

Chapter 5

The cost of countering future organised crime

Introduction

5.1 The economic cost of countering current and future organised crime is difficult to quantify. This is due to the fact that the activities of organised crime cover a range of areas such as organised fraud, money laundering, bribery, corruption of public officials and illicit drug manufacture, importation and distribution.¹ The cost of organised crime also encompasses lost productivity, the cost of law enforcement and judicial systems and the profound social costs borne by individuals and communities.

5.2 The committee examined, in broad terms, the cost of serious and organised crime to Australian society as part of considering whether the efforts of Australian policymakers and law enforcement agencies (LEAs) against organised crime will match sufficiently the scope of the problem in the future. There is no doubt that organised crime imposes vast costs on all sectors of Australian society.

The economic cost

5.3 The committee received very little detailed evidence on the future economic costs of combating serious and organised crime. These costs, at a national and state and territory level, are diffuse and difficult to quantify.²

5.4 Mr Frank Costigan QC, appearing in a private capacity, observed that the weapons used in fighting organised crime are found in numerous agencies and are therefore considerable.³ The Australian Transaction Reports and Analysis Centre (AUSTRAC), Australia's specialist financial intelligence unit, whose purpose is to detect and counter money laundering and the financing of terrorism, illustrated the significant cost to the Commonwealth Government of funding departments and agencies to undertake their role in addressing organised criminal activity.⁴

5.5 The Commonwealth Government has agreed to increase appropriations to fund anti-money laundering and counter-terrorism financing (AML/CTF) reforms. AUSTRAC's total appropriation funding until 2010 is:

- 2006-07: \$36.693 million;
- 2007-08: \$59.274 million;
- 2008-09: \$54.928 million; and

1 Western Australia Police, *Submission 15*, p. 4.

2 Western Australia Police, *Submission 15*, p. 4.

3 *Committee Hansard*, 1 May 2007, p. 36.

4 *Submission 10*, p. 3.

- 2009-10: \$56.136 million.⁵

5.6 The escalating cost of combating serious and organised crime over time is demonstrated by a comparison of the combined budget allocations for the range of agencies that are, to varying degrees, responsible for the dismantling and disruption of serious and organised crime. The committee compared the budget allocations for the 1997-98 and 2007-08 financial years of the Australian Crime Commission (ACC),⁶ the Australian Federal Police (AFP), CrimTrac⁷ and AUSTRAC in order to estimate the increase in the core expense of fighting organised crime.⁸

5.7 The figures for 1997-98 are based on the budget allocations for that year, which appear in the various annual reports, and include additional estimates figures. They are:

- AFP: \$256.278 million;⁹
- National Crime Authority (NCA): \$43.236 million;¹⁰ and
- AUSTRAC: \$8.305 million.¹¹

5.8 Total budget spending for the NCA, the AFP and AUSTRAC in the 1997-98 budget year was \$307.8 million.

5.9 The budget figures for 2007-08 were taken from the portfolio budget statements for the Attorney-General's Department.¹² They show the following funding figures:

- ACC: \$96.2 million;¹³
- AFP: \$975.801 million plus a departmental capital equity injection of \$90.066 million;¹⁴

5 Australian Transaction Reports and Analysis Centre, *Submission 10*, p. 6.

6 The Australian Crime Commission replaced the National Crime Authority in 2003; the committee has used the latter's budget figures for 1997-98.

7 CrimTrac was established in 2002.

8 The committee notes that accrual accounting was introduced after the 1997-98 financial year.

9 Australian Federal Police, *Australian Federal Police Annual Report 1997-98*, p. 16, http://www.afp.gov.au/about/publications/annual_reports/afp.html, viewed 3 September 2007.

10 National Crime Authority, *National Crime Authority Annual Report 1997-98*, p. 61.

11 Australian Transaction Reports and Analysis Centre, *AUSTRAC Annual Report 1998-99*, p. 155, http://www.austrac.gov.au/annual_report.html, viewed 3 September 2007. Note there is no online report for 1997-98. However, the figure for 1997-98 is quoted in the 1998-99 annual report, and it is this figure which has been used.

12 Attorney-General's Department, Portfolio Budget Statement 2007-08, <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, viewed 3 September 2007.

13 Attorney-General's Department, Portfolio Budget Statement for the ACC 2007-08, p. 106, <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, viewed 3 September 2007.

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- AUSTRAC: \$59.37 million;¹⁵ and
 - CrimTrac: \$3.181 million.¹⁶

5.10 The total allocation for the four agencies for 2007-08 is \$1.224 billion.¹⁷ While this figure is a useful indicator, it should not be considered definitive. The committee acknowledges that these allocations cover a range of activities not solely directed to addressing serious and organised crime. However, they are indicative of the massive and escalating investment in specialised law enforcement agencies, much of which is directed to addressing organised crime. Conversely, the figure of \$1.224 billion does not reflect the expenditure of non-police agencies in relation to organised crime. The Australian Customs Service (Customs), for example, has the responsibility of maintaining the integrity of Australia's borders. This, in practical terms, is a major involvement in preventing the movement of illicit and dangerous goods by organised crime into Australia, and the related costs could be legitimately included in the comparison of budget allocations for organised crime conducted above.

5.11 The cost to health services of dealing with drug abuse is another consequence of organised crime. The committee notes the difficulty in quantifying this amount, as there are many agencies involved, both state and Commonwealth. In its report into amphetamines and other synthetic drugs, the committee commented extensively on the cost implications of drug use, not only in relation to health service providers and treatment facilities but also in relation to the cost of preventative programs that emphasise the health risks associated with drug use.¹⁸

5.12 The cost of countering serious and organised crime to law enforcement agencies is also significant. The South Australia Police submission, while highlighting the difficulty of putting a precise figure on countering organised crime, argues that the direct and indirect annual expenditure on organised crime in SA is around \$15.6 million.¹⁹ The Western Australia Police (WAPOL) submitted that the amount

14 Attorney-General's Department, Portfolio Budget Statement for the AFP 2007-08, p. 167, <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, viewed 3 September 2007.

15 Attorney-General's Department, Portfolio Budget Statement for AUSTRAC 2007-08, p. 256, <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, viewed 3 September 2007.

16 Attorney-General's Department, Portfolio Budget Statement for CrimTrac 2007-08, p. 299, <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, viewed 3 September 2007. The allocation for CrimTrac is predicated on CrimTrac raising \$39,692 million in services sold.

17 This figure does not include the amounts for additional estimates; however, the committee does not consider this likely to have a significant effect.

18 Parliamentary Joint Committee on the Australian Crime Commission, *Inquiry into the manufacture, importation and use of amphetamines and other synthetic drugs (AOSD) in Australia*, 28 February 2007.

19 *Submission 7*, p. 5.

specifically directed to organised crime in WA in 2006 was approximately \$4.2 million.²⁰ The Queensland Police Service has an annual budget of \$1.4 billion, of which the State Crime Operations Command, which deals specifically with organised crime, receives \$58.438 million.²¹

5.13 The committee heard that these costs will increase significantly in the future across all Australian jurisdictions.²² In part, these increases will occur as a result of the increasing sophistication and transnational nature of serious and organised crime groups, and the equivalent level of technological and international solutions that will be required in response.²³

5.14 The Western Australia Police submission notes that domestic organised crime groups such as OMCGs will also make considerable demands on the budgets of LEAs in the future, as the activities of these groups continue to cross jurisdictional boundaries, and they increase their use of technology to counter law enforcement efforts:

Given the current climate of increased co-operation between O[M]CGs, the emergence of technologies which make traditional police work difficult and the large economic incentives connected with organised crime, it should be noted that a significant increase in law enforcement resources will be necessary to counter/prevent the activities of O[M]CGs. This cost is anticipated to increase year by year.²⁴

5.15 The national nature of organised crime, whereby criminal groups do not respect jurisdictional boundaries, has seen a shifting of responsibility between the various levels of government. Mr Mark Burgess, Chief Executive Officer, Police Federation of Australia, observed:

...the lines of demarcation between Local, State & Federal Governments in respect to law & order issues are becoming increasingly blurred...crime does not operate on State boundaries. It transcends not only State borders, but also national boundaries. Crime undermines the security of Australia and Australians.²⁵

5.16 The committee notes that state and territory governments experience a pull of resources away from the more traditional areas of local policing toward high-end organised and serious crime:

20 *Submission 15*, p. 4.

21 Detective Chief Superintendent Ross Barnett, Queensland Police Service, *Committee Hansard*, 7 June 2007, p. 25.

22 Mr Mike Silverstone, Executive Director, Corruption and Crime Commission of Western Australia, *Committee Hansard*, 30 April 2007, p. 26.

23 NSW Police Force, *Submission 20*; Australian Crime Commission, *Submission 17*; Australian Federal Police, *Submission 16*.

24 *Submission 15*, p. 4.

25 *Submission 5*, p. 3.

The economic cost of addressing crime will continue to be a major drain in the future, particularly as we see the state[s] moving into roles which have traditionally been those of Commonwealth agencies, and probably because of the Commonwealth agencies' commitments to things which were, a few years ago, inconceivable.²⁶

5.17 The cost borne by state and territory police forces for obtaining telecommunications data, which is largely required as a result of policing the activities of serious and organised crime groups, illustrates the escalating cost to state and territory police.

The cost of obtaining telecommunications data

5.18 Serious and organised crime groups are increasingly exploiting mobile phone technology to communicate and to facilitate their activities. Police access to telecommunications is expensive and draws valuable resources away from more traditional areas of policing.²⁷ Detective Superintendent Mark Porter, State Intelligence Division, Victoria Police, told the committee that the cost of obtaining such information is significant and, over the last three years, has consistently increased:

Our cost so far was just over \$500,000 at the end of March [2007], but I believe the projection is approaching \$800,000 for a full 12 months, just for telephone checks.²⁸

5.19 Chief Commissioner Christine Nixon, Victoria Police, highlighted the cost not only to Victoria Police but also to a range of agencies:

It is a key investigation tool for us...[The figure cited above] is just Victoria Police costs, let alone Federal Police costs and other people's costs...We believe that access is important. But the cost to us of getting that kind of information continues to escalate.²⁹

5.20 In NSW, the committee also heard about the significant cost imposed on police services for telecommunications data as part of the efforts to address serious and organised crime:

...for the financial year ended 30 June 2006, the cost to the NSW Police Force of authorised telecommunications interception was \$1.63 million. As at 30 April this year it is \$1.43 million...These costs are borne by the agency as part of its focus and direction towards organised crime.³⁰

26 Assistant Commissioner Wayne Gregson, Portfolio Head, Specialist Crime Portfolio, Western Australia Police, *Committee Hansard*, 30 April 2007, p. 3.

27 Detective Superintendent Kim Porter, Divisional Superintendent, Organised Crime Division, Western Australia Police, *Committee Hansard*, 30 April 2007, p. 18.

28 *Committee Hansard*, 1 May 2007, p. 32.

29 *Committee Hansard*, 1 May 2007, p. 20.

30 Commissioner Ken Moroney, NSW Police Force, *Committee Hansard*, 8 June 2007, p. 10.

5.21 The committee was advised that, under current arrangements for obtaining telecommunications data, telecommunications companies are required by the *Telecommunications Act 1997* to provide 'reasonable necessary assistance' to LEAs to ensure an interception capability for any service provided to the public, and to document the extent and scope of the assistance they will provide under an interception capability plan administered by the Attorney-General's Department.³¹ Provision of such information occurs on a cost recovery basis, with LEAs able to seek review by the Australian Communications and Media Authority (ACMA) of the costs being charged by a carrier.³²

5.22 The committee considers that the provision of telecommunications data is a vital necessity to effectively deal with organised crime groups and criminal activity. The committee acknowledges that police budgets are affected by the cost of obtaining telecommunications data and that the high cost of obtaining this information is drawing resources away from more traditional areas of state policing.

5.23 Equally, the committee recognises that requirements to collect, retrieve and provide telecommunications data represent a commercial impost on telecommunications companies. The committee believes that a balance between the public interest in enabling police to access telecommunications data and the commercial interests of telecommunications providers in being free of regulatory and administrative burdens is best achieved through the Attorney-General's Department, LEAs and telecommunications companies continuing to work together under the current model to resolve any issues of cost, access or regulatory burden.

Recommendation 1

5.24 The committee recommends that the Commonwealth Government examine the cost of provision of telecommunications data by telecommunications companies, with particular reference to methods by which that cost can be met or controlled.

Undermining the integrity of political and institutional systems

5.25 Beyond the issue of financial cost, the committee considered evidence going to the various significant social costs of serious and organised crime. The late Mr Athol Moffitt observed that organised crime has the capacity to infiltrate political and institutional systems to devastating effect:

Organised crime differs from other forms of crime in possessing this capacity to infiltrate a nation's political and institutional systems, and unless

31 Ms Catherine Smith, Assistant Secretary, Telecommunications and Surveillance Law Branch, Attorney-General's Department, *Committee Hansard*, 5 July 2007, p. 13-14.

32 Ms Catherine Smith, Assistant Secretary, Telecommunications and Surveillance Law Branch, Attorney-General's Department, Attorney-General's Department, *Committee Hansard*, 5 July 2007, p. 14.

eradicated by measures which are not a compromise, eventually to paralyse them.³³

5.26 The committee notes that the potential for organised crime networks to damage the integrity of political and institutional systems is considerable. In essence, the infiltration of public institutions by organised criminal groups—for example through the 'corruption of public officials'³⁴—undermines public confidence and trust in those institutions. In Melbourne, Chief Commissioner Nixon told the committee:

[The]...issue of growing organised serious crime really comes at the heart of policing. It undermines public confidence in not only police institutions but also many other government institutions and business as well...³⁵

5.27 The Australian Federal Police submission also identifies significant potential interruption of orderly and good government:

The principal motive of the vast majority of organised crime groups, including those operating in Australia, has traditionally been financial return. Without address, this often limitless pursuit of financial return has, in its extreme, the potential to result in organised crime groups affecting the delivery of good government, government services and effective law enforcement and justice.³⁶

Undermining the integrity of financial markets and the business sector

5.28 The committee notes that organised and serious crime can inflict considerable harm on Australia's and international financial markets. Dr George Gilligan has argued that the cost of financial crime to Australia includes:

- costs in anticipation of crime, such as insurance and security expenditure, which is borne largely by potential victims;
- costs as a consequence of crime, such as damage to reputation and property loss, which are borne largely by actual victims; and
- costs in response to crime, such as the costs of the justice process, which are borne both by the state and civil actors.³⁷

5.29 The integrity of the nation's financial institutions can be eroded due to the undermining of currencies and interest rates, and the effect on legitimate small businesses of the unfair business advantage of laundering money.³⁸

33 Mr Athol Moffitt, *A quarter to midnight, the Australian crisis: organised crime and the decline of the institutions of state*, Angus and Robertson, Sydney, 1985, p. 6.

34 Australian Transaction Reports and Analysis Centre, *Submission 10*, p. 4.

35 *Committee Hansard*, 1 May 2007, p. 13.

36 *Submission 16*, p. 2.

37 Dr George Gilligan, 'Financial crime in Australia', *Economic Affairs*, vol. 27, no.1, March 2007, pp 10-13.

38 Australian Transaction Reports and Analysis Centre, *Submission 10*, p. 4.

Organised crime in Australia is...dynamic. Its tax free wealth injects new capital into its businesses at a rate far below that available for legitimate business operations. With the increase in its wealth and power, there is increased sophistication in its operations, in the performance of its crimes, their concealment, and the washing of profits.³⁹

5.30 Further, the committee notes that large sums of illicitly obtained Australian currency is, and continues to be, taken out of Australia, thereby undermining the assets, liabilities and operations of financial institutions. Tax revenue is also lost to money laundering activities, which in turn undermines the provision of government services. The scale and severity of financial fraud has seen the Australian Government address these crimes through the establishment of agencies such as AUSTRAC and the development of tailored legislation. The committee will examine these measures in detail in chapter 5. The issue of the reporting of banking fraud is examined in greater detail in chapter 6.

The social cost

5.31 The committee is concerned about the high cost of serious and organised crime activities to Australian society. These costs are often not tangible but are visible in the emotional, physical and psychological costs borne by victims, their families and the wider community, and in the substantial health and welfare costs that are the inevitable result of human tragedy.

5.32 In a 2002 submission to the Parliamentary Joint Committee on the National Crime Authority inquiry into the provisions of the Australian Crime Commission Establishment Bill 2002, the Families and Friends for Drug Law Reform (FFDLR) noted the substantial social costs imposed by organised crime on Australia:

The reach of organised crime in Australia is pervasive, multi-faceted and carries enormous social and economic costs. Significantly, the cost is not just in direct monetary terms but in terms of lost productivity, health, violence and well being. Another cost is the diminution of societal security, both in perception and reality...⁴⁰

5.33 The illicit drugs market is probably the most visible and most researched cost, economic and social, of organised crime.⁴¹

39 Mr Athol Moffitt, *A quarter to midnight, the Australian crisis: organised crime and the decline of the institutions of state*, Angus and Robertson, Sydney, 1985, p.11.

40 Friends and Families for Drug Law Reform, *Submission 5*, Parliamentary Joint Committee on the National Crime Authority, *Australian Crime Commission Establishment Bill 2002*, 6 November 2002, p. ii.

41 For a detailed examination of the AOSD market in Australia see Parliamentary Joint Committee on the Australian Crime Commission, *Inquiry into the manufacture, importation and use of amphetamines and other synthetic drugs (AOSD) in Australia*, February 2007.

5.34 The use of drugs extends beyond the injury to the user. In its recent report on amphetamines and other synthetic drugs, the committee noted the comments of Associate Professor Janie Sheridan, from the University of Auckland, in relation to the widespread effect on carers and families of amphetamine users.⁴² Professor Sheridan argued that US and New Zealand research has shown that families, support personnel, bystanders and, indeed, any person with whom an affected user comes into contact, can suffer the consequences of a violent episode or attack induced by AOSD use.⁴³ This was a view endorsed by the FFDLR, who made particular observations about the incidence of unreported intra-familial violence related to methamphetamine use.⁴⁴

5.35 The committee notes that, at the very least, the financial costs of drug availability and subsequent use include medical treatment, rehabilitation and the human costs of the breakdown of family and social cohesion, all of which have significant implications for Australian society.

Conclusion

5.36 It is the committee's view that the economic costs of countering serious and organised crime are significant. While it was not possible to quantify this cost across a range of sectors, the committee believes that the cost of serious and organised crime places a financial burden on all of Australian society. Along with the tangible cost to law enforcement agencies and government departments, there is the huge yet unquantifiable cost to society of the undermining of confidence in public institutions, the financial sector and the economy. There is also the human cost to individuals, families and communities that are affected by the activities of organised and serious crime, as is the case with drug addiction and people trafficking.

5.37 The committee is concerned that, at present, there is no clear picture of the economic cost of countering serious and organised crime. The committee notes that the Australian Institute of Criminology (AIC) has undertaken to establish the cost of countering crime in Australia generally, but that no work has yet been done specifically in the area of serious and organised crime. A paper produced by the AIC notes that, because it is ultimately communities that are negatively affected by organised crime, this is an area worthy of greater and ongoing investigation.⁴⁵

42 Parliamentary Joint Commission on the Australian Crime Commission, *Inquiry into the manufacture, importation and use of amphetamines and other synthetic drugs (AOSD) in Australia*, February 2007, p. 47.

43 Associate Professor Janie Sheridan, 'Methamphetamines and Injury', Anex Australasian Amphetamines Conference, 29 September 2006.

44 Parliamentary Joint Commission on the Australian Crime Commission, *Inquiry into the manufacture, importation and use of amphetamines and other synthetic drugs (AOSD) in Australia*, February 2007, p. 47.

45 Ms Shona Morrison, 'Approaching organised crime: where are we now and where are we going?', *Trends and Issues in Crime and Criminal Justice*, no. 231, Australian Institute of Criminology, 2002, p.1 (footnotes omitted).

5.38 The committee acknowledges that all jurisdictions are bearing the cost of serious and organised crime. However, the committee believes that, given the increasing national and transnational nature of serious and organised crime, there is an opportunity for a more strategic approach in how Australia deals with this issue to avoid duplication and an undue strain on the police budgets of all jurisdictions.

5.39 The committee considers that there is potential to reduce costs related to serious and organised crime by taking a more national approach.⁴⁶ This is discussed further in chapter 7. The committee believes that the Commonwealth Government, in establishing the ACC, has sought to develop a model to allow federal, state and territory agencies to counter serious and organised crime in a more strategic and potentially cost effective manner.⁴⁷

46 Commissioner Ken Moroney, NSW Police Force, *Committee Hansard*, 8 June 2007, p. 11.

47 Australian Crime Commission, *Australian Crime Commission Annual Report 2005-06*, p. 10.