

**SPEECH DELIVERED BY HANS M. HAFKENSCHIED
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Drug abuse, drugs trafficking, *Medellin* cartel, money laundering, these words must sound familiar to all of you. Few participants to this congress however will - hopefully - have any practical experience in this field. I hope to demonstrate the relevance of the drugs problem to your responsibilities as a risk manager.

In the sixties the use of soft and hard drugs became popular all over the world, especially in the United States and Europe. As I was at that time a police officer, I was confronted on the one hand with a sharp legislation prohibiting the trade and use of any kind of drug whereas this same legislation was massively violated on the other hand.

Even the smallest quantities of hashish were confiscated by the police and reported to the prosecuting authorities. However, this procedure did not in the least diminish the problem: on the contrary, the economic law of supply and demand proved to be much stronger than the criminal legislation.

Illegally obtained proceeds are extremely attractive. Therefore the chain of production - trade - transport - wholesale - retail sale and consumption of drugs has been continually flourishing until the present day, despite many (in particular American) efforts to reduce cannabis and poppy cultivations, either by destroying the harvest in the fields or by establishing programs for the cultivation of alternative agricultural products.

Even worse: I am not proud to admit that Dutch cannabis products (known as *Nederwiet*) is considered to be of the finest quality and are accordingly widely very much appreciated and exported.

Drugs are economic products and treated likewise in the economy of the underworld, controlled by organised crime. In the same way as the Prohibition of alcohol in the United States in the twenties, the booming drugs-scene in the last twenty-five years supplied organised crime with perfect drug-trafficking networks, controlled by sophisticated criminals (*drug-barons*) from the very production stage down to the ultimate consumer: for example, the heroin-cartels in South-East-Asia, the cannabis-cartels in the Middle East and the cocaine-cartels in Latin-America.

Profits yielded are so enormous that the amount of petro-dollars in the seventies is now believed to be surpassed by the narco-dollars of the eighties. Margins are measured in thousands of percentages, and proceeds create a quickly expanding ocean of illegal money.

The annual turnover at the end of the eighties is estimated between 300 and 500 billion US\$, which is more than the total turnover in tobacco (100 billion US\$) and alcohol (170 billion US\$), or ten times the annual budget of the European Community.

For countries such as Bolivia, Colombia and Mexico drugs are the main export products.

It is also estimated that the entire ocean of narco-dollars now surpasses 3 trillion US\$, twice as much as the total debts of all developing countries in the world, or 10% of the world trade.

After the worldwide collapse of communism, the ocean of narco-dollars is now seriously threatening our society. Because contrary to traditional criminal proceeds, the vast and still increasing sums of money are bound to find their way into in the underworld. These tremendous amounts of money can no longer be spent on luxury goods such as yachts, villas, jewelry, etc.

Governments in various countries have been trying to control the drugs-problem, as this was considered to be a major threat to the health of the population, especially young people. However, they have not been successful in this aim. Only 10 per cent of all drugs are actually intercepted by the police, which in itself forces up prices and in turn results in higher criminality rates as drug-addicts will somehow have to get hold of money to buy their daily shots. Addiction to drugs is not a major health problem. In the Netherlands, some 20.000 people die of cancer as a result of smoking, whereas less than 200 people die as a result of drug-abuse. As a matter of fact, it has never been proved that the use of cannabis is damaging to the health, and in practice we see a very tolerant attitude of the authorities towards small users, even in countries such as France where the law strictly prohibits even the possession of small quantities of cannabis products. The very incorporation into criminal law as well as the prosecution policy with regard to drugs result in high prices and profit-margins for dealers, thus only adding to the already huge fortunes of the drug-cartels instead of diminishing the drug problem.

It is my belief, therefore, that the solution will have to be found by legalizing the production, trade and use of all narcotic drugs. Availability on prescription for drug-addicts might be envisaged as one of the possible solutions to prevent young people from easy access.

If drugs are not legalized, the only possible effective control of the problem can only be expected from global co-operation, enforced by supranational authorities. I do not believe, however, that this solution is a realistic one if we look at the slow formation process of *Europol* and the weak enforcing powers of the U.N. in Yugoslavia. And what about countries that are effectively under political control by organised crime, like Columbia and Paraguay?

International cooperation between countries in the field of criminal legislation was used to establish treaties leading in 1987 to the EC-directive on money-laundering. National legislation is now in force in most countries of the Anglo-Saxon and EC-countries.

Financial institutions are obliged to cooperate with the law enforcement authorities by reporting suspicious transactions. It should be clear that financial institutions - unwillingly - play an important role in the money laundering process in all three discerning stages of placement, layering and integration of criminal proceeds.

When I was working as a security manager at Amro-Bank, little or no attention was given to this phenomenon until the mid-eighties: it was simply not known to anybody in the bank that there might be a link between a considerable sum of money paid in cash and its possible criminal origin. This attitude has completely changed during the last few years: under the pressure of the legislation on receiving stolen goods and the reporting of suspicious transactions act, combined with the firm wish of the top management of financial institutions not to endanger their reliability and reputation, banks have become extremely alert in this field.

Does all this help?

Alas, again the answer must be no. Even worse, the war on drugs as declared by several US presidents, with its emphasis on anti-money-laundering measures, seems only to result in a higher degree of professionalism and sophistication of organized crime.

If financial institutions in EC-countries, the United States, Canada, Australia and other countries will succeed in avoiding being involved in money laundering transactions, this will simply shift the problem of the placement of criminal proceeds to other countries with a more permissive legislation. Or can you perhaps envisage criminals driven by sheer despair setting fire to their piled-up banknotes?

All the same, there are some negative aspects to the system of reporting suspicious and unusual transactions:

In the first place, the increasing number of duties charged upon the financial institutions by criminal and fiscal law enforcing authorities are endangering the relationship of confidentiality between a financial institution and its customers.

Furthermore, it will lead to massive reportings to the police who have not sufficient capacity to handle the reporting process effectively and moreover, have no adequate means of investigating the reported transactions on a large scale.

Finally, this reporting system will inevitably lead to changes in the *modus operandi* of money launderers. It is noticeable that a shift is taking place already towards trade and industrial companies. Legislation is keeping abreast with these developments: for instance, the reporting obligation has already been imposed upon insurance companies whereas others, such as tax consultants, lawyers, notaries, accountants, car dealers, real estate brokers, etc. will be next.

Let us now concentrate on "*organized crime*".

A good definition is:

"A crime-enterprise is a durable market-oriented unlawful cooperative with a hierarchical and spacial organization, whose principal means of making profits is by breaking the law."

Roughly speaking, the *criminal market* can be divided into the illegal goods market on one side and the market for legitimate goods and services which are provided by unlawful ways of doing business on the other side. It might be said that every segment of the market which is vulnerable to profitable penetration by crime-enterprises will be affected sooner or later. As I mentioned earlier, the markets of crime-enterprises are subject to the mechanism of supply and demand. This applies to the drugs-market as well as to the market for legal goods and services:

the consumer must be willing and be able to buy goods and services for prices asked.

Thus, profit margins of crime-entreprises are determined just as much by the public market's demand as by the "*underworld*", whereas the threatening interventions of law enforcement agencies have to be considered as the cost-raising determinants of the market. This implies that there is a very complex relationship with the legitimate "*upperworld*" economy.

The fact that the drugs trade has its own *underground economy* has nothing to do with a propensity towards conspiracy, but it results from the urgent need to avoid unwelcome attention both from the police and from competitive co-villains.

Successfully managing a crime-enterprise presents certain complications:

no accounting records are being kept, no written contracts or agreements drawn up and even telephone calls are only made in coded language. Any experienced "*entrepreneur*" is well aware of the fact that files and records can become deadly weapons in the hands of the police. Consequently, all his business information will be stored only in the head of the criminal manager. Moreover, the recruitment of *reliable* personnel is a serious challenge, even more so than for legitimate companies.

However, as compared to legitimate companies, the management of a crime-organization has at its disposal an important advantage largely counterweighting the above complications and which also constitutes one of the main characteristics of a crime-enterprise: the use of (threat with) violence.

Its characteristics altogether are:

1. hierarchical structure
2. use of penalties in the organization
3. practising money laundering
4. use of corrupt civil servants and employees
5. more than one type of criminal offense
6. use of undercover companies
7. active longer than 3 years
8. use of external violence

Another definition of organized crime was formulated by a committee of the European Parliament in 1992. This definition is more threatening than the former one and reads as follows:

" Crime which is structured in such a way that it makes extraordinary investigation methods necessary and which in essence can endanger a country as well as a local community".

Please do not think that the aforementioned is purely theoretical: in The Netherlands alone, the present estimate of crime-enterprises amounts to over 500!

There is still more threatening news to come.

As we already know from the newspapers, a well organized criminal underworld already existed in the former Soviet-Union, as well as in Poland. It is being feared that these organizations will expand into West-European countries, while former units of the Soviet army in Eastern Germany and the Baltic states might develop into Mafia-like organizations. Already criminal gangs operating from Poland are a plague in the Netherlands with respect to organized car-theft.

Former employees of the Stasi and other Eastern-european secret services are currently reorganizing themselves and are building another - economical - criminal network, established in Eastern Europe and moving westwards.

It is estimated that either before or shortly after the collapse of communism a countervalue of more than 100 billion US\$ was shipped out of the Eastern-European countries by the *Nomenklatura*, a process that is still going on. In Western-Europe alone more than 7.000 secret bank accounts were kept.

Adversely, western criminal syndicates are in the process of acquiring *"business interests"* in Russia and Eastern Europe. These countries present the considerable advantage that in view of the enormous demand for western currencies, no tiresome questions are being asked about the origin of monies.

The focal point of relevance of my speech to this audience and especially to your responsibility as a risk manager becomes clear:

Narco-dollars constitute a major threat to society, now and in the near future. It is our duty to prevent organized crime to penetrate from the underworld into the upperworld. We know that apart from using the upperworld as a *"laundrette"* for criminal drug proceeds it is also the inevitable aim of the criminal underworld to enhance their position in the upperworld. This can relatively simple be achieved by the department "mergers and acquisitions" of criminal enterprises to acquire minority shareholding positions or even fully owned legitimate companies, such as banks, casinos, hotels, building companies, racing cars, fashion, food and non-food companies, or any other company left to your and their imagination.

Please do not think that I am exaggerating: the *Bank of Commerce and Credit International* (BCCI: "Bank of Crooks and Criminals") is a perfect example of what has been going on. And the bankruptcy just means that another way has to be found to launder and invest the tremendous quantity of money that is unceasingly rolling in.

Tomorrow, your company might be the victim of an approach by a perfectly legitimate lawyers firm either to do business with criminal organizations or as a victim of a hostile take-over.

A complicating factor is the legitimate upperworld industry who acts as a host and as a profiteer, and yet is a victim at the same time.

The legitimate industry wants to see itself mainly in the role of victim, characterising its symbiotic role in crime-enterprises merely as the few rotten apples in the basket.

Many see the financial advantage of being only a little bit rotten, trying to preserve self-respect by fooling oneself that the activity is not really criminal. As you might recognize, this is also an attitude which must be fought against by top management in the financial world.

The first step to armour oneself against infiltration by the underworld is the development and establishment of ethical codes against corruption and vulnerability of the company towards an approach with a criminal background.

To this end a committee on the defense against criminal penetration has recently been installed under the wings of the National Platform on Crime Control, the first official public-private partnership on a national scale in The Netherlands.

Ethical codes in industry may be not the ultimate answer to the problem, but certainly they are demonstrating the firm mission statement of a company of its wish to stay in the upperworld in a way that is not contaminated by organized crime.

Thank you for your attention.