

UK THREAT ASSESSMENT

THE THREAT FROM SERIOUS AND ORGANISED CRIME 2004/5 - 2005/6



CONTENTS

1 INTRODUCTION

The scope and purpose of the assessment	5
The knowledge base	5
The main threats	5
Other threats	5
Feedback	5

2 HOW SERIOUS AND ORGANISED CRIMINALS OPERATE

Profit, risk, opportunity and capability	7
Criminal organisation and infrastructure	8
Cross-sector criminal activity	10
Criminal logistics	11
Supporting criminal activities	12
Other supporting activities	14

3 CLASS A DRUGS TRAFFICKING

The size of Class A drugs markets in the UK	17
Heroin	18
Cocaine including crack cocaine	20
Ecstasy and other synthetic drugs	23
Multi-drug trafficking	24
Financing the trades	25
The illicit trade in controlled chemicals	25

4 ORGANISED IMMIGRATION CRIME

The threat to the UK from organised immigration crime	27
Migration trends	28
People smuggling and human trafficking	29
How illegal migrants reach the UK border	29
Other threats from organised immigration crime	33

5 FRAUD

The scale and nature of fraud	37
Excise fraud	37
VAT fraud	39
Inland Revenue fraud	40
Benefit fraud	40
Private sector frauds	41

6 MONEY LAUNDERING

The Proceeds of Crime Act and related money laundering counter measures	45
The importance of cash to serious organised crime	46
Criminal use of money transmission agents	46
Alternative remittance system	47
Laundering money through legitimate businesses	47
The use of professionals as specialist money launderers	47
The risks to banks and financial institutions	48
Gaming as a means of money laundering	49

7 FIREARMS

The scale of the threat	51
The types of illegally held firearms	51
The availability of ammunition	53
Possession and use of firearms by serious organised criminals	53
Sources of illegal firearms	54

8 HI-TECH CRIME

What is hi-tech crime?	57
Types of hi-tech crime	58
Identity theft	60
Hi-tech fraud	60
Intellectual property crime	61
Criminal communications and encryption	61

9 SEX OFFENCES AGAINST CHILDREN, INCLUDING ONLINE ABUSE

The scale and nature of the threat	63
The nature and extent of organised child sex offending	64
Combating re-offending by child sex offenders	66

10 OTHER THREATS

Armed robbery	69
Kidnap and extortion	69
Organised vehicle crime	70
Road freight crime	71
Cultural property crime	71
Counterfeit currency	72
Environmental crime	72
Wildlife crime	72
Intellectual property crime (counterfeiting)	73



FOREWORD

This fifth public edition of the United Kingdom Threat Assessment (UKTA) describes and assesses the threats to the UK from serious organised crime, and looks at how they are likely to develop.

It is produced by the National Criminal Intelligence Service (NCIS) and is the authoritative statement on behalf of the government of the organised crime threats which we face. In the interests of improving public awareness of the threats I am therefore pleased to introduce this public version of the UKTA.

While it is drafted by NCIS, the UKTA is very much a collaborative effort of the law enforcement community and I would like to thank all those who have contributed to its production. The quality of the threat assessment is reliant on all the relevant information and intelligence being made available. Information and intelligence flows have improved, not least because of the closer working of the law enforcement authorities. Further improvements are expected as we lead up to the formation of the Serious Organised Crime Agency (SOCA) on 1 April 2006.

This year's UKTA makes clear that the overall threat to the UK from serious organised crime remains high. Research work recently commissioned by the Home Office on the economic and social costs of organised crime to the UK confirms that the resulting harm is wide-ranging and, directly or indirectly, impacts very widely on our society. We need the concerted efforts of all those involved in tackling crime at all levels, both in the public and private sector, if we are to have an impact on it. The UKTA has a vital part to play in that process.

Mark Neale
Home Office

The scope and purpose of the assessment

1.1 The United Kingdom Threat Assessment (UKTA) describes and assesses the activities of serious organised criminals (those involved on a continuing basis, normally working with others, in committing crimes for substantial profit or gain, for which a person aged 21 or over on first conviction could expect to be imprisoned for three or more years) as they affect the UK or UK interests. The UKTA considers all areas of serious organised crime, but concentrates on the most significant threats.

1.2 The purpose of the UKTA is to inform UK law enforcement priorities for tackling serious organised crime, and to inform other initiatives, such as changes to legislation, regulation or policy. This UNCLASSIFIED version is intended for general consumption and has been produced because greater public awareness of the threats is important in denying serious organised criminals opportunities in the form of new victims and criminal markets. It is available in both hard copy and electronic format.

The knowledge base

1.3 The UKTA draws on information and intelligence from a wide range of sources. In practice, the persistent nature of most threats is such that the broad thrust of the descriptions and assessments is unlikely to change from year to year. Therefore, this UNCLASSIFIED version repeats much of what was contained in the UKTA 2003. The changes that have been made are mostly at the detailed level.

1.4 A considerable body of information and intelligence exists in respect of serious organised criminal activity, and the knowledge base for the descriptions and assessments offered in the UKTA is continually improving. Where the breadth and depth of the knowledge supporting a particular description or assessment is weak this is made clear in the text. In general, the UKTA does not set out to be novel or contentious but aims to present the consensus view based on the available information and intelligence. To this end, the text has been cleared by those UK agencies most closely concerned with tackling the various threats, including inter-agency structures such as the Concerted Inter-Agency Drugs Action Group (CIDA) where these exist.

The main threats

1.5 Based on current knowledge, it is clear that the overall threat to the UK from serious organised criminals is high. The actual and potential significance of each activity in which serious organised criminals are involved differs in terms of scale, impact, degree of involvement, as well as the means and resources available for tackling it. There may also be regional or local differences that may make a particular activity more or less of a priority for action for a police force or other local agency. By way of an overview, Chapter 1 of the UKTA therefore looks at 'How Serious Organised Criminals Operate'.

1.6 While there is currently no reliable means of measuring and comparing the seriousness of each threat, for example in terms of the harms caused, the Home Office-chaired Organised Crime Strategy Group, which brings together those departments and agencies most closely concerned with tackling serious organised crime, recognises the principal threats as:

- Class A Drugs Trafficking
- Organised Immigration Crime
- Fraud
- Money Laundering
- Criminal Possession and Use of Firearms
- Hi-Tech Crime
- Sex Offences Against Children, Including On-Line Child Abuse

1.7 The list is not in order of priority. It is a conscious mixture of directly money-making criminal activities, key supporting criminal activities, and criminal activities, such as sex offences against children, where money-making may play a relatively minor part, but where the nature of the offences, their impact, and the required response, justify their inclusion. Chapters 3 - 9 of the UKTA look in more detail at each of these principal threats.

Other threats

1.8 For the UK as a whole, other serious organised criminal activities may be less significant when viewed separately. However, in terms of the overall impact of serious organised crime and the fact that most serious organised criminals engage in more than one criminal activity, a number of other areas are judged to be significant and these are covered in Chapter 10:

- Armed Robbery
- Kidnap and Extortion
- Organised Vehicle Crime
- Road Freight Crime
- Cultural Property Crime
- Counterfeit Currency
- Environmental Crime
- Wildlife Crime
- Intellectual Property Crime (Counterfeiting)

Feedback

1.9 For the UKTA to achieve its purpose, it is essential that readers provide feedback on its contents and usefulness, identifying any new information or intelligence that confirms or contradicts the descriptions and assessments offered. The address for feedback is:

- National Criminal Intelligence Service
- Assistant Director (Requirements and Assessments)
- PO Box 8000
- London, SE11 5EN
- Telephone: 020 7238 8000



HOW SERIOUS AND ORGANISED CRIMINALS OPERATE 2

Profit, risk, opportunity and capability

Criminal decision-making

2.1 When deciding what crimes to commit, and how, where, when and with whom to go about them, serious organised criminals are guided by considerations of profit, risk, opportunity and capability. The vast majority of serious organised criminal activity is directly or indirectly concerned with making money. The criminals look to do so without getting caught, and therefore they manage risk. The decisions they make involve a balancing of anticipated profit and risk, but also rely on identifying an opportunity and having the capability to exploit it.

2.2 Different criminals approach these considerations in different ways, influenced by a variety of factors, including environment, culture, experience and individual temperament. Some criminals are idle while others are energetic; some are stupid, while others are clever. It should not be surprising therefore that some stick to what they have always done, feel secure in doing and possibly enjoy. Others, however, are constantly looking to branch out, in some instances progressing from one type of crime to another, but often simply diversifying into new areas.

Profit

2.3 While there is often good intelligence, much of it derived directly from law enforcement operations, on the price of drugs (at various stages of the supply chain), cigarettes and other commodities, the profits criminals make both from individual deals and overall are more difficult to determine. There are certain costs associated with running a criminal business. Serious organised criminals need to pay for facilities, goods and services, such as storage sites, vehicles, false passports and corrupt officials. Where commodities pass from hand to hand, or where parts of the process, such as transportation, are

sub-contracted, profit margins will vary as prices and 'cuts' are negotiated. The high proportion of organised criminals reported to be involved in Class A drugs trafficking might be taken to imply that this is where the greatest profits are to be made, and this is supported by reporting indicating that some other money-making criminal activities, including armed robberies, are sometimes conducted specifically to fund Class A drugs trafficking. However, it is reasonable to assume that certain other criminal activities, for example commercial or revenue frauds, are also hugely profitable, and therefore profitability alone cannot explain the choices that criminals make.

Risk

2.4 Criminal activities are inherently risky. Notwithstanding the need to overcome controls, such as ports entry checks, and to frustrate the efforts of law enforcement to prevent and detect their activities, serious organised criminals will be concerned about the reliability and loyalty of fellow criminals and associates with whom they have to deal, and about competition from rival criminals, some of it involving extreme violence. Not surprisingly, they go to great lengths to protect themselves and their investments and assets. In some cases they are able to avoid or offload risk. It is common, for example, for the more established, senior criminals to use subordinates, dispensable low-level criminals or dupes to take the greater hands-on risks. Others may seek to minimise risk by dealing only with trusted contacts, thereby attempting to prevent law enforcement from using covert investigative means such as informants, undercover officers and other forms of technical or human surveillance against them. This creates problems for criminals, particularly those looking to diversify and expand, since they need a ready supply of illicit services or goods and guaranteed outlets for both the products and the proceeds, and will not want to become too dependent on single sources or outlets. They use a

range of measures to counter the various forms of surveillance that may be deployed against them. Meanwhile, some criminals are ready to take apparently unnecessary risks, and there are various examples of successful criminals getting caught for relatively petty crimes, suggesting either an acceptance of risk or even an appetite for risk-taking.

Opportunity

2.5 The speed with which they are able to switch their business, whether it is the commodity, the routing or the methods used, in order to respond defensively to improvements in controls and the latest law enforcement measures, or proactively to exploit perceived weaknesses in controls or loopholes, or changes in demand, demonstrates that the most successful serious organised criminals have an excellent and dynamic understanding of criminal markets. Like any businessman, they will regularly identify new opportunities for making money. Their ability to exploit these opportunities will be limited only by their calculations, conscious or otherwise, of profit and risk and their criminal capabilities. Opportunity is not necessarily denied by imprisonment. Some convicted criminals, especially those with a structure that they can still exploit, continue to wield influence, control associates and arrange criminal activity from within prison.

Capability

2.6 At anything other than the lowest level, serious crimes such as drugs trafficking, the facilitation of illegal immigration, and the smuggling of cigarettes, are not possible without some degree of criminal collaboration and infrastructure. Criminal capability is therefore not so much a matter of the skills and knowledge of an individual, although some individuals have particular skills and knowledge that are vital to a particular criminal enterprise, but more a matter of the coming together of criminal contacts and associates either jointly to commit specific money-making crimes, or to provide essential logistical support, to buy or dispose of smuggled or stolen goods, or to launder the proceeds. This need for collaboration lies behind the formation of organised crime groups.

Criminal organisation and infrastructure

Organised crime groups or criminal networks?

2.7 The term 'organised crime group' is often used when referring to the activities of serious and organised criminals, and in some instances it best describes the way those concerned have organised and see themselves. However, the term can also be misleading. While there are certainly some organised crime groups that resemble the traditional British 'firm' or Italian mafia, with permanent members each with a distinct role, and a hierarchy in which there are clear chains of command and communication, there are other 'groups' that are, in practice, loose networks. The members of those networks coalesce around one or more prominent criminal(s) to undertake particular criminal ventures of varying complexity, structure and length. In the latter instance, the criminals may not think of themselves as being members of any group, and individuals may be involved with a number of sub-groups within the network, and therefore be involved in a number of separate criminal ventures at any one time.

How crime groups and networks evolve

2.8 Over time, the activities of established serious organised criminals tend to become more complex and sophisticated. This is because of their wish to handle larger quantities of illicit commodities, to diversify into new areas of criminal activity, to conceal accumulated assets, to guard against the threats from other criminals and law enforcement, or to become more 'hands-off'. By the same token, criminal relationships become more extensive and varied, the use of routes and methods more flexible and adept, and criminal organisations more resilient and surveillance-aware. Opportunities may also arise for some to establish specialist or niche roles. Some 'top' criminals exploit their reputations and extensive networks and move into bankrolling, brokering or 'fixing' the criminal activities of others, maintaining a distance from the activities themselves but taking a cut of the profits. They may also look to base themselves outside the UK, to exploit differing legislative environments.

The role and importance of criminal contacts

2.9 Criminal collaboration is part of the very nature of serious organised crime. It is the need to work with others that leads criminals to form groups and networks. However, serious organised criminals also routinely collaborate with people outside their immediate circle, not least with the criminals that they buy from and sell to, and those that provide them with a service, such as money laundering or transport. In the Class A drugs trade, for

example, importers and wholesalers need local dealers who are familiar with street markets in order to distribute drugs, while street dealers do not normally have the contacts or finance to purchase drugs in wholesale quantities. Therefore, few aspire to have a hand in the trade right through from cultivation or manufacture to end user, and even the most tightly-knit and self-reliant of drugs trafficking groups look to deal with other criminals. The ability to network and forge new relationships is thus an important factor in the success of many serious organised criminals, often opening up new money-making opportunities, such as entry into a new market. Prison provides the ideal environment for criminals to network and make trusted contacts. In a number of cases, jailed members of serious organised crime groups have met other prisoners who have provided them with access to new criminal networks or markets.

Managing the risk from criminal contacts

2.10 At the same time as being essential, criminal contacts pose a risk to serious organised criminals. A contact may turn out to be unreliable or indiscreet, or become a rival, an informant, or may even be an undercover officer. Most serious organised criminals try to manage these risks by working in the main with people they know well and trust. Shared experience, gained for example through family connections, school, prison, or previous criminal collaboration, is clearly important to establishing trust. Common nationality or ethnicity is also important, particularly where there is a relatively small community in the UK where everyone is known to someone or can easily be checked out. However, increasing social and geographic mobility in the UK and elsewhere in the EU has been eroding the relevance of nationality and ethnicity in terms of who is involved in which markets, and around the interaction between groups of different nationalities and ethnicities.

2.11 Serious organised criminals often operate their criminal businesses on a strict 'need to know' basis, so that associates only ever know part of the picture. They also try to steer clear of activity that might link them evidentially to their crimes, making use of subordinates or intermediaries for 'hands-on' jobs such as handling illicit commodities and dealing directly with new contacts. The latter may first be checked out with other criminals or with corrupt law enforcement contacts. However, until they have earned sufficient trust, new contacts are likely to be kept at arms length. The process of building trust might involve performing a number of minor roles or high-risk tasks successfully. The nature of serious organised crime is such that there are always opportunities for individuals to enter



“Prison provides the ideal environment for criminals to network and make trusted contacts.”

the business if they are prepared to take on the riskier 'hands-on' tasks. Alternatively, some individuals may be recruited because they are themselves vulnerable, perhaps in debt to the criminals, drug dependent or in the UK illegally, and considered unlikely to go to the police.

Criminal 'specialists'

2.12 Serious organised criminals often have a need for someone with specialist skills or know-how. The range of criminal 'specialists' is very wide. It includes chemists, accountants, IT specialists, those with access to particular goods and services, such as firearms or false passports, or those willing to carry out specific tasks, such as murder or debt enforcement. Some specialists are low-level, expendable individuals used on a one-off basis or sporadically, but many others are professional criminals who provide their services on a continuing basis. In some instances, this is to a particular serious organised crime group, where the specialist is effectively part of the group or on a paid retainer. For example, some drugs traffickers have their own transport facilities and drivers. In other cases, specialists service a number of groups, who are unable or reluctant to do the specialist job themselves. Certain specialist services are in high demand and play a pivotal role in the workings of criminal groups or networks and their trades. These include Class A drugs 'brokers', who bring together those who want to buy and those who want to sell, and illegal immigration agents and sub-agents, who specialise in selecting routes, arranging transport, providing documentation or handling the migrants' needs on arrival. They also include money launderers.

Cross-sector criminal activity

The concept of crime sectors

2.13 While helpful in understanding the scale and nature of the various activities and considering the best response, the division of serious organised crime into different sectors is as much a reflection of the law and organisational responsibilities for its enforcement as it is of criminal behaviours. As part of their risk assessment, criminals may take account of the fact that different crimes are tackled in different ways and by different organisations, are afforded greater or lesser priority, and attract more or less severe penalties. They are unlikely, however, to think in terms of discrete crime sectors. Instead, they will see opportunities for making money which they are likely to take if they have the criminal capability. Thus, while a criminal may smuggle cannabis and cigarettes and will know that these are covered by different laws, their consideration will be first whether they can sell both at a profit and second whether they are capable of arranging the delivery of a bulky illicit cargo securely. Therefore, viewed as a logistical problem for whoever has responsibility for smuggling them into the UK, because they are both bulky, cannabis and cigarettes may have more in common than, for example, cannabis and LSD.

The scale of cross-sector criminal activity

2.14 Significant numbers of serious organised crime groups, especially those that are larger and have been active for longer, are reported to be involved in two or more profit-making criminal activities. This excludes money laundering, which is common to nearly all groups of any consequence or durability, and trafficking in more than one type of drug. The most frequently reported cross-sector activities involve drugs trafficking plus one or more other activities. Combinations that do not include drugs are also seen, for example organised vehicle theft and excise evasion. However, because of the law enforcement emphasis on drugs trafficking, combinations of crimes not involving drugs are less likely to be spotted and are almost certainly occurring more frequently than reported.

The spurs to cross-sector criminal activity

2.15 In their search for profitable ventures, many serious organised criminals diversify, for example combining drugs importation and distribution, cigarette smuggling, the diversion of alcohol from bonded premises, the receipt of counterfeit currency, fraudulent land and property deals, and prostitution. Trusted contacts are central to the spread of cross-sector criminal activity, since they extend a group's range of skills and reach. In some instances, there is a synergy between two distinct criminal activities. Jamaican drugs traffickers, for example, have made use of West Indian would-be illegal immigrants to the UK as drugs couriers. The traffickers therefore have an interest in facilitating immigration crime and do so mainly by supporting deceptive methods of entry.

2.16 Some criminal capabilities are specific to a particular type of crime, but many, either separately or in combination, provide criminals with the means to carry out a range of crimes, thereby encouraging cross-sector criminal activity. Specialists who provide a service to a range of groups can also act as facilitators and instigators of cross-sector criminal activity. Thus, someone who owns haulage vehicles and yards, has access to warehouses abroad, and is prepared for them to be used to smuggle goods could smuggle drugs, cigarettes, alcohol, people or any other commodity. This may encourage others to diversify into whatever commodities they can source and profit from. Similarly, someone who is providing financial services opens the door to a range of crimes, such as fraud and money laundering.

2.17 Criminal risk management may also lead to cross-sector criminal activity. Criminals may be prompted to move from one crime sector to another because they perceive the risks to have become too great, perhaps as a result of specific law enforcement actions such as arrests or seizures. It is difficult to know where criminals set the balance between profit and risk, but it has been suggested that some have switched from drugs smuggling to cigarette smuggling because the penalties are lower. It is also true that the profits from cigarette smuggling appear to be high, supplies plentiful, and there is a ready market, so this could be a straightforward business decision. For example, where a criminal group switched from drug and cigarette smuggling to other types of revenue evasion following some drug seizures, the decision may have been due to a heightened perception of risk, or may have been based upon a judgment about relative profitability.

Criminal logistics

What are criminal logistics?

2.18 Most serious organised criminal trades are complex and pose logistical problems that require forward-planning and real-time management. These may involve the manufacture or procurement of goods, their transportation, storage, distribution and sale, the deployment of personnel and other assets, and the laundering of the criminal proceeds. For those involved in drugs trafficking, for example, the finance must be found, perhaps through other criminal activities, to procure the drugs. Facilities, such as safe houses, may be needed for storage, along with materials and equipment, for example false passports or vehicles with built-in concealments to move people and drugs. Individuals may need to be bribed for their help or to look the other way. Throughout, the criminals must protect themselves and their illicit consignments from law enforcement, double-crossing colleagues and rival criminals. Few serious organised criminals have either the capability or the desire to organise the logistics from end to end of a criminal trade. Most limit their involvement to particular stages of the process.

The logistics of smuggling

2.19 Over half of all identified serious organised crime groups are reported to be involved in the illegal importation or export of goods that are stolen, prohibited, controlled or liable for duty. Smuggled goods include people, drugs, alcohol, cigarettes, precursor chemicals, firearms, vehicles, counterfeit goods, wildlife, gems and cultural artefacts. Smugglers face a particular set of logistical problems. The consignment must be collected, couriers recruited (and provided with tickets and documentation), means of transport acquired, concealment methods devised, a route planned, a point of entry chosen, and a secure delivery point established. Some smugglers stick to tried and tested methods, but others continually modify their techniques, changing routes, couriers and modes of transport.

2.20 A number of factors influence the logistical choices smugglers make, including the source and nature of the commodity, the capabilities of the smugglers themselves, and their perception of risk and understanding of law enforcement methods. The type of goods dictates which transport options are feasible. Small items can be sent through the postal system. However, commodities such as alcohol, cigarettes and cannabis, which are profitable only when smuggled in large quantities, need to be transported in bulk carriers, HGVs or container shipping. Some smugglers own such means of transport

themselves, for example some own haulage companies, boats and even aeroplanes bought for the sole purpose of smuggling. Others take advantage of contacts within the transport industry. Meanwhile, a large proportion of Class A drugs smugglers rely on 'hiding' couriers amongst the everyday passenger traffic arriving in the UK on scheduled flights or Channel crossings, the latter involving both foot passengers and those driving private or light goods vehicles.

2.21 Smugglers go to considerable lengths to minimise the risk that their loads will be detected. They use legitimate goods as cover, both physically, with loads hidden amongst legitimate goods, or packaged as something innocent, and in terms of the paper trail. The loads may be hidden in the structure of the vehicle in elaborate purpose-built concealments, or, in the case of small quantities of drugs and diamonds, may be swallowed or inserted into body cavities by couriers, with little regard for the risks to those involved. The smugglers also use circuitous routes, multiple transit points, and false declarations and documentation. Some look to defeat entry controls by choosing ports where the law enforcement presence is minimal or obviously stretched, or by corrupting dock-workers, port officials, airline staff, immigration staff and freight handlers to circumvent the controls. A few have increasingly looked to bypass ports completely, instead using beaches or private airstrips to land goods.

2.22 Many smugglers appear to accept that losses are inevitable and plan on that basis. Some protect their own interests by insisting that the cost of any loss is borne by the person who was responsible for the load at the time it was seized or stolen. Others may opt for the 'little-but-often' smuggling technique, splitting large consignments into smaller loads for shipment, and thereby reducing the impact of any single seizure or loss, although probably adding to the logistical difficulties.

Supporting criminal activities

The reasons for supporting criminal activity

2.23 All serious organised criminals engage to a greater or lesser degree in criminal activities aimed at facilitating their main money-making activities or at protecting themselves, their assets and their criminal business. Supporting criminal activities can take many forms, but, given these two broad aims, it is unsurprising that they often revolve around money laundering or the use of coercion, corruption or deception. Almost two-thirds of reported serious organised crime groups are engaged in supporting criminal activity other than money laundering. The true figure is likely to be much higher, given that law enforcement is usually focused on a group's primary money-making criminal activity, in most cases Class A drugs trafficking. Specific supporting criminal activity may take place before, during or after the profit-making criminal activity it is intended to facilitate or protect. For example, a group of armed robbers may engage in corruption (for inside information), vehicle theft (for getaway cars), possession and use of firearms (to threaten and intimidate), kidnap (to force the driver of a hijacked vehicle to take it to another spot), arson (to burn out vehicles and destroy evidence) and forgery (of identity documents to set up false bank accounts through which to launder the stolen money). For many established groups, involvement in supporting criminal activities is, in practice, continual.

2.24 Other than where they are offered as a specialist service, certain criminal activities are more likely to be supporting activities than primary money-making ones. This is true, for example, of money laundering, firearms trafficking and kidnapping. As well as being profitable in their own right, payment card crime, organised vehicle crime and organised illegal immigration can also be supporting activities, providing the funds or means to carry out the main money-making activity, such as drugs trafficking. An activity that supports a group's main criminal business may also be carried out for others in return for payment.

Violence and intimidation

2.25 After money laundering, coercion is perhaps the most widely identified supporting criminal activity. It takes many forms, from unspoken intimidation, where criminals trade on a reputation for violence and ruthlessness, to the ready use of extreme violence or murder. Some criminal activities are intrinsically coercive, such as robbery, extortion or human trafficking. These aside, violence and intimidation are most marked among

crime groups involved in drugs supply, particularly multi-drugs suppliers (and perhaps especially those that sell both heroin and crack). A significant proportion of identified groups are reported to use coercion. There is likely to be substantial under-reporting of this because the majority of victims are themselves criminals and unlikely to report incidents because they fear reprisals, are reluctant to draw attention to their own criminal activities, or simply prefer to deal with the matter themselves. Some criminals routinely carry a firearm, and those who want one are unlikely to find it difficult to acquire one.

2.26 Intelligence suggests that violence and intimidation are used primarily to maintain the discipline and compliance of group members and criminal associates, and to enforce criminal business deals and recover debts. Punishments may be meted out for double-crossing the group, making mistakes, not following orders, or being suspected of informing to the police. Violence sometimes erupts because of a dispute between criminal groups, although only a small proportion become involved in 'turf wars'. There is also intelligence about the use of threats and actual violence to silence potential witnesses, or to force individuals to act against their will, for example women trafficked to the UK to work as prostitutes. In some cases, violence is used or threatened as a means of self-protection, or as a display of power, to maintain a reputation, satisfy honour or gain revenge. Violence and intimidation can be reactive and spur of the moment, as when an armed robber fires at a security guard who refuses to cooperate. Violent and intimidation can also be planned and calculated, as when a security van crew is abducted to delay their raising the alarm, or witnesses and victims are pressed to keep silent or retract statements, or vulnerable individuals (such as drug addicts) are forced to sell drugs or allow their homes to be used as places for selling Class A drugs.

2.27 The more established groups appear much more likely to use coercion. There are a number of possible explanations. The data may simply reflect the fact that law enforcement is better informed about such groups. However, because they are established, these groups may be more willing to extend credit and, as a result, face more problems with debt repayment - a major reason for the use of violence. It appears that the calculated use of coercion helps groups to survive. Extreme or spontaneous violence is more likely to be counter-productive, since it attracts law enforcement attention, distracts the group from its main business, and may result in group members being arrested or killed and assets lost or seized.

Corruption

2.28 Serious organised criminals use corruption to secure help from people with access to information, influence or access they want or need. They may view corruption as preferable to coercion where threats might not work or where they are involved in a long-term relationship. There are no reliable figures for the scale and spread of corruption, and it is therefore difficult to estimate how many criminals use it routinely or systematically, but around a quarter of identified serious organised crime groups are reported to use it. As with coercion, the true figure is likely to be higher. Looking beyond the UK, corruption appears to be a major factor in the way that certain global criminal trades operate, for example allowing the growth or manufacture of illicit commodities to take place, or making it possible for serious and organised criminals to arrange for commodities to transit through certain regions largely unchecked.

2.29 There have been a number of instances where UK law enforcement officers acted corruptly and colluded with criminals, some of which have received extensive publicity. The advantages to a serious organised criminal of maintaining a corrupt relationship of this sort are fairly obvious. Criminals can use it to discover information about the status and direction of operations against them, including the identity of surveillance vehicles, informants or witnesses. They can also discover general information concerning law enforcement capabilities, procedures, operational priorities and resource deployments, which though of less immediate use will be of value to a career criminal or to his associates. They may, in addition, see such a relationship as providing an insurance policy should they be arrested and prosecuted, perhaps creating the possibility for evidence to be tampered with or destroyed. For this reason, serious organised criminals have maintained corrupt relationships not just with those involved in 'front-line' law enforcement, such as the police, HM Customs and Excise, and HM Immigration Service, but with others throughout the criminal justice system, including in the Crown Prosecution Service, the Prison Service, and the legal profession. However, the use of corruption is not restricted to the criminal justice system, and has involved central and local government employees, accountants and others in the financial field, plus a range of other professionals.

2.30 While there is intelligence to show that serious organised criminals actively target those employed within the criminal justice system, this appears to be largely opportunistic, based on the accessibility and perceived vulnerability. 'Cold' approaches are unlikely, as they might backfire. The opportunity for a criminal to make a corrupt approach safely may arise socially, through friends, family connections or in pubs or sports clubs or it may occur in a professional setting. In the past, areas of covert policing such as informant-handling were seen to pose the greatest risk, though this has been greatly reduced by the introduction of stricter controls under the Regulation of Investigatory Powers Act (2000). Unsurprisingly, money or other material rewards appear to be a significant motivation for those who become corrupt, but a number of the corrupt relationships that have been uncovered seem to have been motivated not by money, but by friendship or family loyalty. As well as corrupting someone who is already in place, there is evidence of serious organised criminals planting a group member or associate into a job or location of importance, although this appears to be less common.

Identity fraud and other misrepresentations

2.31 Identity fraud is another key criminal activity that underpins much serious organised crime. A significant proportion of serious organised crime groups is reported to produce, supply or use false personal identities, although it is likely that much activity often goes unnoticed or unreported. These groups include drugs traffickers, facilitators of illegal immigration, money launderers, fraudsters involved in advance fee, payment card, VAT or organised benefit fraud and vehicle thieves. Serious organised criminals also use other forms of misrepresentation, for example documents that give false information on company identity, vehicle identity, consignments and business accounts and transactions.

2.32 The primary purpose of false identities is to enable serious organised criminals to conceal themselves, their activities and their assets in order to minimise the risk of detection, particularly when these things are on the move. These movements normally require proof of identity in documentary form, which will be recorded or copied. False identities are an obvious means of disguising the audit trail and frustrating law enforcement enquiries. Intelligence shows that they are used to acquire vehicles, lease premises for storage of drugs and other illicit commodities, open bank accounts, apply for loans or credit cards, make money transfers, rent safety deposit boxes, set up mailing addresses, subscribe to telephone or Internet services, buy property, register

companies, sign shipping documents, obtain other identity documents, book hotel rooms and plane tickets, and travel abroad to conduct business (often using one passport for one leg of a journey and a second for another). False personal identities also facilitate specific criminal acts, such as people smuggling and benefit fraud, help criminals to infiltrate organisations, and are saleable commodities in their own right. Misusing company names, logos and trademarks is integral to intellectual property crimes, but 'hijacking' company identities is seen in other forms of crime too. Commodity smugglers have misrepresented themselves as reputable hauliers to reduce the risk of drawing law enforcement's attention; drugs traffickers have posed as existing established companies to place orders for precursors; and fraudsters have mimicked the websites of high street banks in order to lure victims into providing personal bank details.

Theft and obtaining by deception

2.33 Serious organised criminals resort to theft (robbery, burglary or obtaining by deception) to acquire what they need to carry out their main money-making criminal activities. They do so where they are either unwilling or unable to pay for the goods, perhaps because a legal purchase could be traceable. In some cases, goods may simply be easy to steal. Theft is commonly used to obtain motor vehicles, official documents, and monetary instruments. Criminals may also dishonestly obtain firearms, keys (notably for vehicle theft), visa stamps (for counterfeiting), and even police communications equipment (for anti-surveillance). In some cases, the theft relates to a particular need, for example a tablet press for synthetic drugs production. The theft of a car, on the other hand, might have multiple uses, either directly money-making through resale, or to support armed robbery, ram-raid robbery, lorry-load theft, kidnapping, drug-related shooting, or smuggling. In the case of lorry-load thefts and cash-in-transit robberies, taking the vehicle is often about giving the criminals more time to unload and at a safer location.

Illicit manufacture and modification

2.34 In some cases, serious organised criminals manufacture or modify items for criminal use, thereby acquiring something that may not be obtainable by other means, or can be obtained only at great cost or risk. Some items have to be modified before they are of any use. For example, a stolen passport is likely to need a new photograph to be inserted. Deactivated firearms are reactivated, air pistols converted to fire live ammunition, vehicle ID numbers changed, false number plates put on

vehicles, mobile phones cloned, false payment cards created, stolen benefit books manipulated, and numerous documents counterfeited or forged. Manufactured or modified documents, such as passports, driving licences, vehicle registration papers, standard acknowledgement letters, company letterheads, sales invoices, import certificates, shipping documents and proofs of provenance support a wide range of criminal activity. Examples include organised illegal immigration, illegal labour, numerous frauds, organised vehicle crime and cultural property crime. In the latter instance, false documents may also be used to reintroduce stolen property into a legal market.

Illicit markets

2.35 Serious organised criminals also buy the goods or services they need from criminal associates or contacts. Various illicit markets exist: for example, for firearms and identity documents. Criminals can also find backers prepared to finance their activities, dishonest solicitors and accountants who will defend, conceal or legitimise criminal activities and profits, and former law enforcement officers willing to sell their knowledge.

Other supporting activities

Intelligence gathering

2.36 Serious organised criminals gather intelligence, for example on the activities of their rivals and vulnerabilities of potential victims, in order to protect their criminal enterprises and identify opportunities for criminal gain. They value, in particular, information on law enforcement operations, intentions, techniques and capability. Corruption is an important means of acquiring this intelligence, but criminals can also gain insights into how law enforcement operates by attending court hearings, following media reports of investigations, and debriefing associates who have been arrested. Some criminals employ surveillance and counter-surveillance techniques in order to protect themselves and gather intelligence on law enforcement activity. Counter-surveillance ranges from basic evasion techniques to more sophisticated methods, involving observation or the deployment of surveillance technology. A number of serious organised criminals have looked to third parties with a specific knowledge of law enforcement techniques, technology and procedures for assistance, for example retired police officers who have moved into security advice or private detection.

The use of businesses

2.37 Serious organised criminals cannot operate exclusively within a criminal underworld, and most make use of businesses to further their criminal activities. The same criminal may use a range of businesses for different purposes, and employ different methods to control or influence each of them. In some cases, criminals set up and run the businesses themselves. In others, they collude with or coerce businessmen and employees. They also use deception. The businesses used range from companies that are set up specifically to commit criminal acts and have no legitimate trade to reputable companies that are misused in some way.

2.38 Businesses are used most often to launder the proceeds of crimes, but they are also used to facilitate illicit trades. In the case of VAT frauds, businesses are essential. For example, thief fraud (the type of VAT fraud where serious and organised criminals feature most prominently) involves setting up bogus company registrations in order to steal VAT. Businesses help criminals to manage risk by providing cover for criminal activity, for example to ship illicit commodities or purchase regulated items such as precursor chemicals, and by increasing a perception of legitimacy. They also fulfil essential logistical requirements, for example transport companies are used to move goods, sometimes unknowingly as illicit cargoes are hidden in or amongst legitimate loads. Business premises may be used for storage, to break up loads, and for distribution. Control over a business, such as a mobile phone retailer or car dealership, or port side company, provides covert access to key resources. Meanwhile, employment agencies, travel agencies, language schools and colleges may all be used to support those involved in organised illegal immigration.

Communications

2.39 Any modern enterprise relies on effective communication to succeed. In the case of serious organised criminals, communication needs to be either wholly secret or sufficiently difficult to penetrate in order to avoid giving law enforcement foreknowledge of what is planned or the ability to piece together evidence that a crime has been committed. As might be expected, the preferred method appears to be face-to-face contact. However, criminal businesses often involve complex logistics, with people and goods moving around internationally and within the UK, with deals and transfers to be done with other criminals, and with timings and locations to be managed against a background of unreliable partners and active opposition in the form of law enforcement. In practice, this means

extensive use of telecommunications.

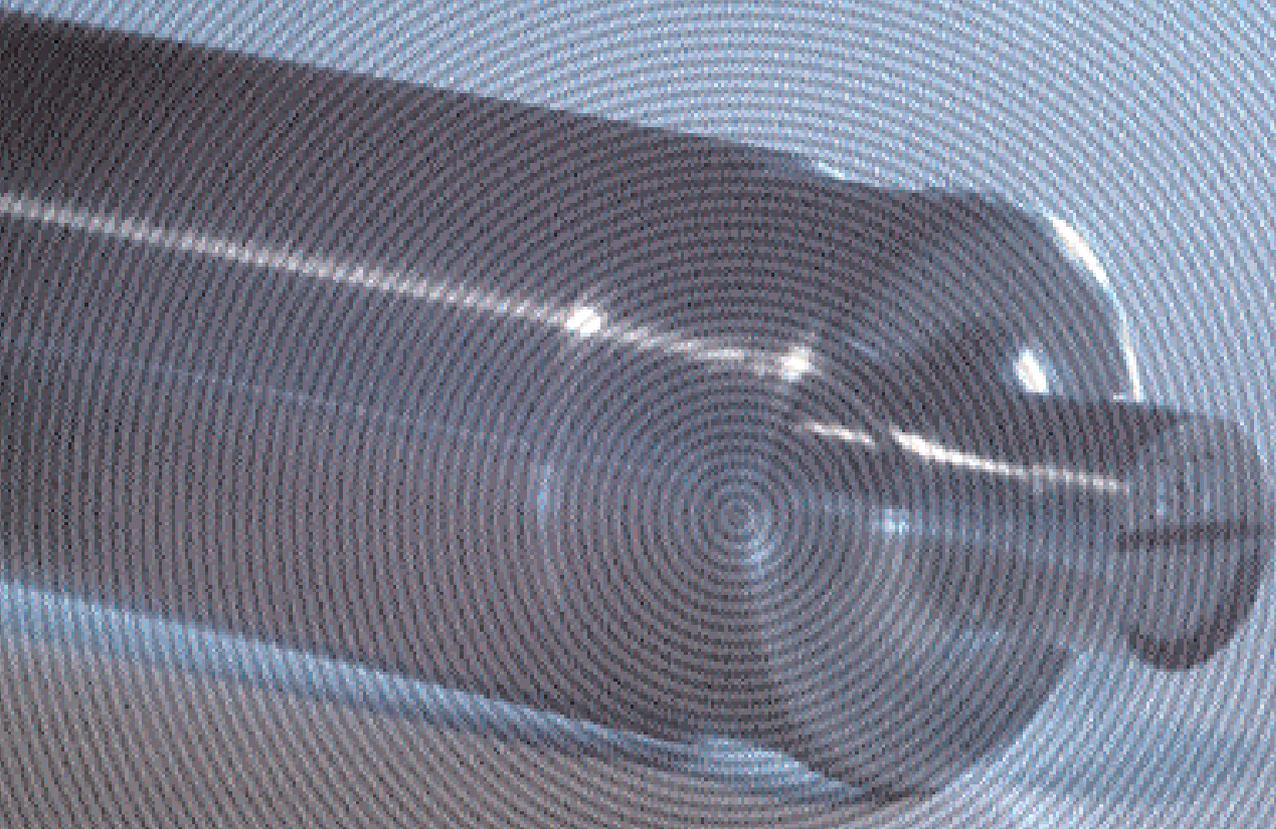
2.40 In choosing telecommunications products and services, criminals are guided by the need for security, anonymity and convenience. They will often have to strike a balance between security on the one hand and convenience and ease of use on the other. Mobile phones, in particular 'prepays' or 'pay as you talk' phones, remain particularly popular, since there is no legal requirement to register them and so no need to disclose personal details. They are also inexpensive enough to be bought in bulk and regularly changed. Serious organised criminals also frequently use telephone kiosks. In addition, foreign 'roaming' mobiles (also available as prepay) and satellite phones, international call centres and calling cards are used.

2.41 Serious organised criminals are making increasing use of the speed, accessibility and relative anonymity offered by Internet communication. They use email, chat rooms, instant messaging and 'peer2peer' networks, and are beginning to relay messages via the Internet that were traditionally delivered in person or via the telephone. Some criminals are using Internet cafes or encrypting their messages as a further layer of protection.

Other uses of the Internet

2.42 Serious organised criminals exploit the Internet as a commercial medium as well as a communications one. The ease with which suppliers can be identified and goods and services ordered from sites abroad (where different legislative and regulatory requirements may apply), the relative anonymity of the Internet, and lax scrutiny by sellers and parcel carriers, presents opportunities to purchase goods which could not be obtained legally or without tight regulatory control in the UK. Examples include drugs precursors and firearms components. Meanwhile, the Internet provides a new outlet for criminals to 'set up shop' for grey and black market sales. Websites, usually carrying a disclaimer, have sprung up offering to sell identity documents, facilitation services, and stolen payment card details.

2.43 The anonymity offered by the Internet, along with a relaxed attitude to personal security among most users, makes the Internet a fertile breeding ground for criminal activity. Criminals actively use the Internet to support fraud and sex offender activities.



The size of Class A drugs markets in the UK

3.1 It remains difficult to reach a reliable estimate of the quantities of Class A drugs being smuggled into the UK each year, given the clandestine nature of the trade and of drug usage. Quantities and trends can be inferred from seizures and other law enforcement interventions, drug treatment figures, drug-related deaths, household and user surveys, and various other sources. Inevitably, these indicators reveal only glimpses of the overall picture.

3.2 While more research is needed, there are strong indications that many 'problematic' drug users (as distinct from 'recreational' users) acquire a significant proportion, perhaps half, of the income used to pay for their drugs through low-level crime, including property crime, benefit fraud, drug dealing and prostitution. Although this type of indicator may help to size the heroin and crack cocaine markets, it is of less help in sizing cocaine powder usage if, as is suspected, the majority of cocaine powder users are in regular employment and can afford to fund their use through legitimate income. For this reason, the latter are also much less likely to come to the attention of the police than users of heroin or crack, and consequently are less likely to be included in samples of offenders used by researchers.

3.3 Treatment statistics also tend to emphasise the use of opiates, since treatment is mostly directed towards problematic heroin use. While cocaine, amphetamine, benzodiazepine tranquillisers (such as Diazepam and Temazepam) and cannabis are not often identified as the main drugs of misuse, they are frequently reported as subsidiary drugs, reinforcing the picture of increasing poly-drug use. The most recently available statistics on drug users reporting for treatment have indicated that over half were using two or more drugs. There are a number of reasons for this. Some combinations reduce the after effects (as with crack use by heroin users) and alternatives are used to replicate the effects of the drug of choice if the latter is not available, or extend its effect (as with various benzodiazepine tranquillisers and heroin).

3.4 The number of deaths related to drug poisoning where Class A drugs were present in the victim rose between 1998 and 2000, and declined slightly between 2000 and 2002 according to figures from the Office for National Statistics (ONS). The decline was due to a reduction in deaths where heroin was present, although the drug was still mentioned in about two-thirds of these cases. Deaths involving cocaine or ecstasy increased, but although the percentage increase was great, this was from a relatively low baseline. By comparison with England and Wales, a much higher proportion of deaths in Scotland have involved the benzodiazepine tranquillisers Temazepam and Diazepam. Mortality statistics also indicate that a high proportion of the most harmful drug use results from poly-drug consumption. Although most heroin-related deaths have involved only heroin, the majority of those related to other Class A drugs have involved the combined use of two or more drugs.

3.5 With these caveats, current estimates for the amounts of Class A drugs smuggled annually into the UK are not significantly different from 2002. The CIDA estimate for heroin is 25 to 35 tonnes, while that for cocaine is 35 to 45 tonnes. There are currently no reliable estimates for the size of the ecstasy market. The National Economic Research Associates (NERA) study, 'Sizing the UK market for illicit drugs' (2001), commissioned by the Home Office, produced an annual ecstasy consumption estimate of between 26 and 100 million tablets, but other assessments have suggested much higher levels of consumption.

3.6 Nationally, police forces have detected an increase in the prevalence and geographical spread of Class A drugs markets. At the wholesale (multi-kilo) level, this has been partially driven by Jamaican trafficking groups and by Merseyside-based groups extending their reach to new areas. Forces have also noted additional Class A drug distribution hubs. London, Liverpool and Birmingham are established hubs of national significance, but more regional distribution hubs are being identified, whose impact is felt across a number of forces.

The value of the UK markets

3.7 The value of the UK drugs markets is difficult to estimate, with no robust figures available. While law enforcement operations and other sources provide snapshots of drugs prices at various points in the trade, assessing criminal profitability, as distinct from turnover, is further complicated by other factors, such as the costs of shipment and the extent to which short-term or localised fluctuations in availability can affect pricing. Whatever the precise size and value of the Class A markets, it is clear that Class A drugs trafficking remains highly profitable at all stages of the trade from production through to street level dealing, and as such continues to attract significant numbers of serious and organised criminals and lower level criminals, whether as traffickers, facilitators, or dealers. It is also clear that the profit made from drugs is a critical factor in the success and spread of serious and organised crime, not just because it is used to buy more drugs, but because it funds other forms of crime, and supports criminal lifestyles that corrupt and undermine individuals, communities and the legitimate economy. Equally, other forms of criminal activity may be used to fund drug trafficking.

“It is clear that Class A drugs trafficking remains highly profitable at all stages of the trade from production to street-level activity.”

Heroin

Worldwide Production

3.8 Afghanistan probably accounts for more than three quarters of the world's illicit opium production, and at least 95% of UK heroin comes from Afghan opium. Afghan grown opium supplies the heroin markets of Europe and South Asia. It also supplies the local markets in Africa. The latest UNODC Afghanistan Opium Survey has estimated the 2004 Afghan harvest to be 4,200 metric tonnes, making it the largest Afghan crop on record since 1999. Intelligence and seizures in neighbouring countries also indicate that over the past 12 to 18 months there has been an increasing amount of heroin production within Afghanistan, and the likelihood is that the levels of production will remain high for the foreseeable future.

3.9 The 'Golden Triangle', primarily Myanmar, supplies principally Australasia and the Pacific Islands, the Asia-Pacific rim, and the USA. The impact of the Golden Triangle on the UK is minimal. Opium is also grown in South America, primarily Colombia, which is mostly destined for the North American market, but accurate yields are not known.

3.10 The production of heroin can be divided into two main stages; the extraction of morphine from opium, done mostly in Afghanistan, and the conversion of morphine into heroin. Some of this is done in SW Asia, but most is transported overland via Iran, to heroin processing laboratories in Eastern Turkey. This stage needs the precursor chemical acetic anhydride (AA), which is internationally controlled, although it is very widely used in a number of legitimate industrial processes. The amount of AA seized in 2003 was enough to process 33.6 tonnes of pure heroin. A number of organised crime groups are involved in the supply of AA to heroin producers.

Availability

3.11 The United Nations Office on Drugs and Crime (UNODC) estimates that there are approximately 260,000 heroin users in the UK. Russia appears to be Europe's largest heroin market with approximately one million users. Heroin abuse in other Eastern European countries has also grown strongly over the past ten years. Similarly, there is significant opiate abuse in Afghanistan and countries bordering the source areas. Nonetheless, the overall conclusion must be that Afghan production can easily satisfy European demand.

3.12 Since 2003, both the price and purity of heroin at street level in the UK has remained relatively constant. The wholesale price for a kilo of heroin remains between approximately £16,000 and £19,000, with London prices generally at the lower end of the scale. The exception to this has been the recent reduction of kilo prices of heroin in Merseyside, so that for the first time these are on a par with London prices. This is believed to be a result of the capability of Merseyside crime groups to purchase and import heroin directly from Europe at prices in the region of £12,000 per kilo.

Overseas routes

3.13 Knowledge of heroin trafficking routes from source countries into Europe and the UK continues to improve. Although traffickers are flexible in their choice of routings from Afghanistan, certain transit countries and routes are commonly used, including westwards through Iran and south via Pakistan. The route northwards through the Central Asian Republics is used primarily for heroin destined for the Russian market. Most onward routes include Turkey which, despite Turkish law enforcement efforts, remains the most significant staging-post for heroin supplied to Europe and the UK and is also used for processing morphine into heroin. The majority of heroin destined for the UK also transits The Netherlands, which is the most significant country in Europe with regard to the supply of Class A drugs to the UK. In practice, heroin consignments very rarely travel the whole way from Afghanistan to Europe in a single unbroken journey. Normally, they are bought and sold by different groups along the route, the mode of transport is changed, and loads are split and merged as they are moved westward. The detailed route will therefore vary according to the capabilities and preferences of whoever has control over the movement of the drugs at any point.

UK suppliers

3.14 Turkish organised criminal groups in the Netherlands, north Cyprus, and Turkey continue to dominate the UK heroin trade together with ethnic-Turkish groups in the UK, primarily in North East London. The available intelligence indicates that Turkish groups are responsible for most of the multi-kilo supply. Many of the UK-based ethnic-Turkish groups work in collaboration with Turkish criminal groups based overseas. Meanwhile, the significance of other groups has been increasingly noted over recent years, including British Caucasians and South Asians, predominantly Pakistanis.

3.15 Several of the most significant British Caucasian groups are based in Merseyside, with some in Scotland and East London. These groups not only procure heroin within the UK on a large scale for onward distribution, but are also increasingly involved in importing heroin consignments (sometimes mixed with other drugs) under their own control, primarily from Europe. To facilitate the purchase of drugs further up the supply chain and the smuggling of them to the UK, several British groups maintain close links with associates based in the Netherlands. These overseas-based facilitators are believed to liaise with well-placed criminals who can purchase bulk quantities of heroin directly from source countries such as Turkey.

3.16 South Asian groups in the UK, predominantly of Pakistani origin, have been involved in the importation and distribution of heroin for some time. South Asian groups import significant quantities of heroin mostly in small amounts using air couriers from Pakistan. Couriers working for these groups tend to import to regional UK airports for onward transportation to heroin distributors around the UK. The use of European airports is also common, with the final cross channel leg of the journey made by coach or train in order to conceal the origin of their travel and thus avoid law enforcement profiling. South Asian groups are also known to be involved in the direct importation of heroin in air and sea freight. However, the full extent of this is unclear. At distribution, level South Asian groups are known to purchase wholesale quantities of heroin from Turkish importers.

3.17 West African criminals make extensive use of 'little and often' couriers to traffic heroin, and there have been incidents of West African criminals importing heroin in larger quantities than previously seen. However, West Africans probably do not play a significant role in the UK heroin market, primarily using the UK and European airports as transit points for the supply of heroin to North America, a market in which they are significant players.

3.18 Albanians, Bulgarians, Macedonians, Kosovars, Romanians, Bosnians and Serbs are all known to be involved in the movement of Turkish controlled heroin through the Balkan corridor. Some of these groups, particularly Albanians, traffic drugs in their own right through the region. The extent to which they are directly involved in trafficking heroin intended for the UK is not

clear.

Methods and routes for importation into the UK

3.19 It is possible that there are significant traffickers, importation routes to the UK and methods that have not yet been identified. However, based on seizures and intelligence, it appears that most heroin enters the UK through ports in the South East of England, particularly Dover, Felixstowe and Harwich, taking advantage of the high flow of traffic through these ports. The bulk arrives in freight vehicles, although some is transported by couriers in passenger vehicles or as baggage. The Channel Tunnel continues to be used as a means of moving heroin (along with all smuggled goods) into the UK. Seizures from containers continue to be rare, and law enforcement successes have generally been intelligence-led or the result of good profiling work. Some heroin also enters through major UK airports, particularly those with connections to Turkey or Pakistan. However, air couriers are increasingly seeking to evade detection by travelling to the UK via Europe.

Distribution within the UK

3.20 Most significant heroin importations into the UK are of tens of kilograms rather than larger amounts, possibly because this helps to spread the risk for the suppliers. Once imported, heroin is distributed around the UK to wholesale buyers. Distribution at a national level continues to be dominated by Turkish groups based in London. Birmingham, Merseyside, Glasgow and Bristol are all significant regional hubs, supplying their immediate regions and, in some cases, much further afield with the regional markets controlled by groups of different ethnicities. Merseyside, in particular, continues to grow in significance, due to the increasing ability of groups in that area to import heroin directly, bypassing London-based Turkish groups. Merseyside is known to be a major source of heroin for the North West of England, Scotland and Northern Ireland, and some Merseyside-based criminals are now amongst the UK's most significant heroin traffickers. At street level, the heroin and crack markets converge with dealers using existing heroin markets to sell crack in order to increase their profits.

Cocaine, including crack cocaine

Worldwide production

3.21 Most of the world's cocaine is produced in Colombia, which is estimated to produce approximately 440 tonnes a year. Peru and Bolivia are the other main cultivators of coca and producers of cocaine, producing an estimated 155 tonnes and 60 tonnes respectively in 2003. While Peru's total coca cultivation declined, Bolivia's increased, although reported seizures have increased year-on-year. Some cultivation and production has been seen in Brazil and Venezuela, but they, along with most countries in South America, remain primarily transit points. Countries on the north east coast of South America, as well as in the Caribbean, are believed to be particularly significant in the movement of cocaine to Europe.

3.22 Cocaine, although a natural extract of the coca plant, requires a number of chemicals to transform it into its readily usable form, cocaine hydrochloride. Reagents such as potassium permanganate (PP) are used in the purification of cocaine and are used by cocaine producers to remove alkaloid impurities from coca paste. Since 1999, shipments of PP have been tracked by law enforcement agencies co-operating worldwide, and in 2003 the total amount of PP stopped was enough to process 4405 tonnes of pure cocaine.

3.23 Tracking PP shipments has revealed the emergence, in a small number of cases, of cocaine processing laboratories within the European Union. At these laboratories, cocaine base has been recovered together with the chemicals required for the final stage of purification into cocaine hydrochloride. It is likely that this displacement has been due to a difficulty in diverting the required precursor chemicals to illicit laboratories in South America. It makes little economic sense to do so, as it costs the cocaine producers the same to smuggle coca base as the finished hydrochloride, and the coca base is also more perishable and so does not lend itself to long term storage prior to completion of processing.

Availability

3.24 It is estimated that Europe accounts for a quarter of global cocaine use, with Spain, the Republic of Ireland, the UK and the Netherlands having the highest prevalence of cocaine use as a percentage of population. In 2002, increases in cocaine usage were seen in many countries in Western Europe. The overall annual supply of cocaine to the UK is estimated by CIDA to be between 35 and 45 tonnes, the vast bulk of which is imported as cocaine powder.

3.25 A proportion of the cocaine used in the UK is smoked as crack cocaine. Crack cocaine is relatively easy to produce from cocaine powder. Therefore, part or all of any consignment of cocaine imported to the UK could end up as crack cocaine. Some work has been conducted on behalf of the Home Office to assess the relative sizes of the UK cocaine and crack cocaine markets, but no robust figures currently exist. The most recent British Crime Survey indicates significant increases in the numbers of users of cocaine powder and crack between 1996 and 2003.

3.26 Despite record seizures in Spain in 2003, the continuing efforts of counter-cocaine efforts in South America, and law enforcement successes in the UK, both cocaine powder and crack cocaine continue to be readily available throughout the UK. No widespread or sustained change in price or purity of cocaine has been noted in the last 12 months.

Overseas routes

3.27 The majority of cocaine destined for European markets crosses the Atlantic in large, often multi-tonne, shipments bound for the Iberian Peninsula. Transatlantic ships are often met offshore by smaller boats, to which the drugs are transferred. These smaller boats are used to land the drugs primarily in Spain and to a lesser extent Portugal. Continuing law enforcement activity in the region, frequently supported by UK agencies, appears to have had some disruptive effect, although some large seizures are accepted by traffickers as an occupational hazard. There is intelligence indicating that the use of concealments within containers, as opposed to on or within vessels, is increasing. Quantities in excess of 100 kilos have been smuggled in transatlantic containers and it is believed that some travel direct to the UK. Some Colombian trafficking organisations are also increasingly using other European entry points. Eastern and Central Europe are attractive to traffickers, in part due to less sophisticated law enforcement capabilities. In addition, there has been an increase in the use of Africa as a transit region for cocaine destined for Europe.

UK suppliers and methods and routes for importation into the UK

3.28 Secondary distribution from mainland Europe to the UK is organised primarily from Spain and the Netherlands. Cocaine shipments from Spain are frequently concealed in HGVs and routed overland to the Channel and North Sea ports. The Netherlands plays a significant role both as a point of entry into the EU for South American cocaine, arriving by sea and air, and as a distribution point for cocaine first landed in Spain or Portugal. Intelligence indicates that the bulk of the secondary distribution from the Netherlands to the UK is organised by British criminals. Most of these also procure a wide range of other drugs from the Netherlands, with Netherlands-based brokers playing an important part in this process.

3.29 The relationships between South American, Spanish, Dutch, British and other criminals appear increasingly fluid, with the different ethnic groups working together more closely. As a result, the ownership of cocaine as it transits Europe en-route to the UK is increasingly complex.

3.30 During 2004, intelligence has confirmed that British criminals are significant in the importation of cocaine to the UK. The threat extends to networks of British criminals located across Europe and beyond, some of whom have demonstrated the ability to source cocaine direct from suppliers in South and Central America.

3.31 Cocaine is also smuggled into the UK by couriers. A high proportion of these come direct from South and Central America, or transit airports on the European mainland, such as Madrid, Amsterdam or Paris. Couriers are also known to have started their journeys in these places. West Africa, and particularly Lagos in Nigeria, is also a common starting point. Intelligence suggests that UK regional airports are used by trafficking groups, both for their convenience to local markets and because of a perception of a reduced risk from law enforcement.

3.32 Most of the detected movements of cocaine trafficked from the Caribbean to the UK are smuggled by couriers, many under the control of Jamaican and Trinidadian groups. Large quantities are also smuggled from the Caribbean in sea-borne vessels. Since June 2002, law enforcement activity in Jamaica has caused significant disruption to traffickers, who are now known to be using alternative routings to the UK, for example embarking from other Caribbean islands to the UK and often transiting mainland Europe in order to evade detection. In the past year, there has been an increase in couriers arriving in Europe from the Caribbean and then continuing their journey by coach.

3.33 Cocaine continues to be imported into the UK, using the postal service, via express mail companies from South America and the Caribbean. Cocaine is also imported, both directly and via transit countries, in baggage or freight that is removed from UK entry ports prior to passing through Customs' controls. There is also intelligence to indicate that cocaine directly enters the UK concealed within maritime containers and air freight, although there are no reliable estimates as to the extent of the problem.

Distribution of cocaine powder within the UK

3.34 Within the UK there are a number of hubs for the distribution of cocaine powder. London is an important hub and is the base for a number of major cocaine traffickers. However, Merseyside, Birmingham and Bristol are also important and cocaine imported from mainland Europe and bound for organised criminals based outside London is likely for the most part to bypass London and go directly to regional distributors. Distribution patterns do not necessarily follow any geographical logic. Criminal networking appears to be the determining factor, with groups preferring to work with those they know and trust. Therefore, even where criminals have moved their operations to a new location, perhaps having been displaced by law enforcement activity, they have continued to source their cocaine from the same trusted sources.

3.35 At the wholesale level, cocaine distribution appears to be controlled mainly by British Caucasians and Colombians, although there is evidence of the involvement of other groups. Many of the British Caucasian groups involved import and distribute other Class A and Class C drugs, and in some cases smuggled cigarettes. Cocaine powder is used mostly as a 'recreational' drug at 'street-level' (the point of sale to low-level dealers and users). A number of wholesale importers and distributors own or have some involvement with pubs and clubs, and use them as outlets.

Distribution of crack cocaine within the UK

3.36 Within the UK, crack cocaine was previously understood to be produced mainly in small quantities just above street-level and quickly sold on to street-level dealers and users. Whilst this is still occurring, crack cocaine is now also being sold in multi-kilo amounts to local criminal groups by others acting as wholesale producers and distributors. The profitability of crack cocaine relative to cocaine powder, and the ease with which it can be produced, mean that those involved in the wholesale importation of cocaine powder will find it

attractive to convert it to crack cocaine for onward sale, rather than selling the powder to lower-level crack cocaine producers. The most significant distribution hubs for crack cocaine appear to be London, Birmingham, Liverpool and Wolverhampton; although Bristol, Nottingham and Leeds are also important, with crack cocaine becoming increasingly available throughout the UK, including in rural areas.

3.37 Intelligence indicates that the crack cocaine trade within the UK is becoming complex and dynamic. In addition to the involvement of West Indian groups, the crack cocaine market now involves British Caucasian, West African, and South Asian criminals and groups. All these groups work both independently and collaboratively (and crack cocaine is frequently sold with heroin). In addition to being sold at street level, there are indications of crack cocaine being distributed at a wholesale level, and being imported in wholesale amounts, albeit in small amounts (mainly via post).

3.38 As well as supplying cocaine powder, some of which may be converted into crack cocaine within the UK, British Caucasian criminals are involved in the distribution of crack cocaine within the UK, particularly at street level. West African criminal groups, based mostly in the South East of England though with influence elsewhere, appear to play an increasingly significant part in the supply of both cocaine and crack cocaine. They are involved mostly in importing cocaine from South America and West Africa to sell to multi-kilo buyers, including to groups involved in supplying crack, although there is intelligence indicating that West African groups are also selling crack cocaine at wholesale level. The involvement of South Asian criminals in supplying crack cocaine has also been reported in some areas. Their historical involvement in supplying heroin means that involvement with crack cocaine makes good business sense if the street dealers and users are, to a large extent, the same for both drugs.

3.39 There is intelligence to indicate that some Colombian groups are becoming involved in the conversion of cocaine into crack cocaine and then selling it in wholesale amounts. It is too early to say whether this represents a new trend.

Ecstasy and other synthetic drugs

What is ecstasy?

3.40 There is a diverse range of active drugs that are made into tablets and sold as 'ecstasy'. Ecstasy is therefore best understood as a type of drug rather than a specific chemical compound. The most common ecstasy-type substance is MDMA, but ecstasy tablets may contain other substances, found either on their own or in combination with other active drugs. Tablets have been seized containing various synthetic drugs, including amphetamine, ketamine, 2C-B, ephedrine or methylamphetamine, some in combination with MDMA, some with other drugs. In the UK, tablets containing MDEA and MDA continue to be seized but they are comparatively rare.

Worldwide production of ecstasy and other synthetic drugs

3.41 It is estimated that up to 80 percent of the MDMA consumed worldwide emanates from illicit laboratories in the Netherlands and Belgium, which are the primary sources of ecstasy found in the UK. The extent to which ecstasy produced in Poland, Germany and in Eastern Europe is trafficked to the UK remains unclear. In terms of the scale of production, it is estimated that between 200 and 500 tonnes of PMK, an MDMA precursor, are smuggled into the EU annually. This is enough to produce between 2000 million and 5000 million ecstasy tablets.

UK production of ecstasy and other synthetic drugs

3.42 While open sources such as music and news media report that the level of domestic production of ecstasy is rising, this is not reflected by law enforcement seizure figures. In the last few years only a small number of production sites in the UK have been seized, a minority of these have been ecstasy. In 2003, there were no confirmed ecstasy production sites detected by law enforcement in the UK. In 2004, by June there had been one laboratory dismantled in the south of England in which the ecstasy type-substance 2C-B was being manufactured, although the primary function of the laboratory was the production of LSD (of which around 171,000 doses were seized).

3.43 MDMA is known to be produced illegally in the UK, as are other ecstasy-type substances such as DOB, 2C-B and DMT. While similar to MDMA, the effects of these substances on users vary considerably. The emergence of new forms of ecstasy such as these may be a deliberate attempt to create a new niche market as the price of ecstasy falls due to its increasing availability.

The UK ecstasy market

3.44 Surveys indicate that the UK is one of the largest markets for ecstasy. It is estimated that between 500,000 and two million ecstasy tablets are consumed in the UK each week.

3.45 The UK wholesale ecstasy market is supplied mostly by British, Dutch, and Belgian criminal networks. Ecstasy is often smuggled into the UK along with other drugs in a poly-commodity consignment, to the extent that it is relatively uncommon to find ecstasy as the only commodity being transported.

3.46 Within the UK, distribution is mainly controlled by British Caucasian groups. Distribution is centred on a number of hubs, of which London, Merseyside, Manchester, Birmingham and Bristol appear to be the most significant. Ecstasy is normally distributed to groups and individuals operating at the regional or local level along with other drugs, mostly cocaine, and also cannabis resin, amphetamine and heroin.

Trafficking of ecstasy through the UK and by UK traffickers operating overseas

3.47 Seizures and intelligence suggest that a large amount of ecstasy still transits European airports, including UK airports such as Heathrow. UK airports are used in transit, particularly for trafficking ecstasy to the growing market in the United States.

3.48 UK criminals are involved in trafficking ecstasy from the UK to other EU countries and also produce ecstasy for, and traffic to, destinations popular with British clubbers such as Ibiza, Cyprus and Tenerife. UK criminals also traffic ecstasy from the UK to Australia, New Zealand, Malaysia, Thailand and South Africa. There is a considerable price difference per ecstasy tablet between the UK and Australasia, and this may make the trafficking of ecstasy between these destinations highly profitable for organised criminals.

The UK market for other Class A synthetic drugs

3.49 Seizures and intelligence indicate the involvement of drug traffickers with several other drug types. In 2004, two major seizures in the UK, allied to other intelligence, indicate that the Class A drug LSD may be re-emerging in importance.

Multi-drug trafficking

3.50 Although most of the largest importers of heroin and cocaine tend to concentrate on one or other drug, many drug traffickers appear largely unconcerned about the different types of drugs they handle and, by inference, the different penalties they face should they be caught. Traffickers frequently move other commodities as well as cocaine or heroin, and often move multi-commodity loads from the European mainland to the UK. Loads involving synthetic drugs, cannabis and contraband have all been seen. Shipments consisting of more than one drug are often found where specialist transporters are moving drugs for a number of customers.

3.51 A key factor in multi-drug trafficking is the convergence of the various drugs trades, for a number of logistical reasons, in the Netherlands and Spain. Both countries play reluctant host to major foreign and British traffickers, or their representatives and criminal associates, who broker deals for UK-based groups. Some of these facilitators have been placed overseas deliberately by a group, while others may be avoiding arrest from UK law enforcement. Meanwhile, the Netherlands in particular is within easy reach for UK-based criminals, who are able to travel there largely unobserved, sometimes varying the means of travel in and out in order to avoid detection.

3.52 The pattern of poly-drug use provides an obvious incentive for traffickers to engage in multi-drug trafficking, linked with the potential profits that can be generated through control of the market and manipulation of user demand for certain drugs. The key concerns are opportunity, capability, and profit. Some traffickers will readily smuggle cannabis, amphetamine or pharmaceuticals, importing the drugs in 'cocktail' loads or consecutively.

3.53 Although the exact relationship between supply and demand remains unclear at the macro level, widespread poly-drug consumption in the UK suggests that traffickers importing more than one drug are unlikely to find difficulty in securing buyers at the UK end, in part due to the aggressive marketing techniques employed by wholesale and street level suppliers. Indeed, crack cocaine dealers have been targeting heroin users as customers for both crack and heroin, and have promoted dual use by selling the two drugs together. In some cases they discount prices if both drugs are bought together, or refuse to sell heroin to users unless they agree to buy crack as well.

Financing the trades

3.54 As well as lining the pockets of UK-based traffickers, substantial amounts of drugs money are sent out of the UK either in cash with couriers, disguised and paid in through banks and other financial institutions, transmitted by alternative remittance ('hawala') bankers or electronically by various money transmission agents. Some of this money goes directly or indirectly towards financing further drugs shipments. Law enforcement awareness of the potential methods is generally good, although knowledge of which organisations and trades use which methods is less comprehensive.

The illicit trade in controlled chemicals

3.55 In most instances certain chemicals are needed either to convert coca and opium into a usable form. In order to thwart the illicit use of these chemicals by drug producers, a system of regulation and mandatory licensing exists both nationally and internationally to monitor and restrict their movement. However, one of the difficulties is that most of the chemicals in question are also commonly used in the manufacture of legitimate goods such as perfumes, dyes, pigments, plastics and pharmaceutical products.

3.56 Europe is a major hub for the global diversion of controlled chemicals, and there is evidence, albeit limited, of the involvement of UK nationals in facilitating this diversion. Criminal groups resort to a number of methods to avoid EU controls on chemicals. Increasingly, they are smuggling chemical substances from China, Russia, the Baltic States and other Eastern European countries. Cross-border diversion has been steadily increasing as a proportion of all identified attempted diversions. This is likely to continue as monitoring of the international trade makes acquisition of chemicals for the illicit market more difficult within the EU.

3.57 In August 2005, European Regulation 273/2004 will come into force strengthening controls on the intra-Community trade in precursors. The legislation introduces a mandatory disclosure requirement on industry to report suspicious chemical orders and a provision requiring documentation to accompany movement of precursor chemicals within the European Community. Draft legislation (anticipated to be introduced August 2005) is also currently with the Council of the European Union regarding the strengthening of controls on extra-Community trade in precursors. These new legislative moves recognise the increasing threat to Europe from domestic production of synthetic drugs and the subsequent requirement for a rigorous and co-ordinated Community response.



The threat to the UK from organised immigration crime

4.1 The UK is an attractive destination for illegal migrants from all over the world, so much so that some are prepared to risk their lives to get here, including being prepared to put themselves in the hands of facilitators whose methods pay scant regard to human life. Proof of the relative attractiveness of the UK over other EU countries is provided by the large numbers who are not content merely to have reached the EU, but make determined efforts to move on to the UK. Illegal migrants state in interviews that the UK is generally perceived as offering favourable employment opportunities and other attractions, such as better benefit payments, access to healthcare and social conditions than other EU states. In addition, many illegal migrants are attracted by the existence of diverse minority communities or family in the UK, who can provide support and employment.

4.2 It is not possible to place an accurate figure on the UK's illegal population. For obvious reasons, most illegal immigrants try to remain hidden from officialdom, and therefore there are no reliable statistics. There are many different types of illegal immigrant. Some will have been lawfully admitted to the UK and overstayed the period of their leave to enter or remain; others will have entered clandestinely and never have come to the notice of the authorities; while others will have 'gone to ground' having failed in their application for asylum, or absconded from detention, temporary admission or release. Migrants from Afghanistan, China, India, Iran, Iraq, Jamaica, Pakistan, Somalia, Sri Lanka and Turkey are amongst those who claim asylum in significant numbers, and nationals from these countries also feature significantly in both false asylum claims and illegal migration to the UK.

4.3 The threat and use of violence and less overt forms of control by criminal groups underpin the facilitation of illegal immigration into the UK, and subsequent exploitation of illegal workers in the UK. For example, there are cases, primarily involving Chinese and Albanian criminal organisations, where migrants have been

kidnapped or forcibly detained on arrival in the UK, and money extorted from the individual or his or her relatives. The Morecambe Bay tragedy of February 2004, in which over 20 Chinese illegal workers were drowned while working illegally as cockle-pickers, highlights the fact that illegal migrants often continue to be at risk after arrival in the UK.

The legislative framework in the UK

4.4 Serious organised criminals active in immigration crime are subject to a range of legislation relating both to organised crime in general and to offences specific to illegal immigration. The Nationality, Immigration and Asylum Act 2002 recognises the seriousness of both people smuggling (often termed 'facilitation') and human trafficking. The Act made trafficking for the purposes of prostitution a specific offence for the first time and provided for a maximum sentence of 14 years imprisonment and unlimited fine. The Sexual Offences Act 2003 came into force on 1 May 2004. It replaced the earlier trafficking offence in the Nationality, Immigration and Asylum Act 2002, with wider ranging offences of trafficking into, within and out of the UK for sexual exploitation. A new offence of trafficking for other forms of exploitation, for example forced labour, removal of organs and the trafficking of vulnerable people, including children, is included in the Asylum and Immigration (Treatment of Claimants, etc.) Act 2004. This offence and the trafficking offences in the Sexual Offences Act continue to carry a maximum sentence of 14 years imprisonment. The 2004 Act also introduces new measures to strengthen the immigration system against abuse, for example, new provisions designed to prevent bogus marriages and criminal sanctions for those seeking to enter or stay in the UK who have destroyed or discarded their travel documents.

4.5 The Gangmasters (Licensing) Act 2004 establishes the Gangmasters Licensing Authority, which will be responsible for setting up and operating the licensing scheme for labour providers operating in the agriculture, shellfish gathering and associated processing and packaging sectors. Once the licensing arrangements are in place, the Act will prohibit anyone from acting as a

gangmaster in the specified areas without a licence. It will also make it an offence for a person to enter into an arrangement with an unlicensed gangmaster. The Gangmasters (Licensing) Act and the associated Gangmasters Licensing Authority Regulations will apply to work done anywhere in the UK, along the shoreline and in the UK coastal waters.

4.6 The UK also supports various international initiatives aimed at disrupting illegal migration. For example, the UK maintains close co-operation with Europol, Interpol and key overseas partners in Europe. Meanwhile, recognising the region's significance in respect of organised immigration crime, not least the trafficking of women for prostitution, the UK is supporting international work in the Balkans aimed at disrupting illegal migration from and through the region.

Migration trends

4.7 Migration from poorer, less developed, disadvantaged or troubled areas of the world to more stable and affluent countries is a global phenomenon, centuries old. In 1975 there were an estimated 75 million migrants. By 1990 this had risen to 120 million and by 2000 to 150 million. There are many factors that push people to migrate, including poor living standards, lack of jobs and opportunities, overpopulation, oppressive regimes, regional conflict, political instability and natural disasters. Meanwhile, television and other mass media present a window on alternative existences, and it is easy to see how the portrayal of the West, its culture and lifestyles, may attract those for whom survival is a daily struggle. Existing family and expatriate communities of their own nationality in the West also act as a pull factor for migrants, and some may be active in arranging for family and friends to join them. These push and pull factors are unlikely to diminish in the foreseeable future.

4.8 The accession to the EU of new members from eastern and southern Europe in May 2004 has implications for organised immigration crime, as the borders of the EU are now closer to many key source and transit countries. Work is ongoing to assess the impact of accession on organised immigration crime to the UK.

Exploitation by organised criminal groups

4.9 Some migrants may be legally entitled to residence in another country, while others obtain leave to remain legally through marriage, work or as genuine refugees. Others do not meet the criteria to settle legally. The majority of migrants, whether ultimately successful or not in an application to remain legally, are unable to make the journey to the West unaided. There has always been a market for organised criminals to facilitate those that need help to pass through or around immigration controls either clandestinely or by providing forged or counterfeit travel documents, access to transportation, or fraudulent sponsorship, so that visitor or resident status can be officially obtained.

4.10 As Western governments have become more concerned about immigration, and global terrorism, they have sought to increase security and enhance border controls. As a result, the opportunities for serious organised criminals to profit from the facilitation of illegal migrants have increased. Organised criminal groups appear to view immigration crime as a lucrative 'business', which carries a relatively low risk of prosecution. Therefore, they have readily exploited these opportunities. In doing so, they use methods and techniques seen in other forms of serious organised crime, including extensive use of bribery and corruption. They corrupt border guards, police and customs officers, and a range of political and official contacts in order to operate unhindered. They also collude with professionals who can assist them, including those in the legal profession.

People smuggling and human trafficking

4.11 Organised immigration crime falls into two categories: people smuggling, where the illegal migrants are essentially willing participants and where the organised criminals profit mainly from facilitating their migration; and human trafficking, where the intention behind the facilitation is to exploit the illegal migrants continually during the journey to the UK and also within the UK. These categories are still confused by inconsistent use of the terms. However, the UN protocols on people smuggling and human trafficking provide an internationally agreed distinction between the two.

People smuggling is defined under the Protocol as

'The procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of illegal entry of a person into a State party of which the person is not a national or permanent resident.'

Trafficking, as defined under the Protocol, highlights the exploitation element

'Trafficking in persons shall mean the recruitment, transportation, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation.'

Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs.'

4.12 All the indications to date are that human trafficking takes place on a much smaller scale than people smuggling. However, the nature of human trafficking is such that it is harder to identify and therefore quantify. Moreover the exploitation involved, and frequent use of intimidation and violence, lead arguably to more harm to the individual. There are also cases where illegal migrants who have been smuggled, rather than trafficked, to the UK later find themselves in exploitative situations. Exploitation of illegal migrants is made easier by their illegal status.

How illegal migrants reach the UK border

Routes and nexus points between source countries and the EU

4.13 Some illegal migrants arrive in the EU by air, either directly from their country of origin or, more likely, from a third country. However, many make the journey overland, or by a short sea crossing, from countries bordering the EU. Although the options for precise routes, methods and timings are almost unlimited, much as they are for transporting drugs, in general, the movement comes from Africa and Asia along five broad patterns of movement into the EU. These are from Moscow through the Baltic States, Poland, the Czech Republic, to Austria or Germany; from the Ukraine through Poland, Slovakia, Hungary or the Czech Republic to Austria or Germany; from the Balkans, Middle East or Turkey to Greece or Italy; from North Africa to Spain or Italy; and from Turkey through the Balkans to Italy or Austria.

4.14 The relative importance of these five broad patterns of movement and specific routes within them is difficult to judge because criminals use a wide range of sub-routes within them. Because of the range of options, focusing on routes may be less productive for law enforcement than concentrating on specific nexus points, where routes converge and where illegal migrants congregate before being moved on. The overall picture remains patchy, but Belgrade, Dubai, Istanbul, Kiev, north Libyan ports, Moscow and Sarajevo stand out as nexus points for illegal migrants looking to enter the EU, some of whom will be destined for the UK.

4.15 Not all illegal migrants are destined for the UK. For example, a large number of Africans are moved to Spain, but there is little evidence that the ultimate destination is the UK. Similarly, while transit routes through the Former Soviet Union countries are used to move illegal migrants to Europe, the impact on the UK is unclear.

Multi-stage journeys

4.16 Some serious organised criminal groups control the movement of migrants from their country of origin right through to their final destination. This seems to be particularly the case for major facilitators who originate from the primary source countries. Overland and maritime smuggling along key routes is dominated by Pakistani, Iranian, Turkish, Somali, Albanian and Greek groups, although how they co-ordinate with each other is not well understood. Well-organised Chinese gangs meanwhile, move Chinese illegal migrants by circuitous air routes to the UK. However, most of the facilitators who move illegal migrants overland operate along a particular section of the route. As a result, most illegal migration takes the form of a multi-stage journey, with illegal migrants being passed from criminal to criminal along a chain of territorially-restricted criminal networks. Since facilitation is a business for these networks, they are largely unconcerned about the nationality or ethnicity of the illegal migrants they facilitate, and they interact with each other as business dictates. In practice, most facilitators appear prepared to work with whoever can help them to make a profit, provided there is a reasonable degree of trust between them. Shared nationality or ethnicity helps to establish trust, but so do other shared experiences, and so it is not uncommon to find ethnically mixed organised facilitation groups and mixed groups of illegal migrants.



“Most illegal migration takes the form of a multi-stage journey.”

Marketing by facilitators

4.17 Having arrived at one of the nexus points by whatever means, including in many cases help from organised criminal facilitators, would-be illegal migrants to the EU appear to have little difficulty in finding or being found by criminals who can facilitate their entry to the EU. The latter may be both people smugglers and human traffickers. While they will be concerned to avoid undue attention from law enforcement, it is in the interests of facilitators that they should be easily accessible to their potential customers, and in most instances they actively market their services, as well as promoting a view of the West that encourages illegal migrants.

4.18 Contacts are often made in particular bars, clubs and cafes. Individuals establish a local reputation for being able to arrange illegal migration and rely on word of mouth. In addition, the use of newspaper advertisements in local papers and of Internet websites is common. The latter refer to the ease with which illegal migrants can find work and exaggerate potential earnings. Within the EU, there is evidence that facilitators tout for business in and around various transport termini, while services for illegal migrants already in the UK are advertised through foreign language newspapers in London. Examples include employment services, ‘assistance’ with immigration formalities, help with opening bank accounts and setting up companies.

Movement through the EU to the UK border

4.19 Once in the EU, the lack of border controls between EU member states make it relatively easy for illegal migrants to move on towards the UK. Illegal migrants are transported by facilitators (or make their own way) to final staging points in France, Belgium, the Netherlands and the Republic of Ireland for entry into the UK.

Illegal migration between the Republic of Ireland and the UK

4.20 Illegal migration in both directions between the Republic of Ireland and the UK, exploiting the Common Travel Area agreement, is a cause of concern. Efforts have been made by both governments to address this situation and there have been a number of successful detections and interdictions of illegal migrants.

Use of low-cost flights by organised criminals

4.21 The widespread availability of low-cost flights provides facilitators with a relatively cheap method of transporting illegal migrants to the UK. The use of smaller airports away from big cities has the dual benefit of

spreading the risk and increasing profit margins (because it is cheaper). Many criminal groups are now using low-cost flights, often in combination with either false documents or deception, to transport illegal migrants on the final leg of their journey to the UK.

Points of entry to the UK

4.22 Organised facilitators make extensive use of clandestine entry to bring illegal migrants into the UK, primarily through Dover. However, they have had to find new methods in order to overcome the deployment of better detection equipment and juxtaposed immigration controls, where UK immigration officers are deployed abroad to conduct immigration checks before embarkation to the UK. At the end of 2004, juxtaposed controls had been established in France (Boulogne, Coquelles, Calais, Calais Hoverport and Dunkirk) and in Brussels at the Eurostar Terminal. In response to these improved enforcement measures, some facilitators have turned to new routes, looking to exploit ports where security appears less stringent. Another option for the facilitators is to move illegal migrants in smaller numbers in small vans or private vehicles, although this may have an impact on profitability.

Means of entry to the UK

4.23 There are two means of illegal entry to the UK: clandestine entry, where the illegal migrant is concealed in some way by the facilitator; and abuse of legitimate entry, such as through the use of false travel documents. Clandestine entry essentially involves attempts to evade immigration controls; and may be seen by organised criminal groups as less risky than the abuse of legitimate means of entry, which requires a greater degree of sophistication. Both methods may be used for smuggling or trafficking activity, including appropriate supporting documentation.

Abuse of legitimate means of entry

4.24 Facilitators sometimes provide illegal migrants with genuine documentation that has been obtained fraudulently, for example through false applications to government agencies. The illegal migrants can then enter the UK with 'legitimate' passports, visas or clearances, and may then overstay. A common method is to obtain a student visa by signing up for a course. In some cases, the courses are genuine, but the student does not attend, sometimes with the complicity of the college. Alternatively, serious organised criminals set up bogus colleges expressly to provide illegal migrants with the documentation to obtain a visa.

4.25 Some illegal migrants enter and remain in the UK by deception, for example by entering into a bogus marriage to a UK citizen. Criminals take advantage of this method, and illegal migrants are often supplied with packages of false documents in order to support their claims. Legitimate entry is also abused by illegal migrants who are entitled to enter the UK legally for visits or other purposes, but who work in breach of their conditions of entry or overstay. A small number of corrupt solicitors and immigration advisers support the facilitation process by fraudulently completing asylum or work-permit applications for clients.

Use of false documentation

4.26 One consequence of more effective border controls in the UK has been a marked rise in the use of false documentation. Where there is little time to check documents prior to boarding, and where there is a wide array of possible documentation, false documentation may need merely to be good enough to pass through embarkation controls. Illegal migrants who arrive in the UK by air use false documentation to embark on the flight and then dispose of the document (or pass it to the facilitator for recycling) before arrival in the UK and present themselves at the immigration controls as 'undocumented'. In some cases, illegal migrants will attempt to enter the UK using false documentation, but this is less common as the documentation needs to be of a much higher standard. The different methods suggest awareness by facilitators who supply documentation of immigration policies and practices. This suggestion is reinforced by evidence that some arrivals are coached or have crib sheets with the answers most likely to get them through controls. Others are furnished with names of solicitors to be contacted if they are stopped.

4.27 As well as facilitating entry, illegal migrants are, in some cases, provided with false documentation that enables them to work once they are in the UK. However, serious organised criminals have many uses for false documents beyond facilitating organised immigration crime, for example to support drugs trafficking, to commit fraud, or to obtain legitimate UK documentation. Some groups develop the capability to produce false documentation themselves, while others buy it from specialists. Thailand is recognised as a centre for forgery, but false documents are produced throughout the world, including in Albania, Dubai, Singapore, Bulgaria, Greece and Poland, as well as in the UK itself.

The characteristics of people smuggling

4.28 One of the most common methods of moving illegal migrants across borders is simply to hide them in a vehicle and drive across. This type of facilitation ranges from a single illegal migrant in the boot of a car to large numbers concealed in hidden compartments in lorries. However, serious organised criminals exploit weak border controls through a range of other methods, including the use of false travel documents, the abuse of genuine documents by 'look-alike' illegal migrants, and bribery of officials at air and sea ports in order to allow illegal migrants to pass. Facilitators also abuse legal means of immigration, obtaining genuine documents by deception for illegal migrants to use for entry. Visas and work permits may be supplied, and some facilitators set up apparently legitimate businesses, such as language schools, to provide fraudulent support for visa applications. Another method, though this is used predominantly in the Mediterranean, is to fill boats or ships (many old and barely seaworthy) with illegal migrants and head for the coastline of the EU, notably Italy and Spain, where the illegal migrants can claim asylum on arrival.

4.29 Whether trading in people, drugs or other commodities, serious and organised criminals are adept at exploiting any weaknesses in transport systems and border controls. Facilitators have shown flexibility and speed in responding to law enforcement efforts to combat them, such as changing routes and methods to avoid enforcement hotspots and counter improved detection capabilities. The range of options and the flexibility of the facilitators demand a coordinated law enforcement response. Tackling a particular route or method in isolation simply leads facilitators to change their tactics. The cost to the illegal migrant reflects the type of service provided, the route and method used, and the destination. Unless full payment is made in advance, debts are incurred along the route. In some cases illegal migrants who arrive in the UK have been in transit for months or even years, spending time working off their debts at each stage.

The characteristics of human trafficking

4.30 Human trafficking is essentially concerned with the exploitation of illegal migrants as a commodity using force, threats or deception. It takes various forms, including exploitation as prostitutes or cheap tied labour, for example in illicit sweatshops producing counterfeit goods.

Trafficking for prostitution

4.31 Traffickers use a number of methods to recruit illegal migrants into the vice trade. Most involve some form of deception, and exploit the lack of opportunities open to women in source countries. Traffickers place advertisements in local newspapers and media, advertising legitimate employment opportunities in the EU, for example as maids, nannies, bar and catering staff, receptionists, clerical staff, dancers and entertainers. Advertisements are also placed offering marriage opportunities to women seeking EU husbands, and front agencies are also used for this purpose. Other victims are knowingly recruited into the sex trade, but are unaware of the conditions under which they will be forced to work. Some trafficking victims are kidnapped, usually in the Balkans and the Former Soviet Union, but this is a less common activity.

4.32 The traffickers transport their victims in two ways. Victims may be moved directly to their ultimate destination, beginning their work as prostitutes only when they arrive. Victims may also be moved in stages, in which case they can be exploited at each stage. The former usually travel in small groups accompanied by a minder who hands them to their eventual employers, while those trafficked in stages are sold, with their debts, from one criminal group to another. This multi-stage approach appears more common in the Balkans, with the women exploited within the region, then moved via Greece and Italy, through Germany to North West Europe, including the UK. Given that those women who are trafficked directly are often unaware of the true nature of their situation until they reach their destination, most willingly co-operate with the traffickers. Those trafficked in stages may have already been subjected to violence and coercion and may therefore be unlikely to risk protesting at border controls. In neither case do the traffickers need to exercise overt control over the women in transit, or restrict themselves to clandestine methods of crossing borders. In practice, traffickers use the same methods as facilitators in order to move their victims across borders.

How organised criminals control trafficking victims

4.33 The threat of violence to control both trafficked prostitutes and sweatshop labourers is widespread, as is debt-bondage, where the cost of the travel to the UK is charged at an excessive rate which the victims cannot realistically repay. Serious organised criminals also exert control over trafficked illegal migrants by removing and retaining any identity documents. This normally occurs at the recruitment stage, but traffickers in the UK routinely

strip illegal migrants of any documents that they still have. Where false documents are supplied to facilitate border crossing, these will be retrieved immediately after the border has been crossed. Source countries are often those where identity documents are always carried and required routinely as part of daily life. Without such documents trafficked women may consider themselves to have no identity, which increases their fear that should they be discovered they will be detained and imprisoned. Traffickers routinely encourage such perceptions to prevent the women approaching the authorities.

3.34 In the case of women trafficked for prostitution, there are increasing reports of extreme forms of coercion, usually involving physical abuse and rape by the traffickers. Whether implied or actual, violence is likely to be ever-present from the point when the woman begins working as a prostitute. One form of control is through the supply of drugs to the victims especially where the organised crime group is also active in drug distribution.

The threat to the UK from human trafficking for prostitution

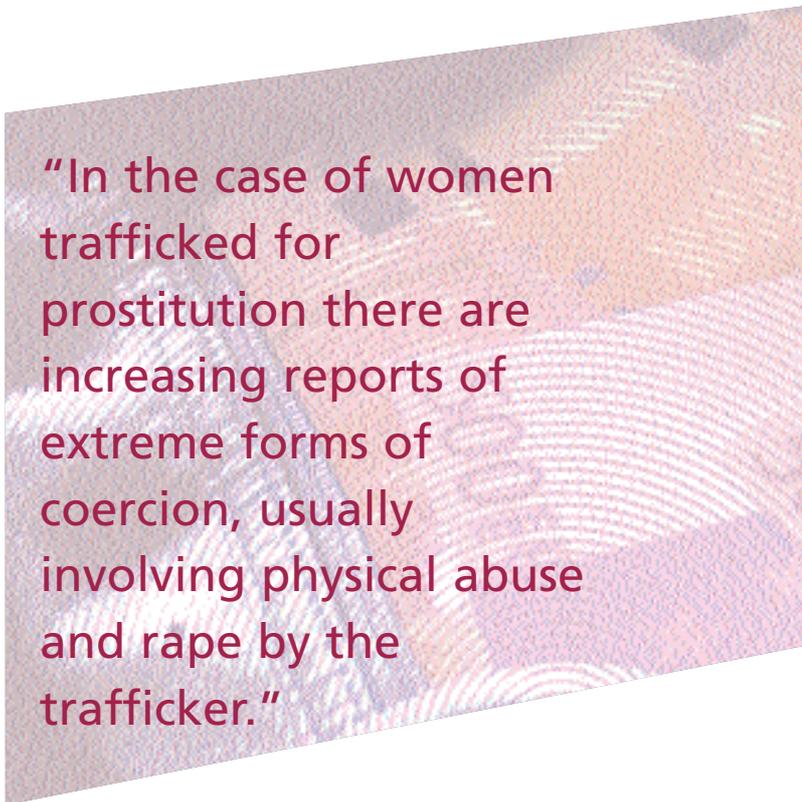
4.35 Compared with the numbers of illegal migrants who have chosen to be smuggled into the UK, the numbers trafficked are believed to be small. Nevertheless, trafficking victims are a particular concern because they continue to be exploited by serious organised criminals once they are in the UK. There has been a continued rise in the identification of trafficked prostitutes across the UK. However, it is not clear to what extent this represents a growth in the vice trade, a new trend in the recruitment of prostitutes, or simply better intelligence. While it is unsafe to assume that all foreign women working in brothels are trafficking victims, or that they are all being forced to work as prostitutes against their will, there is no doubt that the harmful impact of trafficking is felt nationwide.

4.36 Most trafficked prostitutes come from the Balkans and Former Soviet Union, or from the Far East, especially China or Thailand. The latter appear to be much more costly to procure and this may explain the relatively rapid growth in the former. However, there are signs that criminals from the Balkans, especially ethnic Albanians, where there is a large vice trade, are seeking to gain control of the trade in the UK. They are doing so particularly by taking over ownership of brothels and saunas and are prepared to use violence to achieve this. While there have been some law enforcement successes in targeting the traffickers, it appears that prostitutes who are arrested or deported can be replaced within days.

Other threats from organised immigration crime

Illegal cross border movement of minors

4.37 Movement of minors (persons who are under 18 years of age), for both sexual exploitation and slave labour is regarded as a serious global issue by the United Nations and by various non-governmental organisations. In parts of Africa, poverty, the AIDS epidemic, natural disasters and conflict have led to a level of acceptance of the sale of children into bonded labour, usually into agricultural or factory jobs, or as domestic labour. For the parents, giving their children the chance of a better life by selling them to someone who promises to find them work in the West may seem to be in the children's best interest. For the traffickers it is merely business and they are ready to resort to violence and intimidation to support it. For example, some trafficked minors are controlled by the fear of 'curses' that they are told will harm them if they do not obey the trafficker.



“In the case of women trafficked for prostitution there are increasing reports of extreme forms of coercion, usually involving physical abuse and rape by the trafficker.”

4.38 Minors are moved into the UK in various ways. Some enter as unaccompanied minors and asylum seekers at ports, some on student visas, as language students or on tourist visas. Minors are also brought in by adults who claim that they are dependents, or met by adults declaring themselves as relatives. Minors may also be brought in via Internet transactions, foster arrangements and contracts as domestic staff. The scale of child trafficking to the UK is difficult to assess given the covert nature of the activity, as is the involvement of organised criminals. The lack of a national system for tracking unaccompanied minors after arrival means that trafficking cases relating to children are not separately captured in official statistics.

4.39 Research by the Metropolitan Police Service challenges the assertion, often quoted in the media, that a large proportion of the several thousand unaccompanied minors arriving in the UK each year are trafficked. In only a small proportion of cases is there any evidence of trafficking. In addition, results from operations targeting the vice trade in London suggest there is little evidence of a market for under-age prostitution. However, there is no doubt that some minors are trafficked to the UK. There are also reports suggesting that minors are being brought into the UK in order to facilitate fraud, particularly benefit fraud.

Illegal working and labour exploitation in the UK

4.40 The issues of illegal working and illegal gangmasters were highlighted by the Morecambe Bay tragedy. Large numbers of illegal migrants entering the UK will be looking to work but will not be entitled to work legitimately. Serious organised criminals exploit this by controlling the recruitment and supply of illegal migrants as cheap, unskilled and casual labour within the manufacturing, food processing, construction, catering and agricultural labour markets. Sometimes a job, or documentation permitting someone to work, is offered as part of the original facilitation service. In other cases, organised criminals operate as recruitment agents, providing illegal work for illegal migrants who have already arrived in the UK by other means. Although many of the Eastern European illegal migrants are now permitted to work in the UK following EU enlargement, criminal groups continue to facilitate illegal workers from the Former Soviet Union. Some employers are aware that they are employing illegal workers. While most of these workers are willing accomplices, a minority is trafficked for use as bonded labour. In many cases, whether individuals have been smuggled or trafficked, illegal migrants are required to work to pay off the debts incurred on their journey.

4.41 Illegal gangmaster activity has spread from traditional geographical 'hotspots' such as East Anglia, Kent and Hampshire to most parts of the UK, with illegal migrants coming from many countries. Criminal groups are adept at exploiting the demand for labour throughout the UK and in many employment sectors, from traditional agriculture/horticulture to light manufacturing and the service sector. Organised criminals who supply illegal workers are able to make considerable profits from both employers and illegal workers. Illegal workers are paid significantly lower wages than their legitimate counterparts and are subject to illegal and unsafe working and living conditions.

Links between organised immigration crime and other forms of criminality

4.42 Many serious organised criminals involved in immigration crime are also involved in other serious organised criminal activities, for example Class A drugs trafficking, excise and VAT fraud. This is to be expected, as the capabilities needed to facilitate illegal immigration into the UK are similar to those required to import any illicit commodity. However, it appears that illegal migrants and other commodities are not regularly smuggled together, although this has occurred in some cases. The need to acquire fraudulent or false documentation in order to facilitate immigration crime has obvious links to more general counterfeiting. Meanwhile, it also opens up opportunities for other crimes, such as bank, benefit and revenue fraud.

4.43 There is evidence of illegal migrants being used by serious organised criminals to facilitate other serious organised crimes, for example as drugs couriers, particularly smuggling cocaine from West Africa and the Caribbean. Some are used in the organised theft of vehicles. Serious organised criminals also make use of illegal migrants to commit various types of organised low level crime, including aggressive begging and pickpocketing, particularly in large cities such as London. Chequebooks, credit cards and other financial instruments that are stolen in this way, are then recycled and used for further criminal activity.



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The scale and nature of fraud

5.1 Fraud covers a wide variety of criminal activities, which for the most part look to exploit weaknesses in systems and controls in order to make money. Because a large amount of fraud goes unreported, it is difficult to estimate the overall scale. Businesses, for example, are often reluctant to report frauds because of concerns about reputation and the impact on customer confidence and share values. With these caveats, the most recent comprehensive study by the National Economic Record Associates (NERA), conducted in 2002, has estimated the annual economic cost of fraud to the UK at £14 billion.

Serious organised criminal involvement in fraud

5.2 Frauds vary considerably in sophistication. Some demand financial or legal expertise, while others are simple to execute. Technical complexity is not a reliable guide to the money to be made from a particular fraud, nor to the involvement of serious organised criminals. Many significant frauds are the work of individuals operating alone or in small groups who do not fit the generally accepted profile of serious organised criminals. Logistically complex frauds that require a criminal infrastructure in order to work effectively, for example excise frauds that involve smuggling goods into the UK, do attract serious organised criminals, since they have the necessary capabilities, established networks and contacts. Criminals have also embraced hi-tech crime techniques to commit fraud. Identity fraud meanwhile, is a significant problem in its own right, as well as underpinning many other serious organised criminal activities.

5.3 Some 'hands-on' serious organised criminals become involved in white-collar frauds, for example frauds involving the misuse of trusts or the manipulation of company accounts or shares. They may be introduced to the possibility of such frauds through the contacts they form with businessmen and professionals in order to launder their criminal proceeds, or they may identify them themselves while researching and conducting other criminal activities. Involvement in white-collar frauds can

indicate that a serious organised criminal group is maturing and attempting to move to more outwardly legitimate activity. However, serious organised criminals involved in trafficking goods or armed robbery have used white-collar frauds both to make money and as a way of laundering money made from these other crimes, which they have continued to commit.

Excise fraud

Tobacco

5.4 The smuggling of cigarettes and hand-rolled tobacco is a worldwide problem. In the UK, responsibility for tackling tobacco smuggling in the UK is assigned to HM Customs and Excise, which assesses that cigarette smuggling in 2003-04 was responsible for £1.9 billion in lost revenue from tax and duty, while a further £750 million was lost as a result of smuggled hand-rolled tobacco. In 2003-04, smuggled cigarettes accounted for 15% of the UK market. Tobacco smuggled into the UK comes from diverse sources, including cigarettes in large volumes from China and other countries in the Far East, the Balkans, the Baltic States, the Middle East and Africa. Belgium and Luxembourg remain the primary source of hand-rolled tobacco.

5.5 Tobacco smugglers range from small-time opportunist smugglers buying quantities of cigarettes in Europe as if for their own use (with the intention of then selling them to friends and family once back in the UK) to serious organised criminal gangs smuggling millions of cigarettes at a time. The vast majority of illicit cigarettes are smuggled in freight by serious organised criminals.

5.6 Since launching its Tackling Tobacco strategy in March 2000, HM Customs and Excise has disrupted over 250 serious organised criminal groups involved in tobacco smuggling and seized more than 9 billion cigarettes, including 1.8 billion in 2003-2004. Of the latter, 1 billion were seized in the UK at ports and inland and 0.8 billion en route in joint operations with overseas agencies.

HM Customs and Excise's work with the major tobacco manufacturers has resulted in a reduction in availability of genuine UK brand cigarettes to smugglers; and has led to a significant increase in counterfeit cigarettes being smuggled into the UK. In 2003-2004, 54% of bulk commercial cigarette seizures by HM Customs and Excise were counterfeit, compared with 41% in 2002-2003 and 15% in 2001-2002. Historically, counterfeit cigarettes have originated primarily from China, Malaysia, Singapore, Vietnam, Russia and Eastern Europe. There is also evidence of cigarette counterfeiting within the UK.

5.7 HM Customs and Excise assesses that the high profits and relatively low risks and penalties, compared with other forms of serious organised crime, have encouraged some criminals to move away from drugs trafficking and switch to tobacco smuggling, and others to diversify into tobacco and other forms of excise evasion. For a significant number, tobacco smuggling is a core activity. Serious organised criminals have also become more sophisticated over the past decade, often operating in large gangs, and some have used violence, including the use of firearms, to protect their interests.

Spirits

5.8 Frauds involving spirits cost a total of £250 million in lost revenue during 2002-2003, representing some 7% of the UK market. Losses are mainly from the diversion of duty-suspended products transported as freight. Further revenue is lost through beer and wine frauds, but evidence suggests that the sums involved are smaller.

5.9 Diversion fraud involves the movement of duty-suspended products between bonded warehouses in the UK and other European Union member states. The goods never arrive at the stated destination. Instead, the load is diverted onto the illicit UK market without payment of duty. Unlike smuggling, concealment is unnecessary. If challenged by HM Customs and Excise prior to the diversion, the criminals can show forged or substituted supporting documents that suggest the load is legitimate. Loads tend to consist of premium and middle market brands of spirits rather than 'non-proprietary' brands, since the former are more profitable. The fact that the excise duty payable on a load of spirits can be as much as £100,000 gives some indication of the potential profit to be made. HM Customs and Excise assesses that most illicit alcohol is sold through independent licensed retail outlets, such as off-licences, pubs and clubs, at close to normal duty-paid prices. This leads consumers to believe they are buying legitimate products, and to the criminals making greater profits.

5.10 Many serious organised criminals engaged in large-scale alcohol diversion fraud are also involved in tobacco smuggling. The easy interchange between cigarettes and alcohol not only highlights criminal opportunism, but also the potential flexibility and responsiveness of serious organised criminals when faced with targeted enforcement measures. Where successes have been recorded against diversion frauds from Belgium, France and the Netherlands, for example, the organised criminals have had the flexibility to source supplies from elsewhere.

5.11 The HM Customs and Excise strategy for tackling alcohol diversion includes new regulatory measures to reduce opportunities for fraud; notably the introduction of duty stamps for spirits from 2006, together with enhanced, risk-based operational activity, supported by a new national alcohol unit, close working with the alcohol industry, and penalties for hauliers who allow their vehicles to be used to facilitate fraud.

Fuel

5.12 The nature of oils fraud in the UK differs significantly between Great Britain and Northern Ireland. In Northern Ireland, HM Customs and Excise estimates that in 2003-2004 approximately £350 million in revenue was lost from use of non-UK duty paid petrol (£120 million) and diesel (£230 million). A substantial proportion of the losses in Northern Ireland come from legitimate cross border fuel shopping, however there is also a large element of fraud, resulting from the smuggling of fuel from the Republic of Ireland and the misuse, 'laundering' and mixing of rebated and duty free fuels. Kerosene and gas oils (red diesel) are duty-privileged fuels. Red diesel, so-called as it is artificially coloured red to aid the detection of misuse, carries a duty rebate for use in off-road vehicles and machinery, making it substantially cheaper than ultra-low sulphur diesel. Kerosene is fully rebated when used for heating purposes. Duty-privileged fuels can either be put into road vehicles neat or mixed with road fuel as an extender. Red diesel can also be 'laundered', or treated, with strong acids to remove the colouring agent and then sold on in the guise of a non-rebated road fuel. The resulting fuel contains strong acids and severely damages the engines of unsuspecting motorists.

5.13 Oils fraud is a profitable criminal enterprise in Northern Ireland, with the proceeds often used to fund other forms of serious crime. Serious organised criminals in Northern Ireland are active in smuggling and laundering both UK red diesel and the equivalent 'green diesel' from the Irish Republic. These criminals may also

be involved in the smuggling of duty-paid petrol and diesel from the Republic of Ireland. Some criminal groups are capable of generating tens of thousands of pounds in a day from their activities, and possibly millions of pounds over the course of a year. Since April 2000, HM Customs and Excise has increased the number of staff engaged in tackling this form of fraud in Northern Ireland. As a result, since 2000, over 3,400 vehicles have been seized in Northern Ireland, 59 laundering plants dismantled, and 12 major gangs behind oils fraud were dismantled. In 2003-2004, 1.5 million litres of illicit fuel were seized and 13 laundering plants broken up.

5.14 In England, Wales and Scotland, the vast majority of oils fraud involves the misuse of duty-privileged fuels supplied for non-road use. The main area of concern is with diesel. A further threat relates to misuse of duty-free oils, known as tied oils. These oils are used in certain industrial processes, for example as lubricating oils. They are unmarked and can be misused in much the same way as red diesel. Tied oils frauds are large-scale and complex, indicating the involvement of serious organised criminals.

5.15 In his 2002 budget, the Chancellor of the Exchequer announced a new oils strategy aimed at reducing fraud in England, Scotland and Wales to no more than 2% of the market by March 2006. This strategy combines a new authorisation and assurance scheme for the distributors of red diesel and kerosene with a significantly enhanced law enforcement effort. Between 2000 and 2003, the illicit share of the diesel market has been reduced from 8% to 6%, reducing the annual revenue loss from £1 billion to £850 million. In the first two years of the oils strategy almost 8,000 vehicles were detected running on illegal fuel, revenue assessments for more than £20 million were raised, 43 laundering plants were disrupted, and 24 gangs behind oils frauds dismantled.

VAT fraud

5.16 Value Added Tax fraud can produce large profits, and carries relatively low penalties compared with other serious crimes. Therefore, it is likely to be attractive to serious organised criminals. VAT fraud can be broadly divided into three categories: registered evader fraud, shadow economy fraud, and thief fraud.

Registered evader and shadow economy fraud

5.17 Registered evader fraud occurs when VAT-registered businesses fail to declare their true liability, for example by not recording and declaring taxable transactions. Shadow economy fraud involves genuine businesses with

turnovers above the VAT threshold (set at £58,000 for 2004) that deliberately fail to register for VAT. Tax evasion can be found in any business sector, but is often seen in cash-based businesses, such as those found within the leisure or construction industries, restaurants, pubs, taxis, and repair and maintenance services. Registered evader fraud does not normally attract serious organised criminals. The main exception being those involved in supplying labour, predominantly in the agricultural, construction and contract cleaning sectors, who supply large gangs of unskilled workers, often not legally entitled to remain or work in the UK. These fraudsters create deliberately complex business structures, designed to evade regulatory controls, such as paying tax. HM Customs and Excise, Inland Revenue and the Department of Work and Pensions are working jointly to tackle such frauds, and, in April 2004, HM Customs and Excise launched a national campaign to reduce fraud arising from the illegal activities of labour suppliers.

Thief fraud

5.18 Serious organised criminals feature most prominently in the area of thief fraud. Thief fraud involves setting up bogus company registrations in order to steal VAT. There are three main types of thief fraud: missing trader intra-Community fraud; repayment fraud; and third country export diversion fraud. The last of these involves the diversion of goods from export to home use without charging VAT. Basic consumer goods and luxury items have been used in such frauds. Repayment fraud can occur with goods or services. It involves the recovery of VAT on wholly fictitious or exaggerated transactions by a bogus business. More sophisticated criminals engage in multiple repayment fraud, disguising their activities and increasing their profits by setting up numerous bogus registrations, each of which reclaims small amounts of VAT. Advanced technology has enabled criminals to create increasingly authentic-looking counterfeit sales invoices to support these frauds.

5.19 Missing trader intra-Community (MTIC) fraud is a systematic criminal attack on the VAT system, and has been detected in many EU member states. It involves obtaining a VAT registration to purchase goods from a VAT-free source elsewhere in the EU, selling the goods at a VAT-inclusive purchase price, and disappearing without paying the VAT. The simplest form of MTIC fraud is commonly known as 'acquisition fraud' often involving items with rapid turnovers such as soft drinks and confectionery that are transported in high volumes, and sold quickly onto the UK market. A development of this fraud, known as 'carousel fraud', involves the continuous movement of goods between collaborating traders in

different EU member states, resulting in multiple tax losses. To facilitate this, a number of companies are inserted in the supply chain, increasing the distance between the UK missing trader and UK dispatcher, making detection difficult. Goods that are small in volume, easily traded and high value, such as mobile telephones and computer components, are particularly attractive to carousel fraudsters.

5.20 MTIC fraud is HM Customs and Excise's highest VAT fraud priority. The rapid increase of MTIC frauds, which grew at between £450 million to £750 million a year in the late 1990s, has now been reversed as a result of HM Customs and Excise's activities, and fell 25% in 2003-2004 to between £1.06 and £1.73 million. A strategy to combat the fraud was initiated in September 2000, and aims to minimise VAT loss and maximise recovery by intervening at an early stage. In 2003-2004, over 900 suspect registrations were refused and around 500 existing missing trader registrations were identified and cancelled. Prosecutions were concluded against 22 individuals involved in missing trader fraud, resulting in prison sentences totalling almost 65 years.

Inland Revenue fraud

5.21 The Special Compliance Office (SCO) is the arm of the Inland Revenue that conducts criminal prosecutions against fraudsters. SCO tackles the majority of tax fraud using civil measures for the recovery of tax interest and penalties. Companies and individuals perpetrate most of this type of fraud. Fraud by serious organised criminals forms only a small percentage of the total volume of fraud against the Inland Revenue. However, it is likely that a large proportion of serious organised criminals commit tax offences by failing to declare their true income. As a result, taxing a suspected criminal's income or financial gain is one of the tactical options for the Assets Recovery Agency, which was established in 2003.

5.22 Inland Revenue offences are also committed by serious organised criminals who supply illegal labour to various sectors of the economy. Despite a change in the Inland Revenue's construction industry scheme, tax-free payment of wages in cash still takes place. The workers avoid paying both income tax and National Insurance. The employer benefits by employing labour relatively cheaply and by avoiding its share of National Insurance. Sometimes, organised suppliers of labour will provide workers on a sub-contractual basis, often knowingly using illegal labour. Additionally, the layering of companies takes place in order to disguise the identity of the true employer.

Benefit fraud

5.23 There are many types of benefit fraud. The Department for Work and Pensions (DWP) estimates that up to £2 billion is lost due to benefit fraud each year. The largest proportion of the losses relates to Income Support. In 2002-2003, Income Support fraud accounted for a loss of £610 million, or 5.8% of the total paid. Jobseeker's Allowance is the second largest type of benefit fraud. In 2002-2003, the loss to fraud was £230 million, which represented 9% of applications. Much of the loss is due to small-scale and opportunist offences, for example where recipients do not inform the DWP that they are living together as man and wife, or do not declare all sources of income or levels of savings. However, more sophisticated offences are committed by serious organised criminals.

5.24 The National Investigation Service in DWP assesses that the largest organised frauds against the benefits system involve the theft of instruments of payment (IOPs), such as girocheques and order books, while they are in the postal system. Stolen IOPs are often altered to show higher values. The date on IOPs may also be changed enabling them to be cashed immediately. Girocheques, in particular, can be paid into third-party bank accounts and subsequently transferred into foreign and offshore bank accounts before the genuine benefit claimant reports their loss. The annual value of order book fraud is estimated at £80 million. Serious organised criminals have been known to corrupt staff in post offices to accept fraudulent IOPs and even to place people into sorting offices and other parts of the postal system specifically to steal IOPs and other items of value. Criminals also exploit knowledge of procedures for transporting and distributing IOPs (particularly order books) through the Royal Mail in order to plan thefts. They also counterfeit IOPs: the number of identified counterfeit girocheques has been around 1.5 million a year for the last two years.

5.25 There is continuing organised use of false and stolen identities to defraud the UK benefit system, although the scale of this activity remains unclear. Stolen identities are used for benefit claims in the UK and in some cases to facilitate concurrent benefit claims across a number of EU states. Identities may be obtained by corrupt individuals, both in the public and private sectors, who have access to personal details. Alternatively, criminals are known to gather information from public records, which may then be used to purchase birth certificates of deceased infants as the basis for creating false identities.

5.26 Fraudulent foreign identity documents are presented for benefit purposes by a wide range of people, including those arriving from the Baltic Republics, Balkan States and the Middle East. Counterfeit documents frequently display features which show that the same criminals have created them, indicating some level of organisation. Criminals from both Britain and abroad have also used false identities to enable a wide range of frauds, illegal working and illegal immigration.

5.27 From April 2003, IOPs are being gradually phased out and replaced with direct payment into bank accounts, starting with Child Benefit and War Pensions, and gradually covering all other benefits. The DWP expects this to reduce significantly the instances of IOP fraud. A range of other measures has been introduced to tackle fraudulent applications for benefits, including requiring applicants to produce more evidence to support their claim, and cross-checks with Inland Revenue records. In addition, the DWP is working with Royal Mail to implement a 'do not redirect' scheme to prevent the use of false addresses by bogus claimants.

Private sector frauds

5.28 There are various types of private sector fraud. Some 'scams' and confidence tricks are targeted directly at members of the public, while other private sector frauds are targeted at companies or institutions. The amounts involved in private sector frauds can be considerable, and serious organised criminals are extensively, though not exclusively, involved. The frauds include high level manipulation of share prices and high-yield investment confidence tricks, such as pyramid schemes, faked instruments of payment, timeshare scams, and long firm frauds, where a company is set up, trades legitimately to build up a credit history with a firm, and then places a large order and disappears without paying. In practice, private sector frauds are limited only by the ingenuity of the fraudsters, and the lack of vigilance, or the gullibility or greed of the victims. However, improved public and corporate awareness of the nature of such threats is an important target-hardening measure.

Corporate fraud

5.29 Some high-value frauds are conducted by company owners or senior employees, who fail to differentiate between company funds and their own, borrowing the former to finance lavish lifestyles or to speculate, and then finding themselves unable to replace the money. In some instances, the motivation may be more about ego and professional reputation than financial gain. There

have been cases where the declared profits of companies have been inflated in order to keep a company afloat, or to maintain or increase share prices, thus staving off shareholder discontent or safeguarding or increasing the value of a director's share options. Corporate frauds are more easily perpetrated if senior staff, non-executive directors and auditors are weak, incompetent or complicit. The consequences of such frauds can be severe and wide-ranging. They may include financial losses for shareholders, investors, and suppliers, higher costs for customers, direct and indirect job losses. They may even affect confidence in the integrity of the UK's financial markets, as in the case of the collapse of BCCI and of the Mirror Group pension fund.

Employee fraud

5.30 Many private sector frauds are facilitated by insider knowledge or other assistance provided by a corrupt employee. CIFAS, the UK's Fraud Prevention Service, reports that 60% of employee fraud involves collusion with people outside the company. It is becoming increasingly evident that serious organised criminals set out to infiltrate target companies, looking to place individuals in positions where they have access to money, goods, or information that can be turned to financial gain, including information about identities that can either be used to defraud the individuals in question or to support other forms of identity fraud, such as the creation of bogus documents.

Investment fraud

5.31 Investment fraud embraces a number of methods used by serious organised criminals to defraud investors, typically involving non-existent companies or fictitious commodities. The value of these frauds can be very large. A well-planned investment fraud might generate millions. For example, one bogus investment scheme with bases in the UK and USA generated \$16 million. The organisers were sentenced to seven and a half years imprisonment in 2002.

5.32 The methods criminals use to conduct investment fraud vary. Criminals may act as individuals under the umbrella of a genuine investment company, or through wholly fictitious and fraudulent investment brokers. These 'brokers' may promise generous returns on money invested in the scheme, and initial investors may be paid dividends out of the money received from later investors, prolonging the life of the fraud. Criminals may employ elaborate deception methods. For example, meetings may be held in good hotels, fine restaurants, or even in offices located within bank premises. The criminals are well-

dressed, and carry one or two mobile phones which are constantly ringing during a meeting. Some fraudsters operate only via telephone or e-mail and discourage or continually cancel pre-arranged meetings. Victims are often encouraged to join by other 'investors', who turn out to be in league with the fraudsters.

Insurance fraud

5.33 Insurance fraud is widespread and the amounts involved vary widely. There is a certain ambivalence in the public attitude towards insurance fraud. For some, it is a victimless crime and in the same category as intellectual property crime (counterfeiting of goods). People may reason that insurance companies are wealthy and can bear fraudulent claims, which some may feel they have 'paid for' by virtue of their insurance premiums. Such claimants tend to be opportunistic, perhaps inflating a claim by exaggerating the loss, damage or injury suffered. However, insurance frauds also attract serious organised criminals, who plan their frauds professionally based on a sound understanding of the industry and how it operates. In the insurance sector, the Association of British Insurers (ABI) has estimated that the total amount of fraud suffered by insurers on general personal lines (mainly motor and household insurance) is over £1 billion per year, and that around 10% of the total value of personal lines motor insurance and 15% of the total value of household claims are fraudulent.

Boiler room frauds

5.34 A 'boiler room' fraud involves an organisation based normally overseas often giving the misleading impression that it operates in the UK and attempting to get investors to buy shares that are often worthless. The sales techniques used are often very aggressive. Having bought the shares, the investor tends to find that the share certificates are hard to obtain and the proceeds from any sale of the shares are not immediately forthcoming. The number of such firms involved in boiler room fraud is increasing. In 2002, the number of firms listed on the Financial Services Authority's (FSA) website was 11. By December 2004, the list consisted of 135 firms.

5.35 Customers face considerable risks when dealing with financial services companies that appear to be based in the UK but are actually based abroad and are unauthorised. In these circumstances, customers do not have access to complaints and compensation schemes if there is a problem or if the company collapses. In recent years, there has been a surge in the number of enquiries and complaints that the FSA has received about

unauthorised overseas companies targeting UK-based investors.

Long firm fraud and fraudulent trading

5.36 'Long firm' fraud involves fraudsters creating, or more commonly taking over, a business and placing orders with suppliers to build up a line of credit. Subsequent orders are gradually increased in size. The fraudsters then place a very large order for goods, which are sold immediately, and then vanish without paying the supplier for the goods. A well-planned operation can generate hundreds of thousands of pounds and many serious organised criminals use this type of fraud to raise capital for other serious criminal activities. Seasonal shops are popular with long-firm fraudsters, since they have a high turnover of goods in a short period. Shops specialising in cheap decorations and cards that appear in many high streets towards Christmas and close down immediately afterwards are a good example.

5.37 A similar method is to steal a reputable company's identity, have goods delivered on credit from mainly small and medium-sized suppliers and then vanish with the goods, selling them off quickly. This method can include printing what appears to be company headed notepaper to use in placing the orders with suppliers. Fraudsters often assume the name of a large international company when placing orders, since suppliers are more likely to fulfil these orders without requiring payment in advance or running credit checks.

419 fraud

5.38 West African 419 fraudsters target individuals and organisations offering significant money-making opportunities. Millions of unsolicited letters and emails are sent out annually, enticing victims to offer their bank accounts as the destination for large sums of money (often openly stated as being illicitly gained) in return for a percentage of the funds. Those who respond positively are requested to provide advances in order to overcome various bureaucratic hurdles and free up the promised returns on investment. Victims are often asked to travel to other countries to collect the money, where they unknowingly face further risk from fraud, possible intimidation and even kidnap. In 2002, losses of more than £8 million were reported to NCIS, with further losses reported directly to UK police forces. However, the true figure may be much higher, since some victims may be reluctant to reveal their gullibility, greed and willingness to collude with the fraudsters.

5.39 419 fraudsters are taking advantage of the latest technology with a strong shift towards email. Letters are still used, the trend being towards the use of post-paid impressions from countries other than Nigeria. However, the Internet provides a degree of anonymity and the facility to send blanket emails to multiple potential victims. Predictably, the number of reported email approaches has risen considerably. emails and fax documents are sent from web-based accounts, which are only used for a short period of time before being abandoned. Advanced fee frauds claiming that the intended victim has won large sums of money on various international lotteries are now often used as inducements in unsolicited 419 emails along with the more established stories of potential shares in large unclaimed inheritances.

Internet banking fraud

5.40 Hi-tech crime is also used to support fraud. Exploiting the growth in Internet banking, for example, fraudsters have adapted a number of techniques to defraud victims, such as creating false Internet banking sites. The fraudsters send an email to their victims, sometimes as personal correspondence, or disguised as 'spam' purporting to be from their bank and asking them to click on a link and confirm their account and PIN numbers, a technique known as 'phishing'. False websites usually hijack the identities of the major banks and are designed to look like the website of the real bank. When the victim provides the account details, the fraudsters use them to transfer money into other accounts. During 2004, most of the high street banks have been targeted in this way.

Payment card fraud

5.41 Overall losses to payment card fraud in the UK increased by 18% in the year to June 2004, largely due to a 49% increase in losses through non receipt of cards sent through the post and a 48% increase in losses attributable to identity theft. Similarly, losses from fraud committed where the cardholder was not present, usually over the telephone and via the Internet using card details taken from discarded receipts, increased by 29%, and from lost or stolen cards by 11%. In contrast, losses due to counterfeiting declined by 2% over the same period. Despite these increases, the level of fraud as a percentage of turnover remains small, with losses borne, at least in the first instance, by retailers and banks, although costs may subsequently be passed on to customers in the form of higher prices for goods and services.

5.42 Payment card crimes have become technologically more sophisticated. For example, criminals attacking automated teller machines (ATM) are progressing from distraction and card capture techniques to the use of sophisticated surveillance devices (such as pinhole cameras) and card skimmers. ATM crime is increasing rapidly, with losses from the first six months of 2004 totalling £37 million. This figure is up 118% from the same period in 2003. Current losses are reported to have increased to £6-7 million per month. Some criminals are involved in the bulk stealing of card details from databases ('data streaming') and the use of the Internet and email to obtain card details ('phishing'). A significant proportion of serious organised crime groups in the UK are known to be involved in payment card crime, which is a lucrative sideline for groups primarily interested in drugs trafficking and organised illegal immigration, and for whom the cards may be one of a range of false identity documents used to facilitate their criminal business, or sold as part of an identity package. Meanwhile, lower level criminals are often employed by serious and organised criminals to carry out the riskier tasks associated with payment card crime, such as copying ('skimming') card details or making purchases.

Cheque fraud

5.43 The British Bankers Association (BBA) report an increase of 50% in the number of cases involving cheque fraud in the first six months of 2004 compared to the same period in 2003 with theft from the post a growing problem. The losses total £24.3 million for that six month period.



“ATM crime is increasing rapidly, with losses from the first six months of 2004 totalling £37 million”.



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The Proceeds of Crime Act and related money laundering counter measures

6.1 Most serious organised criminal activity is concerned, directly or indirectly, with making money, and for most serious organised criminals the ability to legitimise their criminal profits quickly is of paramount importance. Tackling money laundering effectively is therefore fundamental to combating serious organised crime. The aim is to ensure that criminals do not benefit materially from their crimes and do not have the means to invest in further criminal activity.

6.2 Since 2002, when the Proceeds of Crime Act (PoCA) was passed, considerable progress has been made. A new multi-agency initiative, the Concerted Inter-agency Criminal Finances Action Group (CICFA), chaired by HM Customs and Excise, was launched in 2002. CICFA aims to improve the UK's response to the financial aspects of crime, particularly the recovery of criminal assets and the detection and prevention of money laundering. It looks inter alia to capitalise on PoCA and the creation of an Assets Recovery Agency (ARA), and has produced a plan identifying lead agencies for a number of money laundering initiatives.

6.3 The ARA was created and came into operation in February 2003. Its functions include civil recovery, complex criminal confiscation, the production of a national assets seizure strategy and the provision of a Centre of Excellence for financial investigators. In Scotland, the Scottish Executive Civil Recovery Unit has been carrying out an equivalent function since December 2002. Regional Asset Recovery Teams have also been established. The shortage of trained financial investigators is still a hindrance to investigations. However, UK law enforcement is attempting to increase the level of resources devoted to proactive money laundering investigations, and the Centre of Excellence is assisting in training, awareness programmes and raising the profile of financial investigations. By the end of 2004, 178 cases had been referred to ARA, of which 98 had been

adopted, leading to £4.5 million being restrained and a further £5.26 million made subject to orders and assessments.

6.4 PoCA has reinforced the disclosure regime for suspicious financial activity, making explicit the requirement to disclose knowledge or suspicion of money laundering for any crime. An objective test has been introduced, strengthening the failure to report offences to include instances where an institution should have had reasonable grounds to know or suspect that an individual was involved in money laundering. The number of Suspicious Activity Report (SARs) received by NCIS has continued to rise as a result of PoCA, and of the introduction of the Money Laundering Regulations 2003, which included the extension of the regulated sector. Almost 100,000 SARs were received in 2003, and this figure rose to over 150,000 in 2004. The number of requests for consent to proceed with a proposed transaction has also been increasing since this PoCA provision was introduced in February 2003. By the end of 2004, 10-15% of SARs received were requests for consent, 85% of which were from the legal profession. While less than 5% of these are refused by law enforcement, requests for consent have led or contributed to a number of seizures under PoCA.

The importance of cash to serious organised crime

6.5 Cash remains the mainstay of much serious organised criminal activity. It has the obvious advantage that it leaves no audit trail and is the most reliable form of payment, as well as the most flexible. However, those in receipt of large sums of cash have the problem of how to dispose of it. For criminals involved in supplying drugs and other commodities, some cash will be passed on to those at the next level in the supply chain to pay for the next consignment. The extent to which these trades operate on cash in advance, on delivery or on credit is unclear, but failure to settle drugs debts is one of the major causes of drug-related violence. Under PoCA, the powers to seize cash have been extended, and now cover cash discovered 'inland' as well as cash discovered as it is being brought into or taken out of the UK. In March 2004, the minimum amount of cash that can be seized was reduced from £10,000 to £5,000.

6.6 The amount of criminal cash seized en-route out of the UK has risen year on year since 2001, but new provisions under PoCA led to significant increases in the amounts seized in 2003. Since the introduction of PoCA, HM Customs and Excise has seized over £54 million. Almost £16 million of this has been returned on proof of legitimate ownership. Of the remaining £38 million, £8 million has been successfully forfeited to HM Customs and Excise. If law enforcement is increasingly successful in targeting cash, it is possible that high value goods such as gems, precious metals, gold bullion or antiques may be used more extensively to transport criminal proceeds out of the UK, hence the regulation of High Value Dealers under PoCA with effect from March 2003.



“Cash remains the mainstay of much serious organised criminal activity.”

Criminal use of money transmission agents

6.7 The use of Money Transmission Agents (MTA) by serious organised criminals to launder money is well-established. Historically, MTAs have been favoured by serious organised criminal groups from South America and the Caribbean involved in the importation of Class A drugs, notably cocaine (including cocaine intended for conversion into crack cocaine). Recent intelligence has pointed to the use of MTAs to remit criminal proceeds to other foreign destinations such as the Gulf States, Pakistan, Iran and Turkey.

6.8 A number of indicators that an MTA is being used to launder money have been identified. These include regular cash deposits into personal and business accounts linked to the MTAs from unknown foreign nationals at bank branches across the UK; frequent cash deposits into MTA accounts, followed by unnecessary transfers of funds both into other personal and business accounts connected to the MTA and into the personal and business accounts of other MTAs; personal and business accounts which have annual credit and debit turnovers far exceeding the account holders' financial profiles and declared annual incomes; and transactions for amounts far in excess of what would be expected from the salaries of those involved.

6.9 SARs from money service businesses, not all of which operate as MTAs, almost doubled in the year following the assumption of regulatory powers by HM Customs and Excise in June 2002. They rose again by a third in the year to May 2004.

Alternative remittance systems

6.10 Alternative remittance systems (ARS), sometimes referred to as 'underground banking', are a form of MTA. Rather than using the conventional banking system to remit funds, ARS rely on an international network of trusted contacts, who act like private bankers, accepting deposits and making payments. Records are usually kept by ARS of all transactions, but they may be in dialect, shorthand, or a language unfamiliar to UK law enforcement, and therefore difficult to interpret. For obvious reasons, ARS are attractive to serious organised criminals and are used, particularly by those with links to South Asia where there is a long history of ARS. There is also international concern that ARS may be used in terrorist financing.

6.11 It is estimated that there are more than one thousand ARS bankers in the UK, mostly within Asian communities, where the majority of their customers are ordinary individuals, not criminals. Although all ARS companies in the UK require a certificate and unique registration number from HM Customs and Excise to operate, and are subject to anti-money-laundering compliance visits, many choose for cultural reasons not to register. Equally, many may be unaware of this requirement to register altogether.

Laundering money through legitimate businesses

6.12 Serious organised criminals frequently launder cash through legitimate and quasi-legitimate businesses, typically those with a high cash turnover. The businesses are often owned or part-owned by the criminals or by close associates, although legitimate businessmen may also be duped into providing the means for laundering criminal proceeds. The same businesses may support money-making criminality, for example providing the means to transport drugs or the venue where they are sold. Once cash has been placed in the financial system, serious organised criminals use a variety of methods to confuse the audit trail, often by passing transactions through several stages, known as 'layering', each one making it more difficult to trace the true origin of the funds. At its simplest, cash may be run through legitimate or quasi-legitimate businesses in the UK and paid into a UK bank as business income.

The use of professionals as specialist money launderers

6.13 Intelligence points to a growing trend for specialist money launderers, who use their expertise and apparent respectability to launder criminal proceeds. Criminals target professionals, such as solicitors or accountants, who have easy access to the financial sector and who are able to integrate 'dirty' money into the legitimate financial system. These individuals may be witting or unwitting accomplices. In some cases, they may be coerced.

6.14 Property purchases, cash rich businesses and front companies are the most frequently identified methods for laundering money in the UK. Consequently, legal professionals (conveyancing) and accountants (auditing, book-keeping) have a pivotal role in combating money laundering. Since their inclusion in the Money Laundering Regulations 2003, the number of SARs from the legal profession has increased significantly, but those from accountants have not and comprise only 1.5% of the total. Moreover, where banks have reported suspicious transactions, turnover, or profitability from companies for which they provide services, the accountancy firm responsible for managing the company's accounts and audit in most cases has not done so.

6.15 New measures aimed at ensuring that serious organised criminals do not profit from their crimes will prompt them to look for new and better ways to protect their criminal proceeds and assets against seizure and confiscation. Some, especially those that have ties to countries where the threat of confiscation is lower, may try to move assets overseas. Others may look to create more apparently legitimate sources of income and more complex audit trails to explain their wealth, increasing the likely use of financial and legal professionals.

The risks to banks and financial institutions

6.16 Serious organised criminals seek to exploit banks and other deposit takers, particularly at the placement stage of money laundering. A number of the larger UK banks have begun to look at the possibility of identifying money launderers amongst their customers using profiling techniques. With most banks now offering on-line banking facilities, which serious organised criminals have targeted with various money-making frauds, it must be assumed that Internet banking is now being exploited for money laundering purposes.

6.17 There is concern within law enforcement that private banking is vulnerable to money laundering. Private banking offers wealthy clients a number of sophisticated financial mechanisms and corporate structures to maximise their capital earnings and reduce their tax obligations, coupled with a high level of personal service and professional discretion. These services are attractive to criminals wishing to launder significant amounts of money. The 'Know Your Customer' (KYC) measures in place in many private banks are generally better than the minimum standards applied within the financial sector. However, these measures are not foolproof, and if a criminal can pass the initial KYC checks his money laundering will be all the more difficult to identify and disrupt unless the bank is also involved in account monitoring.

6.18 The size and scope of the financial markets in the UK, especially the City of London, make them attractive to criminals from the UK and overseas looking to launder and invest their criminal proceeds. The reputation of the London markets as clean and well-policed is also an attraction, as it adds 'legitimacy' to laundered funds or transactions which are transferred between UK institutions or remitted overseas. Only authorised and regulated firms and individuals, such as stockbrokers or certain independent financial advisers, can invest directly in the UK financial markets or securities sector. Current industry practice is that these firms and individuals do not accept cash. Therefore, this sector is more at risk from criminal proceeds that have already been placed in the financial system through banks or other institutions.

6.19 It is likely that money launderers exploit the UK's life and general insurance markets, although there is a current lack of law enforcement cases in this area beyond fraud investigations. This risk is inherent in an industry whose holdings account for 20% of investment in the London stock market. It is exacerbated by the variety and complexity of the products on offer, the widespread use of third party intermediaries/brokers to sell these products, and the legitimacy an insurer's name adds to otherwise suspicious activities. Among the methods criminals can use to launder money through the insurance industry are the early redemption of long term policies for 'clean' pay-outs; the private trading of endowment policies, which could be vulnerable to the placement of cash; and the misuse of policies by conducting transactions usually reserved for current accounts, such as transfers of redemptions or refunds to third parties. These methods have been mainly identified through risk analysis and improved communication within the industry.



“There is concern within law enforcement that private banking is vulnerable to money laundering.”

Gaming as a means of money laundering

6.20 Suspicions in respect of criminal money laundering through gaming fall into two broad categories. First those relating to criminal lifestyle, where gaming is a pastime that is funded by an individual's criminal activities. In such instances, proof that this is the case may offer the opportunity to confiscate criminal assets. Secondly, those instances where gaming is being used for the purposes of tax evasion or directly to launder criminal proceeds, typically attempts to exchange large sums of cash for the equivalent in altered format, for example, in the form of £50 notes with casino bands or a casino cheque. Other pointers to the use of casinos for money laundering by criminals include the use of several variants of a name by the same person; changes in a person's gaming profile; the exchange of gaming chips or plaques between people before they are cashed out; the unexplained movement of funds from one casino outlet to another; and the over-crediting of automated gaming machines beyond a person's credit requirements, followed by cashing out from the machine.

6.21 Casinos are regulated under the Gaming Board of Great Britain, and since March 2004 have adhered to the Money Laundering Regulations 2003. Recently, a growing trend within the gaming industry has been the recruitment of ex-law enforcement officers as Money Laundering Reporting Officers (MLROs), since they bring with them both knowledge and contacts.



The scale of the threat

7.1 There is a lack of consistent data and limited intelligence about criminal possession and use of firearms in the UK, and therefore the scale of the threat is not clear. The wide disparity in previous estimates of the number of illegally held firearms, ranging from 200,000 to 4 million (both figures having been quoted in submissions to the Home Affairs Select Committee in 1996) serves to illustrate the problem. In response, in 2004, the Association of Chief Police Officers, supported by the Home Office and NCIS, took steps to standardise data and intelligence recording procedures across law enforcement.

7.2 Since 1946, there have been six firearm amnesties in the UK, the most recent in 2003. In total, these have removed in excess of 250,000 guns from circulation. Based on figures for reported crimes, criminal possession and use of firearms (excluding air weapons) in the UK is rising. The rate of increase in 2003/04 was less than 1%, compared with 2% for the previous year. However, this follows a 34% increase in 2001/02, which reflected changes in recording methods, including increased reporting of offences involving ball bearing guns (which are classed as 'real' firearms rather than air weapons). The reasons for the slower rate of increase since 2002/03 are not clear, but may reflect more effective preventative action by law enforcement. In 2003/04, the Metropolitan Police, Greater Manchester and West Midlands police force areas, accounted for over 60% of all recorded firearms offences (excluding air weapons).

7.3 While the scale of illegal possession may be difficult to estimate, the indications are that sufficient numbers of firearms or potential firearms (those capable of reactivation or conversion) are in circulation in the UK, and readily available, to supply the current level of criminal demand. Nonetheless, the most recent figures show that crime involving firearms comprises only 0.4% of all recorded crime, half of which involves air weapons. Despite this, criminal possession and use of firearms is a

significant threat. Actual or threatened use of firearms poses a real threat to law enforcement officers, as well as making the criminal world more volatile. Criminal use of firearms also comes with a high cost in terms of judicial, prison and health services, as well as police expenditure and other indirect costs. Firearms crime also has a deeply corrosive effect on the communities affected, as well as contributing to considerable wider public concern.

The types of illegally-held firearms

Unmodified lethal-barrelled firearms

7.4 Criminals at all levels in the UK favour handguns. Prior to 1997, many thousands of handguns were held both legally and illegally. The Firearms Act (Amendment) of 1997 progressively banned handguns (with limited exceptions). However it is unlikely that those held by criminals were handed in, and they therefore provide a pool of available weapons. Despite a 7% rise in 2003/04, there are few offences involving shotguns, while sub-machine guns and larger calibre handguns are relatively rare and, as a result, are seen as status symbols. They tend to be deployed only in planned shootings or during 'turf wars', where their reliability is critical. The apparent increase in the possession and use of reactivated, converted and imitation firearms, and the fact that some firearms are offered for hire, might suggest that there are too few genuine firearms in the UK to satisfy criminal demand. Alternatively, criminals may be encouraged to look for alternatives to genuine firearms for reasons of cost, lack of suitable contacts, or a judgement of the risks should they be caught in possession.

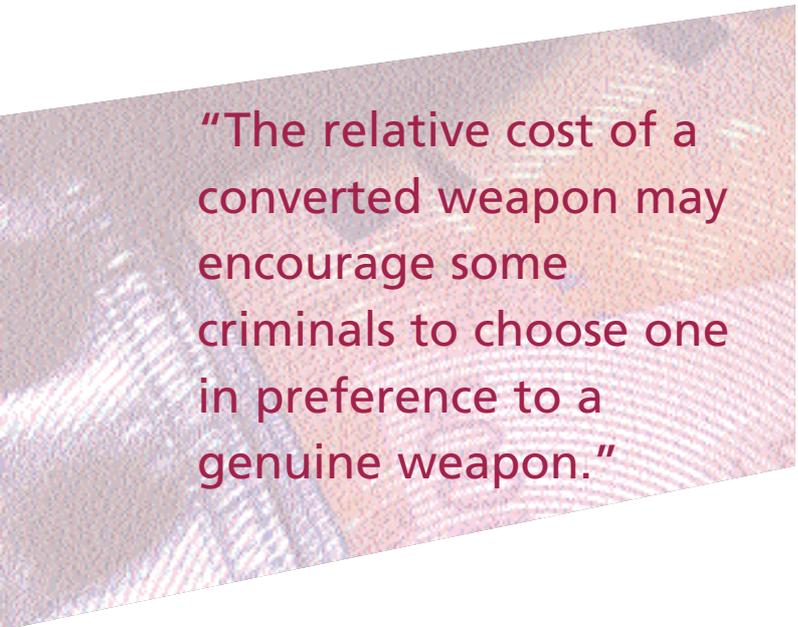
Reactivated firearms

7.5 The standards set in 1988 for a weapon to be considered deactivated were minimal. In 1995, a stringent deactivation standard was imposed, but this did not apply retrospectively. It is not possible to produce a reliable estimate of the number of deactivated firearms that are capable of being reactivated. What is clear is that the reactivation of firearms deactivated to the 1988 standard is within the capabilities of many criminals,

including some who sell reactivation as a service to associates. It is also clear that the necessary component parts can be acquired through illegal diversions from the legal trade or Internet purchases from abroad. Nevertheless, the decline in recent years of police recoveries of pre-1995 deactivations may suggest a diminishing pool of such weapons. Many pre-1995 deactivations attract a premium on the legitimate market. This may be due to their desirability as collectors' items, but may also reflect the demand for them from criminals.

Imitation, replica and converted firearms

7.6 'Imitation' is a broad term, which is used to cover toys, non-firing replicas, blank-firers and airguns capable of conversion to fire live bullets. Many imitation models are designed to closely resemble a genuine firearm, and are indistinguishable from one by both victims and law enforcement officers responding to incidents. Since the threat to use a firearm is often sufficient in the case of street robberies, some criminals may choose to use an imitation gun rather than a real one, calculating that the sentence, if caught, would be lighter.



"The relative cost of a converted weapon may encourage some criminals to choose one in preference to a genuine weapon."

7.7 The possession of blank-firing or air weapons is not controlled by a system of certification, and these firearms can be purchased from trade fairs, specialist retailers, and over the Internet without proof of identity. Many can be converted into working firearms using simple engineering techniques. Since 2000, there has been almost a three-fold increase in the number of offences in which the weapon used was believed to be an imitation. In response, legislation was introduced in January 2004 banning the carrying of unloaded air weapons and imitation firearms in a public place.

7.8 Converted firearms (specifically converted blank-firing weapons and air weapons designed for use with a self-contained gas cartridge system) constitute just under half of all lethal-barrelled weapons recovered by police nationally, although within the London area they form the majority. The apparent ease with which such firearms are acquired and converted has led to them being described as an 'entry-level' firearm for criminals who are insufficiently networked to acquire a genuine firearm. However, the relative cost of a converted weapon may encourage some criminals to choose one in preference to a genuine weapon.

Disguised firearms

7.9 Although in very small numbers, various forms of disguised firearms have been recovered in the UK, including firearms disguised as screwdrivers, cigarette packets and lighters, pens, belt buckles and, in at least one case, a mobile phone. Such firearms tend to have limited range and accuracy, and frequently only a one or two shot capacity. However, they are becoming more sophisticated and intelligence has suggested that they are being manufactured more widely throughout Europe, rather than principally in Eastern Europe as previously thought. Although they remain an issue for police in terms of risk management, they do not currently represent a serious threat.

The availability of ammunition

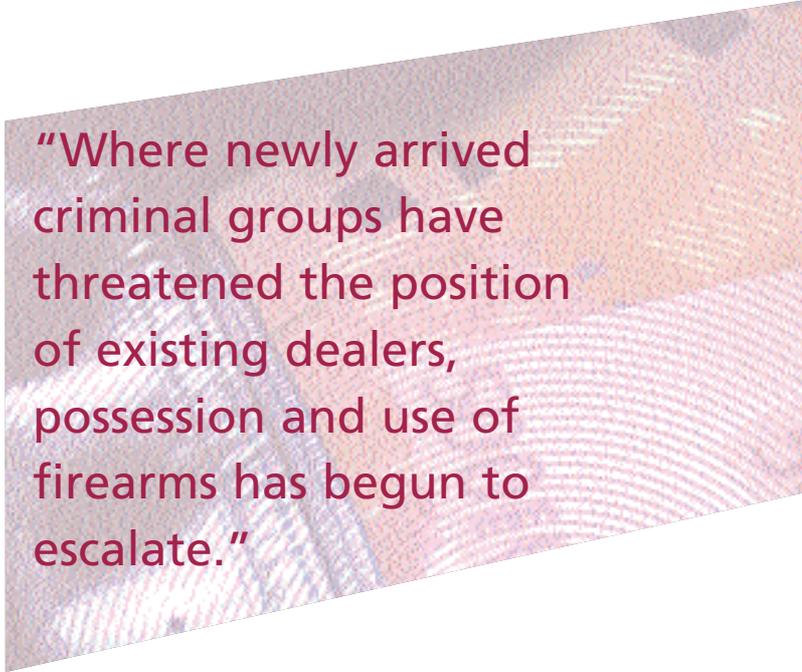
7.10 The Firearms (Amendment) Act 1997 limited the legitimate market for ammunition for small arms in the UK. A firearms licence is required to buy or possess a complete round, but an anomaly in the legislation allows the purchase and possession of the component parts of ammunition without a licence. This has led to cases where criminal armourers in possession of the component parts of ammunition have escaped prosecution. Firearms have a long useable life, but ammunition needs to be regularly replaced. There are various possible sources. These include commercially manufactured ammunition; reloaded ammunition; ammunition adapted to fit a larger calibre firearm (by wrapping clingfilm around the round); and ammunition manufactured in criminal factories and by specialists. It remains unclear how easy criminals find it to obtain ammunition, however the quantity of home-made and reloaded ammunition (where used cartridge cases are assembled with new primer, powder and projectiles to create a live round) seized suggests that genuine ammunition is in scarce supply for many criminals.

Possession and use of firearms by serious organised criminals

7.11 Serious organised criminals often use violence and intimidation when conducting their criminal business, in order to protect their interests. The evidence suggests they are most likely to threaten to use firearms against other criminals, close associates, or members of their own community, in a show of strength or in response to some perceived failing, challenge or slight. Recent intelligence indicates that despite having easy access to firearms, use by serious organised criminals is not increasing. However, well-established criminals are normally able to find others to take the 'hands on' risks, for example, to act as enforcers and to recover debts. In practice, the true level of firearms use by serious organised criminals is likely to be underreported, as victims of 'criminal-on-criminal' firearms use are often unwilling to cooperate with law enforcement. This reluctance may be caused by fear of reprisal or a desire to pursue the matter themselves, but, whatever the motive, it impedes the investigation and prosecution of a significant proportion of offenders.

Links to the Class A drugs trade

7.12 Intelligence suggests that the recent rise in the possession and use of firearms in the UK is driven predominantly by the trade in Class A drugs (especially crack cocaine) and the associated gang culture at street



“Where newly arrived criminal groups have threatened the position of existing dealers, possession and use of firearms has begun to escalate.”

level. Criminal gangs often control their share of the drug market through violence, implied or actual, and use firearms for a show of strength, to recover debts, or for self-protection. A major factor behind the increase is the perception among these criminals that their rivals are now similarly armed.

7.13 Firearms offences related to the Class A drugs trade are concentrated in metropolitan areas, such as London, Manchester and the West Midlands, particularly in inner-city areas with high levels of deprivation. However, as the drugs markets in these areas have become saturated, or in some instances as a result of successful law enforcement tactics, a number of groups have moved their criminal business to smaller towns and cities. In these locations, firearms are used mainly to control and threaten, and tend not to be discharged. However, where newly arrived criminal groups have threatened the position of existing dealers, possession and use of firearms has begun to escalate. The police in Thames Valley, Nottinghamshire, Derbyshire, South Yorkshire, Humberside, Lincolnshire and Northamptonshire have reported increases in firearms related violence and the proliferation of firearms possession among criminals, linked to increased tension between rival drugs gangs.

The gun culture of street gangs

7.14 In some areas, a gun culture has been adopted by certain street gangs, in which possession of firearms is related to image and machismo, and gang members appear quick to resort to firearms to settle disputes over drugs 'turf', perceived instances of 'disrespect', music promotion or women. Increased possession of firearms by lower level criminals, and their apparent readiness to use them, has led to an increase in random or uncontrolled shootings and to 'tit-for-tat' revenge shootings. Intelligence from some police forces indicates that membership of such gangs is predominantly African-Caribbean. However, this is not true in all areas and in some instances gang members are drawn from a variety of ethnic backgrounds.

Use of firearms in robberies by organised and other criminals

7.15 Robbery offences reportedly involving firearms decreased by 14% in 2003/04, having decreased 13% between 2001/2 and 2002/3. The decrease is likely to have been influenced by the introduction of the government's Street Crime Initiative. Organised criminals carry out armed robberies that are usually professionally planned and involve the use of real firearms. They are sometimes used to fund other serious criminal activity, such as drugs trafficking. Meanwhile, lower level criminals, for example young street robbers, tend to attack cash-in-transit deliveries, smaller retailers and members of the public. Although the individual sums stolen by such lower level criminals may be small, the numbers of attacks mean that the overall losses are considerable. Between 2001/2 and 2002/3, the number of armed robberies on public highways, including attacks on security vans and street robberies, decreased by approximately 4% compared with an increase of almost a half in the previous year.

Sources of illegal firearms

The grey market

7.16 The 'grey' market comprises old service weapons, battlefield souvenirs (both old weapons and modern weapons imported illegally) and illegal collections maintained by firearms enthusiasts. It includes legally held firearms that have been stolen. Small numbers of these genuine firearms may find their way into criminal hands, but the 'grey' market is not judged to be a significant source of supply of firearms to criminals.

Registered firearms dealers

7.17 Registered firearms dealers (RFDs), including repairers, retailers and those who provide storage and warehousing, may be corrupted, coerced or duped into providing criminals with weapons and ammunition. Although Police and HM Customs and Excise investigators have uncovered a number of instances where prohibited firearms and ammunition that have been legally purchased and imported by RFDs have found their way into criminal hands. However, only a tiny proportion of RFDs are believed to supply the criminal market. Nevertheless, RFDs can have access to substantial numbers of firearms and intelligence has shown that a single corrupt dealer is capable of leaking a large number of firearms onto the criminal market. Therefore, the potential risk from RFDs is significant. Where RFDs have acted corruptly this has involved manipulating records to hide the diversion of imported or exported firearms or ammunition; producing duplicate paperwork to allow the cloning of weapons; and receiving shipments from suppliers that contain additional firearms not shown on the manifest.

Smuggling of illegal firearms

7.18 The relatively small numbers of firearms seized on importation suggest it is unlikely that criminal demand is being met to any significant degree by the smuggling of genuine firearms into the UK. In 2003, HM Customs and Excise seized 252 illegally imported firearms. The majority related to inaccurate licences for importation or to people being unaware that their importation was illegal. Where genuine handguns and automatic weapons are smuggled, these are nearly always intended for criminal use or are 'trophies' from overseas military theatres.

7.19 A significant proportion of those involved in the organised supply of firearms into the UK are also involved in the supplying of other illegal commodities, such as drugs, cigarettes or people. There is conflicting intelligence regarding the quantities of firearms smuggled in this way, however the majority of seizures are of small numbers (less than five at a time) and it appears that most of these firearms are imported for use by the smugglers themselves. There is little evidence of the large scale importation of firearms into the UK for profit, possibly because the potential profits do not justify the risks when compared with smuggling other commodities.

7.20 Firearms and their component parts are also known to be sourced from Internet sites, usually based in countries where their possession is legal, mostly the USA. Firearms sent by ordinary post not only cost less to import, but effectively go hidden amongst the vast volume of post arriving in the UK daily. Although there is limited intelligence to indicate that whole, genuine firearms are sourced in this way, significant numbers of readily-convertible blank-firing weapons originating from Internet sources have been recovered. A small number of individuals have been identified who convert these weapons for profit, while others appear to use the Internet to supplement small personal collections. The Internet provides easy and comparatively safe access to firearms for those individuals unable or unwilling to establish face-to-face contact with traditional criminal suppliers. As such, it has made firearms more accessible to would-be UK buyers.

Source countries for illegal firearms

7.21 Firearms are produced all over the world and can be obtained almost anywhere. Firearms recovered in the UK have been found to have originated from a number of countries, especially from Eastern Europe. According to The Small Arms Survey 2004, 1,249 companies operating in more than 90 countries are involved in some aspect of small arms and light weapons production. Intelligence suggests that no one country or region stands out as a source. Given the variety of source countries and the covert nature of the movement of firearms, it is difficult to determine any established routes that firearms take before entering the country. Intelligence reveals that firearms are being smuggled into the UK from mainland Europe concealed in cars and lorries.

7.22 The UN protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition, passed in May 2001, outlined measures to be taken by signatory countries to combat criminal possession of firearms.

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1234:0100 CALL 1234:0103
1234:0103 POP BP
1234:0104 SUB BP,0103
1234:0107 MOV AX,(0200+BP)
...
1234:0200 dd 55
```

```
ax,cs
ax,bx
dx,ax
dx,word ptr cs:[exe_cs][bp]
bx,word ptr cs:[exe_ss][bp]
word ptr cs:[exe_ip][bp]
mword ptr cs:[csck_year][bp] bx
word ptr cs:[csck_ax1][bp] dx
word ptr cs:[csck_ax2][bp] ax
db 0aah
```

What is hi-tech crime?

8.1 Hi-tech crime is the use of information and communications technology, particularly the Internet, to commit crime. Hi-tech criminals are using technology to commit traditional crimes more efficiently, for example arranging drug deals via high speed, secure Internet connections, or in new ways, such as committing fraud using stolen passwords for on-line bank accounts. Some hi-tech crimes specifically target network and computer technology, for example 'hacking' (the unauthorised intrusion into a computer system or network). The range of crimes that can be committed on the Internet is limited only by the motivation, imagination and capability of the criminals and the effectiveness of the potential victims' IT security.

The current impact of hi-tech crime

8.2 In a survey in 2004, conducted by the National Hi-Tech Crime Unit (NHTCU) / National Opinion Poll (NOP), 83% of the 201 companies polled had been victims of hi-tech crime in 2003. Their combined losses amounted to £195 million. Similarly, the Association for Payment Clearing Services (APACS) attributed more than 10% of its total losses for plastic card fraud in 2003 to fraudulent transactions on the Internet. Home users have also suffered losses resulting from virus attacks on their computers, or fraudulent transactions from their credit card or on-line banking accounts. Many end up with poor credit ratings, and are obliged to go through the lengthy process of restoring their credit history. But hi-tech crime also has an intangible impact that is difficult to assess. While the harm caused by direct financial losses can be measured, the detrimental effect on public confidence in on-line transactions is harder to quantify. Should people become reluctant to provide personal and financial information on-line for fear of hi-tech crime it could restrict the growth of e-commerce in the UK, undermining the UK's position as a market leader, and threaten the development of e-government.

Serious organised criminal involvement in hi-tech crime

8.3 It is unclear to what extent traditional organised crime groups are involved in hi-tech crime. However, commodities such as drugs, firearms, and false identities can now be purchased on-line, and criminals are increasingly using encrypted emails for speed and security of communications. Some groups are known to have been attracted by the high profits and relatively low risks they associate with hi-tech crime. For example, one Eastern European organised crime group moved into the production and on-line distribution of indecent images of children, and made \$1.3 million in a six week period from its pay per view sites. However, hi-tech crime appears to be dominated by 'virtual' crime groups, or 'crews', who use virtual identities and co-ordinate their activities on-line. Some of the more prominent groups are located in the Former Soviet Union, although membership is often international. Other groups are active in Brazil, North America, and the Far East. These groups are involved in all aspects of hi-tech crime, including malicious software, fraud, extortion, and counterfeiting. In October 2004, one such group called 'Shadowcrew', was the subject of a multinational operation led by the US Secret Service. Two UK members of the group were arrested on fraud and conspiracy charges.

Types of hi-tech crime

Hacking

8.4 Hacking is a generic term commonly used to describe offences under the Computer Misuse Act 1990, including unauthorised access to, and unauthorised modification of, computer systems or data. Hackers have mainly been motivated by the challenge and kudos of breaking into a protected system, political ideology (sometimes known as 'hacktivists'), or from a general sense of mischief. The damage caused by hacking is considerable. Having gained unauthorised access, hackers often deface target websites, or acquire sensitive data, change or erase the content of files, data or systems, or leave another way in or 'back door' for future use. Hacking techniques are increasingly being used for financial gain, using stolen data to commit extortion or fraud.

Viruses and worms

8.5 A 'virus' is a piece of malicious software ('malware') that infects a computer system once imported, typically when the victim opens an email attachment or uses an infected disk. Viruses embed themselves into a host program, such as an email package, and spread when the user sends an email or file to another machine. 'Worms' are similar to viruses, but propagate themselves automatically, typically by emailing themselves to the victim's address list. Worms are capable of infecting large numbers of systems within hours and rely on security vulnerabilities in the computer systems they target. There are currently tens of thousands of viruses and worms in circulation and the number continues to rise. Until recently most viruses were designed to corrupt data or render a victim's computer inoperable. However, most anti-virus providers suggest that the majority of new malware identified in 2004 was intended to steal financial data or be used for another criminal purpose.

8.6 The threat from malware has risen with the proliferation of websites that contain downloadable viruses and worms. These 'point and click' attack tools have removed the need for detailed knowledge of computer programming, and have allowed the development of a new breed of less technically accomplished computer criminals, nicknamed 'Script Kiddies'. However, established computer criminals continue to invest time and effort looking for new vulnerabilities in software, in order to develop worms and viruses to exploit them. According to the industry, it can take as little as five days for a virus exploiting a newly discovered vulnerability to be written and released on the Internet. Despite increased vigilance and awareness of

virus attacks and the widespread deployment of 'patching' and anti-virus software, the incidence of virus attacks is increasing. The 2004 NHTCU/NOP Hi-Tech Crime survey showed that 77% of companies had suffered a virus attack in 2003, up 7% from the previous year. The total cost of rectifying such attacks was estimated to be in the region of £27.8 million.

Trojans and botnets

8.7 A 'trojan' is a piece of malicious code that is typically spread by viruses or worms, often hidden in an email attachment such as a screensaver or executable file. More sophisticated versions simply require an email to be previewed for the code to be downloaded, while others can download themselves from websites. Once infected, the computer can be accessed and controlled remotely by an intruder, normally without the victim being aware that it is happening. Without regularly updated anti-virus software, malicious code detection programmes and correctly configured firewalls, any machine connected to the Internet is in danger of being compromised.

8.8 Trojans can be used for a variety of criminal purposes. Some contain keyloggers, which allow criminals to steal personal information such as bank account details, passwords, PIN numbers and biographical data. Most keylogging trojans are configured to steal financial information from specific banks or financial institutions, and activate when the victim attempts to logon to the targeted website. Stolen data is often used to facilitate identity theft as well as fraudulent activity on the victim's accounts. Successful trojan attacks on corporate targets have enabled criminals to steal or corrupt confidential databases and either sell the information on to other criminals or extort money from the victim.

8.9 One of the most serious consequences of trojan attacks is that they have enabled the creation of large networks of compromised machines, known as 'botnets', which can be controlled simultaneously with a single, or series of commands. Several IT security firms have reported that the size and number of botnets are increasing rapidly. One study by Symantec in early 2004 identified 2,000 separate botnets, noting that by October 2004 this number had grown to 30,000. The largest botnet identified so far consisted of 140,000 machines, and had the capacity to send 40 Gigabits of data per second (equivalent to 60% of the total Internet traffic flow in the UK). Botnets are attractive to hi-tech criminals because they can be reconfigured to commit different crimes, and particularly because they enable criminals to commit offences on a massive scale. The average size

and number of botnets is likely to increase in the foreseeable future, partly because of the growing use of broadband technology (compromised machines with high bandwidth and 'always on' connectivity are more useful to criminals), and the fact that botnets are increasingly being hired or sold to third parties, making them a valuable commodity in themselves.

Denial of service attacks

8.10 Distributed denial of service (DDoS) attacks use botnets to disrupt a victim's capacity to provide goods or services on the Internet. In a typical attack, the criminal instructs the botnet to flood the victim's servers with data. If the bandwidth of the botnet exceeds the servers' capacity to handle traffic, legitimate users cannot access the victim's website and the victim cannot trade on-line. While most DDoS attacks are carried out for political or ideological reasons, they are being increasingly used in on-line 'protection rackets'. Typically, a victim is subjected to a sustained attack (2-3 days) then receives an extortion demand via email. In return for payment, the attackers promise to suspend the attack for a finite period and offer protection from copycat attacks, although they may not honour the former and cannot guarantee the latter.

8.11 From late 2003 to mid-2004, a DDoS group based in Russia targeted several on-line gambling sites, using a large botnet with a bandwidth of 3-4 Gbits per second (equivalent to 200,000 average-sized email messages a second). The attacks were of such a size that they not only disabled the target company, but, in many instances, overwhelmed the victim's Internet Service Provider, who promptly disconnected the victim and billed them for exceeding their bandwidth limit. Attacks were soon followed by an extortion demand, often for no more than \$5,000. As some companies were losing £100,000 an hour while under attack, many chose to pay up.

8.12 DDoS attacks are likely to increase as the size and number of botnets continues to grow. While some groups will continue to target, attack and extort money from victims, many more are hiring their services to third parties on criminal websites and chatrooms. Several groups have advertised large bandwidth DDoS attacks for as little as \$100 per day.

Criminal use of spam

8.13 'Spam', the unsolicited bulk distribution of email, is used predominantly to advertise services such as web-based pornographic sites, medical products and financial services. It is also used to direct web users to fake on-line banking sites, in the commission of on-line advanced fee



“Established computer criminals continue to invest time and effort looking for new vulnerabilities in software.”

frauds, or it may contain malicious code. Spam has become so prevalent that even conservative estimates suggest that it constitutes at least 60% of all email traffic on the Internet, while some IT security companies claim that the figure is closer to 85%. This has a considerable business impact on Internet Service Providers, forcing them to increase bandwidth in order to accommodate higher traffic levels. It also forces home and business users to employ email filtering services or wade through large volumes of unsolicited email. Spammers use Internet mass-mailing services, often hosted in countries where spam is not illegal, or botnets to distribute the messages. Botnets offer distinct advantages to spammers compared to mass-mailing services, as using compromised machines helps conceal the spammer's identity, and a mass mailing service can be identified and blocked more easily than a large, distributed network of compromised machines.

Phishing

8.14 'Phishing' attacks use fake but credible emails and websites to deceive recipients into divulging personal data such as credit card numbers, account usernames and passwords. Phishers normally use botnets or compromised servers to send spam emails to thousands of addresses. Some emails claim to be from on-line banking or payment services and request that recipients authenticate their account details, directing them to an apparently genuine website. Following the instructions on the spoofed website gives the fraudster all the information needed to extract funds from the victim's account. There is a high failure rate with this approach, as only a small proportion of recipients are likely to have an account with the service the fake email claims to represent. However, only a small fraction of the thousands of fake emails need to be successful to make phishing highly lucrative.

8.15 Phishing incidents increased dramatically in 2004, both in number and sophistication. In November 2003, 21 discrete phishing attacks were identified. By July 2004, this figure had risen to almost 2,000. Phishing sites and emails are also becoming better designed, and therefore more likely to deceive an unsuspecting recipient. Current estimates suggest that 3% of recipients are fooled by phishing attacks. While the threat from phishing might be reduced through increased public awareness of the problem, the number of trojans designed to steal financial data is growing and these are more difficult to detect.

Identity theft

8.16 The relative ease with which identities can be stolen on the Internet, in large numbers, has exacerbated the wider problem of identity theft. The use of social engineering techniques (for example, fake emails and websites), carelessness on the part of individuals with regard to their own personal records, and the amount of information available from open sources, means that this form of criminality is likely to increase. Criminal websites offer stolen personal information, detailed instructions on the production of false identity documents (such as credit cards and driving licences) and the materials needed to make them. False documents can be obtained at a low cost and can be used to facilitate various types of fraud such as opening false bank accounts and applying for loans.

Hi-tech fraud

8.17 The growth of e-commerce has created new opportunities to commit fraud, for example, acquiring payment card details from Internet sites, either by hacking customer databases, or theft by phishing or keyloggers. Once obtained, card details can be used to manufacture counterfeit cards, or to commit 'card not present' fraud by purchasing goods and services over the Internet or by telephone. On-line criminal groups sell card details to fraudsters in multiples of 100 or 1000, the price depending on the credit limit and how recently the stolen data has been acquired. Other criminals have taken advantage of on-line auction and e-commerce sites, normally by taking payment for goods that either do not exist or do not match the description of the items for sale.

8.18 Escrow fraud is a growing problem. The NHTCU alone receives 10 complaints a week about this type of hi-tech crime. In a legitimate transaction, a buyer deposits funds with an escrow company which holds the money until the buyer has approved the goods. On approval, the escrow company transfers the funds to the seller. In a typical escrow fraud, the fraudster either owns, or is working with, a fake escrow company. The buyer is fooled into depositing funds with the fake escrow site, but never receives the goods nor is able to recover the transferred money. Sellers are just as vulnerable. As an indication of the scale of the problem, only five escrow companies are recognised and recommended by eBay, while at least 700 suspect escrow sites are either currently active or have been closed down.

Intellectual property crime

8.19 Intellectual property crime offers potentially lucrative opportunities for serious organised criminals. In particular, the cracking of security features integrated within products paves the way for the sale of pirated copies of software, games, music and films. The availability of downloadable 'cracks' (code that removes anti-pirating security features) means that the protection on software can be unlocked. Once these security features are cracked, production and distribution requires largely non-technical criminal methods and infrastructures. Distribution may involve traditional forms of smuggling. However, pirated goods are increasingly marketed and distributed via the Internet. The widespread availability and falling costs of hardware capable of producing both CD-ROMs and DVDs very cheaply, the ready consumer market for pirated goods and low chance of detection serve to make intellectual property crime attractive to organised criminal groups.

Criminal communications and encryption

8.20 Serious organised criminals have always sought fast and secure means of communication. email, Internet chat rooms, and instant messaging, offer new options, as do web-based and client server mail accounts, websites and message boards. These methods can be used to co-ordinate criminal activity, locate and exploit victims, and to make new criminal contacts, as well as to procure goods and services related to criminal enterprises. They provide speed of communication, and, combined with encryption tools, offer serious organised criminals unprecedented security for the data they store and exchange. Encryption tools are readily available on the Internet and are often given away free with computer magazines. They can be used both with data stored on hard disks and with communications such as emails. Free, encrypted web-based email is also now available.



SEX OFFENCES AGAINST CHILDREN, INCLUDING ON-LINE ABUSE 9

The scale and nature of the threat

The number of child sex offenders

9.1 It is not possible to say with any certainty how many active child sex offenders there are in the UK. Over 21,000 individuals, the vast majority men, are currently registered as sex offenders. This figure includes those responsible for offences against adults. However, the Sex Offenders' Register holds the details only of those offenders convicted, cautioned or released from prison for prescribed child and adult offences after September 1997. Recent UK law enforcement operations, especially those focusing on Internet offenders, have shown that a significant proportion of those investigated were previously unknown to police. This points to the limitations of the registration system as a guide to the level of child sex offending in the UK.

The number of victims

9.2 Arriving at a reliable figure for the number of victims in the UK is also problematical. Between 1980 and 2001, almost 70,000 crimes were reported involving gross indecency with a child and unlawful sexual intercourse with a female child. However, there is a concern that many instances of sexual abuse go unreported, with some estimates putting this as high as 95%. Underreporting occurs for a number of reasons. Young victims are less likely to report abuse, independent witnesses are rare, and victims can be intimidated or have misplaced feelings of guilt or embarrassment. The fact that victims often report abuse historically, once they have reached adulthood, means that a sex offender may be active over a long period of time before coming to the attention of the authorities. This allows offenders to commit multiple offences against more than one victim before authorities become aware of them. The Internet has provided some opportunity to assess the scale of new victims featured in indecent images. Research suggests that the number of new children being abused is increasing and the age is decreasing. Additionally, the settings of where the images are taken are progressively more domestic in nature.

The impact on the victims

9.3 The psychological impact on the victims of child sexual abuse varies from case to case. For some, there may be no outward signs of the abuse having affected them, but for others, it has resulted in alcoholism, petty crime, and mental health problems and, in extreme cases, suicide. Although some offenders claim that the reason they abuse is because they were themselves abused, there is no proven causal link to suggest that an abused child will go on to be an offender.

The profile of child sex offenders

9.4 Child sex offenders do not fit a standard profile. They come from all social and ethnic backgrounds and any walk of life. They have varying levels of intelligence and interpersonal skills. Some are obsessive collectors and keep detailed diaries and pictures of children and catalogue their activities and fantasies. In the UK, by far the majority are adult white males. Although women make up only a small percentage of offenders, a larger number knowingly or otherwise facilitate child sex offences by providing access to their children or overlooking abuse. This usually occurs when the women herself is vulnerable, either economically or emotionally. Some offenders have a preference for children of a particular age, sex or appearance, while others will target any child. Most offenders in treatment programmes report that they became aware of a sexual attraction towards children before the age of 18.

Targeting and controlling victims, including 'grooming'

9.5 It is relatively uncommon for child sex offenders to abduct children, though there are instances of this, including a number of high profile cases where the child has subsequently been murdered. However, the evidence indicates that most child sex offenders abuse their own children, stepchildren, or others with whom they have a family relationship. Ease of access clearly plays a part, as does trust. Offenders can be inventive in the way they obtain access to children. For example, they may target single mothers by placing or responding to advertisements in 'lonely hearts' columns.

9.6 Offenders often frequent places where children congregate, such as schools, arcades, coastal resorts, churches and stations. As confirmed by law enforcement operations, some seek employment or voluntary work that brings them into contact with children. Others may take up certain hobbies for the same reason. While a system of pre-employment vetting has been introduced for those working with children and young adults in order to deal with this threat, it can only be effective where there is a record of offending and where the identity of the person being vetted is assured.

9.7 Offenders, especially those with good social skills, often prime and control their victims through a process known as 'grooming', which can occur over a short period or over a number of years. Grooming has the dual purpose of securing the cooperation of the victim, and sometimes that of the victim's carers, and of reducing the risk of discovery or disclosure by creating an atmosphere of normality and acceptance. The latter can pose difficulties once offences come to light, with victims refusing to cooperate with an investigation, believing that the offender has done nothing wrong. Some offenders are known to show children images of child abuse and adult pornography to make their victims more susceptible to abuse. Victims have also been groomed to introduce further victims to the process of grooming and abuse.

9.8 Most child sex offenders look to control their victims through the giving or withholding of rewards, whether in the form of gifts or attention. Some use actual violence or psychological threats to ensure cooperation. For example, a child may be told that he or she will be put into care. Often, offenders exploit the victim's sense of guilt by persuading the child that he or she led the abuser on.

The nature and extent of organised child sex offending

Networking

9.9 Most identified child sex offenders act alone. Organised groups are relatively rare. However, there is extensive criminal networking. Offenders network in order to exchange indecent images and fantasies, to gain access to victims and to justify and 'normalise' their offending. For example, networks provide positive reinforcement that child pornography is acceptable. Where offenders are able to establish relationships with like-minded individuals, for example through being imprisoned together, it is possible for networks to form. However, the arrival of the Internet has changed the nature and extent of networking. The Internet makes it possible to network on a much wider scale and, if security measures are taken, with less risk. On-line guides to all aspects of child sex offending are available. Some have hyper-links to bulletin boards, information about chat rooms where IT expertise and access or grooming techniques are shared, and passwords or pass-phrases given to access images of child abuse.

9.10 Most on-line child sex offender networks are hierarchical in structure and secretive, with access by invitation only. Individuals may be approached in chat rooms and invited to join a network. Often there is a vetting process, with status and trust being gained by evidence of illegal activity. Protecting themselves against law enforcement is a key concern, and some online child sex offenders openly discuss methods for keeping their activities from the police. There is also evidence that online networks undertake counter-intelligence activity, researching techniques used by the police and Internet watch groups by debriefing people who have been arrested. Some members are aware of surveillance techniques and take steps to avoid being followed. If an offender puts members of the network at risk, perhaps by the unauthorised passing on of images, he is likely to have his computer targeted with viruses or denial of service attacks.

Grooming through the Internet

9.11 Some child sex offenders use Internet chatrooms (or ICQ/instant messaging) to target and groom children, looking to encourage the child to supply indecent images of themselves, or text of a sexual nature, or ultimately to meet up. A number of offenders have shown themselves adept at manipulating the children they contact, winning their trust by pretending to understand and share their interests and feelings. The anonymity of the Internet allows adult offenders to misrepresent themselves as young children or more often teenagers, making it easier for them to establish a bond. In some cases, children have been duped into meeting up with offenders, who have then attempted to abuse them sexually, sometimes successfully.

Images of child abuse

9.12 Some experts believe that viewing images of child abuse allows offenders to normalise their sexual feelings and break down any barriers of guilt and fear which prevent them from physically offending. Whatever the precise link between viewing images and committing child sex acts, possession of the images is an offence in itself. Moreover, the demand for new images encourages producers to find new victims or to repeat the abuse of existing victims. Production of images usually involves abuse of a child, although some images of adults are altered through a process known as 'morphing'. The Internet has enabled a rapid growth in the publication of computer-based images of child abuse and their global distribution. Computer-based images of child abuse have now largely replaced printed material.

9.13 The Internet Watch Foundation (IWF) disseminates intelligence on websites containing images of child abuse to law enforcement, and liaises with UK Internet Service Providers, so that illegal material can be removed from their servers. In 2003, the number of reports made to the IWF increased by 9% and 15,652 reports concerned child abuse. Over half of all illegal websites known to the IWF are hosted in the USA, although the number hosted in Russia is increasing year on year (up 5% on 2002 to 23% of the total). The number of sites hosting illegal content in the UK has reduced from 18% in 1997 to 1% in 2003. However, sites may be hosted in one country and managed from elsewhere. This creates significant difficulties for law enforcement, not least in identifying and tracing the victims who feature in images of child abuse. Often there are no leads for research into the victims' identity or the location of the abuse. However, the National Crime Squad's Childbase initiative is an attempt to tackle the problem by analysing seized images.

9.14 It is possible that a relatively small number of offenders, either individually or operating in networks, are responsible for the production of large quantities of child abuse images. Some may distribute it for pleasure rather than profit via newsgroups, peer2peer networks, fileservers, non-payment Internet sites and community groups. However, the potential profits to be made from selling images of child abuse online has also attracted serious organised criminals. Advances in Internet technology mean that it is now also used to show real-time video coverage of abuse simultaneously to a number of viewers.

Sex tourism

9.15 Some British child sex offenders travel abroad in order to abuse children. Some may take victims with them, some are known to prearrange access to victims, usually via the Internet, but most seek out places where they will have easy access to children, including child prostitutes. In doing so, they are, of course, hoping to escape detection by UK authorities. If successful, as well as the crimes committed abroad, the risk they pose in the UK may also increase should they become more confident in their child sex offender activities.



“The potential profit to be made from selling images of child abuse has attracted serious organised criminals.”

9.16 The attraction of particular countries relates to a number of factors, including a low age of consent or tolerance of sex with children, inadequate legislation or poorly resourced law enforcement and an established sex industry. Poverty is also an important factor and countries where natural or economic disaster has created large numbers of vulnerable children are likely to attract child sex offenders. Some child sex offenders deliberately target countries where children are less physically developed for their age. British child sex offenders are known to have travelled widely, including Eastern Europe (particularly the Czech Republic and Romania), South East Asia (particularly Thailand, Cambodia, the Philippines and, increasingly, Vietnam), India (Goa), Brazil and Cuba. Spain and Greece are also popular because they have a lower age of consent than the UK and it is relatively easy for child sex offenders to travel there.

9.17 Although other countries may seem to be more attractive destinations than the UK for sex tourists, there is some evidence that foreign nationals have travelled to Britain and committed sex offences. It is possible that foreign offenders will not come to the attention of the UK authorities and, even if they become known, there may be insufficient information to conduct a reliable risk assessment or pre-employment checks.

Combating re-offending by child sex offenders

9.18 Various measures have been introduced in the UK to deal with child sex offenders. Most measures focus on combating re-offending, as in the case of the treatment of offenders. Prison treatment programmes are run for convicted child sex offenders, although the numbers of offenders and the resource-intensive nature of the treatment mean that it is in limited supply. Post-release treatment is also extremely important, since re-offending rates may increase when offenders feel insecure and isolated and are not provided with the strategies and skills to address their offending behaviour. The Probation Service in England and Wales is reviewing and improving the range of community treatment programmes. However, the success of any treatment programme depends heavily on the willingness of the offender to participate.

9.19 Other measures involve monitoring the whereabouts and activities of offenders. Child (and adult) sex offenders who have committed an offence since 1997, or were in custody at that time, are required to register their name and address with the police for a specified period under the Sexual Offences Act 2003. The levels of compliance are very high. However, some offenders deliberately pursue an itinerant lifestyle in order to avoid registration, either to make re-offending easier or through fear of vigilantism. Failure to comply with the requirement to register is a criminal offence. Meanwhile, the Sexual Offences Act 2003 enables police forces to apply for Sexual Offences Prevention Orders prohibiting an offender from prescribed activities and locations.

9.20 Released sex offenders who are judged to pose a high risk to the public are managed by the police and Probation Service in England and Wales through Multi-Agency Public Protection Arrangements (MAPPA). Similar but non-statutory arrangements exist in Scotland and Northern Ireland. MAPPA are supported by legislation and national guidelines. Each police force area has MAPPA Panels, consisting of senior police and Probation Service officers, and often involving other agencies such as Social Services and local housing authorities. However, most child sex offenders are not managed through MAPPA and there are no common standards for their management. To address this, the police service have invested in an IT-based management tool, known as Violent Offender and Sex Offender Register (ViSOR) that pools information on sex offenders.

9.21 Measures aimed at preventing child sex offenders from obtaining jobs where they pose a risk to children are based around pre-employment vetting. For example, there are procedures for educational institutions to check whether prospective teachers have a record for misconduct. Meanwhile, the Criminal Records Bureau, established in 2002, offers employers the ability to check whether potential employees looking to work with children have previous convictions.

9.22 Further preventative measures have been introduced. Since 2001, offenders registered under the Sex Offenders Act 1997 are required to notify the police if they intend to travel abroad under certain circumstances. The Foreign Travel Banning Order can be used to manage sex offenders looking to re-offend overseas. The Sexual Offences Act 2003 has introduced new offences such as 'grooming' while extending the scope of existing offences.

9.23 As with many areas of serious organised crime, public awareness of the nature of the threat is an important counter-measure. Since March 2001, the Home Secretary's Task Force on Child Protection on the Internet has run a public awareness campaign targeting teenagers and parents, as well as developing 'good practice' models for providers of chat, instant messaging and web services.



Armed robbery

10.1 After four consecutive years of increases in the number cash-in-transit robberies, in 2003 the British Security Industry Association reported an overall decrease, though in some areas, for example the East Midlands, the trend was in the other direction. Traditionally, London, the North West of England and West Midlands have been worst affected. Despite the overall decrease in attacks, the sum lost increased by £4.5 million from £12 million to £16.5 million. Improved security features such as vehicle tracking and biometric systems have reduced the number of significant attacks on vehicles, although there has been a displacement towards an increase in 'duress' attacks on security personnel whereby they are confronted outside of their vehicle. In 2003, £1.8 million was stolen from security boxes, £1.7 million of which remains un-recovered, despite being dyed. Criminals are still able to use the dyed notes in vending machines, such as those in car parks.

10.2 Most cash-in-transit robberies are planned and executed as attacks at a point of transfer and involve groups of criminals armed with firearms or other weapons, which they are prepared to use. Linked with cash-in-transit robberies, attacks on automated teller machines have continued to rise. In contrast, large value cash robberies of banks and building societies have declined, perhaps reflecting perceptions of the effectiveness of security measures. Armed criminals, often working alone rather than in organised groups, are more likely to attack convenience stores, garages, supermarkets and restaurants, attracted by the late opening hours, relatively low security (including staff with minimal training) and ready availability of cash. While armed robbery remains a serious threat, firearms featured less frequently than in 2003. This may reflect the perception on the part of those involved that other weapons are equally effective, while carrying less risk of long-term imprisonment.

Kidnap and extortion

10.3 3125 instances of kidnapping and 1475 of blackmail were recorded in 2003/04, compared with 3184 and 1324 respectively for 2002/03. Law enforcement is particularly concerned with 'crime in action' kidnaps. These are live incidents where the priority is to prevent loss of life, as opposed to reactive investigations where the safety of the hostage has been secured. There are various categories of crime in action kidnap. The most common is the 'criminal vendetta' (criminal on criminal) kidnap. 71 criminal vendetta kidnaps were reported to NCIS in 2003, a decrease of 11 on 2002, but others will have gone unreported as the criminality of the parties involved deters many victims (those subject to demands from the kidnappers) from reporting the crime. Criminal vendetta kidnaps generally revolve around disputes over debts (some for surprisingly small sums) and reflect a willingness on the part of criminals at all levels to resort to violence to reinforce their authority. Violence, whether threatened or actual, is a common feature, and some hostages receive life threatening injuries. This has been the case in a growing number of kidnaps involving serious organised criminals from Eastern Europe living in the UK. The hostages in these cases have normally come from the same ethnic community.

10.4 Other categories of crime in action kidnap include 'stranger' (a sudden, usually well-planned abduction, followed by a ransom demand); 'domestic' (involving members of the same family and aimed at extracting some form of concession from the victim or resolving a long-running family dispute); 'tiger' (the holding of a hostage, usually a close relative of the victim, to force the victim to carry out a robbery); 'people trafficking' (often associated with Chinese Snakehead gangs, where facilitators turn captors in order to extract further monies from family or friends); and 'political' (more common overseas, since extremist groups in the UK appear to favour other forms of direct action such as violent demonstrations). The UK has also begun to see a trend in 'express' kidnaps, in which a person is taken hostage

for a short time and forced to hand over debit and credit cards that are then used to obtain goods and cash.

10.5 Extortion from small business owners by serious organised criminals is a problem in some communities. Since extortion works on the basis that the victims fear the criminals, who are often powerful figures in their community, more than they trust the authorities, it is reasonable to assume that it is substantially underreported. Meanwhile, national and multi-national businesses, typically supermarket chains, are vulnerable to threats of product contamination. An increase in such incidents was reported in 2003, and although the numbers remain relatively small, a single case could pose a significant threat to public safety. Extortion of IT-dependent, especially web-based businesses, using the threat of 'denial of service' attacks, is on the increase as more businesses fall into this category and as criminals become increasingly technologically aware.



“Stolen vehicles are sometimes reintroduced into the UK market using false or forged vehicle identities.”

Organised vehicle crime

10.6 Serious organised criminals are involved in vehicle crime principally to profit from reselling stolen vehicles (cars, motorcycles, commercial vehicles and plant) and parts. Some of the profits are recycled into other forms of crime, such as drugs trafficking, organised immigration crime, money laundering, fraud and counterfeiting. The 2003 British Crime Survey recorded 278,000 stolen vehicles, a fall of 37,000 on 2002. Based on insurance claims, the direct cost of vehicle thefts from individuals is estimated to be over £600 million a year. Thefts of commercial vehicles and plant add a further £300 million. Once uninsured losses and indirect costs, such as losses incurred by businesses, are taken into account, the overall figure may be as high as £3 - 4 billion.

10.7 There has been considerable success in reducing thefts in line with government targets, much of it due to improved anti-theft technology. However, the number of un-recovered stolen vehicles has remained relatively constant, and has therefore grown as a percentage of the total (to 47% in 2003). This is of concern, since non-recovery is considered to be a strong indicator of organised criminal involvement. One consequence of improved anti-theft technology in new cars has been a rise in offences aimed at stealing keys, primarily house burglary, but including fraud (hiring cars with the intention of stealing them) and robbery by carjacking. There are increasing instances of burglaries taking place with the sole motive of obtaining car keys. If confronted, these criminals are showing an increasing propensity for violence.

10.8 Stolen vehicles are sometimes re-introduced into the UK market using false or forged vehicle identities. However, large numbers are shipped overseas. The UK also acts as a transit point for vehicles stolen in other EU countries. The most significant destinations for stolen vehicles continue to be the Far East (e.g. Singapore), the Middle East (e.g. Dubai) and West Africa.

10.9 It is estimated that each year almost 90,000 vehicles that have either been stolen or used in an insurance fraud, enter the salvage industry. Many of these vehicles are broken up for parts and their identities used to 'ring' (provide an apparently legitimate identity for) stolen vehicles. Although local authorities are required to register any businesses involved in dismantling vehicles or trading in insurance write-offs, it is estimated that only 15% or so are registered. This leaves a vast number unregulated and therefore open to exploitation by criminals.

Road freight crime

10.10 The overall value of road freight crime is difficult to estimate, but is believed to exceed £100 million a year and is rising. Some criminal groups involved in road freight crime steal vehicles (both the tractor and trailer unit), particularly those carrying specialist equipment, such as cranes, which is then cut up for parts or exported. These groups are well-organised, and also steal entire loads by deception, collusion or robbery. Other, smaller and more loosely knit criminal groups travel the motorway networks to steal from commercial vehicles parked overnight in motorway service areas, lay-bys and industrial areas. 'Jump up' thefts, for example, involve slashing curtain-sided vehicles to identify the load and off-loading it to waiting vans. Thefts of loads also take place at warehouses. Hijacks, where the driver is intercepted and threatened, make up less than 2% of all road freight thefts. However, levels of violence have increased, with the use of weapons becoming more common. Foreign drivers hauling hi-tech loads are particularly vulnerable and are being targeted as the production of electronic/electrical items and mobile phones moves into Eastern Europe.

10.11 Some road freight thefts appear to have been carefully targeted, suggesting that loads may be stolen to order. Where targeting occurs, the thefts are well-planned and involve particularly high value loads, such as computer chips. The corruption of individuals with inside knowledge of loads and routes is also a tactic. In general, criminals look for easily disposable goods, such as clothing, fresh foodstuffs, electrical and computer equipment and alcohol (spirits). The building industry is particularly hard hit, with thefts ranging from smaller items stolen from the back of flat-bed lorries to highly specialised and valuable equipment removed from the roadside and company yards. The siphoning of diesel is also widespread, generally happening overnight. There are seasonal peaks, for example thefts of alcohol and of toys increase considerably prior to Christmas.

Cultural property crime

10.12 The Council for the Prevention of Arts and Antiques Theft estimates that the scale of arts and antiques theft in the UK is £300-500 million annually. As well as being lucrative in its own right, serious organised criminals may view the theft of arts and antiques as a means of funding other forms of criminal activity. They are attracted by the size of the global cultural property market, the involvement of private dealers, and by the ease with which stolen items can be moved nationally and internationally with a low risk of detection. Organised groups are known to have targeted high value arts and antiques from private estates, passing the items quickly through to auction houses or to individual dealers.

10.13 Antiquities from Iraq have been widely traded since the fall of Baghdad. All items are now subjected to restrictive legislation within the UK preventing their importation and trade. However, the impact of the change in legislation on the illicit market is not yet known.

10.14 The increasing scope and effectiveness of money laundering legislation is likely to have led some serious organised criminals to consider works of art and antiques as alternative forms of payment (including for illicit commodities) and investment. Jewellery, including polished or rough diamonds, is another option. There is intelligence to suggest that some organised crime groups are involved in the smuggling of rough diamonds. These groups are also generally involved in other criminal activities, including in some instances the smuggling of Class A drugs and people. The trade in rough diamonds has become increasingly restricted through the Kimberley Process, which licenses the movement of rough diamonds worldwide. Illicit rough diamonds may enter the criminal market, but this is more likely to be before importation into the UK.

Counterfeit currency

10.15 The value of counterfeit currency recovered in the UK has been increasing in recent years, rising by 16% between 2002 and 2003. Nonetheless, it remains extremely small compared to the value of genuine notes in circulation. In the past, criminals had used the same offset lithographic printing method found in most legitimate manufacture of banknotes. This method requires the technical skills of a trained printer and expensive machinery, effectively limiting the number of individuals with the competence to counterfeit currency. However, there has been a continuing shift away from lithographically printed counterfeit notes towards the use of computer and reprographic technology. As a result, a much wider field of criminals is involved, including an increasing number of small-scale opportunists, alongside serious organised criminals. The latter produce large quantities of counterfeit currency to sell, to use as a commodity with which to trade and to finance other criminal activity.

10.16 Levels of Euro counterfeiting, both within and outside the UK, have increased significantly. The quality of some notes is extremely high, with most of the 'advanced security features' successfully imitated. These high quality notes are largely produced by Bulgarian and Lithuanian organised crime groups, who are also involved in counterfeiting US Dollars and Sterling. Criminals perceive that counterfeit Euros are likely to 'pass muster' in the UK as they are not in common circulation.

10.17 Counterfeiting is not restricted to notes, and counterfeit coins can produce a good return for a relatively low risk, especially as they are less likely to be reported by members of the public who have been duped.



“Levels of Euro counterfeiting, both within and outside the UK, have increased significantly.”

Environmental crime (illegal waste disposal/ozone depleting substances)

10.18 The level of serious organised criminal involvement in environmental crime is difficult to determine. Environmental crime has been a low priority for law enforcement and intelligence is limited. However, the potential profits are significant and the penalties and risk of detection relatively low, and therefore it is likely to attract some interest. Some criminals are known to take payment for the disposal of industrial and domestic waste products that are expensive to dispose of legally, for example tyres and refrigerators, and then to dump them illegally. Some criminals trade in ozone depleting substances, where the market is principally overseas, and for which the indicators are that the UK is a transit country.

10.19 The European Landfill Directive came into effect in July 2004, restricting the disposal of hazardous waste. The lack of legitimate sites for disposing of hazardous waste in the UK may increase the instances of illegal dumping ('fly tipping'), which takes place in rural and urban areas, and has an economic as well as environmental impact due to the costs of clear up and correct disposal. The Environment Agency estimates that, in 2003, the UK exported €1968 million of waste for legal disposal, mainly to other European countries. The UK also acts as a transit point for many legitimate shipments to and from Asia and Africa. The volume of traffic provides an opportunity for environmental crime through misrepresentation of the type of waste being shipped, as well as an opportunity for other illicit commodities to be concealed within the consignments.

Wildlife crime

10.20 Wildlife crime consists of the illegal import, export, movement and commercial use of protected species, and the illegal killing or persecution of such species. There is a global demand for rare species and their derivatives (including illegally imported products such as tiger bone and bear bile). Wildlife crime threatens critically endangered species and poses a significant public health risk. The introduction and spread of disease through illegal imports is of particular concern, for example, the risk posed by the illegal importation of caviar and ingredients for traditional Chinese medicines. The UK is a source of protected wildlife (particularly rare birds in Scotland), a destination for rare species and a transit country in the trade in smuggled wildlife.

10.21 Those involved in wildlife crime often have highly specialised knowledge and frequently counterfeit or obtain UK government certification illegally in order to facilitate their activities. The level of serious organised criminal involvement is unclear, but the market in wildlife lends itself to exploitation by those with the capability and international contacts to smuggle other illicit commodities. Wildlife crime can be highly profitable (a pair of Lear's Macaw can fetch £50,000; a Madagascan Tortoise £20,000). International and UK law regulates, and in some cases bans, international trade in endangered species and provides for prison sentences of up to seven years. However, with the exception of a handful of prosecutions that have resulted in sentences close to the legal maximum, the vast majority of convictions result in a small fine of well under £1000. The penalties and the relatively low priority attached to wildlife crime by law enforcement are unlikely, therefore, to be any deterrent to serious organised criminals.

Intellectual property crime (counterfeiting)

10.22 Globally, intellectual property crime takes place on a vast scale. The counterfeiting of many types of manufactured goods, such as designer clothes and pharmaceuticals, is rife. Advances in technology have facilitated the growth of counterfeiting, by enabling the speedy reproduction of high quality counterfeit goods, the best of which are difficult to differentiate from the genuine article. Organised, large-scale counterfeiting of CDs, DVDs and other digital media, much of it done in the Far East, is well-publicised. However, a growing percentage of counterfeit CDs and DVDs is produced in comparatively small-scale operations run by UK criminals using readily available technology, such as personal computers with CD/DVD burners. The quality of the product is high, but the packaging is often substandard and can be easily recognised by the public as counterfeit. This growth in 'cottage industry' production is of particular concern to industry.

10.23 Criminals at all levels are involved in intellectual property crime, which is to be expected given the high profits, low risk of detection (intellectual property crime is not a priority for UK police forces, with the exception of the Police Service of Northern Ireland) and rarely more than minimal penalties for those caught. Serious organised criminals are involved, particularly in the manufacture of counterfeit products and in their distribution, and it is reasonable to assume that a proportion of the profits they make is used to fund other serious criminal activities. Meanwhile, there remains a

public perception of intellectual property crime as a victimless crime. In practice, the economic consequences of intellectual property crime can be severe, particularly at a local level, with businesses and jobs affected. For example, Trading Standards in the North West of England estimate that, in 2003, counterfeiting of goods cost legitimate businesses around £750 million and resulted in around 1,000 job losses. In addition, certain counterfeit products, such as car or aircraft parts, pharmaceuticals and alcohol, pose a direct risk to the public, since they are produced without regard to the appropriate safety standards.

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