

# NORTH-EASTERN ROUTE

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*

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# 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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# Explanatory notes

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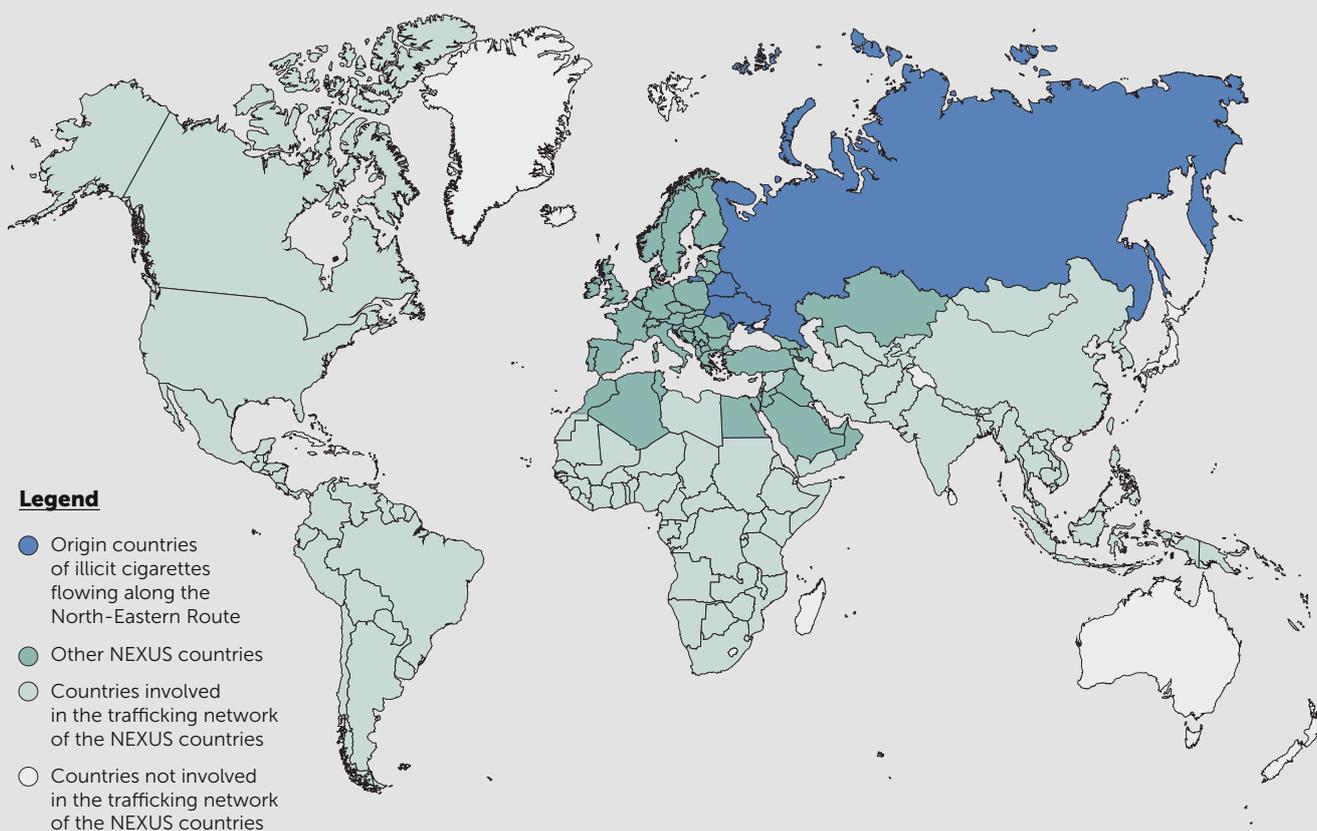
Within the context of the *North-Eastern Route - Mapping Cigarette Trafficking Along the North-Eastern Route* booklet, the 'North-Eastern Route' refers to illicit flows of cigarettes originating in countries located in Eastern Europe but outside the EU (i.e., Belarus, Moldova, Russia, Ukraine) and consumed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

**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

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

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**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 (EAEU) MSs, and the possibility to freely move goods among the EAEU MSs likely contributed to this rise.



## Main enabling factors

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

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

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

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**Increases in excise taxes** on cigarettes.

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

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

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**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 disproportionally 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.

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## *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.

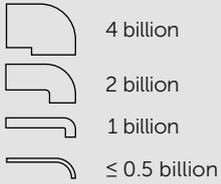
Outside the EU, **the majority of the illicit cigarettes originating in Belarus are consumed in Russia** (about 4 billion cigarettes out of a total of 8.8 billion) where they flow either directly or after transiting through the Baltic states. In the first case, smugglers exploit the membership of both 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**

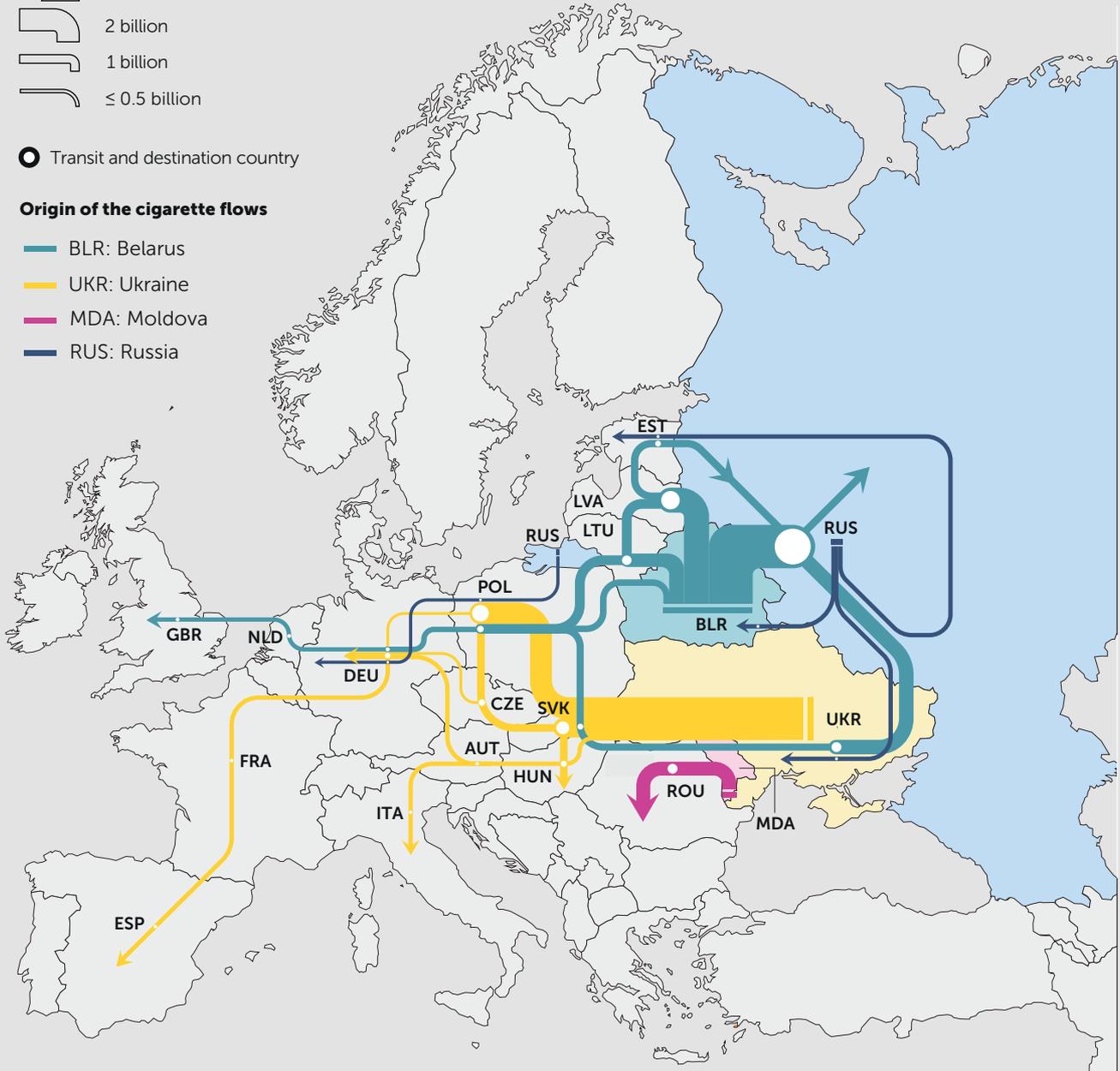
Graphic reference scale



○ 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 EPSs. 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.

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

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**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>

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

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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 Klaipėda; 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

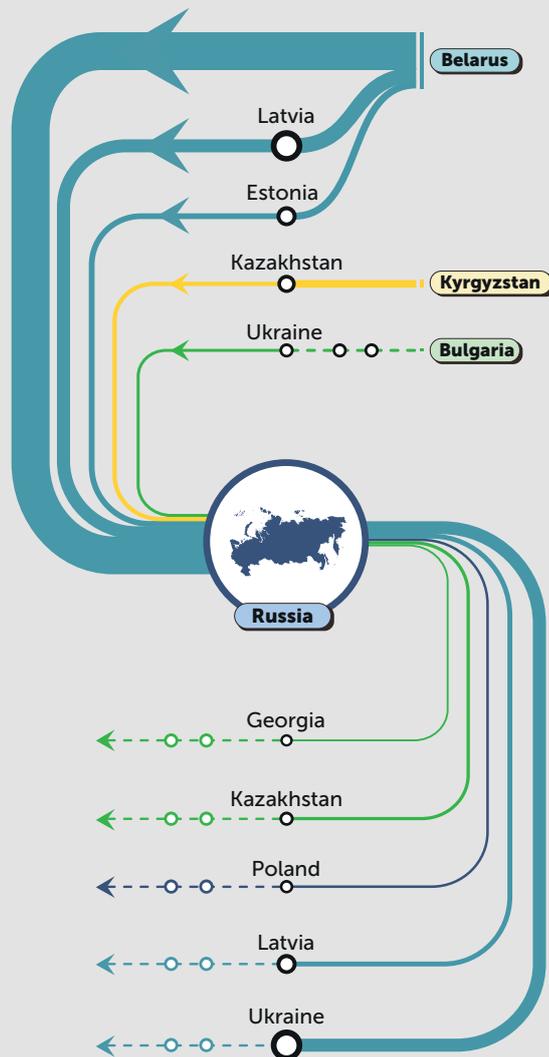
#### Origin of the cigarette flows

- Belarus
- Kyrgyzstan
- Bulgaria
- Russia

#### Volume (N. of sticks)

Graphic reference scale

- 4 billion
- 2 billion
- ≤ 0.2 billion



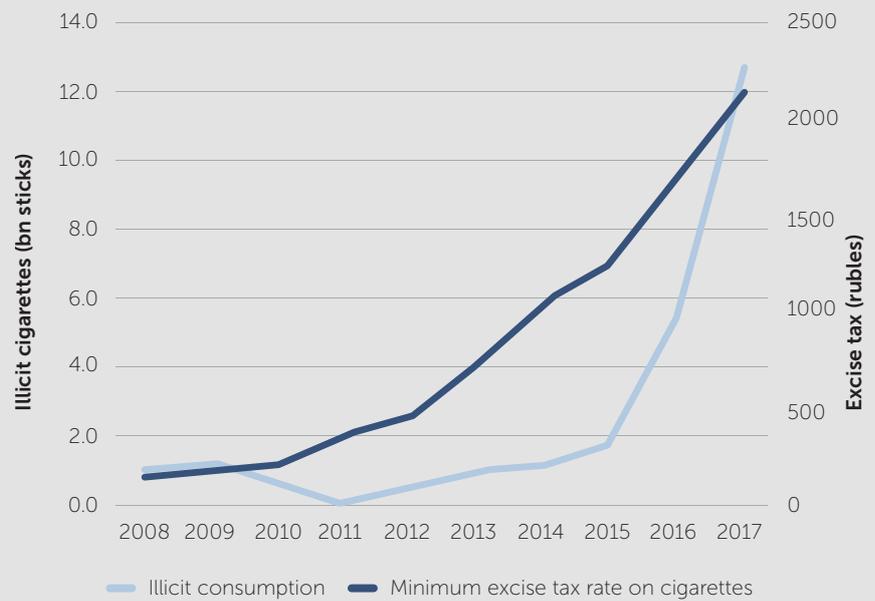
## The black market for cigarettes is expanding in Russia

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)



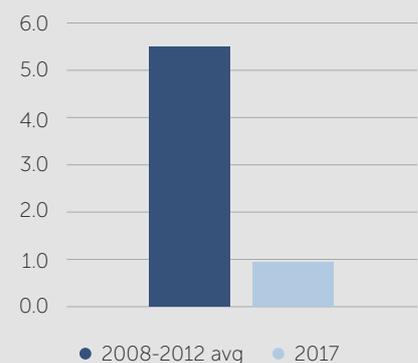
Source: Transcrime estimates and World Bank data on cigarettes excise tax rates.<sup>28</sup>

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 exclave 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>

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

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**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 exclave**

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>





## 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

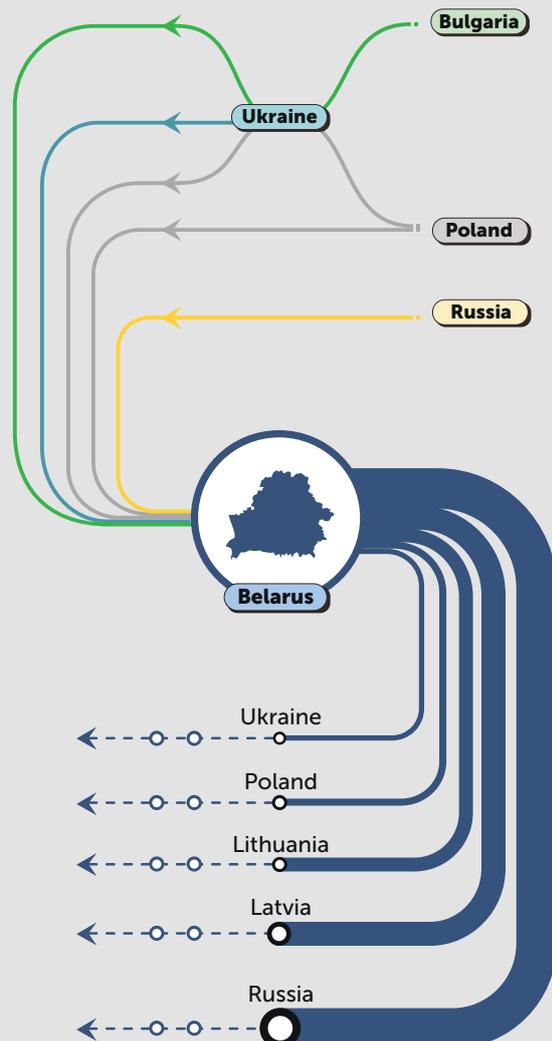
### Origin of the cigarette flows

— Ukraine  
— Russia  
— Bulgaria  
— Poland  
— Belarus

### Volume (N. of sticks)

Graphic reference scale

4 billion  
2 billion  
≤ 0.2 billion



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## Belarus has replaced Russia as fundamental origin of illicit whites

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### Belarus is a major origin country for illicit cigarettes, and more specifically illicit whites.

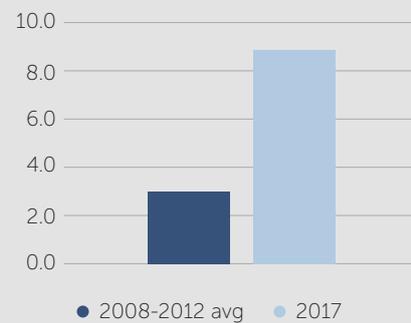
Trafficking of Belarusian illicit cigarettes grew by approximately 183% over the period 2008-2017, from about 3.1 billion cigarettes per year in 2008-2012 to 8.8 billion cigarettes in 2017 (see Figure 6). Accordingly, Belarusian brands of illicit whites are becoming increasingly common in Europe.<sup>42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

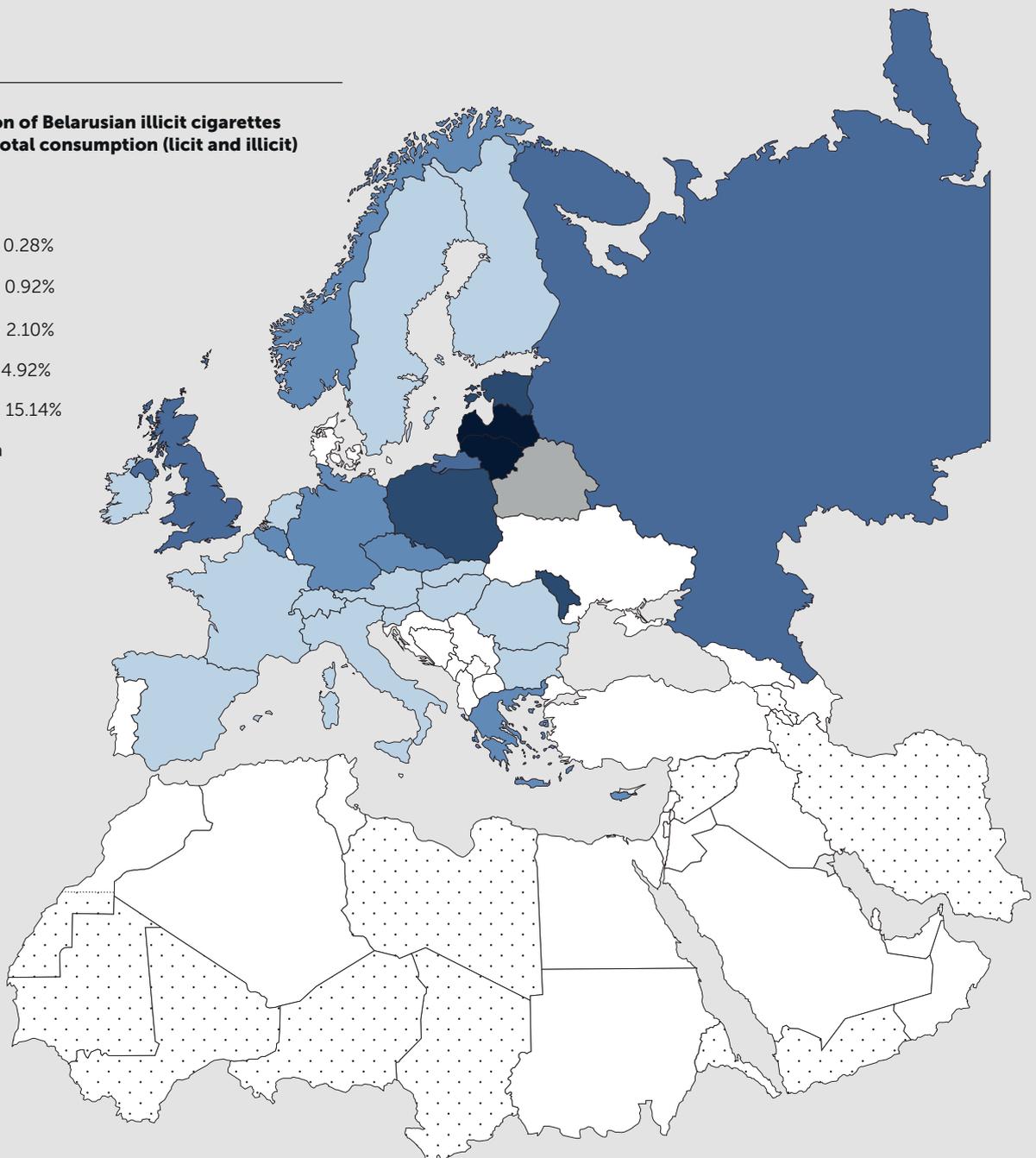
- more than 70 times in Russia;
- more than 18 times in the United Kingdom.

**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

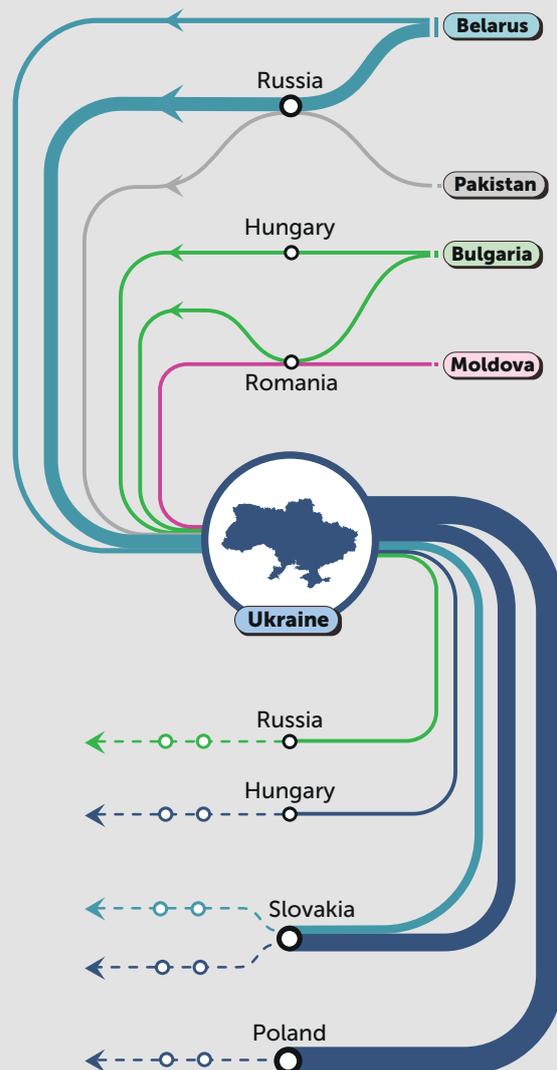
### Origin of the cigarette flows

- Belarus
- Bulgaria
- Moldova
- Pakistan
- Ukraine

### Volume (N. of sticks)

Graphic reference scale

- 4 billion
- 2 billion
- ≤ 0.2 billion



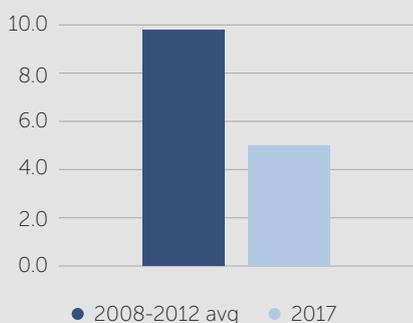
*Ukraine is one of the main origins of illicit cigarettes in the North-Eastern Route, but its importance is declining*

**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

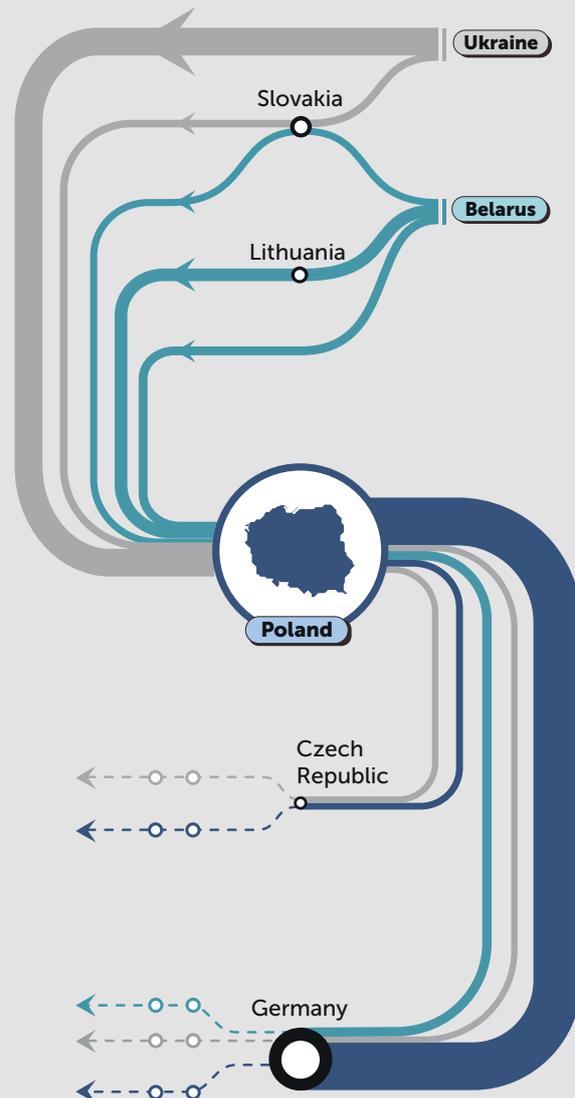
### Origin of the cigarette flows

— Belarus  
— Ukraine  
— Poland

### Volume (N. of sticks)

Graphic reference scale

4 billion  
2 billion  
≤ 0.2 billion



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*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*

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**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

*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*

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.

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

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.



## 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

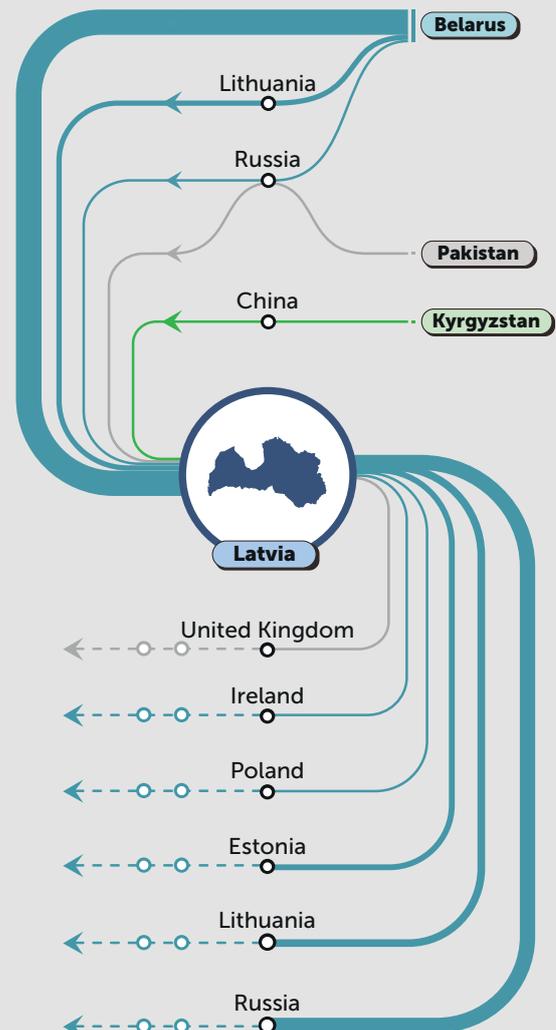
### Origin of the cigarette flows

— Belarus  
— Kyrgyzstan  
— Pakistan

### Volume (N. of sticks)

Graphic reference scale

4 billion  
2 billion  
≤ 0.2 billion





## 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

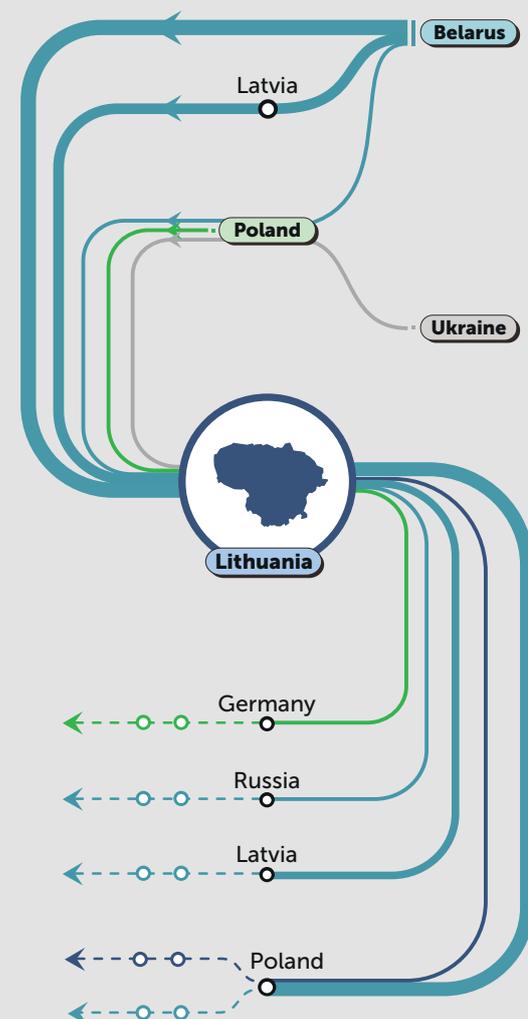
### Origin of the cigarette flows

- Belarus
- Poland
- Ukraine
- Lithuania

### Volume (N. of sticks)

Graphic reference scale

-  4 billion
-  2 billion
-  ≤ 0.2 billion





## 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

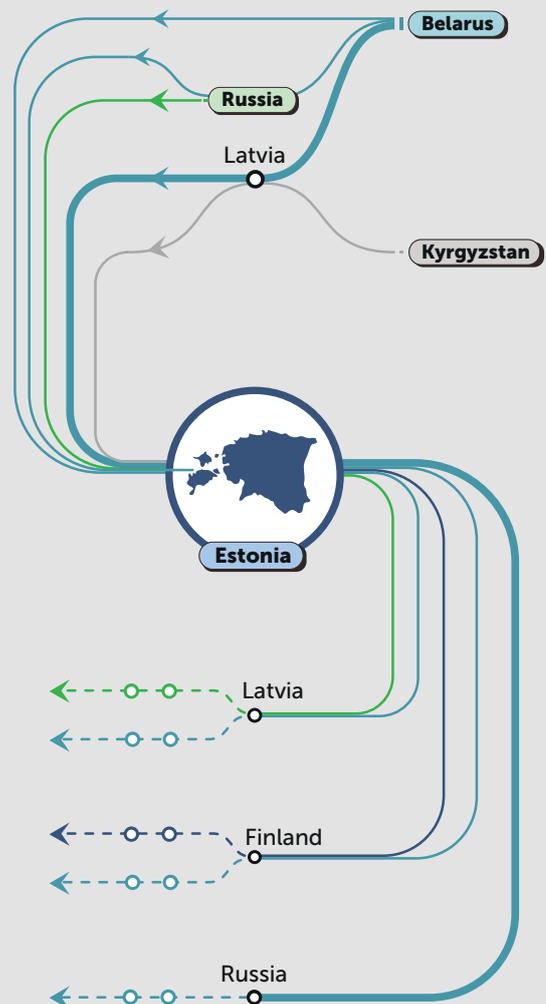
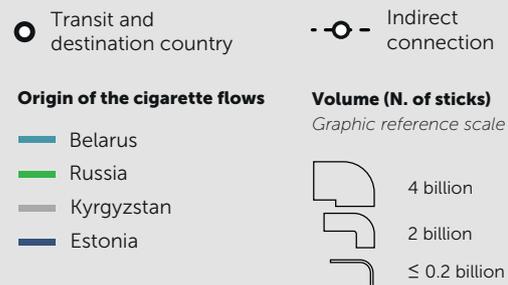
Main final destination of the outflowing cigarettes

**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



# 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>

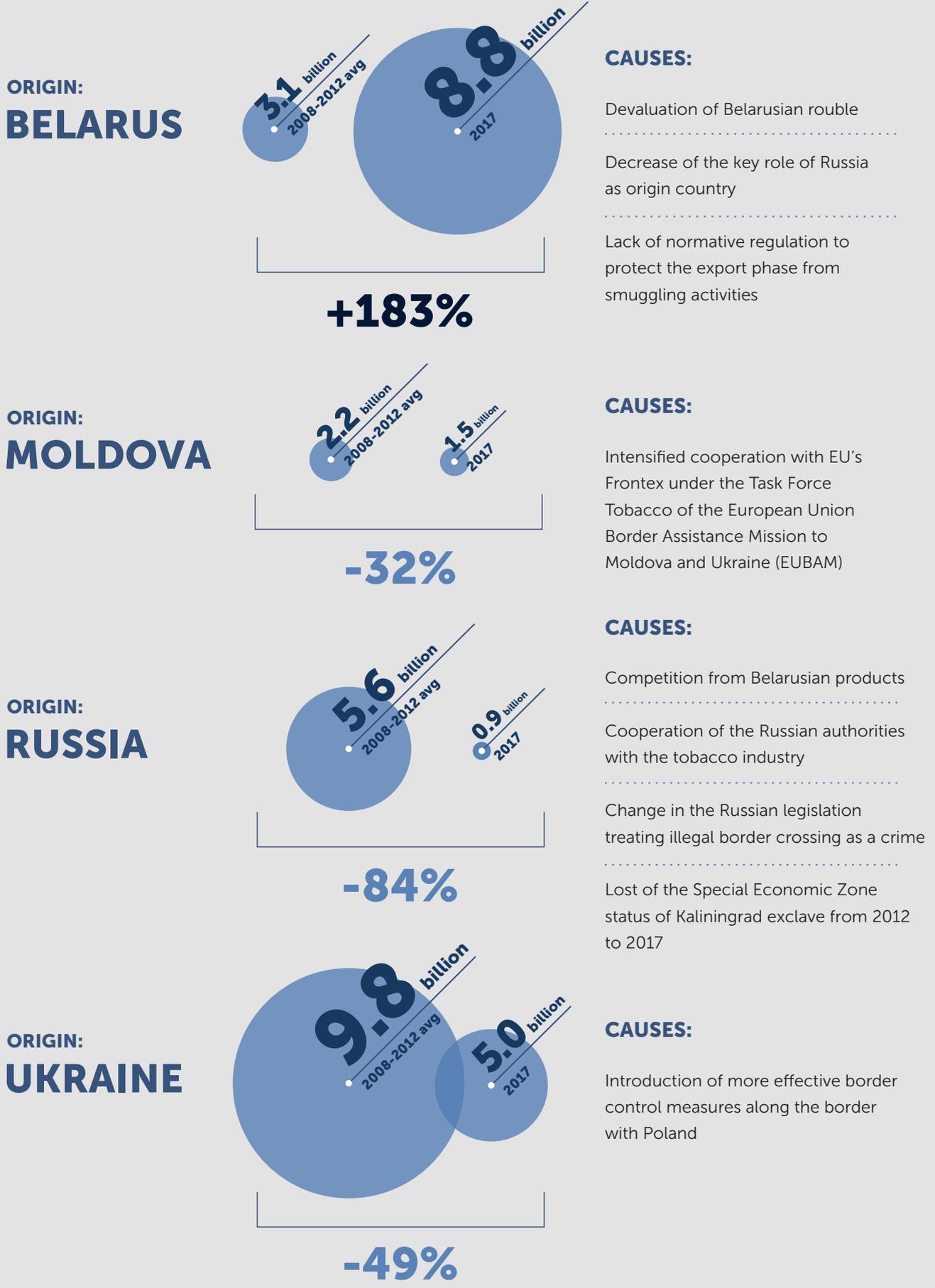
On the other hand, **the relative relevance of some of the countries along the Route has changed** (see Figure 9). Shifts in the role of the main origin countries of illicit cigarettes are primarily due to:

- 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.

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

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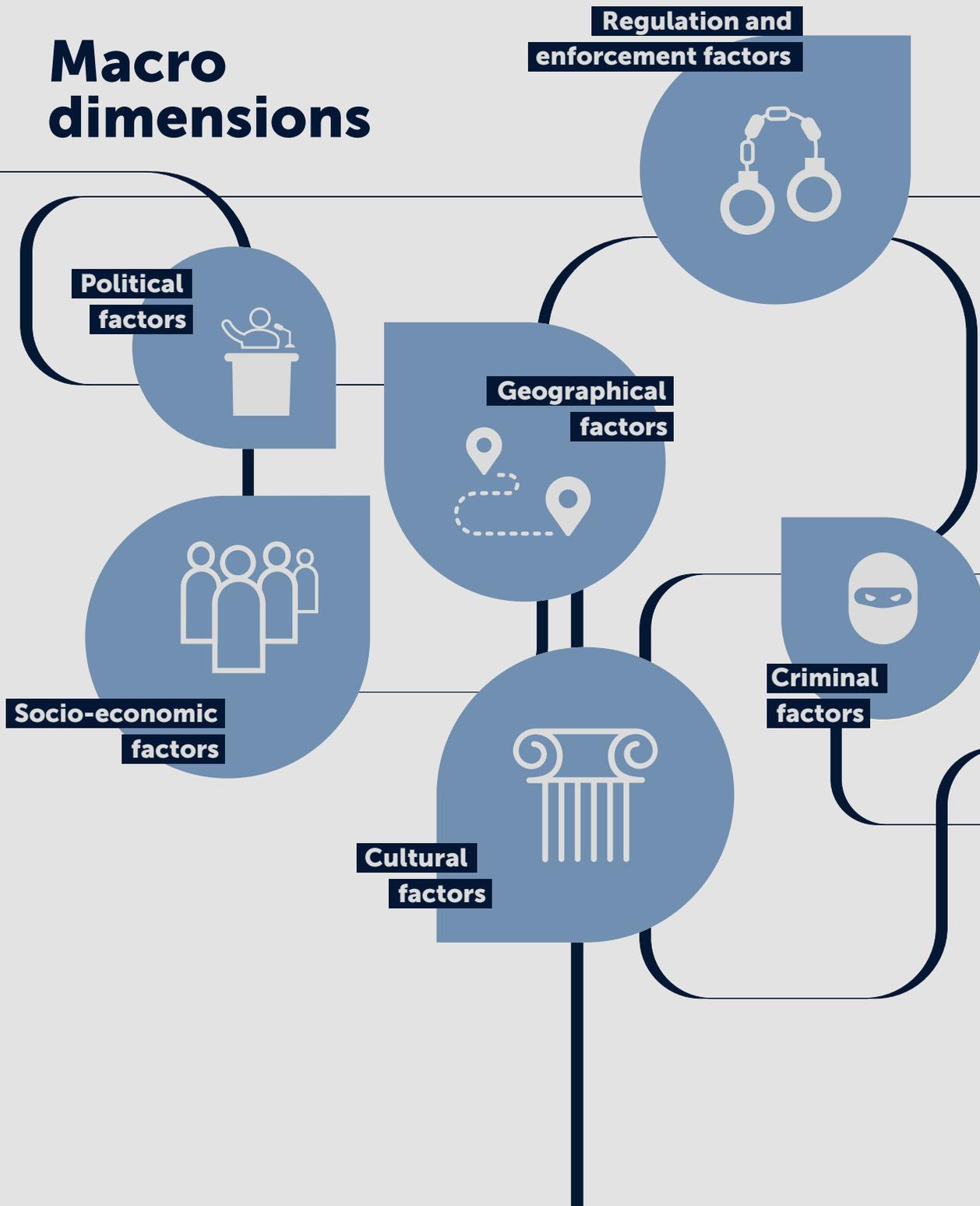
In recent years, the Ukrainian government has focused on the internal conflict that broke out in 2014, reducing its attention to cross-border traffics. Nevertheless, on December 7<sup>th</sup>, 2017, the Parliament adopted measures aimed at increasing tobacco taxes by 20% annually for the coming 7 years, 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

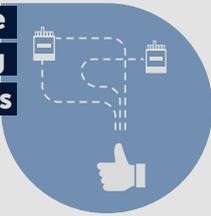
Several factors and incentives drive smuggling activities in the area.<sup>80</sup> All of them are interconnected and influence each other. For clarity, they have been divided into six macro dimensions.

## 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**



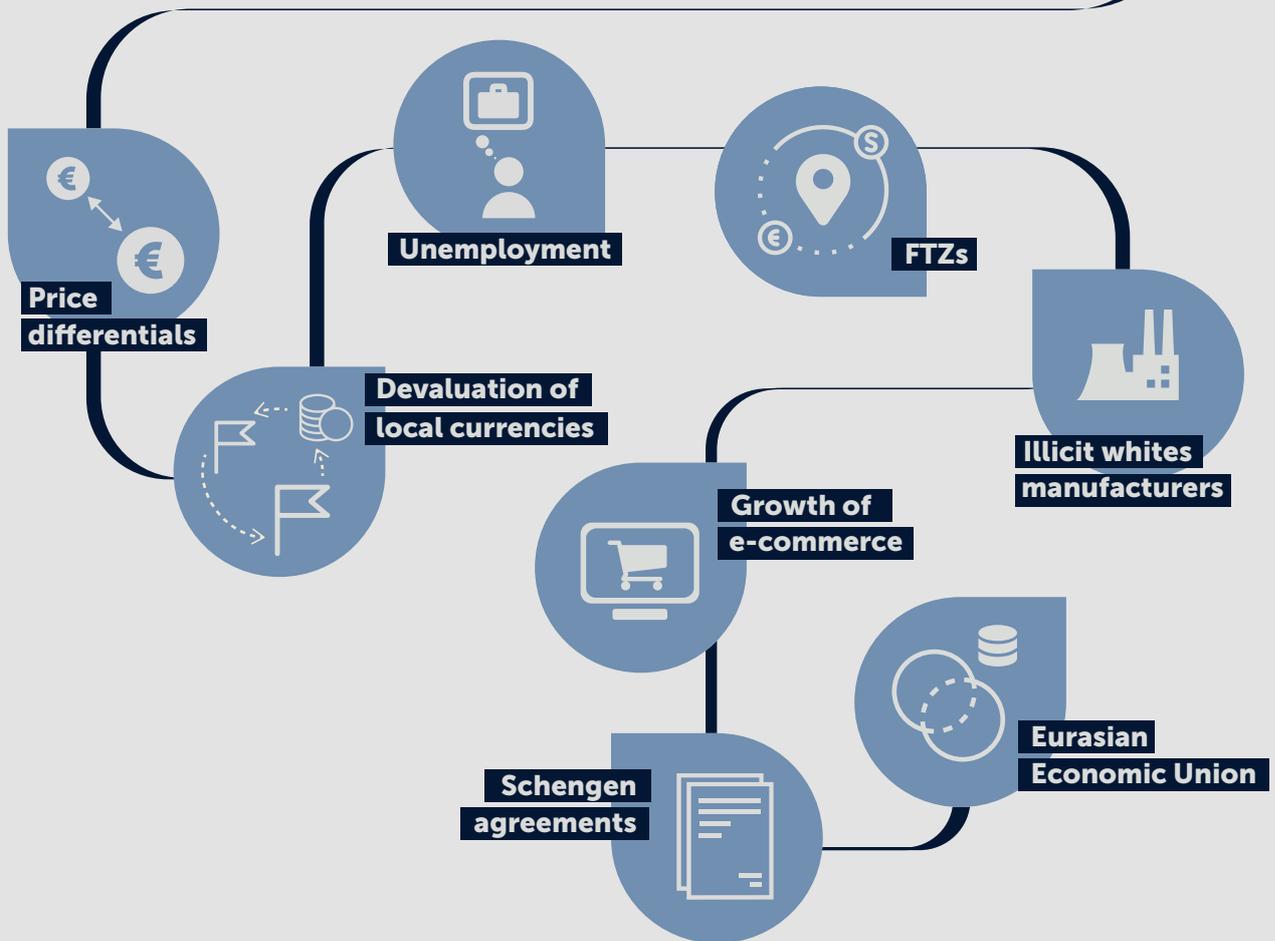
**Increases in  
cigarette  
taxation**



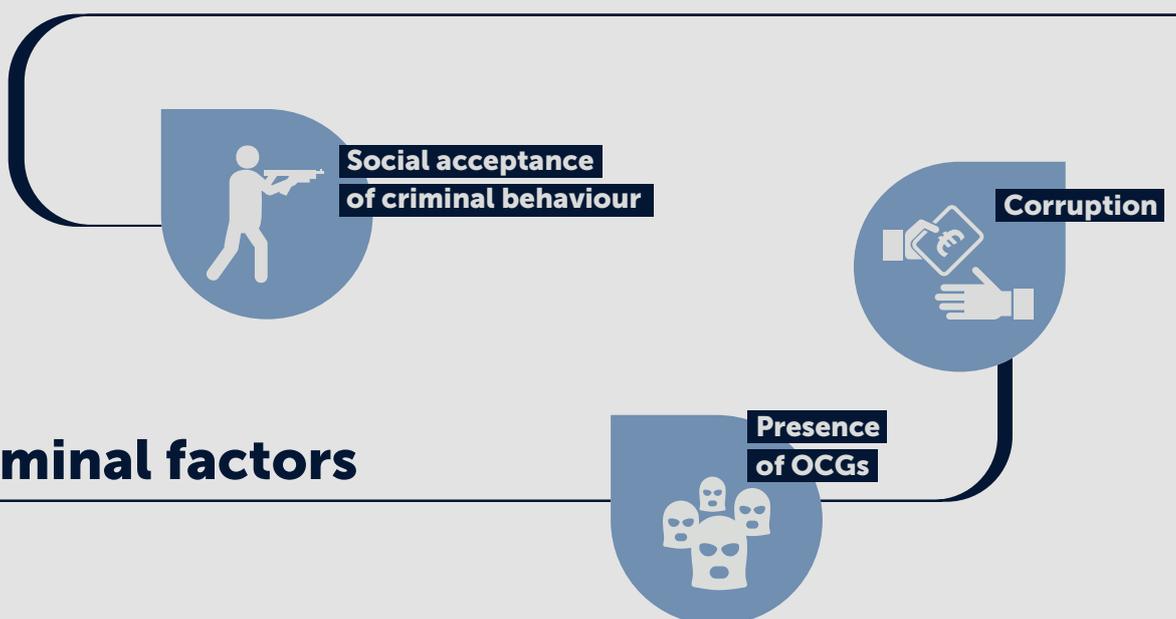
**Fragile  
international  
cooperation**



## 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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