

432,000,000

432 million internet users regularly pirate content



12%

Up to 12% of global tobacco sales are estimated to be illegal and, at nearly 40% of market share, Malaysia has the highest volume of illegal cigarettes in the world



BETTING ON BLACK

The international black market is costing legitimate businesses billions each year. Iwona Tokc-Wilde explores the most threatened sectors and the crime hotspots

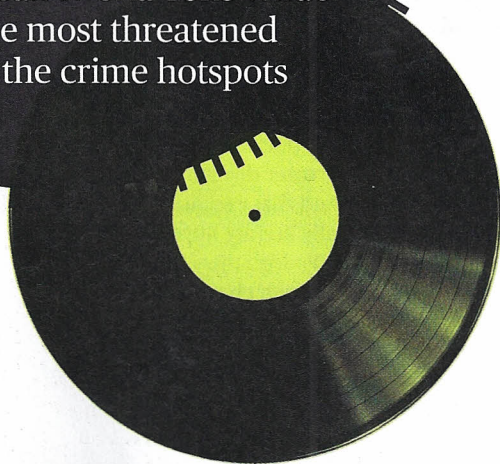
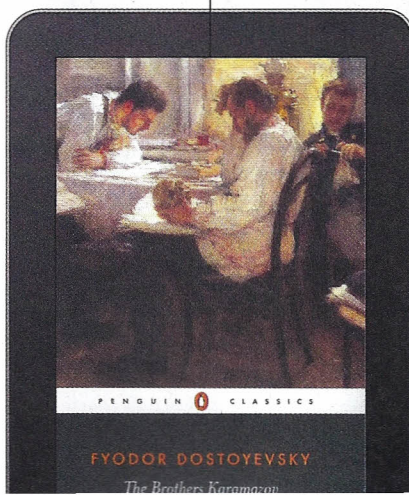


20%

Up to 20% of wine sold worldwide may also be counterfeit

95%

Online literary piracy is rampant in Russia – its largest publishing house Eksmo estimates up to 95% of all downloads of ebooks are pirate copies



\$75bn

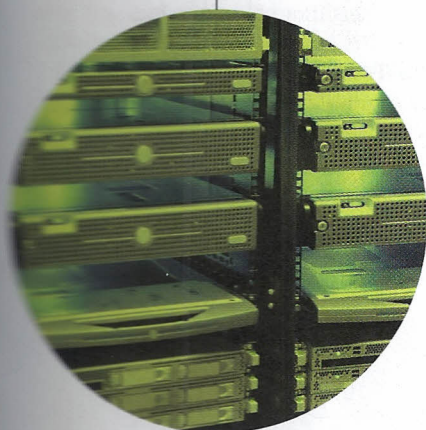
The cost to the music, film and software industries is estimated at \$75bn per year



The American \$100 bill is the most counterfeited in the world

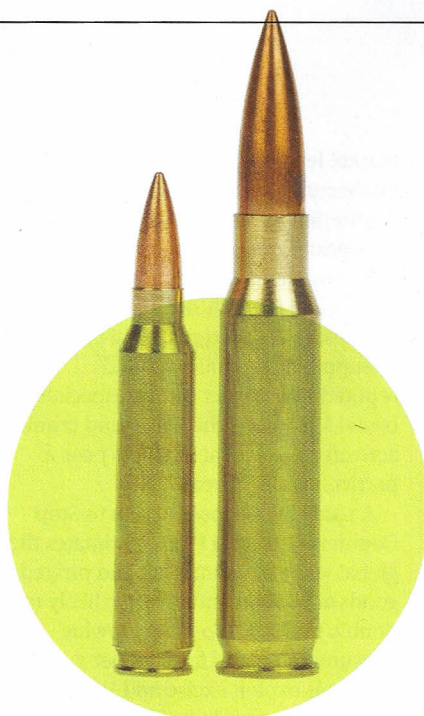
24%

The amount of bandwidth used for copyright infringement is up by nearly 160% from 2010, accounting for 24% of total internet bandwidth



\$3trn

Between \$2trn and \$3trn is laundered around the world each year



72

Irrespective of industry, Latin America is a kidnapping hotspot. Mexico, with its reported 72 kidnappings a day mostly driven by the narco-drug wars, is interchangeable with Nigeria as the number one and two most dangerous places in the world for kidnappings

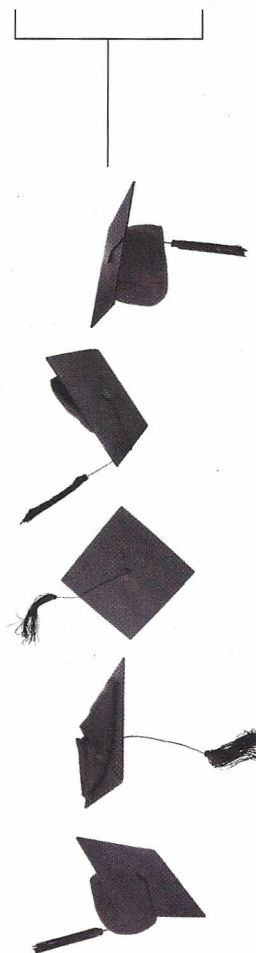


\$413m

Pirates off the coast of Somalia and the Horn of Africa hijacked 179 ships and took between \$339m and \$413m in ransom in the past seven years. Because of its burgeoning oil and gas fields and lack of anti-piracy policies, the hotspot has moved to the west coast of Africa, with 58 incidents off the Gulf of Guinea in 2012. 80% of the vessels in the Indian Ocean are putting armed private security on board, something that isn't allowed in the Gulf of Guinea

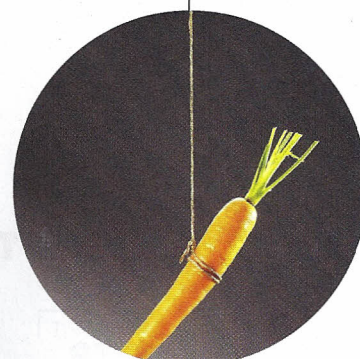
1% to 3%

of degree-verifying inquiries at Bangalore University in India are bogus. They receive more than 20 a day



14%

In 2013, 14% of companies fell victim to corruption and bribery



While the world's legitimate economies face a long route to recovery, the global black market, with its estimated value of \$1.77trn, is booming. In Britain, it accounts for about 10% of GDP, or more than £150bn per year. It makes up about 14% of the economic output in the Nordic countries and between 20 to 30% in Spain, Italy and Greece, according to research by the Institute of Economic Affairs.

Worldwide, globalisation and the internet have taken the black market from small, local schemes to sophisticated international networks, some of which are very successful in evading the authorities. One infamous example is Silk Road, the online marketplace for counterfeit and illegal goods and services of all kinds - the use of specialised software and virtual currency Bitcoin make its 900,000 registered users impossible to trace. With such platforms, it is a game of cat and mouse, says John Illsley, valuation director at brand consultancy Intangible Business: "The authorities spend months investigating and shutting down networks, only for them to reappear in a more secure and more underground form a little later."

For legitimate businesses, the black

market leads to loss of reputation, intellectual property and revenues. Take counterfeit products as an example: the European Commission estimates the collective damage to legitimate suppliers at between €5bn-€10bn each year. For businesses with international customers or suppliers, the financial and reputational impact can be especially brutal as some of the illegal and criminal activities and global hotspots pose a particularly big threat.

A study by Business Action to Stop Counterfeiting and Piracy estimates the global value of counterfeit and pirated goods at \$650bn and says it is likely to double by 2015. "To meet growing consumer demand for cheaper goods, criminals exploit excise and VAT tax rates by smuggling products from low to high tax jurisdictions, taking advantage of weaknesses in enforcement and border control," says Illsley. "Technological advances have facilitated better copies too, ranging from alcohol to clothing to pharmaceuticals."

Cigarettes and alcohol are among the most popular illicit goods, both in terms of counterfeit production and smuggling. Up to 12% of global tobacco sales are estimated to be illegal and, at nearly 40% of market share, Malaysia has the highest volume of illegal cigarettes in the world. Up

to 20% of wine sold worldwide may also be counterfeit. But no product is immune. "From fake condoms to fake aircraft parts, if it can be faked, the odds are it has been," says Mark James from PwC's anti-counterfeiting team. Cybersquatting - using a domain name that sounds similar to a widely-known company to sell knock-off goods - costs trademark holders over \$1m per brand, per year, according to research by brand protection firm NetNames.

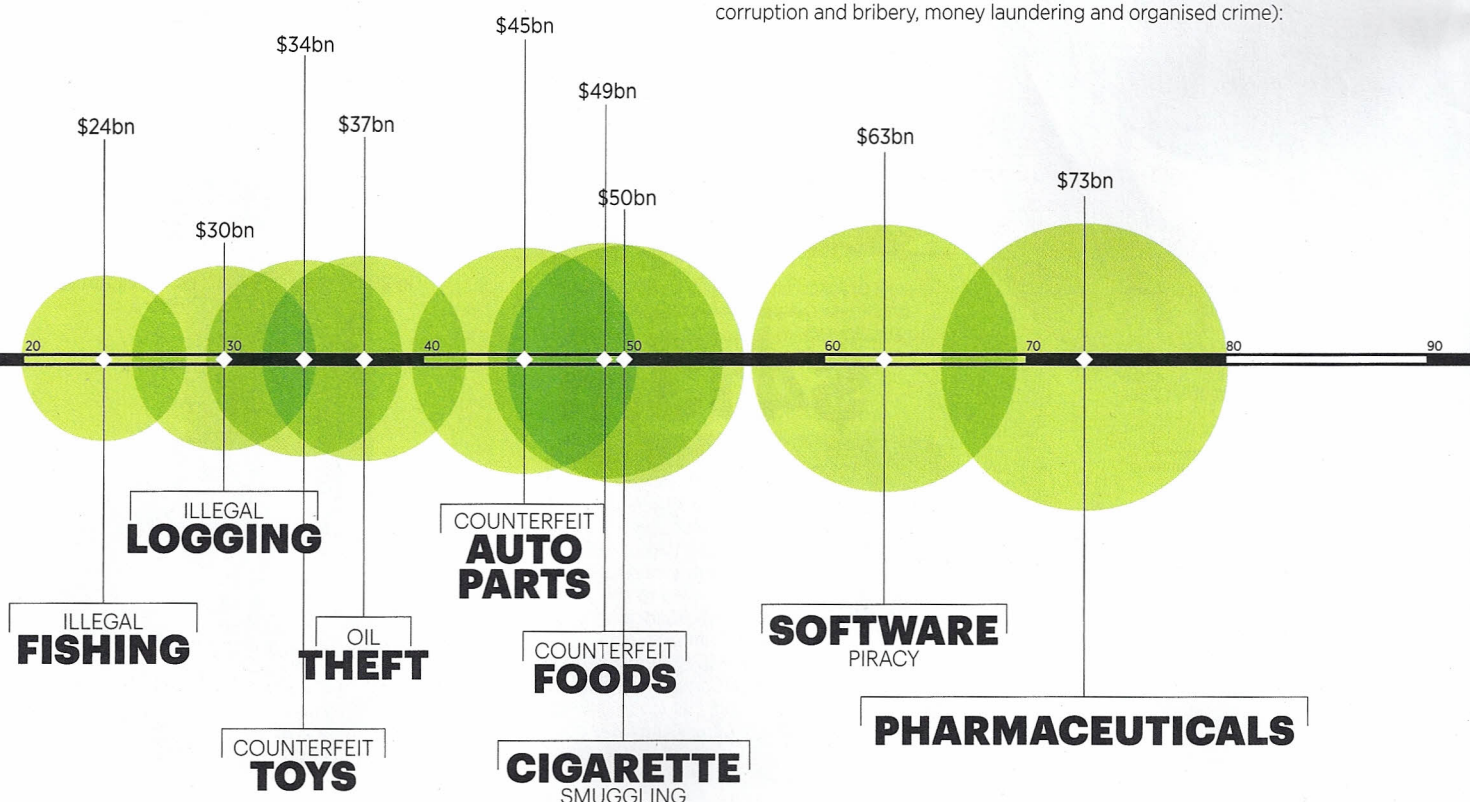
Nearly 70% of all fake goods seized worldwide from 2008 to 2010 came from China, according to the World Customs Organization. "Emerging market economies such as China and India frequently mean cheap labour, so both legitimate and illegitimate producers choose to centre production there," says James. These are also the markets where the real thing is out of ordinary citizens' reach, so these countries are among the most prolific consumers of counterfeit products, too. "Where no one has a Louis Vuitton suitcase, the man with a fake Louis Vuitton suitcase is king - provenance is less highly valued than the existence of the 'thing'," says Matt Potter, black market analyst and author of Outlaws Inc.

FORGERY

As for counterfeit and black market currency, the American \$100 bill is the

BLACK ECONOMY

Estimated global black market value by product and activity (excluding corruption and bribery, money laundering and organised crime):



most counterfeited in the world, despite also being the most difficult to fake. Black markets for US dollars will thrive anywhere unstable with local currency in crisis, for example Egypt and Iraq, says Potter. "Foreign corporates that operate in such markets need some guarantee that what they're getting paid in is usable," he says. "Suddenly, in Iraq for example, they may have to face a choice of either getting paid in something worthless or accepting American dollars, which would be illegal but they may feel they have no option."

Despite the efforts of the entertainment industry, the volume of pirated movies, music, books and video games online continues to grow. The amount of bandwidth used for copyright infringement is up by nearly 160% from 2010, accounting for 24% of total internet bandwidth, according to a study from NetNames. The study also estimates that 432 million internet users regularly pirate content, mostly in North America, Europe and Asia-Pacific (327 million), that 42% of all software has been downloaded illegally and that there are 53 billion visits to Pirate Bay and other illegal file sharing sites each year. The annual cost to the music, film and software industries is estimated at \$75bn.

In Europe, Spanish people click on illegal downloading sites 230% more than the Germans, with the Italians coming

Eksmo estimates up to 95% of all downloads of ebooks are pirate copies

next at 134% more, according to a study by the European Commission Joint Research Centre. In the UK, the lowest incidence of illegal downloads is among online book consumers (9% of all ebook downloads), according to a study commissioned by Ofcom. By contrast, online literary piracy is rampant in Russia - its largest publishing house Eksmo estimates up to 95% of all downloads of ebooks are pirate copies.

BRIBERY AND CORRUPTION

"An entire industry has emerged dedicated to fighting digital piracy,

focusing on protecting files, intellectual property and user security," says Illsley. Search engines routinely receive Digital Millennium Copyright Act takedown requests for specific domain names, but now some countries have decided to take things to the next level. In a landmark ruling of 2013, the High Court of Paris ordered Google, Microsoft/Bing and Yahoo to remove certain video piracy websites from their search results, covering all versions of the search engines, not just their French counterparts.

According to the 2013/2014 *Global Fraud Report* from risk consulting firm Kroll, 14% of companies fell victim to corruption and bribery in 2013, while the World Economic Forum estimates that corruption adds up to 10% to the total cost of doing business globally and up to 25% to the cost of procurement contracts in developing countries. The annual Corruption Risk Index (CRI) from global risk analytics company Maplecroft lists DR Congo, Somalia, Myanmar, Sudan, Zimbabwe, Equatorial Guinea, Guinea, North Korea, Cambodia and Venezuela as the 10 most corrupt countries in the world. "The Transparency International Bribe Payers' Index looks at the supply side of corruption or the likelihood that firms from industrialised countries will pay bribes to win business abroad," adds

At a glance

The global black market, worth \$1.77trn a year, is booming - with globalisation and the internet creating highly sophisticated international networks.

From counterfeit goods and money laundering, through corruption and bribery to the growth of hijacking and kidnap, the shadow economy is booming.

While anti-corruption laws are in place across the world, implementation and enforcement remains weak, particularly in emerging economies.

\$169bn

COUNTERFEIT
ELECTRONICS

Steve Caine, director of fraud investigations and disputes at EY. "Of the 28 leading economies included in the most recent index, China and Russia were ranked 27th and 28th respectively, ie the most likely to pay bribes."

Although anti-corruption laws are in place in all the BRIC economies, Maplecroft's analysis finds implementation and enforcement remain weak. As a result, there has been no improvement in the rankings of the BRICs in the CRI for four years. Russia (25th from bottom) and India (69th) remain categorised as extreme risk, while Brazil stays high risk (90th). China dropped from 88th in 2012 to 75th in 2013, within the high risk category.

Global brands operating in the BRICs are exposed to high risk of complicity when conducting business with government officials and local partners and risk potential legal repercussions under extraterritorial anti-corruption legislation such as the UK Bribery Act. "That bribery is still considered acceptable in many parts of the global market is an unfortunate fact," says Caine. "But UK businesses need to be clear on one fundamental principle of the Bribery Act: it's the expected standard of behaviour in the UK - and not in any foreign country - against which behaviour is judged, making accepted local practices irrelevant."

MONEY LAUNDERING

In 2012, the International Monetary Fund and the World Bank estimated that between \$2trn and \$3trn is laundered around the world each year, up from previously reported estimates of between \$600bn and \$1.5trn. According to the inter-governmental body Financial Action Task Force, the two highest risk jurisdictions are Iran and North Korea, followed by Algeria, Ecuador, Ethiopia, Indonesia, Kenya, Myanmar, Pakistan, Syria, Tanzania, Turkey and Yemen. "However, the West isn't immune - the US and UK are particular financial crime hotspots because of their huge financial centres," says Jim Oakes, director of financial crime at Wynnard Group.

Money laundering is directly related to financing of terrorism as the techniques used to launder money are similar to those used to conceal the sources of, and uses for, terrorist financing. In the UK, the Consultative Committee of Accountancy Bodies' (CCAB) anti-money laundering guidance is the authoritative guidance by which accountants may be judged, ultimately by disciplinary tribunals and the courts of law. "The guidance has



Maplecroft lists DR Congo, Somalia, Myanmar, Sudan, Zimbabwe, Equatorial Guinea, Guinea, North Korea, Cambodia and Venezuela as the 10 most corrupt countries in the world

positive impact on countering the financing of terrorism," says Elizabeth Higgs, integrity and law manager at ICAEW: "It's all-embracing, accessible to large and small firms alike and it has commonality across ICAEW, ACCA, CIPFA, ICAI and ICAS."

Higgs confirms the CCAB guidance is being reviewed at the moment for the directive and will be republished when the EU fourth Money Laundering Directive is brought into force.

Another type of white-collar crime on the rise is fake official documents such as IDs and diplomas. "It started with the mass production of degrees from American universities and has spread to most countries with a high proportion of graduates - and to a wider range of documentation, from passports through to payslips," says Oakes. Bangalore University in India, for example, receives more than 20 degree-verifying inquiries a day and finds 1% to 3% are bogus. "More and more people are trying to gain employment in India under false identities too," Oakes adds.

Pirates off the coast of Somalia and the Horn of Africa hijacked 179 ships and took between \$339m and \$413m in ransom in the past seven years, according to *Pirate Trails*, a report by the United Nations Office on Drugs and Crime, the World Bank and Interpol. With added insurance, legal and processing costs, the total cost to the shipping companies could be \$1bn plus.

Somalia, however, is no longer the

global piracy hotspot - the International Maritime Bureau (IMB) reported that hijackings off its coast fell by half in 2012 compared with 2011, with only 14 ships successfully boarded. Because of its burgeoning oil and gas fields and lack of anti-piracy policies, the hotspot has moved to the west coast of Africa, with 58 incidents off the Gulf of Guinea in 2012.

"There has been a 7% increase in attacks in this area in the first six months of 2013 too, compared with the same period in 2012," says Phillip Cable, CEO of Maritime Asset Security and Training (MAST). Current estimates are that pirate attacks in West Africa could double in 2014. "We are also on high alert in the Gulf of Oman and there have been some recent attacks in the Strait of Malacca in South-East Asia," adds Cable.

The Indian Ocean, on the other hand, has not seen a successful hijack in 2013, says Ashley Coles, Kidnap and Ransom expert at JLT Specialty. "That's as a result of 80% of the vessels in the Indian Ocean putting armed private security on board, something that isn't allowed in the Gulf of Guinea - you can employ the Nigerian navy, but we've heard conflicting reports on the quality of the security provided."

Coles says the attacks in the Gulf of Guinea tend to be quick, smash and grab attacks, lasting no longer than a day or two, rather than long-term hijackings for ransom. "Although crew get kidnapped onto land as well and we may see more of this. It's much easier to hide people in the Niger Delta than to hide an oil tanker off the coast of Nigeria," he says.

KIDNAPPING COSTS

As for the industry suffering the most kidnaps in the world, it is oil and gas, says Coles. "A lot of these kidnappings happen in Nigeria, in Northern Africa and in the Sahel belt region in central Africa where jihadist group AQIM (al-Qaeda in the Islamic Maghreb) operates with impunity." Irrespective of industry, Latin America is another kidnapping hotspot. "Mexico, with its reported 72 kidnappings a day mostly driven by the narco-drug wars, is interchangeable with Nigeria as the number one and two most dangerous places in the world for kidnappings," says Coles. "The risk then extends down into Honduras and into Venezuela - probably one of the most high-risk territories in Latin America at the moment," he adds. Elsewhere, Coles confirms kidnapping goes hand in hand with socio-economic problems and conflict zones, so Iraq, Afghanistan, Syria and Yemen are also currently high risk. ■