

**Transnational
Organized Crime**
**An Economic Security Threat
in the Baltic Sea Region**

Konrad Raczkowski

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Abbreviations

CBR	The Central Bank of the Russian Federation
CDS	Credit Default Swap
ECU	European Currency Unit
EJN	European Judicial Network
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESW	European Monetary System
EU	European Union
EUR	Euro, the official currency of the Eurozone
Eurojust	European Juridical Cooperation Unit
Europol	The European Police Office
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigations
FCIS	Financial Crime Investigation Service
FDI	Foreign direct investment
FLOAT	Floating Exchange Rate System
FNS	Federal Tax Service
GATS	The General Agreement on Trade in Services
GDP	Gross Domestic Product
IBRD	The International Bank for Reconstruction and Development
IMF	International Monetary Fund
JAF	Jednostka Analityki Finansowej – Financial Intelligence Unit
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NATO	The North Atlantic Treaty Organization
NRD	Deutsche Demokratische Republik
OECD	Organisation for Economic Co-operation and Development
OEEC	Organization for European Economic Co-operation
OLAF	European Anti-Fraud Office
SFSA	Swedish Financial Supervisory Authority
SKOK	National Association of Cooperative Savings and Credit Unions

SWOT	Strengths, Weaknesses, Opportunities, and Threats
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USD	US dollar
VASAB	Vision and Strategies around the Baltic Sea
VAT	Value Added Tax
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Introduction

At the beginning of the 21st century the world encountered a new type of threat, extraordinary both in scale and effect. Terrorist actions were unprecedented in their scale and have altered perceptions of global terrorism (September 11, 2001). An expansion of organized crime further fuelled by the worldwide economic crisis in 2007–08, triggered by the high risk U.S. mortgage loan market, were all factors in raising awareness of an uncertain and unpredictable future. The addition of catastrophic natural disasters in India, Thailand, Somalia, Sri Lanka, Indonesia, Pakistan, China¹ as well as natural disasters on a more localized scale such as fires, flooding, technical breakdowns or effects of the ash cloud from the Icelandic volcano Eyjafjallajökull which in 2010 disrupted European and transcontinental air travel, may lead us to the assumption that our world is no longer a safe place.

Meanwhile, pressure is mounting from related discussions for a redefinition of organized crime and penalizing actions on the fringes of legality which have a destructive impact on individuals or society as a whole. At this time of crisis it is particularly worthwhile to reflect over whether pushing many companies to the verge of bankruptcy while tightening criteria for loans affords new opportunities for embezzlement, money laundering and consequently legalizing capital coming from undisclosed sources of income. As set forth by the Italian President Giorgio Napolitano, there is a risk that mafia organizations will avail themselves of opportunities afforded by the current crisis, resulting in their taking control of companies under threat of bankruptcy, which will lead to their presence in all regions of the country.²

It seems necessary now, more than ever before, to reconstruct the financial system in the public sphere and also within individual households while supervising all the incoming assets, at both domestic and international levels. In most cases the impersonal nature of the financial market appear to have brought about irretrievable changes that significantly influenced the daily life and operations of many people, companies, institutions and states.

¹ As a result of catastrophic natural disasters (above 10,000 people) in 2004–08 over 300,000 people died.

² Speech by President Giorgio Napolitano, Police News, Rome, May 8, 2009.

If we add the fact that in Greece, among other countries, the data concerning the budget deficit presented to Brussels and potential purchasers of Greek debt were incorrect, the whole sequence of events following the disclosure of the scale of financial irregularities seen under the government of Kostas Karamanlis are hardly surprising.³

It is therefore key to address the threats to economic safety where moral and ethical standards fell apart and an undefined speculative capital from supranational capital groups ravaged investors on a large scale. For this reason it is relevant to consider the understanding of traditional criminal groups as well as attempting to answer whether consent to organized operations of financial groups in an incompletely specified system of international law may have features of organized crime and therefore may be seen as criminal.

This report is an attempt to outline certain economic conditions which may determine speculative or criminal activity in this field. This factor seems to be crucial as most citizens of developed countries even do not entirely comprehend this mechanism and the reasons behind its efficiency.

In this respect a significant part of this report is devoted to elucidate the foundation for contemporary economic conditions in the global system. The analysis is intended to make the reader aware of how far these conditions may determine organized criminal activity or contribute to forming organized activity of a culpable nature, constituting social harm of a scope permitted by law but nevertheless not negligible.

³ The situation in Greece shows the behavioral patterns of the government under Kostas Karamanlis in concealing fiscal information; in October 2009 the Greek government announced that the budget deficit for 2009 would constitute 6% of GDP. Not even a month later the new Prime Minister Giorgios Papandreou stated that the budget deficit was going to reach 12.7% of GDP (that is, more than four times the established criteria in Maastricht). It is predicted that Greek public debt at the end of 2010 may attain 124% of GDP. From the perspective of good governance, morality, ethics and shaping proper attitudes it is worrisome that no Greek politician in recent years has been punished for owning companies in so-called tax havens or for moving undisclosed proceeds out of the country (in spite of obvious evidence).

The Challenges For Security in Today's World of Global Connectivity

The word "security" will generate millions of hits in popular search engines. Undoubtedly security meant different things in earlier times than today. The perception of security is subject to the specialized fields in which it appears (social, economic, political security, etc.), the area of interest (individual, local, regional, international) or the relation towards the state (domestic, external).

Another proposal for organizing the term security with regard to definition contains four categories:

- a. Objective – individual, national, international, global;
- b. Subjective – values, means and tools, national activity;
- c. Procedural – politics, strategies and correlations;
- d. Structural-executive – institutions, organizations, actions.⁴

An interest in security itself, construed as a lack of threats, may be traced in the works of numerous renowned authors, who focused on initially distant scientific areas; such Alvin Toffler, holistic concept of the world; Samuel Huntington, political historical-sociological prism; Francis Fukuyama, futuristic vision of the world in a great upheaval of social transformations, Gary S. Becker; particularly with regard to the economic theory of human behavior, including a theory of crime, or Peter F. Drucker; principles of management in an ever changing world.⁵

⁴ Eugeniusz Nowak, "Bezpieczeństwo narodowe – istota, zakres uwarunkowania" [National security – Essence, range, conditions], in Tadeusz Jemiolo and Kazimierz Rajchel, *Bezpieczeństwo narodowe i zarządzanie kryzysowe w Polsce w XXI wieku – wyzwania i dylemat* [National security and management of crisis in Poland in the 21st century – Challenges and dilemmas] (Warsaw: Wyższa Szkoła Informatyki, Zarządzania i Administracji, 2008), p. 68.

⁵ See Peter F. Drucker, *Management Challenges for the 21st Century* (New York: HarperCollins, 1999); Francis Fukuyama, *The Great Disruption: Human Nature and the Reconstitution of Social Order* (New York: Free Press, 1999); Samuel P. Huntington, *The Clash of*

The second part of a report prepared for the UN, *A more secure world: Our shared responsibility*, is entitled “Collective security and the challenge of prevention” and specifies the following threats facing the contemporary world:

- Poverty, infectious disease and environmental degradation;
- Conflict between and within states;
- Nuclear, radiological, chemical and biological weapons;
- Terrorism;
- Transnational organized crime.⁶

At the same time a report issued by NATO is laying out the crucial elements of security in the 21st century and stresses that:

- Current response to threats is not relevant to the scale of the threats;
- New strategic approach is required to respond to new challenges (as the previous horizons of thought about the future are insufficient);
- Current operating state mechanisms are inadequate against threats of a novel nature;
- National states and organizations based on consensus are incapable of defense;
- It is necessary to act collectively not individually and separately against systemic challenges;
- Anticipatory and preventive activities should supplant reactive methods.⁷

Civilizations and the Remaking of World Order (New York: Simon & Schuster, 1996).

⁶ *A more secure world: Our shared responsibility*, Report of the Secretary General’s High-Level Panel on Threats, Challenges and Change (New York: United Nations Department of Public Information, 2004), pp. 21–176.

⁷ Robert Hall and Carl Fox, “Rethinking Security,” *NATO Review*, Vol. 49, No. 4 (Winter 2001), pp. 8–11.

It seems that by staving off the specter of global military conflict during the Cold War era the world now faces the problem of non-military threats, both economic and non-economic. These include the civilizational-economic development (developing disparities), economic correlations, religious influences and conflicts, lack of respect for other persons, shortage of natural resources, degradation of environment or environmental catastrophes resulting from conscious human interference, and force of nature.⁸

The first decade of the 21st century has definitely revised the meaning of the term security. New types of terrorist assaults of unprecedented scale took place and a new perception of activities conducted by organized criminal groups began to prevail. Geographic distances ceased to exist and the possibilities of indoctrination by means of financial resources or forced persuasion may now refer to individuals as well as a social community on the national or international level.

Nowadays the identification of threats may itself pose a problem, not to mention taking effective preventive steps. Unless a person interested in another perception of the same time scale approves a specific theory of relativity which affirms the view that the time is subject to the spectator, it may thus be different for various spectators. It is the same in the case of measuring the speed of motor movements, these are calculated by: time of reaction, time of simple movement and frequency of cyclic movements. Taking into account an entity, people or groups of people, operating on the verge of the law (or beyond its constraints) and guardians of the law, for both groups these three components will be the same, yet the goals of their actions and interpretation of time will differ.

Time of reaction (t₁) is the time that elapses from operating the stimulus until the start of a reaction by the entity combating the threat.

Time of simple movement (t₂) may reflect the speed which is necessary to carry out planned actions by a certain entity in a given sector or branch. The time is subject to the magnitude and quantity of obstacles, planned

⁸ Not fully secured human interference into deposits of natural resources probably caused the worst ecological catastrophe in history. On April 22, 2010 an oil drilling rig, belonging to the third largest petroleum company in the world, BP, exploded in the Gulf of Mexico. According to various estimates about 3.4 million gallons of oil spilt into the Gulf in every day. Damage was so extensive that despite concentrated efforts, it also devastated coastlines in Florida. See "Gulf of Mexico Oil Catastrophe Worst in History & What to Do Instead," ISIS Report, June 2, 2010, <http://www.isis.org.uk/gulfOilCatastrophe.php>

or random, which are supposed to be overcome by the entity making a movement.

Frequency of movements (t3) is dependent on the size of the entity and its efficiency; that is, the efficiency of all units and entities cooperating in its favor or cooperating with it. A key element in this process is relevant and competent management adapted to unpredictable reactions related to the entity (including those intentionally disturbing the operations). An action is hard to duplicate in the long term due to necessity to diversify the involvement of participating entities and to cover the traces of accomplished actions.

Time, may over the long term, diffuse the threat, avoiding causative responsibility, while obliterating, passing or preserving certain relations. Assuming that the crux of globalization is the ever growing interdependence of countries, regions, societies, cultures or economies in the name of one integrated world community, time may be a constructive factor in terms of positive as well as negative aspects. It depends on the extent of disruption of globalization and within what time frame it is able to cope.

To comprehend globalization itself and opportunities to define factors of possible threats to security, it seems necessary to discover if a given country, region or society is integrated into the global community to a lesser or greater extent.

A contemporary measure of globalization is based on two quantitative factors. The first one is developed by UNCTAD.⁹ It defines globalization as the transnationality index and is based on four variables:

- Inflows of foreign direct investment (FDI) as a percentage of gross fixed capital formation in a given year or period;
- Foreign direct investments as a percentage of GDP from a given year or period;

⁹ The ranking of economies in accordance with a degree of globalization measured by the transnationality index, developed by UNCTAD, in 2002 included successively Ireland, Switzerland and Singapore as the most internationalized economies. See United Nations Conference on Trade and Development, *World Investment Report 2005* (New York and Geneva: United Nations, 2005), p. 37, and Elżbieta Jantoni-Drozdowska, "Globalizacja gospodarki i finansów" [Globalization of economy and finances], in Elżbieta Jantoni-Drozdowska, *Globalizacja, wyzwania dla zarządzania i ekonomii* [Globalization, challenges to management and economy] (Poznań: Ars boni et aequi, 2008), pp. 29–33.

- Value added by foreign affiliates as a percentage of GDP from a given year or period;
- Employment of foreign affiliates as a percentage of total employment from a given year or period.

Another measurement of globalization levels for particular economies is the Globalization Index that tracks and assesses changes in four components of global integration. This index was developed by the U.S. consulting company A. T. Kearney and incorporates measures such as:

- Integration level of economic area in relation to trade connection with foreign markets, foreign receivables and liabilities, capital flows in the form of direct and portfolio foreign investments,
- Degree of technological advance measured by the number of Internet users, places and safe Internet servers,
- Scale of international personal relations calculated on the basis of international travels (including tourism) and international phone calls,
- Extent of political involvement conducted on the basis of identifying the number of countries being a member of a given international organization, engagement into mission of the UN Security Council as well as number of diplomatic representations operating in the given country.¹⁰

Joseph E. Stiglitz, awarded the Nobel Prize in Economics, holds that globalization is an issue that needs to be reconsidered. He acknowledges that globalization may have a destructive affect on developing countries, especially the poorest ones. Yet he is convinced that globalization will eradicate barriers hampering free trade and close economic integration on the international scale may improve the situation of all people worldwide, in particular those living in poverty.¹¹

¹⁰ Oded Shenkar & Yadong Luo, *International Business* (New York: Wiley, 2004), pp. 2-3.

¹¹ Joseph E. Stiglitz, *Globalizacja* [Globalization and its discontents] (Warsaw: PWN, 2004), p. 7.

From the perspective of the challenges to security in the contemporary world of global interconnections, the international organizations that must certainly attempt to positively affect the future of the world include:

- a. The World Trade Organization (WTO) with its seat in Geneva, serves as a major forum for liberalization of international trade within international economic policy. The structure of the WTO was founded on three multilateral pillars¹² which comprise a set of multilateral agreements within commodity trade, the General Agreement on Trade and Services (GATS), and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).
- b. The World Customs Organization (WCO) represents 174 states and is an international forum where representatives may address challenges and discussions within the scope of customs and trade policy. WCO is governed by a Council consisting of 24 members assisted by experts from the Finance Committee comprising a further 17 members.¹³
- c. The Organization for Economic Co-operation and Development (OECD) came into being as a result of transforming the Organization for European Economic Co-operation (OEEC), established in 1948, into a center designed to monitor and control economic processes (OECD).¹⁴
- d. The United Nations and its relevant agencies (International Monetary Fund, [IMF], International Bank for Reconstruction and Development, [IBRD], World Bank, World Intellectual Property Organization, [WIPO], United Nations Industrial Development Organization, [UNIDO]).

¹² See, Andrzej Drwiłło, *Procedury celne w świetle kodeksu celnego* [Customs procedures under the Civil Code] (Sopot 1999), pp. 49–50.

¹³ “History,” The World Customs Organization, http://www.wcoomd.org/home_about_us_auhistory.htm

¹⁴ Elżbieta Jantón-Drozdowska, *Regionalna integracja gospodarcza* [Regional economic integration] (Warsaw-Poznań 1998), p. 23.

Certainly there are few fully international organizations that have real potential in fostering beneficial and diminishing undesirable causative behavior. Significantly, their commitment appears to be extraordinarily crucial to safeguarding against all kinds of destabilization which may incite turmoil, crisis and disruption of public order – which could lead to war as a consequence.

International Financial Markets in Cross Border Movements of Capital

The progress of globalization has considerably affected the creation of a system of interconnected and liquid financial markets as an element of global worldwide economy.¹⁵ It implies that the domestic financial markets are increasingly affected by foreign investors and financial agents circulation of foreign assets as well as circumstances determining particular external markets.¹⁶ Investors, issuers, stock exchanges or financial institutions may gain facilitated access to a global capital market and prices will be decided based on supply and demand. Such a state may be reached due to possibilities of investment abroad by local participants in the market and opening domestic markets, including financial institutions, to foreign players.¹⁷ Behind the essential motives driving integration, there are many justifications to increase income through enhancing efficiency, lack of constraints in carrying out cross border transactions, the possibility to create economies of scale, decreasing transaction costs,¹⁸ reduction of risk related to allocation of capital, progress in the field of Information Technologies, extending the range of financial products and services, pressure from stockholders to boost company profitability and a systematic approach to the introduction of further liberalization and deregulation of financial markets.

According to Ross Levine, forces of international financial integration compels intensification of competitive activities on the markets of provided services and creation of financial instruments thus enhancing the efficiency of operating national financial systems and affecting economic growth.¹⁹

¹⁵ Andrzej Sławiński, "Rola inwestorów instytucjonalnych, banków i funduszy arbitrażowych w rozwoju globalnego rynku finansowego" [The role of institutional investors, banks and arbitrage funds in the development of the global financial market], *Zeszyty Naukowe Kolegium Gospodarki Światowej*, No. 21 (Warsaw: SGH, 2007), pp. 42–44.

¹⁶ Ryszard Michalski, *Finanse Międzynarodowe. Przewodnik programowy* [International finance: Program guide] (Warsaw: Wyższa Szkoła Ubezpieczeń i Bankowości, 2004), p. 11.

¹⁷ Alicia Garcia-Herrero and Philip Wooldridge, "Global and regional financial integration: Progress in emerging markets," *BIS Quarterly Review*, September 2007, p. 58.

¹⁸ For a similar stance, see Ruben Lee, *Promoting Regional Capital Market Integration*. Report for the Inter American Development Bank, Washington 2000, pp. 1-2.

¹⁹ Ross Levine, "International Financial Liberalization and Economic Growth," *Review*

Yet, this thesis, particularly with regard to the relationship between economic growth and financial integration, is not unequivocally corroborated in the body of literature, notably in relation to less developed countries. Furthermore, challenges are created by the impossibility of finding an objective and flexible measure for assessment of the occurrence of connections themselves as well as their impact; the available econometric models prevent the drawing of unequivocal conclusions on the basis of negligible changes taking place solely in the economy.

Therefore while assessing the global financial markets from an overall perspective the following factors must be taken into consideration:

- The relation between foreign financial assets of residents and domestic financial assets of non-residents against GDP;
- Share of cross border trade on particular markets;
- Degree of correlation of volatility in assets on markets of particular countries.²⁰

Even though there is no empirical research regarding the correlation between economic growth and the level of financial globalization, proved in a statistically valid manner, it seems that the confirmed information in this context as to the structure of capital transfers indicate that there are benefits arising from financial globalization in developing countries, both on the micro and macro level. This situation becomes evident, especially in liberalization of equity securities.

It has been further revealed that ill-considered and hasty liberalization of financial markets in countries undergoing regime transformation without laying the foundations for a market economy and setting up an efficient financial sector may create a shock in a given country and moreover in extreme cases may result in recession and serious criminal abuses (which are at the same time difficult to prove in legal proceedings). On the other hand an opening to be properly implemented enables strengthening

of *International Economics*, Vol. 9, No. 4 (2001), pp. 688–702.

²⁰ Zdeněk Tuma, "Financial globalization and financial stability," *BIS Papers*, No. 32 (2006), p. 46.

of macroeconomic discipline, growth of foreign trade exchange or boosting economic efficiency.²¹

Banking experts and specialists dealing with capital markets predominantly agree that short-term movements of capital among developed countries play a significant role as they contribute to reducing risk and protecting investments. In this respect the stake of long-term saving deposits made by developed countries in countries with smaller capital resources is relatively lower. The character of contemporary capital transfers in international relations is also determined by the increasing share of direct foreign investments, made notably by multinational corporations.²²

In the first decade of the 21st century the level of global capital movements attained was the highest ever in history. Combining this with worldwide resources of foreign assets at the level of 80 percent of global GDP we come up with values which never before rose so rapidly and to such an extent. However, this was not always the case.

The process of money exchange began over 2000 years ago. Currencies used in those times, such as the Palestinian shekel or Roman denarius, needed to be exchangeable. Related to this is the fact that the Jewish under the protectorate and occupation of the Romans used their own coins which were exchangeable into denarii in a tax contribution.

In medieval times many merchants practiced usury. According to the Italian custom they sat on benches around the main square and conducted their business there. A contemporary reference to the bank as an enterprise specializing in, among other activities: approval of deposits, issue of money or granting loans originates from the Italian term *banco*, meaning a bench. It was Italian merchants who established the first banking house in London in the 12th century, which due to its poor operation was subsequently closed, yet the bank left a permanent mark not only on England but throughout Europe.

To understand the essence of contemporary financial markets both from the point of view of functioning as well as intervention, it is necessary to

²¹ See the authoritative stance of IMF, *Global Financial Stability Report* (Washington, DC: International Monetary Fund, 2007), p. 90; and Juliusz Kotyński, "Financial Globalization and Economic Growth of New European Member States," in Witold Małecki, ed., *Globalizacja rynków finansowych-implikacje dla Polski* [Globalization of Financial Markets: Implications for Poland] (Warsaw: Vizja Press & IT, 2007), p. 32.

²² Juliusz Kotyński, "Globalizacja finansowa a wzrost gospodarczy," p. 17.

depict the historical phases which shaped attitudes with regard to currencies and opportunities to create social security.

From the perspective of time it is noted that the international mobility of capital and financial opening has been estimated from the era of gold currency, against liquid exchange rates which successively included:

A system of fixed exchange rates (Gold Standard, 1880–1914) was established on the basis of the parity of gold.²³ At the turn of the 19th and 20th centuries the British pound (GBP), French franc and Indian rupee represented the most powerful currencies.²⁴ The system of gold currency was divided into two categories:

a) **The Gold Specie Standard** as a popular means of exchange and payment. Peculiar conditions from a contemporary view enabled anyone to melt gold for purposes other than monetary ones and anyone was able to demand the state mint to produce coins from the metal he provided himself. A central bank was obliged to trade gold (sale or purchase) without any quantity limitations and the liquidity of the currency was conditional on the production of gold. No restrictions were imposed on supply and export of gold.

b) **The Gold Bullion Standard** under which the metal itself (gold) served as a reservation asset as money actually in circulation was wholly or partially in the form of paper banknotes. A bank issuing money did not need to, and generally did not, possess full asset coverage in gold as not everybody required to convert paper money into gold at any given time.

An advantage of gold currency lay in a symmetry characterized by a lack of possibilities for arbitrarily fixing the value of major economic instruments. However, what constituted an advantage of the system was also a disadvantage as the pursuit of anti-recession policy was considerably restricted in the context of maintaining fixed exchange rates.

The Interwar Period (1918–44) was a period when money was created on a massive scale. It brought about differentiation of inflation levels in

²³ While the Gold Standard prevailed, a significant integrating alliance of financial markets was formed. An incentive driving this process was the laying, initiated several years before, of the transatlantic telegraph cable in 1866 connecting Great Britain and the United States and then in 1870 connecting Great Britain and India. See Janusz Bilski, *Międzynarodowy System Walutowy* [The international currency system] (Warsaw: PWE, 2006).

²⁴ Trevor J. O. Dick & John E. Floyd, "A Portfolio-Balance Model of the Gold Standard," in *Explorations in Economic History*, London 1991.

countries stricken with armed conflicts determining price relations. Implementing control over currency exchange at the beginning of the 1930s, inflation and devaluation exerted the most significant influence on rationing currency exchange. The Great Depression, between 1929 and 1933 resulted in massive unemployment in the whole worldwide economy and many countries began to pursue a policy of depleting their neighbor. Determined protectionist policies and a series of competitive devaluations marked the beginning of so-called customs wars which destabilized international trade.²⁵

The Bretton Woods System – the pegged rate currency regime (Bretton Woods, 1944–70) was approved by the Bretton Woods Agreement in 1944.²⁶ The architects of the system were the economists Harry Dexter White and John Maynard Keynes, who actually had opposing views that were convergent on key points. The system was designed to eliminate or reduce the risk of crisis cycles: devaluation – revaluation – inflation and was principally based on market mechanisms and private real estate while setting up minimal barriers for private movement of capital. The establishment of the International Monetary Fund (IMF) was intended to serve as one of the guarantees for the proper functioning of the above system; its tasks concerned making all currencies convertible, setting stable currency exchange rates

²⁵ In 1773 the British East India Company took control over export of opium from India to China. Destruction of British shipments of opium by the Chinese sparked the so called opium wars with punitive expeditions between Great Britain and China as well as Great Britain, France and China. See Konrad Raczkowski, *Narkotyki. Organizacja przestępczości i systemy przeciwdziałania* [Narcotics: Organization of crime and counteracting systems] (Warsaw: Wydawnictwa Akademickie i Profesjonalne, 2009), p. 15.

²⁶ The economists Michael Dooley, David Folkerts-Landau and Peter Garber presented an interesting concept of informal revival of the Bretton Woods system by laying out analogical mechanisms in the 21st century called Bretton Woods 2. They proved that the United States constitutes a kind of center around which periphery China and other Asian countries operate. The central system (center) is distinguished by a liquid dollar rate, absence of restrictions in capital movement and advanced financial markets. Whereas the periphery represents a strategy based on export, where exchange rate is under stringent supervision, it needs to be noted that a global development of peripheries may significantly affect global trends on financial markets and determine their structure. Not until peripheral countries reach a similar level to the center can they resign from a controlled currency regime in favour of liquid movements. Thus, it will be a global change which will give rise to establishing successive peripheral countries and new mechanisms for the financial system. See Krzysztof Rybiński, *Globalizacja w trzech odstępach, offshoring-globalne nierównowagi-polityka pieniężna* [Globalization in three scenarios: Offshoring, global inequalities, monetary policy] (Warsaw: Difin 2007), pp. 189–90.

with acceptable fluctuations of one percent and removing existing controls for currency exchange. Moreover, the International Bank for Reconstruction and Development (IBRD) was established. Striving for maximum benefits from international trade through withdrawal of protectionist barriers and through depreciation of currencies proved to be a basic merit of the system. At the same time the system reinforced the anti-inflation mechanism. From the beginning of 1958, that is from the formal implementation of currency conversion the system experienced problems related to a huge demand for gold and the operation of the system itself. The situation resulted from the deficit in the U.S. balance of payments amounting to 11.2 bn USD. The price of gold rose above 35 USD per ounce and the U.S. currency began to lose its value. The prevailing asymmetry that gave the United States a privileged and leading role as a gold reserve ceased. An excessively expansive U.S. economic policy resulting in implementation of inflation policy, difficulties in maintaining equilibrium in the balance of payments as a consequence of deteriorating competitiveness of U.S. products in the European market, external imbalance of the U.S. economy with dollar devaluation and the necessity to maintain dollar convertibility into gold were among the key reasons for collapse of the system.²⁷ Consequently these were the factors leading to the collapse of dollar in 1971.

It is difficult to ignore the U.S. involvement in the Vietnam War, which resulted in serious economic problems; the securing of self interests by other states did not provide opportunities for broad cooperation and consent to restore or to modernize the system.

The system of floating exchange rates (Float, 1971–2000) was a response to the collapse of the Bretton Woods system.²⁸ By virtue of the Washington Agreement the U.S. raised the price of gold to 38 USD per ounce which triggered a devaluation of the dollar by 7.9 percent and a devaluation of European and Japanese currencies by 7.66 percent. But 1972 saw the implementation of the “currency snake,” a mechanism of currency rates in the countries where the system applied; the fluctuation of currencies against the

²⁷ Sławomir Zwierzchlewski, “Unie gospodarcze—ich powstanie oraz przyczyny destabilizacji” [Economic unions: Their establishment and reason for destabilization], *Optimum: Studia Ekonomiczne*, Vol. 38, No. 2 (2008), pp. 46–49.

²⁸ Cécile Denis, Kieran Mc Morrow and Werner Roger, “Globalisation: Trends, Issues and Macro Implications for the EU,” *European Economy, Economic Papers*, No. 254, July 2006.

dollar being fixed at the level of ± 4.5 percent. Yet the system failed to operate for very long. As a consequence European states began to abandon this peg against the dollar and started to set up the European currency policy. Initiatives carried out mainly by France and Germany culminated in the establishment in 1979 of the European Monetary System (EMS). In principal the system was based on the common currency of the European Communities, initially the ECU and then the Euro, in the Economic and Monetary Union and coordination of monetary, budget and economic policies. This system was in operation until the establishment of the monetary union and setting of fixed rates for national currencies exchange of the Economic and Monetary Union member states.

Subsequent years made the management of the currency risk unpredictable, except for two long term trends of appreciation and depreciation of the US dollar during 1980–88.²⁹ A central bank took on the role of regulator for liquid currency rates when the fluctuations appeared to be excessively large. Alongside this, the political scene underwent significant transformations since the end of World War II and the World Bank and the International Monetary Fund, as an instrument of Bretton Woods, required meaningful reforms adapting the institutions to the new challenges of the globalizing world.

In this respect mention should be made of the mechanism for stabilizing currency rates ERM II (Exchange Rate Mechanism) operating in the European Union since January 1999, which superseded the European Monetary System. The principles of ERM II basically remained the same as previously with an identical margin for a permissive exchange rate variable at the level of ± 15 percent. A major requirement for countries aspiring to join the system is maintaining their national currency within the constraints of the ERM II for a period of not less than two years, combined with eliminating the tension risk on the currency market and devaluing the currency by virtue of a unilateral decision by the authorities of the given country.³⁰

A contemporary system, somehow devalued during successive economic slumps requires, according to T. Trichet, a renewed creation of the

²⁹ Francesca Taylor, *Rynki i opcje walutowe. Rozwój, struktura, transakcje* [Mastering foreign exchange and currency options: A practical guide to the new marketplace] (Kraków: Oficyna Ekonomiczna, 2000), p. 20.

³⁰ Klemens Białecki, Włodzimierz Januszkiewicz and Leokadia Oręziak, *Leksykon handlu zagranicznego* [Lexicon of foreign trade] (Warsaw: PWE, 2007), p. 80.

macroeconomic discipline, both monetary and in markets; perhaps what we need is a return to the original version of Bretton Woods.³¹

It should be stated that in the process of globalization of the financial markets its key features incorporate:

- a. Autonomization in the area of international finances for real applications;
- b. Securitization and evaluation of all kind of derivatives in respect to real transactions of securities and finance-currency trade;
- c. Cross border expansion of financial markets;
- d. Establishment and development of new financial institutions and instruments for competing with banks and services they provide.³²

Analyses of the trends for long term operation of the financial markets demonstrates that the private sector proves to be a significant and at times dominant recipient of foreign capital, but this does not always enable its effective usage. The example of the Southeast Asia financial meltdown of 1997/98 shows that financing numerous investments, unsecured against the risk of exchange variations fluctuations, creates a certain threat to global balance.

Conversely, an excessively large inflow of capital is burdened with a risk of appreciation of the national currency, which has negative effects on the competitiveness of exports. The risk in this case is serious, as when the rate of import growth exceeds that of exports, there is a high probability of losing the capability of servicing the increasing debt.

³¹ Speech by the President of the European Central Bank Jean-Claude Trichet in the Economic Club of New York, New York 2008.

³² Jan Kulig, "Ewolucja zadłużenia zagranicznego Polski w okresie transformacji, w perspektywie globalizacji finansów międzynarodowych" [Evolution of Polish foreign debt in the period of transformation in the perspective of globalization of international finance], in Witold Małeckie, ed., *Globalizacja rynków finansowych-implikacje dla Polski* [Globalization of financial markets: Implications for Poland] (Warsaw: Vizja Press & IT, 2007), p. 87.

At present, a large proportion of trade on the financial markets is typically speculative in nature and it is marked by the instability and unpredictability of its operation. It serves as one of the mechanisms for provoking a currency crisis where foreign investors assessment of the market or by the international situation on, suddenly withdraw their capital; which may contribute, especially in the long-term, to bankruptcy among companies, increasing unemployment, enhancing the activities of criminal groups and in drastic cases, outright recession.³³

Rapid development of the financial markets, particularly at the end of the 20th century, was inextricably linked with the fact that during 1970–2000 the worldwide export of goods and services grew twenty-fold and inflow of foreign direct investments rose almost five-fold. In the opinion of A. Kukliński, the changes in conditioning economic development will trigger worldwide division until 2020, of countries that have or do not have an economy based on knowledge; which will be synonymous with the division of economies and their movement towards the center or to the peripheries.³⁴

³³ Ewa Bilewicz, *Globalizacja międzynarodowych rynków finansowych, a zewnętrzne źródła finansowania krajów rozwijających się – materiał powielony* [Globalization of the international financial market and external sources of financing the in the developing countries, Xerox copy] (Szczecin: Uniwersytet Szczeciński, 2008), pp. 39–40.

³⁴ Marek Jabłoński, “O sukcesie decyduje wiedza. Zarządzanie informacja i ludźmi w gospodarce opartej na wiedzy” [Knowledge determines the Success: Management of information and people in economy based on knowledge], *Personel i Zarządzanie*, No. 17 (2003), p. 18; Konrad Raczkowski, *Zarządzanie wiedzą administracji celnej w systemie bezpieczeństwa ekonomiczno-społecznego* [Management of customs administration knowledge in a system of economic-social security, ms.] (Warsaw: Difin, 2010).

Financial Speculative Attacks – A Threat to Economic Security

In the contemporary world, speculation is allowed as a form of safeguarding liquidity on the financial markets. On one hand it is an efficient mechanism to secure the currency at low transaction costs for enterprises participating in international trade, export and foreign investments, but on the other it is a mechanism, which has a destructive effect on households encumbered with loans in foreign currency as it forces the central bank to intervene by selling the foreign currency; securing itself against an imperative to increase interest rates, which may have serious implications culminating in financial crisis and grave destabilization.

The most familiar case exemplifying such activities was the speculative attack on the British pound sterling initiated by George Soros's hedge fund Quantum in 1992.³⁵ Great Britain was then in an economic recession caused by the high value of the pound and high interest rates among other factors. The fund managed by Soros opened loan lines of 15 bn GBP and began to purchase other currencies, mainly USD. Using comments sent to the mass media by wellknown financial analysts and above all through his own media activity, Soros promoted the idea that the pound should be devaluated. The expert opinions propagated by this were perceived as authoritative among investors, who started to sell the GBP on a massive scale; even an intervention made by the Bank of England brought no results. The Bank of England announced a rise in short term interest rates through deploying its currency reserves, mainly German Marks, to the aggregate value of over 50bn USD.³⁶

³⁵ A hedge fund is a type of financial institution managing investments in exchange for a commission fee; it uses advanced investment strategies such as short and long positions. Its key characteristics include high investment risk as well as the possibility of a high rate of return. See Thomas Schneeweis, Hossein Kazemi, George Martin, *Understanding Hedge Fund Performance: Research Results and Rules of Thumb for the Institutional Investor*, Isenberg School of Management, University of Massachusetts, Amherst 2001, s. 5.

³⁶ The Bundesbank faced a problem that almost 44bn Marks that the Bank of England sold on the currency market ended up on the accounts of German commercial banks. It spurred some fears of inflation in Germany which could also become widespread in other countries of the European Monetary System. See Heidemarie Sherman, Fred Kaen, "The Behaviour and Thinking of the Bundesbank," in David Cobham, ed., *European*

The GBP value plunged by 15 percent and Great Britain withdrew from fixed currency rates while Soros's fund made over 1.1bn USD in profit.

The completed operation exposed the vulnerability of the government of even such a highly developed country as Great Britain when faced with a speculative attack made.³⁷ Beyond question, the operation would have had a different outcome had the government received stronger assistance from Germany (Bundesbank) and investors resisted panic.

At the same time during 1992–93 there were numerous speculative attacks taking place worldwide; they were engineered against currencies of the European Monetary System causing devaluation of all member currencies (except the Dutch Guilder).

In 1993 the Bank of France, in protecting the value of its currency, sold 60bn Marks which proceeded into circulation among German banks and clearly exposed the risk of an excessive rise in money supply among EMS states.³⁸

Speculative attacks (Fig. 1) always rely on some degree of calculated risk and there is a chance of either great gain or great loss. The problem of countering such attacks lies in the fact that it is impossible for officialdom to identify the individual speculating with a given currency at a given time, either trading to increase or decrease, because these investments are made through anonymous bank accounts and collected capital they may appear random in nature.

Banks increasingly admit to speculating in the currency of a state. In recent years it has been easy to observe intense activity of speculator's agents or even the speculative players themselves such as Goldman Sachs, Morgan Stanley, Lehman Brothers, Merrill Lynch, Deutsche Bank, Commerce Bank or Citibank. At the same time the ever dominant Eastern position is confirmed by the investment funds from countries around the Persian Gulf and China. It is estimated that the Abu Dhabi Investment Authority coming from the United Arab Emirates may possess about 900bn USD of profits

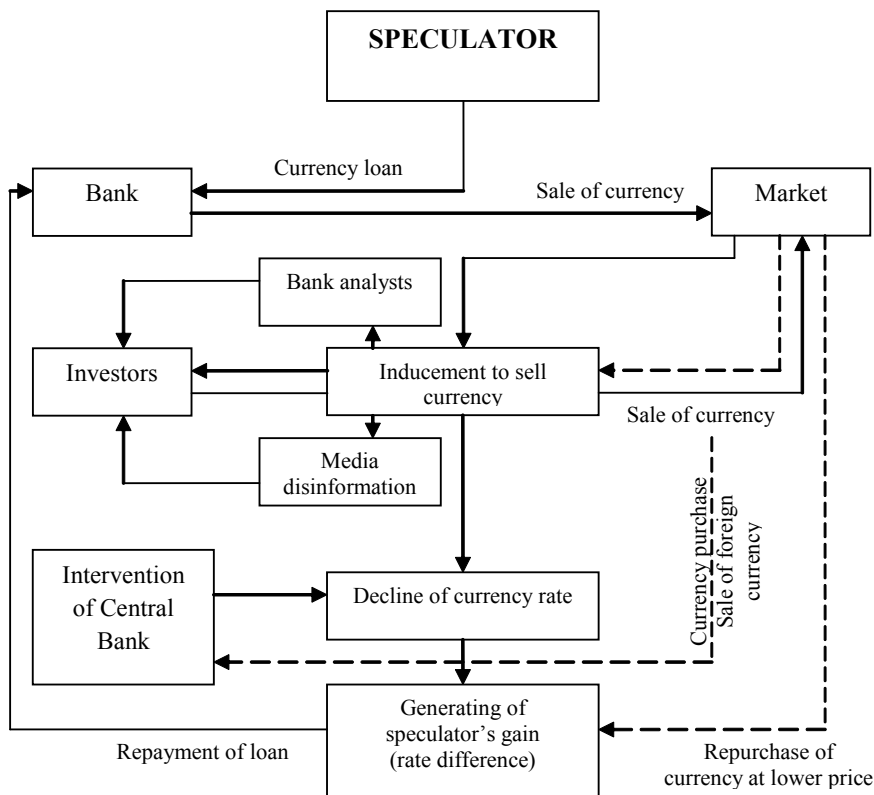
Monetary Upheavals (Manchester: Manchester University Press, 1994), s. 86.

³⁷ At the beginning of the 1990s Soros conducted a speculative attack on the Italian currency, the Lira, earning 400bn Lira (280 million USD). In 1995 he was brought before an Italian court. See Lyndon H. LaRouche, *Your Enemy, George Soros*, EIR The Soros Dossier, Executive Intelligence Review, July 4, 2008, p. 67.

³⁸ See Andrzej Sławiński, *Kryzysy walutowe a kierunki reformy międzynarodowego systemu finansowego* [Currency crises and directions of reforms for the international financial system], (Warsaw: Bank i Kredyt, 2000), pp. 2-4.

from oil exports and the Chinese State Agency for Foreign Exchange has at its disposal about 2.5tr USD.³⁹

Figure 1: Characteristics of a successful speculative attack on the currency rate



Source: Author

Application of currency options for speculative purposes may bear the hallmarks of fraud, trust abuse or exploitation. Yet, it is rare to bring anybody to accountability for losses of many billions by hundreds of enterprises, bankruptcy of thousands of companies and massive loss of employment.

³⁹ Krzysztof Rybiński, "Spekulacyjne łobuzy szykują się do ataku" [Speculative rascals devise an attack] (interview), Forsla.pl, March 13, 2010.

Financial speculations have existed for a long time, yet at the end of the 20th century and especially at the beginning of the 21st century they have revealed an unprecedented potential force related to the massive scale of activity in various states throughout the world. It is estimated that only in regard to the Euro there were recently 40,000 operations run by speculative funds; which demonstrates to some extent the scale of the problem. As noted by Spanish Minister of Public Works, José Blanco, the reasons behind the economic crisis included lack of market regulation, greed and avarice.

As a result of agreement between European states and the U.S. Government, the U.S. Department of Justice in 2010 demanded that hedge funds⁴⁰ store documents concerning recent transactions carried out in countries from the Euro zone. The investigation conducted is tasked to determine whether hedge funds (SAC Capital Advisors LP, Brigade Capital, Soros Fund Management and broker company Monness, Crespi, Hardt & Co.) agreed on a schedule of combined activities in relation to the present destabilization in Greece and whether they used the same data while taking financial decisions. Also the European Commissioner for Internal Market and Services, M. Barnier, announced that the European Commission intends to scrutinize the use of financial derivatives in case of government insolvency (Credit Default Swap⁴¹, so-called CDS on treasury bonds).⁴²

As a consequence of speculative attacks, incompetent or intentional operations by the management of companies bent on multiplying property

⁴⁰ A type of aggressive and often speculative financial institutions basing its operation on fees for managing an investment fund. A major feature of the funds is focus to achieve the highest possible profits through taking short and long positions (reduction of risk for price volatility). The funds are open to a limited number of investors and require a very large initial minimum investment. Furthermore, many hedge funds are registered on the Cayman Islands, yet the real operation is carried out in the financial world centers such as London, Tokyo and New York. See, e.g., "Hedge Funds," *International Financial Law Review*, January 2008.

⁴¹ Credit Default Swap (CDS) is a form of contract between two parties under which one party pays the other for credit protection in case of bankruptcy. A contract is usually concluded for five years (or an indefinite period) with a quarterly premium for protection. The value of CDS is calculated in basis points (equal to 1/100th of a percentage point per annum, e.g. 110 bp = 1,10 %). In the case of the entity's bankruptcy it is possible to gain lost funds from the CDS issuer. See Roland Beck, *The CDS market: A primer: Including computational remarks on "Default Probabilities online"*, Deutsche Bank Research, Frankfurt 2010.

⁴² Numerous interviews in March-April 2010 on the financial crisis in Greece and monitoring the situation. See, e.g., Helai Ebrahimi, "EU's Michael Barnier says new rules to curb CDS to be unveiled," *Daily Telegraph*, April 1, 2010.

in a speculative manner, many companies ceased to exist. Some of the larger collapses are as follows:

- a. Lehman Brothers Holdings (May 9, 2008) – assets 691bn USD
- b. Washington Mutual (June 9, 2008 r.) – assets 327,9bn USD
- c. General Motors (January 6, 2009 r.) – assets 91bn USD
- d. CIT Group (November 1, 2009 r.) – assets 71bn USD
- e. Chrysler Group LLC (April 30, 2009 r.) – assets 39bn. USD
- f. Thornburg Mortgage (May 1, 2009 r.) – assets 36,5bn. USD
- g. IndyMac Bank (July 31, 2008 r.) – assets 32,7bn USD
- h. General Growth Properties (April 16, 2009 r.) – assets 29,5bn USD
- i. Lyondell Basell Industries (January 6, 2009 r.) – assets 29,3bn USD⁴³

At the same time there is also a shift on the global scene among dominant banks and financial institutions. As a result of huge losses suffered by banks and financial institutions according to the estimates made by the International Monetary Fund,⁴⁴ at least 2.3tr USD, state-controlled Chinese banks rose to dominance over the global market. The process was facilitated by rigid rules imposed on Chinese financial policy which refrained from investments deposited into financial instruments whose profitability was secured by the mortgage market. The Industrial & Commercial Bank of China became the biggest bank worldwide with total assets estimated at almost 250tr USD. The second largest bank is also Chinese, the China Construction Bank. The financial crisis caused the value of stocks held by Chinese banks to rise over three times more than their accounting value whereas the value of bank stocks from other countries fell drastically.⁴⁵

⁴³ Anders Ross, "22 Largest Bankruptcies in World History," InstantShift.com, February 3, 2010, <http://www.instantshift.com/2010/03/01/logo-design-inspiration-65-brilliant-fresh-designs/>

⁴⁴ Biggest losses were reported by the U.S. (ca 885bn USD). See *Meeting New Challenges to Stability and Building a Safer System*, Global Financial Stability Report (Washington, DC: International Monetary Fund, 2010), p. 11.

⁴⁵ Goldman-Sachs Market Trend Analysis, No. 4 (2010), p. 4.

Thus, the question is how to protect against an attack by financial speculators. In the current situation, at least until the regulations of any given country in addition to international legal provisions are amended, we have to accept that someone may make a profit while many others may suffer loss. Recommendations are to analyze market indicators such as export growth, standard deviation, current accounts balance of trade in relation to GDP, increase of domestic credits in relation to GDP, differences in the inflation rate or foreign currency reserves. Even an extensive analysis of indicators does not ensure an accurate prediction; nevertheless it may reduce an investment risk in a particular type of financial operation.

As already noted, the speculative financial attacks do not in principal provide information on an ordering party, commissioning certain financial actions. Indeed a named and definite financial group (e.g. bank, fund) assumes that role, but it uses electronic money of virtually allotted clients. It holds out the perfect opportunity for anonymously penetrating the market and such penetration is almost legally indemnified against accountability for damage. Thus this proves to be an excellent market for all organized criminal groups intent on multiplying their capital and investing huge amounts of funds, which in many cases may exceed the budgets of many developed countries.

Given that criminal groups became incorporated into the financial system long ago and invested some of their money in legal business, it will be increasingly difficult to combat this form of criminal activity, assisted by unconscious lawyers, bankers or consultants, or to eliminate the consequences of legalizing scattered capital invested into legal business in a concentrated manner.

At this point the question arises as to whether intentional speculative activities on such a scale represent the first example in history of a coup against a national state by certain organized groups. If they succeeded in bringing a given state, e.g. a EU member state, to bankruptcy it would initiate a domino effect across affiliated states, at least among powerless ones, which would bring about an absolute destabilization; a catastrophic decline in standards of living, collapse of foreign trade and a grave financial crisis, along with moral responsibility for the consequences of social behavioral reactions of a society thus deprived of any chance for realizing or providing basic needs (food, water) or safety .

As a result of such national calamity, global organizations such as the International Monetary Fund or the World Bank might be given a mandate to set up a form of administration order in the bankrupt state, also within the legislative authority or even the judicial one, distributing part of state assets for creditors.

The financial markets are believed to have created unprecedented opportunities for multiplying capital – both in a legal way as well as in a manner teetering on the edge of the law or often beyond the law. It is, without any doubt, a challenge for the future. However we would like to believe that certain states will manage to win this financial war over the coming years, although at this moment it seems unlikely.

Baltic Sea Region States in a Global Economic System

Almost twenty years have passed since the conference in the Swedish town of Ronneby in 1990 during which the prime ministers of Sweden and Poland attempted to extend cooperation in the Baltic Sea region.⁴⁶ Even though environmental protection was the key issue at the conference, other common initiatives were quickly brought into the agenda and transformed into real actions. It is worth highlighting that in addition to the heads of government from the Baltic Sea states (Map. 1), the meeting was also attended by heads of government from Norway, the former Czechoslovakia, representatives of the European Community as well as of the European Central Bank, the European Bank for Reconstruction and Development, the World Bank and the Nordic Investment Bank.

As a result the Baltic Sea Declaration was signed which laid the foundation for establishing the Council of the Baltic Sea States in 1992,⁴⁷ which has twelve permanent members – Denmark, Estonia, Finland, Germany, Iceland (since 1995), Latvia, Lithuania, Norway, Poland, Russia, Sweden, European Commission – and seven countries with observer status – France, Italy, Netherlands, Slovakia, Ukraine, United Kingdom, United States.

Other cooperation initiatives in the region include the Visions and Strategies around the Baltic Sea (VASAB), the Helsinki Commission, the Baltic Sea Parliamentary Conference and the Union of Baltic Cities. It needs to be underlined that eight of the nine Baltic Region States (apart from Russia) are also members of the European Union, which makes the Baltic Sea an internal sea of the EU. Moreover, six of them (apart from Finland, Russia and Sweden) are associated under NATO (North Atlantic Treaty Organization). So within a single system of Baltic cooperation we may distinguish a system of multilateral and multinational collaboration. In the context of the issue raised, an indispensable aid to further understanding is a depiction of the export and absorption potentials of certain states; this indirectly indicates

⁴⁶ In this report, “Baltic States” refers to Lithuania, Latvia, Estonia, while “Baltic Sea Region” refers to the Baltic Sea states Denmark, Estonia, Latvia, Finland, Germany, Lithuania, Poland, Russia, and Sweden.

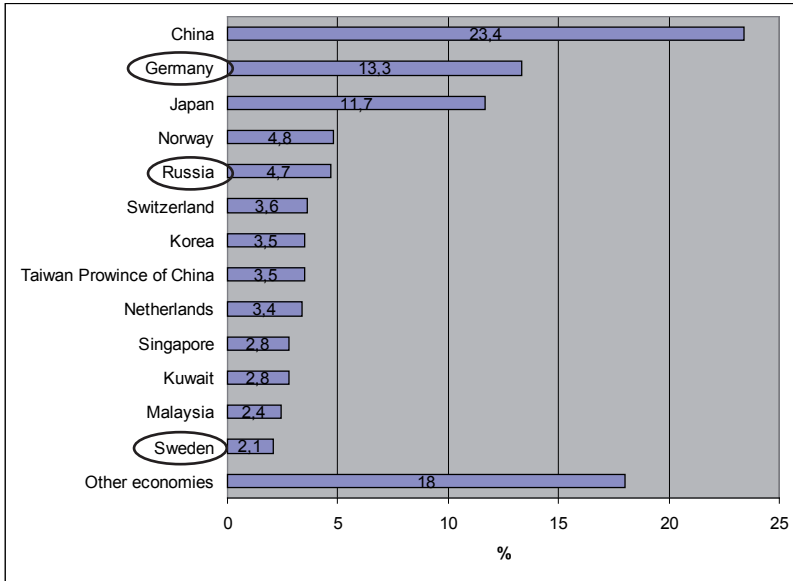
⁴⁷ The Council of the Baltic Sea States is not the Baltic Council which comprises of three members: Lithuania, Latvia and Estonia.

the condition of national economies to either encourage or discourage investment (both legal and illegal). Germany is ranked second in capital export (13.3 percent) and among the other significant Baltic Sea states we may identify Russia and Sweden (Fig. 2).

Map 1. Baltic Sea Region states



Fig. 2. Major capital-exporting economies



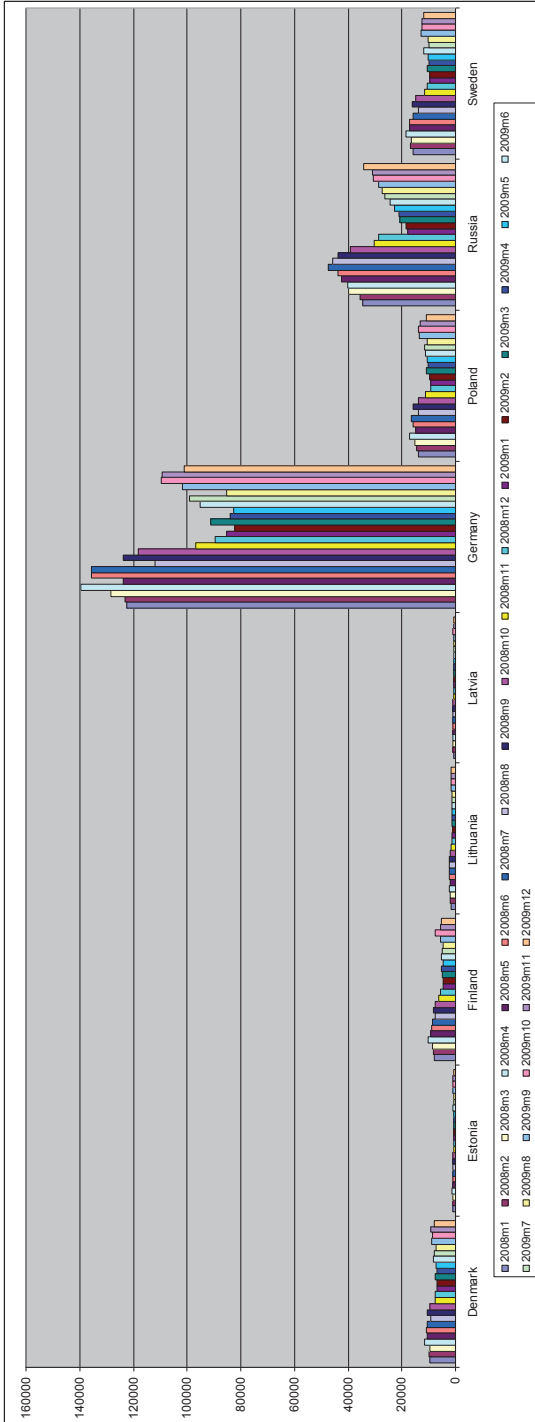
Source: IMF, World Economic Outlook database, March 10, 2010

The largest capital importers were the United States (41.7 percent), Spain (7.3 percent), Italy (7 percent), France (3.9 percent), Australia (3.7 percent), Canada (3.6 percent), Greece (3.5 percent) and other countries (29.3 percent).

If we take into account a merchandise trade index of nine states directly located on the Baltic Sea during 2008–09, Germany again proves to be the unquestionable leader (also worldwide) while Russia, Sweden and Poland are ranked successively (Fig. 3, Table 1).

A similar situation exists in imports where again the leader is Germany. Successive positions in the import value table are occupied by Russia, Poland and Sweden (Fig. 4, Tab. 2). A crucial discrepancy may be noticed in trade deficits; Poland (-50.439bn USD), Lithuania (-9,303bn USD), Latvia (-8,037bn USD) and Estonia (-4,706bn USD) in succession reached the highest trade deficits in the period examined, 2008–09.

Fig. 3. Export by the Baltic Sea states, 2008–09, successive months (\$ m)



Source: Compiled by the author

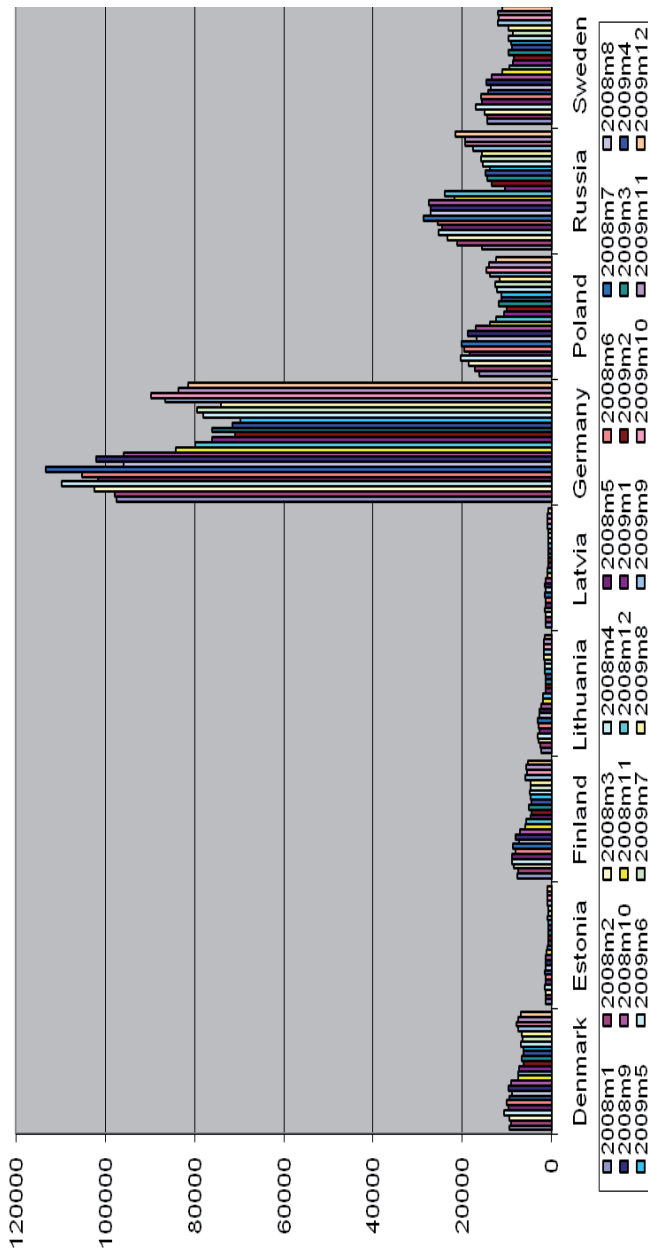
Tab. 1. Export value for the Baltic Sea states in numbers during 2008–09

Country	2008m1	2008m2	2008m3	2008m4	2008m5	2008m6	2008m7	2008m8	2008m9	2008m10	2008m11	2008m12
Denmark	9691	9865	9641	11359	10461	10724	10446	9340	10526	9498	7695	7504
Estonia	955	1006	1057	1241	1148	1080	1106	1066	1130	1128	805	745
Finland	7755	8220	8681	10161	9079	9035	8607	7589	8211	7724	6124	5653
Lithuania	1590	1820	2055	2299	2123	2324	2423	2169	2186	1841	1537	1379
Latvia	732	832	900	952	922	856	963	889	959	849	659	648
Germany	122544	123050	128402	139687	123874	135794	135624	112023	123841	118075	96703	89646
Poland	13685	14597	15067	17158	14936	15747	16382	13747	15642	13964	11046	9097
Russia	34520	35685	39923	40243	42581	43846	47330	45668	43774	39088	30332	28616
Sweden	15862	16653	16525	18592	17151	17100	15753	13675	16053	14668	11523	10431

Country	2009m1	2009m2	2009m3	2009m4	2009m5	2009m6	2009m7	2009m8	2009m9	2009m10	2009m11	2009m12
Denmark	7012	6766	7512	6939	7145	8220	7838	7387	8822	8652	9195	7925
Estonia	615	639	696	652	712	855	742	740	878	849	868	803
Finland	4513	4605	5033	5343	4741	5251	4945	4538	5437	7480	5716	5182
Lithuania	1219	1151	1212	1162	1218	1392	1396	1416	1589	1605	1564	1567
Latvia	516	516	593	565	574	648	594	625	769	842	753	714
Germany	85305	82336	91328	83962	82769	95076	99205	85239	101678	109760	109320	101093
Poland	9333	9444	10861	10154	10389	11246	11460	10510	13365	13941	13174	10789
Russia	17916	18586	20763	21048	22577	24488	26380	27319	28752	30462	30854	34243
Sweden	9627	9500	10657	9933	10113	11796	9835	10360	12721	12580	12410	11807

Source: Author's study based on the database on foreign trade, WTO, Brussels 2010

Fig. 4. Import by the Baltic Sea states during 2008–09 (\$ m) in successive months.



Source: Compiled by the author

Tab. 2. Import value for the Baltic Sea states during 2008–09

Country	2008m1	2008m2	2008m3	2008m4	2008m5	2008m6	2008m7	2008m8	2008m9	2008m10	2008m11	2008m12
Denmark	9391	8982	9522	10623	9584	10129	9422	8845	9647	9035	7470	7412
Estonia	1291	1286	1404	1602	1442	1406	1517	1284	1395	1333	1052	1008
Finland	7620	7541	8424	8950	8789	8088	8631	7379	8033	7148	5811	5692
Lithuania	2360	2485	2983	3060	2825	2976	3110	2642	2783	2290	1898	1856
Latvia	1313	1372	1406	1560	1422	1423	1518	1350	1487	1316	985	1031
Germany	97511	97937	102453	109796	101675	105138	113424	95901	102009	95962	84150	79799
Poland	16141	17160	18617	20379	18313	19650	20246	16906	18794	16915	13806	12482
Russia	15649	21164	23402	25408	24495	25539	28636	27054	27212	27461	21856	23985
Sweden	14456	14364	15121	17014	15704	15907	14259	13637	14723	13461	10975	9444

Country	2009m1	2009m2	2009m3	2009m4	2009m5	2009m6	2009m7	2009m8	2009m9	2009m10	2009m11	2009m12
Denmark	7314	6321	6713	6325	6214	6893	6417	6742	7416	7979	7541	6884
Estonia	746	715	815	786	742	890	848	847	947	921	990	958
Finland	4639	4575	5187	4491	4687	4885	4779	4708	5876	5606	5755	5390
Lithuania	1283	1264	1407	1267	1457	1534	1540	1658	1723	1777	1743	1619
Latvia	779	735	810	740	724	781	777	804	918	930	885	839
Germany	76169	71008	76147	71545	69816	78098	79473	74074	86540	89712	83692	81470
Poland	10671	10091	11844	11218	11190	12329	12713	11746	13841	14716	14074	12370
Russia	10527	13451	14505	14748	13790	15391	15887	15549	17614	19327	19389	21626
Sweden	8771	8488	9741	8973	9061	9625	8758	9689	11968	11815	12069	11080

Source: Author's study based on the database on foreign trade, WTO, Brussels 2010.

So in the context of analysis of the states concentrated around the Baltic Sea, following the statistical information we may observe the economic power of each state at a given moment. If we consider the fact that by virtue of the Strategy for the Baltic Sea Region, which is presently in the process of implementation, the transport of commodities in the region up to 2020 will grow by 60–80 percent especially for commodities from Russia, Central Asia or the Far East, this becomes a convincing argument to take immediate measures with regard to systemic expansion of port infrastructure to offer opportunities to provide extensive services for international trade.

We should notice that an approved scheme based on the above mentioned strategy designed to transform the Baltic Sea region into an environmentally sustained area gives priority to the issue of transforming the region into an area of prosperity, including implementing charters for small enterprises, eradication of impediments to the internal market in the region, use of potentials of the region for research and innovation and fostering of sustained agriculture, facilitating access to the energy market, improving means of transport, enhancing attractiveness of the region, transforming the region into a safe and protected area, achieving a leading position in the fields of security and protection on the sea, increasing capabilities to react to accidents at sea and safeguarding against extraordinary situations and reducing the scale of cross-border criminal activity and its effects.⁴⁸

At this juncture, it is necessary to point out that the Baltic Sea states have an excellent opportunity to implement this strategy and monitor this process.⁴⁹ The key factor for this success is the presidency of the European Union Council held by the EU member states every half a year. Poland – second half of 2011, Denmark – first half of 2012, Lithuania – second half of 2013, Latvia – first half of 2015, Estonia – first half of 2018, Finland – first half of 2020 and Germany – second half of 2020,⁵⁰ since the representatives

⁴⁸ A working document of the Commission services complementing the Commission Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region, Brussels, SEC (2009) 712/2, pp. 7-79.

⁴⁹ Małgorzata Kałużyńska, *Jakiej strategii potrzebuje region Morza Bałtyckiego?* [Which strategy is needed for the Baltic Sea Region?], *Biuletyn Analiz UKiE*, No. 19 (2008).

⁵⁰ Draft European Decision of the Council laying down measures for the implementation of the European Decision of the European Council on the exercise of the Presidency

of the region are expected to promote this part of the world during their presidency.

Representatives of the Baltic Sea states are expected to show how and to what extent they are determined to promote the territory globally and above all among citizens of their own states. In analyzing the economic situation of the Baltic Sea states we should emphasize that the international success of a given state is also determined by the number of companies listed in a ranking of the top 500 global companies. The data presented (Tab. 3) shows that as many as 61 companies from nine states of the Baltic Sea region are ranked. Unfortunately, their geographical distribution clearly illustrates a disproportionate share between Germany (39 enterprises) and the remainder of the region.

Table 3. The largest companies in the Baltic Sea states

No.	Rank in country	Country	Company	Global 500 rank	Revenues (\$ millions)
1.	1	DENMARK	A.P. Møller-Mærsk Group	106	62,637
2.	2	DENMARK	Danske Bank Group	236	34,291
3.		ESTONIA	After the list of Global 500		
4.	1	FINLAND	Nokia	85	74,224
5.	2	FINLAND	Neste Oil	481	19,299
6.	-	LITHUANIA	After the list of Global 500		
7.	-	LATVIA	After the list of Global 500		
8.	1	GERMANY	Volkswagen	14	166,579
9.	2	GERMANY	Allianz	20	142,395
10.	3	GERMANY	Daimler	23	140,328
11.	4	GERMANY	EON	26	127,278
12.	5	GERMANY	Siemens	30	123,595
13.	6	GERMANY	Metro	50	101,217
14.	7	GERMANY	Deutsche Post	54	98,708
15.	8	GERMANY	BASF	59	91,193
16.	9	GERMANY	Deutsche Telekom	61	90,260
17.	10	GERMANY	Deutsche Bank	70	81,360

18	11	GERMANY	ThyssenKrupp	74	80,210
19	12	GERMANY	BMW	78	77,864
20	13	GERMANY	Rwe	89	71,851
21	14	GERMANY	Munich Re Group	95	67,515
22	15	GERMANY	Robert Bosch	98	66,052
23	16	GERMANY	Deutsche Bahn	151	48,963
24	17	GERMANY	Bayer	154	48,182
25	18	GERMANY	Landesbank Baden-Württemberg	162	46,137
26	19	GERMANY	Franz Haniel	188	40,001
27	20	GERMANY	KfW Bankengruppe	192	39,370
28	21	GERMANY	TUI	214	36,496
29	22	GERMANY	Lufthansa Group	216	36,402
30	23	GERMANY	Continental	222	35,478
31	24	GERMANY	Commerzbank	233	34,776
32	25	GERMANY	DZ Bank	245	33,485
33	26	GERMANY	Arcandor	285	30,063
34	27	GERMANY	Bayerische Landesbank	315	28,112
35	28	GERMANY	Hochtief	319	27,961
36	29	GERMANY	Bertelsmann	347	25,647
37	30	GERMANY	MAN Group	368	24,275
38	31	GERMANY	Energie Baden-Württemberg	377	23,866
39	32	GERMANY	Evonik Industries	383	23,718
40	33	GERMANY	Edeka Zentrale	391	23,349
41	34	GERMANY	Heraeus Holding	392	23,292
42	35	GERMANY	Hypo Real Estate Holding	430	21,630
43	36	GERMANY	HeidelbergCement	440	21,041
44	37	GERMANY	Henkel	448	20,683
45	38	GERMANY	Marquard & Bahls	462	19,851
46	39	GERMANY	Norddeutsche Landesbank	476	19,410
47	1	POLAND	PKN Orlen Group	249	33,043
48	1	RUSSIA	Gazprom	22	141,455
49	2	RUSSIA	Lukoil	65	86,340
50	3	RUSSIA	Rosneft Oil	158	46,985
51	4	RUSSIA	TNK-BP Holding	234	34,668

52	5	RUSSIA	Sberbank	310	28,309
53	6	RUSSIA	SeverStal	409	22,393
54	7	RUSSIA	Surgutneftegas	420	21,976
55	8	RUSSIA	Evraz Group	454	20,380
56	1	SWEDEN	Volvo	163	46,057
57	2	SWEDEN	L.M. Ericsson	265	31,688
58	3	SWEDEN	Nordea Bank	288	30,019
59	4	SWEDEN	Vattenfall	357	24,957
60	5	SWEDEN	Skanska	424	21,791
61	6	SWEDEN	Skandinaviska Enskilda Banken	477	19,406

Source: Fortune Global 500, July 20, 2009.

Knowledge of the subject in this respect allows recognition – both for those concerned with legally operating the business and investing as well as those involved in criminal groups – of the opportunities for activity in a given state (to what extent employees of a particular enterprise may be subject to corruption, blackmail or cooperation). Yet the location of an enterprise in a given country does not imply its nationality and certainly not that profits from dividends or taxes will reinforce the budget of that state. For example the Ford Motor Company paid 6.5bn USD to acquiring the Swedish company Volvo in 1999 but when stricken with financial problems it was forced to resell Volvo to the Chinese private company Geely Automobile for 1.8bn USD in 2010. However apart from being one of the most recognizable car brands there was much more in the sale; modern technology, patents and expertise as well as the technical capabilities of Volvo – these are priceless values which will probably ensure the Chinese consortium long-lasting profits and competitive supremacy in a strategic perspective (including absorption of the technological knowledge by other state automobile consortia in China).

It is apparent that the Baltic Sea region possesses a significant but unequal proportion of economic strength, both internal (among the states of the region) as well as internationally. For this purpose, with the support of analysis SWOT, we may attempt to make a general analysis of values and

weaknesses for the Baltic Sea states against changes and threats created by the surrounding world (Tab. 4).⁵¹

This is not a dimensional and detailed analysis but nonetheless it is at least an elementary part of perceiving the analyzed phenomena in this region and it may be useful.

⁵¹ Lawrence Fine, *The SWOT Analysis: Using your Strength to overcome Weaknesses, Using Opportunities to overcome Threats*, Paperback 2009.

Table 4. Strategic analysis for the Baltic Sea states within a general framework

Strengths	Weaknesses
<ul style="list-style-type: none"> • Large economic and innovative potential • Very high ranking of global competitiveness (Sweden, Denmark, Finland, Germany – 4-8 position)* • High education level of personnel • Geographic location – near sea • Strong position in international trade • Increase of expenditures on research and development • Natural resources • Sense of European affinity 	<ul style="list-style-type: none"> • Loss of economic capital • Inappropriate use of human resources • Large innovative and social discrepancies • Lack of financial capabilities to maintain competitiveness • Unfavorable demographic tendencies • Insufficient support for integrating scientific research • Disproportions in absorption of innovations • Crisis turbulence • Absence of sufficient cooperation in the Baltic Sea region • Ambiguous Russian attitude towards introduction of changes under a common European market EU for products and own manufactures • Pollution of the Baltic Sea
Opportunities	Threats
<ul style="list-style-type: none"> • Increased opportunities of participation in global and regional (EU) decision-making institutions • Technological and infrastructural investments • Moderately restrictive access to loans • Possibility of absorption of EU funds, expedient funds and grants • Demand for tourist and recreation services • Inflow of foreign investment capital • Cooperation with markets in Asia and the United States 	<ul style="list-style-type: none"> • Worldwide decline in economic growth • Lack of coherence and future prospects for common currency • High global competition – especially in China and India • Organized crime from former eastern bloc and transnational crime** • Lack of cultural assimilation • Excessively impetuous and uncontrolled de-monopolization of economy in new EU states and Russia • Absence of democratic reforms in Belarus • Frequent change of law provisions and their ambiguous interpretation • Diversified Russian policy in many key areas of the social life

Sources: Author; * K. Schwab, ed., *The Global Competitiveness Report 2009–2010* (Geneva: World Economic Forum, 2010); ** Criminal activity run by groups in the Baltic Sea region is definitely international as reported by numerous authors. The nature of organized crime is considerably different today due to changes brought about by globalization, See Walter Kegö and Cemal Özkan, "Baltic Joint Investigation Team. A New Working Method against Transnational Crime," *ISDP Policy Brief*, No. 28, May 5, 2010.

Transnational Organized Crime

Tracing and proving financial offences, especially within institutions of public confidence, is a difficult task; it diminishes confidence towards the institution where abuse or embezzlement was identified and for this reason a great deal of proceedings are never publicized even in cases of gross misconduct.

Crime as a phenomenon related to lack of acceptance for certain social norms has always existed. Major contributory elements accounting for the establishment and continuation of crime are unemployment, poverty, pathology, demoralization, collapse of values or social inequalities. Contemporary science dealing with studying crime formulates a theory of balance which assumes that the supply of crimes – based on individual decisions and the demand for private as well as public protection against crime, are the basic components of the market for specific criminal acts. This market will keep balance when the number of crimes reaches a level that neither criminals (concerned with net income derived from crime) nor potential victims (interested in reducing risk and cost of possible victimization) nor public authorities (paying attention to the function of social prosperity) will be disinclined to change their approach and change existing income or costs with regard to crime.⁵²

We may propose a hypothesis that the occurrence of crime is a typical phenomenon in every society.⁵³ In this process we may specify the following stages: intention to commit a crime, planning, preparation, commitment, activities connected with avoiding criminal responsibility and accomplishment and benefits obtained or expected as a result of the crime.⁵⁴ The motives behind activity of a criminal nature are diverse, if the assumed risk brings an expected reward in the form of profit (while passing over the penalty) it stimulates further actions. It is one of the paths and one of many incentives

⁵² See Isaac Ehrlich, "Crime, Punishment and the Market for Offences," *Journal of Economic Perspectives*, Vol. 10, No. 1 (1996), pp. 43–67.

⁵³ Andrzej Baładynowicz, *Zapobieganie przestępczości: studium prawno-porównawcze z zakresu polityki kryminalnej* [Crime prevention: Legal-competitive study within criminal policy] (Warsaw: Primus, 1998), p. 15.

⁵⁴ Brunon Hołyst, *Kryminalistyka* [Criminology], 11th ed. (Warsaw: Lexis Nexis, 2007), p. 61.

inspiring an individual to an expansive policy of winning financial benefits or power. Activities carried out by a single individual are characterized by a far smaller scope and limited opportunity to select methods, tools and information for committing the crime. That's why organized crime evolved, as it guarantees much higher probability of success, a sense of affinity, support, and security.⁵⁵

A German doctrine describing organized crime as one of the social processes marked by dynamic functioning, defines this phenomenon as: committing of crimes that are scheduled and oriented towards obtaining maximum profit or power, with crimes of considerable importance requiring the participation of at least two persons sharing tasks within a longer or indefinite period, with use of professional structures and violence or other means of intimidation, which affects politics, media, public administration, justice and the economy.⁵⁶

Organized crime, according to the definition developed by the Committee on Law and Justice in the United States in 1966, is an intentional activity seeking to achieve maximum profit. These activities are dual – prohibited by the law (including crimes related to trafficking in weapons, narcotics, prostitution, gambling) as well as disguised within a legitimate business⁵⁷ – where it is increasingly complex to detect the criminal aspects of the activity (oriented towards achieving profit or calculated losses for the purpose of declaring bankruptcy and a total takeover).

The FBI defines organized crime as any group having some manner of a formalized structure and whose primary objective is to obtain money through illegal activities. Such groups maintain their position through the use of actual or threatened violence, corrupt public officials, graft, or extortion, and generally have a significant impact on the people in their locales, region, or the country as a whole.⁵⁸

The United Nations Convention Against Transnational Organized Crime define “organized criminal group” of three or more persons, existing for a period of time and acting in concert with the aim of committing one or

⁵⁵ See Raczkowski, *Narkotyki. Organizacja przestępczości i systemy przeciwdziałania*, pp. 17–18.

⁵⁶ Mądrzejowski, *Przestępczość zorganizowana. System zwalczania*, p. 33.

⁵⁷ See Raczkowski, *Narkotyki. Organizacja przestępczości i systemy przeciwdziałania*, p. 26.

⁵⁸ “Organized Crime,” FBI, <http://www.fbi.gov/hq/cid/orgcrime/glossary.htm> .

more serious crimes or offences, in order to obtain, directly or indirectly, a financial or other material benefit.⁵⁹

In accordance with the definition proposed by the UN as well as within the overall systemic operations of the institution, an emphasis in combating organized crime was put on threats related to this phenomenon – in the area of size and scale. Notably the particular categories of organized crime are: legalizing proceeds from criminal activity, trafficking in narcotics, weapons, people, corruption, terrorism, crimes against the environment and intellectual property, and computer crimes.

When committing a crime is facilitated due to legal loopholes, then it is difficult to describe a given act as criminal if it was not sufficiently penalized or if a certain legal interpretation was favorable to an alleged offender and an alleged committed prohibited act.

Owing to widespread internationalization of activities run by organized criminal groups, many states are interested in international coordination with a view to more effective methods for fighting crime. Three factors undoubtedly contribute to this position:

- Political, stemming from an Aristotelian ability to rule the world where common wealth is a superior quality; such a premise may also involve populist actions, not reflecting real attitudes represented by politicians or groups of politicians, but intended to 'inform society' and to ensure votes in the future.
- Economic, connected with improving the economy, by decreasing the deficit and increasing budget income, through limiting the black market or the informal economy related to illegal activities.
- Moral, as respecting norms and rules and rejecting incorrect ones. These include legal, philosophical, religious or social norms which are adopted by society.⁶⁰

⁵⁹ United Nations, Office on Drugs and Crimes, *United Nations Convention against Transnational Organized Crime and the Protocol Thereto* (Vienna: United Nations Office on Drugs and Crimes, 2004), p. 5.

⁶⁰ For a similar stance, see Peter Andreas and Ethan Nadelmann, *Policing the Globe: Criminalization and Crime Control in International Relations* (Oxford and New York: Oxford University Press, 2006).

Society in each state expects protection against threats, both familiar such as recidivist gangsters as well as new, unforeseen threats such as: the avian flu, natural catastrophes, organized crime, terrorism or destabilization caused by bad financial or moral conditions within the state.⁶¹

As Lester Thurow notices: “[...] looking backward, future historians will see the twentieth century as a century of niche competition and the twenty first century as a century of head-to-head competition...Niche competition is win-win. Everyone has a place where they can excel; no one is going to be driven out of business. Head-to-head competition is win-lose.”⁶² Not everyone will be able to create and invest in new technologies with a view to increasing their competitive advantage and secure markets for their products and services. Not everybody will be capable of protecting their business and refraining from dependency on speculative capital, criminal groups (in the traditional sense) or organized actions of wealthier states and international corporations.

The 21st century will undoubtedly be a period of winners and losers; the capability of a swift and flexible response by the state will determine whether they are marginalized and dominated by criminal organizations or whether they are an active player in the international arena securing the interest of the democratic state of law.

It will become difficult to enforce the law and the list of prohibited and punishable acts will certainly be extended in proportion to further technical progress and social development. It seems that now, more than ever before, the division into traditional threats posed by ordinary crime being easier to identify and white collar criminal activities (including enterprisers, bankers, public administration employees) will be apparent. The latter group in particular is financially secured which entails better legal, organizational or established background, thus it will be able to avail itself of criminal groups operating in a more primitive manner to perform extortions, intimidation,

⁶¹ For a similar stance, see Magnus Ekengren, Arjen Boin, Mark Rhinard, “A New Paradigm for Multi-Level Safety and Security: Towards an Agenda for Design and Future Research,” in Arjen Boin, Magnus Ekengren and Mark. Rhinard, eds., *Security in Transition. Towards a New Paradigm for the European Union* Swedish National Defence College, ACTA Series, No. B41 (2007), p. 127.

⁶² Lester Thurow, “A New Economic Game,” in Roe Goddard, John Passé-Smith, John Conklin, eds., *International Political Economy. State-Market Relations in the Changing Global Order* (Boulder, CO: Lynne Rienner, 1996), pp. 131–32.

murder or other illicit acts on their behalf in order to achieve their targets. Yet we have to realize that such connections will be increasingly complex to trace and difficult to prove, especially for prosecution purposes.

Organized Economic Crime in the Baltic Sea Region

It is estimated that every day around 2tn USD from illegal or undisclosed sources⁶³ are circulating worldwide and economic crime is becoming more attractive to various criminal organizations interested in the gross number of opportunities presented by anonymous transactions.

The European Union, with eight out of nine Baltic Sea states, has since the very beginning detected a threat originating from financial fraud. That is the reason that following the European Union Treaty in 1992 (Maastricht) the first two legal documents regarding this issue were adopted. The first one was Council Regulation 2988/95 of December 18, 1995 on the protection of the European Communities financial interests (WE, Euratom),⁶⁴ the second one, Council Regulation 2185/96 of November 11, 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (WE, Euratom).⁶⁵

The accepted national restrictions in criminal law on the protection of financial interests of the Community were reflected in the first definition of the terms: financial abuse and fraud.⁶⁶ It was specified that financial abuse was a criminal act and financial irregularity was assigned to administration law as a procedural offence.

Over the following years from 1999 the European Anti-Fraud Office (OLAF)⁶⁷ was established to serve as an instrument protecting the European Communities against fraud and any other illegal activities. Its main tasks, which are continually extended, include:

⁶³ Peter Lilley, *Where we are now: Economic crime, corruption & money laundering in the new economic world order* (Vilnius: Proximal Consulting, 2010), p. 4.

⁶⁴ Council Regulation (EC, Euratom) 2988/95 of December 18, 1995, on the protection of European Commission financial interests, O. J. L 312, 23.12.1995, p. 1.

⁶⁵ Council Regulation (EC, Euratom) 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities, O. J. L 292, 15.11.1996, p. 2.

⁶⁶ Convention on the protection of the European Communities' financial interests of July 26, 1995, O. J. C 316, November 27, 1995.

⁶⁷ Commission Decision 1999/352 (EC, ECSC, Euratom) of April 28, 1999 on establishing the European Anti-Fraud Office (OLAF), O. J. L 136, May 31, 1999, p. 20.

- Carrying out administrative investigations, both internal and external in accordance with Community legal provisions;
- Providing the Commission's support in cooperating with member states in the area of the fight against corruption and other irregularities;
- Carrying out operational activities of the Commission in relation to the fight against fraud and in particular developing the necessary infrastructure and giving operational and technical support to the institutions, bodies and offices of the member states;
- Collecting and analyzing information concerning financial irregularities;
- Maintaining direct contact with police and judicial authorities;
- Preparing legislative initiatives for the Commission and developing a concept for the fight against corruption;
- Representing the Commission in forums related to the fight against corruption, fraud and other illegal activities adversely affecting the Community's financial interests.⁶⁸

OLAF cooperates closely with the European Police Office (Europol), the European Juridical Cooperation Unit (Eurojust), the European Judicial Network (EJN) and all the states and institutions, especially with the representatives of units in the relevant department responsible for financial matters. The evident weak point of OLAF is the lack of competence to supersede the national bodies of the member states within the scope of the legal and criminal protection of EU financial interests, which reduces OLAF to an administrative body. It should be pointed out that in 2008 OLAF conducted investigations in Belgium, Bulgaria, Italy, Germany, Romania and the United Kingdom, which may demonstrate a low level of activity or insufficient personnel in this institution. Further, in the same year the first foreign OLAF liaison officer was appointed to Beijing. The selection of the location does not seem accidental and resulted from the distinct position of China in global financial and economic relations.

⁶⁸ See Article 2 of the Commission Decision 1999/352.

In this context the analysis made by PricewaterhouseCoopers seems convincing and reliable. Its survey shows that the most common types of economic crimes include: asset misappropriation (67 percent), accounting fraud (38 percent), bribery and corruption (27 percent), IP infringement (15 percent), money laundering (12 percent), tax fraud (5 percent), illegal insider trading (4 percent), market fraud involving cartels colluding to fix prices (3 percent), espionage (3 percent), and others.⁶⁹

It was also reported that in larger organizations exceeding one thousand employees, the fraud rate was higher (46 percent) than in smaller ones e.g. up to 200 persons (15 percent) and in medium-sized (201-1000 employees, 26 percent).

A Europol report shows that value-added tax (VAT) fraud is among the most frequent types of trade fraud.⁷⁰ A starting point when searching whether the tax-payer seeks to evade the tax law should be a principle concerning freedom of tax evasion, which is a privilege of the tax-payer to mitigate the tax burden.

Evading taxation implies performing the activity under the law but avoiding taxation (including evading tax law) however, includes an element of unlawfulness associated with the breach of applied legal standards.⁷¹ Thus, tax evasion is related to contemporary tax optimization,⁷² frequently offered to enterprises by specialized tax consulting companies.

We have to underline the fact that financial irregularities of an illegal nature are thriving in the European Union member states – in the scope of fraud involving VAT. This type of tax is one of the most crucial incomes in the budget of the EU, its liberal structure and complex mechanism of

⁶⁹ *The Global Economic Crime Survey: Economic Crime on a Downturn*, PricewaterhouseCoopers, November 2009, p. 6, http://www.pwc.com/en_GX/gx/economic-crime-survey/pdf/global-economic-crime-survey-2009.pdf

⁷⁰ *OCTA 2009, EU Organised Crime Threat Assessment* (The Hague: Europol, 2009), p. 21, [http://www.europol.europa.eu/publications/European_Organised_Crime_Threat_Assessment_\(OCT\)/OCTA2009.pdf](http://www.europol.europa.eu/publications/European_Organised_Crime_Threat_Assessment_(OCT)/OCTA2009.pdf)

⁷¹ Ryszard Zelwiański, “Obejście prawa podatkowego” [Evading the tax law: Legal limits of tax optimization], *Przegląd Podatkowy* 9 (2004), p. 39.

⁷² Tax optimization is a selection of such an option which leads to accomplishing the assumed economic goal which involves, as a rule, the least tax burden. A fact that a tax payer took some measures need not be concealed. One of the most frequent tools in order to achieve an optima effect includes a proper situation of a tax payer or future tax payer in the field of the civil, trade or labor law. See Andrzej Ladziński, *Prawne granice optymalizacji podatkowej* [Legal limits of tax optimization], *Przegląd Podatkowy*, 6/08 (2008), p. 19.

calculation, included initially (until the end of December 2006) in the Sixth Council Directive⁷³ and in currently applicable Council Directive 2006/112/EC,⁷⁴ enables the committing of typical tax frauds on a large scale and of significant value.

Typical types of VAT frauds include missing traded fraud and carousel fraud. The first case refers to a transaction which entails movement of goods between two EU member states, an intra-community transaction is performed between trader A (a member of state X) and trader B (a member of state Y) in such a way that trader A, in dispatching goods to trader B, makes intra-community supply of goods and trader B makes intra-community acquisition of goods. Then trader B will make domestic delivery of the previously acquired goods to another trader C (also a member of state Y).⁷⁵

In this scheme traders A and C may be legally operating enterprises, yet B may be an element which does not report intra-community acquisition of goods and above all, makes a domestic transaction at the price including VAT but fails to pay this tax. Missing traders often submit tax returns including the VAT but they fail to pay it. Usually the business of such traders ceases to continue when the tax authorities discover the frauds. However, due to lack of property and assets, further actions by these authorities appear unsuccessful. In addition trader B is aware that without paying the VAT he will be able to sell goods at dumping prices.

The other type of fraud is the so-called carousel, based on the movement of goods between at least two member states. Goods return to the state of origin and are not subject to planned controls due to absence of border checks and casual controls by Customs Mobile Groups and Border Guards. The fraud consists in simulating a circulation of goods where “new owners are on paper” and no transactions actually took place and there was no transportation of goods.

A common trait of carousel frauds is the lack of collateral in the form of trade loans, cash transactions instead of bank transfers (despite the high

⁷³ Sixth Council Directive 77/388/EEC of May 17, 1977 on the harmonization of the laws of the Member States relating to turnover taxes – common system of value added tax: uniform basis of assessment, Dz. Urz. UE sp. 09-1-23

⁷⁴ Council Directive 2006/112/EC of November 28, 2006 on the common system of value added tax, Dz. Urz. UE L 347 z 11.12.2006 r.

⁷⁵ Konrad Raczkowski and Artur Krukowski, *Oszustwa podatkowe w handlu wewnętrzymwspólnotowym, Referat do publikacji elektronicznej* [Tax frauds in intracommunity trade: Paper for electronic publication], Warsaw 2010.

value of the transactions) or transfers to accounts owned by enterprises of legal entities, which hampers the identification of the person in charge of the business.

Again in this case the payments are feigned; most often the same amount of funds is in circulation for multiple transactions which after calculation of payments by one trader, create multiplied amounts far exceeding those which were actually paid (multiple booking of the same amounts being in circulation, each and every payment being booked as separate and independent).⁷⁶

Frequent reasons for initiatives oriented towards strengthening economic security – depicted within tax optimization, and carried out within deliberate or non-culpable violation of the law, are as follows:

- General premises to increase profits;
- Decreasing insurance premiums while increasing the value volume of insurance;
- Increasing credit capacity;
- Applying more favorable mechanisms for risk management;
- Stabilizing costs and securities for financial liquidity;
- Opportunities to select a manner for accountancy (e.g. non-obligatory accounting books)
- Minimizing employment costs;
- Protecting one's own assets in a more secure political-economic environment (tax havens);
- Actions intended to diminish the value of an enterprise in order to take over the majority stake at a lower price;
- Possibility to create a convenient location for a major seat of the company.⁷⁷

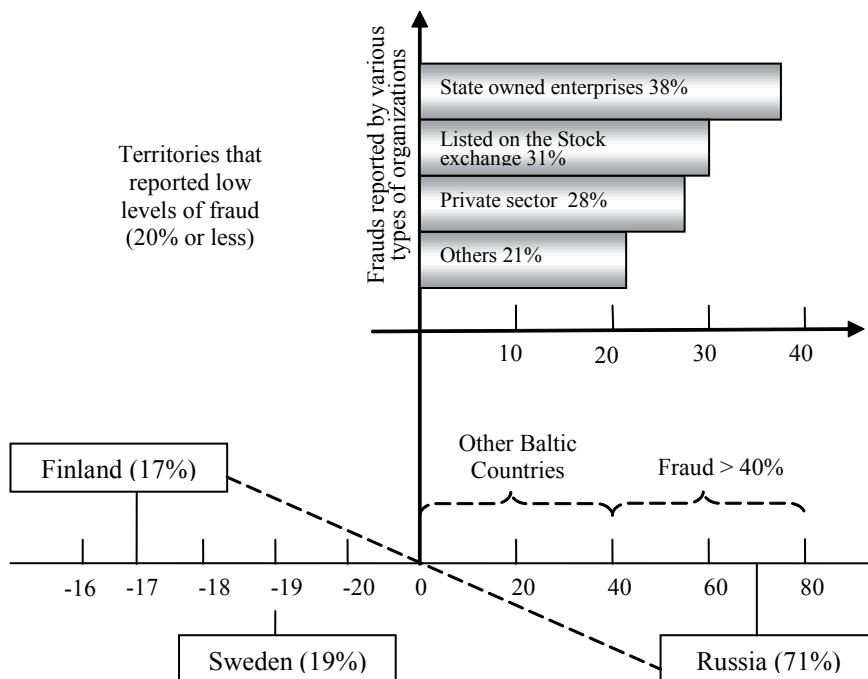
In recent years the largest financial transactions in the Baltic Sea area (of the largest scale) as regards money laundering were performed in such

⁷⁶ Ibid.

⁷⁷ Ibid.

states as: Germany, Latvia and Russia, the fewest number of cases related to money laundering were reported by Finland and Sweden (Fig. 5).⁷⁸

Fig. 5. Characteristics of financial crimes in the Baltic countries



Sources: Based on *The Global Economy Crime Survey* and *International Narcotics Control Strategy Report*, Vol. II.

Noticeably, Russia (71 percent organizational fraud) is the most vulnerable to financial crime in the region, with a distinct deviation from the statistical average prevailing in the region. It is indeed essential from the perspective of future activities, as the threat to one state may easily become widespread if no preventive steps are taken. The situation in other Baltic States is as follows:

Denmark – member of the Financial Action Task Force (FATF).⁷⁹ In 1999 the country was awarded the title of the least corrupted state worldwide.

⁷⁸ On the basis of *International Narcotics Control Strategy Report*, p. 4, and *The Global Economic Crime Survey*.

⁷⁹ Currently FATF consists of 35 members (33 member jurisdictions and 2 regional

In 2002 it was ranked as the second and still continues to be recognized as a country where it is very difficult to launder money. However there has been an increase in the number of criminal gangs, of which those of foreign background frequently compete with each other. The central authorities for reporting money laundering are the Public Prosecutor for Serious Economic Crime and the Danish Bar and Law Society; other regulators include Finanstilsynet (the Danish FSA), the Public Prosecutor for Serious Economic Crime.

Estonia – member of the MONEYVAL. Economic crimes in this state have reached a gigantic scale, particularly with regard to trafficking in narcotics from Estonia to Finland, pharmaceuticals from Russia to Estonia and money laundering.⁸⁰ Owing to the size of the state there are not many criminal groups and a large proportion of which are involved in gambling, money laundering in night clubs or credit card counterfeiting in other countries.⁸¹ The central authority for reporting money laundering is the Estonian Financial Intelligence Unit (Central Criminal Police independent unit, FIU); other regulators are the Ministry of Interior and the Ministry of Finance.

Finland – member of the FATF. In 2002 Finland was granted the prestigious title of the least corrupt state in the world. Due to its geographic location, being a close neighbor of Russia and especially the location of the capital Helsinki, the state may be subject to penetration by Russian criminal gangs. The central authority for reporting money laundering is the Money Laundering Clearing House (a special unit of the National Bureau of Investigation); other regulators include the Ministry of the Interior.

Germany – even though the country is a member of the FATF, it was listed in 2008 as one of the most vulnerable to financial crime. Undoubtedly being one of the largest financial centers in Europe brings negative repercussions. Since June 15, 2007 non-EU citizens are obliged to declare in writing

organizations): Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong (China), Iceland, Ireland, Italy, Japan, Kingdom of the Netherlands, Luxembourg, Mexico, New Zealand, Norway, Portugal, Republic of Korea, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. Observer members: Republic of Korea, India. See *FATF Members and Observers* (Paris: FATF, 2010).

⁸⁰ Jako Salla, *Number of economic crimes in Estonia* (Tallinn: Ministry of Justice, 2008).

⁸¹ *Overall Crime and Safety Situation* (Washington, DC: Overseas Security Advisory Council, Bureau of Diplomatic Security, U.S. Department of State, 2010).

each sum of money exceeding 10,000 Euros. Due to its geographic location and former control of the German Democratic Republic by the Soviet Union, the state has had to cope with serious problems from Russian speaking criminal gangs. As a result of international customs action undertaken in September 2008 against trafficking in financial funds 13 thousand people were controlled and 188 prosecutions in cases related to money trafficking of aggregate value 5.5m Euros were instituted.⁸² The central authorities for reporting money laundering are the Federal Department of the Interior, the Financial Supervisory Authority or the Bundesanstalt für Finanzdienstleistungsaufsicht, the Federal Department of Justice, and the Federal Ministry of Finance. Other regulators are the Bundeskriminalamt (the Financial Intelligence Unit) and the Bundesrechtsanwaltskammer (German lawyers).

Lithuania – member of MONEYVAL. In Lithuania both domestic and international groups are involved in financial crime. As a transit state on the way to Scandinavian countries⁸³ and Western Europe it is often used for criminal activities. Over the last two years (2008-09) a steep surge took place in economic and trade crime (increasing by almost 61 percent compared to the previous year).⁸⁴

The main types of financial crimes involve: theft of credit cards and introduction of counterfeit money. Furthermore because of high unemployment in the state there is an increasing amount of trafficking in narcotics, alcohol and cigarettes to Scandinavian countries and Western Europe, thus further introducing financial funds from criminal activity into regular monetary circulation.⁸⁵

In September 2009 Lithuania and Russia signed an agreement to fight money laundering and the financing of terrorism, in what is supposed to lead to enhanced efficiency in combating financial crime and prevent legalization of proceeds from illegal and undisclosed sources. The central

⁸² Description of all member states of the Baltic Sea has been confronted with some national analysis in the scope of financial crime. See *International Narcotics Control Strategy Report. Volume II: Money Laundering and Financial Crimes* (Washington, DC: U.S. Department of State, 2009).

⁸³ Peter Lilley, "Dirty Dealing. Money Laundering Country Risk Index Denmark Luxembourg," Analyst material, Brussels 2007, p. 11.

⁸⁴ Dalia Ambrozaitiene, *Crime and Low Enforcement Activity* (Vilnius: Statistics Department, 2010).

⁸⁵ Visvaldas Rackauskas, *An increase in crime in Lithuania – press interviews*, Vilnius 2009.

authorities for reporting money laundering are the Financial Crime Investigation Service (FCIS) and the Financial Crime Investigation Service, the Lithuanian Bar Association, and the Bank of Lithuania.

Latvia – is a member of the MONEYVAL (and in the process of accessing membership in FATF); it is still a growing regional financial center with a large number of commercial banks with a sizeable non-resident deposit base. Financial crimes mainly include tax evasion, corruption, extortion, economic crimes and bank crimes. Russian organized criminal gangs hold a strong position in Latvia. Latvia has also specified several tax free areas within economic and free trade zones. The zones are located in the ports of Ventspils, Riga i Liepaja and in the inland city of Rezekne. Reportedly, Latvia is an ever-growing center for money laundering schemes attracting crime groups from Russia, the Baltic states and Asia due to the state's endemic corruption of Members of Parliament among other government officials.⁸⁶ The central authorities for reporting money laundering are the Control Service, the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity, the Financial and Capital Market Commission (banks and other financial institutions), the Bank of Latvia, the Lotteries and Gambling Supervisory Inspection, the Latvian Council of Sworn Advocates, the Latvian Council of Sworn Notaries, the Latvian Association of Certified Auditors, the State Assay Supervision Inspectorate, the State Inspection for Heritage Protection, and the State Revenue Service.

Poland – is a member of the MONEYVAL (but is not a member of the FATF). International criminal organizations, notably Russian and Italian, have taken advantage of the country's location at the center of Europe. In financial crime it is common to evade excise – related to fuelling criminal activity. Other aspects of illicit proceeds from financial crimes are losses of customs and tax charges. An increasing move towards money laundering within recycled materials and the scrap metal trade has been reported. It is estimated that the black market may have reached as much as 13 percent of GDP. Moreover, some banks in Poland could serve as transfer points for illicit funds. In Poland all crimes including financial ones are believed to generate between 3-5bn USD in illicit profits and the number of criminal groups is estimated to have reached 400.

⁸⁶ Lilley, *Dirty Dealing*, p. 9.

The central authorities for reporting money laundering are the Ministry of Finance, the General Inspector of Financial Information (under the Minister of Finance) and other co-operating institutions like the National Bank of Poland, the Polish Financial Supervision Authority (as regulatory body for financial institutions), and obligated institutions like the National Association of Cooperative Savings and Credit Unions (SKOK), Notaries public, Electronic money institutions, Brokers and trade brokers, Investment funds and unit trusts, the National Depository for Securities, Attorneys at law, counselors at law, tax advisers, auditors, Insurance companies and financial funds, Currency exchange bureaus and auction houses.

Russia – is a member of FATF but has a financial system that does not attract significant numbers of foreign depositors, however their number continues to grow. It is estimated that a substantial amount of funds gathered in Russian banks is derived from criminal activity. According to the authorities it is possible to define 120 typologies of crimes of money laundering, among them are front companies and identity fraud, account fraud, multiple transactions through a network of off-shore firms, disguising illegal proceeds as gains from gambling activities, and back-to-back loans. Criminal organizations from neighboring countries make extensive use of the Russian economic system to launder money due to knowledge of language, culture and political-organizational circumstances. In most cases illicit proceeds, most often in secondary circulation, are invested in real estate, financial instruments and luxury consumer goods. A Russian unit of financial analysis estimates that in 2008 in Russia 370bn USD could be “laundered” money. All financial institutions are required to report on each cash transaction, payment under insurance certificate, money remittance, purchases including precious stones, the value of which exceeds 22.7 thousand USD (600,000 roubles). In addition, each transaction on the real estate market valued at 115.4 thousand USD (3mn roubles) or more are reported. Around 30,000 transaction reports are filed every day. Data from Rosfinmonitoring (Federal Finance Monitoring Service) indicate that financial monitoring covers about 130 entities suspected of financial terrorism – among them 900 persons are Russian citizens, 170 are Russian organizations and 200 are other economic entities. The main authority for reporting money laundering in Russia is the Federal Financial Monitoring Service (*Rosfinmonitoring*). *Other regulators for financial crime* are the Government of the Russian Federation

(regulations), the Federal Service for Financial Markets (FSFM), the Central Bank of the Russian Federation (CBR), the Federal Insurance Supervision Service (Rosstrahnadzor), the Ministry of Finance, the Assay Chamber (under the supervision of Minister of Finance), the Federal Supervision Service for Communications, Information Technologies and Mass Communications (Roscomnadzor – responsible for the postal service), and the Federal Tax Service (FNS).

Sweden is a member of FATF.⁸⁷ Estimates indicate that 13,000 suspected financial transactions valued at 818m Euro (SEK 9bn) were reported in 2008. 800 people were charged with embezzlement and other frauds. Further, subsequent proceedings were instituted against 1700 people for all kinds of credit crimes (1600 cases for bank account crimes) and almost 600 people were charged on other tax crimes. In spite of the tightening of control procedures and reporting in the area of money laundering by banks – a result of improved efficiency in tracing – cooperation with casinos, car dealers or agents in real estate in this respect is practically non-existent. The most frequent financial crimes in Sweden include tax crime and credit crime (including accountancy crime) and the crimes are mostly committed in legitimately operated business. Reportedly, there is a relatively high detection rate of financial crimes in Sweden as behind the reported crime it is easy to identify a suspect.⁸⁸ The central authorities for reporting money laundering are the Swedish Police Board, the Swedish National Criminal Police, and the Financial Intelligence Unit (the Swedish Financial Police). Additionally regulating institutions are the Swedish Financial Supervisory Authority (SFSA) and Finansinspektionen whose main role is to promote stability and efficiency in the financial system and is accountable to the Ministry of Finance.

⁸⁷ Along with other Baltic Sea states such as Finland and Germany – Sweden did not sign an agreement on mutual legal assistance with the US which could facilitate actions in the fighting of transnational crime. See *International Narcotics Control Strategy Report*, p. 33.

⁸⁸ *Economic Crime in Sweden* (Stockholm: The Swedish National Council for Crime Prevention, 2009).

Concluding Remarks

The above analysis allows us to conclude that the Baltic Sea states have significant factors of internal and external risk, which are actually mirrored in financial security or the activity of organized criminal organizations of a global nature.

It should be underlined that there are 290 million citizens living in the nine Baltic Sea countries, out of which eight (Russia is the exception) are members of the European Union. Given that there is a free movement of services, goods, people or capital within the Union, we may realize the effects that integration exerts on the security system. These are positive shifts, which facilitate eradication of barriers, but paradoxically they are oriented towards limiting privileges and civil liberties as a means of fighting terrorism and organized crime

It is noteworthy that the protection of the financial interests of the European Union became a fact and a key field of international cooperation within the second EU pillar by virtue of the Treaty of the European Union (the Treaty of Maastricht).⁸⁹

In reviewing the recent crisis with the benefit of hindsight, and with the need to foster greater economic security in mind, state institutions engaged in combating money laundering and financial crimes need to take a much stronger position. One example of this is the European Anti-Fraud Office (OLAF), which since its inception at the end of 2008 instituted over 3000 legal cases, resulting in the conviction of 300 people and the recovery of almost EUR 460m. It is not an overwhelming amount and various estimates suggest that it may be merely a fraction of the total financial frauds actually committed, illicitly used funds and people involved in this practice.

Andreas and Nadelmann have pointed out that, "states are somehow losing control in the face of ever growing transnational crime challenges in an era of globalization."⁹⁰ It appears that persons enjoying public trust (including institutions) and financial "success stories" may turn to criminal

⁸⁹ See Véronique Pujas, "The European Anti-Fraud Office (OLAF): a European policy to fight against economic and financial fraud," *Journal of European Public Policy*, Vol. 10, No. 5 (2003), p. 781.

⁹⁰ Andreas and Nadelmann, *Policing the Globe*, p. 245.

activities in the near future. U.S. financier Bernard Madoff,⁹¹ distinguished as a legend and genius of the world finance is a clear example of this trend.⁹² His operations, conducted over 20 years led to the largest fraud ever, deceiving numerous investors, among them Steven Spielberg, E. Wiesel and institutional investors such as Nomura Securities (Japan), the Royal Bank of Scotland, BNP Paribas, HSBC Holdings PLC and Grupo Santander for an aggregate amount of 65bn USD, and resulting in a penalty of 150 years in prison, which will not compensate the victims or restore confidence in institutions which were once recognized as reliable. It can also be said that Adam Smith's 'invisible hand' has also failed; it exposed the problem of inappropriate regulations and control in the financial sector contributing in principle to generating criminal activity.⁹³

These examples demonstrate that the contemporary context of economic threats posed by criminal activity has a high degree of probability as a global occurrence. Studies related to these issues within the context of substantial global changes triggered by the continuing financial recession, will provoke a serious debate and bring about preventive measures for the future. Certainly legislation will be the first category to undergo reform – to secure financial markets and the taxation sphere as well as to penalize criminal activities. Secondly, the organizational field related to better coordination and functioning of institutions that counteract money laundering and control financial markets as well as the discharge of the obligation to pay public levies by tax-payers in respective countries of the Baltic Sea region will also face change.

⁹¹ Madoff's frauds were based on the Ponzi pyramid scheme. It is an investment fraud that involves the payment of return to existing investors from funds contributed by new investors. Following the first signs of the crisis a large number of investors started to withdraw their funds – account balance for redemption exceeded the account balance for new payments.

⁹² "SEC Charges Bernard L. Madoff for Multi-Billion Dollar Ponzi Scheme," Securities and Exchange Commission, December 11, 2008, <http://www.sec.gov/news/press/2008/2008-293.htm>

⁹³ "A man [...] By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." In Adam Smith, *Badania nad naturą i przyczynami bogactwa narodów* [An Inquiry into the Nature and Causes of the Wealth of Nations] (Warsaw: PWN, 1954), Vol. 2, pp. 46–47.

These exceptional challenges should be confronted by national financial analytical units. They should build a fully electronic multidimensional system of information exchange, reporting, profile making, mutual administrative and casual assistance and good practices that will be harmonized for all EU member states. The system should focus on the education and training of employees/functionaries in the field of economic threats and especially in analysis of data (by concentrating on significant information) by means of probation and dual work e.g. in a public, financial or business institution.

The fact that Russia is the only state in the Baltic Sea region that is not a member of the European Union evidently constitutes a grave hindrance to this process, it obstructs the application of provisions and rules of the integration formula within the EU. However, it seems that without establishing a common organizational culture for combating economic crime in all Baltic Sea countries, including Russia, we will not be able to affirm that all was done in order to prevent threats that will continue to exist, and so that the region may counteract and mitigate the effects of criminal activities .

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