

# **The illegal economy in the Netherlands**

**Discussion paper 05005**

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The views expressed in this paper are those of the authors  
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### Explanation of symbols

.	= data not available
*	= provisional figure
x	= publication prohibited (confidential figure)
–	= nil or less than half of unit concerned
–	= (between two figures) inclusive
0 (0,0)	= less than half of unit concerned
blank	= not applicable
2004–2005	= 2004 to 2005 inclusive
2004/2005	= average of 2004 up to and including 2005
2004/05	= crop year, financial year, school year etc. beginning in 2004 and ending in 2005

Due to rounding, some totals may not correspond with the sum of the separate figures.

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## THE ILLEGAL ECONOMY IN THE NETHERLANDS

*Summary: Statistics Netherlands has drawn up an estimate of the value added of the illegal economy in the Netherlands in 2001. This estimate, that - given the problems of measuring illegal activity - should be treated with caution, comes to just over 3 billion euro, i.e. less than 1 percent of the gross domestic product (GDP) of the Netherlands. This estimate does not pretend to be an integral description of all activities connected with the illegal economy. It is only an approximation of the value added generated by these activities. Negative external effects and other consequences are not included in the description. The illegal economy includes activities which are in principle forbidden by law. This is not the same as the black economy, which is defined as legal activities for which no taxes and social security contributions are paid. Obviously there is some overlap between the illegal and the black economy. Black, legal activities are included in the regular national accounts. Illegal activities are not. An earlier estimate of the illegal economy was drawn up for 1995. Then, too, the contribution of the illegal economy to GDP was estimated to be less than 1 percent. The 'sectors' making up the illegal economy have shifted since 1995. The estimate for the drugs sector is considerably higher, while the contribution by prostitution has remained about the same. The share of illegal gambling has declined substantially, probably mainly because better sources are now available for the estimate. Illegal activities in the temporary employment branch have been estimated for the first time for 2001.*

*Lastly, it should be pointed out that the estimate of the illegal economy cannot simply be added to the regular GDP estimate to obtain an estimate of all economic activities in the Netherlands, as part of illegal activities are implicitly included in the regular GDP estimate.*

*Keywords: illegal economy, national accounts, drugs, prostitution, illegal activities employment agencies*

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## 1. Introduction

An important quality indicator for the national accounts is the exhaustiveness of the estimates. According to the System of National Accounts (SNA 1993) illegal activities should also be registered in the national accounts, as the accounts cover all economic activities, including those deliberately concealed. Within these concealed activities, “black” and “illegal” production can be distinguished. Black production can be defined as production of legal goods and services which is deliberately concealed from the authorities in order to evade payment of taxes or compliance with regulations. Illegal production concerns activities which generate goods and services which themselves are forbidden by law, or activities that are illegal when performed by unauthorised persons (2002, OECD). Producers of illegal goods and services do not usually pay tax, so illegal production is also black production. Moreover, activities which are in principle legal become illegal if the producers do not have the required permits. An example of this is the employment of illegal workers in a legal business. The present report looks into illegal activities in the national accounts.

In 1997 an estimate was made for the national accounts of the illegal economy in the Netherlands in 1995 (1997, Van der Werf). The aim of this exercise was to estimate the value added generated in the Netherlands by means of illegal activities. The illegal economy was estimated to amount to five billion guilders in 1995, less than one percent of GDP. Illegal drugs transactions, prostitution and illegal gambling contributed most to this. In the framework of the 2001 revision of the national accounts (to be published in July 2005) the figures for 1995 will be updated to 2001.

As well as being of interest to policymakers, the estimate of the illegal economy is also important for payments to the European Union. To an important extent these are based on the gross national income (GNI). Discussions are ongoing within the EU about the extent to which estimates for prostitution, drugs and smuggling should be obligatorily integrated in the national accounts. The member states differ in their opinions on this matter.

The following chapters will describe illegal activities in the Netherlands, presenting for each activity an estimate of its effect on the Dutch economy in 2001. The activities examined are:

- Drugs
- Prostitution and human trafficking
- Illegal activities in employment agencies
- Illegal gambling
- Theft and receiving stolen goods
- Other activities.

Although prostitution is now legal in the Netherlands, the sector as a whole is still examined in this report. There are a number of reasons for this: in the first place, the boundary between legal and illegal prostitution is a difficult one to define in practice. Also, it is not clear to which extent prostitution is observed in regular statistics. A last reason is international comparability: in most other countries in Europe, prostitution is illegal.

It is difficult to make an estimate of activities which by definition are concealed from the authorities. The estimates in this report should therefore be considered as the “best possible estimates” for the various activities. They are not based on official statistics. The estimates generally have wide margins of error and thus cannot be considered as definite estimates of illegal activities.

## 2. Drugs

### 2.1 Introduction

Production of, trade in and possession of all types of drugs are forbidden in the Netherlands. However, policy and legislation (Opium Act) both distinguish between soft drugs (cannabis) and hard drugs (e.g. XTC, cocaine en heroin). Although possession of cannabis for own use (up to 30 grams) is in breach of the law, it is not dealt with as an indictable offence. One of the aims of this policy is to separate the market for hard drugs from that for cannabis, sales of which are tolerated in so-called “coffee shops”. A coffee shop is café which is not licensed to sell alcoholic beverages but which sells cannabis under certain strict conditions. In 2001, there were 805 coffee shops in the Netherlands (2003, Bieleman et al). More than half of cannabis used in the Netherlands is purchased in coffee shops (2002, Abraham et al). Stricter surveillance in recent years has led to a reduction in number of coffee shops: 73 percent of Dutch municipalities do not have a coffee shop. The production of cannabis in the Netherlands has increased substantially since the second half of the eighties. Between 75 and 80 percent of cannabis sold in the Netherlands is now grown in the Netherlands, the so-called *Nederwiet* (2002, Jansen). A clearly visible retail structure, in the form of coffee shops, and the so-called grow shops, which sell all equipment needed to grow hemp has contributed to this rapid substitution of imports (2002, Jansen). There are already around 200 grow shops in the Netherlands (2003, Bovenkerk and Hogewind). In principle, grow shops are legal businesses: hemp seed and cuttings are in themselves not soft drugs and may therefore be sold legally. However, it is against the law to provide the opportunity for, means of or information about how to commit a criminal offence. Grow shops fulfil an essential role within the commercial cannabis sector. The production of hemp takes place at the homes of a large number of home growers; in 1995 the number of home growers was estimated to be 35 thousand (1995, Drugsnota). In addition there were also specialised large-scale businesses. The products of these large-scale producers is assumed to be sold abroad (2003, Bovenkerk en Hogewind).

The most common hard drugs are heroin, cocaine, amphetamine and XTC. The most problematical hard drug abusers are heroin addicts. The heroin available in Europe is produced from opium which mostly comes from Afghanistan, mainly via Iran, Pakistan and Turkey. An estimated 80 percent of the heroin on the European market is processed in Turkish laboratories (1998, Boekhout van Solinge). Cocaine comes from South America and reaches western Europe mainly by sea. Most users take cocaine for recreational purposes, and usually by snorting. Cocaine is also sometimes a component in multi-substance abuse and poly drug use. It is then used in the form of crack or base coke. Heroin and cocaine are imported for use in the Netherlands or to be re-exported to other countries.

The popularity of party drugs – such as XTC and amphetamine (speed) has increased significantly. XTC is the most widely used illegal party drug, followed by cocaine and amphetamine. The Netherlands is an important production and distribution country for XTC. Low production costs and high market prices make production and trade in XTC a very lucrative enterprise. Small production units can produce large numbers of XTC tablets in a very short time (2001, Ministry of Justice). There is a lot of national and international attention on how to tackle the XTC problem.

## **2.2 Structure and size of the drugs sector**

For estimations concerning hard drugs, a distinction is made between heroin and cocaine on the one hand and XTC en amphetamine on the other.

*Heroin and cocaine:* The estimates of heroin and cocaine are based on a number of sources. In the first place, data on numbers of addicts and users. Professionals distinguish between substance users in the general population, on the one hand and problem users and addicts on the other. Problem users are defined as people who use opiates, cocaine and/or amphetamines intravenously. The numbers are based on information from the assistance providers. In addition samples are taken from the population at large to monitor drug use. Certain groups of users may be underestimated in these samples, such as prostitutes, runaways, street kids and other homeless people. The samples are used to estimate numbers of current users, i.e. users who report having used drugs in the preceding month. The national Drugs Monitor publishes an annual report with a statistical overview of addiction and substance use and their consequences. The number of problem users of hard drugs is estimated to be 28 thousand (2002, National Drugs Monitor) and has been reasonably steady for a number of years now. On average a hard drugs user uses 0.5 grams of hard drugs daily. (1991, Grapendaal et al). So, 28 thousand hard drugs users consume more than 5 thousand kilograms of hard drugs (heroin plus cocaine ) annually.

The number of current users of cocaine doubled between 1997 and 2001, from 0.2 percent (26 thousand people) to 0.4 percent (54 thousand people) aged 12 years and older (Abraham et al., 2002). This number is corrected for a certain amount of overlap with the number of problem users. We shall use the number of 40 thousand current cocaine users as a basis for our further calculations. Cocaine use in this group is not part of consumption by problem users (the 5 thousand kilograms of hard drugs mentioned above). For cocaine we assume an average use of 1.0 gram per week (own estimate), bringing us to 2,000 kilos of cocaine by 40,000 users per year.

The following source for the calculation is the amount of drugs seized by customs and police. Obviously, this amount depends on the intensity of detection and the success rate. To temper the yearly fluctuations a five-yearly average has been calculated (see Annex I). For 2001 the amount of seized heroin, cocaine and amphetamine is estimated at nearly 10 thousand kilograms. The strong increase in the amount of hard drugs confiscated since the beginning of the nineties is mostly

caused by the increase in the seizure of cocaine. This is certainly in line with the substantial increase in the number of cocaine users. Interpol generally assumes that about 10 percent of available drugs is intercepted. Van der Heijden (1999) poses that 15 to 20 percent of heroin does not reach consumers. For our study, we assume that 15 percent of heroin and cocaine is confiscated.

The third source for the estimates is information on prices. Street prices depend on where the drugs are sold, where the dealers get the drugs, the quality and the amount purchased. Within the EU, the street value of heroin varied from 31 to 194 euro per gram in 2001 (2003, EMCDDA). Heroin, sold in balls of 1 gram, has a street value of between 17.50 and 20 euro in the Netherlands. This is the equivalent of a street value of 65 to 110 euro for one gram of pure heroin. The purity is a separate problem in the price determination: it is not known how pure imported heroin is. At the level of the users, it is always mixed, mostly with caffeine, often also with paracetamol. The street value of cocaine varied from 47 to 187 euro per gram in the EU in 2001 (2003, EMCDDA). Base coke (crack) costs 10 to 12 euro per "ball". The contents vary between 0.15 and 0.25 grams. According to the Internet, base coke can be bought for 35 to 45 euro. Snorting coke is cheaper than base coke. For heroin and cocaine we assume an average street price of 60 euro per gram. According to Van Traa's (1996) study of the selling chain of heroin, the end street price is around 5 times as high as the import price. So if the street price is 60 euro per gram, the import price is 12 euro per gram.

*Synthetic drugs:* The actual number of XTC users doubled from 34 thousand in 1997 to 67 thousand in 2001. The number of people using amphetamine rose from nearly 18 thousand in 1997 to 30 thousand in 2001. These are probably underestimations based on information from the NPO, CEDRO. XTC and amphetamine users probably overlap to some extent. For 2001 we assume 75 thousand current users.

Party-goers who admitted to taking pills were asked how often they took XTC and amphetamine. About 55 percent take these substances several times a month; from these about a quarter take them weekly and about a quarter take them several times every week (2003, Pijlman et al). On average, this comes to about once a week. At one party, 58 percent of users reported taking two pills or less, 15 percent said they had taken more than four. If we assume that the remainder (27 percent) took three or four pills we can roughly calculate that users take just over two pills on average per event. Users posting on various Internet chat-sites report taking much higher number of pills per evening. Therefore two pills per evening is probably an underestimation. Based on this, users in the Netherlands consume nearly 10 million pills a year.

Figures on seized MDMA (the active ingredient in XTC) and amphetamine are available for 1998-2002 (Annual report 2002, KZT/USD). These include amounts seized in the Netherlands and amounts seized abroad which had some connection with the Netherlands. For XTC and amphetamine, just as for heroin and cocaine, we assume a confiscation rate of 15 percent. The number of pills confiscated plus the number of pills that could potentially be produced with the amount of powder confiscated was more than 27 million in 2001 (see Annex I). The number of

amphetamine pills confiscated exceeded 21 thousand in 2001. The amount of powder amphetamine confiscated is not converted into pills but added to the confiscated amounts of heroin and cocaine. The reason for this is that amphetamine is mostly snorted and not used for pills.

Prices vary from 2 to 11 euro per XTC pill. The Synthetic Drugs Unit (SDU) assumes an average price of 4.60 euro. The distribution of XTC from the Netherlands is a very profitable business. The production price of one XTC pill is on average 0.22 euro in the Netherlands. According to Bunt et al. (2003), when retailed the same pill can fetch 4.5 euro in the Netherlands, 12 euro in France, 34 euro in the US. XTC is smuggled from the Netherlands to many different countries. The export prices will certainly depend on the country to which they are exported. The average export price is set at 2 euro (about half the street value in the Netherlands). As most of the pills produced in the Netherlands are intended for the export market, the calculation depends strongly on this – disputable, to put it mildly - export price.

*Cannabis*: In their estimation of the cannabis sector for the early nineties, Van der Werf and Van de Ven (1996) took a study by Van Dijk et al. (1995) as a starting point. The estimate was largely based on data on the supply side of the cannabis economy. Although the cannabis sector has changed a lot since then, Van Dijk et al.'s (1995) model is still useful. The greatest difference is that then large amounts of cannabis were imported and exported (including transit trade). Today we assume that the imports have run dry as domestic production has increased substantially. In the circles of producers and traders, exports of cannabis produced in the Netherlands is estimated to account for 80 percent. In combination with information on the number of plants detected and destroyed, this would seem to be on the high side, and we assume 70 percent is exported.

Our starting point is an annual consumption of 100 thousand kilograms of cannabis (1996, Van der Werf and Van de Ven). Half of cannabis sold is sold in coffee shops. Other sales take place in informal circles (through friends and acquaintances). The next assumption is that now 80 percent of cannabis used in the Netherlands is also produced in the Netherlands; the remaining 20 percent is imported. Of the total amount of foreign hashish and marijuana entering the Netherlands, part is destined for consumption in the Netherlands, part to be exported and part is in transit, i.e. it will leave the country again without undergoing any further transaction.

The cost price of Dutch produced cannabis is estimated at an average 3 euro per gram (2003, Bovenkerk and Hogewind). The average selling price is estimated at 6 euro (2003, Bovenkerk and Hogewind). The average import price is estimated at 1.5 euro per gram, while the export price of both hashish and marijuana, and Dutch grown cannabis is estimated at 3 euro per gram.

### **2.3 Incorporation in the national accounts**

*Heroin en cocaine*: Assuming a 15 percent confiscation rate, 9.8 thousand kilograms of intercepted hard drugs means that more than 65 thousand kilograms of heroin and cocaine are imported. Half of the confiscated amount is subtracted from this. The

reason for this is the assumption that half of the confiscated amount had already been paid for or partly paid for, and so this must be included in the import value. The import price is set at 12 thousand euro per kilogram, and comes to 730 million euro. Consumption of heroin en cocaine is estimated at 7.2 thousand kilograms. At 60 thousand euro per kilogram this comes to a consumption value of 430 million euro. The total amount exported equals total imports minus consumption minus the other half of the amount confiscated, and comes to 48.3 thousand kilograms. At an export price of 24 thousand euro per kilogram the total export turnover comes to 1,160 million euro. As no intermediate consumption is attributed to the trade in heroin and cocaine, the output and value added are 870 million euro (consumption plus exports minus imports). The generated trade margins contribute to the Dutch output; the traders are assumed to be Dutch residents. This may mean that the Dutch output is overestimated. On the other hand the transport margins on imports are entirely attributed to non-residents. In addition, Dutch residents can also generate trade margins outside the Netherlands. There is no information on this, however.

In 1995 the value added of heroin and cocaine was estimated to be 330 million euro, considerably lower than the estimate for 2001. The volume component is the main reason for the increase. In the period 1995-2001 both confiscated amounts, and the number of cocaine users rose substantially.

*XTC and amphetamine pills:* Assuming a 15 percent confiscation rate, just over 27 million confiscated pills mean a total production of nearly 180 million pills. Final consumption is estimated at 40 million euro (4.60 euro per pill). The export of more than 145 million pills (production minus consumption minus confiscated pills) at an export price of 2.20 euro per pill represents a value of 320 million euro. Total output (consumptions plus exports) amounts to 360 million euro. The price of producing one pill is set at 0.22 euro. Intermediate consumption is thus 40 million euro (180 million pills times 22 cents per pill). This gives us a value added of 320 million euro (output minus intermediate consumption).

*Cannabis:* 100 thousand kilograms of cannabis is consumed yearly in the Netherlands. The retail price of cannabis is on average 6 euro per gram. Total consumption is thus 600 million euro. Eighty percent of the consumption is produced in the Netherlands. Exports consist of 190 thousand kilograms of Dutch grown cannabis plus 80 thousand kilograms of hashish and marihuana exported and in transit. At an average export price of 3 euro per gram this represents a value of 810 million euro. Imports of cannabis consist of 150 thousand kilograms (including the amount seized) of hashish and marihuana. At an average import price of 1.5 euro per gram this represents a value of 230 million euro. The total output is estimated at 1,190 million euro. Intermediate consumption for the cultivation of cannabis is estimated to account for 40 percent of the production value (2003, Bovenkerk and Hogewind). For a production of 280 thousand kilograms of Dutch-grown cannabis (80 thousand kilograms for domestic consumption, 190 thousand kilograms for exports and 10 thousand kilograms confiscated) at an average wholesale price of 3 euro per gram, this gives 340 million euro of intermediate consumption. For trade in coffee shops an intermediate consumption of 50 percent of the produced margin is

attributed (comparable with the margin in pubs and bars). The estimation for this category comes to 70 million euro. Overall intermediate consumption is estimated to be 410 million euro (340 million plus 70 million euro). This puts the value added of the Dutch cannabis trade at 770 million euro. It should be noted that this is exclusive of the value added generated by the so-called grow shops.

*Table 2.1 Estimated effect of drugs production and trade on GDP, 2001 (million euro)<sup>1</sup>*

	Total consumption	Exports	Imports	Output	Intermediate consumption	Value added
Heroin and cocaine	430	1.160	730	870	-	870
XTC and amphetamine	40	320	-	360	40	320
Cannabis	600	810	230	1.190	410	770
Total	1.070	2.290	950	2.410	450	1.960

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<sup>1</sup> Totals may differ from the sum of the cells because of rounding.

### 3. Prostitution and human trafficking

#### 3.1 Introduction

The ban on brothels was lifted in the Netherlands on 1 October 2000. This means that operations in which prostitutes aged 18 and older work voluntarily are no longer forbidden by law. The following activities remain criminal (2002, Daalder):

- forcing someone to act as a prostitute, or to stay in prostitution or benefiting from this;
- bringing underage persons into prostitution or letting them stay in prostitution;
- working as a prostitute without a residence or labour permit;
- employing a prostitute without a residence or labour permit.

The lifting of the brothel ban led split the prostitution sector in two. On the one hand registered clubs and brothels more or less abide by the law, although illegal and underage prostitutes do also work there. On the other hand there is a grey unregistered sector consisting of street prostitution, prostitutes working from home, escort services<sup>2</sup> and telephone prostitution, where criminal forms of prostitute exploitation are certainly the rule rather than the exception. Little is know of the extent of criminal forms of prostitution (2002, Daalder).

*Forced prostitution:* Underage and illegal prostitutes are often forced into these activities, but studies have shown that Dutch women of age are also sometimes forced into prostitution. The studies do not shed any light on the extent of forced prostitution partly because criminal forms of prostitute exploitation do not take place openly. Moreover, it is also often difficult to prove that someone has been forced to do something. One third of prostitutes working in the legal sector (enterprises with a licence) say that their colleagues are “sometimes” forced, one tenth say that colleagues are “often” forced to have sex with someone. Nearly half of operators in the sector say that women are “sometimes” forced to have sex with a client. (2002, Daalder).

*Underage prostitutes:* Not much is known about the presence of underage boys and girls in prostitution. The main reasons for this is because they work in less detectable circles. Homeless teenagers, especially boys, constitute a separate group in this respect. An important difference with other underage prostitutes is that these

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<sup>2</sup> In most but not all municipalities, the escort sector usually falls under the licensing regulations. This means the activity is regulated in most municipalities, but in practice it is difficult to monitor and control. The problems with monitoring and enforcement make the escort sector comparable with the non-regulated sector. For other forms of prostitution, too, such as prostitution from the own home and couples’ clubs, some municipalities require a licence while others do not.

runaways usually do not work via a pimp-construction, and thus are not exploited or forced into sex as often. Some studies roughly estimate that one to two thousand underage girls (1998, Venicz & Vanwesenbeeck) and 1.5 to 3 thousand underage boys (2002 van Horn et al., en 1998 van Gelder) were working as prostitutes in 1998.

*Prostitution without valid residence permit:* Many of the prostitutes working in the Netherlands are foreigners. For 1999 the share of foreign prostitutes was estimated to be at least 68 percent (1998/1999, Van der Helm & Van Mens). A considerable share of these worked illegally, i.e. without a residence permit which allows them to work (illegal prostitutes) (Daalder, 2002). There is evidence that illegal prostitutes work in both the regulated and the illegal sectors. Trafficking seems to play an important part in this respect, especially with respect to women from eastern Europe. Estimates of the numbers of victims of human trafficking have risen over the years, varying from 2 to 3 thousand victims in 1996 (1998/1999, van der Helm and van Mens) to at least 3.5 thousand women in 2000 (2002, van Dijk). As the studies differ in set-up and coverage, it is difficult to compare the figures. Some municipalities have a slacker regime with respect to illegal prostitutes, and here prostitutes without a residence permit are also found in the regulated sector (2002, Daalder). Of all criminal forms of exploitation, prostitution by women without a valid residence permits seems to be the most common (2002, Daalder).

As it is very difficult to estimate the illegal part of prostitution separately – regulated does not necessarily imply that only legal activities take place – and vice versa, the unregulated sector also includes legal activities – and because prostitution is not legal in other EU member countries, we have chosen to estimate the complete prostitution sector (legal and illegal). This increases the comparability with other member states. However, because part of the sector is regulated, part of the production by the regulated sector will also (implicitly) be included in the regular estimates of the national accounts.

### **3.2 Size and structure of the prostitution sector**

It is by definition impossible to give an accurate estimation of the number of prostitutes and turnover in the prostitution branch. Estimates for the number of prostitutes vary from 20 thousand to 30 thousand (1999, van der Helm and van Mens, 2004, WODC). It is not yet clear what effect the change in the law in 2000 has had. A first evaluation study was held in 2002, but at that moment many municipalities were still in the process of issuing licences, which meant that they paid less attention to supervision and law enforcement. The evaluation report lists a number of developments (Daalder, 2002):

- Shift of prostitution activities to municipalities where law enforcement is less strict.
- Various developments, such as changes in the law and technological developments (mobile phones, the Internet), have resulted in an increasing dichotomy in prostitution. On the one hand there is a regulated sector where

changes are gradually being introduced which benefit the professional position of the prostitutes. While on the other hand there is an unregulated sector where the situation of the prostitutes is deteriorating rather than improving

- Shifts from the regulated to the non-regulated sector do occur, but there is no evidence of a large scale run to the non-regulated or unverifiable sectors. Neither can it be concluded that all illegal prostitutes who have left regulated enterprises move to the non-regulated sector.
- A limited form of restructuring has taken place within the prostitution sector. A number of enterprises have not applied for or received a licence for their activities. Managers also report that it is more difficult to recruit workers. Workers who have stayed on do not have more work, however. The managers and prostitutes remaining in the regulated sector report a reduction in clients and business. The study cannot answer the question why there are fewer clients in the regulated sector.

A report by *Stichting de Rode Draad* (a foundation that monitors the working conditions in the sex industry) questions the size of the unregulated sector and its ability to grow (2004, de Rode Draad). According to this organisation, the market is too small, and moreover this form of prostitution often costs just as much as regular prostitution.

To make a rough estimate of turnover in prostitution we used a study by Visser et al. (2000) of the number of prostitutes in the various forms of prostitution, and price information from *Stichting de Rode Draad* (2004).

*Table 3.1 Number of prostitutes in various prostitution activities and prices*

	Number of prostitutes working daily	Prices per client– gross receipts per evening	Gross annual receipts prostitutes <sup>1</sup> (mln. euro)	Gross annual receipts managers <sup>1</sup> (mln. euro)
Window prostitution	2,040	15 – 50 euro per client	20 – 50	20 – 50
Street prostitution	320	5 – 8 euro per client	5	
Clubs /private homes	3,500	180-300 euro per evening	110 – 190	110 – 190
Escort/home workers	6,600 <sup>2</sup>	80 – 140 euro per evening	100 – 170	100-170
Total	11,000		240 – 410	240 – 410

<sup>1</sup> Own estimate, based on 365 days. <sup>2</sup> Own estimate.

*General remarks:* On paper, many prostitutes working in clubs and in window prostitution are self-employed. In practice, however, they fall under the authority of a ‘manager’ and cannot determine their own working hours or prices in clubs, for example. In Window prostitution too, managers are often unwilling to provide signed rent contracts or invoices. In addition, the managers meddle in and control

how the prostitutes conduct their 'business'. Moreover the power structure determines that the prostitute must give part of her earnings to her manager. In clubs and escort services, for example, workers are subjected to percentage arrangements; at least half of the earnings end up in the manager's pocket.

*Window prostitution:* A window prostitute has on average three clients a day. Depending on region and location, prices vary from 15 to 50 euro per client. On the basis of more than 2 thousand working window prostitutes per day, the gross receipts of window prostitution are between 40 million and 100 million euro annually. We assume that half of receipts from window prostitution go directly to the 'manager' in the form of rent for the window.

*Street prostitution:* Street prostitutes, too, are assumed to have an average three clients a day. Based on just over 300 street prostitutes working per day, the gross receipts would be nearly 5 million euro per year.

*Clubs/private houses:* An average club or private house charges between 70 euro and 100 euro per hour for clients (including VAT). Prostitutes have an average three clients per evening. The average gross receipts per evening amount to 180 to 300 euro. For 2001 we assumed 3.5 thousand working prostitutes per day, taking account of some restructuring as a result of changing legislation. The gross annual receipts for both prostitutes and managers is then some 110 million to 190 million euro per year.

*Escorts/call girls:* Nothing is known about the number of prostitutes working as escorts or visiting clients at home. We therefore make the following assumptions: about 6 thousand prostitutes work in window and street prostitution and in clubs and private houses daily, and these women work five out of seven days a week. This means that in total about 8.5 thousand women work in these locations. If we also assume that there are roughly 25 thousand prostitutes in total (the average of various studies), this means that 18.5 thousand women work as escorts and call girls. This would seem to be on the high side, especially if we look at the ratio between escort work and other forms of prostitution. Therefore, we assume that the total number of prostitutes is about 20 thousand. This means that 11.5 thousand prostitutes work as escorts and call girls. If we also assume that these prostitutes work for four days a week, this means that some 6.6 thousand prostitutes work daily. As escorts and call girls have to travel, we assume they have only one client per evening. The average gross turnover per evening is 80 to 140 euro, which gives us a gross receipt of between 200 and 340 million euro per year. If we also assume a percentage arrangement of 50 percent in this sector, both the prostitutes and their managers receive between 100 and 170 million euro a year.

The total gross receipt in 2001 is roughly between 240 and 410 million euro for both the prostitute and the manager; on average about 660 million euro, therefore.

### 3.3 Incorporation in the national accounts

For incorporation in the national accounts the following assumptions were made:

- The total gross turnover in prostitution (660 million euro) equals total consumption.
- For intermediate actors - managers - the assumption is that intermediate consumption is nearly 50 percent. This percentage is calculated with the aid of data from the sector 'hotels', for which data are available in the national accounts.
- All managers are assumed to be resident in the Netherlands, i.e. their "economic centre of interest" is in the Netherlands (they have carried out economic transactions in the Netherlands for at least one year).
- All expenditure by prostitutes on transport, clothes etc. is seen as consumption, not intermediate consumption.
- Just over 10 percent of the prostitutes are assumed to be non-residents, i.e. they carry out economic transactions in the Netherlands for less than one year. The turnover generated by this group is thus considered to be "import of services". Most foreign prostitutes working in the Netherlands are thus assumed to carry out economic transactions in the Netherlands for more than one year.

If we incorporate all these assumptions, the prostitution sector contributed an amount of 460 million euro to GDP in 2001.

*Table 3.2 Estimated effect of prostitution on GDP, 2001 (mln. euro)*

	Total consumption	Exports	Imports	Output	Intermediate consumption	Value added
Prostitute	330	0	40	290	0	290
Manager	330	0	0	330	160	170
Total	660	0	40	620	160	460

#### 4. Illegal activities in the temporary employment sector

A recent study on illegal activities in the temp sector (2004, Zuidam and Grijpstra) presented the following estimates:

- legal temp agencies place workers illegally in jobs for between 3 thousand and 7.5 thousand illegal working years (fte's),
- temp agencies active outside the registered temp sector (e.g. contracting firms or loaning firms) place workers illegally in jobs for between 10 thousand and 17.5 thousand illegal working years a year,
- illegal temping agencies place workers illegally in jobs for between 5 thousand and 12 thousand illegal working years.

According to these estimates, agents place workers illegally in jobs totalling an average 27.5 thousand illegal working years every year. Compared with the present numbers of legally mediated fte's in the sector, this would mean nearly a 12 percent addition. Illegal labour is often used in agriculture and horticulture and in construction (2004, Zuidam and Grijpstra). The profits from illegal placement is estimated to be an average 5 euro per hour (2004, Zuidam and Grijpstra). This means that the agents earn nearly 260 million euro ( $27.5 \text{ thousand fte} * 1,872 \text{ hours} * 5 \text{ euro}$ ) for the hours for which they provide temporary workers. In the temp agency sector the wages of the temporary workers are part of value added. If we also take 5 euro per hour as the average wage (for legal temp agencies the hourly wage is also about half of the average price the employer pays), the total output amounts to 520 million euro. Intermediate consumption in the regular temp agency sector is about 9 percent of production value. For illegal temp agencies we estimate this to be 5 percent. The estimation for intermediate consumption amounts to 30 million euro. The value added generated by placing illegal workers thus amounts to 490 million euro (output minus intermediate consumption). Compared with the present 2001 estimate for the temp agency sector in the national accounts (7.1 billion euro) this means an increase of nearly 7 percent. These estimates do not include the placement of legal workers for whom no or too few social premiums are paid.

For incorporation in the national accounts it is also important to know to which extent these activities are registered as costs in the sectors buying in the labour (intermediate consumption) – among others agriculture, horticulture, construction, hotels and restaurants. If this is – erroneously - not booked as intermediate consumption, the effect on GDP may be much smaller than the now estimated 490 million euro.

*Table 4.1 Estimated effect of illegal temping activities on GDP, 2001( million euro)*

	Total consumption	Export	Import	Output	Intermediate consumption	Value added
Illegal temping	520	-	-	520	30	490

## 5. Illegal games of chance

A variety of illegal games of chance are played in the Netherlands. At the request of the Netherlands gaming control board, the prevalence of illegal gaming was charted in 2001 (College van Toezicht op de Kansspelen, 2001). The study was directed at both the illegal operation of games of chance – games which operate without a licence or dubious games of chance – and new versions of games which resemble lotteries but cannot be indicated as such under the law. The present study concentrates on illegal games of chance that compete with legal games of chance. These can be divided into four categories:

- illegal casino games
- commercial bingo
- illegal betting on horses
- illegal lotto, toto and lottery type games of chance

The study therefore does not cover company games, pyramid games, street games like thimblorig, illegal games of chance played privately and those played via the Internet (e-gaming). The latter category appears to be increasing strongly according to another study (2002 and 2003, Motivaction).

*Illegal casino games:* According to the report *Verkeerd gokken* ('Backing the wrong horse') about 50 illegal casinos were in operation in the Netherlands in 2000. An illegal casino is defined here as a venue where casino games are held and which partakes in economic traffic which does not fall under the Holland Casino organisation. The enterprise presents itself as a casino to a wide public – by displaying its name on the building, by registering with the Chamber of Commerce, by being included in the yellow pages or telephone directory, by advertisements, direct mailings etc. The so-called backroom casinos, venues where small groups of gamblers are active and which do not present themselves publicly are not included. The gross gaming receipts (stakes minus paid winnings) were estimated at 140 million euro in 2000. Since the publication of the report *Verkeerd gokken* many illegal casinos have been closed down through the *Joker project*. New estimates (2002, Pemberton et al.) show that gross receipts fell to 50 million euro in 2001. Tax officials report that some operators of illegal casinos have probably moved their working area to mobile casinos or across the border (2002, Pemberton et al.).

*Commercial bingo:* Bingo meetings can be illegal in a number of ways: by avoiding the compulsory notification, by actually being the main activity of the club organising the game, or because the prize money exceeds the maximum amount. This study looks only at whether the game is played for the profit of the organiser<sup>3</sup>.

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<sup>3</sup> Commercial bingo is not always illegal according to the law, but it is controversial in that it contravenes the intention of the law.

In the south and the middle of the Netherlands in particular, some 60 to 100 commercial enterprises organise bingo meetings weekly with around 150 players per evening. These enterprises can make as much as 100 thousand euro a year. In addition there are operators who organise larger scale bingo evenings. They realise an estimated turnover of more than 1 million euro per year. The gross gaming receipts amount to around half a million euro annually. In a number of cases these bingo enterprises use venues which are also used for other purposes, such as clubhouses and party rooms; in other cases the meetings are held in specially equipped rooms.

*Illegal betting on horses:* illegal betting on horses is very limited in the Netherlands and is therefore left out of account.

*Lotto, toto and lottery type games of chance:* The *illegal* or *city lotto* is an illegal lottery form, where an unlicensed operator sells tickets. They often make use of the draw of the legal lotto. In the *toto* players can bet on the outcome of sports matches. In the Netherlands only the official toto<sup>4</sup> has a licence to operate; all other toto games are therefore illegal by definition. This study only includes operators who do not operate in private circles. The *lottery type games of chance*, too, including scratch cards fall under one formal licence holder, all other operators are illegal. Little information is available on illegal lotto and toto games. As far as we know they operate via a multi-stage system with middlemen. Both games are operated by the same organisations and played mainly in pubs. Illegal lotto games have more players than illegal toto ones, but the stakes in the toto games are higher. The estimated gross receipts are between 20 and 90 million euro.

*E-gaming:* A new and apparently growing phenomenon in the Netherlands is playing paid games of chance via the Internet. A distinction can be made between interactive games of chance such as digital casinos, slot machines and scratch cards (e-gaming) and ordering lottery tickets or playing in a lottery in the Netherlands via the Internet (e-commerce). E-commerce is permitted in the Netherlands; e-gaming is not yet, although legislation is being drawn up for this. In 2001 spending on e-gaming totalled an estimated 19 million euro. In 2002 spending increased to 105 million euro and for 2003 the estimates vary from 50 to 134 million euro (Motivaction, 2002 and 2003).

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<sup>4</sup> Organised by the official national lottery foundation (*Stichting Nationale Sporttotalisator* (SNS)).

*Table 5.1 Estimated gross receipts from illegal games of chance in 2001*

Game	Gross receipts (mln. euro)
Casino games	50
Bingo	20
Lotto, toto and lottery	20 – 90
E-gaming	20
Total	110 - 180

The total gross receipts in 2001 are thus estimated to amount to about 150 million euro.

For incorporation in the national accounts the following should be taken into account:

- The gross gaming receipts (150 million euro) equal consumption.
- Except for casinos, intermediate consumption is negligible. For casinos it is assumed to be about 30 percent. This percentage is calculated with the aid of the figures for “games of chance” which are included in the national accounts. Many commercial bingo meetings are held in buildings which are also used for other, legal purposes. The intermediate consumption of these is probably already included in the national accounts and is not included here so as to avoid double counting.

*Table 5.2 Estimated effect of games of chance on GDP, 2001 (mln. euro)*

	Total consumption	Export	Import	Output	Intermediate consumption	Value added
Games of chance	150	0	0	150	20	130

## 6. Theft and handling stolen goods

The incorporation of theft and handling stolen goods in the national accounts is complicated. Below we shall look at:

- theft of capital and consumer goods, money and financial assets;
- theft from company stocks;
- handling stolen goods.

Theft is not registered as an economic transaction because it does not comply with the condition of “mutual agreement”. According to national accounts definitions, theft therefore does not result in production and thus has no effect on GDP.

*Theft of capital and consumer goods, money and financial assets* results in a redistribution of assets, albeit involuntarily. This is only visible if different sectors and sub-sectors are involved: in this case theft is incorporated in the national accounts as follows. On the balance sheet of the aggrieved sector assets decrease. This decrease is registered under “other changes”. If we assume that the theft is carried out by (members of ) the sector “households” – which in practice is nearly always the case – assets in the balance sheets of the sector “households” will rise by the same amount. Here, too, the changes is recorded under “other changes”<sup>5</sup>.

*Theft from company stocks*: this includes theft from stocks of raw materials, theft from stocks of finished products and theft of goods from shops. These are registered as input in the production process and lead to an increase in intermediate consumption (stocks of raw materials) or decrease in production.

*Handling of stolen goods*: The sale of stolen goods may have consequences for the estimate of GDP. It is a transaction with mutual agreement, and to what extent value added is generated depends on the type of transaction.

- Sale of a stolen item by the thief to a consumer: This transaction is comparable with the sale of second-hand goods within the sector households, and does not generate value added.
- Sale of a stolen item by the thief to a company where it is used in intermediate consumption. The purchasing value must then be recorded as intermediate consumption and as a consequence the value added is reduced. The unrecorded intermediate consumption of stolen goods is assumed not be significant for the national accounts.
- Sale of a stolen item via a receiver. The value added consists of the trade profit generated by the receiver (i.e. price of sale minus price of purchase). As stolen goods are often sold for a fraction of their original value, the value

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<sup>5</sup> The Netherlands does not publish complete balance sheets, only financial balance sheets. These means that only changes in money and financial assets are made visible.

added is only a very small part of the value of the stolen goods. The estimate of the total profits of receivers of stolen goods is based on information about break- ins in homes, companies and theft of motor vehicles

For the period 1997 – 1999 the total average financial loss as a consequence of theft<sup>6</sup> from persons is estimated at 570 million euro (2004, Statistics Netherlands). The selling value is estimated to be 250 million euro. If 80 percent is sold via receivers to a buyer and the profit margin is taken to be 50 percent, this generates a value added of 100 million euro.

The losses caused by break-ins at company premises was an estimated 340 million euro in 2001 (2002, Visser et al.). The selling value is estimated to be 150 million euro. If two-thirds of the stolen property is sold on through receivers and if again we assume that the profit margin is 50 percent, this generates a value added of 50 million euro.

According to the Dutch Association of Insurers, the loss through theft of cars amounted to 125 million euro in 2002. In 2001 just as many cars were stolen (23 thousand) as in 2002. Just over 60 percent of stolen cars are recovered (2002, AVc). The total value of those not recovered was nearly 100 million euro in 2001. The value of not recovered company vehicles (vans, lorries, including the cargo) is estimated at 60 million euro. The total sales value of all non-recovered vehicles is estimated at 70 million euro. With an estimated margin of 50 percent, the value added comes to 35 million euro.

The total value added generated by handling of stolen goods therefore comes to 190 million euro (rounded); 75 percent of this amount (140 million euro) is assumed to be for exports.

*Table 6.1 Estimated effect of handling of stolen goods on GDP, 2001( mln. euro)*

	Total consumption	Exports	Imports	Output	Intermediate consumption	Value added
Handling stolen goods	50	140	-	190	-	190

<sup>6</sup> Damage caused by crimes in which something is stolen and/or damaged (excluding theft of cars and including damage by burglary).

## 7. Other illegal activities

*Illegal copying of software, video and audio tapes:* within illegal copying of software, video and audio tapes a distinction should be made between copying for own use and copying with the intent to sell the copies. Copying video and audio tapes is permitted in the Netherlands if these copies are intended for own use. Copying software is illegal in the Netherlands. This is not an economic transaction but theft. Illegal copying of originals to sell them generates value added. The trade margins on the sales are estimated to amount to 100 million euro, intermediate consumption to 10 million euro and value added to 90 million euro.

*Bribery:* There are two forms of bribery (1983, Blades). First, additional payments on top of the official prices; this hardly occurs in the Netherlands. The second form of bribery consists of illegal payments to people in privileged positions. These payments should be booked as secondary income distribution. The *International Corruption Perceptions Index* (2001, Transparency International) shows that the extent of corruption in the Netherlands is relatively very low. For this reason, just as in the estimate for 1995 (1997, Van de Werf) it is assumed that bribery has a negligible effect on the national accounts in the Netherlands.

*Smuggling firearms:* The number of live firearms smuggled into the Netherlands is estimated to amount to between 10 and 20 thousand weapons. The average purchasing prices for a live firearm is estimated to be 600 euro. This gives a maximum estimate of illegal smuggling of firearms of 12 million euro. Only the share of this amount earned by Dutch residents as profits is of interest for GDP. This amount is negligible in the context of the national accounts.

*Frontier running:* In addition to human trafficking, frontier running is also distinguished. Human trafficking was discussed above together with prostitution. Frontier running is defined as organising help to smuggle an illegal immigrant into the country, in return for payment by the immigrant (2002, IAM). There is a direct relationship between frontier running and illegal entry into the Dutch labour market. These operations are often managed by international organisations. Most of the money involved in frontier running ends up in the pockets of non-residents. Although there is no information on these activities, their contribution to Dutch GDP is assumed not to be significant.

*Other illegal activities:* Smuggling cigarettes, fireworks and protected animal species are assumed not to have a significant effect on GDP.

## 8. Total

Table 8.1 sums up the effect of illegal activities on the Dutch economy. Just as in the estimate for 1995 the trade in drugs is the main illegal activity in terms of the amount of money involved. In 2001 Dutch GDP amounted to 429 billion euro. The total 3.3 billion euro of value added generated by illegal activities would have been the equivalent of an increase of GDP of less than 1 percent in 2001.

*Table 8.1 Effect of all illegal activities on the Dutch economy, 2001*

	Consumption (domestic sales)	Exports	Imports	Output	Intermediate consumption	Value added
Heroin, cocaine	430	1.160	730	870	-	870
XTC	40	320	-	360	40	320
Cannabis	600	810	230	1.190	410	770
Prostitution	660	-	40	620	160	460
Illegal temp agencies	520	-	-	520	30	490
Illegal gambling	150	-	-	150	20	130
Handling stolen goods	50	140	-	190	-	190
Illegal copying	100			100	10	90
Total	2.540	2.430	990	3.990	670	3.320

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## Annex I

*Seized amounts of heroin, cocaine and amphetamine in powdered form and seized numbers of pills<sup>7</sup> (XTC and amphetamine). (EMCDDA, 2003).*

Year	Seized amounts of heroin, cocaine and amphetamine in powdered form (kg)	Average (kg) <sup>8</sup> seized amount of heroin, cocaine and amphetamine in powdered form (kg)	Seized number of XTC pills
1985	530		
1986	902		
1987	1.048		
1988	1.080		
1989	1.982		
1990	4.867	3.000	
1991	3.026	3.800	
1992	4.270	5.200	
1993	4.929	5.200	
1994	8.661	6.600	
1995	5.247	8.400	
1996	10.062	9.700	
1997	13.309	10.400	
1998	11.232	10.800	4.452.526
1999	11.984	10.800	19.078.947
2000	7.661	10.100	30.134.211
2001	9.707	9.800	27.379.577
2002			36.610.311

<sup>7</sup> Pills seized in and outside the Netherlands plus the amount of MDMA powder (the active ingredient in XTC pills) converted into the equivalent number of pills that can be made from this powder.

<sup>8</sup> Progressive, five-year symmetric average of the annual amount (kg) of intercepted hard drugs. As there is no information for 2003 and 2004 the amount seized in 2001 is used in the calculation.