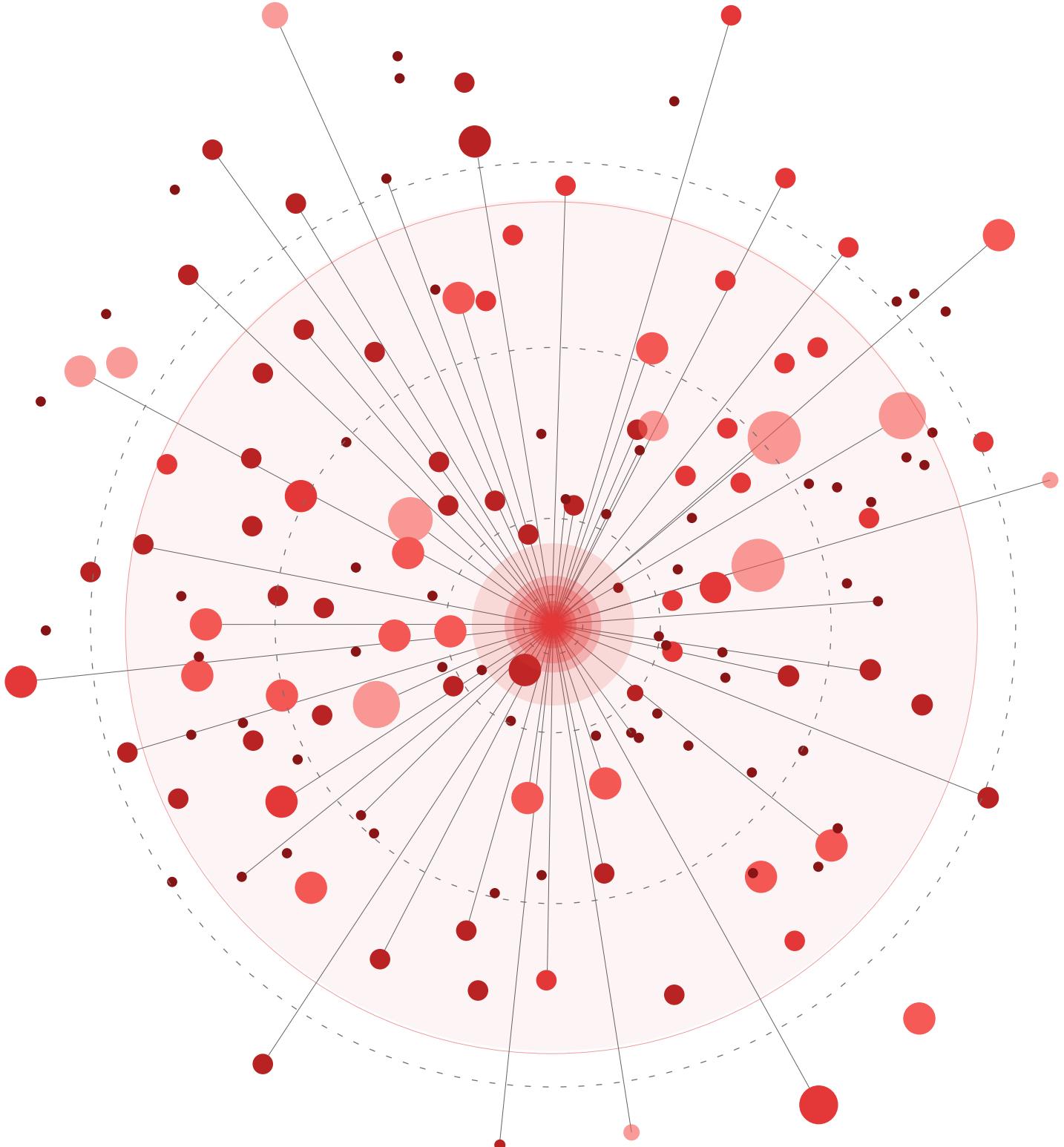


The Belarusian Hub for Illicit Tobacco

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Graphic project: Ilaria Mastro –Transcrime

As a concerned stakeholder in the fight against the illicit trade in tobacco products, Philip Morris International (PMI) welcomed Transcrime's initiative to develop the Key Hubs for Illicit Tobacco with financial support and the provision of data. However, Transcrime retained full control and stands guarantor for the independence of the research and its results. Information and data for the study have been collected by Transcrime and have not been shared with PMI.

Contents

10

Executive Summary

14

1. Why analyse the key hubs for illicit tobacco?

- | | |
|----|---------------------------|
| 14 | Legal tobacco market |
| 15 | Socio-economic conditions |
| 15 | Crime context |
| 15 | Enforcement actions |

16

2. ITTP in the Belarusian Hub

- | | |
|----|------------------------------|
| 16 | 2.1 Size |
| 18 | 2.2 Products |
| 20 | 2.3 Flows |
| 21 | 2.4 Actors |
| 22 | 2.5 <i>Modus operandi</i> |
| 23 | 2.6 Illicit smoking patterns |

25

3. The ITTP cycle

- | | |
|----|-----------------------|
| 26 | 3.1 Pre-manufacturing |
| 27 | 3.2 Manufacturing |
| 32 | 3.3 Distribution |
| 39 | 3.4 Consumption |

44

Conclusions and recommendations

44 **Conclusions**

45 **Recommendations**

46

References

Transcrime

Transcrime is the Research Centre on Transnational Crime of Università Cattolica del Sacro Cuore of Milan. The Centre, directed by Ernesto U. Savona, Professor of Criminology at Università Cattolica, represents the multiannual union between experience and innovation in the field of criminological research.

The vision of the Centre is to increase knowledge in the criminological field and in the prevention of crimes, developing innovative ideas and cutting-edge techniques. Transcrime combines its experience in applied research with the consolidated scientific tradition of Università Cattolica del Sacro Cuore in Milan, mixing a practice-oriented approach with a profound understanding of criminal phenomena. Through this experience, it developed a solid network of relationships in the academic field, institutions, international organisations and businesses.

The Centre also plays an important role in the support and development of educational activities at Università Cattolica del Sacro Cuore of Milan. Its principal aim is to achieve close integration between scientific innovation and academic education. In particular, since the academic year 2005/06, Transcrime has managed a MA programme dedicated to crime and security (until academic year 2012/13 the curriculum Crime&Tech: Crime Sciences and Technologies for Security within the MA in Applied Social Sciences; since the 2013/14 academic year curriculum POLISI: Policies for security within the MA in Public Policy). In addition, the Centre has contributed to the development of the International Ph.D. programme in Criminology, coordinated by Professor Francesco Calderoni (Università Cattolica del Sacro Cuore), which is currently the only doctoral course dedicated to Criminology in Italy.

Transcrime is an independent academic centre. It pursues an autonomous research agenda, which may be developed also through contracts and funding by private and public local, national and international institutions. The source of funding is always made public through Transcrime's website.

Transcrime has studied different illicit markets (trafficking in human beings, drugs, firearms). It has also conducted several studies on the illicit trade in tobacco products (ITTP). Among the most recent ones, it has published the series *The Factbook on the Illicit Trade in Tobacco Products*, with the aim to provide an innovative instrument to shed light on the complex mechanisms behind the ITTP in different countries. To date, the Factbook series comprises seven reports: United Kingdom, Italy, Ireland, Poland, Germany, Lithuania, and Spain.

In 2015, the centre also published the *European Outlook on the ITTP*, a study on the ITTP in the 28 EU countries. In its first part, the report analyses selected components of the illicit cigarette market in the EU; in the second one, it examines in detail the illicit markets within each EU Member State, as well as the role of selected non-EU European countries in the EU illicit market.

All the above mentioned reports are available in English at transcrime.it

Glossary of terms

BEST database (BElarusian Seizures of Tobacco products): Transcrime conducts a research on open sources and merges the information obtained in this database.

Bootlegging: the legal purchase of tobacco products in a low-tax country and their illegal retail in a high-tax country. Bootlegging concerns individuals or small groups who smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income (Hornsby and Hobbs 2007; Allen 2014, 6–7; KPMG 2014a, 3).

Contraband & others: contraband & others include contraband, bootlegged and illegally manufactured cigarettes.

Counterfeit cigarettes: counterfeit cigarettes are cigarettes illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled into another country, both without paying taxes (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014a, 3).

Empty-pack surveys (EPSs): Empty Pack Surveys are a research method whereby discarded empty cigarette packs are collected in order to estimate the share of domestic (duty paid), non-domestic (non-duty paid), and counterfeit packs in each of the EU countries (KPMG 2014a, 318).

Illegal manufacturing: tobacco products manufactured for consumption but undeclared to the tax authorities. These tobacco products are sold without tax and may be manufactured in legal or illegal factories (Joossens and Raw 2012, 231; Allen 2014, 6).

Illicit Trade in Tobacco Products (ITTP): any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity (WHO 2003).

Illicit whites: illicit whites are cigarettes manufactured legally in one country, but normally intended for smuggling into countries where they are normally unavailable on the legal market. Exportation from manufacturing countries may occur legally, whereas import and sale into destination countries is always illegal. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014a, 4).

Key inputs: components essential for the manufacture of cigarettes, such as cigarette paper and acetate tow, the main ingredient of filters (Joossens, Ross, and Stokosa 2014).

Large-scale ITTP: in this report, the expression denotes the smuggling of more than 750,000 cigarettes.

Medium-scale ITTP: in this report, the expression denotes the smuggling of between 100,000 and 749,999 cigarettes.

Small-scale ITTP: in this report, the expression denotes the smuggling of fewer than 100,000 cigarettes.

Tracking and tracing system: systematic monitoring and re-creation by competent authorities or any other person acting on their behalf of the route or movement taken by items through the supply chain (Art. 1 of the Protocol to Eliminate Illicit Trade in Tobacco Products).

KEY MESSAGES

1

Belarus and Russia are among the major suppliers of illicit cigarettes in the EU.

2

Illicit whites brands of the Russian Baltic Tobacco Factory and the Belarusian Grodno Tobacco Factory Neman are the most spread in Europe.

3

High taxes in EU countries contribute to high price differentials with Belarusian cigarettes. This can increase the profitability of smuggling.

4

In Belarus, the export phase is vulnerable to smuggling due to lack of effective regulatory measures (e.g. quotas).

5

The economic difficulties faced by Russia and Belarus further increase the risks of ITTP.

EXECUTIVE SUMMARY

Key hubs are crucial sets of countries on the regional, continental or global map of the illicit trade in tobacco products (ITTP). The analysis of key hubs instead of single countries enables a more comprehensive understanding of the factors determining transnational illicit flows and a more effective identification of the strategies needed to fight and prevent the ITTP. The following elements often characterise key hubs:

- medium to high levels of the ITTP in the hub,
- significant price differentials of tobacco products across the hub,
- extensive engagement of local manufacturers in the ITTP and
- substantial flows of illicit tobacco to, within or from the hub to other countries.

This report focuses on the **Belarusian hub** for illicit cigarettes. Belarus is the center of the hub because it is a source for illegal tobacco products destined to the EU. The surrounding countries are included for different reasons. Russia and Ukraine used to play a significant role in the ITTP flows and still remain important sources of illicit products. Other countries within the hub, such as Lithuania, Poland, Latvia, are both destination and transit countries of the Belarusian illicit tobacco flows. The report takes the name of the center of the hub.

3 CHAPTERS:

1

Defines the **hubs for illicit tobacco**, explains their relevance for understanding the ITTP, identifies the Belarusian hub and outlines the **four key vulnerabilities** that influence the key hubs:



2

Analyses the ITTP in the Belarusian hub focusing on:



Examines the key vulnerabilities and possible solutions across the **four phases of the ITTP cycle**:

3

WHY ANALYSE THE KEY HUBS FOR ILLICIT TOBACCO?

1

Key hubs are crucial sets of countries on the regional, continental or global map of the illicit trade in tobacco products. The analysis of key hubs is important because the ITTP is a transnational illicit market.

Based on previous research, Transcrime has identified **four key vulnerabilities** that may generate a key hub:



LEGAL TOBACCO
MARKET



SOCIO-ECONOMIC
CONDITIONS



CRIME
CONTEXT



ENFORCEMENT
ACTIONS

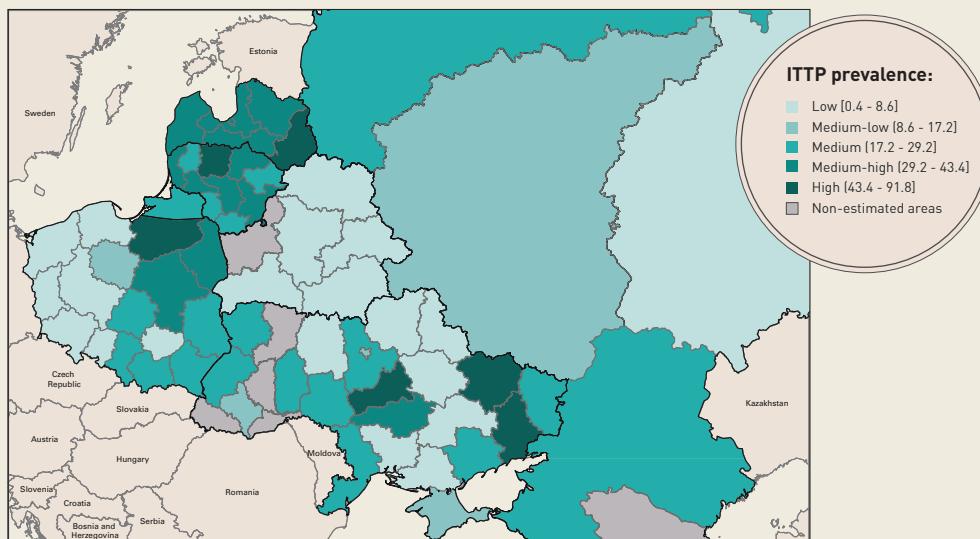
THE ITTP IN THE BELARUSIAN HUB

2

SIZE



Map 1. ITTP prevalence in the Belarusian hub, mn sticks per 100,000 inhabitants (2015)



Source: Transcrime estimates (see Annex for further details)

The EU countries of the Belarusian hub recorded high ITTP prevalence (mn sticks per 100,000 inhabitants) in 2015. The regions of EU countries bordering Belarus registered the highest prevalence, while Belarus recorded the lowest one, being the source country.

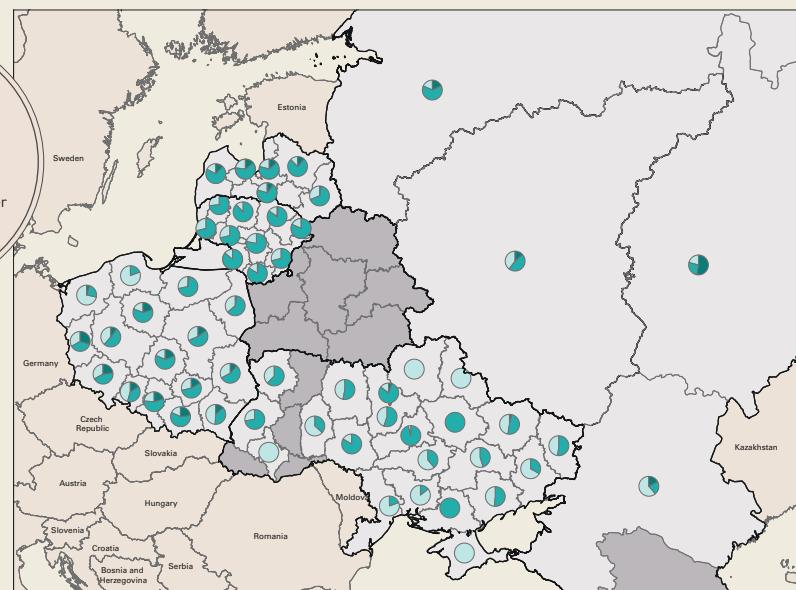
PRODUCTS



Map 2. Illicit tobacco products in the Belarusian hub by area and type (2015)

Products share

- Counterfeits
- Illicit whites
- Contraband & other
- Non-estimated areas



In the Belarusian hub, illicit whites were the most widespread products in 2015, followed by contraband & others.

Source: Transcrime estimates (see Annex for further details)



In 2015 Belarus was the main source country of non-domestic cigarettes for many EU countries. The majority of these cigarettes have Poland and Italy as their main destinations (48.8% and 12.1% of total Belarusian cigarettes, respectively) (Figure 1).

Figure 1. Main destinations of Belarusian non-domestic cigarettes (% of the total Belarusian cigarettes, 2015)



Source: Transcrime elaboration on EPSs data

From the hub, cigarettes spread to Germany (30.1% of the total flows from the Belarusian hub), Poland (22.6%), the United Kingdom (UK) (17.8%), and Italy (9.7%) (Figure 2).

Figure 2. Main destinations of non-domestic cigarettes from the Belarusian hub (% of the total flows from the Belarusian hub, 2015)

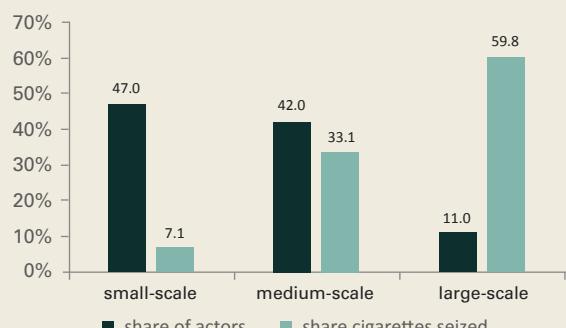


Source: Transcrime elaboration on EPSs data

ACTORS



Figure 3. Share of actors (N=1,337) and cigarettes seized (N=415 mn sticks) per category of ITTP actors in Belarus (2010-2015)



Source: Transcrime elaboration on BEST database

Large-scale actors (11.0% of the sample) account for 59.8% of the cigarettes seized. Conversely, small-scale actors are more numerous (47.0%), but they transport only 7.1% of the cigarettes.

MODUS OPERANDI



Actors mainly use motor-vehicles to transport illicit cigarettes, which are sold primarily in open-air markets. In Belarus, actors mainly use motor-vehicles to smuggle these products, or they transfer them into the neighbouring countries via rivers. In Belarus, cigarettes are mainly stored in the forests near the borders.

ILICIT SMOKING PATTERNS



The consumption of non-domestic cigarettes is higher in EU cities near the borders with non-EU countries. The highest shares are on the Polish border with Kaliningrad Oblast (Russia) and Belarus, and on the Latvian and Lithuanian borders with Belarus.

THE FOUR PHASES OF THE ITTP CYCLE

This chapter analyses the interaction among the four phases of the ITTP cycle and the vulnerabilities on the ITTP in the Belarusian key hub. It recommends possible interventions for preventing and fighting the ITTP.



1 PRE-MANUFACTURING

- ?
 - Excess import of acetate tow
 - ✓ - Improve controls over key inputs
 - Introduce external monitoring over Belarusian manufacturers
 - ?
 - Uncontrolled supply of raw tobacco in the hub
 - ✓ Monitor raw tobacco in the hub



3. DISTRIBUTION

- ?

Exports are vulnerable to the ITTP
 - ✓ Introduce licensing and record keeping for exports and mandatory destruction of seized tobacco products
 - ?

 - Large shadow economy in the hub
 - High public tolerance towards smuggling
 - ✓

 - Hot spot policing to control vulnerable places
 - Higher sanctions on smuggling and improved enforcement
 - ?

 - Established criminal routes
 - High corruption levels
 - ✓

 - Increase controls at vulnerable border crossing points
 - Identify criminals frequently engaged in the ITTP
 - ?

 - Seizures of illicit tobacco in the EU hub countries are low (7-14% of the ITTP)
 - Growing seizures of nasvay in Belarus
 - ✓

 - Implement hot spot policing
 - Strengthened penalties for the trade in nasvay



3

?

Risk

✓

Solution



2 MANUFACTURING

- ?
 - Local companies may be involved in illicit whites production
 - ✓ Introduce controls over cigarette exports (e.g. quota)
 - ?
 - Economic stagnation of the region
 - ✓ Liberalisation of the domestic business environment
 - ?
 - Penetration of OC groups in state structures and economy



4 CONSUMPTION

- ? Low taxation and prices in Belarus fuel the ITTP
 - ✓ Gradually harmonise the prices of Belarusian tobacco products
 - ? Social acceptance of the consumption of illicit tobacco
 - ✓ Reinforce awareness campaigns involving stakeholders
 - ? Low levels of perception of punishment for this crime
 - ✓ Address the illegal trade with awareness campaigns



1. Why analyse the key hubs for illicit tobacco? -



Key hubs are crucial sets of countries on the regional, continental or global map of the illicit trade in tobacco products (ITTP). The analysis of key hubs is important because the ITTP is a transnational illicit market. As the main driver of the ITTP is profiting from price differentials between countries, the manufacture, distribution and consumption phases often occur in different places. The analysis of key hubs instead of single countries enables a more comprehensive understanding of the factors determining the transnational illicit flows and a more effective identification of the possible strategies for fighting and preventing the ITTP.

The concept of key hubs is flexible, as the ITTP varies across time and space. Nevertheless, the following elements often characterise key hubs:

- Medium to high levels of the ITTP in the hub,
- Significant differences in the prices of tobacco products across the hub,
- Relevant presence of local manufacturers engaging in the ITTP and
- Substantial flows of illicit tobacco within the hub or from the hub to other countries.

Based on previous research in several countries, Transcrime has identified **four key vulnerabilities** that generally favour the emergence of a key hub for the ITTP.¹

LEGAL TOBACCO MARKET



The poor regulation of the legal tobacco market may create a range of opportunities for the illicit tobacco trade. This may comprise, for example, the absence of a specific regulation on key inputs, the presence of illegal manufacturers, the differentials in taxes and prices with neighbouring markets, the poor regulation of the tobacco supply chain and the absence of anti-ITTP actions (Licari and Meier 1997; Chiou and Muehlegger 2008; Lovenheim 2008; Ramos 2009; Sweeting, Johnson, and Schwartz 2009; Framework Convention Alliance 2010; Allen 2011, 7; Joossens and Raw 2012, 231; Davis et al. 2013; Fix et al. 2013; KPMG 2014, 4; Interpol 2014c, 65–68; Joossens, Ross, and Stoklosa 2014).

1. The series The Factbooks on the ITTP and The European Outlook on the ITTP. All reports are available at transcrime.it

2. Due to the size of its territory and the distances between Belarus and some of its regions, the estimates made by Transcrime include only the western regions of Russia close to the European border (Central Federal District, North-western Federal District, North Caucasus Federal District, Southern Federal District and Volga Federal District).

SOCIO-ECONOMIC CONDITIONS



These factors may facilitate the illicit tobacco trade. For example, the **social acceptance of smuggling** and **high poverty levels** may contribute to the concentration of ITTP in certain geographical areas and to the creation of a large pool of recruits willing to participate in illicit activities or to consume illicit products (Bonilla Panvela 2003; Vander Beken et al. 2008, 64; Ramos 2009, 12; Melzer 2010, 135; Gómez 2012; Firefly Millward Brown 2013; ThinkCom 2013)

CRIME CONTEXT



The development of a key hub for illicit tobacco also requires considerable **criminal “know-how”** for the organization of multiple large-scale illicit activities. For this reason, the ITTP thrives in areas with established trafficking routes, active organised crime groups, high levels of corruption and shadow economies (Joossens et al. 2000; Merriman, Yürekli, and Chaloupka 2000; Tobacco Free Kids 2008; Chaloupka 2009; Ramos 2009, 6;31; Melzer 2010, 152; Yürekli and Sayginsoy 2010; FATF 2012; Joossens and Raw 2012; Joossens et al. 2012, 5; Calderoni et al. 2013).

ENFORCEMENT ACTIONS



Vulnerabilities due to poor law enforcement may include, for example, inadequate penalties for cigarette smuggling, poor border controls, insufficient equipment and the lack of an action plan against the ITTP (von Lampe 2003; Vander Beken et al. 2008; Ramos 2009; Melzer 2010; Yürekli and Sayginsoy 2010; Calderoni et al. 2013; Calderoni, Angelini, Mancuso, et al. 2014; Transcrime 2015).

This report focuses on the **Belarusian hub** for illicit cigarettes (Map 3). Belarus is the center of the hub because it is a source for illegal tobacco products destined to the EU. The surrounding countries are included for different reasons. Russia² and Ukraine used to play a significant role in the ITTP flows and still remain important sources for illicit products. Other countries within the hub, such as Lithuania, Poland, Latvia, are both destination countries and facilitators of the Belarusian illicit tobacco flows. The report takes the name of the center of the hub.

Map 3. The Belarusian hub



2. ITTP in the Belarusian Hub -



2.1 Size



In 2014, Latvia and Lithuania had the highest ITTP share of the EU (29.3% and 28.3% of the total consumption, respectively). Poland also registered one of the highest ITTP shares in the EU (15.1%). The proximity to countries where illicit cigarettes are produced and the differences in the prices of tobacco products are the main reasons for these high levels (Calderoni, Aziani, and Favarin 2013; Calderoni, Angelini, Aziani, et al. 2014; Transcrime 2015).

Belarus, Russia and Ukraine registered lower levels of the ITTP. Ukraine registered a 10.5% share, Russia 4.8% and Belarus 0.6% in 2014. Among the three non-EU countries, **Ukraine** registered the highest levels because it is both a country of the consumption of Moldovan and Russian illicit cigarettes and a country of origin of illicit products destined to Europe (Euromonitor International 2015a). **Russia** registered an increase in cigarette smuggling due to recent tax increases (2014) and the depreciation of the Belarusian Ruble. However, the ITTP might stabilise in the next several years due to the devaluation of the Russian currency (Euromonitor International 2015b). **Belarus** registered the lowest level of ITTP in the hub due to its lower cigarette prices compared with neighbouring countries, which makes smuggling into the country unattractive (Euromonitor International 2015c).

Among the hub countries, Belarus registered the highest decrease in the ITTP between 2010 and 2014 (-54%) (Euromonitor International 2015d). **Belarus is not a country of the consumption of illicit cigarettes but rather a source point for illegal products destined to the EU**, due to its lower retail prices and the presence of illicit production in neighbouring countries (see Enforcement actions, p.31) (Transcrime 2015). In the same period, the ITTP also decreased in **Lithuania** and **Latvia** (-34% and -26%, respectively). This decrease can be related to the increased governmental efforts, focused on improving the efficiency of border control authorities and fighting corruption (Grinkevičius 2013; Baumann 2014; DELFI 2015; Saeima Press Service 2015; Mano vyriausybė 2015). Conversely, the ITTP slightly increased in **Poland** (+6%) and boomed in **Russia** (+96%) and **Ukraine**

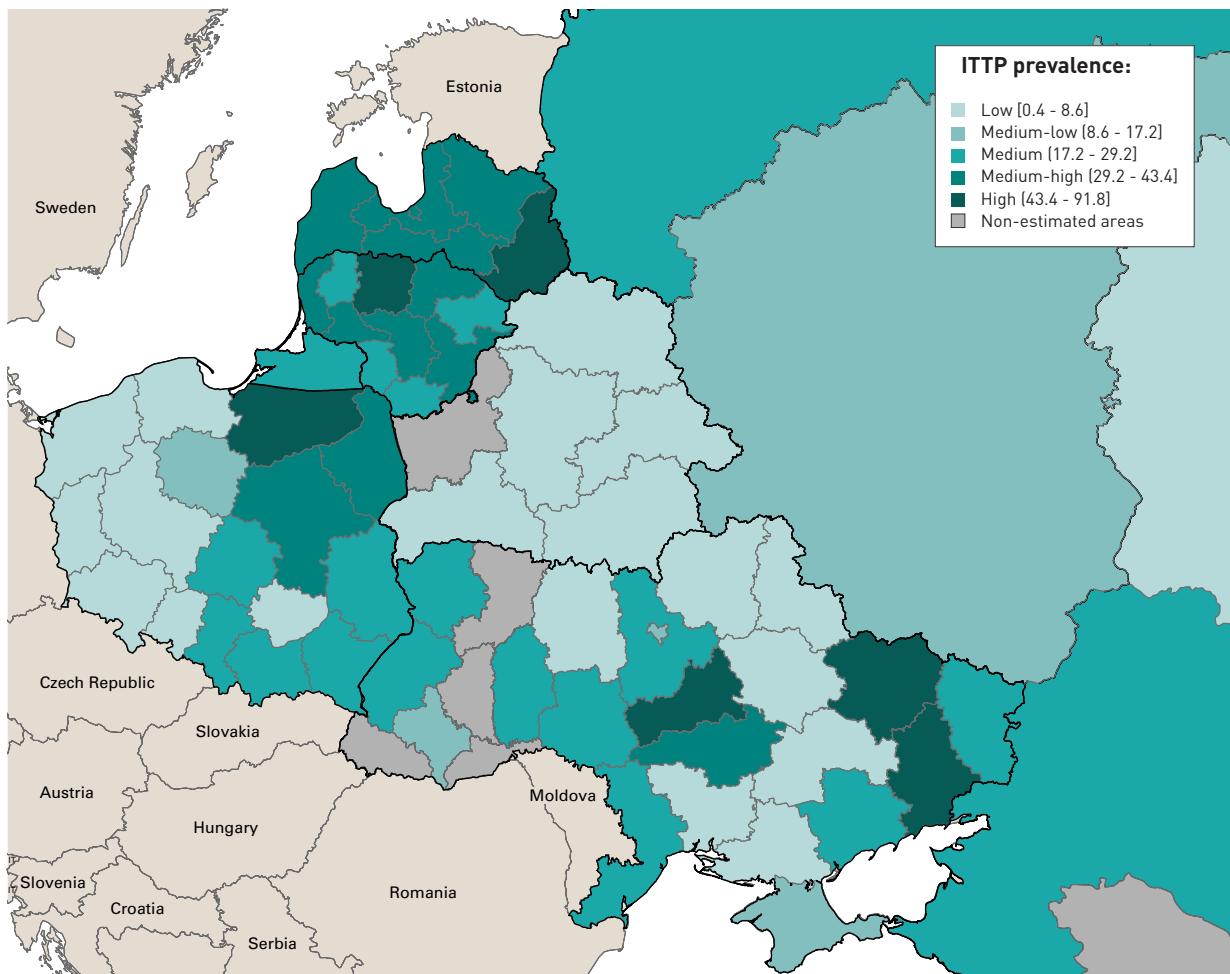
(+309%). This strong increase may be attributed to the complex geopolitical situation, to a tax increase and to low levels of border control (Euromonitor International 2015b; 2015a).

In 2015, the highest prevalence (mn sticks per 100,000 inhabitants) is registered in Latvia (43.6 mn sticks), Lithuania (36.0) and Ukraine (19.2). The lowest prevalence is registered in Belarus (3.2). The Ukrainian region of Kharkiv (91.8 mn sticks per 100,000 inhabitants), bordering Russia, is the area with the highest prevalence in the hub. Other areas with a high prevalence are the

Latvian Latgale (73.2 mn), bordering both Russia and Belarus, and the Lithuanian Siauliai County (62.3 mn), bordering Latvia (Map 4).

In 2015, the regions of the EU countries bordering Belarus (36.4 mn sticks on average) registered a prevalence higher than the hub average (22.9 mn). These regions have had higher values since 2010, when they recorded 55.7 mn sticks (compared to 23.2 mn sticks in the hub).³ Between 2010 and 2015, the prevalence strongly increased in the Ukrainian regions of Volyn and Kharkiv, and in the Polish Warmian-Masurian Province, bordering Russia (+570% on average).

Map 4. ITTP prevalence in the Belarusian hub, mn sticks per 100,000 inhabitants (2015)



Source: Transcrime estimates

³. Belarus data are not included because they are only for 2011.

2.2 Products

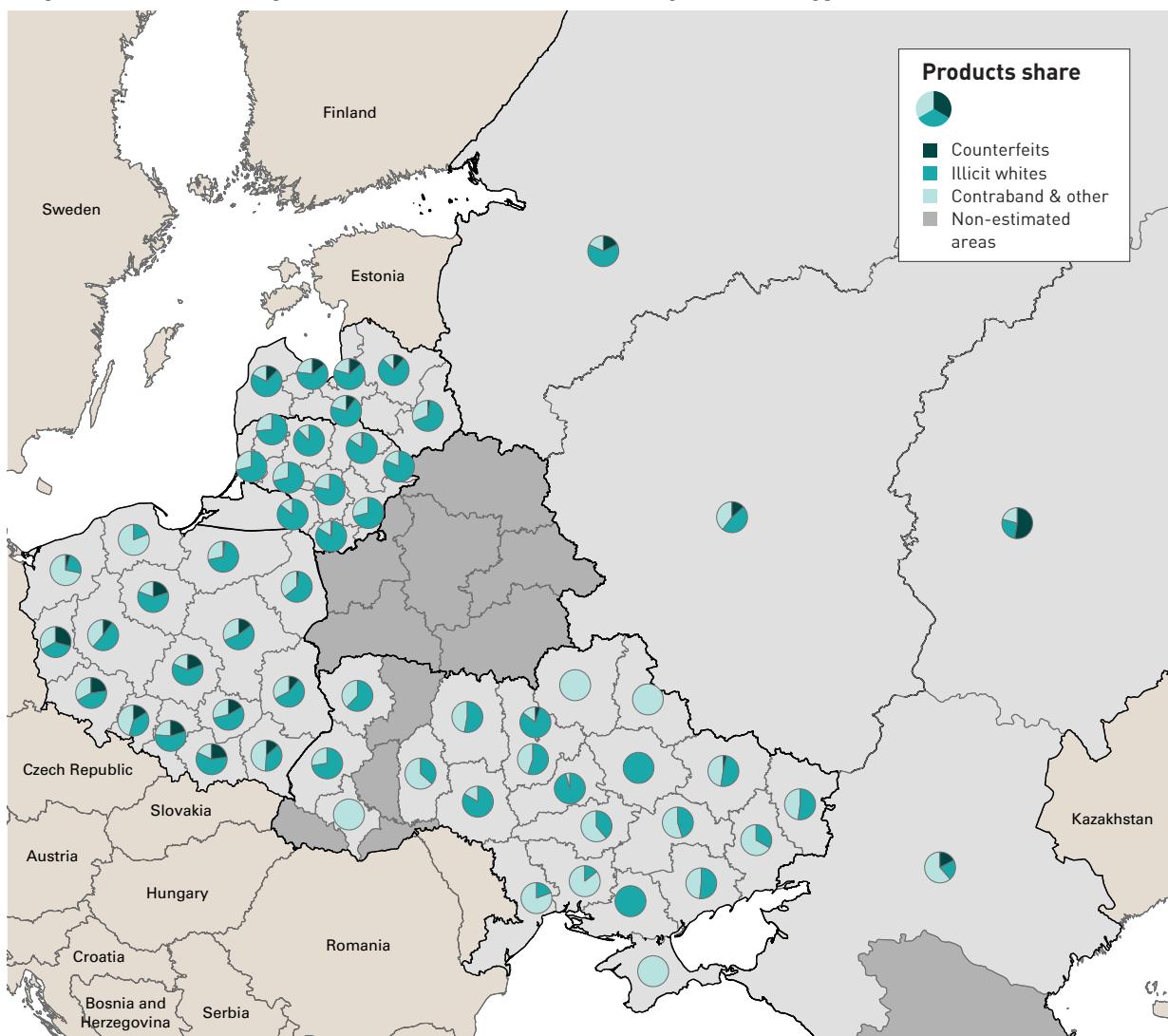


In the Belarusian hub, illicit whites were the most widespread products in 2015 (Map 5).

Illicit whites are cigarettes manufactured legally in one country but smuggled into countries where they are unavailable on the legal market. Exportation from manufacturing countries may occur legally, whereas import and sale into destination countries are always illegal. Taxes in production countries are normally paid, while they are avoided in the destination countries (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 4; Transcrime 2015, 8).

In 2015, illicit whites are widespread in **Lithuania** (76.2% of the illegal market), **Latvia** (65.2%), **Poland** (56.4%) and **Ukraine** (51.1%). According to EPSs (Empty Pack Surveys), illicit whites are widespread in the **Ukrainian** regions of Kherson, Poltava and Cherkasy (around 100%), in the **Lithuanian** Siauliai, Marijampole and Panevezys counties (87.0%, 85.7% and 83.5%, respectively), in the **Latvian** Vidzeme region (76.4%) and in the **Polish** Warmian-Masurian Province (69.9%).

Map 5. Illicit tobacco products in the Belarusian hub by area and type (2015)



Source: Transcrime elaboration on EPSs data

In recent years, Belarus has been the largest source country of illicit whites brands in EU market, primarily concentrated at the EU's borders (Euromonitor International 2015c; KPMG 2015; Transcrime 2015). In 2015, the top-ranking areas of Belarusian illicit whites, produced by Grodno Tobacco Factory (GTF) Neman, were Lithuania (98.1% of illicit whites present in the country), Latvia (80.6%) and Poland (69.3%). The proximity of Belarusian illicit whites manufactures may explain the high levels of illicit whites in this region (European Parliament 2013; KPMG 2015).

Contraband & others, which include contraband, bootlegged and illegally manufactured cigarettes, are the second most diffuse illicit product in the Belarusian hub (Transcrime 2015). In 2015, they were present in **Ukraine** (48.0% of the country's non-domestic products), **Russia** (44.9%), **Poland** (29.1%), **Latvia** (23.5%) and **Lithuania** (23.1%). The Ukrainian regions of **Chernivtsi, Ivano-Frankivsk** and **Sumy** registered the highest share of contraband & others in the hub (100% of the regional non-domestic products).

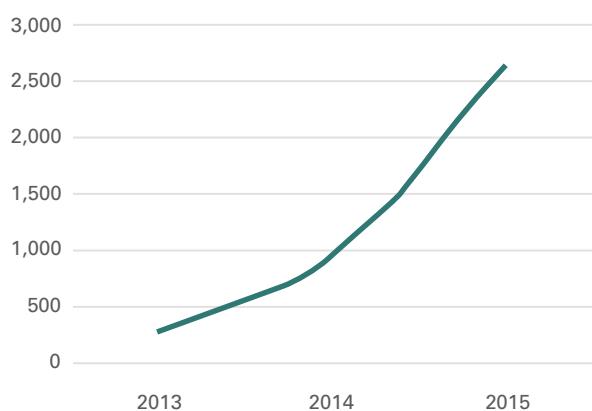
Counterfeit cigarettes are illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled into another country, both without paying taxes (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 3; Transcrime 2015, 8). In 2015, **counterfeits** were present in **Russia** (25.1% share of the illicit market) and **Poland** (14.5%), with the highest concentration in the Russian Volga federal district and in the Polish Lubuskie Province (52.5% and 29.1%, respectively). The role of China and Russia as growing sources of counterfeits, destined to Europe, could explain the high counterfeit share in those countries (Von Lampe et al. 2012; Transcrime 2015).

Between 2010 and 2015, the presence of illicit whites and counterfeits increased, while contraband & others decreased. Illicit whites increased in Russia (+444%), Latvia (+200%), Poland (+147%) and Lithuania (+122%). Their presence in Ukraine decreased (-32%). The rising flows of illicit whites from Belarus can explain the increase in the majority of the countries (KPMG 2015). Counterfeits increased in Latvia (+479%) and Poland (+53%). Conversely, their number decreased in Ukraine (-91%), Russia (-50%) and Lithuania

(-23%). While contraband & others boomed in Ukraine (+101%), their number decreased in Russia, Poland, Latvia, Lithuania and Russia (around -65%). The rising consumption of illicit whites may be the main cause of this trend.

The sale of nasvay is an emerging trend in Belarus. Nasvay (or naswar)⁴ is a smokeless tobacco product widely used in Central Asia. Russian and Belarusian governments declared it illegal due to health considerations.⁵ In Russia, nasvay costs about three times less than the cheapest pack of cigarettes (Mirovlev 2013). According to the BEST⁶ database, the seizures of nasvay increased by 794% between 2013 (300 kg) and 2015 (2,677 kg) (Figure 4). The emerging trend might be the consequence of the prohibition of selling this product, snus and other chewing and snuff tobacco products in 2010 (Vashkevich 2010).

Figure 4. Seizures of nasvay tobacco, kg (2013-2015)



Source: Transcrime elaboration on BEST database

4. Nasvay is a type of chewing tobacco. It is a mixture of sundried, powdered tobacco; ash; slaked lime; and flavouring and colouring agents (Zakiullah et al. 2011).

5. Bill No. 163560-6 (2013) on the protection of the health of citizens from exposure to environmental tobacco smoke and the consequences of tobacco consumption (Russia), and the Decree of the President of the Republic of Belarus of December 17, 2002, No. 28.

6. BEST (BElarusian Seizures of Tobacco products). For more information, see Annex.

2.3 Flows

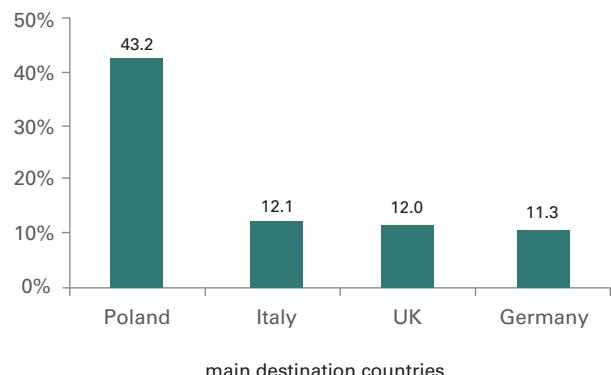


According to EPSs, in 2015 **Belarus was the main source country of non-domestic cigarettes for many EU countries. Belarusian non-domestic cigarettes mainly reach Poland (43.2% of the total Belarusian cigarettes), Italy (12.1%), the UK (12.0%) and Germany (11.3%) (Figure 5)**. A high percentage of the total cigarettes coming from Lithuania and Latvia, 80.1% and 55.4% respectively, reach the UK. These countries might be a transit point for smuggled Belarusian cigarettes (European Parliament 2013; Calderoni, Angelini, Aziani, et al. 2014). The main reason is the high cigarette price differentials between Belarus and its neighbouring EU countries, which makes cigarette smuggling profitable. Indeed, the different tax regimes among EU and non-EU countries may increase the risk of bordering EU countries to become an entry-point for illicit cigarettes in Europe (EurActiv 2013; Euromonitor International 2015j; Transcrime 2015).

Russia is another important source country in the hub (European Parliament 2013). Russian cigarettes mainly reach Italy (19.6%), France (15.3%), Poland (14.7%) and the UK (14.6%). Again, the main driver of illicit flows is price differentials between Russia and neighbouring EU countries. **Before 2010, Russian cigarettes were more widespread than the Belarusian ones.** However, three main reasons have driven this shift: the lower price of Belarusian products, which increases smugglers' profits; the cooperation between JTI and law enforcement authorities in Russia to tighten the sales control; and the consideration of illegal border crossing as a crime in Russia (Lithuanian Free Market Institute 2012). Moreover, since 2010 the Belarusian legal production and quotas rose (see Legal tobacco market, p.26).

The main destination markets of non-domestic cigarettes from the entire Belarusian hub are Germany (30.1% of total flows from the Belarusian hub in 2015), Poland (22.6%), the UK (17.8%) and Italy (9.7%), according to EPSs (Figure 6, p.21).

Figure 5. Main destinations of Belarusian non-domestic cigarettes (% of total Belarusian cigarettes, 2015)

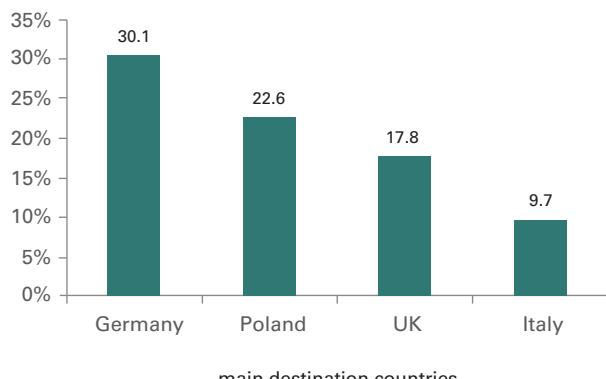


Source: Transcrime elaboration on EPSs data

The UK has the highest cigarette prices in the EU (€8.8 for a pack of the cheapest brand in 2015), making the smuggling there highly profitable. Germany, Italy and France also have high cigarette prices (€4.5, €4.2 and €5.3, respectively).

Illicit whites from the Belarusian Grodno Tobacco Factory (GTF) Neman and Russian Baltic Tobacco Factory (BTF) can be found across Europe (KPMG 2014). **In 2013, Belarus was the major source of illicit whites in the EU, comprising several GTF Neman brands, such as Fest, Minsk, NZ and Premier (KPMG 2014).** Fest is one of the most prevalent illicit whites brands in Europe and **its presence on the EU market grew from 0.2 bn cigarettes in 2009 to 2.9 bn in 2014 (KPMG 2014; 2015).** According to EPSs, in 2014 in Lithuania, illicit whites with GTF's trademarks accounted for 72.1% of the non-domestic cigarettes, in Latvia for 46.3%, in Poland for 41.9%, in Ukraine for 21.5% and in Russia for 13.1%. **These cigarettes reached also the UK (10.4% of the non-domestic sticks), Germany (3.0%), and Italy (1.7%).** BTF, located in Kaliningrad Oblast (Russia), produces the illicit white brand Jin Ling that has no legal market in Europe. **In 2014, this brand represented 14.9% of the non-domestic cigarettes in Latvia, 12.9% in Poland, 2.6% in the UK, 1.8% in Lithuania, 1.5% in Italy, and 1.3% in Ukraine.**

Figure 6. Main destinations of non-domestic cigarettes from the Belarusian hub (% of total flows from the Belarusian hub, 2015)



Source: Transcrime elaboration on EPSs data

Since 1992 the partially recognized state of Transnistria has been a major smuggling zone in the Eastern European region and in the Belarusian hub (European Parliament 2002). Media reports suggest that the cigarettes smuggled in and through Transnistria have Russian origin (Vdovii, Opriş, and Mogoş 2012). Part of the goods are smuggled back to Ukraine and other reach the EU markets through Romania (Popescu 2011; Security and Intelligence Service 2014). In order to minimize the cigarettes smuggling risks, the Ukrainian government limited the number of checkpoints for trade between Ukraine and Moldova (Cabinet of Ministers of Ukraine 2015). In addition, considering that the supply of tobacco products in Transnistria greatly exceeded local consumption needs, the EU Border Assistance Mission to Moldova and Ukraine (EUBAM) intensified its controls on the border crossing points. Thus, in 2015, the number of tobacco products imported in Transnistria decreased significantly (EU Neighbourhood Info Centre 2015).

2.4 Actors



There are three categories of ITTP actors, according to the number of cigarettes transported:

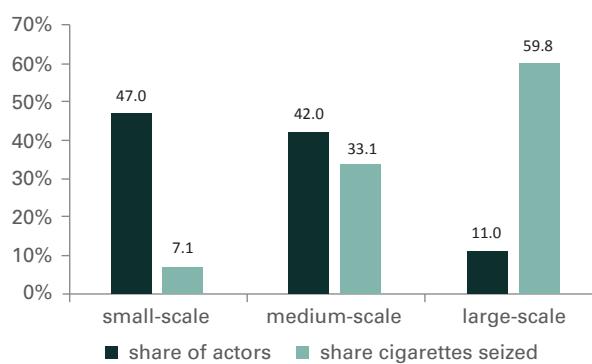
- **Small-scale actors**, who engage in the distribution of small consignments of illicit tobacco over medium to short distances. They usually act alone or in small groups with a low degree of organisation (Joossens et al. 2000; Hornsby and Hobbs 2007; Joossens et al. 2009; FATF 2012).

- **Medium-scale actors**, who engage in the distribution of medium consignments over medium to short distances. They can be single individuals or small groups.

- **Large-scale actors** engage in the distribution of large-consignments over long distances. They are usually part of transnational criminal networks with a high level of organisation (Joossens et al. 2000; van Duyne, von Lampe, and Passas 2002; von Lampe 2005; Joossens et al. 2009; Kegö, Leijonmarck, and Molcean 2011)

In Belarus, large-scale actors represent 11.0% of all actors in the country, and they are responsible for 59.8% of seized cigarettes (Figure 7). The same happens at the EU level: large-scale actors are less numerous (23.0% of the actors), but they account for the largest share of cigarettes seized (94.8%) (Transcrime 2015). Small-scale and medium-scale actors are more numerous (47.0% and 42.0% of the actors, respectively), but they transport only 7.1% and 33.1% of the cigarettes seized. These people are mainly bootleggers who transport small or medium consignments across the borders with the EU (Gutauskas 2011; Lithuanian Free Market Institute 2012).⁷

Figure 7. Share of actors (N=1,337) and cigarettes seized (N=415 mn sticks) per category of ITTP actors in Belarus (2010-2015)



Source: Transcrime elaboration on BEST database

7. Bootlegging is the legal purchase of tobacco products in a low-tax country, and illegal retail in a high-tax country. Bootlegging concerns individuals or small groups who smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income (Hornsby and Hobbs 2007; Allen 2014, 6–7; KPMG 2014, 3).

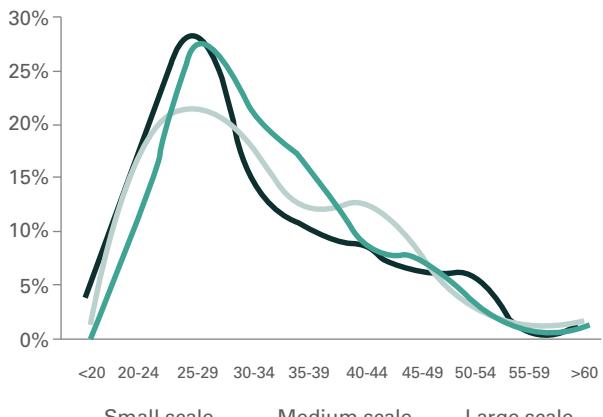
Cigarette smugglers make easy profits from the price differentials at the EU's eastern border (EurActiv 2013; Transcrime 2015). In Belarus, the illicit cigarette market generates low revenues (€6.1 mn in 2011). Among its neighbouring countries, Poland has the highest revenues (€652.3 mn in 2015). Indeed, it is the main destination for Belarusian products (Transcrime 2015). Polish and Lithuanian regions with the highest national share of proceeds border Belarus: Mazovia Province (24.8% of the Polish revenues in 2015) and Vilnius County (26.3% of the Lithuanian ones) (Transcrime 2015).

Most of the ITTP actors are male, Belarusian and aged between 25 and 29 (Figure 8).

According to the BEST database, the smugglers are mainly Belarusians (65.0%) and Lithuanians (22.5%). Belarusians are mainly engaged in small-scale smuggling (71.0% of Belarusian actors), while Lithuanians in medium-scale smuggling (51.4% of Lithuanians). According to the actors' profile based on open sources, the common individual smuggler is a man, aged around 35 and unemployed (Kachurka 2014). Indeed, according to the BEST database, 93.5% of smugglers are male, mostly aged 25-29 (27.4%) and 30-34 (20%).

In Belarus, people involved in large-scale smuggling are mainly aged between 20 and 29 (around 39% of the large-scale smugglers). This age class is also the most involved in small-scale and medium-scale ITTP (47.2% and 39.6%, respectively). **At the EU level, large-scale actors are older**, aged between 40 and 54 (40.9%). On the contrary, the majority of actors involved in the ITTP are between 30 and 39 years old (27.5%). In the EU, seniors with experience in criminal operations seem to manage large-scale ITTP (Transcrime 2015). However, in Belarus, younger actors cover both large- and medium-scale smuggling. The social acceptance of smuggling and high unemployment rate among the young generation may fuel the spread of the ITTP in the country (Belstat 2015a; Smok 2015).

Figure 8. Age of actors per ITTP category in Belarus (2010-2015)



Source: Transcrime elaboration on BEST database

2.5 Modus operandi



In the Belarusian hub, actors mainly use motor vehicles. Cars and trucks are the most diffuse means of transport for trafficking illicit cigarettes in all of the countries of the Belarusian hub. Other means of transport used are trains (Transcrime 2015).

In Belarus, motor vehicles are the main means of transport in small (79% of all cases), medium (74%) and large-scale (83%) smuggling. For **small-scale ITTP**, smugglers mainly use **cars** (68.6% of small-scale cases) and **trains** (13.8%). Between 2010 and 2015, Belarusian Customs seized on average about 36,102 cigarettes per car and 45,291 per train in small-scale cases. Smugglers conceal cigarettes in hidden compartments in cars (i.e. false floors, walls and double-walled fuel tanks) (Bikelis 2012; Frontex 2013; Subačius 2013). Train smuggling plays an important role and sometimes involves workers who hide illicit products during the transportation of cargo between Belarus and the Baltic countries (Customs of the Republic of Lithuania 2011; 2013a; 2013b). **For medium-scale consignments**, smugglers generally use **cars** (52.7%) and **trains** (19.9%). Between 2010 and 2015, Customs seized on average around 151,074 cigarettes per car and 244,800 per train in medium-scale seizures. **Large-scale actors** mainly use **cars** (50.5%), **trains** (26.4%) and **vans** (15.4%). Their level of organisation is usually higher; therefore, they also transport illicit cigarettes by trucks (6.6%). The average quantity transported was around 4 mn cigarettes per truck in large-scale cases.

Another way of smuggling cigarettes from Belarus is **via rivers**. The **Neman River** is the most important one since it is more than 900 km long.⁸ This smuggling method involves cooperation between the Lithuanian and Belarusian organised groups. The products are smuggled via river and are transported by boats left floating in the river (Lrytas 2011b; Lrytas 2011a; Lrytas 2012). Between 2010 and 2015, Belarusian Customs seized in total about 15 mn cigarettes close to the rivers or smuggled via rivers.

Smugglers' inventive ways of bringing cigarettes to the EU

Customs and media reports suggest that smugglers operating in the Belarusian hub devise new and original mechanisms to conceal the cigarettes they are trying to bring to EU countries. Apart from the more standard approach of hiding the packs **within the bumpers and bottom parts of a car**, they may also use magnets to stick the cigarettes inside the cistern trucks (State Border Committee of Belarus 2014d; 2014b). When using trains, the smugglers hide the illegal commodity either in the **construction features of the wagons or within the cargo** (State Border Committee of Belarus 2014c; 2015). The perpetrators also leave the **cigarettes floating on rafts** equipped with GPS tracking systems, which help them locate the shipment on the other side of the river (State Border Committee of Belarus 2014a). Recent innovative ways of transportation include the concealment of the cigarettes within hollow tree trunks and low-flying drones (Gallagher 2014; Macfarlan 2015).

ITTP actors store the illicit products mainly close to the border. In 28.5% of the BEST cases, cigarettes were concealed in the forest (Smok 2015). For example, in September 2015, border police found 30,000 packs of cigarettes manufactured in Belarus in the forest near Astravyets (Regional Newspaper 2015).

In Belarus, **people sell cigarettes to be smuggled at the train station, at petrol stations or near local shops to facilitate their trade** (Saligorsk.org 2016). In the Belarusian hub countries, open-air markets are the most common retail channel for illicit cigarettes (Transcrime 2015).

2.6 Illicit smoking patterns



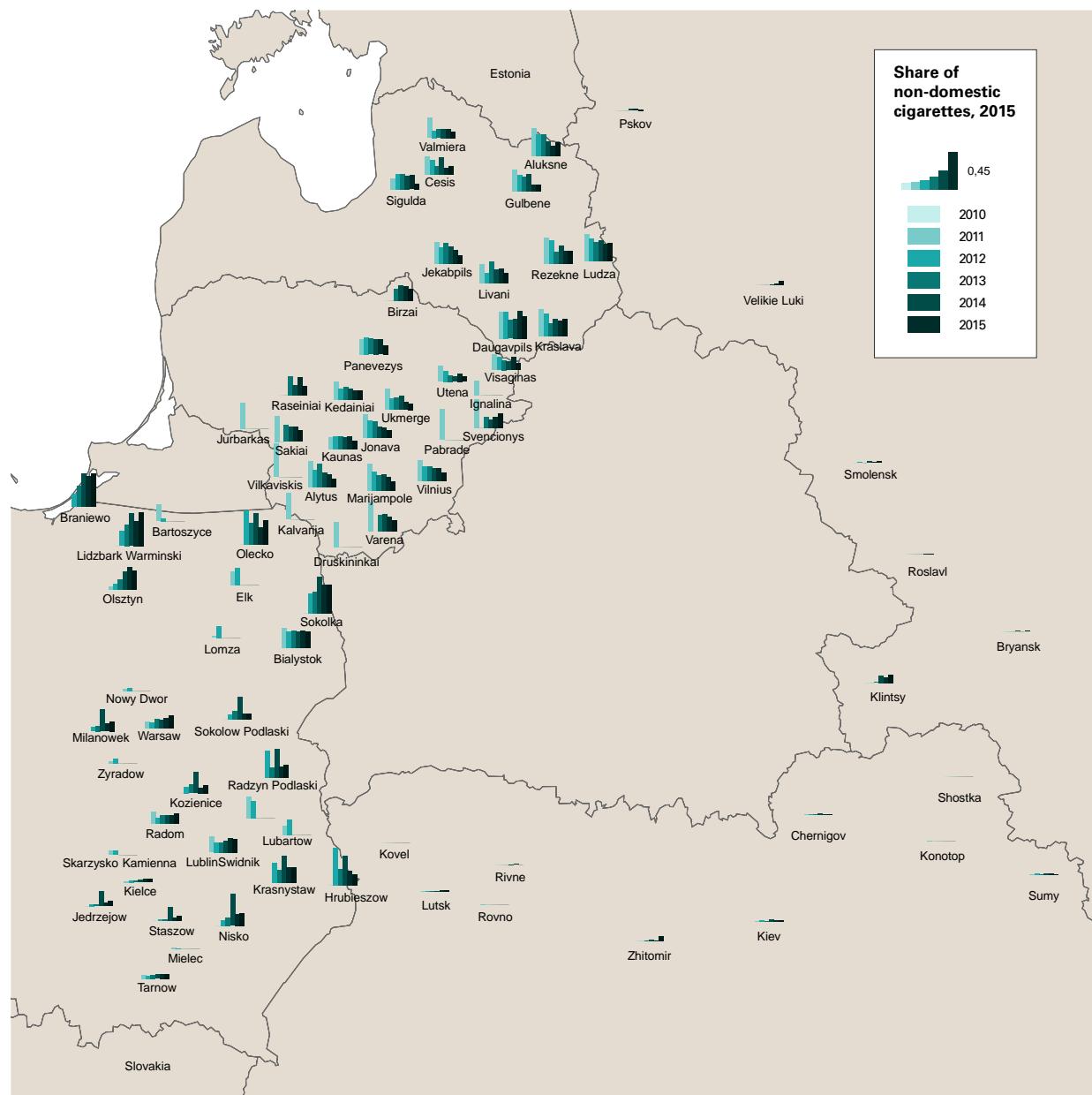
In the Belarusian hub, the consumption of non-domestic cigarettes is higher in EU cities bordering non-EU countries. According to EPSs, in 2015, some **Polish, Lithuanian and Latvian cities near the borders with Belarus, Kaliningrad Oblast, Ukraine and Russia registered the highest consumption of non-domestic cigarettes**. The highest shares were registered: on the Polish border with Kaliningrad Oblast (Russia), e.g. Lidzbark Warmiński (80.5% of the cigarettes found) and Braniewo (78.6%); on the Polish border with Belarus, e.g. Sokółka (68.3%); on the Latvian and Lithuanian borders with Belarus, e.g. Daugavpils (54.4%) and Krāslava (40.3%); and in Latvia and Šalčininkai (43.0%) in Lithuania (Map 6, p.24).

In 2015, **more than 90% of the non-domestic cigarettes had Belarusian origin** in **Krāslava (Latvia), Visaginas (Lithuania), Daugavpils (Latvia), Švenčionys (Lithuania) and Sokółka (Poland)**. All of these cities are near the border between EU countries and Belarus. According to a survey conducted in 2010, 30.6% of Latvian current smokers declared they bought their last packs of cigarettes from illicit channels. The share is 12.0% in Poland (Gallus et al. 2012).⁹

8. Belarusian rivers are: Neman River, Neris River, Vilija River and Zapadnaya Dvina River.

9. No data on Lithuania. The PPACTE (Pricing Policies and Control of Tobacco in Europe) project conducted interviews in 18 EU countries.

Map 6. Share of non-domestic cigarettes per city near the Belarusian borders (2010-2015)



Source: Transcrime elaboration on EPSs (2010-2015) data

3. The ITTP cycle -

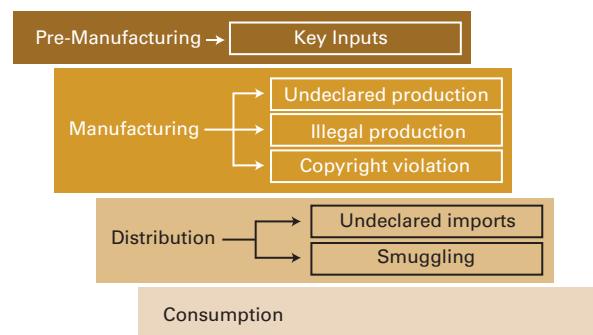
This chapter analyses the vulnerabilities and possible solutions in the Belarusian hub throughout the ITTP cycle. **The ITTP cycle comprises four phases:**

Pre-manufacturing: includes the supply of raw tobacco and key inputs for illicit production;

Manufacturing: comprises undeclared production, illegal production and copyright violation, which may lead to the manufacture of illicit whites and counterfeit cigarettes;

Distribution: encompasses the smuggling, the undeclared importing and the retail of illicit tobacco products; and

Consumption: focuses on the consumption of illicit products.



Most of the existing studies on the ITTP focus on the consumption and retail distribution of illicit tobacco. Compared to these approaches, the focus on the ITTP cycle enables one to **analyse a larger ITTP environment** with attention to the hub countries; to **overcome the fictitious distinction** among the source, transit and destination countries of illicit tobacco; and to **identify vulnerabilities at each phase** of the ITTP process and thereby support more precise policy interventions.

Each of the following subsections analyses one phase of the ITTP cycle in Belarus and in the hub countries through the lenses of the four key vulnerabilities outlined in Section 1 (legal tobacco market, socio-economic conditions, crime context and enforcement actions). It also identifies a list of possible solutions for tackling the ITTP.

3.1 Pre-manufacturing



Legal tobacco market

The pre-manufacturing stage consists of the production and supply of raw tobacco and key inputs, i.e. fundamental materials for the manufacturing process (The Law Enforcement Alliance of America 2014). Their uncontrolled supply might favour the production of counterfeit cigarettes and illicit whites (Europol 2011). Raw tobacco and key inputs illegally enter Belarusian territory from countries of the EU (Malishevskiy 2015). Authorities need to monitor the illegal or excessive imports of these components to prevent the growth of the ITTP (Joossens 2014).

In 2015, the government introduced tougher state control over the turnover of raw tobacco and tobacco products by amending the Presidential Decree n.28/2002 (P.D. n.28/2002) (KonsultantPlus 2015; Sintsov 2015).¹⁰ Starting July 1, 2015, only legal entities of the Republic of Belarus can engage in the production, storage, import and export of raw tobacco (Ministry of Taxes and Duties 2015a).¹¹ The Belarusian state has the exclusive right to import raw tobacco with no quantitative restrictions and to engage in its wholesale trade.¹² The state's right is implemented by the open joint-stock company Grodno Tobacco Factory (GTF) Neman (100% state stockholding) and the limited liability company Tabak Invest, which must submit annual declarations on the volume of the turnover of raw tobacco to the Ministry of Taxes and Duties.¹³

False declarations constitute an administrative offence fined with 20-50 base units (BYR 4.2-10.5 mn).¹⁴ However, it is peculiar that it does not constitute an offence, if the manufacturer corrects the false information before the appointment of an inspection.¹⁵ Raw

tobacco import, movement and storage without the accompanying documents stating the legality of its import, acquisition or production is punished with its confiscation and a fine up to 250 base units (BYR 52.5mn).¹⁶

Belarus imports raw tobacco from more than 25 countries, and sometimes the related trade data might appear contradictory (Trofimovich 2013; Contact 2014; Jurcatalog 2014; Belstat 2015b; Tabakas 2016). **For example, in 2013, Azerbaijan exported about 1,275 tons of raw tobacco to Belarus (Contact 2014). However, Belstat noted that, in 2013, Belarus received only 119 tons of Azerbaijani raw tobacco (Belstat 2013).** The difference in the data suggests that part of the raw tobacco might have been diverted into the illicit tobacco market.

Key inputs are essential and identifiable components of cigarette production, such as cigarette paper and acetate tow (Geiss and Kotzias 2007; Lerner 2010; Colledge III 2011). In the context of the legal tobacco market, acetate tow supply should be in line with the manufacturing requirements within the mandated levels of legitimate production, as criminal organisations might exploit its excess to manufacture illegal cigarettes (Interpol 2014a). Belarusian legislation does not provide regulation of key inputs, known in Belarus as additional materials for cigarette manufacturing, thus creating a loophole that might contribute to illegal manufacturing. In 2013, the excess of acetate tow in Belarus was enough for manufacturing around 6.4 bn cigarettes destined to the illicit market, about 20% of the national production of filtered cigarettes (31.7 bn sticks) (The Law Enforcement Alliance of America 2014; Euromonitor International 2015i; UNcomtrade 2015). Illegal production is possible because either acetate tow producers oversupply legal manufacturers or illegal manufacturers divert

10. Presidential Decree of the Republic of Belarus of December 17, 2002, n. 28. 'On state regulation of production, trafficking and consumption of raw tobacco and tobacco products'. The decree defines the turnover of raw tobacco as its 'storage, import, export, wholesale trade'.

11. Art. 1 P.D. n.28/2002.

12. Art. 3.2 P.D. n.28/2002; Presidential Decree n.4/2007 'On the State regulation of the import of raw tobacco and tobacco products' (P.D. n.4/2007).

13. Art. 3 P.D. n.4/2007; Art. 12 P.D. n.28/2002.

14. The base unit is an economic indicator that defines an abstract value of the purchasing power of money. In 2016, the value of the base unit is set at BYR 210,000 by the Regulation of the Council of Ministers December 18, 2015 n.1059 (Belarusbank 2016).

15. Art. 12.22 Code of Administrative Offences of the Republic of Belarus April 21, 2003, n.194-Z.

16. Art. 12.23-5 Code of Administrative Offences of the Republic of Belarus.

the acetate tow into the illegal production facilities (Interpol 2014a). However, in Belarus, between 2010-2015 enforcement authorities dismantled no illegal facilities (State Border Committee of Belarus 2016). Therefore, this might mean that national manufacturers may use the oversupplied acetate tow for their production.

Possible solutions

At the pre-manufacturing stage, possible solutions could target the suppliers of key components on Belarusian territory, for example by introducing licensing requirements, tracking and tracing systems and sales monitoring (Interpol 2014c; The Law Enforcement Alliance of America 2014; Ross 2015). Moreover, Belarus might **restrict access to raw tobacco and key inputs**, e.g. by setting a quota in accordance with the national limits of cigarette production to ensure that purchased quantities are commensurate (MacDonald-Laurier Institute 2014).

Furthermore, the Belarusian government might introduce for GTF Neman and Tabak Invest **record-keeping obligations on the use of key inputs** to grant no oversupply. However, given the dualistic role of the Belarusian state in the tobacco market, an **independent third party would better ensure the transparency and impartiality** of the monitoring of the legal market.

3.2 Manufacturing



Legal tobacco market

The manufacturing phase consists of the manufacturing of tobacco products, partially or entirely made of raw tobacco and packed for their retail trade.¹⁷ **Besides regulating tobacco products intended for smoking, P.D. 28/2002 provides for smokeless tobacco products intended for chewing, snuffing or sucking**

17. Art. 1.1 P.D. n.28/2002.

18. Art. 3.2 P.D. n.28/2002. Smokeless tobacco products are 'tobacco products intended for sucking made from tobacco, alkaline components (chalk, lime or other alkaline components), and other non-tobacco materials, or partially or completely fabricated from purified tobacco dust and (or) the fine fraction of the shredded tobacco with or without the addition of non-tobacco materials and other ingredients'.

(such as nasvay), prohibiting their production and turnover.¹⁸ In Belarus, a strong state control over the production, trafficking and consumption of tobacco products is in place.¹⁹ The manufacturing is subject to a licensing system and is permitted only to legal entities of the Republic of Belarus listed in the state register (Ministry of Taxes and Duties 2015a).²⁰ The state owns the largest tobacco product manufacturer in the country: GTF Neman. It accounted for 72.3% of the total sales of cigarettes in the country in 2014 (Euromonitor International 2015k). The second largest tobacco product manufacturer—Tabak Invest—is a private company. However, media reports link the ownership of the company with a prominent Belarusian businessman close to Lukashenko: Pavel Topuzidis (Malishevskiy 2015).²¹

The Belarusian government has full control over this phase: it sets limits on the manufacture of tobacco products intended for sale in Belarus with the provision of an annual quota, and it monitors compliance with the legislation.²² The legislation foresees **confiscation of the quantities manufactured above the limits or without the granted quota**, along with a fine between 150-500 base units (BYR 31.5-105.0 mn).²³ In 2016, the Council of Ministers granted to **GTF Neman 19.5 bn sticks** (-15.2% than in 2015) and to **Tabak Invest 7.2 bn sticks** (+2.9%), for a **total of 26.7 bn** (-11%) (Interfax 2015).²⁴ The reason for the lower 2016 quota might be that, since 2012, the production exceeded the national sales and, in 2012-2014, also the national production quota. (Figure 9, p.28). **Manufacturers must submit annual reports on the volumes of the production and on the losses in the manufacturing process.**²⁵ False statements, or the failed or late submission of these documents

19. P.D. n.28/2002.

20. Art. 1 and art. 5 P.D. n.28/2002. 'State register of legal entities and individual entrepreneurs, engaged in manufacturing, storage (as a business activity), wholesale and retail trade of tobacco products', assigned to the Ministry of Taxes and Duties, Regulation of the Council of Ministers of February 14, 2003, n. 179.

21. Art. 1.1 and 5.1 P.D. n.28/2002.

22. Art. 13 and art. 28 P.D. n.28/2002.

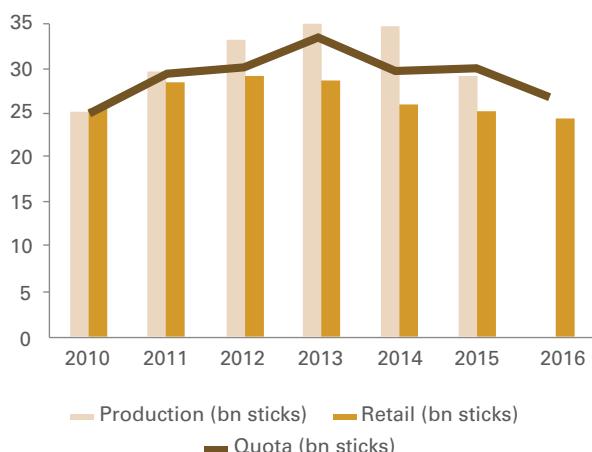
23. Art. 12.21-5 Code of Administrative Offences.

24. Decree of the Council of Ministers December 2, 2015 n.1003 'On the approval of production quotas in 2016 for tobacco products intended to be sold in Belarus'. The quotas can be modified during the year.

25. Art. 12 and 12.1 P.D. n.28/2002.

are fined 20-50 base units (BYR 4.2-10.5 mn).²⁶ The Council of Ministers can appoint tax inspections on the territory and in the premises of the manufacturing companies.²⁷

Figure 9. Production, retail volume and national production quota of cigarettes (bn sticks) in Belarus (2010-2016)



Source: Transcrime elaboration on Belstat (2015c), Euromonitor International (2015i), Uniter (2015) and on the Regulation of December, 2 2015 n.1003 data

Registration of the manufacturing equipment is mandatory.²⁸ The equipment must be provided with measuring devices that must have control mechanisms and fiscal memory, providing long-term storage and protection against unauthorised changes.²⁹ The violation of the requirements related to the manufacturing equipment or the measuring devices is fined up to 500 base units (BYR 105.0 mn).³⁰ The fine for violation of the production measurement (e.g. with the use of unreliable measuring devices) is up to 100 base units (BYR 21.0 mn).³¹ **In the Belarusian hub, legal and illegal manufacturers may take**

26. If the false information is corrected before the appointment of an inspection, it is no longer an offence. Art. 12.22 Code of Administrative Offences.

27. Art. 27 P.D. n.28/2002.

28. Art. 11.1 P.D. n.28/2002.

29. Decision of the Ministry of Taxes and Duties n.77/2005 "On approval of the procedure for accounting and use of the means of control, intended for installation on the fiscal memory of the metering devices of the finished tobacco products, used in the manufacture of tobacco products." The measuring devices must be compliant with state tests and listed in the State register of measuring instruments.

30. Art. 12.21-3 Code of Administrative Offences.

31. Art. 12.21-4 Code of Administrative Offences.

advantage of the uncontrolled circulation of the manufacturing equipment for illicit purposes. For example, in Ukraine, there is evidence that legal manufacturing companies produce cigarettes with machinery originating from closed illegal factories (Spatkay 2015a).

At this stage, Belarusian and Russian manufacturers may be involved in the distribution of illicit whites (Belarusian Partisan 2012; Criminal Ukraine 2012; KPMG 2014; Malishevskiy 2015; Transcrime 2015) (see 2.3 Flows, p.20). Belarusian cigarettes are present on the illegal market of the Belarusian hub countries (Belarusian Partisan 2012; Spatkay 2015a). However, **the difficulty of distinguishing counterfeited Belarusian brands from original ones** might lead to a misrepresentation of the data in the EPSs, as it might seem that the illegal cigarettes are manufactured by GTF Neman, whereas illicit factories in Russia, Poland, Ukraine and Latvia might have produced them (Gavrusheva 2015b; Gladkiy 2015; Russkii Tabak 2015; Spatkay 2015a).

Belarusian factories manufacture flavoured tobacco products, and there is no plan to forbid their production (Euromonitor International 2015c).³² The fact that the EU has a ban on these products might deepen the problem of the spread of illegal Belarusian cigarettes in EU countries.

Unlicensed manufacturing occurs in illegal factories that produce counterfeit cigarettes bearing trademarks without the consent of the trademark owners (Interpol 2014b) (see Enforcement actions, p.31).³³ Belarusian legislation regulates trademark infringement and establishes a fine for this of up to 300 base units (BYR 63.0 mn), saying that counterfeit cigarettes must be confiscated or destroyed.³⁴ In major cases, the violation can

32. Art.7 EU Tobacco Products Directive.

33. Art. 1.1 P.D. n.28/2002 defines counterfeit cigarettes as 'products manufactured by an intentionally modified producer or put in circulation by a person wittingly providing incomplete and unreliable information on their composition, properties and characteristics'.

34. Art 29 Law of the Republic of Belarus "On trademarks and service marks", February 5, 2003 n.2181-XII; Art. 9.21 Code of Administrative Offences.

become a criminal offence punishable with community service, arrest, a fine or imprisonment for up to five years.³⁵ **The implementation of the sanctions is not effective:** the courts do not accept claims related to counterfeit production without proof of purchase (e.g. a bill, an invoice). However, it is not possible to prove the purchase in the case of an illegal transaction, as criminals sell counterfeits without documents (Gavrusheva 2015b).

Socio-economic conditions

The Ukrainian conflict, the subsequent international sanctions on Russia and the 2015 global economic trends have affected the countries of the Belarusian hub to a different degree (see box *The political situation in the Belarusian hub*). The ongoing international sanctions and the falling oil prices led to the 2014 terms-of-trade shock and depreciation of the Russian Ruble. Thus, at the beginning of 2015, **Russia** entered a recession (-1.6% drop of real gross domestic product (GDP) in the first quarter of 2015) (The World Bank 2015d). The spillover of these events had a strong impact on the **Belarusian** economy, which is highly dependent on exports to Russia and on the price of the Russian Ruble (The World Bank 2015e). While this resulted in the poor performance of most economic sectors, the national tobacco companies managed to keep their profits. As a result, GTF Neman was one of the few companies to substantially contribute to the National Development Fund (Belarus in Focus 2014; Grodno Daily News 2014). Due to the eastern conflict and the unfavourable economic environment, **Ukraine's** GDP dropped by 16% in the first half of 2015, a decline attributable across all sectors (The World Bank 2015e). **Ukraine's economic and social prospects are subject to high risks, which create further opportunities for the smuggling of illegal cigarettes produced in Belarus** (Euroradio 2015; Malishevskiy 2015).

35. The trademark infringement is a criminal offence if the violation is committed within 1 year after the imposition of an administrative penalty for the same infringement or associated with the receipt of a large scale income, i.e. more than 500 base units. Major punishment is envisaged if it is committed repeatedly, by a group of persons with prior conspiracy, by an official using his official powers or causing damage in the large size. Art. 201 Criminal Code of the Republic of Belarus July 9, 1999 n.275-Z.

The Baltic States have been economically exposed following the EU-imposed sanctions and Russia's retaliatory measures. Among EU countries, the risk of negative economic effects is the highest for Lithuania (2.6% share of exports to Russia in GDP 2013), followed by Latvia (0.3%). The need for alternative markets might lead to further improvement of Lithuania's and Latvia's trade relations with Belarus, an important economic partner (Kłysiński 2013a). Furthermore, geopolitical factors led to the suspension of EU sanctions on Belarus,³⁶ which signalled EU readiness to relaunch political and economic dialogue with the country (Belarus Digest 2015; Sivitsky 2015).

The political situation in the Belarusian hub

The Belarusian hub consists of countries from different politico-economic integration unions. In 2004, **Lithuania, Latvia** and **Poland** became members of the EU (European Commission 2016a). In 2010, **Russia** initiated a gradual process of integration with some of the former Soviet states. Thus, **Russia** and **Belarus** founded the Eurasian Customs Union, which, in 2012, evolved to a single market for goods, services, capital and labour and in 2015 turned into an economic union (Eurasian Economic Commission 2016).

Ukraine's wavering between Russia and the West resulted in the present-day Ukraine conflict. In November 2013, the suspension of the signing of the Ukraine–European Union Association Agreement provoked the Euromaidan protest movement. After the ousting of President Viktor Yanukovych, an interim government came in force, which sparked political demonstrations in Crimea. The conflict quickly escalated due to Russia's overt support for separatist political factions in the region. After the ensuing accession of Crimea to Russia, the EU and the United States imposed sanctions against Russia (Euronews 2015).

36. The EU imposed restrictive measures against Belarus in 2012 on the grounds of severe human right violations and the repression of peaceful demonstrators in the aftermath of presidential elections, Council Decision 2012/642/CFSP of 15 October 2012, concerning restrictive measures against Belarus.

Belarus faces significant structural problems, including excessive state intervention and central planning in the economy. This also applies to the tobacco market, as the state is both the owner of tobacco companies and their regulator (EJ 2013b; The World Bank 2015e). **The excessive role of the state in the tobacco market goes together with the significant dependence of its budget on tobacco companies' taxes** and their role of important local employers. Due to the increase in its production, in 2014, GTF Neman increased its tax contribution to the country three times. The company ranks as the 6th biggest taxpayer in the country and 1st in the Grodno region, which accounts for 20% of the total tax revenues in the country. GTF Neman is also one of the most important employers in the country, with more than 1,000 employees (Belarus Telegraph Agency 2013b). Similarly, Tabak Invest is the 7th biggest taxpayer in the country and the 5th most important contributor to the Minsk budget (Belarus Telegraph Agency 2014b).

Crime context

Russian-speaking organised criminal groups (RSOCGs), active in the region since the years of the Soviet Union, are one of the major challenges in the Belarusian hub.

The profitable and widespread smuggling of old valuable items and antiques from the Union of Soviet Socialist Republics (USSR) into Western European countries helped the RSOCGs to establish permanent smuggling routes through present-day EU states (Kegö and Molcean 2011).

Socio-political instability after the fall of the Soviet Union led to **an increase in organised crime activities in the former Soviet republics in the 1990s**. The most common activities carried out by the RSOCRs were extortion, trafficking in human beings, trafficking of drugs, and excise good smuggling, including those of cigarettes (European Parliament 2011; Kegö, Leijonmarck, and Molcean 2011; Kegö and Molcean 2011). **Russian organised crime penetrated the state structure and tried to influence different economic sectors** in other post-Soviet countries, such as Belarus (European Parliament 2011; Finckenauer and Voronin 2011; Kegö and Molcean 2011). Europol considers the Baltic States to be highly exposed to the presence of these groups due to their proximity

to the Russian Federation (and the Kaliningrad Oblast), Ukraine and Belarus (European Parliament 2011; Europol 2011; Europol 2009).

The turbulent transition years allowed oligarchic structures to rise in prominence in former Soviet states and to play a significant role in the countries' economies. In Russia, some of the representatives of the former 'nomenklatura'³⁷ managed to use their access to political elites to benefit from the process of property redistribution through siphoning state-owned companies and banks, rigging off privatisation deals, VAT (Value Added Tax) and excisable goods fraud. They control a substantial part of the country's economy (Braguinsky 2009; Finckenauer and Voronin 2011).

While the **Belarusian** president Lukashenko defends the notion of a social and equal state, which does not tolerate oligarchs, **the last couple of years saw the emergence of a relatively large group of very wealthy individuals in the country.** They managed to increase their assets through lucrative contracts and favourable privatisation opportunities (Kłysiński 2013b). However, media reports suggest that Belarusian oligarchs are just company managers, which can be replaced in case they lose the regime's approval (Belarus Digest 2012). Media reports suggest that the heads of the two tobacco companies are within the close circle of Lukashenko affiliates (Frumkin 2015). In addition, the owner of Tabak Invest ranks as the 4th most influential businessman in the country (EJ 2013a).

While the perceived levels of public sector corruption in the Baltic states have gradually decreased, corruption remains a huge challenge for Belarus, Russia and Ukraine (Transparency International 2016). They rank among the last countries in Transparency's International Corruption Perception Index 2015. Out of 168 countries, Belarus takes 107th place, Russia 119th and Ukraine 130th. The long-established corrupt relations between businesses and authorities prevent the newly appointed Ukrainian government from taking decisive measures against the phenomenon (Transparency International 2016;

37. Former USSR countries' governments' organisational structures and high-level officials.

Ukraine Today 2016). Transparency International also attributes the low ranking of Belarus and Russia to the government's restriction on civil society and free media (Koch 2016).

The highly centralised political system and the public sector dominance in the economy encourage corruption in Belarus.

The monopolistic position of some Belarusian companies allows their high-level managers to demand bribes in exchange for goods and services (Astapenia 2014). Given the dominant position of the two leading tobacco companies in the country, the risk of corruption in the sector is high. An intensification of the anti-corruption measures in the country in 2012 led to an increase of detected corruption cases, some of which concerned managers of state enterprises (Borowska 2012; Astapenia 2014).

Enforcement actions

Illegal factories in the Belarusian hub are a significant source of counterfeit cigarettes and often produce counterfeited Belarusian brands (Europol 2011; Eurobelarus 2015; Krivobok 2015; Spatkay 2015a; Sputnik 2015). According to the Belarusian State Customs Committee and to BEST, between 2010-2015, Belarusian authorities discovered no illicit manufacturing facilities, whereas enforcement agencies of the neighbouring countries dismantled 23 factories, 43.5% of them only in 2015 (State Border Committee of Belarus 2016). However, according to media, their number might be higher, as between 2012-2014, the authorities dismantled 21 (or more) underground facilities only in Ukraine (Spatkay 2015a). According to open sources, among the hub countries Poland has the highest number of illicit factories raided, with 18 cigarettes facilities and 27 HRT factories dismantled. **The increase of disclosures in recent years is a consequence of the stable growth of illegal manufacturing in the Belarusian hub.** Counterfeiting is booming due to the rising costs of the smuggling business, a consequence of the strengthening border and customs control at the Belarusian border (Belarus Telegraph Agency 2015b).

The establishment of illegal factories is a complex activity; however, it dispenses criminals from the risk of border checks, as

it is easier to import raw materials rather than cigarettes (Europol 2011). Organised criminal groups set up underground factories on the territory of former military bases, closed and existing industrial enterprises, mines and farms. They rely on an extensive system of the supply of raw materials, advanced production equipment, a variety of sales channels and security systems (Europol 2011; Belarus Telegraph Agency 2015b). The cost of an illegal plant is about €1 mn (Gavrusheva 2015b). Manufacturing equipment of the Soviet era is still available on the territory of the Russian Federation. It is quite cheap, is reliable and can be quickly restored (Ivanov 2014). This can facilitate the emergence and the growth of illicit facilities in the Belarusian hub.

Possible interventions

To reduce the spread of Belarusian illicit whites in the Belarusian hub, it is essential to cut the illicit white supply and manufacturing by local factories (Europol 2011). The Belarusian government might introduce controls on the tobacco products intended for export in order to ensure no diversion of the legal production of tobacco products into the ITTP, for example by introducing quota. Furthermore, Belarusian manufacturers could print special anti-counterfeit markings, directly onto the packaging of tobacco products, to enable a correct distinction between their original products that might become illicit whites and counterfeits.

To prevent flavoured tobacco products from illegally entering the EU countries of the hub, Belarusian authorities should align the country's legislation with the EU ban on flavoured tobacco products.

To combat illicit manufacturing, Belarus might expand the administrative responsibility for trafficking in counterfeit goods, increase the minimum administrative penalties for trademark infringement and make these measures enforceable (Charter97 2015). Furthermore, the countries of the Belarusian hub should focus on organised criminal groups, as counterfeiting is frequently part of their illegal activities. The Belarusian hub countries, Europol and Interpol should intensify cooperation efforts to tackle Russian-speaking organised crime (European Parliament 2011).

There should be a constant exchange of information among the authorities of the Belarusian hub regarding the illegal supply of cigarettes, the sale of manufacturing equipment, and the schemes, methods and actors of the illicit manufacture of cigarettes (Filipovich 2016).

Targeting the displacement and movement of the cigarette manufacturing equipment present in the Belarusian hub could be very useful for hindering the illegal manufacturing of cigarettes (Interpol 2014c; Joossens 2014). Moreover, Belarusian legislation should provide for the **mandatory confiscation and destruction of the unregistered machinery** and introduce control and verification measures for its resale and international transit (Interpol 2014c). It is **recommendable for countries of the Belarusian hub to introduce similar measures.** For example, in Ukraine, recent legislative changes provide greater control over the equipment used for the production of cigarettes and allow for the compulsory destruction of the cigarettes in the event of the equipment's illegal use (Spatkay 2015a).

The World Bank has recommended the Belarusian government to start implementing structural reforms and measures aimed at the liberalisation of the domestic business environment (The World Bank 2015c; 2015e). Such reforms may also concern the tobacco sector.

3.3 Distribution



Legal tobacco market

The distribution phase, consisting of the import, export, wholesale, retail and storage, generates possibilities for contraband, bootlegging and ant-smuggling³⁸ of tobacco products. To combat the shadow turnover of tobacco products, the 2015 amendments establish that only legal entities of Belarus can engage in this phase (Ministry of Taxes and Duties 2015a; Press Service of the President of the Republic of Belarus 2015). The only exception concerns individual

38. The organised and frequent border crossing by single individuals with relatively small amounts of low-taxed or untaxed tobacco products (Joossens et al. 2000; Joossens et al. 2009).

entrepreneurs registered in the Republic of Belarus, entitled to participate exclusively in the retail trade of these products.

A licensing system along with the state registration is mandatory for the wholesaling, retailing and storage of tobacco products, allowing for state control over the legal actors.³⁹ A breach of the legislation can result in the loss of one's license.⁴⁰ Importers and wholesalers must **keep records and declare the volumes** of the imported, sold and unsold tobacco products.⁴¹ The legislation ensures the legality of the commercial operations by **prohibiting transactions with unlicensed entities.** For major transparency, the **settlement of wholesale operations must be made on a cashless basis** only through the bank accounts of the parties.⁴³

A strict regulation of the import governs the availability of tobacco products on the internal market. The state-owned company Belarustorg has the exclusive right to import tobacco goods without quantitative restrictions (Belarus Telegraph Agency 2013c).⁴⁴ The legislation allows for the import or export of a maximum of 40 cigarettes and 40 gr of tobacco for personal use with the aim of lowering the risk of ant-smuggling (Filipovich 2016).⁴⁵ Meanwhile, from the countries of the Customs Union, it is possible to import up to 200 cigarettes and 250 gr of tobacco (State Customs Committee 2016a).

The export is vulnerable to the ITTP, as the regulation is not so strict at this phase. The regulation allows legal entities to export tobacco products without licenses.⁴⁶ Furthermore, in

39. Art. 1 and art. 5 PD. n.28/2002, with the exception of wholesale trade in tobacco products of own production undertaken by manufacturers of tobacco products.

40. Art. 291 Presidential Decree of September 1, 2010 n. 450 'On Licensing of Certain Types of Activities'.

41. Art. 12 P.D. n.28/2002.

42. In all of the commercial transactions for the purchase and supply of tobacco products, manufacturers, wholesalers and retailers must indicate their license numbers. Art. 3.2 and art 4 P.D. n.28/2002.

43. Art. 30 P.D. n.28/2002.

44. Art. 1 P.D. n.4/2007. The import of tobacco products for sale in duty-free shops is an exception and can be made by entities other than Belarustorg, art. 2 P.D. n.4/2007.

45. Art. 6 Resolution of the State Customs Committee of the Republic of Belarus of September 25, 2014 n. 50.

46. Art. 25 P.D. n.28/2002.

2012, the government cancelled the quotas for the production of cigarettes destined for export, fostering the activities of Belarusian manufacturers (Belarusian Partisan 2012).⁴⁷ An unfavourable economic situation and the shortage of foreign currency were the main reasons behind the 2012 abolition of quotas for the production of cigarettes for export (Malishevskiy 2015). Compared to 2011, in 2012, the export boomed from 343 to 5,988 mn sticks (Uniter 2015). The fact that almost 40% of the tobacco products exported in January-November 2015 disappeared in an unknown direction might be evidence of the contraband (Adashkevich 2015; Belstat 2015d).

Part of the export goes to the Belarusian duty-free shops that can provide opportunities for smuggling, as tobacco products are exempted from custom taxes and excise duties (Gavrusheva 2015a; Spatkay 2015a).⁴⁸ The owners of duty-free shops are licensed legal entities with at least a 49% state share, devolving 10% of the revenues to the state budget.⁴⁹ Duty-free shops inside the country, run by the public institution Dipservis, can sell tobacco products only to members of diplomatic missions. However, Belarusian citizens have access to these shops and might divert duty-free products into the illicit market (Spatkay 2015a).⁵⁰

To contrast smuggling, Belarusian legislation places restrictions on some retail distribution channels. Traders cannot sell tobacco products using mobile peddling means, in market stands and through the Internet.⁵¹ Moreover, the law prohibits the shipment of tobacco products via international mail (State Customs Committee 2016b). In spite of the ban and the fine of 20-50 base units (BYR 4.2-10.5 mn), in Belarus, **individuals are increasingly trying to sell illegal tobacco products through the Internet** (Ministry of Taxes and Duties 2014).⁵²

47. Presidential Decree of April 16, 2012, n.5.

48. In Belarus, duty-free shops are located in airports, in train stations, at border checkpoints and inside the country. Presidential Decree of April 25, 2015, n. 173: 'On the exemption from excise duties of certain goods'.

49. Art. 2 Presidential Decree of April 22, 2014, n. 175: 'On the functioning of the trade in duty-free shops'.

50. Art. 7 P.D. n.175/2014.

51. Art. 31 P.D. n.28/2002.

52. Art. 12.26-4 Code of Administrative Offences.

A strict state control over the movement of tobacco products in Belarus is in place (Ministry of Taxes and Duties 2015b). Tobacco products and raw tobacco transiting under the customs transit regime through the territory of Belarus require the accompaniment of the competent authorities.⁵³ The 2015 amendments forbid the transportation of tobacco products by legal entities or individual entrepreneurs inside vehicles without special tracking equipment (Gorki 2015; Ministry of Taxes and Duties 2015a).⁵⁴ However, there is **no procedure for the collection and storage of data on the movement of tobacco products outlined in the current legislative acts** (Gorki 2015). The import, movement, storage and trade of tobacco products without the accompanying documents stating the legality of their import, acquisition or production is fined up to 300 base units (BYR 63 mn), and the products are to be confiscated.⁵⁵

Tracking and tracing regimes, envisaged by the FCTC Protocol to Eliminate the ITTP, allow for the real-time monitoring of the tobacco products' movement and the identification of their points of diversion (Ross 2015). In Belarus, JTI tackles the illicit sale of its brands with special package markings, a tracking and tracing system and collaboration with Belarusian authorities. These measures help to identify illegal cigarettes and raise awareness of consumers, wholesalers and retailers (Belarus Telegraph Agency 2012; Belarus Telegraph Agency 2013e; Belarus Telegraph Agency 2014c).⁵⁶ PMI, JTI, BAT and Imperial Tobacco use a tracking and tracing system based on an encrypted code printed on the packaging with the necessary information for the prevention of the diversion in Latvia, Lithuania, Poland and Ukraine (Geller 2014; Nepriahina 2015; WHO FCTC 2015a).

53. Art. 26-1 PD n.28/2002; Regulation of the Ministry of Interior of the Republic of Belarus n.302-115 of 2006.

54. Art. 3.2 P.D. n.28/2002, Regulation of May 8, 2015, n. 388; Regulation of March 16, 2012, n. 234.

55. Art. 12.23 Code of Administrative Offences.

56. JTI and the State Border Committee of Belarus signed a MoU (Memorandum of Understanding), providing a framework for combating the ITTP. Based on similar agreements, JTI cooperates with the State Customs Committee, the Interior Ministry and the Ministry of Taxes and Duties, regularly sharing information and implementing joint projects.

Belarus ratified the WHO FCTC in 2005 and made some progress in its implementation through the years. In 2015, the WHO conducted a mission in Belarus to assist the country in the full implementation of the Convention (WHO FCTC 2015b). On this occasion, Belarus announced a comprehensive tobacco debate to bring the regulatory framework in line with the Convention. However, a draft document of the anti-smoking law is not included in the plan of legislative activities for 2015, nor for 2016 (Solonovich 2015).

Socio-economic conditions

The socio-economic development of the countries within the hub varies significantly, creating incentives and facilitating tobacco products' smuggling (Joossens et al. 2000). After a 2009 recession, **Lithuania** quickly recovered its economic activities and achieved in 2014 the highest GDP per capita among the hub countries (The World Bank 2015a). **Poland's** economy also reached a 19% cumulative GDP growth since 2008, making the country the best performer among all EU member states in 2014 (European Commission 2015b). While **Latvia's** economic growth rate fluctuated the past two years, it still has a 4.1% higher GDP per capita than the hub's average (European Commission 2015c; The World Bank 2015a). **Belarusian** GDP per capita is 17.2% lower than the hub's average. At the same time, the country has entered a recession period, with a 3.7% drop of the real GDP in the period of January-September 2015 (The World Bank 2015a; 2015b). With a GDP per capita that is 60.6% lower than the average for the hub, **Ukraine is the least economically developed country in the region** (The World Bank 2015a). **Russia's** GDP per capita is similar to that of EU countries within the hub, but economic growth has significantly slowed down, dropping from 4.5% in 2010 to 0.6% in 2014.

The shadow economies in the Belarusian hub countries represent a substantial share of their total economies and benefit from cigarette smuggling (Schneider, Buehn, and Montenegro 2010; Lithuanian Free Market Institute 2012; Žukauskas 2013). The three EU countries within the hub have relatively the same level of shadow economies. In 2015, the grey economy in **Lithuania** represented 25.8% of its GDP, followed

by Latvia (23.6%) and Poland (23.3%). Since 2010, there has been a tendency toward the stable yet marginal decrease of the shadow economies' share in all three countries. Still, they are above the EU average level (18.3%) (Schneider 2015). According to a survey of the Lithuanian economy, the smuggling of excise goods constituted 35% of the country's shadow economy (Lithuanian Free Market Institute 2012). In 2007, the **Belarusian grey economy** was estimated at 43.3% of its GDP. Among its neighbours, only **Ukraine** scored worse, with 49.7% of the GDP (Schneider, Buehn, and Montenegro 2010). Government representatives have also assessed the size of the country's shadow economy in 2015 as considerable: 35% of the GDP (Hare 2015). In the Grodno region, bordering Poland and Lithuania, this percentage is even higher due to the engagement of local citizens in cross-border illegal trading in cigarettes (Bohdan 2013; Smok 2013).

A substantial percentage of citizens of the Belarusian hub's countries justifies the smuggling of excise goods, including cigarettes. Even a higher percentage approves the purchase of such goods (see Socio-economic conditions, p.41) (Lithuanian Free Market Institute 2013; 2015). **21% of Lithuanians and Latvians justify the smuggling and sales of cigarettes, alcohol products and fuel.** This type of criminal behaviour is acceptable for a slightly lower percentage of the Polish population (17%) (Lithuanian Free Market Institute 2015). **Media reports suggest that cigarette smuggling is also a highly justified activity in Belarus** (Smok 2015; 2013; Bohdan 2013). In the western part of Belarus, it became popular after the dissolution of the Soviet Union and grew to a thriving business with its distinct culture, having its own slang, stories and code of conduct (Smok 2013; 2015).

The higher unemployment rate and lower salaries in the border areas within the Belarusian hub may be two of the main drivers of the ITTP in the region. In 2014, the unemployment rate in the two Polish regions bordering Belarus was above the country's average. While in the Podlaskie and Lublin regions, unemployment was 12.9% and 12.6%, respectively, and the national average rate was 9.0%. The average salary in bordering areas is also lower

than the national one (Central Statistical Office 2015; Statistical Office in Białystok 2015; Statistical Office in Lublin 2015). In 2014, the **unemployment of Latvian regions bordering Belarus was two to three times higher than the country's average** (Central Statistical Bureau of Latvia 2015). Similarly, in 2015, the **Lithuanian region of Utena (bordering Belarus and Latvia) had the highest unemployment rate in the country: 12.3%**. The low unemployment rate of the other Lithuanian border region—Vilnius region (7.3%)—could be attributed to the presence of the capital city (Statistics Lithuania 2015). Unlike its neighbours, Belarusian official figures suggest that unemployment at the national and regional levels is marginal: 0.5% in 2014 (Belstat 2015e). However, media reports consider these numbers to be incorrect, as the Belstat takes into account only unemployed people registered with employment agencies (Preiherman 2012). Thus, a significant number of people in the border areas do not register as unemployed since they are engaged in illegal businesses, such as cigarette smuggling (Smok 2013; 2015).

Crime context

Countries within the Belarusian hub are key points in various transnational criminal activities (Europol 2009; 2011). Belarus is a transit country for the illegal migration of nationals of former Soviet states, moving to the EU. The phenomenon is closely linked with illegal border crossings for the smuggling of various goods. While there has been a decrease in the detections of regional migrants in recent years, the risk of non-regional migration flows from the Middle East and South Asia has increased (Frontex 2014; 2015). The second-most-used route for the illegal border crossing of non-regional migrants is the Lithuanian-Belarusian border (Frontex 2015). Reports of the State Border Committee suggest that the routes and the people involved in non-regional migrant smuggling often coincide with the ones involved in the smuggling of commodities, such as cigarettes (State Border Committee of Belarus 2010a; 2011).

Belarus is also a source, transit, and destination country for women and children subject to sex trafficking and forced labour. Belarusian victims are primarily

trafficked to Germany, Poland, Russia and Turkey (U.S. Department of State 2015). Some of these countries are also common destination points for cigarette smuggling. Studies and law enforcement agencies also suggest that revenues from cigarette smuggling finance trafficking in human beings (Syla 2013; Belarus Telegraph Agency 2014a). Lithuania is also mainly a source and transit country for trafficked persons. Women from Belarus, Ukraine and Kaliningrad Oblast are brought to Lithuania's largest cities and later trafficked to Western European countries, predominantly to the UK, Germany, Scandinavian countries and the Netherlands (The Protection Project 2009; European Commission 2016b).

In 2013, Belarusian authorities reported that cigarette smuggling has become as profitable as drug trafficking (Budkevich 2013). Still, **the presence of drug trafficking organised crime groups in the region facilitates other forms of criminal activities, such as tobacco product smuggling** (Frontex 2014). According to the European Monitoring Center for Drugs and Drug Addiction (EMCDDA) and Europol, Lithuania's organised criminal groups have gained access to the heroin trafficked via Central Asian countries through their Russian connections and play an important role in its distribution in Northeastern Europe (EMCDDA and Europol 2013). These groups have also been involved in excise goods smuggling to Poland, Germany and Latvia (Gutauskas 2011).

The conflict in Ukraine has empowered criminal groups in the region. Ukrainian media reports suggest that revenues from the ITTP might be used for financing the separatist groups in the country (Haltiwanger 2014; Galeotti 2014; Shulika 2014; Vitkine 2015). The Ukrainian conflict intensified firearm, alcohol and cigarette smuggling as well as food supply trafficking both within the country's opposing zones and across Ukrainian external borders (Vitkine 2015). The Belarusian authorities undertook special measures against weapon and explosive trafficking after an increased detection of smuggling attempts at their border with Ukraine (Bohdan 2016). According to Ukrainian authorities, the conflict also resulted in the redistribution of the cigarette smuggling business among non-political criminal organisations and far-right groups (Interfax Ukraine 2014; OCCRP 2015).

Administrative corruption at the borders of the Belarusian hub countries is common, simplifying tobacco products' smuggling (Frontex 2012). Lithuanian authorities noted that the **corruption probability is the highest during border-crossing checks at the border with Belarus.** The participation of border officials facilitates and increases the smuggling (State Border Guard Service 2013). Similarly, Latvian authorities have recognised the high level of vulnerability to corruption of their EU external borders and have envisaged specific measures (Corruption Prevention and Combating Bureau 2015). The growth of cigarette smuggling after 2009 forced **Polish authorities to undertake specifically targeted anti-corruption measures**, including the adoption of border guards' codes of conduct (Centre for the Study of Global Ethics 2011; Frontex 2012). Belarusian authorities reported a number of administrative corruption cases involving border officials. The cases concern the attempts of small-scale smugglers to avoid inspections by bribing the border police officers on duty (State Border Committee of Belarus 2015; 2012; 2010c). The number of recorded instances is highly dependent on the political agenda: in 2013, the recorded bribery cases increased by 29% compared to 2012 and in 2014 decreased by approximately 41% (Belstat 2015f). The fluctuations may be attributed to the anti-corruption campaign of Lukashenko in 2013 (Astapenia 2014). A number of regional anti-corruption trainings for border guards and customs have taken place in the hub's countries with the financial support of the EU (State Border Committee of Belarus 2010b; ICMPD 2013; Capacity Building Project 2015).

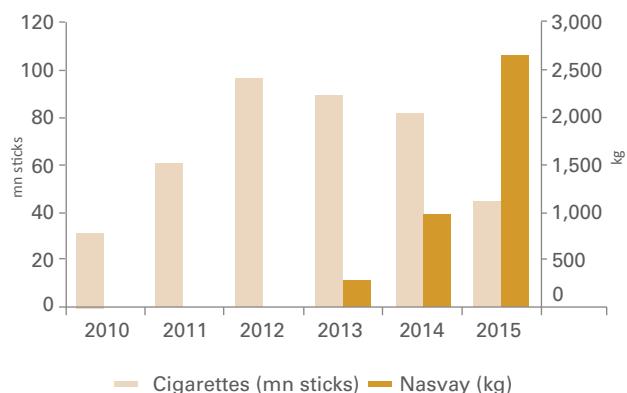
Enforcement actions

In Belarus, between 2010 and 2015, the seizures of cigarettes first increased and then registered a gradual decrease until they dropped in 2015. After reaching record levels in 2012 (97.1 mn sticks), the seizures began to slowly decrease (Figure 10). They registered an average 7.5% decrease in 2013 (89.4 mn) and 2014 (83.0 mn), and steadily dropped by 45% in 2015, with only 45.6 mn cigarettes seized. The 2012 boom might be the consequence of the anti-corruption campaign, launched in the same year, which may have influenced the efficiency of the border controls

(see Crime context, p.35). Since 2012, Lithuanian customs have detained an increasing number of cigarettes at the Belarusian border, with an average 40% of the yearly seizures (Lithuanian Customs 2012; 2013; 2014). However, unlike the past few years, in 2015, the majority of the tobacco products seized entered Lithuania from other EU countries (Lithuanian Customs 2016).

The seizures of nasvay have steadily increased since 2013, with a leap in 2015. According to the BEST Database, the seizures of nasvay increased +176% between 2014 and 2015. Administrative fines do not seem to deter nasvay traders. This might explain the increase in seizures. For this reason, the Belarusian Ministry of Interior proposed amending the P.D. n. 28/2002, strengthening the penalties for the illegal turnover of nasvay up to 70 base units (BYR 14.7 mn) with the confiscation of the products and vehicles used for its transportation (Naviny 2015; Shalkevich 2015).

Figure 10. Seizures of cigarettes (mn sticks) and nasvay (kg) in Belarus (2010-2015)

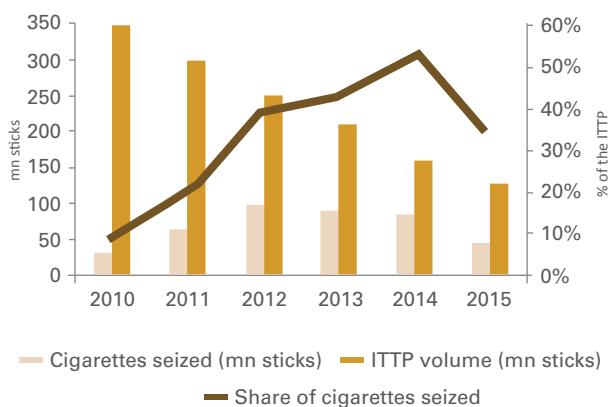


Source: Transcrime elaboration on BEST database

Cigarette seizures account for only a part of the illicit market, with the best results in 2014. In 2010, the seizures represented only 9% of the Belarusian ITTP (Figure 11, p.37). This share grew in 2011 to 21%, in 2012 to 39%, and in 2013 to 43%, with a peak in 2014, when the seizures amounted to 52% of the ITTP. In line with the lower quantities seized, 2015 registered a decrease to 35% of the ITTP. However, these high rates are connected to the size of the Belarusian internal illegal market, which is small. Between

2012 and 2014, the seizures were low compared to the ITTP volume in Lithuania, Latvia and Poland. Lithuania had the best results, with its seizures amounting to an average of 14% of the ITTP, followed by Latvia (10%) and Poland (7%) (Latvian State Revenue Service 2012; 2013; 2014; Lithuanian Customs 2012; 2013; 2014; Polish Customs 2013; 2014).

Figure 11. Seized cigarettes (mn sticks), ITTP volume (mn sticks) and share of seized cigarettes (% of the ITTP) in Belarus (2010-2015)



Source: Transcrime elaboration on BEST database and Euromonitor (2015d) data

In recent years, the shopping tourism increased the workload of border authorities at the Belarusian-Polish and Belarusian-Lithuanian borders, and it may have also affected the consumption and distribution of illicit cigarettes (Belarus Digest 2013; Belarus Telegraph Agency 2013d; Smok 2014; Alachnovič 2015). In 2009-2013, border crossing at the Belarusian-Polish section increased, with 14.5% for Poles and 35.48% for Belarusians (Central Statistical Office of Poland 2014). While Poles bought mainly cigarettes, alcohol and petrol, Belarusians shopped for various consumer goods of higher quality at lower prices (Alachnovič 2015). In 2013, 80.6% of Poles who crossed the Polish-Belarusian border did so for shopping reasons. They spent nearly €19 mn in their neighbouring country, of which €600,000 was spent on tobacco products (Central Statistical Office of Poland 2014). As noted by media reports, these numbers do not include smuggled goods (Alachnovič 2015).

Although Belarusian customs and border authorities seem to be efficient, Belarusian borders are vulnerable to smuggling (Adashkevich 2015; Gladkiy 2015; Smok 2015). The Belarusian border with Russia is largely symbolic, as there are no customs and border controls, especially since the establishment of the Eurasian Economic Union (Malishevskiy 2015).⁵⁷ **As to the border with Ukraine, the visa-free regime stimulates illegal cross-border activities** (State Customs Committee of the Republic of Belarus 2016). With regards to the EU borders, the failure of Belarus to establish strong ties with the EU led to the absence of a fully controlled western border (Smok 2015). Moreover, the **relationships with the neighbouring countries are not always efficient**, resulting in a lack of collaboration (Belarus Telegraph Agency 2013a). It is difficult to control the borders among the European countries of the Belarusian hub. While illegal cigarettes entered Lithuania directly from Belarus in previous years, in 2015, the smuggling routes changed due to the strengthening of the EU's external border (Lithuanian Customs 2016). This suggests that criminals exploit the Schengen zone, e.g. by smuggling cigarettes from Belarus to Lithuania via Latvia (Vaida 2010).

Belarus introduced stricter regulation addressing the problem of the tobacco products smuggled across its unsupervised green borders. Since 2015, the movement or storage in the border zone of more than 1,000 cigarettes or 1,000 gr of tobacco is forbidden to unlicensed persons and is punished with the confiscation of these products and a fine of between 10 and 50 base units (BYR 2.1-10.5 mn) (Gavrusheva 2015b; State Border Committee of the Republic of Belarus 2015).⁵⁸

According to Belarusian law, smuggling is both an administrative and a criminal offence. The Administrative Code envisages the confiscation and a fine of up to 50 base units (BYR 10.5 mn) for the illegal movement of tobacco products within the country.⁵⁹ Meanwhile,

57. The EEU treaty came into force on January, 1 2015.

58. Art. 12.27-6 Code of Administrative Offences.

59. Art. 12.27 Code of Administrative Offences, which punishes the transport or storage of more than 200 cigarettes, 250 gr of tobacco, and tobacco products not marked with excise labels or without documents confirming the legality of their acquisition.

smuggling through the Belarusian border is fined up to 800 base units (BYR 168 mn) with the confiscation of the goods and the vehicle used for the transportation.⁶⁰ The Criminal Code punishes the illegal movement of large quantities⁶¹ of goods through the customs border of Belarus with a fine or with the restriction or deprivation of liberty up to 5 years.⁶² These sanctions are lower compared to drug smuggling, punished with the deprivation of liberty from three to seven years and may create incentives for engaging in this type of smuggling.⁶³ Thus, **Belarusian law treats smuggling as a minor offence.** This might explain the high rates of smuggling, as Belarusian citizens do not perceive contraband as immoral (see Socio-economic conditions, p.34). Despite this attitude and the volume of cigarette smuggling, the **Belarusian government shows no signs of increasing penalties** for this crime (Smok 2015).

Possible interventions

Countries of the Belarusian hub should develop a licensing system for the distribution phase and implement effective measures for the revocation of licenses in the case of the involvement of legal actors in the ITTP. For example, in Poland and Russia, there are no licensing requirements for cigarette distribution (Euromonitor International 2015e; 2015f). In Ukraine, the control of the retail trade of cigarettes is not efficient, as the mechanism of the deprivation of the retailers' licenses for the sale of illegal products is inoperative, creating a loophole favourable to the ITTP (Nepriahina 2015). In Belarus, the high interest of the state in the tobacco market might influence its stringency in applying the legislative measures.

The strict regulation of the legal-market actors might not be sufficient for preventing smuggling. It is necessary to ensure that illegal activities are not supported or covered by state structures, e.g. with measures addressing the corruption and involvement of authorities in smuggling schemes (Malishevskiy 2015).

60. Art. 14 Code of Administrative Offences.

61. Smuggling is considered to be committed on a large scale if the value of the goods exceeds 2,000 times the size of the base unit set on the day of the crime.

62. Art. 228.1 Criminal Code of the Republic of Belarus of July 9, 1999, n. 275-W. For major offences, the deprivation of liberty can range from five to 12 years, art. 228.3 and 228.4 Criminal Code.

63. Art. 228.2 Criminal Code.

As the Internet can offer an easily accessible distribution channel for ITTP actors, authorities need to enhance controls and enforce the ban on the online sale of tobacco products. Currently, in Belarus, control operations focus on monitoring and analysing advertisements, thematic forums and social networks to detect and prevent the illegal sale of tobacco products (Ministry of Taxes and Duties 2014). However, authorities should focus on extending controls to the postal service and ban the shipment of tobacco products inside the country.

To contrast the illegal diversion of tobacco products, the Belarusian government should develop and employ a system for the collection and storage of data generated by the vehicles' navigation systems, which is currently absent (Gorki 2015).

The combined efforts of the hub's countries and their collaboration with tobacco businesses in the fight against tobacco smuggling may yield tangible results.

Countries should cooperate and regularly exchange information on the ITTP (transportation channels, laundering of the proceeds, corruption schemes, seizures, etc.) (Gavrusheva 2015a; Filipovich 2016). Joint projects with tobacco companies can bring a significant contribution, e.g. by improving the technical capacity of law enforcement and training taxation personnel to detect counterfeited products (Belarus Telegraph Agency 2013e).

Belarus should apply a tracking and tracing regime, based on the one outlined in the Protocol to Eliminate the ITTP, to all of its cigarette brands. The adoption of such regimes in all of the countries of the hub would allow one to monitor the tobacco products' movements and to prevent them from entering the illicit market.

The Belarusian government should introduce additional measures and higher sanctions for the contraband of tobacco products, discouraging the attitude that it is a morally acceptable activity (Smok 2015). For example, Poland created a special register of people caught smuggling and provided for the passport revocation, the visa cancellation or the insertion in the list of persons whose stay in Poland is not desirable (Euroby 2014).

The introduction of hotspot policing, intensified controls at vulnerable border-crossing points and the identification of criminals frequently engaged in the ITTP might help to increase the seizures of illicit tobacco products. Furthermore, to reduce the illegal spread of nasvay, Belarus should adopt the proposed amendments strengthening the penalties. Law enforcement agencies may establish joint task forces to tackle large-scale actors and organised criminal groups involved in tobacco product smuggling.

EU countries within the hub should continue to implement anti-corruption measures specifically targeting border authorities. Belarusian authorities should ensure the consistency and political independence of their anti-corruption efforts by adopting long-term action plans (GRECO 2015).

For a better understanding of the ITTP in Belarus and within the hub, LEAs should publish yearly and transparent data on the phenomenon.⁶⁴ No official reports are currently available in Belarus, and the media covers only a small fraction of seizures and successful anti-smuggling operations (Smok 2015).

3.4 Consumption



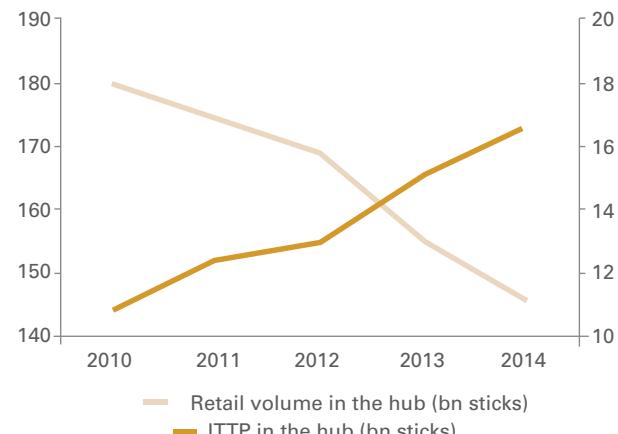
Legal tobacco market

There is a close link between the legal and the illegal tobacco markets. The trends of the legal tobacco market, influenced by taxation and price policies, have an impact on the ITTP. Conversely, the ITTP affects the legal market as well. The ITTP influences tobacco industry performance in all of the countries of the Belarusian hub. A high share of the ITTP and easily accessible illicit cigarettes influence consumers who switch to the cheaper illegal segment, reducing legal sales, and vice versa (Euromonitor International 2015g; 2015h; 2015i; 2015b; 2015a; Tsui 2015).

Between 2010 and 2014, the legal sales in the Belarusian hub decreased by 19%, from 180.6 to 146.0 bn sticks. In the same period, the ITTP increased by 256%, from 2.5 to 8.8 bn (Figure 12).⁶⁵

64. LEAs can follow the example of the British HM Revenue and Customs (HMRC), that publishes quarterly data on cigarette and tobacco seizures (e.g. HM Revenue and Customs (2015)).

Figure 12. Retail volume and ITTP in the Belarusian hub, Russia excluded (2010-2014)



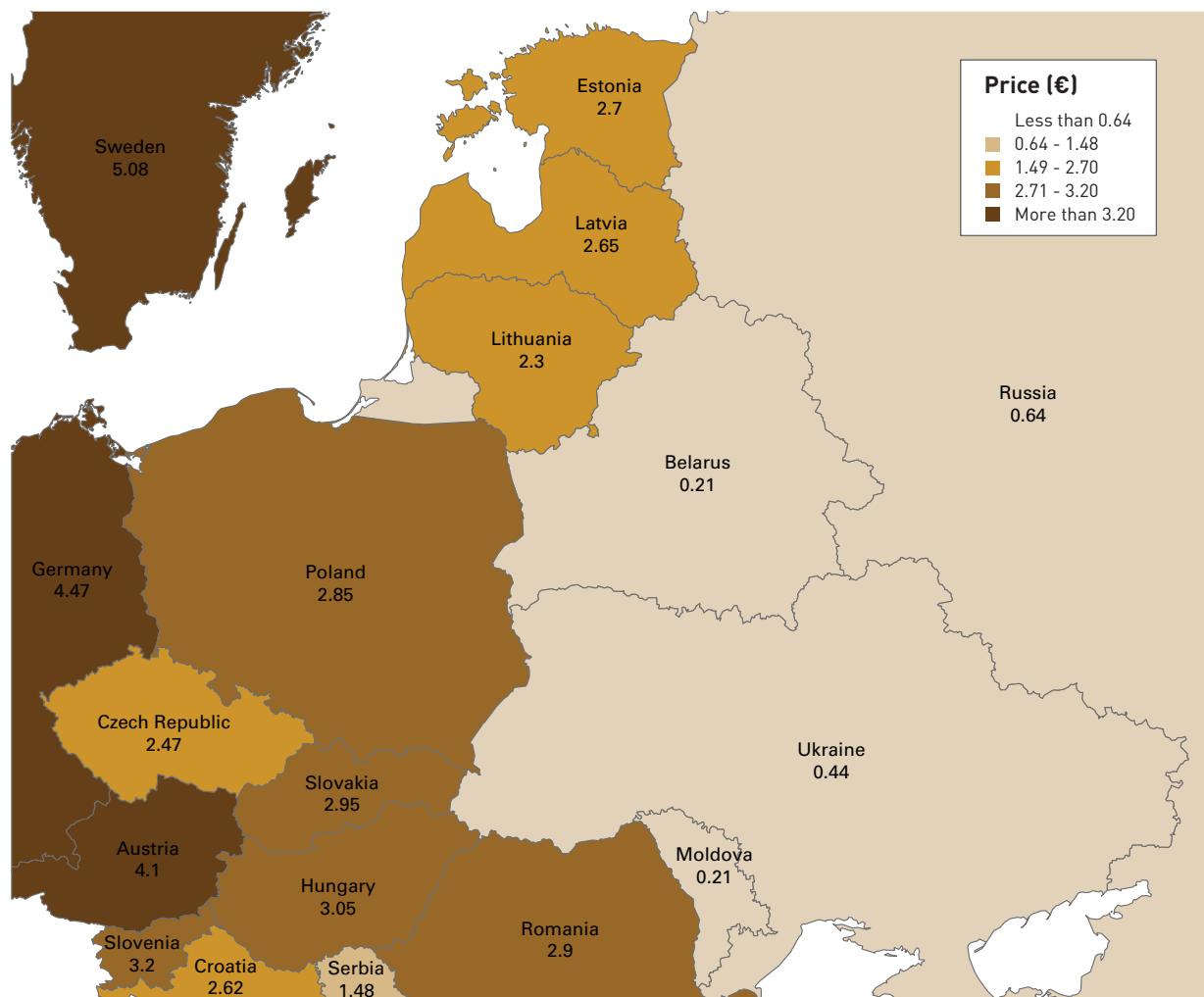
Source: Transcrime elaboration on Euromonitor (2015d) and KPMG (2015) data

Differentials in cigarette taxes between countries contribute to smuggling activities (Drenkard and Henchman 2015). Taxation policies influence the ITTP patterns and bring high profits to criminals through tax evasion, especially if it is easy to move the products through countries' borders (Guindon et al. 2013; Brauningher 2014). **The European Commission sets the minimum taxation at 60% of the weighted average retail selling price and at €90 per 1,000 cigarettes.**⁶⁶ The EU countries of the hub have met the first requirement and have until 2018 to meet the second (Blecher, Ross, and Stoklosa 2013). However, non-EU countries have not raised taxes on tobacco products to this level, leading to increasing flows of illicit tobacco products to the EU countries of the hub (Brauningher 2014; Charnysh 2014; Euromonitor International 2015c; 2015b; 2015a).

65. Due to the wide geographical distribution of the Russian territory that may lead to a misrepresentation of data, for the scope of the analyses, the country has been excluded from the calculations of the hub's retail sales volumes and ITTP.

66. Art 10 Council Directive 2011/64/EU of June 21, 2011. From 1 January 2014, the overall excise duty on cigarettes shall represent at least 60% of the weighted average retail selling price of cigarettes released for consumption. That excise duty shall not be less than EUR 90 per 1,000 cigarettes irrespective of the weighted average retail selling price.

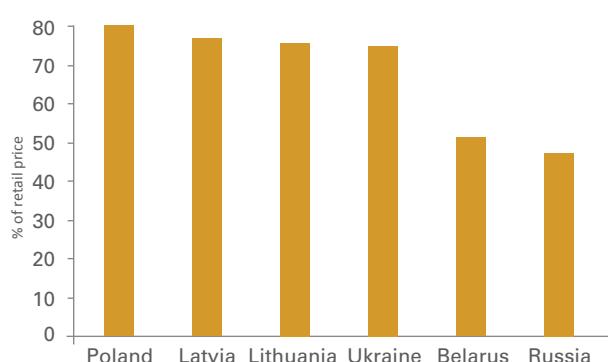
Map 7. Prices of the cheapest cigarette brands in the Belarusian hub (2015)



Sources: Transcrime elaboration on Euromonitor International (2015d) data

In the Belarusian hub, cigarette taxes as a percentage of the retail price of the most-sold brand differ noticeably. **Poland has the highest taxation with 80.3%**, followed by Latvia (77.0%), Lithuania (75.8%) and Ukraine (74.8%) (Figure 13). **Belarus and Russia registered lower rates**, with 51.15% and 47.63%, respectively. Recently, to reduce the tax imbalance, member states of the Eurasian Economic Union (which include Belarus and Russia) approved a **draft agreement for the harmonisation of the excise duties** on tobacco products to minimise the amount of illegal and uncontrolled cross-border trade (Belarus Telegraph Agency 2015a; GB 2015). However, discussions among countries are still in place (Ezhednevnik 2015).

Figure 13. Tax as a % of the retail price of the most sold brand in the Belarusian hub (2014)



Source: Transcrime elaboration on WHO (2015a; 2015b; 2015c; 2015d; 2015e; 2015f) data

The differences in prices across countries of the Belarusian hub make the smuggling of tobacco products profitable. In the past 10 years, while EU countries have reduced the price gap, Belarusian prices have remained low. Thus, the country became the largest source of illegal tobacco in the EU (Charnysh 2014). In 2015, **the price of the cheapest Belarusian cigarette brand was €0.21 per pack**, making Belarus the country with the lowest price of the entire hub. After Belarus, there are **Ukraine (€0.44)** and **Russia (€0.64)**. The EU countries of the hub have the highest prices; above all is **Poland, with €2.85** per pack, which is €2.64 more than in Belarus (Euromonitor International 2015d) (Map 7, p.40). In 2015, Belarusian cigarettes rose in price by 2.2-12.9% (Onliner 2016). The same would happen in 2016, when Belarus would raise retail prices for some brands of cigarettes (Belarus Telegraph Agency 2016). However, these **increases would not be sufficient to narrow the price gap** with the neighbouring EU countries.

The Belarusian government controls the prices of tobacco products, both produced within the country and imported. Until 2012, the state provided a 'fixed retail selling price'; however, now it provides a maximum and a minimum retail price (Euromonitor International 2015j).⁶⁷ The law prohibits the sale of tobacco products at prices below or above the set prices and considers such violations to be administrative offences.⁶⁸

OLAF estimates the annual budget losses of EU Member States from ITTP at approximately €10 bn (European Commission 2013). Belarusian illicit cigarettes contribute to a substantial part of them. In 2014, Belarusian illicit cigarettes led to approximately €369.4 mn loss of tax revenue in Poland, €83.9 mn in Lithuania and €53.9 mn in Latvia. The financial losses per capita are the highest in Lithuania (€28.5), followed by Latvia (€26.9) and Poland (€9.7) (Eurostat 2015;

KPMG 2015). In the main destination countries of Belarusian cigarettes the financial consequences are equally substantial: €361.1 mn loss of tax revenue in the UK, €180.0 mn in Germany and €33.8 in Italy. The financial losses per capita are the most tangible in the UK with €5.6 per capita (Eurostat 2015; KPMG 2015).⁶⁹ Authorities note that the lost revenues could have been spent on health protection and education, and that the ITTP has also undermined the effectiveness of their anti-tobacco consumption policies (HM Revenue and Customs and Border Force 2015).

Socio-economic conditions

Citizens of EU countries within the Belarusian hub accept the consumption of illegal tobacco products and have relatively easy access to them (The Gallup Organisation 2009; Lithuanian Free Market Institute 2013).

In 2013, about 62% of Lithuanians justified the use of smuggled tobacco products. In Latvia, the approval of consumption increased from 43% in 2012 to 51% in 2013. A comparative overview of the survey from 2004 to 2013 shows that the attitudes towards illegal cigarette consumption are in direct correlation with the economic developments in the country. The worse the economic conditions are, the higher the percentage of people justifying these goods is (Lithuanian Free Market Institute 2013).

54% of Lithuanians and 41% of Latvians trust the quality of illegal tobacco products. Compared to other illicit goods such as alcohol and fuel, people trust the quality of cigarettes the most (Lithuanian Free Market Institute 2013). The positive attitude towards illicit tobacco products goes together with **reluctance towards stricter security measures, limiting their sale**. In **Poland and Lithuania**, the percentage of people in favour of such measures is the lowest among EU countries: 58% and 64%, respectively. In Latvia, the share is close to the EU average (70%) (European Commission 2015a). The proportion of citizens who have witnessed the selling of smuggled tobacco products is one of the highest in Lithuania (36%), Poland (23%) and Latvia (23%) (The Gallup Organisation 2009).

67. The minimum retail price for a pack of each brand (each item) of filtered cigarettes is set at 80% of the maximum retail price, determined in the manner prescribed by the Tax Code of the Republic of Belarus.

68. Art. 29 P.D. 28/2002. Art. 12.4 Code of Administrative Offences.

69. The losses attributed to Belarusian cigarettes have been calculated on the basis of KPMG data on total revenue loss and the percentage of Belarusian cigarettes on the illicit market.

Citizens of EU countries within the Belarusian hub link their attitude towards illicit cigarettes to the affordability⁷⁰ of the legal tobacco products and the price differences with neighbouring countries (Lithuanian Free Market Institute 2013). In 2013, 61% of Latvians and 46% of Lithuanians considered that the **rising prices of legal tobacco products combined with decreased earnings forced them to consume illicit cigarettes** (Lithuanian Free Market Institute 2013). In 2015, among Belarusian hub countries, a pack of cigarettes was less affordable in Ukraine (2.7% of GDP per capita needed to buy 100 packs of cigarettes), followed by Latvia (2.2%) and Lithuania (1.8%). While the 2014 decline in the affordability in Ukraine was sudden and attributed to the general economic deterioration of the country, the affordability in the EU countries decreased during the economic crisis and have remained at constant levels since 2012 (Euromonitor International 2015d; IMF 2015). A total of 50% of Latvians and 45% of Lithuanians define the price differences with neighbouring states, caused by high excise taxes in their homelands (see Legal tobacco market, p.39), as another reason for buying illicit tobacco products (Lithuanian Free Market Institute 2013).

The economic difficulties experienced by Russia and the Ukrainian conflict have affected the overall household consumption expenditure in almost all Belarusian hub countries (The World Bank 2015a). This may increase the demand for illicit tobacco products. In 2014, the household consumption expenditure decreased in Russia and Ukraine by 0.5% and 3.8%, respectively (The World Bank 2015a). A similar decline in Latvia and Lithuania in 2009 led to an increase of the share of illicit products out of the overall cigarette consumption (KPMG 2015; The World Bank 2015a). In 2014, Belarus, Latvia and Lithuania slowed down the growth of their household consumption expenditures by 6.4%, 2.8% and 0.2%, respectively (The World Bank 2015a). In Latvia and Lithuania, this led to a slight increase of the share of consumed illicit cigarettes out of the overall consumption (KPMG 2015).

70. Affordability is based on the annual per-capita income needed to buy 100 packs of the cheapest cigarettes (Eriksen, Mackay, and Ross 2012).

Enforcement actions

In some Belarusian hub countries, legislation provides penalties for the purchase of illicit tobacco products. In 2015, the Lithuanian legislator imposed a fine for the acquisition of illicit cigarettes, ranging from €28 to €86. The authorities also undertook this measure in an effort to raise awareness among citizens and warn them of the dangers of illicit tobacco smoking (Ilkevičiūtė 2015). Similarly, in Latvia, **police officers can ask a person to show his cigarette pack for inspection.** Although this is rarely done, the police often fines citizens, detained for other reasons, also for the possession of illicit tobacco products (Bauskasdzīve 2010; Andreeva 2013). **The penalties are the most severe in Poland.** Depending on the circumstances, the penalty for the acquisition of illicit cigarettes can reach a fine of 720 daily rates or three years of imprisonment. Russian authorities also intended to introduce a penalty for citizens who buy illegal cigarettes (Dudkina 2014; Kunle 2014). Ukrainian and Belarusian legislation does not provide for such fines.

The majority of the citizens of the Belarusian hub countries consider the likelihood of being detected while purchasing goods from illegal sources (including illicit cigarettes) to be very low (Lithuanian Free Market Institute 2015). About 78% of Lithuanians and 69% of Latvians perceive that there is a low probability of being caught purchasing illicit cigarettes. In Poland and Belarus, citizens are more cautious and express greater trust in their law enforcement authorities. Still, the majority consider it to be unlikely for people to be caught buying goods from illegal sources: 53% in Belarus and 52% in Poland (Lithuanian Free Market Institute 2015). These perceptions could be attributed to the difficulties with detecting the consumers of illicit cigarettes, as this requires substantial police resources and citizen participation (Ilkevičiūtė 2015).

The levels of perception of punishment for this crime are low (Lithuanian Free Market Institute 2015). The majority of Belarusians (54%), Lithuanians (52%) and Latvians (52%) consider the punishments for purchasing illicit goods to be mild. Conversely, in Poland, 48% of people consider the punishments to be quite severe compared to 39%, who consider them to be mild (Lithuanian Free Market Institute 2015).

The fight against the ITTP can benefit from national awareness campaigns addressing the consumption of illicit tobacco products (Joossens and Raw 2012). As part of its work to implement the WHO Framework Convention on Tobacco Control (WHO FCTC), the **Ministry of Health of Belarus** conducts the annual national campaigns ‘Belarus against Tobacco’ (WHO 2015i). These campaigns focus on raising awareness about the health dangers associated with the consumption of illicit cigarettes in 2015 (WHO 2015g). **Latvia** runs national awareness campaigns against the ITTP, the last one in 2015, drawing public attention to the negative impact of purchasing and smoking illegal cigarettes (Skuja and Krops 2015). Latvian institutions and businesses in 2014 launched a campaign against the illegal tobacco market, also implemented in **Lithuania** (7guruvesture 2014). Recently, **Poland** also carried out regional public awareness campaigns against ITTP (Transcrime 2015).

Possible interventions

Latvia, Lithuania and Poland should strengthen the implementation of sanctions on the consumers of illicit products. Non-EU countries of the hub should introduce provisions addressing the purchase of illegal tobacco products, thus discouraging illegal consumption. These policies should also target consumers of nasvay.

Governments of the hub’s countries should involve consumers in the fight against the ITTP, as their contribution might be considerable. For example, Latvian and Lithuanian customs encourage citizens to join the fight against smuggling by reporting information on smuggling activities, e.g. through public websites (Calderoni, Angelini, Aziani, et al. 2014; Spatkay 2015b; Lithuanian Customs 2016).

It is fundamental to raise awareness about the potential consumers of the illicit products, explaining that they contribute to the state’s revenue losses and to funding the organised crime (Belarus Telegraph Agency 2014a; Gavrusheva 2015a). National awareness campaigns should involve both public and private stakeholders.

Raising tobacco taxes and the prices of tobacco products in Belarus might reduce their massive outflow to the other countries of the hub (Charnysh 2014; Filipovich 2016).

As the ITTP has a transboundary nature, tax administration requires cross-country collaborations, and, in order to be effective, needs to address factors such as weak governance, corruption and the presence of criminal networks (WHO 2015h).

Conclusions and recommendations

Conclusions

This report analyses the Belarusian hub for illicit tobacco products. The innovative approach of this study focuses on the four phases of the ITTP cycle and underlines how the four key vulnerabilities (legal tobacco market, socio-economic conditions, crime context and enforcement actions) influence each phase of the ITTP cycle and generate conditions for the development of the hub.

The Belarusian hub consists of both EU and non-EU countries, which leads to significant tax differences and divergent regulatory frameworks. As a result, within the hub, ITTP levels vary and are the highest in Latvia and Lithuania and the lowest in Belarus.

Illicit whites are the main products smuggled in and from the Belarusian hub. In recent years, Belarus has become largely known as the main source country of illicit whites' brands in the EU market. These brands mainly belong to the two leading Belarusian manufacturing companies—GTF Neman and Tabak Invest.⁷¹

With its inexpensive cigarettes, Belarus is not a country of the consumption of illicit products but rather a country of origin and of transit of these products to the EU. Among the hub countries, Belarus is the largest source country for the EU, followed by Ukraine and Russia.

While small and medium-scale ITTP actors are more numerous, large-scale players are responsible for 59.8% of the seizures of illicit cigarettes. The most common profile of an ITTP actor in the hub is a 24- to 29-year-old Belarusian male.

Several factors influence the illicit trade of cigarettes in the Belarusian hub.

Ineffective application of legislative measures creates opportunities for the ITTP.

There is a lack of transparent monitoring and control over the key inputs in the legal production. Production machinery circulates uncontrolled. Export regulation is ineffective. Sanctions for transfer, sale and purchase of illicit tobacco products lack deterrence.

The widening socio-economic differences among the hubs' countries, caused by economic hardships, structural problems in the Belarusian economy, and a high unemployment rate in border areas, may generate the demand for ITTP products. The low affordability of cigarettes and high levels of tolerance of smuggling among the population can also increase the consumption of illicit tobacco products.

Russian-speaking organised groups penetration in post-Soviet countries facilitate the ITTP in the hub. The groups provide established criminal routes and access to government institutions. Perceived corruption in the Baltic states and Poland is decreasing. Yet it remains a challenge, at the political and administrative level, for Belarus, Russia and Ukraine.

71. Belarusian Partisan 2012; Criminal Ukraine 2012; KPMG 2014; Malishevskiy 2015; Transcrime 2015

Recommendations

The results of this study enable the formulation of the following recommendations for fighting and preventing the ITTP in the Belarusian hub: Belarusian Government should **reintroduce exports quotas** as in 2012. It should also **set quotas over the import of key inputs and raw tobacco**, in line with exports quotas, to prevent the diversion of these products.

Belarus should also **ratify the FCTC Protocol**. The Protocol imposes licensing requirements, tracking and tracing systems, and sales monitoring. It also comprises mechanisms for the enforcement of these measures across the supply chain (BelTA 2016). In line with the FCTC Protocol and the new agreements between Belarus and the EU, **countries should improve their cooperation**. They should exchange information and carry out joint operations against smuggling and organised crime groups (FPS 2015). The **exchange of good practices in the tackling of administrative corruption** should continue.

Authorities in the other hub countries should **target the cigarette production machinery** present in the Belarusian hub by providing the mandatory confiscation and destruction of the unregistered one along with control mechanisms for its resale and transit. This applies especially to Poland, where the illicit cigarette production is concentrated. Polish government should also introduce **deterrant penalties for illegal manufacturing of cigarettes**.

Governments should focus their efforts on **raising citizens' awareness** about the dangers of illicit tobacco consumption and allow them to send signals for its retail. This would decrease the tolerance towards smuggling. An example of these interventions is Lithuania, where illicit trade was reduced in 2015 due to increased border controls and the introduction of awareness campaigns against the illicit trade.

Belarusian hub countries should also adopt **more stringent penalties** regarding tobacco products smuggling, trademark counterfeiting and purchase, and ensure their effective enforcement.

Customs and police officers of countries bordering Belarus should focus on the **reduction of opportunities** for the ITTP through specific prevention strategies. For example, they should **identify frequent cross-border purchasers** to reduce contraband of tax-paid products, and they should introduce **hotspot policing strategies**, e.g. by strengthening controls at vulnerable border checkpoints and intensifying actions against large-scale actors.

Reliable and periodic official estimates of the illicit market are essential for effective action. Availability of official estimates across the hub would support measures of hotspot policing and reduction of opportunities.

Surveys and studies would improve the knowledge of the demand for illicit tobacco products in the Belarusian hub. They would identify the socio-economic characteristics and the motivations of consumers for turning to the illicit market. Governments may thus focus their communication strategies and curb the demand for illicit products.

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