



THE COSTS OF SERIOUS AND ORGANISED CRIME IN AUSTRALIA 2013-14

METHODOLOGICAL APPROACH



ACKNOWLEDGEMENTS

This paper builds on the work of other Australian and international studies that have measured the costs of crime and the costs of serious and organised crime. Most importantly, it would not have been possible without the expertise and support of the following:

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CEO FOREWORD

MR CHRIS DAWSON APM



The relentless pursuit of illicit profit and power by serious and organised crime affects the Australian community in many ways. The impact is negative, the costs are high and we all pay the price. There are extreme and personal costs we cannot measure—lives ruined, families torn apart and communities devastated. However, we can measure some of the financial cost of harms, preventative measures, and law enforcement responses to serious and organised crime.

By measuring these costs, we gain a better understanding of the scale and reach of serious and organised crime across our community and the associated financial impact. This understanding informs decisions about policy and responses. It enables Australia to target resources to counter the greatest harms and emerging trends, to ensure serious and organised crime does not become entrenched in and undermine our economy, community, government, criminal justice system and commercial enterprises.

This paper describes the methodology behind the first attempt to break down the costs of serious and organised crime affecting Australia. The resulting estimate is more than double our previous conservative figure. However, the updated estimate still only reflects a proportion of the total cost of serious and organised crime. There are many elements we could not measure or only partially measure. This highlights the importance of government and business continuing to fill gaps in the existing data.

Our papers—the classified version, this methodological paper and the accompanying public summary—are the result of close collaboration with Commonwealth, state and territory law enforcement, other government agencies, the private sector, and leading academics. As this is the first attempt to cost serious and organised crime, your feedback is important to ensure we continuously improve our understanding and approach to this costing exercise.

I would like to acknowledge researcher John Walker, who developed and implemented the costing methodology and who co-authored the paper, with input from various other contributors. The Australian Crime Commission thanks the various contributors and will continue to work collaboratively to discover, understand and respond to serious and organised crime.

A handwritten signature in black ink, appearing to be 'Chris Dawson', with a long horizontal line extending to the right.

Chris Dawson APM
Chief Executive Officer
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INTRODUCTION

This paper describes the methodology used to provide a more informed insight and statistical basis for the various costs of serious and organised crime affecting Australia than earlier estimates. Previously, the ACC has used an estimated formula of between 1.0 and 2.0 per cent of Australia's gross domestic product (GDP) as the indicative cost of serious and organised crime. That approach provided a 'conservative cost estimate' of \$15b per year. However, the estimate was effectively a 'rule of thumb' measurement based on international studies. The value of such an approach is limited, as it does not provide an insight into criminal market trends, the actual impacts of serious and organised crime, or the level of threat in Australia compared to other countries. It can also lead to the irrational conclusion that the costs of serious and organised crime would reduce whenever the economy shrinks.

The reach and impact of serious and organised crime is significant, complex and pervasive. As indicated in the ACC's *Organised Crime in Australia 2015*, the impact of serious and organised crime directly extends to Australia's national interests. It adversely affects the Australian economy, government revenue, international relations and aspects of national security. The harms resulting from such criminal activities extend to individuals, the community, legitimate business, and government agencies. It simultaneously reduces government revenue available to provide services to the community, and increases the need for those services. Combined, these factors damage reputations and confidence, affecting how Australia sees itself and how it is seen by others. The impacts of serious and organised criminality are also evident in some of Australia's important neighbours.

Understanding and measuring the impact of serious and organised crime is complicated by numerous factors. Serious and organised criminals are expanding their networks of interests and profit avenues across a range of illicit activities. For example, the convergence between legitimate and illicit markets make it difficult for customers to know if they are dealing with an honest business or a front for a serious and organised crime group. The proceeds of serious and organised crime also become blended with legitimate business income, making it difficult to identify and recover the proceeds of illegal activity. The less obvious impacts of serious and organised crime on Australians, include:

- increased public expenditure for health services to treat illness and injury related to illicit drugs, including the increasing number of users who need long-term support
- small businesses struggling to remain competitive against businesses used as vehicles to launder money for organised crime, for whom profitability is not an issue
- the possibility of a distorted share market, in which organised criminal interests can manipulate share prices and asset values for criminal gain.

A further complexity is the increasingly transnational nature of serious and organised crime. Crimes may be committed by Australian residents in collaboration with those operating overseas, with the proceeds of those crimes sent to other countries via money laundering methodologies. Serious and organised crime groups based outside Australia can readily target Australian residents. Sometimes, as in the case of cybercrimes, this occurs without ever physically entering Australia.

The methodology applies a combination of economic statistical analysis and criminal intelligence assessment to develop the best available estimate of the costs of serious and organised crime. It also follows the now-standard approaches to estimating the costs of conventional crime and highlights limitations in these approaches. The assumptions and extrapolations contained in this report have been subjected to expert assessment from law enforcement practitioners, economists, statisticians and criminologists.

The costs of serious and organised crime are harder to quantify than the costs of conventional crime. Data on offences within the serious and organised crime context are complex, inconsistently recorded and difficult to identify. Data are not easily compared or contrasted and can be:

- totally or partially lacking for some crime types
- not recorded as associated with serious and organised crime
- subject to a range of different measurements and categorisation
- held by the private sector and largely unknown to government, especially in the cybercrime and financial fraud environments, and
- overlapping and/or at risk of double-counting.

The process has highlighted the need to improve the collection, recording, and production of data relating to the costs of serious and organised crime. By doing so, higher quality firm data will be available to ensure future estimates can be made with higher levels of confidence. But, official crime data will never be totally reflective of the true incidence and extent of crime, particularly the more complex and sophisticated criminal methodologies, and will always be subject to qualitative estimation and assessment.

Measuring the economic costs of serious and organised crime can help to inform the identification of immediate and longer-term priorities, the allocation of resources, and the development of policies and programs to prevent and counter the impacts, along with its national significance against the cost of other programs.

A key conclusion of this exercise has been to reinforce the need to focus on the entrepreneurial nature of serious and organised crime. The greatest deficiency in data holdings on serious and organised crime is in the measurement of costs, proceeds of crime, profits made by serious and organised and the harm caused to the community as a result. European researchers (e.g. Hopkins, 2014;¹ Tilley & Hopkins, 2008,² Mugellini and Caneppele, 2012;³ Bello & Vielma Orozco, 2014;⁴ Home Office, 2015;⁵ Dugato et al, 2014⁶) have been developing alternative approaches to crime data collection involving increased use of victimisation surveys which could be usefully emulated in Australia. The UNODC's *International Classification of Crime for Statistical Purposes*⁷ also recommends the use of flags in crime incidence data indicating, for example, serious and organised crime and cyber related crime.

A global approach to improved data collection focusing on serious and organised crime and serious and organised crime as a component of conventional crime would permit international comparisons that would facilitate and augment an understanding of the magnitude of the harm caused by serious and organised crime.

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- 1 Hopkins M., 2014, "Organized crime and the commercial sector in England and Wales: policy, definition and the extent of victimization", in Mugellini G. (ed), *Measuring crimes against businesses*, UNODC-INEGI, http://www.inegi.org.mx/prod_serv/contenidos/espanol/bvinegi/productos/estudios/economico/Measuring/UNODOC_v6web2.pdf.
 - 2 Tilley & Hopkins, 2008, "Organized crime and local businesses", *Criminology and Criminal Justice*, 8: 443, DOI: 10.1177/1748895808096469.
 - 3 <http://www.transcrime.it/pubblicazioni/transcrime-report-n-16-le-imprese-vittime-di-criminalita-in-italia/>.
 - 4 Bello J. & Vielma Orozco J., 2014, *Measuring crime against the private sector in Mexico: the Crime against Business National Survey 2012 (ENVE)*, http://www.inegi.org.mx/prod_serv/contenidos/espanol/bvinegi/productos/estudios/economico/Measuring/UNODOC_v6web2.pdf.
 - 5 <https://www.gov.uk/government/statistics/crime-against-businesses-findings-from-the-2014-commercial-victimisation-survey>.
 - 6 http://www.transcrime.it/wp-content/uploads/2013/11/EU-BCS-Final-Report_GallupTranscrime.pdf.
 - 7 UNODC, 2015, *International Classification Of Crime For Statistical Purposes (ICCS) - Version 1.0*, March 2015. http://www.unodc.org/documents/data-and-analysis/statistics/crime/ICCS/ICCS_final-2015-March12_FINAL.pdf.

APPROACHING THE ESTIMATION OF THE COSTS OF SERIOUS AND ORGANISED CRIME

The 'ideal' approach would be to follow the standard 'costs of crime' methodology, but only count 'serious and organised' crimes. However, the available data generally do not differentiate between 'serious and organised' crimes and other crime. Although the standard 'costs of crime' methodology used to measure each crime type differs slightly, a five-stage approach can be identified in the measurement of every crime type:

- How much (of this type of) crime occurs, either in Australia or affecting victims in Australia, including not only crime known to law enforcement, but also estimates of the extent of hidden and unreported criminality that is never brought into the open?
- How many perpetrators, victims, clients and other interested parties are there, and what roles do they play (the size and structures of criminal networks, types of people or organizations who may become victims, etc)? This information is an important element of the triangulation process, since it provides denominators for calculations such as proceeds of crime per offender, or tax losses per transaction. If such 'per offender' or 'per transaction' calculations do not appear credible, then neither will the aggregates be seen as credible.
- How much money is made from these crimes in Australia (an indication, for some crime types, of the property losses to victims, for other crime types an indication of tax losses, and for others the potential for corrupt payments)?
- What are the other direct and indirect costs to the victims, and the broader society? Costs are often categorized *chronologically* as incurred 'in anticipation of crime' (e.g. insurance, burglar alarms, anti-virus software), 'as a consequence of crime' (e.g. financial losses, medical costs) or 'in response to crime' (e.g. attendance at court), or *categorically* – usually as 'property losses,' 'health and medical costs' and 'intangible costs.'
- What is the cost of the public and private crime prevention, law enforcement, and other resources used in anticipation of, or response to, these crimes in Australia?

The Australian Institute of Criminology's (AIC's) *Costs of Crime in Australia*⁸ follows this process closely as the, mainly conventional-crime, offence types they include in their report are generally well-documented in police recorded crime statistics and in crime victimisation surveys. By contrast, the number of serious and organised crimes are often smaller, particularly in certain types of offences, harder to identify and it is particularly difficult to estimate their costs. However, serious and organised crime offences are likely to be significantly more costly than 'conventional' crime.

The selected approach has the potential to provide an evidence-based estimate of the costs of serious and organised crime in Australia, offering support to crime prevention and law enforcement priority setting and the evaluation of its effectiveness. It follows models adopted by other Australian and international agencies such as the United Nations Office on Drugs and Crime (UNODC), the European Commission, the International Monetary Fund, and the World Bank, which enables potentially useful comparisons and broadens data sources.

The definition of serious and organised crime also continues to be the subject of international debate (see UNODC, 2015⁹ for a review) and on organised crime in general (see e.g. Paoli, 2014¹⁰; Europol, 2015¹¹; Savona and Riccardi, 2015¹²). Until recently, the term 'organised crime' has been defined as requiring the involvement of groups of offenders. For example, Article 2 of the *United Nations Convention against Transnational Organized Crime* defines an organised crime group as 'a structured group of three or more persons, existing for a period of time, acting in concert with the aim of committing serious criminal offences in order to obtain some financial or material benefit'.¹³

However, an ACC 2013 report¹⁴ on organised crime noted the emergence of the entrepreneurial individual as a key player in a number of significant illicit markets. The crimes of individuals such as Bernie Madoff¹⁵ and Nick Leeson¹⁶ provide ample evidence of the significant harms that can be inflicted by lone operators. This report follows the more recent terminology and uses the term 'serious and organised crime,' rather than 'organised crime' alone. Within the text, however, the terms 'serious and organised crime' and 'organised crime' are used interchangeably in some places for ease of reading.

8 Smith, RG, Jorna, P, Sweeney, J, & Fuller, G, 2014, *Counting the costs of crime in Australia: A 2011 estimate*, Australian Institute of Criminology, Research and Public Policy Series.

9 UNODC, 2015, *International Classification Of Crime For Statistical Purposes (ICCS) - Version 1.0*, March 2015. http://www.unodc.org/documents/data-and-analysis/statistics/crime/ICCS/ICCS_final-2015-March12_FINAL.pdf

10 Paoli L. (ed), 2014, *The Oxford Handbook of Organized Crime*, ISBN: 9780199730445

11 Europol, 2015, *Exploring Tomorrow's Organised Crime*, <https://www.europol.europa.eu/content/exploring-tomorrow%E2%80%99s-organised-crime>

12 Savona and Riccardi, 2015, *From illegal markets to legitimate businesses: the portfolio of organised crime in Europe – Final report of Project OCP*, <http://www.transcrime.it/en/pubblicazioni/the-portfolio-of-organised-crime-in-europe/>

13 United Nations 2004, *United Nations Convention Against Transnational Organized Crime and the protocols thereto*. New York: United Nations. <http://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCbook-e.pdf>

14 Australian Crime Commission 2013, *Organised Crime in Australia 2013*.

15 See, for example, the Wall Street Journal's news compilation at <http://www.wsj.com/public/page/bernard-madoff.html>.

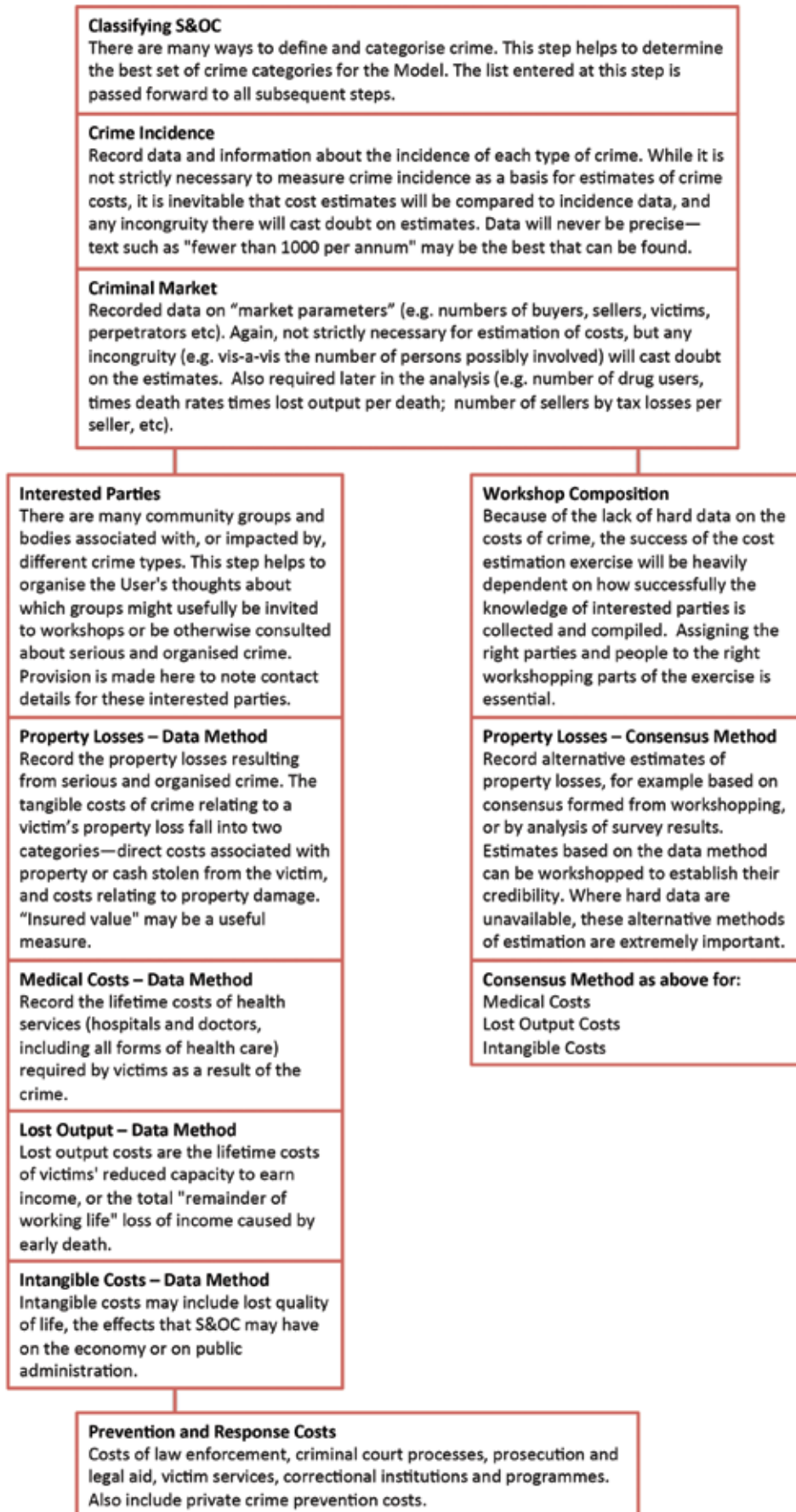
16 See, for example, the Reserve Bank of Australia's response to the collapse of Barings banking group precipitated by Leeson's fraudulent dealings - <http://www.rba.gov.au/publications/bulletin/1995/nov/pdf/bu-1195-1.pdf>

The ACC sees serious and organised crime as including all crime of an entrepreneurial nature and/or that committed to support a criminal enterprise, whether by a group or an individual. Criminal entrepreneurs, as in any other business, may bring in staff, advisers and consultants and use stand-over tactics and enablers (such as money laundering and identity crime), to ensure their success and profitability as well as survival as a business. As new forms of serious and organised criminality emerge, they will be incorporated into the entrepreneurial criminal enterprises.

The future brings with it new forms of serious and organised criminality and the methodology is flexible enough to incorporate these. The crime types included in this first attempt to estimate serious and organised crime costs are:

- **Cybercrime**, including Malware and Ransomware
- **Deception**, including Identity Crime, Personal Fraud and Scams, Card Frauds, Investment & Financial Market Fraud, Superannuation Fraud, Migration and Visa Fraud, Insurance Fraud, Intellectual Property Crime
- **Tax Crimes**
- **Illicit Drug Crime**, including Methylamphetamine, Cocaine , Heroin , Cannabis, MDMA, Drug Analogues & New Psychoactive Substances, Performance/image enhancing drugs, Illicit Pharmaceuticals
- **Other Crimes**, including Illicit tobacco, Firearm Trafficking, Money Laundering (as an offence per se), Environmental Crime, Human Trafficking, Child Sex Offences, Maritime People Smuggling, Corruption, Violent Crime
- **Conventional crimes**, that generate funds to support serious and organised criminal enterprises and/or facilitate serious and organised criminal activities, such as burglaries to fund illicit drug purchases.

Figure 1: Summary of the Methodology to Measure the Cost of Serious and Organised Crime



PRACTICAL APPLICATION OF THE APPROACH TO ESTIMATING THE COSTS OF SERIOUS AND ORGANISED CRIME

Australia was among the first countries to attempt to estimate the costs of crime at a national level (Walker, 1992),¹⁷ but others soon followed. Early researchers into the costs of crime typically focused on the two key components:

- the direct and indirect costs of the crimes themselves, in terms of impacts on victims, and
- the costs of crime prevention and response to crime, borne mainly by law enforcement and justice agencies.

Indirect costs are relegated to a secondary role in part because of the inherent difficulties of measurement. However, researchers such as Brand and Price (2000)¹⁸ and Mayhew (2003a, 2003b)¹⁹ established that these indirect costs were, indeed, measurable (although with difficulty) and significant.

The methodology for estimating the costs of crime has now become established to such an extent that the European Commission (EC) issued a formalised approach entitled ‘Mainstreaming Methodology for Estimating Costs of Crime’ (European Commission, 2009),²⁰ which aimed to encourage a standard ‘costs of crime’ approach across European Union countries. Building on this legacy of prior research, the EC’s approach includes, in its ‘Costs as a consequence of crime’ section, some elements that would have been considered quite ‘third-order’ impacts in early attempts to measure the costs of crime. Along with ‘traditional’ elements such as property losses and medical and mental health care costs, they include victims’ productivity losses, household services, lost school days, pain and suffering and lost quality of life, victim support services, tort claim expenses and ‘long-term consequences.’ They are described in their Report as follows:

- **Productivity loss** looks at the time lost from work, by victims of crime, as a result of criminal victimisation, and by offenders through, for example, incarceration.

17 Walker, J 1992, *Estimates of the Costs of Crime in Australia*, Trends & Issues No.39, Australian Institute of Criminology, was recognised by the U.N. International Crime Research Institute as being the first attempt to measure the costs of crime in a country.

18 Brand, S & Price, R 2000, *The economic and social costs of crime*, Home Office Research Study 217, London.

19 Mayhew P 2003a, *Counting the costs of crime in Australia*, Trends & Issues in Crime and Criminal Justice no. 247, Australian Institute of Criminology, Canberra. <http://aic.gov.au/publications/current%20series/tandi/241-260/tandi247.html>; Mayhew P, 2003b, *Counting the costs of crime in Australia*, Technical report. Technical and Background Paper Series no. 4, Australian Institute of Criminology, Canberra <http://aic.gov.au/publications/current%20series/tbp/1-20/tbp004.html>.

20 European Commission (2009). <http://www.costsofcrime.org/CostingPrinciplesAndMethodology/pdf/BIB51.pdf>.

- **Household services** looks at the interruption of normal daily activities as a result of crime that leaves victims either relying on other household members to increase their service contribution or having to employ external suppliers of these services.
- **Lost School Days** looks at valuing the interruption to education that may result for victims still in full-time education.
- **Medical and Mental Health Services** looks at the costs to health services (whether funded through the public sector or otherwise) incurred in treating victims of crimes involving violence, or the threat of violence.
- **Pain, suffering and lost quality of life** looks at the pain and suffering resulting from personal injury in an assault, which may include psychic loss or post-traumatic stress disorder.
- **Victim Support Services** looks at the costs of supplying support to victims in the immediate aftermath of a crime.
- **Tort Claim** looks at the costs incurred by victims of bringing their own private actions against offenders.
- **Long term Consequences of Victimization** looks at the longer term effects of crime. For example victims may want to relocate following a crime. There may also be longer term consequences of business crime. Businesses may leave an industry or an area in extreme circumstances if they have incurred significant or sustained loss from crime.

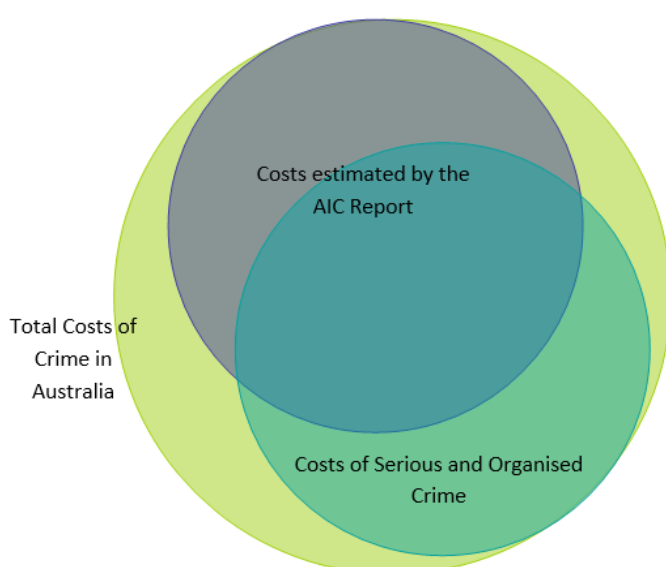
Another recent research project²¹ attempted to analyse the hitherto mostly overlooked cost of long term consequences of victimization, outlining third order impacts imposed when organised crime groups invest the proceeds of crime in the legitimate economy. They identify:

- **Sub-optimal investments**, with consequences including poorly paid and irregular work, tax losses, business failures due to confiscations, and costs resulting from poor environmental and health practices typical of organised crime owned businesses
- **Market distortion**, particularly in real estate and amongst the professions such as accountants and lawyers, due to the ability of organised crime groups to pay 'over-the-odds' for these services, and
- **Interference in Government and Judicial decision making**, with the corrosive effects of corruption having significant economic and social costs.

²¹ TransCrime, Università Cattolica del Sacro Cuore, 2014, From illegal markets to legitimate businesses: the portfolio of organised crime in Europe. Final report of project OCP – Organised Crime Portfolio, www.ocportfolio.eu.

The most recent Australian publication in this area, following this methodology as far as the availability of data would allow, is the AIC's *Counting the costs of crime in Australia: A 2011 estimate*,²² which concluded that "the total costs for 2011 are estimated to be approximately \$47.6b (3.4 per cent of national Gross Domestic Product; GDP)." Their estimates commence from numbers of recorded crimes, use multipliers (based on crime victimisation survey data) to estimate the numbers of crimes that are not reported to law enforcement agencies, and calculate average costs per incident, from a variety of sources (see Figure 2 and Table 1).

Figure 2: Relationship between the Costs of Serious and Organised Crime and the Total Costs of Crime in Australia



The main focus of their report was, however, so-called 'conventional crimes,' such as common property crimes or offences against the person. Significant areas of costs were excluded specifically because of lack of data on their incidence or cost. These include kidnapping, extortion, blackmail, abduction, criminal defamation, environmental crime, good order offences, regulatory offences, illegal immigration, road traffic offences, human trafficking, corporate crime, tax evasion, cybercrime, identity crime, child exploitation offences and other aspects of organised crime. Many criminal acts that comprise aspects of these crime types are, however, captured within the crime categories included in this paper.

²² Smith, RG, Jorna, P, Sweeney, J, & Fuller, G, 2014, *Counting the costs of crime in Australia: A 2011 estimate*, Australian Institute of Criminology, Research and Public Policy Series.

Table 1: Summary of AIC Costs of Crime Estimates, 2011²³

Crime type	Source of the recorded data	Recorded crime victims	Multipliers for unrecorded crime ⁱ	Ave Cost per Incident	Total Cost (\$m)
Homicide	ABS Recorded crime	463	1.0	\$2.7m	\$1,250
Attempted murder	ABS Recorded crime	185	1.0		
Assault	Estimation derived from ABS crime victimisation survey data	169,903	6.9	\$2,630	\$3,021
Sexual assault	ABS Recorded crime	17,592	11.3	\$3,906	\$775
Robbery	ABS Recorded crime	13,617	Organisational 1.2 Individual 6.2	\$1,876	\$372
Burglary	ABS Recorded crime	218,193	3.5	\$2,223	\$1,645
Thefts of vehicles	ABS Recorded crime	55,382	1.2	\$6,413	\$421
Thefts from vehicles	Individual police jurisdictions	168,666	2.3	\$1,854	\$677
Shop theft	Individual police jurisdictions	80,625	16.1	\$96	\$124
Other theft	ABS Recorded crime	269,000	3.0	\$788	\$605
Criminal damage	Individual police jurisdictions	249,220	5.9	\$1,854	\$2,725
Arson	Individual police jurisdictions	14,975	3.0	\$21,616	\$2,269
Fraud	Individual police jurisdictions, AFP and AIC data	97,611	2.6	\$4,190	\$6,052
Illicit Drug Abuse	AFP, Collins & Lapsley, AIHW, ANCD				\$3,161m
Total Cost of Crime					\$23,097m

i The multipliers account for crimes that are not recorded by police, but estimates of which are available from surveys of crime victimisation. The number of recorded crimes is multiplied by the relevant multiplier to estimate the total number of victims of each crime type in the year.

23 Smith, RG, et al, op.cit.

Table 2: Summary of AIC Costs of Prevention and Response to Crime, 2011²⁴

Cost type	Estimated cost (\$m)
Law Enforcement and Criminal justice	\$16,256
Victim assistance	\$1,877
Security industry	\$3,400
Insurance administration	\$670
Household precautions	\$2,360
Subtotal	\$24,563
Less assets confiscated	\$63.6
Total	\$24,499m

In total, therefore, the AIC Report put the cost of crime in Australia in 2011 at almost \$50b, **excluding some serious and organised crimes**. Nevertheless, this is an extremely useful starting point.

Of particular interest to this exercise are the first two components of the three elements of total crime. These are:

Serious and organised crimes: those crimes that have a clear and direct link with serious and organised criminals (e.g. illicit drug trafficking, human trafficking, organised financial crime, money laundering etc.).

Consequential serious and organised crimes: these are conventional crimes that generate funds used to support involvement in serious and organised crime related activities (in particular illicit drug users who engage in crimes to finance illicit drug purchases), crimes that result from being involved in serious and organised crime related activities (for example violence, sexual assaults, burglaries etc committed by those using illicit drugs), or conventional crimes committed by organised crime groups (for example organised shop theft) or committed in order to facilitate serious and organised criminal activities (e.g. the use of violence to intimidate businesses, identity crime enabling financial fraud etc.).

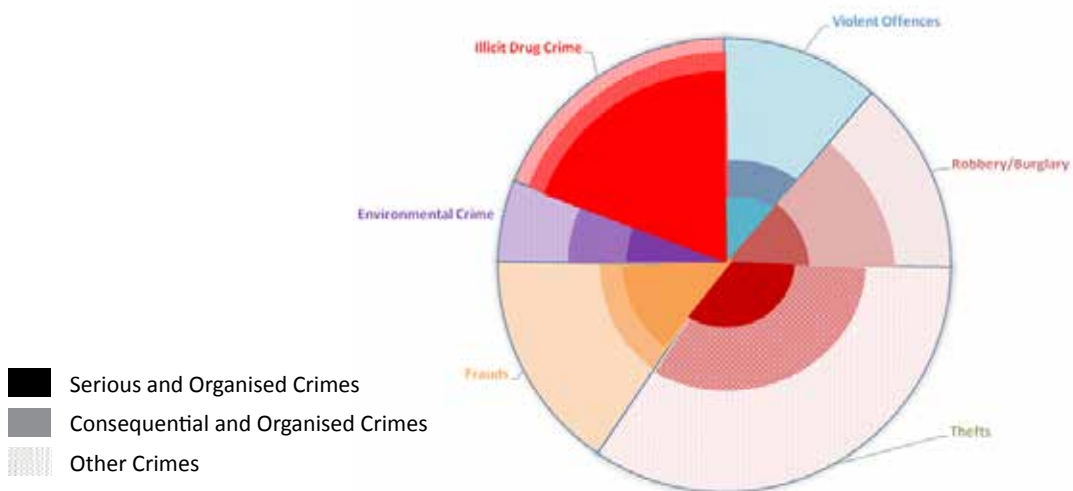
Other crimes are any remaining crimes that have no connection with serious and organised crime.

²⁴ Smith, RG, et al, op.cit.

Establishing the extent of serious and organised crime involvement in criminal activity was the next challenge. Using a Delphi type approach the estimates of serious and organised crime involvement in criminal activity were based on the results of surveys and workshops with a range of experts including law enforcement, criminologists and statisticians. Estimates were provided on a scale from low, middle to high. The low estimates reflect a conservative interpretation of the known environment, while the high estimates are based on a combination of the known and suspected serious and organised crime environment which are likely to be closer to reality. The process used to develop these estimates was rigorous and built upon a combination of hard data and professional judgment. The ACC also liaised with a wide range of stakeholders to test assumptions and estimations to determine what assessments could be made with limited data.

Figure 3 provides an illustrative representation of serious and organised crime involvement in six crime types and is not to scale. Serious and organised crime involvement is shaded darkest; consequential serious and organised crime involvement is shaded medium; and no serious and organised crime involvement is shaded lightest. For example, serious and organised crime has the greatest direct involvement in illicit drug crime, while it may have a smaller direct involvement in fraud. In the case of robbery/burglary, however, the consequential involvement of serious and organised crime could be significant, owing to the fact that robberies and burglaries generate funds that are often used to purchase illicit drugs, thus providing funds for serious and organised crime.

Figure 3: Serious and organised crime involvement in six illustrative crime types (not to scale)



Serious and organised crime costs

For the estimated costs of serious and organised crime itself, this report uses the following categories:

- **Organised Fraud** (revenue and tax evasion, superannuation fraud and card and financial transaction fraud)
- **Illicit drugs**
- **Consequential serious and organised crime**
- **Illicit commodities** (intellectual property crime, firearm trafficking, environmental crime (illegal fishing, illegal logging), and illegal tobacco)
- **Identity crime**
- **Cybercrime**
- **Enablers of Serious and Organised Crime** (laundering of criminal proceeds and assessment of financial resources)
- **Crimes against the Person** (maritime people smuggling, human trafficking and slavery, and child sex offences).

These crimes are difficult to measure, with low rates of detection and reporting complicating data analysis. In the last decade, many have become increasingly prevalent, especially those with a transnational or multi-jurisdictional dimension. As a result, data collection and collation is compromised by a lack of common domestic and international standards on how to measure and record these crimes.²⁵ The ACC notes the recent release of a paper by the UNODC exploring the international classification of crime for statistical purposes which could provide the basis for comparison between crime in Australia and other countries.

The costs of serious and organised crime include direct and indirect financial harms. Some types of serious and organised crime impose costs directly upon the victims of crime, including property losses, and health and welfare costs. Indirect costs include for example when the profits of serious and organised crime are re-invested in legitimate activities, which provides these business with a competitive advantage against other businesses. In addition funds laundered overseas result in losses to the Australian economy. Table 3 provides an indication of the main impact costs associated with serious and organised crime and shows the availability of data.

²⁵ UNODC, 2015, International Classification Of Crime For Statistical Purposes (ICCS) - Version 1.0, March 2015. http://www.unodc.org/documents/data-and-analysis/statistics/crime/ICCS/ICCS_final-2015-March12_FINAL.pdf, and Bisogno E., Dawson-Faber J, and Jandl M., The International classification of crime for statistical purposes: a new instrument to improve comparative criminological research, European Journal of Criminology, 2015, Vol. 12(5).

Table 3: Data Availability for the Costs of Serious and Organised Crime 2013–14

CRIME TYPE	PROPERTY LOSSES	MEDICAL COSTS	LOST OUTPUT	INTANGIBLE COSTS	LOSS TO THE ECONOMY
Murder / manslaughter		✓	✓	✓	
Driving causing death		✓	✓	✓	
Attempted murder		✓	✓	✓	
Assault		✓	✓	✓	
Sexual assault		✓	✓	✓	
Robbery	✓	✓	✓	✓	
Burglary	✓		✓	✓	
Vehicle theft	✓		✓	✓	
Theft from vehicles	✓		✓	✓	
Shop theft	✓		✓	✓	
Other theft	✓		✓	✓	
Criminal damage	✓		✓	✓	
Arson	✓				
‘Conventional’ fraud	✓				
Illicit drugs		✓	✓	✓	✓
Intellectual property crime	×	×	×	×	✓
Firearms trafficking				×	✓
Environmental crime	×	×	×	×	✓
Tax and revenue	✓		×	×	
Superannuation fraud	✓		×	×	×
Card and Financial Transaction fraud	✓		×	×	×
Illicit tobacco		×			✓
Migration & visa fraud				×	
Cyber and technology enabled crimes	✓		×	×	×
Maritime people smuggling		×		×	
Human trafficking		×	×	×	✓
Child sex offences		×	×	×	
Laundering of criminal proceeds	×			×	✓
Identity crime	✓		×	×	×
Corruption			×	×	×

Note: ✓ = cost data are available, x = costs are likely but data are not currently available

Serious and organised crime can have a wide geographical reach, not only across Australia, but also internationally. For this report, all crimes are counted if they fall within an Australian jurisdiction. This may include some crimes committed by individuals located outside Australia who have targeted Australian residents, or organised crime group members residing in Australia who have targeted victims in other countries.

The estimates in this report are based on the best available data on incidence and costs of serious and organised crime. The reference period used by the AIC was the calendar year 2011. Since then, more recent data have become available and an attempt has been made to up-date estimates to 2013-14 at the latest. Where there were issues with available data, the ACC has relied on the expert assessment of the wide range of economists, statisticians, criminologists, researchers, program managers, practitioners, and criminal intelligence professionals consulted in developing this report.

Organised Fraud

The overall costs of organised fraud are around \$6.3b. The diversity of organised fraud is expanding, along with the suspected magnitude of serious and organised crime involvement. Serious and organised crime targeting of Australia's comparatively stable economy is a growing concern. Serious and organised financial frauds are directed at individuals as well as the financial, insurance and superannuation sectors. Fraud against these sectors also result in flow-on impacts for their clients, the Australian economy and government. The impact of fraud can be felt either as a direct result of being defrauded or indirectly through increased fees and taxes. In this dynamic environment, this section limits its focus to the impact costs of serious and organised crime involvement to:

- revenue and tax fraud
- superannuation fraud
- card and financial transaction fraud

Costing organised fraud involved accessing a broad range of classified information. This project examined a range of costs limited to certain specific, direct financial impacts of serious and organised crime. These include Commonwealth expenditure; income support and child support payments; lost employee entitlements; international off-shoring of funds; and tax revenue impact, lost superannuation, and money lost as a result of card and financial transaction frauds. The financial costs of the different frauds were derived from a combination of reported crime, and percent serious and organised crime involvement, taking into account the value of the financial loss, and where applicable taking into consideration the resulting financial pressure placed on government-funded public services and revenues.

There are many areas of organised fraud for which data have not been able to be identified, and it would appear to be an area that would benefit from greater statistical attention in the future.

Illicit Drug Activity

The overall costs of serious and organised crime related illicit drug activity are around \$4.4b. In the AIC’s Costs of Crime 2011 report, the cost of illicit drug activity takes into account the cost of responding to the health impacts, which include injury, treatment costs and deaths, and the lost output of drug users while in treatment. Workload-based estimates developed as a result of a workshop of experts have been used to estimate the percentage of illicit drug crimes that are ‘serious and organised’ (see Table 4). The resulting estimates have then been updated to 2013–14 on the basis of trends in recorded numbers of arrests for illicit drug crimes since 2011.

Table 4: Estimated percentages of illicit drug crime attributable to Serious and Organised Crime 2013–14²⁶

DRUG TYPE	PER CENT SERIOUS AND ORGANISED CRIME		
	LOW	MIDDLE	HIGH
Methylamphetamine	50	60	85
Precursor Chemicals	70	80	90
Cocaine	85	90	95
Heroin	85	90	95
Drug analogues and new psychoactive substances	10	20	30
MDMA	65	75	85
Cannabis	20	40	60
Performance and Image enhancing drugs	10	25	40
Illicit pharmaceuticals	5	10	15

The AIC Report, however, does not include as losses to the Australian economy the payments made for imports of illicit drugs. Although experimental, the Australian Bureau of Statistics²⁷ has produced estimates of the import values of illicit drugs at the border, which may be a valid proxy for the costs of imported drugs. These amounts are clearly lost to the Australian economy, and therefore at least some proportion of these payments should be included as costs of serious and organised crime.

²⁶ Expert assessment from workshop conducted July 2015.

²⁷ Gajewski, A and Cullen, D 2012, *Measuring the Illegal Drug Economy of Australia in a National Accounts Framework*, Australian Bureau of Statistics DPMP Symposium.

Table 5: Estimates of Import Values of Illicit Drugs, 2010, and updated to 2013–14

	IMPORT VALUES (\$M) (A) (B) (C)	
	2010	2013–14
Cannabis ^(d)	n/a	n/a
Amphetamines	\$54	\$72
MDMA (Ecstasy)	\$84	\$112
Heroin	\$288	\$383
Cocaine	\$520	\$692
Total (Nominal Prices)	\$946m	\$1,259m
Total (Adjusted Prices)	\$890m	\$1,184m

- (a) Import Values for each drug are calculated using nominal wholesale prices and the total is also shown in adjusted (volume) terms.
- (b) Total import costs are adjusted for seizure costs.
- (c) In this analysis, we have used the ABS Recorded Crime data and the Reserve Bank inflation rate to update the estimated import values to 2013–14.
- (d) It is acknowledged that some cannabis is imported, for example in 2012/13 21.5 kilograms of cannabis was detected at the border, however, given ABS did not account for such importations and combined with the relative insignificant amounts cannabis import values have not been included.

Other costs are borne either by the health budgets in each State and Territory or by offenders and their families in terms of treatment costs and the costs associated with drug-related deaths.

Consequential serious and organised crime costs

The overall costs of consequential serious and organised crime are around \$6.2b.

The ACC's estimate builds upon the AIC's report, taking the AIC's estimates of the costs of each 'conventional' crime type and focuses on the estimated proportion of crime that is serious and organised.

Table 6 presents estimates of the proportions of a range of conventional crimes that are a consequence of 'serious and/or organised' crime. The next step was to count the costs of 'consequential' serious and organised crimes. These are the second-order consequences of the involvement of serious and organised crime in the commission of conventional crime. In particular, this refers to the proportions of conventional crimes of violence and crimes against property committed as a result of the abuse of illicit drugs.²⁸ The costs of these crimes are consequential, but very clearly costs of serious and organised crime.

²⁸ The ACC has used the proportions contained in Moore, T 2007, Drug Policy Modelling Program Monograph 14, Working Estimates Of The Social Costs Per Gram And Per User For Cannabis, Cocaine, Opiates And Amphetamines Turning Point Alcohol and Drug Centre.

Table 6: What proportion of conventional crimes are 'serious and/or organised'²⁹?

OFFENCE TYPE	SUB-CATEGORY	ESTIMATED SERIOUS AND ORGANISED PROPORTION 2013–14 (%)		
		LOW	MIDDLE	HIGH
Murder / manslaughter		2.00	4.00	10.00
Driving causing death		0.05	1.00	3.00
Attempted murder		5.00	10.00	20.00
Assault	(hospitalised)	0.10	0.50	1.00
Assault	(injured - no hospitalisation)	0.20	1.00	2.00
Assault	(injured - no treatment)	0.20	1.00	2.00
Assault	(no injury)	0.20	1.00	2.00
Sexual assault	(injured)	0.10	0.20	0.50
Sexual assault	(no injury)	0.05	0.10	0.20
Robbery	(organisations)	2.00	10.00	15.00
Robbery	(individuals all)	1.00	5.00	10.00
Burglary	(residential)	2.00	10.00	15.00
Burglary	(non-residential)	10.00	15.00	25.00
Vehicle theft		5.00	10.00	15.00
Theft from vehicles	(commercial)	0.10	0.20	0.50
Theft from vehicles	(private)	0.02	0.05	0.10
Shop theft		0.30	1.00	2.00
Other theft		0.20	0.80	1.00
Criminal damage		0.20	0.50	1.00
Arson		1.00	2.00	5.00
Fraud	(Commonwealth) Serious	25.00	50.00	75.00
	(Commonwealth) Other	1.00	5.00	10.00
Fraud	(personal)	20.00	40.00	60.00
Fraud	(serious)	75.00	90.00	95.00
Fraud	(other recorded)	2.00	5.00	10.00

Estimates of the percentages of these crimes attributed to illicit drug abuse in Table 7 are taken from Moore.³⁰

²⁹ Expert assessment from workshop conducted July 2015.

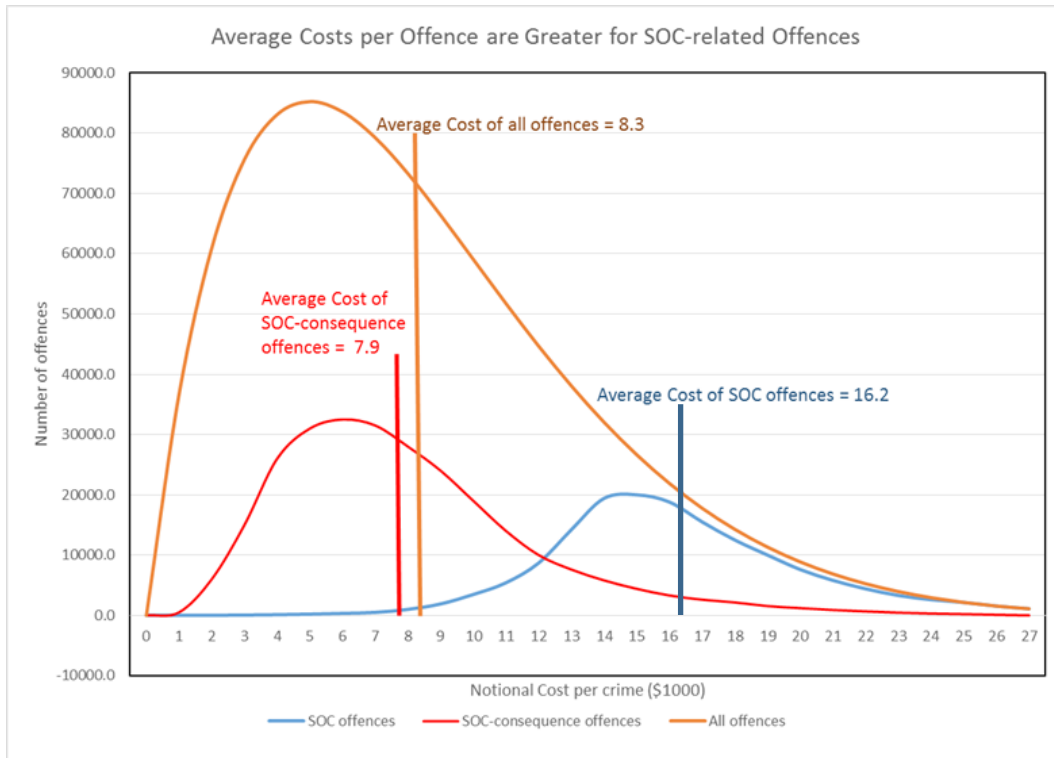
³⁰ Moore, T 2007, Drug Policy Modelling Program Monograph 14, Working Estimates Of The Social Costs Per Gram And Per User For Cannabis, Cocaine, Opiates And Amphetamines Turning Point Alcohol and Drug Centre.

Table 7: Fractions of ‘conventional’ crimes attributed to illicit drug use

	PERCENT OF ALL OFFENCES	PER CENT ALLOCATION TO ILLICIT DRUGS				
		CANNABIS	COCAINE	OPIATES	AMPHET	OTHER
Burglary	50.64	17.54	1.56	13.01	15.67	2.87
Fraud	25.51	7.09	0.64	6.40	9.87	1.52
Robbery - victim injured	30.68	9.28	1.52	6.51	9.58	3.78
Robbery - no injury	40.38	10.29	0.00	0.00	30.09	0.00
Shop theft	45.68	10.95	0.81	17.19	12.74	3.99
Theft - personal	42.11	20.64	4.19	0.50	4.71	9.72
Theft - vehicles	22.24	4.52	0.50	4.80	10.44	1.98
Arson	23.08	0.00	0.00	0.00	15.38	7.69
Assaults - hospitalisation	12.45	0.00	0.75	2.10	7.43	2.17
Assaults other	11.66	0.00	0.08	2.06	7.75	1.77
Criminal damage	17.17	0.00	0.38	2.86	10.21	3.72
Sexual assaults - injury	3.01	0.00	0.00	0.00	2.08	0.93
Sexual assaults - other	1.12	0.00	0.00	0.00	0.86	0.25

It is then assumed that ‘serious and organised’ crimes are likely to involve more costly consequences than the overall average; the total costs of serious and organised-related crimes will therefore be a greater proportion of overall total costs than would be suggested by the relative numbers of crimes. Figure 4 illustrates how, while serious and organised-related crimes are only a sub-set of total crime, the average cost per crime of serious and organised-offences may be substantially higher than the overall average cost per crime, while the average cost per crime of crimes committed as an indirect consequence of serious and organised crime may be much closer to the overall average. (Again, the figure is for illustrative purposes only and is not to scale).

Figure 4: Average Costs per Crime are Greater for Serious and Organised-related Offences



Accordingly, it is necessary to inflate the unit costs adopted in costing exercises to account for the higher losses associated with the often more serious-impact serious and organised, conventional crimes. While we have attempted to identify meaningful data on the actual incidence and costs of serious and organised crime, we ultimately have to rely on expert assessment of their validity. With the assistance of the authors of the AIC Report, after analysis of the many documents available, and consultation with a number of law enforcement and other experts in the field, the following estimates were obtained.

Again, a Delphi type approach, using surveys and workshops with a range of experts including law enforcement, criminologists and statisticians, was used to determine how much more costly serious and organised crimes are compared to the overall average of conventional crimes. Table 8 presents the resulting estimates of the extent to which 'serious and organised' crimes are more costly than 'average' crimes of the same type.

Table 8: How much more costly are serious and organised-related offences compared to the 'average' crime³¹?

OFFENCE TYPE	SUB-CATEGORY	ESTIMATED AVERAGE COST PER 'SERIOUS AND ORGANISED' CRIME, COMPARED TO 'AVERAGE' CRIME		
		LOW	MIDDLE	HIGH
Murder / manslaughter		same as average	1.4 times	2 times
Driving causing death		2 times	3 times	5 times
Attempted murder		same as average	1.4 times	2 times
Assault	(hospitalised)	same as average	1.4 times	2 times
Assault	(injured - no hospitalisation)	same as average	1.4 times	2 times
Assault	(injured - no treatment)	same as average	1.4 times	2 times
Assault	(no injury)	same as average	1.4 times	2 times
Sexual assault	(injured)	same as average	2 times	3 times
Sexual assault	(no injury)	same as average	2 times	3 times
Robbery	(organisations)	same as average	5 times	7 times
Robbery	(individuals all)	same as average	2 times	3 times
Burglary	(residential)	2 times	3 times	5 times
Burglary	(non-residential)	2 times	5 times	10 times
Vehicle theft		2 times	5 times	10 times
Theft from vehicles	(commercial)	same as average	2 times	3 times
Theft from vehicles	(private)	same as average	same as average	3 times
Shop theft		20 times	25 times	30 times
Other theft		same as average	2 times	3 times
Criminal damage		2 times	5 times	15 times
Arson		same as average	1.5 times	5 times
Fraud	(Commonwealth)	2 times	5 times	10 times
Fraud	(personal)	2 times	3 times	5 times
Fraud	(serious)	same as average	2 times	3 times
Fraud	(recorded)	same as average	2 times	3 times
Fraud	(unrecorded)	same as average	2 times	3 times

³¹ Expert assessment from workshop conducted July 2015.

So here we have a basis upon which we can develop estimates of the costs of serious and organised crimes in the categories used in the AIC report, but before we do that, we need to make some assumptions about how we combine these estimates; in particular, how we use the data in Table 7. One might, in the high estimate, allocate all of these offences to serious and organised crime, since drug trafficking is generally associated with organised crime. On the other hand, only the trade in Cocaine and Opiates is completely in the hands of organised crime groups. Much of the cannabis, and some of the amphetamine and other drug, manufacture and distribution is believed to be conducted by individuals and small-time producers. The 'low' estimate of the extent to which conventional crime is related to the serious and organised illicit drug trafficking would exclude these categories of drugs. The middle estimate would implicitly allocate some conventional crime to these drug types. It must be noted that since Moore's 2007 study the drug market has shifted especially with the emerging use of methylamphetamine ('ice') and associated shifts in serious and organised crime involvement.

The calculation of the costs of the serious and organised component of conventional crime is as follows:

$$SOC \text{ component of conventional crime } i = (N_i * A_i) * (C_i * B_i)$$

Where N_i is the number of conventional crimes of type i ; A_i is the proportion of crime i which is SOC-related (Table 6); C_i is the unit average cost of volume crime i (from the AIC report); B_i is a multiplier of the cost multiplier of SOC related volume crimes (Table 8).

Putting all these figures together, updating the AIC 2011 numbers of recorded crimes to 2013–14 data,³² and using, for simplicity, the Reserve Bank³³ annual inflation rate of 2.5 per cent for the costs per crime, results in the estimates presented in Table 9.

32 Australian Bureau of Statistics 2015, *Recorded Crime Offenders 2013-14*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4519.0~2013-14~Main%20Features~Key%20Findings~1>, viewed July 2015

33 <http://www.rba.gov.au/calculator/>

Table 9: Estimates of the Costs of Serious and Organised-related Conventional Crimes

OFFENCE TYPE	ESTIMATED COST OF SERIOUS & ORGANISED CRIME (\$ MS)		
	LOW	MIDDLE	HIGH
Murder / manslaughter	\$15.9	\$43.9	\$144.9
Driving causing death	\$0.5	\$16.2	\$73.6
Attempted murder	\$26.9	\$72.4	\$179.3
Assault	\$101.2	\$137.9	\$211.1
Sexual assault	\$0.5	\$2.1	\$7.1
Robbery	\$26.2	\$51.9	\$95.0
Burglary	\$331.4	\$659.0	\$1,005.3
Vehicle theft	\$66.9	\$181.3	\$303.3
Theft from vehicles	\$0.2	\$0.6	\$3.6
Shop theft	\$30.5	\$46.5	\$66.2
Other theft	\$31.9	\$40.7	\$49.2
Criminal damage	\$106.6	\$165.2	\$469.7
Arson	\$10.5	\$31.1	\$217.9
Conventional Fraud	\$856.6	\$1,741.0	\$3,365.5
Grand Total	\$1,605.9m	\$3,189.8m	\$6,191.8m

* In this table Conventional Fraud includes technology enabled fraud but excludes payment card fraud, identity fraud and some frauds involving corruption which are dealt with in subsequent sections.

The results of this first step suggest that serious and organised-related conventional crimes, cost Australia at least \$1.6b in 2013–14, with a ‘most likely’ figure of the order of \$6.2b.

Illicit Commodities

The overall costs of serious and organised crime related illicit commodity crimes are around **\$1.5b** and include a range of criminal activities:

- elements of intellectual property crime
- illicit firearm trafficking
- illegal tobacco
- illegal fishing and
- elements of illegal logging.

It is difficult to obtain direct estimates of the impact costs of serious and organised crime involvement in illicit commodities and only partial estimates of these crime types could be measured. Some costs in this category were developed using reports undertaken by private consultancies, others were based on gaining an understanding of the known/ suspected level of illicit activities, estimating the extent of serious and organised crime involvement and developing costs based on the money lost to the Australian economy, that is money lost as a result of purchasing the illicit commodity internationally, and lost tax revenue. As a result this figure is a likely under estimation.

Assessing the extent and scope of serious and organised crime involvement in environmental crime is challenging because of the co-mingling of legal and illegal commodities, trade and activities along with the undetected and unknown elements of environmental crime. Trade-related crimes are often by their nature organised, requiring complicit cooperation of parties across the supply chain.

As with most other crimes, the illicit nature of illicit commodity crime makes it difficult to measure the extent and involvement of serious and organised crime.³⁴ Traditional data collection mechanisms such as victim surveys, counting the number of perpetrators and victims are ineffective in measuring the extent and nature of serious and organised crime involvement in this criminal activity crime.

There is an absence of data compilation and fusion mechanisms for commodity crime statistics in Australia. This makes national data analysis or data matching impossible, and data sharing to detect organised crime interests is also difficult. These complexities inhibit the ability to estimate the prevalence and economic costs of serious and organised crime.

The social and environmental harms arising in this context are even harder to quantify. Further research is needed to fully understand these impacts and to inform the improved resourcing and coordination efforts required to avert these losses; deter and enforce crime; and ensure a level playing field for those who do comply with environmental law.

Identity Crime

The overall costs of serious and organised related identity crime are around \$1.2b.

Identity crime, though underreported, is now among the most prevalent and constantly changing crime types. As well as acting as an enabler, it is also a crime of itself that is carried out by serious and organised entities. An increased reliance on personal identity information in online services, along with the exploitation of technology by criminals, has seen identity crime become one of the most pervasive crime types in Australia.

Misuse of personal information lies at the heart of identity crime and continues to affect all sectors of the Australian community. An identity crime measurement framework is being developed under the *National Identity Security Strategy* to improve the available evidence on the nature and extent of identity crime in Australia. It recently found the impact cost of identity crime in Australia as \$2b with prevention and response costs bringing this to almost \$2.4b. Taking the workshopped percentages of serious and organised crime involvement gives us an insight into the impact and prevention and response costs, see tables 10 and 11.³⁵

³⁴ For example, both The UK Home Office study *Understanding organised crime: estimating the scale and the social and economic costs* and the Directorate-General for internal policies, Policy Department, Citizens' rights and constitution Affairs, 2013, *The Economic, Financial & Social Impacts of Organised Crime in the European Union: Study*, indicate they were unable to estimate the costs of organised environmental crime and instead provide an indication of the possible scale and social and economic costs.

³⁵ Attorney-General's Department June 2015, *Identity crime and misuse in Australian 2013-14*.

Table 10: Direct and indirect impact costs of identity crime in Australia 2013–14

FRAUD CATEGORY	TOTAL IDENTITY CRIME IMPACT COST	LOW	MIDDLE	HIGH
Commonwealth fraud (including undetected and unreported, less recovered)	\$29,808,194	\$5,961,639	\$11,923,278	\$17,884,916
Personal fraud (based on National Victimization Surveys)	\$434,940,720	\$86,988,144	\$173,976,288	\$260,964,432
Serious fraud	\$148,532,196	\$29,706,439	\$59,412,878	\$89,119,318
Police recorded fraud (excl. above categories)	\$1,396,862,240	\$279,372,448	\$558,744,896	\$838,117,344
TOTAL	\$2,010,143,350	\$402,028,670	\$804,057,340	\$1,206,086,010

Source: Derived from Smith, Jorna, Sweeney & Fuller 2014

Table 11: Prevention and response costs of identity crime in Australia 2013–14

JURISDICTION	TOTAL IDENTITY CRIME COST \$	ESTIMATED SERIOUS AND ORGANISED PREVENTION AND RESPONSE COSTS 2013–14		
		LOW	MIDDLE	HIGH
Commonwealth	\$147,754,235	\$29,550,847	\$59,101,694	\$88,652,541
New South Wales	\$51,508,992	\$10,301,798	\$20,603,597	\$30,905,395
Victoria	\$33,467,818	\$6,693,564	\$13,387,127	\$20,080,691
Queensland	\$33,105,852	\$6,621,170	\$13,242,341	\$19,863,511
South Australia	\$11,672,672	\$2,334,534	\$4,669,069	\$7,003,603
Western Australia	\$19,603,663	\$3,920,733	\$7,841,465	\$11,762,198
Tasmania	\$3,952,717	\$790,543	\$1,581,087	\$2,371,630
Northern Territory	\$5,191,190	\$1,038,238	\$2,076,476	\$3,114,714
ACT	\$2,550,825	\$510,165	\$1,020,330	\$1,530,495
All States & Territories	\$41,046,650	\$8,209,330	\$16,418,660	\$24,627,990
TOTAL	\$349,854,612	\$69,970,922	\$139,941,845	\$209,912,767

Although most identity crime against individuals involves relatively small financial losses, in some cases these losses can be very significant. The 2014 AIC report indicates that, although victims experienced average out-of-pocket losses of just over \$4,000 per incident, half lost less than \$250. Over three-quarters of victims lost \$1,000 or less, but one victim lost a total of \$310,000.

Cybercrime Costs

The costs of serious and organised crime related cybercrime are around \$1.1b, which includes prevention and response costs. This is an under estimation in that it reflects the costs of cybercrime as it affects one sector of industry only.

Cybercrime is a fast-developing key threat³⁶ within the serious and organised crime context. In Australia, the National Plan to Combat Cybercrime provides national definitions and sets out key principles and priority areas to address cybercrime. The National Plan describes ‘cybercrime’ as:

- **Cybercrime:** crimes directed at computers or other information communications technologies (ICTs) (such as hacking and denial of service attacks), and
- **Technology-enabled crime:** crimes where computers or ICTs are an integral part of an offence (such as online fraud, identity theft and the distribution of child exploitation material).³⁷

Developments in cybercrimes such as malware and ransomware constantly present new opportunities for serious and organised crime, predominantly based internationally, to take advantage of the reliance on the Internet and computer technology. There is no shortage of data to show the seriousness of the problem, but how is it best measured, avoiding duplication and with certainty? Most studies estimate the **combined costs** of cybercrime, technology-enabled crime and the costs of prevention and response. In addition, definitional issues, especially conjecture between what is classified as cybercrime and technology-enabled crime combined with limited data collection, make this a challenging area to cost.

The costs of cybercrime, as with the costs of burglary, are distributed between both victims and non-victims. While victims bear the direct costs, almost everyone in the community is forced to pay for preventive measures such as cyber-security software – similar to burglar alarms, fencing, and security patrols – and these costs may significantly exceed the costs of victimisation itself.

Although it is difficult to establish an accurate figure for the cost of cybercrime in Australia, an October 2013 industry estimate put the cost over the previous 12 months as at least \$1 billion. However, this is also an under estimation, as it is based only on adult individuals affected and does not include the cost to business and government.³⁸

An example of cybercrime was reported by the ACC in 2014. It noted that, despite worldwide mitigation efforts on the part of industry, (the keyboard-capturing malware) SpyEye continues to target victims domestically and internationally. In Australia the methodology used in Spyeye to capture credentials to enable bank fraud has been replicated with newer and more sophisticated spy botnets also targeting Australia in 2015. In January 2014, the United States Department of Justice stated that SpyEye is estimated to have infected 1.4 m internet users worldwide.

³⁶ Australian Cyber Security Centre 2015, *2015 Threat Report*, https://acsc.gov.au/publications/ACSC_Threat_Report_2015.pdf viewed 30 July 2015.

³⁷ Attorney-General's Department 2013, *National Plan to Combat Cybercrime*, p.4.

³⁸ Symantec, 2013 Norton Report: Total Cost of Cybercrime in Australia amounts to A\$1.06 billion, 13 October 2013, symantec.com/about/news/resources/press_kits/detail.jsp?pkid=norton-report-2013

Data sources on the extent and costs of cybercrime and technology-enabled crime are also varied and include the government's Australian Cybercrime Online Reporting Network³⁹ ('ACORN'), although less than a year old. Generally data can be found in three areas:

- general population surveys, which cover crimes against individuals and households, and surveys of crimes against businesses,
- data from complaints reported to, for example, the Australian Competition & Consumer Commission (ACCC), and
- the companies that offer various anti-virus or other solutions to the problem. While more independent sources of estimates would be preferred, they are at least another reference point.

Estimates are based predominantly on the Anderson et al study of cybercrime in the UK, and industry estimates combined with workshop estimates of the per cent serious and organised crime involvement. The Anderson data are presented in Tables 12-13, showing how the percentage of GDP components of the impact and prevention and response costs were derived.

Table 12: Measuring the Impact Cost of Cybercrime: Percentage of GDP calculations⁴⁰

TYPE OF CYBERCRIME	UK ESTIMATE (US\$MILL)	REFERENCE YR	PERCENT OF GDP
Online banking fraud			
- phishing	\$16	2007	0.000690
- malware (consumer)	\$4	2010	0.000172
- malware (businesses)	\$6		0.000259
- bank tech. countermeasures	\$50	2010	0.002155
Fake antivirus	\$5	2008-10	0.000215
Copyright-infringing software	\$1	2010	0.000043
Copyright-infringing music etc	\$7	2011	0.000302
Patent-infringing pharmaceuticals	\$14	2010	0.000603
		Total Percent of GDP	0.007068

39 ACORN is an online system where people can securely report cybercrime, and find advice on how to recognise and avoid it. The information gathered will help authorities tackle cybercrime by building a national picture of how cybercrime is affecting our country and our people.

40 Anderson, R, Barton, C, Bohme, R, Clayton, R, van Eeten, MJG, Levi, M, Moore, T and Savage, S 2013, 'Measuring the Cost of Cybercrime.'

Table 13: Measuring the Prevention and Response Costs of Cybercrime: Percentage of GDP calculations

COST OF CYBERCRIMINAL INFRASTRUCTURE	UK ESTIMATE (US\$MILL)	REFERENCE YR	PERCENT OF GDP
Expenditure on antivirus	\$170	2012	0.007326
Cost to industry of patching	\$50	2010	0.002155
ISP clean-up expenditures	\$2	2010	0.000086
Cost to users of clean-up	\$500	2012	0.021548
Defence costs of firms generally	\$500	2010	0.021548
Total Percent of GDP			0.052663

“Net Losses - Estimating the Global Cost of Cybercrime - Economic impact of cybercrime”⁴¹ and the “2013 Norton Report”⁴² present similar estimates of the total costs of cybercrime in Australia as a per cent of GDP. The estimates in this report, for both impact and prevention and response costs, assume a ratio of impact costs to prevention and response costs based on the Anderson report, and workshopped estimates of the serious and organised crime component.

Enablers of Serious and Organised Crime

The costs of enablers of serious and organised crime are around \$0.5b. Assessing the financial impact of the enablers of serious and organised crime is extremely difficult. Financial impact analysis of these crimes is challenged by:

- the need to avoid double counting,
- difficulty in extracting the number of instances and/or victims,⁴³ and
- difficulty in identifying the vast array of impacts and associated costs.

All of these challenges are generally beyond the current data collections accessible for this report. However, partial estimates of enabling crimes could be distinguished and include estimates of the profits made by those providing money laundering services, combined with an estimate of revenue available to serious and organised crime groups. As both of these costs are reliant on sensitive intelligence holdings, individual costs are not provided.

Money laundering is an intrinsic enabler of serious and organised crime. Serious and organised crime relies on money laundering to legitimise and/or hide the proceeds of their criminal activities and it provides a means of reinvesting in criminal activities. Traditional money laundering methodologies involve the use of the financial sector (including the banks, alternative remittance and foreign exchange dealers) but a whole raft of other methodologies have been developed to varying levels of sophistication.

⁴¹ Center for Strategic and International Studies June 2014, *Net Losses: Estimating the Global Cost of Cybercrime; Economic impact of cybercrime II*.

⁴² Symantec 2013, *Norton Report*, http://www.symantec.com/en/au/about/news/release/article.jsp?prid=20131015_01.

⁴³ Data are often not available as these offences can be secondary to the major criminal activity for example the identity crime used to facilitate fraud may not always be recorded as an offence

These include for example, third party cash couriers, the use of virtual currencies, as well as laundering through casinos, and real estate dealings, although the financial sector is still, inevitably, involved at some point in the laundering cycle.

The crime of money laundering results in illegal profits to those who carry out the laundering itself. While there are a broad range of costs, the only cost measured to any degree of credibility is the commission charged by money launderers. The amount of money being laundered does not measure the financial impact of this enabler/crime type and risks double counting the profits and proceeds of the predicate crimes.

The importance of criminal access to financial resources has not previously been recognised as an enabler of serious and organised crime. A measure of the threat posed by serious and organised crime in Australia are the 'financial resources' held by a criminal network. This would include assets that are not held in the target's name but could be liquidated at the targets request, and which are accessible for criminal activity by the group.

Irrespective of the costs of specific crimes committed by this group, it is arguable that the income that could be generated by this enormous wealth is income that is lost from the Australian economy. It will generally be held in assets beyond the reach of Australian authorities, and enables serious and organised crime groups to distort prices and markets and invest sub-optimally.

Crimes Against the Person

The costs of serious and organised crime related crimes against the person are around \$0.089b. From a serious and organised crime perspective, crimes against the person include maritime people smuggling, human trafficking and organised child sex offending. The financial impacts of these criminal offences are far ranging and extremely difficult to measure. This is due to issues with data and the complex nature of the crimes and the broad range of social, physical and mental health, and associated service provision costs. The estimated impact cost here refers to an amount lost to the Australian economy and does not account for the social, health and welfare costs for victims.

Maritime people smuggling is generally viewed as a high profit and low risk venture because of a perception that there is a relatively low risk of detection, arrest and prosecution compared with other serious and organised crime activities. It is generally carried out by flexible criminal groups or individuals, operating in repeated contractual arrangements, rather than in structured hierarchies.⁴⁴ Human trafficking and slavery is considered to be highly profitable. Often transnational in nature this criminal activity poses a number of significant challenges making it a complex crime to measure and address.

44 Australian Crime Commission 2015, *Organised Crime in Australia 2015*, p. 79.

The clandestine nature of offences against the person, along with probable high levels of under-reporting and low levels of recognition, including through self-identification, means there is little reliable data about the nature and extent of human trafficking at a global, regional or domestic level.⁴⁵

While no data are available to measure the total numbers of people trafficked into Australia, estimates are supported by the relatively low numbers detected in Australia compared to the UK. For example, the Australian Federal Police received only 70 new referrals relating to human trafficking and slavery matters in 2013–14, taking the total to 469 since 2004. Of these 70 referrals, 60 were accepted for further investigation. Almost 43 per cent of these investigations related to sexual exploitation, 35 per cent to other forms of labour exploitation and 17 per cent related to forced marriage. As at 30 June 2014, four human trafficking and slavery matters were before the courts, involving nine defendants. Three of these matters relate to labour exploitation and one to sexual exploitation.⁴⁶

In 2013–14, the Support for Trafficked People Program (Support Program), administered by the Department of Social Services and delivered by the Australian Red Cross (Red Cross), provided assistance to 76 clients, including 21 new clients. Of the 21 new clients, eight were exploited in the sex industry and the remaining 13 were subjected to other forms of exploitation. Organised crime groups can be expected to have profited by over \$200k by these 76 clients alone. The total cost to Australia, not counting the response costs, would clearly be much higher than this. It is also likely this money is lost to Australia.

The United Nations Office on Drugs and Crime has made estimates of the incomes generated by organised crime groups from these trades. It is estimated that the exploitation of 11 South-East Asian victims who were trafficked to Australian brothels lasted for some two years and resulted in a net profit of between US\$55,000–65,000, at a minimum.⁴⁷ This would suggest profits of approximately AUD\$30,000 per year, or \$2,727 per victim per annum.

Determining the serious and organised involvement in child sex offending in Australia is complicated by Australian perpetrators abusing children overseas, as is the case with child sexual exploitation in travel and tourism.⁴⁸ Serious and organised child sex offending in Australia is also unlikely to involve the more extreme aspects of child sexual abuse facilitated by overseas organised crime groups, including the abduction, trafficking and sale of children. In Australia, it is more likely to involve Australian perpetrators sourcing children and exploitation material from like-minded individuals based in Australia, or from overseas-based markets run and facilitated by serious and organised crime groups. An additional emerging problem for Australia is the growth of youth gang and group culture that can involve routine sexual violence against girls who associate with, or join, gangs.⁴⁹

45 Australian Crime Commission 2015, *Organised Crime in Australia 2015*, p. 80.

46 Inter-departmental Committee 2013-14 report available from www.ag.gov.au/humantrafficking

47 United Nations Office on Drugs and Crime 2014, *UNODC Global Report On Trafficking In Persons*, 2014 .

48 Australian Crime Commission 2015, *Organised Crime in Australia 2015*, p. 80.

49 Australian Crime Commission 2015, *Organised Crime in Australia 2015*, p. 80.

THE COSTS OF PREVENTING AND RESPONDING TO SERIOUS AND ORGANISED CRIME

WHAT IS INCLUDED IN PREVENTION AND RESPONSE COSTS?

The **prevention and response** costs refer to the costs to Government, to the private sector and to the community in anticipation of and in response to serious and organised crime. The most obvious and measurable costs in prevention and response are those across the criminal justice system, including law enforcement (including immigration, border protection etc), courts, and corrective services, as well as Commonwealth government agencies such as the Australian Commission for Law Enforcement Integrity, Australian Securities and Investment Commission, the Australian Prudential Regulation Authority etc to the extent that these relate to serious and organised crime (see Figure 5). By contrast prevention costs are spread across the community and private sector. They include for example the costs of physical security, identity protection, and anti-fraud measures as well as risk management strategies to counter the threat of serious and organised crime.

Figure 5: The costs of preparing for and responding to serious and organised crime



Table 14: Prevention and Response Costs, by Sector

PREVENTION AND RESPONSE COSTS*		
Cost Centre	Estimated cost	Commentary
Government Costs		
Australian Government agencies	\$4.0 billion	Includes serious and organised crime component of Commonwealth agencies such as the Australian Crime Commission, Australian Transaction Reports and Analysis Centre, Australian Securities and Investments Commission, Australian Prudential Regulation Authority, Australian Commission for Law Enforcement Integrity, Department of Immigration and Border Protection etc.
Law enforcement	\$3.3 billion	Costs are an estimate of Commonwealth, state and territory law enforcement expenditure in response to serious and organised crime.
Criminal justice system	\$0.8 billion	Costs across the criminal justice system in response to serious and organised crime includes Attorney-General, prosecutions, courts and prisons costs.
Private Sector and Other Costs		
Security industry	\$2.4 billion	Possible over estimation. Costs are an estimate of serious and organised crime component of the hardware, electrics and personnel costs attributed to the security industry.
Finance and insurance sector	\$2.3 billion	Under estimate. Proportion of serious and organised crime costs to one sector of the finance industry combined with insurance sector costs.
Household precautions and other	\$2.2 billion	Includes indirect costs such as those associated with personal security, i.e. locks/alarms and time spent securing premises, combined with the serious and organised crime component of dealing with victims of crime for example, violence against women, child protection, as well as time spent by volunteers for a community or welfare group providing services to victims of crime.

* Total figures in the paper have been rounded to the nearest billion and may vary slightly from the table totals.

This section presents an insight into the development of estimates of the costs of crime prevention and the response to serious and organised crime. It deals firstly with the costs imposed on law enforcement agencies. Consequential to the work of law enforcement agencies, regardless of jurisdiction, are the 'downstream on-costs' incurred in the courts, corrective services and associated criminal justice agencies. While the serious and organised crime environment differs between jurisdictions, these differences are largely reflected in their victim and offender data.⁵⁰

⁵⁰ Australian Bureau of Statistics 2015, *Recorded Crime Offenders 2013-14*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4519.0~2013-14~Main%20Features~Key%20Findings~1>, viewed July 2015.

The approach to measure these costs used the Victorian Department of Justice and Regulation (DJR) 'Criminal Justice System Forecasting Model',⁵¹ combined with estimates of the extent of serious and organised crime involvement, by crime type, generated by surveys and workshopping, to weight the recorded crime data. This Model addresses the workloads of police, forensics, victims support agencies, prosecutions, legal aid, all levels of courts and ancillary agencies, adult and juveniles corrections and parole. Its starting point is the annual numbers of crimes recorded in Victoria, and the numbers of charges laid and persons proceeded against, by offence type. The utility of the Model to this project is that the flow-on to all other agencies is clearly identifiable in terms of workloads and operational costs. Therefore, to the extent that serious and organised crimes can be isolated in the recorded crime data, downstream on costs can also be estimated. Australian Government agency estimates of the proportion of serious and organised crime in their annual operational costs were also used to calculate the overall per cent of spent on serious and organised crime.

It should be noted that proceeds of crime have also been subtracted from the overall costs. The total value of amounts recovered into the Confiscated Assets Account at the federal level since 2006-2007 has increased from \$12.65m in 2006-2007 to \$65.74m in 2013/2014. These figures are also showing an upward trend in restraint actions, even though few cases have yet progressed to final confiscation or forfeiture orders.⁵²

GOVERNMENT EXPENDITURE ON SERIOUS AND ORGANISED CRIME

The serious and organised crime related costs incurred by each of the many agencies that make up the Commonwealth and state and territory law enforcement and criminal justice system have been estimated on the basis of surveys and expert workshops on the extent of serious and organised crime in their work. Other agencies provided information which was used to update the AIC data.

In particular, the estimates included assessment of work carried out to prevent, combat and understand serious and organised crime both in Australia and within the region. At the Commonwealth level this work involves a broad range of law enforcement, regulatory and other activities including:

- law enforcement's capability to combat serious and organised crime
- cross-agency collaboration to investigate, and implement initiatives and coordinate responses to serious and organised crime
- protecting Australia's borders

51 Criminal Justice System Forecasting Model, developed by John Walker Crime Trends Analysis, Dr Stuart Ross and Professor Neville Norman, Melbourne University, for the Victorian Department of Justice, 2010. The Model produces projections of workloads and operating costs for over 20 agencies in the criminal justice system, including all levels of courts and corrective services. Its 2010 projections were compared with actual figures for 2010/11, 2011/12 and 2012/13 and found to be within +/-5 per cent in almost every respect.

52 Financial Action Task Force 2015, *Anti-money Laundering and counter terrorist financing measures, Australia, Mutual Evaluation Report: April 2015*, p. 63.

- implementing measures to respond to specific threats, such as outlaw motorcycle gangs, the reporting of cybercrime via the ACORN website, etc
- addressing barriers to information sharing in relation to serious and organised crime
- developing criminal policy and legislation to deal serious and organised crime
- building a robust anti-money laundering and anti-fraud regimes that are effective for law enforcement, efficient for industry and which meets international standards
- managing funding under the *Proceeds of Crime Act 2002*, Safer Suburbs Programme and Grants to Australian Organisations to achieve government policy objectives to tackle crime
- administration of federal and state and territory offenders convicted of serious and organised crime types including cybercrime, drug and financial-related crime
- developing policy initiatives
- capacity building to combat maritime people smuggling, human trafficking, money laundering and corruption
- extradition and mutual assistance casework to support criminal investigation and prosecutions
- coordination and implementation of strategies such as improving identity security, and preventing fraud
- the processing and detention of illegal maritime arrivals (IMAs).

At the State and Territory level numerous law enforcement activities are related to serious and organised crime including:

- high level specialist investigations, task forces and intelligence gathering to detect, disrupt and prevent serious and organised crime activity and groups
- crime scene investigation
- road policing engagement with people involved in organised criminal activities
- attendance at major road trauma incidents (for example where illicit drugs were a contributing factor) and roadside drug testing
- coordination with other domestic and international law enforcement and regulatory agencies
- assisting State/Territory and Federal Governments with policy setting and support for parliamentary inquiries
- preparation of court briefs for prosecution, attendance at court etc
- training and knowledge development.

The Model's findings can then be used to extrapolate 'downstream' justice system costs. These costs are again pro-rata to the prevalence of serious and organised crime in their recorded crime data, since the key components of the criminal justice systems in all jurisdictions are similar. They would include the costs of services including:

- the funding of victims support agencies,
- the provision of legal aid services,
- the conduct of criminal prosecutions,
- the funding of all levels of criminal courts and ancillary agencies,
- the provision of adult and juveniles corrections and parole.

The results in Table 15 show downstream agency costs by broad offence grouping.

Table 15: Estimates of the Downstream Percentage of Costs Imposed by Serious and Organised Crime 2013–14, by Crime Category⁵³

Crime Category	Per cent Serious and Organised Crime		
	Low	Middle	High
Offences against the Person	2.13	2.26	2.46
Offences against Property	2.70	3.16	3.56
Drug Offences	4.36	4.68	5.00
Other Offences	2.19	2.57	3.32
Total Offences	11.39%	12.67%	14.35%

PRIVATE SECTOR EXPENDITURE ON SERIOUS AND ORGANISED CRIME

The financial sector faces probably the greatest component of the serious and organised costs incurred by the private sector in Australia. This includes responding to the direct threat posed by serious and organised crime to its business activities and in complying with the legislation and regulations designed to prevent the abuse of the financial sector by money launderers.

According to the Final Report of the Financial System Inquiry, 2014,⁵⁴ "Of eight major streams of regulatory reform since 2005, research by the Australian Bankers' Association (ABA) shows industry project expenditure has been highest in relation to the Anti-Money Laundering and Counter-Terrorism Financing Act 2006, which includes Know Your Client (KYC) identification rules. Anti-money laundering (AML) projects have resulted in an estimated \$725m in expenditure." Figures of this magnitude have been confirmed by confidential private sector information.

⁵³ Victorian Department of Justice and Regulation Criminal Justice System Forecasting Model, op. cit.

⁵⁴ http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

An Ernst and Young survey of the cost effectiveness analysis of regulatory interventions⁵⁵ found that:

“Reforms to the presentation of credit card terms and conditions are estimated to have involved total implementation costs of between \$40m and \$120m across the industry,” and “Know Your Customer requirements are estimated to have cost between \$647m and \$1b to implement, across the banking and other financial services sectors, with ongoing annual costs of between \$299m and \$435m. The changes are driven by the need to comply with international regulatory standards”.

Other areas of the private sector, including small business and households, also incur costs as a result of criminal activity, some of which have been addressed in the AIC’s Costs of Crime report. As in other areas of this paper, the extent to which these areas are affected by serious and organised crime has been assessed through expert consensus but is likely to seriously under estimate actual costs.

The AIC report included a range of other costs including victim assistance costs, and other crime prevention and response costs. These have been updated to 2013–14 and estimates of the percentage of serious and organised crime have been applied. The estimates of serious and organised crime have been developed in consultation with the AIC.

Table 16: Estimates of the Percentage Incurred in Respect of Serious & Organised Crime, Other 2013–14

PORTFOLIO / TYPE	ANNUAL RECURRENT EXPENDITURE \$M	LOW		MIDDLE		HIGH	
		ORG CRIME %	ORG CRIME COST \$M	ORG CRIME %	ORG CRIME COST \$M	ORG CRIME %	ORG CRIME COST \$M
Child protection for criminal acts	\$1,500	3	\$48	5	\$81	10	\$162
Violence against women support	\$124	0.50	\$0.67	1	\$1.34	2	\$2.67
Voluntary services for crime	\$76	0.50	\$0.41	1	\$0.81	2	\$1.64
Security industry*	\$4,857	8	\$408	10	\$510	15	\$765
Insurance administration	\$670	10	\$72	20	\$144	25	\$180
Household precautions	\$2,360	15	\$381	20	\$508	30	\$762

* The security industry data were derived from the Australian Security Industry Association Limited information provided to the AIC and relate to expenditure including alarms, monitoring, CCTV, investigation services and mobile patrols.

⁵⁵ http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

CONCLUSION

This is the first detailed attempt to measure the costs of serious and organised crime in Australia. As a result numerous challenges were encountered.

A number of crime and cost types are not yet amenable to estimation or can only be partially estimated, and the detected extent of serious and organised crime is a small fraction of the totality. Developing alternative approaches to crime data collection involving increased use of victimisation surveys would greatly enhance our understanding of the extent and costs of serious and organised crime, including proceeds of crime, profits made by serious and organised crime and the harm caused to the community as a result.

A global approach to improved data collection focusing on serious and organised crime and of serious and organised crime as a component of conventional crime would permit international comparisons that would facilitate and augment an understanding of the harm caused.

WHERE TO GO FOR MORE INFORMATION

Everyone can play a role in responding to organised criminal activity in Australia by reporting suspicious activity to your local police or calling Crime Stoppers on 1800 333 000.

For more information visit www.crimecommission.gov.au

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