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ANNEX 1 – PART 2/2

ANNEX

to the

COMMISSION DECISION

**concerning the adoption of the work programme for 2017 of the Pericles 2020
Programme**

APPENDIX



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS
Fiscal policy and policy mix
Euro protection and euro cash

Brussels,

Subject: **Update of the Pericles 2020 strategy: priority action points**

This paper updates the previous Pericles Strategy¹ and describes the priority action points of the Pericles implementation for the upcoming year. It is presented to the ECEG experts², and will be annexed to the 2017 Annual Work Programme for Pericles 2020.

These priorities could be adapted in case of upcoming unexpected new threats in relation to the protection of the euro which require activities financed under the Annual Work Programme for 2017.

The actions on which the Pericles programme will focus in 2017 are the following³:

a. Supporting activities aimed at improving cooperation among those Member States which are particularly affected by the production and distribution of counterfeits

Within the European Union, Italy is the most sensitive country with respect to the production of counterfeit euro coins and banknotes. Italy has dismantled the highest number of dangerous print shops and illegal mints in Europe since 2002⁴ and "for the second year in a row, the Italian law enforcement agencies seized more than 50 million in counterfeit banknotes"⁵. There is concrete suspicion that more than 70% of dangerous counterfeit euro banknotes in circulation continues to be produced in the area of Naples (common classes denominated "Napoli group")⁶.

France, Italy, Germany and Spain are subject to the largest distribution of counterfeit euro banknotes⁷, with respectively 35,8%, 19,9%, 11,7% and 10,4% of counterfeit banknotes in circulation found in these countries. This is also attested by the

¹ Ares(2015)4713133 endorsed in the ECEG of 18 November 2015.

² In line with art 13 (1) of Regulation (EU) No 331/2014 of the European Parliament and of the Council establishing the "Pericles 2020" programme.

³ The priorities of the "Pericles 2020" programme are endorsed by the Euro Counterfeiting Experts Group (ECEG), as provided for by Council Regulation (EC) 1338/2001 of 28 June 2001.

⁴ Information received during Euro Counterfeiting Expert Group (ECEG) meetings indicating that 56 illegal mints and print shops dismantled from 2002 to 2015.

⁵ Europol (2016) *Report on Euro Counterfeiting 2015*

⁶ Information received during Euro Counterfeiting Expert Group (ECEG) meetings.

⁷ Europol (2016) *Report on Euro Counterfeiting 2015*.

numerous seizures carried out⁸. With respect to counterfeit coins, Italy and Germany are subject to the largest distribution, representing respectively 25.8% and 23% of counterfeit coins found in circulation. Spain and France follow, with respectively 17% and 10.9% of counterfeit coins found in these countries⁹.

Implementation:

Actions focusing on cooperation between France, Germany, Spain and Italy, such as workshops and staff exchanges targeting both production and distribution.

Actions focused on countering counterfeit coin distribution in Germany and Italy.

b. Fostering cooperation with authorities of those third countries where there is suspicion of or evidence for counterfeit euro production

China

The involvement of Chinese criminality in producing counterfeit money is increasing: the number of counterfeits having a highly deceptive hologram (originating from China) increased from 22.000 in 2013 over 47.000 in 2014 to 71.000 in 2015. But Chinese criminals are not only providing components for producing counterfeit euros such as holograms and special inks¹⁰ but they have also become directly involved in the production phase. In December 2014, 306.000 coins produced in China were seized by the Italian authorities in the port of Naples¹¹. The economic and demographic size of China as well as the proven contacts between Chinese nationals and organised crime in the EU increases the risks of currency counterfeiting (production and distribution). There is a concrete need for cooperation and awareness raising actions targeting China. In the future it can be expected that there will be more and more cases having operational links to China. This calls for an increased level of (operational) cooperation.

Colombia and Peru

Outside the EU, the highest quality and largest quantity of counterfeit euros are produced in Colombia¹² and Peru¹³, therefore representing potential threats for the euro.

Implementation:

Actions such as conferences and staff exchanges aimed at raising awareness and establishing and developing close cooperation with the relevant Chinese authorities.

⁸ Europol (2016) *Report on Euro Counterfeiting 2015*.

⁹ ETSC (2016) *The protection of euro coins in 2015*.

¹⁰ Information received during Euro Counterfeiting Expert Group (ECEG) meetings: already in 2009, the Spanish Police carried out a successful operation involving holograms produced in China and used on counterfeit euro notes; counterfeit holograms for banknotes appeared on sale on the Chinese "alibaba" website.

¹¹ Europol (2015) *Report on Euro Counterfeiting 2014*.

¹² E.g.: Europol (2016) *Report on Euro Counterfeiting in 2015*: 2 printshops dismantled in Bogota in March and August 2015, 2.3 million euro face value seized; Europol (2014) *International police operation busts Colombian currency counterfeiters*, press release, 17 March : in March 2014, a value of 600.000 in counterfeit euro's was seized in Bogota.

¹³ E.g.: Europol (2014): in August 2014, a value of 483.000 in counterfeit euro's was seized in Lima; see also Europol (2012) *Four million counterfeit euros confiscated in Peru*, press statement, 19 December.

Staff exchanges, technical/tactical trainings and networking events involving Peruvian and Colombian competent national authorities.

Purchase of equipment for competent national authorities of non-EU Member States¹⁴ and facilitating the installation of a National Central Office as described in the International Convention for the suppression of counterfeiting currency of 1929 if not yet established.

c. Maintaining an efficient framework for the protection of the euro in South Eastern Europe

Europol considers this area one of the most sensitive regions in Europe with respect to euro counterfeiting. Because of their strategic geographical position close to the euro area, all countries in this region are considered as both transit areas and potential production sites. In addition, Montenegro and Kosovo UNSCR 1244 use the euro as their only official currency. Turkey represents a risk in terms of possible transit and production of counterfeit currency; centralisation of information in the country, cooperation among competent national authorities and with European authorities still present room for improvement.

South Eastern European countries have close ties with EU Member States resulting in an increased movement of persons and goods from and to the European Union. Links between the Euro area and Balkans are also demonstrated by a printshop dismantling in September 2014, during which an overall value of more than 20 million counterfeit euro banknotes has been seized and one printshop dismantled by the Italian and Romanian police¹⁵. Since this action, counterfeiting of the euro has continued in this region¹⁶. Indeed, Europol notes that Italian organised crime groups are relocating their printshops to other European countries such as Romania¹⁷.

Bulgarian organised crime continues to represent a threat due to its involvement in the production of high quality counterfeit euro banknotes¹⁸ and it is linked to criminal organisations operating in other countries in the region such as Greece. The region represents an active threat to the euro, as also demonstrated by the continuous successful police operations taking place¹⁹.

¹⁴ Provided for in Article 8(c) of Regulation (EU) No 331/2014 of the European Parliament and of the Council establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the 'Pericles 2020' programme).

¹⁵ Guardia di Finanza (2014) *Sequestrati oltre 17 milioni di euro contraffatti*, press release, 24 September.

¹⁶ E.g.: DIICOT (2015) Press release, 04 June: 2 suspects carrying a value of 2000 counterfeit euros were arrested before trying to distribute counterfeits in Moldova.

¹⁷ Europol (2015) *Report on Euro Counterfeiting 2014*.

¹⁸ Dismantling of an illegal print shop on 22 April 2016 in Pleven. The counterfeit 100 euro notes produced in Pleven have been circulating in Austria, Belgium, France, Germany, Greece, Italy, Romania, Slovakia, Slovenia and Spain (see <https://www.europol.europa.eu/content/successful-hit-against-bulgarian-euro-counterfeiters>); in June 2014, a value of 21.250 in counterfeit euro's was seized in Sofia, Europol (2014).

¹⁹ Among other cases, in September 2015 the Greek authorities seized about 25 000 euro in counterfeit 20 and 50 notes in Acharnes; in November 2014 two illegal printshops producing Romanian lei and 50 euro notes were dismantled in Bucharest, and in February 2014, 4 persons in the possession of materials for counterfeiting were arrested in Lezhe, Albania, see Europol (2015) *Report on Euro Counterfeiting 2014* and *Europol (2016) Report on Euro Counterfeiting 2015*.

Implementation:

Technical/tactical training to police officers.

Support to Romania, Bulgaria and Croatia for developing further activities in the area like multilateral conferences/workshops and staff exchanges.

Networking actions aimed at reinforcing regional cooperation and establishment of a framework for the protection of the euro similar to the one already in place within the EU (e.g.: continuation of the Euro South East Conference).

Purchase of equipment for competent national authorities of non-EU Member States²⁰.

Supporting the development of the Turkish anti-counterfeiting legislation and other mechanisms for cooperation through workshops and seminars.

d. New developments

I. Technical developments within the coin processing machines (CPM) industry

As a result of the continuous technical developments within the CPM industry, the diversification in the use of coin processing machines by financial intermediaries is increasing (e.g.: use of "in lobby teller machines" for payments in the banks). This recent development imposes a need for enhanced and more transparent implementation of relevant EU legislation, namely:

- Regulation (EU) No 1210/2010 of the European Parliament and of the Council of 15 December 2010 concerning authentication of euro coins and handling of euro coins unfit for circulation.
- Council Regulation (EC) No 2182/2004 of 6 December 2004 concerning medals and tokens similar to euro coins.

II. Distribution of counterfeits and high quality components on the internet

In response to the increasingly effective and coordinated efforts in the dismantling of traditional counterfeit distribution networks, criminals are resorting to more innovative ways of selling their counterfeits. This can be found particularly in relation to the open internet and dark-net; on internet trade platforms such as Alibaba and dark-net hidden services, advertisements have been placed for both high quality components and materials of banknotes and coins, as well as complete euro counterfeits. It is therefore vital to coordinate a unified response to this threat, which requires cooperation at both a European and international level.

III. Increasing interest of criminals located in Third Countries.

In 2015, for the first time, a print-shop producing fake 50 euro notes was dismantled in Bangkok (Thailand)²¹. This shows that euro counterfeiting represents an attractive business also for criminals located in countries geographically far from Europe. In some of these countries, the competent authorities fighting money counterfeiting are lacking resources and relevant technical equipment for

²⁰ Provided for in Article 8(c) of Regulation (EU) No 331/2014 of the European Parliament and of the Council establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the 'Pericles 2020' programme).

²¹ Europol (2016) *Report on Euro Counterfeiting 2015*.

effectively conducting technical analysis or investigations (e.g.: microscopes, computers, gps, softwares, etc..) In these specific cases, Pericles can fund the purchase of technical equipment to be used by specialized anti-counterfeiting authorities from most sensitive Third Countries in order to protect the euro against counterfeiting²².

Implementation:

Workshops, staff exchanges and studies to share best practices on authentication methods.

Seminars aimed at increasing awareness on Council Regulation (EC) No 2182/2004 and Regulation (EU) No 1210/2010.

Workshops on how to effectively investigate threats posed by the internet/dark-net.

Purchase of equipment to be used by specialized anti-counterfeiting authorities from most sensitive Third Countries to protect the euro against counterfeiting.

Attachments:

- Status of counterfeiting
- Methodology and patterns of intervention for implementing the Pericles 2020 programme in 2017

²² Provided for in Article 8(c) of Regulation (EU) No 331/2014 of the European Parliament and of the Council establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the 'Pericles 2020' programme).

ANNEX 1

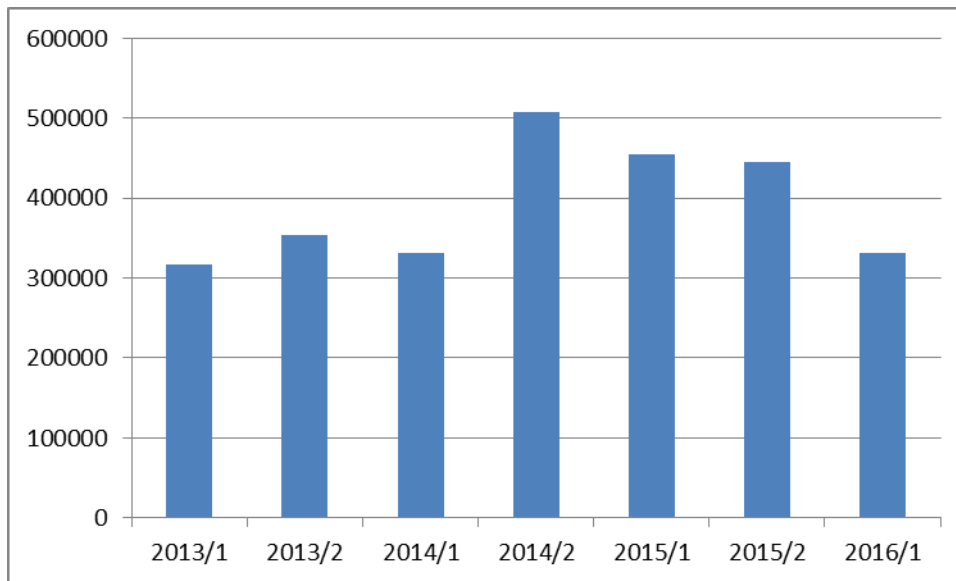
Subject: Status of counterfeiting

A. Status of counterfeiting

Counterfeiting continues to represent a serious threat to the euro. The level of counterfeit banknotes and coins detected, the upcoming of "good quality" counterfeits, the increasing availability of technology and the interest showed by Organised Crime groups also outside EU indicate that the criminal offenses related to counterfeiting would rise considerably if competent authorities would not maintain or increase the current efforts against innovative forms of euro counterfeiting.

According to the latest bi-annual information on euro banknotes prepared by the ECB²³, 331,000 counterfeit euro banknotes were withdrawn from circulation in the first half of 2016, 25% fewer than in the second half of 2015.

Chart 1: Counterfeit euro banknotes detected in circulation (source: ECB)



The €20 and €50 continued to be the most counterfeited banknotes. The proportion of counterfeit €20 notes slightly decreased and that of counterfeit €50 notes increased. Together, they accounted for 84% of the counterfeits.

The quality of counterfeit coins continued to improve in 2015 demonstrated by an increasing number of counterfeits having electromagnetic properties close to the specification. In this respect, 12 new 2-euro variants and 1 1-euro variant of already existing common classes, were registered. They all have quite deceptive electrical or magnetic properties. A number of actions was carried out in order to define the extent of the problem and to improve the detection by the coin-processing machines.

²³ ECB press release of 22nd July 2016.

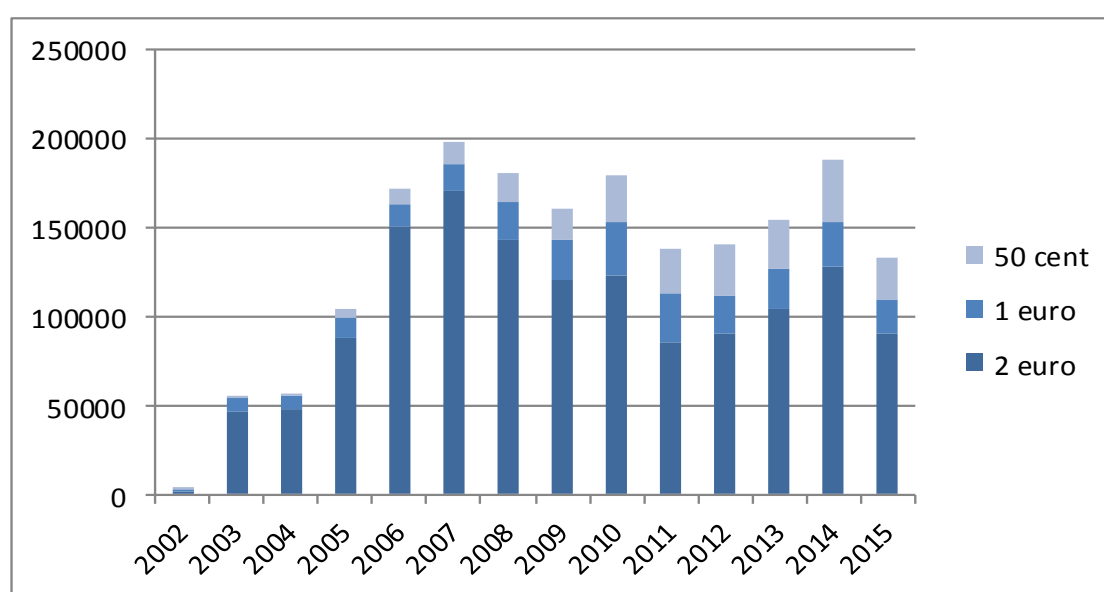
When compared to 2014, 2015 marks a decrease in all three higher denomination coins. In particular, 2 euro denomination counterfeits decreased by 22.56 %, 1 euro by 19.43 % and 50 cent by 30.16 % in comparison to 2014.

In particular, the 50 cent denomination maintains the second position, from a quantity point of view (17.12 %) in 2015 continuing the trend of the last three years. The 2 euro remains by far the most counterfeited denomination, constituting 86.19 % in value terms (up from 85.97 % in 2014).

Overall, 1 994 375 counterfeit euro coins have been removed from circulation since the introduction of euro coins in 2002.

The evolution since the introduction of euro coins in 2002 is given in the following chart.

Chart 2: Counterfeit euro coins detected in circulation (source ETSC)



According to the latest Europol data, approximately 2.2 million counterfeit banknotes were seized by the police in 2015. The total face value of these banknotes is approximately 66.6 million euro. As for coins, 146 889 counterfeit coins were in circulation in 2015. The total face value of these seizures amounts to EUR 235 513. 23 print shops and 1 illegal mint were dismantled within and outside the EU in 2015²⁴.

According to the latest Europol Serious Organised Crime Threat Assessment²⁵, in 2014 there was an increased production of counterfeit €20 and €50 banknotes by Italian organised crime groups based in Naples, Italy.

With respect to the criminal phenomenon of counterfeiting, the long-term view held by Europol and expressed by national experts, ECFIN and ECB, confirms the growing interest in euro counterfeiting of organised crime groups located outside EU and confirms that the involvement of organised crime groups continue to be a characteristic of this crime and contribute to maintain high the level of the criminal threat. Moreover, 2013 SOCTA states

²⁴ See Europol (2016) *Report on Euro Counterfeiting 2015* and ETSC (2016) *The protection of euro coins in 2015*.

²⁵ 2015 Interim SOCTA.

that the enlargement of the Eurozone, together with the global acceptance of the euro as a stable currency and the evolutions towards 'easily' available hologram emulations likely to create new opportunities for organised crime within and outside the EU.

For organised crime groups euro counterfeiting continues to represent a very lucrative market, potentially yielding large profits. Organised crime groups involved in euro counterfeiting are characterized by their rigid organisation and distribution of tasks to independently operating cells. Organizers fund activities, but are not involved in the production process; printers possess very high levels of technical skills (offset printing or digital printing); high-level distributors purchase counterfeits at low prices, while low-level distributors are usually unskilled youths operating in small, but flexible and temporary networks²⁶.

²⁶ See OCTA 2011 and discussions at the ECEG meeting of March 2012. This opinion was confirmed by experts also in the latest ECEG meetings.

ANNEX 2

Subject: **Methodology and patterns of intervention for implementing the Pericles 2020 programme in 2017**

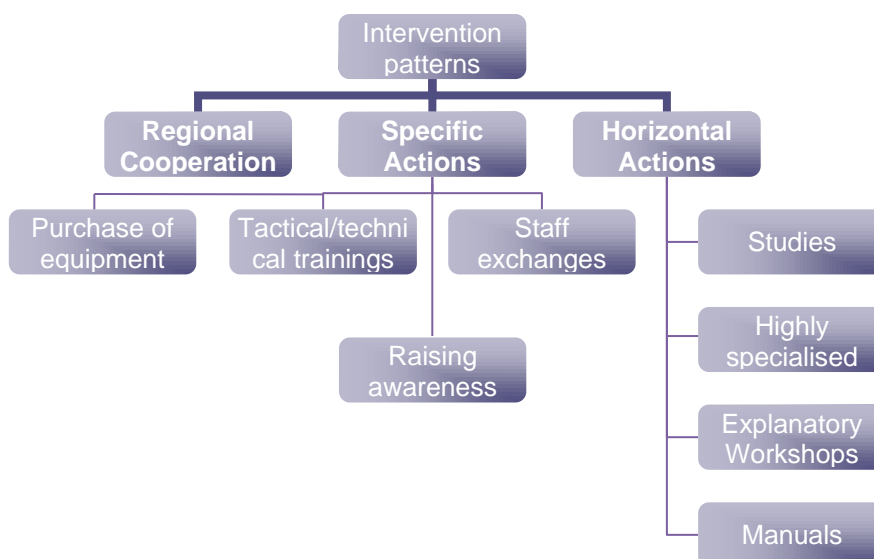
1. Methodology

The strategy for implementing the Pericles programme has traditionally been based on the deliberations of the Commission's Euro Counterfeiting Experts' Group (ECEG)²⁷, bringing together experts from all relevant disciplines and MS, as well as Europol, Interpol and the ECB. The discussions are generally based on notes prepared by ECFIN and bilateral preparations with potential Pericles beneficiaries. Discussions focus on defining the specific needs for training and technical assistance, as well as the geographical areas where action needs to be taken. This ensures the efficient implementation of the Pericles programme in the EU MS most affected by euro counterfeiting and the active support and involvement of other MS.

With respect to areas outside the EU, priorities are also defined on the basis of discussions in the ECEG, taking into account risk assessments carried out by Interpol and by Europol, as well as specific initiatives of Member States or the Commission/ECFIN. Additionally, the Commission/ECFIN establishes bilateral contacts with competent authorities in the areas/countries determined, with a view to specifying the type (conference/seminar, workshop, staff exchange, study) or domain (law enforcement, judicial, financial, and technical) of training and technical assistance. In all cases, the general lines and each of the individual projects proposed are described in detail and discussed at the ECEG.

When it occurs that relevant priorities are not sufficiently covered by actions proposed by Member States, the Commission/ECFIN organises complementary actions on its own initiative based on priorities identified together with the experts and available budget.

2. Intervention patterns



²⁷ In line with art 13 (1) of Regulation (EU) No 331/2014 of the European Parliament and of the Council establishing the "Pericles 2020" programme.

Mid-term priorities are implemented as follows:

Regional cooperation

Regional cooperation covers sensitive regions of the world (e.g.: Latin America and South East Europe) and consists of:

- One yearly seminar/conference bringing together the key experts of the region from police, judicial and financial staff;
- Various specific actions involving two or more countries in the area and organised by Member States or by the Commission/ECFIN.

Specific actions

These actions are aimed at increasing the level of protection of the euro in specific countries by targeting definite categories of professionals (e.g.: judicial, police, customs or financial staff). Specific actions fall under three categories:

- Technical and tactical trainings (mainly addressed to investigators or cashiers, these are practical workshops on how to recognise suspect euro coins and banknotes);
- Staff exchanges (these actions have the main goal of exchanging know-how and increasing the creation of homogeneous framework for protecting the euro against counterfeiting);
- Purchase of equipment (technical equipment to be used by specialized anti-counterfeiting authorities from most sensitive Third Countries in order to protect the euro against counterfeiting);
- Awareness-raising events (multidisciplinary seminars and conferences mainly addressed to medium-high level staff from ministries and competent authorities with the aim to create favourable conditions to further develop co-operation for the protection of the euro against counterfeiting).

Horizontal actions

Horizontal activities contribute to the overall protection of the euro. Figured among these actions are: studies, highly specialised trainings, explanatory workshops and manuals.