. from thefts, costs of private security, higher insurance premia and other costs passed on to consumers) 	<p>Costs to/economic impacts of serious organised criminal activities on businesses, services & communities in a particular town, city or region:</p> <ul style="list-style-type: none"> on legitimate businesses (e.g. losses as a result of fraud or robbery, or loss of trade or failed businesses as a result of illegitimate competition) to local public & social services (e.g. costs of health services for criminals and victims) to local communities (e.g. through overall downturn in trade or lost opportunities for inward investment) 	<p>Costs to/economic impacts on the UK of serious organised criminal activities and trades:</p> <ul style="list-style-type: none"> direct (e.g. consequences of illegal working on the availability of jobs and competitiveness of UK industry; loss of direct and indirect tax and duty revenue from smuggling of goods and from fraud) indirect (e.g. public expenditure required to combat serious organised crime through law enforcement and through regulation and controls).
STRUCTURAL	<p>Damage to individual perceptions of the integrity of public and private institutions and systems:</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity (e.g. fear of using new technology (internet services) due to perceived risk of online fraud) or of the actions of those using its commodities and services (e.g. individuals losing faith in ability of bodies to protect them/their property from the consequences of criminality, including serious organised crime) 	<p>Damage to commonly shared perceptions of the integrity of public and private institutions and systems</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity, or the actions of those using its commodities and services (e.g. local areas dominated by seemingly 'untouchable' criminal elements, or local political or business leaders corrupted by or under the malign influence of serious organised crime) 	<p>Damage to perceptions of the UK internationally</p> <ul style="list-style-type: none"> as a result of serious organised criminal activity (e.g. concerted attack on the financial sector including sub-prime mortgage fraud and boiler room fraud) or the actions of those using its commodities and services (e.g. widespread organised illegal immigration undermining the integrity of the UK border)

