
The Cost of Non-Europe in the area of Organised Crime and Corruption

Annex III - Overall assessment of organised crime and corruption

STUDY

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The Cost of Non-Europe in the area of Organised Crime and Corruption in Europe

Briefing paper By Prof. Federico Varese

On 7 September 2015, the Coordinators of the Committee on Civil Liberties, Justice and Home Affairs (LIBE) requested the Directorate-General for Parliamentary Research Services (EPRS) to prepare a 'Cost of Non Europe Report' on Organised Crime and Corruption to support work on the own-initiative report on the fight against corruption and follow-up of the CRIM committee resolution (2015/2110 (INI), Rapporteur Laura Ferrara (EFDD, IT)).

In response to this request, a general assessment¹, bringing together the research findings of three studies commissioned from outside experts, has been drawn up by the European Added Value Unit of the Directorate for Impact Assessment and European Added Value within DG EPRS. Its aim is to help improve understanding of the subject matter by providing evidence of the specific benefits that could be achieved through European action to fight organised crime and corruption.

The three studies commissioned from outside experts are published as separate documents:

- RAND Europe, research paper on the costs of non-Europe in the area of corruption (PE 579.319);
- Centre for European Policy Studies (CEPS) & Economisti Associati srl, research paper on the costs of non-Europe in the area of organised crime (PE 579.318); and
- Prof. Federico Varese, briefing paper providing an overall assessment of organised crime and corruption (PE 579.320).

¹ Wouter van Ballegooij, Thomas Zandstra, [Organised Crime and Corruption: Cost of Non-Europe Report](#), PE 558.779, European Added Value Unit, March 2016.

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Executive Summary

The paper addresses the challenges of combatting organized crime (OC) and corruption in Europe, and offers targeted policy solutions.

OC is viewed as consisting of three key activities: producing illegal goods and services; trading such goods; and governing illegal markets where the goods are traded. Traditional and non-traditional Mafias are forms of governance, rather than just forms of serious and structured crime. The first challenge of combatting mafia-style OC in the EU is to recognise that this type of OC is a form of governance. Only by improving the efficacy of legitimate forms of governance and by increasing trust between communities and local institutions of authority can one hope to succeed against this type of OC. An EU-MSs alliance strengthening governance capacity and the quality of government is a key ingredient in the fight against Mafias and OC. The paper shows that traditional mafia groups, such as the Italian and the Russian/Georgian Mafias, often engage in activities unrelated to governance when operating in non-traditional territories, where they launder money or buy goods and services. The first key challenge of combatting OC in the EU is to recognise a process of functional diversification (Campana 2013) of OC groups in different EU countries.

The second key point highlighted in the literature is that fighting the 'global' or 'transnational' dimension of OC should not be done at the expense of focusing on the local and territorial dimension of organised crime. Rather than globalization, a key factor that leads to the spread of mafia-type organizations outside of their traditional territories is repression in one country leading to a displacement effect affecting another country of the EU. Under certain conditions, such groups are able to become entrenched and evolve into local forms of governance. Policy makers should strive to identify such conditions. The paper highlights sudden economic booms in local markets and the presence of a large undocumented labour force that by definition cannot turn to legitimate forms of protection. The paper also identifies 'signal' crimes of mafia transplantation.

The paper discusses two issues related to corruption in Europe: the significant variation among MSs regarding the level of corruption, and the effect on corruption of legal inflation and 'red tape'. It also suggests that corruption can operate as a substitute for criminal governance: while in certain contexts mafias control access to markets and resources, in others this function is undertaken by corrupt officials. The fight against corruption is inextricably linked to the fight against OC.

Policy suggestions related to the fight against OC and mafia-style organizations include:

- Strengthening provisions that facilitate cross-border arrest and surrender procedures; the collection and sharing of evidence during both the investigation phase and the trial phase; the fight against money laundering and asset seizure.
- The strengthening of existing instruments, such as the EAW, and the speedy introduction of the EIO.
- Strengthening the coordination role of Eurojust.

- Strengthening the Analysis role of Europol.
- Further development of targeted intelligence monitoring OC hotspots, with the aim of predicting trends in Mafia migration.
- Improving the efficiency and quality of justice in Europe, especially civil justice.

Particular attention should be devoted to signal events that might lead to the emergence of illegal forms of governance, such as 1) Booming and poorly regulated local markets (e.g. construction and garbage collection); 2) A large workforce operating outside the framework of the law.

The fight against corruption should be undertaken at three levels: the introduction of further legislation, increasing the efficiency of prosecution, and reforming public administration. The paper concludes that EU has been mostly successful at forcing MSs to introduce additional legislation. National legislation should now strive to criminalise foreign bribery, as was done in the UK Bribery Act of 2010. If such legislation is implemented effectively in a low corruption country, such as the UK, it would also help reduce one source of corruption in high-corruption countries. As for improving prosecution of corrupt officials, the paper calls for strengthening national anti-corruption agencies, providing them with an appropriate budget, independence and absence from political interference.

Reforming the Public Administration is the most urgent and potentially most effective measure to reduce corruption. The policy suggestions related to this task include:

- The simplification of rules and regulations.
- A system of office rotation.
- A higher degree of centralisation of procurement decisions.
- The reduction of the use of cash.
- The introduction of EU Whistle-blowers legislation, including substantial rewards if the defendant is shown to have defrauded the government.
- Greater (online) transparency.

The EU should encourage the creation of dedicated websites maintained by campaigners and NGOs to expose corruption in public administration, such as 'I paid a bribe', <http://www.ipaidabribe.com/>

The paper calls for a reinterpretation of the concept of 'culture of legality'. Such a concept should be transformed into a commitment to a 'culture of transparency' by public institutions.

Abbreviations:

BKA= Federal Criminal Police Office (Germany)

CEPEJ= The European Commission for the Efficiency of Justice

EAW= European Arrest Warrant

EIO= European Investigation Order

EU = European Union

EP = European Parliament

GRECO= *groupe d'États contre la corruption*

MS = Member State

OC = organised crime

OCG= organised crime group

SOCTA= Serious and Organised Crime Threat Assessment

Introduction

This briefing paper will address the four key issues put to me by the European Parliament's European Added Value Unit:

- 1) The challenges of combatting organised crime at EU level
- 2) The challenges of combatting mafia-style organised crime in the EU
- 3) The challenges of combatting corruption at EU level
- 4) The interrelation between organised crime (including mafia-style organised crime) and corruption.

After exploring the issues, the paper discusses the options for action at EU level. The paper is structured as follows: after a brief introduction, it addresses the four questions listed above in four different sections. In Section 5, it discusses the solutions (options).

Definitions and Methodology

Discussions of definitions between academics and practitioners usually lead nowhere. The purpose of analytical understanding of a phenomenon (hence its definition) is different from the need to prosecute offenders, and the two characterisations do not need to be same.

Analytically, most scholars have highlighted that corruption is a form of exchange that takes place between two actors, the *corrupter* and an official. The official is an *agent* employed by a *principal* in order to implement actions set out by the principal (Rose-Ackerman, 1978; 2010). Typical examples of agents include public officials who oversee the issuing of permits, police officers who patrol a neighbourhood, or lab scientists who check the quality of retail food products. The principal is any organisation that employs individuals to undertake such tasks. The corrupters are members of the public, or of another organisation, who want to bend in their favour the rules laid out by the principal. This definition has the advantage of highlighting that at least two actors are involved in the corrupt exchange (corrupter and agent), while the existing EU definition (see below) implies that an official can abuse power alone. Corruption clearly differs from fraud as the latter is an act intended to deceive others for personal gain. In fraud, the person deceived is not necessarily the employer of the agent. In a corrupt exchange, the agent does not deceive the corrupter, but rather offers a service in exchange for payment and in breach of a contract signed with the employer. Ultimately, phenomena such as abuse of power, theft, embezzlement and fraud should be distinguished from corruption *per se* (Gambetta 2002; Varese 2000; for critical remarks on Principal-Agent models when applied to the study of corruption, and in particular the assumption that the Principal always seeks to reduce corruption, see Rothstein and Tannenberg 2015).

The definition of corruption used by European institutions refers to the "abuse of power for private gain" (EC 2014: 2). This definition is more general than the analytical definition, and captures diverse phenomena, such as fraud and embezzlement. For policy and prosecution purposes, it remains a workable definition.

Analytically, OC is best thought of as a form of governance (Varese 2010; see also Elliott 2014). In other words, an organised crime group (OCG) attempts to regulate and control the production and distribution of a given commodity or service unlawfully. As stated by Schelling (1971), burglars may be in the underworld, but do not seek to govern it. Mafias are a type of organised crime group that attempt to control a special type of ‘commodity’, namely protection, in a given context (Gambetta 1993). Mafias are typically a collection of independent mafia groups (often called ‘families’) that subscribe to the same norms, rituals and codes of conduct, and coordinate between themselves through *fora* such as the so-called ‘Mafia Commission’. Both mafia and OC are ‘associations’. In the case of established mafias, the act of joining is a formal event, occurring when the recruit goes through the mafia ritual. Several legislations—including Italy’s—distinguish generic ‘criminal association’ from ‘mafia association’, making joining the latter a more severe crime in itself (Calderoni 2012; Ferrara 2015; Di Nicola et al 2015).

Governance does not cover the entire spectrum of what is normally thought of as ‘organised crime’ activities. Campana and Varese (2016) argue that organised criminals are also involved in two distinct sets of illegal activities: the production and the trade of illegal goods (see also Campana 2013 and Campana and Varese 2015). A former high-ranking analyst at Europol told me that he finds this distinction highly valuable for analytical purposes, and he used it in his work (I-2). These three activities taken together, ‘production’, ‘trade’ and ‘governance’, form the building blocks of a theoretically-informed framework to interpret OC.

The Framework Decision on Organised Crime focuses on “active participation in an organisation’s criminal activities, with the knowledge of its aim or of its intention to commit crimes”; and/or “an agreement on the perpetration of crimes without necessarily taking part in committing them”.² While the analytical literature stresses activities, such a definition focuses on the existence of an organisation.

One should recognise that the analytical purpose differs from the practical purpose. For the purpose of understanding corruption and OC, it is surely more fruitful to specify principal/agent dilemmas in organisations, and the actual activities of OC groups, regardless of their organisational structure. In special cases, membership of a particular group that has been operating for centuries can be criminalised, as in the case of Italian mafias.

The methodology used in the paper consists of an extensive review of the existing literature, including EU documents and studies, selective interviews with experts, and a limited presentation of new data analysis.

² The penalties are, for option A, a minimum of at least two years’ imprisonment for the maximum level of penalty; for option B, a minimum requirement is a maximum term of imprisonment equivalent to that of the planned activities, or at least two years’ imprisonment for the maximum level of penalty. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ajl0011>. Calderoni (2012) has concluded that this definition “does not work [...] its provisions are so vague that most EU Member States do not need to change their national legislation to be formally compliant with it and b) the FD does not address the relevant inconsistencies between laws on organised crime” (2012: 1366).

Some caveats regarding data on corruption should be mentioned. As noted by the EC (2014: 39), quantitative data have to be treated with caution. In particular, Transparency International (TI) surveys are limited to perception of corruption, rather than the actual phenomenon. Perceptions might be influenced, paradoxically, by high-profile investigations, which in themselves are an indication that corruption is being fought, but they might increase the perception of widespread corruption. Behavioural questions (such as 'how many times have you been asked to pay a bribe?') or indirect measures are appropriate when available. For instance, Golden and Picci (2005) propose an objective measure of corruption consisting of "the difference between a measure of the physical quantities of public infrastructure and the cumulative price government pays for public capital stocks". The greater the difference between the monies spent and the existing physical infrastructure, the higher is corruption.

In addition, one should be aware that a single value of corruption for a given country does not capture within-country variation. In some contexts, such variations can be very significant, as in the case of Italy. According to the 'Quality of Government' Regional Index, Italian regions span over three standard deviations within the data (University of Gothenburg 2010).

1. The challenges of combatting organised crime at EU level

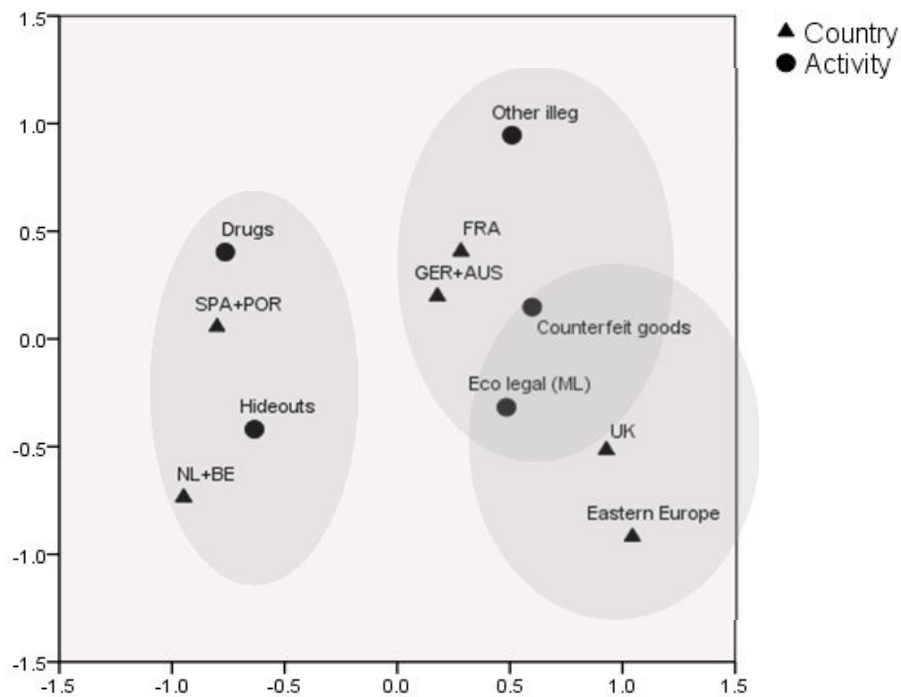
In this section, I highlight two challenges of combatting OC at the EU level: the functional diversification of OC, and the transplantation of OC.

1.1. Functional diversification of OC

Existing research has offered accurate estimates of the size of illegal markets in Europe. Savona and Riccardi (2015) suggest that the size of illicit markets in Europe is around 1% of EU GDP, with a value of 110 billion Euros. The proceeds of crime are then invested in a variety of markets across Europe, especially in catering, construction, wholesale and retail, transportation, hotels and real estate (Savona and Riccardi 2015).

A key point for successful Europe-wide prevention of organised crime is to recognise that OC groups rooted in traditional 'mafia territories', such as parts of Southern Italy, or outside the EU, such as Russia/Georgia, adopt a form of functional diversification (Campana 2011). For instance, the La Torre Camorra group based in Mondragone, near Naples, was involved in two distinct sets of activities at the same time: *governing* a territory in Mondragone, and *trading* in the UK and the Netherlands (Campana 2011). Similarly, the Moscow-based Solntsevskaya mafia group expanded to Rome in the mid-nineties, where it was involved in money laundering and import-export activities. In Rome, the Solntsevskaya never sought to govern territories, while it was actively running a protection racket in Russia (Varese 2011 and 2012).

In a systematic analysis of the activities of the Italian mafias abroad, Campana (2013) shows that Italian mafias do not 'govern' outside of their traditional territories, but rather hide, trade in legal and illegal commodities, and invest in legal businesses. Figure 1 shows clusters of territorial specialization across Europe based on a correspondence analysis of activities and countries.

Figure 1: Clusters of territorial specialization of mafia activities across Europe

Source: Campana 2013: 321.

Italian offenders tend to hide from the police and buy drugs in Spain, Portugal, the Netherlands and Belgium; they launder money and sell counterfeit goods in the United Kingdom and Eastern European countries, while they carry out investments in legitimate business and sell counterfeit goods in Germany, France and Austria, where they also engage in other illegal activities such as arms trafficking, gambling, usury and fraud (Campana 2013). Savona and Riccardi (2015: 11) also show that there is no perfect overlap between the presence of mafia-style organised crime groups, and the jurisdictions where they invest money. Similar conclusions are also reached by Calderoni et al (2015). The latest SOCTA Report, published three years ago, suggests that “OCGs are increasingly flexible, engaging in multiple forms of criminality” (SOCTA 2013).

The first key challenge of combatting OC in the EU is to recognise a process of functional diversification (Campana 2013) of OC groups in different EU countries.

1.2. Displacement effect of the fight against OC

The conventional view of globalisation and transnational OC is that OC migrates easily, due to the spread of globalisation and population migration, and criminal multinational corporations are increasingly unattached to a specific territory. “International Organised crime,” writes Louise Shelley, the director of the Transnational Crime Institute in Washington, DC, “has globalized its activities for the same reasons as legitimate multinational corporations.” She maintains that “just as multinational corporations establish branches around the world to take advantage of attractive labour or raw material markets, so do illicit businesses” (Shelley 2006: 43). For Phil Williams, OC “can migrate easily” now (Williams 2001: 71; see also SOCTA 2013).

The conventional view underestimates a key factor accounting for the presence of mafia members in non-traditional territories: they are pushed to migrate in order to escape mafia wars or police repression in their areas of origin. Such cases abound in the history of mafias (Varese 2011). This motivation continues to remain crucial: for instance, the boss of the Solntsevskaya Rome branch was eager to move from Moscow to Italy because he was afraid of being killed by the Solntsevskaya ruling elite (Varese 2011: ch. 4). Vyacheslav Kirillovich Ivan’kov, often described as the Solntsevskaya envoy to the United States tasked with creating the Russian mafia in that country, in fact left Russia in 1992 because “it became too dangerous for him there” (Finckenauer and Waring 1998, 112–13; see also Grant 1996). Georgian *vory-v-zakone* (a type of mafia boss in the Soviet Union) have moved to Russia and to EU countries such as Spain, Germany, France and Italy following the Rose Revolution of 2003–5, when the new Georgian president launched a harsh repression of the Georgian ‘mafia’. A systematic study of a Camorra clan shows that out of fifty-one members, only four individuals resided abroad, in Aberdeen and Holland. All four were escaping from Italian justice (Campana 2011). Thus, repression in one country has an unintended effect on another.

Territory continues to remain important for traditional mafias. Rather than being ‘liquid’ and unattached to a specific locale, mafias rely on the set of relationships developed in their territory of origin to generate income. If mafias are not defeated in their traditional territories, they will continue to trade and invest in non-traditional territories. Fighting the ‘global’ or ‘transnational’ dimension of OC should not be done at the expense of focusing on the local and territorial dimension of organised crime (see, e.g., Fijnaut 2016).

The second key challenge of combatting OC in the EU is to recognise that repression in one country could lead to a displacement effect affecting another country of the EU, and the local and territorial dimension of mafias.

2. The challenges of combatting mafia-style Organised crime in the EU

It is necessary to distinguish between two different challenges: 2.1) the challenges of combatting illegal forms of governance in MSs; and 2.2) the challenges of combatting the transplantation of such forms of governance outside their territory of origin.

2.1. Illegal forms of governance, traditional and non-traditional

Traditional Italian mafias, such as Cosa Nostra and the Calabria-based `Ndrangheta, exert control over a territory, where they are forms of governance (Varese 2010 and 2011). There, economic actors are forced to pay ‘protection money’. While such a payment is an imposition, it does not follow that mafia protection is always bogus (Gambetta 1993; Varese 2014). Recent investigations show that the power of Cosa Nostra to settle business disputes and to retrieve stolen goods remains high in Western Sicily. For instance, a dispute between two businessmen over a bakery was put to Bernardo Provenzano in July 2003 and, by early September, he had returned a verdict. Note that at the time, Provenzano was in hiding and it took several weeks for messages (*pizzini*) to reach him. A truck stolen on 23 September 2003 in Villabate, Sicily, was back with the owner on 29 September. The victim had reported the theft to the local police. Yet, he also reported it to the local mafia boss, who ensured the safe and swift return of the truck in less than one week (Varese 2016).

The average length of time for a business dispute to be adjudicated in Italian courts is eight years. In the South of Italy, it is over ten years. In the EU, Italy is the country with the third longest time needed to resolve litigious civil and commercial cases in the first instance (608 days; only Cyprus and Montenegro take longer, 638 and 750 days, respectively. Cf Germany, 164 days. See Fig 5, 2015 EU Justice Scoreboard). The Italian judiciary is not particularly underfunded. As noted by the 2014 Council of Europe CEPEJ Report, the proportion of the annual public expenditures allocated to the whole justice system in 2012 in Italy is 1.5% of GDP, the same as Germany, and slightly less than England and Wales (1.8%; CEPEJ 2014: 24, Fig 2.2). Italy had an above-average annual public budget per inhabitant allocated to the public prosecution service in 2012, with 24.0 million Euros, while Germany had 6.5 million (the CEPEJ data set average is 11.4 million. See CEPEJ 2014: 42). Yet “the first instance courts have serious difficulties as regards their productivity in Italy” (CEPEJ 2014: 229). The CEPEJ Report notes that the situation is also deficient for criminal cases:

The situation of court productivity for criminal law cases must be considered with care in Andorra taking into account the very low number of cases concerned. It appears more worrying in Cyprus, Italy, Latvia, and, to a lesser extent, Montenegro and Switzerland (for severe crimes) as both the Clearance Rate and the Disposition Time are negative (CEPEJ 2014: 222).

The ability of the state to settle disputes and protect citizens is inversely proportional to the 'demand' for mafia services. If the state were able to perform its basic functions, mafia protection would quickly turn to pure extortion, making it easier to generate collective action and fight these organisations. While the Italian legal framework to combat the mafia is elaborate, a key root cause of mafia persistence lies in its ability to substitute itself for ordinary justice.

Illegal forms of governance of a mafia-type exist even in territories where traditional mafias are not present. For instance, Densley (2013: 65) shows that some gangs in London go as far as "protecting community residents from violence and exploitation, provide them with financial sustenance, organize recreational activities and otherwise 'serve' the community, much like certain larger US gangs". Similarly, the Metropolitan Police Chinese Unit indicates the presence of protection rackets among the Fujianese communities in Britain.³ A 2010 BBC news item entitled 'Could Turkish and Kurdish gangs become a new "mafia"?' referred to a "war" between two gangs in North London and the fears of the local MP over a "mafia-style" conflict over territories. These gangs were connected to foreign insurgencies/terrorist groups.⁴ In 2014, the UK chief inspector of constabulary, Tom Winsor, said that some communities in the UK rarely, if ever, call the police to report serious crimes. He maintained that residents in some neighbourhoods "administer their own form of justice [...] It could be anything from low-level crime right up to murder..."⁵ When communities do not trust the police and the institutions of authority, they turn to local stakeholders for settling disputes, including minor conflicts. This equilibrium is conducive to the rise of figures that might have less-than-civic intentions and ultimately leads to failure to report organised crime activities. Lack of integration between institutions of authority and the vast majority of community members can also lead to terrorism-related activities remaining undetected (Campana and Varese 2015). This problem is particularly acute in the light of rapid and undocumented immigration. By definition, illegal immigrants cannot turn to the police if harassed or victimised. This problem might be exacerbated by the so-called EU Facilitation Package, defining and criminalising those who facilitate unauthorised entry, transit and residence in the EU. The 2016 'Fit for Purpose' Report concludes that the Facilitation Directive "has profound unintended consequences (or indirect effects) that have an impact [...] on social trust and social cohesion for society as a whole" (EP 2016: 11). National legislation might also have this effect: in some MSs, family members and those assisting refugees have been criminalised (EP 2016: 11).

The first challenge of combatting mafia-style OC in the EU is to recognise that this type of OC is a form of governance. Only by improving the efficacy of legitimate forms of governance and by increasing trust between communities and local institutions of authority can one hope to succeed against this type of OC.

³ http://britsoccrim.org/volume12/pbcc_2012_Dees.pdf

⁴ <http://www.bbc.co.uk/news/uk-11325134>

⁵ <http://www.theguardian.com/uk-news/2014/jan/18/communities-law-police-chief-winsor>

2.2. The transplantation of mafias

As shown above, mafia groups engage in activities other than control of a territory in non-traditional areas. And yet, under particular conditions, mafia groups have been able to open branches in distant territories, what Varese (2006; 2010; 2011) calls “transplantation”.

The migration to the USA of Italians, some with mafia skills, at the turn of the nineteenth century, gave rise to a set of powerful mafia groups known as the ‘five families’ in New York City. In the 1950s, members of the Calabrese `Ndrangheta migrated to the northern Italian region of Piedmont, managed to penetrate the construction sector of some towns outside Turin, and soon became entrenched. These groups were ultimately responsible for the murder of the Procurator General of Turin, Bruno Caccia (Varese 2011). The `Ndrangheta also seems to engage in rudimentary protection in four cities in Germany, mainly involving Italian restaurateurs, and labour racketeering (Ulrich 2005 cited in Campana 2013; see also the annual BKA ‘Organised Crime – National Situation Report’⁶). In addition, the Solntsevskaya Russian mafia crime group was able to create a subsidiary in Budapest (Varese 2011).

Some markets are more conducive than others to the emergence of territorial forms of illegal governance. Such businesses are dependent on a territory, such as construction and catering (bars and restaurants; Varese 2011). It is noteworthy that the list of markets where OC reinvests its income, as found in Savona and Riccardi (2015: 11), are broadly the same. Construction is a sector particularly vulnerable to both OC and corruption. For instance, the business-focused Flash survey presented in EC (2014: 7, 24–25) finds that, when asked specifically whether corruption *is a problem for doing business*, 50% of respondents in the construction sector felt it was a problem to a serious extent (this is the sector with the highest score, and telecommunication comes second with 33%).⁷

A specific territory remains a centre of gravity for OC. Some businesses cannot easily move away from the area. If harassed, a construction business or a restaurant cannot simply relocate. In the presence of an influx of Mafiosi from a traditional territory (through, e.g., migration or police repression at home) a mafia group is most likely to succeed in transplanting when its presence coincides with the sudden emergence of new and poorly regulated *local* markets. In these instances, significant opportunities exist for mafias to govern access to valuable markets, offer genuine services of dispute settlement and protection, enforce cartel agreements, reduce competition, and thus serve the interests of a sector of society. These opportunities can be easily taken up when a supply of people trained in violence—either local or from abroad—is at hand. The presence of a supply of Mafiosi and the inability of the state to govern markets are the key factors that

⁶

E.g. https://www.bka.de/nr_194638/sid_651EA1511B36B4C2B1424976B354800B/SharedDocs/Downloads/EN/Publications/AnnualReportsAndSituationAssessments/OrganisedCrime/organisedCrimeSituationReport2008.html?__nnn=true

⁷ See also EC (2014: 7): “Urban development and construction are sectors where corruption vulnerabilities are usually high across the EU.”

link cases of successful transplantation. In these markets, trading and illegal investments can lead to a transition to illegal governance of a mafia type.

The development of new technologies has been a factor that has *reduced* the ability of mafias to extort certain businesses: to the extent that such a business can 'move' to the internet, such as travel agencies, since new technologies have reduced the ability of mafias to control the local economy. Yet even in the case of cybercrime, the local dimension remains important: See Appendix to this paper.

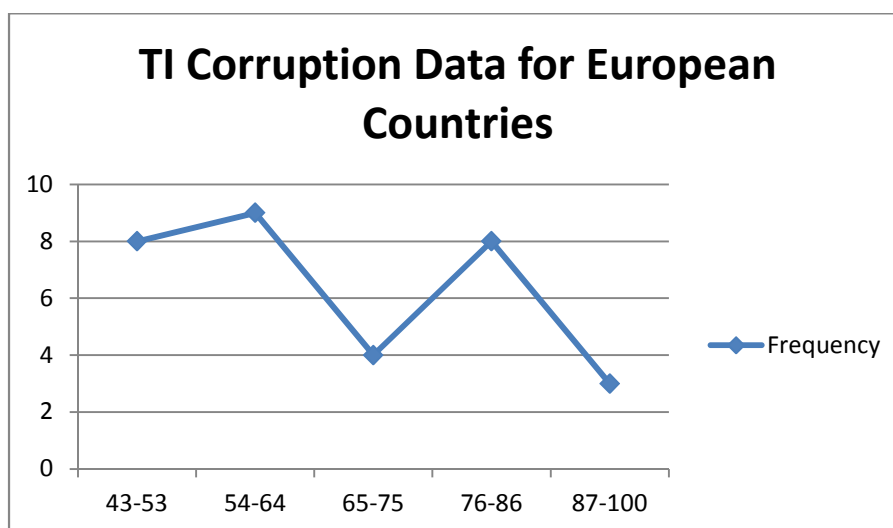
The second key challenge of combatting mafia-style OC in the EU is to identify sudden economic booms in local markets, and signal crimes of mafia transplantation.

3. The challenges of combatting corruption at EU level

I will touch below upon two neglected aspects of the fight against corruption, ‘pervasive corruption’, and the connection between the number of laws and regulations, red tape, contracting authorities, and corruption.

3.1. Pervasive corruption and the two corruption equilibria

Corruption manifests itself at different levels of intensity. While in some countries, corruption is the exception, in other countries, it is pervasive (Varese 1999). Figure 1 presents some evidence of this for EU countries. It is based on the Transparency International (TI) 2014 corruption index for the 28 EU countries plus Turkey.⁸ Figure 4 plots the score obtained by the countries surveyed on the horizontal axis (100 stands for a country free of corruption) and the number of countries that obtained a given score on the vertical axis.



Data Source: TI Index 2015.

Eight European societies are trapped in a high-corruption equilibrium, with scores ranging from 43 to 53. At the other end of the spectrum, eight societies have very low corruption, with scores between 76 and 86, and three countries are among the least corrupt in the world (Denmark 92, Finland 89 and Sweden 87). The data point to the existence in the EU of two corruption equilibria, one of high corruption and one of very low corruption. The data further suggest that few countries exist in between two equilibria (scores 65-75). (On the effect of corruption on the rule of law in Europe see also

⁸ This index aggregates several corruption ratings and aims “to assess the level at which corruption is perceived by people working for multinational firms and institutions as impacting on commercial life.” Transparency International, The Corruption Perceptions Index, 2014: <http://www.transparency.de/documents/cpi/index.html>.

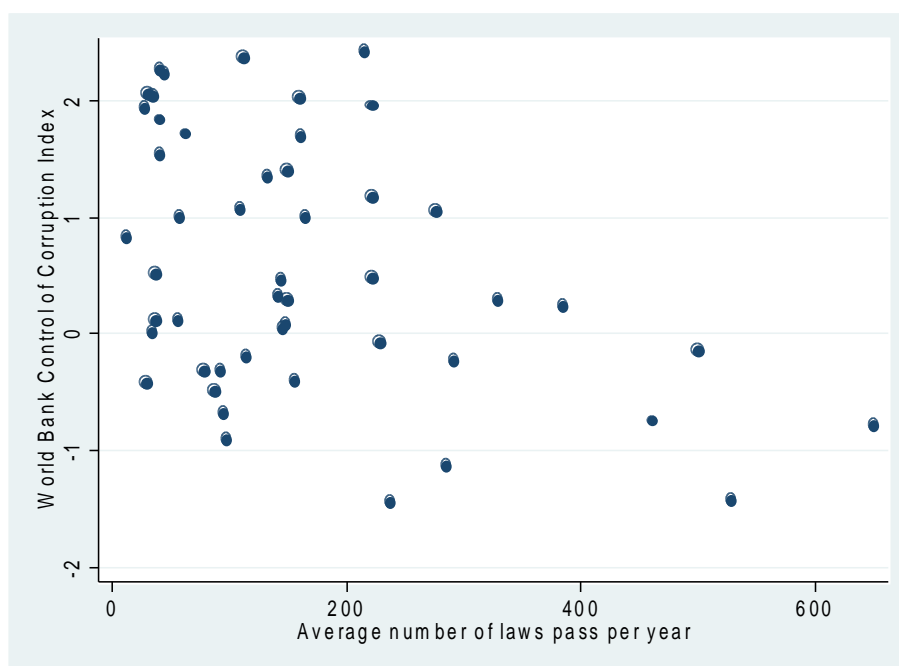
SOCTA 2013: 14). Behavioural data (as distinct from TI perception data) support this view. For instance, the Commission's 2012 Annual Public Procurement Implementation Review pointed to 97 pending infringement cases for incorrect application of the public procurement rules, over half of them concerning only three MSs (EC 2012: 30).

The first key challenge of combatting corruption in the EU is to recognise that two corruption equilibria exist and that few countries are in between.

3.2. Number of Laws, Red Tape, and Corruption

The volume of new laws produced every year by MSs varies widely. For instance, in 2003, the Italian Parliament approved 173 laws (cf the TI corruption score for Italy: 43), while the UK passed 50 (TI score for UK: 78), Spain 82 (TI score for Spain: 60) and Germany 85 (TI score for Germany: 79). A proliferation of new laws creates more opportunity for corruption, first as legislation is produced, and as a response to its implementation. Figure 2 plots the average number of laws passed per year against the World Bank 'Control of Corruption' Index.

Figure 2: Plot of average laws passed per year and World Bank Control of Corruption Index



Source: Varese and Wallace, in progress

There is a correlation ($\rho = -0.43$) between the number of laws passed and the level of corruption as captured by the World Bank Index, before any control is introduced. A regression model including proper controls shows that the 'number of laws' remains a

statistically significant variable in explaining the level of corruption. While further analytical studies should be conducted, it appears that the proliferation of legislation is closely related to corruption.

The 'number of laws' is part of a broader problem identified by businesses, namely the so-called 'red tape' problem. The higher the number of laws and regulations, the easier it is to tailor-make criteria for certain participants and exclude other bidders from public contracts. According to the 2013 Flash Eurobarometer Survey on corruption relevant to businesses, red tape (21%) and criteria that seem to be tailor-made for certain participants (16%) are the main reasons why companies have not taken part in a public tender/procurement process in the last three years (EC 2014: 25).

A key indicator of the potential for further corruption and red tape is the number of contracting agencies in each MS. The Commission's 2012 Annual Public Procurement Implementation Review asked MSs to indicate such numbers. Few MSs replied (e.g., Italy did not). The available results are nevertheless telling. For instance, in the UK there is one contracting authority for every 12,820 citizens; in Denmark, the ratio is one authority for every 16,040 citizens; in Hungary, there is a contracting authority for every 1,004 citizens. It appears that there is a link between this ratio and levels of corruption.

The mechanism identified above (legal inflation, red tape, number of contracting agencies; and corruption) might extend to EU legislation production, which has issued many cooperation tools and regulations.

The second key challenge of combatting corruption in the EU is to recognise that legislative inflation and 'red tape' can lead to higher opportunities for corruption.

4. The interrelation between OC (including mafia-style OC) and corruption

OC (including mafia-style OC) and corruption are positively and negatively interrelated in at least two ways.

4.1. Savona and Riccardi (2015: 9) show that Greece, Bulgaria, and Romania are the EU countries with the highest revenues from illicit markets. These are also the countries with the lowest scores on the TI Corruption Index (43 each).

Table 1: Selected MSs' TI corruption Index and revenues from illicit markets as a % of GDP

Countries	TI Corruption index	Revenues from illicit markets as % of GDP (2010)*
Lithuania	55	1.6
Latvia	58	2.8
Greece	43	1.6
Bulgaria	43	1.6
Romania	43	1.9

Source: Savona and Riccardi, p. 38.

*EU countries 0.9.

The other two countries with the highest revenues from illicit markets, Lithuania and Latvia, have a slighter better TI score (55 and 58, respectively). Their geographical position clearly makes the two countries a conduit for the smuggling of goods and people into the EU (the same applies, to some extent, to Spain). These data suggest that corruption goes hand in hand with large, illicit revenues and a particular geographical position.

4.2. Corruption can act as a *substitute* for traditional mafia organisations. Operators in illegal markets can obtain protection for their activities from corrupt officers rather than from mafias. While we expect that in areas of high mafia density corruption will also be higher, such as in Southern Italy, it does not follow that the absence of mafias leads to less corruption. The presence of criminal opportunities (such as access to international drug routes) can generate high levels of revenue in illegal markets and higher levels of corruption. Dedicated studies should be conducted to explore these dynamics.

5. How to face the challenges: policy implications

In this section, I touch upon the options for action and their relative costs and benefits.

5.1. Functional diversification of OC

A key implication of the functional diversification of OC is that introducing wholesale Italian anti-mafia legislation (which includes the offence of participation in a mafia-type organisation) in each EU member state is unnecessary (Campana 2013; cf Allum 2013). As noted by Gachevska (2012: 363), anti-mafia provisions may also have perverse effects on the quality of democracy and the rule of law in some countries.⁹ Experts interviewed by Di Nicola et al (2015) agreed that legislation on organised crime should reflect the domestic threat and the nature of the activities.

More effective measures are provisions that facilitate cross-border arrest and surrender procedures; the collection and sharing of evidence during both the investigation phase and the trial phase; the fight against money laundering and asset seizure. This view is shared by a number of scholars (Savona, Campana, Di Nicola, Calderoni).

It should be noted that a great deal of progress has already been achieved in the implementation of Framework Decision 2008/841/JHA, article by article. Except for Denmark and Sweden, all MSs have introduced the key elements of the Framework Decision and introduced a self-standing offence of participation in a criminal organization and/or conspiracy to commit offences. Denmark and Sweden “have alternative legal instruments to tackle criminal organizations and have national specialist agencies for the fight against Organised crime” (Di Nicola et al, 2015: v).

The European Arrest Warrant (EAW) is an important tool to facilitate cross-border arrest and surrender, abolishing the double criminality requirement for 32 categories of serious offences.¹⁰ It would be important to continue to aid prosecutors across Europe when making use of the EAW, in particular helping with standardized forms, accurate translation and overall dialogue between different judicial systems. This is a function that the EU can carry out effectively.

Eurojust has created joint investigation teams and coordination meetings between prosecutors and law enforcement agencies across Europe; Eurojust now offers 24-hour assistance for coordination and transfer of knowledge on urgent cases. The forthcoming introduction of European Investigation Order (EIO) in 2017 is also a welcome measure.

⁹ Broadly speaking, I agree with the European Commission view as expressed in its forthcoming Implementation Report on the FD on organized crime regarding the revision of the framework decision. The Commission seems to argue that judicial cooperation based on mutual recognition might solve the problem of differences in definition.

¹⁰ These include participation in a criminal organization, various types of trafficking offence and laundering the proceeds of crime. On the EAW, see Spencer (2005) and Pérignon and Daucè (2007). Some of the issues arising from the application of the EAW, including that of proportionality of the offence, are described in EC (2011).

The coordinating role of Eurojust should be strengthened. The number of cases dealt with by Eurojust is steadily increasing, and actions need to be taken to address operational weaknesses (e.g., see Eurojust (2012) on issues related to drug trafficking cases.) In addition, in the author's view, the monitoring of the use of EAW and EIO should be undertaken regularly by a body external to Eurojust, ideally an independent judge.

Europol is also a key institution in the fight against OC at the European level. The strengths of Europol lay in its being a genuine European institution, supporting national police and governments with extensive and in-depth investigations into particular phenomena, such as cyber-crime, child and sexual abuse, and more generally serious and organised crime. Europol should strengthen its Analysis Section while continuing to manage its large database of offenders (I-2).

A number of Framework Decisions on freezing and confiscation of assets have failed to achieve the expected results, as acknowledged by the European Commission (EC 2012b). A better tool to target these investments in the legal economy and make it more costly for criminals to enter the legal economy is therefore necessary, as suggested by Savona and Riccardi (2015). A step in this direction is the directive on the freezing and confiscation of proceeds of crime drafted by the European Commission in March 2012 (EC 2012b) and adopted in 2014. I agree with Savona and Riccardi (2015) on the importance of greater use of instruments that are alternative to seizure. In addition, monitoring of asset seizure at EU Level should be undertaken in order to ensure that the standards of proof are consistent across the EU and are met by MSs.

5.2. Displacement effect of the fight against OC

Criminals forced out of their territory of origin because of mafia in-fighting and local law anti-mafia drives have an impact on other countries. Through targeted intelligence, law enforcement agencies should monitor the OC hotspots around the world in order to be prepared for possible mafia migration to their countries. Regular meetings at Europol should be organised to report on the migration dynamics of OC across the world and should be co-ordinated with Eurojust. Currently (as far as I know), Europol holds regular (and helpful) conferences on, say, Eurasian organised crime, Italian mafias, or cyber-crime. In addition, the SOCTA report should include a section on the issue of displacement.

5.3. Illegal forms of governance, traditional and non-traditional, and mafia transplantation

Improving the efficiency and quality of justice across the EU is crucial. Clearly, this is a task that should be undertaken by MSs. However, EU-level institutions should offer incentives, set targets, and monitor results, making funding contingent on progress. The EU could play a key role in strengthening the rule of law in MSs by making EU funding, budget discussions and programmes dependent on specific targets being achieved by

MSs. Implementation of specific measures to speed up civil justice should become a joint EU-MS priority.

Signal events that might lead to the emergence of illegal forms of governance are:

Booming local markets, especially in construction and garbage collection. Since markets such as construction and garbage collection have relatively low barriers to entry and are tied to a given territory, an effective way to reduce competition for market incumbents is to use violence. Simple registration norms, easy access to authorities in case of disputes, and an effective *civil* law system are all key provisions to ensure easy entry into a market and its smooth functioning. Such companies would not be easily scared away by market incumbents, since they are backed by direct access to police power. The EU has a role in implementing competition policy, and exercising pressure to ensure fair and safe access to local markets.

Crucially, EU as well as MS authorities should understand that “the effectiveness of criminal law measures targeting organised crime” (Di Nicola et al. 2015) is limited. Measures to *prevent* organised crime start before the use of criminal law, including a more effective system of civil justice.

A large workforce operating outside the framework of the law. This phenomenon gives rise to opportunities for the emergence of extra-legal forms of governance. Workers that cannot turn to state-sponsored forms of dispute settlement will welcome the provision of such services, even if supplied by OC. Such situations should not be allowed to emerge. Rather, the workforce should be integrated into the legal economy. The first step is to regulate immigration. Immigrants should enter the country lawfully and thus be able to use state-sponsored services of protection. Cultural programmes for new immigrants should be aimed at making it easy for new residents to turn to local and federal agencies in case of need. Strong partnerships with community leaders should be forged, so that MS authorities are not perceived as alien institutions, as noted by Metsola and Kyenge (2015). EU asylum and migration laws inevitably push undocumented migrants into the hands of extra-legal forms of governance, and there is a strong link between illegal immigration and workers’ exploitation (Metsola and Kyenge 2015). I would consider forms of legalising their status, thereby bringing them back within the fold of state-provided forms of protection and dispute settlement. Authorities might consider some forms of ‘don’t ask/don’t tell’ provisions regarding the immigration status of workforces in order to sap their reliance on illegal forms of governance.

5.4. Corruption

Corruption is entrenched in several countries of the EU. Measures to tackle this problem can be categorised as at least three types: introduction of further legislation; increasing the efficiency of prosecution; and reforming public administration.

Legislation. The EU has been successful at forcing MSs to introduce additional legislation. To cite just one example, GRECO has had a visible impact on the reform of the legal framework related to party financing. Most MSs have legislation on party funding and increased transparency standards, including on donations (in two MSs, there is no restriction on anonymous donations and other gaps exist, as noted by EC 2014: 9).

National legislation should strive to criminalise foreign bribery, as was done in the UK Bribery Act of 2010. If such legislation is implemented effectively in a low corruption country, such as the UK, it would also help reduce one source of corruption in high-corruption countries.

Yet it is now clear that legislation on its own would not suffice to reverse pervasive corruption.

Prosecution. Anti-corruption agencies have proved to be successful in selected MSs when they have been granted independence and absence from political interference. When given a budget, legal tools and additional incentives to prosecute, they prove to be exceptionally effective tools, as in the case of the Hong Kong Independent Commission Against Corruption, set up in 1974 (Quah 2011). Key EU examples include the Slovenian Commission for the Prevention of Corruption and the Romanian National Anti-Corruption Directorate.

Reforming Public Administration.

EC (2014: 3) underlines the importance of “improving the efficiency of public administration, especially if combined with greater transparency” in order to fight corruption. Structural measures to achieve this aim must be undertaken. Such measures include:

Simple rules should be adopted, coupled with effective sanctions for lack of implementation until the end of the transitional period.

A system of office rotation. Routine rotation would make it harder for an office incumbent to forge long-term ties to OC figures and to corrupters that wish to influence the local administration.

A higher degree of centralisation of procurement decisions. The more decisions are taken at a local level, the higher is the risk of corruptive practices, and the potential for inadequate oversight. According to current EU legislation, the establishment of a central procurement body is optional. It would help reduce corruption if MSs designated specific authorities to handle many or all of the tasks related to procurement. In addition,

practices such as splitting public tenders into smaller bids to avoid competitive procedures should be actively discouraged. Public contracts should not be awarded to companies that have anonymous shareholders, as it would be impossible to identify potential conflicts of interest.

Reduction of the use of cash. Countries such as Italy and Greece have the highest levels of tax evasion and economic informality within the EU.¹¹ The informal economy, tax evasion, and corruption are facilitated by a cash-based economy.¹² Indeed, several EU countries limit the use of cash: purchases or transfers above a certain threshold can only be carried out using cards or other traceable means of payment. An effective measure would be to have a coordinated reduction of the use of cash across Europe.

Whistle-blowers legislation. Currently, each MS approaches this issue differently.¹³ A coordinated European strategy to standardise minimum requirements for whistle-blowing protection should be introduced, ensuring safeguards against discrimination and bullying, creating safe and reliable reporting channels, and a European authority for whistle-blowing, as suggested by campaigners such as Restarting the Future (2015). Such an authority should first suggest basic EU standards for the protection of whistle-blowers, and then monitor progress and sanction lack of compliance. I favour the US approach to this legislation, recognising the impediments to effective *public* enforcement of anti-corruption laws forbidding corrupt practices. US legislation allows private citizens with “the requisite fortitude to initiate lawsuits and pursue claims in the name of the United States against any person or firm defrauding their government” (Carrington 2010: 149). Under the False Claims Amendments Act of 1986, the private citizen bringing the claim is given a substantial reward if the defendant is shown to have defrauded the government. One constraint is that the claim must be based at least in part on the personal knowledge of the private citizen, i.e., typically s/he is an employee of the organisation (Carrington 2010: 149).

Greater (online) transparency. Openness and transparency can help citizens, NGOs and the press to scrutinise the actions of public administration and government more generally. One MS has put online all public sector expenditure on goods and services (EC 2014: 19). The publication of concluded contracts should become the norm in MSs. One MS makes publication a precondition for the validity of contracts (EC 2014: 31). This should become the standard across MSs.

¹¹ http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf and

<http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf>

¹² <https://www.europol.europa.eu/content/why-cash-still-king-strategic-report-use-cash-criminal-groups-facilitator-money-laundering>

¹³ See <http://journalism.cmpf.eui.eu/maps/whistleblowing/>

Finally, the EU should encourage the creation of **dedicated websites** maintained by campaigners and NGOs **to expose corruption in public administration**, such as 'I paid a bribe', <http://www.ipaidabribe.com/>.

Conclusions

The paper addresses the challenges of combatting organized crime (OC) and corruption in Europe, and offers targeted policy solutions. The key message of the paper is that OC consists of three activities: producing illegal goods and services; trading such goods; and governing illegal markets where the goods are traded. Traditional and non-traditional Mafias are not just forms of serious and structured crime. The first challenge of combatting mafia-style OC in the EU is to recognise that this type of OC is a form of governance. Only by improving the efficacy of legitimate forms of governance and by increasing trust between communities and local institutions of authority can one hope to succeed against this type of OC. An EU-MSs alliance strengthening governance capacity and the quality of government is a key ingredient in the fight against Mafias and OC.

The paper shows that traditional mafia groups, such the Italian and the Russian/Georgian Mafias, often engage in activities unrelated to governance when operating in non-traditional territories, where they launder money or buy goods and services. Thus a process of functional diversification (Campana 2013) of OC groups in different EU countries occurs.

The second key point highlighted in the paper is that fighting the 'global' or 'transnational' dimension of OC should not be done at the expense of focusing on the local and territorial dimension of OC. Rather than globalization, a key factor that leads to the spread of mafia-type organizations outside of their traditional territories is repression in one country leading to a displacement effect affecting another country of the EU. Under certain conditions, such groups are able to become entrenched and evolve into local forms of governance. Policy makers should strive to identify such conditions. The paper highlights sudden economic booms in local markets and the presence of a large undocumented labour force that by definition cannot turn to legitimate forms of protection. The paper also identifies 'signal' crimes of mafia transplantation.

The paper discusses two issues related to corruption in Europe: the significant variation among MSs regarding the level of corruption, and the effect on corruption of legal inflation and 'red tape'. It also suggests that corruption can operate as a substitute for criminal governance: while in certain contexts mafias control access to markets and resources, in others this function is undertaken by corrupt officials. The fight against corruption is inextricably linked to the fight against OC.

Policy suggestions related to the fight against OC and mafia-style organizations include strengthening provisions that facilitate cross-border arrest and surrender procedures; the collection and sharing of evidence during both the investigation phase and the trial phase; the fight against money laundering and asset seizure; the strengthening of existing instruments, such as the EAW, and the speedy introduction of the EIO; strengthening the coordination role of Eurojust; strengthening the analysis role of Europol; Further development of targeted intelligence monitoring OC hotspots with the aim of predicting trends in mafia migration; improving the efficiency and quality of justice in Europe, especially civil justice.

Particular attention should be devoted to signal events that might lead to the emergence of illegal forms of governance, such as booming and poorly regulated local markets (e.g. construction and garbage collection; and a large workforce operating outside the framework of the law.

The fight against corruption should be undertaken at three levels: the introduction of further legislation, increasing the efficiency of prosecution, and reforming public administration. The paper concludes that the EU has been able to force Member States to introduce additional legislation. As for improving prosecution of corrupt officials, the paper calls for strengthening national anti-corruption agencies, providing them with an appropriate budget, independence and absence from political interference.

The paper argues that Reforming Public Administration is the most urgent and potentially effective measure to reduce corruption. The policy suggestions related to this task include the simplification of rules and regulations; a system of office rotation; a higher degree of centralisation of procurement decisions; the reduction of the use of cash; the introduction of EU Whistle-blowers legislation, including substantial rewards if the defendant is shown to have defrauded the government; greater (online) transparency.

The EU should encourage the creation of dedicated websites maintained by campaigners and NGOs to expose corruption in public administration, such as 'I paid a bribe', <http://www.ipaidabribe.com/>

The concept of 'culture of legality' should be transformed into a commitment to a 'culture of transparency' by public institutions.

Interviews

I-1: Dr Paolo Campana, Cambridge University.

I-2: Former high-ranking analyst, Europol, The Hague, 8 February 2016.

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Appendix: The local dimension of cybercrime: Report from a trip to Râmnicu Vâlcea (Romania)

A constant refrain in both the academic literature and the popular press is that cybercrime is ubiquitous and liquid (e.g., Gabrys 2002. For relevant discussions, see Grabosky 2004; Wall 2007; Lusthaus 2013). I wish to dispute that view. Even this type of criminal activity relies on local ties in order to grow in size and reach. These illegal enterprises are 'local in scope' (Reuter 1985: 21), although the victims are normally far from the perpetrators. It is not surprising that Russia is a highly conducive environment for internet-enabled thefts and illegal transactions. According to a recent study, the number of Russian underground forums grows every year. As of 2015, 78 websites are operating with 27% of them being "very active," and 41% being "active". Popular forums "can have 20,000 to several hundreds of unique members" (Goncharov 2015: 7). The same study indicates that prices for services offered on the forums have been dropping significantly (Goncharov 2015: 17). The virtual absence of state enforcement allows the market for stolen data to grow in size, and prices to become more competitive.

A country within the European Union that also appears to be a hub for cybercrime is Romania. After controlling for the size of the population, Romania is the third country in the world for cyber-attacks (2013 data by Bloomberg. See Milian 2013).¹⁴ Why? Part of the answer is the legacy of communism. The regime of Communist dictator Nicolae Ceausescu had invested significant resources into computer science studies. As the country was denied access to Western technology, in addition to technology from the USSR, Romanians developed their own IT capabilities, including reverse-engineering a microprocessor. This legacy has largely been positive: many of those young people are now working in London, Silicon Valley and Seattle, while several American companies develop software and Apps in Bucharest. BitDefender, based in Bucharest, is the Romanian company that produces one of the world's most widely used antivirus systems. In the early 1990s, there were hundreds of home-made micro-networks in the country. This explains how Romania came to be the nation with the fifth fastest Internet connection in the world. Those who live in the city of Timisoara, Western Romania, have the fastest network on the planet (Polat 2012). This level of connectivity is crucial for the so-called "Denial-of-Service-Attacks", but also for many virtuous purposes. While Romania has a high level of IT expertise, it remains one of Europe's poorest countries. The 2014 average salary is 398 Euros a month (the EU average is 1,489), while agriculture is not fully mechanized: there are 201 tractors per 100 sq kilometres of arable land (the EU average is 815.1).¹⁵

¹⁴ According to the U.S. Embassy in Bucharest, Romanian cybercriminals steal \$1 billion every year by targeting US computers (Odobescu 2014).

¹⁵ Data from <http://www.reinischfischer.com/average-salary-european-union-2015> and <http://wdi.worldbank.org/table/3.2>.

Not all parts of Romania are equally affected by cybercrime. Table 1 presents data from Romania Court of Appeal related to internet fraud (*fraudă informatică*) for the period 2008-2010 (when data are available).¹⁶

Table 1. Number of decisions of the Court of Appeal for cases involving “fraudă informatică”, 2008-2010, Romania

Region	Number of cases	% of total
CA PITEȘTI	75	26.98
CA BUCUREȘTI	38	13.67
CA BACĂU	25	8.99
CA CLUJ	22	7.91
CA BRAȘOV	21	7.55
CA CRAIOVA	19	6.83
CA ALBA IULIA	18	6.47
CA GALAȚI	16	5.76
CA TIMIȘOARA	11	3.96
CA IAȘI	10	3.6
CA CONSTANȚA	9	3.24
CA PLOIEȘTI	9	3.24
CA SUCEAVA	4	1.44
CA ORADEA	1	0.36
CA TG MUREȘ	0	0
CA MILITARĂ	0	0
TR VRANCEA	0	0
Total	278	100

Source: Jurindex <http://jurisprudenta.org/>

¹⁶ Jurindex is a free service which aims to provide free access to judgments of courts. All courts of appeal decisions published in the period 2008 - February 28, 2010 in JURINDEX. There are a total of 233,921 documents.

Table 1 indicates that the region of Pitești accounts for 27% of all cases. The Court of Appeal located in the region of Pitești has jurisdiction over the town of Râmnicu Vâlcea.¹⁷

On paper, the economic situation in Râmnicu Vâlcea is dire. OltChim, the company owning the large chemical plant built by the communist regime in 1966, went bankrupt in 2012, yet the regional GDP continues to grow (INS-RV 2014). When I visited the town in March 2015, I noticed trendy cafes, bistros and restaurants in this town of 92,000 inhabitants. I stopped at the Academy of Taste, a gastro pub specializing in Italian food. My hotel, built three years ago at a cost of 3 and ½ million Euros, boasts a Spanish chef and the room spacious and comfortable (it is located right in front of the dilapidated police station). Signs of private wealth abound in town: two shopping centers located on the main square has five floors of shops selling designer clothes, appliances, computers, sporting goods, jewelry, as well as hosting a cinema, restaurants, bars, beauty centers, and bakeries. A dealership of Mercedes-Benz, is a nearby village (see Photos 1, 2, 3). What is the source of such wealth? Several newspaper reports have suggested that Râmnicu Vâlcea is a hub of internet frauds (Wylie 2007; [Bhattacharjee](#) 2011; Bran 2011; Hall 2014; Dunne 2015).¹⁸

From the middle of the 1990s, Râmnicu Vâlcea has become known for internet scams. Initially victims were sold non-existent items on eBay. Soon, Western consumers begun to be suspicious of sellers from Eastern Europe. This is when online scams became more sophisticated. Vendors now appear to reside in the United States or England, and payments are directed to reputable banks. Every detail of the scam is credible. The head of the Computer Unit of the Police showed me a highly polished website offering to rent holiday apartments and villas, equipped with a section for reviews. When the customer contacts the landlord, s/he is willing to send copies of documents confirming the ownership of the property and is even willing to describe on the phone the amenities of the resort. To enhance its credibility, the agency allows the customer to pay through an escrow service, also bogus. Fax numbers used in official correspondence do not correspond to any land line telephone: a software converts incoming faxes into emails (I1).

Once the money has been paid into accounts based in Western banks, and somebody – known as ‘arrow’--has taken the cash out, the fraudster needs to send the proceeds of crime to Romania. Money transfer agencies are the most popular way to repatriate the cash to Râmnicu Vâlcea.¹⁹ There are several precautions to follow: the amount should not exceed 5,000 Euros and the receiver should not use the same branch to collect the money too often (I2). During my visit to the town, I stopped for about an hour to observe the line at the counter of a Western Union shop on the ground floor of one of the town shopping centers: young people, women, children and old people withdraw money, talked, greeted

¹⁷ Information based on police investigations, provided by Maxim Dobrinoiu, suggest that over 70% of cybercrime occurs in the Southern and eastern Romania.

¹⁸ Curiously, a small cottage industry for foreign journalists and filmmakers has emerged in Râmnicu Vâlcea. It did not take long for me to be approached by a fixer willing to offer introductions to the dark world of hackers in town, for a hefty fee. Such ‘service’ appeared to be a scam itself.

¹⁹ Information based on police investigations, provided by Maxim Dobrinoiu.

each other and vanished into the meanders of this unlikely cathedral of consumerism. A few meters away there was the subsidiary of MoneyGram.

As shown in Table 2, there are 64 branches of Western Union in Râmnicu Vâlcea, one for every 1,446 inhabitants. For comparative purposes, I calculated the number of branches per inhabitants for Bucharest (one every 8,118 people), Novara, Italy, a city with roughly the same population (one for every 4,375 inhabitants) and Alessandria, Italy (one for every 2,415 inhabitants). The data suggest that the number of Western Union branches in Râmnicu Vâlcea greatly exceeds that of other cities in Romania and Italy. Similarly, the number of MoneyGram branches in Râmnicu Vâlcea is 13, one for every 7,121 people. In Bucharest, the same company has 70 branches, one for every 26,906.

Table 2. Number of Western Union Agencies in selected cities.

Cities	Number of Western Union (WU) shops	Population	WU / population
Râmnicu Vâlcea	64	92,573	1,446
Bucharest	232	1,883,425	8,118
Foc ani	47	73,868	1,571
Braşov	127	369,896	2,912
Târgu-Mure	62	134,290	2,165
Novara (Italy)	24	105,000	4,375
Alessandria (Italy)	39	94,191	2,415

Source: <http://www.westernunion.co.uk/gb/Home.page>

According to local prosecutors, there are at least a thousand people working full time on computer frauds in town, mostly based in just one neighborhood, Ostroveni. A *Le Monde* correspondent wrote in 2011: “In Ostroveni, everyone knows what is happening, but omertà – the code of silence – is the norm” (Bran 2011). Allegedly, High School no. 10 in the Ostroveni district of town is the place where hackers and scammers first cut their teeth.

The groups are organised on the basis of a strict division of labour: young computer enthusiasts are recruited by criminal minds capable of using violence.²⁰ Earnings can be significant: a gang arrested a year ago had made in a short time a million and 400 thousand euros (Hall 2014). These gangs benefit from of a *local* network of contacts and protections. The ‘arrows’, who withdraw the cash in London, and ferry it back to Romania by car or plane or send it through Western Union, have a personal knowledge

²⁰ Information based on police investigations, provided by Maxim Dobrinioiu.

of local gang leaders.²¹ Meeting in person is an effective strategy to build trust in illegal markets.

A key ingredient for the persistence of functioning illegal enterprises is local corruption. The Deputy Head of Râmnicu Vâlcea police, Gabriel Popa, was arrested in December 2014 for revealing confidential information to a gang of criminals. On 20 March 2015, another police officer, Alexander Popa, accused of passing confidential information to a cyber gang led by Nicolae Vasile, was also arrested. This clan has recently netted almost 200,000 Euros from frauds involving about 600 British victims. The penalty for the two officials was 30 days under house arrest (Rîpan 2015). Occasionally the police are successful at arresting lawbreakers, making the case of Romania less extreme than that of Russia.

Politicians also are involved. The socialist senator elected in Râmnicu Vâlcea, Laurențiu Coca, was heard speaking on the phone with Mihai Obreja, the boss of a local gang that, in addition to cybercrime, is involved in loan sharking and extortion. The conversation between the two men was far from friendly: "Return the money you've come to take to my house, or you're fucked," said Obreja to the Senator (Miercuri 2015). In another phone intercept, a member of the same gang is heard threatening to cut off the hands of a victim who has not yet repaid his debt (Miercuri 2015). As evidence that corruption is widespread in the valley, Râmnicu Vâlcea's mayor (elected in 2012) was convicted to 4 years for bribe taking in 2014 (Jurnalul Național 2014). Those who expose the links between Organised crime and local political elites are threatened and assaulted. This is what happened to Romeo Popescu, the owner and editor of the local newspaper *Vocea Valcii* (Hall 2014). Today the newspaper has changed location for security reasons.

In conclusion, large-scale cybercrime thrives thanks to social networks, in places where the local institutions are weak and corruption is widespread. Ultimately, the lack of effective enforcement is the most important factor affecting the growth of cyber-related illegal enterprises. The policy implications of this argument are twofold: while the victims are thousands of kilometers away and surely need to be vigilant, the eradication of the cybercrime industry depends also on effective local governance.

Note: I have presented a version of this paper at the BKA 8th Research Conference on Organised Crime, 7 - 8 October 2015, Mainz, Germany. Shortly, the paper will appear in the proceeding of the Conference. Refer to that text for the full Bibliography and list of interviewees.

²¹ Information based on police investigations, provided by Maxim Dobrinoiu.

This briefing paper addresses four key issues: the challenges of combatting organised crime at EU level; the challenges of combatting mafia-style organised crime in the EU; the challenges of combatting corruption at EU level and the inter-relation between organised crime (including mafia-style organised crime) and corruption. After exploring these issues, the paper discusses the options for action at EU level and the policy implications involved.

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