

CONNECTIONS

Explaining the Factors Driving
Illicit Flows of Cigarettes

5 ITTP NEXUS
IN EUROPE
AND BEYOND

2019

CONNECTIONS

Explaining the Factors Driving Illicit Flows of Cigarettes

Acknowledgements and credits

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Preface

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.

Table of contents

BOOKLET 0 KEY MESSAGES

BOOKLET 1 CIGARETTE TRAFFICKING

Introducing the Transnational Dimension of Cigarette Trafficking in Europe and Beyond

BOOKLET 2 NORTH-EASTERN ROUTE

Mapping Cigarette Trafficking Along the North-Eastern Route

BOOKLET 3 EXTENDED BALKAN ROUTE

Mapping Cigarette Trafficking Along the Extended Balkan Route

BOOKLET 4 MAGHREB ROUTE

Mapping Cigarette Trafficking Along the Maghreb Route

BOOKLET 5 CONNECTIONS

Explaining the Factors Driving Illicit Flows of Cigarettes

Explanatory notes	8
Introduction	9
Key facts	10
Enabling factors	13
1 Political factors	16
2 Geographical factors	17
3 Regulation and enforcement	19
4 Socio-economic factors	22
5 Cultural factors	33
6 Criminal factors	35
Glossary	38
End notes	39

BOOKLET 6 POLICY IMPLICATIONS

Presenting Policies to Tackle Cigarette Trafficking

BOOKLET 7 METHODOLOGY

Estimating Illicit Flows of Cigarettes and the Impact of Enabling Factors

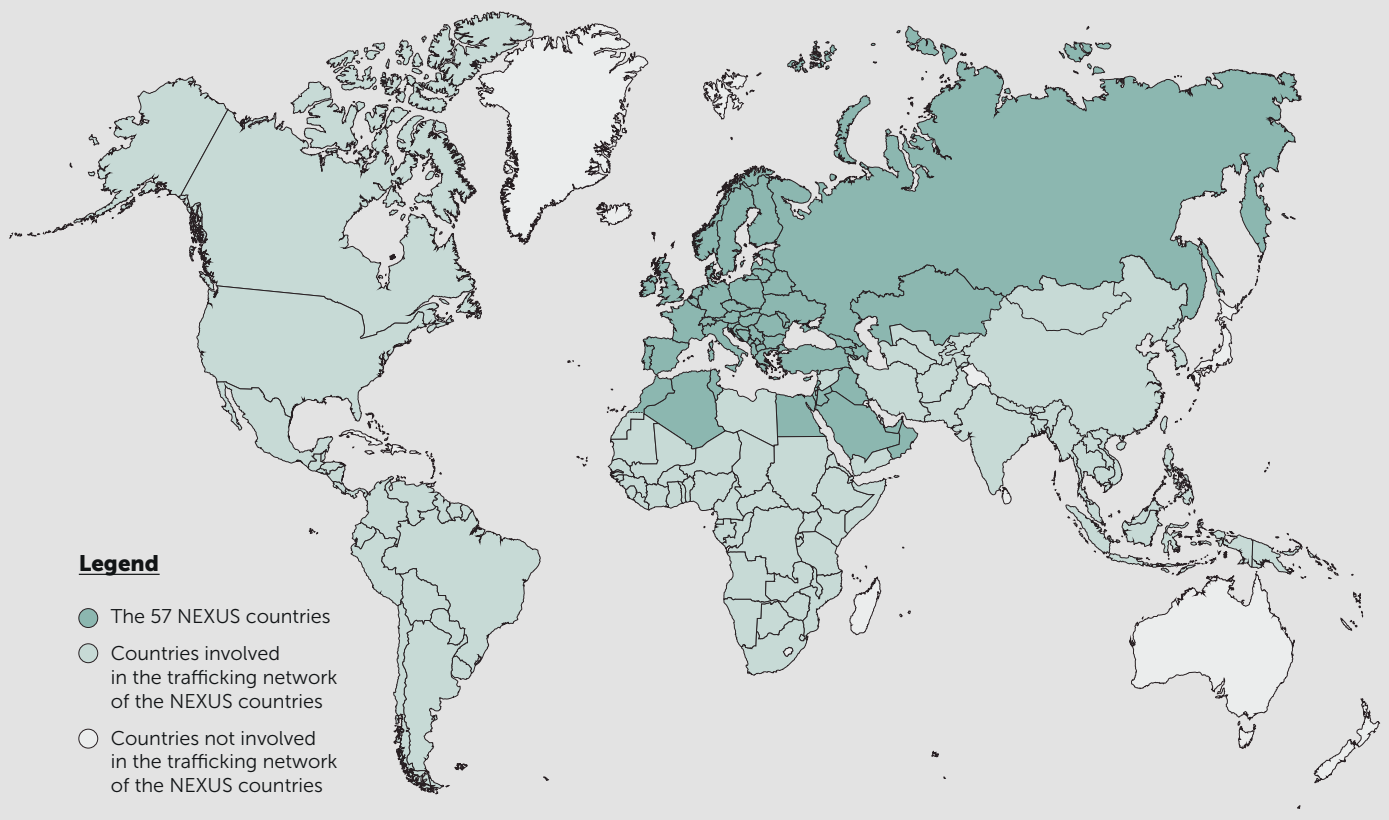
Explanatory notes

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

The following abbreviations have been used in this booklet:

EU	European Union	OCG	Organised Crime Group
FTZ	Free Trade Zone	PKK	Partiya Karkerén Kurdîstan (Kurdistan Workers' Party)
LEA	Law Enforcement Agency	VAT	Value Added Tax
MS	Member State	WHO	World Health Organization
NATO	North Atlantic Treaty Organization		

The 57 NEXUS countries



Introduction

This booklet constitutes the fifth chapter of the *ITTP NEXUS in Europe and Beyond* Report. It explains the enabling factors driving illicit cigarettes flows: the connections.

The connections comprise all the country-level contextual factors and drivers—including key facilitators—of the illicit trade in cigarettes. The term “connections” thus refers to the links between the illicit flows of cigarettes and the contextual factors that are relevant to the European countries and to the countries connected to them in transnational cigarette trafficking.

The booklet provides an overview of the driving factors of illicit flows of cigarettes, which are divided among six macro dimensions: political, geographical, regulation and enforcement, socio-economic, cultural, and criminal.

Key facts

The Key facts present the main enabling factors which comprise all the country level contextual factors and drivers—including key facilitators—of cigarette trafficking.



Political factors

Political instability and armed conflicts may facilitate the trafficking of cigarettes through countries, as these conditions weaken the capacity of a state to control its own territory.

Criminals exploit these situations of uncertainty to engage in cigarette trafficking.



Geographical factors

Transit countries often have direct **access to the sea** and are **close to markets where legal cigarettes are expensive**.

Proximity to lucrative markets and the **presence of long shared borders** simplify cigarette smuggling, allowing the involvement of poorly organised criminals.



Regulation and enforcement related factors

Legislative asymmetries may provoke the displacement of cigarette trafficking to countries where penalties are more lenient.

Tax increases incentivise tax evasion and may result in an increase in the illicit consumption of cigarettes.

Light penalties for cigarette trafficking attract criminals with expertise in other forms of transnational trafficking.

The impact of light penalties is exacerbated when combined with **ineffective border controls**.



Socio-economic factors

Price differentials of legal cigarettes among countries create financial incentives for cigarette trafficking.

Free-trade agreements and **FTZs** ease the avoidance of authorities' controls, thus securing the transit of illegal cigarettes.

In major origin countries, there is often **limited control on the overproduction** of cigarettes. This surplus of illicit cigarettes may be sold as illicit whites in other countries.

Poor living conditions—in particular, unemployment—may induce individuals to engage in cigarette smuggling and to purchase illicit products.



Cultural factors

Tolerance of the consumption of illicit goods may increase illicit cigarette consumption.

Social acceptance of criminal behaviour may induce individuals to engage in cigarette trafficking.



Criminal factors

Criminal and terrorist groups may favour the trafficking of cigarettes. Criminal groups exploit their expertise in the smuggling of other goods to engage in cigarette trafficking. Terrorists may exploit cigarette trafficking to fund their activities.

Corruption among politicians and customs officers tends to facilitate the illicit production and trafficking of cigarettes.

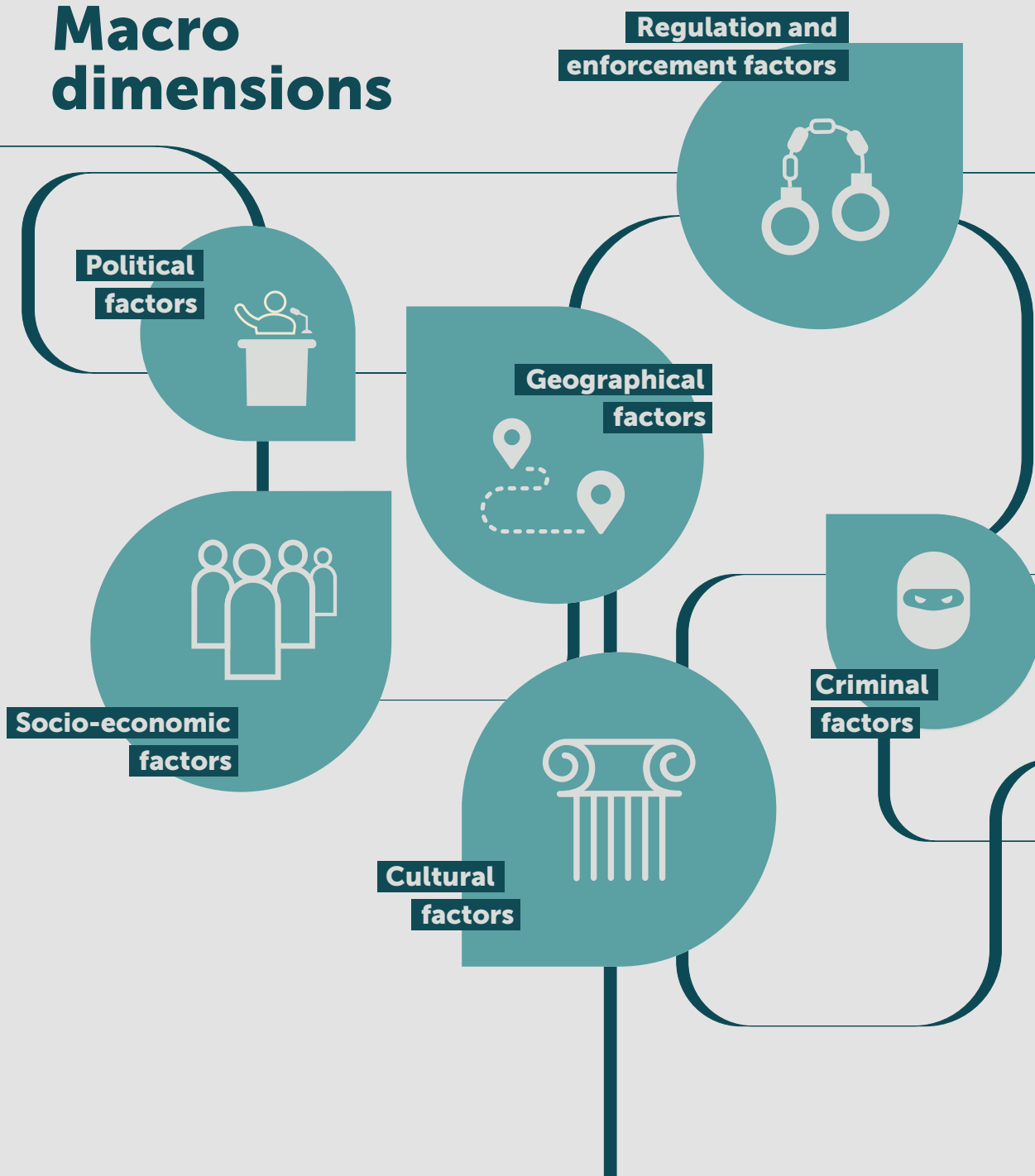
Enabling factors

Enabling factors affecting the probability of a country becoming an origin, a transit point or a destination for illicit cigarettes **are multiple and interconnected**. For clarity, they have been divided into six macro dimensions.

The effect of each factor may be **different for different types of illicit cigarettes flows**—i.e., outflows of cigarettes originating in a country, outflows of transiting cigarettes, inflows destined to be consumed in that country or inflows of transiting cigarettes.

The impact of a specific factor may be **exacerbated by the simultaneous presence of other factors**. For example, it may be easier for OCGs to engage in cigarette smuggling in countries facing a situation of political instability.

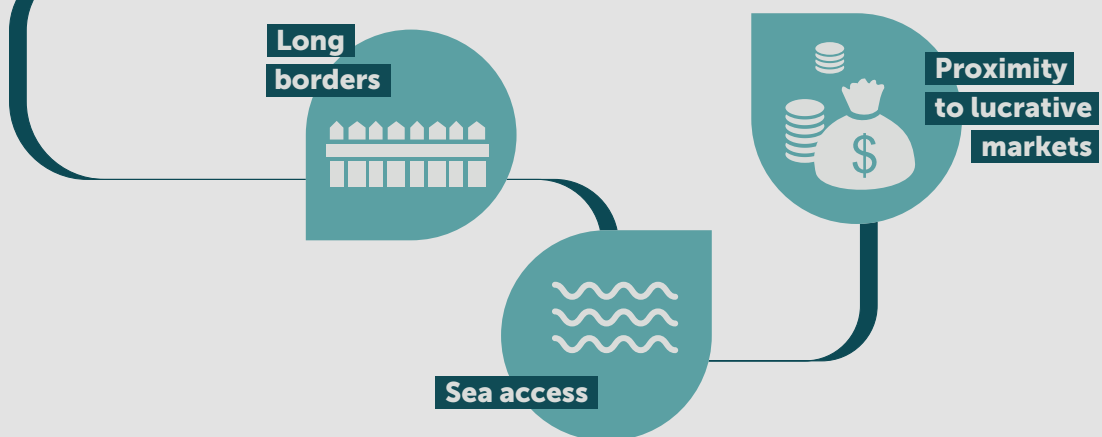
Macro dimensions



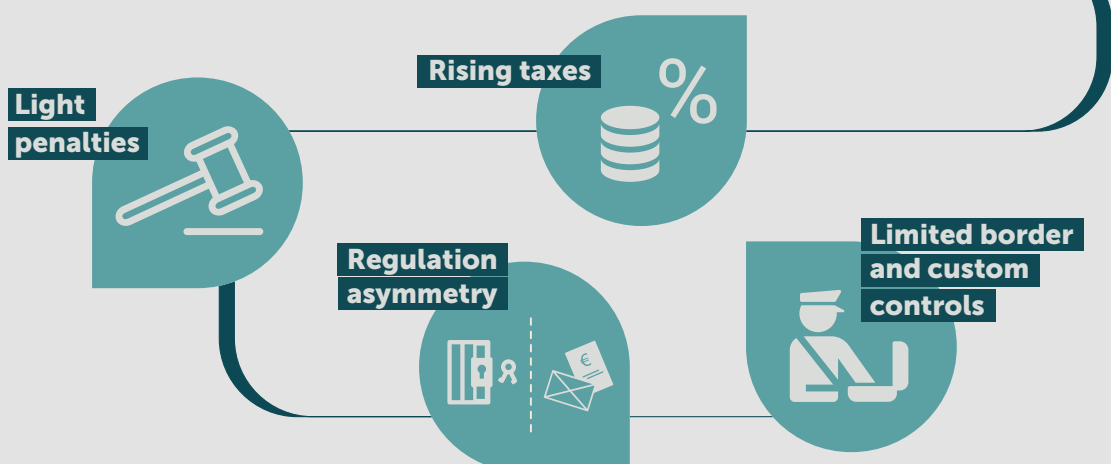
Political factors

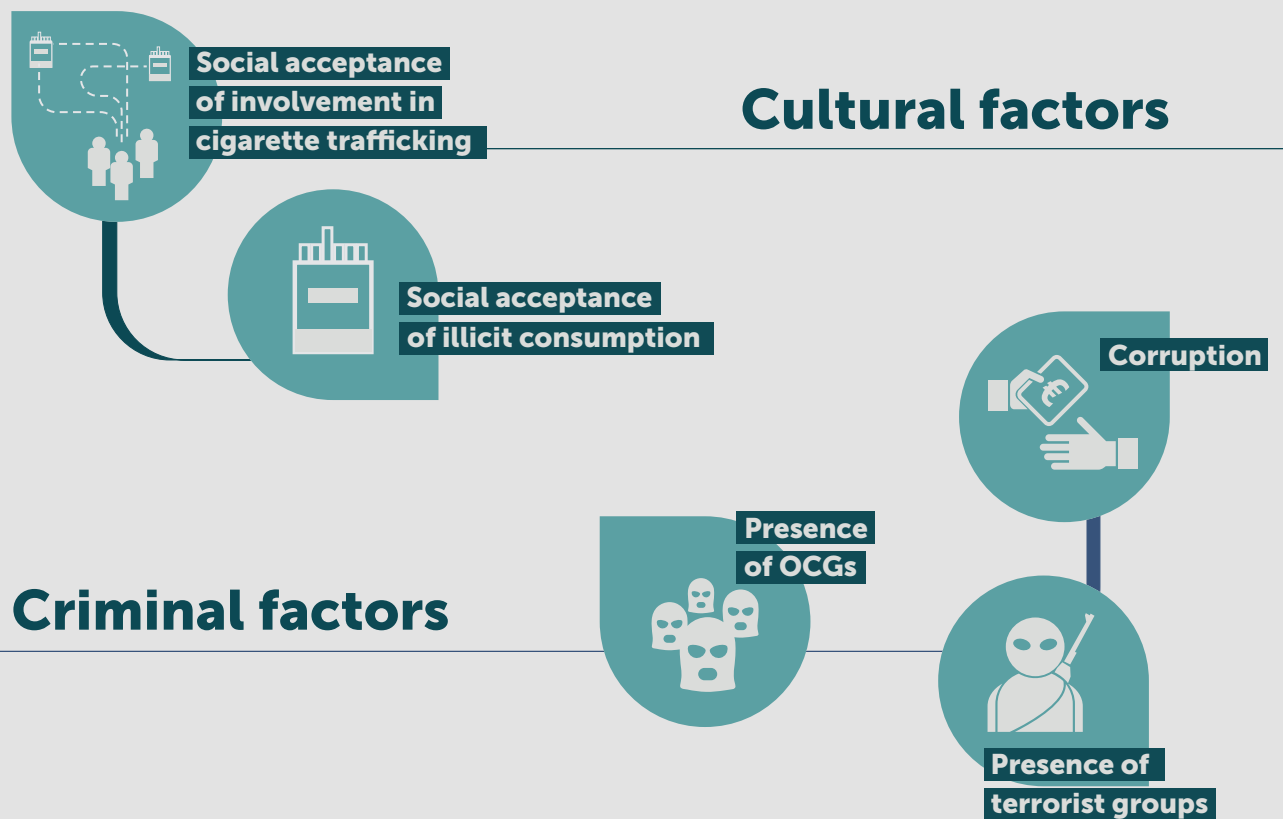
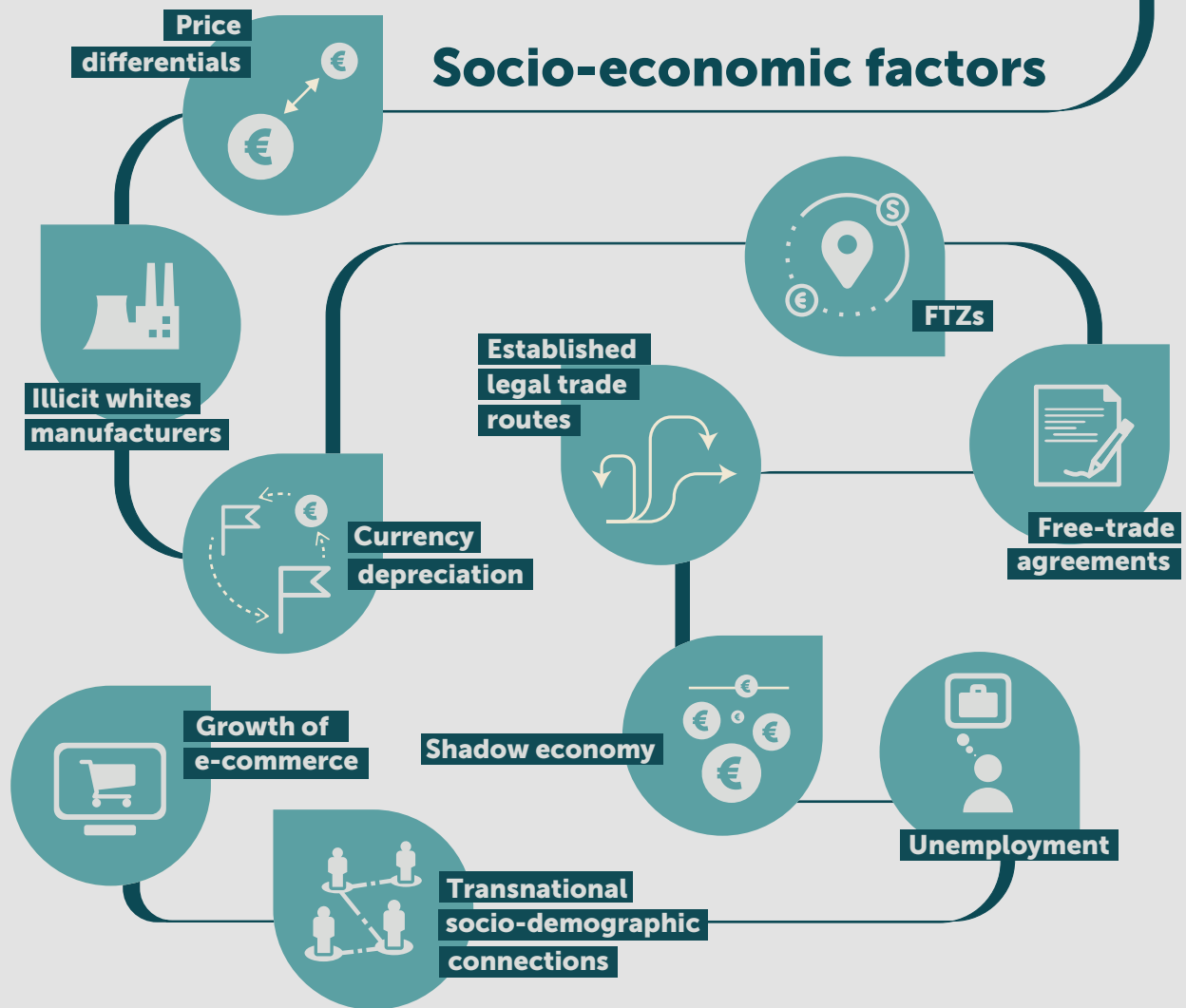


Geographical factors



Regulation and enforcement factors





1. Political factors

Conflicts and political instability

Internal conflicts and political crises fuel a state of chaos and uncertainty. In such an environment, authorities often lack the resources necessary to fight illicit traffics; they prioritise security issues rather than the trafficking or the production of illicit goods—including cigarettes. This reduces the capacity of the government to control national borders and thus decreases the probability of detection.

Criminals exploit these situations of uncertainty to take control of border posts and engage in illicit practices, facing a lower detection risk.

At the same time, during an ongoing conflict, **warring parties can take advantage of cigarette smuggling to finance their actions.**¹

In 2017, **countries involved in armed conflicts had significantly larger illicit cigarette outflows.** This applies to both origin and transit countries.

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

Enabling factors in action

- The Arab Spring uprisings that swept across the North African and Middle Eastern regions, and resulted in full scale civil wars in Libya and Syria, created a situation of internal chaos in the countries of the region. The political chaos enabled the Tuareg, Tebu, Awlad 'Ali and Qadhadfa tribes to take control of the border posts in Maghreb countries, facilitating cigarette smuggling.² Terrorist organisations, such as Islamic State or Al-Qaeda-affiliated armed groups, often supervise the illicit activities of these tribes.³
- The Ukrainian government's reduced ability to cope with

increased illegal trafficking is the direct result of the ongoing armed conflict in East Ukraine that broke out in 2014.⁴ At the same time, the militarization of the country's border regions, coupled with the increased border controls enforced by Poland on its extra-EU frontier make it hard to assess the impact of the Ukrainian conflict on cigarette trafficking.⁵

- Since 1984, there has been a prolonged armed struggle between the government of Turkey and the PKK (Kurdistan Workers' Party), which Turkey and the NATO military alliance consider a terrorist organisation.⁶ To fund its activities, the PKK is known

to levy taxes on products trafficked through the territories under its influence.⁷ PKK members use so-called "customs stations" located at the Turkish border with Iraq and Iran to impose their taxes.⁸

- During the wars in the former Yugoslavia in the 1990s, politically involved OCGs relied on profits from the illegal cigarette trade to finance paramilitary operations. In particular, they used profits from trafficking to purchase weapons and ammunition.⁹ At the same time, smuggling was a survival strategy for common people in need of basic supplies during the wartime.¹⁰
-

2. Geographical factors

Proximity to lucrative markets

Geographical proximity to destination markets increases the likelihood of a country being involved in cigarette trafficking

Proximity to countries where cigarettes are relatively more expensive increases the likelihood of being either an origin or a transit country for illicit cigarettes (see Figure 1).

In particular, **directly sharing land borders with markets where cigarettes are (more) expensive facilitates cigarette smuggling.**

Geographical proximity between the origin and destination country of illicit cigarettes simplifies the smuggling to the point at which also individuals with limited organisation can traffic cigarettes by simply crossing a border. The volumes trafficked in each journey may be small, but smugglers can go back and forth multiple times per day—i.e., bootlegging.¹¹

Figure 1. The main countries of origin in the North-Eastern Route border directly with the EU



Legend

- EU countries
- 📍 Key origin countries

Enabling factors in action

- Countries that share land borders with EU MSs are at a greater risk of being involved in cigarette trafficking.¹² Belarus, Moldova, and Ukraine, border with EU MSs and are major origins of illicit cigarettes. The Baltic states and Poland often serve as transit points for illicit cigarettes that move from extra-EU Eastern European countries to Central and Western EU MSs. This is due to their bridging geographic position between extra-EU producers of illicit

cigarettes and destination markets in the EU like Germany, or the Scandinavian countries.

- The geographical position of Turkey makes the country a preferred transit point between Asia and Europe for illicit cigarettes flowing in both directions.¹³
- Serbia is a key transit country because it is situated in-between non-EU countries—North Macedonia, Montenegro, Bosnia

and Herzegovina—and EU MSs—Bulgaria, Romania, Hungary and Croatia.¹⁴

- Geographical proximity favours bootlegging, which explains the high number of flows between bordering countries:¹⁵ for instance, Belarus-Poland, Belarus-Latvia, Belarus-Lithuania, Moldova-Romania, Russia-Latvia, Russia-Lithuania, Russia-Estonia, Ukraine-Poland, Ukraine-Romania.

Sea access

Sea access is an important factor in cigarette trafficking because **large transnational illicit cigarette flows often involve sea shipments**.

Direct access to the sea favours large-scale cigarette trafficking

Access to seaports or internal waterways and **extensive coastlines affect countries' centrality in transnational cigarette trafficking**.

Conversely, landlocked countries are, on average, less involved in cigarette trafficking, either as origin, transit or destination points. In 2017, countries with sea access had inflowing and outflowing volumes that were about 20% larger than those traversing landlocked countries.

There are some exceptions: despite lacking sea access, the Czech Republic is traversed by large volumes of illicit flows of cigarettes. This is due to its strategic location at the heart of Europe, connecting Eastern European countries with Western European markets.

Sea access reduces the costs and the risks of shipping illicit cigarettes from distant countries. It thus makes it possible to ship cigarettes directly from countries such as China, South Korea and Vietnam to Europe avoiding the transit through other jurisdictions.

Enabling factors in action

• From Russia and the Baltic states, illicit cigarettes can be shipped to the United Kingdom and the Scandinavian countries via the Baltic Sea and the North Sea. From the African continent, traffickers from Egypt, Libya, Tunisia, Algeria and Morocco can reach the Southern-European coast via

the Mediterranean Sea. Several countries along the perimeter of the Balkan region have access to either the Black Sea or the Mediterranean Sea through their numerous seaports. This is the case for key hubs for cigarette trafficking such as Bulgaria, Greece, and formerly Montenegro.

• A crucial access point for illicit cigarettes flowing from the Middle East and Far-East Asia to Europe is the Bosphorus strait, which is one of the most significant waterways for traffickers because it connects the Black Sea with the Mediterranean Sea.

Long borders

The length of the border between two countries is significantly and positively correlated with the volume of illicit cigarettes flowing across it. **Longer borders increase the opportunities to smuggle cigarettes** through uncontrolled points on the frontier.

Enabling factors in action

• Morocco and Algeria share a 1,559 kilometres long border which both countries have tried to control by means of a variety of measures (i.e., closed frontiers, visa restrictions, a fence and trenches). These measures have had only little

impact on illicit cigarette flows going in both directions because it is difficult to properly control such a long border, which crosses numerous portions of mountainous territory.

3. Regulation and enforcement factors

Rising taxes

Rising taxes may boost the consumption of illicit cigarettes.¹⁶

Higher taxation creates incentives to evade for the actors involved, fuelling the black market for cigarettes (see Box 1).¹⁷ Despite the positive effects produced by tobacco taxation—i.e. the reduction of consumption and the increase of government revenues—

rising taxes contribute to the displacement of consumption from legal to illegal cigarettes.

Rising-taxes may cause the black market to expand

Tax increases cause prices of legal cigarettes to rise. **Increased legal prices augment consumers' incentives to buy illicit cigarettes rather than legal ones.**

Some smokers with low incomes and low levels of education are more likely to turn to illicit consumption as the price of legal cigarettes rises.¹⁸

Enabling factors in action

- In Albania, tobacco taxes were raised in 2009 and the price of the most sold cigarette pack increased from just below 1€ in 2009 to about 2.4€ in 2015. This policy led to a considerable increase in cigarette smuggling into the country.¹⁹ Illicit cigarette consumption in Albania almost doubled between 2009 and 2015 from about 0.17 billion to 0.32 billion.
- Statistical analyses of tax increases in Canada have proved that each additional dollar in final applicable taxes raises the propensity to consume contraband cigarettes by 5.1%.²⁰
- While it is hard to establish a direct causal relationship, findings from the United States evidence a strong positive correlation between states' cigarette taxes and the size of the illicit markets.²¹

Box 1. Tobacco tax increases and illicit cigarette consumption in Russia

In 2010, the Russian Government introduced the *National strategy on creation of a public policy to fight tobacco consumption for the period 2010-2015*.²² As part of this strategy, Russia has consistently raised tobacco taxes by at least 30% per year since 2010.

The country relies on a mixed excise tax system that includes

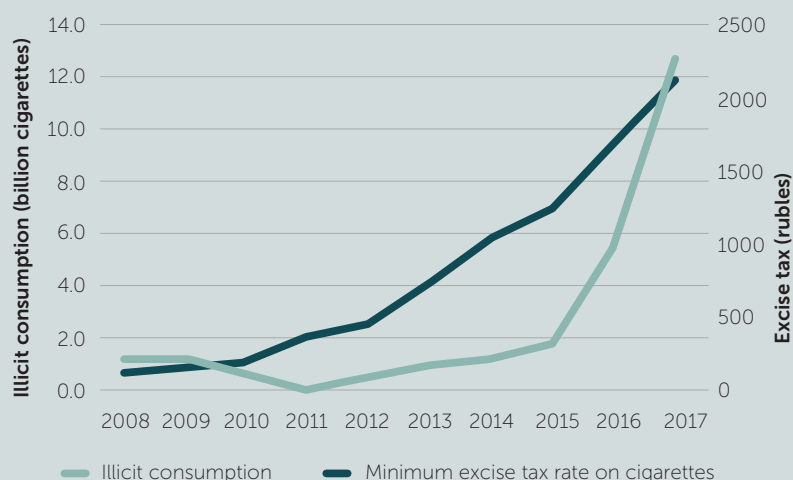
both a specific tax component and a component that varies in proportion to the retail price of cigarettes, specifying also a minimum tax floor.²³ Excise taxes on cigarettes increased from 175 roubles plus 6.5% of the maximum retail price (minimum 210 roubles in total) in 2010 to 1,562 roubles plus 14.5% of the maximum retail price (minimum 2,123 roubles in total) in 2017.²⁴

The WHO reports that this substantial increase in taxes—alongside other tobacco control measures adopted by the government—reduced sales and tobacco consumption.²⁵ During the same period, cigarette smuggling out of Russia also decreased. While Russia was one of the main origin countries for cigarettes flowing along the North-Eastern Route over the

years 2008-2012, illicit outflows of cigarettes originating in Russia declined by 83.6% between 2008-2012 and 2017.

However, the tax increase was also correlated with a substantial increase in Russian illicit cigarette consumption—from less than 0.6 billion in 2010 to 12.7 billion in 2017—and illicit smuggling into the country from abroad (see Figure 2). Tax increases over the years 2010-2017 were linked with a shift in the role of Russia from a main origin country to a major destination market.

Figure 2. Trend of cigarette taxes and illicit consumption in Russia (2008-2017)



Source: Transcrime estimates and World Bank data on cigarettes excise tax rates.²⁶

Light penalties

Legislation itself may be the source of unforeseen crime opportunities, producing criminogenic effects.²⁷

Outdated regulations and light penalties for engaging in cigarette trafficking may actually enable smuggling practices.

Lenient responses of the criminal justice system, such as the low probability of being discovered, caught, prosecuted and finally convicted, **are further enabling factors** which foster the illicit trade in cigarettes.²⁸

Enabling factors in action

- In many EU countries, applicable sanctions for the smuggling of tobacco products are low compared to the potential profits deriving from these smuggling activities. This attracts the involvement of OCGs, which prefer to engage in cigarette smuggling compared to other illicit businesses where potential profits are larger but applicable penalties are more severe.²⁹
- In some countries, legislation on cigarette trafficking has been lagging behind. For example, the Greek penal code did not consider cigarette trafficking as a possible organised crime offence until

2012. As a result, when members of criminal groups engaging in cigarette trafficking were arrested, they were not convicted for participating in a criminal organisation and received only mild sentences.³⁰ In Russia, illegal border crossing—which includes cigarette smuggling—has been criminalised only in 2010.³¹

- The extent of the penalty has an impact also on the public perception of the seriousness of cigarette trafficking. For example, in Belarus, where the law treats smuggling as a minor offence, citizens do not perceive contraband as immoral.³²

Regulation asymmetry

Regulation asymmetry, i.e. the presence of differences in legislation between countries or regions (see Figure 3), **may impact on the illicit flows of cigarettes through the displacement of crime** in space and *modi operandi*.³³ If the severity of the punishment provided for a criminal offence differs according to the country where it is committed, cigarette traffickers may decide to move their activities to countries where penalties are more lenient (see Box 2). This may increase production or trafficking in specific countries.

Countries punish cigarette trafficking in different ways; criminals exploit these asymmetries

Figure 3. An example of regulation asymmetry in bordering countries



Box 2. Differing sanctions for cigarette smuggling in the EU

Cigarette smuggling can be punished with both administrative and criminal sanctions. A comparative analysis of the national legislation in force in some EU MSs highlighted differences in the administrative sanctions applied to criminals engaged in the illicit trade of tobacco products.³⁴

Even if differences in the sanctions imposed are not substantial, there is evidence that diverse sanctions across EU MSs affect decisions by OCGs about which routes to take to traffic cigarettes.³⁵ As a consequence, increasing consistency in penalties across different countries is a priority for EU LEAs. This would make it possible to punish criminals regardless of where they choose to smuggle cigarettes and to prevent "sanction shopping".³⁶

Applicable criminal penalties do not present significant differences.³⁷

Limited border and custom controls

Differently from other types of trafficking (e.g., firearms, migrants), cigarette smuggling is primarily important for fiscal reasons, while it is rarely perceived as significant for security concerns. Consequently, **fighting the illicit trade in tobacco products is often not a priority for LEAs and customs agencies**.³⁸

In turn, forces in charge of customs checks on goods of this type are often understaffed and poorly equipped.³⁹ **Gaps in infrastructures**

and equipment cause the weakness of border and custom controls, so that traffickers can transport their illicit products transnationally with a low risk of detection.

Limited effectiveness of border and customs controls permits cigarette smuggling

Poor communication and cooperation between customs authorities as well as a lack of exchange of information between them **aggravate border control ineffectiveness**.⁴⁰

Measures taken by individual countries to strengthen their border security may result in the displacement of illicit activities to other countries in the vicinity (see Box 3). This might be preventable if more countries in a region were included in a cooperation initiative.

Box 3. The displacement of illicit production within the EU's borders

The EU has recently intensified its controls along its Eastern borders. One of the effects of this policy is the relocation of illicit manufacturers within the EU. In particular, Poland experienced an increase in illegal manufacturing facilities on its territory.⁴¹ In 2015 alone, Polish authorities raided 59 factories engaged in the production of illicit tobacco products.

Enabling factors in action

- Until recently, Russia, and specifically its exclave Kaliningrad, was a major origin of illicit white cigarettes flowing to the EU. Russian authorities were reluctant to facilitate cooperation between customs officials in Kaliningrad and the EU. A 2013 interview with the Lithuanian Customs revealed that any communication had to transit in written form via the authorities in Moscow, a requirement that effectively slowed down the controls and any connected investigations.⁴²
- Due to the repression of civil society, independent media, and political opposition in the aftermath of the Belarussian presidential elections in 2010, the Council of the EU imposed certain sanctions (freezing of assets and travel bans).⁴³ Many of these sanctions were lifted in 2016; including the ones imposed on President Lukashenko and 169 other people.⁴⁴ The main restrictive measure that has been prolonged by the European Council until the 28th of February 2020, is an embargo on any “equipment that could be used for internal repression”.⁴⁵
- Strengthening LEAs is a key part of the strategy required to tackle cigarette smuggling effectively. Related to this, through the Hercule III programme (2014-2020) EU MSs can acquire advanced technical equipment (e.g., x-ray scanners) and additionally gain access to training programmes for authorities.⁴⁶

4. Socio-economic factors

Price differentials

The difference in the price of legal cigarettes between two countries is a strongly significant driver of illicit flows of cigarettes (see Figure 4). The higher the price differential between two countries, the larger the predicted illicit cigarette flows between them. In 2017, a 1% increase in the price differential for a package of the most sold brand was correlated with a 4% increase in the volume of trafficked cigarettes between two countries.

Illicit cigarettes tend to flow to countries where legal prices are significantly higher. Price differences impact on illicit flows of cigarettes regardless of the specific role of the inflowing country (i.e., origin or transit) and of the outflowing country (i.e., destination or transit). Large cigarette price differentials create the prospect of sizable potential profits for OCGs. This incentivises their engagement in the large-scale movement of illicit cigarettes.

Price differentials are mainly determined by differences in tobacco tax regimes between countries and/or jurisdictions.

Therefore, **changes in the taxation among neighbouring states lead to the displacement of illicit flows of cigarettes**.⁴⁷ Thus, in some cases, higher taxation is introduced with the aim of reducing the incentive to engage in cigarette smuggling in bordering countries (see Box 4).

Figure 4. Price of a pack of the cheapest cigarette brand in the countries of the NEXUS area (2017)

Legend

Price

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

Volume - Number of sticks

Graphic reference scale

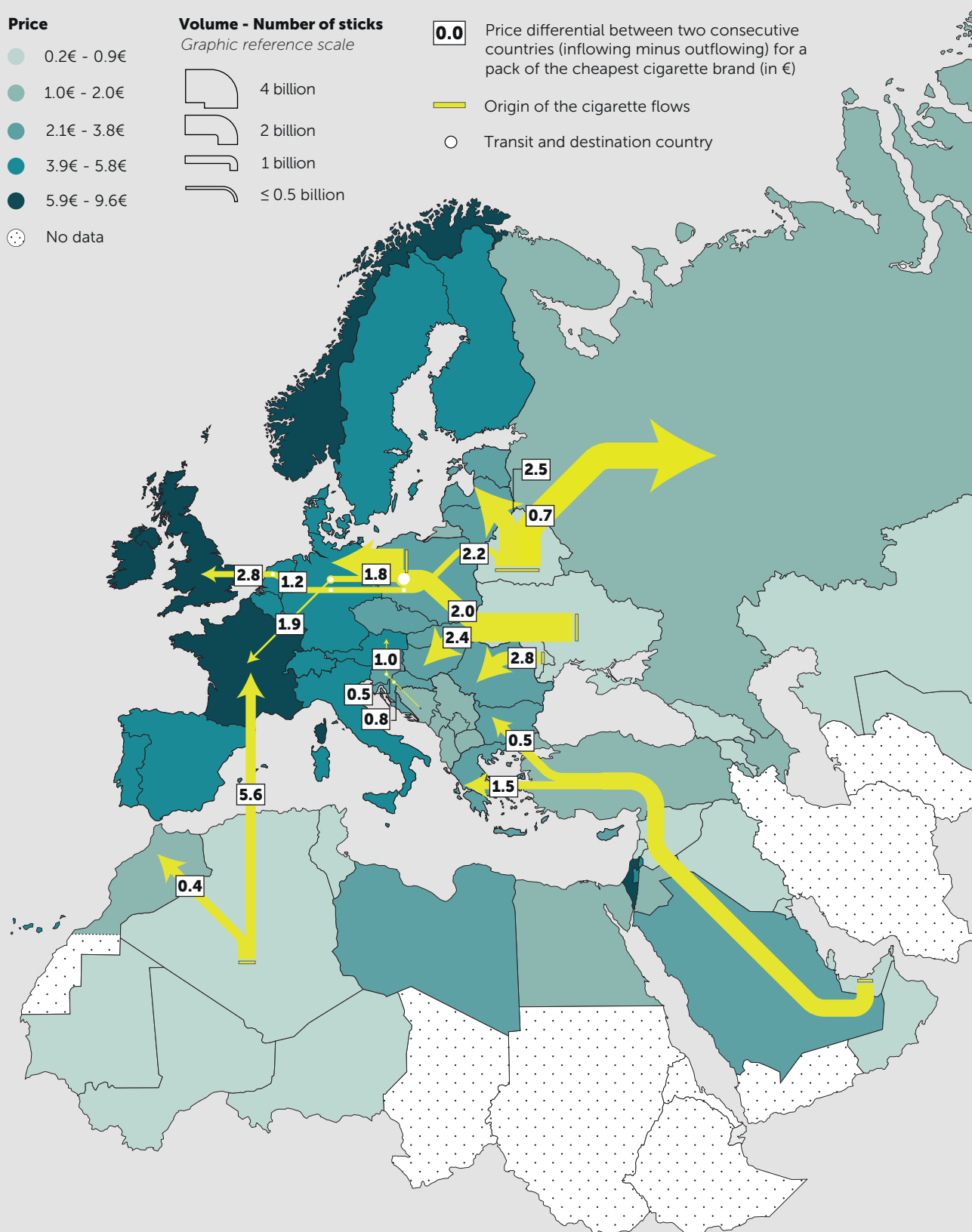
- 4 billion
- 2 billion
- 1 billion
- ≤ 0.5 billion

0.0

Price differential between two consecutive countries (inflowing minus outflowing) for a pack of the cheapest cigarette brand (in €)

Origin of the cigarette flows

Transit and destination country



Note: The map represents the main illicit flows of cigarettes transiting through the NEXUS countries together with the price difference between countries traversed by these flows. The flows represented should be considered indicative and based on estimates rather than exact values. There are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

Box 4. The EU pushes for tax harmonization within and across its borders

The policies implemented to adjust tobacco taxation rates to the minimum EU level are a classic example of tax rate harmonization.⁴⁸ For instance, within the framework of these policies, Croatia joined the EU in 2013 and raised its taxes on tobacco products to conform with EU tax requirements.⁴⁹ The fact that the country's economy underwent major changes after its accession

to the EU hinders the assessment of the sole impact of tax policies on cigarette trafficking.

The policy adopted by the Ukrainian parliament in 2017 of increasing tobacco taxes by 20% annually until 2024 also has the aim of harmonizing tax rates with the minimum EU levels. The real impact of this tax policy on cigarette trafficking will become

more apparent in the years ahead.

Industry and customs officials state that the Belarusian excise taxes on illicit whites (see Box 5) are the root problem behind their spread in recent years. In this regard, the European Commission has encouraged Belarus to approximate its excise duty rates on cigarettes to the levels in the EU.⁵⁰

Enabling factors in action

- The increases in the price of legal cigarettes foreseen by the EU as a fundamental instrument to reduce smoking habits create criminal opportunities for cigarette traffickers. Specifically, price differences between the EU MSs and the close-by countries in Eastern Europe, North Africa, and the Balkans contribute to explaining the development of smuggling routes in those areas.
- On average, a EU smoker living close to the external borders of the EU can save around 0.75€ per pack of cigarettes by purchasing premium branded cigarettes in one of the countries directly adjacent to the EU. When purchasing the cheapest or most sold legal cigarettes, the price difference increases (see Figure 5). Smokers can save on average 1.25€ per pack of cheapest cigarettes, which corresponds to more than a third of the average price of the cheapest cigarettes in the EU.

Figure 5. Price differential for a 20-cigarette pack of the most sold brand (2017)

 **6.3€**

Price of 1 pack of the most sold cigarettes in
Germany

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



BELARUS



POLAND



UKRAINE



 **8.4€**

Price of 1 pack of the most sold cigarettes in the
United Kingdom

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



BELARUS



POLAND



UKRAINE



Presence of illicit whites manufacturers

The presence of large manufacturing facilities overproducing cigarettes is a major driver of illicit outflows

destined for neighbouring and remote countries. Overproduced cigarettes may be trafficked in other countries as illicit whites (see Box 5 and Figure 6).

The large-scale production of illicit whites fuels the illicit cigarette markets

Taxes on these cigarettes are normally paid in origin countries, while they are evaded in destination countries (see Box 6). Consequently, direct **incentives to curb the spread of illicit whites are limited to final destination countries.**

Whenever authorities in producing countries are not forced to control and limit the national production of illicit whites, the spreading of these products will be hard to prevent.

Box 5. Illicit whites

Illicit whites—also called “cheap whites”—are cigarettes that are legally manufactured in one country with the deliberate intention to be smuggled—at least in part—into different markets where the brand’s owner has limited or no permission to distribute them.⁵¹

Box 6. Losing track of illicit cigarettes while “in transit”

Smugglers of illicit whites cigarettes often rely on smuggling schemes that exploit the advantages that apply to transiting goods. Goods in transit benefit from the temporary suspension of the customs duties, excise and VAT that are to be paid in the origin and/or final destination country. By declaring a cigarette container as “in transit” while exporting and importing it in different countries, criminals manage to avoid paying taxes on it, while the cigarettes disappear from the legal market and end up in a destination different from the declared one. For many criminals, “transit” is employed as a synonym for smuggling.⁵²

Enabling factors in action

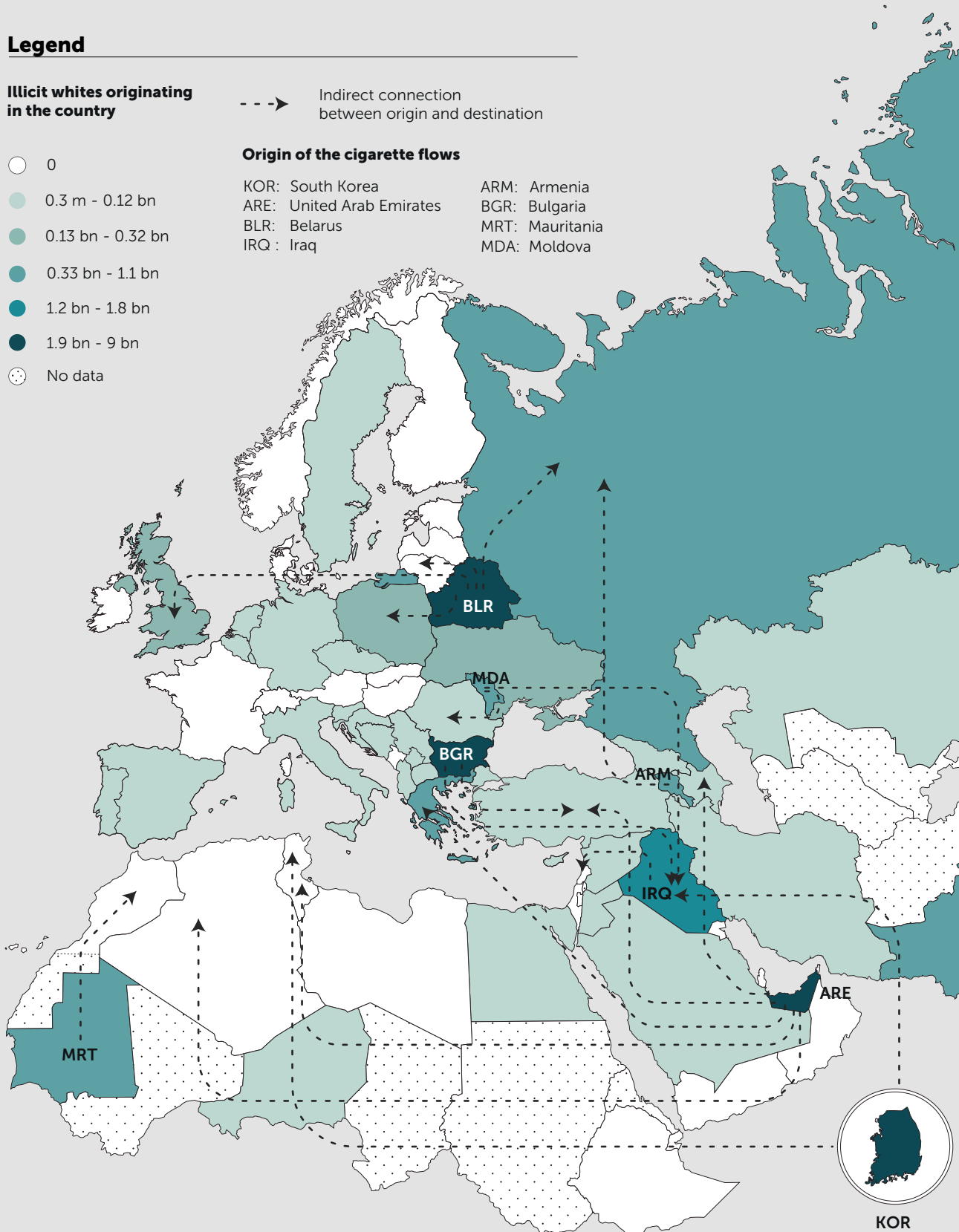
- The Belarusian state-owned Grodno Tobacco Factory Neman (GTFN) is one of the largest producers of illicit whites destined for the EU market.⁵³ It produces more than 20 billion cigarettes annually.⁵⁴ Illicit whites cigarette brands produced by Grodno Tobacco include Fest, NZ, Magnat, Minsk, Premier, Queen and VIP.⁵⁵
- The Baltic Tobacco Company in Kaliningrad, Russia, is another major

illicit whites manufacturer. The Baltic Tobacco Company produces Jin Ling cigarettes, which are a widely consumed illicit whites brand in Europe. Besides Kaliningrad, the Baltic Tobacco Company also has manufacturing facilities in Lviv, Ukraine, and Moldova.⁵⁶

- Until recent years, major manufacturers of illicit whites cigarettes destined for European markets were located in countries

outside—but often bordering—the EU.⁵⁷ More recent years have seen the spread of illicit whites brands produced by manufacturers operating in EU countries. For instance, in 2013, a report by the European Parliament documented the pervasive presence of Prestige cigarettes on the Turkish black market. These cigarettes are produced by *Bulgartabac*, a Bulgarian manufacturer.⁵⁸

Figure 6. Main countries of origin of illicit whites (2017)



Note: The map represents the connection between the main origins and final destinations of illicit whites. The arrows represented should be considered indicative and based on estimates rather than exact values. There are numerous secondary arrows that are not represented.

Currency exchange rates

The depreciation of a currency makes cigarettes originating in that country relatively cheaper for foreign customers. Therefore, **currency depreciations may cause increases in illicit cigarette outflows from the country with a depreciated currency** (see Box 7).

FTZs

FTZs are characterised by light regulation and a reduced legal burden for the businesses operating in them. This causes a weaker control on licit and illicit trades. Through FTZs, illicit products can flow to various destinations avoiding accurate controls. FTZs are thus conveniently misused by criminal networks to smuggle illicit cigarettes (see Box 8).⁶⁰

The presence of FTZs increases a country's likelihood of engaging in cigarette smuggling

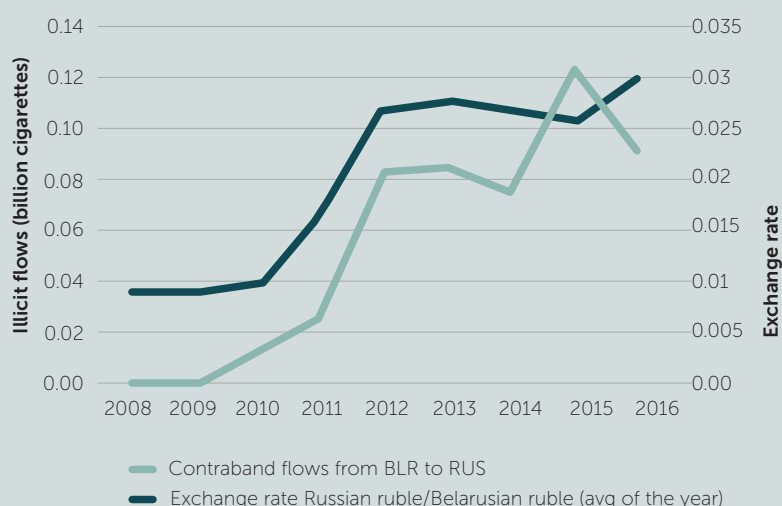
In some cases, **illicit whites cigarettes are legally manufactured in FTZs**, where the lax regulation makes it possible to produce cigarettes that may not be compliant with the quality standards of many

Box 7. Belarusian rouble vs. Russian rouble: the evolution of currency exchange rates

The depreciation of the Belarusian rouble is a driver behind the upsurge in the international illicit flows of cigarettes originating in Belarus (see Figure 7).⁵⁹ In particular, the depreciation of the Belarusian rouble seems to drive up the trafficking of genuine cigarettes from Belarus to Russia. Depreciation causes Belarusian illicit cigarettes to become even

cheaper for Russian smokers, who also saw a large increase in legal cigarette prices over the same period (see Box 1). The correlation between the exchange rate and the consumption of contraband cigarettes is particularly high—i.e., 0.87. The trafficking of illicit whites from Belarus to Russia seems to be less influenced by changes in the exchange rate between the two currencies.

Figure 7. Trend of contraband flows from Belarus to Russia and of the exchange rate between the Belarusian rouble and the Russian rouble (2008-2016)



Source: Transcrime elaborations of data on exchange rates available open source.

countries. Cigarettes are then illegally exported relying on different strategies, e.g., by hiding them in a container with other legal products.⁶¹

The regulatory exemptions of FTZs also allow criminal actors to easily relabel, rebrand or repackage cigarettes, thus disguising the true

origin of the products and exploiting FTZs as transit points.⁶²

The lack of clear procedures, documentations and authority in charge of organising and executing the controls aggravate the opacity that characterises FTZs.⁶³

Enabling factors in action

- Noteworthy FTZs are located in Kaliningrad, the port of Mersin in Turkey, the port of Chornomorsk (formerly known as Illichivsk) in Ukraine, and in Dubai, United Arab Emirates.
- The Jebel Ali FTZ in Dubai is a major logistical hub in the Middle East and the oldest FTZ in the United Arab Emirates.⁶⁴ It is also well-known for cigarette trafficking. It hosts more than 7,000 companies from over 100 countries,⁶⁵ and in 2013 there were at least 10 factories producing cigarettes (amounting to a combined manufacturing capacity of about 63 billion cigarettes per year).⁶⁶
- There are also several FTZs present in Europe. The International Chamber of Commerce's BASCAP (Business Action to Stop Counterfeiting and Piracy) indicated 11 EU ports as high risk in terms of vulnerability to cigarette trafficking: Varna and Burgas (Bulgaria), Hamburg (Germany), Thessaloniki and Piraeus (Greece), Gioia Tauro (Italy), Funchal (Madeira, Portugal), Marsaxlokk (Malta), Riga (Latvia), Constanta (Romania) and Barcelona (Spain). With the exception of Varna, which is a Transit Trade Zone, all the aforementioned ports are FTZs.⁶⁷

Box 8. FTZ schemes are everywhere; Thai customs uncover a scheme to import 36 million illicit cigarettes

In 2017, the Thai customs authority confiscated 36.1 million illicit cigarettes that were found in four containers at the FTZ of Laem Chabang Port. The containers were declared as imported products destined to be re-exported to Malaysia. 21.6 million of these illicit cigarettes were of the SAAT brand. They had presumably been manufactured in Vietnam and had reached

the Laem Chabang Port via Singapore. The other 14.5 million illicit cigarettes carried the U2 brand and were registered as being manufactured in and imported from the United Arab Emirates. The cigarette trademarks turned out to be counterfeited. Cigarette import taxes had not been charged, because the cigarettes were declared to be awaiting re-export

to Malaysia via the Chalung FTZ. However, upon further investigation, the Thai customs authorities discovered that no import request had been filed with the Malaysian authorities. This raised the suspicion that the 36 million cigarettes were meant to be sold on the Thai black market and/or smuggled into Malaysia.⁶⁸

Trade and commercial agreements

The existence of free-trade agreements facilitates the smuggling of illicit products, including cigarettes, between the countries involved.

The guarantee of the right of free movement to natural legal persons and goods thanks to agreements has its counterpart in the limitation of the sovereign state power. This translates into less border controls, which favour cigarette smuggling.

The globalization of commercial hubs and the intensification of trans-regional commercial flows may further increase the risk of illicit trafficking concealed behind legitimates activities.

Enabling factors in action

- The Schengen Agreement, implemented by the Convention signed in 1990 and now incorporated into the EU rules, ensures the free movement of goods and citizens by abolishing checks at the Schengen Area internal borders. People can move from one state to another passing police checks, but they are exempted from ordinary borders controls.⁶⁹
- The Eurasian Economic Union (EAEU) was established by the Eurasian Economic Union Treaty, entered into force in 2015. The EAEU MSs are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. Based on the 2010 Customs Union and the 2012 Common Economic Space, the EAEU aims at creating an EU-style Eurasian internal market by ensuring free movement of goods, services, capital and labor and by removing customs controls at internal borders. It also pursues a coordinated, harmonized and single policy in certain sectors, and maintains various international agreements between the EAEU MSs.⁷⁰
- Under the Belt and Road Initiative (BRI), China has built a railway that starts in the city of Chongqing, crosses Eurasia, and ends in Duisburg, Germany. The route passes through Kazakhstan, Russia, Belarus and Poland. This railway has been in operation, moving goods between Europe and China, since 2011. In parallel, since 2013, economic and diplomatic relations between China and several countries located along the Belt and Road have been enhanced.⁷¹
- Three major Chinese companies, China Ocean Shipping Co. (COSCO), China Merchants Port Holdings (CMPort), and Qingdao Port International Development (QPI), have been expanding their control over the seaports located in EU MSs and several other countries in the Mediterranean area (e.g., Egypt, Morocco and Turkey). Illustrative of this is the case of the Greek Piraeus port, where the Chinese state-owned COSCO slowly acquired a 51% share of the Piraeus Port Authority, and currently also exerts full control over its container terminal. The European ports act as China's gateways to Europe.⁷²

Well-established legal trade routes

Large legal trade routes and their key hubs, such as pivotal commercial ports and airports, **can be exploited also to illegally smuggle goods**. Smugglers exploit the expertise of non-criminal actors involved in trade businesses to assist them in their criminal activities.⁷³

The larger the flows of legitimate goods, the easier it is to hide illicit products in them (see Figure 8). Smugglers hide illicit cigarettes in legal cargoes that are shipped to large ports, where authorities are unable to check them all because they do not have either the personnel or the technological equipment

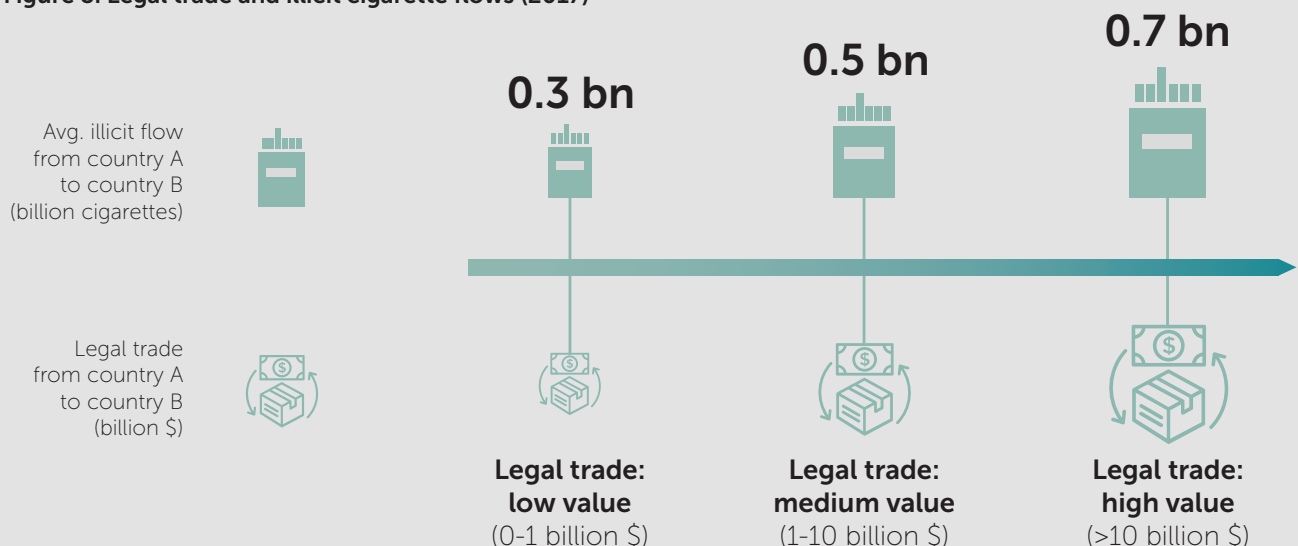
to deal with the large number of containers.⁷⁴

In other cases, criminals hide cigarettes in containers that contain genuine products for legitimate companies which have no involvement in smuggling activities and are unaware of the hidden goods.⁷⁵

Enabling factors in action

- In 2017, 3.1 million containers arrived in the port of Antwerp and 3.4 million containers left it. Figures from the Belgian Federal Public Service (FOD) indicate that the Belgian customs authority was only able to check approximately 34,000 of those containers. Ports face the challenge of increasing the controls without slowing down the flow of goods.⁷⁶

Figure 8. Legal trade and illicit cigarette flows (2017)



Large shadow economy

"Shadow economy" is the term used to refer to economic activities that are hidden from official authorities for monetary, regulatory, and institutional reasons. Hence, no taxes are paid on the value produced by such activities.⁷⁷

Given its hidden nature, cigarette smuggling and the production of illicit cigarettes is one of the activities that pertain to what is termed the "shadow economy". At the same time, cigarette smuggling exploits the existence of a large shadow economy to develop.⁷⁸

Statistical analyses indicate that, **outflows of illicit cigarettes are larger, the larger is the shadow economy of a country**. In 2017, a 1% increase in the size of the shadow economy in a country led to a 19% increase in the estimated illicit outflows of cigarettes.

The estimated impact is especially strong for outflows from the country where illicit cigarettes originate—an increase of 1% in the shadow economy leads to an increase of 27% in illicit outflows.

The presence of a large shadow economy may facilitate cigarette trafficking in several ways:

- **It suggests the ease of operating underground** to people looking to engage in cigarette trafficking. Indeed, it indicates the presence of established underground systems that may favour the trafficking and distribution of illicit cigarettes.
- The existence of informal selling mechanisms used for other types of goods, such as street vendors, can be exploited to distribute illicit cigarettes.
- For people who are already active in this environment, **the opportunity cost for disobeying the law further is low**.
- **Other types of illicit goods may be used to obtain contraband cigarettes** (arbitrage opportunities). For example, the existence of a substantial underground sector in a state may enable cigarette smuggling to a third state in exchange for other smuggled goods.⁷⁹

Unemployment

Unemployment is a risk factor for cigarette trafficking. Unemployment influences cigarette trafficking in two ways:

- 1) consumers with a lower purchasing power are more prone to save money by purchasing illicit cigarettes;
- 2) for unemployed people, smuggling cigarettes can be a low-risk and highly profitable way to earn a livelihood.

Unemployment affects the volume of illicit cigarettes trafficked

Unemployment is more significant in explaining the volume of cigarettes outflowing from a country compared to illicit cigarettes inflowing (see Figure 9 and Figure 10).

Unemployment in the outflowing country significantly affects illicit cigarette flows regardless of whether the country is the origin of the flows or a transit point. Hence, **unemployed people could engage in cigarette trafficking both in countries of origin of illicit cigarettes and in transit hubs.**

On average, the statistical analysis shows that an increase of 1% in the unemployment rate at the country level in 2017 was correlated with an increment of 8% in illicit outflows of cigarettes.

Unemployment has a significant impact in the country receiving the inflow only if the country is the final destination of trafficked cigarettes. It does not have an impact on cigarette trafficking for countries acting as transit. This suggests that **a higher number of unemployed people translates into a higher propensity to buy illicit cigarettes.**

A rise of 1% in the unemployment rate in the final destination country is linked to a 13% increase in incoming illicit flows of cigarettes from transit countries and to a 7% increase in incoming illicit flows directly from the origin country.

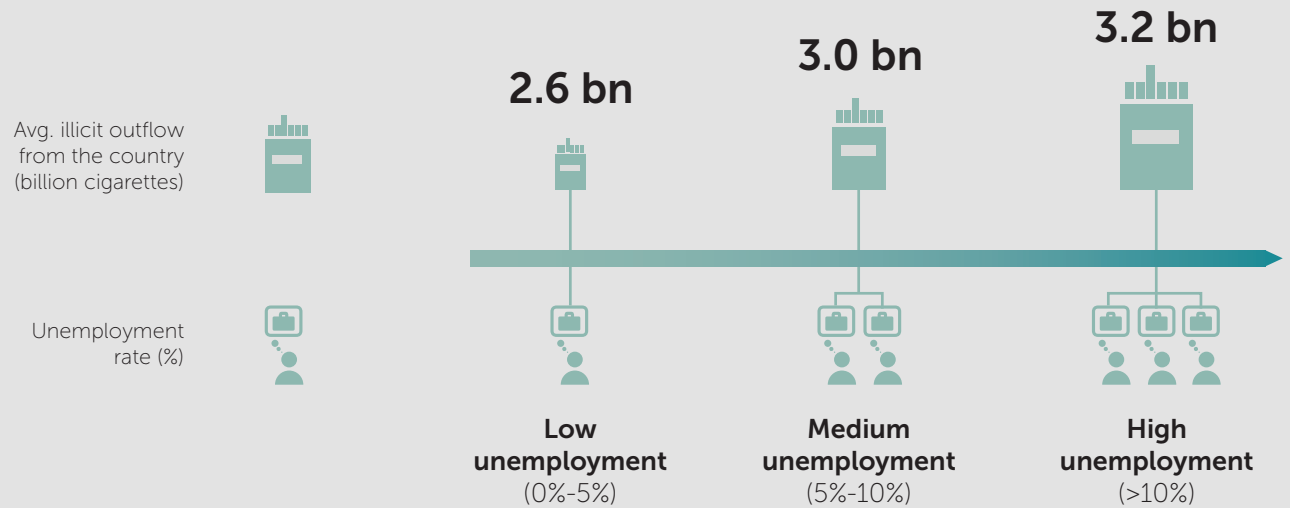
The impact of unemployment on illicit cigarette outflows was stronger in the past (2008-2012) than it is today. This was likely to be due to the immediate effects of the 2009 economic recession, which may have imposed harsher conditions on unemployed people.

The effect of unemployment on engagement in trafficking activities is exacerbated by the functioning of the welfare state. A scant welfare state—particularly, limited access to education—increases the likelihood that people—especially youths—will engage illicit trade activities.

Enabling factors in action

- In Libya, Mali and Algeria, which are post-conflict areas characterised by high levels of unemployment, cross-border smuggling is a financial resource and an alternative source of income for unemployed youth.⁸⁰

Figure 9. Unemployment and illicit outflows of cigarettes (2017)



Legend

- 0.1% - 3.0%
- 3.1% - 5.5%
- 5.6% - 8.9%
- 9.0% - 16.1%
- 16.2% - 27.4%
- No data

The map displays the distribution of the elderly population across Europe and North Africa. Darker shades of teal indicate higher percentages of the population aged 65 and over. Spain, Italy, and several countries in North Africa (including Algeria, Libya, and Egypt) are in the highest category (16.2% - 27.4%). France, Germany, and the United Kingdom are in the 9.0% - 16.1% category. Many countries in Eastern Europe and Northern Africa are in the 0.1% - 3.0% category. Several countries, including Libya, Egypt, and several in Northern Africa, are marked with a dotted pattern, indicating no data.

Transnational socio-demographic connections

Ethnic and kinship ties across borders facilitate the trafficking of illicit goods diminishing the risk intrinsic to this activity. The use of the same language and the sharing of social norms may favour transnational cooperation and trust among criminals.

Transnational social ties are a valuable resource for traffickers

Countries that shared a colonial relationship in the past or had a common coloniser tend to have larger volumes of illicit cigarettes flowing between each other compared to countries with no such relationship.

Enabling factors in action

• When Yugoslavia broke up in the 1990s, several ethnic groups were fragmented among different countries. This fragmentation allows criminals to cooperate freely across borders thanks to kinship ties, cultural affinities and similar languages. As argued by local observers: “for criminals, Yugoslavia still exists”.⁸¹

• Algeria has a strong socio-demographic connection with France. Algeria was one of France’s longest held colonies; in 2017, France was the country of residence of about 1.5 million people born in Algeria. In the same year, France was also the main destination market for illicit

cigarettes originating in Algeria: of about 4.2 billion illicit Algerian cigarettes consumed worldwide, 3.4 billion were smoked in France.

Growth of e-commerce

In recent years, cigarette e-commerce has grown significantly. Many websites sell and ship cigarettes anywhere in the world through a simple purchasing procedure (e.g. <https://www.dutyfree.io/>). The diffusion of cigarettes through the online market has facilitated the illicit cigarette trade for several reasons. Firstly, the identification

of the smugglers is more difficult than it was in the time of the purely traditional market. People can more easily use fake personal information and different identities to avoid to be identified by LEAs. Secondly, cigarette smugglers use postal and courier services to transport and deliver illicit cigarettes enabling under the-radar shipments.

5. Cultural factors

Social acceptance of criminal behaviour and illicit consumption

The social acceptance of criminal behaviour is an important enabling factor for cigarette trafficking. **There are two sides to this phenomenon:**

- **Acceptance of involvement in cigarette trafficking activities.**

This can be due to the lack of other means for the impoverished population to generate income legally and/or the rejection of the official borders of a State.

- **Tolerance towards consumption of illicit products**—not perceived as a serious illicit behaviour. This may boost both the demand for and supply of illicit cigarettes (see Box 9).

The social acceptance of cigarette trafficking is often a consequence of the poor living conditions of the population. Widespread poverty and unemployment push individuals to regard illicit conducts as admissible in the absence of any alternatives.

Social acceptance of trafficking may also relate to the political situation and the political rejection of national borders by ethnic, political, or religious minorities.

Box 9. Consumers knowingly purchasing counterfeit goods

Research on counterfeit products shows that individuals who purchase counterfeit products can be divided into two groups of consumers. The first group comprises those who purchase counterfeit products unknowingly, and the second one those who are well aware of the nature of the product that they are purchasing. Individuals in this second

group are usually aged between 15 and 34 and besides price, availability is their main motivation—irrespective of the design of the packaging.⁸² Acceptance of purchasing counterfeit goods is highest in the Baltic countries and South-East Europe.⁸³ In Greece, for example, even though the cigarette prices increased, the

consumption of cigarettes also increased. The lack of a decline in consumption may represent evidence of the Greek black market catering to the demand of the low 'tax conscious' Greek consumer for more affordable cigarettes.⁸⁴ Similar dynamics may characterise the choice of purchasing illegal cigarettes instead of genuine ones.

Enabling factors in action

- In Egypt and Libya, Bedouin tribes engaged in smuggling activities have a positive perception of their practices, seeing themselves as part of a moral economy of the underprivileged. Smugglers justify their illicit conduct through the integrative power of the kinship association: they do what they can for the economic sake of their people. Given the lack of support from state institutions to them, smuggling is a necessary and unavoidable (and thus justifiable)

activity. Engaging in successful smuggling activities even contributes to advancing the status of the smuggler within his community.⁸⁵

- In the Balkans, years of conflict and political turmoil, in combination with the economic crisis, induced unemployed youth to engage in illegal activities. Many youths of the generation growing up in the 1990s were disillusioned and resented elites that, in their opinion, had destroyed everything. Some of these youths were angry and felt

that engaging in illicit businesses, including cigarette trafficking, was their revenge on a country that had abandoned them.⁸⁶

- The Kurds are the fourth largest ethnic group in the Middle East: 25 million Kurds live in an area spanning across Turkey, Iraq, Syria, Iran and Armenia.⁸⁷ They tend to identify themselves as a single community and a part of them contest political borders, which facilitates their acceptance of cross-border smuggling operations.⁸⁸

6. Criminal factors

Organised criminal groups

OCGs rely on their existing knowledge of routes and *modi operandi* used for the trafficking in other goods to get involved in cigarette trafficking.

In addition, OCGs often operate transnationally and have connections with criminal—occasionally also terrorist—groups from neighbouring countries. These connections help them in moving large shipments.

The presence of OCGs increases cigarette trafficking through a country

In most cases, OCGs directly benefit from the revenues deriving from the illicit trade in cigarettes. In other cases, more structured mafia-type OCGs may also exploit smuggling activities by levying taxes on the individuals involved in exchange for facilitating their smuggling practices.

Enabling factors in action

- Russian OCGs, Italian mafias, OCGs from Eastern Europe and Asian criminal organisations have proved to be involved in different phases of the illicit trade in cigarette.⁸⁹
- In Naples, Italy, the presence of the Camorra and Italian-Chinese OCGs has been linked to the city ranking the highest nationwide in terms of illicit whites prevalence.⁹⁰

- OCGs operating in Galicia have a long tradition of trafficking because they started by smuggling basic commodities such as sugar, rice, oil and soap from Portugal after the 1939 Spanish civil war.⁹¹ In 1960, Galician OCGs shifted to tobacco smuggling, illegally importing tobacco products from the US. Tobacco was brought in large ships

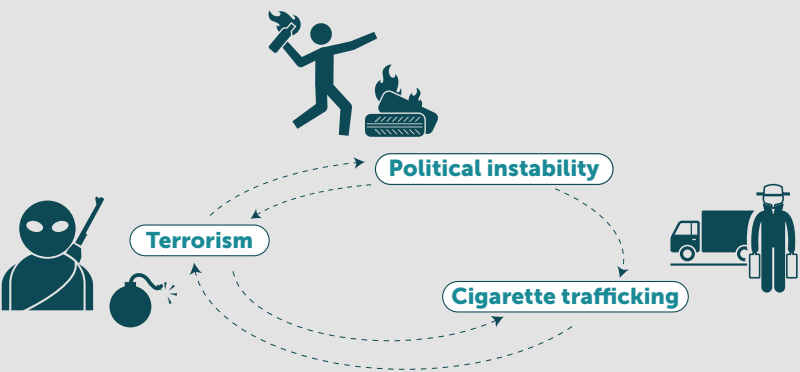
that were unloaded in the high seas, at a distance from the coast, and then brought ashore in small fishing boats.⁹² In the early 1980s, these criminal groups moved to the more lucrative business of cocaine and hashish smuggling, relying on a *modus operandi* similar to the one they used for tobacco trafficking.⁹³

Terrorist groups

Terrorist groups are—and used to be—involved in cigarette trafficking, contributing to boosting this crime.

Terrorist groups exploit the profits deriving from such trafficking to finance their activities and armed operations (see Figure 11).⁹⁴

Figure 11. Interconnection between terrorism and cigarette trafficking



Enabling factors in action

- Cigarette smuggling is believed to provide financing for the terrorist organisation of al-Qaeda in the Islamic Maghreb (AQIM), which is active in North Africa and Europe. Rather than coming directly from involvement in smuggling activities, the money is earned from charging protection fees to smugglers moving illicit cigarettes through the Sahara.⁹⁵
- The PKK is suspected of financing its activities by engaging in different types of crime, including cigarette

smuggling.⁹⁶ Apparently, PKK involvement in cigarette trafficking is longstanding. While the group controlled the flow of contraband cigarettes into Iraq during the 1990s, it turned to managing outflows of counterfeit cigarettes from Iraq about 20 years later.⁹⁷

- The Real IRA (Irish Republican Army) is an Irish republican paramilitary group and internationally recognised terrorist organisation especially active in the early 2000s.⁹⁸ Authorities

have highlighted the involvement in cigarette smuggling of this terrorist group, which was believed to be responsible for nearly all the smuggled tobacco seized in Northern Ireland in the early 2000s.⁹⁹ One of its members, Michael Campbell, who is a convicted cigarette smuggler, was sentenced in 2011 to 12 years in jail for attempting to buy rocket launchers, AK47 rifles and explosives for the Real IRA.¹⁰⁰

Corruption

Corrupted border officials and government authorities facilitate cigarette trafficking by deliberately avoiding the conduct of proper controls on illegal shipments and acting as complicit persons in smuggling operations (see Box 10 and Box 11).

Corruption within governments and customs officers favours cigarette trafficking

The statistical analysis indicates that **countries with higher levels of corruption received higher illicit inflows** in 2017. An increase of 1% in the control of corruption indicator¹⁰¹ in the inflowing country (a lower estimated corruption) is related to a decrease of about 28% in illicit inflows of cigarettes.

Corruption impacts on illicit inflows into countries with a role in the first steps along the route, less on final destination markets.

FTZs are also vulnerable to corruption. In FTZs, criminals may be facilitated by corrupt customs officials who accept bribes to clear shipments faster and at a lower price, or who turn a blind eye to falsified documents.¹⁰²

Widespread corruption among government authorities may be the reason for the governments' choice to tolerate and possibly benefit from the trade of illicit cigarettes within the country, as well as the overproduction of illicit whites.

Besides the direct effects on cigarette trafficking, failure to take action against the corruption of government and custom officials can weaken the rule of law. This may cause individuals to mistrust the government's capacity to enforce its laws, and eventually illicit practices may be regarded as more acceptable.

Enabling factors in action

• According to a recent report by GAN Integrity—financed by Prevention of and Fight against Crime Programme of the EU European Commission—corruption is present at all government levels in Belarus; customs are among the most vulnerable public sectors. Corruption within the state institutions hampers cooperation efforts with the EU aimed at combatting the illicit trade of cigarettes.¹⁰³ In 2016, the government imposed a quota on the

quantity of cigarettes intended for the domestic market, but factories are allowed to overproduce, provided that these cigarettes are exclusively exported. The Belarusian Government, which is the main stakeholder in the two major cigarette factories, has yet to take steps to stop these factories from overproducing cigarettes that are destined to be trafficked abroad.¹⁰⁴ In addition, the World Bank has recommended the Belarusian

government to implement structural reforms aimed at the liberalisation of the domestic business environment, which may also concern the tobacco sector.¹⁰⁵

• In Egypt, the current president Abdel Fatah El-Sisi has agreed not to interfere with the cross-border economic activities of Awlad 'Ali tribes in return for political loyalty to his regime, according to recent academic studies.¹⁰⁶ The cross-border activities of these tribes include cigarette smuggling.

Box 10. Bulgarian customs officials implicated in cross-border cigarette smuggling OCG

In 2015, as a result of a joint operation involving Turkish and Bulgarian LEAs, 26 members of a Bulgarian cigarette smuggling OCG, including customs officials, were arrested. The arrests took place at the Bulgarian Kapitan Andreevo border checkpoint. Two trucks containing illicit cigarettes with a value of approximately 8 million euros were seized by the

Bulgarian authorities. Allegedly, the smugglers had already been operating at this border checkpoint for four years. Further investigation revealed that the confiscated illicit cigarettes were probably manufactured in Ukraine, subsequently shipped to Turkey by sea, and finally moved to Bulgaria in trucks. After the trucks had crossed the border with Bulgaria,

the Bulgarian customs officials working for the OCG swapped trucks' licence plates—allowing the trucks to vanish and the illicit cigarettes to be sold in Bulgaria or other EU countries. Reportedly, the smugglers made a profit of about 16 million euros per month, and in 2015 used 160 trucks to move the illicit cigarettes across the border.¹⁰⁷

Box 11. Criminals depend on Rotterdam port employees in smuggling

The port of Rotterdam is one of the largest trade hubs in the world, with around 450 million tons of goods transiting through it on an annual basis.¹⁰⁸ While the port's security is tight and relies on modern detection technologies, port employees seem to remain the weak link that continues to

be exploited by criminals.¹⁰⁹ A smuggling case in 2014 involved 5 port employees, among them drivers, technicians and temporary dockworkers, who helped the criminals from the inside. This 'help' could be as simple as allowing the criminals to enter the restricted port area by lending

them access passes in exchange for money. A higher profile case involved a customs officer that had been bribed for years by criminals. The customs officer, Gerrit G., had been in service for 30 years and worked in the pre-arrival department, where he practically decided whether or not a container should be checked.¹¹⁰

Glossary

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

Bootlegging: the legal purchase of tobacco products in a low-tax country and their illegal retail in a high-tax country. Bootlegging concerns individuals or small groups who smuggle small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.¹¹¹

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.¹¹²

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.¹¹³

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

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

Flow: the movement of cigarettes between two countries.

Illicit whites: cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.¹¹⁴

Inflow: the inward flow of cigarettes.

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

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

Outflow: the outward flow of cigarettes.

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

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

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

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