High Level Risk Forum

Sport and Links to Illicit Trade

5th OECD Task Force meeting on Countering Illicit Trade

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This report is provided to the OECD Task Force on Countering Illicit Trade (TF-CIT) by the Sport Integrity Global Alliance (SIGA).

The report contains a proposal by SIGA to expand the scope of the work of the TF-CIT to focus on the global market for sport, focusing on the international trade in goods and services one of the world’s largest industries.

Members are welcome to take note of this proposal and discuss the proposal from SIGA to the TF-CIT for potential inclusion of a working paper or work programme on this topic.

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INTRODUCTION

1. In the 1976 film, All the President’s Men, shadowy informant “Deep Throat” tells intrepid reporter Bob Woodward to “follow the money.” The film, of course, is about the Watergate scandal; not illicit trade in international sport. But it may as well have been.

2. Certainly, following the money is what law enforcement has been doing, with more public visibility, since May 2015, when FIFA senior officials and sports executives were implicated in a massive bribery and corruption scandal. But the trail doesn’t stop with FIFA or with football. The money flows throughout all international sport. In just the past few years, volleyball\(^1\), handball\(^2\), track & field\(^3\), sumo wrestling\(^4\) and even the Olympic Games\(^5\) have all been the subject of corruption probes.

3. As more money pours into sport, and as the transactions become increasingly voluminous, complex and sophisticated, so do the threats to its integrity and reputation. Sport is simply too big, too popular, and too rich for any jurisdiction to be immune.

4. Contributing an estimated 4.5 percent of the European Union’s workforce alone and worth in the region of 3% of the world’s economic activity, the economic and financial power of sport is rivalled only by very few economic sectors.

5. The above figures certainly do not measure the social impact and benefit of sport on communities worldwide and indirect revenue generated by the activity to other sectors, for example, tourism, health and fitness, transportation, technology and retail industry, to name but a few. However, in the face of such commercial growth and investment in sport, several inexorable questions are now defying the status quo and calling for action. Has the governance of sport kept pace? Is sport properly equipped with the right financial regulations and supervision mechanisms to really keep its house in order? Can a multi-billion Euro industry, in the twenty-first century, be governed as if it was still in the nineteenth century, before television rights even existed? Can sport tackle, single handed and autocratically, the illicit trades that surround it? Can governments, international institutions and regulators neglect problems of this magnitude, with such an extraordinary complexity, involving multiple jurisdictions and, often, transnational organised crime? The many high-profile scandals that continue to victimise sport and tarnish its reputation suggest not.

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\(^2\) [https://uk.eurosport.yahoo.com/18112011/58/london-2012-handball-federation-rejects-corruption.html](https://uk.eurosport.yahoo.com/18112011/58/london-2012-handball-federation-rejects-corruption.html)


Alongside increasing reports of money laundering, tax evasion and corruption, the financial sophistication of sport and its intricate global links are raising serious concerns as worrying new trends emerge. Trends like the so-called third party ownership of players’ economic rights (which, despite being banned by FIFA regulations, continues to proliferate), the rising influence of offshore investment funds, financial dealings between clubs, players, agents and other intermediaries without the proper scrutiny of an independent clearing house, opaque club ownership structures and related investments, players’ image rights, and many more.

All this is aggravated by increasingly alarming reports related to other illicit trades, including the trafficking and smuggling of minors by unscrupulous individuals and criminal networks, the cannibalisation of sport’s largest and most important income sources, generated by the commercialisation of its intellectual property rights (e.g. television rights, images, logos, brands, data and statistics, to name but a few.), by persistent digital piracy, counterfeiting, ambush-marketing and even illicit, unconsented use of intellectual property rights for commercial exploitation by betting companies.

The need for global leadership, robust regulation, independent oversight and effective international cooperation is therefore greater than ever. This is not a convenience. It is a necessity! It is precisely what this paper intends to call for from the OECD and its member Governments.

**The size and complexity of the problem and its relevance to the TF-CIT**

In the world of sport, illicit trades can be witnessed in three main domains - all of them touching the heart of the mission developed by the OECD’s Task Force on Countering Illicit Trade. They are, as mentioned above:

1. Unlawful movements of persons (mainly transfers of athletes in breach of national legislation and sports regulations, and the related issues linked with sports agents, but also human trafficking, smuggling and exploitation of human beings, often the most vulnerable ones – the minors);

2. Illegal movements of goods, such as in the counterfeiting of sporting goods; and

3. Illicit movement of services and financial flows, often associated with transnational money laundering, corruption, tax evasion and organised crime

The reality, seen through finer lenses, is as follows.

**Illicit trade in the movements of persons**

In football, FIFA TMS, a FIFA subsidiary that monitors the international transfers of football players, reported USD 4.29 billion worth of transfers in 2016 (13,079 international players’ transfers). This figure captures cross-border transfers only for all clubs across the world rather than domestic transfers (which, extrapolating, is estimated in USD 5 million). It is however very difficult to look across these two data sets and identify the true size of spending across the world, or where evidence gaps are potentially creating integrity risks.

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The 2016 FITS Football Report demonstrates the complexity of regulatory conditions and transfer processes in men’s professional football, which provides many opportunities for opacity and dark spaces. The study found that the game was indeed, 92% a dark space in terms of financial transparency. Notably, these dark spaces were inadvertently perpetuated by FIFA’s 2015 agents’ regulatory reform, which, despite my calls (then as CEO of the European Professional Football Leagues), failed to foresee and enforce appropriate qualitative requirements for exercise of such activity, and - equally important - that all payments, by clubs or players to registered agents/intermediaries, would be done through a proper clearing house.

According to Council of Europe’s (EPAS) Hearing on the Draft Recommendation on Migrations in sport and protection of youngsters (February 2011), in 2011, in European professional football, over seven in every one hundred players migrating to Europe for the first time are less than 18 years, while over 33 are less than 21.

Research developed by the CIES Football Observatory’s Demographic Study shows that, of the ten countries which export the youngest players to Europe, six are in Africa, two are in Europe themselves and two are in other continents. Africa is therefore very important in the production of young football talent, alongside Brazil and Argentina where players are, in many cases, seen as commodities.

Although some athletes get good contracts with the clubs that recruit them, the vast majority of those hoping to pursue a career abroad never get to acquire professional status, while some are forced into situations that are detrimental to their health, dignity and well-being. In some extreme cases, the conditions under which athletes migrate are not only illegal, but amount to human trafficking and smuggling. Worse, most of those affected by these abuses are children and young people. Often their passion for sport, their poverty and their ignorance are exploited by unscrupulous intermediaries or even criminal networks than can force them into illegal activities, slavery or even prostitution.

**Illicit trades in the movements of goods**

Sport depends on the commercialisation of its rights (be they broadcasting rights, logos, brands, statistics or merchandising) to generate the incomes streams necessary to ensure its long-term development and social function. The legal recognition and effective protection of those rights (i.e. intellectual property rights, or IPR) are therefore paramount.

According to a study on the economic cost of IPR infringement in sports goods released in September 2015 by the Office for Harmonization in the Internal Market (OHIM), counterfeiting costs the European sports industry EUR 492 million (USD 526.5 million) in annual sales, that is around 6.5% of the sector’s annual total sales.

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8 OHIM, The economic cost of IPR infringement in sports goods, September 2015. Available at https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/resources/research-and-studies/ip_infringement/study3/sports_reports_en.pdf. NB: This study covered the manufacture of sporting and athletic goods, such as golf clubs, tennis rackets and balls, skis, etc. However, it did not include sports apparel (such as football jerseys or baseball caps) that can also be worn as normal clothing. This is included in the OHIM clothing and footwear sector study.
The study also shows that approximately 2,800 jobs are lost in this sector throughout the European Union, as manufacturers sell less than they would have done in the absence of counterfeiting, and, therefore, employ fewer people. If indirect jobs are also accounted for, the lost jobs total reaches 5,800.

Every year, an additional €360 million is lost across the European Union due to the indirect effects of counterfeiting of sports equipment – as manufacturers buy fewer goods and services from suppliers, causing knock-on effects in other areas.

The OHIM estimates that up to EUR 150 million are also lost annually in government revenue throughout the European Union due to this type of counterfeiting. This includes tax, social contributions and VAT which are not paid by producers and distributors of fake merchandise.

Illicit trades in the movements of funds and services

Third-party ownership (TPO) of players occurs when a third party (i.e. an entity which is not a club - it can be an individual, company, or fund) own part or the totality of a player's economic rights. The TPO finds its origin in the dissociation between players’ registration rights and the economic value that such registration drives.

At the apogee of the practice in the early 2010, as many as 1000 players, or 15% of all squads in Europe, were thought to be part-owned by investors. According to a study commissioned by the European Club Association, this involved around USD 1.1 million.

While some notably in South America and the Iberian peninsula regarded the practice of third party ownership as a necessary or even indispensable resource to alleviate the financial burden of clubs, while ensuring they remain competitive on the pitch, others see it as a potential threat to the integrity of competitions, financial transparency and the long-term interests and reputation of football as well as a risk for clubs’ independence and even a form of “slavery”.

After extensive debate, the world football governing body, FIFA, decided, in December 2014, to ban TPO, with the changes brought in during a transitional period in early 2015.

In the meantime, four clubs (Santos of Brazil, Seville of Spain, club K St Truidense VV of Belgium, and FC Twente from the Netherlands) were all fined by FIFA last year for breaching TPO rules.

Further, some sports agents and investment funds are believed to have found ways to circumvent the regulatory ban and have migrated from TPO to other forms of illicit trades. Such trades include buying shares in a club (sporting company), and then receiving a share for any future transfer fee for the sale of a player of the club. Another loophole is to loan monies to a club, and then not only be repaid by these monies, but also to receive some sort of interest payment, that would be culled from any transfer fee achieved by the club selling on a player.

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29. Problematic financial flows and practices associated with sport were also revealed by the Football Leaks case, which exposed that French Football player Paul Pogba was escaping taxes by hiding his image rights 11 or that the Argentinian duo Angel di Maria and Javier Pastore 12 and other football superstars were receiving part of their salaries in fiscal havens. 13

30. The awarding of major events and commercial contracts has also generated high profile cases that shows the extent of these issues: in 2015 the Swiss Attorney General began investigating 53 suspicious transactions in relation to FIFA’s awarding of the 2018 and 2022 World Cups; while former athletics legend Frankie Fredericks was forced to quit his two roles as head of the evaluation commission for the 2024 Games and member of a taskforce helping Russia return to international competition over claims that he and Papa Massata Diack, a former marketing consultant at IAAF and the son of former World athletics supremo Lamine Diack, received a payment days before the vote on the 2016 Olympics host city 14.

The links to money laundering and other financial crimes

31. In 2009, a report of the OECD’s Financial Action Task Force showed the vulnerability of the largest and most pre-eminent sport, football, and how criminals, fuelled by the globalisation of the sport and helped by the financial needs of indebted clubs football, are increasingly using football as a mechanism for money laundering and tax evasion 15. Based on 20 cases of money laundering in football, the report concluded that the structure, financing and culture of the sport are all conducive to financial crimes. While other sports, such as cricket, rugby, horse racing or motor racing, were also under threat, football was "an obvious candidate to examine money laundering through sport" because it dwarfed all the others in terms of its economic and global dimension.

32. In May 2016, Portuguese police carried out searches at football clubs, including Lisbon's Benfica and Sporting as part of 'Operation Matryoshka Dolls', an investigation into suspected money laundering with likely links to Russian crime. The third-tier side União de Leiria, owned by Russian businessman Aleksandr Tolstikov, was at the centre of the investigation in which Tolstikov, another Russian national and two Portuguese have been indicted 16.

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13 https://www.theguardian.com/football/2016/jul/06/lionel-messi-barcelona-prison-21-months-tax-fraud
16 http://rr.sapo.pt/noticia/53245/operacao_matryoshkas_pj_faz_buscas_no_benfica_sporting_e_sporting_de_braga
33. As far as money laundering is concerned a significant new threat is sports betting. In a report published in 2014 by the International Centre for Sport Security and Sorbonne University estimated that 80 per cent of gambling is carried out illegally with football and cricket biggest sports under threat.\(^1\)

34. The report also revealed that criminal gangs launder more than USD 140 billion a year from illegal betting.

35. Whilst the report estimated there are about 8,000 legal operators mainly operating in offshore low tax zones, it was “impossible” to say how many illegal gambling operations exist. The prospects, however, are not rosy.

36. The Sport Integrity Global Alliance (SIGA) and SIGA’s Universal Standards on Financial Integrity as a solution: a road map for combating illicit trades issues in sport

37. Against all this background and concerned with the unprecedented crisis in confidence affecting sport, twenty leading organisations from across all sectors of the industry formed a Sport Integrity Global Alliance (SIGA) in November 2015 in New York, with one fundamental mission: to usher sport into a new era in terms of governance, integrity and accountability.

38. Since the inaugural meeting, the coalition has grown from twenty international organisations to over eighty, with representation from five key stakeholder groups: Governments, Sports Organisations, Commercial partners, International Organisations and Civil Society.\(^18\) As of 31 January 2017, SIGA is now incorporated as a non-for-profit association under Swiss law with 30 Founding Members and Committed Supporters.\(^19\)

39. As an independent, neutral and global coalition involving international stakeholders from across multiple industry sectors, SIGA was launched with the sole purpose of protecting the integrity of sport and will work to drive forward key reforms across good governance and financial transparency in sport.

40. SIGA works towards a vision of sport played and governed under the highest integrity standards, free from any form of unethical, illicit and criminal activity, to safeguard sports values and ensure its positive impact and benefits to all citizens. The mission of SIGA is to provide global leadership, promote good governance and safeguard the integrity of sport through a set of universal standards operated by an independent, neutral and global body.

41. Key members and supporters of SIGA include the United States, Spain, Mexico and other governments; the World Bank, OECD, European Commission, UNODC, FATF, UNESCO and other leading international organisations; several European football leagues, the Commonwealth Games Federation, FIBA, EuroLeague Basketball, World Snooker, British Swimming and about 30 National Olympic Committees, as well as other sports bodies. SIGA is also officially supported by Deloitte, PwC, MasterCard, Qatar Airways, Turkish Airlines and other preeminent sponsors and private sector partners.


\(^{18}\) For more information about SIGA, including SIGA’s Constitution, Founding Members, its Vision, Mission, ad interim Council Members and interim budget for the period 1 January to 31 July 2017, please refer to the siga website: [www.siga-sport.com](http://siga-sport.net/siga-constitution/)

\(^{19}\) [http://siga-sport.net/siga-constitution/](http://siga-sport.net/siga-constitution/)
together with universities such as the Sorbonne and NGOs such as the International Centre for Sport Security EUROPE and the McCain Institute.  

42. Financial integrity and transparency is a cornerstone of good governance. While significant strides have been made in the last decade, there is a clear need of improvement in some existing systems. SIGA has identified opportunities to support further progress, in order to help sport align itself with improved best practice benchmarks from other organisations.  

43. The Universal Standards on Good Governance, Financial Integrity and Sports betting Integrity are the result of multi-stakeholder Task Forces consisting of senior representatives from the World Bank, Deloitte, PwC, ICAEW, ACAMS, European Commission and OECD itself, to name but a few, and, where applicable, reference existing global best practices. They reflect the concerns and responsibilities of governing bodies, clubs, leagues, competition organisers, athletes and other key stakeholders. They are designed to help meet the significant challenges faced by sport and its stakeholders in many areas, ranging from the ownership of clubs and players to the opaque nature of the transfer system, inadequate club licensing, regulation of the activities of agents, tax evasion, money laundering, corruption in procurement and contracting and in the bidding processes for sports events. The SIGA Universal Standards are publicly available, together with the SIGA Universal Standards on Good Governance and Sports Betting Integrity.  

44. As specifically concerns Financial Transparency, SIGA proposes a way to solve the issues generated by illicit trades in sports with a set of measures in the following three areas:  

- Financial Transparency and Integrity – producing and publicising reliable financial information.  
- Financial Sustainability – generating value over time through time management.  
- Fiscal Responsibility – meeting obligations on tax and social payments.  

45. These standards are addressed specifically to sports governing bodies, competition organisers, clubs and other key sports bodies, (together, “Sporting Organisations”) and, where specified, to Governments, public authorities and/or any other relevant constituent entity as specified.  

Financial Transparency and Integrity  

- Prohibit bribery and corruption  
- Produce annual financial statements  
- Develop compulsory due diligence procedures and policies to prevent money-laundering and terrorism financing  
- Maintain records of financial transactions  
- Establish frameworks to govern athlete transfers (including, in particular, a clearing house system for sport related financial transactions)  
- Regulate the role of agents and enforce those regulations worldwide

20 http://siga-sport.net/siga-supporters/  
21 http://siga-sport.net/universal-standards-on-financial-integrity/
Financial Sustainability

- Establish club licensing systems worldwide and at national level
- Promote enhanced regulation / transparency regarding:
  - Club ownership
  - Conflicts of interest
  - Bidding processes (television rights, sponsorship, ticketing, etc.)
  - Solidarity / development funds

Fiscal Responsibility

- Encourage governments to raise awareness around fiscal responsibility
- Encourage federations to act responsibly in conducting tax affairs and develop capacity building programmes in that area
- Encourage clubs to act responsibly in conducting tax affairs and develop capacity building programmes in that area

46. The Universal Standards offer three different levels of phased implementation according to the categories of “Bronze”, “Silver” and “Gold”. The Universal Standards are additive, designed to build on each other. This means that the adoption of the Gold standard is always inclusive of the Silver and Bronze levels; and the adoption of Silver is always inclusive of Bronze. Adhering Sporting Organisations shall adopt the Universal Standards in their entirety, taking into account cost/benefit feasibility.

47. Sporting Organisations may question at which level they should focus their implementation efforts. This can be a challenging issue given the inherent differences in size, and function, as well as human and financial capacity across a diverse range of entities. For these reasons SIGA has chosen to equate the Bronze, Silver and Gold levels of standards implementation as equivalent to having achieved an organisational standard of “Good”, “Better” and “Best”, respectively.

48. Sporting Organisations are free to self-select into the process at the level they determine appropriate. For example, a smaller organisation may wish to move directly to adoption at the level of Silver (which is inclusive of Bronze). Larger organisations with compliance structures in place might be able to achieve the level of Gold at the outset (which includes Silver and Bronze by definition). Sporting Organisations should aspire eventually to achieve the Gold standard within a reasonable timeframe. This flexible and self-directed approach is not meant to delay the process of implementation, but rather, to recognise the diversity of environments in which an organisation may be undertaking this important work.

49. It is envisaged that signatory organisations should commit to the Universal Standards initially on a “comply or explain” basis. Self-assessment will be the starting point with a view to incorporating a level of independent scrutiny and regulation at a later date (independent assessment and rating system).

50. Specific programs to assist with capacity building, information sharing and implementation challenges are planned as part of the SIGA offering, with a particular focus on helping Sporting Organisations that may need additional support.
Those Sporting Organisations that are well established along the path to achieving the level of Gold can play an important role in both encouraging and aiding those that are at an earlier stage in their good governance journey.

Conclusions

So, taking all the above into account, what can the OECD Task Force on Countering Illicit Trade do, in practical terms, to prevent illicit trades and practices in the sports industry?

A first step is to support SIGA and its reform agenda, joining the wide range of public and private institutions that constitute SIGA’s membership base, in order to create a true united front against illicit trades in this field.

Secondly, to promote the adoption the SIGA Universal Standards in the sports organisations domiciled in its member countries.

Thirdly, to formalise the excellent spirit of dialogue and collaboration between both entities and devise an action plan with SIGA to foster closer cooperation and concerted action with government delegates participating in the Task Force.

As reality shows, the need for enhanced cooperation is greater than ever.

SIGA offers a neutral and independent space for constructive dialogue and effective collaboration with the OECD Task Force and its members, and concrete, credible solutions.

As this paper shows, illicit trade in this sector affects governments and commercial businesses in terms of revenue and taxes. It generates a crisis in confidence from the citizens in sports, governing bodies, governments, regulators and law enforcement, as well as a crisis in the way the financial system is governed, operates and is supervised. But, equally important, it erodes the very ethos of sport and the values it champions: fair play, integrity and team work.

We invite you to join SIGA through the OECD Task Force, and work with us to propel the necessary reforms and assist sport to overcome the challenges. Working in partnership, we can not only be agents of change, but build a positive, long lasting legacy for the benefit of sport and the wide society and economy it serves.

22 http://siga-sport.net/statement-of-intent/