

# Larger EU fuelling black market economy

BY PETE SWEENEY

ON 1 SEPTEMBER, seven of the EU's ten new member states joined Europol. The remaining three, Malta, Poland and Estonia, are expected to join by the end of 2005.

As with entry to the eurozone, membership of Europol does not come automatically on joining the EU. Some of the 'old' EU-15 expressed concern about the capabilities of the new member states adequately to prevent black market activities and their associated criminal organizations from infiltrating the Union.

Most accession countries share exposure to well-entrenched black markets, trafficking illegal drugs, sex workers/slaves and various

forms of counterfeit currencies, pirated intellectual property, as well as forged brands routed through Russia from Asia.

"As a matter of logic and history, illicit trading links will continue to exist after accession," says Graham Satchwell, a former detective superintendent who now investigates counterfeiting, illegal diversion and fraud in the private sector. Satchwell adds that there is strong evidence that terrorist networks frequently exploit these illegal networks as sources of revenue.

To address these concerns, the EU hopes that implementation of the Schengen system of cooperative border controls will interrupt illicit trading links. On 16 November, the Council of Ministers approved an initiative to combat

money laundering by controlling cash movements across the EU's borders and sent it to the European Parliament.

But the expansion and opening of the EU market has created opportunities for the black market economy to grow, particularly in areas involving brand fraud.

Satchwell is the author of a book published this month, *A Sick Business - Counterfeit medicines and organized crime*, which documents how organized crime exploits internal markets for illegal profit.

These activities are not limited to forged or fraudulent documents and products, but also include more subtle tactics, such as "diversion" and "parallel trade", which move legitimate products across

borders to escape regulation.

"For some businessmen," says Satchwell, "counterfeit drugs are just another commodity."

He alleges that "the free movement of pharmaceuticals within Europe, and the current need for repackaging [in the appropriate language], makes it easier for counterfeit drugs to be sold through the legitimate distribution chain and supplied to hospitals and pharmacies".

A spokesman for the European Commission's taxation and customs department is optimistic about the current efforts being deployed in the new member states against counterfeiting of all kinds.

He notes that some member states had no real money-laundering legislation prior to accession.

There is some anecdotal evidence of improvements: a Russian radio station called the Commission to ask why Russians were now being required to "prove where our money comes from" when they tried to enter the EU. According to the Commission spokesman, the explanation is that "for the first time, new member states have to start asking questions" to meet EU anti-counterfeiting requirements. "As far as I know," he says, "they're doing a good job."

But new member states remain more susceptible to corruption because of their less-developed legal and political systems. The relatively low rates of pay for law enforcement authorities are poorly matched against the large illicit profits from black marketeering.

Enforcement is problematic. Many crimes involving branded materials, including counterfeit pharmaceuticals, are pursued by corporate investigators hired by aggrieved businesses.

These investigators do not always receive significant support from public law enforcement agencies for whom brand crimes are not generally a priority.

Counterfeiters need make no such distinction. Many of the companies that print the high-quality, high-security packaging required for pharmaceutical products also print banknotes for governments.

So counterfeiters who can fake drug packaging have already made significant progress towards being able to forge currency and probably already own some of the key equipment.

"Clearly the skills are transferable," says Satchwell. He believes that a "tremendous opportunity" for investigative synergy between the police and corporate investigators is being squandered.

But the older member states should not be complacent. If the new members are guilty of trafficking in forged brands, the largest illicit narcotics routes run through the 'old' EU-15.

According to Europol's 2004 survey, Spain, the Netherlands, and the United Kingdom are the largest European entry points for cocaine and marijuana, while the Netherlands and Belgium are the largest manufacturers of synthetic drugs such as Ecstasy and amphetamines.

Nor are the new member states considered uniformly more corrupt than the EU-15. In Transparency International's recent *Corruption Perceptions Index 2004*, Italy was rated as corrupt as Hungary and more corrupt than Cyprus.

Nevertheless, in general, the 'old' EU-15 tend to score higher on many economic indicators than new member states and this holds true for black market activity. They are thus more attractive for foreign investment.

Black markets are inefficient and dangerous; they stifle the development of legitimate businesses, provide unsavoury employment to unsavoury people, and discourage international confidence. In the case of counterfeit drugs, they are often deadly.



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