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NOTE

From: Europol
To: Standing Committee on operation cooperation on internal security (COSI)
Subject: EU Organised Crime Threat Assessment 2011 (OCTA)

Delegations will find attached a letter from the Europol Director to the Chair of COSI (Annex I) transmitting on executive summary of the EU Organised Crime Threat Assessment (OCTA) for 2011 (Annex II).

The Hague, 5 April 2011

DIRECTOR

To:
Krisztina Berta
COSI Chair, Hungarian EU Presidency

Copies:
Francisco José Aranda,
Europol Management Board Chair

Cecilia Malmström, European Commissioner
Home Affairs

Subject: **Organised Crime Threat Assessment 2011**

Dear Ms Berta,

I submit herewith an executive summary of the EU Organised Crime Threat Assessment (OCTA) for 2011, delivered by Europol in line with the Council Conclusions on the establishment of an EU policy cycle for organised and serious international crime¹.

The report identifies the key trends and judgments in respect of the threat from organised crime to the internal security of the EU. Its key finding is that organised crime is changing, having become more diverse in its activities and impact on society over the last two years. Notable features of this development include greater levels of collaboration between criminal groups, greater mobility in and around the EU, a diversification of illicit activity, and a growing dependence on a dynamic infrastructure anchored in key locations and facilitated by widespread use of the Internet, in particular.

In line with the requirements of the new policy cycle, the report includes a list of recommended crime priorities. It also highlights particular issues for policy consideration, including in regard to the development of a more universal response to the problem, with enhanced cooperation with industry and greater use of prevention measures in the public and private sectors.

¹ 15358/10 COSI 69 ENFOPOL 298 CRIMORG 185 ENFOCUSTOM 94, Brussels, 25 October 2010

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I trust the report presents a sufficient basis on which COSI, Council, and the Commission can consider the most effective policy response to the assessed threat. I understand COSI will prepare a Policy Advisory Document for Council on the basis of these findings and with the input of the European Commission. I look forward to contributing to the debate at COSI and Council and I am available to present the findings at these forums, if necessary.

Meanwhile I intend to disseminate the full version of the OCTA, classified as EU RESTRICTED, to the competent authorities of the Member States (including COSI delegates), and other stakeholders, in the week beginning 11 April 2011. A public version of the report will be made available in the following week.

I remain at the disposal of the Hungarian Presidency to assist further.

Yours sincerely,



Rob Wainwright

Director

EU ORGANISED CRIME THREAT ASSESSMENT

OCTA 2011

KEY TRENDS AND JUDGMENTS

O2 – Analysis & Knowledge
The Hague, 04/04/11
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CONTENTS

<u>KEY JUDGMENTS</u>	4
<u>ORGANISED CRIME IN THE EU</u>	6
<u>DRUGS</u>	6
<i>HEROIN</i>	<i>6</i>
<i>COCAINE</i>	<i>7</i>
<i>SYNTHETIC DRUGS</i>	<i>8</i>
<i>CANNABIS</i>	<i>9</i>
<u>FACILITATED ILLEGAL IMMIGRATION</u>	10
<u>TRAFFICKING IN HUMAN BEINGS (THB)</u>	10
<u>FRAUD</u>	11
<i>VAT FRAUD</i>	<i>11</i>
<i>PAYMENT CARD FRAUD</i>	<i>12</i>
<u>CIGARETTE SMUGGLING</u>	12
<u>EURO COUNTERFEITING</u>	13
<u>COMMODITY COUNTERFEITING</u>	14
<u>WEAPONS TRAFFICKING</u>	14
<u>ORGANISED PROPERTY CRIME</u>	15
<u>ENVIRONMENTAL CRIME</u>	16
<i>ILLICIT WASTE TRAFFICKING</i>	<i>16</i>
<i>TRAFFICKING IN ENDANGERED SPECIES (TES)</i>	<i>16</i>
<u>HORIZONTAL ISSUES</u>	17
<u>MONEY LAUNDERING</u>	17
<u>THE INTERNET AS A FACILITATOR FOR ORGANISED CRIME</u>	18
<u>CONCLUSIONS AND FUTURE STRATEGIC CONSIDERATIONS</u>	19
<u>RECOMMENDED CRIME PRIORITIES</u>	20

Key Judgments

- Organised crime is changing and becoming **increasingly diverse** in its methods, groups structures, and impact on society. A new criminal landscape is emerging, marked increasingly by highly mobile and flexible groups operating in multiple jurisdictions and criminal sectors, and aided, in particular, by widespread, illicit use of the Internet.
- Criminal groups are increasingly **multi-commodity** and **poly-criminal** in their activities. The best resourced groups, including some Albanian-speaking and Lithuanian groups, have gathered diverse portfolios of criminal business interests, improving their resilience at a time of economic austerity and strengthening their capability to identify and exploit new illicit markets. Activities such as carbon credit fraud, payment card fraud and commodity counterfeiting attract the increasing interest of groups due to lower levels of perceived risk involved.
- More than ever before strong levels of cooperation exist between different organised crime groups, transcending national, ethnic, and business differences. Those trafficking commodities increasingly share loads, spreading risks and costs. An increasingly **collaborative atmosphere** has also intensified the practice of barter, in which illicit commodities are exchanged rather than purchased with cash. This, and a marked tendency for groups to engage in activities such as currency counterfeiting and property crime in order to fund others such as drug trafficking, has made organised crime activities less visible to authorities targeting criminal assets.
- Criminal groups have taken full advantage of developments in commercial and passenger **transport infrastructure**, effectively shortening supply chains by means of container shipments, air freight, light aircraft and the Internet. As a result, routes for illicit commodities destined for the EU are more diverse, prevalent, and dynamic than ever before. Organised crime remains highly responsive to law enforcement control measures, as seen by the relocation of substantial flows of illegal immigrants from Mediterranean maritime routes to Greece's border with Turkey.
- The **knowing cooperation of specialists** in the transport, financial, real estate, legal and pharmaceutical sectors is a notable facilitating factor for organised crime. In the current economic climate businesses, particularly in sectors capable of providing support for commodity trafficking or money laundering, have become more vulnerable to corruptive influence.
- Meanwhile, in more general terms, the ongoing effects of the **global economic crisis** have brought EU citizens into closer proximity with organised crime. Financial constraints have made communities more tolerant of illicit commodities, especially counterfeit goods, and individuals more likely to be recruited by criminal groups, for example for cannabis cultivation or as drug couriers or money 'mules'. Taking into consideration also reports of financial constraints on law enforcement, the crisis presents a clear threat in societal and policing terms.

- Within individual criminal sectors the **market for illicit drugs is particularly dynamic**, with fluctuating prices and purity levels for cocaine and heroin, along with shortages of synthetic precursors, prompting the emergence of 'legal highs' and other substitutes. In addition, drug markets in the EU and those of neighbouring regions are increasingly interconnected. Increased heroin consumption in the Western Balkans, cocaine consumption in the Former Soviet Union, and further expansion in synthetic drug production in the Middle East, for example, all affect market conditions for drug trafficking and production in the EU. Meanwhile diversification of the cocaine trade has seen a proliferation of new routes to the EU, including through parts of Africa where possible links between drug traffickers and terrorist groups have been identified.
- **Internet technology** has now emerged as a key facilitator for the vast majority of offline organised crime activity. In addition to the high-tech crimes of cybercrime, payment card fraud, the distribution of child abuse material, and audio visual piracy, extensive use of the Internet now underpins illicit drug synthesis, extraction and distribution, the recruitment and marketing of victims of trafficking in human beings (THB), the facilitation of illegal immigration, the supply of counterfeit commodities, trafficking in endangered species, and many other criminal activities. It is also widely used as a secure communication and money laundering tool by criminal groups.
- In geographical terms the most prominent organised crime activities in the EU are underpinned by a logistical architecture located around five key hubs. The **North West** hub retains its role as the principal coordination centre for drug distribution, due to its proximity to highly profitable destination markets, its well developed commercial and transport infrastructure, and its production capacity. The **North East** hub remains a focus for transit of illicit commodities to and from the Former Soviet Union and a base for violent poly-criminal groups with international reach. The rapid expansion in Europe, in the last two years, of the activities of Lithuanian organised crime groups is a notable feature. The leading role of the **South West** hub in cocaine and cannabis resin transit and distribution persists despite eastward shifts in some trafficking routes, and it currently serves also as a transit zone for victims of THB for sexual exploitation. The **Southern** hub continues to be prominent in criminal entrepreneurship, as a centre for counterfeit currency and commodities, a transit zone for victims of THB and illegal immigrants, and a base for some of the best resourced criminal groups in Europe.
- Of all the hubs the **South East** has seen the greatest expansion in recent years, as a result of increased trafficking via the Black Sea, proliferation of numerous Balkan routes for illicit commodities to and from the EU, and a significant increase in illegal immigration via Greece. These developments in the region have contributed to the formation of a **Balkan axis** for trafficking to the EU, consisting of the Western Balkans and South East Europe. New transit hubs are in the process of being formed in countries such as Hungary, where several Balkan and Black Sea routes converge. Albanian speaking, Turkish and Former Soviet Union criminal groups are seeking to expand their interests in the EU, and may exploit opportunities in the possible accession of Bulgaria and Romania to the Schengen Zone, and recent and prospective EU visa exemptions for Western Balkan states, the Ukraine and Moldova.

Organised Crime in the EU

Drugs

Drug trafficking to and within the EU is increasingly controlled by groups dealing in more than one drug to maximise profits. This has been the case for Western Balkan and West African groups for some time. Evidence has emerged of others also now diversifying their activities, for example Vietnamese groups from cannabis to heroin and synthetics. Some groups enter into other criminal activities in order to finance their drug trafficking operations, for example by producing counterfeit euros, which are then used to pay for cocaine, and selling stolen vehicles in one part of the EU in order to pay for heroin in another. **Diversification** ensures greater resilience to fluctuations in supply and demand, as in the case of synthetic drug distributors which engage in property crime during a shortage in supply.

Groups involved in drug trafficking to the EU cooperate with one another, sharing loads to spread both risk and costs, and with groups engaged in other activities in order to facilitate activity and to maximise profits. Enhanced cooperation levels have also given rise to a barter market, in which consignments of drugs and their precursors are exchanged for stolen property, firearms and, indeed, other drugs, intensifying an informal economy which makes organised crime even less visible.

In addition, there are indications of a higher level of complicity of external specialists providing, for example, **maritime, pharmaceutical, mechanical, legal and financial expertise**, perhaps facilitated by economic vulnerability in wider society. Increasingly also **EU citizens** are being used by non-EU criminal groups to courier heroin and cocaine, in an attempt to evade law enforcement measures based on nationality or ethnic appearance. Interception strategies will therefore need to evolve accordingly. Across the EU, the use of members of Roma communities for low level drug distribution is on the rise.

In terms of transport methods, **container shipments** are prominent in the trafficking of cocaine, heroin, cannabis and synthetic drug precursors destined for the EU. The planned expansion in container ports close to the EU, for example at Tangier (Morocco) and Port Said (Egypt), will provide further opportunities for sea freight trafficking.

Heroin

While the majority of illicit heroin entering the EU continues to be sourced from Afghanistan via Turkey and the Balkans, the proliferation of direct transport and commercial links between source and distribution countries has facilitated unprecedented diversification of routes and trafficking methods. Recent years have seen the further development of the **Black Sea Route** via Iran, Azerbaijan, Georgia and Ukraine, the increasing prevalence of **direct maritime shipments** to Mediterranean ports, and use of commercial and freight air links to EU airports, by means of direct flights or stopovers in West and East Africa. Accordingly, **West African and West Asian nationals** are increasingly involved in heroin distribution within the EU. Iranian, Iraqi and Pakistani groups are likely to become more prominent in trafficking to the EU.

The Balkan routes exhibit a high degree of diversity and flexibility: heroin consignments cross the Adriatic after transiting Greece, proceed via Bulgaria and Romania through central Europe or enter the Western Balkans, which have been a key trans-shipment area for many years. The Kosovo region, in particular, is a base for Albanian-speaking groups active in trafficking to the EU. Heroin precursors (acetic anhydride) destined for production areas also transit the region. Because of its location at the convergence of the Balkan and Black Sea routes, Hungary has emerged as a trans-shipment point both for heroin and its precursors.

Turkish and Albanian-speaking criminal groups remain the most prominent in trafficking heroin to and within the EU. Turkish groups have established heroin stockpiles in the Western Balkans, from which local groups are in charge of further distribution.

Within the EU the **North West criminal hub** retains its role as the principal distribution centre for heroin. In addition to Turkish groups, criminals of Dutch and Moroccan origin are prominent in heroin distribution in the region. Of note, Turkish groups exchange heroin imports for synthetic drugs – particularly ecstasy - produced in the North West hub, for transport to Turkey. Recently, Belgium has emerged as a secondary distribution point.

Cocaine

While Spain and Portugal remain the principal EU entry points, cocaine is increasingly reaching destination markets directly by container shipment and air freight, and via the Balkan Routes into South East Europe. Reported reductions in maritime seizures in this region in the last two years are an indication of the extent to which **trafficking patterns have changed**. Transport is conducted also by air freight, non-commercial light aircraft, passenger courier and the postal service. Moroccan groups retain a key role in trafficking from West Africa using the North African route established for cannabis resin.

Colombian groups continue to play a key role in supplying EU groups including the 'Ndrangheta in Italy. An increase in cocaine trafficking from Mexico to the South West hub has also been detected. This may indicate a new trend of potential significance for the EU, in light of the dominance of **Mexican groups** in the illicit drugs market in the Americas and the levels of violence attached to their activities. For the moment, however, the intelligence picture is not clear. Meanwhile criminals of West African origin have assumed a prominent role in the organisation of cocaine trafficking to the EU by air courier.

Evidence of trafficking via Mali and Libya, and the involvement of West African groups in trafficking via Turkey, suggests that cocaine is being routed via parts of the Sahel region, possibly controlled or under the influence of people linked to Al Qaeda in the Islamic Maghreb (AQIM) or rebel groups. Although these indications are not yet firm this, and the reported establishment of links between Latin American groups active in West Africa and AQIM, Hezbollah and national liberation forces in the region, raises the possibility that cocaine trafficking to the EU is a source of **funding for terrorist groups**.

An increasing amount of cocaine from Latin America enters the EU via the Western Balkans and South East Europe: large shipments have arrived at ports on the Adriatic and Black Sea. Equally, criminals from the Western Balkans have established operational bases in Latin America, maximizing their profits by sourcing cocaine directly from producers. Within **South East Europe**, Bulgaria now serves as a transit point for maritime shipments from Latin America, trafficking from West Africa via Turkey and the Balkan Routes, and cocaine destined for Italian criminal groups. The control by street gangs of drugs markets in some parts of this region is a concern to authorities, in as much as their affiliation to Latin American gangs may afford them privileged access to cocaine.

The **North East hub** currently serves as a transit point for supply to the Russian Federation, with Lithuanian groups engaged in trafficking from Latin America via West Africa and the South West and North West hubs.

The **North West hub**, meanwhile, retains a principal role in the distribution of cocaine to EU markets. Cocaine is stockpiled here, and transits the hub en route to the UK, France, Germany, the Nordic countries, Italy, Spain, Hungary, Romania, and the Russian Federation. In itself this is evidence of the variety of routes used, and the dynamic relationship between organised crime networks and criminal hubs.

Synthetic Drugs

A significant reduction in **ecstasy** production is attributed to a shortage of the precursor PMK, perhaps as a result of recent control measures in China concerning its production, trade, and export. In turn this has prompted increased interest by organised crime groups in other substances such as Safrole or MMDMG, which can be used to produce PMK and MDMA. While levels of ecstasy production and trafficking are expected to increase, they are unlikely to reach the levels seen in the middle of the last decade for a number of years.

In some parts of the EU, consumption of ecstasy has been substituted by '**designer drugs**' and '**legal highs**', often retailed as ecstasy-style tablets. A total of 24 new synthetic psychoactive substances were reported to the European early warning system in 2009, and 41 in 2010¹. The rate at which these enter the market, often by Internet retail, presents a considerable challenge to legislators. In those Member States in which prohibitive legislation has been introduced, supply from countries without controls, especially China and India, and Internet sales, feed illicit markets.

The identification in the EU of facilities for manufacturing tablets of substances such as mephedrone points to the involvement of organised crime groups in their distribution, as do stockpiles in neighbouring countries. Intelligence also indicates that criminal groups are involved in the distribution of 'Spice', herbal mixtures often infused with synthetic cannabinoids. In light of the readiness of groups to exploit gaps in drug control legislation, and the speed with which markets develop for non-prohibited analogues for illicit drugs, criminal interest in new psychoactive substances is likely to grow.

The production of **amphetamine** in the EU appears to be increasing: in countries with high cocaine prices it is increasingly in demand as a cheaper alternative. Large scale production has expanded beyond traditional locations in the North West hub, particularly in Poland and the Baltic States. Demand in the Middle East has resulted in the Balkan Routes being used to traffic amphetamine produced in the North West hub, which is often exchanged for heroin. Production facilities have also been established in the Western Balkans, the Near East and the Caucasus, with EU nationals recruited as managers in some cases.

There has been a notable increase also in the production of **methamphetamine**. Prevalence is for the most part concentrated in the Nordic and Baltic regions; production has been identified in countries including Lithuania, the Czech Republic and the Slovak Republic, and is reported to be in preparation in Poland. Precursors in industrial quantities are diverted within the EU, obtained from regions such as the Former Soviet Union and the Western Balkans, or extracted from pharmaceutical products freely available, without prescription, in a number of Member States. In the absence of harmonised controls, synthetic drug producers from Member States in which sales of this medication are restricted, travel to neighbouring countries in order to source supply.

Of particular concern is the reported production in the Czech Republic of **crystal methamphetamine** by an organised crime group from the Western Balkans. While this may be an isolated instance, the considerable social harms attached to the consumption of this illicit commodity and the established distribution channels for Czech methamphetamine in neighbouring countries make this a worrying development, requiring proactive monitoring².

The **North West criminal hub** retains a considerable capacity for synthetic drug production. Emerging trends include a greater prominence of suspects of Moroccan origin in production and distribution, and the sourcing of precursor chemicals in the South West hub, perhaps as a result of enforcement measures in The Netherlands and Belgium. Lithuanian criminal groups, meanwhile, play an important role in the trafficking of synthetic drugs to the Russian Federation, Scandinavia and the Baltic States. In the **North East hub** and the Nordic countries, they have strengthened their role in the supply of amphetamine, methamphetamine and ecstasy-type stimulants, and the precursor BMK.

Cannabis

Large scale domestic cultivation of **herbal cannabis** continues to increase within the EU. Indoor cultivation is mostly apparent in Northern and Eastern Europe, with the **North West criminal hub** continuing to play an important role in production, storage and packaging. Specialist expertise from the North West hub is exported throughout Europe. Seeds, equipment and information are also increasingly sourced on the Internet, providing law enforcement with an opportunity to track seed consignments to locations of potential cultivation. Elsewhere, Vietnamese groups are prominent in the indoor cultivation of cannabis: gardeners tending to the cannabis are often illegal immigrants working to pay off their transportation fees.

In **South East Europe** and the Western Balkans both indoor and outdoor cultivation have been observed. Albanian-speaking criminal groups play a significant role in supplying South East Europe, while within the South East criminal hub there is an emerging trend for outdoor cultivation by elderly citizens, whose harvest is then purchased by criminal groups engaged in poly-drug distribution. As in the case of illegal immigrants and individuals compromised by the economic crisis, domestic cannabis cultivation brings **vulnerable groups in society** into greater proximity with organised crime.

The majority of **cannabis resin** consumed in the EU still comes from Morocco, and the **South West criminal hub** retains an important role in its trafficking to destination markets. Increasingly, however, Moroccan resin reaches destination countries by sea container, bypassing the South West hub. Resin may also be exported via other Northern African countries, particularly those with existing routes for illicit trafficking and groups active, for example, in the field of illegal immigration. The **North West hub** acts as a secondary distribution and storage centre, serving markets in Northern Europe, where retail is often controlled by criminal groups of Moroccan origin.

Facilitated Illegal Immigration

Migrant flows across the Mediterranean Sea, and illicit entries at the Eastern land borders of the EU, have both significantly decreased. **Greece** is now the **focus for illegal entry to the EU** and, while levels of illegal migration connected with seasonal work patterns between Albania to Greece has decreased in the last year, illicit entries of migrants from Turkey have increased by over 500 per cent between 2009 and 2010. The **South East** criminal hub, therefore, is under the heaviest pressure. As a result also of its proximity to the Western Balkans, the hub's centre of gravity for this criminal problem is currently Greece. The **Southern** criminal hub is a landing zone for many immigrants who have entered the EU through Greece, and who remain in Italy or proceed to other Member States. Illegal immigrants are often exploited or employed by criminal groups active in the hub.

The social and **political unrest** pervading **North Africa** since January 2011 is bound to have a significant impact on the internal security of Southern Europe. By exploiting the present political vacuum and the diminution of police capability to maintain public order and combat criminal activity, organised crime groups are facilitating several thousands of illegal immigrants, mainly of Tunisian origin, in their attempt to cross the Mediterranean and reach Europe. This carries an inherent risk to the internal security of the EU.

The possible accession of Romania and Bulgaria to the Schengen Zone will greatly widen the Eastern green and blue borders. This has the potential to release the pressure on the Turkish-Greek border, and lead to increased targeting of Bulgaria and the Black Sea coast by illegal immigrants and their facilitators. **Turkish organised crime groups** will exploit further opportunities for delivering illegal immigrants to the EU by means of the Black Sea and the flourishing Turkish diaspora in Bulgaria. From a structural point of view **Chinese, Vietnamese, Indian, Pakistani** and some **West African criminal groups** are among the most capable in managing all successive phases of illegal immigration from source to destination countries. Transiting migrants are frequently exploited in illicit labour, thus marking a point of contact between illegal immigration and trafficking in human beings (THB).

Political asylum requests, and family reunions following marriages of convenience with EU citizens, are among the most frequently abused procedures. In addition, a prevalent tactic is to exploit loopholes and the lack of harmonisation in current legislation. In the absence of any significant harmonisation of standards with regards to visa issue a further increase in the abuse of legitimate migration procedures is likely. **Counterfeit, forged or fraudulently obtained personal and travel documents**, including passports, visas and residence permits, are procured with the assistance of skilled specialists: some criminal groups have set up bogus schools in order to obtain and abuse student visas. There are also indications that organised smuggling by chartered or private airplanes is an emerging trend.

With regard to specific risks, the large and growing number of illegal immigrants from countries and regions in which Islamist terrorist groups are active – such as Chechnya, Afghanistan, Iraq, Pakistan and Somalia – raises the possibility that channels for illegal immigration will be used increasingly by those seeking to engage in terrorist activity in the EU.

All Member States in and around the **North West** criminal hub are destination countries: the UK and Nordic countries are particularly targeted, providing foreign and domestic criminal groups in nearby Member States with opportunities for making a profit by facilitating that final step. The **North East** criminal hub serves as a re-routing centre to the Baltic Sea region and elsewhere in the EU. The **South West** criminal hub has seen a considerable reduction of illegal immigrants from North Africa, but is still affected by flows from Latin America, which harbour additional threats linked to South American and Mexican drug cartels, and Central American gangs.

Trafficking in Human Beings (THB)

Human traffickers aim to profit from the transport of migrants and also their criminal exploitation upon arrival in the EU. As a result, criminal groups plan their victims' travel with great care, to ensure that it is conducted as quickly and as safely as possible. When victims are trafficked from outside the EU, **air travel** on counterfeit, forged or fraudulently obtained documents is currently the preferred option.

Chinese and Nigerian organised crime groups are proficient in the production of **falsified and counterfeit travel documents** to facilitate THB, and also use genuine documents issued to 'lookalikes'. They frequently exploit the visa regime, as in the case of 'overstayers'. In many cases victims enter the EU by abusing the asylum system, assisted by criminal groups in destination countries. **Minors** are often trafficked at a very young age, below the age of criminal liability. Criminals from the Roma community, engaged in child trafficking for exploitation in petty crime, use their own passports, which record only the details of dependent children and no photographs, trafficking victims of a similar age and gender to those listed.

The use of the **Internet** is rapidly expanding, both for the recruitment of victims and for advertising their services. Meetings between victims and clients are organised through dedicated websites. Victims are rapidly rotated, remaining in the same city for no more than one or two days. The perceived anonymity and mass audience of online services increases both the discretion and profitability of these services, making it very hard to identify criminals using traditional police techniques.

Bulgarian and Romanian (mostly of **Roma** ethnicity), **Nigerian** and **Chinese** groups are probably the most threatening to society as a whole. **Roma** organised crime groups are extremely mobile, making the most of their historically itinerant nature. An attitude of detachment towards Roma communities by public authorities in some Member States has, in turn, left the most vulnerable members of these communities - children and young women - unprotected from exploitation by criminal groups. **Chinese** groups operate throughout the EU in a less conspicuous manner: traditional environments for labour exploitation include Asian restaurants, textile sweatshops and tanneries. More recently, widespread exploitation of Chinese victims in prostitution has emerged.

Nigerian criminal groups are mostly formed of cellular structures. Women play a particularly important role within criminal groups, closely monitoring the trafficking process from recruitment to exploitation. Victims often become members of the criminal groups exploiting them, ultimately assuming the role of 'Madam' in the exploitation of others. In turn, this cultural novelty reduces the likelihood that victims will cooperate with law enforcement. Nigerian groups engaged in THB for sexual exploitation use the **Southern and South West hubs** as springboards for the further distribution of victims, particularly to the Nordic countries.

Criminal groups adapt their services to local requirements, providing seasonal workers and the necessary protection for clients of sexual services targeted by more stringent legislation. They also traffic victims within the EU in order to maximise profits. For example, Roma groups from Poland and the Slovak Republic traffic unemployed individuals to the UK, where they are used to commit welfare benefit fraud. There are also reports of increasing trans-hub movements of exploited human beings from **South East Europe** (Bulgaria and Romania) to Germany and the Nordic countries by Roma organised crime groups, amongst others.

Fraud

- *VAT fraud*

Missing trader intra-community (MTIC) fraud is evolving from high value, portable goods (e.g. cell phones and computer chips) to **intangible commodities** such as carbon credits. Nevertheless, the range of goods involved in VAT fraud remains wide, and includes railway vehicle components, scrap metal, new and used cars, precious metals, footwear, Renewable Energy and Renewable Obligation Certificates, mobile phone credits and metal allocations. **Carbon credit fraud** is the purchase of CO₂ emissions quotas from countries not liable to VAT on these transactions and their subsequent resale in countries liable to VAT, with the aim of reclaiming the VAT amount payable to the state concerned. This activity accounts for an estimated **5 billion euros in damage to EU taxpayers** each year. **North West Europe** in particular has seen a decline in more 'traditional' types of VAT fraud using mobile phones and computer chips: while this is due in part to changes in taxations rules, since early 2009 this region has also been a hub for carbon credit fraud. An increase in VAT fraud relating to the trade of fuel has also been observed.

VAT fraudsters have created global networks to facilitate the commission of VAT fraud across the EU, largely independently from local crime groups. In the money laundering phase collaboration has been observed with criminal networks in countries with weaker regulatory systems. VAT fraud is also linked to other forms of criminality, with proceeds frequently used to fund drugs trafficking, and tobacco and alcohol fraud. Money laundering, often via banks located in third countries such as the UAE and the Dutch Antilles, is a feature of almost every reported case. Some indications point to the possibility of the proceeds from VAT fraud being used to finance extremist or terrorist activity.

- *Payment card fraud*

In 2009 organised crime groups derived more than **1.5 billion euros from payment card fraud** in the EU. Taking fraudulent transactions in the EU against non-EU financial institutions also into consideration the total illicit income of criminal groups engaged in this activity is likely to be much higher.

Criminals from the **North East** and **South East hubs** and Former Soviet Union commit offences in the EU and are extending their activity to the United States and South Africa. Meanwhile in Bulgaria authorities have reported increased participation in payment card fraud by individuals and groups better known for their activities in thefts, vehicle crime, drug trafficking, and the distribution of counterfeit currency, attracted largely by lower penalties and perceptions of lower levels of risk generally. Criminal groups based in China and South East Asia use cloned payment cards in EU Member States to purchase luxury and brand name goods which are then sent to Asia. 'Mules' recruited in Asia travel by air to Western Europe on forged identity and travel documents, servicing local criminal groups.

Fraud migration has been a notable trend in recent years. While the introduction of the EMV chip standard provides a very high level of protection for payment card transactions within the EU, lack of wholesale implementation in other regions has compelled EU card issuers to retain magnetic strips. Since such data cannot be misused in countries in which chips are required, organised crime groups have deployed cells to non-EMV compliant regions. As a result, **half the fraudulent withdrawals** made with cloned EU payment cards are currently made **outside the EU**.

Around 80 per cent of non-EU fraud against EU payment cards is committed in the **United States**. For authorities in the EU, therefore, including financial institutions bearing significant losses from this criminal activity, the prevention of illegal withdrawals in regions without the EMV standard is now a high priority. Some banks in the EU have already chosen to issue EMV-only cards (which are not accepted outside the EU) or to block transactions outside the EU for debit cards with magnetic strips. This may lead to further consequences. Due to chargeback rules, by which countries with lower levels of protection must cover losses incurred, non-EU countries may block use of their own cards in the EU. The activities of organised crime groups, therefore, have had a significantly adverse **impact on the global payment card system**, limiting the possibility of trans-regional transactions and raising important policy issues for the financial sector and public authorities in the EU.

Cigarette Smuggling

Organised crime groups based in the EU are increasingly active in cigarette smuggling, seen as an attractive alternative to drug trafficking because of its lower penalties and higher profits. In order to conceal consignments and their origin, criminal groups make use of transshipment points before entry to the EU. Criminals attempt to move goods through the **free trade zones** of Dubai and Jebel Ali (UAE) and Port Said (Egypt), or through regions in which the EU law enforcement community has weaker cooperation arrangements.

The EU is affected by three types of cigarette smuggling: diversion and smuggling of genuine cigarettes, smuggling of 'cheap whites' (cheap cigarette brands) and covert manufacture and trafficking of counterfeits originating mainly from China. The majority of **genuine cigarettes** smuggled through the Baltic Sea region are produced in the Russian Federation, Belarus, Ukraine and Moldova; 'cheap whites' are smuggled via the Russian exclave of Kaliningrad, Poland and Lithuania towards Member States. Genuine and counterfeit cigarettes also pass along the Balkan Route.

While China is the largest source of **counterfeits** of well known brands, a substantial number are also smuggled from Former Soviet Union countries including the Russian Federation and Ukraine. Illegal factories within EU Member States, especially in Poland and some Baltic States, are also significant sources. An observable increase in counterfeit hand rolling tobacco probably reflects increased demand for a cheaper alternative to cigarettes as a result of the global economic crisis.

Cigarette smuggling represents a substantial loss to national and EU budgets, estimated at around 10 billion euros per year, and damages the interests of legitimate manufacturers and retailers. Cheaper and smuggled products also constitute a marked threat to EU efforts on tobacco control, and by extension the objective of reducing consumption.

Euro Counterfeiting

While the most recent biannual figures for the number of counterfeit euros seized in 2010 show reductions of 13 per cent and 6 per cent respectively (compared to the previous six months), an overall increase of 31 per cent in the last two years (compared to 2007-8) is a more reliable indicator of the long-term trend³. According to the European Central Bank, more than 97 per cent of counterfeits removed from circulation in the second half of 2010 were found in euro zone countries, in which there is a greater possibility for their local distribution; just 1.5 per cent was seized in EU countries outside the euro zone, and another 1.5 per cent in other parts of the world⁴.

Lithuania, Bulgaria, Italy and Colombia are among the foremost countries for counterfeit currency production sites. Although the **Southern criminal hub** is one of the principal locations for counterfeit euro production, Bulgarian organised crime groups continue to be involved in this activity. Intelligence indicates that Lithuanian groups are less active in the production of counterfeit euros and now source them from Italy. The production of counterfeits is not restricted to illegal laboratories: perhaps as a consequence of the global economic crisis, owners and employees of legitimate printing firms have become increasingly involved in this illicit activity.

Meanwhile distributors of counterfeit euros use the same channels for other illicit commodities, as in the case of Estonian and Lithuanian organised crime groups also engaged in the trafficking of drugs. These groups are also involved in outsourcing counterfeit euro distribution to local street-level drug dealers, which may emerge as an effective long-term *modus operandi* for other groups as well. Moroccan groups involved in trafficking cannabis resin towards Spain and France also cooperate with Italian suppliers of counterfeit euros.

Commodity counterfeiting

China continues to be the main source country for counterfeit goods destined for the EU. Counterfeit goods from Asia often transit free trade zones in the **United Arab Emirates** on their way to the EU⁵. Goods enter the EU via major seaports: the largest volumes pass through Rotterdam, Hamburg and Bremen, while Valencia is the primary entry point for counterfeit textiles. Certain areas of the **Western Balkans** have been used as storage hubs for counterfeit goods destined for the EU, particularly brand name products with Chinese and Turkish origin.

While goods are sold throughout Europe the **Southern criminal hub** appears to be the key distribution point. Illegal entry of goods through the Italian ports is facilitated by close cooperation between **Chinese and Italian organised crime groups**, including Camorra and 'Ndrangheta. The majority of products are distributed by means of unlicensed markets and street sales, many of which are controlled by criminal groups. **Illegal immigrants**, often from Africa or Asia, are known to have been coerced by their facilitators into distributing counterfeits⁶.

In recent years, the range of counterfeits has widened to include items such as toys, medicines, deodorants, toothpaste, condoms, washing products, electrical items, food and beverages. In such cases, customers are often unaware of the counterfeit character of everyday items offered at the same price as original products. Retail businesses also merge supplies of legitimate products with items produced in violation of industrial brand and patent rights. In addition to the economic threat, these items pose a **potential danger to health and safety** of EU citizens.

Counterfeit medicines are increasingly distributed via the **Internet**. A high level of demand for certain products, available only on prescription, provides new opportunities for organised crime groups. By way of illustration, the pandemic nature of the H1N1 virus prompted the emergence of a plethora of counterfeit 'flu medicines. Although mainly produced in India and other Asian countries, production of counterfeit medicines also takes place in Eastern Europe. **Russian criminal groups**, for instance, have developed expertise in their production. Previously thought largely to affect developing countries, counterfeit medicines are now known to impact upon more developed regions including the EU.

Commodity counterfeiting is facilitated by commercial globalisation and the existence of cheap labour. At the same time, the **global economic crisis** has weakened the purchasing power of EU citizens. Social tolerance for counterfeits, already relatively high, has increased. Accordingly, organised crime groups, involved in other criminal markets such as drug trafficking, have become drawn to the substantial profits, lower penalties and perceived lower risk offered by counterfeiting activities.

Weapons Trafficking

Member States continue to be affected by weapons trafficked from the **Western Balkans**. Large quantities of weapons and armaments from the conflicts of the 1990s remain beyond the authorities' control and continue to feed international criminal markets. Serbia and Bosnia and Herzegovina, in particular, are source countries for arms and ammunition for criminal groups in the EU. The Russian Federation and Eastern European countries are also notable countries of origin. The Western Balkans are expected to remain a key source of heavy firearms trafficked into the EU, due to the **large illicit stockpiles** in Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, the Kosovo region, Montenegro and Serbia.

Trafficked weapons are often concealed in legitimate loads, or transported in small quantities in private cars or various means of public transport. Trafficking is conducted by extensive international networks with **links to THB and drug trafficking**. Organised crime groups, comprising individuals from the former Yugoslavia, play a prominent role, with access to considerable quantities of individual weapons and military grade weapons including anti-tank rocket launchers and anti-aircraft equipment. **Italian organised crime groups**, such as 'Ndrangheta, and **Albanian-speaking groups** have also traditionally been involved in the illicit arms trade, while **Outlaw Motorcycle Gangs** (OMCGs) have been identified in the trafficking of heavy firearms from South East Europe, recently to Scandinavia. Routes are largely similar to those established for drug trafficking. Legitimate business structures used in weapons trafficking include transport and haulage firms, accessed through a mixture of coercion and corruption at driver level.

There has been a marked increase in the number of incidents involving 'heavy firearms' in the EU⁷. However, criminals at all levels in the EU still tend to prefer smaller firearms such as handguns. The use of 'heavy firearms' is part of the wider threat of 'access to firearms' in general, whereby criminals are able to vary the type of firearm they use, including converted and lawfully held firearms.

Organised Property Crime

Organised crime groups from the **Western Balkans, South East Europe** and the **Former Soviet Union** are increasingly engaging in acts of property crime in the EU, the scale and level of violence of which is significant. Offences committed range from organised vehicle theft and burglaries to armed robberies.

Lithuanian organised crime groups are active in many Member States, including the UK, Ireland, Germany, Sweden, Denmark, Finland, France, Belgium, the Netherlands and Spain. They are known to engage in high value vehicle thefts and armed jewellery robberies. Estonian groups are also involved in armed robberies in Member States.

The activities of **Georgian** property criminals are highly organised and conducted by sub-groups of hierarchical structures. Georgian organised crime groups operate in Austria, Belgium, the Czech Republic, France, Germany, Spain, and in countries outside the EU, including the Russian Federation and the United States. In at least one case, commonality of the Russian language has facilitated the activity of a group whose members hail from several different states of the Former Soviet Union.

Albanian speaking criminals are notorious for their use of **extreme violence**, including against burglary victims. Many group members have a secret service, police or paramilitary background.

Polish and Romanian organised crime groups commit increasing numbers of 'hit and run' property offences in other Member States. The high level of mobility of these and other groups is a significant challenge for authorities.

The continuing **economic disparity** between Member States and between the EU and neighbouring regions, a general trend for increased mobility within the EU, and the high levels of violence displayed by criminal groups engaged in property offences, are all factors which contribute to a likely further expansion in this type of criminality.

Environmental Crime

Illicit Waste Trafficking

While mafia-type structures have sufficient resources to participate in large scale illegal waste management, there is evidence that lower level groups are engaged in the illicit harvesting of hazardous waste, such as used cell and car batteries. Illicit waste trafficking is often facilitated by cooperation with legitimate business, including those in the **financial services, import/export**, and **metal recycling sectors**, and with specialists engaged in document forgery for the acquisition of permits. Permits are also obtained by means of corruptive influence on issuing bodies. Lack of harmonisation concerning the distinction between 'waste' and second hand goods has resulted in **e-waste** (second hand electrical and electronic equipment) and deregistered vehicles in particular being shipped to non-OECD and other states.

From the **Southern hub** toxic waste is trafficked to South East Europe and the Western Balkans, also to other Member States. Italy has also become a transit point for e-waste en route to Africa and Asia. There is evidence of corruption in the public and private sectors, especially in relation to the issuing of certificates by laboratory technicians. Intermediate storage sites are often used to disguise the ultimate destinations of waste and to frustrate law enforcement efforts to identify source companies. **The North West hub** plays an important role in the export of waste to third countries, especially in West Africa and Asia. Trafficking groups are usually small (between 5 and 10 people), with ethnic links to the destination countries. Toxic waste, e-waste and deregistered vehicles are transported to West Africa via the ports of North West Europe.

Trafficking in Endangered Species (TES)

The revenues generated by TES are estimated at 18 to 26 billion euros per year, with the EU the foremost destination market in the world. The trade is principally coordinated by well-organised, loose networks based in the EU and in the source regions. While in the past the perpetrators travelled personally to collect animals, it is now more common for them to use couriers and air mail-orders. Animals from several destinations are concentrated in one place, from which it is possible to organise transit into the EU. In addition, the **Internet** is used with increasing sophistication to facilitate trade.

Within the EU, dedicated organised crime groups often exploit legitimate business structures to facilitate the importation and retail of specimens. Groups in **North West Europe**, for instance, cooperate with breeders in other Member States to launder 'wild caught' animals, using false documents to trade them as 'captive bred' on the legitimate market. Difficulties in ascertaining the authenticity of foreign certificates frustrate enforcement efforts. Of note, there is evidence that TES is of increasing interest to **poly-criminal groups**. Groups involved in **high-level drugs trafficking** in Brazil, Colombia and Mexico have established a notable role in the illegal supply of endangered species to the EU and US markets. As a result, some of the concealment methods developed for drug trafficking are now used to traffic endangered species. Within the EU also, organised crime groups involved in drug trafficking, the facilitation of illegal immigration, fraud, THB and the distribution of counterfeit products are now active in trafficking endangered species such as birds of prey and products for traditional Chinese medicine along routes established for other types of illicit commodity.

Horizontal Issues

Money Laundering

Organised crime groups exhibit increasing levels of professionalism in laundering criminal proceeds, with some groups providing dedicated money laundering services to others. Extensive cooperation with specialists in the legal and financial sectors underpins this activity, particularly in regard to **investment firms** and **money service businesses**. Here, too, employees experiencing the ongoing effects of the **global economic crisis** are vulnerable to compromise by organised crime groups.

While the geographical distribution of transfers and investments often reflects the remittance of criminal proceeds to source countries for illicit commodities, there is a clear preference for **offshore banking locations**. In addition, the openness of the euro zone attracts criminal proceeds from outside the EU, while some criminal groups prefer to target countries subject to geopolitical instability with attendant, lower levels of financial regulation.

There has been an observable increase in the number of investigations involving the use of **money mules**. In light of the global economic crisis it is possible that individuals subject to financial constraints are turning to alternative forms of employment.

While criminals are able to recruit mules with ever greater ease via the **Internet**, a prevailing trend in some Member States for recruitment in person indicates a level of complicity on the part of those recruited. Individuals from the Former Soviet Union, **South East Europe** and West Africa are prominent amongst recruitment agents. Meanwhile organised crime groups of different ethnic origin (e.g. Nigerians and Romanians) have collaborated to establish international criminal networks performing internet fraud activities and related money laundering schemes.

Organised crime groups make ready use of new technology to launder the proceeds of crime, in particular using digital currency providers at the layering stage. **Digital currency operators**, such as Webmoney and Liberty Reserve, have been used by criminals, attracted by a lower level of regulation and a capacity to blur money trails. In addition **online gambling** facilities are widely used to launder criminal proceeds, while the misuse of the currency of virtual worlds has also been observed.

The misuse of **mobile payment systems** is an emerging threat. In Africa, for example, the majority of people use mobile rather than traditional banking, to which they have little access. Well known money service businesses have proposed collaborating with African mobile phone operators to offer cross border mobile money transfers. Mobile banking is often not regulated, however, and provides ample opportunity for money laundering. To this end, Europol has already received suspicious transaction reports relating to mobile money transfers.

The Internet as a Facilitator for Organised Crime

Please see Europol's iOCTA for a more comprehensive assessment of Internet Facilitated Organised Crime, especially cybercrime.

As a **communication tool, information source, marketplace, recruiting ground and financial service** the Internet facilitates all types of offline organised criminality, including illicit drug extraction, synthesis and trafficking, trafficking in human beings (THB) for sexual exploitation, illegal immigration, Mass Marketing Fraud (MMF), MTIC (VAT) fraud, euro counterfeiting and the trade in prohibited firearms. In particular, the perceived anonymity afforded by communications technologies such as **email, instant messaging and Internet telephony** (VoIP) has led to them being used increasingly by organised crime groups as a counter-measure to law enforcement detection and surveillance. **Online banking and virtual payment systems**, meanwhile, provide groups with opportunities to move criminal assets faster than ever before, unhindered by offline geographical barriers.

The widespread adoption of Internet technology in the EU has also prompted an unprecedented expansion in the markets for **child abuse material** and **intellectual property theft**, especially for copyrighted audio-visual material and software. Child victims of sexual abuse are exposed to prolonged victimisation as a result of the global and continued circulation on the Internet of visual and other records of their abuse, with images increasingly produced to order.

In addition, there is now a sophisticated and self-sufficient **digital underground economy**, in which data is the illicit commodity. Stolen personal and financial information – used, for example, to gain access to existing bank accounts and credit cards, or to fraudulently establish new lines of credit – has a monetary value. Credit card details and compromised accounts, as well as information such as addresses, phone numbers, social security numbers, full names and dates of birth, are all retailed in this market. This drives a range of new criminal activities, such as malicious software distribution and the hacking of corporate databases, with a fully fledged infrastructure of malicious code writers, specialist web hosts and individuals able to lease networks of many thousands of compromised computers (botnets) to carry out automated attacks.

Conclusions and Future Strategic Considerations

The outstanding feature identified in this assessment is the increasing diversification of the organised crime threat to the EU. Driven by an expanding opportunity to exploit new and multiple illicit markets in Europe criminal groups have become more mobile and flexible in the last two years. In line with a long term trend a new business model for organised crime has now emerged, characterised by a capacity to operate across multiple criminal sectors, with multiple partners of different national and business origin, and in multiple jurisdictions. This is underpinned by a critical business infrastructure, anchored in five key hub locations in the EU and supported by the ready availability of a criminal services industry, involving IT, money laundering and other specialists, and the Internet, which is quickly developing as a key facilitating factor for organised crime activity.

These are the features of a criminal entrepreneurship yielding big rewards, with most organised crime sectors in Europe now multi-billion euro businesses. The activities involved deliver great harm to society, directly in the case of illicit drug users, those trafficked for sexual and labour exploitation, or those defrauded online, and indirectly through attendant levels of crime and violence generated by organised crime and the impact felt in the legitimate economy of illegal business activity, and the loss of billions in public revenue from VAT and other frauds. There are even signs of organised crime activity supporting terrorist groups.

Aspects of the problem have been shaped by the effects of the global economic crisis. Rising unemployment, increased social tolerance for counterfeit goods and labour exploitation, reductions in levels of legitimate investment, and constraints on the resources of public authorities, all offer greater opportunities for criminal groups, with citizens rendered more vulnerable to compromise. As in the legitimate business world, a shrinking economy has also driven organised crime groups to seek new, more profitable ways of operating, thereby accelerating the process of diversification in their business model.

This new criminal landscape makes less effective those traditional response measures focused on individual crime sectors and small geographical areas. A more agile and universal response is now required, targeting criminal networks and their supporting business infrastructure. A systematic mapping and profiling of criminal networks on a regional basis in the EU would help to fill important intelligence gaps that still remain, particularly in respect of those groups whose pan-European activities have considerably increased in the last two years. Supported by the internal security architecture of the EU this intelligence, in turn, would facilitate greater operational impact against the criminal groups involved. Enhanced regional cooperation arrangements, operating in the five key hub locations of organised crime activity in the EU, as part of an inter-connected network, could aid such work, as would the further enhancement of operational cooperation arrangements between the EU and neighbouring states, especially in the Western Balkans and North Africa.

The critical business infrastructure of organised crime would be further undermined by the development and application in the EU of stronger capabilities to combat cybercrime and target the proceeds of crime. The rapidly growing use of the Internet and the criminal infrastructure established to move and launder money are the principal components in the organised crime toolkit. Some effective response measures to both are available in the EU, especially in some Member States. Overall, however, capabilities are sub-optimal and need further enhancing as part of a concerted effort to reduce the ability of organised crime to function.

In line with this more effective law enforcement action should be supported by the systematic delivery of a broader range of prevention and other measures found in public and private sectors. Greater use of administrative measures in tax, regulatory, and local government environments would deny opportunity to criminal groups and frustrate their activity.

Even greater benefits are available from improvements in public-private partnership. In general the law enforcement community in the EU under-utilises information and other security capabilities available to Industry, particularly in respect of Internet and mobile technologies. In reverse the experience and requirements of law enforcement agencies engaged in fighting organised crime are rarely reflected in business design and practice. Improved partnership arrangements, for example in respect of Internet security, could reduce the opportunities available to criminals and offer better protection to the industry. A forward-look at the risk profile may be important too. The emergence of new illicit commodities, including previously unseen synthetic drugs and the introduction of counterfeit medicines into EU supplies, and the exploitation of newly established business sectors, such as emissions trading for carbon credit fraud, suggests a need for the proactive identification of markets and sectors most liable to criminal exploitation. Priority areas include the transport, financial, real estate, legal, pharmaceutical and communications sectors.

Recommended Crime Priorities

Based on the findings of this assessment Europol recommends that the operational response to organised crime in the EU should focus, in particular, on the following high priority threats:

- The role of the Western Balkans, particularly the Kosovo region, as a transit and storage zone for illicit commodities destined for the EU, and as a logistical centre for groups active in Member States;
- Illegal immigration trends in Southern and South East Europe, particularly at the Greek-Turkish border and in areas of the Mediterranean close to North Africa;
- Albanian-speaking organised crime groups, noted for their activity in multiple criminal markets in the EU, operational bases in source countries for illicit drugs, and use of high levels of violence and corruption;
- West African organised crime groups, whose activities in the EU have increased markedly in the last two years, especially in regard to illegal immigration, the trafficking of heroin and cocaine, and the trafficking of human beings for sexual exploitation;
- Lithuanian organised crime groups, noted for their mobility around the EU, tendency towards violent crime, high levels of technical expertise, and access to substantial financial resources;
- The trafficking of cocaine, the biggest threat in a still significant illicit drugs market in the EU, action against which should be focused on disrupting distribution in Member States, related criminal activity such as property crimes, counterfeit euro distribution, and trafficking in human beings, and the capabilities of non-EU groups active in Europe;
- The trafficking of illicit commodities by means of maritime container shipment, including cocaine, heroin, and cannabis, and counterfeit goods.

Other high priority threats stand out also in terms of their rapid evolution and need for much greater concerted action in response. They are the following:

- Cybercrime and the misuse of the Internet by organised crime groups;
- Money laundering, including online;
- Fraud, including in rapidly evolving markets such as emissions trading;
- Synthetic drugs, particularly the emergence of new psychoactive substances such as 'legal highs';
- The supply of counterfeit goods, especially medicines and household items.

¹ EMCDDA (2010) The State of the Drugs Problem in Europe: Annual Report 2010

² EMCDDA (2010) Problem Amphetamine and Methamphetamine Use in Europe

³ European Central bank, Biannual information on euro banknote counterfeiting, 19 July 2010 & 17 January 2011

⁴ European Central bank, Biannual information on euro banknote counterfeiting, 17 January 2011. These figures do not include police seizures e.g. from the dismantling of printshops.

⁵ UNODC, United Nations Office on Drugs and Crime, 2010. The globalisation of Crime. A transnational Organised Crime Threat Assessment; European Commission, Report on EU Customs Enforcement of Intellectual Property Rights, Results at the EU Border – 2009, 22 July 2010

⁶ European Commission, Report on EU Customs Enforcement of Intellectual Property Rights, Results at the EU Border – 2009, 22 July 2010; UNODC, United Nations Office on Drugs and Crime, 2010. The globalisation of Crime. A Transnational Organised Crime Threat Assessment

⁷ For the purpose of this assessment, the term 'heavy firearms' is taken as referring to assault rifles, rocket launchers, explosive devices and explosives, consistent with a request from the Justice and Home Affairs Council for a study on illegal trafficking of heavy firearms.