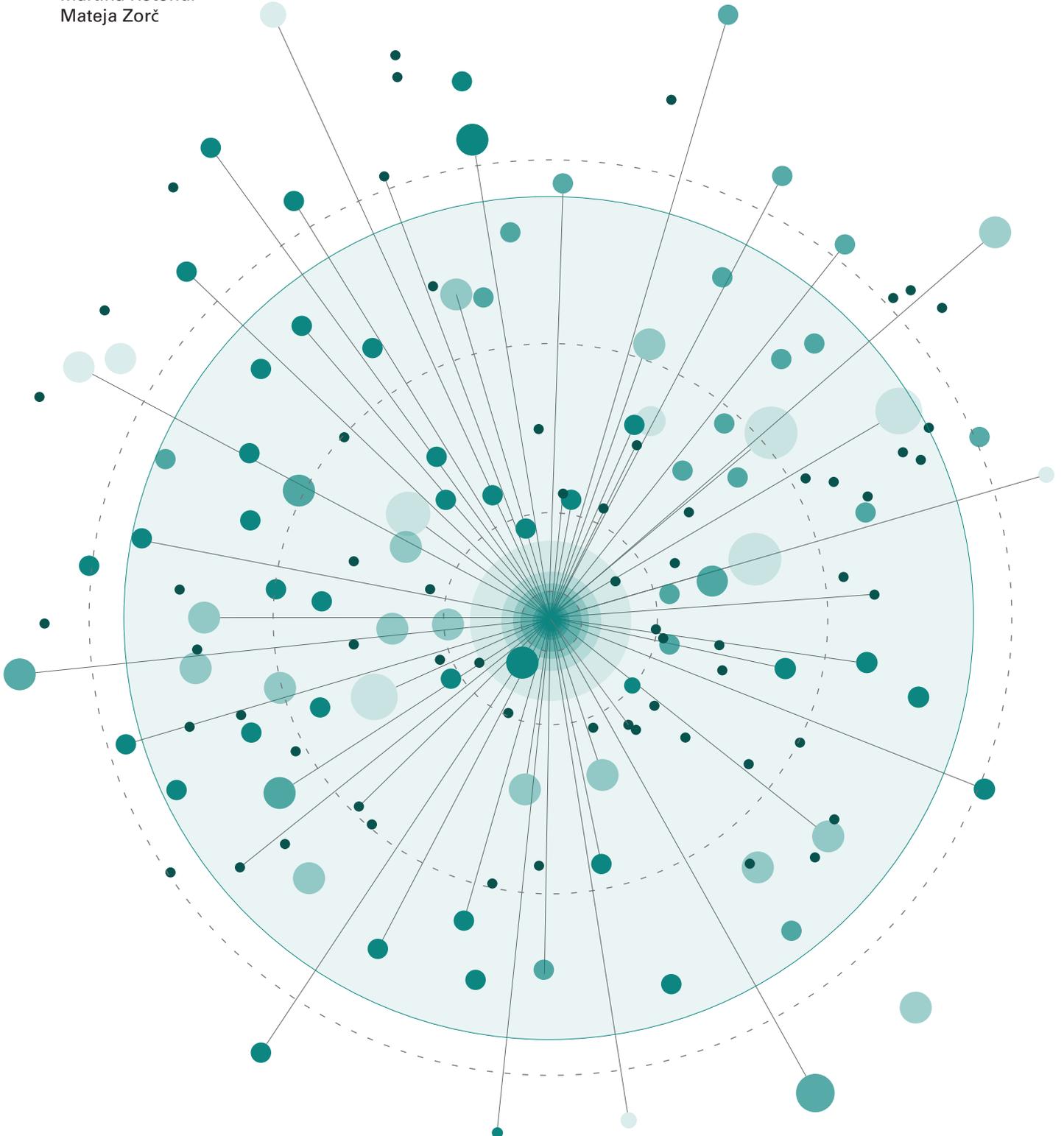


The Eastern Balkan Hub for Illicit Tobacco

Executive Summary

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EXECUTIVE SUMMARY

Key hubs are crucial sets of countries on the regional, continental or global map of the illicit trade in tobacco products. 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 strategies to fight and prevent the ITTP (Illicit Trade in Tobacco Products). The following elements often characterise key hubs:

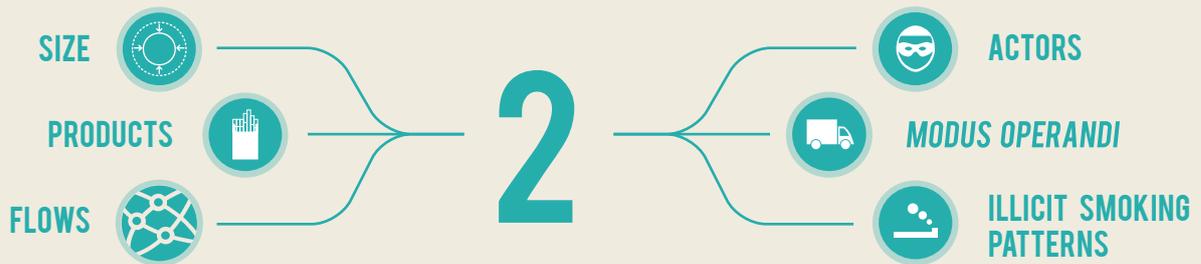
- medium to high levels of the ITTP in the hub,
- significant price differentials of tobacco products across the hub,
- extensive engagement of local manufacturers in the ITTP,
- substantial flows of illicit tobacco to, within or from the hub to other countries.

This report focuses on the **Eastern Balkan hub** for illicit cigarettes. Bulgaria is the most relevant country in the hub because it has significant inflows and outflows of illicit tobacco products. The surrounding countries (Greece, Macedonia, Romania, Serbia and Turkey) are included because they enable and facilitate these flows. The report takes the name from the geographical area of the countries included.

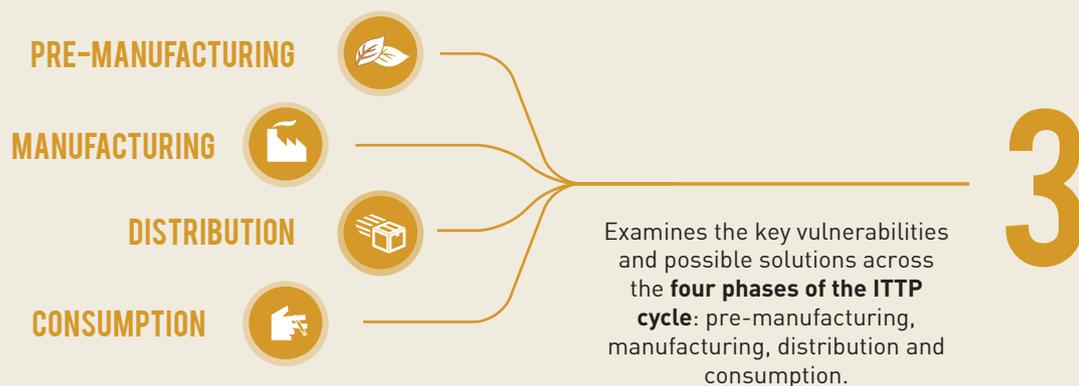
3 CHAPTERS:

1

Defines **the hubs for illicit tobacco**, explains their relevance for understanding the ITTP, identifies the Eastern Balkan Hub, and outlines the **four key vulnerabilities** that influence the hubs: the legal tobacco market, the socio-economic conditions, the crime context and the enforcement actions



Analyses the ITTP in the Eastern Balkan hub focusing on: size, products, flows, actors, *modus operandi*, and illicit smoking patterns.



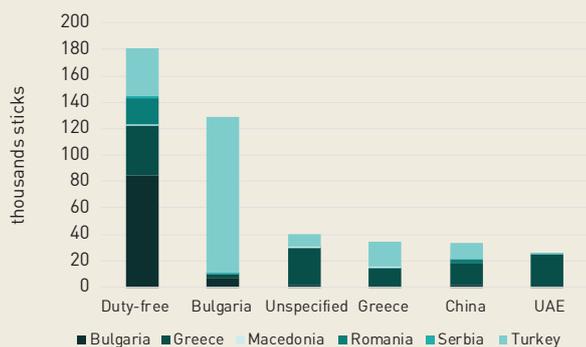


Non-domestic cigarettes entering and circulating in the Eastern Balkan hub have duty-free labeling (30.5%) and Bulgarian (21.8%) origin. They are destined to the Bulgarian and Turkish markets, respectively (Figure 1).

From the hub, cigarettes spread to the United Kingdom (30.2%), France (23.7%) and Germany (15.8%) (Figure 2).

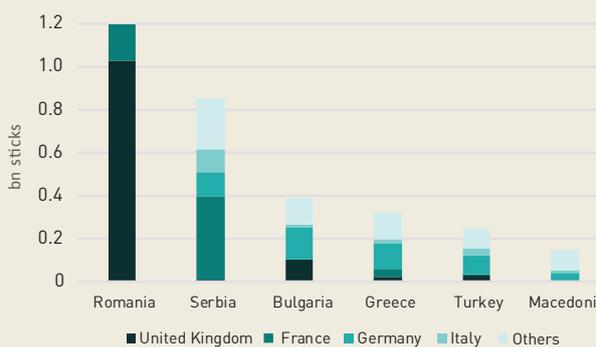
The inflows of non-domestic cigarettes to Bulgaria have duty-free labeling (69.9%) and Macedonian origin (6.4%). The main destination of Bulgarian cigarettes is Turkey (91.9% of total Bulgarian non-domestic sticks).

Figure 1. Main sources of non-domestic cigarettes to and within the Eastern Balkan hub, by destination country (thousands sticks, 2013-2015)



Source: Transcrime elaboration on EPSs

Figure 2. Main sources of non-domestic cigarettes from the Eastern Balkan hub, by destination country (bn sticks, 2015)

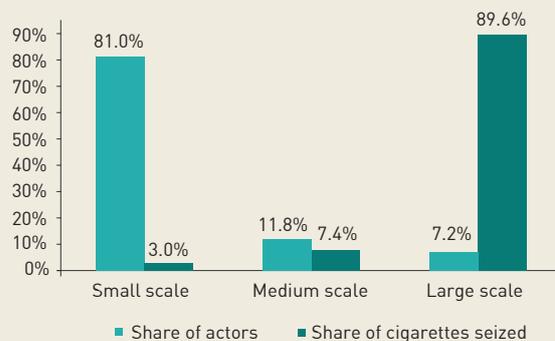


Source: Transcrime elaboration on EPSs



ACTORS

Figure 3. Share of actors (N=3,121) and cigarettes seized (N=1.3 bn sticks) per category of ITTP actors (2010-2015)



Source: Transcrime elaboration on BUST database

Large-scale actors (7.2% of the sample) account for 89.6% of the illicit cigarette market. Conversely, only 3.0% of the market concerns small-scale actors (81.0%) (Figure 3).

MODUS OPERANDI



In the Eastern Balkan hub, the actors mainly use motor-vehicles to transport illicit cigarettes. In Bulgaria, the actors store illicit tobacco products usually in houses and sell them mostly in open-air markets and through street vendors.



ILLICIT SMOKING PATTERNS

Consumers of illicit tobacco in Bulgaria range between 300,000 and 400,000 (between 11% and 14% of the smoking population).

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

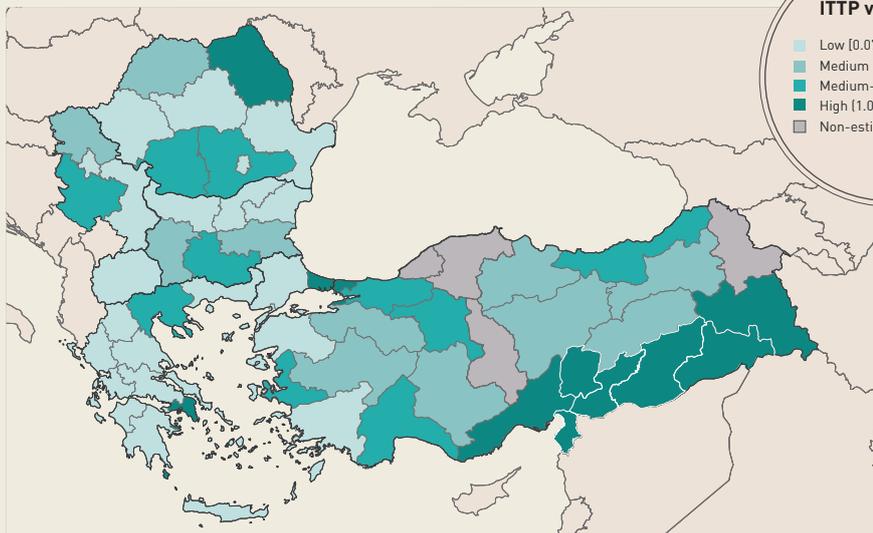
THE ITTP IN THE EASTERN BALKAN HUB

2

SIZE



Map 1. The ITTP volumes in the Eastern Balkan hub by area, bn sticks (2015)



In 2015, Bulgarian regions record medium levels of the ITTP compared to the hub average. The geographic position makes the Eastern Balkan one a natural hub for illicit cigarettes.

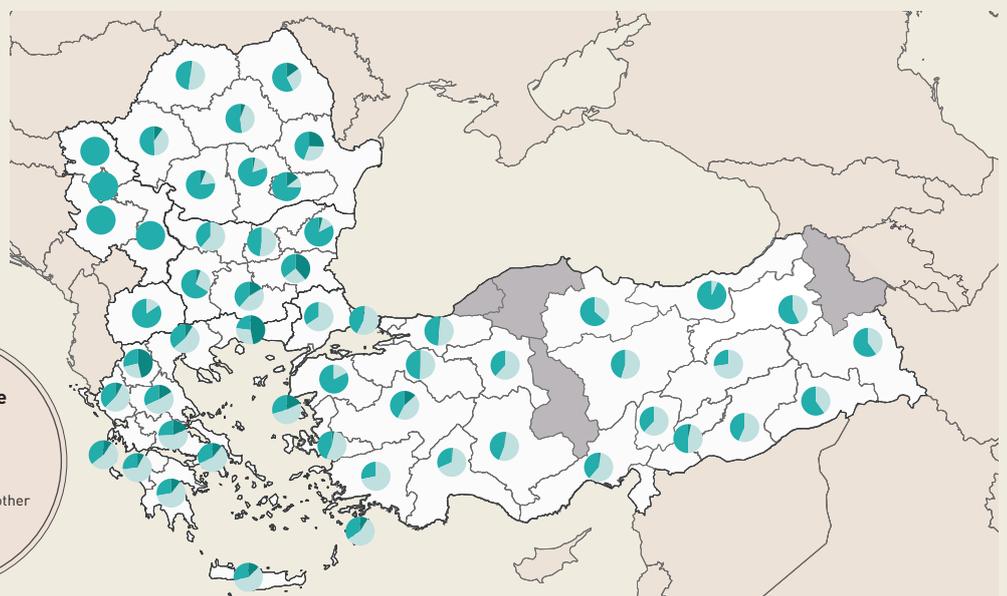
Source: Transcrime estimates (see Annex for further details)

PRODUCTS



In the Eastern Balkan hub, illicit whites and contraband & others are the most widespread products.

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



Source: Transcrime estimates (see Annex for further details)

THE FOUR PHASES OF THE ITTP CYCLE

This chapter analyses the interaction between the four phases of the ITTP cycle and the vulnerabilities on the ITTP in the Eastern Balkan hub. It recommends possible interventions to prevent and fight the ITTP.

? Risk ✓ Solution



1. PRE-MANUFACTURING

- ? - Excess import of acetate tow
- Presence of manufacturers of filters and tubes

✓ Improve controls over key inputs

- ? Dependency of the raw tobacco sector on local manufacturers

✓ Adopt measures to ensure competitive raw tobacco market



3. DISTRIBUTION

- ? Unlicensed trade in open-air markets

✓ Implement tracking & tracing systems

- ? Large shadow economy

✓ Hot spot policing (controls of vulnerable places) and opportunity reduction on markets

- ? - Established criminal routes
- High corruption levels

✓ - Step up controls at vulnerable border checkpoints

- Identification of frequent cross-border purchasers

- ? In 2014-15 seizures in the countries of the hub accounted for between 0.1% and 9% of the illicit market

✓ Implement hot spot policing and opportunity reduction strategies

3



2. MANUFACTURING

- ? Local companies may be involved in illicit whites' production

✓ Improve monitoring over licensed manufacturers

- ? Local tobacco manufacturers sell a part of their products to organised crime groups

✓ Maintain strict controls over cigarette factories

- ? Growth of domestic workshops for illicit production

✓ Regulation of manufacturing equipment



4. CONSUMPTION

- ? The 2010 tax hike boosted the illicit trade

✓ Improve controls and implement tracking & tracing systems

- ? Consumption of illegal HRT (hand-rolling tobacco)

✓ Improve controls over key inputs and illicit HRT

- ? Illicit consumption may concern over 10% of the smoking population

✓ Reinforce awareness campaigns with support from public stakeholders