

Organized Crime and the Financial Crisis

Recent Trends in the Baltic Sea Region



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Institute for Security &
Development Policy

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Edited by

**Walter Kegö, Erik Leijonmarck
and Alexandru Molcean**

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Foreword

Organized crime has become increasingly transnational. Apart from being active in traditional forms of criminal activity such as drug trafficking, criminal groups are now involved in the legal and semi-legal economy running companies, laundering money and evading taxes.

Over the last few years, the world has witnessed a financial crisis with implications that have been compared to those of the Great Depression of the 1930s. Much has been written on the impact of the crisis on economies and on how some countries have been more successful than others in mitigating its negative effects. However, there is a topic that has not been as widely covered – the impact of the financial crisis on organized crime.

The financial crisis has provided both challenges and opportunities for organized crime. Organized crime groups have invested in legal sectors, such as the real estate sector, and have seen those investments decrease in value. On the other hand, as risk capital became a scarce commodity, profits emanating from criminal activities had the potential to cover deficits. This may have opened up new possibilities for organized crime groups to expand into new markets and launder money. It is still too early to tell whether this has, in fact, happened, but what is clear is that the financial crisis has influenced the way in which organized crime conducts business.

The Institute for Security and Development Policy has established an ongoing project that aims to monitor the evolution of organized crime in the Baltic Sea Region. As part of this project, researchers from Russia, Estonia, Latvia, Lithuania, Poland and Sweden have been invited to work out analyses of the current situation regarding organized crime in their respective countries. Our hope is that this book will be beneficial for those interested in the evolution of contemporary organized crime.

We want to thank the SIDA Baltic Sea Unit for funding this project, the Swedish Carnegie Institute for supporting the Swedish chapter, Dr. Konrad Raczkowski, who gave us the idea for this book, and, last but not least, the authors.

Walter Kegö, Erik Leijonmarck and Alexandru Molcean

Introduction

Walter Kegö, Erik Leijonmarck and Alexandru Molcean

From 2008, the countries in the Baltic Sea Region were affected by the global economic crisis. The aim of this book is to present an overall picture of the evolution of organized crime in this region against the background of the economic crisis.

The contributions are written by experts in the fields of criminology and economics. They contain information relevant for the understanding of where organized crime in the Baltic Sea region is today and where it is heading. The authors are solely responsible for the content and conclusions drawn in their chapters.

The Concept of Organized Crime

The concept of organized crime differs among academics, as well as among law enforcement officials, the general public and the media. Some place an emphasis on highly technical and narrow definitions, while others tend to include a broad spectrum of activities in the term. In this book, the various definitions have not been explored; instead, the reader is recommended to think about organized crime as the accumulation of wealth through criminal actions committed in cooperation between several individuals.

The authors have used more specific definitions in their respective contributions, emphasizing different forms of crimes. They have thus achieved different types of results. In the Polish chapter, for instance, Konrad Raczkowski and Gregorz Gołębiowski focus primarily on economic and financial crimes, while in his chapter on Russia Yakov Gilinskiy aims to describe the evolution in overall crime levels. Any comparisons between the different cases should take this into account.

Measurements of Crime Levels

In the Latvian chapter, the author discusses whether the decrease in reported crimes committed is a result of law enforcement agencies operating with

fewer resources. If law enforcement receives less funding, the public might turn away from reporting crime and an actual increase, rather than decrease, in crime levels will be recorded. Assuming that crime levels are to some extent influenced by the effectiveness of law enforcement, the financial crisis may have affected the levels of crime indirectly by decreasing the likelihood of criminals being arrested.

Some authors argue that even if the general level of crime has diminished, the activities of organized crime groups have increased in recent years. The differing approaches and definitions of central terms used by the contributors make comparisons between the case studies difficult. The upside is that each chapter gives a closer description of the development of organized crime than what would have been possible with a more coherently applied methodology and definition.

Organized Crime and the Financial Crisis

The three Baltic states have enjoyed remarkable growth rates in recent years, but have been hit hard by the crisis. In Latvia, GDP dropped by 18 percent and unemployment figures rose from 7 to 22 percent. The devastating effects of the economic crisis led to a decline in the public trust of politicians. Lithuania was also severely affected by the crisis, although it did slightly better than Latvia. Facing a tough situation, Estonia seems to have now overcome the worst effects of the crisis. Estonia has currently been granted access to the euro zone. In Russia, the economy proved to be extremely vulnerable to fluctuations in the world markets. Decreases in commodity prices, chaos on global financial markets as well as Russia's war in the Caucasus had severe implications for Russia's financial markets. Other countries, such as Sweden and Poland, were also affected by the recession, but have managed to limit its effects. It is clear that the economic crisis has severely affected the licit economy. To us, it seems likely that the economic crisis has also had an impact on organized crime and the illicit economy. If this assumption turns out to be true, in what way has organized crime been affected by the crisis? What are the causal mechanisms?

In the literature, a number of scenarios have been presented. Some scholars argue that there is no correlation between the economic recession and crime levels. Others recognize the existence of such a correlation but differ on how the mechanism should be understood.

Richard Rosenfeld, a sociologist at the University of Missouri-St. Louis, argues that “every recession since the late 1950s has been associated with an increase in crime and, in particular, property crime and robbery, which would be most responsive to changes in economic conditions.” “Typically,” he says, “there is a year lag between changes in the economy and change in crime rates.”¹ Growth in household consumption, understood as an increase in overall wealth levels, may have two principal effects on property crime:

- A growth in consumption increases the number and value of goods available for theft. It is argued that crime increases as the number of opportunities to commit crime increases. An economic theory of crime suggests that the increase in the stock of goods in society will tend to increase the incentive to commit crime, otherwise known as the “opportunity effect.”
- Consumption growth indicates increased expectations of lifetime income. The increased expectation of lawful income will reduce the temptation of illegitimate activity. This is referred to as the “motivation effect.”²

Others put unemployment levels at the center of the analysis, arguing that simple linear regression will show a direct relationship between unemployment levels and crime rates. As unemployment levels go up, so will crime levels. According to this theory, there is a negative correlation between crime levels and economic growth.³

On a less abstract level, Europol, in its Organized Crime Threat Assessment (OCTA) for 2009, recognizes that the deteriorating macro economic situation may have relevance for the environment in which organized crime operates. In the 2009 OCTA, Europol suggests a non-exhaustive list of factors that may provide increased opportunities for organized crime.

¹ Christine Hauser and Al Baker, “Keeping Wary Eye on Crime as Economy Sinks,” *The New York Times*, October 9, 2008, <http://www.nytimes.com/2008/10/10/nyregion/10crime.html> (accessed April 6, 2011).

² “Crime and the Economy, Research conducted by the Police Federation of England and Wales” (May 2009), http://www.polfed.org/PR_Crime_and_the_Economy.pdf (accessed April 5, 2011).

³ Mitsuyasu Ishikawa, “A Relations between Economic Conditions and Crime Rate” (Spring 2009), <http://userwww.sfsu.edu/~ishikawa/documents/Economic%20Conditions%20and%20Crime%20Rate.pdf> (accessed April 6, 2011).

The expansion of the black market is one of the most evident consequences of the economic crisis. Markets for counterfeit or smuggled products may broaden, in a possible attempt by operators to maintain levels of consumption or profit in a situation where less purchasing power is available.

The employment of irregular or undeclared labor was also mentioned as a potential consequence of the economic crisis. Increasing pressure to cut costs may in turn engender increasing pressure on companies to employ irregular or undeclared labor. Organized crime groups can benefit from this by providing irregular workers to otherwise legal enterprises or by exploiting such workers more directly in the production of cheaper goods or services. This issue is closely related to the problem of the smuggling of illegal immigrants and human trafficking.

There is also a risk that some entrepreneurs will fall victim to organized crime groups as they are forced to seek funds from criminals or users. From this perspective, the financial crisis has provided criminals with opportunities to infiltrate the legal economy. The risk that some entrepreneurs might be more willing to consider some sort of cooperation with organized crime should not be discounted.

Organized Crime Moves into the Legal Economy

A traditional conception of organized crime is that it uses a legal business as a front for illicit activities and money laundering. Today, organized crime groups are becoming increasingly active in legal business and often operate in the grey zone between illicit and licit markets. In Sweden, for example, organized crime groups, such as motorcycle gangs, supply legal businesses with illegal workers (black labor) and obtain unemployment subsidies from the government. In several contributions to this book, the authors argue that economic crimes are becoming increasingly important for organized crime groups. They are often less likely to get caught committing economic crimes than crimes based on the use of violence, such as armed robberies or extortion of protection money; the risk of being convicted for violent crimes is also higher.

For professional criminals, committing crime is just a means to earn money. Organized crime groups may use excessive violence, enforce a reputation for being dangerous, uphold the logistics of drug trafficking

operations or recruit white-collar workers such as lawyers or economists, as long as the money flows in. From a rational cost-benefit point of view, committing economic crimes may be advantageous for organized criminals if they offer a relative higher profit in comparison to the risk of getting caught. Lawmakers and law enforcement would be wise to pay attention to this calculation when they make penal changes or prioritize police efforts.

Estonia

In their chapter, Mari-Liis Sööt and Liis Lill make the claim that the criminal activity most affected by the financial crisis is economic crime. In Estonia, prior to the crisis, organized crime groups invested in the stock market and in real estate and ran legal businesses. Organized criminals were, just like everyone else, exposed to losses in these markets, as well as faced with solvency problems in firms they ran, as a result of the financial crisis. Unlike legal businesses, however, organized crime groups had the opportunity to replace these losses by shifting their attention to illicit activities such as fraud, tax crimes and trafficking in goods and human beings.

This shift in attention for organized crime groups has manifested itself so far in the state now losing more revenues from VAT fraud than before the crisis, with one fifth of the fuel market said to be in the hands of criminals; the number of bankruptcies has also been suspiciously high (higher than what should have been expected and motivated by the economic recession). This raises the suspicion that some companies with insolvency problems have been bought by criminals, stripped of their assets and filed for bankruptcy, depriving the state of VAT.

These are criminal activities that may be related to the economic crisis. There is also, according to the authors, a strengthened direct link between the economic recession in Estonia and organized crime. The recession has resulted in more people who are vulnerable to becoming victims of organized crime. Even though human trafficking is not a major concern in Estonia, more girls are willing to consider offers from traffickers due to high unemployment. Increased poverty levels may also facilitate recruitment to criminal gangs as the social bonds that would normally make youngsters avoid entering the criminal world, such as well-functioning families, are being weakened.

Without taking the impact of the economic recession into account, the authors argue that a part of the organized crime community in Estonia is currently undergoing an evolution from Soviet-style hierarchical bodies into project-based networks. The networks use an approach similar to that of legal businesses in dividing and outsourcing tasks.

The authors distinguish between groups using a more traditional and violent model of committing crimes – the conservative Russian-speaking model – and those that focus on economic crimes: the progressive western model. Of the two, the latter is more dominant. In general, organized crime today has become less violent.

To counter this development, Estonian law enforcement needs to improve in at least two areas. First, mechanisms for confiscating profits from criminal activities should be enhanced. As it is today, law enforcement needs to provide solid evidence that cash found on criminals really comes from criminal activities. Secondly, to counter economic crimes, a viable option is an administrative approach that restricts entry into certain businesses and increases transparency overall. Here, the work of law enforcement could be facilitated by enforcing a stricter code of business that would prevent unethical business. In addition to these measures, the authors also mention that changes in the legal environment are always an option available to governments, when combating organized crime.

Latvia

A challenge for any study of organized crime is to collect and assess data. For example, crime levels may change over time for any number of reasons. It is usually not easy to understand the causal mechanism, i.e. proving that crime levels increased or decreased because of certain factor(s), is usually very hard to do.

In the Latvian chapter, Andrejs Vilks questions whether the predictions made by some experts that crime levels are increasing along with the aggravation of the financial crisis, have in fact come true. On the one hand, the official figure for registered crimes has decreased since 2008. On the other hand, the large proportion of crimes committed in Latvia not reported to the police might blur this picture. In the author's opinion, the high level of latent crimes is partly explained by the professionalism of the criminals and by the fact that the public fears reporting offences to the police in some

cases. Furthermore, when assessing whether crime levels have increased or decreased, we should not only look at statistical figures but also take the public's subjective feelings of safety and perceived crime levels into account.

The Latvian chapter discusses the growth of the shadow economy in the wake of the financial crisis. As a result of the economic recession many businesses in Latvia faced insolvency problems and moved into the shadow economy using black labor, avoiding taxes, etc. One of the major players in the shadow economy is organized crime groups, who run trafficking of high excise tax goods, such as alcohol, cigarettes and gasoline (as well as drug trafficking).

The demand for these goods exploded when the government raised the VAT and excise taxes drastically during the crisis – a measure that led to a further expansion of the black market. It is estimated that roughly 40 percent of the alcohol and 36 percent of the cigarettes in Latvia are now being bought on the black market. As in Estonia, a large amount of fuel is sold illegally. In Latvia, roughly one third of the total fuel consumption is sold illegally, leading to state losses of an estimated 130 million euro in unpaid taxes every year.

During the economic boom prior to the crisis, many persons left the illicit market and criminal market for the profits that could be made in legal businesses. Now the tide has turned and many of them are returning to the illicit markets to join the ranks of organized crime.

Besides the trafficking of goods with high excise taxes, new areas have opened up for organized crime in Latvia. To mention a few examples: groups now arrange fictitious marriages abroad, engage in illegal gambling halls and run illegal gas stations.

The profits earned are used to bribe civil servants and public officials and to recruit specialists like bankers and lawyers to help improve business. There is a risk that potential targets of bribes are more receptive as the economic recession has forced cuts in the salaries of public officials and more individuals in Latvia are now indebted.

The infiltration of organized crime into politics and the corruption of public officials in Latvia should be seen as a matter of great concern. Former Prime Minister Aigars Kalvītis warned in 2007 that a strong mafia structure existed in Latvia that involved former staff of the security services, the military, politicians and criminals, among others.

Lithuania

In his chapter on Lithuania, Aurelijus Gutauskas highlights the importance of understanding the transnational nature of contemporary organized crime. In this regard, organized crime in Lithuania sits on top of a valuable asset – its favorable geographical location.

Bordering the Kaliningrad region, Belarus, Poland and Latvia, Lithuania is located at a crossroads. This benefits the activities of Lithuanian organized crime groups that can serve as middlemen in the east-west drug trade. Lithuanian groups influence border controls and are heavily involved in drug trafficking and the smuggling of illicit commodities such as alcohol and cigarettes. One profitable business model is to exchange vehicles stolen in Western Europe for drugs coming from Russia. Another is to profit from the transit of women through Lithuania and Poland en route to the sex industry in richer countries such as Germany.

Even if geography seems to be a decisive factor for trafficking routes, it is not always of importance. Recently, Lithuanian customs services have seized large shipments of South American cocaine. These shipments are believed to be intended for the West European and Russian markets but are being transited through Lithuania in an effort to mislead law enforcement.

Apart from drugs, the incentives for illicit trade in tobacco and alcohol are also strong. Cigarettes bought legally in Russia and then exported illegally to the EU give a rate of return of up to almost 1,000 percent. Part of this trade is being carried out by individuals who bring the legally allowed amount of cigarettes over to the border between Poland and Lithuania and then sell them on the black market, instead of having them for personal use. As has been the case in many other countries, the prices of legal cigarettes and alcohol have increased as a result of the higher excise taxes and VAT during the economic crisis. This has led to an increase in trafficking in these goods.

Not only are Lithuanian organized crime groups trafficking illicit goods, drugs and people across the border, they are also laundering money by smuggling cash over the border. The interplay between the smuggling of illicit goods into the EU and the smuggling of profits from this trade out of the EU should be studied more intensively. The question of whether the EU needs to adopt stricter measures to enforce its border controls should be taken into consideration.

Organized crime in Lithuania seems to be undergoing an evolution similar to that taking place in Estonia. Organized crime groups with strong international connections are becoming increasingly specialized and more cell-like in their structure. Intergenerational rivalry for the leadership of many criminal organizations has created tensions within the organized crime community. Violence has increased as some groups are trying to dominate others. These attempts are sometimes successful and results in mergers between smaller and larger groups. The subjugated group is often incorporated and specializes in a certain activity within the bigger organization. In the drug trade, this trend could manifest itself in different subgroups having responsibility for the trafficking, production and logistics of drug trafficking operations.

Poland

In the Polish chapter Konrad Raczkowski and Grzegorz Gołębiowski gives insights into how organized crime in Poland has acted in the area of financial crime. Organized crime is mainly focused on drug trafficking and economic crimes. This chapter focuses on the latter. The authors argue that criminals have learned to avoid using an excessive amount of violence, if they want to make good money. According to the UN world drug report, Poland is ranked as one of the countries with the lowest murder rates. However, several high-ranking officials have fallen prey to murders committed by organized criminal groups. Also, many of the non-violent activities of organized crime will neither be visible to the police nor recorded by the law enforcement. It is therefore insufficient to look only at official crime statistics, when assessing the impact of organized crime on societies.

According to the authors, the Warsaw stock exchange was targeted by a series of insider affairs and frauds. In spite of banks having begun to apply stricter security measures when granting loans, the amount of credit fraud is expected to rise over the next few years. More debtors are believed to have economic problems and organized crime is likely to become more sophisticated in using forged identities and false documents to obtain loans in the future.

The scale of financial crimes, committed by organized crime and others in Poland, seems to be larger than what has been previously envisaged. Since the financial supervision authority has, in fact, tolerated embezzlement and

speculative attacks carried out by banks and institutions before and during the crisis, the upholding of a sound business ethics will prove to be a tough challenge for the Polish financial authorities.

Apart from distorting sound business ethics, the financial crisis undermined confidence in public institutions as well. The financial crisis may have facilitated the corruption of public officials and not only businessmen.

The authors shed light on the different strategies that organized crime groups use to strengthen their resilience towards the impact of law enforcement operations. One way is to create trust funds for members of criminal gangs, who get caught in police actions and sentenced to jail. Organized crime groups now look after their members. This is not a new development. Such measures have been long taken by Russian-speaking organized crime groups; the *Obschak* is such a fund. The authors express worries on the skills of contemporary organized crime in Poland in avoiding interference by law enforcement, resulting in an increase of crimes that are not detected.

Russia

The chapter on Russian criminality is likely to make the reader believe that criminality, especially organized crime, is strongly influenced by national characteristics. Having achieved a high degree of international integration by establishing close cooperation with criminal groups from around the world, particularly from the Baltic Sea region, Russian organized crime keeps its own very distinctive features, an aspect noted once again during the ongoing global financial crisis.

In his contribution, Yakov Gilinskiy offers a definition of organized crime that more or less is based on the Russian situation. Also, in the first part there is a detailed description of the conditions in which criminality have been developing for the last fifty years. Special attention has been given to characteristics of Russian criminality by emphasizing its “strong” and “weak” points.

In his research the author used comparative methods extensively and abundant statistical data from recent decades are provided. It is, therefore, easy to observe tendencies and changes that can be linked with events and processes that took place in Russia.

According to the data offered by the author, the rate of registered crimes decreased in 1963–65, as a result of Khrushchev’s “thaw,” and increased after

Gorbachev's "Perestroika" in 1986–88 and from 1998 onwards. Crime rates had been increasing until the financial crisis, when the tendency changed. According to the official statistics, after the beginning of the crisis, many parameters relating to criminality decreased and this evolution still continues. Although the general tendency during the financial crisis was for crime to decrease ("street crimes," such as homicide, grievous bodily harm, theft etc.), some types of crime increased, such as illegal enterprise, smuggling and drug related crimes.

It should be noted that the observations and conclusions are relative, since all of them are based on data provided by Russian official authorities, which in the author's opinion are not trustworthy. The claims that the decrease of criminality during the global crisis can be a result of concealment (hiding) of the correct statistical data or inadequate recording of reported crimes.

As mentioned before, Yakov Gilinskiy explains the main features of contemporary Russian criminality by describing the phenomenon in detail after the mid-1970s. Depending on events and their effects on society, the author divided criminality's evolution in four periods. This approach allows us to discern the origins of trends and tendencies seen nowadays.

The most important idea is, however, the general conclusion of the chapter – an enhanced interconnection between criminal groups and public authorities could be noticed during the last decade, making the phenomenon more complex and thus more difficult to fight.

Sweden

What motivates organized crime? This question is the point of departure for the chapter on Sweden. Recognizing the fact that crimes are often rational acts committed with the intention of making money, the authors make use of the routine activity theory to analyze how the financial crisis has created new opportunities for organized crime in Sweden. According to this theory, criminals are attracted to criminal markets in which profits are high and the risk of getting caught and penalties are low. The challenge for law enforcement authorities is to enforce effective surveillance so that the opportunities to commit criminal acts are minimized. The challenge for legislators is to avoid gaps in the legislation that can be used by criminals.

As firms were reluctant to keep employees at the height of the financial crisis, they increasingly turned to recruitment firms to supply work force. According to Swedish law enforcement, this has increased the risk that firms will hire staff from companies controlled by organized crime groups. Such groups provide illegal workers through recruitment companies and also exploit migrant workers living illegally in Sweden. While Sweden has done relatively well during the financial crisis, other countries were much harder hit. A likely conclusion is that the exploitation of labor and human trafficking in Sweden is related to economic difficulties in other countries.

Another point brought up by the authors is that the impact of organized crime on the economy may differ from one sector to another. In legal businesses, smaller firms seem to be more exposed to fake invoices, racketeering, theft and shoplifting. Small businesses in the service sector, such as hairdressers, seem to be particularly affected by the demand for protection money.

Another example of how organized crime has utilized the financial crisis is investment scams. As interest rates dropped to almost zero and stock markets fell, some investors were more susceptible to exposure to scam projects with promises of high rates of return.

The sixty-four thousand dollar question is whether the new structures for committing crimes that have been developed during the financial crisis will be made permanent, or not? The authors have no clear answer but hint that the criminal infrastructure built up for a specific criminal purpose is likely to persist. They are particularly worried that criminal structures may have had the opportunity to entrench themselves in some areas with high unemployment.

Estonia

Mari-Liis Sööt and Liis Lill

Impact of the Financial Crisis on the Economy

The tightening of global financial flows in the second half of 2008 had implications for the Estonian banking sector. Interbank lending decreased and interest rates (including the EURIBOR) rose. During the real estate boom, Estonia's banks had relaxed their lending policy and given out loans at lower interest rates than ever before. Many debtors were unlikely to be able to service their loans in the first place and a number have already defaulted. Since three of the biggest banks operating in Estonia (Swedbank, SEB and Nordea) are based on Scandinavian capital, the Bank of Estonia reinforced cooperation with the Swedish central bank in order to attain a closer integration of Estonia's banking sector with that of Sweden. The Bank of Estonia and the Central Bank of Sweden entered into a precautionary arrangement in February 2009 to guarantee financial stability and promote confidence in the financial markets.¹

A large number of businesses have gone bankrupt since the beginning of the recession in Estonia. The peak of insolvency was in 2009. A comparison of figures for 2008 and 2009 shows that the number of bankruptcy petitions in 2009 had increased twofold. The number of failures to file for bankruptcy at the appropriate time (an offence under Estonian law) is still on the rise – during the first half of 2010 the number of such offences almost tripled compared to the figure for the full year 2008. Table 1 gives an overview of principal bankruptcy-related indicators during the recession.

Many bankruptcies in Estonia were caused by the collapse of the real property market. The real estate sector was booming in 2004–2007 due to a surge of activity in the construction sector. Since interest rates were very low during that period, real estate transactions were mainly leverage-based. After the recession began, many debtors found themselves unable to

¹ "Ensuring financial stability," in Eesti Pank [Bank of Estonia], *Annual Report* (Tallinn 2009), p. 39, http://www.eestipank.info/pub/en/dokumendid/publikatsioonid/seeriad/aas-taaruanne/2009/_8.pdf (accessed May 6, 2011).

repay or service their loans. In 2008, the supply of recently built homes had exceeded demand. According to the data collected by Statistics Estonia, during the first half of 2009 only 11,783 real property sales with a value of 565 million euro were concluded. In comparison, the respective numbers for the first half of 2006 were 29,142 sales and a total turnover of 2.16 billion euro, and for the first half of 2007, 27,132 sales and a turnover of 2.09 billion euro.²

Table 1. Number of Bankruptcy Petitions (Including Natural Person Bankruptcies) and Registered Failures to File for Bankruptcy, January 2008–June 2010

	2008	2009	2010 (first half)
Number of petitions in bankruptcy received by the courts	995	1826	860
Number of registered offences of failure to file for bankruptcy (S. 385 of the Estonian Penal Code) ³	21	59	56

Note: Information provided by the Department of Judicial Administration of the Ministry of Justice, 2010.

Source: Estonian Ministry of Justice, 2010

The national budget in the years preceding and following the crisis clearly reflects an economic cycle that peaked in 2007³. The government's revenues and expenditures were the highest in 2008, yet in the same year, net lending was replaced by net borrowing. Table 2 provides an overview of the national budget revenues and expenditures in 2003–2009.

The accumulation of (a relatively modest) public debt was mainly due to shortfalls in tax collection on account of defaults by many businesses.⁴ According to a press release by the Tax and Customs Board, there has been

² For an overview of the real estate market transactions see: Olga Smirnova and Merike Sinisaar, "Development of the Dwelling Construction and Real Estate Market during the Last Decade," *Quarterly Bulletin of Statistics* [Estonia] 4/09 (2009), pp. 20–21.

³ See annual statistical indicators of the Estonian economy published by Bank of Estonia http://www.eestipank.info/dynamic/itp2/itp_report_2a.jsp?reference=503&className=EPSTAT2&lang=en; and by OECD at 2010: "Country statistical profile – Estonia," http://www.oecd-ilibrary.org/economics/country-statistical-profile-estonia_20752288-table-est (accessed May 6, 2011).

⁴ Estonia has pursued a tight budgetary policy, keeping public borrowing to a bare minimum, for two decades.

a remarkable reduction in the number of tax debtors from June 2010 to December 2010, yet the total sum of unpaid taxes has increased by 14.04 million euro over the same period. By December 3, 2010, when the press release appeared, a total of 88,407 persons (69,146 natural and 19,161 juridical persons) had accumulated outstanding tax debts worth 397.44 million euro, of which 365.4 million was owed by legal persons. Most debtors are natural persons whose outstanding tax accounts do not exceed 64 euro.⁵

Table 2. National Budget Revenue and Expenditure, 2003–2009, (rounded totals in million euro)

General government budget	2003	2004	2005	2006	2007	2008	2009
Total general government revenue	3 181.4	3 451.0	3 937.8	4 827.3	5 846.1	5 962.3	6 016.7
Total general government expenditure	3 035.6	3 291.4	3 757.1	4 499.7	5 443.8	6 421.6	6 260.3
Net lending (+) / net borrowing (-)	145.8	159.6	180.7	327.6	402.3	-459.3	-243.5

Source: Bank of Estonia 2010

Introduction to Crime Situation in Estonia

What is Meant by “Organized Crime” in Estonia?

There is a shortage of up-to-date data on organized crime in Estonia with very few exceptions like Kärstrand and Jonsson (2007)⁶; Pullat (2009)⁷; Centre for the Study of Democracy (2010)⁸; and Europol (2009)⁹. The sources

⁵ “Maksuvõlgnike arv kahaneb jätkuvalt” [The number of tax debtors continues to drop (press release)], Estonian Tax and Customs Board, December 3, 2010, <http://emta.ee/index.php?id=28871> (accessed May 6, 2011).

⁶ Klas Kärstrand and Anna Jonsson, “Countering narcotics and organized crime in the Baltic region,” *Trends in Organized Crime*, Vol. 10 (2007), pp. 3–18.

⁷ Risto Pullat, *Organized Crime Related Drug Trafficking in the Baltic Sea Region: Police Point of View* (Tallinn: Estonian Police Board, 2009).

⁸ Center for the Study of Democracy, European Commission, *Examining the links between organized crime and corruption*, (2010), <http://www.csd.bg/fileSrc.php?id=20216> (accessed May 6, 2011).

⁹ Europol, *OCTA 2009: EU organized crime threat assessment*, [http://www.europol.europa.eu/publications/European_Organized_Crime_Threat_Assessment_\(OCTA\)/](http://www.europol.europa.eu/publications/European_Organized_Crime_Threat_Assessment_(OCTA)/)

and other statistical data that do exist are insufficient for drawing general inferences about the situation of organized crime in Estonia. For this reason, the authors of the study reported here also conducted a series of in-depth interviews with law enforcement officers (five interviews carried out in the autumn of 2010) in addition to analyses of official reports, media coverage and national statistics. The interviewees were promised strict confidentiality due to the sensitivity of the topics discussed. For this reason they will only be referred to as a group.

There is no universally shared understanding in Estonia – neither in the government nor in the media – as to what constitutes organized crime. Definitions vary according to the specific interests of their proponents, ranging from highly technical (emanating from the provisions of the Penal Code or followed in practice by the relevant government agency) to essentially sociological (as emerging from stories published in the news media about mobsters and hit men).

The Estonian Penal Code¹⁰ specifically prohibits forming or being part of a “criminal organization” (Section 255) by which is meant a permanent organization consisting of three or more persons who share a distribution of tasks. The organization must be created for the purpose of proprietary gain and its activities must be directed at the commission of any criminal offence of the first degree¹¹ or those criminal offences of the second degree which are punishable by a term of imprisonment whose upper limit is three years or more. This provision was introduced in 2007 and has since served as the basis for fewer than ten criminal investigations per year. From 2007 until the third quarter of 2010, 25 offences of “criminal organization” have been registered altogether.¹² It has been pointed out that it is sometimes problematic to distinguish organized crime from ordinary crime¹³ and that therefore

OCTA2009.pdf (accessed May 6, 2011).

¹⁰ The Estonian Penal Code (entered into force on September 1 2002, as amended through January 1, 2011).

¹¹ In terms of seriousness, S. 4 of the Estonian Penal Code distinguishes two degrees of criminal offence. The more serious are offences of the first degree, which are punishable by a term of imprisonment whose upper limit is five years or more. All other criminal offences are offences of the second degree.

¹² *Crime in Estonia 2009*, Crime Policy Studies No. 12. Ministry of Justice (Tallinn 2010), <http://www.just.ee/orb.aw/class=file/action=preview/id=50826/Kuritegevus+Eestis+2009.pdf> (accessed May 6, 2011).

¹³ Leslie Holmes, “Crime, organized crime and corruption in post-communist Europe and the CIS,” *Communist and Post-Communist Studies*, Vol. 42 (2009), pp. 265–87.

any analysis studying offences committed only by “criminal organizations” would be incomplete.

Typically, offences investigated in Estonia under the “criminal organization” provision concern criminal gangs that steal cars or are otherwise linked to stolen vehicles: e.g., a Latvian-based gang stealing cars from Estonia; a gang stealing luxury cars; a grouping seeking to evade payment of VAT on cars bought from the EU and sold in Estonia; a gang selling Finnish stolen goods in Estonia or a gang trafficking drugs.

Instead of focusing on organized crime as such, the EU has shifted its attention to prioritizing crimes by reference to the harm that they cause to individuals and society.¹⁴ Such a managerial approach requires efficient allocation of resources and differentiation of less serious crimes from more serious ones. This approach has also been adopted in Estonia – organized crime is one of the priorities of the law enforcement. In 2005, the Minister of Justice and the Minister of the Interior agreed on a list of priorities for law enforcement that has been referred to as the Laulasmaa Declaration (deriving its name from the location where the agreement was reached)¹⁵. Implementation of the priorities is monitored on a regular basis. The top two priorities on the list are combating juvenile delinquency and organized crime – drugs, human trafficking, money laundering and crimes involving criminal proceeds (e.g. corruption and tax fraud). These are the crimes which must be prioritized by the police and the prosecutor’s office in allocating resources.

Forms of Organized Crime in Estonia

Estonian mass media tend to depict organized crime as an ethnically based and kinship-tied network structure.¹⁶ The law enforcement officers interviewed expressed the view that Russian speakers are more into traditional forms of organized crime, while Estonians are more likely to be engaged in economic crimes, e.g. tax evasion, excise tax fraud, etc. According to one of the classifications proposed, there are two main types of criminal

¹⁴ Nicolas Dorn, “The end of organized crime in the European Union,” *Crime, Law & Social Change*, Vol. 51 (2009), pp. 283–95.

¹⁵ Laulasmaa Declaration, 2009, <http://www.just.ee/26990> (accessed May 6, 2011).

¹⁶ Anna Markina, “Representations of Organized Crime in Estonian Printed Media,” in Sami Nevala and Kauko Aromaa, eds., *Organized Crime, Trafficking, Drugs: Selected Papers presented at the Annual Conference of the European Society of Criminology, Helsinki 2003*, Publication Series No 42 Helsinki 2004, pp. 157–73.

organization in Estonia: one that follows the conservative Russian model and one that implements the “progressive” Western model with the focus on economic crime, of which, according to the proponent, the latter type is nowadays dominant.¹⁷

According to the interviews the structure of organized crime has changed considerably since the middle of the first decade of the new millennium – old Soviet-type hierarchical groups have now evolved into networks. The networks are mostly project-based, founded on old criminal friendships established either in prison or in other settings. The networks outsource tasks and apply similar logistics thinking as legal businesses do by engaging traders, distributors and salesmen etcetera.

For example, a street dealer may be authorized to look for the best priced wares, and not be required to purchase his or her supply exclusively from a specific group. In addition, organized crime is now less violent than it used to be.¹⁸ According to the opinion of the law enforcement officials interviewed, violence is now more common among the older generation of organized criminals. However, a mutual fund (the *obshchak* still seem to exist), whose members include approximately ten top-echelon organized criminals, mostly Russian speaking. Organized criminals have to pay compulsory contributions to the fund which, in return, provides for exchange of information, mediation, pays for legal advice or representation, etc.¹⁹

A bipartite division can be observed among Estonian organized crime groups. Some operate both at the international and the domestic level while some remain local only. A typical example of the latter type would be an organized gang of thieves who use their own chain of retailers (e.g., pawn shops). This chapter mostly covers organized crime groups that have international connections.

Europol’s annual threat assessment states that: groups active in the Baltic region are locally based, that the Estonian organized groups are project-based loosely-structured units, that they have close ties with Lithuanian

¹⁷ Toivo Mängel, “Mõningaid aspekte salakaubanduse ja organiseeritud kuritegevuse ohjeldamisel Eestis” [Some aspects of the drive to curb smuggling and organized crime in Estonia], *Riigikogu Toimetised* 2 (2010), <http://www.riigikogu.ee/rito/index.php?id=11657&highlight=reguleerivad&op=archive2> (accessed May 6, 2011).

¹⁸ Jüri Saar, “Crime, Crime Control and Criminology in Post-Communist Estonia,” *European Journal of Criminology*, Vol. 1, No. 4 (2004), pp. 505–31.

¹⁹ Pullat, “Organized Crime Related Drug Trafficking in the Baltic Sea Region.

groupings, that the Finnish drug market is influenced by cooperation arrangements between Estonian and Russian organized crime groups, and that Estonian organized crime is dominated by Russian speakers who are often of Caucasian origin.²⁰

The picture that is created as a sum of these threat features resembles an “alien conspiracy model” of organized crime. It effectively overlooks other groups that may pose an equally serious threat and downplays the impact of organized criminals of other ethnic backgrounds.²¹

The threat assessment by Europol outlines five major hubs of organized crime. Estonia and the other Baltic states are mainly influenced by the north-west criminal hub which focuses on trafficking in heroin, cocaine, synthetic drugs and cannabis. To a certain extent, Estonia is also influenced by the north-east hub, whose influence extends across EU borders. The centre of attention of organized crime in the north-east hub is human trafficking, (including smuggling of immigrants), illegal cigarette and drug trafficking. The report does not mention economic crime and cybercrime which are receiving increasing attention in Estonia. In addition, the Finnish criminal police have warned Estonia of criminal motorcycle gangs such as the Bandidos and Hell’s Angels, popular in Scandinavia, who have recently shown an interest in extending their activities to Estonia.²² In the following section we will provide a brief description of each of these segments of organized criminality in Estonia.

Drug Trafficking

According to expert opinion most organized crime groups in Estonia are involved in drug trafficking.²³ A sizeable amount of drugs are sold to Finland. Cocaine, fentanyl, cannabis and marijuana are the types of drugs which are most demanded at the Estonian domestic market.

Most of the drug dealers have a criminal background and have been convicted of drug offences before. One of the most important drug cases in

²⁰ OCTA 2009: *EU organized crime threat assessment*.

²¹ Markina, “Representations of Organized Crime in Estonian Printed Media.”

²² Roald Johannson, “Soome kriminaalpolitsei hoiatab Eestit motojõukude eest (2)” [Finnish Criminal Police Warns Estonia of Motorcycle Gangs (2)], “Eesti Rahvusringhääling [Estonian Public Broadcasting], December 15, 2010, <http://uudised.err.ee/?06220949> (accessed May 6, 2011).

²³ Pullat, *Organized Crime Related Drug Trafficking in the Baltic Sea Region*.

which organized crime was involved was the so-called Voronin gang, trialled in 2009. The gang ran two independently operating criminal divisions in which a total of at least thirteen persons were engaged. The first division obtained narcotic substances from Tallinn and smuggled these out of Estonia across Narva on the eastern border; the second division was engaged in selling the drugs to end users through a network of dealers. A total sum of approximately 16,909 euro was confiscated from the offenders (93 percent of that directly from Voronin, the rest from his co-accused).

In 2009, over 256,000 euro worth of property was seized or confiscated in organized crime cases involving narcotics. The quantities seized ranged from nine grams of amphetamine to 41 kg of hashish.

In 2009 Estonian authorities witnessed an overall decrease in registered drug offences and in the level of confiscated substances in comparison to 2008 (see Table 6).

The fact that less cannabis and cannabis derivatives, amphetamine, ecstasy and related substances were confiscated in Estonia in 2009 might indicate that these substances may not be intended for the Estonian market but, at least in part, purposed for transit to other countries. At the same time the levels of confiscated amounts of GHB, cocaine and fentanyl went up (see Table 3).²⁴

Table 3. Confiscated Quantities of Common Narcotic Substances (grams)

	2008	2009
Cannabis and its derivatives	96,258	43,891
Amphetamine, ecstasy and related substances	66,689	59,983
Fentanyl	969	1916
Cocaine	3574	5024
GHB	7487	25,072

Source: Estonian Forensic Science Institute

²⁴ Jako Salla, Laidi Surva, Mari-Liis Sööt, "Crime in Estonia in 2009 – Summary," in *Crime in Estonia*, Crime Policy Studies No. 12 (Tallinn: Ministry of Justice, 2010), pp. 106–24.

Human Trafficking

There are only a few registered human trafficking cases in Estonia (see Table 5). With respect to pimping, Estonia is mainly a source country for Scandinavia. The most "important" case of pimping in 2009 involved a girl who was providing erotic services in an apartment in Tallinn and whom the accused deprived of liberty in order to force her to continue working.²⁵

Immigrant smuggling is a rare phenomenon in Estonia. The biggest case so far involved one hundred Afghans and Iraqis, who were smuggled to Finland from Latvia and Estonia. They entered the Schengen area from Russia and Belorussia over the eastern border of Lithuania and Latvia. Interviewees noted that this particular human trafficking route appears to have changed, which suggests that the efforts of Estonian law enforcement agencies have been fruitful. Yet it is no wonder that this form of criminal operation has not ceased completely – as reported by the interviewees, more activity seems to be taking place directly from Latvia to Finland and to Germany.

Money Laundering and Cybercrime

As for money laundering offences, of the nineteen groups prosecuted in 2009, eleven had a cross-border dimension. The offences in question were predominantly cases of laundering sums of money withdrawn from bank accounts in foreign countries as a result of computer fraud. Altogether 134 money laundering cases were registered in 2009, which represents a slight increase over 2008 and is nearly three times more than in 2007.²⁶

A widely recognized classification²⁷ of cybercrime groups mentions financially motivated groups (such as those who target financial institutions), ideologically and politically motivated groups, and criminally motivated groups (e.g., online paedophiles). According to the authors' understanding, in spite of the fact that organized criminals are mainly financially motivated, they are also likely to have a pet ideology which exerts an influence on their choice of the victim or target. For instance, during the Russo-Georgian War in August 2008, cyber attacks were directed at online financial

²⁵ Ibid.

²⁶ Information received upon an internal request to the Department of Judicial Administration of the Ministry of Justice, 2010.

²⁷ Kim-Kwang Raymond Choo, "Organized crime groups in cyberspace: a typology," *Trends in Organized Crime*, Vol. 11, No. 3 (2008), pp. 270–95.

institutions, Georgian government institutions and online media. According to the official U.S. report the attacks were carried out by civilians mainly from Russia, Latvia and the Ukraine. Several servers used in the attacks were hosting software ready to be used for other cybercrime activities and some of the zombie machines used for attacking Georgian government computers were also temporarily used for attacking other ordinary e-commerce websites.²⁸ Cybercrime is developing close links to organized crime.²⁹ In relation to Estonia (information from interviewees), this is supported by estimates according to which most of organized criminal activity related to credit card fraud in Estonia takes place on instructions from, and is oriented to, West Europe (e.g., Germany). With the exception of cases involving international bank transfers, most of the registered computer offences in Estonia, are not related to organized crime however. Compared to 2008, the number of cases of international bank transfer fraud dropped from 116 in 2008 to 13 in 2009.³⁰

*Economic Crime*³¹

A survey among Estonian businessmen demonstrated that one percent consider the advancement of business interests through extortion and threats to be relatively widespread.³² Yet, economic crimes carried out by organized crime groups are often much more advanced than simple threats and extortion and may embrace multiple sectors of the economy and involve schemes whose illicit character is not readily apparent even to the trained eye. The majority of economic crime offences registered in Estonia are related to missing trader fraud or the use of fictitious invoices to diminish value added tax

²⁸ "Overview by the US-CCU of the Cyber Campaign against Georgia in August of 2008, US-CCU Special Report (August 2009), <http://www.registan.net/wp-content/uploads/2009/08/US-CCU-Georgia-Cyber-Campaign-Overview.pdf> (accessed November 5, 2010).

²⁹ See, e.g., "Hackers steal emissions trading certificates," DW-World.de, February 3, 2010, <http://www.dw-world.de/dw/article/0,,5206339,00.html> (accessed May 6, 2011).

³⁰ Mari-Liis Sööt, "Criminal offences committed by means of computers," *Crime in Estonia*, Crime Policy Studies No. 12, pp. 70–74.

³¹ According to the Penal Code economic offences are all types of illegal economic activities, offences relating to companies, offences relating to bankruptcy, offences relating to money laundering, offences relating to securities circulation and tax fraud.

³² Andri Ahven, Andu Rämmer, Kadri Rootalu, Rein Murakas, "Ettevõtete kokkupuuted kuritegevusega: Ettevõtete juhtide ja töötajate küsitlus" [Exposure of businesses to crime: A survey of managers and employees], *Kriminaalpoliitika uuringud*, No. 9 (Tallinn: Justiitsministeerium, 2007).

(below: “VAT,” or “sales tax”) liability or to use other illegal means of avoiding taxes (such as false tax declarations). The typical schemes are described in the section *Changes in organized crime*. The individuals involved in economic crime are typically white-collar employees often with legitimate jobs. Their expertise in the chosen field of activity often puts them one step ahead of law enforcement agencies.

The number of economic offences has increased since 2007 – twice as many were registered in 2009 as in 2007 (987 in 2007 and 465 in 2009). The majority of these are related to the illicit trafficking of goods. At the same time the number of tax offences has declined from 35 in 2008 to 24 in 2009 and 20 for the first half of 2010. The corresponding numbers for large-scale tax fraud were 8, 2 and 2. However, it is important to bear in mind the fact that tax offences are latent offences where there is usually no victim in the classical sense. Statistics may not reveal the actual number of offences committed. Moreover, from the point of view of investigators, it will sometimes be clear from the outset that it will be impossible to prove all elements of the offence (e.g., intent) in court. In such cases when prosecution is ruled out, softer measures (e.g., a tax investigation) are sometimes used instead of a criminal investigation. Such cases are not reflected in official crime statistics.

Table 4. Excise Fraud and Other Types of Tax Fraud

	Amount of goods			Lost revenue in euro		
	2008	2009	9 months of 2010	2008	2009	9 months of 2010
Cigarettes (pc)	6,400,000	14,600,000	7,540,000	533,333	1,211,538	628,205
Alcohol (l)	492,000	19,000	9802	916,667	352,564	179,487
Fuel (l)	32,952	13,978	16,428	13,519	5735	6740
Tax fraud (no. of cases)	1859	1814	1226	59,102,564	96,153,846	47,820,513

Source: Estonian Tax and Customs Board³³

³³ Information received by the authors in reply to an information request to the Estonian Tax and Customs Board.

The greatest harm in terms of uncollected taxes in Estonia is inflicted in the field of VAT, followed by the social tax and excise taxes. VAT fraud is most frequent in areas where organized crime has established a foothold, like the construction industry, property transactions, metal products and timber transactions, fisheries and road transport. During the first nine months of 2010, the estimated average monthly impact of tax fraud on public revenue exceeded those reached in 2008 (see Table 4). Excise fraud reached its highest levels in 2009 at the peak of the recession. The Estonian state lost twice as much in excise tax on cigarettes as it did in 2008, while it only lost half as much in 2008 levels of excise on alcohol. However, the impact on public revenue of motor fuel excise fraud is on the rise compared to 2009.

Impact of the Economic Crisis on Organized Crime

The key statistics reflecting the situation of organized criminality in Estonia are presented below in Tables 5 and 6. Table 5 shows the number of criminal gangs (prosecuting a gang means that the leaders of the gang, i.e. the persons who assign tasks, are prosecuted) and individuals prosecuted between 2006 and 2009. Table 6 shows confiscation statistics. However, it would be misleading to rely only on statistics, because fewer prosecutions would not automatically mean less organized criminality or fewer investigations by law enforcement.

In addition to that, since the criteria for prioritizing an offence as related to “organized crime” have been made more stringent (for example, they now include a criterion requiring the involvement of proceeds of crime worth at least a certain amount, and the likelihood of a property confiscation order of specified value), these numbers are not completely comparable with previous years – it has mostly affected the statistics of drug-related offences.

The most progress has been made in investigating money laundering offences, the number of prosecutions of gangs and individuals in 2009 increased by 10 and 43, respectively.³⁴

In spite of efforts by law enforcement agencies to seize criminal assets, confiscation is still in its infancy in Estonia. In the Voronin case (see above), the confiscated assets (approximately 17,000 euro) corresponded to the

³⁴ Salla, Surva, Sööt, *Crime in Estonia in 2009 – Summary*.

value of the drugs whose sale could be proved by the prosecutors. Yet, in all likelihood, this represented only a tiny fraction of the gang's real gains, thus effectively sending out the message that crime pays. According to the rational-economic theory, crime is a result of the weighing of alternatives, and will normally take place only if potential gain from the crime exceeds potential loss for the offender.³⁵

Table 5. Prosecutions of Individuals and Gangs Involved in Organized Crime³⁶

Type of criminal offence	Groups				Individuals			
	2006	2007	2008	2009	2006	2007	2008	2009
Drug-related offence	20	26	40	15	81	118	204	56
Cross-border drug-related offence	14	5	9	10	52	18	64	30
Trafficking in human beings	9	6	4	2	53	65	17	4
Cross-border trafficking in human beings	4	1	1	0	19	1	1	0
Money laundering	4	3	9	19	8	11	19	62
Criminal organization	0	5	3	4	0	48	16	28
Economic offence entailing harm in excess of 10 million EEK	0	6	9	7	0	15	64	43

Source: Estonian Ministry of Justice

³⁵ Gary Stanley Becker, "Crime and Punishment: An Economic Approach," *Journal of Political Economy*, Vol. 76 (1968), pp. 169–217.

³⁶ This is based on the so-called priorities report of the Prosecutor's Office. The data reflects the number of criminal groups and persons sent to court by the Prosecutor's Office, and therefore do not correspond to the number of registered offences under section 255 of the Penal Code.

Confiscation statistics (Table 6) show that for 2009 the value of confiscated assets converted into euro was 670,671 (not including assets whose value was not identified), while for 2008 the corresponding figure was higher – 916,666 euro. This may partly be due to recession, which has considerably reduced the price of motor cars, jewellery, and other such objects that are often the subject of confiscation orders.

However, the main reason for the decrease appears to be that the figure for 2008 was extraordinarily high due to the prosecution of two cases which coincidentally fell on 2008 and made up for a major share of the total confiscation (384,000 and 192,000 euros, respectively). A large share of the confiscations is related to drugs (34 percent in 2009). Statistics for 2009 show that the value of confiscated assets in cases related to criminal organizations was 123,023 euro made up for 18 percent of the total amount.

Table 6. Value of Confiscated Cash Assets in Relation to Main Heads of Offence Giving Rise to Confiscation (2009)

	Confiscated assets (euro)	Proportion of total (%)
Alcohol & tobacco offences	11,565	1.6
Offences related to abuse of official position	43,570	6.0
Economic offences	117,199	17.0
Criminal organization offences	123,023	18.0
Other	148,884	22.0
Drug offences	226,429	34.0
Total	670,671	100.0

Source: Estonian Ministry of Justice

Changes in Organized Crime

There are two principal ways through which recession may influence organized crime and the activities of criminal groups. Firstly, it tends to increase the number of vulnerable people who may be more susceptible to crime. For example, the fact that organized crime groups who smuggle girls abroad for prostitution have recently become more active in Estonia is at least in part

due to that there are more unemployed girls willing to consider their offers. Secondly, in 2010, official statistics showed an outstanding balance of six billion euro in housing loans.³⁷ As a result of widespread redundancies and bankruptcies or closing of small businesses, many households find themselves in situations in which they cannot service their loans. Such situations can lead to depression among adult members of the household, or simply that relationships within the household become strained. This could translate into a weakening of the moral guidance normally provided to children, which in the future may make them more susceptible to being recruited by criminal organizations.

Organized criminals own legitimate assets and are exposed to losses in stock markets, problems in the real estate market and solvency risks in their companies. According to the opinion of the law enforcement officers interviewed, the decline in the rate of return on legal investments might result in violent confrontations in the future: solvency problems may make it harder for criminals to meet their obligations and to use civil courts to enforce their claims. At the same time, this will make it easier for law enforcement to prosecute individuals for concealment of property and other similar offences.

Prior to the crisis, the main focus of organized criminals was optimization of taxes. Due to the recession, companies' assets have dwindled and an increase has been noted in various fraudulent schemes aimed at stealing refund VAT. Bogus transactions are one example of this. They are highly complicated to investigate as the transactions are often based on personal relationships in a close circle of acquaintances. The recession also appears to have increased the number of money laundering offences aimed at legalizing criminally obtained assets (see Table 5). According to the interviewees, so far the recession does not appear to have caused any major shifts in the drug market.

The biggest change that could be observed in the involvement of organized crime groups in economic offences has taken place in the real estate and construction sector.

The activities of entities providing fictitious invoices or so called "invoice factories" have expanded considerably. In the construction sector,

³⁷ See statistical indicators by Bank of Estonia, "Loans granted to individuals (stock)," http://www.bankofestonia.info/dynamic/itp/itp_report.jsp?reference=10036&className=EPSTAT&lang=en, (accessed May 6, 2011).

fake invoices are used to declare a higher amount of input VAT in order to retain a higher proportion of the VAT collected on sales than the company would otherwise be entitled to. Some of the “factories” went as far as to start forging invoices of retailers of building materials. In addition, according to the estimates of law enforcement officials, the focus of invoice factories is currently shifting towards the metal industry. In the future, CO₂ quotas are likely to become a target for organized crime because of the opportunities they create for irregular accounting and reporting: such trends have already been observed in Germany.³⁸

Company takeovers are also a direct result of the economic crisis: companies having solvency problems run the risk of being taken over – amongst other, by organized crime. Real estate developers often have outstanding bank loans. In times of economic downturn, these loans may become a burden and put pressure on shareholders to sell the venture. The buyer may turn out to be a shelf company that pays off the creditors but fails to honor the developer’s tax obligations and effectively steals the sales tax from the government.

Such a practice appears in part to be founded on the realization that, while failure to declare a transaction subject to VAT is a criminal offence under the Estonian Penal Code, failing to pay up the amount assessed on a declared transaction is not. Hence, the frequent occurrence of cases in which the same shareholders establish a new business providing the same service alongside the old one in respect of which they have just applied for bankruptcy protection. Needless to say, if bankruptcy proceedings result in the old business being released from its tax debts, this effectively leaves the VAT (as well as any outstanding labour taxes) in the owners’ pockets.

Whether this is due to recession or to poor regulation, a great deal of recent activity of organized crime groups has focused on the motor fuel sector (see also Table 4). After the real estate bubble had burst, motor fuel was seen as a new “investment” opportunity by organized crime. A number of ailing construction companies were acquired by new owners, who immediately registered as motor fuel vendors. The new owners soon failed to submit VAT declarations and then disappeared. Frequently, such operations also used front men. The reason why existing (VAT registered) companies are preferred in such cases is the initial scrutiny to which new applicants for

³⁸ “Hackers steal emissions trading certificates.”

VAT registration are subjected by the Tax and Customs Board. According to some interviewees the criminals involved in these types of offences are closely related to Latvian groupings.

It is estimated that criminals of various origin control approximately 1/5 of the fuel market in Estonia, and that this is likely to lead to public revenue losses equivalent to 23 million euro per year.³⁹ The Estonian Tax and Customs Board estimates that roughly 49 million euro in VAT and 29 million euro of the excise tax on motor fuel will remain uncollected in 2010.

It was the interviewees' impression that the same scheme (declaring VAT and allowing the company to go under, then immediately starting a new one) is used in other sectors of the Estonian economy as well. Establishing a requirement to make a deposit of funds when registering as a motor fuel vendor has been proposed by the Ministry of Finance as a measure to fight tax fraud.⁴⁰ However, since this will unavoidably also circumscribe the freedom of enterprise, other options should be analysed as well (e.g., stricter control on registering, imposing licensing requirements, etc).

Bankruptcies of businesses bring considerable costs to the state, since labour taxes remain unpaid and the bankruptcy procedure costs. It was demonstrated earlier that the financial crisis has been accompanied by a large number of bankruptcies in Estonia (see Table 1). In part, this is a natural consequence of the crisis which hit Estonia as a small open economy with unmitigated force. Still, the question arises: How many bankruptcies could have been avoided if responsible action had been taken at the appropriate time? Post-crisis data are not yet sufficient to estimate what proportion of bankruptcies was due to unavoidable foreign or domestic shocks and what proportion were allowed to go bankrupt deliberately – with the aim of clearing the company's tax obligations and obtaining official release from other outstanding debts. In any case, the fact that the number of failures to file for bankruptcy in 2009 and 2010 have more than doubled compared to 2008 (see Table 1) indicates an increase of criminal activity in the business sector. Econometric modelling of the time-series data of bankruptcies and

³⁹ Piret Reiljan, "Käibemaksupettused kütuseäris: maksudest hoiduvad ostavad kokku soikunud firmasid" [VAT fraud in the fuel vending business: tax evaders look for stagnating companies], *RMPEesti*, July 10, 2009, <http://www.rmp.ee/uudised/maksud/8428> (accessed May 6, 2011).

⁴⁰ Kärt Anvelt, "Petturitest kütuseäriimeeste elu läheb kibedaks" [Crackdown on cheating fuel traders], *Eesti Päevaleht*, December 10, 2010.

other economic key indicators together with case studies should be conducted to provide an estimate of the proportion of bankruptcies that were actually avoidable and thus a direct consequence of criminal actions. The toughening of bankruptcy regulations to prevent such abuse should be seriously considered.

Concluding Remarks

The main aim of this paper was to analyse the situation of organized crime in Estonia in relation to the economic crisis of 2008–2009. It is too early to draw any definitive conclusions on the impact of the crisis on the economy or, for that matter, on organized crime. Moreover, as those who have tried to study the phenomenon of organized crime will hopefully agree upon, much of the field remains inaccessible to the public eye. Any analysis based on only official information will only describe the tip of the iceberg. The authors have tried to compensate for these difficulties by enlisting additional sources of information whose account comes very close to being a first-hand view – interviews with law enforcement officers. Naturally, the limited number of interviewees means that their data can only be treated as personal opinion – which was reflected by the fact that definitions of “organized crime” among the interviewees themselves differed, being to a considerable extent influenced by the rhetoric of priorities, also noticed elsewhere.⁴¹ Yet, the authors hope that a juxtaposition of subjective information from the field with officially available data can provide useful insights into the trends in organized criminality in Estonia during the years of the crisis.

According to expert opinion most organized groups in Estonia are involved in drug trafficking.⁴² Yet, no major changes have been noted in the drug market due to the recession yet. Human trafficking, which is another typical area of involvement for organized crime, is not a major concern in Estonia compared to other fields of criminal activity. Still, there are signs of increasing activity of organized groups who smuggle girls abroad for prostitution. Because of the high unemployment the number of easy targets available to traffickers has increased considerably. Problems caused by the crisis will continue in the following years, especially in view of the persistently

⁴¹ Dorn, “The end of organized crime in the European Union.”

⁴² Pullat, *Organized Crime Related Drug Trafficking in the Baltic Sea Region*.

high unemployment rate and considerable indebtedness of individuals and businesses alike. For individuals, in addition to the financial hardships, long-term unemployment is potentially harmful also in that it can affect the individuals work habit and cause his or her professional skills to decline – which in turn may increase the person's motivation to become a member in or to work for a criminal organization.

The area that has attracted organized crime the most in the context of the recession is economic crime. Organized criminals, like everyone else, are exposed to potential losses in the stock market, to the risks of the real estate market and to solvency problems of companies they have invested in. Unlike laymen however, organized criminals tend to respond to such losses by increasing their illegal gains through new criminal enterprises. Thus, an important head of revenue losses that has shown an upward trend during the crisis is fraudulent refund claims of VAT on bogus transactions. Revenue losses caused to the government by fuel excise fraud are on the rise as well compared to 2009. Within the first nine months of 2010, revenue losses from tax fraud had exceeded even the high figure for the entire 2008. Approximately 1/5 of the fuel market in Estonia (in terms of sales turnover) is controlled by criminals, which is likely to entail a shortfall to the national treasury in the amount of 23 million euro per year.⁴³ Due to the crisis in the real estate sector, criminal activity is now more present in the metal and the motor fuel sector, with CO₂ quotas as the possible next target for organized crime.

Economic crises tend to be accompanied by a wave of bankruptcies not all of which are sound. In Estonia the crisis resulted in the rise of the number of bankruptcy filings and an increased number of intentional bankruptcy offences.⁴⁴ In 2008, the number was 21, while in the first half of 2010 alone the figure rose to 56 cases of failure to comply with the obligation to file for bankruptcy. In the future special emphasis should be placed on analysing how much money has been siphoned out of bankrupt companies in the real estate or other sectors and of companies steered into near-bankruptcy condition by illegal means, and how such proceeds have been invested into more profitable legal or illegal businesses.

⁴³ Reiljan, "Käibemaksupettused kütuseäris."

⁴⁴ According to the Estonian Penal Code the offence is called "failure to perform obligation to submit petition in bankruptcy."

The crisis strongly increased the outstanding debt of individuals and businesses. The real estate market was hit the hardest by the recession, which meant that a number of criminal operations decided to focus on the fuel market instead. The realization that bankruptcy proceedings could be used as a legitimate way of not parting with the VAT collected from customers soon provided a loophole for VAT fraud. In relation to VAT fraud by fuel vendors, further consideration should be given to establishing substantial deposit requirements, and rigid licencing requirements for new companies entering the market. However, any measures proposed along these lines should be analysed from the point of view of market principles, interference with which is likely to create incentives for other types of crime. Since both options inevitably involve placing further limitations on the freedom of enterprise, they must be weighed especially carefully. A consideration that should be kept in mind in order to efficiently counteract the incentive to evade the taxes or duties applicable in any market is the tax or duty rate charged. An excessive rate will foster illegal behaviour and create an atmosphere in which illegal practices may come to be regarded as the norm. A proportionate rate, on the other hand, will spur both production and demand, and is likely to increase tax revenue because of more businesses will be prepared to stop evading the tax or duty.

Making changes in the legal environment is one of the tools available to governments for preventing and combating organized crime. Although this tool should by no means be neglected, other ways of accomplishing the same goal should be considered too. Thus, for instance, Estonia could learn from the Netherlands that in the campaign against organized crime have supplemented the use of criminal justice means by administrative means such as enhancing transparency of the civil service, tightening scrutiny arrangements in awards of grants, restricting entry into certain sectors, etc.⁴⁵ An effective criminal justice system together with an administrative approach along the lines of the above, and a strict code of business ethics widely supported among entrepreneurs would go a long way towards efficient prevention of organized crime.

Addressing the consequences of organized crime is equally important. The best means in this respect appears to be that which will tend to make

⁴⁵ Council of Europe, *Combating Organized Crime: Best Practice Surveys of the Council of Europe*, OCTOPUS (Strasbourg: Council of Europe, 2007), p. 277.

organized crime less profitable. According to rational economic theory, offences tend to be committed when potential gain from the offence exceeds potential loss for the offender.⁴⁶ Although there are now better possibilities for confiscation in Estonia, it is still difficult for law enforcement authorities to dispossess criminals of the proceeds of their crimes. The rules of confiscation should be made more efficient in order to avoid cases such as Voronin's, in which the message put out by the feeble confiscation order is certainly not one of serious deterrence.

In conclusion, it appears that law enforcement agencies should keep close tabs on developments and criminal involvement in various sectors of the economy. When concerns arise in respect of particular types of operations or entire sectors, the upgrades in enforcement rules should also look at the consequences of criminal behaviour and of sanctions imposed for such behaviour. In addition, relevant administrative steps should be taken to make the situation on the ground adverse to criminal involvement. In the private sector, the corresponding measures should be oriented to winning wide support for a code of business ethics that would make criminal practices immediately conspicuous.

⁴⁶ Becker, "Crime and Punishment."

Latvia

Andrejs Vilks

The Impact of the Financial Crisis on the Latvian Economy

Latvia is one of the states in the European Union that has been hit hardest by the financial crisis. On top of the global crisis, it has been facing a structural internal crisis driven by a fall in domestic demand and a decrease in exports. The combination of these internal and external negative factors caused the Gross Domestic Product (GDP) to drop by 4.6 percent in 2008.

High inflation rates in 2007 and at the beginning of 2008 not only had a negative impact on consumer confidence but also contributed to the rise of labor costs and the reduction of the competitiveness of Latvian manufacturers. The credit crunch that followed and the bursting of Latvia's real estate bubble had a severe effect on domestic demand, which had been the main engine of growth in Latvia. At the beginning of 2008 both trade and private consumption began to fall. There was a decrease in the export of services which could not be redirected to the internal service market, and Latvian national property was gradually being transferred to foreign ownership. As Latvia's credit ratings dropped and as international investments dried up in the wake of the financial crisis, it became increasingly difficult for Latvian businesses to find sources for investments, and in 2009 the GDP fell by 18 percent.

As a former socialist state that used to be fully integrated into the economic system of the Soviet Union, Latvia had a number of specific features which aggravated the impact of the global financial crisis. Firstly, independent Latvia was left with underdeveloped industrial and agricultural sectors since the economy had been centered around the service sector during the Soviet period. Secondly, Latvia lacks energy resources and is therefore completely dependent on energy imports, primarily from Russia. Thirdly, there was insufficient internal economic development during the Soviet era. Fourthly, a remarkably high exchange rate was set for the local currency (lats – Ls) when Latvia regained its independence. Fifthly, the mis-handled privatization of public assets in the post-Soviet period contributed

to Latvia's inability to adapt to new geopolitical and macroeconomic conditions. Sixthly, the Latvian leadership has not been successful in its attempts to develop strategies for economic development, and the unbalanced regional development has led to increased social inequalities between different districts. Finally, Latvia is facing an unfavorable demographic trend driven by low birth rates, high mortality rates and an ageing population.

These features, which all stem from the Soviet legacy, have aggravated the impact of the financial crisis on the Latvian economy. Latvian authorities and state institutions have proven themselves unable to estimate the scope of the problems. In fact, their indecisive actions have had a severe effect on public confidence in the government's ability to handle the crisis. The academic Tālavš Jundzis has analyzed the economic crisis and its implications for national security and political and legal issues. He argues that the problems caused by the economic crisis and the Latvian politicians' inability to solve them in an effective and convincing way have led to a political crisis. According to Jundzis, people's confidence in the government and the Saeima has declined dramatically.¹

The Criminal Situation in Latvia

Overall Characteristics of the Criminal Situation

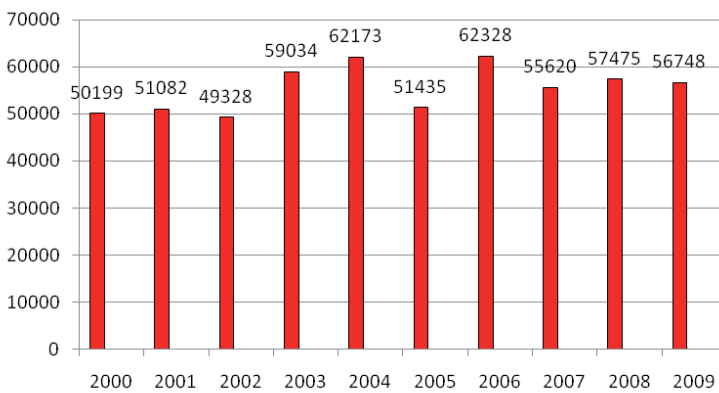
The Baltic States joined the European Union in 2004. Since then the trends in crime in the region have been rather contradictory. In Estonia and Lithuania, the combined numbers of registered crimes decreased by between five and eight percent, whereas in Latvia, the general trend was an increase in registered crimes up until 2008. The most important reason for Latvia's rising rate of criminality was the new Code of Criminal Procedure, which took effect on October 1, 2005. Before that date, crime statistics were distorted by the rules for conducting criminal investigations. For example, criminal proceedings could not be initiated without a decision from the head of the police.

¹ Tālavš Jundzis, "National Security Challenges from the Global Economic Crisis," *The Fifth Year as European Union Member States: Topical Problems in Management of Economics and Law. Proceedings of the International Conference, Riga, May 8–9, 2009*, pp. 271–73 (accessed February 10, 2011).

Since 2008, Latvian crime rates appear to have been decreasing. In 2009, the number of registered crimes in Latvia fell by 1.3 percent and in the first nine months of 2010 by 9.3 percent (Figure 1).

It has been estimated that one third of the crimes reported to the Latvian police are solved. However, other estimates claim that the real figure would be as low as 15 percent, if the large number of crimes that are never reported were taken into account. The considerable number of unresolved crimes can partly be explained by the success criminal organizations have had in coercing victims not to press charges.

Figure 1. The Number of Registered Crimes, 2000–2009



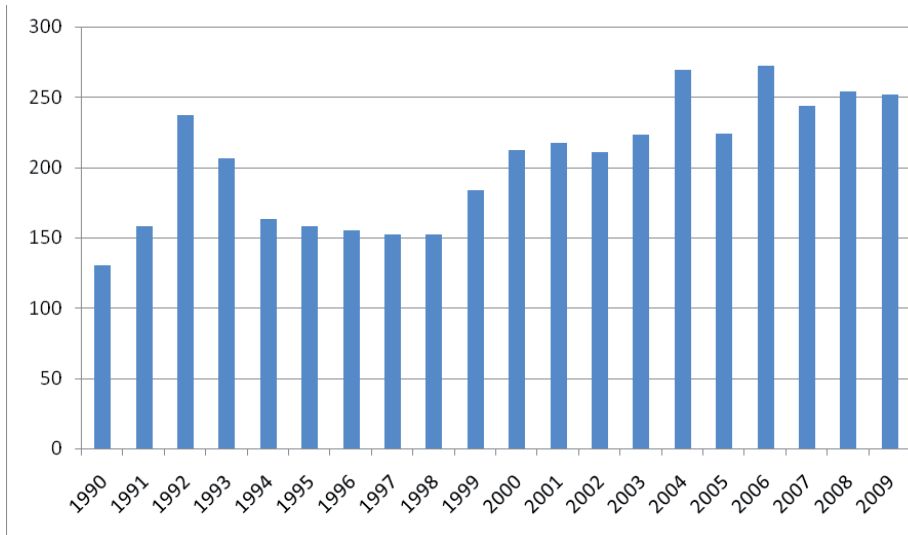
Source: Number of Recorded Crimes, www.prokuratūra.lv (accessed February 10, 2011).

The official Latvian crime statistics challenge the conventional wisdom that there is a link between a state's economic situation and its crime levels. Since crime rates seem to be decreasing, the worsened economic situation does not appear to have had a negative effect on crime in Latvia. However, the decline in crime rates in Latvia is neither objective nor real. Statistical data can never provide a complete picture of the security situation in a country. The perceived sense of safety among the general public also needs to be taken into account. For example, one reasonable question is whether the public's safety can be guaranteed by the state or whether they need to depend on themselves. An analysis based solely on the number of registered crimes would fail to take dangerous tendencies like this into consider-

ation.² Moreover, many factors that usually correlate with high crime rates increased quite dramatically in recent years; drug and alcohol consumption has gone up and the informal economy has grown.

Even if one were to disregard all of the uncertainties surrounding the statistics, the demographic situation in Latvia makes it difficult to draw any conclusions about crime trends by looking at the total number of registered crimes. The Latvian population has decreased considerably over the last ten years.³ But in order to make a credible assessment of the trends in crime in Latvia, it is necessary to assess the yearly figures in proportion to the size of the population (see Figure 2).

Figure 2. Crime Rate Per 10 000 Inhabitants of Latvia, 1990–2009



Source: Official statistical data, <http://data.csb.gov.lv/dialog/Saveshow.asp> (accessed February 8, 2011).

Expressed as the number of crimes per 10,000 inhabitants, the Latvian crime figures show that the crime rates have not decreased as fast as the total number of registered crimes would lead us to believe.

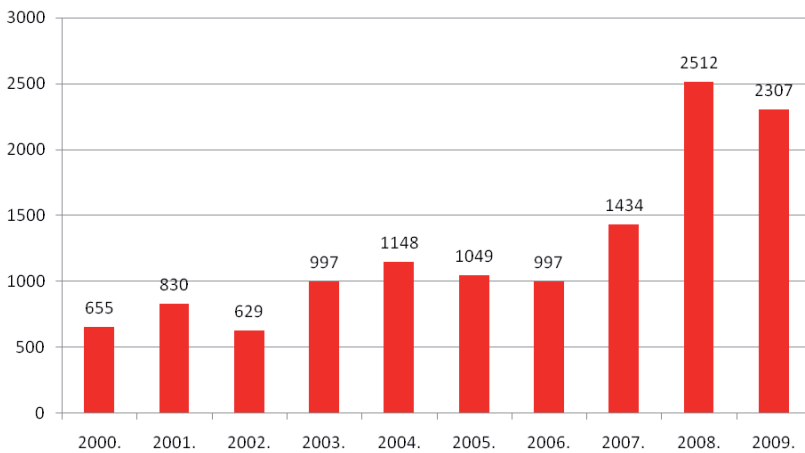
² Crime statistics, <http://www.csb.gov.lv/statistikas-temas/sabiedriska-kartiba-un-tiesu-sistema-galvenie-raditaji-30282.html> (accessed February 12, 2011).

³ Crime rate per every 10,000 inhabitants in Latvia in 1990–2009, <http://data.csb.gov.lv/dialog/Saveshow.asp> (accessed February 8, 2011).

2.2. The Effect of the Economic Crisis on Drug-related Crime

The Latvian statistics indicate that an economic crisis creates favorable conditions for crimes related to the drug trade. According to the statistics presented in Figure 3, the highest number of registered crimes involving production, storage or selling of illegal drugs was registered in 2008. In 2009 the numbers were still much higher than before the crisis.

Figure 3 Registered Illegal Drug Production, Storage or Sales in Latvia, 2000–2009



Source: Official statistical data, <http://data.csb.gov.lv/dialog/Saveshow.asp> (accessed February 8, 2011).

On the one hand, this may seem somewhat illogical. When incomes and consumption fall, people will avoid any extra expenditure and this should lead to a decline in the demand for drugs. On the other hand, these numbers could be analyzed from a psychological standpoint. In that case, one could argue that a decrease in the level of welfare will worsen the psychological well-being of the citizens and that this, in turn, leads to an increase in the number of people who turn to drugs in search of positive emotions.

In Latvia, drug-related organized crime is becoming more prevalent and the number of Latvian criminal organizations involved in the international drug trade is rising. They are cultivating cannabis, organizing underground laboratories for production of psychoactive substances, forming logistic structures, providing for cocaine transit from South America,

and transporting synthetic narcotic substances from the Netherlands and Poland. Members of these groups also emigrate from Latvia or other East European countries to the countries where the drugs are sold.

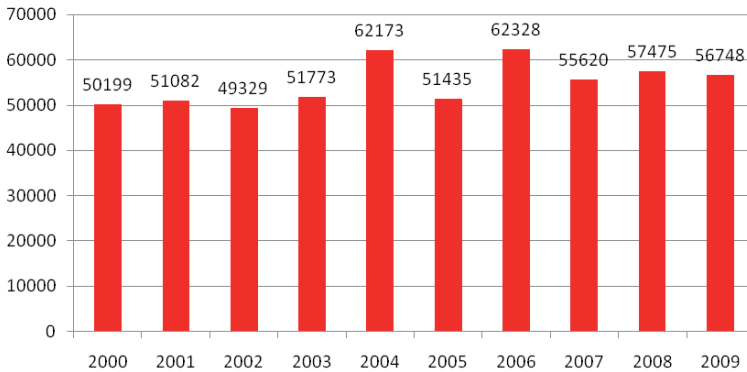
The decrease in the number of reported drug-related crimes in 2009, and perhaps in 2010, is most likely a result of the inadequate resources available to the Latvian police. They lack the necessary chemical and biological expertise to identify seized substances, which hampers the prosecution of drug crimes. Even the Latvian Drug Enforcement Bureau (DEB) is to be closed down in 2011 and its functions transferred to the Organized Crime Bureau (OCB).

The reason for this restructuring is that the Latvian State Police budget for 2011 has been cut by about 1.3 million euro. At the same time, criminal organizations in Latvia are modifying and developing into transnational multi-functional networks.

2.3. The Effect of the Economic Crisis on White-collar Crime

Another aspect to be taken into account when evaluating the impact of the economic crisis is the effect the crisis has had on the prevalence of economic crime. In Latvia, all criminal offences involving economic activity in the field of business are registered as economic crimes. Since an economic crisis will result in lower income levels and a decline in economic activities, the logical result would seem to be a decrease in the number of economic crimes. For instance, lower incomes and a decrease in the total number of participants in economic activities may lead to less tax evasion. However, the statistical data indicate that the registered number of economic crimes in Latvia has been practically unchanged since the outbreak of the crisis (see Figure 4).

According to those who specialize in studying economic crimes, fraud is primarily connected to activities on the real estate market in periods of economic crises. In Latvia mortgages were issued for real estate purchases without adequate security, precipitating the crisis, and fraud followed as a result of crisis.

Figure 4. Registered Economic Crimes in Latvia, 2000–2009

Source: Official statistika data, <http://data.csb.gov.lv/dialog/Saveshow.asp> (accessed February 8, 2011).

2.4. *The Effect of the Economic Crisis on Organized Crime*

The size of the informal economy increases during an economic crisis, and organized crime groups play an essential role in this development. In an increasingly disorganized society, where the state's ability to regulate and control the economic sector is in decline, organized crime can sometimes become the institution that functions best. Criminal groups that manage to be successful under these circumstances are characterized by determination and vigor, and they tend to venture into new areas of business. Nevertheless, the persistent activity of criminal organizations cannot simply be explained as a consequence of the economic crisis. In Latvia, organized criminal groups were already forming and expanding during the years of economic growth. According to representatives of the law enforcement services, the political and economical changes at the end of the 1980s resulted in the emergence of new criminal organizations that replaced the "thieves in law" and other authorities that used to dominate the world of organized crime.

The events of the late 1980s and the early 90s not only brought about profound changes in the economical and political spheres of society, the criminal world also underwent an extensive transformation. The transition from authoritarianism to democracy, as well as the emergence of new ownership patterns and a new public administration system, created opportunities for criminal organizations to establish themselves in the developing

management structures where they could benefit from the privatization of Latvia's public assets. Resources acquired in this way could then be used to form enterprises and other, partially legal, organizations. The subsequent strengthening of the criminal groups escalated the wave of racketeering and corruption in the country.

As the political landscape changed, new criminal traditions also emerged. Organized crime groups managed to extend their influence into new areas. They were fairly successful in their attempts to gain clout in the legal sphere by moving into legitimate economic, financial, and political sectors. At the same time, legal and economic as well as administrative organizations began to use unlawful and criminal tactics on a much broader scale.

Illegal measures were often seen as necessary to ensure continued profitability. The increasing tax burden and decreasing revenues caused many legal businesses to move over to the informal business sector (the shadow economy). For instance, according to the Alcohol Producers Association and the Traders Association, the gray alcohol market has increased significantly and presently makes up about 40 percent of the total alcohol market.⁴ According to data provided by P. Halach, the manager of British Tobacco Latvia Ltd., smuggled cigarettes comprise 36 percent of all cigarettes in Latvia (other sources estimate 38 percent), and this percentage is constantly growing. Thus, in 2010, the legal tobacco products' share of the market decreased by 10 percent per month, and over the whole the year it decreased by 48 percent.⁵ According to the Latvian Fuel Traders Association, one third of the fuel used in Latvia is illegal.⁶ The country loses about 100 million Ls per year (i.e. about 130 million EUR) as a result of unpaid taxes. The costs associated with the illegal fuel business have not been calculated, but they might be comparable to those caused by tax evasion.

The intertwined trends of criminal groups establishing themselves in the legal sector and legal businesses moving into the informal sector allowed both types of organizations to acquire new contacts and gain invaluable

⁴ "ARTA: illegal alcohol is poorly combatted this year," <http://unity.lv/lv/news/220496/> (accessed February 15, 2011).

⁵ "Kļānska D. Tobacco market leaders," <http://www.kapitals.lv/raksti/tabakas-tirgus-lideri-kontrabandisti>, (accessed February 16, 2011).

⁶ "Illegal fuel market flourishes and thrives," http://www.financenet.lv/zinas/356774-nelegalas_degvielas_tirgus_plaukst_un_zel (accessed February 10, 2011).

experience. In this way, they were able to further strengthen their position in society.

In October 2007, just before the economic crisis began, Prime Minister Aigars Kalvītis announced that an influential mafia was operating in Latvia. According to him, the Latvian mafia consisted of former members of the special services, former Afghan war participants, former State Security Committee staff ("KGB"), politicians and members of criminal organizations.⁷ Even though no information that confirmed his public announcement was released, subsequent developments in the criminal situation in Latvia made it clear that Kalvītis' claim was not groundless.

Early in 2008, several contract killings in Latvia occurred. When a millionaire with the initials L. R. was kidnapped in the town of Jūrmala, the subsequent investigation pointed to the involvement of the special services and law enforcement authorities. In March 2008, the well-known U.S. weekly *Business Week* published an article suggesting that the famous gangster Al Capone would have felt at home in Latvia, since the country resembled Chicago in the prohibition era.⁸ The circumstances created by the crisis gave groups involved in organized crime an opportunity to modify and invent new methods of operating. Cyber crimes became more sophisticated and profitable, fraud took on different forms, corruption spread, the number of fictitious and unregistered businesses grew, and tax evasion and money laundering became massive problems.

As a country's legal businesses increase their international contacts, so does the criminal world. Organized crime in Latvia has been no exception. In May 2010, the largest cocaine shipment in the history of Latvia (200 kg) was intercepted in the port of Riga. The shipment was destined for Novgorod, in northwest Russia.⁹ In October 2010, a modern drug laboratory was closed down as a result of a carefully conducted investigation. The equipment used in the Latvian laboratory had been imported from Western Europe, where the finished products were to be sold. There is a strong possibility that this

⁷ "In Latvia former chekists and other criminal groups are organizing their activities," <http://easyget.lv/latvija-un-pasaule/3009/> (accessed February 5, 2011).

⁸ Mike Collier, "Al Capone Might Feel at Home in Latvia," *Business Week*, March 6, 2008, http://www.businessweek.com/globalbiz/content/mar2008/gb2008036_032062_page_2.htm (accessed February 10, 2011).

⁹ "200 kg of cocaine worth more than 1 million lats found in Riga port," <http://www.apollo.lv/portal/news/articles/200682?ref=theme> (accessed February 13, 2011).

enterprise's organizational, technological, or financial security was in some degree provided by organizations based in the importing countries.¹⁰ In January 2011, the Helsinki district court sentenced four people associated with transnational organized crime to up to five and a half years in prison in what was the biggest human trafficking case in the history of Finland.¹¹ The head of the group was a 39-year-old Latvian citizen who had been organizing the smuggling of almost one hundred people to Finland for an average fee of 8100 euro per immigrant.¹²

Latvian law enforcement authorities are taking a pro-active approach to organized crime. Their efforts are focused on the areas of human trafficking, the illicit drug trade, and the smuggling of goods. These three areas are considered to be the most important aspects of organized crime, especially at the international level.¹³ In Latvia, the agencies responsible for combating organized crime are the State Police (SP), the Central Criminal Police Department (CCPD) and the Organized Crime Bureau (OCB). Information provided by these agencies supports the notion that persons who used to be involved in organized crime crossed over to the legal business sector during the period of economic growth. However, as a result of the crisis and the deteriorating economic situation in Latvia, many of them have returned to their previous criminal activities.

Despite the fact that the Latvian criminal groups prefer to act independently at the national level, they have been intensifying their cooperation with foreign groups when it comes to transnational activities. In 2009, the SP, the CCPD and the OCB detected 372 crimes by organized criminal groups. In comparison, 614 crimes of this kind were exposed in 2008.

In 2009, Latvian law enforcement agencies exposed 42 criminal groups involved in smuggling along the Russian border. The members of these groups could be linked to bribery and the abuse of authority at the Terehova

¹⁰ "Legal alcohol brewery is discovered in Ropaži district," <http://www.delfi.lv/news/national/criminal/legala-alkohola-bruzi-ropazu-novada-atklaj-narkotiku-razotni.d?id=34584115> (accessed February 13, 2011).

¹¹ STT, "Finnish court jails four for human trafficking," *Helsinki Times*, January 21, 2011, <http://www.helsinkitimes.fi/htimes/domestic-news/general/13966-finnish-court-jails-four-for-human-trafficking-.html> (accessed February 13, 2011).

¹² "Accused from Latvia confess to large-scale smuggling in Finland," <http://www.apollo.lv/portal/news/articles/219342?ref=news-rn> (accessed February 13, 2011).

¹³ "Public report of the State Police of the Ministry of the Interior for the year 2009," <http://www.vp.gov.lv/?sadala=189> (accessed February 13, 2011).

border inspection post in the Ludza Region. The OCB disrupted 88 similar smuggling enterprises in 2007; the number of cases exposed in 2008 and 2009 were 108 and 95, respectively.

At the transnational level, Latvian organized crime groups are first and foremost connected to organizations in Russia. Nevertheless, as the country becomes increasingly integrated into the European economy and the global market, national and transnational organized crime groups from Latvia are becoming more active in countries like Sweden, Finland, Germany, France, England, Italy, and Israel. According to Ints Kuzis, who is the head of the SP in the Riga Region, the Latvian organized crime groups are still financially dependent on criminal groups in Russia. The Russian groups control the trafficking of drugs, weapons, and fuel to Latvia from Russia as well as the smuggling of stolen goods from Russia to Latvia. Cars stolen in Latvia are mainly transported to Russia, where the black market is much larger, and cars stolen in Germany are transported via Latvia to Russia. Ints Kuzis has stated that criminal authorities in Russia not only oversee criminal activities in Latvia and other parts of Europe but also resolve disputes between Latvian criminal groups as well as between other criminal groups in Europe. The Russian criminal leaders are in fact acting like the judges of Europe's criminal world, and their decisions cannot be appealed.¹⁴

According to Europol and the Council of Europe, there were 35 organized crime groups that were active in Latvia in 2007 and 2008. Experts say that these groups have had contacts with at least 46 foreign criminal organizations. In Latvia, the market for illegal excise goods (alcohol, tobacco products, fuel) has practically been under the control and supervision of organized crime groups. These groups organize the importation, storage, and sale of the smuggled goods. Along the state border, so-called "green," uncontrolled corridors have been set up. Hundreds of privatized and unused production facilities and warehouses are being used for this purpose. The radical increase in value added tax, excise tax and other taxes led to a much wider flow of illegal goods and services into the "grey" and "black" economic sectors. At that time, these informal economic sectors were already under the control of criminal organizations. Consequently, the

¹⁴ Ints Kuzis, "Latvia's criminal environment still greatly influenced by Russia," <http://www.diena.lv/lat/politics/sabiedriba/latvijas-noziedzibas-vide-joprojam-pastavot-lielakrivijas-noziedzibas-ietekme> (accessed February 16, 2011).

income of organized crime groups and criminal business enterprises did not fall, unlike the revenues in the legal business environment. According to expert calculations, illegal organizations have even been able to increase their income.

The transfer of resources into the hands of Latvia's organized crime groups has given them the chance to further develop their activities. They have been able to attract new participants into their organizations by recruiting unemployed people, who in many cases are being used as drug couriers. They have also been able to make new business contacts abroad, and have widened their influence in the political and public spheres. Furthermore, they have assigned funds to bribe civil servants and public officials, purchased real estate, and invested their illegally acquired gains abroad.¹⁵ New criminal groups have separated from bigger organizations and have taken control over local black markets. New types of criminal activities such as the organizing of fake marriages with foreigners, internet scams, the opening of illegal gas stations, and illegal gambling halls have begun to emerge. The decrease in wages in the public sector, including the law enforcement institutions (the police), also opened up the possibility for organized crime groups to recruit the most competent and knowledgeable specialists into criminal activities. In many cases, these professionals were not even aware that they were working for criminals.

3. Development within the Organized Crime World and Prospects for Combating Organized Crime

In combination with the fact that the Latvian tax burden for both physical and legal persons is going to rise in 2011, the effects of the economic crisis will further increase tax evasion and the continued growth of the informal economy. At the same time, there are no indications of an impending decline

¹⁵ "Latvian population living abroad become drug couriers", <http://db.lv/r/325-tiesvediba/234887-latvijas-iedzivotaji-arzemes-klust-par-narkokurjeriem>; "Narkokurjera vienīgais lidojums" [Drug courier's single flight], <http://www.apollo.lv/portal/news/articles/229476>; "In Tunisia there is at least one Latvian drug courier," <http://www.kasjauns.lv/lv/zinas/37938/labi-ka-apverums-tunisa-notiek-ziema--latvijas-turistu-tur-nav>; "Sankt-In Drug courier from Latvia detained in St. Petersburg airport," http://www.tvnet.lv/zinas/kriminalzinas/365510-sanktpeterburga_lidosta_aiztur_narkokurjeru_no_latvijas (accessed February 16, 2011).

in the activities of organized crime.¹⁶ Experts predict that the organized smuggling of fuel, tobacco, alcohol, and medical equipment will increase. As a result of the poor Latvian labor market, illegal migration is also going to continue. It most likely will develop in two related directions. On the one hand, some of the more entrepreneurial Latvians will leave for richer European countries. Many of them will stay there illegally and work illicitly without access to social benefits. Others may enter into marriages of convenience, and some will get involved in criminal activities. On the other hand, illegal immigrants will enter Latvia from other less developed countries and thus contribute to the necessary restoration of the Latvian workforce.

Even though the police bears the main responsibility for the security of each individual and for national security, police officers have become outcasts in Latvian society. They earn the minimum wage and receive inadequate social benefits, work under high risk conditions, and their equipment and technical supplies are in a deplorable condition. There are also problems with their leadership. Despite the fact that the Ministry of the Interior has developed a Home Development Strategy that has been adopted by the Cabinet of Ministers, issues of public safety and the prevention and combating of crime still need to be addressed.

To make the fight against organized crime more efficient, Latvia is developing a model for national criminal intelligence (CIM). Although there is no doubt that this could be effective, the exchange of information between the different services has proven to be problematic. There have been incidents when several different law enforcement agencies opened parallel investigations as a result of insufficient coordination. To avoid problems of this nature, there are also plans for establishing Strategic and Operational Councils within the CIM framework. This would be a way to develop the technical specifications for the investigation information system and to conduct training in strategic and operational analysis. The CIM also involves the establishment of a report database in which this sensitive information obtained from the SP staff's routine activities will be registered, processed and summarized.

¹⁶ Ministru kabineta 2010. gada 9. aprīļa rīkojums Nr. 203, "Latvijas Stratēģiskās attīstības plāns 2010–2013, gadam" [Order of Cabinet of Ministers of April 9, 2010, Nr. 203, "Latvia's strategic development plan for 2010–2013], <http://www.likumi.lv/doc.php?id=208079&from=off> (accessed February 14, 2011).

When it comes to combating transnational organized crime, effective exchange of information between the law enforcement institutions and the National Security Authority is vital. Another necessary element is international cooperation, and the Latvian introduction of the CIM involves foreign partners with longstanding experience in working with this model. For instance, Denmark's National Investigation Centre and Belgium's Federal Police are expected to offer support and propose joint operations. Furthermore, the Latvian implementation of the CIM is connected to the European Union's efforts to introduce the so-called European Criminal Intelligence Model in order to ensure a high European standard when it comes to criminal intelligence. The plan is that all EEA member states (EU members states plus Norway, Iceland, and Lichtenstein), as well as agencies such as Europol, will use this model and that this will secure an effective flow of information between all law enforcement institutions that are combating organized and cross-border crimes in Europe. Belgium, which held the Presidency of the European Union in the second half of 2010, made the introduction of European Criminal Intelligence Model its priority.

Summary

All countries experience periods of economic growth and periods of recession, and a period of economic crisis will bring about changes affecting crime and criminal organizations. Harsh economic conditions change the dynamics and structures of crime and increase the number of unregistered crimes. Rising unemployment rates and falling income levels (in Latvia about 100,000 economically active citizens have been out of work for more than a year and, consequently, have no legitimate sources of income) will result in a rapid increase in the number of people who get involved in criminal activities or are recruited into organized crime groups. Furthermore, the conditions created by an economic crisis will lead to an expansion of the informal sector of the economy as well as increasing profits for organized criminal groups.

In crisis-stricken Latvia, the following trends in crime can be identified:

- The total number of registered crimes is decreasing;
- The number of violent crimes is decreasing;
- The number of drug-related violent crimes is increasing;

- New transnational criminal structures are emerging;
- Organized crime is expanding;
- The number of organized criminal groups is increasing;
- The total number of organized criminal groups involved in transnational activities is increasing;
- Some economic crimes are increasing, especially fraud in the real estate market;
- The number of criminal cases connected to corruption is increasing;
- The number of criminal cases linked to federal institutions is increasing; and
- The number of smuggling cases is increasing, especially smuggling of excise goods.

At the same time, law enforcement institutions are suffering from diminishing physical and financial resources and are undergoing reorganization processes that will decrease their ability and efficiency for a while. For Latvia, it is important to establish an overarching strategy for preventing and combating crimes under these specific circumstances. Latvia should make full use of positive experiences from the fight against crime and criminal organizations in the European Union and in neighboring countries (Sweden, Finland, Poland, etc.). Right now, the main task is to continue the implementation of the National Criminal Intelligence Model. In order to attain their objectives, the police need to develop mechanisms that evaluate how effective the introduced measures are in preventing organized crime.

Lithuania

Aurelijus Gutauskas

Economic and Social Impact of the Financial Crisis

Since the start of the new millennium, the Baltic region has enjoyed one of the highest growth rates in the world. This positive development was interrupted by the financial crisis and the recession that followed. As in many countries worldwide, the economic downturn in Lithuania has had an adverse impact on national, social, and economic development. The economic decline will have far-reaching negative effects on the most vulnerable groups in Lithuania unless the government takes additional measures to promote employment and provide social protection. In order to mitigate the possible negative social consequences of the decline, an attempt should be made to assess its impact on the country's socio-economic development (development of the population, income indicators of households, etc.) as well as to recommend measures to address any problems identified.

The major negative social consequences of the economic decline in Lithuania are job losses and a decrease in income. These result in rising long-term unemployment, growing social exclusion, and an increase in emigration and the shadow economy. In the long run, all of these increase poverty and reduce the quality of the labor force. For instance, both diminished skills and reduced work motivation weaken the recovery potential of the national economy.

The economic crisis has had a major negative impact on the Lithuanian labor market.¹ In the first quarter of 2009, the national unemployment rate more than doubled compared to the first quarter of 2008. If these trends continue Lithuania will see a dramatic increase in the number of long-term unemployed (in 2010, they constituted 30 percent of the unemployed, or 78,000 persons). High long-term unemployment is likely to persist even

¹ Labor Force, Employment and Unemployment (Vilnius: Statistics Lithuania, 2009), www.stat.gov.lt (accessed May 3, 2011).

after the anticipated recovery of the national economy between 2012 and 2015 as most unemployed people are less competitive in the market due to their weaker or diminished skills after a long period of unemployment.

Rising unemployment also worsens the financial situations of households, as indicated by the ever-increasing number of persons receiving social benefits in Lithuania. The assessment of changes in earnings and unemployment in Lithuania shows that household income will continue to decline in 2010, but will then start rising slightly due to the growing shadow economy, as well as the slow economic recovery anticipated in 2011. However, income levels in 2015 will not even reach those of 2008. Decreasing household incomes may boost the absolute poverty rate as high as 13.2 percent in 2010. This means that the income of 440,700 persons will be below the poverty line. The absolute poverty rate is not expected to return to the level of the year 2008 (i.e. 4.8 percent) before 2015.²

The deteriorating macroeconomic situation in the country boosts emigration from Lithuania.³ Bearing in mind that the Lithuanian economy is expected to recover only in 2011–2012, emigration is likely to result in the loss of another 100,000 to 150,000 residents by 2015.⁴ In the long term, higher rates of emigration are associated with serious problems such as population decline, brain drain, and demographic ageing, all of which markedly weaken the growth potential of the national economy and slow down improvement in the standard of living.

Increase in the Crime Rate

Statistical data analysis has shown that during the economic decline the crime rate in Lithuania increased while unemployment rose and household income decreased.

Since 2008, the number of recorded criminal offenses has been increasing by six to seven percent annually and reached 83,200 in 2009. Crimes

² Boguslavas Gruževskis and Rasa Zabarauskaitė, "Social Consequences of Economic Downturn (2008) in Lithuania," *Ekonomika*, Vol. 89, No. 3 (2010), p. 83.

³ "International Migration of Lithuanian Population" (Vilnius: Statistics Lithuania, 2008), www.stat.gov.lt (accessed May 3, 2011).

⁴ At the beginning of 2010, the company "Spinter tyrimai" conducted a survey on the attitudes of Lithuanian citizens towards emigration. In total, 1003 respondents were surveyed. According to the survey, 58.7% of the respondents would like to leave the country (65% of them were persons aged 18–25).

accounted for about 90 percent of all recorded offenses. About five to six percent of the crimes were serious or grave. In 2009, two-thirds of the criminal offenses recorded were property-related, an increase of six percent. Three-quarters of all property-related criminal offenses recorded were thefts. In 2009, 40,000 thefts were recorded, which is 3 percent more than in 2008.

In 2009, the number of recorded criminal offences against the financial system increased by 47 percent, and criminal offences related to the possession of narcotic or psychotropic substances increased by 19 percent.⁵

The production of counterfeit currency and securities increased by 258.6 percent (from 237 to 613 cases) and cases of fraud grew by 59.1 percent (from 915 to 1456 cases). Furthermore, the unlawful production of alcoholic beverages and the number of crimes committed by intoxicated persons nearly doubled in 2009. Based on Lithuanian and foreign experience an increase in crime is expected to continue until 2012–2013 as restraints on economic crimes take longer to implement and are related to a rise in a country's standard of living.⁶

Growth of the Shadow Economy

The economic downturn has resulted in an increasing number of businesses experiencing financial difficulties, and some of them turn to the shadow economy as a means of salvation. This is particularly the case in regard to labor relations and failure to pay taxes (such as income and social insurance taxes). According to official Lithuanian statistics, in 2004 and 2008 the shadow economy in Lithuania accounted for about 15 percent of GDP. It is possible that by 2015 this may increase to 20–22 percent, given the declining profitability of business entities, the rise in tax rates, and the worsening macroeconomic environment. It is important to note that shadow activities develop very quickly, but eradicating them is a slow process.

The biggest part of the parallel economy is smuggling, closely followed by the unaccounted sale of goods and unreported remuneration.⁷ In order

⁵ *Statistical Yearbook of Lithuania 2010* (Vilnius: Statistics Lithuania, 2010), pp. 219–20.

⁶ Gruzevskis and Zabaraukaite, "Social Consequences of Economic Downturn (2008) in Lithuania."

⁷ Lithuanian Free Market Institute, *A Survey of the Lithuanian Economy 2009/2010* (2009); Torben Pedersen, "What are the prospects for Lithuania's economy 2011–2013," *VilNews e-magazine*, January 18, 2011, <http://vilnews.com/?p=1418>; Viktor Trasberg, "Tax administration and the shadow economy in EU new members," *Societa italiano*

to reduce the impact of the shadow economy, the government has decided to focus on extracting one billion litas from it, which represents roughly five percent of total tax income, instead of increasing taxes or cutting social benefits and the salaries of public servants.

The shadow economy not only has an adverse effect on the country's economy, but it also has negative social consequences such as an increase in social and economic differentiation, a rise in the level of corruption, the reduction of social guarantees for individuals, poorly allocated resources across sectors, an unbalanced tax system and a slowdown of the country's economic growth.

Trends within Organized Crime in Lithuania

In 2010, there were 23 active organized criminal groups (OCGs) in Lithuania.⁸ Over the last two years, the number has remained much the same. Higher-level OCGs are characterized by long-term activity or are reconstituted by members of broken or dismantled OCGs. The leadership is constantly renewed by new, young members or criminals who have already served prison sentences.

The most significant trend within the Lithuanian organized crime community is the shift in power between the older and younger generations. The younger generations are gaining ground and seeking to increase their influence at the expense of older members. Lithuanian OCGs are also aiming to become more interregional within Lithuania. The dominant OCGs expand their authority and influence lower-level OCGs in different regions. Some OCGs started to seek dominant positions when members of higher-level OCGs returned from corrective institutions. Due to the change in criminal leadership, internal and external OCGs experience conflict and dishonesty between accomplices in criminal deals. The desire to dominate an area can spark violence. Interregional OCGs support their followers during conflicts between local OCGs. Firearms are used in campaigns of influence

economia publica, Working Paper, No. 313 (April 2004), <http://www-unipv.it/websiep/wp/313.pdf>; The World Bank, Tax Policy and Administration, <http://www.worldbank.org/publicsector/tax/>

⁸ Information Analysis Board Criminal Police Bureau, 2010.

or revenge. People are kidnapped, harmed, or killed, and their property is destroyed.⁹

In some situations, OCGs make deals rather than resorting to violence. They sometimes share a market and specialize in different trades. There is a trend for weaker OCGs to join bigger groups and find a niche within the larger organization. This development seems to be increasingly common among OCGs with international connections.

In 2009 and during the first semester of 2010, crime indicators in Lithuania decreased. However, there was an increase in crimes committed by OCGs. The number of criminal acts related to murder and attempted murder, possession of weapons and seizures of weapons, seizure of property, property extortion, destruction of property, drug distribution, and excise goods smuggling increased in the regions of activity of the most influential OCGs. The crimes committed by OCGs incorporated a high level of planning and the application of special means and measures.

Smuggling and the distribution of drugs and excise goods are the most important means for OCGs to gain power. These groups have created an infrastructure in the drug trade and developed supply chains and distribution networks in almost all regions of Lithuania. Even group members who are in prison remain in the drug trade and control it. Smuggling is a strong factor encouraging the creation of new OCGs that specialize in this function.

In certain regions of Lithuania, the dominant OCGs are active only in the field of smuggling. Groups controlling international relations ensure a supply of illicit commodities, while lower-level OCGs organize the distribution and/or carry out the smuggling. Competition for influence is more typical of the retail trade in drugs. Property seizure is also a criminal field in which OCGs have strong subgroups or new specialized groups. OCGs acting at the international level seize luxury cars and watercraft, cargo shipments, and agricultural and construction equipment. Property is seized from trade points and residential premises in different ways. In 2009, there was a tendency to break into agencies where large amounts of money were kept or to organize armed raids on these agencies.¹⁰

⁹ Europol, *OCTA 2009: EU organised crime threat assessment*, [http://www.europol.europa.eu/publications/European_Organised_Crime_Threat_Assessment_\(OCTA\)/OCTA2009.pdf](http://www.europol.europa.eu/publications/European_Organised_Crime_Threat_Assessment_(OCTA)/OCTA2009.pdf)

¹⁰ Information from division of Lithuanian Criminal Police Bureau.

During the crisis period, the number of crimes committed against the economy and the financial system rose, along with other kinds of fraud. The disruption of companies' economic activity and their high debt levels left them vulnerable to property extortion and abuse of authority. Businessmen controlled by OCGs or dependent on criminals became the target of property extortion due to their debts. Another reason for the profitability of property extortion was the rise in the number of persons engaged in the distribution of illicit commodities or smuggling. Managing financial resources gave Lithuanian and foreign OCGs a chance to invest in the business sector. However, some groups lost influence during the economic crisis because they too experienced a financial downturn and lost the power they had previously held by serving legal businesses.

Transnational Links

The geographical location of Lithuania encourages international activity by OCGs. The country is located at the crossroads of illicit commodities traffic in both internal and external directions. The locality of OCGs determined their specialization, when it came to control of regions of the external European Union border. Some use their influence at the Belarusian border; others at the Russian border. Close international relations with neighboring countries are also typical of local OCGs like those at the internal EU borders with Latvia and Poland.

Free movement of people and commodities inside the EU facilitates the shipment of illegal cargoes, and flawed external border security allows smuggling. The increasing trade in used vehicles in Lithuania has become a factor in the infrastructure for handling stolen property, with vehicles stolen in Western countries being exchanged for drugs. This has made it possible for Lithuanian OCGs to play an influential international role in heroin smuggling from the East to the West. The proceeds of crime are laundered through businesses in the financial and construction sectors.

In Russia in 2009 and 2010, Lithuanian OCGs used opportunities related to the acquisition of excise goods to smuggle goods into the West, and then into the Netherlands. The goods smuggled included cocaine, hashish, cannabis, amphetamine, methamphetamine and ecstasy (MDMA), heroin (in the region of Kaliningrad), and stolen vehicles. The OCGs were also involved in the running of legal businesses. Some members of Lithuanian OCGs have

settled in Russia. In Poland in 2009 and 2010, Lithuanian OCGs used opportunities related to the transport and handling of smuggled excise goods, the counterfeiting of cigarette products, the transport of smuggled drugs, vehicle theft, and the use of counterfeit electronic payment instruments. In Germany in 2009 and during the first semester of 2010, Lithuanian OCGs handled and smuggled cigarettes, transported smuggled drugs, traded in heroin, managed the organization of prostitution networks, engaged in human trafficking, seized vehicles and other property, distributed forged identity documents and euros, transported illegal migrants, purchased property, ran legal businesses, laundered money, and engaged in corruption. Some members of these groups are serving prison sentences in Germany. In Latvia in 2009 and 2010, Lithuanian OCGs handled and smuggled cigarettes and pure alcohol; transported and handled heroin, cannabis, and ecstasy (MDMA); counterfeited euros; and committed various thefts from vehicles, pipelines, cargoes, and equipment and chemicals for agriculture. The groups also engaged in the legalization of stolen vehicles, the use of false electronic means of payment, fraud, the use of forged documents, and the running of legal businesses. In Estonia in 2009 and 2010, Lithuanian OCGs smuggled drugs and ran legal businesses. In Finland in 2009 and 2010, OCGs smuggled cocaine, amphetamine, and methamphetamine and seized property. Some OCG members are serving prison sentences in Finland. In Sweden in 2009 and 2010, OCGs transported and handled cannabis, amphetamines, and ecstasy (MDMA); stole cars and watercraft; and seized other property. Some members of Lithuanian OCGs have settled in Sweden. Finally, in Denmark in 2009 and 2010, Lithuanian OCGs transported and handled smuggled methamphetamines; stole cars, watercraft and their parts; and seized property.

Organized Crime Groups Active in Lithuania

The main sources of information about the major OCGs and their activities are reports by the Organized Crime Investigation Division of the Criminal Police and by Lithuanian police units between 2009 and 2010. Some data also come from the State Border Guard and the Customs Criminal Services. The following OCGs have been identified.

Agurkas

The Agurkas group is one of the strongest OCGs in Lithuania. The level of organized crime in the country depends on its activity. It also influences trends in organized crime committed by Lithuanians abroad. Agurkas' criminal activities cover the production and distribution of narcotics, the smuggling of excise goods, theft of vehicles from residential premises, robbery, extortion of property, fraud, human trafficking, the organization of prostitution, currency counterfeiting, and document forgery. In 2009–2010, Agurkas members were also suspected of criminal acts related to illegal activities by companies, possession of criminal property, possession of weapons, disturbance of public order, resistance to and offenses against officers, unlawful deprivation of freedom, threats of killing, maiming, and attempted murder and sexual abuses.

The Agurkas group is active mainly in Russia, Latvia, and Estonia. The group also has some activities in Norway, the United Kingdom, Spain, and Ukraine. In the Baltic region, it poses a threat in Poland, Latvia, Estonia, Sweden, and Russia. In the EU, its activities affect Norway, the Netherlands, Germany, Belgium, the United Kingdom, Ireland, Spain, and eastern Ukraine. All of these countries are harmed by its drug distribution and property seizures. The grey economy in the West is stimulated by the handling of smuggled excise commodities and the handling of property seized in the East.

Beglikas

The criminal activities of the Beglikas group include drug and alcohol smuggling, money laundering, and other crimes against the financial system. Beglikas is present in Latvia, Estonia, and Russia, as well as in Spain. Its power and influence may be related to the criminal authority of its leader, his connections, his ability to entrench his influence and the effectiveness of countermeasures to drug smuggling on the Spain–Lithuania–Russia route. Its power is also increased by the economic activity of related legal businesses. Society is harmed by the drug distribution. The increasing economic power of this OCG also poses a threat.

Šmikiniai

The criminal activities of the Šmikiniai group include the smuggling and distribution of drugs, smuggling and distribution of excise commodities, robbery, theft of luxury vehicles, theft from vehicles, extortion of property, handling of stolen property, distribution of counterfeit money, organization of prostitution, possession of weapons, destruction of or damage to property, bodily injuries, and money laundering. The Šmikiniai group is found in Latvia, Estonia, Finland, Sweden, Germany, Spain, and Russia, as well as in Switzerland and Iceland. In the Baltic region illegal commodities are transported through Latvia and Estonia. Drugs are distributed and property seized in the region of Scandinavia. The group is a threat in many north-western EU countries and Russia because of cocaine smuggling from South America. The societies of these countries suffer harm due to drug distribution and money laundering. Victims of human trafficking from Lithuania and the East may be exploited in prostitution networks.

Pemaièiai

The criminal activities of the Pemaièiai group include drug production, smuggling, and distribution; the smuggling and distribution of counterfeit money; extortion of property; fraud; robbery; theft including the theft of vehicles, motorcycles, and water motorcycles; handling stolen property; crimes against the economy and the financial system; money laundering; violating public order; possession of weapons; destruction and damage of property; illegal deprivation of freedom; bodily injury, and murder. The Pemaièiai group is found in Latvia, Estonia, Germany, and Russia, and in many other EU countries such as Belgium, the Netherlands, the United Kingdom, Ireland, France, Bulgaria, Italy, and Spain. Drug smuggling is facilitated by the free movement of people and commodities within the EU and weak external border security. This OCG uses legal businesses in the fields of haulage, agriculture, and finance for criminal purposes. It uses EU financial support to strengthen its powers. Thanks to communication technologies, distant members can maintain constant contact.

Miliai

The criminal activities of the Miliai group include drug smuggling and distribution, the smuggling of excise commodities, property extortion, crimes against the economy, and money laundering. Miliai is found in Sweden and Russia as well as in Norway, Belgium, the Netherlands, the United Kingdom, Italy, Belarus, and Ukraine.

Buduliai

The criminal activities of the Buduliai group include drug smuggling and distribution as well as cigarette smuggling. It is present in some regions of Latvia that play an important role in drug smuggling, and in Norway where it connects with immigrants from Lithuania. Latvia suffers harm from the activity of Buduliai and the OCG also encourages trade in drugs and cigarettes smuggling in Norway.

Švinius

The criminal activities of the Švinius include cigarette smuggling, money laundering, crimes against the economy, fraud, property extortion, robbery, bodily harm and possession of weapons. This group is found in Latvia, Germany, and Russia, as well as in the United Kingdom and Belarus where the OCG runs legal businesses, operates in the field of business construction, and makes use of corruption.

Description of Criminal Acts

Information in this section, as in the previous section, comes mostly from the Organized Crime Investigation Division of the Criminal Police and regular police units.

Drug Trafficking

The drug market trends in the Baltic states are similar, and the problem is increasing. Evidence of this is the fact that whereas in 2009 only 3.7 kg and 853 ml of heroin were seized in Lithuania, in 2010, 5.5 kg of heroin was found in a hidden compartment of a truck at the Latvian–Lithuanian bor-

der. This was the largest quantity of heroin ever seized in the country.¹¹ Its value on the black market would amount to roughly one million litas (i.e. 289,620 euro), for the wholesale price of 1g of heroin in Lithuania fluctuates from 90 LTL (26 euro) to 160 LTL (46.33 euro).

According to law enforcement agencies, one kg of heroin can be used to produce about 14,000 doses of drugs, with concentrations varying from 0.01 to 64.9 percent (the average concentration was 34 percent). Given that the average price of one dose is between 30 LTL (8.6 euro) and 50 LTL (14.4 euro). The total value of the quantity seized above in the retail market would amount to 420,000–700,000 LTL (i.e. 121,640 – 202,734 euro).

In 2009, heroin was the most popular intravenous drug in Lithuania, and the one most commonly seized by law enforcement agencies. Since then, the demand for it has not waned. Data on detentions indicate that it replaced the previously used concentrate of opium poppies. It is unlikely that the demand for this substance will decline.

Cocaine is the most expensive illicit drug in Lithuania, and its high price has limited its marketability. In 2009, six kg of cocaine were withdrawn from circulation. The average concentration of the drug seized was 37 percent (it was 36 percent in 2008). In 2009, there were also cases in which Lithuanian nationals were detained abroad for shipping a total of 99.1 kg of cocaine.

In January 2010, a container shipped to Lithuania from Peru was found to contain a very large amount of cocaine (about 397 kg). This smuggled cargo makes up the largest amount of drugs ever seized in Lithuania and one of the largest amounts seized in the European Union.

According to the available information, the wholesale price of cocaine in the country recorded in 2009 has not changed for several years. It fluctuates from 34 to 43 euro (120–150 LTL). The retail price of cocaine in Lithuania varies between 43 and 72 euro (150–250 LTL). Thus, the main consumers of cocaine are those with above-average income.

The profit received from cocaine distribution is not precisely known. It is thought that after the distribution of one kg of cocaine, the profit (with no outlay included) may be between 11,584 and 14,481 euro (40,000–50,000 LTL).

¹¹ "Pasienyje sulaikytas didžiausias šiais metais heroino kiekis," Lietuvos kriminalinės policijos biuras, May 4, 2010, http://lkpb.policija.lt/index.php?option=com_content&view=article&id=135

The increasing availability of cocaine has been noticed in Lithuania. However, it is too early to state that consumption of cocaine will increase in the country. The large seizures in 2009 and 2010 suggest that as the demand for cocaine in Europe as a whole is increasing, the underworld is looking for new and unusual routes for intensive cocaine smuggling.

Like the rest of Europe, Lithuania has seen a rise in indoor cannabis cultivation. Thus, cannabis sold in Lithuania may have been grown in Lithuania or imported from the Netherlands or Spain. The most striking examples of cannabis cultivation in Lithuania in 2009 were two specially equipped sites on which 5.3 kg of cannabis and 13 kg in were seized. There were also several cases of small-scale indoor cannabis cultivation. In total 82 kg of cannabis was withdrawn from circulation in Lithuania.

Hashish is not a popular drug in Lithuania, and so its circulation is not high, with only 10.5 kg of this drug being seized. This is an imported drug, and Lithuania remains a transit country for smuggling it from Western to Eastern Europe.

The wholesale price of cannabis and its extracts (marijuana) was 14–26 LTL (4–7 euro) for one gram and its retail price was 20–80 LTL (5.5–23 euro).

The profit from the distribution of cannabis by criminals is not precisely known, but it is estimated that the profit after distributing one kg of cannabis may be approximately 10,000 LTL (2896 euro).

Amphetamine-type stimulants (ATS) have remained the most popular in the country, as in previous years. A quantity of these substances is brought from foreign states. In 2009, 2.5 kg of amphetamine were withdrawn from circulation in Lithuania. There was, however, a decrease in the amount of amphetamine in the local market as methamphetamine is the most popular ATS.

Data on detention and other information confirm that illegal production of methamphetamine and amphetamine is taking place, though not on an extensive scale. The scale of drug production in Lithuania is often overestimated. Lithuania is one of the states in which the quantity of drugs imported is higher than the quantity produced. In 2009, one illegal methamphetamine laboratory of average capacity was detected in the country. 82 kg of methamphetamine and 34 kg of free base of methamphetamine extracted from intermediate products were withdrawn from circulation.

In 2009, 69,823 ecstasy tablets were withdrawn from circulation in Lithuania. It has been noticed that ecstasy is being replaced by mCPP and its mixtures. The retail market prices of one gram of amphetamine and methamphetamine fluctuated from 15 to 80 LTL (4–23 euro). The price of a dose of methamphetamine varied from 15 to 25 LTL (4–7 euro) and that of methamphetamine from 20 to 40 LTL (5–11 euro). In the retail market, one tablet of ecstasy cost between 5 and 25 LTL (1–7 euro). The average purity of amphetamine powder was 23 percent, methamphetamine 24 percent, and ecstasy 20 percent.

New uncontrolled psychoactive substances are also becoming popular. However, there are some differences between the Baltic States. Whereas heroin is common in Lithuania, in Estonia the preferred substance is fentanyl (a synthetic heroin alternate). In Lithuania, the most popular synthetic drug is methamphetamine, whereas in Estonia amphetamine is in higher demand. In Latvia, amphetamine and methamphetamine share the market almost equally. The three countries are used for transit of drugs from the East to the West and vice versa, and for the transit of synthetic drugs to Scandinavia.

In Lithuania, the members of OCGs share functions among themselves: some are responsible for the production or acquisition of drugs, others are in charge of local logistics (e.g. the selection and recruitment of couriers), while others are responsible for handling. Assignments are usually distributed with regard to the capabilities of the members of the group.¹² Heroin is usually brought to Lithuania from Russia. Some remains in Lithuania while the rest is shipped to the region of Kaliningrad and Latvia.

OCGs use the transportation and financial sectors and the illicit market of commodities and services. New technologies facilitate the organization of criminal acts and complicate the discovery of crime and the gathering of evidence. OCGs are encouraged in the illicit circulation of drugs by the ease with which they can operate and the great profits resulting from the constant demand for narcotic substances and the existence of a market of consumers.

Because of its high price, cocaine has not been marketable in Lithuania and has been replaced by amphetamine or methamphetamine, which are considerably cheaper and have similar effects. Even though the demand for cocaine is small in Lithuania, large quantities are being brought into

¹² Information Analysis Board Criminal Police Bureau, 2010.

the country for re-export to other European countries or Russia, where the demand is higher. Cocaine traffickers thus use Lithuania as a transit country to mislead law enforcement.

Along with amphetamine-type stimulants (ATS), cannabis is the most popular drug among consumers. Lithuania, like Europe, has faced the spreading phenomenon of indoor cannabis cultivation. Cannabis may thus be cultivated in Lithuania or imported from the Netherlands or Spain. In 2009, 313 cases of cannabis detention were registered and 356 suspects were identified.¹³

The availability of amphetamine has decreased in the local market, as methamphetamine has become more popular, however. Illicit facilities for the production of methamphetamine and amphetamine have been found in Lithuania. Their products are not solely for the local market but are also transported to Scandinavia (through Latvia and Estonia) and Russia. Ecstasy, however, remains in Lithuania while other drugs are transported to Russia. The smuggling routes thus created are not only used for the transportation of drugs produced in Lithuania but also for the carriage of ecstasy and the import of amphetamine.

Cigarette and Alcohol Smuggling

In 2009, the retail price of tobacco products increased by 26.1 percent compared to 2008 prices because excise and value-added tax (VAT) rates were doubled. Retail sales of tobacco products decreased by 31 percent (for comparable prices), and statistics for the first semester of 2010 show that the legal market for cigarettes is shrinking.

In comparison with previous years, there was a significant rise in contraband cigarettes shipped from third countries (most often Russia and Belarus), as well as an increase in the quantity of contraband cigarettes seized in Lithuania. However, Lithuania remains a transit country, and 85 percent of the cigarettes seized in Lithuania are intended for the black market of European countries (the United Kingdom, Germany, and Poland). The most popular brand of cigarettes smuggled through Lithuania has always been Jin Ling. A 1000 percent profit was made by legally acquiring tobacco products in third countries (most often in Russia) and selling them illegally

¹³ Ibid.

on the black market of EU member states. It has been noticed that those who previously organized the smuggling of cigarettes via the green border have started transporting them in cargo trucks and cars equipped with hidden compartments, thus decreasing the cost of transportation.

Due to the different prices of cigarettes in neighboring countries, intensified cross-border shopping has lately been observed in Lithuania. Individuals can legally import a certain quantity of cigarettes and alcohol. However, much of what is imported is for resale and is not intended for personal use. There has also been an increase in the number of Polish citizens, who, in order not to attract the attention of Lithuanian law enforcement officers, purchase cars with Lithuanian registration numbers. These cars are modified with specially equipped hidden compartments (in a fuel tank, an airbag or a double floorboard) for the illegal shipment of cigarettes.

The retail prices of alcoholic beverages increased by 9.2 percent from 2008 to 2009. The price increase was caused by a higher excise rate, which was applied on January 1, 2009, and was influenced by VAT, which was raised in 2009. The prices of fortified alcoholic beverages have also greatly increased. In 2009, 3.3 million decalitres of fortified beverages were sold, which is 559,000 decalitres (14.3 percent) less than in 2008.¹⁴ The principal trends in alcohol smuggling have remained the same: products are smuggled from neighboring EU countries (Poland and Latvia). The scope of the transportation of illegal alcohol from Poland and Latvia and of production in the country has expanded. Due to a liberal application of regulations regarding denaturing alcohol, legally produced alcohol or alcohol brought from third countries is shipped to Lithuania (legally or illegally) where it is illegally processed under domestic conditions using simple technology and sold on the home market.

Special experience is needed to smuggle cigarettes and alcoholic beverages. The smugglers must be familiar with the terrain, have some minimal ability to speak a foreign language, maintain contacts with criminal groups in neighboring counties, and have specially equipped cars and professional drivers. Members of the same OCG are usually active on all the stages of this criminal activity, but distribute tasks and roles. Some buy cigarettes from foreign suppliers or legally operating factories (in the region of Kaliningrad

¹⁴ "Alkoholio vartojimas ir padariniai 2009 m," Statistikos departamento tinklapis, June 11, 2010.

[Russia] or in Ukraine). Others bring cigarettes to Lithuania or arrange orders and sell cigarettes to those who later handle cigarettes in Lithuania or resell them. The smuggled cigarettes are most often shipped to Lithuania in hidden compartments or are hidden under goods in trucks and cars. Cigarettes from the region of Kaliningrad are also shipped across the state border, bypassing the border checkpoints, and carried across the river on waterborne transport. Tobacco and its products illegally transit via Estonia, Latvia, Lithuania, Belarus, Poland, Greece, Hungary, and Sweden. The destination countries are Lithuania, Poland, Germany, England, Ireland, and Norway. Contacts are maintained with Russian, Polish, German, Latvian, Belarusian, Ukrainian, Israeli, and other criminal groups.

The main reasons for the increase in the smuggling of tobacco products are the general socio-economic decline and the considerable increase in the price of cigarettes. OCGs are attracted to this market because it offers quick, high profits without much expenditure of labor. As the organizers of the smuggling usually stay in the background it is hard to identify them and they are rarely imprisoned. The penalty for smuggling tobacco products is also lighter than that for smuggling narcotic substances.

Smuggling of cigarettes and alcohol directly damages the collection of state revenues, and the image and economy of Lithuania. Those who engage in this trade work illegally, do not declare their income, and do not pay taxes. Market competition is strained when legal trade competes with illegal trade. Due to the fact that most of the cigarettes shipped via Lithuania are intended for the black market in EU countries, these countries must suffer similar damage. However, we do not possess any specific data on the influence of this criminal activity in the Baltic region inside and outside the EU.

Counterfeiting of Euro Banknotes

The production and distribution of counterfeit currency is not common in Lithuania since Lithuania is not a member of the euro zone. Nevertheless, the euro remains the most frequently counterfeited and distributed currency, particularly 20 and 50 euro banknotes. The majority of counterfeit euros are handled in eurozone countries, but there are cases of people being paid for commodities in counterfeit euros. However, according to the data of the European Central Bank, the number of counterfeit euro banknotes is

not very high in comparison with the increasing number of genuine euro banknotes in circulation.¹⁵

The cessation of internal border control gives persons committing crimes the ability to travel freely in EU countries and to carry counterfeit money or other illicit items. The rapid development of technology allows organized groups to acquire high quality counterfeit money, which significantly hampers detection. As many countries have not yet introduced the euro, people have difficulty in telling the difference between real and counterfeit banknotes and foreign citizens are very trusting. It is thus easy for those who wish to commit crimes to deceive them. Economic and financial problems in the Baltic states are partial preconditions for the commission of criminal acts such as the production, keeping, or handling of counterfeit money or securities.

The production and distribution of counterfeit euros do not have a particular influence on the economies of the countries of the Baltic region, although private persons suffer damage because they are ignorant about the security features of euros and accept counterfeit banknotes. Bank employees easily detect the counterfeits with special equipment used to identify security features of currency and immediately withdraw such notes from circulation.

Human Trafficking and Exploitation

Human trafficking has taken a new form as some victims agree to travel to countries with higher standards of living and engage in voluntary prostitution. The women's social vulnerability (unemployment, absence of income) and absence of other information results in their allowing others to take half of their income. Human trafficking is organized and committed not only by OCGs but also, in some regions of Lithuania, by individuals with no direct connections with OCGs.

Human trafficking involves recruiting people (by deception or telling the truth), forging identification documents, organizing transportation, and searching for locations in which to sell and receive profit. Payment is sometimes extracted from the person's earnings. Victims of human trafficking are usually women aged 18 to 24. They are recruited through modeling

¹⁵ "Lietuvos banko internetinė svetainė," Bank of Lithuania, <http://www.lb.lt> (accessed September 15, 2010).

agencies, radio shows, online dating, social networks such as Facebook and other websites, and often voluntarily leave their home countries. Cases are known in which women are offered legal jobs (as waitresses and dancers), but once transported abroad they are forced to provide sexual services. Violence is also often used to make them work and to intimidate others. Search and recruitment is conducted by low-level members of the OCGs. Women are not only recruited by procurers but also by working prostitutes who receive rewards of up to 600 euro for a new woman.¹⁶

Poland is one of the main transit countries through which persons are carried, but persons have also been transported through Latvia, Germany, and the Czech Republic (using land transport where there was no internal border control). The destination countries are states like Germany with higher standards of living, more stable economies, and a demand for cheap labor and sexual services.

Employment, dating, and modeling agencies, recreation centers, night-clubs, rented flats, and hotels are used to commit these criminal acts. The establishment of legal businesses is often planned along with the criminal activity being organized. Companies are set up in the names of other uninvolved persons. Legal businesses are established not only in Lithuania but also in the countries in which criminal acts are committed. Favorable conditions for these criminal acts are created by tolerant national legislation, scarce state control, and the demand for sexual services and cheap labor in the destination countries.

The commission of these criminal activities is conditioned by complicated economic situations and high levels of unemployment in Lithuania. The reason OCGs participate in these criminal acts may be that they offer low risk and high profits. The proceeds of this crime are invested in legal business, and so destabilize the economy of the state.

Fraud

In 2009, 4229 cases of fraud were registered by law enforcement agencies, and 2494 more were registered between January and July 2010. In comparison with 2008 (when there were 2773 cases of fraud), there is an obvious increase of this kind of crime.¹⁷ The economic crisis has affected many fields

¹⁶ Information Analysis Board, Criminal Police Bureau, 2010.

¹⁷ IRD prie VRM statistika (accessed August 26, 2010).

of business. Payments among participants in an economy in disarray and a massive increase in mutual debts raise the probability of an increase in fraud. Business difficulties stimulate the rise of new ways of perpetrating fraud, manipulation, shady financial transactions, and other forms of misappropriation. An increase in insurance fraud is also predicted. Companies that are going bankrupt, receiving no bank loans, and short of liquid assets will easily be attracted by offers of financial assistance or investment and will not investigate the source of the money. Analysis of investigations shows a trend of OCGs working to create favorable environments for acquiring legal businesses. By taking over insolvent companies and using them to launder the proceeds of crime, criminal groups would more easily be able to control a legal business. There has also been an increase in the number of fraud cases among legal entities. Companies are established or purchased in order to commit fraud, and commodities are purchased on the grounds of consignment. There are also cases of fraud in the recovery of VAT. Companies of this kind later go bankrupt or are illicitly sold to other persons, and further activity is undertaken. The persons who acquire them are usually antisocial and trade is conducted using lost or stolen identity documents. Recently, many cases have been disclosed in which companies participated in fraud involving social allowances. For example, the salary of a female employee is disproportionally raised before her maternity leave and she receives a "raised" social allowance for two years. Fraud of this kind is usually only possible in private companies.

Law enforcement agencies have shown that the key component in fraud is the use of personal data belonging to another person.¹⁸ Thus, fraud is closely related to forgery of identity documents. In recent years, criminal acts of an economic nature have been noticed, including handling real estate belonging to other persons, fraud in order to acquire valuable real estate, employment fraud, deliberate bankruptcy (phoenix syndrome), cargo fraud, and so on. Criminal acts involving the so-called "phoenix syndrome" have been noted in recent years. They happen when companies transfer property or activities to newly established subsidiary companies in order to evade paying VAT or other taxes, or to avoid payment for commodities or services to suppliers. Analysis of police investigations revealed new trends in criminal acts committed by organized groups.

¹⁸ Information Analysis Board, Criminal Police Bureau, 2010.

Lithuanian assets are also targeted by foreign nationals acting on behalf of foreign companies. They forge documents indicating the purchase of commodities from Lithuanian companies. For example, in the case of telephone purchases, they provide falsified documents to the State Tax Inspectorate (STI) and request the recovery of VAT due to overpayment. These are cases where commodities were allegedly bought for the Lithuanian market and were then allegedly exported abroad.

When it comes to VAT fraud, Lithuanian companies are usually used rather than foreign enterprises. Recently there have been more cases in which companies tried to obtain VAT payments from the state rather than evading VAT payments. In other words, they simulated trade and requested refunds from the state.

VAT fraud is usually related to trading in oil products, metals, vehicles and their parts, consumer commodities, and the construction sector. VAT fraud also occurs in relation to the provision of various services and work that is difficult to verify and assess completion (such as advertising, applying research, mediation services) as well as in the field of information technologies and meat processing.¹⁹

Although the methods of OCGs are becoming more elaborate, an analysis shows that the methods of VAT fraud have remained the same as in previous years:

- Export of commodities is simulated using falsified documents;
- Purchase of goods or services from other companies operating within the territory of the Republic of Lithuania is simulated using forged documents;
- Forged documents certifying a supposedly legal purchase are used to legalize illegally purchased goods. Later these commodities are resold for other purposes;
- Front companies (which are not conducting actual activities) are involved in the chain of purchasing commodities or services in order to fictitiously increase the prices of commodities and services rendered, or to reduce the prices of goods and services sold;

¹⁹ "Lithuania to cut benefits, pay, hike VAT to fight crisis," EU Business, June 17, 2009, <http://www.eubusiness.com/news-eu/1245249122.94/>

- Despite being aware of the complicated financial situations of a company, such as an impending bankruptcy, company managers continue to recruit customers and sign contracts for work or services while taking advance fees.

The most popular model of VAT fraud is the purchase of commodities or services from other companies active in the territory of Lithuania using falsified documents. A variant of this is involvement of companies that do not actually purchase commodities or services but which illicitly increase or decrease the price of commodities or services purchased. It has been found that companies conducting fraudulent operations are very often also involved in legal activities.

In order to commit criminal acts of this kind, OCGs make use of private companies whose role is to purchase real estate and register it in their name. It should be noted that OCG members work in the companies mentioned.

Corruption of Public Officials and Institutions

Many law enforcement officers, prosecutors, and lawyers, at all levels and ranks, particularly those who specialize in tax cases, become corrupt. They set out to receive unlawful rewards from persons suspected of crimes against the financial system who can avoid prosecution by paying bribes. If the bribe fails – that is to say, if the pre-trial investigation is not dismissed or the criminal act is not downgraded to a milder article of the criminal code – these persons make up charges and pay officers to intimidate or financially weaken their business competitors.

Those who participate in corruption in public tendering are persons in the administrative field (officials of ministries, budgetary institutions, and municipalities), employees of public institutions, and managers of private companies or companies run by the state and municipalities. Aspects of corruption are noticed in all fields and stages of public tendering. Corrupt activity manifests itself most in the organization of public tendering regarding construction, refurbishment, and information technologies.

Different corruption mechanisms are employed at each stage of public tendering. The initial stage includes the type of fraud in which representatives of participating companies come to an informal agreement on who will be the winner in a certain town, region, or ministry, and fix the price

for services, commodities, or work. Agreements of this kind maintain high prices and stable income (the company knows how many tenders it will win each year). They also exclude possible competitors.

Civil servants or employees of municipalities and state companies participate in one of the most popular forms of corruption at the initial stage. This stage involves the drawing up of tender conditions for a particular supplier or commodity, with the establishment of requirements for qualification or technical specifications. Competitors may be excluded from tendering on the basis of requirements or qualifications that have no direct connection with the commodity, service, or work required (e.g. turnover, number of employees). Inside information is sometimes leaked at this stage.

Future winners of tenders often arrange the tender conditions with the representatives of the contracting organization, set the requirements to suit their own qualifications, and sometimes even pay an illegal reward.

At the initial stages, bribes are offered to those who are able to influence the results of public tendering (members of the commissions of public tendering, high-ranking officials of ministries and municipalities such as advisors and consultants to managers and mayors). In later stages, bribes are not only given to ministry or municipal officials but may also be given to members of the commission.

Certain officers of the state receive monetary rewards for the organization of corrupt public tendering in the form of provision of certain services. Thus, their real estate may be refurbished and they may receive discounts when purchasing a vehicle or gifts such as trips and furniture.

Money Laundering

In order to launder money, foreign companies transfer their money to the Lithuanian bank accounts of fake foreign or Lithuanian companies that have usually been established by foreign citizens. Money is then transferred from one country to another through Lithuanian financial institutions using the accounts of these fake companies. The proceeds of crime acquired in Lithuania may be transferred to foreign states, or the proceeds of crime in foreign countries may be transferred to Lithuania.

Lithuanian companies transfer money to the fake company or non-profit (usually fitness clubs), and the money is cashed immediately after it has been transferred. After the money has been cashed, fake accounts are

opened and managed by antisocial citizens of both Lithuania and foreign countries who often have connections with criminal groups.

It is assumed that the major reason for transferring assets to Lithuania is to conceal the illegal origin of the assets. Cases have also been discovered in which Lithuanian nationals used accounts in foreign countries while engaging in similar criminal activity.

Lithuanian companies increasingly use companies registered in foreign countries and foreign nationals to transfer money to the accounts of fake companies or offshore companies in foreign banks. More cases occur in which money is cashed in neighboring countries and in which citizens of that particular country are involved.

A number of accounts for fake foreign companies have been opened in Lithuanian credit establishments. These may be called transit accounts. International payment transfers, including online transfers made into these accounts from abroad, are further transferred to another foreign commercial bank. This method of moving money in which money travels through many countries and into many accounts may be used in various tax evasion schemes and in the legalization of the proceeds of crime. It is difficult to identify the sources of the assets and the final receivers.

Money laundering has a geographic principle that is closely related to the principle of neighborhood (close in distance, no language boundaries) and the possibility of freely crossing the borders of EU countries. Since the Lithuanian border is one of the external borders of the EU, illegal assets are smuggled to third countries (the Russian Federation, Belarus) without being declared to the customs services of the Republic of Lithuania. Cash smuggling is one of the most frequent elements in money laundering schemes in order to conceal the illicit source and origin of money as well as its state of origin. Now that the internal EU borders are open, export of the proceeds of crime from the Republic of Lithuania has become extremely simple and, after further financial transactions, the origin of the illicit assets becomes particularly difficult to trace. The geography of the financial transactions of OCGs is also influenced by the geographical location of Lithuania, which is especially attractive for drug transit.

Concluding Remarks

There has been an increase in international crime in Lithuania. For instance, Lithuanian OCGs have strong relations with criminals in the UK, Germany, and Spain. They jointly plan and engage in criminal activities, especially in the fields of drugs, human trafficking, smuggling, and forgery. It is indeed easier for them to implement their criminal activities together. OCGs are involved in drug dealing because it produces huge profits and can even be run from prison. They agree between themselves to control the whole drug business. Less financially affluent members of the criminal world, or weak criminal groups, attempt to join the most successful criminal groups. Criminal groups from small cities in Lithuania also try to join criminal associations operating in the capital, Vilnius. More and more often, members of the criminal world are looking for opportunities to implement criminal activities in European Union countries, and many members of criminal groups are leaving the country in order to continue their criminal activities abroad.

It should be mentioned that globalization and the economic crisis have had a huge impact on the criminological situation in all countries. In Lithuania, the number of crimes against the financial system committed by OCGs increased during the economic crisis. The most important measure in fighting organized crime is prevention of the financing of organized crime. Lithuania has already set in place laws concerning the confiscation of assets and the prevention and control of organized crime. Impeding the legalization of criminally acquired funds is an efficient mechanism to control organized crime. In order to destroy the economic potential of OCGs as well as criminal businesses and their internal executive infrastructures and relations, special attention should be paid to the leading and organizing chains of the groups. To promote the fight against organized crime, groups of law enforcement, finance, and control institutions and other related institutions should cooperate.

Analysis of recent organized criminal activities suggests that there are many more professional criminals than before. Nowadays, unlawful activities are based on good mutual relations, at both domestic and international levels, and they rely on highly organized financial, technical, and information facilities.

It is very difficult to predict trends in the development of organized crime. Before 1993, the threat of organized crime was very real in Lithuania.

Some researchers even raised the question of whether the country would be governed by criminal justice or organized crime.

Thanks to new laws directed against organized crime and the strengthening of the criminal justice system, there were a few successful trials and convictions in court, which weakened the position and influence of organized crime in Lithuania. However, organized crime remains strong in some fields such as smuggling, drug trafficking, theft of cars and from households, corruption and human trafficking. The future depends on development of the political and economic situation and reform of the legal system and the criminal justice system. There are sufficient options to bring organized crime under control.

Poland

Konrad Raczkowski and Grzegorz Gołębiowski

The Polish Economy Before the Financial Crisis

The Polish economy has maintained a relatively high growth rate since 2004 (see Table 1). This rise has embraced all the major sectors of the economy, namely, services, manufacturing and construction. EU accession provided Poland with solid foundations for prosperity. Entering the institutional structures of the EU led to significant increases in exports which in turn stimulated the growth of production and employment. In consequence, domestic consumer demand was sustained.

Table 1. Growth Rate of GDP and Domestic Demand in 2006–2008 (% , fixed prices)

Year	Consumption			Accumulation		Domestic demand	Foreign trade		GDP
	K	Including		A	Including Ni		E	I	
		Ki	Kz						
2006	5,2	5,0	6,1	16,1	14,9	7,3	14,6	17,3	6,2
2007	4,7	5,0	3,7	23,7	17,6	8,6	9,1	13,6	6,7
2008	4,1	5,4	0,0	7,7	7,9	5,0	5,8	6,2	4,8

K=Overall consumption, Ki=Individual consumption, Kz=Collective consumption, A=Gross accumulation, Ni=Gross expenditure on fixed assets, E=Export of goods and services, I=Import of goods and services.

Source: *The first 5 years of Poland in the EU* (Warsaw: Ministry of Economy, 2009).

Rising domestic demand along with increasing use of EU funding stimulated a growth in investments in enterprise. The high level of investment growth (accumulation) attained a peak in 2007. It is worthwhile combining these facts with an analysis of supply factors for economic growth in Poland. The conclusions drawn in studies show that from this perspec-

tive the major stimulus was the rapid rise of the total factor productivity observed in Poland.¹

In 2007, before the financial downturn brought about by the collapse of the real estate market in the United States the Polish economy was characterized by high domestic demand, rapid growth, a high rate of increase in investments and consumption (especially individual consumption), and a relatively solid total factor productivity accompanied these shifts.

Impact of the Crisis on the Polish Economy

During the initial phase of the financial crisis (from mid-2007) many countries launched special bailout programs for financial institutions threatened by insolvency. These involved recapitalization of banks, direct budget loans for the financial sector and direct redemption of non-liquid (called toxic) financial assets from financial institutions. In successive phases, many governments initiated stabilization programmes. With respect to budget revenues, measures consisted of allowances and tax exemptions, whereas for expenditures the initiatives involved increasing public finance for investments (primarily structural).

The first symptoms of the financial crisis in Poland became apparent in mid-2008. To a large extent, this was connected to the psychological effect surrounding the crisis over liquidity in the banking sector. The Warsaw Stock Exchange followed the global pattern where all indexes plummeted (see Table 2).

Table 2. Selected Stock Exchange Statistics in Poland, 2006–9

Year	Capitalization of Domestic Companies (million zł)	Number of Companies	Trade in Shares (million zł)
2006	437,719	284	338,696
2007	509,887	351	479,480
2008	267,359	374	331,316
2009	421,178	379	351,885

Source: Warsaw Stock Exchange

¹ Adam Giegiel, "Dynamics of the Polish economy in the light of endogenic growth models," in Sylwia Pangsy-Kania and Krzysztof Piech, eds., *Innovation in Poland from the regional perspective: New theories, the role of EU funds and clusters* (Warsaw: Instytut Wiedzy i Innowacji, 2008).

During the period when the risk on the financial market increased, it became very difficult to acquire capital from the stock exchange market. Plans to offer new shares on the stock exchange failed. Most companies that sought to raise capital in this manner withdrew their offers. In 2007, 81 companies got listed in the stock exchange, resulting in an acquisition of capital on new stock issues amounting to 15.4 million zlotys. In 2008, the number of debuts dropped to only 33 and in 2009 further decreased to just 13. In 2008, the value of new share issues amounted to 3,665,000 zlotys. Share trading shrank in 2008, compared to the trading in 2007.

In 2008, when the symptoms of the financial crisis in Poland became obvious, there were strong adjustments to the rates of virtually all financial instruments traded on the securities market. This resulted in a decline of capitalization for domestic companies in 2008. It fell from 509,887,000 zlotys in 2007 to a total of 276,356,000 zlotys.

Companies faced difficulties raising capital. Investors were reluctant to purchase shares on the stock exchange. The high financial risks facing the banking sector led to a tightening of criteria for granting loans and an increase in margins. Following uncertainty in the wake of the collapse of the investment bank Lehman Brothers, transactions on the inter-bank market in Poland were limited to short-term transactions, mainly overnight. Banks ceased concluding transactions involving long-term deposits. The premium for credit risk included in short-term interest rates was far lower in Poland than both the American dollar and euro markets. Trade on the money market fell slightly. Yet it did not lead to an immediate rise in the number of business bankruptcies, even though their overall economic-financial standing deteriorated (see Table 3).

Table 3. Number of Business Bankruptcies in Poland, 2006–9

2006	2007	2008	2009
648	480	420	673

Source: Own study based on Euler Hermes 2010

What is just as interesting is that the number of companies that collapsed in Poland decreased in both 2007 and 2008. However, it should be underlined that these figures show the effects of the situation several months before. It can be partly explained by delays in management and

shareholders filing bankruptcies, and partly by administrative delay, for instance the time taken by a court to grant the relevant decree. Therefore, the almost 60 percent increase in the number of bankruptcies reported in 2009 is presumably a result of market problems faced in 2008. The estimated data for 2010, and the forecasts for 2011, show that the number of bankruptcies in Poland may soar in comparison with 2009 (perhaps up to 1500 bankruptcies by the end of 2010 and over 2000 in 2011).

If the unemployment rate in Poland over the same period is reviewed, a similar correlation is found. There was no increase in the number of people registering as unemployed until 2009 (see Table 4).

Table 4. Unemployment Rate in Poland, 2006–9 (%)

2006	2007	2008	2009
13.9	9.6	7.1	8.2

Source: Eurostat

The depreciation of the Polish zloty during the period of intensified symptoms of the crisis (see Table 5) was a mitigating factor behind the economic events described. It permitted the Polish economy to reap benefits from exports (the competitiveness of Polish products improved) and thus in part to appropriate financial resources resulting from stabilization programs implemented in other countries of the region, particularly in Germany. For example, it sustained demand for new cars in Poland throughout the second half of 2008. Many of the cars were purchased by foreigners entering Poland, mainly over the Western border.

Table 5. Rate of the Zloty against the Euro

2006	2007	2008	2009
3.8959	3.7837	3.5121	4.3276

Source: Eurostat

There were also, of course, negative effects to having this foreign exchange rate. The zloty's depreciation during the second half of 2008 brought about a rise of its value in debt denominated in foreign currencies and, in the case of enterprises, led to considerable losses in connection with option transactions that had been concluded earlier. This was reflected in

negative financial results for enterprises in late 2008 and at the beginning of 2009. The phenomenon was halted in the second quarter of 2009. This was possibly due to relatively stable sales performances as well as the return on sales.

The crucial reason behind the weakness of the Polish zloty was the pronounced deterioration of the economic situation in Hungary, Ukraine and the Baltic states that led to the sale of the majority of the region's currencies, including the Polish zloty. At that time there were, in principle, no fundamental factors hinting at vulnerability in the Polish economy that might trigger a depreciation of its currency. Therefore, the Polish government did not actively plan or undertake intervention. Or at least not on the same scale as many Western European states did. As part of anti-crisis initiatives the government offered virtually the only support programme for financial institutions.

The government activities within the above program (see Figure 1) included direct financial assistance by means of loans or sale of treasury securities for commercial banks with deferred payment through rescheduling or timing of repayments; recapitalization and financial assistance by BGK (Bank Gospodarstwa Krajowego), by means of transfer of treasury securities; official liquidation of government funds, for example, the National Housing Fund or EU Surety Fund, and providing the opportunities for takeover of financial institutions through mandatory redemption of shares by the State Treasury from shareholders.

The level of public debt remained stable at that time, with failure to take stimulus actions being one of the main factors. The deficit in public sector finance did not suffer any drastic changes in 2008 (see Tables 6 and 7).

Table 6. Public Sector Finance Balance in Poland (as % of GDP)

2006	2007	2008	2009
-3.6	-1.9	-3.7	-7.2

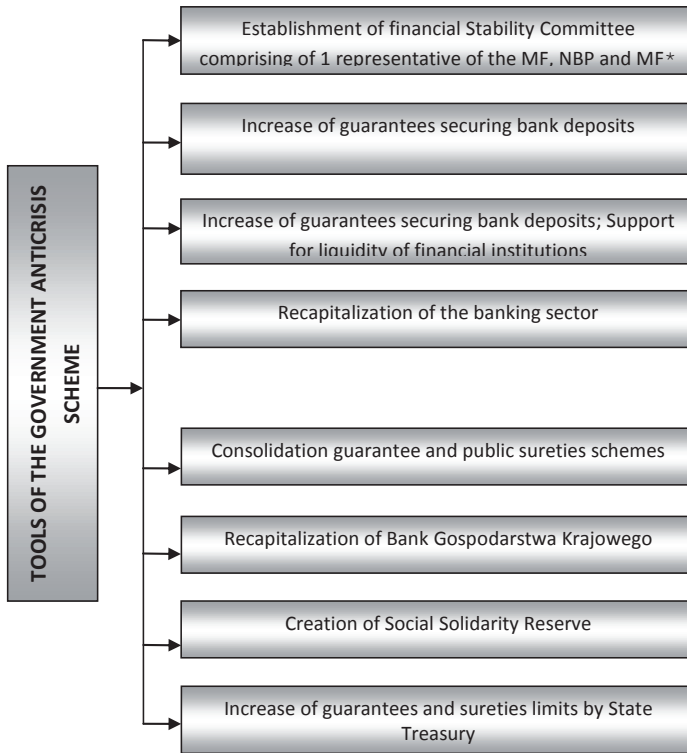
Source: Eurostat

Table 7. Public Debt (General Government Debt) in Poland (as % of GDP)

2006	2007	2008	2009
47.7	45.0	47.1	50.9

Source: Eurostat

Figure 1. Tools for the Government's Anti-crisis Program in Poland



*MF=Ministry of Finance, NBP=National Bank of Poland, KNF=Polish Financial Supervision Authority

Source: Own study based on Grzegorz Gołębiowski and Kamilla Marchewka-Bartkowiak, "Financial crisis and public debt," in *Financial crisis – selected issues* (Warsaw: Wydawnictwo Sejmowe, 2009).

The dramatic rise in public sector debt observed in many EU countries creates a risk that the opportunities for economic growth will be limited, in both the medium and in the long term. It may adversely influence the level of individual consumption and the level of corporate investment. The debt increase needs to be set by cuts in public spending and when they appear insufficient, taxes need to be increased.

Despite the manifest rise in public sector deficit in Poland, and the rise in public debt in relation to GDP in 2009, the current credit rating for Polish government debt from Standard & Poor, Fitch and Moody's is an A. The sit-

uation in this respect is stable and this level has been sustained since 2007.² The deteriorated state of these linkages in 2009 urges the necessity to look for budget savings and will force implementation of reform schemes within public finances in the near future. The adopted budget act for 2010 provides for numerous savings in spending as well as an increase of VAT up to 23 percent.

Table 8. Rate of GDP and Growth of Domestic Demand in 2009 (% , fixed prices)

Years	Consumption			Accumulation		Domestic demand	Foreign trade		GDP
	K	Including		A	Including Ni		E	I	
		Ki	Kz						
2009	2.1	2.3	1.9	-11.6	-0.8	1.0	-7.9	-13.6	1.8

K= Overall consumption, Ki=Individual consumption, Kz=Collective consumption, A=Gross accumulation, Ni=Gross expenditure on fixed assets, E=Export of goods and services, I=Import of goods and services.

Source: *Poland 2010: Report on the state of the economy* (Warsaw: Ministry of Economy, 2010).

From a macroeconomic perspective, the Polish economy coped quite efficiently with the symptoms of the financial crisis. It lost its impetus only in 2009 (see Table 8). Then, as a result of adjusting reserves to a reduced level of economic activity, domestic demand ceased to be a key factor for economic growth and its share in GDP became negative (see Table 9).

Table 9. Decomposition of GDP Growth in 2009 in Poland (%)

Consumption (Overall consumption)	Accumulation	Net export	GDP
1.8	-2.9	2.9	1.81*

* The GDP growth rate presented in the tables is calculated in accordance with GUS methodology. For the corresponding periods Eurostat announced: 6.2% (2006), 6, 8% (2007), 5.1% (2008), and 1.7% (2009).

Source: *Poland 2010: Report on the state of the economy* (Warsaw: Ministry of Economy, 2010).

² Elżbieta Glapiak, "Rating for Poland may be downgraded," *Parkiet*, November 5, 2010.

In 2009, external demand (net export) replaced domestic demand as the main driver for the economy and made a positive contribution over the year. This is a characteristic feature of recession.

Sustaining a positive level of consumption in Poland's relatively large internal market offers an opportunity to restore macroeconomic stability. We also need to underline that investments related to Euro 2012 and inflow of EU funds to Poland are significant.

Crime in Poland and Measures to Combat It

Crime has become a serious threat not only to national states gathered in increasingly expanded social and economic organizations, but also globally. It definitely contains an aspect of pathology that destroys the legal order and undermines confidence in state institutions, fair competition and markets.

Even though crime has a long history in Poland as in other countries, it was not until the 1990s that it began to flourish and enjoy a dynamic development connected with herd behavioral patterns and organized forms. The key driving force behind criminal activities was the destabilization resulting from the wide scope of reforms aimed at transforming Poland from a command economy into a free market. Emerging criminal groups realized the potential in the turmoil that accompanied the transition and which facilitated crime. It should be noted that regime transformation made the financial system collapse and hyperinflation rose to a peak over 600 percent in 1990 (it declined in subsequent years to around 32 percent in 1994).

In 1992, having taken into account the growing threat of crime, a special group called "Marathon" was set up by the Police, with the aim of penetrating criminal groups. A new unit presented an analysis which indicated that there were 30 criminal groups active in Poland. They were involved in smuggling (mainly cigarettes and alcohol) and dealing in electronic equipment, fuel and cars. On January 1, 1994, the Organized Crime Prevention Bureau in the Major Police Headquarters was established and then in 1997 the Drug Trafficking Prevention Bureau, following the surge in smuggling and drug trafficking. The establishment of the Central Criminal Investigation Agency was the culmination for professional police units responsible for taking on organized and illicit drug crime. The agency was officially established on April 15, 2000 by the Police Chief Commandant.

It should be indicated that the Police is not the only organization dedicated to fighting crime in Poland. Nevertheless it was the strongest formation of security services assigned to upholding public order. Other services also tasked with combating criminal activities as part of their statutory duties include the Internal Security Agency, the Border Guard, the Customs Service, the Central Anti-corruption Bureau, and the fiscal inspection and tax administration authorities.

Contemporary crime has shifted away from its earlier fields of activity, which had their origins in the regime transformation of the 1990s. The earlier criminal groups were characterized by their centralized structures and primitive methods of operation and created many smaller groups that operated jointly in a variety of fields, but in a more prudent and calculated manner. Breaking up two major criminal groups from Pruszków and Wołomin did not eliminate crime, yet it considerably debilitated it and forced criminals to search for new methods and forms of illegal activities. So, in this context, it is hardly surprising that the UN World Drug Report 2008 ranks Poland among the countries with the lowest number of murders per 100,000 inhabitants. Nevertheless, it should be noted that within the period 1990–2002 the activities of criminal groups led to the deaths of several hundred people. These included Ireneusz Sekuła, a former deputy prime minister of Poland, Jacek Dębski, the sports minister, and Police Chief Commandant Jacek Papała, whose investigation has not yet been completed and those responsible for the crime have yet to be brought to justice.

Observing recent trends provokes the following question: Are the state authorities not very efficient or do criminals learn from their previous mistakes and operate skillfully in a world of criminal organizations thus avoiding responsibility? This question is justified all the more because even when members of organized criminal groups are put in jail, they remain in contact with the outside world and enjoy protection guaranteed by criminal groups. They also receive financial support for their families (coming from fees paid by other group members or from operating a business owned by an imprisoned person).

It is worrying that, this type of criminal activity was reported in a few provinces of Poland in the entertainment and service business sectors in 2009–10, despite suppression of primitive forms of crime relating to collecting extortion money. However, most criminals have changed considerably

and their methods of operation have evolved. By establishing a property security agency or debt recovery agency they attempt to escape responsibility or to reduce it significantly in the event of victims reporting the crime.³

Local criminal groups (frequently cooperating with partners from abroad – especially from post-Soviet Eastern Bloc countries) have gained a monopoly over people trafficking and have greatly increased their effectiveness. Poland has become a transit center for women from the former Soviet republics (mostly Belarus and Ukraine) from where they are sold on to Greece, Austria, Germany, Ireland, the UK and the Scandinavian countries.

Just as importantly, there has been a decline in the number of non-Polish citizens involved, both those suspected of committing the crime as well as their victims (see Table 10).

Table 10. Data for Crimes Committed by Non-Polish Citizens and Affecting Non-Polish Citizens in the Territory of Poland (suspects, victims)

COUNTRY	2007		2008		2009	
	Suspects	Victims	Suspects	Victims	Suspects	Victims
Armenia	121	7	118	4	86	15
Austria	10	22	9	18	2	8
Belgium	7	24	10	41	13	22
Belarus	354	72	206	34	142	47
Bulgaria	57	5	119	20	103	21
China	3	7	0	8	8	16
Croatia	4	0	2	1	3	2
Czech Republic	52	40	46	45	61	47
Denmark	7	28	9	25	8	18
Estonia	13	3	15	5	12	18
Finland	3	14	0	14	1	6
France	22	74	26	59	28	38
Greece	3	7	2	4	4	1
Georgia	22	1	17	0	62	1

³ Report on operation of the Central Criminal Investigation Agency, KGP, Warsaw 2010.

Holland	19	84	15	54	12	36
Ireland	3	36	5	12	1	12
Israel	0	15	2	3	3	6
Kazakhstan	12	2	7	2	3	1
Lithuania	173	42	176	22	139	33
Latvia	32	25	30	9	28	8
Moldavia	16	3	12	2	7	2
Mongolia	19	1	11	2	14	4
Germany	193	690	168	434	164	308
Norway	4	49	5	40	2	35
Pakistan	8	4	7	1	9	4
Russia	172	79	169	32	180	39
Romania	55	14	170	11	134	14
Slovakia	48	78	67	22	49	16
Slovenia	1	3	0	2	2	1
Switzerland	1	21	9	11	18	14
Sweden	13	50	11	35	10	23
Turkey	13	12	21	8	12	16
Ukraine	588	160	398	88	459	137
USA	7	64	14	23	14	32
Hungary	14	13	16	6	11	8
United Kingdom	19	171	18	147	21	90
Vietnam	43	10	50	14	33	5
Italy	25	74	27	46	28	40
TOTAL *	2293	2161	2141	1463	2034	1296

* In the "Total" column all non-Polish citizens have been taken into account including some from countries not specified in this table.

Source: Own study using data from the Major Police Headquarters, Warsaw

During 2007–9, Ukrainian, Russian and German citizens were among the largest group of suspects while the victims included German, Ukrainian and UK citizens. However, it is difficult to discern what percentage of the statistics refers to ordinary criminal acts which are not relevant to the

impact on crime in Poland. Nevertheless these acts may still be relevant due to the high number of reported crimes committed by Polish criminal groups, especially in cooperation with Russian-speaking partners. Based on statistics dealing with extradition, we may make assumptions that a large group of Polish nationals operate illegally outside the national borders of Poland – notably in France, Spain, the U.S., Italy and Scandinavian countries.

Criminal groups in Poland are predominantly active in drug trafficking and economic crime (which often involves public figures not previously associated with crime). A significant number of crimes against property were reported in 2007–9. Considering the financial crisis, concerns were raised over a high rate of fraud (over 153,500 cases) and computer fraud which maintained an unusually dynamic rate of progress over the whole period examined (see Table 11).

Table 11. Crimes against property

Type of crime	2007	2008	2009	Total
Theft	183,283	182,711	No data	-
Theft after breaking into premises	142,543	124,926	134,612	402,081
Robbery	17,872	16,320	15,740	49,932
Theft with use of violence	1126	979	1026	3131
Racketeering and extortion	1315	1160	1168	3643
Unlawful appropriation	17,126	17,842	19,900	54,868
Telephone tapping	134	116	151	401
Fraud including swindling	50,398	49,424	53,720	153,542
Computer-related offences	322	472	673	1467
Destruction or damage to property	71,347	76,063	77,067	224,477
Vehicle hijacking	4695	4422	4305	13422
Theft in forest (timber)	1725	1888	1762	5375
Dealing in stolen goods	3734	3170	3075	9979
Unintentional dealing in stolen goods	1200	1028	1126	3354

Source: Own study based on Polish crime statistics from the Major Police Headquarters covering the years 2007–9, KGP, Warsaw 2010.

Proceeds from criminal activities are primarily invested in:

- a. Currency exchange offices – often used for money laundering
- b. Loan and leasing companies – frequently granting conditional loans which lead to the takeover of the debtor's assets due to extortionate interest rates and default penalties
- c. Commission houses and pawn shops – mainly pawn shops specializing in private motor vehicles, often involved in receiving stolen goods and money laundering;
- d. Companies providing logistics services – used for smuggling
- e. Sports clubs – enabling money laundering or reclaiming undue VAT (frequently used as a source of financing athletes without the need to invest own funds derived from other proceeds)
- f. Real estate development companies – facilitating money laundering and financing investments using funds gained through criminal activities (covering up the fictitious loans with real loans secured from a bank)
- g. Trading with land, both building and agricultural land – enabling overpricing in transaction contracts
- h. Forcing companies in financial difficulties to enter bankruptcy and take over their fictitious or exaggerated debts
- i. Nightclubs, discos, restaurants – facilitating drug trafficking and money laundering; and
- j. Escort agencies – a source of stable income and venue for transfer of false invoices.

If proceeds of illegal activities are infused into the stream of commerce, legalized and then increased through legal business operations, they become assets used in legal transactions. This is a kind of added value which may lead to blurring of illegal – in view of profitable business activities, or more frequently, to expand illegal business on a larger scale (often in a illusory optimization of legal and tax measures), with the strong support of experienced legal, consultancy or tax companies.

The Financial Crisis and Organized Crime in Poland

*The only surprise about the economic crisis of 2008 was that it came as a surprise to so many.*⁴

*It seems necessary now, more than ever before, to reconstruct the financial system, in the public sphere and also within individual households while supervising all the incoming assets, at both domestic and international levels.*⁵

The financial crisis is an undeniable fact. The devastation it caused across the world provokes thoughts of the necessity to change the concept of social, economic and state development. The crisis inspired the need for a new approach to problem-solving methods but, worst of all, it undermined confidence in public institutions and human relations in all fields of business. The number of crimes detected involving corruption among civil servants, protection payment or unlawful use of an official position in order to gain financial benefit, clearly exposes the system's significant vulnerability to abuse (see Figure 2).

In the new reality formed by the crisis it seems that criminal acts in the financial sphere may be fully-fledged yet not completely diagnosed and penalized. Peter Gottschalk divides financial crime into four main types:

- a. Fraud: advance fee, bank, check, click, consumer, credit card, embezzlement, hedge fund, identity, mortgage, occupation, subsidy
- b. Theft: art, cash, identity, intellect, inventory
- c. Manipulation: bankruptcy, bid, competition, computer, currency, cyber, extortion, ghost, invoice, laundering, tax
- d. Corruption: bribery, kickbacks, organization, public⁶

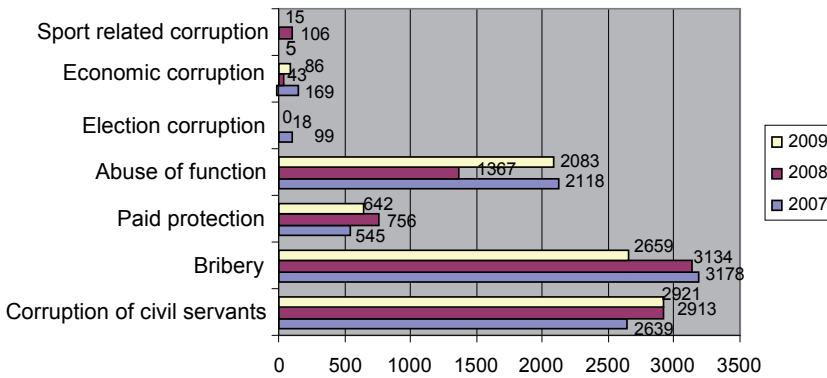
⁴ Joseph E. Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: Norton & Co., 2010), p. 1.

⁵ Konrad Raczkowski, "Transnational organized crime. An economic security threat in the Baltic Sea Region," Institute for Security and Development Policy, *Stockholm Paper* (October 2010), p. 7.

⁶ Petter Gottschalk, *Policing Financial Crime, Intelligence Strategy Implementation* (Boca Raton: BrownWalker Press, 2009), p. 15.

It is important to note that this simple division includes several types of crimes which may bring profits only in the final stage of committing the unlawful act.

Figure 2. Number of Corruption Crimes of Detected in Poland, 2007–2009



Source: Own study based on Polish crime statistics from the Major Police Headquarters for 2007–9, KGP, Warsaw 2010

The financial crisis facilitated the advancement of crimes involving trade in money and securities. Presumably new methods for detecting this type of crime, using more advanced technical equipment and more efficient schemes for sharing the information, have increased the statistical rates of detectability, which could have been underestimated in previous years. An exceptional threat in this category of crime is that posed by counterfeiting money and securities (see Table 12). As can be seen, there were 23,500 crimes of this kind committed with a marked increasing dynamic, during the period 2007–9.

It should be underlined that, since 2009, the Polish Police have implemented new IT and organizational tools to combat the crime of counterfeiting money and to improve information sharing. To this end, people who released forgeries into circulation were monitored, and bank reports indicating signs of forged money were subject to analysis (rapid exchange of information between banks and the police). The Polish Financial Supervision Authority and the Association of Polish Banks requested all bank head offices to make optimization steps to shorten the time needed to report banknote counterfeiting cases to the police.

Table 12. Crimes against Trading with Money and Securities

Type of crime	2007	2008	2009	Total
Counterfeiting of money and securities	7163	7804	8556	23523
Fabricating information in securities trade	3	0	1	4
Passing counterfeit money into circulation or security previously obtained as an original	425	221	231	877
Counterfeiting of official security paper	18	12	12	42
Counterfeiting of official mark	39	18	7	64
Counterfeiting of measurement tools	76	56	100	232
IN TOTAL	7724	8111	8907	24742

Source: Own study based on Polish crime statistics from the Major Police Headquarters 2007–9, KGP, Warsaw 2010

The police enjoyed success when counterfeit money was seized at the production stage and thus before it was distributed and could enter into circulation. It is crucial to point out that the Central Criminal Investigation Agency of the Major Police Headquarters initiated proceedings in 2007 that, in April 2009, resulted in the destruction of a group of dealers involved with counterfeit euro banknotes, the largest and first ever in EU history. The counterfeit currency distributed during the period 2002–8 numbered tens of thousands of notes in denominations of 50 and 100 euros in a number of countries including Spain, Holland, Poland and Italy. As a result of this operation, 27 people were detained. This action ranked as one of the most spectacular ones conducted by, and under the auspices of, Europol since its establishment.⁷

It is estimated that notes in denominations of 100 zloty, as well as 50 and 100 euro, are the notes most preferred by counterfeiters. The court proceedings and the judgments handed down explicitly disclose that the production of the counterfeit notes remained solely within Polish criminal groups.

⁷ Europol Overview – Crimes in Europe, Haga 2010, p. 33.

While the financial crisis persisted, from 2007–10, the financial market was targeted for numerous unlawful actions. The entire capital market on the Warsaw Stock Exchange, as well as the investment fund market, reported numerous criminal activities, namely:

- a. Manipulation of financial instruments by an organized group of investors (artificial price creation for a given financial instrument)
- b. Frauds connected with sale offers of financial instruments and securities offered without fair and accurate information on financial standing of the issuer
- c. Exploitation of confidential information to facilitate plans to increase share capital, carry out investment on the real estate market using abundant financial resources, forecast financial results that are connected to previous periods or technological modernization of a certain enterprise.
- d. Reinvestment of proceeds of criminal activities into other financial instruments on the Warsaw Stock Exchange – in this way covering traces of transactions made and consequently legalizing the capital.⁸

Another significant category of crimes was reported in economic trade, especially with regard to credit frauds (see Table 13). This type of crime has been defined in Article 297 of the Penal Code, as follows: any person who submits false documents to secure a loan, money credit, credit guarantee, subsidy, aid or public contract, for himself or a third party, and those certifying untrue information or unreliable, written statements regarding circumstances that have significant relevance to obtaining a loan, money credit, credit guarantee, subsidy, aid or public contract is liable to a penalty of custodial sentence of three months to five years.⁹ It appears that even though banks apply more efficient security measures when assessing credit risk, the occurrence of this type of crime may grow in coming years. The *modus operandi* for criminal activity is basically exploitation of false documents by substituted persons.

⁸ Analysis of threats to the Warsaw Stock Exchange, KGP, Warsaw 2010, pp. 23–27.

⁹ See Art. 239 of the Penal Code, Journal of Laws of 1997 r., No. 88, item 553.

Table 13. Crimes against Trading

Type of crime	2007	2008	2009	Total
Abuse of confidence	795	539	551	1885
Loan frauds	5989	6098	6599	18686
Insurance frauds	83	48	64	195
Money laundering	167	180	159	506
Prevention or curtailment of creditors' satisfaction	2380	1915	1692	5987
Leading to bankruptcy or insolvency	56	48	34	138
Preferential treatment of selected creditors	60	38	34	132
Unreliable keeping of documentation	71	37	41	149
Usury	31	30	23	84
Prevention of tenders	84	77	48	209
Removal or counterfeiting of goods labelling	139	639	590	1368
TOTAL	9855	9649	9835	29339

Source: Own study based on Polish crime statistics from the Major Police Headquarters 2007–9, KGP, Warsaw 2010

The other key factor contributing to the increase of loan frauds is the financial crisis prompted the Polish Financial Supervision Authority to introduce a great many restrictions concerning the granting of loans – a recommendation for foreign currency loans applicable since mid-2010 as well as the one for loans in zloty applicable from December 23, 2010.¹⁰ It implies an increase in personal contribution (especially in the case of loans in currencies other than Polish zloty) and an increase of net household revenue required when applying for a loan (this was also linked to amount of spending resources available) and an obligatory duty to purchase insurance for a low contribution. This would, for example, increase the cost of a 75,000 euro loan by 4000 euro.

¹⁰ Recommendation T regarding good practice with regard to management of the risk of retail loan expositions, Polish Financial Supervision Authority, Warsaw 2010, pp. 7–10ff.

A third factor behind the increase in loan fraud is a combination of the repayment problems faced by bank customers with existing loans and the fact that timely repayment of instalments allows disbursement of a subsequent advance on the loan. According to data from the Polish Financial Supervision Authority, for the first half of 2010 the value of possible default on consumption loans totalled 23.5 billion zlotys (about 5.6 billion euro) and mortgage loans totalling four billion zloty (about one billion euro).¹¹

One of the criminal activities having to be tackled by the State Treasury relates to fraudulent reclaiming of value-added tax (VAT). Owing to insufficient legislative regulations it is a relatively easy scam, conducive to embezzlement within intra-Community trade as well as intra-Community supply of goods.¹² The most serious threats in relation to fraudulent reclaims in this respect involve:

- a. Use of a banking system to record fictitious economic transactions in which financial resources are legalized and then transferred to tax havens
- b. Significant fraudulent reclaim of VAT in transactions of international trade (direct marketing of goods without payment of excise duty, carrying-out fictitious transactions based on forged documents)
- c. Decreasing liabilities with respect to due income tax or duty customs value,
- d. Large-scale fraudulent reclaim of VAT in trade involving scrap metal, manufactured goods from the metal industry (frequently combining legal and fictitious invoices with the intention to impede control)
- e. Overestimating VAT together with an excise duty within illegal production, smuggling and trade in tobacco and alcohol products

¹¹ Statistics of loan liabilities incurred in Poland, Polish Financial Supervision Authority, Warsaw 2010, pp. 12ff.

¹² For a basic description of carousel frauds in the EU countries, see Konrad Raczkowski and Artur Krukowski, "Management of Tax Security Knowledge in Intra-Community Trade," in Konrad Raczkowski, Walter Kegö, Marian Žuber, eds., *Different Faces of Security: From Knowledge to Management* (Stockholm: Institute for Security and Development Policy, 2010), pp. 184f.

- f. Organizing carousel frauds aimed at reclaiming VAT (by repeated import of the same goods and then their sale by the intermediary unaware of the scam to another dummy company that reports taking the goods abroad, which entitles it to reclaim the VAT. After a few or several such transactions the dummy company retaining the VAT disappears)
- g. Fraudulent reclaim of VAT and excise duty, typically in a simulated trade with liquid fuels or another economic trade.

In 2010, having observed a massive scale of reclaim of VAT from the Tax Office, law enforcement authorities undertook a series of actions to determine when the tax is due and when it is claimed on the basis of criminal activity with the effect of fraudulent tax reclaim from the State Treasury. There are several such tax investigations pending at this time and a large number of similar cases are subject to prosecution or court proceedings. While outlining the extensive scale of fraudulent VAT reclaim, it is worth noting that in June 2010 the Internal Security Agency, in cooperation with employees of the Fiscal Control Office and I Tax Office in Śląsk, succeeded in a most spectacular detection of this crime in terms of financial losses and damage inflicted. Seven individuals were detained and charged with accusations of money laundering and operating in an organized criminal group. An assessment from the investigation revealed that the group's activity could bring an estimated loss to the State Treasury amounting to 100 million zlotys, about 25 million euro. It was a classic example of a criminal organization operating by establishing a few business entities in Latin American countries and then reporting fictitious trade of scrap metal to the value of 500 million zlotys accrued over just a few months.¹³

In principle, the institutions in Poland responsible for preventing tax crime (including VAT) are the tax administration authorities, fiscal control and, first and foremost, the customs administration – not forgetting the Police and the Internal Security Agency. The system of public institutions needs to be modernized in order to be able to respond to the challenges of tax crime in this new world. This could then lead to a reduction in the liabilities due to the State Treasury. Such reorganization should be the product of a reform of the whole public finance sector in Poland, which at the end

¹³ Information from the General Inspector of Financial Information concerning securities of financial resources on bank deposits, GIIF, Warsaw 2010.

of the second quarter of 2010, revealed a debt of 746.1 billion zlotys, corresponding to 53.7 percent of GDP for the last four quarters.¹⁴

Ultimately, it should be noted that committing criminal acts with the assumption that an unlawful act will not be discovered requires both adequate information and the knowledge of how to actually carry it out. Information is a peculiar immaterial wealth which alongside economic progress and the development of means and forms of social communication acquires increasingly greater significance, transforming aspects of many traditionally organized economies.¹⁵ Information is assessed by measuring data values it creates and by measuring the quality of the data's contents. This permits us to ascertain whether the information given for a particular purpose is valuable or useless.¹⁶ Information is the basis for making decisions and precise information minimises the risk of taking actions that are not rooted in fact. For this reason, during the financial crisis in Poland a strong increase in crimes against information was observed, especially crimes involving the infringement of correspondent secrecy, preventing or impeding the use of information and violating information data (see Table 14).

Table 14. Crimes against Information Protection

Type of crime	2007	2008	2009	Total
Disclosure of state secrets	14	12	16	42
Disclosure of official and professional secrets	133	121	155	409
Infringement of confidential correspondence	616	694	982	2292
Preventing or impeding the use of information	244	366	555	1165
Violation of information data	26	40	63	129
TOTAL	1033	1233	1771	4037

Source: Own study

¹⁴ Debt of public finance sector, Department of the Public Debt, Ministry of Finance, Warsaw 10/12/2010, pp. 1–3.

¹⁵ Bogdan Stefanowicz, *Introduction to IT* (Warsaw: Akademicka Oficyna Wydawnicza PLJ, 1998), p. 31.

¹⁶ For a description of information converted to knowledge, see Konrad Raczkowski, *Knowledge management in customs administration in a system of socio-economic security* (Warsaw: Difin, 2010).

Crime against information protection in Poland is also connected with the intensification of a power struggle between certain groups and a decline in work ethics. We can only assume that most such infringements will never be reflected in statistics for individuals, because individual victims of such crimes hardly ever decide to bring cases to court.

We may conclude that there are many types of crime committed in Poland. The financial crisis has somehow fomented unlawful and herd behaviour, at least in respect of fraud and similar abuses. The scale of financial crime appears far larger than previously assessed. The financial supervision authority in Poland, like similar bodies throughout the world, tolerated embezzlements and speculative attacks carried out by banks and financial institutions themselves. Therefore it became quite a challenge to undertake actions against seemingly unethical, immoral and legally dubious (sometimes with conscious assumption to transgress law) transgressions by ordinary citizens holding the illusory, if occasionally genuine, conviction that if others do it, it cannot be unlawful.

The financial crisis in Poland is in fact a pentagonal crisis referring to the crisis in finance, economy, global order, global elites (including national elites) as well as civilization.¹⁷

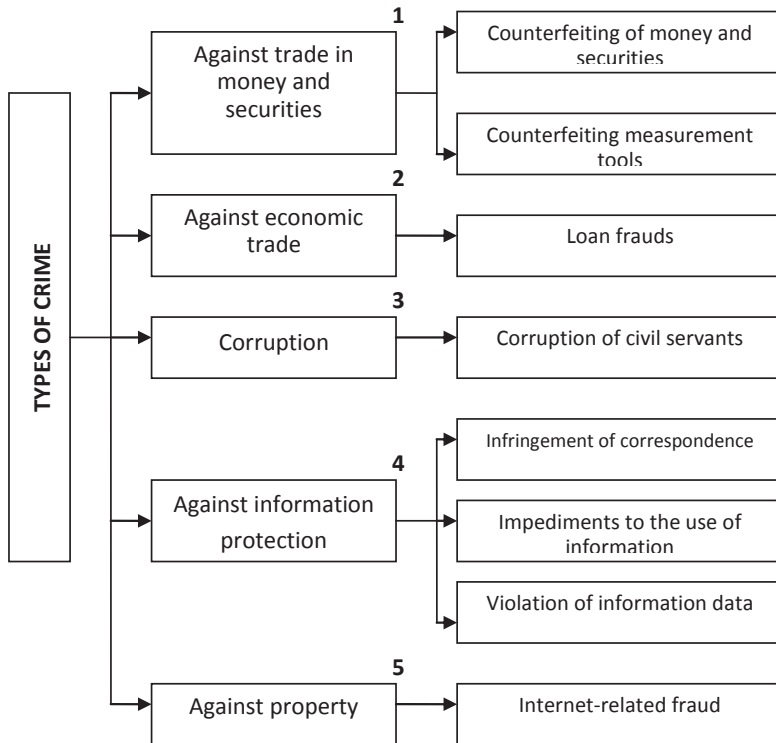
It may be observed that the financial crisis substantially drove the dynamics for offences against trade in money and securities, economic trade, information protection and property as well acts of corruption (see Figure 3).

It appears that the low efficiency of measures taken by prosecutors' offices and courts, attributed to delays in dealing with the cases, and conflicting legal interpretation of offences, may have provided an additional inducement to unlawful but profitable activities. Deficiencies in the justice system, even in cases where the law enforcement authorities perform effectively, will definitely enhance the significance of criminal cartels and syndicates. Since these groups hold large, and legalized, funds, they will continue to assume power and influence (aided by the imposition of arbitrary and appropriate legal solutions that favour them). The coming years will show both the efficiency of methods adopted to combat the global

¹⁷ See Antoni Kukliński, "Enigma of the 20th century," *Newsletter of the Polish Economy Society*, with assistance of the Polish Association for the Club of Rome, PTE, Warsaw 6(50) 2010, p. 26.

crisis (interconnected with the economies of individual countries) and the effectiveness of the preventive and systemic measures to be carried out by Poland within its legislature and organizations.

Figure 3. Rank Characteristics of Different Types of Crime that Increased during the Financial Crisis, 2007–9



Source: Own study

Conclusions and Recommendations

In summary of the opinions and judgments presented here concerning the financial crisis in Poland and the operation of criminal groups, we may sketch two pictures of the situation. The first one appreciates the value of actions initiated by public authorities in confrontation with financial and economic threats. The other focuses on pure and measurable¹⁸ indicators of

¹⁸ Peter M. Gutmann, "The Subterranean Economy: Redux," in Wulf Gaertner and Alois Wenig, eds., *The Economist of the Shadow Economy* (Berlin: Springer Verlag, 1985), p. 15.

mid- and long-term trends for events triggered by taking definite decisions to implement changes, systemic reforms and preventive measures (in terms of prevention the results could well be extremely disappointing).

The financial crisis showed that our familiar image of the world at the end of the 20th century will change forever. Therefore, each country should search for new patterns and standards not corresponding to the previous ways of thinking but grasping future innovations. We cannot allow ourselves to be locked into current thinking as its formulas and tactics will soon be outdated. In addition, organized crime has been regarded as the fastest evolving business sector for a number of years. It is estimated that global profits from this activity may amount to US\$500 billion per year. For this reason, we should not view the police statistics optimistically, even if they appear to indicate a decline in crime. The apparent decline is undoubtedly due to the statistics only relating to specific areas, for example, the number of murders committed. However this kind of interpretation of statistics would be naïve, arising, as it would, from a lack of systemic analysis of the economic return rate for costs incurred in committing a given offence.

Criminals have learned a lesson from history that the most brutal criminal behavior rarely brings financial benefits (more often it is simply a goal in itself) and they may make more money from economic activities that are legal, semi-legal and illegal. Certainly the black economy stemming from such activities is currently a real problem and its magnitude is hard to estimate unequivocally. P. M. Gutman defines this type of economy (informal, unregistered) as a wide spectrum of economic activities which defy fiscal registration and to a large extent they are not included in the statistics.²¹ This definition implies a possibility to conduct a two-factor analysis in which informal economy represents economic activity not reported in the statistics and whose size is not indicated in official statistics related to calculating the domestic product, even through application of differentiated calculating methodology.¹⁹ Therefore it also appears desirable to include postulates when calculating domestic product, thus providing an opportunity to assess the black economy (unofficial economy).

At the same time, the scale of the economic crisis and its implications may be so globally immense in the future that recommendations regarding

¹⁹ Konrad Raczkowski, *Knowledge management in customs administration in a system of socio-economic security*, (Warsaw: Difin 2010).

the prevention of illegal phenomena need to be systemic – down to the level of individual countries. For this reason it becomes necessary to undertake the following preventive initiatives.

1. To implement reforms of the public finance sector (whilst also reorganizing the organizations and task structures of the administration itself).
2. To introduce a new model of management in the public domain that is oriented towards knowledge management and knowledge materialization (beginning with the arduous but necessary creation of a new organization culture in society and new state structures adjusted to both current and future assignments).
3. To implement precise and coherent legislative regulations to categorize unlawful acts that are not completely identified or included in currently applicable law (tight cooperation with the European Union as to formulating common standards; to implement simplified principles for settling accounts by taxpayers and mitigating sanctions for errors that were not the result of intentional attempts to perpetrate a criminal act).
4. To facilitate more effective cooperation and information sharing between national law enforcement authorities and security and public order services and to improve international cooperation.
5. To establish the Financial Security Institution (FSI) to replace fiscal control offices and incorporate the tax-customs apparatus, the Police, Internal Security Agency and internal analysts of the financial markets (and assigning new powers and advisory roles, management control and supervision control over the organization of budget units and budgets for local government plants, executive agencies, budget economy institutions, state special funds and the entire capital market; to perform a key financial security advisory function for the prime minister and the president of the Republic of Poland).
6. To replace the basic index used to measure economic progress (GDP) with new development measures that take heed of issues of economic growth (including the unofficial economy), social justice, quality of governance and economy management as well as public matters, such as issues concerning the protection

of cultural values and care for nature. For example, the index of gross national happiness – National Happiness.

Russia

Yakov Gilinskiy

Organized crime is a form of social organization of our society.

Vladimir Ovchinskiy

Definitions

There are many definitions of organized crime which have been given by researchers and specialists such as Howard Abadinsky¹, Jay Albanese², Pino Arlacchi³, Alan Block⁴, Dwight Smith⁵, but the one which best fits Russian organized crime is the one formulated at the UN International Seminar on Organized Crime held at Suzdal, Russian Federation, in October 1991, according to which *organized crime is the functioning of stable, hierarchical associations, engaged in crime as a form of business, and the setting up a system of protection against public control by means of corruption.*

Organized crime is not only the “sum of criminal organizations,” it is also a complicated social phenomenon which has its influence on the economy and politics of states. The growth of the organization of criminality is a natural and objective process, being a part of the general development of social systems, including the economy and politics.

The important thing about criminality is that all criminal activities arise, exist and develop under certain conditions, the most important of these being:

¹ Howard Abadinsky, *Organized Crime*, 4th ed. (Chicago: Nelson Hall, 1994).

² Jay Albanese, “Organized Crime: The Mafia Mystique,” in Joseph F. Sheley, ed., *Criminology: A Contemporary Handbook* (Australia and U.S.: Wadsworth Pub. Co., 2000).

³ Pino Arlacchi, *Mafia Business: The Mafia Ethic and the Spirit of Capitalism* (London: Verso, 1986).

⁴ Alan A. Block, *Space, Time & Organized Crime* (New Brunswick, N.J.: Transaction Publishers, 1994).

⁵ Dwight C. Smith, D., *The Mafia Mystique* (New York: Basic Books, 1975).

- Demand for illegal goods (drugs, arms, etc.) and services (sexual, etc.)
- Unsatisfied demand for legal goods and services (as it was in the USSR)
- Unemployment and other sources of social exclusion as a base for deviance, including criminality
- Deficient tax and customs policy

A criminal organization that builds up its own organized crime system can be defined by the following indispensable characteristics:

- A stable association of people, designed for long-term activity
- The illegal nature of the activity
- Obtaining maximum profit as the key goal of the activity
- The complex hierarchical structure of the organization with clearly delimited functions at each level
- Corruption used on a large scale to secure and develop criminal schemes
- The aspiration to monopolize certain spheres of trade or territories

A high degree of adaptability and a strong vital capacity are also specific characteristics of criminal associations. These features are based on a policy of strict discipline and the careful selection of members pursued by criminal leaders. Russian criminal organizations usually recruit young, daring and extremely enterprising people.

Statistical Analysis of Organized Crime

Organized crime and its trends can also be described using statistical methods (Table 1). The importance of this approach is even greater when we try to analyze the relationship between financial crises and organized crime and criminality in general.

As we can see from Table 1, criminality was increasing steadily until the 2008 financial crisis when the tendency changed. According to official statistics released by the Russian Ministry of the Interior, after the beginning of the crisis all the parameters of criminality started to go down and this trend still continues.

Table 1: Data About Crimes Committed by Criminal Organizations in Russia (2003–2009)

	2003	2004	2005	2006	2007	2008	2009
Reported offences committed by criminal organizations	25671	28161	28611	30209	34814	36601	31643
Members of criminal organizations identified	10321	10713	10748	11715	11543	10591	10179
Criminal organizations identified (Art.210 CC RF - Organization of the criminal community)	141	224	244	255	337	325	247

Source: Data from the official web site of MIA (MVD), <http://www.mvd.ru/stats/> (accessed December 12, 2010)

There is, however, one important thing that should be taken into consideration when we use the official statistics. The data provided by the official authorities is not, unfortunately, as trustworthy as it might be. This requires further study.

Official data regarding criminality in general reveals the same trend (see Table 2).

Going back to the 1980s, the rate of recorded crimes per 100,000 decreased from 1986–88 during Gorbachev's "Perestroika" then started to increase from 816.9 per 100,000 in 1987 to 1887.8 in 1993 and after a short stable period from 1996–98 increased again to 2700.7 in 2006.

In an absolutely unexpected development, the rate of criminality started to drop in 2007, from 2700.7 in 2006 to 2112.0 in 2009.

Despite the general downward trend in criminality during the financial crisis, which affected street crimes such as homicide, grievous bodily harm, theft, etc., some types of crimes such as illegal enterprise, smuggling and drug related crimes, showed an inverse tendency and increased (see Table 3).

Table 2: Data about Criminality in General

Year	Crimes	Rate (per 100,000)	Offenders	Convictions
1983	1,398,239	988.1	1,077,802	809,147
1984	1,402,694	984.4	1,123,351	863,194
1985	1,416,935	987.5	1,154,496	837,310
1986	1,338,424	929.9	1,128,439	797,286
1987	1,185,914	816.9	969,388	580,074
1988	1,220,861	833.9	834,673	427,039
1989	1,619,181	1098.5	847,577	436,988
1990	1,839,451	1242.5	897,299	537,643
1991	2,173,074	1463.,2	956,258	593,823
1992	2,760,652	1856.5	1,148,962	661,392
1993	2,799,614	1887.8	1,262,737	792,410
1994	2,632,708	1778.9	1,441,568	924,754
1995	2,755,669	1862.7	1,595,501	1 035 807
1996	2,625,081	1778.4	1,618,394	1 111 097
1997	2,397,311	1629.3	1,372,161	1 013 431
1998	2,581,940	1759.5	1,481,503	1 071 051
1999	3,001,748	2026.0	1 716 679	1223255
2000	2,952,367	2028.2	1741439	1183631
2001	2,968,255	2045.6	1644242	1244211
2002	2,526,305	1760.5	1257700	859318
2003	2,756,398	1926.2	1236733	767371
2004	2,893,810	2007.2	1,222,504	793,918
2005	3,554,738	2477.6	1,297,123	878,893
2006	3,855,373	2700.7	1,360,860	909,921
2007	3,582,541	2519.0	1,317,582	916,479
2008	3,209,862	2263.6	1,256,199	914,541
2009	2,994,820	2112.0	1,211, 978	882,291
2010	2,628,800	1851,2		

Source: Crime and Delinquency. Statistical Review (2010). Ministry of Internal Affairs and Ministry of Justice Annual. Moscow.

Table 3: Data about Criminality, type of Crime (2005–2009)

	2005	2006	2007	2008	2009
Homicides (including attempted)	30362	27039	21895	19740	17414
Grievous bodily harm	57863	51429	47348	45436	43112
Rape (including attempted)	5865	6433	6055	5902	5967
Assault with robbery	63671	59763	45318	35366	30085
Robbery	344440	357302	295071	243957	205379
Theft	1572996	1676983	1566970	1326342	1188574
Fraud	179553	225326	211277	192490	188723
Embezzlement	64504	65980	73489	72142	67266
Illegal enterprise	2716	3200	3340	3267	4001
Money laundering	524	631	365	319	374
Fraudulent Loans	164	181	150	142	782
Smuggling	4390	6926	6983	7986	8506
Terrorist acts	203	112	48	10	15
Banditism	473	432	38	262	231
Organization of criminal groups	244	255	337	325	247
Hooliganism	30041	28645	20360	13589	9474
Drug-related crimes	44855	61596	73636	83506	88414
Abuse of power	6941	6634	5852	6055	6103
Exceeding Authority or Official powers	8939	9185	6736	5804	5541
Receiving of bribes	5720	6546	6788	7131	7856
Giving of bribes	4101	4517	4828	5381	5285

Source: Statistical data provided by the Ministry of Internal Affairs, <http://crimpravo.ru/page/mvdstatistic/> (accessed December 3, 2011).

Many experts believe that this decrease is actually due to concealment of the real statistical data or inadequate recording of reported crimes. But there are also researchers who see this as a part of a worldwide change in the dynamic of criminality (especially in the case of homicide). Criminality grew constantly from the 1950s. However this tendency changed at the beginning of the twenty first century when the number of crimes committed started falling again.⁶

It is also possible that what we see in the tables is the combined result of a real reduction and the concealment or under reporting of a certain amount of crime.

A Short History of Organized Crime in Russia

The best way to analyze and understand contemporary Russian criminality is to take a look at its history.⁷ Several periods in the development of Russian criminality can be distinguished.

The second half of the 1970s – the first half of the 80s

It is believed that Russian organized crime in its more or less contemporary shape emerged during this period of time. This was quite a controversial time of small illegal businesses, newly emerging “cooperative societies,” speculative enterprises (“farcovka”) and the illegal exchange of foreign currency. There were also a number of cases of large illegal business ventures carried out under the protection and with the participation of highly placed Communist party leaders.

The scandals regarding illegal manufacturing and the sale of cotton, fruit, caviar and fish in the 1970s and 80s revealed how strong were the

⁶ Stefan Harrendorf, Markku Heiskanen, Steven Malby, eds., *International Statistics on Crime and Justice* (Helsinki: European Institute for Crime Prevention and Control, affiliated with the United Nations (HEUNI); United Nations Office on Drugs and Control (UNDOC), 2010).

⁷ Yakov Gilinskiy, “Organised Crime: The Russian and World Perspective,” in Kauko Aromaa, ed., *The Baltic Region. Insights in Crime and Crime Control* (Oslo: Pax Forlag, 1998), pp. 168–82; Yakov Gilinskiy and Yakov Kostjukovsky, “From Thievish Artel to Criminal Corporation: The History of Organised Crime in Russia,” in Cyrille Fijnaut, Letizia, eds., *Organised Crime in Europe: Concepts, Patterns and Control Policies in the European Union and Beyond*, Vol. 4 (The Netherlands; Norwell, MA: Springer, 2004), pp. 181–202; Yakov Gilinskiy, “Crime in Contemporary Russia,” *European Journal of Criminology*, Vol. 3, No. 3 (2006), pp. 259–92.

ties between “tenevics” (shady dealers), professional criminals and some communist leaders. There were several investigations that proved the deep involvement of the First Secretaries of the Central Committees of the Communist Party in some Soviet republics (Uzbekistan, Azerbaijan, Moldova, Georgia and Kazakhstan), officials from the Central Bureau of the Communist Party and even some high officials from law enforcement bodies.

The second half of the 1980s – the first half of the 90s

This period of time has been characterized as a stage of consolidation and shaping of organized crime in Russia. At the beginning of the 1990s, there were four criminal communities of the “mafia” type in St. Petersburg (the Tambov, Azerbaijan, Chechen and Kazan gangs), some dozens of criminal associations (such as the Komarov gang) and hundreds of criminal groups. All these organized crime groups were involved mainly in illegal activities such as racketeering, drug trafficking, the “protection” of small and medium sized businesses, prostitution, the stealing and reselling of cars, gambling, illegal trading and smuggling of non-ferrous metals over the border. Another area in which organized crime was deeply involved was the production of strong alcoholic beverages, counterfeit branded spirits and liqueurs. It was a period when the shelves in Russian shops were full of “Absolut” vodka, “Napoleon” cognac and “Amaretto” liqueur, which had been produced in basements.

Since 1993, the Center of Deviantology (Sociology of Deviance) of the Sociological Institute of the Russian Academy of Sciences has been involved in a criminological study of the black market, the economy and organized crime. Business in St. Petersburg and other regions of Russia were at that time divided up between the various criminal organizations. Extremely well organized informational services have enabled them to track and monitor all commercial structures and the moment when a new commercial structure begins to make a profit, this arouses the interest of criminal groups. As one businessman interviewed asserted during an interview: “100 percent of commercial organizations were affected by racketeering.”⁸

Racketeering penetrated all enterprises except those of the military-industrial complex and some foreign firms. One FSB (Federal Security

⁸ Yakov Gilinskiy, *Criminology: Theory, History, Empirical Basis, Social Control*. 2nd ed. (St. Petersburg 2009), pp. 275–88 (in Russian).

Service) officer told me: "Criminal associations control about 90 percent of business."

There were two types of racketeering practiced by organized crime groups: extorting money from kiosks and small shop owners (the black racket) and racketeering which affected medium sized and large commercial enterprises. This latter type took several forms, such as payments for "security services" or debt recovery. In some cases criminal organizations "protected" the enterprises in such a way that eventually their representatives became shareholders.

Most state-owned business enterprises operating at that time found themselves "under the protection" of criminals. They were "protected" by one gang against other gangs and had to pay ""tribute" for that and were forced to render services. In particular, criminal organizations placed their "representatives" on boards of directors, the boards of business enterprises, organizations and banks. Thus, legal and illegal businesses merged.

Besides the fact that organized crime was flourishing, all the preconditions were created for businessmen themselves to commit crimes. In fact, they were almost forced to do so. Bribes had to be paid in almost every official encounter: when registering a new business; when renting premises from state bodies; on acquiring licenses for their utilization; for obtaining low-interest bank loans; when reporting to tax inspectors; when completing customs formalities; etc.

Revenues had to be concealed, since with a taxation rate amounting to 80–85 percent, no one could continue doing business in competition with other firms if they honestly declared all revenues. The rigid normative regulations in some areas of economic activity and the absence of such regulations in other fields resulted in businessmen ignoring the law in some cases, and making their own "laws" in others. The merging of legal and illegal elements in the country's economy has engendered such absurdities as fake goods and services.

The growing use of high technology by criminal organizations at that time is also worth mentioning. Initially, the representatives of the Russian criminal world did not pay any attention to new developments in this field, but in a short period of time their attitude changed totally. In an increasing number of cases, criminal organizations made use of computer technology to commit different types of crimes, in particular bank fraud. The newly

developed technologies were also used for the production of counterfeit alcoholic beverages and synthetic drugs, in car thefts and the manufacturing of weapons. The important thing to stress is that organized crime groups not only used the products of technological development but also attracted and enrolled scientists (chemists, programmers, etc.), who worked full time for criminal purposes.

Drug dealing was believed to be well established and the least visible criminal activity in Russia during the 1990s. This was the direct result of the widespread corruption within the law enforcement agencies as well as lack of integration and exchange of information between public institutions and the low level of cooperation with the authorities in the drug producing countries.

The following is extracted from interviews done by Dr. Yakov Kostjukovsky (Center of Deviantology) with representatives of criminal organizations about their activities:

- I: (Interviewer) What types of criminal businesses are most popular?
- R: (Respondent) I think just for 1994 a half of all the metal produced in Russia was illegally exported, while the rest of it was sold by officials. That was good business! People earned so much in two or three months that it's been enough to keep them going up till now. It was really hard work, 25 hours a day! But it was worth it. The difference in prices between here and in Estonia, for instance, was enormous.

Theft and resale of cars is another area of criminal activity.

- I: Do you have contacts with with foreigners?
- R: Yes, of course. We have a joint venture in the car business. It is an exchange.
- I: Is it?
- R: Sure. Somebody drives away a car here, in St. Petersburg, and the car goes to Holland, and from Holland cars come here too ... Generally, there's a whole system which covers Germany, Poland, France, Hungary, Holland, and Russia. Yeah, that's right. There are international contacts.

Prostitution also became quite a profitable activity for criminal organizations. It was carried on through massage salons, public saunas and escort firms. This fact provoked a transformation of “street prostitution” into “hotel prostitution.” The last type of prostitution was persistent in the Soviet period too, but at a much lower level. All the hotels in the main cities were shared between criminal gangs, so that each gang controlled the prostitution in “their” hotels. At the same time, after the collapse of the Soviet Union a new type of criminal activity became available to criminal organizations: human trafficking, especially for sexual exploitation.

I: What about the organization of prostitution?

R: Prostitution in St. Petersburg is already an industry. And it didn't just happen yesterday. There are hundreds of “kontor” (illegal agencies of for sex services). It is more developed in Moscow ... In our city the most expensive women are in pubs, hotels, casinos. There are “call girls,” girls in saunas, girls in “leisure centers.” and...massage salons, make-up salons. Street girls are the cheapest...

I: And what about child prostitution?

R: Sure. That's very expensive. But there are so many drunks, who sell their own children. It's even possible for just a bottle of vodka , quite literally too. When you're talking about prostitution in general, certainly, there's male prostitution and gay prostitution too. And men cost more.

I: What you can say about “business trips”?

R: Yes, it happens. And the girls aren't always whores. It may be the a team of girls for striptease work, or for service in general. But they're exported to, for example, Turkey and they're forced to work as whores. If they can escape they're OK. But there aren't many happy endings...

The second half of the 1990s – the beginning of 2000s

This is the period in which traditional organized crime boomed and gradually penetrated state structures and businesses. Criminal organizations played a very active role during the privatization process. One of our respondents said: “Their goal is to take control of the real estate.” Using their connections and influence within the state bodies they were always in

possession of the necessary information about forthcoming auctions of state property and stocks and shares. Moreover, by using methods such as coercion and violence they were usually able to convince other potential buyers to abstain from bidding during auctions.

One more specific feature of this period is the arms trade, which became a quite widespread and profitable activity among the Russian organized crime groups. The difficult economic conditions in which the Russian Army found itself in a situation in which systematic larceny or “disappearance” of weapons and technologies became the norm in the majority of military units.

The drug market had undergone substantial changes by the end of the 1990s. Cannabis and poppy straw which had been the most popular “products” on the market were replaced by more exotic drugs like heroin and cocaine. These changes were brought about by cooperation that was established between Russian criminal groups and those from the countries where heroin and cocaine were produced.

At that time, criminal organizations could be characterized by number and size, the amount of influence they had on society and the types of activities they were engaged in, but all of them had one essential thing in common: illegal entrepreneurship. Several facts related to organized crime were specific to that period:

- Organized crime groups managed to establish their influence over 40-60 percent of enterprise and 60-80 percent of banks
- It was a period of high profits derived from criminal activity
- Organized crime groups started to perform some of the the roles that the law enforcement agencies had previously carried out such as “arbitration,” enforcement of court decisions, “executive functions” and “protection” (“krysha”), etc.
- There were extremely high level of corruption within the administrative and law enforcement bodies at all levels
- Many preconditions existed for the further development of organized crime such as the high rate of unemployment especially among the younger generation, a widespread criminal mentality, social anomie and the impossibility of doing business and prospering using only legal methods because of corruption and, finally high taxes
- The use of violence on a large scale

- The strong tendency of organized crime groups to legalize their criminal activities through infiltration of legal business and state bodies
- A number of criminal leaders managed to launder their illegally obtained assets and moved into legal or semi legal activities
- During this time organized crime and politics moved closer to each other

From the beginning of 2000 to the present

It is quite difficult to explain the processes related to organized crime during this period. The easiest way may be to quote the answer that was given to me in 2005 by a police officer from the Anti-Organized Crime Division when I asked him what he thought about contemporary Russian organized crime: "It does not exist. It's us, the ment. Now we control all the stalls, markets and tochky. Today all small trade enterprises, small and medium sized businesses are under the ment's roof."⁹

Another police officer from the Internal Security Division confirmed that small and medium sized businesses are moving from being "protected" by criminals to police "protection." The biggest problem is that these police officers are involved in criminal activities with the consent and under the control of their bosses. And this is not a problem in just one city or region, it is a problem for the whole country. Nowadays, it is believed that the Russian police is an entire organized criminal group. There are plenty of reports, articles and on-line publications that reveal the scale of criminal activities and schemes carried on by representatives of Russian law enforcement bodies.

So, the police, in exchange for money, "protects" small and medium sized businesses as well as drug dealers and criminal leaders, and is doing nothing to solve the problem of organized crime. Moreover, the police is deeply involved in the so called "black raid" by means of which they try to take control of all profitable legal and illegal businesses. One thing that should be mentioned is that during the financial crisis most small and medium sized enterprises weakened, so that it became even easier for the police to bring them under their control. In the case of organized criminal groups, it must be admitted that despite all the efforts made by the police

⁹ Ment is slang used for police officer. Tochka" is slang used for places where drugs can be bought.

to replace them, they still exist. The majority of them depend on or operate under the "protection" of the police, however.

One important and very visible feature of Russian organized crime is its striving to gain influence over state authorities in order to improve or secure its criminal businesses. The most commonly used methods are lobbying, bribery, infiltration of its representatives into the power structures, etc.

There are many cases of criminal leaders who manage to become mayors of big cities (Gennady Konyahin in Leninsk-Kuzneck city, Vladimir Nicolaev "Winnie the Pooh" in Vladivostok city), or deputy heads of local public administration bodies (Alexandr Chabarov, leader of the criminal organization "Uralmash" and Sergey Tsapok, leader of the criminal organization in the Krasnodarsky Region). The two last mentioned also somehow managed to get PhD degrees.

As was stated above, many organized crime groups have operated under the protection and with the help of the police. This gave them the possibility to operate with impunity over a long period of time. The criminal groups of Sergey Tsapok in the Krasnodarsky Region, Kozaev in the Sverdlovsky Region, Alexandr Trunov in the Novosibirsk Region and so on can be mentioned as examples of such "longevity."

It may be easier to understand the real magnitude of the organized crime problem in Russia by examining the "Kushchevskaya case." Kushchevskaya is a large Cossack village ("stanicha") in the Krasnodar Region of Southern Russia. The population of this "stanicha" is more than 35,000 people.

On the November 5, 2010, a horrendous crime was committed in this village. The farmer Serever Ametov was killed in his own house together with eleven other people; his family, including three children, and visitors died with him. Not long afterwards, the police arrested Sergei Tsapok, accusing him of having organized the murders, and several other people of having carried them out. The investigation is ongoing but the evidence is incontrovertible and it is quite clear that the crime was committed by Tsapok's organized crime group which has terrorized the area over a long period of time. Unfortunately this criminal case also says quite a lot about present-day Russian politics and criminality.

The counselor to the Chairman of the Constitutional Court of the Russian Federation, Major General (retired) of the militia, Professor Vladimir

Ovchinsky, told the newspaper *Moskovsky Komsomolets* on November 25, 2010 and the journal *Ogonjok* on November 22, 2010 that "the Kushchevs-kaya case is not an anomaly, but a mirror of the whole organized crime situation in Russia. The heads of law enforcement bodies are continually reporting about the reduction of criminality, manipulating the statistical data and concealing the real situation in the country. The main question is how is it possible that Tsapok's enormous gang have been able to act with complete impunity for so many years? The population of this village has been kept in a state of continuous fear as if they were in a concentration camp."

Another example concerns Kazbek Kozaev's gang from Berezovsk city, in the Sverdlovckaya Region. This organized crime group was so powerful that it somehow managed to take over the whole city. The extent of the problem was seen only after the slaughter initiated by Kozaev and his gang in one of the cafés in October 2010. During the gun battle Kozaev was mortally wounded by a police officer, who was trying to restore order. The events lead to numerous disturbances which were only brought to an end with the intervention of federal special forces.

There are many other examples that illustrate the inability or unwillingness of the Russian authorities to address the organized crime problem. In most cases, the root cause of their ineffectiveness is the strong connection between representatives of power and the organized crime groups. Sometimes the connections are so strong that state and organized crime seem to be a single entity.

To summarize, we can say that the current developments with regard to crime in Russia are the criminalization of business and politics combined with colonization by crime of the mainstream economy.

The extremely high levels of corruption make the problem of organized crime even worse. More than ten years ago Vladimir Putin came to power promising to wipe out corruption by enacting a "dictatorship of the law." The problem has grown far worse since then, however. A decade-long, oil-fueled economic boom has emboldened the country's bureaucrats to demand even bigger bribes, even after the global financial crisis which sent the economy into a tailspin. In 2009, Transparency International ranked Russia as one of the world's most corrupt countries, 146th out of 180 on its corruption perception index.

Even the governments own figures say that the average bribe has tripled in size since last year, to US\$32,000. Russia's "corruption market," officials say, is estimated at US\$300 billion a year, and inflates the price of everything from real estate to food, as companies pass on the hidden costs of doing business.

On November 19, 2010, the counselor to the Chairman of the Constitutional Court of the Russian Federation, Major General of the militia (retired) , Professor Vladimir Ovchinsky mentioned during his interview to Radio "Liberty": "The situation with organized crime in Russian is critical. In the 1990s, organized crime groups were just trying to get into power, but now they are already inside the public institutions." The Chairman of the Constitutional Court of the Russian Federation himself, Valery Zorkin has stated that "there are all the preconditions for the state (Russia) to shift from criminalized to criminal."¹⁰ Even the President of the Russian Federation, Dmitry Medvedev, admitted that one of the biggest problems that needs to be resolved is "the direct merging of state structures with criminality."¹¹

These opinions are supported by the Chairman of the Central Election Commission of the Russian Federation, Vladimir Churov, who recently said that "the authorities must stop the attempts of the representatives of criminal groups to get into the electoral lists of political parties as well as their endeavor to be a part of electoral commissions."

Although all the preconditions exist for organized crime to flourish in Russia, there is also competition and conflict between criminal groups over spheres of influence. As a direct, recent result of these disputes, Vyacheslav Ivankov "Yaponchik" was killed (September 12, 2009) and Aslan Usoyan "Grandparent Hasan" was gravely wounded (September 16, 2010).

Concluding Remark

It is quite difficult, if not impossible, for those who do not live in Russia and not having studied the phenomenon of organized crime to gain an understanding of its nature and extent in Russia. There is no longer any organized

¹⁰ Валерий Зорькин, "Конституция против криминала," *Российская газета*, No. 5359 (280), December 10, 2010, <http://www.rg.ru/2010/12/10/zorkin.html> (accessed March 14, 2010).

¹¹ Dmitry Medvedev's Message to the Federal Assembly of Russia, *Российская газета*, No. 5350 (280), December 1, 2010, <http://www.rg.ru/2010/11/30/poslanie-tekst.html> (accessed March 14, 2010).

crime in its traditional form. It is an amalgamation of criminal groups, legal and semi-legal businesses and law enforcement bodies that control regions and decide the fate of the whole country. This may be why the impact of the financial crisis on organized crime has not been so evident in Russia.

Sweden

Dan Magnusson, Nils Bagelius and Lars Vigerland

Introduction

What have the consequences of the financial crisis been for organized crime in Sweden? An intuitive hypothesis is that criminals have in fact benefitted from the crisis. The aim of this study is to analyze this topic using secondary data such as government reports, research reports and studies and the like.

Sweden and other Nordic countries have put emphasis on fighting economic crime since the mid-1970s, whereas other European countries and the United States have devoted more attention to organized crime. This topic has only come to prominence in Sweden in the last ten years.

“Organized crime” refers to a number of people working together to achieve certain goals, with their interaction consisting mostly of committing various kinds of crime. This is an area in which the availability of scientifically proven facts is limited. National databases do not provide comprehensive data. There are no official statistical records, for example, on the incidence of business crimes, breaches of trust, and criminal marketing.¹

The only available sources of information on the magnitude of country-based business crime and breach of trust are survey studies made by public authorities or reports that focus on specific events, associations, media, consulting, and accounting firms. There are also some studies detailing the extent of crimes such as corruption, illegal dumping of hazardous waste,

¹ David A. Anderson, “The Aggregate Burden of Crime,” *The Journal of Law and Economics*, Vol. 42, No. 2 (October 1999); Sam Brand and Richard Price, *The Economic and Social Cost of Crime*, Home Office Research Study, No. 217 (2001), <http://www.homeoffice.gov.uk/rds/pdfs/hors217.pdf> (accessed November 11, 2010); Mark A. Cohen, *The Cost of Crime and Justice* (New York: Routledge, 2005); Emily Shapiro, “Cost of Crime: A Review of the Research Studies,” Minnesota House of Representatives, Research Department, *Information Brief* (August 1999); Association of Certified Fraud Examiners, *Report to the Nations on Occupational Fraud and Abuse, The Global Fraud Survey 2010*, <http://www.acfe.com/rttt/rttt-2010.pdf>; KPMG, *Forensic Fraud Survey 2009*, http://www.ethicspoint.com/Upload/Articles/21001NSS_Fraud_Survey_082409.pdf; Pricewaterhouse Coopers, *Economic Crime: People, Culture & Controls: The 4th Biennial Global Economic Crime Survey: Retail and consumer industry supplement* (2007).

trade in counterfeit products and drugs, human trafficking, carousel fraud, and so on.

The extent of actual crime in relation to reported crime is largely unknown. A reason for this is that corporate crimes and breach of trust are often dealt with internally in the affected organizations in order to avoid publicity. Dick Malmund, security chief at the Swedish Trade Federation (Svensk Handel), argues that criminal acts are often handled internally and that crime is more widespread in the business sector than is reflected in statistics. It is difficult to get a clear picture of the scope of the problem. In the few studies that are available, respondents and interviewees do not have a clear view of the overall picture. A study on financial crime in England conducted by the Financial Services Authority in 2007 covering 600 companies showed that there were obvious difficulties in discovering the size of the problem in monetary terms. The total picture was far from obvious to the respondents.²

The present study has considered all types of crime but will focus on financial crimes, as they constitute one of the principal areas of organized crime and are quite obviously connected to the financial crisis. Tiedemann defines economic crime as criminal behavior that affects, disrupts, or threatens the economy or the economic system in such a way that many individuals' interests are at stake.³

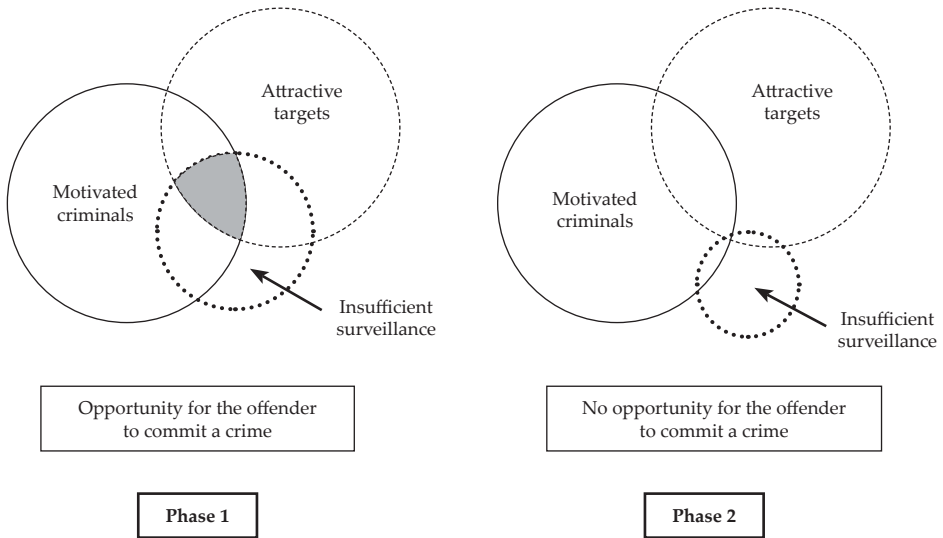
A theoretical model based on routine activity theory was created as a starting point for the analysis of how the financial crisis has affected organized crime. Routine activity theory focuses on what affects the crime rate in society⁴ and how changes in the routine behavior of potential victims can reduce crime. A key idea is that all societal actors should reduce opportunities for offenders to commit crimes. An important goal is to make it more difficult for individuals to commit crimes. The theory is based on the premise that there are always individuals who are motivated to commit crimes,⁵

² Financial Services Authority, *Financial crime: stakeholder research*, Prepared for the Financial Services Authority by GfK NOP (March 2007), <http://www.fsa.gov.uk/pubs/consumer-research/crpr58.pdf>

³ Klaus Tiedemann, "The Present International Situation of Reform and Research in the Field of Economic and Business Crime," in *International Society of Social Defence*, First European Symposium of Social Defence on Economic Crime (Rome 1977).

⁴ Jerzy Sarnecki, *Introduktion till kriminologi* [Introduction to criminology] (Lund: Studentlitteratur, 2003).

⁵ "Rån försök blev till brottsförebyggande uppfinning" [Attempted robbery turned into crime preventing invention], *Brottsförebyggande rådet*, August 23, 2007, <http://>

Figure 1. Dynamics in Opportunity Theory

and, furthermore, that they make an active choice when committing a crime. An opportunity to commit a crime is a necessary condition because it is a prerequisite for the criminal act.⁶ Some researchers have studied the theory from different perspectives. We have adopted the dynamic theory of Wilcox et al., who argue that the opportunity to commit a crime arises when three factors interact:

- Perpetrators are motivated.
- Attractive targets are available. This refers to availability of objects that could be stolen and/or potential victims.
- Police surveillance is insufficient.⁷

Crime prevention authorities can create counter forces to reduce opportunities for offenders or groups such as organized crime groups (see Figure 1). In phase 1, an occasion arises for the offender to commit a criminal act

www.bra.se/extra/news/?id=272&module_instance=7

⁶ Lawrence E. Cohen and Marcus Felson, "Social Change and Crime Rate Trends: A Routine Activities Approach," *American Sociological Review*, Vol. 44 (1979).

⁷ Pamela Wilcox, Kenneth C. Land, Scott A. Hunt, *Criminal Circumstance: A Dynamic Multicontextual Criminal Opportunity Theory* (New York: Walter de Gruyter, Inc., 2003).

because motivated criminals, attractive targets and inefficient police surveillance overlap. In phase 2, the surveillance is more efficient, so the risk of getting caught increases. The criminal opportunity is therefore reduced.

In this study, an overview of organized crime in Sweden will be presented, using routine activity theory to analyze the financial crisis in five areas, which cover the essential legal and financial markets, as well as the market of purely criminal acts:

- The credit and debt market
- The labor market
- The demand for goods and services and production of goods and services
- Investment and trading securities
- Criminal markets

The results of this study, possible future scenarios, and measures that can be taken to counter organized crime will be discussed in the following sections. Note that organized criminals' individual motives for committing crimes have not been studied in this report. Measures against organized crime have been grouped according to relationship marketing theory as operating at the mega level, the market level, and the nano level.⁸

An Overall Picture of Organized Crime

The National Bureau of Investigation (Rikskriminalpolisen) is the police agency responsible for counteracting organized crime. Its 2011 report describes how organized crime has evolved since 2007.⁹ Four types of groups are broadly distinguished.

The first type, known as empire builders, presents the biggest challenge to the police. They work as quietly as possible and are found in society, often in the form of businessmen with questionable practices who resort to

⁸ Evert Gummesson, *Relationsmarknadsföring: Från 4P till 30R* [Relationship marketing theory: From 4P to 30R] (Malmö: Liber, 2002).

⁹ Rikskriminalpolisen, *Problembild 2011* [Problem scenario 2011], RKP/KUT Rapport 2009:1, http://www.polisen.se/Global/ www%20och%20Intrapolis/Rapporter-utredningar/01%20Polisen%20nationellt/Organiserad%20brottslighet/Problembild_2011_sekretessprovad_09.pdf

force when necessary. Several have, or have previously had ordinary jobs but have no desire for a normal life. This type is difficult to fight because it is often difficult to tie these "businessmen" to specific crimes. Russian criminals with close ties to Russian societal elites or other spheres of influence form a subgroup of this type.

The second type is criminal motorcycle clubs that use open violence to establish themselves in stable societies. These groups are firmly established in Sweden. With open violence gradually reduced, police and public interest has cooled. Actors in this category now let others perform violent acts on their behalf. For example, the Hells Angels in Sweden use the fan club Red and White Crew for this purpose.

The third type consists of suburban gangs engaged in crimes in order to gain respect and power. While these gangs also engage in serious crimes, it is violence in itself that attracts them. These gangs have no long-term strategies and do not build empires. However, there is some indication that they monitor and in some cases try to expand their geographical territories.

The fourth type consists of gangs of youths who commit crimes such as advanced theft. Their delinquency shows systematic patterns, but profits go mainly to consumption during weekends, and there is no distinct violence.

Since organized crime mainly occurs in networks and more temporary forms of organization, it is difficult to estimate how many individuals are involved. In 2009, the Swedish Security Service (Säkerhetspolisen) estimated that 1000 people constituted the core of organized crime.¹⁰ A network analysis presented by the National Council for Crime Prevention (Brottsförebyggande rådet) listed 127 persons convicted in 2003 for serious drug offenses or serious drug smuggling in Stockholm. A subsequent analysis showed that there were either direct or suspected links between them and the criminal records of another 7000 people. The Swedish Security Service thus concluded that more than 10,000 people were linked to organized crime in Sweden.

According to the National Bureau of Investigation, the principal criminal acts committed by organized criminals are trading in narcotics; smuggling of cigarettes, alcohol and diesel oil; human trafficking; extortion; and

¹⁰ Säkerhetspolisen, *Den grova organiserade brottslighetens otillåtna påverkan på det demokratiska statskicket: En första nationell hotbild* [Serious organized crime and its influence upon the democratic society: A first national threat perception] (Stockholm: Säkerhetspolisen, 2009).

robbery.¹¹ In order to carry out these activities, they also engage in sub activities such as weapons theft and money laundering. To defend or expand their “market share,” they also commit crimes involving threats, violence, infiltration, and corruption.

Organized crime needs a viable market for goods and services and companies to launder its criminally acquired resources. Striking examples of the symbiotic relationship between organized crime and society at large have been presented by the National Bureau of Investigation.¹² One such example is taken from the riots in Denmark in February 2008. The police were almost powerless, but the riots stopped when the criminal Black Cobra gang contacted young people to demand an end to the riots as they were interfering with the drug trade.

In 2009, the market surveying company SIFO conducted a study that showed that organized crime hits small businesses hard and that most industries are affected.¹³ More than 4600 business leaders with between one and 49 employees were interviewed. According to the survey, one out of ten companies in Sweden (approximately 70,000) has been subjected to some form of organized crime. One out of five claims to face competition from illicit workers, and some 3000 to 4000 businesses are required to pay protection money and are victims of illegal subcontractors or face bribes and threats when signing contracts.

In 2010, a similar study was conducted by the Swedish Federation of Business Owners (Företagarna) and SIFO. This study confirmed the situation and indicated an increase in organized criminal influence on the small businesses.¹⁴

Figure 2 shows the percentage of companies in various sectors that have suffered due to organized crime. The most prevalent crime across all sectors is the submission of fake invoices (60 percent of all organized crime). The next most common crime are theft and shoplifting (35 percent), which affect the construction sector (57 percent) and retail trade (56 percent) the most.

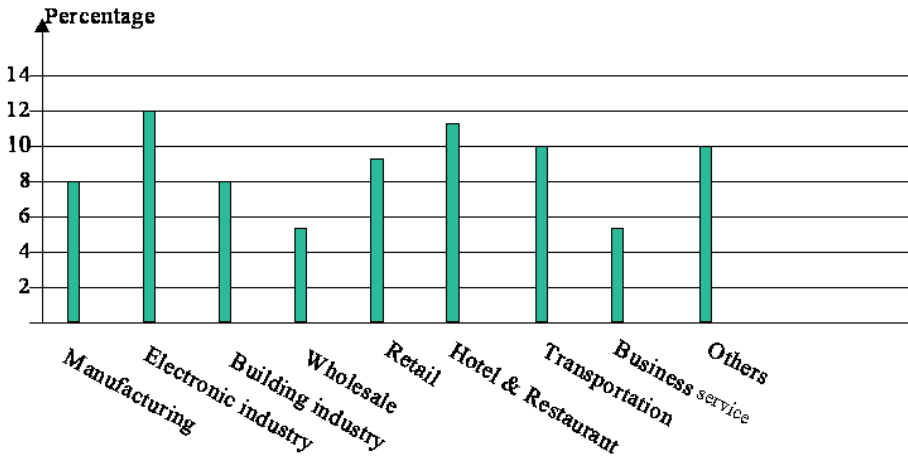
¹¹ Rikskriminalpolisen, *Problembild 2011*.

¹² *Ibid.*

¹³ Företagarna, *Organiserad kriminalitet – ett växande problem för företagen* (Stockholm: Företagarna, 2009), <http://www.foretagarna.se/Global/Rapporter/2009/Organiserad%20kriminalitet.pdf>

¹⁴ “Fyra av tio företag utsatta för brott,” Företagarna, June 7, 2010, <http://www.foretagarna.se/Regioner/Vasterbotten/Aktuellt/Fyra-av-tio-foretag-utsatta-for-brott/>

Figure 2. Percentage of Companies Exposed to Organized Crime



Source: Företagarna, *Organiserad kriminalitet*.

Competition from criminally owned companies is in third place. About 12 percent of small businesses are affected by criminal competitors, with the proportion being highest in wholesale trade (36 percent) and in exchange/transport (27 percent). Six percent of the companies stated that they have, at one time or another, been required to pay protection money. The category of “other private services” (such as hairdressing) accounts for the vast majority of these responses. Thirty-six percent of businesses in this category claimed to have been victims of this particular crime.

The Impact of the Financial Crisis on Organized Crime

The impression that organized economic crime is increasing in Sweden is based on assessments made by the law enforcement authorities, not research. The National Bureau of Investigation points out that the financial crisis will affect the future development of organized crime in Sweden as unemployment in Sweden and other parts of Europe increases.¹⁵ If the crisis is prolonged and unemployment remains high, the economic and social situation of some groups will be severely affected. Increasing alienation among low-skilled youngsters of immigrant backgrounds can be expected.

¹⁵ Rikskriminalpolisen, *Problembild 2011*.

Socioeconomic differences in a society can contribute to increasing conflict and crime.

While this is a plausible projection, there are few or no research reports on how the financial crisis has affected organized crime. The following account is thus based on agencies' and organizations' confrontations with organized crime during the financial crisis and, in some cases, statistics and surveys. It can be assumed that organized crime would have increased regardless of the financial crisis, for global influences point in that direction. The financial crisis may, however, have opened up new opportunities for criminal activities. This study presents an analysis of how organized crime developed in five different categories during and in the aftermath of the recent financial crisis:

- The credit and debt market
- The labor market
- The demand for goods and services as well as their production
- Investments and securities trading
- The criminal markets

The Credit and Debt Market

The financial crisis made it harder for businesses to obtain credit. It also led to a decrease in sales, which has created many difficulties for companies trying to pay their mortgages. According to the Swedish Economic Crime Authority (Ekobrottsmyndigheten, EBM), this was particularly because of the lower availability of credit that a law concerning deferred tax was introduced in early 2009 and extended until January 2011.¹⁶ On November 30, 2009, the tax deferrals amounted to 570 million euro spread over 4340 companies. There is a risk that some of these companies will not recover financially and will be acquired by organized criminals. A result of this will be that they would have easy access to the legal economy and be able to launder criminal money through these companies. The EBM emphasizes that in the wake of the crisis entrepreneurs may be more susceptible to cooperation with criminals in order to survive. They may also borrow money

¹⁶ Ekobrottsmyndigheten, *Rapport om den ekonomiska brottsligheten* [Report on economic crime] (2010), <http://www.ekobrottsmyndigheten.se/Documents/Rapporter/Ekor%C3%A5det/Rapport%20om%20den%20ekonomiska%20brottsligheten2010.pdf>

from criminals at usurious rates of interest. Criminal lending companies are already being investigated by the authorities. The EBM mentions in its *World and Threat Analysis 2009* that there are examples of organized criminals owning or controlling various types of exchange offices.¹⁷

In 2010, the Swedish Financial Supervisory Authority (Finansinspektionen, FI) increased to 2500 the number of warnings on its watch list of fake investment companies. This is a substantial increase compared to the year before.¹⁸ In addition to scam brokers who contact their victims with lucrative offers, the FI also noted a number of bogus official agencies that contact those who have been duped and offer the victims help in recovering what they lost in the first scam.¹⁹

The Labor Market

In combination with the increasing pressure on companies to maintain market share and reduce costs, the financial crisis has almost certainly led to greater use of illegal workers. The financial crisis has also led to a sharp rise in unemployment (Figure 3).

Unemployment has had a significant impact on organized crime. The Swedish Trade Union Federation (Landsorganisationen, LO) has for many years actively tracked the development of economic organized crime in Stockholm county. The committee has noted that the financial crisis has clearly created a new form of organized economic crime. High unemployment figures have led the Swedish Public Employment Service (Arbetsförmedlingen) to try to get work for the unemployed at almost any price. Organized criminals have taken advantage of this unemployment policy as they collect grants from the state to hire unemployed workers through so-called employment agencies. The employees are hired out, and the agencies charge for their labor while collecting various state grants. These agencies neither pay employment taxes and fees nor report profits as long as the

¹⁷ Ekobrottsmyndigheten, *Omvärlds- och hotbildsanalys 2009: Fortsatta strategier mot organiserad brottslighet och brottsvinster* [World and threat analysis 2009: Continued strategies against organized crime and proceeds of crime] (2009).

¹⁸ "Varning för företag" [Warning against companies], Finansinspektionen, www.fi.se/Konsument/Varning-for-foretag/senast-utlagda-varningar/ (accessed November 11, 2010)

¹⁹ Mats Rörbecker, "Högkonjunktur för svindlare" [Boom for swindlers], *Svenska Dagbladet*, November 1, 2010.

Figure 3. Unemployment in Sweden



Source: International Monetary Fund, 2010 World Economic Outlook

state contributions are being paid. When the contributions stop, the agencies go bankrupt and the same procedure is repeated with a new company. One can argue that the financial crisis has led to this new form of abuse – an employment agency based contributions abuse. No research on the extent of this abuse has been done, but it appears to be very extensive. The Swedish Public Employment Service is required to obtain information on the grant applicant from the trade unions, which are inundated with requests. The unions consequently have an in-depth understanding of the extent of this fraud.

In its *World and Threat Analysis 2009*, the EBM mentions that the most common source of income for organized economic crime is from illegal workers in construction and staffing industries. According to the EBM, companies are reluctant to hire permanent staff during a recession, so there is a tendency for the number of employees in the staffing industry to increase. According to the EBM this implies an increased risk of problems with illegal workers in the staffing industry.²⁰

There is an ongoing debate about the increasing involvement in organized economic crime by criminal motorcycle gangs. A typical example of such involvement was highlighted by a raid against illegal workers made by the EBM. An intelligence-led investigation was carried out in close

²⁰ Ekobrottsmyndigheten, *Omvärlds- och hotbildsanalys 2009*.

cooperation with the county police in the southernmost Swedish county, Skåne. Two former convicts, who had committed economic crimes, were heads of the illegal activities and ran temporary staffing companies in two separate public companies. Four people linked to the criminal motorcycle gangs participated to varying degrees in the arrangement and were in charge of cash management. The total tax evasion amounted to 720,000 euro. Six individuals were sentenced to a total of 14 years' imprisonment. Members of the criminal motorcycle gangs were involved in several similar cases.

The increase in unemployment due to the financial crisis has probably also affected consumption among the unemployed, which in turn is likely to have affected shop thefts. Goods worth 690,000 euro are stolen from Swedish stores annually, representing 1.4 percent of total store turnover. According to the Global Retail Theft Barometer this figure is the highest in Europe. Many of these thefts are organized, as when criminal gangs steal meat.

In 2010, the Institute for Security and Development Policy presented a study showing that human trafficking from Estonia and Latvia to Sweden increased after the financial crisis. The report did not take trafficking for sexual exploitation into account. Workers from Estonia and Latvia are often abused and paid substandard wages and work under poor employment conditions. Swedish authorities lack the information and ability to handle this situation, and the authorities in Estonia and Latvia face similar problems.²¹

Demand for Goods and Services and Production of Goods and Services

As demand for goods and services declined during the recession, the number of bankruptcies increased. According to the EBM, these circumstances resulted in an increase in crime as every third bankruptcy results in criminal complaints. Earlier studies have shown that crime was suspected in 75 percent of business bankruptcies. Corporate looting is a well-known criminal activity in times of crisis. Insolvent companies are bought by criminals who deliberately fail to pay the debt and instead sell everything possible before

²¹ Negra Efendić, "Gästarbetarna luras ta rena slavjobb" [Guest workers lured into taking slave jobs], *Svenska Dagbladet*, December 22, 2010; Walter Kegö and Erik Leijonmarck, "Slavarbete i vår tid: Utnyttjande av estnisk och lettisk arbetskraft i Sverige" [Slave labor in our time: Exploitation of Estonian and Latvian workers in Sweden], Institute for Security and Development Policy, *Stockholm Paper* (December 2010).

putting the company into bankruptcy. The EBM also points out that, in times of economic hardship, internal and external pressure on companies' increases. This pressure usually makes it easier to detect fraud and major economic crimes.

In 2010, the Swedish Tax Agency investigated a number of companies and individuals involved in either construction enterprises or the legal formation of housing cooperatives. The survey shows that these organizations have been affected by organized crime in the aftermath of the financial crisis.

Newly formed housing cooperatives are common as buyers of real estate. For individuals and estates, the housing cooperatives file statements regarding the possession and transfers with the Swedish Tax Agency. The same obligations do not apply to other legal subjects and foreign individuals, so such transfers can be anonymous. Advertisements for luxuriously renovated apartments and refurbished attics have been common in recent years, but sales are not always filed by housing cooperatives. The investigation made by the Swedish Tax Agency initially investigated the following:

- Businesses with real estate and condominiums where funding is unclear
- Relatively small businesses and new corporate groups that buy, use, refurbish, or redecorate real estate and/or condominiums
- Purchases or sales of real estate and properties by individuals who are known from media or surveillance by other official agencies

Projects in housing cooperatives are likely to include money laundering. A preliminary examination revealed the following common scenario:

- A group of individuals control a construction company
- The construction company forms a subsidiary, a holding company, with the same name as the construction company
- The holding company acquires real estate
- The construction company begins work on the property
- At some point in the process, shares in the holding company are transferred from the construction company to an housing cooperative
- There is an underpriced transfer of the real estate from the holding company to an housing cooperative

- The holding company is liquidated
- The final construction work is billed to the housing cooperative

In some cases, it has been possible to study these projects in advertisements on the Internet. Transactions investigated using account analysis and VAT inquiries do not correspond to the real work done on the property. This has made the Swedish Tax Agency conclude that work is entirely based on illegal activity. One explanation may be that the individuals behind the construction company had illegal money they needed to put into the project. Illegal labor was then paid in cash for work. Since the property is “packaged” in a subsidiary, the end value consists of the added value on the stocks in the newly formed housing cooperative. This capital gain is recognized as a tax-free sale of subsidiary shares in the construction company. Thus, money has been laundered and can be distributed as wages or included in traditional tax planning.

The individuals behind the construction company may invest illegal money in the housing cooperative. During pre-investigations in various projects, the authorities have concluded that in many cases the key persons remain on the board of the housing cooperative long after the project is completed. One possible explanation for this is that many calculations failed in the context of the financial crisis in the autumn of 2008. The perpetrators of these projects were thus left with shares of the housing cooperative instead of cash.

There are many possible explanations for why housing cooperatives may be of interest to economic criminals. In its previews, the Swedish Tax Agency concluded that, in addition to facilitating money laundering:

- Purchasing a property to improve it and sell it in smaller parts is a relatively simple way of earning money.
- It is possible to produce fake invoices and use illegal labor for construction.
- It is possible to deceive customers and future members of the housing cooperative.
- It is possible to commit bank and mortgage fraud (using multiple mortgages).
- It is possible to use the apartment for various criminal purposes.

The Swedish Trade Federation is also concerned that catalog company scams have expanded into the media agencies. This market is over-represented among scam companies. Criminals are active in the new media agency industry, which has a wider product range than the catalog companies. Criminal gangs are behind a number of media agencies and according to the Swedish Trade Federation media agency, the industry has grown explosively. Criminals using laundered “dirty” money compete with reputable established media companies. Staffan Slörner, CEO of the Swedish media organization Sveriges Mediabyråer, argues that billions are unaccounted for annually in the media business.

Trading in Securities

In its triennial report, the EBM argues that the financial crisis implies that markets have become more vulnerable to the spread of rumors and react strongly to new information. The fact that a greater proportion of large movements in the stock market can be explained by the turbulent market makes it difficult for control systems to identify suspicious trades. Another effect of the financial crisis is that there are more variations of inside information than normal, due to the focus on financial statements including forecasts, profit warnings, and redundancies. An increased amount of insider information can create incentives to crime.

In the aftermath of the financial crisis, interest rates fell to almost zero. That prompted investors to search for more lucrative investments which, in turn, created opportunities for investment fraud. Consequently, the FI increased the number of warnings about fake investment companies to over 2500 in 2010, far more than in 2009.²² Its warning list includes many fake stock brokerage firms with names that sound trustworthy, often reminiscent of the names of well-established companies. Scammers often work in three stages: sales, repurchase, and rescue. In the sales phase, skilled sales staff offers victims potential promising investments. In the repurchase phase, the victims are offered the opportunity to sell or exchange their securities for a reasonable price by the same or another company. However, the fees are high. In the rescue phase, victims may be exposed to fraudulent offers of

²² “Varning för företag,” Finansinspektionen.

help to recover lost amounts once they realize that they have been duped.²³ In addition to the scam brokers who contact their victims with lucrative offers, the FI noted a number of bogus agencies or law firms being active.²⁴

The number of companies that offer international currency trading on the Internet has increased in recent years. This highly risky trading is not under the supervision of the authorities, if the sellers do not use financial instruments for their foreign exchange trading. The FI warns of fraudulent businesses and points out that these commercial enterprises may need government licensing.²⁵

Criminal Markets

The financial crisis may also have influenced purely criminal markets, such as the drug market, the illegal manufacture and sale of alcoholic beverages, the smuggling of cigarettes and other tobacco products, and the smuggling of fuel oil.

According to the National Bureau of Investigation, drug trafficking remains a core activity of organized crime. The National Council for Crime Prevention was first in Sweden to describe the criminal economy. In general it is known where the criminal world gets its money but not how it is used. Research done in other countries does not provide much guidance. Drug trafficking is not as profitable as generally believed. Customers are dependent on drugs and losses decrease profitability. There is also widespread drug abuse at the lower levels of the supply chain and the cost of running the business is high. Drug crime is also a priority to national authorities, and several individuals who have been involved are serving long sentences. The National Council for Crime Prevention assesses that dealing in drugs is not very profitable for many participants but represents “dangerous money.” Contractors usually need to be active in other businesses or work outside the drug trade. Cautious and more successful participants stay in Sweden

²³ Ibid.; Jan Green, “Investeringsbedrägerier – en beskrivning av hur investeringsbedrägerier går till” [Investment fraud – a description of how it is done], Memo, January 11, 2010, http://www.fi.se/upload/60_Konsument/invbedr_beskr_20100111.pdf

²⁴ Rörbecker, “Högkonjunktur för svindlare”; “Varning för företag,” Finansinspektionen.

²⁵ Jan Green, “Varning för investeringsbedrägerier med handel av utländsk valuta, valutaspekulation” [Warning against investment fraud in connection with exchange dealings, currency speculation], Memo, September 28, 2009, Finansinspektionen, http://www.fi.se/upload/60_Konsument/PM_forex._090928pdf.pdf

but do not spend extravagantly so as not to attract attention. Instead, they spend large sums of money abroad.

The demand for stolen capital goods is likely to have increased as a result of the financial crisis. According to Leif Björklund of Larmtjänst, a subsidiary of Insurance Sweden, well-organized theft of expensive cars have increased, while car theft in general have fallen. The exclusive cars are sent to the Baltic states and Poland. Larmtjänst has staff in recipient countries and knows where the cars are brought. Theft of expensive marine engines has also increased over the period 2005–2010.²⁶

The number of women who sell sex on the street has increased significantly, particularly women from Brazil, Thailand, and several African countries. Although the trend is decreasing, the sex trade is open in Stockholm City. Prostitution is booming on Malmskillnadsgatan in the center of Stockholm. Critics have argued that the Sex Purchase Act of 1999, which criminalized the buying of sexual services, has further stigmatized an already vulnerable group. It has also been said that the new legislation has made prostitutes move off the streets to the Internet, making illegal sexual services more difficult to track. Those who defend the Act have argued that street prostitution has declined sharply since the law was introduced. Recently, a new trend has been observed. In a short period of time, the Stockholm police has noted a large increase of prostitution, according to Police Inspector Jonas Trolle, Stockholm police trafficking group. The trend is similar in Gothenburg. According to Mats Paulsson, a detective at the Gothenburg police prostitution group, a number of foreign prostitutes moved to Gothenburg from Oslo, when the Norwegian Sex Purchase Law was amended.²⁷

Future Scenarios

Simple logic suggests that the organized crime linked to the financial crisis should end when it ends. This is not true in practice, however, as established networks and distribution channels are retained even when a crisis ends.

²⁶ Authors interview of Leif Björklund, December 3, 2010.

²⁷ "Kraftig ökning av prostitution i Sverige" [Substantial increase in prostitution in Sweden], *Nyheter24*, July 27, 2009, <http://nyheter24.se/nyheter/inrikes/157308-kraftig-okning-av-prostitution-i-sverige>; Alexandra Hernadi, "Fler svenskor i gatusexhandeln" [More Swedish women in street prostitution], *Svenska Dagbladet*, November 1, 2010; Jennie Danielsson, "Prostitution från Norge till Sverige" [Prostitution from Norway to Sweden], *Svenska Dagbladet*, September 8, 2009.

There are a number of scenarios for the future development of organized crime. One possible scenario is that globalization continues to increase both in the short and long term. Globalization creates many opportunities for organized crime as increasing international mobility makes it difficult for authorities to remain in control. However, there are indications that a trend is emerging with smaller international economic groups cooperating in the aftermath of the financial crisis. This trend might dampen the overall pace of globalization and this, in its turn, would, according to the previous reasoning, decrease the expansion of organized crime.

Freedom of movement within the EU and the ability of Swedish companies to import workers from countries outside the EU have created a market for illegal workers in Sweden. In the short term, there are no indications that this activity will be reduced. It is more likely to increase.

For some decades, members of organized crime gangs in Sweden have shown an interest in lessening their involvement in traditional crime, turning to economic crimes. This interest is, of course, shaped by the fact that the penalties for economic crimes are much lower than penalties for traditional crimes such as drug trafficking. However, many economic crimes require more skill than more traditional crimes. This may explain why the trend has not progressed beyond the current level.

The number of criminal gangs and the competition between them has increased in recent years, and gang violence has grown steadily and is likely to continue to do so. This development is dependent on the authorities' actions, however. Terrorism has reached Sweden. The number of suspected terror networks under surveillance has increased, and the number of potential terrorists is also likely to increase.

Measures against Organized Crime and Policy Recommendations

In relationship marketing, relations are divided into market relationships, mega relationships, and nano relationships.²⁸ Market relations consist of classic market relationships such as the relationship between customer and supplier or customer, supplier, and competitor. This also includes special market relationships such as the relationship with the client, or customer relationships to brands and items. Mega relationships are above the market,

²⁸ Gummesson, *Relationsmarknadsföring*.

such as mass media activities and lobbying activities directed towards authorities and the government. Nano relationships are below the market, within the organization's internal systems and processes.²⁹ Organized crime operates at all these levels, and countermeasures against organized crime should therefore be mobilized at all levels.

Countermeasures at the Mega Level

Serious organized crime should be fought by intelligence-led coordination between agencies. In addition to fighting less sophisticated crime, they should combat organized crime and economic crimes in particular, confiscate the profits of crime, and expand international cooperation.

A number of other cooperative and collaborative arrangements have been formed between authorities. The EMB, the FI, and the Stockholm Stock Exchange cooperate in order to combat crime in the financial markets. The Swedish Security Service has had primary national responsibility for preventing, identifying, and combating serious organized crime and pressures on politicians, government representatives, and journalists. The Swedish Tax Agency, the FI, the Swedish Enforcement Agency, banks, and Euroclear cooperate to tackle investment fraud. International coordination involves Europol, Interpol, and Eurojust.³⁰ The EBM's offense replacement unit, together with the Finance Police, constitutes a "Swedish Asset Recovery Office (ARO)" that exchanges information with corresponding offices in other EU countries. The ARO also traces and confiscates proceeds of crime.

In Denmark, the legal system has successfully fought criminal motorcycle gangs. The Danish tax police, municipalities, and social security services have worked together on a broad front and have followed the path

²⁹ Nils Bagelius, Evert Gummesson, and Lars Vigerland, "A Dark Side of Relationship Marketing: Criminal and Covert Networks," Paper presented at the 18th International Colloquium in Relationship Marketing, Henley Business School, September 27–29, 2010; Stephen L. Vargo and Robert F. Lusch, "From goods to service(s): Divergences and convergences of logics," *Industrial Marketing Management*, Vol. 37, Issue 3 (May 2008); Håkan Håkansson and Ivan Snehota, eds., *Developing Relationships in Business Networks* (London: Routledge, 1995); Björn Axelsson and Geoffrey Easton, eds., *Industrial Networks: A New View of Reality* (London: Routledge, 1992); Evert Gummesson, *Many-to-Many Marketing: Från one-to-one till many-to-many i nätverksekonomin marknadsföring, Att se marknadsföringen genom nätverksglasögon* [Many-to-many marketing: From one-to-one to many-to-many in marketing in the network economy, Looking at marketing through network glasses] (Malmö: Liber ekonomi, 2004).

³⁰ Ibid.

of money, managing to stop payments to criminals. Similarly, German authorities managed to break a child pornography network by identifying the money flow from credit cards to a particular recipient.

Policy initiatives have been put in place to try to thwart the black market. The Swedish Parliament has adopted legislation mandating special personnel ledgers be maintained by restaurant and hairdressing businesses in order to prevent undeclared work. Parliament has also decided to strengthen control of cash registers. Companies selling goods or services for cash must use certified registers. A reverse construction VAT has been introduced. Money laundering legislation has been extended based on work within the EU against criminal money. New forfeiture rules have been introduced to improve the chances of reducing criminal profits.³¹

A concrete example of an action plan against organized crime at the county level has been presented by Östergötland county in 2007 in response to the growing problem of criminal gangs infiltrating public services such as schools and kindergartens. Several municipalities in Sweden have followed this example.

Countermeasures at the Market Level

Industrial organizations, interest groups, and accounting firms cooperate with business stakeholders to inform their members and clients about organized crime to take countermeasures. Recently, cooperative partnerships have been formed between government authorities and industry in Sweden. The EBM's forensic advice is an example of a partnership with industry. The EBM has a strategic and advisory mission that aims to provide knowledge of different business environments.

The EBM has established contacts with professional organizations in accounting, bankruptcy firms, the business community, and banks, in order to acquire and utilize the experience and knowledge of economic crime found in the business community at large as well as in labor organizations.

³¹ Johanna Skinnari, Daniel Vesterhav and Lars Korsell, *Vart tog alla pengarna vägen? En studie av narkotika-brottslighetens ekonomihantering* [What happened to all the money? A study of the economic management of narcotics crime] (Stockholm: Brottsförebyggande rådet, 2007).

Countermeasures at the Nano Level

At the nano level, global and domestic scandals have accelerated organizational efforts to improve protection against organized crime. Participants focus both on internal control and external surveillance. Lessons from past experiences are published to inform organizations about detecting and preventing crime, what measures should be taken when crime occurs,³² and how to use modern computer technology to track transactions.³³ A staple in the literature is the need to act promptly when violations are discovered. The later action is taken, the greater the damage and the greater the resources needed to take action may be.

The Importance of Personal Relationships

At the mega, market, and nano levels, personal relations are of great importance. It is surprising that what happens at each level has not received much attention. Organized crime gangs operate in tightly controlled and independent networks as well as in sub-networks within organizations. These networks extend to customs organizations, consumers, the government and political sector, and to specialists such as lawyers and accountants. The members are entirely dependent on the loyalty of each person involved to protect them against disclosure.

Policy Recommendations

It should be noted that countermeasures against organized crime described in the previous section have not focused on organized crime linked to the financial crisis. The relationship between the financial crisis and organized crime, which has been presumed and discussed in Section 3, is indirect. For example, the financial crisis increased unemployment, which opened up new opportunities for organized crime.

³² Joe Anastasi, *The New Forensics: Investigating Corporate Fraud and the Theft of Intellectual Property* (Hoboken, N.J.: John Wiley & Sons, 2003); Michael J. Comer, *Investigating Corporate Fraud* (Aldershot, Hants, England and Burlington, VT: Gower, 2003); Jonathan Reuvid, ed., *The Regulation and Prevention of Economic Crime Internationally* (London: Kogan Page, 1995); Zabihollah Rezaee, "Causes, consequences, and deterrence of financial statement fraud," *Critical Perspectives on Accounting*, Vol. 16, Issue 3 (April 2005); Joseph T. Wells, *Principles of Fraud Examination* (Hoboken, N.J.: John Wiley 2005).

³³ Anastasi, *The New Forensics*.

The measures taken at different levels described in Section 5.1 constitute a suitable starting point for countermeasures. The importance of an overall picture cannot be emphasized enough. From the point of view of researchers, it is vital to stress the importance of having functioning databases in order to have access to a comprehensive picture of organized crime. To improve efficiency, continuous monitoring and evaluation of activities is required. Local crime prevention councils should be encouraged to pay more attention to organized crime. In 2010, the National Council for Crime Prevention published a manual on countermeasures against local organized crime.³⁴

Summarizing the Results

The above analysis has focused on criminal activities and measures against organized crime during the recent financial crisis. The report has not addressed the motivation of perpetrators, however. In general, they are motivated by greed, the desire to become better off at the expense of others. This is a powerful factor resulting in actions like extortion, theft, and fraud. But there are other incentives as well. The perpetrator may need or want success, recognition, respect, belonging to a group, revenge, or the lifestyle of the rich and famous.

Opportunities for Organized Crime

The financial crisis has created opportunities for organized crime in the five areas discussed in Section 3. In the credit and debt market, the financial crisis made it harder for businesses to obtain loans, which led to deferred taxes of 577 million euro up to January 2011. Many of the 4340 businesses that deferred their taxes are likely to try to pay the tax debt when it is due. This may create a situation of widespread insolvency where companies will be bought by organized criminals, who will plunder and bankrupt them. Insolvent companies can also be bought at a low price and be used for money laundering. This is an easy way for organized crime to enter the legal financial market. Difficulties in obtaining loans can also be an incentive for

³⁴ Lars Korsell et al., *Lokal organiserad brottlighet: En handbok om motåtgärder* [Local organized crime: A handbook of counteractions] (Stockholm: Brottsförebyggande rådet, 2010).

insurance fraud; in fact, insurance fraud has increased since the financial crisis began.

In the labor market, the financial crisis led to an increase in unemployment, which in turn created an opportunity for organized crime to enter the staffing industry. The Swedish Public Employment Service connects staffing companies to unemployed individuals and the state pays all or most of the salary costs. An unreliable staffing company pays no taxes or fees for its employees and allows the company to go bankrupt when the government subsidy runs out. This process is then repeated.

The financial crisis led to a reduction in the demand for and supply of goods and services, followed by an increased number of bankruptcies. Bankruptcies frequently trigger financial crime and cheating of various kinds. Bankruptcies caused by plummeting sales can also make companies move into looting and laundering in the same way as bankruptcies caused by difficulties in obtaining loans and credits. The financial crisis also affected the purchasing power of consumers and this is likely to have increased demand for cheap, pirated products. For example, e-commerce in counterfeit medicines has increased.

In the investment and securities trading market, the financial crisis caused deposit rates to fall drastically. This is likely to have motivated many investors to seek alternative investment opportunities. According to the FSA, the number of companies engaged in investment fraud has increased during the financial crisis. In November 2010, their number was estimated at around 2500.

The financial crisis may also have had an impact on purely criminal markets, such as the drug market, the illegal manufacture and sale of alcoholic beverages, the smuggling of cigarettes and other tobacco products, and the smuggling of fuel oil.

The Control Structure

The authorities have taken a number of measures on the mega level against organized crime. Measures recently implemented in Sweden are wire tapping and special attention paid to particular offenders, as well as the confiscation of offenders' money and other assets. The legislation must be adapted to reflect changes that have occurred in society at large. Its efficiency is

hampered by poor enforcement resources such as procedures, instructions, manuals, training, and reporting systems.³⁵

It is not only police and prosecutors who combat organized crime. A number of authorities such as unemployment authorities, regional social insurance offices, tax authorities, bailiffs, financial supervision authorities, custom authorities and the coast guard have joined forces in coordinated attacks. Intelligence-led coordination of actions taken by authorities has been introduced. There are also nascent partnerships between government and industry. New legislation and confiscation rules have been introduced to seize criminal profits.

On the market level, counter forces have been mobilized within industries, associations, and other business stakeholders, and cooperation has been established with authorities. It is important to know which authorities to turn to when businesses are adversely affected by organized crime.

Local authorities try to restrict the establishment and spread of local gangs. Some companies and organizations have also taken a stand against organized crime.³⁶ In 2007, a radical shift at the municipal level took place when Östergötland county designed an action plan against organized crime in response to the growing problem of criminal gangs infiltrating public services such as schools and kindergartens.³⁷ Several municipalities in Sweden have followed this example.

At the nano level, internal control is maintained and external surveillance is carried out in organizations to varying degrees. Internationally, the problems caused by organized crime have been highlighted in an extensive literature that describes how companies can prepare for and develop plans to safeguard themselves against this threat.

³⁵ Ibid.; Jan Almgren, "Tandlösa EBM får skarp kritik" [Toothless Economic Crimes Bureau sharply criticized], *Svenska Dagbladet*, December 21, 2010.

³⁶ Korsell, *Strategier mot organiserad brottslighet*.

³⁷ Mats Löfving, "Östgötsk samverkan mot organiserad brottslighet fortsätter" [Collaboration against organized crime continues in Östergötland county], Polismyndigheten i Östergötlands län, 2010; BRÅ, "Östergötlands handlingsplan inspirerar andra" [The action program of Östergötland inspires others] (Stockholm: Brottsförebyggande rådet, 2010).

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