

Measuring the vulnerability of legal economic sectors for organised crime

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1. Introduction

In the annual reports of the State Police and then the Minister of Justice, organised crime was until recently viewed from the perspective of crime itself, whereby the focus was always on the activity/crime of certain criminal groups, on the basis of a statistical presentation of crime in Belgium. The result was that the phenomenon of organised crime was approached rather from a statistical vision which left little space for a preventive policy or approach.

Since 1996, however, various political intentions were formulated to pay more attention to a renewed approach to the phenomenon. Two aspects were greatly emphasised in this: on the one hand combating the phenomenon only seemed possible if there was a clear picture of organised crime, for which not only statistical and situational sources were used, on the other hand, the analysis of the phenomenon also had to be supported by a broader basis of sources and by giving the analysis a multidisciplinary character, which make it possible to conceptualise the threat better. In concrete terms, the use of **threat and risk analyses** was proposed. In addition, four principles which had to be given increased attention were given a central role. In the first place, it was suggested that the phenomenon itself should be thoroughly examined again. Then a new analysis was given priority with regard to combating it. Thirdly, the influence of the relation between 'crime and illegal activities' on society was focussed on. But it was the fourth cornerstone that was specifically emphasised: **the impact of organised crime on the legal economy and society**.

However the then State Police was missing an elaborated **methodology** to concretise such a strategic analysis. Nor were there elaborated examples abroad which the department could use or even base themselves on in their policy.

That is why in the first phase the University of Ghent was asked to elaborate a methodology which the government bodies could use in a later phase for concrete analyses.¹ This work was rounded off at the beginning of May 2001, but it only set out the main lines.

This document is the summary of the research whose subject was only the analysis of the vulnerability of legal economic sectors. The research was carried out from 2001 to 2003 and is made up of two parts: the elaboration of a general methodology to indicate the vulnerability in the sectors and its application on a case study of the diamond sector.

2. The methodology

2.1 Objectives of the methodology

As already stated in the introduction, the aim of the methodology is the creation of a tool which will enable the services that are involved in combating organised crime to identify the vulnerability of legal economic sectors for (organised) crime. Such an exercise above all has preventive objectives as it must permit problem areas that have not yet been affected by (organised) crime to be identified. After all, vulnerability does not only mean real infiltration but also the risk (probability) of it occurring.

2.2 Terms and concept

Before starting on the actual methodology, the terms used should be clearly described, followed by a presentation of a concept in which the two central elements of this study, namely organised crime, as the criminological player, and the sector, as the economic area in which it is active, are described together.

In the study, the Belgian definition on organised crime, which is in use since 1992, and is based on the definition of the *Bundeskriminalamt (BKA)*, is also chosen to describe the term '**organised crime**':

1. *The methodical perpetration of offences that, each separately or collectively, have a considerable impact, for reasons of profit or power;*
2. *By more than two persons acting together;*
3. *For a prolonged or indefinite period of time;*

¹ See: BLACK Chris, VANDERBEKEN Tom, FRANS Bruno and PATERNOTTE Marc, *Reporting on Organised Crime. A Shift from Description to Explanation in the Belgian Annual Report on Organised Crime*, Antwerpen-Apeldoorn, Maklu, 2001, pp. 117.

4. *With a division of tasks, in which they*
 - a. *use commercial structures and/or;*
 - b. *make an appeal to violence and/or other means of intimidation and/or;*
 - c. *exert influence on politics, the media, public administration, the judicial or the business world.*

Thus we follow in the footsteps of the Belgian Parliament which already opted for this description in 1992 and reconfirmed this in 1996. So it seems of little use to opt for another, deviating definition.

It is soon apparent, that the term 'economy' is too broad and too vague, so that the attention has to be focussed on the aspect 'sector', which as a subgroup of the economy brings some organisation and order to the entire economy. However, in the literature no suitable definition was available, so that it was necessary to compile a new description adapted to the objectives of the study:

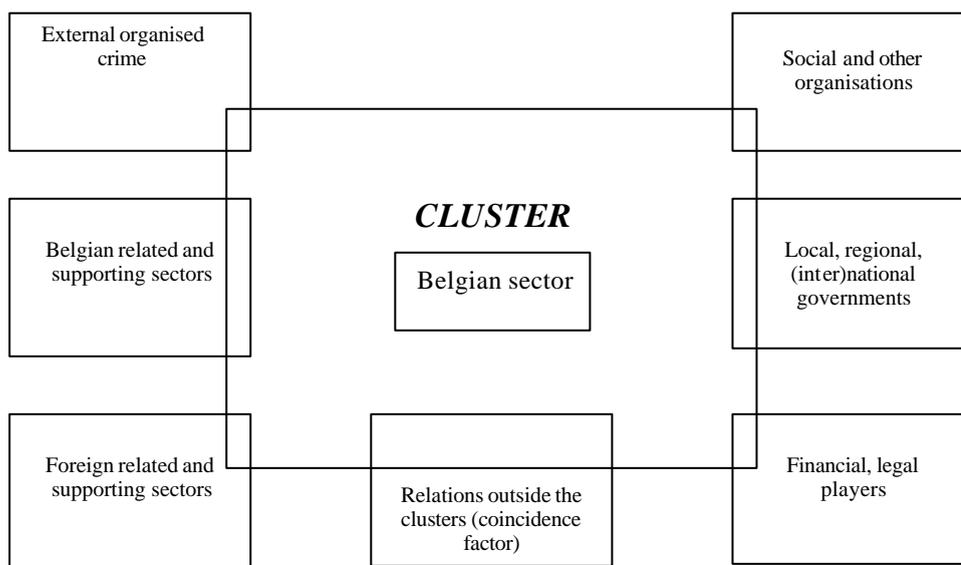
'A sector is an entity made up of companies, brought together in the production process and trade process, for the manufacture and/or trade in a specific main product or service, which is also irreplaceable in the entity of the sector.'

But even the conceptualisation on the basis of this term remains insufficient since it does not pay any attention to the broader environment of the sector, which consists of all kinds of parties and factors which have a significant impact on the players and their activities in the sector, but which do not belong to the sector itself. In order to chart this broader context, Michael PORTER's 'extended diamond model', which in an abstract way was able to describe the broader environment of the sector, is used. This broader environment is called the 'cluster'.²

In addition to a macro-economic vision, a micro-economic description of the entity is also required. Although with the terms 'sector' and 'cluster' it is possible to develop a general picture of the content of relationship between crime problems and legal sectors, it is necessary to zoom in on the micro-economic aspects of the sector, more in particular the corporate structure of the entities. But for this it is necessary to develop definitions of the cornerstones of the business entities in the sector under study. So the term 'business processes' is introduced, which are defined as all the processes in an entity which convert input into output.

2.3 Conceptual framework: the cluster model

Since different terms from two completely different disciplines have to be brought together in this study, it is necessary to develop a specific model for this purpose.



² See: PORTER Michael, *Competitive Advantage of Nations*, New York, Free Press, 1991, pp. 855.

The so-called '**cluster model**' is based on two approaches:

On the one hand we use the '*spectrum of enterprise*' ideas of SMITH who states that organised crime usually organises itself like a legal company which in the first place tries to make profit with the production or delivery of a product, but at the same time depends on other involved parties, such as suppliers, distributors, etc. In this way organised crime is seen as an economic player.

On the other hand we use 'the extended diamond model' and 'the cluster approach' of PORTER to describe the environment of this organised crime on its infiltration of the economy, more in particular in the sector, as circumstantial as possible, so that the interaction between crime and the environment can be charted as well as possible.

The central role is played by the '**core sector**', namely the entity of sub sectors (activities) that are located in Belgium. However, the focus on the national aspect is only a choice made in the course of this study, since in first instance the idea is to carry out sector analyses in Belgium on the basis of the methodology developed. It is self-evident that another geographic description is also possible

A number of sub activities of the core sector can be abroad, however, so that the international aspect of the Belgian sectors also has to be emphasised. To this end, specifically one player was given priority: '**the supporting and related sectors abroad**'.

On the other hand, in view of the Belgian nature of the study, we felt that a distinction has to be made with another player: '**related and supporting sectors in Belgium**'. This refers to suppliers who above all deliver supporting services. The distinction seems in order since to a certain degree foreign sectors are subjected to other (legal, economic, cultural...) conditions than Belgian sectors.

We then mention the '**government**', which is responsible for numerous matters, such as creating a legal framework, training and education, police matters, etc. '**the social organisations and other factors and players**', '**the financial and legal players**' and '**the coincidence factor**', which refers to coincidental, informal ties of friendship between individuals inside and outside the sector.

A somewhat apart player is '**organised crime**' which can, as already has been recognised, also interfere and interact with the sector.

However, all these actors are not fixed players with regard to the sector. Mindful of PORTER's theory, it is assumed that all players, including the sector, function in a dynamic framework and there is strong interaction between them. As a consequence contacts between organised crime and entities in the sector can not only be established in a direct manner but also indirectly via other players on the market or vice versa.

Drawing an economic boundary (the cluster), consequently makes it possible to differ between crime that comes from within the sector on the one hand and organised crime that does not belong to the sector/cluster on the other. The two forms are called internal and external organised crime respectively. The actual difference between the two is that internal organised crime has its own economic activity and thus has the status of a legal entrepreneur. External organised crime, on the other hand, does not have these facilities and is obliged to opt for a strategy of infiltration, so that it has two options. Either it officially enters the sector, or it limits itself to a financial or material injection in an existing company, without becoming responsible for the actual management of the company.

2.4 The methodology

The methodology is made up of five phases:

- 1) **the description of the sector:** in which the sector and market players are discussed from an economical approach.
- 2) **the analysis of the cluster and the environment:** in which the broader context of the sector is portrayed. While the environmental scan discusses the most important trends on the political, economic, socio-cultural and technological context of the sector on macro level, the clusteranalysis descends to the meso level and studies key actors in the surroundings of the sector.
- 3) **the reference models:** in which information is furnished on the micro level of the sector, namely the business entities. In this phase it is attempted to draw up a standard the business structures in the sector, which can serve as a model for alle entities involved in the same line of

business. The model is developed through the identification of a chain of 'business processes'; which convert input into output and which help visualise various business activities.

- 4) **the width and depth scan:** in which the information that is collected in the first three phases is ordered with a view to meaningful analysis. The end result of both the analysis in width and in depth is the drawing up of a vulnerability profile for the sector under study. To somewhat structure this phase, a diagram of indicators is used which has five big parts (branches), of which the first four directly relate to the 'task environment', namely 'the market':
- 1/ **'threshold'**: every entrepreneur with the intention to enter a sector must meet the legal, socio-cultural and economic conditions. This part is composed of the following important indicators: 'legislation and regulation', 'corporate culture', 'market structure and concentration' and 'required capability'.
 - 2/ **'viability of the entity'**: in which the financial and economic situation of the business entities in the sector is examined. This part is composed of the following important indicators: 'solvency', 'transactions' and 'costs'.
 - 3/ **'nature of the product'**: refers to a range of product characteristics which are evaluated on their importance in attracting organised criminal business. Six product qualities are awarded a vulnerability on the basis of six indicators of the same name: 'product mobility', 'stability of value', 'integrity of the product', 'product differentiation', 'elasticity' and 'compatibility/flexibility'. The evaluation of each of these indicators is done while taking into account the three possible functions of the product: as merchandise, as a means of payment and as an investment.
 - 4/ **'international character'**: in which the vulnerability of the legal sector under study is viewed from its international position and its international trade relations with business partners.
 - 5/ **'alternative markets'**: in which next to other legal sectors also attention is paid to the existence, extent and structure of the 'black market', as alternative task environments.

Once the indicators are filled in on the basis of the information collected, a profile must be made of each indicator which shows to what degree there is vulnerability to that specific indicator. To this end a scale technique is used, which identifies four labels, varying from 'very great', 'great', 'little' to 'very little vulnerability'. The use of these labels is not self-evident however, since the descriptions of the labels are not concrete and quantitative which makes awarding always debatable. In practice, the allocation depends on the interpretation of the information collected by the individual researcher. Although there is always scientific accounting for the choice of profile, there will perhaps also be a discussion about the awarding of some profiles. That is why this phase is also the Achilles heel of the study.

Whatever may be, the result is that every indicator is allocated a profile, just like the bigger parts (branches of the diagram) of which the indicators form a part of. Their profile is determined by weighing up the profiles of the various indicators of the same part against each other. So here, too, there is the judgement of judgement of the researcher can be challenged. Nevertheless, in this way the logical structure of the diagram of indicators is respected, which guides and supports the researcher when deciding on vulnerability. Thus the end result, the entire profile of the scan, is an inextricable part of the entire study in which practice and theory go hand in hand. After all, the structure of the diagram runs completely parallel with the methodological foundation, so when the profiles are allocated, the methodology which determines the structure is also taken into account at the same time.

After this exercise, a list of primary vulnerabilities is compiled. The most urgent vulnerabilities are placed at the top and the least important ones at the bottom. Still, not too much importance should be attached to such a list, since every indicator only indicates a very specific element, whilst shortcomings in the sector usually have to be identified by a combination of indicators. A list of indicators can then give some significance to the (theoretical) importance of the indicator, but in practice only has a limited influence on the formulation of conclusions and recommendations.

As the information on the one hand applies at macro and meso level and on the other hand at micro level, the work must always be carried out in duplicate and the two results can never be accommodated in one profile. After all, a clear analysis of the vulnerability profile (width and depth) of the sector must be compiled.

This entire exercise must thus be carried out twice. The width scan applies to the information collected from the sector and cluster description, the depth scan is carried out on the basis of the reference models, but in both cases use is made of indicators.

- 5) **Conclusions and recommendations:** in which on the basis of the vulnerability profile which is drawn up with the findings of the width and depth scan, in first instance some general conclusions are formulated. These conclusions are then used to formulate recommendations which make it possible to undertake action accordingly and deal with the entire or partial vulnerability of the sector under study.

3) The case study

3.1 *Inleiding*

In the case study, the elaborated methodology is applied to a Belgian legal economic sector. The diamond sector is chosen on the basis of several following arguments, *o.a.* the fact that a parliamentary investigation drew attention to a lack of scientific studies about the Belgian sector and its possible vulnerability for organised crime, both in the national and international context.

To carry out the case study, various types of sources were used. First, an extensive bibliography was compiled, consisting of books, legal texts, general magazines and trade journals, confidential and unofficial information, other printed and audiovisual sources and websites.

In addition, relevant contacts, of whom a number on a regular basis, were consulted who on the one hand have an active function in the sector and the other hand are part of government departments which are involved in the supervision and regulation of the diamond sector in Belgium. In order to make nuances in the results of these enquiries as much as possible, study trips were also organised to the United Arab Emirates, South Africa, Great Britain and Australia, where once again numerous people were questioned.

3.2 *Description of the sector*

Before being able to start discussing the national or Belgian dimension of the diamond sector, first a few aspects which go beyond the national character must be explained. Then the Belgian diamond sector is discussed.

The Antwerp diamond takes up a very important position in the **'international diamond pipeline'** due to its function as a wholesale market for rough and polished diamonds. The international diamond sector is composed of a chain of links starting at diamond exploration and ending at the selling of diamond jewellery.

Diamond exploitation is carried out by a large diversity of producers, who can be divided into two groups however. On the one hand, a few very large multinationals are active in the world of diamonds, which in addition to diamond exploitation in most cases also extract other ores. Other players in the exploration and exploitation of diamonds consist of smaller and less organised producers and a few individual miners who are mostly found in Central Africa and mainly sell their goods to buyers on the local market.

Then the stones are brought to the diamond cities which function as a wholesale market (Antwerp, Tel Aviv etc.). There, the gigantic amounts of diamond are redivided into small, specific packets which are then exported to mostly other foreign processing and treatment cities, where the stones are cleaved, sawed, cut and polished. Then they are brought to the wholesale market again or sold directly to a jeweller. This is where the diamond *'pipeline'* ends.

On the international diamond market quasi-monopolist De Beers plays an important role in setting the price for rough diamonds and in shaping market conditions. As a monopolist during years, De Beers succeeded in keeping the price of rough diamonds artificially high for years, as 80% was extracted by them. So there is price-setting rather than price-forming in accordance with the principles of a free market. In a sector that is sensitive to economic fluctuations and competition is though the gigantic diamond company The Beers is considered a major player.

The price of rough diamonds is determined by the high operating costs on the one hand and the market conditions on the other.

The properties of the stone are above all expressed in the field of price-forming of cut goods, which in the diamond world are known as the *'4 Cs'*: *colour, carat, cut and clarity*. Colour, weight (*carat*), cut (*cut*) and purity (*clarity*) are each divided into degrees, so that each stone is automatically awarded four

degrees. In addition, other factors play a role, such as the dollar exchange rate, the social and economic developments in the world, etc.

The complex manner in which the price is determined does immediately demonstrate the complex and untransparent nature of the trade in diamonds, which tends to be even more confusing for the average consumer.

The Belgian diamond sector

According to the Nace-bel code³ there are only two activities in Belgium which directly refer to the trade in or processing of diamond: 'wholesale of diamond' (code 51561) and 'diamond cutting and polishing' (36221). The first activity refers to the wholesale function in the diamond trade, the second to cleaving, sawing, cutting or polishing diamonds. In addition to these two functions there are, however, an unknown number of diamond brokers (the official term is 'Agents specialised in the sale of particular products or ranges of goods' and 'agents involved in the sale of a variety of goods') and entrepreneurs who either trade diamond on behalf of a wholesaler or trade in diamonds for their own account, without being registered as a wholesaler, whom we call 'diamond dealers'.

So it is not entirely clear who actually is involved in the international diamond trade vested in Antwerp, but information collected during the study points out that there are about 1500 wholesalers and 250 cutters, in addition to an unknown number of trade mediators and at least 1000 diamond dealers. The collected data also shows that the many wholesalers and cutters have, next to their main economic activity, all kinds of other economic activities. For example, 268 wholesalers and cutters are active in both branches (wholesale and diamond cutting and polishing), whilst over 350 dealers are also involved in completely different activities, such as selling or manufacturing jewellery.

The Belgian diamond sector represents the **wholesale market** in the world of diamonds. 150 million carats are imported in Antwerp in large packets and redivided amongst about 2000 dealers and exported again to the client who receives goods cut to size. This redistribution is also represented in a very broad range of every conceivable type of diamond. This very intensive trade does then have serious consequences for the Belgian entrepreneur, who operates on an extremely competitive market, where prices are very sharp and profit margins are particularly low. One bad decision in the purchase of diamonds is a drain on resources, a good deal is considered as an opportunity to expand. Diamond dealers therefore have to be able to take or cushion risks from time to time.

The nature of the market makes it difficult to compare the Antwerp diamond sector with other sectors in Belgium. After all, all the market players are obliged to be present in one small quarter of the city, consisting of three streets. Every dealer therefore looks over the shoulder of every proximate competitor. At the same time, trade is built on personal trade contacts and trust. So the importance of trust, and therefore also of distrust, between business partners and competitors is high. The competition is after all hard as nails, whilst the market is very sensitive to the economic climate.

Every newcomer on the market has two great barriers to overcome: acceptance by the group of diamond dealers and having sufficient capacity, capital and trust.

For the outsider, the Antwerp diamond sector remains an unknown world. Figures about the market players and the sector that come from different sources contradict each other in many areas. Very often, vague, macro-economic information is available, but concrete information about the natural persons and legal entities active in the diamond trade, are insufficiently reliable or incomplete. The official data on trade activities do not bring clarity either. For example, the possibilities for auditing price setting and determination leaves something to be desired, whilst the extensive sorting process in Antwerp does not exactly contribute to better transparency either.

During the search for the number of diamond dealers and their economic status, the conclusion is reached that it is very difficult to determine which entities exactly are active in the diamond trade and to what degree they are registered with the government bodies responsible. Nor is it clear which goods precisely are traded on the local market, and how the Belgian diamond dealers are conducting their business abroad, more particularly in Africa.

From this we can conclude that the transparency of the business transaction of the market players in Antwerp is particularly low. Although the official importers and exporters are known and registered, it is

³ The Nace code is the European codification system which divides all companies in the different national economies into sectors and sub sectors by their main activity. Thus the system is the European standard of activities which applies to the member states of the European Union, albeit that national deviations or adjustments are permitted, depending on the specific and national economy.

not clear at all, which and how many, entities are active on the local, and perhaps the informal, international market.

3.3 Analysis of the environment

As the diamond sector is part of the global economy and is inextricably connected with society, many recent developments have an effect on it.

The **economic trend** of the past few decades of the last century is 'globalisation', referring to an increased and strong integration of the international goods and capital markets which are no longer limited to political boundaries. In addition, the majority of the global population opts for a free market. The result is open competition between continents, deregulation of the financial markets, localisation of industry to low-income countries, etc.

On the **social and cultural domain** the international diamond community is mainly confronted with the current and manifest expression of citizenship. An important catalyst for this enhanced awareness is the action of Non-Governmental Organisations (NGO's). Is an example the campaign of certain NGO's against the trade in conflict diamonds can be mentioned. A British NGO, '*Global Witness*', acted against the use of diamonds, wood and other goods who were used in the fuelling of brutal wars in some African countries. Under pressure of public opinion and within the framework of the UN steps were taken to put an end to trade in conflict diamonds. This political discourse is known as the '*Kimberley Process*'.

Technological evolution has brought the diamond sector more automation and expertise. The process for improving the quality of diamonds (HPHT⁴) and the technology of the laser for processing goods, are perhaps the most influential technical developments of the past few decades in the diamond world.

Globalisation also has an impact on the **political domain**, although many nation states and nationally organised structures stay resistant to full integration in supra-national structures, and desperately cling to national sovereignty regarding certain power structures. For example, the UN is playing a greater role than ever as a political forum, just like the European Union which is attracting more and more candidate member states. Even if the foreign policy of many countries still has an explicitly bilateral character, we can nevertheless determine that recent multilateral initiatives, such as the '*Kimberley Process*', were taken to solve certain problems.

3.4 The cluster analysis

The elements (actors) that are paid a closer look in the cluster analysis are grouped according to the following headings: **related and supporting sectors abroad** (production, processing, trade centres...), **related and supporting sectors in Belgium** (trade in jewellery), **the financial and legal actors** (diamond banks...), **social and economic organisations** (Diamond High Council...), **the government** (UN, EU, the Belgian government...) and **crime** (financial and economic crimes, illegal diamonds, illegal trade in weapons, drug trade, terrorism...)

An important actor in the cluster surrounding the Belgian diamonds sector is the 'Hoge Raad voor Diamant Antwerpen vzw' (HRD - Antwerp Diamond High Council), which is the official representative of the sector and brings together the 13 important professional associations of the sector.

On the level of surveillance and control of the Antwerp diamond sector by the Belgian government various government departments are involved in the regulation, registration and law enforcement. An important pillar of the surveillance of the international diamond trade in Antwerp is '*Diamond Office*'. This office, which in practice mainly functions as a customs office, is vested within the infrastructure of the Diamond High Council and falls under the joint responsibility of the Minister of Finance and the Minister of Economic Affairs. On the basis of the issuing of import/export licences, Kimberley certificates and through the official registration and following up of diamond entities, the control on the international diamond trade is materialised.

Next to the control on international trading, there also exist specialised Belgian inspection services for aspects of law enforcement relating to the diamond sector. These specialised sections are located with the Local and Federal Police, but also with the tax administration (special financial inspection) and customs administration.

In view of the determining the vulnerability of the diamond sector for (organised) crime, the section on crime is worked out broadly by elaborating on factual material. This broad exposure of material is considered to be necessary in the course of attaining conclusions on three different kinds of vulnerabilities: in first instance the vulnerability of the Belgian diamond sector for abuse and infiltration

⁴ High Pressure High Temperature Treatment

by external organised crime, in second instance the vulnerability of the Belgian diamond sector for internal organised crime and in third instance the vulnerability of the Belgian diamond sector as a victim of (organised) crime. In the course of this broad elaboration attention is also being paid on the criminal use of diamonds in criminal strategies (for example in the illegal weapons trade). Of course, in this way, consideren the level of the product exceeds the level of the sector.

The factual material mainly points out that various fraud systems are developed with the knowledge of financial institutions and entities in the diamond sector. The frequent finding of suspicious transactions in the diamond sector should in first instance be brought in connection with the omnipresence of tax evasion in a capital-intensive sector which is confronted with a certain international economic reality. The existence of a significant 'black market' also explains the use of loan constructions to be able to reuse the 'black assets' again in legal economic activities. In this way, the majority of violations can be attributed to illegal practices by diamond dealers and thus can be labelled as internal (organised) crime. In the files of these financial economic offences it is noticeable that the tax fraud and the 'black accounts' as it were each time goes beyond the level of the individual malafide entity by linking a specific demand of the sector to a supply by specialised brokers geared to it.

Next to this other forms of crime are found. The opportunity structures in and around the sector and certain characteristics of the product are very interesting to use diamonds and diamond entities in criminal strategies. An clear example of this is the case ABBAS, in which a diamond business and the financial services it enjoyed were abused to launder illegal funds from the drug trade.

3.5 The width scan

In the width scan the collected information is brought together with the diagram of indicators. The indicators and each part of the diagram are awarded a vulnerability profile after an evaluation of the data on hand. The five most important parts will now be discussed one by one.

The part **'threshold'** is awarded great vulnerability, due to the great vulnerability of two of the four elements, of which *'legislation'* carries the most weight. The concrete problem in this part is the fact that there is good legislation, but its application leaves something to be desired. This is primarily apparent from the profile of the indicator *'efficiency of the inspections'* which was awarded very great vulnerability. Nor is there much evidence of deterrence, as the indicator *'repression'*, which falls under *'risk of being caught'*, was also awarded very great vulnerability. On the other hand, the very high economic threshold points out that fully -fledged infiltration by external organised crime is less obvious.

The **'viability of the entities'** once again points to very great vulnerability. Two elements, namely **'transactions'** and **'solvency'**, are awarded very great vulnerability, the third cornerstone, **'costs'**, great vulnerability. For the part **'solvency'**, above all the indicator *'creditworthiness'* is awarded very great vulnerability and weighs the heaviest of three indicators. With a solvency ratio of 3%, the diamond companies hardly seem to have any own funds invested, whilst an average ratio of a company in Belgium is 30%. This means that the diamond companies are not financially independent and completely depend on external financing by banks or other financial sources. The result is that their entire activity is founded on borrowed money and/or claims. In a sector which is especially sensitive to economic fluctuations, special attention should be focussed on this given in view of the attempts of organised crime to infiltrate entities facing financial pressure. The third cornerstone **'costs'** is awarded great vulnerability.

With the **'nature of the product'**, six properties that are simultaneously indicators are discussed. Each time, the indicators are evaluated according the three functions of the product: as **merchandise**, as a **means of payment** and as an **investment**.

- **'Stability of the product'**: Diamond is *'for ever'*, it does not have an expiry date, does not perish and therefore does not have to be traded on or by a certain date. No restrictions are imposed on criminal strategies by the physical nature of the product itself.
- **'Mobility'**: This indicator was awarded very great vulnerability since diamonds are very easy to be transported covertly.
- **'Compatibility/flexibility'**: diamonds offers the criminal a lot of possibilities for setting up and continuing an extremely flexible organisation and activity.

- *'Product differentiation'*: diamonds, as a 'white product' cannot be individually identified or traced at any time
- *'Elasticity'*: diamonds are extremely interesting as a means of payment or investment, also in relation to criminal activities of malafide entrepreneurs.

The part *'black market'* is awarded very great vulnerability. Two indicators of this part, *'size'* and *'demand on the market'* are each awarded very great vulnerability. The size of the international illegal market is estimated by experts and insiders at 15-30% of the global production. The factual material points out that there is a substantial black market. In view of the seriousness of the presence and size of the illegal market, but above all its structure, namely that illegal and legal trade are to a great extent interwoven, very great vulnerability is awarded.

The part *'international character'* consists of two indicators: *'international trade network'* and *'political and economic weight'*. Both indicators, and therefore also the whole part, were allocated very great vulnerability.

While an important part of the international diamond trade is located in Belgium, the economic sector and the activities within the international diamond *pipeline'* are strongly internationalised. Taking into account the international context and structure of the diamond trade, criminal facts in and around the diamond sector are placed in perspective. The political and economic reality of some African countries, the trade relations with Russia and Tel Aviv and the existence and role of offshore centres, can thus have a strong (negative) impact on the international position and reputation of the Antwerp diamond center.

3.6 *The depth scan*

During the execution of the depth scan, it became clear that the indicators as developed in the methodological part of the research project, are not suitable for indicating the vulnerability on micro-level structures. Despite the fact that the indicators served their purpose well to identify indications of vulnerability in content (on macro and meso level), other indicators are needed for the study in depth. As a result it was not able to carry out this scan.

4. Conclusions and recommendations

4.1 *The first multidisciplinary vulnerability analysis of a legal economic sector*

1. This analysis of the diamond sector is the **first sector analysis** in which the methodology is applied. Consequently, it is not possible to compare the findings on the vulnerability of this sector with the vulnerability profiles of other sectors.
2. This analysis of the diamond sector is a **vulnerability analysis** with regard to organised crime. Statements regarding the vulnerability of the diamond sector are thus not necessarily based on findings on concrete cases of infiltration and organised crime. The aim of vulnerability analysis is to detect aspects of the potential danger of infiltration and/or organised crime.
3. As opposed to the analysis of criminal groups, a vulnerability analysis is not primarily focussed on organised crime, but on **the environment and opportunity structures** for organised crime. Sector analysis consequently necessitates the use of other than criminological sources, and must be executed within a multidisciplinary framework in which also economic data has an important role.
4. One of the aims of this vulnerability analysis was **the testing of the feasibility of the developed methodology** in the first part of the research project. A general conclusion is that the methodology allows profound analysis of a legal economic sector to be done and supports the formulation of well-substantiated conclusions about this. It seemed useful though to regroup the indicators, have some indicators removed or defined differently. Finally, putting the methodology into practice also pointed out that more (economic) research is required to further develop the parts 'reference models' and 'depth scan' which depends on the first.

4.2 First conclusion: a complex and barely transparent sector

1. The Belgian diamond sector only represents a part of a bigger whole and functions accordingly. Changes in the social and economic reality and in the large quantity of national and international trade relations, influence the environment in which the Belgian diamond sector functions. An evaluation of the vulnerability of the sector thus necessitates taking into account this international and multilevel **context**.
2. The sector faces an important **definition and registration problem**. The term ‘diamond dealer’ has not been given a univocal definition so that adequate and uniform registration of the activities within the sector is practically impossible.
3. This lack of registration and clarity means that **the government and the sector insufficiently have** the disposal of **reliable information** to carry out their inspection and supervision tasks.
4. The transparency problem also leads to **enormous fragmentation in the area of control and supervision**, so that the different departments involved work very much next to each other and the information that is presented and generated is not sufficiently linked and understood. What is more: these departments are struggling with **a lack of infrastructure, manpower and resources** to expand their own expertise with regard to diamond issues.
5. The **flow, origin and final destination of the financial transactions** often remain unknown and it is practically impossible to trace **the activities of Belgian diamond dealers in an international context**.

4.3 Second conclusion: more than just tax and economic crime

1. The criminal activities in the diamond sector primarily relate to tax and economic offences, money-laundering and the trade in illegal (conflict) diamonds.
2. Nevertheless, the nature of the product traded, the (infra)structure and the reputation of the sector create additional opportunities for abuse by persons from inside and outside the diamond sector when committing other criminal activities (drug trade, arms trade, etc.).

4.4 Third conclusion: very great to great vulnerability

A **very great to great vulnerability** is awarded to the following parts:

1. The **‘nature of the economic product’**: certain product properties such as the degree of mobility, the compatibility and flexibility ensure that the diamonds can be fit neatly into the illegal strategies of criminal groups, without a structural link to the diamond sector being necessary.
2. The **‘international character’** of the diamond trade: Whilst a significant part of the diamond trade is located in Belgium, the economic sector and the decision-making in this respect have been greatly internationalised. As long as action is taken at international level with regard to only sub aspects of the issue (e.g. conflict diamonds), the international character of the sector will continue to create significant opportunities for all kinds of illegal practices and purely national action will remain largely mortgaged.
3. The limited **‘viability’** of diamond companies: The sector is very capital-intensive and sensitive to the economic climate and is moreover characterised by a high number of economic entities with low solvency. This financial pressure makes the sector very vulnerable to unauthorised activities and the offer of illegal capital by criminal groups.
4. The presence, but above all the nature of a substantial **‘black market’** causes this phenomenon to be considered an important problem area as well.

A **smaller, but still great vulnerability** is awarded to the part **‘threshold’**. This score is the result of the evaluations of the following indicators:

1. **‘corporate culture’**, and especially ‘transparency’: notwithstanding the growing openness of the diamond sector towards the (Belgian) government, the mutual trust still is considered fragile causing business transactions in the diamond sector still to be little transparent.
2. **‘legislation and regulation’**, and especially **‘risk of being caught’** and **‘balanced nature of the legislation’**: although the Belgian government has taken initiative on the legal and organisational domain, still much has to be improved in the functioning of the different departments involved. The challenge particularly emanates from the level of execution of the existing legislations than of the legislative framework itself. This is above all caused by the absence of systematic coordination between different government departments, and not as much by a kind of ‘policy of toleration’ by those departments.

3. As a final remark it must be mentioned that not every vulnerability leaves room for immediate action and policy initiatives. For example it is much more simple to take measures regarding the viability of the entities or the threshold than it is easy to find a solution for the vulnerability that stems from the nature of the product.

4.5 Recommendation for further research

1. Proceeding in the **perfecting of the methodological basis** for sector analysis.
2. Applying the methodology to **other legal economic sectors** in view of comparing research results.
3. **Embedding sector analyses in the structure of the new methodology** which is used in Belgian and European reporting on organised crime, as to develop well-substantiated threat analyses.

4.6 Recommendation for multidisciplinary cooperation and coordination in prevention and repression

On the level of **prevention**:

1. Multidisciplinary cooperation **between and within the different government departments** involved in the surveillance of the diamond sector, so that the general inspection services get better insight in the sector and the vulnerabilities it faces in order to detect problem areas and abuses in an early phase. This can be achieved amongst others via:
 - the creation of an efficient, reliable and uniform **registration system**. This requires a clear **definition** of the economic entities active in the sector, whether or not linked to **access to the profession**;
 - the working out of **risk analyses** on the basis of compiled and joint information, which can serve as a guide in setting priorities regarding to surveillance and control;
 - further investment in **making different actors susceptible to structural vulnerabilities** which stem from indicators such as '*nature of the product*' and '*international character*' of the diamond sector.
2. Cooperation **between the government and the diamond sector** in which agreement is reached on issues of **information exchange and registration** (for example the access to the profession). The Diamond High Council and the diamond banks could play an important role in this part. At the same time, industry **self-regulation** could be stimulated some aspects of the trade (for example the issuing of quality labels) and **internal control** (for example on the basis of auditing and network analysis). Even in the working out of measures to enhance the **solvency** of the economic entities, the sector itself could play an important role.
3. **International cooperation and information exchange** between actors involved in the international diamond trade.
 - The **Kimberley Process and the discussions on the level of the European Union** are considered very important. Nevertheless, one should be cautious that a one-sided focus on the problem of conflict diamonds tends to narrow the view at the expense of other problem areas;
 - The existing **UN expert panels** can be considered important sources of information provided that judicious use is made of the data;
 - It is important to set up an **international monitoring mechanism** for the uniform registration and charting of the international flows of goods;
 - Next to this it is meaningful to, in cooperation with the sector, further elaborate existing international initiatives regarding industry self-regulation, to come to an **enforceable deontological code** for diamond dealers; and
 - Further stimulate **international agreements regarding financial and economic regulations** in general and the international diamond trade in specific.

On the level of **repression**:

1. Multidisciplinary cooperation and information exchange between the **inspection, investigation and prosecution services**. From this perspective, the already existing *Task forces* are considered meaningful and should be further developed and made more operational so that also within the

different services (for instance the Ministry of Finance in dealing with the black market phenomenon) more efficient action is made possible;

2. Cooperation between the different **law enforcement services and the sector** itself, amongst others via further attuning and perfecting the already existing agreements between the Diamond High Council and the Public Prosecutor's Office. Also the further development of an **internal disciplinary mechanism** to sanction deontological infractions is recommended.
3. The setting up of a framework for **international cooperation** between all actors involved in the control of the international diamond trade.

A link between preventive and repressive policy: Information exchange between the level of prevention and repression is necessary so that both sides are able to act on the basis of a well-substantiated and complete picture of the issues regarding the international diamond sector. This can be made possible amongst others if the already existing *Task Forces* are also assigned a preventive function. It is however necessary to provide this kind of information exchange with a specific legal framework ('armed' administrative law).