



**ITTP NEXUS  
IN EUROPE  
AND BEYOND**

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2019



# ITTP NEXUS IN EUROPE AND BEYOND

## Acknowledgements and credits

*ITTP Nexus in Europe and Beyond* Report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Aziani, Alberto and Marco Dugato (eds.). 2019. "ITTP Nexus in Europe and Beyond".

Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

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This publication reflects the views only of the Authors and of the Research team.



# Preface

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Cigarette trafficking is a global and complex crime. In the EU MSs, 40 billion illicit cigarettes are consumed originating from 128 countries spread across five continents. Most of these cigarettes originate from non-EU countries where cigarette prices are low, and there are weaknesses in the law enforcement, control, and regulatory systems.

Like cigarette trafficking itself, research on the topic must extend beyond national and regional borders. This transnational dimension calls for an analysis that considers the interaction between multiple countries to reveal, understand, and monitor cigarette trafficking in the EU. In particular, it should account for a wider context including the non-EU countries that are involved in the production, transit and consumption of illicit cigarettes. Only the combination of local and macro-regional perspectives enables the identification of the main factors behind the transnational illicit flows of cigarettes and the designing of effective policies to curb them.

In light of these considerations, *ITTP NEXUS in Europe and Beyond* includes an analysis of the illicit flows of cigarettes moving through EU countries, by also examining the role of and the connections with

relevant countries in North Africa, the Middle East, and Central Asia. The project identifies and quantifies these flows and highlights the existing connections within political, legislative and socio-economic frameworks. Through this process, *ITTP NEXUS in Europe and Beyond* provides an assessment of the enabling factors behind transnational cigarette trafficking.

The *ITTP NEXUS in Europe and Beyond* Report is presented in the form of 7 booklets, each focusing on a specific aspect of cigarette trafficking. Booklet 1 provides an overview of the main characteristics of the transnational cigarette trafficking network in Europe and beyond. Booklets 2, 3, 4 trace and explain the trafficking of cigarettes along the three main routes targeting European markets. These booklets are divided by route: Booklet 2 – the North-Eastern Route; Booklet 3 – the Extended Balkan Route; Booklet 4 – the Maghreb Route. Booklet 5 discusses the contextual factors and drivers behind cigarette trafficking and its evolution over time, relying on original estimates and analyses. Based on the total results of the analysis from Booklets 1-5, Booklet 6 puts forward policy implications to tackle the transnational illicit flows of cigarettes, overcome regulatory

gaps, and develop preventive measures for the reduction of specific risk-factors. Finally, Booklet 7 concludes the Report by detailing the methodological approach adopted to determine the estimates and analyses presented in this booklet series.

The results emerging from *ITTP NEXUS in Europe and Beyond* emphasise the importance of an integral and multilateral approach which involves multiple countries and simultaneously considers the demand, supply, and transfer of illicit cigarettes. The aim of the Report is to increase awareness about cigarette trafficking and its magnitude at regional and international levels. At the same time, the project's findings could be used to anticipate future scenarios, thus assisting governments and other stakeholders to forecast and prevent crime and to orient and support their regulatory choices. Finally, the comprehensive methodological approach suggested by this project could potentially be used for analysing other transnational illicit markets and criminal activities.



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# ITTP NEXUS IN EUROPE AND BEYOND

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**0** KEY  
MESSAGES

2019



## KEY MESSAGES

*ITTP NEXUS in Europe and Beyond*

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**Suggested citation:** Transcrime. 2019. "Key Messages - ITTP NEXUS in Europe and Beyond". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

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## BOOKLET 1 ➤ CIGARETTE TRAFFICKING

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**132**  
billion  
illicit cigarettes

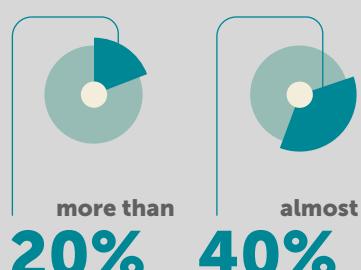
consumed in

**57**  
countries

**10%**  
of total  
consumption  
is illicit



#### Illicit cigarettes consumed in the EU:



come from  
Eastern  
European  
countries

come from  
the Middle East  
and North  
Africa

# CIGARETTE TRAFFICKING Booklet 1

***Transnational cigarette trafficking is a complex global crime***

**Illicit cigarettes account for about 10% of the total consumption** in 57 countries located in Europe, North Africa, the Middle East and Central Asia. 132 billion illicit cigarettes are consumed annually in these countries.

**Cigarette trafficking is a global crime.** EU citizens consume almost 40 billion illicit cigarettes annually. These cigarettes originate in 128 countries across 5 continents. Additionally, 14.7 billion cigarettes of unknown origin are also consumed in the EU.

**The majority of illicit cigarettes consumed in the EU originate from non-EU countries.**

- More than 20% come from Eastern European countries (mainly Ukraine and Belarus).
- Almost 40% come from other regions, mainly the Middle East (United Arab Emirates) and North Africa (Algeria).

**Traffickers exploit numerous paths to move cigarettes from country to country.** Almost 900 different connections link the 150 countries involved in the trafficking of cigarettes to Europe, North Africa, the Middle East and Central Asia.

**Trafficking paths** bringing cigarettes into Europe **cluster along 3 main routes**:

- the North-Eastern Route
- the Extended Balkan Route
- the Maghreb Route

**Contraband genuine cigarettes are the main type of illicit cigarettes** consumed in the EU (66% of the illicit market). The origin of these contraband cigarettes is unknown in 16% of the cases. **Illicit whites account for 28% of the EU illicit consumption.** Counterfeits represent around 6% of the EU illicit market.

*Figures refer to 2017, unless otherwise reported.*

# NORTH-EASTERN ROUTE

## Booklet 2

**Eastern European countries continue to be the key origin of illicit cigarettes consumed in the EU**

The 'North-Eastern Route' refers to the illicit flows of cigarettes that originate in Eastern European countries outside the EU (i.e., Belarus, Moldova, Russia, Ukraine) and reach EU countries.

More than **1 out 4 illicit cigarettes**—of known origin—**consumed in the EU are trafficked along the North-Eastern Route**. This equals to more than 10 billion cigarettes per year.

**The volume of trafficking** along the North-Eastern Route **decreased by almost 50%** from 2008-2012 to 2017. This reduction was mainly due to increases in:

- the prices of cigarettes in extra-EU countries (e.g., Russia, Ukraine), which reduces incentives to smuggle cigarette from those countries;
- the effectiveness of controls on external EU borders (e.g., Poland);
- the flow of illicit cigarettes from other areas of the world (e.g., Middle East).

**Russia** has lost its role as a key origin country and it **is becoming an important destination for illicit cigarettes**. Illicit consumption in the country increased tenfold from 2008-2012 to 2017, primarily due to increases in excise taxes on cigarettes.

**Belarus and Ukraine are the main countries of origin** of cigarettes trafficked along the North-Eastern Route.

About **50% of the illicit cigarettes flowing along the North-Eastern Route are illicit whites**.

**Organised Criminal Groups** (OCGs), such as those in Russia, Ukraine and Belarus, **are involved in large-scale cigarette trafficking** along the North-Eastern Route.



**1 out 4** illicit cigarettes consumed in the EU are trafficked along the North-Eastern Route

**2008-2012**

**-50%**

**2017**

**DECREASE** in the volume of trafficking



**Key traffickers**

**operating in:**



**Russia**



**Belarus**



**Ukraine**

**Emerging black market**

**Main origins**



**29**  
**billion**  
**illicit cigarettes**

are trafficked along the  
Extended Balkan Route

**30% of the illicit cigarettes**  
**are sold in the EU**

**8.7 billion**

**2008-2012**

**-40%**

**DECREASE** in the illicit  
flows bound to EU MSs

## EXTENDED BALKAN ROUTE Booklet 3

**The focal point of cigarette trafficking in the Extended Balkan Route shifted South-East towards Bulgaria and Turkey**

The 'Extended Balkan Route' refers to illicit flows of cigarettes transiting through the Balkans and Turkey.

The Extended Balkan Route is exploited by traffickers to:

- introduce cigarettes into the **Balkan Peninsula**;
- provide illicit cigarettes to the **Turkish illicit market**;
- bring illicit cigarettes to **EU markets** in South (e.g., Italy), Central (e.g., Austria, Hungary) and Western Europe (e.g., Germany).

Approximately **29 billion illicit cigarettes are smuggled along the Extended Balkan Route**.

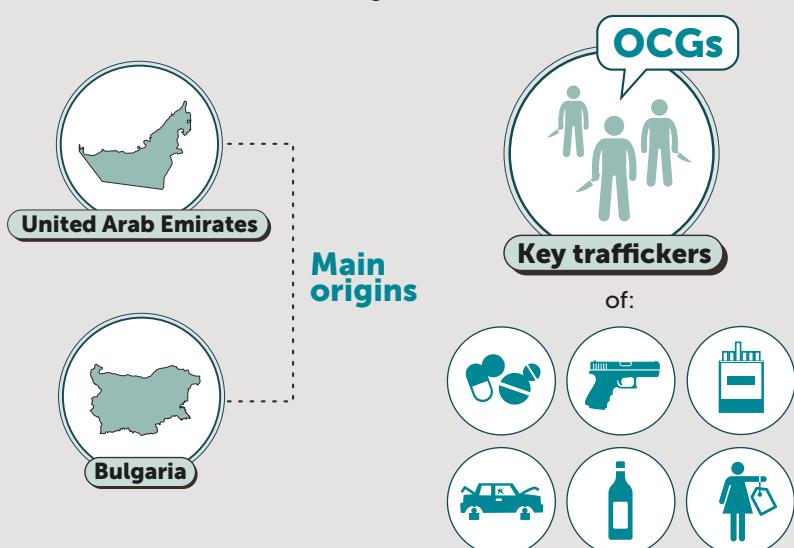
**30% of these cigarettes**—8.7 billion—are **sold in the EU**.

The remaining 70% includes as main final destinations: Turkey, Russia, Tunisia, Lebanon and Iraq.

Illicit flows bound for the EU MSs **diminished by 40%** between 2008-2012 and 2017.

**The United Arab Emirates and Bulgaria are the main countries of origin** of trafficked cigarettes.

**OCGs**—especially Bulgarians—are the key traffickers along the **Route**; these OCGs often traffic also drugs, firearms, stolen cars, alcohol, and human beings.



Figures refer to 2017, unless otherwise reported.

# MAGHREB ROUTE

## Booklet 4

**Cigarette trafficking from the Maghreb to the EU is strengthening due to the political instability of some countries in the area**

The 'Maghreb Route' refers to illicit flows of cigarettes transiting—from East to West—through Libya, Tunisia, Algeria, Morocco, Mauritania and Western Sahara and bound primarily for the local illicit markets and European illicit markets.

More than **10 billion cigarettes are trafficked along the entire Maghreb Route**.

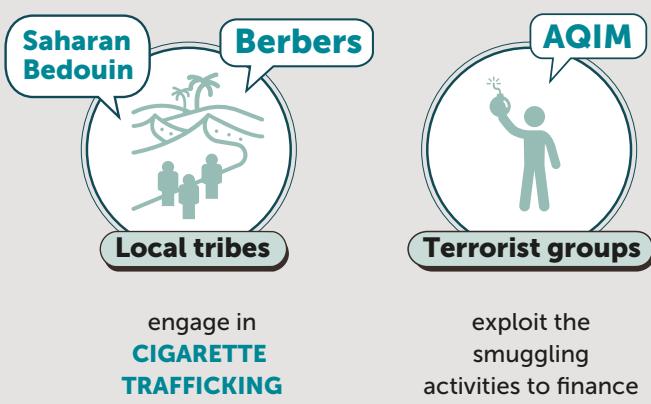
**Illicit outflows towards Europe have tripled in recent years**, from 1.4 billion on average between 2008-2012 to 4.3 billion in 2017.

The **United Arab Emirates is the main country of origin** of cigarettes trafficked through the Maghreb. **Libya is a key transit country** for illicit cigarettes trafficked from the United Arab Emirates to Algeria and Tunisia. **France is the main destination country in the EU**.

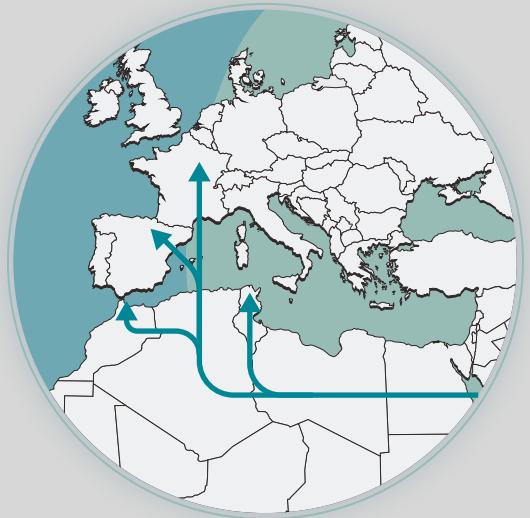
**Illicit whites account for about 45% of the illicit consumption** in the Maghreb area.

**Local tribes**, such as Berber (Tuareg) and Saharan Bedouin (Tebu), **engage in cigarette trafficking**.

**Terrorist groups** (e.g., AQIM) actively support and **exploit the smuggling activities** of tribes and local communities **to finance jihadist activities**.

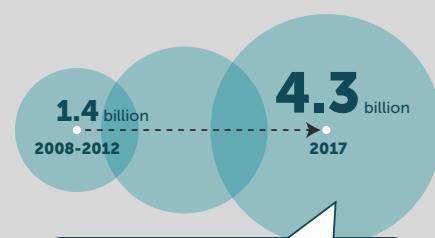


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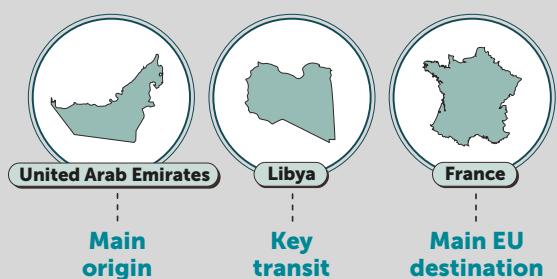


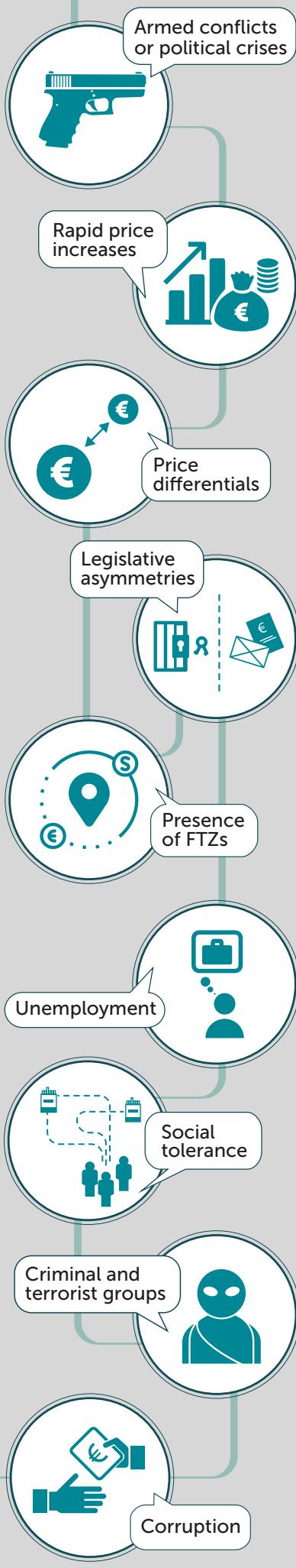
**10 billion illicit cigarettes**

are trafficked along the entire Maghreb Route



Illicit outflows towards Europe have **TRIPLED** in recent years





# CONNECTIONS

## Booklet 5

**The factors influencing the probability of a state becoming an origin, transit, or a destination country are multiple and interconnected**

Countries with **ongoing armed conflicts** or facing **political crises** are disproportionately involved in cigarette trafficking.

- Traffickers take advantage of the reduced capacity of state authorities to control their territory. Facing a lower risk of detection, they engage more actively in cigarette trafficking.

**Rapid price increases**—e.g. due to expanding taxation—create incentives to turn to the black market.

- In particular, as the price of legal cigarettes increases, smokers in poor living conditions are more likely to buy illicit cigarettes.

Cigarette **price differentials** among countries impact on the illicit flow of cigarettes.

- The higher the price differential between countries, the greater the illicit flow of cigarettes from low to high price countries.

**Legislative asymmetries** among countries may cause the displacement of cigarette smuggling to countries where penalties for cigarette trafficking are more lenient.

- In the presence of legislative asymmetries, traffickers tend to move their illicit activities to countries where penalties are less punitive.

The **presence of Free Trade Zones** (FTZs) increases a country's probability of engagement in cigarette trafficking.

- Smugglers exploit the light regulation and the reduced legal burden in the FTZs to hide, transfer, produce, and repackage illicit cigarettes. Through FTZs, illicit cigarettes can flow to their destinations by avoiding different kinds of control.

Figures refer to 2017, unless otherwise reported.

**Unemployment** positively affects the volume of illicit cigarettes trafficked.

- Consumers with a low purchasing power may choose to buy illicit cigarettes, fueling the demand for illicit products.
- Cigarette trafficking is a profitable way to earn a livelihood for unemployed people.

**Social tolerance** of cigarette smuggling and the purchasing of illicit cigarettes increases cigarette trafficking and illicit consumption.

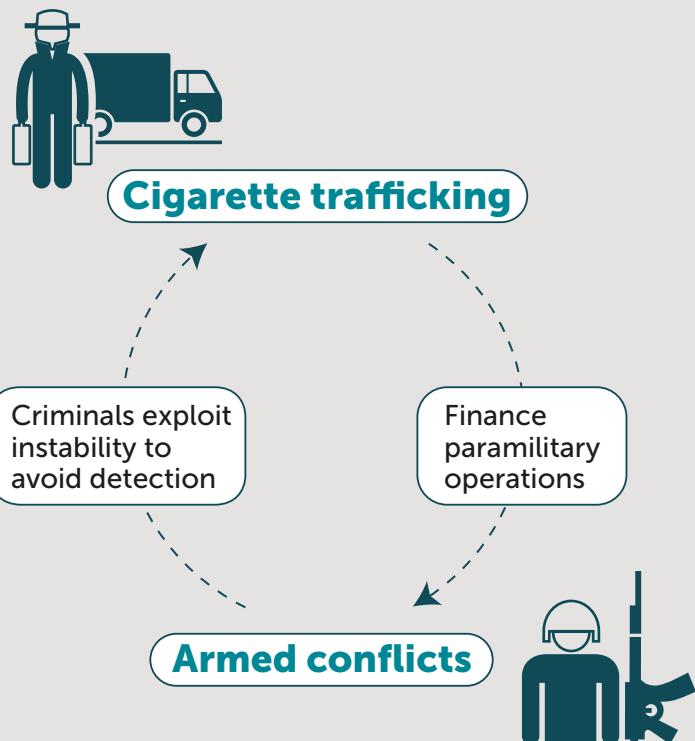
- The social acceptance of cigarette trafficking is often related to poor living conditions or an unstable political situation.

**Criminal and terrorist groups** favour the trafficking of cigarettes.

- Criminal groups exploit their expertise in other forms of trafficking to engage in cigarette trafficking and profit from it.
- Terrorists exploit cigarette trafficking to fund their activities.

**Corruption among politicians and custom officers** facilitates the illicit production and transnational trafficking of cigarettes.

- Countries with higher levels of corruption receive larger illicit inflows of cigarettes. A 1% increase in corruption levels leads to a 28% increase in illicit inflows of cigarettes.



Figures refer to 2017, unless otherwise reported.

 **6.3€**

**Price of 1 pack of the most sold cigarettes in GERMANY**

How many packs can you buy for the same price in other countries



## BELARUS



## CZECH REPUBLIC



## LITHUANIA



## POLAND



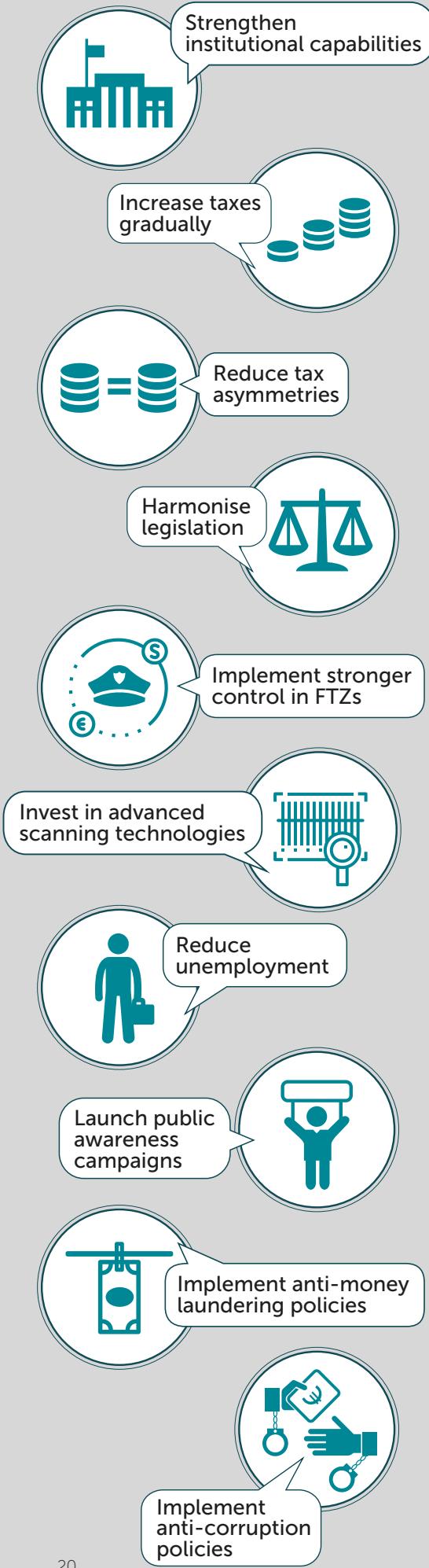
## UKRAINE



**1%**  
increase in  
corruption levels



**28%**  
increase in  
illicit inflows  
of cigarettes



## POLICY IMPLICATIONS

### Booklet 6

***Effective solutions to cigarette trafficking need to incorporate political, regulatory, procedural, economic, technological, cultural components***

**Strengthening institutional and legal enforcement capabilities** reduces countries' roles in cigarette trafficking.

**Potential tax increases should be implemented gradually, and with consideration to the overall economic situation of the country.** This strategy would mitigate incentives to buy illicit cigarettes.

**Reducing the differences**—in composition and level—**between excises levied on cigarettes** in different countries would reduce the trafficking of cigarettes to countries where cigarettes are more expensive.

**Harmonised legislations** would reduce the displacement of cigarette smuggling to countries with more lenient penalties.

**Harmonising regulations and implementing stronger controls in FTZs** would reduce illicit flows of cigarettes originating and transiting in these areas.

Investments in **advanced scanning technologies** would increase trafficking interception rates, thus discouraging cigarette trafficking.

Policies aimed at **reducing youth unemployment** are also likely to be effective in countering cigarette trafficking.

**Ad-hoc public awareness campaigns** could reduce the tolerance of cigarette trafficking and the consumption of illicit cigarettes.

**Broad anti-money laundering and terrorism financing policies** could reduce incentives to engage in cigarette smuggling for OCGs and terrorist groups.

**Fighting corruption**, among the many other societal improvements, would also reduce cigarette trafficking.

*Figures refer to 2017, unless otherwise reported.*



# CIGARETTE TRAFFICKING

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Introducing the Transnational  
Dimension of Cigarette Trafficking  
in Europe and Beyond

**1** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



# CIGARETTE TRAFFICKING

*Introducing the Transnational Dimension of Cigarette Trafficking in Europe and Beyond*

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# Explanatory notes

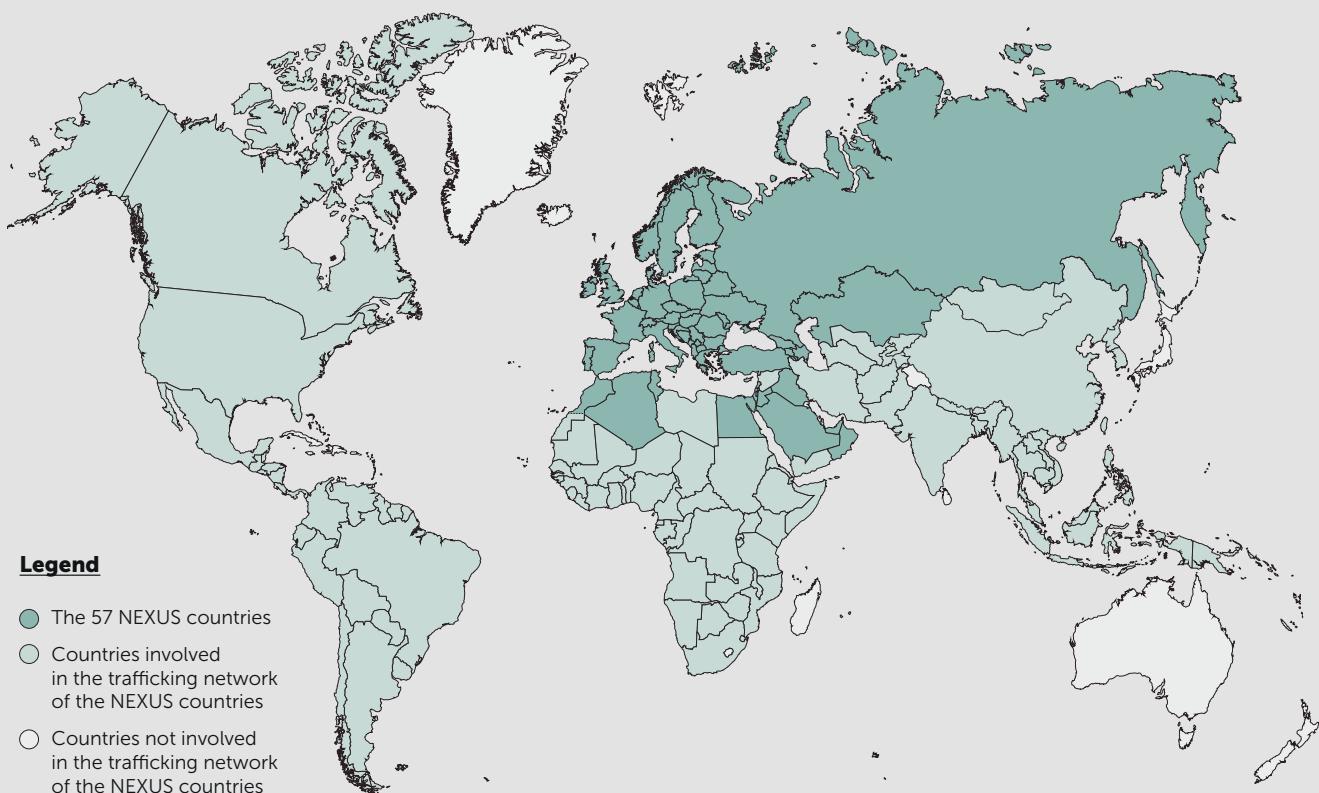
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All analyses contained in the *ITTP NEXUS in Europe and Beyond Report* are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in the present booklet:

EPS	Empty Pack Survey
EU	European Union
FTZ	Free Trade Zone
LEA	Law Enforcement Agency
MS	Member State
OCG	Organised Crime Group
VAT	Value Added Tax

## The 57 NEXUS countries and their trafficking network



The following ISO country codes have been used in the present booklet:

Legend

**ISO: NEXUS country**

ISO: Country mentioned in the present booklet

ALB	Albania	JOR	Jordan	AND	Andorra
ARE	United Arab Emirates	KAZ	Kazakhstan	CHN	China
ARM	Armenia	KWT	Kuwait	GIB	Gibraltar
AUT	Austria	LBN	Lebanon	IDN	Indonesia
AZE	Azerbaijan	LTU	Lithuania	IRN	Iran
BEL	Belgium	LUX	Luxembourg	KGZ	Kyrgyzstan
BGR	Bulgaria	LVA	Latvia	KOR	South Korea
BIH	Bosnia and Herzegovina	MAR	Morocco	LBY	Libya
BLR	Belarus	MDA	Moldova	MRT	Mauritania
CHE	Switzerland	MKD	North Macedonia	PAK	Pakistan
CYP	Cyprus	MLT	Malta	SEN	Senegal
CZE	Czech Republic	MNE	Montenegro	SYR	Syria
DEU	Germany	NLD	The Netherlands	THA	Thailand
DNK	Denmark	NOR	Norway	TJK	Tajikistan
DZA	Algeria	OMN	Oman		
EGY	Egypt	POL	Poland		
ESP	Spain	PRT	Portugal		
EST	Estonia	ROU	Romania		
FIN	Finland	RUS	Russia		
FRA	France	SAU	Saudi Arabia		
GBR	United Kingdom	SRB	Serbia		
GEO	Georgia	SVK	Slovakia		
GRC	Greece	SVN	Slovenia		
HRV	Croatia	SWE	Sweden		
HUN	Hungary	TUN	Tunisia		
IRL	Ireland	TUR	Turkey		
IRQ	Iraq	UKR	Ukraine		
ISR	Israel	UNK	Kosovo		
ITA	Italy				



# Introduction

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This booklet constitutes the first chapter of the *ITTP NEXUS in Europe and Beyond Report*. It introduces an overview of the transnational trafficking of cigarettes across Europe, Central Asia, Middle East and North Africa.

Section 1 describes the two principal forms of cigarette trafficking: i) the one occurring between neighbouring countries and/or within the same macro region, and ii) the one occurring between non-neighbouring countries belonging to different macro regions. At the same time, it introduces the explanatory factors—countries' characteristics and asymmetries—that give origin to the transnational traffic of cigarettes.

Section 2 focuses on the different origins of the illicit cigarettes smoked in the countries included in the analysis and in particular in the EU.

Section 3 presents the transnational trafficking network of illicit cigarettes. It provides an overview on the numerous paths along which illicit cigarettes move from their countries of origin to their final destinations.

Section 4 introduces the main trafficking routes linking the markets in the EU to the main trafficking hubs in North-Eastern Europe, Central Asia, Middle East and North Africa, and it shows how traffic concentrates along specific paths.

# Key facts

---



## Forms of cigarette trafficking

---

**Cigarette trafficking is a global transnational crime.** The trafficking of cigarettes to and through Europe, North Africa, Middle East and Central Asia involves 157 countries that form 884 different connections.

**There are two forms of transnational trafficking:**

- **the short-distance trafficking** of cigarettes on a local/regional scale;
  - **the long-distance trafficking** of cigarettes on a global scale.
- 

Different trafficking dynamics imply different **organisations, schemes and actors**.

## Origins of illicit cigarettes

*2017 figures*

---

**The United Arab Emirates is the main origin of illicit cigarettes** consumed in the 57 countries considered within Europe, North Africa, Middle East and Central Asia. 9 billion out of about 132 billion illicit cigarettes originate from this country.

**EU citizens consume almost 55 billion of illicit cigarettes:**

- about 40 billion illicit cigarettes originate in 128 countries across 5 continents;
  - about 15 billion cigarettes of unknown origin are also consumed in the EU.
- 

**Most of the illicit consumption in the EU concerns cigarettes originating from outside the EU:**

- **more than 20% come from extra-EU Eastern European countries** (mainly Ukraine and Belarus);
- almost **40% come from** other regions, mainly the **Middle East** (United Arab Emirates) and **North Africa** (Algeria);
- in Romania, Greece, Lithuania, Latvia and Poland, cigarettes originating from the EU account for less than 1% of the illicit market.



# Local and global flows of illicit cigarettes

2017 figures

Illicit cigarettes flowing from a specific origin to a specific destination may follow **numerous different paths**.

Almost all countries act as **origins and/or transits** for their neighbouring countries.

**Large illicit flows of cigarettes move within the EU and between the EU and other regions** mainly via land but also via sea routes. In particular:

- from Poland to Germany (about 7.2 billion);
- from Czech Republic to Germany (about 6.4 billion);
- from Bulgaria to Turkey (about 5.3 billion).



## Routes of cigarette trafficking

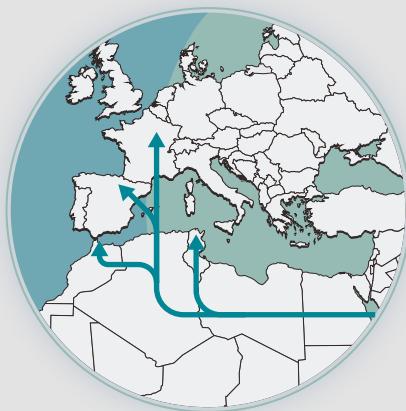
Cigarette trafficking through Europe clusters along 3 main routes:



**the  
North-Eastern  
Route**



**the  
Extended Balkan  
Route**



**the  
Maghreb  
Route**

# 1. Forms of cigarette trafficking

## Cigarette trafficking is a multifaceted phenomenon

The illicit trade in cigarettes is a complex phenomenon that **comprises** different types of products (see Box 1), different criminal actors, and different *modi operandi*. These elements interact and merge together in multiple manners producing a wide range of scenarios. The majority of these combinations involve **transnational connections among multiple countries**.

The role of a country in the trafficking routes and the size of its consumption of illicit cigarettes is related to two classes of explanatory factors: i) its specific features and ii) asymmetries with other countries.

## Proximity to countries where cigarettes are cheap is a driver of illicit consumption<sup>1</sup>

The most influential **features of a single country** are its:

- criminal environment;
- economic, social, and cultural characteristics;
- geography;
- political situation.

The principal forms of **asymmetries between different countries** pertain to:

- cigarettes taxation and, consequently, prices (see Box 2, Box 3, Figure 1 and Figure 2);
- the quality of the regulations aimed at controlling the cigarette market;
- the effectiveness of the enforcement measures against cigarette trafficking.

### Box 1. Types of illicit cigarettes

- Contraband genuine cigarettes are legally manufactured cigarettes that are then diverted to be smuggled from lower-tax to higher-tax jurisdictions or fully evading taxation; usually, the brands of these cigarettes are the same as those that consumers purchase from legitimate tobacco vendors.<sup>2</sup>
- Illicit whites—also called “cheap whites”—are cigarettes that are legally manufactured in one country with the deliberate intention of smuggling them—at least in part—into different markets where the brand’s owner has limited or no permission to distribute them.<sup>3</sup>

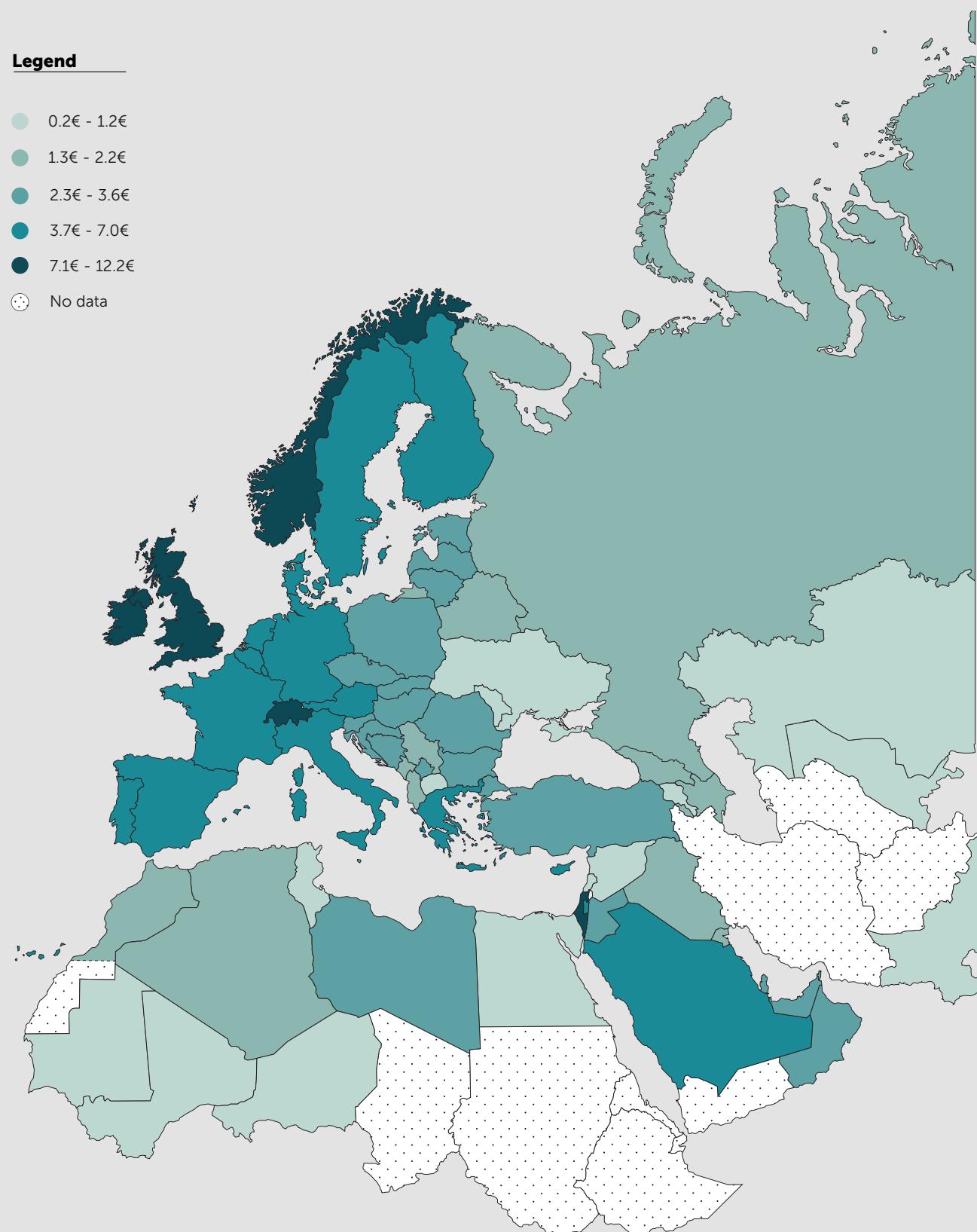
- Counterfeit cigarettes imitate packs of branded cigarettes without the permission of their legitimate trademark owner. Usually, also the tax stamp is counterfeit. Counterfeit cigarettes can be sold in the country where they are produced or smuggled into another market without the payment of any tax.<sup>4</sup>
- Unbranded illicit cigarettes are manufactured in legal or—more often—illegal factories without any licence and without their production being declared to the competent authorities. Unbranded illicit cigarettes are sold without the payment of any tax.<sup>5</sup>

### Box 2. Price differentials in the EU

Within the EU, the cost of cigarettes varies hugely. The highest price differential is recorded between Ireland and Bulgaria. In 2017, a pack of premium cigarettes cost more than four times in Ireland (11.50€) than it did in Bulgaria (2.70€) resulting in a difference of about 8.80€.

Considering the most popular brands of cigarettes sold in the two countries, the difference is even greater: with a maximum of 9.00€ (2.50€ vs. 11.50€). Price differentials exist for various reasons, the main ones being taxation policies and local market structures.

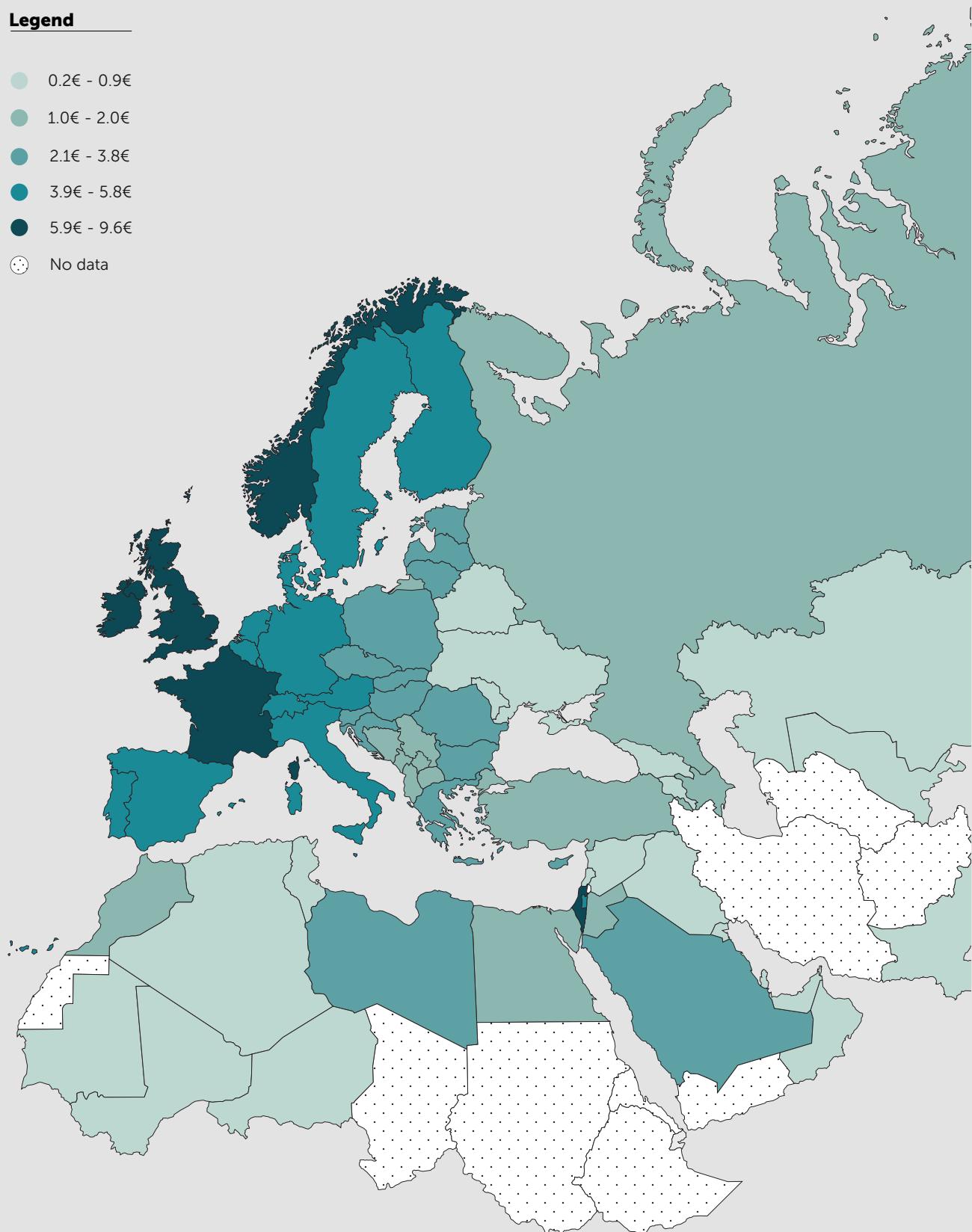
**Figure 1. Price of a 20-cigarette pack of the most sold brand by country (2017)**



**Figure 2. Price of the cheapest available 20-cigarette pack by country (2017)**

**Legend**

- 0.2€ - 0.9€
- 1.0€ - 2.0€
- 2.1€ - 3.8€
- 3.9€ - 5.8€
- 5.9€ - 9.6€
- No data



### **Box 3. Price differentials in Europe and beyond**

In 2017, Ukraine had the cheapest premium cigarettes (€1.06 per pack) among all countries that share borders with the EU. This incentivises the purchase of Ukrainian smuggled cigarettes by smokers in its neighbouring EU countries—i.e., Slovakia (4.00€), Hungary (3.86€), Poland (3.80€), and Romania (3.60€)—allowing them to save more than 70% of the price of their pack of cigarettes.

The Ukrainian case is not unique. The price difference along the Finnish-Russian border is above 4.30€ when purchasing cheap, premium, or most sold cigarettes. A price differential of more than 2.00€ per pack also applies for Romanian smokers that purchase their cigarettes in Moldova, or Polish and Latvian smokers in Belarus. In Serbia, for Romanians, the possible savings on the cost of cigarettes are also significant: between 25% and more than 50% depending on the cigarette category. A Greek smoker can save around 2.20€ by purchasing cigarettes—both the cheapest and premium ones—across the border with Albania or North Macedonia.

Two transnational dynamics emerge from the combination of national characteristics and international asymmetries (see Figure 3):

#### **1. The short-distance trafficking of cigarettes on a local/regional scale.**

The smuggling of cigarettes between neighbouring countries or within the same macro region.

#### **2. The long-distance trafficking of cigarettes on a global scale.**

The smuggling of cigarettes between non-neighbouring countries located in different macro regions.

Different trafficking dynamics imply different organisations, **from very simple schemes to highly sophisticated strategies**:

- on the one hand, there are independent individuals who autonomously smuggle a few cartons of cigarettes from a neighbouring country and resell them to acquaintances and friends;
- on the other hand, there are OCGs whose members have specific skills and responsibilities, and which traffic cigarettes across the globe in shipping containers (see Box 4).<sup>6</sup>

**The use of one trafficking method** rather than the other **depends on**:

- **the geographical position** of the countries along the intended route—landlocked or with sea/waterway access;
- **the type of actor(s)** involved in the trafficking—individual smugglers and small flexible criminal networks as opposed to OCGs;
- **the quantity of the illicit goods** that are trafficked—smaller volumes via land routes and larger quantities by sea.<sup>7</sup>

*Cigarette trafficking involves both individuals smugglers and large OCGs*

### **Box 4. Large-scale smuggling vs. bootlegging**

- The term 'large-scale smuggling' denotes the trafficking of large quantities of cigarettes, usually over long distances.<sup>8</sup> Large-scale smuggling operations are mainly run by transnational OCGs because of their organisational and financial requirements. For instance, Asian, Eastern European, and Italian mafia-type OCGs are—and have been—involved in large-scale smuggling.<sup>9</sup>

- The term 'bootlegging' denotes the purchase of cigarettes in a low-tax country from legitimate vendors and their smuggling into and sale in a high-tax country. Cigarettes are fully tax compliant in their country of origin, but bootleggers evade all taxes in their destination market. Usually, the volumes are small, and distances travelled by the cigarettes range from short to medium-short. Bootlegging is done by individuals or lightly organised small groups. Bootleggers mostly supply their cigarettes to friends and acquaintances.<sup>10</sup> This smuggling method is also referred to as 'ant smuggling'.<sup>11</sup>

*Cigarette trafficking has a global component*

**Figure 3. Illicit flows of cigarettes bound for France: intra-regional vs. extra-regional trafficking (2017)**

### Legend

**Volume - Number of sticks** ● Transit and destination country

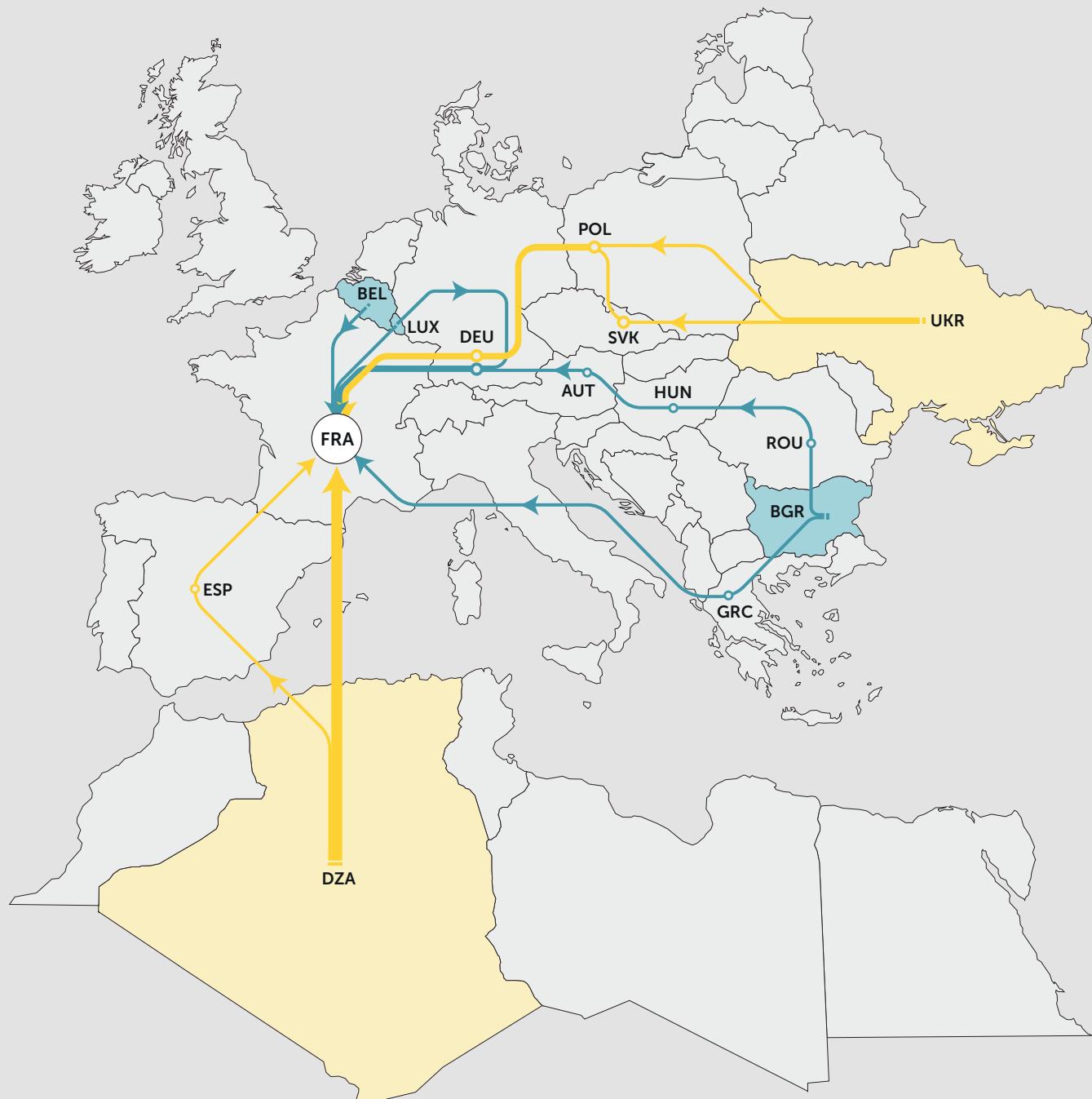
Graphic reference scale

≤ 0.5 billion  
1 billion

### Origin of the cigarette flows

Within EU (intra-regional trafficking)

From outside of EU (extra-regional trafficking)



Note: The map represents a selection of illicit flows of cigarettes destined to France. The graphic representation of the flows underlines the fact that illicit flows targeting the French market come both from within the EU and from outside the EU. The flows represented should be considered indicative and based on estimates rather than exact values. Such estimates rely upon data related to official cigarette seizures along the trafficking paths and data on the consumption of cigarettes obtained through EPSs. There are numerous secondary flows that are not represented.

There are two principal modes of transport related to these two strategies. The first method involves the **transport of the illicit cigarettes over land and across internal borders**.

This is frequently observed between, for example, Albania, North Macedonia and Bulgaria,<sup>12</sup> or the trafficking routes that extend from Baltic states to Germany passing through Poland.<sup>13</sup>

With the second method, the **cigarettes pass through transit seaport(s) in multiple countries** before reaching their final destination. When in transit, the cargo may be loaded onto another ship, or the accompanying documents may be falsified. The shipping of cigarettes across multiple countries poses a challenge for LEAs in their attempts to retrace the actual journey of the illicit cigarettes because **this method facilitates the disguising by criminals of the true nature and origins of the products** (see Box 5).

Besides these principal modes, **traffickers move illicit cigarettes by air transport**. A common strategy is the repeated smuggling of small volumes of illicit cigarettes via air connections—in particular, from outside the EU to EU MSs—which may or may not be followed by a second part of the journey via land routes, once the illicit goods have passed the extra-Schengen customs controls (see Box 6 and Box 7).<sup>14</sup>

**Cigarette smugglers use also hybrid tactics** that combine the above-mentioned modes of transport. Cigarettes may be shipped and arrive at an European port, after which they are transported further by land to reach their final destination in a different country (see Box 8).<sup>15</sup>

For example, when cigarettes are

transferred to Western Europe, the tobacco products arrive through ports—e.g., Hamburg or Rotterdam. Upon arrival, the cigarettes are

moved further by land to their final destination, exploiting the Schengen Agreement, i.e. the absence of border controls.

#### Box 5. Transhipment of North Korean counterfeit cigarettes

North Korea has been implicated in the trafficking of illicit cigarettes. This illegal activity has enabled the country to circumvent United Nations' sanctions and obtain foreign currency. Over the past three years, port authorities in Manila and Malta have confiscated North Korean shipments concealing millions of counterfeited Marlboro cigarettes. Their packaging indicated that the cigarettes were

most likely destined for the Iraqi market. One of the shipments of illicit cigarettes seized in Manila was believed to be headed for the United Arab Emirates' FTZ Jebel Ali, to be subsequently transhipped to Syria. Another shipment discovered in Malta was supposedly bound for Libya because it was addressed to a Libyan businessman who was already implicated in a cigarette counterfeiting case in 2014.<sup>16</sup>

#### Box 6. Vienna airport seizures of illicit cigarettes up by 21.5% in 2017

In 2017, Austrian customs officers seized a total of more than 2.9 million cigarettes from air passengers travelling via Vienna International Airport. This was a 21.5% increase compared to 2016, when 2.4 million cigarettes were confiscated. The Austrian authorities noted that this substantial surge in the smuggling of cigarettes by air passengers has been part of a trend since 2015.<sup>17</sup>

A few large interceptions account for the vast majority of the cigarettes seized along air connections. In 2017, 11,200 thousand of the 14,700 cigarette cartons seized had been discovered in only 109 of the 1,543 total seizure cases. In other words, 7% of the seizures account for 76% of all intercepted cigarettes at the airport of Vienna. In certain

cases, passengers were caught concealing more than 150 cartons of cigarettes in their baggage.

The majority of the smuggled cigarettes came from Armenia, Ethiopia, Russia, the United Arab Emirates and Ukraine. The intended destinations of the smugglers, besides Vienna, were mainly other destinations in the EU, among them Madrid, Barcelona, Lyon, Copenhagen, Brussels and London.

In 70 cases, the Austrian customs office at the Vienna International Airport handed baggage containing illicit cigarettes over to their counterparts in the destination countries—as part of mutual assistance procedures. As a result, approximately 1.5 million cigarettes were additionally seized by the customs authorities of other EU MSs.<sup>18</sup>

#### Box 7. Illicit cigarettes flying to Ireland

Although cigarette smuggling by plane may be perceived as riskier in terms of a higher probability of being detected by LEAs, criminals do not refrain from trafficking cigarettes using air transport. Because Ireland is an island, air travel is frequently used by traffickers to reach this country.

In particular, Dublin Airport is a hub and point of arrival for individuals engaged in the trafficking of illicit cigarettes. In late August 2017 alone, for example, revenue officers seized 28,000 illegal cigarettes from passengers arriving from the United Arab Emirates and Moldova.<sup>19</sup>

Both individuals and groups are involved in smuggling by air. Seizure records suggest that OCGs also run trafficking schemes (from distant countries), which involve the smuggling of tobacco products bound for the local Irish black market.<sup>20</sup>

#### Box 8. From vessels to ambulances

In 2012, Bulgarian customs authorities uncovered a criminal network active in cigarette trafficking, following a major seizure in Sofia, which resulted in the confiscation of 25 million illicit cigarettes.<sup>21</sup> Apparently, illicit cigarettes came from the United Arab Emirates by sea and were meant to be distributed

on different European markets, including the Bulgarian black market.

After having shipped illicit products to Greece, smugglers employed a distinctive strategy when trespassing the land borders with Bulgaria to avoid detection by the authorities. Transport activities

were organised using motor vehicles such as fake ambulances, but also hearses, where the cigarettes were hidden in coffins.<sup>22</sup> This sole shipment of 25 million illicit cigarettes would have caused Bulgaria a loss of 1.8 million euros in excise duties if the cigarettes had not been seized.<sup>23</sup>

## 2. Origins of illicit cigarettes

**Illicit cigarettes account for a large portion of the cigarette consumption** in 57 countries located in Europe, North Africa, Middle East and Central Asia. 132 billion illicit cigarettes are consumed annually in these 57 countries—i.e., 10% of their total consumption.

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*EU citizens consume illicit cigarettes coming from 128 countries, located on 5 different continents*

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The illicit cigarettes consumed in the EU have various origins, confirming the complexity of transnational cigarette trafficking (see Figure 4). In 2017, **the 39.6 billion illicit cigarettes**—of known origin—**consumed in the EU MSs originated in 128 different countries**. Among these, there are:

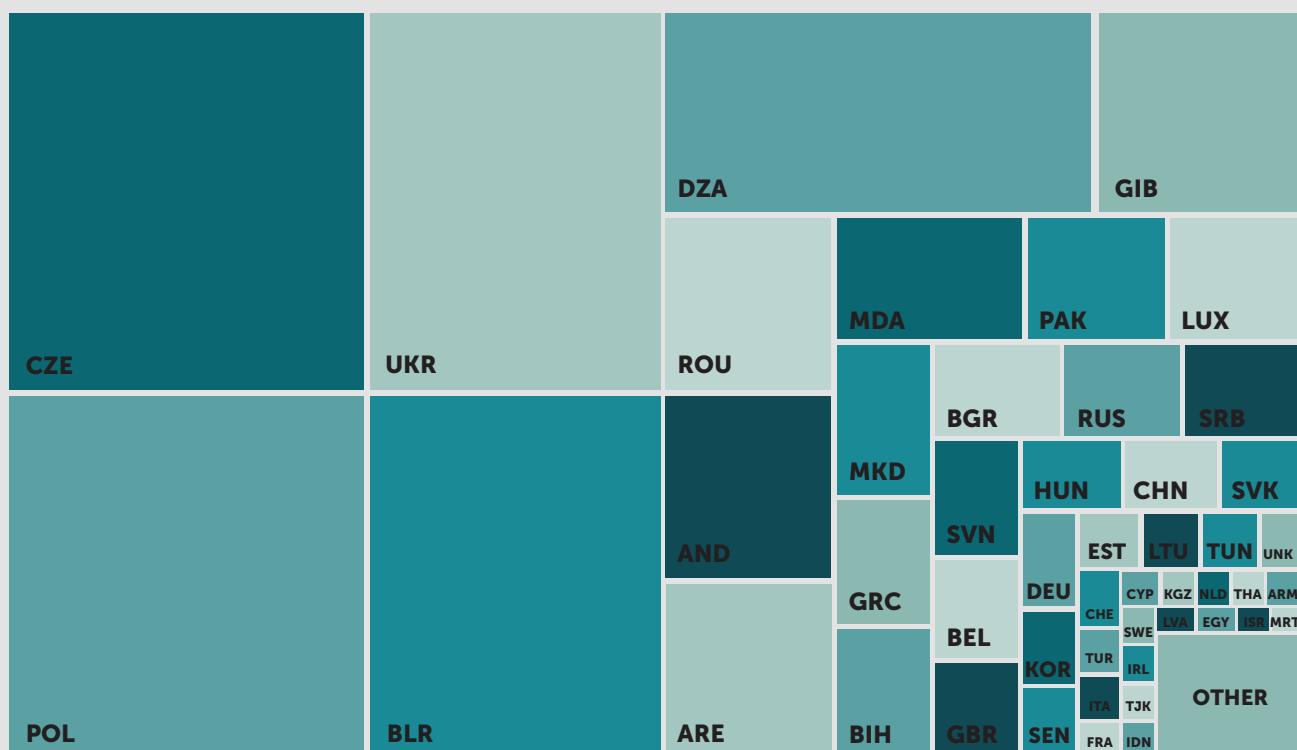
- contraband genuine cigarettes (about 30.5 billion);
- illicit whites (about 9.1 billion) (see Figure 5).

Germany—the largest EU market for illicit cigarettes—registered the illicit consumption of cigarettes coming from 41 different origins, principally Czech Republic and Poland, but also more distant countries such as Belarus, Ukraine, China, Turkey,

and Thailand. The particularly large flows (see Box 9) departing from Czech Republic (about 4.8 billion) and Poland (about 4.0 billion) are mainly explained by the important differentials in the prices of cigarettes in these countries and in Germany.<sup>24</sup>

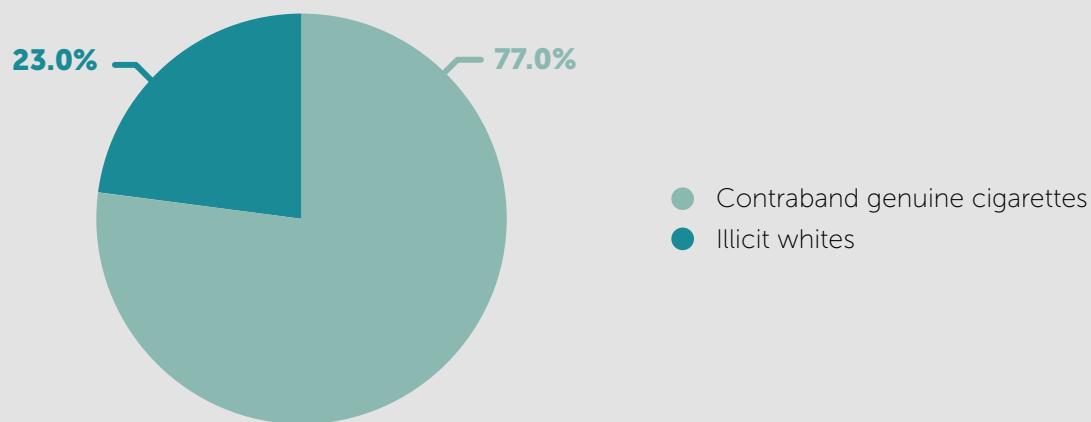
In the United Kingdom, France, or the Netherlands smokers consume illicit cigarettes coming from as many as 65, 74 and 82 countries, respectively.

**Figure 4. Partition of the consumption of illicit cigarettes in the EU by country of origin (2017)**



Note: The graph represents consumption of illicit cigarettes only. Transnational flows of cigarettes legally purchased and legally introduced into a different country have been separately estimated and they are not represented here (refer to Booklet 7. Methodology for technicalities of the estimates).

**Figure 5. Illicit cigarettes of known origin consumed in the EU by cigarette type (2017)**



### Box 9. What is a flow?

This study defines a 'flow' as the cigarettes trafficked from one country to another. The flow may depart from an origin country A and reach a transit country B, from which cigarettes depart again to move to another country C. Therefore, in this example, cigarettes flowing from country B to country C do not originate in B, but in A. Alternatively, the

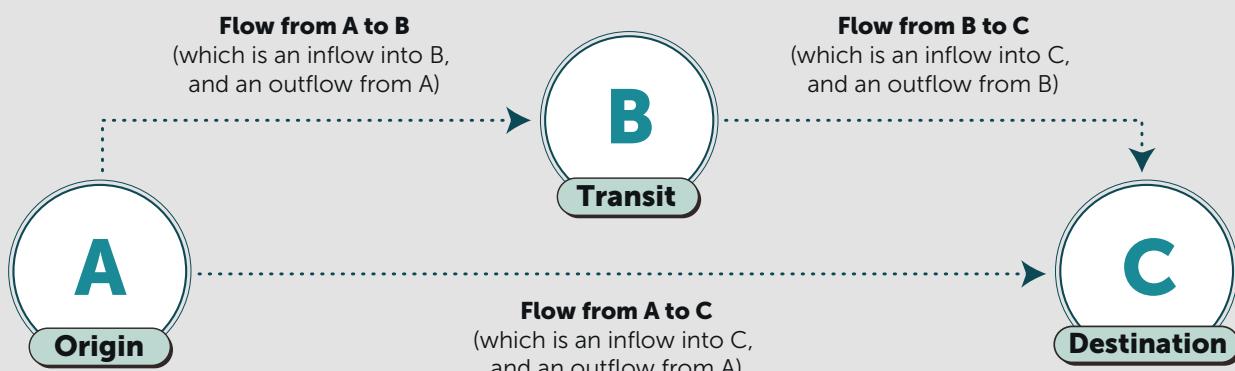
flow may move directly from the country of origin A to a final destination C where the cigarettes are consumed—or seized.

Depending on the perspective assumed, flows may be called 'inflows' and 'outflows'; inflows enter countries, outflows leave countries. For example, cigarettes moving from A to B are an inflow

for the country B and an outflow for the country A (see Figure 6).

The size of a flow can be estimated in terms of the number of cigarettes that are trafficked from country to country. Given their size, the largest flows of cigarettes moving between the countries included in this study are expressed in terms of billions of cigarettes.

**Figure 6. Example of three different flows**



In addition, 14.7 billion illicit cigarettes of unknown origin were consumed in the EU in 2017. Among these, there are:

- contraband genuine cigarettes of unknown origin (about 5.6 billion), of which:
  - about 80% were unspecified duty-free cigarettes;
- illicit whites (about 6.1 billion)—including domestic whites;
- counterfeits (about 3 billion) (see Figure 7 and Figure 8).

**Figure 7. Illicit cigarettes of unknown origin consumed in the EU by cigarette type (2017)**

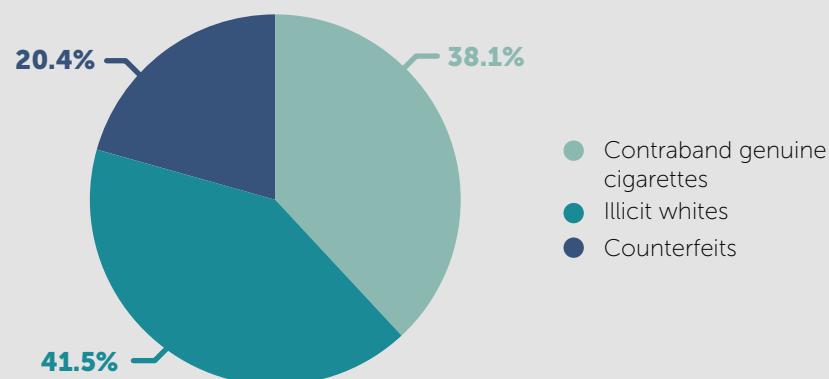
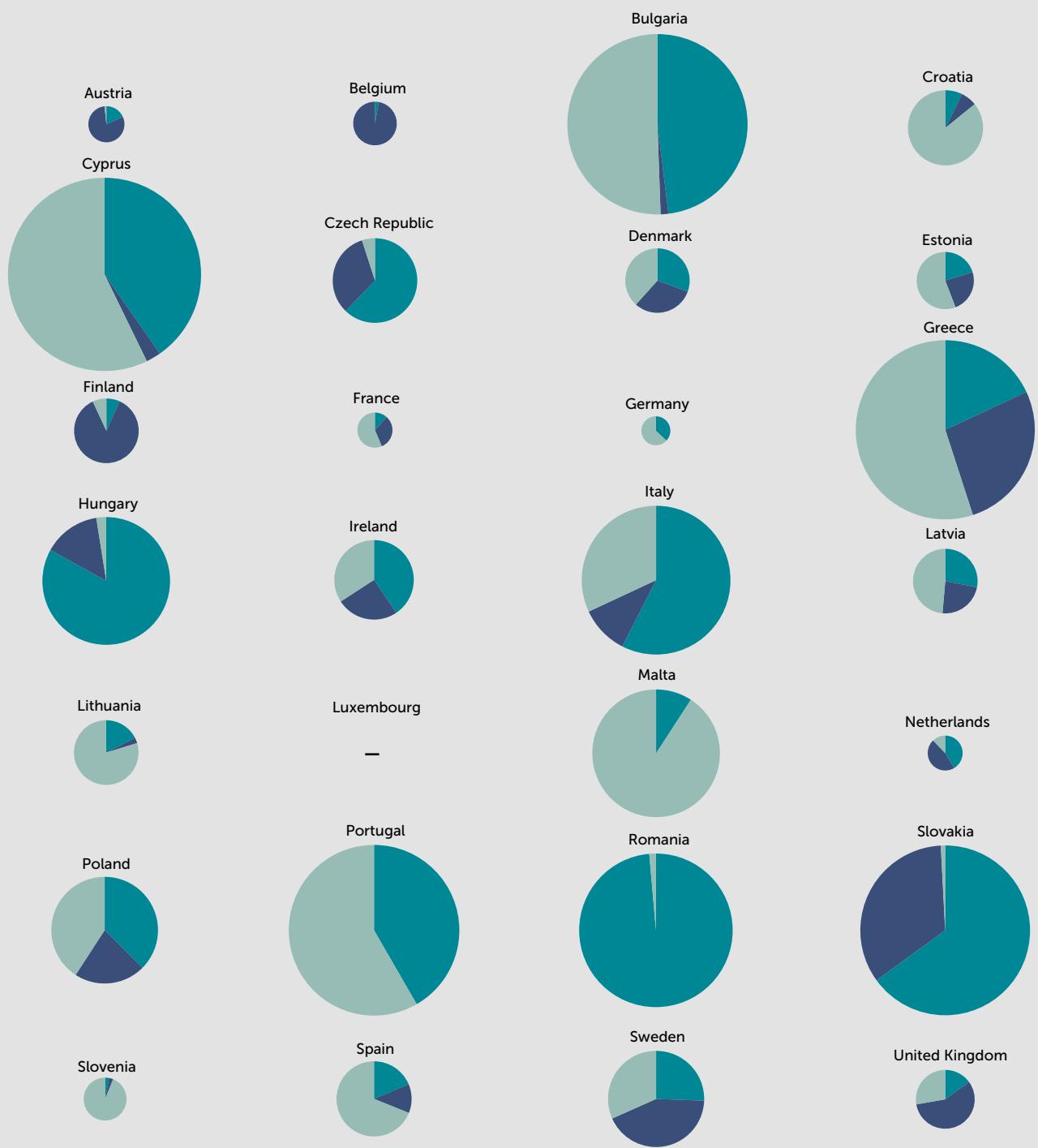


Figure 8. Illicit consumption of cigarettes of unknown origin in the EU MSs by cigarette type (2017)

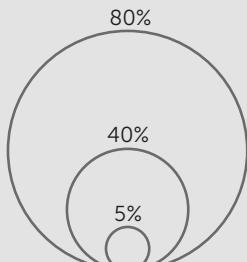


#### Legend

##### Type of illicit cigarettes

- Illicit whites
- Counterfeits
- Contraband genuine cigarettes

Size of the pie chart represents the share of illicit cigarettes whose origin is unknown on tot. illicit consumption



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## *The majority of the illicit cigarettes circulating in the EU originate from non-EU countries*

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With respect to illicit cigarettes of known origin consumed in the EU in 2017:

- 42.8% (about 16.8 billion) came from another EU MS.
- 21.3% (about 8.2 billion) came from a non-EU country sharing a land border with the EU, especially:
  - Ukraine (11.9%), Belarus (11.0%), Moldova (2.4%) to the East;
  - Gibraltar (4.4%) and Andorra (3.2%) to the South-West.
- 36.9% (about 14.6 billion) came from a non-EU country that is not a EU neighbouring country, specifically:
  - Middle East and North Africa (about 5.1 billion illicit cigarettes), mainly originating from Algeria (3.6 billion), followed by the United Arab Emirates (1.2 billion).
  - South Asia (about 0.8 billion); in particular, illicit cigarettes from Pakistan (0.7 billion).
  - East Asia and Pacific (about 0.7 billion); in particular, cigarettes from China (0.3 billion) and South Korea (0.2 billion).
  - Sub-Saharan Africa (about 0.4 billion); the largest contributor here is Senegal (0.2 billion).
  - North America, Latin America and the Caribbean (about 0.1 billion).

Overall, a large share of the cigarettes circulating in the EU originate from non-EU countries where cigarette prices are low, law enforcement controls are weak, and the regulation is lax. Ukraine, Belarus, Algeria are the main extra-EU countries of origin of illicit cigarettes consumed in the EU. They accounted for 33.2% of the EU illicit consumption in 2017 (see Figure 9).

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## *In Romania, Greece, Lithuania, Latvia and Poland, cigarettes smuggled from other EU countries account for less than 1% of the illicit market*

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Differences exist among the EU MSs in terms of the origins of illicit cigarettes. In Latvia, Lithuania, Romania, Greece and Poland almost no illicit cigarettes produced in other EU countries are recorded. Lithuania, Latvia, Poland and Romania lie on the eastern and north-eastern EU border; in these countries, illicit cigarettes mostly come from bordering countries—i.e., Belarus, Ukraine, Russia. In Greece, the black market mainly consists of illicit cigarettes coming from the United Arab Emirates, North Macedonia, and Belarus.

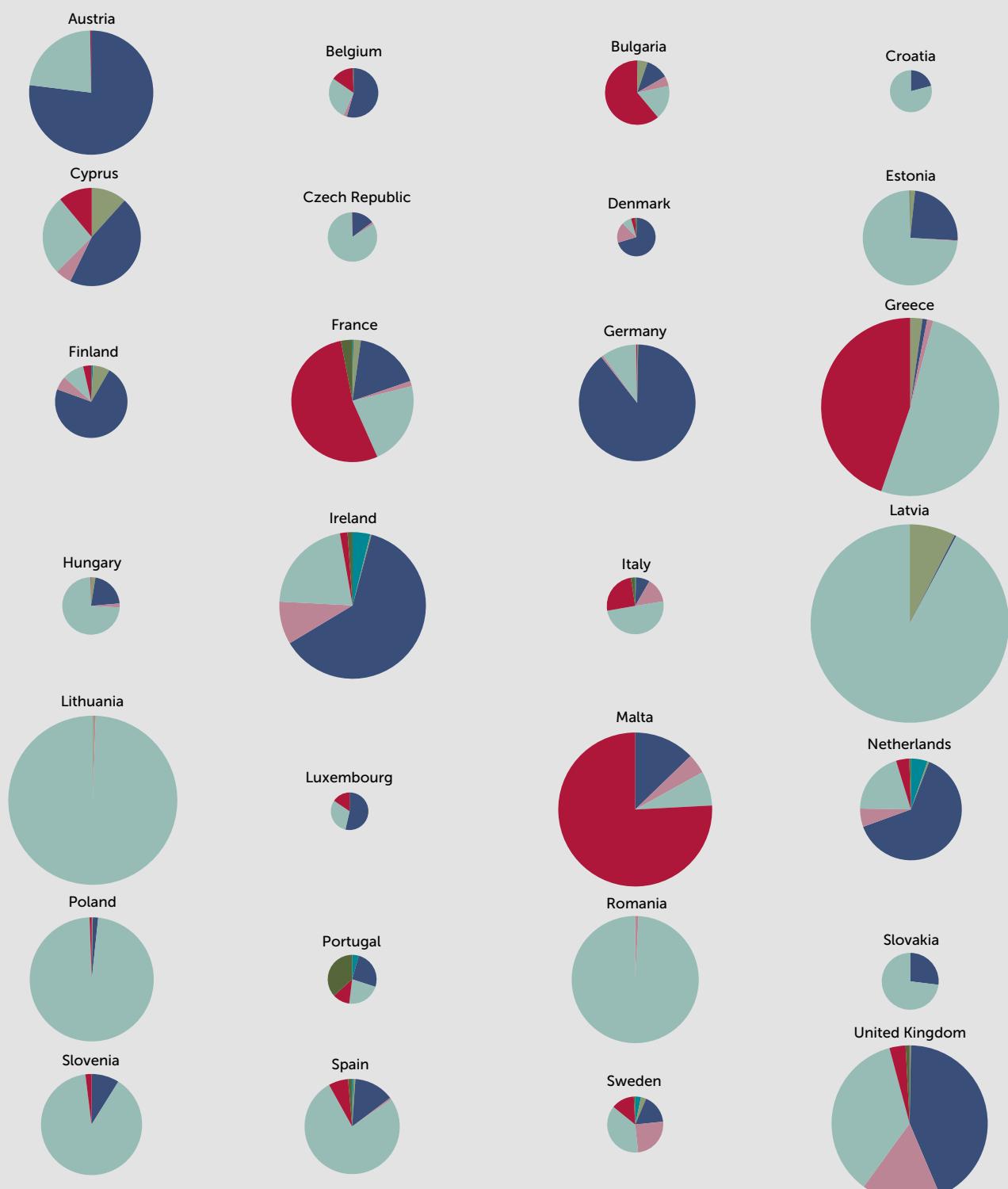
France and Malta register a high number of illicit cigarettes coming from the Middle East and North Africa—i.e., about 50% of the French black market and about 39% of the Maltese one.

Differently from the majority of the EU MSs, in some EU countries the illicit consumption is mostly made up of cigarettes originating from within the EU. This is the case of Germany (87% of the illicit consumption), Austria (71%), the Netherlands (59%), Finland (57%), Denmark (55%), Luxembourg (54%), Belgium (48%), and Ireland (45%).

The consumption of cigarettes coming from different regions also characterises the illicit markets of countries outside the EU, both in Europe and in other regions (see Figure 10).

Outside the EU, the consumption of cigarettes originating in the EU concentrates in few countries and it is majoritarian only in Norway (82.1% of the illicit cigarettes of known origin). Non-EU MSs in the Balkan Peninsula—i.e., Albania (90.8% of illicit cigarettes of known origin), Bosnia and Herzegovina (46.2%), Montenegro (63.8%), Kosovo (18.5%), North Macedonia (10.8%), Serbia (3.6%)—also register the consumption of illicit cigarettes originating from EU MSs—mostly from Bulgaria. However, in these countries of the Balkan Peninsula illicit cigarettes come mostly from other non-EU Balkan countries or from unknown origins.

Figure 9. Illicit consumption of cigarettes in the EU MSs by region of origin of the cigarettes (2017)



#### Legend

##### Origin of illicit cigarettes

- Americas
- Central Asia
- East Asia, South Asia and Pacific
- Europe extra EU
- EU
- Middle East and North Africa
- Sub-Saharan Africa
- Unknown

Size of the pie chart represents the share of illicit consumption on tot. cigarette consumption

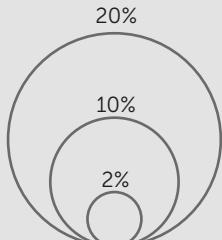
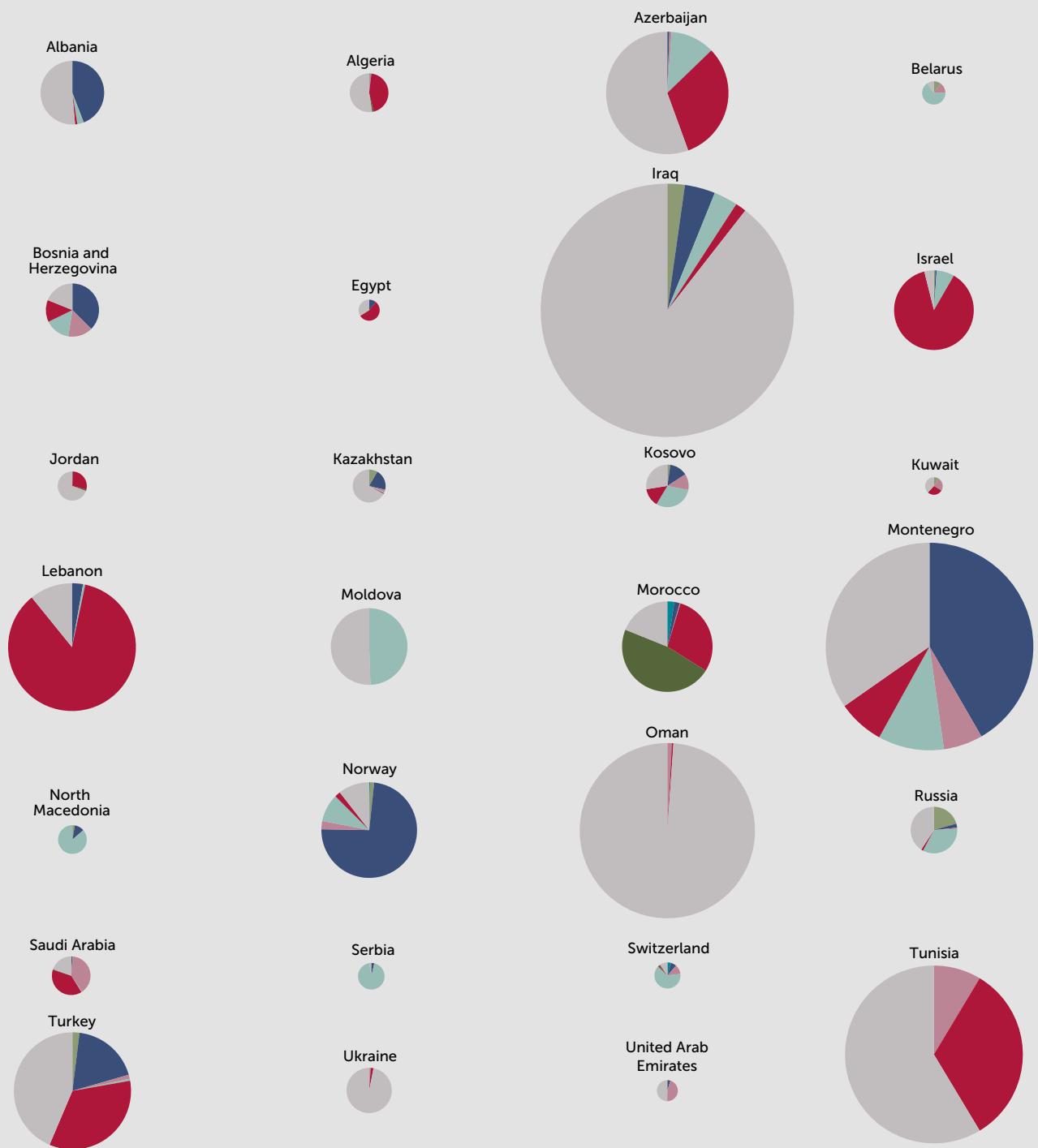


Figure 10. Illicit consumption of cigarettes in non-EU countries by region of origin of the cigarettes (2017)

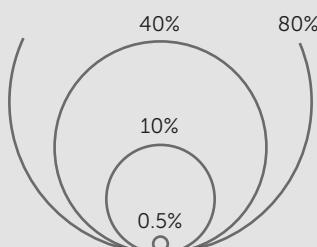


#### Legend

##### Origin of illicit cigarettes

- Americas
- Central Asia
- East Asia, South Asia and Pacific
- Europe extra EU
- EU
- Middle East and North Africa
- Sub-Saharan Africa
- Unknown

Size of the pie chart represents the share of illicit consumption on tot. cigarette consumption



### 3. Local and global flows of illicit cigarettes

*Illicit cigarettes flow from country to country along multiple paths*

The global dimension of the traffic emerges clearly when focusing on the paths along which traffickers move illicit cigarettes. Trafficking connections vary widely, and every country is part of a multitude of paths along which illicit cigarettes move across the world (see Box 10). Almost 900 different connections link the 150 countries involved in the trafficking of cigarettes targeting Europe, North Africa, Middle East and Central Asia.

While key origin countries (e.g., United Arab Emirates, about 9.0 billion illicit cigarettes leaving the country, Belarus 8.9 billion, Bulgaria 5.7 billion) are relatively few, **almost all countries act as origins and/or transits for their neighbouring countries**. In this regard, illicit cigarettes may transit along the same path, flowing between the same couple of countries in both directions (see Box 11).

#### Box 10. What is a path?

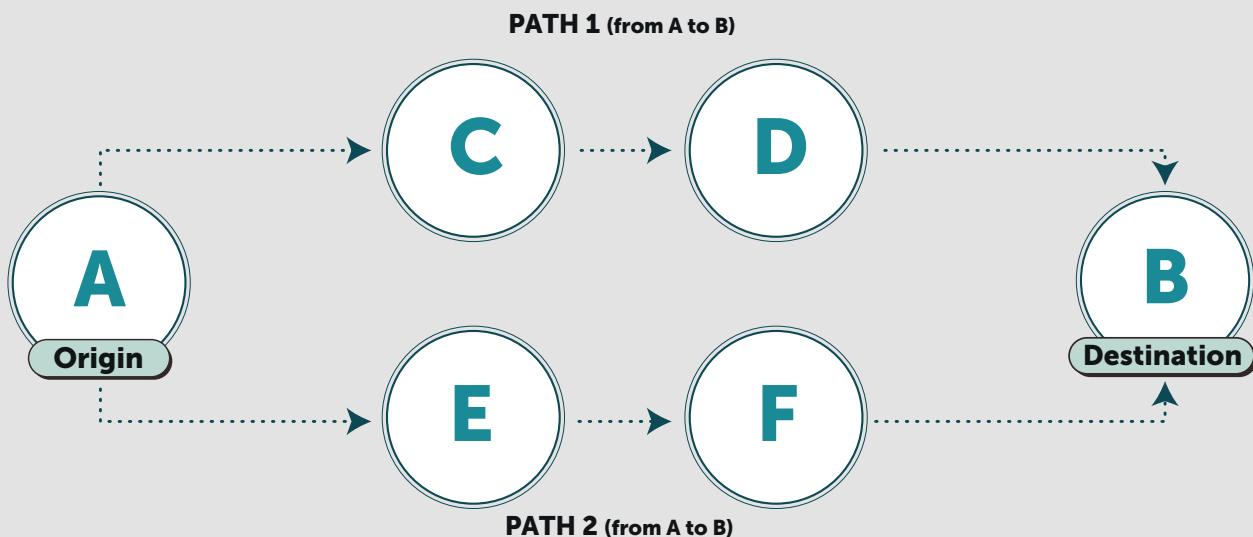
This study defines a 'path' as the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination, including both the countries of origin and destination.

For example, when moving cigarettes from country A to country B, criminals may pass through countries C and D or through countries E and F. Therefore, the cigarettes can move from A to B using two alternative

paths: A-C-D-B and A-E-F-B (see Figure 11).

Each of the 57 countries considered is involved in 52 different paths, on average (see Figure 12).

Figure 11. Two schematic paths from an origin country A to a destination country B



**Figure 12. All links of cigarette trafficking in Europe, Central Asia, North Africa and the Middle East (2017)**



Note: The map represents all links between pairs of countries forming the paths along which cigarettes move in the transnational trafficking of cigarettes. Larger lines between pairs of countries indicate larger flows of illicit cigarettes between those countries.

#### Box 11. Customs transit procedures

Customs transit procedures regulate the movement of goods either within a single customs territory, made up of multiple fiscal zones like the EU, or between different custom territories, which potentially extends these procedures over multiple fiscal zones. Customs transit procedures allow for customs taxation formalities to be carried out when a good arrives at its final destination, rather than at a transit point. This means that while a good is in transit the levying of duties and taxes is temporarily suspended.<sup>25</sup>

The Union Customs Code regulates the movement of goods between EU MSs. The Convention on Common Transit also includes Iceland, Norway, Liechtenstein, Switzerland, Turkey, North Macedonia, and Serbia.<sup>26</sup>

According to OLAF, criminals have found multiple ways to exploit weaknesses in transit procedures and at certain EU ports with weaker controls. Among them: undervaluing goods, hacking transit systems, bribing customs officials, and unlawfully unloading sealed

shipments of goods during the transition stage.<sup>27</sup>

Additional controls and stronger enforcement could reduce these weaknesses. Additional controls and enforcement measures, such as the use of GPS seals, limiting the number of days allowed for transit, and weighing goods on both entry and exit of a customs territory, could reduce these weaknesses.

### Illicit cigarettes flowing from a specific origin to a specific destination may follow numerous different paths.

Illicit cigarettes are estimated to flow from the United Arab Emirates to Algeria along as many as 98 different paths. Similarly, cigarettes manufactured in Ukraine may reach Ireland—one of their 30 final destinations—following 72 alternative paths.

These paths range from simple journeys to complex ones (see Figure 13). A cargo shipment that goes directly from the port of Istanbul in Turkey to the port of Athens in Greece is an example of a simple journey. At the other extreme, paths can involve more than 20 countries; this is the case when cigarettes consumed in Europe originate from South America or Eastern Asia.

On average, European, Central Asian, North African and Middle Eastern countries are connected to more than

10 countries—considering inflows and outflows—in the transnational trafficking of cigarettes.

### Not all trafficking connections are equally important.

The flows between two specific countries may be large because one or both of the involved countries have a key role as:

- origin of illicit cigarettes—e.g., due to the presence of large manufacturers of illicit whites;
- transit—e.g., due to the presence of poorly regulated FTZs (see Box 12);
- destination—e.g., due to large consumer markets with relatively unaffordable cigarettes.

Illustrative of this is the fact that, in 2017, both Germany and Turkey were recipients of two of the four largest illicit flows of cigarettes that intersected the area analysed (see Figure 14):

- 7.2 billion from Poland to Germany;

- 6.4 billion from Czech Republic to Germany;
- 5.3 billion from Bulgaria to Turkey;
- 4.4 billion from Iran to Turkey.

Germany and Turkey have a high consumption of illicit cigarettes and are also transits—Germany toward Western Europe, Turkey toward the Balkan Peninsula and the trafficking connections crossing the Mediterranean Sea.

Poland, Czech Republic, Bulgaria and Iran are, in turn, origins of illicit cigarettes but also transit countries for cigarettes of other origins. This is often the case of the largest flows; cigarettes flowing from one country to another are predominantly produced in the country from which they flow out, but not exclusively. For instance, Algeria is an important transit country for cigarettes originating in the United Arab Emirates and flowing into Algeria mainly from Libya.

**Figure 13. Two alternative paths followed by illicit cigarettes smuggled from the United Arab Emirates to Algeria (2017)**

#### Legend

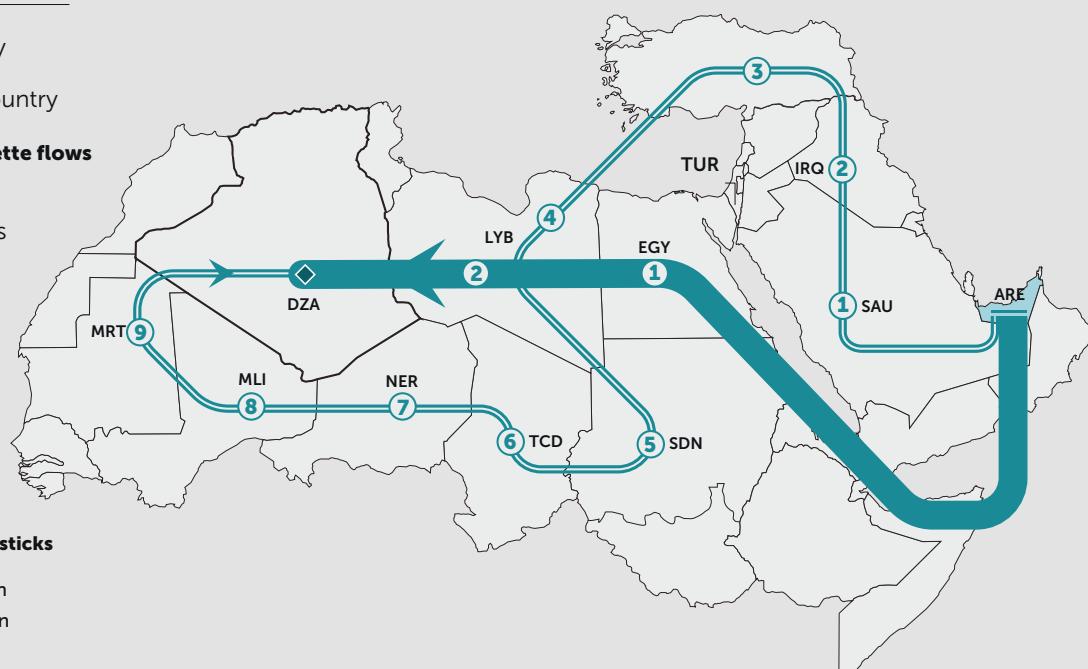
- Transit country
- ◆ Destination country

#### Origin of the cigarette flows

- ARE: United Arab Emirates

#### Volume - Number of sticks

- 3.6 million
- 10.4 million



Note: The visualization compares a shorter and a longer path. In the shorter path, illicit cigarettes flow from the port of Jebel Ali in the United Arab Emirates to Egypt and from there to Algeria traversing Libya. Along the longer path, the same cigarettes produced in the United Arab Emirates reach Algeria traversing more than 9 countries. Estimates refer to 2017.

Figure 14. Top 30 illicit flows of cigarettes by size (2017)



#### Legend

**0.0** → Billion of illicit cigarettes flowing from country A to country B

**A-B**

Note: The graph represents the main pairs of countries connected by the largest flows of illicit cigarettes in terms of number of cigarettes flowing along the connection. Flows sum all cigarettes moving along the connection regardless of their origin.

## Box 12. The role of FTZs in cigarette trafficking

### What are FTZs?

FTZs or commercial free zones are special areas created by governments to boost their economy and ease participation in global trade.<sup>28</sup> FTZs are ideally located at sea ports, or have easy access to internal waterways, or at airports, making them convenient transit points.<sup>29</sup> Within FTZs, goods are often exempt from any import and export duties and VAT. In some cases—e.g., in the United Arab Emirates' Jebel Ali FTZ—also no customs duties are levied on any machinery and raw materials.<sup>30</sup> The companies operating in FTZs may also be subject to less stringent labour, production and financial laws.

### Vulnerabilities of FTZs

The exemptions from the common regulations cause FTZs to be subject to certain vulnerabilities:

- scarcity of data about the commercial and trade activities taking place in the FTZs;

- the inability of the authorities to perform checks or lack of clear procedures to perform checks;
- weak cooperation between local and foreign customs authorities on goods entering and leaving the FTZs.<sup>31</sup>

### How criminals exploit FTZs' weaknesses?

The specificities and deregulations make the FTZs vulnerable to exploitation by criminal actors.<sup>32</sup> Criminal networks misuse the FTZs for, among other things, the smuggling of illicit tobacco products.<sup>33</sup>

Operating within FTZs enables OCGs to:

- conceal the illicit cigarettes among other goods;
- disguise the real country of origin and/or the final destination by relabelling cigarette packs;
- not declare the illicit cigarettes for transhipment.<sup>34</sup>

These *modi operandi* became apparent when the World Customs Organization carried out a global operation against cigarette trafficking, which was dubbed 'Operation Gryphon'. The operation revealed that at the FTZs, smugglers typically transfer the illicit cigarettes into different containers and purposely declare them wrongly or hide them among a diverse range of goods, such as textiles, wood, fertilizers or food. In this way, the cigarettes continue their journey as a seemingly low-value shipment.<sup>35</sup>

Actors involved in the trafficking of cigarettes possibly use FTZs, besides storage, as manufacturing sites for illicit whites, contraband or counterfeit cigarettes.<sup>36</sup> Illicit whites brands are often legally manufactured in the FTZs but illegally exported to their final markets. For instance, Richman cigarettes are produced in the Jebel Ali FTZ in order to be sold on the EU's black market. This brand of illicit whites has been frequently intercepted by customs in various European countries.<sup>37</sup>

# 4. Routes of cigarette trafficking

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The analysis of the flows shows that illicit cigarettes do not move randomly across countries. Many paths move across the same countries and **the main flows tend to align along identifiable routes**.

**Three main routes** emerge when focusing on cigarette flows entering the EU (see Figure 15):

## 1. The North-Eastern Route.

Along the North-Eastern Route, cigarettes produced in extra-EU Eastern Europe flow to Central and Western Europe.

## 2. The Extended Balkan Route.

The Extended Balkan Route connects the Middle East with countries in South and Central Europe—e.g., Italy, Austria—passing through Turkey, Greece, and the other Balkan countries.

## 3. The Maghreb Route.

The Maghreb Route traverses Libya, Tunisia, Algeria, Morocco. Along this Route, cigarettes coming from the Arabian peninsula, Sub-Saharan Africa, and the Maghreb countries, flow into Europe.

**All three routes have a historical relevance for both licit and illicit trades;** still today, cigarettes are not the only illicit goods flowing along them. For instance:

- the countries of origin of illicit cigarettes of the North-Eastern Route export also illicit firearms;
- along the Extended Balkan Route, multiple types of trafficking occur—in particular of heroin, but also human beings;
- operating along the Maghreb Route are drug—in particular hashish—traffickers but also human traffickers and firearm traffickers.

**Countries along each of these routes connect primarily with each other in the cigarette trafficking.** For instance, almost the entirety (97.9%) of the 8.8 billion illicit cigarettes leaving Belarus reach other countries of the North-Eastern Route:

- 49.8% of the outflows target Eastern EU MSs—in particular, Latvia, Lithuania, Poland;
- 48.1% of the outflows target other extra EU countries—in particular, Russia, Ukraine, Moldova.

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*The routes of cigarette trafficking are traversed also by other illicit flows*

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At the same time, **paths within different routes interconnect and overlap**. For instance, Romania is an intersection of both the North-Eastern Route and the Extended Balkan Route because it imports and exports illicit cigarettes flowing along the two routes. 4.2 billion cigarettes outflowing from Romania move along the Extended Balkan Route; outflows amounting to about 1.3 billion move along the North-Eastern Route. Other flows (0.1 billion) move by sea to directly reach other countries within the EU like Cyprus or the United Kingdom.

Similarly, illicit cigarettes originating from the Arabian peninsula transit through Greece to reach both North African countries—Maghreb Route—and the Balkans—Extended Balkan Route.

Equally, 11.8 billion illicit cigarettes outflowing from Bulgaria reach other countries of the Extended Balkan Route, of which Bulgaria is a main hub. Flows of illicit cigarettes from Bulgaria to any other country amount to 0.8 million.

**Figure 15. Three main routes of cigarette trafficking entering Europe (2017)**

## **Legend**

### **Volume - Number of sticks**

Graphic reference scale

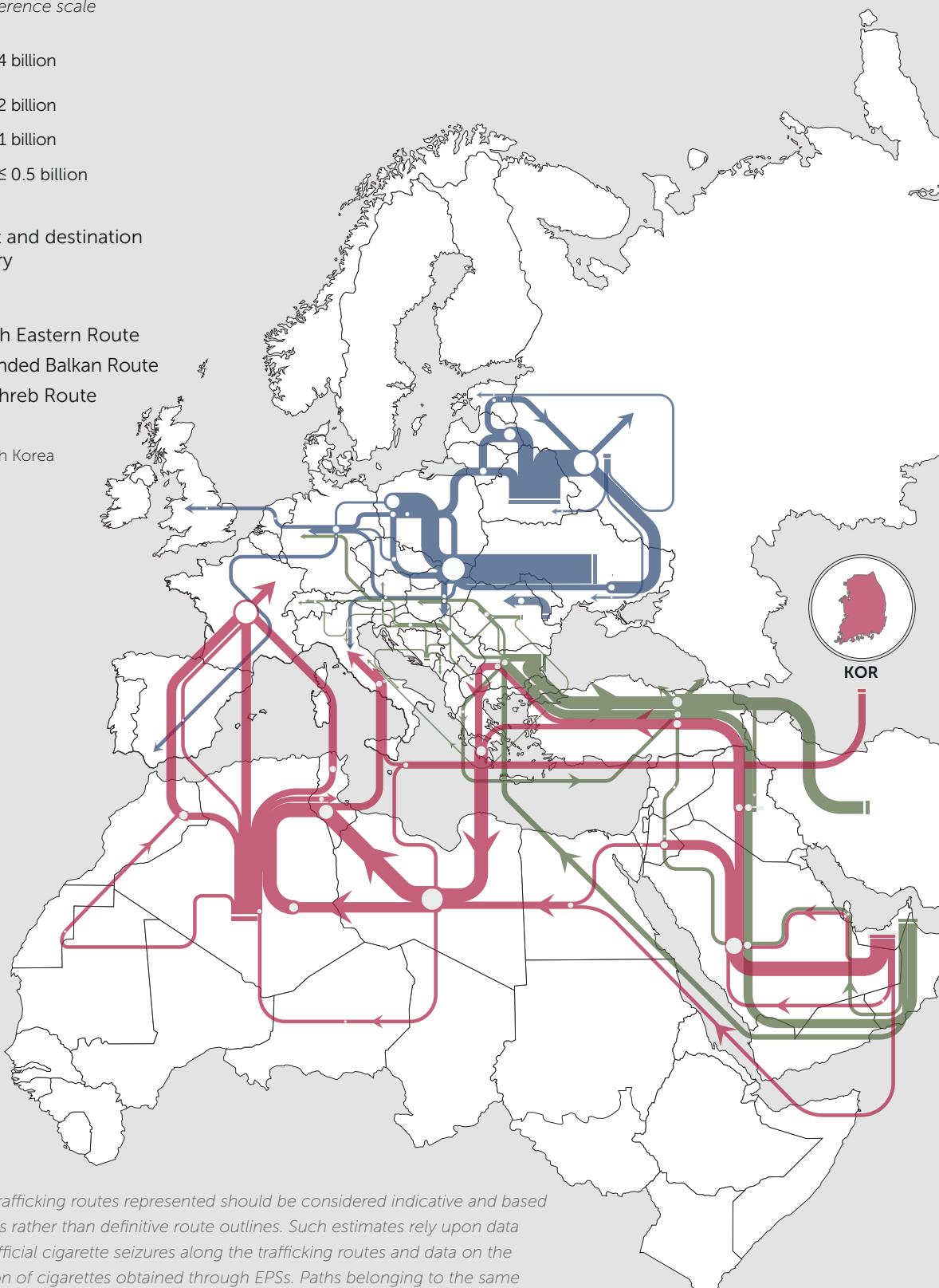
-  4 billion
-  2 billion
-  1 billion
-  ≤ 0.5 billion

-  Transit and destination country

### **Routes**

-  North Eastern Route
-  Extended Balkan Route
-  Maghreb Route

KOR: South Korea



Note: The trafficking routes represented should be considered indicative and based on estimates rather than definitive route outlines. Such estimates rely upon data related to official cigarette seizures along the trafficking routes and data on the consumption of cigarettes obtained through EPSs. Paths belonging to the same route may deviate to other countries along the routes and there are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

# Glossary

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The following terms have been used in the present booklet with the following meaning:

**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 small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.<sup>38</sup>

**Contraband or smuggling:** the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>39</sup>

**Counterfeits:** 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.<sup>40</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Domestic cigarettes:** cigarettes that originate from the same market in which they are consumed.

**Domestic whites:** domestic cigarettes that are priced below the minimum tax yield. These cigarettes are treated as having not been legally sold in the country in question.<sup>41</sup>

**Duty-free cigarettes:** cigarettes bought without payment of customs or excise duties. Consumers may buy duty free cigarettes when travelling into or out of the EU (including Switzerland and Norway) by land, air or sea at legal duty free shops.<sup>42</sup>

**Empty pack survey (EPS):** survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>43</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):** governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organisation are the international and European agencies included in this category.

**Non-domestic cigarettes:** cigarettes

that originate from a market different from the one in which they are consumed. They may be legal if brought into the market legally by consumers, for instance during a cross-border trip, or illegal if brought into the market illegally.<sup>44</sup>

**Origin country:** country from which

the illicit flow of cigarettes originates.

**Outflow:** the outward flow of

cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of

paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through

which cigarettes pass to flow from their country of origin to their country of destination.

**Unspecified:** cigarette packs which

do not bear specific market labelling.<sup>45</sup>

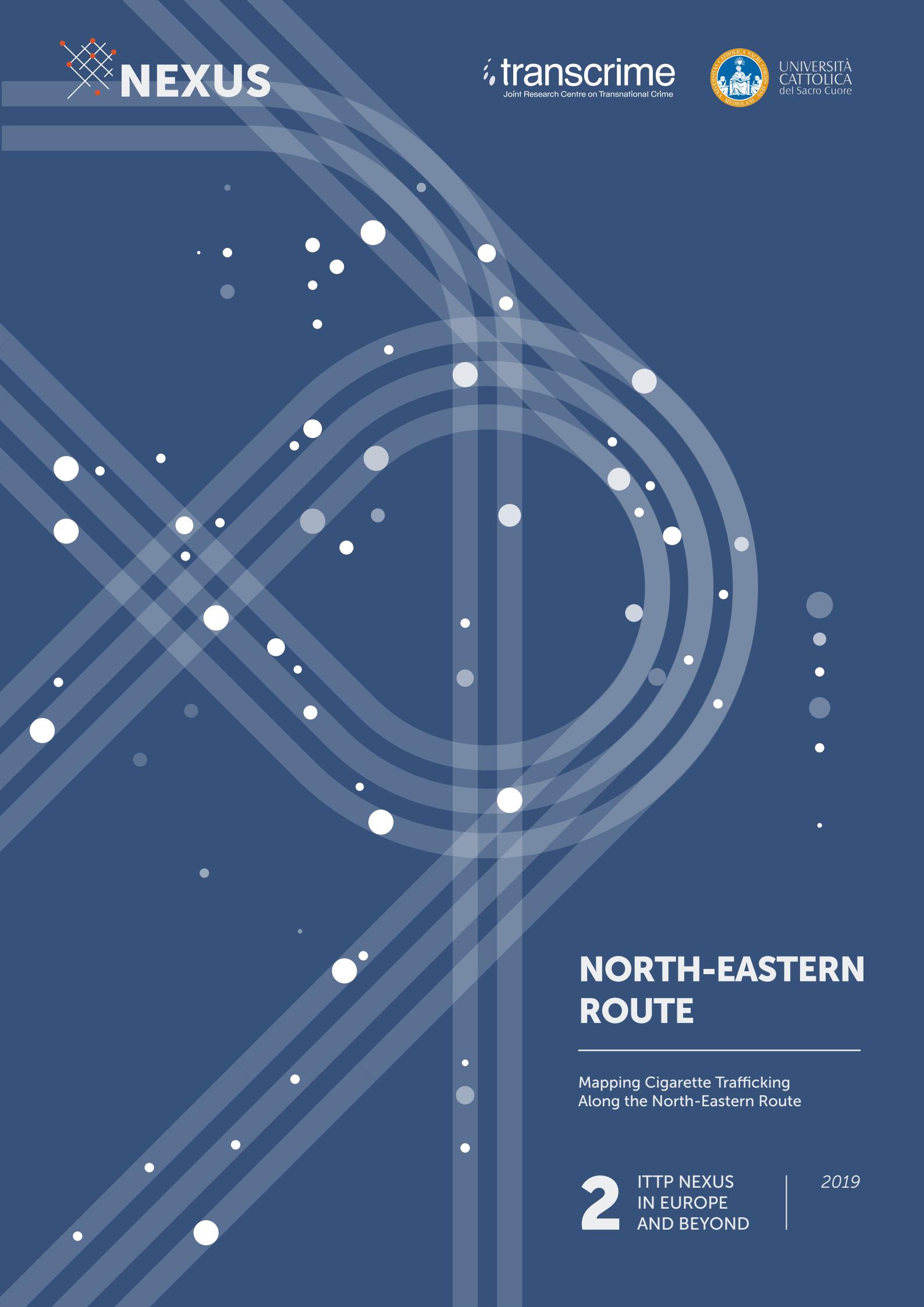
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## NORTH-EASTERN ROUTE

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Mapping Cigarette Trafficking  
Along the North-Eastern Route

**2** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## **NORTH-EASTERN ROUTE**

*Mapping Cigarette Trafficking Along the North-Eastern Route*

### **Acknowledgements and credits**

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Aziani, Alberto, Marina Mancuso and Luca Cinciripini. 2019. "North-Eastern Route - Mapping Cigarette Trafficking Along the North-Eastern Route". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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# Explanatory notes

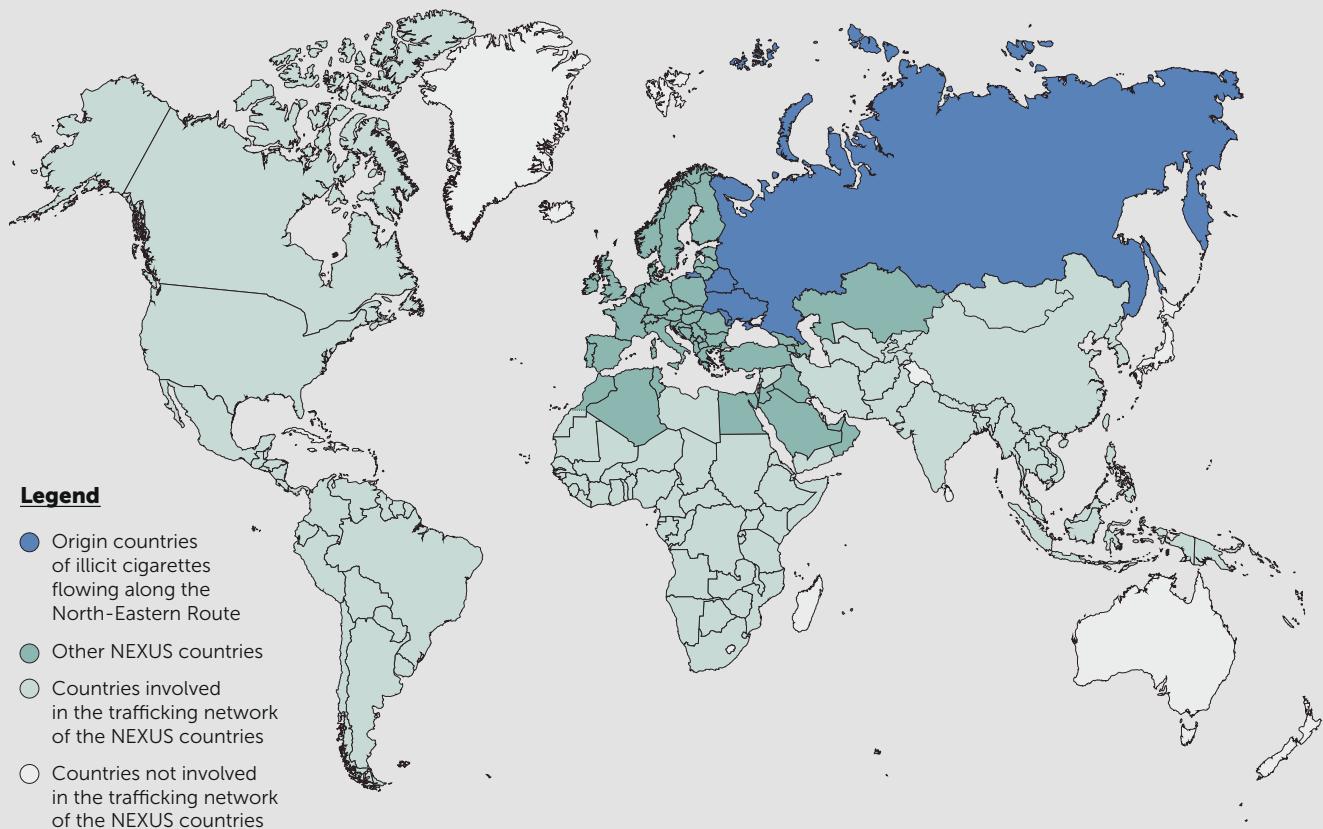
Within the context of the *North-Eastern Route - Mapping Cigarette Trafficking Along the North-Eastern Route* booklet, the 'North-Eastern Route' refers to illicit flows of cigarettes originating in countries located in Eastern Europe but outside the EU (i.e., Belarus, Moldova, Russia, Ukraine) and consumed in Central and Western EU countries.

All analyses contained in the *ITTP NEXUS in Europe and Beyond* Report are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in the present booklet:

BTF	Baltic Tobacco Factory	MS	Member State
EAEU	Eurasian Economic Union	OCG	Organised Crime Group
EU	European Union	OLAF	European Anti-Fraud Office
FTZ	Free Trade Zone	SEZ	Special Economic Zone
IRA	Irish Republican Army	WHO	World Health Organization
LEA	Law Enforcement Agency	WTO	World Trade Organization

## Countries of origin for the North-Eastern Route



# Introduction

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This booklet constitutes the second chapter of the *ITTP NEXUS in Europe and Beyond Report*. It maps the transnational traffic of cigarettes along the North-Eastern Route.

Section 1 describes the main illicit cross-border flows of cigarettes along the Route.

Section 2 outlines the main types of illicit cigarettes trafficked along the Route.

Section 3 presents the main criminal actors involved in cigarette smuggling along the Route.

Section 4 focuses on five key nodes of the Route (i.e., Russia, Belarus, Ukraine, Poland and the Baltic states), uncovering several country-level contextual factors and drivers behind cigarette smuggling.

Section 5 describes the evolution of the Route in the last ten years (2008-2017).

Section 6 discusses the potential changes and developments that may impact on the Route in the near future.

Section 7 graphically summarises the enabling factors identified as drivers behind the traffic of cigarettes along the North-Eastern Route. The factors are divided among six macro dimensions, namely political, geographical, regulation and enforcement, socio-economic, cultural, and criminal factors.

# Key facts

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## Overview

*2017 figures*

About **1 out 4 illicit cigarettes consumed in the EU are trafficked along the North-Eastern Route**. These illicit cigarettes flow from extra-EU Eastern European countries to EU MSs.

**Belarus and Ukraine are the main countries of origin** of cigarettes trafficked along the Route.

The **key entry points** in the EU are Poland, Slovakia and the Baltic countries.

The main EU **destination countries** are Germany, the United Kingdom, France, Scandinavia and Italy.

Cigarettes originating in EU MSs (mainly Poland and Czech Republic) bound for other EU MSs where cigarettes are more expensive also flow **from East to West**.



## Illicit cigarettes

*2017 figures*

About **half of the illicit cigarettes** that flow along the North-Eastern Route **are illicit whites; the other half are contraband cigarettes**.

**Illicit whites** are mainly trafficked to Eastern EU countries.

**Contraband cigarettes** are mainly trafficked to Northern and Western EU countries.



## Actors

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**OCGs are involved in large-scale cigarette smuggling**, mainly in Russia, Ukraine and Belarus.

**Numerous small-scale traffickers smuggle cigarettes** for personal use or to sell them to acquaintances.



## Evolution of the Route

The trafficking along the North-Eastern Route decreased by almost 50% from 2008-2012 to 2017.

**Russia has lost its role as a key origin country**, and has become a key destination country. The consumption of illicit cigarettes in Russia increased tenfold between 2008-2012 and 2017, due to increases in excise taxes on cigarettes. The lack of deterring anti-illicit trade legislation in Russia and in the other Eurasian Economic Union (EEAU) MSs, and the possibility to freely move goods among the EEAU MSs likely contributed to this rise.



## Main enabling factors

Cigarette **price differentials** along the borders with the EU and between different EU countries.

**Scant control on the extra production of illicit whites.**

Presence of **structured OCGs** involved in smuggling activities.

**Increases in excise taxes** on cigarettes.

**Lack of efficient/effective regulation on import and export phases** in many of the involved countries.

**Ineffective** EU external **border controls** and absence of controls on borders among Schengen countries and the EEAU MSs.

**Widespread corruption** of border officials and government authorities.

# 1. Illicit cross-border flows of cigarettes

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*1 out of 4 illicit cigarette consumed in the EU is trafficked along the North-Eastern Route*

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The North-Eastern Route is crucial for the smuggling of illicit cigarettes to and through Europe (see Figure 1 and Figure 2). In 2017, **more than 10 billion illicit cigarettes flowed along the North-Eastern Route**. This figure refers to cigarettes produced in Belarus, Ukraine, Moldova and Russia which are trafficked and consumed in the EU MSs.

**The Route originates in Eastern European countries bordering with the EU**—i.e., Belarus, Moldova, Russia and Ukraine—where many illicit whites' producers are located and where prices of legitimate cigarette are disproportionately lower than in the EU markets.<sup>1</sup> Poor regulation, lack of cooperation across and within these countries and at their borders also increase the risks of cigarette smuggling and reduce the effectiveness of any effort to fight against and prevent it.

Illicit cigarettes flow West passing through **Eastern and Central EU countries, which act as both transit and destination markets**.

Distinguishing the specific role of each country in the cigarette traffic is not always easy. Many countries along the North-Eastern Route are at the same time origins, transits, and destinations of illicit cigarettes. Further, the increased number of countries that have joined the Schengen Area in recent years allows illicit cigarettes to easily access Western Europe thanks to the reduction of border controls.

*Poland, Slovakia and the Baltic countries are key transit points for cigarette trafficking*

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In particular, **Poland and Slovakia are key transit hubs for cigarettes originating in Belarus and Ukraine**—and to a lesser extent in Kaliningrad—moving to Western and Southern EU MSs. Slovakia and Poland are each transit points for about 1.5 billion Ukrainian illicit cigarettes heading towards Western Europe, mainly to Germany, the United Kingdom, Italy and France. Romania is another major destination market for illicit cigarettes from Ukraine and the main destination for cigarettes originating in Moldova.

**Poland and, to a lesser extent, the Baltic states are origin countries for illicit cigarettes consumed in higher-**

**price Western EU markets.** In 2017, more than 6 billion illicit cigarettes originated in Poland and the Baltic states. The overwhelming majority of them (about 83%) flowed from Poland to either Germany (about 4 billion cigarettes) or the United Kingdom (about 1 billion cigarettes). While moving towards the West, these additional flows follow the same paths as cigarettes originating from outside the EU and moving along the North-Eastern Route.

In 2017, the major EU destination markets for illicit cigarettes flowing along the North-Eastern Europe were Poland and the United Kingdom, which consume respectively about 3 billion and 2 billion illicit cigarettes produced in Belarus, Ukraine, Moldova and Russia. Italy and France were important destinations for Ukrainian illicit cigarettes (about 0.5 billion each), while Germany was a prominent destination market for Belarusian illicit whites (0.4 billion cigarettes). In 2017, Moldovan illicit cigarettes were mainly smoked in Romania (0.8 billion cigarettes), which also consumed about 0.5 billion illicit cigarettes from Ukraine.

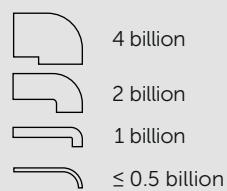
Outside the EU, **the majority of the illicit cigarettes originating in Belarus are consumed in Russia** (about 4 billion cigarettes out of a total of 8.8 billion) where they flow either directly or after transiting through the Baltic states. In the first case, smugglers exploit the membership of both countries to the EAEU, that effectively reduces customs controls and does not limit the quantity of goods imported for personal consumption between their MSs.<sup>2</sup>

**Figure 1. The North-Eastern Route of cigarette trafficking (2017)**

### Legend

#### Volume - Number of sticks

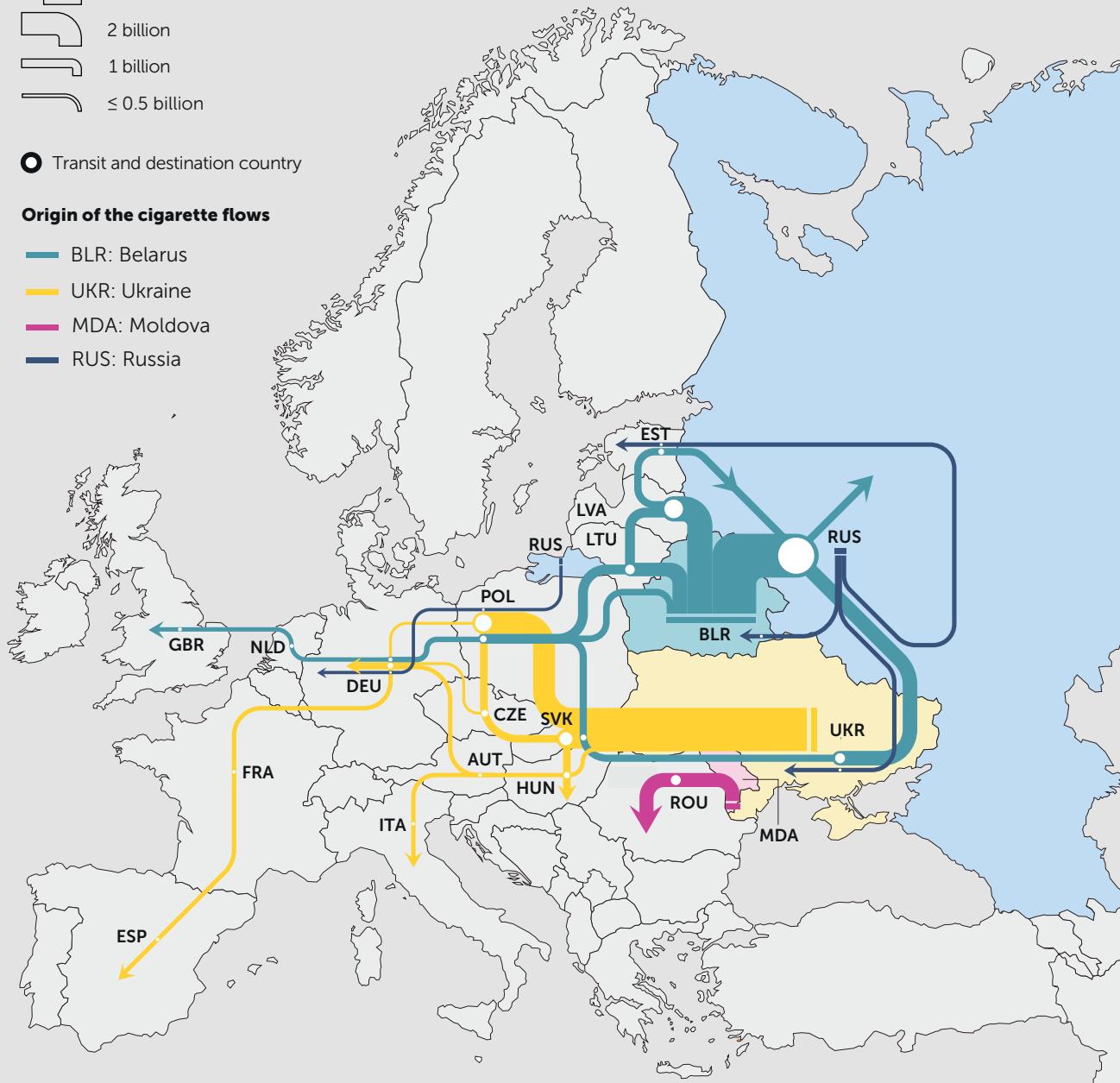
Graphic reference scale



● Transit and destination country

#### Origin of the cigarette flows

- BLR: Belarus
- UKR: Ukraine
- MDA: Moldova
- RUS: Russia



Note: The map represents the main illicit flows of cigarettes originated in Belarus, Moldova, Russia and Ukraine. The flows represented should be considered indicative and based on estimates rather than exact values. Such estimates rely upon data related to official cigarette seizures along the trafficking paths and data on the consumption of cigarettes obtained through EPSSs. Paths may deviate to other countries along the North-Eastern Route and there are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

**Figure 2. All links of cigarette trafficking involving the North-Eastern Route (2017)**



Note: The map represents all links between pairs of countries forming the paths involving the North-Eastern Route. Larger lines between pairs of countries indicate larger flows of illicit cigarettes between those countries.

## 2. Trafficked cigarettes

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In 2017, about half of the illicit cigarettes flowing along the North-Eastern Route were illicit whites, while the other half was made up of contraband genuine cigarettes.

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*Illicit whites are the most widespread trafficked product in countries located on the eastern side of the North-Eastern Route*

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Illicit whites are the predominant component of trafficking to the Eastern EU MSs. In 2017, about 55% of the illicit cigarettes originating in Belarus, Moldova, Russia and Ukraine and consumed in Eastern EU MSs (i.e., the Baltic states, Poland, Romania, Slovakia, Hungary, and the Czech Republic) were illicit whites.

Illicit whites are the major component of illicit consumption also in the origin countries of this type of cigarette, i.e. Moldova,

Russia and Ukraine. Belarus is an exception. On the one hand, illicit cigarette consumption in Belarus is low—about 1% of total consumption in 2017—and it comprises mainly contraband cigarettes. On the other hand, **Belarus is recognised as a major origin of illicit whites**. The state-owned Grodno Tobacco Factory Neman (GTFN) manufactures cigarettes of brands that are trafficked to the EU in large volumes. The main ones are Fest, NZ, Mins, Premier and Queen.<sup>3</sup>

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*The illicit consumption in Western Europe and Scandinavia predominantly consists of contraband cigarettes*

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Genuine contraband cigarettes are the main type of product trafficked along the North-Eastern Route towards Central and Western Europe and Scandinavia. In 2017, three out of four illicit cigarettes originating in Belarus, Moldova, Russia and Ukraine and consumed in Sweden, Finland, Norway, Spain, Italy, France, Belgium, Germany, Austria, the Netherlands, Ireland and the United Kingdom were contraband cigarettes.

More in general, illicit consumption in these EU countries is still mainly composed of genuine contraband cigarettes—75% of illicit consumption in 2017. Italy is an exception, because in that country illicit whites represented slightly more than 50% of total illicit consumption in 2017.

**LEAs of the countries along the Route intercept also large shipments of counterfeit cigarettes.**<sup>4</sup> However, the trafficking of counterfeit cigarettes is secondary when compared with the trafficking of illicit whites and contraband cigarettes.

### 3. Criminal actors

Three types of criminal actors operate along the North-Eastern Route:

- 1) transnational criminal networks;
- 2) medium-scale traffickers;
- 3) independent small-scale smugglers.<sup>5</sup>

#### **Transnational criminal networks**

Transnational criminal networks often consist of large-scale actors with high levels of organisation and expertise in cigarette smuggling. Within these networks, there may be OCGs and, occasionally, also terrorist groups from peripheral countries along the Route (see Box 1).<sup>6</sup> The involvement of OCGs in this illicit business favours the development of established smuggling practices and represents a substantial source of income for the groups themselves.

*Transnational criminal networks are the main actors involved in cigarette trafficking along the North-Eastern Route*

**OCGs are largely present in Russia and Ukraine.** Especially in Ukraine, OCGs prosper due to the loosening of state control that started with the conflict afflicting the country since 2014.<sup>7</sup> Large-scale actors are active also in Poland.<sup>8</sup> Besides national OCGs, Polish authorities have identified also Lithuanian, Ukrainian and Russian-speaking OCGs engaged in illicit manufacturing and smuggling in the country (see Box 2).<sup>9</sup>

*Large-scale cigarette illicit trade tends to be conducted by senior and experienced criminals<sup>10</sup>*

Along the North-Eastern Route, people operating in large-scale smuggling are usually older than small-scale traffickers. About two fifths of them are aged between 40 and 54, while small-scale cigarette traffickers tend to be in their thirties.<sup>11</sup> An exception is represented by Belarusian criminal groups, usually composed of younger subjects. Cigarette smuggling is a source of income for Belarusian young people due to the higher youth unemployment rate than in other countries.<sup>12</sup>

#### **Box 1. Cigarette trafficking and terrorism**

Michael Campbell was sentenced in 2011 by a Lithuanian court to 12 years in prison for cigarette smuggling and for purchasing weapons and explosives for the Real Irish Republican Army (Real IRA). The judicial case has not yet ended; however, the trial brought to light the relationship between Irish terrorist groups and cigarette smuggling. Michael's brother, Liam Campbell, a member of the Real IRA, is one of the four perpetrators of the 1998 Omagh attack that caused 29 deaths. This was one of the bloodiest attacks of the "Troubles" period in the Irish conflict.<sup>13</sup>

#### **Box 2. Criminal cooperation in illicit cigarette production in Poland**

In Poland, a highly specialised OCG has been involved in the illegal production of counterfeit cigarettes intended for the German black market. Cooperation between Ukrainian, Lithuanian and Polish criminals has been crucial in this case. Companies in Ukraine delivered the tobacco; other intermediate inputs—e.g., papers, filters, chemical precursors—through the Lithuanian port of Klaipeda; while the manufacturing took place in Poland.<sup>14</sup>

## Medium-scale traffickers

**Medium-scale actors act as distribution channels for large-scale criminals.** They usually use vans or cars that are purposely modified to conceal cigarettes. Most of them operate on medium-short distances.

A strategy frequently employed by this type of actor is the concealment of illicit cigarettes among other goods or within other objects, like tree logs or wooden planks (see Box 3 and Box 4).<sup>15</sup> Medium-scale actors also use postal and courier

services to transport and deliver illicit cigarettes since they enable under-the-radar shipments. The growth of e-commerce has also facilitated the illicit cigarette trade since the identification of the smugglers in this case is more difficult.

### Box 3. Thousands of illicit cigarettes hidden among Russian sweets and cakes

On Tuesday the 21<sup>st</sup> of August 2018, the Lithuanian customs authorities stopped a Russian truck driver at the Medininkai checkpoint near the border with Belarus. At first, the driver told

the Lithuanian custom officials that he was transporting sweets and chocolates from the Russian exclave Kaliningrad. However, upon closer inspection of the vehicle, using an X-ray scanner,

the officials found 67 boxes of illicit cigarettes concealed among boxes of sweets, chocolates and cakes. The reported value of the cigarettes was 100,000€.<sup>16</sup>

### Box 4. Cigarettes hidden inside tree logs and wooden planks

In 2013, officers from the Romanian Politia de Frontiera detected 70,000 packs of cigarettes hidden inside hollowed-out tree trunks. The seizure took place at the Vicsani Railway Station near the border with Ukraine. The cigarette packages had been bundled together and stuffed inside the logs, after which they were to be transported by freight train from Ukraine to Romania.<sup>17</sup>

A similar scheme was uncovered by Ukrainian border guards, who caught a group of Russian smugglers who were attempting

to cross the border with Poland at the Yagodyn checkpoint, in 2015. During a random search, the customs officers discovered a total of 25,000 packs of illicit cigarettes. The cigarettes had been concealed inside 55 hollowed-out tree trunks, which had been sealed again. The suspicion of the Ukrainian border officers was aroused when they noticed that some of the logs seemed to weigh significantly less than the others. The cigarettes had been manufactured in Belarus and were destined for a privately held Polish company. From there, the cigarettes were allegedly meant to continue their journey to eventually

reach Germany and the United Kingdom.<sup>18</sup>

In late 2013, Latvian border guard officers uncovered 2.7 million illicit cigarettes concealed inside a lumber truck that was parked on the property of a cargo company in Riga. The illicit cigarettes were hidden in special compartments inside wooden planks. The cigarettes carried Belarussian tax stamps. Approximately 1.8 million Minsk branded cigarettes and 0.9 million NZ branded cigarettes were seized. The Latvian state would have missed out on about 400,000€ in taxes.<sup>19</sup>

## **Independent small-scale smugglers**

Small-scale actors have a low level of organisation; they are engaged in the smuggling of small quantities of cigarettes, sometimes for personal use, otherwise to sell them to enclosed networks of acquaintances. They often operate on the borders between EU MSs and non-EU countries; principally, on the borders between Poland and Belarus, and between Russia and the Baltic countries.<sup>20</sup> They mainly use cars, often modified to conceal cigarettes (see Box 5).

**Many of these small-scale actors are pushed to engage in illicit cigarette cross-border trade by poverty and unemployment.** The high degree of tolerance of cigarette trafficking provides incentives for involvement in this illicit trade.

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*Small groups and individuals benefit from significant price differentials between neighbouring countries to run small-scale smuggling schemes*

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### **Box 5. Three ways to carry out small-scale smuggling**

1. Loading cigarette packets into shopping bags in the back of a car, hoping not to be stopped and searched by the border officers. This was done by a mother and her son, who were caught near Satu Maru, Romania. They were attempting to drive a car with 1,000 packs of Ukrainian-made illicit cigarettes across the border with Hungary.<sup>21</sup>
2. Concealment of cigarette packs under clothing, strapping the packs to the body, or stuffing them inside bras. This type of smuggling occurred, for example, across the border from Chernivtsi in south-western Ukraine and Romania. A whole bus of what seemed regular commuters turned out to be women attempting to smuggle small quantities of cigarettes into Romania with the complicity of the bus driver and of the Romanian border guards.<sup>22</sup>
3. 'Soundproofing' of vehicles with packets of cigarettes. The smugglers stash cartons or packets of cigarettes inside any imaginable free space in the cars—inside fuel tanks, dashboards, behind removable door panels, under the floorboards, inside the spare tire compartments, in the bumpers, under the backseats or even in custom-made compartments or double walls in e.g. the roof of a vehicle.<sup>23</sup>

# 4. Key nodes of the Route

## Russia

Based on 2017 data



### ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**12.7** billion

Tot. illicit cigarettes consumed of unknown origin

**5.2** billion

Main origin of illicit cigarettes

**Belarus**



### ILLICIT INFLOWS

N. of inflows

**15**

Tot. inflowing volume

**13.4** billion

Main inflow

**4.3** billion sticks from Belarus  
(32% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**96**



### ILLICIT OUTFLOWS

N. of outflows

**27**

Tot. outflowing volume

**6.8** billion (about half of the inflows)

Main outflow

**1.8** billion sticks to Ukraine  
(26% of tot. outflows)

Tot. illicit cigarettes originating in Russia

**0.9** billion

Main final destination of the outflowing cigarettes

**Iraq**

### MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

#### Legend

○ Transit and destination country

- - ○ - Indirect connection

#### Origin of the cigarette flows

Belarus

Volume (N. of sticks)  
Graphic reference scale

Kyrgyzstan

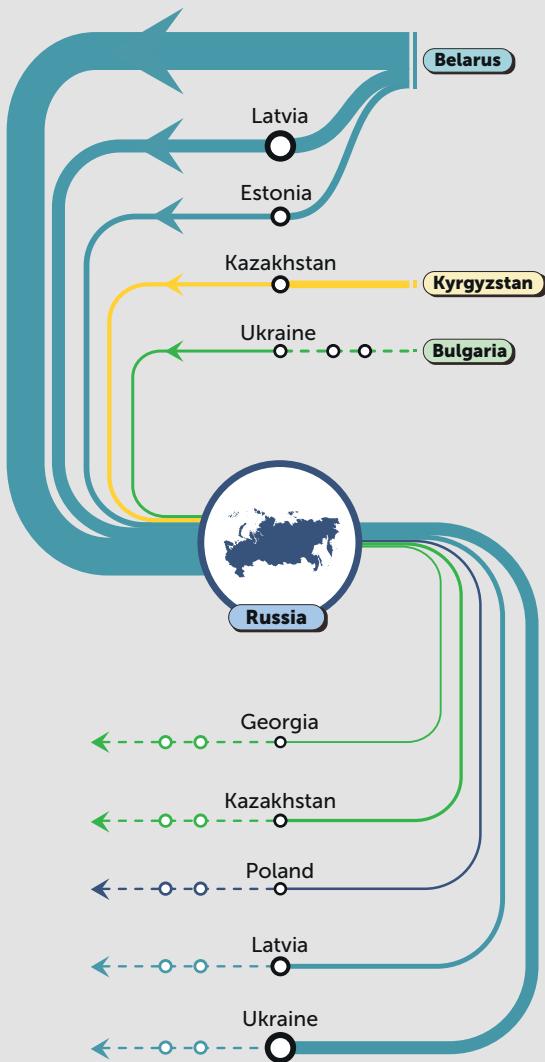
4 billion

Bulgaria

2 billion

Russia

≤ 0.2 billion



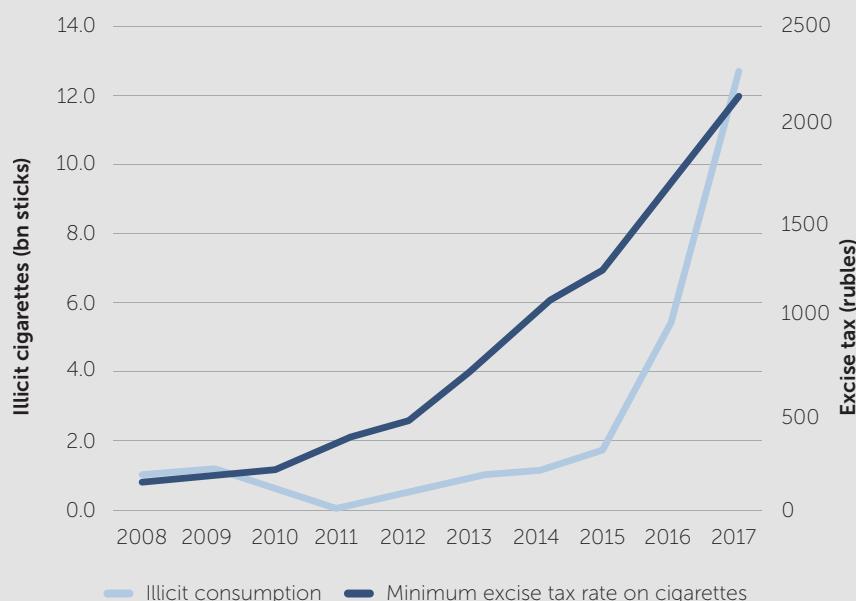
## The black market for cigarettes is expanding in Russia

**Russia is becoming an important destination market for illicit cigarettes**, even if the penetration of illicit cigarettes is still below 5% of the total consumption. In 2017, 12.7 billion illicit cigarettes were smoked in Russia. That year recorded a major increase in the illicit consumption in the country, which amounted to about 5.4 billion in 2016 and 1.8 billion in 2015.

**The main reason for the exceptional increase in illicit consumption** in the country **is the substantial increase in excise taxes on cigarettes** in Russia starting from 2010. Excise taxes on cigarettes increased from 175 roubles plus 6.5% of the maximum retail price (minimum 210 roubles in total) in 2010 to 1,562 roubles plus 14.5% of the maximum retail price (minimum 2,123 roubles in total) in 2017 (see Figure 3).<sup>24</sup>

In addition, the Administrative Code of the Russian Federation penalizes the movement of tobacco products only in cases where the tobacco products that are commercially transacted have no marking or labelling.<sup>25</sup> Moreover, the limit on the amount of tobacco products that an individual can bring into Russia is set higher than in Belarus, Ukraine and the Baltic states. This weaknesses in the law may be contributing to the increase of illicit flows in Russia.

**Figure 3. Correlation between cigarette taxes and illicit cigarette consumption in Russia (2008-2017)**



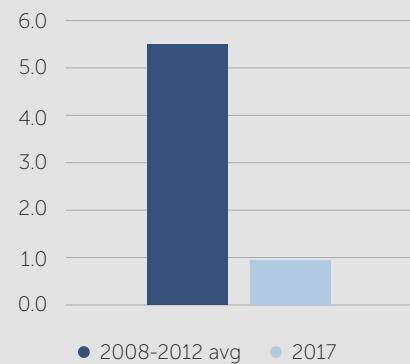
Source: Transcrime estimates and World Bank data on cigarettes excise tax rates.<sup>28</sup>

Since 2010, **the depreciation of the Belarusian rouble is another reason behind the upsurge in the flow of illicit cigarettes into Russia**.<sup>26</sup> In particular, it drives the increasing trend in contraband flows from Belarus to Russia, while illicit whites inflows from Belarus seem to be less influenced by changes in the exchange rate between the two local currencies.

The illicit inflow of cigarettes from Belarus to Russia could be explained by the creation of the EAEU of which both countries are members. This Union guarantees the free movement of goods and people, reduced customs controls at borders, and provides no limit on the quantity of goods imported for personal consumption between MSs.<sup>27</sup> The lack of anti-illicit trade legislation in the EAEU MSs has also contributed to an increase in the illicit inflows of cigarettes.

Conversely, **Russia lost its role as key origin country of illicit cigarettes flowing along the North-Eastern Route over the past ten years**. Illicit outflows of cigarettes produced in Russia declined over the period 2008-2017 by 83.6% (see Figure 4). Over the years 2008-2012, Russia generated illicit outflows amounting to approximately 5.6 billion per year. This figure decreased to 0.9 billion illicit cigarettes in 2017.

**Figure 4. Volume of illicit cigarettes originating in Russia and consumed in the NEXUS countries (billion), (2008-2012 avg. and 2017)**



The main reasons behind this decline are the following:

- the harsher measures on tobacco sales introduced by the Russian Government from 2010 onwards;<sup>29</sup>
- the change in the Russian legislation that started considering illegal border crossing a crime;<sup>30</sup>
- the cooperation of the Russian authorities with the tobacco industry;<sup>31</sup>
- competition by Belarusian illicit products.<sup>32</sup>

**Russian illicit cigarettes follow different paths to reach their final destinations** depending on whether they are produced in the enclave of Kaliningrad—from where they mainly flow into Poland—or the Russian mainland—from where they mainly flow to Belarus and Ukraine.

In 2017, more than half of the 0.9 billion Russian illicit cigarettes leaving the country were smoked in the EU, mainly in Baltic states, France, the United Kingdom and the Netherlands. The remaining 0.4 billion were principally smoked in Azerbaijan, Belarus, Turkey, Iraq, Israel, and Moldova (see Figure 5).

Some of the illicit cigarettes produced in Russia are directly smuggled to the country of consumption (e.g., illicit Russian cigarettes smoked in Belarus, Azerbaijan, Estonia, Poland and Latvia). In other cases, illicit cigarettes are transferred to Poland mainly from the Kaliningrad production facilities and then redistributed in Germany, France, Italy and the Netherlands.<sup>33</sup>

## *Smugglers located in Kaliningrad exploit a lax control on cigarette production in the Russian enclave and the proximity to the EU*

**Kaliningrad is a key hub for illicit flows of cigarettes along the North-Eastern Route** for the following main reasons:

- its proximity to the EU borders where cigarette prices are higher;
- its status as a Special Economic Zone (SEZ) (see Box 6);<sup>34</sup>
- the presence of numerous manufacturers overproducing illicit whites, such as the Baltic Tobacco Factory (see Box 7).<sup>35</sup>

### **Box 6. The Kaliningrad enclave**

Kaliningrad is conveniently located because it shares land borders with both Poland and Lithuania and has direct access to the Baltic Sea via its commercial port. This port had been designated with a SEZ status since 1995.<sup>36</sup> It briefly

lost its special status when Russia joined the WTO in 2012, but President Vladimir Putin reinstated Kaliningrad as a SEZ in 2017.<sup>37</sup> This allows most goods to be imported duty-free, as long as 30% value is added in Kaliningrad.<sup>38</sup>

### **Box 7. The Baltic Tobacco Factory**

The headquarters of the Baltic Tobacco Factory (BTF) are situated in the city of Kaliningrad, the capital of the Russian Oblast that bears the same name. BTF's production facilities cover a surface area of more than 30,000m<sup>2</sup>, operate 24 hours a day and reportedly have a production capacity of 1.2 billion cigarettes per month.<sup>39</sup> The favourable geographical position and SEZ benefits (duty-free container

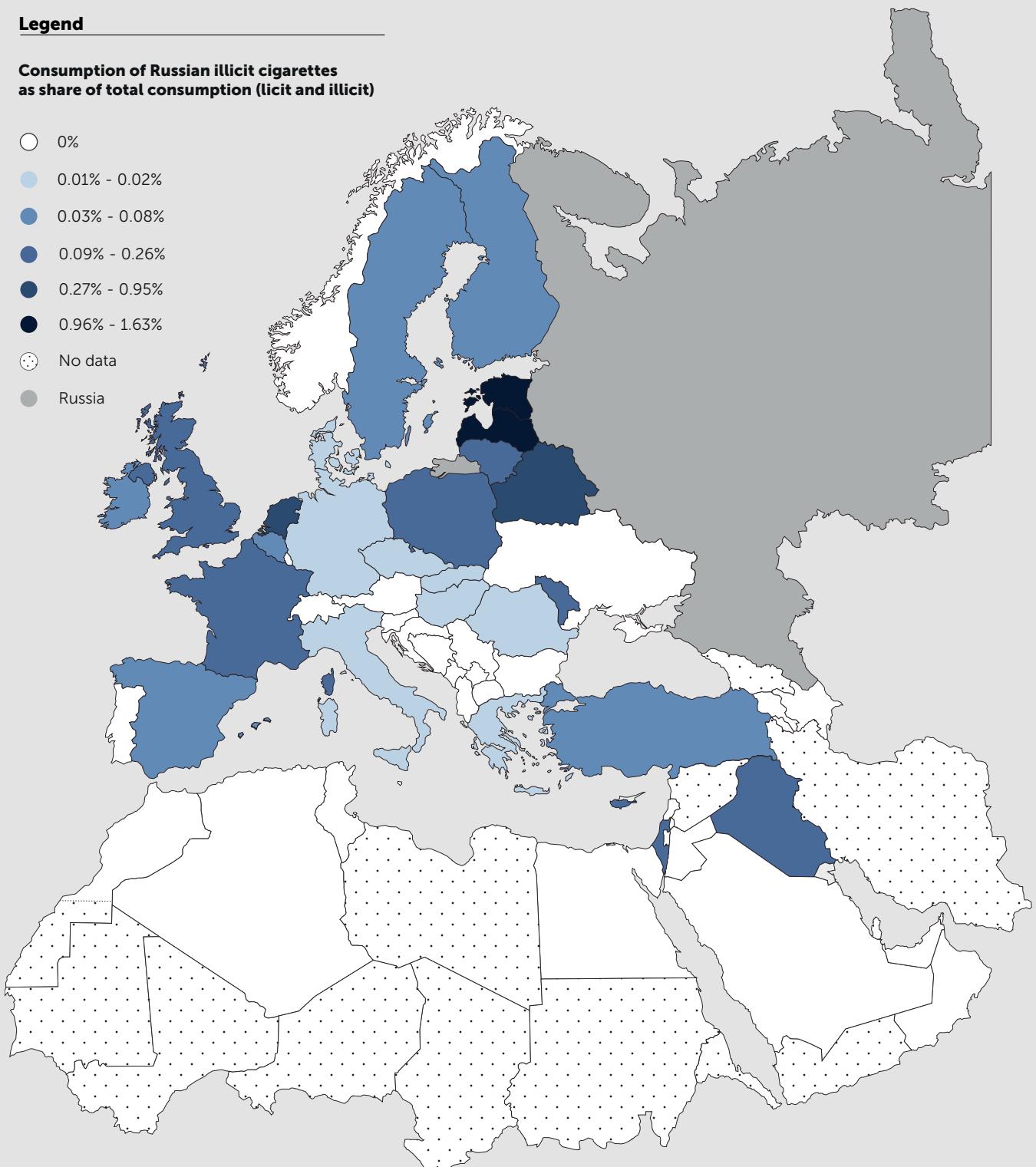
delivery) create the perfect conditions for the outflow of the BTF's most popular illicit whites brand, Jin Ling.<sup>40</sup> The factory price of Jin Ling cigarettes is around 1 cent per stick, amounting to about 73,000€ for a full container. If these cigarettes were to be sold on the black market at even half the legal price of the major cigarette brands, the profit margins would be significant.<sup>41</sup>

Figure 5. Share of consumption of Russian illicit cigarettes on the total consumption by country (2017)

**Legend**

**Consumption of Russian illicit cigarettes  
as share of total consumption (licit and illicit)**

- 0%
- 0.01% - 0.02%
- 0.03% - 0.08%
- 0.09% - 0.26%
- 0.27% - 0.95%
- 0.96% - 1.63%
- No data
- Russia





## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.2** billion

Tot. illicit cigarettes consumed of unknown origin

**0.02** billion

Main origin of illicit cigarettes

**Russia**



## ILLICIT INFLOWS

N. of inflows

**5**

Tot. inflowing volume

**1.2** billion

Main inflow

**0.5** billion sticks from Ukraine  
(41% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**76**



## ILLICIT OUTFLOWS

N. of outflows

**7**

Tot. outflowing volume

**9.9** billion

Main outflow

**4.3** billion sticks to Russia  
(43% of tot. outflows)

Tot. illicit cigarettes originating in Belarus

**8.8** billion

Main final destination of the outflowing cigarettes

**Iraq**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - - Indirect connection

### Origin of the cigarette flows

Ukraine

Russia

Bulgaria

Poland

Belarus

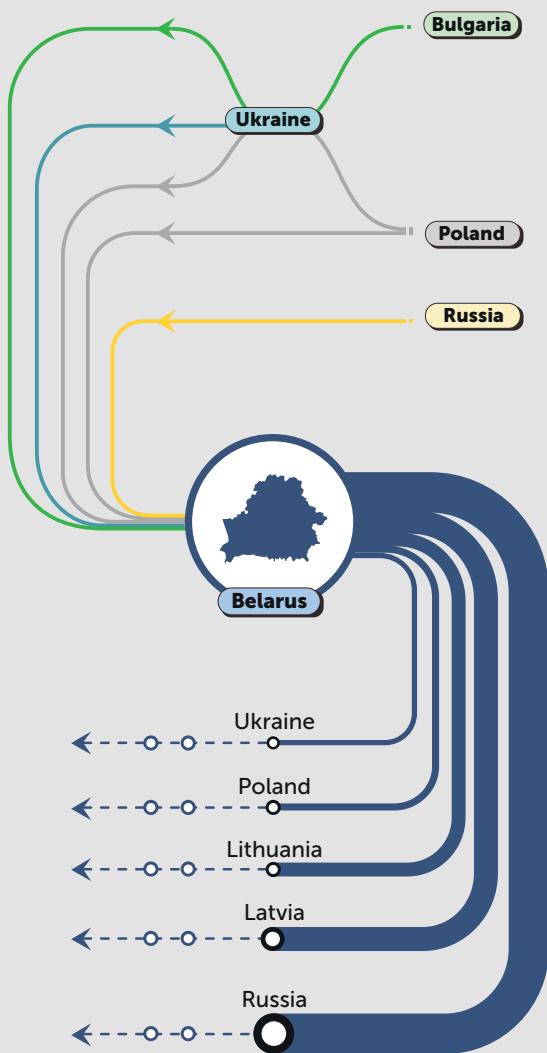
### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



# Belarus has replaced Russia as fundamental origin of illicit whites

## Belarus is a major origin country

### for illicit cigarettes, and more

#### specifically illicit whites.

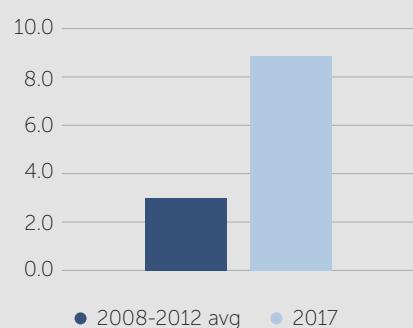
Trafficking of Belarusian illicit cigarettes grew by approximately 183% over the period 2008–2017, from about 3.1 billion cigarettes per year in 2008–2012 to 8.8 billion cigarettes in 2017 (see Figure 6). Accordingly, Belarusian brands of illicit whites are becoming increasingly common in Europe.<sup>42</sup>

#### Russia is the main destination market for Belarusian illicit whites,

but evidence of their consumption is found in the great majority of EU countries (see Figure 7). The reasons for the diffusion of Belarusian illicit whites are the following:

- 1) the low price of cigarettes in comparison with neighbouring countries;<sup>43</sup>
- 2) the devaluation of the Belarusian rouble;<sup>44</sup>
- 3) a lack of normative regulation to protect the export phase from smuggling phenomena;<sup>45</sup>
- 4) the geographical location of Belarus and in particular its proximity with the EU, where cigarettes are more expensive.<sup>46</sup>

**Figure 6. Volume of illicit cigarettes originating in Belarus and consumed in the NEXUS countries (billion), (2008-2012 avg. and 2017)**



Belarus is still confronted with high levels of corruption.<sup>47</sup> Widespread corruption hinders the controls on smuggling activities. Moreover, it is difficult for other European countries to establish any form of cooperation with the Belarusian authorities, which have been seemingly tolerant of the phenomenon of cigarette trafficking (see Box 8).<sup>48</sup>

The European Commission has argued for the need for Belarus to sign and ratify the WHO's *Framework Convention on Tobacco Control* ('FCTC Protocol').<sup>49</sup> It has pointed to **Belarus' taxation structure as one of the drivers behind the illicit cigarette flows from Belarus**. In particular, under the Belarusian taxation regime, premium segment cigarettes are subject to a higher tax compared to the cigarettes in the lower segments.<sup>50</sup>

Illicit cigarettes are smuggled by OCGs or by private individuals, the latter encouraged also by the high degree of tolerance towards cigarette trafficking. The actors involved are mainly youths, induced to engage in this activity by the high rate of youth unemployment and poverty in the country.<sup>51</sup>

Illicit cigarettes produced in Belarus are then directed mainly by car or train to the markets of the EU across the borders that Belarus shares with Poland, Lithuania and Latvia.<sup>52</sup> Belarusian illicit cigarettes flow to the Baltic countries due to the higher price of cigarettes. In the Baltic area, cigarettes are consumed locally or further trafficked through Poland before reaching Western EU countries, mainly the United Kingdom and Germany.

#### Box 8. National companies overproducing cigarettes

Until the end of 2017, the two leading Belarusian cigarette factories, Grodno Tobacco Factory Neman (GTFN) and Tabak-Invest, were obliged by law to produce exactly 26.7 billion cigarettes a year for internal consumption.<sup>53</sup> However, the factories were free to produce an unlimited quantity of cigarettes above the intended quota, provided that they were destined for export. The Belarusian Government, which is the main stakeholder in both factories, was expected to take steps to stop these factories from overproducing cigarettes that were destined to be trafficked abroad. On the contrary, at the end of 2017, the government in Minsk announced an increase in the capacity of the GTFN due to the apparent high demand for Belarusian cigarettes.

**The corruption of local border officers**—especially along the Belarusian-Polish border—**facilitates smuggling activities**. At the same time, also the border with Russia is poorly controlled and allows goods to flow freely in both directions.<sup>54</sup> This problem is exacerbated by the EAEU's Customs Union and

Common Economic Space, of which both Russia and Belarus are a member, and the lack of deterring anti-illicit trade legislation in the EAEU MSs.<sup>55</sup> The illicit whites produced in Belarus are mainly directed to Russia (about 4 billion cigarettes), Poland (1.6 billion), the United Kingdom (0.7 billion), and Lithuania (0.5 billion).

Compared to the average per year between 2008 and 2012, in 2017 the consumption of Belarusian produced cigarettes remained stable in Poland and Lithuania, but grew:

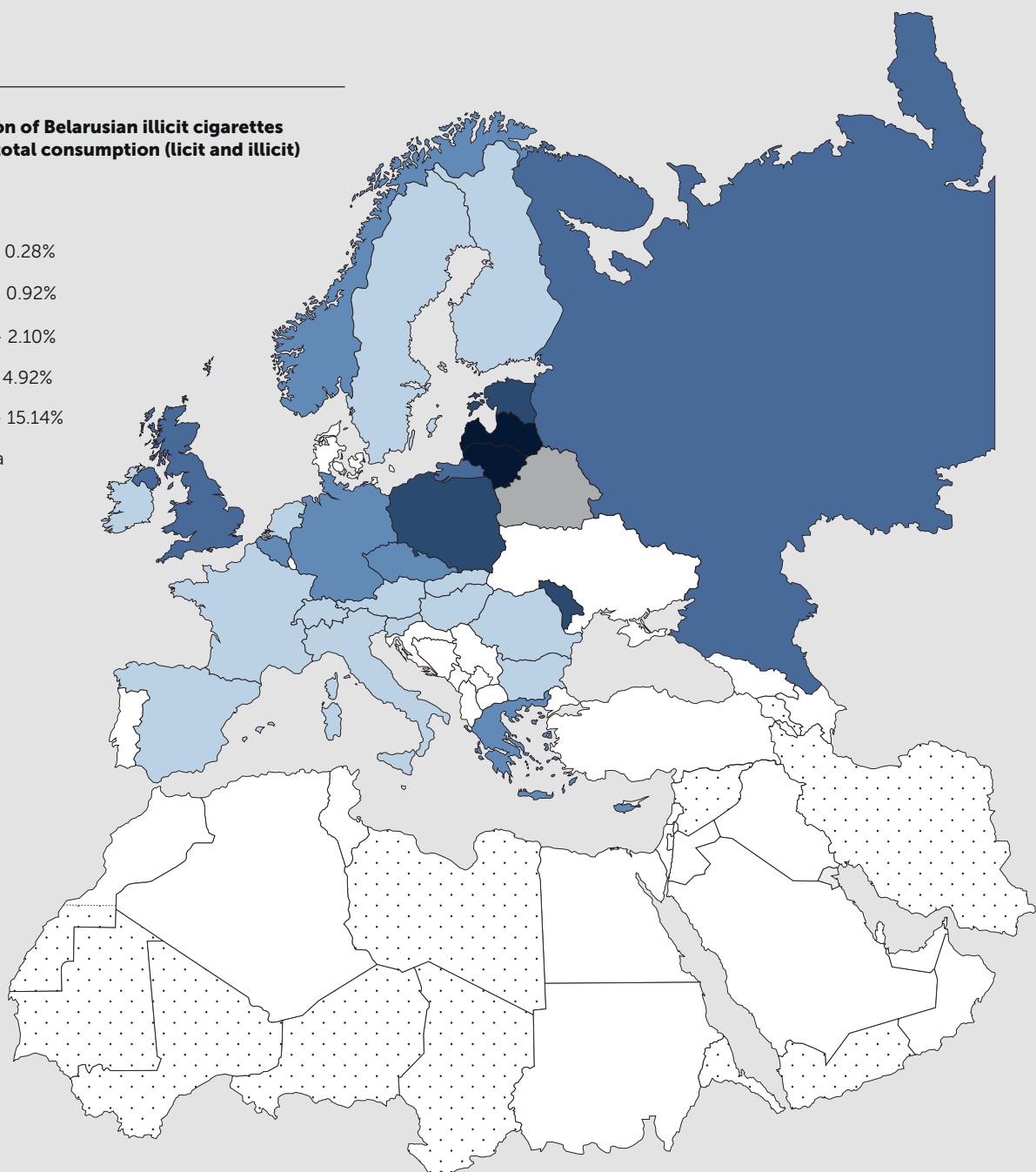
- more than 70 times in Russia;
- more than 18 times in the United Kingdom.

**Figure 7. Share of consumption of Belarusian illicit cigarettes on the total consumption by country (2017)**

#### Legend

##### Consumption of Belarusian illicit cigarettes as share of total consumption (licit and illicit)

- 0%
- 0.01% - 0.28%
- 0.29% - 0.92%
- 0.93% - 2.10%
- 2.11% - 4.92%
- 4.93% - 15.14%
- No data
- Belarus





## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**2.8** billion

Tot. illicit cigarettes consumed of unknown origin

**2.7** billion

Main origin of illicit cigarettes

**Iraq**



## ILLICIT INFLOWS

N. of inflows

**10**

Tot. inflowing volume

**5.2** billion

Main inflow

**1.8** billion sticks from Russia  
(34% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**99**



## ILLICIT OUTFLOWS

N. of outflows

**15**

Tot. outflowing volume

**10** billion

Main outflow

**2.9** billion sticks to Poland  
(29% of tot. outflows)

Tot. illicit cigarettes originating in Ukraine

**5.0** billion

Main final destination of the outflowing cigarettes

**Iraq**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - - Indirect connection

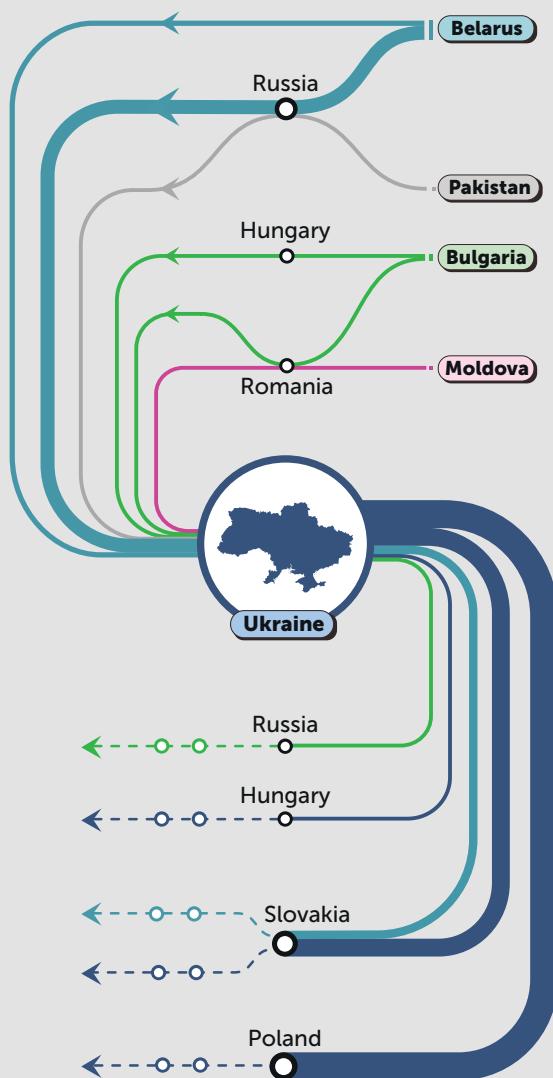
### Origin of the cigarette flows

- Belarus
- Bulgaria
- Moldova
- Pakistan
- Ukraine

### Volume (N. of sticks)

Graphic reference scale

	4 billion
	2 billion
	≤ 0.2 billion



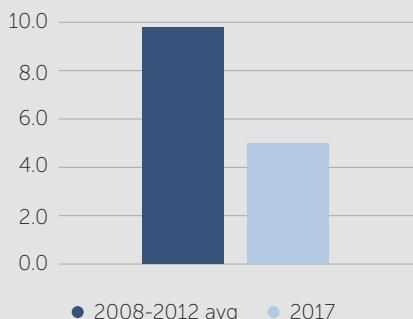
# *Ukraine is one of the main origins of illicit cigarettes in the North-Eastern Route, but its importance is declining*

## **Ukraine is one of the major origin countries of illicit cigarettes flowing along the North-Eastern Route.**

However, its importance as an origin of illicit cigarettes has gradually diminished in the past few years.

Over the period 2008-2017, trafficking of Ukrainian illicit cigarettes decreased by 49% (see Figure 8).<sup>56</sup> While in 2017 the overall consumption of illicit cigarettes of Ukrainian origin amounted to about 5 billion cigarettes, this figure was almost twice as much in 2008-2012 (9.8 billion illicit cigarettes per year on average).

**Figure 8. Volume of illicit cigarettes originating in Ukraine and consumed in the NEXUS countries (billion), (2008-2012 avg. and 2017)**



a. In Ukraine a person can exit the country with goods worth up to 10,000€ without any obligation to declare them. This is in conflict with EU customs regulations, as there are limits on e.g. the amount of tobacco products with which an individual can enter the EU.<sup>60</sup>

In particular, **the border with Poland**, once an essential hub in cigarette trafficking towards Western Europe, **has lost its centrality**. The installation of X-ray scanners and cigarette detectors along the Ukrainian-Polish border has discouraged contraband,<sup>57</sup> causing a decrease of illicit cigarette flows from Ukraine to Poland from nearly 6 billion in 2008-2012 (annual average) to about 3 billion in 2017. Over time, the increase in border checks may generate the displacement of some illicit flows towards borders with origin countries sharing EU membership, which are subject to fewer controls.<sup>58</sup>

Even if its strategic role has diminished in recent years, Ukraine is still a pivotal point in the cigarette trafficking along the North-Eastern Route for the following structural reasons:<sup>59</sup>

- 1) proximity to EU markets where cigarettes are more expensive (see Box 9);
- 2) presence of FTZs (such as the ports of Chornomorsk and Odessa on the Black Sea);
- 3) presence of OCGs active in the transnational illicit trade of cigarettes;
- 4) presence of illicit whites manufacturers and illicit manufacturing facilities;
- 5) political and military instability caused by the conflict that broke out in 2014 in Donbas, East Ukraine (see Box 10).
- 6) legislative asymmetries with EU MSs regarding the quantity of goods that can be exported/imported without being declared.<sup>a</sup>

The main destination countries of illicit Ukrainian cigarettes are Poland (1.4 billion), the United Kingdom (0.9 billion), Italy, Romania and France (about 0.5 billion each).

## **Box 9. The Ukrainian Tunnel**

In 2012, the Slovak authorities discovered the existence of a 700-metre-long tunnel under the Ukrainian-Slovakian border. The tunnel was equipped with its own train and connected a warehouse in the Slovakian Vysne Nemecke with a house in the Ukrainian city of Uzorod. Slovak police seized 13,100 cartons containing 200 cigarettes each, equivalent to 2.6 million cigarettes, which were to reach the EU market by evading customs duties.<sup>61</sup>

## **Box 10. The criminal ties behind the Ukrainian conflict**

Since March 2014, there has been armed conflict in the Donbas region of Ukraine between pro-Russian separatist groups and the Ukrainian government. Russian and Ukraine OCGs are profiting from this military chaos, often with the tacit agreement of corrupt government officials and police officers. Various ports on the Black Sea (e.g., Odessa and Sevastopol) are at the heart of trafficking in drugs, guns, people and other illicit goods, including cigarettes.<sup>62</sup> OCGs exploit military supply convoys –which are exempt from police and customs controls– to smuggle illicit goods through the country.<sup>63</sup> Evidence shows that the criminal groups benefiting from this political instability are not only from Ukraine and Russia, but include criminal enterprises from around the world.<sup>64</sup>



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**5.3** billion

Tot. illicit cigarettes consumed of unknown origin

**2.0** billion

Main origin of illicit cigarettes

**Belarus**



## ILLICIT INFLOWS

N. of inflows

**10**

Tot. inflowing volume

**8.1** billion

Main inflow

**2.9** billion sticks from Ukraine  
(35% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**97**



## ILLICIT OUTFLOWS

N. of outflows

**13**

Tot. outflowing volume

**10.6** billion

Main outflow

**7.2** billion sticks to Germany  
(67% of tot. outflows)

Tot. illicit cigarettes originating in Poland

**5.7** billion

Main final destination of the outflowing cigarettes

**United Kingdom**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - ○ - Indirect connection

### Origin of the cigarette flows

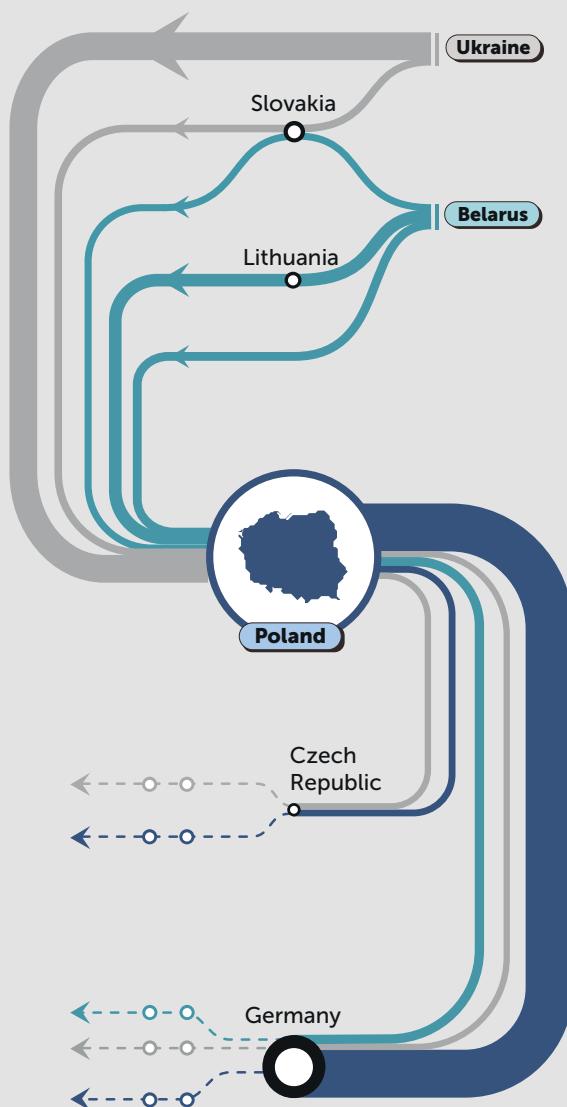
Belarus

Ukraine

Poland

Volume (N. of sticks)  
Graphic reference scale

4 billion  
2 billion  
≤ 0.2 billion



# *Poland is both a transit hub for Eastern European illicit cigarettes bound for the EU and the origin country of contraband flows targeting the Western EU MSs*

**Poland is both a destination country and an essential transit point** for illicit cigarettes originating outside the eastern border of the EU and flowing towards Western Europe. Poland's role as a transit hub is mainly due to its geographic position halfway between the former Soviet republics and the rich German market.

Poland's entry into the EU in 2004 represented a turning point for the country with respect to cigarette trafficking.<sup>65</sup> Differences between the taxation regimes of the EU MSs and

of the non-EU countries in the East facilitated the rise of Poland as a key player along the North-Eastern Route.

The majority of illicit cigarettes that arrive in Poland are produced in Belarus, Ukraine and Russia. Of the around 8 billion illicit cigarettes that flowed into Poland in 2017, more than half originated in one of these three countries. As a consequence, **border controls have been increased in recent years along the Russian—i.e., Kaliningrad—and Belarusian frontiers**. However, the corruption of local border officers (e.g., along the Belarusian-Polish border) has reduced the effectiveness of border control measures.

Since 2004, when Lithuania gained access to the EU, the trafficking through the border between Poland and Lithuania increased.<sup>66</sup> Illicit cigarettes produced in Russia and Belarus began to enter Poland mainly via the Lithuanian border, thanks to the minor border controls, in particular in the city of Budzisko.<sup>67</sup> In the years 2008–2012, an average of 4.8 billion illicit cigarettes per year originating in Russia and Belarus transited from Poland, of which 1.6 billion entered from the Lithuanian border.

The overall flows from Ukraine to Poland decreased. This has been ascribed to increased control measures such as X-ray scanners.<sup>68</sup> Nevertheless, the border between Ukraine and Poland did not entirely lose its importance. In 2017, about 3 billion illicit cigarettes flew from Ukraine to Poland; this flow used to have a volume of 6 billion per year between 2008 and 2012.

Cigarettes transiting through Poland primarily flow to Germany and Czech Republic and have as their final destination Germany itself, the United Kingdom, France, Italy, Spain, Austria and the Netherlands.

The intensified controls on the extra-EU eastern borders have caused changes not only in the trafficking routes but also in the *modus operandi*. On the one hand, there has been an increase in small-scale smuggling evidenced by the reduction of the interceptions of shipping containers—down to 1 in two years (2015 and 2016), while they numbered 5 in 2014 alone.<sup>69</sup> On the other hand, **the increased controls have led to a relocation of illicit production directly within Poland** (see Box 11).

## **Box 11. The role of Poland as an origin of illicit cigarettes**

### **The trafficking of genuine Polish cigarettes**

The entry of Poland in the EU in 2004 and the increased customs controls along extra-EU borders contributed to the rise of Poland as an origin country for illicit

cigarettes. In 2017, about 5.7 billion illicit cigarettes of Polish origin were consumed worldwide. This represents an increase of about 17% from 2008–2012, when the volume of trafficking of Polish cigarettes was on average 4.8 billion cigarettes per year. The overwhelming majority

(95%) of illicit cigarettes of Polish origin were contraband cigarettes, while the remaining part were illicit whites. Most of these cigarettes were smuggled to Germany (about 4 billion) and the United Kingdom (about 1 billion). To reach the United Kingdom, smugglers exploit EU ports on the Baltic Sea.

The prevalence of contraband in the trafficking of Polish illicit cigarettes points to differences in the dynamics and *modus operandi* compared to the trafficking of illicit whites from Eastern Europe non-EU countries. Smugglers mainly exploit differences in the price of legitimate cigarettes in Poland compared to other EU countries.

For example, in 2017, the price of the most sold brand in Poland (3.14€ per pack) was about half the price of the most sold brand in neighbouring Germany (6.30€).

#### **The increasing production of illicit cigarettes in Poland**

Today the presence of illegal manufacturing facilities is also

increasing in Poland. Locally produced illicit cigarettes mainly target Germany, the United Kingdom, Russia and Ireland, exploiting Poland's membership of the common European market and thus the absence of border controls. The increase in domestic production is leading Polish authorities to regulate the import and use of raw tobacco.<sup>70</sup>

## **Baltic states**

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*The importance of the Baltic states in cigarette trafficking is due to their EU membership and to their position between former Soviet republics and Central Europe*

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### **Today, the Baltic region is mainly a transit point and a final destination market for illicit cigarettes.**

The majority of illegal cigarettes smuggled through the Baltic region are produced in Belarus, Russia, Poland and Ukraine.

Illicit whites, but also counterfeits, are commonly trafficked in this region. The products most frequently

smuggled in this area are Belarusian illicit whites. In 2017, almost 3 billion illicit cigarettes from Belarus transited through Latvia alone, heading to other EU markets. Of these cigarettes, about 2.4 billion were directly smuggled through the Belarus-Latvia border. Smugglers also exploit the significant difference between the price of cigarettes in Russia—both mainland and Kaliningrad—and the local markets.

At the same time, **the Baltic states provide access by sea to affluent EU markets**.<sup>71</sup> From the Baltic area illicit cigarettes are directly trafficked to Scandinavia, the United Kingdom and Ireland, and through Germany to southern countries (France, Spain, Italy). The numerous sea connections between the Baltic states and the United Kingdom and the Scandinavian countries ensure that illicit cigarettes have direct access to these markets through sea transhipments.

The Baltic states play also a minor role as origins of contraband cigarettes smuggled to other EU countries. In 2017, about 0.4 billion illicit cigarettes from Estonia, Latvia and Lithuania were smuggled and consumed in other EU countries and Norway.

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*Latvia and Lithuania have the highest rates of illicit cigarette consumption in the EU*

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In 2010, the share of illicit cigarettes reached a peak of 39% of the total Latvian market, 37% of the Lithuanian market and 17% in Estonia. In response, in 2012, the Latvian authorities allowed people entering the country from outside the EU to import only 40 cigarettes (up to 200 in the case of air passengers) for personal use, and only once a week at most. The Estonian authorities permitted travellers coming from non-EU countries to bring into Estonia the same quantity of cigarettes, but up to twice a month. These restrictive measures caused some reduction in the illegal sales.<sup>72</sup> In 2017, the share of illicit cigarettes smoked amounted to 23% of total consumption in Latvia, 19% in Lithuania and 9% in Estonia.

# Baltic States: Latvia

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.5** billion

Tot. illicit cigarettes consumed of unknown origin

**0.1** billion

Main origin of illicit cigarettes

**Belarus**



## ILLICIT INFLOWS

N. of inflows

**9**

Tot. inflowing volume

**4.4** billion

Main inflow

**2.5** billion sticks from Belarus  
(56% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**74**



## ILLICIT OUTFLOWS

N. of outflows

**11**

Tot. outflowing volume

**4.0** billion

Main outflow

**1.5** billion sticks to Russia  
(37% of tot. outflows)

Tot. illicit cigarettes originating in Latvia

**0.05** billion

Main final destination of the outflowing cigarettes

**Russia**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - ○ - Indirect connection

### Origin of the cigarette flows

— Belarus

— Kyrgyzstan

— Pakistan

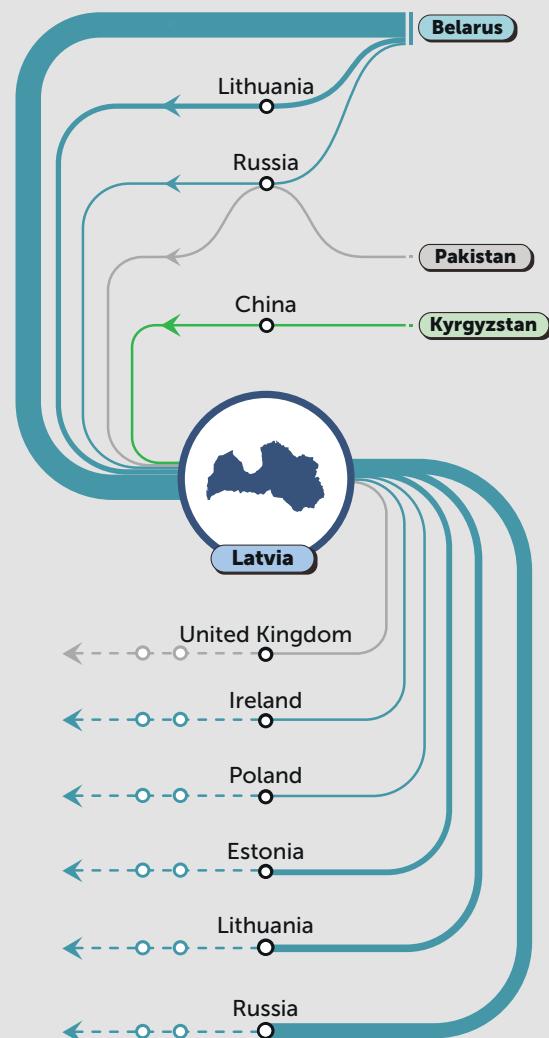
### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



# Baltic States: Lithuania

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.6** billion

Tot. illicit cigarettes consumed of unknown origin

**0.1** billion

Main origin of illicit cigarettes

**Belarus**



## ILLICIT INFLOWS

N. of inflows

**5**

Tot. inflowing volume

**2.7** billion

Main inflow

**1.1** billion sticks from Latvia  
(41% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**67**



## ILLICIT OUTFLOWS

N. of outflows

**9**

Tot. outflowing volume

**2.4** billion

Main outflow

**1.3** billion sticks to Poland  
(54% of tot. outflows)

Tot. illicit cigarettes originating in Lithuania

**0.2** billion

Main final destination of the outflowing cigarettes

**Poland**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - - Indirect connection

### Origin of the cigarette flows

Belarus

### Volume (N. of sticks)

Graphic reference scale

Poland

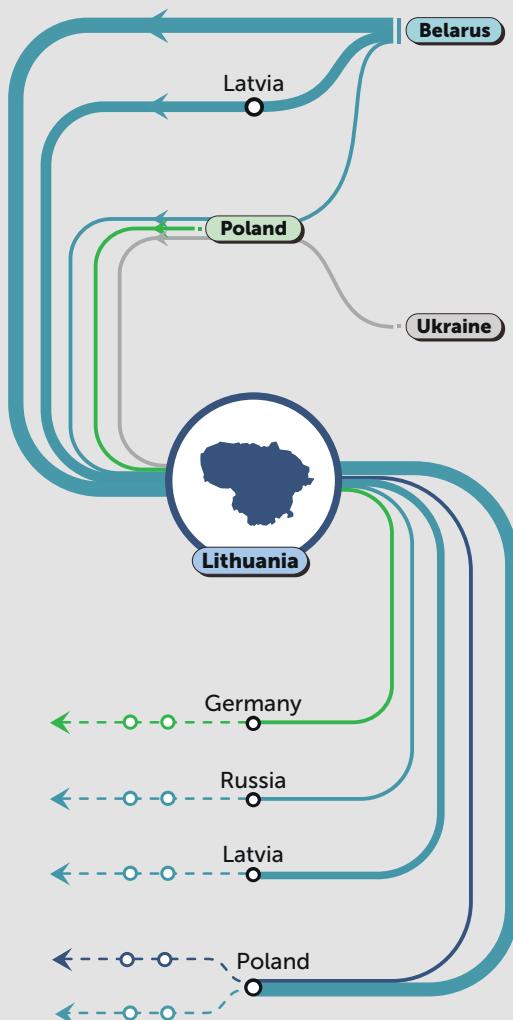
4 billion

Ukraine

2 billion

Lithuania

≤ 0.2 billion



# Baltic States: Estonia

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.2** billion

Tot. illicit cigarettes consumed of unknown origin

**0.03** billion

Main origin of illicit cigarettes

**Belarus**



## ILLICIT INFLOWS

N. of inflows

**5**

Tot. inflowing volume

**1.3** billion

Main inflow

**0.8** billion sticks from Latvia  
(61% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**56**



## ILLICIT OUTFLOWS

N. of outflows

**5**

Tot. outflowing volume

**1.3** billion

Main outflow

**0.8** billion sticks to Russia  
(61% of tot. outflows)

Tot. illicit cigarettes originating in Estonia

**0.2** billion

Main final destination of the outflowing cigarettes

**Russia**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - - Indirect connection

### Origin of the cigarette flows

— Belarus

— Russia

— Kyrgyzstan

— Estonia

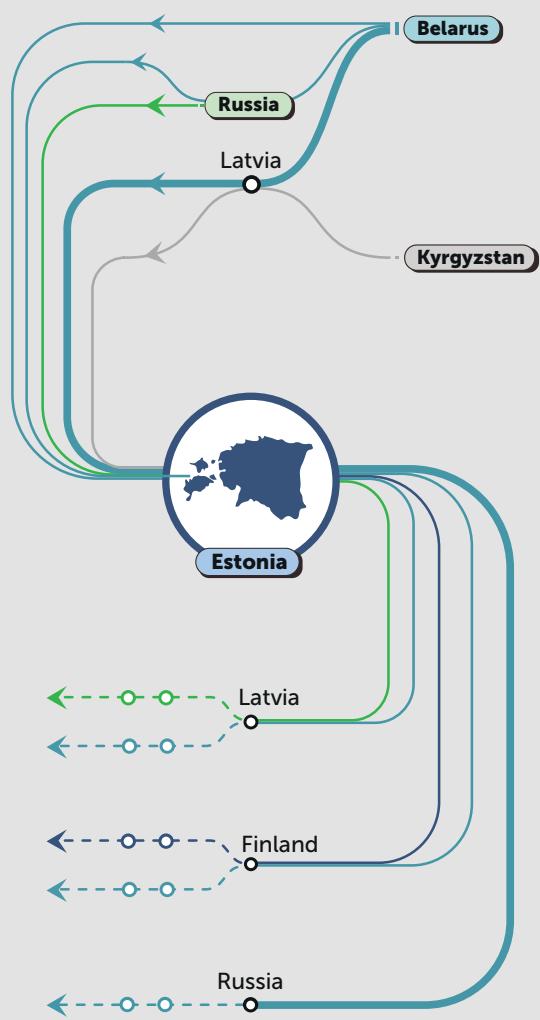
### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



## 5. Evolution of the Route

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**The overall volume of illicit cigarettes smuggled along the North-Eastern Route roughly halved from 2008 to 2017**, decreasing from about 19 billion illicit cigarettes over 2008-2012 (average per year) to 10 billion in 2017.

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*In the past ten years, the volume of illicit cigarettes flowing along the North-Eastern Route has strongly decreased*

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The overall decrease comes with important differences between different origin countries; while flows of Russian and Ukrainian illicit cigarettes shrank, the trafficking of Belarusian cigarettes grew remarkably.

Starting in 2010, **Poland, Russia and the Baltic countries have taken initial measures to combat the phenomenon of cigarette trafficking**. In particular, these countries have:

- exacerbated penalties;
- increased border controls;
- expanded their cooperation efforts.

In recent years, these initiatives have produced their first results, partially reducing the illicit flows of cigarettes towards Western Europe. While Poland, Russia and the Baltic countries were the origin of about 11 billion illicit cigarettes per year over the period 2008-2012, this figure was reduced to 7 billion illicit cigarettes in 2017. On the other hand, the smuggling of Belarusian illicit whites has increased in the past ten years.

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*Illicit cigarettes continue to flow mainly from the former Soviet republics to Central and Western Europe, but the volume of the traffic is diminishing*

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Despite the significant contraction of the trafficking volume, **the overall structure of the North-Eastern Route has not undergone major changes in the past ten years**. Flows of illicit cigarette originate in non-EU Eastern European countries. Then, illicit cigarettes flow to EU MSs where genuine products are significantly more expensive, exploiting the porosity of borders with the EU.<sup>73</sup>

On the other hand, **the relative relevance of some of the countries along the Route has changed** (see Figure 9). Shifts in the role of the main origin countries of illicit cigarettes are primarily due to:

- different economic cycles—e.g., the Belarusian crisis;
- changes in taxation regimes—e.g., increase in Russian and Ukrainian taxation;
- the outbreak of armed conflicts—e.g., in Ukraine;
- the intensification of controls along specific borders—e.g., in Poland, Russia, and the Baltic states;
- the establishment of the EAEU, that enables the free movement of goods and people between its MSs.<sup>74</sup>

Although Poland maintains its crucial role as a transit hub thanks to its geographic position, the traffic and consumption of illicit cigarettes in the country has diminished in recent years following the introduction of new regulations on border controls.<sup>75</sup> In 2008-2012 (annual average), illicit inflows into Poland and illicit outflows leaving the country respectively amounted to 13.9 and 12.1 billion. In 2017, illicit inflows and outflows decreased to 8.1 and 10.6 billion.

Similarly, the tightening of restrictive measures in the Baltic states had an impact on their role as transit points. Over the period 2008-2012 (annual average), 9.4 billion illicit cigarettes entered one of the Baltic states, while 7.7 billion outflowed from one of them. In 2017, illicit inflows decreased to 8.4 billion, while illicit outflows remained stable at 7.7 billion.

Figure 9. Factors affecting changes in the origin countries of cigarettes trafficked along the North-Eastern Route



## 6. Future challenges and perspectives

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*The EU MSs are making efforts to reduce the trafficking of cigarettes along the North-Eastern Route*

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In the future, it is reasonable to expect more initiatives to combat this illicit trade being launched by the EU and the MSs, whose financial budgets suffer from the impact of cigarette trafficking. At present, in the European institutions, several leverages are being sought to combat cigarette trafficking. **The EU is trying to combat illicit cigarettes through law enforcement measures**—e.g., strengthening the Tobacco Products Directive, implementing the New Customs Code—, soft power, and moral suasion.<sup>76</sup> The future of the North-Eastern Route will depend strongly on the effectiveness of these instruments and on the EU's capacity to coordinate with its neighbours in the East.

*Ukraine is trying to tackle cigarettes smuggling to the EU by increasing cigarette prices*

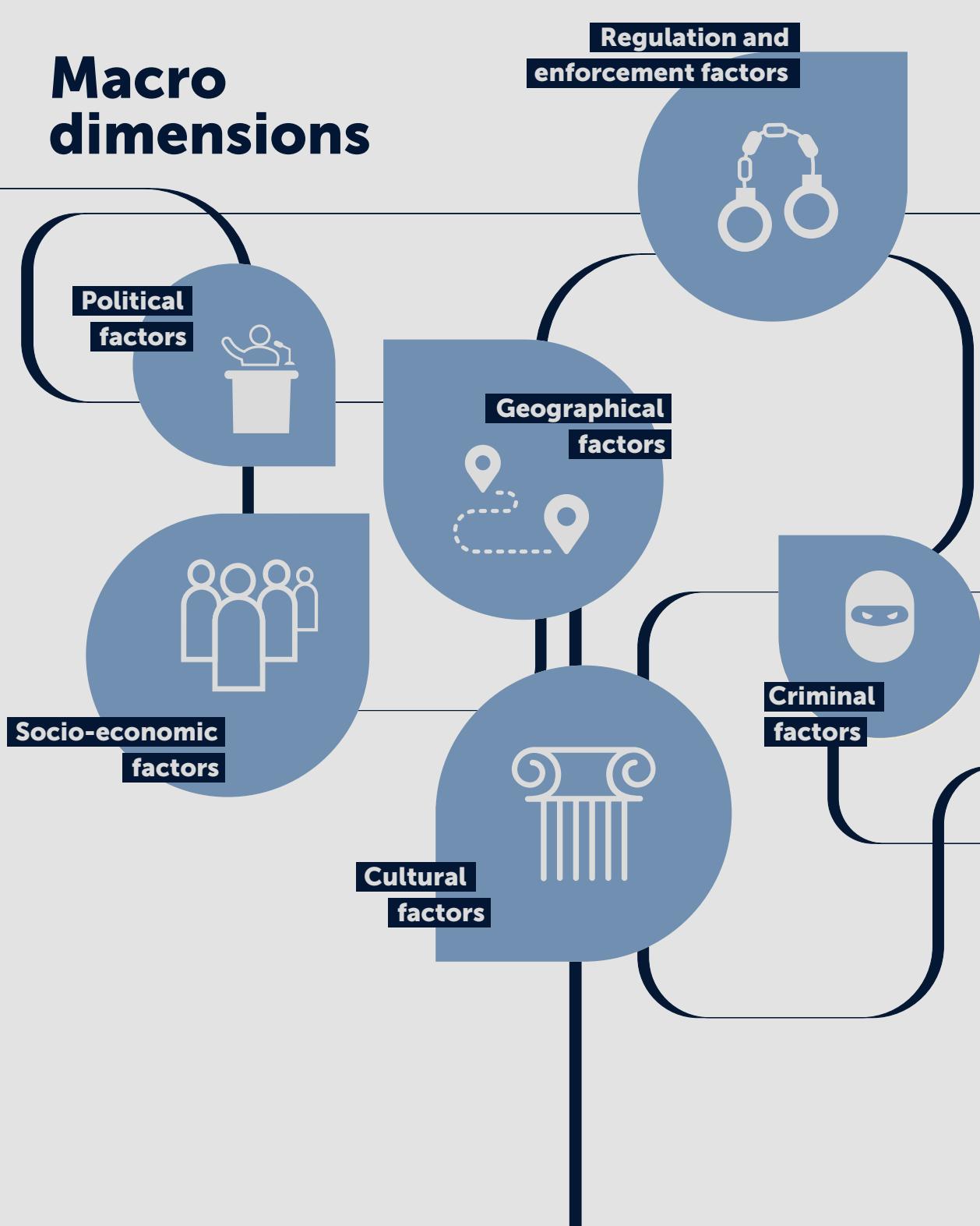
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In recent years, the Ukrainian government has focused on the internal conflict that broke out in 2014, reducing its attention to cross-border traffics. Nevertheless, on December 7<sup>th</sup>, 2017, the Parliament adopted measures aimed at increasing tobacco taxes by 20% annually for the coming 7 years, up until 2024. The aim of this policy is to harmonise tobacco tax rates with the minimum EU level of taxation in order to tackle cigarette smuggling to the EU.<sup>77</sup> This policy is likely to reduce the trafficking of Ukrainian cigarettes bound for the EU markets. Yet the lack of specific limits on the quantity of cigarettes that can be exported may boost cigarette illicit outflows to other countries, reducing the positive impact of this policy. At the same time, a substantial increase in the price of Ukrainian legitimate cigarettes is likely to attract illicit flows of cigarettes into Ukraine.

The European Commission is keen to establish an arrangement with Belarus on the taxation and pricing of cigarettes. Together with OLAF it raised this issue at multiple meetings with Belarusian government officials during the EU-Belarus Coordination Group sessions.<sup>78</sup> In July 2016, an Administrative Cooperation Arrangement was signed between OLAF and the Belarusian customs authority to jointly combat the illicit trade in tobacco products.<sup>79</sup> However, until now, the Belarusian Government has not taken direct measures to harmonise its excise duties on cigarettes with those of the EU. In the immediate future, therefore, there are no signs of a political will to effectively counteract the phenomenon in the country.

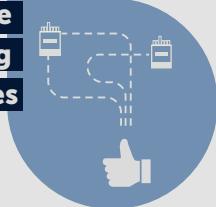
## 7. Enabling factors in brief

Several factors and incentives drive smuggling activities in the area.<sup>80</sup> All of them are interconnected and influence each other. For clarity, they have been divided into six macro dimensions.



## Political factors

Government tolerance of trafficking activities



Institutional weakness



## Geographical factors

Proximity to EU markets



Numerous sea connections



## Regulation and enforcement factors

Poor regulation and enforcement



Ineffective border control



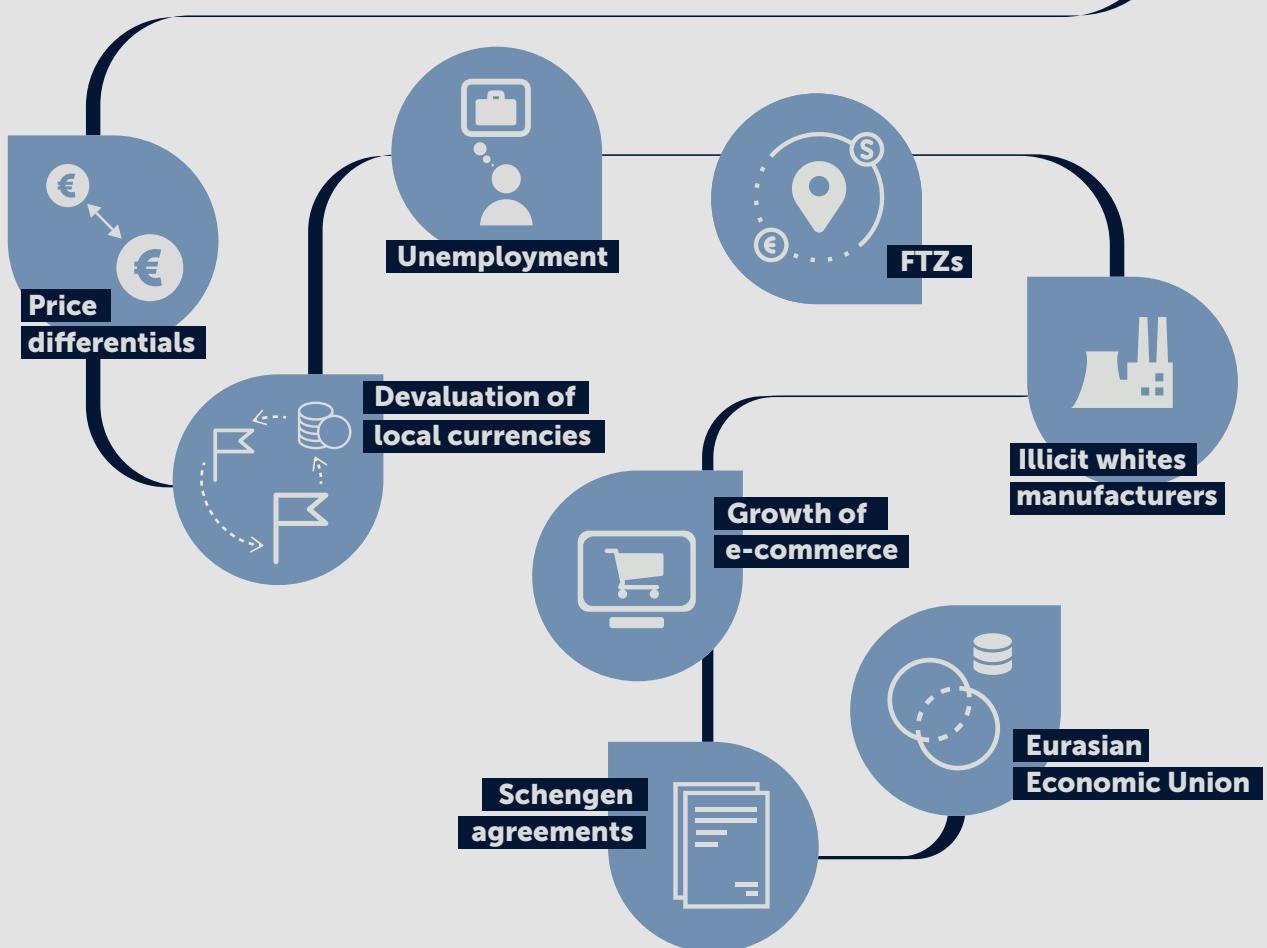
Increases in cigarette taxation



Fragile international cooperation



## Socio-economic factors



## Cultural factors



## Criminal factors

# Glossary

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The following terms have been used in the present booklet with the following meaning:

**Contraband or smuggling:**

the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>81</sup>

**Counterfeits:** 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.<sup>82</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Empty pack survey (EPS):** survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes

manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>83</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):**

governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

**Origin country:** country from which the illicit flow of cigarettes originates.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

# End notes

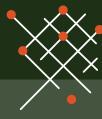
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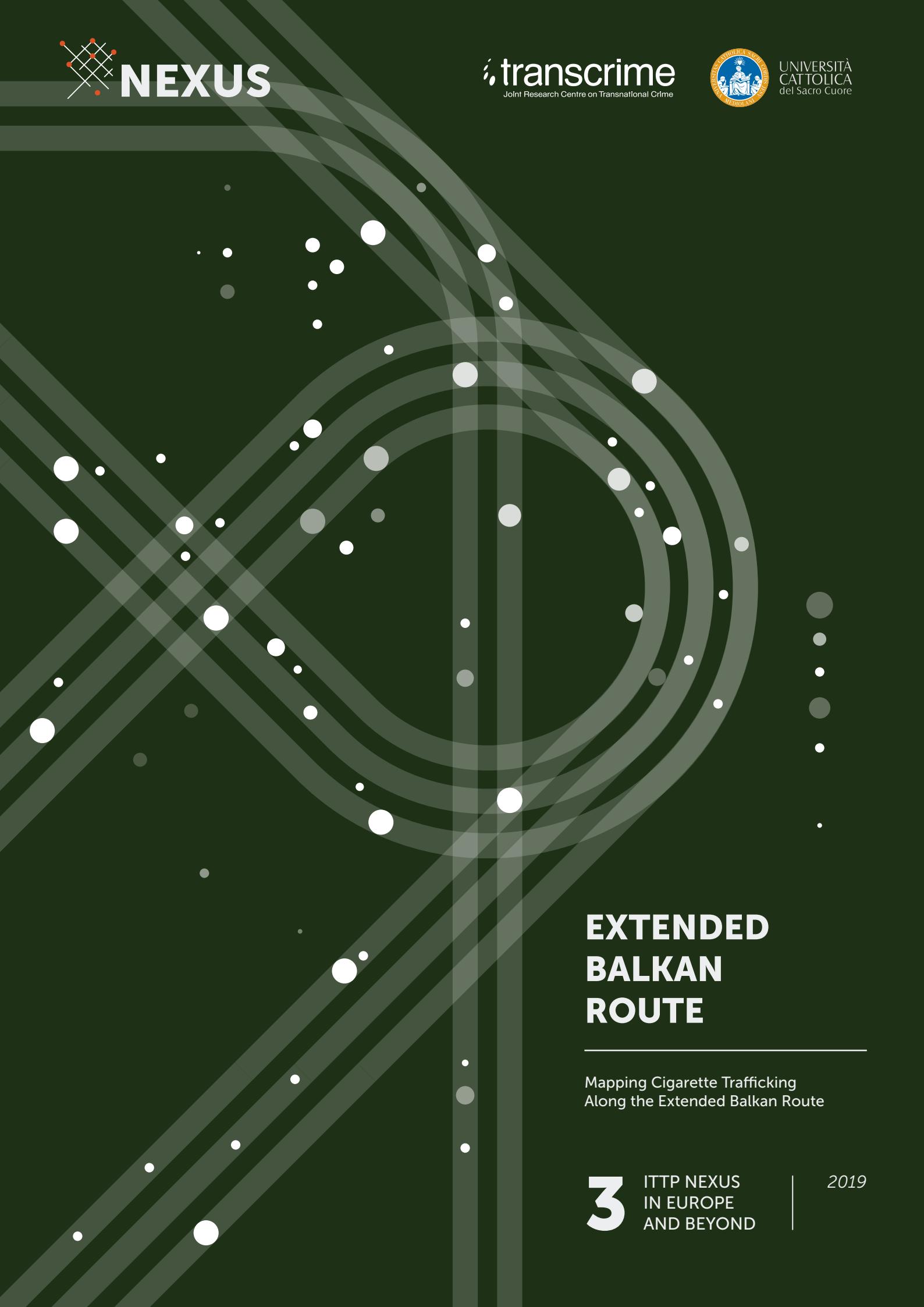


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## EXTENDED BALKAN ROUTE

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Mapping Cigarette Trafficking  
Along the Extended Balkan Route

**3** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## **EXTENDED BALKAN ROUTE**

*Mapping Cigarette Trafficking Along the Extended Balkan Route*

### **Acknowledgements and credits**

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Rutgers, Rogier Alexander and Federica Daphne Ierace. 2019. "Extended Balkan Route - Mapping Cigarette Trafficking Along the Extended Balkan Route". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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# Explanatory notes

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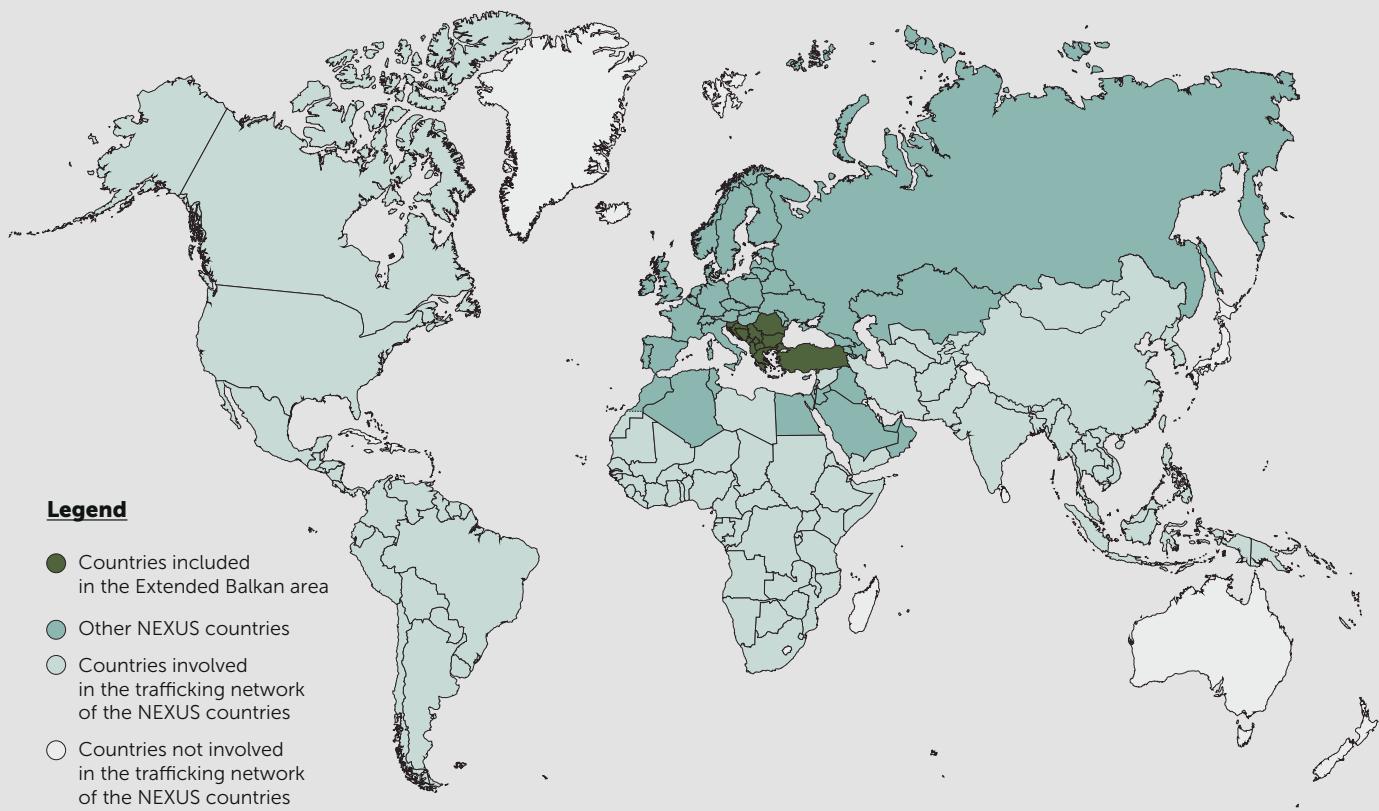
Within the context of the *Extended Balkan Route – Mapping Cigarette Trafficking Along the Extended Balkan Route* booklet, the expression ‘Extended Balkan Route’ refers to illicit flows of cigarettes transiting through the Balkans and Turkey. The Balkan area is taken to include Greece, Bulgaria, Romania, North Macedonia, Kosovo, Serbia, Albania, Montenegro, Bosnia and Herzegovina, Croatia, Slovenia. The role of Turkey is presented alongside these countries because of the strength of connections in cigarette trafficking in that extended area.

All analyses contained in the *ITTP NEXUS in Europe and Beyond Report* are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in the present booklet:

EPS	Empty Pack Survey	MS	Member State
EU	European Union	NATO	North Atlantic Treaty Organization
FTZ	Free Trade Zone	OCG	Organised Crime Group
GDP	Gross Domestic Product	OLAF	European Anti-Fraud Office
LEA	Law Enforcement Agency	PKK	Partiya Karkerén Kurdistan [Kurdistan Workers' Party]

## Countries of the Extended Balkan Route



# Introduction

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This booklet constitutes the third chapter of the *ITTP NEXUS in Europe and Beyond Report*. It maps the transnational traffic of cigarettes along the Extended Balkan Route.

Section 1 describes the main illicit cross-border flows of cigarettes along the Route.

Section 2 outlines the main types of illicit cigarettes trafficked along the Route.

Section 3 presents the main criminal actors involved in cigarette smuggling along the Route.

Section 4 focuses on four key nodes of the Route (i.e., Turkey, Bulgaria, Greece and Montenegro), uncovering several country-level contextual factors and drivers behind cigarette smuggling.

Section 5 describes the evolution of the Route in the last ten years (2008–2017).

Section 6 discusses the potential changes and developments that may impact on the Route in the near future.

Section 7 graphically summarises the enabling factors identified as drivers behind the traffic of cigarettes along the Extended Balkan Route. The factors are divided among six macro dimensions, namely political, geographical, regulation and enforcement, socio-economic, cultural, and criminal factors.

# Key facts



## Overview

2017 figures

Approximately **29 billion illicit cigarettes are trafficked along the Extended Balkan Route**.

**30% of these cigarettes**—about 10 billion—are **consumed in the EU** (primarily in the United Kingdom, Romania, France and Greece).

The Extended Balkan Route is exploited by cigarette traffickers to:

- introduce cigarettes into the Balkan peninsula;
- provide illicit cigarettes to the Turkish black market;
- bring illicit cigarettes to South, Central and Western Europe.

**Flows** along the Extended Balkan Route **cluster in two main areas**:

- the **south-eastern part**—involving large illicit flows between Turkey, Bulgaria, and Greece;
- the **north-western part**—involving numerous illicit flows that bring cigarettes to black markets in the Balkans, Central and Western Europe.

**Turkey is a hub for illicit cigarettes** coming from both the Balkan peninsula and from the Middle East.

**Bulgaria is a major country of origin and transit for illicit cigarettes** destined principally to the Middle East, but also to the Balkan peninsula and Western Europe.

**Greece is a hub for illicit whites.** These cigarettes are smuggled from Greece to Turkey, Libya, Bulgaria, Albania, North Macedonia, Italy.

The **United Arab Emirates is the main origin of cigarettes** trafficked along the Extended Balkan Route.



## Illicit cigarettes

2017 figures

**Illicit whites have become the most frequently smuggled type of cigarettes** along the Extended Balkan Route.

**Illicit whites** account for about:

- 50% of the illicit consumption in the Balkan peninsula;
- 40% of the illicit consumption in Turkey.

**Cut tobacco is trafficked** along the Extended Balkan Route.



## Actors

OCGs—especially Bulgarian groups—are the key cigarette traffickers along the Route.

OCGs are often engaged in multiple forms of illicit trafficking: cigarettes, drugs, firearms, stolen cars, alcohol, and humans.



## Evolution of the Route

Trafficking along the Route decreased by about 17% from 2008-2012 to 2017.

Illicit outflows towards the EU diminished significantly (by about -40%).

Once prominent, the export of illicit cigarettes from Balkan countries—e.g., Montenegro—to Western Europe declined notably.

Illicit flows of cigarettes from the Middle East to Turkey grew considerably and, in turn, cigarettes flowing from Turkey to Europe increased.



## Main enabling factors

Post-conflict instability and economic hardship.

Presence of experienced and transnationally connected OCGs.

Stagnating corruption, which makes crime de-escalation particularly difficult to achieve.

Scant control on the extra production of illicit whites—e.g., in Bulgaria and in the United Arab Emirates.

Presence of important seaports and extended coastlines—e.g., in Greece and in Turkey.

Strategic geographical position of Turkey between the Middle East and Europe.

Cigarette price differentials along the borders with the EU and between different EU countries.

# 1. Illicit cross-border flows of cigarettes

Historically, **the Balkan peninsula has been a key origin and transiting area for illicit cigarettes flowing to Southern and Western Europe**. The Balkan peninsula and Turkey occupy a strategic position between Asia and the European markets. Criminals have always exploited this area to move illicit goods (see Box 1).

Nowadays, **the Extended Balkan Route is exploited by cigarette smugglers to:**

- introduce cigarettes into the Balkan peninsula;
- feed the large market of illicit cigarettes in Turkey;
- bring illicit cigarettes to markets in South (e.g., Italy), Central (e.g., Austria) and further to Western Europe (e.g., the United Kingdom, France, Germany) (see Figure 1 and Figure 3).

*The Extended Balkan Route is a key route along which illicit flows of cigarettes transit in the Balkan peninsula and Turkey*

The custom transit procedures between Turkey, Serbia, North Macedonia and the EU MSs allow for customs taxation formalities to

be carried out for a shipment at its final destination, rather than at the transit point as established by the Convention on Common Transit. Therefore, while cigarettes are in transit, the levying of duties and taxes is temporarily suspended.<sup>1</sup> Criminals exploit weaknesses in transit procedures in multiple ways, e.g. undervaluing goods, illegally offloading goods and diverting them to a different destination, and bribing customs officers.<sup>2</sup> Additional control measures, such as the use of GPS seals and limiting the number of days allowed for transit, could reduce the weaknesses in the transit countries.

**In 2017, approximately 29 billion illicit cigarettes were smuggled into Turkey and the Balkan peninsula.** These illicit cigarettes mainly originated in the United Arab Emirates (7.1 billion), Bulgaria (5.7 billion), Iran (3 billion), Iraq (1.8 billion), Romania (1.5 billion), and Moldova (1.4 billion) (see Figure 2). Apart from those produced in the Balkan peninsula, **illicit cigarettes mostly enter the peninsula through Bulgaria and Greece after transiting through Turkey.**

*The United Arab Emirates, Bulgaria and Iran are the main origins of illicit cigarettes trafficked along the Route*

**About 40% of the total amount of cigarettes smuggled along the Extended Balkan Route were destined to be consumed in Turkey** itself (12.2 billion). Other main destination markets were the United Kingdom (1.6 billion cigarettes), Iraq (1.5 billion), Romania (1.3 billion), and France (1.1 billion). Tunisia is also an important destination country for cigarettes smuggled along the Extended Balkan Route (2 billion cigarettes), proving the importance of this area for flows going from North to South and not only in the opposite direction.

## Box 1. The golden age of cigarette smuggling in the Balkan peninsula—late 20th century

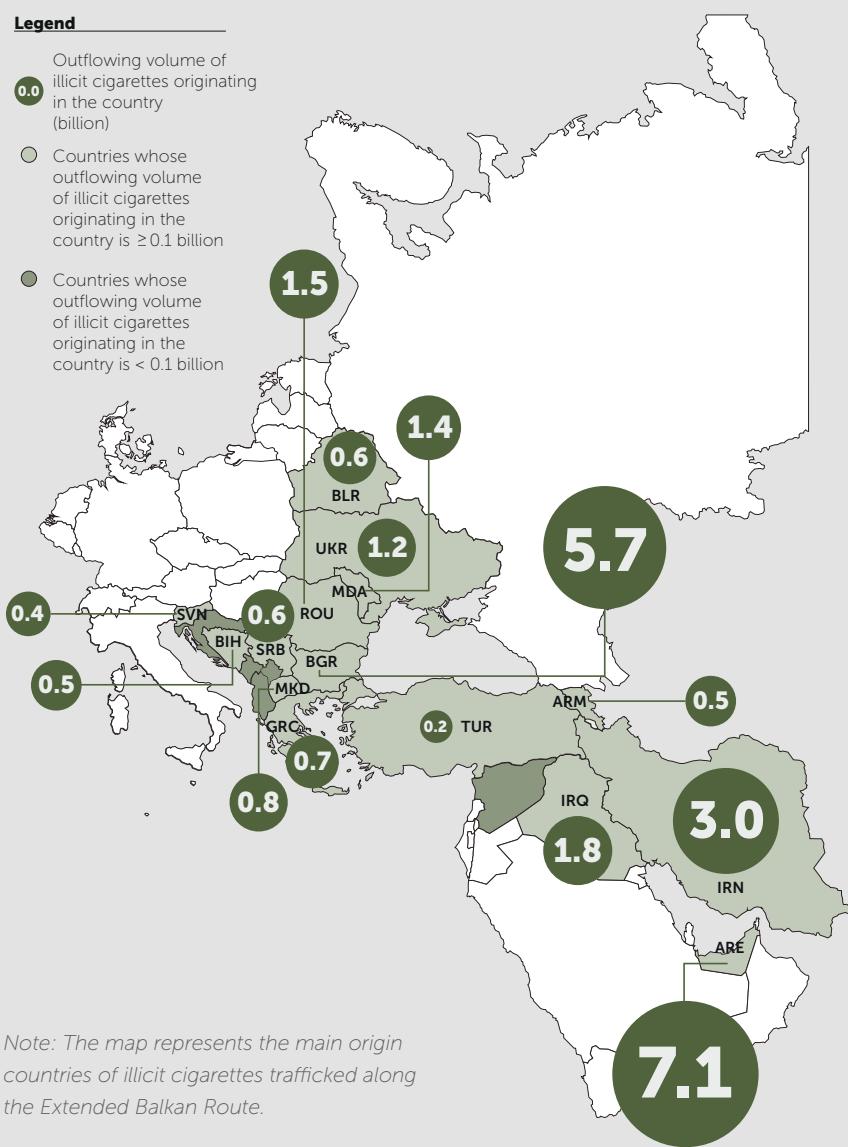
Since the second half of the 20<sup>th</sup> century, firearms, drugs and cigarettes have been smuggled in the Balkans.<sup>3</sup> Cigarette trafficking, in particular, was a primary source of funding during the Yugoslav wars; counterfeit cigarettes of major brands such as Marlboro, Winston, Rothmans represented an important source of funding in the new-born Balkan countries.<sup>4</sup> Particularly, Montenegro, Kosovo, Serbia, North Macedonia, Croatia and Bosnia and Herzegovina profited from cigarette smuggling revenues.<sup>5</sup> Once the conflicts were over, cigarette contraband decreased.<sup>6</sup> Although today cigarette trafficking is still a lucrative activity in the Balkans, in the 2000s smugglers shifted their main attention to drugs trafficking—especially heroin.<sup>7</sup>

Figure 1. The Extended Balkan Route of cigarette trafficking (2017)



Note: The map represents the main illicit flows of cigarettes transiting along the Extended Balkan Route. The flows represented should be considered indicative and based on estimates rather than exact values. Such estimates rely upon data related to official cigarette seizures along the trafficking paths as well as data on the consumption of cigarettes obtained through EPSs. Paths may deviate to other countries along the Extended Balkan Route, and there are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

**Figure 2. The main origin countries of illicit cigarettes trafficked along the Extended Balkan Route (2017)**



#### Flows along the Extended Balkan Route cluster into two principal parts:

1. **The south-eastern part:** massive illicit flows connect Turkey, Bulgaria, and Greece moving illicit cigarettes towards Europe, but also in the opposite direction and towards North Africa and the Middle East.
2. **The north-western part:** cigarettes are trafficked through the numerous states located in the Balkans to satisfy local black markets and to reach Central and Western European markets. The extensive coastlines of the countries of the Extended Balkan Route allow for direct connections among them and with the EU MSs.

#### South-eastern cluster

**The south-eastern part of the Route involves large flows across Turkey, Bulgaria and Greece.**

**Turkey is a major final destination market and a hub for cigarettes flowing both South-North and North-South.** In 2017, illicit inflows into Turkey were about 19 billion, higher than the illicit flows leaving the country—6.9 billion cigarettes.

On the one hand, **Turkey is a gateway to the Balkan region** due to its geographical position between

Asia and Europe. In 2017, 1.5 billion illicit cigarettes—mainly originating in the United Arab Emirates—flowed from Turkey to Bulgaria and 1 billion to Greece. Massive flows of illicit cigarettes enter Turkey from Iran (4.4 billion), Iraq (3.3 billion), and Syria (1.9 billion). The internal conflicts in Syria and Iraq and poor border controls favour these illicit flows.

On the other hand, **Turkey is the major recipient of illicit cigarettes leaving the Balkan peninsula.** In 2017, 5.3 billion illicit cigarettes flowed from Bulgaria to Turkey and 2.2 billion from Greece to Turkey. In both cases, the vast majority of the cigarettes originated in Bulgaria and in the United Arab Emirates.

*Major producers of illicit whites are located in Bulgaria*

**Bulgaria is a key origin country for illicit cigarettes flowing through the Balkan region** mainly due to the presence of illicit whites' producers. In 2017, Bulgarian cigarettes were predominantly consumed in Turkey (3.9 billion), Iraq (0.7 billion), and Montenegro (0.3 billion).

**Bulgaria is also a key transit country for illicit cigarettes.** In 2017, 6 billion illicit cigarettes transited through Bulgaria. Around 3.5 billion cigarettes out of the total 6 billion were manufactured in the United Arab Emirates. The main illicit inflows came from Turkey (1.5 billion), Romania (1.2 billion), and directly from the United Arab Emirates (1.1 billion). 1.7 billion of the illicit cigarettes transiting through Bulgaria had other EU MSs as their final destination.

**Greece is a crucial transit country for illicit cigarettes** due to its extensive coastlines and high number of sea connections. In 2017, 5.8 billion illicit cigarettes entered Greece: 2.5 billion from Bulgaria, 1.3 billion from North Macedonia, and 1 billion from Turkey. The remaining 1 billion entered through 7 other countries.

Once in Greece, illicit cigarettes mainly flow to Turkey (about 2.2 billion in 2017) and to Libya (1.5 billion). A smaller amount moves North and West (0.6 billion), and an even smaller volume of cigarettes leaves Greece by sea for other EU MSs like Italy and France (about 0.4 billion). The size of the flows along these paths, and in general in the northern part of the Extended Balkan Route, is smaller than the flows among Turkey, Bulgaria, and Greece.

## North-western cluster

Illicit flows of cigarettes in the north-western part of the Route are numerous but smaller in size than those in the south-eastern part.

Apart from Romania, which is the destination country for 1.3 billion illicit cigarettes, **countries in the north-western part of the Route mainly serve as transit points for cigarettes bound for EU MSs**; in particular, the United Kingdom (1.6 billion), France (1.1 billion), Austria (0.7 billion), and Germany (0.6 billion).

**Romania is a hub in the north-western part of the Route.** In 2017, illicit cigarette inflows to Romania totalled around 5.6 billion. These illicit

cigarettes entered Romania from 10 different countries, mainly Bulgaria (1.8 billion) and North Macedonia (1.7 billion). In the same year, the main outflows from Romania were also large and headed for Hungary (1.8 billion), Bulgaria (1.2 billion), Ukraine (0.8 billion), and Serbia (0.7 billion).

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*The north-western part of the Route involves illicit cigarettes trafficked through the Balkan region and into Central and Western European markets*

**Serbia is an important transit point for illicit cigarettes because it is located between EU and non-EU countries.<sup>8</sup>** Illicit cigarettes that leave Serbia are mainly trafficked to EU MSs. In 2017, 1.1 billion illicit cigarettes flowed from Serbia to Croatia; 0.5 billion to Bulgaria; 0.4 billion to Romania, and 0.4 billion to Austria. These countries are both the final destinations of and transit points for cigarettes intended for Western, Central, and Southern Europe—mainly Slovenia, the United Kingdom, Germany and Italy. Cigarettes may carry their original tax stamps—from one of the Balkan countries—or lack any stamp.<sup>9</sup>

Illicit flows involving the other north-eastern countries are smaller.

Once a major hub of international cigarette trafficking, **Montenegro is now a junction for the regional traffics**. Illicit cigarettes flow into Montenegro from Albania both directly—0.3 billion in 2017, entering via land and sea routes arriving principally at the port of Bar—or transiting through Kosovo—40 million. Once in Montenegro, foreign cigarettes, together with legitimate and counterfeit Montenegrin cigarettes, are often trafficked again to Albania (0.5 billion in 2017), Croatia (0.2 billion in 2017) and Bosnia and Herzegovina (0.2 billion in 2017). The contraband in these last two countries occurs also in the opposite directions. Occasionally, legally manufactured Montenegrin cigarettes are illegally shipped along maritime routes from the port of Bar to Greece and Italy.<sup>10</sup>

**Bosnia and Herzegovina has a secondary role in the regional cigarette trafficking.** In 2017, approximately 0.6 billion illicit cigarettes flowed into the country and 0.9 billion cigarettes flowed out of it. **In 2017, albeit at low volumes, 65% of the illicit cigarettes that transited through Bosnia and Herzegovina had an EU MS as their final destination**—i.e. Croatia (0.4 billion) and Italy (0.1 billion). The remaining 0.4 billion flowed to Montenegro (0.2 billion) and Serbia (0.2 billion).

Actors engaged in illicit cigarette trafficking from Bosnia and Herzegovina use **Croatia as a transit country for cigarettes** (0.4 billion in 2017) **destined for Western European markets**. In 2017, from Croatia illicit cigarettes mainly flowed to Slovenia (1.5 billion), Serbia (0.3 billion), and Montenegro (0.2 billion). However, **Croatian cigarettes are mainly legally exported to Bosnia and Herzegovina and then smuggled back**. The possible driver of this process is a Bosnian law that keeps the taxes low on cigarettes imported from Croatia, which allows criminals to benefit from the reduced prices.<sup>11</sup>

In 2017, illicit cigarettes mainly flowed to North Macedonia from Bulgaria (0.8 billion) and Serbia (0.7 billion). Illicit cigarettes—both originating in (26.6% of the outflows) and transiting through North Macedonia (73.4% of the outflows)—are mostly smuggled from this country to Greece (1.4 billion in 2017). The main **final destinations of cigarettes transiting through North Macedonia were Turkey, France and Greece.**

the same year, testifying to **Slovenia's role as a transit for illicit cigarette trafficking**. Illicit cigarettes enter Slovenia from Croatia (about 1.5 billion), Hungary (0.8 billion), Italy (0.4 billion), Austria (0.4 billion), and—in smaller quantities—directly from the United Arab Emirates and Kosovo. Austria, Italy, Croatia, Hungary, together with Germany and Portugal are also the principal countries to which the illicit cigarettes leaving Slovenia flow.

About 0.3 billion illicit cigarettes were consumed in Slovenia in 2017. Nonetheless, more than 3 billion illicit cigarettes flowed into the country in

**Figure 3. All links of cigarette trafficking involving the Extended Balkan Route (2017)**



Note: The map represents all links between pairs of countries forming the paths involving the Extended Balkan Route. Larger lines between pairs of countries indicate larger flows of illicit cigarettes between those countries.

## 2. Trafficked cigarettes

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In 2017, illicit whites accounted for about a third of the total illicit cigarette market in the EU; the Extended Balkan Route is one of the routes most exploited to traffic these products.<sup>12</sup>

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*Illicit whites have become the most frequently smuggled type of cigarettes along the Extended Balkan Route*

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**Cigarette smuggling along the Extended Balkan Route mainly concerns illicit whites.** In 2017, illicit cigarettes accounted for about 24% of the total cigarette consumption in the Balkan peninsula and 39% in Turkey. Almost 50% of the illicit cigarettes consumed in the Balkan peninsula and almost 40% of those consumed in Turkey were illicit whites (about 5.2 billion and 8.5 respectively).

Contraband genuine cigarettes, counterfeits, and cigarettes of unspecified origin are also trafficked along the Extended Balkan Route. In 2017, the consumption of contraband cigarettes amounted to about 6.6 billion—slightly less than 20% of the entire illicit market—i.e., 18.7% in the Balkan peninsula, 21.2% in Turkey. In the same year, the consumption of counterfeit cigarettes in the Balkan countries was estimated at 0.9 billion, corresponding to 8.7% of the illicit market, on average. It was estimated at 30 million in Turkey (0.1% of the illicit market).

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*Besides cigarette trafficking, cut tobacco is smuggled in the Balkans*

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In addition to industrial cigarettes, the Balkans are characterised by a significant consumption of bulk tobacco, specifically **cut tobacco**, which is **often produced and sold in illicit manner**. Cut tobacco meets the demand for cheap products that arose as consequence of the growing economic hardship due to the global crisis.<sup>13</sup> Montenegro, Serbia, Bosnia and Herzegovina and Croatia are among the countries with the highest consumption levels of cut tobacco in Europe.

The trafficking of this type of tobacco is not as risky as the trafficking of cigarettes because its illegality is harder to detect. In North Macedonia and Albania, the local production of cut tobacco can satisfy almost the entire domestic demand. Romania relies on cut tobacco mainly coming from Hungary and Turkey, and Slovenia on cut tobacco from Bosnia and Herzegovina.<sup>14</sup>

### 3. Criminal actors

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Two main types of criminal actors operate in cigarette smuggling along the Extended Balkan Route:

- 1) OCGs operating transnationally on a large scale;
- 2) medium and small-scale criminals operating nationally and/or organising small smuggling schemes between neighbouring countries.<sup>15</sup>

#### Transnational OCGs

During the 1990s, ethnic and political frictions in the Balkan peninsula caused bloody conflicts which led to political instability, especially in the Western Balkans.<sup>16</sup> In turn, the **political instability facilitated the emergence of OCGs and fostered the illicit flows.**<sup>17</sup>

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*OCGs are the main actors involved in illicit trades along the Extended Balkan Route*

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During the conflicts, the absence of control by the authorities enabled criminals to carry out their illegal activities unpunished.<sup>18</sup>

Criminal revenues became an important source of financing for the parties involved in the conflicts. The same **criminal actors acquired important connections within the political elites** and embedded themselves in multiple business sectors.<sup>19</sup> Together with limited transparency, this fuelled corruption—and its perception (see Box 2)—while weakening the effectiveness of LEAs' actions.<sup>20</sup>

More recently, **the economic crisis of the late 2000s reinforced OCGs.**<sup>21</sup>

As the legal economy weakened, criminal networks acquired more control and rooted their presence in the Balkan countries.<sup>22</sup> Still today, **mid-Western Balkan countries are faced with weaknesses in their law enforcement systems.**<sup>23</sup> A lack of cooperation among institutional bodies hinders the LEAs in this region. In turn, this prevents an effective fight against corruption.<sup>24</sup>

Today, OCGs are widely present in Albania, Bulgaria, Romania, Kosovo, North Macedonia, Greece and Turkey (see Box 3). They tend to be heterogeneous in terms of their members' nationality.<sup>25</sup> **Having built transnational networks, OCGs take advantage of their multiethnicity to manage contraband activities** at international level (see Box 4).<sup>26</sup> For instance, Albanian criminals used to collaborate with the Italian mafia and Turkish criminals. Thereafter, they started to cooperate also with OCGs operating in neighbouring countries like Kosovo, Greece and North Macedonia.<sup>27</sup>

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*OCGs exploit their criminal expertise in illicit trades to smuggle cigarettes*

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**Transnational OCGs are often engaged in multiple smuggling activities** (e.g., firearms, human beings, drugs, alcohol, stolen cars) and exploit their criminal expertise to conduct cigarette smuggling.<sup>28</sup> When they deal with cigarette trafficking, **they move large quantities of illicit cigarettes.**

OCGs obtain illicit cigarettes by resorting to three main channels:

- importing large quantities of illicit whites from other regions;
- acquiring locally manufactured cigarettes which have been legally exported to non-EU countries and then illicitly re-importing them;
- acquiring local production of counterfeit cigarettes or illicit whites.<sup>29</sup>

Large-scale actors often use sea transhipments and internal waterways to move illicit cigarettes across countries.<sup>30</sup> The high number of seaports in many of the countries along the Extended Balkan Route—i.e., Bulgaria, Greece, Turkey—facilitates smuggling by sea (see Box 5). Still, in some cases, smugglers prefer to drop anchor in international waters and use smaller boats to cover the last part of the journey to the shore.<sup>31</sup>

## Box 2. The perception of corruption in the Balkan countries and in Turkey

Table 1 highlights the Corruption Perception Index for the countries of the Extended Balkan Route. Levels of corruption are measured using a scale from 0 to 100. The more a country approaches

the value 0, the more its public sector is perceived as a corrupt system.<sup>32</sup> With reference to the year 2017, Albania (38), Bosnia and Herzegovina (38), Kosovo (39) and North Macedonia (35) are

the countries in the Balkan region perceived as the most corrupt. Slovenia performs particularly well with respect to the other countries of the area, having the 34<sup>th</sup> lowest level of perceived corruption in the world.

**Table 1. Corruption Perception Index (2012-2017)**

2017 Rank	Country	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score
<b>2 to 43<sup>a</sup></b>	EU <sup>b</sup>	65	65	66	65	64	64
<b>34</b>	Slovenia	61	61	60	58	57	61
<b>57</b>	Croatia	49	49	51	48	48	46
<b>59</b>	Greece	48	44	46	43	40	36
<b>59</b>	Romania	48	48	46	43	43	44
<b>64</b>	Montenegro	46	45	44	42	44	41
<b>71</b>	Bulgaria	43	41	41	43	41	41
<b>77</b>	Serbia	41	42	40	41	42	39
<b>81</b>	Turkey	40	41	42	45	50	49
<b>85</b>	Kosovo	39	36	33	33	33	34
<b>91</b>	Albania	38	39	36	33	31	33
<b>91</b>	Bosnia and Herzegovina	38	39	38	39	42	42
<b>107</b>	North Macedonia	35	37	42	45	44	43

Note: <sup>a</sup> In 2017, Denmark had the 2<sup>nd</sup> highest score in the Corruption Perception Index in the world—first among EU MSs. In the same year, Bulgaria ranked 43<sup>rd</sup> in the world—last among EU MSs. <sup>b</sup> The reported score corresponds to the simple average of the score of the EU MSs in that year.

Source: Transparency International<sup>33</sup>

### Box 3. A closer look at some national specificities in terms of OCGs

<b>Bulgarian OCGs</b>  Bulgarian OCGs are well known for having a diversified portfolio of traffics and illegal services. <sup>34</sup> Bulgaria has frequently emerged at the centre of international investigations concerning the trafficking of heroin, cocaine, stolen vehicles, and human beings. <sup>35</sup>  Over time, Bulgarian OCGs have adapted their operations to the market demand and started to smuggle cigarettes as well—on both a national and transnational scale—while applying the same methods that they use to smuggle other goods. <sup>36</sup> In recent years, cigarette smuggling in Bulgaria has enabled OCGs to generate significant revenues. The EU tax harmonization that Bulgaria had to implement upon entering the EU negatively impacted on its cigarette market. <sup>37</sup> The excise increase made illicit cigarettes more attractive for consumers. In turn, OCGs exploited the increase to augment their profits. <sup>38</sup>	<b>Cigarette trafficking by Greek OCGs</b>  Greek OCGs have a hierarchical structure and are made up of both Greek and criminals of foreign origin. In committing crimes, they exploit international connections with OCGs abroad. <sup>39</sup>  Differently from OCGs in other countries of the Extended Balkan Route, Greek OCGs engaging in cigarette smuggling tend to focus exclusively on it. However, there are cases in which Greek OCGs also engage in other smuggling activities, such as human smuggling, drug trafficking, firearm contraband, fuel smuggling, and forgery of documents. <sup>40</sup>  Until 2012, low penal implications favoured the growing criminal engagement in cigarette smuggling, contributing to the increase of illicit trafficking. In 2012, smuggling tobacco products was included among “organised crime” offences. <sup>41</sup>	<b>Turkey is distinguished by the co-presence of different types of traffickers</b>  Cigarette smuggling into Turkey is a source of revenue for OCGs and terrorist organisations. <sup>42</sup> The Islamic State has profited from cigarette smuggling into Turkey to raise funds driving the growth of illicit consumption in Turkey. <sup>43</sup>  Criminals and terrorists are not the only actors dedicated to the trafficking of cigarettes. The Turkish Department of Anti-Smuggling and Organized Crime (KOM) has pointed out the involvement of <i>Bulgartabac</i> in the smuggling of cigarettes into Turkey. The problem had been already exposed in 2010. When in 2011 the company was privatised, the issue became more serious. <sup>44</sup> Between 2010 and 2015, 77.5% of illicit whites in Turkey carried the Prestige brand name—a <i>Bulgartabac</i> trademark. <sup>45</sup>
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### Box 4. The importance of transnational criminal connections in cigarette smuggling

<b>Organised cigarette trafficking in Romania</b>  Between January and February 2017, Romanian Police confiscated 298,000 packs of illegal cigarettes bound for the Romanian black market. The main brands of the cigarettes were Marble, Ashima, Plugarul, L&M, Jin Ling and Marlboro. 90 people belonging to 19 different OCGs were arrested for cigarette smuggling. The smugglers had different nationalities, and they had created strong trans-border connections. Most of them were from the Balkan region and Central-Eastern Europe, particularly Romania, Serbia, Bosnia and Herzegovina, Croatia, Bulgaria, Turkey, Germany, Hungary, Latvia, Ukraine, Moldova. Illicit cigarettes entered Romania mainly through its northern, eastern and south-western borders. <sup>46</sup>	<b>Balkan actors active at the international level</b>  In 2017, thanks to a collaborative effort between the Spanish authorities, OLAF and LEAs from Balkan countries—i.e., Romania and Bulgaria—31 million cigarettes were seized within the framework
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of Operation Mangalica. Together with contraband genuine cigarettes, the intercepted shipment contained also illicit whites and counterfeit cigarettes branded Marlboro.

The OCG involved in this case had already been running illegal activities since 2015. The OCG presented transnational links and was managed by criminals from Bulgaria and Romania, some of whom used to live in Spain.

Illegal cigarettes were trafficked to Spain along two routes: the first route ran from Bulgaria, included a transit through Romania, and finally reached Spain, while the second route departed from Senegal, transited through Portugal and arrived in Spain.<sup>47</sup>

#### Box 5. Cigarette trafficking between the Black Sea and the Mediterranean Sea

The Bosphorus Strait and the Dardanelles are crucial passages linking the Black Sea and the Mediterranean. Criminals profit from this extended waterway to transfer illegal cigarettes among Western Europe, North Africa, the Middle East, Eastern Europe and Far-East Asia.

Some large seizure cases prove the strategic importance of these Straits:

- In 2017 Romanian authorities seized 14 million cigarettes in Constanta Port. The cigarettes had arrived from Thailand and were meant to be sold on the black market.<sup>48</sup>

- Bulgarian customs seized 14 million cigarettes at the Varna Port. Bound for a Bulgarian company, the cigarettes originated in the United Arab Emirates and, before reaching Bulgaria, transited through Turkey.<sup>49</sup>

### Medium-scale traffickers and small-scale smugglers

**Medium-scale and small-scale criminals are often engaged in bootlegging**, i.e., the legal purchase of cigarettes in a low-tax country and their illegal sale in a high-tax country to generate extra income.

**Medium-scale criminals mainly act as dealers.** They buy cigarettes from large-scale traffickers and re-sell them on the market, competing with other medium-scale criminals. Alternatively, they may rely on autonomous networks.<sup>50</sup>

**Small-scale criminals act both as distribution channels for the medium-scale traffickers and as independent smugglers.** They usually conceal illicit cigarettes in cars, vans and buses to limit the risk of being detected during border controls.<sup>51</sup> Several customs administrations within the region—i.e., Greece, Croatia, Montenegro—have reported an increase in the use of this method.

Many of these small-scale actors are induced to engage in illicit cigarette cross-border trade by widespread poverty and unemployment.<sup>52</sup> The high degree of acceptance of cigarette trafficking also provides incentives to become involved in this illicit trade.<sup>53</sup> In Turkey, in particular, the illicit trade attracts marginalised people affected by unemployment. Also poor families, especially from the south-eastern villages, may turn to illicit activities in the absence of legitimate job opportunities.<sup>54</sup>

# 4. Key nodes of the Route

## Turkey

Based on 2017 data



### ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**21.7** billion

Tot. illicit cigarettes consumed of unknown origin

**9.5** billion

Main origin of illicit cigarettes

**Bulgaria**



### ILLICIT INFLOWS

N. of inflows

**14**

Tot. inflowing volume

**19.0** billion

Main inflow

**5.0** billion sticks from Bulgaria  
(26% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**89**



### ILLICIT OUTFLOWS

N. of outflows

**20**

Tot. outflowing volume

**6.9** billion

Main outflow

**1.5** billion sticks to Bulgaria  
(22% of tot. outflows)

Tot. illicit cigarettes originating in Turkey

**0.2** billion

Main final destination of the outflowing cigarettes

**Tunisia**

### MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

#### Legend

○ Transit and destination country

- - - Indirect connection

#### Origin of the cigarette flows

— United Arab Emirates

— Bulgaria

— Iran

— Iraq

#### Volume (N. of sticks)

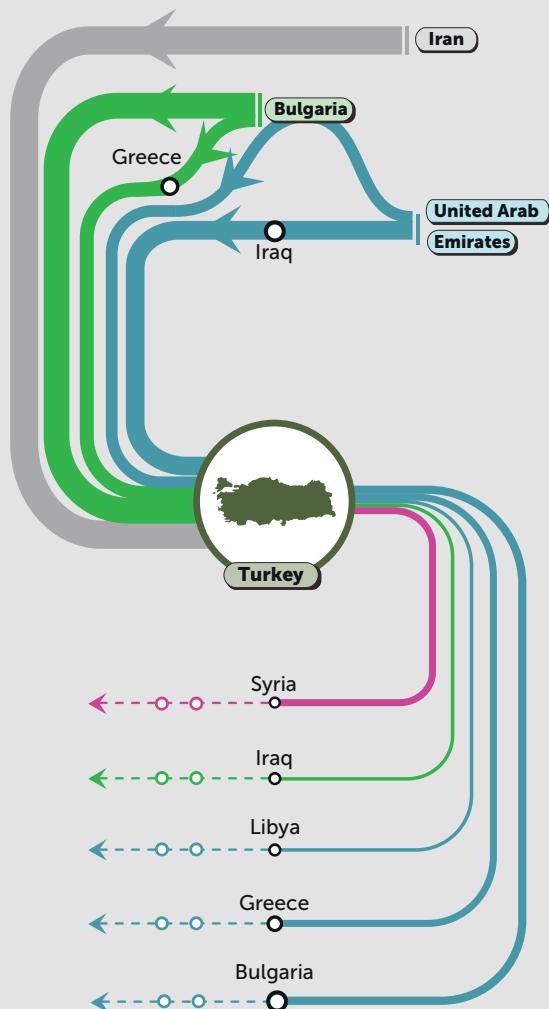
Graphic reference scale



4 billion

2 billion

≤ 0.2 billion



# Turkey's geographical position is crucial for the transit of illicit cigarettes

The illicit consumption in Turkey is fairly high compared to the other countries along the Route. It amounted to 21.7 billion in 2017. The consumption of illicit cigarettes mainly concentrates in the Eastern region, bordering with Syria and Iraq. In this area, the extended border and the high unemployment rates favour the illicit supply of and demand for illicit cigarettes.<sup>55</sup>

In addition, Turkey provides a territorial continuity between the Asian and the European territories. Its geographic position eases the passage of illicit flows in both directions.

Besides Turkey's geographical position, many socio-politic-economic factors determine its key role as a transit country:

- the consolidated Balkan drug route, which is exploited by smugglers because it is the historical route for illegal goods headed to Europe;
- the weak controls in place at the borders with neighbouring Eastern countries, e.g. Syria and Iraq, affected by internal conflicts;

- the presence of FTZs, for example the port of Mersin (see below);
- the high level of corruption among public officials, which facilitates the smugglers' activities;
- the direct and indirect involvement of terrorist groups and OCGs, which act on the Black Sea and on the Mediterranean Sea.<sup>56</sup>

In 2017, 19 billion illicit cigarettes entered Turkey. They originated from 89 countries (see Box 6). The illicit cigarettes directly flowed to Turkey via 14 countries. **The main flow entering Turkey came from Bulgaria** (5.3 billion), and another large flow from Greece (2.2 billion).

**Other major flows of illegal cigarettes reach Turkey through Syria, Iraq and Iran.**<sup>57</sup> In 2017, 4.4 billion illicit cigarettes arrived in Turkey from Iran, 3.3 billion from Iraq, and 1.9 billion from Syria. In Syria, the illicit cigarettes are offloaded at the port of Latakia and then moved to Turkey's southern provinces, whereas those heading for the Persian Gulf reach Iraq and are then smuggled to Turkey.<sup>58</sup>

**Illicit cigarettes entering Turkey originate also in neighbouring eastern and north-eastern countries, i.e. Georgia, Armenia and Russia.** These cigarettes are often smuggled by individual couriers crossing the borders in the eastern and south-eastern areas—e.g., Artvin. Once in Turkey, **illicit cigarettes are usually stored in border villages** before continuing their journey.<sup>59</sup>

## Box 6. Turkish LEAs intercept illicitly cigarettes originating from a multitude of countries

In 2015, Turkish National Police reported that 45% of the cigarettes intercepted in Turkey came from Bulgaria (Prestige, Victory, M&M), 20% from China (J&J, Ashima, Marble, Empire, Dubao) and 25% from Indonesia (United), United Arab Emirates (Capital), South Korea (Esse, Vigor, Pine), Armenia (Akhdamar), Jordan (Mikado), Poland (Brilliant), Georgia (Winston, Pirvelli), Russia (Jin Ling), France and Germany (Gauloises). The remaining 10% consisted of cigarettes originating in Turkey and destined to be sold abroad (Vigor, Toros, Swisse, President, Kent, Viceroy, Black Galleon).<sup>60</sup>

These two cases illustrate how Chinese illicit cigarettes are smuggled into Turkey:

1. Chinese cigarettes arrived in the United Arab Emirates, transited through Iran and entered Turkey. The illicit cigarettes were smuggled either hidden in vehicle compartments or concealed among legal goods.<sup>61</sup>
2. The illicit cigarettes were transported by sea to Lebanon. From Lebanon the illicit cigarettes were moved to north-western Syria where they crossed the border with Turkey to reach Hatay, Mersin, Adana and finally Istanbul.<sup>62</sup>

**FTZs play a major role in the trafficking of illicit cigarettes to and through Turkey**—e.g., the FTZ in the Turkish port of Mersin and the United Arab Emirates’ Jebel Ali FTZ.

The port of Mersin often receives illicit cigarettes from Israel. In 2015, for example, custom authorities seized 10.2 million counterfeit cigarettes in the port of Haifa (Israel) that were supposed to be shipped to Mersin. Earlier, Turkish authorities had seized a similar cigarette shipment that smugglers had trafficked from the port of Haifa.<sup>63</sup>

The Jebel Ali FTZ port receives illicit cigarettes originating in countries such as Bulgaria, the United Arab Emirates or China. From there, cigarettes are smuggled to the Bandar Abbas port in Iran, after which they are transported over land to the Syrian, Iraqi and Iranian borders with Turkey. Here, the illicit cigarettes are stored and subsequently smuggled into Turkey.<sup>64</sup> Cigarettes that enter through Turkey’s eastern and south-eastern regions often cross territories where the PKK is active (see Box 7).

During 2017, the majority of the illicit cigarettes that transited through Turkey ended up in Tunisia (1.4 billion), Iraq (1.0 billion), Azerbaijan (0.6 billion). In the same year, about 1.4 billion illicit cigarettes transited through Turkey before reaching their final destination in one of the EU MSs, such as Greece, Spain, the United Kingdom, France, Italy and the Netherlands.

In 2017, **Turkey’s largest outflows of cigarettes were headed for neighbouring countries**: Bulgaria (1.5 billion) and Greece (1.0 billion) in the West, Georgia (0.7 billion) to the North-East, Iraq (1.1 billion) and Syria (0.7 billion) to the South. Other large flows targeted countries in North Africa, i.e. Tunisia (1.4 billion) and Libya (0.6 billion). Prestige and Victory cigarettes, for example, depart from Bulgaria, cross the Bosphorus Strait and head for either Syria or the Persian Gulf via the Red Sea.<sup>65</sup>

#### Box 7. The PKK custom points

A significant share of the illicit cigarettes entering Turkey access the country through the eastern and south-eastern regions; these are territories where the PKK is active. In these areas, PKK operate multiple transnational—illegal—businesses which involve drugs, human beings, document forgery, and racketeering.<sup>66</sup> In the last case, PKK exploits its control over border areas and levies taxes from traffickers—including cigarette traffickers—who cross the Party’s “customs points”.<sup>67</sup> Cigarette smuggling is thus a source of financing for the PKK.<sup>68</sup>

# Bulgaria

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.8** billion

Tot. illicit cigarettes consumed of unknown origin

**0.6** billion

Main origin of illicit cigarettes

**United Arab Emirates**



## ILLICIT INFLOWS

N. of inflows

**12**

Tot. inflowing volume

**6.2** billion

Main inflow

**1.5** billion sticks from Turkey  
(24% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**90**



## ILLICIT OUTFLOWS

N. of outflows

**6**

Tot. outflowing volume

**11.8** billion

Main outflow

**5.3** billion sticks to Turkey  
(45% of tot. outflows)

Tot. illicit cigarettes originating in Bulgaria

**5.7** billion

Main final destination of the outflowing cigarettes

**Turkey**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - ○ - Indirect connection

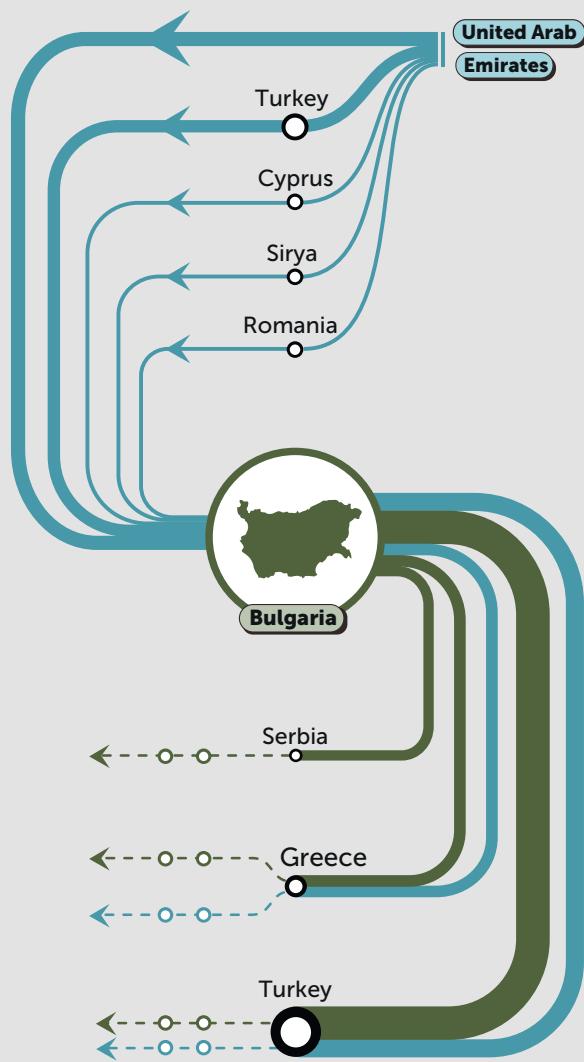
### Origin of the cigarette flows

— United Arab Emirates

— Bulgaria

### Volume (N. of sticks) Graphic reference scale

	4 billion
	2 billion
	≤ 0.2 billion



## *Outflows of illicit cigarettes from Bulgaria are among the largest registered in the European and in the Mediterranean area*

### **Bulgaria is a major global player in the transnational trafficking**

**of cigarettes.** The importance of Bulgaria relates to the country's role as a transit point (about 5.9 billion) and origin (about 5.7 billion) of illicit cigarettes. To a lesser extent, Bulgaria is also a final destination (about 0.2 billion) for illicit cigarettes coming from abroad.

The role of Bulgaria in cigarette smuggling had been influenced by:

- the increase of excise duty after the country's accession to the EU in 2007;
- the involvement of local manufacturers in the production of illicit whites (see Box 8);
- the presence of structured OCGs;
- the global economic crisis that furthered the establishment of illicit retail networks through the involvement of disadvantaged people in the black market for cigarettes.<sup>69</sup>

### **Box 8. Bulgartabac**

After Bulgaria's accession to the EU, Bulgartabac had to give up its monopoly of the Bulgarian tobacco market.<sup>70</sup> Bulgartabac was privatised in 2011.<sup>71</sup> In 2014, it was acquired by a Dubai-registered offshore company named TGI Middle East FZE, of which the ownership remains undisclosed.<sup>72</sup>

In 2017, the Turkish Office Anti-Smuggling & Organized Crime Department (KOM) published a report that directly pointed to Bulgartabac as the source of cigarettes smuggled into Turkey. This report was also sent to Interpol. The issue of Bulgarian cigarettes surfaced in 2010, and has grown ever since—Turkish LEAs reported that Bulgartabac's Victory, MM and Prestige branded cigarettes made up more than half of the black market in Turkey in 2015.<sup>73</sup>

According to the Turkish LEAs, Bulgartabac cigarettes are moved from Bulgaria, through the Suez Canal and Red Sea, via the Gulf of Aden to the Jebel Ali FTZ. Here the cigarettes are transited—often concealed and relabelled—and shipped to Iraq, Syria or Iran. The final step involves the smuggling

of the cigarettes back to Turkey through PKK controlled territories.<sup>74</sup>

In March 2016, Bulgartabac had already officially announced that it would halt all sales to the Middle East, citing the "artificially created reputation problems" following its implication in cigarette trafficking to Turkey.<sup>75</sup> This announcement came at the same time that official documents regarding Bulgartabac's business surfaced. They showed Bulgartabac's continued and long-standing official business relationship (since 2004) with Salam Faraj Qader, one of the owners of the Andaluse Al Sharg General Trading company registered in Dubai. He had been branded as smuggler by the Turkish authorities, and had his import licence revoked in Iraqi Kurdistan in 2011 for forging export documents.<sup>76</sup> Despite these facts, Bulgartabac exported to his Dubai-based company more than 12,000 tons of cigarettes in 2014. This was more than all Bulgartabac exports to Syria and Iran that year.<sup>77</sup>

To date, no investigations have been launched nor have charges been filed against Bulgartabac.<sup>78</sup>

**Bulgaria is an important origin country for illicit cigarettes**, even though overall consumption of cigarettes originating in Bulgaria decreased from 9.7 billion in 2008–2012 to 5.7 billion in 2017. In this last year, 3.9 billion Bulgarian-produced

illicit cigarettes flowed into Turkey. Other destinations included Iraq (0.7 billion), Montenegro (0.3 billion), France (0.3 billion), and the United Kingdom (0.1 billion).

**Bulgaria is also a key transit country for cigarette smuggling.** Illicit cigarettes, with 90 different origins, flow into Bulgaria from 12 different countries. In 2017, the main origin countries were Turkey, Romania, and the United Arab Emirates. Once they had transited through Bulgaria, illicit cigarettes reached their final destinations, mainly Turkey (1.6 billion), Tunisia (1 billion) and Greece (0.5 billion). About 1.7 billion illicit cigarettes transiting in Bulgaria are bound for EU countries.

In 2017, the **overall outflows from Bulgaria**—included both cigarettes produced in and transiting through Bulgaria—**were mainly bound for Turkey, Greece, Romania and Serbia**; all these outflows were massive, having a size of about 5.3 billion, 2.5 billion, 1.8 billion and 1.3 billion illicit cigarettes, respectively. In particular, the flows to Turkey and to Greece are the third and the tenth largest among all flows estimated for the countries included in the analysis.

**From 2014 to 2017, Bulgaria's illicit consumption decreased about 70%**—from 2.1 billion illicit cigarettes in 2014 and to approximately 0.8 billion in 2017. This reduction may be explained by the stricter controls by LEAs at manufacturing sites that undermine the domestic supply of illicit whites.<sup>79</sup>

Today, illegal cigarettes consumed in Bulgaria have 15 different origins. The United Arab Emirates is the main origin country of illicit cigarettes for the Bulgarian market (0.1 billion in 2017). North Macedonia is the second main origin. **Since 2010, illicit whites have accounted for the majority of the illicit consumption in Bulgaria**—i.e., 60% on average per year.

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*Since 2015, in Bulgaria the illicit consumption of cigarettes has been drastically reduced thanks to specific counter-measures*

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## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**4.4** billion

Tot. illicit cigarettes consumed of unknown origin

**3.2** billion

Main origin of illicit cigarettes

**United Arab Emirates**



## ILLICIT INFLOWS

N. of inflows

**10**

Tot. inflowing volume

**5.8** billion

Main inflow

**2.5** billion sticks from Bulgaria (43% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**81**



## ILLICIT OUTFLOWS

N. of outflows

**11**

Tot. outflowing volume

**5.4** billion

Main outflow

**2.2** billion sticks to Turkey (41% of tot. outflows)

Tot. illicit cigarettes originating in Greece

**0.7** billion

Main final destination of the outflowing cigarettes

**Turkey**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - ○ - Indirect connection

### Origin of the cigarette flows

— United Arab Emirates

— Bulgaria

— North Macedonia

— Greece

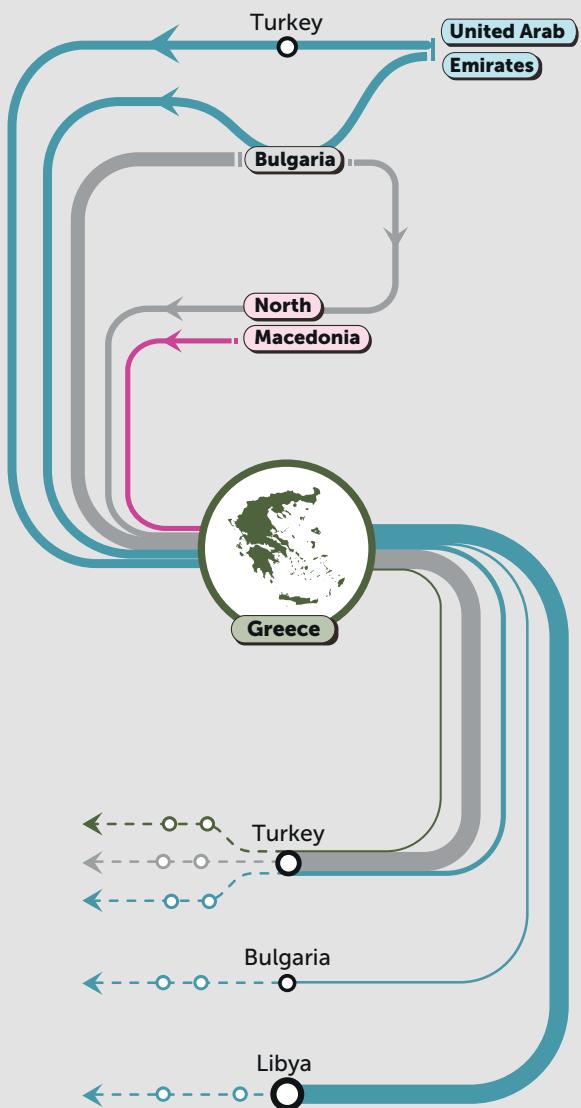
### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



## Greece is a key transit country for illicit cigarettes

**Greece plays a key transit role in cigarette illicit trade due to its strategic position as a peninsula in the Mediterranean Sea** situated in-between Turkey, the Balkans and Italy. Additionally, Greece has extended coastal borders. Illicit cigarettes are often transported to Greece by sea.

**In 2017, the total illicit cigarette inflows, which entered Greece via 10 different countries, amounted to 5.8 billion.** These illicit cigarettes originated in 81 countries. 2.5 billion illicit cigarettes flowed to Greece via Bulgaria, another 1.3 billion via North Macedonia, 1 billion via Turkey and 0.4 billion via Albania. In these countries, cigarette prices are lower than in Greece. On average, the money saved per pack is approximately 1.6€ for the cheapest cigarettes, 2.2€ for the most sold, and about 2.6€ for a premium pack of cigarettes.

*The economic crisis has led Greece to become also an important destination country*

**The economic crisis contributed to Greece becoming a destination country** (see Box 9). Since 2008, a considerable amount of people have turned to the illicit channels, acquiring the more affordable illicit cigarettes.<sup>80</sup> In 2017, Greece was still among the EU countries with the highest levels of illicit cigarette consumption (about 20% of the total cigarette consumption).

**During 2017, a total of 5.4 billion illicit cigarettes flowed out from Greece to 11 countries.** Of these illicit flows, 2.2 billion cigarettes arrived in Turkey and 1.5 billion entered Libya.

In 2017, the two key final destinations for illicit cigarettes that passed through Greece were Turkey (1.9 billion cigarettes) and Tunisia (1.4 billion cigarettes). Only about 0.5 billion illicit cigarettes that transited in Greece ended up in other EU MSs—including France, the United Kingdom, Austria and Germany.

At the beginning of the 21st century, Greece was turning into a source for illicit whites.<sup>81</sup> Illicit whites produced in the country were mainly destined for Spain and France.<sup>82</sup> In 2017, intelligence provided by OLAF enabled the Greek Customs Service to seize 6 million illicit white cigarettes of the Royal brand. It was discovered that these cigarettes had started their journey as legal exports from Greece to Asia, but had then been smuggled back to Greece.<sup>83</sup>

### Box 9. The Greek economic crisis

The economic crisis that hit Greece in 2008 has to be considered the lens through which to evaluate the illicit trade in the country.

Greek LEAs faces difficulties in preventing the problem of illicit trade from spreading because of a shortage of means; their strategic and long-term operations had to be replaced by short-term priorities.

The crisis affected the legal market and, at the same time, fostered the black one, which became more attractive to consumers suffering from a decrease in their purchasing power.

Lastly, the 2008 debt crisis negatively influenced the Greek socio-economic context, and induced citizens to look for other (illegal) sources of goods and services. In the 6-year period of economic stagnation and recession, crime rates increased, salaries diminished, the unemployment rate was about three times higher than the EU average, and corruption levels rose.<sup>84</sup>

# Montenegro

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.7** billion

Tot. illicit cigarettes consumed of unknown origin

**0.3** billion

Main origin of illicit cigarettes

**Bulgaria**



## ILLICIT INFLOWS

N. of inflows

**7**

Tot. inflowing volume

**1.4** billion

Main inflow

**0.3** billion sticks from Albania  
(21% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**68**



## ILLICIT OUTFLOWS

N. of outflows

**6**

Tot. outflowing volume

**1.0** billion

Main outflow

**0.5** billion sticks to Albania  
(50% of tot. outflows)

Tot. illicit cigarettes originating in Montenegro

**0.009** billion

Main final destination of the outflowing cigarettes

**Greece**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

-○- Indirect connection

### Origin of the cigarette flows

— United Arab Emirates

— Bulgaria

— Montenegro

— Bosnia and Herzegovina

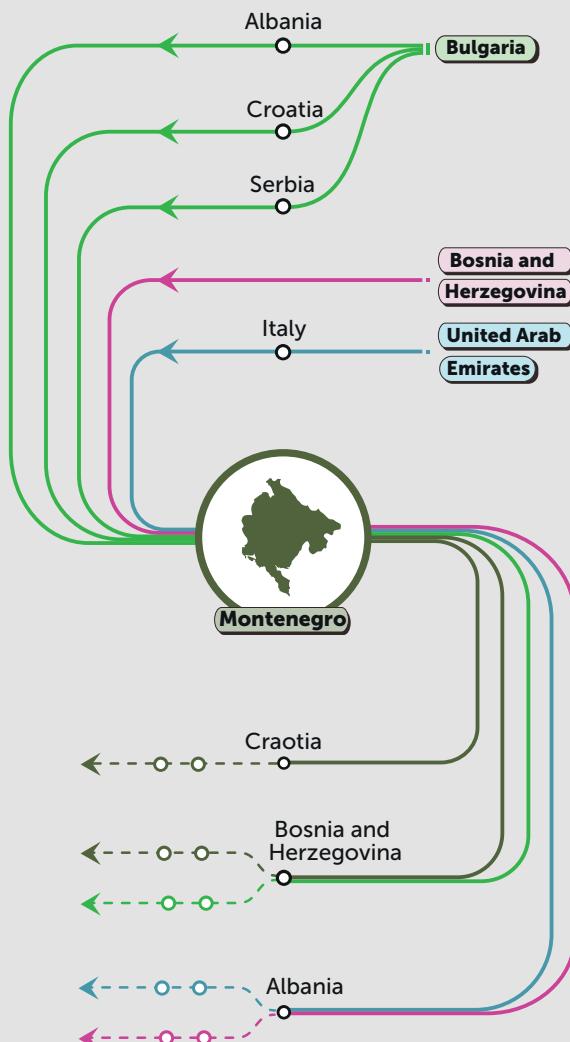
### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



**During the Yugoslav wars, Montenegro had been a notorious major hub of cigarette smuggling.<sup>85</sup>**

The corruption of the political elite during the 1990s facilitated the smuggling activities with a substantial economic return; at that time, cigarette trafficking accounted for about 60% of the GDP.<sup>86</sup>

Montenegro was a crucial transit country for cigarettes bound for Italy. Broker companies purchased cigarettes and then transferred them to Montenegro; once the Montenegrin criminals had received these consignments, they collaborated with Italian OCGs to organise the journey of the cigarettes across the Adriatic Sea.<sup>87</sup>

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*Montenegro cooperates with European authorities to strengthen its counter-measures against cigarette trafficking*

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**Today, Montenegro is not the key transit point for international cigarette trafficking** that it used to be. Nevertheless, in 2017, 1 billion illicit cigarettes flowed out of Montenegro, which means that **the equivalent of more than 80 packs of cigarettes per inhabitant were trafficked abroad.**

Cigarettes flow from Montenegro to 6 countries: Albania (0.5 billion), Croatia, Bosnia and Herzegovina, Italy, Kosovo and Serbia.

The port of Bar is a much exploited starting point for counterfeit cigarettes and illicit whites bound for the EU MSs,<sup>88</sup> and also to other countries including Libya (see Box 10). In particular, according to European authorities, between 2013 and 2015,

**2.8 billion cigarettes were smuggled from the port of Bar to North African territories in areas controlled by terrorist networks.<sup>89</sup>** When the Adriatic route to Italy came under the attention of LEAs, Montenegrin criminals sought new opportunities and met the interests of terrorist groups.<sup>90</sup>

Among the 68 different origin countries of illicit cigarettes that flow into Montenegro, the United Arab Emirates is the main one. In 2017, about 25% of the illicit cigarettes entering the country originated in the Emirates.

In terms of consumption, in 2017 **approximately half of the total cigarette consumption consisted of illicit cigarettes.** Bulgaria is the primary country of origin of the illicit cigarettes consumed in Montenegro.

**Box 10. Egyptian Cleopatra cigarettes counterfeited in Montenegro**

In 2018, an investigation conducted by the Balkan Investigative Reporting Network (BIRN) and Arab Reporters for Investigative Journalism (ARIJ) was released.<sup>91</sup> According to the investigators, the Montenegrin state-owned factory, Duvanski Kombinat Podgorica (DKP), had purportedly been running counterfeiting operations for several years. The brand that had allegedly been copied was the Cleopatra cigarette, which was first created by the Egyptian Eastern Company S.A.E. in 1961.

Despite warnings from LEAs, the Montenegrin production had presumably continued for years. OLAF and the Egyptian officials suspected that the cigarettes were being smuggled to Libya by boat, arriving in Benghazi, Tobruk and Misrata, after which they were distributed across the Maghreb. Between 2012-2018, numerous shipments of cigarettes leaving Montenegro were intercepted by coastguards of EU MSs.

DKP denied the allegations of illegal conduct and claimed that they had been contracted by Liberty FZE, an offshore company registered in the Emirates, which reportedly presented the trademark\* to produce the cigarettes. Besides Egyptian Cleopatra cigarettes, DKP also produced Tunisian Mars and Algerian Rym cigarettes—for which Liberty FZE registered the trademarks in Montenegro only in 2015. With a trademark registered in Montenegro these cigarettes can only be sold on the Montenegrin market. Moving the Cleopatra branded cigarettes to Libya is thus a clear violation, as Eastern Company holds the rights to sell the cigarettes in that country.

In 2016 DKP was privatised. This halted Liberty's operations. Not for long, however, because Liberty FZE reportedly registered the Cleopatra trademark in Kosovo and invested 1 million € in a cigarette manufacturing facility located in the port of Bar Free Zone.<sup>92</sup>

\*Its authenticity was disputed by the Egyptian Eastern Company S.A.E..

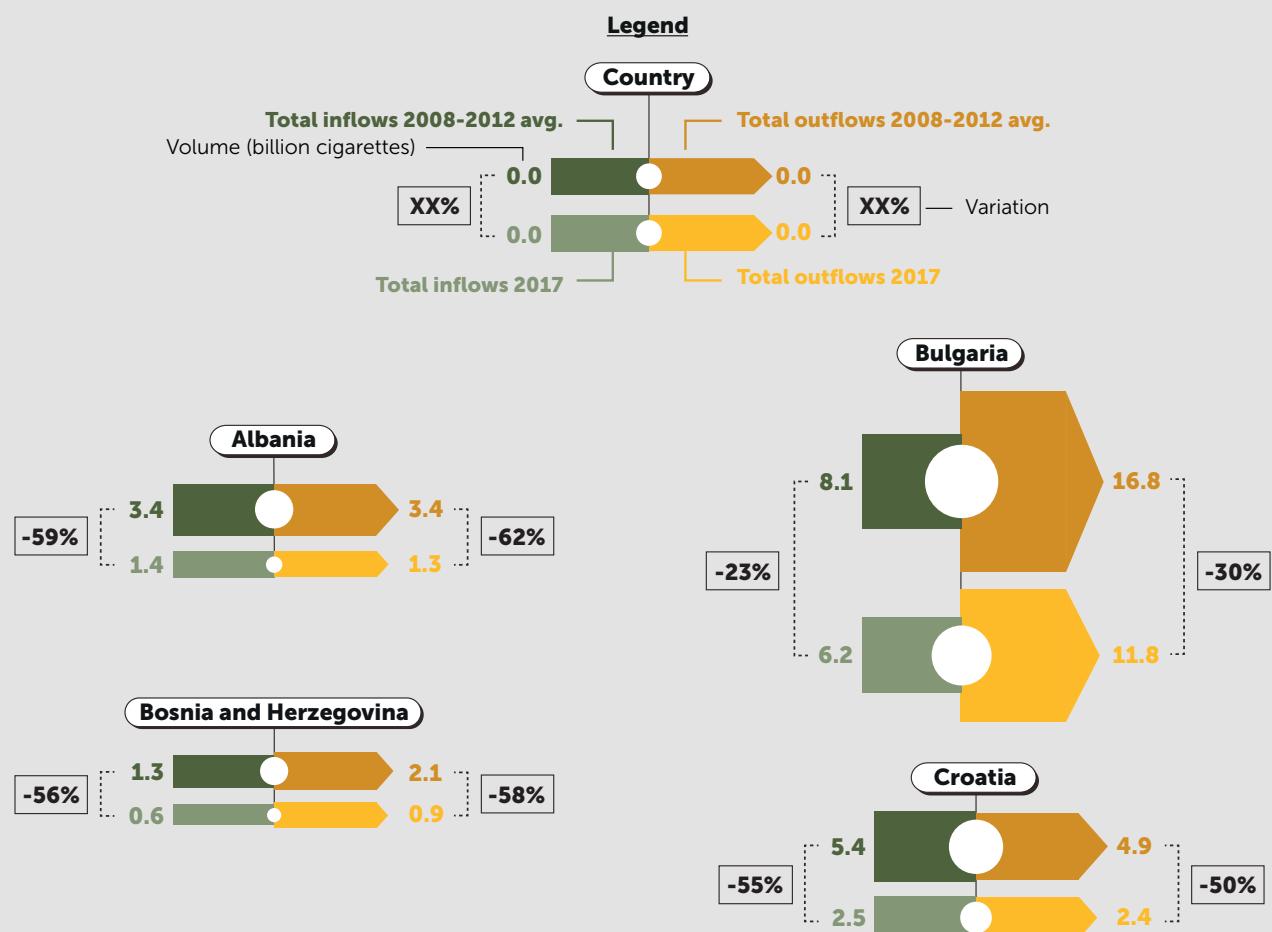
## 5. Evolution of the Route

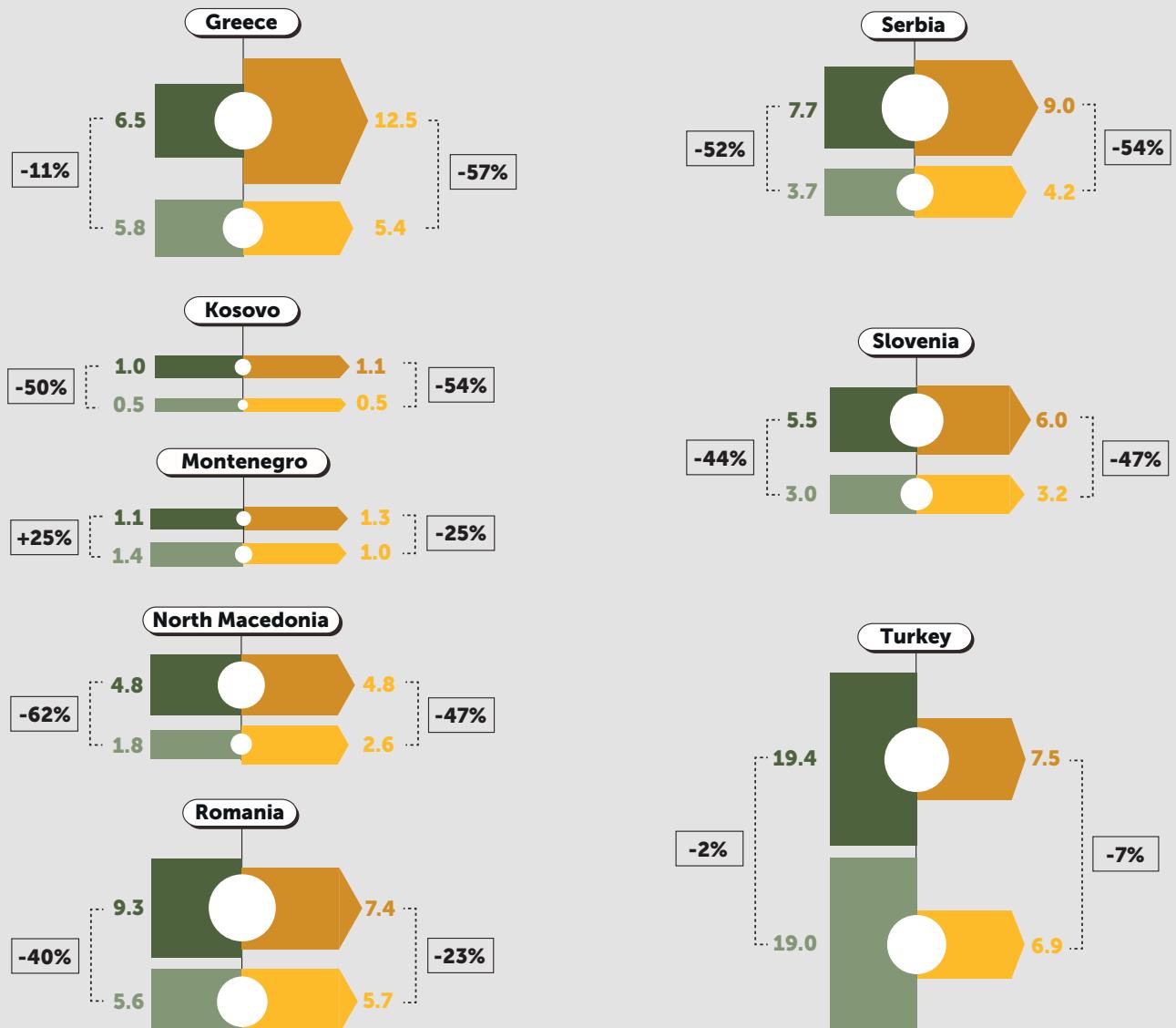
Overall cigarette trafficking along the Extended Balkan Route decreased from an average of 34.0 billion cigarettes over 2008-2012 to 29.1 billion in 2017 (see Figure 4). This decrease was mainly due to a reduction in the volume of illicit cigarettes intended for EU countries, which declined by about 40% from 14.4 billion in 2008-2012 to 8.7 billion in 2017.

Over this time period, the role of Bulgaria as an origin country for illicit cigarettes greatly decreased—illicit cigarettes originating in Bulgaria roughly halved. On the other hand, cigarette smuggling through Turkey registered only a minor decrease. Changes in various political, regulatory and socio-economic factors in countries in the Balkan area drove cigarette smuggling down. Simultaneously, the paths of the illicit flows of cigarettes that originated from or crossed the Balkans and Turkey changed.

Over the years 2008-2017, Balkan countries—with few exceptions—witnessed a decrease in cigarette trafficking

**Figure 4. Comparison of inflows and outflows of illicit cigarettes in the countries of the Extended Balkan Route (2008-2012 avg. and 2017)**





Note: The graph provides a comparison of the illicit flows (inflows and outflows) traversing the countries in the Extended Balkan area in different points in time. For each country the estimate of the flows in 2008-2012 (annual average) and the estimate of the flows in 2017 are provided. Note that illicit cigarettes outflowing from a country may be included in the estimate of the inflows of another country depending on the overall structure of the trafficking Route.

## Evolution in the south-eastern cluster

**In Greece, total illicit outflows of cigarettes diminished by about 57%,** from 12.5 billion in 2008-2012 (annual average) to 5.4 billion in 2017. In particular, the trafficking of Greek cigarettes dropped in the last five years (about -90%). Accordingly, Greece's role as transit country for the illicit flows heading for EU MSs halved,

from an average of 1 billion cigarettes per year between 2008-2012 to 0.5 billion in 2017.

This decrease may have been a consequence of the stronger penalties imposed for cigarette trafficking in the country, where this offence was considered as a possible organised crime starting from 2012. At the same time, the severe economic regression caused a significant

increase in the illicit consumption in Greece, which accounted for less than 1% of total consumption in 2008-2012 and around 20% in 2017.

By contrast, outflows from Greece to Libya increased by almost 300% in the same period, from about 0.4 billion to about 1.5 billion. In the same period Libyan borders became more fragile and the country emerged as a key hub of cigarette trafficking.

In 2017, the overall outflow of illicit cigarettes from Turkey dropped by about 7%—compared to the average over the 5-year period between 2008 and 2012. However, **illicit flows of cigarettes from the Middle East to Turkey grew considerably**. Many of the cigarettes flowing into Turkey from the Middle East are consumed in Turkey.

From 2008–2012 to 2017, there was a surge of 600% in inflows from Iraq—from a 0.5 billion yearly average over 2008–2012 to nearly 3.3 billion cigarettes in 2017. Inflows from Syria and Iran also increased by 150% and by 140%, respectively.

- Syria has suffered from long-lasting internal conflict. Many of the different actors involved in this conflict have allegedly been relying on financing generated, partly, by illicit trade in cigarettes and other goods—which is in turn facilitated by the political disorder, but also by corruption of border officials.<sup>93</sup>
- In Iran, the population, and especially the marginalised communities, may have started to feel the consequences of the international sanctions and the United States' efforts to isolate Iran economically. Consequently, the increasing unemployment levels in Iran's Kurdish regions and the Iranian government's inability to cope with this problem may be the reasons why close to 20,000 people per year choose to become smugglers.<sup>94</sup>

**Turkey witnessed an increase in terms of cigarettes flowing from its territory to Europe**—EU and non-EU: from 1.3 billion cigarettes on average per year between 2008 and 2012 to 3.6 billion in 2017. In particular, outflows from Turkey to Bulgaria nearly tripled from about 0.5 billion to 1.5 billion illicit cigarettes.

Despite the sharp increase in the inflows from Turkey, **total inflows in Bulgaria decreased by approximately 23% from 2008 to 2017**, from 8.1 billion illicit cigarettes in 2008–2012 (average per year) to 6.2 billion in 2017. In the same period, the United Arab Emirates took the place of Greece as the main origin of the illicit cigarettes flowing into Bulgaria. Over the same period, **the total outflows from Bulgaria decreased by almost 30%**, from 16.8 billion to 11.8 billion illicit cigarettes. However, **the number of cigarettes transiting in Bulgaria to reach EU MSs decreased slightly** from 2 billion on average per year for the period between 2008–2012, to 1.7 billion in the year 2017.

Once a key transit country for illicit cigarettes, **Slovenia has become a final destination**. Between 2008–2017, the illicit consumption increased from approximately 0.2 billion to 0.3 billion cigarettes. Both inflows and outflows decreased from 2008 to 2017 of about 44% and 47%, respectively. In 2017, 60% of the total inflows into Slovenia originated from Bosnia and Herzegovina.

The reduction of both inflows and outflows can be explained by the intensified border controls. Since 2016, the Italian police has carried out more frequent checks at—both rail and road—border crossings with Slovenia in response to the increase of migrants trying to enter Italy illegally via Slovenia.<sup>96</sup> In 2017, the EU ordered the temporary implementation of security checks at the Slovenian-Croatian border and a stricter external border regime to detect returning foreign fighters from Syria and Iraq.<sup>97</sup>

Between 2008 and 2017, cigarette prices **in Bosnia and Herzegovina** registered a rise corresponding to about 450% (from 0.36€ in 2008 to 1.99€ in 2017) for the cheapest available cigarettes, and a 66% price increase for a package of premium cigarettes (from 1.60€ in 2008 to 2.66€ in 2017). **The large increase in the price of cigarettes has driven down their smuggling**. Nonetheless, during 2017, illegal cigarettes from Bosnia and Herzegovina continued to flow to the illegal tobacco markets of Croatia and Montenegro, with Montenegro itself and France as the main final destinations.

## Evolution in the north-western cluster

Among smaller markets, Croatia witnessed a rise in seizures during the years 2010–2013. This increase followed Croatia's accession to the EU and its adoption of the EU tax requirements (see Figure 5).<sup>95</sup> Nonetheless, **the role of Croatia in the transnational trafficking of cigarettes has diminished in the most recent years**, as testified by the reduction in volumes of both illicit inflows (about 55%) and outflows (about 50%).

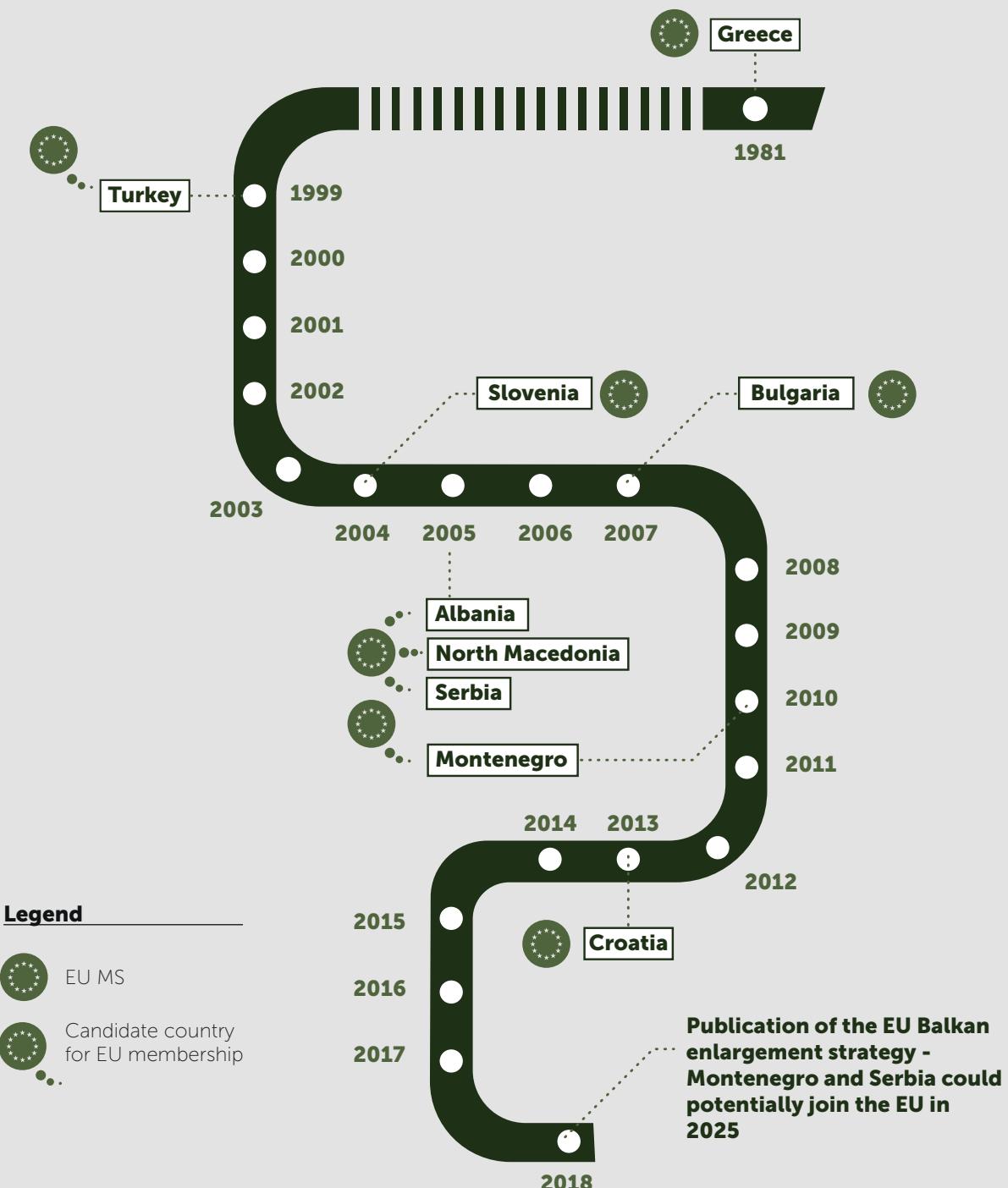
Over the period from 2008-2017, illicit cigarettes steadily accounted for a small share of the North Macedonian cigarette consumption.

In 2017, illicit cigarettes accounted for a mere 1.4% of the North Macedonian

market—a much smaller illicit consumption share in comparison to other countries in the region (e.g., Montenegro 53%, Greece 20% or Turkey 18%). In the same years, North Macedonia also recorded a

**reduction of about 62% in the illicit inflows and about 47% in the illicit outflows** as a result of the efforts made by the North Macedonian government.<sup>98</sup>

Figure 5. Entry into the EU of countries along the Extended Balkan Route (1981-2018)



# 6. Future challenges and perspectives

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Despite the recent decrease in the trafficking of cigarettes along the Extended Balkan Route, cigarettes trafficking will probably still involve the countries along the Route in the coming years.

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*In the near future, it is likely that Turkey and the Balkan region will continue to be pivotal for illicit flows, including illicit cigarettes*

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The potential **inclusion of Bulgaria and Romania in the Schengen area may create new security concerns for LEAs** in the region. The countries' accession to the free-border area will result in the lifting of internal controls and possible unrestricted access for smugglers travelling via land from Greece to Hungary.<sup>99</sup>

It is likely that Serbia, Montenegro and North Macedonia will continue to play a central role in cigarette smuggling in the short term. Price disparities between these countries and the EU MSs—added to tax avoidance and weak fiscal harmonization—make them origin, transit and destination countries for illicit cigarettes.

**The evolution of smuggling routes across these territories may vary according to the fiscal policy alignment** and the efforts made to counter smuggling activities, which should comprise appropriate information sharing among LEAs and joint force actions.<sup>100</sup>

More in general, in the coming years Western Balkan countries may display the persistence of some structural factors potentially influencing cigarette trafficking.

Even though some countries have experienced a reduction in unemployment, in the Western Balkans, unemployment remains—and it is predicted to remain—high.<sup>101</sup> Specific actions are needed to solve this structural problem. Youth unemployment requires particular attention because it may turn into a security risk:<sup>102</sup> **the lack of job opportunities may drive young people towards criminal activities.**<sup>103</sup>

**Corruption will probably still pose a serious problem obstructing the efficient performance of political institutions and LEAs in the near future.**<sup>104</sup> Western Balkan countries would need to reinforce their fight against corruption in order to weaken private interests—in favour of civil society's priorities—and progress towards independent, transparent and more credible systems.<sup>105</sup>

Ethnic fragmentation itself is not a negative factor. Nevertheless, tensions between different ethnic groups have been an important driver of instability and have

incentivised crime. Thus, a peaceful coexistence in the Balkan countries needs to be preserved or achieved. Multiethnicity is often misused in political discourse, creating tensions among the population. Minorities may see themselves more as foreigners than as members of the state. This problem is further exacerbated by **continuous territorial claims** which **contribute to creating disorders in the administration of borders, easing the passage of trafficking flows.**<sup>106</sup>

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*5 Balkan countries have made an effort to reduce illicit trades by signing border cooperation agreements with the EU*

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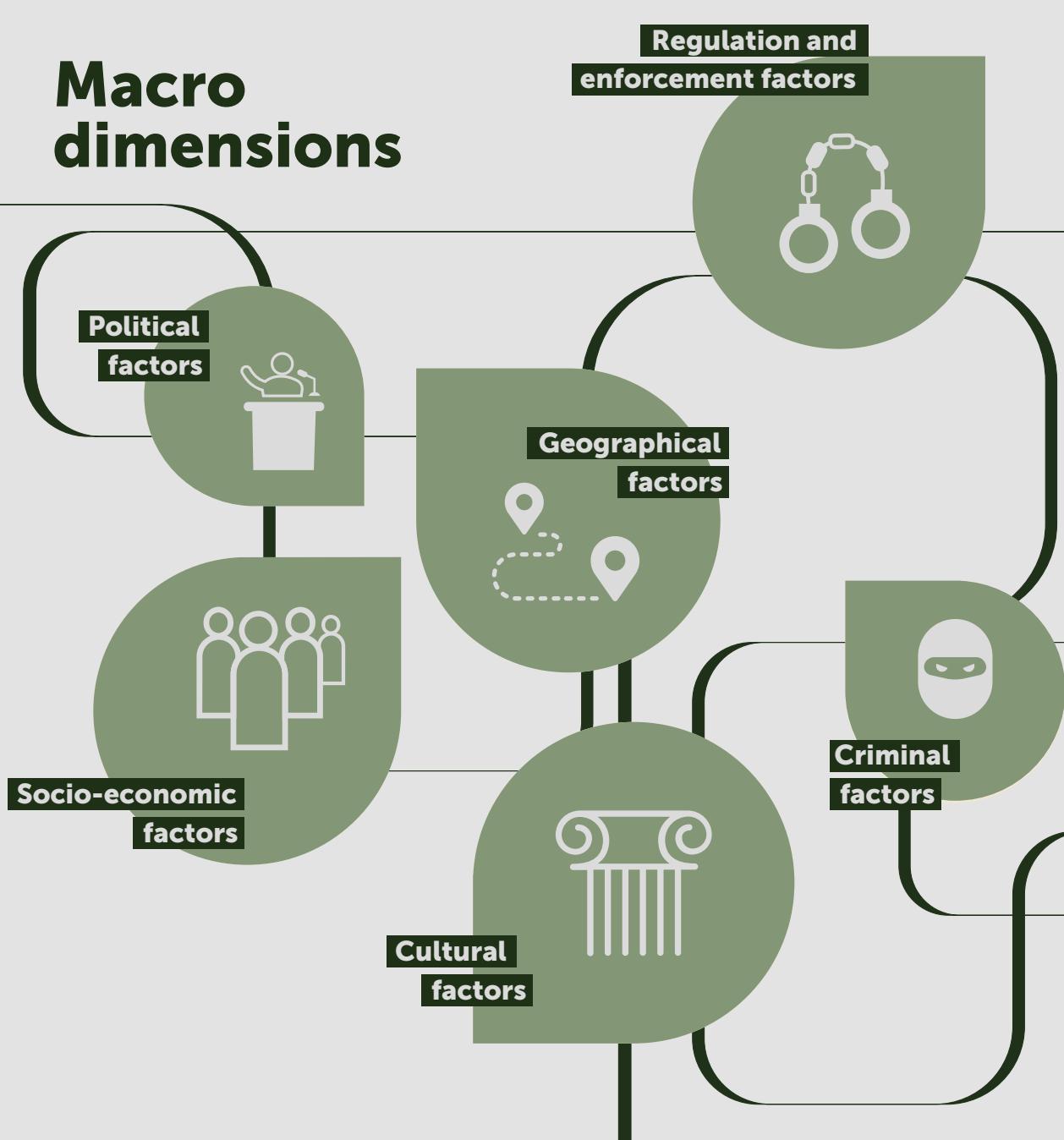
Between 2018 and the beginning of 2019, the governments of Montenegro, Albania, Serbia, Bosnia and Herzegovina, and North Macedonia signed border cooperation agreements with Frontex. The agreements allow Frontex teams to be deployed on the territory of these countries to improve border security and to fight transnational crimes.<sup>107</sup> In the near future, this could have a positive impact on the reduction of cigarette smuggling in those countries.

## 7. Enabling factors in brief

Several factors and incentives drive smuggling activities in the area.<sup>108</sup>

All of them are interconnected and influence each other.

For clarity, they have been divided into six macro dimensions.



## Political factors



**Long-lasting after-war  
political instability**

## Geographical factors

**Strategic position  
between the  
Middle East  
and Europe**



**Extensive  
coastlines**



**Numerous  
sea connections**

## Regulation and enforcement factors

**Poor law  
enforcement**



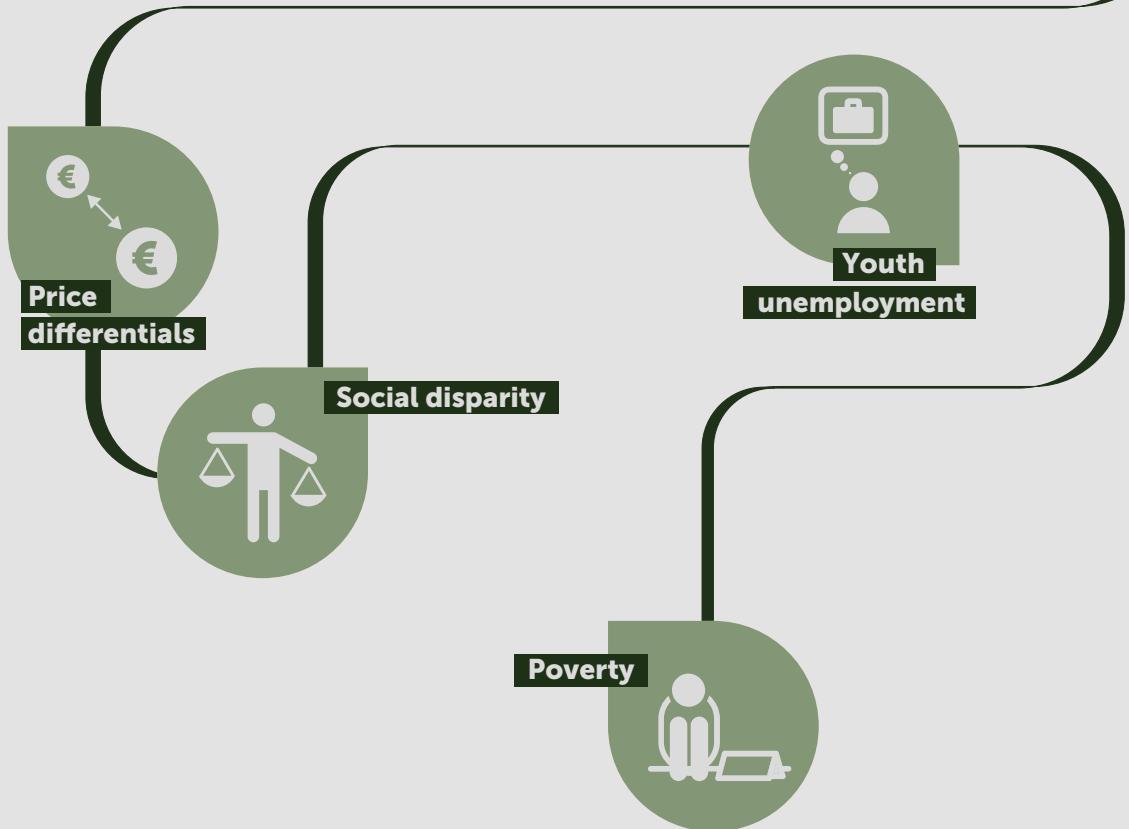
**Differences among  
cigarette taxation  
regimes**



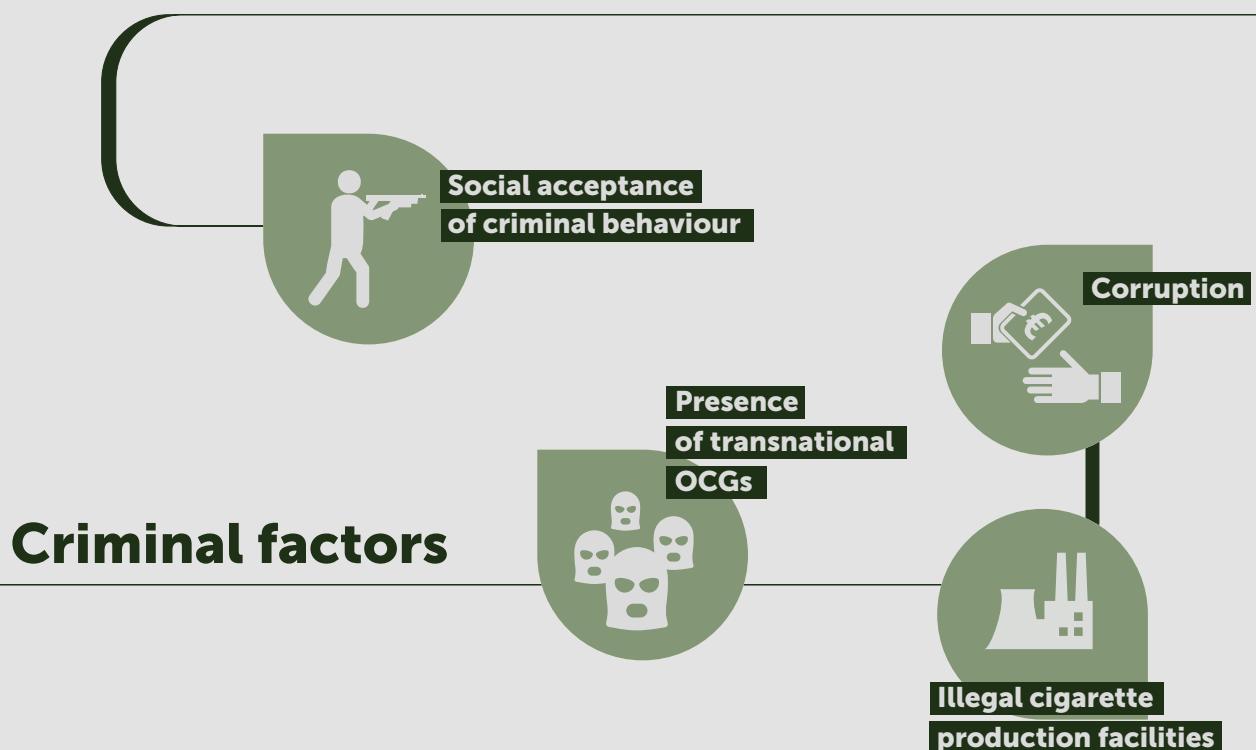
**Focus of LEAs  
on other  
priorities**



## Socio-economic factors



## Cultural factors



## Criminal factors

# Glossary

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The following terms have been used in the present booklet with the following meaning:

**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 small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.<sup>109</sup>

**Contraband or smuggling:** the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>110</sup>

**Counterfeits:** 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.<sup>111</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Domestic cigarettes:** cigarettes that originate from the same market in which they are consumed.

**Domestic whites:** domestic cigarettes that are priced below the minimum tax yield. These cigarettes are treated as having not been legally sold in the country in question.<sup>112</sup>

**Empty pack survey (EPS):** survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>113</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):** governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions.

Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

**Non-domestic cigarettes:** cigarettes that originate from a market different from the one in which they are consumed. They may be legal if brought into the market legally by consumers, for instance during a cross-border trip, or illegal if brought into the market illegally.<sup>114</sup>

**Origin country:** country from which the illicit flow of cigarettes originates.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

**Unspecified:** cigarette packs which do not bear specific market labelling.<sup>115</sup>

# End notes

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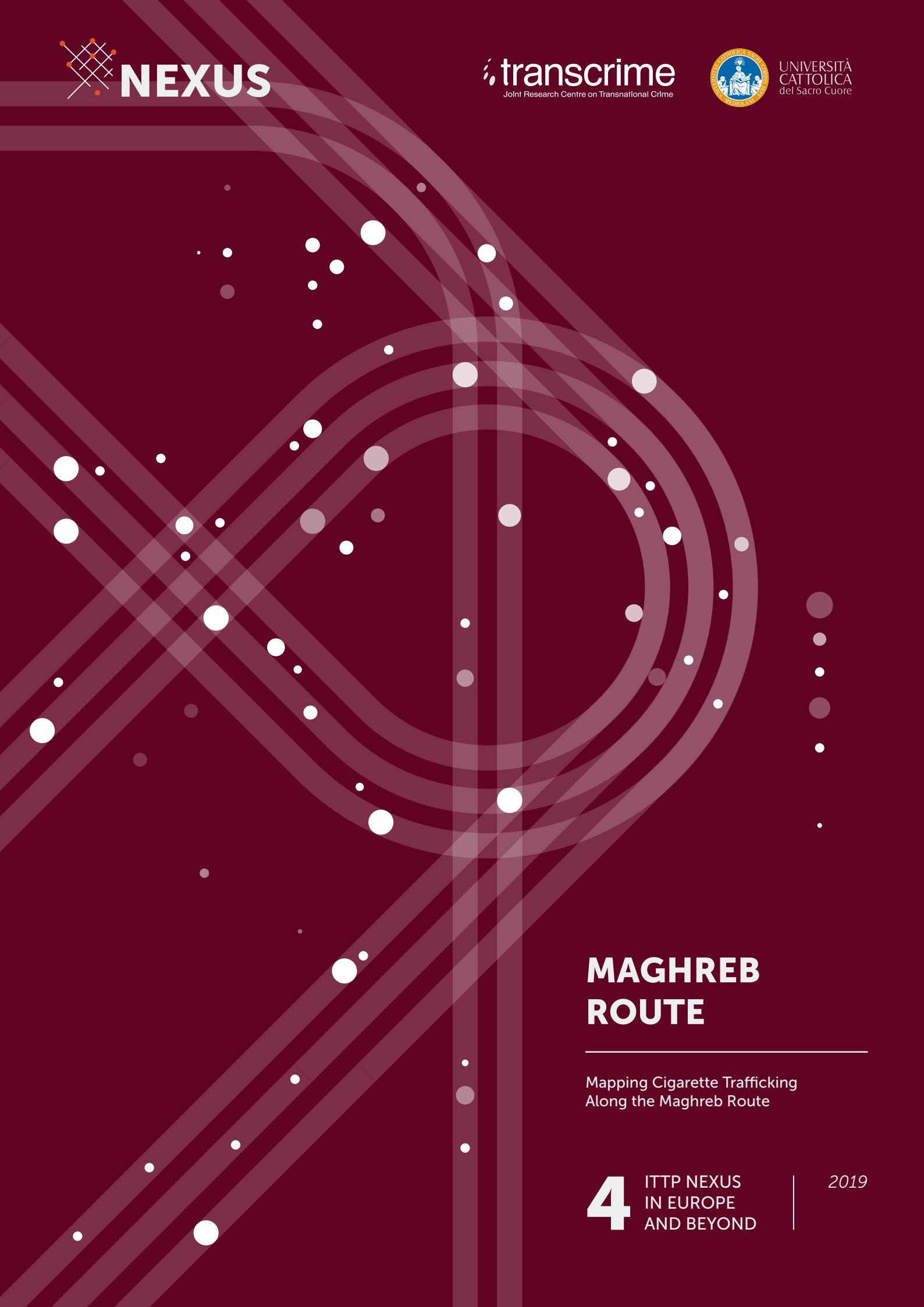
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# MAGHREB ROUTE

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Mapping Cigarette Trafficking  
Along the Maghreb Route

**4** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## MAGHREB ROUTE

*Mapping Cigarette Trafficking Along the Maghreb Route*

### Acknowledgements and credits

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Meneghini, Cecilia and Riccardo Milani. 2019. "Maghreb Route - Mapping Cigarette Trafficking Along the Maghreb Route". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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# Explanatory notes

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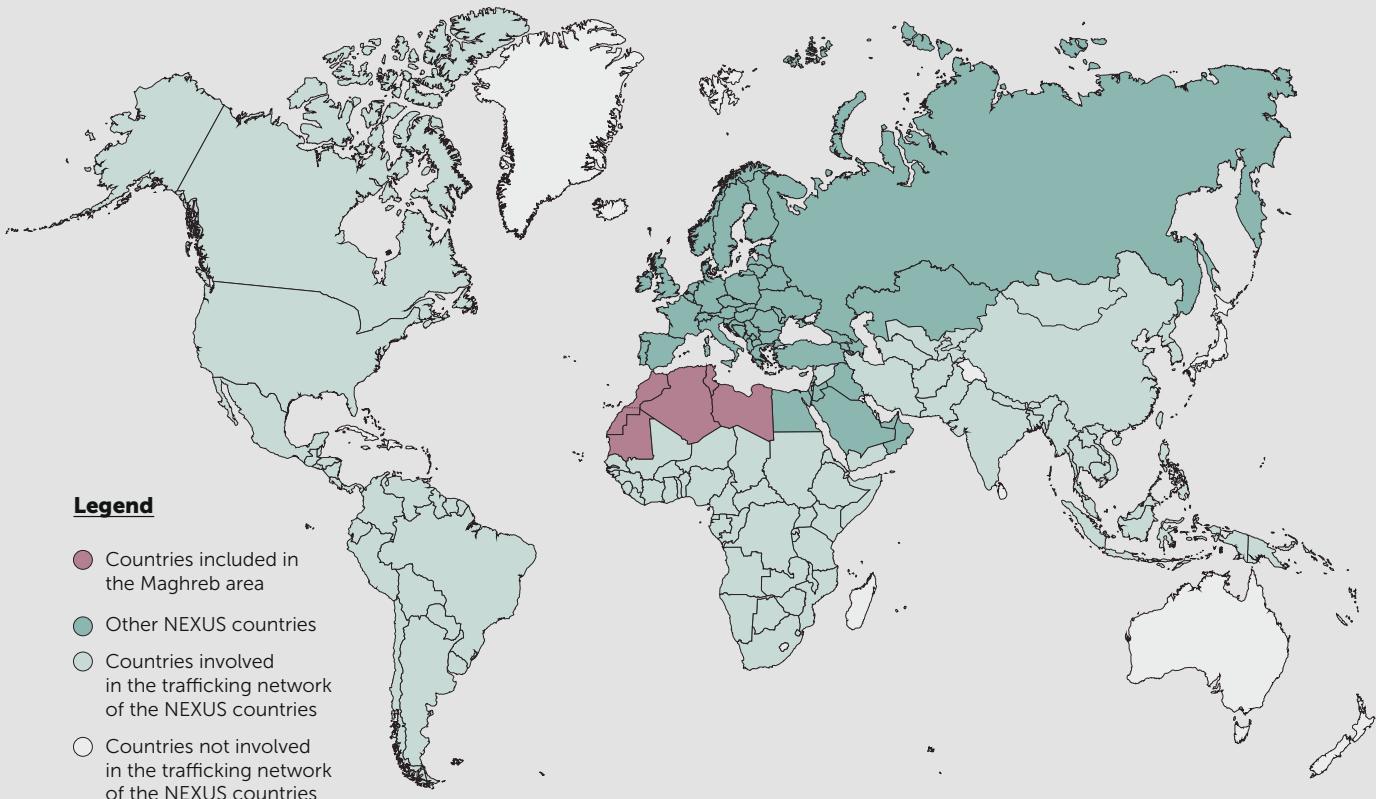
Within the context of the *Maghreb Route – Mapping the Cigarette Trafficking Along the Maghreb Route* booklet, the Maghreb area comprises—from East to West—Libya, Tunisia, Algeria, Morocco, Mauritania and Western Sahara. The ‘Maghreb Route’ refers to illicit flows of cigarettes transiting through these countries and destined mainly for the local illicit markets and the illicit markets in Europe. Estimates regarding the illicit market of cigarettes are not presented for Libya, Mauritania and Western Sahara, due to the lack of original data.

All analyses contained in the *ITTP NEXUS in Europe and Beyond Report* are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in the present booklet:

AQIM	Al-Qaeda in the Islamic Maghreb	FTZ	Free Trade Zone
EPS	Empty Pack Survey	MS	Member State
EU	European Union	OCG	Organised Crime Group

## Countries of the Maghreb Route



# Introduction

---

This booklet constitutes the fourth chapter of the *ITTP NEXUS in Europe and Beyond Report*. It maps the transnational traffic of cigarettes along the Maghreb Route.

Section 1 describes the main illicit cross-border flows of cigarettes along the Route.

Section 2 outlines the main types of illicit cigarettes trafficked along the Route.

Section 3 presents the main criminal actors involved in cigarette smuggling along the Route.

Section 4 focuses on two key nodes of the Route (i.e., Libya and Algeria), uncovering several country-level contextual factors and drivers behind cigarette smuggling.

Section 5 describes the evolution of the Route in the last ten years (2008-2017).

Section 6 discusses the potential changes and developments that may impact on the Route in the near future.

Section 7 graphically summarises the enabling factors identified as drivers behind the traffic of cigarettes along the Maghreb Route. The factors are divided among six macro dimensions, namely political, geographical, regulation and enforcement, socio-economic, cultural, and criminal factors.

# Key facts

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## Overview

*2017 figures*

**More than 10 billion illicit cigarettes are trafficked along the Maghreb Route.**

The **United Arab Emirates** is the main origin of illicit cigarettes entering the Maghreb countries.

**Libya** is a key transit country for illicit cigarettes from the United Arab Emirates to Algeria and Tunisia.

**Illicit cigarettes** intended for the EU mainly **transit through Algeria, Tunisia and Morocco**.

**France** is the main destination for illicit cigarettes outflowing from the Maghreb region.



## Illicit cigarettes

*2017 figures*

**Illicit whites account for** about **45%** of the illicit cigarettes consumed in the Maghreb area.

The most smuggled illicit white brands are Business Royals, Gold Seal, Pine, and American Legend.



## Actors

**Local tribes**, such as Berber (Tuareg) and Saharan Bedouin (Tebu), **engage in cigarette trafficking**.

**Terrorist groups** (e.g., AQIM) **actively support** and exploit tribes and local communities in **smuggling practices** to finance their activities.



## Evolution of the Route

The **total volume** of illicit cigarettes smuggled along the Maghreb Route **increased** by more than 10% between 2008-2012 and 2017.

**Outflows towards Europe tripled** from 2008-2012 to 2017.

Before the Arab Spring, **cigarette smuggling was tolerated** by several state authorities.

After the Arab Spring, **smuggling activities** flourished and were **characterised by rivalries between criminals**.



## Main enabling factors

**Political instability** and lack of recognised state authority **in Libya**.

The **Algerian economic recession**, which led to violent protests and a state of chaos which facilitated trafficking practices.

**Poor law enforcement** and **cooperation** among the countries in the region.

**Ineffective border controls** due to the presence of long and porous borders and desert areas.

Widespread **poverty** and **underdevelopment**, which may induce marginalised citizens to engage in smuggling activities.

**Presence of terrorist groups** exploiting trafficking activities.

# 1. Illicit cross-border flows of cigarettes

## Along the Maghreb Route illicit cigarettes from the Arabian peninsula and the Maghreb flow into Europe

Cigarettes, oil and pharmaceutical products are the goods most commonly smuggled in the Maghreb area.<sup>1</sup> The illicit cigarette trade is the most established and widespread of these trades, and it is considered a launching ramp for other transnational crimes in the area.<sup>2</sup> Some groups exploit the human and economic capital involved in cigarette smuggling to move into more profitable criminal activities (i.e., trafficking in firearms, human smuggling and drug trafficking).<sup>3</sup>

**In 2017, more than 10 billion illicit cigarettes flowed along the Maghreb Route.** The Maghreb Route is key for the smuggling of cigarettes from the Arabian peninsula to and through the Maghreb countries, and from there to Europe (see Figure 1 and Figure 2).<sup>4</sup> The presence of long porous borders crossing the Sahara Desert facilitates cigarette smuggling among the Maghreb countries. The proximity to the EU eases smuggling by sea to EU countries. In addition, poor law enforcement and lack of cooperation within and among the countries along

the Route favour smuggling activities and complicate the implementation of shared and effective policies to fight against and prevent them.

**Many of the cigarettes flowing into the Maghreb area have been produced in or have previously transited through the United Arab Emirates.** Here the Jebel Ali FTZ is at the heart of the fast-growing illicit whites trade (see Box 1).

From the United Arab Emirates, cigarettes enter the region from two main areas:

1. transiting through Turkey, Southern Europe (mainly Greece) and then entering Libya;
2. through Egypt, either after flowing across the Arabian peninsula or directly from the Red Sea.

Other entry points are also exploited by smugglers of illicit cigarettes with origin in the United Arab Emirates, i.e. Western Africa and the Gulf of Guinea (see Box 2 and Box 3).

### Box 2. Cigarette transiting through Mauritania and Western Sahara

Some of the cigarettes from the United Arab Emirates and other Arab countries enter Western Africa through the ports of Nouakchott and Nouadhibou in Mauritania. The latter has been a FTZ since 2013. Then, on the one hand, the cigarettes travel to Atar and Zouérat before reaching Algeria. On the other hand, cigarettes leave from Mauritania to Morocco passing through Dakhla (Western Sahara) and Tan-Tan (Morocco).<sup>7</sup>

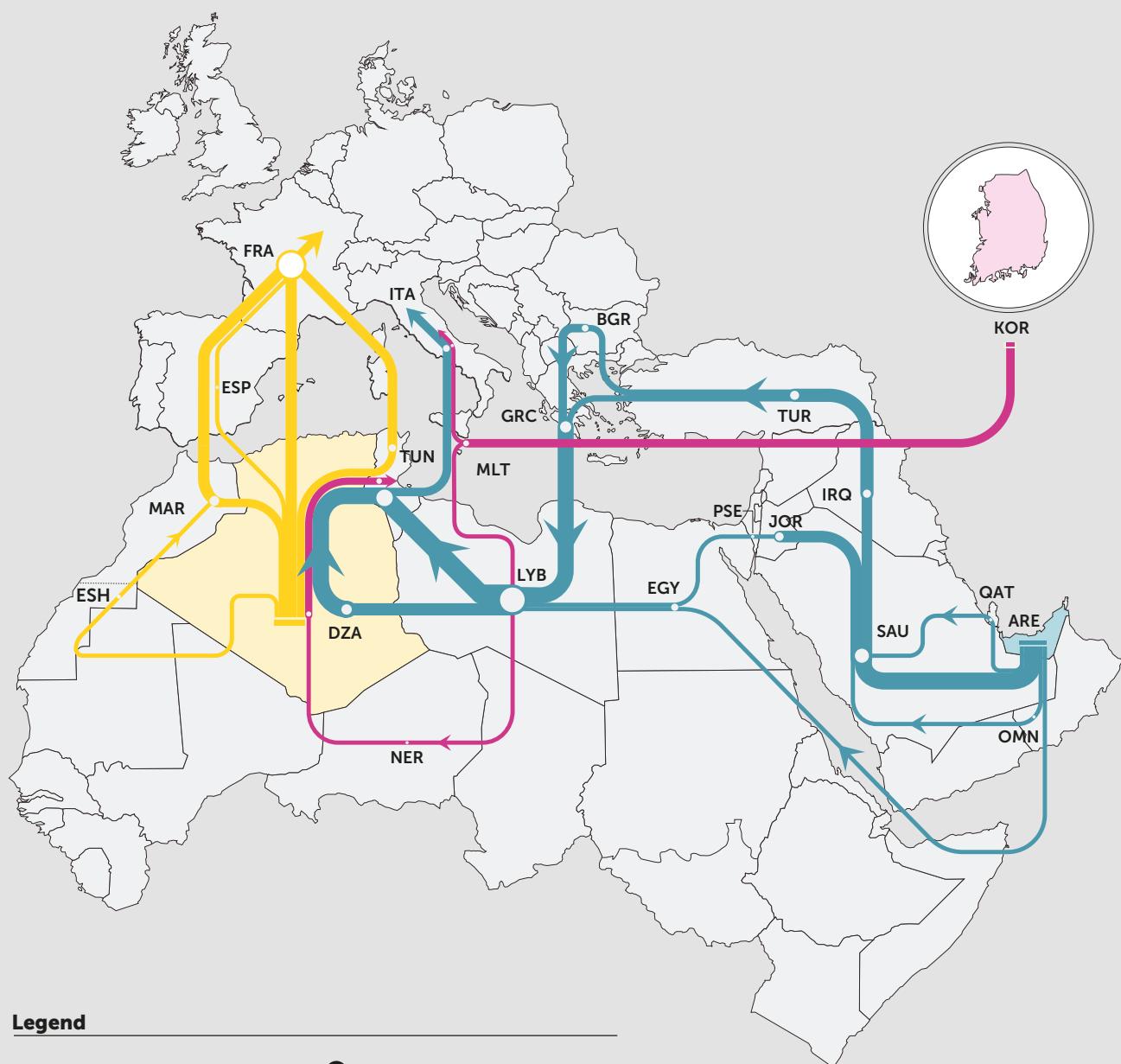
In 2017, more than 2 billion illicit cigarettes transited through either Mauritania or Western Sahara. About 0.2 billion of them were produced in the United Arab Emirates. Illicit flows from Mauritania to Algeria and from Western Sahara to Algeria (regardless of cigarette origin) amounted to about 300 and 80 million, respectively. In Morocco, approximately 1 billion illicit cigarettes produced in Mauritania were smoked in 2017. About one third of them reached Morocco through Western Sahara, while the remaining part exploited Algeria as a transit country.

### Box 1. United Arab Emirates' Jebel Ali FTZ

In the Jebel Ali FTZ in the United Arab Emirates there are at least 10 factories, with a combined manufacturing capacity of up to 63 billion cigarettes per year. Some of the factories produce "lookalike" brands that infringe on the trademark rights of existing brands. Moreover, cigarettes legally produced in Jebel Ali are often shipped to other countries evading import tax and sales duties.<sup>5</sup>

Besides directly producing illicit whites, FTZs act as "washing machines" by allowing criminals to conceal the origin of their products by re-packing or even re-branding cigarettes.<sup>6</sup>

**Figure 1. The Maghreb Route of cigarette trafficking (2017)**



Note: The map represents the main illicit flows of cigarettes transiting through the Maghreb countries. The flows represented should be considered indicative and based on estimates rather than exact values. Such estimates rely upon data related to official cigarette seizures along the trafficking paths and data on the consumption of cigarettes obtained through EPSs. Paths may deviate to other countries along the Maghreb Route and there are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

### **Box 3. Cigarette transiting through the Gulf of Guinea (Togo, Benin, Ghana)**

Many illicit cigarettes enter in Africa through the ports of Lomé (Togo), Cotonou (Benin) and Tema (Ghana); in 2017, about 0.2 billion illicit cigarettes transited through these countries, of which 40 million originated in the United Arab Emirates. Imported cigarettes are declared "for transit", thus avoiding custom controls and taxes upon entry, reaching Algeria and Libya through Mali, Niger and Burkina Faso.<sup>8</sup> Nearly all the 40 million United Arab Emirates illicit cigarettes transiting through Togo, Benin and Ghana in 2017 were bound for Algeria and reached their final destination through Mali. However, total flows between Mali and Algeria amounted to approximately 0.6 billion illicit cigarettes, proving this connection to be pivotal for illicit cigarettes originating in different areas.

### **The Maghreb area is also a key smuggling region for illicit whites originating in South Korea.**

Cigarettes enter the region through Malta and then move to Libya or flow directly into Europe.

**Libya is a key intermediate transit point for cigarettes travelling to Europe:** most of them transit through Algeria or Tunisia before being shipped to Southern Europe.

**Cigarettes leave the Maghreb from three main countries—Algeria, Morocco and Tunisia—to reach Southern Europe—especially France, but also Italy and Spain. Proximity to the EU and the high price differential are the main drivers of these illicit flows.**

### **The role of Libya**

**Libya is a key hub for cigarette smuggling along the Maghreb Route** mainly due to political instability, the high number of active terrorist groups and local tribes engaged in illicit trades, and the presence of long and hard-to-surveil borders.

Libya is a crucial transit country. 2017 estimates show that cigarettes produced in about 100 different countries transit through Libya before reaching 47 different final destinations. **From Libya illicit cigarettes proceed mainly to Tunisia and Algeria before reaching the EU.** In 2017, Libya was a transit point for 2.1 billion illicit cigarettes flowing to Tunisia and for 1.3 billion illicit cigarettes moving to Algeria.

Libya has also a marginal role as country of origin for illicit cigarettes consumed in North Africa or smuggled across the Mediterranean to consumer markets in Europe. In 2017, about 0.3 billion illicit cigarettes originating from Libya were smoked in the Egyptian market. In the same year, smaller volumes of illicit Libyan cigarettes were consumed also in Ukraine, France, the United Kingdom and Malta.

Mafia groups operating in Southern Italy and Malta exploit their networks in Libya to distribute cigarettes across the Mediterranean.<sup>9</sup> Recent journalistic investigations suggest connections between Islamic State armed groups in Tripoli and Italian OCGs involved in the trafficking of cigarettes, weapons and drugs.<sup>10</sup>

### **The role of Algeria**

**Algeria is the principal outflow country in the region towards Europe,** mainly France and Spain, where the price of cigarettes is considerably higher. In particular, almost half of the illicit cigarettes consumed in France in 2017 originated from Algeria (about 3.4 billion illicit cigarettes). The maritime connection between the port of Algiers and the port of Marseille ensures that illicit cigarettes have direct access to France through sea transhipments.

Illicit flows from Algeria to Spain amounted to approximately 0.3 billion cigarettes in 2017, but two of out three of these cigarettes did not originate in Algeria.

**Algeria is also a transit and destination country.** In 2017, cigarettes produced in—among others—the United Arab Emirates (1.4 billion), Mauritania (0.9 billion) and Korea (0.7 billion) transited through Algeria before reaching the EU. In the same year, about 0.4 billion illicit cigarettes from the United Arab Emirates were destined to Algerian consumption.

*Marseille is one of the main ports of entry into the EU for illicit cigarettes coming from the Maghreb region<sup>11</sup>*

## The role of Morocco

Morocco is partially isolated from the other countries in the region with respect to cigarette trafficking. Indeed, in 2014, **Morocco built a security fence to strengthen its defences against cigarette and human smuggling from Algeria**.<sup>12</sup> Algeria also took security measures and constructed a trench and sand barriers along its borders.<sup>13</sup> Besides security personnel, the control of the Algerian-Moroccan border relies on movement sensors, radar, and cameras.

Despite the introduction of these measures, estimates indicate that cigarette illicit flows from Algeria to Morocco decreased by only about

4% between 2008-2012 (average of the five years) and 2017 (from 1.64 billion to 1.57 billion). One of the possible reasons is that the Algerian-Moroccan frontier covers terrain that is difficult to secure, such as deserts and mountains.<sup>14</sup>

**Illicit cigarettes flow into Morocco also from Western Sahara before reaching Spain**, via Gibraltar.<sup>15</sup> In particular, estimates indicate that almost 1 billion illicit cigarettes flowed from Western Sahara to Morocco in 2017. Key entry points in Spain are Cadiz and the Bahía de Algeciras.<sup>16</sup> The geographic proximity between Morocco and Spain and the possibility to have direct sea transhipments facilitate cigarette smuggling activities.

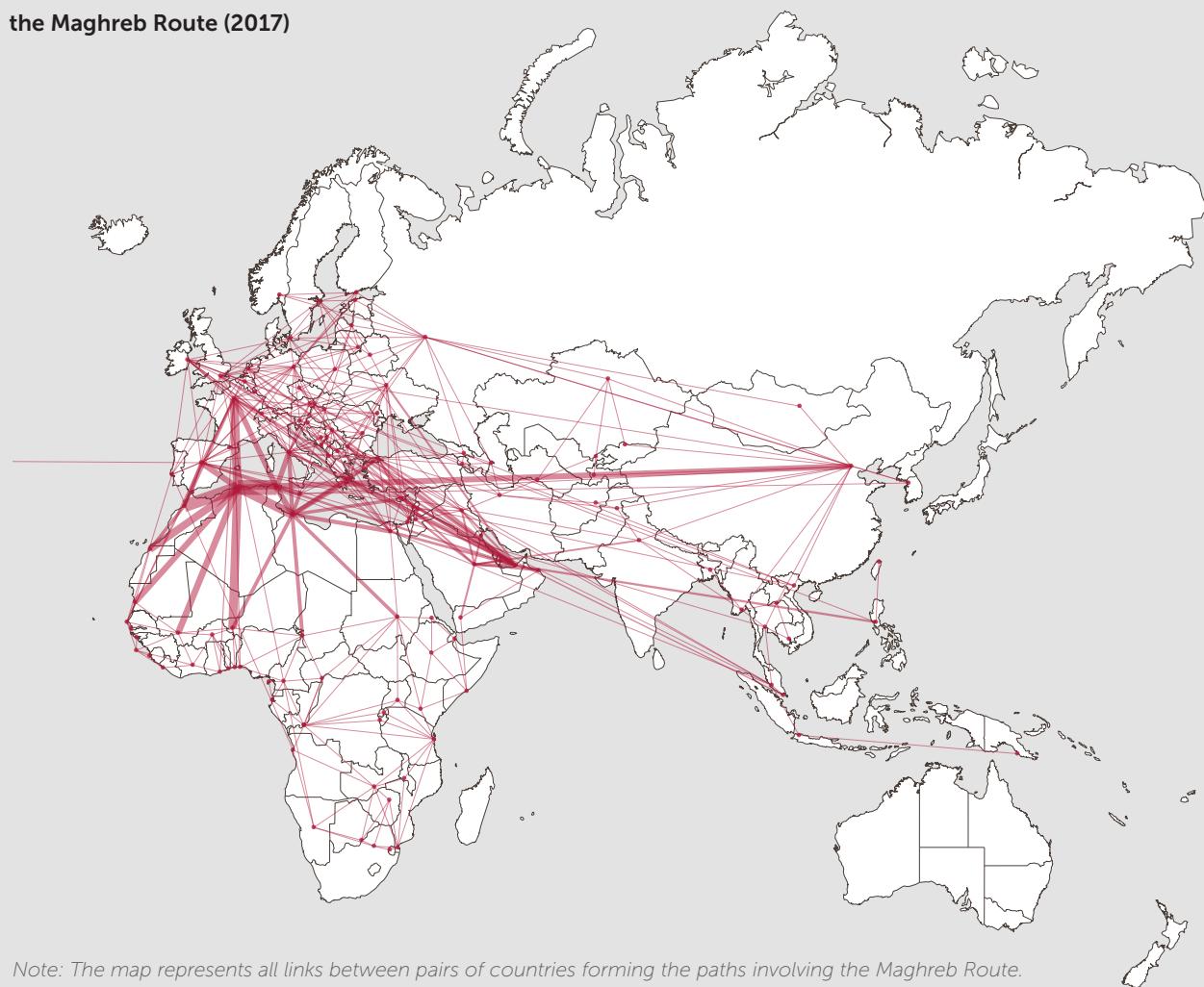
## The role of Tunisia

**Tunisia is a transit point for illicit cigarettes** originating from—among others—Algeria (0.9 billion), the United Arab Emirates (0.1 billion) and Mauritania (0.1 billion) and intended mainly for EU markets. The main outflows from Tunisia target France (about 1 billion of illicit cigarettes principally originating in Algeria) and Italy (about 0.2 billion principally originating in the United Arab Emirates).

### Tunisia is also a key destination country for illicit cigarettes

originating from the United Arab Emirates. In 2017, 2.6 billion illicit cigarettes arrived in Tunisia from the United Arab Emirates. In the same year, Tunisian smokers also consumed about 0.7 billion illicit cigarettes produced in Korea and 0.1 billion illicit cigarettes originating in Algeria.

**Figure 2. All links of cigarette trafficking involving the Maghreb Route (2017)**



Note: The map represents all links between pairs of countries forming the paths involving the Maghreb Route. Larger lines between pairs of countries indicate larger flows of illicit cigarettes between those countries.

## 2. Trafficked cigarettes

*Illicit whites are the most commonly trafficked cigarettes in the Maghreb area*

In 2017, illicit cigarettes accounted for about 20% of the total cigarette consumption in the Maghreb area.

### Cigarette traffic in the Maghreb area mainly concerns illicit whites.

In 2017, over 45% of illicit cigarettes consumed were illicit whites of known origin and 15% were contraband cigarettes of known origin. The consumption of cigarettes from unspecified origins constitutes a sizable share of total illicit consumption (about 40% in 2017). Illicit whites are likely to account also for a large part of cigarettes of unspecified origin. A residual part were counterfeits (see Box 4 for country-specific figures).

The main illicit whites brands trafficked are Business Royals (whose production is based in the United Arab Emirates), Gold Seal (also produced in the United Arab Emirates), Pine (a South Korean brand) and American Legend produced by Karelia Tobacco (whose main production facilities are in Greece). In addition, Regina branded cigarettes coming from the Maghreb area have recently been seized along Italian and Spanish coasts.<sup>17</sup> In most cases, the true origin of all these cigarette brands is not identifiable or is disguised as "duty-free". Locally produced illicit cigarettes are also smuggled in the Maghreb area, in particular the Algerian brand Rym.<sup>18</sup>

Legally produced cigarettes from well-known international brands are also smuggled in the area and to the EU, especially Marlboro and L&M.<sup>19</sup>

### Box 4. Types of illicit cigarettes consumed in the countries of the Maghreb in 2017

In Morocco, illicit cigarettes account for 13% of the total consumption. About 41% of the illicit cigarettes consumed are contraband genuine cigarettes, and 45% are illicit whites.

In Algeria, counterfeit and contraband cigarettes account for only 2% of the total illicit cigarettes consumed, which mainly consist of illicit whites (50%) and cigarettes of unspecified origin (48%).

In Tunisia, illicit cigarettes constitute 43% of the total consumption. Of these illicit cigarettes, 44% are illicit whites.

In Libya, 93% of cigarettes consumed are illegal.<sup>20</sup>

### 3. Criminal actors

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**Local tribes and terrorist groups are the main criminal actors involved in cigarette trafficking along the Maghreb Route.**

Before the Arab Spring, the informal economy—including cigarette smuggling—was often tolerated by border officials and state authorities in the Maghreb.<sup>21</sup> Economic rivalries over smuggling routes spread after the Arab Spring as a consequence of the collapse of many state institutions.<sup>22</sup>

On occasion, new governments partly turn a blind eye to the smuggling activities (e.g., the Egyptian government presumably tolerates limited smuggling activities by the tribes in return for their political loyalty and certain security guarantees).<sup>23</sup>

#### Local tribes

**Cigarette smuggling represents a substantial source of income for local tribes** due to the widespread poverty and unemployment. They are largely present in the Maghreb countries, especially in Libya, Mali and Algeria.

**The Tuareg mainly operate** between Mali, Libya (in the region of Fezzan) and Algeria, **along the Niger corridor**. This route is also controlled by Al-Qaeda in the Islamic Maghreb (AQIM), which supports and exploits the Tuareg tribes.<sup>24</sup>

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*Contraband is the main source of subsistence for many communities and nomadic groups<sup>25</sup>*

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#### Terrorist groups

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*Cigarette smuggling finances the activities of terrorist groups<sup>30</sup>*

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**The Tebu** (or Toubou) **are active in the south of Libya**, especially in the south-eastern Cyrenaica (Kufra) region.<sup>26</sup> From late 2014 to early 2016, the Tebu were involved in a war against the Tuareg for the control of Ubari, in the Fezzan region, situated near the country's second-largest oil production site, and close to the city of Sebha, key for the smuggling route.<sup>27</sup>

**Other tribes involved in illicit transnational trades are the Qadhadfa tribes active in Libya and Awlad 'Ali tribes** in Libya and in Egypt.<sup>28</sup> The Awlad 'Ali control the lands on Egypt's northern coast, between El Salloum to El-Hamam—a stretch of land of about 450 kilometres along the Mediterranean—to the Siwa Oasis, which is situated inland. The Awlad 'Ali's territory extends also in Libya, with the harbour city Tobruk representing an important base.<sup>29</sup>

**The presence of terrorist groups especially in Libya, Algeria, Tunisia and Morocco favours the development of established smuggling practices.** These groups exploit their criminal expertise and the control over several borderlands to carry out cigarette smuggling. They benefit from this illicit trade to finance their criminal activities.

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*Armed groups offer—or impose—protection services to local tribes active in transnational traffics<sup>31</sup>*

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### **Al-Qaeda in the Islamic Maghreb**

(AQIM) supports the local community and **acts as a catalyst for disaffected**

**youth** who start to gravitate toward transnational crimes, especially in Algeria and southern Libya. The lack of social welfare—particularly scant access to education—increases radicalization towards this terrorist group. Cigarette smuggling provided the bulk of financing for AQIM in the late 2000s and in the early 2010s. Members used to earn money mostly from charging protection fees to local tribes, such as Tuareg and Tebu, moving illicit cigarettes through the Sahara.<sup>32</sup>

Other terrorist organisations involved in illicit transnational trades are in Algeria (e.g., al-Mourabitoun, set up by Mokhtar Belmokhtar, see Box 5), in Libya and in Tunisia (e.g., Ansar al-Sharia Darnah, Ansar al-Sharia Benghazi, al-Tunusi), and in Morocco (e.g., Moroccan Islamic Combatant Group).<sup>33</sup>

### **Box 5. Smuggling of cigarettes by AQIM leaders**

Mokhtar Belmokhtar is the Algerian leader of the al-Mourabitoun and former military commander of AQIM. Belmokhtar is well-known for allegedly running lucrative tobacco smuggling operations across the Sahel region to finance the Jihad in the '00s. Belmokhtar was dismissed from AQIM for being excessively focused on the financial benefits of the transnational trafficking and less on the religious and political ideologies of the group.<sup>34</sup> He then created his own terrorist organisation in 2013, where he continued his engagement in illicit trade activities by offering protection services to Berber tribes, including the Tuareg.<sup>35</sup>

# 4. Key nodes of the Route

## Libya

Based on 2017 data



### ILLICIT INFLOWS

N. of inflows

**11**

Tot. inflowing volume transiting through Libya

**4.7** billion

Main inflow

**1.5** billion sticks from Greece  
(32% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**100**

### ILLICIT OUTFLOWS

N. of outflows

**7**

Tot. outflowing volume

**5.1** billion

Main outflow

**2.2** billion sticks to Tunisia  
(43% of tot. outflows)

Tot. illicit cigarettes originating in Libya

**0.4** billion

Main final destination of the outflowing cigarettes

**Tunisia**

### MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows of cigarettes transiting through Libya disaggregated by origin of the cigarettes flowing.

#### Legend

○ Transit and destination country

- - ○ - Indirect connection

#### Origin of the cigarette flows

United Arab Emirates

Algeria

South Korea

Libya

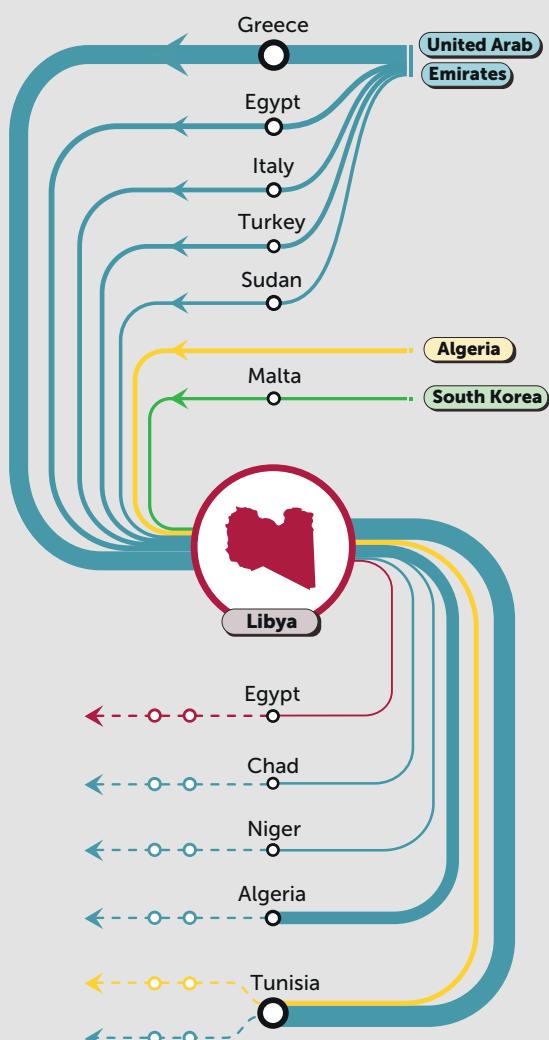
#### Volume (N. of sticks)

Graphic reference scale

4 billion

2 billion

≤ 0.2 billion



## Organised crime groups profit of state's dysfunction<sup>36</sup>

In the course of the last decade, cigarette smuggling in Libya changed from state-tolerated contraband to under-the-radar and heavily armed

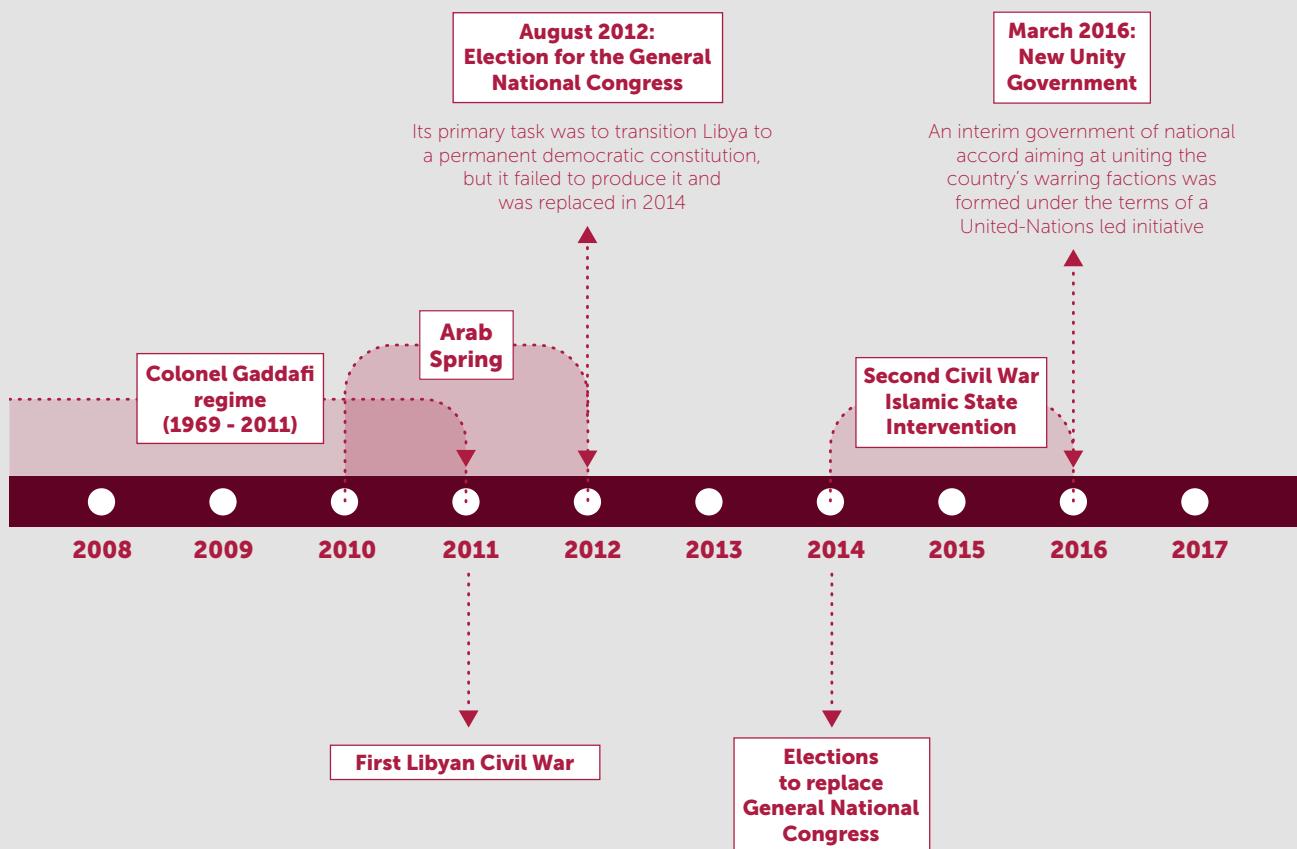
smuggling. During the Gaddafi regime (see Figure 3), the Libyan government did not oppose the smuggling of cigarettes across its territory, both from/to Egypt and to Tunisia.<sup>37</sup> From 2011—after the fall of Gaddafi and with the start of the Arab Spring uprisings in the same year—**Libya retained its role as a key hub for illicit cigarettes along the Maghreb Route.**

**The instability of the country and the lack of recognised authorities**

**increased the level of violence and fuelled illicit trades.**<sup>38</sup> Since 2011, politics in Libya has been characterised by the absence of a unifying power able to extend control over the national territory.<sup>39</sup>

High political tensions among militias, tribes and jihadists provide the ideal circumstances for the development of a pervasive war economy in which **criminal networks profit from the state's dysfunction.**<sup>40</sup>

**Figure 3. Key events in Libya (2008–2017)**



Note: The visualization summarises the main political events which took place in Libya between 2008 and 2017—i.e., the year corresponding to the NEXUS estimates. After Gaddafi's fall in 2011, the General National Congress elected in 2012 did not manage to provide the country with a democratic constitution; thus, in 2014, elections were held to replace it. Thereafter, the country was plagued by conflicts between the rival parliaments, which culminated in a second civil war. Efforts to create a new government of national accord were put in place and resulted in the formation of a New Unity Government in 2016.<sup>41</sup> However, still in September 2018, the UN declared a state of emergency in Tripoli in confirmation of the fragile context of the last years.

Other reasons explain the importance of Libya in cigarette smuggling:

- the presence of active terrorist groups (e.g., AQIM) able to attract youth suffering from the scant access to education and the lack of legal employment opportunities;
- the presence of local tribes engaged in illicit cross-border trades to cope with poverty and unemployment. Different tribes fought for the control of border points to exercise their own authority.<sup>42</sup> In particular:
  - the Tuareg took control of the south-western borders;
  - the Tebu are involved in trades in south-eastern Cyrenaica;
  - the Qadhadfa tribe controlled the smuggling route in Sirte (north of Libya);
  - Awlad 'Ali tribes are involved in smuggling activities across the Egyptian-Libyan border;
- the high degree of social acceptance of cigarette smuggling (see Box 6);<sup>43</sup>
- the proximity to the borders of the EU—where cigarettes are more expensive;
- the presence of long and porous borders.

**Libya is a key transit and destination country for illicit cigarettes originating mainly from the United Arab Emirates.**

In 2017, 4.7 billion illicit cigarettes transiting through Libya. According to KPMG's estimates, in 2016, 6.5 billion illicit cigarettes entered in Libya to be consumed locally.<sup>44</sup>

**Box 6. The sub-culture of smuggling within Libyan borders**

A recent ethnographic study conducted in the borderlands of Egypt and Libya followed the Awlad 'Ali Bedouin tribes. It highlighted how Bedouin tribes have a positive perception of their involvement in trafficking activities, which are necessary and unavoidable to sustain their community. The young members

of the Bedouin tribes depict themselves as entrepreneurs, recording their achievements—usually the act of smuggling and the illegal crossing of borders—in short video clips, accompanied by Bedouin music. An example of these videos is available at this link: <https://www.youtube.com/watch?v=mhp6ZNk7Yd0>.<sup>45</sup>

*Libya registers the highest consumption share of illicit cigarettes among the Maghreb countries<sup>46</sup>*

The main **borders exploited for smuggling cigarettes into Libya are** the following:

- **the Egyptian-Libyan border**, mainly because of the tolerance of the Egyptian government towards smuggling activities;<sup>47</sup>
- **the Mediterranean border**, which is exploited in both directions—illicit cigarettes both enter and leave Libyan ports en route to their final destination;
- **the Libya-Niger border**, which is a key transit point for cigarettes and other commodities entering Libya and converging in Sebha,

also known as "the capital of the South for traffickers". The route is the subject of a dispute between Tuareg and Tebu tribes;<sup>48</sup>

- **the Tunisian-Libyan border**, where smuggling profits have increased in the absence of a unified Libyan and Tunisian government response. In fact, although Tunisia has sought to reinforce border security by completing a planned 200 kilometres barrier along its border with Libya, incentives and capacities to contrast the traffics have diminished due to a lack of political unity after the exile of former President Ben Ali.<sup>49</sup>

Outflows of cigarettes towards Southern Europe tend to transit through Tunisia or Algeria before reaching their final destination countries—mainly France, Spain and Italy, which together consume about half a billion illicit cigarettes that transited from Libya. These flows benefit from the close relationships between transnational terrorist groups active in the country and OCGs operating in the Mediterranean Sea, such as the Italian Mafia.<sup>50</sup>

# Algeria

Based on 2017 data



## ILLICIT CONSUMPTION

Tot. illicit cigarettes consumed

**0.9** billion

Tot. illicit cigarettes consumed of unknown origin

**0.5** billion

Main origin of illicit cigarettes

**United Arab Emirates**



## ILLICIT INFLOWS

N. of inflows

**8**

Tot. inflowing volume

**3.8** billion

Main inflow

**1.3** billion sticks from Libya  
(34% of tot. inflows)

N. of countries of origin of the inflowing cigarettes

**80**



## ILLICIT OUTFLOWS

N. of outflows

**9**

Tot. outflowing volume

**7.6** billion (about half of the inflows)

Main outflow

**2.6** billion sticks to Tunisia  
(34% of tot. outflows)

Tot. illicit cigarettes originating in Algeria

**4.2** billion

Main final destination of the outflowing cigarettes

**Tunisia**

## MAIN ILLICIT INFLOWS AND OUTFLOWS BY COUNTRY OF ORIGIN

The visualization depicts the 5 main inflows and the 5 main outflows disaggregated by origin of the cigarettes flowing.

### Legend

○ Transit and destination country

- - - Indirect connection

### Origin of the cigarette flows

— United Arab Emirates

Graphic reference scale

— Mauritania

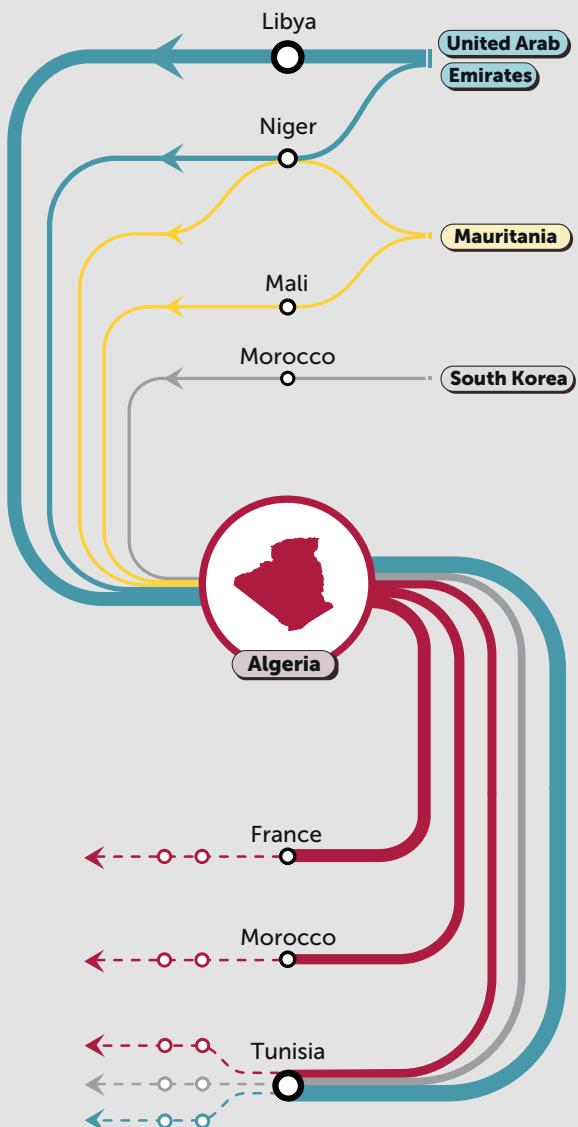
4 billion

— South Korea

2 billion

— Algeria

≤ 0.2 billion



---

*The consumption of cigarettes is relatively low and it has decreased further in recent years, even though Algerian cigarettes have the lowest prices in the region*

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**Algeria is** the largest country in the Maghreb region. It is **an important country of origin for illicit cigarettes** due to its geographical proximity to the EU and because it has the lowest cigarette prices in the region.

In 2017, the consumption of illicit cigarettes accounted for less than 4% of total consumption. **Algeria is mainly a transit and outflow country for illicit cigarettes towards its neighbours**, with 2.6 billion cigarettes flowing to Tunisia and 1.5 billion to Morocco in 2017. Most of the 2.6 billion illicit cigarettes flowing to Tunisia were produced in the United Arab Emirates, Algeria itself, or South Korea. A small amount of these illicit cigarettes were consumed in Tunisia, but the majority transited through Tunisia to reach their final destination. Overall, total outflows of illicit cigarettes are larger than inflows, meaning that Algeria acts also as the origin of illicit cigarettes due to the lower cigarette price.

**France and Spain are the primary EU final destinations of illicit cigarettes originating from or transiting through Algeria.** The maritime connection between the port of Algiers and the port of Marseille has facilitated cigarette smuggling to France. In 2017, France consumed 2.5 billion illicit cigarettes that were either produced or transited in Algeria, about three times the annual average over 2008-2012. This same number amounted to 0.2 billion for Spain in 2017.

The presence of long and permeable borders facilitates cigarette smuggling in Algeria. In 2017, the illicit inflow of cigarettes amounted to 3.8 billion. This volume includes both illicit cigarettes consumed in Algeria and illicit cigarettes transiting through Algeria before reaching their final destination. **Illicit cigarettes enter Algeria from three main points:**

1. **the eastern border with Libya;**
2. **the southern borders with Mauritania (Tindouf), Mali (Tamanrasset), and Niger (Guezzam),** after cigarettes entered from the Mauritanian ports of Nouakchott or Nouadhibou;<sup>51</sup>
3. **the western border with Morocco,** reached after transiting through the Mauritanian cities of Atar and Zouérat and then through Dakhla (Western Sahara) and Tan-Tan (Morocco). This third path is exploited in both directions.

In the last twenty years, both **Morocco and Algeria have undertaken several attempts to reinforce their borders** (i.e., closed frontiers, visa restrictions, a fence and trenches). These measures should have disrupted the flow of cigarettes in both directions across their shared—1,559 kilometres long—

border.<sup>52</sup> Despite these increased security measures, illicit flows from Algeria to Morocco decreased only from about 1.64 billion cigarettes in 2008-2012 (average of the five years) to 1.57 billion in 2017. The ability to navigate the mountainous terrain on the border between Algeria and Morocco, coupled with the widespread corruption among the low-paid border officials, have enabled smugglers to continue their operations in the region.<sup>53</sup>

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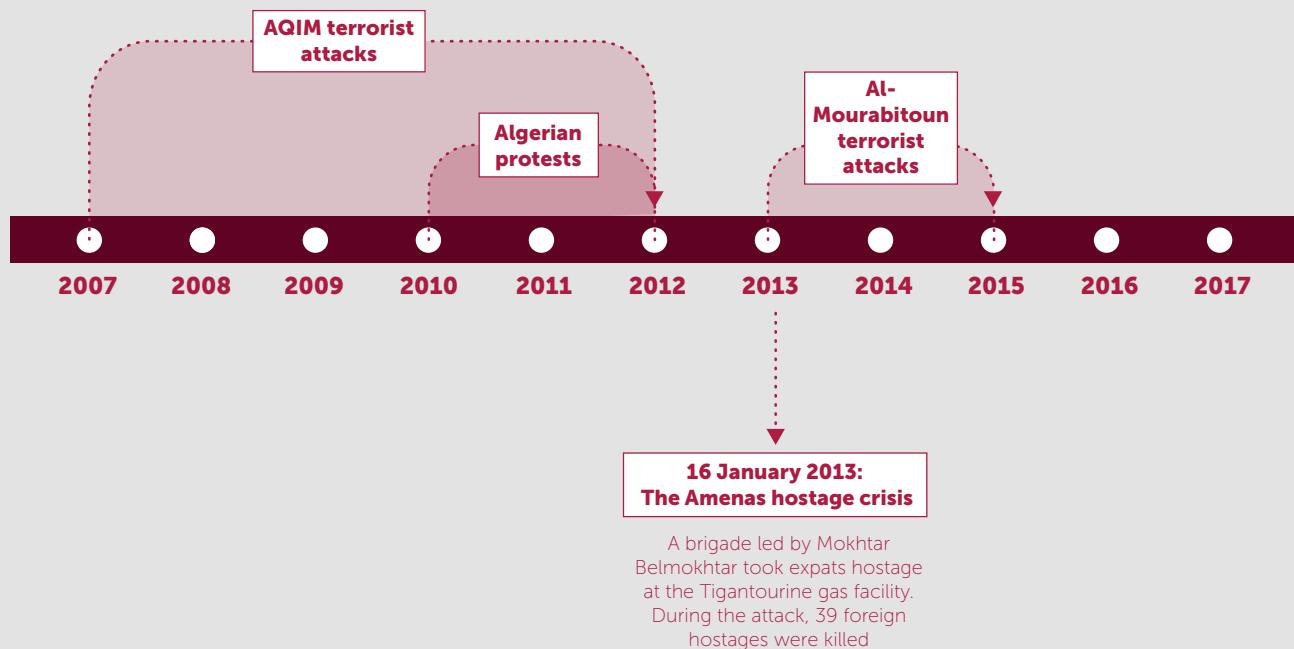
*In Algeria, smuggling is a source of daily subsistence<sup>54</sup>*

---

Different actors are active in cigarette smuggling in the country. Some of them engage in this illicit activity to cope with poverty and underdevelopment. For the Tuareg, for example, cigarette smuggling is an opportunity to earn their livelihoods.<sup>55</sup>

**The jihadists exploited the economic recession, which led to violent riots and protests around the country between 2010 and 2012, to foster their illicit activities** (see Figure 4). Terrorist attacks carried out by AQIM and Al-Mourabitoun militant organisations further contributed to creating a state of chaos that facilitates trafficking practices. Jihadists encouraged the involvement of youths in illicit traffics and started supporting the Berber tribes—especially Tuareg—that were involved in smuggling activities. In exchange for providing protection, they collected “taxes” levied on the illicit transnational trades, thus financing their jihad.<sup>56</sup>

Figure 4. Key events in Algeria (2007-2017)



Note: The visualization summarises the main political events which took place in Algeria between 2007 and 2017—2008–2017 are the year corresponding to the NEXUS estimates. Between 2007 and 2015, in particular, Algeria was suffering because of terrorist attacks. At the same time, in those years, the government led by Abdelaziz Bouteflika had to confront several political protests questioning its legitimacy.

Engagement in cigarette smuggling offers the opportunity to exchange commodities: **Algerian provincial officers illegally sell subsidised fuel, food and humanitarian aid to northern Mali and Mauritania in return for cigarettes** from Sahrawi networks.<sup>57</sup>

To face these challenges, the Algerian government has undertaken, and is currently undertaking several policies, related to the tobacco industry:

- it has opened the market to Arab investors;
- it has imposed a tax increase of 10% on imported goods.<sup>58</sup>

- it is seeking to privatise the state-owned firm *National Society of Tobacco and Matches* (SNTA), which is the leading producer in Algeria;

# 5. Evolution of the Route

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Between the years 2008–2012 and 2017, routes and the amount of cigarette smuggling in the Maghreb region changed following political and economic shifts.

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*In the past ten years, the volume of illicit cigarettes flowing along the Maghreb Route has increased*

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**The overall volume of cigarettes smuggled along the Maghreb Route increased by more than 10% from 2008 to 2017**, from approximately 9 billion illicit cigarettes over 2008–2012 (average per year) to 10 billion in 2017.

**The overall increase was mainly due to the growth in the outflows towards Europe.** Over the years 2008–2012, about 1.4 billion cigarettes were outflowing from Maghreb countries directed to Europe every year. These cigarettes increased to 4.3 billion cigarettes in 2017—i.e., outflows to Europe more than tripled.

Conversely, the total flows targeting other regions decreased by about 1.9 billion between 2008–2012 and 2017. Especially, **the traffic of cigarettes**

**targeting countries in North Africa declined during the last five years**—from 7.7 billion cigarettes to 6.0 billion, a contraction of 1.7 billion. This decline was mainly due to the narrowing price gaps among countries within the region and borderlands reinforcement, especially in Morocco and Tunisia.

Outflows to other regions—i.e., Middle East—also decreased by about 0.2 billion in the period considered.

**Outflows of illicit cigarettes from Algeria to any other country increased** from 5.4 billion over 2008–2012 (annual average) to 7.6 billion in 2017 (see Figure 5). Outflows towards EU MSs—especially France—increased by about 5 times between 2008 and 2017. Outflows towards Spain also increased.

Over the years 2008–2017, **Libya retained its role as a key transit hub**. However, its importance as a transit point for cigarettes flowing to Europe slightly decreased—outflows of cigarettes towards Europe declined from about 0.8 billion over 2008–2012 (average of the five years) to 0.7 billion in 2017.

In Morocco, inflows from Algeria slightly decreased—from an average of 3.5 billion over 2008–2012 to about 3.2 billion in 2017. However, **total illicit outflows from Morocco have increased** in recent years from approximately 1 billion cigarettes (annual average 2008–2012) to over 1.6 billion cigarettes in 2017.

In Tunisia, total inflows increased by 44% over the period 2008–2017. In particular, flows from Algeria and Libya to Tunisia registered a strong expansion, increasing by 26% and 73% respectively. **Outflows from Tunisia towards Europe—especially France—almost tripled**.

Until 2011—and the Arab Spring—Western Africa was the main entry point in Africa for cigarettes flowing in the Maghreb area from the Arabian Peninsula. Specifically, Mauritania, Ghana, Togo and Benin were key transit countries for illicit cigarettes reaching Algeria and Libya.<sup>59</sup>

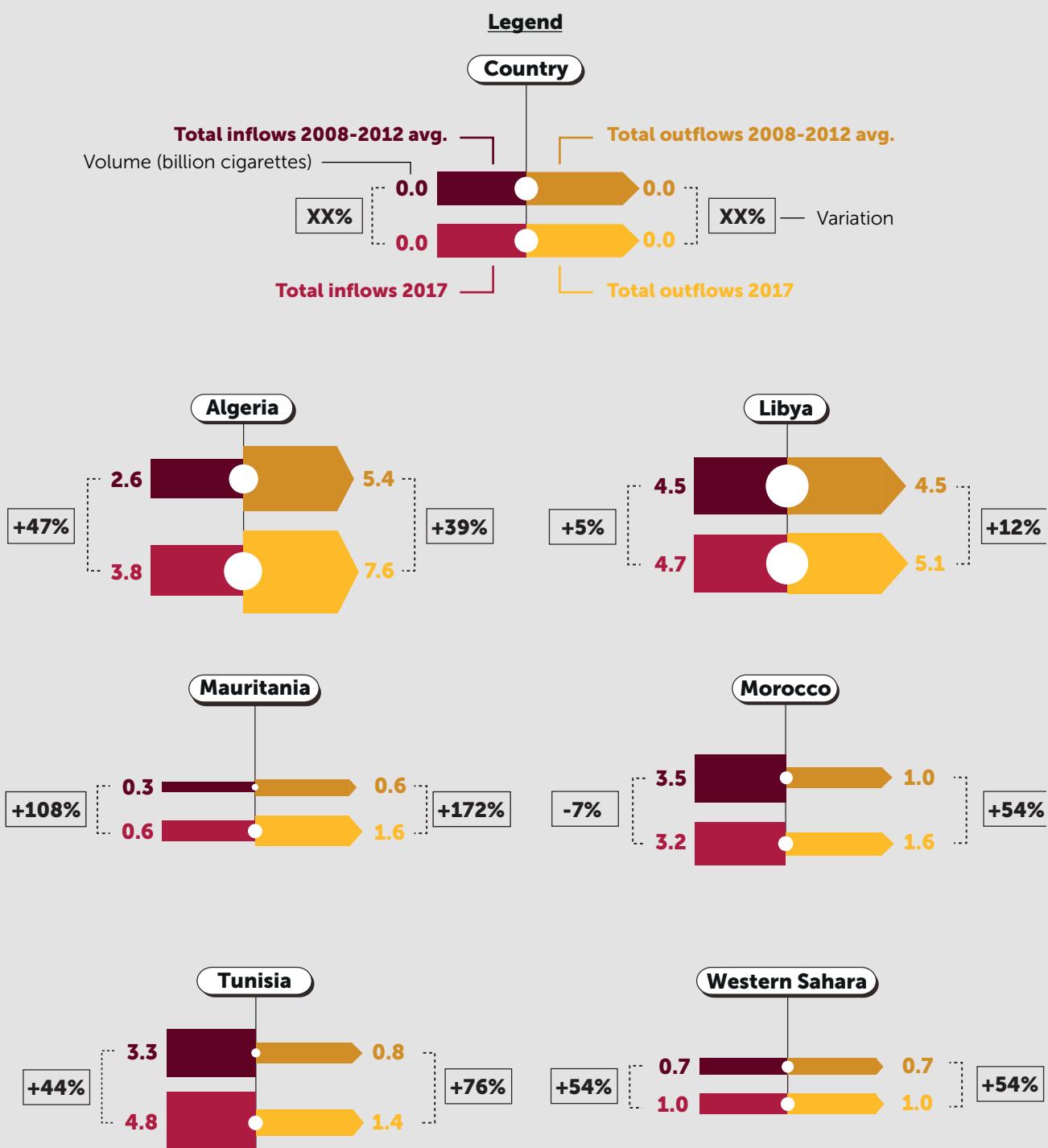
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*After the Arab Spring, Egypt became a transit country for illicit cigarettes flowing from the United Arab Emirates to Libya*

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Illicit cigarette flows from the United Arab Emirates to Egypt were three times as large in 2017 compared to the annual average in 2008–2012. Using this new route, traders smuggle cigarettes towards the European Mediterranean countries, mainly France, Italy, and Malta.

Figure 5. Comparison of inflows and outflows of illicit cigarettes in the countries of the Maghreb Route (2008-2012 avg. and 2017)



Note: The graph provides a comparison of the illicit flows (inflows and outflows) traversing the countries in the Maghreb area in different points in time. For each country the estimate of the flows in 2008-2012 (annual average) and the estimate of the flows in 2017 are provided. Note that illicit cigarettes outflowing from a country may be included in the estimate of the inflows of another country depending on the overall structure of the trafficking Route.

## 6. Future challenges and perspectives

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In the next years, the volume of inflows and outflows of cigarettes circulating in the Maghreb area may change in accordance with national and international policies.

The lack of regional cooperation pushes countries to sign their own agreements with the EU (or EU MSs) instead of developing a regional agreement. **Lack of coordinated operations in the area may escalate the risk of violence and smuggling activities in the future.**<sup>60</sup>

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*The evolution of trafficking along the Maghreb Route will depend on future joint actions between the Maghreb countries and the EU*

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In 2017, Algeria increased taxes on cigarettes.<sup>61</sup> This policy is likely to reduce the amount of cigarettes passing from Algeria to the European markets. At the same time, **tax increases may induce communities to work even more in the smuggling market**, as prices for genuine cigarettes will rise. Besides the tax reform, the Algerian government is seeking to privatise the national tobacco firm and it has recently opened to Arab investors.<sup>62</sup>

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*Algeria, Tunisia and Morocco are trying to tackle cigarette smuggling reinforcing their border security*

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*Algeria expects to reduce the inflows of illicit cigarettes by opening the markets to foreign investors, thus increasing internal competition in the market*

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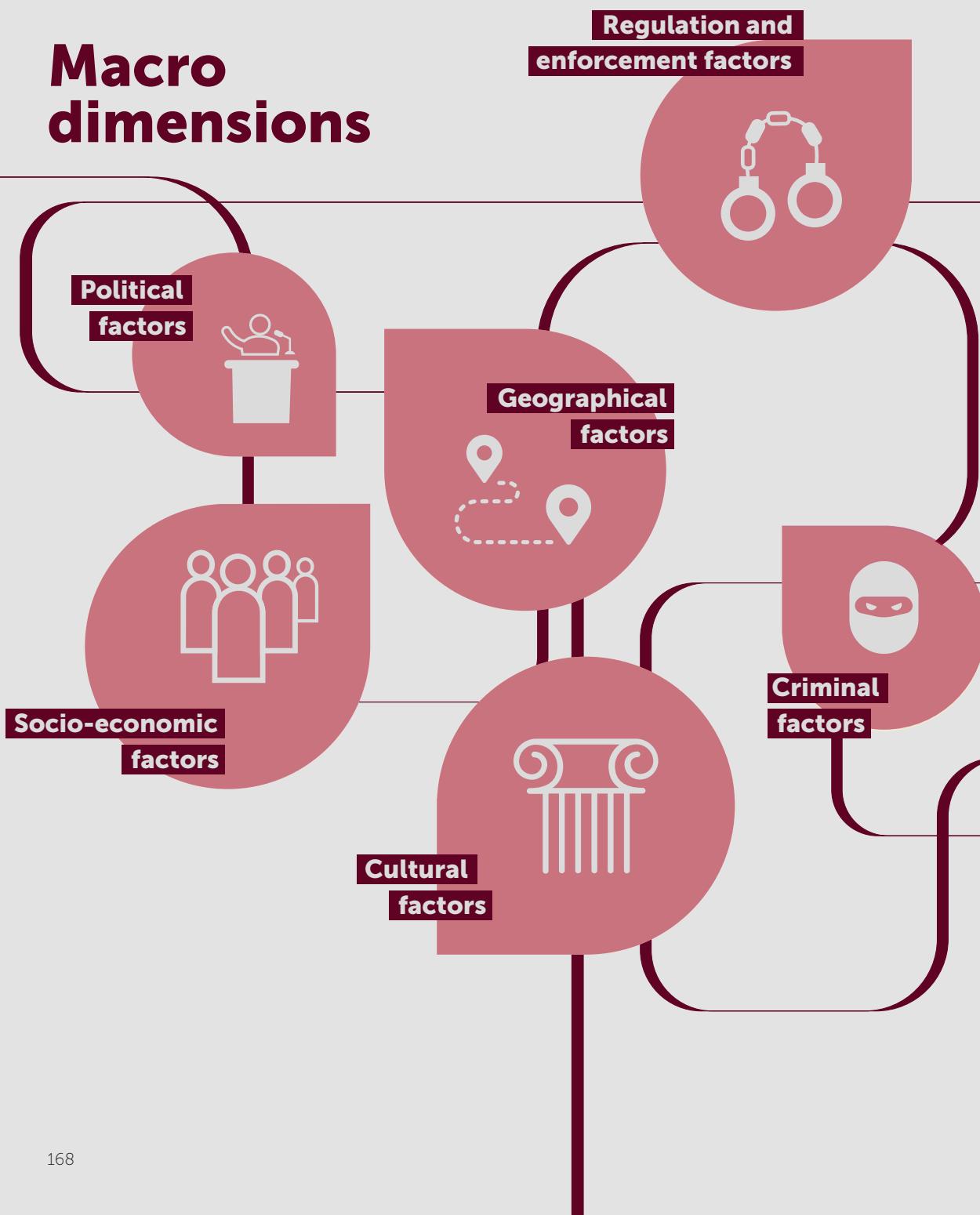
Governments in Morocco, Algeria and Tunisia have sought to reinforce border security through the construction of new barriers.<sup>63</sup> From one side, these barriers might strengthen defences against illicit activities, especially human smuggling and terrorists' infiltrations (AQIM from Algeria, and Islamic State from Libya). From the other side, **increased controls could shift the smuggling routes**. They might also not be seen as a positive development by local population (cross-border trades are a financial resource), enhancing the level of violence.

Due to the persisting instability and lack of recognised authorities in some countries (e.g., Libya), radical reductions in the flows of illicit cigarettes are unlikely to occur in the foreseeable future.

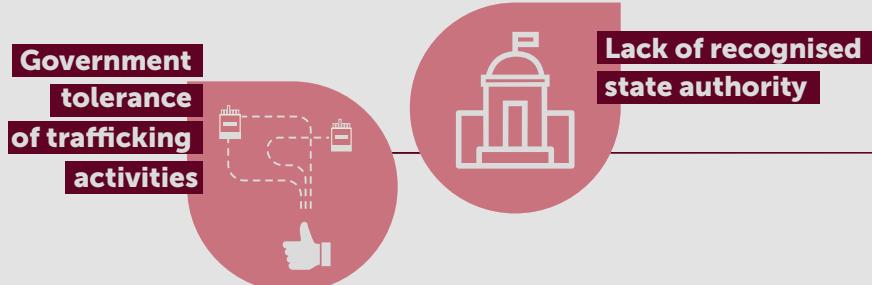
## 7. Enabling factors in brief

Several factors and incentives drive smuggling activities in the area.<sup>64</sup> All of them are interconnected and influence each other. For clarity, they have been divided into six macro dimensions.

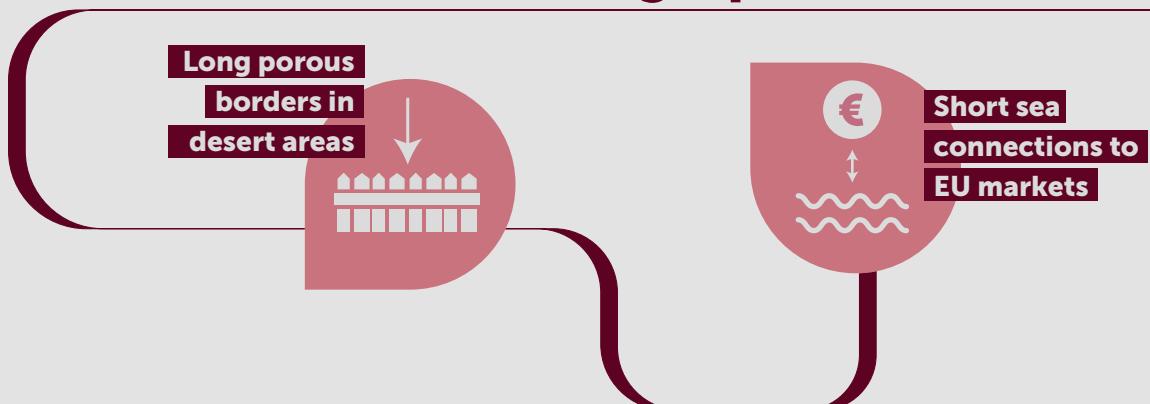
### Macro dimensions



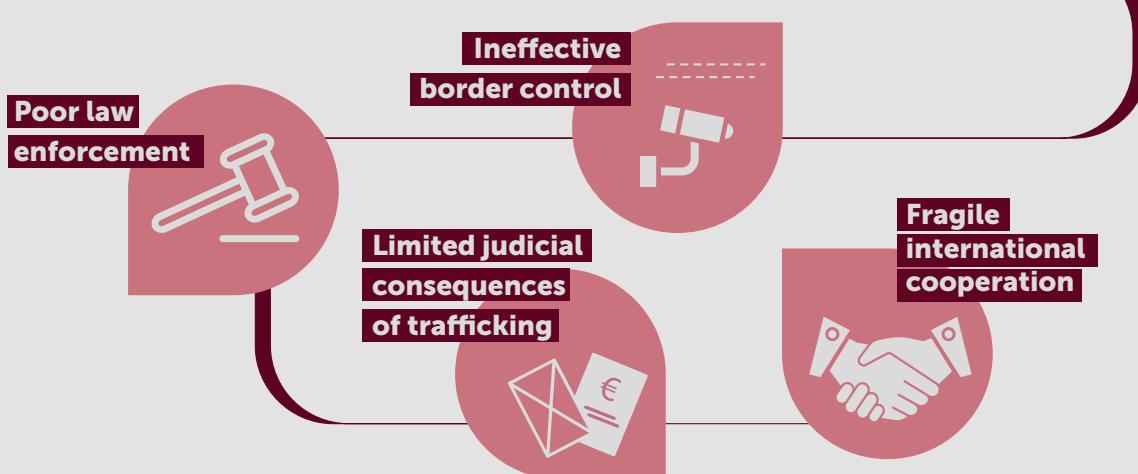
## Political factors



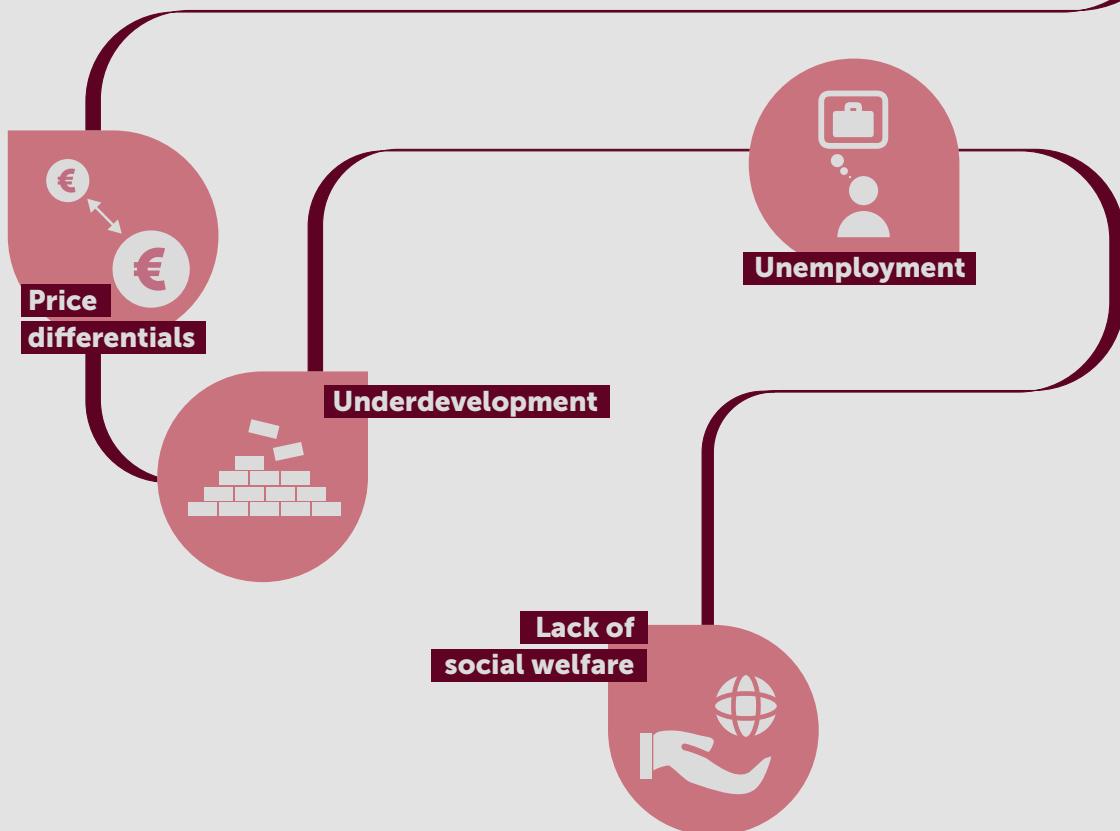
## Geographical factors



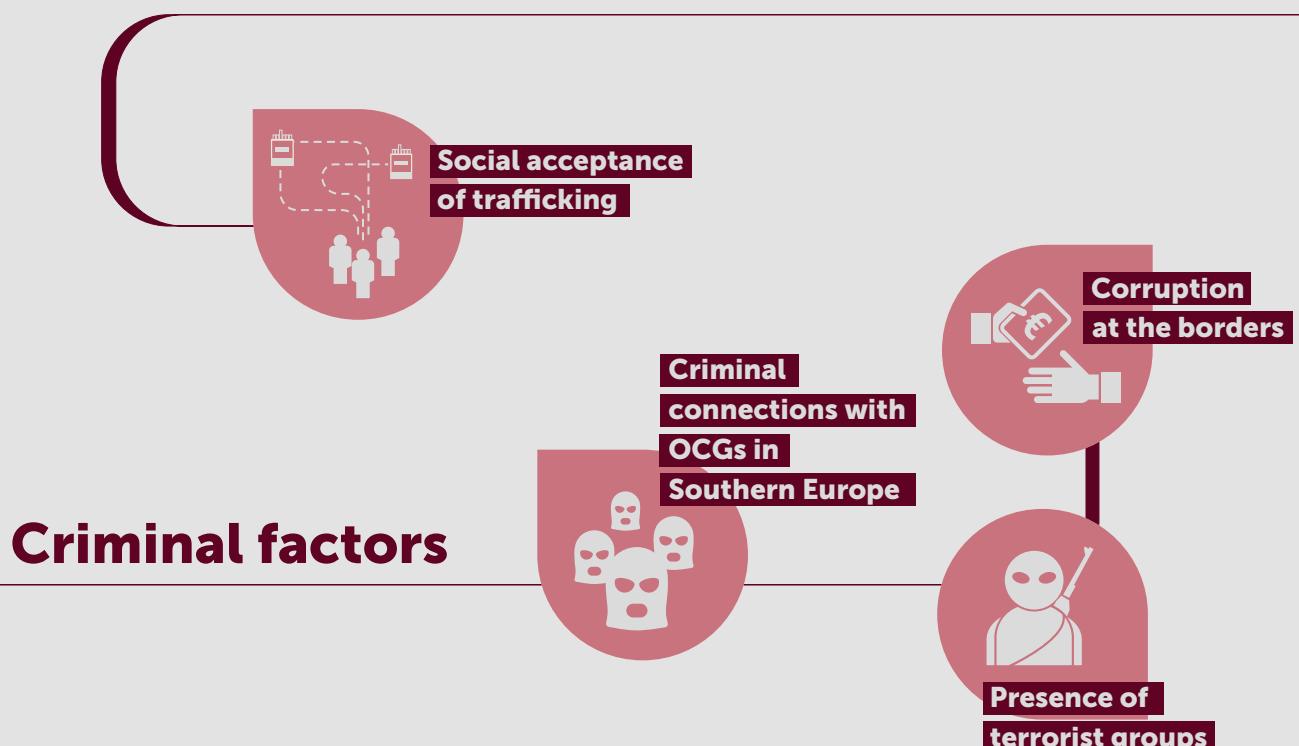
## Regulation and enforcement factors



## Socio-economic factors



## Cultural factors



# Glossary

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The following terms have been used in the present booklet with the following meaning:

**Contraband or smuggling:**

the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>65</sup>

**Counterfeits:** 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.<sup>66</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Duty-free cigarettes:** cigarettes bought without payment of customs or excise duties. Consumers may buy duty-free cigarettes when travelling into or out of the EU (including Switzerland and Norway) by land, air or sea at legal duty-free shops.<sup>67</sup>

**Empty pack survey (EPS):** survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>68</sup>

**Inflow:** the inward flow of cigarettes.

**Origin country:** country from which the illicit flow of cigarettes originates.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

**Unspecified:** cigarette packs which do not bear specific market labelling.<sup>69</sup>

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# CONNECTIONS

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Explaining the Factors Driving  
Illicit Flows of Cigarettes

**5** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## **CONNECTIONS**

*Explaining the Factors Driving Illicit Flows of Cigarettes*

### **Acknowledgements and credits**

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Meneghini, Cecilia, Marco Dugato and Alberto Aziani. 2019. "Connections - Explaining the Factors Driving Illicit Flows of Cigarettes". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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# Explanatory notes

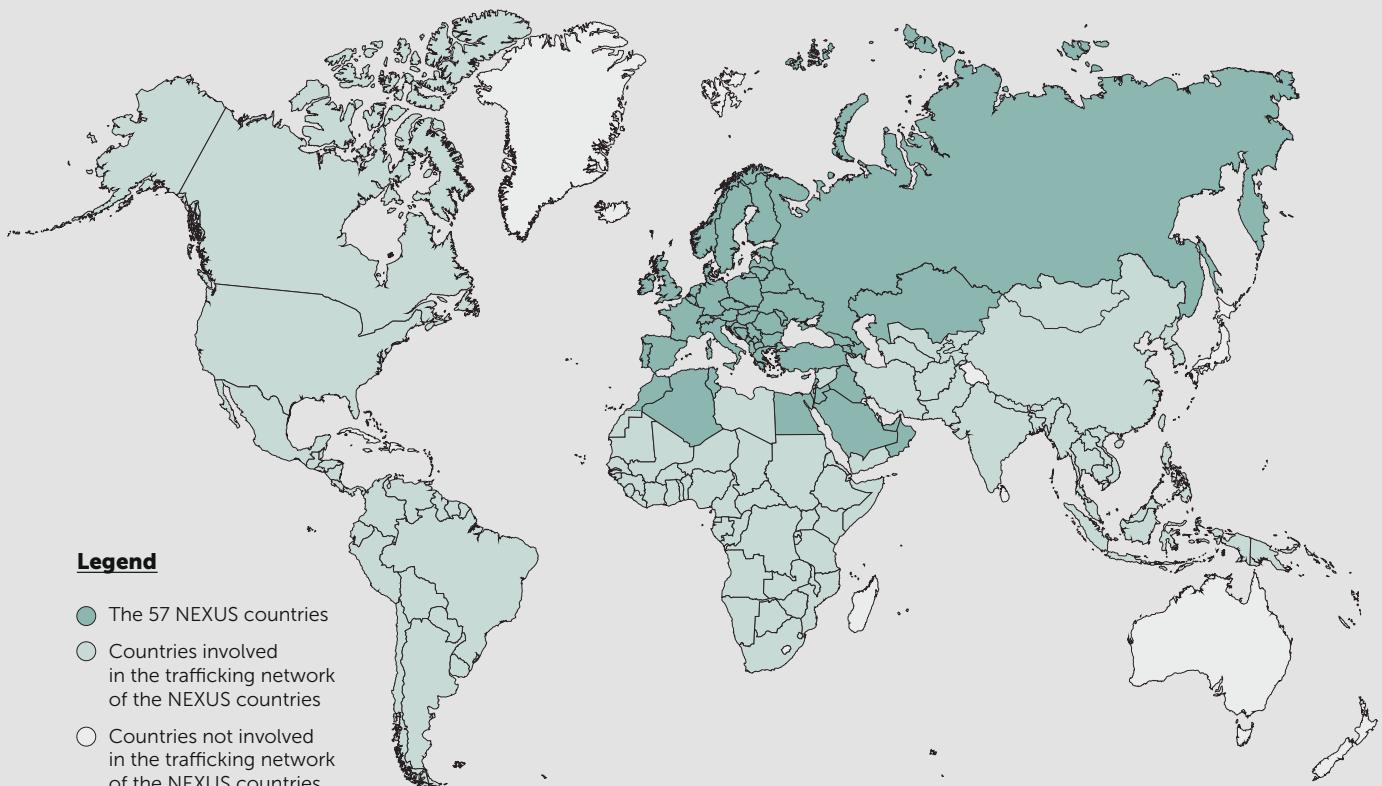
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All analyses contained in the *ITTP NEXUS in Europe and Beyond Report* are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in this booklet:

EU	European Union	OCG	Organised Crime Group
FTZ	Free Trade Zone	PKK	Partîya Karkerén Kurdistan (Kurdistan Workers' Party)
LEA	Law Enforcement Agency	VAT	Value Added Tax
MS	Member State	WHO	World Health Organization
NATO	North Atlantic Treaty Organization		

## The 57 NEXUS countries



# Introduction

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This booklet constitutes the fifth chapter of the *ITTP NEXUS in Europe and Beyond Report*. It explains the enabling factors driving illicit cigarettes flows: the connections.

The connections comprise all the country-level contextual factors and drivers—including key facilitators—of the illicit trade in cigarettes. The term “connections” thus refers to the links between the illicit flows of cigarettes and the contextual factors that are relevant to the European countries and to the countries connected to them in transnational cigarette trafficking.

The booklet provides an overview of the driving factors of illicit flows of cigarettes, which are divided among six macro dimensions: political, geographical, regulation and enforcement, socio-economic, cultural, and criminal.

# Key facts

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The Key facts present the main enabling factors which comprise all the country level contextual factors and drivers—including key facilitators—of cigarette trafficking.



## Political factors

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**Political instability and armed conflicts** may facilitate the trafficking of cigarettes through countries, as these conditions weaken the capacity of a state to control its own territory.

Criminals exploit these situations of uncertainty to engage in cigarette trafficking.



## Geographical factors

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Transit countries often have direct **access to the sea** and are **close to markets where legal cigarettes are expensive**.

Proximity to lucrative markets and the **presence of long shared borders** simplify cigarette smuggling, allowing the involvement of poorly organised criminals.



## Regulation and enforcement related factors

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**Legislative asymmetries** may provoke the displacement of cigarette trafficking to countries where penalties are more lenient.

**Tax increases** incentivise tax evasion and may result in an increase in the illicit consumption of cigarettes.

**Light penalties** for cigarette trafficking attract criminals with expertise in other forms of transnational trafficking.

The impact of light penalties is exacerbated when combined with **ineffective border controls**.



## Socio-economic factors

**Price differentials** of legal cigarettes among countries create financial incentives for cigarette trafficking.

**Free-trade agreements** and **FTZs** ease the avoidance of authorities' controls, thus securing the transit of illegal cigarettes.

In major origin countries, there is often **limited control on the overproduction** of cigarettes. This surplus of illicit cigarettes may be sold as illicit whites in other countries.

**Poor living conditions**—in particular, unemployment—may induce individuals to engage in cigarette smuggling and to purchase illicit products.



## Cultural factors

**Tolerance of the consumption of illicit goods** may increase illicit cigarette consumption.

**Social acceptance of criminal behaviour** may induce individuals to engage in cigarette trafficking.



## Criminal factors

**Criminal and terrorist groups** may favour the trafficking of cigarettes. Criminal groups exploit their expertise in the smuggling of other goods to engage in cigarette trafficking. Terrorists may exploit cigarette trafficking to fund their activities.

**Corruption among politicians and customs officers** tends to facilitate the illicit production and trafficking of cigarettes.



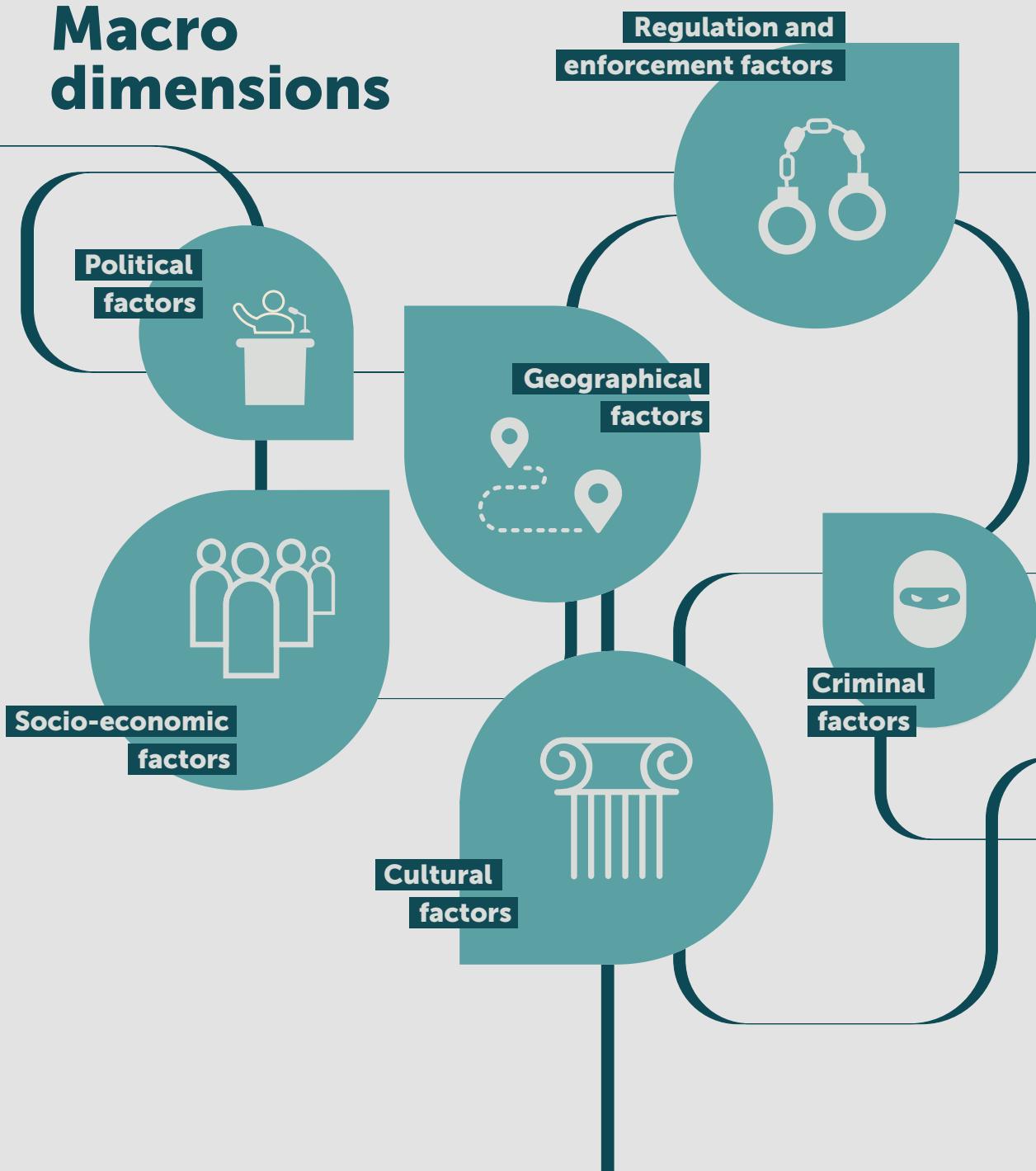
# Enabling factors

**Enabling factors** affecting the probability of a country becoming an origin, a transit point or a destination for illicit cigarettes **are multiple and interconnected**. For clarity, they have been divided into six macro dimensions.

The effect of each factor may be different for different types of illicit cigarettes flows—i.e., outflows of cigarettes originating in a country, outflows of transiting cigarettes, inflows destined to be consumed in that country or inflows of transiting cigarettes.

The impact of a specific factor may be exacerbated by the simultaneous presence of other factors. For example, it may be easier for OCGs to engage in cigarette smuggling in countries facing a situation of political instability.

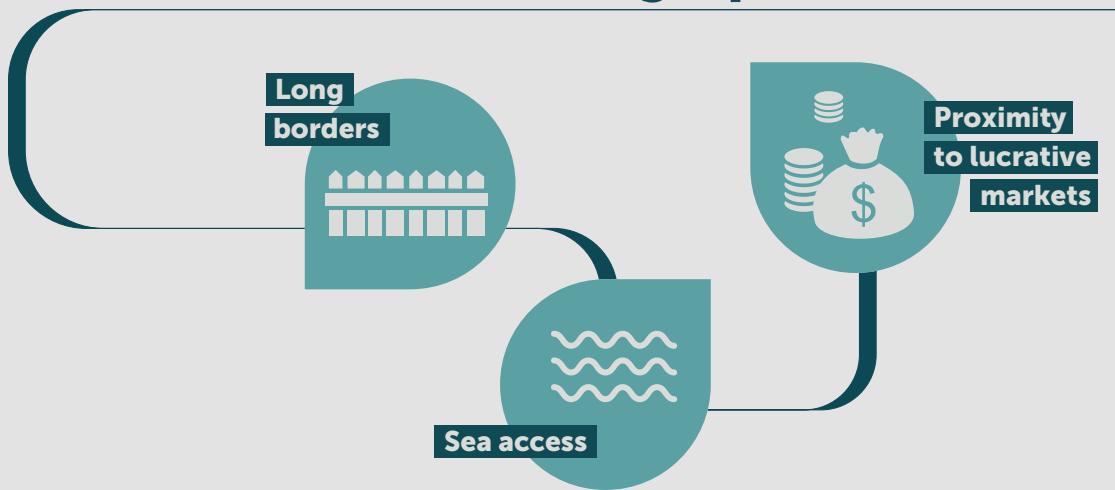
## Macro dimensions



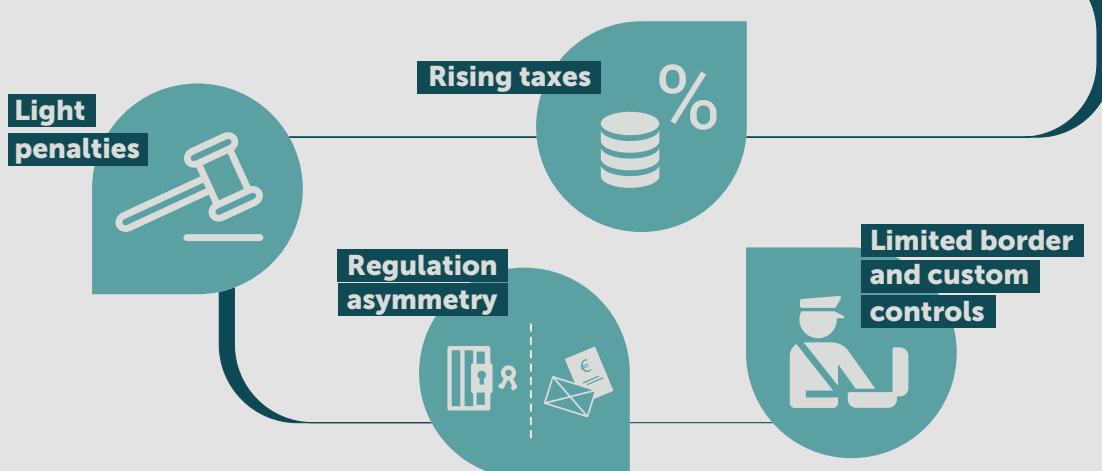
## Political factors



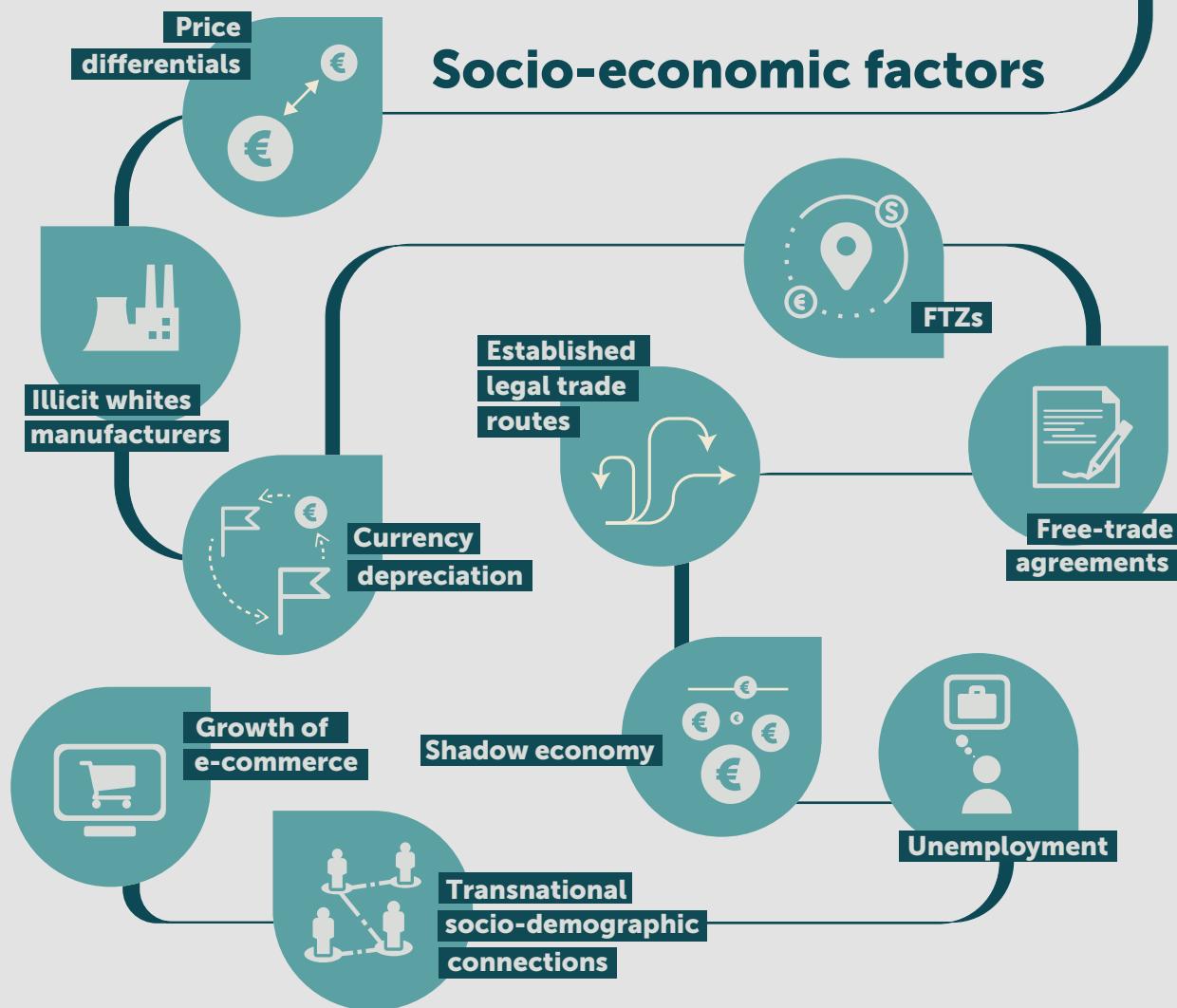
## Geographical factors



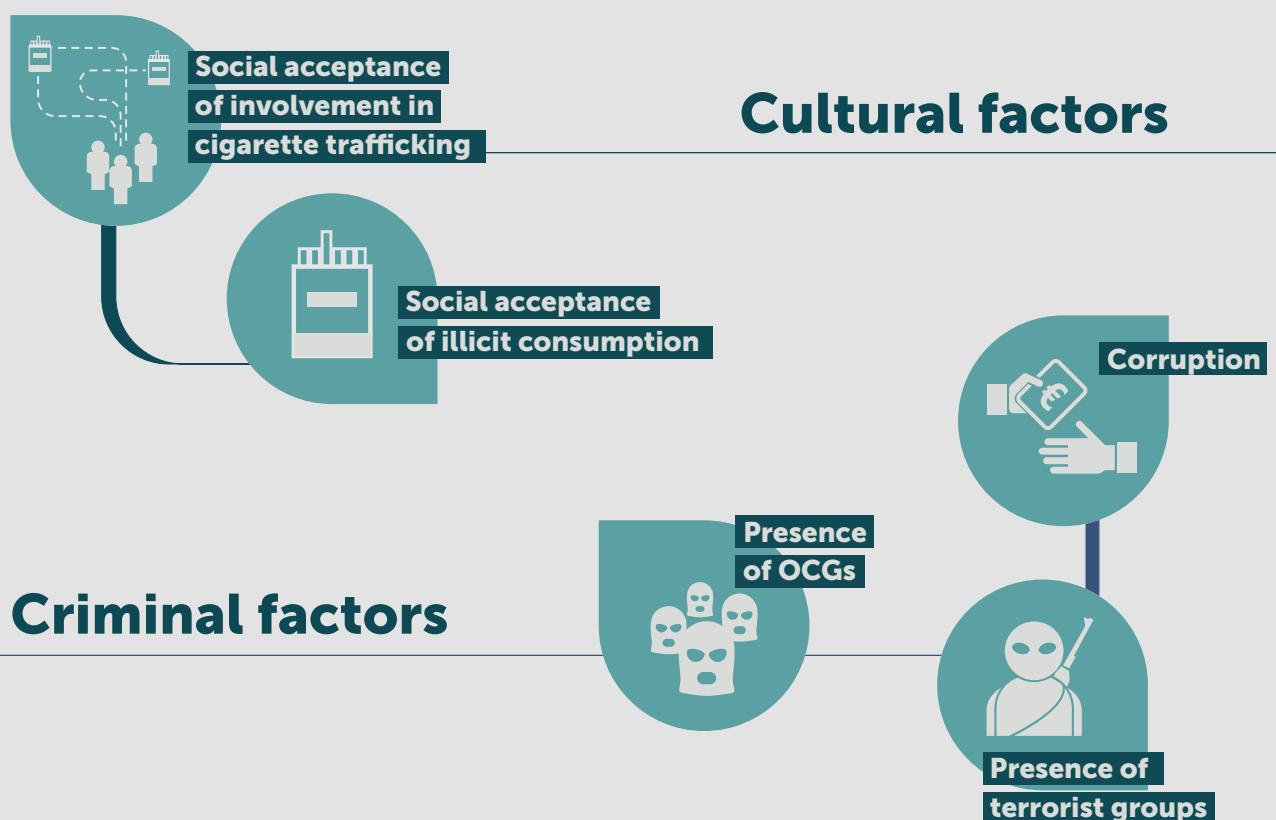
## Regulation and enforcement factors



## Socio-economic factors



## Cultural factors



## Criminal factors

# 1. Political factors

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## Conflicts and political instability

**Internal conflicts and political crises fuel a state of chaos and uncertainty.** In such an environment, authorities often lack the resources necessary to fight illicit traffics; they prioritise security issues rather than the trafficking or the production of illicit goods—including cigarettes. This reduces the capacity of the government to control national borders and thus decreases the probability of detection.

Criminals exploit these situations of uncertainty to take control of border posts and engage in illicit practices, facing a lower detection risk.

At the same time, during an ongoing conflict, **warring parties can take advantage of cigarette smuggling to finance their actions.<sup>1</sup>**

In 2017, **countries involved in armed conflicts had significantly larger illicit cigarette outflows.** This applies to both origin and transit countries.

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*Countries with ongoing armed conflicts or political crises are disproportionately involved in cigarette trafficking*

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## Enabling factors in action

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- The Arab Spring uprisings that swept across the North African and Middle Eastern regions, and resulted in full scale civil wars in Libya and Syria, created a situation of internal chaos in the countries of the region. The political chaos enabled the Tuareg, Tebu, Awlad 'Ali and Qadhafia tribes to take control of the border posts in Maghreb countries, facilitating cigarette smuggling.<sup>2</sup> Terrorist organisations, such as Islamic State or Al-Qaeda-affiliated armed groups, often supervise the illicit activities of these tribes.<sup>3</sup>

- The Ukrainian government's reduced ability to cope with

increased illegal trafficking is the direct result of the ongoing armed conflict in East Ukraine that broke out in 2014.<sup>4</sup> At the same time, the militarization of the country's border regions, coupled with the increased border controls enforced by Poland on its extra-EU frontier make it hard to assess the impact of the Ukrainian conflict on cigarette trafficking.<sup>5</sup>

- Since 1984, there has been a prolonged armed struggle between the government of Turkey and the PKK (Kurdistan Workers' Party), which Turkey and the NATO military alliance consider a terrorist organisation.<sup>6</sup> To fund its activities, the PKK is known

to levy taxes on products trafficked through the territories under its influence.<sup>7</sup> PKK members use so-called "customs stations" located at the Turkish border with Iraq and Iran to impose their taxes.<sup>8</sup>

- During the wars in the former Yugoslavia in the 1990s, politically involved OCGs relied on profits from the illegal cigarette trade to finance paramilitary operations. In particular, they used profits from trafficking to purchase weapons and ammunition.<sup>9</sup> At the same time, smuggling was a survival strategy for common people in need of basic supplies during the wartime.<sup>10</sup>

## 2. Geographical factors

### Proximity to lucrative markets

*Geographical proximity to destination markets increases the likelihood of a country being involved in cigarette trafficking*

Proximity to countries where cigarettes are relatively more expensive increases the likelihood of being either an origin or a transit country for illicit cigarettes (see Figure 1).

In particular, **directly sharing land borders with markets where cigarettes are (more) expensive facilitates cigarette smuggling.**

Geographical proximity between the origin and destination country of illicit cigarettes simplifies the smuggling to the point at which also individuals with limited organisation can traffic cigarettes by simply crossing a border. The volumes trafficked in each journey may be small, but smugglers can go back and forth multiple times per day—i.e., bootlegging.<sup>11</sup>

**Figure 1. The main countries of origin in the North-Eastern Route border directly with the EU**



#### Legend

- EU countries
- 📍 Key origin countries

### Enabling factors in action

- Countries that share land borders with EU MSs are at a greater risk of being involved in cigarette trafficking.<sup>12</sup> Belarus, Moldova, and Ukraine, border with EU MSs and are major origins of illicit cigarettes. The Baltic states and Poland often serve as transit points for illicit cigarettes that move from extra-EU Eastern European countries to Central and Western EU MSs. This is due to their bridging geographic position between extra-EU producers of illicit

cigarettes and destination markets in the EU like Germany, or the Scandinavian countries.

- The geographical position of Turkey makes the country a preferred transit point between Asia and Europe for illicit cigarettes flowing in both directions.<sup>13</sup>
- Serbia is a key transit country because it is situated in-between non-EU countries—North Macedonia, Montenegro, Bosnia

and Herzegovina—and EU MSs—Bulgaria, Romania, Hungary and Croatia.<sup>14</sup>

- Geographical proximity favours bootlegging, which explains the high number of flows between bordering countries:<sup>15</sup> for instance, Belarus-Poland, Belarus-Latvia, Belarus-Lithuania, Moldova-Romania, Russia-Latvia, Russia-Lithuania, Russia-Estonia, Ukraine-Poland, Ukraine-Romania.

## Sea access

Sea access is an important factor in cigarette trafficking because **large transnational illicit cigarette flows often involve sea shipments.**

*Direct access to the sea favours large-scale cigarette trafficking*

Access to seaports or internal waterways and **extensive coastlines affect countries' centrality in transnational cigarette trafficking.**

Conversely, landlocked countries are, on average, less involved in cigarette trafficking, either as origin, transit or destination points. In 2017, countries with sea access had inflowing and outflowing volumes that were about 20% larger than those traversing landlocked countries.

There are some exceptions: despite lacking sea access, the Czech Republic is traversed by large volumes of illicit flows of cigarettes. This is due to its strategic location at the heart of Europe, connecting Eastern European countries with Western European markets.

Sea access reduces the costs and the risks of shipping illicit cigarettes from distant countries. It thus makes it possible to ship cigarettes directly from countries such as China, South Korea and Vietnam to Europe avoiding the transit through other jurisdictions.

## Enabling factors in action

- From Russia and the Baltic states, illicit cigarettes can be shipped to the United Kingdom and the Scandinavian countries via the Baltic Sea and the North Sea. From the African continent, traffickers from Egypt, Libya, Tunisia, Algeria and Morocco can reach the Southern-European coast via

the Mediterranean Sea. Several countries along the perimeter of the Balkan region have access to either the Black Sea or the Mediterranean Sea through their numerous seaports. This is the case for key hubs for cigarette trafficking such as Bulgaria, Greece, and formerly Montenegro.

- A crucial access point for illicit cigarettes flowing from the Middle East and Far-East Asia to Europe is the Bosphorus strait, which is one of the most significant waterways for traffickers because it connects the Black Sea with the Mediterranean Sea.

## Long borders

The length of the border between two countries is significantly and positively correlated with the volume of illicit cigarettes flowing across it. **Longer borders increase the opportunities to smuggle cigarettes** through uncontrolled points on the frontier.

## Enabling factors in action

- Morocco and Algeria share a 1,559 kilometres long border which both countries have tried to control by means of a variety of measures (i.e., closed frontiers, visa restrictions, a fence and trenches). These measures have had only little

impact on illicit cigarette flows going in both directions because it is difficult to properly control such a long border, which crosses numerous portions of mountainous territory.

### 3. Regulation and enforcement factors

#### Rising taxes

##### Rising taxes may boost the consumption of illicit cigarettes.<sup>16</sup>

Higher taxation creates incentives to evade for the actors involved, fuelling the black market for cigarettes (see Box 1).<sup>17</sup> Despite the positive effects produced by tobacco taxation—i.e. the reduction of consumption and the increase of government revenues—

rising taxes contribute to the displacement of consumption from legal to illegal cigarettes.

Tax increases cause prices of legal cigarettes to rise. **Increased legal prices augment consumers' incentives to buy illicit cigarettes rather than legal ones.**

##### *Rising-taxes may cause the black market to expand*

Some smokers with low incomes and low levels of education are more likely to turn to illicit consumption as the price of legal cigarettes rises.<sup>18</sup>

#### Enabling factors in action

- In Albania, tobacco taxes were raised in 2009 and the price of the most sold cigarette pack increased from just below 1€ in 2009 to about 2.4€ in 2015. This policy led to a considerable increase in cigarette smuggling into the country.<sup>19</sup> Illicit cigarette consumption in Albania almost doubled between 2009 and 2015 from about 0.17 billion to 0.32 billion.
- Statistical analyses of tax increases in Canada have proved that each additional dollar in final applicable taxes raises the propensity to consume contraband cigarettes by 5.1%.<sup>20</sup>
- While it is hard to establish a direct causal relationship, findings from the United States evidence a strong positive correlation between states' cigarette taxes and the size of the illicit markets.<sup>21</sup>

##### Box 1. Tobacco tax increases and illicit cigarette consumption in Russia

In 2010, the Russian Government introduced the *National strategy on creation of a public policy to fight tobacco consumption for the period 2010-2015*.<sup>22</sup> As part of this strategy, Russia has consistently raised tobacco taxes by at least 30% per year since 2010.

The country relies on a mixed excise tax system that includes

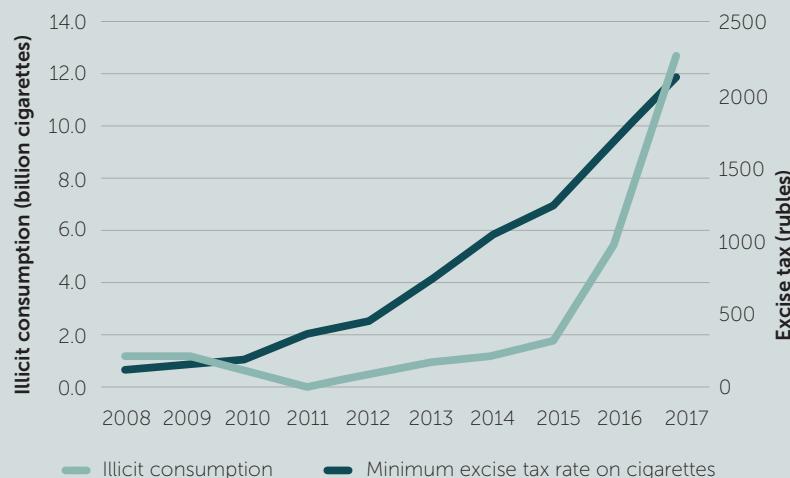
both a specific tax component and a component that varies in proportion to the retail price of cigarettes, specifying also a minimum tax floor.<sup>23</sup> Excise taxes on cigarettes increased from 175 roubles plus 6.5% of the maximum retail price (minimum 210 roubles in total) in 2010 to 1,562 roubles plus 14.5% of the maximum retail price (minimum 2,123 roubles in total) in 2017.<sup>24</sup>

The WHO reports that this substantial increase in taxes—alongside other tobacco control measures adopted by the government—reduced sales and tobacco consumption.<sup>25</sup> During the same period, cigarette smuggling out of Russia also decreased. While Russia was one of the main origin countries for cigarettes flowing along the North-Eastern Route over the

years 2008-2012, illicit outflows of cigarettes originating in Russia declined by 83.6% between 2008-2012 and 2017.

However, the tax increase was also correlated with a substantial increase in Russian illicit cigarette consumption—from less than 0.6 billion in 2010 to 12.7 billion in 2017—and illicit smuggling into the country from abroad (see Figure 2). Tax increases over the years 2010-2017 were linked with a shift in the role of Russia from a main origin country to a major destination market.

**Figure 2. Trend of cigarette taxes and illicit consumption in Russia (2008-2017)**



Source: Transcrime estimates and World Bank data on cigarettes excise tax rates.<sup>26</sup>

## Light penalties

Legislation itself may be the source of unforeseen crime opportunities, producing criminogenic effects.<sup>27</sup>

**Outdated regulations and light penalties for engaging in cigarette trafficking may actually enable smuggling practices.**

**Lenient responses of the criminal justice system**, such as the low probability of being discovered, caught, prosecuted and finally convicted, **are further enabling factors** which foster the illicit trade in cigarettes.<sup>28</sup>

## Enabling factors in action

- In many EU countries, applicable sanctions for the smuggling of tobacco products are low compared to the potential profits deriving from these smuggling activities. This attracts the involvement of OCGs, which prefer to engage in cigarette smuggling compared to other illicit businesses where potential profits are larger but applicable penalties are more severe.<sup>29</sup>
- In some countries, legislation on cigarette trafficking has been lagging behind. For example, the Greek penal code did not consider cigarette trafficking as a possible organised crime offence until 2012. As a result, when members of criminal groups engaging in cigarette trafficking were arrested, they were not convicted for participating in a criminal organisation and received only mild sentences.<sup>30</sup> In Russia, illegal border crossing—which includes cigarette smuggling—has been criminalised only in 2010.<sup>31</sup>
- The extent of the penalty has an impact also on the public perception of the seriousness of cigarette trafficking. For example, in Belarus, where the law treats smuggling as a minor offence, citizens do not perceive contraband as immoral.<sup>32</sup>

## Regulation asymmetry

**Regulation asymmetry**, i.e. the presence of differences in legislation between countries or regions (see Figure 3), **may impact on the illicit flows of cigarettes through the displacement of crime** in space and *modi operandi*.<sup>33</sup> If the severity of the punishment provided for a criminal offence differs according to the country where it is committed, cigarette traffickers may decide to move their activities to countries where penalties are more lenient (see Box 2). This may increase production or trafficking in specific countries.

*Countries punish cigarette trafficking in different ways; criminals exploit these asymmetries*

Figure 3. An example of regulation asymmetry in bordering countries

Belarus	Poland
	
Fine	Fine
	
Confiscation of transport means	Imprisonment up to 3 years
Ukraine	
Limitation of liberty up to 5 years (serious cases)	Fine

### Box 2. Differing sanctions for cigarette smuggling in the EU

Cigarette smuggling can be punished with both administrative and criminal sanctions. A comparative analysis of the national legislation in force in some EU MSs highlighted differences in the administrative sanctions applied to criminals engaged in the illicit trade of tobacco products.<sup>34</sup>

Even if differences in the sanctions imposed are not substantial, there is evidence that diverse sanctions across EU MSs affect decisions by OCGs about which routes to take to traffic cigarettes.<sup>35</sup> As a consequence, increasing consistency in penalties across different countries is a priority for EU LEAs. This would make it possible to punish criminals regardless of where they choose to smuggle cigarettes and to prevent "sanction shopping".<sup>36</sup>

Applicable criminal penalties do not present significant differences.<sup>37</sup>

and equipment cause the weakness of border and custom controls, so that traffickers can transport their illicit products transnationally with a low risk of detection.

*Limited effectiveness of border and customs controls permits cigarette smuggling*

**Poor communication and cooperation between customs authorities** as well as a lack of exchange of information between them **aggravate border control ineffectiveness**.<sup>40</sup>

Measures taken by individual countries to strengthen their border security may result in the displacement of illicit activities to other countries in the vicinity (see Box 3). This might be preventable if more countries in a region were included in a cooperation initiative.

### Box 3. The displacement of illicit production within the EU's borders

The EU has recently intensified its controls along its Eastern borders. One of the effects of this policy is the relocation of illicit manufacturers within the EU. In particular, Poland experienced an increase in illegal manufacturing facilities on its territory.<sup>41</sup> In 2015 alone, Polish authorities raided 59 factories engaged in the production of illicit tobacco products.

## Limited border and custom controls

Differently from other types of trafficking (e.g., firearms, migrants), cigarette smuggling is primarily important for fiscal reasons, while it is rarely perceived as significant for security concerns. Consequently, **fighting the illicit trade in tobacco products is often not a priority for LEAs and customs agencies**.<sup>38</sup>

In turn, forces in charge of customs checks on goods of this type are often understaffed and poorly equipped.<sup>39</sup> **Gaps in infrastructures**

## ***Enabling factors in action***

- Until recently, Russia, and specifically its exclave Kaliningrad, was a major origin of illicit whites cigarettes flowing to the EU. Russian authorities were reluctant to facilitate cooperation between customs officials in Kaliningrad and the EU. A 2013 interview with the Lithuanian Customs revealed that any communication had to transit in written form via the authorities in Moscow, a requirement that effectively slowed down the controls and any connected investigations.<sup>42</sup>
  - Due to the repression of civil society, independent media, and political opposition in the aftermath of the Belarussian presidential elections in 2010, the Council of the EU imposed certain sanctions (freezing of assets and travel bans).<sup>43</sup> Many of these sanctions were lifted in 2016; including the ones imposed on President Lukashenko and 169 other people.<sup>44</sup> The main restrictive measure that has been prolonged by the European Council until the 28th of February 2020, is an embargo on any "equipment that could be used for internal repression".<sup>45</sup>
  - Strengthening LEAs is a key part of the strategy required to tackle cigarette smuggling effectively. Related to this, through the Hercule III programme (2014-2020) EU MSs can acquire advanced technical equipment (e.g., x-ray scanners) and additionally gain access to training programmes for authorities.<sup>46</sup>

## **4. Socio-economic factors**

## Price differentials

The difference in the price of legal cigarettes between two countries is a strongly significant driver of illicit flows of cigarettes (see Figure 4). The higher the price differential between two countries, the larger the predicted illicit cigarette flows between them. In 2017, a 1% increase in the price differential for a package of the most sold brand was correlated with a 4% increase in the volume of trafficked cigarettes between two countries.

**Illicit cigarettes tend to flow to countries where legal prices are significantly higher.** Price differences impact on illicit flows of cigarettes regardless of the specific role of the inflowing country (i.e., origin or transit) and of the outflowing country (i.e., destination or transit). Large cigarette price differentials create the prospect of sizable potential profits for OCGs. This incentivises their engagement in the large-scale movement of illicit cigarettes.

**Price differentials are mainly determined by differences in tobacco tax regimes between countries and/or jurisdictions.**

Therefore, **changes in the taxation among neighbouring states lead to the displacement of illicit flows of cigarettes**.<sup>47</sup> Thus, in some cases, higher taxation is introduced with the aim of reducing the incentive to engage in cigarette smuggling in bordering countries (see Box 4).

Figure 4. Price of a pack of the cheapest cigarette brand in the countries of the NEXUS area (2017)

### Legend

Price	
0.2€ - 0.9€	
1.0€ - 2.0€	
2.1€ - 3.8€	
3.9€ - 5.8€	
5.9€ - 9.6€	
No data	

### Volume - Number of sticks Graphic reference scale

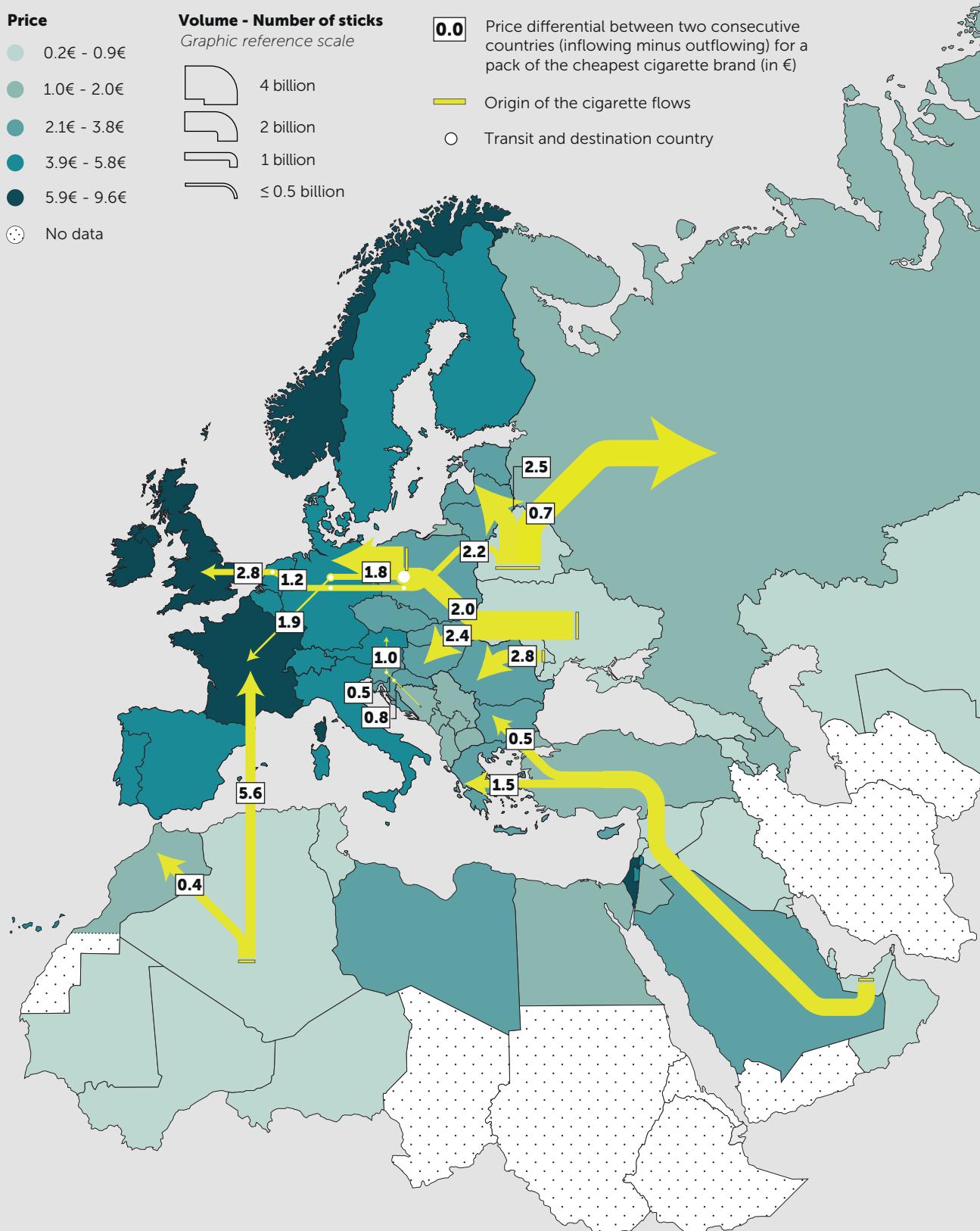
	4 billion
	2 billion
	1 billion
	≤ 0.5 billion

**0.0**

Price differential between two consecutive countries (inflowing minus outflowing) for a pack of the cheapest cigarette brand (in €)

Origin of the cigarette flows

Transit and destination country



Note: The map represents the main illicit flows of cigarettes transiting through the NEXUS countries together with the price difference between countries traversed by these flows. The flows represented should be considered indicative and based on estimates rather than exact values. There are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

#### Box 4. The EU pushes for tax harmonization within and across its borders

The policies implemented to adjust tobacco taxation rates to the minimum EU level are a classic example of tax rate harmonization.<sup>48</sup> For instance, within the framework of these policies, Croatia joined the EU in 2013 and raised its taxes on tobacco products to conform with EU tax requirements.<sup>49</sup> The fact that the country's economy underwent major changes after its accession

to the EU hinders the assessment of the sole impact of tax policies on cigarette trafficking.

The policy adopted by the Ukrainian parliament in 2017 of increasing tobacco taxes by 20% annually until 2024 also has the aim of harmonizing tax rates with the minimum EU levels. The real impact of this tax policy on cigarette trafficking will become

more apparent in the years ahead.

Industry and customs officials state that the Belarusian excise taxes on illicit whites (see Box 5) are the root problem behind their spread in recent years. In this regard, the European Commission has encouraged Belarus to approximate its excise duty rates on cigarettes to the levels in the EU.<sup>50</sup>

### Enabling factors in action

- The increases in the price of legal cigarettes foreseen by the EU as a fundamental instrument to reduce smoking habits create criminal opportunities for cigarette traffickers. Specifically, price differences between the EU MSs and the close-by countries in Eastern Europe, North Africa, and

the Balkans contribute to explaining the development of smuggling routes in those areas.

- On average, a EU smoker living close to the external borders of the EU can save around 0.75€ per pack of cigarettes by purchasing premium branded cigarettes in one of the

countries directly adjacent to the EU. When purchasing the cheapest or most sold legal cigarettes, the price difference increases (see Figure 5). Smokers can save on average 1.25€ per pack of cheapest cigarettes, which corresponds to more than a third of the average price of the cheapest cigarettes in the EU.

Figure 5. Price differential for a 20-cigarette pack of the most sold brand (2017)



# **Presence of illicit whites manufacturers**

**The presence of large manufacturing facilities overproducing cigarettes is a major driver of illicit outflows** destined for neighbouring and remote countries. Overproduced cigarettes may be trafficked in other countries as illicit whites (see Box 5 and Figure 6).

*The large-scale production of illicit whites fuels the illicit cigarette markets*

Taxes on these cigarettes are normally paid in origin countries, while they are evaded in destination countries (see Box 6). Consequently, direct **incentives to curb the spread of illicit whites are limited to final destination countries**

Whenever authorities in producing countries are not forced to control and limit the national production of illicit whites, the spreading of these products will be hard to prevent.

#### **Box 6. Losing track of illicit cigarettes while "in transit"**

Smugglers of illicit whites cigarettes often rely on smuggling schemes that exploit the advantages that apply to transiting goods. Goods in transit benefit from the temporary suspension of the customs duties, excise and VAT that are to be paid in the origin and/or final destination country. By declaring a cigarette container as "in transit" while exporting and importing it in different countries, criminals manage to avoid paying taxes on it, while the cigarettes disappear from the legal market and end up in a destination different from the declared one. For many criminals, "transit" is employed as a synonym for smuggling.<sup>52</sup>

## **Box 5. Illicit whites**

Illicit whites—also called “cheap whites”—are cigarettes that are legally manufactured in one country with the deliberate intention to be smuggled—at least in part—into different markets where the brand’s owner has limited or no permission to distribute them.<sup>51</sup>

## ***Enabling factors in action***

- The Belarusian state-owned Grodno Tobacco Factory Neman (GTFN) is one of the largest producers of illicit whites destined for the EU market.<sup>53</sup> It produces more than 20 billion cigarettes annually.<sup>54</sup> Illicit whites cigarette brands produced by Grodno Tobacco include Fest, NZ, Magnat, Minsk, Premier, Queen and VIP.<sup>55</sup>
  - The Baltic Tobacco Company in Kaliningrad, Russia, is another major illicit whites manufacturer. The Baltic Tobacco Company produces Jin Ling cigarettes, which are a widely consumed illicit whites brand in Europe. Besides Kaliningrad, the Baltic Tobacco Company also has manufacturing facilities in Lviv, Ukraine, and Moldova.<sup>56</sup>
  - Until recent years, major manufacturers of illicit whites cigarettes destined for European markets were located in countries

outside—but often bordering—the EU.<sup>57</sup> More recent years have seen the spread of illicit whites brands produced by manufacturers operating in EU countries. For instance, in 2013, a report by the European Parliament documented the pervasive presence of Prestige cigarettes on the Turkish black market. These cigarettes are produced by *Bulgartabac*, a Bulgarian manufacturer<sup>58</sup>

**Figure 6. Main countries of origin of illicit whites (2017)**

## Legend

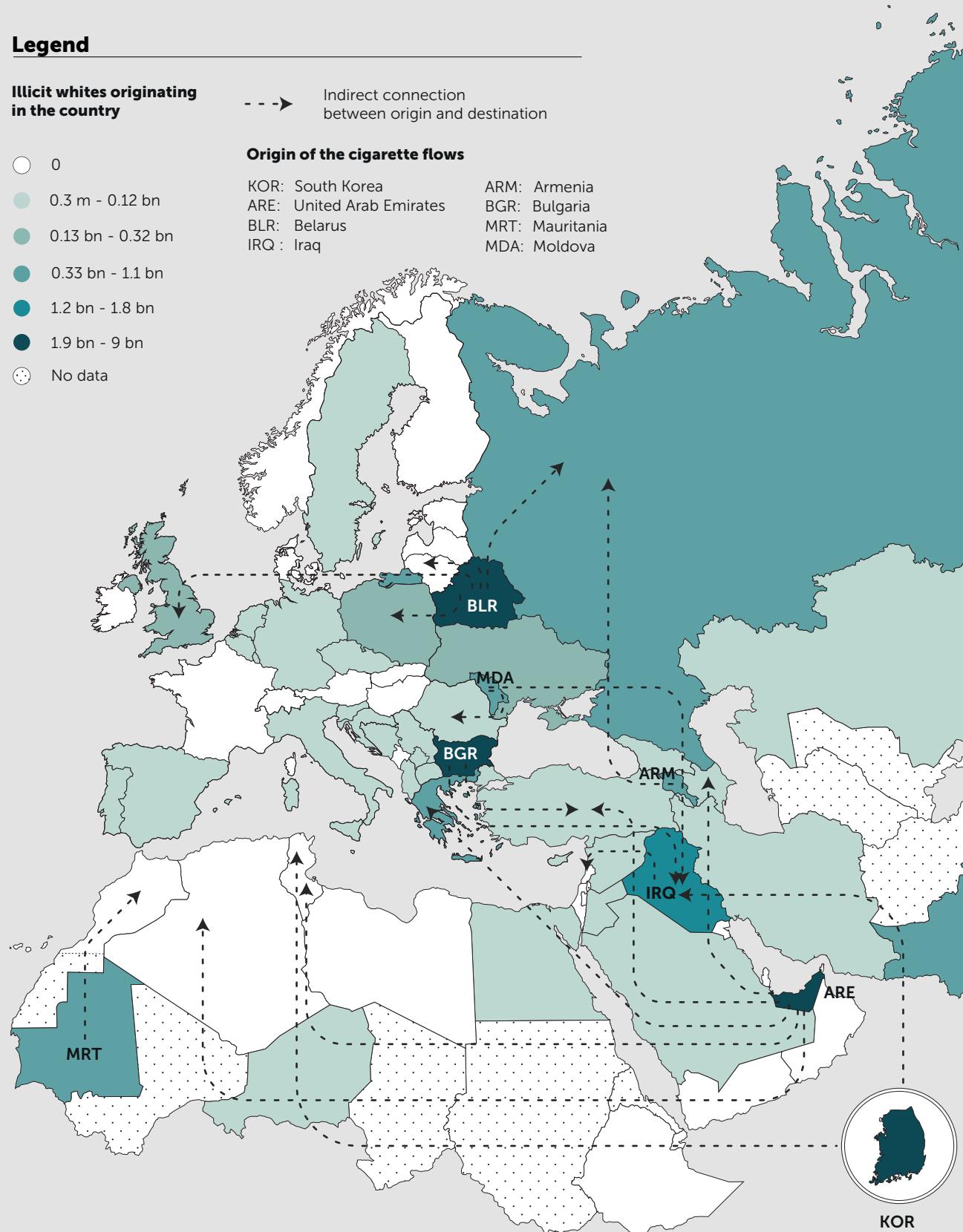
### Illicit whites originating in the country

- 0
- 0.3 m - 0.12 bn
- 0.13 bn - 0.32 bn
- 0.33 bn - 1.1 bn
- 1.2 bn - 1.8 bn
- 1.9 bn - 9 bn
- No data

→ Indirect connection between origin and destination

### Origin of the cigarette flows

KOR: South Korea	ARM: Armenia
ARE: United Arab Emirates	BGR: Bulgaria
BLR: Belarus	MRT: Mauritania
IRQ: Iraq	MDA: Moldova



Note: The map represents the connection between the main origins and final destinations of illicit whites. The arrows represented should be considered indicative and based on estimates rather than exact values. There are numerous secondary arrows that are not represented.

## Currency exchange rates

The depreciation of a currency makes cigarettes originating in that country relatively cheaper for foreign customers. Therefore, **currency depreciations may cause increases in illicit cigarette outflows from the country with a depreciated currency** (see Box 7).

## FTZs

**FTZs are characterised by light regulation and a reduced legal burden for the businesses operating in them.** This causes a weaker control on licit and illicit trades. Through FTZs, illicit products can flow to various destinations avoiding accurate controls. FTZs are thus conveniently misused by criminal networks to smuggle illicit cigarettes (see Box 8).<sup>60</sup>

*The presence of FTZs increases a country's likelihood of engaging in cigarette smuggling*

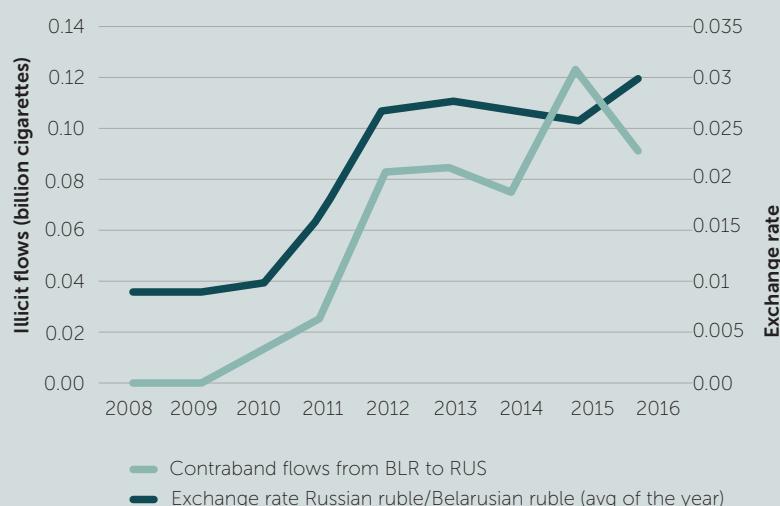
In some cases, **illicit whites cigarettes are legally manufactured in FTZs**, where the lax regulation makes it possible to produce cigarettes that may not be compliant with the quality standards of many

### Box 7. Belarusian rouble vs. Russian rouble: the evolution of currency exchange rates

The depreciation of the Belarusian rouble is a driver behind the upsurge in the international illicit flows of cigarettes originating in Belarus (see Figure 7).<sup>59</sup> In particular, the depreciation of the Belarusian rouble seems to drive up the trafficking of genuine cigarettes from Belarus to Russia. Depreciation causes Belarusian illicit cigarettes to become even

cheaper for Russian smokers, who also saw a large increase in legal cigarette prices over the same period (see Box 1). The correlation between the exchange rate and the consumption of contraband cigarettes is particularly high—i.e., 0.87. The trafficking of illicit whites from Belarus to Russia seems to be less influenced by changes in the exchange rate between the two currencies.

**Figure 7. Trend of contraband flows from Belarus to Russia and of the exchange rate between the Belarusian rouble and the Russian rouble (2008-2016)**



Source: Transcrime elaborations of data on exchange rates available open source.

countries. Cigarettes are then illegally exported relying on different strategies, e.g., by hiding them in a container with other legal products.<sup>61</sup>

**The regulatory exemptions of FTZs also allow criminal actors to easily relabel, rebrand or repackag cigarette**, thus disguising the true

origin of the products and exploiting FTZs as transit points.<sup>62</sup>

The lack of clear procedures, documentations and authority in charge of organising and executing the controls aggravate the opacity that characterises FTZs.<sup>63</sup>

## ***Enabling factors in action***

- Noteworthy FTZs are located in Kaliningrad, the port of Mersin in Turkey, the port of Chornomorsk (formerly known as Illichivsk) in Ukraine, and in Dubai, United Arab Emirates.
  - The Jebel Ali FTZ in Dubai is a major logistical hub in the Middle East and the oldest FTZ in the United Arab Emirates.<sup>64</sup> It is also well-known for cigarette trafficking. It hosts more than 7,000 companies from over 100 countries,<sup>65</sup> and in 2013 there were at least 10 factories producing cigarettes (amounting to a combined manufacturing capacity of about 63 billion cigarettes per year).<sup>66</sup>
  - There are also several FTZs present in Europe. The International Chamber of Commerce's BASCAP (Business Action to Stop Counterfeiting and Piracy)

**Box 8. FTZ schemes are everywhere; Thai customs uncover a scheme to import 36 million illicit cigarettes**

In 2017, the Thai customs authority confiscated 36.1 million illicit cigarettes that were found in four containers at the FTZ of Laem Chabang Port. The containers were declared as imported products destined to be re-exported to Malaysia. 21.6 million of these illicit cigarettes were of the SAAT brand. They had presumably been manufactured in Vietnam and had reached

the Laem Chabang Port via Singapore. The other 14.5 million illicit cigarettes carried the U2 brand and were registered as being manufactured in and imported from the United Arab Emirates. The cigarette trademarks turned out to be counterfeited. Cigarette import taxes had not been charged, because the cigarettes were declared to be awaiting re-export

to Malaysia via the Chalung FTZ. However, upon further investigation, the Thai customs authorities discovered that no import request had been filed with the Malaysian authorities. This raised the suspicion that the 36 million cigarettes were meant to be sold on the Thai black market and/or smuggled into Malaysia.<sup>68</sup>

## **Trade and commercial agreements**

**The existence of free-trade agreements facilitates the smuggling of illicit products**, including cigarettes, between the countries involved.

The guarantee of the right of free movement to natural legal persons and goods thanks to agreements has its counterpart in the limitation of the sovereign state power. This translates into less border controls, which favour cigarette smuggling.

The globalization of commercial hubs and the intensification of trans-regional commercial flows may further increase the risk of illicit trafficking concealed behind legitimate activities.

## ***Enabling factors in action***

- The Schengen Agreement, implemented by the Convention signed in 1990 and now incorporated into the EU rules, ensures the free movement of goods and citizens by abolishing checks at the Schengen Area internal borders. People can move from one state to another passing police checks, but they are exempted from ordinary borders controls.<sup>69</sup>
  - The Eurasian Economic Union (EEAU) was established by the Eurasian Economic Union Treaty, entered into force in 2015. The EEAU MSs are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. Based on the 2010 Customs Union and the 2012 Common Economic Space, the EEAU aims at creating an EU-style Eurasian internal market by ensuring free movement of goods, services, capital and labor and by removing customs controls at internal borders. It also pursues a coordinated, harmonized and single policy in certain sectors, and maintains various international agreements between the EEAU MSs.<sup>70</sup>
  - Under the Belt and Road Initiative (BRI), China has built a railway that starts in the city of Chongqing, crosses Eurasia, and ends in Duisburg, Germany. The route passes through Kazakhstan, Russia, Belarus and Poland. This railway has been in operation, moving goods between Europe and China, since 2011. In parallel, since 2013, economic and diplomatic relations between China and several countries located along the Belt and Road have been enhanced.<sup>71</sup>
  - Three major Chinese companies, China Ocean Shipping Co. (COSCO), China Merchants Port Holdings (CMPort), and Qingdao Port International Development (QPI), have been expanding their control over the seaports located in EU MSs and several other countries in the Mediterranean area (e.g., Egypt, Morocco and Turkey). Illustrative of this is the case of the Greek Piraeus port, where the Chinese state-owned COSCO slowly acquired a 51% share of the Piraeus Port Authority, and currently also exerts full control over its container terminal. The European ports act as China's gateways to Europe.<sup>72</sup>

## **Well-established legal trade routes**

**Large legal trade routes and their key hubs**, such as pivotal commercial ports and airports, **can be exploited also to illegally smuggle goods.** Smugglers exploit the expertise of non-criminal actors involved in trade businesses to assist them in their criminal activities.<sup>73</sup>

**The larger the flows of legitimate goods, the easier it is to hide illicit products in them** (see Figure 8). Smugglers hide illicit cigarettes in legal cargoes that are shipped to large ports, where authorities are unable to check them all because they do not have either the personnel or the technological equipment

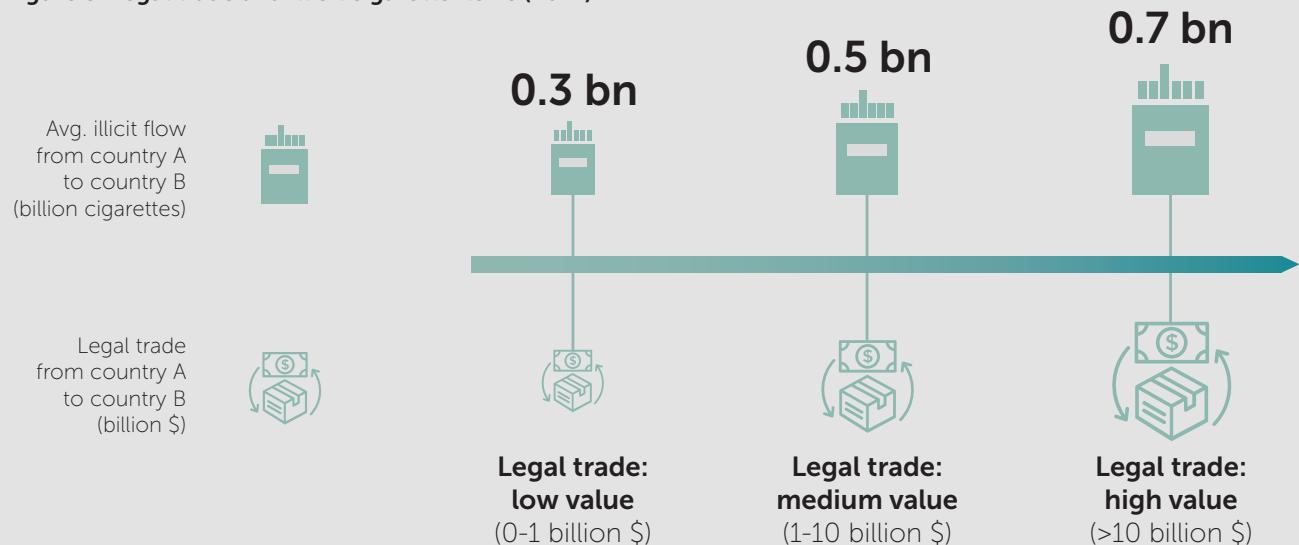
to deal with the large number of containers.<sup>74</sup>

In other cases, criminals hide cigarettes in containers that contain genuine products for legitimate companies which have no involvement in smuggling activities and are unaware of the hidden goods.<sup>75</sup>

## ***Enabling factors in action***

- In 2017, 3.1 million containers arrived in the port of Antwerp and 3.4 million containers left it. Figures from the Belgian Federal Public Service (FOD) indicate that the Belgian customs authority was only able to check approximately 34,000 of those containers. Ports face the challenge of increasing the controls without slowing down the flow of goods.<sup>76</sup>

**Figure 8. Legal trade and illicit cigarette flows (2017)**



## Large shadow economy

"Shadow economy" is the term used to refer to economic activities that are hidden from official authorities for monetary, regulatory, and institutional reasons. Hence, no taxes are paid on the value produced by such activities.<sup>77</sup>

Given its hidden nature, cigarette smuggling and the production of illicit cigarettes is one of the activities that pertain to what is termed the "shadow economy". At the same time, cigarette smuggling exploits the existence of a large shadow economy to develop.<sup>78</sup>

Statistical analyses indicate that, **outflows of illicit cigarettes are larger, the larger is the shadow economy of a country**. In 2017, a 1% increase in the size of the shadow economy in a country led to a 19% increase in the estimated illicit outflows of cigarettes.

The estimated impact is especially strong for outflows from the country where illicit cigarettes originate—an increase of 1% in the shadow economy leads to an increase of 27% in illicit outflows.<sup>79</sup>

The presence of a large shadow economy may facilitate cigarette trafficking in several ways:

- **It suggests the ease of operating underground** to people looking to engage in cigarette trafficking. Indeed, it indicates the presence of established underground systems that may favour the trafficking and distribution of illicit cigarettes.
- The existence of informal selling mechanisms used for other types of goods, such as street vendors, can be exploited to distribute illicit cigarettes.
- For people who are already active in this environment, **the opportunity cost for disobeying the law further is low**.
- **Other types of illicit goods may be used to obtain contraband cigarettes** (arbitrage opportunities).

For example, the existence of a substantial underground sector in a state may enable cigarette smuggling to a third state in exchange for other smuggled goods.<sup>79</sup>

## Unemployment

Unemployment is a risk factor for cigarette trafficking. Unemployment influences cigarette trafficking in two ways:

- 1) consumers with a lower purchasing power are more prone to save money by purchasing illicit cigarettes;
- 2) for unemployed people, smuggling cigarettes can be a low-risk and highly profitable way to earn a livelihood.

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*Unemployment affects the volume of illicit cigarettes trafficked*

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Unemployment is more significant in explaining the volume of cigarettes outflowing from a country compared to illicit cigarettes inflowing (see Figure 9 and Figure 10).

Unemployment in the outflowing country significantly affects illicit cigarette flows regardless of whether the country is the origin of the flows or a transit point. Hence, **unemployed people could engage in cigarette trafficking both in countries of origin of illicit cigarettes and in transit hubs.**

On average, the statistical analysis shows that an increase of 1% in the unemployment rate at the country level in 2017 was correlated with an increment of 8% in illicit outflows of cigarettes.

Unemployment has a significant impact in the country receiving the inflow only if the country is the final destination of trafficked cigarettes. It does not have an impact on cigarette trafficking for countries acting as transit. This suggests that **a higher number of unemployed people translates into a higher propensity to buy illicit cigarettes.**

A rise of 1% in the unemployment rate in the final destination country is linked to a 13% increase in incoming illicit flows of cigarettes from transit countries and to a 7% increase in incoming illicit flows directly from the origin country.

The impact of unemployment on illicit cigarette outflows was stronger in the past (2008-2012) than it is today. This was likely to be due to the immediate effects of the 2009 economic recession, which may have imposed harsher conditions on unemployed people.

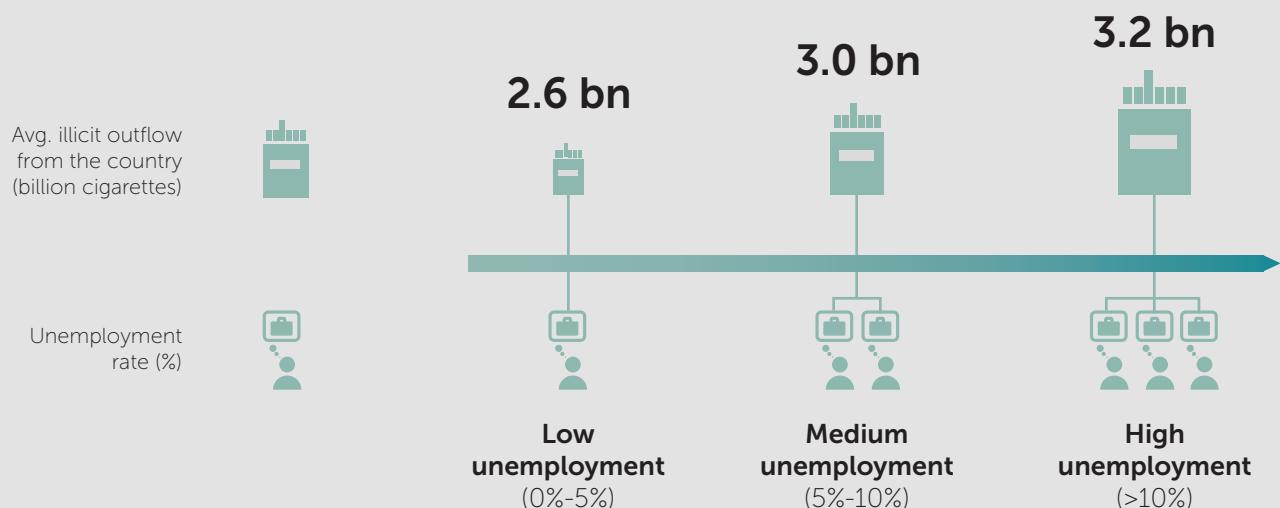
**The effect of unemployment on engagement in trafficking activities is exacerbated by the functioning of the welfare state.** A scant welfare state—particularly, limited access to education—increases the likelihood that people—especially youths—will engage illicit trade activities.

## Enabling factors in action

- In Libya, Mali and Algeria, which are post-conflict areas characterised by high levels of unemployment,

cross-border smuggling is a financial resource and an alternative source of income for unemployed youth.<sup>80</sup>

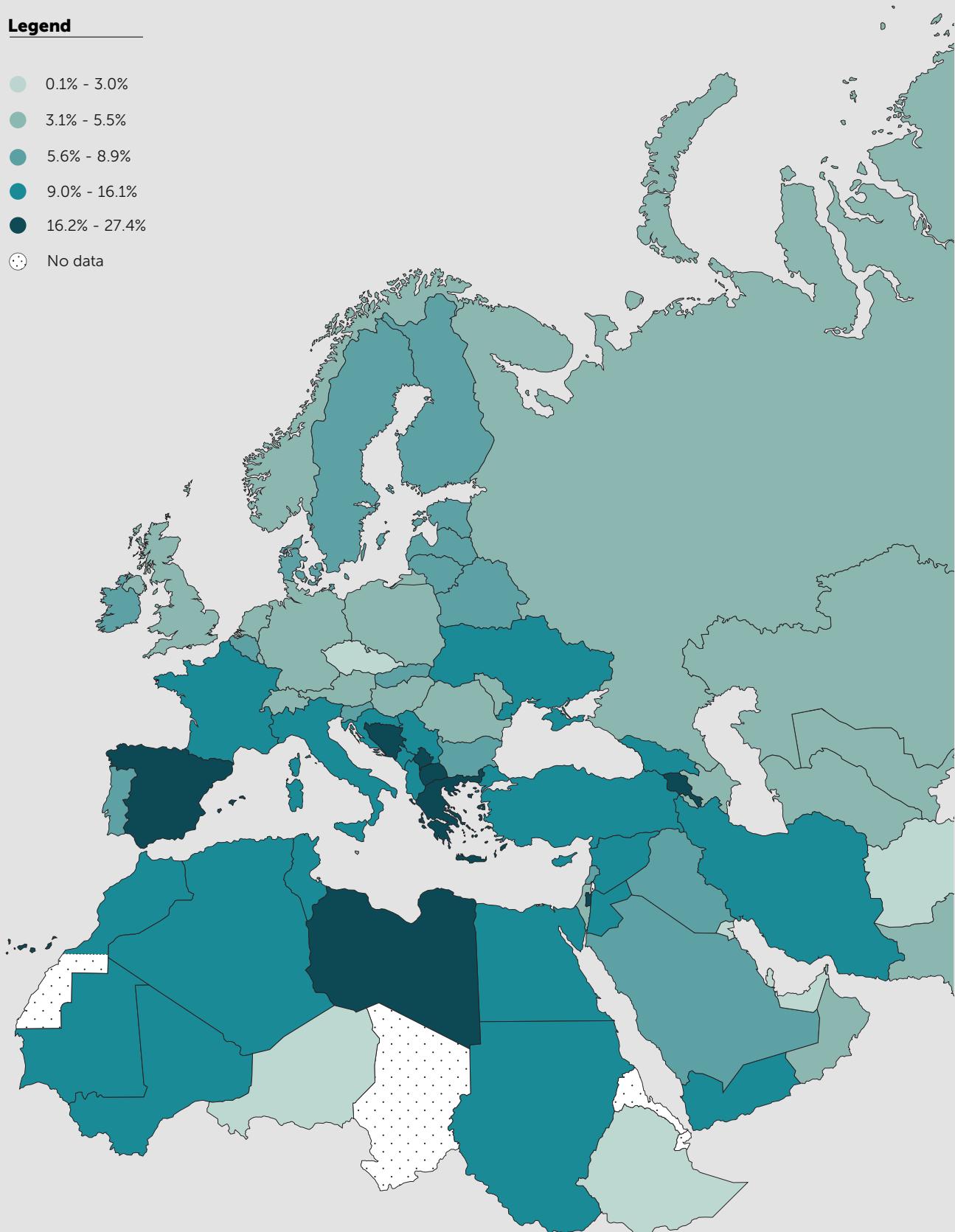
Figure 9. Unemployment and illicit outflows of cigarettes (2017)



**Figure 10. Unemployment rate in the countries of the NEXUS area (2017)**

**Legend**

- 0.1% - 3.0%
- 3.1% - 5.5%
- 5.6% - 8.9%
- 9.0% - 16.1%
- 16.2% - 27.4%
- No data



## **Transnational socio-demographic connections**

**Ethnic and kinship ties across borders facilitate the trafficking of illicit goods** diminishing the risk intrinsic to this activity. The use of the same language and the sharing of social norms may favour transnational cooperation and trust among criminals.

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*Transnational social ties are a valuable resource for traffickers*

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Countries that shared a colonial relationship in the past or had a common coloniser tend to have larger volumes of illicit cigarettes flowing between each other compared to countries with no such relationship.

## **Enabling factors in action**

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- When Yugoslavia broke up in the 1990s, several ethnic groups were fragmented among different countries. This fragmentation allows criminals to cooperate freely across borders thanks to kinship ties, cultural affinities and similar languages. As argued by local observers: "for criminals, Yugoslavia still exists".<sup>81</sup>

- Algeria has a strong socio-demographic connection with France. Algeria was one of France's longest held colonies; in 2017, France was the country of residence of about 1.5 million people born in Algeria. In the same year, France was also the main destination market for illicit

cigarettes originating in Algeria: of about 4.2 billion illicit Algerian cigarettes consumed worldwide, 3.4 billion were smoked in France.

## **Growth of e-commerce**

In recent years, cigarette e-commerce has grown significantly. Many websites sell and ship cigarettes anywhere in the world through a simple purchasing procedure (e.g. <https://www.dutyfree.io/>). The diffusion of cigarettes through the online market has facilitated the illicit cigarette trade for several reasons. Firstly, the identification

of the smugglers is more difficult than it was in the time of the purely traditional market. People can more easily use fake personal information and different identities to avoid to be identified by LEAs. Secondly, cigarette smugglers use postal and courier services to transport and deliver illicit cigarettes enabling under-the-radar shipments.

# 5. Cultural factors

## Social acceptance of criminal behaviour and illicit consumption

The social acceptance of criminal behaviour is an important enabling factor for cigarette trafficking. **There are two sides to this phenomenon:**

- Acceptance of involvement in cigarette trafficking activities.

This can be due to the lack of other means for the impoverished population to generate income legally and/or the rejection of the official borders of a State.

- **Tolerance towards consumption of illicit products**—not perceived as a serious illicit behaviour. This may boost both the demand for and supply of illicit cigarettes (see Box 9).

**The social acceptance of cigarette trafficking is often a consequence of the poor living conditions** of the population. Widespread poverty and unemployment push individuals to regard illicit conducts as admissible in the absence of any alternatives.

Social acceptance of trafficking may also relate to the political situation and the political rejection of national borders by ethnic, political, or religious minorities.

### Box 9. Consumers knowingly purchasing counterfeit goods

Research on counterfeit products shows that individuals who purchase counterfeit products can be divided into two groups of consumers. The first group comprises those who purchase counterfeit products unknowingly, and the second one those who are well aware of the nature of the product that they are purchasing. Individuals in this second

group are usually aged between 15 and 34 and besides price, availability is their main motivation—irrespective of the design of the packaging.<sup>82</sup> Acceptance of purchasing counterfeit goods is highest in the Baltic countries and South-East Europe.<sup>83</sup> In Greece, for example, even though the cigarette prices increased, the

consumption of cigarettes also increased. The lack of a decline in consumption may represent evidence of the Greek black market catering to the demand of the low ‘tax conscious’ Greek consumer for more affordable cigarettes.<sup>84</sup> Similar dynamics may characterise the choice of purchasing illegal cigarettes instead of genuine ones.

## Enabling factors in action

- In Egypt and Libya, Bedouin tribes engaged in smuggling activities have a positive perception of their practices, seeing themselves as part of a moral economy of the underprivileged. Smugglers justify their illicit conduct through the integrative power of the kinship association: they do what they can for the economic sake of their people. Given the lack of support from state institutions to them, smuggling is a necessary and unavoidable (and thus justifiable)

activity. Engaging in successful smuggling activities even contributes to advancing the status of the smuggler within his community.<sup>85</sup>

- In the Balkans, years of conflict and political turmoil, in combination with the economic crisis, induced unemployed youth to engage in illegal activities. Many youths of the generation growing up in the 1990s were disillusioned and resented elites that, in their opinion, had destroyed everything. Some of these youths were angry and felt

that engaging in illicit businesses, including cigarette trafficking, was their revenge on a country that had abandoned them.<sup>86</sup>

- The Kurds are the fourth largest ethnic group in the Middle East: 25 million Kurds live in an area spanning across Turkey, Iraq, Syria, Iran and Armenia.<sup>87</sup> They tend to identify themselves as a single community and a part of them contest political borders, which facilitates their acceptance of cross-border smuggling operations.<sup>88</sup>

# 6. Criminal factors

## Organised criminal groups

OCGs rely on their existing knowledge of routes and *modi operandi* used for the trafficking in other goods to get involved in cigarette trafficking.

In addition, OCGs often operate transnationally and have connections with criminal—occasionally also terrorist—groups from neighbouring countries. These connections help them in moving large shipments.

*The presence of OCGs increases cigarette trafficking through a country*

In most cases, OCGs directly benefit from the revenues deriving from the illicit trade in cigarettes. In other cases, more structured mafia-type OCGs may also exploit smuggling activities by levying taxes on the individuals involved in exchange for facilitating their smuggling practices.

## Enabling factors in action

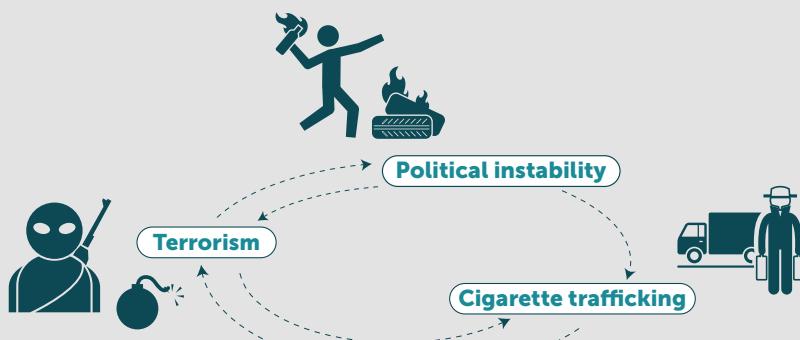
- Russian OCGs, Italian mafias, OCGs from Eastern Europe and Asian criminal organisations have proved to be involved in different phases of the illicit trade in cigarette.<sup>89</sup>
- In Naples, Italy, the presence of the Camorra and Italian-Chinese OCGs has been linked to the city ranking the highest nationwide in terms of illicit whites prevalence.<sup>90</sup>
- OCGs operating in Galicia have a long tradition of trafficking because they started by smuggling basic commodities such as sugar, rice, oil and soap from Portugal after the 1939 Spanish civil war.<sup>91</sup> In 1960, Galician OCGs shifted to tobacco smuggling, illegally importing tobacco products from the US. Tobacco was brought in large ships that were unloaded in the high seas, at a distance from the coast, and then brought ashore in small fishing boats.<sup>92</sup> In the early 1980s, these criminal groups moved to the more lucrative business of cocaine and hashish smuggling, relying on a *modus operandi* similar to the one they used for tobacco trafficking.<sup>93</sup>

## Terrorist groups

Terrorist groups are—and used to be—involved in cigarette trafficking, contributing to boosting this crime.

Terrorist groups exploit the profits deriving from such trafficking to finance their activities and armed operations (see Figure 11).<sup>94</sup>

Figure 11. Interconnection between terrorism and cigarette trafficking



## **Enabling factors in action**

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- Cigarette smuggling is believed to provide financing for the terrorist organisation of al-Qaeda in the Islamic Maghreb (AQIM), which is active in North Africa and Europe. Rather than coming directly from involvement in smuggling activities, the money is earned from charging protection fees to smugglers moving illicit cigarettes through the Sahara.<sup>95</sup>
- The PKK is suspected of financing its activities by engaging in different types of crime, including cigarette

smuggling.<sup>96</sup> Apparently, PKK involvement in cigarette trafficking is longstanding. While the group controlled the flow of contraband cigarettes into Iraq during the 1990s, it turned to managing outflows of counterfeit cigarettes from Iraq about 20 years later.<sup>97</sup>

- The Real IRA (Irish Republican Army) is an Irish republican paramilitary group and internationally recognised terrorist organisation especially active in the early 2000s.<sup>98</sup> Authorities

have highlighted the involvement in cigarette smuggling of this terrorist group, which was believed to be responsible for nearly all the smuggled tobacco seized in Northern Ireland in the early 2000s.<sup>99</sup> One of its members, Michael Campbell, who is a convicted cigarette smuggler, was sentenced in 2011 to 12 years in jail for attempting to buy rocket launchers, AK47 rifles and explosives for the Real IRA.<sup>100</sup>

## **Corruption**

Corrupted border officials and government authorities facilitate cigarette trafficking by deliberately avoiding the conduct of proper controls on illegal shipments and acting as complicit persons in smuggling operations (see Box 10 and Box 11).

The statistical analysis indicates that **countries with higher levels of corruption received higher illicit inflows** in 2017. An increase of 1% in the control of corruption indicator<sup>101</sup> in the inflowing country (a lower estimated corruption) is related to a decrease of about 28% in illicit inflows of cigarettes.

Corruption impacts on illicit inflows into countries with a role in the first steps along the route, less on final destination markets.

FTZs are also vulnerable to corruption. In FTZs, criminals may be facilitated by corrupt customs officials who accept bribes to clear shipments faster and at a lower price, or who turn a blind eye to falsified documents.<sup>102</sup>

Widespread corruption among government authorities may be the reason for the governments' choice to tolerate and possibly benefit from the trade of illicit cigarettes within the country, as well as the overproduction of illicit whites.

Besides the direct effects on cigarette trafficking, failure to take action against the corruption of government and custom officials can weaken the rule of law. This may cause individuals to mistrust the government's capacity to enforce its laws, and eventually illicit practices may be regarded as more acceptable.

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### *Corruption within governments and customs officers favours cigarette trafficking*

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## ***Enabling factors in action***

- According to a recent report by GAN Integrity—financed by Prevention of and Fight against Crime Programme of the EU European Commission—corruption is present at all government levels in Belarus; customs are among the most vulnerable public sectors. Corruption within the state institutions hampers cooperation efforts with the EU aimed at combatting the illicit trade of cigarettes.<sup>103</sup> In 2016, the government imposed a quota on the quantity of cigarettes intended for the domestic market, but factories are allowed to overproduce, provided that these cigarettes are exclusively exported. The Belarusian Government, which is the main stakeholder in the two major cigarette factories, has yet to take steps to stop these factories from overproducing cigarettes that are destined to be trafficked abroad.<sup>104</sup> In addition, the World Bank has recommended the Belarusian government to implement structural reforms aimed at the liberalisation of the domestic business environment, which may also concern the tobacco sector.<sup>105</sup>
  - In Egypt, the current president Abdel Fatah El-Sisi has agreed not to interfere with the cross-border economic activities of Awlad 'Ali tribes in return for political loyalty to his regime, according to recent academic studies.<sup>106</sup> The cross-border activities of these tribes

**Box 10. Bulgarian customs officials implicated in cross-border cigarette smuggling OCG**

In 2015, as a result of a joint operation involving Turkish and Bulgarian LEAs, 26 members of a Bulgarian cigarette smuggling OCG, including customs officials, were arrested. The arrests took place at the Bulgarian Kapitan Andreevo border checkpoint. Two trucks containing illicit cigarettes with a value of approximately 8 million euros were seized by the

Bulgarian authorities. Allegedly, the smugglers had already been operating at this border checkpoint for four years. Further investigation revealed that the confiscated illicit cigarettes were probably manufactured in Ukraine, subsequently shipped to Turkey by sea, and finally moved to Bulgaria in trucks. After the trucks had crossed the border with Bulgaria,

the Bulgarian customs officials working for the OCG swapped trucks' licence plates—allowing the trucks to vanish and the illicit cigarettes to be sold in Bulgaria or other EU countries. Reportedly, the smugglers made a profit of about 16 million euros per month, and in 2015 used 160 trucks to move the illicit cigarettes across the border.<sup>107</sup>

#### **Box 11. Criminals depend on Rotterdam port employees in smuggling**

The port of Rotterdam is one of the largest trade hubs in the world, with around 450 million tons of goods transiting through it on an annual basis.<sup>108</sup> While the port's security is tight and relies on modern detection technologies, port employees seem to remain the weak link that continues to

be exploited by criminals.<sup>109</sup> A smuggling case in 2014 involved 5 port employees, among them drivers, technicians and temporary dockworkers, who helped the criminals from the inside. This 'help' could be as simple as allowing the criminals to enter the restricted port area by lending

them access passes in exchange for money. A higher profile case involved a customs officer that had been bribed for years by criminals. The customs officer, Gerrit G., had been in service for 30 years and worked in the pre-arrival department, where he practically decided whether or not a container should be checked.<sup>110</sup>

# Glossary

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The following terms have been used in the present booklet with the following meaning:

**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 small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.<sup>111</sup>

**Contraband or smuggling:** the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>112</sup>

**Counterfeits:** 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.<sup>113</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Domestic cigarettes:** cigarettes that originate from the same market in which they are consumed.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>114</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):**

governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

**Origin country:** country from which the illicit flow of cigarettes originates.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

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## POLICY IMPLICATIONS

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Presenting Policies to Tackle  
Cigarette Trafficking

**6** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## POLICY IMPLICATIONS

*Presenting Policies to Tackle Cigarette Trafficking*

### Acknowledgements and credits

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Mancuso, Marina and Rogier Alexander Rutgers. 2019. "Policy Implications - Presenting Policies to Tackle Cigarette Trafficking". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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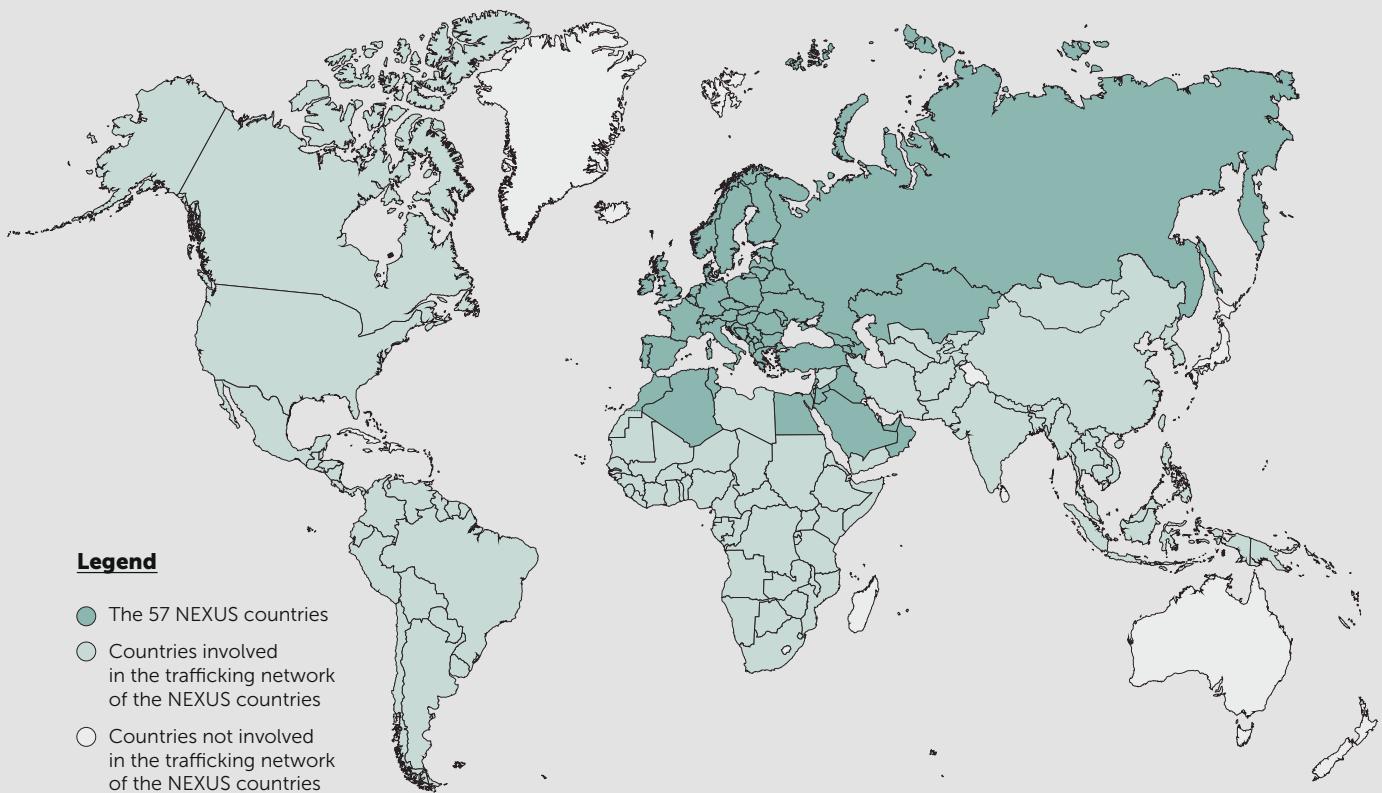
# Explanatory notes

All analyses contained in the ITTP *NEXUS in Europe and Beyond* Report are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in this booklet:

EU	European Union	OLAF	European Anti-Fraud Office
EUBAM	The European Union Border Assistance Mission to Moldova and Ukraine	SELEC	Southeast European Law Enforcement Center
FATF	Financial Action Task Force	TPD	Tobacco Products Directive
FTZ	Free Trade Zone	UNCAC	United Nations Convention against Corruption
LEA	Law Enforcement Agency	UNODC	United Nations Office on Drugs and Crime
MS	Member State	UNTOC	United Nations Convention against Transnational Organized Crime
NGO	Non-Governmental Organisation	VAT	Value Added Tax
OCG	Organised Crime Group	WCO	World Customs Organization
OECD	Organization for Economic Co-operation and Development	WHO	World Health Organization
		WHO FCTC	WHO Framework Convention on Tobacco Control

## The 57 NEXUS countries and their trafficking network



# Introduction

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This booklet constitutes the sixth chapter of the *ITTP NEXUS in Europe and Beyond Report*. It presents the emerging implications that may guide policy makers, regulators and LEAs to devise strategies to combat and prevent cigarette smuggling within and among the countries included in the analysis.

The booklet is divided into six sections. Each section outlines the key policy implications associated with one of the six explanatory factors affecting cigarette trafficking: political, geographical, regulation and enforcement, socio-economic, cultural, and criminal.

Some of these factors concern macro problems:

- conflicts and political instability for political factors;
- high unemployment rates for economic factors;
- high level of corruption, presence of active OCGs and terrorist groups for criminal factors.

These macro problems require a holistic approach when working towards a solution. The suggested policies propose broad strategies to address the issues.

The other factors are directly related to cigarette trafficking. The corresponding suggested policies are specifically tailored to fill the apparent gaps in the current approaches, methods and regulations in the fight against cigarette trafficking.

# Key facts

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## Institutional policies

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**Strengthening institutional and law enforcement capabilities** reduces countries' vulnerability to cigarette trafficking.



## Geography-related policies

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Cigarette trafficking is a crime that concentrates along specific paths. **Establishing or tightening border controls at the hot spots** could reduce this illicit trade.



## Regulatory policies

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**Harmonised national taxation regimes** would reduce the trafficking of cigarettes to countries where cigarettes are more expensive.

**Tax increases should be implemented gradually**, with consideration of the overall economic situation of the country and combined with additional anti-illicit trade legislation. This strategy would mitigate incentives to buy illicit cigarettes.

**Well calibrated regulation of the markets for e-cigarettes and vapour devices** would limit the shift by consumers to illicit products.

**Harmonised legislation** would reduce the displacement of cigarette smuggling to countries with more lenient penalties.

**Enhancing cooperation among custom authorities** is vital to effectively tackle cigarette smuggling.



## Socio-economic policies

**Harmonising regulations and implementing stronger controls in FTZs** would reduce illicit flows of cigarettes originating and transiting in these areas.

**Improving populations' life conditions** could discourage vulnerable people from getting involved in cigarette trafficking or purchasing illicit products.

Policies aimed at **reducing unemployment** are also likely to be effective in countering cigarette trafficking.



## Culture-related policies

**Public awareness campaigns** could reduce the tolerance of criminal behaviours and the consumption of illicit cigarettes.



## Crime reduction policies

**Broad anti-money laundering, terrorism financing and corruption measures** could reduce incentives for OCGs and terrorist groups to engage in cigarette smuggling.

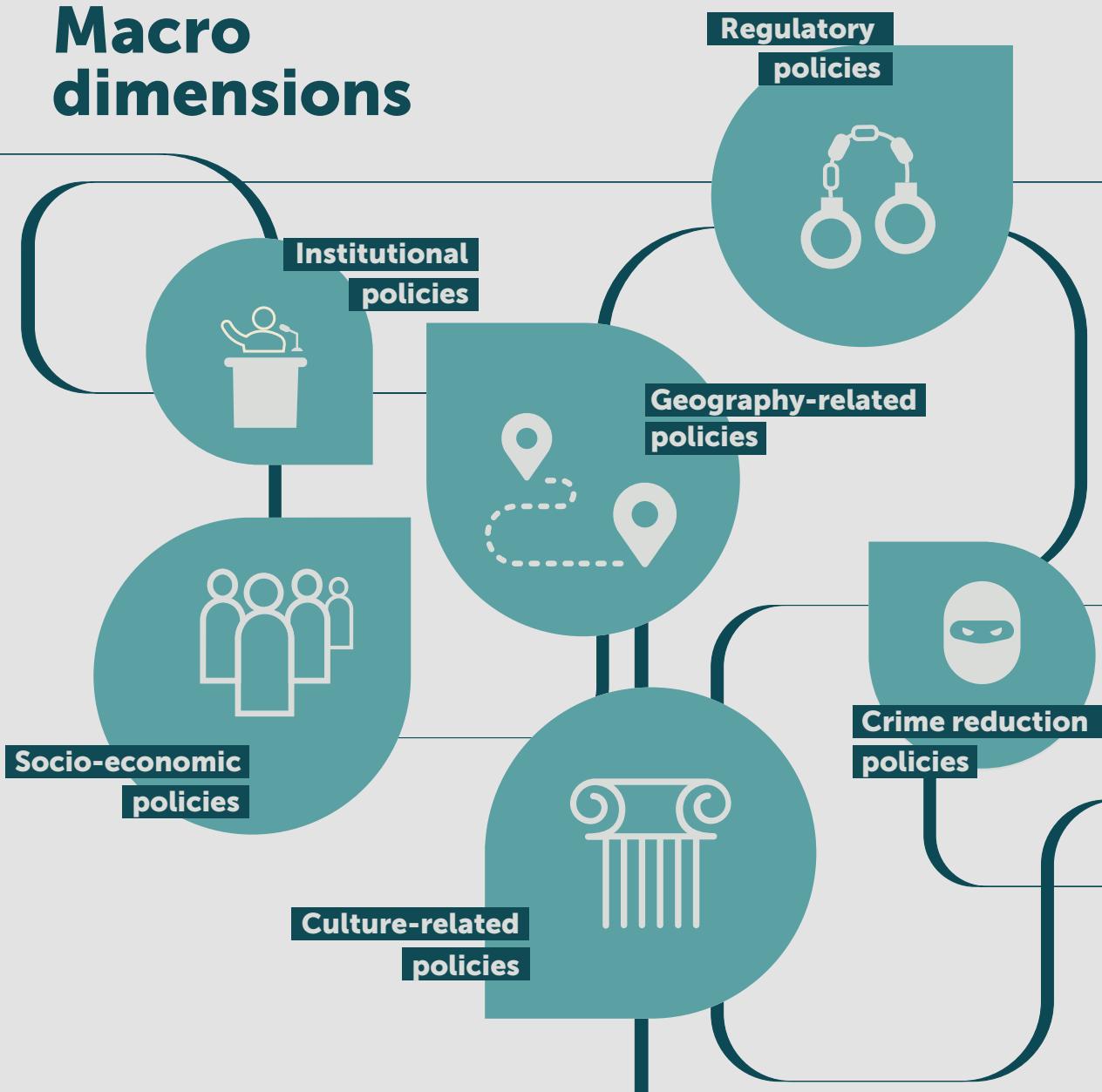


# Counteracting policies

Counteracting policies operate on the enabling factors affecting the probability of a country becoming an origin, a transit point, or a destination for illicit cigarettes.

As the enabling factors, also the counteracting policies are multiple and interconnected. For clarity, they have been divided into six macro dimensions.

## Macro dimensions



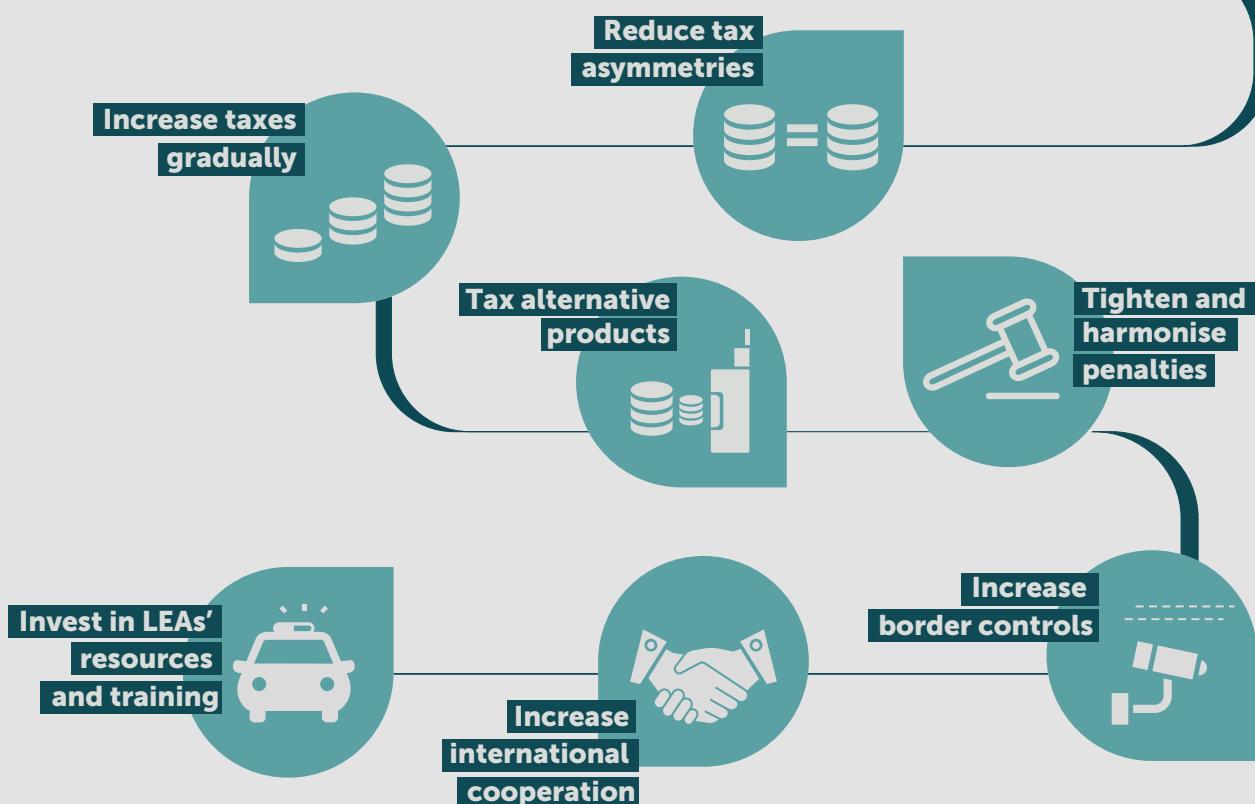
## Institutional policies



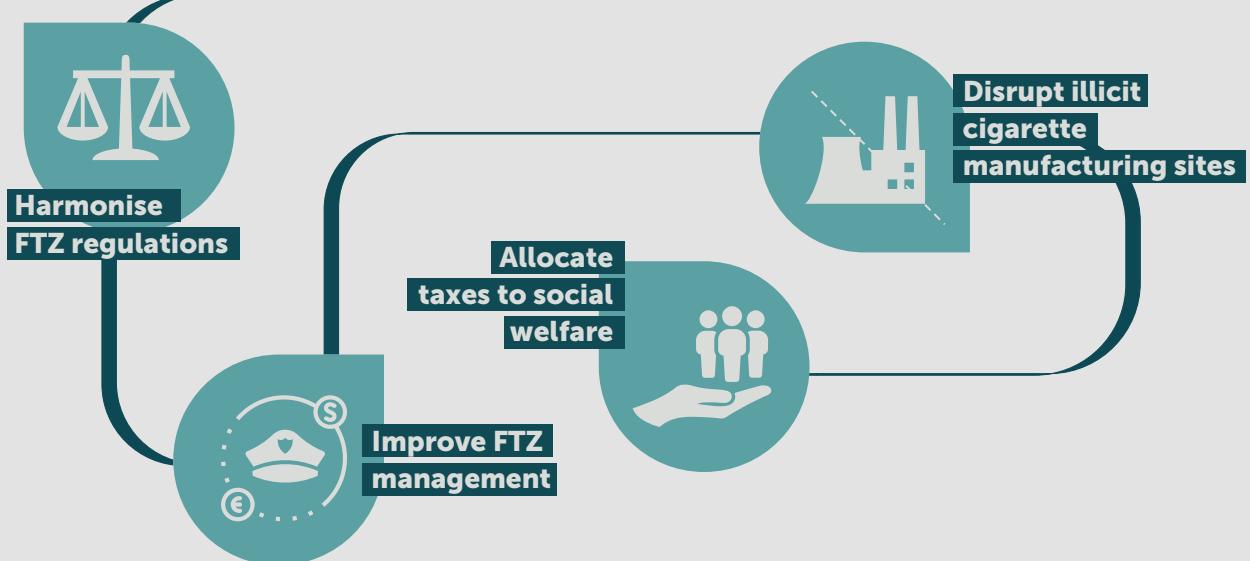
## Geography-related policies



## Regulatory policies

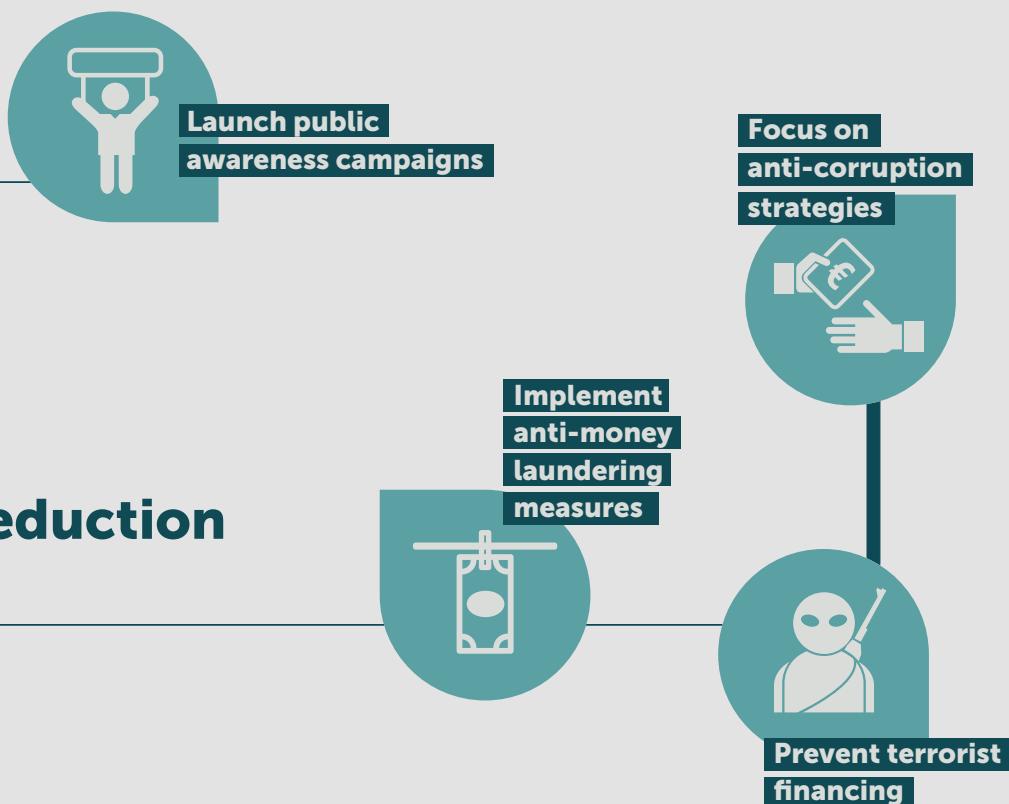


## Socio-economic policies



## Culture-related policies

### Crime reduction policies



# 1. Institutional policies

## ► Reducing political instability and/or internal and external conflicts

### Assisting the countries with a key role in the illicit cigarette routes and suffering from internal instability would help them to strengthen the institutions and LEAs' abilities

#### to combat cigarette smuggling

(see Box 1). The assistance could entail providing the resources and personnel necessary to temporarily fill in the existing gaps within regulatory bodies or LEAs (e.g., border control).

The World Bank argues for a development mechanism based

on a bottom-up strategy to prompt institutional reforms in fragile states. This entails involvement of the civil society in order to foster a sense of ownership of the development process. Assuming a coordinating role and taking credit for successful local policies will enable governments to regain their legitimacy.<sup>1</sup>

Bottom-up strategies require balancing locally and centrally launched initiatives; enhancing political stabilization processes; setting up support systems for the poor; involving NGOs; and lastly, building participatory decision-making structures.<sup>2</sup>

*Strengthening institutions and legal enforcement capabilities reduces countries' vulnerability to cigarette trafficking*

### Box 1. Political evolution and reduction of cigarette trafficking in Croatia

Since declaring its independence from Yugoslavia in 1991 and the four-year war that ensued, Croatia has been going through a democratic transition.<sup>3</sup> The country has undergone a gradual political evolution away from a semi-authoritarian government. In particular, since the beginning of the 2000s, Croatia has made progress in terms of combatting corruption, implementing

legal reforms and offering more freedom to civil rights movements.<sup>4</sup> At the same time, within the context of joining the EU, Croatia has adopted tobacco control legislation and anti-smuggling measures.<sup>5</sup>

As result of this complex and multifaceted process, in recent years Croatia's role in the transnational smuggling of

cigarettes has decreased—in terms of both illicit inflows and outflows of cigarettes. Inflows to Croatia have declined—from an average of 5.4 billion over 2008–2012 to about 2.5 billion in 2017. The total illicit outflows from Croatia have halved, from 4.8 billion cigarettes (2008–2012 average) to roughly 2.4 billion sticks in 2017. This could be a possible consequence of the political developments that Croatia has undergone.

## 2. Geography-related policies

### ► Increasing border controls at the hot spots

Although cigarette trafficking is geographically widespread, analysis of the illicit flows of cigarettes shows that the main flows concentrate in specific countries and areas.

These hot spots are areas that have proven to be hubs for cigarette smuggling. They are mainly

concentrated in countries with direct access to the sea and with long internal borders. This also applies to countries close to lucrative markets.

**Assessing trafficking hot spots and establishing tighter border controls in these areas is strategic for fighting cigarette trafficking** more efficiently (see Box 2).

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*The hot spots for cigarette trafficking should be controlled with tighter security measures*

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### Box 2. A successful example of tighter border controls at the hot spots

In the 2000s, Poland had been a key transit country for illicit cigarettes originating mainly in Belarus, Ukraine and Russia, and bound for the EU. To reduce this illicit trade, the Polish government invested economic resources to develop an efficient smuggling detection system.<sup>6</sup>

In 2011, X-ray scanners were installed in the Ukrainian-Polish border city of Medyka to facilitate

the control of railway wagons coming from Ukraine along this important trafficking path.<sup>7</sup> This significantly decreased illicit cigarette flows from Ukraine to Poland from nearly 6 billion in 2008-2012 (annual average) to about 3 billion in 2017.

Other X-ray scanners and detection systems were set up along the borders with the Russian exclave of Kaliningrad,

Belarus and Lithuania.<sup>8</sup> Also in these cases there was a reduction in the illicit cigarettes flowing into Poland. Inflows from Russia decreased from 1.2 billion in 2008-2012 (annual average) to 0.4 billion in 2017, and over the same time period inflows from Belarus and Lithuania decreased from 2.2 billion to 1 billion and from 1.9 billion to 1.3 billion, respectively.

### 3. Regulatory policies

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#### ► Amending and harmonising the taxation of smoking products

It is crucial to **decrease the differences**—in composition and level—**among excise duties levied on cigarettes in different countries.**

Cigarette tax regime harmonisation would help to:

- stop displacement from genuine cigarettes to cheaper, and possibly illicit, alternatives from another country (see Box 3);
- prevent traffickers from profiting from the differences in tax regimes among countries.

Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco established a minimum rate of excise duties on cigarettes (including *ad valorem* rate and excluding VAT).<sup>9</sup> The overall excise rate has to be at least 60% of the retail price and 90€ per 1000 cigarettes.<sup>10</sup>

Apart from Hungary and Romania, every EU MS has aligned its tax rates with the agreed-upon minimum rates on cigarettes.<sup>11</sup>

The cigarette tax rates of the EU's neighbouring countries should ideally be changed to match the minimum EU tobacco tax level (see Box 4). Alternatively, the EU tax regime should be calibrated to take the tax structure in extra-EU countries into account.

It is also crucial to **decrease differences among excise duties levied on the whole spectrum of smoking products** (i.e., cigarettes and cut tobacco). The European Commission argues that this **could prevent consumers from switching to other tobacco product types**, especially fine cut tobacco, that have suddenly become comparatively cheaper.<sup>12</sup>

Directive 2011/64/EU aims at an increase in the fine cut tobacco excise from 48% to 50% of the retail price (or a tax floor of 60€ per kilogram) by 2020. This is intended to bring the overall minimum tax rate closer to the rate on cigarettes.<sup>13</sup>

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*The harmonisation of cigarette taxation would reduce the illicit flow of cigarettes to more lucrative markets*

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#### Box 3. Displacement and illicit flows

All serious transnational crimes, such as cigarette trafficking, exploit a variety of asymmetries in legislation, capabilities of LEAs, economic cycles, presence of organised crime, and in vulnerabilities such as corruption. A consequence of these asymmetries is crime displacement, which is the relocation of crime from one place,

time, target, or tactic to another. The displacement of crime enables perpetrators to maximise their gains and to minimise their costs such as conviction, seizures, and confiscation of their assets. Illicit actors exploit the criminal opportunities offered by the market, which create a trend toward the exploitation of

vulnerable geopolitical areas and weak law enforcement.<sup>14</sup>

To counter illicit traffics, it is essential to forecast the displacement of illicit flows, foreseeing the evolutions of the threat in response to specific counter-measures.

#### Box 4. Tobacco tax increases in Ukraine

In recent years, Ukraine has been implementing policies to harmonise the Ukrainian tobacco tax rates with those of the EU. At the end of 2017, the Ukrainian parliament committed to a further increase in tobacco taxes by 20% annually until 2024.

Isolating the effects of the increase in tobacco taxes is not an easy task in the specific case, given the many changes affecting Ukraine in the same years, including the conflict

that broke out in Eastern Ukraine in 2014. However, two main dynamics are evident.

On the one hand, over the period from 2008 to 2017, the Ukrainian government accrued a significant revenue increase from tobacco taxes: from about 0.1 billion € in 2008 to about 1.3 billion € in 2017. The increase in the state budget ensued, besides the fact that, over the same period, the smoking prevalence among Ukrainian adults declined by 20%.<sup>15</sup>

On the other hand, illicit consumption increased from 0.2 billion cigarettes in 2008 to 8.7 billion in 2014. Illicit cigarette consumption diminished thereafter and reached 2.8 billion in 2017, still about 14 times higher than in 2008.

Increases in taxation may reduce outflows of cigarettes to other countries where cigarettes are more expensive, while they may simultaneously cause inflows of illicit cigarettes to expand.

#### ► Preferring gradual increases in taxation

If a government decides to raise its taxes on cigarettes, **tax increases should be implemented gradually and in consideration of the overall economic situation of the country**. Tax increases should be combined with additional anti-illicit trade legislation.

Avoiding abrupt price increases for legal cigarettes—especially in harsh economic cycles—helps in preventing people who have less to spend from switching to cigarettes from illicit sources.<sup>16</sup>

#### ► Adjusting tax policies for alternative products

Smokers could seek alternative products to consume nicotine (i.e., e-cigarettes and other vapour-based technologies devices) whenever taxation on traditional cigarettes increases more than taxation on alternative products.

Instead, a generalised tax increase could induce smokers to shift to illicit cigarettes rather than these alternative products. Legislators may opt to impose lower taxes on products that are considered less harmful to health.

In the absence of specific EU dispositions on taxing e-cigarettes and heated tobacco products, the EU MSs may apply different national taxation regimes.<sup>17</sup> Currently:

- Italy, Portugal, Romania, Slovenia, Latvia, Hungary, Finland, Greece, Croatia, Estonia and Lithuania tax e-cigarettes;<sup>18</sup>
- half of the EU MSs have introduced different taxes for heated tobacco and other alternative devices. Nearly all of them apply a tax based on the weight of the tobacco mixture and set the rate at or below the lowest tax on combustible tobacco.<sup>19</sup>

#### ► Tightening and harmonising penalties

Updating the legislation on cigarette trafficking is a fundamental way to deal with this crime (see Box 5).

**Providing a uniform legislation on cigarette trafficking among countries is of key importance in preventing the displacement of this crime** from country to country. The *WHO Framework Convention on Tobacco Control* (WHO FCTC) and the *European Tobacco Regulation* go in this direction (see Box 6 and Box 7).

At the same time, the legislation should foresee **heavier penalties for cigarette smuggling**. This **could discourage** smugglers that consider the **illicit trade in cigarettes** as a way to earn easy money. This approach leverages on the deterrent effect that a higher penalty produces on the potential offender looking to engage in the small-scale trafficking of cigarettes.<sup>20</sup>

### **Box 5. The legislative actions against cigarettes smuggling in Romania**

The Romanian government instituted two action plans, in 2010 and 2012 respectively, to deal with cigarette smuggling. Both the plans applied a series of measures to improve the legislation framework on illicit tobacco products smuggling, i.e.:

- the seizure of vehicles employed for the illicit trafficking;

- the enhancement of investigation and prosecution;
- new legislation for cooperation between customs and financial institutions;
- criminalization of the marketing and sale of taxable products not properly marked or of uncertain origin.<sup>21</sup>

These legislative actions were correlated with a decline in illicit cigarette consumption, which had been rising over 2008-2010, but decreased from 6.5 billion cigarettes in 2010 to 2.5 billion in 2013.

Inflows and outflows traversing the country also diminished: from an annual mean of 9.3 billion in 2008-2012 to 5.6 billion in 2017 (inflows) and from an annual mean of 7.4 billion in 2008-2012 to 5.7 billion in 2017 (outflows).

### **Box 6. WHO Framework Convention on Tobacco Control (WHO FCTC)**

To address the growing illicit trading of tobacco products across borders, WHO FCTC developed the *Protocol to Eliminate Illicit Trade in Tobacco Products*, which was adopted in November 2012 and entered into force on the 25<sup>th</sup> September 2018. Its ten parts cover several topics, among which law enforcement, regulations on the licensing of

- imports and exports, manufacturing and tracing system of products, international cooperation and judicial assistance.<sup>22</sup> Part IV (art. 14) of the Protocol lists a series of activities that the Parties should define as unlawful under their domestic law (par. 2):
- completed or attempted tobacco smuggling;

- actions involving the ITTP cycle, as for example manufacture, brokering, sale, distribution, import and export without the payment of prescribed levies;
- blending tobacco with non-tobacco products;
- misrepresentation of information to escape control measures.<sup>23</sup>

### **Box 7. European Tobacco Regulation**

The European Commission revised the original 2001 Tobacco Products Directive (TPD) in April 2014, adopting the 2014/40/EU TPD, with the specific purpose of limiting the diverse legislative measures in force in the EU MSs.<sup>24</sup> The Directive, applicable since the 20<sup>th</sup> of May 2016, regulates

manufacturing, presentation and sale of tobacco products; specifically, systems of traceability and security for addressing the illicit trade are covered by art. 15 and 16. The aim of the traceability system is to reduce the circulation of illegal tobacco products and to improve the traceability of

goods by requiring that operators involved in the trade to provide the relevant information to an external provider. The Directive stipulates that these security measures must be implemented by the 20<sup>th</sup> of May 2019 for cigarettes and roll-your-own tobacco and 20<sup>th</sup> of May 2024 for other tobacco products.<sup>25</sup>

# New technologies make border and custom controls more efficient

## ► Increasing border controls and making them more efficient

**Increasing border and custom controls and making them more efficient is a key strategy to combat cigarette smuggling.** The focus of customs authorities should be on prevention of illicit cigarettes entering the country both for local consumption and for transit to reach their final destinations.

Investing in tried and tested technologies is a way to increase the capacity and speed by which the customs agencies can check shipments (see Box 8).

Many of the new technologies used to improve the detection of illicit goods, among which cigarettes, are developed and tested within the scope of EU-funded projects like the EU's *Horizon 2020* research and innovation programme (see Box 9).

### Box 8. The successful use of X-ray scanners

Back in 1999, the Dutch customs authority at the port of Rotterdam began to use an X-ray container-scanner for the first time. Hitherto, containers had been examined by hand; this took the customs personnel about 6 hours per container. With the use of the X-ray scanner this time was reduced to three minutes, plus 15 minutes to analyse the X-ray images. During the first year of operation, the

Dutch customs discovered 307 million illicit cigarettes.<sup>26</sup>

In 2017, the four terminals at the port of Rotterdam that handle 2.5 million containers per year obtained their own fully-automated X-ray container scanners. These scanners are advanced in the sense that dual-view images are produced—from the side and from the top. Analysts remotely

monitor the entire process in real time—the images and data are sent directly via fibre optic cables to the customs office, a few kilometres away. For companies that do not have the space for such a scanner, the Dutch customs authority operates trucks with mobile X-ray scanner units. The goal is to provide all major transhipment companies on Maasvlakte I & II (terminal areas) with their own fixed scanning installation.<sup>27</sup>

### Box 9. An example of new technology to detect illicit cigarettes

The *Effective Container Inspection at Border Control Points (C-BOARD)* Project is a EU *Horizon 2020* Project founded in 2015 with the aim of developing five technologies to

increase the interdiction of illicit or dangerous material (<https://www.cbord-h2020.eu/>). One of these technologies is the "Next Generation Cargo X-ray". It provides X-ray image improvements,

chemical separation of overlapping objects and improved organic material classification technologies with which to identify illicit cigarettes in freight containers more efficiently.<sup>28</sup>

# *Sharing intelligence, best practices, technologies and strategies facilitates the fight against cigarette smuggling and reduces displacement of the illicit activities*

## ► Increasing cross-agency and cross-border cooperation

**Cooperation in controlling borders is necessary to effectively tackle cigarette smuggling and avoid displacement** of the smuggling activities, i.e., triggering shifts in smuggling routes to areas with less restrictive border control regimes.

Priority should be given to the national, regional, and international sharing of intelligence (see Box 10), best practices, policies, tools, technologies, tactics and strategies to combat illicit trafficking (see Box 11). This should also include maintaining information and databases on incoming and outgoing shipments, seizures of illicit products, criminal actors.

Cooperation should involve local, national and international LEAs (e.g., police, customs authorities, Interpol, Europol) and other public institutions (e.g., regulators, revenue agencies) along with WCO, OECD, and OLAF (see Box 12 and Box 13).

*Cooperation should be enhanced both within countries and between countries*

### **Box 10. Real-time intelligence exchange leads to seizure of 7 million cigarettes at EU external borders**

In 2018, as a result of a Joint Border control operation codenamed *JANUS*, border agencies from various countries managed to seize more than 7 million illicit cigarettes. Hungary, Poland, Romania, Slovakia, Slovenia, Moldova and Ukraine joined the operation,

which was led by OLAF and the EUBAM. The customs agencies of the participating countries were given access to OLAF's intelligence sharing application called the *Virtual Operation Coordination Unit*. This tool facilitates the direct sharing of information to

track suspicious vehicles cross-border. The intercepted cargoes were scanned using X-rays or examined manually. This resulted in the discovery of multiple large shipments of illicit cigarettes that would have otherwise entered the EU.<sup>29</sup>

### **Box 11. Four examples of technologies to share**

#### **1. Forensic analyses to detect illicit cigarettes**

Under the *EU Hercule Anti-Fraud programmes*, the EU's Joint Research Centre (JRC) and OLAF have been cooperating on several projects.<sup>30</sup> Within this framework, the JRC has developed a method to discover the origin of the

tobacco used in the confiscated cigarettes and classify whether the cigarettes are contraband (genuine) or counterfeit, i.e., if the branding and labelling matches the cigarettes in the pack.

The method involves an analysis of trace elements through Energy Dispersive X-Ray Fluorescence

(ED-XRF). The information that is obtained can be used to discover the geographical origin of the tobacco used in the illicit cigarettes. Then carried out is another analysis (Gas Chromatography – Mass Spectrometry) on the volatile and semi-volatile compounds which yields information about the manufacturing process.

Besides the large variety of tobacco plants and manufacturing processes, cigarettes contain additives which result in a unique composition—i.e., flavour, aroma. The JRC is able to use its database to match the chemical ‘fingerprints’ of suspicious cigarettes obtained through the above-mentioned analyses in its special laboratory (TOBLAB).<sup>31</sup>

Currently, only a few EU MSs have the means to perform these tests.

## 2. ALICE – Assessing Labelling Inconsistencies to support Customs Enforcement agencies

ALICE is a searchable system, through app and website, providing information about legal requirements of the standard 20-cigarette packs in almost every country in the world, developed in 2017. ALICE allows a real-time assessment of the correspondence between the labelling of a cigarette pack and the requirements in the destination country to assist customs authorities in the detection of illicit-whites brands in transit. ALICE also makes it possible

to create and send an alert to the authorities of the destination country, making the sharing of information easier.<sup>32</sup>

## 3. Data exchange network of X-ray control systems

In 2017, the Lithuanian company Information Technologies Application (INTA) developed a single data exchange network of X-ray control systems under the EU co-funded project *Development of single data exchange network of X-ray control systems used by the Customs authorities of the Baltic States*. The network connects X-ray control systems used by the customs authorities of Estonia, Latvia and Lithuania into a single network so as to combat smuggling more effectively and prevent other violations of customs legislation. The main partners of the project were the Customs of the Republic of Lithuania, the Latvian State Income Service and the Estonian Tax and Customs Service.<sup>33</sup>

## 4. Blockchain technology

Blockchain technology is based on the creation of a distributed public

ledger of all transactions that have been shared among parties that belong to a given system (i.e., network). Every transaction that occurs within the ledger is verified and accepted by the majority of all parties belonging to the network. The technology makes every transaction and digital event easily verifiable and secure.

Two of the main principles that characterise blockchain are information integrity and distributed consensus, since every item of information is permanently stored and the system is immutable, and every transaction can be approved and verified by members of the system at any time. Blockchain is at the basis of Bitcoin—the world’s most famous cryptocurrency—and it has also been applied to very different sectors as banking, telco, real estate, insurance and retail.<sup>34</sup> The strengths of this technology can be important also in the case of cigarette smuggling, reducing the risk of counterfeiting and allowing consumers to check the characteristics of the product.<sup>35</sup>

## Box 12. EUBAM supports the dismantling of an illegal tobacco factory

At the beginning of December 2017, a joint effort by the Spanish Guardia Civil, Europol, EUBAM, the Ukrainian, Romanian, Bulgarian and Greek LEAs, and the Ukrainian State Border Guard Service, resulted in the dismantling of an illegal cigarette manufacturing factory in Granada, Spain. The factory had a capacity to produce more than

2 million illicit cigarettes per day. Eighteen OCG members were arrested. The OCG had spent approximately 3 million € to set up the factory. The people who manufactured the illicit cigarettes came from Bulgaria and Ukraine—they were exploited and in forced labour. Subsequently, following cooperation between the Ukrainian

customs agency and the Spanish Guardia Civil, eight raids were carried out in the cities of Malaga and Granada. Besides machinery, filters and paper, 4.5 million illicit cigarettes, about 4,000 kilograms of cut tobacco and 10,000 kilograms of tobacco leaves were seized.<sup>36</sup>

### Box 13. Expertise sharing at OLAF's Task Group Conference

The Annual Task Group Cigarettes Conference, organised by OLAF, is an example of initiatives to bring together tobacco issue experts

of MSs and third countries. Here, investigators, analysts, policy makers, LEAs and specialised agencies, among which Europol,

Interpol and the WCO, are assembled to exchange operational information for the fight against illegal cigarette smuggling.<sup>37</sup>

#### ► Investing in LEAs resources and training

**To enable an effective response against the illicit trade in cigarettes, it is important to provide LEAs and regulatory bodies with the staff and necessary financial resources** that they need, as well as equipment and technology.

**Training and education programmes for law enforcement** could be useful in regard to recognising the different types of illicit cigarettes and staying updated on the more recent smuggling *modi operandi*. This **could increase the detection rate of illicit products** (see Box 14).

### Box 14. Successful training activities

1. In 2017, the Lithuanian company Information technologies application (INTA) implemented the Project titled *Cargo scanners images analysis and threat objects recognition training*. The aim of the project was to develop training courses for the Lithuanian customs and border guard service regarding the efficient use of X-ray control systems implemented mainly to inspect cargo entering Lithuania from Belarus. The course incorporated 150 different smuggling scenarios and was

designed to teach customs personnel how to recognise tobacco, explosives, firearms, drugs, and persons concealed within containers.<sup>38</sup>

2. Training events hosted by the SELEC. These include training courses, seminars and workshops for law enforcement officers of the SELEC Member States. These events are focused on improving the overall effectiveness of the fight against any type of transnational, serious and organised crime.<sup>39</sup>

## 4. Socio-economic policies

#### ► Harmonising regulations on FTZs

Since legislation and its enforcement differ from FTZ to FTZ,<sup>40</sup> **the implementation of harmonised and stronger controls in FTZs could help in tackling the illicit cigarette trade.**<sup>41</sup> In particular, the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products contains provisions concerning controls of

the production and trade in tobacco products in FTZs. Under the WHO FCTC:

- shipping tobacco products in a container together with non-tobacco products is forbidden;
- any tobacco products or machinery for the manufacturing of tobacco products in transit at a FTZ has to be controlled.

#### ► Improving the management of FTZs

**Making an assessment of the FTZs and developing risk indicators** to understand their importance in facilitating cigarette smuggling **is a first step towards the better management of FTZs.**

The main practical steps to improve the management of the FTZs are:<sup>42</sup>

- reviewing procedures and systems for monitoring goods and for record-keeping requirements;
- ensuring that controls cover goods in transit;
- using intelligence and risk-based compliance controls supported by systematic sample checks to focus enforcement efforts on the riskier transactions within a FTZ;
- developing systems to exchange data with authorities in neighbouring countries and key trading partners;
- setting up a special task force to build expertise on illicit trade.

► **Allocation of taxes to social welfare**

**Governments' revenues generated through the collection of cigarette taxes could be used to improve the overall welfare structures**—in addition to intervening in the public health system.

This improvement could reduce the probability of people engaging in cigarette smuggling to cope with poverty and unemployment.

Sound social welfare structures can act as a safety net for the poorest and most vulnerable people against external shocks that could cause an increase in poverty: sudden food price fluctuations, epidemics, extreme weather conditions, and economic crises.<sup>44</sup>

► **Tracking and disrupting large-scale illicit cigarette facilities**

**LEAs should track down and decommission large-scale illicit manufacturing facilities** within the EU and in countries along the EU's external borders. LEAs should seize and destroy the illicit cigarettes and machinery detected in the raids.

All the legislations regarding manufacturing equipment should include provisions to reduce the risk that they may be used in illicit facilities, e.g., restricting their sale only to licensed manufacturers and constantly monitoring their movement on the national territory.<sup>45</sup>

*Improving welfare structure could discourage vulnerable people from engaging in cigarette smuggling*

The revenues could be allocated to poverty reduction, providing essential services (e.g., safe water, electricity), health care, reducing unemployment—especially among youths—through education and training, and promoting social engagement.<sup>43</sup>

## 5. Culture-related policies

*Public awareness campaigns could reduce the tolerance of cigarette-related illicit behaviours*

► **Promoting public awareness campaigns**

**Public campaigns can tackle the social tolerance of purchasing illicit cigarettes.** By effectively reducing the demand, the supply will also be affected. Awareness campaigns could also target the engagement in trafficking activities (see Box 15). These public campaigns should

sensitise consumers in different ways:

- stressing the connection between cigarette smuggling and OCGs. Consumers should become more aware that purchasing illicit cigarettes is a way to increase the revenues of OCGs. These revenues fund and enable other serious criminal activities, like trafficking in

firearms, drug and humans (see Box 16);<sup>46</sup>

- pointing out that cigarette smuggling limits public funds. Buying illicit cigarettes results in less government funds to use to develop new public services or improve services already available;<sup>47</sup>

- emphasising that fighting against cigarette smuggling entails a higher workload for LEAs, preventing them from combatting more serious crimes;<sup>48</sup>
- underlining that illicit cigarettes may target young people. Having the chance to acquire cheaper cigarettes makes it easier for minors to smoke;

- informing the public about the legal repercussions of participating in cigarette smuggling. Both people demanding and supplying illicit cigarettes feed the crime;
- explaining to the public the risks connected with smoking cigarettes whose manufacturing does not meet foreseen quality standards (see Box 17).

#### **Box 15. The United Kingdom pools its resources against illegal tobacco**

In 2017, the London Council and London Trading Standards (LTS) led an awareness campaign against illegal tobacco in London. 22 of London's local authority districts (boroughs) took part in the campaign, which was backed by Public Health England and the London Association of Directors of Public Health. The campaign included visits to various locations within London to talk to people about the negative effects of the illicit trade in tobacco products. This was done by showcasing the special tobacco sniffer dogs in

order to engage with the public. Specific information was also given on how to spot illicit cigarettes, and people were encouraged to report any suspicions relating to illicit tobacco products via a helpline or the LTS's anonymous online reporting tool. As a consequence of this campaign, 11 boroughs in London were raided and around 21,000 illicit tobacco products were confiscated.<sup>49</sup>

Another effort against illegal tobacco in England was the *North of England tackling Illegal tobacco*

*for Better Health* programme launched in 2009 to reduce both the supply of and demand for illicit tobacco. Here, the launch of the website [keep-it-out.co.uk](http://keep-it-out.co.uk) was part of a multi-agency campaign by the British HM Revenue and Customs, police, health partners and Trading Standards. The aim was to protect children from smoking and encourage people to report cases of illicit consumption and smuggling activities. This public awareness campaign has resulted in numerous seizures of illicit cigarettes by the British authorities.<sup>50</sup>

#### **Box 16. Public perception of illicit tobacco trade survey**

In 2016, almost 28,000 respondents from 28 EU MSs participated in an OLAF administered survey aimed at assessing the public opinion

about and stance on the illicit cigarette trade. Almost 70% of the respondents believed drugs to be the number one source of OCGs' revenues. In contrast, only 14% of

the respondents thought that the trade in illicit cigarettes was OCGs' primary means to acquire funds. Low prices were pointed to as the main motive for the consumption of illicit cigarettes.<sup>51</sup>

#### **Box 17. A study on the quality of illicit cigarettes**

In 2016, a research group from the Department of Sciences at John Jay College of Criminal Justice in New York presented the results of a study on the elemental profile of tobacco used in illicit cigarettes to assess the health impact.

They specifically investigated the potential toxic effects of cadmium, a metal that the tobacco plant absorbs from the soil. After analysing 46 counterfeit

samples and six genuine samples, the researchers found that the counterfeit cigarettes were more noxious than genuine ones.<sup>52</sup>

# 6. Crime reduction policies

*Fighting against money laundering, terrorism financing and corruption could reduce cigarette trafficking*

## ► Preventing illicit cigarette profits from entering the legal economy

**Each country should take measures to prevent illicit profits generated mainly by OCGs through the illicit trade in cigarettes entering the legal economy** (see Box 18). In particular, the countries should assess the risks, draft suitable policies, invest institutions with the appropriate powers (LEAs, regulators), install protective and preventive measures,

improve transparency, assist in facilitating collaboration on an international level.<sup>53</sup>

To support countries, the Financial Action Task Force (FATF) has developed 40 recommendations on money laundering. These recommendations have become the international anti-money laundering standard with the endorsement of more than 180 states.<sup>54</sup>

### Box 18. LEAs break up an OCG involved in cigarette smuggling and money laundering

In February 2017, 3 members of an OCG, suspected of cigarette smuggling and money laundering, were placed under arrest as a result of collaboration among the Dutch Anti-Fraud Agency, the German and British LEAs, Interpol, and customs authorities. Raids were simultaneously carried out in the Netherlands in Houten,

Baarn, Vianen and Beesd, and in the United Kingdom in Stoke on Trent. The Dutch authorities seized several vehicles, money, administrative records, and real estate. Their British counterparts took possession of electronic devices—mobile phones—and administrative records. A fourth member of the OCG was arrested

in the United Kingdom in July. The *modus operandi* of the OCG involved loading the illicit cigarettes on trucks in Germany, where they were concealed under shipments of biscuits and toast, and transported via the Netherlands to the United Kingdom. At least 6 of these transports took place between 2015 and 2016.<sup>55</sup>

## ► Preventing cigarette smuggling from financing terrorist groups

Providing or collecting funds for terrorist groups is a criminal offence. The *United Nations Convention for the Suppression of the Financing of Terrorism* can be used by states

to facilitate collaboration on an international level against the illicit trade in cigarettes. **Actors involved in the trafficking of illicit cigarettes can be prosecuted if this supply of cigarettes ends up facilitating (financing) terrorist groups.**<sup>56</sup>

The FATF has developed nine recommendations on combatting terrorist financing.<sup>57</sup> The key is to deprive the terrorists of the ability to generate capital, launder this money and use it in their international operations.<sup>58</sup>

► **Enhancing and implementing existing anti-corruption strategies**

At a regional level, there are several treaties, agreements and conventions on combatting corruption.

Within the multilateral framework, there are **two UN Conventions** that **can be used by countries to combat the trade in illicit cigarettes:**

- the *United Nations Convention against Transnational Organized Crime* (UNTOC);
- the *United Nations Convention against Corruption* (UNCAC).

Both the UNCAC and UNTOC provide a support structure relating to the investigation and prosecution of corruption and transnational crime, mutual legal assistance and agreements on extradition.<sup>59</sup>

The UNCAC defines corruption in broader terms compared to the UNTOC, which mainly deals with bribery of public officials. Unlike the UNTOC, the UNCAC can be

used by states to start proceedings against individuals irrespective of their membership of an OCG.<sup>60</sup>

- The accompanying Legislative Guides offer guidance to policy and lawmakers on preparation for the ratification and implementation of these UN Conventions.
- Interpol provides a brief overview of the corruption-related elements within these instruments.<sup>61</sup>
- The UNODC supports countries in implementing these Conventions by providing expertise in corruption prevention, fair criminal justice systems, international cooperation, and education.<sup>62</sup>

The World Bank stresses the need for a **partnership among government, the business sector, citizens and civil society in the fight against corruption**. This requires capitalizing on the latest technology to analyse and share data to uncover or prevent corrupt practices. Within the anti-corruption framework, the World Bank has launched several **regional**

**and global campaigns** that can be useful also to tackle corruption in cigarette smuggling, among which:

- setting up several international transparency standards, and providing assistance to countries in their implementation;
- assisting countries in the identification, through national risk analyses, of illicit flows—and advising the countries on how to tackle them.<sup>63</sup>

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*The fight against corruption is of key importance in reducing transnational illicit traffics*

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# Glossary

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The following terms have been used in the present booklet with the following meaning:

**Contraband or smuggling:**

the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>64</sup>

**Counterfeits:** 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.<sup>65</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>66</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):**

governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

# End notes

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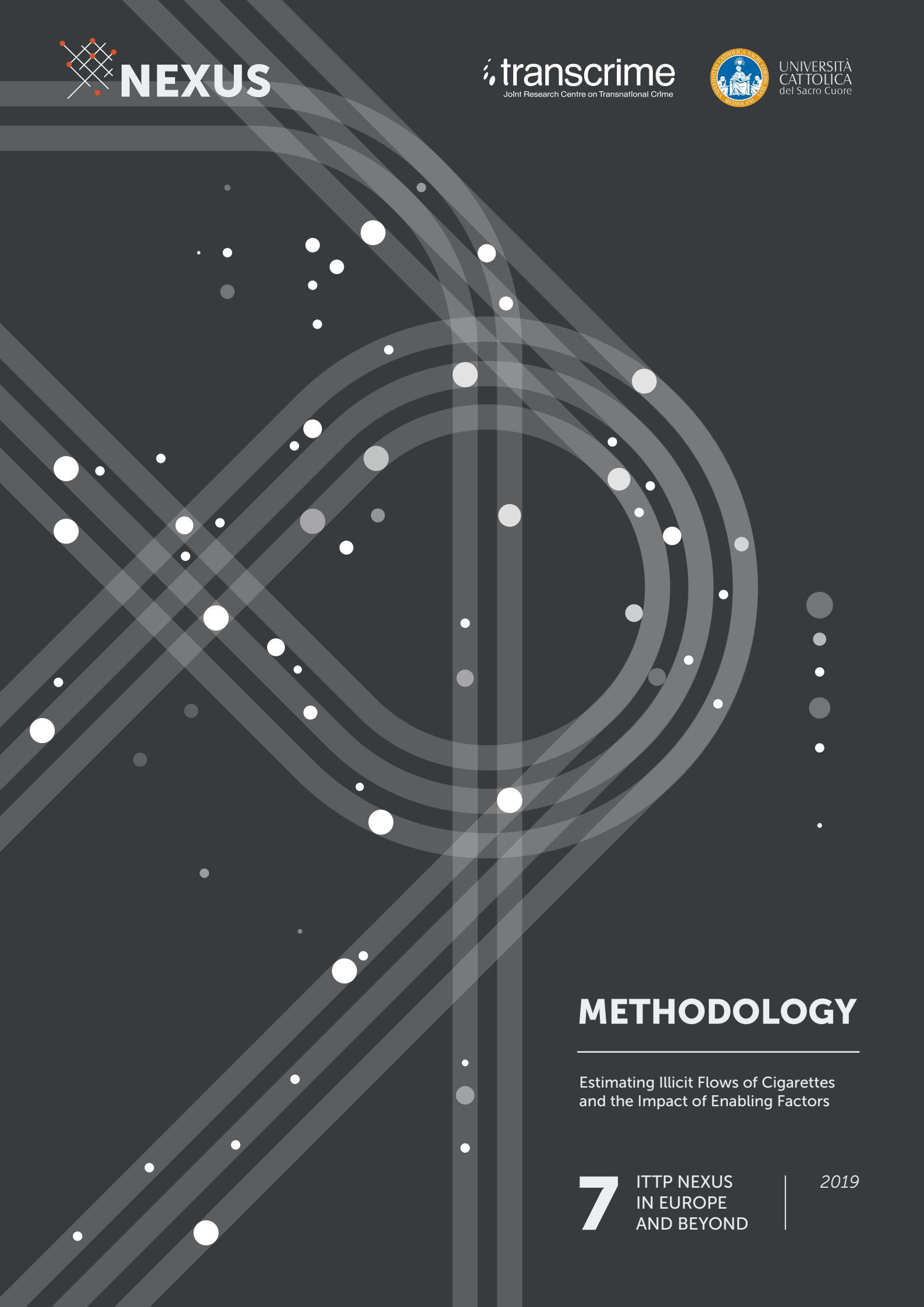
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## METHODOLOGY

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Estimating Illicit Flows of Cigarettes  
and the Impact of Enabling Factors

**7** ITTP NEXUS  
IN EUROPE  
AND BEYOND

2019



## METHODOLOGY

*Estimating Illicit Flows of Cigarettes and the Impact of Enabling Factors*

## Acknowledgements and credits

This booklet is part of the *ITTP NEXUS in Europe and Beyond* Report. This report was prepared by a Research team of Transcrime, Joint Research Center on Transnational Crime of the Università Cattolica del Sacro Cuore, the Alma Mater Studiorum Università di Bologna and the Università degli Studi di Perugia, under the supervision of Ernesto U. Savona, Director of Transcrime.

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**Suggested citation:** Meneghini, Cecilia and Marco Dugato. 2019. "Methodology - Estimating Illicit Flows of Cigarettes and the Impact of Enabling Factors". In *ITTP NEXUS in Europe and Beyond*, edited by Alberto Aziani and Marco Dugato. Milano: Transcrime – Università Cattolica del Sacro Cuore. © 2019

ISBN: 978-88-99719-10-4

The Research team of Transcrime acknowledges the invaluable contributions and advice provided by representatives of law enforcement agencies, customs, academics and researchers.

The project Nexus is financed by PMI IMPACT, a global grant initiative of Philip Morris International, to support projects dedicated to fighting illegal trade and related crimes (<https://www.pmi-impact.com/>).

This publication reflects the views only of the Authors and of the Research team.



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# Explanatory notes

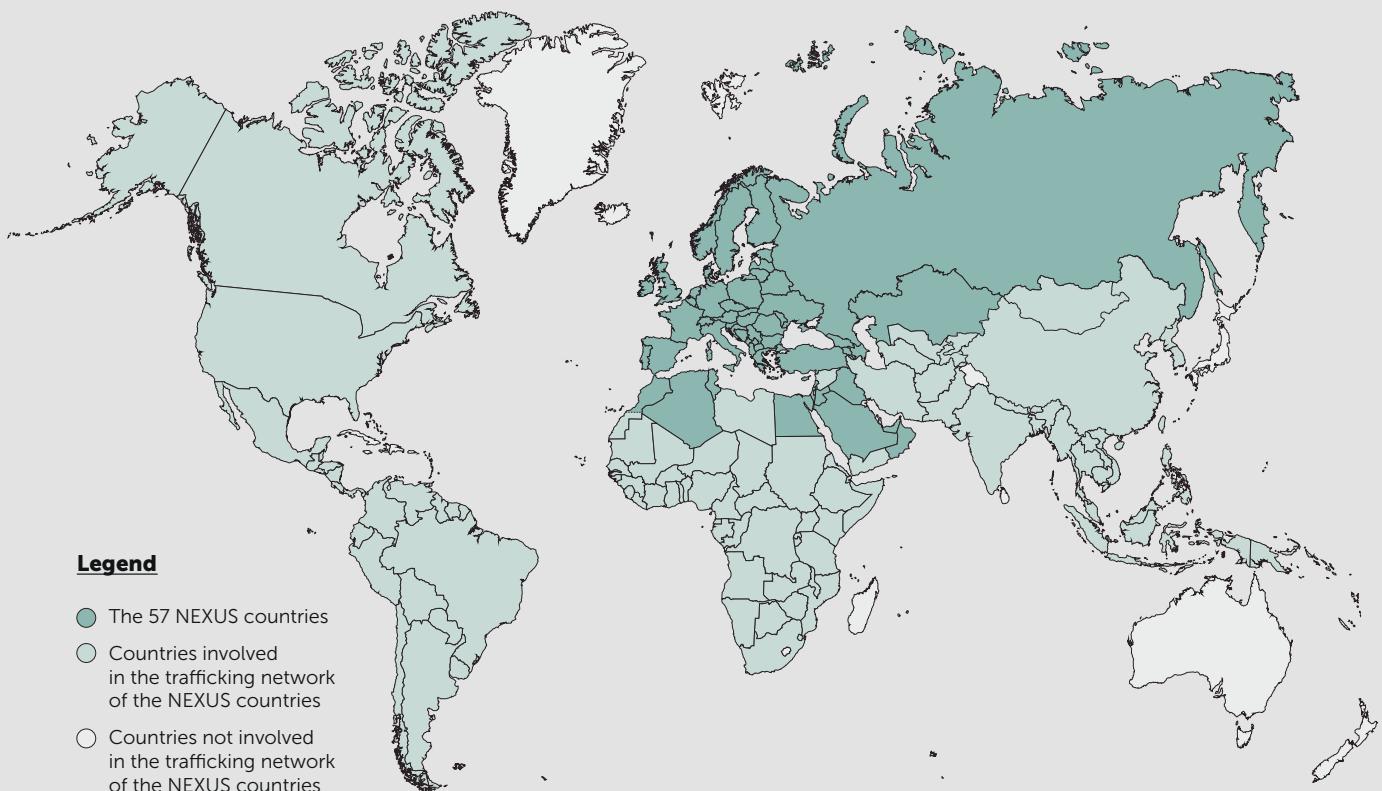
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All analyses contained in the *ITTP NEXUS in Europe and Beyond Report* are based on the original estimates produced by Transcrime unless otherwise indicated by the reported references.

The following abbreviations have been used in this booklet:

EPS	Empty Pack Survey
EU	European Union
FAME	Flows, Actors, Modus operandi, law Enforcement database
LEA	Law Enforcement Agency
RC	Releases for Consumption

## The 57 NEXUS countries



# Introduction

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This booklet constitutes the seventh chapter of the *ITTP NEXUS in Europe and Beyond Report*. It describes the approach applied to estimate the illicit flows of cigarettes and to identify and analyse their enabling factors. The approach comprises three phases:

1. estimating the volume of the illicit markets of cigarettes in the 57 countries included in the analysis;
2. mapping the network of transnational illicit flows of cigarettes;
3. identifying the impact of contextual factors on illicit flows of cigarettes.

Each section of the booklet focuses on one of the phases. Information is provided on how the quantitative data and qualitative information are exploited in each phase.

# 1. Estimating the size of the national illicit cigarette markets

The first phase of the methodology estimates the consumption of illicit cigarettes in 57 countries located in Europe, North Africa, the Middle East and Central Asia.

The methodology involves two main steps:

- 1. assessment of the overall consumption of cigarettes**—both licit and illicit—in all the markets of interest, by employing a supply-side estimation approach;
- 2. estimation of the share of legitimate and illicit cigarettes** (i.e., counterfeits, illicit whites, smuggled legitimate cigarettes) within the overall number of cigarettes consumed in each country.

## Step 1 – Estimating the overall consumption of cigarettes

The total consumption of cigarettes in each country for each year (2008–2017) is estimated as follows.

At the global level, the estimate of the total consumption emerges as the difference between the overall production of cigarettes—both legal and illegal—and the aggregate of seizures. The estimate of the total consumption is based on data on Releases for Consumption (RC) of cigarettes and seizures (see Table 1).

To produce national estimates of consumption, the inflows and outflows of cigarettes between countries have to be taken into account. Specifically:

- ‘**inflows**’ are cigarettes consumed in a specific country that were originally intended for sale in another country;
- ‘**outflows**’ are cigarettes intended for the same given country, but which ended up being smoked abroad.

**Table 1. Data sources for the estimate of total cigarette consumption**

Data	Description	Source	Geographic coverage	Time span
<b>Releases for consumption of cigarettes</b>	Registered sales of domestic cigarettes	European Commission, “Excise Duties” (for EU 28); <sup>1</sup> Tobacco industry (for other countries)	All 57 countries	2008-2017
<b>Empty Pack Surveys (EPSs)</b>	Results from surveys collecting and analysing discarded empty cigarette packs, which are used to estimate the share of domestic, non-domestic and counterfeit packs in each market	Tobacco industry	All 57 countries	2008-2017*
<b>Seizures</b>	Volume of cigarettes seized by law enforcement authorities by country of cigarette origin	Official data published on different national online sources (e.g. customs and LEAs websites, reports); Tobacco industry	All 57 countries	2008-2017*

Note: \* indicates that data are missing for some countries for some years included in the indicated time span. Missing data have been imputed through linear interpolation or replacement with closest available data point in case the data was missing for either 2008 or 2017.

The proposed approach considers the international trade in cigarettes as a semi-closed system in which inflows can come from any country in the world, but outflows can target only the 57 countries included in the analysis.

To build the semi-closed system, the applied method combines data from Empty Pack Surveys (EPSs) with estimates of national production based on Releases for Consumption (RC) of cigarettes and seizures.

EPSs yield data on the share of domestic and non-domestic cigarettes (i.e., inflows) consumed

in a market. When using EPSs results, information on inflows can be expressed as a share of the total consumption of the country under investigation. Outflows can be expressed as a share of the total consumption of other countries.

RC provide the size of the cigarette production in each country.

**Combining EPSs data with data on RC makes it possible to convert the shares extracted from EPSs into volumes** of consumed cigarettes.

## Step 2 – Estimating the share of legitimate and illicit consumption

EPSs data, together with other information (see Table 2), are used to subdivide the total consumption volumes into various components:

- illicit consumption:
  - counterfeits;
  - illicit whites;
  - contraband legitimate cigarettes;
- legal consumption:
  - domestic;
  - non-domestic.

**Table 2. Data source for the estimate of the share of illicit consumption**

Data	Description	Source	Geographic coverage	Time span
<b>Smoking prevalence</b>	% of population aged 15 or over consuming tobacco products	Eurobarometer; <sup>2</sup> Euromonitor <sup>3</sup> International; <sup>4</sup> World Health Organization; Tobacco industry	All 57 countries except Iraq, Kosovo, Kuwait and Montenegro	2008-2017*
<b>Average daily cigarette consumption</b>	Average number of cigarettes smoked per day among daily cigarette smokers aged 15 or over	Eurobarometer (multiple reports); <sup>5</sup> Ng et al. 2014 <sup>6</sup>	All 57 countries except Kosovo	EU countries: 2009; 2012; 2014; 2017. Other countries: 2012 only
<b>Legal cigarette prices</b>	Price of cheapest, most sold and premium (or Marlboro) cigarette brand	Tobacco industry; Online open sources	All 57 countries and other countries generating inflows into the 57 <sup>a</sup>	2008-2017
<b>Inbound flow of tourists/visitors by country of residence</b>	Number of tourists/visitors arriving at national borders/in accommodation establishments broken down by their country of residence <sup>b</sup>	UN World Tourism Organization <sup>7</sup>	All 57 countries except Iraq, Kosovo and UAE	2012-2016
<b>Average length of stay</b>	Ratio between the total overnight stays in hotels/all types of accommodation establishments and the number of arrivals of tourists in hotels/all types of accommodation establishments	UN World Tourism Organization <sup>8</sup>	All 57 countries except Ireland, UK, Albania, Belarus, Egypt, Georgia, Iraq, Israel, Jordan, Kazakhstan, Kosovo, Kuwait, Lebanon, Oman, Russia, Saudi Arabia, Ukraine and UAE	2012-2016

a. Information on prices is needed for more countries to evaluate whether the price differential could trigger contraband practices.

b. Three types of data are available (depending on the country of reference): arrivals of non-resident tourists at national borders (by country of residence), arrivals of non-resident visitors at national borders (by country of residence), and arrivals of non-resident tourists in all types of accommodation establishments. The different data have been merged to construct a single indicator for the inflow of tourists/visitors.

Data	Description	Source	Geographic coverage	Time span
<b>Commuters</b>	Number of resident workers who commute daily cross-border for work, by country of work	Eurostat <sup>9</sup>	EU 28	2008-2017
<b>Number of packages bought on trips to lower-price countries</b>	Mean of the answers to the following survey question: "In the last 12 months when you last came back from a trip to another EU country, how many packs or cartons of lower price cigarettes did you bring home with you?"	Eurobarometer <sup>10</sup>	EU 28 except Croatia, Norway	2008
<b>Residents of border regions</b>	Population of NUTS3 areas bordering other countries, by bordering country	Eurostat <sup>11</sup>	EU 28	2008-2017
<b>Citizens who are usually residents in another country</b>	Number of residents of a country who are citizens of a different country, by country of citizenship	Eurostat <sup>12</sup>	EU 28	2016-2017
<b>Duty-free allowance</b>	Maximum number of cigarettes that can be legally brought into a country from abroad	Customs and travel websites	All 57 countries	2008-2017

Note: \* indicates that data are missing for some countries for some years included in the indicated time span. Missing data imputation strategies have been implemented in these cases. Whenever the cited source did not directly provide the data for a particular country, alternative estimation approaches have been implemented, such as an estimate based on the average value in neighbouring countries (e.g., for the smoking prevalence). Alternative estimation approaches needed to be applied only for a very limited number of countries out of the total 57 countries included in the analysis.

The following subsections present the methodology to estimate the various components of the market.

### Counterfeits

In each country considered, **the share of counterfeit emerges directly from EPSs**. The forensic analysis of the packs allows the status of each pack to be categorised as genuine or counterfeit.<sup>c</sup>

### Illicit whites

**Illicit whites are cigarettes manufactured legally** in a country **but intended for smuggling into other countries** where they usually

have limited or no legal market. While their export may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>13</sup>

Relying on this definition of illicit whites, **the methodology uses information from EPSs to identify brands of illicit whites**. Given a brand with a domestic legal market in one of the countries included in the analysis, the brand is identified as an illicit whites brand if its share of legal domestic consumption is

disproportionally low compared to its global share of non-domestic consumption in other countries. This follows from the fact that illicit whites are purposely produced for the illegal market of a foreign country.<sup>14</sup> Brands whose origin is 'Duty-Free' or 'Unspecified' in the majority of cases are also flagged as illicit whites.<sup>d</sup>

Most brands identified as illicit whites by this methodology have overall low consumption volumes and mainly originate from non-EU countries. Overall, the vast majority of the brands identified as illicit whites were already reported in existing lists of illicit whites brands, and vice versa.<sup>15</sup>

c. Only the manufacturers cooperating with each specific EPS conduct forensic analyses. As consequence, the final estimate of the prevalence of counterfeits might under-represent the actual consumption of counterfeit cigarettes. The overall potential bias is likely to be small, given that counterfeits constitute a residual share of the total illicit market for the great majority of countries.

d. In particular, brands have been considered as illicit whites whenever the origin of the pack was 'Duty-Free' or 'Unspecified' in more than half of the sample. The results obtained overlap with existing lists of illicit whites brands (e.g., KPMG 2017).

Once illicit whites brands are identified, the share of their consumption within each country is derived and translated into volumes exploiting the results on total consumption.

#### **Contraband of genuine cigarettes and legal purchase of non-domestic cigarettes**

**Contraband flows are calculated by subtracting transnational legal inflows** from the total inflows as estimated in Step 1.

Non-domestic packs are either legally carried from their country of sale to their country of consumption, or they are illegally smuggled into the country where they are consumed (i.e., contraband).

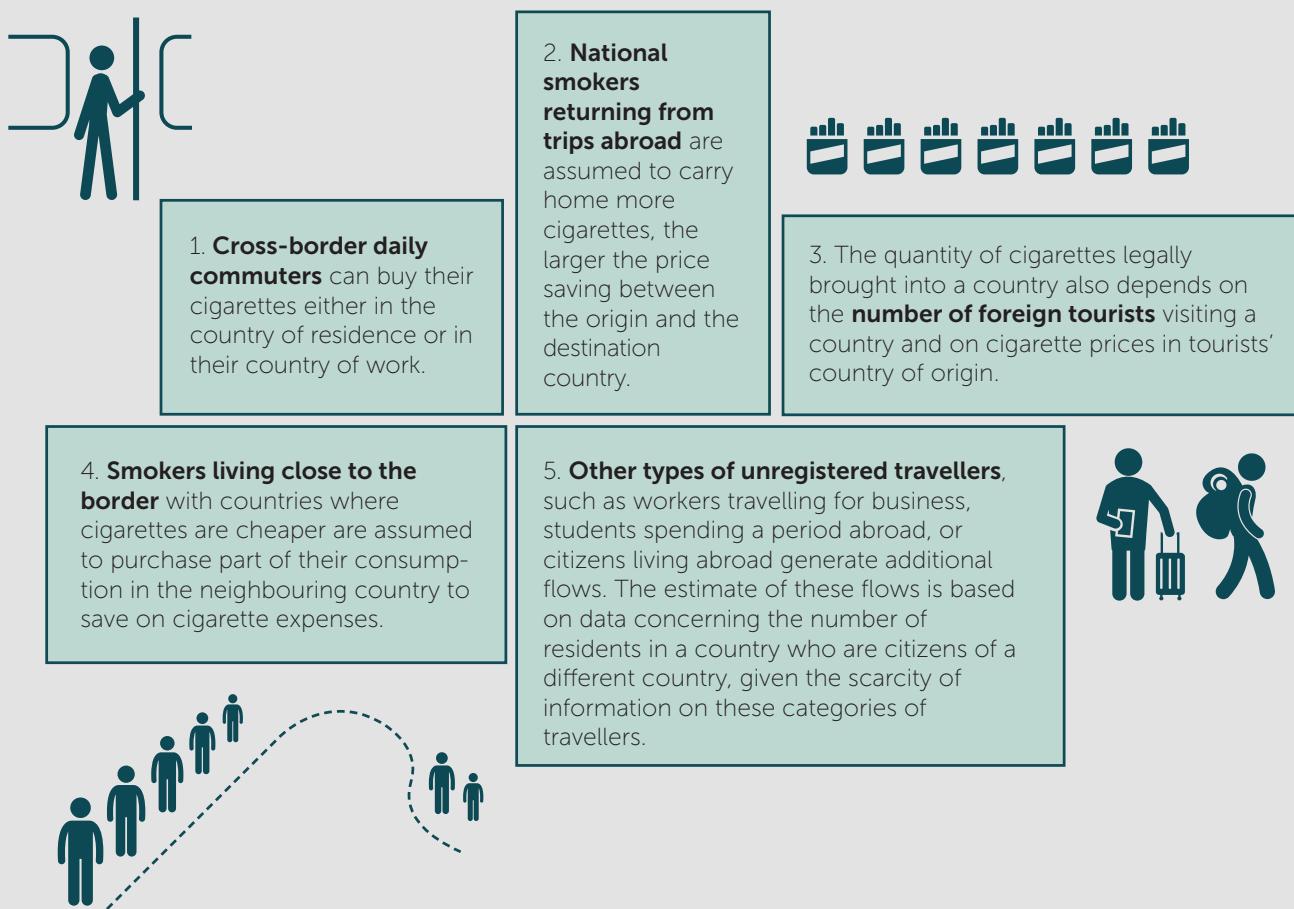
Transnational legal inflows have been estimated by relying on multiple data sources to account for different types of cross-border journeys and different quantities of carried cigarettes depending on the type of cross-border flow (see Table 2).

For EU countries, **legal cigarette inflows are broken down into five main categories** (see Figure 1).

For non-EU countries, the decomposition of the flows relies only on elements 2 and 3, due to lower data availability.<sup>e</sup>

The different legal non-domestic flows are then merged together and subtracted from the overall inflows to estimate illegal transnational flows of cigarettes.

**Figure 1. Types of legal cigarette inflows**



e. The rigidity of this assumption is partially mitigated by the fact that these countries are not part of the Schengen agreement, causing the number of individuals making frequent trips to neighbouring countries to be much lower.

## 2. Mapping the transnational illicit flows of cigarettes

The first phase of the methodology yielded an estimate of the volume of illicit cigarettes produced in country O (origin country) and consumed in country D (destination country). The second phase of the methodology consists in mapping the transnational illicit flows of cigarettes. Specifically,

**the aim of this second phase is to identify each step of the path followed by illicit cigarettes** when moving from country O to country D.

The methodology developed to map illicit cigarette flows relies on multiple types of information (see Table 3):

1. evidence of illicit cigarettes flowing between any two countries:
  - seizure cases (see Box 1);
  - evidence of illicit consumption of cigarettes from the same origin country;
2. geographical information on the countries' location and characteristics.

**Table 3. Data sources for the mapping of illicit cigarette flows**

Indicator	Information Category	Variable	Source
<b>Frequency of seizures of cigarettes</b>	Seizure cases	Number of seizures carried out by law enforcement authorities of cigarettes entering country B and coming from country A	Crime&tech database on "dyads in the illicit network of cigarette trafficking"
<b>Volume of cigarettes seized</b>	Seizure cases	Share of the volume of cigarettes entering country B and coming from country A (over the total volume seized in the two countries)	Crime&tech database on "dyads in the illicit network of cigarette trafficking"
<b>Volume of seized cigarettes originating from a specific country</b>	Seizure cases	Share of the volume of cigarettes originating from country O and seized along the border between country A and country B (over the total volume seized in the two countries)	Crime&tech database on "dyads in the illicit network of cigarette trafficking"
<b>Volume of consumed illicit cigarettes originating from a specific country</b>	Evidence of illicit consumption	Volume of illicit cigarettes consumed in B and originating from O	Transcrime elaborations of EPS data
<b>Share of consumed illicit cigarettes originating from a specific country</b>	Evidence of illicit consumption	Share of illicit cigarettes consumed in B (of the total cigarette consumption of B) originating from O	Transcrime elaborations of EPS data
<b>Similarity in the structure of illicit consumption</b>	Evidence of illicit consumption	Euclidean distance between the structure of illicit consumption in country A and B (in terms of shares of illicit whites, contraband and counterfeits consumed on the total illicit consumption)	Transcrime elaborations of EPS data
<b>Geographical distance from the destination country</b>	Geographical structure	Geographical distance between country B and final destination D	CEPII <sup>16</sup>

Indicator	Information Category	Variable	Source
<b>Geographical distance between any pair of countries</b>	Geographical structure	Geographical distance between country A and country B	CEPII <sup>17</sup>
<b>Length of borders (in case of contiguous countries)</b>	Geographical structure	Length of the border between country A and country B (if A and B are contiguous)	Crime&tech calculations based on geospatial open data

Note: *O* refers to the country of origin of the cigarettes, and *D* to the final destination where they are consumed. For each dyad, *A* refers to the country from which cigarettes flow and *B* to the country to which they flow.

To rely on a larger and richer number of information on seizure cases, in addition to seizures of cigarettes also seizures of other tobacco products (e.g., hand-rolling tobacco, pipe tobacco) have been considered. Opportune transformations have been performed to merge the volumes of different products.

#### Box 1. Dyads in the illicit network of cigarette trafficking database

The *Dyads in the illicit network of cigarette trafficking* database collected a sample of seizure cases to identify the steps of the illicit flows of cigarette originating from, traversing, or reaching the 57 NEXUS countries. Information on the sample of seizure cases necessary for the reconstruction of the cigarette trafficking network was retrieved from available open sources reporting seizure cases of cigarettes and other tobacco products over the period of interest (2008-2017).

Information was collected from three main sources:

- online press articles gathered from two news repositories, i.e. LexisNexis and ProQuest;

- press releases and annual reports of national law-enforcement agencies;
- the updated version of the FAME database developed by Transcrime in 2014.

The data collection was implemented with the aim of obtaining a large sample of the totality of seizures carried out by law enforcement authorities in the area of interest. The procedure was not designed to gather information on the whole population of seizure cases that occurred in the 57 countries between 2008 and 2017. Once retrieved from the sources, information on the dyads was analysed and systematised in the dataset, where each line represents an illicit movement between a dyad of countries. For each illicit

movement, the research team coded the following information:

- details about the countries and cities (when available) from which seized cigarettes and tobacco products were outflowing and those to which they were inflowing;
- information on the origin country of the products;
- quantity and type of cigarettes and other tobacco products seized;
- date and location of the seizure;
- means of transportation used;
- actors involved (number, nationality and age).

The total number of identified illicit movements included in the final exploited sample was 4,248.

The use of geographical information to map the flows is based on the assumption that **illicit trafficking shares some basic principles of geographical convenience with licit transport methods** (e.g., all other factors being equal, traffickers will choose to follow the fastest route to go from X to Y).

A value for each described variable is assigned to each pair of countries (e.g., country A and country B) for all the possible combinations of origin of the cigarettes (country O) and final

destination where the cigarettes are consumed (country D). The variables are then combined by means of an appropriate function into a single value.

The combination of geographic information and data providing evidence of illicit cigarettes flowing between any pair of countries makes it possible to assign a “**distance value** to any pair of countries representing the cost of moving illicit cigarettes between them.

Then, considering the volume of illicit cigarettes originating in country O and consumed in country D, **the methodology relies on an algorithm that searches for the most likely paths from O to D**. The algorithm identifies all the possible paths and ranks them on the basis of the likelihood that cigarettes follow that specific path. The volume of illicit cigarettes is then redistributed among the paths proportionally to the estimated likelihood.

### 3. Estimating the impact of contextual factors on illicit cigarette flows

The third phase of the methodology identifies the contextual factors impacting on illicit cigarette flows; it then estimates their influence on the traffic itself. **This phase exploits information pertaining to six macro dimensions:**

- political;
- geographical;
- regulation and enforcement;
- socio-economic;
- cultural;
- criminal.

Within each macro dimension, two types of analyses are conducted:

1. A quantitative analysis that exploits both country-level variables and relational variables within the various macro dimensions to run a statistical model estimating the impact of these variables on illicit cigarette flows.
2. A qualitative analysis relying on information collected from the academic literature, grey literature, open sources (e.g., press releases, news) and interviews.

Evidence yielded by the two sets of analyses is then merged to provide an overall interpretation of the explanatory factors behind the transnational trafficking of cigarettes.

#### Quantitative analysis of the contextual factors

The **quantitative analysis relies on econometric models that estimate the impact of contextual factors** (independent variables) on the volume of cigarettes flowing between any pair of countries (dependent variable).

The models are cross-sectional because the units of analysis are the illicit flows of cigarettes moving between countries. At the same time, the analysis has a longitudinal component as two models are estimated at different points in time:

- 2008–2012 (relying on the annual average values of all variables over this five-year period);<sup>f</sup>
- 2017 (last available year).

f. The choice of estimating the model over 2008–2012 has the aim of smoothing the impact of missing data points on the estimated effect of contextual factors.

The **dependent variable** of the model **is the size of the illicit flows connecting pairs of countries**: from country A (outflowing country) to country B (inflowing country) (see Table 4). The model accounts for the fact that country A and B could have different roles in the network of cigarette trafficking, i.e.:

- country A can be either the origin country or a transit country;
- country B can be either the destination country or a transit country.

Relying on the 6 macro dimensions mentioned above, the methodology identifies several **contextual factors** and operationalises them through variables available open source (see Table 5). These variables are the **independent variables** of the econometric model. They can be divided into two types:

1. variables referring to the pair of countries A-B (e.g., the length of the border between A and B);

2. variables referring to a single country (e.g., the unemployment rate in a country). In this case, the model includes the value for the variable in the outflowing country (e.g., the unemployment rate in country A) and in the inflowing country (e.g., the unemployment rate in country B).

Using the dependent and independent variables described, **a two-part model is estimated**. A two-part model is an econometric model accounting for the presence of many zeros in the dependent variable, as is the case with illicit flows of cigarettes. Indeed, given all the possible combinations of A-B flows where A and B can be any country in the world, most of these flows are actually zero. A two-part model

accounts for this skewed distribution of the dependent variable by splitting the estimation into two parts:

1. estimation of the probability of observing a positive value for the dependent variable compared to observing 0;
2. conditional on observing a positive outcome, estimation of the impact of each independent variable on an increase in illicit cigarette flows—the dependent variable.

The estimated effect of each contextual factors in the two parts is then combined to obtain the total impact of each variable on the volume of illicit cigarette flows.

**Table 4. Descriptive statistics of the dependent variable, by type of flow**

Type of flow	N. of observations	Mean volume (sticks)	St. Dev.	Min volume (sticks)	Max volume (sticks)
<b>Origin country - Destination country</b>	18,885	3,131,325	87,502,452	0	4,864,134,051
<b>Origin country - Transit country</b>	19,454	5,034,306	59,118,757	0	3,591,473,456
<b>Transit country - Transit country</b>	19,607	14,376,187	109,096,125	0	3,111,844,926
<b>Transit country - Destination country</b>	18,888	5,185,165	62,249,303	0	2,625,312,281

**Table 5. Data sources for the quantitative analysis of the contextual factors**

<b>POLITICAL FACTORS</b>				
<b>Indicator</b>	<b>Variable</b>	<b>Source</b>	<b>Geographic coverage</b>	<b>Time span</b>
<b>Ongoing armed conflicts</b>	Number of active conflicts (at least 25 battle-related deaths in the year)	Uppsala Conflict Data Program <sup>18</sup>	All world countries	2008-2017
<b>GEOGRAPHICAL FACTORS</b>				
<b>Indicator</b>	<b>Variable</b>	<b>Source</b>	<b>Geographic coverage</b>	<b>Time span</b>
<b>Length of the border</b>	Length of the border between country A and country B (if A and B are contiguous)	Crime&tech calculations based on geospatial open data	All world countries	N.A.
<b>Landlocked country</b>	Dummy variable for whether a country is landlocked	CEPII <sup>19</sup>	All world countries	N.A.
<b>ECONOMIC AND SOCIO-ECONOMIC FACTORS</b>				
<b>Indicator</b>	<b>Variable</b>	<b>Source</b>	<b>Geographic coverage</b>	<b>Time span</b>
<b>Price differential</b>	Difference in the price of a pack of the most sold cigarette brand between country A and country B	Tobacco industry	All 57 countries and other countries generating inflows into the 57	2008-2017
<b>Shadow economy</b>	Size of the shadow economy as a % of the GDP	Medina and Schneider 2017 <sup>20</sup>	All world countries	2008-2015
<b>Colonial relationship</b>	Dummy for whether countries shared a colonial relationship (colony-coloniser or had a common coloniser)	CEPII <sup>21</sup>	All world countries	N.A.
<b>Common language</b>	Dummy for whether countries share a common language (spoken by at least 9% of the pop. or official language)	Melitz and Toubal 2014 <sup>22</sup>	All world countries	N.A.
<b>Legal trade</b>	Trade value (in US\$) of imports and exports of all types of commodities from country A to country B	UN Statistics Division <sup>23</sup>	All world countries	2008-2017
<b>Unemployment</b>	Number of unemployed individuals as a % of total labour force	The World Bank <sup>24</sup>	All world countries	2008-2017
<b>GDP</b>	Gross Domestic Product of a country	The World Bank <sup>25</sup>	All world countries	2008-2017
<b>Urban population</b>	Number of individuals living in urban areas as a % of total population	The World Bank <sup>26</sup>	All world countries	2008-2017
<b>CRIMINAL FACTORS</b>				
<b>Indicator</b>	<b>Variable</b>	<b>Source</b>	<b>Geographic coverage</b>	<b>Time span</b>
<b>Corruption</b>	Control of corruption indicator	The World Bank <sup>27</sup>	All world countries	2008-2016
<b>Terrorist attacks</b>	Number of terrorist attacks	National Consortium for the Study of Terrorism and Responses to Terrorism (START) <sup>28</sup>	All world countries	2008-2017

Note: Missing data imputation strategies have been implemented whenever the cited source did not provide data for all the years included in the analysis. The impact of regulation and enforcement factors and cultural factors has been estimated through a qualitative analysis due to difficulties in the operationalisation of the related contextual factors.

## **Qualitative analysis of the contextual factors**

The qualitative analysis of the contextual factors consisted of a literature review on factors enabling illicit cigarette flows, which in a second phase was corroborated by interviews with experts on the topic.

The qualitative analysis had three main goals:

1. supporting the quantitative analysis in the **identification of the enabling factors** shaping the transnational network of illicit cigarette trafficking (principally regarding regulation and enforcement and cultural factors);
2. **uncovering** the specific **mechanisms linking these factors with changes in the volume of cigarettes** trafficked;
3. **deepening the understanding of the enabling factors with specific regard to the three main routes** identified by the analysis—the Maghreb Route, the North-Eastern Route and the Extended Balkan Route—and to the main flows along these routes.

The review considered different types of sources:

- academic literature: scientific works published in scientific journals;
- grey literature: informally published documents such as publications by private or public organisations, technical and research reports, research projects, graduation and PhD theses, presentations for conferences and seminars;
- news articles: contents published by newspapers and intended for a general audience;

- press releases: written communications directed at members of the news media for the purpose of announcing seizure cases or investigative operations by LEAs and customs;
- interviews with experts: scholars, law enforcement agents, officers of international institutions.

### **Academic and grey literature**

The **academic and grey literature review** considered documents published from 2008 to 2017.

Relevant sources were identified through the following **digital means**:

- Google search engine;
- Google Scholar;
- Scopus database;
- JSTOR database;
- criminal justice abstract database;
- online library catalogue of the Università Cattolica del Sacro Cuore.

The following **keywords** were used to search for the relevant documents within the above-mentioned digital means:

- cigarette smuggling;
- tobacco smuggling;
- cigarette contraband;
- tobacco contraband;
- counterfeit cigarettes;
- counterfeit tobacco.

Keywords were translated into the official spoken language of each EU country as well as into Arabic, Belarussian, Russian, Serbian, Turkish and Ukrainian to cover all the 57 countries included in the analysis.

**The total number of documents found was 750.**

### **Press articles**

The **press articles review** considered online press articles published from 2008 to 2017 in the 57 countries included in the analysis.

The articles were collected from two of the largest online news depositories:

- ProQuest - <http://www.proquest.com>;
- LexisNexis - <https://www.lexisnexis.com/en-us/gateway.page>.

The articles were automatically identified by applying the following query: *(seizure OR seized) AND (tobacco OR cigarette) AND (smuggling OR trafficking OR contraband OR counterfeit OR "smuggled cigarette" OR "smuggled tobacco" OR illicit trade)*

The query was translated into all the languages available in the two repositories and validated by native speakers.

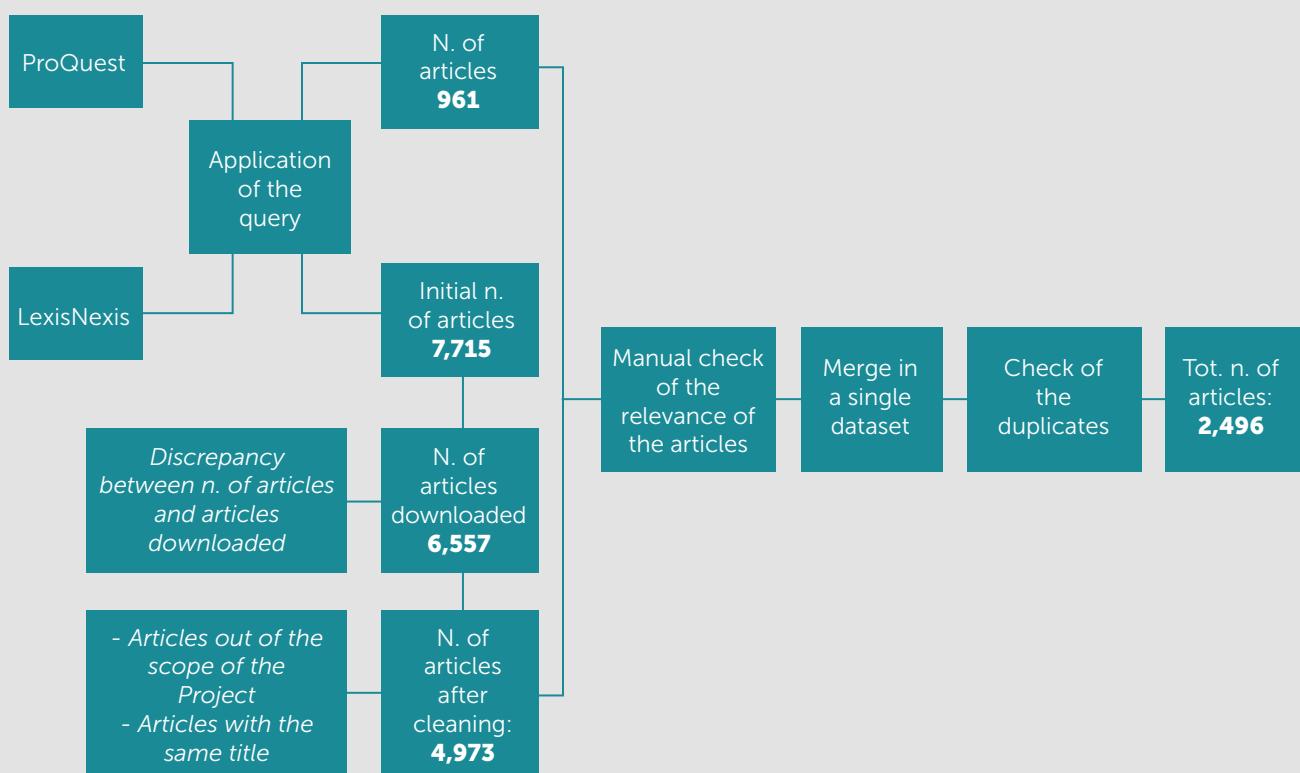
**The total number of articles collected was 2,496** (see Figure 2).

### **Press releases**

The **press releases review** considered the online press releases published on national and institutional websites from 2008 to 2017. The focus was mainly on countries with limited information available (see Table 6). The words "cigarette" and "tobacco" were used to search the releases on the websites.

**The total number of press releases collected was 474.**

**Figure 2. Steps followed to collect online press articles**



**Table 6. List of institutional websites consulted to gather press releases**

Country	Authority/Institution	Website
Bosnia and Herzegovina	Border Police	<a href="http://www.granpol.gov.ba">www.granpol.gov.ba</a>
Bulgaria	Customs Agency	<a href="http://www.en.customs.bg">www.en.customs.bg</a>
Croatia	Ministry of Finance – Customs Administration	<a href="http://www.carina.gov.hr">www.carina.gov.hr</a>
Cyprus	Ministry of Finance	<a href="http://www.mof.gov.cy">www.mof.gov.cy</a>
Estonia	Tax and Customs Board	<a href="http://www.emta.ee">www.emta.ee</a>
Finland	Customs	<a href="http://www.tulli.fi">www.tulli.fi</a>
Georgia	Revenue Service	<a href="http://www.rs.ge">www.rs.ge</a>
Gibraltar (UK)	HM Government of Gibraltar	<a href="http://www.gibraltar.gov.gi">www.gibraltar.gov.gi</a>
Hungary	National Tax and Customs Administration	<a href="http://www.nav.gov.hu">www.nav.gov.hu</a>
Israel	Ministry of Finance – Israel Tax Authority	<a href="http://www.taxes.gov.il">www.taxes.gov.il</a>
Kosovo	Ministry of Finance – Kosovo Customs	<a href="http://www.dogana.rks-gov.net/en/">www.dogana.rks-gov.net/en/</a>
Luxembourg	Administration des douanes et accises	<a href="http://www.do.gouvernement.lu">www.do.gouvernement.lu</a>
North Macedonia	Ministry of Finance – Customs Administration	<a href="http://www.customs.gov.mk">www.customs.gov.mk</a>
Moldova	Customs Service	<a href="http://www.customs.gov.md">www.customs.gov.md</a>
Morocco	Administration des douanes et impôts indirects	<a href="http://www.douane.gov.ma">www.douane.gov.ma</a>
Norway	Customs	<a href="http://www.toll.no">www.toll.no</a>
Romania	National Agency for Fiscal Administration – General Customs Direction	<a href="http://www.customs.ro">www.customs.ro</a>
Saudi Arabia	Saudi Customs	<a href="http://www.customs.gov.sa">www.customs.gov.sa</a>
Serbia	Ministry of Finance - Customs Administration	<a href="http://www.upravacarina.rs/en/">www.upravacarina.rs/en/</a>
Slovakia	Financial Administration	<a href="http://www.financnasprava.sk">www.financnasprava.sk</a>

# Glossary

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The following terms have been used in the present booklet with the following meaning:

**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 small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.<sup>29</sup>

**Contraband or smuggling:** the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.<sup>30</sup>

**Counterfeits:** 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.<sup>31</sup>

**Destination country:** country in which illicit cigarettes originating in another country are finally consumed.

**Domestic cigarettes:** cigarettes that originate from the same market in which they are consumed.

**Domestic whites:** domestic cigarettes that are priced below the minimum tax yield. These cigarettes are treated as having not been legally sold in the country in question.<sup>32</sup>

**Duty-free cigarettes:** cigarettes bought without payment of customs or excise duties. Consumers may buy duty-free cigarettes when travelling into or out of the EU (including Switzerland and Norway) by land, air or sea at legal duty-free shops.<sup>33</sup>

**Empty pack survey (EPS):** survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

**Flow:** the movement of cigarettes between two countries.

**Illicit whites:** cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.<sup>34</sup>

**Inflow:** the inward flow of cigarettes.

**Law enforcement agencies (LEAs):** governmental and international agencies responsible for the enforcement of the laws; with respect to cigarette trafficking, international and national Police and Customs that coordinate, support and conduct anti-cigarette smuggling actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

**Non-domestic cigarettes:** cigarettes that originate from a market different from the one in which they are consumed. They may be legal if brought into the market legally by consumers, for instance during a cross-border trip, or illegal if brought into the market illegally.<sup>35</sup>

**Origin country:** country from which the illicit flow of cigarettes originates.

**Outflow:** the outward flow of cigarettes.

**Path:** the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination.

**Route:** the broad combination of paths and flows connecting different macro regions in the transnational trafficking of cigarettes.

**Transit country:** country through which cigarettes pass to flow from their country of origin to their country of destination.

**Unspecified:** cigarette packs which do not bear specific market labelling.<sup>36</sup>

# End notes

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