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Contents

I. Mafia(s) in the mediterranean and the fight against organised crime in Italy	3
By Maurizio FIASCO	
1 Mafia(s) in the Mediterranean: a geopolitical picture	7
1.1 Mafia as a mediterranean phenomenon	7
1.2 From "made in Sicily" to universal model: crime as a substitute for modernisation	8
1.3 The effects of war	9
1.3.1 Apulian versatility: from smuggling to arms and drug trafficking	11
1.3.2 The pendulum of war: the mafias as instrument of the balance of power in the Mediterranean?	12
1.3.3 The scale of the interests involved	13
2 The fight against organized crime in Italy: a national priority	14
2.1 The fight against mafia: the limits of traditional investigation?	14
2.2 Organized crime and political and administrative corruption	14
2.3 Cosa Nostra's new organizational set-up	15
2.4 Building a portrait of the mafia	15
2.5 Drugs: the forgotten problem?	16
2.6 Ways forward: better knowledge, better coordination	16
II. The New Mafia	17
By Pier Luigi Vigna	
3 The end of the Cold War and the blurring of external and internal security threats	17
4 The Russian Mafia	18
4.1 Organized crime in the Russian Federation	18
4.2 The expansion of Russian criminal activities in the USA	21
4.3 The activities of Russian criminal organizations in Europe	22
4.4 The expansion of Italian criminal organizations into Eastern Europe	23
III. The Financing of Criminal Organizations, money laundering and the banking and financial system: Europe in an international context	25
By donato Masciandaro	
5 Criminal organizations and money laundering: The relevance of the phenomenon	25
6 The role of banking and the financial system in money laundering	26
7 Laundering in Europe and worldwide: The need for coordination and incentives?	28

Foreword

Organised crime is widely perceived as an increasing threat to the well-being of our societies. Moreover the internationalisation of criminal activities means that no country can feel completely secure within its borders at the same time when the danger of all-out military confrontation has receded with the end of the Cold War. At European level, the need for international collective action against organised crime has found expression in the provisions of the Maastricht Treaty dealing with cooperation in the fields of justice and home affairs. The further development of European policies and forms of cooperation in these areas is one of the major issues of the Intergovernmental Conference convened in 1996 to revise the Treaty.

The present document contains a series of contributions on the problems of fighting organised crime due to well-known Italian experts.

One could hardly try to encapsulate in a few words the wealth of observation and analysis provided by these studies. It is possible, however, to detect a common message that runs across the different contributions and that is relevant for Europe:

- while having its historic roots in particular social and political circumstances organised crime is not a local phenomenon. It has taken a global character and extends its reach to the extent to which the conditions of the 'rule of law' are compromised or missing. This basic realisation should underlie a grand strategy for the fight against organised crime;
- more specifically, not only the repression but also the prevention of organised crime require a much higher degree of international cooperation than obtains at present. Hence the importance of the conclusions of the IGC on this matter.

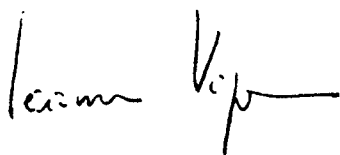
The experts took part in the preparation of a report on organised crime published by the Fondazione Rosselli in 1995¹. Following the publication of the Report and in the framework of the informal cooperation existing between the Fondazione Rosselli and the Forward Studies Unit, a seminar was organised in Brussels to present some findings particularly relevant to the understanding of the phenomenon of organised crime at European level². The texts contained in the present document were put together for the purpose of the seminar. They have been subsequently translated into English and re-arranged for presentation as a single document.

The authors of the contributions are: Maurizio Fiasco, sociologist, contributing an assessment of the social, economic and geopolitical significance of organised crime in the Mediterranean area and the latest developments of the anti-mafia fight in Italy; Pier Luigi Vigna, magistrate, contributing his expertise on the expansion and interpenetration of organised crime following the fall of the 'Iron Curtain'; Donato Masciandaro, economist, contributing an analysis of money-laundering activities linked to organised crime.

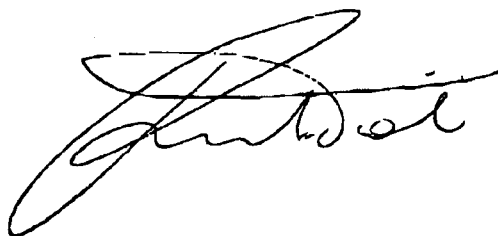
¹ Fondazione Rosselli, *Secondo Rapporto sulle Priorita' Nazionali. La Criminalita' Organizzata*, Milano: Mondadori, 1995.

² *Organised Criminality and Security in Europe*, Seminar organised by the Forward Studies Unit, European Commission and the Fondazione Rosselli, Bussels, 18 October 1995.

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I. Mafia(s) in the Mediterranean and the fight against organized crime in Italy

By Maurizio Fiasco ³

1 Mafia(s) in the Mediterranean: a geopolitical picture

1.1 Mafia as a mediterranean phenomenon

Until not so long ago *mafia* was used in the singular, as a synonym for Sicily's "Cosa Nostra". Gradually, adjectives have come to be associated with it: the Turkish, Chinese, Colombian, Japanese mafia... More recently, in the 90s, the Russian and Bulgarian mafia appeared and now the newly born Yugoslav mafia and its Albanian and Greek neighbours. The term may now be used in the plural: the new mafias.

Are we witnessing, in the most diverse settings, the criminal ascent of a "bourgeoisie whose development has been thwarted" and is being co-opted onto the ruling class? Is history confirming the traditional, paradigmatic definition of mafia put forward by the parliamentary committee set up in the early 70s?⁴

Only twenty years have gone by but, given the exceptional vitality of criminal organizations, it might well have been a century. The turbulent growth of illicit markets is forcing us to review tried and trusted theoretical foundations to look at the mafia as a structural component of contemporary geopolitics, defined as the endless interplay of equilibrium and tension which so characterizes the Mediterranean, one of the planet's most unstable regions. But before looking at the mafia as a phenomenon common along the shores of this "landlocked sea", we should consider for a moment the meaning given to the word in a recent past, when Sicily and mafia could not be dissociated.

It is true that already in the early 60s other forms of organized crime were appearing in the Mediterranean area. The French Connection for instance, which at the time indicated Marseilles drug dealers, the "cousins" - the word is theirs - of the Sicilian men of honour. Other minor, mostly rural, traditions, have their roots in the South and in the toe of Italy: camorra from Naples and 'ndrangheta from Calabria, families of brigands [malandrini], in the expression used by the Onorata società. Elderly smugglers still remember the existence of a camburra in the Salento region of Apulia, and groups of bandits and robbers worked undisturbed in the Gargano region even during the twenty years of fascist rule. "Sacra Corona" - today the fourth most powerful mafia in Italy - in the late 18th century was only a sect founded by a priest in the Bari province.

But despite the variegated landscape which prevailed three decades ago, the Sicilian mafia alone was known for a pronounced and dreadful peculiarity: a tendency to collude with politicians, an ability to enter into complex negotiations with the State and, explicitly since the Allies' landing in Sicily in 1943, its own sphere of influence, a power to rule - and to exercise social control - in the countryside and, later, in the post-war years, even in the towns.

It was Cosa Nostra which determined the voting behaviour of deputies and senators and exploited its connivance with the landed aristocracy, whose dirty work it did when rioting farm hands clamoured for land reform in the first ten years after the fall of fascism. The Società gradually evolved, mirroring changes in the economic and social balance of power in Italy in the second half of the 20th century. Having established its rule on the land, it focused on getting a share of the funds intended for reconstruction work and eventually concluded a pact with the "interventionist state" in the golden age of

³ Sociologist, head of the Microdel research project on urban crime.

⁴ Mafia - in the original analysis of Italian political scholars who devoted much time to it after the war - is regarded as an aspect of the more general problem of the Italian South. Even its overseas counterpart, US-based Cosa Nostra, is seen as a variant linked with immigration from the South, which towards the end of the last century had reached biblical proportions.

the Cassa per il Mezzogiorno. Later, following the shift in the balance of power, it moved on to influence Politics with a capital p, as we heard at the trial of senator Giulio Andreotti. More recently still it has made its presence felt at a crucial time in Italian history, as highlighted in recent investigations on the repeated attempts to pervert democracy in the 1994 general elections in Sicily and Calabria.

1.2 From "made in Sicily" to universal model: crime as a substitute for modernisation

But how did the mafia ever become a universal model? «...[the mafia] has long been a model for organized crime. This substantial uniformity allows us to use the term "mafia" lato sensu for all the most important criminal organizations»⁵. These are among the last words spoken by Giovanni Falcone, days before his death in Capaci.

The "Mediterranean" mafias have availed themselves of the set of crime management tools developed by Cosa Nostra with skill and hard work. Skimming-off activities develop into the systematic control over the entire economic cycle, not only wealth redistribution but also wealth creation. Thus, no longer solely concerned with the "terminals" of wealth, the mafia has developed into an entity which controls all stages of wealth production.⁶

Giovanni Falcone identified a structural change that accounts for the model's growth potential, namely the move from exchange between two distinct entities (violent organised crime and white-collar crime) to the direct engagement of Cosa Nostra's formal structure of more complex criminal activities in the economic sphere. «The findings of the most recent investigations carried out by the judicial police - explained the magistrate in two talks given in 1991 - show that organized crime is beginning to do without white-collar crime, by which we mean that within the criminal organizations themselves a category of individuals is beginning to appear whose task is not to carry out typically criminal activities, but to manage and recycle the enormous sums of money obtained from criminal activities. The dangers of such a development are clear to all, for it will be increasingly difficult to combat effectively the activities of mafia organizations. Up to now one of the most effective investigation techniques has consisted in the close scrutiny of assets and bank accounts belonging to individuals who might well have been unscrupulous and show little inclination to abide by the law, but who were not members of criminal organizations. Obviously investigations will be that much more arduous when they concern members of the mafia and other similar organizations!»

The scenario outlined by Falcone has not attracted much attention since, but the implications remain alarming: «The dreaded link - up - insists Falcone - between an increasingly violent organized crime and ever more unscrupulous white - collar crime is a thing of the past since, as we have said, business crime now falls within the province of the criminal organizations themselves».⁷ Falcone fully grasped the extent of the structural changes taking place in relations between the mafia, politics and business: lawful business activities are being turned into illicit ones.

With the help of such powerful know-how, the mafia shows remarkable entrepreneurial flair, particularly striking in those countries where society is a living fossil: in the former Socialist bloc where, after half a century of hibernation, countries find themselves suddenly pulled into the complexities of market economy, in the age of multinational oligopolies. One can easily imagine the impact of "liberal" economies crossing the path of mass societies where no cultural adjustments and no attitudes exist to temper the predatory instinct of capitalist accumulation. «When transactions between private individuals - explains economist Stefano Zamagni - take place against a background of mutual lack of trust and

5 G. Falcone, *Che cosa è la mafia*, transcription of a talk given in Central America, posthumously published in "Micro Mega", 3, 1992.

6 Cfr. S. Zamagni, *Criminalità organizzata e dilemmi della mutua sfiducia: sulla persistenza dell'equilibrio mafioso*, in S. Zamagni (editor), *Mercati illegali e mafie*, Il Mulino, Bologna 1993.

7 G. Falcone, *Criminalità organizzata e gestione del flusso degli affari*, in *La difesa delle istituzioni locali dalla criminalità degli affari*, Vol.1, Consiglio regionale del Lazio, Roma 1992.
Organized Criminality and Security in Europe

uncertainty concerning the intentions of the other party, it is only natural that a demand for protection, a generalized demand for dispute-settlement services should appear».⁸

And this is precisely the "replacement service" that the mafia imposes wherever war or simply the disintegration of the socio-political system upset the balance. And it is astonishing just how much scope criminal entrepreneurship can have in societies informed by anthropological beliefs which are shaken to their foundations, when people hitherto governed with the camaraderie of the barracks are confronted with the daily fight for survival.

«It's a bit like the Far West, it makes you feel more alive» said a young entrepreneur from Lombardy to the newspaper of the Italian association of industrialists last summer, after a year in Tirana where he had gone «to put himself to the test».⁹ Selection is nothing short of darwinian. It is the ruthless, the adventurers who succeed, since homo economicus does not evolve spontaneously. For half a century the population was kept unaware of the laws of economic interaction, and it is traumatic to revert to "free competition" armed only with the memory of pre-capitalist, pre-war social structures. In today's wild-west societies of the former Socialist bureaucracies it is the gunslingers, the real bandits who move with ease; in other words: the mafioso entrepreneurs. They succeed in settling with a modicum of credibility both the transactions within the black economy and those between the criminal and the lawful sides of the economy.

This is the novelty, in comparison with the Wild-West Italy of the period immediately following the war, when the regulatory structures set up by the fascist corporatist state broke down. Crime is asserting itself as the prime substitute for modernization in Eastern Europe and on the shores of the Mediterranean. The mafia is updating "traditional" concepts and, once more, sectors of the "bourgeoisie whose development has been thwarted" are finding unusual paths to success, in a re-run of the criminal way to economic miracle.

1.3 The effects of war

In contemporary organized crime there is an overall balance resulting from the interaction of various components. Any change, any incident affecting a load-bearing component in the structure of illicit trade results in a reshuffle, with new maps being drawn and new hierarchies appearing. It is in the Mediterranean, the world's most interdependent region, that the interdependence of illicit markets is most visible. When in 1960 the free port of Tangier closed down, cigarette smuggling found a new operational home in Naples and warehouses were built on Yugoslav and Albanian coasts. In the same period Algeria became independent and immediately afterwards the North African-Marseille axis lost the monopoly of trade in morphine base and the privilege of refining heroin for the US market.

Other political and military events of the last twenty-five years have had immediate repercussions on the prosperity, or indeed the decline, of mafias in the countries bordering the Mediterranean. In 1974 the conflict between Turkey and Greece over Cyprus broke out, and membership of NATO did not prevent Turkey from blackmailing the US by easing the movement of heroin between Anatolia and the New World. Not to mention the war between Iran and Iraq, to which we owe the "innovation" of exchanging weapons for drugs, which have since become a standard means of payment. Or the fact that State-owned arms manufacturers, with the help of Italian State-controlled banks, lent themselves to three-way deals involving orders and payments. Even civilized and solidarity-prone Sweden has agreed for many years to divert arms consignments from the false buyers (countries not at war) to the real clients (countries involved in conflicts).

The long years of civil war in Lebanon, which broke out "in sympathy" during the half century of Arab-Israeli conflict, had an impact on the role of Beirut. From tax haven in the 60s, the city has become the centre where heroin and hashish are cross-traded, along the old Mediterranean smugglers'

⁸ S. Zamagni, *op. cit.* (our italics).

⁹ G. Donelli, *Tirana è un trampolino per i mercati dell'Est*, "Il Sole-24 ore", 1 August 1995.
Organized Criminality and Security in Europe

highway linking the Lebanese capital, Cyprus (with Limassol as a leading off-shore banking centre to which payments are made), Albania and Apulia.

It is at that time, for instance, that mafia-like organizations with a strong regional flavour, such as the one operating in Apulia, grew in importance. Local criminal groups capitalized on Apulia's position as the main entry point for illicit imports of drugs from Turkey with destination Milan and continental Europe. Investigations made in the early 80s on drug couriers between Milan and Trani show that the flow runs from Apulia to Lombardy and not viceversa.

However, we had to wait for the most serious war to hit the Mediterranean region since 1945 to see the heel of Italy become the new geopolitical node of organized crime. Both for logistic reasons (the proximity to Yugoslavia) and because of the specific features of Apulia's own black economy (smuggling, control over local banks, interests in the marketing of farm product), the Sacra Corona Unita then succeeded in making the quantum leap to become a first-rate mafia. It now controls negotiations concerning strategic commodities (from cereals for the Maghreb countries to conventional weapons, from drugs to materials used in the development of nuclear systems of mass destruction, from money made by trafficking to money illegally invested by criminals and tax-evaders in the new financial centres of the Balkans).

Evidence is building up. We have the statements made by the pentiti*, such as Trani-born Annacondia, and repeated discoveries of caches of weapons full of the UZI sub-machine gun and the Kalashnikov rifles popular with gangs all over Europe, as well as heavy weapons. Vast organizations specializing in the laundering of money from three continents have been unmasked, such as the one exposed by the Operation Dinero, successfully concluded in September 1994 by the US, Italian, Canadian and German police. And recently there have been signs that the network of big dealers in nuclear weapons which was exposed in 1987 with the impounding in the port of Bari of the Lebanese vessel "Boustany I" is still in existence.¹⁰ The episode confirmed the importance of the Adriatic sea and the Apulian ports for the supply of weapons and ammunition to Iran and Iraq which had been fighting for eight years. Soon afterwards came the terrible confirmation in the form of the discovery in a villa in Squinzano, on the coast near Brindisi, of the headquarters of an organization acting as brokers of entire weapon systems: ballistic missiles, submarines, fighter planes, even nuclear weapons. And here the pattern of trafficking displays a new feature in that the same network handles guns, tanks and bombs, but is also pursuing a large-scale project to store industrial waste, including nuclear waste, in African countries. It becomes apparent that the illegal arms trade network has diversified its activities: it manages three-way deals covering a large range of prohibited high-risk goods such as toxic industrial waste.

The war in Yugoslavia reactivated the circuits of illicit trade in arms which had been established during the Iran-Iraq conflict and had since fallen into disuse, particularly after the Gulf War. Thus, in the geopolitical framework of large-scale trafficking, Apulia's coast and hinterland have grown in importance.

In the early days of the crisis which was to turn into protracted bloodshed, Apulia was already serving as the terminal of the arms circuit. Arms entered Italy from the Trieste border crossing and reach the region north of Bari and the Salento after long journeys by road. When the conflict in Slovenia came to an end

Translator's note: literally, "those who repent": convicted criminals turned informers in exchange for leniency.

10 In early September 1987 the "Boustany I", a vessel flying the Lebanese flag, is impounded in the port of Bari following the discovery of weapons and drugs on board. The investigations had been launched by the public prosecution office attached to the court of Massa Carrara. Some forty people of various nationalities, businessmen and members of criminal organizations from Italy, Lebanon, Greece and Spain, are charged during the enquiry.

A certain Aldo Anghessa, with Italian and Swiss nationality, is said to be responsible for informing the authorities. According to the newspapers, he had escaped from the Bellinzona prison, in the Canton Ticino (CH), before reaching Bari, where he allegedly informed detectives of the cargo loaded on the Lebanese ship. Apparently he had left a suitcase with papers concerning the arms trade in a local hotel.

Beyond the sensation caused by the news, the background to the event appears immediately very ambiguous and no light is thrown including Italy, but no official confirmation is forthcoming. It is even suggested that weapons and drugs have been "planted" in Bari to divert investigations on the vast traffic in military ware which had been keeping various public prosecutions offices busy for a year and a half. Over the next few weeks, detectives received reports that no less than six ships likely to carry weapons were due to dock at the port.

and the guns in northern Croatia remained silent, the crossing became impossible since the Slovene government would not tolerate illicit traffics following its application for accession to the European Union. Thus, the arms circuits have rapidly come to coincide with those used by cigarette smugglers and the principal nodes have moved to Montenegro and Albania. Movements of illicit goods are not hindered by the embargo in force which, while prohibiting exports to former Yugoslavia, has failed to introduce any serious measure to stop goods from leaving those territories.

The fighting in the Balkans has affected the drug routes from the Middle East and Asia. Drugs reach Italy first and then Germany and North America. Traffic between Greece and Apulia is growing. Hashish arrives from Morocco and Lebanon across the Adriatic sea and enters Italy from the Salento and the coast north of Bari. On Albanian territory traffickers feel safe enough to establish warehouses and mobile heroin refineries. In the Valona hinterland and between Fier and Argirocastro cannabis is grown and is then shipped to Greece. But war, much more than drugs, is responsible for raising the profile of the arms network beyond all expectations.

The Sacra Corona Unita (SCU) - a mafia-like organization primarily active in the Salento region of Apulia and with an internal structure not unlike the 'ndrangheta's of Calabria - is the first to invest in strategic bases on the other side of the Adriatic sea. After the blows dealt to it between 1991 and 1993, the SCU transfers its headquarters to Montenegro, attracted by that Republic's institutional disarray which provides a safe hide-out for its members on the run from Italian justice. Sanctuary is guaranteed where judicial cooperation with Italy is non-existent or the fighting goes on. From their new headquarters the big-name fugitives from Brindisi soon sample the opportunities afforded by the war to put their assets to good use, namely the use of the smuggling network to move shipments of arms and cash and the links between the Far East and Europe. Around the original group from the Salento there gathers a circle of criminals from Bari, Sicily and Calabria.

Why do official authorities in Serbia-Montenegro abet such criminal to-ing and fro-ing? Because mafias break the embargo: they provide much needed cash (the premium for establishing a safe operational base is in the region of LIT 10 billion. Multiply this by n-times: the government stands to gain in excess of LIT 1000 billion) and bring in weapons and explosives.

1.3.1 Apulian versatility: from smuggling to arms and drug trafficking

Sucked into the vortex of such huge profits, the old, "harmless" smuggling activities are brought up to date, so to speak. Things start moving as soon as the SCU realizes the usefulness of the system which supports the illicit trade in tobacco goods in establishing and coordinating the vast network of illicit war-related trafficking. It is not by chance, it must be said, that some local politicians from the Salento region have been involved in these new activities: the old link with the smugglers pulls them in.

Who are the Mediterranean "shipowners" most used to shifting large loads of illicit goods? It must be the smugglers, both because of their assets (the vessels) and the network of collusive contacts needed to move and store the cargo. Yesterday it was only cigarettes, today it is other, more lucrative goods: heroin and hashish; weapons and cash. The structures supporting such traffic are very solid since the time when leading brands of cigarettes set up factories and tobacco warehouses in the Balkans.¹¹

Even before attracting the interest of the Apulian mafia, the smuggler is a pioneer, a criminal-cum-investor working relentlessly on the other side of the Adriatic sea. He has gained considerable experience. In Montenegro for years he has had the opportunity to make deals with the local underworld, the State bureaucracy (traditionally corruption-prone) and with those few ware locals with money to invest.

It is interesting to see how the SCU has succeeded in harnessing the smugglers' network as soon as it assumes strategic relevance. Before the arrival of organized crime, a host of small but highly specialized bands were operating on both sides of the Adriatic sea involving thousands of people, either as "operators" or, above all, as subscribers putting up the small sums needed to purchase the individual consignments making up the cargo. A sort of very short-term, working-class "unit trust". The fragmented and grass-roots character of smuggling is not suppressed when the mafia takes over, one of the reasons being that it makes

¹¹ Bulgaria and former Yugoslavia are producers of manufactured tobacco legally consumed in Europe.
Organized Criminality and Security in Europe

it more difficult to identify the hierarchy and, conversely, it allows traffic to continue even when single segments of the organization are dismantled by the police. «SCU's most powerful and impressive man - we read in a police report on Benedetto Stano, successor to Giuseppe Rogoli, the founder - much feared by his own men, has succeeded in setting up a large number of small satellite organizations»: ¹² in a nutshell, operational flexibility combined with centralized leadership in negotiating the big deals.

It goes without saying that organizational cohesion and control over the use of violence remain essential features, so that when the war brings about the exceptional development of illicit markets, Apulia's "entrepreneurial mafia" is ready to capitalize on a valuable asset, namely its ability to ensure that there is sufficient mutual trust among all the "black investors", including the non-criminal ones. If a particular sector is of no direct interest to the organization - such as the introduction of illegal immigrant workers - the SCU simply demands a cut from the new black entrepreneurs who take it up. ¹³

It is a method applicable to anyone keen to speculate in the virgin lands of former Yugoslavia. Even the more established mafias, Cosa Nostra first and foremost, must avail themselves of SCU brokers, who, as a result, are now treated as equals and enjoy the international respectability that Pino Rogoli's marauders lacked.

Only the *'ndrangheta*, operating in the provinces of Reggio Calabria and Catanzaro, can boast such a wide operational network, through which for over twenty years it has been running branches across the Atlantic (US, Canada, Ecuador, Venezuela), in Australia, the Middle East (Lebanon, Turkey) and in the Far East (Thailand), as well as in four European countries (Germany, Netherlands, Switzerland and France).

It is not a coincidence that in September 1991, only a few weeks before fighting starts in Slovenia and Croatia, *'ndrangheta* in-fighting comes to an end and the thirty families in the Reggio Calabria province conclude a strategic pact establishing "Cosa Nuova": the first unified command structure in Calabria.

1.3.2 *The pendulum of war: the mafias as instrument of the balance of power in the Mediterranean?*

It would be unforgivable not to mention - as the images of atrocities in Bosnia and Krajina appear on our screens - what happened during another war fought near us. During the ten years of fighting between Khomeini's and Saddam Hussein's troops the entire arms trade circuit underwent a mighty shake-up to circumvent the official embargo and move goods which had become illicit using transactions on which authorities would close their eyes. Worse still, illicit operations run by the secret services began to take shape and acquire considerable importance. Governments, whilst officially observing the UN embargo, were promoting a "special policy" towards both countries at war.

If the Iran-Contra affair should be recalled today, it is to warn of the risk that the same might happen with Yugoslavia. In the same way as the CIA in 1986 allowed army supplies to the "enemy" Khomeini to obtain funds with which to finance the Contra guerillas in Nicaragua, it is conceivable that someone might adopt the same "pendulum tactics". In the years of the bloodbath in Mesopotamia, whenever Iraq appeared to be having the upper hand, the pendulum was switched on to boost Iran's war potential. Conversely, if the ayatollahs gained ground, then the US government would send supplies to Iraq, officially this time.

The mechanism which in 1986 - in the years of the "war on drugs" waged by President Bush - produced the Iran-Contra affair could spring into action again. The exceptionally long conventional conflict provided the world illicit drug trade with the opportunity to raise its profile as a means to fund the

12 Brindisi police headquarters, flying squad, *Informativa di denuncia a carico di Andriola più altri*, 9 June 1994.

13 The introduction of illegal immigrants via the Lecce "corridor" is not controlled by the SCU but by recycled Italian swindlers and bankrupts. The collection centre in Albania is run by an organization established in the ports of Durazzo and Vullona, where false papers are also provided. «Many such papers belong to nationals of former Yugoslavia who died in the conflict» (Nicola Piacente, public prosecutor at the court of Brindisi during an interview given to "Narcomafie", July/August 1995.)

purchase of weapons, obviously in collusion with government circles and the General Staff. Thus, the drug and arms circuits teamed up and became interdependent.

There are therefore very good reasons to fear that the manoeuvre is being repeated in former Yugoslavia. Incredibly enough, four years went by since the first skirmishes and the first shootings. Too many to rely solely on the resources of the individual republics involved in the conflict. Just when it looked as if the Serbs were about to prevail, suddenly the Croats found the means of reconquering land they had abandoned three years earlier, and public opinion was led to believe, mistakenly, that the Bosnians might yet pull themselves out of the hole of Sarajevo by military action. Obviously the pendulum of fortune swung more than could reasonably be expected. Who else was involved, through the arms trade, besides the "International" of the Mediterranean mafias? This question is more than legitimate, since depending on the calibre of the alliances - always strategic ones, be they with the State, the military or the financial circles - concluded by organized crime, the whole mafia issue might have entered a completely new era. The ultimate scenario might involve a multinational imperialism of the drug barons and arm dealers.

Having allowed a sophisticated network of collusive relationships to be built, Montenegro has become a new free port where criminal organizations from various countries and cultural backgrounds all converge: Campania's camorra and Cosa Nostra, the Chinese mafia, the Turkish clans and the brokers of Limassol. New partnerships are made there. Undaunted by fears of cultural or ethnic "contamination", the Mediterranean mafias are carving out their respective spheres of influence. All this acts as a powerful stimulus for a number of new phenomena which find in the operational safety of Montenegro the medium on which to develop. Italian mafias are showing more inclination to strike deals, increasing the vertical integration between organizations from Bari, Sicily, Calabria and Naples. Recently, the Sardinians have appeared on the scene: they are the latest "ethnic group" to take advantage of the criminal integration which is taking place in the Mediterranean.

1.3.3 *The scale of the interests involved*

To form an idea of the income generated by the brokerage of illicit sales of arms and the scale of the interests involved, it might be useful to look at the fees legally received by international salesmen clinching deals during peacetime. Commissions paid are declared and therefore authorized when the authorities approve the procurement and the movement of the goods. They used to be mentioned in the papers of the "Advisory committee on brokerage fees", which was still functioning in the 80s and was attached to the Italian Ministry for Foreign Trade. The committee gave the necessary endorsement to the official representatives of the parties involved in the sale of arms and armament. In the 80s, when war was a distant problem for Europe, both east and west, commissions ranged between 5% (rarely) and 15%.¹⁴

If this is the size of the remuneration on operations carried out with the authorities' knowledge, it is easy to imagine the size of the kickbacks paid on illicit deals. All those who help circumvent prohibitions and elude controls receive huge cuts, starting from the shipowners who charge four times the normal price for the service. Operations often take place under the protective cover provided by government officials, party members, former secret service agents and administrators of import-export firms which normally deal with companies in the producer countries. They have a new partner in organized crime which finds legitimacy in the fulfilment of two complementary functions: the mobilization of the transport network and the provision of funds for the purchase of the goods. In short, government authorities wishing to export or import weapons illegally allow mafia organizations to develop their drug and tobacco trafficking activities and to launder the profits using traditional currency fraud devices.

14 For the supply to Malaysia of four minesweepers built by the company Intermarine - worth LIT 180 billion - LIT 23.5 billion was paid in commissions to a Singapore account. The beneficiary was Djatra Soln Bhd, Kuala Lumpur. When the company Oto Melara sold 200 armoured battle vehicles, complete with weapons and accessories, to Saudi Arabia - worth USD 300 million - a certain Reem Est du Vaduz and Mitsa Ltd, Jersey, received USD 31.5 million. The day Selenia sold 16 Aspide missiles to Greece, Albert S. Modiano (Greece) pocketed USD 233 000 on a deal worth USD 4.5 billion, i.e. 5%. But Cbf Financial Service Ltd (Canada) demanded Agusta 10% on the sale of helicopters to Egypt: USD 2.5 million on the USD 25 million deal. And so on. The article notes that the "commission" is paid abroad. (Mino Fucillo, *Tangente? Mettiamoci un timbro*, in "La Repubblica", 2 December 1986).

2 The fight against organized crime in Italy: a national priority

2.1 The fight against mafia: the limits of traditional investigation?

After the resounding successes recently scored by the Italian State, is the fight against mafia going through a period of crisis which will lead to further development? During the first twelve years since the entry into force of the Rognoni-La Torre Act (1983) over 13 000 seizures of property belonging to persons charged with mafia crimes have been carried out - a total value of nearly LIT 4 000 billion. But only one in four seizure orders were held up in court, and already property worth over LIT 1200 billion has been returned to individuals charged with serious organized crime offences. The value of property definitively appropriated by the State following confiscation is in the region of LIT 700 billion.

Just as striking is the disproportion between the wealth of rules produced to deter banks from laundering money and the number of times they proved effective in preventing dirty money from circulating and providing detectives with compelling evidence for their inquiries. The few hundred reports received - a drop in the ocean of millions of banking transactions - clearly point at the imbalance between the procedures, their cost and the results obtained.

And yet organized crime and criminal economy are the two sides of the same coin, and money laundering is of great significance, not per se, as a phenomenon separate from the more general context of black economy, but as an essential component thereof.. It is therefore vain to combat money laundering without fighting criminal economy with determination. And it is impossible to do so without improving the quality of investigations into the activities of mafioso entrepreneurs.

It is now clear that shortcuts based on prevention measures are often deceptive. The most effective strategy when carrying out investigations on property in connection with organized crime is to use the complex but ultimately rewarding tool of criminal investigations. But to combat money laundering and the criminal economy it is necessary to change a habit common among detectives and public prosecution magistrates which consists in shelving investigations on property, once evidence has been found to substantiate charges made against the accused. Thus, even in the case of large-scale judiciary investigations based on the lengthy statements made by the pentiti, often very limited inquiries are carried out, thereby missing the opportunity to obtain more sizeable results. This practice explains the discrepancy between the number of provisional seizures of mafia men's property and the number of definitive confiscation orders issued.

Investigations on property should on the contrary become the core of any inquiry dealing with organized crime.

2.2 Organized crime and political and administrative corruption

Crime policies focusing on the economic/financial area are in line with the issues raised by magistrates Giovanni Falcone and Paolo Borsellino in their last lucid, if unheeded, statements. They asserted that the incorporation of criminal business activities into Cosa Nostra's formal structure accounted for the emergence and instant growth of certain oligopolistic groups in the 70s. The two magistrates had focused their research on mafia's new patterns of operation. Their research paths which are the most far-reaching and up-to-date expression of the best anti-mafia tradition.

Under the traditional and now mostly obsolete distinction, politics had clear supremacy over crime when it came to corrupt economic links. In other terms, even against a background of collusive agreements, the political and business "lobbies" exercised a regulatory function vis-à-vis the mafia operating in the field. Where public works contracts were concerned, for instance, such lobbies had an exclusive influence on decisions concerning the type of works to be financed, their location, planning, the delivery of funds and the distribution of kickbacks to the political circles.

Under the new structure the traditional distinction between business crime, responsible for dealing with administrations and politicians, and the mafia proper, responsible for controlling the economic catchment area to which extortion is applied, is blurred.

In this respect, to state that organized crime is a priority means to recognize that it still poses a serious threat to economic and social development, that it affects not only the functions entrusted to the State machinery, but also the actual running of the State's legal system: the meaning of the laws passed by Parliament, the monopoly of coercive violence and the primacy of law, the pactum civitatis itself.

2.3 Cosa Nostra's new organizational set-up

Over a period of six years eighteen thousand people have been charged with belonging to mafia-style organizations: even though it is no longer unthinkable for sentences passed on Cosa Nostra's members, including the chiefs, to become final, the discrepancy between the relatively rapid identification of members by the police and the time needed to arrive at the final sentence is blatant. Of course, it was only in early 1992 that bosses and sidekicks of organized crime lost their inveterate certainty of impunity. And yet even this first serious attempts on the part of the Italian State at reclaiming the power usurped by the mafia counter-State is accompanied by controversy.

In other words, the new anti-crime institutions - the DIA (Direzione Investigativa Antimafia), the DNA (Direzione Nazionale Antimafia), the district-based public prosecutions departments - are up and running. and the potential of systematic action against mafia's territorial links undertaken by the judiciary is obvious. But the controversy over the pentiti is still open. The unity and cohesion of the State remain an objective, as confirmed by the lamentations of some over the traumas caused by the discovery of connections between the mafia and politico-institutional sectors.

Following the decline of subversive terrorism, with two years of car-bomb attacks Cosa Nostra's chiefs have revived the politics of bloodshed (from Capaci* to the Accademia dei Georgofili**) against Italy's most representative men and sites.

The path of the fight against organized crime in Italy is not one-way, as witnessed by the large numbers involved in the judicial action brought against it. With nearly 900 men deserting the organization to help with the enquiries, who does what within mafia's organization today is an open question.

2.4 Building a portrait of the mafia

Analysis of "dirty" economic activities, reconstruction of mafia's military connections, identification of lines of influence between crime and politics are the three areas of permanent interest for the investigations into mafia's new landscape. There is a fourth area of research which is no less vital for investigations aimed at keeping up with changes in mafia's control lines, i.e. the sociological and psychological factors underlying Cosa Nostra's underworld.

How are the various organizational structures linked and which principles ensure their survival and smooth running? Which bonds - interest, social identity, kinship - account for mafia's extraordinary longevity? What are the options open to those who wish to relinquish their status, be they "men of honour" or rank and file?

From the answers given to these questions depends the correct approach to the problem posed by informers and pentiti. A vast amount of information, statements and factual data is now available on the structure of various criminal organizations, and of Cosa Nostra in particular.

This enables more in-depth analysis of one aspect of organized crime, especially in the light of modern economic organization theory which foresees significant problems arising in the selection and coordination of staff and with corporate incentive policy when a large number of individuals come together and operate within an organization, since each individual will pursue goals which are only in part consistent with those pursued by the management. Using such adapted theoretical models, the conflicts

* Translator's note: the town where magistrate Giovanni Falcone was assassinated.

** Translator's note: the site of a car-bomb attack in Florence, intended to hit one of Italy's most prestigious monuments.
Organized Criminality and Security in Europe

among Cosa Nostra families have been analyzed, in particular the instances where the Corleonesi*** have resorted, in addition to violence and the wiping-out of rival bands, to a skilful and gradual destabilization of their opponents.

The enemy front has been weakened from the bottom, by eroding the other groups' internal cohesion and replacing key members with new and "friendlier" management. Only then was the frontal attack on the remaining organizations launched, leading to copious bloodshed during the "mafia wars". The net outcome of Cosa Nostra's leaden years is that the winners have gained control without achieving balance, and it is to be hoped that the State will recognize - and there are encouraging signs - the intrinsic weakness of the Corleonesi's winning strategy: the potential instability of secret and criminal organizations. And since the ascent of the Corleonesi was achieved through destabilization from within of rival families, it has entailed an overall weakening of the general rules which have been Cosa Nostra's code of conduct until the 80s. One of these rules is absolute loyalty, no longer towards Cosa Nostra, however, but rather towards the boss. All this foreshadows control and internal cohesion mechanisms which, in the long run, might prove less effective than the preceding ones. The fact that even some of the Corleonesi chiefs have joined the ranks of the pentiti seems to bear out this conclusion most encouragingly.

2.5 Drugs: the forgotten problem?

Curiously forgotten, after the heated discussions it provoked in the late 80s and the fireworks of the "war on drugs", the issue of policies to control drug abuse retains strategic significance. Following the defeat of the "military" option and disillusionment with the approach based on repression at the consumer end, the new element in the global drug market is the disappearance of the traditional distinction between countries producing, supplying and marketing drugs, and consumer countries. This went hand in hand with the distinction between developing and developed countries, and it is now outdated.

The problem of ensuring consistency between policies to curb the supply - i.e. trafficking and dealing - and policies to reduce demand is back with us. The solution - now that the ideological quandaries have been left behind - is based on rigorous analysis of the socio-economic models underlying the main options available. This involves painstakingly looking at all possible variants, from total prohibition to partial prohibition, from decriminalization to regulation and from legalization coupled with high taxation to full liberalization.

2.6 Ways forward: better knowledge, better coordination

The fight against crime seems to suffer from a tendency to either amplify the magnitude of the problems it seeks to tackle or to celebrate the results obtained. This leads to a low propensity to adapt institutional instruments to the changes affecting the structure of organized crime. To say nothing of the persistent shortcomings in the coordination of institutional strategies, notwithstanding the good results achieved by the new bodies set up in 1992 (e.g. DNA, DDA - Direzione Distrettuale Antimafia, DIA and the specialized squads in the three branches of the State police).

Detectives have accumulated a vast knowledge on the dynamics of organized crime. This wealth of information must be pooled and made available for the purpose of fighting crime. To do so it is necessary, even for scholars, to abandon the habit of debating in a vacuum, with total disregard for the vast amount of documentary evidence made available through the legal proceedings. This is one case of the theory lagging behind the practice in the form of the exceptional experience accumulated by operators in the field. It is a limitation which can no longer be condoned.

*** *Translator's note:* those from Corleone, a mountain village in the Palermo province closely associated with mafia.

II. The new mafia

by Pier Luigi VIGNA¹⁵

3 The end of the Cold War and the blurring of external and internal security threats

Although the end of the Cold War has put international relations on a new footing and improved communications between states, it has given criminal organizations, and especially the Mafia in all its forms, greater scope to operate internationally.

During the Cold War, the stagnant political situation in Italy, which gave rise to a kind of coalition politics, allowed Mafia-type organizations to profit from preserving the status quo. However, such organizations have the ability to adapt to new situations (e.g. to new markets or new sectors of intervention) which fits in extremely well, according to my analysis of the situation, with another of the Mafia's essential characteristics, by which I mean its "expansivity", or tendency to spread.

In other words, the fall of communism and the ensuing expansion of the market provided Mafia-type organizations with a golden opportunity to display both their adaptability and their expansivity.

Given these characteristics, it was not difficult to forecast that Mafia-type organizations would increase their international presence. They did this mainly by:

"dematerializing" their criminal activities by feeding the proceeds into the international economic circuit, following the typical route taken by the illegal economy (i.e. from rich countries to poor countries - the opposite route to that taken by the legal economy). This phenomenon, which also occurs in the national economic sector, can lead to the "social recycling" of criminals;

increasing contacts between the leaders of the most powerful international criminal organizations.

The consequences of the above are:

to strengthen the power of criminal organizations in the poorest countries, creating dangerous poles of attraction that can undermine new democracies, and to allow a state to use its criminal organizations to destabilize another state;

to create not only horizontal exchanges, which have always existed between criminal organizations in different countries, but also relations at vertical level.

In Italy there is already evidence of this "verticalization" of criminal groupings in the sense that Mafia-type associations other than Cosa Nostra (e.g. 'ndrangheta, camorra, Sacra Corona unita) have been moving from horizontal forms of association towards a more pyramidal structure, and have sought to achieve a unified command structure by having some of their representatives affiliate to Cosa Nostra.

It is quite easy to imagine this extended to the international context, with organized crime setting up a supranational chain of command.

One of the most dangerous sectors since the end of the Cold War has been the international arms trade; since it is much more conspicuous than movements of illegal capital, it is a useful warning light.

¹⁵ Chief Prosecutor, Florence's Office of the Prosecutor.
Organized Criminality and Security in Europe

In a report I wrote in February 1993, taking my cue from some observations made by the DIA (Italy's Mafia Investigation Department) and from the outcome of some criminal proceedings which I dealt with, I suggested that one of the reasons pushing criminal organizations to procure ever more sophisticated arms (technological progress, resolving conflicts with other groups, achieving a dominant position in the criminal world, attacking the power of the state) was connected with the internationalization of crime.

Our own criminal organizations are now in touch with powerful foreign criminal groupings, some of which (in Colombia, for example) run full-scale armies which means they purchase arms as much out of emulation as out of operational needs; more importantly, links are being established with foreign Mafia-type organizations (in Russia and the former Yugoslavia, for example) which, because of the relaxation in arms controls, or infiltration from or cooperation with the armed forces, have access to highly sophisticated armaments which can be made available to criminal groups in other countries via international transactions (e.g. drugs for arms).

All this explains why criminal and security policy has taken on new meaning since the end of the Cold War. As regards security policy, when the Italian law on the security services (SISDE and SISMI) came into force in 1977, there was a clear distinction between internal threats and those from beyond our borders: internally, the greatest danger came from terrorism (both from left and right); externally, the main danger was the threat of nuclear world war.

Although political and military instability, which is often a consequence of extreme ethnic nationalism (or tribalism) or religious fanaticism, poses dangers in some areas today, the most serious threat stems from the links the various national criminal organizations have with each other; these organizations are now finding that countries suffering from political instability offer more scope and richer rewards, so both the dangers mentioned above are now combined.

To react to this, the security services need restructuring: in other words, they should no longer reflect the old internal/external dichotomy (e.g. SISDE/SISMI).

To counter the danger of strengthened international criminal link-ups (and the resulting capital movements), not only do judicial and police structures need to become more like communicating vessels, but the bodies dealing with external and internal criminal activities need to exchange information and data much more than they do at present.

4 The Russian Mafia

The surge of the Russian mafia represents the most important evolution of the mafia phenomenon. For the purpose of the analysis, its activities can be classified as: (a) organized crime in the Russian Federation; (b) the expansion of Russian criminal activities in the USA; (c) the activities of Russian criminal organizations in Europe.

4.1 Organized crime in the Russian Federation

According to the figures for 1993, there were 7 000 cases of dealing in forged dollars, 8 200 cases involving the manufacture or pushing of drugs, 300 cases involving clandestine drugs laboratories, 9 000 cases of arms trafficking, 29 213 cases of murder, 120 089 cases of armed robbery and 4 500 cases of corruption. There were 53 200 convictions relating to drug trafficking and 54 tonnes of drugs were seized; 11 chairmen or directors of banks were killed by the Russian mafia and 27 car bombs targeted at them were exploded; about 1 million people were arrested (source: "Viaggio a Criminopoli", a study carried out as part of Confindustria's Penelope project).

In their numerous gunfights with criminals, 99 Russian Federation policemen were killed during the first eight months of 1993 compared with only 14 for the same period in 1992. In 1991, the prison population was 570 000, out of a total population of more than 150 million.

The annual turnover of the Russian mafia is estimated (op. cit.) at USD 100 billion from the Russian drugs market, USD 20 billion from drugs exports, USD 20-30 billion from illegal exports, USD 60-80 billion from arms and nuclear trafficking, USD 100 billion from laundering. It is estimated that the mafia controls 35% of commercial banks (700 out of 1 800), 40% of state industry, 35% of private companies and 60% of commercial enterprises (three categories totalling approximately 40 000 firms which all have to pay tax, bribes and protection money of between 10 and 20% of their company revenues), not to mention 80% of joint ventures with the West.

A recent opinion poll conducted in Russia showed that 80% of businessmen were convinced that "it is not possible to make money in Russia without breaking the law". Asked whether it was necessary to pay bribes to corrupt State officials, 90% said yes; many admitted to having bribed customs officers (65%), members of the republican parliaments (52%), police officers (32%), and judges or prosecutors (27%).

According to the Russian Ministry for the Interior, there has been a marked increase in financial crime over the last few years, with the actual figure probably being much higher than the official statistics indicate because of the number of offences which go undetected or unreported: cases of corruption increased from 2 691 in 1990 to 4 919 in 1994, cases of forgery from 93 to 14 884 and illegal foreign currency transactions from 977 to 9 339.

According to the President of the Russian Parliament, Rybkin, 40% of the Russian economy is involved in illegal and clandestine operations; he is quoted in the daily "Rossijskie vesti" as saying that in the last four years more than USD 100 billion has been illegally exported from Russia and capital outflows are now running at more than USD 2.5 billion a month.

According to some recent studies, ten of the 25 largest commercial banks have links with organized crime and call on the mafia to recover their bad debts; in 1994, 89 people in Moscow alone were killed in related shoot-outs.

On 23 May 1993, the Italian Parliament's Anti-Mafia Committee heard General Aslanbeek A. Aslahnov, Chairman of the Supreme Soviet Bilateral Committee on Legality, Public Order and the Fight against Crime, on the links between organized crime in the ex-USSR and the world of politics. In a reply to a question from a member of the Committee, he said:

"I'll give you an example. Take what happened in Georgia: when the new President, Gamsalurdia, was elected he launched a slogan "Georgia for the Georgians", a nationalist slogan which ordinary people didn't really understand because they weren't used to slogans of that type; however some people understood it perfectly well: criminals understood that they could use the slogan as a cover for their criminal activities. Two mafia big-shots joined Gamsalurdia's entourage and made it right to the top - one became Minister for Defence and the other became Deputy Prime Minister. As Government Ministers, their actions were dictated by their other interests which they set out to promote thanks to the greater freedom of action that nationalism and separatism gave them. They are not in power at the moment, as elections were held recently and there has been a change of government. However, at the top of the State and the armed forces are many of their allies who committed crimes during the Soviet era. Now the new regime is in place, they justify their past crimes by saying they were committed against the communist regime; in other words, they are painting their criminal activities as a patriotic political stand against the previous regime."

In reply to another member of the Committee, General Aslahnov said:

"As regards the question concerning the links between organized crime and the world of politics, there is no doubt that the latter has provided a favourable terrain in which crime can flourish. There are many

parties (perhaps it might be better to call them factions) which are all fighting each other to obtain power, thereby weakening authority and its institutions.

I can give you an example of a direct link between the political and criminal worlds. It is something which needs to be seen with one's own eyes, otherwise it is difficult to believe: whenever a new firm starts up or an exhibition of paintings is mounted, you will always see at the inauguration well-known criminals in double-breasted jackets standing alongside politicians and greeting each other."

There is a considerable body of evidence pointing to this link between the Mafia and the world of politics. For example, after the death of Leonid Brezhnev, a number of proceedings were initiated to investigate the links between leading party members or civil servants and members of the criminal fraternity. The secretary of the Praesidium of the Supreme Soviet, Georgadze, turned out to be closely connected with one of the most powerful criminal bosses, Kueulorija. When the latter died, in the mid-1980s, a number of well-known Moscow politicians and artists attended the funeral. According to the Ministry for the Interior, a well-known criminal called Ivan'kov, who is currently resident in Germany,¹⁶ turned up to discuss the subject of privatization with the Moscow authorities.

In this connection, privatization has been pinpointed as one of the sectors most used for laundering money from criminal activities. Much property which used to belong to the State is now for sale on the free market, including buildings, firms, hotels and factories.

Although the average Russian citizen does not have the capital to take advantage of the privatization programme, criminals have found it an excellent way of laundering and investing their illicit earnings. According to the Russian police, criminals are successfully using the privatization programme to obtain a share in the control of the economy of many large and small cities.

At the Conference on Russian Organized Crime held in Vienna on 20 September 1994, General Alexandr Gromov, Director of the Russian Tax Police, said that evidence of money-laundering had been found in bank operations involving: the exchange of roubles for foreign assets; the creation of networks of fictitious companies (mainly insurance companies); the infiltration of business by criminal gangs by means of credit extorted to set up profitable business; and the infiltration by criminals of executive boards or company security services.

According to expert studies, the Russian Mafia had a turnover of more than USD 150 billion in 1994 and directly controlled 35% of commercial banks, 40% of industry and 80% of joint ventures.

In February 1994, President Yeltsin declared that "organized crime is trying to get the country in a stranglehold" and that his Government's first priority was to tackle organized crime and the economy.

According to General Gennadhi Cebotariov (quoted in "Viaggio a Criminopoli"), there are 5 700 criminal groups operating in Russia employing 114 000 people full time; if one adds to these all the helpers and those working in related sectors, the total comes to around 3 million people for whom Mafia activity represents their main source of income.

The 5 700 groups referred to above are the first level and are composed mainly of simple bands of criminals. However, about 500 of them have 200-300 members each and operate as proper Mafia "cosche"; these constitute the second level and they exercise control over the territory by recruiting smaller bands or keeping them in line by the use of violence.

Although many of these "cosche" operate locally and independently of one another, about 150 make up a third level and form part of a coordinated network. It is at this level that the Mafia becomes entwined with the non-criminal world and in some cases with State institutions.

According to an Interior Ministry source, there are about 500 high-level criminals who occupy positions as civil servants or businessmen and who are apparently above suspicion. It is this group which controls

¹⁶ These and other items of information are also covered by Violante in "Non è la piovra", Einaudi, Turin, 1994.
Organized Criminality and Security in Europe

organized crime much as it would a cartel. From the evidence, therefore, it is clearly a dangerous illusion to "justify" the Russian Mafia by claiming that it helps the transition to a market economy, discourages other types of "disorganized" crime, acts as a mediator in disputes, and ensures that contracts are respected.

The Italian experience shows that in reality the Mafia operates only according to its own criminal interests, making it impossible to distinguish between the legal economy and the illegal one by investing the proceeds of its activities (drugs trafficking, arms trafficking, extortion, etc.) in seemingly lawful business activities, and re-investing the profits in various kinds of illegal traffic, thus fuelling a vicious circle that undermines the whole economy.

The problem becomes even more acute, in view of the weakness of political institutions, the legal system and the police, when one appreciates that criminal groups in the CIS have close links with the bureaucracy and politicians.

Unless decisive action is taken, it is easy to predict that Russian organized crime will soon take on the "military", political and financial characteristics of the Italian Mafia and will move on from being simply a "military organization" to becoming an "integrated criminal system", with Mafia groups aligning themselves closely with business and political lobbies, secret societies and suchlike.

It should be remembered that however much of a virtue we make pragmatism to be, it is unacceptable for a society to be founded on crime or to model its behaviour on the Mafia.

In the last two years, leading Russian criminals have begun to travel to the west and some of them are known to have spent several months in the United States. These visits suggest the existence of a command structure linking criminal groups in both continents.

4.2 The expansion of Russian criminal activities in the USA

The development of Russian organised crime in the USA is worth analysing because it could be a harbinger of what could happen in Western Europe.

- Russian criminal organizations in the USA have the following principal characteristics:
- their roots are in large Russian émigré communities such as Brighton Beach and New York;
- they specialize in white-collar and financial crimes;
- they maintain links with the former Soviet Union;
- they operate under changing codes without owing allegiance to any specific leader or organization;
- they sometimes cooperate with other organized ethnic criminal groups such as the Italian Cosa Nostra;
- they have little respect for the American legal and judicial system;
- they sometimes resort to extreme forms of violence.

Russian organized crime in the USA has been described as a multiform alliance of émigrés from the former Soviet Union which was set up to carry out criminal activities and to generate illicit revenue. Some of its characteristics, though, may appear contradictory: although there is the appearance of "disorder", there nonetheless exists a well-structured network, even if no single control committee has been identified. However, there is some evidence to suggest that a more compact national structure is being set up.

The main areas of activity are financial and white-collar crime, such as money-laundering, tax evasion, credit card fraud, bank and insurance frauds, forgery, not to mention drugs trafficking, extortion and prostitution.

Other sectors in which Russian criminal organizations operate are contraband fuel and health insurance frauds (with the complicity of doctors and lawyers).

The members of these organizations often resort to extreme violence and ferocity and the conspiracy of silence which characterizes the Russian community makes it particularly difficult to carry out homicide investigations.

Many Russian criminals now operating in the USA have experienced the brutality of the Soviet prison system and the fact that they survived it adds to their reputation and the respect in which they are held by their associates. The USA's judicial and penitentiary system is no deterrent; one Russian criminal is reported to have asked: "what could be worse than the KGB and the Gulag?"

4.3 The activities of Russian criminal organizations in Europe

The new international strategic framework which formed after the collapse of the Communist regime brought to an end the rigid system of government control over various sectors of national life and released large amounts of "sensitive materials" and human resources into the marketplace.

This created favourable conditions on the international market for the expansion of illegal activities and Russian criminal organizations began entering into contact with European criminal elements, attracted by the possibility of using Western European countries for drugs trafficking, money-laundering, or for distributing forged banknotes. They have also become involved in trafficking arms and technology, including sensitive materials.

In Finland, there is evidence of them trafficking in spirits, precious metals and stolen boats.

The proceeds from these illegal activities are converted into sound currencies and invested in property in Switzerland, France, Germany, Greece and Italy.

In 1992, the Swiss legal authorities announced that a large amount of money had arrived in Switzerland to be laundered through the Swiss banking system. A specially set up Swiss export company had banked money of dubious provenance, supposed to be payment for a commercial transaction with a fictitious Russian company - a transaction which never actually took place.

Trafficking in nuclear materials is also taking place between Russia, Switzerland, Italy and the Arab countries.

As regards trafficking in Russian arms, whether ordinary or military weapons, most of the material comes from thefts from ex-Soviet army barracks which have fallen into the hands of various nationalist movements whose activities are not easy to monitor.

Russian arms have also been seized from Italian criminal organizations: for example, on 20 February 1993, the police intercepted a consignment of Russian arms in Milan - the arms came from Croatia and were intended for the Calabrian 'ndrangheta; in July 1993, in the province of Salerno, two camorra vehicles were intercepted with four Russian anti-tank bazookas on board; again in 1993, in the province of Lecce, explosives, detonators, anti-personnel bombs and anti-tank weapons, machine guns and ammunition were seized in four separate operations - all the material was of ex-Soviet origin.

Another police operation called Europa I took place in Locri (Calabria, Italy) in 1993 and was directed against a 'ndrangheta group; it emerged that a holding company, which was headed by one of the criminals, had been involved in sales and purchase transactions totalling billions of roubles and hundreds of millions of dollars, although its registered capital was minimal.

In operation Wall Street, carried out by the Milan police in 1993, it was established that the 'ndrangheta were setting up cells in Eastern European countries, particularly in Poland and Hungary.

In addition, members of the Camorra belonging to the Licciardi clan have been making contact with Russian criminal groups.

Some sales outlets for contraband cigarettes in Italy are beginning to stock cigarette packets which have the place of manufacture in Cyrillic letters, indicating that Italian Mafia groups running the contraband trade are in permanent touch with their Russian counterparts.

Five tonnes of contraband cigarettes produced in Eastern Europe were recently seized on the outskirts of Palermo.

According to Leonid Fituni, a member of the Russian Academy of Sciences, who obtained the information from the Russian police's organized crime department, a secret agreement was reached in 1992 between the Sicilian Cosa Nostra and criminal groups in the Soviet Union, the purpose of which was to set up a network for marketing nuclear components and drugs produced in the ex-Soviet republics. First contacts took place in March and June 1991 in Warsaw, followed by further meetings in Moscow.

Russia is the only example of a nuclear power where a high rate of criminal activity is combined with political and economic instability.

Russia is also involved in international trafficking of narcotic substances.

According to an official in the Russian Federation's Ministry for the Interior, highly qualified chemists are working on the production of synthetic drugs. Russia is also a transit country between Afghanistan and other Asian countries and Europe.

4.4 The expansion of Italian criminal organizations into Eastern Europe

An important source on the activities of Italian organised crime in Eastern Europe are the submissions to the Italian authorities by Antonio Pansa, a former member of Sacra Corona Unita - the mafia-like organisation of Apulia.

According to Pansa¹⁷, Italian criminals are looking towards the East, and particularly Russia, for two reasons: the virtual absence of attempts to stop money-laundering, and the sheer amount of illegal capital being generated there, both of which make the region a focus for all sorts of criminal activity. The activities of Italian organised crime in Eastern Europe can be characterised as follows:

- **Russia:** as early as 1990, Neapolitan criminal groups under the direction of the Licciardi clan started taking an interest in Eastern Europe; in 1991 the Cutrera brothers were doing deals worth tens of thousands of dollars in Russia; in 1992-1993, 'ndrangheta groups attempted to concentrate their capital in a St Petersburg bank and take it over.
At the end of 1993, it was established that an organization made up mainly of Calabrians, including Filippone Salvatore, had gained control of a number of commercial and financial companies in Italy, Switzerland and other countries which they were using to set up a front of business activities such as property investment, dealing in works of art, company acquisitions, and dealing in classic and luxury cars. They were also trying to acquire a huge amount of roubles (the equivalent of LIT 2 600 billion) to gain control of a large St Petersburg bank, as well as to buy a Russian refinery and steelworks. The organization's representatives had also established contact with representatives of the political world, both in Russia and in Eastern and Western European countries.
During the course of various enquiries, the Sicilian Mafia were also found to be interested in acquiring roubles in exchange for narcodollars.
- **Romania:** in Romania, the Italian criminal organizations act mainly as investors. There are about 3 000 joint ventures with European businessmen, most of them Italian; high-ranking members of the Romanian political hierarchy are involved with some of them, attracted by the opportunity to make easy money.
Italian and Romanian criminal groups are hoping to use these investments to exploit the privatization process now going on, especially as current legislation does not provide for checks to be carried out on the legality or otherwise of the capital employed.

¹⁷ Submission by A. Pansa to Anti-Mafia Investigation Division (DIA), Courmayeur, 18-20 June 1994.
Organized Criminality and Security in Europe

When Domenico Libri, a member of the 'ndrangheta, was arrested on 16 September 1992, it was established that he had called various Romanians from Marseilles to discuss setting up a company for importing Italian building materials.

- **Hungary:** enquiries have shown that the so-called Brenta mafia, which operates in Italy's Triveneto region, has been investing in Austria, from where the money is channelled to other countries, Hungary in particular. One of the ways of laundering the money is casinos (25 in Hungary and 13 in Budapest alone). In November 1992, Lombardo Giulio, who had links with the Nuova Camorra Organizzata (NCO) was spotted in Hungary. In Hungary it is still possible to have a numbered bank account.
- **Bulgaria:** Bulgaria's location makes it a useful transit point for drugs but it is thought that entry to the market is only possible by agreement with other mafia organizations operating there (Turkish ones in particular) or with the complicity of the authorities. There is little evidence for links between local organizations and Italian organized crime since the country is not yet completely open. In the arms sector, it supports Slovenia and Croatia, as well as its neighbour Serbia.
- **Poland:** crime is increasing all the time, with many opportunities for obtaining a slice of the cake. Mafia organizations from the Ukraine and Russia would appear to be moving in on the weaker local organizations, with the help of Italian criminal groups.
- **Czech and Slovak Republics:** bank legislation in these two countries tends to favour money-laundering. According to some reports, there was a meeting in 1992 in Prague between Italian and Russian mafia leaders to reach agreement on money-laundering and the drugs traffic, the city thus became the spearhead for Italian mafia interests in Eastern Europe.

According to Russian officials, "agreement was reached on how to coordinate activities. The Italians ... want to teach their Russian 'colleagues' how to launder illicit earnings, while the latter want to take over the shipment and distribution of drugs". "The Italian mafia would receive uranium, radioactive materials and sophisticated weapons stolen from Russian army stores and from the stores of former Soviet republics with the help of the security services and other high-ranking officers. In exchange, the Russian Mafia would receive drugs, especially cocaine, which would be sold in Eastern Europe, Russia and other republics or smuggled into Western Europe through the police and the frontier with Germany."

A successful meeting was apparently held in Lucerne between American, Italian, Russian and Ukrainian mafia representatives. The meeting covered the expansion of cooperation on drugs trafficking in Western Europe as well as other illegal activities such as smuggling arms, paintings or antiques. The participants at the meeting were all agreed on the increased role of Russia and of the Central Asian Republics in laundering money accumulated in Western Europe in the drugs trade and other illegal activities.

In the Slovak Republic, Yugoslav, Russian and Ukrainian criminal organizations are all involved in arms, drugs, military technology or radioactive materials, together with their Italian counterparts.
- **Ex-Yugoslavia:** the dismembering of the country and the explosion of ethnic and religious conflicts provides fertile ground for penetration by foreign criminal groups, including those from Italy, involved in the drugs trade, the trade in foreign-processed tobacco (the coast of Montenegro is heavily frequented by boats belonging to criminal associations from Puglia), and the arms trade.
- **Albania:** criminal groups from Apulia in Italy are exploiting their traditional links with Albania (supply of foreign-processed tobacco) and expanding their activities in the field of drugs, arms, explosives; they are also forming alliances with local criminal bands.

The evidence for this is that many Italians have been arrested in Apulia for trafficking in arms and tobacco from Albania; moreover, large numbers of Italian citizens, mostly from Salento, are present in the main Albanian towns, and numerous business activities have been set up in Albania by Italians.

III. The financing of criminal organizations, money laundering and the banking and the banking and financial system: Europe in an international context

by Donato Masciandaro ¹⁸

The purpose of this paper is to illustrate, in the light of an economic analysis, the relationships between the finances of organized crime, money laundering and banking and financial markets from an international standpoint. The paper, which summarizes some of the results of the author's work in this field (see references), is organized as follows. The first part explains the crucial part which the laundering of illegal funds plays in the expansion of criminal organizations; the second part analyses the reasons why the banking and financial system is particularly suited to money laundering, whilst the third part discusses the European and international dimensions of the phenomenon and the policies that should be adopted.

5 Criminal organizations and money laundering: The relevance of the phenomenon

Is it really so important to combat money laundering? This question must be asked without hypocrisy for at least two reasons: on the one hand, it would seem that the need to combat these activities is growing at both national and international levels; on the other hand, anti-laundering action is expensive, both for the economy in general and the banking and financial sector in particular. The answer is in the affirmative in view of the qualitative and quantitative extent of this particular illegal financial activity.

At the qualitative level, there is no doubt that laundering enables any criminal and/or illegal organization or person to increase their economic weight and, therefore, their social and political weight. The reason is that laundering has a very special economic function, i.e., to transform the potential purchasing power of the proceeds of unlawful activities into effective purchasing power, solely to the advantage of the criminals who are in possession of such liquidity.

Of course persons engaged in criminal activities may have other reasons for injecting capital into the banking and financial system, for instance in order to invest in a particularly profitable industry. These reasons do not, however, affect the analysis: once the laundering has completed its task of separating the liquidity from its illegal source, the procedure becomes a matter of the usual investment and portfolio options.

Let us consider how money laundering helps to strengthen criminal activities: the initial unlawful act produces the liquidity for laundering; after deducting laundering costs, this can then be invested in legal or illegal sectors of the economy. The share invested in illegal activities will produce fresh cash, requiring laundering. The laundering cycle is thus set in motion and, with every step, if nothing impedes the machinery, the financial and economic strength of the criminals is increased.

This process can be illustrated by a simple analytical model which is also capable of producing some indication, albeit only preliminary, of the quantitative extent of the phenomenon, based for the first time on economic analysis and subject, of course, to the usual precautions.

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This having been said, it is possible to produce not estimates but simulations based on the data available. Let us take a specific illegal act, such as the manufacture and trafficking of drugs, and examine how it promotes the development of money laundering and vice versa.

According to unofficial estimates (CENSIS), for example, the Italian drug market in 1983 produced, from an initial profit of LIT 22 000 billion, a total laundering turnover of some LIT 76 000 billion, of which total costs accounted for LIT 19 000 billion, leaving LIT 57 000 billion to be reinvested.

The theoretical model also gives an idea of the possible effects of a variation in the effectiveness of anti-laundering regulations or developments in laundering techniques resulting in a change in laundering costs. If, for example, laundering costs fell from 20% to 10%, the drug industry would, for the same costs generate a cash flow requiring laundering of LIT 160 000 billion: the halving of costs more than doubles the illegal proceeds.

Of course, modifying just one of the basic parameters changes the absolute parameters but not the qualitative results. For example, CENSIS, considerably revising its estimates downwards, assessed total turnover in the drug industry in Italy at LIT 4 000 billion in 1990. With such values, and maintaining all the other parameters unchanged, laundered money from drugs would total some LIT 14 000 billion, of which LIT 10 500 billion would be reinvested and LIT 3 500 billion is laundering costs.

By way of comparison, CENSIS estimated that laundered liquidities from theft, extortion, bribery and usury amounted in the same year to LIT 3 700 billion, LIT 2 200 billion, LIT 3 700 billion and LIT 650 billion respectively.

According to the Italian Institute for Statistics (ISTAT), the total estimated profits in 1990 generated by the manufacture and marketing of drugs of at least LIT 8 100 billion resulted in total laundering activities, in this criminal sector alone, of some LIT 28 000 billion, and a laundering costs of some LIT 7 000 billion. ISTAT figures for 1990 show turnover from theft, extortion and usury totalling LIT 6 400 billion, LIT 1 400 billion and LIT 1 300 billion respectively.

The disparities between the sizes of figures given above do not alter the final message: combating money laundering means not only preventing the growth of an illegal financial activity but also putting a brake on the general financial development of criminal organizations as a whole.

6 The role of banking and the financial system in money laundering

So far the economic analysis of illegal money laundering has been carried out on a general level. It has been shown how laundering is an essential factor in the growth of all the other illegal markets; if the proceeds are not separated from their illegal sources, it is impossible to reinvest them either legally or illegally. Hence the external diseconomies which laundering creates in the economic fabric of a country or region by increasing the spread of crime. Let us now concentrate on the banking and financial system.

Studies on criminal organizations show that, however diversified and international their activities might be, they continue to maintain strong roots in their countries of origin. According to the theoretical analysis developed in the first part, these roots maximize the economic value of a given laundering operation as well as its ties with the various criminal activities present in the territory in question.

In order to cope with this demand for laundering, the choice of laundering procedure becomes crucial and makes it necessary to identify the resources and markets through which it will be directed. Again, the awareness of Italian criminal organizations of the problem of control of territory makes certain laundering procedures more attractive than others.

In this context, banking and financial intermediaries can play an important part because of the relatively greater lack of transparency in the markets in which they operate, and their privileged access, whether they are criminals or not, to quantities of information.

The details of banking and financial laundering can be analysed on the basis of the characteristics of the functions of intermediaries within the economy. Theoretical studies on intermediation show that financial institutions have more information than other operators and that this information is different and special. The financial sector is thus particularly suitable for laundering purposes because of two crucial characteristics:

greater than usual lack of transparency, inasmuch as transactions and flows in purchasing power are filtered, coordinated and managed by specialized operators;

privileged position of such intermediaries in terms of information.

Within the financial sector, banks play a special role, as intermediaries which offer both deposit agreements that are fungible for monetary and payment purposes, and loan agreements which cannot generally be changed into negotiable assets. Banks can thus be seen as "special" intermediaries inasmuch as both their deposit and loan agreements allow them to make considerable economies of scale and to diversify in the area of information and management practices, thus becoming, in markets which are by definition "opaque", a repository of confidential information on both the beneficiaries of loans and the users of payment or other services.

Thus it is clear that, in such markets as banking and credit where information is neither complete nor obtainable without effort, it is easier to conceal purchasing power resulting from illegal transactions or business, and that the role and conduct of enterprises (i.e. intermediaries) operating in this market is crucial.

This is why banking intermediaries are of particular interest to criminal organizations: the presence of colluding (criminal banks) or inefficient operators (honest but negligent banks) increases their opportunities for using the payment or credit systems for a specific end, i.e. laundering, or for the more general aims of gaining access to and controlling financial channels.

Particular attention should be paid to the analysis of criminal banks. These banks are intermediaries owned or controlled by criminals, one of their functions being to conceal the origin of profits from illegal activities. In other words, laundering by a criminal bank amounts to a transformation process, the input being the process to be "cleaned" and the output being the "laundered" and anonymous liquidity.

A criminal bank may be regarded as particular type of legal enterprise, owned or controlled by criminal elements. The reasons why a criminal decides to set up a banking enterprise fall into two main categories: first, the general reasons why a criminal organization decides to devote itself to legal activities; second, the special (if not unique) suitability of banks for laundering activities.

This suitability is related to the fact that banks can, to hide the origin of capital, use the range of services they supply to with regard to both assets and liabilities. On the liabilities side, bank deposits allow account holders to make the maximum use of payment services, fully guaranteed by the bank, and to transform illegal proceeds into legal liquidity without the risk of incrimination or identification. This implies, furthermore, that all intermediaries, whether banks or not, that are able to offer a range of payment services may attract laundering activities.

Credit management and business services in general not only offer opportunities for laundering in the strict sense but for granting credit, not on the basis of any economic criteria but according to objectives meeting the needs of criminal organizations. This practice both contributes to the growth of the criminal economy and runs counter to the role entrusted to a bank by its depositors, because of the amount of information in its possession, namely to check the viability of the projects and enterprises in which the funds are invested.

A major corollary of the misuse of credit operations is the misuse of the "implicit guarantee" which banks give the market regarding the reliability of enterprises. Banks granting or renewing credit to a firm on the basis of information in their possession are implicitly expressing a favourable and positive opinion of the reliability of a firm, which the latter can then make use of in its relations with other intermediaries on the financial markets, and with other parties in general. If, however, credit decisions by criminal banks are not based solely on economic considerations, the implicit "rating" service of a bank loan is jeopardized, with the resulting negative consequences.

With regard, however, to the general reasons why banks can satisfy the requirements of criminal organizations, these essentially fall into three categories: rationing of investment on illegal markets, profitability of investment on legal credit markets, and external economies in terms of control of territory.

The "rationing" effect: all other things being equal, a criminal bank may be set up because of the need to diversify activities, i.e. either diversification in the strict sense, or in order to avoid the effects of rationing on illegal markets.

The "profitability" effect: in the absence of rationing, a criminal organization may consider it viable, in the financial sense, to invest capital in the banking sector. The profit may also reflect the competitive advantages enjoyed by a person engaged in criminal activities compared with an honest financial operator. From this point of view, any competitive advantages enjoyed by a criminal bank depend on the type of bank chosen for the analysis.

"External economies": if there is no rationing, and all other things being equal, a criminal organization may consider it desirable to operate a bank in view of the savings it could make in terms of control (in a global sense) of the territory in which it and the bank operate.

It is therefore not possible to rule out the existence of a link between criminal finances and the characteristics of the banking and financial system. The link, as demonstrated in the first part of this report, is twofold: on the one hand, basic criminal financial activities use banking and financial intermediaries for laundering purposes (with or without their knowledge); on the other hand, the more efficient the intermediation in hiding and reinvesting funds, the more it fosters the development of such activities.

7 Laundering in Europe and worldwide: The need for coordination and incentives?

Having analysed laundering and the role of banking and financial markets; let us now turn to national and international policies. The UN Recommendations of 1994 are more a point of departure than a destination. A combination of efficiency and integrity - that is the message, indeed the challenge, facing authorities, banking and financial systems and intermediaries, according to the Recommendations adopted by the UN in Naples.

The Recommendations are based on two indisputable facts: firstly, laundering is becoming more and more a worldwide problem, increasingly harmful to economies and to society; secondly, preventive and corrective measures regularly fail owing to loopholes, in the form of a lack of cooperation by certain economic agents, certain professional bodies and certain countries.

These loopholes explain why it is difficult to define national and international rules to combat laundering that are at all effective. The UN Recommendations advocate a multidisciplinary approach; we believe that the traditional legal approach, based on sanctions, should be supplemented by a financial approach based on incentives, especially on the banking and financial markets.

As explained above, the banking and financial sector is particularly exposed to the risk of contamination: its characteristics of opacity and information are ideal for criminal organizations

endeavouring, through laundering, to hide the origin of certain purchasing power flows and inject them into legal areas of the economy.

Financial intermediaries are of considerable interest to both criminal organizations and the authorities responsible for public security. The presence of compliant (criminal) or inefficient (honest but careless) intermediaries helps the former to use payment and credit systems more easily to attain their objectives. But the mass of information held by banks can help the authorities considerably in identifying or proving the existence of criminal or unlawful activities.

Hence the dilemma between effectiveness and integrity applicable both at intermediary and national level. It is expensive for intermediaries to follow to the letter the obligations imposed by anti-laundering legislation. In addition to the technical costs, there are the costs of loss of confidentiality (one of the traditional advantages of intermediation). An intermediary interested in profits will in practice tend to avoid applying a regulation that costs too much and is thus liable to becoming a corrupt factor in the system. There is only one way to solve the problem: rationalize the costs of regulation by introducing statutory advantages or incentives. Integrity must be financially advantageous.

The incentive could take the form of a reward (tax relief or financial benefits), but not necessarily. What it must do is alter the costs to profits ratio of the intermediary. For example, if the average customer attaches importance to confidentiality, he must be encouraged to be equally concerned about the integrity of his bank. An instrument which affected the reputation or smooth running of a dishonest or compliant intermediary would provide a solution.

The same reasoning could be used at international level by the legislators seeking to define anti-laundering rules, especially if account is taken of differences in the speed with which laundering has developed compared with that with which legislation has been adopted to combat it. One is struck by the variety of instruments adopted to deal with a problem perceived as equally urgent by the various countries and by the difficulties in coordinating the fight at international level.

It is possible to identify the seriousness of the problem by constructing an indicator which measures the potential demand for anti-laundering rules in each country (industrialized or not) on the basis of data collected by the US State Department. According to the results, there are seven industrialized countries, with a strong demand for anti-laundering rules: Canada, Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States, of which five are G7 members (Canada, Germany, Italy, United Kingdom and United States) and four are members of the European Union (Germany, Netherlands, Italy and United Kingdom). If the study is extended to cover countries with an average demand for rules, the preceding list would include one member of the G7 (Japan) and two EU members (Luxembourg and Spain).

This finding, and the fact that the industrialized countries account for half the countries with a strong demand for regulation and, owing to their economic and financial weight, an undoubtedly greater impact, leads to the conclusion that the demand for international regulation chiefly stems from industrialized countries and the European continent.

In response to this demand for regulation, policies have been adopted to combat laundering that are generally or specifically applicable to the banking and financial system. Classifying the regulations according to quantitative and qualitative criteria reveals that, for the same degree of urgency, the degree of severity is dissimilar, especially as between the industrialized countries and non-industrialized countries. In addition, there is the difficulty of creating effective coordination machinery.

What are the reasons for such disparities? Clearly legislators are more or less responsive to the problem of laundering according to the cost/benefit analysis of their country.

Several factors contribute to these differences in responsiveness: it should first be pointed out that the need to protect the integrity of financial system by a variety of controls appears to run counter to the

banking policies in force, the aim of which is to reduce intervention by the authorities in order increase the volume and effectiveness of trade. Such differences in responsiveness are reflected in regulations which vary from one country to another: some countries, so as not to impede movements of capital, prefer to tolerate certain abuses.

Faced with this lack of homogeneity, which has strengthened criminal activities, certain countries (essentially industrialized countries) have entered a "severity competition", while others (essentially non-industrialized) have, in a more passive and implicit way, adopted a laxist attitude.

If the two processes (severity and laxism) develop simultaneously, they tend to reinforce each other. This increases the gap between the groups involved, in other words between industrialized and non-industrialized countries (despite the fairly considerable differences between the industrialized countries themselves, since each one carries out its own analysis). This produces a dangerous regulatory dualism which heightens disparities between countries or groups of countries. Transnational criminal organizations thus find it easier to "arbitrate" between the different regulations, which makes the strictest legislation completely pointless. It is therefore necessary to harmonize regulations by means of coordination machinery based on incentives (i.e. providing for transfers or penalties), rather than on existing machinery. Coordination agreements are difficult to implement or enforce without such incentives, especially in view of the large number of signatories and the weight of each country.

It would not be difficult to consider introducing a system of international transfers and penalties which would reflect the effectiveness of anti-laundering activities in each country, especially in view of the fact that the less strict countries in this field often possess weak financial structures which would be very sensitive to systems combining transfers and penalties, based on variables relating to income and assets.

Whilst not recommending the wholesale reintroduction of restrictions on the movement of capital, we propose that the principal industrialized countries agree on international rules to identify, control and possibly tax financial transactions. Every country would then be invited to recognize the rules by a given date. In so doing, each country would accede to the club of countries with unrestricted capital movements. Countries which refuse to ratify the agreement should be put in "quarantine" and not included as full members of the international financial community.

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