

This report provides the first country profile of *the Factbook on the Illicit Trade in Tobacco Products* project. The country profile focuses on the UK, where the illicit trade in tobacco products (hereinafter ITTP) has become an important concern since the 1990s. Although Government action since 2000 has successfully reduced the market share of illicit tobacco, the UK's illegal market is still above the average of other EU Member States.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three sections:

- Section 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.***
- Section two focuses on the **four components of the ITTP**: demand, products, supply, *modus operandi* and geographical distribution.
- Section three identifies the **key factors of the ITTP in UK and frames the drivers in the components**, analysing how different elements of the drivers influence the components of ITTP.

THE FIVE DRIVERS

- **Society and economy:** The UK is a developed society, but social and economic inequalities have grown. The global financial crisis started 2008 is likely to heighten this trend. This situation may affect the ITTP, making cheap tobacco products attractive to smokers of lower socio-economic status, the ones most affected by the crisis.
- **Legal market:** The tobacco market is an important sector for the UK economy. The market is experiencing a decrease of consumption and a downtrading trend. Smokers are switching to cheaper brands and products as a consequence of price increases. This trend may have an impact on the ITTP, since illicit tobacco products are significantly cheaper than the products legally on sale in the UK.
- **Regulation:** The UK has invested a significant amount of resources in tobacco control policies and taxation on tobacco products is high.
- **Crime environment:** Crime is decreasing in the UK and there are low levels of structured organised crime groups and corruption. However, drug consumption is high and this signals that there may be different opportunities for illicit traffics, from drugs to illicit tobacco.
- **Enforcement:** In the UK, law enforcement in general is effective and strict. The action against the ITTP has been intense since 2000. The Government strategy

and its subsequent revisions have produced important results, although the market share of illicit hand rolling tobacco (HRT) remains high.

THE FOUR COMPONENTS OF THE ITTP

- **The demand:** The main causes of demand for illicit tobacco products are the low price and their availability. Furthermore, consumers are not concerned about implications and dangers of ITTP.
- **The supply:** the supply of illicit products is mainly due to its high profitability and relatively low risk of detection and conviction
- **The products:** Types of illicit products and methods of smuggling have changed over the years, as a reaction to enforcement strategies. Large scale smuggling has decreased and was partially superseded by counterfeiting and illicit whites. Notwithstanding the efforts by UK authorities, illicit HRT still accounts for nearly a half of the total consumption.
- **Modus operandi and geographical distribution:** The *modus operandi* of the tobacco illicit trade varies according to the type of trade, the destination, the availability of transportation connections and the need to evade countermeasures. There exist regional differences in the diffusion of ITTP: the North East of England records the biggest illicit market volume among the British regions.

FRAMING THE COMPONENTS IN THE DRIVERS

The five key factors of the ITTP

The report identifies five key factors of the ITTP in the UK. The key factors are **fundamental determinants of the illicit trade and affect all its components**. Thereafter, four subsections analyse **how the five drivers impact on the key factors and in turn on the components of the ITTP**. The key factors are:

- **Affordability:** 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 compared to the operational costs.
- **Risk:** the threat of detection/accusation/conviction and the imposing sanctions impact upon the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market and law enforcement.

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 complex and multifaceted nature of the ITTP in the UK.

THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

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

Figure 1. The interaction between the demand for illicit tobacco and the five drivers.

Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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Society and economy. The global financial crisis had an impact of the purchasing power of consumers in the UK. The affordability of legal tobacco products has decreased and this may stimulate the demand for illicit tobacco. The availability of cheaper illicit tobacco increased its attractiveness as switching option, particularly for smokers in lower socio-economic circumstances. Indeed, illicit tobacco provides opportunities to continue smoking with scant economic resources.

Legal market. Retail price increases contribute to make legal tobacco products less affordable stimulating the demand for illicit tobacco. Downtrading (consumers switching to cheaper brands and products) is a fact in the UK market. Consumers may access to illicit tobacco as a viable alternative within the overall downtrading trend.

Regulation. The high incidence of taxation on the retail prices increases the difference in the prices of legal and

illegal products. The last ones are more affordable due to the evasion of taxes. The lack of regulation of niche tobacco products may stimulate the illegal demand, thus fostering their availability.

Crime environment. High drug use in the UK may be associated with illicit tobacco consumption. The large UK drug markets may increase the availability of illegal tobacco products.

Enforcement. Anti-ITTP campaigns may increase consumers awareness of the dangers associated to illicit tobacco and provide instruments to report suspect activities and products.

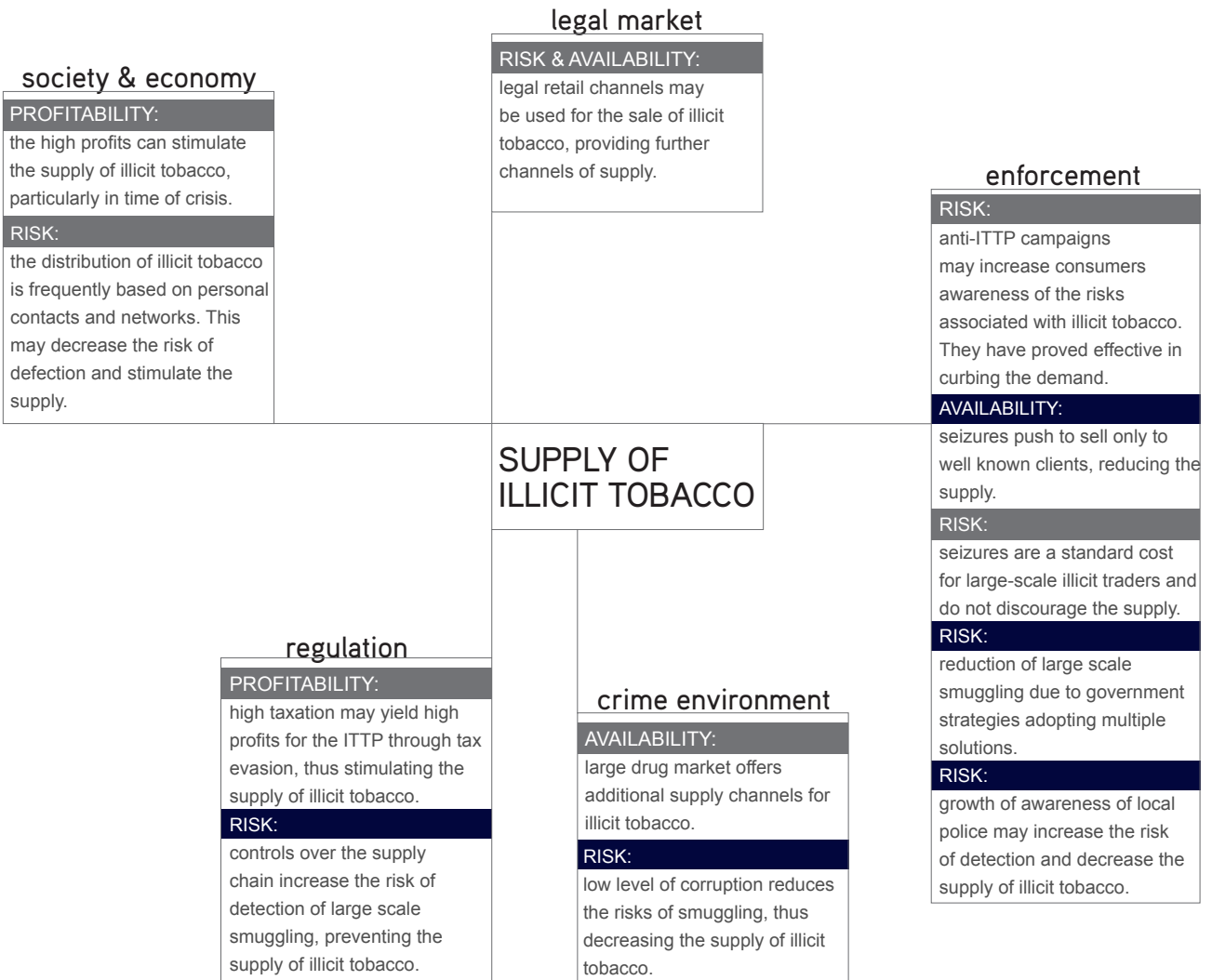
THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Profitability and risk are important factors for the supply of illicit tobacco.

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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Society and economy. The high profitability of the ITTP is a crucial element stimulating its supply. Furthermore, illicit tobacco is frequently distributed by ordinary people through personal contacts or small networks. This may decrease the risk of detection.

Legal market. Legal retail channels may be used for the sale of illicit tobacco. This increases the availability and diminishes the risk for the actors involved.

Regulation. High taxation on tobacco products busts the profitability of the ITTP, due to the possibility to evade taxes. Contrarily, the introduction of tighter controls on the supply chain has increased the risk of detection for large-scale smugglers and proved effective in curbing the ITTP.

Crime environment. The large UK drug markets provide a variety of distribution channels thus increasing the availability of illicit tobacco. Nevertheless, low UK

corruption rate reduces the possibility to bribe law enforcement and regulators, resulting in a higher risk of detection.

Enforcement. Low penalties and conviction rates diminish the risks for those involved in the ITTP. Seizures, while reducing the availability of illicit tobacco in the short term, are generally considered a standard cost for traffickers. The increasing police awareness of threats posed by the ITTP and the Government anti-ITTP strategy, which introduced a number of different policy measures, had a relevant impact in reducing the supply of illicit tobacco.

Figure 3. The interaction between the products and the five drivers.
Source: Transcrime elaboration

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



THE PRODUCTS AND THE DRIVERS

The main factor determining the development and diffusion of different types of products is **opportunity**, particularly as a result of intensified enforcement efforts.

Society and economy. HRT is popular among manual and low income workers, which are also the most attracted by illicit tobacco due to its lower prices. This created opportunities for the diffusion of illicit HRT, whose share has remained significantly high.

Legal market. The market share of HRT has increased in the last years, due to lower retail prices and increasing popularity among young consumers. This may offer new opportunities for the distribution of illicit HRT.

Regulation. The restrictions on the availability of either tobacco products in general (e.g. through new policy

measures) or specific products (e.g. niche tobacco products) may provide opportunities for the diffusion of illicit products. Furthermore, the lack of controls over the legal supply chain may create opportunities for large scale smuggling.

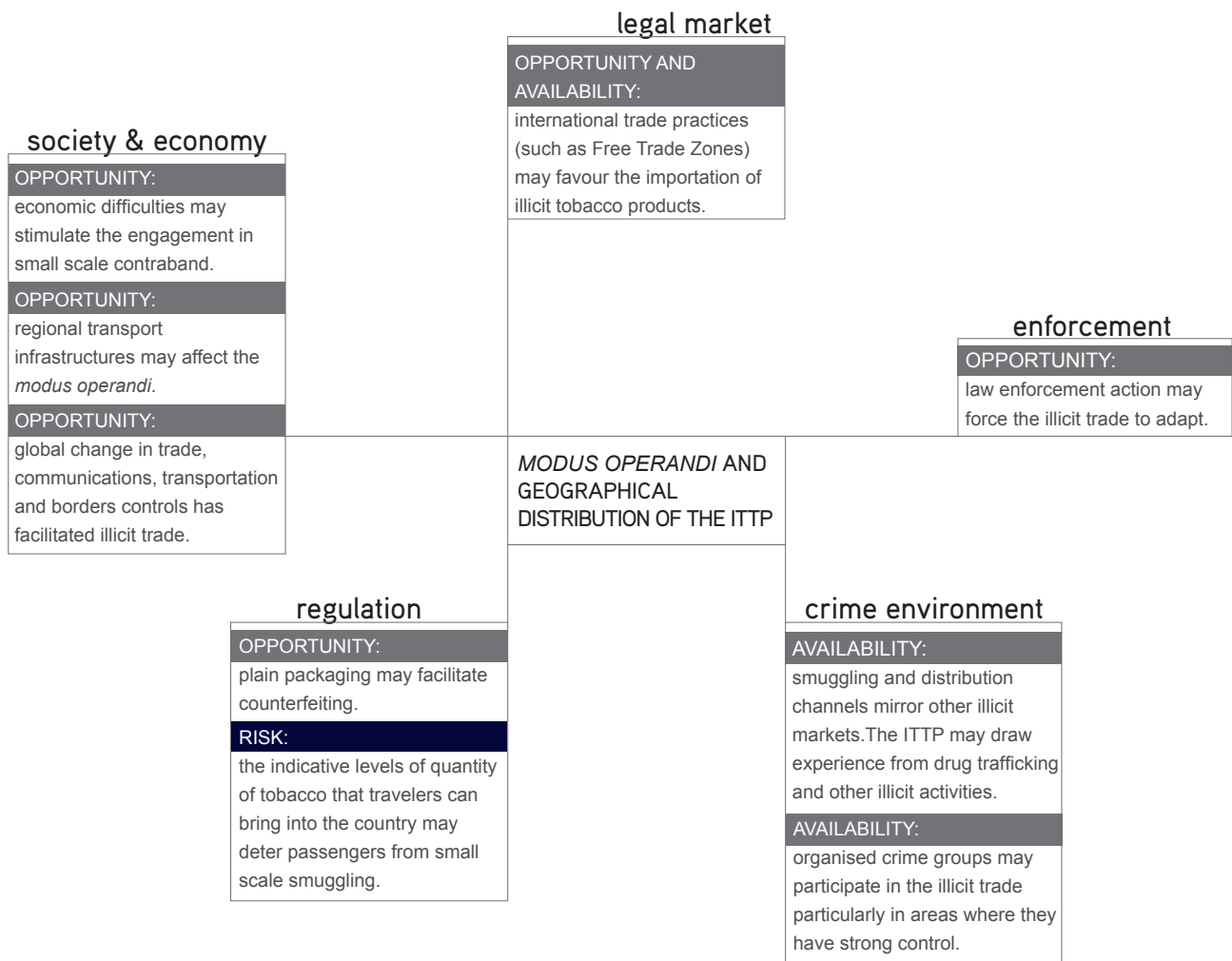
Crime environment. Informal economy, such as street markets, may facilitate the availability and distribution of illicit tobacco products. Illicit tobacco may be often sold together with other smuggled products.

Enforcement. Law enforcement action on specific types of ITTP may create opportunities for new illicit products. Furthermore the lack of a legal framework for international cooperation against the ITTP may favour the diffusion of illicit whites. Large scale seizures affect the availability of illicit products only in the short term.

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

Opportunity and availability play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP.

Society and economy. The reduction of border controls, the enlargement of the European Union and the UK participation in the Single European market and the development of international transportation connections provide important opportunities for the growth of the ITTP. Small scale smuggling provides an opportunity for those who face economic difficulties.

Legal market: international trade practices, e.g. the creation of free trade zones, may influence the ITTP increasing illegal opportunities and the availability of illicit

tobacco.

Regulation: regulation may unwillingly create opportunities for the ITTP. For example, the introduction of plain packaging may stimulate counterfeiting of tobacco products, decreasing the costs incurred by counterfeiters, reducing consumers' capacity to spot illicit products and reducing the perception of the differences between genuine and illicit tobacco products. The reduction (e.g. from 3,200 to 800 cigarettes) of the indicative quantity that may trigger controls by the law enforcement since 2011 may have deterred passengers from small scale smuggling.

Crime environment. The ITTP, as most illicit markets, consists of a fluid network comprising different actors, from individuals to organised crime groups. The actors involved in the different illicit markets may share their

practices and distribution channels, creating scope economies facilitating the ITTP and other traffics. Organised crime group, despite their marginal presence in the UK underworld, may be involved in the ITTP wherever they exert strong territorial control.

Enforcement. Law enforcement action may represent an opportunity for ITTP to react and adapt, making new products available to consumers.

CONCLUSIONS

The ITTP is a **complex and multifaceted phenomenon**. It comprises a number of different activities which are caused by different socio-economic and regulatory conditions. **Analysis of the illicit trade should consider the wider context** of the drivers in order to gain better understanding of the mechanisms of the illicit tobacco trade. The results of this study point out that **further research** is needed on the ITTP (recommendations for further research are discussed in the Conclusions).

The ITTP cannot be reduced to a problem relating exclusively to law enforcement and criminal justice policy. In addition, it is extremely reactive to enforcement strategies. Strong law enforcement efforts tackling large-scale smuggling have partially resulted in displacement to new emerging forms of illicit trade. The adoption of additional, non-criminal, prevention measures has proved effective in curbing the illicit trade. These results suggest that **the ITTP should be tackled with comprehensive strategies including criminal, non-criminal/ administrative and other indirect measures** which may be introduced, for example, through a wide-ranging **situational crime prevention approach**.

After the completion of the first year of the study, the Factbook on the ITTP will provide a comparative analysis on the selected countries. The comparative analysis will provide additional insight in the complexity of the ITTP and policy recommendations based on the results of the different country profiles.