

**SPECIAL COMMITTEE ON FINANCIAL CRIMES,  
TAX EVASION AND TAX AVOIDANCE (TAX3)**

**SPECIAL COMMITTEE ON TERRORISM**

**THURSDAY 28 JUNE 2018**

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**JOINT PUBLIC HEARING**

**'THE USE OF TAX FRAUDS – INCLUDING VAT OR CAROUSEL  
FRAUD – TO FINANCE TERRORISM'**

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Bo Elkjaer, Investigative reporter, Danish Broadcasting Corporation

Elena Hach, Representative of the Romanian Attorney General's Office on the Board of the  
National Office for the Prevention and Combating of Money Laundering (FIU)

Pedro Seixas Felicio, Head of Unit, Economic and Property Crime, Europol

Marius-Cristian Frunza, Director, Schwarzthal Kapital, financial advisory and research  
company

1-002-0000

**IN THE CHAIR: ELENA VALENCIANO**  
*Vice-Chair of the Special Committee on Terrorism*

*(The hearing opened at 9.07)*

1-002-5000

**Chair.** – Dear members of the panel, dear MEPs, I would like to welcome you all and to thank the guest experts for agreeing to attend this joint hearing with the Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (the TAX3 Special Committee) whose work, which dovetails with ours, can I think be of great use to us.

1-003-0000

**Esther de Lange (PPE), Vice-Chair of the Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance.** – Thank you very much, Ms Valenciano, and as you say, thank you very much to the panel for hosting together with us, the Special Committee on Terrorism (TERR Committee) and the TAX3 Committee, this hearing making the link between tax fraud and terrorism financing. It is a link that we are maybe not so used to making, or that in any case we did not use to make until recently.

At the end of 2016 a number of investigative journalists, including in my own country, the Netherlands, produced a reportage showing that al-Qaeda had set up VAT carousel mechanisms involving companies all over Europe. Everything started with documents found at the border between Afghanistan and Pakistan. After long investigations, notably by Italian prosecutors, the suspects were accused of stealing over EUR one billion of tax money by committing VAT carousel fraud. To my knowledge, they were the first, or one of the first, to make the link between VAT carousel fraud and terrorism financing.

I am therefore very pleased that we could organise this hearing jointly, and I look forward to hearing our experts, who will be introduced – and now I pass the floor back to her – by my colleague Elena Valenciano.

1-004-0000

**Chair.** – We will begin with Bo Elkjær, who is an investigative journalist working for Danish state TV where he is responsible for matters of terrorist financing and, in particular, the Echelon surveillance system. He has already participated in a public hearing at Parliament, on Echelon.

Sources of terrorist financing are often legal, and other times illegal. Recent events have shown that lethal attacks can be carried out with a minimum of financing, and even at no cost at all. According to a study published in 2015 by the Norwegian Defence Research Establishment, covering the period 1994-2013, the majority of attacks are financed with less than 10 000 dollars, and that one in four cells received financial support from a terrorist organisation that subsequently claims the attack.

In 2016 the European Commission adopted an Action Plan to strengthen the fight against terrorist financing, aimed at restricting terrorist organisations' sources of revenue. Commissioner Moscovici has stressed that the level of VAT fraud in the European Union stands at EUR 50 million.

Mr Elkjaer will present the results of his investigations as a member of the team of journalists working on VAT fraud in Denmark. The report they published illustrates how organised crime and terrorist organisations take advantage of loopholes in the single market. He has also documented how jihadists with Spanish nationality came to Denmark as corporate managers and then engaged in VAT fraud.

His contribution will be followed by presentations by two more panellists, followed by questions from Members.

1-005-0000

**Bo Elkjaer**, *Investigative reporter, Danish Broadcasting Corporation (DR)*. – Thank you for inviting me. My name is Bo Elkjaer. It is not easily pronounced. It's Danish and Danish is a horrible language. I'll try to do my presentation in English.

I'm here to talk about terror funding through VAT fraud and I'm going to dig into one particular case that we disclosed in the Danish Broadcasting Corporation (DR), where I work, in cooperation with the Danish newspaper Jyllands-Posten and the Swedish radio programme Ekot.

This case starts on 30 May 2014, when six men were arrested in Melilla in Spain. They were charged with different terror offences and for recruiting 26 jihadists who were sent to fight in the Sahel and other areas. We found out that two of those arrested as suspected terrorists were directors in a total of three companies in Denmark. Another man was charged in the arrest but was on the run. He was a director in a fourth company in Copenhagen. These four companies were trading in different foodstuffs and soft drinks, and the companies were being used for VAT fraud in Denmark.

The fourth man, who was on the run, was later killed in Mali in 2016. I believe that he was killed by the French special forces as he was the leader of an Al-Qaeda fighting group in that area. So, in his case at least, this was a hardened terrorist who was also a director in a company selling soft drinks in Copenhagen.

We started to investigate how this could have been set up and how these Spanish citizens could appear as directors in companies in Denmark. In our investigation we found eight other Spanish citizens linked to the same group in Melilla, who appeared as directors in different companies in Denmark. All of these companies were linked to a large network of VAT fraud with other companies. In this particular network with the terrorist links there were 11 Spanish citizens and 24 companies which were part of a larger criminal network, a regular – so to speak – criminal enterprise.

We assessed in our research that the Spanish linked network had defrauded the Danish Government of something like DK 80 million – that's a conservative estimate and more than EUR 10 million – in these 24 companies. Later it was disclosed that three of the companies had also been used in another fraud, where the leading character has been convicted and sentenced in Denmark. This network stole DK 85 million through VAT fraud. Our investigation also showed that this Spanish network was linked to a similar network in Sweden, where other monies had been stolen in different sorts of VAT fraud.

We dug into some of the goods that were used in this fraud. We found out that they were using soft drinks and candy, cars, electronics, cellphones, cheese from Netherlands and chicken meat from the Netherlands. The cellphones and electronics were bought in Germany. It was a very simple VAT fraud and VAT carousel fraud. In the VAT fraud they simply bought the goods from the Netherlands through a company that was later to be dissolved. They then traded it on with correct invoices but including the VAT, and the price was totalled to be the same as the amount that was used to purchase the goods so they could sell it on through the regular process in Denmark at a lower price than their competitors. The carousel fraud is more complicated, but we also found indications of that in this particular network.

What we found out when we dug into how these Spanish citizens appeared in Danish companies was that they were part of a cell, a radicalised mosque in Melilla in Spain. We found out that

they had been radicalised by two Danish citizens who had travelled to Melilla. One was a Danish convert who died in Syria in 2013 and the other was later arrested. These people organised the cell down there and invited the members of the group to Denmark to participate as directors in this network. They also used Danish citizens.

I was involved in a project where we tried to identify Danish citizens who had travelled to Syria to fight in the war there. We positively identified 70 Danish citizens. Out of those 16 were directors in different companies and some of these companies are linked to this exact network. One of these persons, a Danish citizen, was a director of three or four companies and was killed in Syria in a drone attack in December 2015. The drone attack was targeting a car he was travelling in with a Danish citizen who was involved in planning the Paris attack. So we have the planner of the Paris attack travelling in a car with the director of different companies involved in VAT fraud in Denmark linked to this particular cell.

One of the Danish citizens we found was listed on the US terrorism watch list – the special designated global terrorist list – by executive order on 23 September 2014, the only Danish citizen to have been on this list so far. He died of natural causes back in Denmark a couple of years ago. He was a director in a company that was involved in this fraud. He was importing the cheese and was importing the electronics from Germany. He was importing the chicken meat from the Netherlands and selling it down the road to companies 200 metres from his address, where it was then sold on to legitimate traders.

In our investigation we have also found – but have not yet reported about – other citizens from other European countries who are involved in this. One person was set up as a director in a company in Denmark and then travelled on and was arrested on his way to Syria. I believe that his case is still pending.

So this is not just a problem between Sweden, Denmark and Spain. It's an issue that is linked to – I'm not going to state names or anything like that – an Islamic network that spans several European countries. Some of the Danish people in this network are highly placed and have leading roles. Some have been killed. It's mainly UK based, but is also present in Spain, Denmark, Belgium, Holland, etc.

I have been investigating VAT fraud since 2009. Am I running out of time? Two minutes, OK, I'll do it very briefly and then we'll go back to it in the questions. I've been investigating this VAT fraud since the carbon scandal back in 2009, where the Danish carbon registry was being used for large-scale VAT fraud in trading with carbon credits. Looking through this registry, I found out that the Danish registry was the largest of its kind. It had 1 256 accounts. After we disclosed the fraud network, this was cleaned up and 36 accounts remained.

So this registry was a bulk register of VAT fraudsters, whom we investigated to identify these people and found out that some of these Danish citizens were linked to the case from 2014 in Italy, where there is a suspicion of a terrorism link. It was out of this network that I tried to identify what these people were doing now. When I looked up the names, I found that they were involved in food trading in Denmark.

So these people had moved from carbon credits to electronics to different issues and then on to food. They move and are not very discriminating in their choice of what they will use as a vehicle for fraud as long as they can sell it off very quickly. That was the main point I was going to make. The case in Italy is linked by persons directly to the case in Copenhagen with this Spanish network.

1-006-0000

**Chair.** – I will now give the floor to Elena Hach, who is a member of the Romanian National Office for Prevention and Combating of Money Laundering.

She works as a judge in Romania and has extensive experience of European cooperation in the broad sense of the term. She used to be Romania's representative on Moneyval, the Committee of experts on the Evaluation of Anti-Money Laundering Measures and Terrorist Financing, which was established by the Council of Europe in 1997. Her experience in the field of judicial cooperation and in the fight against tax fraud and terrorist financing will I feel be of great help when we make recommendations for possible improvements to the existing system, which ultimately is also part of our job.

1-007-0000

**Elena Hach, Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU).** – Madam Chair, dear colleagues, thank you for the very kind invitation. My name is Elena Hach. I have been a prosecutor since 1998, so for 23 years. During that time, I have been liaison magistrate in Italy and, for a short period, I was an ad interim Member in the Superior Council of Magistracy. Since 2013, I have been the representative of the General Prosecutor's Office attached to the High Court of Cassation and Justice on the board of the Romanian financial intelligence unit (FIU).

For that reason, today I decided to present a study case which involves real cooperation and coordination between the Romanian FIU and the law enforcement authority. Without this coordination and this cooperation, it is impossible to have a good system to fight financing terrorism and money laundering.

According to the information provided by the credit institution with which the company ABC has current accounts, in November 2015, the representatives of that company ordered two transfers as follows: one transfer from one company account into another company account, and the second from one account into a different company account. The justifications for both transfers were that they were related to the current activity of the company ABC. The amounts in respect of which have been ordered as a financial operation came from a collection of USD 150 000 recorded in March 2014 from the legal person DEF. The transfer was ordered from a bank account opened at a credit institution from Libya and the justification 'collection after delivery for export of goods' was given.

Following the date of registration for the abovementioned external revenues, ABC was no longer recorded with an external operation valued at over EUR 15 000 or equivalent. The suspicious elements identified in connection with the external revenue recorded in the ABC accounts were accounted for by the fact that part of the transaction was conducted through money transfer services from residential areas containing ISIS supporters. Between 2013 and 2015, ABC did not record transactions on accounts held with the credit institution although its activities were not suspended.

Considering that by 2013, ABC had recorded a cash transaction and an external transaction on bank accounts after one of its associates was declared undesirable, the company no longer conducted financial transactions. It is possible that this financial behaviour was intended to dissimulate that the company controllers no longer had connections with Romania.

Another argument in this regard is that the company presented to the credit institution where it holds accounts a number of empowerment documents prepared by the natural person T. Thus through a document dated from September 2015, the natural person T empowered the natural person Z, a Syrian citizen, in his name and for him to establish any new commercial company with limited liability in accordance with the legislation in force, which means quality of

associate. Also, the natural person T, through the same notarial deed, empowered the natural person Z in relation to company ABC.

Regarding the person in connection with the company ABC, the shareholders are: natural person T, an Iraqi citizen; and natural person X, a Lebanese citizen. The natural person T, along with another natural person, AR, were declared undesirable for a period of 15 years for developing activities related to propaganda and financial support for some Jihadist groups in the Middle East. In fact, the two foreigners were involved in facilitating illegal entry into the country of people from areas with ISIS terrorists.

Those concerned have financially supported the presence in Romania of people with radical attitudes. Other indicators of illicit activity by the people mentioned relate to the commercial and financial operations conducted through the accounts of companies they own in Romania. In this respect, we mentioned that during 2012 and 2013, ABC recorded the external collection of USD 2 million from entities in Libya, Bulgaria and the Marshall Islands. The amounts thus collected were exchanged in Romanian lei and cash withdrawals from the account and based on some questionable attainment notes for 'animals purchased from natural persons'.

Also in June 2013, the company DRP, where individual T was an associate until 2013 and the current shareholders are individual Y, a Syrian citizen, and individual Z, recorded an external collection of USD 1 million from one natural person's account in Libya, justifying it as 'advance payment for export goods'. The amount was changed into lei in several instalments and the resulting amounts were withdrawn in cash based on attainment notes.

The financial behaviour of ABC and DRP is unreliable and leads us to the conclusion that a money laundering offence has been committed by way of cash withdrawals, based on questionable documents aimed at removing the source of funds illegally obtained, and eliminating, where possible, the documentary evidence which would make it possible to determine the money route. Moreover, a series of successive transfers between the accounts of ABC and DRP companies have been identified. They were recorded on the same day at different times, or on consecutive days with exactly the same amounts of money. The transfers were to the accounts of individuals who control the companies and justified as 'loan repayments to the associate' or 'refunding company lending'.

The loan contracts in question were presented randomly, without chronological order, some dating from 2002, taking into account that the transactions were conducted in 2015.

Another feature of the financial turnover analysed is the presence of numerous transfers of equal value below the reported limit provided by special law, made over several days between the two companies without real purpose or economic reason. This situation indicates the obvious intent to artificially increase the turnover of the companies involved and to reduce the tax base.

The available financial and tax data related to the economic activity of the companies controlled by individual T reveal that the declared value of the net debt to shareholders is less than the amount directed to the accounts of individuals involved with the justification 'refunding company lending'. The financial behaviour identified of individuals and companies analysed herein reveal the presence of a mechanism often used in the money laundering scheme typologies, money earned from tax evasion and other offences related to the regime of commercial companies, such as multiple account credits, immediately followed by transfers to other accounts or cash withdrawals, mostly supported by loan agreements and attainment notes.

Corroborating the information available in this paper leads us to the conclusion that the company ABC and DRP are still in the control of individual T by interposing the individual Z, and any operation to remove funds from the financial circuit are aimed at concealing the real

beneficiary and to create an appearance of legality regarding the commercial and financial transactions with these entities in Romania.

Given the profile of individual T and taking into consideration that, in relation to him, support for the jihadist movements in the Middle East has been identified, relevant facts are outlined about the existence of the offence of terrorist financing from revenue earned through economic activity by the companies ABC and DRP. At the same time, there are some indications regarding the existence of the offence of terrorist financing in connection with individual Z acting in Romania on behalf of individual T, who had already been declared undesirable.

Now I am at the end of my presentation, I want to provide some thoughts. A good system for fighting against financing terrorism and money laundering involves many players, such as financial institutions, intelligence services, money laundering investigators, the police and prosecution offices. The steps are: clearing, investigation and prosecution. Allow me to give some theories regarding the prosecution of terrorist financing. Terrorism does not work without money. Investigating and prosecuting terrorism must include terrorist-financing offences. Clarification of monetary flows can help us to sort out the structure of terrorist organisations. Findings in money laundering matters are an important starting point for terrorist-financing proceedings. But there is no abundance of information about money laundering clearing; but there is selection and concentration on 'big' cases. It is necessary to educate money laundering investigators in terrorist-financing matters and terrorist-financing investigators in money laundering matters, with no separation between prevention and repression, and instead interaction and cooperation.

1-008-0000

**Chair.** – I will now give the floor to Pedro Seixas Felício, Head of the Economic and Property Crime Unit at Europol. Mr Felício is not just a policeman, but also a lawyer. In his work as head of unit at Europol he specialises in the field of economic crime, counterfeiting and corruption. His participation here today will help throw light on an area that can sometimes be very complicated for us to assess.

1-009-0000

**Pedro Seixas Felício, Head of Unit, Economic and Property Crime, Europol.** – Good morning ladies and gentlemen, it is a pleasure to be here and to represent Europol. My idea during these introductory remarks is to provide a little context and to focus on three things: what we know about terrorism financing; what we know about VAT fraud; and what is the estimation of the percentage of VAT fraud that might be being used for financing terrorism purposes.

So what we know about terrorism financing is something that has already been mentioned here: that this is crucial for all the terrorist organisations. This is something that they need to survive; they need to have constant access to large amounts of funding. In fact it is so important to these terrorist organisations that 90% of all new terrorist organisations never get to survive their first year because they simply cannot have access to this large amount of funds, to this constant amount of funds.

Studies even mention that al-Qaeda in Iraq, for instance, cannot survive for more than four to six weeks without having access to new funds coming in, because these organisations do not have a central deposit, they do not have a reserve. They need to have money constantly coming in because this is money that they are using to pay for salaries.

The second thing that we know about terrorist organisations is that most of the funds that they need, they need them to maintain these groups in perfect, let's say, working conditions. The biggest amount of spending for them is for salaries, the second would be for travel and logistics, then for training, propaganda, recruitment and also for corruption and social welfare. So only

10% of the funds obtained by terrorist organisations are actually used for operational purposes, for attacks.

So these are some of the things that we know. What we do not know, for instance, is how much in the EU is currently being obtained for funding terrorist organisations. We do not know this, but based on the studies and on the operations that we support, we can surely say that there has been a substantial increase. Looking back: in the decade between 1985 and 1995, studies showed us an estimated USD 80 million had been obtained by religiously inspired terrorist organisations.

In the subsequent decade, from 1995 to 2005, this value escalated to USD one billion. Between 2005 and 2016 no such studies exist but we do have an estimation of what the budgets are for the main terrorist organisations and so we can also see this number increasing.

For Hezbollah, for instance, a budget of between USD 250 million to USD 500 million a year is estimated, most of it coming from state funding. For al-Qaeda, which is now currently of course at its low point, something between USD 20 million to USD 50 million annually, most of it coming in from donations.

For ISIS; in 2015 they advertised their own budget of USD 2 billion for that year, most of it coming, of course, from resources connected with the control of territory, so robberies from central banks, sales of oil, sales of natural resources. It is estimated that this budget currently has decreased substantially due to the loss of territory and it has probably decreased up to 80%.

Anyway, these numbers show that there has been a substantial increase in terms of their capacity to obtain funds.

On the other side, on VAT frauds, what do we know about VAT frauds?

Well, these are simply the biggest frauds that exist in the EU. By value, these are numbers that are unthinkable for most of the citizens that live in Europe, even for those of us who work in areas like this – financial crime and money laundering. It is very difficult to actually have a clear idea of what this is, and this is money that is not just being taken away from the citizens of Europe – it is being given directly to organised crime groups.

So this is something that is bad in a double way. It is money that is not being invested in essential services, like justice, security, education or health, and it is being given to organised crime groups, which then, of course, use it to invest in more crime, to buy drugs that they will resell for profit, to buy tobacco that they will resell, illegally of course, to finance corruption. It is money that they will use for this or else to invest in the legal economy, which is also not good because this distorts the legal economy, because this means that at the end of day it is not the companies producing the best products at the best price that survive, but the companies that are being subsidised by organised crime.

So how much are we talking about exactly? The latest study done on this, in 2016, told us that the VAT gap, meaning the difference between the VAT that we receive and the VAT that we should actually receive in one year, was EUR 160 billion. That year alone the budget of the EU was EUR 155 billion, so just this gap would be enough to pay for all the costs of running the EU.

Of course the VAT gap is not all about VAT fraud; VAT fraud and carousel fraud are a part of this, we estimate this at EUR 60 billion per year. Anyway, EUR 60 billion is a huge number.

How much of this is actually being used for terrorism financing purposes?

Well, I wish I had a number, but we do not have a number and we believe that there are no such credible studies to achieve this number. What we do know, of course, is that terrorism financing and VAT fraud are very complex, they are very secretive, they are very difficult to investigate and to understand. Some people might try to see it in a simplified way that, well, okay, VAT fraud is making billions, the terrorists need billions to exist and to survive, so there must be a connection here and so all of this money is somehow going into terrorism financing.

We believe that is not the case. And why do we do that? We base ourselves on the work of our colleagues investigating terrorism financing and our colleagues investigating VAT fraud.

So based on the work of our colleagues on terrorism financing, we know already, because of several investigations over the recent years, what the major sources of terrorism financing are. And thinking about only the illegal ones, because the legal ones are not of interest for this exercise, the main sources by order of importance would be: drug trafficking, kidnapping for ransom, extortion or revolutionary taxes, depending on how you would like to call it, and smuggling activities, and then we have a different category where we would include frauds – all frauds – theft and petty crimes.

So VAT fraud would be included by us in this second category in terms of funds and it is all together with all the other frauds that terrorists commit against banks, against social welfare, against insurance companies, and so for us it is there, of course, but it is not that high in the table.

Why? Because, as I told you, of the colleagues who work on the VAT fraud investigations. These groups have been identified. Some of the major groups, I would say the highest level type of groups, have been around doing this for more than 10 years, so it is normal that some of the companies will repeat themselves in some of these investigations, as was mentioned here today.

We know who those groups are. They are basically Franco-Israeli groups and British Pakistani groups. The top leadership of these groups operates from outside the EU, so they are very hard to get, very hard to reach and they have been doing this for a long time, they know how to do it. They continuously change the different commodity that they are using for the VAT fraud. They continuously change the companies that they use, the bank accounts that they use. Sometimes they even use the same network, they just use a different missing trader, which is actually where the countries will focus; so instead of having the missing trader – the one not paying the taxes – in Spain they put it in France, they put it in Belgium.

These groups have been around for a while, they have been investigated. We know that these high level groups, which we consider to be only 2% of the groups, take about 80% of all the criminal profits. So this is where we need to focus our attention.

They started in the food sector, like we heard. They went to the metal sector, then they went to mobile phones, then they went to electronic items, to vehicles, and then they discovered the energy sector and they realised that it was much, much easier for them because they don't need to send any products anymore.

They started by sending in the products. After a couple of years some of them would just send containers full of rocks, just to justify the invoices and the payments, but once they discovered services it became so much easier because nothing needs to be sent through borders; they just need to send the invoices and to make the payments, and this is why the carbon credit fraud that was mentioned here today was the biggest fraud of that year, with an estimated value of EUR 6 billion that time alone.

Now they have a new product. They discovered a Voice over Internet Protocol (VoIP) type of communication and they are investing and abusing the VAT on the VoIP communications.

These are highly professional criminal groups. They need a very profound technical expertise and network of contacts, and these criminal talents are very hard to find. So of course it is possible, we would say, that some Islamic extremists might be connected to these groups, but our estimation is that their number would always be low.

If we think also about the hierarchy of these groups: we have the leadership, the ones who get most of the profits, who have the idea, who have the contacts, who have the knowledge, who have the initial money to make the first funding. Then we have the ones we would call the managers – the ones that would get all the other people to work and who coordinate them. Then we would have the mid-level, which are the people who are fronting the companies being used for the VAT fraud, and then we have the lower level people who will sell their IDs and sign documents only to make sure that they will be used as front men.

In the cases that we know about, the connections with terrorism financing have existed only at this mid-level – meaning the persons in front of companies – and at the lower level – meaning the persons selling documents, signing papers, usually in exchange for a one-time payment, because most of them will then become foreign fighters so it is just about getting as much money as they can before leaving. And the other ones, also the ones in the mid-level, the ones who would be, let's say, leaders of companies, these people only receive a small percentage of the money that actually goes through that company, so not from the entire fraud ring. That only goes for the leaders and for the managers.

So we estimate that they would be receiving something in the order of 2% to 10%. This is what the managers of these companies are receiving. So because of this small number of cases that we know about and because of what we know of these structures, our idea is that only a small fraction of the VAT fraud is actually being delivered for the purposes of terrorism financing.

To end: is this something that we should not be concerned about then because this is a small number, a small fraction? Well, I don't think so. I think we should be worried and it is important that we are here today, and this is for two very simple reasons, and one of them has already been explained by you. One of them is that, in fact, these attacks are very cheap. That is why they only need to use 10% of their profits to make sure that they commit the attacks on the EU.

Seventy-five percent – these were the studies mentioned by you – 75% of all the attacks on EU soil cost less than EUR 10 000. One of the last attacks for instance, the one that took place on the Thalys, we estimated to have a cost of EUR 600. Some of the current attacks with knives and with trucks running over people, what is the cost of these? It is very small. If we look at the prices of some of the weapons, for instance, that we know are used, coming in from the former Yugoslavia where an AK47 costs around EUR 400, a grenade costs around EUR 50, a handgun costs around EUR 150, we can see how dangerous this is.

The second reason is, of course, just a pure mathematical reason, because even a small percentage of something very big like EUR 60 billion is a very big number. So 0.5%, for instance, of EUR 60 billion is the equivalent of EUR 300 million. So this is something that I believe we should keep in mind.

We have come a long way since 9/11 in terms of the fight against terrorism financing but there is still a lot, I believe, that needs to be done because every year we see these billions of euro being taken away from the EU economy and the fact that only a couple of thousand euro are necessary to carry out a large-scale attack.

So the conclusion is, I believe, simple. We need to improve the systems. We need to improve detection because otherwise the risk is just too great.

It is a pleasure to be here today, thank you for inviting Europol. Thank you for bringing us over to discuss this important topic and now I will be glad to respond to any questions that you might have.

1-010-0000

**Chair.** – I give the floor to Marius-Cristian Frunza, director of Schwarzthal Kapital, which is a financial advisory and research company.

Mr Frunza is a genuine expert in the field of international finance and offers advice to banks on financial crime compliance frameworks. His experience will be very useful not only in this regard, but also with respect to determining how the private sector, and banks in particular, can be provided with incentives to support the action taken by regulatory bodies. His recommendations will be very useful to us in our work and are, of course, very welcome.

1-011-0000

**Marius-Cristian Frunza**, *Director, Schwarzthal Kapital, financial advisory and research company.* – I will start by talking about terrorism, but in a different manner. I started investigating, from a more macro perspective, what has been going on with VAT, and also organised crime, since the years of the carbon markets and the fall of the carbon markets. What has really happened – again from a higher perspective – is that there has been a big change in the way terrorism functions, and this happened during the years 2000 to 2010. The turning point was most likely what happened with the Patriot Act in 2003 when, in all banks and across all financial sectors, there was major scrutiny of what was going on with big transfers of money between offshore and onshore and at international level.

This means that the financing of terrorism across the globe has become more complicated than it was 20 years ago, than it was with Lockerbie or 9/11, for example. There are things that require big structural funding with transfers across many countries. What really happened, and what we see, is that we have a new form of terrorism, which I would call uber-terrorism and it entails – to keep the parallel with the new trends in the digital economy – an ‘uberisation’ of the way terrorism works.

What do we understand by uberisation? We understand a decentralised form of functioning, a distributed way of functioning and a low-cost way of functioning. By decentralisation, I mean that you don’t have a hierarchical structure in the way we saw in the early years, in al-Qaeda or in Hezbollah or in terrorism in Ireland, for example. So there are different ways of functioning. How does it work? It works in that uber-terrorism is in fact a network. It is a terrorist network and, we can go further, it is a social terrorist network. So there is no structure: if people, be they from Sweden, Denmark, Belgium or the United Kingdom, find interest in pursuing some action, violent or non-violent, they are going to associate and they are going to deploy, without even being sanctioned by a higher hierarchy. That is the first thing.

How does the financing work? The big change with uber-terrorism is that you no longer need a centralised system: you don’t have people from the Gulf, the big families, sending money to Europe or the United States. What is somewhat different is that people have financing where attacks are planned or in the neighbourhoods where terrorist acts are happening. Uber-terrorism also chooses to work through low-cost forms of terror. We have moved from a high-cost way of operating, as we saw in 9/11, to low-cost operations: the figure for the Paris attacks, with the Bataclan, was around EUR 50 000, for example. That is a major factor.

We also see a change from high severity to low severity, but with high media impact.

The last thing is: how do you finance such things in the country where they are happening? You have various ways: you have tax fraud, benefit fraud, application fraud with banks, cryptocurrency mining, sanction breaching, and so on.

So, in terms of a benchmark of old versus new, we have all kinds of transitions. As an organisation engaged in classic terrorism, I would use the example of the Breton Revolutionary Army; as a new way of organising, the uber-terrorists Isis, deploying in the new way. But what is interesting is that, today, if you were born in Brittany in France, you are more likely to join Isis rather than the Breton Revolutionary Army.

Another big change that has been noticed is that whereas previously, in the classic way, terrorists were looking to commit organised crime and to get involved in narcotics, human trafficking or weapons trafficking, the tendency now is somewhat reversed. There are organised crime groups looking to get in touch with terrorists. This is for the simple reason that law enforcement has been cutting off many of the traditional avenues for organised crime. So criminals, who are in no way linked with terrorists in terms of ideological perspective, want to get in touch with terrorists and to use areas such as Iraq and Syria, where there are some safe harbours for them, with a lesser presence of tax authorities, law enforcement and so on. That is another big change.

Now let's move to the main topic of this hearing, which is VAT. A couple of years ago, I did a study for the European Parliament entitled 'The cost of non-Europe of an incomplete Economic and Monetary Union', and amongst the things that were blocking European integration was the VAT gap. Reducing the VAT gap will lead to better integration.

What does VAT mean today? VAT in the European Union is around 16% to 18% of all taxes collected in the 28 Member States, including the United Kingdom. Obviously the numbers have increased, but it is a form of structural funding in national budgets. When you talk about this, there is the gap and it is obviously in figures of hundreds of billions. The main question is 'Why VAT'? The answer is that is very simple to implement, it can be leveraged very easily. In terrorists' social networks, people are communicating and sharing ideas, and it is very easy to replicate the kinds of things we have seen in Denmark and Spain, to make transfers to other underlying channels, etcetera.

The main question is how much fraud would we expect to see, as a number. That was one of the questions from the panel. If we re-scale what we saw in Sweden, Belgium and Denmark, with the main cases of VAT fraud, and try to express that European level, we get a figure of around EUR 42 million. And that will not include the famous billion with the famous papers from Afghanistan (which, in this model, represents the classic way of funding with huge frauds and huge transfers). So EUR 42 million is funding a new way of operating for the uber-terrorists.

I will turn now to a few of the features. A lot of the people involved in this tax evasion are of North African, Asian or Middle Eastern descent, from places where trade is a tradition: opening businesses, opening shops, etcetera, is something cultural, and it is very easy to take this avenue. It is important, too, because just as terrorism needs recruitment VAT fraud also needs new recruitment: once you open a company and you have been a missing trader you are labelled as a director who cannot take any more action, so you always need new blood, new people to be the 'front men', and recruitment is a key thing. Additionally, in terms of how it works, we see what we call 'boot camps', where people join together and there are transfers of knowledge, transfers of ideas from one market to another and from one country to another.

Most terrorism today, more or less, is religious. In extremist forms of Islam, such as Wahhabism and Salafism, some taxes imposed by governments, such as VAT, are not sanctioned by certain religious extremist leaders, who say that religious taxes should be paid first and what you pay the government is not so crucial. So zakat has the upper hand over VAT.

Last but not least is the relationship with transnational organised crime. There is a merging, or intersection, between VAT fraudsters, terrorists and organised crime. Organised crime is looking for new harbours as a way of avoiding the attention of the police and law enforcement, and terrorism is one of the areas which provide a safe haven.

What can be done? I think there is a real need for a paradigm shift in the way that terrorism, organised crime and financing are investigated. Currently there are a lot of silos. This big puzzle – because that is what it is, with a lot of small pieces – is currently occupying a lot of different agencies. I think that what is needed is to share all the information that we have in intelligence agencies, both private and public: financial intelligence units in banks, law-enforcement agencies obviously, and customs and tax offices that investigate VAT. This is crucial: you cannot investigate VAT on one side, organised crime on the other and terrorism separately again. There needs to be a cross-disciplinary approach.

To conclude, it should be recognised that uber-terrorism is a global threat for everybody. There are always political tensions, but, taking an organisation like Isis: in terms of operational management in the territories concerned, most of them are Russian speaking; the low-ranking soldiers come from North Africa or other places; and the people in charge of financing and finding funds or logistics come from Europe. The point is that, in order to tackle this phenomenon, it is important that agencies from various regions – the United Kingdom, the European Union, the USA and the Russian Federation – should be able to share information in an effective way.

1-012-0000

**Chair.** – I would now like to welcome – and hand over to – my colleague, Mr Ježek, who is Chair of the TAX3 Committee and who will now take over in the chair.

1-013-0000

#### **IN THE CHAIR: PETR JEŽEK**

*Chair of the Special Committee on Financial Crimes,  
Tax Evasion and Tax Avoidance*

1-014-0000

**Chair.** – Thank you, co-Chair. We will open the discussion, as always, with the questions asked in slots of five minutes, a maximum of one minute for the question and the remaining time devoted to the answer. If there is any time remaining within the time frame, a follow-up question can be asked.

1-015-0000

**Luděk Niedermayer (PPE).** – Chair, I would like to thank the speakers for participating in this joint meeting, which was an excellent idea. You are talking about the costs and the problems we are having, and we are focusing on how to eliminate them. This will be the thrust of my question. I don't know if any of you want to comment on the proposed VAT reform and to what extent it would help. Perhaps that would be part of our second hearing today, but if anyone wants to say anything on the subject, and whether they believe the reform will work, I would appreciate it. However, my question basically concentrates on two other important tools that are just being implemented. The first is the beneficial ownership registries that should give better access to information about who is who; and the second is the almost global exchange of information on bank accounts. I wonder to what extent you think these things will help.

The second question is as follows. In the past, cash transactions were very closely related to the financing of crime, but now in the 21st century, with 'uber-terrorists' and all this stuff, I wonder to what extent cash transactions still play an important role and to what extent they are an important risk factor.

1-016-0000

**Pedro Seixas Felício, Head of Unit, Economic and Property Crime, Europol.** – Regarding the reform of the VAT system, I would just remind you that when the current system was created

it was supposed to be a temporary system. It has already been in place for longer than expected, so we welcome these reforms. We fully expect them to come into force and then we will see if they work better. I am sure that they will work better because we have learned from the mistakes of the current system. I would add that we would like to see them come into force as soon as possible.

Regarding beneficial owner registration, this is also a very important step, but once again we will have to see how it works in practice because, of course, the real criminals – the ones who use these companies and these bank accounts – will still use front men and straw men who will still sign as being the beneficial owners of the companies. So they will continue to evade us and to lie to us, and we need to make sure there are strong penalties for this, and that those on the front line – meaning the banks – will ask the right questions and try really to understand who the actual beneficial owner is, as opposed to just the one going in and signing the papers. Once again, we have to give the system time to see how it works.

Regarding global information on bank accounts, I wish this were a reality. We still face the problems of offshores and tax havens which are used in all of these massive frauds and scandals. Those who have the knowledge and the means will continue to use them and continue to evade the surveillance of the EU and the law-enforcement community in Europe, which simply cannot have access to this type of information or, when it does, it will be six or eight months later, and the money will no longer be there, as it will already have gone to another tax haven, and we will then need to ask and wait for another six months, and by then it will be in another one. So the timelines of this are impossible for judicial investigations.

Cash transactions are, of course, a risk factor. Cash is still king for money laundering and for terrorism-financing purposes. The easiest way to transfer money, to move money and to make sure that it is being done in an anonymous way, is still about cash. It's still using cash. We still see loads of bags of cash and suitcases full of cash. We have an issue with the EUR 500 note, which is high value and low volume, so in carry-on luggage up to EUR 4 or 5 million can be taken in just one bag. We constantly see seizures of this kind in airports at the borders of the EU. Cash is hidden inside everything that you can imagine – with bags inside candies, computers, cookie bars, food – and so it is one of the ways that are still being used, mostly by organised crime, but also probably for terrorism financing.

1-017-0000

**Bo Elkjaer**, *Investigative reporter, Danish Broadcasting Corporation (DR)*. – I would just like to add two things about cash. The main character in the Spanish network that I was describing before, the Danish citizen who has now been arrested in Spain as the leader of this group, was arrested at one time carrying EUR 100 000 in cash while traveling to Spain. So yes, cash is of course an issue.

About beneficial ownership networks, I would add that when I was investigating a company set up by a Danish Syrian foreign fighter, as director, all the paperwork was pointing back to him and it was just by coincidence that one of the payment cheques for the rent of the shop that had been set up in his name was linked to a bank account owned by a person whom we now know to be central in this fraud. The only link to him was one simple transfer of one month's rent. The beneficial ownership databases will be helpful but will certainly not give full disclosure.

1-018-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. – Chair, I would like to respond in my mother tongue, given the technical level of the discussion.

On the first question, on beneficial ownership registers, I would like to see the linking-up of those registers being expedited. Financial crime and terrorist financing travel far beyond the

national borders of each individual state, and the results of any investigations conducted may be minimised without that link-up. I would like to see each Member State having implemented the Fourth Anti-Money Laundering Directive, which provides for the establishment of this beneficial ownership register. I have to say that Romania is not at the stage of having implemented the Fourth Directive, and we prosecutors and investigators are still without that long-awaited register. I hope that by this autumn at the latest, we will be able to access that register and obtain information on beneficiaries immediately.

In terms of global information exchange, we need to consider each country's procedural systems. We must bear in mind that the tools public prosecutors have at their disposal are generally not the same as those of the financial intelligence units, and it might be worthwhile harmonising those instruments.

1-020-0000

**Chair.** – Thank you very much. We shouldn't put too many questions to too many guest speakers, otherwise we simply won't make it within the timeframe.

1-021-0000

**Jeppe Kofod (S&D).** – Chair, I have two questions for our panel and I shall be brief. First of all, a question to Bo Elkjaer, a fellow Dane. In the written answer, you state that cooperation between tax authorities, financial police, the regular police and intelligence services is hampered by bureaucracy, and I understand that in Denmark there is now an interdepartmental group set up to sort out these kinds of things. Can you give some practical examples of how you identified this bureaucracy that leads to inefficiency?

And maybe the same question in respect of Europol. We have had the discussion now, and, with regard to Europol and national police, what type of platform could we set up or strengthen? We have something in Europol I know, but could it be strengthened in order to exchange information and access information very easily at European level, given that many of these cases are in several countries, necessitating a platform that is efficient and non-bureaucratic? These are my two questions.

1-022-0000

**Bo Elkjaer, Investigative reporter, Danish Broadcasting Corporation (DR).** – In the case that I was describing with this Spanish-Danish network, the VAT fraud started in 2011. That is an important time point. The group of Danish jihadists that travelled to Mali and radicalised this cell had been monitored by the Danish intelligence services since 2006. They travelled to Spain in 2008 and the fraud started in 2011. In 2014, the Spanish authorities reached out to the Danish authorities to get information on these people. The first awareness of the fraud in Denmark, outside of the intelligence services, was from the Danish financial police. They had been aware of the fraud since June 2013, and it was the police which investigated this kind of fraud. They had information on one of the essential companies in January 2014.

The Spanish group was arrested in May 2014, the Guardia Civil reached out to the Danish authorities in June 2014, and in February 2015 they were told to send a formal request for information. In March 2015, the economic police reached out and informed the intelligence services about this fraud, but at that time they did not know that police intelligence had been aware of the group since 2006.

Later in 2015, the group was reported to the police by the Danish tax authorities, who wanted the police to start an investigation into this fraud. The regular police reached out to the intelligence services, asking for information on this group but never received any information from them.

This is just an example of how bureaucracy hampered this investigation and could have been stopped had the police intelligence services shared their information way earlier in this process.

The fraud itself continued until something like 2016 before the network of Spanish-Danish companies was dissolved and some of the leading characters were arrested – including the guy I talked about before, travelling with the EUR 100 000 in cash, who was arrested last year in Spain. So this is just an example of how bureaucracy slowed down an investigation.

1-023-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol*. – Bureaucracy, silos, lack of cooperation, yes, I think these are indeed the areas that we need to focus on because they are areas for improvement. Starting with the first one, the financial intelligence units (FIUs) in Europol. Indeed we already have a project, as you are aware, that we call FIU net embedding. So the FIU net was a network connecting the FIUs in the 28 Member States. They have their own network and worked within that, so we started this project of embedding the network, i.e. bringing it inside Europol so that, at the higher level of Europol, we could finally make what we call diagonal cross-checks. These are cross-checks between information coming in from the FIU of one Member State and that, for instance, from the police of another Member State, because this information would never otherwise be cross-checked and certain hits would never be discovered.

We have started that but, to be honest, we are still a long way from the situation of actually having the information that all 28 FIUs have retrieved – that is, international information, of course, because we have no interest in national-to-national information – and being able to cross-check information coming in from the police of the 28 Member States. This would be really important. It would allow us to detect many cases, not only of VAT fraud but of every type of economic and financial crime, at a much earlier stage.

But this has been a difficult process. There are a lot of difficulties – technical and also political difficulties – so we need to invest more in having something like this in Europol and making sure that all the information we currently have scattered in all these different services can actually be put to use, be centralised and be analysed in a single place.

Regarding VAT fraud, police and tax services need to work together. The current system we have is not one of the best. Because of the rules of tax secrecy, what happens is that police can be informed of a lot of the suspicions going around about major VAT fraudsters only at a very late stage. Sometimes it is only after years of tax services' investigating that they say 'Oh yes, now we think there are grounds for criminal suspicion' and only then can the police be informed and, of course, only then can Europol be informed. So this needs to change.

We have good examples in some of the Member States – they call them the 'Cobra' teams – of joint teams of police and tax services in which there is no such thing as tax secrecy. So one of the things we advocate is the existence in each of the Member States of specialised units for investigating and preventing VAT fraud: that would include police and tax services, and I believe we would also need special prosecutors and judges because these areas are very technical and very difficult to handle for someone who is not an expert.

1-024-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. – When it comes to the bureaucratisation of the channels through which information potentially of use in the investigative process could or should reach the judges, we have a system that works – FIU.net. It is a pro-active system, an internal system that circulates financial information with investigative potential very rapidly. That information can reach investigators – and here I am referring strictly to prosecutors and the police – very swiftly and much more quickly than information received through applications for international judicial assistance and letters rogatory. It is well known that applications for international judicial assistance and letters

rogatory take a relatively long time to satisfy owing to objective factors outside the control of the investigator wishing to obtain information.

But we have one problem, which is that the information we obtain quickly, through the FIU.net platform, through the financial intelligence units, cannot be used as evidence. That is why we need to obtain that evidence by way of applications for international judicial assistance or letters rogatory. It is a problem for us. Even if the financial intelligence units provide us with that information very swiftly and we can use it in our work, we cannot use it in court. It cannot be produced and presented as evidence before a judge. We therefore have to resort to using international judicial cooperation instruments, and these, as I have said, are long-winded.

1-025-0000

**Ana Gomes (S&D).** – Chair, let me ask the panel members one thing, if any of them would like to answer. Considering the incredible amount of money involved – as Mr Seixas Felício said, VAT fraud is worth something like as much the EU budget, and we are handing that to the criminals and terrorists – why haven't European governments passed the Commission's proposed reform of VAT, which has been on the table for more than a year?

Why are some European governments resisting? Is it conceivable that there could be 'capture' of some European governments, or people in government, that is actually preventing this, because, of course, if we are dealing with criminal networks so powerful and so rich, anything is possible?

How are we to explain this resistance on the part of Member States to closing the gap that enables the criminals, including the terrorists? Governments engage in all this security-driven rhetoric and then do not act on closing a gap that could be really crucial.

Then I have a question about cash. As you pointed out, Mr Seixas Felício, cash is still a very important element, so what is the progress? I mean, the EUR 500 note was supposed to be prohibited but we know that some Member States still print much more cash than other Member States combined. For instance, I directed that question to the Prime Minister of Luxembourg when he came here because that is the case of Luxembourg, but it's not the only case, of course. So how is this functioning?

And then, could you elaborate, please, on the role of cryptocurrencies? Mr Frunza, you talked about cryptocurrencies. We see several Member States which happen to be offshore – for instance, Malta, but not only Malta – actually going into cryptocurrency and styling themselves as hubs for cryptocurrency businesses. So what does this mean?

1-026-0000

**Chair.** – Any volunteer for the first question? We don't have much time, so we can go to the second one, on cash, if there is no volunteer.

1-027-0000

**Marius-Cristian Frunza, Director, Schwarzthal Kapital, financial advisory and research company.** – On crypto ...

1-028-0000

**Chair.** – We will come to cryptocurrencies. I thought that the second question ...

1-029-0000

**Marius-Cristian Frunza, Director, Schwarzthal Kapital, financial advisory and research company.** – I want to answer the question on cryptocurrencies as it was specifically addressed to me. As you know, cryptocurrency is a subclass of a bigger class which is called digital currencies. Digital currencies have been around since the 1990s. In the early 1990s every platform except for PayPal was shut down on account of money laundering. A lot of people talk about crypto, but they don't really know what it is.

We have 1 500 cryptocurrencies going around the world right now. We have up to 249 nations, fewer than 249 currencies – in Europe, for instance, you have only four or five currencies – but we have 1 500 cryptocurrencies.

One might ask why do we need so many currencies? What do people do with so many cryptos? The allegation that there are criminals doing this is beyond debate. Why terrorists go there is because, with what we call the ‘mining’ process, you can generate profits from being joined into a cryptocurrency system. Everybody can generate money, including as a physical person: you don’t need to be registered as a company in Europe to mine cryptocurrencies. Exceptions may be Malta and the Baltic countries, but otherwise you can do it on your own computer.

If somebody asks where the money comes from, where are the proceeds, you can say that you are mining crypto: mining euros or mining bitcoins, etcetera. This is the first thing, that it is a source of revenue. The second thing is that you can move money everywhere in the world outside of the banking system. It’s not controlled, and the cost of going from crypto to cash – by cash I mean notes – is around 9%. It was 9% in 2014. But right now a lot of people accept crypto for services. So you can do the arithmetic and see what it really means.

1-030-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol*. – Things change very fast. If this was in 2014 when I joined Europol, I would say that this would be just an invention, that there would be nothing on cryptocurrencies, but the fact is, things change fast and people evolve, terrorists too of course, and so there have been a couple of cases of crowdfunding platforms over the internet that have been detected as being associated with Islamic extremists, where they, of course, require the funds to be sent via cryptocurrencies. One or two cases, three or four maybe.

There is no absolute certainty that this was not a fraud, and that this money was not being taken to be used for different purposes, but the fact is, they were advertising it and there are some indications that some of these funds might have been obtained through this.

In other cases of some hidden forums over the internet, it was detected that terrorists would give training or manuals between themselves on how to use them, how to buy and sell them, what are the advantages, and so they do have some kind of interest in this and they are getting the knowledge. It is only just starting, so we don’t see this as a current big threat but they are starting, and they are dedicating some time to this.

We also know, because as was mentioned, it is very easy to transport them over borders – they are in your phone, your laptop; you just go anywhere in the world and you can buy and sell them, basically, if you have a connection to the internet – that some of the foreign fighters also used this means to transport money from Europe to the regions of conflict when they were going to those regions.

This is a very small thing, but it is something we need to keep a very close eye on because it was also, for instance, something new in terms of organised crime. We saw, of course, that all the criminals selling drugs and so on over the dark net had already been using this for years, and we would never see this as going mainstream, let us say for the Colombian cartels for instance, but we detected that last year.

For the first time last year we detected a couple of cases where some of the major Colombian cartels are using cryptocurrencies extensively to make sure that they balance, meaning that they are able to take away the value that they have in Europe from the sale of drugs directly to Colombia and to other countries in South America. They have lost the fear of these new

technologies; they have the knowledge and it was very fast, and from one year to another we saw a huge increase. So this can happen also in the area of terrorism.

1-031-0000

**Chair.** – That is interesting. Would you like to answer the second question on cash?

1-032-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol.* – I don't want to talk too much, but cash is one of my favourite topics. Unfortunately, I would say that little has changed since the decision by the ECB to end the production of the EUR 500 note by the end of this year. They will uphold this decision, as far as we know, but the thing is that this note will continue as legal tender for at least another 20 years. So this has changed nothing in practice.

We have seen that, in some cases, criminals – because, I think, they misunderstood the message – were trying to get rid of these notes and so a great many of them went to banks to exchange these notes. It was a good opportunity and we managed to identify some of them. Others, who understood the message, have been doing the opposite. They are buying the notes and paying over their face value – up to 15% more – because they know that it's still a good investment for them. They can stash these notes and transport them very easily because they are high value and low volume. So little has changed. Cash is still the main way for criminals to transport funds all over Europe and the world.

1-033-0000

**Caroline Nagtegaal (ALDE).** – I have a few questions related to my work, including on cybercrime and third-country aspects. I will start with a question for Europol.

How have the priorities, and also the investigation tools, changed in the past few years to face the development of cybercrime and new virtual money-laundering techniques? And, possibly in relation to that question, do you feel that the new steps being taken by the Commission – for example, the revision of the Anti-Money-Laundering Directive and the new proposal on VAT – are going in the right direction?

I have a last short question, which is more general. Is our bilateral agreement with Norway, which I think was approved in February by the Council, going to be useful in reducing VAT fraud, and could the same approach be used with other third countries? If you say yes, then of course my question is: which countries should we focus on?

1-034-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol.* – I believe that Europol has done a lot in terms of facing this cybercrime threat, and specifically also in the field of virtual currencies.

We have established the Cybercrime Centre at Europol. This is a stand-alone centre with a staffing that is quite considerable. Centres would each have around 140-180 staff, and I think the Cybercrime Centre is toward the upper end of that staffing level. Of course, if they could have more staff that would also be a positive for them.

One of the main tasks in the Cybercrime Centre is to devote study and attention to the world of virtual currencies. They have hired some of the best experts from law enforcement within Europe, and they have provided training for me and for my team, which I consider very valuable. Of course, they go to the Member States, they try to explain what is going on in terms of the trends, and they have prepared a set of manuals which are, I would say, the reference not only for Europe, but for law enforcement all over the world in terms of how to investigate virtual currencies, what can be done, what are the relevant contacts. We are constantly in contact with the private sector, of course, which is very important in the area of economic and financial crime and also in this area of virtual currencies.

I believe that, at least at Europol level, we are prepared. Are the Member States prepared? That is something that will take a little more time, but we are trying to make sure that we can all be prepared for this – because it is coming, we just don't know exactly when.

The proposals and the changes within the directive were very welcome because we considered, as you did, that virtual-currency exchanges should be obliged entities. They operate as banking entities. They are the ones in the front line of this new field, in contact with the customers, so they have a responsibility to identify them, to make sure they know who they are, and to report any kind of suspicious transactions, just like a normal bank.

We very much welcome this. It will give us access to new sources of information that are fundamentally important to our work. Everything on the blockchain is public, but then we just have a number, which is an address, so we need to know the person behind the number, we need to have the information from these private entities.

The agreement with Norway? Yes, I believe it will bring us extended cooperation because it allows us to exchange not only strategic but also personal data. It allows us to be in direct contact, to invite them to operational meetings. Would we need this with other third countries? Yes, of course, but since the new regulation came out this is no longer in the hands of Europol. This has to be decided here, and I am not the person most qualified person to discuss that topic.

1-035-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. – I should like to sound a wake-up call with regard to cryptocurrencies – if indeed one is needed. Virtual currency trading platforms may well be the answer to every human being's wishes – depending, of course, on their level of education and civilisation – as they allow you to make a lot of money very quickly. A great many people long for such chances to 'get rich quick'.

For us as investigators, however, this online cryptocurrency trading platform is in general a major problem. It creates numerous problems for investigators in relation, firstly, to the identity of the person making the transaction and the identity of the person benefiting from the transaction. I quite convinced, in this respect, that investigators both inside and outside Europe would welcome a provision, or a 5th Directive, which allows for the possibility of monitoring transactions made through virtual currency trading platforms.

Moreover, in the Romanian system, the National Bank of Romania has regularly sounded alarms, and said '*careful – this is not a means of payment!*' However, while this is a national level body and we are talking about a national policy, one cannot of course stop traders playing the markets, as this is a private sector affair and depends on the interests and wishes of individuals.

1-036-0000

**Mario Borghezio (ENF)**. – Mr Chair, obviously I am grateful to the rapporteurs.

First of all: in the opinion of our experts, is there not one truly significant contributory factor – apart, of course, from criminality – in the very low rate of detection of terrorism financing cases involving the use of VAT fraud and, more generally, tax fraud and irregularities, and that is that, compared with the scale of the trafficking involved, there are so few reports coming from the banking system?

What suggestions can they give to help us ensure that the weighty responsibility which has to be imposed in this matter will be discharged more scrupulously? After all, we have the example

of fighting mafia-type organised crime, which leading investigators and eminent judges have emphasised so strongly: therein should lie a lesson which must finally be learned.

Secondly: do you not think that another reason is to be sought in the exemption from VAT in a first importing country when goods are intended for another country? Do you not consider that to be another gaping loophole which makes VAT speculation possible?

And I shall end by saying that the cases which have been described are very interesting. The investigations in Denmark and other Nordic countries invariably show one thing – and it applies to Italy as well – namely that the vital inquiries start with the discovery of VAT evasion and lead back to suspect individuals such as the jihadists operating in Melilla.

Should not the investigating authority be asked to start its inquiries at the beginning, in other words by checking on the movements of persons who leave their operating areas and then come to Europe, though certainly not to attend prayers at mosques?

1-037-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. In answer to the first question, about what can be rather wobbly surveillance in the financial system, I would say that we all know that information of a financial nature on the financing of terrorism comes from the financial system. In fact the financial system has to be – excuse the analogy – ‘right on the money’ and aware why it is it must report suspicious transactions when they take place and not three years from the date a suspicious transaction is made. Because if they report that suspicious transaction relating to the financing of terrorism to me, as an investigator, three years later, I can no longer do anything about it. As such, and here I am only speaking for myself, as an investigator, without involving my personal responsibility, I believe that the system of penalties applicable to banks for not reporting suspicious transactions immediately should be applied in every state.

Now I also believe that consideration should be given to ensuring that the person applying the penalty for tardy reporting of a suspicious transaction being a fully autonomous and totally independent person. I speak in a personal capacity. I do not believe that the possibility to imposing penalties on banks needs to be decided at managerial board level but rather at a central level. It is a personal opinion. I am fully convinced that a bank inspector enjoying complete autonomy can assess independently why penalties should be applied to banks which are late in reporting suspicious transactions, and this, I believe, should not be done by a managerial board, be it randomly constituted or not, on the basis of given criteria or otherwise.

1-038-0000

**Bo Elkjaer**, *Investigative reporter, Danish Broadcasting Corporation (DR)*. – When I started investigating VAT fraud through the Danish carbon register, I was working with a colleague – I was at the newspaper the Ekstra Bladet at the time – and what we found out was that it was a bulk registry of people who were involved in different illicit transactions in the system. Only a very small number of these accounts were legitimate. As I said, it was reduced from 1 256 accounts to 36 accounts, so the largest bulk of it was in it for the fund money.

When we looked into these groups, we found the Franco-Israeli groups that you mentioned, we found the UK-Pakistani groups, the Italian mafia and Eastern European crime gangs. We found networks from Hong Kong and China, we found biker gangs, and besides that all sorts of enthusiastic do-it-yourselfers. So you cannot isolate this sort of criminal activity to one particular group. It is a transnational, trans-religious and trans-political enterprise.

1-039-0000

*Catch-the-eye procedure*

1-040-0000

**Caterina Chinnici (S&D).** – Mr Chair, I should like to thank our guests for giving such a detailed and complete presentation of the problem of terrorist financing through VAT fraud and through links with organised crime or criminal organisations.

So many questions have been asked, but there is one subject to which I should like briefly to return. It is true that this cannot be quantified, but I would like to ask how much influence organised crime has on terrorism financing. The answer, as far as I have understood it, is a very great deal, for there is a significant connection between illicit activities, including those of a more traditional nature, and terrorism financing.

So do we now have the means necessary to fight the criminal organisations carrying out transnational illegal activities, not least for terrorist ends? How can we improve the legislation? To my mind, there needs to be progress in that direction.

In addition, regarding what has been said, for instance about the activities of FIUs and linking up to lend real weight to, and intensify, cooperation and the exchange of information, which is vital in order to counteract terrorism financing, I should like to ask our guests what they think about the proposal for a directive submitted by the European Commission on 17 April, given that it contains provisions facilitating the use of financial or other information for the prevention, detection, investigation, and prosecution of certain offences. It seems to me that this directive might afford useful means to step up action against terrorism financing and, above all, encourage exchanges of information and cooperation among FIUs as well as among police forces.

1-041-0000

**Pedro Seixas Felício, Head of Unit, Economic and Property Crime, Europol.** – We have noticed a few changes here too. Historically, it was usually said that there was a huge separation between organised crime and terrorism, because one was about making money, and the other was about changing the political establishment; one wanted publicity, the other wanted to lay low and continue to work in the underworld.

This perception has changed somewhat, especially with the phenomenon of foreign fighters. We see that a lot of these people already have a previous history in terms of connection with crime, sometimes petty crime, sometimes organised crime. However, I would say that the biggest links we see between terrorist organisations and organised crime are precisely the ones we are discussing here today: in the economic and the financial world. Because in this world, everything is connected. The funds don't care whether it's a terrorist organisation or an organised crime group – and the illegal economy, the black economy, connects these two areas very clearly. So when we focus on investigating financial and economic crime, we end up detecting organised crime groups, as has been mentioned, and we also end up detecting terrorist organisations.

Terrorist organisations will work in Europe to launder the profits of large-scale drug trafficking. They will make sure that they collect these profits, they will launder them through various jurisdictions, and they will send them back to Central America, because they will keep a percentage. We have seen this. So when we look at the financial and economic world there is no distinction, or at least no clear distinction, between organised crime and terrorist organisations. It's all a black economy and these actors move freely because they both need the money – the terrorist organisations in order to survive, and the organised crime groups because money is their objective.

1-042-0000

**Chair.** – Would you like to speak about the first still, or on the second on FIUs?

1-043-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. – As a public prosecutor, I can state that the financial information that comes from FIUs is of enormous value. It is a well-known and evident fact that the financial system is reluctant to provide financial information directly to law enforcement authorities. It is precisely for this reason that the financial intelligence units were set up. As prosecutors, we welcome the existence of these financial intelligence units. They are strictly essential to our investigative work, and if we as investigators can use the information obtained from FIUs rather than obtaining it directly ourselves, it makes us more than happy, and this is more than a good result.

Let me stress that not all financial intelligence units have the same profile. Some are part of administrations. Others are hybrid. Others are part of a law enforcement agencies system. In Romania, at present, the financial intelligence unit is an administration. We would like to convert into a hybrid authority because, as prosecutors, we need information from financial analysts and we do not need strategies. We must bear in mind that some FIUs only deliver strategies and not financial analyses. It would be good – and I am speaking strictly in a personal capacity as a public prosecutor – for all FIUs to have the instrument, the possibility, of conducting financial analysis and delivering them to prosecutors in good time.

1-044-0000

**Chair.** – On the draft directive, or on the FIU still?

1-045-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol*. – On the FIU still, I believe also that there is still a long road that we need to travel. We started with this FIU.net embedment in Europol, but I believe we need to evolve this to something better and more effective. We need to have the resources and the staff to do so, but the idea of Europol is to embed the establishment of what we call a UFIU, so an area where we could have not only the capacity of having all this information coming in from the FIUs and cross-checking it with the data coming in from the police, but we could actually have other tools as we have been advertising, for instance the European Terrorist Finance Tracking System, so a similar system to the TFTP Agreement that we have with the US but to operate within the area of the EU.

And within the framework of this UFIU we could also establish this public and private partnership with some of the major banks within Europe to make sure that we could exchange intelligence in a more trustworthy environment, so a kind of copy of this JMLIT Initiative that is currently taking place in the UK.

So for this we would need resources and staff, of course, but I believe that this is the way to make it more operational, to make sure it exchanges more operational data, faster, more effectively, and with all these new techniques.

1-046-0000

**Chair.** – We couldn't agree more here in Parliament. In our previous committee on the Panama Papers, in the final report we called on the Member States to reinforce financial intelligence units in terms of financial resources and personnel. We also called for a certain degree of harmonisation in respect of FIUs within the EU.

On the third question, on the draft directive on using financial information to fight certain forms of crime, is there any comment?

No? Not really? OK.

1-047-0000

**Ana Gomes (S&D)**. – Regarding abolishing bearer shares, maybe Mr Seixas Felício could speak about whether decisions that have been taken, for instance by the Government of

Portugal, are having an impact. I know this could have an impact in countries like Romania. And I would like to ask Ms Hach what she thinks about the Fifth Anti-Money-Laundering Directive, in which we managed to insert the need to register for beneficial loans for companies in the EU. Unfortunately the provision does not apply to those from outside the EU who do business with the EU, because the Council refused. But still, do you think this would be helpful?

1-048-0000

**Pedro Seixas Felício**, *Head of Unit, Economic and Property Crime, Europol*. – Bearer shares have historically been one of the methods used by criminals to hide the ownership of companies. We saw so many during the Panama Papers scandal, and we received so much data, that actually I thought the situation would be better by now. There has been an international movement to ban bearer shares from most countries, but unfortunately what we noticed during the Panama Papers scandal was that many countries still accept them. This is, of course, an easy way for criminals to hide.

What is the purpose of having registration of the beneficial ownership of companies if people can then just sell these companies on the basis of possession of a piece of paper, and their name is not registered anywhere? We are simply closing a door and leaving a window open. So we need to push for this no longer to happen, at least in the EU.

I would, of course, like to see such a step extended all over the world, especially in the areas of offshores and tax havens, which, I would emphasise, represent some of the biggest loopholes we encounter in our current financial investigations, but I understand that this is not possible.

However, at least if we can do this, and make sure that we end the possibility of having this type of share, it would be something very positive.

1-049-0000

**Elena Hach**, *Representative of the Romanian Attorney General's Office on the Board of the National Office for the Prevention and Combating of Money Laundering (FIAU)*. – As I judge I must speak sincerely, as I always do. While I am here today representing Romania, I am also a Romanian judge and must say I am disappointed to see Romania lagging far behind at the moment. It is not just about a lack of fair play, but is a matter of openness and sincerity from me, as a Romanian judge speaking to you today. Romania has yet to implement the 4<sup>th</sup> Directive, and for us as prosecutors the lack of a beneficial owner register in Romania is a real problem when investigating. Romania is bottom of the class and all that we are saying is 'yes, we openly welcome the 5<sup>th</sup> Directive' – but we have not yet implemented the 4<sup>th</sup> Directive. From my standpoint as a prosecutor, an investigator, I am firmly convinced that the 5<sup>th</sup> Directive will be more than beneficial for investigations, but also, more particularly, Romania must first implement the 4<sup>th</sup> Directive and then prepare for and implement the 5<sup>th</sup> Directive.

1-050-0000

**Neena Gill (S&D)**. – Chair, my apologies that I missed the presentations earlier. I was voting in another committee, so I hope I'm not repeating something that has already been covered.

I think carousel VAT fraud is still a major problem in many countries, and I know that it is especially so in the UK. What I would like to know is to what extent which countries have got the right model to address it and have been able to stop it.

My second point is that, whilst there is a lot of focus on bigger companies, and banks are able to focus on suspect payments and so on, there is another area on which I do not know if any work has been done: that of nationals who are overseas citizens but living within the EU. I know that in the UK it is the case that they have residence rights there, but every time they leave they are able to exploit the VAT system. I don't know if any mechanism has been put in place to address that kind of abuse.

My third point is to ask the panel how they feel the new technologies of blockchain and AI could be used in terms of tackling fraud. Has there been much work done on this, especially in terms of addressing terrorist finance? And do you think that the sanctions imposed on financial institutions are a deterrent? Are they enough?

1-051-0000

**Chair.** – The first two questions we will also discuss in the second panel. We have talked already about virtual currencies, or cryptocurrencies, but can anyone try to answer or go over that again in a more general sense?

1-052-0000

**Marius-Cristian Frunza**, *Director, Schwarzthal Kapital, financial advisory and research company.* – The question was about the use of blockchain and artificial intelligence, and when Dubai launched VAT this year they said they were going to use blockchain technology to facilitate the control and payment of VAT.

In an ideal world, when you have digital products, blockchain can be a solution. That is beyond doubt because you can track the ownership and the entire supply chain of a product – of digital products, which are immaterial. But when you have a container full of mobile phones it becomes rather more complicated. Every time you move into the physical, and when you move into perishable goods, like food or beverages, it becomes more complicated. From a theoretical point of view, blockchain can be used, but there are certain natural limits to it. That is the first point.

Secondly, artificial intelligence: obviously it is already being used. In the United Kingdom, for instance, Her Majesty's Revenue and Customs has a big-data and machine-learning division for investigating all kinds of tax evasion. So, to answer the question, something at least is going on in Great Britain and, I think, in other countries of the European Union. The thing is, artificial intelligence will give you certain trends or images, but it will be very difficult for it to give you the precise details of what a specific person is doing: you will not get all the answers to everything. Some people in the banking industry are selling the concept that data mining and artificial intelligence can solve financial crime. My personal opinion is that they are wrong. I think fieldwork and field investigation are more necessary today than previously in history.

And on the first question: can tax fraud be avoided? Yes, if we eliminate VAT, as in the USA. If you have no VAT, you have no fraud, so that is the easy way.

1-053-0000

*(End of catch-the-eye procedure)*

**Chair.** – I would like to thank all the guest speakers for their presence and for their answers and introductory statements. We have not only got a very good general overview, but also much detailed information and I am sure we will reflect it in our report, at least as far as the TAX3 Committee is concerned.

I would say, just in a very general manner, that VAT fraud – probably because of the volume of money involved and also because it's probably easier to commit VAT fraud than to rob a bank – of course also attracts terrorists and becomes a significant source of terrorism financing. Therefore, VAT fraud in fact also impacts on the security of our citizens. So in my view, that is the main reason why we should devote even more attention to how to fight it and we will talk about it in the next panel, which will continue for the TAX3 Committee in a minute.

I would now like to pass the floor to my co-Chair, Ms Valenciano.

1-054-0000

**Elena Valenciano (S&D).** – It only remains to thank the guest experts for coming to help us in our work today, and also all the colleagues, who have, as the co-chair has said, provided detailed

information which will be very useful in the work we have to do. Because, in the final analysis, our role is simply to legislate. That is a lot. But to legislate we have to know precisely what the needs are and where the shortcomings lie.

I believe that the Committee on Terrorism, working in conjunction with the TAX3 Committee, can do significant work in pinpointing the areas of legislation that should be supplemented, and in formulating recommendations, which we will of course make together with the experts and with our colleagues in the TAX3 Committee, because it is clear that the financing of terrorism is one of the aspects that we need to combat more effectively.

1-055-0000

*(End of first panel)*

*(The meeting was suspended for a few minutes)*