

The Market for Counterfeit Goods and Financing of the Extremist Organizations in Europe in the Last Decade

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Abstract. The article examines the counterfeiting in Europe, in the context of the interest manifested by members of the extremist organizations in raising profit through these illegal markets. In highlighting the association of counterfeiting with the financing of the Europe-based and operating extremist groups, we collected and analyzed data provided by the European institutions, and other international organization reports, studies and statistics, data collections, articles and reviews published in prestigious journals. We consider the research theme is an actual one, underlining a special theoretical and practical interest for both the academic community and the responsible authorities.

Keywords: counterfeiting, illegal markets, underground economy, financing, extremist groups, profit.

1. Introduction

The extent of transactions on counterfeiting has brought the current importance of its research, especially in the context of the overall effects and the macroeconomic consequences of financial activity and fiscal performances. In terms of scientific knowledge, relevance of the research theme comes primarily from the need to study the significant changes caused by the emergence of asymmetric threats (e.g. organized crime, terrorism) regarding the security of European states. Trafficking in counterfeit commodities is a relatively accessible activity and the extremist groups raise profit from selling these goods and to a lesser extent from their involvement in the production. Among the advantages can be mention very low production costs, high revenues involved in this industry as well as a certain level of anonymity. [1]

To avoid the control of authorities the extremist networks engaged in these illegal activities can easily hide the goods or the equipment used in counterfeiting, change the locations of production and destroy any incriminating evidence or documents. The most important aspect on counterfeiting considers the significant profits raised on these illegal markets which are difficult to identify and control by the competent authorities interested in combating terrorist financing. The significant income flowing on the markets in counterfeit products is also of particular concern. Thus, according to OECD, the value of counterfeit commodities was estimated at up to 200 billion dollars, in 2005 and the same estimates suggest that counterfeit and pirated goods in international trade grew steadily over the period 2000 – 2007. [2]

In preparing this study we used techniques and tools for collecting data providing the advantage of a faithful reproduction on reality they represent. In order to accomplish an analysis concerning the association of counterfeiting with the financing of extremist groups based or operating in Europe, we focused on the reports provided by the international institutions such as the Organization for Economic Co-operation and Development, Interpol or the Council of Europe, studies and statistics, data collections as well as the latest articles and reviews published in prestigious journals and proceedings of scientific events.

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Research directions discussed in the methodological approach were subject of data analysis by using various techniques, instruments and qualitative methods with the purpose of realizing a synthesis of ideas and the interpretation of data collected.

For conducting this study we also used statistical analysis to highlight certain trends, influences and interdependencies in this important and current area. Scientific results were the subject of debates involving experts we cooperate at national and international level.

2. Financing Europe-based extremist groups through counterfeiting

According to experts [3], selling the counterfeit products is more profitable than drug trafficking. Thus, the cost for producing a computer game is 0.20 EUR and it is sold for 45 EUR, while a gram of cannabis costs 1.52 EUR and it is sold for only 12 EUR. There are also benefits in terms of risks involved for carrying out such illegal activities. In France, for example, sale of counterfeit goods is punishable by two years imprisonment or a fine of 150,000 EUR compared with drug trafficking which is punished with imprisonment for 10 years or a fine of 7.5 million EUR.

Literature and media provided several examples in analyzing the advantages of the software piracy as one of the important illicit activities providing significant revenues. Thus, the drug trafficker who pays about \$ 47,000 for a kilogram of cocaine, selling it with approx. \$ 94,000 raises a 100% profit. Meanwhile, with the same amount of \$ 47,000 and low risks, an entrepreneur can buy approx. 1500 pirated CDs with the Office program and the profit raised from selling them is significantly higher, about 900% when compare with the drug trafficker profit. [4] Benefits from counterfeiting are also highlighted by the Danish customs authorities, who claim that these illegal activities are more lucrative than drug trafficking being at the same time, less risky. They appreciated that a single load with counterfeit cigarettes imported in Europe is generating a profit of approx. 475.000 EUR. [5]

When compared to other illegal activities, piracy of DVDs also allows both the extremist groups and the organized crime networks raising high profits with relatively low risks in terms of sanctioning such offences. In this respect, the income raised from selling the DVDs on the British black market in 2004, ranged between 400 and 500 million pounds and the literature stressed an increasing trend. [6] Given these circumstances we appreciate that the profit - risk balance is very attractive not only for the organized crime groups and especially for the extremist organizations who do not have sophisticated means for fundraising.

During a meeting hosted by the Interpol, which was attended by the officials of the authorities responsible for combating terrorism in several countries and representatives of the prestigious institutions in various fields, such as the Pharmaceutical Security Institute and the Anti-Counterfeiting Group, they made a retrospective on what it is currently known about the association between extremist groups and the counterfeiting. On this occasion, they concluded that piracy and counterfeiting are lucrative activities the organizations Al-Qaeda, Hamas, Hezbollah or the Irish Republican Army rely on to finance their operations. [7]

In this respect, the Interpol claims that counterfeiting has become one of the illegal activities that the extremist groups prefer for ensuring the financial support. According to experts, Al-Qaeda, Hezbollah, Chechen separatists, ethnic Albanian and Northern Ireland paramilitary groups have made substantial profits from the production or sale of the counterfeit goods, including CDs, DVDs, clothing, software or cigarettes.[8] Since July 2003, The General Secretary of Interpol, Ronald K. Noble warned the responsible agencies in combating terrorism on an increasing trend concerning the extremist groups financing through the counterfeiting activities. The official argues that the authorities have to improve the existing measures and as well as become more active in counterring terrorism and in particular in diminishing the extremist groups interest in raising funds through the production or sale of the counterfeit commodities. [9]

Based on the existing data, a study of Carratu International has warned the British consumers purchasing counterfeit goods on Internet sites that they may indirectly contribute to financing the extremist organizations Al-Qaeda, ETA, Hezbollah and the IRA. [10] The link between the extremist groups founding and the counterfeiting is highlighted in the literature under the following circumstances: [11]

- either as a direct involvement where the extremist groups based or operating in Europe are engaged in manufacturing, distribution or sale of the counterfeit goods, raising a significant percentage from carrying out such illegal transactions. This is the case of paramilitary groups in Northern Ireland, which monitor or even invest in the production of the counterfeit goods or charge fees for selling these commodities on certain markets they control. Thus, the profit is raised by engaging in various stages of the infringement.
- either as an indirect involvement, when the funds raised by the extremist organizations come from the sympathizers engaged in such illegal activities, as it is the case of Hezbollah group. [12] The Lebanese Shiite movement is engaged mainly in distribution and sale of the counterfeit goods and to a lesser extent in the production area.

2.1. Hezbollah

Funds generated from the counterfeiting activities are raised by the Hezbollah members using different methods:[13]

- the production of counterfeit commodities to finance their own operations. With this regard, the literature highlighted the case of a person detained in February 2002, accused of selling pirated CDs and using the proceeds to finance the extremist Lebanese group. On this occasion, several CDs containing images and also short films with terrorist attacks and interviews with suicide bombers were used for propaganda having as main purpose raising funds.
- the sale of counterfeit products manufactured in Europe on a free trade zone in North America with the involvement of the organized crime networks and the sympathizers of Hezbollah. Subsequently, the commodities are illegally sold in a third country to avoid import duties, while a certain percentage of the proceeds returns to Lebanese extremist group.

2.2. Irish paramilitary groups

Since the 90s, the authorities in Northern Ireland have confiscated thousands of counterfeit audio and video cassettes, the paramilitary groups raising a considerable profit. The pharmaceutical market offers similar opportunities generating high incomes from the sale of counterfeit drugs. According to a Report of Global Options [14] the Irish Republican Army has fraudulently produced a medicine called Ivomec in order to raise funds for purchasing arms. The laboratory used to manufacture fake Ivomec was in Florida while the false labels were printed on a farm in Northern Ireland.[15] Trafficking in counterfeit cigarettes in Belfast played an important role among the extremist groups funding sources. However, when consider the underground nature of these activities, profit raised by the extremist entities can not be assessed accurately. [16]

In 2002, the authorities in Northern Ireland have seized counterfeit commodities estimated at 11 million dollars and according to data provided, the paramilitary groups were involved in the region by controlling the illegal markets where the commodities were sold. Authorities in Northern Ireland argue that the paramilitary groups charge organized crime networks a 80% from the counterfeiting activities. In this respect, the commodities most frequently seized were the DVDs. [17] Irish paramilitary groups made significant profits from the illegal activities carry on the European underground markets, such as the cigarettes, alcohol and the fuel smuggling or drug trafficking.[18]

Among other illegal activities, the Provisional IRA raises a significant income from the counterfeiting of different commodities (e.g. CDs, DVDs, MP 3, clothes or perfumes). The experts estimate that only video piracy provides the paramilitary group a profit of over 1.5 million dollars annually.[19,20]

Table 1 - Irish paramilitary groups and the capacity of financing

Irish paramilitary groups	Capacity of financing (per year)
Provisional IRA (PIRA)	£5–8 million
Real IRA (RIRA)	£5 million
UDA	£500,000–1 million

UVF	£1.5 million
LVF	£2 million
INLA	£500,000

Source: Police Service of Northern Ireland estimates, 2003, Table adapted from Gregory F. Treverton et al., Film Piracy, *Organized Crime and Terrorism*.

2.3. Al-Qaeda

Investigation of a case concerning a cargo of counterfeit commodities coming from Dubai, with destination Copenhagen revealed an indirect involvement of Al-Qaeda cells in the sale of those goods for raising a profit. According to this case, Danish customs authorities seized a container with fake shampoos, creams and perfumes whose sender was a member of the Al Qaeda terrorist group. The investigation gathered at that time, authorities from Denmark, Great Britain as well as the USA.[21]

3. Conclusion

The international articles and studies on the underground economy offers no substantial evidence in establishing the characteristics and dimensions of the counterfeiting, while in Romania, as an European Union member state, the literature is virtually nonexistent. In this respect, we consider the authorities and the research institutes should deeply involve in identifying the general coordinates that govern the activities carried on these illegal markets, analyzing the dynamics of counterfeiting in Europe and worldwide, the mechanisms and the volume of financial flows, as well as stressing the association of these markets with the financing of the Europe-based and operating extremist groups.

Counterfeiting lead to economic and social disruption, unless it will be addressed and the necessary countermeasures will be included in the decision-making of the EU member states. Sale, distribution and production of the counterfeit goods deprives the legitimate economies of the significant revenues generated from taxes and duties leading at the same time to lower investments, job losses and economic decline. Another worrying trends are the prevalence of dangerous commodities of dubious quality with negative repercussions on public health as well as association of the extremist groups with the counterfeiting activities in Europe.

In recent years, the experts claimed that interactions between extremist groups and the organized crime networks are increasing. If true, expanded links between criminal and extremist groups could increase states vulnerability affecting the global economy and undermining international commerce and rule of law. [22] Concerning counterfeiting, we appreciate that as long as the risks involved are low and the profits are high, this illegal activity will remain for many people a rational choice.

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