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## **Panel Discussion II – A Governance Perspective: Improving Compliance and Enforcement Frameworks to Reduce Illicit Arbitrage Opportunities**

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**OECD, Paris 26 October 2012**

# Key Questions

- Where are the known global weak links, and what metrics are there to suggest that gaps in policy implementation create opportunities for illicit trade?
- What are the key policy levers that have been successful to stem networks of illicit trade?
- How to enhance detection capabilities through risk based strategies and non intrusive inspection technologies?



# Global Weak Links for Illicit Trade

Illicit trade in Italy (weapons, tobacco, drugs, gold and other precious stones, works of art, etc.) finds its lifeblood in the existence of gaps and weaknesses in the whole public and private frameworks.

Some of these weak elements are:

- Use of corporate vehicles and related lack of transparency in the corporate structure
- Transparency of public administrations' decision-making processes
- Corruption of private and public individuals to commit crimes
- Weak legality culture and lack of discouraging and proportionate measures (low sanctions, entailing problems of time limitation)



# Opportunities for Illicit Trade: Gold

13 June 2012 («*Il giornale del Veneto*»): After 2 years of investigation, Vicenza's Tax Inspectorate identified multiple systems of fraud connected to the sale of gold and precious stones by Italian companies to foreign operators, with the complicity of Customs representatives.

The black sale of precious stones for over 3.3 tonnes was mainly masked by false exports, mainly to companies turned out to be non-existent in Hong Kong, Russian Federation, and Croatia.

The crimes ranged from smuggling, ideological falsehood, embezzlement, tax fraud. The investigation, with the cooperation of Chinese and Russian authorities, reconstructed cash flows carried by 26 companies based in tax havens for more than € 36 million.

Over 2 years, Vicenza's Tax Inspectorate recovered a taxable income of over € 370 million.



# Opportunities for Illicit Trade: Works of Art

The report (in the report on its activities between 2009 and 2011 by the National Anti-Mafia Prosecutor and the National Anti-Mafia Directorate) on the infiltration of organised crime into trafficking in works of art: *"The interest of organised crime in the illegal world of art is constantly growing. This extremely lucrative sector can be a smooth channel of money laundering."*

Almost always these criminal organisations have an international profile, since the value of a work of art is remarkably greater in foreign markets (especially USA and Japan) than in Italy's domestic market.



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# Opportunities for Illicit trade: Tobacco

During the period 1997-2007, with the intensification of controls, new laws and agreements with Eastern European countries, Italy became primarily a transit country for cigarettes smuggling.

However, in late 2008, Italy newly became country not only of transit, but also of consumption. This change is highlighted by the strong increase in the number of seizures by *Guardia di Finanza* (173 tons in 2004 - 256 tons in 2009).



# Links between Corruption and Economic Growth

- Corruption undermines the confidence of markets and businesses and causes loss of competitiveness for Italy (Report on Corruption in Italy submitted by Italy's Government – 22 October 2012).
- There is an inverse relationship between corruption spreading and economic growth in countries.
- Corruption costs in Italy are equal to € 60 billion; public procurement costs have increased by 40%.
- There are costs related to delays in the definition of administrative and judicial procedures.



# Italy's Current Legislative Reforms on Corruption

On 17 October 2012 Italy's Senate passed the bill against corruption. Among its most important reforms:

- National Anti-Corruption Authority, headed by Anti-Corruption Commissioner
- National Anti-Corruption Plan
- Legislative delegations to the Government concerning:
  - ✓ Reorganisation of administrative transparency
  - ✓ Definition of offences and disciplinary actions concerning the terms of administrative proceedings
  - ✓ Incompatibility of management positions, ineligibility and prohibition to hold elected and government offices resulting from final judgments of conviction for (pre-) intentional crimes
  - ✓ Strong sanctions for corruption crimes
  - ✓ Protection rules for whistleblowers





# Countermeasures against Corruption in Italy

- Strengthening the distinction of powers between political bodies and administrative bodies
- Growth in capacity of public bodies to exercise their administrative functions
- Enhancing professional staffs and job rotation (limitation of private counselling)
- Legality culture
- Burdening sanctions



# Successful Key Policy Levers

- Domestic and international cooperation among authorities
- Strengthening investigations
- Adoption of new laws or agreements
- Heavier sanctions (increased limitation time)



# Enhance Detection Capabilities

Risk-based strategies and identification of risk factors:

- Customer: legal entities, economic sector involved (“buy gold”), etc.
- Country or geographic factors
- Product/ transaction/ delivery channel



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# THANK YOU FOR YOUR ATTENTION !

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