



## **Black Sea Economic Co-operation**

### ***Topic A: Organized Crime countermeasures: regional mechanisms to combat money laundering and trafficking of illicit funds***

**Organized crime** or criminal organizations are transnational, national, or local groups of highly centralized enterprises run by criminals for the purpose of engaging in illegal activity, most commonly for monetary profit. Some criminal organizations, such as terrorist organizations, are politically motivated. These illegal gatherings may become "disciplined" enough to be considered "organized".

The demand for illegal goods and services nurtures the emergence of ever more centralized and powerful criminal syndicates, who may ultimately succeed in undermining public morals, neutralizing law enforcement through corruption and infiltrating the legal economy unless appropriate countermeasures are taken..

Organized crime groups generate large amounts of money by activities such as drug trafficking, arms smuggling and financial crime. This is of little use to them unless they can disguise it and convert it into funds that are available for investment into legitimate enterprise. The methods they use for converting its 'dirty' money into 'clean' assets encourages corruption. Organized Crime groups need to hide the money's illegal origin. It allows for the expansion of these groups, as the 'laundry' or 'wash cycle' operates to cover the money trail and convert proceeds of crime into usable assets. Money laundering is detrimental for international and domestic trade, banking reputations and for effective governments and rule of law.

Estimated figures of money laundering were between \$200 – \$600 billion per year throughout the 1990s (US Congress Office 1995; Robinson 1996). In 2002 this was estimated between \$500 billion to \$1 trillion per year (UN 2002). This would make organized crime the third largest business in world after foreign exchange and oil (Robinson 1996). The rapid growth of money laundering is due to:

- the scale of Organized Crime precluding it from being a cash business - groups have little option but to convert its proceeds into legitimate funds and do so by investment, by developing legitimate businesses and purchasing property;

- globalisation of communications and commerce - technology has made rapid transfer of funds across international borders much easier, with groups continuously changing techniques to avoid investigation; and,
- a lack of effective financial regulation in parts of the global economy.

### **Money laundering:**

Money laundering is the practice of disguising the origins of illegally-obtained money. Ultimately, it is the process by which the proceeds of crime are made to appear legitimate. The methods by which money may be laundered are varied and can range in sophistication from simple to complex.

Many regulatory and governmental authorities quote estimates each year for the amount of money laundered, either worldwide or within their national economy. In 1996 the International Monetary Fund estimated that two to five percent of the worldwide global economy involved laundered money. However, the FATF, an intergovernmental body set up to combat money laundering, admitted that "overall it is absolutely impossible to produce a reliable estimate of the amount of money laundered and therefore the FATF does not publish any figures in this regard." Academic commentators have likewise been unable to estimate the volume of money with any degree of assurance.

Regardless of the difficulty in measurement, the amount of money laundered each year is in the billions and poses a significant policy concern for governments. As a result, governments and international bodies have undertaken efforts to deter , prevent and apprehend money launderers. Financial institutions have likewise undertaken efforts to prevent and detect transactions involving dirty money, both as a result of government requirements and to avoid the reputational risk involved.

### **Money Laundering is a three-stage process:**

- Placement: (also called immersion) groups 'smurf' small amounts at a time to avoid suspicion; physical disposal of money by moving crime funds into the legitimate financial system; may involve bank complicity, mixing licit and illicit funds, cash purchases and smuggling currency to safe havens.
- Layering: disguises the trail to foil pursuit. Also called 'heavy soaping'. It involves creating false paper trails, converting cash into assets by cash purchases.
- Integration: (also called 'spin dry'): Making it into clean taxable income by real-estate transactions, sham loans, foreign bank complicity and false import and export transactions.

### **Means of money laundering:**

- Money transmitters, black money markets purchasing goods, gambling, increasing the complexity of the money trail.
- Underground banking (flying money), involves clandestine 'bankers' around the world.

- It often involves otherwise legitimate banks and professionals.

The policy aim in this area is to make the financial markets transparent, and minimize the circulation of criminal money and its cost upon legitimate markets.

### **FATF: Financial Action Task Force against Money Laundering**

Formed in 1989 by the G7 countries, the Financial Action Task Force on Money Laundering (FATF) is an intergovernmental body whose purpose is to develop and promote an international response to combat money laundering. The FATF Secretariat is housed at the headquarters of the OECD in Paris. In October 2001, FATF expanded its mission to include combating the financing of terrorism. FATF is a policy-making body, which brings together legal, financial and law enforcement experts to achieve national legislation and regulatory AML and CFT reforms. Currently, its membership consists of 34 countries and territories and two regional organizations. In addition, FATF works in collaboration with a number of international bodies and organizations. These entities have observer status with FATF, which does not entitle them to vote, but permits full participation in plenary sessions and working groups.<sup>[11]</sup>

FATF has developed 40 Recommendations on money laundering and 9 Special Recommendations regarding terrorist financing. FATF assesses each member country against these recommendations in published reports. Countries seen as not being sufficiently compliant with such recommendations are subjected to financial sanctions.<sup>[12]</sup>

FATF's three primary functions with regard to money laundering are:

- Monitoring members' progress in implementing anti-money laundering measures.
- Reviewing and reporting on laundering trends, techniques and countermeasures.
- Promoting the adoption and implementation of FATF anti-money laundering standards globally.

### **ORGANIZED CRIME IN THE BLACK SEA REGION**

The Black Sea Region, since antiquity, has served as a crossroad and has formed an invaluable cultural, political, and economic sea triangle connecting the nation of West, Middle East and Eurasia. The dissolution of the Soviet Union, the enlargement process of the North Atlantic Treaty Organization and the accession of Romania and Bulgaria to the European Union has connected the Black Sea Region with the West in an unprecedented manner.

International security interests and concerns are coming to a focal point in the Black Sea, frozen conflicts between the newly independent states and international energy politics are key factors shaping organized crime and corruption as a security threat impending the democratic proliferation within the territories.

Black Sea region states have inherited political and social networks with a common "legacy of a lack of respect for the rule of law, absence of civil-society, a large criminal underworld and shadow economy, endemic corruption and a demoralized law enforcement

and legal apparatus . This legacy established the necessary preconditions for the development of a serious and sophisticated organized crime problem.

Experts have pointed the need for Black Sea Region States to take on a common approach to deter organized crime. In 1995 Black Sea Economic Cooperation was one of the first Black Sea Regional organization to identify transnational crime as a serious threat to the region's economic stability and security . BSEC has established a special working group for organized crime. Romania is the Country-Coordinator for the Working Group on Combating Crime for the term May 2009 - 30 June 2011.

**The BSEC Ministers of Interior signed the :**

- AGREEMENT AMONG THE GOVERNMENTS OF THE BLACK SEA ECONOMIC COOPERATION PARTICIPATING STATES ON COOPERATION IN COMBATING CRIME, IN PARTICULAR IN ITS ORGANIZED FORMS (Corfu, 2 October 1998)
- ADDITIONAL PROTOCOL TO THE AGREEMENT AMONG THE GOVERNMENTS OF THE BLACK SEA ECONOMIC COOPERATION PARTICIPATING STATES ON COOPERATION IN COMBATING CRIME, IN PARTICULAR IN ITS ORGANIZED FORMS (Kyiv, 15 March 2002)
- ADDITIONAL PROTOCOL ON COMBATING TERRORISM TO THE AGREEMENT AMONG THE GOVERNMENTS OF THE BLACK SEA ECONOMIC COOPERATION PARTICIPATING STATES ON COOPERATION IN COMBATING CRIME, IN PARTICULAR IN ITS ORGANIZED FORMS (Athens, 3 December 2004)

The BSEC member states focus on the need to ensure the well-being of the people of the region by removing all forms of organized crime as obstacles to sustainable development, to establish a BSEC-wide joint front against organized crime and take concerted measures which such a common posture entails, to display a joint commitment expressing lasting political will and determination against organized crime.

**TERMS OF REFERENCE OF**

**THE WORKING GROUP ON COOPERATION IN COMBATING CRIME, IN PARTICULAR IN ITS ORGANIZED FORMS**

1. The Working Group is established in accordance with the Article 6 of the Agreement among the Governments of the Black Sea Economic Cooperation Participating States on Cooperation in Combating Crime, in particular in its Organized Forms.
2. The Working Group shall examine the ways of implementing and promoting cooperation on the basis of the above Agreement and the Additional Protocols to it.
3. The Working Group shall, inter alia, submit recommendations on the need to:
  - a) conclude additional Protocols to this Agreement;
  - b) conclude new International Agreements;
  - c) establish common institutions of cooperation in the sphere of combating crime;
  - d) organize experts meetings and workshops;
  - e) organize training and specialization seminars for the competent personnel;

- f) plan coordinated actions against trans-national criminal networks;
  - g) facilitate the use of scientific and technological methods and means for criminological and forensic researches and carry out joint scientific studies;
  - h) strengthen cross border cooperation among the competent authorities of the BSEC Participating States in the areas provided in Article 1 of the above Agreement and the Additional Protocols to it;
  - i) determine and identify ad hoc contact points to deal with specific issues within the framework of the Agreement.
4. The above recommendations shall be submitted to the Meeting of the Ministers of Interior for approval and if necessary for a relative mandate to be issued. The draft resolutions, decisions and recommendations proposed by the Working group are adopted by the BSEC Council of the Ministers of Foreign Affairs.
5. The Working Group shall coordinate the activity of the Network of the Liaison Officers, established under the Additional Protocol to the Agreement among the Governments of the Black Sea Economic Cooperation Participating States on Cooperation in Combating Crime, in particular in its Organized Forms.
- It shall also:
- a) consider the annual report for the activities Network of the Liaison Officers;
  - b) make an assessment of the activity of the Network, to be approved by the BSEC Ministers of Interior and the BSEC Council of the Ministers of Foreign Affairs;
  - c) propose measures for bolstering the cooperation within the Network;
6. The country-coordinator of the Working Group shall present an annual report on the implementation of the Additional Protocol on Combating Terrorism to the Agreement among the Governments of the Black Sea Economic Cooperation Participating States on Cooperation in Combating Crime, in particular in its Organized Forms, and report to the BSEC Ministers of Interior and the BSEC Council of the Ministers of Foreign Affairs.
7. The Working Group shall convene regularly and at least once a year at a reasonable time prior to and in conjunction with the Meeting of the Ministers of Interior.

#### **THE PLAN OF ACTION OF THE BSEC WORKING GROUP ON COOPERATION IN COMBATING CRIME, IN PARTICULAR IN ITS ORGANIZED FORMS (MAY 2009 – JUNE 2011)**

The coordination of the BSEC Member States efforts with a view to valorize all cooperation opportunities offered by the BSEC, in particular by the Agreement among the Governments of the Black Sea Economic Cooperation Participating States on Cooperation in Combating Crime, in particular in its Organized Forms, signed in Kerkyra, on October the 2nd, 1998 (BSEC Agreement).

#### **MAIN DIRECTIONS FOR ACTION:**

A. Continuation of implementation of the provisions of the Additional Protocol to the BSEC Agreement, done in Kyiv on March the 15th, 2002

1. Inviting BSEC Member States that have not ratified the Additional Protocol to undertake all necessary steps to enforce it.
2. Organizing the Meetings of the BSEC Network of Liaison Officers.
  - *Responsible:* Country - Coordinator of the Working Group and the Chairmanships in Office of BSEC;
  - *Deadline:* Each semester, organizing back-to-back meetings of the Network and of the Working Group.

Note: Albania, Azerbaijan and Serbia did not appoint the Liaison Officers in the Network.

3. Elaboration of the Annual Assessment of the trends of transnational crime in the BSEC Region.

- *Responsible:* Country - Coordinator of the Working Group and the Member States;
- *Deadline:* Each February following the year to evaluate.

B. Continuation of implementation of the provisions of the Additional Protocol on Combating Terrorism to the BSEC Agreement, done in Athens on December the 3rd, 2004 .

1. Inviting BSEC Member States that have not ratified the Additional Protocol to undertake all necessary steps to enforce it.
2. Organizing in Romania of a Seminar at expert level on "*Identifying the best practices in developing the cooperation instruments in the field of prevention and combating terrorism*".
  - *Responsible:* Romania – Romanian Intelligence Service;
  - *Deadline:* 2011, in coordination with the Calendars of Events of the Chairmanships in Office of BSEC.

Annex III to BS/CCLO/WG/R(2010)1

C. Development of the cooperation with the international organizations

1. Monitoring of the implementation by the Member States of the *Regional BSEC Action Plan for Strengthening the Criminal Justice Response to Trafficking in Persons in the Black Sea Region*

- *Responsible:* Member States and Country Coordinator of the Working Group;
- *Date:* Permanent.

2. Valorize the provisions of the Memorandum of Understanding between BSEC and IOM, signed in Bucharest, on March 24th, 2006, by supporting the new projects proposed by IOM could be implemented in the BSEC framework.

3. Examine the possibility to obtain the assistance from the European Commission for the elaboration and implementation of projects in the BSEC Member States in the fields of organized crime, corruption and terrorism prevention and control.

- *Responsible:* BSEC Member States which members of the European Union are.

D. Examine the possibility of cooperation with other regional and international organizations

E. Preparing and organizing the Eighth Meeting of the Ministers of Interior/Public Order of the BSEC Member States

- *Responsible:* Country - Coordinator of the Working Group and the Chairmanship in Office of BSEC; *Deadline:* 2011.

***Further Information***

<http://www.bsec-organization.org/aoc/coooperation/Pages/Information.aspx>

[http://en.wikipedia.org/wiki/Money\\_laundering](http://en.wikipedia.org/wiki/Money_laundering)

<http://www.unodc.org/unodc/en/money-laundering/index.html>

<http://www.unodc.org/unodc/en/organized-crime/index.html>