

EXECUTIVE SUMMARY

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products*. It focuses on Italy, where the illicit trade in tobacco seems to have grown in recent years. This fact, combined with the geographical location of the country and the consolidated presence of organised crime, makes Italy an interesting country to explore in terms of ITTP flows in the Mediterranean basin and towards North European countries.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters:

- Chapter one deals with the **five drivers of the ITTP**: society and economy, the legal market, regulation, the crime environment and enforcement. ***The drivers are important areas whose structures may positively or negatively impact on the ITTP. To enable comparison with other country profiles, five key indicators have been selected for each driver.*** The data for the driver indicators come from comparable sources (latest available years). When possible, the report provides the most up-to-date data from national sources.
- Chapter two focuses on the **four components of the ITTP**: demand, supply, products, *modus operandi* and geographical distribution.
- Chapter three identifies the **key factors of the ITTP in Italy and frames the drivers in the components**, analysing how different elements of the drivers influence the components of the ITTP.

THE FIVE DRIVERS

- **Society and economy:** Italy is a high-income country with long life expectancy. The population is growing, mainly due to migration flows into the country. In recent years, the global financial crisis has hit Italy hard and weakened its economy, in terms of both GDP growth and employment. Furthermore, the crisis has impacted on social and cultural development. Public expenditure is mainly concentrated on education and health care expenditure, although it is lower than in other European countries.
- **Legal market:** Italy is one of the largest tobacco markets in Europe, especially because of raw tobacco cultivation, although this decreased in 2011. The tobacco sector employs 240,000 people and the total value of cigarettes sales was around 19.8 billion euros in 2012, an increase of 2.6% on 2011. The percentage of smokers has declined in comparison with 2011, and the highest percentage of smokers is concentrated in the South of Italy and on the Islands (Sicily and Sardinia).
- **Regulation:** The tobacco market is closely regulated in Italy. Italy is a party to the WHO Framework Convention on Tobacco Control and, as a European Union member state, it complies with the European directives on tobacco control. Tax incidence on the final retail price is high, and taxation per 1,000 sticks is medium-high. Supply chain control, and control over tobacco consumption, sales and advertising, are high.

- **Crime environment:** Between 2010 and 2011, crime increased in Italy. Homicides, assaults, thefts and robberies grew in number. Moreover, drug use, especially of cocaine and cannabis, is high. The presence of corruption and organised crime is large in comparison with other European countries. Corruption and organised crime, together with the presence of shadow economies, may increase opportunities for illicit trades, including the ITTP. It has been estimated that around 2% of the revenues of the Italian criminal organisations (mafia organisations) derive from the illicit trade in tobacco products.
- **Enforcement:** Italy has a high number of police personnel and judges. The prison population is below the European average; nevertheless prisons are overcrowded. The fight against the illicit trade in tobacco products is waged through cooperation between Italian law enforcement agencies and European institutions, as well as with third countries' customs offices, and through public awareness campaigns promoted by the government ministries. Enforcement action against the ITTP is only average because it lacks a national plan against the ITTP and the Italian institutions do not provide periodic estimates on the ITTP.

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THE FOUR COMPONENTS OF THE ITTP

- **The demand:** the main factors in the demand for illicit tobacco are its accessibility and availability. In Italy, illicit cigarettes cost half the price of legal cigarettes. Availability is an important component of the ITTP because in some areas of the country it stimulates the demand for illicit tobacco.
- **The supply:** The supply of illicit tobacco is mainly driven by the opportunity to make very high profits with relatively low risks. The actors involved in the ITTP supply chain are mainly criminal organisations.
- **The products:** There are no official updated and periodic estimates on the ITTP in Italy. Nevertheless, some sources try to quantify the size of this illicit market in Italy. In the past, contraband cigarettes were the most popular illicit product. In more recent years, however, illicit whites have undergone strong growth. In 2012, the majority of cigarettes seized were illicit whites (for more details on the different categories of illicit products, see p.14).

- **Modus operandi and geographical distribution:** There are three main points of entry of illicit tobacco into Italy: the Adriatic Sea, the Tyrrhenian Sea and the Friuli-Venezia Giulia region. Several illicit tobacco products enter Italian territory through these channels. Italy is also a major hub for illicit products transiting to other markets. Nevertheless, it is not possible to use the data available to quantify the exact proportion of the illicit tobacco products bound for other markets.

FRAMING THE COMPONENTS IN THE DRIVERS

The five key factors of the ITTP

The report identifies five key factors behind the ITTP in Italy. These are fundamental determinants of the illicit trade and affect its components. Hereafter, four subsections analyse how the five drivers affect the key factors and in turn the components of the ITTP. The key factors are:

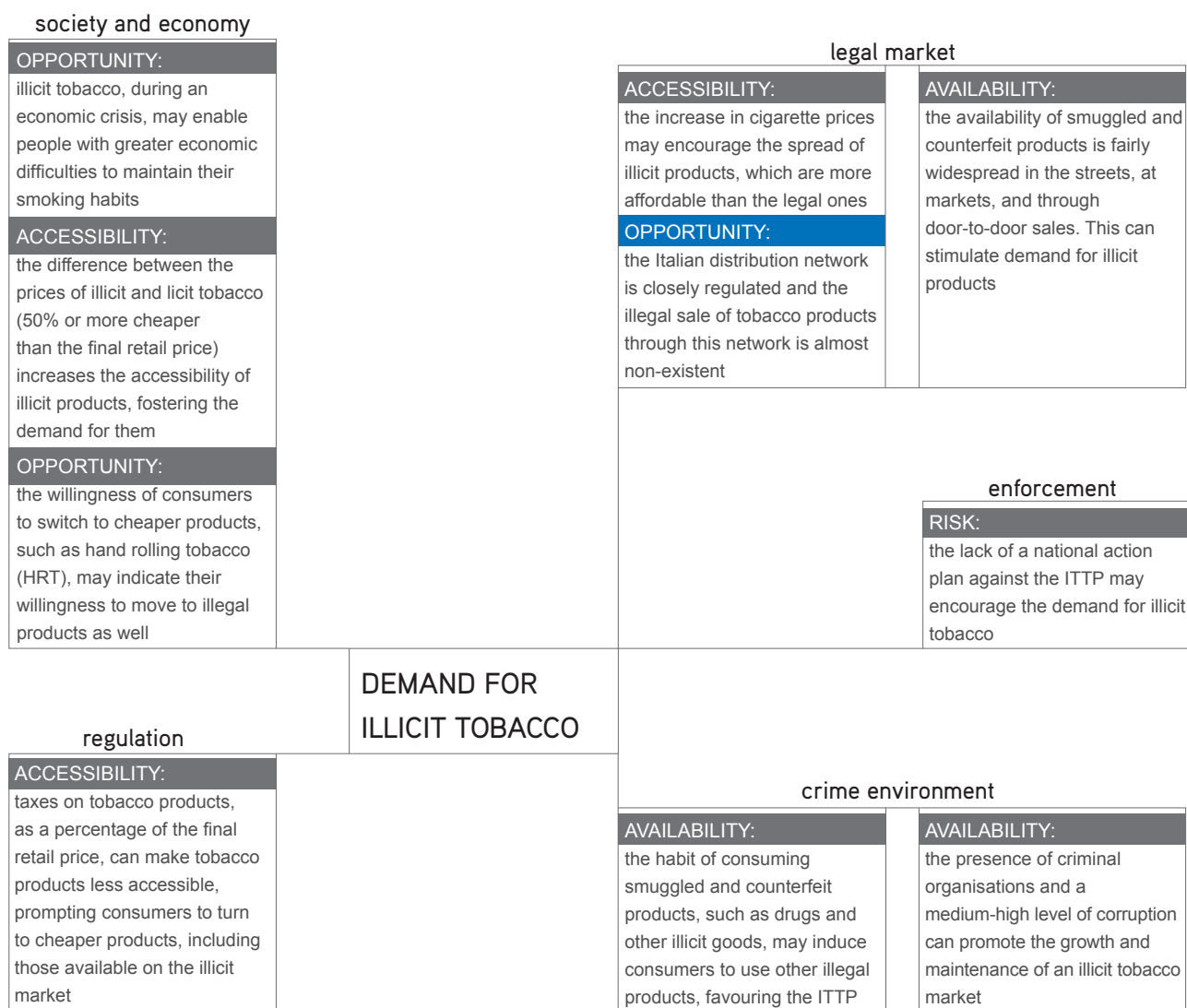
- **Accessibility:** the price of illicit tobacco, and particularly its relative price compared to legal products, is a crucial factor in determining the scope and prevalence of the ITTP.
- **Availability:** the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP.
- **Profitability:** the ITTP is an extremely profitable activity owing to the high income that it offers compared with its operational costs.
- **Risk:** the threat of *detection/accusation/conviction* and the sanctions imposable impact on the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market, the crime environment, and the law enforcement system.

This study analyses the complex interactions among the drivers, the key factors and the components of the ITTP. The following figures synthesise the main interactions, highlighting the multifaceted nature of the ITTP in Italy.

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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Figure 1. The interaction between the demand for illicit tobacco and the five drivers

Source: Transcrime elaboration



THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

The main factors affecting the demand are the **accessibility**, the **opportunity** and the **availability** of illicit tobacco (Figure 1).

Society and economy. In Italy, illicit tobacco products cost around half the price of legal products. The accessibility of illicit tobacco may stimulate the demand for it. Especially in times of economic crisis and rising unemployment, consumers may switch to cheaper tobacco products, including illicit tobacco products.

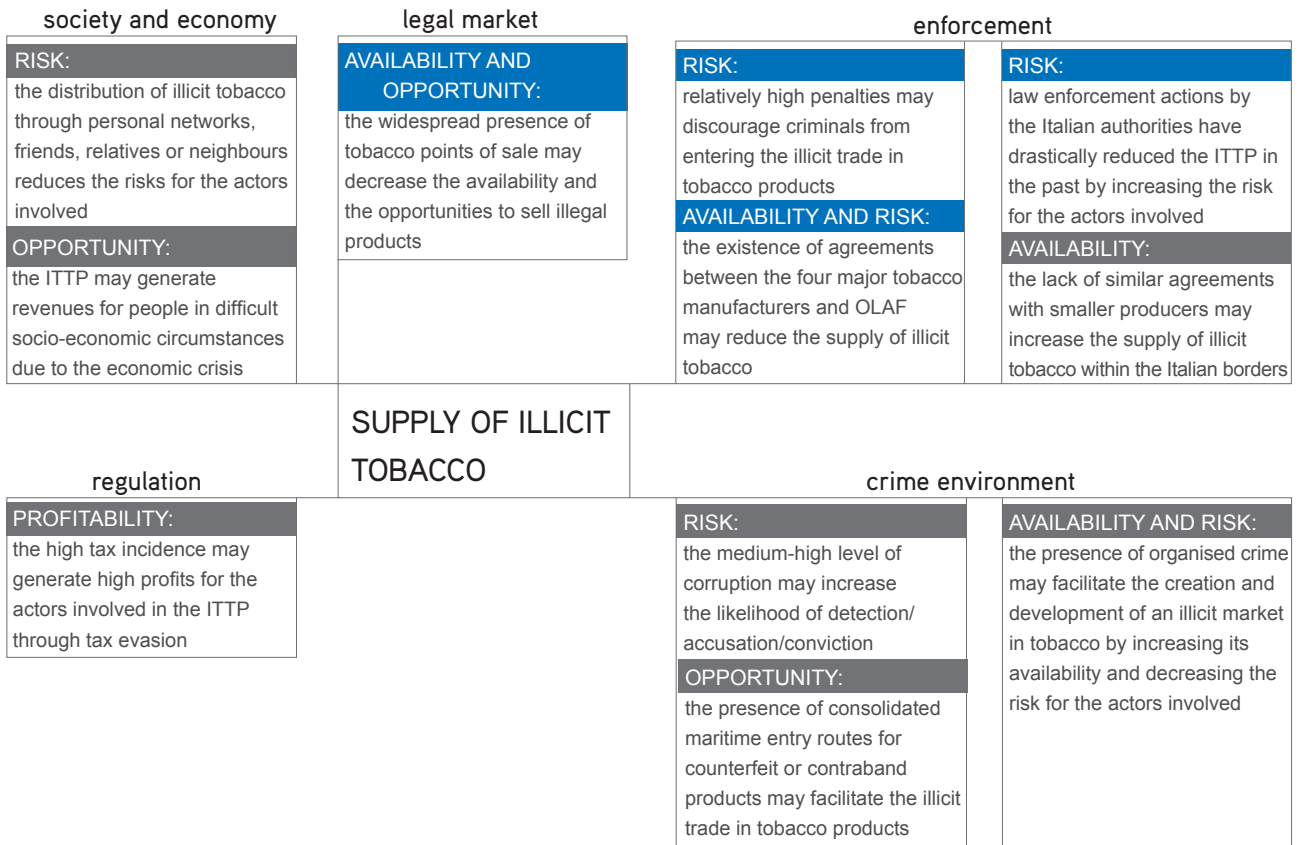
Legal market. The increasing price of cigarettes in Italy may induce smokers either to switch to cheaper tobacco products or to move to the illicit market. Cigarettes still seem to be affordable in the country, although in 2012 the affordability rate (the ratio between income and the cost of cigarettes) decreased slightly. This may induce consumers to buy tobacco products at lower prices, including illicit tobacco products. Furthermore, the availability of illicit products in street markets, on the streets, or through door-to-door sales, may increase the demand for them.

Regulation. In Italy, tax incidence as a percentage of the final retail price is high. Because this taxation affects the retail price, it reduces the accessibility of legal products and encourages consumers to switch to cheaper products (downtrade) or to move to the illicit market.

Figure 2. The interaction between the supply of illicit tobacco and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP) positive effect (decreases the ITTP)



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Crime environment. Italy has a high level of drug consumption, particularly of cocaine and cannabis. A strong demand for illegal products may increase the availability of illicit tobacco. In addition, the country has medium-high levels of corruption, organised crime and informal economy. These conditions may foster the birth and growth of illegal markets such as the ITTP.

Enforcement. The lack of a national action plan against the ITTP may increase the demand for illicit tobacco.

THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Profitability, opportunity and risk are the main factors affecting the supply of illicit tobacco (Figure 2).

Society and economy. The ITTP may generate revenues for people in difficult socio-economic circumstances due to the economic crisis. In addition, illicit tobacco purchases through personal networks, friends, relatives or neighbours reduce the risks for the actors involved and increase the incentives to engage in the ITTP.

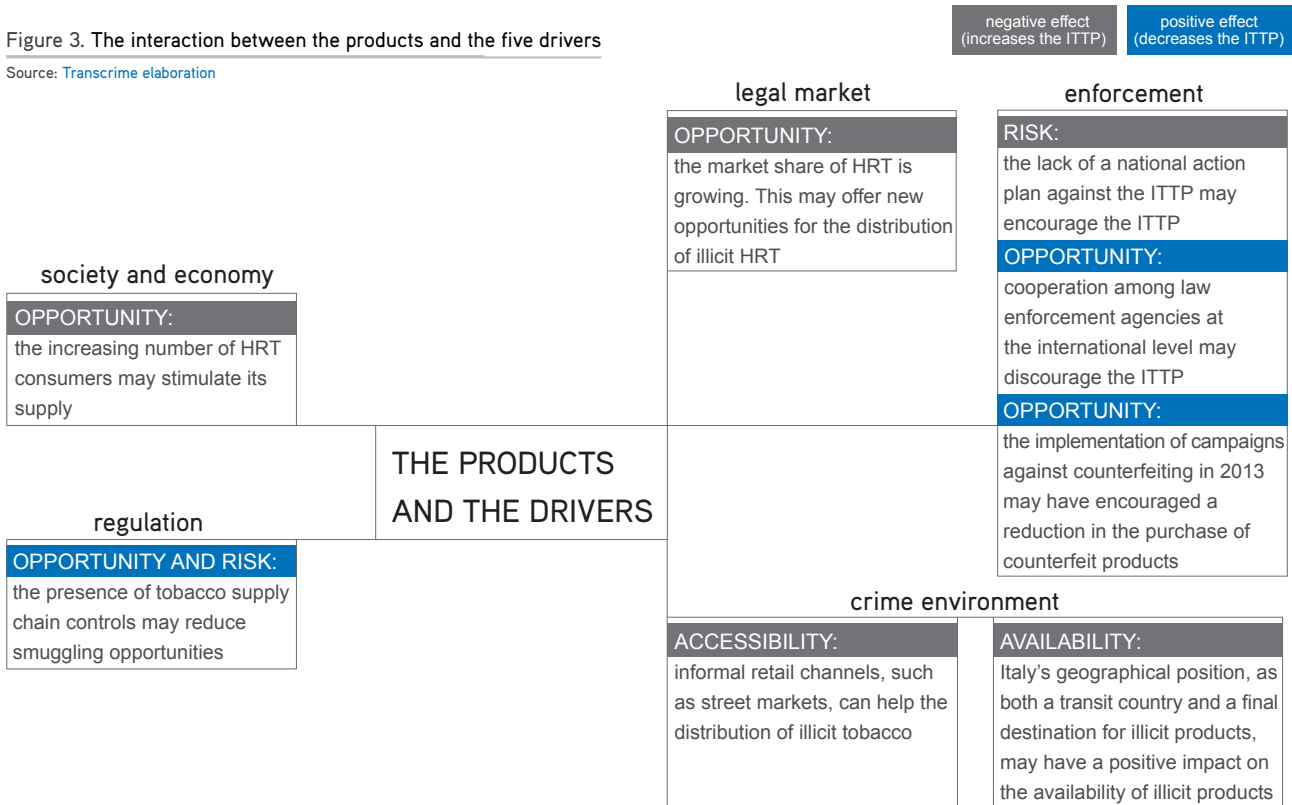
Legal market. The widespread presence of tobacco points of sale significantly increases the availability of legal products and reduces the opportunity for illicit tobacco to substitute licit tobacco.

Regulation. In Italy, taxation is high as a percentage of the final retail price and medium-high in terms of monetary amount per 1,000 cigarettes. In particular, the latter encourages the supply of illicit products. In fact, the higher the taxation per 1,000 sticks, the higher the final retail price and the net profit for traffickers.

Crime environment. A medium-high level of corruption facilitates all kinds of illicit trafficking because it reduces the risk of being caught. The presence of mafia organisations may reduce the risk of detection and arrest and increase the availability of illicit tobacco through the exploitation of economies of scope together with other forms of trafficking. The existence of shadow economies and consolidated maritime routes for the entry of other illicit products may also facilitate the illicit trade in tobacco products.

Figure 3. The interaction between the products and the five drivers

Source: Transcrime elaboration



Enforcement. Deterrence increases the risk and reduces the opportunities to engage in the ITTP. In Italy, relatively high penalties may be strong disincentives for traffickers. Moreover, law enforcement actions by Italian authorities have drastically reduced the ITTP in the past and could also be decisive in the future. On the one hand, existing agreements between the four main tobacco manufacturers and OLAF for a better tracking and tracing regime may reduce the supply of illicit tobacco in Italy. On the other hand, the lack of similar agreements between smaller producers and OLAF may increase its availability within the Italian borders. Finally, improving cooperation agreements with countries pivotal for the ITTP could reduce the availability of illicit tobacco products.

THE PRODUCTS AND THE DRIVERS

Opportunity and risk are key elements in the analysis of the products (Figure 3).

Society and economy. Social, cultural and economic factors may modify the choices of consumers in regard to illicit tobacco products. For instance, HRT is an emerging product because of its low price. This may increase the supply of illicit HRT.

Legal Market. The consumption of HRT has increased. This may augment the supply of this product on the illicit market.

Regulation. In Italy, there is a high level of control on the tobacco supply chain and on tobacco sales. Moreover, tobacco manufacturing and retail are subject to licensing, and a customer identification and verification system is in place. Furthermore, Italy has a tracking and tracing system of tobacco products, and the four largest cigarette manufacturers have a legal obligation not to facilitate smuggling. All these factors favour controls and help reduce the availability of illicit tobacco.

Crime environment. The presence of an informal shadow economy facilitates the sale of illicit tobacco products in Italy. Markets and illicit tobacco retail on the streets are common and are difficult to control. In addition, Italy is both a transit country and a final destination for illicit products. Its role as an importer and its geographical location makes it a hub for licit and illicit trade flows.

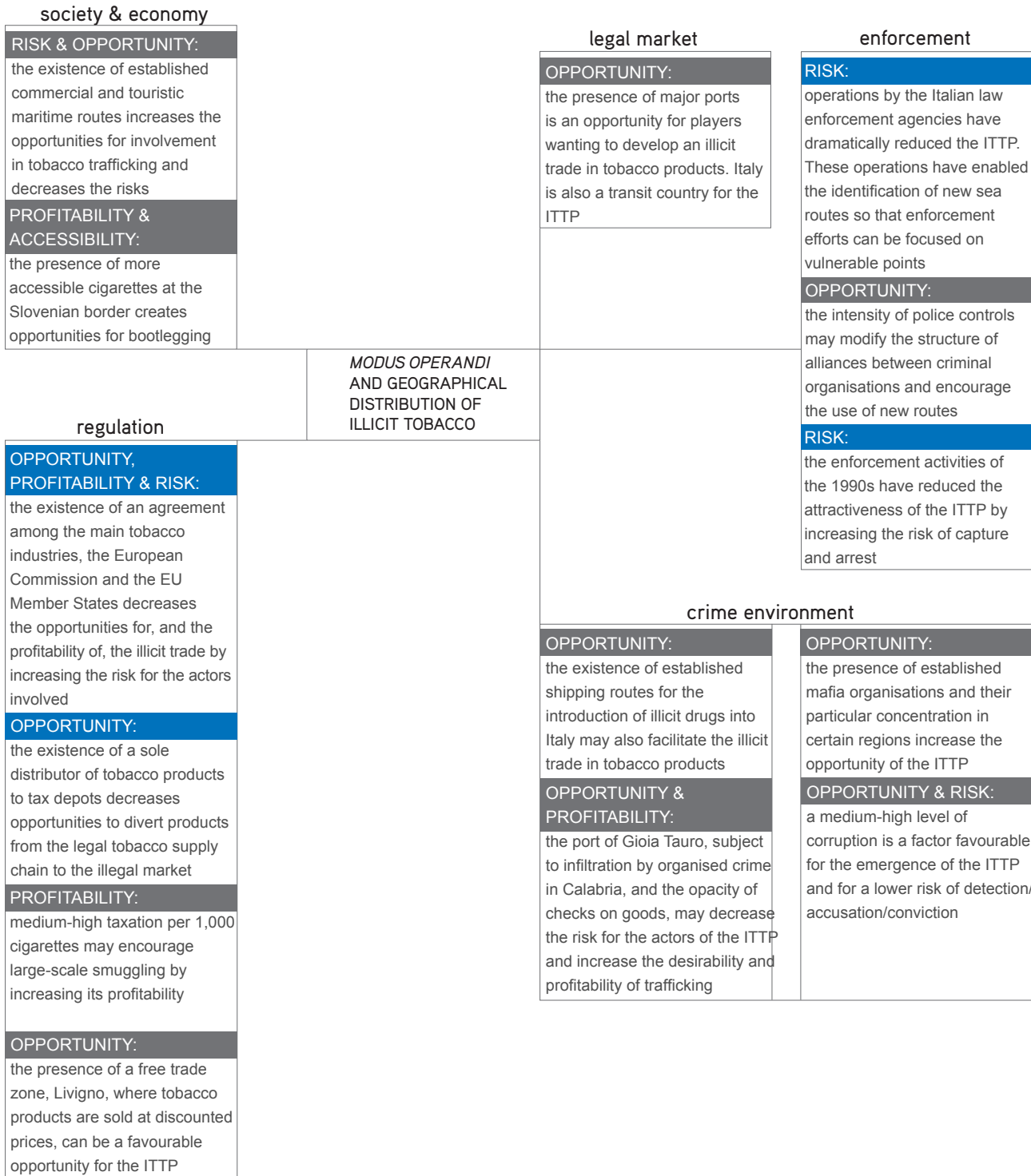
Enforcement. The lack of a programme against the ITTP may facilitate the illicit trade in tobacco products. However, the presence of various forms of cooperation, among European customs bodies as well as with ministries and supervisory bodies outside Europe, facilitates the control of illicit flows and decreases the traffic. Moreover, the presence of campaigns against counterfeiting creates and increases consumer awareness, encouraging a reduction in the purchase of counterfeit products.

Figure 4. The interaction between the *modus operandi* and geographical distribution of the ITTP and the five drivers

Source: Transcrime elaboration

negative effect
(increases the ITTP)

positive effect
(decreases the ITTP)



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THE MODUS OPERANDI AND GEOGRAPHICAL DISTRIBUTION AND THE DRIVERS

Each of the five drivers affects the *modus operandi* and geographical distribution of the ITTP. The key factors are **opportunity**, **risk**, and **profitability** (Figure 4).

Society and economy. The geography of Italy, a peninsula between the Adriatic, Ionian, Tyrrhenian and the Mediterranean seas, makes the country a hub and a strategic transit point for maritime traffic of illicit tobacco.

Legal Market. The presence of major ports used for legal trade is also an opportunity for the actors involved in the illicit trade in tobacco products. This is confirmed by tobacco seizures made by *Guardia di Finanza* (GdF-Italian Financial Police), which are mainly concentrated in the proximity of ports.

Regulation. On the one hand, the existence of a sole distributor of tobacco products – Logista Italia S.p.A. – impedes the diversion of products from the legal tobacco supply chain to the illegal market. Moreover, the existing agreements among the tobacco industry, the European Commission and the Member States prevent the diversion of tobacco products from the legal channel by increasing the risk for the actors involved. On the other hand, the medium-high taxation per 1,000 cigarettes encourages large-scale smuggling because it ensures greater profitability to the actors involved.

Crime environment. The existence of established shipping routes for the introduction of illicit drugs into Italy can also facilitate the illicit trade in tobacco products. Moreover, the presence of established mafia organisations and their particular concentration in certain regions increase the chance for the ITTP to develop and affect its geographic distribution.

Enforcement. Operations by the Italian police forces, especially in the 1990s, have changed and reduced the ITTP. Recent operations have enabled the identification of new sea routes and the focusing of enforcement efforts on the points of greatest vulnerability.

CONCLUSIONS

There are no official and periodically updated estimates on the ITTP in Italy. However, a number of studies on the ITTP are conducted every year (Empty Pack Survey and Project STAR), recognised by OLAF and in collaboration with the tobacco industry. Despite the lack of official data, smuggled and counterfeit cigarettes seem to be quite readily available in Italy, especially in areas bordering on Slovenia and in areas close to ports on the Adriatic and Tyrrhenian Seas.

The results of this study demonstrate the need for more data and more detailed studies on the illicit tobacco market in Italy. Key issues include the dynamics of wholesale, retail distribution, and types of illicit tobacco products, especially illicit whites cigarettes, which are widely available in the city of Naples. It is also important to investigate the actors involved in the ITTP and to determine whether they have specific features in terms of organisation. Furthermore, it is necessary to distinguish among the different types of illicit tobacco products, between non-domestic legal and non-domestic illegal cigarettes and between counterfeit cigarettes and illicit whites.

In addition, the actors seemingly in control of the illicit tobacco market in Italy are traditional criminal organisations (Cosa Nostra, 'Ndrangheta, Camorra and Sacra Corona Unita), foreign organised groups, and other foreign individuals or small groups of different ethnicities. Further investigations on the actors engaged in the ITTP would allow a more complete analysis.

The ITTP is a complex phenomenon not just a concern for police forces and the judicial system. Despite the efforts of the Italian authorities, which led to a collapse of the illicit market in the early 2000s, in recent years the ITTP has grown. Additional preventative measures, such as a national action plan against the ITTP, are necessary. In fact, effective action requires comprehensive strategies, including criminal punishment, administrative penalties and other measures to reduce opportunities for crime.

The evolution of the project has shown that countries have very different situations in relation to the available data on the ITTP. In some cases, the quality of the available data is poor, and there are no official, regularly updated, data. This inevitably affects the quality and reliability of the results. In these cases, institutions, businesses and other stakeholders concerned with the ITTP should consider how to improve the collection of data on illicit tobacco. This would result in improved knowledge about the ITTP and, hence, in better tobacco control policies, given that the impact of specific policy measures on crime may quite often be overlooked owing to the lack of reliable data.

Following the completion of the first phase of the project focused on collecting facts and data through the country profiles, Transcrime will perform a comparative analysis of the selected countries. This will provide additional insights into the complexity of the ITTP and allow for the elaboration of policy recommendations.



Location:

Italy is a peninsula in southern Europe. The surface of the Italian territory covers 301,340 square km, divided between the peninsula and the islands, Sicily and Sardinia. Italy borders on France, Switzerland, Austria and Slovenia. In addition, the Italian territory includes the states of San Marino and the Vatican. The rest of the territory is surrounded by the Ligurian, the Tyrrhenian, Ionian and Adriatic seas. Italy is divided into 20 regions which include 110 provinces.

Population: 60,723,603 (2011)

- Male:** 29,954,565 (49.0%)
- Female:** 30,969,038 (51.0%)
- Growth Annual Rate:** 0.4% (2011)
- Age Structure:** (0-14) 14.1%; (15-64) 65.3%; (65+) 20.6%
- Fertility Rate:** 1.4 children born/woman (2011)
- Life expectancy at birth (years):** 82.1 (2011)
- GDP:** US\$ 2,193,971,063,000 (2011)
- GDP growth:** 0.4% (2011)
- Inflation consumer price:** 2.7% (2011)
- Income level:** High