

ORGANIZATIONAL CRIME

Corruption and Organized Crime in Europe

Illegal partnerships

Edited by
Philip Gounev and Vincenzo Ruggiero



Corruption and Organized Crime in Europe

In *Corruption and Organized Crime in Europe*, Gounev and Ruggiero present a discussion of the relation between organized criminals and corruption in the EU's 27 Member States. The book draws on research and scholarly work the editors carried out, respectively, within the Center for the Study of Democracy (CSD) in Bulgaria, and within academic institutions, as well as on behalf of the European Commission and the United Nations.

Combining empirical data and theoretical debates, the book focuses on three main areas of the relationship between corruption and organized crime: public bodies, the private sector and criminal markets. It presents the findings of a recent research project carried out by the CSD on behalf of the European Commission, providing an analysis of the specific national contexts in which corruption and organized crime thrive. The essays also address institutional responses and policies, focusing particularly on how EU Member States attempt to sever the links between the official economy, the political sphere and organized crime.

The second part of the book presents case studies, written by some of the foremost international experts on the subject matter, analysing corrupt exchange and criminal organizations, concentrating on specific European countries – Bulgaria, France, Greece, Italy, Russia, Spain and the UK. As the first comprehensive study of corruption and organized crime in the countries of the European Union, the book will be a valuable resource for students and scholars of criminology, sociology, law and international politics, as well as policy makers and law-enforcement agencies.

Philip Gounev is Senior Analyst and expert on crime and corruption at the Center for the Study of Democracy in Bulgaria. Dr Gounev leads Bulgaria's annual National Crime Survey. He has managed a number of EU-wide and national studies and projects on organized crime and corruption. Dr Gounev holds a PhD from the London School of Economics.

Vincenzo Ruggiero is Professor of Sociology at Middlesex University in London. He has conducted research on behalf of many national and international bodies, including the Home Office, the ESRC, the European Commission and the United Nations. He has published extensively in a variety of criminological and sociological areas, and his previous books include: *Organised and Corporate Crime in Europe* (1996); *The New European Criminology* (1998, co-edited); *Crime and Markets* (2000); *Economic and Financial Crime* (2002, co-edited); *Crime in Literature* (2003); *Understanding Political Violence* (2006); *Social Movements: A Reader* (2008, co-edited) and *Penal Abolitionism* (2010).

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First published 2012
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
711 Third Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa
business*

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British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data
A catalog record for this book has been requested

ISBN 978-0-415-69362-2 (hbk)
ISBN 978-0-203-11796-5 (ebk)

Typeset in Times New Roman
by Book Now Ltd, London

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Contributors

Georgios A. Antonopoulos is Reader in Criminology at the School of Social Sciences and Law, Teesside University, UK.

Tihomir Bezlov is expert on organized crime and corruption. He is Senior Analyst at the Center for the Study of Democracy, Sofia, Bulgaria.

Alejandra Gómez-Céspedes is a specialist on economic and organized crime at the Andalusian Institute of Criminology at the University of Malaga, Spain.

Philip Gounev is Senior Analyst and expert on crime and corruption at the Center for the Study of Democracy in Bulgaria. Dr Gounev leads Bulgaria's annual National Crime Survey. He has managed a number of EU-wide and national studies and projects on organized crime and corruption. Dr Gounev holds a PhD from the London School of Economics.

Nacer Lalam, is an economist, specialised in the field of underground economy, organised crime and security policies. He is Research Fellow at the Institut national des hautes études de la sécurité et de la justice, Paris, France.

Paddy Rawlinson is Senior lecturer at the Department of Criminology, at Monash University, Melbourne, Australia.

Vincenzo Ruggiero is Professor of Sociology at Middlesex University in London, UK. He has conducted research on behalf of many national and international bodies, including the Home Office, the ESRC, the European Commission and the United Nations. He has published extensively in a variety of criminological and sociological areas, and his previous books include: *Organised and Corporate Crime in Europe* (1996); *The New European Criminology* (1998, co-edited); *Crime and Markets* (2000); *Economic and Financial Crime* (2002, co-edited); *Crime in Literature* (2003); *Understanding Political Violence* (2006); *Social Movements: A Reader* (2008, co-edited) and *Penal Abolitionism* (2010).

Nikolai Tagarov is Research Fellow at the Center for the Study of Democracy and expert on migration issues. He holds Master degrees in EU politics and in international political economy from the London School of Economics.

Sappho Xenakis is a Research Associate at the School of Interdisciplinary Area Studies, University of Oxford, UK, and has been awarded a two-year Junior Research Fellowship (2011–2013) at the Centre for Sociological Research on Law and Penal Institutions (CESDIP) in Paris, France.

Acknowledgements

The core of this book draws on a 2009 study that the Center for the Study of Democracy (CSD) carried out on behalf of the European Commission. The data collection for the study, entitled *Examining the links between organised crime and corruption*, was carried out by a team of almost 20 researchers from CSD, as well as academics and analysts at various other institutions across the European Union. Our gratitude goes to all these individuals for their hard work, as well as to the 250 experts from all 27 Member States of the European Union who were interviewed. We would like to thank Directorate General Home Affairs for having agreed to allow using the data of its study for the needs of the academic community.

Abbreviations

EU Member States

The following two-letter state abbreviations are used in parentheses where the source of a statement comes from interviews carried out in the countries cited:

AT	Austria	IT	Italy
BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxembourg
CY	Cyprus	LV	Latvia
CZ	Czech Republic	MT	Malta
DE	Germany	NL	Netherlands
DK	Denmark	PL	Poland
EE	Estonia	PT	Portugal
EL	Greece	RO	Romania
ES	Spain	SE	Sweden
FI	Finland	SI	Slovenia
FR	France	SK	Slovakia
HU	Hungary	UK	United Kingdom
IE	Ireland	EU	Across European Union

EU-10E and EU-17

During our research a number of important differences (historical and social) emerged that allowed us to make some generalizations about two groups of Member States. These groups are referred to as:

- **EU-10E** (to avoid confusion with EU-10, the standard reference used): Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.
- **EU-17**: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

Part I

1 Introduction

The organisation of crime

Vincenzo Ruggiero

There are as many definitions of organised crime as there are analytical perspectives and political backgrounds. Organised crime may be equated to ‘war making and state making’ (Tilly, 1985) as well as to criminal conspiracies formed by individuals whose surname ends with a vowel. The former definition is the result of political and historical analyses of how ruling groups establish their supremacy, how states claim a monopoly in the use of force, and how violence establishes the mystical foundation of authority and the law (Benjamin, 1921; Weber, 1947; Derrida, 1994; 2009). The latter definition derives from North-American enquiries identifying organised crime as one single, wide group of Italian migrants, whose hunger for money and power is alien to, and threatens, the society of the United States (Kefauver Committee, 1951; Cressey, 1969; Fijnaut, 1990). The definition adopted by the editors of this book will become clear after a review of the literature preceding the present work, and of course, will reflect our own analytical perspective and political background.

It has been observed that the definitional problems posed by organised crime may well be due to the concept of organised crime itself, and a sensible question, in this respect, could be why some crimes require particular forms of organisation (Levi, 2007; Edwards and Levi, 2008). This observation sums up the inconclusive debate spanning decades and the unwillingness, or failure, to attempt a classification, if tentative and provisional, of the different forms of organised crime operating in the past and in the present time. Such unwillingness or failure, perhaps, are due to two opposing factors: on the one hand, there may be reluctance to complicate with new definitions an already cloudy and confusing field of enquiry; on the other hand, there may be a sense that definitions are unnecessary, as the obvious need not be defined (Abadinsky, 1990). The problem is compounded by another circumstance which was as valid at the time of Al Capone as it is now, namely that, when dealing with organised crime, social scientists often rely on government pronouncements which are typically state-serving, or work from exceptionally poor, undocumented, secondary sources (Block, 1991; Smith, 1991). For this reason, the criminal justice system ends up

playing a crucial role in the evaluation of organised crime, its impact and severity, and ultimately its very definition.

Classifications and variables

A classification scheme proposed by Alach (2011: 56) moves exactly from this premise, that is to say from the observation that official definitions tend to conglomerate criminal groups under labels of convenience which ‘may confuse as much as they inform’. For example, such definitions and classifications display a high degree of eclecticism in that they adopt different variables for different criminal groups, thus in one case the emphasis is placed on structure, while in others on activities, and yet in others on geographic location or subcultural and ethnic background. The resulting conceptual muddle is paradoxically worsened by the tremendous production of academic literature on the subject matter over the last few decades. The taxonomy of organised criminal groups presented by Alach is based on their motivations and goals, and draws on Weberian analysis of the rationales for human action. Therefore, some groups may implement forms of traditional action deriving from long-established patterns of interaction and habit. Others may be guided by emotion, feeling and affect, thus focusing on status and internal cohesion. Some groups, on the other hand, might prioritise value-rational action, in the sense that their motivations are found in the belief in a particular, unquestionable, set of values. Finally, other groups may be solely motivated by material interest, and as a result evolve into instrumentally rational enterprises.

A number of other variables, however, are intermingled with motivations and goals, the first of which is structure, determining whether and when a criminal group is to be regarded as organised. Although organised criminal activity is not necessarily organised crime, descriptions range from ‘two or more persons conspiring together to commit crimes for profit on a continuing basis’ to more detailed accounts of what these crimes are: the supplying of illegal goods and services, predatory crime, violent crime, and so on. Crime committed ‘on a continuing basis’ (Hagan, 1983) describes a self-perpetuating criminal conspiracy hinging around ‘families’ or bureaucracies, whose structure is rigidly hierarchical and where formal rules determine specialised and segmented functions.

The second variable to be considered hinges on strictly quantitative aspects: the number of individuals involved in a criminal group is said to determine the organisational degree of that group (Johnson, 1962; Ferracuti, 1988). In this way, organised crime is said to differ from conventional crime for the larger scale of its illegal activity (Moore, 1987). Definitions revolving around a third variable focus mainly on the temporal aspect, that is on the time-span during which illegal activities are conducted. We are back to the notion of ‘continuing basis’, whereby the death or incarceration of a member of organised crime does not stop the activities in which the group is involved. Ianni (1972) seems to rely on both the quantitative and the temporal variable when he describes a complex web of kinships tying families together through alliances and intermarriages, a web strengthened by an equally complex pattern of godparent–godchild relationships. The author depicts crime

families as being linked together into a composite clan. 'Some clans obviously form compact, interlocked regional groups with frequent intermarriages cementing the alliances; all are related by some common interests' (Ianni, 1972: 172). He concludes that this clan-like organisation makes criminal groups seem very similar to one another, a circumstance that has led observers to maintain that organised crime is a highly structured, national or even international conspiracy.

Criminologists who focus attention on its structural characteristics observe that organised crime operates by means of flexible and diversified groups. Such a structure is faced with peculiar necessities due to its condition of illegality: first, the necessity, while remaining a 'secret' organisation, to exert publicly its coercive and dissuasive strength, therefore requiring an equilibrium between publicity and secrecy that only a complex structure is able to acquire; second, the necessity to neutralise law enforcement through *omertà* (conspiracy of silence), corruption and retaliation; finally, the need to reconcile its internal order, through specific forms of conflict control, with its external legitimacy, through the provision of occupational and social opportunities (Cohen, 1977).

Other definitions of organised crime revolve around the concept of 'professionalism': its members, it is suggested, acquire skills and career advancement by virtue of their full-time involvement in illegality. Mannheim (1975) devotes only a dozen pages of his voluminous treatise to organised crime. The reason for this may perhaps be found in his preliminary general statement, where he posits that all economically oriented offences require a degree of organisation, or at least necessitate forms of association, or enterprise, among persons. In this light, the term 'organised crime' should be applied to the majority of illegal activities.

The emphasis on enterprise and professionalism seems to allow for an original approach to the subject matter, because such a notion alludes to a plausible parallel to be drawn between organised crime and the organisation of any other industrial activity. However, one crucial aspect which characterises the crime industry is neglected. This is that the crime industry itself cannot limit its recruitment to the individuals who constitute its tertiary sector or middle management. In order for the parallel with the licit industry to be validated, it has to be stressed that organised crime also needs a large number of unskilled criminal employees. This is seen by Ferrajoli (2010) as the result of a paradoxical phenomenon: the exploitation on the part of powerful organised groups of the growing misery and deprivation that they themselves produce. Professionalism and unskilled labour, in other words, seem to cohabit in organised criminal groups, and their simultaneous presence should be regarded as a significant hallmark of organised crime (Ruggiero, 1996).

Other authors prefer to concentrate on the collective clientele of organised crime. This is therefore identified with a structure involved in the public provision of goods and services which are officially deemed illegal (Zincani, 1989). Organised criminal groups, in this perspective, simply fill the inadequacy of institutional agencies, which are unable to provide those goods and services, or perhaps officially deny that demand exists for them. The contribution of McIntosh (1975) is to be located in this perspective. She notes that organised crime is informed by a particular relationship between offenders and victims. For example, even the

victims of extortion rackets often fail to report the offenders, less because they are terrified than 'because they see the extortionist as having more power in their parish than the agents of the state' (ibid.: 50). It may be added that the victims may also recognise their 'protector' as an authority which is more able than its official counterpart to distribute resources and opportunities.

This tradition of analysis, focused on specific forms of organised groups as service-providing organisations, returns in the 1990s, when among the key analytical variables trust and protection are singled out as paramount (Gambetta, 1992). These, which should be supplied by the state, may under certain circumstances become the preserve of private entrepreneurs, namely organised crime. This type of crime is therefore an industry for the supply of private protection and the distribution of trust to economic actors who would otherwise be unable to interact safely. In the case of the Sicilian Mafia, for example, its strength as an industry for the supply of protection and trust is deemed a consequence of traditional popular distrust of the official agencies, and foreign domination before them. It should be noted that this definition alludes to aspects concerning the causation of organised crime, which is therefore regarded as a counter-power replacing the authority gap left by an ineffective state. This line of analysis is also endorsed by Varese (2010), who proposes to consider the organised crime phenomenon as part of the broader category of governance. His suggestion is that a crucial distinction should be drawn 'between producers of goods and services, and suppliers of forms of regulation, protection and governance'. The form of governance alluded to here is one that usurps the functions of the state in societies where sovereign rule is experienced as inadequate, a form of governance from below which extends power 'beyond the state and into the realms of civil society that do not simply resist sovereign law but actively pursue their self-governance' (Edwards and Levi, 2008: 379).

A distinction suggested by von Lampe (2009) leads to the three-fold typology of economic, social and quasi-governmental groups, while a subsequent study based on the content analysis of 115 definitions used in the period 1915–2009 in a variety of academic and official documents brings the following results (Varese, 2010).

Issues related to the structure of organised crime are discussed in this study, and the features addressed include 'specialization', 'hierarchy' and 'illegal enterprise'. 'In the decade up to 1949, one out of three definitions in the data set mentions specialization, as does one out of four in the subsequent decade' (ibid.: 3). The 1950s see the variable 'hierarchy' prevail in academic and institutional definitions, while later the notion of illegal enterprise takes shape, suggesting that criminal groups operate in extremely uncertain environments where regulations and, indeed, organisation itself are problematic (Smith, 1975). Hence the phrase 'disorganised crime', which depicts criminal groups as unable to control illegal markets, crowded as they are by small enterprises, ephemeral coalitions and short-lived partnerships (Reuter, 1983). In this perspective, hierarchical control of members is hard to achieve and choice of partners is mainly limited to highly

reliable individuals. When partnerships are formed, these take the form of temporary alliances among independent operators who are far from being incorporated in structured, monopolising organisations (Haller, 1990).

This preliminary definitional map may be completed with a supplementary element. We have, on the one hand, 'crime in association' and, on the other, 'crime in organisation'. The former is characterised by a horizontal structure in which agents operate as peers, planning schemes together, executing them and sharing the proceeds. Here, the division of labour within the groups is technical, based as it is on the specific skills possessed by participants. By contrast, 'crime in organisation' implies a distinction between planning and execution, a wage relationship between a patron and an agent, and a degree of invisibility: agents may ignore the motivations and the very identity of those recruiting them. In classical terms, the division of labour is in this case of a social nature (Ruggiero and South, 1995). *The definition of organised crime we adopt in this volume hinges, first of all, on the concept of 'crime in organisation'.*

The legal–illegal nexus

The definitions examined so far mainly account for the illegal activities carried out by organised crime, leaving its involvement in the official arena unexplored. Perhaps this is due to the difficulties we meet when powerful organised groups gain access to the legitimate economy and to the realm of institutional politics. In such cases definitions have to be modified or expanded, so that aspects of white-collar or corporate crime are included in them. It has been suggested, in this respect, that some variants of organised crime undergo an evolution which brings them to a number of successive stages: a predatory, a parasitic, and finally a symbiotic stage (Peterson, 1993). While some groups may fail to undergo a similar evolution, thus stagnating in conventional criminal markets, others may instead succeed, therefore straddling legality and illegality.

The legal–illegal nexus may be captured if organised crime is regarded as social organisation, which refers to a network of two different types of relational networks. First, social organisation can be viewed as an *association*, a network of individuals who form some sort of culturally homogenous group. Second, social organisation can be seen as a series of *transactions*, a network of individuals involved in a common activity, whether or not they belong to the same association, in other words, whether or not they are socially and culturally homogenous. Transactions range from brief encounters to elaborate, rigid, and highly coordinated undertakings. If we view social organisation in terms of *association*, we emphasise the structure and internal cohesiveness of groups. On the contrary, if we view social organisation in terms of *transactions* we emphasise the structure and modality of joint activities.

Some scholars, but also investigators, choose the first route, thus describing the criminal groups as separate entities constituted by cohesive enclaves and characterised by specific cultural codes. We have seen some examples in the previous

pages. Others opt for the second route, therefore focusing on the links the criminal group establishes with external, mainly official actors with whom joint activities are carried out (for this approach, among many others, see Arlacchi, 1983; Ruggiero, 1996; Armao, 2000; Dino, 2008; Lodato and Scarpinato, 2008).

Those who choose the second route may highlight the capacity of organised crime to polarise markets through the use of violence, thus implying that the 'military' aspects of this type of crime are still very important. Others look specifically at the alliances and partnerships between organised crime, the official economy and the political world, and therefore suggest that organised crime combines forms of conventional criminality with a variety of white-collar offences. This happens when proceeds from illicit activities are invested in the official economy, where members of criminal groups 'learn' the techniques and the rationalisations of their white-collar counterparts. In this way, one could say, these groups do not corrupt markets, but they are corrupted by them. In this perspective, it is more appropriate to talk about a number of exchanges, and a mutual entrepreneurial promotion in which the different actors engage. In this sense, the suggestion can be made that we are now faced with criminal networks, rather than organised crime, which involve a number of actors from the legitimate as well as the illegitimate world. These networks take advantage of the fact that in some sectors of the official economy unorthodox practices and illegal behaviour are widespread. *The second element that characterises our definition of organised crime is its focus on the variable 'transactions'.*

Partnerships between legitimate and illegitimate actors are not new, as they date back to the nineteenth century, when organised crime activity was described as a form of political crime promoted by sectors of the ruling class in alliance with members of the 'military mafia' (Scarpinato, 2004). Later, when sub-cultural theorists analysed organised crime, they too suggested that the most successful criminal groups were those that managed to establish some form of common interest with official actors (they meant the police, particularly). Only those who did so could, in their view, really develop the scope and profits of their criminal activity. The ability to operate in both the licit and the illicit arena allowed criminal groups to develop those multiple affiliations which could ensure success in both. As Cloward and Ohlin (1960) put it: apprentice criminals pass from one status to another in the illegitimate opportunity system, and as they do so, develop a set of relationships with members of the legitimate world. Unless they can form these relationships, the possibility of a stable, protected criminal style of life is effectively precluded. A final impetus to the understanding of the legal-illegal nexus is provided by the concept of criminal network, which is increasingly used to explain the capacity of criminal groups to adapt to changing situations and opportunities (Morselli, 2009).

Networks and criminal careers

The concept of criminal network is said to account for a variety of organisational models, including one-off partnerships, family-driven enterprises, quasi-structured

continuing operations: 'Criminal opportunities are generated – and collaboration to seize such opportunities occurs within – networks' (Varese, 2010: 8).

This concept is crucial for our understanding of organised crime, particularly when addressing the relationship between this type of criminality and corruption. But before submitting our notion of network it may be useful to clarify the specific context in which such form of organisation takes shape. Let us start from a classical distinction suggested by Block (1980) between two main types of criminal syndicate. One is the 'enterprise syndicate', which operates exclusively in the arena of illicit businesses such as prostitution, gambling, contraband and drugs. The second he calls the 'power syndicate', which is predominantly engaged in extortion as a form of territorial control rather than enterprise. The Sicilian Mafia is often described as belonging to the second type, as its overriding aim is purported to be the control over the environment and the people that are part of it (Catanzaro, 1994). These two types of organised crime, however, cannot be so easily separated. Enterprise syndicates, to use Block's phrase, invest their proceeds in the licit economy, as we have seen. The very instability of the demand for illicit goods may render it necessary that some illicit capital seeks value-adding opportunities in the mainstream economy. Secondly, so-called power syndicates may well gain entry into the licit economy as an additional source for the growth of their power. If their aim is the control of the territory and the people who are part of it, the provision of occupational opportunities in that territory will certainly boost their control and power.

Businesses originating from illegal proceeds are encouraged by the existence of large areas of informal economy one finds in most countries, be they developed or otherwise. In such areas, conditions of semi-legality already prevail, hence the force of attraction they exercise for criminal entrepreneurs. True, criminal entrepreneurs may remain criminals even when 'co-opted' into the licit economy, and they may resort to unorthodox practices while maintaining a strong sense of belonging to their previous ambience (Falcone, 1991, 1992). However, in situations in which legality prevails, such 'anomalous' entrepreneurs would be immediately identified and expelled. Their persistence in the economic arena, instead, signals that unorthodox economic practices are widespread and highly tolerated.

It is true that organised crime directing its proceeds towards the licit economy may still hold its power of violent intimidation. On the other hand, it seems more likely that its entry into licit business would be favoured by contacts with the official political or economic world. Once these contacts are well established, the costs of violence may exceed the benefits it brings. Violence, in other words, may only be an important tool for organised crime in its phase of 'primitive accumulation', namely in the phase which precedes its involvement in the licit economy. When this involvement begins, accommodation rather than conflict may become more productive, especially if contacts with the official political and economic world are to be maintained. Even a seasoned gangster such as Meyer Lansky is believed to have eschewed violence after an initial phase of accumulation of

funds: he paid his taxes and cheated no more than the average legitimate entrepreneur (Lacey, 1991).

Organised crime operating in the licit economy, therefore, has reasons to abandon violent and intimidating behaviour. As mentioned above, in transparent markets, such behaviour 'would be immediately noticed and the criminal entrepreneur would be ousted' (Becchi and Rey, 1994: 30). Lack of transparency may act as a catalyst for the formation of criminal networks.

Networks are fluid, highly adaptable, and resilient, as proven by their successful adoption by official entrepreneurs and organisations. In criminal business, the development of networks does not make traditional forms of affiliation redundant, as family ties, kinship and ethnic affinity still provide invaluable resources for core membership and indispensable trust. But again, this also applies to the legitimate economy, where advanced forms of business and production coexist with archaic forms of profit-making. Criminal networks imply the existence of interdependent units linked by a wide-range of ties, including kinship, ethnicity, cultural homogeneity, social proximity or simply business partnerships (Scott McIllwain, 1999). The concept of network suggests that organised crime should be viewed as combining a varying number of these ties. This is also the opinion, among others, of North American agencies stressing that organised criminals often prefer networked structural models for their flexibility and avoid the hierarchies that previously governed more traditional organised crime groups. 'Fluid network structures make it harder for law enforcement to infiltrate, disrupt and dismantle. Many organised crime groups opportunistically form around specific, short-term schemes and may outsource portions of their operations rather than keeping it all in-house' (Bjelopera and Finklea, 2010: 1). According to these agencies, this evolution is the result of previous law enforcement efforts making the network structure preferable to criminal groups as a way of diverting investigation. It could also be suggested, however, that the growth of network-type organised crime is the outcome of alliances and illicit partnerships with non conventional criminals, as suggested above, such as white-collar offenders, a circumstance which renders impracticable the old hierarchical and culturally homogeneous groups.

There may be 'hub' networks involving peripheral nodes tied to a leading core. Core players may initiate schemes and provide instructions to peripheral agents, who do not interact with one another. There may also be 'chain' networks involving the flow of information and the establishment of schemes in a linear fashion without a precise core of command. The type of networks we consider here, however, are formed by conventional criminals and participants from the legitimate world, as exemplified in the following description. 'Corrupt individuals maintain their status in above-board business or governmental jobs, providing criminals with clean assets, closely guarded information, specialised access, sensitive information, or resources' (*ibid.*: 29).

Contemporary developments in criminal networks signal the establishment of dirty economies and fuzzy business careers, that is to say the expansion of grey

areas of business where overlaps between white-collar crime and clear-cut kinds of conventional organised crime are found. The nature and operations of these economies are to be understood within the context in which the licit, semi-licit and overtly illicit economies are constantly developing points of contact, common interests and strategies. Together, they form 'bad business' or 'dirty economies' (Hobbs, 1995; Punch, 1996; Ruggiero, 2000). Dirty economies consist of encounters which add to the respective 'cultural, social and symbolic capital' possessed by criminals and official actors, who interlock their practice to become market leaders and foil challenges (Bourdieu, 2000). Are we witnessing the birth of a new *criminal homo oeconomicus*, who is poised to change rules and, through innovative forms of conduct, draw a new *habitus* for business and crime?

It is true that organised crime is the result of new criminal opportunities offered by its encounter with the official world. However, the nature and features of these opportunities deserve examination. Skills acquired in one field are utilised in new markets, while partnerships are established with a variety of actors, be they legitimate or otherwise. This movement from one activity to the other, crucially, entails an intermittent shift from areas that traditionally pertain to organised crime to areas which are the traditional reserve of white-collar or corporate crime. The floating careers spawned by criminal networks can become clear after reconsidering the following ideal-typical, perhaps even conventional, crime agents: gangs, professional criminals, white-collar offenders and organised crime.

Gangs are very diffuse groups, they mobilise many participants and are therefore relatively rooted in civil society. However, they establish weak bonds with institutional agencies and rely on strong subcultures for their reproduction. Participants in gangs may 'grow out of crime', particularly when sustained by a socially privileged background, or may evolve into professional criminals, when belonging to underprivileged groups. Usually, gangs are involved in conventional criminal activity, including property crime, distribution of illegal goods or legal goods acquired illegally. Their organisational structure is unstable and subject to constant remodelling. Their violence is both instrumental, when addressed to market competitors, and symbolical, when motivated by establishment of status.

Professional criminals accomplish their skills through a long apprenticeship and operate in relatively small groups. Their grounding in civil society is relatively limited, as only rarely do they offer illegal goods and services to the community in which they belong. Organised in small groups, they are relatively independent from large organisations, which, however, may recruit them and give a more structured pattern to their criminality. Their bonds with institutional agents are weak, while their relationships with the formal economy may be confined to their being unrestrained spenders and, at times, financial investors.

Organised crime enjoys strong links with the civil society, both in terms of labour mobilisation and in terms of customers. In other words, it can offer occupational opportunities to professional criminals, on the one hand, and a variety of goods and services to purchasers, on the other. It may be highly integrated in the institutional arena, where it can forge partnerships with economic and political

actors. Its long-term activity and relatively stable structure make it capable of exchanging services and establishing mutual entrepreneurial promotion with official actors.

Finally, white-collar crime is characterised by weak bonds with civil society and high integration with institutions. The inability of white-collar crime to 'share' the benefits of their illegality with communities or sections of customers make them distant from society, while their proximity to institutional settings renders their conduct hardly detectable. In the variant known as corporate crime, it is often the overlap between the economy and political institutions that generates a criminogenic environment. White-collar and corporate criminals usually operate in legitimate markets with illegitimate means and techniques.

Our interpretation of criminal networks implies that partnerships between these different ideal-typical figures are made easier. Offences may be committed by gangs, professional criminals, organised groups and white-collar offenders, who may at times act jointly and at times compete in illicit enterprises. In this, the evolution of crime reflects developments occurring in society at large. Networks, mobility and fluidity are metaphors that aptly describe the flows of people and groups not only within, but also beyond their enclaves. Such flows 'relate to many different desires, for work, housing, leisure, religion, family relationships, criminal gains' (Urry, 2000: 3).

Criminal networks, in sum, see the participation of diverse collective or individual entities each pursuing their own goals in a style and against a set of values that are consistent with their own specific cultural, ethnic and professional background. As collective actors, participants display a form of *organised behaviour* without showing signs of an *organised identity* (Ruggiero, 2011).

Organised crime and corruption

In conclusion, there are numerous definitions of organised crime, which vary widely in their scope, and much academic research is focused on the issue of definition (Fijnaut and Paoli, 2004). Groups, enterprises and networks have all come to the fore as analytical and definitional units. Definitions such as 'serious crime' developed in the UK by the Home Affairs Committee (1995) have narrowed the focus but added a degree of confusion. Many serious crimes, in fact, can be highly disorganised, like the most repugnant forms of interpersonal violence and homicide. On the other hand, in some cases the lack of clear definitions has led to the broadening of the scope of the concept by policy priorities and political agendas which have indiscriminately added many new criminal activities to its range.

Returning to the *incipit* of this chapter, it is worth reiterating that definitions of organised crime depend on the analytical perspective and the political background of those formulating them. Those emphasising 'foreign conspiracy' derive from contexts in which a strong national identity leads to fear the perturbing effects caused by the other. In some cases, such definitions hold an idyllic aspect, whereby the social arrangements and the political-economic setup in a national

context are seen as impermeable to criminal elements, who are therefore perceived as alien forces. No attention is given, in these cases, to how that very national context may offer opportunities and, indeed, partners, to organised crime groups. Definitions mainly revolving around illicit markets and ‘associations’ reveal a view of society as a series of divided settings, namely a set of enclaves similar to stifling aggregations which do not permit wider social bonds and relationships. By ruling out the possibility of exchange, communication, and ‘contamination’ among individuals and groups, these definitions seem to echo views that society, in fact, does not exist. The emphasis on the variable governance conceals a reassuring, static, opinion about political systems and markets, which are deemed to function through consensual arrangements that benefit all participants (Hobbs, 2011; Varese, 2011). Definitions relying on this variable assume that rules are clear and that interactions are based on unequivocal contracts whose respect permits the free and harmonic expression of individuals and groups within the economic and the political sphere. This over-reliance on notions of economic rationality overlooks the chaotic conditions within which markets determine success and failure, the unpredictability of economic initiative and the alliances (legitimate or otherwise) through which this is carried out. The emphasis on the variable ‘governance’, in brief, while apparently inspired by a rational, Weberian model of organisational analysis, in fact neglects a crucial insight of Weber (1978: 334–335), namely that ‘the legal order has nothing directly to do with the world of real economic conduct, since both exist on different levels. One exists in the realm of the *ought*, while the other deals with the world of the *is*’. The power of law over economic conduct, in Weber’s view, tends to grow weaker rather than stronger, and the patterns of relationship among economic actors are determined by experimentation that then turns into habit and are impervious to normative adjustments. Crucially, Weber remarks that:

The second source of limitation of successful legal coercion in the economic sphere lies in the relative proportion of strength of private economic interests on the one hand and interests promoting conformance to the rules of law on the other. The inclination to forego economic opportunity simply in order to act legally is obviously slight, unless circumvention of the formal law is strongly disapproved by a powerful convention, and such a situation is not likely to arise where the interests affected by a legal innovation are widespread. Besides, it is often not difficult to disguise the circumvention of a law in the economic sphere.

(Ibid.)

Our working definition of organised crime contains a similar scepticism about the power of law over economic conduct, and is inspired by the concept of ‘crime in organisation’ as opposed to ‘crime in association’, therefore, alludes to the capacity of criminal groups to recruit and exploit ‘criminal labour’. It then refers to the notion of ‘interaction’, thus implying that successful criminal groups are bound to

form partnerships and coalitions with official actors. Finally, it incorporates a notion of network, in the sense that is focused on the variety and heterogeneity of members acting jointly in illicit practices. When analysing the relationship between organised crime and corruption, instead of alternative ways of establishing smooth 'governance', we detect a variety of ways in which criminal action is performed through chaotic alliances, ephemeral partnerships, and erratic rules of collective or individual conduct. Our units of analysis, consequently, are 'illegal markets' (the provision of illicit goods and services) and 'illegal activity' (illicit conduct by official actors). This more focused approach, therefore, will not consider traditional criminal markets per se, unless the performances observed in those markets are made possible by the complicity or connivance of official actors.

This book draws on the findings of a research project funded by the European Commission in 2009–10. The research addressed the relationships between organised crime and corruption in all 27 member states of the EU, and focused on three main areas: public bodies, the private sector and criminal markets. The chapters in this book follow the same division into the areas originally identified for the research project, but incorporate relevant updates of figures and cases. In the second part of the book several case studies concentrate on specific European countries. These are Bulgaria, France, Greece, Italy, Russia, Spain and the UK.

The developments described in the following pages are bound to raise concerns that can be depicted in the following terms. It is a widespread feeling that white-collar crime is less stigmatised and penalised than traditional organised crime. With the interconnection of the two types of criminal behaviour, the relative tolerance normally accorded to white-collar criminals may be extended to conventional organised crime members (Ruggiero, 2002). What might happen if the development of networks led white-collar and organised criminals to blur their distinctive traits? One may presume that both types of criminals, now become one, will be met with very mild social disapproval. In this respect, a celebrated Durkheimian formulation should be borne in mind. Traditional organised crime, with its visible, horrifying violent conduct, elicits a powerful social reaction which reinforces feelings of belonging and cohesion among law-abiding people. White-collar offenders do not cause such social reaction. The blurring of the distinctive traits of the two, along with the coalescence of organised crime and corruption, may make social reaction disappear.

2 Corruption and the disappearance of the victim

Vincenzo Ruggiero and Philip Gounev

When unjustly condemned, Socrates proclaims that he has never pursued material gain and that the best witness to his innocence and honesty is his poverty. Dishonesty and corruption have gone a long way since the Greek philosophers addressed them, and financial gain itself, let alone illegitimate gain, had to struggle hard before the ancient sensibility could be persuaded to accept it. Living well and being happy was the exclusive privilege of virtuous persons, although when ‘rules of justice’ were discussed such an optimistic formulation, at times, was challenged. In Thrasymachus’ view, for example, corrupt people could indeed live well and be happy, because just and unjust are designations imposed by those in power. According to Glaucon, moreover, the rules of justice exist to maintain the established regime, they are artificial constructions. What is important is not so much to be just, as to appear to be just, and it is not true that the gods love justice: some appropriate sacrifices devoted to the divinities will ensure their benevolence; deception works even with the gods (De Pascale, 2010).

I have good reason to want other people to obey the rules, in so far as I benefit from living under a stable regime; but since I will be better off if most other people obey the rules and I get away with injustice, that is the option I will rationally prefer.

(Irwin, 1989:101)

According to this ancient wisdom, therefore, corruption is a conduct adopted by those who, while supporting stable regimes and benefiting from them, simultaneously benefit from the violation of the rules that contribute to that stability. In other words, the corrupt are those who violate the very rules that allow them to occupy a privileged position in a society. This definition could be a good starting point for a discussion of contemporary corrupt practices, particularly because it allows us to locate with some precision such practices within the spectrum of non-conventional crime. The allusion, here, is to the realm of white-collar crime, which is said to include offenders endowed with varying degrees of resources and power. Our definition, on the contrary, considers that corruption is not an equal

opportunity offence, and focuses on powerful actors who possess an exorbitantly exceeding amount of material and symbolic resources when compared to those possessed by their victims (Ruggiero, 2007). In some cases, in fact, the resources possessed by such actors are so exorbitant that they are able to claim that theirs are victimless offences. The partnerships between organised crime and corrupt individuals or groups, which constitute the focus of this volume, are typical examples of the categories of offenders we have in mind.

In this chapter, we set off with examining some general, definitional and analytical, issues on corruption, to then discuss aspects of victimisation, justice and morality relating to the subject matter. After providing a brief review of studies devoted to the relationship between organised crime and corruption, we draw a summary sketch of specific research conducted in Europe around this relationship.

Inefficient use of resources or stimulation to growth?

Definitions of corruption employed by established bodies such as the European Bank for Reconstruction and Development, the International Monetary Fund and Transparency International revolve around an understanding of corrupt practices as the abuse of *public* power for *private* profit. According to Rose-Ackerman (1999) such practices occur in the interface of the public and private sectors and involve the inefficient use of resources. Slightly broader definitions are offered by Colin Nye, who describes corruption as the abuse of public power not solely for private profit or wealth but also for ‘*status gains*’ (Nye, 1967).

There are many kinds of irregular influence, the objective of which is to allow participants to make profits they are not entitled to through the breaking of internal or external rules (Spencer *et al.*, 2006). Such irregular conducts, however, imply diverse processes which have different meanings within different societies and jurisdictions, therefore, a classification of corruption may consider the degree of social acceptability within specific contexts (Heidenheimer, 1989; Gounev and Bezlov, 2009). According to another taxonomy, the following types are identified:

- systemic, when corruption is incorporated within a social systems as a whole;
- institutional, when the institution affected is tolerant of corrupt practices;
- individual, when a person is prepared to adopt corrupt practices due to the opportunities offered by her occupational position (Spencer *et al.*, 2006).

All these types of corruption are relevant when the links between corruption and organised crime are discussed.

While some commentators limit the term ‘corruption’ to the public sector, private sector corruption, most commonly referred to as fraud, will also be considered in this book. The focus will be on cases in which outsiders (criminal groups or companies) corrupt someone within a private firm in order to facilitate a crime, launder money, or in some way abuse the targeted firm. More complex cases, however, see the participation of public officials in overtly criminal activities or

their role as proper managers of criminal enterprises. Examples could be cases of police officers running their own prostitution rings or drug-distribution networks; politicians covertly controlling companies that engage in criminal behaviour; or cases in which criminals have managed to accumulate sufficient legitimate power to directly participate in official politics ('state capture'). Such cases will be dealt with as examples of 'corruption', even though public officials and organised crime, in similar circumstances, are one and the same.

The concept of 'machine politics' has helped in analysing corruption within the functionalist tradition, with authors stressing that even 'political rackets' can satisfy 'the needs of diverse subgroups in the larger community which are not adequately satisfied by legally devised and culturally approved social structures' (Merton, 1968: 126). Merton's functionalism inspired several authors according to whom corruption is mainly found in transitional societies, where it contributes to the humanisation and personalisation of the new social relationships (Bailey, 1966). From this perspective, political machines are said to flourish in periods of rapid growth, when the sense of community is weakened and fragmentation makes particularistic ties virtually the only feasible means of cooperation (Scott, 1969). A logical step forward leads to the argument that a tolerant attitude towards corruption is the only way in which institutions encouraging economic and social progress can be established. These institutions provide conduits of integration for individuals who would otherwise systematically resort to violence in order to express their political and social demands (Huntington, 1968). 'He who corrupts a system's political officer is more likely to identify with the system than he who storms the system's police station' (*ibid.*: 65). Corruption may therefore be functional to the maintenance of a political system in the same way as reform is.

Surely, as Johnston (1986) argues, it makes little sense to ask whether corruption is inherently good or bad. For some, the fact that it is a departure from established rules is sufficient to make it harmful by definition. A normative approach to corruption requires a presupposed standard of 'goodness' and a universal behavioural model: 'One does not condemn a Jew for bribing his way out of a concentration camp' (Rose-Ackerman, 1978: 9). But the refusal of a normative, universal approach does not justify the striking absence of any aspect of victimisation in the study of corrupt exchange. Nor can the victims of corruption be solely identified with abstract entities such as development, fair competition, or productive investment. Often, in other words, the study of corruption tends to merely focus on precisely identifiable individuals who engage in a 'corrupt exchange'. The features of this exchange are therefore examined with a view to assessing the impact the exchange has on the specific individuals involved. In this way, corruption frequently ends up being assimilated to a form of victimless crime, where the actors involved are equally determined to participate in the exchange, and pursue their private, if illegal, interest. In a recent contribution expressing the 'victimless' view of corruption and even an appreciation of it, corruption is seen as a substitute for economic freedom. In situations where institutions are unable to reduce the costs of transactions and channel entrepreneurial activity towards productive enterprises, 'corruption may be a way to reduce those

transaction costs and grease the proverbial wheels of commerce' (Carden and Verdon, 2010: 42). From this perspective, corruption can stimulate growth by allowing entrepreneurs to circumvent barriers to economic initiative. But let us look at the phenomenon from another angle.

Victims, justice and morality

Every society can be considered a 'distributive community' which allocates a variety of social goods related to politics, the economy, education, health, security, religion, leisure, family, and so forth (Hénaf, 2010). Each set of goods forms a sphere of justice, that is, a specific autonomous set of distribution of those goods with its own criteria of organisation, relationships and equity. Harmonious relations among these spheres depend primarily on the degree of respect granted by each to the autonomy of the others. When respect is not granted, a crisis ensues and conflicts arise. Let us examine the type of conflict triggered by corruption.

Corruption amounts to the conversion of 'non-sellable' goods, which can under no circumstance be obtained with money, into commercial ones. Corruption, by disrespecting the spheres of the economy or of politics, causes iniquity in other spheres. In the example provided by Walzer (1983: 19):

Thus, citizen X may be chosen over citizen Y for political office, and then the two of them will be unequal in the sphere of politics. But they will not be unequal generally as long as X's office gives him no advantages over Y in any other sphere – superior medical care, access to better schools for children, entrepreneurial opportunities, and so on.

Following on from Walzer, an aspect of victimisation can come to the fore if we start from the premise that some goods are priceless and under no circumstance can be bought or sold. Among these there are rights/duties which pertain to the sphere of citizenship and the law: the right/duty to work, education, health care, free expression, and so on. Many of these 'goods' are by now guaranteed, in the sense that, being outside of the market, they are not negotiable. This makes our relationship with them relatively predictable, in that procedures are in place that govern their allocation and guarantees their enjoyment. Corruption may contribute to the relentless transformation of these goods into commodities. Here is an important aspect of victimisation: it is the commodification of rights, which distorts social justice while altering the characteristics of rights, namely their rational calculability and predictability.

Democratic systems, ideally, should be characterised by flexible procedures through which resources are allocated. Such procedures should be subject to change as a consequence of demands and conflicts. With the decline of agreement on universal values, and the disappearance of the ethical state acting as the repository of the general will, the only source of legitimacy and consent is to be found in the procedure whereby power is exercised (Habermas, 1988; 1992). This

must be flexible, negotiable, diversifiable. Corruption affects these attributes and victimises citizens, making procedures and rules sclerotic and impervious to innovation.

In liberal democracies there is always a difference between the formal purpose of the decision-making process and the outcomes of decisions themselves. This may cause the depletion of the moral resources of citizens, who, at the moment of voting, cannot predict the decisions that will be made on their behalf. Policy-makers and administrators, who make choices and control decision outcomes, acquire skills which increasingly separate them from ordinary citizens. Corruption accelerates this tendency and sharpens its features. The mandate of citizens, in a corrupt political system, faces a situation where not only the outcome of decisions is uncertain, but the real power of those making decisions is unknown. Decisions, their effect, and even the possibility of their being made depend on the resources that political parties accumulate outside the formal and legal sphere. Voters will therefore ignore the amount of power held by parties and their very capacity to make decisions, let alone the outcome of those decisions. Corruption exacerbates the moral and political de-skilling of the electorate.

The claim that corruption is a victimless conduct implies a deceptive confusion between ethics and morality as defined by Dworkin (2011), according to whom the former guides our personal pursuit of a good life, while the latter informs our interactions with others. Corrupt individuals and groups deceive by claiming that theirs are merely ethical choices, which therefore do not affect others. Corruption, in this sense, becomes one of the options available to free individuals, a mere exchange between those involved. With this proposition we are entering the spheres of justice and morality, which allow for a further examination of the nature and character of corruption.

The elite owes its privileged position to rules of justice favouring them. A corrupt elite disregards even those rules that permit the perpetuation of their elitist status. Think of the idea of justice in Rawls (1971), who argues that injustice is acceptable, at least in terms of inequality, when it produces advantages for the most disadvantaged. In other words, inequality does not violate the rules of justice when it creates wealth for the rich and simultaneously for the poor. Corruption, by contrast, causes an increase in inequality and at the same time in poverty, thus adhering to a totally different principle of justice. This is the principle highlighted by von Hayek (1994), a Nobel Prize winner for economics, who claims that the belief in social justice is the most dangerous threat against the values of a free society. In brief, equality means lack of liberty, because societies take shape thanks to spontaneous processes and justice is constructed through egoistic interest.

Politics and morality have always been bad companions. Plato advocates a selection of government representatives, or guardians, among learned individuals who show affection for the country they serve (Plato, 1937). These individuals should devote their life to the performance of advantageous deeds for the community and should never act against it. However, Plato also admits that stability and security, at times, require 'noble lies' which allow the guardians to exercise

their function smoothly. In this respect, Machiavelli's (1974) elaboration comes to mind: some virtues of the prince may be counterproductive, while some vices may guarantee security and prosperity. According to this tradition of thought, therefore, politics as a profession requires a certain dose of immorality. An example of a noble lie refers to the well-known 'Cuban missile crisis' in 1962 (Mendus, 2009). According to some accounts, the negotiation between Khrushchev and Kennedy would have been impossible if one of the two did not start lying. Kennedy promised that, if the missiles were removed from Cuba, he would not invade the island, and he would also remove the US missiles located in Turkey. The lie consisted in the fact that the withdrawal of the missiles from Turkey had already started before the Cuban crisis, but Khrushchev had a chance to present to his country the withdrawal as a personal victory. He accepted a lie and, in his turn, lied to his country. Of course, such noble lies served the purpose of avoiding the war.

This example displays a consequentialist notion whereby, on the one hand, integrity is strictly required, and on the other, its consequences have to be carefully assessed. Virtue has to be renounced when it leads to ruinous consequences. Corruption, however, severs all relationships between integrity and its social consequences: once separated from its social effects, integrity (or corruption) becomes a purely individual choice, while the offences committed are presented as harmless. This device allows the avoidance of shame and the perpetuation of self-esteem.

We all express a moral judgement on our own acts and on those of others. A pragmatic way of expressing judgements is an appeal to our repertoire of moral norms and a claim that these are different and valid. Each person occupies a position in a 'field of power' from which she derives notions of morality and justice. These notions are associated with feelings such as embarrassment, shame and guilt. Each of these feelings, in its turn, is linked to two types of ethical values: we have an ethics of community and an ethics of autonomy. According to the first, an act is condemnable when it harms others within a community. In the ethics of autonomy an act is wrong when it undermines the autonomy of others. Corruption strengthens the logic of autonomy and, albeit individuals and groups are increasingly connected both locally and globally, it depicts acts as private transactions devoid of any impact on communities. The ethics of community, again, succumbs to that of autonomy.

To summarise, by abandoning consequentialist notions of behaviour and embracing an ethics of exclusive autonomy, corrupt individuals and groups implicitly identify their potential allies in the political and the economic spheres. With these allies they form partnerships and networks which enhance their capacity of adaptation to changing situations and opportunities. This is where organised crime enters the scene.

Corruption and organised crime: concepts and measurement

In the previous chapter we have remarked that criminal networks signal the growth of 'dirty' economies and 'fuzzy' business careers, namely the expansion of grey areas in which white-collar and organised crime overlap. A further

characterisation may suggest that criminal networks contribute to the increase in the social capital for those who take part. There is an added value in networks which translates into mutual promotion among participants: individuals and groups are rendered able to do things which previously they would be unable to do; they expand their affiliations, hence their sensitivity and skills, along with the range of information relating to what to do. Within networks social capital is inclusive, not exclusive: the former is a 'bridge' and refers to the outside world, looking to individuals belonging to other social and cultural contexts; the latter is a 'tie' and refers to the inside, looking to the identity and homogeneity of the group (Putnam, 2000). The relationship between organised crime and corruption relies upon social capital as a 'bridge'. This requires a re-discussion of the legal–illegal continuum.

The links between organised crime and corruption have been examined against this continuum, highlighting a number of ways in which they take shape and the different logic that inspires them. In one of the classifications proposed, the encounter between the two occurs when legitimate actors violate their own rules and philosophies. This is the case with entrepreneurs who officially advocate the virtues of market freedom, but in reality, show little credence in such freedom by forging business partnerships with criminal groups. A second type of relationship takes form when official actors themselves directly invest resources in criminal activities. These conducts should be understood in contexts where illegal supplementary incomes are made available which offer the possibility of rapid profits. In this respect, the existence of 'illegal islands' can be hypothesised which allow licit actors for occasional or intermittent incursions into the criminal arena. Organised crime and corruption may also be associated through forms of 'proxy crime', when official individuals or groups contract out some illegal operations to organised criminal groups. Finally, relationships between organised crime and the official world may take the precise form of partnerships, for example when organised crime provides a service to legitimate entrepreneurs in the areas of arms transfer or in the disposal of industrial waste (Ruggiero, 2007; Ruggiero and South, 2010).

Other studies have emphasised the centrality of corrupt exchange for any organised criminal activity. Corruption, therefore, has been identified as a major characteristic of organised crime itself, as its provision of illicit goods and services needs some form of connivance or protection on the part of official actors. Organised crime, moreover, may attempt to corrupt representatives of institutional agencies with a view to avoiding prosecution or gaining access to markets and resources (Maltz, 1994; Finckenauer, 2005; Gounev and Bezlov, 2009). Research has addressed the smuggling of human beings and of art, both requiring joint efforts of public officials and organised crime members (Fisman and Wei, 2009). 'Kleptocratic interdependence' has also been examined, showing that the symbiotic inter-relationships between criminal organisations and domestic corruption provide the criminal and the corruptible with new economic and political opportunities (Greenhill, 2009). Authors have also attempted to link organised crime and corruption in a statistical fashion, and to prove how both relate to the

quality of the criminal justice system and to the overall economic performance of specific countries (Buscaglia and Van Dijk, 2003; Van Dijk, 2007).

It has to be noted that research on organised crime is normally conducted separately from research on corruption, to the point that scholars involved in the former have little expertise in the latter. This is due both to disciplinary segmentation and to the lack of appropriate awareness of the relationships between the two. Another reason may be that ‘while techniques of measuring corruption, though still imperfect, have substantially improved, organised crime measurement has lagged behind’ (Holmes, 2010: 1). Measurement, to which the following section of this chapter now turns, is singled out as the key problem in the study of both and the relationship between the two.

Some attempts have been made to measure specific types of corruption with the use of perception indicators. Among the issues addressed are market distortions generated by interest groups, inadequate control policies, biased judicial rulings, and prevalence of ‘state capture’. More specifically, corruption is measured in a multitude of ways, and many of the methodologies utilised are regarded as far from perfect (UNDP, 2008). Moreover, each methodology may only be valid when a discrete aspect of corruption is dealt with, which can be: frequency of occurrence, type, cost and effect, contributing factors, or perceptions. The methods used range from the examination of judicial material to research conducted through focus groups, case studies, field observation, surveys, desk reviews, and assessment of institutional provisions and practices.

Perception-based surveys are probably the most widely used internationally. Prominent international surveys include the Transparency International Corruption Perception Index, the series of Special Eurobarometer surveys, such as the ‘Opinions on organised, cross-border crime and corruption’ (Eurobarometer, 2006) or the ‘The Attitudes of Europeans towards corruption’ (Eurobarometer, 2008), and the IBRD/ World Bank indicators (Kaufman *et al.*, 2008). Another increasingly used approach to measuring corruption aims at quantifying examples and experiences of it. The European International Crime Survey (EU ICS), TI’s Global Corruption Barometer and the Eurobarometer survey (2008) are three examples of surveys measuring the experiences of ordinary citizens of corruption.

Private sector corruption is measured via instruments such as TI’s Bribe Payers Index (BPI), or the EBRD / World Banks Business Environment and Enterprise Performance Survey (BEEPS). TI’s BPI ranks 30 leading exporting countries on the basis of the propensity of firms with headquarters within them to bribe when operating abroad. BEEPS assesses the smoothness in starting and conducting businesses and the barriers posed by labour issues, requests of unofficial payments, red tape, legal and judicial issues. Surveys such as the PricewaterhouseCoopers Global Economic Crime Survey, the Kroll Global Fraud Survey, or Ernst and Young’s Global Fraud Survey also measure corruption and crime experienced by companies.

At the national level, most EU members have not developed specific country-based mechanisms to measure corruption and rely on a wide number of international or EU (e.g. Eurobarometer special surveys on corruption) monitoring procedures. In Bulgaria, where corruption is deemed particularly problematic,

between 1998 and 2009 an independent Corruption Monitoring System (CMS) was developed by a civil society organisation (the Center for the Study of Democracy), measuring the experiences of companies and citizens of corruption.

Another example is the analytical framework developed by the Swedish International Development Corporation Agency (SIDA), which aims to classify countries according to their political-economic structure and identify the respective development priorities. SIDA also examines the causes of corruption through analyses of formal and informal power relations within countries, focusing on conflicts around race, gender, age, class, local vs. central, private vs. public.

A sketch of European research

A 2009 Europol report offered a new ‘organised crime group’ typology, featuring those groups that ‘interfere with law enforcement and judicial processes by means of corruptive influence’ (Europol, 2009: 39). Such groups, it was suggested, resort to corrupt practices, first, at the middle level of law enforcement in order to avoid detection and, second, at the low or middle level in order to hinder ongoing law enforcement or judicial processes. The Member States reporting the presence of groups with corruptive influence include Ireland and the UK, with concerning degrees of influence reported by the Czech Republic, Latvia, Lithuania, Romania, Slovakia and, to a lesser extent, Hungary and Poland. Interestingly, Bulgaria, as the case study of that country will show, suffers from significant influence from criminal groups, but Sofia has explicitly reported that no such group operates in the country.

Another strand of research attempts to provide economic and theoretical evidence of the connection between ‘corruption’ and ‘organised crime’ (Kugler *et al.*, 2005; Garoupa, 2000). Among these are analyses of the symbiosis between the two in countries of Eastern Europe, with explanations hinging on ‘the communist legacy’, ‘the neo-liberal climate’, ‘the multiple simultaneous transition’ (Holmes, 2007).

The links between corruption and organised crime have also been explored through population surveys. In this respect, two Eurobarometer (2006, 2008) surveys examined public perceptions, revealing that more than half of EU citizens (54 per cent) believed that ‘most corruption is caused by organised crime’. The percentage of citizens that expressed this view remained unchanged between 2005 and 2007.

Crime victim surveys conducted among businesses may provide novel insight on the subject matter, identifying companies victimised by organised crime. For example, annual reports based on such surveys issued by Kroll (2008) and the Control Risks Group’s (2006) provide evidence of fraud and attempts at corruption. In addition, the Centre for Retail Research (2007), which issues reports on Global Retail Theft, highlights the role of organised criminal groups in theft from retail chains in Europe, the US and Asia. On the other hand, reports by the Council of Europe’s Groups of States Against Corruption (GRECO) rarely mention organised crime as a major source of corruption.

Judicial corruption and organised crime

Surveys conducted by Transparency International (TI, 2007a, 2007b) and Eurobarometer (2006, 2008) show that the perceived levels of judicial corruption in the EU are lower than the perception of political and private sector corruption. Most of the literature in this area focuses on judicial independence and political influence. The French magistrate Eva Joly (2007), known for her role in high-profile corruption trials, has argued that the shift towards prosecution-led investigations in France transfers responsibilities from the investigating magistrate to public prosecutors, creating conditions which facilitate political pressure and diminish judicial independence. She further argued that ongoing judicial reform would neutralise the positive factors that contributed to successful prosecutions of companies such as Elf, a case involving €450 million of embezzled funds.

Organised crime can be granted protection from prosecution by corrupt politicians. In Italy, for example, between the 1980s and 1990s members of criminal groups enjoyed impunity courtesy of pressures by politicians on some judges, who would annul verdicts in appeal trials (Della Porta and Vannucci, 1999). Corrupt exchange took the form of monetary bribes or career promotions. However, while in Italy politicians may act as intermediaries between organised crime and the judiciary, in Central and Eastern Europe there is evidence of organised crime's direct influence over the judiciary.

In Poland, Plywaczewsky (2004) provides the example of a judge and several public prosecutors from the city of Torun, who were found to be frequent guests at a club owned and frequented by criminals. The judges were later found guilty of turning a blind eye to the illicit activities carried out by the club owners and their criminal associates. Methods for corrupting the judiciary include:

- Gaining influence by accessing retired prosecutors, police officers or judges, and, with their help, contacting working professionals who are more amenable to influence.
- Lending small amounts of money, covering gambling debts or doing small favours to prosecutors, police officers or judges, who initially might be unaware that the person doing them the favours has links with organised crime.
- Judges or prosecutors can be attracted to brothels or impudent parties, only to find themselves blackmailed (with photographs or video recordings) into providing favours to organised crime.
- Criminals can gather information relating to dishonest conduct of police officers, prosecutors or judges and use it to blackmail them.

When systemic corruption permeates the judiciary, the immunity protecting judges, prosecutors and investigators engenders effects which are the opposite of those purportedly intended. The role of internal investigation bodies is crucial, as in many contexts judicial corruption is a key factor in the relative impunity of organised crime (CSD, 2009). Lithuania provides, in this respect, an illustrative example. Between 1999 and 2001, in the country, only 41 per cent of investigated smuggling cases reached the trial phase: corrupt judges found the evidence warranting

prosecution to be insufficient. In June 2003, two high-level city judges in Panevezys and Birzai and one in the Lazdynai county were suspended and accused of complicity with a criminal group, led by a retired police officer, engaged in cigarette smuggling. The investigation revealed that six lower rank judges also collaborated with organised crime groups. Currently, thirteen criminal cases are pending against judges accused of rejecting prosecutors' requests to arrest criminals and helping criminals avoid detainment or reduce pending sentences (Gutauskas *et al.*, 2004).

Political corruption and organised crime

In Europe, besides major work on Italy (Della Porta and Vannucci, 1999; Paoli, 1999, 2003; Ruggiero, 2010a) and Bulgaria (CSD, 2009, Bezlov *et al.*, 2007), few empirically based academic or policy studies examine how traditional and non-traditional organised criminals corrupt politicians and civil servants. One notable collection of articles on the subject (Godson, 2003) examines criminal political connections around the world, including cases in Europe and the US. A recent issue of *Judicial Explorations*, a journal published by the Dutch Ministry of Justice (WODC: *Justitiële verkenningen*, 35(3), 2009) explores political corruption and organised crime in Europe and includes cases on Italy (Paoli and Fijnaut, 2004), Belgium (Cools, 2009), Bulgaria (Gounev and Bezlov, 2009) and Russia (Siegel, 2009). Various articles and reports focus on particular high-profile cases: on the Czech Republic (Nozina, 2004), on Lithuania (Gutauskas *et al.*, 2004), on other Baltic countries (Karrstrand, 2007) and on Bulgaria (Gounev and Bezlov, 2009). In the case of Bulgaria, for instance, Gounev and Bezlov (2009) discuss the role of former law-enforcement officers who turn to organised crime to use corruption as a tool. The involvement of former security and law-enforcement personnel in organised criminal activity in Southeast Europe is explored in depth also by CSD (2004a). Finally, Della Porta and Vannucci (1999) argue that Southern Italy provides a prime example of continuous and systematic exchanges between organised crime, entrepreneurs, and members of the political class. The authors describe this relationship as an 'iron triangle', a sophisticated 'cartel' in which partners may benefit in terms of votes, money, protection and public contracts.

Police corruption¹ and organised crime

In a number of EU Member States, some studies carried out by the respective Ministries of Interior or police forces are not made available to the public.² In the UK, for example, a Home Office report (Miller, 2003) cited strong evidence that organised criminals target police officers. The analysis showed that longstanding relationships between the police and criminals are built in leisure or social venues such as gyms, pubs and clubs. SOCA's Assessment of Police Corruption in England and Wales (Feb. 2007) assessed the risks law enforcement faces from organised crime and corruption. This publication, again, is not public. The Home Office's (2007) *Organised crime: revenues, economic and social costs, and criminal assets available for seizure* analyses in detail the different business models

of various criminal markets in the UK (e.g. drugs, people smuggling, people trafficking). Corruption is not mentioned in any of the business areas as a significant cost to criminal enterprises. The report notes that only anecdotal evidence is available on corruption and organised crime's involvement in people smuggling (Dubourg and Prichard, 2007).

Bundeskriminalamt reported that in 2001 there were only five investigations of police corruption cases related to organised crime. They constituted about 8 per cent of all registered corruption-related crimes and were related to prostitution and drugs. Also, in 2001, only 23 out of 787 organised crime related investigations in Germany produced evidence of corruption, compared to 24 out of 854 in 2000 (von Lampe, 2001).

Reasons to corrupt the police

Police corruption may result in failure to record a criminal act, to make an arrest or to confiscate property and other assets. It may entail protection of illegal activities in the markets of sex and drugs, or even the direct participation of officers in these markets for personal gain. In the UK, the majority of the 122 police corruption cases registered at six police forces were connected to disclosure of information or crimes related to drugs and prostitution (Miller, 2003).

Police corruption linked to organised crime often involves selling confidential information to criminals, protecting the drug trade or cooperating with criminals in the logistics of drug trafficking. Although organised crime can also flourish without the complicity of corrupt officers, the lack of investigations or official reviews leaves the phenomenon partly unknown (Van de Bunt, 2004). This notwithstanding, the hierarchical structure of the police force may be regarded as a variable influencing opportunities for corruption. In France, for instance, police corruption is more likely to occur at the higher ranks of the force, where discretion is higher (Edelbacher and Peruci, 2004; Maguer, 2004). By contrast, in the UK, most officers facing criminal or disciplinary procedures are from the lower ranks, although cases of senior officers, including those at the very top layer, have also been implicated in corruption cases (Punch, 2000; Miller, 2003). In some Eastern European countries corruption has spread through the highest level of police services, including the Ministry of the Interior (Gounev and Bezlov, 2009).

As a form of 'workplace crime', police corruption takes on different forms according to the rank and assignment of the particular officer, as reflected by his or her group and 'grid', or position on the institutional ladder. Individual rank and the specific subculture of a police force determine a variety of corrupt conducts, including personal and group deviance (Van de Bunt, 2004). Such deviance is likely to manifest itself in the illegal drug trade (Amir and Einstein, 2004), the characteristics of which make it particularly vulnerable to corruption. Drug markets are secretive but obvious, illegal but visible; they are frequented by large numbers of clients as well as informers, and are extremely difficult to regulate. The 'war on drugs' rhetoric increases pressure on officers for results, while securing sufficient evidence to convict proves difficult, therefore the police may be tempted to dodge official procedures. Officers may be required to buy (controlled

purchases) or, occasionally, use drugs in the course of their work (as part of undercover operations). Finally, very large sums of money may be made available to those who chose to be complicit.

Corruption in the military and organised crime

Organised crime's corruption of the military is not an uncommon phenomenon. As a Saferworld report shows (Davis *et al.*, 2001), in Eastern Europe and the former Soviet Union in the 1990s, arms smuggling and military equipment theft took place with the support of corrupt military personnel.

Corruption in prisons and organised crime

Targets of organised crime include prison administrations, which are made more vulnerable by developments in communication technologies. Generally, the purpose of corrupting prison guards is to allow unsupervised communication with the outside world. This is aimed at continuing criminal activities with partners in liberty, influencing trials (through threatening or coordinating the elimination of evidence or witnesses), planning escapes, and smuggling drugs into prisons. Although the extent to which corruption is widespread in prisons across the EU is unclear, anecdotal evidence and legislative loopholes that allow it to flourish indicate that the issue deserves attention. A recent case in Bulgaria (Mediapool, 2009), involving a high-level drug distributor, Dimitar Zheliazkov, demonstrates the broad range of corrupt practices in prison that can allow for the continuity of criminal operations:

- *Abuse of 'right of family visits'*: prisoners could be awarded, for good behaviour, a supplementary 'right of family visit'. The case showed how the administration of Bourgas prison abused its powers, allowing Zheliazkov this right from the onset of his prison term. The prisoner left the institution so frequently that he was practically able to continue his criminal operations.
- *Uncontrolled visits*: prison officials also allowed Zheliazkov's criminal associates to meet with him, again allowing continuity of criminal operations.
- *Low-security prisons*: when the above mechanisms became publicly known, Zheliazkov was transferred to a low-security prison near the capital, Sofia. While in some countries it would be the prerogative of a court to authorise such a transferral, in Bulgaria it is a non-judicial authority authorising it (Mediapool, 2009).

Finally, across the EU two common corrupt practices within prisons have been identified: the smuggling of mobile phones and of drugs. A study conducted by the European Monitoring Centre for Drugs and Drug Addiction (2005) reported that over 50 per cent of prisoners in 15 member states use drugs.³ Prisons are enormous markets for drugs that strongly attract organised crime. In a 2005 Home Office study, 48 per cent of respondents, including prisoners and guards, identified corrupt prison guards as the main routes for bringing drugs into six local prisons (Penfold *et al.*, 2005).

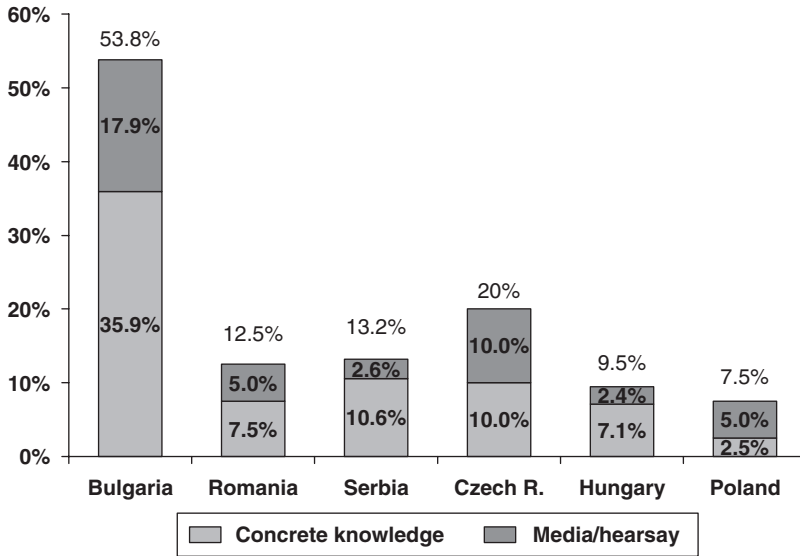
Private sector corruption

Organised crime may have access to governmental bodies controlling economic activities, for example, in the area of arms transfers, where officials may grant export licences in exchange for bribes. Administrators of museums may be complicit with organised crime in the smuggling of works of art (Bezlov *et al.*, 2007), and local administrators may be partners with criminal groups in fraud against the EU. These cases entail corruption in the administrative as well as in the private sector, as official companies and organised crime may jointly forge alliances with official administrators. Let us see how the different actors intermingle.

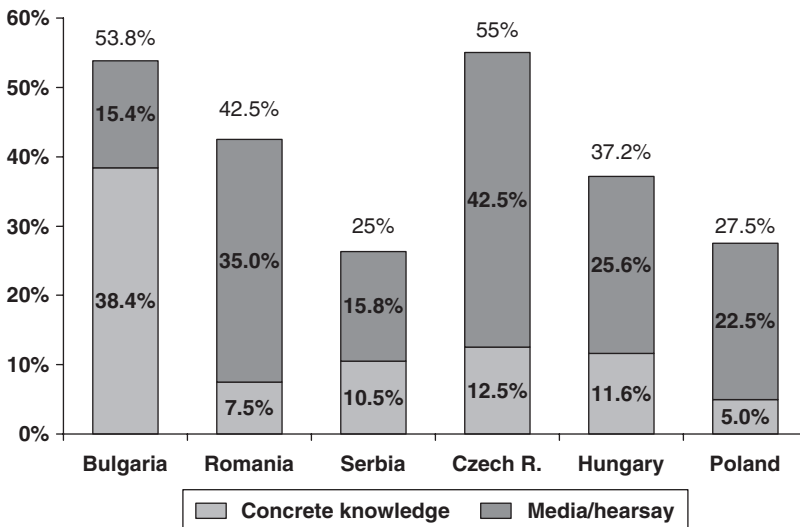
When considering corruption related to the private sector, two aspects should be kept in mind: (1) companies as victims of corruption, and (2) companies as perpetrators. Transparency International (TI, 2009) shows how these two aspects interrelate. In cases of ‘regulatory and policy capture’, ‘collusion and cartels’ of companies often use corruption to profit from public funds or distort markets to their advantage. Similarly, in commercial bribery, one company could bribe representatives of another company and profit by supplying goods or services at higher-than-usual price. Finally, corrupt employees of a company could defraud the company to their advantage. The Finnish National Bureau of Investigation’s report *A Snapshot of Corruption 2008* (FNBI, 2008, quoted in TI, 2009: 321) concludes (based on data from 2002–07 police records) that organised crime groups in Finland rely on legal firms for their activities, providing a platform for the growth of corruption. The report suggests that organised crime groups transfer assets and activities into the arena of legal business, especially in the construction industry. Contracts in this industry are obtained through the corruption of political-administrative staff.

Focusing specifically on the private sector, a number of ‘fraud surveys’ provide insight into the scale of the problem and the industries most affected by it. The Kroll Global Fraud Survey (2008) of 890 senior executives worldwide offers the following picture of the relationship between corruption and organised crime:

- The industries that report the highest levels of corruption include: construction (27.8 per cent of companies), consumer goods (26.3 per cent), natural resources (26.0 per cent), and manufacturing (23.5 per cent).
- The industries reporting the highest level of money laundering include financial industry (12.3 per cent), ‘travel, leisure and transportation’ (7.0 per cent), and construction (5.6 per cent).
- The construction industry reports the highest levels of corruption (27.8 per cent), money laundering (5.6 per cent), and financial mismanagement (30.6 per cent), all of which combined could be indicative of some level of organised crime penetration.
- Retail, wholesale, and distribution/consumer goods industries suffer the highest level of theft of physical asset or stock, in line with reports of organised retail theft groups.



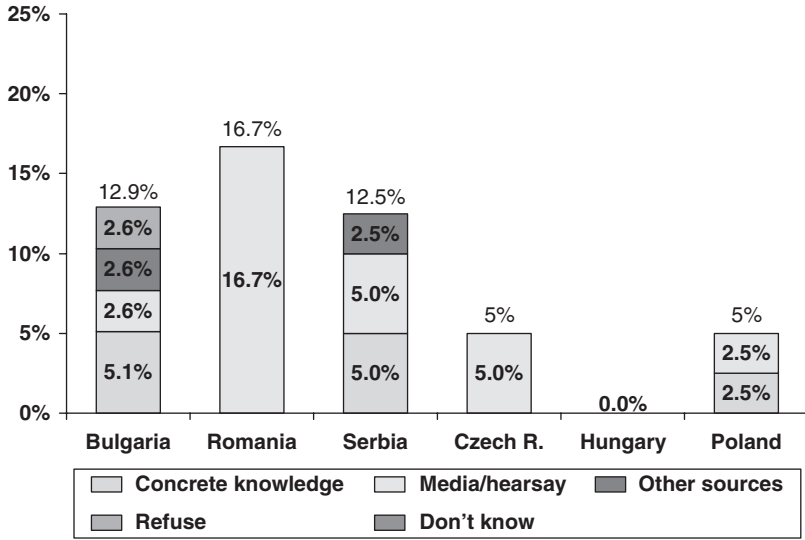
a)



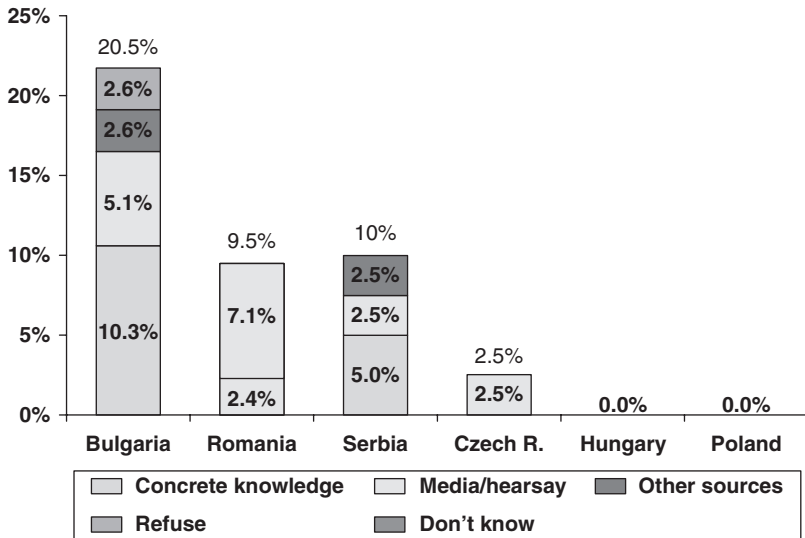
b)

Figure 2.1 Corruption in the private sector.

In another survey of 250 companies in Central and Eastern Europe, the corporate fraud investigation firm Control Risks Group revealed the characteristics of the largely corrupt environment within which companies operate (Figure 2.1). More



a)



b)

Figure 2.2 Private sector and links to organised crime.

importantly, the survey indicated that organised crime has access to the official economy of Member States in many different ways (Figure 2.2). These figures indicate that a corrupt business environment is not necessarily conducive to a

strong organised crime presence in the legitimate business sphere. For instance, in Hungary, corrupt business practices in the public and private sectors are more widespread than in Romania. But the presence of organised crime is low in Hungary, while it is high in Romania. On the other hand, the data indicate that companies with criminal links are not necessarily more likely to use corruption than are legitimate companies, as a strong presence of the former in the market does not result in general, in higher levels of corruption.

Finally, it is worth mentioning a study conducted by Calderoni and Canappele (2009) which examined the penetration of organised crime in the economy of Southern Italy. Through the construction of a composite crime index from available data⁴ for 1991–2007 and 2002–05, the study found that organised crime in the public procurement processes was more concentrated in Calabria and Sicily than in other areas of Southern Italy. The analysis showed that Calabria had the highest incidence rate of crimes associated with the procurement, a circumstance explained through the presence on its territory of both organised crime and Freemasonry. Another author (Andali, 2009) explained that the family-based model of territorial control provides ‘Ndrangheta with a strong local foundation. In addition, Freemasonry has enabled Calabrese crime families to create links with business entities, politicians and individuals in the administrative and judicial apparatus. In this way, according to the Commissione Parlamentare Antimafia (2008), the ‘Ndrangheta has achieved almost total control of Calabria’s economic, political and social spheres.

The research findings sketched above provide the background for the mapping of corruption and organised crime in the EU attempted in the next chapter.

Notes

- 1 In some countries ‘police corruption’ has the broader meaning of police misconduct (unethical or criminal behaviour). In this report the focus is on cases where an external party corrupts a police officer.
- 2 In the course of the interview process it became clear that the UK (SOCA), Netherlands (Rijksrecherche), Bulgaria (Ministry of Interior) and Hungary (Hungarian Protective Service of Law Enforcement Agencies, Ministry of Justice and Law Enforcement) have done some sort of analysis of police corruption, but only SOCA has explicitly focused on the risks posed by organised crime.
- 3 Belgium (25–42 per cent), England/Wales (55–80 per cent), Finland (46 per cent), Italy (19.3 per cent), Spain (77.2 per cent), Sweden (60.7 per cent) (*ibid.*: 24).
- 4 Indicators used included mafia murders, confiscated mafia assets, registered mafia conspiracy crimes, number of city councils dissolved – a measure against city councils penetrated by mafia – registered procurement offences. The procurement offences were composed of six crimes: fraud with the purpose of obtaining public benefits; embezzlement to the detriment of the State; undue realisation of profits to the detriment of the State, disturbance of public tenders (through violence or threats); breach of contract for public supplies, illegal trafficking of waste, including toxic or radioactive waste.

3 Organised crime, corruption and public bodies

Tihomir Bezlov and Philip Gounev

The present chapter aims to present an overview of how criminals use corruption as a tool to influence politicians and a country's government administration, the police, the judiciary and customs. Each section discusses the typical objectives, corruption schemes, and the intermediaries used. Related anti-corruption measures and policies that Member States have adopted, or might be advised to adopt, are also outlined.

Comparative research on corruption has always been fraught with difficulties, first and foremost because of the diverse nature of the statistics available. Comparing judicial data across the EU offers little help, as Penal Codes in Member States differ considerably. As previous studies have noted, some Member States have special anti-corruption laws (European Commission, 2007), while most do not even possess a legal definition of corruption. Moreover, statistics do not provide details about the particular public institution involved in corrupt episodes, let alone about the role played by organized crime in such episodes. Definitional issues constitute another difficulty: the range of offences included under the rubric 'corruption' differs across countries. Statistics, in brief, merely reflect the efficiency of institutions in uncovering unwanted conducts.

The best alternatives to official statistics for measuring corruption are the various surveys being conducted across the EU, but only a few of them capture corruption in particular public institutions. [Table 3.1](#) summarises some of the most widely available data from sources such as Transparency International's (TI) Global Corruption Barometer (GCB), the World Economic Forum's (WEF) Executive Opinion Survey published annually in the Global Competitiveness Report (GCR), and the recent Eurobarometer surveys. While TI's CPI and Eurobarometer surveys target the general population, the WEF survey only targets executives.

While surveys have the advantage of measuring unreported and uncovered corruption, their value in assessing the involvement of organised crime in corrupt exchange is limited. The analysis below draws primarily on qualitative data from in-depth interviews.

Political corruption and organised crime

If and when criminal groups manage to extend their activities beyond illicit markets, thus acquiring a respected public face, their ability to corrupt politicians

Table 3.1 Corruption surveys and corruption in public institutions

<i>Public institution</i>	<i>Survey (number of EU Member States included)</i>
Police corruption	<ul style="list-style-type: none"> • Eurobarometer 2006, 2008, 2009 surveys (all 27 EU Member States) – perceptions and experience • Reliability of police services (World Economic Forum’s Global Competitiveness Report – GCR; annual survey of experts in all EU Member States; conducted annually since 2002) • Transparency International Global Corruption Barometer – TI-GCB (2004–10), 21 countries – perceptions and experience
Customs corruption	<ul style="list-style-type: none"> • Eurobarometer 2006, 2008, 2009 surveys – perceptions and experience • TI GCB (2004–10), 21 countries – perceptions and experience
Tax authorities	<ul style="list-style-type: none"> • Irregular payments in tax collections (GCR survey of experts since 2001) – expert opinions • TI (2004–10), 21 countries – perceptions and experience
Judiciary corruption	<ul style="list-style-type: none"> • Eurobarometer 2006, 2008, 2009 surveys – perceptions and experience • GCR annual survey of experts (2002–06) – on irregular payments in judicial decisions • GCR survey (2001–11) – expert opinions on judicial independence • TI-GCB (2004–10), 21 countries – perceptions and experience
Political corruption	<ul style="list-style-type: none"> • National institutions: Eurobarometer 2006, 2008, 2009 surveys – perceptions and experience • Favouritism in decisions of government: GCR survey (2001–11) – expert opinions • Diversion of public funds: GCR survey (2002–11) – expert opinions • Political parties corruption: TI GCB (2004–10), 21 countries – perceptions only • Parliament Corruption: TI GCB (2004–10), 21 countries – perceptions only • Local politicians: Eurobarometer 2006, 2008, 2009 surveys – perceptions and experience • Regional politicians: Eurobarometer 2006, 2008, 2009 surveys – perceptions and experience

increases. Members of the groups, in such cases, can openly interact with representatives of official bodies. On the other hand, when direct links emerge between politicians and criminals involved in illicit markets, the latter have also acquired significant legitimate economic power, which allows them to engage in corrupt practices with a view to committing more sophisticated ‘white-collar’ offences.

Generally, such direct links in old Member States are observed only at the local level (DE, FR, ES, IT), while in some countries where ‘white-collar’ criminals have no involvement in illegal markets there is no evidence of similar connections (UK, FI, SE, DM, IE). However, in new Member States, where many criminals started their careers during the chaotic period of privatisation, criminal groups managed to transform themselves into significant economic actors

(locally or nationally), locating themselves in a position to influence politics directly. In Italy and Southern France, local criminal elites have a long history of collusion with local politics, while being involved in extortion, drugs smuggling, waste management fraud, and bank robberies. Yet in recent decades their involvement in ‘white-collar’ crimes, such as EU funds fraud, public contract rigging, and real-estate fraud, has allowed them to transform their relationships with politicians into more socially acceptable ventures.

Countries of the former Soviet bloc show political instability and frequent changes of government. These countries experienced a series of restructuring processes affecting their political parties and the electorates supporting them. Due to the lack of a well-functioning system of political party financing, parties are inclined to seek funds from ‘grey sources’ and criminal businesses. Large and legitimate companies have no incentive to offer financial support unless some special privileges are promised in return. Our interviewees pointed out that companies operating in ‘grey areas’ (in the semi-legal parallel economy) are much more motivated to make donations to political parties, as the very conditions in which they operate lead them to seek protection or assistance (BG, HU, PL, RO).

In countries where the banking system enjoys a special regime, like Austria, Cyprus and Luxembourg, entrepreneurs who have been linked to white-collar crime, or even outright criminal businessmen, are accepted in financial circuits and allowed to make investments. Politicians may also act as middlemen assisting foreign grey entrepreneurs (AT, PL, RO, BG).

Modes of association

Most interviewees in old Member States described cases of political corruption as being random and haphazard. In reality, however, while corruption networks can be ‘activated’ whenever they are needed (e.g. there is a public contract tender, or the police starts an investigation), bonds of trust are developed over much longer periods of time. For white-collar criminals, this usually involves a form of long-term investment. They may make donations to support a political candidate, do favours without the expectation of an immediate or short-term return, and reap the benefits over a number of years. White-collar offenders may keep their public image untarnished, show ‘socially responsible’ behaviour, and establish a positive reputation in the local community, thus making their relationship with politicians seem perfectly legitimate.

Two common types of corrupt relationships could be discerned from the interviews: sporadic and symbiotic. With the former type, businessmen or criminals pay for the benefit to operate undetected, or to win a specific public contract. With the latter type of relationship, official or criminal businessmen buy the right to operate undisturbed while establishing long-term alliances with political representatives. For instance, in some countries (SI, RO), interviewees referred to the ‘oligarchs’,¹ or white-collar criminals, who have had significant previous involvement in illegal markets, or have accumulated wealth through rigged privatisation deals or rigged public tenders during the 1990s. These individuals, who form part

of the business elite, exercise powerful influence over the political elite. Their business usually includes public infrastructure construction or the provision of other public services. Symbiotic relationships, however, seem to be much more common at the local level in many countries of the EU. Concrete examples of such symbiotic relationships in specific towns were given from across the EU (towns in Corsica, Costa del Sol, Southern Italy, various towns across the external EU land borders with the former Soviet Union). In such relationships, parallel power structures are developed. Local municipal services and contracts are strictly distributed to companies related to the local business and criminal elite that supports the mayor or the ruling party. The democratic principles of governance in the city (as much as this might sound like a cliché) are subverted. The local media, if they exist at all, are dependent on the local (criminal) businesses for advertising, while local politicians depend heavily on the votes that the (criminal) businessman controls. What is often observed in such towns is a situation of ‘state capture’ – where a certain political clique (from all parties) manages to hold on to power for a long time.

One manifestation of this symbiotic relationship at the national level is the corruption of parliamentarians. In addition to serving as important intermediaries, elected MPs can initiate or support legislative changes in the interest of criminals (legalising their practices, deliberately leaving legal loopholes, or changing penal legislation to help them avoid prosecution). Some examples of such practices will be provided later.

Direct participation

When individuals with a criminal past or presently involved in criminal activities enter into politics, it is the political process itself which becomes corrupted. Direct participation of criminals in politics provides them with the capacity and legitimacy to influence the criminal justice process and the distribution of economic resources. In some countries (IT, RO) individuals charged with organised crime offences or businessmen under investigation for white-collar offences have become members of parliament, ensuring at least temporary immunity from legal proceedings (BG).

At the local level, direct participation of criminals in city administrations is common. Such positions give access to public resources, while giving the possibility to influence the local police force. Municipalities, in these cases, are ‘privately’ run, namely they are administered in the name of private rather than public interest.

Modes of corruption

Respondents in the old Member States ruled out that, at the highest political level, explicit corruption could be found. Exchanges of favours or trading in influence were deemed much more common. It was noted that in France the practice of ‘pantouflage’ is widespread, as it is in the UK, where officials, after their term expires, are offered a position in a company for which they have

previously secured a contract. Elite networks exist throughout the EU, and may be based on family ties, class background, or club membership. Various forms of mediated corruption take place through these networks, whereby entrepreneurs may win a public tender or their business may be favoured by new legislation. The most precious capital in this type of social networks is trust. Interviews revealed that in the former socialist countries, however, agreements between businessmen and politicians are more direct, and trust between them is significantly lower. Corruption may result from the initiative of political investors, who finance, legally or otherwise, specific parties; vote providers, in areas where organised crime or white-collar criminals have influence over a significant number of voters; lobbyists, who support the career of certain politicians (DE); and blackmailers, who collect evidence of inappropriate behaviour of politicians.

Anti-corruption measures

The following measures were more frequently mentioned by informants. First, local council dissolution, a rather extreme way of fighting corruption at the local level which has proven the only effective tool to reverse ‘state capture’: in Italy, over the past ten years (to the time of writing), about one hundred city councils have been dismantled on suspicion of being infiltrated by organised crime. In France, a commission has been established to counter the ‘pantouflage’ phenomenon, vetting public officials looking to enter the private sector. New legislations have been introduced to regulate political party financing. Specialised bodies for political corruption investigations have been set up in some Member States (PO, RO, BG, IT). Finally, the assets of public officials are now under scrutiny in a number of countries, although the existence of off-shore havens and other furtive financial practices may render the practice ineffective.

Police corruption

After the Knapp Commission investigation revealed mass corruption in the New York Police Department in 1971, the widespread notion that police corruption is a phenomenon affecting only individual officers was seriously shaken. It was gradually replaced by the idea that certain unique organisational characteristics and the culture of the police and other law enforcement institutions make them particularly vulnerable to corruption (Malinowski, 2004). The topic of corruption in police forces is rarely discussed in most EU Member States.

A review of official reports on corruption, and interviews with representatives of public institutions of EU Member States indicate that police corruption is considered a negligible phenomenon. Even in new Member States, where the percentage of citizens with personal experience of police corruption is high (see [Table 3.2](#)), the official institutional stance is that corrupt transactions involving law enforcement personnel are only sporadic (RO, SK, LI). Some

Table 3.2 Police corruption: police experiences and citizens' perceptions (2007 and 2009)

	<i>Experience with bribing police^a in last 12 months for 2009 (change from 2007)</i>	<i>Perceptions that police service is corrupt^b for 2009 (change from 2007)</i>
Austria	2% (↓1%)	31% (↓1%)
Belgium	1% (↑1%)	47% (↑18%)
Bulgaria	7% (↑3%)	80% (↑19%)
Cyprus	1% (0%)	89% (↑24%)
Czech Rep.	3% (↓1%)	65% (↑4%)
Denmark	0% (0%)	20% (↑2%)
Estonia	1% (0%)	51% (13%)
Finland	0% (0%)	9% (↑2%)
France	0% (0%)	45% (↑10%)
Germany	0% (↓1%)	23% (↑7%)
Greece	1% (0%)	72% (↓5%)
Hungary	3% (0%)	46% (↓1%)
Ireland	1% (0%)	38% (↑7%)
Italy	5% (↑2%)	32% (↑10%)
Latvia	6% (↑2%)	65% (↑9%)
Lithuania	8% (0%)	67% (0%)
Luxemburg	1% (↑1)	43% (↓4%)
Malta	0% (0%)	56% (↑13%)
Netherlands	0% (0%)	25% (↑1%)
Poland	3% (↑1%)	37% (0%)
Portugal	2% (↑1%)	49% (↑6%)
Romania	6% (↓1%)	68% (0%)
Slovakia	6% (↓3%)	61% (↓11%)
Slovenia	1% (0%)	50% (↑2%)
Spain	2% (↑1%)	46% (27%)
Sweden	0% (↓1%)	27% (0%)
UK	1% (↑1%)	32% (↑11%)

Source: Eurobarometer (2009), pp. 73–74.

Notes

- a** Over the last 12 months, has anyone in [*Our Country*] asked you, or expected you, to pay a bribe for his or her services? (Yes, from people working in the police service.)
- b** In [*Our Country*], do you think that the giving and taking of bribes, and the abuse of positions of power for personal gain, are widespread among people working in the police service?

interviewees indicated that there was even a deliberate PR policy in place to avoid publicly linking the police with corruption (UK, RO). It is believed that such public debates might undermine citizens' trust in the police, which in turn could lead to further negative effects, such as low crime-reporting rates (UK, FR, AT).

The research undertaken demonstrates that the concept of 'police corruption' has very different meanings across Member States. In certain countries even the term 'corruption' is avoided and replaced by expressions like 'lack of integrity', or is understood in a very narrow legalistic sense that excludes a number of phenomena of a corrupt nature. In France, for instance, police officers engaged in

Table 3.3 Police/investigation corruption

Is police/investigation corruption by organised crime in your country considered a problem?

<i>Yes</i>	<i>No</i>	<i>Somewhat</i>
Bulgaria	Austria	Estonia
Cyprus	Belgium	Hungary
Czech republic	Denmark	
Greece	Finland	
Italy	France	
Latvia	Germany	
Lithuania	Ireland	
Poland	Luxembourg	
Portugal	Malta	
Romania	Netherlands	
Slovakia	Slovenia	
	Spain	
	Sweden	
	UK	

Source: Interviews (n = 52).

Note: In cases where the official responses regarding the influence of organised crime on the police diverged from the opinions of alternative sources, the ranking listed in the table is that provided by alternative sources.

criminal activity, such as drug distribution, are not described as corrupt, but simply as criminal. In the UK, by contrast, police involvement in crime is also classified as corrupt behaviour, and is included in data on corruption. These differences could have direct impact not only on the interpretation of institutional statistics, but also on the possibility of designing common EU approaches.

Throughout the interviewing process serious discrepancies in opinions on the extent and nature of police corruption emerged between official (internal affairs departments) and alternative sources (journalists, researchers, police officers, prosecutors, or lawyers). In many respects, the countries' scores for personal experience with police corruption (based on TI's surveys) coincide with the opinions expressed by alternative sources on the general level of police corruption (see [Table 3.3](#)).

Some internal departments of law enforcement institutions that estimate corruption in their ranks as 'insignificant' and 'of a sporadic nature' expressed doubts with respect to their own methodology. They admitted that knowledge about corruption and organised crime was limited, and that they intended to focus more in depth on the issue in the future (NL, AT).

Applying Van de Bunt's (2004) concept of 'workplace crime' to the available set of data, published analyses, and interviews on corruption in law enforcement institutions, Member States are grouped into the four categories below based on known corruption cases (see [Table 3.4](#)).

Table 3.4 Types of police/investigation corruption in the EU Member States

<i>Type</i>	<i>Grid</i>	<i>Group</i>	<i>Description</i>	<i>MS observed</i>
Donkeys	Strong	Weak	Work characterised by both isolation and subordination: individual deviance of lower-level officer	All EU
Hawks (rotten apples)	Weak	Weak	A lot of freedom, distance from organisation, individual deviance (e.g. higher-rank officers or officers working on highly confidential material)	FR, ES, UK, IT, SL, SE, NL, AU, BE, EI, DE
Wolves	Strong	Strong	Strong group identity creates a subculture that facilitates organised deviance; group protection against external controls	FR, ES, IT, RO, CZ, BG, PT
Vultures	Weak	Strong	Freedom to aggressively seek exploitable situations, using the cover offered by the group	BG, EL, RO, CZ, LT, LA, CY, PO

Note: Table is based on the classification proposed by Van de Bunt (2004).

Tackling police corruption

Approaches to police corruption vary considerably. At one end of the spectrum is the proactive approach developed in the UK (very similar to the US approach). In most EU countries, however, the predominant strategy is reactive in nature, whereby cases are investigated individually through predefined procedures (FR, ES, NL, DE). In some countries there are no specialised units dealing with corruption among law enforcement officers, as the phenomenon is believed to be insignificant and unworthy of special responses (Denmark, Ireland). In other countries, particularly in Eastern and Southern Europe, specialised internal units register a great number of cases, resulting in officers' dismissals. However, anonymous insiders and alternative sources claim that only 'safe' low-level cases are investigated. For instance, corruption within the traffic police is highlighted (BG, RO, EL, CY), while cases involving organised crime activities, such as prostitution, smuggling of excisable goods or economic crimes, are not.

In Spain and France, alternative sources and statistics on court prosecution of law enforcement officers cast doubt on the official position that there is no systematic corruption in these countries. In general terms, however, police corruption is strongly influenced by the overall effectiveness of other public institutions, including prosecutors, tax authorities and customs. In both small (DM, SE, FI) and large countries (UK, DE), strong and effective public institutions may prevent corruption among police officers and investigators. On the other hand, effective specialised units, operating within law enforcement agencies, can eradicate mass and systematic corruption in the police (UK). Similar effects have been observed in the eastern part of Germany after unification in 1990.

Policies aimed at minimizing the risk of police corruption are in place. For example, a tolerant legalisation regulating prostitution in the Netherlands and Germany keeps the police away from the sex industry. In the Netherlands, street-level cocaine dealers are not prosecuted, and as a consequence police officers are not exposed to risk of corruption.

The status of police officers in police and investigating institutions

The social status of police and investigating officers varies significantly in the 27 Member States, so their vulnerability to corruption varies accordingly. For instance, in Denmark, Finland and Sweden, working for the police is considered a prestigious public sector job. The opposite is true in countries like Greece, Portugal and new Member States (with the exception of Slovenia). Low salaries for police officers are most frequently cited as the reason for high levels of corruption in the new Member States like Bulgaria, Romania, Slovakia, Lithuania and Malta, and also in some old Member States like Greece and even Italy. According to interviews with members of the Guardia di Finanza (GdF), lower-level police officers in Italy get 1200–1500 euros per month (compared to a mid-level 1700 euros in Slovenia, where the average salary is only 900 euros). Inadequate income for officers serving in local police departments is indicated as a problem even in countries with low levels of police corruption like the UK. Low education and poor training are also cited in new Member States and Greece.

Institutional factors explaining corruption

A key factor in the new Member States (EL, IT), is that the competence, efforts and effectiveness of police officers are of no importance in the evaluation of their work. Instead, superficial quantitative criteria are used to assess their performance, and even these criteria are often ignored. The number and nature of cases dealt with by police officers, and the results of their actions, do not determine opportunities for career advancement, higher income or professional rewards. Frequently, it is impossible to determine whether a certain investigation has failed due to incompetence or as a result of corruption (EL, RO, HU, BG). The career advancement of officers is not dependent on their qualifications and experience but on the strength of patronage networks and loyalty to senior management. Under these circumstances, systematic performance failures and even contacts with organised crime do not result in dismissal (BG, EL, IT).

In countries with high levels of police corruption, the recruitment of officers is less than transparent. Criteria are formally in place, but may be outflanked. Moreover, due to the low social status associated with the job, people with good education and high motivations avoid it. As a result, often candidates with inadequate education and problematic behaviour are hired. Some corruption cases reveal that such officers come into the police force with pre-existing close relationships with members of criminal groups (BG, RO, EL). On the other hand, entering the police force is often part of family or neighbourhood traditions. As a

consequence, loyalty to the force is very high, and officers witnessing episodes of corruption may be led 'to look the other way': to adapt or quit. By contrast, in countries with low corruption levels (UK, DE, NL, DM, FI, SE) corrupt officers face peer pressures to quit.

Outside pressure on law enforcement

In new Member States the police and special services are charged with the investigation of almost every kind of economic crime, from smuggling to fraud involving EU funds. In this way, they are exposed to immense risks of corruption, as in many cases they have to deal with illicit economies controlled by organised crime. Often they become part of organised crime themselves, and are directly involved in regulating illegal markets and criminal activities (BG, RO, PO, SK).

In almost every EU country certain specific problematic areas can be identified. Police corruption, for example, is more likely to develop in relation to drugs distribution and prostitution (NL, BE, DE, ES, SL, UK). While police involvement in the former may be limited due to fear of harsh consequences, the vulnerability of officers is much higher when dealing with the market for sex services (DE, ES, FR, HU, EL). Another typical risk area relates to immigration channels (EL, CY, AT, ES), particularly in small towns and villages close to national borders (BG, PO, SK, RO). In some European countries, certain *regions and cities* have traditionally been associated with high levels of corruption and systematic links to organised crime. [Table 3.5](#) lists certain towns and regions across the EU where the links between corruption and organised crime are particularly strong.

This phenomenon is also observed in countries with low levels of corruption. For instance, in the Netherlands it is acknowledged that corruption is more frequent in Amsterdam than in other parts of the country. Similarly, in Germany, corruption is deemed to be much more common in the eastern part of the country.

Intermediaries

Police corruption can take place through the activation of intermediaries, who can be public figures holding political positions. Such intermediaries may be part of informal networks involving former police officers, investigators, magistrates, businessmen and politicians (IT, EL, PO, CY, BG, RO, PO, HU). Access to these networks provides criminal organisations with information relating to investigations or imminent arrests, and in extreme cases may grant impunity in court. Retired officers are a component of these networks along with private investigators, who work alongside the police in gathering information and intelligence about suspects. Attorneys are also involved, with their competitive advantage over all other intermediaries: they can provide information obtained from several institutional agencies, from the police through to the judiciary (BG, PO). In some of the old Member States, attorneys are middlemen for organised criminal groups formed by non-nationals, who need in-betweens due to their inability to access law enforcers in the host country (ES, UK, AT, DE).

Table 3.5 Regions and towns with higher vulnerability to corruption

<i>County</i>	<i>Regions of higher vulnerability to corruption</i>
Bulgaria	Towns along the Turkish and Greek borders, Sofia and smaller towns with strong organised crime presence (e.g. Dupnitsa, Pazardjik)
Czech Republic	Prague and towns along the German and Austrian borders
France	Corsica, Marseille
Greece	The island of Crete
Hungary	Budapest and towns along the Ukrainian border
Italy	Calabria and Sicily, and also parts of Campania
Latvia	Regions close to the Russian and Belarusian borders
Lithuania	The region close to the Belarusian border
Poland	Towns along the Ukrainian and Belarusian border
Romania	Regions along the Moldovan/Ukrainian borders; the cities of Brasov and Cluj
Slovakia	Towns along the Ukrainian border
Spain	The region of Costa del Sol

Source: Interviews.

Episodes of police corruption occur within the grey area of informers, who may receive favours in the form of leaked information about ongoing investigations, pressure on competitors, etc. (UK, NL, FR). In countries where the police force is permanently underfinanced (Bulgaria), informers often receive favours in lieu of regular payment. Finally, prostitutes may be used as intermediaries, for example, when they are offered to officers who are then blackmailed and forced to comply with the requests of criminals.

Mid- and long-term risks

The economic crisis of 2008–09 brought novel risks in the area of police corruption. In some new Member States interviews revealed that criminal networks are targeting police officers in financial difficulty (BG, SK, RO). Risks are also associated with the recruitment of ‘new minorities’ in law enforcement agencies, which according to some of our informants may put the new recruits under pressure by organised criminals with the same ethnic background (UK, AT). The risk related to immigrant communities reflects new features of organised crime in the EU: namely, increased mobility and the establishment of trans-border networks. Following the end of border controls within the EU and the expansion of the Union in Eastern Europe, where law enforcement and judicial institutions have inadequate capacity, new opportunities were presented to criminal networks. A new type of organization emerged, whereby criminal activities (drug distribution, prostitution and car theft) are carried out in the rich Western Member States by low-ranking members, while criminal bosses live and manage their organizations from the new Member States, where often they own large legitimate companies (BG, RO).

Anti-corruption measures in the police

Among the measures implemented in Member States, or advocated by our informants, some pertain to internal criteria regulating the practices and careers of police officers. For example, career advancements, it was noted, are to be based on clear principles of effectiveness and merit, while investigative teams addressing corruption cases are to be independent from the management of the force. Such teams are to be allowed to use special intelligence methods such as electronic surveillance. The transition from a passive to a proactive strategy should be encouraged: currently, in most countries investigations are initiated only when tips are received. The experience of the UK and USA has demonstrated that specialised Internal Affairs Units should proactively search for information about suspicious behaviour on the part of police/investigation officers.

Among the techniques advocated is the use of integrity tests, with drugs or money being left in police stations to attract corrupt officers. Informants also mentioned the introduction of random integrity tests with lie-detectors, and of 'whistle-blower' programmes, whereby officers offering information on their corrupt colleagues are guaranteed anonymity and witness protection. Facilitation of financial audits by internal investigative units was also proposed, with the units being granted access to the financial records of suspect officers. This would be accompanied by a vetting system examining their lifestyle and background. The use of undercover officers to secretly test their colleagues was seen as viable as the introduction of a rotation system, whereby officers do not serve for more than an established period of time in the same area. Drug testing of officers was among the measures suggested.

Prevention of police corruption was also linked with specific procedural matters. For example, it was remarked that officers should be denied access to information they do not need and that a clear record should be kept of who accesses what type of information. Secret alarm systems should be set up to detect officers who try to gain illegal access to confidential data stored in computers. On a different note, support should be provided to officers experiencing financial difficulties through debt-management units and welfare departments. Officers with serious debts were said to be particularly vulnerable to corruption. Finally, achieving a gender balance in the police force was regarded as a measure leading to reduced corruption.

Customs and tax corruption

Corruption within customs administrations, as perceived by our informants, shows marked differences across countries. This is in line with official surveys conducted among representatives of customs administrations or independent analysts in the older Member States (DE, FR, UK, BE, IT, NL, IR, ES, FL, SE), as well as public opinion surveys. While in the older Member States 25 per cent of the adult population consider corruption amongst customs officers to be widespread, in new Member States 46 per cent do so. In countries like Bulgaria,

Table 3.6 Customs and tax corruption

<i>Is customs corruption by organised crime in your country considered a problem?</i>		
<i>Yes</i>	<i>No</i>	<i>Somewhat</i>
Greece	Denmark	Hungary
Romania	Malta	Czech republic
Estonia	France	
Latvia	Spain	
Slovakia	Finland	
Bulgaria	UK	
Lithuania	Italy	
Poland	Slovenia	
	Sweden	
	Netherlands	
	Austria	
	Belgium	
	Ireland	
	Cyprus	
	Luxembourg	
	Germany	

Source: Interviews (n = 42).

Greece, Romania, Cyprus and Latvia, almost 60 per cent or more respondents consider the customs services to be corrupt (Eurobarometer, 2008, p. 11). Interviewees for our study presented a similar picture, and customs corruption along the EU's eastern external land borders was considered particularly high (see Table 3.6).

The statistical data from Member States supports these perceptions. In France since 1990 there have been on average only two registered cases of customs corruption per year. In Slovenia in the last two years (to the time of writing) there have been only three corruption cases related to organised crime. In Italy there were 50 between 2006 and 2008, but none related to organised crime. In the UK, in 2008 around 130 corruption cases were recorded (relating to the theft of seized goods or the passing on of information to outsiders), yet none was related to organised crime. In the past five years (to the time of writing) there has been only one case in the UK, which was related to a corrupt officer involved in small-scale drug-trafficking. In Belgium, between 2003 and 2008, there were only three disciplinary actions taken against customs officers, relating to the trafficking of illicit goods. In Spain, annually there are on average less than five registered corruption cases in the tax or customs administrations. In Cyprus in 2008, there were two recorded cases of corruption related to organised crime (both on cigarette smuggling), involving three customs officers. In some Member States, like Finland and Luxembourg, there have been no recorded cases at all.² Our informants, therefore, had no knowledge of corruption involving organised crime and customs, and when they did they were only familiar with a few recorded cases, which they regarded as exceptional. The majority of cases quoted were related to

individual officers. At the same time, in Greece in 2006, 49 customs officers were tried and imprisoned for corruption, while in Bulgaria an average of 20–30 customs officers are fired on corruption charges annually (Assenov, 2008). In both countries, the number of detected corrupt customs officers is higher than the total for the old Member States.

This lack of information and empirical knowledge about customs corruption deserves a tentative analysis.

Explaining the lack of corruption

Our informants referred to objective factors as well as geographic or institutional circumstances. For example, it was noted that old Member States have few land border crossings, and non-EU cargoes enter these countries through seaports, airports, or river ports (AT), where customs inspections are concentrated. Due to the large volume of container traffic in large seaports (e.g. in the Netherlands and Belgium), the statistical chances of passing through undetected are so high that organised criminals consider corruption an unnecessary cost. Moreover, long coastlines (in France, Italy and Spain) make the use of speedboats³ one of the preferred methods for smuggling drugs or cigarettes, again reducing corruption pressures, as chances of being caught are fairly low. The main corruption pressure related to excise tax goods falls on new Member eastern borders, although the smuggled products are destined for old Member States. Corruption pressures by organised crime on customs are limited as other institutions are involved in border protection. For instance, in Spain the Guardia Civil holds most of the customs-related functions that in other countries are held by other agencies. In Italy, significant customs functions are taken over by the Guardia di Finanza, while port and coastal security services are provided by Capitaneria di Porto-Guardia Costiera. In terms of drugs-trafficking interception, navy forces of Member States (UK, FR) patrol along with Spanish customs ships. Corruption pressures on customs are further reduced as security and responsibilities are shared with private companies managing airports and seaports, making private companies the immediate targets of corruption (DE, NL). Moreover, higher salaries and civil servant status make customs officers in the old Member States less vulnerable than in new ones.⁴ On the other hand, as some interviewees explained, customs corruption is an institutional taboo (BE, DE, FR), and the official assumption is that it does not exist, it is exceptional, and does not constitute a significant threat. The Belgian Customs, for instance, started a corruption awareness educational campaign only in December 2008.⁵ In addition, customs administrations across the EU, and particularly in France, Germany and Belgium, do not have ‘internal investigation’ departments, and corruption cases are normally detected by the police during the course of other investigations.

Some interviewees expressed concern that the exposure of Western European companies to corruption along the EU’s new external borders may increase their readiness to try to use corruption on domestic customs officers as well. An internal

survey conducted amongst Swedish customs officers showed that 14 per cent of customs officers have been offered bribes in the past year or so (to the time of writing).

Customs corruption, on the other hand, involves criminals and companies in new Member States and in Greece. The process is of a dual nature: criminals try to pay bribes, while customs officers target individuals, companies, or criminal networks committing customs violations. The rest of this section provides some of the most common objectives and schemes of customs corruption, as well as an analysis of the driving forces behind the phenomenon.

Corruption objectives

The most frequent cases of (usually petty) customs corruption involve legitimate companies trying to facilitate the faster crossing of borders (EL, CZ, FR, AT, SK) or the speedier release of goods due for customs inspection. While the elimination of border control has significantly reduced the need for such corruption across the EU, external land border crossings are still vulnerable. If for legitimate companies customs corruption means a better and faster service, for criminals it is a risk reduction and crime facilitation tool. A common objective is avoiding detection of smuggled goods. The mechanisms here range from paying frontline officers to bribe shift managers who ensure the complicity of officers on duty, or allow cargo to pass while shifts change. Avoiding investigation is another goal, particularly in countries where customs have investigative or intelligence powers (SE, RO, SK, SP, CZ, BG). Corrupt officers, in these cases, can provide warnings on ongoing investigations or even stop or prevent an investigation. Corruption of customs officers can be aimed at facilitating fraud, for example, entering a code for the imported goods reserved for a slightly different commodity (and carrying lower import taxes), or failing to check the country of origin of goods, or registering a different quantity or value of goods than those actually imported (BG, EL, LV). Finally, the objective can be facilitating smuggling into third countries.

Criminal activities and customs corruption

Not all trans-border criminal schemes require corrupt customs officers. VAT fraud schemes (RO, BG, RO, MT, SK, ES, SI, SU, LV) typically do not rely on corrupt customs officers, although there have been cases when they have been facilitated by them (BG, EL, DE). In VAT fraud schemes, tax officers are more often targeted, whereas corruption is relatively rare when it involves the collusion of customs officers and border police in concealing the trafficking in stolen goods (e.g. vehicles⁶), or in human beings⁷ (LV, BG, EL).

There is corruption relating to drugs smuggling (FR, ES, NL, UK, LT), but even in new Member States it is on a far smaller scale than when involving consumer goods. Customs officers consider facilitating drugs smuggling a high-risk

crime and generally avoid it. Some interviewees, however, were of the opinion that when 'everyone, including the police', is aware that large international ports like Antwerp are gateways for drugs smuggling, the lack of recorded corruption cases cannot be explained by the fact that criminals rely solely on low statistical chances of being caught. Instead, they suggested, authorities are not looking hard enough to detect corruption (BE).

Customs corruption relating to the smuggling of excise tax goods is widespread across the EU: particularly cigarettes (EL, BG, AT, CZ, RO, MT, IE, HU, LV, LT), alcohol (BE, CZ, BG, RO, MT, IE), oil and oil products (EL, BG, MT, IE, PL, CZ). The smuggling operations involve a range of actors: from shuttle traders to small companies, from larger to international companies. Smugglers can pay small bribes to inspection officers, corrupt officers responsible for customs warehouses, or even find arrangements with senior figures in the customs service. The majority of investigations of big cases of cigarette smuggling in the EU have revealed episodes of corruption, although in few of such cases hard evidence has been provided. In the words of one interviewee 'one would probably risk smuggling one container without paying a bribe, but no one would risk with two or three containers' (EU).

The smuggling of alcohol or oil products involves shuttle smugglers driving small quantities across borders on a regular basis (BG, PO, SE, FI, UK). Major actors in these operations are legitimate enterprises with direct access to high-level customs officials (PL). As the Bulgarian case study indicates, one of the largest oil-refineries in the Balkans, owned and operated by Russian company Lukoil, has successfully used political protection by several consecutive governments to resist the installation of measuring devices that control the loading and unloading of oil tankers. An inspection initiated by the Russian side in 2006 indicated that 'a significant' part of the oil processed at the refinery was smuggled without being registered at the customs. In 2008, similar protection for well-known alcohol producers in Bulgaria led to the resignation and prosecution of the deputy head of the anti-organised-crime law enforcement agency.

The smuggling of consumer goods (including counterfeit clothing or consumer appliances), particularly from China or the Middle East, is a major business for organised criminals, with significant impact on state revenues (EL, BG, FR, RO, IT, ES). Informants claimed that the key factor for this type of activity is the presence in Europe of immigrant populations from China or the Middle East, who set up import companies in the host country (FR, RO, EL, BG). Shuttle traders and small-medium enterprises are usually involved. In new Member States and Greece, corruption is actively used to avoid import duties.

The customs are also instrumental in certifying the value of goods, particularly of imported industrial machinery. In one type of scheme, companies that import industrial means of production could inflate the value of the goods they purchase with EU aid money, and pocket the money thus saved (e.g. they might purchase old instead of new equipment, or even certify that equipment has been imported, when in fact it has not) (BG, LV).

Explaining corruption in customs

Two factors have had a marked influence on the development of a culture of corruption that continues to mar customs agencies along the external Eastern border of the European Union: the embargo on the Former Yugoslavia and cross-border shuttle trade smuggling during the 1990s. The economic sanctions imposed on the countries of the former Yugoslavia created immense corruption opportunities, with individuals from all walks of life (including politicians and security agents) profiting from organised smuggling. Customs agencies of countries along the borders of the former Yugoslavia played along, and without exception were involved in embargo violations (either for their own profit or under pressure from security services and politicians).

The shuttle trade of consumer goods reached its peak between the mid and late 1990s, with several million⁸ small traders crossing borders on a regular basis. The shuttle trading phenomenon today is largely limited to excise tax goods (cigarettes, alcohol and oil) or agricultural products (PL, RO, SK). Traders engage in petty corruption of inspection officers, and at some borders part of the petty bribes are accumulated and passed along the chain of command, reaching even the very top of the customs administration. In addition, organised corruption mechanisms are in place: groups of shuttle traders come together and use intermediaries to arrange corrupt exchanges with customs officers.⁹ Organised crime becomes an intermediary between shuttle traders and customs officers, as criminals collect protection money from the former in order to bribe the latter. Organised crime, in this specific area of activity, may well be able to impose its services on all companies willing to become involved in smuggling.

In analysing customs corruption along land border-crossing points, the cultural and socio-economic situation of the communities in border areas explains much of the ongoing phenomenon. Customs officers and border guards along the external land borders of the EU are often recruited locally, typically from small towns with very limited economic opportunities (EE, PO, BG, RO, HU, SK). Involvement in small-scale smuggling is considered a viable source of income by local populations, and is tolerated by customs officers who usually demand 'their share' of the trade. In countries where ethnic communities (e.g. Russians) are spread out across the EU borders, corruption networks operate on both sides (LV). In such small communities corruption does not need to take the form of bribes. Informal relations ('everyone knows everyone') imply that the exchange of favours, or trading in kind, could serve as substitutes for monetary bribes. These local communities are just as vital for small-scale smuggling as they are for bigger contraband schemes involving organised crime. They often provide the infrastructures (warehouses) or the manpower (shuttle traders delivering goods to particular wholesalers) needed for excise tax goods to reach the final consumers. Local administrations and law enforcers tolerate such activities as they are considered important to the local economy (BG, RO, LT).

Another feature of customs corruption in new Member States and Greece relates to political pressure. The corruption income from trans-border smuggling

is seen as an important source of funding for political parties (at the local or national level), or as a personal benefit for corrupt politicians. The Head of Customs administration and those in key positions within the agency, including the heads of certain regional posts, are often considered political appointments. The dependence of border region economies on trafficking often leads to the involvement of border town mayors in trafficking or in protecting smuggling channels through their connections with higher level customs, police, or judicial authorities (LT, PO). Political influence can also be indirect, as the police might be stopped from investigating intermediaries, such as customs brokers (BG).

At times, pressure on customs officials may be exerted by border police or police anti-trafficking units. For example, a police officer may discover that customs are protecting a smuggling channel and demand a share of the bribes (BG). Or, there may be cooperation between police and customs officers with joint participation in smuggling schemes (LV, LT, BG, EL). Moreover, anti-trafficking units can use their powers to create their own smuggling channels. One tactic used in Bulgaria consists in carrying out excessive checks on vehicles or merchants who do not want to pay a bribe or who use a different intermediary: they might be paying the bribes to someone else who does not share their bribes with the police. Under pressure, merchants may choose to either pay bribes to the officers in question or switch to a different smuggling channel (BG).

Intermediaries

Petty corruption results from direct interaction between smugglers and customs officers (FR, SL, EL, SE, LV). Certain specific positions occupied by officers, for instance post-delivery or pre-shipment control, provide conditions for direct contacts between officers and company representatives away from the public eye. Some interviewees identified these interactions as at risk of corrupt exchange (BG, LV).

In old Member States, where corruption is not as widespread, organised criminals choose carefully the individuals to contact. They gather intelligence about the seaport customs personnel, for instance, and try to find officers renowned for gambling or in financial difficulty. These officers are then approached directly (IR). The first time a corrupt officer may agree to cooperate because he is paid a substantial sum of money. The second time, if a smaller bribe is offered and he refuses, he may be threatened that previous corrupt deals will be exposed. The corrupt officer can then become an intermediary himself and attempt to convince co-workers to cooperate (SI).

The most powerful intermediaries are customs officers themselves. Direct access to businesses and informal contacts with colleagues make them 'corruption brokers', who arrange deals and connect people, including members of organised crime and representatives of legitimate companies. Former customs officers (or former police officers) can also act as intermediaries, for example through firms that assist companies with customs formalities. These firms are

very loosely regulated in the EU and those running them do not need a specific license. With easy access to ex- colleagues and little accountability, former customs officers assist in arranging corrupt exchanges (BG, LV).

Anti-corruption tactics

The range of anti-corruption measures and the capacity to detect corruption vary widely across the EU. Some interviewees stated they there were no specific anti-corruption measures adopted in their countries (FI, DN) or that they were unaware of effective ones (EL). Intuitively, however, rotation of staff was regarded as a viable anti-corruption tool, in that officers would not be allowed to develop long-term relationships with individuals or companies (MT). Rotation would also affect inspection officers, whose shift could be established through randomized computer- generated work programmes (UK). Moreover, work is to be organised so that two or more officers are involved in tasks jointly: this would increase the cost of corruption and establish forms of reciprocal control among officers (UK, BE, LV). Mobile units performing random checks may be effective (SI, BG, FR), as may be whistle-blowing programmes (UK, SE). These could be supported by phone hotline and anonymous email reporting systems that could also be used by ordinary citizens.

It was advocated that training and awareness-raising programmes should be inspired by concrete cases rather than abstract theories. For instance, the corruption awareness materials provided by the Belgian customs did not contain any actual episode of corruption that has taken place in the country and training was provided by outside academics. Another method for raising awareness could be a proactive media involvement for public exposure of detected corruption cases.

Successful corruption investigations require significant capacity. For instance, almost all seizures of illegal cigarettes are made via electronic surveillance wire-tapping. Consequently, uncovering corruption of customs officers within this type of illegal trafficking is extremely costly. Many countries, especially those that do not have a tradition of strong organised crime influence (e.g. Denmark or Finland), are unwilling to incur such costs. Therefore, on many occasions, although corruption may be suspected, there is a lack of capacity to detect it.

Some 'internal investigation' departments might have significant monitoring powers. In Spain, the Department for Corruption Investigations carries out covert initiatives. It holds detailed information about the bank accounts of public servants and their spouses, other personal income that they may have, and relevant financial operations in which they could be involved. The department follows carefully any significant change in personal wealth.

With the increased level of sophistication and the introduction of IT systems in the work of customs, the management of these systems has become of key importance to anti-corruption strategies. In addition to traceability of who accesses the system and differentiation in access levels, some customs offices have introduced further IT anti-corruption measures that analyse and detect risk behaviour in data

access (for instance an officer frequently accessing data not related to his/her immediate work).

Some interviewees stressed that relatively high salaries would reduce corruption (IE, UK). In the UK, for instance, the average salary of a customs investigator is £50,000 per year. Frontline officers have lower but still above average salaries (UK). Reward schemes could be introduced while higher penalties for corrupt officers may act as a deterrent (UK, AT). Some of the additional tactics discussed included the compulsory disclosure of the assets of customs officers (SK, RO), the use of integrity tests (CZ), or the institution of work processes and procedures that are designed to prevent corruption.

Judicial corruption

Interviews and data from our case studies indicate that in the majority of Member States the judiciary, particularly courts, are much less targeted by organised crime than the police or politicians. The Eurobarometer (2008) public perceptions survey presents a similar picture, with the judiciary being rated as less corrupt when compared with the police, customs, politicians, or public administrators. Rather, it is white-collar offenders who attempt to corrupt the judiciary, as their social background and status are similar to those of legal professionals and officials (EL, BE, PO, SL, SW, CZ, BE). Among those targeted are judges, including those sitting on Supreme Courts, prosecutors, court administrators, jurors and bailiffs. Bribes may be offered to prevent or discontinue investigations, in exchange for bail, or to reduce sentences.

In countries where corrupting judges and prosecutors is difficult if not impossible, criminals seek alternatives. Cases of corruption within court or prosecution administrations have been observed across the EU (FR, BE, EL), and were mentioned even in countries (UK) where corruption in the judiciary is generally not considered a problem. Compared to judges or prosecutors, administrative staff members are more vulnerable, as they are paid less and their work is not thoroughly monitored. For instance, in the UK Crown Prosecution Service (CPS), caseworkers provide administrative support to crown prosecutors. They are poorly paid (£15–25,000 per year) and could provide criminals with information on the prosecution cases, evidence, etc. They liaise with the police on behalf of the prosecutor, so they might have up-to-date information on ongoing investigations (UK).

In *common law* jurisdictions (UK and Ireland), the ‘weak link’ that criminals try to exploit is the jury. The possibility of being able to corrupt jurors, in the opinion of one of our respondents, discourages criminals from considering corrupting judges (UK).

Corruption networks and their operations

Social scientists have often described the judiciary as a social class in its own right, a ‘caste’ enjoying a special status based on hereditary privileges and a

particular type of education. Lower-level organised crime figures, therefore, may find it extremely hard to gain direct access to informal networks within the judiciary. As a result, corruption requires the availability of intermediaries or the presence of extraordinarily conducive circumstances. Criminals of the elite, on the other hand, may have easier access to this caste.

Corruption occurs within intermingling networks. In small towns or islands (e.g. Cyprus, Malta, or Corsica) local elites mix together socially and professionally, creating multiple links among businessmen, judges, high-rank law enforcers and politicians. Insofar as white-collar criminals or traditional organised criminals are able to accumulate sufficient economic and symbolic power to become part of these local elites, they inevitably gain access to local members of the judiciary. Networks may also be constituted through Masonic lodges (MT), political affiliation, or even common religious faith (EL, NL).

Personal and family networks play a certain role in all Member States. In countries where extended families or nepotism are commonplace, these networks feature much more prominently in corruption scandals (PL, BG). Schools (particularly elite ones) also provide an immediate network, especially in cases involving white-collar criminals. Spouses, particularly working as lawyers (or within other branches of the judiciary), could serve as intermediaries in accepting bribes or in taking advantage of the network of corrupt judges of which their partners are members.

Although judiciary systems in the EU are generally politically independent, in reality specific circumstances in some Member States undermine their independence. Such circumstances arise when judges can move between a legal and a political career, when they are elected as representative of political parties, or when the whole judiciary system is administered by the Minister of Justice. In such cases, the political–judicial nexus is obvious. In some Member States, such a nexus reflects the clear ideological divide between judges that are considered to be close to the right or the left in the political spectrum (ES, IT). Politicians may act as intermediaries supporting corrupt entrepreneurs, although a key intermediary role is played by defence lawyers (SL). Litigation departments of top law-firms in many countries try to attract celebrated and successful lawyers who, due to their connections, are able to influence judicial decisions, or even investigations (UK, SP, NL, BG). Interviewees described a number of well-known criminal defence lawyers or law-firms as having the means and expertise to influence investigations. In Bulgaria and Greece cases emerged in which intermediaries were law enforcers. Finally, in some countries (RO) intermediaries are redundant, as the judiciary system itself provides the informal network for corrupt exchange.

Vulnerability factors and corruption mechanisms

The factors that render the judiciary more or less vulnerable to outside influence and corruption vary widely across the EU. Salary levels, again, were cited as

partial explanation by informants (PL, SP). The threat of violence is another factor, particularly in areas characterised by organised crime and terrorist presence. On the other hand, judges who are known as having accepted a bribe in the past can be blackmailed into accepting more. Corrupt politicians, in turn, can influence the work of judges in contexts where politicians themselves determine the professional careers of the latter (ES, BE, EL). In brief, for judges the potential threat stems from the fact that in many countries High Court judges or Supreme Judicial bodies are appointed or nominated by parliament or by the executive. As for prosecutors, the threat is even higher, particularly in countries where they are managed and supervised by the executive (DE, ES), or where the Minister of Justice is also Prosecutor General (e.g. FR, PL). In this respect, members of the judiciary in some Member States (IT) have accused governments of trying to limit their independence by implementing legislative reforms that establish direct political control. Where such control is established, cases are politically selected and powerful defendants with close connections manage to escape prosecution. Magistrates or prosecutors may avoid sensitive cases by not starting or delaying judicial proceedings. This is particularly the case when powerful criminals are known donors of political parties (BE).

Weak control systems (RO, CZ) and lack of transparency (CZ) were pointed out as factors conducive to higher levels of judicial corruption (BE, RO). Lack of media independence and scrutiny was also mentioned, in particular in countries in which the media themselves are controlled by individuals or companies involved in criminal activities (PL, FR, IT).

In areas with significant mafia influence the social setting and informal networks allow for pressures to be exerted on judges (IT). Tourist coastal areas (BG) and border areas (PL, BG) with significant concentration of criminal activities (e.g. Costa del Sol, external Eastern EU borders), as well as local communities dependent on illegal economic enterprise, create similar pressures.

Finally, the existence of ‘judicial rackets’ was mentioned, indicating that corruption is two-directional: it is not always initiated by criminals, but sometimes by prosecutors or judges themselves (PL, EE).

Anti-corruption measures

The present study was not in a position to systematically analyse anti-corruption measures in the judiciary, but the following observations may be noteworthy. Some countries do not have specific judicial anti-corruption bodies (DK); others have local bodies with differing powers, or established national-level bodies (PL, BG, RO). In some Member States, individual courts have an appointed officer who monitors corruption (e.g. PL). As explained above, small courts are much more vulnerable to corruption than larger ones. Establishing regulations in which cases involving organised crime are automatically allocated to larger regional courts, where cases are distributed randomly amongst numerous judges, could be an effective anti-corruption measure. An example, in this respect, was provided

of a southwest regional court in Poland, which deals with all significant cases of organised criminality, and where judges are said to be much less corrupt than their colleagues in small town courts. Moreover, internal and external control mechanisms, with the involvement of police investigators, would create a chain of responsibility less vulnerable to corrupt practices (FR). Finally, transparency relating to the personal assets of judges would be welcome.

Notes

- 1 In various countries different terms were used: ‘oligarchs’ in Bulgaria, ‘barons’ in Romania, ‘tycoons’ in Slovenia, all referring to the more commonly accepted term ‘oligarch’ used in Russia.
- 2 All of the data quoted was provided either in the course of the interviews by customs officials, or was sent in written communication.
- 3 Drugs are transferred from passing ships or yachts onto numerous speedboats that unload the cargo along the coast.
- 4 Some differences exist also in Eastern Europe, as salaries in Greece and the Czech Republic are significantly higher than those in Bulgaria and Romania.
- 5 The case of Cyprus is another example of suspected denial of the problem. For all Member States public perceptions on customs corruption levels coincide. In Cyprus, where customs officials stated that hardly any corruption existed, perceived levels of customs corruption amongst the general population were among the highest in the EU (61 per cent).
- 6 Customs corruption related to the smuggling of stolen vehicles is largely a thing of the recent past. Until the enlargement of the EU, smuggling channels for stolen vehicles involved customs corruption, as the importation of vehicles (stolen or not) from the EU-17 (the usual source for stolen cars) into Eastern Europe (the usual destination) required the payment of significant import duties. As with any other goods, extensive customs corruption networks in Eastern Europe facilitated the avoidance of such duties.
- 7 A case in Satu-Mare (on the Romania–Ukraine border) involved the illegal transportation of people across the border. In this case both customs officers and policemen colluded in not inspecting the documents of people crossing the border (RO).
- 8 The estimate only for Bulgaria stood at 300,000 shuttle traders in the late 1990s.
- 9 In practice this occurs as follows: a group of shuttle traders travels by mini-bus every week across the border (e.g. with Turkey). The intermediary travels with them, and s/he has the connections and pays the bribes on their behalf to Turkish and Bulgarian customs officers.

4 Organised crime, corruption and the private sector

Philip Gounev

Unlike data on public sector corruption, information on corruption in the private sector is not systematically collected in EU Member States.¹ In some countries, such as the USA, purely commercial bribery is not a crime (Rose-Ackerman, 2007: 1). In the EU, the criminalisation of private sector corruption has been slow, and the policy and legislative responses to private sector corruption are still developing. In 2011 the EC published its second implementation report on the transposition of Council Framework Decision 2003/568/JHA on combating corruption in the private sector. Article 2 in this Decision encompasses ‘passive and active’ corruption in both profit and non-profit entities, but is seen problematic, and as of 2011 only nine Member States had fully transposed it. It was exactly some of the elements defining ‘active corruption’ that ran into legal obstacles and stopped many Member States from fully transposing the Council Framework (COM (2011) 309 final, pp. 2–3).

International surveys by private fraud investigation firms like Kroll, the Control Risks Group, PricewaterhouseCoopers (PwC), and Ernst and Young, represent perhaps the most systematic collection of information on the phenomenon of private sector corruption. However, their focus is much broader, and unfortunately none of the surveys has been analysed from the exclusive point of view of corruption. Some, like the periodic PwC Global Economic Crime Survey, have adequate data to conduct such analysis with an EU focus, since about 3,000 base companies participated in 2007, when the survey was last published.

The interviewees contacted for the present study were primarily private fraud investigators (leading domestic or international law firms, auditing firms, or fraud investigation firms). Corruption related to organised crime constitutes only a small part of fraud in the experience of interviewees (NL, PL, MT).² In addition, official information is scarce. National anti-corruption bodies generally do not cover the issue and do not collect systematic information (MT, FR, NL, BG). The dearth of empirical knowledge is also explained with the fact that fraud, especially when involving a corrupt employee, is underreported by companies even if detected.³ Most companies try to protect their public image and prefer to deal with it internally (NL, PL).

Adding to the above is the fact that in continental EU Member States, the number of trained antifraud professionals (such as Certified Fraud Examiners) is quite

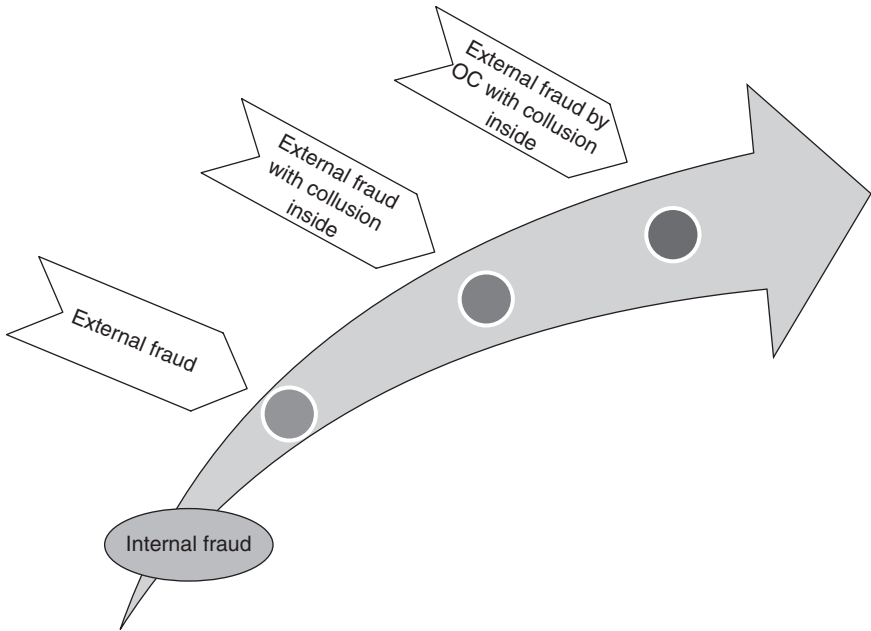


Figure 4.1 Defining private sector corruption.

low. Also, the share of companies that regularly use financial intelligence or investigative consulting firms to vet their potential partners is lower in some Member States (e.g. Belgium, Bulgaria, Romania) compared to the Anglo-Saxon countries (BE, BG, RO).

Scope of private sector corruption

The issue of organised criminals corrupting private sector employees should not be confused with the use of corruption by private sector organisations of public sector employees, which is a completely separate matter. The focus here is on the use of corruption by organised criminals to penetrate and take advantage of a private company without the knowledge and against the will of its owner(s). Corruption within private companies is usually referred to in the private sector as ‘internal fraud’. As the present study focuses on how criminals outside the firm use corruption, this chapter focuses solely on cases of internal fraud carried out in collusion with external fraudsters. As the external fraudsters do not need to be ‘organised criminals’ neither do they need to collude with (i.e. corrupt) anyone inside the company, the case of ‘external fraud by organised criminals with the collusion of inside’ is quite specific (Figure 4.1).

In addition, the present analysis excludes the cases in which criminals establish legitimate business structures (LBS) (Europol, 2007: 1–13) which are then run as

front companies for criminal operations, and cases in which criminals victimise companies which refuse to act as criminal accomplices. Again this is a completely separate matter. The sole interest is in corrupt exchange between members of the underworld and managers or employees (but not owners) of legitimate companies. If one may paraphrase the well-known definition of corruption, the present chapter focuses on the abuse of professional power for personal profit.

Corruption objectives

There are three main reasons why criminals might corrupt an employee of a private company:

- to facilitate their criminal activities;
- to launder profits from other crimes;
- to facilitate the commitment of a crime against the company itself.

The first two goals coincide to a large extent with the reasons for which organised crime might collude with the owners of a legitimate company, or acquire full control of a company, or establish their own (front) company.

Depending on the types of criminal activities, different industries and companies are targeted. Some industries (e.g. transportation), though, are particularly vulnerable as they could be instrumental for the perpetration of a wide range of criminal activities. Below, each of the three main objectives is analysed separately.

Facilitating criminal activities

The type of private companies and type of employees that could be corrupted depends on the criminal activity in question. With the privatisation of security and public services across the EU, vulnerabilities within the private sector have increased. [Table 4.1](#) provides a range of possible corruption targets and schemes related to the procurement, smuggling and distribution of illegal goods or services (drugs, prostitution or stolen vehicles). While the industries and types of companies listed could be corruption targets, they could also be established with a criminal purpose or their owners could collude with the criminal group (without the need for corruption).

The transportation industry was mentioned throughout the interviews as the one industry that is most often targeted by organised crime. Shipping companies and freight forwarders are sometimes also involved as intermediaries in facilitating corruption between transport companies and criminals. Corruption can be related to any type of smuggling activity (BE, SE, IE, AT, RO, PL, ES).

The private security industry is another case in point. Firms operating within this industry may not be 'corrupted' by criminals, but commit crimes themselves, for instance by practising protection rackets (RO, BG, FR). Moreover, in big cities with thriving clubbing and drugs cultures, security firms can be instrumental in regulating the distribution of drugs in clubs (UK, ES). While in the majority of

Table 4.1 Private sector corruption related to procurement, trafficking or sale of illegal commodities (drugs, stolen vehicles, illegal cigarettes or alcohol, counterfeit products)

<i>Criminal activity</i>	<i>Corruption practice</i>
Production/ procurement of illegal goods	<p>Managers of cigarette/alcohol distributing companies could be corrupted into selling quantities clearly understanding that they would be re-exported as contraband.</p> <p>Cigarette factory managers could be corrupted into organising ‘second shift production’ in which additional quantities are produced for the illegal market. The production of branded clothing or medicine is exposed to the same risks.</p> <p>Car dealership sales staff could be bribed into providing ‘spare’ keys to facilitate the theft of vehicles.</p> <p>Store staff of major retail stores could collude with organised retail theft gangs to facilitate or even engage in the theft of store inventory.</p>
Trafficking of illegal goods	<p>Drivers or managers with transport companies including international bus and truck companies, or airline staff could be paid off to transport any illegal commodity (drugs, cigarettes), including illegal migrants or prostitutes.</p> <p>Security staff at seaports and airports (often operated by private companies) could be bribed to ‘look the other way’, or to be actively engaged in transporting the illegal commodity. The staff at such facilities is also knowledgeable of the operation details of customs and border posts, and could be bribed into providing such information.</p> <p>Service staff (airport luggage staff, or seaport cargo operators) could be bribed into facilitating smuggling.</p>
Distribution of illegal goods	<p>Club bouncers of private security firms could be bribed into allowing drug dealers inside clubs, or allowing the distribution of drugs inside clubs.</p> <p>Used-car dealerships – sales staff could be bribed into selling stolen vehicles. Similarly, parking lots or car mechanic shops could be used as temporary storage facilities or sales outlets for stolen vehicles.</p> <p>Entertainment industry (bar or restaurant) staff or store sales staff could be corrupted into selling contraband cigarettes or alcohol, or even drugs. This type of activity very rarely goes on without the venue manager’s knowledge.</p> <p>Distribution of illegally smuggled oil.^a Although the majority of smuggled oil is distributed through smaller outlets that are willing to collude, corruption schemes could penetrate and ensure the sale even through established brands, where fuel-station managers/employees are corrupt.</p> <p>Small 24-hour stores could be used to distribute stolen or illegal goods.</p> <p>Luxury-brand retail sales or management staff could be corrupted into distributing counterfeit branded goods.</p>

Note

^a Oil smuggling and the ‘oil mafia’ were mentioned as particular issues in mostly Greece, Austria, Romania, Bulgaria, Czech Republic and Poland. Most corruption cases mentioned focussed on political and customs corruption, but indications of private sector corruption were present in Bulgaria and Greece, indicating that distribution of smuggled oil also feeds private sector corruption.

cases, the owners of such private security firms are directly involved or collude with drug dealers, on some occasions drug dealers can simply pay off bouncers to get their protection (UK).

Although the participation of organised crime in the construction industry was much discussed, construction companies themselves are usually vehicles, rather than targets, of corruption. One exception could involve the case of cartels. Research on the construction company cartels in Germany has shown that they are formed on a horizontal principle – as when a number of companies in a geographic area (region or town) form a cartel – as well as on a vertical principle – as when the suppliers or sub-suppliers are integrated within a chain. To disguise the cartel, companies need to manipulate official documents, for example, produce false invoices. Therefore, corruption is used in other construction firms to supply the companies in the cartel with fraudulent invoices to disguise the cartel, and to make it seem that the cartel companies deal with other companies as well (NL, DE).

Money laundering

The anti-money-laundering systems of EU Member States mandate the cooperation of private sector more than any other law enforcement area: notaries, financial institutions (banks, investment funds, brokerage houses, insurance companies, pension funds), wholesalers, lawyers, accountants, real-estate companies, sports clubs and high-value dealers (e.g. of cars or jewellery).⁴ Companies in these industries could be potentially used as money-laundering vehicles. Consequently, corruption could play a role in preventing them from carrying out their obligation to report suspicious activities that may involve money laundering. Interviewees shared a number of examples of corruption of employees in such companies.

While some money-laundering schemes require complicity from the entire company, in other schemes the complicity of only some corrupt employees suffices. Interviewees mentioned the financial, the gambling and the real-estate sectors, as the primary targets of corruption.

Few of the interviewees were familiar with particular corruption cases. Representatives of financial intelligence units (FIUs) were not interviewed as part of this study.

Financial sector

Corrupting bank employees not to report financial transactions related to money laundering is a fairly rare phenomenon. On the one hand, most financial institutions have sophisticated anti-money-laundering systems. On the other hand, it is difficult to ensure that laundering of large amounts goes under radar of higher management and owners. Therefore, bank collusion or insufficiently effective anti-money-laundering measures were far more often the reason for successful money-laundering schemes (SE, NL, MT, CZ).

Launderers come up with schemes whereby bank complicity is difficult to prove or not needed: using off-shore companies, shell companies, trusts and foundations.⁵ Some interviewees outlined that money exchange offices (SE, CZ) are targeted as government monitoring is much weaker (SE, AT). Small locally owned banks were identified as more frequent targets, because they usually have fewer internal controls than big international banks (SE). A 2008 survey found that 12.5 per cent of financial industry companies worldwide (higher than any other industry) were reported to have suffered from money laundering in the preceding three years (Kroll, 2008: 9). With the economic and financial crisis, the fraud incidence in the financial sector increased significantly (Kroll, 2011: 16).

Real estate

The second most often mentioned sector in which criminals use corruption or have investment interests was real estate (Box 4.1), especially related to tourism and the night-time economy (CZ, RO, IE, NL, BG, SI, FR, MT, DE, AT, PT, BE, PL, SE, ES). The purpose of acquiring real estate is two-fold: first, to launder the proceeds of crimes already committed, and second to acquire cash-intensive businesses⁶ (bars, restaurants, retail outlets,⁷ pawn shops and entertainment venues) that would allow continuous money laundering of criminal proceeds in the future. Corruption could be used only in the process of acquisition or disposal of real estate.

Box 4.1 Real estate

A real-estate broker was killed by a hitman in the centre of Amsterdam in 2004. Starting in the 1980s, the broker had built a real-estate empire estimated to be worth around 300 million euros. Part of his wealth was from the investments of the proceeds of drug crimes of several known criminals. Since 2000, police reports and journalistic research have revealed that his symbiosis with several criminals allegedly led to extortion and attempts by criminal elements to take control of his business. Excerpts from his diary, published after his assassination, show how he was forced by threats as well as physical violence to hand over large sums of money to his former criminal business partners (NL).

The types of companies involved in real-estate deals (particularly commercial real estate) can vary widely, and potential for corruption or collusion exists when dealing with any of them. A study on money laundering in the US commercial real-estate market found that property management companies, real-estate investment companies, and realty companies were the top ones involved in money-laundering schemes. Other businesses, such as construction companies,

title companies, mortgage or loan brokers, and real-estate agents were also involved but on a much smaller scale (FCEN⁸ 2006). In the residential market, corruption targets are different, as the builder/developer, escrow companies, or real-estate companies, and title companies were much more often implicated (FCEN, 2008).

Gambling

The gambling industry is one of the sectors most vulnerable to organised crime. Criminals either use corruption to penetrate legitimate gambling establishments (IT, BE) or become involved in the gambling business (CZ, DK, NL, PT, BG).

In some countries, like France or Sweden, organised crime has sought direct ownership, particularly of gaming machines. In Sweden, Hell's Angels often control gambling machines in restaurants, and use violence threats against owners to allow them to place the machines there (SE). In some parts of France, the situation is similar, as criminals have tried to partition territories of operation and control gaming machines in restaurants (FR).

There are a number of ways in which corruption is used in facilitating money laundering through the gambling industry. Some money-laundering schemes do not require the complicity of casino staff, while for others only high-level complicity or corruption of several employees is needed. Most casinos and gambling facilities have very sophisticated monitoring and surveillance systems that exclude the possibility of certain money-laundering schemes, unless the managers of such facilities are themselves involved. These cases and schemes are not discussed here, as they lie outside the scope of this chapter. FATF (2009) identifies the following potential areas in which organised crime might attempt to corrupt employees:

Avoiding detection

- Employees might be bribed into not filing a suspicious transaction report (STR) or threshold transaction report.⁹ Cases from the US authorities provided to the FATF exemplify how corrupt networks are formed within casinos, including poker room supervisors, dealers and bartenders, with the purpose of not filing STRs.
- Destroying documents/transactions reports related to due diligence or reporting processes.

Facilitating money laundering

- *Falsifying player ratings* and other gambling records to justify the accumulation of casino chips/gaming machine credits. One scheme has been related to bribing IT personnel to reprogram some gaming machines into giving repeated wins. Corruption could be related not only to the operators but also to the suppliers of the gaming machines.

- *Junket programmes:*¹⁰ The main vulnerability of companies that organise gambling trips is that ‘junket operators’ organise not only the trip, but they move the clients’ money to the travel destination, and then from one casino to the next. Corrupt employees could assist criminals in blending their funds with the legitimate funds, as tracing of the criminal cash across jurisdictions becomes complex.

Professional services

The previous chapters (on judicial, customs and police corruption) already outlined the intermediary role of corruptors that lawyers play. The professional services industry, in particular law firms, accounting firms, and trust and company service providers (TCSPs) might play an important role in facilitating money laundering and white-collar crime.

In the majority of cases, the role of such professionals is collusive rather than corrupt in nature (particularly when they are sole entrepreneurs). On occasions, though, when such professionals are employed by a large law or accounting firm, they might act against the established principles and rules of their company. The interviews showed that in the majority of cases, the professional services firms or individual professionals (lawyers, accountants, etc.) that engage as intermediaries of corruption are of a specific type. The firms are usually smaller, and specialised in corruption brokerage.¹¹

In the case of reputable auditing firms, the cases of corruption are equally difficult to conceptualise. If a partner or managing partner in a national country office decides not to qualify an opinion for an audit of a key client who is committing fraud, this could be interpreted as corruption. One well-known case is that of Arthur Andersen and Enron. Even though only some Arthur Andersen partners were involved in the Enron fraud, the US court decided to hold the entire company responsible, which eventually led to its demise (Freidrichs, 2007: 13). On the other hand, the corrupt partners had acted in the financial interest of Arthur Andersen (even though the headquarters might not have been aware of it). Lawyers in international law firms face similar dilemmas when, in the course of legal due diligence of important clients, they come across contracts that could raise suspicions of money laundering. Again, such decisions are usually taken at the partner level, thus blurring the line between collusion and corruption.

Organised crime groups or individual criminals tend to seek out the services of professionals to benefit from their expertise in setting up companies that can then be used for illicit purposes. Criminals may seek advice from TCSPs who might collude in setting up corporate vehicles (off-shore companies, foundations or trusts) that would be then used in money laundering or fraud schemes (FATF, 2006).

Certain professional services, like real-estate surveyors and evaluators could be instrumental in real-estate fraud schemes. The overvaluation of real-estate

property by corrupt evaluators and surveyors is key to successful mortgage loan fraud schemes.

In all of the above categories it is very difficult to determine the degree of awareness on the part of professional service providers or their involvement in the illicit purposes underlying their client's activities. These range from firms (or professionals) unwittingly facilitating illicit activities to firms with some knowledge of their clients' illicit purposes (FATF, 2007: 5). The line between 'complicity' and 'corruption' is blurred and is a matter of interpretation.

Therefore, if one were to provide a comprehensive account of corrupt practices of such professionals in all possible situations, this would be redundant with descriptions already provided in publications such as FATF (2006). There, one can find detailed descriptions of the roles that accountants or lawyers may play in various money-laundering, financial or other 'white-collar' crime schemes.

Notaries are another professional category that may abuse their professional position by helping shield criminal activities and their proceeds. The corrupt activities of notaries include transactions on the property market or VAT fraud schemes and the establishment of legal entities. In one case, 'a notary linked his name and account to an advanced fee fraud. As a result, a swindler was able to persuade investors to transfer huge sums of money to the account' (Nelen and Lankhorst, 2008: 139). In other schemes complicit notaries could be used when nominal owners of companies are involved in VAT carousel fraud (e.g. homeless or low-income individuals may be paid small sums to sign under company documents) (BG). Notaries (but more often law firms) can act as fronts to criminal companies, allowing these, for instance, to use their address as an official one (ES).

Various court experts, used by the defence or prosecuting authorities to provide expert assessment of evidence, are also susceptible to corruption. The particular issue of corruption of health professionals is discussed in a separate section, because although these professionals are sometimes based in private companies, on many occasions they are public-sector employees.

Abusing a company

The third main reason why criminals corrupt company staff is related to their intention to abuse the company for their own financial gain. The most frequent type of fraud refers to cases where a purchase or procurement officer purchases a service or product that is not in the best interest of the company owners. The officer, though, receives a kickback. Some of the interviewees stated that this type of behaviour is a normal business practice in their countries, i.e. even if the service or product purchased is cost-effective to the company, the purchase officer still expects to receive a kickback from the provider (PL).

The provision of construction services is one of the areas where this type of fraud is quite frequent as the value of such services is difficult to estimate, and

oversight/ management companies themselves may be collusive or corrupt. For this reason, construction is one of the business sectors attracting criminals (CZ, SE, NL, UK, IT, MT, EE, AT, PT, SI, LT, CZ, IT). In these cases, as the illustration from the Netherlands shows (Box 4.2), the owners could be defrauded of millions of euros. In addition, construction work could not only be overpriced, but also substandard.

Box 4.2 Company fraud

A fraud case in the Netherlands involved one of the largest construction companies. The Rabo Bouwfonds property company (owned by Rabobank, one of the largest banks in the country, and formerly by ABN Amro), concluded a real-estate development deal with the Phillips Pension Fund. The total amount of the deal related to the fraud was 350 million euros. Over a period of more than ten years corrupt managers at the Phillips Pension Fund gave contracts to Rabo Bouwfonds, which were inflated by millions of euros. According to the respondent, the reason why the construction sector is susceptible to corruption is because there is no transparent pricing mechanism, and monitoring, especially at high levels, is often difficult (NL).

A high-level manager at a major multinational corporation (MNC) in Greece appointed procurement managers with whom he colluded in ensuring the 'right' suppliers were used. After moving to another company, the high-level manager continued to play the role of intermediary in corruption deals. Suppliers willing to do business with the MNC were directed by the new managers to him to negotiate corrupt supply arrangements (EL).

The fraudulent services purchased by corrupt officers could also relate to complex financial frauds. Interviewees from the Netherlands pointed out another example, stating that fraudulent investment brokerage firms frequently use corruption to convince an investment manager to make an investment in their securities which later turn out to be fraudulent (NL).

Factors of corruption

In terms of intermediaries and factors in facilitating corruption in the private sector, no particular patterns could be discerned from the available information. Unlike the case with public sector employees, access to private sector employees is much easier and more direct. There are few limitations (especially legal) on private sector employees regarding meeting representatives of other companies or individuals. In addition, any criminal intentions might become clear much later in the process, as might the need for corruption. Further to that, the fact that criminals might appear to be potential clients for a legitimate deal means that

professionals have an incentive not to immediately alienate them, but rather try to 'work out' a solution.

Differences in business cultures and practices also play a big role (as described above in the case of Poland). The potential for business and corporate cultures in the EU-10E to facilitate private sector corruption is vast. Nepotism, clientelistic networks and informal bonds of trust substituting for formal legalistic business relations are just a few of the characteristics that could facilitate corruption.

Lack of sufficient or effective regulatory oversight of the private sector also provides good grounds for the growth of organised crime: the maintenance of low standards of accounting practices, such as keeping off-the-books accounts and non-accountable funds, encourages corruption in the private sector. Here, all industries are potentially involved.

The level of vulnerability of different industries to being targeted by organised crime across the EU certainly depends on general factors, such as the structure of the economy, geographic location, or legal traditions. For instance, pressures by organised crime on private company employees serving major ports in Spain (such as Algeciras or Barcelona), France (Marseille) or Greece (Piraeus), which are major entry points for illicit drugs or cigarettes for all of Europe, is much more significant than pressures on ports, for instance, in Nordic countries. The same could be said about airline staff or airport-services staff at major international airports that serve flights from South America (e.g. Madrid) or Africa and the Caribbean (Amsterdam), compared to staff at smaller airports in the EU. Major financial centres, such as London, could attract a lot more money-laundering activities in the financial industry than other countries. The role of some professions, for instance notaries, is quite different in some countries in Eastern Europe, where they are needed in every business deal or transfer of property title, than in the UK, where their role is very limited.

In addition to external factors, there may be a number of factors intrinsic to the company itself that facilitate corruption. This is especially true for larger corporations that may deploy significant resources to reducing fraud opportunities. A 2009 survey by PwC shows a number of such factors that could lead to increase in fraud vulnerability: (1) reduction in staff devoted to internal controls; (2) management focus on 'survival of business'; (3) increased workload of internal audit staff; (4) weakening of IT controls; (5) transfer of operations into new territories; and (6) diversification of product portfolio (PwC, 2009).

Anti-corruption measures

Private companies, especially smaller ones, rarely take specific anti-corruption measures. In Europe the exceptions are usually multinational corporations and the subsidiaries of US listed companies which are subject to regulation of the 2002 Sarbanes-Oxley Act and the Foreign Corrupt Practice Act¹² (AT, BE, SE, MT). For smaller companies the adoption of anti-corruption measures is often too costly, and the risks of being victimised are considered to be low (SE).

Professional service companies in smaller Member States are usually small-to-medium enterprises, which means that often they do not have sufficient anti-corruption measures in place (DM, BG). Interviewees from Member States with perceived high levels of public sector corruption (RO, IT, BG, EL) also reported that anti-corruption measures in the private sector were rare and were either implemented as damage control to their public image once fraud had occurred, or if EU regulation (e.g. anti-money-laundering rules) required it.

Most large auditing and fraud investigation firms provide a full range of advisory services on designing comprehensive corporate anti-fraud (corruption) mechanisms. Much has been written about the merits of or best practices relating to the various measures (e.g. PwC, 2007, Ernst and Young, 2008). Depending on the point of vulnerability (theft of information, IP infringement, money laundering, or procurement) there are various anti-corruption measures that could be adopted. The specifics, of course vary from industry to industry, and it is often difficult to generalise. For instance, procurement staff are often the target of corruption. There may be specific rules forbidding ‘facilitation payments’, or defining clearly the practices that constitute a conflict of interests; requirements for several staff members to be involved in procurement negotiations; imposing limits for (token) gifts and benefits; as well as internal controls to enforce the above measures.

Interviewees from international professional services firms also reported specific anti-corruption measures, such as:

- Obligations of auditing firms to report corruption and fraud (AT).
- Staff rotation for employees exposed to corruption: for smaller local firms (e.g. accounting or law offices) this is not usually possible (AT). Many banks use rotation as an anti-corruption measure (MT).
- Corporate security departments could refocus their activities to spot or prevent internal corruption.
- IT monitoring systems and control mechanisms could also be used whenever they are designed to detect fraud (AT, SE, MT).
- Internal audits (SE, SI, MT) could specifically target in-house corruption – some interviewees commented on their falling effectiveness (AT), something that the PwC survey (see below) also noted.
- Whistle-blowing programmes (SE) are increasingly effective, but need careful design and appropriate corporate culture.
- Corruption awareness campaigns, special training sessions, and codes of conduct, anti-money-laundering guidelines (PL).
- ‘Four eyes principle’: requirement that every decision needs to be approved by the CEO and that no decision is to be taken by any employee alone (AT).
- Obligatory external audits (MT), even for the smallest companies, is seen as a positive, but costly measure.

A PwC (2009: 9) survey that included small and large companies listed a similar range of anti-corruption measures adopted by firms around the world. The survey

nevertheless demonstrated that corporate anti-corruption controls contributed to the detection of fraud in only part of the cases (internal audit and fraud risk management being most effective). In the majority of companies it was factors related to corporate culture (tip-offs), or to outside bodies (e.g. police investigations), or pure chance that contributed to the detection of fraud.

Notes

- 1 This problem of lack of data at a global level has also been noted by scholars (Rose-Ackerman, 2007).
- 2 Specialised 'economic' or 'financial' police interviewees who might have experience with such cases were not surveyed as part of this study.
- 3 The PwC survey shows that when the fraud involved was perpetrated by someone outside the company, frauds were reported to a regulator in 46 per cent of cases, and brought civil action / criminal charges in 59 per cent of cases, whereas when the perpetrator was an employee, the incident was reported to regulators in only 24 per cent of cases, and brought civil action / criminal charges in only 48 per cent (PwC, 2009: 14).
- 4 These categories are specified in the Third Anti-Money Laundering Directive (*Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, Official Journal L 309, 25/11/2005, pp. 0015–0036*).
- 5 British banks are usually more complacent about money coming from the British Virgin Islands, which is now used more often to launder the money of Italian organised crime (IT).
- 6 In order for properties, e.g. bars, restaurants, dance clubs, or hotels, to be used as money-laundering vehicles, criminals need full control of the business. In other words, corrupting some employees of such establishments is insufficient to carry out money laundering. Several interviewees mentioned the well-known money-laundering scheme of 'Chinese restaurants' (BE, NL, DE), where restaurants with very few customers declare high revenues usually from laundering proceeds from illegal immigration schemes.
- 7 Some interviewees mentioned 24-hour shops or other small service outlets (beauty salons, mobile phone shops) (BE), or music record stores and pizza chains (DE) that usually use only cash, have little monitoring, and could be used to launder money.
- 8 Financial Crimes Enforcement Network (USA).
- 9 An example would be if someone goes to a casino and makes a cash-purchase of 100,000 euros worth of chips. After playing for 1 hour and losing 10,000 euros, the person goes back to the counter and converts the remaining 90,000 euros worth of chips back into cash. For this transaction the person obtains a receipt, and the 90,000 is now clean money. They could be deposited in a bank, as the person has proof that the money has been won while gambling at a casino.
- 10 Casino junkets or casino-based gambling tours are derived from casino marketing programmes; 'Junket' is an organised gambling tour for people who travel to gamble in casinos, usually in another country (FATF, 2009: 47).
- 11 Corruption in the criminal justice system is facilitated by firms specialised in criminal defence, while the corrupt exchanges with politicians or administration could be facilitated by accounting firms or corporate law firms.

- 12 Following the Enron fraud scandal, in 2002 the US Congress passed the Sarbanes-Oxley law: legislation that created new standards of top-management responsibility for honest financial accounting and that increased penalties for defrauding investors in shares of corporate stock. Among other provisions, the act calls for increased monitoring duties for corporate fraud, requires corporate CEOs and CFOs to certify corporate financial statements personally, and adjusts federal sentencing guidelines to implement longer prison sentences for high-level corporate executives convicted of corporate financial fraud (Gerber and Jensen, 2007: 88).

5 Corruption and criminal markets

Philip Gounev and Tihomir Bezlov

This chapter aims to provide a different dimension of organised criminals' use of corruption. While the previous chapters focus on institutions, here the analysis is addressed to how corruption facilitates particular 'organised criminal activities' that often involve multiple public institutions and private sector participants.

The proposed analysis focuses on 'illegal markets', not simply on 'criminal activities', for two reasons:

- because it allows for easier measurements and comparisons of 'organised crime' across countries;
- because it is broad enough to include all actors and aspects of corruption, not solely higher levels of structured criminal organisations. This approach provides a more comprehensive understanding of 'petty' and 'grand' corruption, which are often inextricably linked in the operation of illegal markets.

Many organised criminal activities (e.g. VAT fraud, or credit card fraud) are not market-led crimes based on 'demand' for illegal services or products. Hence, they are not discussed in this chapter, though they similarly might involve corruption. Most criminal groups and networks are involved in multiple markets and non-market based criminal activities. They use similar corruption networks for all types of crimes. Therefore, the analyses below provide sufficient explanatory insight for further examination of corruption in other types of organised criminal activities.

Illegal cigarettes

The market

Since 2000, with the increase of EU taxation on tobacco products, the sale of illicit cigarettes¹ has become one of the largest illegal businesses in Europe. In many countries it is a much bigger business than those of drugs or prostitution. An estimated 90 billion cigarettes are smuggled annually into the EU (Schlaefereit, 2011). The main purpose of this illicit trade is avoiding excise and VAT taxes. The

losses to European governments are at least €10 billion annually (European Commission, 2010), although precise estimates based on empty-pack surveys have not been made public. There are generally four sources of illicit cigarettes:

- bootlegging, or buying a quantity of cigarettes that exceeds custom regulations, and their smuggling in small quantities by individuals;
- large-scale smuggling (in containers via sea routes, in vans/lorries via land routes);
- postal imports, or using the postal system to smuggle cigarettes;
- illegal production within the EU. Over recent years at least a couple of dozen factories have been uncovered in the EU (Scarlett, 2011).

Large-scale smuggling and bootlegging constitute the largest ‘threats’. Some interviewees estimated that about 80 per cent of cigarettes are smuggled across land borders through EU-10E countries, while about 20 per cent (mostly counterfeit) are shipped by boat from outside the EU, mainly China.

The key drivers for illicit cigarettes are the price differentials, either within EU markets or between the EU and the rest of the world. The main sources of illicit cigarettes are the countries of the former Soviet Union along the EU’s eastern land border, China and the Middle East. There are a number of additional factors that are reputed to drive the level of illicit cigarettes trade in EU Member States:

- Affordability is an important one; most often this is measured as the share of the disposable daily income needed to buy a pack of cigarettes at the average market price. Nominal prices of cigarettes, therefore, are not necessarily a good predictor for the demand for illicit cigarettes in the EU. Countries in the EU-10E (BG, RO, LV, PL, CZ, HU), as well as Ireland and the UK, have the least affordable cigarettes.
- The grey economy, but more specifically, the informal retail sector (e.g. informal markets and small kiosks), is an important factor, inasmuch as it provides the wide distribution network needed for a large illicit market. The share of retail that goes through big market chains in the EU-10E is much lower (as low as 35 per cent) in countries like Bulgaria, which provides a good opportunity for distributing illicit cigarettes via independent retailers, who are likely to become involved in risky behaviour.
- Law enforcement capacity (including police, customs or tax authorities) to suppress the illegal trade and provide an adequate response.
- Taxation policies: although the EU has established common excise tax target levels, some countries might choose to reach such levels gradually, while others choose to impose them rapidly. The sudden increase of excise tax levels does not allow smokers to adjust their habits or law enforcement to adjust its response, often resulting in sudden ‘explosions’ in the sale of illicit cigarettes, as was the case after excise tax hikes in 2008–09 in BG, LV, ET or RO.

Criminal structures and organisation

Across the EU, a large number of criminal entrepreneurs engage in cigarette smuggling and distribution, forming a variety of criminal networks throughout the EU with links to the former Soviet Union, China, and the Middle East. Although each Member State has a specific illegal market structure (depending on the size of the market, the local legal cigarette prices, the country's position – transit or destination, the demand for illegal cigarettes) several generalisations can be made to sketch the illegal cigarette markets in the EU.

- Large hierarchical structures operating in networks, often connected to local producers in several countries: one example is the cigarette makers in Russia (Kaliningrad), Ukraine and Belarus, whose products are smuggled into Eastern Europe, where they are partly sold, but ultimately destined to reach lucrative markets in Germany and the UK. The model often involves 3–4 large factory owners, wholesalers in Poland and the Baltic countries, and street vendors (Vietnamese immigrants) in Germany (Lampe, 2001; LEI).
- Large networks involving dozens of trading companies, purchasing and delivering international brands, mostly from the Middle East (usually 'illicit whites'): after numerous transfers of the goods through duty-free zones and ports around the Mediterranean or Africa, the cigarettes are eventually smuggled into Mediterranean ports, mostly in Greece, but also in France, Spain and Italy, and distributed through criminal networks of wholesalers and retailers throughout Europe. There is often an overlap between the wholesaler and retailer level in the distribution of licit and illicit cigarettes.
- Small networks, which take advantage of the in-transit system which allows the temporary suspension of taxation.
- Individual cigarette smugglers who illegally deal in small quantities of duty-free cigarettes bought from legitimate retail outlets at land borders or airports (see, for instance, Antonopoulos and Mitra, 2009).
- Counterfeiting networks organising illegal production of counterfeit cigarettes within the EU, particularly in Central Europe, using low-cost machinery from Asia: the investment pays off even if one container of cigarettes is sold.

The main players within these different networks include wholesale brokers who trade in various brands, and who are usually involved in securing the transit of the cigarettes. They also pay the necessary bribes and mediate between sellers and wholesalers who have access to retail networks. Polish traders with long-term experience as mediators are an example. The upper-level players are often criminal companies that have the financial capacity and legitimate *appearance* to purchase large quantities from legal distributors or producers (Lampe, 2001).

An important role is also played by networks of warehouse owners serving the several thousand bootleggers who daily cross the borders between countries with higher- and low-priced cigarettes (e.g. Poland–Ukraine, Romania–Ukraine,

Bulgaria–Serbia, Bulgaria–Turkey, Poland–Belarus). Illegal cigarettes are distributed in these networks. The above-described entities for production, transport, import, wholesale and retail often interact and establish long-term symbiotic relations.

Corruption pressures

Corruption could be observed at all levels of these networks. The targets include:

- customs
- private sector
- politicians
- police.

Customs

The main targets of corruption related to cigarette smuggling are customs agencies and border police – the institutions involved in controlling imports at border crossings and ‘blue’/‘green’ borders. The pressure is greatest along external EU borders, in particular the eastern land borders of the EU Customs Union. In some Member States, along the eastern border of the EU, entire land-border customs operations have been affected – from front-line detection officers to supervisors, heads of office and regional directors, possibly even at the central level (BG, HU, LT, RO).

Bootlegging, which is rife in the border regions of EU-10E, is usually accompanied by low-level corruption or is at times even tolerated. The key border crossings that were identified by interviewees as locations where large-scale cross-border bootlegging occurs include:

- Bulgaria (Svilengrad, bordering Turkey; Kalotina, bordering Serbia)
- Romania (Siret/Suceava, bordering Ukraine)
- Poland (Bialystok, bordering Belarus; Przemysl-Medyka, bordering Ukraine)
- Greece (crossings with Bulgaria, Macedonia and Albania)
- Hungary (Zahony, bordering Ukraine)
- Slovakia (Vysne Nemecke, bordering Ukraine).

The border towns in the vicinities of the border crossing points (BCPs) are often economically dependent on bootlegging and trafficking in excisable goods, while the local customs and border authorities usually allow this trade as it constitutes a survival economy of sort. There are different schemes for cross-border smuggling ‘fees’ at BCPs: from fixed amounts, which are split between the officers on a shift, with a share going to higher-rank officers, to fees determined according to the quantity smuggled. The bribes are paid either by ‘mules’ transporting the cigarettes or scheme organisers.

The main factors contributing to the continuing corruption are:

- relatively low salaries;
- inadequate organisation of operations to prevent corruption;

- lack of cooperation among law enforcement agencies;
- organisational culture histories of tolerating corruption;
- lack of economic alternatives of border communities involved in shuttle trade smuggling.

In the EU-17 the lack of land-border posts concentrates the pressure for corruption amongst customs officers at seaports/airports. Surprisingly few corruption cases have been detected and reported by customs in most EU-17 ports where large shipments of cigarettes arrive (BE, ES, NL, UK), with the exception of cases detected in Greece (EL). Interviewees explained that there was no need to use corruption, as the chances of detection are so slim at big ports that smugglers normally can tolerate some shipments to be seized. In reality, as most customs, particularly in big ports like Le Havre, Rotterdam or Hamburg, check less than two per cent of containers, the statistical chances of successful smuggling are significantly high.

Law enforcement experts argue that large shipments of more than one container are typically considered high-risk by smugglers, who take precautions by bribing customs officials. This approach leaves open the question why customs offices in ports across the EU-17 are not coming across any corruption cases. In some Member States (e.g. BE, DM) there are no internal investigation departments in customs agencies. In others, where organised crime has a more limited presence, fewer resources are allocated to complex investigations (e.g. involving wiretapping) to uncover corruption in customs. Therefore, the investigations usually stop at arresting the mule or the few immediate associates. For instance, the large seizure of nearly one billion cigarettes in several warehouses across Belgium did not result in uncovering corruption, yet according to law enforcement experts such a large shipment is unlikely to have crossed the border without any complicity (BE).

In some countries, smuggling takes place at sea or on rivers (BG, EL, ES, IT). In these cases, the smugglers disperse sealed packages with cigarettes near the coast, where small boats later collect the shipments. In such schemes, sometimes the corrupt border guards or customs officers inform smugglers of the patrolling schedules of border guards, so as to avoid detection. In countries like Italy and Greece, with thousands of kilometres of sea border, successful smuggling could also be attributed to the lack of capacity to effectively guard the extensive coasts.

Private sector

Several industries are particularly vulnerable to cigarette-smuggling-related corruption: transport, port services and duty-free shops. Several studies present evidence of collusion between smugglers and legal companies, as well as corruption. For example:

- *Transport sector*: research on cigarette smuggling in the Netherlands (Van Dijk, 2007) has shown that corruption involves company employees, usually drivers, in about 19 per cent of the cases. There were also smuggling cases involving managers or cargo planners.

- *Port authorities*: in a number of cases corrupt port or dock workers were arrested while engaged in smuggling schemes. These workers may cooperate with corrupt customs officers, or be used for the transfer of goods out of ports or duty-free zones and help avoid customs detection.
- *Duty-free shops*: the role of land-border duty-free shops in Eastern Europe until their closure in 2008, in particular in Romania and Bulgaria, has been noted in various studies (CSD, 2004b).
- *Retailers*: in the EU-10E, some small and medium-sized stores distribute illegal cigarettes (through corrupt store managers or sales staff), while in the EU-17 the same is done by some bars and coffee shops (Antonopoulos and Mitra, 2009) or even CD shops, groceries, haberdasheries and kiosks (Antonopoulos, 2008).
- *Private security guards*: doormen and security guards at big institutions like banks, or even government and court buildings, who know many of the staff, have been used for the retail distribution of cigarettes (BG).
- *Tobacco manufacturers*: the bulk of the commodity to be sold on the illegal market comes from this source. Tobacco manufacturers may appear as one of the parties suffering losses from the illegal cigarette trade. However, by turning a blind eye to smuggling, they are the main beneficiaries, since they indirectly use the cigarette black market as a ‘market entry strategy’. In addition, tobacco manufacturers ‘exploit’ the issues surrounding cigarette smuggling to pressure governments to reduce or avoid increasing cigarette taxes (Joossens and Raw, 1995, 1998, 2002).

Political corruption

This is allegedly limited to EU-10E Member States. No particular evidence was provided, although allegations were made about existing problems in Bulgaria, Lithuania, Poland and Romania (BG, LT, PO, RO). Political corruption is used:

- to influence customs in providing protection;
- to facilitate customs corruption;
- to provide protection to the private sector players involved.

Political corruption, especially in local governments, is more frequent in border regions, particularly in towns where cross-border smuggling provides a living for many families.

Police corruption

In countries where customs agencies lack investigative powers (e.g. BG, DK), the police become a more important corruption target for smugglers as well as distributors of illicit cigarettes. Throughout the EU, it is the police who enforce laws related to the retail distribution of counterfeit or smuggled cigarettes, and some interviewees stated that illegal cigarettes are generally a lower priority for

police inspections. This makes police corruption in this area largely unnecessary. On the other hand, as soon as illicit cigarettes become a police priority, for example in Bulgaria, the officers and patrolling areas (for instance, markets) where illicit cigarettes are sold, become targets of corruption. In Germany, for instance, the police very rarely arrest street sellers or even low-level whole-sellers of illegal cigarettes.

In Eastern Europe (e.g. BG), when police raids are successful, ad-hoc payments can be made to prevent or impede further investigations. High-level police corruption is usually related to political corruption, where investigations against large-scale smugglers are stopped under pressure from corrupt politicians or relevant intelligence is withheld.

Prostitution and trafficking in human beings for sexual exploitation

The links between prostitution and trafficking in human beings (THB) for sexual exploitation can be determined by the large demand for sexual services across the EU, the large profits involved and the relatively low-risk of the operations conducted. Historical, geographical, and specific prostitution market contexts in Member States affect corruption pressure related to THB and prostitution.

Historical and geographical contexts

In the former communist countries (EU-10E), prostitution markets re-emerged after the democratic changes of the early 1990s. The transition to market economies that followed resulted in high levels of unemployment and marginalisation of many vulnerable groups, leading to a surge in the number of women involved in prostitution domestically and, above all, internationally.² These, coupled with the demand for sexual services in the EU-17 and the larger profits earned from prostitution abroad, led to a substantial number of women being trafficked for the purpose of sexual exploitation to wealthier Member States.

In destination countries of THB, the type of corruption pressure exerted is affected by the legal status and regulatory framework of prostitution. In Member States, where prostitution is legal and regulated, corruption of local administration (DE, NL) or tax authorities (EL) is likely to occur, as some sex workers or brothels operate in the grey economy by avoiding taxes. Where certain prostitution-related activities are criminalised (e.g. profiting from prostitution in France, inducing someone into prostitution in Bulgaria, paying for sexual services in Sweden), corruption pressure falls primarily on police officers.

The geographical distribution of sex markets across the EU also influences the prostitution landscape and, consequently, the corruption pressure exercised. Large metropolitan centres (e.g. London, Amsterdam, Brussels, Frankfurt, Madrid, or

Paris), coastal tourist centres (e.g. Mediterranean or Black Sea resorts) or border areas, are characterised by high demand for paid sex. These centres and areas are exposed to high corruption pressure on local police officers, local authorities, and immigration officers (UK, NL, BG, EL, CY, ES, CZ, BE).

Market context

In most Member States, there are four main market segments for prostitution: the street, brothels, elite prostitutes and independent prostitutes. Although the four levels are often interrelated, the actors (prostitutes or criminal networks) in them are often different, as are the corruption targets.

- *Street and highway prostitution*: this is the most conspicuous type of prostitution and most directly controlled by the police. Low-level corruption of patrolling police officers for protection/racketeering is most common (UK, BG, FR, ES, DE).
- *Club prostitution* (brothels, massage parlours, etc.): low- to mid-level corruption of law enforcement is likely to be used to prevent raids and vice squad investigations (BG, UK, CY). Brothel-regulation-related corruption could also affect local government and tax authorities that enforce licenses or zoning laws (NL, DE).
- *Elite prostitution*: elite prostitutes are used as a corruption instrument by organised crime to gain influence over politicians, magistrates, and representatives of multinational corporations (FR, BG, DE, USA).
- *Independent*: the internet has provided an opportunity for some women to find clients and work independently as prostitutes. Little corruption seems to be involved, and organised crime, especially in countries where prostitution is legal, often does not control this sector of the sex industry.

The criminal groups and organisations involved may be small, sometimes working in collaboration, or part of larger criminal structures. Often, some of these groups operate remotely, with representatives in the supply country (typically in Central and Eastern Europe) controlling women and pimps. Cooperation with local criminal structures controlling prostitution and local ‘distribution channels’ (e.g. brothels / clubs / restaurant owners) is vital.

Corruption pressures

Corrupt exchange can take place at many points during the trafficking process, in the course of the constitution of a prostitution ring, as well as in the running of a legitimate or semi-legitimate commercial sex enterprise. [Figure 5.1](#) illustrates how, starting from the recruitment of prostitutes or victims (typically in the EU-10E, e.g. BG, CZ, PO, RO), and leading through the transport and the exploitation or ‘service-provision’ phases, private companies and public officials could be involved.

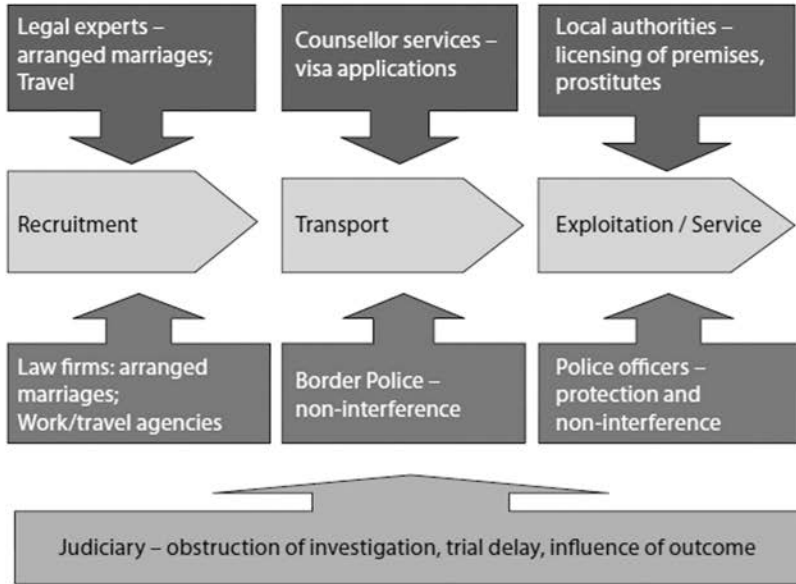


Figure 5.1 Corruption vulnerabilities within prostitution and THB.

In the sections below, the various forms of administrative, police, law enforcement and judicial corruption are discussed.

Administrative corruption

Administrative corruption is more common where prostitution is legal and regulated (DE, NL). In such countries, brothels or prostitutes may decide to conduct activities without the necessary licences, avoiding tax, and are part of the grey, rather than the 'black', economy (see examples in [Box 5.1](#)). Nevertheless, administrations could be corrupted for different reasons:

- *Avoid zoning requirements* (in countries with legalised prostitution certain areas cannot have brothels), licensing regimes, and the payment of taxes (NL).
- *Work permits*: labour bureaus are also a target of organised crime aiming to legalise the status of victims of trafficking (CZ).
- *Real estate*: concealing or changing the purpose of real estate operating as a brothel. In the Netherlands, municipal officials are bribed to change the classification of premises in the Red Light District purchased as 'residential real estate' to 'brothel' (NL).
- *Obtaining licenses* for bars and night clubs functioning as brothels (NL).
- *Visa fraud*: securing forged documents for trafficking victims to facilitate transportation. In some cases, visa fraud secures legal stays in the EU Member State where the non-EU national criminal group resides (BE).

Box 5.1 Administrative corruption

Staff members of the Belgian Embassy in Sofia in 1996 were bribed by an organised criminal smuggling ring, which led to the issuing of 250 visas to Bulgarian nationals, including many prostitutes. Subsequent evidence emerged that a senior diplomat had developed a network of front companies at home for making forged work visas (BE).

Staff at the French embassy in Sofia (BG) were implicated in selling an estimated 20–25,000 visas to Bulgarian prostitutes, and charges were brought against a former vice consul (US TIP Report 2001).

In the Netherlands, the municipal councils responsible for the enforcement of the administrative law concerning the licensing of ‘sex workers’ are often bribed by criminal groups to avoid payment of taxes (NL).

In Cyprus, where prostitution is illegal, trafficked women from Eastern Europe, Latin America, Southeast Asia and North Africa come to work in cabarets and bars on ‘artist’ visas. Intermediaries are used and consular officials may be bribed to turn a blind eye when issuing the ‘artist’ visa permits to foreign women (CY).

Political corruption

As indicated in the section above on political corruption, participants in illegal markets, such as prostitution or THB, have limited access to politicians in the EU-17. Evidence reveals, though, that political corruption, mostly at a local level in the EU-10E, is common (see examples in [Box 5.2](#)). Whenever it occurs, corrupt politicians ensure protection from investigations or prosecution (as already discussed in the sections on police and judicial corruption).

Box 5.2 Political corruption

In the past in Belgium there were two parliamentary commissions on organised crime and one on human trafficking. Political involvement in organised crime and corruption of politicians was to be discussed by those commissions. The parliamentary commissions, however, were abolished in 2003 after a politically sensitive report was issued. Magistrates were not allowed to speak publicly, fearing that they would lose their jobs. OC groups probably corrupted politicians on various levels but there is no hard evidence and cases to provide strong support of such claims (BE).

The Bulgarian Parliament passed a legislative amendment that became publicly known as the ‘Vanko–1 amendment’: named not after the legislators that initiated it, but after one of two well-known traffickers of human beings and pimps. The convicted pimp, Vanko–1, who was also a popular singer, was considered to have had undue influence on certain MPs through his lawyers (BG).

Investigations have also shown links between the Italian mafia and the Socialist Party in Belgium. In Belgium, Defence Minister Van Den Boeynants is known to have had connections in the 1970s with criminal groups operating escort services.

The use of escort services by political elites/royalties, notably Prince Albert (now King of Belgium), is often used as a blackmail tool by the criminal groups (BE).

In 2000, Melikhov, a member of the Russian–Georgian mafia, operating in prostitution, human trafficking, money laundering, as well as in the Antwerp diamond sector, bribed Belgian political figures to obtain Belgian nationality (BE).

The disparity of the levels of political corruption in Eastern and Western Europe can be explained partially by the fact that larger shares of proceeds from prostitution and trafficking return to Eastern Europe, often via laundering in the ‘white’ economy. ‘Ring leaders’ are often based in Eastern European countries, where they become local economic players and might have political links, or even political posts (BG).

Political elites at the local level in the EU-10E then become vulnerable to corruption pressure as they are more exposed to wealthy local businessmen involved in criminal networks dealing with prostitution and THB.

Across the EU, though, elite prostitutes and escort services are often used to corrupt political figures and provide criminal networks with protection from investigation (BG, DE, FR, NL). For the criminal networks running elite prostitution rings, access to politicians is either direct, or via businessmen that could be their clients.³

Police corruption

Box 5.3 Police corruption

In Lithuania, police officers have been involved in racketeering involving prostitutes and criminal networks. The prostitute would service a rich client and complain to the police officers that she had been raped. The police officer or a fake relative would show photos to the client as evidence and demand a pay-off (LT).

In a 2006 case, seven community police officers from the Paris suburb of Seine-Saint-Denis were sentenced to various prison terms for committing a number of crimes, including obtaining free services from prostitutes. In a different case in 2006, four police officers (three from Marseille and a higher level Commissaire from Carpentras) received sentences of between 1 and 4 years for having financed and operated at least two swinger clubs that also involved prostitution.

On 8 May 2008, the chief of the local police of Coslada (a Madrid suburb) and other 26 local police officers were arrested on suspicion of involvement in a corruption ring that involved extortion from prostitutes, bars and local businesses. On 14 May, a judge authorised detention without bail for 13 of the arrested officers (SP).

(Continued)

(Continued)

A recent case from Greece cited by an interviewee revealed the difficulty of drawing the line between police corruption and full-scale involvement in organised crime. The case involved four police officers who were arrested for their alleged participation in a sex-trafficking ring believed to have brought hundreds of women to Greece from Eastern Europe and the Balkans for prostitution. Two of the four had been previously prosecuted, while one was convicted and dismissed from the force after being found guilty of participating in extortion racketeering (GR).

Police officers in Germany make themselves vulnerable to blackmailing by visiting brothels as clients. They are then bribed into providing information to criminal groups (DE).

Across the EU, police corruption takes place at the low level of the law enforcement hierarchy, where there is direct exposure to prostitutes, pimps and brothels (see examples in [Box 5.3](#)). Different types of corruption pressure may be exerted, depending on the legal status of prostitution in the respective country and the level of prostitution (street level, club, elite). Brothels, ideally, provide a covert environment where corrupt exchanges can take place. The following are the most common reasons why criminals or prostitutes corrupt the police:

- In countries with liberal regulation of prostitution, police officers, responsible for enforcing the licensing regime, are bribed to ‘turn a blind eye’ on non-licensed prostitutes (NL).
- In countries that criminalise prostitution, corrupt police officers are essential for the operation of street-level prostitution – the most conspicuous type of prostitution.
- In countries criminalising profiting from prostitution, police officers are bribed to provide protection for brothels and other types of premises where sexual services are offered. Such corruption pressure is likely to affect police officers at a higher level to prevent investigations or ensure information (e.g. time and place) on police raids.
- Police officers are themselves involved in racketeering prostitutes, in return of sexual favours or payments (EL, FR, SP).⁴
- In some cases (FR, UK), police officers have been directly involved in prostitution, setting up and operating a brothel with Eastern European prostitutes (UK) and swinger clubs, that also involved prostitution (FR). In Greece, police officers were arrested for alleged participation in a trafficking ring; participation of police in trafficking networks is also evidenced in Bulgaria.
- Officers leak information on police operations or obstruct investigations for organised crime.
- Criminal networks bribe border control law enforcement to evade surveillance in the countries of origin of trafficking victims, such as Bulgaria.

- Acting on behalf of criminal groups, prostitutes blackmail police officers, a recurring trend throughout EU Member States (UK, NL, DE, BG). Recordings made of officers gambling or having sex with prostitutes is used to exhort information.

Judicial corruption

The judiciary is much less targeted by organised crime than the police or politicians. The objectives pursued are identical to those related to other illegal activities, namely avoiding investigation, influencing trials, receiving lower sentences. Judicial corruption is often linked to political corruption, as for example in some 'politically sensitive cases' involving members of the establishment, when prosecuting judges may obstruct or refrain from investigations.

Interviews revealed that blackmail involving prostitutes is a common technique to corrupt judges and prosecutors (BG, DE, NL). Organised crime, on the other hand, uses social, professional and political networks to influence the judiciary. The case study of Bulgaria, for instance, shows how prosecutors are involved in sub-networks of large local businessmen, local MPs, judges, mayors, city council members, law enforcement officers, all acting in concert to protect organised crime activities, including THB. A case in Spain demonstrated the connections between a judge and a criminal network, involved in prostitution and trafficking. The judge was suspended from the General Council of Judicial Power; later, however, the suspension was lifted (ES).

Private sector corruption

Human trafficking activities in EU Member States have been facilitated by the involvement of law firms, legal consultants and international employment agencies. Such firms and agencies may act as intermediaries between criminal groups and magistrates for the settlement of cases related to THB. Employment agencies, in their turn, recruit victims of trafficking through advertisements of unrealistic job offers. Moreover, advice provided by lawyers on marriages of convenience serves an important function in the trafficking of women (NL). Finally, transport companies (particularly bus companies) can be involved in smuggling both prostitutes and illicit revenues, with bus drivers being usually easy corruption targets (BG).

Illicit drugs market

Illicit drugs continue to be one of the prime activity and significant source of income for criminal groups in the European Union. Substances include cannabis, cocaine, heroin, amphetamine-type substances (ATS) and drug production precursors. Although estimating the market's size is challenging (see RAND, 2009), UNODC (2008) and RAND estimate that the EU's market of cannabis, cocaine, heroin and ATS yields between 55 and 100 billion euros at the retail level.⁵ Self-report drug use surveys show that consumption and market sizes range significantly across EU Member States:

- *Opiates*: from as little as 0.001 per cent⁶ to 0.005 per cent in most EU Member States to 0.015 per cent in Estonia (EMCDDA, 2010).
- *Cocaine*: from less than 0.1 per cent in Romania to 3.5 per cent in the UK.
- *Amphetamines*: from close to 0 per cent in Romania, Greece and Malta to 1.4 per cent in the UK.
- *Cannabis*: from 0.4 per cent in Romania to 14.3 per cent in Italy (EMCDDA, 2011).⁷

Opportunities for corruption of police and customs officers, therefore, vary significantly across Member States, not only due to the varying market size, but also to differences in national legislation or law-enforcement policies.

The cocaine market

According to the World Drug Report of UNODC (2009), EU countries consume about 250 tonnes out of the annual global output of about 800–1000 tonnes of pure cocaine hydrochloride (845 tonnes for the year 2008). In the EU, about 100 tonnes of cocaine are seized annually, around half (49.6 tonnes) in Spain. Respondents from Member States indicated that drugs-related corruption among customs officers is quite rare because a single officer or even a group of officers have very limited possibilities to provide a ‘safe channel for smuggling’. A successful import scheme would have to involve numerous teams from vertical and horizontal structures, and thus would become prohibitively expensive. It is much simpler to take into account the enormous volume of imports, the expected percentage of the shipments intercepted by the authorities, and include the likely loss in the overall price of cocaine. For instance, the control systems in ports like Antwerp and Rotterdam are so stable that it is easy to calculate the expected losses for an extended period of time. Another factor favouring the lack of corruption pressure on customs officers is that control in the internal borders of the Union is relatively light.

Interviewees outlined other systemic weaknesses exploited by cocaine trafficking networks. For example, drug traffickers intentionally overfill airport detention facilities with ‘swallowers’ (people who have swallowed cocaine for smuggling), expecting that customs officers, being busy in looking after the individuals detained, will abstain from stopping further people.

From the data about seized cocaine, it could be concluded that organised crime in Latin America and Europe lose from such seizures about 4.5–5 billion euros (re-calculated at retail prices). It is difficult, then, to explain why there are so few reported attempts to corrupt customs and coast guard officers in the major entry countries, such as Spain and Portugal. At the same time, other interviewees argued that shipments of more than one tonne of cocaine usually are sent through ‘safe channels’ (i.e. where high-ranking customs officers provide protection⁸). Furthermore, cases were cited (NL, UK) in which customs officers at airports were directly involved in a cocaine-smuggling network. On the other hand, traffickers may report rivals in exchange for an assurance that their own shipments

be left untouched (ES, NL, UK). At times, when airport staff are involved, traffickers are prepared to sacrifice their couriers in order to avoid any suspicion of possible involvement of these employees in the trafficking channel.

The EU's cocaine interception rate declined by 35 per cent in 2007 (UNODC, 2009). The main reason is that cocaine trafficking has shrunk in the old Member States, and drastically so in Spain, Portugal and France, and to a smaller degree in Belgium, Sweden and Italy. At the same time there is an increase in cocaine trafficking in the new member states – Central, Eastern and South-Eastern Europe.⁹ The decline in interceptions, therefore, might be explained with the higher corruption levels among the police force, border and customs services in the new member states.

In some countries (BG, CZ, EL, ES, HU, IT, PL, PT, RO), local criminal networks have established influence in the entertainment industry (e.g. bars, night clubs and other places where cocaine is on demand). Organised crime employs various corruption instruments, depending on the country. In countries where the police are responsible for exerting control over street distribution of drugs, the targeted group are police officers. In others where access to night clubs is controlled by private security companies, these become the objects of corruption along with club owners (ES, UK).

The heroin market

By a wide margin, most of the heroin that enters the European Union originates from the opium poppy fields in Afghanistan. The Netherlands and, to a lesser degree, Belgium, play an important role in the secondary distribution of heroin across the Union. For instance, the Netherlands and Belgium supply most of the heroin destined for the United Kingdom, one of the major consumer markets in Europe. In addition, France, Germany and Spain have observed over the years that a considerable part of the heroin seized in their countries is being supplied via the Netherlands and Belgium (Europol, 2007). Turkish criminal networks with ties with Afghanistan and the Netherlands, Belgium, France, Germany and the UK dominate the trade.

The big players in the heroin market (i.e. bosses of Turkish criminal networks) sell to traffic organisers who risk their own capital and hire 'mules' for transportation. Organisers of trafficking operation through the Balkan route, but also those operating through the Northern route, are aware of the potential losses and adjust their prices accordingly. The situation with wholesale storage facility owners is similar. The owners of such facilities are low-level players who, just like 'mules', know only middlemen, while the real drugs entrepreneurs remain unknown to them. Law enforcement usually targets this lower-level group without significantly affecting the market. Thus, in the countries with low levels of corruption, criminal networks incur higher losses from seizures and arrest and calculate this difference when establishing prices. In countries with high levels of corruption, the price of heroin is lower, because corruption expenses make losses lower.

Amphetamine-type substances

After cannabis, the most commonly used drugs in the European Union are synthetic drugs, particularly amphetamine and ecstasy. Over the last decade, the amphetamine market has experienced a serious reduction in the EU, to a larger extent due to the change in the subcultures of young consumers rather than to specific law enforcement actions.

Unlike other drug markets, the amphetamine markets are mainly supplied by locally based producers. In the EU, approximately 70–90 illicit production facilities are dismantled annually, with the largest numbers located in the Netherlands (47) (Europol, 2007). Other facilities have been uncovered in Belgium, Hungary and Poland, while smaller-scale synthetic production has been reported in Austria, Denmark, Estonia, Germany and Lithuania (Europol, 2007). In some cases, production facilities are located outside the EU, along its external land borders (BG). Reports reveal that the Dutch and, to a lesser extent, Belgian OC groups still dominate the major production of synthetic drugs (Europol, 2009).

Some interviewees argued that amphetamine production persists because drug producers in small towns are able to corrupt police officers who are often relatives or friends. On the street level, the police checks follow the same logic as with cocaine and heroin inspections.

Amphetamines and ecstasy are also known as ‘party drugs’ and, similarly to cocaine, are often related to corruption around dance clubs where they are usually distributed. Interviewees reported cases of both private sector (security company bouncers) and police corruption related to protecting drug distribution in dance clubs (UK). In some cases, police officers directly controlled who could sell drugs in certain clubs. In other cases, former police officers working for private security firms served as middlemen in providing protection from the police (UK).

Cannabis market

The cannabis market generates different types of corruption pressure towards the police and customs, depending on:

- the degree of tolerance towards cannabis use (e.g. the Netherlands);
- the size of the market: some countries, like the Czech Republic, Italy and Spain, have very high levels of consumption and tolerant policies, and practically do not investigate retail distribution.

In countries with high levels of corruption, the expenses for police corruption for street-level distribution is considered a necessary expense for the criminal networks. In these countries the police often racketeers not only retail dealers, but also consumers. In such countries the police and investigators may be receiving a regular income from criminal networks to tolerate the trade, or may even be involved in the distribution (BG). In such countries, the higher levels of law enforcement might also tolerate the corruption of the patrol officers, as they see

it as a harmless ‘incentive package’ to the employees. The problem is that criminal networks often use cannabis distribution as an entry point to recruiting officers into providing protection for other drugs as well (often leading to corruption also at higher-level officers).

In countries with lower levels of police corruption, and with more lenient attitudes towards retail distribution and consumption of cannabis, the corruption pressure is low. The efforts, there, are focused on upper wholesale importers and distributors. Undertaking difficult investigations involving retail distributors, where the law is rather murky, is generally avoided, as such investigations are likely to fail or, anyway, bring negligible benefits to careers. Investigations, therefore, usually focus on mid- to higher-level dealers, so that corruption risks are low.

The import trafficking of herbal cannabis and especially cannabis resin into the EU relies on an infrastructure similar to the cocaine one described above. Therefore, the corruption risks for cocaine describe above are more or less also applicable to the trafficking in cannabis.

Vehicle theft

With the economic crisis hitting much of the EU in 2008–09, new- and used-car sales significantly declined, which affected the market for stolen vehicles. For much of the 1990s, when most Eastern European countries had a huge demand for cheap vehicles, car-theft rings stole hundreds of thousands of cars and resold them in the EU-10E and former Soviet Union countries. In the late 1990s, with increases in living standards, removal of import tariffs on used cars, access to credit, and increased sophistication of anti-vehicle theft mechanisms and vehicle theft policies (e.g. Europol electronic databases), the market for stolen cars focused primarily on luxury vehicles or those that could be resold for parts. The EU-10E became less of a destination and more of an important trans-shipment point towards countries of the former Soviet Union or the Middle East.

Vehicle theft has become a rather complex criminal enterprise. Groups and networks involved in car-theft are usually involved in other criminal activities (drugs, credit-card skimming, counterfeit-currency distribution, burglaries, etc.) which gives them extensive access to other criminal networks. The typical car-theft scheme is composed of the following steps:

- Prospective buyers of stolen cars order a particular brand and model; they may be located outside the EU (mainly the former Soviet Union, the Middle East and Africa), but also inside.
- Car thieves work individually or in small teams, often coordinated within larger groups or networks; some are responsible for finding the vehicle, others for stealing it.
- In the meantime, an identical vehicle is found; this vehicle might have been involved in an accident,¹⁰ and its identification numbers and documents are taken. Other professionals (or car mechanics) are hired to forge chassis or

vehicle identification numbers and to forge the vehicle document, so that the stolen vehicle is given the identity of a non-stolen one (i.e. the one that has been in an accident).

- Mules drive the stolen car to a destination country; transport companies might be involved in driving vehicles across countries.
- Distribution or sale of the stolen vehicle can take place through a used-car dealership, mechanic shops, parking lots, or through direct sale.

Corruption and car theft

There are a number of points at which members of car-theft networks could turn to corruption to facilitate the stealing of a vehicle, its smuggling, and its subsequent sale.

- Information on identifying a vehicle to be stolen: corruption within traffic administrations could help criminals obtain information on the location (town/address) and victim from which a vehicle could be stolen. This access saves much time and effort, as once the vehicle is ordered from a potential buyer or middle-man, the car thieves could have difficulty spotting a particular model (BG, DE).
- Corrupt employees of car dealers, authorised shops, or even car factories, could provide software or other decoding equipment that allows the criminal group to steal a vehicle.
- Undermining/avoiding investigations: much like any other criminal group, car-theft groups that are investigated try to obtain access to information about ongoing investigations (BG, ES). Car thieves can also access information from corrupt police through drugs and prostitution networks.
- Corruption within the traffic police is needed if a stolen vehicle is pulled over in a regular traffic check. The mule could buy his/her way out of the check. Interviews with car thieves suggest this practice is common (BG, EL, HI, PO, RO).
- If the country of destination is not an EU Member State, customs corruption also plays a role, as stolen vehicles, particularly luxury ones, are subject to high import taxes. Thieves often further minimise their expenses by bribing customs officials or ensuring that no detailed customs checks take place. Customs usually are not linked to Europol's databases on stolen vehicles but could forward this information to the police. If a stolen vehicle is imported in the EU, or stolen vehicles are traded within the EU, car-theft networks often attempt to avoid VAT payments or import tariffs, and corruption of customs officers could again help.
- Registration of the stolen vehicle in the destination country could also involve corruption within the police administration (BG, ES).
- Corruption can take place in the process of distribution among used-car dealers. Used-car dealers could be bribed or collude into selling stolen vehicles (BG, ES, NL).

- Judicial corruption: the fact that ring leaders are often removed from car thieves or are associated with legal business structures (e.g. used-car dealerships or service stations) means that they sometimes enjoy a higher socio-economic or political status. In Bulgaria, for instance, many individuals at the top of international criminal car-theft rings are so far removed from the actual operations (and often have other legal businesses) that they enjoy easy access to judicial corruption, as much as any other white-collar criminal.
- Border police corruption: along the external eastern land borders of the EU, where stolen vehicles are driven into Russia, Ukraine or Belarus, border police could be bribed to avoid inspections. This type of corruption usually serves multiple purposes, as stolen vehicles are transporting other illegal commodities (drugs or small arms) (LT, EE, BG).

The organisation of vehicle theft shows how a criminal activity that is seemingly a low-risk or corruption-free activity still takes advantage of corruption networks developed in other criminal markets.

Extortion racketeering¹¹

Extortion racketeering takes place across the entire economic spectrum, from illegal markets and the grey economy into the legal economy. Across the EU, a variety of extortion racketeering forms exist: from control over criminal networks, to protection of immigrant communities or grey markets. The present study examined how and to what extent corruption plays a role in generating, facilitating or protecting extortion-racketeering schemes. There are important historical and demographic differences that have shaped the attitudes of victims and the police across the EU.

- In certain regions of the EU (e.g. Corsica, Northern Ireland, Southern Italy) extortion rackets have been in operation for decades.
- In the EU-10E during the 1990s, the crisis in law enforcement and judicial institutions, and the drastic reduction of security forces, left thousands of police officers or military members jobless. The unemployed turned to private security companies to fill the 'security gap', often resorting to protection rackets (CZ, RO).
- In EU-17 capitals, a big concentration of immigrant minorities from China, the EU-10E and the former Soviet Union were subject to extortion from fellow countrymen engaged in criminal networks and connected to powerful criminal structures in their countries of origin (DE, FR, UK).

The following socio-historical specificities determine the three main reasons for extortion racketeering and protection rackets:

- financing of independence/terrorist and irredentist movements (Corsica, Northern Ireland);
- lack of trust in a weak state (EU-10E, Southern Italy);

- isolation of immigrant communities;
- structure of the economy, especially retail trade: the influx of large multinational corporations and the modernisation of retail trade in the EU-10E undercut a significant part of the economic basis upon which extortion racketeering operated (small shops, street markets).

In analysing ‘corruption’ with regard to extortion rackets, it is necessary to bear in mind a conceptual difference. Many of the interviewees talked about the police victimising criminals by means of extortion. In other words, it was highlighted that in some illicit markets (e.g. the sex industry) law enforcers and offenders compete with one another. For this reason, ‘extortion racketeering’ should be seen as one particular aspect of corrupt police behaviour.¹²

Protection rackets are best known in the Italian context and have been described as part of the local socio-economic structures, or as a unique set of social arrangements that emerged as an ‘expression of a need for order’ (Falcone, 1992: 56). With reference to Sicily, Gambetta (1993) maintains that the mafia, at its core, is an institution that exploits and thrives on the absence of trust, by providing protection, largely in the form of enforcing contracts, settling disputes and deterring competition. Similar protection markets have been observed in parts of Eastern Europe, particularly in the 1990s, when law enforcement and the judiciary were weak, and businesses turned to private protection, including that provided by criminals.

It has been argued that the informal, grey, economy¹³ attracts private security firms because contracts in that economy cannot be enforced through the legal system and official law enforcement (Frye and Zhuravskaya, 2000). The necessity to hide business activity and to avoid taxes, regulatory fees or permits, makes entrepreneurs vulnerable to extortion and racketeering either by criminals or by corrupt police, tax and other government authorities.

Europol (2007) remarks that criminal groups often try to extort money from non-integrated minorities, who are marginalised and vulnerable. This is yet another type of racketeering taking place jointly with other criminal activities. Ultimately, the social and historical circumstances surrounding the particular racketeering activity determine the levels of corruption needed. These circumstances also determine the police perceptions and its level of direct involvement in racketeering.

‘Traditional’ protection rackets

In Southern Italy, the largest mafia business continues to be protection rackets. There is little corruption related to this type of extortion arrangements, as the victims rarely inform the police. The unwillingness of victims to come forward as witnesses makes police investigations and prosecution unlikely and, consequently, corruption is not needed to prevent trial and investigations (see examples in [Box 5.4](#)).

Box 5.4 ‘Traditional’ protection rackets

In one of the largest towns at the Balaton Lake, the local Roma-run criminal network from the surrounding villages was actively extorting money from street vendors. In 2010, 200–300 Roma involved in protection rackets marched down the main street, in an apparent show of force to threaten vendors. The local police were aware of this and did nothing, which left the local vendors with the feeling that institutional agencies were complicit with organised crime. The scandal came out thanks to media reports. No action was taken at the higher levels of the police force. When the media tried to interview the vendors they all denied the existence of protection rackets (HU).

There was an extortion scheme uncovered in Klaipeda, where organised criminals were using police officers to racketeer wealthy individuals. A prostitute, part of the scheme, would have sex with a man, gather some evidence of it, then complain to the police claiming that she had been raped. Then, either police officers or a fake relative of the girl would approach the man and propose to settle for a sum (LT).

In areas like Corsica (under the guise of a ‘revolutionary tax’), and until recently in Northern Ireland, protection rackets were so much ingrained in the local social structure/conflicts that, similarly, reporting to the police was uncommon. Furthermore, many police officers were sympathetic to the independence movements and were therefore passively corrupt, tolerating protection rackets. In both Northern Ireland and Corsica, however, local politics are intertwined with violent movements, and Sinn Fein and the various Corsican independence parties were said to be profiting directly from protection rackets (IE, UK).

Protection rackets in the legal and grey economies

Corruption is probably more common in protection rackets related to the grey economy. Interviewees mentioned that protection rackets are widespread in entertainment (restaurants, bars and nightclubs) or in the construction industry (RO, BG, CZ, EL, CY). Extortion ranges from demands for sums of money to co-ownership stakes in the businesses (EL).

The grey economy is one of the areas where lower-level inspectors from the ‘economic police’, as well as detectives, could become corrupt (RO). In countries with high levels of police corruption and low incomes, the police have a predatory disposition and look for alternative sources of income. In such cases, they might allow criminal groups to extort small businesses and receive a share of the extortion fees.

Extortion could also be carried out against legal businesses, and corrupt police officers could cover up the groups engaged in such activities for a fee. Such cases are usually categorised as blackmail or ransom seeking.

In many parts of the EU-10E (BG, EL, RO, SK), car theft is hand-in-glove with extortion. Victims whose cars are stolen are asked to pay a ransom for their car to be returned. In such schemes, corrupt police officers are often involved as intermediaries between the thieves and the owners, arranging ransom payments.

Extortion rackets and illegal markets

As Reuter (1983) has observed, illegal enterprises are unable to turn to state agencies for protection. Many academics (Gambetta, 1993, Varese, 2001, Reuter, 1983) have argued that mafias provide protection to unregulated markets or geographical areas where government law enforcement is feeble, corrupt or absent. Hence, racketeering in criminal markets is more common than in grey or legal markets (see examples in [Box 5.5](#)).

Box 5.5 Extortion rackets and illegal markets

In Cyprus, usually those extorting illegal immigrants are middle-men between them and the police. By middle-men it is meant that they act as police informants, i.e. tipping-off the police where there might be illegal immigrants and what sort of illicit activities they might be engaged in. The extortion usually revolves around the illegal status of immigrants, i.e. the ‘middlemen’ would often offer them legal advice through expensive lawyers, yet by tipping-off the police would also ensure the legal advice and all the fees paid are just wasted. All benefit in this case except the illegal immigrants – the middlemen score points with the police and get commissions from lawyers, the police can boast of successful actions, and the lawyers get their fees – but in the end illegal immigrants are deported (CY).

In towns like Jesenica (Slovenia), where there is a Bosnian Serb majority, there is a significant amount of racketeering occurring on a regular basis within the Bosnian Serb community. Police officers there take bribes to protect racketeers (SI).

One particular aspect of interest is the protection rackets that indigenous criminal groups impose on foreign-based groups. In these cases, local criminals could serve as intermediaries and provide protection from the police, rather than protecting them from other competitors (UK, IT).

In Italy, for instance, in some regions, foreign organised crime is independent from Italian criminal groups, because the latter are by now engaged in productive, entrepreneurial and financial activities. Other specific criminal sectors may have undergone a process of ‘succession’, whereby foreign groups occupy the space left by Italian groups who have moved on to operate elsewhere. In some cases, however, the succession is accompanied by the racket – ‘requests’ by Italian groups of a percentage of the profits made by the newcomers.

Box 5.6 Protection rackets in Northern Ireland

In Northern Ireland until 1994, terrorist groups on both sides – Republicans and Loyalists – were involved in protection rackets. That was a key way of raising funds. With the conclusion of the peace accord and the 1994 cease-fire much of the racketeering disappeared, although it had previously been deemed part of a ‘noble cause’. After 1994, paramilitaries, such as UDA or LDF, turned to protection and subsequently control of the drug trade, which coincided with a growing drug culture and rising incomes in Northern Ireland. They started to extort protection rackets from any incoming foreign criminals. For instance, entrepreneurs who intended to open a brothel in Belfast needed protection at the local level, and this was provided by ex-paramilitaries. The latter also had connections with law enforcers dating back to the pre-1994 period, therefore they could act as intermediaries in corrupting officers (UK).

Similarly, while prostitution networks from Eastern Europe operate on the streets of cities like Marseille, or provide women to cabarets and bars in Paris or Bordeaux, the street ‘posts’ or cabarets are controlled or racketed by local criminal elites. The French and Spanish case studies also provide a number of examples of direct police rackets on prostitutes. Often this is in addition to protection rackets that prostitutes already pay to criminal groups. Therefore, while the police are paid to ‘look the other way’, the criminals are paid to provide protection from other criminals (BG).

In Germany, Turkish and Polish groups have little connection with upwardly mobile social groups and therefore much less access to corruption (DE). Instead, they rely on their symbiosis with local criminals. In the UK, former IRA-turned-criminals from Northern Ireland have played a similar role of protection rackets from the police (see [Box 5.6](#)).

Minorities and extortion racketeering

Interviews mentioned extortion of small, immigrant-owned businesses in countries with significant concentrations of minorities and organised crime from their country of origin. The immigrant communities mentioned by interviewees included: Middle Eastern (DE), Russian/Ukrainian (CZ), Chinese (UK), Western Balkans (Bosnians, Montenegrins, Kosovars, Serbs) (SI). As in other cases, because victims usually do not report the crime, there is little need for corruption to prevent investigations.

Notes

- 1 Illicit cigarettes can be either smuggled from abroad or illegally produced within the EU. They can be either ‘illicit whites’ (little-known brands), counterfeit or genuine products that are smuggled from low-priced towards higher-priced countries.

- 2 In Bulgaria, within two decades after the fall of the regime, between 25,000 and 30,000 women were involved in prostitution annually, compared to a few hundred before 1990 (Bezlov *et al.*, 2007).
- 3 In the USA the example of former New York State Attorney General, Elliot Spitzer, who later became governor of New York, is a well-known case.
- 4 A recent study of prostitution in Chicago revealed that around 3 per cent of all sex services provided were 'freebies' to police officers (Levitt and Venkatesh, 2007).
- 5 This estimate excludes meta-amphetamines and precursors.
- 6 Share of adult population (15–64) admitting to using this drug during the past 12 months.
- 7 The data are from different years.
- 8 Interview with a Head of a Drugs Department in an EU Member customs who asked to remain anonymous. According to him, 'even if these attempts to pay for a 'safe passage' are not successful, they are recurring and certain customs officers would take the risk, get 2–3 million euros and then retire'.
- 9 The registered decline in cocaine interception rate spans over a short period of time and the information is fragmented so that no realistic analysis could be made. The reason for this change is still unclear, bearing in mind that the increase in bulk and retail prices in the EU is insignificant in comparison to the USA (World Drug Report 2009, UNODC).
- 10 There are numerous other possibilities to find a vehicle whose identity could be stolen.
- 11 Extortion is often defined as 'the unlawful demand for property or money through the threat of force'. As such it has long been an entry-level activity both for individuals embarking on criminal careers, and for collaborations of criminals seeking to establish a monopoly or 'protected enclave' (Arlacchi, 1986).
- 12 As in other cases (e.g. police officers distributing drugs), whether this sort of corrupt behaviour should be seen as 'corruption' or as a 'police crime' is a matter of interpretation.
- 13 The list of 'grey markets' is long: retail trade, construction, street markets, restaurants, scrap business, taxis, transport companies, construction, 'night-time economy', etc. In Member States, where prostitution operates on the fringes of legality, the sex industry is also in effect part of the grey market. Some industries that attract proceeds of crime, such as the real estate sector, can also become vulnerable targets.

Part II

Case studies

6 Bulgaria

Corruption and organised crime in flux

Tihomir Bezlov and Philip Gounev

Over the past decade, the concept of ‘organised crime’ in Bulgaria has become a universal metaphor used to explain the politics–business nexus, as well as economic and corporate crime. Similarly, public sector corruption is used to describe anything from the underdeveloped and ineffective state institutions to the constant political scandals in the country. The complexity of this task lies in the fact that the scale of corruption that has permeated public and private sectors in Bulgaria since the early 1990s is so vast, that an exhaustive account implies a much more comprehensive analysis than the present chapter aims to do. It is not an overstatement that any ministry has been targeted in one way or another by organised criminals: from the Ministry of Culture (in relation to the trafficking of antiquities), to the Ministry of Environment and Water (in relation to various concessions and construction projects), the Ministry of Agriculture (fraudulent land swaps, EU subsidy fraud), the Ministry of Economy/Energy (rigged privatisations), or the National Revenue Agency (VAT or other tax frauds). As any ministry controlled some sort of state assets at the end of the 1990s (including various real estates), or tendered public contracts, criminals used corruption to take over these resources. The present chapter focuses on four key aspects in which criminals use corruption: on political, judicial, police and customs institutions. The corruption of these four institutions provides the backbone which, on the one hand, facilitates organised criminal activities, and on the other hand gives access to corrupting all other public spheres.

One feature that should be kept in mind is the fairly small size of the economic, political and professional elites in Bulgaria. In 1990 only about 8 per cent of the adult population held advanced degrees, and the top economic and political elites numbered a few hundred individuals. Most members within informal professional social networks (e.g. legal or finance professionals) and within the regional sub-networks know each other.

A meaningful discussion of how organised crime uses corruption in Bulgaria should begin with an overview of its recent history and a review of the current state of the institutions affected. Before 1989 there was little that could be described as organised crime in Bulgaria – markets for illegal goods, such as drugs, were negligible.¹ To address corruption, the Communist party created

various control mechanisms utilising its own structures, including the Ministry of the Interior. All major state institutions like the police, customs, prosecution, courts and local political figures were subject to systematic open or secret surveillance and, when necessary, investigation. Violations at the middle and high levels were severely punished, although lenient treatment due to family ties or cronyism was often allowed. A degree of tolerance was shown towards everyday corruption at the low level (e.g. money given to traffic police officers for small road violations, bribes for the supply of goods in short supply, etc). At the same time nepotistic and informal networks played a major role (Ragaru, 2003). In these networks, the currency was not money but favours and loyalty to one's patrons. This model's roots can be traced to patriarchal family relationships in villages, as Bulgaria had remained predominantly rural until the mid 1950s.

The social and economic foundations of organised crime in Bulgaria were largely laid out during the transition to market economy (1990–2001). Several parallel processes were under way during this period:

- The privatisation of close to 100 per cent of state-owned assets in the industrial, service and agricultural sectors. For criminal entrepreneurs, the privatisation process was not only a way to launder criminal profits, but also an opportunity to acquire state-owned enterprises at extremely low prices, via rigged privatisation deals, usually in exchange for kickbacks to government officials.
- Cross-border smuggling of consumer goods, catalysed by the *embargo* (1992–95) on imports of oil and other products into neighbouring Yugoslavia, remained the main source of criminal incomes in Bulgaria almost until the country joined the EU in 2007. The avoidance of customs duties by corrupting customs/and other law enforcement officials was the main tool used by criminal groups to carry out their activities.
- The collapse of the law enforcement and criminal justice system (CSD, 2006), and the chaos ensuing from the transition to a market economy, gave way to a large grey economy, which in turn provided a favourable ground for protection racketeering – the third significant income source for criminal groups (Gounev, 2006; Tzvetkova, 2008; Petrunov, 2006; CSD, 2004a).

The present-day organisation of markets for illegal goods emerged following the gradual disappearance of protection racketeering groups in the 1997–2000 period. A great number of criminal entrepreneurs from the 1990s, referred to as 'oligarchs',² managed to enter the legitimate economy, gaining the opportunity to continue most of their activities undisturbed by law enforcement.

The amalgam of 'organised crime' with 'white-collar crime' presents one of the main challenges in definitional terms. While in the West European/American tradition, white-collar crime is often viewed as separate from organised crime, in Eastern Europe white-collar offenders are often involved, or have been involved, in the distribution and delivery of illegal goods and services. The transition from a planned to a market economy brought radical shifts in the social

texture and blurred the boundaries between ‘the underground’ and ‘the elite’. Criminal structures were transformed into legal business entities, and criminal bosses became legitimate business owners.

The social background of present-day criminal entrepreneurs is important not only because it explains their capacity to carry out criminal activities, but also because it explains their access to corruption as a tool to carry out such activities:

- ‘Power entrepreneurs’, or *groupirovki* (i.e. ‘power groups’, as they are known in Bulgaria and Russia), whose overall activity was based on protection rackets, debt collection and business arbitrage through the use of violence (under the guise of private security companies – PSCs): these groups were made up of former sportsmen (e.g. wrestlers and boxers), employees of the Ministry of Interior and ex-prisoners.
- ‘Black merchants’ are entrepreneurs who took advantage of the shortages of various consumer goods in the early 1990s. Later they developed smuggling channels and informal distribution networks, thus avoiding customs duties, taxes and fees.
- ‘Political investors’ were communist-party functionaries-turned-businessmen, directors of state-owned enterprises. In the early 1990s they focused on rigging privatisation deals and smuggling, while at later stages they shifted their target to corrupting public tenders. As the resources that political investors controlled grew and as they consolidated their businesses, they created mega-business structures and spread across various industries. At that point they began to be described as oligarchs. In recent years, their ambition has been to monopolise the most profitable industries through a set of corruption and clientelistic methods. At the local level, the aim was to control a whole region or town. In many cases, several local families control the whole local economy and naturally become political investors. Their activities would normally be described in EU-17 as white-collar crimes.

Political corruption

At the beginning of the 1990s, the democratically elected political elites in Bulgaria controlled over 90 per cent of the national wealth (including state-owned enterprises and public property). They engaged in quickly transferring this wealth into private hands. As in other countries in Eastern Europe, the institutions of political democracy (parties, political movements, trade unions, etc.) were completely undeveloped. The major political parties³ had a very limited number of professional politicians capable of managing ministries, state agencies, or parliamentary committees. Even the Socialist party, whose political elite came from the old Communist party, found it difficult to recruit capable bureaucrats for key government posts.

In addition to lack of experience, there was no legal framework regulating the financing of political parties. Criminal and legitimate entrepreneurs alike quickly filled this gap by supporting individual politicians and parties. Such ‘investors’ in

political parties were not even concerned which formation would be in government and had little interest in ideology. Political investors usually diversified their investments addressing parties and politicians across the political spectrum.

While in the 1990s the main objective was the ‘redistribution of state assets’ (i.e. privatisation), with the end of the privatisation process around 2001, attention turned to *privileged access* to public tenders, concessions, EU funding, public real estate (including fraudulent swapping of high-value public real estate for that of lower value), licensing of business activities, or favourable treatment by competition authorities (protecting monopolies). Criminal entrepreneurs use the following models to take advantage of their influence on political authorities.

- *Recruitment decisions.* Usually, with the change of government all senior administrative staff, such as directors of state agencies, heads of departments at ministries, and regional directors, are replaced. The newly elected officials come from the social networks of the most influential politicians. Appointments are made after negotiations among key party representatives and influential businessmen. Often the support or veto of businessmen from the personal network of key politicians is crucial.
- *Protection of the status quo.* Criminal entrepreneurs/oligarchs operating at the local level often threaten their own employees or community members (especially in more closely knit Roma or Turkish neighbourhoods) into voting for a specific political party. In return, politicians ensure either protection from prosecution or access to government contracts.
- *Influencing legislation decisions.* MPs are targeted with a view to passing, changing or blocking certain pieces of legislation for the benefit of a criminal structure or business. A case in point is the public scandal that resulted from a 2006 amendment to the Penal Code provisions related to human trafficking. The changes were introduced by certain MPs who had alleged relationships with two well-known convicted traffickers, who in turn received minimal punishment. Similarly, criminal interests affected the changes in the laws on gambling, duty-free shops (used to smuggle excisable goods), cultural goods (related to smugglers of antiquities), forestry (related to illegal logging), and the environment (organised theft of scrap metal).
- *Influencing government regulatory decisions.* Influencing changes in ministry policies, relating to internal rules, tariffs, etc. is much easier to accomplish, because such policies are not subject to much public scrutiny. For instance, small changes in the listing of goods in a customs tariff can bring significant advantages to the agent who ‘sponsors’ the change. These changes are made either by agreements with the party leadership, or with certain lobbyists, or even individual MPs who might add a word or rephrase an official regulation in order to create an opportunity for criminal or financial benefit.
- *Prevention of control.* This consists in an agreement at a high political level whereby the activity of certain criminal entrepreneurs is not subjected to law enforcement control. The respective officials from the controlling authorities

(e.g. tax, police or customs) are informed of the agreement, and they make sure the entrepreneur is not troubled by any audits or investigations. Certain business groups and companies are publicly known as untouchable and the auditors never approach them. With the 2009 change in government, some of the ‘holy cows’ of the 1990s in the alcohol and oil sectors, along with large-scale tax-fraudsters, were brought under government control for the first time.

- *Direct involvement of organised crime in politics.* At the local level, criminal entrepreneurs may be active in the political sphere. As a rule, the lower the level, the more direct the political involvement of organised crime. Sometimes notorious offenders become mayors or city councillors.⁴ In several larger cities, local power is practically controlled by criminal entrepreneurs and business groups through indirect participation in local politics. This trend started in 1999 and climaxed during the local government elections in 2007. Cases of election coalitions arranged by criminal entrepreneurs and various schemes for attracting mayors and city council members were revealed in an independent study where this phenomenon was aptly called ‘mayors on lease’ (Tzoneva and Georgiev, 2008).

Judicial corruption

Since 1991, two simultaneous trends affecting the judicial system have been observed. First, political intervention has resulted in close interdependence between the magistrates, on one hand, and the political and business networks, on the other. Second, specific internal client networks have emerged within the judicial system. Political influence has been exercised through the Supreme Judicial Council (SJC) – the institution responsible for the management and control of the judicial system⁵ and for the safeguard of its independence. Gaining control over the SJC has become a priority for every political party that has come to power after the Constitution of 1991 was adopted. In some cases, changes in the law have been made so that members of the SJC can be replaced at the beginning of the mandate of a new government with magistrates close to the new ruling party. Magistrates return the favour when political or business disputes arise or even when criminal bosses are prosecuted.

The small size of the judiciary, numbering about 1,700 prosecutors and 2,300 judges, makes it a relatively small community at the local level, with a strong sense of solidarity among its members. Judicial officials are loyal not only to the politicians who have helped them advance in their careers, but also to fellow members of the magistracy who refrain from criticising their colleagues. Information regarding these mechanisms was released during the scandal surrounding the selection of the Chief Justice of the Sofia City Court (Bossev, 2009).

The symbiosis of organised crime and prosecutors has been a fact since the early 1990s, but it reached its climax between 1999–2006 (Hristov, 2002). During that period prosecutors at the very top of the professional hierarchy were found to act in collaboration with organised crime by blocking criminal cases, participating in criminal acts and even managing criminal networks. Despite changes at

the top level of the institution and the sharp increase in prosecutors' salaries after 2006, old ties with organised crime, in particular at the local level, were often preserved. Attempts to replace corrupt local prosecutors are often blocked at the SJC level through a network of magistrate and political cronies.

The model of interdependence between prosecutors and organised criminals also changed. While before 2006 prosecutors were paid bribes, either in cash or with other material assets, under the new model they tend to become part of business networks. Prosecutors get involved in regional sub-networks of large local businessmen, local MPs, judges, mayors, city council members, law enforcement officers, representatives of the Commission for repossession of unlawfully acquired property, officers from the National Revenue Agency and the Customs Agency, the Health Insurance Office and other state institutions.

The courts are also targeted by organised crime, although to a lesser degree than prosecutors. The most frequent cases involve refusals by judges to authorise the use of wiretaps, refusals to issue arrest warrants, dismissals of cases for lack of evidence, and most commonly, delays of trials. Without formally breaking the law, a judge can indefinitely postpone any trial for technical reasons (choice of new attorney, illness of a witness or defendant, etc.).

Another form of corruption of judges manifests itself through the provision of lenient penalties. One of the most famous cases is the 'Opitsvet' affair (Opitsvet is a village in western Bulgaria, where workshops for illegal production of drugs were located). After first and second instance courts had found the defendants guilty, a Supreme Judge ruled in favour of the defendants claiming that 600 kilos of amphetamine had been used for the mere purpose of chemical experiments. After this ruling the judge retired, and there were speculations in judicial circles as to the amount of the payment he had received.

The Supreme Administrative Court is also suspected of corrupt practices. In smaller towns judges are part of local sub-networks and convictions of local criminal entrepreneurs are hardly possible. Examples of this practice are the cases of the Galev brothers in Dupnitsa or Koce-Mace⁶ in Petrich, where, in the words of an interviewee, 'if a magistrate (either a prosecutor or a judge), ruled against a well-known local criminal entrepreneur, he and his family would have to leave the town'. In this context, at the regional level a ruling may be a voluntary or a forced favour. At the same time, there are small towns where cash payments to judges are widespread. Most often these are towns close to the national borders where a lot of trans-border criminal activity takes place.

Another approach of organised crime is to find a small town court that would pass a favourable decision on a certain matter. Unlike large cities, where cases are now randomly assigned, in smaller towns there is usually just one judge who deals with all the cases. An example of this practice is the small town of Peshtera (with a population of 21,000) where a judge used to change the names of convicted criminals, thus in effect clearing their criminal records (Nezavisim.net, 2005).

Large law firms are another factor in judicial corruption networks. Oftentimes former judges, prosecutors and investigators join law firms as attorneys and may

become middlemen between the criminals and the magistrates. Usually, lawyers pay bribes to magistrates who are known to be amenable to such practices. In large cities, young magistrates are initially ‘tested’, and if they refuse the bribe, the attorney is under no risk as such offers are rarely prosecuted. The most common modality involves a family working together, where one of the spouses is a lawyer and the other one is a prosecutor or a judge. The attorney would get clients and easily win cases even when the other spouse may not be directly involved in those cases – yet would still be familiar to the local judges’ community, so that the attorney’s clients would get favourable treatment in court.

Another type of network is made up of former colleagues. In Sofia, for instance, so called ‘black attorneys’ (CSD, 2003: 29; Bezlov *et al.*, 2007) become ‘stars’ by defending big criminal bosses and look for ways of directly influencing judges. Among such star attorneys there are a former consultant to the Parliament’s Judicial Committee, a former judge in the Sofia City Court, and a former Minister of the Interior. Big corporate law firms are similarly involved. They rarely lose cases as they employ former magistrates with large personal networks. Often such firms also attempt to influence the appointment of magistrates, or exert influence over legislators to change various laws in favour of their clients.

Police corruption

The Ministry of Interior (MoI), which controls a number of police agencies, is the institution that has the broadest responsibilities and power with regard to organised crime.⁷ Institutions charged with internal security are isolated from other professional and social groups. This was particularly the case during the communist era, and often led to the recruitment of new police officers from families of active or retired police officers. This model created family and crony networks, where personal contacts and favours were a major resource. Only in elite police units were meritocracy principles applied. Corrupt officers often rely on networks of ‘negative social capital’, which they use, for example, for spreading rumours, starting alleged corrupt investigations against honest officers, or feeding misinformation relating to their work. Such networks may play a significant role in police officers’ career advancement.

The transition to a market economy preserved and even reinforced the subculture of exchange of favours and nepotistic networks. At the same time, due to frequent political changes, the former loyalty to the ruling (Socialist) party withered away and was replaced by links with the sub-networks of the new political elites. While in the communist period the police network was deliberately isolated from the political elite (the *nomenklatura*), in the new social order the police built up contacts with all political forces as a means of enhancing job security and career advancement. At the same time, the transition placed the Ministry of Interior structures in a state of constant financial constraints and shortages, such as low salaries, lack of payment for overtime served, delay of salary payments during crisis periods, and so on. As a result, the behaviour of police officers became the subject of a new, parallel system of norms and values, as they were forced to find

additional sources of income (some unlicensed and some outright illegal). Officers started taking second jobs in private security firms, and, abusing their official status, developed a whole new system of obtaining additional income while performing their regular duties. The most significant sources of income were bribes for the traffic police and for street patrols (who dealt with petty crimes and misdemeanours). These small bribes may add from 50 per cent to 300 per cent to officers' salaries. The practice has become widespread due to severe peer pressure, to the point that any officer who does not adapt is isolated and ostracised.

Using Van De Bunt's four categories, in Bulgaria the 'vultures' model⁸ was predominant for a long time, both in the regional structures (local police departments, district and regional headquarters), and in the special departments of the Ministry of Interior (those dealing with organised crime, economic crimes, wire tapping, internal affairs, etc.). The managing officers controlled a system of redistribution of income at the higher levels: the lowest ranking officers would share part of their bribes with their supervisor; in turn, the supervisor would share with his superior officer, and so on.

Systemic corruption affecting an entire police department has become in recent years an exception rather than the rule.⁹ The key reasons for this are rising police salaries, intolerance to such blunt corrupt practices from the top level of the MoI, and complaints from citizens and employees of other agencies (which quickly attract media attention). The 'vultures' system of paying upward has remained in existence only in some of the most infected district offices in Sofia, in some of the largest cities and in the resort towns of the country. A more typical case nowadays is that of supervisors allowing subordinates to acquire additional income (for instance from prostitutes) without taking any payments from them. Supervisors don't need these payments because they have their own sources of income (e.g. from local criminal bosses/white-collar criminals).

The argument that remnants of the Communist senior elite at the Ministry of Interior created and indirectly managed 'organised crime' at the beginning of the 1990s (Petrunov, 2006) is not persuasive. Rather, the symbiosis between organised crime and law enforcement seems to have taken place in a much more disorganised fashion (CSD, 2004a). The political changes at the beginning of the 1990s caused the restructuring of the Ministry of Interior followed by a wave of downsizing of the police force. Some former officers then found jobs with companies involved in criminal or illicit activities. Familiar with the inner workings of the MoI, these individuals knew how to avoid prosecution. They used their skills and knowledge and their networks of colleagues and friends who retained their old jobs to pursue illicit activities. The new criminal entrepreneurs offered favours (such as job positions for a relative, colleague or friend) and payments to law enforcement officials aiming to integrate them in criminal networks. Another form of collaboration involved offers of information leading to the successful investigation of a certain criminal incident.

In recent years, bribery has affected all levels, from the very bottom of the police establishment to the top levels within the MoI itself. The most widespread

form of corruption within law enforcement is the direct or indirect payment for various favours. Organised crime is less interested in low-rank police officers, who cannot offer many of the services it needs; however, various forms of cooperation have emerged. For instance, payments are made to street officers for not 'disturbing' prostitutes and their clients, not sanctioning trade in illegal alcohol and cigarettes, or not patrolling areas where drug dealing takes place. A more active form of cooperation consists in the deployment of street police officers for security or delivery services. This form is used when drugs or illegal excise goods are transported, when cars are stolen or when prostitution premises require protection.

In smaller towns, the prevailing method involves the granting of a favour or some payment in kind. If a police officer is loyal to the local criminal bosses, he may get daily 'extras' like cheaper food in a restaurant, help in finding a job for his relatives, or an opportunity to become part of a local business. At higher levels, deals may take a different form. For instance, district drug bosses in large cities have agreements with the deputy directors of the respective district police department or the heads of criminal investigation groups. In Sofia, the borders of drug distribution districts coincide with the borders of district police departments (CSD, 2003; Bezlov *et al.*, 2007). Similar arrangements are observed in the sex industry and in the market of illegal excise goods. The role of law enforcement at this level is to cover up illicit dealings, to warn if a counteraction is planned, or to appoint an official capable of blocking investigations. Middle-level officers then receive regular payments for the services performed.

In smaller towns, high-ranking police officials often have direct or indirect connections to influential criminal bosses who are engaged in criminal or legal markets, or participate in a national criminal network. A widespread practice for police officers, prosecutors, judges and tax officials is to own significant shares in companies, hotels, restaurants, etc. Officials at the highest levels, like directors and deputy directors of special services or directors of regional police headquarters, are usually part of the networks of well-known influential entrepreneurs. One example is the case of a former Deputy Director of the Main Directorate for Combating Organised Crime. Leaked wiretap transcripts showed that he, together with other senior police officers, had held meetings and arranged for the protection of one of the largest producers of alcohol in the country. At the highest level of organised crime, however, where illicit entrepreneurs and oligarchs are involved, partnerships are established with key politicians. A case illustrating such partnerships concerns the secret meetings held between the Galev brothers (based in Dupnitsa – see above) and the former Minister of Interior, who was forced to resign when the meetings became public knowledge in 2008 (Gounev and Bezlov, 2009).

Customs

The embargo against the former Yugoslavia and the cross-border smuggling that went on in the 1990s turned the Customs Agency into one of the most politically

significant institutions (CSD, 2004b). The Agency has for many years been identified in public opinion polls as by far the most corrupt state institution. Like magistrates, customs officers constitute a small professional community (numbering about 3,000 employees), hence they tend to develop a strong social network. They do not have any police or investigative powers, so the nature of the corrupt exchanges in which they are involved consist in various forms of customs fraud facilitation. Unlike police officers, who need to 'hunt' for their victims to earn additional income, customs officers operate on a purely 'market' principle: they provide a service. The officers of the Customs Agency are involved in complex, multi-layer corruption mechanisms that serve thousands of people, from illegal traders and bootleggers to legitimate companies and criminal networks. Surveys attempting to shed light on this phenomenon (CSD, 2000, 2002a, 2002b, 2004b) cited low salaries, the large dimension of the grey economy (reaching over 50 per cent during the crisis of 1996–97), lack of control mechanisms in combating corruption and politically motivated appointment of personnel.

The emergence of so-called *brokers*, or officers who are not high in the agency's hierarchy but can act as middlemen, is a new phenomenon in the customs community. Entrepreneurs look for their services when they have a problem, and brokers can solve it by relying on the size and effectiveness of their networks. They are able to provide these services only because their networks overlap with other networks: those of 'power entrepreneurs', police officers, magistrates, and, most importantly, of 'clients in possession of goods'. When Bulgaria joined the EU it is estimated that there were between 20 and 30 'brokers', usually rank-and-file or former employees of the Customs Agency, who exercised stronger influence than the directors of regional headquarters. They are currently the main channel through which all major criminal networks operate.

With every change of government, big criminal entrepreneurs try to promote their own candidates as Director of the Customs Agency, deputy directors, and heads of key departments. Even if they cannot secure the appointment of their candidates, the practice of newly appointed directors is to look for compromises with the oligarchs and to avoid audits of the companies that make up their network of friendly businesses.

Regional customs directors are forced to perform a more difficult balancing act. On the one hand, they have to comply with the average national requirements for the collection of revenues. On the other hand, they have to meet the demands of local criminal bosses. As pressure from the top intensifies, regional customs directors, in their turn, exercise pressure on their criminal clients. In general terms, it can be suggested that corruption pressure on the customs¹⁰ is driven by the small size of the national market and the open nature of the Bulgarian economy, with imports and exports playing a decisive role in the success or failure of all types of businesses in the country. In the 1990s, over 300,000 people made their living by crossing the border with suitcases of goods such as clothes and cheap accessories and selling them at a higher price in a neighbouring country (so-called 'suitcase trade'). Organised crime took advantage of the same weaknesses in the

operation of customs that allowed suitcase merchants to make a living by daily crossing the border. Instead of mere suitcases, however, large companies were importing train-loads and ship-loads, avoiding any customs fees and taxes.

The most common imports for organised crime were the commodities in short supply on the internal market (cooking oil, sugar, etc.) and excise goods (alcohol and cigarettes). The smuggling of excise and consumer goods, from food to luxury cars, became the main engine of the market economy. Criminal entrepreneurs earned their highest profits from the smuggling of natural oil products into the former Yugoslavia during the embargo. Changes in the economic and political spheres reduced these illicit opportunities, and the shrinking of the black and grey markets, along with the arrival of multinational companies, had a significant effect to that end. Bulgaria's entry into the EU in 2007 also contributed to this process, as over 60 per cent of exports/imports to and from EU countries are no longer subject to customs control.

Despite all this, some very important sources of income for organised crime still remain under the control of customs: namely the Chinese and Turkish imports as well as excise goods. The equalisation of excise tax¹¹ on alcohol, cigarettes and oil products resulted in steep increases in prices, making smuggling and black market sales very attractive.

A typical example of 'looking the other way' is the case of alcohol producing companies. In 2004, such companies paid a 112.9 million euros excise tax,¹² while in 2006 the figure declined to 25.9 million. At the same time, marketing surveys indicated that the consumption of liquor had actually gone up. The only explanation for the decline is that, following the increase in excise tax, companies turned to smuggling alcohol, using fake 'excise-paid bands', or selling alcohol illegally. At the same time, no one in the Customs Agency raised the question of uncollected revenue from excise tax. Furthermore, the President and the Prime Minister attended the opening ceremonies for the new facilities of the two largest producers of alcohol, responsible for almost 60 per cent of sales of spirits in the country. A similar case involved monopolistic oil producer Lukoil. In 2011, it emerged that since the company had been the sole beneficiary of the privatisation of oil refinery in Bulgaria in 1999, Customs had never installed metering equipment or monitored the quantities of oil processed and sold by Lukoil. Meanwhile, the illicit oil sold at petrol stations reached 50 per cent, and there were strong suspicions that tanker loads of oil were being smuggled in and out of the refinery every year.

The influence of organised crime has been somewhat diminished by a series of reforms at the Customs Agency. The introduction of an electronic system for real-time processing of imports and exports, the setting up of mobile groups for control inside the country, and the adoption of special anti-corruption measures targeted at customs officers (i.e. declarations of income and personal property and limitations on business activities) have had a positive effect. The more active role of the inspectorate and the hiring of foreign consulting companies to enhance the analysis and control of revenues have also contributed to more transparent customs operations.

Conclusion

The capacity and the willingness of Bulgarian organised criminals to use corruption since the early 1990s have changed but remain strong. In the early 1990s the dominant position of former security and police officers in organised crime provided a strong base from which law enforcement authorities could be easily influenced. The isolation caused by the wars in the former Yugoslavia, together with the economic crises that resulted from the ill-conceived transition to the market economy, weakened the state's capacity to counter the emerging organised crime networks. However, the criminal redistribution of national wealth (which was almost entirely state-owned until 1989) and the legalisation of all capital accumulated through criminal activities produced devastating effects. In this situation, a symbiotic relationship took shape between organised crime, political and economic elites that lasted for almost a decade.

As the country acquired some political and economic stability, and with the process of joining the EU launched in 2000, the hierarchical structures of organised crime started to disintegrate and certain illicit activities began to shrink. The rapid growth and transformation of Bulgaria's economy that started after 2000 undermined much of the economic basis of organised criminal activities, thus also reducing opportunities for corruption. As large multinational corporations entered the Bulgarian market, protection racketeering relations disintegrated. The end of the Yugoslav wars, along with the arrival of modern multinational retail trade in Bulgaria, undermined the capacity of criminals to distribute smuggled consumer goods. As the national economy became more integrated into the European market, Bulgarian economic groups that had benefited from criminal privatisation and were linked to criminal activities began to steadily lose importance, in particular in key sectors like banking, insurance and retail. With the process of EU and NATO integration, despite the positive changes in the socio-economic and institutional environment, the criminal elite entered the legitimate economy, while sometimes severing relations with illicit markets or often simply disguising them. Threats and contract killings started to give way to more subdued forms of corruption, revolving around the use of the modern financial system and off-shore havens. Taking advantage of the culture of family and clientelistic networks in public institutions, organised crime retained its privileged access to national wealth via rigged public tenders and concessions, the cartelisation of gambling, tourism or real estate.

Organised crime, however, continues to exert its influence at all levels. In the political sphere, votes are bought at national and local elections while legislation favouring certain business interests is negotiated through lobbying groups. In the judiciary, appointments and rulings are influenced and paid for by middlemen. Within the revenue administration, employees of all ranks are being recruited and corrupted to ensure that custom duties, income tax and other taxes are avoided. Finally, organised crime continues to address law enforcement agencies in an attempt to gain complicity or to undermine competitors.

Notes

- 1 The black markets for consumer goods (due to scarcity) largely relied on informal relations and no extensive criminal structures were in place.
- 2 The roots of other 'oligarchs' were the so-called 'credit millionaires' (related to the mass-bankruptcy banks in 1996–97) or rigged privatisation of state-owned enterprises.
- 3 On the Left, the Bulgarian Socialist Party formed two governments of its own and three times was part of a ruling coalition; on the Right, the Union of Democratic Forces also formed two governments on its own and three times was part of a ruling coalition. The Movement for Rights and Freedom (a party mainly representing ethnic Turks) took part in four governments as a minority partner.
- 4 One such case is analysed in depth in Gounev and Bezlov (2009).
- 5 This supreme body is elected with equal quotas by Parliament and the judicial power. The Chief Prosecutor and the heads of the Administrative and the Cassation Courts have guaranteed seats.
- 6 A local city-councilor and football club owner who was convicted in 2008 by a German court for cigarette smuggling.
- 7 The State Agency for National Security (DANS) was created, whose responsibilities include countering organised crime and corruption at the highest levels of power. The agency was created from the National Security Service (counter-intelligence), which was previously part of the Interior Ministry, and from the Military counter-intelligence (previously part of the Defence Ministry). The new agency is under the direct supervision of the Prime Minister.
- 8 'Vultures', or officers operating in their 'home territory', with defined 'hunting partners' and 'enemies', with whom vultures compete.
- 9 An internal affairs department investigating police corruption was only established in 2007 and has led to the successful convictions of dozens of corrupt police officers at various levels.
- 10 The institution invariably ranks as the most corrupt in opinion polls.
- 11 In mid-2006 the Customs Agency took control of excisable goods, to soften the severe job cuts in customs officers after the country joined the EU.
- 12 Specially printed bands by the Ministry of Finance with holograms, stuck on liquor bottles to indicate that excise tax is paid.

7 France

From local elites to national leaders

Nacer Lalam

Background: corruption in France¹

The issue of corruption in France is generally avoided by official institutions. It has not been systematically studied by the authorities or by independent analysts or academics.² The position of government interviewees is that corruption is a phenomenon of very limited scope in France. Similarly, the term ‘organised crime’ in the country has not gained wide acceptance officially. Instead, terms like ‘milieu’ and ‘grand banditry’ are used. Some of the interviewees in anti-corruption institutions were even of the opinion that organised crime in France does not exist: they saw fewer criminal groups than individual criminals.

The general perceptions presented in the course of the present study largely reflect the official French government policy of denial of corruption as a phenomenon. In France, no institution has a comprehensive understanding of the issue, and knowledge of it is mainly found at the local level, while no single body is tasked with connecting evidence and data on corruption networks or incidents into an overall analysis. As a result, corruption is considered and presented as an ‘epiphenomenon’, occurring only sporadically.

The limited understanding of the phenomenon is also due to the general lack of attention from media, criminologists or other social scientists. Public corruption perception surveys and statistical information have, thus, become largely inadequate instruments to assess a well-disguised phenomenon. Several of the interviews and a number of media and academic articles presented evidence that corruption in France is actively used by both ‘white-collar’ and ‘traditional’ organised criminals. What sets France apart from other Member States is that this occurs within the context of an elitist political system and strong hierarchical government bureaucracies.

This peculiar state of denial translates into a very narrow understanding of the term ‘corruption’, which is employed by official institutions (and the media), and often reflects a strictly legal definition, in a way that disguises the real scale and nature of the phenomenon. An example of this aversion towards the term ‘corruption’ could be seen in the extensive National Assembly Report (1999) on the Functioning of the Security Forces in Corsica. Although the report presents multiple instances of undue influence and inappropriate behaviour of the judiciary and police forces, the word corruption is not used at all.

Background: organised crime in France

The French government does not issue a regular assessment of organised crime in the country; or if it does, as when cooperating with Europol, this is not circulated among anti-corruption departments or institutions. Existing statistical data show that France's illegal markets (drugs, prostitution, stolen vehicles, illegal immigration, counterfeit goods and cigarettes) are as well developed as those of other EU countries (see [Table 7.1](#)).

Lalam (2004) explains that after World War II, the main organised criminal activities included:

- prostitution and human trafficking;
- bank robberies/kidnapping for ransom;
- various other activities including forgery, racketeering, gaming machines, and smuggling.

With the increased security of banks in particular, armed robberies were gradually abandoned by a majority of criminals and many of them moved into the growing market of drug-trafficking. The drugs market gradually became the largest illegal market ([Table 7.2](#) shows data on seizures of illegal drugs). Many crime figures involved in drugs or prostitution chose to invest their profit or to secure a steady income by operating illegal gaming machines. Customs and cigarette market data confirm ([Table 7.1](#)) that, in recent years, France has also become a destination and transshipment country for illegal cigarettes. In 2008, the Customs confiscated 249.7 tonnes of cigarettes, an 18.3 per cent increase over the previous year (Cornevin, 2009).

An analysis of organised crime and corruption in France requires taking into account the historical and cultural geography of the country.³ One can conceptually differentiate between three aspects of organised crime: traditional indigenous structures, marginalized groups and migratory/foreign-run criminal networks.

- *Indigenous structures*: going back at least to the decade prior to World War II, the traditional terms 'grand banditry' (*grand banditisme*) or '*le milieu*' were used to describe indigenous criminal networks in France. Until the present day these traditional criminal structures reside predominantly in the south-east of France (Provence – Alps – Cote d'Azur), and in particular Marseille, Toulon, Nice, Lyon, Grenoble and the island of Corsica. In some of these areas, and in particular in Corsica, they even resemble the mafia's social organizations of Southern Italy.⁴ These structures also have strong presence in the north – in Paris, Nantes (one of France's largest ports) and Lille (bordering with Belgium) (Lalam, 2004). The main part of this French criminal elite is of low, working-class origins. Members have started their criminal careers with odd jobs, or as petty thieves. To a large extent this social background has deprived them of direct and easy corruption access to the upper professional classes (magistrates or politicians). Many of the representatives of this criminal elite were participants in the 'French Connection', with some living now

Table 7.1 France – markets for illegal goods and services

Illegal drugs

	<i>Per cent prevalence of drug use</i>				
	<i>Opiates</i>	<i>Cocaine</i>	<i>Cannabis</i>	<i>Amphetamines</i>	<i>XTC</i>
France	0.40	0.60	8.60	0.20	0.50
EU median	0.40	0.50	4.60	0.40	0.50

Source: UNODC.

Stolen vehicles

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Stolen vehicles	186 430	– ^a	–	168 388
Not recovered (related to OC)	116 472	–	–	74 613

Source: Europol/Aubry (2009).

Note

^a Data not available.

Trafficking of women

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Traffickers indicted	1609	1716	2059	1963	– ^a
Victims saved	900	999	1189	1218	–

Source: UNODC.

Note

^a Data not available.

Illegal immigration

	<i>2007</i>	<i>Rank EU26</i>
Illegal border crossing incidents	5748	22

Source: Frontex.

Prostitution

Number of street prostitutes

20,000^a

Source: French Ministry of Interior.

Note

^a Approximate figure (estimated June 2011, quoted in National Assembly, 2011).

Cigarettes

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Penetration of illegal trade as share of total sales	5.7	7.8	8.9	11.0	11.3

Source: Euromonitor International.

Table 7.2 Illegal drugs seizures in France (2003–09)

	Seizures ^a						
	2003	2004	2005	2006	2007	2008	2009
Cannabis	82,430	107,666	86,548	71,725	37,282	71,000	55,000
Cocaine	4,172	4,484	5,185	10,166	6,578	8,214	5,211
Heroin	545	557	748	1,051	1,035	1 117	970
Amphetamines	274	75	111	77	307	109	564
Ecstasy	2,211,727	1,893,226	833,648	1,488,919	1,359,912	343,000	107,000

Source: *Osiris Data Base*, Office central pour la répression du trafic illicite de stupéfiants, Direction centrale de la police judiciaire, Paris, 2010.

Note

a Amounts in kilograms, except ecstasy (no. of pills).

in exile in Spain, from where they only participate in the financing of large drug deals (interviews).

- *Marginalised communities*: in recent decades increasing rates of immigration and marginalisation have led to the formation of a variety of criminal structures of rooted in ‘difficult suburbs’ in large cities across France.
- *The foreign or ‘itinerant’ criminal networks*, often specialized in particular criminal activities along ethnic lines, are another type of criminal formation. The various criminal markets attract criminals from around Europe; such markets include money laundering and financial crime (Russian); prostitution, fraud (Bulgarian, Romanian, Russian, other Balkan countries); production of counterfeit clothing (Chinese); racketeering and debt collection (Russian, Chinese); arms trafficking (Russian), car-theft (Russian, Polish, Ukrainian, Bulgarian) (Aubry, 2009).

Although these three groups could be analysed separately, in reality they are interrelated at least in two important aspects: first, in some illegal markets (e.g. drugs) all three groups are simultaneously involved (either working jointly or by occupying different segments of the market). The special professional skills and the level of trust amongst criminals are key for working together, while ethnicity takes on a secondary importance. Second, the indigenous French criminal elite are often the ‘gate keepers’ and control and tax the entry of foreign players in (some) illegal markets.⁵ In exchange, they might provide protection from competition or from law enforcement, using their greater ability to use corruption.

In the drugs market, members of the French criminal elite may be the key financiers of the large drug shipments, while retail distribution is provided by networks operating in ‘difficult suburbs’, or by foreign-run networks in large cities. Similarly, while prostitution networks from Eastern Europe operate on the streets of cities like Marseille, or provide women to cabarets and bars in Paris or Bordeaux, the street ‘posts’ or cabarets are controlled or racketed by

local indigenous criminal elites who in turn can also act as intermediaries for corruption.

While the above types of criminal networks are all involved in the same illegal markets (e.g. drugs), their ability to launder criminal proceeds and to accumulate economic power at the local level differs. The ability to use corruption remains often limited at the local or regional level, as only a small part of the criminal elite has access to local law enforcement officers or politicians. The picture differs significantly when one considers the involvement of the French business elite or other economic players in committing ‘white-collar crimes’ and their ability to use corruption.

In the course of the interviews Corsica and Marseille were often seen as cases apart from the rest of France. Despite their alleged connections with, and influence over, the rest of the country, the existing literature also considers them separately. The interviewees were largely unwilling or unable to discuss in depth the specificities of these regions.

Marseille

Marseille, the third largest city in France, with a past dominated by the memory of the ‘French Connection’,⁶ is an emblematic case of a city penetrated by organised crime (Montel, 2008). Today one does not find large hierarchical groups, but rather fluid networks operating across different criminal markets. Illicit activities include prostitution, gambling (particularly territorial control over slot machines), counterfeit money, ransom-seeking kidnappings, and above all a range of cross-border smuggling activities, from drugs to cigarettes, or any other type of goods (Alvarez, 2003). Adding to gambling and real-estate development (and related money laundering), the allocation of concessions of public beaches has also turned into a profitable business (interviews). The sector of football (the local club, i.e. L’Olympique de Marseille) is a matter that concerns the local ‘milieu’. Some agents used to invest or to act as intermediaries in the transfer of professional football players (Jessel and Mendelewitsch, 2007; a report by the Assemblée nationale, 2007, is also of interest).

*Corsica*⁷

The island of Corsica has a turbulent past and present. With a population of only 309,000 and a social structure based on clan affiliations and tightly knit clientelistic networks, Corsica is a unique part of France. Historically, Corsica’s strong and violent independence movement has also shaped the local criminal landscape. Some independence fighters turned into organised criminals, taking over large parts of the local economy through extortion or racketeering (Briquet, 2008). Often likened to their Sicilian counterparts, since the 1930s Corsican organised crime and its ‘godfathers’ (*parrains*) have formed part of the French criminal elite (Follorou and Nouzille, 2004). Following the French Connection (dubbed the Corsican Connection) many of these individuals were jailed or fled to Spain, but

never ended their involvement in criminal activities. Today, many continue to be at the core of organised crime in Corsica.

Analysing organised crime in Corsica is challenging as the lines between organised crime and clandestine independence groups are blurred. The latter are involved in criminal activities, often under the guise of furthering the cause of independence. At the same time, both types of groups have significant stakes in the legal economy, where they also use corruption. In addition, the notion of 'corruption' takes on an entirely different meaning than one would find in the north of France. Nationalistic, clan, political or local affiliations establish powerful relational rules, whereby a straightforward materialistic motivation for corrupt behaviour seems to be absent: i.e. even when someone's behaviour would appear to be corrupt, the underlying reasons might be much more complex than simple material gain.

In Corsica there are multiple nationalist movements that since the 1990s have used a variety of criminal methods to fund their activities or to enrich their leaders, such as diversion of public funds (e.g. from Corsica Economic Development Fund), racketeering (under the guise of a 'revolutionary tax'), armed robberies (e.g. the UBS affair), bank credits (e.g. the Crédit Agricole affair) or gambling machines rackets. Often these movements divide up territories in which they exercise control over criminal activities. On the other hand, some criminal groups/networks use the nationalist branding to justify or disguise their criminal activities as nationalist ones: for example by claiming that a hold-up serves the independence cause.⁸

In the early 1990s, two key nationalist movements formed after the *Front national de libération de la Corse* (FLNC) split up due (partly) to difficulties in sharing the extortion racketeering income amongst its members. Each new formation had its own military and legitimate face: the *ex-FLNC-Canal Historique* with its *A Cuncolta Naziunalista* and the *ex-FLNC-Canal Habituel* and its *Mouvement pour l'autodétermination (MPA)*.⁹ The *ex-FLNC-Canal Historique* had also a number of satellite legitimate organisations around it: such as the Trade Union of Corsican Peasants, The Federation of Independent Workers, the Union of Corsican Workers. Nationalist movements also made significant use of companies to provide them with logistical support, and as a way to launder criminal profits or raise funds. Car rental companies or security companies (e.g. *Bastia Securita*) served such purposes, allowing in some cases the legal arming of certain movements, or serving as the legal face for protection rackets on local banks. Adding to the legal economic face, nationalist movements also had a sizeable political representation in local parliament and participated in local elections. In the late 1990s a Parliamentary report estimated that twelve municipal mayors were related to nationalist movements, along with a number of city councillors in various cities. In the 1999 elections, the various nationalist movements gathered altogether 27.74 per cent of the votes for the Corsican Parliament.

Apart from the nationalist movements, there are a number of other criminal networks. A government-commissioned report by Bastia¹⁰ prosecutor Bernard Legras (2000), known as the *Legras Report*, investigated organised crime in

Corsica; it pointed out that clan relationships in Corsica manage to control economic, political and administrative powers using fluid clientelistic relationships based on corruption or on fear. Legras concluded that high-level politicians in the island ‘have had and have in their hands the support of local organised crime, which they at times openly defend’.

The influence of Corsican organised crime is not limited to the island. Its influence is most pronounced on Marseille and the South of France, but also spreads beyond, to Paris and other big cities (Follorou and Nouzille, 2004).

Targeted institutions

In the past, the impunity enjoyed by officials in France reflected an absolutist conception of power that kept their accountability to a minimum (Meny, 1992; Della Porta and Meny, 1995). The ideology of ‘public interest’ added to the lack of accountability, with cases of corruption being usually presented as ‘exceptional situations in public life’.

Since the beginning of the 1990s, as Lascoumes (2001) remarks, a three-fold change can be observed: a politicization of the corruption issue, a new ideological stance and a higher degree of responsibility conferred to a new generation of players in the public sector. As a result, between 1992 and 1995 the number of corruption cases brought to court more than tripled, rising from 17 to 54. As one interviewee commented: ‘corruption was at the top of the political agenda in the 1990s’.

As Lascoumes explains, a new generation of public officials coming from the middle classes gained access to administrative, judicial and the police professions. These newcomers were trained in a less conformist (i.e. corruption tolerant) way, which changed the respective professions, their values and the way they operated in this new social context. Respect for the law and an awareness of the changing social context became more valued.

The anti-corruption efforts of the French government are concentrated in the Central Service for the Prevention of Corruption (*Service Central pour la Prévention de la Corruption*). The SCPC is composed of councillors from different public bodies: judiciary, gendarmerie, audit office, tax administration and civil administration. The SCPC, however, fails to analyse the corruption situation in France in any meaningful way in its annual reports. The latter provide little else than general judicial statistics, analysis of related legislation and theoretical description of fraud schemes – usually focusing on private sector rather than public sector corruption and almost entirely avoiding the issue of political corruption.

Political corruption

The ever-growing focus on ‘political scandals’ since the late 1980s led to more radical measures than had previously been taken. After 1988, all company financing of parties and candidates was forbidden, while tax legislation made individual contributions more attractive and subject to an upper limit. The punishment for violations of these regulations also became harsher (five years of ineligibility for

political representatives indicted for corruption or influence peddling, and a five-year exclusion from public procurement contracts for those who make illegal contributions).

Several other legislative measures were introduced to curb political corruption, including a special law (passed in 1993) regulating public procurement procedures, a law governing the campaign for the presidential election (passed in 1995) and a law on the declaration of patrimony by members of government and key public officials. Nevertheless, political corruption remains probably the most contested issue in France, and still attracts most media attention. The writing of this chapter coincided with some of the most dramatic recent corruption trials: one against Jacques Chirac on embezzlement charges, and another ending in an effective sentence related to illegal arms deals for former minister Charles Pasqua.

De Brie (1997) has conceptualized the three main existing types of corruption networks:

- *Locally based networks*: from Corsica to Alsace, these local/regional networks of businesses, politicians and local government are usually the ones used to facilitate corruption. Evans (2003) has called this the local system of *notables*. He argues that historically, strong centralization has meant that corruption matters at the local level were considered peripheral and of lesser importance. The increasing decentralization in recent decades has given increasing power to local mayors and their circle of delegates.

In the past, Marseille offered another example of politicians using organised crime to further their goals. There, politicians recruited armed gangs to maintain law and order at political rallies (Monzini, 2003). Monzini also gives the example of a deputy mayor who launched a poster campaign to proclaim his solidarity with two prominent criminals who had been accused of murder (Monzini, 2003). Criminal gangs were also informally asked to prevent strikes and other forms of industrial action.

- *Political networks*: these networks are predominant in the Ile-de-France, Provence-Côte d'Azur, Rhône-Alpes. In the 1990s, corruption scandals came to light which involved the mayors of Cannes (involved in a racketeering scandal around the slot machines in the city's casinos) and Toulon (where connections to the local mafia and its international partners were revealed). At the national level, Evans (2003) explains that political elites in the major parties share the same background and social networks, mainly derived from attendance of the same elite schools. Moreover, alternating administrative and political positions is common.
- *Business and professional networks* are, in turn, also tightly knit into the elite political networks, based not only on the fact that the majority of executives of private companies are graduates of the same elite schools, but also reinforced by legitimate practices of 'pantouflage' (hiring of former government officials).

Political party financing has been the biggest corruption driver: a process that has been further accelerated by administrative decentralization and regionalization in recent decades. Public contracts in large cities like Paris have been granted to companies that have provided support to political parties. The trial of Charles Pasqua, former Minister of the Interior (investigated on numerous corruption charges) who granted a casino license to finance his political campaign, is only just one of the cases that have surfaced.

High-level political corruption and related white-collar crime are typically associated with big multinational or national companies. These corruption networks are governed by a different dynamic than regional or local ones. King (2004) explains that the French political elite is well defined, with its roots strongly set in the '*grandes écoles*' (elite universities). The high-profile trials and sentences given to Bernard Tapie,¹¹ Loïk le Floch-Prigent¹² or Alfred Sirven¹³ were possible because these individuals were not part of the core elite. The mainstream media has also largely played along and contributed to a sense of impunity – *Le Figaro*, *L'Express*, *TF1* and *Paris Match* have been bought by big industrial groups such as Lagardere, Dassault (armaments) and Bouygues (construction).¹⁴

Much of this high-level corruption has been associated with taking advantage of public contracts in exchange for party financing or kickbacks. The most publicised series of corruption scandals that are closely linked with white-collar crime are related to the public water utility sector in France. Godoy (2003) explains that companies, including large multinationals such as Suez Lyonnaise des Eaux and Vivendi Environnement, have been investigated in numerous criminal and civil cases, with accusations that have included bribery of public officials, illegal political contributions, kickbacks, price fixing, operating cartels and fraudulent accounting. The two largest cases related to the cities of Paris and Grenoble have revealed that companies like Suez and Vivendi paid millions of francs worth of bribes to political parties and mayors in the 1980s and 1990s. In one of the largest cases, prosecutors alleged that between 1989 and 1995 public contracts worth \$3.3 billion were awarded in violation of the law in the Île-de-France (the Paris region). In exchange, \$86 million was funnelled to the Rassemblement pour la République (RPR) party, while many other parties got smaller kickbacks.

Meny (1997) argues that in France there is a certain level of ignorance about the concept of 'conflict of interest'. The widespread practice of 'mandate accumulation' (*cumul des mandats*) and *panouflage* are two of its manifestations. Mandate accumulation allows someone in France to hold multiple elective offices: for instance as Member of Parliament one can still retain certain elected or administrative positions in local or regional government. The practice of 'panouflage' – or the employment of former government officials who have been in a position to grant contracts to private company – is the other most frequently cited (and even more direct) mode of corruption. The common practice of 'panouflage' has led to the establishment of a special Public Figures Ethics Commission responsible for investigating conflicts of interests of former political figures involved in the private sector.

Judicial corruption

The media in France often criticize and question the independence of the judiciary. Evans (2003) has argued that in France the direct control of prosecution by the Ministry of Justice has created a *de facto* politicised judiciary, whereby the investigation of high-level figures has been thwarted in various ways, while judges have been subdued to undue media pressure. The few investigative judges or prosecutors (Eva Joly, Eric Halphen, or Eric de Montgolfier) who have investigated high-profile political and judicial corruption, and who have dared to speak out, have all revealed in books or interviews the great amount of political pressure, threats, and counter-investigations mounted against them by the police to thwart their work (Le Monde, 2004).

Joly¹⁵ (2007) has also expressed concern about the declining independence of investigative judges in France. Following several high-profile corporate-crime and related political corruption investigations, the powers of investigative judges in France have been gradually shifted towards the Public Prosecution Office (which is under the Minister of Justice). The elimination of investigative judges has thus reduced the independence of criminal investigations. In France it has become 'difficult and even dangerous to attack key figures suspected of corruption, which by definition may implicate people wielding power at the highest levels' (ibid.: 86). Moreover, the very members of the National Assembly who were under investigation for corruption were also the promoters of the most radical legislative changes aimed at reducing the powers of investigative judges.

The case of the Nice magistrates

One of the few high-profile corruption cases involved a Nice judge, Jean-Paul Renard. The close association of Judge Renard with the local Freemasonry organisation led to multiple cases of corrupt and unorthodox behaviour. Judge Renard was sentenced for having accessed police files on numerous occasions to obtain background information on candidates who applied to the Grand National Lodge of France, GLNF (Pascal, 2000). For over fifteen years, he had had a close relationship with Marcel Allieis, a Freemason and a former security services officer of a South American state. During this time, there were several investigations against Allieis in which Renard was involved, and that were resolved through out of court settlements. In addition, wiretaps provided evidence that Allieis boasted that his relationship with judge Renard allowed him to help lift arrest warrants. It was also revealed that Allieis used his connection with Renard to help Claude Paccavia – an individual suspected of being linked to the Calabrian Mafia – get rid of his criminal record (Mathon, 2004). In a different inquiry, Judge Renard admitted to have given a lighter sentence to a drug trafficker after the trafficker's lawyer informed Renard that his client had discrediting materials regarding other investigative judges in the Nice court. These judges had participated, along with local police officers, lawyers and criminal figures, in multiple swinging parties involving significant cocaine use (Lhomme, 2005a).

Another recent case of judiciary corruption involved Jean-Louis Voirain, a magistrate of Bobigny (Paris), who was sentenced to three years imprisonment and a 30,000 euro fine for corruption in the ‘Sentier II’ case involving a money-laundering network operating between France and Israel. Mr Voirain was removed from office in January 2004 and convicted for having accepted cash bribes in exchange for ‘legal protection’, advice and assistance that he provided to leaders of an international money-laundering network. In this trial, 151 people and four banks were prosecuted (two of the banks, La Société Marseillaise de Crédit and the National Bank of Pakistan, were found guilty) (AFP, 2008).

The judiciary in Corsica

The issue of corruption and political influence over the judiciary manifests itself in a specific fashion in Corsica. A Parliamentary Report issued in 1999 established that an informal policy of ‘circumspection’ was at play within the prosecutor’s office, namely a policy suggesting that local political and social ‘sensitivities’ be taken into account. This ‘judicial prudence’, on many occasions, turned into impunity and ended up characterising the work of the police as well. Officers often received orders to act selectively and to take into account the political balance and in-fights amongst the various nationalist factions. This practice went so far that some murders publicly claimed by certain nationalist factions were not prosecuted. Fourteen magistrates protested publicly against the circumspection policies by stating that ‘certain judicial decisions can be explained only by the existence of negotiations’ with the members of clandestine organisations (Caresche, 1999).

Police corruption

Corruption in the French police (and gendarmerie) is a rarely discussed topic. The general perception of police leadership is that within the force corruption is a very rare occurrence. The statistical data supports this perception. In 2008, the Main Inspectorate of the National Police (IGPN – Inspection Générale de la Police) reported that 3,243 officers had been disciplined (L’Express, 2009). Out of these, as [Table 7.3](#) shows, only a handful were related to corruption (the rest referred to various forms of unethical or criminal behaviour). The National Gendarmerie cases are even fewer, as in 2007, only 75 internal investigations against members were taken; these comprised all sorts of inappropriate or criminal behaviour by officers (violence, abuse of power, thefts) (Cornevin, 2008).

These statistics and perceptions, however, seem to reflect a narrow understanding of corruption, a general denial of the problem, and an apparent inability to effectively tackle it in certain parts of the country, such as Corsica (or the overseas territories). The relatively narrow legal definition, as some interviewees explained, stipulate the presence of ‘direct or indirect offers, promises, gifts, presents and advantages’ (Penal Code, Art. 432.11).

Publicly known cases of corruption indicate that the police in France suffer from problems common to the police forces in other EU-17 countries. There are three

Table 7.3 Number of police officers prosecuted

2004	2005	2006	2007	2008
7	7	11	6	12

Source: IGPN.

Note

The only systematic analysis of IGPN's corruption related data (Razafindranaly 2001) was based on 18 corruption cases that were registered in 2000.

general areas where most cases of police corruption related to organised crime occur: drugs, prostitution, and economic crime. Information leakage seems to be the biggest concern in terms of corruption by organised crime. Direct involvement in organised criminal activities and the related protection of criminal associates (again by means of the provision of information allowing criminals to avoid detection) seem to be the main issues. In some cases, informants seem to be the main intermediaries, while in others this role is played by former police officers. The following are some cases mentioned in interviews and the media:

- In November 2008, François Stuber, former police captain and former deputy head of the Drug Squad of the Strasbourg police, was given a ten-year prison sentence. He had been entrusted with the task of destroying drugs seized by his department. Instead of destroying them, between 2003 and 2007, he established a network and traded the seized drugs, becoming also involved in importation (LibeStrasbourg, 2007, 2008).
- A number of other cases showed police involvement in prostitution networks. Prostitution is generally legal in France, but there are a number of limitations that criminalise pimping, the running of brothels, and all other ways of profiting from prostitution. The most common form of corruption involving the police relates to obtaining free services from sex workers. In a 2006 case, seven community police officers from the Paris suburb of Seine-Saint-Denis were sentenced to various prison terms for committing a number of crimes, including obtaining free services from prostitutes. (Liberation, 2006). In a different case, in 2006 four police officers received sentences of between one and four years for having financed and operated at least two swinger clubs (*clubs échangistes*) that also involved prostitution (AFP, 2008).
- The third type of cases that were brought up included trading in information. In 2008, Patrick Moigne, who since 2003 headed the Anti-Payment Fraud Brigade of the Paris Police, was indicted for having sold confidential information regarding the ongoing investigation against the oil giant Total.¹⁶ Mr Moigne sold two types of information: (1) information on planned arrests or police operations related to the Total investigation; (2) information extracted from the national police STIC database, which listed huge amounts of large-sum transaction data (Lévêque, 2008).

Police corruption is particularly problematic in regions of the country where organised crime has traditionally had a stronghold, such as Corsica, Marseille or Lyon. For many years, the police priority in Corsica has been the fight against the nationalist movement. In the early 1990s there were even specific instructions for local police to focus exclusively on pro-independence groups. This allowed organized crime to flourish for a number of years. The general view was that at the time the police force was either infiltrated or had formed relationships with the nationalist movements as well as with organized crime.¹⁷ This forced many police operations to be conducted directly from Paris, or to involve as few people as possible.

Police anti-corruption strategies

There are several bodies that monitor and investigate police corruption cases in France:

- The Main Inspectorate of the National Police (IGPN – Inspection Générale de la Police Nationale), headquartered in Paris and with regional offices in Lyon and Marseille. It is a general police supervisory body that monitors the behaviour and performance of close to 135,000 members of the National Police. In addition, it is responsible for overseeing issues of police misbehaviour (crimes or violence committed by police officers).
- Inspection Générale de la Gendarmerie Nationale (IGGN).
- In addition, similar functions are carried out by the General Inspectorate of Services (IGS) in the Paris region (Préfecture de Police de Paris).
- Commission Nationale de Déontologie de la Sécurité (CNDS), established in 2000 and responsible for monitoring adherence to the ethics and moral codes of security forces on the territory of France.

Although there is no particular counter-corruption strategy aimed at organised crime, a number of counter corruption measures are in place and are continuously developed:

- Unlike some other police forces in the EU, officers are usually not allowed to serve in the particular neighbourhoods from which they originate.
- In certain areas, for instance in Corsica, anti-corruption efforts (as well as serious and organised crime investigations) are carried out directly from Paris.
- Limitations on the employment of former police officers as private investigators or as employees in corporate investigation firms. For a period of three years subsequent to leaving the police, officers are not eligible to be employed in such positions.
- Although the use of agents provocateurs is not allowed under French law, various undercover inspections have been introduced to monitor the quality of police services. Among the aims is the prevention of unauthorised access to police files.

- A number of IT solutions have been implemented to prevent access to information systems.
- A number of measures have also been introduced to prevent officers being exposed to financial hardship. It has been illegal for police officers to default on bank loans.
- Stringent penalties and increased responsibility for supervising officers. In one of the corruption cases cited in the interviews, seven traffic officers in Paris were running a scheme in which they were writing fake tickets to drivers and pocketing the money. In addition to the imposition of lengthy prison sentences to the officers involved, their supervisor was dismissed for failing to detect or prevent the corrupt behaviour of the officers. In other cases quoted, officers were dismissed for accepting bribes of as little as 10 euros.

Customs corruption

The customs authorities, like the police, prefer to treat corruption as an internal matter: as a consequence, the public is unfamiliar with the issues surrounding corrupt transactions involving customs officials. The interviews indicated that the perception within the French Customs is that corruption is a non-issue. Historically, in the 1980s a culture of corruption prevailed in many land-border posts (e.g. with Belgium). The risks of corruption were reduced with the reduction of land border customs posts (with the creation of the EU customs union), the introduction of electronic processing systems, the awarding of the status of ‘public servant’ to the customs officers, and improvement in their remuneration. Between 1990 and May 2009, there were a total of only forty-six cases of corruption in the French customs: an average of only two cases per year.¹⁸ From this statistical data, though, it is difficult to assess the level of organised crime related corruption in Customs institutions.

Private sector corruption

Private sector corruption – both in terms of the perceptions and the experiences of companies surveyed by PricewaterhouseCooper (Figure 7.1) – seems to be lower than in other EU-17 countries. In addition, while in Western Europe 14 per cent of companies report that they feel they have lost out to a competitor who has paid a bribe, in France only 11 per cent report so. Whether the survey results indicate that corruption in France is really lower than in other Western European countries, or whether this is a result of the fact that corruption is something of a taboo issue that business are reluctant to discuss, is a matter of debate.

In France, as in other countries, lawyers are particularly exposed to corruption risks for their role in defending or advising clients. A well-known corruption case in France involved administrators appointed by the commercial courts for the redress of companies that had filed for bankruptcy. In the case of SDBO, a former subsidiary of Credit Lyonnais, thirteen directors and court-appointed administrators

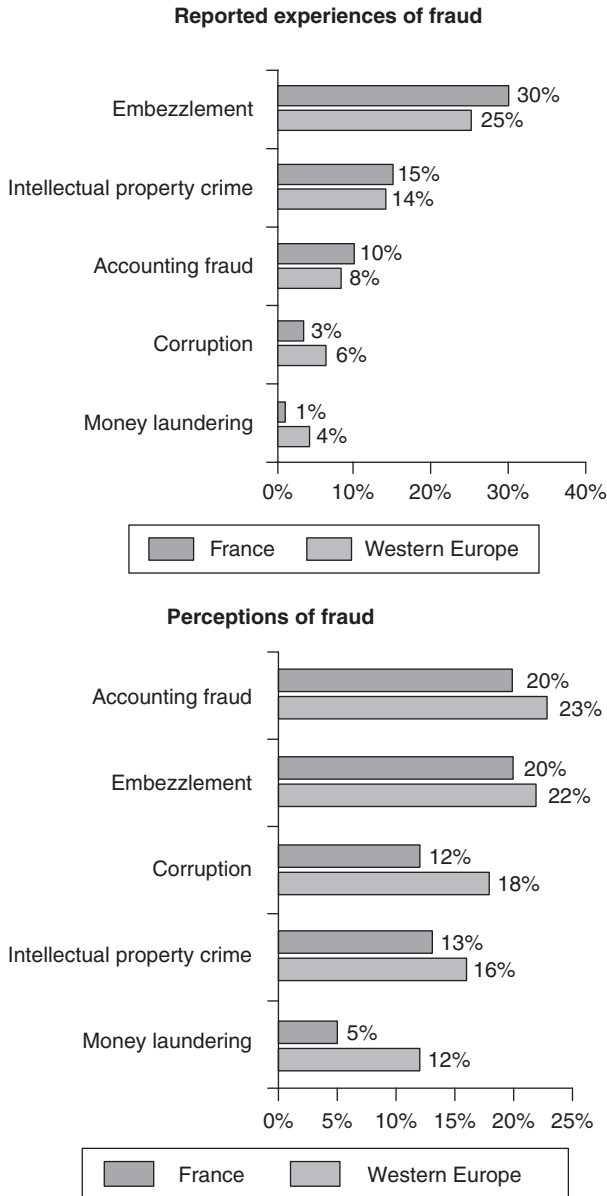


Figure 7.1 Experiences and perceptions of fraud and corruption in France (per cent of companies in 2007).

were implicated in a corruption scandal. These individuals secured loans from SDBO for the companies they were administering. The defendants were convicted to ten years imprisonment for ‘bribery’ with a 150,000 euro fine imposed.

Conclusion

The personal experience of citizens with corruption in France (Eurobarometer, 2008) places the country slightly below the least corrupt countries of Northern Europe or the UK, but above its southern neighbours, Italy and Spain. Yet the regional differences within the country (south/north), or specific regions like Corsica, as well as the cultural specifics of the business-political elite networks, create favourable conditions for criminals to use corruption. The often subtle nature of corruption, the passive media, and the high tolerance of the public have created an environment from which white-collar criminals can easily benefit. The present research indicates that in certain regions of France (Corsica and to some extent the south-east) local criminal elites use various forms of corruption on local judicial officials, police officers and politicians. Although often these cases are not of the classic bribery type, but instead constitute trading in influence or favours, organised crime creates an environment where its activities continue uninterrupted. In other parts of the country, sporadic evidence suggests that police corruption and occasional cases of influence over the judiciary occur but the scale is unclear. Political corruption, except in the above-mentioned regions, seems to be limited to complex corporate crimes and corruption deals, especially in industries with significant public sector exposure (such as utilities). In these situations well-established networks of the French elite, whether business or political, facilitate corrupt transactions.

The lack of access for criminologists and social scientists to business and political elites, or to traditional criminals from the 'milieu', has left a gap in the knowledge of corruption. On the other hand, the lack of comprehensive government reporting can probably be explained by the fact that two successive French presidents – namely, Jacques Chirac and François Mitterrand – have been involved and prosecuted in a number of political corruption scandals. Finally, the continuing deficiency of proactive anti-corruption measures might suggest that corruption networks have simply been transformed and that subtle modalities are now being used.

Notes

- 1 This case study is based on analysis of academic literature, media publications, and interviews with key experts. Officials from key French institutions were interviewed: customs, Central Service for the Prevention of Corruption, the main anti-corruption police forces and the main judicial anti-corruption bodies. A number of independent sources were also contacted, including academics and researchers.
- 2 See, for example Meny (1992) or Lascoumes (2010). Other studies have focused on public perceptions and representations, and do not explain or analyse the various aspects of the phenomenon itself (Lascoumes, 2011).
- 3 In this case study, the specifics of French overseas territories will not be discussed, even though culturally they present a different case altogether.
- 4 Historical parallels between the two also exist. During World War II, Hitler particularly targeted the criminal structures in Marseille, as thousands of its residents were exiled, and around 600 were sent to death camps. Following the war, the CIA came in close

- contact with and used criminal structures to counter the influence of pro-communist trade unions (Follorou and Nouzille, 2004).
- 5 For example street prostitution in Marseille involves women and pimps from Bulgaria and Romania, but access to street posts is also regulated by indigenous criminal structures.
 - 6 The ‘French Connection’, sometimes dubbed ‘The Corsican Connection’, was one of the biggest trafficking schemes, largely controlled by Corsican organised crime, in which heroin was smuggled from Turkey to France, and then to the USA.
 - 7 Two parliamentary enquiries and a major investigative journalist study on Corsica are the main sources quoted below.
 - 8 Ms. Mireille Ballestrazzi, Former Director of Regional Service of the Judicial Police in Caresche 1999.
 - 9 The year before in 1989 already another FLNC group had been formed, *Accolta Naziunali Corsa* (ANC), which later was associated with its military wing *Resistenza*.
 - 10 In Upper Corsica.
 - 11 Convicted for football related corruption in 1995.
 - 12 Chief executive of Elf-Aquitaine, one of the largest corruption affairs (allegedly state-sanctioned) of bribery, largely in Africa (Schofield, 2003).
 - 13 Deputy head of Elf-Aquitaine.
 - 14 In 2001, investigative reporter Denis Robert and Ernest Backes, an executive at Cedel (presently Clearstream) until May 1983, published a book with the title *Revelation*, in which they alleged that Clearstream (the settlement division of Deutsche Börse, based in Luxembourg) played a major part in French political corruption. According to the authors Clearstream was a main platform for money laundering for hundreds of banks, and ‘operated hundreds of confidential accounts for banks so they could move money undetected’. The accusations were that French political figures, industrial leaders, and members of the secret services maintained secret accounts at Clearstream, which allegedly were used to transfer kickbacks into France. The courts found no evidence of the accusation, and the authors were convicted for libel in numerous lawsuits.
 - 15 Joly was an investigative judge between 1990 and 2002, and led one of the largest corruption investigations against Elf-Total.
 - 16 There had been different investigations against Total: one was related to the oil-for-food programme in Iraq; the second was linked with a gas field exploration contract in Iran, while the third one was related to money laundering involving the former Minister of Justice of Cameroon.
 - 17 Mr Bernard Lemaire, Former Head of Police (Prefet) of Upper Corsica (Haute-Corse) quoted in Caresche (1999).
 - 18 The data was provided by French Customs.

8 Greece

The politics of crime

*Georgios A. Antonopoulos and
Nikolai Tagarov*

Introduction

The aim of this case study is to identify the links between corruption and organised crime (OC) in Greece. This endeavour is based on a variety of sources including:

- 1 the 1999, 2004 and 2005 Greek annual organised crime reports;
- 2 interviews with nine key informants from diverse employment backgrounds (Table 8.1);
- 3 reports on corruption and organised crime compiled by international and national organisations, as well as non-governmental organisations (NGOs);
- 4 journalistic sources discussing proven cases of corruption or ongoing investigations and judicial activity;
- 5 academic work discussing the above or analysing general issues around the causes and persistence of both corruption and organised crime.

Background

'Organised crime' in Greece

The main sources of *official* information regarding organised criminal activities in Greece can be obtained from the website of the Ministry for the Protection of the Citizen (formerly Ministry of Public Order of the Republic of Greece). Statistics on crime types and rates are readily available, yet an analysis of trends, patterns or contributing factors of organised criminal activity has not been regularly produced. In addition, some pieces of information and statistics on what could be described as empirical manifestations of organised crime (drug smuggling, cigarette smuggling, etc.) can also be obtained from Coast Guard and Financial Crime Squad (SDOE) websites. In 1999, 2004 and 2005, the Greek Ministry of Public Order (MPO)¹ produced *Annual Organised Crime Reports (AOCR)*. Unfortunately, as pointed out by the high-rank police officers consulted, they have not been publicly available primarily for political reasons.

Table 8.1 'Names', positions and institutions of participants in the study

<i>Name</i>	<i>Position</i>	<i>Institution</i>
I1	Thessaloniki entrepreneur	Privately owned company
I2	Academic	UK University
I3	Judge	Court of First Instance
I4	Senior Police Officer	Greek Police – Division for the Analysis of Criminality
I5	Intelligence Officer	EUROPOL
I6	Criminal Lawyer	Supreme Court and Athens Bar Association
I7	Criminal Investigator	EUROPOL
I8	Criminologist	UK University
I9	Senior Research	UNODC

These AOCR are based on data and information provided by various law enforcement agencies (Hellenic Police, Hellenic Coast Guard, Customs Authority, Financial Crime Squad, Central Anti-drug Coordination Unit – National Intelligence Unit (SODN-EMP) and National Authority Against Money Laundering). The classification of criminal activities as 'organised' is based on the eleven criteria described in the document ENFOPOL 35, REV 2 (6204) of the European Council (some of which are mandatory) and the four criteria put forward in the Greek legislation (Law 2928/2001 and section 187(1) of the Greek Penal Code. The four criteria put forward in the Greek legislation are: (1) collaboration of three or more people; (2) commission of felonies; (3) prolonged action; (4) structure.

While certainly of some practical use, all AOCRs offer a description of the variety of OC groups operating in the country as well as OC activities, but little insight into causal factors or a long-term vision of countering OC activity. There is an emphasis on organised crime as traditionally construed (drug trafficking, prostitution, etc.) while, simultaneously, it is presented as an external *threat*, which Greek law enforcement or Greek society have little control over. The threat dimension of OC in the AOCRs becomes apparent, among other places, in the first paragraph of the 2004 AOCR (MPO, 2005: 3) where it is stated:

Organised crime threatens directly national and international security and stability, affects the political and legislative power and constitutes a threat to democracy itself. It disorganizes and threatens the social and economic structure, affects economic development and challenges citizens' trust in the effectiveness of the political system and the official control mechanisms [OC] very quickly adapts to the challenges and opportunities offered by the environment within which it is developed, extending promptly its criminal activities and protecting its interest.²

A discussion of white-collar crime in the AOCR is almost non-existent, being limited to occasional and scarce references to fraud. The main illegal activities discussed in all reports are:

- *Illegal immigration* – mainly seen as caused by the difference in living standards with neighbouring and other countries; the countries of origin are usually Balkan neighbours, Asia or Africa. Greece is seen as vulnerable due to its long borders and coastline, which are difficult to patrol. Some undocumented immigrants are trafficked by organised trafficking networks originating in Greece, Turkey, Albania, Bulgaria and the Middle East.
- *Trafficking in human beings (mainly for the purpose of prostitution)* – Greek, Albanian, Bulgarian, Russian and Turkish groups are involved in this type of criminal activity. The traffickers usually advertise – via travel agencies in the countries of origin in Central and Eastern Europe and the former Soviet Union – seemingly attractive job offers to young women for waitress, babysitter positions, etc. Upon arrival the victims' documents are withheld, the women are subjected to psychological and physical violence, and forced into prostitution.
- *Trafficking in drugs* – drugs are trafficked principally by trucks and ships. The Balkan route (for drugs that are produced in Southeast and Southwest Asian countries) remains the most popular way for trafficking heroin to Western Europe and is used for the transport of the largest quantity of heroin consumed in Europe. The Atlantic route for drugs produced in South and Central America entails links between foreign OC groups (Colombian, Nigerian, Spanish, Dutch) and Greek groups, with merchants as key actors involved in the shipping business and with the know-how and means to transport large quantities of drugs by sea.
- *Trafficking in stolen vehicles* – Greece is a transit point for trafficking in stolen vehicles from Western European countries to the EU, the former USSR, the Middle East and Asia. Vehicles are also stolen in the interior of the country and resold in the domestic market or are forwarded to Albania.
- *Cigarette smuggling* – Greece is mainly a transit country and not the final destination of smuggled cigarettes. The smuggled cigarettes are imported illegally and are then forwarded with trucks via the harbours of Piraeus, Patras, Thessaloniki and Igoumenitsa to Northern European countries. In some cases, cargos of smuggled cigarettes have as their destination the domestic market.
- *Extortions* – OC groups try to obtain money from legal business owners under the pretext of providing protection. Victims are mainly owners of restaurants, bars and nightclubs. Extortion takes the form of demands for cash or, sometimes, demands for co-ownership stakes in the businesses. Sometimes OC groups steal cars and then extort money from their owners in order to return the cars.
- *Fraud and forgery* – most frauds are committed by OC groups in order to obtain loans or credit cards using false supporting documents or forged credit cards. Forgery is also connected to illegal immigration, especially relating to the production of false residence documents for economic immigrants, who do not meet the necessary conditions for legal residence in Greece. The false documents are mainly passports, visas, certificates from an employer, international driver licenses and other documents, which are necessary for the aliens to obtain work and residence permits.

The *Hellenic Statistical Authority* (EL.STAT., formerly *National Statistical Service of Greece – ESYE*) provides some data in relation to the turnover of several illegal markets in Greece. This type of information does not appear in the OC reports. Specifically, according to EL.STAT., the annual turnover of smuggling in Greece is approximately 2.8 billion euros. Cigarette smuggling is estimated at about 78 million euros a year, whereas drug smuggling is estimated at about 234 million euros a year, and alcohol smuggling at about 104 million euros a year. Fuel smuggling is also a lucrative business, since its annual turnover reaches 400 million euros. Prostitution turnover is considerably bigger than the other markets' as is estimated at approximately 2 billion euros a year, 180 million euros of which refer to bribes paid to corrupt officials (Stergiou, 2009).

Immigrant organised criminal groups

Ethnicity and immigrant status constitute important explanatory variables of organised criminal activities in Greece, and the OC reports make explicit reference to the 'threat' posed by non-indigenous 'organised crime groups'. Specifically, the 1999 report suggests that 'the ethnic crime groups that constituted a specific threat ... were the Albanians, Russians, Bulgarians, Romanians, Turkish, Iraqi, and in some cases Pakistani or Bangladeshi groups'. The 2004 and 2005 Greek OC reports offer a detailed breakdown of organised criminal activity per immigrant group:

- *Albanian* OC groups are mainly involved in drug trafficking, thefts and robberies.
- *Bulgarian* OC groups are mainly involved in counterfeiting and forgery.
- *Middle Eastern and Asian* OC groups (Chinese, Iraqi, Pakistani and Turkish) are involved in illegal immigration.
- *Russian and Ukrainian* OC groups are mainly involved in cigarette smuggling.
- *Romanian* OC groups are mainly involved in thefts and trafficking.

The 2004 AOCR also highlights a more threatening aspect of these 'criminal organisations' by suggesting that 'activities ... remain stable over time and appear not to be affected by external or internal factors' (MPO, 2005: 6).

Indigenous OC groups

The Greek OC reports also describe the role of Greek organised criminal groups in various OC activities:

- working together with OC groups engaged in human trafficking, providing facilities for the detention of victims;
- providing means of transportation for cocaine along the Atlantic route and thus cooperating with foreign OC groups, cooperating with Albanian OC groups in the trafficking of marijuana along the Balkan route;
- extorting restaurants and night clubs.

The OC reports note that increasing mobility as the EU expands has led to an increase in heterogeneous and foreign OC groups, whereas homogenous and domestic groups have decreased. According to the OC reports of 2004 and 2005, out of 317 'criminal organisations', 110 (34.7 per cent) were composed of foreign nationals only, 110 (34.7 per cent) were of Greek nationals only, and a further 78 (24.6 per cent) were of Greek *and* foreign nationals, although the degree and nature of collaboration among Greek and foreign nationals is unclear (Antonopoulos, 2009).³

Labour mobility within the EU, along with the country's geographical position at the crossroads of drug-trafficking transit routes, its long coastline, and political and economic problems in neighbouring countries are seen as circumstances outside the full control of law enforcement, making the fight against organised crime difficult (MPO, 2006).

Main patterns of white-collar crime

The analysis of white-collar crime in Greece may contribute to a better understanding of organised criminality in the country. Legal businesses in Greece are often perpetrators of offences that could be defined as 'organised crime'. Yet, it must also be noted that even if such crimes are uncovered, it is sometimes hard to prove that they do indeed violate existing laws, as they often exploit loopholes in existing legislation as well as differing regulations in different countries. Since the Greek AOCs devote very little attention to the matter, though, it is necessary to outline the main patterns of financial and economic crimes committed by Greek companies.⁴ Those are:

- *Customs violations*: mainly trafficking in legal goods such as cigarettes, alcohol, foodstuffs and fuel. Alcohol beverages are a primary target of smugglers due to the very high excise tax rates on them. A variety of methods are used – e.g. fraudulent documents permitting the exportation of alcohol to foreign countries, which is actually distributed in Greece tax-free, or the setting up of 'shop-front businesses' which declare bankruptcy before duties can be collected. The trafficking in various petrol products also takes place. The main mechanism involves tax-free petrol supplied to ships, yachts and fishing boats sailing under foreign flags. Thus, ships have often supplied fraudulent documents detailing alleged stops at Greek ports for the purpose of refuelling, whereas such stops are never made. The untaxed petrol is then passed on to various fuel-supplying companies and fuelling stations, who sell it at a much higher price.
- *Misuse and fraudulent obtaining of EU subsidies, also referred to as 'euro-frauds'*: white-collar criminals exploit subsidies for exports of European goods to non-EU countries, or subsidies intended for agricultural products, development projects or EU educational schemes. A relatively recent report in the financial supplement of the Greek daily *Eleftherotypia* suggests that over 50 per cent of the misuses of EU subsidies in 2007 occurred in Greece (Kaddas, 2008).

- *Various methods of tax evasion*, including via offshore companies in countries such as Cyprus, the Bahamas, the Cayman Islands, Bermuda, Switzerland, Ireland, Luxembourg and Spain. Offshore companies usually have their head offices in locations where they are not active, and where the law and taxation regime are particularly favourable. They may be registered in the name of one shareholder only, with guaranteed anonymity and bank secrecy. Income obtained abroad is not taxed, which allows for the transfer of profit from high- to low-taxation countries. Offshore companies are frequently used as intermediary links for the trade in goods with companies from third countries, so that a significant portion of the profits of the importing or exporting Greek company remains at the head office of the offshore company, where tax rates are low. Greek companies also typically overvalue such export goods and, conversely, undervalue import goods to further inflate their profits.
- *Defrauding of stock market investors*: perpetrators secure the trust of unsuspecting investors from whom they take amounts of money for investment in supposedly high-return ventures, or take commissions with the promise that investors will receive a large number of newly floated shares. Consequently, the investors' money disappears together with the perpetrator, with the money often being sent to banks abroad or to offshore companies in tax havens. More complex forms of Stock Market related fraud involve the illegal use of confidential information and the manipulation of share prices, or the creation of pyramids.
- *Violations of employment regulations and 'acts of unfair competition'*, including the hiring of undocumented immigrants and underpayment of employees.

Corruption in Greece⁵

Numerous reports by Greek government institutions as well as by international organisations and NGOs have demonstrated that corruption levels in Greece are extraordinarily high for the country's level of development. It is usually the case that corruption decreases with increasing levels of GDP per capita. While Greece's GDP is not far below the average for Western European countries, it lags far behind 'Old Europe's' average in terms of corruption perceptions. Namely, while Transparency International's overall Corruption Perception Index score for the country in 2010 stood at 3.5 on a 1-to-10 scale (lower scores indicating high levels of corruption), Austria's score was 7.9; Denmark's 9.3; Spain's 6.1; France's 6.8. Even Italy outperformed Greece by scoring 3.9. Greece's TI scores have consistently been closer to those of Central and Eastern European countries in transition than to those of Western Europe. Since 2000, the country has only scored in the 3.5 to 4.9 range, with 2010 presenting the lowest score (Table 8.2).

According to Transparency International's 2010 Corruption Perception Index, Greece was rated the most corrupt country in the EU, one of the most corrupt in Europe and 78th out of 178 ranked countries. In addition, Greece loses about

Table 8.2 Corruption Perceptions Index, 2000–10

Year	Score ^a
2000	4.9
2001	4.2
2002	4.2
2003	4.3
2004	4.3
2005	4.3
2006	4.4
2007	4.6
2008	4.7
2009	3.8
2010	3.5

Source: Transparency International.

Note

^a Range: 1 = 'highly corrupt'; 10 = 'highly clean'.

8 per cent of GDP to corruption (TI, 2010; Mesthos, 2010)⁶ and the average Greek family pays about 1,500 euros a year in various forms of bribery. The majority of these bribes, euphemistically also known as *'fakelakia'* ('little envelopes'), are in the health system (see Genikos Epitheoritis Dimosias Dioikisis, 2010). Finally, while it is now clear as to where Greece stands when compared with the rest of the world, it is also interesting to note that political parties, with an outstandingly high average score of 3.975 on a 1 to 5 scale between 2004 and 2008 (with high values indicating high levels of corruption in this case), come out on top.

The question then arises why Greece, while by no means an impoverished country, fares so badly in tackling corruption. Some have pointed to cultural explanations. According to Bull and Newell (2003: 25), when the Modern Greek state was formed in the mid-nineteenth century, 'corruption was ... encouraged by an inherited culture of *rousfeti*, a system of bribery widely practiced in the Ottoman Empire'. Similar arguments have been put forward with respect to the whole post-Ottoman period by some authors like Chronis Polychroniou, who has argued that 'graft and corruption have always been an integral part of Greece's political culture' (Polychroniou, 2008). Others have emphasised a social-psychological basis of the phenomenon (e.g. Glick, 1998), whereas others (e.g. Diamantouros, 1983) have provided an explanation combining culture and the practicalities of the formation of the modern Greek state from the 1830s onwards. Diamantouros (1983) suggests that the Greeks were initially forced to live under a system in which institutions – totally foreign to the experiences, culture, and beliefs of the people – were imported from Western Europe and then adapted to the functional needs of the Greek society (see also Koutsoukis, 1989, 1998).

There are, however, a number of issues that have historically and *traditionally* been at the core of the Greek state and economic system, and which have facilitated the establishment and consolidation of corruption in the country. These factors include:

- 1 *The size of the Greek state*: the size of a state sector is closely associated with levels of corruption. OECD reports have consistently shown that Greece has one of the biggest public sectors in Europe, second only to Italy, and bigger in absolute terms than the public sectors of countries that are significantly larger such as Germany. The size of the Greek state determines greater ‘protectionism’ of entrepreneurial activities and a greater intervention in private businesses (see Tatsos, 2001). The size of the Greek state is related to the following factor.
- 2 *The system of administrative organisation*: the Greek system of administrative organisation is extremely centralised, and research has shown that there is a negative correlation between decentralisation of state organisation and corruption (Fisman and Gatti, 2002). The local governmental bodies (e.g. prefectural and municipal bodies) have either very little power and discretion or are subjected to, and financially depended upon, central government, and heavily affected by the policies and practices of political parties in power.
- 3 *The existence of a wide net of laws, regulations and procedures*, many of which are non-codified, incompatible with the overall system of administration, uncertain and contradictory, which allow the use of discretion on the part of the public officials, who are as a consequence vulnerable to corruption. A report by the *Bureau of Inspectors of Public Administration* in 2001 suggested that approximately 50 per cent of actions by public administration bodies were illegal. The situation has been such that the public administration sector has been defined as the ‘fair of illegality’ (see Delvinioti, 2001; see also Genikos Epitehoritis Dimosias Dioikisis, 2010).
- 4 *The level of bureaucracy*: this a crucial cause of corruption in the Greek context for a variety of reasons. According to a European Commission report, the cost of (‘good’ and ‘bad’) bureaucracy in Greece is estimated at approximately 16.7 billion euros (or 6.8 per cent of the country’s GDP, which is the highest in the European Union). Very importantly for the current study, the cost of bureaucracy burdens inflation, limits the profit-making ability of legitimate businesses as well as employment, and significantly neutralises the already weak competitiveness of the Greek economy by providing practical obstacles to businesses. For example, in order for a limited company to be set up in Greece, 15 days and more than 1,100 euros are required: one of the slowest and most expensive registration processes in the whole of the EU (Kaddas, 2009). Corruption is one of the ways for entrepreneurs to circumvent as effectively and as quickly as possible these obstacles and to counter the repressive, monopolistic power of the bureaucratic mechanism: this is why the money paid to corrupt officials in these cases is euphemistically termed ‘*grigorosimo*’ (‘quick stamp’).
- 5 *Lack of cooperation among different administrative agencies and other authorities*, which offers a great scope for corruption. In some cases this lack of cooperation is the result of the competition for centrally provided funds as well as prestige.

- 6 *Low salaries for public officials*, especially those in the lower echelons of the agencies, who have regular contact with illegal marketers.
- 7 *Lack of swift and certain punishment for corrupt public officials*: corrupt officials who are identified by the responsible agencies enter an extremely lengthy judicial and administrative process, with only a small number of officials being sentenced. Data from the National Statistical Service of Greece (ΕΣΥΕ) for the period 1959–94, for instance, suggest an overall downward trend in the rates of sentenced corrupt officials (National Statistical Service of Greece cited in Koutsoukis, 1998). In addition, the penalties imposed on corrupt public officials have gradually become lighter.

Corruption and organised crime – evidence of the link

Targeted institutions

Studies conducted by Eurobarometer in 2006 and 2008 indicated that a majority of EU citizens believed that organised crime was the main cause of corruption in their country. Very much in line with the general sentiment throughout the EU, Greek citizens in their majority (56 per cent in 2005 and 61 per cent in 2007) also indicated that they considered organised crime as the major cause of corruption (Eurobarometer, 2008). Yet, the available evidence, at least as presented in corruption surveys on the one hand and organised crime statistics on the other, point to a paradox. Namely, it is difficult to reconcile the very high levels of perceived corruption in Greece with the relatively moderate levels of officially registered organised criminal activity.⁷ To explain this paradox, three hypotheses seem plausible:

- First, it could be the case that official statistics underestimate levels of organised criminal activity. Related to this is the fact that activities that could be considered as manifestations of organised crime in the country do *not necessarily* require the contribution of a corrupt public official. Corruption, as previous Greek research (see Antonopoulos, 2008, 2009; Antonopoulos and Papanicolaou, 2009) has shown, is often a very functional aspect of criminal business; however, *it is not an indispensable feature of organised crime*, but an additional cost that the entrepreneurs attempt to avoid. Corruption becomes essential when entrepreneurs cannot avoid friction with public officials. In some pieces of research there is not a single reference to corruption (see, for instance, Antonopoulos *et al.*, 2010).
- Second, it could be the case that a broader definition of organised crime as encompassing white-collar crime would be more appropriate in analysing the links to corruption.
- Third, it could be the case that the Greek general public – whether or not influenced by the wording of the Eurobarometer question⁸ – presents a simplistic or incomplete understanding of the two phenomena as well as the interrelationship between the two.

- It must be noted that these three hypotheses are by no means mutually exclusive. Indeed, this case study produced evidence supporting all three of them. The 2004 AOCR report does acknowledge the links between corruption and organised crime; nevertheless, it does so only in the context of low-level, non-political corruption facilitating illegal immigration and human trafficking:

In some cases, criminal organisations cannot accomplish their economic goals without the tolerance and protection offered by civil servants. This is why they approach and recruit civil servants and employees (of the judiciary, police, tax authorities, customs, etc.), seeking their complicity. During the year 2004, it was revealed that civil servants were *only* engaged in forgery and frauds *relating with the legalization of illegal aliens* in Greece.

(MPO, 2005: 29, emphases added)

Official documents of Greek political and administrative decision-makers with respect to corruption state that the police in the country ‘focus almost exclusively on corrupt practices of the public administration’ (Lambropoulou, 2007: 9).

Bureaucracy/administration

Administrative corruption and bribery in relation to illegal immigration seem to be major issues. In Greece, several municipal employees and civil servants have been accused of receiving money in order to supply foreigners with false documents which are necessary for their legal residence in the country. The amounts received through the above methods are large (MPO, 2005: 8). According to the OC reports, Greek–Albanian criminal organisations are active in issuing false documents and stealing legal residence permits. Their basic collaborators are employees of municipalities (MPO, 2005).

Interviews conducted for the purposes of the study have suggested that corrupt civil servants facilitate illegal immigration not only by providing fraudulent documents, but also by failing to fulfil their obligations to inspect businesses employing illegal immigrants. When asked whether some parts of the government administration are particularly vulnerable to white-collar or organised crime, I2 pointed to employment authorities, which are ‘bribed by illegal/legal entrepreneurs to turn a blind eye to the exploitation of people’. I2 gave the following example: ‘Recently, the employment authority in Thessaloniki were bribed to avoid properly inspecting the premises of a sweatshop employing/exploiting undocumented foreigners’. When asked about the main reasons why criminal enterprises use administrative corruption, the same interviewee stated that ‘they do so primarily to avoid checks that could jeopardise their illegal business’.

In this context it is appropriate to note the close link between, on the one hand, the so-called black sector of the economy – i.e. the sector having to do with producing illegal goods (e.g. drugs) – and, on the other, the grey sector producing legal goods (e.g. cigarettes) yet using informal labour. Namely, the sweatshop under discussion was employing illegal immigrants – probably not for the production

of illegal goods – yet a good proportion of these immigrants would have probably ended up in the labour market as a result of help obtained by trafficking networks. Indeed, the fact that similar businesses need to perform illegal activities – not just bribing officials, but also avoiding taxes in a fairly regular and organised manner – makes the distinction between the grey and black economic sectors rather difficult to draw. Yet again it must be stressed that grey economic activity receives very little attention in the Greek OC reports.

Sometimes in analysing the link between corruption and organised crime, we run into further *definitional* complications. For example, OC influence in the administration may start with occasional bribes, but then could progress to a situation where civil servants engage in activities associated with traditional organised crime, such as subtle and not-so-subtle forms of extortion racketeering (Kambylis, 2008), or become ‘members’ of OC groups, so that it becomes difficult to conceptually separate organised crime and corruption. This becomes particularly difficult when several members or whole departments of state administrative bodies collude with OC groups by engaging in what is termed ‘systemic’ or ‘organised corruption’. What is of particular concern in the case of Greece is that the interviews conducted with experts and officials in the various branches of government did reveal large-scale corrupt collusion with organised criminals, yet somehow information on this is missing from the Greek OC reports produced and publicised so far.

The police

The three OC reports barely refer to OC groups’ use of police corruption.⁹ This is consistent with Lambropoulou’s study mentioned earlier, which found that reports by the Police Division of Internal Affairs dealing with corruption ‘describe cases of police misuse of power and corruption as occasional and not structural’ (Lambropoulou, 2007: 9). Nevertheless, the evidence that the present study has arrived at indicates that there *is* police corruption in Greece, and sometimes it is systemic and organised. Indeed, it is so well organised that one wonders where the ‘police force’ ends and where organised crime begins.

There are varying opinions on police corruption among this study’s interviewees. For I2, police corruption in Greece is primarily a problem ‘on the lower level of police work, which involves a confrontation between the police and illegal entrepreneurs, and the need on the part of illegal entrepreneurs to neutralise law enforcement’. However, according to I6, ‘there is significant corruption [in the Greek police], and I believe it is widespread across the various ranks of the police force’. More specifically, another interviewee (I3) pointed out that ‘organised corruption involving multiple officers at different levels can be found in the vice, narcotics and immigration divisions’. In terms of the kinds of OC activity facilitated by police corruption, I5 indicated that the police too, just like other civil servants, play a role in human trafficking: ‘Years ago, an important Greek people smuggler approached a coastguard investigator. Later on the officer said that he was shocked when the

criminal entered his office and said: “Why are you after me? I can make you rich. Do you know how many officers I have on my payroll?”’.

The same interviewee (I5) also revealed the existence of systemic corruption facilitating other types of crimes, such as drug trafficking and cigarette smuggling. The dividing line between being a corrupt police officer and being a member of an OC group is not at all clear in the well-known case of organised corruption within the police recounted by I2. In this case, many individuals were arrested, including coastguards (elite divers and their commanding officer) due to involvement in the criminal organisation of the notorious criminal Stefanakos. This organised crime group was involved in the extortion business, drug trafficking, oil smuggling and cigarette smuggling. It was well-known in the Piraeus’ ‘underworld’ that coastguards were offering protection to oil and cigarette smugglers and that during their free time they were working for nightclubs. Unfortunately, the court case was only partially successful and several of the accused were acquitted due to the poor evidence available. According to police sources, Stefanakos, at a time when the security police of Attica was trying to bring him to justice, was issued a new ID card by a corrupt police lieutenant. Moreover, even after his imprisonment, Stefanakos’s criminal business runs uninterrupted (I2).

Another very recent case demonstrating the difficulty of drawing the line between police corruption and full-scale involvement in organised criminality was reported in *Kathimerini* newspaper. It involved four police officers, who were arrested for their alleged participation in a sex-trafficking ring believed to have brought hundreds of women to Greece from Eastern Europe and the Balkans. It is interesting to note that two of the four had been previously prosecuted, while one was convicted and dismissed from the force after being found guilty of participating in extortion racketeering (*Kathimerini*, 2009).

In view of the above, it must be noted that it is understandable that the police as an institution at the forefront of the fight against organised crime is vulnerable to corrupt influences from OC, as I8 remarked. Indeed, as the same interviewee pointed out, if the police succumbs to that corrupt influence, the battle against organised criminality is lost. In this context, it is particularly alarming that, as I4 emphasised, there is a lack of prevention of police corruption such as specific procedures monitoring the hiring and training of officers: ‘these are currently non-existent’.

The customs and tax authorities

Corruption within the Greek tax and customs authorities is a significant issue (I1, I5, I6, I7). A number of audits by the Ministry of Finance have revealed systemic corruption on a scale comparable to the situation in the EU-10E countries, rather than those in Western Europe (Siomopolous, 2007). In 2006, 49 customs and 14 tax officials were tried and imprisoned for cases that also included VAT fraud schemes, smuggling of cigarettes and oil, as well as numerous cases of illegal clearance (Hiotis, 2006). Only a few years earlier, in 2003, the Ministry of

Finance publicly released a list of 39 tax officials and 52 customs officers that had been prosecuted or dismissed for having engaged in corruption relating to smuggling, tax evasion and VAT fraud (*Kathimerini*, 2003a).

The scandals that surrounded the Greek customs and Ministry of Finance revealed how highly politicised the Customs Administration had become. The attempt to move the heads of certain customs offices to different positions provoked a political reaction and led to the discovery that the customs officers concerned were children of leading politicians. Organised criminals rely primarily on deception and forged documents as methods to get past the customs (MPO, 2005: 17, 18). The most important cases involve oil companies, which constitute 'big business' for customs (I6). When it comes to tax corruption, however, it should be borne in mind that *even legal businesses* do attempt to bribe tax inspectors in order for them to turn a blind eye to violations.

As with the police, systemic and long-lasting corruption occurs in some customs departments as well. While discussing the recent 'disappearance' from the Port of Piraeus of a container shipped from Latin America with a load of 20 tonnes of coffee, I5 noted that the subsequent investigation was so lax that nearly anyone could lay their hands on the shipping documents and drive off with the cargo. It was strongly suspected that hidden in coffee was a load of cocaine. It also transpired that corrupt officers on duty at the Keratsini customs took a fixed bribe from each lorry leaving the zone. Further investigation revealed that hundreds of unreported thefts were taking place in the port. The importers did not complain because that would affect their business negatively, while the thefts and related losses were seen as 'normal' business risk.

The port of Piraeus was also mentioned by I2 when asked about which customs offices are most vulnerable to corruption. According to the interviewee it is those 'at the borders, particularly the northern borders of the country, as well as the ports of Piraeus and Patras'. As for the OC activities facilitated by customs corruption, I2 stated: 'Cigarette smuggling primarily. But I would also add other legal commodities except stolen cars. Secondarily, it is drugs'.

Another interviewee – I7 – also pointed to cigarette smuggling as an activity facilitated by customs corruption. Indeed, according to market estimates, around 8 per cent of cigarettes sold in Greece have been smuggled (Antonopoulos, 2008), which translates into tax revenue losses amounting to millions of euros per year. As one example of organised corruption among many, in 2006 six customs officers were prosecuted for cigarettes smuggling in Doirani (a Greek-FYROM border check point). Tax revenue losses from oil smuggling are also likely to be very high indeed. In one instance losses amounted to 17,000 euros (Eleftheros Typos, 2000).

The judiciary

The 2004 OC report makes reference to judicial corruption as a potential practice of OC groups engaged in illegal immigration and human trafficking. Yet no

specific cases of actual uses of judicial corruption by organised crime are cited. It would therefore be useful to highlight a few concrete examples of the phenomenon from the interviews conducted for this study. Informant I7 mentioned not only human trafficking but also money laundering:

The cases that come to mind are those of judges Kalousis and Bourboulia. Kalousis got 20 years and 2 months for money laundering; he received bribes and allegedly enjoyed the services of prostitutes from the former eastern bloc, who were exploited by organised criminals. Kalousis and Bourboulia allegedly laundered money in the Athens stock market.

According to I2, corruption in the judiciary occurs not only in relation to illegal immigration but also when organised criminals attempt ‘to secure an acquittal or a shorter sentence’. The same interviewee cited the following case: ‘A few years ago a judge in Thessaloniki was bribed to acquit high-standing and rich individuals involved in cigarette smuggling in the North of the country’. These individuals were probably successful and respectable members of Greek society.

Judicial corruption in Greece can be organised within networks of white-collar criminals. A number of the interviewees, in this respect, talked about the existence of ‘para-judicial networks’. Cases uncovered in Athens and in Thessaloniki provide a glimpse of how such networks operate. One scheme involved corrupt defence lawyers acting as intermediaries and ensuring impunity and/or favourable treatment of their defendants. In another case an MP, civil servants, members of the police and customs, along with private individuals, acted as intermediaries (Ertonline News, 2009; Lampropoulos, 2007). Bank accounts in Switzerland were used to deposit the bribes. In Thessaloniki, another ‘para-judicial network’ included 7 judges, 3 lawyers, businessmen, academics and customs officials (some already convicted). The lawyers ensured that the trials were assigned to corrupt judges who, in exchange for money, took a lenient stance in sentencing money launderers, drug traffickers, fuel smugglers, forgers and extortionists. One of the judges, Mr Evangelos Kalousis, was sentenced in 2008 to 22 years imprisonment for passive bribery, money-laundering activity, attempted extortion, breach of duty and abuse of power. In a statement explaining why seven lawyers had deposited money in his accounts, he clearly illustrated the nature of the social networks facilitating corruption in Greece:

Mr. Papacharalambous has been my family lawyer for over twenty years, George Nikolakopoulos was my university fellow thirty years ago, Mr. Plevris is a friend with whom I play chess; Mr. Stavrianakis and Mr. Dimosthenous are from my same town of origin, as are our wives. As for Mr. Nektarios Athanassopoulos, he is an acquired relative through marriage.

(Skaï Newspaper, 2005)

Politicians

Political scandals started to appear regularly in the Greek media from the mid-1980s (Koutsoukis, 1995) and since then have been perceived as an integral part of public life, despite the efforts of the two major political parties (PASOK and New Democracy) to downplay the problem.

In the current study, most interviewees agreed that out of all sectors – private, administrative, customs/tax, judicial, police, or political – it is the latter sector that is either most or second most vulnerable to corruption. When citing an example of political corruption involving OC, several interviewees referred to the Zoniana case. Zoniana is a little village in mountainous Crete whose inhabitants were involved in drug trafficking (among other OC activities). They were able to operate undisturbed due to pressures on the police by powerful local politicians to turn a blind eye. I7 pointed out that cannabis cultivators throughout Crete, not just in Zoniana, seem to enjoy the protection of high-level authorities (the police, judges and mainly politicians).

In the opinion of I2 the political sector is not only the most vulnerable to corruption, but it owes its very existence to the grey relationships with individuals or groups that help politicians achieve power (the so-called ‘client relationships’ – *‘πελατειακές σχέσεις’* or *‘rousfeti’*, which has its roots in the Ottoman Empire). According to I2, ‘the nature of social relationships in Greece (primarily in the provinces) is such as to favour grey transactions’; in areas of the country that are quite distant from the centre of government and in which politicians already have extremely good personal relationships with citizens, this means that they are elected by them on the basis of favours, which many times involves turning a blind eye to criminal activities.

The question naturally arises whether the influence of organised crime on Greek politics is only encountered at the local level. According to I5, ‘political corruption in relation to organised crime is encountered at all levels’, with the Zoniana case being ‘just one example of what is actually happening across this country’. In the interplay of OC and corruption, I5 suggested a reverse causality, since ‘the Greek political parties and politicians contribute to a climate of corruptive influence that organised crime readily exploits either directly or indirectly’.

I2 claimed that what goes on at the local level pales into insignificance when compared to corrupt deals at the central level. In this respect, it is particularly pertinent to mention the role of multinational companies (MNCs) and their interaction with political leaders. Take the recent Siemens scandal in Greece. The company essentially acted as a major fund provider for the two main parties of the country – New Democracy and PASOK – in exchange for favourable treatment in competitions for contracts. According to media reports (e.g. Athens News, 2008), bribes were paid to the tune of 100 million euros, particularly during the years preceding the 2004 Olympic Games. As it usually happens with bribes involving political leaders rather than low-ranking civil servants, cash payments were not made directly, but through offshore companies set up in the Caribbean, Hong Kong, Dubai, Liechtenstein and Switzerland.

The Siemens scandal can help explain the role of political corruption in white-collar criminality, and can also illustrate how big fortunes by so-called ‘oligarchs’ are created. Although it is currently impossible to provide evidence as to how the old ‘oligarchic families’ in Greece were built and what the role of the political sphere was, there is a case of an ‘oligarch’, who appeared in the financial scene in the early 1990s and, because of his relatively sudden appearance, received considerable media as well as criminal justice attention. According to an article in the Greek daily *Kathimerini*, which presented information deriving from the electronic archive of Stasi, the ministry of state security of East Germany, a Greek businessman, owner – among other companies – of Intracom telecommunications, Socrates Kokkalis, had been employed as a Stasi agent since the early 1960s. Kokkalis, under the pseudonym ‘Krokus’, was presented as a Stasi agent for the period 1985–89, having obtained significant information about the general situation in Greece, Greek politicians, Greek secret services, terrorism and the Greek defence policy. The information provided in the Stasi archive was also verified by the US intelligence. In 2008, the German monthly financial magazine, *Capital*, reported the involvement of Socrates Kokkalis in black transactions, including the scandal of Siemens’ ‘black funds’ (Pappas, 2008). In this particular article it was stated that Kokkalis became the fourth-richest Greek through ambiguous business with the DDR, and through controlling important actors of Greek political life. According to *Capital*’s 2008 article, DM86 million had been given since the mid-1990s to the Greek Telecommunications Organisation (OTE), and another DM18 million to Greek politicians in order for Siemens to win the public bid for the digitisation of the Greek telephone network. However, Siemens was allocated 50 per cent and Kokkalis the other half of the lucrative deal. Kokkalis appeared to have established a special relationship with Siemens, the officials of which, according to the Siemens’ former commercial director Michael Kutschenreuter, used to call him ‘Mister K’. Kutschenreuter also referred extensively to the connection between Kokkalis and Jung, who was a member of the executive board of Siemens and responsible for the company’s business in Greece. After his retirement from Siemens, Jung became member of the board of Intracom, which was in 2006 sold for 200 million euros to the Russian company AFK-Systema, on whose board Jung also sat.

Such huge amounts in bribes naturally lead to suspicions regarding money-laundering questions. To ‘clean’ kickbacks of similar magnitude, politicians and party funding machines must resort to various accounting tricks and perform banking transactions to mask the trail of corruption. It is therefore not inconceivable that the banking and accounting profession would be a prime target for corrupt politicians who – after having been bribed themselves – would be more than glad to, in their turn, bribe bankers and accountants in order to help conceal illicitly acquired funds. It is therefore little surprise that GRECO’s 2008 compliance report on Greece concluded that the money-laundering regulatory framework with respect to corruption is very weak, leading to the recommendation that the Greek authorities need to ‘strengthen their anti-money-laundering regime with a

view to increasing its efficiency and contributing to the fight against corruption' (GRECO, 2008). Even more importantly, for money-laundering investigations to reveal that organised or white-collar crime is behind illicitly obtained funds, investigators need to be able to operate without political interference and pressure from the highest levels of government.

Before proceeding to the next section, it is important to keep in mind which type of criminals are most likely to use political corruption. In answer to this, I2 stated: 'I would say rich, powerful, white-collar criminals.' On another occasion, the same interviewee clarified: 'White collar criminals ... tend to be almost always Greek nationals.' While we should not underestimate the role of MNCs as well – as the above discussion demonstrates – we should also not forget that foreign trade and FDI account for just a fraction of the country's total economic activity.

Private sector corruption

The 2004 Greek OC report mentioned one case of passive corruption/infiltration of a private company. It described how a company produced 'forged credit cards stealing data from real cards and then, *in cooperation with storekeepers*, bought goods at the expense of the owners of the genuine cards' (MPO, 2005: 21, emphasis added). It also briefly mentioned the role of the private sector as an intermediary in corruption, and in particular the fact that OC groups seek 'cooperation with lawyers who play the role of *mediator with illegal aliens*' (MPO, 2005: 23, emphasis added).

Nevertheless, despite devoting some attention to passive and 'intermediary' corruption in the private sector, the Greek OC reports do not explicitly analyse active corruption on the part of 'legal' businesses. This is regrettable because such analysis could lead to a crucial insight. Namely, it would lead to the consideration of organised corruption by company members as conceptually no different from corruption carried out by organised crime.

By contrast, the interviewees in this research focused not so much on passive as on active private sector corruption. Several of them also discussed the role of lawyers as mediators between organised crime and corrupt officials. I2 pointed out that 'the inefficient legal framework on organised crime, which is exploited by witty lawyers, is also accountable for failed [police] investigations [of organised crime]'. Another interviewee (I5) discussed a case related to drug smuggling, in which a lawyer attempted to negotiate a deal on behalf of his clients who were serving life sentences for multi-tonne cocaine smuggling. The language used in the meeting was very carefully selected by the lawyer, who frequently complimented the officers on their successes. According to I2, these were disguised corruption attempts as the police were offered a deal where they would appear to be doing their work, while the criminals would be entitled to privileged treatment stipulated by law.

With respect to active private sector corruption and the practical difficulty in semantically disentangling the legal and illegal business sector in Greece, I2

pointed out that ‘there seems to be a symbiotic relationship between the legal and the illegal sector that makes investigation [of organised crime] quite difficult’. Another interviewee (I1) stated that ‘there are hundreds of [seemingly legal] businesses that are related to organised crime ... there are so many businesses in the country that live off black money’. It is similar considerations that have led criminologist Dwight Smith to draw little distinction between businessmen and gangsters, arguing that ‘the circumstances in which the businessman engages in criminal frauds shade off by imperceptible degrees so that the line between criminal and non-criminal activity is thus frequently a rather arbitrary one’ (cited in Standing, 2003: 28).

Katsios (2006) also finds it difficult to distinguish between legal and illegal businesses, particularly when attempting to estimate the size of the Greek shadow economy. Is it appropriate to include the production of illegal goods and services in that economy? In his view it is, because ‘tax evasion associated with legal activities in the shadow economy is itself illegal and subject to criminal punishment’ (Katsios, 2006: 64). Yet, with respect to the levels of the shadow economy, very much as with respect to corruption levels, it is interesting to note that Greece shows pronounced signs of a country in transition. Its shadow economy is estimated by Schneider (2007) to be at 26.3 per cent of GDP in 2005: a figure close to the estimates for Poland (27.3 per cent) and Italy (23.2 per cent). If we allow for a broader definition of organised crime as comprising most shadow economic activities in addition to white-collar crime, however, there is no discrepancy between the high levels of corruption, on the one hand, and the high levels of the shadow economy in Greece, on the other. Ultimately, we could argue that the private sector, when acting as organised crime, is a causal factor for high levels of corruption in the country, thus offering a possible resolution to the paradox outlined above.

Conclusion

The findings of this study suggest that it is at the political level that the links between corruption and organised crime – particularly white-collar crime – present the greatest challenge to Greek society. According to widespread perceptions, in Greek society there is too much interdependence between politicians and private interests, and this determines unethical or illegal exchanges between political parties and the private sector (Bull and Newell, 2003). In view of this, a much more complex picture emerges from this study than the one presented in official publications.

Although the size of illegal markets or criminal activities is moderate (as suggested by official OC reports), corruption is actively used throughout. Traditional organised criminal activities (drug trafficking, goods smuggling, etc.) in some cases enjoy the covert and sometimes organised protection of politicians and/or civil servants at various levels of the administration, police, judiciary, customs and tax authorities.

The interviews provided evidence of the links between the so-called black and grey sectors of the economy, pointing to the difficulties in maintaining a conceptual distinction between the two. The significant levels of white-collar crime explain public perceptions in Greece that organised criminals are behind most episodes of corruption. In addition, the pervasive corruption practices relating to the activities of ordinary citizens or legitimate companies establish an atmosphere from which organised crime highly benefits. In this situation, corruption provides a competitive advantage to those business structures – whether in the grey or black sector – which do not operate according to officially established rules.

Notes

- 1 Currently, Ministry for Citizen Protection.
- 2 Other reports produced or published by law enforcement agents/agencies have also viewed the issue of organised crime through the prism of threat. Trigazis (2002), for instance, a high-ranking police officer, argued in his report that the phenomenon of organised crime features high on the list of new dangers after the collapse of the Soviet bloc and the end of Cold War, and that organised crime threatens to corrode political institutions and disorganise economic order and societal cohesion (cited in Antonopoulos, 2009). For rank officers' accounts of the threat of organised crime, the danger from the 'reversal of the existing rules of democracy', and the 'connection between organised crime and terrorism', see Tassiopoulos (2004) and Vetoulis (2002).
- 3 The ethnic identity of the remaining 19 'criminal organisations' could not be established.
- 4 The analysis of the main patterns of white-collar crime is based on an article by Courakis (2001), as well as on recent media reports.
- 5 It is interesting to note that the term 'corruption' does not appear in the Greek Penal Code, which distinguishes between 'passive' and 'active' bribery: Article 235 – 'passive' bribery; article 236 – 'active' bribery; and article 237 – bribery of a judge as amended by the second article of Law 3666/2008.
- 6 These findings must, of course, be treated cautiously. It is interesting to note that in Lambropoulou *et al.*'s (2008) study only a small number of participants in the private sector and NGOs accepted that corruption in Greece is higher or even much higher than in other developed European countries, as this is shown in the Transparency International's Corruption Perception Indices.
- 7 This paradox, it must be noted, applies in varying degrees to other EU Member States with similar 2006/2008 Eurobarometer survey results and characterised by high levels of corruption and low to moderate levels of organised crime. Cluster analysis has placed several other Member States in a group with Greece; a similar analysis may apply to their situation as well, in varying degrees.
- 8 The question asked whether respondents agreed with the statement that most corruption in their country was caused by organised crime.
- 9 The 2004 AOCR mentions only one case of police corruption involving a border guard, who served at the Illegal Immigration Enforcement Section in Athens and participated in an OC group active in human trafficking (MPO, 2005: 25).

9 Italy

Who corrupts whom?

Vincenzo Ruggiero

This chapter attempts to delineate the uniqueness of the Italian case through some observations around the specific contours of organised and corrupt exchange as they manifest themselves in the country. After a brief methodological note, the analysis is interspersed with the opinions of key informants contacted for this research who have profound knowledge of the subject matter, having worked for many years as investigating judges or academic researchers. A division into areas in which the links between organised crime and corruption are observed tries to map the two phenomena and their joint *modus operandi*.

Background

Criminal organisations

As specified in [Chapter 1](#), an understanding of organised crime cannot evade a preliminary distinction. There are organisations mainly engaged in conventional illicit business, such as prostitution, gambling, smuggling, the supply of drugs, and so on. These organisations are criminal enterprises or syndicates operating in illegal markets, in the so-called underworld, where they promote, or respond to, demand for prohibited goods. On the other hand, there are organisations which do not limit their operations to the realm of illicit markets, but gain access to the overworld, namely to the official economic and political spheres. The latter types of organisations, through their simultaneous presence in legitimate and illegitimate domains, exert territorial control and constitute ‘power systems’ which transcend conventional criminality. The very phrase organised crime, in Italy, mainly refers to the latter type, exemplified by organisations such as the Sicilian Mafia, the Camorra in the Campania region and the ‘Ndrangheta in the Calabria region. The relatively recent development of another organisation operating in the Puglia region, the Sacra Corona Unita, is said to be the outcome of the influence of the Camorra in the region, where local groups claimed and slowly achieved independence from the Neapolitan organisation. It is controversial whether the Sacra Corona Unita adopted the typical rituals characterising the ‘secret brotherhoods’ from Sicily and Campania as the result of sheer mimicking, or whether

such rituals belonged to a pre-existent underworld subculture in the region (Massari, 1998). It is also hard to establish the degree to which this group operating in Puglia is capable of forming partnerships with official economic and political actors like their counterparts in Sicily and Campania. The groups that are certainly unable to do so are formed by non-indigenous members or networks, over which a lot of investigative and scholarly work is yet to be produced, and on which I shall return shortly.

With respect to the major Italian organisations, it should be noted that the awareness of their constitution as ‘power systems’ dates back to the nineteenth century. For example, in 1876, member of parliament Leopoldo Franchetti described the mafia as a form of political crime promoted by sectors of the ruling class, namely official political actors and businessmen. Elite groups were said to employ members of the ‘military mafia’ and to use them as an illegal resource in their economic or political activity. Violence was used for the discouragement of economic competitors and the intimidation of political opponents (Scarpinato, 2004). The groups lending their strong arm to official actors, in exchange, were granted a relative freedom to operate in other illegal activities (mainly protection racket and contraband). Similarly, the Camorra, at the time of the unification of the Italian peninsula (1860–61), was entrusted with the task of maintaining public order, as the regular police had been sent to back up Garibaldi’s army. The authority of the *camorristi*, in fact, became accepted by many as the only power likely to guarantee order in a situation of war, when internal conflict breaching every rule could easily take place. The Camorra was then playing the role of a broker, acting as a mediator between a turbulent society and the official authorities, a role destined to evolve significantly in the years to come (Ruggiero, 1993; Behan, 1996; Barbagallo, 1999).

These two examples lead us back to the concept of social organisation discussed in [Chapter 1](#) and to the analytical distinction between *associations* and *transactions* enucleated there. It should be clear that organised crime in Italy traditionally was, and currently is, engaged in a variety of meaningful transactions with official actors.

Some observations must be now made about indigenous and non-indigenous criminal organisations. In the literature on organised crime, when the involvement of migrants is examined, images and judgements recur which are often based on opinions, hypotheses and moral panics. Some studies set off with the premise, reiterated and transmitted without corroboration from one commentator to the next, that organised crime formed by foreigners ‘is characterised by particular forms of aggression and violence and the fast growth of their capacity to operate in different criminal areas’ (Di Nicola, 2008: 193). It is very hard to establish of what this ‘particularity’ exactly consists, especially in Italy where the violence and expansive force of indigenous organised crime is a well-known fact. A more useful strategy, perhaps, consists of focusing on some specific types of criminal activity, or on some specific geographical area, and observing the interactions that organised criminal groups formed by migrants establish with the new

or traditional Italian organised groups. In a tentative manner, pending further substantiation, we might suggest that in some Italian regions foreign organised crime is independent from Italian criminal groups, because the latter are by now engaged in productive, entrepreneurial and financial activities. Other specific criminal sectors may have undergone a process of ‘succession’, whereby foreign groups occupy the space left by Italian groups who have moved on to operate elsewhere. In some cases, however, the succession is accompanied by the request by Italian groups of a percentage on the profits made by the new comers (Becucci and Massari, 2001; Becucci, 2006). In other areas, partnerships can be formed between Italian and non-Italian groups, with a division of labour based on the respective power and on the capacity of the latter to access the sources of illicit goods and substances. In yet other areas, non-Italian groups are subordinate to Italian ones, particularly in contexts in which the demand for illicit goods and services is traditionally high. In such cases, non-Italian groups provide ‘criminal labour’ to established Italian ones. Finally, if we prefer to focus on the specific criminal activity in which the different groups specialise, we might want to investigate, for instance, whether the illegal transfer of people carried out by Romanians is to be associated with the demand for labour by the Italian hidden economy; whether the ability of Russian groups to infiltrate the official economy is due to the proven willingness by official actors to facilitate illicit infiltration; and finally, whether the predominance of Chinese groups in the importation of forged goods is the effect of the particular prosperity of this illicit economic sector in Italy. In brief, the criminality of migrants in Italy should perhaps be analysed against the background of the criminogenic characteristics of the country (Ruggiero, 2009a). What remains evident is that non-indigenous organised crime is confined to conventional criminal activities, including theft, robbery, prostitution rackets, human trafficking, drug distribution and all other ancillary activities related to the above. Organised crime involving migrants, in brief, remains a form of *pariah* organised crime. The indigenous groups, instead, are in a position to control the major operations of conventional criminality (mainly protection rackets and large drug operations) while participating in the official economic and political worlds. It is in these worlds that episodes of corruption occur which prompt the question: to what extent does organised crime impact on the spreading of corrupt practices in the country?

Corruption

Nineteenth-century Italian criminologists were fully aware of the inclination of powerful groups in the country to violate the law (Ruggiero, 2006). This should not sound surprising: most members of the Positive School were politically left-leaning and warned that ‘the bourgeois tyranny’ would soon deny human and civil rights to citizens (Ellero, 1879); that the elite was giving shape to ‘new’ forms of criminality, more devastating than the old ones (Lombroso, 1902); and that the ruling classes, with their contempt for legality, would dictate the moral (or immoral) tone of the entire country (Ferri, 1884).

In the annual report produced by the State Audit Board (the *Corte dei Conti* composed by judges who advise the Treasury) in 2008, there was no sign that corruption, through payments given to politicians by entrepreneurs in exchange for public contracts, was subsiding (Il Sole 24 Ore, 4 February 2008). The most worrying aspect underlined by the Board, however, was the reiterated practice of granting amnesties to those charged with corrupt behaviour, who are in this way regularly rescued before a criminal sentence can be pronounced. Similar concerns were expressed by the Anti-Corruption High Commissioner, who stressed that statistics indicating a decline in the reported cases were not a signal of the decline of the phenomenon, but rather of the growing tolerance towards it. Incidentally, the recent programme aimed at simplifying and shrinking the national bureaucratic apparatus included, among other measures, the suppression of the figure of High Commissioner (Unimondo.org, 2008).

Transparency International (TI), in March 2009, remarked that in Italy, corruption is the only industry that does not experience a crisis. In the year 2002, the country was placed 31st in the table compiled by TI using their 'perceived corruption index', while in 2008 it was in 55th place. With regard to TI's 'bribe payers index', Italy also occupied a low position: 17th out of 22 countries. This index measures the propensity of companies from the top industrialised countries to use corrupt methods when operating abroad. The argument was also made that, given the current economic crisis, and given the state's intention to inject money into a variety of public works which may encourage productive recovery, corruption may increase as a consequence. Enterprises and political representatives were said to be poised to take advantage of such imminent opportunities. A new Bill discussed in Parliament about banning the use of telephone tapping for investigations concerning corruption was also seen as a new incentive for perpetrators. Finally, a strong antidote to corruption was identified, as usual, in market competition.

It is indeed around the variable 'competition' that many episodes of corrupt exchange can be grouped. A typical, sensational, example, is offered by the scandal of the Bank of Italy. The type of illegal conduct adopted by the Bank shows how powerful groups and individuals may violate their own rules and philosophies. While officially adhering to the liberal principles of competition, general director Antonio Fazio accepted the bid made by banker Gianpiero Fiorani, despite the fact that a non-Italian competitor had made a more advantageous offer to buy the Antonveneta Bank. Behind the national sentiment mobilised by Fazio in explaining his choice, there emerged a long-term partnership between him and Fiorani in numerous mutually enhancing financial operations (Statera, 2005). This case shows how the official advocates of market freedom, in fact, do not genuinely believe in the benefits of such freedom.

Methodological note

Having set the background, it is necessary to specify the sources of the information collected below. The analysis that follows is based on:

- 1 judicial documents, namely documents produced by courts on proven cases leading to guilty verdicts and consequent penal sentences;
- 2 journalist sources discussing proven cases or ongoing investigations and judicial activity;
- 3 academic work discussing the above or analysing general issues around the causes and persistence of both corruption and organised crime;
- 4 interviews with five key informants.

Interviews were conducted with three judges, respectively a long-term mafia investigative judge (J1), an experienced investigative judge working in the Campania region (J2) and a judge sitting on the national Council of Magistrates, Consiglio Superiore della Magistratura (J3). The other two key informants were senior academics based at the University of Palermo and the University of Turin respectively (A1, A2). All five informants are also known authors, as they have produced a variety of publications in the form of books and articles on the subject matter. Interviews were semi-structured and only some themes and areas were initially established, namely the specific sectors of social and institutional life in which organised crime and corruption can be read jointly. As the interviews proceeded, of course, the specific experience of the informants, their knowledge accumulated in investigative or research work, came to the fore and influenced the direction of the conversations with this author, yielding supplementary information in a serendipitous fashion. The interviewees were willing to participate in the project and were assured that their identities would not be revealed.

Findings

Corruption

The Bank of Italy case briefly described above possesses a number of traits with cases that occurred during the early 1990s and that can be grouped under the same typology. Such cases came to light during the long season of the anti-corruption judicial initiative known in Italy as ‘clean hands’ (Caferra, 1992; Paci, 1992; Pizzorno, 1992; Della Porta, 1992). Informant J3 recalled those years in the following terms:

In the administrative and political sector corruption is systemic. We have seen numerous examples since the 1970s. What became a paradigmatic case revolved around the interests of the oil-producing companies in Italy. These companies devised a well-organised system of corruption aimed at representatives of all political parties. They managed, in this way, to involve part of the parliament in passing a law which was blatantly favourable to them in financial terms. During the ‘clean hands’ operations, it emerged that the money destined by the construction entrepreneurs for the corruption of national and local politicians was part of the budget, it was an item in their accounts, although this did not appear in the official balance sheets of their companies (J3).

The ‘clean hands’ phase ended in the 1990s with yet another sensational case. Lawyer David Mills was accused of receiving some 500,000 euros from Silvio Berlusconi in return for giving false evidence in two corruption trials involving the Italian prime minister. Only in February 2009 was Mills found guilty and given a four-and-a-half-year sentence, though he remains free pending appeal. In the document released by the court to explain the motivation of the sentence, the description is provided of

the direct involvement of Berlusconi in the creation of 64 offshore companies through which various illicit funds were channelled, including the 12 million dollar pay-off that the Socialist leader Bettino Craxi received for approving the legislation that allowed Berlusconi to take more or less untrammelled control of the Italian airwaves.

(T. Jones, 2009: 23)

In an additional comment by informant A1, ‘The current prime minister has managed to escape the trial because he passed a law giving the country’s four highest office-holders immunity from prosecution, without which he would now be heading for a prison cell alongside Mills’ (A1).

With the new millennium, while lesser attention is devoted by academics to corrupt exchange, judicial and journalistic sources indicate an exacerbation rather than an attenuation of the phenomenon, although the dynamics and format of corrupt exchange appear to become increasingly diversified. The following is a limited sample of cases reported by the media over recent years (Ruggiero, 2007, 2009b).

- In Milan a local councillor working in the office for the protection of the environment builds a house, without applying for a building licence, in a protected area.
- A lawyer operating in Milan, former member of the board of directors of Parmalat and La Scala Theatre, is arrested for acting as a straw man for a criminal organisation: he accepted to appear as the owner of properties and financial assets actually belonging to the organisation.
- In Rome, several medical doctors are criminally charged because they dispense unnecessary therapies to patients with the only aim of claiming state reimbursement. The fraud costs the Italian state around 10 million euros. Similarly, in Milan, some surgeons are arrested for performing undue operations merely with a view to claiming state funds.
- A case coming to light in Florence indicates that municipal areas destined for public use are instead sold to urban developers in exchange for bribes.
- In Turin, a number of pharmaceutical companies are accused of bribing politicians in order to obtain licences for the sale of useless medicines and to outflank laboratory control about their hazardous nature.
- The governor of the Abruzzo region is arrested for requiring payments from entrepreneurs delivering services to the local health system.

- In Naples, a businessman is arrested for virtually monopolising contracts in several public sectors thanks to his connections with local politicians.
- In Turin, an investigative judge devises a network of fake consultancy companies run by friends or accomplices, claiming the expenses (from the state) for consultancy work than in fact is never carried out. A paradoxical aspect of this case is that this judge had previously conducted investigations on episodes of corruption occurring in the world of football, and it is reasonable to assume that, while unveiling the corruption of others, he was practising his own.
- Some major energy and telephone companies (including Telecom Italia) are heavily fined for fraud against consumers and malpractice against competitors.
- A case that gained international resonance occurred in Naples in 2008. The companies contracted with the building of a waste disposal facility were unable to complete the work by the agreed deadline. The contract had been won through unorthodox practices and with a totally unrealistic bid, offering the required service for extremely low, therefore dubious, prices. The ineptitude of the company contracted led to the infamous 'rubbish emergency'.

The cases listed above cover a number of areas that criminologists would describe as *grey areas* in which politics, business and crime interact in various fashions. According to informant A1:

Corruption in Italy does not reveal the direct participation of organised crime such as, for example, the mafia. Rather, it shows the spreading of a 'mafia method' in conducting business and doing politics. I have studied the processes of transformation of the Sicilian mafia for many years. I was interested in cultural aspects, namely in the way in which values and codes are transmitted in basic social interactions, and how they colonise other life ambits. This cultural approach led me to look, first, at how women were involved or connived with the organisation. I then moved on to the political world, to see how public representatives assimilated elements of the mafia culture. Finally, I am now looking at how the 'mafia method' is becoming the prevailing method inspiring the crimes of the powerful and how it affects market freedom and the democratic system as a whole (A1).

A similar description was given by informant J1, who noted that environments saturated by corrupt exchange offer everybody a chance to 'have a go'. In his view, corruption in Italy is characterised by a multiplying effect which is felt in all positions of the social hierarchy: 'corrupt exchange involving the elite and that involving ordinary citizens feed upon each other'. As corruption spreads from the elite downwards to other social groups, impunity seems to increase its multiplying effect. This process causes increasing familiarisation with and tolerance for unorthodox practices, even among those who benefit very little from their own corrupt practices.

The opportunities granted to ordinary citizens to benefit from minor episodes of corruption led to the partial condoning of large-scale corruption. The tolerance of petty immorality on the part of the elite paved the way for the acceptance of their own higher immorality by the non-elite. The moral tone of the country, however, was imposed by the ruling class, who by relentlessly displaying their own corruption made everyone indifferent to official rules and cynical towards the public welfare (J1).

The stages of this process were addressed by informant A1, who noted that during the 1970s corruption seemed to be confined to the margins of civil society, namely within a sub-system which had few occasions to interact with society as a whole. News about a state functionary being corrupt would cause a scandal, while corruption of entrepreneurs or politicians was not even contemplated, because it was not brought to the limelight, therefore it did not exist.

In Italy, I believe things have changed from the early 1970s, when the first journalistic and judicial investigations drew some light on the adventurous corrupt mixture of professionals, politicians, businessmen and organised crime. The relationships between all these actors deform the norms that should govern society, politics and the economy. This is when we discovered that there was not a big distance between those who corrupt, those who are corrupted, and civil society. The idea that there are parallel worlds, distinct and separate, was a delusion. As it is a delusion to think that there is one professional sector more or less immune than others to corrupt practices (A1).

This aspect was also highlighted by the organisation 'Help Consumatori' (2007), which informs consumers on their rights. After indicating, for the previous year, the figure of 70 billion euros as the loss of the Italian state for corrupt practices, the organisation warned that all social sectors were getting accustomed to a 'culture of corruption' and that indignation towards such culture was slowly fading. No specific responsibility for corruption was apportioned to organised crime, as the regions in which the growth of the phenomenon was observed were not those in which organised crime traditionally operates.

According to J2, criminal organisations such as the mafia are the most visible version of a way of exercising power. Members of the mafia 'are used by the state, they are protected, and then, when they are no longer needed, they are dumped'. In this perspective, 'if we want to understand the relationship between corruption and organised crime we have to rid ourselves of all the stereotypes and prejudices, and look at these phenomena against the background of the power elite' (J2).

This informant qualified his view by arguing that political activity has by now become a straightforward form of business, in which individuals and groups are connected in a pyramidal configuration. These connections are national, and often, international expressions of power, global systems based on the control by

the few upon the many. 'This is organised abuse of power, which causes injustice and social suffering. This pyramidal configuration offers some space to organised crime' (J2). In this perspective, therefore, organised crime uses corruption because everyone else does. A people is what a ruling class makes it, said J2 echoing Rousseau. A ruling class that degrades the people is in turn degraded by it in a vicious circle. 'The ruling class rules also the formation of public opinion, it selects the collective memory, it chooses which values are to be regarded as important. Organised crime just follows the general climate determined by the ruling class' (J2).

In the view of J3, instead, the institutional actors who are more vulnerable to corruption by organised crime are local politicians and administrators. These actors handle public resources, are geographically close to organised criminal groups, and operate in the same social environment, therefore they are subject to the pressure that such groups exert. At the local level, however, corrupt exchange 'proposed' by organised crime to politicians is accompanied by an implicit degree of intimidation which determines the outcome of the proposal made. Informant A1, in this respect, talked about the well-known 'offers that cannot be refused'. 'In other words, it is possible that a corrupt offer is rejected, but then intimidation follows against the person who does not want to be corrupted. The outcome will be the same, namely the illegal result that was initially pursued. In such cases, before even attempting to corrupt, organised crime aims to intimidate. At times, acceptance of a corrupt proposal may turn into quasi-affiliation with the organised group' (A1).

Informants also stressed that when organised crime manages to corrupt any actor, this is due to the low professional ethics of those who make themselves available to corruption.

There is little sense of responsibility for the role one occupies, be it public or private. This may be difficult to evaluate in empirical terms, but the deficit of political and civic culture in a country exposes citizens to systemic corruption, by organised crime, but also by other individuals and groups. In such contexts, even emulation – the desire to access prestigious positions and gain more financial resources than one holds – may become a significant variable (A2).

Emulation, as mentioned by this informant, plays a role in tax evasion, whereby small earners feel legitimised to escape their dues to the state when witnessing the spectacle of massive illegality by the elite. Tax evasion in Italy reaches such a level that the state, regularly, proposes 'social pacts' or amnesties requiring the payment of at least a portion of the unpaid sums. Vulnerability to corruption, ultimately, may also be exacerbated by impunity, namely the certainty that there will be no prosecution. Except for the period of 'clean hands', corrupted and corruptors have rarely been punished, judicially as well as morally (Della Porta and Vannucci, 2007).

Corrupt sectors

Fraud against the state shows the most remarkable expansion among other corrupt practices. This includes a range of false claims for financial entitlements and special state support, or consists of payment requests for fictitious work performed or incomplete services delivered (Davigo and Mannozi, 2008). These practices went up, between 2004 and 2007, by 40 per cent and 200 per cent respectively (Alto Commissario Anticorruzione, 2007). The increase is not solely due to the growing interest of organised crime in state funds, but also to the spreading of fraudulent conducts among professionals, administrators and private firms (see the list of recent cases provided above).

A corollary of this sector is constituted by fraud against the European Union. In 2008 some 6,000 irregularities were reported to the European Fraud Prevention Office by Member State agencies (Quirke, 2009). The European budget attracts professionals, criminal groups and opportunistic entrepreneurs who may resort to fraud as a means of rescuing a failing company or expanding its business. It is hard to establish how many of these irregularities were committed by Italian actors, let alone how many by Italian criminal groups. What is of interest, in this respect, is a case brought to light by investigative journalists, who tracked a company operating in Trapani (Sicily) specialising in the construction of wind turbines financed by the EU. The turbines producing alternative energy are now spread across Sicily, but only seven out of thirty-three of these ecologically friendly wind farms are actually functioning. Most turbines just stand there, unconnected to any machinery transforming the wind into energy (Giacalone, 2009).

Returning to the national level, the construction sector is another of the sectors particularly exposed to corruption. The involvement of organised crime, here, may cover a plurality of industrial segments, ranging from the production of cement to the building and refinement of the constructions commissioned. Licit entrepreneurs are also involved, particularly in areas where environmental planning is vague, control regulations are weak, and administrators are willing to help developers by claiming that the areas sold are destined for private dwellings.

In the sector of public works the formation of cartels is frequent. Auctions and tenders relating to such works are manipulated, and when organised crime is involved the employment of 'clean' business partners and professionals becomes necessary. According to informant J1:

White collars and organised criminals, in this sector operate jointly. They may even identify which service has to be put out to tender and what type of good has to be delivered. So, basically, the contract gained will not serve a specific need of the community, but only the financial interests of those contracted. When planning what type of service has to be contracted out, the role of politicians is crucial. Subsequently, corruption may occur when the criteria for the granting of the contract have to be established. Those manipulating the tendering process will make sure that their competitors do not meet the

criteria. When the bid is presented, the situation may arise where there is only one company left in the contest, although the winner will make a series of bids as if other companies were still competing (J1).

Finally, at the execution phase, the winner may sub-contract parts of the works to a friendly firm. If the bid made is low and unrealistic, the winning company may even plan not to complete the works for lack of sufficient funds. The ‘rubbish emergency’ listed among the cases above is one such case, where the failure of the legitimate entrepreneurs to honour a contract gave the opportunity to organised crime to offer its own, alternative disposal services (Ruggiero, 2010b). Similarly, companies failing to perform the tasks for which they have been paid may resort to sub-contracts with firms controlled by organised crime.

The sector of public contracts constitutes an extremely important area for the economy of the country. ‘Through public contracts, the state guarantees the realisation of infrastructures and the delivery of services to citizens. This is an essential function to encourage development and remove the economic and social obstacles limiting the freedom and equality of citizens’ (Caneppele, 2009: 7). The allocation of public contracts, however, needs impartial, efficient, and morally reliable administrators, who hand over public resources to those who are actually able to deliver at the appropriate standard and, simultaneously, at the minimum cost for the collectivity. Where such administrators are wanting, chances are offered to adventurous entrepreneurs and organised crime.

Public contracts are attractive for a number of reasons. First, they represent an important part of the resources available in specific contexts, particularly in regions in which private entrepreneurship is insufficiently developed (Commissione Parlamentare Antimafia, 2008). In Calabria, for instance, public finances constitute 80 per cent of the financial assets available in the region. Second, fraudulent conduct in the arena of public contracts is met with particular leniency by institutional agencies, and when organised crime is involved, investigations require complex tools and skills. Organised criminals turned into businessmen, therefore, may opt for this area of investment for the excellent prospects it offers in terms of revenues and for the negligible risk of apprehension. Third, public contracts are managed by vulnerable and inefficient public administrators, and have long been characterised by unorthodox behaviour and corrupt exchange between private entrepreneurs, political representatives and public administrators.

The infiltration of mafia organisations is therefore favoured by the spreading of illicit conduct and corruption within the public administration itself. Such an environment is more permeable to the presence of actors who are associated with criminal organisations due to the low level of legality that characterises it.

(Calderoni and Caneppele, 2009: 8)

Finally, criminal organisations may benefit from public contracts in terms of prestige and power in the territories they control. For example, they may realistically

play the role of employers, whether for their affiliates or for members of the general population. They may gain access to the business world, encountering peers and colleagues who may be helpful in future enterprises. In brief, they may progress in their career combining involvement in licit as well as illicit markets. Even when organised criminal groups do not succeed in gaining contracts, they act as mediators for other companies, activating their political relationships or their 'persuasive' means. In some cases, it is the winning company which will contact a criminal organisation, 'in order to agree in advance on the protection money due, thus avoiding future problems when works are in progress' (ibid.: 8).

The phenomenon of criminal infiltration is distributed equally across the regions of the South of Italy. It is, however, mainly concentrated in Calabria and Sicily, and in some provinces of Campania: Caserta and Naples. The situation is critical in Calabria, where the 'Ndrangheta has enjoyed until very recently little attention by public opinion and institutions. This has allowed it to expand beyond the Calabrese territory. Today the situation has changed and, as happened in Sicily after the massacre of judges and in Campania with the camorra wars, the Calabrese organisation too is at the centre of numerous investigations.

(ibid.: 127)

Targeted institutions

Corruption of the justice system, including administrative staff, publicly appointed officials and judges, increased between 2005 and 2007 (Help Consumatori, 2007). The increase, however, may not be statistically significant, as the cases of corruption were 8 in 2005 and 10 in 2007. What may be of interest is in which Italian region such cases occurred: Emilia Romagna, Lazio and Lombardy, namely in regions in which organised crime activity is not as prevalent as elsewhere. Judiciary corruption, therefore, can be mainly imputed to white-collar offenders, either in the political or in the economic sphere. Some commentators, however, suggest that the increase signals both the 'migration' of organised crime to other regions and the spreading of the 'mafia method' throughout the country. According to A2:

The police and the judiciary seem less permeable to corruption, also because they can rely on a higher degree of internal cohesion and have a distinctive *esprit de corps*. Unlike for politicians and administrators, the career of police and judges can hardly be influenced by organised crime, whose power to corrupt, after all, consists in large measure of paying money. Finally, they are less vulnerable to intimidation, because they feel protected by their peers, they are more homogeneous and less competitive with one another (A2).

The corruption of the judiciary, according to J1, is associated with the inefficient and particularly lengthy investigation processes. Judges are given a precise deadline by which investigation has to be completed so that prosecution may commence. Failure to meet the deadline results in the offence being cancelled. Corrupt judges may prolong the times of the investigation on purpose, thus favouring the release of defendants.

A well-known case in Italy, involving judge Carnevale, resulted in the Court of Cassation invalidating all the previous trials in which mafia members had been found guilty. The invalidation was motivated with some procedural irregularities. The judge, eventually, was prosecuted and expelled from the judiciary.

Informant J1 mentioned cases in which police officers were in good working relationships with people who were on the run from justice, or with people who were in the process of being arrested or investigated. 'These officers, therefore, informed members of the criminal world that something was going to happen to them, giving them time to hide, destroy documents or find an alibi'. In such cases, J1 added, sub-cultural factors play an important role, as 'the police officers may share a background of bullying, violence and criminality with the ones they are supposed to police'.

Informant J2 argued that all forms of stacking resources, be they private or public, imply a certain degree of corruption. The political world is central in this respect. He said:

In politics, many people find a solution to their economic problems, and they try to occupy all the possible places where resources are distributed. Around elected politicians there are then cohorts of allies who participate in political activity and share some of the wealth. Finally, at the bottom, there are the masses, the subjects who sustain the whole system on their shoulders (J2).

This informant was reluctant to assert that the political system is corrupted by organised crime. He would rather claim that organised crime takes advantage of a corrupt and inefficient system:

Take the example of the public financing of political parties. This was introduced after the scandals proved that businessmen (oil producers, developers, the pharmaceutical industry, and many more) were receiving favours from politicians in exchange for money. These favours consisted in pieces of legislation that brought enormous amounts of money to entrepreneurs. The new law on the public funding of political parties was supposed to make the costs of political activity more transparent. But it was a big lie: politicians and economic actors continued with the occult financing of one another. The result now is that, while occult financing continues, we have the European most expensive public system of pouring money into politics, with even small parties (who do not have a significant number of representatives) receiving exorbitant amounts of money. Organised crime, in all this, is just one of the many actors involved; they appropriate resources like everybody else (J2).

This view was shared by A2, who considers the political sphere the most vulnerable to corruption by organised crime. This is because power groups tend to come together irrespective of the nature of the power they exercise. Politicians collude for the obvious reason that organised crime controls votes, particularly at the local level. From the point of view of organised crime, on the other hand, corruption does not only lead to the control of contracts and resources, but also to an expansion of influence and power.

We have seen, in the sections above, the role played by politicians and administrators in the arena of public contracts. A brief addition to the information already presented came from informant A2, who argued that administrators are accustomed to exchanging favours for illegal income, due to the general climate in which they find themselves operating. Some of them become public administrators on the basis of nepotism or as a result of some kind of corrupt exchange. Posts in the public administration may be distributed by influential figures, with the participation of political parties claiming their own share of jobs for their faithful members. Once in post, administrators are surrounded by 'clients' of varied nature, friends and relatives, colleagues and acquaintances who formulate incessant requests and propose creative bargains.

Organised crime swims at ease in such corrupt waters. And administrators will be unable or unwilling to determine whether the companies they entrust with a public work is owned by a clean entrepreneur, a criminal one, or a partnership between the two (A2).

Informants concurred that in the south of the country administrative corruption is more visible. In the southern regions, investigations focusing on organised crime lead to the discovery that somewhere, behind the scenes, there is a local administrator or a politician, and that in proximity lies a businessman: the labyrinth of power and business emerges very clearly. However:

In the north of the country power is just as corrupt, with a relatively lower presence of organised crime. The problem is that it is no longer possible to distinguish between organised crime and white-collar crime (J2).

According to A2 the private sector occupies third position in the corruption echelon. Entrepreneurs were deemed lacking a proper ethic of the market, and prone to grasp any possibility of operating in monopoly conditions. 'Escaping competition has become acceptable, and for some, in a sense, even legal'. In a qualification adding to statements reported above:

In some contexts the criminal can turn into a private entrepreneur. He will conduct a series of legitimate activities with the illicit money accumulated. Also, the criminal may have to employ those affiliated with his organisation, and therefore give salaries in licit occupations. The mafia is an employer, let

us not forget. Moreover, organised crime is a money-lending organisation, and at times, when the debtors become insolvent, their business is appropriated by the lending organisation. This is one of the other ways in which organised crime gains access to the official economy (A2).

While informant J1 felt that organised crime turned into business, which, thanks to the support of politicians, can renounce intimidation, J2 dwelt again on the general economic practices prevailing in the country. In his view *all* economic sectors are corrupt, at all levels of their respective hierarchy. The reason for this generalised diffusion of corrupt exchange is that:

We have now a criminal system that works by inertia: it has its own inherent motion. We have a system which is integrated, composed of different characters and entities, not all of which have criminal professionalism. We have the politician, the high public manager, the entrepreneur, the financier, the mediator, the representative of the institutions, and at times a representative of the mafia. The system is modular, in the sense that, according to the circumstances, it includes new actors and excludes others (J2).

To remedy this situation is extremely hard. Even whistleblowers, in the private sector, do not function as examples to others. They are often ostracised, while the corrupt are still seen in the most glamorous public events and on TV. This is the result of the organic partnerships between business, politicians and organised crime. We are faced with post-mafia organisations, in the sense that in the past we could identify some figures of the official world who were 'external' allies of the mafia; now it is the mafia which is external to the illicit business of the ruling elite.

Organised crime is not just a vile association of butchers led by shepherds and peasants. If the mafia were composed only of semi-literate people it would have been destroyed a long time ago. The problem is that the ruling class has never managed to make the transition from a system based on wild and violent accumulation to a social order respectful of legality based on shared values. The elite in Italy has never really renounced violence. See the examples of state terrorism scattered along the history of the country. The ruling class has evolved from pre-modernity directly into post-modernity: this may explain the strong relationship between corruption and organised crime (J2).

Conclusion

Corruption and organised crime in Italy are closely intertwined to the point that, when investigating episodes of corruption the involvement of some criminal organisation is discovered, and vice versa, when investigating the exploits of

organised crime, the involvement of some corrupt politician or entrepreneur often comes to light. The relationship between corruption and organised crime in the country, however, does not lend itself to conventional analyses imputing to the latter the main responsibility for the spreading of the former. The opposite too seems to obtain in Italy, where the claim can be safely made that widespread corruption within the social, economic and political spheres attracts organised criminal groups, encouraging them to participate in corrupt exchange and indirectly boosting their other various illicit activities.

This chapter has shown that corruption and organised crime, in Italy, are connected in a variety of ways. With the political, administrative and private sectors particularly prone to engage in corrupt exchange, illicit conduct tends to spread to many other groups and actors. Upturning a liberalist metaphor, we could say that the elite has not promoted a ‘trickling down’ process whereby wealth is distributed across the country, but has encouraged a process in which what actually ‘trickles down’ is illegality. Organised crime is a participant in this illegality, at times aided by intimidation, at times sustained by the interests of legitimate actors who play a *de facto* role of partners. In such a situation resources are not used to satisfy the needs of communities, but are appropriated through personal initiative, individual risk, power, the ability to outflank rules and to achieve impunity. Corrupt behaviour in Italy has slowly become acceptable at the social level, to then gain legitimacy at the political, and finally at the legislative level. Corruption has played the function of a foundational conduct, one that lends itself to be imitated. It has altered the perception of what citizens should expect, what they should pursue and how. It has taken on a ‘founding force’, namely the capacity to impose a lifestyle, to transform the previous jurisprudence, to establish new laws and new types of legitimacy. Corruption and organised crime, in sum, are intertwined in a ‘criminal system’ that reproduces power, be it illicit or otherwise. As Enrico Ferri (1884: 264) said more than a century ago:

Respect for the law spreads among the people less because of police and jails than because of the example given by persons in high places and by the authorities themselves, when they are first to put into practice respect for individual and social right Thus avoiding the scandals of impunity for the big thieves and the most iniquitous severity for the little ones.

10 Corruption, organised crime and the free market in Russia

Paddy Rawlinson

Introduction

In her damning book on Russian politics and society, *Putin's Russia*, published in 2004, the journalist Anna Politkovskaya wrote of a 'government riddled with corruption' (Politkovskaya, 2004: 274). Two years later she was murdered, allegedly by three gunmen, in what was deemed to be a contract killing. The ineffectual investigation into and judicial aftermath of the killing, as with a number of similar cases of assassinated Russian reporters, pointed to the probable collusion between corrupt officials and organised crime, one of Politkovskaya's topics of investigation. As yet, no one has been successfully prosecuted for her murder, nor indeed for a number of other killings of Russian investigative journalists looking into corruption and links between officials and organised crime. Uncovering substantive evidence on the links between corruption and what many refer to as the 'Russian Mafia' is a difficult and, as the tragic occurrence described above demonstrates, dangerous task, not least when these relationships involve the higher echelons of power. Investigations into corruption entailing links between low-level officials, most notably in the police, and organised crime in Russia, have generally produced more tangible evidence of the nature and modus operandi of the relationship – rather than what we might refer to as 'speculative certainty' which hangs around the 'corrupted' elite – but is clearly only a limited glimpse of the criminal landscape.

Difficulties in researching into corruption and its links with Russian organised crime are also compounded by the complex semantic issues of defining these phenomena (Finckenauer and Waring, 1998; Holmes, 2006; Wright, 2005), especially in a comparative context where cultural and ideological differences can attribute conflicting qualities to similar behaviours. This semantic ambiguity provides opportunities for ideologically constructed interpretations by powerful political voices of a particular kind of criminal actor and activities, often backed by agenda-driven narratives from the media, in which imagined or exaggerated threats overwhelm reality and empirical evidence. These imagined or exaggerated realities, shaped by the process of 'othering', contain easily assimilated concepts and images of legal and illegal, good and bad, moral and immoral actors and behaviours. As Ashworth states, 'The main determinants of criminalization

continue to be political opportunism and power, both linked to the prevailing political culture of the country' (quoted in Ericson, 2007: 2). In the case of transnational crime, the prevailing political culture responsible for the discourses of threat and criminality is driven by the dominant globalised ideology of neoliberalism. In this discourse organised crime is presented as antithetical to the values that sustain the ideology, morally distinct from the civilising processes said to underpin democracy and capitalism. Such was the popular picture presented of Russian organised crime, and the threat it posed to its own and foreign jurisdictions, especially in the 1990s (Sterling, 1994; Freeh, 1994).

The subject of corruption has provoked a more restrained level of anxiety and threat, for a number of reasons. Many of its attributes are culturally defined, so for example, what is regarded as corruption in one society, as in the giving of gifts prior to a service or transaction, is deemed etiquette in another, so agreeing on a multijurisdictional definition of corruption is problematic. Also, because corruption occurs within the legal structures of power, sometimes even serving a functional role, the political will to combat it is often absent or weak. Hence the strategies used in the 'othering' of organised criminal activity for policy purposes are less effective for corruption, especially when there appear to be no obviously visible victims. There is also an acceptance of the ubiquity and inevitability of corruption across all cultures, especially in business dealings (Olimpieva and Panchekov, 2008: 139), thereby 'normalising' certain behaviours or placing them in a legal grey area which further exacerbates the problem of definition. Nonetheless, as Holmes warns, 'Just because a watertight definition or typology of corruption cannot be produced does not mean that corruption does not really exist' (2006: 43). I would add that while acknowledging the danger of capitulating to semantic ambiguity and discarding debate on the realities of these issues, it is also important to recognise the political and economic consequences of this definitional uncertainty, which occurs in much the same way as described for organised crime (above).

However, we do need a definitional framework if even to ultimately refute it. The oft-quoted World Bank definition describes corruption as 'the abuse of public office for private gain'. More inclusive classifications such as that offered by Transparency International take a broader view of corruption as being 'the abuse of entrusted power for private gain', and as the preferred definition for the chapter, is especially useful in states where the boundaries between private and public are blurred. The definition debate on organised crime has occupied academics and practitioners alike for decades. Since its perception as a global threat, organised crime has been succinctly defined according to various criteria relating to its structures rather than activities per se. The Council of Europe describes organised crime as being the carrying out of illegal activities by 'structured groups of three or more persons existing for a prolonged period of time and having the aim of committing serious crimes through concerted action by using intimidation, violence, corruption or other means in order to obtain, directly or indirectly, a financial or other material benefit' (Council of Europe, 2005), a description that could

be extended to include the activities and intentions of some multinational companies. Organised crime, often used interchangeably with the term mafia, is more problematic in the Russian context. While Coulloudon (1997) notes that ‘In ordinary Russian usage today, the word “mafia” remains synonymous with political power rather than traditional organised crime in the Western sense’, it is the interpretation of this usage that is significant: ‘But the term “mafia”, in the usual Russian understanding, indicates that there is still no real separation of powers’. In other words, it is the underlying narrative and context of usage that provides meaning.

In this context of narrative and usage, the chapter examines the links between corruption and organised crime in Russia. The main argument claims that corruption poses the greater security and moral risk both domestically and internationally, firstly because the abuse of entrusted powers has a more diffuse negative impact on society at large, and secondly because the history of the relationship between these two phenomena in Russia overwhelmingly demonstrates that organised crime is consistently the weaker partner, even though it has been the focus of security concerns to a far larger degree than corruption. Finally, the chapter extends the argument of linkage to a broader debate on the pathological nature of the neoliberal project that underpinned Russia’s move from communism to capitalism.

Bribery and bandits

For much of its history Russia has been subject to the endemic presence of corruption. In the eighteenth century, Prince Shcherbatov wrote that corruption ‘is a condition from which my country groans’ (1969: 69), and despite the efforts of Peter the Great to counter the patron–client culture that nurtured bribery by creating a table of ranks based on meritocratic service, corruption remained integral to political life under the Tsars. Its continuing, and indeed, systemic presence within Soviet bureaucracy has led to a number of scholars identifying corruption as a fixture of Russian culture encouraged by the enduring dominance of authoritarian styles of governance (Pipes, 1977; Suhara, 2004). In a political hierarchy where the status and promotion of officials are dependent on favour and loyalty rather than the execution of assigned duties, the prevailing ethos is one of self-survival and self-interest.

Volkov’s more nuanced picture on the impact of authoritarianism argues that corruption has played an active role in Russian society as a ‘legacy not of Russian traditional culture but rather of its historically specific patterns of *rapid* modernization’ (2000: 47, emphasis added). Accordingly, rapid reform programmes imposed from above, such as those implemented by Peter the Great, the Bolsheviks at the beginning of the twentieth century, and more recently the ‘shock therapy’ programme introduced in the 1990s, result in an *adaptation* rather than transformation of old practices. With the predominance of patron–client politics, where little or no distinction exists between the private and public spheres, the pursuit of personal interest as encouraged through hierarchical

dependency in a modern bureaucracy is pathologised as bribery, that is, commodified patronage. This relationship was to become integral to the burgeoning of organised crime, or collective illegal entrepreneurship, in the final decades of communism.

Prior to the 1917 October Revolution, collaboration between crime groups and officials was generally confined to low status organisations such as the police (Dixelius and Konstantinov, 1995). Large-scale banditry in Tsarist Russia tended to be politically rather than economically motivated (Hobsbawn, 1972; Rawlinson, 1997), leaving little ground for mutually beneficial relations between the bureaucrats and bandits (although individuals expelled from their communities did often group together to rob and plunder) (Chalidze, 1977). By the end of the nineteenth century, rapid urbanisation and an increasing intolerance of political and economic oppression amongst the labouring classes provided the impetus for the spread of revolutionary activity including organised robberies in support of the 'cause' (Tucker, 1973). With the overthrow of the Tsar, the Bolshevik government freed many of those jailed, irrespective of the nature of their crimes, in many cases putting to use their predisposition for violence as a means of suppressing resistance to the revolution. These collaborations were not born out of the corrupting drive of self-interest but rather an expedient use of underworld skills for political purposes. Significantly, they created a demographic affiliation between the bureaucrat and the bandit as the legal boundaries of Imperial Russia were reconstituted to embrace ideologues, extortionists, political fundamentalists and murderers under the same revolutionary roof. In doing so, criminality as previously understood became part of the legitimate force for change, a process not entirely dissimilar to that which occurred during the early years of the free-market experiment.

Despite its revolutionary stance, Bolshevism replicated a number of practices it ideologically abjured. The patron–client relationship that so defined the politics of Tsarist Russia and nurtured corruption within the bureaucracy, rather than being ejected by the new regime, was to become deeply embedded in the Soviet system. With the creation of the *nomenklatura* Stalin effectively formalised patronage and hierarchical dependencies through a scale of privileges, in return for allegiance to the Communist Party. Rather than intensifying ideological commitment to Soviet Communism, the perks on offer proved to be most attractive to those motivated by personal interest and material gain. Access to posts within the *nomenklatura* degenerated into little more than a market place for the sale of positions and promotion (Simis, 1982; Voslensky, 1984), making the majority of the political elite inured to the immoralities of its own behaviour.

The Party's slide into systemic corruption helped to aggravate the economic problems arising from the failing process of a centrally administered economy. Chronic shortages and low-quality goods encouraged widespread corruption, petty pilfering from the workplace and a structured and often efficient underground economy (Berliner, 1952; Dolgova and Dyakov, 1989). The latter, which produced better quality goods than those in the formal economy, also provided a

range of proscribed goods and services to a wide range of customers, not least Party officials. Gradually, the supply side of the underground economy fell into the hands of a more ruthlessly profit-driven and violent entrepreneurial sector. Operating with the protection of their most profitable clients, corrupt high-level officials, they themselves were able to diversify into the extortion business in what effectively became the aggressive monopolisation of illicit economic activity (Vitaliev, 1990; Gurov, 1995). Ultimately, politics and criminality become so enmeshed that, by the late 1970s and 1980s, high-level political figures were not only collaborating with illegal entrepreneurs but were themselves running criminal operations (Vaksberg, 1991).

It was hardly surprising that attempts to clean up corruption, whatever the underlying political motive, by Yuri Andropov (General Secretary of the CPSU 1982–83) and his protégé, Mikhail Gorbachev (1985–91), were doomed to fail. Corruption ate away at the heart of the system because it functioned as an intrinsic component of the system itself. Structured illegal entrepreneurship, only officially acknowledged as ‘organised crime’ or ‘mafia’ in the late 1980s, also became an integral part of the system, operating as a buffer for the gross inefficiencies of the formal economy. To address these problems effectively entailed the destruction of the very system Gorbachev was trying to protect.

Many believed that once the Soviet machine was dismantled, corruption and organised crime, if not eradicated, would at least be curbed. This assumption was based *inter alia* on the notion that as corruption was a largely public sector phenomenon, rolling back the state would provide fewer opportunities for abuse of public office; that the introduction of democracy to a country historically dominated by authoritarianism would gradually erode the mindset which embraced legal nihilism over rule of law; and that where Soviet communism by its very nature espoused deviancy and criminality, the free market and democracy (erroneously considered to be natural bedfellows) would naturally promote rule-making and a propensity for legal economic behaviour. This rationale was based on the idea that private ownership, including illegal acquisitions, encourages the development and implementation of legislation to uphold effective property rights. But as McCullough observes, ‘Harm, violence and profit are happy companions on the neoliberal frontier’ (2007). And when we understand that the differences between Soviet communism and its inherited neoliberal ideology, ‘which typically place[s] a form of economic rationalism ahead of concepts such as social capital or the collective’ (Holmes, 2007: 98) are not so distinct, the explosion rather than eradication of corruption and organised crime in ‘transition’ Russia should hardly have come as a surprise.

Corruption, crime and the new capitalists

After communism’s collapse, it [the Soviet *nomenklatura*] merely changed its appearance, just as a snake sheds its skin.

(Yavlinsky, 1998)

Volkov's thesis (above) of rapid modernisation engendering 'adapted' rather than 'transformed' practices holds good for Russia's transition to the market. Opportunities for expanding the reach of corruption in the early frenetic period of reform intensified as bureaucrats effectively became private service providers. Organised crime burgeoned, on the one hand, as the state failed to deliver legal security for the explosion of entrepreneurial ventures, and on the other, finding investment opportunities for the capital and skills accumulated by illegal entrepreneurs under communism. The marketisation of politics and society in general was especially beneficial for the *nomenklatura* class, which partly adapted and partly transformed as eventually a new breed of elite emerged. Goldman identifies three types of *nomenklatura* in free-market Russia: former managers of factories whose status allowed them to acquire major shareholdings in the enterprises as they were sold off during the rapid privatisation process; the traditional Party elite who, in similar fashion to the managers, secured ownership of state assets, but significantly, these involved resource-rich enterprises such as oil and gas; and finally those who had operated on the margins of Soviet society, the shadow economy (Goldman, 2003) a number of whom emerged as the oligarchy of the 1990s, the power behind the Yeltsin throne. Having learned the skills required for the cut-throat world of free enterprise during their apprenticeship years as semi-illicit entrepreneurs, it was not only business expertise that served them, but also a ruthless *modus operandi* required to survive the vicissitudes of life lived on the edge of the law.

In the period of *bespredel* or lawlessness that marked Russia's years of shock therapy, entrepreneurial skills honed in the shadow economy were to become the backbone of free market activity and the development of a business culture. Under these new economic conditions the rapacious drive of those involved in the underground economy, including the corrupt connections that help sustain it, were now given licence to head up the emergent entrepreneurial class. It was to this cohort that foreign business mainly gravitated, drawn to those with obvious business acumen. Distrusting anything that smacked of the old regime, and not being able or willing to interrogate the source of the skills and capital displayed by Russia's elite entrepreneurs, Western businesses and their governments fell back into the trap of Cold War dichotomies, born out of an arrogantly blind faith in the healing power of the market. Supporters of free enterprise in word and deed were labelled 'reformers'; those who questioned the policies and/or the pace of privatisation and price liberalisation, the basis of shock therapy, were ostracised as *apparatchiki*, the old regime. Even when it became evident that business was not being conducted according to the rules followed in advanced capitalist states, and that those engaged in much of Russia's business activity were of a dubious legal background, the involvement between foreign companies and the grey-black zone of Russia's entrepreneurial class continued nonetheless. Misha Glenny refers to the 'Mafiya' as Russia's 'midwives of capitalism' (2008). Yet the disingenuousness of Western collaboration makes it a complicit partner in the delivery of so-called 'gangster capitalism' (see below).

Post-communist relationships were in reality more complex and fluid than typologies suggest. From the old structures of power that atrophied out of a

political stasis nurtured by corruption, post-communist Russia witnessed reformulated configurations whose corrupt and criminal economic powerbase is being sustained by fluidity, by diverse mobilities amongst and between agents and institutions. This mobility bucks the traditional vertical forms of patronage, giving rise to what Wedel, in her study of corruption in Eastern Europe and Russia, refers to as 'flex organisations'. 'In post-communist societies, political-economic influence has accrued to those who skilfully blend, equivocate, mediate and otherwise work the spheres of state and private, bureaucracy and market, legal and illegal' (2005: 105). In these 'flex organisations' informal groups or clans acquire the ability to 'shift agency' between various institutions, obfuscating activities such as conflict of interest and avoiding the adherence to due process in economic matters. Consequently, it becomes difficult to site legal accountability with any particular individual. This exacerbates the problem of identifying corrupt practices, and by extension, any linkages that might exist with organised crime, and in doing so helps justify foreign business activity in these grey areas.

Political will aside, these labyrinthine and grey areas of economic and political activity also make it difficult to prosecute suspected links between corrupt officials and criminal business. Paradoxically, the clearest evidence of collaboration exists in the *absence* of successful prosecutions, especially in the case of suspected contract killings. Since 1992, fifty-two journalists have been murdered in Russia because of their work (a third of whom investigated corruption), of which only 9 per cent received some form of justice (Committee to Protect Journalists). On a less tragic but nonetheless alarming note, the complex and opaque nature of the links between corrupt elites and organised crime had, until recent reform, stymied investigation into these liaisons through use of the libel laws in England and Wales. Dubbed 'libel tourists', some of Russia's most powerful business elites were able to use the courts rather than guns to silence foreign journalists by exploiting legislation that favoured the plaintiff over the defendant, thus allowing them to 'launder their reputations' (Kampfner, 2011) on the world media stage.

The Russian state has never capitulated to organised crime, a scenario I erroneously posited over a decade ago (Rawlinson, 1997), other than to adopt those characteristics associated with the latter for its own purposes. Volkov cautions a more sober assessment of the power balance between the state and non-state criminal actors even during the anomic years of the 1990s: 'Given the size and power of the state in the Soviet Union and in previous times, stripping the state of any significance during the post-Soviet transition might seem to be a gross error ... narratives in which the state is absent and claims about self-emerging social orders should be treated with suspicion' (2002: 127). While much has been written about the emergence of the surrogate protection industry in Russia, exemplified in the emergence and burgeoning of mafia business as understood by Gambetta (1993; also Varese, 2001), there has been little discussion as to whether this was due to the inability, unwillingness or plain indifference of the state towards creating, implementing and protecting property rights during that period. Perhaps a hint of an answer can be found in Volkov's study of private protection.

Demand for protection clearly outstripped supply during the years of rapid privatisation. So unprecedented was the explosion of entrepreneurial activity, that even had the state fulfilled its duties it is highly likely that the provision of protection would have incorporated a growth of private firms to meet the surplus demand. Arguably it was the marketisation of protection as much as the absence of the state that contributed to the growth of the illegal protection industry. Ironically, it was not so much physical force but market forces that reinstated the power of the state in this area. As Volkov documents, former or serving employees of the security services and law enforcement brought serious competition into the marketplace, being able to offer a better quality service than the 'mafia' (Volkov, 2000). This included better equipment, having strong established connections within the state that did not necessarily require bribery, access to knowledge of the clients' competitors and a predictability of service delivery that crime groups could not always guarantee. Consequently, many of the companies were able to undercut their criminal counterparts. Even for those companies whose activities straddled the grey area, having legal status nonetheless made them more attractive to large Russian companies and foreign business. The subsequent emergence of the *siloviki* (power ministries) as a political force attached to President Putin (2000–08), many of whom had developed interests and influence in the private sector (in the energy and mineral industries), compounded the strength of the state, leading to the current condition of 'state capitalism'.

State capitalism, corruption and organised crime

Although organised crime remains a significant factor in Russian business life, its influence has waned relative to that exercised by rent-seeking oligarchs, large corporations, and the state security services.

(Sokolov, 2004)

In 2007 a major crime figure, Vladimir Barsukov, known also as Kumarin, was arrested and subsequently charged for 'forming a criminal gang, money laundering and swindling' (Stolyarova, 2008). For over a decade Barsukov had cut a colourful figure in the folklore of the Russian criminal world as the alleged leader of the Tambov gang (Konstantinov and Dixelius, 1997). Despite this well-established reputation, Kumarin managed to enjoy a commanding business presence in Russia's second major city including his role as an executive on the board of the Putin-endorsed Petersburg Fuel Company (PTK). The law 'woke up' to his dealings only when Barsukov, as did Mikhail Khordokovsky, challenged the might of the state. It was reported that the arrest came after he attempted to take control of PTK from the Director, Smirnov, a close associate of Putin. This is one of many examples of the subjugation of organised crime to the state. Organised crime has been subdued, and so has the power wielded by uncompliant businessmen, no matter what their legal status: 'a captain of big business who is not embedded in the

Kremlin's unofficial networks is a foreign body ... they can be crushed at any time and they definitely understand this' (Shevtsova, 2007: 110).

In contrast to the demise of organised crime, which nevertheless is still an active force in the economy and continues to internationalise (Cheloukhine, 2008) – though to what extent is difficult to say – the proliferation of corruption has continued unabated, especially within the elites. According to Anders Aslund (2005), top ministerial posts have been on sale for between \$10 and \$30. The Prosecutor General for Military Affairs recently estimated that corruption in the armed forces cost the state over 6.5 billion roubles in 2010, involving personnel from across the ranks (Putilov, 2011). To protect this profiteering political class of the *siloviki* and their associates, a culture akin to that normally linked to traditional organised crime structures appears to have developed:

a strong sense of allegiance to the group; an attitude of relative flexibility regarding short- and medium-term goals; and the rather strict codes of conduct and honour, including the ideas of “always taking care of one's own” and not violating the custom of *omerta* (silence).

(Iliarionov, 2009)

This is much closer to the notion of the ‘criminal state’ than that posited during the transition period and interpreted as the takeover by organised crime. Rather than the ‘weak’ state it is the ‘strong’ or ubiquitous state that encourages criminality. As Shevtsova notes:

The expansion of a state that rejects the rule of law makes corruption inevitable and drives business into ‘grey areas’. Moreover, the bureaucratic corporation has privatized the state, leaving no room for the observance of property rights or economic laws.

(2007)

The illegal operations of the corrupted elites go beyond the boundaries of Russia. An investigation by the independent newspaper *Novaya Gazeta*, into money laundering abroad describes how the operations of a network of officials, leading *siloviki* and criminal authorities, within the clan formations described by Wedel, manage to move billions of dollars abroad. The operations involve horizontal and vertical structures of activity in which anonymity and an absence of knowledge within the web of actors at the various levels, other than at the node of each ‘cleaning’ activity, provide the security required to move the money into the global banking system (Johnson's Russia List, 2001). Further insurance against disclosure comes from the principle of ‘dirty togetherness’, where engagement in illegal mutually beneficial activity flourishes because the ‘social superstructure’ functioning under the cover of the legal system ties its inhabitants to each other by virtue (or vice) of their activities (Podgorecki, 1984).

These ties that form and bind are not confined to physical connections or even specific activities that frame corruption. They become a type of collective identity, one which extends beyond the elites into society large, though one might argue it is because of their presence within the higher echelons that in their diverse forms of ‘trickle down’ – institutional and well as individual – corrupt linkages eventually become the norm. This results, as Ruggiero observes, in the disappearance of the victim for among the ‘excuses’ by which the norms are temporarily neutralised, and therefore corrupt exchange takes place, is somehow the reverse of the ‘condemnation of the condemners’: it is the ‘condoning of the condoners’ (2000: 122). In the process of societal acceptance, which does not necessarily include *moral* approval, corruption loses ‘an agreed yardstick whereby its impact could be measured’ resulting in ‘overlooking the quality and quantity of social damage caused by different episodes’ (ibid.: 121). All of which makes it more or less impossible to conduct any effective anti-corruption drive from within.

Putin’s anti-corruption rhetoric at the First Session of the Council for the Fight against Corruption in 2004 was forceful and almost convincing: ‘The scale of this problem [corruption] will only be reduced when the country sees the law, its institutions of democracy and the civilised market strengthened’ (<http://www.cdi.org/russia/johnson/8014-9.cfm>). However, no dedicated anti-corruption laws were passed under his Presidency. Putin’s successor, Dmitri Medvedev, has managed to push through legislation which includes the requirement of citizens to ‘report to their employer or state bodies any attempts of other persons to induce the relevant servant to commit a corruption violation’ (Baker and Mckenzie, n.d.), but as with much Russian legislation the lack of implementation renders it toothless. Barely a year after the Anti-Corruption legislation came into force, a Russian police Major from Novorossisk appealed to Putin as Prime Minister to address the systemic practices of corruption in his and other departments, posting his recorded appeal on the internet. He was dismissed from the police and subsequently found himself facing charges of fraud and corruption. Lack of political will to clean up the system is both a cause and effect of the endemic state of corruption. The fact that corruption has trickled down to all levels of the bureaucracy, business and society in general, undermines any serious attempt at effectively tackling it without seriously undermining the very structures that have brought temporary stability to the country. Russia once again finds itself tied in the Gordian knot, facing a problem similar to that confronted under the Soviet regime – to clean up means to break up.

Ground-level corruption and organised crime

One of the more obvious and prevailing relationships between the corrupt state and organised crime, outside the more complex linkages discussed above, are found in law enforcement (Beck and Lee, 2002; Uildriks and Reenan, 2003; Gerber and Mendelson, 2008; Shelley, 1999). Medvedev’s police reforms,

introduced in February 2011, include raising salaries which is expected to ‘help boost morale and, in due course, honesty and professionalism’ (Galeotti, 2011), cutting personnel by 20 per cent, and changing the name from the ‘*militsiya*’ to the more community friendly name of ‘*politisiya*’. This is intended not only to improve the service delivered to the public, but by extension, deter collaboration with criminal groups, on the assumption that financial reward is the main driver behind the relationship. A recent study on police corruption and organised crime questioned this assumption, and discovered that financial gain, whether from greed or need, constitutes only part of the problem. Mutual benefit has different dimensions, and involves diverse forms of benefit for both sides. Conducted in the eastern city of Kazan, it identified diverse motivators on both sides of the relationship behind the establishment of what the authors prefer to call ‘informal’ or ‘illegitimate’ ties (Salagaev *et al.*, 2008). These include criminals helping the police clear up crime by providing information on other criminals in return for turning a blind eye to their own activities; providing support for illegal businesses run by the police themselves; or helping resolve private issues, especially when a police officer and gang member are from the same family.

The study concludes that in the face of political, social and economic instability, where law enforcement employees are especially susceptible to job losses through restructuring, as is clearly the case with the proposed reforms, officers develop ‘a desire to rapidly accumulate social and economic capital’ (*ibid.*: 98). While this is true within the elites as well, the negative impact of uncertainty is felt most acutely and rapidly at the lower end of the power spectrum. Hence, these relationships become necessary not only because of economic needs but as a way of creating social capital which acts as a form of insurance against future risks. The unpredictability of life in Russia means that individuals need ‘to avoid wasting time while they still have power’ (*ibid.*: 98).

Acceptance of corruption extends only as far as it earns direct benefit for the ‘condoners’. When immediate and tangible harm is experienced the ethos is prone to change. In July 2011, in the hitherto unknown village of Sagra, a group of residents organised spontaneous resistance against a gang, known to have connections with the police, which was attempting to establish ‘control’ in the area. A member of the gang was killed. While the actions of the marauders were not an isolated incident, the resistance was. Making headline news, Sagra’s vigilantism has inspired others for whom police collusion with organised crime has resulted in the deaths of those left unprotected by the state (Mydans, 2011). In a country teetering on the edge of authoritarianism the consequences of this ‘coalface’ interaction between the authorities and organised crime go beyond the emergence of vigilante groups. A backlash of tighter state control, of more policing rather than less, and policing of an especially aggressive nature, becomes a distinct possibility, especially where the maintenance of social order has been historically politicised.

Beyond the obvious direct links between corruption and organised crime lies an arguably more damaging impact on society, especially on more vulnerable social

groups. This diffused harm occurs through the creation of criminal opportunity through the increasing economic marginalisation of one social sector and enrichment of another. Corruption involves a diversion of capital into the creation of surrogate, privatised systems of state provision, such as health, housing, justice and education, which often prices out the most needy. Having little or no access to even minimum levels of state provision, vulnerable individuals, particularly women and children, become ripe for exploitation. The growth in those activities designated as organised crime, such as human trafficking, illegal adoption and loan sharking, is in part determined by the failure of the dominant system to protect its weakest. In the ubiquity of the marketplace that has been the signature of globalisation, the right to hedonistic consumption (instilled into even the youngest members of Western society), along with the demand for cheap labour, cheap sex, pornography, ‘accessory’ children and so on, have fuelled the trade in human misery.

There is also a high moral cost involved with the endemic presence of corruption. As Ledeneva (1998) and Zinoviev (1986) point out, defying the system to uphold personal integrity becomes a negative characteristic as it undermines opportunities for oneself and one’s family. Under the Soviet system, it was just about possible to survive without recourse to bribery and *blat* (an unofficial, non-monetary system of favours). In post-communist Russia, the overt and almost total commodification of social relations compels individuals to perceive one another (and themselves) increasingly in terms of monetary value, not just in labour productivity, but as objects to be bought and sold. This not only exacerbates the potential for corruption, but also provides a normative basis for many of the activities in which organised crime engages.

Yet, how far does the latter deviate from the ethos and reality of the free market? Is it possible to isolate any state on the global stage, and tabulate the level of its corruption, as with Transparency International’s Index on Corruption, without reflecting on role played by other actors on the same stage? And within a similar context, can and should we read the alarmist declarations about the international reach of the Russian Mafia as an ‘alien’ entity as symptomatic of a malaise that goes beyond the boundaries of contemporary Russia and its Soviet past? The following section examines these questions in relation to the links between corruption and organised crime.

Buying into Russia’s corruption–crime nexus

The illegal market for government services is a market in which the production of these services is stimulated by a willingness to pay.

(Jager, 2003: 155)

[I]llegal markets are not the realm of sinister, evil forces but dynamic, interactive places in which criminal entrepreneurs meet the demands of many ordinary, usually law-abiding citizens.

(van Duyne *et al.*, 2003: 4)

In Russia's landscape of shifting, ambiguous legality, the separation of corruption and organised crime from honest bureaucracy and legal business has often been little more than a semantic exercise governed by 'who' rather than 'what' was involved. Neither corruption nor organised crime exists in isolation from the legal sector; both are in fact heavily dependent on its input. Much of the capital and collaboration crucial to their development has come from foreign, advanced capitalist countries. It has taken almost twenty years since the fall of communism for foreign companies to come together and sign an integrity pact agreeing not to pay bribes to Russian officials as a means of putting pressure on anti-corruption legislation and initiatives (Rozhnov, 2010). In 2007 the German multinational Siemens was found guilty of dispensing 12 million euros in bribes to Russia, as well as Nigeria and Libya (Crawford and Ester, 2007), hardly an inducement for the authorities to seriously embark on a 'war' on corruption. And it is well known that many security companies linked with, or even operating as, criminal groups, have been consciously employed by Western companies (Dunn, 1997). As with illegal drug markets, it is only when demand, as well as supply, are addressed, that any serious chance of curtailing activities will emerge.

Amongst the multiple descriptions of organised crime, perhaps the most appropriate for the Russian condition during transition is the free market *in extremis*, business without legal constraints, deregulation at the edge, so to speak. Misha Glennly comments that 'had the rule of law prevailed at the time, then there is no question that the oligarchs' behaviour would have warranted severe punishment' (2008: 73). The question is: punished by whom? Driven by competition, unlimited profit acquisition and the power of major shareholders in a world of increasingly scarce resources, criminogenic tendencies within capitalism constantly look to displace the rule of law and exacerbate social injustice. One of the distinguishing traits posited between criminal business as distinct from its legal counterpart is the willingness of the former to employ violence, or provide it as a commodity as in the illegal protection industry. But this offers a limited picture of violence and its users. Graphic, deliberately targeted, physical (and psychological) brutality that wears its victims on its bloody sleeve, violence that makes the news, that creates Hollywood's box office hits, that justifies the expansion of police and intelligence powers to fight it – these are the narratives which shape definitions, laws and policy around corruption and organised crime. Russia, like other countries 'in transition', experienced, and continues to do so, a different kind of violence. 'Shock therapy', backed by Western governments, businesses and funding involved a frenetic pace of change. Rapid privatisation and price liberalisation pushed aside those who had neither the ability nor desire to ride the train of rapacious wealth acquisition. This "systemic" violence, or the often catastrophic consequences of the *smooth* functioning of our economic and political systems' (Zizek, 2009: 1, emphasis added), did not figure in the discourse of post-Soviet criminality and corruption. Only now has it become a topic for consideration in the secure context of hindsight. Multiply Siemens' activities by hundreds during the 1990s, and the role played by international business in

helping sustain and nurture the links between corruption and organised crime becomes clear.

Nor do legal enterprises restrict themselves to exploiting the conditions in 'developing' states. The so-called 'reconstruction' of Iraq in many ways reproduced the criminogenic conditions that were prevalent in Russia during the transition phase (and continue today). The US-led Coalition Provisional Authority (CPA) effectively ran the programme as 'institutionalized corruption' in which it 'merely replaced Saddam's nepotism with a new structure of elites and a system of patronage and favoritism' (Whyte, 2007). In pursuing the economic and political goals of the then US administration of stripping the Iraqi state of its assets, especially its oil industry, in much the same way as had occurred with the Russian *nomenklatura*, the occupying forces demonstrated how 'corruption in complex state-corporate symbioses can equally be a rational *use or* technique of power that is entirely consistent with the overarching purpose of government' (ibid.). Being unskilled or lacking linguistic abilities to make them more attractively employable, together with increasing competition for fewer jobs as unemployment rises in countries such as those in the European Union, mean that many of the more vulnerable will end up working in the informal economy in transit and destination countries, thereby further feeding the criminal industry.

Unfortunately, this is not an aberration of neoliberalism which increasingly shows itself to be as unjust and brutal as communism, a brutality that has only recently come home from the distant, often invisible regions of the developing world where it has wreaked so much damage. The complex web of social relationships, lack of transparency and diffusion of accountability that nurtured the links between corruption and organised crime in Russia are structurally and behaviourally reproduced in the global economy. Boundaries between legal and illegal disappear and become the means of facilitating the very process which drives the free market. Since the financial deregulation of the 1980s, where money *per se* became a major commodity, banking has become especially vulnerable to corrupt practices. Block and Weaver's investigation of the Bank of New York scandal, which involved the laundering of millions of dollars of Russian-based funds, concluded:

[T]he truth of the matter is that there are so many banks and bankers, brokers and markets that have edged into the "darker side" for a good part of their existence. This kind of behaviour is not really extraordinary at all.

(2004: 208)

Scarcity of any commodities encourages informal and illegal supply lines. To what extent the global economic crisis of 2007 (to the present and beyond) will edge even more financiers towards the 'darker side' remains to be seen. Indeed, the crisis itself illustrates the complexities and ambiguity of the boundaries that separate the darker from the lighter.

Conclusion

As a messy area of research, in terms of its politically sensitive nature, its definitional fluidity and the attendant dangers in its investigation, corruption has been allowed to lie low as a subject of national and international concern and as an object of serious study relative to organised crime. Too often, the obsession with the threat (more often imagined) from Russian organised crime has distracted attention away from what is arguably the more pathological and socially destructive partner in this unholy alliance. To some extent, the topic of a linkage between the two could also be viewed as a distraction. Russia's experience of organised crime clearly has been shaped by corruption, not just in terms of direct linkages as in bribery and other direct collaborative ventures, but in the more diffuse and structural aetiologies that result from the abuse of power and trust in the private and public, the economic and political, the national and international spheres. Corruption can stymie as well as facilitate organised crime, bend it to the will of those who hold power in the legitimate structures, make it function for, as well as with, corrupt officials. With this power dynamic, in the maintenance of law and order, organised crime often serves the low-hanging fruit in the corruption–crime relationship – a more identifiable entity, standing outside (conceptually, at least) the status quo, voiceless in its own defence because it has recourse to fewer strategies than its legitimate partner. Further, because corruption is 'in here' rather than 'out there', fighting it can result in a Pyrrhic victory, undermining the very structures the policies of law enforcement set out to protect. Such is the case in Russia.

Empirical evidence on the links between corruption and organised crime can never be precise, especially in a country where the rule of law is valued so little. This does not demand an abandonment of research into the area but perhaps a different approach to the subject, one which looks beyond the dyadic, generally asymmetrical, relationship. While more research is required into corruption (and perhaps less into organised crime), Russia's experience of both asks that we extend the corruption–organised crime debate to include the formal structures of power that stand on the global stage and construct the discourses of crime and corruption while engaging in the very same. In other words, we need to extend the debate to the dominance of the neoliberal ethos and its main actors, and ask to what extent is corruption and its rude offspring intrinsic to the political and economic realities of this ideology, as it was to Soviet communism. What separates Russia's experience from the West is perhaps only a question of degree – for now.

11 Spain

A criminal hub

Alejandra Gómez-Céspedes

Described as one of the five criminal hubs in Europe by the 2011 Europol Organised Crime Threat Assessment (OCTA) Report, Spain remains the main south-west entry point for the importation into Europe of cocaine, hashish and illegal immigrants. Despite significant law enforcement operations and a crucial increase in government resources and infrastructures, such as anti-organised crime units within law enforcement bodies, an anti-organised crime Prosecutor's Office and the Ministry of the Interior's Intelligence Centre against Organised Crime (CICO, in Spanish), organized crime activities remain significant.

Drugs and humans

Spain is not only a transit country. In the last decade it has become one of the most important European distribution centres in the markets of cocaine, cannabis products, illegal immigration, human trafficking, organised fraud and money laundering. Also, according to the 2010 Report of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), Spain remains one of Europe's biggest cocaine consumers and among the top three consumers of cannabis.

The Ministry of the Interior acts as the only agency that holds or collects raw police data of relevance to organized crime at the national level. Although data is published, it is usually fragmented and incomplete. Thus, any attempt for secondary analysis becomes practically impossible. While it is true that much has been said about the validity of official sources of crime data (Maguire, 2007), anyone looking into organised crime in Spain will inevitably have to look into the statistics of the Ministry of the Interior.

It would be fair to add a word of caution, though. With the creation of the Intelligence Centre against Organised Crime (CICO)¹ in 2006, it was decided that drugs seized from criminal organizations or, for that matter, any other crime committed by criminal organisations, would be quantified independently from the general statistics. It would be relatively easy to add them up but unfortunately, the CICO Reports are restricted from public access. Thus, the annual figures for drug seizures after 2007 in Spain refer only to seizures made at the retail level and from consumers on the streets, but leave out seizures made from large criminal organizations. This could be the reason why declines are so drastic after 2007 (see [Table 11.1](#)).

Table 11.1 Drug seizures in Spain by type of drug and quantities

	<i>Seizures</i>									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (June 30)
Heroin (kg)	631	275	242	271	174	454	227	548	300	149
Cocaine (tonne)	34	18	49	33	48	47	38	28	25.3	15.8
Hashish (tonne)	514	564	727	794	670	451	653	682	444.5	194
Ecstasy (pills, 000s)	860	1,400	772	797	573	408	491	535	404	313
LSD (units)	–	–	–	–	–	–	–	–	9,062	4,445
Speed (kg)	–	–	–	–	–	–	–	–	148	141

Source: Ministry of the Interior.

Although it would be misleading to draw sound conclusions based on the figures of the illegal drug trade in Spain, careful consideration should be paid to the rising trend in containerized cocaine shipments from South America. According to the 2011 International Narcotics Control Strategy Report (INCSR), container seizures in the first half of 2010 exceeded all those of 2009. And it is in fact at main ports (Vigo, Barcelona, Valencia, Algeciras, Tenerife) that we are witnessing a growing number of import/export companies being involved – willingly or unwillingly – in the smuggling of drugs hidden in the legal trade of fruit, flowers, wood, scrap iron, tyres or fish.

Following the illegal drug trade, another large organised criminal activity in Spain is the smuggling of migrants (comprising largely immigrants coming from the African continent). Especially during the summer months, Spain faces the arrival of thousands of illegal immigrants originating in the sub-Saharan and the western-coast regions of Africa. These immigrants, travelling in small/medium overcrowded fishing boats, undertake a hazardous trip into the shores of Andalusia and/or the Canary Islands. Many of these immigrants die in the process, either drowned or by thirst, sun exposure or hunger.

The dramatic conditions in which African illegal immigrants usually arrive to the coasts of Spain has created a very complex humanitarian infrastructure. Many institutions and non-governmental organisations work hand in hand in order to take in hundreds of persons. Some of these immigrants are sent to detention centres, others are admitted into hospitals and yet others are deported to their countries of origin. Much of this illegal immigration is recorded, therefore, it is possible to estimate the scale of the problem. For instance, the arrival of African immigrants via fishing boats has decreased considerably in the last decade. In 2001, a total of 18,517 immigrants arrived to the Spanish coasts illegally. By 2010, the figure had plunged to 3,632. Certainly, many efforts, including bilateral agreements with Morocco, Mauritania, Gambia, Senegal, Guinea-Bissau or Cape Verde, have deterred the flow of illegal immigrants arriving in Spain by boat. However, African immigrants are not the only immigrants arriving into Spain irregularly.

The Spanish–French border is believed to face the entrance of thousands of non-EU nationals that may enter the EU with valid passports but remain in Spain

or other European countries illegally. Barajas, the Madrid airport, is also believed to be another critical entry point for illegal immigrants originating in South America and Asia. Again, these semi-legal immigrants may enter the country with valid passports but stay under irregular conditions.

The problem with non-EU European, Latin American or Asian nationals² staying and/or working in the country illegally is that it is basically impossible to quantify them. Additionally, it is impossible to know whether these people have arrived into Spain on their own or whether they have been aided (e.g., smuggled or trafficked) by organised networks. Actually, although Spain has entry and exit controls (new/consolidating legislation on these will be adopted shortly in the form of the Schengen Borders Code) and are working on various databases (including the Schengen Information System and Visa Information System). But the country currently has no way of matching up information about those leaving with those who enter and thus no information on the numbers of those remaining illegally in the territory is available.

Robberies and thefts

According to the media and press releases from the Ministry of the Interior,³ organised criminal groups are also profiting from property crime, namely robbery in industrial estates, jewellery shops and dwellings. Even though it is very difficult to know the scale or cost of organised robberies in Spain, official statistics show that organised violent robberies remain relatively low. Nonetheless, the media coverage along with victims' testimonies and the estimated loss of assets, have given a lot of prominence to this type of criminal activity when perpetrated by Albanian or Romanian criminals.

A few years ago, the Spanish Association of Jewellers, Silversmiths and Watchmakers demonstrated on the streets of Madrid demanding better security after numerous violent robberies. In fact, back in the year 2002, the then president of this Association stated before the Senate that robberies had cost the sector 17 million euros in 2000 and 32 million euros the following year (Gómez-Céspedes and Stangeland, 2004).

Organised crime, of course, exploits other traditional organised criminal activities such as vehicle smuggling, prostitution, trafficking in women for sexual exploitation, kidnapping for ransom, protection or continuous serious fraud. Nevertheless, the dimension of such criminal markets is difficult to assess due, again, to scarce and contradictory official data.

A typology

Following the OCTA typology of organised crime groups,⁴ in Spain one will normally find groups that interfere with law enforcement and judicial processes by means of corruptive influence, groups that influence societies and economies, and groups that elude law enforcement attention. Rarely will one find groups using systematic violence or intimidation against local communities or groups

using the same means against law enforcement and judicial agencies. Today, the picture of organised crime in Spain suggests a mixture of national and international criminal groups and networks engaged in different activities whose ultimate goal is profit.

The study by Mapelli Caffarena *et al.* (2001) indicated a growing increase in the percentage of mixed-nationality organised criminal groups operating in Spain. A few years later, Díez Ripollés and Gómez-Céspedes (2008) highlighted that although the majority of those arrested for drug trafficking in Spain were still Spanish nationals, foreigners arrested for this type of crime were on the increase. For instance, the number of Spanish nationals arrested in the period 2001–05 decreased by 18.91 per cent. On the other hand, the number of foreigners arrested for that same period increased by 13.68 per cent.

In 2010, the Ministry of the Interior reported before a Parliamentary Commission about the organised crime situation in Spain.⁵ Some interesting facts emerged:

- The main regions of organised-crime activity in the country were Madrid, Barcelona, Valencia, Alicante and Malaga (in that order).
- The value of property seized from organized criminal groups in 2009 was over 270 million euros.

In addition, it indicated that 15 per cent of criminal groups were identified to have used ‘influence and corruption’.

Corruption as an issue in the country

Spain’s Centre for Sociological Research (CIS) undertakes the task of analysing and developing scientific knowledge on Spanish society by conducting surveys and qualitative research studies. A useful publication is the Barometer, which consists of polls carried out on a monthly basis, and whose main objective is to probe public opinion. The latest results, from July 2011,⁶ rank corruption as the fifth most important problem in Spain after (i) unemployment, (ii) economic related problems, (iii) the political class and political parties and (iv) immigration.

The term corruption, however, is used as a comprehensive term alluding to a variety of conducts and persons. To date, the Spanish legal system does not define corruption. Rather, the Spanish Criminal Code of 1995 identifies a series of offences that can be categorised within the framework of corruption. These offences include:

- *passive and active corruption* of Spanish authorities and public officials (Articles 419–427);
- *trading in influence* (Articles 428–431);
- *bribery in international transactions* (Article 445a);
- *offences against the Treasury* (Articles 305–310);
- *abuse of official authority* (Articles 404–406);
- *use and misuse of sensitive information* (Article 418);

- *misappropriation of public funds* (Articles 432–435);
- *fraud and extortion* (Articles 436–438);
- *negotiations prohibited to officials* (Articles 439–441);
- *illegal exercise of functions* (Articles 506–508).

When any of the corruption-related offences are committed in an organised manner, the offence of *unlawful association* (Article 515) also comes into play.⁷

There are, however, some practices which are not strictly assimilated to corruption. These include clientilism, nepotism, cronyism, patronage, discrimination, lack of transparency, and the cases in which institutions that are set out to regulate and control are ‘captured’ by interest groups (Rose-Ackerman, 2004). These practices reveal the existence of dysfunctional government institutions, which are seen by social scientists as the cause of many social problems (Rothstein and Teorell, 2008). Indeed, understanding how governance operates and how it is organised becomes indispensable for getting the picture of why corruption and organised crime opportunities seem to be so favourable in Spain.

One of the main advocates of this analytical framework in Spain is Professor Alejandra Nieto, who has published extensively on the issue of the *ungovernance*⁸ of the Spanish public institutions. Perhaps, the works of Nieto (1996, 2005, 2008)⁹ will not contribute to new knowledge as many of his affirmations and criticisms are well known to all Spaniards. What Nieto does, however, is state publicly what others are either unwilling or unable to. He analyses the impact that the law has on the behaviour of all its recipients: fundamentally, citizens, public officials, the Administration and the judges. With regard to citizens, he argues that the law is intimidating as it corners them with imperative norms that impose sheer obligations. About public officials, he affirms that the law does not possess a binding force and consequently officials dilute their responsibility in a complex bureaucratic system. A similar argument is directed towards the Public Administration: Nieto argues that non-performance does not usually carry a personal responsibility but a disciplinary action with no serious consequences. When it comes to the Judiciary, he criticises the juridically correct yet contradictory sentences that are passed depending on the individual judge. Nieto considers this issue as a very serious and common problem, because the law offers the judge several possible and equally correct solutions. Thereby, laws become guidelines, points of reference that the legislator puts in the hands of public officials and judges, knowing that they will be partially implemented, while core issues will depend largely on the interpretation of the public official or judge who enforces the law. Furthermore, Nieto argues that the judicial power cannot be considered a constitutional power since it is subordinated to the political power. He reaches this conclusion because the CGPJ (General Council of the Judicial Power), the constitutional body which governs all the Judiciary of Spain (e.g. courts and judges) is elected in Parliament and, according to informant K3 (see Table 11.2 for details of informants): ‘One cannot vote freely from a list of candidates, the party tells you who to vote for. Therefore, the CGPJ is shamelessly manipulated by the political parties’.

Table 11.2 Informants

<i>Name</i>	<i>Position</i>
P1	Superintendent of the National Police Corps (specialising in anti-drug and terrorist investigations)
P2	Chief Superintendent of the National Police Corps (specialising on corruption investigations)
P3	Commander of the Spanish Civil Guard (specialising on economic crime investigations, especially linked to planning and development)
P4	Superintendent of the National Police Corps (specialising on organised crime intelligence)
K1	Chief Inspector of the National Tax Administration Agency (AEAT)
K2	Chief Audit and Tax Advisor of a private company
K3	Ex-MP and practising lawyer specialising in planning and development offences
K4	Journalist of a national newspaper specialising in economic and organised crime

What characterises Spanish ‘ungovernance’ is, ultimately, that power is exercised in a personal, arbitrary fashion, thus bringing to mind feudal practices. Today, the political system is made up of a network of personal relations and particular interests, with links connecting group, territorial or corporate entities: something concrete is given and something concrete is obtained in return. The most disturbing sign of this neo-feudal system is seen in the political parties, which grant their affiliates access to power and universal protection (including protection from criminal prosecution) in exchange for loyalty. Politics has therefore turned into a business and the parties compete on a market for personal benefits using the most blatant forms of corruption.

The police

According to Informant P3: ‘The country’s level of police corruption remains within the average levels of democratic countries subjected to the rule of law’. In fact, police corruption is unlikely to last for long periods, as internal affairs units eventually investigate cases and, if necessary, bring charges against corrupt officials.

The Internal Affairs Unit (located both at the National Police and Guardia Civil) is a fully independent investigating agency that processes complaints against law enforcement officials. This body has the power to instigate disciplinary proceedings against officers and to refer cases to the judicial authorities, which are competent to consider whether criminal proceedings should be brought. The following are examples of police corruption uncovered by internal affairs units.

Operation Block: The Coslada police corruption ring¹⁰

On 8 May 2008, the chief of the local police¹¹ of Coslada (a Madrid suburb) and other 26 local police officers were arrested on suspicion of involvement in a

corruption ring engaged in extortion from prostitutes, bars and local businesses. On 14 May, a judge authorized detention without bail for 13 of the arrested officers. At the time of writing, trial proceedings have not yet begun.

According to some police officers working in Coslada, the so-called ‘Sheriff’ of the town, Ginés Jiménez Buendía, was the only official in charge of the local police force. He liked to surround himself with people he trusted, but if anyone opposed his orders, he would push them away and quickly replace them. This is how he managed to build his power through an informal group known as The Block. He claimed his innocence and said he was the victim of political conflict. The name of Ginés Jiménez was also linked to the extortion rackets of Madrid nightclubs and to some brothels in Barcelona. It was alleged that he granted protection to Bulgarian organised crime groups involved in prostitution and that he enjoyed protection from Coslada mayors since the early 1990s. He befriended several judges, including Judge Carlos Nogada from Coslada, who was suspended by the CGPJ after some wiretapped conversations between him and the Sheriff were made public. In September 2008, however, the suspension of Judge Nogada was lifted. The investigation, conducted by the National Police of Madrid and the anti-corruption prosecutor, was triggered by persons reporting the extortion activities of the chief of the Coslada Local Police.

The Ronda police corruption ring

The investigations into the alleged ring of corruption among the National Police Corps stationed in Ronda¹² focused on the irregular administration of immigration files and, above all, the relationships of certain officers with the local ‘red light’ clubs in the district. Three National Police officers (the Head of the Ronda National Police Station ranked as the Chief Inspector, a sub-inspector and an ordinary officer), an officer of the local Civil Guard, another person linked to a local judge, and three other businesspeople who ran brothels in Ronda were indicted with charges ranging from bribery and abuse of authority to sexual abuse, fraud and extortion. Officers were accused of demanding money from the owners of clubs in exchange for warning them in advance of police raids or for not searching their premises for women who might have been in the country illegally. The investigation was carried out by the National Police Internal Affairs Unit after an unannounced raid on a brothel in which forged documents were found. The documents belonged to one of the prostitutes, who claimed to have got them at the local police station. This put the Internal Affairs Unit on the trail of irregularities at the Ronda police station, which had been investigated two years before, although the case had been shelved due to a lack of evidence. The new investigation revealed that certain officers expected free sex from prostitutes and that sexual services were given not only in clubs, but also in police stations. The idea that the officers took advantage of their position to enjoy free sexual relations led detectives to believe that these were without consent and, therefore, to include the charges of sexual abuse even though there was no evidence of violence or intimidation. Sources close to the investigation confirmed that the Chief Inspector was

also charged with sexual abuse, bribery, revelation of classified information, sexual assault and unlawful detention. While the first three of the above charges were shared by several of the other officers allegedly involved, the final two appeared not to be connected directly with the investigation but with the private life of the Chief Inspector, who arrived at the Ronda station one year before.

The Costa del Sol ‘Drugs and Organised Crime Unit’ (UDYCO)

The Malaga Provincial Court sentenced, on 21 April 2009, two former UDYCO¹³ officers (the former head of UDYCO – Costa del Sol, and former chief of the Organized Crime Section) to eighteen months in prison and to an eleven-month suspension for leaking investigative, classified information and failing to persecute crimes. A third defendant, also a police officer, was acquitted of the charges. The charges were related to the cover given to an Italian protected witness who was allowed to travel freely between Spain and Morocco despite being the subject of a European arrest warrant. Police officers appealed the sentence and one of them was acquitted.

Other drug-trafficking-related cases

There has been an average of 25 police corruption cases reported every year in the Spanish press since 1996.¹⁴ Most of the police officers arrested include officers from the Civil Guard linked to drug-trafficking networks. This is understandable given the fact that the Civil Guard is charged with controlling the ports of entry. However, there are also cases of National Police and Local Police officers, along with members of the military,¹⁵ linked to the illegal trafficking of drugs. The following cases are worth mentioning: the arrest of a lieutenant colonel of the Civil Guard,¹⁶ the dismantling of the Santa Pola anti-drug unit;¹⁷ and the theft of 400 kilograms of cocaine in the Port of Barcelona.¹⁸

Informant K4 noted: ‘There are currently over 220 officers (including prison officers, National Police officers and Civil Guard officers) in prison (either as remand or convicted prisoners) in Spain. They are distributed across the prisons of Madrid, Sevilla, Castellón and Logroño’.

Customs and excise

According to Informant K2, the magnitude of tax evasion and carousel fraud activities in Spain broke all records in 2002. Remedial measures arrived late, once the problem had gone beyond government control. Nevertheless, since then, the National Tax Administration Agency (AEAT) has concentrated human and technical resources into reversing the problem. Despite the recent successes, a lot still remains to be done.

The underground economy in the country remains a serious problem. According to some estimates, over a quarter of all 500-euro notes in the eurozone are believed to be circulating in Spain. Spanish authorities have been able to trace about 10 per cent of the 500-euro banknotes circulating across financial institutions. The rest are probably circulating in illegal/informal circuits.

Informant K2 reported that in 2008, 30 per cent of all investigations regarding the circulation of 500-euro notes took place in Andalusia: 40 per cent in Malaga, 30 per cent in Seville and the rest between the provinces of Cadiz and Almeria. While it is true that there exists a significant underground economy in the country, this should not be intrinsically connected to organised criminal groups.

Political corruption

The 2008 Report on Democracy in Spain, published by the Fundación Alternativas (Alternatives Foundation), includes a description of 151 cases of town mayors and councillors with corruption offences since 2004. The list enumerates politicians from the three main national political parties (namely, Partido Popular (PP), Partido Socialista Obrero Español (PSOE) and Izquierda Unida (IU)) along with other regional parties. Most, if not all, allegations and/or charges of corruption are related to planning and development offences taking place at the local level.¹⁹

One of the most disturbing issues included among the conclusions of this Report is that ‘the analysis of the municipal election results in those local government areas where accusations of political corruption were made demonstrates the limitations of the vote as a control mechanism for corruption’ (Fundación Alternativas, 2008: 251), as many of those mayors were also elected in the following local elections. This confirms the following statement by informants P2, P3, K3 and K4: ‘Political corruption in the Spanish planning and development sector is rampant at the local level’.

On 26 March 2009, the European Parliament approved the Auken Report on real estate, planning and development abuses in Spain. The report threatened to freeze all European Community funds for Spain until such abuses, denounced in Brussels by Spanish residents from several EU countries, were addressed. However, the decision to cut the funding was not binding. The report, compiled by the Danish Green Euro MP Margrete Auken, portrayed an extremely devastating, yet realistic, picture of the planning and development sector in Spain. It asserted that corruption relating to planning and development is endemic in Spain and that the responsibility lies at all levels of the public administration, which is said to tolerate ‘unsustainable development practices’. The report condemned the judiciary for being unprepared to deal with the problem and unable to bring in rulings that could compensate the victims. The image of the Spanish justice system conveyed by the report was one of an inactive, unbalanced and partial apparatus. The judicial system, it was remarked, lacked ‘clarity, precision and certainty’, while the legislation was found inadequate in relation to the right of ownership, and environmental matters. Lax judicial proceedings were deemed responsible for ‘a form of endemic corruption’, and for encouraging ‘greed’ and ‘speculative conduct’ on the part of the local authorities. The report singled out Marbella, where the town-planning situation was regarded as particularly worrying with ‘thousands of homes constructed illegally in infringement of community legislation’.

The Auken Report was the third European Report denouncing planning and development corrupt practices in Spain. Earlier reports (December 2005 and June 2007), however, did not threaten to withdraw EU funding. It would be appropriate, in this respect, to wonder whether organised crime is linked to political

corruption in Spain. Of course, this depends on how one interprets the concept of criminal organisation.

Let us start with the following definition proposed by the United Nations (2004): ‘an organized criminal group shall mean a structured group of three or more persons, existing for a period of time, and acting in concert with the aim of committing one or more serious crimes or offences in order to obtain, directly or indirectly, a financial or other material benefit’. If we adopt this definition, then we have to conclude that the widespread political corruption in Spain manifests the characteristics of organised crime, despite the fact that the specific offences involved, under Spanish legislation, are not considered ‘serious crimes’. It is true that the commission of crimes such as drug trafficking, organised robbery, trafficking in weapons or human smuggling, may not be facilitated by corrupt politicians. Rather, these offences could be linked to the corruption of law enforcement officials. Nevertheless, given the profound lack of governance at this point in time and if one considers that offences such as corruption, fraud or money laundering are in fact ‘serious crimes’, then one would have to admit that the government, through its politicians in power, is seriously infiltrated by organised criminal networks active in the planning and development sectors (Díez Ripollés and Gómez-Céspedes, 2008).

The judicial sector

In 2007, the Spanish Chapter of Transparency International published a report regarding the extent of corruption in general and judicial corruption in particular.²⁰ The report, written by Professor Manuel Villoria Mendieta, emphasized three different types of judicial corruption:

- corruption in the courts;
- judicial corruption *in stricto sensu*;
- the political influence of governing bodies of the judicial system.

Corruption in the courts

This is usually perpetrated by civil servants (not necessarily judges) who abuse their positions in order to prioritise certain files/cases over others. In Spain, this type of corruption was common some years ago. Today, it has practically disappeared, due in large part to the implementation and management of computer-based information systems, particularly software applications and computer hardware. Nevertheless, the corruption existing in the courts is not only connected to the speeding up or delay of proceedings, but also to the disappearance of evidence²¹ or to the removal of judicial records.²²

Judicial corruption in stricto sensu

This type of corruption relates to the voluntary loss of judicial impartiality in exchange for bribes or even to the extortion of bribes in order to ensure favourable rulings. This type of corruption is exceptional, although some cases have

been brought to justice. Perhaps, the most significant example in this respect is epitomised by the case of former judge Luis Pascual Estevill.

On 3 January 2005, the High Court of Justice of Catalonia imposed a nine-year prison sentence on former judge Estevill. This judge was also fined 1.8 million euros after being found guilty of bribery, extortion and breach of legal procedures. He embodied the largest corruption scandal discovered in the Spanish judicial system in 25 years. Estevill, a former judge in Barcelona and one-time member of the General Council of the Judiciary, was found to have accepted bribes and helped Catalan lawyer Joan Piqué Vidal run extortion activities between 1990 and 1994. Piqué Vidal was also sentenced to seven years imprisonment and fined 900,000 euros. According to the court ruling, Estevill and Piqué Vidal abused their positions to demand bribes from business people investigated or charged with economic crime.²³ As a result, both Estevill and Piqué Vidal accumulated hundreds of thousands of euros in bribes over a four-year period. Several other people found guilty of participating in the scam, including Estevill's son, were fined and sentenced to up to one year in prison. Estevill had previously been disqualified from office.

A more recent example is provided by the case of former judge Francisco Javier de Urquía in Marbella. Francisco Javier de Urquía was found guilty of accepting a 73,800 euro bribe from Juan Antonio Roca, the former planning advisor to Marbella Town Hall and allegedly the man at the centre of Marbella's Malaya Operation corruption case. The bribe was said to have been paid in exchange for favourable treatment of Mr Roca in court. De Urquía was sentenced to a 21-month suspension from office but once the 21-month period expired he applied for a new position as a magistrate. The General Council for the Judicial Power rejected his application and suggested he could only re-apply after March 2012. Later, de Urquía was charged with blackmailing defendants of the money-laundering Hidalgo case, which was being discussed in court at the time he was suspended. The newspaper *El País* reported that the Andalusian High Court of Justice (TSJA) believed he collaborated with two associates in the extortion of the Marbella hotelier David Shamoon in exchange of freeing up some of the property that had been confiscated under the Hidalgo case. Likewise, the Pakistani businessman Azan Khan, arrested in the Hidalgo case, allegedly gave 60,000 euros to one of the associates, so that bail would be granted to him, his wife and his nephew. De Urquía has always denied the charges, insisting that he was the target of a mafia plot to link him to money laundering.

Although this type of corruption can be considered exceptional, one should take into account that judges are truly lenient when judging their peers. Not all cases will end up like Estevill and de Urquía and, according to informant K4, 'judges will be transferred or called into a chat before any disciplinary action is taken'.

Political influence of governing bodies of the judicial system

The higher levels of the judiciary are less likely to be corrupt (at least in terms of active or passive bribery). However, they are more exposed to political influence.

Normally, the boards of judicial control are politically influenced and receive pressures from those who contributed to the appointment of their members. Therefore, they may become partisan when called upon for disciplinary actions, appointments, promotions and transfers. When corrupt political networks do exist, they try to guarantee impunity by having some control over the judiciary. In order to achieve that, politicians place key magistrates in judicial governing bodies. If an investigation arises, these magistrates will be able to put pressure on local judges so that their political patrons may walk free.

It is not possible to assert that there exists rampant political corruption at the national level, nor can one affirm that a judge's independence is undermined by the government. However, this does not imply that the CGPJ is free of partisan pressures. In fact, one could say that the degree of ideological division in the Council and among the judges themselves is enormous. Thereby, sometimes one wonders if certain judicial rulings are really independent from political influence.

Private sector corruption

On 29 June 2010, the Ministry of the Interior released a press statement highlighting that the president of Terminal Cataluña (TERCAT), a holding of companies that operated in the Port of Barcelona, was arrested for his alleged involvement in a drug-trafficking operation that brought over 1 tonne of cocaine into Spain. The cocaine, hidden in different containers carrying legal shipments, reached the port of Barcelona (202 kilos), the port of Algeciras (723 kilos) and a warehouse near Barcelona (113 kilos). The president of TERCAT, José Mestre, was arrested with other 14 persons. According to the police, Mestre had at his disposal an entrepreneurial structure that would grant drug traffickers an important legal cover for the importation, storage and transportation of drugs. In June 2011, the National Court in Madrid set bail at the amount of 10 million euros for José Mestre. This is a very unusual case, as it allegedly involves the private sector in organised crime activities. The trial is still pending, but only close monitoring will lead to evaluate the extent of this alleged connection.

A similar case occurred in the port of Algeciras (Cadiz) in December 2009. Known as Operation Espuela, the Guardia Civil seized over 200 kilos of cocaine hidden in containers transporting bananas from Ecuador. Around 13 workers from the port coming from various transportation and logistics positions were arrested in connection to the trade of cocaine.²⁴

Conclusion

Despite concerted efforts to stop organised crime in Spain, many criminal activities continue unabated. While it is true that criminal organisations sometimes bribe law enforcement officials in exchange for protection or information, some affluent transnational crime groups have the capacity to purchase immunity, at least for some time.

Official crime data, especially data related to organised crime, is usually incomplete and therefore, any thorough analysis becomes practically impossible. Nevertheless, official press releases and follow-up of cases give a good opportunity for understanding the phenomenon of organised crime in Spain. Whether, and to what extent, there is a corruption–organised crime nexus in Spain depends very much on the concept of organised crime one adopts. If one concentrates on a group of criminals who get together with the aim of committing illegal activities for gain, then the need for corrupt exchange will be limited to a small circle of individuals, mainly operating in law enforcement agencies. However, if the definition adopted implies the existence of professional, affluent and sophisticated criminal networks, then the circle for potential corruption becomes wider, and might include politicians, judicial authorities and/or civil servants. On the other hand, and under some specific circumstances, criminal groups may associate with private entrepreneurs who are willing to run illegal activities within their legal businesses. In sum, organised crime will access those social and institutional spaces where corruption opportunities neutralise interference by government controls. Spain provides a clear example of this.

Notes

- 1 The Intelligence Centre against Organised Crime, under the Ministry of the Interior, coordinates (with varying degrees of success) counter-narcotics operations among various government agencies, including the National Police, Civil Guard and the Agency of Customs and Excise.
- 2 It should not be assumed that all non-EU Europeans, Latin American or Asian nationals have arrived and stayed in Spain illegally, as this assumption may demonise these groups.
- 3 Available online at: <http://www.mir.es>
- 4 The 2009 OCTA Report recognises five different typologies of organised crime groups classified on the basis of the geographic location of their strategic centre of interest and their capabilities and intentions: (1) VI-SO. Systematic use of violence or intimidation against local societies to ensure non-occasional compliance or avoid interferences. (2) IN-LE. Interference of law enforcement and judicial processes by means of corruptive influence. (3) VI-LE. Interference of law enforcement and judicial processes by means of violence/intimidation. (4) IN-SO. To influence societies and economies. (5) EL-LE. None of the above-mentioned behaviours, and focus on eluding law enforcement attention.
- 5 Online at: http://www.mir.es/DGRIS/Balances/Balance_2010/pdf/bal_crimen_organizado_noviembre_presentacion.pdf
- 6 http://www.cis.es/cis/opencms/Archivos/Indicadores/doumentos_html/TresProblemas.html
- 7 For a thorough description in English of the Spanish legal system and its shortcomings in the field of corruption, see the evaluation reports of the Council of Europe's Groups of States against Corruption (GRECO) online at: http://www.coe.int/t/dghl/monitoring/greco/default_en.asp
- 8 For Nieto the term 'ungovernance' (*desgobierno*) implies not an absence of governance but a disorganised exercise of governance.
- 9 To the author's knowledge, Nieto's work has only been published in Spanish yet it stands as one of the most acute portrayals of the Spanish government institutions, including the

public administration, the judiciary, the political parties and the exercise of political power. Some titles include: 'La organización del desgobierno'; 'La "nueva" organización del desgobierno'; 'El desgobierno de lo público' or 'El desgobierno judicial'.

- 10 See national media at the beginning of May 2008.
- 11 The local police corps (also called municipal police) is an armed force which comes under the jurisdiction of the Town Hall in each municipality. They have responsibility for traffic control and offences, enforcement of local ordinances, and minor crimes.
- 12 Inland from Marbella, Ronda is a city in the Spanish province of Malaga and is located about 100 kilometres (62 miles) from the city of Malaga.
- 13 UDYCO stands for Unidad de Drogas y Crimen Organizado (Drugs and Organised Crime Unit attached to the National Police).
- 14 Personal investigation not yet published.
- 15 Cases involving military personnel usually take place in the Spanish enclaves of Ceuta and Melilla located in the north of Africa.
- 16 As in the case of Lieutenant Colonel Rafael Masa. See *El País*, 22/01/2001.
- 17 *Las Provincias*, 13/02/2004.
- 18 *El País*, 22/02/2009.
- 19 The report does not include the town mayoress and all the councillors who were arrested under the Malaya Operation taking place in Marbella in March 2006.
- 20 Online at: <http://www.transparencia.org.es/Informe%20global%20sobre%20la%20CORRUPCIÓN%20EN%20ESPAÑA%202007.pdf>
- 21 In February 2006, various tapes incriminating drug traffickers got lost at the National Court.
- 22 In August 2001, the press reported the theft of at least 15 judicial records in the courts of Marbella. The missing records were connected to then major of Marbella, Jesus Gil y Gil.
- 23 Some cases include the following: Macosa, Nutrexa, Vitalicio, Bertrán, Olabarria, Regesa or Prenafeta.
- 24 See Ministry of the Interior press release of 17/12/2009. Also, Cadiz newspaper online: <http://www.lavozdigital.es/cadiz/20091218/ciudadanos/trece-trabajadores-puerto-algeciras-20091218.html>

12 Corruption and organised crime in the UK

Sappho Xenakis

Introduction

Although public and official concerns about corruption and organised crime have grown steadily since the mid-1990s, the lineage of high-profile public and official concerns with problems of corruption and organised crime in the UK is far longer.¹ Official and public discourse in the UK has tended to treat corruption and organised crime as discrete sets of activities, particularly when implicitly associated with different socio-economic class contexts. Thus, ‘corruption’ has more often been associated with corporate and ‘white-collar’ crimes perpetrated by elite socio-economic actors, whereas ‘organised crime’ has typically been identified with forms of criminality engaged in by lower-level socio-economic actors, such as illicit drugs markets, human trafficking, and local protection rackets (see Ruggiero, 2000; Levi, 2004).² Recent years have seen a growth in efforts within the UK to encourage the state to treat corruption and organised crime as commonly interrelated problems. As explained in a joint article by the former Director-General of the Serious Organised Crime Agency (SOCA), William Hughes, and the Director of the Defence and Security Programme of Transparency International (TIUK), Mark Pyman, whilst counter-organised crime and counter-corruption communities in the UK have largely ‘travel[ed] in separate, parallel universes’, there are good reasons for establishing collaboration between the two, both in terms of the multifaceted nature of the challenge they face, but also the very different ways in which these two broad crime categories have typically been combated (Hughes and Pyman, 2011).

Yet to the extent that policy developments have supported the treatment of corruption and organised crime as intertwined issues, elite-level crimes have continued to be neglected. For example, crimes such as welfare benefit and value added tax frauds appear to have been prioritised by HM Revenue and Customs over the far more costly problem of aggressive tax evasion by large companies (see, indicatively, DirectGov, 2011, and NAO, 2011a: 5–7); similarly, SOCA has appeared to privilege the pursuit of crimes such as the laundering of profits from drugs trading, people trafficking, and robberies, rather than the laundering of the proceeds of corruption by wealthy individuals through the private arms of banks in the UK (see FSA, 2011), or the widespread mis-selling of financial products by the financial services industry (see Fooks, 2003). More importantly still,

despite the intensification of public and official concerns, recent years have also seen key bodies tasked by the state with combating corruption and organised crime in the UK being hit by successive crises that have damaged their reputation and ability to carry out their work effectively.

This chapter offers an overview of the ways in which corruption in the UK is perceived and the key forms of corruption that have attracted public scandal, before turning to discuss types of crime in which an overlap between corruption and organised crime has been considered to be significant, and the political obstacles that inhibit reflection in law enforcement priorities of the connections between the two forms of crime.

Perceiving corruption

Britain has long been considered a country with low levels of corruption by international comparison. Much academic comparative corruption literature has argued that British political and cultural traditions are strongly associated with lower levels of corruption and successful economic growth, even when they have been transplanted to other societies. From the length of the country's parliamentary tradition, to its specific structure (the first-past-the-post system and the 'Westminster model' division of powers), to the common law system and a web of social norms shaped by Protestant ethics, the British experience has commonly been regarded as an exemplary lesson in the institutions and values required to reduce corruption and secure successful economic growth (see further Xenakis, 2010).

One of the most important factors that has served to confirm low levels of corruption in the UK has been the absence of systemic 'petty corruption' (which, on the whole, consists of bribes of relatively small pecuniary value that are exchanged for routine official services). Public surveys, as recorded in the annual Global Corruption Barometer run by Transparency International (TI) since 2003, for example, have indicated that a small 1–3 per cent of British respondents each year admit to having paid a bribe within the previous twelve months.³ Another measure commonly employed in international comparative studies has treated perceptions about levels of corruption as an indicator of actual levels of corruption. Aside from the gross inadequacy of conflating perceptions with practices, this approach has also supported the conflation of perceptions of the prevalence of petty corruption with perceptions of the prevalence of corruption *per se*. This is because such studies have tended to theorise about the prevalence of corruption in general on the basis of elite surveys (such as the Corruption Perception Index of TI) which address the degree to which corrupt practices are perceived by expert authorities and business leaders to pervade national *commercial* environments.

By contrast, efforts to measure 'grand corruption' – namely, the use of public office or policy for private (but not necessarily personal) gain by elite-level actors in a society – have been scant amongst international comparative studies, reflecting its less easily recorded practices. As Rose-Ackerman nevertheless asserts, "'Grand' corruption may occur even if lower levels are relatively honest, highly professional, and well paid' (Rose-Ackerman, 1996: 372). Experiences and perceptions

of petty corruption are not, therefore, reliable indicators of levels of grand corruption. Setting aside, then, low levels of reported and perceived petty corruption in the UK, and following the logical argument that there is greater potential for corporate and organised criminality where wealth and power converge (Ruggiero, 1996), grand corruption might reasonably be expected to be a particularly acute problem in the UK given that the country constitutes the world's fifth largest economy and is host to the largest and most developed global financial centre after that of the USA (see Dadush and Stancil, 2010; WEF, 2010).⁴

Instead, grand corruption (alongside petty corruption) has usually been considered a problem which more frequently and more significantly bedevils emerging and developing economies rather than advanced Western powers such as the UK (see further Xenakis, 2010). One explanation points to the social construction of perceptions: grand corruption is unlikely to be identified where assessments of corruption are based on studies that rely on elite surveys, through which the biases are reproduced of an elite minority which may itself be 'blind' to, or even complicit in, elite corruption (a criticism that has been levied against the Corruption Perceptions Index of TI). But whilst there appears, for example, to be a high degree of disparity between the findings of the elite Corruption Perceptions Index and the 'Global Corruption Barometer' public attitude survey of TI, it is clear that elite and public perceptions – whether predominately positive or negative – may often coincide (Xenakis, 2010).⁵ Indeed, in the case of the UK, the existence of a strong consensus between elite and general public perceptions about the low presence of corruption nationally has long been a point of note (see, e.g., Box, 1983; Ruggiero, 2000). Another explanation draws attention to the substantive issue that empirical evidence of grand corruption is likely to be rare where laws are framed by elites in such a way as to ensure that what might be understood as 'grand corruption' or, equally, as 'organised crime', is not criminalised. This is an argument that has repeatedly been raised with regard to the case of the UK (see, e.g., Reisman, 1979; Nelken and Levi, 1996; Doig, 2003; Ruggiero, 2000; Nelken, 2007). Legal weaknesses serve to stymie the prosecution and conviction of acts by elites that are otherwise perceived to be 'corrupt' or equally definable as 'organised crime' (Ruggiero, 1996; Levi, 2004), thereby reinforcing an impression of a low-corruption environment.

Nevertheless, as regards perceptions of corruption, successive scandals at the international and domestic levels have presented a mounting challenge to mainstream expectations that it is a menace to be associated primarily with less developed economies. With regard to perceived levels of corruption in the UK more specifically, two significant developments over recent years and decades have destabilised traditional assumptions. First, the country has seen the emergence of a new public awareness and language about corruption. Illustrating the degree to which the British public has long been considered to be insufficiently aware of elite criminal activity (Box, 1983) and excessively trusting of their elites (Ruggiero, 2000), public discourse in the UK has characteristically displayed an aversion to the use of the term 'corruption', more often employing the euphemisms 'sleaze' and 'cronyism' to denote elite corruption (*ibid.*). Against a

background of declining respect for those in institutional positions of authority recorded over the past sixty years (Power Inquiry, 2006), the more recent waning of levels of public trust in parliamentarians and government ministers (Hayward *et al.*, 2008) has accompanied a snowball of media revelations of elite corruption over the last two decades. These shifting attitudes appear to have encouraged the identification of 'sleaze' and 'cronyism' with the term 'corruption' (although not also with the term 'organised crime') by the general public.⁶ This evolution has been captured by the Global Corruption Barometer surveys which chart the growing concerns of a majority of British respondents between 2003 and 2010 about levels of corruption in British public life. As with the majority of their international counterparts, British respondents have viewed elite corruption as the most important form of corruption affecting the UK. This has been illustrated by their ranking of corruption concerns, with corruption amongst political parties ranked first, followed by the legislature, and then the private sector, as the three sectors most seriously affected by corruption in their country, but also by their identification of the close relationship between political and business elites as one at the foremost risk of corruption.⁷ In the late 2000s, however, British respondents emerged as amongst the most pessimistic about the prognosis for corruption in their own country of those sampled internationally. Since 2007, a majority of British respondents have judged corruption to have risen and have expected corruption to continue to rise, in addition to considering government policies to counter corruption to be ineffective.⁸

Second, an interrelated development has been a responsive shift to public concerns by British elites. Whilst neither legislation nor elite opinion has kept pace with public opinion, both legislation and elite opinion have changed in important ways. On the one hand, the legislative framework for addressing elite corruption has been expanded significantly, notwithstanding continuing weaknesses and gaps. From insider trading (Nelken, 2007) to the bribery of foreign officials (TIUK, 2011a), the legal armoury criminalising elite corruption has been growing. As recorded by the annual Corruption Perceptions Index, there has also been a shift in elite perceptions of levels of corruption in the UK. If less dramatically than public opinion, elite opinion also showed decreasing confidence in levels of corruption in the UK after 2007: between 1995 (when the survey began) and 2007, the UK was consistently ranked amongst the fifteen countries with the least corruption internationally, but slipped over subsequent years to reach 20th position out of 178 countries in 2010.

The radical potential of such conceptual and legislative shifts has been firmly tethered in place by a vital element of continuity in public understanding of corruption. Despite reporting growing concerns about elite corruption, the effects of elite corruption have remained vague in the public's mind and most citizens do not regard themselves as its victims: Global Corruption Barometers show that a large majority of British respondents continue to report that corruption insignificantly affects their personal and family lives (see also Levi, 2006). This apparent paradox is compounded by the fact that the country experienced a 20 per cent rise in wealth inequality between the mid-1980s and the early 1990s – the largest

increase amongst all countries surveyed during that period – and currently maintains one of the highest levels of wealth inequality internationally (Hills *et al.*, 2010; Grenier and Wright, 2004). Not only has rising inequality been viewed negatively by the vast majority of British citizens (Rowlingson *et al.*, 2010), but it has also been perceived by a greater part of the British public to be related to the fact that many more opportunities are available to those with elite backgrounds than to those of lower socio-economic status (*ibid.*).⁹ However, notwithstanding anxieties about elite ‘cronyism’, on the one hand, and concerns about what would legitimately be viewed as the accumulative affects of corruption on inequality levels (see You and Khagram, 2005), on the other hand, these two sets of issues have not been strongly connected in the public’s mind. Nor, indeed, has the relevance of the relationship between corruption and inequality appeared to have been considered with reference to the UK environment by the country’s leading anti-corruption non-governmental organisation, TIUK.¹⁰ Crucially, moreover, there has been an erosion of public awareness of and support for political precepts that would need to be marshalled to counter such effects. The past thirty years have seen the successful stigmatisation, for example, of both the concept of income redistribution and the desirability of raising taxes on those with higher incomes (Rowlingson *et al.*, 2010).

Public scandals

Over recent years, two basic forms of corruption have attracted greatest public attention. One form has been the misuse or fraud of the public purse by members of the Houses of Parliament without involving any exchange with other elite actors. The other has been the exchange of favours between members of political and parliamentary elites, on the one hand, and elites from the private sector (including the privately owned media), on the other. Some scandals, but not all, have displayed a combination of both forms of corruption, whilst others have demonstrated equivalent practices between individuals with access to a lower degree of public and private power.

As regards cases of misuse or fraud of the public purse where transactions have not been involved, public concerns gathered momentum after the passing of the Freedom of Information Act in 2000, and a related judgement from the Information Commissioner’s Office in 2007 that details of MPs’ expenses claims should be made public. Whilst MPs resisted this decision, a stream of scandals followed over the course of 2007 and 2008 when information emerged in the media about individual MPs over-claiming personal expenses and hiring (and, in some cases, over-paying) family members to work as their personal assistants (see TIUK, 2011d). But there was a public outcry in 2009 when the full details of MPs’ expenses claims were published by a broadsheet newspaper (see *The Telegraph*, 2009), revealing a generous and very flexible scheme that had been exploited by many MPs, but also a number of clear cases of fraudulent claims which ultimately resulted in fines and prison sentences for those involved. One of the most important provisions of the Parliamentary Standards Bill that was

subsequently rushed through Parliament was the establishment of an Independent Parliamentary Standards Authority (IPSA), and a criminal offence relating to fraudulent expenses claims by MPs (see *BBC News*, 2009). By spring 2011, MPs' complaints that the new arrangements were too arduous and costly instigated a parliamentary committee review with a view to abolishing the IPSA (*BBC News*, 2011c). A report by the National Audit Office nevertheless appeared to curtail the latter possibility by confirming the effectiveness of the new system, both financially and in terms of quashing the previously systemic abuses (NAO, 2011b).

The second form of corruption to attract wide public attention – the exchange of favours between political, parliamentary, business and media elites (some, but not all, of which has been covered by criminal law) – has been repeatedly manifested. Exchanges are perceived to have been secured through donations and loans, appointments (including the so-called 'revolving door' between public office holders and the private sector), and gift-giving and hospitality. Whilst each of these modes of exchange has been increasingly subject to the law, scandals have emerged where regulation has either been circumvented or has demonstrably lagged behind public expectations. For example, although greater collaboration between the public and private sectors has been championed by successive recent governments with the rationale of improving public sector efficiency and professionalism (see further Doig, 2003), concerns have been expressed about 'regulatory capture' by self-interested parties. At the same time, lucrative consultancies held by senior MPs and members of the House of Lords, as well as their appointment to company directorships and consultancies after the end of their period in office, have inevitably raised public fears about the exploitation of public power for private gain (see indicatively TIUK, 2011b). Equally, despite its legality when formally registered by MPs (see TIUK, 2011d), the acceptance of high-value gifts by MPs has provoked scandal, as demonstrated by the furore over the gift of £408,000 to a British Secretary of State for Culture, allegedly provided in exchange for perjured testimony by her husband during a corruption trial in Italy (see Bell, 2007). Similarly, the acceptance of lavish hospitality, despite its legality when formally registered by MPs, has repeatedly fuelled controversies over the way in which it may provide the setting for the informal exchanges of private-interest favours, such as securing political party funding in exchange for convenient legislation or policy for particular businesses.

Indeed, at the national level, financial support to political parties from businesses and media corporations is alleged to have been used by donors to gain influence over legislation that favours their business. In one such case, for example, the governing Labour Party was allegedly persuaded to exempt Formula 1 Racing from a law banning tobacco advertising in sports by the chief executive officer since he had provided a £1 million donation to the party eleven months beforehand and had offered the prospect of further donations (see Ewing and Ghaleigh, 2007). At the national level again, and in apparent contravention of the 1925 Prevention of the Abuse of Honours Act, political parties have also been accused of soliciting financial support from the private sector in return for the award of a state honour. A key scandal of recent years arose in the mid-2000s. In

2005, the governing Labour Party was accused of selling state honours following revelations that every donor who had lent or given the party over £1 million since it came to power in 1997 had received either a peerage (which is accompanied by a seat in the House of Lords) or a knighthood. The Crown Prosecution Service nevertheless felt there was insufficient evidence of the necessary 'unambiguous agreement' detailing the exchange of financial support for honours, and eventually no charges were brought. Public concerns have been raised about the possibility of hidden exchanges in cases where private sector donors, political parties, or indeed individual MPs, have appeared to try to circumvent the law requiring the public disclosure of significant financial support from private actors for their personal election campaigns.

Political parties at the national level have also been alleged to have turned a blind eye to corrupt practices within the private sector at the same time as helping to secure contracts and profits for large corporations that have provided their political party with financial or, in the case of the influential media firms, political support. Often, however, this form of exchange has been argued to be in the public interest: notwithstanding evidence of corruption and malpractice, promoting British industry has been equated to protecting British jobs, and sustaining an environment that is appealing to the financial services industries as necessary to dissuade foreign relocation and maintain the UK's position as a leading financial power. Major scandals have repeatedly involved companies such as Balfour Beatty and BAE Systems in allegations that they have secured foreign contracts using substantial bribes with the knowledge and support of British governments, even after the passing of legislation prohibiting the bribery of foreign officials in 2001 (the Anti-Terrorism, Crime and Security Act). A notable example which attracted much international criticism concerned the al-Yamamah deal between BAE Systems and Saudia Arabia and the sudden halt to the investigations of the Serious Fraud Office into related charges of corruption, allegedly due to pressure from the government (see Webb, 2007; Xenakis, 2008). More recently, a scandal in which the allegedly systemic criminal practices of the media corporation News International were ignored and possibly hidden by both political and police service elites in order to protect their personal and institutional images in the media, appears to be one that has caused the most damage in decades to the reputation of each of these elites (see, e.g. *BBC News*, 2011a).

At the level of local politics, city councillors have also been alleged to have taken bribes in exchange for contracts and permits. One of the largest scandals to emerge in recent decades centred on the network of support created throughout a local council in the 1990s by a property developer who paid bribes to councillors in return for planning permission for undeveloped land. The case, which eventually led to asset seizure and prison sentences for the property developer and the senior Councillor involved, also provoked the introduction by the Labour Party of new procedures for the selection of local councillors (*The Guardian*, 13 March 2002). Local-level corruption has also raised public concerns where it has involved private professional or party-political advantage (rather than an exchange between elites), such as by pursuing particular policies

designed to favour prospects of re-election. One such scandal involved Westminster City Council which, during the 1980s, pursued a policy that sought to influence the composition of the local voting constituency by removing those perceived as less likely to vote for the Conservative Party, whilst attracting those thought likely to vote Conservative to the borough through the otherwise unwarranted sale of council-owned apartments. The Council proved ineffective in recovering the fine subsequently imposed on the former leader of the Council (Dame Shirley Porter, the millionaire heiress to the Tesco supermarket empire) and accepted payment of just a third of the value of the fine when the case finally came to a settlement fifteen years later (see further Doig, 2006, 2007; *The Guardian*, 18 February 2007). As pointed out by G. Jones (2009), however, whilst this case was widely perceived to illustrate a corrupt local government policy, a similar policy pursued contemporaneously by the national government was commonly considered to be legitimate.

Corrupt practices and organised crime

Elements of both the non-governmental sector and the state have shown growing concern about the overlap between corrupt practices involving lower-ranking public office holders and organised criminal groups. An extensive review of corruption in the UK conducted by TIUK, for example, concluded that the country's principal institutions of governance responsible for enhancing integrity and combating corruption were characterised by 'overall robustness', even if there were 'notable areas of weakness' with regard to the case of political parties and the legislature (TIUK, 2011d). More dramatic attention was drawn, however, to the 'symbiotic' relationship of other areas of corruption to organised crime:

A particularly shocking finding is how the tentacles of organised crime increasingly extend to sectors and institutions where criminal activity and corruption are inextricably linked. The UK Border Agency, police and prison service have been targeted by organised criminals. Social housing is exploited by organised criminals to facilitate drug trafficking and prostitution, or to house illegal immigrants who are involved in such activities. The employment of illegal workers is regarded by the construction industry as the single biggest corruption threat to the sector as it damages fair competition. In each of these areas the corruption of key officials, often in the form of bribery, is a critical factor in allowing the wrong-doing to take place.

(TIUK, 2011d: i)

This emphasis complements a conceptualisation of organised crime that has emerged over the course of successive British governments since the mid-1990s. This conceptualisation has, for example, incorporated the connections that exist between the commission of a wide variety of frauds and the organised exploitation of 'illegal' immigrants as cheap labour (see SOCA, 2010).

Equally, corrupt exchanges between public officials (especially those working in the criminal justice system) and organised crime groups involved in the drugs trade or in smuggling or trafficking in people, have been of concern. Officials in law enforcement and other criminal justice agencies are considered vulnerable to being bribed or infiltrated by organised crime groups for access to information or to distort the proper functioning of criminal justice procedures (e.g., *ibid.*; Miller, 2003; *The Guardian*, 2010a). Evidently, organised criminal conspiracies may also emerge within criminal justice agencies without post holders being corrupted or infiltrated by external organised crime groups. For example, the most prevalent form of corruption within the police is said to reflect ‘internally networked’ dynamics, rather than individual conduct (Punch and Gilmour, 2011; but contrast Miller, 2003). Similarly, official efforts to combat organised crime have necessarily stretched beyond cases involving the corruption of public office holders, since this is not an inevitable prerequisite for the commission of organised crime.

Even so, counter-organised crime strategies in the UK have not addressed the key issues raised by public discourse concerning corruption: namely, corruption involving the intermeshed private interests of political and business elites. Although the yearly work plans of SOCA – the organisation with primary responsibility for combating organised crime in the UK – are based upon a complex harm-based assessment (see Hamilton-Smith and Mackenzie, 2010), the body’s strategic priorities have been designed to be shaped by ‘the amount of column inches in the press’ that any particular ‘organised crime’ problem attracts (to be taken as a proxy for public concern), and, moreover, to be formally and ultimately dictated by the Home Secretary (Harfield, 2006). Between 2006 and 2007, SOCA was instructed by the Home Secretary to prioritise, first, Class A drugs, and second, organised immigration crime (people smuggling and people trafficking). To these priorities a third, firearms, was added in 2007, and this three-step strategic priority list remains in place at the time of writing. Although the countering of fraud and bribery has constituted an integral part of SOCA’s work in addressing different forms of organised crime, the focus of the organisation’s work has inevitably been tied to specific crimes that are typically associated with non-elite socio-economic actors (see further SOCA, 2010).

The restrictions placed around the construction of SOCA’s strategic priorities not only curtailed the organisation’s remit, but also worked against the very logic of intelligence-led policing as political judgement took precedence over evidence-based policy-making. The weakness of the empirical foundations underpinning the prioritisation of the emotive issue of trafficked women, for example, was exposed in October 2009 by *The Guardian* broadsheet newspaper, which published a draft report (UKHTC, 2009) obtained under the Freedom of Information Act from the UK Human Trafficking Centre (a police-led multi-agency unit working with SOCA, the UK Border Agency, HM Revenue and Customs, and the Crown Prosecution Agency). The Home Secretary had announced in July 2009 that the largest investigation ever to be held into sex trafficking in the UK, involving government departments, specialist agencies, and every police force in the country, had been a great success. This judgement stood in stark contrast to the finding of the

draft report that the six-month operation, named 'Pentameter 2', had failed to find a single person who had forced anyone into prostitution, provoking public criticism that the issue had been exaggerated for political gain (*The Guardian*, 20 October 2009; Cusick *et al.*, 2009). To take another example, policy prescriptions against Class A drugs were shaken by the dismissal of a leading expert who challenged the government's inclusion of ecstasy within the category (see Collins, 2011). Moreover, public support of drugs policy in general was questioned after a public opinion survey in June 2011 found that 52 per cent believed the government's approach to illegal drugs to be ineffective, a majority felt that those who had used illegal drugs but who had not committed any other crime should not be criminalised, and more than two in five respondents thought that legalisation would result in less related illegal activities such as drugs smuggling and human trafficking (YouGov, 2011).

More broadly, SOCA has been subject to repeated and wide-ranging criticisms. SOCA's impact on the drugs trade has attracted recurrent negative assessments, as has the admission that the scale of organised crime in the UK had been underestimated (HAC, 2009). Conversely, the lower end of the officially estimated *costs* of organised crime dropped significantly. A White Paper setting out Home Office policy in 2004 suggested 'up to £40 billion a year' as a rough working estimate of the 'losses and harms' caused by organised crime to the UK. The document included the caveat that research into the scale and harms generated by organised crime was at that point in its infancy (Home Office, 2004: 8). Despite the establishment of SOCA two years later to address this knowledge gap, the rough estimate suggested by the 2004 White Paper was still in use five years later, when it was the only citation used to support the estimate of losses from organised crime to the UK of 'between £20 billion and £40 billion each year' (Home Office, 2009). The following year, the Threat Assessment produced by SOCA offered once again an estimate of 'upwards of GBP 20 billion a year' (SOCA, 2010).

Against the backdrop of severe national economic strains, SOCA was highly vulnerable to reform once public doubts about its performance began surfacing regularly, and particularly after it was accused of failing to recover sufficient assets from organised crime, a charge which contributed to the announcement in July 2010 of government plans for the replacement of SOCA by a new National Crime Agency (Home Office, 2010). Other bodies responsible for fighting corruption whose reputations had been damaged were also threatened by budget cuts. HM Revenue and Customs, which had been judged by the National Audit Office to have been too lenient in its procedures for settling with large-scale tax evaders (NAO, 2011a), faced significant reductions of its senior staff, a move which, according to their union, would severely downgrade the ability of the organisation to combat complex tax avoidance and evasion (ARC, 2011). Concerns were also raised about government plans announced in 2010 to replace the Financial Services Authority (often criticised as a toothless industry regulator whose actions were highly inadequate in protecting consumers from being mis-sold financial products; see Fooks, 2003; Chambers, 2010), the Serious Fraud Office (which came under strong criticisms for halting its investigation into the al-Yamamah affair), and the Office of Fair Trading (whose prosecutions against major

supermarkets and airline companies for price-fixing collapsed in 2010), with a single agency to fight white-collar crime (*The Guardian*, 2010b). With the local government spending watchdog, the Audit Commission, also scheduled to be abolished, TI UK was amongst those who called for a halt to the dissolution of what it called the country's 'anti-corruption oversight structures' (TIUK, 2011c). Whilst, then, it is unclear whether one or two new bodies will emerge that will take a different, potentially more coherent, approach to combat organised crime and corruption, retrenchment seems the more overwhelming imperative of government policy.

Political expediency and law enforcement

In their article calling for organised crime and corruption to be tackled jointly by law enforcement, Hughes and Pyman (2011) conclude by turning their attention to the issue of law enforcement commitments overseas. Pointing to the example of Afghanistan, they note that

irresponsible contracting – vast sums dispersed with poor vetting in the context of ineffective institutional structures and a lack of post-war oversight – means that Western money is literally ending up in the coffers of warlords, quasi-criminal security companies, and the Taliban.

(Ibid.: 18)

They also argue that international 'stabilisation operations and peace settlements do not pay adequate attention to countering organised crime and corruption' (ibid.: 18). From a law enforcement standpoint, one may add, ignoring corrupt practices abroad is no doubt doubly illogical given that considerable resources are also being expended domestically to counter a flow of drugs that is facilitated by such corruption.

But as this chapter has sought to illustrate, political priorities – however contested – hold the prerogative over the evidence-based logic of law enforcement. Because of the different range of demands that are exerted on political decision-making, politics-led law enforcement strategies are unlikely to fulfil the expectations of evidence-based policy as conceived from a law enforcement perspective. Even if organised crime and corruption are increasingly considered to be interrelated, one should not lose sight of the fact that policy tends to be tailored to the needs of political decision-makers, which implies that political expediency is likely to dictate that the nexus of elite organised crime and corruption will not be prioritised.

Notes

- 1 See, for example, discussion of perceptions of the problem of organised crime in the UK in Hobbs (2004) and Levi (2004), and of the problem of corruption in the UK in Doig (1996) and Xenakis (2010). Whilst there are important national and regional differences *within* the UK with respect to the experience of types of crime and the competencies of national criminal justice systems, this chapter treats the state as a holistic unit

- for analytic convenience (given the constraints of space), and refers interchangeably to the 'UK' and 'Britain' as the 'national' context under discussion.
- 2 Elite corporate and street-level criminals may also sometimes collaborate, as has been alleged (*BBC News*, 2011a) in the latest scandal to emerge concerning British public life: the News International–Metropolitan Police–Political Parties affair (see *The Guardian*, 2011).
 - 3 The Global Corruption Barometer public opinion surveys, published on an annual basis for most years since 2003, are available at http://www.transparency.org/policy_research/surveys_indices/gcb (accessed 14 July 2011). For discussion of low levels of petty corruption in the UK, see Xenakis (2010: 53).
 - 4 Countering the potential critique that higher levels of corruption would have prohibited such economic successes, Lambsdorff's findings (2005) indicate that unlike petty corruption, grand corruption does not deter business investment activities.
 - 5 As regards the disparity between the Corruption Perceptions Index (CPI) and the Global Corruption Barometer, the Barometer of 2003 reports, for example, that 'more than half of the respondents from Pakistan and the USA did not believe corruption had a significant influence on political life in their country, and a similar result was found for respondents' beliefs about how corruption affects the business environment' (TI, 2003a: 32). In distinction, Pakistan ranked 92 (with a score of 2.5/10) and the USA 18 (with a score of 7.5/10) out of the 133 countries surveyed for the Index of the same year (TI, 2003b). The CPI surveys are available at http://www.transparency.org/policy_research/surveys_indices/cpi (accessed 14 July 2011).
 - 6 Intriguingly, a Eurobarometer public opinion survey carried out in 2006 found that a relatively high proportion of British respondents (61 per cent) thought that 'most corruption' within the UK was 'caused by organised crime', whilst the same survey found that British respondents thought that out of a variety of categories of national power holders, the 'giving and taking of bribes, and the abuse of power for personal gain' was most 'widespread' amongst 'politicians at the national level' (TNS Opinion & Social, 2006: 18, 23). Nevertheless, due to the wording of the survey and the lack of more specific questions, these results cannot reliably be interpreted to mean that elite-level corruption was perceived to be caused by organised crime by the majority of British respondents.
 - 7 This ranking by British respondents is repeated throughout the Barometer series, but was not reproduced by the survey conducted of 2,000 British respondents for TIUK in 2010. The latter found that political parties were considered the most corrupt, followed by professional sport, and then parliament (the legislature), but also that political party funding and the 'revolving door' of employment between public and private sectors were the areas most susceptible to corruption in British public life (TIUK, 2010: 6–7).
 - 8 British responses to the Global Corruption Barometer have been somewhat stronger in both respects than in the survey conducted for Transparency International UK the same year (TIUK, 2010).
 - 9 Income has been relatively static at the bottom of income scale, whilst the very wealthiest have seen the most significant and fastest growth in their incomes (Hills *et al.*, 2010; Jin *et al.*, 2011).
 - 10 See, indicatively, the list of 'impacts' from corruption in the UK as identified in TIUK, 2011c: 5; and discussion of wealth inequality in the UK in TIUK, 2011d:11–12).

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