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ORGANIZED CRIME

AND THE LEGAL ECONOMY

THE ITALIAN CASE





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Table of Contents

Executive Summary for Policy Makers	7
Executive Summary for Researchers	11
Note on Research Methods	14
SUBSTANTIVE REPORT	
What do we Know about Organized Crime Moving into the Licit Economy?	17
Literature Review	19
1. Defining Transnational Organized Crime	19
2. Main Sources of Illicit Profits for Organized Crime in Italy	20
2.1 Counterfeiting	21
2.2 Drug Trafficking	22
2.3 Human Trafficking and Migrant Smuggling	24
2.4 Environmental Crimes	24
3. Pollution of the Legal Economy: Modus Operandi	25
3.1 Why Organized Crime Groups Reinvest their Capital into the Legal Economy	25
3.2 Characteristics of the Legal Economy: Sectors Most Vulnerable to Organized Crime	27
3.3 How Investment Schemes and Organized Crime Structures Have Changed in the Recent Decades	29
3.4 From Money Laundering to the Pollution of the Legal Economy	30
Findings and Discussions	32
4. An In-depth Analysis of the Strategies of Organized Crime	32
4.1 What are the Relationships Between the Grey Area and New Forms of Corruption?	35
4.2 Extortion, Usury and Protection Money (Pizzo) as Means of Polluting the Legal Economy	37
4.3 Distortion of Competition Rules and the Creation of Monopolies	40
4.4 Acquisition of Commercial Activities	41
4.5 Gambling as a Parallel Activity	42
4.6 Special Circumstances	43
5. What is the Impact of Organized Crime Infiltration in the Legal Economy?	44
The Way Forward	46
Recommendations	47

ANNEXES	49
a) Overview on Organized Crime in Italy	51
b) Case Studies	57
c) The Role and Extent of Asset Confiscation	69
d) What is the Impact of Organized Crime Infiltration in the Legal Economy? Comprehensive Quantitative Analysis	73
Acronyms	96
Bibliography	98
List of cases	107

Executive Summary for Policy Makers

Italy's economy is one of the largest, not only in Europe but also with reference to the global context. Its financial and industrial sectors are significant. In addition, domestic organized crime groups, especially the Camorra, the 'Ndrangheta, and the Cosa Nostra, operate across numerous economic sectors, both in Italy and abroad, and their illicit proceeds represent the main source of laundered funds.¹

Illicit markets remain the main source of profit for organized crime groups in Italy, and more broadly in Europe. There have been various attempts to estimate the total revenue of organized crime in Italy. For example, the U.S. Department of State (2015) estimated Italy's black market to be to 12.4% of the country's GDP, approximately \$250 billion.² The Italian Parliament's Antimafia Commission estimated that the total turnover of endogenous organized crime in Italy valued at €150 billion in 2012.

However, the border between illegal and legal activities of organized crime is hard to define. Financial as well as human resources are increasingly being circulated from one sector to the other, without interruption. While maintaining their interests in traditional fields of action related to illicit trade, organized crime groups have been expanding their presence and influence into the legal economy - creating threats to society on an array of levels.

Research Questions

Two main research questions (RQs) guide the present study:

1. *How does organized crime infiltrate the legal economy?*
2. *What is the impact of organized crime infiltration in the legal economy?*

The qualitative section of the report answers the first RQ, further detailed in the following sub-questions:

1. What are the main reasons behind the diversification of investments into the legal sector?
2. *Which is organized crime's modus operandi?*
3. *How does organized crime exploit existing vulnerabilities and what are the facilitating factors?*

For the qualitative part, UNICRI analyzed data provided by some of the main law enforcement authorities in Italy - the National Antimafia and Antiterrorism Bureau (DNAA), the Prosecutor's Office in Naples, the Financial Police - Central Service on Investigation on Organized Crime (GdF - S.C.I.C.O.) covering the period 2005 - 2015. The quantitative part, which answers the second RQ, is based on the contents of a database of confiscated assets provided by the Italian National Agency for the Management and Reassignment of Confiscated Assets from Organized Crime (ANBSC) - including data from 1983 to 2012.

1 United States Department of State - Bureau for International Narcotics and Law Enforcement Affairs (2015), "International Narcotics Control Strategy Report, Volume II, Money Laundering and Financial Crimes", p.144.

2 Ibid.

Findings

- The infiltration of organized crime into the legal economy is growing, and has a serious impact on the economy and society.
- The infiltration into the legal economy can take different forms. Usually, it results in the direct or indirect control by organized crime of legal enterprises; these are acquired through - inter alia - fictitious interposition of third persons to avoid repercussions from preventive measures, such as freezing orders or assets seizures.
- The creation of monopolies in specific sectors, in view of favouring the criminal enterprise, is usually perpetrated by organized crime through intimidation and violent practices. This is also a result of the distortion of competition rules created by criminal infiltration.
- The illicit access to public biddings is another strategy widely applied by organized crime. As demonstrated in the case of reconstruction work after the earthquake in L'Aquila in 2009, criminal organizations took advantage of profit-making opportunities with respect to both public and private sector construction projects.
- Traditional organized crime activities, such as extortion and the imposition of protection money, impact the legal economy and are usually implemented side by side with attempts to directly or indirectly own legal enterprises.
- The role of external actors and the use of corrupt practices are extremely important for organized crime deciding to operate in the legal economy. In particular, political and economic actors are vulnerable to organized crime pressures, and they may create an “entry point” for criminals into the legal economy. The example of votes trading during political elections in exchange for subsequent favours for public biddings, to be provided by the elected candidate, is clear in this regard.
- With reference to the grey area, organized crime can count on the support of several actors, as lawyers and strawmen, which are ready to help the criminal group wanting to more effectively conceal illicit proceeds of crime. The report highlights that the grey area is becoming extremely structured.
- It is very difficult to provide monetary estimates concerning the value and size of organized crime infiltration into the legal economy as well as on the quantification of its impact. However, two main findings from the quantitative analysis stress that: regions with deeper criminal penetration perform worse with respect to economic development; and there is a positive association between higher public expenditure in public security and the number of requisition orders.

Way Forward

The overall picture emerging from both the qualitative and quantitative analyses suggests providing additional tools for policy makers and main stakeholders mandated with counteracting organized criminal activity. These tools should support a better understanding of the main aspects characterizing organized crime modus operandi, with respect to the pollution of legal sectors of the economy.

Based on the assumption that attacking criminal wealth in terms of money, relations and other type of assets is crucial for undermining the power, economic capacity and territorial control of organized criminal groups, the Italian case herewith outlined represents a starting point for further investigation into the general strategies of transnational organized crime in this very area.

The fight against criminal organizations is no longer solely a national affair, and it cannot be addressed exclusively by the investigative organs of a single country. The response to organized crime is based on political willingness and requires actions and coordination at the international level. This report serves as a basis for abstracting a general modus operandi of organized crime in this particular field, to be used by policy makers and other stakeholders in drawing up more effective counter-measures. Developing improved policies and activities would benefit from additional research in other geographical areas, to ensure generalizability and to develop a more robust design of proposals and responses valid at the international level.

Synergies at the international level should be fortified to become even more incisive if they are based on a robust data analysis and supported by additional research. Risk analysis and assessment tools could be developed based on solid research findings, with the main goal of preventing criminal infiltration in the licit sphere and reducing criminal opportunities.

The importance of data collection and information sharing should be stressed, between national and international authorities - in view of strengthening investigative and prosecution actions - and with researchers. Knowledge dissemination represents a further tool to disrupt criminal activities, because licit entrepreneurs would be encouraged in denouncing criminal pressures and threats. At the same time, the re-use of confiscated assets is an important tool to promote economic development, as well as civil and cultural action against organized crime. More political efforts in this direction should be taken.

Last but not least, this study demonstrates that analyzing the strategies put in place to reinforce organized crime's control over territory, and the economic and social architectures involved, is a fundamental step to be taken to enhance the effectiveness of actions taken to fight transnational organized crime in all its forms and manifestations.

Cindy J. Smith, Ph.D.
Director, UNICRI
April 2016

Executive Summary for Researchers

Research Questions

Two main research questions (RQs) guide the present study:

1. *How does organized crime infiltrate the legal economy?*
2. *What is the impact of organized crime infiltration in the legal economy?*

The qualitative section of the report answers to the first RQ, further detailed into the following sub-questions:

1. *What are the main reasons behind the diversification of investments into the legal sector?*
2. *Which is organized crime's modus operandi?*
3. *How does organized crime exploit existing vulnerabilities and what are the facilitating factors?*

For the qualitative part, UNICRI analyzed data provided by some of the main law enforcement authorities (LEAs) in Italy - the National Antimafia and Antiterrorism Bureau (DNAA), the Prosecutor's Office in Naples, the Financial Police - Central Service on Investigation on Organized Crime (GdF - S.C.I.C.O.) covering the period 2005 - 2015. The quantitative part, which answers the second main RQ, is based on the contents of a database of confiscated assets provided by the Italian National Agency for the Management and Reassignment of Confiscated Assets from Organized Crime (ANBSC) - including data from 1983 to 2012.

Findings

- The infiltration of organized crime into the legal economy is growing, and has a serious impact on the economy and society.
- The infiltration into the legal economy can take different forms. Usually, it results in the direct or indirect control by organized crime of legal enterprises; these are acquired through - inter alia - fictitious interposition of third persons to avoid repercussions from preventive measures, such as freezing orders or assets seizures.
- The creation of monopolies in specific sectors, in view of favouring the criminal enterprise, is usually perpetrated by organized crime through intimidation and violent practices. This is also a result of the distortion of competition rules created by criminal infiltration.
- The illicit access to public biddings is another strategy widely applied by organized crime. As demonstrated in the case of reconstruction work after the earthquake in L'Aquila in 2009, criminal organizations took advantage of profit-making opportunities with respect to both public and private sector construction projects.
- Traditional organized crime activities, such as extortion and the imposition of protection money, impact the legal economy and are usually implemented side by side with attempts to directly or indirectly own legal enterprises.
- The role of external actors and the use of corrupt practices are extremely important for organized crime deciding to operate into the legal economy. In particular, political and economic actors are vulnerable to organized crime pressures, and they may create an "entry point" for criminals into the legal economy. The example of votes trading during political

elections in exchange for subsequent favours for public biddings, to be provided by the elected candidate, is clear in this regard.

- With reference to the grey area, organized crime can count on the support of several actors, as lawyers and strawmen, which are ready to help the criminal group wanting to more effectively conceal illicit proceeds of crime. The report highlights that the grey area is becoming extremely structured.
- It is very difficult to provide monetary estimates concerning the value and size of organized crime infiltration into the legal economy as well as on the quantification of its impact. However, two main findings from the quantitative analysis stress that: regions with deeper criminal penetration perform worse with respect to economic development; and there is a positive association between higher public expenditure in public security and the number of requisition orders.

Background

In recent decades, following transformative developments ushered in by increased globalization, organized crime has expanded its interests and areas of action. Simultaneously, organized criminal activity has had an influence on economic and political systems, often negatively impacting the global economic market. Criminal networks have repeatedly demonstrated their capacity to adapt their strategies to changes occurring within the international sphere, exploiting opportunities created by market globalization and the transformation and breaking down of political boundaries and barriers. The main goals behind organized criminal activity are the pursuit of maximum profit and the consolidation of power. For these reasons, criminal organizations are changing and adapting their strategies, progressively shifting their interests to new areas of activity. While maintaining interest in traditional fields of action with respect to illicit trade (such as drug or human trafficking, counterfeiting and smuggling), organized crime has expanded its presence, in parallel, through the exertion of its influence in the legal economy, creating additional threats to society.

Considering the strong interconnection that exists between economic-criminal activity and the licit economy for organized criminal groups, it is hard to distinguish between what constitutes legal versus illegal activities. As stated by a former member of the Italian Parliament and expert on organized crime related issues, the two sectors have created a *continuum*: both financial and, sometimes, human resources are circulating from one sector to the other, without interruption.

In accordance with UNICRI's mandate to advance the understanding of crime-related issues, the goal of this report is to assess the effects produced by organized crime as it affects the legal economy and governing structures that sustain democracy at large. In addition, this study is aimed at exploring the ways in which criminal groups concretely pollute entire economic sectors and hamper opportunities for entrepreneurship. Given the seriousness of the problem, particular importance has been given to the issue of reinvesting illicit profits back into the legal economy, a practice which consequently weakens both the economic fabric of society and state institutions. Pollution of the economy through organized criminal activity has direct consequences for the political environment, as actions by organized crime groups can shape political decisions in the economic sphere, particularly through corruption and blackmail.

The study is composed by a substantive report - What do we know about organized crime moving into the licit economy? - and an Annex. The substantive report includes the literature review and the presentation of findings of both qualitative and quantitative data analysis. The Annex presents additional analysis with regard to Italian organized crime, the role of confiscated assets, as well as an in-depth description of court cases provided by law enforcement agencies for the analysis and the comprehensive quantitative study.

The literature review first defines transnational organized crime (Chapter 1). Chapter 2 provides an overview of the main sources of illicit profits for criminal networks in Italy - in particular drug trafficking, counterfeiting, human trafficking and migrant smuggling and crimes related to the environment. Chapter 3 analyzes the main driving forces for criminal reinvestment in the licit sector and the characteristics of most vulnerable economic sectors, as well as the diversification of organized crime investment choices.

The main findings are presented in Chapters 4 and 5. Chapter 4 presents the main findings of the qualitative analysis, focusing on the categories identified in the theoretical model: the role of the grey area and of corrupt practices as facilitating factors for reinvestment activities; the pollution of the legal economy through extortion and protection money; the distortion of competition rules and creation of monopolies as main effects of criminal infiltration into the legal economy; the role of collateral activities and the penetration of organized crime into public (and private) procurements. Chapter 5 presents the findings of the quantitative study - estimating the impact of criminal infiltration into the legal economy, while the full description of the quantitative analysis is in the Annex d.

Finally, the Way Forward includes a set of recommendations for policy makers, national and international bodies, academic institutions and researchers to improve prevention and counter-actions against organized crime infiltration into the licit economy and society at large.

Note on Research Methods

Both qualitative and quantitative research methods were used in this study.

The **qualitative section** replies to the following RQ: *How does organized crime infiltrate the legal economy?* The main goal of this analysis is exploratory, to increase existing knowledge on the ways put in place by criminal networks to penetrate the legal economy. The following sub-questions have been explored: *What are the main reasons behind the diversification of investments into the legal sector? Which is organized crime's modus operandi? How does organized crime exploit existing vulnerabilities and what are the facilitating factors?*

The **qualitative analysis** of police operations and judicial cases resulted in a description of techniques and practices used by organized crime for the reinvestment of illicit capital into the legal economy. Chapter 4 presents the results of the qualitative analysis: a clear understanding of the modus operandi of infiltration into the legal economy. The evidence used to build the theoretical model presented in Chapter 4 is reported in section b) of the Annex, which includes an in-depth description of the main court cases analyzed. Each of the sub-sections of Chapter 4 correlates to the relevant cases listed in the Annex with the same headings. Some of the cases were not explicitly mentioned in the narrative, but all cases were useful to the general explanation and description of the main findings. The quantitative analysis of assets seized and confiscated from criminal groups revealed the impact on society created by the pollution of the licit economy.

Some of the main law enforcement authorities operating in Italy - the National Antimafia and Antiterrorism Bureau (DNAA), the Prosecutor's Office in Naples, the Financial Police - Central Service on Investigation on Organized Crime (GdF - S.C.I.C.O.) provided the sample of 37 cases for analysis. In particular: 10 cases covering the area of Naples and its surrounding neighbourhoods were provided by the Prosecutor's Office in Naples; 27 cases covering the entire national territory and extrapolated from the national database SIDDA-SIDNA were provided by the DNAA;³ and S.C.I.C.O. provided an overview for each Italian region⁴ on the main police operations involving cases of reinvestment of illicit capital and money laundering, including an in-depth analysis on specific areas (i.e. money transfers; extortion and usury; fraudulent bankruptcy).⁵

Law enforcement agencies shared with UNICRI a sample of cases from their internal/confidential databases based on the sampling strategy. The sampling strategy included cases with charges of reinvestment of capital and money laundering. The data analyzed covered the time period from 2005-2015.⁶

Some of the analyzed cases were particularly complex in terms of criminal charges involved, as well as the actors and elements concerning the modus operandi of criminal groups. In particular, certain operations covered various aspects of the modus operandi and were cross-cutting to the elements of this study. This led the authors to balance the various components of the report by presenting cases in support of each elaborated hypothesis in each section. However, each case was used only in support of one hypothesis even if the case was relevant for two or more hypotheses.

The **quantitative section** of the report answers the research question: *Which is the impact of organized crime infiltration in the legal economy?* Its main goal is to measure the overall impact of criminal activities in the licit sphere. It consists of the quantitative analysis of data on asset seizures occurring in Italy between 1983 and 2012 and is based on the data provided by the Italian National Agency on Confiscated Assets (ANBSC). By describing the characteristics of real estate properties and firms seized, it reveals the economic impact on society created by the pollution

3 The cases were collected and analyzed from 2014-2015. The study does not include information beyond this timeframe

4 Italy has 20 regions in total: <http://www.comuni-italiani.it/regioni.html>

5 Moreover, the Tribunal of Palermo - section on preventive measures provided 6 cases/decrees and other materials mainly used for section 3.3 (p. 60); the Prosecutor's Office in L'Aquila, through the DNAA, provided 1 case (already counted in the 37 above mentioned) and two unique cases on the special circumstance of the earthquake in the Abruzzo Region.

6 Some operations, however, did not provide explicit indications regarding years of reference.

of the licit economy.

The database of the Italian Agency for confiscated assets used for this research contains detailed information on the type of asset seized and its main characteristics, offering the unique opportunity to study the portfolio of investments made by organized crime in Italy.

SUBSTANTIVE REPORT

WHAT DO WE KNOW ABOUT ORGANIZED CRIME MOVING INTO THE LICIT ECONOMY?



Literature Review

Organized crime has continuously proliferated within transnational markets, riding the wave of globalization. Organized criminal networks have been expanding their range of activities in both the illicit sector - organized crime's natural sphere of action - and in the legal economy, creating negative consequences and damage from an economical, criminal, political and social perspective. The motivations compelling criminals to reinvest into the legal economy are varied and include: money laundering, the search for further profit, and an increase in social approval - also obtained through the control of territory.

The focus of the present research concentrates on the situation in Italy and the ways in which organized criminal groups pollute some segments of the legal economy. By analyzing the strategies used by organized criminal entities operating in Italy, we have been able to identify the ways in which they exploit existing vulnerabilities in the legal, economic and social environment, infiltrating and polluting the legal economy. The use of an inductive approach in the development of this report has allowed for the possibility to derive a general *modus operandi* for organized crime in this particular field. An added value of this work is represented by the evidence of criminal activity contained herein, emerging from the analysis of 37 operations and investigations provided by law enforcement agencies operating in the fight against organized crime in Italy (e.g. the National Antimafia and Antiterrorism Bureau (DNAA), the Prosecutor's Office in Naples and the Financial Police (GdF - S.C.I.C.O.).

The first, and most important, element emerging from this analysis reveals that the reinvestment of illicit proceeds into the legal economy is a reality, and this activity takes its toll on the national economy of Italy to both varying degrees and at different levels.

1. Defining Transnational Organized Crime

For the purposes of this report we refer to the definition of transnational organized crime enshrined within the United Nations Convention against Transnational Organized Crime (UNTOC) - Article 2 a), which states: *“Organized criminal group” shall mean a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit.*⁷

The UNTOC and its Protocols⁸ are the primary international legal instruments in this field. The Convention directly responds to the need for a global strategic approach to solve world issues related to crime. The numerical element of this definition is used to distinguish between a criminal, who can be assisted by an accomplice to commit occasional crimes, and a more complex organisation that includes a number of people and implies a higher level of operational capacity, representing a greater threat to public order. This definition can be applied to traditional criminal organisations with a rigid hierarchy, clear division of roles and strong territorial links, as well as to the modern phenomena consisting of criminal networks with units operating in various sectors and territories.

While the Convention is clear in defining concepts, each government that ratifies or accedes

⁷ Article 2 of the UNTOC also defines, among other terms, 'serious crime' and 'structured group'. For a full reference to the text of the Convention, please visit: <https://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCebook-e.pdf>

⁸ Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime; Protocol against the Smuggling of Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime; Protocol against the Illicit Manufacturing and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the United Nations Convention against Transnational Organized Crime.

to the UNTOC criminalizes those offences in a different manner within its national legislation. This can result in differing approaches being undertaken by each country when interpreting the definitions contained in the UNTOC and applying the Convention, particularly as a basis for mutual legal assistance or extradition. Considering the territorial focus of our analysis - Italy - it is useful to highlight a few instances in which the Italian government successfully relied upon the UNTOC as a basis for addressing transnational threats. The transposition of the UNTOC and its Protocols into Italian legislation - through Law 146/2006 - brought about substantive changes. To give some concrete examples, Law 146/2006 introduced in the Italian system the aggravating circumstance for crimes committed by transnational organized criminal groups. Moreover, it improved regulations concerning undercover operations - referred to in the Convention as 'special investigative techniques' - and strengthened the instrument of confiscation by equivalent.

The four main criminal organisations active within Italy include: Cosa Nostra, 'Ndrangheta, Camorra and Sacra Corona Unita. These are respectively based in the regions of Sicily, Calabria, Campania and Apulia - although their branches have now extended throughout Italy and abroad. The data collected did not portray active involvement of the Sacra Corona Unita in the pollution of the legal economy. Consequently, we present the results for the three remaining major criminal groups. A section of the Annex to this report has been dedicated to presenting an overview of the criminal organizations operating in Italy, including foreign criminal groups.

2. The Main Sources of Illicit Profits for Organized Crime in Italy⁹

The main sources of illicit proceeds for organized crime in Italy¹⁰ include counterfeiting as an ideal sphere of action for criminal networks, due to its high level of profits in comparison to the low level of risk incurred;¹¹ drug trafficking, which continues to be the largest single source for the accumulation of illicit proceeds; human trafficking and migrant smuggling, which are particularly important given the current European migrant and refugee crisis initiated in 2015; and, finally, environmental crimes, including infiltration into the cement cycle, waste cycle and the food processing sector.

According to the 2012 annual report of Sos Impresa,¹² the total annual turnover of money by criminal organizations operating in Italy would value at €138 billion, with a net profit of €105 billion. While the Sos Impresa report does not clearly specify the sources of information and the methods used, other studies have examined these issues, considering the ratio between monetary demand and National GDP as a determining factor. A research study conducted in 2012, and released by the Bank of Italy,¹³ assessed the value of the "criminal economy" at 10.9 % of the country's GDP. A second version of the study,¹⁴ based on the same research, estimated that laundering activities produced by the criminal economy would constitute 7 - 8% of Italian GDP. Starting from these estimates, in 2012 the Antimafia Commission of the Italian Parliament declared the figure of €150

9 It is generally recognized that extortion is an illicit source of income for organized crime, often reinvested in the licit economic sector. However, for the purposes of this study, the authors have decided to analyze this criminal phenomenon from a different point of view, namely from that of the pollution deriving from extortion activities of organized crime in the legal economy. This was a choice made by the authors and does not exclude the possibility that extortion could be included among the main sources of profit for organized crime.

10 Considering the purpose of the present study, which is to look at the legal activities in which criminal groups invest their proceeds in the Italian context, we briefly present only the national overview of the mentioned illicit sources of profit.

11 The management of counterfeiting activities by organized crime networks in Italy has already been discussed and its existence proved in previous works. As an example, please see: UNICRI, MiSE, (2014), "Counterfeiting as an activity managed by transnational organized crime and the possible re-use of seized assets for the promotion of intellectual property and economic growth."

12 An association created in 1991 in Palermo (Sicily) by a number of entrepreneurs looking to defend themselves against organized crime "protection rackets."

13 Ardizzi, G., Petraglia, C., Piacenza, M. and Turati G. (2012), "Measuring the underground economy with the currency demand approach: a reinterpretation of the methodology, with an application to Italy", Banca d'Italia, Temi di Discussione No.864.

14 Using a different research model, further differentiating between licit and illicit activities.

billion as the total turnover of organized crime in Italy.¹⁵

The next sections provide a preliminary, not exhaustive, overview of the main sources of illicit profit for organized crime, which are subsequently reinvested by organized crime networks into the licit economy, based on existing studies.¹⁶

2.1 Counterfeiting¹⁷

The term counterfeiting generally refers to the practice of illegally reproducing or imitating products protected by an Intellectual Property Right (IPR).¹⁸ However, counterfeiting is not merely a crime related to the theft of IPRs in the form of trademark counterfeiting and copyright piracy. Counterfeiting is a more complex phenomenon that has been exponentially growing over the last decades and is managed by transnational organized criminal networks. Currently, counterfeiting constitutes one of the main sources of revenue for criminal organisations. There is a close link between counterfeiting and Italian/transnational criminal organisations.¹⁹ Determining the scale of counterfeiting activities is much more complex than trying to explain the reasons behind its 'outbreak' in the last decades. There have been several attempts by international institutions to quantify counterfeiting. One study assessed the global scale of counterfeiting to account for 5-7% of world trade, worth approximately US\$600 billion a year,²⁰ while another study estimated the volume of counterfeit and pirated goods traded internationally to be almost 2% of all world trade in goods, having an estimated value of US\$250 billion in 2007.²¹

Making particular reference to Italy²², Italian citizens, in 2012, spent about €6.5 billion through the purchase of counterfeit goods within the internal Italian market.

15 Commissione Parlamentare d'Inchiesta sul Fenomeno della Mafia e sulle altre Associazioni Criminali, anche Straniere, "Resoconto Stenografico n.92" (edizione provvisoria), available at: <http://www.parlamento.it/application/xmanager/projects/parlamento/file/reso.steno25.01.12.pdf>

16 See, for example, UNODC (2010), "The globalization of crime - a transnational organized crime threat assessment", available at: <https://www.unodc.org/unodc/en/data-and-analysis/tocta-2010.html>

17 The term counterfeiting in this framework is used to apply to a wider context, which also includes, in addition to the violation of industrial property rights, the issue of the piracy of audio-visual materials (therefore copyright violations).

18 UNICRI, (2011), "Counterfeiting, a Global Spread, a Global Threat", p. 12.

19 UNICRI, MiSE, (2014), "Counterfeiting as an activity managed by transnational organized crime and the possible re-use of seized assets for the promotion of intellectual property and economic growth", available at: <http://www.uibm.gov.it/attachments/UNICRI.pdf>

20 International Chamber of Commerce - Commercial Crime Services, Counterfeiting Intelligence Bureau, UNODC (2010).

21 OECD, (2009), Magnitude of counterfeiting and piracy of tangible products - November 2009 update, full text available at: <http://www.oecd.org/sti/ind/magnitudeofcounterfeitingandpiracyoftangibleproductsnovember2009update.htm>.

22 CENSIS, MiSE (2014), La contraffazione: dimensione, caratteristiche e approfondimenti. Rapporto 2014: la parola ai giovani e al territorio, synthesis available at: http://www.uibm.gov.it/attachments/article/2007743/Rapporto%20contraffazione%202014_Sintesi%20.pdf

Figure 1 - Estimated turnover of counterfeit products in Italy, divided by sector - year

Sector	2012	
	a.v. (millions of €)	var. %
Food Products, Alcohol and Beverage	1.035,2	15,8
Perfumes and Cosmetics	108,3	1,7
Clothing and Accessories	2.243,3	34,3
Electric Equipment	586,6	9,0
IT Hardware / Computer equipment	243,2	3,7
CD, DVD, audio and video support	1.786,5	27,3
Watches and jewellery	379,8	5,8
Games and toys	28,8	0,4
Medicines	21,4	0,3
Auto spare parts	102,1	1,6
Total	6.535,2	100,0

Source: CENSIS, elaboration by UNICRI

The trade in counterfeit goods - from production to distribution - is performed through hidden channels, often creating a parallel underground market whose dimensions are difficult to explore.²³ In particular, while street markets, peddling and online websites still remain among the most frequently used distribution methods for counterfeit products, other selling strategies involving licit retail stores have recently been exploited. It is through these methods that organized crime has been able to enter the legal supply chain and the legal economy. Retail stores selling counterfeit products as originals can be directly owned and managed by criminal organizations and then included within a wider distribution chain. Or, the same shops can be used to launder money. Revenues derived from counterfeiting and other trafficking activities, in fact, can be declared as if they were obtained through the legal business that is apparently being handled by the retail store. Finally, a shop not owned or managed by an organized criminal group can be forced to sell counterfeit goods - often through the use of threats or other forms of intimidation. The result is that the selling of counterfeit products has become a new practice that has in some cases replaced other forms of extortion, such as requests for protection money (*pizzo*).

2.2 Drug Trafficking

As reported by the United Nations Office on Drugs and Crime (UNODC) in its 2011 report on Illicit Financial Flows, “if only flows related to drug trafficking and other transnational organized crime activities [are] considered, related proceeds would have been equivalent to around US\$650 billion per year in the first decade of the new millennium, equivalent to 1.5% of global GDP. [Moreover] the largest income for transnational organized crime comes from illicit drugs, which account for some 20% (17%-25%) of all crime proceeds, about half of transnational organized crime proceeds and 0.6% to 0.9% of global GDP.”²⁴

Notwithstanding effective actions by law enforcement agencies, according to data reported by the

²³ UNICRI, (2011), “Counterfeiting, a Global Spread, a Global Threat”, p. 39.

²⁴ UNODC (2011), “Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes”, p. 7, available at: https://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf

Antidrug Central Direction (DCSA) and collected through anti-drug operations, reports to judicial authorities and seizures of narcotics, the demand and supply of drugs still remain high in Italy.

Figure 2 - Italian National Data on Drugs Seizures

Italian National Data		Kg.	2012	2013	Var. %
Drug	Seizures	Kg.	50.183,698	72.070,362	43,61
Cocaine		Kg.	5.304,770	4.971,750	-6,28
Heroin		Kg.	940,249	881,850	-6,21
Cannabis	of which:	Kg.	43.441,937	65.168,359	50,01
	Hashish	Kg.	21.916,391	36.347,147	65,84
	Marijuana	Kg.	21.525,546	28.821,212	33,89
	Plants	Nr.	4.122.619	894.874	-78,29
Amphetamines					
	in doses	Nr.	19.315	5.264	-72,75
	in powder	Kg.	22,700	56,295	148,00
L.S.D		Nr.	1.418	2.071	46,05
Anti-drugs Operations		Nr.	22.826	21.864	-4,21

Source: Direzione Centrale Servizi Antidroga (DCSA), 2013

With regard to criminal organizations operating in Italy, drug trafficking is the main driving force behind the accumulation of illicit proceeds, and, therefore, a crucial element of criminal dynamics in Italy.²⁵ The Italian DNAA highlighted the role played by Italian criminal organizations - particularly the 'Ndrangheta and Camorra clans - in creating trafficking routes leading to the territory of Italy, as well as the increasing role of Albanian, Nigerian and north-African criminal organizations in controlling relevant portions of import flows and the drug trade due to the solid connections they have with local criminal groups.

In Italy, the following criminal groups - presented by drug type - are the most involved in drug trafficking:

- Cocaine: 'Ndrangheta, Camorra and organizations from Albania, the Dominican Republic, Morocco and Spain. The peculiar structure of 'Ndrangheta, strongly based on parental relations, makes it more reliable. They are more active in the north of Italy and buy drugs from Serbian groups due to the good price with respect to the 'purity' of the cocaine available.
- Heroine: criminal groups from Sicily, Campania and Apulia, together with groups from Albania, Tunisia and Morocco.
- Cannabis: criminal groups from Lazio, Apulia and Sicily, together with groups from Morocco, Tunisia, Spain and Albania.

25 DNAA (2012), Annual Report, p. 351, available at: http://www.stampoantimafioso.it/wp-content/uploads/2013/01/DNA_Dicembre-20121.pdf

2.3 Human Trafficking and Migrant Smuggling²⁶

During the presentation of the 2014 DNAA Report, a warning was issued by Italy's National Antimafia Prosecutor, Franco Roberti, concerning the possible use by terrorists of migrant smuggling as a form of self-financing. According to Mr. Roberti, scarce cooperation from transit countries and migrants' homelands meant ringleaders of migrant smuggling routinely go unpunished. According to the Italian Parliamentary Antimafia Commission,²⁷ organized criminal groups have taken advantage of this situation and invested part of their criminal proceeds and resources into the smuggling of migrants. This is mainly a consequence of the fact that migrant smuggling is an activity with high profits and relatively low risks at the penal level (if compared to drug trafficking, for example). Relevant transnational organized crime groups involved in these activities are formed by people having various nationalities. They are characterized by the presence of organizational structures in which everyone is specialized in one task (i.e. people recruiting, supply of housing or means of transportation, falsification of documents, illicit introduction of people into destination countries, etc.).

Italy, due to its geographical position, serves as both a transit and destination country. As is frequently reported in the media, migrants come to Italy by means of 'makeshift boats' (especially to the Sicilian coast), by bus/car, or even with a flight. Criminal groups managing this trafficking are usually from Albania, Romania, Nigeria, China, among others, and are particularly active in the north-Central Italy.

2.4 Environmental Crimes

Environmental crimes include illegal logging, poaching, the illicit trafficking of a wide range of animals, illegal fishing, illegal mining and the dumping of toxic waste. It is a rapidly emerging threat to the environment, revenues from natural resources, state security, and sustainable development. Combined estimates from the OECD, UNODC, UNEP and INTERPOL place the monetary value of all transnational organized environmental crime at between US\$70 - 213 billion annually.

Shifting attention to the Italian situation, the annual report entitled "Ecomafia" adequately describes the position of Italy with respect to this field. The term '*ecomafia*' is a neologism coined by Legambiente - an Italian association established in 1980 and that deals with environmental issues - to describe organized criminal groups which invest in the illegal trafficking and dumping of waste, the unregulated construction sector and excavation as new forms of business. This includes other activities, such as the illegal trafficking of art-work and exotic animals.

The figures on eco-crime in Italy that are included in the Legambiente 2015 Annual Report portray the following picture: verified eco-crimes totalled 29,293 in 2014, with a total turnover of €22 billion. In comparison with the previous year, infiltration in the waste sector increased by 26%. Infiltration in the cement sector increased by 4.3% in the same period - a result mainly fuelled by corruption. Impressive figures emerged within the agri-food sector, totalling €4.3 billion within 7,985 illicit cases, while crimes related to trafficking in animals totalled 7,846 cases. Environmental crimes have increased in the four Italian regions that are traditionally the most heavily infiltrated by organized crime - Sicily, Campania, Calabria, and Apulia, where almost half of the total violations took place. While in Campania the total number is decreasing, an increase was recorded in Apulia with 15.4% of crimes which resulted in 4,159 complaints and 5 detentions.²⁸

26 According to the UN definition, the illegal activity of migrant smuggling mainly differs from human trafficking based on the following factors: consent, exploitation, transnationality and source of profit. For more information, see: UNODC, "Migrant Smuggling", available at: <http://www.unodc.org/unodc/en/human-trafficking/smuggling-of-migrants.html>

27 More information is available on the Parliamentary Antimafia Commission's webpage: http://www.camera.it/_bicamerale/leg15/commbicantimafia/documentazionetematica/34/schedabase.asp

28 The press release presenting the main findings of the last report of Legambiente (2015), Ecomafia is available online (in IT) at: <http://www.legambiente.it/contenuti/comunicati/legambiente-presenta-il-nuovo-rapporto-ecomafia-il-2015-e-lo-spartiacque-con-1>

Figure 3 - The Ecomafia Business

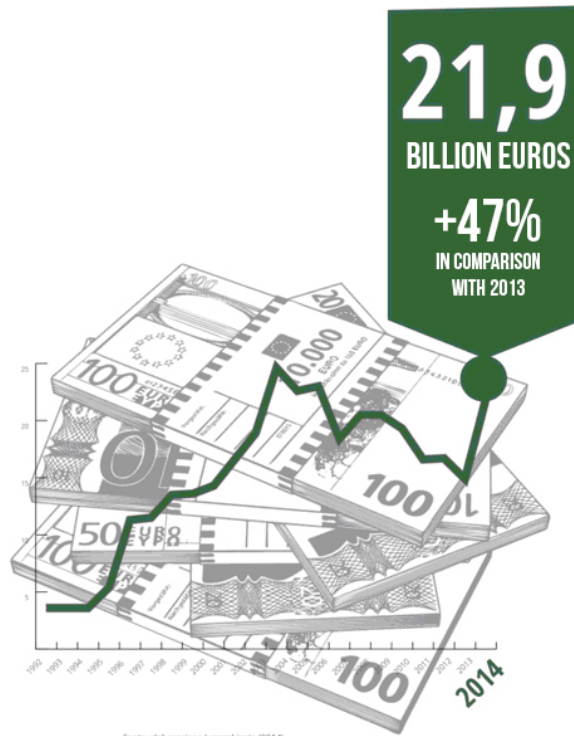
THE ECOMAFIA BUSINESS

THE TURNOVER OF ENVIRONMENTAL CRIME
IN ITALY IN 2014

REVENUE BY SECTOR

REVENUE BY SECTOR	7,9 billion Euros
CONTRACTS FOR PUBLIC WORKS	4,3 billion Euros
FOOD FRAUD	3,1 billion Euros
SPECIAL WASTE MANAGEMENT	2,6 billion Euros
ANIMALS AND WILDLIFE	1,4 billion Euros
ENVIRONMENTAL POLLUTION	1,1 billion Euros
UNAUTHORIZED CONSTRUCTION	1,0 billion Euros
MUNICIPAL WASTE MANAGEMENT	0,5 billion Euros

340,1
BILLION EUROS
THE AMOUNT OF REVENUE
BETWEEN 1992 AND 2014



Source: Legambiente 2015 (Translation by UNICRI)

3. Pollution of the Legal Economy: Modus Operandi

This section of the report presents the main motivations driving the reinvestment of illicit capital into portions of the legal economy operated by organized crime.²⁹ Secondly, it presents the main characteristics of those sectors which are more vulnerable and more infiltrated by criminal groups, including outlining if and how reinvestment schemes have changed over the last forty years.

3.1 Why Organized Crime Groups Reinvest their Capital into the Legal Economy

Considering the strong interconnection that exists between economic-criminal activity and the licit economy for organized criminal groups, it is hard to distinguish between what constitutes legal versus illegal activities. As stated by a former member of the Italian Parliament and expert on organized crime related issues, the two sectors have created a *continuum*: both financial and, sometimes, human resources are circulating from one sector to the other, without interruption.³⁰

Diverse motivations lay behind organized crime's investments of this kind:³¹

- Concealing criminal activities (money-laundering).

²⁹ For a literature review on this topic refer, for example, to Europol (2013), Transcrime (2015).

³⁰ Fantò (1999).

³¹ The main factors determining the investments made are analyzed and described in a report elaborated by Transcrime (2013), "The investments of mafia", in the framework of the project PON Security. See also, Veltri E., Laudati A. (2009) and Fantò (1999).

- Economic reasons (profit).
- Social approval from its population and control of territory.
- Cultural or personal reasons.
- Diversifying investments.

As has been expressed by EUROPOL, organized crime groups have not increased their criminal activities; rather, they have opted for a shift towards functional diversification.³² More details on some of the main reasons behind reinvestment activities are presented below.³³

- **Concealing criminal activities.** One of the main reasons for investing in licit markets and acquiring legal enterprises and activities is linked to the need for concealing profits that have been derived from criminal activities. Issuing bloated invoices or declaring false statements in an account can allow criminals to justify money derived from illegal activities. However, there are other ways to hide illicit activities and related capital through apparently licit economic activities. One of these ways lies, for example, in the possibility of making monetary transactions, disguising these transfers as production costs. Moreover, assets of a licit company (i.e. warehouses or means of transportation) can be used to carry out illegal activities, such as transporting illegal goods or storing and hiding them in case of customs controls. As it is explained in later sections of this report, the criminal appropriation and management of legal economic activities, together with money laundering, produces additional negative effects for the legal economy, such as a distortion of its normal functioning and the creation of monopolies and oligopolies managed by criminal organizations.³⁴
- **Economic benefits: an increase in profits.**³⁵ Profitability serves as a major pull factor for organized criminal groups interested in investing into the licit economy. Companies - both criminal and those having criminal capital - can be engaged in production activities that are profit oriented, and, in this scenario, they are not merely serving as a front for illicit activities, but the profitability is related to the connections the company has with criminal organizations rather than to the real skills of entrepreneurs. To be more precise, we can identify some of the factors that allow these companies to be profitable: irregular job conditions for workers or irregular fiscal status; the possibility of exploiting relations with corrupt or complacent politicians and business managers; and the availability of contacts maintained by the criminal group within the grey area.³⁶ Relations with the grey area are important to access, for example, public procurement and to extend as much as possible control over the territory. Furthermore, we can mention the use of irregular competition and access to massive liquid assets or to financial resources available without interest.³⁷ The particular conditions in which these enterprises operate provide for a competitive advantage with respect to those operating lawfully, both in terms of investment capacity and company management.³⁸

32 EUROPOL (2013), pp. 11-12.

33 However, we should also mention the fact that criminal organizations can be pushed to reinvest in the legal market: through the personal interests of crime bosses in some particular areas of the local economy; or through the necessity to diversify investments. In the latter case, “[...] tensions and contradictions in the original organized crime-type enterprise, which cause its overtaking [...] lead to ‘re-investment’ [...] in the production of licit goods, by creating new channels for money laundering, reinvestment of capitals and creation of different typologies of entrepreneurial- organized crime” (Fantò, 1999, p. 63).

34 Torsello E.F. (2012), *Riciclaggio, sorridono le mafie, in Narcomafie*, 19 December 2012, available (in IT) at: <http://www.narcomafie.it/2012/12/19/riciclaggio-sorridono-le-mafie/>

35 For further references, see footnote 32.

36 Grey area can be defined as made up of people who are not strictly speaking belonging to organized crime groups. These people may be businessmen but also public administrators, bureaucrats or professionals. The grey area is a sort of meeting ground for cooperation and exchange of favours between apparently irreproachable individuals who act as intermediaries and allow members of organized crime to enter and/or participate in legal activities. The networks developed in this area tend to produce distorting effects, which then have an impact on the size of the whole national economy.

37 The large amount of financial resources is linked to the profit coming from different illicit activities and trafficking schemes that have been put in place. Additionally, the high liquidity factor is mainly linked to extortion and usury activities carried out by criminal groups - as be portrayed in greater detail throughout the next chapters.

38 It is easily understandable that the lack of respect for rules and regulations put the illicit companies in a stronger position, if

- **Social acceptance and the control of territory.**³⁹ Criminal organizations have demonstrated a capacity for exploiting unemployment of Italy, especially in the south. Criminal groups often present themselves as the only entities that can offer jobs to the population, and they have been able to transfer job seekers within Italy, from one region to another, to provide employment in one of their controlled companies or activities. This has been traditionally one of the strong elements linking criminal organizations to their respective territories, allowing for the possibility to build a “social consensus” or approval for the organization from among the general population. The capacity of organized criminal groups to utilize human resources and offer jobs to unemployed persons serves to explain their strength and persistency in Italy.⁴⁰ Social acceptance of organized criminal groups by the public is extremely important, as it is needed for stabilization and for the criminals to increase their influence in both traditionally dominant localities and in areas where they are trying to expand their authority and influence.⁴¹ Owning licit enterprises and activities allow criminal organizations to continue exercising this influence over the population, and, thus is strategically linked to the control of the territory and the creation/maintenance of social acceptance.

3.2 Characteristics of the Legal Economy: Sectors Most Vulnerable to Organized Crime

The “economy” can be defined as a “network of actors that deal with the management of human, natural and technological resources for the production, manufacture, trade and distribution of goods and services in a given territory.”⁴² This general definition incorporates all types of economic activities, from informal ones (i.e., not registered by any authority), to illicit ones (i.e., the buying and selling of stolen goods).

Referring to the image below, an organized criminal group infiltrating the ‘legitimate private economy’ can be considered as an actor working in the outskirts of the blue set, injecting itself into the core of the larger green subset.

compared to the licit ones, and the access to irregular funding sources becomes much easier than relying on traditional loans.

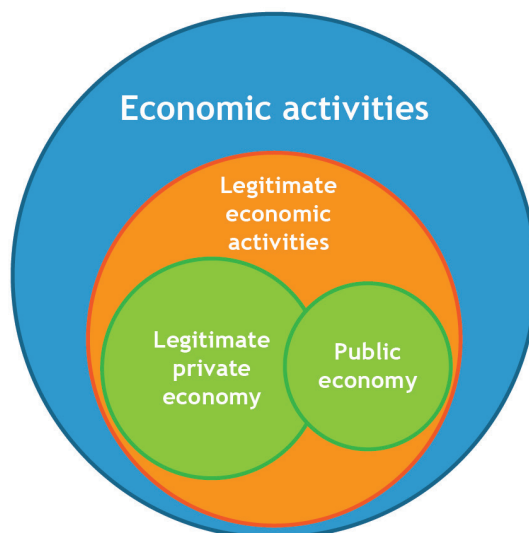
39 For further references, see footnote 32.

40 Sciarrone R. (2010), p. 7.

41 Ibid.

42 Mankiw and Taylor, 2006, p.3

Figure 4 - Taxonomy of the Concept of Economy



Source: Gurciullo (2014), p.4

In its 13th report,⁴³ Sos Impresa examined the main sectors of criminal investment. According to this report, some sectors of the economy traditionally vulnerable to criminal influence, such as gambling (i.e., even legal gambling), waste disposal (i.e., especially toxic and hazardous waste) and the construction cycle, are almost totally controlled by organized crime in Italy. However, the report affirms that the interest of organized crime is increasingly shifting to new sectors, including legal ones, such as the healthcare sector (through the management of private clinics, services for elderly and disabled people); sport related activities (through the management of amateur societies or illegal betting); transport and logistics; and even surveillance services.⁴⁴

Several research studies were conducted and a hypothesis was developed concerning the type of enterprise that is most likely to be a target for the infiltration of organized crime into the legal economy.⁴⁵ According to these studies, the ideal enterprise for infiltration would be:

- Small in size.
- Belonging to a traditional sector and/or *low tech*.
- Involved in strictly local/in-country activities.
- Particularly active in a territory characterized by strong public support.

Moreover, the company would be involved in those economic sectors characterized by a low level of competition, taking into consideration that a scarce level of competitiveness can be simultaneously facilitated by the presence of organized crime. Finally, the enterprise would operate in territories having weak institutional power.⁴⁶ However, a considerable presence of the public sector can be associated with the development of “desirable” economic activities for criminality, based on the following assumption: “the greater the presence of the state, the greater is the potential for corruption.”⁴⁷

43 Sos Impresa (2013), “Le mani della criminalità sulle imprese”, synthesis for the press. SOS Impresa is an association created in 1991 in the city of Palermo as an initiative of a group of retailers to fight racketeering and organized crime.

44 For an in-depth analysis on the types of sectors/companies infiltrated by organized crime, based on quantitative data concerning confiscated assets, see chapter 4 and the Annex.

45 See for example Lavezzi M., (2008)

46 For further references to existing literature, see: Schelling T. C., (1967), Economics and Criminal Enterprise, The Public Interest 7, pp. 61-78, reprinted in Schelling T. C. (1984), Choice and Consequences, Harvard University Press; and Schelling T.C. (1971), What is the Business of Organized Crime?, Journal of Public Law 20, pp. 71-84, reprinted in Schelling T.C., (1984), Choice and Consequences, Harvard University Press.

47 Del Monte A., Papagni E. (2004), “The Determinants of Corruption in Italy: Regional Panel Data Analysis”, p.7, available at: <http://www.economiaindustriale.unina.it/papers/Corr2004.pdf>

3.3 How Investment Schemes and Organized Crime Structures have Changed in the Recent Decades

Organized crime structures have evolved in the recent decades. These transformations have been analyzed by several experts, institutions and academics at the international level.⁴⁸ Both transnational and local organized crime in Italy has been changing during the same period, following general trends, both at the social and economic levels. All types of criminal groups can be considered results of a hybridization process between modern and traditional elements, fostering a great capacity among organized crime groups with respect to adaptation and social variation.⁴⁹

In 1984, Tommaso Buscetta, the first ‘man of honor’⁵⁰ who dissociated from Cosa Nostra and became a collaborator for justice, provided accurate declarations to law enforcement authorities with regard to investment schemes applied in Italy by criminal organizations in the 1970s and 1980s, as well as on their relations with legally recognized companies. Quoting his declarations, “[...] every ‘man of honor’ is surrounded by a wide ‘proximity’ and connivance sphere, made of people who are connected to the criminal organization through common interests and activities [...] this sphere of ‘proximity’ is the typical operational module through which the association penetrates the socio-economic territory in which it is rooted. Thanks to these subjects, whose contribution is more or less stable, the organization achieves specific objectives which are of fundamental importance for surviving.”⁵¹

According to Buscetta, these relationships can be structured in many ways, but they are never ascribable to subjugation: those who are cooperating with organized crime groups expect to obtain some advantages. From these declarations it appears quite clearly that the criminal group, to reach its aims, presents itself as a necessary element for the development of the economic and civic life of the territory. To reach this goal, criminals need the services of licit actors, who are formally external from the criminal organization, but who are always available to carry out vital tasks for the group.

Another justice collaborator, Gaspare Mutolo, clearly described the relations between the members of Cosa Nostra and some sectors of politics and business within the area of Palermo, Sicily. Thanks to his assistance, it was possible to reconstruct the situation in which the ‘men of honor’ decided, in the late 1970s, to become entrepreneurs themselves, investing illicit proceeds in the construction sector. This shift allowed for better control of economic activities on their territory (through extortion; impositions of certain vendors, personnel or ‘watchmen’; the organization of procurement etc.), while providing a channel through which they could manage and invest huge flows of money derived from the group’s drug trafficking activities. The construction sector was thus perceived as an easy channel by which they could re-use dirty money in an apparently licit way.

Based on various testimonies provided to Italian authorities in the recent decades, the modalities of action and the objectives of the Cosa Nostra were outlined - especially with reference to entrepreneurial activities being carried out in the territories under criminal control, with particular regard to the construction sector. By imposing protection money (*pizzo*) on every business activity, criminals exercised strong intimidation power, and, at the same time, obtained economic gains for the group that were used for general expenses or to assist convicts.⁵² The criminal organization progressively became the only subject to which people had to refer to be authorized to exercise any

48 See, among others, Transcrime, UNODC, OSCE, EUROPOL, US Department of Justice.

49 Sciarone R. (2014), p.82

50 The ‘man of honor’, when referring to the criminal environment, as stated in one of the main Italian dictionaries (Treccani), is a man or woman affiliated with an organized criminal group on the basis of an oath that obligates him/her to defend the common honor of the group and to observe a strict code of silence.

51 These declarations are reported in an ordinance released by the Tribunal of Palermo - section of prevention measures - dated 1994-1995.

52 Owners of business activities who decide not to pay the protection money can be subject to violent acts, including murder.

activity in their territory. As mentioned previously, due to the huge availability of illicit proceeds, criminal groups have become entrepreneurs themselves. On the one hand, this has allowed them to launder illicit proceeds of crime, and, on the other, to reinforce direct control over their territory. The final result is that activities of this kind have allowed the groups to exercise effective influence over the economic development of the territories under their influence/control.

With regard to the various sectors of activity, between the end of the 1970s and the beginning of the 1980s, criminal organizations tried to expand their interests from the construction sector and public bidding towards new areas. For example, they infiltrated commercial networks, public services, such as the health sector (and private clinics), waste disposal and manufacturing, as well as the communications sector.⁵³ As can be expected, the presence of organized crime is stronger in the sectors which allow for high and immediate profitability with minimal risks.

Another important change in the criminal strategy for reinvestment concerns the issue of criminal members of a group operating within companies, as well as the (formal) legal structure of enterprise ownership and other assets. Contrary to the structure employed prior, starting from the 1980s, criminal group members no longer served as formal owners of businesses. They maintain only indirect property while exercising a form of mediated direction over the business, with the aim of creating a “protective screen.”

The new ‘Antimafia legislation’⁵⁴ is aimed at depriving members of organized crime groups of those assets acquired through the use of illicit money. Enforcement was, and still is, mainly carried out through the confiscation of assets for which criminals cannot explain as coming from a licit source, and which are of disproportionate value with respect to their declared income.

3.4 From Money Laundering to the Pollution of the Legal Economy

Before analysing in detail the reinvestment schemes used by organized crime, we briefly introduce some considerations on money laundering, because the purpose of laundering proceeds from crime constitutes one of the main motivations at the basis of the reinvestment of illicit capital.

Money-laundering is the method by which criminals disguise the illegal origins of their capital and protect their asset base, so as to avoid suspicion from law enforcement agencies and prevent leaving a trail of incriminating evidence. While originally the phenomenon was mostly linked to laundering capital within a given territory, criminals are now taking advantage of the globalization of the world economy and are increasingly exploiting the possibility of transferring funds quickly across international borders for money laundering purposes. The evolution of this activity includes specific elements encompassing the interests of organized crime for the infiltration of vulnerable sectors of the legal economy. Following this evolution, two main critical points can be identified in the laundering scheme: the laundering of the proceeds of crime, and their reinvestment. However, these two points are not always clearly distinguishable and are often overlapping.

Considering some estimates, “for [the year] 2000, the IMF (2003, 2001) as well as the World Bank estimate that 2-4% of the world gross domestic product (GDP) stems from illicit (criminal) sources or from money laundering activities [...] More recently, the IMF estimated that money laundering [perpetrated] by criminals who ‘introduce’ proceeds gained through drug trafficking into the legitimate financial market amount to a figure between 2-5% of world’s GDP, about 600 billion USD annually.”⁵⁵

53 Fantò (1999), pp. 63-64

54 The new Antimafia code, entered into force in 2012, foresees important measures on two main aspects concerning the fight against organized crime: prevention measures and Antimafia documentation. In particular, the fictitious interposition through straw men is mainly used to avoid preventive measures of seizures.

55 Schneider (2010), “Money Laundering and Financial Means of Organized Crime: Some Preliminary Empirical Findings”, available online at: https://www.diw.de/documents/publikationen/73/diw_01.c.354167.de/diw_econsec0026.pdf

For the purpose of this study, we focus on analysing money laundering activities as one of the means by which organized crime enters the licit economy, while ‘cleaning’ revenues deriving from forms of illegal trafficking. The diverse offences emerging in the analyzed operations stress the differences among the crime of reuse, the laundering of illicit proceeds of crime and the receiving/possession of stolen goods.

The main aspect of the prosecution of the crime of money laundering - as defined in art. 648*bis* of the Italian penal code - is to punish whoever substitutes/transfers money or goods coming from a crime and to carry out ‘other operations’ to impede the identification of the illegal origin of the money/goods. The Italian legislation differentiates between typical and atypical behaviour; however, the main characteristic of money-laundering activities is that its unique aim is the ‘dissimulation’ of the origin of proceeds. This is the key aspect distinguishing money laundering from the crime of receiving/possessing stolen property, as defined by art. 648 of the penal code. In this last case, the general aim of the offence is just to make a profit. Finally, the illicit re-use of money previously laundered is defined in art. 648*ter* of the penal code: the act to be punished, specifically, is the re-use of laundered money in economic or financial activities.

Findings and Discussion

4. An in-depth Analysis of the Strategies of Organized Crime

Based on the main RQ: *How does organized crime infiltrate the legal economy?*; and on sub-questions: *What are the main reasons behind the diversification of investments into the legal sector? Which is organized crime's modus operandi? How does organized crime exploit existing vulnerabilities and what are the facilitating factors?* - the following is an in-depth analysis that results in a model to expound on the modus operandi of organized crime in its reuse of illicit capital. While some of the main areas of reinvestment have been identified in the previous sections, this section describes the findings based on an inductive approach: starting from an analysis of the successful cases presented in the Annex, a theoretical model is elaborated and described, with the main objective of providing a detailed explanation of organized criminal groups' modus operandi in this field. In particular, data drawn from the court cases provided information concerning the following elements:

- The role of money laundering as a way of polluting the legal economy.
- The role of corrupt practices and the main external actors involved in criminal strategies, including those in the grey area.
- The role of extortion, protection money (*pizzo*) and usury activities as some of the main elements polluting the legal economy.
- The creation of monopolies and the distortion of competition rules, including through the acquisition of commercial activities by criminal organizations.
- The function and extent of parallel activities that are ancillary to the infiltration of the legal economy, in particular gambling.
- The analysis of special circumstances, with a focus on the reconstruction work undertaken after the earthquake in L'Aquila in 2009.

Some preliminary considerations should be stated at this stage, in view of facilitating the reading of the next sections of the report. The role of money laundering is recognized as a significant way of polluting the legal economy, and it represents, together with obtaining further profits and social acceptance, one of the main reasons for reinvestment activities operated by organized crime.

The role of corruption has emerged as a crucial element for organized crime to infiltrate the legal businesses, especially through the mechanisms of exchange of public resources and the support received from external actors belonging to the grey area. The grey area is becoming increasingly structured. Extortion and usury still constitute irreplaceable sources of income and profit for organized crime and represent effective instruments to impose control over territory. The findings of this research highlight that the pollution of the legal economy operated by organized crime creates a distortion of competition rules and the subsequent creation of criminal monopolies in some economic areas. The modalities used by criminal groups to acquire legal companies are numerous and include, *inter alia*, the fictitious interposition of third persons into a scheme to avoid repercussions from preventive measures, such as the freezing orders and seizures of assets. Specific circumstances are presented, given their importance in explaining the capacity of criminal organizations to infiltrate almost every sector of the economy. This is the case, for example, of the reconstruction work started after the 2009 earthquake in L'Aquila.

The analysis demonstrates the levels of infiltration as they pertain to the three main criminal groups active in Italy. While Camorra plays an essential role in extortion activities, with the aim of expanding its control over territory - often in contrast with other criminal groups, the 'Ndrangheta wants to reach a deeper level of infiltration into company structures, and is increasingly expanding

its control over non-traditional areas of action. Cosa Nostra has modified its *modus operandi* throughout the years to take advantage of new areas of investment in the globalized environment. As these aspects emerge as transversal elements throughout the sections introduced above, a dedicated section on this issue has not been featured in the report. However, references to these elements are made throughout the study.

Finally, the economic impact analysis is described in Chapter 4, which is based on an analysis of the contents of the database of confiscated assets provided by the Italian National Agency for the Management and Reassignment of Confiscated Assets from Organized Crime (ANBSC). Section c) of the Annex presents further considerations on the role and extent of confiscated assets, followed by the comprehensive quantitative analysis.

In this regard, the quantitative analysis (Chapter 4) shows that from 1983 to 2012 the number of requisition orders consistently increased due to rising patterns in both the number of firms and real estate seized. Evidence of the growing complexity and the intense penetration of organized crime in the legal economy is emerging, due to a possible shift towards larger, more geographically widespread, and production-oriented proprietary structures. Two findings should be stressed here: regions with deeper criminal penetration perform worse with respect to economic development; and there is a positive association between higher public expenditure in public security and the number of requisition orders. This points to a possible higher detection capacity for the years in which more resources were devoted to public security.

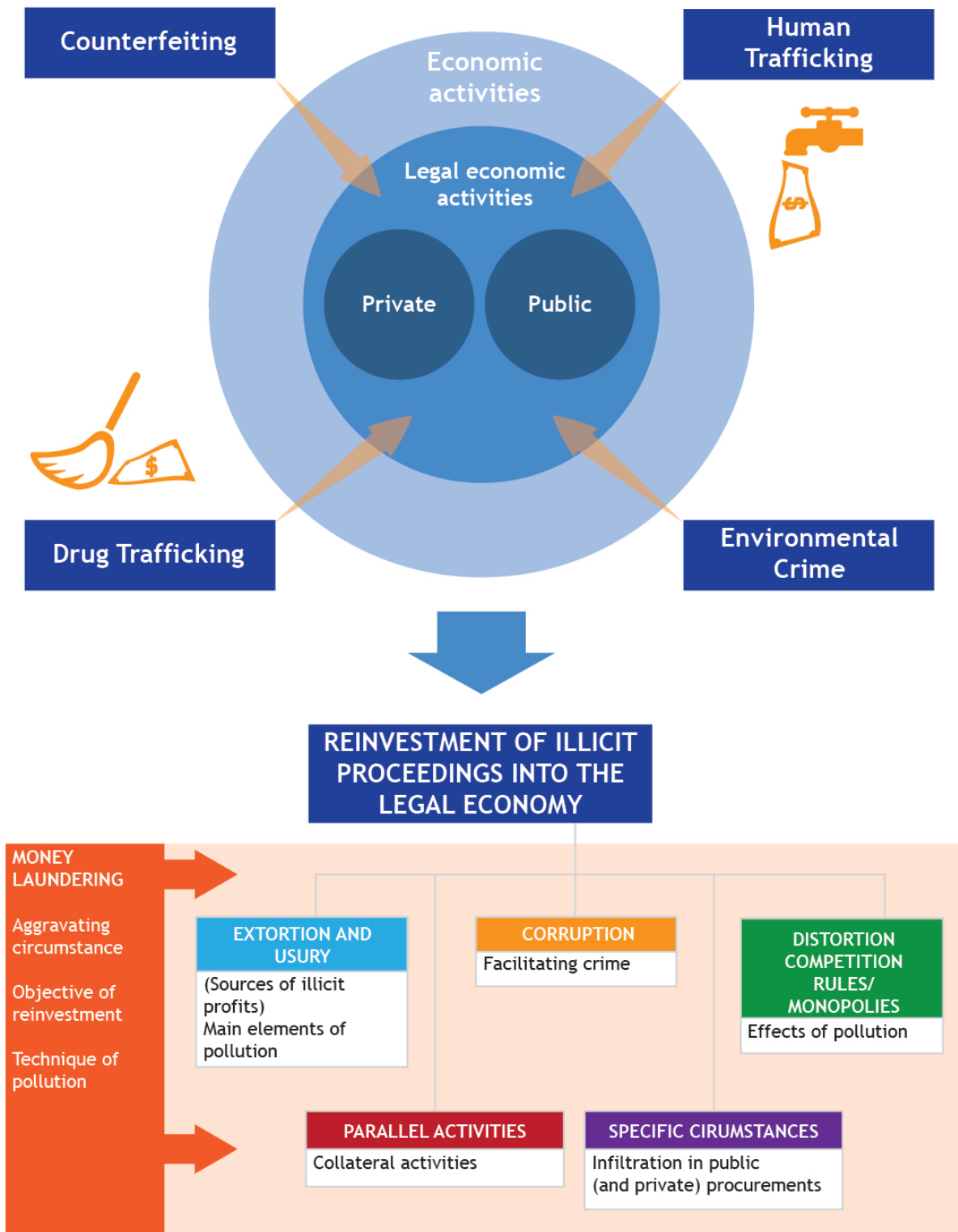
Following the structure outlined and visually represented in the theoretical model (See Figure 5),⁵⁶ the results of the cross-sectional analysis of court cases⁵⁷ is presented.

56 The Theoretical Model is developed by UNICRI and incorporates the main components of Gurciullo's Model (2014).

57 Including wiretapping transcriptions and further elaborations detailed by the authorities involved.

Figure 5. Theoretical Model of the Modus Operandi

(UNICRI elaboration from Gurciullo, 2014)



4.1 What are the Relationships between the Grey Area and New Forms of Corruption?⁵⁸

An important element in the modus operandi of organized crime for penetrating the legal economy concerns the role played by actors who are external to the criminal organization, often belonging to the grey area. The relations between organized crime and the grey area are profuse in nature.

At first glance, one could think that criminals are able to obtain the services of external actors mainly through corruption and intimidation. In reality, the evolving role of corruption is crucial for organized crime's modus operandi, and this element has clearly emerged within the data analyzed in this report. However, the grey area is becoming a separate criminal world unto itself. It is well-structured, autonomous, and open to wider coalitions.⁵⁹

The grey area is increasingly formed by individuals that are external to the organization, but who maintain an interest in working with it. These individuals can provide services to many clans at the same time: the exclusive loyalty required by members of the criminal group is therefore not applicable to actors of the grey area. Some of the data analyzed [the *AIETA and CORSO* cases] reveal the specific features of external actors in relation to Camorra and Cosa Nostra.

For example, members of Camorra looking to collaborate with third parties are exclusively interested in the efficiency of their service, their professionalism, their ability in building relations, and the possibility to enter markets via these individuals, obtaining operational services from which they would be otherwise excluded. The fact that the same actors (or the same families) offer their services to various criminal groups, even in conflict among one other, is not considered as a problem; while, on the contrary, it is evidence of their efficiency and professionalism. In one case, families acting as straw men were able to protect the interests of organized criminals over a period of 15 years before being discovered by law enforcement.

In the case of Cosa Nostra, and according to declarations provided by collaborators of justice,⁶⁰ the actors related to the criminal organization can be defined as follows: “men of honour”, “affiliated”, “neighbours” and “[men] at disposal.” Men of honour only defines members of Cosa Nostra: they have a full knowledge of the organization, its structure and rules, while all the others do not have the same privileges and are not supposed to adhere to the same duties. “Affiliates” are intended to become part of the association; “neighbours” are considered external, but are linked to the group through stable connections and trusted relations; they are in charge of carrying out particular tasks. Usually, they are entrepreneurs, professionals or white-collar workers and belong to the grey area, together with subjects “at disposal”, who are available to provide eventual contributions in situations of emergency.

It has been demonstrated through a multitude of juridical acts, investigations and declarations that the existence of the so-called “neighbours” is a key element for the functioning of Cosa Nostra. Their role depends on their availability to cooperate in the interest of the criminal group, being fully aware of the criminal aims behind their actions, and to intervene in view of the fulfilment of their goals, thus acting upon request of a member of the group with whom the subject maintains a trusted relationship. The “neighbour” neither takes part in the life of the association, nor does he/she participate fully in the implementation of the criminal programme, but is ready to intervene when needed. The supposed or expected availability of the neighbour is unconditional, long-lasting, stable and reassuring for the other members because they know that they can count on these figures in a certain area or field of expertise. Effective interventions are random, sporadic

58 The cases mentioned throughout the paragraph are explained more in detail in the Annexes

59 CROSS (2015)

60 The ‘collaborators of justice’ are those individuals who used to be part of a criminal organization and then decide to cooperate with the State by signing a sort of ‘contract’. This agreement includes the provision to the law enforcement authorities of information on the criminal group’s structure and functioning, in exchange for benefits in trials, criminal sanctions and detention measures, as well as economic support and protection for the subject and his/her family.

and finite - the figure of the neighbour is on the margins and is ready to intervene if requested.

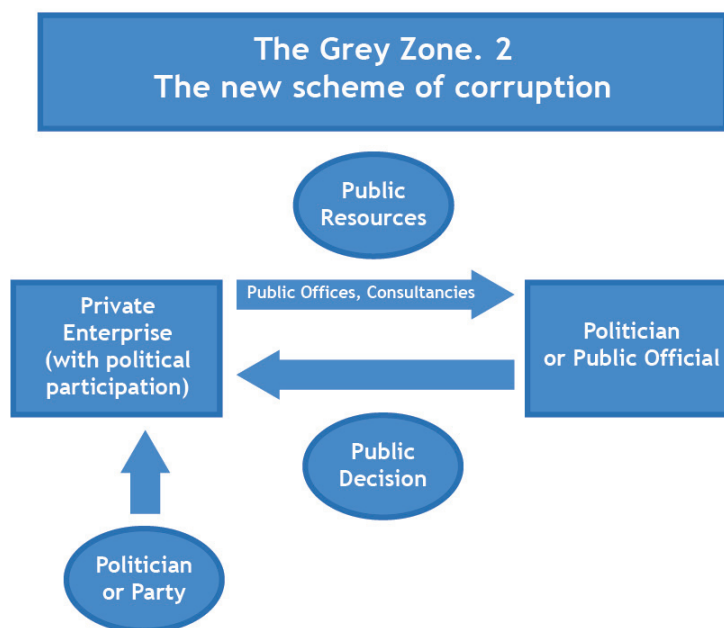
The fields in which the grey area can render services to organized crime groups are numerous. In some cases, they are limited to brokerage, supporting the criminal group in finding the best areas for investment or the best and safest methods to launder proceeds of crime. Along the same lines, external actors can closely work with criminals, consulting them on the best ways to get around rules for competitive bidding on projects, protect assets from confiscation and, in general, from action by law enforcement. One case [AIETA case; case 1581932] provided an example of where lawyers or notaries worked closely with criminal groups, advising and guiding them, for example, in the creation of offshore profiles to act as screens for protecting a criminal family's assets. External actors can act as a screen for organized crime family businesses or assets, as they usually agree to appear as owners of enterprises, legal activities, and assets that in reality are owned by organized crime groups. In one particular case, the criminal group of Camorra named Contini clan used grey area intermediaries to successfully expand the group's presence in northern Italy and Rome, along with managing the laundering of illicit funds back into the legal economy through the purchase of property and businesses in foreign countries.

One of the most important areas of support provided by the grey area is related to politics [case 1462505; operation TENACIA-INFINITO; case 1592554]. External actors with political power represent a fundamental source of business for organized crime. In some of the analyzed data, the criminal group and the external actor start to define their plan even before or during elections. These cases are characteristic of stronger cooperation between the grey area and the criminal group. Based on the data collected, the modus operandi is usually reflective of the following: a candidate receives offers of support from a criminal group for his/her electoral campaign. In this case, the effective capacity of the criminal group to ensure a flow of electoral votes plays a fundamental role. In return for this support, the elected candidates will have to ensure that a series of public biddings and public works will be assigned to enterprises controlled by the criminal group. The result is the total distortion of the economic and political rules governing the life of the municipality where this exchange of favours or of public resources⁶¹ has occurred. This scenario was evident in the region of Lombardy ahead of the 2015 Expo, where projects for the construction of purification plants, solar panel structures, and an array of other needs were financed by European Union (EU) funds.

A second example occurred within the framework of the area's 2010 regional elections [case 1592554], where the 'Ndrangheta garnered votes for Councilman Zambetti Domenico in exchange for cash payments totalling to €200,000 and guarantees of access to public funding and influence within the political system. The scheme totalled approximately €50 paid for each vote received by the councilman. By acting as an intermediary, the councilman directly contributed to the 'Ndrangheta's regional standing, profit base, and territorial control, while engaging in corrupt practices.

61 Mapelli W., Santucci G., (2012), *La democrazia dei corrotti*, BUR.

Figure 6 - The Grey Zone Part 2. The New Scheme of Corruption



Source: Observatory on Organized Crime (CROSS) (2015), p. 13 (English version elaborated by UNICRI)

The Annex includes details and examples concerning the relational network created by organized crime with external actors, examining new emerging corruptive mechanisms based on the exchange of public resources and infiltration in the political sector.

4.2 Extortion, Usury and Protection Money (*Pizzo*) as Means of Polluting the Legal Economy⁶²

Extortion, including the imposition of protection money, and usury are strictly interconnected, serving as important elements for organized crime strategies. As recognized by law enforcement agencies⁶³ involved in the fight against organized crime in Italy, extortion and usury have a significant role for organized crime: on one side, they provide funds to fuel illicit activities, while on the other they represent sources of capital to be reinvested into the legal economy through infiltration techniques.

Extortion functions as a vital source of profit after conviction of members of organized crime. However, some of the court cases analyzed [such as the ASTUCCIA judgment] demonstrates that organized criminals tend to request relatively low amounts of money for extortion to avoid, as much as possible, complaints being issued by victims. At the same time, extortion remains a valid instrument for the control of territory and as a form of ‘criminal traineeship’ for new affiliates, especially for the purpose of testing their capacity to carry out intimidating acts. These acts usually consist of damaging property, sending messages or anonymous threatening letters, stealing materials and starting fires in construction sites. When faced with these threats, entrepreneurs are often induced to ask for protection from the same subjects who perpetrated the extortion activity. In other cases, victims ask for protection from other clans in competition with the perpetrators.

The extortion payments can take the form of physical goods (e.g. bottles of champagne), or

⁶² The cases mentioned throughout the paragraph are explained more in detail in the Annex - Section 2

⁶³ The main concepts reported in this paragraph were provided by cases and the Financial Police (Guardia di Finanza) in their 2011 report “I fenomeni dell’estorsione ed usura in Italia”, provided by the GdF-SCICO - Central Service for Investigation on Organized Crime - Group for Analysis and Operation Relations, section on Camorra and Sacra Corona Unita.

discounts on merchandise. This model of extortion serves the clan's needs by ensuring effective control and authority over their territory, rather than acting exclusively as a profit-making scheme.

As evidenced in data obtained by law enforcement [ASTUCCIA judgment], business owners are generally fearful to report incidents of extortion to the police or other authorities because it may place their families, themselves, or their property in danger. Entrepreneurs who do fight back against extortion frequently become victims of physical violence, vandalism, and other forms of intimidation.

As reported by Police Forces in Italy, extortion is more forceful in the south than in the rest of Italy - and especially in Sicily, Calabria, Campania and Apulia. This was reaffirmed in the data analyzed showing that extortion and usury are tactics particularly utilized by criminal groups working under the umbrella of the Camorra network.⁶⁴ Several of the cases analyzed [AIETA case; ALIBERTI case; ABETE case] concerned the coercive acquisition by Camorra clans of commercial assets belonging to debtors unable to pay the sums demanded of them. Use of this method facilitates organized criminal groups in their long-term goal of maintaining a competitive advantage in the market of their respective territories, specifically by consolidating control over sector expertise and competencies, and gaining access to the commercial relationships built by victimized owners - which effectively serves to increase the base of potential targets of future extortion and usury operations.

In particular, one of the cases demonstrated that, in pursuit of obtaining a more formidable degree of control over the economy of Naples, clan members began targeting business owners known to be facing financial difficulties due to an array of causes, sometimes as a result of the costs incurred by the payment of extortion money to the clan itself. Loans at usury rates were offered to entrepreneurs, a practice that both provided profits for the clan and served as a mechanism through which the criminals could regulate the legal economic environment, by isolating certain businesses and impeding their chances of achieving sustainable profits. Other businesses inquired about the possibility of receiving direct funding from the clan instead of loans, a choice that effectively made the clan a criminal partner in the fledgling enterprise. One of the companies choosing the direct funding option was eventually taken over by the clan, becoming a vital entity through which the group could launder illicit funds and reinvest in the legal economy.

Moreover, imposing the use of specific products as a means through which to carry out extortion is a technique that has particularly been used by the Camorra's clan Mazzarella [ALIBERTI case]. The clan, which owned a large stake in the seafood industry in Naples, demanded weekly extortion payments from its customers, the neighbourhood fish vendors. Those vendors unable to pay the extortion money were forced to take on loans at usury rates. These loans were made to the vendors in the form of checks from the Mazzarella clan's own fish distribution company, making the transactions look legitimate. As the clan slowly became the de facto owner of the fish vendor enterprises, due to their inability to pay back the high-interest loans, the Mazzarella clan was able to influence the city's fish market and obtain the ability to exclusively provide the community with a certain type of fish, having a high-market value. This scheme yielded two major benefits for the Mazzarella clan, as criminals were able to engage in loan sharking, leading to the takeover of enterprises, and dictate the kinds of products sold by the vendors, which led to the clan's fish distribution company gaining more business.

Further concrete examples of Camorra's extortion techniques are evidenced in a court decision known as the ABETE Judgement. The criminal group demanded payment of €150,000 (3% of the project funding) from a company performing methane installations near Naples, to enable the project to continue with the clan's permission. This blatant threat from the Camorra serves as an example of the group's power and ability to infiltrate and exercise authority over large scale projects in multiple sectors, specifically construction in this case.

⁶⁴ However, extortion is quite frequent even in other Italian regions such as Lazio, Tuscany, Liguria, Lombardy, Veneto, Emilia Romagna and Piedmont.

Extortion is not only carried out through the payment of protection money, but also through imposing demands for goods and labour on specific suppliers (i.e. targeted hiring or engagement of people to be employed in the construction sites). Another method of extortion used is called 'return horse',⁶⁵ particularly widespread in the Campania region. This tactic consists of the victim paying a ransom to retrieve a stolen good in possession of an organized crime group.

In an example from the Brancaccio area in Palermo, Sicily [case 1491508], the way in which the Cosa Nostra exercised its ability to leverage extortion payments and exert its authority with respect to the construction industry, was both calculating and precise. They demanded a payment of protection money from a construction company building apartment blocks, selected specific subcontracting companies to carry out part of the work, and called for a certain number of apartments built to be handed over to the Cosa Nostra as an additional form of payment. By the numbers, the clan's predetermined revenue intake on the project was figured at €5,000 per apartment built.

The phenomenon of usury is strictly connected to extortion, and its expansion is strictly linked to ongoing economic trends. When the socio-economic environment is more problematic, banks and credit institutions impose stricter methods to evaluate the 'credit merit' of those requesting a loan, while external diseconomies (i.e., the lack of infrastructures, the low quality of services offered by public administrations, small private investments) manifest their effects on productive activities and contribute to negatively influence the aforementioned 'credit merit'. The increase of this phenomenon is linked to the reduction of real income, increases in the debt levels of families and the impossibility for individuals and entities to pay back contracted debts. The demand of credit by families has been increasing in recent years,⁶⁶ and is now increasingly related to the lack of cash liquidity rather than to the willingness to purchase durables, as it was in the past. Small entrepreneurs are among the victims of recent restrictive policies, following the Basilea II agreement, and for this reason they have found an alternative creditor in organized crime groups, which provide huge amounts of cash relatively quickly and often offer to provide protection.

The profile of the loan shark, resulting from several investigations, corresponds to those people who directly manage relations with the victim, putting their own resources to good use. For this reason, loan sharks shape their 'businesses' to fit within the context of the territory, work and association in which they perpetrate their illicit activity. The same process can be carried out by third persons, often belonging to the grey area, who provide information on potential victims. Finally, a more structured organization of usury activity can produce societal structures for carrying out financial activities. Such structures are always in search of small entrepreneurs to whom they can introduce themselves as a unique and more convenient solution for satisfying their immediate fiscal needs. This form of usury can produce a significant nuisance for the economic and financial sector. Due to high usury rates and the impossibility for the victims to reimburse the received credit, victims are very often forced to sell their companies to the usury "business."

This is particularly true with regard to usury perpetrated by organized crime, whose real aim is very often the final acquisition of economic assets. As previously mentioned, usury can be strictly related to extortion, because due to pressure from extortion, victims seek recourse from loans at usury rates, and the final result is again the closure of the company or its takeover by organized crime. Criminal groups can transform a usury relationship into real extortion - often obtaining the same results. In this regard, we need to remember that the final scope of these illicit activities is not only linked to profit-making, but also to strengthening control over territory. If the concession of credit is a way to impose control over territory, usury serves as an important instrument of money laundering. It is for this reason that usury represents one of the main ways in which the criminal co-partnership between a clan and legitimate companies manifests itself. This is increasingly true in those regions that are not traditionally accustomed to organized crime. One last point which

65 Translated from the Italian 'ribordo/cavallo di ritorno'

66 Bank of Italy, (2010), Annual report, available in Italian at: https://www.bancaditalia.it/pubblicazioni/relazione-annuale/2010/rel10_totale.pdf

serves to demonstrate the links between usury and the grey area concerns the complicity of bank officers in organized crime. In some of the data analyzed, these individuals were actually the persons deciding not to grant credit to certain entrepreneurs; nevertheless, shortly after having met them, these bank employees were informing their criminal affiliates about the existence of a potential victim. In the analyzed cases, the criminal organization immediately contacted the victims to offer loans with very high-rates interest rates.

Further evidence of the modus operandi outlined above can be found in the court cases and police operations presented in the relevant section 2 of the Annex.

4.3 Distortion of Competition Rules and the Creation of Monopolies

Turning our attention to the interference created by organized crime with respect to the overall economy,⁶⁷ the main effects on the Italian economy caused by organized crime are the loss of Gross Domestic Product (GDP), the removal of resources for production, the decrease of foreign direct investment, and productivity, together with difficult access to credit. Looking in particular at the legal economy throughout the world, we can assert that, in order to function, a market economy needs a legal and institutional infrastructure,⁶⁸ which means a set of rules and mechanisms able to discourage negative behaviour from a social and economic point of view. Usually, the State undertakes this role, because it ideally provides rules and enforces them for the general interest of society. However, in many countries the administrative and bureaucratic apparatus of the State is costly, slow, unreliable, corrupt, or simply absent. In this case, markets and the economy are going to function in a different way if compared with the ideal model, and organized crime then inserts itself as part of an alternative institutional asset, thus modifying the functioning of a market economy.

Organized crime interferes with the legal economy in various ways. It is not just coupled with the licit economy, but distorts its functioning, while at the same time criminal actions within the illegal economy can have significant effects on the legal sector. One of the main negative effects is the distortion of competition rules, following the interference of criminal groups' activities in the allocation of monetary and human capital into the licit market. As an example, the standard competitive process of bidding for a construction job has been completely delegitimized in some areas due to interference by organized crime groups [case 1462505]. Clans employ tactics such as threatening potential competition, making sure that job opportunities do not receive publicity, and by submitting bids (sometimes more than one) in covertly marked envelopes so that affiliates within the public sector will know which one to choose.

Many criminal groups belonging to Camorra, 'Ndrangheta and Cosa Nostra are capable of acquiring positions of total or quasi-monopoly in specific sectors - for example through imposing the use of specific products from conspiring producers on supermarkets or shops (ALIBERTI judgment; ASTUCCIA judgment).

In the case of groups belonging to the 'Ndrangheta, they have been known to hold a powerful grip over the construction sector in the north of Italy as well, loaning money to big-name,

67 Considering that a market consists of a group of buyers and sellers able to trade among each other, their interaction entails the creation of prices at which exchanging goods and services. There is a main distinction between imperfect competition - when the single vendors or buyers can influence the price - and perfect competition, when they can not exercise this influence. The creation of prices in markets which are perfectly competitive is explained by the model of supply and demand. When in a particular sector there is only one vendor of a good or service, and therefore there are 'barriers at the entrance', we find a monopoly. The price fixed by the monopolist is clearly higher than the one that we would find in a situation of perfect competition. Usually the way of acting of a company, for example in decreasing prices to attract competitors' clients, has an influence on other companies. However, companies can decide to create a 'cartel', within which the enterprises act as a monopolist by fixing prices and quantities in order to maximise the total profit. For further insights on these concepts see Lavezzi M. (2013), presentation on the "Analysis of the organized crime Economy", elaborated in the framework of the Master in Organized Crime held at the University of Pisa, available at: http://www1.unipa.it/~mario.Lavezzi/didatticaMat/slides/slide_master_PI_2013_01.pdf

68 Lavezzi M. (2013).

publically traded firms, and thereby establishing control over their management. Through threat and intimidation tactics, 'Ndrangheta groups are able to maintain control over cash-strapped enterprises, through which they can launder funds. In the past the network has been so strong in this sector that it was able to cancel and reassign public projects within its territory to preferred companies at will.

One of the most important cases analyzed in this report refers to the Perego Family, belonging to the 'Ndrangheta, who massively infiltrated the construction sector ahead of the 2015 World Expo in Milan (case 1462505). Operating through the Perego earth-moving company, the clan was able to exert monopoly control over the entire management structure and affiliated supply chain, stretching across the region of Lombardy. The group's grip on power and resources was maintained through the heavy handed intimidation techniques emblematic of organized criminal groups, the manipulation of public procurement offers and through profit sharing with politicians, influential individuals, and other pivotal stakeholders. The company's activities sustained the needs of 150 criminal families.

Other examples involving the Cosa Nostra and Camorra [case 1518640; ABETE case], involve criminal syndicates going to great lengths to maintain monopolies over power and resources in their respective territories. These include the Cosa Nostra forming a co-operative association to reacquire property previously seized by Italian law enforcement and belonging to the Italian agency for confiscated assets (ANBSC) - with the further goal of sending the message that organized crime is in control of the territory, rather than government authorities; the D'Alterio-Pianese clan forming monopolies on food products to support incarcerated criminal associates through monthly instalments; and the Sarno clan blatantly forcing business owners to buy office supplies and other objects from their stores of merchandise, under the threat of violence and defacement of property.

In the Section 3 of the Annex, a set of cases related to the main phenomena of distortion of competition rules and monopolies are presented.

4.4 Acquisition of Commercial Activities

As presented in the previous paragraphs, organized crime interferes with the allocation of monetary and human capital that could be used in the legal economy. The wealth acquired through activities carried out by organized crime in the illegal sector is then reused in legal economic activities, both directly, by investing in companies producing legal goods and services and indirectly, through credit granted to legal enterprises. The money gathered by criminal organizations is also used to corrupt officials from the public administration to avoid controls and to facilitate other procedures. Organized crime can use this money to improve the deployment of its militant wing.⁶⁹

As highlighted by the data, the evolution of the infiltration mechanisms operated by organized crime has consequences with respect to groups' control over their territory. Criminal organizations have modified their *modus operandi*, passing from the parasitic exploitation of resources through external forms of imposition (e.g., extortion) to the choice of acting as a legitimate enterprise, through a complex system of strategic agreements with certain entrepreneurial sectors, and/or through the use of fictitious interposition. The data offer examples of the types of commercial activities acquired by organized crime, as well as the modalities used to infiltrate them and avoid relevant legislation and preventive measures.

Some of the main types and sectors of activities infiltrated by organized crime include the construction, food, IT and transportation sectors, as well as the field of public works (i.e., the modernization of motorways and the construction of ports). Concerning the modalities put in

69 Sciarrone R (2011), p.5

place to infiltrate these sectors, *inter alia*, the use of straw men, the strategy of ‘factoring’,⁷⁰ the ‘securement’ of companies, ‘carousel-fraud’⁷¹ and, the fictitious interposition of third persons.

Some of these acquired commercial activities actually become quite successful, such as the Mazzarella clan’s fish distribution company [ASTUCCIA judgment]. While the company was used to launder money derived from drug trafficking, loan sharking, and extortion, by having a straw man as an intermediary, the enterprise appeared to be a completely legitimate business on the surface.

Other criminal groups, in particular the ‘Ndrangheta’s Bellocco clan, rely on networks of seemingly legitimate third-party individuals to run their enterprises [BARRESE judgment]. By following this model, the clan at one point was able to run and launder their illicit cash flows through a sawmill, a carwash, a supermarket, and a pest control company.

As demonstrated in another case involving a company dealing with transportation services [case 1522323], the fictitious interposition of third parties is a technique used by criminal groups to hide the real provenance of the money invested in society and the reuse of illicit profits derived from the international trafficking of drugs. Moreover, through intimidation acts and threats, the ‘Ndrangheta groups have demonstrated their ability to even impose use of a unique transportation service for one of the major supermarket companies operating in Italy.

4.5 Gambling as a Parallel Activity

This section highlights a set of activities related to gambling, both licit and illicit, carried out by some of the criminal groups analyzed in the present study and representing complementary activities to reinvestment schemes. “Although gambling is legal in many countries, the demand for illegal gambling services [in Italy] is growing.”⁷² In Italy’s national legislation, gambling is sanctioned as a contravention, rather than a crime. The Italian penal code differentiates between two types of offences with regard to gambling, one concerning its ‘exercise’ and the other referring to ‘participation’ - regulated respectively by Articles 718 and 720.⁷³ While the first one addresses those who organize or facilitate this activity, the second concerns only those who are taking part in it; the commitment of either offence yields very low fines for the perpetrator (from € 206 to a maximum of € 516). It is generally recognized at the Italian level that interpreting some particular behaviours as ‘crimes’ according to the law, such as the organization of gambling, would have positive effects. For example, it would allow for the application of the crime of institutionalized criminal conspiracy in organizing gambling houses and provide for the aggravating circumstance of carrying out illegal gambling for organized crime purposes, as foreseen by art.7 of law 203/91.⁷⁴

The main reasons organized crime groups are attracted by gambling relate to the sector’s need for a high level of organization and management expertise, and the fact that both legal and illegal gambling can provide opportunities for other illicit activities.⁷⁵ For example, it is common for persons participating in gambling to have economic problems, - or they can develop such issues due to the onset of a gambling addiction - and, therefore, they can function as perfect victims for accepting loans at usury rates. For illegal gambling, criminal groups are involved both in traditional

70 The term factoring refers to financial transactions and types of debtor finance in which a business sells its accounts receivable (such as invoices) to a third party, called a factor, at a discount rate. A business will sometimes factor its receivable assets to meet its present and immediate cash needs.

71 An explanation on how ‘carousel fraud’ works is provided by Reuters at the following link: <http://uk.reuters.com/article/2009/08/20/uk-carousel-fraud-britain-factbox-sb-idUKTRE57J43U20090820>

72 Transcrime (2015), “From illegal markets to legitimate businesses: the portfolio of organized crime in Europe”, p. 75, available at: <http://www.transcrime.it/wp-content/uploads/2015/04/ocp.pdf>

73 Libera (2014), “Il punto cieco. Usura e gioco d’azzardo in Piemonte”, Rome.

74 Ibid. p.96.

75 Some activities such as lotteries and sports betting fall into the category of legal and regulated gambling. The Autonomous Administration of the State Monopolies (AAMS) is granted the power to issue licenses and regulate other gambling matters. Link: http://www.agenziadoganemonopoli.gov.it/wps/wcm/connect/internet/ed/monopoli/giochi/normativa/normativa+dei+giochi_

activities (such as clandestine casinos, gambling halls, and illicit betting on horse races), as well as in new illegal activities, such as modifying gaming machines and operating illegal online gambling services. On the ‘legal side’, it is widely recognized that due to its cash-intensive nature, gambling is a perfect tool to launder criminal proceeds. This is true for casinos, betting services, slot machines and video-lottery terminals. Because licit gambling providers are covered by anti-money laundering legislation at the EU level; organized crime is exploiting online gambling websites in light of inconsistencies between national legislation/regulation for the online environment.⁷⁶

Widely recognized by the National Antimafia and Antiterrorism Bureau,⁷⁷ and in general by law enforcement authorities involved in the fight against organized crime in Italy, the control of the market and the management of *draw poker* machines nowadays is an activity traditionally carried out by organized criminal groups, and, in particular, by the Camorra clans. By favouring certain poker machine suppliers and allowing them exclusive access to the gambling market on their territory, organized crime groups both secure access to a channel through which they can launder money, and an extra source of income because the preferred suppliers of poker machines must pay a protection fee to maintain their special status [ASTUCCIA judgment].

4.6 Special Circumstances

Organized crime has the capacity to rapidly adapt to emerging situations, such as major events or tragic incidents and detect business opportunities. Evidence of organized crime infiltration into public, as well as private, procurement was found in the case of the reconstruction activities subsequent to an earthquake that took place in the province of L’Aquila within the Abruzzo region of Italy in 2009.

The relevant provisions included in the Italian Antimafia Code since 2012 provide the framework for analysing the data on criminal infiltration into public and private procurement. The Code introduced legal innovations in two sectors of fundamental importance in the fight against organized crime: the prevention measures and the ‘antimafia documentation’ (i.e., the cluster of norms regulating procedures of control aimed at impeding organized crime infiltration in the field of public negotiation). The main structural and intrinsic problems concern the plurality of organs in conflict among each other and hyper-regulation of the sector; the main values to be preserved are the transparency of the public administration and the free competition of companies in the market.⁷⁸ To avoid the infiltration of criminal networks into the procurement process, criteria have been established as reference points: the ban and the contraction of the sub-contracting system; the creation, *a priori*, of “white” and “black” lists; the issuing, *a posteriori*, of typical or atypical informative interdictions; and the conventional selection which excludes companies not respecting the reporting obligation regarding the need to denounce any illicit pressure suffered in the execution of work. Some guidelines for the interpretation of this aspect of the phenomenon can be outlined by first taking into consideration some context-related elements: the strong presence of organized crime in the regions involved in carrying out construction work; the aspect of unity catalyzing this criminal presence; the ‘low profile’ of infiltration techniques and the attempt of criminal clans to stay in the shadow to avoid potential regulation.⁷⁹ Other external factors to be taken in consideration are the complicity of entrepreneurs acting in a particular territory, the general context characterized by a weak sense of legality, having a low technological level, and the scarcity of competencies requested by assigned work.

Some of these factor were present in the emergency situation created by the earthquake that took place in L’Aquila in 2009. The massive earthquake resulted in criminal organizations quickly taking advantage of the profit-making opportunities with respect to both public and private sector

76 Transcrime (2015), pp. 75-76.

77 DNAA (2014), (2015).

78 CPA (2013).

79 CROSS (2015), p.75.

construction projects. With billions of euros in aid coming in from the Italian government, a portion of which was dedicated to the reconstruction of private property, organized crime groups attempted to take advantage of all available opportunities, starting first in the public sector, and then transitioning to the private as government authorities quickly began to catch on to the illicit operations taking place.

Specialized law enforcement offices and teams of prosecutors were put in place early on to tackle the situation, and, by 2011, authorities were able to confirm that 40 public construction sites in the province were closely linked to organized criminal activity. However, the work of the law enforcement community, in combination with less funding being devoted to projects in the public space, pushed criminal groups out of the public and into the private sector. This sector received a large inflow of public money for reconstruction, but was subject to fewer restrictions, especially in terms of employing subcontractors to undertake construction projects.

In a well publicized case of organized criminal infiltration into this sector following the earthquake, [DI TELLA case], a subsidiary clan of the Camorra provided low-wage workers through a “clean” intermediary company to engage in the projects of major companies who won bids for public funding. These workers, coming from the very south of Italy and knowledgeable of the role of the Camorra, accepted the opportunity to work, even in poor conditions and at a pay rate below the government-regulated standard. The Camorra and intermediary company were able to share in the profits received at the expense of the workers, while the main contracting company was able to complete work that it would not have been able to do without the aid of a subcontracted entity. On many sites, the Camorra was in full control of the operation, and infiltration led to the manipulation and domination over elements within the supply chain, such as workers’ transportation to and from job sites, the selection of building material distributors, equipment, and other aspects.

5. What is the Impact of Organized Crime Infiltration in the Legal Economy?

This section of the report answers the RQ: *What is the impact of organized crime infiltration in the legal economy?* and consists of the quantitative analysis of data on asset seizures occurring in Italy between 1983 and 2012.

The ANBSC database used for this research contains detailed information on the type of asset seized and its main characteristics, offering the unique opportunity to study the portfolio of investments made by organized crime in Italy. With the aim of measuring the impact of organized crime infiltration in the legal economy, these data possess important advantages over other kinds of indicators available. Firstly, the database does not cover a simple sampling of cases, but instead provides information on all the assets seized between 1983 and 2012. A second advantage is the objective nature of the data, which resists the typical biases of subjective indicators (i.e., being influenced by differences in socio-demographic and cultural perceptions, including differences in reported versus unreported crime rates). Third, this database allows for the regional comparison of data within Italy, thus being based on the same legal and criminal justice system, definitions of crimes and methods of reporting. There may be a number of breaks in the time series of the data, as it is possible that new methodological/definitional changes occurred in the time span considered. Finally, being administrative data, records are collected with the specific decision-making purpose in mind with respect to the ANBSC (i.e., economic management and reassignment of the asset), and for this reason the economic unit’s identity, as well as all the information related to the economic reallocation of the assets, are measured with accuracy. Nevertheless, ANBSC data are not free from limitations, such as the risk for underestimation of the extent of organized crime investments in the legal economy. The seized properties represent only a fraction of the total amount of economic investment made by organized crime in the licit economy, as

these assets, by definition, are “hidden” and difficult to detect. A number of barriers exist to having a crime brought to the attention of the authorities, and for the completion of the judicial process. Furthermore, the observed number of seized assets is influenced by the length of the sentences imposed, the resources available to the judicial system to operate and complete the process, as well as the number of cases in the courts during the same period, which may slow down the process.

The empirical analysis demonstrates that from 1983 to 2012, the number of requisition orders consistently increased, due to rising patterns in both the number of firms and the amount of real estate seized. Some spikes in the number of seizures exist for 2000, 2001 and 2007 as a result of the end of lengthy legal trials which imposed the requisition of a wide array of assets (see Figures 13 and 21). The analysis provided evidence of a growing level of complexity and intensity of penetration of organized crime in the legal economy, due to signs of a shift towards larger, more geographically diverse and production-oriented proprietary structures.

Lombardy, Lazio and other northern Italian regions have emerged as “non traditional” areas of investment for organized crime. However, this came with a confirmation of the stronger presence of the organized crime in the economies of southern Italian regions, with a pivotal role being played by Sicily, which alone covers approximately half of the total value of Real Estate seizures (€ 689 million out of approximately 1.45 billion) and 36% of all firms seized.

For all economic assets listed, we analyzed the intensity of economic penetration of organized crime, both in absolute and relative terms, taking into account the compositional effect and structural heterogeneity of the Italian economy. In doing so, some indicators of organized crime penetration have been created by examining the relative importance of the organized crime infiltration on the weight of a given sector, region or firm type within the whole economy.

In Italy, the total value for all real estate assets seized from organized crime values at approximately € 1,452,000,000, corresponding to 0.1% of Italy’s GDP in 2012. Considering the total amount of real estate investments in Italy, the proportion of criminal economic penetration into the real estate market is on average equivalent to €22 million for every €100 billion worth of building assets. Looking at regional data, this rate is remarkably high in Sicily (190), Calabria (120), Campania (31) and Apulia (28), and among other “non-traditional” regions such as Lombardy (14) and Lazio (16).

The data on the investment of organized crime in registered economic activities confirmed the notoriety of Italy’s southern regions in this regard, having more than 80% of all the seized firms located in southern territories. However, Lombardy, with more than 200 firms seized, as well as other northern Regions, have in recent years become the second most important macro region after Sicily for the number of seized firms. The analysis of juridical forms has shown that among the types of organized crime firms, the Company and Partnership typologies emerged as the most preferred juridical form of organized crime firm to be utilized. These choices seem coherent with the need for flexible forms of enterprises with limited personal liability and risk, allowing for greater possibilities to fragmentize capital and ownership.

The sectors most affected by the penetration of organized crime, controlling for the relative importance of each sector in the overall economy, are the mining sector, the health and other public services sectors, and the construction sector. They are strategic sectors because they facilitate physical and social control of territory and are less exposed to international competitiveness. Furthermore, they show a high level of connectivity, integrating input and output derived from the production process.

Finally, this aspect of the research focused on the relationship existing among criminal presence in a region, regional economic performance, and public expenditure in security. The analysis was conducted by comparing all regions in 2012 and then looking specifically at the evolution of variables of interest over time in the six regions with the highest levels of organized crime penetration. This

analysis highlighted two important facts: regions with deeper criminal penetration perform worse in economic development; and in the long term a positive association has developed between higher public expenditure in public security and the number of requisition orders emerging by region, pointing to a possible higher detection capacity in those years in which more resources were devoted to public security.

In particular, three patterns of criminal investment seem to emerge from the analysis. First, a negative relationship between organized crime penetration and economic performance has emerged in the southern regions with a long tradition of organized crime presence (Sicilia, Campania, Calabria and Puglia). Indeed, such regions have the lowest GDP per capita levels and the highest rate of criminal penetration. In this case, strong existing ties between criminal organizations and the local environment, as well as potentially high social returns from investments in the legal economy, probably represent the main sources of attractiveness for illegal funds.

A second trend has emerged in some regions with a relatively high standard of living, such as Lombardia and Lazio, which nevertheless attract a high amount of investment from organized crime. In these cases, the organized crime penetration is more recent, and one explanation could be related to the important role that these regions play in Italy at political and financial level.

Finally, there are some regions that experience a low level of criminal penetration, and are quite heterogeneous in terms of economic performance. Such regions may be less vulnerable to organized crime penetration for several reasons. In some cases, low levels of economic wealth, together with weaker ties with criminal groups, may imply that such regions do not offer attractive investment opportunities for illegal funds. For other regions instead, good economic performances may act as a deterrent for illegal investments, since there could be less incentives in starting illegal activities whenever the legal economy offers high returns.

The Way Forward

The overall picture emerging from both the qualitative and quantitative analyses provides additional tools for national agencies mandated with counteracting organized criminal activity, aiding in the understanding of organized crime's modus operandi with respect to the pollution of legal sectors of the economy. Attacking criminal wealth, both in terms of money and through targeting a wider range of assets, has become a crucial and successful strategy in undermining the power, economic capacity and territorial control of organized criminal groups. Using Italy as a case study, the findings outlined here suggest that organized crime is extremely active in controlling sectors of the legal economy.

Findings

- Organized crime's reinvestments into the legal economy are growing, and are seriously impacting on economy and society.
- The infiltration into the legal economy can take different forms. Usually, it results in the direct or indirect control by organized crime of legal enterprises; these are acquired through - inter alia - fictitious interposition of third persons to avoid repercussions from preventive measures, such as freezing orders or assets seizures.
- The creation of monopolies in specific sectors, in view of favouring the criminal enterprise, is usually perpetrated by organized crime through intimidation and violent practices. This is also a result of the distortion of competition rules created by criminal infiltration.
- The illicit access to public biddings is another strategy widely applied by organized crime. As

demonstrated in the case of reconstruction work after the earthquake in L'Aquila in 2009, criminal organizations took advantage of profit-making opportunities with respect to both public and private sector construction projects.

- Traditional organized crime activities, such as extortion and the imposition of protection money, impact the legal economy and are usually implemented side by side with attempts to directly or indirectly own legal enterprises.
- The role of external actors and the use of corrupt practices are extremely important for organized crime deciding to operate into the legal economy. In particular, political and economic actors are vulnerable to organized crime pressures, and they may create an 'entry point' for criminals into the legal economy. The example of votes trading during political elections in exchange for subsequent favours for public biddings, to be provided by the elected candidate, is clear in this regard.
- With reference to the grey area, organized crime can count on the support of several actors, as lawyers and strawmen, which are ready to help the criminal group wanting to more effectively conceal illicit proceeds of crime. The report highlights that the grey area is becoming extremely structured.
- It is very difficult to provide monetary estimates concerning the value and size of organized crime infiltration into the legal economy as well as on the quantification of its impact. However, two main findings from the quantitative analysis stress that: regions with deeper criminal penetration perform worse with respect to economic development; and there is a positive association between higher public expenditure in public security and the number of requisition orders.

Recommendations

This study offers a solid knowledge base but, without replication in other countries, it is difficult to determine if the findings are generalizable. They are a starting point to further investigate the general modus operandi of transnational organized crime in this particular area. Even though some of the results described are inevitably related to the characteristics of the Italian context and historical development, the trends identified reflect a general tendency among organized crime. While maintaining a strict relationship with their territory of origin, even endogenous organized crime groups in Italy are increasingly "looking outside" their physical borders, and their actions are increasingly intertwined with transnational networks. Therefore, this analysis of the Italian context provides insight into the global trends of organized crime with regard to its infiltration strategies. Without an in-depth knowledge of organized crime strategies, steps undertaken to combat the power and the culture of organized crime risks remain ineffective.

Some elements for further consideration for both researchers and policy makers include:

- The importance of attacking criminal wealth - in terms of money and other type of assets - for undermining the power, economic capacity and territorial control of organized criminal groups. The Italian case represents a starting point for further investigation into the general strategies of transnational organized crime in this area and for the elaboration of proper countering measures;
- The need to promote risk assessment tools capable of evaluating the territorial exposure to reinvestment activities and to organized crime infiltration into the legal economy. These tools may support the preparation and implementation of tailored prevention and response actions.
- The vulnerability of public biddings to organized crime infiltration. Proper prevention and

control procedures should be further elaborated and widely applied.

- The transnational element of reinvestment activities, which calls for improved cooperation between law enforcement agencies in different countries.
- The need to ensure proper information and communication strategies for the general public on the role and negative effects of reinvestment activities of organized crime. This element is crucial to undermine their control over the territory. Knowledge dissemination represents a further tool to disrupt criminal activities, because licit entrepreneurs would be encouraged to denounce criminal pressures and threats.
- The need to dedicate further research and data collection activities to the pollution of the legal economy operated by organized crime, especially in relation to the role of the grey area in view of the important role it plays for the functioning of reinvestment schemes and for ensuring the criminal control over the territory.
- The importance of the re-use of confiscated assets as a tool to promote economic development, disrupt organized crime control over the territory, and support civil and cultural action against organized crime. More political efforts in this direction should be taken.

Furthermore, the results of the study also point to certain areas for further analysis, which may shed light on new and unexplored elements. One of these areas is the possible management of legal enterprises by organized crime to trade illicit products and provide illicit services. Various cases analyzed in this report, for example, have shown the creation of monopolies by criminal organizations owning legal activities in specific sectors. Criminals may insert illicit products into the legitimate supply chain using the companies they control. Considering the seriousness of organized crime presence in the Italian food industry, which was underlined by the conclusions of the latest Parliamentary Commission inquiring into the phenomenon of counterfeiting and piracy, this may become a real threat in the future, putting consumers' health and safety at risk if criminals will start to flood markets with adulterated and fraudulent food.⁸⁰

Synergies of the actions of all actors involved in fighting organized crime can become even more incisive if they are based on a punctual analysis and increased consciousness of criminal strategies and characteristics. While only a snapshot of current trends based on available data, the present work enables us to trace and open a possible route for encompassing new perspectives of analysis. It is fundamental that all concerned stakeholders reinforce their commitment to continue in this direction, further analyzing the strategies put in place by organized crime groups to reinforce their control over territory and economic and social architectures. This study demonstrates that this is a fundamental step to be taken in order to enhance the effectiveness of action taken to fight transnational organized crime in all its forms and manifestations.

80 Commissione Parlamentare di Inchiesta sui Fenomeni della Contraffazione e della Pirateria in Campo Commerciale Doc., XXII-bis n. 2, http://leg16.camera.it/544?stenog=/_dati/leg16/lavori/documentiparlamentari/indiceetesti/022bis/002

ANNEXES



a. Overview of Organized Crime in Italy

In recent decades, the presence of organized crime, corruption and the infiltration of criminal organizations into the public sector have grown without interruption, both in the south and north of Italy. The presence of organized crime has detrimental effects on society. “In those areas in which they have the strongest roots, criminal organisations discourage investments in production, impede the free and full use of proprietary rights, and have a negative effect on business activity, which ultimately alters the allocation of resources and the general functioning framework of local economies.”⁸¹ The extent of the grey area⁸² is increasing in Italy: by definition, it is not easy to identify and may include many professional profiles.

Concerning organized crime in Italy, according to the main law enforcement agencies there are four major endogenous criminal organisations in this country: the Cosa Nostra, ‘Ndrangheta, Camorra and Sacra Corona Unita, which are based respectively in Sicily, Calabria, Campania and Apulia - although their branches have now extended throughout Italy and abroad.⁸³ Each branch is divided into medium to small clans, characterized by a strict hierarchy, which are able to manage large, transverse markets and can sometimes forge reciprocal or competing alliances. Their zones of influence are divided along geographical lines, and sometimes real criminal monopolies are formed.

The nature of organized crime’s business has evolved over time. The transformation started towards the end of the 1970s, when the economic and institutional instability of Italy acted as a catalyst in the process of converting criminals into subjects dedicated to the accumulation of wealth. Criminal organizations gradually established an aggressive business presence, with the aim of expanding their markets. They were aided by the fact that criminal businesses maintain a series of competitive advantages that make them stronger than a legal entity: such as the forced reduction of salaries, the dejection of competition and huge financial resources for investment. Huge cash resources come from activities such as the trafficking and production of drugs, the trafficking of weapons and human beings, and the illegal export of capital.

With regard to organized crime in the region of **Campania**, “the Camorra is still a large, powerful, fluid and streamlined criminal organisation, which revolves around the ceaseless activity of multiple alliances.”⁸⁴ The origins of Camorra are rooted in the urban context, among the lower socio-economic strata of the population. The structure of Camorra is made up of groups, composed either from minor criminal groups or from divisions of existing clans. There is no hierarchical structure able to mediate or reduce conflicts, and this is reflected in the group’s relationship with its zone of influence. The propensity of Camorra clans to get involved in acts of contraposition is always very high, transforming quite easily from situations of alliance to violent conflict among the organization’s ranks - this is mostly evident in the area of Naples and its surrounding province. Conflicts have taken place both in the city centre and suburbs, and in the northern and eastern areas of Naples, demonstrating the tendency of groups to expand their criminal space of action.⁸⁵ The Camorra maintains a high level of territorial control and exploits social fragmentation, characteristic of the region. The main Camorra ‘system’, made up of criminal groups, offers an alternative to lawful authority and responds to the multitude of problems stemming from the area of Naples being least developed. The boundary between the Camorra and the widespread criminality in Campania is vague. The Camorra has capitalised on its long experience in the region “by learning to combine the power of its hierarchy with the flexibility of relations among criminal

81 Sciarone R. (ed.), Fondazione Res (2011), “Alleanze nell’ombra. Mafie ed economie locali in Sicilia e nel Mezzogiorno.”

82 The grey area is not only made up of businessmen, but also public administrators, bureaucrats and professionals. The grey area is a sort of meeting ground for cooperation and exchange of favours between apparently irreproachable individuals who act as intermediaries and allow members of organized crime to enter and/or participate in legal activities. The networks developed in this area tend to produce distorting effects, which then have an impact on the size of the whole national economy.

83 For the present study we take into consideration only the three main criminal groups operating in Italy - Camorra, ‘Ndrangheta and Cosa nostra - while the Sacra corona unita is not included in the analysis due to its more restricted role in the pollution of legal economy, as referenced by the data collected.

84 DIA (2010), p. 218.

85 DNAA (2015), p.79.

networks.”⁸⁶ It forges relations with external groups who receive a share of the proceeds from a broad spectrum of criminal acts, including the smuggling of foreign manufactured tobacco, the handling of stolen goods, drug pushing and robberies. The Camorra’s areas of interest include carrying out robberies, which are often undertaken by ordinary gangs of criminals based on the authorisation of the Camorra clans, sometimes in view of becoming fully fledged members of the entire criminal system. This criminal group is active in extortion, which can be interpreted as the “occupation of a region’s economic territory”, and mainly targets the business world. Other activities include usury, vandalism (sometimes followed by arson attacks), murder through the use of firearms (intended to symbolise the criminal network’s power to settle scores), money laundering, the re-use of proceeds of crime, bribery of public officials, drug trafficking, the recycling of waste (which is still one of the most extensive areas of criminal interest), and counterfeiting.

Moving our attention to organized crime in **Calabria**, information obtained from investigations and legal proceeds reveals that the ‘Ndrangheta is expanding its presence on the national and international markets, and is seeking to establish its supremacy, particularly in terms of its financial resources, which are practically unlimited. In 2008, the Antimafia Parliamentary Commission reported that: “The ‘Ndrangheta is the criminal group less known and less investigated. One of its strong points is related to this lack of knowledge [...] and the fact that it has been considered [for a long time] as a second-class criminal group.”⁸⁷ In recent years, the level of knowledge on the characteristics of this criminal group has largely increased. Investigations have revealed interesting features, also concerning the group’s relationship with its territory of influence, which differentiates the ‘Ndrangheta from other criminal groups. The organization’s model varies significantly from the others: it is grounded on the strength of family ties and on the reliability granted by these bonds - a sort of cement holding each member to another and ensuring the avoidance of defections. A clear example concerns the lack of collaborators of justice of the same “criminal calibre” as compared to those coming from the Camorra or Cosa Nostra. “This criminal group nowadays is acting and thinking at [the] local and global level, [while] at the same time, controlling the territory and following the evolution of international markets. For this reason today it is the strongest and more rooted organization, present in the entire region of Calabria and branched in all the regions of the north-Centre of Italy, in Europe and in other foreign countries, which are crucial for drug trafficking.”⁸⁸ Notwithstanding the rigid rules of territorial division in place within the respective areas of influence of the 5 provinces in Calabria,⁸⁹ there is a sharp tendency to create criminal holdings to manage international trafficking or to infiltrate public works in territories which concern several groups. Moreover, important law enforcement agencies operations - such as operation ‘Crimine’ and operation ‘Infinito’ - have lifted any veil on the modalities of presence and action of the ‘Ndrangheta in the north of Italy, especially in the regions of Piedmont and Lombardy, as well as their relations with their region of origin. The ‘Ndrangheta is refining its criminal techniques. There seems to be a clear transformation of the organisation’s criminal structure, which has gradually implemented business techniques linked to the process of globalisation and the need to move people, goods and capital around Europe. Many police investigations have confirmed that the ‘Ndrangheta is a criminal organisation with a strong territorial structure, articulated on several levels and with its own “top management.” From Calabria, where it is based, the organisation has directed its efforts towards markets in the north of Italy (mainly in Lombardy,⁹⁰ Piedmont and Liguria), Europe, north America, Canada and Australia. For example, the DNAA monitored the activity of ‘Ndrangheta members based in Toronto, and discovered that there were seven families operating in Canada, most of them of Calabrian origin. Each family was active in drug trafficking, extortion against members of the Italian community, gambling and usury, as well as the marketing of counterfeit goods.⁹¹ An important element that

86 Ibid., p. 219.

87 Parliamentary Commission of inquiry on the phenomenon of organized crime or similar, (2008), Annual report on ‘Ndrangheta, available online at: www.senato.it/service/PDF/PDFServer/DF/200771.pdf

88 Ibid., p.37

89 The five provinces in the region are Reggio Calabria, Catanzaro, Vibo Valentia, Crotone and Cosenza.

90 Lombardy is one of the Italian regions particularly favoured by clans with the aim of establishing criminal markets and infiltrating sectors of the legal economy by injecting illicit capital.

91 DNAA (2010), “Relazione Annuale”, p. 91.

emerged from actions against organized crime conducted by law enforcement in Italy was the frequency of crimes intended to enable the unlawful accumulation of cash and the laundering of criminal proceeds. Common techniques that demonstrate organized crime's grip on the territory include the collection of protection money (*pizzo*), and exertion of extortion pressure on local businesses, which are exploited to create illegal channels for employment as an additional way of gaining control over territory. Several cases of infiltration of political and administrative circles of local authorities were discovered. Furthermore, alternative energy production is a sector of particular interest and has been infiltrated by the 'Ndrangheta. The organization's illegal activities in this field include not only usury and money laundering, but also very strong involvement in the drug market, particularly in the port of Gioia Tauro,⁹² which is used as a channel for trade and transit. Other offences of the 'Ndrangheta uncovered by investigations include extortion, attacks on property, arson, and murder.

With regard to organized crime in Sicily, starting from the declarations of the famous collaborator of justice (*pentito*), Tommaso Buscetta,⁹³ and of those who followed, the knowledge on the structure and functioning of Cosa Nostra is quite comprehensive. In contrast with the Camorra and 'Ndrangheta, which are made up of individuals from the working-classes who establish mercenary relations with powerful and influential people, Cosa Nostra can be defined as a phenomenon originating from the ruling classes. It is a unique organization when assessing the group's continuing relations with the power structures. Starting from the early 1990s, the structure of this criminal group began to change: after the famous massacres of Capaci and Via D'Amelio,⁹⁴ Sicilian organized crime faced several problems that put at risk its own survival. On the one hand, the Cosa Nostra needed to find alternative measures for penetrating the local economic/social/political context, while, on the other, they had to take advantage of new opportunities for investment created by the globalized economy. For these reasons the rigid structures of this group needed to be transformed. The declarations collected by law enforcement agencies involved in the fight against the Cosa Nostra are aiding in providing a full description of the group's structure.⁹⁵ Although Sicilian criminal organisations still represent a serious threat, these groups have been showing gradual signs of crisis for some time. However, it seems that the disaggregation of the solid organized crime framework is, paradoxically, heightening the risk for the Cosa Nostra's roots to spread even further, allowing for the group to extend its entrepreneurial, political and financial branches. These tasks may be accomplished, in particular, by the more evolved elements of the criminal system, which combines criminal methods with a more subtle managerial culture.⁹⁶ Although various prominent supporters of the Cosa Nostra have been captured, this criminal organization is still able to survive, mainly because of its structure. By resorting to its old and ever-present rules, which have been handed over from the elders to new generations, Sicilian organized crime is able to survive in a time of crisis, such as the current one. Thanks to these rules, Cosa Nostra is always able to re-engineer itself without ever losing its life force or dangerousness. Investigations

92 The Port of Gioia Tauro in the region of Reggio Calabria, southern Italy, is one of the largest seaports in Italy and one of the largest container ports in Europe. It has been highlighted by different reports composed by the Italian authorities that there are many illegal activities taking place at the port of Gioia Tauro, such as drug and illegal arms trafficking, which are actually controlled by the 'Ndrangheta.

93 Tommaso Buscetta was the first collaborator of justice in Italy. His declarations allowed for the unveiling, for the first time, of the mechanisms behind Cosa Nostra, as it was structured after the organized crime-war that took place in the 1970s-1980s.

94 For a more in-depth analysis of the history of the Cosa Nostra, see Lupo S. (1993), "Storia della mafia dalle origini ai giorni nostri", Donzelli, Roma; Lodato S., (2006), Trent'anni di mafia, Bur, Milano; Lodato S., (2007), "La mafia ha vinto. Intervista con Tommaso Buscetta", Mondadori, Milano.

95 With regard to the territorial structure of the Cosa Nostra, the organizational unit is composed of the family (*cosca*), which includes a strong territorial component and is usually extended to an entire area of the city from which it takes the name. Every family creates a strict group, which controls its own territory. The so-called *cosca* is at the base of the pyramid structure: each *cosca* is made up of about ten people, coordinated by a boss (*capo decina*); the family-boss is also called 'representative'. In the city of Palermo, considering the high number of organized crime families, an intermediate level has been created (called *mandamento*): it groups together three families which are contiguous at the territorial level. The different heads of this intermediate level are part of a commission called 'the Province' - these are in charge of ensuring the respect of the rules of the Cosa Nostra. Finally, the so called *cupola* is administrated by a secretary: this organ has to coordinate and control the full activity of the organization; to take the decision on 'uncomfortable' subjects to be eliminated (politicians or prosecutors); to manage relations with the political and local system and for the sharing of public funds; and finally to take decisions on the division of territories that are under the control of the different families.

96 For further study, see DIA (Direzione Investigativa Antimafia) (2010), "Relazione del Ministero dell'Interno al Parlamento sull'attività svolta e sui risultati conseguiti dalla Direzione Investigativa Antimafia", p. 34.

have revealed that the primary interest of the Cosa Nostra is the drug market. Drug trafficking is very often financed by the proceeds coming from extortion activities. Extortion is one of the principal offences committed by all the various criminal organisations being investigated. Very often, extortion is used as a way of setting up a vast chain of offences, which give a criminal clan complete control over operations of victim companies. Criminal organisations in Sicily continue to have a very strong interest in the construction industry, and therefore in public contracts, as well as in financial intermediation (in this regard, various operations have been carried out in the north of Italy, particularly the region of Lombardy). The Cosa Nostra has refined a well-consolidated strategy of infiltrating the legal economy. It usually approaches the business world through the use of intimidation tactics such as arson attacks, vandalism, extortion, the use of weapons, and kidnappings. Looking at the international network put in place by Sicilian organized crime, it is well-known that it has a solid bond with the Cosa Nostra in the USA, as well as maintaining strong relations with foreign drug cartels.

Looking at the relationship between endogenous organized crime and the licit economy, it is interesting to see how the report on criminality in Italy, released by the Ministry of Interior in 2007,⁹⁷ highlighted that: “the more structured criminal groups, Cosa Nostra, ‘Ndrangheta, Camorra [and Apulia organized crime], keep on exercising an effective action of control over the territories of origin and represent a serious threat to the development of the relations among social components and of the economical order.”⁹⁸

Criminal companies modify the environment in which they operate, relations with public administrations, and the notion of the market itself. They modify the territory through strategic relations and can even manifest their effects on the language and mentality of the people in their territory, including entrepreneurs and public officials. The complex and strict relationship of organized crime with the territory under their control is even clearer when analyzing companies confiscated by criminal organizations, and the difficulties faced by relevant authorities attempting to take action against them. Companies taken over by criminal organizations become ‘pieces’ of the criminally-controlled territory in which they have been operating. These companies, once taken over, build relations and elaborate plans to govern territory and electoral markets. Therefore, they cannot be considered as illegal economic subjects that can easily be removed from society without having an effect, or causing modifications in their respective regions. Once cleaned of their criminal elements, these companies can even be transformed into new resources for their surrounding areas and civil society.⁹⁹

Foreign Organized Crime Groups¹⁰⁰

Aside from local criminal organizations acting in Italy and abroad, foreign criminal organizations are active in Italy - either in cooperation or separated from local organized crime. Foreign groups operating in Italy mainly consist of two typologies: some of them are composed by persons belonging to the same nationality (i.e. Chinese or Nigerian); others are instead formed by people from various nationalities or ethnicities (Albanian, Kosovan, Serbian and Romanian) involved in various forms of illicit trafficking, but who are uniquely connected by the common interest of making profits.

97 Ministero dell’Interno, (2007), “Rapporto sulla criminalità in Italia”, available at: http://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/14/0900_rapporto_criminalita.pdf

98 Bianchini E, Sicurella S., (2007), “Il crimine organizzato in Italia: analisi evolutiva”, in *Rivista di Criminologia, Vittimologia e Sicurezza*, vol. I, n.3, September-December, available at: http://eprints.bice.rm.cnr.it/475/1/angoloricerca_bianchinisicurella_2007-03.pdf

99 These theories were presented by Nando Dalla Chiesa, professor of sociology and criminology, during a conference held in Milan on 10 April 2015. The conference aimed at analyzing the relationship between organized crime and the licit economy. The main concepts have been paraphrased in this section.

100 The main source of this section on foreign OC groups is the annual report of the DNAA (2015), pp. 153-161

According to analysis conducted by the Antimafia District Directions (DDAs)¹⁰¹ and other relevant police forces, the following foreign criminal groups are operating in Italy: Chinese, Nigerian and Albanian-Balkan. The presence of Russian and Maghreb groups has been observed. Some general characteristics are highlighted below:

- Every criminal group has its own specific characteristics linked to the cultural aspects of the areas of provenance.
- Foreign groups usually prefer to base themselves in those regions where the presence of local criminal groups is low, with the important exception of the Campania region in which Chinese and Nigerian groups are strongly present.
- Foreign criminal groups usually do not create alliances with traditional ones.¹⁰²
- Affiliates are often irregular inhabitants).¹⁰³
- All these groups convert their illicit capital into other activities, either through deposits in tax heavens or by sending huge amounts of money back to their countries of origin through the money transfer system.¹⁰⁴

Considering the focus of the present study, which includes laundering and reinvestment of illicit profits in the legal economy, Chinese and Russian groups seem to be the most active in this area. Chinese organized crime groups are mainly involved in smuggling, the counterfeiting of goods, illegal migration, extortion, and other high-profits crimes, while in parallel they are increasingly involved in money laundering activities. Illicit profits are mainly reinvested into real assets, with criminal groups often paying much higher prices for goods than their real values (in an effort to launder large amounts of funds); additionally, investments are made in warehouses, which can be used for storing counterfeit goods and hosting irregular migrants. The availability of huge cash resources led Chinese criminals to gradually acquire several commercial activities previously managed by Italians, and led to the creation of businesses fictitiously owned by straw men, with the aim of hiding the illicit origins of funds. The money transfer system is later used to send remittances back to China: the main sources of these cash streams are the cities of Rome, Prato-Florence and Milan.

Information on Russian organized crime (*mafiya*) operating in Italy is still incomplete, and that which is available reveals a complex framework. Russian criminal organizations invest huge amounts of capital in the real estate sector, as well as in the financial and entrepreneurial sectors in different parts of Italy. Even though modalities of action include typical money laundering activities, this specific crime is hard to detect by law enforcement agencies, due to the difficulty in proving the responsibility of perpetrators based in their countries of origin. Moreover, Russian networks operate in the transnational circuit through the creation of several societies carrying out commercial and entrepreneurial activities to cover illicit trafficking. The position of Russia is of course strategic as a crossroads for the trafficking of products.

101 The DDA is the organ of the prosecutor's office to which is attributed the competency over the procedures for organized crime related offences. The DDA is attached to the tribunals of the chief towns of the 26 districts of the Court of Appeal in Italy.

102 This statement is taken from the main documents composed by Italian law enforcement authorities and analyzed for compiling this section on foreign organized crime in Italy. While an in-depth analysis of this concept would be interesting, it was not possible to further explore this topic within the framework of this study.

103 'Irregular migrant' is probably the best way to refer to people living in the Italian territory either without a regular residency permit - because he/she irregularly entered into the country avoiding borders controls - or to people that regularly entered the country but are now considered in an irregular position because he/she remained in the country over the actual duration of the permit.

104 See Box on page 27.

b. Case Studies

What are the Relationships Between the Grey Area and New Forms of Corruption?

Characteristics of external actors in relation to criminal groups: the case of Camorra

Evidence from the AIETA case shows how members of a family can provide services to various clans simultaneously. The AIETA case demonstrates the existence of a stable structure composed of entire families acting as straw men, a structure which was coordinated by three brothers and governed by at least three trustees. This structure achieved its main goal: concealment; for 15 years, the criminal origin of proceeds invested in dozens of fuel stations and related activities remained undetected.

Considering the role of the grey area in the expansion of organized crime to new territories, it is interesting to see how a type of *holding* was created by third actors, dedicated to the financial interests and the **expansion of interests** of a criminal group belonging to the Camorra - Contini clan. This criminal group was strongly involved in the conquest of new territories, even outside the Campania region. Particularly after the 1990's, the alliance's big money-laundering operations were concentrated in Rome and in the north-Central part of the country. External actors turned out to be very capable in purchasing several licit activities within the municipality of Rome, operating in the sector of food and beverage. However, investments were not limited to Italy, and these external actors managed to reinvest illicit profits abroad. In particular, a person identified through the police investigation turned out to be the owner of a series of foreign companies used to facilitate concealing the sources of investments. The low profitability of these companies alludes to the real reason behind their constitution: the need to mask the illicit origins of capital. Aside from investing in enterprises, the clan routinely purchased real estate of significant value in foreign countries.

The Role of Brokers in Transferring Illicit Funds and Laundering Money

The AIETA case provides an example of the role of brokers, which are sometimes acting in third countries with more flexible rules, and considered 'safer' for money laundering activities. In the AIETA case, through the action of a broker, it was possible for criminals to transfer illicit capital of unclear origin, valued at approximately € 230,000, to a trust fund in a Swiss bank. The funds were subsequently invested in financial products (the CS Eurorial) which has a very high rate of return; this process was carried out with the final objective of hampering the detection of the real origin of the money.

Case 1581932¹⁰⁵ is another example of the interrelation among organized crime, politics and business actors belonging to the grey area. The main subjects involved in this case were: the 'Ndrangheta group known as Gallico,¹⁰⁶ and based in Palmi (Calabria); a 'trusty' lawyer (identified as Mr. Minasi), arrested and accused of participating in the organized crime association; and a lawyer and notary (identified as Mr. Borelli) who committed suicide in Lugano (Switzerland) in 2011. The role of the two attorneys was crucial in the creation of an *offshore* society, named Zenas LLC, and in the transfer of properties (land) belonging to the Gallico group to the society, to avoid patrimonial preventive measures.¹⁰⁷

105 Rquotidiano (2011), "Ndrangheta, suicida legale svizzero. Titolare della società USA che occultava i beni dei boss", in Il fatto quotidiano, 6 December, available at: <http://www.ilfattoquotidiano.it/2011/12/06/ndrangheta-suicida-lavvocato-svizzero-socio-minasi-titolare-societa-occultava-beni/175698/>

106 The main representative was boss Carmelo Gallico, arrested in Spain in 2011.

107 The patrimonial preventive measures include the seizure and confiscation of goods in which legitimate provenance has not been demonstrated - while these goods were directly or indirectly available to the person suspected to belong to an organized criminal group.

The Italian law enforcement agencies discovered that the asset - the aforementioned lands - 'saved' from patrimonial preventive measures, were also a vehicle for hoarding illicit money, and the criminal gang used to draw substantial subsidies from crops cultivated on that land. They received a sort of "funds integration" for oil production, and in fact the appropriation of this *surplus* by the former straw men was the trigger motive leading the Gallico family putting in place the screen operation via Zenas LLC. In order to make Zenas LLC's land purchase appear as real as possible, a series of bank transfers among the former straw men and other external companies were simulated, but the transit of money was not real, having the only aim of dissimulating the whole screen operation.

The Relationship with Politics

External actors can play a crucial role in the construction of strong relations with the political environment: in this field, the operation identified as 1462505 - for reasons of confidentiality - presents clear evidence of existing links between exponents of the 'Ndrangheta and the entrepreneurial and political sectors. In this case, organized crime was represented by the relevant local manifestation of the 'Ndrangheta, named *locale* (plural *locali*).¹⁰⁸

An important figure representing the nexus between the 'Ndrangheta and the political environment in Lombardy was nicknamed PN (Giuseppe - Pino Neri), the leading boss based in the town of Pavia who had very good relations with high-level professionals, public officers and political figures. He was actively involved in fixing the political elections of 2009-2010. Neri maintained relations with another central figure at the heart of a number of operations (such as the INFINITO-TENACIA and court case 1462505, which is herewith described), nicknamed AC (Antonio Chiriaco). Some of the main candidates running for election in 2009-2010 asked for the intervention of Neri and Chiriaco to obtain more votes. As reported by the judges, Chiriaco - "the former manager of the Health Agency in Pavia - had the role of a stable reference point to channel the votes controlled by the criminal association on candidates in several administrative electoral sessions."¹⁰⁹ Chiriaco was in close contact with the head of the 'Ndrangheta *locale* (local group) of Milan, which supported him by compensating Chiriaco for his economic losses and business problems by providing cash and obtaining funds from colluding banks. In turn for this support, the boss (Chiriaco) had to provide hundreds of votes in Lombardy, Piedmont and Liguria to the candidates supported by the criminal organization.

One of the objectives of the criminal organization in this specific area of the country was to secure influence in the department for infrastructure of Lombardy's regional council, with the aim of gaining clout in the organization of Expo 2015 in Milan. Included among the projects planned for development by elected candidates were purification plants and the construction of photovoltaic panels in cadmium, in addition to politicians having access to funds coming from the European Union at the regional level.

Political actors are identified by organized crime and recruited into the criminal environment to obtain easier access to public tenders, especially through the use of societies managed by fictitious owners, which are usually 'clean' entrepreneurs. One example of this can be taken from an investigation into money laundering carried out against a subject identified as RC (Rocco Cristello), a criminal belonging to organized group acting in cooperation with a penitentiary doctor from Monza Prison in the north of Italy. RC participated in money laundering by investing illicit 'Ndrangheta capital into the construction of a cinema and a mall, with the involvement of Chinese subjects. At the same time the penitentiary doctor was interested in occupying the position of director for a health agency in Lombardy, but to obtain this political appointment, he needed

108 The term 'locale' derives from the typical structure of 'Ndrangheta into local groups and includes a number of the so-called 'ndrine hereafter referred to as 'local groups'.

109 RQuotidiano (2014), "Operazione Infinito, giudici Milano: 'Ndrine avevano una talpa nella DIA", in Il fatto quotidiano, 29 September, available in Italian at: <http://www.ilfattoquotidiano.it/2014/09/29/operazione-infinito-giudici-milano-ndrine-avevano-una-talpa-nella-dia/1137672/>

external support. An agreement was easily made. In exchange for support from RC for securing the appointment, the doctor had to provide public tenders to the criminal group once confirmed as director of the health agency.

Case study (1592554 - sidda 3) - involving criminal groups related to the 'Ndrangheta - provides a clear example of the new emerging mechanisms of corruption based on the **exchange of public resources**. In this case study, the boss of a 'Ndrangheta group (named D'Agostino¹¹⁰) maintained a strong relationship with a council member from the Lombardy Region named Zambetti Domenico. They cooperated with respect to the regional elections held in March 2010 by establishing a criminal-political agreement based on the exchange of votes for money and other utilities. The criminal boss was in charge of collecting cash instalments and distributing them to the 'Ndrangheta groups involved in gathering votes. The first instalment to be provided for the votes was approximately €80,000, part of a total payment of €200,000 (about €50 for each vote). Aside from the yield collected by the criminal group, the complicity of the council member represented for the criminal group the concrete possibility to infiltrate one of the most important focal points of political power in Lombardy. Some of the promises made by Zambetti to obtain votes from the criminal organization concerned granting engagements in public institutions, as well as the preferential allocation of public procurements managed by the Region, promises which were fulfilled. One of the members of the organized criminal group, for example, received the promise that members of 'Ndrangheta would receive special treatment in the allocation of public works and procurement managed by the Lombardy Region. The council member thus played a crucial role for the criminal organization and was acting as an external contributor to the 'Ndrangheta operating in Lombardy. By executing his functions as a public official, he was making, voluntarily and consciously, an important contribution for strengthening organized criminal businesses with respect to their control over territory and prestige. The councilman made himself fully available to the clan's requests and, by doing so, contributed to augmenting the 'Ndrangheta's economic and financial capacity.

To highlight another example of these types of corrupt agreements, we can refer to the connection established by members of 'Ndrangheta with the president of the board of the Metro Engineering corporation, which was holding a share of a government-controlled company managing the subway system in Milan (Metropolitana Milanese Spa). The corrupt exchange in this case concerned the promise of collecting votes in favour of the aforementioned president's daughter, who presented herself as a candidate for the Municipal Council of Milan. This was done against the promise of preferential assignments for public works for building a tramway (named Cosenza-Rende), for constructing works granted to cooperatives controlled by the 'Ndrangheta, as well as for opening an ice-cream parlour inside a commercial mall in Sedriano (province of Milan). Among other public works granted to the criminal network, the modernization of the council's ecological platform for trash collection in Sedriano, and the renovation of the area of villa "Colombo Brazzola" in Sedriano can be included. With regard to this specific case, it is interesting to highlight that investigations into the infiltration of the 'Ndrangheta in the political, economic and social context of Sedriano brought forth the dissolution of the municipal council in 2013¹¹¹ - the first case of this kind in Lombardy.

110 Giuseppe D'Agostino, head of the Calabrian group based in Laureana di Borrello, has been one of the 30 most wanted organized crime fugitives in Italy.

111 For a full description of the case in the Italian press, see, among others: Fagnani G.M. (2013), "'Ndrangheta sciolti i consigli comunali di Sedriano (Milano) e Cirò (Crotone)", in *Corriere della Sera*, 16 October, available at: http://www.corriere.it/cronache/13_ottobre_16/ndrangheta-sciolti-consigli-comunali-sedriano-milano-ciro-crotone-f25d4a42-35ef-11e3-9c0c-20e16e3a15ed.shtml, and Mattioni E. (2015), "Sedriano, Tar conferma scioglimento per mafia", in *L'Espresso*, 9 January, available in Italian at: <http://espresso.repubblica.it/attualita/2015/01/09/news/sedriano-il-tar-conferma-lo-scioglimento-per-mafia-1.194303> or the judgement issued by TAR-Lazio (Regional Administrative Tribunal) (2013), N. 12922/2013 REG.RIC.

Extortion, Usury and Protection Money (*Pizzo*) as Means of Polluting the Legal Economy

1. The AIETA case provides considerable evidence of the extortion pressures put in place by clans belonging to the Neapolitan Camorra (in particular the Contini clan), while showing the twofold goal of gaining money and ensuring control over territory. Extortion and usury are activities frequently put in place by organized crime to pollute the legal economy, and this is especially true for Camorra groups. One of the techniques used to apply usury measures, emerging from the AIETA operation, is the acquisition of commercial activities belonging to debtors. The strategy applied by the Camorra in this case was far-sighted: through extortion pressure and/or by taking advantage of the conditions of need of companies,¹¹² the clans gained and kept control over those companies with the further objective of maintaining a competitive advantage in their areas of expertise. This includes sector-specific competencies and the network of commercial relations of usurped entrepreneurs. It is interesting to see how part of the money collected through usury and extortion was used by the Camorra to create a system of regular payments for the members of the group. Investigations revealed the existence of a system of weekly or monthly salaries guaranteed by the clans to their affiliates, and apparently there were salary levels depending on the tasks carried out and individuals' criminal status. According to the declarations collected, the basic salary was €2,500 per month, up to €5,000-€6,000 for those in charge of extortion and gunfights, and even €8,000 per month for the clan managers.
2. The ALIBERTI case allows us to appreciate the *modus operandi* of one of the most important Camorra clans - the so-called *Mazzarella* clan.¹¹³ The clan was managing usury operations to obtain control over licit economic activities, forcing entrepreneurs to alienate themselves to compensate the debt contracted. We can identify the imposition of the use of certain products as a form of extortion, which was perpetrated by the *Mazzarella* clan. In the territories under its criminal influence, the clan was controlling the purchase of fish products, mozzarella cheese and even plastic bags to all restaurant managers. The clan was forcing all fish vendors in the area of *Sopra le Mura* (in Naples) to pay a weekly share of money as a form of imposition. On this matter, even a member of the *Giuliano* clan, during an interrogation carried out in 2008, specified that the *Mazzarella* clan, by charging usury interest on extorted sums, was becoming the owner of fishmonger shops, which were fictitiously assigned to third parties. In this way, and thanks to alliances established with other clans, they were able to impose the sale of a particular fish speciality¹¹⁴ in the market of Naples and gain a monopoly over this product. In this case, the advantage for the clan was twofold: on the one hand they were imposing the use of certain fish products, while, on the other, they were lending loans at usury rates. Usury loans were granted through checks, giving an appearance of legality to economic operations, and allowed the criminal group to take over the debtors' businesses, because owners were not able to pay the interest rates back.
3. In the ASTUCCIA case, it is interesting to observe how the requested extortion values were not always considerable sums of money. In one case, for example, these requests corresponded to the delivery of two bottles of champagne, showing very clearly that the real aim of the extortion in this case was the control of territory, the establishment of strong relations with owners of enterprises, and establish authority rather than gaining mere profit. Furthermore, another way to commit extortion against shops or businesses can be to demand discounts (i.e. up to 40%) for goods acquired from the owner of a shop, serving as a way to confirm existing affiliations with the Camorra clan controlling that particular territory.
4. Other examples of extortion activities carried out by the Camorra are described in the

112 Now considered as employees by the criminal organization.

113 The main criminal charge in the 'ALIBERTI case', however, concerns counterfeiting activities. Even if this was not mentioned for the purpose of this study, the *Mazzarella* clan is particularly active in the illicit trafficking of counterfeit goods, an area in which they have imposed a real monopoly.

114 The Italian word *capitone*, the fish speciality imposed, refers to a large female eel usually cooked for Christmas.

ABETE judgement. In this case, a company in charge of installing methane in the municipality of Somma Vesuviana was forced by the criminal group to pay €150,000 - corresponding to 3% of the total amount to be received by the company for its work. Part of this amount had to be paid in cash while the remaining sum was transferred through monthly instalments of €3,000 - €4,000 each: transferring this money was the only way for the company to keep on with the work. This case shows how the control exercised by the Camorra over economic activities extends to every economic sector or type of activity.

5. Operation 1491508 refers to the Cosa Nostra and shows extortion practices employed by the criminal family of the area¹¹⁵ of Brancaccio in the city of Palermo. The case clearly shows the way in which the criminal group was exercising control over the area's construction sector in a variety of ways. According to registered conversations, during weekly meetings with his employees, the owner of a construction company used to mention the serious economic ups and downs related to extortion carried out by criminal groups over his construction and commercial activities. Among the techniques put in place by the clan, we can identify the payment of *pizzo* for construction works, the imposition of subcontracting companies for the same kind of work, as well as the obligation for a construction company to cede some of the already built apartments as a form of extortion payment. The owner declared that the criminal groups established a fixed and predetermined amount of money to be extorted in the field of construction work, €5,000 for each apartment planned for construction.

Distortion of Competition Rules and the Creation of Monopolies

1. Specific techniques of infiltration and control of the legal economy operated by the Camorra have been identified in the AIETA case, and were further confirmed in several other operations involving the Neapolitan criminal groups. These techniques mainly envisaged the following steps:
 - prominent representatives of the clan approached entrepreneurs who were facing cash flow problems;
 - in some cases the economic actors were victims of extortion threats typical of organized crime methodology, with parallel proposals of loans at usury rates and the promise of getting cash to launch their enterprises;
 - in some cases, entrepreneurs directly asked for funding from criminal groups, fully aware of sparking off a spiral of events which may well end in the establishment of a corporate agreement with the criminal 'partner';
 - in this latter case, the licit company was progressively absorbed by the criminal group, it became a significant component of the organization, and a crucial element for reinforcing its growth capacity through laundering mechanisms or the reinvestment of profits coming from illegal activities.

Moreover, the Camorra has been very active in distorting existing competition rules by imposing products in certain areas or market sectors, sometimes creating real monopolies. For example, in the ALIBERTI case, members of a Camorra clan were involved in the wholesale of sea products through a licit commercial activity. One of them was the formal owner of a retail business. The strategy adopted in this case was to create a monopoly by imposing their merchandise to businesses in the relevant territory, significantly distorting the rules of free competition.

Moreover, in the ASTUCCIA case, one of the main representatives of the D'Alterio-Pianese clan

¹¹⁵ The term used by organized crime for indicating such areas is 'mandamento Brancaccio'.

decided to create several monopolies in relation to products such as bread, mozzarella cheese, dairy products, and pasta, to collect monthly instalments to be then passed on to the detained members of the group. As mentioned during one of the interrogation sessions: “[...] we had an agreement with a cheese factory which was providing us with milk and mozzarella cheese. We have visited all the [restaurants in the district of] Qualiano informing the owners that they should have bought the dairy products only from us - because we were friends of the Qualiano clan (D’Alterio-Pianese). I used to deliver the mozzarella cheese at 5 € per kilo, I was able to force many restaurants to buy cheese from us and we used the initial money earned to buy a van to better organize the business [...].”

In the ABETE case, the Sarno clan imposed its monopoly over the selling of advertising gadgets, such as calendars, pens or bags that they obtained from a local company. Several owners of commercial activities located in the district of Sant’Anastasia (Naples) were forced to buy these gadgets with no possibility of refusing. The technique put in place by the group selling the products consisted in using intimidation deriving from their affiliation with the Sarno clan. In the case of a refusal, members threatened business owners to damage their shops or to close their activities, using firearms to reinforce the intimidation techniques.

2. As far as the ‘Ndrangheta is concerned, the fraud scheme discovered in the framework of case 1462505 - and previously investigated in operation Infinito¹¹⁶ - concerns the manipulation of bids. A construction cooperative named PFP, which carried out several investments in this field in multiple municipalities in the north-west of Italy, and the partners of Carlo Antonio Chiriaco¹¹⁷ - former president of the health agency in Lombardy and affiliate of the ‘Ndrangheta, - were involved. In this particular case, the main means used to manipulate bids consisted of:

- Presenting two offers - the first one lower and the second one higher in case of other offers.
- Pushing away other companies.
- Ensuring a lack of advertisement of the competitive tender to impede external participation.
- Granting to AC the full propriety of the land to be purchased by the PFP.

Going more into detail, our example refers to the assignment of constructing a shopping area. The group directed by Chiriaco prepared two envelopes containing offers for the tender, of which only one was registered. In case of lower offers, accomplices within the municipality would have to substitute the first envelop with the second one, which was distinguished with a sign on the envelop itself, ensuring the adjudication of the building area to the criminal group in any case.¹¹⁸ Among other investments of this kind, members of the group mentioned the possibility of buying portions of land in the city of Vigevano, 35 kilometres away from Milan, to build hotels with funds received for Expo 2015.

An example concerning another entrepreneur, named Augusto Antonino (AA), can be used to better show some of the practices used by the ‘Ndrangheta to infiltrate legal activities and obtain control over licit companies. AA was facing several problems with respect to liquidity. Two apparently licit entrepreneurs - Filippelli and Zocchi - revealed themselves to AA as owners of a construction company with good profits, and AA saw a possible way out from his financial problems and referred to them for obtaining cash and ending his relationship with his previous partners (Avallone & co). However, by acting in this way AA allowed Filippelli and Zocchi, who

116 The judgment of operation Infinito is also publicly available in Italian online at: <http://www.stampoantimafioso.it/wp-content/uploads/2014/08/sentenza-INFINITO-abbreviato.pdf>

117 In particular, the vice-director of a bank based in Beinasco, who offered privileged access to credit for members of the criminal group - Mr. Introini - and the straw man who was the formal owner of the company - Mr. Paolillo

118 Following the judgement, the company PFP was confiscated.

worked for the 'Ndrangheta, to start exerting control over his company's activities, because the money lent to him was an important element in the clan's hands to threaten him and force him to follow their entrepreneurial projects. One of these consisted of using AA's company for the real estate operation named 'Il Pirellino'. The company could provide a perfect smokescreen for the criminal group because it had a good reputation and was favourably listed on the stock market. In reality, this entire real estate operation, aimed at the construction of 100 apartments in an area subject to demolition work, was in turn forcedly transferred from another entrepreneur, who was the victim of intimidation and pressure by Zocchi. This element shows the level of control of the criminal group over entrepreneurs in the area and, in general, over the economic fabric of the region.

With regard to the expansion of the 'Ndrangheta in the field of earth movement, an interesting example is provided by the case related to the Perego company, which represents one of the biggest cases of infiltration of organized crime in legal enterprises in Lombardy. This infiltration by the 'Ndrangheta was the first of its kind, characterizing a new way of polluting the legal activities of a society, achieving a real occupation of an entire management structure and its supply chain. The Perego company was maintaining 150 criminal families of Calabrian origin, even trying to expand its influence towards further companies.

Investigations were able to prove that the subjects involved in this operation created an organized and stable nucleus, which was aimed at penetrating the entrepreneurial world in Lombardy, and specifically in the sector of earth movement and construction. Following what was described by investigators, this infiltration was conducted in a systematic and deep way, acting with the voracity of a strong 'virus'. Criminals were following a strategy that, through intimidation and authority typical of organized crime, envisaged the acquisition and management of public procurement, political and business relations, and the support of unscrupulous professionals, in view of the expansion and obtainment of illicit profits to be shared between a group of several subjects - even broader than those belonging to the group. The companies belonging to the Perego family represented an instrument for realizing and developing this criminal programme. Moreover, activities in the entrepreneurial world were related to the interests and activities of the wider organization of the 'Ndrangheta.¹¹⁹ The company represented a fundamental element for the entire 'Ndrangheta association operating in Lombardy, and its control was crucial for the criminal organization, especially in view of Expo 2015.

3. In case 1518640, we can see another means used by the Cosa Nostra to distort market rules. The Cosa Nostra created a 'cooperative society'¹²⁰ in an attempt to repurchase a block of 24 flats, previously confiscated by the Italian Agency for Confiscated Assets (ANBSC¹²¹). The cooperative society served as a way to hide the real and illicit origin of the money to be invested. Additionally, within this case, the criminal group assigned a third person the role of *straw man/blockhead*.¹²² The *straw man* previously had strong relations within the municipality of Palermo, and some of the affiliates stressed the importance to select one person within the administration who would always be available for these kinds of matters. The cooperative was created to purchase properties already confiscated from organized crime groups. Apart from the commercial/reinvestment importance of this operation for the criminal group, the underlying meaning was to assert control over the territory in spite of State's action. Re-acquiring property confiscated by law enforcement authorities would surely give prestige to the criminal group, sending the message that organized crime is in control rather than government authorities.

119 In Lombardy, the contamination was favoured by subjects connected with Calabrian organized crime, as in the case of Strangio who was considered as the "key of 100 thousands dollars" and his affiliates; in a second phase, instead, to ensure the control and protection of the Perego, members of the Cristello family related to the locale of Seregno were involved

120 In the Italian civil code (articles 2511 - 2548) a cooperative society is defined as a society created to communally manage a company, with the mutual aim of providing associates with those goods or services whose attainment the society was created for.

121 The Agency for Confiscated Assets - Agenzia Nazionale per i Beni Confiscati e Sequestrati al Crimine organizzato (ANBSC) was created through the law-decree of 4 february 2010, n.4, transformed into law with modifications through the law of 31 march 2010 n.50 - and adopted in 2011 along with the Antimafia Code.

122 In this particular case, the selected straw man was acting in favour of the group operating in the area of Borgo Vecchio in the city of Palermo.

Acquisition of Commercial Activities

1. In the ASTUCCIA case, a Camorra clan launched a construction company and a fishing enterprise (named JP) and assigned the latter to a straw man with the aim of managing and laundering proceeds coming from usury activities, drug trafficking and extortion. At the beginning, the JP Company was created as a means to commit fraud. However, the enterprise turned out to be quite profitable, particularly because there were no other fish-wholesalers in that district. As reported via interrogation sessions: “This was not an illicit activity, it was instead a warehouse used for the import/export of fish [...] There was a straw man as owner of the company, together with an associate, while the criminal group was participating in the activity of the enterprise through the deposit of money and the withdrawal, the selling of fish products and, of course, the profits-sharing.”
2. The BARRESE case, involving the Bellocco clan, belonging to the ‘Ndrangheta, is another example of pollution of the economy through the acquisition of commercial activities. In this case, the criminal group could rely on a network of persons available to act as formal owners of licit economic activities, which, in actuality, were funded and managed directly by organized crime. The head of the Bellocco clan, with the help of his family, managed several enterprises, including a supermarket, a sawmill, a pest control company and a car-wash based in Rosarno, Calabria (south of Italy). The clan always used third parties as intermediaries for running these enterprises.
3. Case 1522323 is particularly interesting for our analysis. This case followed a previous operation called DECOLLO,¹²³ during which a society, La Ventrans, was seized because it was fuelled by proceeds coming from international illicit drug trafficking, which was managed by the criminal boss of a ‘ndrangheta clan (Ventrici Francesco). After this seizure, another company (V.M. Trans) was created. This new company had the same owner and was active in goods transportation - in particular for a well known supermarket chain. The new company was for all intents and purposes the ‘mirror’ and continuation of the previous one. The regional manager of the supermarket informed the administrator of V.M. Trans of a decision to employ another company for delivering goods to the supermarket branches in Calabria. In his turn, Ventrici informed them about his intention to stop all of his trucks from delivering goods if this strategy was carried out, potentially creating serious problems for the delivery of supplies to these supermarket chains in the area. Moreover, to discourage action by other company contracted, he perpetrated a series of intimidating and violent acts against the drivers of the competitor.

Gambling as a Parallel Activity

Evidence of gambling as a parallel activity is reported in the ASTUCCIA case, where clans used to stipulate agreements with entrepreneurs producing draw poker machines. In this case, an organized crime group routinely grants to a company preferential status on its territory to install prohibited videogames and receive a form of protection from the criminal group. In turn, the company paid 20 million *lira* (about €10,000) per month to the criminal organization. The activity was licit only in appearance, as reported by one of the interrogated entrepreneurs: “the devices installed were not regular ones; the licit game was transformed into gambling by transforming the ‘score’ into real money [...]” One of the people under investigation was operating within a legal betting agency (Playbet), in the area of Qualiano in Naples; the manager of the agency was in

¹²³ Corte Suprema di Cassazione, Sentenza n. 563 Link: <http://www.archiviopenale.it/apw/wp-content/uploads/2015/04/2015-cass-2-mercuri.pdf>

partnership at 50% with the boss of the Pianese clan.¹²⁴ The general rule was that, to install *draw poker* machines in a bar, the companies renting machines to the bars' owners (and not directly the bars' owners) had to pay a certain amount of money to the criminal group - both for legal devices related to the State monopoly and for the illegal ones. More specifically, for every legal machine they had to pay about €70, while for the illegal devices the amount was equal to 40% of gains - and the remaining part was shared with the owners.

Looking more into detail at how the system works in practice, it is clear that the owners of poker machines, those who rent the devices to the cafés, are themselves part of the organized criminal group, and, through the draw poker machines, they launder proceeds coming from extortion and drug trafficking. These entrepreneurs would not be able to manage the business of these machines without sharing parts of the income to the clans. In the area of Qualiano, and analysing evidence from the ASTUCCIA case, the managers of the poker machines were part of a Camorra clan controlling this market sector, even in other towns.

Special Circumstances: the Case of L'Aquila

A series of earthquakes, culminating in a main shock on the night of April 6, 2009, measuring 6.3 on the Richter scale, decimated the province of L'Aquila and many of its ancient hamlets - Villa Sant'Angelo, San Pio delle Camere and Onna.¹²⁵ Along with the loss of human life, one of the richest artistic and architectural heritage sites in the world was affected and severely damaged by the earthquake. According to the Department for Development and Economic Cohesion (now part of the Italian Ministry of Economic Development), the earthquake severely affected the economy and infrastructures of L'Aquila, creating damages estimated at up to €10.6 billion.¹²⁶ Local authorities declared €6.1 billion¹²⁷ to be the sum needed to safeguard and perform complete reconstruction of L'Aquila's city centre. The Italian Government transferred €2.7 billion as an immediate form of financial relief right after the disaster,¹²⁸ subsequently providing an additional allocation of €2.3 billion for the period from 2013-2015. Among these funds, €610 million were destined for the "reconstruction phase"¹²⁹ of private buildings.

The reconstruction business, concerning both public and private reconstruction projects, was simply an opportunity that criminal organizations could not pass up. Expecting significant infiltration attempts on the part of construction enterprises owned or controlled by criminal organizations, a team of prosecutors was created and charged with making sure that organized crime did not infiltrate the reconstruction work. The National Antimafia and Antiterrorism Bureau (DNAA), the Organized Crime Investigation Group (G.I.C.O), and specialized Police branches provided further technical assistance to the various cases that were arising on a regular basis. The results of investigations confirmed that criminal organizations were concretely and actively attempting to infiltrate the reconstruction business, initially dedicating their attention to work concerning "public reconstruction", where the majority of opportunities and budget allocations could be found. Italian National Authorities were able to identify several of these criminal enterprises connected to organized crime, and attempted to limit criminal infiltrations in public biddings.

124 The boss called 'O mussut' - meaning codfish, for the colour of his skin - was killed in a Camorra fight related murder in 2006. See more in the local press - Di Nardo A. (2006), "Assassinato il boss Pianese detto 'O mussut'. Un agguato in piena regola, in Internapoli.it, 15 September, available at: <http://www.internapoli.it/articolo.asp?id=6931>

125 INGV (2009), The seismic sequence of L'Aquila (April 2009), available at: <http://terremoti.ingv.it/it/component/content/article/12-eventi/710-la-sequenza-sismica-de-laquilano-aprile-2009.html>

126 Ministero per la Coesione Territoriale (Ministry for the Territorial Cohesion), (2013), "Stato di attuazione della ricostruzione nel cratere abruzzese", p. 24.

127 Matteucci P. (2013), "L'Aquila, la ricostruzione deve ancora partire: tempi incerti, fondi insufficienti e tanta rabbia", in La Repubblica, 30 March, available in Italian at: http://www.repubblica.it/cronaca/2013/03/30/news/aquila_ricostruzione-55623047/

128 Ministero per la Coesione Territoriale, (Ministry for the Territorial Cohesion), (2012), "La Ricostruzione dei Comuni del Cratere Aquilano", p.6

129 Gazzetta Ufficiale della Repubblica Italiana (Official Journal of the Italian Republic), General Series n.63, pp.36-37, point 1 on "Assegnazione e ripartizione di risorse di cui all'art. 14, comma 1, del decreto-legge n 39/2009 e alla delibera CIPE n.35/2005

For example, during investigation activities conducted in 2011, GICO verified uncovering the presence of companies tightly connected to criminal organizations being active at more than 40 construction sites. To mask the real nature of the enterprises, common practices included establishing companies' headquarters in northern and Central Italy (such as Emilia Romagna, Lombardy and Lazio). By maintaining the apparent management structures of companies in these areas, criminal groups attempted to arouse less suspicion from among law enforcement agencies. In one case, an entrepreneur connected to Sicilian organized crime found it more appealing to move his company's legal office to the Abruzzo region near the epicentre of the earthquake, so as to capitalize on feelings of empathy and project an image of solidarity with the local community.¹³⁰ Moreover, investigation reports revealed the discovery of wanted criminals being employed at the factories of one of the 15 contractors used for several reconstruction projects. The effectiveness of actions implemented by National Law Enforcement Agencies to prevent organized crime infiltration into public reconstruction bidding in L'Aquila, together with the fact that government spending in this area was getting lower, progressively pushed criminal organizations "out of business" in this specific sector. However, this did not mean that their attempts to obtain profits from the L'Aquila reconstruction opportunities ended here. Private reconstruction works - mainly funded by public financing, but targeting the reconstruction of private buildings - represented a concrete and lucrative possibility for criminal organizations.

While public reconstruction works were characterized by a series of safeguards to prevent organized crime infiltration, these safeguards were less effective or nonexistent in the case of private reconstruction. In particular, for example, there was no means by which Public Authorities could control, in advance, the amount and size of work that winning companies intended to subcontract for each bidding that they won. Furthermore, winning companies did not have to identify and communicate in advance with the Public Authorities regarding their selected subcontracting companies, and there was no mechanism to impose sanctions on construction companies, or to recover the granted financing, in the case that reconstruction work was not properly implemented.

These elements became an entry point for criminal organizations willing to infiltrate L'Aquila's private reconstruction sector. Operation Di Tella represents an emblematic case of interconnection between entrepreneurial activity and organized crime. Indeed, members of a criminal organization, particularly associated with the Zagaria clan (belonging to Camorra), were able to create a system enabling the exploitation of workers, through an alternative calculation of salaries and inappropriate working conditions, that allowed them to infiltrate private reconstruction works in L'Aquila. Their main business model consisted in paying lower salaries to their workers, despite formally recognizing the Collective Labour Agreement. By providing a low cost workforce to the main contractors of private reconstruction projects, Di Tella's companies, and through them the Zagaria clan, were able to infiltrate several construction sites operating in L'Aquila.

At first glance, the development of the case is quite simple. Some construction companies operating in the L'Aquila area adjudicated several biddings for private reconstruction projects but, given their size and operational capacity, they were not in the condition to implement all of the work foreseen by the biddings they won. These companies needed the support of other companies which were capable of organizing and managing the set up and functioning of the construction sites and recruit low cost workers. These functions were consequently subcontracted. The fact that the owners of the subcontracting companies were linked to the aforementioned Zagaria clan, did play a pivotal role in facilitating the functioning of the entire criminal scheme, given the intimidation power that could be used by Di Tella. The entire criminal operation further increased the Zagaria clan's territorial control, particularly as the clan's boss and his affiliates appeared to be the only people capable of finding job opportunities for the population. In light of this, it was not surprising that the majority of the workers recruited by the enterprises managed by Di Tella came from the Campania Region. By recruiting workers from this area, the the clan was assured that these people already knew the 'rules of game' and that they had to follow instructions given to them by the

130 Ibid.

criminal organization. All these elements contributed to the creation of an alternative typology of extortion, far different from the one in which physical violence is used as a primary means of persuasion. On the other hand, for the employees, working under Di Tella was just considered an unfavourable condition of the work contact.

What should be highlighted at this stage is the capacity of Di Tella to provide a low cost workforce to the main contractors, which allowed the criminal organization to monopolize the provision of human resources for a variety of construction sites. This allowed the clan to profit from the illicit remuneration scheme and the exploitation of workers that was created, while, at the same time, the scheme opened a door for the criminal organization to directly profit from the private reconstruction works that were being undertaken in L'Aquila.

As anticipated, the case demonstrated a far more complex criminal scheme than mere labor exploitation, revealing how Di Tella was aiming to give enterprises managed by the Zagaria clan full control over a series of private reconstruction works implemented in L'Aquila. Di Tella's affiliation with the Zagaria clan and the overall modus operandi implemented by the criminal organization to profit from the reconstruction works in L'Aquila were revealed by investigations conducted by GICO, which highlighted how criminal infiltration strategies were based on the possibility of putting seemingly "clean" entrepreneurs on the frontline, but who, in reality, had connections with the Zagaria clan. The "subcontracting element" is highly important for understanding how the criminal organization, through Di Tella, was infiltrating the construction sector and obtaining several subcontracting grants. As demonstrated by investigations carried out during the case, it was the possibility to obtain low cost human resources that attracted the interest of the main contracting companies, which were willing to obtain an extra profit by subcontracting services to the enterprises controlled by the criminal organization. The capacity of the criminal organization to recruit a low cost workforce was crucial in ensuring its penetration in the economic activities granted by private reconstruction work. In this regard, Di Tella had set up a complete structure capable of organizing all aspects concerning the provision of low cost workers to the main contractors. From recruitment to housing and transportation - from Campania to Abruzzi and back - all aspects were controlled and organized by Di Tella.

Within this criminal scheme, it was of utmost importance for Di Tella to ensure that his interests - and indirectly those of the Zagaria clan - were properly represented within the construction sites. For this purpose, he was supported by people he could trust and who were in charge of managing Di Tella's workers within each construction site. Additionally, these right hand men promoted Di Tella's companies for the recruitment of workers and/or managers of the construction sites. This element further extended the criminal organization's infiltration into the private reconstruction work. Managing a construction site, in fact, meant selecting from which company construction materials had to be purchased. Being able to favor other enterprises connected with the criminal organization, became an additional point of leverage and power for the clan. To ensure that these managerial activities could be exercised without raising problems or suspicion with the Public Authorities, Di Tella created an ad hoc structure. Within this framework, the GES TEC, a company managed by one of Di Tella's trusted men, was tasked with enabling the stipulation of technical cooperation contracts with the main contractors in view of justifying the presence of Di Tella's men at the construction sites.

Di Tella was usually ready to pass part of his reconstruction activities to other companies controlled by the clan, and to redistribute the money obtained from his activities in L'Aquila in accordance with the requests he received. Di Tella facilitated the Zagaria clan's infiltration into economic activities linked to the L'Aquila reconstruction by purchasing construction materials and equipment from companies controlled by the criminal organization, allowing the clan to take advantage of all possibilities for profit.

c. The Role and Extent of Asset Confiscation

As widely recognized at the international level, one of the essential elements in combating transnational organized crime groups involves attacking their wealth, both in terms of money and the extended range of assets in which illicit capitals are reinvested. The result of this action is twofold: 1. It limits organized criminal groups' operational capacities; and, 2. It undermines their control over territory, which as we have extensively seen, represents a crucial component of their overall strategy. With particular regard to the Italian context, the adoption of Law 109/96 on the reuse of assets confiscated from organized crime has marked a turning point in legal action against criminal organizations. Within the extensive national body of legislation and administrative measures in place to prevent, combat and disrupt the activities of criminal networks, Law 109/96 is the most advanced tool, from a cultural, social and economic point of view as it allows for returning illegally-accumulated assets back to society. This kind of positive action is intended to undermine organized criminal groups' territorial power and reduce social acceptance of these groups from among the population through the re-use of confiscated and seized assets for social purposes and the general benefit of society.

In the next section, a *Quantitative Analysis* on the weight and extent of assets confiscated from criminal networks in Italy is outlined, based on the data provided by the ANBSC and with the aim of demonstrating the impact of organized crime's infiltration into the legal economy. To introduce the quantitative section and corroborate our analysis, in the present section we provide an overview of some of the main cases pertaining to seizures and confiscation, as detailed for this specific study by the Central Service for Investigation on organized crime (SCICO) of the Italian Financial Police (GdF)¹³¹ and the Special Core unit of Currency Police (Nucleo Speciale Polizia Valutaria).¹³²

Far from being exhaustive, this description of assets confiscated from criminal networks gives a preliminary idea of the impact of criminal infiltration into legal economic activities.¹³³ The values indicated in bold in each case include very few definitive confiscation orders; they mainly refer to preventive or advanced seizures, or to non definitive confiscations: the final aim is to provide a general overview on the types of assets and the extent of properties owned by organized crime, which demonstrate deep criminal infiltration into the licit sectors of the national (and international) economy.

'Ndrangheta

- In operation HUMMER the GdF preventively seized an agricultural and zoo-technical farm based in the Basilicata region, which included 26 buildings, and several pieces of agricultural and commercial equipment, having a total value of € 2,5 million. The owner turned out to be an entrepreneur connected with 'Ndrangheta groups and, in particular, the Muto clan. In order to evade legislation against organized criminal activity, he transferred goods and companies to third persons acting as straw men, while the real owner continued to collect profits and have access to the undeclared goods.
- In operation OVERSEAS, carried out by the GdF in Calabria, the Guardia di Finanza seized moveable assets, real estate, corporate shares and enterprises, worth approximately €40

¹³¹ Also see the section - Acronyms: SCICO, GdF

¹³² The information provided by the GdF to UNICRI includes a general explanation of the phenomenon of money laundering and the reuse of illicit proceeds, (highlighting the operational techniques put in place by organized crime to achieve these objectives). Additionally, information on a set of operations carried out by region is also provided. Within each operation's description, the relevant amount of seized assets and a listing of the associated crimes committed is also noted. Offences include the laundering of criminal proceeds and the reuse and reinvestment of capital into legal activities. The modus operandi that we highlighted in this research concerning organized crime's infiltration in the legal economy is confirmed once again via the operations carried out by the Italian Financial Police.

¹³³ For ease of explanation, operations are presented by making a distinction between the three local criminal groups considered by the present study - the Camorra, 'Ndrangheta and Cosa Nostra - with a final category described as "Other", which includes both 'foreign organized crime groups' and other internal criminal networks that are often not specified.

million. The main crimes identified in this operation concerned organized crime infiltration in the development of tourist buildings on Italy's southern coasts.

- In operation AMMIT, targeting subjects belonging to 'Ndrangheta groups operating in Gioia Tauro (Calabria), the GdF seized moveable assets, properties and financial assets having a total value of €44 million. One of the main accusations made for this operation concerned the fraudulent transfer of assets.
- Operation METROPOLIS involved several subjects affiliated with groups of 'Ndrangheta and concerned the issuance of a seizure order for moveable assets, real estate, commercial enterprises and tourist resorts, for a total value of €450 million. Among those arrested were members of Calabrian organized crime groups, as well as entrepreneurs, both Italian and foreign, - e.g. individuals coming from Spain and one subject linked to the Irish Republican Army (IRA). The main alleged crimes of those arrested were participating in an organized crime-type of association, fictitious interposition of goods, and the reuse of capital.
- In operation ARABA-FENICE involving subjects related to 'Ndrangheta groups, the GdF seized corporate shares and goods for a total amount of €90 million. The charge filed concerned the fraudulent transfer of assets, illegal financial activity, the issuance of fake invoices for nonexistent operations, aiding and abetting, corruption, illicit competition and extortion, all additionally subjected to the aggravating circumstance of organized crime modalities.
- In operation ALL CLEAN, the GdF confiscated moveable assets, properties, and companies valued at €89 million, all of which were under the control of a 'Ndrangheta group based in the city of Rosarno (Calabria).
- Within operation INSIDER DEALING, GdF forces operating in two regions in the south and north of Italy seized assets valued at €35 million - these included a tourist resort, companies operating in the food sector, a fuel station, a supermarket, a bakery, and several bank accounts. Members of the 'Ndrangheta's Mancuso Clan, owners of the aforementioned assets, were charged with different crimes among which included extortion, threat, private violence, usury, property damage, state fraud, forgery committed by a public official, food counterfeiting, commercial fraud, abusive financial activity, the fraudulent transfer of funds, money laundering, and others. In operation INSIDER DEALING 2, targeting the same group, the GdF seized both moveable assets and real estate, having a total value of €35 million.
- In operation BLACK MONKEY, the Tribunal of Bologna (Emilia Romagna), following an order received by the DDA, carried out a preventative seizure valued at €95 million and included 138 housing units, parts of 29 companies, 9 automobiles, 49 bank accounts and more than €100,000 in cash. Investigations revealed the existence of a criminal group linked to the 'Ndrangheta and based in the Emilia Romagna region: they carried out extortion, gambling, fraudulent management of online gaming websites - through the use of servers based in third countries (Romania and UK) - and fraudulent management of poker machines through the use of illegally modified cards with the aim of hiding the real volume of games played.

Camorra

- In operation RONZINANTE, the GdF executed 6 confiscation decrees related to members of local criminal groups. The confiscated assets valued at €9 million and consisted of 15 companies, 21 apartments, 11 automobiles, 21 race horses, and 62 financial reports.
- In the framework of operation SAN NICOLA, the GdF in Naples (Campania) seized moveable assets, properties, corporate shares, financial reports, companies and precious objects worth a total of €17 million.
- Through two operations, named BAD BROTHERS and BAD BROTHERS 2, the GdF in Rome

(Lazio) seized both moveable assets and properties for a total value of €115 million. These assets were traced to two Camorra clans, which hid them through the use of straw men running an entrepreneurial holding aimed at laundering the illicit profits of the clans within the construction, commercial automotive, and real estate sectors.

- Two companies active in the oil sector and attributable to an entrepreneur from the area of Caserta (Campania) were seized by law enforcement authorities. Their value valued at €10 million. The alleged criminal was in charge of managing several fuel stations through the fictitious interposition of his sons and third parties.
- Three in-depth investigations have been carried out in conjunction by the GdF, the State Police and the Carabinieri concerning the management of licit gambling by groups belonging to both the Camorra and the Cosa Nostra. The total set of assets subjected to preventative seizure valued at €450 million; among the main illegal actions perpetrated by the organized crime groups, we can mention: criminal association aimed at the unauthorized practice of illegal gambling, illicit competition operated through the use of violence and threats, aggravated fraud against the state, computer fraud, money laundering, reuse of capital, fictitious interposition of goods, and extortion.
- In operation CRIMINAL GAMES, the GdF of Rome seized moveable assets and properties having a total value of €30 million. According to the investigations conducted, a criminal network active in the area of Caserta (Campania) acquired monopolistic and violent management of the gambling machine production sector, and setting up, distributing and renting betting machines in Caserta and in the city of Rome.
- The GdF in Salerno (Campania) confiscated properties (buildings, apartments and land), business complexes, automobiles and bank accounts valued at €28 million. All of them were linked to an entrepreneur already condemned for money laundering crimes.
- In operation NEXT ONE, the seizure of two cooperative businesses involved in the construction sector, a cheese factory, 49 pieces of real estate, 7 automobiles, 22 bank accounts, and two insurance reports was ordered, for a total amount of €18 million.
- Operation GAME OVER, carried out by the GdF in Frosinone (Lazio), led to the arrest of 5 subjects accused of being part of a criminal group, reusing illicit capital, and fictitiously interposing goods. The total amount of assets confiscated was €200 million.

Cosa Nostra

- In operation GALAXY DEUTSCH the GdF confiscated 4 buildings, 15 companies (located in both in northern and southern regions of the country), 47 moveable assets, and 170 financial reports, valued at €5 million. These assets were all assigned to front men, but all ascribable to a single subject very close to the Cosa Nostra group.
- In operation OMBRE the GdF seized moveable assets, real estate and financial assets worth €50 million - all assigned to the heirs of an individual affiliated with organized crime who in the 1980's was able to obtain grants to administer the supply of methane in several Sicilian municipalities.
- The GdF in Trapani (Sicily) seized assets worth €30 million from two entrepreneurs, responsible for corruption, bid rigging and suspected to be part of a cartel created by the local organized crime syndicate, with the aim of controlling public procurements.
- In operation OFF-SIDE, a patrimony valued at €40 million (11 companies) was seized, involving 18 people considered responsible for the fraudulent transfer of assets. However, the full operation revealed the presence of a wide network of companies active in the transportation

of goods, fictitiously interposed to third persons but belonging to an organized crime group of the Cosa Nostra.

- Operation REPLY conducted by the GdF in Catania (Sicily) led to the seizure of 10 companies valued at €30 million, Each company was linked to an individual who had put in place a network of straw men to avoid possible ablative measures.

Others

- Within operation RUBICONE, carried out in the Abruzzo region, shares of companies' capital were subject to confiscation, as well as moveable assets and automobiles, valued at a total of €15 million. These assets were all traced to a unique subject, considered the head of a criminal group composed of 45 members, and which was active at the national level. The following crimes had been committed by the subjects involved in the investigation: criminal conspiracy, money laundering, reuse, fraud, fraudulent bankruptcy, receiving stolen goods, illegal licence and possession of arms, drug possession and dealing, illegal immigration, use of a fake invoice system for unreal operations, threats and private violence.
- In operation CURAÇAO - ASSO ESOTICO, the GdF seized moveable assets and properties (based in Rome and in the city of Potenza - Basilicata Region), commercial activities, corporate shares and more than 100 bank accounts/deposits for a total value of €15 million. All assets were ascribable to one subject, considered as a connection point for the interests of organized crime in the illicit gambling sector. This subject put his know-how at the disposal of criminal networks for the creation and management of online betting websites without the proper authorizations needed. Aside from the seized assets, 33 websites were restricted, as they allowed online games to be played in Italy without the authorized licenses, even though the servers were based in the U.S. and Romania.
- In operation LE GINESTRE the GdF in Catania (Sicily) seized a huge number of assets valued at €350 million, including 400 pieces of real estate, two large shopping centres and 40 companies, all of them ascribable to an entrepreneur known as the "king of supermarkets", who allegedly continuously financed a criminal group and laundered the illicit proceeds of the group's Italian criminal network.
- Operation MERCEDES involved a criminal group composed of subjects having Moroccan and Chinese origins. The group operated in Italy but its actions, which mainly included drug trafficking, had ramifications in Spain and Morocco. Part of the group's criminal proceeds were reused in economic and commercial activities, and were traceable to some individual members of the organization. Investigations resulted in the preventative seizure of moveable assets, real estate, and corporate shares worth over €6 million. Two Moroccan and three Chinese citizens were charged with the fraudulent transfer of assets and the reuse of goods of illicit provenance.
- Operation BASILEA revealed the existence of a criminal network managed by a former Director General of a bank, which put in place a well-structured system of money laundering. Following investigations, the GdF seized 42 financial reports, shares of stock from 37 companies, 7 moveable assets, 22 pieces of real estate, 5 warehouses, 12 pieces of vacant land, and a luxury boat, valued at €220 million.
- Operation D'ARTAGNAN referred to crimes such as state fraud, abuse of power, fraud for public procurement, and environmental crimes, and led to the seizure of an entire area where the new port of Molfetta (in the province of Bari, Apulia) was planned to be built and for which €15 million of public funds were allocated. In this context, the preventative seizure of the entire area was carried out, along with the remaining funds for distribution, for a total sum of €40 million.

d. What is the Impact of Organized Crime Infiltration in the Legal Economy? Comprehensive Quantitative Analysis¹³⁴

This chapter starts by presenting an overview of the ANBSC database and provides some descriptive statistics of the evolution over time of the Requisition Orders in general. The second part provides an economic analysis of seizures of real estate properties, while the third section focuses on the requisition of firms. The last part of this chapter deepens the analysis on the six Italian regions that have been identified as more widely affected by organized crime infiltration, describing how this correlates with the macro-economic condition of the regions.

Requisitions and Organized Crime Investments: An Overview

The ANBSC database is extremely valuable for the research performed in this part of the report, because it represents the only quantitative source of information on the underlying number of properties seized from organized crime in Italy. It allows us to respond to the following research sub-questions: *Where does organized crime invest his funds? Through which channels does it penetrate the legal economy? And what is the extent of this penetration?* It is divided into three parts, one containing information on seized goods and chattels, a second section for real estate properties, and a third section for firms and enterprises.

The composition of the database is described in Figure 7, where we report the total number of properties that have been confiscated since 1983, dividing them into categories characterized by different types of goods. In this regard, it has to be noted that the data that we analyze in the rest of the chapter is updated until December 2012, while the numbers reported in Table 1 are updated only until April 2012. Real estate properties form the largest category of seized property, followed by vehicles (which include not only street vehicles, but also any other means of transport). Financial credits and financial wealth are also a common category for seized property. Finally, firms and stocks constitute around 8.7% of the number of seized assets.

¹³⁴ The analysis is based on the data provided by the Italian National Agency on Confiscated Assets (ANBSC) - Authors of this chapter: Ardito C., Fanfani B., Martino E.M. (University of Turin)

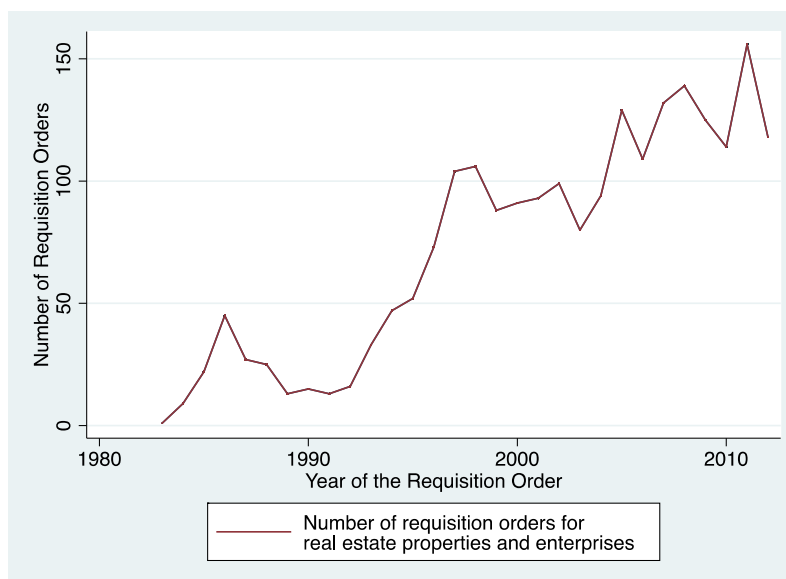
Figure 7: Composition of the ANBSC Database (April 2012)

Type of Asset	No.	%
Real estate	10,455	52.3
Firms and stocks	1,739	8.7
Vehicles	4,118	20.6
Credits	2,346	11.7
Money and luxury good	826	4.1
Other goods and chattel	506	2.5
Total	19,991	100

Source: Transcrime (2013)¹³⁵

For the purpose of this report, we focus our analysis on real estate properties and enterprises only. More precisely, the quantitative analysis focus on 12,311 real estate properties and on 1,708 firms seized during the period between 1983 and 2012. These two groups of properties have been taken under the custody of public offices through 2,168 orders of requisition, which have involved 2,053 distinct individuals or groups of individuals.¹³⁶ Figure 8 reports the total number of requisition orders involving real estate properties or enterprises by year.

Figure 8: Number of Requisition Orders by Year (Real Estate and Enterprises Only)



Source: ANBSC, authors' elaboration

As can be seen from the figure, the number of orders has increased in recent years, moving from levels below 50 per-year to levels constantly above the rate of 100 per-year. It is important to notice that not only has the number of seizure orders increased, but also that their level of complexity and their *intensity* has risen. Particularly in recent years, there are signs of a shift towards larger, more geographically dispersed, and more production-oriented proprietary structures.

¹³⁵ Transcrime (2013), “Progetto Pon Sicurezza 2007 - 2013. Gli investimenti delle mafie”

¹³⁶ The requisition order has been reconstructed, combining the information present in the ANBSC database. Namely, whenever the date of the order and the individuals against which the seizure was implemented were the same, we have attributed distinct assets to the same requisition order. Given that the exact day of the requisition order is reported in the data, and given that names, surnames and date of birth of convicted individuals are reported for each asset, the risk of misattribution is quite limited. Nevertheless, properties that are seized in the context of a single trial may be attributed to distinct requisition orders, whenever such orders are issued in different dates, or against distinct groups of people.

Regarding the above mentioned tendencies, Figure 9 reports several statistics on the importance and magnitude of requisition orders.¹³⁷ The grey bars represent the yearly number of orders that involved goods located in more than one administrative province of Italy. As can be noticed from the figure, this quantity was never above 10 per year until the mid-1990s. Since then, an increasing trend has begun, and the rate of geographically spread orders has remained constantly above or around 20 per year during the most recent decade of the data. The black line represents the yearly number of requisition orders involving more than 10 distinct properties. In this regard, we have to note that this quantity has followed a similar upward sloping trend, evidence that the importance of seizure orders, in terms of the quantities of goods involved, has risen. Finally, the red line represents the number of requisition orders that involved at least one firm. This indicator has been increasing the most, moving from levels of approximately 10 per year to levels above 60 per year.

Figure 9: Yearly Number of Seizure Orders Involving: More than One Province; at Least Ten Properties; at Least One Firm



Source: ANBSC, authors' elaboration

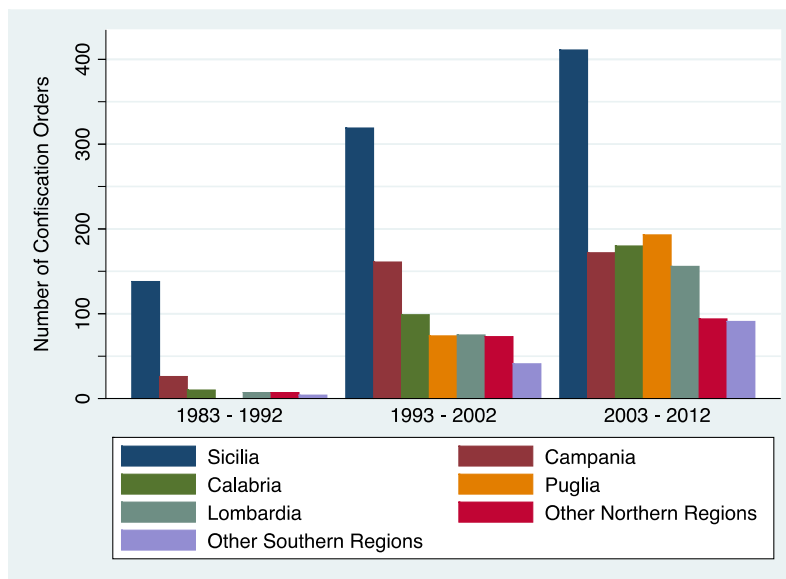
All of the trends reported in Figure 9 suggest that organized crime proprietary structures have become more complex, widespread and more connected to the legal economic environment, especially in the most recent years covered by our data.

Figure 10 gives further evidence of this tendency. In this case we have divided Italy into seven macro-areas, five of which correspond to the administrative regions of Italy with the highest level of organized crime investment (Sicily, Campania, Calabria, Apulia and Lombardy). The other two areas are residual categories, including all the remaining northern or southern regions.¹³⁸ For each of these areas, we have calculated the number of seizure orders that involved at least one asset (either a firm or a piece of real estate) located in that region. We have divided the total amount by period, so that each decade included in the data is separately considered.

137 As previously mentioned, the statistics reported in Figure 9 refer to the requisition orders against enterprises and real estate assets only.

138 In particular, the southern residual area includes Abruzzo, Basilicata, Lazio, Molise and Sardegna. The northern area consists of Emilia Romagna, Friuli Venezia-Giulia, Liguria, Marche, Piemonte, Toscana, Trentino Alto Adige and Umbria.

Figure 10: Number of Requisition Orders by Region and Period



Source: ANBSC, authors' elaboration

As we can see from Figure 10, during the first decade of our data almost all the seized firms and real estate properties were located in Sicily. Sicily has also been the region contributing the most to the overall increasing trend occurring across the decades considered here. Indeed, the growth in requisition orders concerning assets located in Sicily has contributed by almost 30% to the overall growth between the first and the second period, and by approximately 20% to the overall growth in seizure orders between the middle and the last decade of our data. However, since the 1990s a growing proportion of confiscation orders have started to include assets located in different regions as well.

Between the first and the second decade of our data, the requisition orders regarding properties located in Campania grew remarkably, increasing by 135 units and contributing 20% to the overall growth between the two periods. Instead, the contribution of the remaining regions has been approximately 10% between the same periods. However, in the most recent decade of observation, the relative importance of Calabria, Apulia and Lombardy has become similar to that of Campania. Indeed, during the last period, the total number of requisition orders has been above 150 in all of these four regions. Moreover, Calabria and Lombardy have contributed by more than 17% to the overall growth of requisition orders in the last decade, while the contribution of Apulia has been of 26%, which is the highest and translates into approximately 120 additional seizures between the middle and the last decade of the data presented.

We can notice that organized crime investments have also moved outside the regions traditionally associated with this phenomenon. In particular, during the last decade covered by our data northern geographic areas have also become important receivers of illegal funds. The trend observed in Lombardy, the richest and most economically important region of Italy, is particularly worrying: in this region, the number of requisition orders has reached levels similar to those from regions where the most important Italian criminal organizations have originated.

In order to give a more detailed picture of the importance and the quality of organized crime investments, in the next two sections we focus separately on real estate properties and on firms. This analysis allows us to better characterize what is the composition of goods hit by seizure orders so far, and what is their economic value. In this way, we can obtain an indirect qualitative picture of the connections between criminal capital and the legal economy.

The Requisition of Real Estate Properties

As previously mentioned, the ANBSC data that we have analyzed contains the number of all real estate properties that belonged to organized crime, and which have been seized during the period between 1983 and 2012. In this section, we examine their characteristics in greater detail and their evolution over time. Moreover, we provide some estimate of their monetary value. Finally, we quantify the relevance of organized crime investments in real estate within each administrative region of Italy.

The total number of properties that were seized during the period between 1983 and 2012 is 12,311 (see Figure 11).

Figure 11: Number of Requisition Orders by Type of Property

Type of Property	No.	%
Residential dwelling	5,147	41.81
Land	2,960	24.04
Other types of real estate	4,204	34.15
Total	12,311	100

Source: ANBSC, authors' elaboration

Of these properties, residential dwellings form the largest category, and they represent approximately 40% of the sample. The number of land properties, both for construction and agriculture, is 2,960. This category represents approximately 25% of the sample. Other types of dwellings, a category including garages, parking lots, warehouses, production plants, basements and other types of non-residential indoor spaces, form the rest of the sample.

To better understand which kinds of goods are included in the broad categories reported above, in Figure 12 we have summarized the composition of the real estate sample, adding more detailed information on the property type. As in the previous table, apartments, independent houses and agricultural land form a very large proportion of the sample. However, note that garages, parking lots, and small indoor spaces are very common types of seized property as well. Finally, residential zonings and production-related properties, such as warehouses, production plants, hotels and sports centers, together form more than 5% of the sample.

Figure 12: Number of Requisition Orders by Type of Property

Type of Property	No.	%
Apartments	4,272	34.7
Agricultural land	2,290	18.6
Garages and parking lots	1,562	12.7
Basements and small indoor spaces	1,481	12
Independent houses	875	7.1
Generic construction with land	542	4.4
Production-related property	389	3.2
Area for construction	275	2.2
Other property types	625	5.1
Total	12,311	100

Source: ANBSC, authors' elaboration

Given the long period covered by the data, we can characterize the temporal evolution of seizures, so that more patterns of organized crime investments emerge.

Figure 13: Number of Seized Real Estate Properties by Year



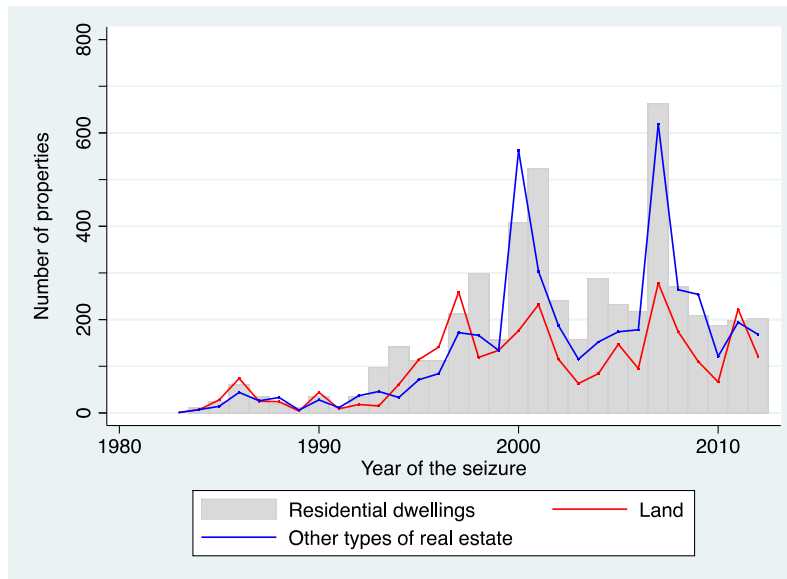
Source: ANBSC, authors' elaboration

Figure 13 reports the total number of real estate properties that were seized during the period between 1983 and 2012. Note that such properties were always below 250 per year during the 1980s, but, since the early 1990s, a strong increasing trend has begun, and the number of seized goods reached levels higher than 500 per year by the end of that decade. After 2000, the total number of real estate requisitions has always been approximately, or above, 500 per year. Moreover, strong spikes occurred in 2000 and 2001, with 1,145 and 1,058 goods being seized, respectively, and in 2007, when the number of seized goods reached a total of 1,559.¹³⁹

Figure 14 divides the trend described above into three main components, one for each broad category of seized real estate property: residential dwellings, non-residential properties and land. Residential dwellings (represented by the grey bars) appear to be the most common type of good seized within almost all the years represented. Additionally, non-residential properties (represented by the blue line) are a very important component of requisitions, and their prominence has increased since the 2000s. On the other hand, while land (represented by the red line) has been the second or first-most important component of requisitions during most of the 1980s and 1990s, its prominence has declined relative to the other types of properties in more recent years, with the only exception being 2011.

¹³⁹ Such spikes are usually associated with the end of big trials, when a very high number of assets are included in a single requisition order. In particular, while the average number of real estate and firms included in a requisition order is six, in 2000 there was an order concerning 439 assets, in 2001 an order concerning 224 assets, while in 2007 there were two orders concerning 403 and 562 assets, respectively.

Figure 14: Evolution of Seizures by Goods' by Category



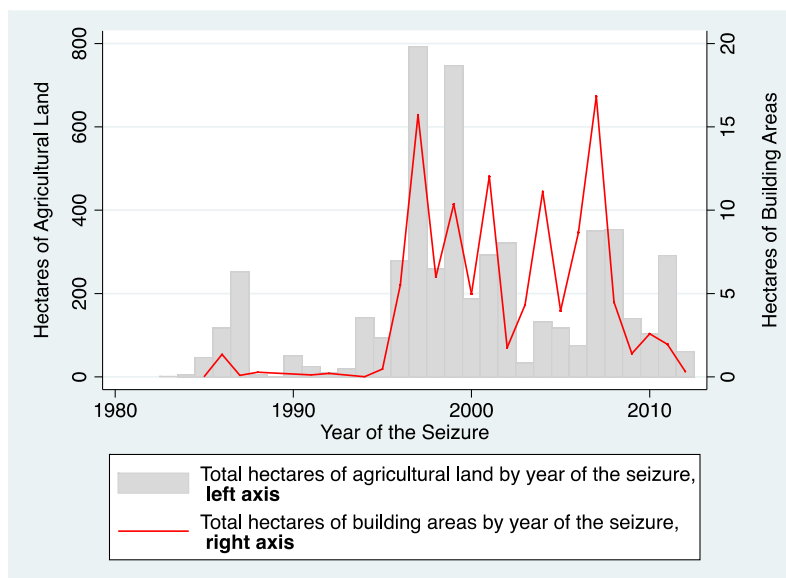
Source: ANBSC, authors' elaboration

To determine precisely the quantity of land that was owned by organized crime, we have used information on the size of land properties, which is present in the data for more than 80% of observations. The median seize of land properties is of approximately 3000 square meters.

To estimate the total amount of land seized during the years considered, we have imputed the information on land size whenever this information was missing.¹⁴⁰ Figure 15 reports our estimates of the total amount of land hectares that were seized by the year of the requisition order. We have divided the total quantity by type of land, separately considering agricultural land and building areas. In interpreting the figure, note that a hectare corresponds to 10,000 square meters, or approximately 107,640 square feet.

140 As an imputation rule, we have chosen the median size observed for land of the same type, within the same requisition order, and in the same region. By land type, we mean either agricultural land or building areas. Whenever this procedure was not possible, as a second rule of imputation we have used the median seize of land of the same type within the same region. Given that the share of land for which the information on size is missing is quite limited, applying more or less conservative procedures, as for example considering the imputation of the 75th or 25th percentiles, does not significantly alter our final estimates.

Figure 15: Total Amount of Seized Hectares of Land by Year



Source: ANBSC, authors' elaboration

Figure 15 shows that the total quantity of seized agricultural land peaked by the end of the 1990s. However, in more recent years such quantity has also reached relatively high levels. In fact, the total quantity of seized residential zones was very small until the mid 1990s. Since then, the quantity has increased sharply, following a very volatile trend in more recent years. Over the entire period considered by our analysis, the total amount of land (either agricultural or for construction) that has been seized reached a total estimated amount of approximately 5400 hectares. To give an idea, this area corresponds to approximately one third of the size of Milan.

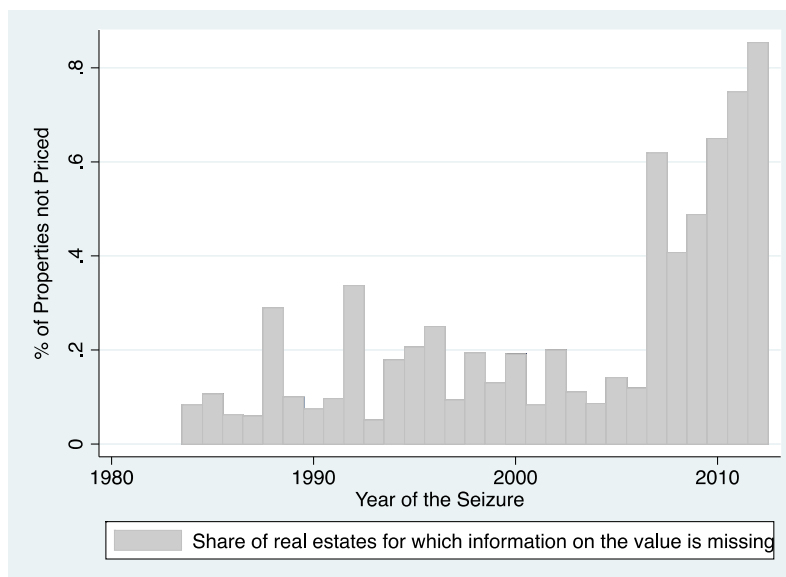
We now turn to the estimation of the value of seized real estate properties. The monetary value of assets is the best way to measure the actual level of organized crime investments. Moreover, it represents a useful measure for making comparisons in this context, because the underlying population of real estate is heterogeneous. For this reason, in the rest of this section we focus on the monetary values of seized real estate. When considering the monetary values of properties present in the ANBSC database, two difficulties arise. The first is given by the value reported in the data, which is not adjusted to inflation and it is therefore difficult to interpret. The second is represented by the fact that the information on the value of properties is missing for approximately 30% of the observations.

To deal with the first problem, we have adjusted the values reported in the data to the inflation level, using the price indexes for residential and non-residential dwellings provided by the BIS Residential Property Price database.¹⁴¹ Using this information, we have transformed all values present in the ANBSC database to 2012 levels.¹⁴²

141 National sources, Bank of International Settlements Residential Property Price database, <http://www.bis.org/statistics/pp.htm>

142 Whenever the date the property valuation occurred was not reported in the data, we have considered the date of the requisition order as the moment at which the asset's value has been estimated.

Figure 16: Share of Real Estate Not Priced by the Year of Seizure



Source: ANBSC, authors' elaboration

Regarding the second problem, Figure 16 reports, for each year of the requisition order, the share of goods for which the information on their value is missing. This share is approximately 15-20% during the majority of the years. However, for those assets seized in the most recent years, the share of unvalued properties rises sharply, reaching levels above 80% in 2012. Since the number of missing property values is relevant, we need to impute this information whenever it is not available in the data. This procedure allows us to obtain more reliable information on the total value of seized real estate assets.

To impute property values, we have used the observations for which a price was available. The imputation procedure that we have applied relies on a linear regression model, a method that attributes a value to all observations considering the known characteristics of the asset as the determinants of its value.¹⁴³ The results obtained in this way could underestimate or overestimate the actual value of seized assets, but they nevertheless provide a more realistic measure of the monetary amount of criminal investments.

Once the imputation procedure was performed, the estimated median value of seized assets was determined to be approximately €60,000.¹⁴⁴ In particular, the median value of residential dwellings is approximately €88,000, the median value of seized land is approximately €24,000, and the median value of non-residential dwellings is approximately €42,000. Figure 17 reports the estimated total value of seized real estate assets by the year of the requisition order. This statistic gives us a measure of the economic importance of all properties that have been taken away from organized crime. Before the 2000s, the total yearly value of seized real estate was always close to, or below, €50 million. In more recent years, there has been a remarkable increase in the value of seizures, and levels well above €50 million per year have become very common. Strong spikes occurred in 2001, with a total value of approximately €185 million, in 2007 (€285 million), and in 2011 (€130 million).

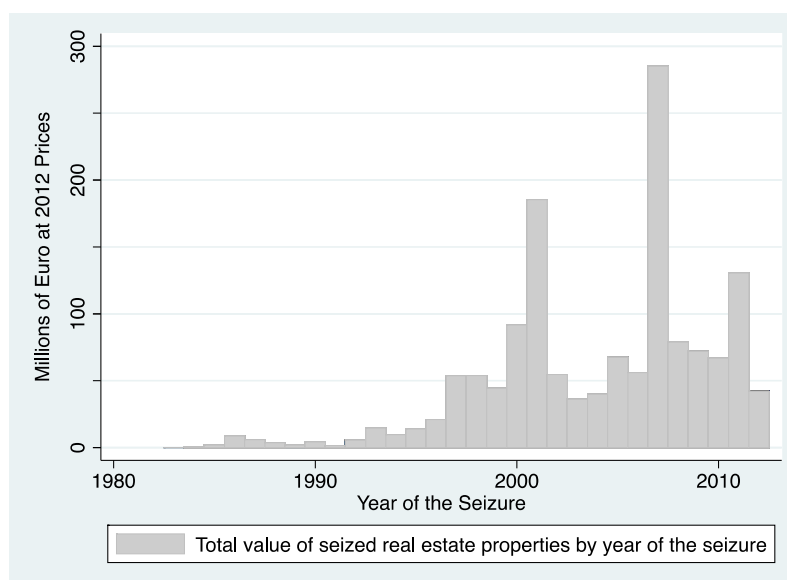
¹⁴³ More precisely, we have estimated a linear regression model, using the value of properties expressed in € at the 2012 level as the independent variable. As dependent variables we have included information on: size of the property (expressed in square meters); type of real estate property (using the more detailed specification of Figure 12); yearly time trend (to capture the role of inflation and the general trend in the population of real estate properties; region where the property is located. Having estimated in this way the intercept and all the regression coefficients, we have used them to predict the values of properties for the population of real estates with no information on the price. Since this procedure can sometimes lead to negative estimated prices for a given set of dependent variables, we have iterated the regression for those prices whose estimated level was negative in the first stage regression, including all positive estimated values in the second iteration of the regression.

¹⁴⁴ The median value of properties whose value is reported is approximately 40 thousand €. This implies that, in general, the quality of properties not priced is higher than the average. However, we warn that part of this difference might be partly driven by an overestimation bias too, even if there are no ways to test whether this is the case.

As previously stated, the ending of particularly large trials can be considered as the main driver of the spikes observed in 2001 and 2007. However, the 2011 spike was determined by two circumstances. On the one hand the total number of seized goods was slightly higher than in other years. More precisely, 613 real estate assets were seized in 2011, while the median number of seized properties per year is 580. On the other hand, 2011 was a year where the median value of assets was remarkably high. Indeed, the median value of assets seized in 2011 is approximately €170,000, almost three times the median value obtained when considering data from all available years.

Figure 18 divides the total value of seized real estate properties by decade and type. Note that residential dwellings were not the most important category of seized goods in all periods. Indeed, during the period between 1993 and 2002, the total value of non-residential real estate was slightly higher than the total value of residential dwellings seized. However, in the most recent decade residential properties have become the economically most important type of seized good.

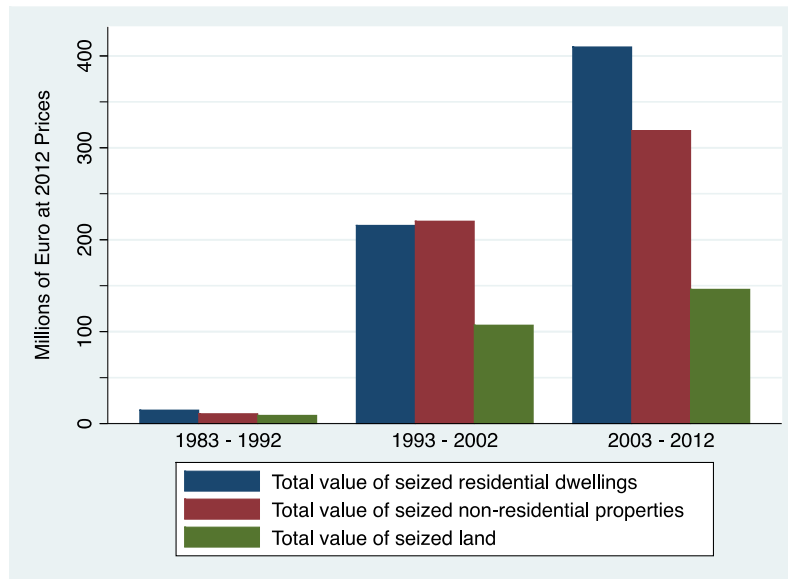
Figure 17: Total Value of Seized Real Estate by Year of Requisition



Source: ANBSC, authors' elaboration

The increasing trend described in Figure 17 is quite evident also when looking at Figure 18. The total values of seized properties reached the level of approximately €540 million during the period 1993-2002, and a total amount of approximately €875 million in the most recent decade. Such trend implies that there has been an increase in the value of real estate requisitions of approximately €335 million over a 10-year time span. The most important contribution to this increase has come from residential dwellings (60% of the total increase). Moreover, approximately 30% of the 10-year increase in the value of seizures has come from an increase in the total value of non-residential properties, while the remaining 10% is explained by an increase in the total value of land.

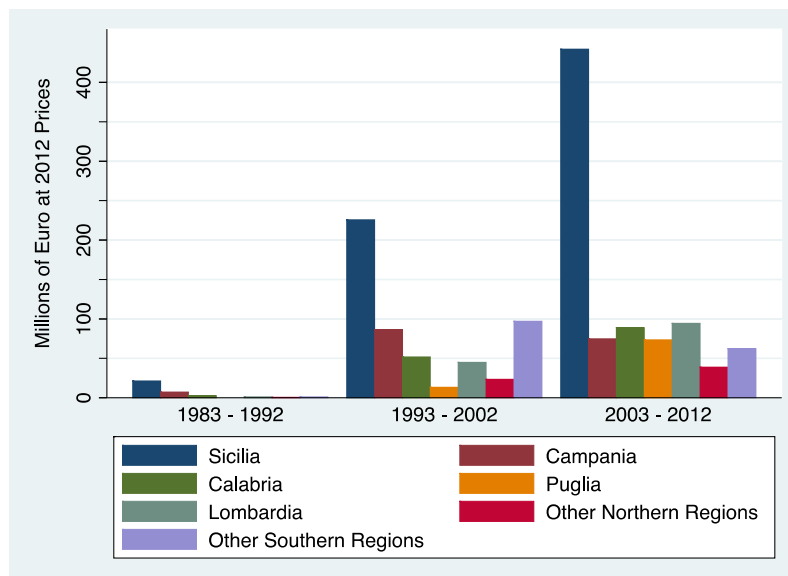
Figure 18: Total Value of Properties by Type and Period



Source: ANBSC, authors' elaboration

Figure 19 describes the geographical distribution of properties. We have calculated the total value of seized properties by decade and by geographical area (considering only the regions most affected by the requisitions phenomenon, and aggregating the remaining ones). From the figure, it is quite evident that, in all the periods considered, the region where the value of seized properties has reached the highest level is Sicily. Moreover, seizures of Sicilian properties are the most important in contributing to the overall increasing trend. Instead, the relative importance of other regions has shifted among the different periods considered. In particular, the total value of properties seized in Campania and residual southern regions has slightly decreased from the second to the third decade. Instead, between 1993-2002 and 2003-2012, there was an increasing trend in the value of seizures in Lombardy, Apulia, Calabria and in the remaining northern regions.

Figure 19: Total Value of Seized Real Estate by Region and Period



Source: ANBSC, authors' elaboration

For each of Italy's administrative regions, in Figure 20 we report on the total value of seized real estate properties expressed in millions of € at 2012 levels. The estimated total value of

confiscated assets over the period considered amounts to approximately €1.5 billion, a value that constitutes around 0.1% of the 2012 GDP.¹⁴⁵ Almost €690 million of confiscated assets are located in Sicily alone. Other regions with high levels of organized crime monetary investments in the real estate market are Campania, Calabria, Lombardy, Lazio and Apulia.

We have divided the total value of assets into the three broad categories of properties, previously defined: residential dwellings, non-residential properties and land. Moreover, within each region we have calculated the relative importance of each category of asset, by expressing their value as a percentage of the total value of seized properties within that geographical area.

Figure 20 shows that residential dwellings constitute approximately 44% of the total value of organized crime investment in real estate properties in Italy. Non-residential dwellings constitute approximately 39% of the total value of seized properties. The remaining 18% of the total value consists of land. However, within each region, these proportions are slightly different. For Example, in Campania and Calabria the proportion of seized land is higher than in the rest of Italy. Instead, the value of residential dwellings is proportionally higher in Apulia and Lombardy.

The right column of Figure 20 contains the *rate of organized crime penetration* in the real estate market. This quantity is equal to millions of € of properties seized from organized crime, for every €100 billion of real estate assets within a given geographical area. This rate has been calculated by combining the information present in the ANBSC database with the data on the Italian existing buildings, taken from the Italian income revenue authority (Agenzia delle Entrate).¹⁴⁶ For this purpose, we have used the total value of the residential and non-residential buildings as estimated in the year 2012.

The *rate of organized crime penetration* in the real estate market can be considered as a good measure of organized crime investment intensity, because it expresses the quantity of seized properties relative to the total amount of properties present in a given area.¹⁴⁷ In Italy, the average rate of criminal penetration is of approximately €22 million for every €100 billion of real estate value. This rate is remarkably high in Sicily (190) and Calabria (120). Moreover, it is higher than the national average in Campania and Apulia. Among other regions with high rates of criminal penetration are Lombardy and Lazio, both with a level of approximately €15 million of organized crime properties for every €100 billion of real estate value. Finally, Abruzzo, Piedmont and Basilicata are other regions with quite robust levels of organized crime investment in the real estate market.

145 ISTAT - Italian Office of National Statistics (2013), "PIL e indebitamento AP", available at: http://www.istat.it/it/files/2013/03/CS_pi_indebitamentoAP_2013.pdf?title=Pil+e+indebitamento+delle+AP++01/mar/2013++Testo+integrale.pdf

146 Agenzia delle Entrate (2015), "Gli immobili in Italia: Ricchezza reddito e fiscalità immobiliare", available at: 2. Analisi territoriale del valore del patrimonio abitativo - pdf

147 Notice that the existing buildings value does not include the value of land. However, such measure can be nevertheless considered as a good proxy for the total value of land assets within a geographical area.

Figure 20: Total Value and Relative Share of Real Estate Seizures by Region and Type and Rate of organized crime Penetration in the Real Estate Market (in millions of €)

Region	Residential Dwellings	Land	Other Types	Total	Rate of OC penetration in the real estate market
Sicilia	282.45 41%	127.93 19%	278.81 40%	689.19 100%	190.2
Campania	84.31 50%	38.97 23%	45.22 27%	168.50 100%	30.7
Calabria	48.71 34%	37.02 26%	57.67 40%	143.40 100%	120.6
Lombardia	78.71 56%	14.79 11%	47.10 33%	140.60 100%	14.2
Lazio	57.60 41%	22.47 16%	59.68 43%	139.75 100%	15.7
Puglia	44.61 51%	9.42 11%	32.77 38%	86.80 100%	28.4
Piemonte	14.45 56%	4.52 18%	6.75 26%	25.72 100%	5.5
Abruzzo	4.95 42%	0.37 3%	6.39 55%	11.71 100%	9.7
Emilia Romagna	3.38 38%	2.52 28%	3.00 34%	8.90 100%	1.6
Liguria	6.02 68%	0.69 8%	2.12 24%	8.83 100%	2.8
Toscana	3.50 55%	1.13 18%	1.72 27%	6.35 100%	1.1
Sardegna	4.04 65%	1.49 24%	0.66 11%	6.19 100%	3.8
Veneto	2.64 58%	0.34 8%	1.54 34%	4.52 100%	0.8
Trentino A. A.	0.50 13%	0.02 1%	3.22 86%	3.74 100%	2.0
Basilicata	0.33 12%	0.08 3%	2.28 85%	2.69 100%	8.1
Friuli V. G.	1.91 78%	0.02 1%	0.53 22%	2.46 100%	2.1
Marche	1.76 78%	0.20 9%	0.30 13%	2.26 100%	1.4
Umbria	- 0%	0.07 100%	- 0%	0.07 100%	0.1
Molise	0.05 100%	- 0%	- 0%	0.05 100%	0.2
Total	639.92 44%	262.02 18%	549.79 38%	1,451.73 100%	22.1

Source: ANBSC and Agenzia delle Entrate, authors' elaboration

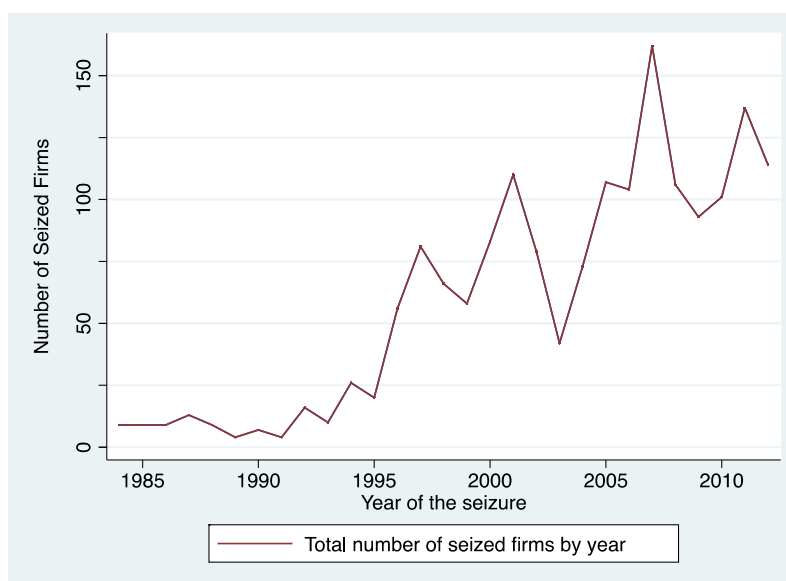
The Requisition of Firms

We now focus the attention on the investments of organized crime in registered economic activities. There are several reasons why criminals may choose to infiltrate legitimate businesses, namely because legal activities provide income; they facilitate money laundering; they allow for the integration of outputs and inputs needed in both legal and illegal activities; the criminal organization can diversify its portfolio; and finally, through legal activities organized crime can promote a better public image, increasing social control and consensus in the territories of its

activities. This long list of intrinsic and extrinsic motivations, shapes the forms and characteristics of business activities started by organized crime.¹⁴⁸

In the years under analysis (1983-December 2012), a total of 1,708 firms have been seized in Italy. As already stated, we must be aware that seized firms represent only a fraction of the total amount of economic enterprises created and managed by organized crime. However, they still represent a good proxy for the sake of the analysis and the best available option, given that these enterprises operate in the legal economy by hiding their “criminal nature.” The number of seized firms has constantly increased during the period of analysis, although some recurrent fluctuations exist (see Figure 21). While the yearly number of seized firms was constantly below 50 in the first years of observations (1983-1995), since the mid 1990s, this number has increased, always fluctuating above 50 per year and often reaching levels higher than 100 per year, especially in the most recent period. The figure shows that seizures peaked in 2007, similarly to what was observed with real estate assets (Figure 13). Only in this year there were more than 150 firms seized.

Figure 21: Total number of Seized Firms by Year



Source: ANBSC, authors’ elaboration

The juridical forms adopted by organized crime-managed firms are shown in Figure 22, which classifies the juridical forms using four macro-categories: Companies (which include Limited Liability Companies and Corporations), Partnerships (limited and general), Sole Proprietorships, and other juridical forms (union groups and cooperatives).

The most common forms chosen by organized crime are Companies (48.6%), while Sole proprietorships (23.9%) and Partnerships (23%) following (first two columns of Figure 22). However, this general picture is different once the distribution of the juridical forms at the national level is taken into account.¹⁴⁹ In fact, comparing the previous figures with the share of forms among the stock of registered firms in Italy (second two columns of Figure 22), it becomes evident that organized crime-managed firms have different preferences with respect to other entrepreneurs. While in Italy the most common juridical form is Sole proprietorship (55%), among organized crime-enterprises this juridical form is underrepresented, with only the 24% of firms taking this form. On the other side, the Company-type emerges as the preferred juridical form for organized

148 Champeyrache C. (2015), “Destructive entrepreneurship: the costs of the mafia for the legal economy”, Resarch & Regulation; Transcrime (2013).

149 Data on the stock of all the registered firms in Italy at 31/12/2012 from: Unioncamere-InfoCamere (2013), “Movimprese: Natalità e mortalità delle imprese italiane registrate presso le Camere di commercio - anno 2012”, available at: <http://www.unioncamere.gov.it/P42A1354C160S123/Imprese--nel-2012-mille-chiusure-al-giorno--ma-il-saldo-resta-positivo---0-3--.htm>

crime firms (49%), while in the Italian market, it represents only 23% of registered firms. This translates into relatively high rates (over 10,000 registered firms) for Companies and Partnerships, and a low rate for Sole proprietorships (as shown in the last columns of the table).

These choices seem coherent with the need for flexible forms of enterprises with limited personal liability and risks for the owners and partners, having greater potential for fragmentizing capital and ownerships.

Figure 22: Juridical Forms of Seized and Registered Firms

Type of Firms	Stock of Seized firms at 31/12/2012		Stock of Registered firms at 31/12/2012		Rate of seized firms over 10,000 registered firms
	No.	%	No.	%	
Companies	831	48.7	1,411,747	23.2	5.9
Sole proprietorships	408	23.9	3,337,587	54.8	1.2
Partnerships	393	23.0	1,133,660	18.6	3.5
Other juridical forms	76	4.4	210,164	3.4	3.6
Total	1,708	100.0	6,093,158	100.0	2.8

Source: ANBSC and Unioncamere (2013), authors' elaboration

The sectors of activity where seized firms operated are shown below (Figure 23). The three sectors which are more exposed by the penetration of organized crime firms are the constructions sector (27.9%), the wholesale and retail trade (27.6%), and the accommodation and food industry sector (10.1%). However, considering the stock of all Italian registered firms in 2012, we can see for example that the wholesale and retail trade sector is the first sector of activity in Italy, employing approximately 25% of all the firms. Thus, the prominence of seized firms operating in this market is partially driven by compositional effects, because the share of Italian firms working in this sector is the highest. Furthermore, the key role of construction as a sector of major involvement of organized crime's enterprises is confirmed, as the proportion of seized firms in this market is almost twice that of the proportion of Italian registered firms operating in there (28% of all the seized firms work in the Construction sector while only 15% of the registered firms do).

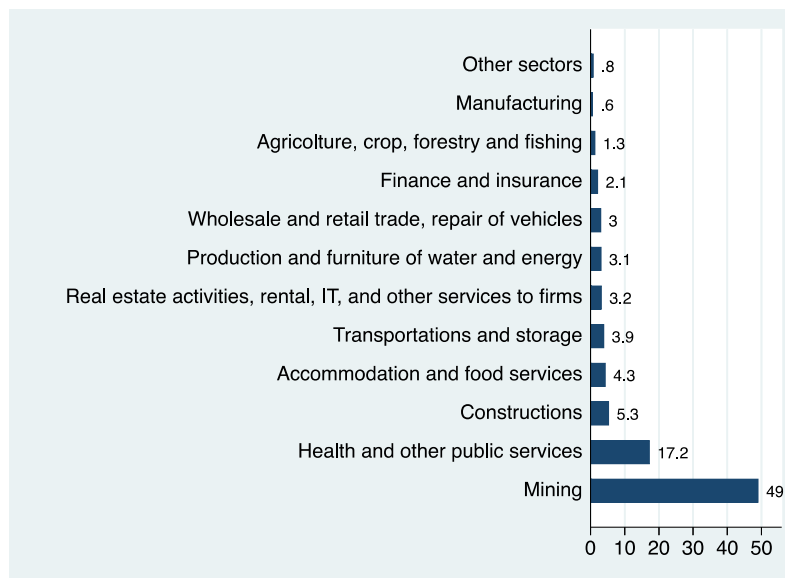
Figure 23: Sectors of Activities of Seized and Registered Firms

Sectors of Activities	Stock of Seized firms at 31/12/2012		Stock of Registered firms at 31/12/2012		Rate of seized firms over 10,000 registered firms
	No.	%	No.	%	
Constructions	477	27.9	894,028	14.7	5.34
Wholesale and retail trade, repair of vehicles	471	27.6	1,549,034	25.4	3.04
Accommodation and food services	173	10.1	401,507	6.6	4.31
Real estate activities, rental, IT, and other serv:	140	8.2	443,384	7.3	3.16
Agriculture, crop, forestry and fishing	107	6.3	818,283	13.4	1.31
Health and other public services	106	6.2	61,626	1.0	17.20
Other	76	4.4	1,001,237	16.4	0.76
Transportations and storage	69	4.0	177,598	2.9	3.89
Manufacture	36	2.1	606,126	9.9	0.59
Finance and insurance	24	1.4	116,335	1.9	2.06
Mining	23	1.3	4,697	0.1	48.97
Production and furniture of water and energy	6	0.4	19,303	0.3	3.11
Total	1,708	100.0	6,093,158	100.0	2.80

Source: ANBSC and Unioncamere (2013), authors' elaboration

A synthetic indicator of the sectors more importantly affected by criminal action is given by the rate of organized crime-sector penetration. This index is constructed as the number of seized firms in a given sector out of 10,000 registered firms in the same sector (last column of Figure 23 and Figure 24). This indicator, showing the rate of seized firms out of 10,000 registered firms by sector of activity, allows controlling for the relative weight of each sector on the overall economy. The sectors which emerge as more affected by organized crime penetration are the mining sector (49 per 10,000), followed by the health and other public services sector (17.2 per 10,000) and the constructions sector (5.3 per 10,000).

Figure 24: Rate of Seized Firms out of 10,000 Registered Firms



Source: ANBSC and Union Camere (2013), authors' elaboration

At this stage, we can highlight some common features in those sectors more affected by organized crime-penetration. For example, they are characterized by high labor intensity and relatively low technology and low international competitiveness (especially in the mining, construction, accommodation and food services sectors). Some of the sectors with a high criminal presence - such as mining, construction and transportation - facilitate the physical control of territory by organized crime, while health and other public related services provide the opportunity for social control of territory. In fact, they convey huge amounts of material resources, such as cash flows and revenues, and immaterial resources, such as prestige and political power. Moreover, providing pro-citizen services can also be strategic in enforcing the promotion of social consensus and a better public image of organized crime groups.¹⁵⁰ Finally, sectors such as mining and construction are evidently connected, because the first is functional for the control of the second, providing the primary resources needed in construction work. However, the mining sector also plays a strategic role for the dumping of illegal waste, a lucrative business in which several organized crime groups are increasingly involved, as highlighted by the last Antimafia Directory's report.¹⁵¹

We present now some insights on the geography of firms owned by the organized crime groups, showing the Italian regions where seized firms operated and how this geography evolved within the three decades analyzed in our study.

Figure 25 shows the strikingly high degree of seized firms concentrated in a very small number of regions. More than 95% of these were located in only six regions: Sicily (36%), Campania (20%), Lombardy (13%), Calabria (9%), Lazio (8%) and Apulia (8%). Sicily alone counts for more than

150 Fantò (1999).

151 DNAA (2015).

one third of all seized firms. The prominence of the southern Italian regions (particularly Sicily, Campania, Calabria, Lazio and Apulia) is very strong, because more than 1,400 out of 1,708 seized firms operated in these territories. However, the presence of organized crime firms is not only a matter for the south of Italy, as a considerable number of them are also situated in the north of the country. In this part of Italy, the leading region is Lombardy, where more than 200 seized firms operated, an amount corresponding to 13% of the total. Other northern regions in which a considerable number of firms were seized are Emilia Romagna (26), Liguria (15) and Piedmont (13).

When taking into account the distribution of registered Italian firms across regions, the six regions highlighted above remain the ones of most interest for organized crime infiltration. In the last column of Figure 25 we report the rate of criminal penetration among firms by region. This index is constructed as the number of seized firms for every 10,000 registered firms in the region. It emerges that Sicily, Calabria, and Campania have the highest levels of criminal penetration, followed by Lazio and Lombardy.

Figure 25: Region of Seized and Registered Firms

Region	Stock of Seized firms at 31/12/2012		Stock of Registered firms at 31/12/2012		Rate of seized firms over 10,000 registered firms
	No.	%	No.	%	
Sicilia	623	36.48	463,525	7.61	13.44
Campania	347	20.32	561,084	9.21	6.18
Lombardia	223	13.06	952,013	15.62	2.34
Calabria	161	9.43	179,126	2.94	8.99
Lazio	140	8.20	615,736	10.11	2.27
Puglia	131	7.67	383,592	6.30	3.42
Emilia Romagna	26	1.52	472,849	7.76	0.55
Liguria	15	0.88	167,225	2.74	0.90
Piemonte	13	0.76	461,564	7.58	0.28
Toscana	12	0.70	416,154	6.83	0.29
Marche	4	0.23	176,555	2.90	0.23
Veneto	4	0.23	500,011	8.21	0.08
Basilicata	3	0.18	60,935	1.00	0.49
Sardegna	3	0.18	168,808	2.77	0.18
Abruzzo	1	0.06	150,548	2.47	0.07
Friuli V. G.	1	0.06	108,530	1.78	0.09
Umbria	1	0.06	96,138	1.58	0.10
Molise	-	-	35,237	0.58	0.00
Trentino A.A.	-	-	109,632	1.80	0.00
Valle D'aosta	-	-	13,896	0.23	0.00
Total	1,708	100.00	6,093,158	100	2.80

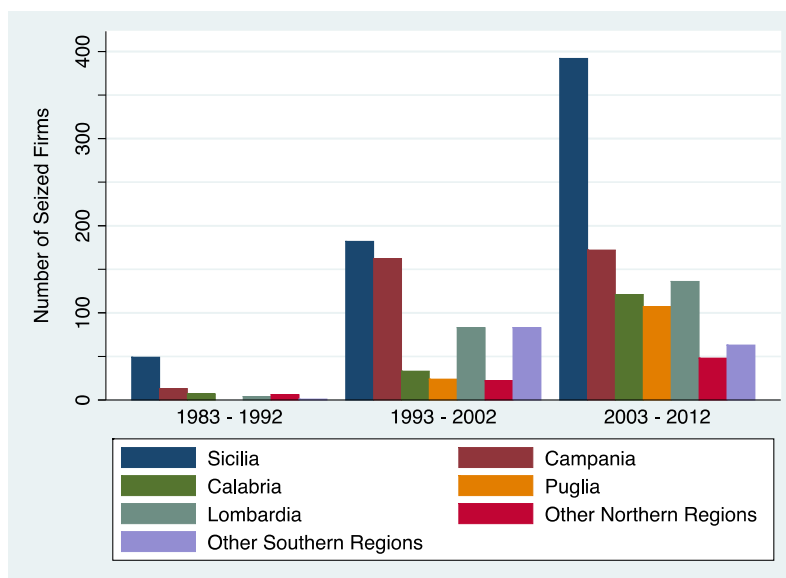
Source: ANBSC and Unioncamere (2013), authors' elaboration

The rise in organized crime seizures in northern Italy, beyond the traditional territories where Italian organized crime originated, seems to confirm the recent trend towards a greater diversification of organized crime's portfolio, as already mentioned at the beginning of this chapter (Figures 8, 9 and 10). Seized firms show a similar evolution toward more complexity when looking at their geographical location over time (Figure 26). Until the beginning of the 1990s, the bulk of organized crime firms were located in Sicily. The number of seized firms started to grow remarkably since then. The areas that contributed the most to the growth in seizures observed in the second decade

are Campania (29% of the total growth in seizures and 149 additional confiscations from the first to the second decade), Sicily (26%), other southern regions (16%) and Lombardy (15%).

In the most recent decade analyzed, the total number of seized firms increased by 450 units with respect to the previous decade. In this case, the areas contributing the most to the overall trend were Sicily (46%), Calabria (19%), Apulia (18%), and Lombardy (11%). Interestingly, the number of seized firms in other southern regions (with the exception of Campania) has decreased, even if this trend was not able to counterbalance the remarkable increase in requisitions observed elsewhere.

Figure 26: Total Number of Seized Firms by Region and Period



Source: ANBSC, authors' elaboration

The relationship between seized goods and regional economies.

This part of our analysis focuses on the six Italian regions with the highest number of requisitions in the period considered, namely Calabria, Campania, Lazio, Lombardy, Apulia and Sicily; having a sufficient number of requisitions and seized goods (both firms and real estate properties) allows us to deepen the analysis of the correlation between these variables and the economic condition of each region.

The two phenomena are strongly interrelated, and their relationship is complex. For this reason, it is sometimes not easy to interpret. On the one hand, the economic and social development of a region is negatively affected by the presence of organized crime.¹⁵² As pointed out by the head of the Bank of Italy in an interview at the Antimafia Commission,¹⁵³ the detrimental effect of organized crime on the economy is mainly driven by the reduction in legal activities and investments due to market distortions deriving from criminal presence. At the same time, the regional socio-economic background also might influence the spread and success of criminal activity itself, because, for example, high unemployment, inequality and frustration can create conditions of social conflict and criminal activity.

To further complicate the interpretation of our analysis, data on seized goods not only reflects the diffusion of crime in the region, but also the ability of the public administration to detect it and defeat it; such capability is influenced by the economic situation itself (e.g., through the amount

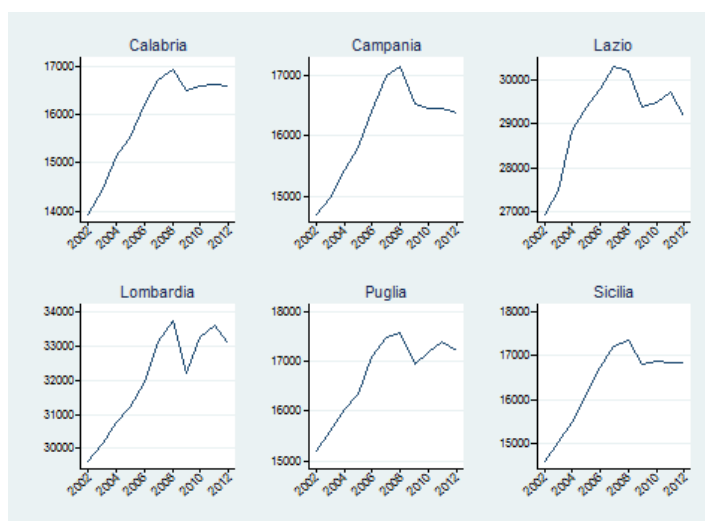
152 See, among others, Pinotti, P. (2012). "The economic cost of organized crime: evidence from southern Italy", Economic Working Papers 868, Bank of Italy.

153 Visco, I. (2015). "Prevenzione e contrasto della criminalità organizzata", Audizione alla Commissione parlamentare d'inchiesta sul fenomeno delle mafie e sulle altre organizzazioni criminali, anche straniere

of resources available to the police) and may encourage or discourage the *ex ante* diffusion of organized crime as well.

All of these elements convey the complexity of the phenomenon under analysis and do not allow for any causal straightforward interpretation. Nonetheless, data allows us to highlight important associations between regional economies and requisition capacity, encouraging further investigation for the future. As preliminary facts, we present the differences in terms of economic structure and performance between the regions under analysis. Figure 27 shows the trend of regional GDP¹⁵⁴ in the decade 2002-2012. Lazio and Lombardy are the richest regions, with comparable GDP *pro capite*. The southern regions present much lower GDP per capita and employment rates. Overall, Figure 27 shows that all regions were hardly hit by the crisis, experiencing a harsh decrease in GDP per capita, after a period of constant growth from the beginning of the 2000s.

Figure 27: GDP per capita by region, € (2002-2012)



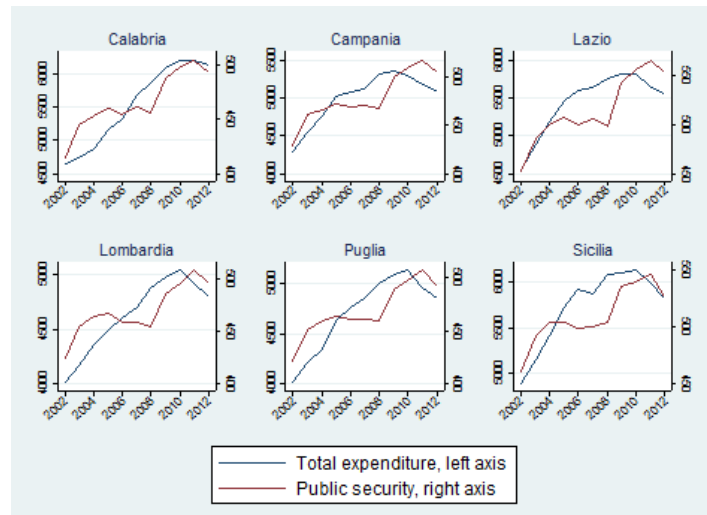
Source: ISTAT, authors' elaboration

In Figure 28 we also look at the total public expenditure and public security expenditure *per capita*,¹⁵⁵ which increased in all regions, yet slowed down in 2007-2008, probably due to the economic recession hitting during those years.

154 ISTAT data, November 2013: http://dati.istat.it/Index.aspx?DataSetCode=DCCN_VALPROCAPT

155 ISTAT data, October 2014: http://dati.istat.it/Index.aspx?DataSetCode=DCCN_VALPROCAPT

Figure 28: Public expenditure per capita, total and for public security, € (2002-2011)

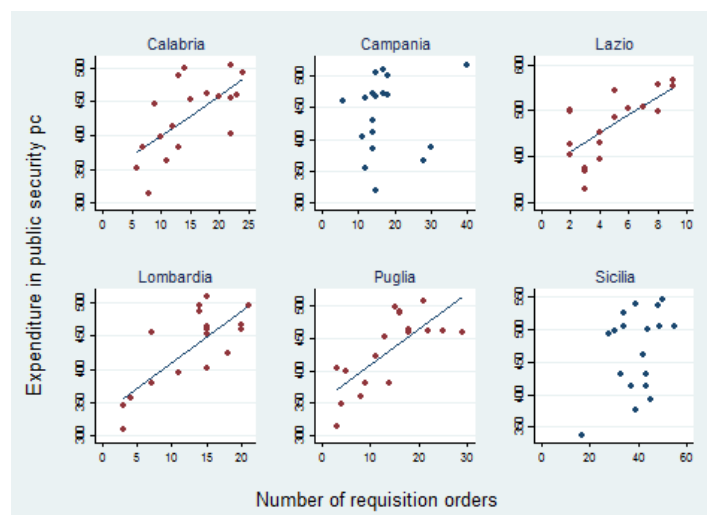


Source: ISTAT, authors' elaboration

We now turn to a description of the associations between the aforementioned socioeconomic variables and the number of seizure orders. By comparing the regional socio-economic variables in 2012 to different measures of the presence of organized crime over time, different aspects of such relationships are highlighted.

One natural association is that increasing public expenditure, especially in public security, can have a positive effect on the capacity of detecting and fighting organized crime, resulting in an increase in requisitions. We observe in our data a positive association between the level of expenditure in public security and the number of requisition orders throughout the years in most of the regions, as shown in Figure 16. The graphical evidence is also confirmed by unvaried linear regression, showing that the linear relation between the two variables is statistically significant.¹⁵⁶

Figure 29: Expenditure in public security per capita (€) and number of requisition orders by region (2002-2011)



Source: ISTAT and ANBSC, authors' elaborations

¹⁵⁶ In particular, we conducted an OLS regression of the number of requisition orders on public expenditure on security; we found that the coefficient is positive and significantly different from zero at a 99% confidence level in Calabria, Lazio, Lombardy and Apulia, and at a 90% confidence level in Sicily.

The scientific literature, modelling the choice of crime as embedded in rational choice theory, predicts that an increase in crime deterrence, such as an increase in the number of policemen or in certainty of punishment, will result in a decrease in crime rates; such predictions were confirmed in a number of empirical studies (see, for example, Levitt 1997,¹⁵⁷ 2002,¹⁵⁸ Lin 2009¹⁵⁹). Yet, already in 1973, Greenwood and Wadycki,¹⁶⁰ warned about the opposite effect being possible, namely the increase in observed crime. Their argument claims that additional resources available for public security result in an increase of measured crime rates because of increased detection capacity: the higher available resources, the more efficient the law enforcement process, and the higher the level of reported crime rate.

Since the number of seizures may be intended as a measure of the capacity to detect criminal presence, and not only a measure of contemporaneous criminal activities, the positive relationship observed in our data can be interpreted in the light of Greenwood and Wadycki's analysis. On the other hand, higher resources are spent where the criminal presence is higher: Figure 30 shows the positive relationship across regions between the rate of criminal penetration among firms¹⁶¹ and expenditure in public security per capita.¹⁶² Even if we omit Sicily, Calabria, Lazio and Campania, the correlation remains positive.

Figure 30: Expenditure in public security per capita (€) and the rate of organized crime penetration among firms



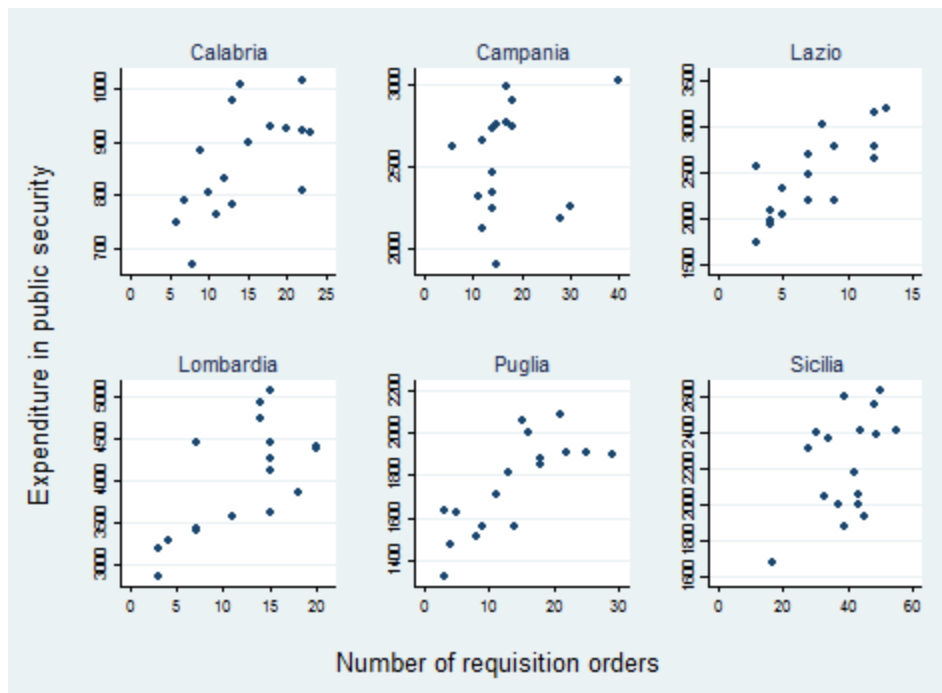
Source: ISTAT and ANBSC, authors' elaboration

To further investigate whether the effectiveness of public intervention against organized crime is related to the economic conditions of the region, we compared the relationship over time between GDP *per capita* and the number of requisition orders. Interestingly, if we focus on the regions with higher criminal presence and look at the relationship over time between economic

157 Levitt, S. D. (1997), "Juvenile Crime and Punishment", *Journal of Political Economy*, 106(6)
 158 Levitt, S. D. (2002), "Using Electoral Cycles in Police Hiring to Estimate the Effects of Police on Crime: Reply." *American Economic Review*, 92(4).
 159 Lin M. J. (2009), "More Police, Less Crime: Evidence from US Data." *International Review of Law and Economics*, 29(2.)
 160 Greenwood M. J., Wadycki W. J. (1973), "Crime rates and public expenditures for police protection: their interaction." *Review of Social Economy*, 31(2).
 161 The rate used for this analysis is defined as the number of seized firms for every 10,000 firms registered in the region. Similar results are obtained by considering the rate of criminal penetration in the real estate market. More details about how these rates were constructed are given in the previous sections.
 162 Valle d'Aosta is omitted because it is an outlier, spending more than 770 € per capita on public security.

performance and requisition orders, the association is positive. Figure 31 shows such relations for all regions, drawing attention with a line of best fit to the regions where such relations are strong and significant at a 99% confidence level. This is in line with the above mentioned hypothesis that the number of requisition orders is a measure of efficiency with respect to the fight against crime;¹⁶³ thus, periods of economic growth are associated with better criminal detection capacity, while the opposite is true during periods of low economic performance.

Figure 31: GDP per capita (€) and the number of requisition orders by region (1995-2012)



Source: ISTAT and ANBSC, authors' elaboration

Campania and Sicily do not present any significant association between requisition orders and either GDP or public expenditure, even though they are the regions with the highest organized crime presence, indeed the level of requisition orders is constantly high in such regions over the years of observation.

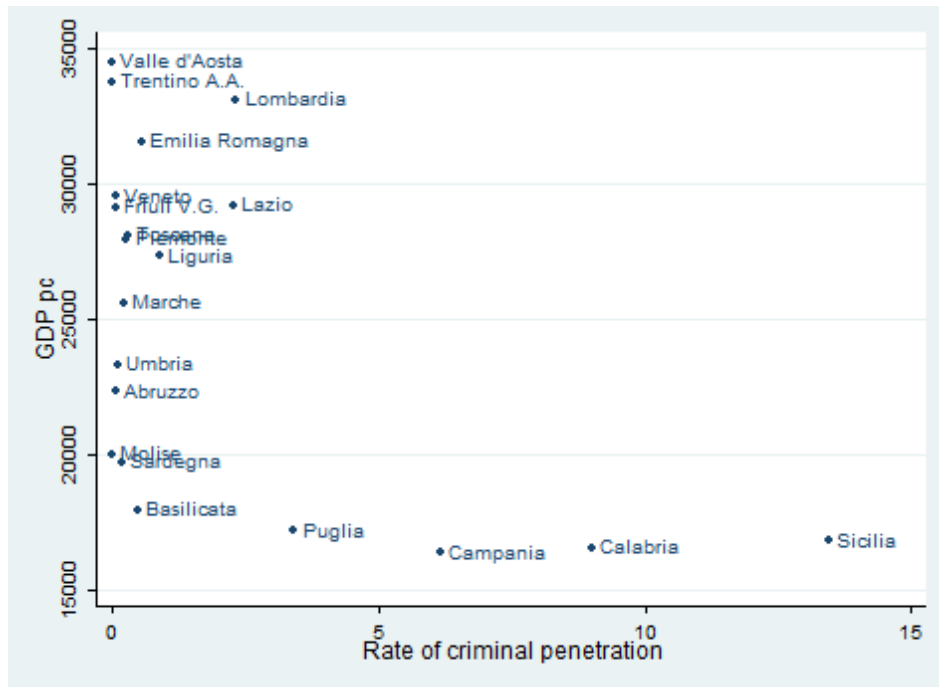
Apart from the relationship between criminal detection capacity and crime, it is important to underline that crime has several direct effects on the real economy as well. As stated before, such a relationship is complex, and a detailed investigation of all its aspects is outside the scope of this analysis. In general, the harmful effects of organized crime presence on the real economy operate through several channels. Different studies highlight the negative effects of criminal presence on economic development, for example through the higher cost of loans and insurance premiums.¹⁶⁴ In his interview, the head of the Bank of Italy also highlighted that the presence of crime reduces investment levels, because it undermines trust in institutions crowding out legal funds. Finally, Van Dijk¹⁶⁵ shows that organized crime activities seriously harm judicial and political institutions, impeding sustainable development in the long run.

163 Greenwood, M. J. and Wadycki, W. J. (1973).

164 Bonaccorsi Di Patti E. (2009), "Weak institutions and credit availability: the impact of crime on bank loans", Banca d'Italia, *Questioni di Economia e Finanza*, 52.

165 Van Dijk, J. (2007). "Mafia Markers: assessing organized crime and its impact upon societies", in *Trends organized crime*, 10:39-56.

Figure 32: GDP per capita (€) and the rate of criminal penetration among firms by region (2012)



Source: ISTAT and ANBSC, authors' elaboration

In Figure 32 we have compared the levels of regional GDP *per capita* in 2012, and the rate of criminal penetration into firms.

In general, three patterns of criminal investment seem to emerge. First, a negative relationship between organized crime penetration and economic performance has emerged in the southern regions with a long tradition of organized crime presence (Sicily, Campania, Calabria and Apulia). Indeed, such regions have the lowest GDP per capita levels and the highest rate of criminal penetration. In this case, strong existing ties between criminal organizations and the local environment, as well as potentially high social returns from investments in the legal economy, probably represent the main sources of attractiveness for illegal funds.

A second trend has emerged in some regions with a relatively high standard of living, such as Lombardy and Lazio, which nevertheless attract a high amount of investment from organized crime. In these cases, the organized crime penetration is more recent, and the attractiveness of these regions could be attributed to the pivotal role that they play as Italian political and financial powerhouses.

Finally, there are some regions that experience a low level of criminal penetration, and are quite heterogeneous in terms of economic performance. Such regions may be less vulnerable to organized crime penetration for several reasons. In some cases, low levels of economic wealth, together with weaker ties with criminal groups, may imply that such regions do not offer attractive investment opportunities for illegal funds. For other regions instead, good economic performances may act as a deterrent for illegal investments, because there could be less incentives in starting illegal activities whenever the legal economy offers high returns.

Acronyms

ANBSC	<i>Agenzia Nazionale per l'Amministrazione e la Destinazione dei Beni Sequestrati e Confiscati alla Criminalità Organizzata</i>
ANSA	<i>Agenzia Nazionale Stampa Associata</i>
CD	Compact Disc
CENSIS	<i>Centro Studi Investimenti Sociali</i>
CEO	Chief Executive Officer
CITIES	Convention on the International Trade in Endangered Species of Wild Fauna and Flora
CFC	Chlorofluorocarbons
CPA	<i>Commissione Parlamentare Antimafia</i>
CROSS	<i>Osservatorio sulla Criminalità Organizzata</i>
CSM	<i>Consiglio Superiore della Magistratura</i>
DCSA	<i>Direzione Centrale Servizi Antidroga</i>
DIA	<i>Direzione Investigativa Antimafia</i>
DNAA	<i>Direzione Nazionale Antimafia e Antiterrorismo</i>
DOJ	The United State Department of Justice
DVD	Digital Video Disc
EIA	Environmental Investigation Agency
EMCDDA	European Monitoring Centre for Drugs and Drug Addiction
EP	European Parliament
EU	European Union
EUROPOL	European Police Office
FBI	Federal Bureau of Investigation
FDI	Foreign Direct Investment
G.I.C.O	<i>Gruppo Investigativo Criminalità Organizzata</i>
G.d.F	<i>Guardia di Finanza</i>
GDP	Gross Domestic Product
GURI	<i>Gazzetta Ufficiale della Repubblica Italiana</i>
IACP	<i>Istituto Autonomo per le Case Popolari</i>
IMF	International Monetary Fund
INAIL	<i>Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro</i>
INTERPOL	International Criminal Police Organization
IOM	International Organization for Migration
IPR	Intellectual Property Right
ISTAT	<i>Istituto Nazionale di Statistica</i>
IT	Information Technology
IUCN	International Union of Conservation of Nature
LEAs	Law Enforcement Agencies
MiSE	<i>Ministero dello Sviluppo Economico</i>
MTCN	Money Transfer Control Number
NCO	Nuova Camorra Organizzata
NPS	New Psychoactive Substances
OC	Organized Crime

OCTA	Organized Crime Threat Assessment
ODS	Ozone-Depleting Substances
OECD	Organization for Economic Co-operation and Development
OECD TF-CIT	OECD Task Force on Charting Illicit Trade
S.C.I.C.O	<i>Servizio Centrale di Investigazione sulla Criminalità Organizzata</i>
SOCTA	Serious and Organized Crime Threat Assessment
TAR	<i>Tribunale Amministrativo Regionale</i>
TLE	<i>Tabacchi Lavorati Esteri</i>
TOCTA	Transnational Organized Crime Threat Assessment
UN	United Nations
UIBM	<i>Ufficio Italiano Brevetti e Marchi</i>
UNEP	United Nations Environmental Programme
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNODC	United Nations Office on Drugs and Crime
UNTOC	United Nations Convention against Transnational Organized Crime
VAT	Value added tax

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List of Cases

	Case	Source	Year
1	Order of precautionary measure - ALIBERTI	Tribunal of Naples	2009
2	Judgment - ABETE	Tribunal of Nola	2010
3	Order of precautionary measure - ABATE	Tribunal of Naples	2011
4	Order of precautionary measure - AMOROSO	Tribunal of Naples	2012
5	Order of precautionary measure - AIETA	Tribunal of Naples	2014
6	Order of precautionary measure - CORMIO	Tribunal of Naples	2014
7	Judgment - LICCIARDI	Court of Appeals of Naples	2009
8	Judgment – LO RUSSO	Tribunal of Naples	2013
9	Judgment – ASTUCCIA	Tribunal of Naples	2013
10	Order of precautionary measure - ADAMO	Tribunal of Naples	2005
11	Judgment - 1417843 - D'ERRICO - ARIOSTINI	Tribunal of Bari	2012
12	Judgment - 1379617 - GENTILE	Judge of pre-trial investigations of Bologna	2011
13	Judgment -1347474 - ROCCELLA	Tribunal of Catania	2011
14	Judgment - 1522323 - MERCURI	Tribunal of Catanzaro	2013
15	Judgment -1592554 - D'AGOSTINO	Tribunal of Milan	2014
16	Judgment - 1462505 - D'AGOSTINO F.	Tribunal of Milan	2012
17	Judgment - 1359151 - INFINITO	Tribunal of Milan - Judge of pre-trial investigations	2012
18	Judgment - 1410011 - ALBANESE	Tribunal of Milan	2011
19	Judgment - 1309238 - ALOE	Tribunal of Milan - Judge of pre-trial investigations	2011
20	Judgment - 1584192 - MESSINA DENARO	Tribunal of Marsala	2013
21	Judgment - 1568151 - ANZALONE	Tribunal of Palermo - Judge of preliminary hearing	2013
22	Judgment - 1531515 - TRAPANI	Tribunal of Palermo	2013
23	Judgment - 1518640 - LO PRESTI	Tribunal of Palermo	2013
24	Judgment - 1491508 - ARDUINO	Tribunal of Palermo	2013
25	Judgment - 1412523 - PILLITTERI	Tribunal of Palermo - Judge of preliminary hearing	2012
26	Judgment - 1310297 - CORSO	Tribunal of Palermo	2011
27	Judgment - 1271955 - ALGERI	Tribunal of Palermo	2011
28	Judgment - 1488437 - BELLOCCO	Tribunal of Palmi (RC)	2013
29	Judgment - GALLICO (3 attachments)	Tribunal of Reggio Calabria	2013
30	Judgment - 1444733 - ALVIANO	Tribunal of Reggio Calabria	2013
31	Judgment - 1365218 - BARBIERI	Tribunal of Palermo - Judge of preliminary hearing	2011
32	Judgment - 1325377 - BARRESE	Tribunal of Palermo - Judge of preliminary hearing	2011
33	Order of precautionary measure - CACCIUTTOLO	Tribunal of Naples	2014
34	BDN.SIDDA_AED_OOLE.1417843	Tribunal of Bari	2013
35	BDN.SIDDA_AED_OOLE.1379617	Tribunal of Bologna	2011

36	BDN.SIDDA_AED_OOLE-1310297	Tribunal of Palermo	2011
37	Operation DI TELLA	Tribunal of L'Aquila	-
	Decree ALBAMONTE	Tribunal of Palermo – Prevention measures section	-
	Decree IENNA	Tribunal of Palermo – Prevention measures section	-
	Decree PIAZZA	Court of Appeal of Palermo	-
	Decree CAVALLOTTI	Tribunal of Palermo – Prevention measures section	-
	Decree LUPO	Tribunal of Palermo – Prevention measures section	-
	Decree NEW PORT	Tribunal of Palermo – Prevention measures section	-
	<i>Regional reports covering:</i> Abruzzo, Basilicata, Calabria, Campania, Emilia Romagna, Friuli Venezia Giulia, Lazio, Liguria, Lombardia, Marche, Molise, Piemonte, Puglia, Sardegna, Sicilia, Toscana, Trentino Alto Adige, Umbria, Valle d'Aosta, Veneto	GdF – S.C.I.C.O.	2013
	<i>Note:</i> Reimpiego di denaro da reati di bancarotta fraudolenta. Esperienza operativa	GdF – S.C.I.C.O.	
	<i>Note:</i> Riciclaggio attraverso money transfer. Esperienza operativa	GdF – S.C.I.C.O.	
	<i>Note:</i> Operazioni “virtuali” - Esperienza operativa	GdF – S.C.I.C.O.	
	<i>Note:</i> Riciclaggio da traffico di stupefacenti. Esperienza operativa.	GdF – S.C.I.C.O.	
	<i>Analysis:</i> I fenomeni dell'estorsione ed usura in Italia	GdF – S.C.I.C.O.	
	<i>Analysis:</i> Canali e modalità di riciclaggio	GdF – S.C.I.C.O.	
	<i>Presentation:</i> Riciclaggio di denaro mediante money transfer	GdF – S.C.I.C.O.	
	<i>Presentation:</i> Operazione virtuali	GdF – S.C.I.C.O.	
	<i>Presentation:</i> Reimpiego da bancarotta	GdF – S.C.I.C.O.	
	<i>Presentation:</i> Riciclaggio da traffico di stupefacenti	GdF – S.C.I.C.O.	

