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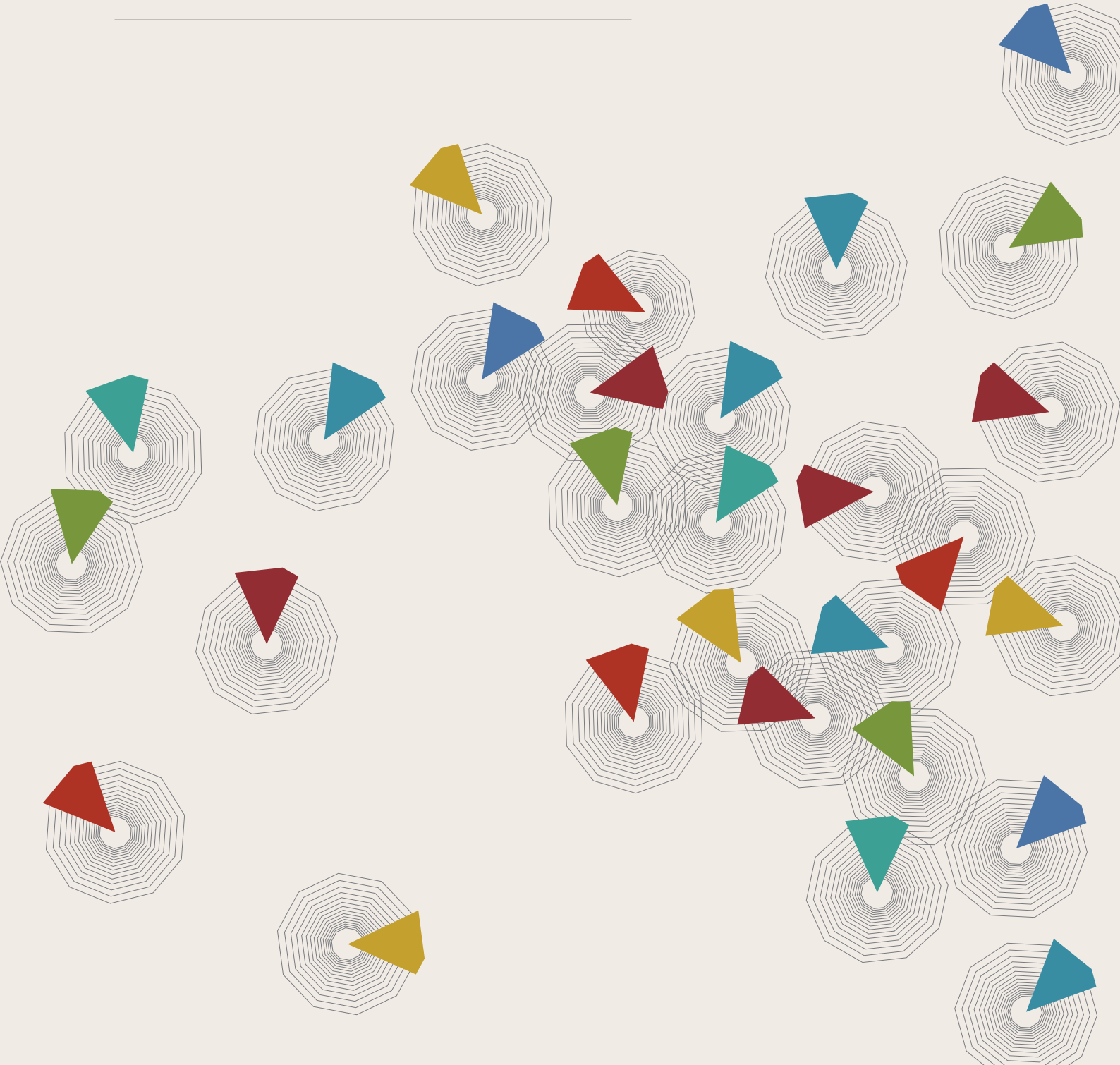
Joint Research Centre on Transnational Crime

European Outlook on the Illicit Trade in Tobacco Products



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GLOSSARY OF TERMS

Ant smuggling: the organised and frequent border crossing by single individuals with relatively small amounts of low taxed or untaxed tobacco products (Joossens et al. 2000; Joossens et al. 2009).

Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal retail in a high-tax country. Bootlegging concerns individuals or small groups who smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income (Hornsby and Hobbs 2007; Allen 2014, 6–7; KPMG 2014, 3).

Contraband or smuggling: the unlawful movement or transportation of tobacco products from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export (Joossens and Raw 2012, 230–231; Allen 2014, 6; KPMG 2014, 3).

Counterfeit cigarettes: counterfeit cigarettes are 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 (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 3).

Empty-pack surveys (EPSs): Empty Pack Surveys are a research method whereby discarded empty cigarette packs are collected in order to estimate the share of domestic (duty paid), non-domestic (non-duty paid) and counterfeit packs in each of the EU countries (KPMG 2014, 318).

Ending point: the ending point of a flow is the country towards which the illicit tobacco products are moved. The ending point is not necessarily the final destination market. Ending points are identified by analysing flows, as specified in the Annex.

Flows: flows express the direction and intensity of the movement of illicit tobacco products, from one country (starting point) to another (ending point). For the purpose of this report, flows were investigated through the analysis of open sources. For further details, see Annex.

Four major tobacco manufacturers: British American Tobacco, Imperial Tobacco, Japan Tobacco International, Philip Morris International.

Hand Rolling Tobacco (HRT): cigarettes are hand-filled by the smoker using fine-cut loose tobacco and a cigarette paper (Eriksen, Mackay, and Ross 2012, 26).

Illegal manufacturing: tobacco products manufactured for consumption but undeclared to the tax authorities. These tobacco products are sold without tax and may be manufactured in legal or illegal factories (Joossens and Raw 2012, 231; Allen 2014, 6).

Illicit Trade in Tobacco Products (ITTP): any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity (WHO 2003).

Illicit whites or cheap whites: illicit whites are cigarettes manufactured legally in one country, but normally intended for smuggling into countries where they are normally unavailable on the legal market. Exportation from manufacturing countries may occur legally, whereas import and sale into destination countries is always illegal. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 4).

Key inputs: components essential for the manufacture of cigarettes, such as cigarette paper and acetate tow, the main ingredient of filters (Joossens, Ross, and Stokłosa 2014).

Large-scale ITTP: in this report, the expression denotes the smuggling of more than 750,000 cigarettes.

Law enforcement agencies (LEAs): International, European and national Police and Customs that coordinate, support and conduct anti-ITTP actions. Eurojust, Europol, Frontex, OLAF, Interpol and the World Customs Organization are the international and European agencies included in this category.

Medium-scale ITTP: in this report, the expression denotes the smuggling of between 100,000 and 749,999 cigarettes.

Other illicit cigarettes: other illicit cigarettes include contraband, bootlegged and illegally manufactured cigarettes.

Prevalence: it is the ratio between the number of individuals with a specific characteristic and the total resident population.

Small-scale ITTP: in this report, the expression denotes the smuggling fewer than 100,000 cigarettes.

Starting point: the starting point of a flow is the country from which the movement of illicit tobacco products originates. The starting point is not necessarily the producer of the tobacco products. Starting points are identified by analysing flows, as specified in the Annex.

Tracking and tracing system: systematic monitoring and re-creation by competent authorities or any other person acting on their behalf of the route or movement taken by items through the supply chain (Art. 1 of the Protocol to Eliminate Illicit Trade in Tobacco Products).

Transit point: the transit point of a flow is the country through which the illicit tobacco products are moved before they reach the ending point. Transit points are identified by analysing flows, as specified in the Annex.

Unprocessed tobacco or green leaf: uncut dried tobacco leaf, which smokers cut themselves (KPMG 2014).

LIST OF ACRONYMS

AEAT	Tax Agency-Customs and Special Taxes *(Agencia Tributaria-Aduanas e Impuestos Especiales)*
BASCAP	Business Action to Stop Counterfeiting and Piracy
BTF	Baltic Tobacco Factory
CF	Counterfeit
CSD	Center of the Study of Democracy
DCTA	Digital Coding & Tracking Association
DIA	Anti-Mafia Investigation Department *(Direzione Investigativa Antimafia)*
DKFZ	German Cancer Research Center
DL	Domestic Legal (product)
EEAS	European External Action Service
EPS	Empty Pack Survey
EU	European Union
FATF	Financial Action Task Force
FCTC	Framework Convention on Tobacco Control
FIOD	Fiscal Information and Investigation Service
FTZ	Free Trade Zone
FYROM	Former Yugoslav Republic of Macedonia
GAMA	Global Acetate Manufacturers Association
GDP	Gross Domestic Product
GDP PPS	Gross Domestic Product in Purchasing Power Parities
GdF	Financial Police *(Guardia di Finanza)*
GTFN	Grodno Tobacco Factory Neman
HMRC	HM Revenue & Customs
HRT	Hand-Rolling Tobacco
ICIJ	International Consortium of Investigative Journalists
IMF	International Monetary Fund
ITTP	Illicit Trade in Tobacco Products
IW	Illicit Whites
KEPE	Greek Centre of Planning and Economic Research
LEA	Law Enforcement Agency
MOU	Memorandum of Understanding
MPO	Minister of Public Order
MS	Member State
NDL	Non-Domestic Legal (product)
NNH	Nearest-Neighbor Hierarchical Clustering
NUTS	Nomenclature of Units for Territorial Statistics
OECD	Organisation for Economic Co-operation and Development
OC	Organised Crime
OI	Other Illicit
OLAF	European Anti-Fraud Office
PPP	Purchasing Power Parity
SDOE	Financial and Economic Crime Research Unit
T&T	Tracking & Tracing
TDR	*Tvornica Duhana Rovinj* (Tobacco Factory Rovinj)
TPD	Tobacco Products Directive
UAE	United Arab Emirates
UK	United Kingdom
UKBA	United Kingdom Border Agency
WB	World Bank
WCO	World Customs Organization
WHO	World Health Organization

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The "European Outlook on the ITTP" is part of a long-standing investigation of the ITTP's dynamics conducted by Transcrime in recent years. Building on the crime proofing of the New Tobacco Products Directive, and in addition to the country-level analysis carried out by the "Factbook on the ITTP", the comparative analysis proposed by the European Outlook will provide further insights into the complexity of the ITTP and allow for the elaboration of new policy recommendations.

As a concerned stakeholder in the fight against the illicit trade in tobacco products, Philip Morris International (PMI) welcomed Transcrime's initiative to develop the European Outlook on the ITTP. PMI partially funded the study and provided data. Transcrime retained full control and stands guarantor for the independence of the research and its results. Any information and data collected by Transcrime have not been shared with PMI.

EXECUTIVE SUMMARY

This study calls for a new direction to be taken in the analysis of, and the fight against, the illicit trade in tobacco products (ITTP) in the European Union (EU). It suggests that the focus should be trained more closely on the reduction of criminal opportunities than on crime control policies. This requires a change of mindset: from the conviction of criminals, hoping that this will eventually reduce crime, to the actual reduction of crime through specific prevention strategies.

The study adopts two approaches. The first part *(Framing the scene: the ITTP in the European Union)* takes a "horizontal approach" and analyses selected components of the illicit cigarette market in the EU. The second part *(Zooming the scene: the ITTP in the EU Member States and beyond)* adopts "a vertical approach" and examines in detail the illicit markets within each EU Member State, as well as the role of selected non-EU European countries in the EU illicit market. Both the horizontal and the vertical approaches underscore the regulatory and law enforcement dimensions that influence the size and type of the ITTP in Europe and beyond.

If the illicit cigarette trade is to be reduced, it is necessary to understand the trade-off between regulation of the legal market and the risk of creating criminal opportunities in the illicit market. Currently, policymakers regulate the legal market while leaving the fight against the illicit market to law enforcement. The reduction of criminal opportunities may reduce this trade-off, thus maximizing health and minimizing crime with lower costs.

PART 1. Framing the scene: the ITTP in the European Union

1. THE SIZE OF THE ILLICIT CIGARETTE MARKET

Estimation of the illicit cigarette market in 247 subnational areas extends beyond existing estimates at the national level. It identifies concentrations and enables more detailed analysis of the ITTP at the local level.

To date, analyses of the illicit trade in tobacco products have been conducted at the national level. This approach has prevented examination of the different dynamics of the illicit market within the same country. Using a new methodology, this study estimates the illicit cigarette market among 247 subnational areas of the EU for the period 2006-2013. It presents the estimates of the volumes, the prevalence (illicit cigarettes per 100,000 inhabitants) and the proceeds of the illicit cigarette market.

The results show that the illicit cigarette trade is concentrated in specific areas. In 2013, the volumes of illicit cigarettes exceeded 1 billion in thirteen areas (six in Germany, three in France, one each in Spain, Greece, Poland, and Italy). These areas accounted for nearly 35% of the EU illicit market, which KPMG estimated at around 59 billion cigarettes in 2013.

Analysis of prevalence enables comparison among different areas. In 2013, seven areas reported an occurrence higher than 50 million illicit cigarettes (equal to 500 cigarettes yearly, or 10 cigarettes weekly per inhabitant, including non-smokers). Two areas were located in Greece and Lithuania, and one each in Estonia, Latvia, and Poland.

Between 2006 and 2013, the illicit cigarette market constantly evolved in terms of time and space. Fewer than half of the areas reported a modest variation in the illicit trade (between -50% and +50%). In 64 areas, illicit cigarettes increased by more than 50%, with impressively high growth (> 300%) in 16 areas located in Bulgaria, the Czech Republic, Greece, Poland, and Spain. At the same time, however, the illicit market decreased by more than 50% in 63 areas.

The illicit cigarette market yields proceeds amounting to between €7.8 billion and €10.5 billion yearly. In the EU, the revenues generated by the ITTP are comparable to those of the cocaine or heroin markets. Nevertheless, lower priority and fewer resources are devoted to the ITTP than to illicit drugs.

Analysis of the estimates of the illicit cigarette market and the other socio-economic conditions of the areas provides some indications for future research: the levels of illicit cigarettes are associated with wealth, price of legal cigarettes, and crime levels in the areas concerned. Other important factors, such as the attitude of the population to the purchase of illicit goods or the likelihood of being sanctioned or arrested, could not be tested owing to the lack of reliable and comparable data.

2. THE PRODUCTS

The distinction among counterfeit, illicit whites and other illicit cigarettes shows the different dynamics of the illicit cigarette markets in space and time. It contributes to the specificity of crime and enables more effective removal of criminal opportunities.

The illicit cigarette market is comprised of different types of products that vary in their characteristics, diffusion, and sources. This study estimates the share of counterfeit, illicit whites, and other illicit cigarettes, in the total EU illicit market (247 areas for the period 2006-2013).

In 2013, counterfeits had an average share of the illicit market of 7.1%, with an irregular trend since 2006.[1] They reached high levels in a few areas, accounting for more than one-third of the illicit market in seven areas. The fluctuation of counterfeits may be due to a double supply channel: large-scale from outside the EU (China is indicated as the main source, even if there is a growing role of United Arab Emirates, Ukraine, Belarus, and Russia) and intra-EU production in smaller illicit factories.

Illicit whites had an average share of the illicit market of 27.9% in 2013, with a constantly growing trend since 2006.[2] They were present in most areas, but they concentrated at the EU borders. In addition to the overall growth in the period across the EU, some areas recorded high concentrations of illicit whites for a few years, followed by a stabilization of the share at medium-high levels.

In 2013, other illicit cigarettes accounted for an average of 64.6% of the illicit market.[3] Yet, from 2006 to 2013, the share of other illicit cigarettes steadily decreased. This decline was due to better enforcement and prevention strategies adopted by both law enforcement and the tobacco industry, as well as to the growth of illicit whites.

1. Counterfeit cigarettes are 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.
2. Illicit whites (or cheap whites) are cigarettes manufactured legally in one country, but normally intended for smuggling into countries where they are normally unavailable on the legal market. Exportation from manufacturing countries may occur legally, whereas import and sale into destination countries is always illegal. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries.
3. Other illicit cigarettes enter the illicit market through different illicit forms of the ITTP, including:
-Smuggling (or contraband): the unlawful movement or transportation of tobacco products from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.
-Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal retail in a high-tax country. Bootlegging concerns individuals or small groups that smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.
-Illegal manufacturing: cigarettes manufactured for consumption but undeclared to the tax authorities. These cigarettes are sold without tax and may be manufactured in legal or illegal factories.

3. THE FLOWS

The analysis of flows replaces traditional distinctions among source, transit and destination countries. Depending on different conditions, countries may simultaneously be the starting, transit and/or ending points of the ITTP. Understanding of these dynamics is a requisite for the removal of criminal opportunities.

This study analyses the main flows of the ITTP, both within the EU's borders and from outside. The examination of the flows is based on systematic analysis of open sources on police operations against the ITTP across the EU for the period 2010-2013.[4]

The most frequent ITTP flows are characterised by geographic proximity between the starting and ending points. Geographic proximity favours bootlegging and it explains the high number of flows between non-EU and EU bordering countries. Many frequent flows are also characterised by the high cigarette price differential between the starting and ending points. Other frequent flows originate from countries where illicit whites and counterfeit cigarettes are manufactured.

The ITTP flows with the largest seized quantities show greater geographic distance between starting and ending points. These flows originate mainly from Far and Middle Eastern countries and reach the EU destination countries with the largest ports.

The top ten starting points are Russia, China, the United Arab Emirates, Belarus, Ukraine, Moldova, Latvia, Turkey, Poland, Egypt, and Serbia.[5] These are either the main producers of counterfeit cigarettes and illicit whites, or countries where cigarette prices are very low, so that it is profitable to smuggle tobacco products to countries with higher prices.

4. The different time frame is due to the limited availability of open sources before 2010.
5. The starting point of a flow is the country from which the movement of illicit tobacco products originates. It is not necessarily the producer of the tobacco products.

The top ten transit points are Greece, Italy, Poland, Romania, Germany, Lithuania, Latvia, France, the Netherlands, and Slovenia. These countries either have the major European ports or are strategically located between Eastern and Western Europe.

The top ten ending points are the United Kingdom, Italy, Germany, Romania, Ireland, Latvia, Poland, Spain, Bulgaria, and France. In fact, the ITTP penetration in the majority of these countries was above the EU average for 2013 (11.0%).

Non-EU countries are key suppliers of illicit tobacco products to the EU markets. They accounted for 69.7% of the flows and 79.5% of the seized quantities between 2010 and 2013. EU Member States along the Eastern EU border, or those with major ports and problematic free trade zones, reported the highest shares for both quantity seized and number of flows.

4. ACTORS AND *MODUS OPERANDI*

The ITTP comprises large-, medium- and small-scale actors. Although large-scale actors are fewer, they account for the balk of the illicit trade. Throughout their careers, senior criminals may engage in ever larger and more complex operations. Collecting information on the ITTP actors and their modi operandi is crucial for tackling criminal opportunities.

This study analyses the ITTP actors and their *modi operandi* in the EU for the period 2010-2013.[6]

The exploratory estimate of the number of people involved in the ITTP was approximately 100,000-150,000 in 2013. They divided among the following types:

- Large-scale actors engaged in the distribution of large consignments of illicit tobacco smuggled over long distances. Large-scale actors generally divert genuine tobacco products from the legal supply chain and/or smuggle counterfeit or illicit whites cigarettes in cargo containers, on ships and trucks.

6. The different time frame is due to the limited availability of open sources before 2010.

They are usually part of transnational criminal networks – such as Italian mafias, Eastern European criminal organisations, or Asian criminal organisations – with a high level of organization. They are present in different phases of the illicit tobacco trade.

- Medium-scale actors engaged in the distribution of medium-sized consignments of illicit tobacco over medium-short distances. They may act as distribution channels for large-scale actors. Medium-scale actors can be single individuals or small groups. They operate mainly with motor vehicles often modified to conceal cigarettes.

- Small-scale actors engaged in the distribution of small consignments of illicit tobacco over medium-short distances (bootlegging or "ant smuggling"). They usually act alone or in small groups with a low degree of organisation.

Large-scale actors account for the largest ITTP share. Whilst representing only 23% of the reported actors, they account for 94.8% of seized cigarettes. Small- and medium- scale actors comprise the majority of actors but only a small fraction of seized cigarettes (51.4% and 25.6% of the actors and 1.2% and 4.0% of the cigarettes, respectively).

Generally, actors are mainly Eastern Europeans (50%) and non-EU Europeans (25%). The majority of Eastern Europeans are from Romania, Lithuania, and Poland. These countries, which are at the external borders of the EU, record the highest ITTP prevalence. Those actors from non-EU European countries are mainly from Ukraine, Moldova, and Belarus, where illicit whites are produced. For large-scale ITTP, Southern Europeans (mainly from Greece, Italy and Spain) are the second largest group.

Large-scale actors are older than small-scale and medium-scale actors. More precisely, 40.9% of them are aged between 40 and 54, compared with the majority of ITTP actors, who are in the 30–39 age group (27.5%). These findings show that large-scale ITTP is conducted by senior, more experienced criminals. In their criminal careers, they may increase the size and complexity of their operations.

The means of transport vary according to whether ITTP operations are small-scale, medium-scale, or large-scale. In particular, "cars and vans" are the preferred mode of transport in small-scale ITTP (68.8%) and medium-scale ITTP (56.1%). In large-scale ITTP, trucks are most frequently used (59.0%), followed by water transport (28.8%), and "cars and vans" (6.8%). As the size of loads increases, the use of "cars and vans" decreases, whereas the share of trucks and water transport (boats, ships and containers) increases.

5. THE EU AND NATIONAL ANTI-ITTP POLICIES

Despite a number of measures at the EU and international level, the EU Member States still significantly differ in their implementation of anti-ITTP policies. To be effective, a new wave of control policies should prioritize the opportunities reduction approach, which focuses on the reduction of crime through specific prevention strategies.

The cigarette market is a typical dual market consisting of a legal and an illegal part linked to each other. The structure of the illicit market also depends on the regulation of the legal part and on law enforcement actions. For this reason, this study has considered policies affecting the illicit market at both European and country level.

The EU has adopted several measures against the ITTP.

Between 2004 and 2010, the EU signed legally binding agreements with the four major tobacco manufacturers. Measures included the requirement to supply cigarettes in amounts commensurate with the legitimate demand, implementing supply chain controls including a tracking and tracing systems, and adopting "know-your-customer" programs.

In 2004, 2007 and 2014, the EU activated the anti-fraud Hercule programs in order to provide financial support to European countries. Programme Hercule II for the first time provided a legal platform for financing activities aimed at combating fraud and illicit cigarette trade.

In 2010 Europol promoted EMPACT projects (European Multidisciplinary Platform against Criminal Threats) against serious international and organised crime. Projects related to the ITTP are: smuggling in shipping containers (2011-2013), excise and missing trader intra-community fraud (2014-2017).

In 2011, the EU adopted an action plan to fight the smuggling of cigarettes and alcohol along the EU's eastern borders.

In 2013, the EU presented a European strategy on the fight against cigarette smuggling and other forms of ITTP. In the same year, the EU signed the Protocol to Eliminate Illicit Trade in Tobacco Products, the aim of which is to eliminate all forms of illicit trade in tobacco products through the implementation of global supply chain controls including tracking and tracing and due diligence. As of October 2014, the Protocol has only four Parties of the forty required for its entry into force.

In 2014, the revised Tobacco Products Directive (2014/40/EU) entered into force. It introduced tracking and tracing standards and security features to support law enforcement in detecting diverted products.

Furthermore, EU Member States also enforce actions to promote anti-ITTP policies and to secure the supply chain.

National anti-ITTP policies comprise: preventive policies, the promotion of awareness campaigns, and data collection on the ITTP. Preventive policies include memoranda of understanding (MOUs) and/or legal agreements between tobacco manufacturers and national public bodies, a national action plan against the ITTP, and a legal duty to destroy confiscated tobacco products and equipment. The most implemented anti-ITTP policies are MOUs, provisions on legal duty to destroy confiscated tobacco products, and the public availability of data on illicit tobacco seizures. The least implemented anti-ITTP policies are the availability of data on convictions for the ITTP and of public estimates on the size of the ITTP.

Securing supply chain control measures aim at preventing abuses on the legal side of the tobacco market. The measures considered are: licencing system, due diligence, tracking and tracing system, record-keeping, regulation of internet sales and of free trade zones. The most implemented measures to secure the supply chain are licensing system and record-keeping. The least implemented measures are national tracking and tracing systems. However, the agreements among the EU, the Member States, and the four major tobacco manufacturers already include tracking and tracing. Nevertheless, the current systems are incomplete and may be reviewed to be consistent with the provisions of the Protocol to Eliminate Illicit Trade in Tobacco Products (art. 7).

6. LAW ENFORCEMENT AGAINST THE ITTP

Regardless of their intense efforts, law enforcement agencies report approximately 7.0% of the actors and seize 6.7% of the total of illicit cigarettes. This is unlikely to deter criminals, and councels the implementation of complementary policies relying on the reduction of criminal opportunities.

International and EU law enforcement agencies, such as Eurojust, Europol, Frontex, OLAF, Interpol and World Customs Organisation coordinate and support anti-ITTP actions.[7] Moreover, they collaborate with national agencies to tackle illicit tobacco within national borders.

The activities of national law enforcement agencies against the ITTP include the arrest of ITTP actors, the seizure of illicit tobacco products, and the dismantlement of illicit manufacturing facilities.[8]

There are no official data on the number of individuals reported to law enforcement agencies for ITTP offences in the EU Member States. However, estimates based on open sources and official data ranged between 7,000 and 10,500 individuals in 2013. These accounted for 7.0% of the estimate number of individuals involved in the ITTP in the same year (100,000-150,000). Given the difference in the estimates, the risk of arrest is unlikely to deter criminals.

More information is available on seizures. However, seizures data should not be considered a reliable representation of the size and composition of the ITTP in an area. In fact, law enforcement agencies often seize cigarettes destined for different countries and areas. Other factors like resources, efficiency, corruption, and legislation influence seizure data.

Between 2007 and 2013 cigarette seizures in the EU decreased by 14.5% (from 4.5 to 3.8 billion sticks). Despite their efforts, EU national authorities seized only 6.7% of the estimated illicit cigarette market in 2013. These results indicate that, given the low priority of the ITTP and the budget constraints of most EU Member States, law enforcement action may not be able entirely to disrupt the illicit cigarette market. Criminals are likely to consider seizures as mere costs for their business rather than as effective deterrents. Opportunity-reduction policies may effectively complement existing law enforcement efforts, resulting in more effective action against the ITTP.

Analysis of European macro-regions between 2007 and 2013 shows that the majority of cigarette seizures occurred in Northern Europe (average of 40.1% of the total EU seizures). This high value is related to the presence of the UK, one of the main destinations for illicit cigarettes because its high cigarette prices. Moreover, the UK has invested significant resources in the fight against the ITTP. It is also an island so that its borders are easier to control. The second largest macro-region for cigarettes seized was Eastern Europe (average of 23.2% between 2007 and 2013) due to its proximity to the main source countries of illicit cigarettes (Belarus, Ukraine, and Russia). The Eastern EU border recorded the highest concentration of seizures in 2010-2013 owing to its proximity to countries with cheaper cigarette prices. The five areas and cities with the highest number of cigarettes seized between 2010 and 2013 were: Piraeus and Megara in Attica (Greece), Augustow in Podlaskie (Poland), Thessaloniki in Central Macedonia (Greece), Ancona in Marche (Italy), and Dublin in Leinster (Ireland). All these cities have important ports — with the exception of Augustow, which is located close to the Belarusian border.

Between 2010 and 2013, 150 manufacturing facilities were dismantled in the EU. The three areas with the highest concentration of these facilities were located in Poland: Lower Silesia (6.7%), Łódź Province and Silesia Province (6.0%). Other important hubs for illicit manufacturing were Nord-Est and Sud (Romania), Continental Croatia (Croatia), and Mazovia Province (Poland), which together accounted for 18.7% of raided facilities.

7. FUTURE CHALLENGES ON THE POLICY AND RESEARCH AGENDA

The analyses conducted in the previous chapters enable identification of the challenges, concerning both policy and research, for the effective reduction of criminal opportunities.

This study adopts an innovative approach which focuses on the reduction of criminal opportunities. In order to develop this approach, adequate policies and further research should be promoted.

Besides intensifying the controls on the free trade zones, future challenges on the policy agenda are: improving the effectiveness of supply chain controls, increasing controls on key inputs, and developing controls on other illicit tobacco products.

Supply chain controls like tracking and tracing systems have contributed to the decrease of large-scale ITTP in the last decade. Today, several agreements require the establishment of an EU/global tracking and tracing system. Approximately 95% of the EU legal cigarette market is subject to tracking and tracing by the four main manufacturers. Yet, in the ever-changing illicit cigarette market, current tracking and tracing systems may be insufficient because they cannot adequately address issues such as counterfeiting, illicit whites, and illegal manufacturing.

7. In this study, law enforcement agencies are the international, European, and national police and customs agencies that coordinate, support, and conduct anti-ITTP actions.
8. Another important activity carried out by law enforcement agencies in the fight against the ITTP is the confiscation of assets. It would also be interesting to analyse the results of this activity, but open sources do not provide information and data on confiscated assets.

To ensure the effectiveness of tracking and tracing against the new forms of the ITTP, the implementation of these systems should respond to criteria of effectiveness and efficiency. This entails:

- global application without asymmetries among countries and systems, avoiding loopholes that could be exploited by criminals;

- reliance on open standards that could facilitate interoperability among different systems at a lower cost.

Controlling key inputs may significantly improve the prevention of the ITTP by effectively tackling illicit manufacturing both outside and inside the EU.[9] Acetate tow may be an ideal input to control because it is mainly used to produce cigarette filters. Moreover, the acetate industry is concentrated and vertically integrated. Also cigarette manufacturing equipment would benefit from control, since the machinery can be used to produce illicit products.

Developing controls beyond cigarettes is also necessary because the evolution of the tobacco market (rising prices driven by tax increases) has induced consumers to downtrade from cigarettes to other tobacco products (particularly hand rolling tobacco). The downtrading to cheaper tobacco products may create new criminal opportunities for the ITTP (e.g., illicit hand rolling tobacco and unprocessed tobacco). While most available data and prevention strategies apply to cigarettes, information on and countermeasures against other illicit tobacco products are limited.

Future challenges on the research agenda are: improving the data on the illicit cigarette market, and increasing knowledge on the *modi operandi* of tobacco smugglers and on law enforcement activities.

This study relies on a variety of existing and available sources. Interpretation of its results should not underestimate the possible biases and limitations affecting the data used. There is wide political consensus that the quality of data on the ITTP should be improved so as to develop more focused analyses and tailor more effective remedies. This could be done by developing strategies to collect better data. This study can help in this direction as well. The estimates of the illicit cigarette market rely on three main sources of data: the national volumes of the illicit market, smoking prevalence, and empty-pack surveys. These sources could be improved as follows:

- National volumes of the illicit market. Their collection should be improved by assessing the reliability of the primary data and providing details about the estimates produced.

- Smoking prevalence data. This study is the first existing analysis of the ITTP at NUTS-2 or NUTS-3 levels.[10] The data used could, of course, be criticized, but this level of analysis is promising because it is closer to the real structure of the illicit markets. The more EU Member States produce yearly measurements at the NUTS-2/-3 levels, the better the understanding of the markets will be, and the more effective actions by policymakers and law enforcement agencies will become.

- Empty-pack surveys (EPSs). Industry-sponsored EPSs have many advantages including the sample size, periodic collection, and country-level sampling. To enhance the potential of this instrument, the same methodology should be used in the conduct of such surveys in different countries so as to improve data comparability.

The estimates of the ITTP at the subnational level may enable analysis of the similarities and differences among areas in different countries. Specific studies on the social, cultural and economic characteristics of the areas and their impact on the ITTP could follow this study.

Law enforcement data are important for understanding not only the workloads of the law enforcement agencies, but also the functioning of the illicit tobacco market. Knowledge about the ITTP's dynamics could be enhanced if law enforcement agencies provided the following information on an annual basis:

- data on illicit tobacco seizures disaggregated by type of product seized, brand, and product origin and destination;

- data on convictions for the ITTP, which should include data on convicted persons (age, gender, and nationality) and on the penalties imposed;

- estimates of the size of the ITTP by type of product (e.g. counterfeit, contraband, illicit whites).

Open data may become an even more powerful tool with which to understand the ITTP. Their quality could improve if law enforcement agencies regularly reported through press releases the main operations against the ITTP and made available a minimum set of information about the operations conducted.

Existing knowledge on the *modus operandi* of cigarette smugglers is still under-researched. Future studies should provide better insight through the application of innovative methodologies of analysis, such as the crime-script method. The latter has shown promising application in providing detailed analysis of specific illegal behaviours.[11]

PART 2. Zooming the scene: the ITTP in the European Union

8. COUNTRY PROFILES

The country profiles provide in-depth information on the illicit cigarette market in each EU Member State.

This part of the study is devoted to the analysis of each Member State of the EU. For each country, a targeted profile estimates the size of the ITTP market and the different types of illicit tobacco products at the subnational level. It provides insights on the ITTP actors and flows, as well as law enforcement and regulatory actions against the ITTP. Each country profile also provides recommendations to improve the action against illicit cigarettes. In providing country-level information, this study aims at developing a discussion within and across countries merging this section with the information provided at the EU level.

The cover for each country profile is the image of a bridge. This symbolically represents the cooperation that should link countries in fighting the ITTP. Indeed, throughout its entire analysis, this study stresses the importance of cooperative policies and joint actions among different EU and non-EU countries.

9. OUTSIDE THE BORDERS BUT INSIDE THE MARKET

A number of non-EU countries are part of the problem of the illicit cigarette market in the EU. Understanding the dynamics of these countries enables the identification of reduction opportunities strategies also outside the EU.

Adopting the reduction of opportunities approach means focusing on those countries that are outside the EU borders but inside the tobacco market (Belarus, Russia, Ukraine, Serbia, and Turkey). They are the core of the ITTP problem, and they should therefore be included in its solution. Deciding what to do and how to do it is the challenge that European policy makers must make their priority. None of the measures against the ITTP will have effect without the cooperation of these countries. Several other measures may improve the action against the inflows of illicit cigarettes from these countries: extending the forthcoming EU tracking and tracking system to non-EU manufacturers, increasing political pressure on governments and manufacturers, and establishing legally binding agreements with manufacturers operating in those countries.

***

In conclusion, the intention of this study is to send a strong message to all those engaged in the fight against the ITTP at all levels. Required for this purpuse is a good blend of awareness, action, and flexibility. Consequently, better knowledge and understanding of the problems within a country should be connected with greater responsibility by regulators and law enforcement agencies in acting jointly against the ITTP. They must be able constantly to monitor what works, what does not work, and what is promising for adapting rules and patterns of action.

9. Key inputs are components essential for the manufacture of cigarettes, such as cigarette paper and acetate tow, the main ingredient of filters.

10. NUTS refers to the Nomenclature of Units for Territorial Statistics.

11. Crime script analysis is an analytical method to understand the reliability behind crimes and to study crime-commission processes in detail. It makes it possible to identify the stages of the crime-commission, all the decisions and actions taken, and the available resources.

INTRODUCTION

Among the many dual markets (those with both a legal and illegal part), the tobacco market is one of the most closely regulated. Nevertheless, the illicit trade in tobacco products (ITTP) generates serious crimes, social and economic costs, and, surprisingly, poor official data. This contradiction has motivated Transcrime to develop innovative research in this area, the purpose being to add value to existing knowledge. We believe that better data and more focused analyses of this neglected market could stimulate more effective policies, thus increasing public health and reducing crime at the same time. And, as always happens, we hope that good research will stimulate the collection of good data, and vice versa, in regard to the ITTP.

Transcrime's approach is centred on this type of good research, and this European Outlook on the ITTP aims to make a significant contribution to it. We start with the existing data and then analyse them using the best, most up-to-date analytical instruments that researchers have developed (the methodology is explained in the annex and should be considered an important part of this study). The study concludes with suggestions for better data collection and more focused analysis.

At Transcrime, we believe in the innovation of crime policies. In regard to complex crimes like the ITTP, this means focusing more on the reduction of opportunities than on crime control policies. This requires a change of mindset: from the conviction of criminals, hoping that this will eventually reduce crime, to the actual reduction of crime through specific prevention strategies. The reasons for our belief are simple: crime control policies (i.e. criminal investigations, arrests and seizures, imprisonment, and confiscation) are often ineffective, and they have high direct and indirect costs. Conversely, opportunities reduction policies are more effective because they prevent the occurrence of the crime and therefore reduce both direct and indirect costs.

Resistance to these new policies stems from the fact that traditional policies are easily applicable because they rely on general legal frameworks, established practices of law enforcement agencies, prosecution, and courts. Contrarily, the reduction of opportunities requires a change of culture and an approach that also involves law enforcement: scanning the characteristics of the crime and of the surrounding environment, analysing the opportunities favouring the commission of crime, responding with strategies specifically targeted on those opportunities, and assessing the effectiveness of the overall process. This innovation requires good data that should be crime specific. By 'crime specific' is meant data related to the specificities of the particular market: perpetrators, behaviours, locations, etc. It also implies going beyond the attribution of a conduct to a theoretical model of offense as described in the law books. For example, whereas smuggling offenses may be treated similarly by prosecutors and courts, they may differ remarkably in terms of their perpetrators, markets, *modi operandi* and geographical distribution. This study moves in this crime-specific data direction; for now, we use existing data, hoping that better data will be collected in the future.

Criticism may be made of some of the data used by this study in that they have been collected by tobacco manufacturers. As we explain in Chapter 7, these were the only existing data that allowed our analysis to be more specific and focused at the local area level. As researchers in social sciences, we are aware that data are not neutral; we are also aware that, with non-precise data, partisan interests are more likely to influence research findings. Since the ITTP is full of conflicting interests, it is difficult to research it without being tainted. This is a risk of research funded by tobacco manufacturers, by governments, or by tobacco control activists. Nevertheless, it is a risk that must be run if we want to improve our level of knowledge and develop the innovative policies in the ITTP area that we believe are urgently needed. All these considerations form the rationale behind this study, which has developed two approaches to the problem. The first part (Framing the scene: the ITTP in the European Union) follows a "horizontal approach" and analyses selected components of the illicit cigarette market (the size, the products, the flows, actors and *modi operandi*, the policies, and the law enforcement actions). It concludes by identifying future issues and challenges for the improvement of the fight against the ITTP. The second part (Zooming the scene: the ITTP in the EU Member States and beyond) adopts "a vertical approach" and examines in detail the illicit markets within each EU Member State, as well as the role of selected non-EU European countries in the EU illicit market. Both the horizontal and the vertical approaches underscore the regulatory and law enforcement dimensions, in the awareness that they influence the size and type of the ITTP in Europe and beyond. Why regulation and law enforcement?

Because tobacco control measures aimed at improving health may generate negative side-effects in terms of criminal opportunities. This means that if the illicit tobacco trade is to be reduced, it is necessary to understand the trade-off between regulation of the legal markets and the impact that regulation has on the illicit ones. In the present situation, this trade-off exists in different forms but is not considered with due attention. Regulators continue to deal with health issues, while leaving it to law enforcement agencies to deal with crime. This is a division of labour that cannot work; both are reciprocally linked. Adopting an approach aimed at the reduction of opportunities and the consequent preventive policies will reduce this trade-off, maximizing health and minimizing crime at a cost less than that of the current division of labour policies. Tracking and tracing could be a good example if properly implemented at a global level for all products. As we explain in Chapter 7, this policy itself is not the main condition for success; rather, the level of implementation will determine it. This study considers law enforcement (including customs) to be an important factor for controlling the ITTP. We describe what law enforcement is today at European level, and give information on what exists at the country level. The law enforcement agencies play a central role in our perspective of reducing crime opportunities. In order to accomplish the latter, rapid changes in law enforcement culture and organisation are needed.

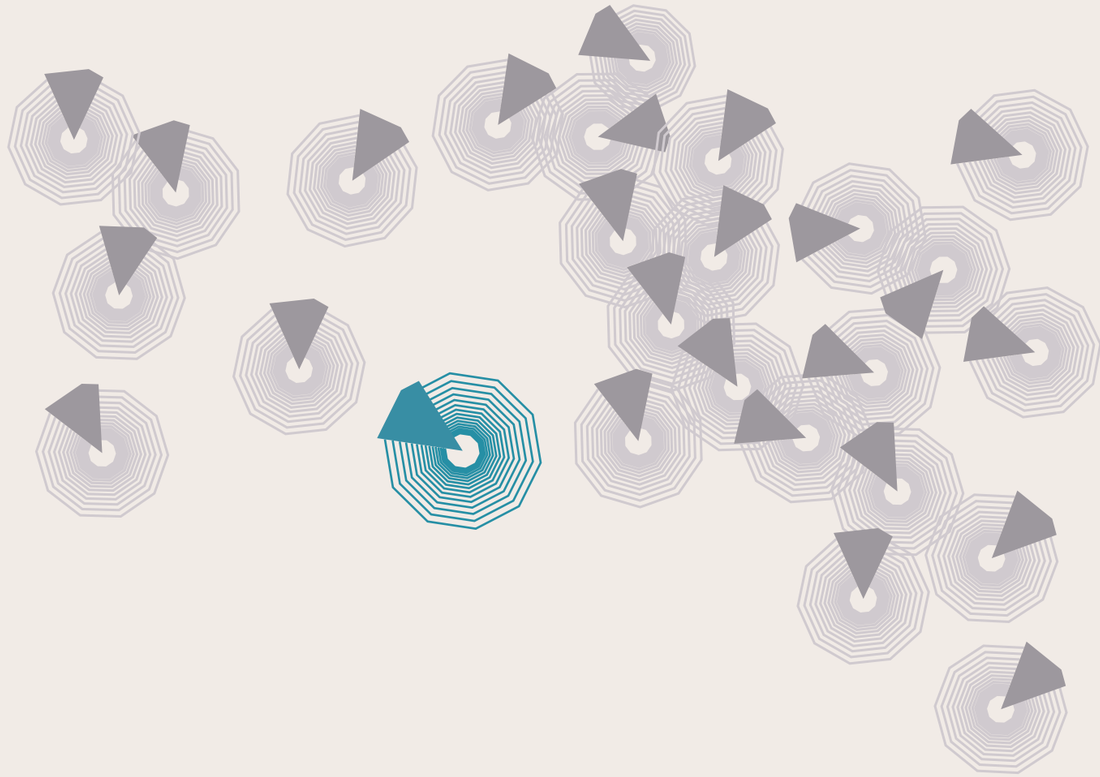
This process has already begun. We note that Europol started discussing the future of law enforcement in 2025. The following extract has been taken from non-official documents internal to that organisation:

> Rather than relying on generalist profiles, police officers will need to develop specialisations to carry out complex and specific tasks. Specialised investigators can already be found in the areas of cybercrime and financial investigations. As technology progresses and the *modi operandi* employed by criminal actors become ever-more complex, police officers will need to gain specialised knowledge and expertise to counter criminal threats.

This perspective on the new role of police forces combines perfectly with the focus on opportunity reduction that this study has adopted, from its beginning, for the ITTP.

PART 1.

Framing the scene: The ITTP in the European Union



1. THE SIZE OF THE ILLICIT CIGARETTE MARKET

To date, estimates of the illicit trade in tobacco products (ITTP) have been made at the country level. This has prevented examinations of the different dynamics of the illicit cigarette market within the same country. Using a new methodology, this study estimates the illicit market among 247 subnational areas of the European Union for the period 2006-2013. This chapter presents the estimates of the volumes, the prevalence (illicit cigarettes per 100,000 inhabitants) and the proceeds of the illicit cigarette market.[1]

1.1 THE VOLUMES OF ILLICIT CIGARETTES ACROSS EU AREAS

The volumes of the illicit cigarette market vary considerably across the EU, mainly due to the size and population of its subnational areas.

In 2013, the illicit market exceeded 1 billion cigarettes in thirteen areas (Map 1). Overall, these areas accounted for nearly 35% of the EU illicit market. Andalusia (Spain) and Nordrhein-Westfalen (Germany) ranked first and second, with volumes exceeding 2 billion cigarettes. Eleven other areas had more than 1 billion cigarettes. Five were in Germany: 1) Mecklenburg-Vorpommern, Brandenburg, Sachsen-Anhalt, 2) Bayern, 3) Thüringen, Sachsen, 4) Berlin, and 5) Schleswig-Holstein, Hamburg, Bremen, and Niedersachsen. Three were in France: 1) Île de France, 2) Rhône-Alpes, and 3) Provence-Alpes-Côte d'Azur; and one each in Greece (Attica), Poland (Mazovia Province), and Italy (Campania).

These areas are large, densely populated territories, which explains their higher estimated volumes. Nevertheless, they also show a high consumption of illicit cigarettes. In 10 out of 13 areas, the 2013 prevalence of illicit cigarettes exceeded the EU-wide average (see section 1.2).

1.2 THE PREVALENCE OF ILLICIT CIGARETTES ACROSS EU AREAS

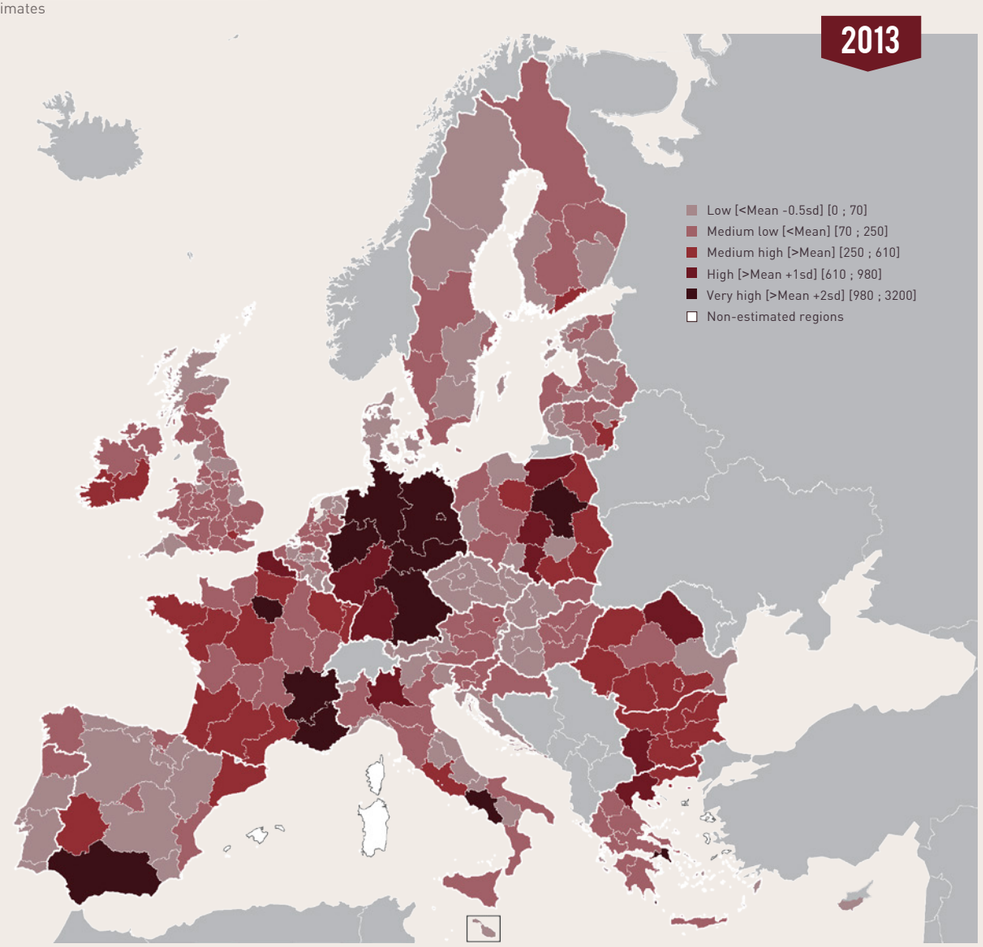
To compare the levels of illicit cigarettes across different areas, the volumes were standardised by each area's population. This operation yielded the prevalence of illicit cigarettes, i.e. the number of illicit sticks per 100,000 inhabitants.

In 2013, the prevalence of illicit cigarettes differed remarkably across the EU. Seven areas reported prevalence higher than 50 million, equal to nearly 10 cigarettes per week smoked by each inhabitant, including non-smokers. These areas were North-East Estonia (Estonia), Latgale (Latvia), Alytus County (Lithuania), Attica (Greece), Taurage County (Lithuania), East Macedonia and Thrace (Greece), and Warmia-Masuria Province (Poland) (Map 2).

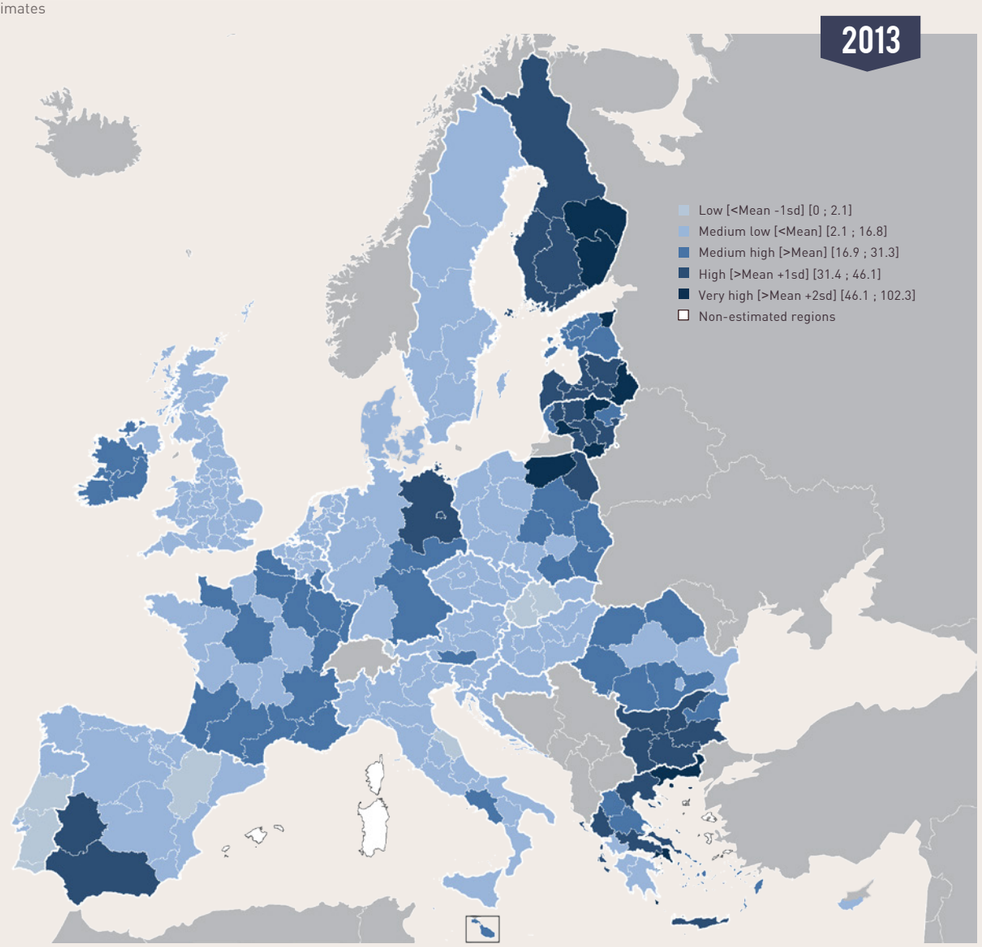
Overall, the areas with the highest prevalence of illicit tobacco were on the eastern (Finland, Estonia, Latvia, Lithuania and Poland), south-eastern (Bulgaria and Greece), and south-western (Andalusia in Spain) borders of the EU (Map 2). The geographical position of these areas demonstrates **the importance of proximity to countries with low-cost cigarettes**. Indeed, in 2013, the 44 areas on the external borders of the EU recorded an average prevalence of 28.8 million, whereas the other recorded 207 areas only 12.7 million.[2]

Lastly, two large metropolitan areas, Berlin and Athens, also reported a high prevalence of illicit cigarettes (52.1 and 38.2 respectively).

Map 1. Volumes of illicit cigarettes, million sticks (2013)
Source: Transcrime estimates



Map 2. Prevalence of illicit cigarettes, million sticks per 100,000 inhabitants (2013)
Source: Transcrime estimates



1.3 THE EVOLUTION OF THE ILLICIT CIGARETTE MARKET FROM 2006 TO 2013

The illicit cigarette market is constantly evolving in time and space. Between 2006 and 2013, the levels of illicit cigarettes changed considerably across the areas (Map 3 and maps on the *Inside the data*). There is a limited association between the prevalence in 2006 and in 2013.[3]

In the period considered, fewer than half of the areas (122 out of 249) reported a modest variation in the illicit trade (between -50% and +50%). Conversely, in 64 areas, illicit cigarettes increased by more than 50%, with an impressively high growth (>300%) in 16 areas located in Bulgaria, the Czech Republic, Greece, Poland, and Spain. At the same time, however, the illicit market decreased by more than 50% in 63 areas.

Overall, the illicit cigarette market grew particularly in areas adjacent to the EU borders. From 2006 to 2013, the illicit markets in the EU's border areas have increased by 71%, on average, whereas the other areas increased only by 25%.

1.4 THE PROCEEDS OF THE ILLICIT CIGARETTE MARKET

In the EU, the illicit cigarette market yields remarkable criminal revenues, ranging from €7.8 billion in 2009 and €10.5 billion in 2012.[5]

The areas ranking highest for the proceeds of the illicit cigarette market are in western European countries, and particularly in Andalusia, Île de France, south-eastern France and eastern Germany (Map 4). This is due not only to the size and dense population of these areas, but also to the size of the illicit cigarette market and the high prices of legal cigarettes, which push up the prices of illicit products.

1.5 THE DRIVERS OF THE ILLICIT MARKET

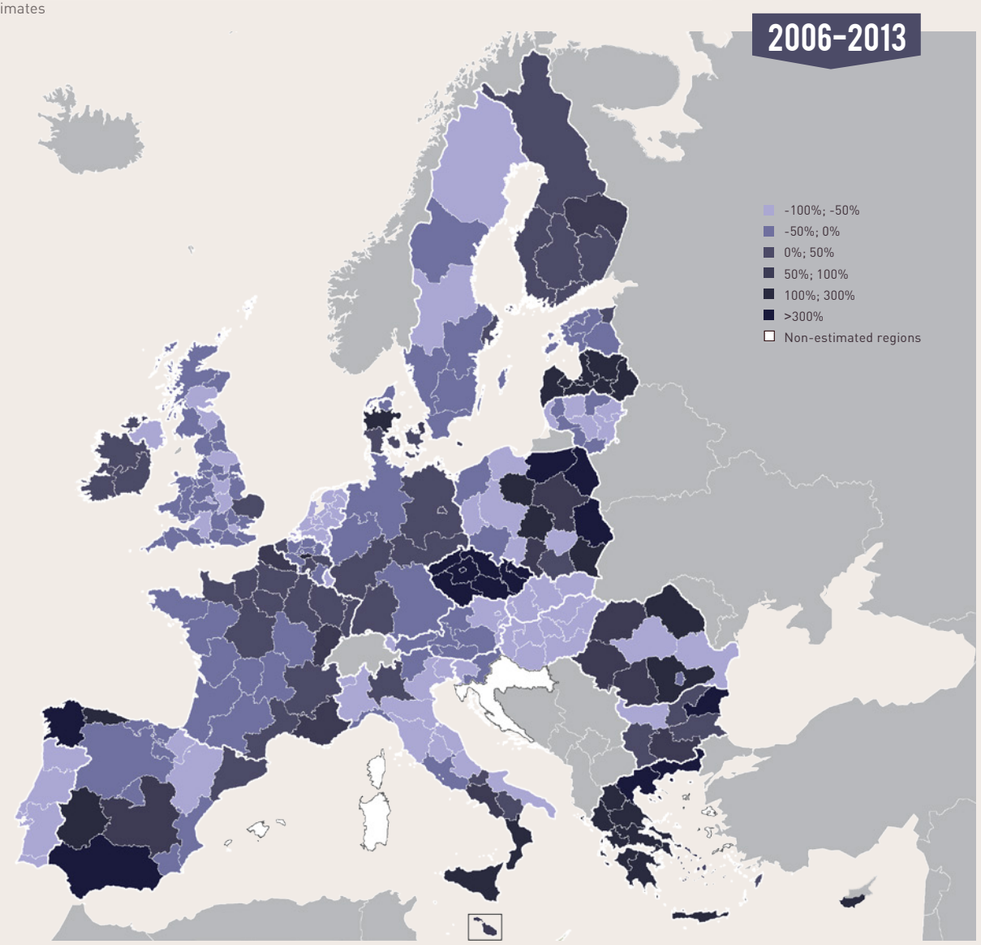
These estimates enable exploration of the relation between the illicit cigarette market and the socio-economic conditions of the areas examined.[6] The levels of illicit cigarettes show interesting associations with wealth, the price of legal cigarettes, and crime levels in the areas. Other relevant factors, such as the attitude of the population to the purchase of illicit goods or the likelihood of being sanctioned or arrested, are likely to be associated with the levels of ITTP in an area. Unfortunately it was not possible to test these further relations owing to the lack of reliable and comparable data for the majority of the EU Member States.[7]

The illicit cigarette market is larger in areas with low levels of wealth.[8] Poorer socio- economic conditions may favour the consumption of illicit tobacco. The population of poorer areas may find illicit cigarettes more attractive because of the possible savings.
The relation is stronger for areas bordering on another country (both EU and non-EU) where cigarettes are cheaper.[9] The combination of low levels of wealth and proximity to a source of low-cost cigarettes may generate a strong incentive for illicit trade.

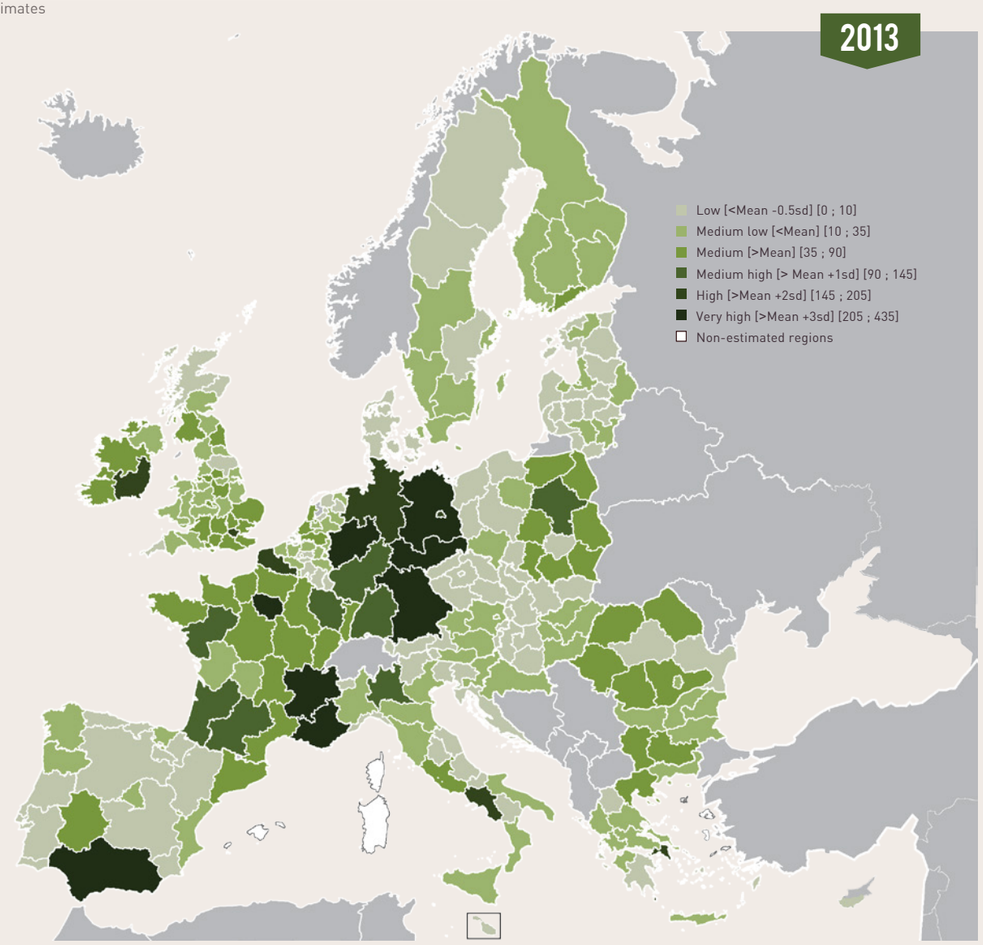
The consumption of illicit cigarettes is also related to the affordability of legal cigarettes.[10] Indeed, areas where legal cigarettes are more expensive tend to have higher quantities of illicit cigarettes.
The relation is stronger for areas bordering on another country where cigarettes are cheaper.[11] The high prices of legal cigarettes and the proximity to a source of cheaper cigarettes may stimulate illicit trade. However, non-border countries like Ireland (excluded from the analysis due to the lack of data on Gross Domestic Product (GDP) for the areas) may also have high levels of illicit trading and a low affordability of legal cigarettes.

The ITTP is higher in areas with more crime.[12] The relation is constant for all areas, only slightly stronger for areas bordering on a country with low-cost cigarettes.[13] This may be due to specific characteristics of such areas, e.g. levels of poverty, deprivation, or violence. This preliminary finding should be treated with caution, however further research should clarify better the possible causal relation between illicit cigarettes and crime.

Map 3. Percentage change in the prevalence of illicit cigarettes, million sticks per 100,000 inhabitants (2006-2013)[4]
Source: Transcrime estimates



Map 4. Proceeds of the illicit cigarette market, midpoint estimates, million euros (2013)
Source: Transcrime estimates

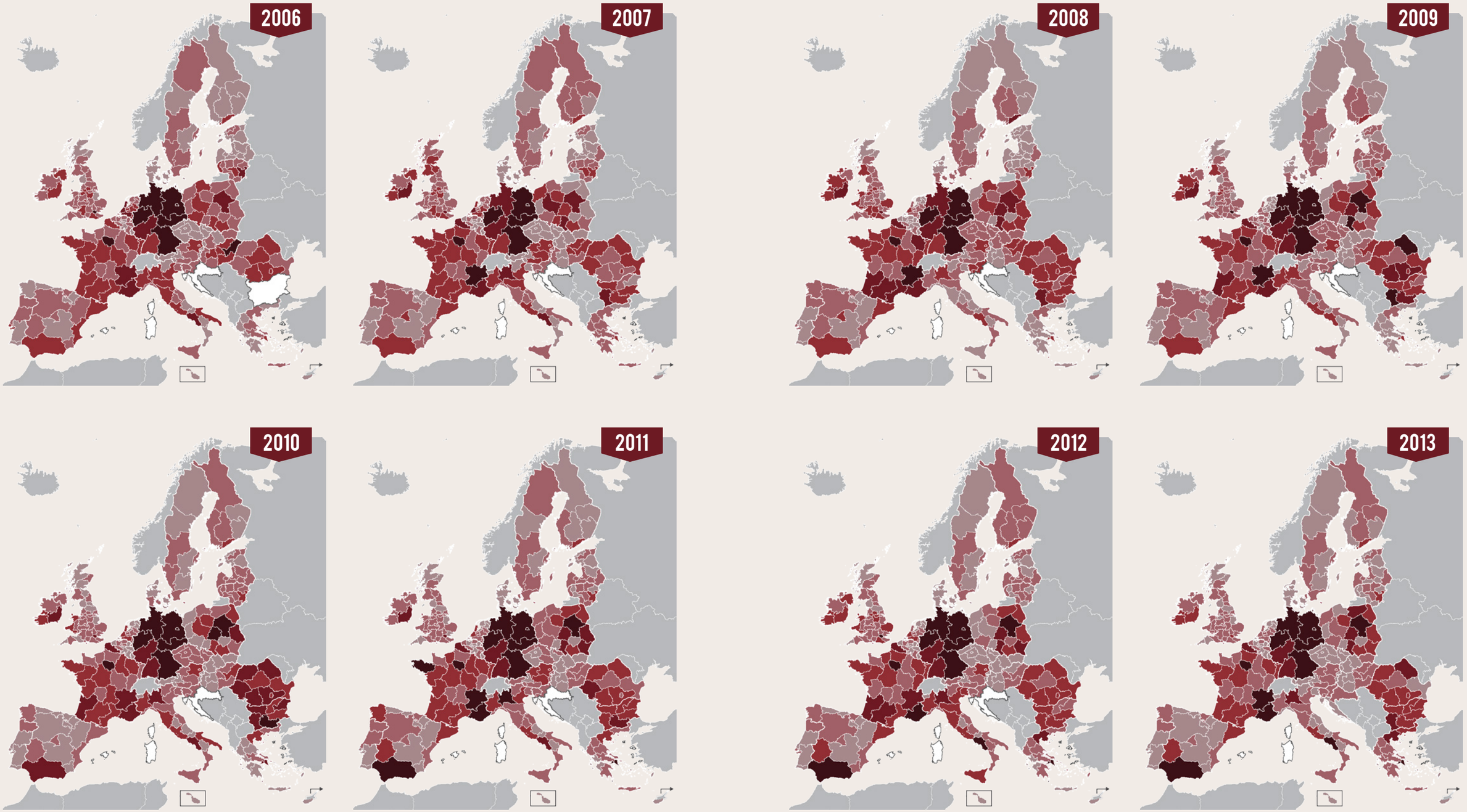


INSIDE THE DATA

Volumes of illicit cigarettes by area, million sticks (2006-2013)

Source: Transcrime estimates

- Low [<Mean -0.5sd] [0 ; 70]
- Medium low [<Mean] [70 ; 250]
- Medium high [>Mean] [250 ; 610]
- High [>Mean +1sd] [610 ; 980]
- Very high [>Mean +2sd] [980 ; 3200]
- Non-estimated regions

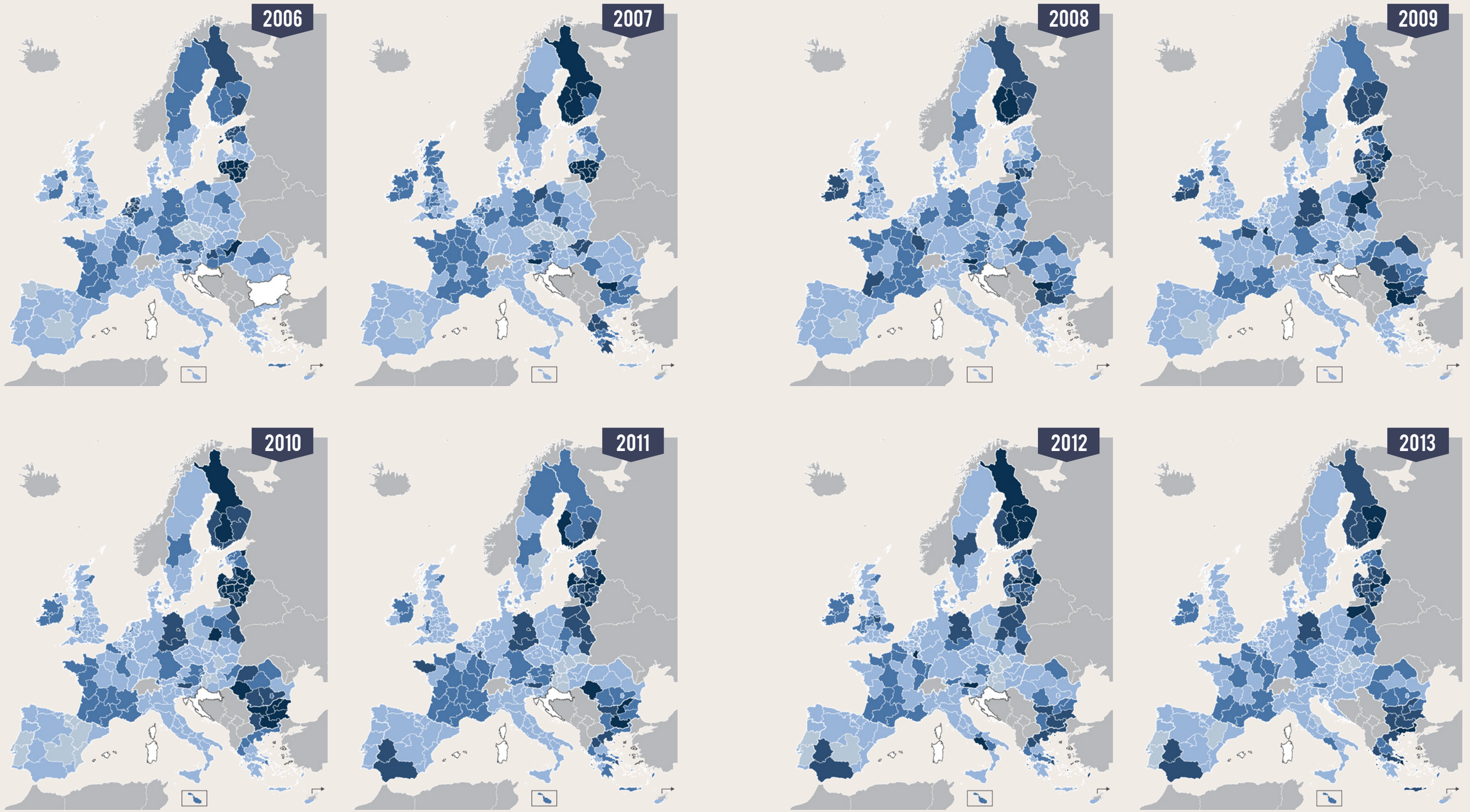


INSIDE THE DATA

Prevalence of illicit cigarettes by area, million sticks per 100,000 inhabitants (2006-2013)

Source: Transcrime estimates

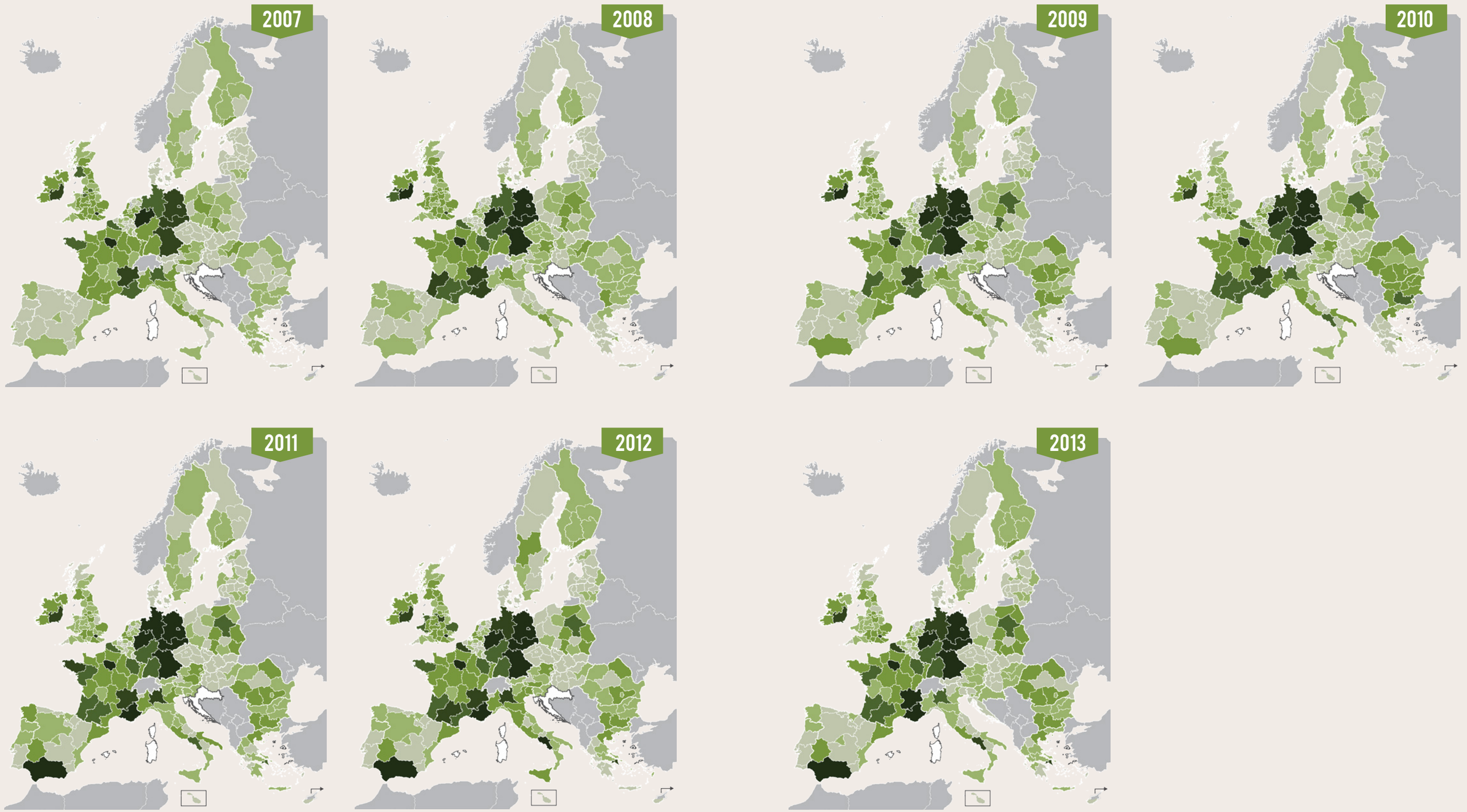
- Low [<Mean -1sd] [0 ; 2.1]
- Medium low [<Mean] [2.1 ; 16.8]
- Medium high [>Mean] [16.9 ; 31.4]
- High [>Mean +1sd] [31.4 ; 46.1]
- Very high [>Mean +2sd] [46.1 ; 102.3]
- Non-estimated regions



INSIDE THE DATA

Proceeds of the illicit cigarette market by area, midpoint estimates, million euros (2007-2013)

Source: Transcrime estimates



2. THE PRODUCTS

The illicit cigarette market comprises different types of products that vary in their characteristics, diffusion and sources. This study goes beyond national level estimation to analyse different types of illicit products at the subnational level.

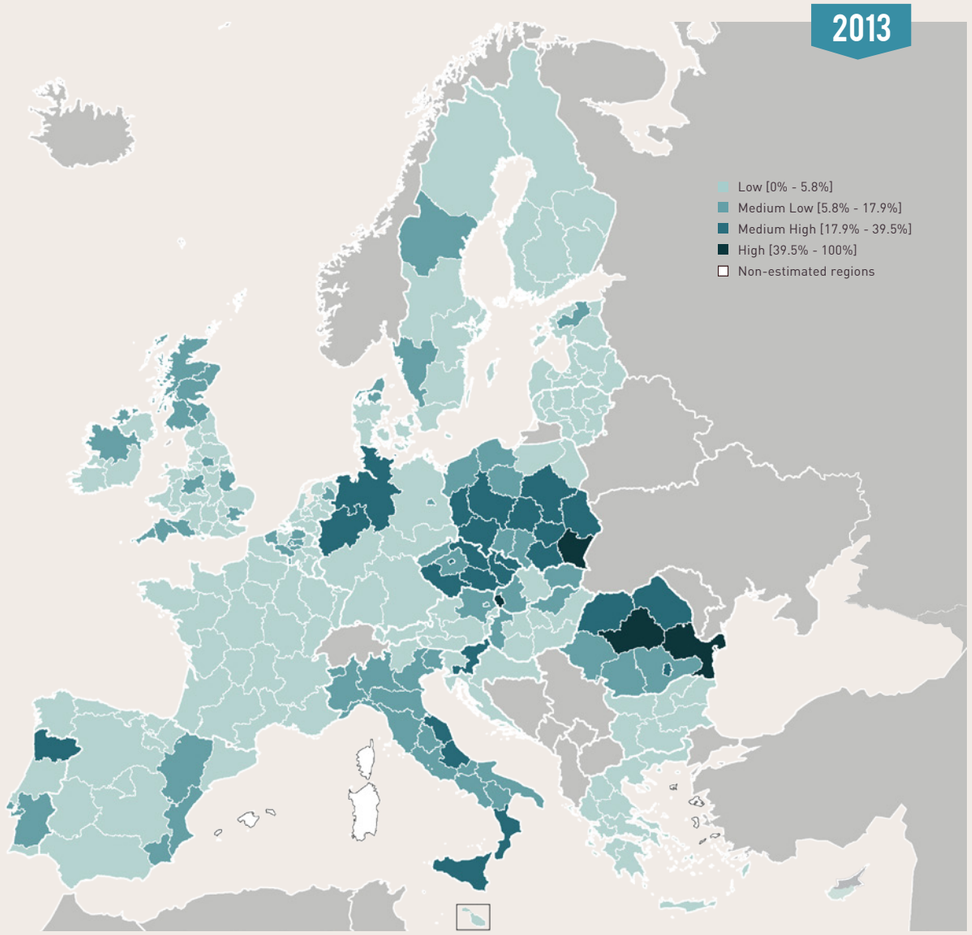
This chapter presents estimates of the shares of three product categories (counterfeit, illicit whites and other illicit cigarettes) in the illicit cigarette markets of 247 subnational areas of the EU from 2006 to 2013.[1]

2.1 COUNTERFEIT CIGARETTES [2]

In 2013, counterfeits had an average share of the illicit market of 7.1%. The variation across the subnational areas was high, ranging from a minimum of 0.0% in 57 areas to a maximum of 85.4% in the area of Bratislava, the capital of Slovakia (Map 1).[3]

Counterfeits have an irregular presence across the EU, with top-ranking areas existing in both western and eastern Member States. They exceed one-third of the illicit market in seven areas: Bratislava, Centru (Romania, 65.2%), Podkarpackie Province (Poland, 44.5%), Sud-Est (Romania, 40.6%), Norte (Portugal, 37.3%), Southwest (Czech Republic, 33.5%) and Nordrhein-Westfalen (Germany, 33.5%) (Map 1).[4]

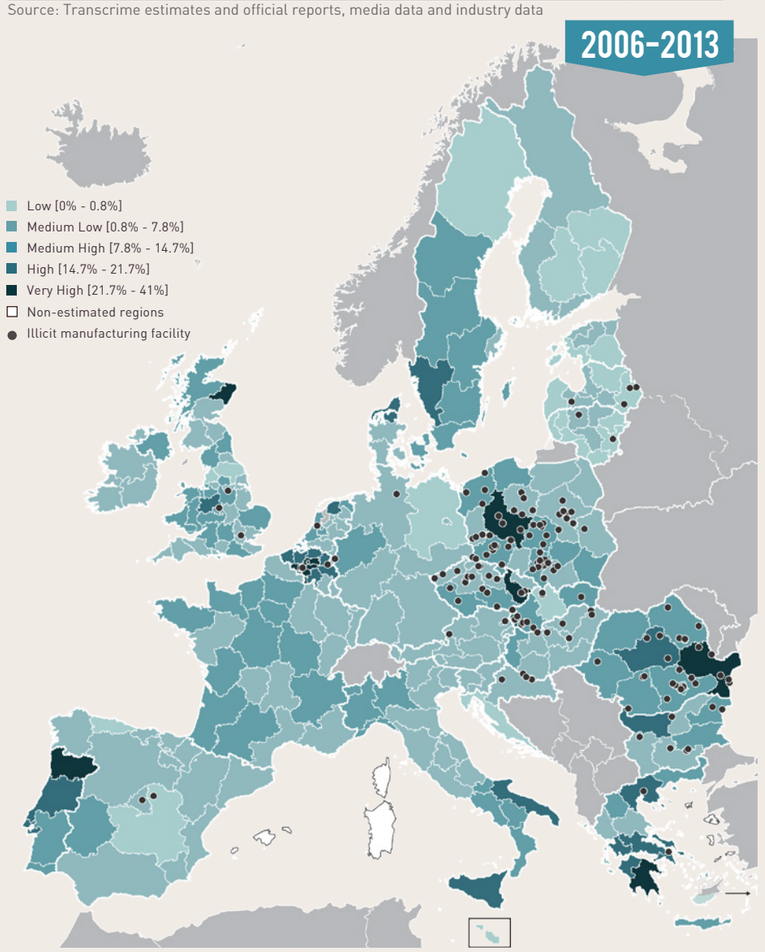
Map 1. Share of counterfeit cigarettes in the illicit cigarette markets (2013)
Source: Transcrime estimates



Between 2006 and 2013, levels of counterfeits' changed considerably across time and space. The total EU share was irregular, with the lowest peaks in 2007 and 2012 (6.1% and 5.9%, respectively) and the highest peak in 2008 (10.6%). Areas with low levels of counterfeits in any year could record significant growth in the next year, and vice-versa. For example, Bratislava, the top-ranking area for the share of counterfeits in 2013, reported no counterfeits from 2009 to 2012; also several areas in France, Portugal, Spain and the UK had similar patterns (see maps in the *Inside the Data*). In fact, between 2006 and 2013, there was a negative association, meaning that the areas low in counterfeits in 2006 tended to be high in 2013, and vice-versa.

Counterfeits concentrate in a few areas scattered across Europe, suggesting that their sources may vary considerably. A portion of the counterfeits comes from non-EU countries. Studies have frequently highlighted the role of China as a source of counterfeits destined for Europe. Indeed, Chinese counterfeits account for a large portion of the seizures in Europe because they often travel via container ships (Shen, Antonopoulos, and von Lampe 2010; Von Lampe et al. 2012; WCO 2013, 24). United Arab Emirates, Ukraine, Belarus, and Russia are growing sources of counterfeits. **Another substantial percentage of counterfeits originates from within the EU.** This may be demonstrated by the high variability of the share of counterfeits over time and by the high counterfeit levels in areas far from large seaports. Furthermore, information on the illegal factories raided by law enforcement agencies (LEAs) in the EU provides additional evidence. The average share of counterfeits in the areas with at least one factory is higher than that in other areas (9.13% vs. 7.37%).[5] For example, in the area of Bratislava (the top-ranking area for counterfeits' share in 2013), three illegal factories were raided between 2006 and 2013. Nevertheless, the existing data on illegal factories do not explain the high shares of counterfeits in areas such as northern Portugal, southern Italy and southern Greece. This may be due to counterfeits originating from non-EU sources, incomplete information about raids, or undiscovered factories (Map 2).[6]

Map 2. Average share of counterfeit cigarettes and illicit manufacturing facilities (2006–2013)
Source: Transcrime estimates and official reports, media data and industry data



2.2 ILLICIT WHITES CIGARETTES [7]

In 2013, illicit whites had an average share of the illicit market of 27.9%. The variation of the share across the many subnational areas was high, ranging from a minimum of 0.0% in 11 areas to a maximum of 93.3% in Continental Croatia (Map 3).

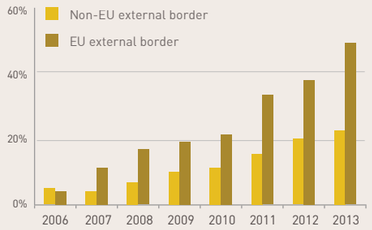
Illicit whites are present in most areas, but they concentrate at the EU's borders (particularly in Croatia, Slovakia, Lithuania, Latvia and Greece), because most sources of these products are outside the EU.[8] They account for more than half of the illicit cigarette market in more than a quarter of the EU's areas (55 out of 247). The top-ranking areas for illicit whites are: Continental Croatia (93.3%), Alytus and Marijampole counties (Lithuania, 86.8% and 86.5%), Eastern Slovakia (85.9%), Adriatic Croatia (84.7%), Utena, Telsiai, Penevezys and Siauliai counties (Lithuania, 84.2%, 84%, 83.5% and 83.3%, respectively) (Map 3).

Between 2006 and 2013, illicit whites constantly grew across the EU, raising from 4.9% to 27.9% (see maps in the *Inside the Data*). **The areas at the north-eastern and south-eastern EU borders generated most of the increase over this period**. In these areas, illicit whites have become the main illicit product since 2011. From 2007 to 2013, the 44 external border areas recorded a share of illicit whites that was approximately double that of the other 205 areas (Figure 1).[9]

These higher shares are due to the proximity of these areas to countries in which some of the main manufacturers of illicit whites are located (e.g. Grodno Tobacco in Belarus and Baltic Tobacco Factory in Kaliningrad, Russian Federation. For more information see Chapter 9).

Figure 1. Average share of illicit whites by border area (2006–2013)

Source: Transcrime estimates



Other EU countries have reported high concentrations for a few years, followed by stabilization of the share at medium-high levels. For example, illicit whites boomed in Greece in 2008 and 2009 (the average share was nearly 70%) and subsequently dropped to lower, though still substantial, levels in the following years (between 40% and 50%). Similarly, Bulgarian areas experienced a boom in 2011, when the share of illicit whites doubled (from an average of nearly 30% to over 60%). In 2012 and 2013, they slightly decreased to approximately 55% and 41%, respectively.

2.3 OTHER ILLICIT CIGARETTES [10]

Other illicit cigarettes are the residual type of illegal tobacco. This category comprises illicit cigarettes from different forms of the illicit trade in tobacco products. Whereas it is possible to identify counterfeits and illicit whites, it is impossible to distinguish among other illicit cigarettes through currently available data (Ben Lakhdar 2008).

In 2013, other illicit cigarettes accounted for an average of 64.6% of the illicit market. They exceeded 50% in 172 areas; their share was below 20% in only 19 areas (Map 4).

In many areas, other illicit cigarettes were the only type of illegal cigarettes available. Voralberg (Austria), South Eastern Finland, Northern Finland, Trentino-Alto Adige (Italy) and Upper Norrland (Sweden) ranked highest (100%). In general, the share of other illicit cigarettes was higher in northern and western EU Member States.

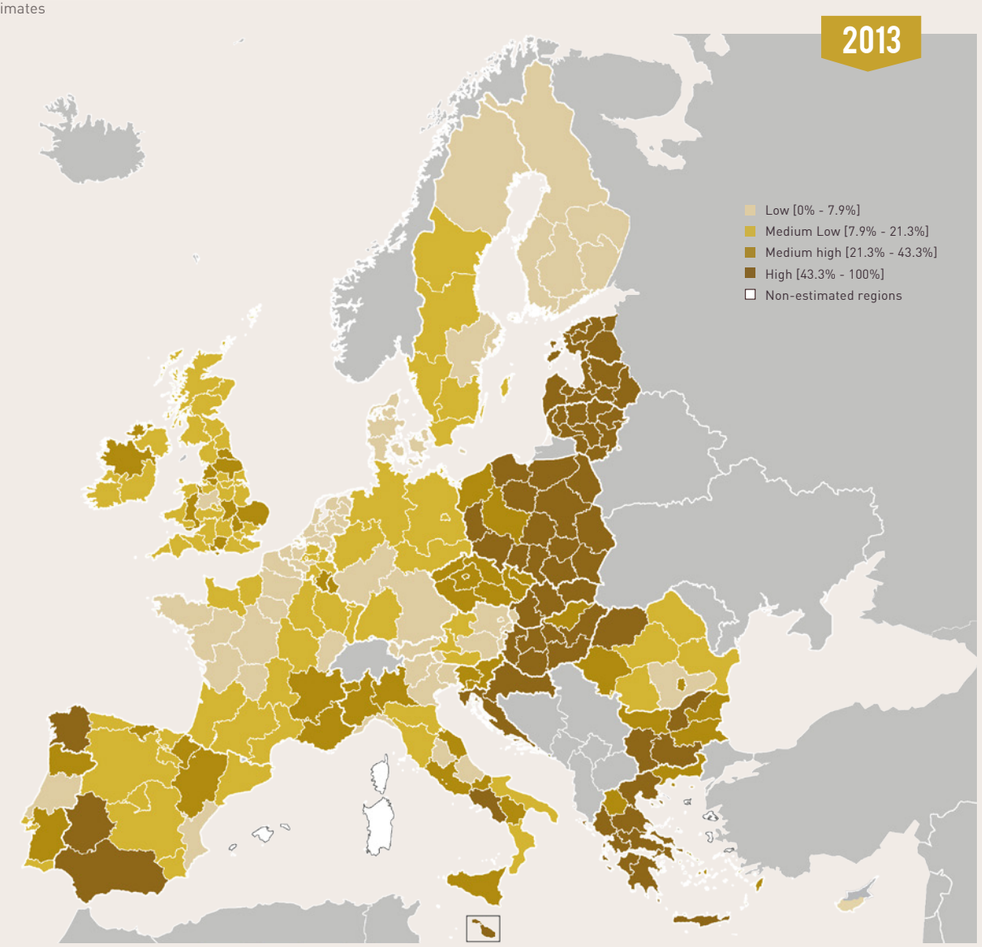
From 2006 to 2013, the share of other illicit cigarettes steadily decreased (see maps in the *Inside the Data*). It fell from 85.5% to 64.6%, respectively. The drop was driven mainly by the growth of illicit whites. France was the only exception to this decreasing trend, mainly due to the high shares of counterfeits there in 2006 and 2008.

The diverse activities generating other illicit cigarettes make it difficult to identify specific trends and causes. However, it is likely that the steady decrease in the shares of these products is due to a decline in **large-scale smuggling** resulting from increased efforts by LEAs and the main multinational manufacturers. Since the beginning of the 2000s, national governments and the European Commission have exerted increasing pressure on the tobacco industry to improve business practices so as to prevent the diversion and the smuggling of cigarettes. This has induced manufacturers to implement better supply chain controls. Since 2004, the four major tobacco companies (Philip Morris International, Japan Tobacco International, British American Tobacco and Imperial Tobacco) have signed agreements with the EU Commission and the Member States to improve cooperation in the fight against the ITTP. Companies have undertaken to monitor exports, which must be proportionate to the legal demand of cigarettes in the destination countries; to introduce systems to track and trace tobacco products through the supply chain; and to pay if the authorities seize illicit products that are not counterfeit (Joossens and Raw 2008; Calderoni 2014).

Despite these efforts, cigarette smuggling still accounts for a large portion of the ITTP in the EU. First, the agreements bind only the four main manufacturers and do not apply to other companies (currently, there are approximately 40 other minor manufacturers selling cigarettes in the EU). Second, tracking and tracing systems are effective only if they are consistently applied worldwide. They apply to cigarettes produced by the four main manufacturers, whereas other companies are subject to less stringent controls (see Chapters 5 and 7 for further discussion).

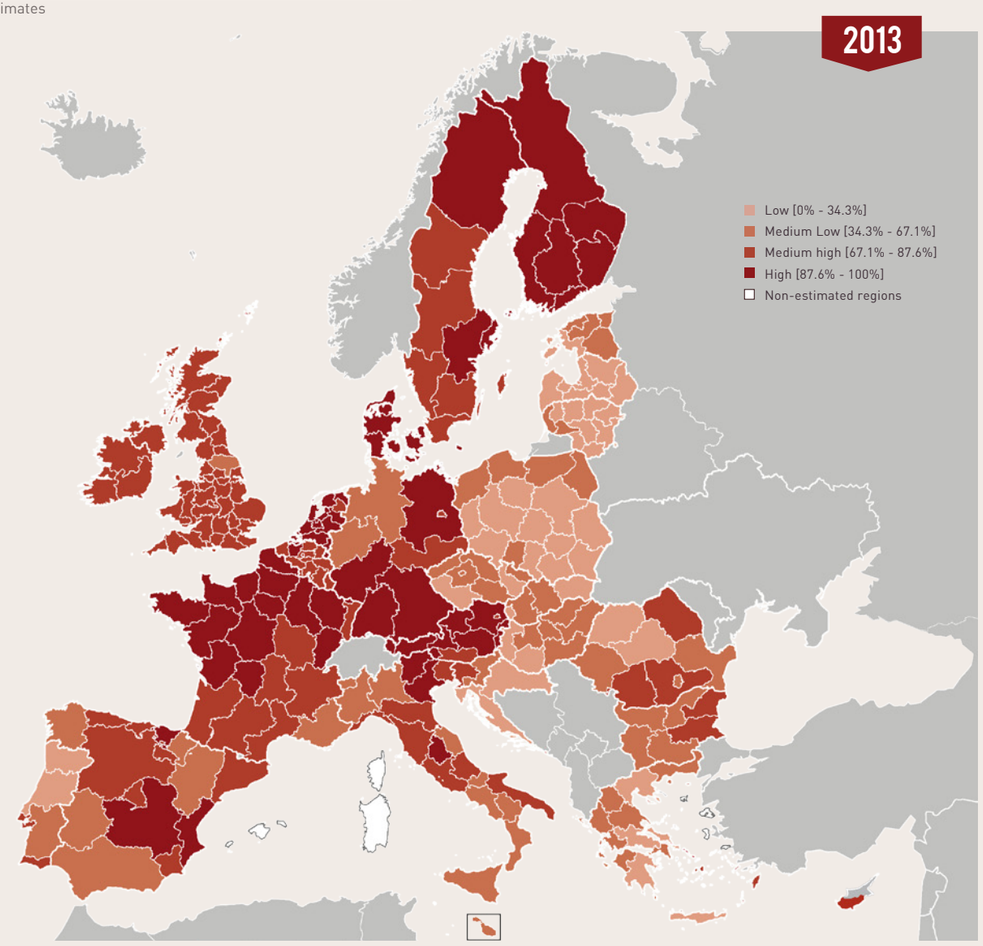
Map 3. Share of illicit whites cigarettes in the illicit cigarette markets (2013)

Source: Transcrime estimates



Map 4. Share of other illicit cigarettes in the illicit cigarette markets (2013)

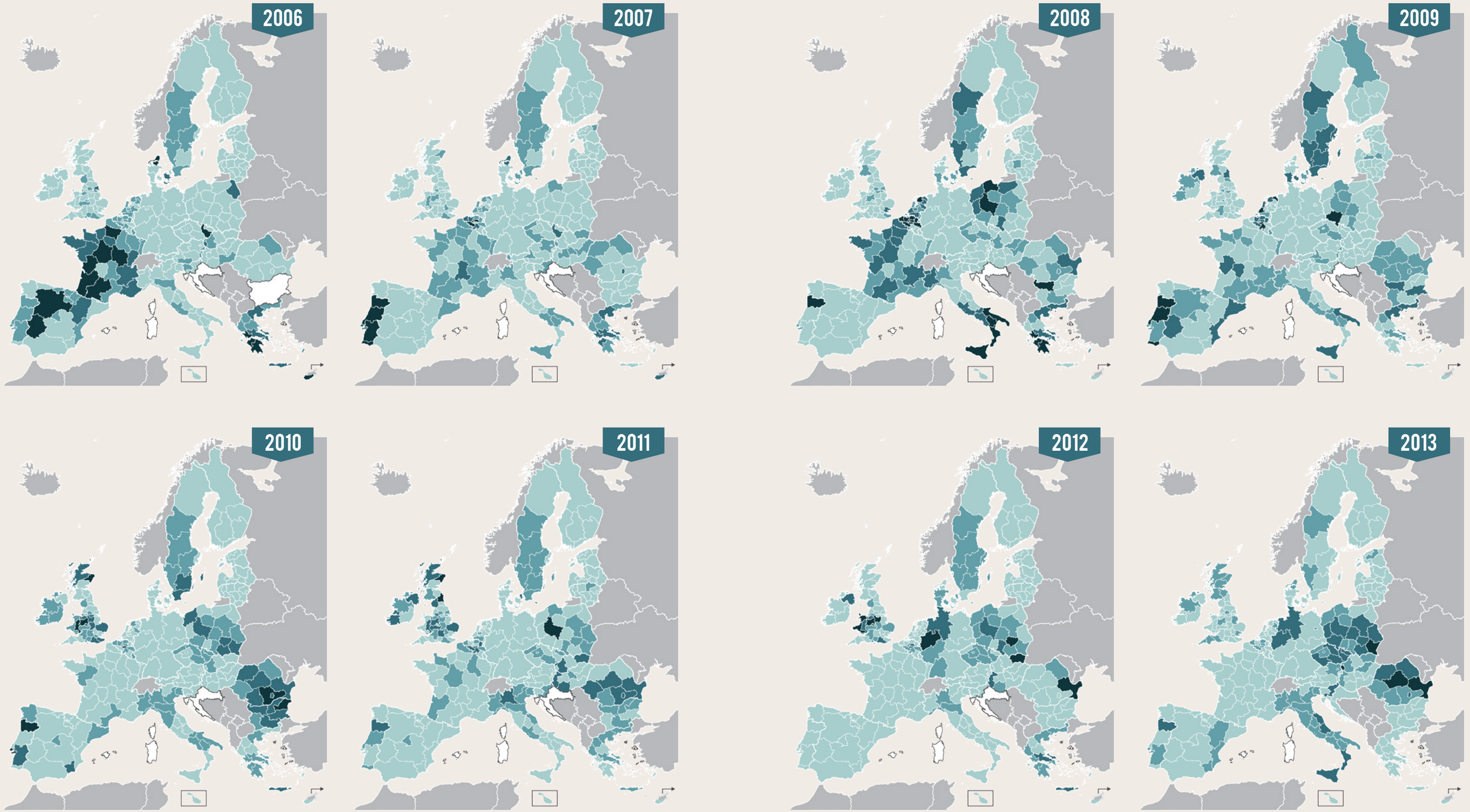
Source: Transcrime estimates



INSIDE THE DATA

Share of counterfeit cigarettes in the illicit cigarette market by area (2006–2013)

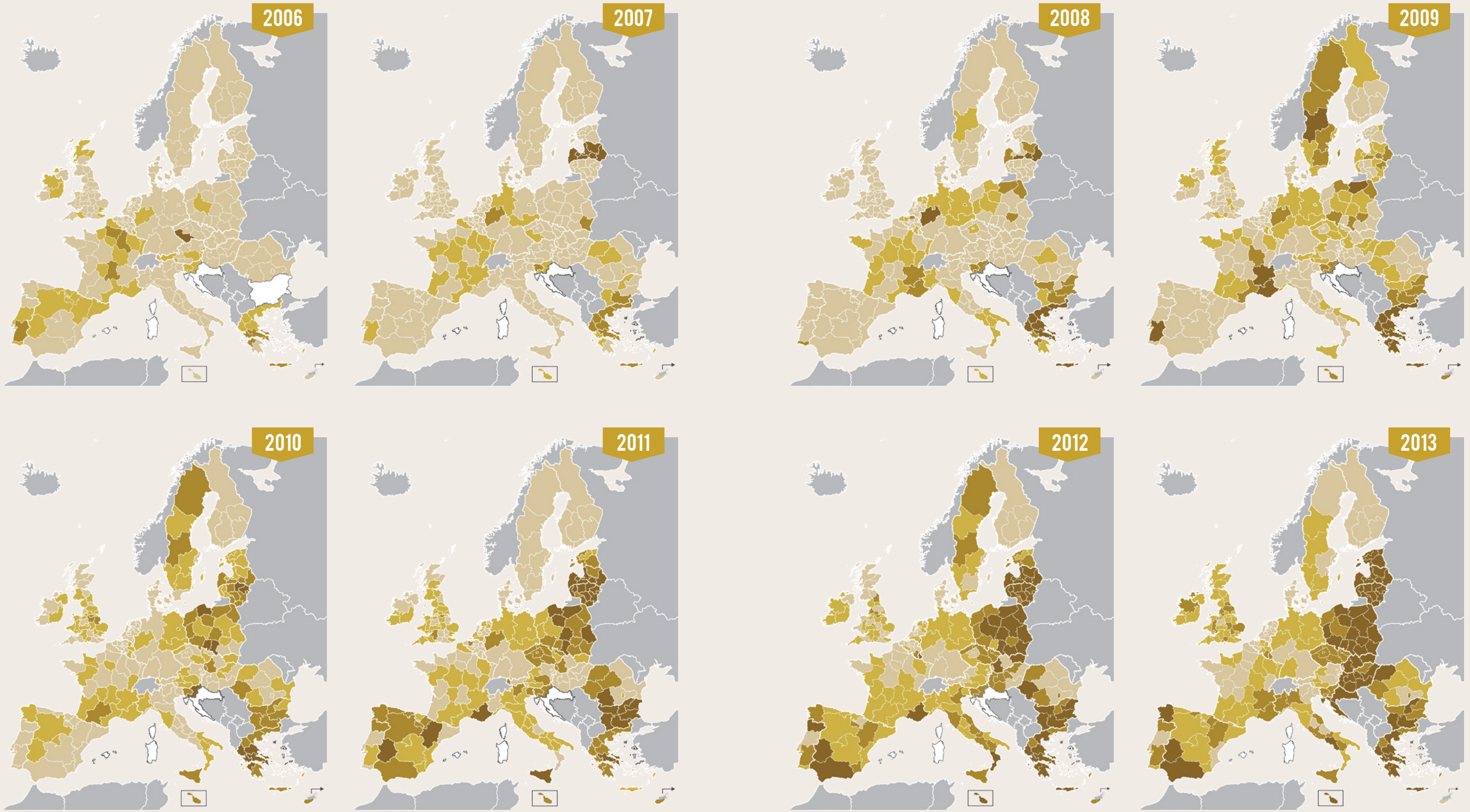
Source: Transcrime estimates



INSIDE THE DATA

Share of illicit whites cigarettes in the illicit cigarette market by area (2006-2013)

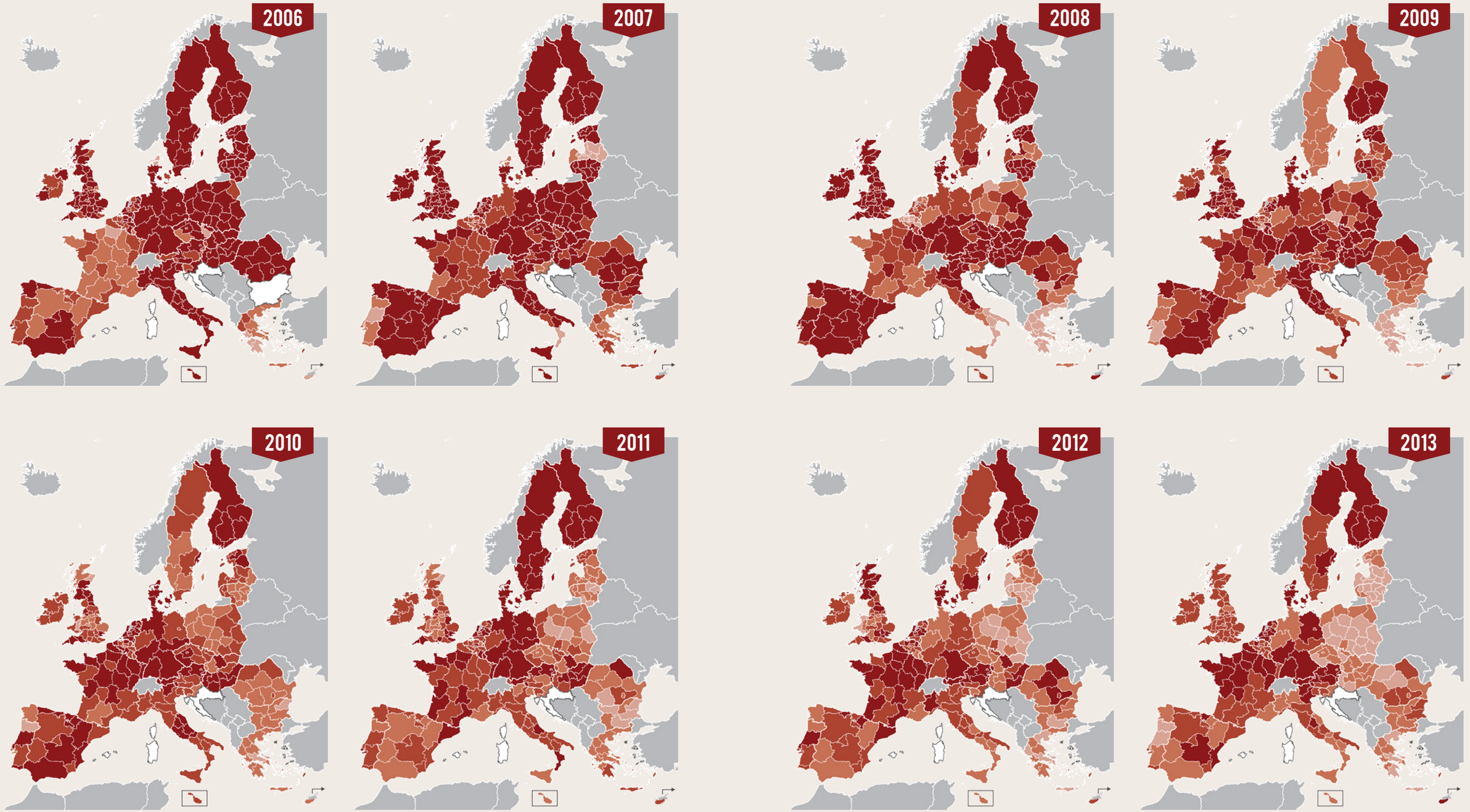
Source: Transcrime estimates



INSIDE THE DATA

Share of other illicit cigarettes in the illicit cigarette market by area (2006–2013)

Source: Transcrime estimates



3. THE FLOWS

Just like the legal one, the illicit cigarette market is a transnational trade. To date, studies have distinguished among source, transit, and destination countries. In fact, however the reality is more complex, and some countries may simultaneously be the starting, transit and/or ending points of illicit cigarettes depending on several factors.[1]

This chapter describes the main flows and the countries that are key players in the ITTP within the EU's borders. The flows express the direction and intensity of the movement of illicit tobacco products, from one country (starting point) to another (ending point), with indication of the transit point if available. The examination of the flows is based on a systematic analysis of open sources on police operations against the ITTP across the EU for the period 2010-2013.[2]

3.1 THE MOST FREQUENT ITTP FLOWS

The most frequent flows are characterised by geographic proximity between starting and ending points (Figure 1). Geographic proximity favours bootlegging from countries where prices are high to countries where prices are lower.[3] It explains the high number of flows not only among EU countries, but also between non-EU and EU bordering countries (Moldova-Romania, Russia-Latvia, Russia-Lithuania, Belarus-Latvia, Ukraine-Romania, Belarus-Lithuania and Russia-Estonia).

Independently from proximity, **other frequent flows are characterised by the high cigarette price differential between starting and ending points** (from Greece/Russia/Serbia/Ukraine to Germany, from Egypt/Moldova/Tunisia/Ukraine to Italy and from China/Lithuania/Poland to Ireland/United Kingdom, UK).

Other frequent flows originate from the top manufacturer countries of illicit whites (e.g. Russia-Lithuania) and counterfeit cigarettes (e.g. Poland-Germany).

3.2 THE LARGEST ITTP FLOWS

The ITTP flows with the largest seized quantities exibit greater geographic distances between starting and ending points (Figure 2; Table 1). The main ones are China-Spain/UK, China/Malaysia/Vietnam-Ireland, Egypt-Bulgaria, Turkey-Romania and the United Arab Emirates (UAE)-Bulgaria/Greece/UK. These flows originate from the Far and Middle Eastern countries and reach EU countries with the biggest ports. These countries are often only transhipment points towards other EU final markets.

Other large ITTP flows go from East to West Europe (Lithuania-Germany, Russia-UK), from Latvia to the Czech Republic and from Greece towards the major European ports in Belgium/Germany/Italy/Netherlands/Spain/UK.[4]

Figure 1. Main ITTP flows by frequency (2010–2013)*
Source: Transcrime elaboration (details in the Annex)
*The thickness of each line indicates the number of cases reported

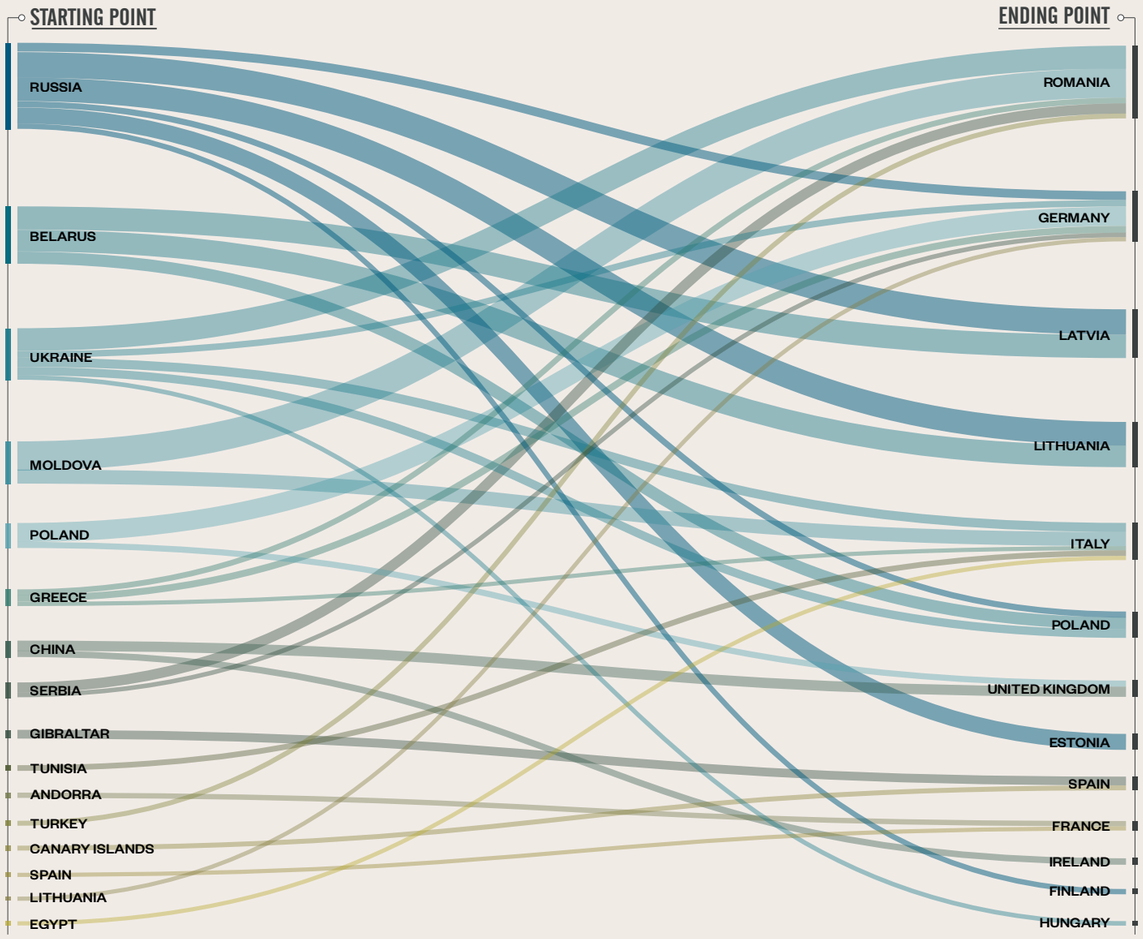
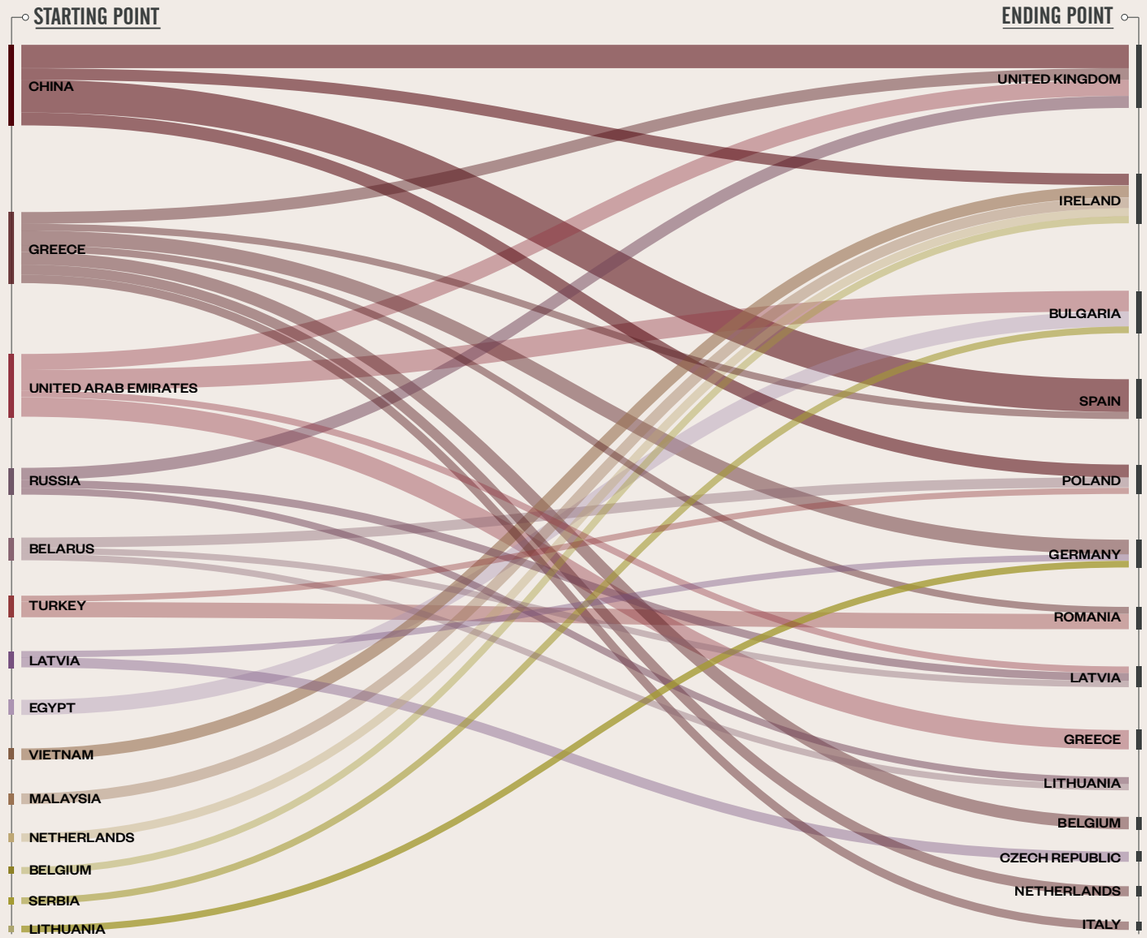


Figure 2. Main ITTP flows by quantity seized, million sticks (2010–2013)*
Source: Transcrime elaboration (details in the Annex)
*The thickness of each line indicates the quantity of cigarettes seized



3.3 THE KEY COUNTRIES IN THE ITTP FLOWS

The study develops three indexes in order to rank the most significant countries as starting, transit and ending points of the ITTP in the EU for the period 2010–2013.[5]

TOP TEN STARTING POINTS

According to the **ITTP Starting Point Index**, the key starting points are **Russia, China, the UAE, Belarus, Ukraine, Moldova, Latvia, Turkey, Poland, Egypt and Serbia** (Table 2) (see also Chapter 9). These countries are generally recognised as the main producers of counterfeit cigarettes or illicit whites. Furthermore, some of them are countries in which cigarette prices are very low, thus enabling the export of such products as contraband to countries with high price differentials. Singapore is another key starting point, although it does not rank among the top positions because it recorded low frequencies due to the limited availability of information.

TOP TEN TRANSIT POINTS

According to the **ITTP Transit Point Index**, the top transit points are **Greece, Italy, Poland, Romania, Germany, Lithuania, Latvia, France, the Netherlands, and Slovenia** (Table 3). Most of them are countries with major European ports, which are crucial hubs also for illicit products. In many cases, they are also strategically located between Eastern and Western Europe. Belgium and Portugal are other key transit points, although they do not rank among the top positions because they recorded low frequencies due to the limited availability of information.

Almost all of the top starting and transit points host free trade zones (FTZs) (BASCAP 2012). FTZs may be exploited to conceal the nature of the product and thus make it more difficult for law enforcement to track the activities (WEF 2012). As proof of this, between 2010 and 2013 LEAs seized large tobacco shipments in the ports of Hamburg (Germany), Piraeus and Thessaloniki (Greece), Gioia Tauro (Italy), Riga (Latvia), Constanța (Romania) and Barcelona (Spain), which were all bound for the EU markets.

TOP TEN ENDING POINTS

According to the **ITTP Ending Point Index**, the key ending points for illicit tobacco products are the **UK, Italy, Germany, Romania, Ireland, Latvia, Poland, Spain, Bulgaria and France** (Table 4).

Table 1. Main ITTP flows. Average quantity of cigarettes transported per flow, million sticks (2010–2013)
Source: Transcrime elaboration (details in the Annex)

Starting Point	Ending Point	Avarage quantity per flow	Starting Point	Ending Point	Avarage quantity per flow
UAE	Greece	21.0	Turkey	Romania	3.8
Vietnam	Ireland	19.0	Serbia	Bulgaria	3.7
UAE	Bulgaria	16.8	Greece	Netherlands	3.6
China	Spain	15.3	Belgium	Ireland	3.3
Egypt	Bulgaria	14.2	China	United kingdom	2.8
Latvia	Czech Republic	11.0	Greece	Germany	2.7
Malaysia	Ireland	8.8	Greece	Italy	2.5
UAE	Latvia	7.1	China	Ireland	2.2
Netherlands	Ireland	6.9	Lithuania	Germany	2.0
Greece	Belgium	5.8	Greece	Romania	1.5
UAE	United kingdom	5.8	Poland	United kingdom	1.0
Greece	Spain	5.6	Belarus	Poland	1.0
Greece	United kingdom	4.8	Russia	Poland	0.8
China	Poland	4.2	Egypt	Italy	0.8
Russia	United kingdom	3.9	Russia	Germany	0.7

Table 2. The ITTP Starting Point Index. Top 10 starting points for illegal tobacco products within the EU borders (2010–2013)
Source: Transcrime elaboration (details in the Annex)

Starting Point	Index
Russia	100
China	86
United Arab Emirates	74
Belarus	69
Ukraine	56
Moldova	42
Latvia	31
Turkey	30
Poland	28
Egypt	27
Serbia	27

Table 3. The ITTP Transit Point Index. Top 10 transit points for illegal tobacco products within the EU borders (2010–2013)
Source: Transcrime elaboration (details in the Annex)

Transit Point	Index
Greece	100
Italy	63
Poland	49
Romania	41
Germany	40
Lithuania	36
Latvia	27
France	24
Netherlands	24
Slovenia	20

Table 4. The ITTP Ending Point Index. Top 10 ending points for illegal tobacco products within the EU borders (2010–2013)
Source: Transcrime elaboration (details in the Annex)

Ending Point	Index
United Kingdom	100
Italy	76
Germany	74
Romania	70
Ireland	63
Latvia	62
Poland	52
Spain	47
Bulgaria	44
France	39

France, Germany, Italy, Poland and Spain record the highest volumes of illicit cigarettes, whereas Bulgaria, Latvia, and Poland (with Greece and Lithuania) have the greatest number of millions of sticks per 100,000 inhabitants (see Chapter 1). Germany, Italy, Poland and Romania are the largest markets for counterfeit products, while Latvia, Poland, Italy and Spain (with Lithuania) are the biggest EU markets for illicit whites. France, Germany, Ireland and the UK (with the Netherlands) are among the top ending points for other illicit cigarettes (see Chapter 2).

3.4 THE ROLE OF NON-EU COUNTRIES IN THE ITTP FLOWS

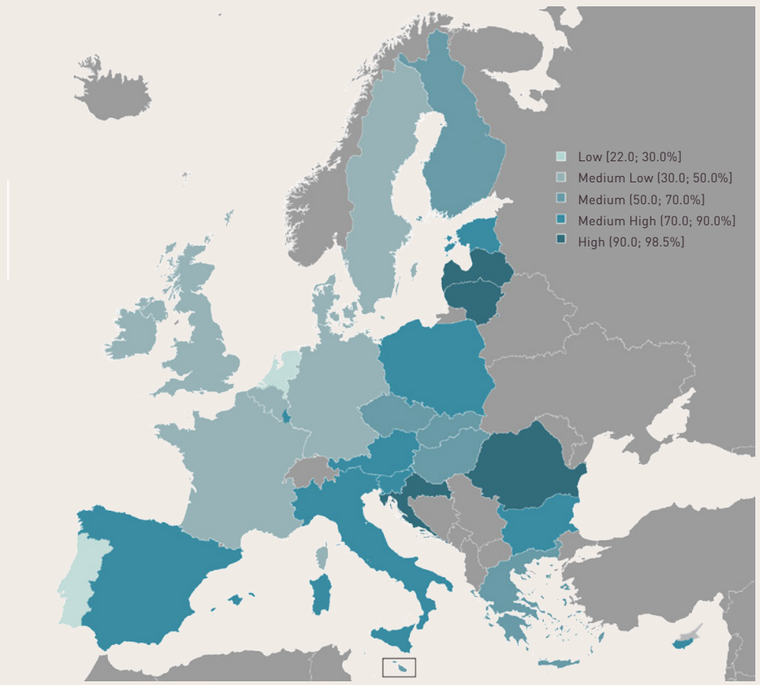
Non-EU countries play an important role in supplying illicit tobacco products to the EU markets. Indeed, they **accounted for 69.7% of the flows and 79.5% of the seized quantities between 2010 and 2013**. EU Member States along the Eastern EU border or hosting major ports and problematic FTZs reported the highest shares for both quantity seized and number of flows (Map 1; Map 2).

In terms of frequency, the ITTP flows from non-EU countries were prevalent in 19 out of 28 countries between 2010 and 2013 (Map 1). **Bulgaria, Croatia, Cyprus, Estonia, Italy, Latvia, Lithuania, Poland, Romania, Slovenia and Spain** recorded the highest values (>70%).

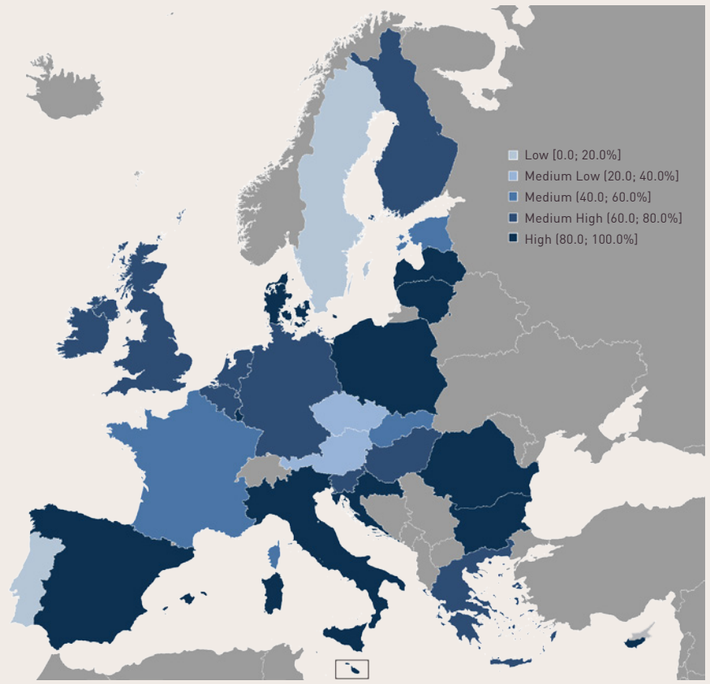
Belgium, Denmark, France, Germany, Ireland, the Netherlands, Portugal, Sweden and the UK recorded the lowest shares (between 20% and 50%). Some of these Member States have the highest cigarette prices in the EU. The price differentials may stimulate intra-EU inflows. Moreover, some of these countries border with EU Member States in which a high number of illicit manufacturing facilities were identified.

In terms of quantities seized, the ITTP flows from non-EU countries were prevalent in 22 out of 28 Member States between 2010 and 2013 (Map 2). They accounted for more than 80% of seizures in **Bulgaria, Croatia, Cyprus, Denmark, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Spain**. The exceptions were Austria, the Czech Republic, Estonia, Portugal, Slovakia and Sweden, where the share was below 48%.

Map 1. Share of ITTP flows originating from non-EU countries by frequency (2010–2013)
Source: Transcrime elaboration (details in the Annex)



Map 2. Share of ITTP flows originating from non-EU countries by quantity seized (2010–2013)
Source: Transcrime elaboration (details in the Annex)



4. ACTORS & *MODUS OPERANDI*

Information on the actors and the *modus operandi* of the ITTP is scarce, which prevents the implementation of effective policies to prevent and control the illicit cigarette market.

This chapter provides a preliminary estimate of the number of the actors in the EU ITTP, distinguishing their types and profiles according to the findings of open-source analysis for the period 2010-2013.[1]

4.1 ESTIMATING THE NUMBER OF ACTORS IN THE EU

No official data exist on the **number of people involved in the ITTP in the EU**. In 2013, this figure may have oscillated **between 100,000 and 150,000 individuals** compared with the 615,000 employees in the legal tobacco market.[2] While this is a rough estimate based on open sources and official data, it may provide a preliminary picture of the number of people involved.[3]

This large figure makes it clear that law enforcement can not succeed on its own. Effectively tacking the ITTP requires focusing on both the reduction of opportunities and crime control policies.

4.2 TYPES OF ITTP ACTORS AND *MODUS OPERANDI*

The actors involved in the ITTP adopt different *modi operandi*. Analysis of open sources enables identification of three main types of actors.[4]

- **Large-scale actors** engage in the distribution of large consignments of illicit tobacco over long distances (Joossens et al. 2000; Joossens et al. 2009). Large-scale actors generally divert tobacco from the legal supply chain or smuggle counterfeits or illicit whites mainly through containers, cargos and trucks. They are usually part of **transnational criminal networks** with a certain level of organisation logistics (apartments, warehouses, transport trucks and distribution channels). They have detailed knowledge of customs regulation and may rely on their financial leverage to soften controls. Large-scale actors are not necessarily large groups because they can also buy other services (storage and logistics) from other criminal networks or single individuals. The potential profits associated with large-scale ITTP create incentives for participation in it by **organised crime networks**. Organised crime adapts quickly to law enforcement counter-measures and makes flexible use of diverse transport and distribution channels (Joossens et al. 2000). Stable and organised criminal groups — such as Italian mafias, Eastern European criminal organisations or Asian criminal organisations — are present in different phases of the illicit tobacco trade (van Duyne, von Lampe, and Passas 2002; von Lampe 2005a; Kegö, Leijonmarck, and Molcean 2011).

- **Medium-scale actors** engage in the distribution of medium consignments of illicit tobacco over medium-short distances. They may act as distribution channels for large-scale actors. Medium-scale actors may be single individuals or small groups, yet they have complex organisational structures. They operate mainly with motor vehicles often modified to conceal cigarettes. Another strategy involves the intermingling of tobacco products with other commodities. Trucks or buses often provide a cover for illicit cigarettes. Their drivers act as suppliers for medium and small illicit tobacco markets.

- **Small-scale actors** engage in the distribution of small consignments of illicit tobacco over medium-short distances. They are mainly involved in bootlegging and ant smuggling (Joossens et al. 2000; Hornsby and Hobbs 2007; Joossens et al. 2009).[5] They usually act alone or in small groups with a low degree of organisation (FATF 2012). Generally, small-scale actors use tobacco for personal consumption or resell it in small networks of friends and acquaintances.

4.3 PROFILING ITTP ACTORS

According to open sources, **large-scale actors account for the largest ITTP share**.

Large-scale actors are less numerous (only 23.0% of the actors reported in the sources), but they are responsible for 94.8% of seized cigarettes. Conversely, small-scale actors represent 51.4% of the sample, but they account for a mere 1.2% of the illicit cigarettes seized. Medium-scale actors (25.6% of the total) transport 4.0% of the total cigarettes seized (Figure 1; Figure 2).

Figure 1. Share of actors stopped for ITTP per typology (2010-2013) N=7,398

Source: Transcrime elaboration (details in the Annex)

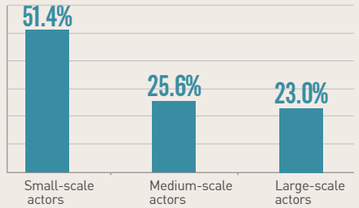
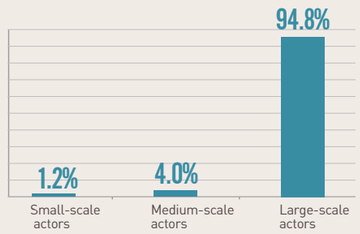


Figure 2. Share of cigarettes seized per typology of ITTP actors (2010-2013) N=6.8 billion sticks

Source: Transcrime elaboration (details in the Annex)



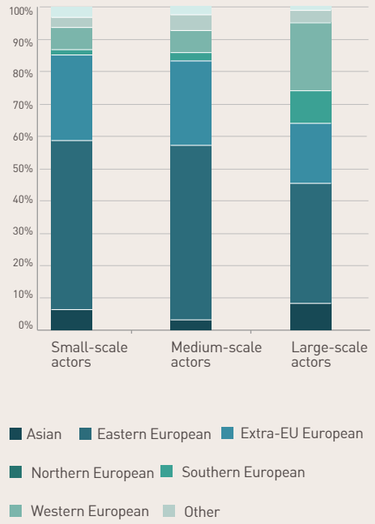
GEOGRAPHIC ORIGIN

Generally, actors are mainly **Eastern Europeans** (50%) and **non-EU Europeans** (25%) (Figure 3). The majority of Eastern Europeans are from Romania, Lithuania and Poland. These countries register the highest ITTP prevalence and are at the EU external borders. Non-EU Europeans are mainly from Ukraine, Moldova and Belarus, which are major sources of illicit whites.

Eastern and non-EU Europeans are prevalent in small-scale and medium-scale ITTP. For large-scale ITTP, Southern Europeans (mainly from Greece, Italy and Spain) are the second most frequent group (Figure 3). This may be due to large commercial ports in Southern Europe receiving large shipments of illicit cigarettes (see Chapter 3).

Figure 3. Geographic origin of ITTP actors per tipology, % (2010–2013) N=4,225

Source: Transcrime elaboration (details in the Annex)

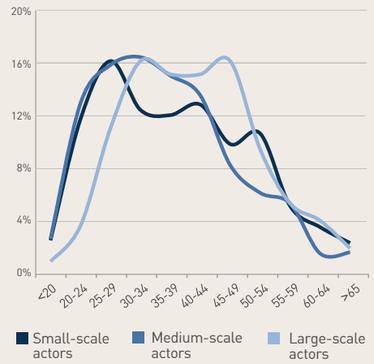


AGE

Large-scale actors are older than small-scale and medium-scale actors. More precisely, 40.9% of them are aged between **40 and 54**, compared with the majority of ITTP actors who are in the age **30–39** group (27.5%) (Figure 4). These findings show that large-scale ITTP is conducted by senior, more experienced criminals. In their criminal careers, they may increase the size and complexity of their operations.

Figure 4. Age of ITTP actors per typology, % (2010–2013) N=1,994

Source: Transcrime elaboration (details in the Annex)



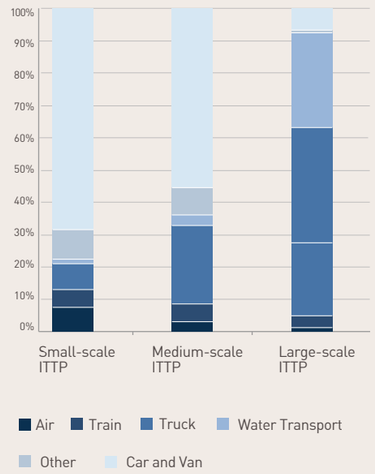
MEANS OF TRANSPORT

The means of transport vary according to small-scale, medium-scale and large-scale ITTP (Figure 5). In **small-scale and medium-scale ITTP "cars and vans" are the most common means** (68.8% and 56.1% respectively). In the latter, trucks play a major role (25.0%). In **large-scale ITTP, trucks are the main means of transport** (59.0%), followed by water transport (28.8%) and "cars and vans" (6.8%).

As the size of loads grows, the use of "cars and vans" decreases, whereas the share of trucks and water transport (boats, ships and containers) increases. The average quantity transported inside cars and vans was 96,300 cigarettes, inside trucks 3.1 million, and by water transport 10.0 million.

Figure 5. Means of transport per ITTP typology, % (2010–2013) N=3,970

Source: Transcrime elaboration (details in the Annex)



5. THE EU AND NATIONAL ANTI-ITTP POLICIES

Among the many dual markets (those with both a legal and illegal part), the tobacco market is one of the most closely regulated. European and national policies have throughly controlled the legal market and they have tackled the illegal one mainly through a prosecution-based approach. To be effective, a new wave of control policies should prioritise the opportunities reduction approach centred on the reduction of crime through specific prevention strategies.

This chapter focuses on European and national policies against the ITTP. It provides a **comparative overview on the anti-ITTP measures and the control of the supply chain of tobacco products in European countries**.

5.1 THE EUROPEAN UNION'S POLICIES AGAINST THE ITTP

In recent years, the EU has adopted several measures against the ITTP:

- **Binding agreements.** Since 2004, the EU has signed legally binding agreements (EU agreements) with the four major tobacco manufacturers.[1] The four major manufacturers must supply only the number of cigarettes required by the legitimate market, implement a tracking and tracing system (T&T), and adopt "know-your-customer" programs.[2] They should also compensate the European Commission and the Member States for lost taxes, duties and other costs if the authorities seize illicit tobacco products that are not counterfeit, and they should provide funding for anti-smuggling and anti-counterfeiting initiatives. The four manufacturers will pay a total of more than US$ 2 billion over a 20-year period into national and EU budgets with the objective of fighting cigarette smuggling and counterfeiting (European Parliament 2012a, 2).

- **Hercule programs**. In 2004, 2007 and 2014, the EU activated the anti-fraud Hercule programs (European Parliament and Council 2004; European Parliament and Council 2007; European Parliament and Council 2014). The programs provide financial support to European countries. Programme Hercule II for the first time provided a legal platform for financing activities aimed at combating fraud and the illicit cigarette trade (European Parliament 2012b, 2). In particular, it finances the purchase of X-ray scanning equipment in harbors and airports. The major international cigarette manufacturers (Philip Morris International, Japan Tobacco International, British American Tobacco and Imperial Tobacco) actively contribute monetary payments for anti-smuggling and anti-counterfeiting objectives subscribed in the EU agreements.

- **EMPACT Projects.** In 2010 Europol promoted EMPACT projects (European Multidisciplinary Platform against Criminal Threats) against serious international and organised crime. These projects bring together law enforcement agencies in the EU Member States and international organisations to work on strategic, operational and financial activities, training and awareness raising. This policy is endorsed by the Standing Committee for the EU Internal Security and signed off by the Justice and Home Affairs Ministers. Projects related to the ITTP are: smuggling in shipping containers (2011-2013), excise and missing trader intra community fraud (2014-2017) (Europol 2014).[3]

- **Action plan on smuggling along the EU's eastern borders.** In 2011, the EU adopted an action plan to fight the smuggling of cigarettes and alcohol along the EU's eastern borders (European Commission 2011a).

- **Signature of the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) and of the Protocol to Eliminate Illicit Trade in Tobacco Products.** In 2013, the EU signed the Protocol, which aims to eliminate all forms of illicit trade in tobacco products, in particular through the implementation of a global T&T regime. The Protocol followed the FCTC, signed by the EU in 2003 and ratified in 2005. The FCTC invited State parties to adopt effective legislative, executive, administrative or other measures against illicit trade (Art. 15).

- **European Strategy against the ITTP.** In 2013, the EU presented a European strategy on the fight against cigarette smuggling and other forms of the ITTP (European Commission 2013b). The strategy acknowledges that "the fight against the illicit trade is a cross-cutting issue that is affected by many factors and drivers and in turn involves a broad range of EU and/or national policies" (European Commission 2013b, 5).

- **New Tobacco Products Directive.** In 2014, the revised Tobacco Products Directive (2014/40/EU) entered into force. It introduced the requirement for T&T system across Europe and security features in order to support law enforcement in detecting illicit products.

5.2 NATIONAL POLICIES AGAINST THE ITTP

Beside the EU's efforts, Member States take several actions against the ITTP. In most cases, national governments institute a series of mesures mostly focused on ensuring that law enforcement agencies and customs services prevent, detect and collect evidence against the ITTP (i.e. X-ray scanning equipment) (Sweeting, Johnson, and Schwartz 2009). Moreover, Member States also enforce actions to promote anti-ITTP policies and to secure the supply chain.

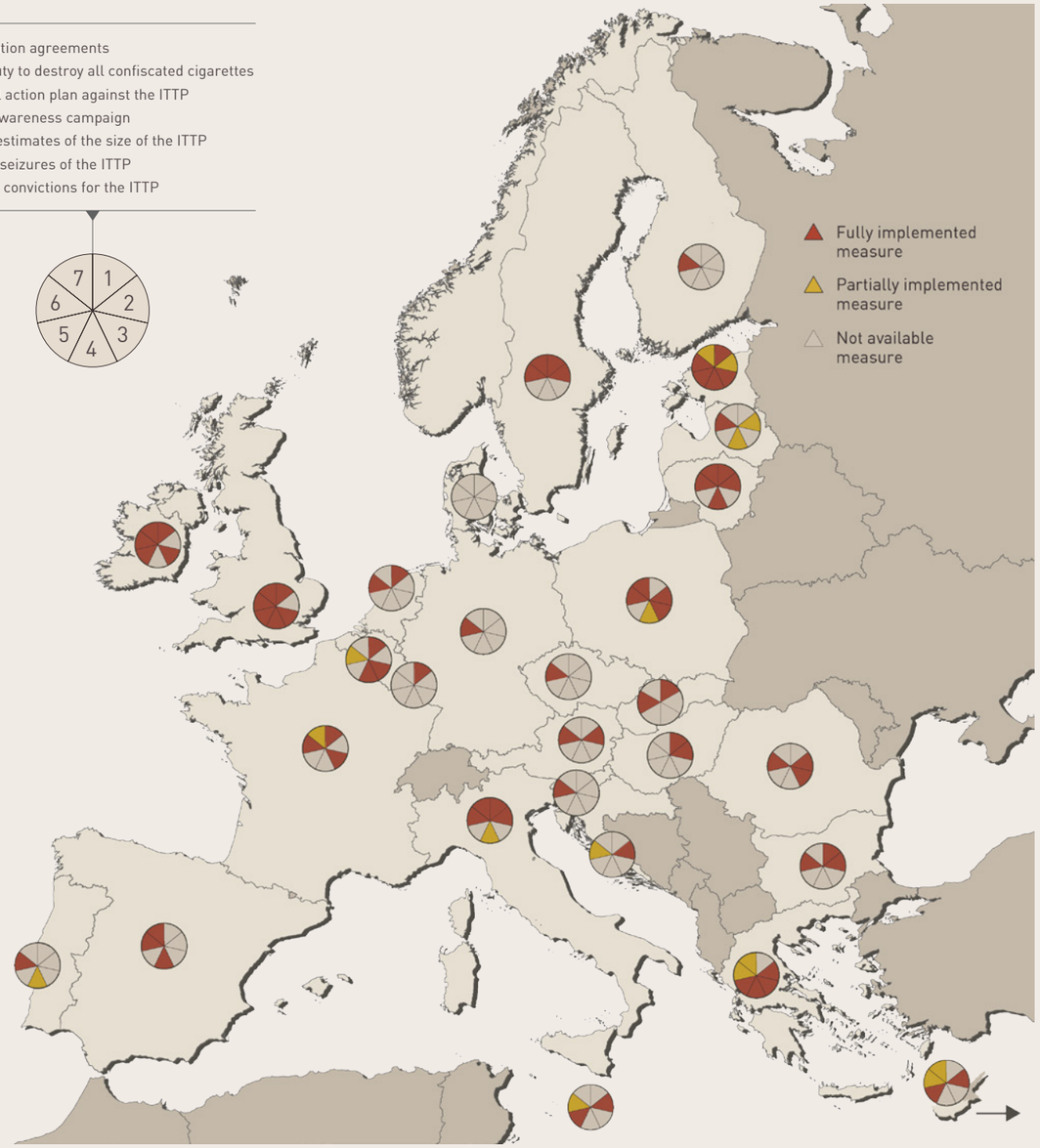
ANTI-ITTP POLICIES

The national anti-ITTP policies comprise: preventive policies, public awareness campaigns and data collection on the ITTP (Map 1).

PREVENTIVE POLICIES. The preventive policies include memoranda of understanding (MOUs) and/or legal agreements between tobacco manufacturers and national public bodies, a national action plan against the ITTP and a legal duty to destroy confiscated tobacco products and equipment.

The **MOUs and legal agreements between tobacco manufacturers and national public bodies** are written agreements between two or more organisations with an intended common line of action to counter the ITTP. MOUs are not obligatory, and if the parties fail to honour them, no penalties exist. Some scholars have suggested that this voluntary approach could be not effective against smuggling (Joossens and Raw 2008; Sweeting, Johnson, and Schwartz 2009). According to the analysis, **MOUs with tobacco companies exist in 12 European countries**: Belgium, Bulgaria, Estonia, France, Ireland, Italy, Lithuania, Luxembourg, the Netherlands, Slovakia, Sweden and the UK. On the other hand, the legal agreements are legally binding

Map 1. Anti-ITTP policies
Source: Transcrime elaboration (details in the Annex)



and enforceable for the contracting parties (Sweeting, Johnson, and Schwartz 2009). The EU agreements signed in 2004 also produce legal effects at the national level because Member States are signatories.

A **national action plan** is a document on the principal measures taken to implement action against the ITTP. It provides for criminal punishment, administrative penalties and other measures. According to the analysis, a national action plan has been **adopted in eight European countries**: the UK, Romania, Poland, Ireland, Greece, France, Estonia and Belgium.

The **legal duty to destroy confiscated tobacco products and equipment** prevents these products from re-entering the illicit market (Interpol 2014a). It also secures the legal supply chain. It **has been adopted in 14 European countries**: Austria, Bulgaria, Croatia, Cyprus, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Romania and Sweden.

PUBLIC AWARENESS CAMPAIGNS. Public awareness campaigns inform the public and/or relevant sectors of the supply chain about issues regarding smuggling/tax evasion, tobacco smuggling and counterfeiting. For some scholars, this policy may be effective for first-time smokers because they may change their purchasing habits to stop participating in an illegal activity, or they may avoid purchasing cheap cigarettes because of their uncertain ingredients, as per the UK "counterfeit kills" campaign (Joossens et al. 2000; Sweeting, Johnson, and Schwartz 2009). However, others have questioned its effectiveness because price is the most important factor in the purchase of contraband cigarettes. **Nine European countries have adopted national awareness campaigns.** Estonia, Greece, Lithuania, Poland, Spain and the UK have also conducted regional campaigns.

DATA COLLECTION. Data collection may improve the capacity of policymakers and researchers to analyse the illicit trade (Sweeting, Johnson, and Schwartz 2009). **Twenty European countries publish yearly and public data on illicit tobacco seizures**, although in Belgium, Croatia, Cyprus, Greece and Malta, public data are limited only to some years. On the other hand, only **seven European countries** (Ireland, Italy, Lithuania, Poland, Spain, Sweden and the UK) **publish yearly and public data on convictions for the ITTP**. In Cyprus, Estonia, France and Greece, public data are limited only to some years. Public **estimates on the size of the ITTP are available in only six European countries** (Cyprus, Estonia, Greece, Ireland, Malta and the UK). Denmark, Hungary and Luxembourg do not publish any data on illicit trade.

SECURING SUPPLY CHAIN CONTROL

An analysis of supply chain control has considered the provisions of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products (Map 2). These measures are meant to secure and prevent abuses on the legal side of the tobacco market. **All the members, from the illicit tobacco growers to the retailers, would be required to take on these various measures.** Moreover, the protocol would enable enforcement authorities to more easily detect the point of diversion of the products and to identify the subjects engaged in the illicit trade.

LICENSING SYSTEM. A licensing system is a permission granted by a competent authority to conduct certain activities following submission of the requisite application or other documentation to that authority (Interpol 2014a). Some scholars have argued that the efficacy of licensing regimes depends on the quality of enforcement officers. Indeed, if entities involved in the tobacco market are not convinced that they will ever be punished for breaking the law, a licensing system will prove unproductive (Sweeting, Johnson, and Schwartz 2009). **The licensing system** is widely implemented, being **adopted in 25 European countries** (mainly in Italy, France and Latvia). On the other hand, no licensing system is in place in the Czech Republic, the Netherlands and Slovakia. In particular, the analysis reveals that manufacturers make up the category of actors primarily subject to the licensing system, while growers are not.

DUE DILIGENCE. All persons involved in the supply chain of tobacco products are required to exercise reasonable care when interacting with their customers (Interpol 2014a). According to the analysis, **due diligence is implemented in only eight European countries**: the Czech Republic, France, Hungary, Latvia, Poland, Portugal, Spain and the UK. Moreover, only Spanish and UK members of the supply chain have to make their tobacco quantities commensurate with the demand in the intended market of sale.

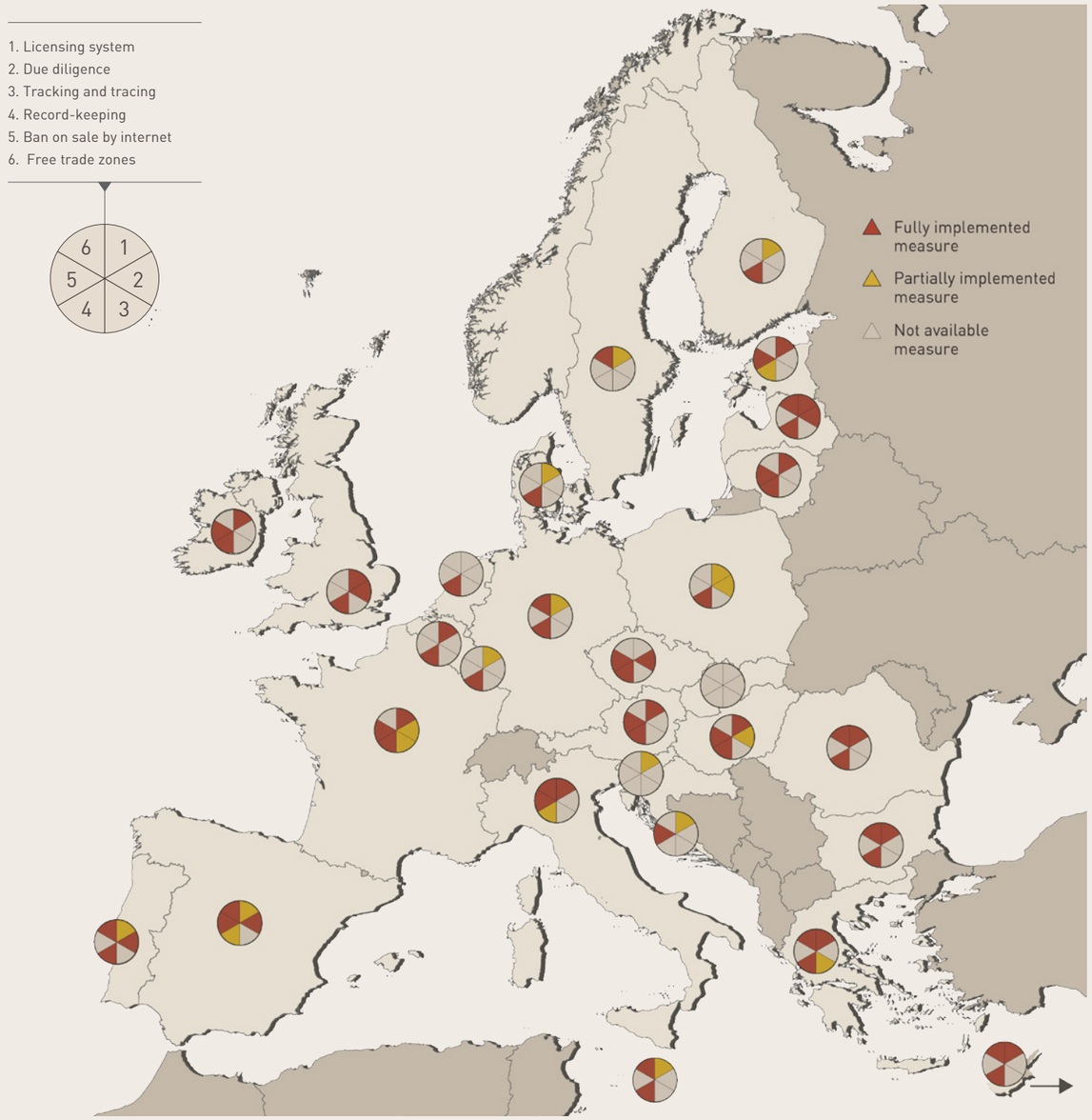
TRACKING AND TRACING. T&T systems are systems (unique, secure and non-removable codes, markings or tax stamps) that make it possible to monitor tobacco products in their route from the manufacturer to the retailer and to re-create the route of tobacco products in the supply chain, at least at the master-case level or the equivalent (Interpol 2014a). Experts have suggested that this measure's effectiveness may be twofold. For low price countries, it could prevent smuggling activities, while for high price ones, it could prevent round-tripping smuggling (the fake exportation of tobacco products in order to benefit from the export exemptions and the subsequent introduction of the products into the same market) (Sweeting, Johnson, and Schwartz 2009). Beyond the provision of the EU agreements signed in 2004, 2007 and 2010, **the EU Member States have not yet implemented a national T&T system.** However 95% of the EU legal market is subject to T&T (see Chapter 7 for further discussion).

RECORD-KEEPING. Through **record-keeping**, all the participants in the supply chain must keep up-to-date records to verify that the producers are not producing surplus materials (Joossens and Raw 2008; Interpol 2014a).This policy is widely implemented, being **adopted in 24 European countries** (except for Croatia, Slovakia, Slovenia, Sweden).

SALE BY INTERNET. The Internet may facilitate the ITTP. The Web provides sellers of illicit products with a simplified channel for the promotion and sale of tobacco products (Joossens et al. 2000; Interpol 2014a). The analysis points out that **cigarettes and other tobacco products cannot be bought over the Internet** or any other evolving technology **in 10 European countries**: Austria, Croatia, the Czech Republic, Estonia, France, Hungary, Ireland, Italy, Lithuania and Spain.

FREE TRADE ZONES (FTZs). FTZs are special areas within a community's customs territory. Goods placed within these areas are free of import duties, value added tax and other import charges. If not properly regulated, they may become hubs for the movement of illicit goods (and illicit cigarettes) around the world. The reduced regulation and lack of transparency associated with these zones make them highly appealing to criminal organisations, which may exploit their vulnerabilities for illicit purposes (Allen 2011; Interpol 2014a). **Almost all EU countries have free trade zones,** but the various zones have different levels of exposure to the ITTP. BASCAP indicated **10 ports in EU countries as those at most risk**: Bourgas and Varna (Bulgaria), Hamburg (Germany), Piraeus and Thessaloniki (Greece), the Port of Gioia Tauro (Italy), Constanta (Romania), Riga (Latvia), Barcelona (Spain), Marsaxlokk (Malta) and Funchal (Madeira, Portugal) (BASCAP 2012). All these ports are FTZs, except Varna, which is a Transit Trade Zone.

Map 2.Supply chain control measures
Source: Transcrime elaboration (details in the Annex)



6. LAW ENFORCEMENT AGAINST THE ITTP

The fight against the ITTP is mainly based on the traditional law enforcement activities (i.e. criminal investigations, arrests and seizures, imprisonment, and confiscation). These activities are useful, but they are often ineffective and have high direct and indirect costs. These limitations counsel the implementation of complementary policies relying on the reduction of criminal opportunities.

This chapter presents European joint law enforcement operations against the ITTP in 2013. It also analyses national law enforcement activities, with the focus on the number of individuals identified, cigarettes seized at subnational level and illicit manufacturing facilities dismantled.[1]

6.1 THE EUROPEAN JOINT EFFORT AGAINST THE ITTP

The ITTP is a transnational activity that requires a transnational joint effort by law enforcement. EU and international agencies assume a role of support, coordination and training against this illicit market.

Four EU agencies are mainly involved in the fight against the ITTP in Europe.

Eurojust coordinates investigations and prosecutions among the competent authorities in the Member States. Moreover, Eurojust sets up joint investigation teams and organises seminars on excise fraud (Eurojust 2014).

Europol is the EU law enforcement agency (LEA) that assists the EU Member States in the fight against serious international crimes. Europol assists LEAs in the detection of illicit shipments and in the identification of the organised crime groups involved. It cooperates with OLAF (European Anti-Fraud Office) in combating the ITTP.

Frontex was set up to ensure the security of the EU's borders through the reinforcement of cooperation among national border authorities. Frontex coordinates joint operations against the ITTP, especially on the Eastern European borders. It collates and analyses intelligence on the ongoing situation at the external borders; and it organises training for border guards across the EU (Frontex 2014).

OLAF (European Anti-Fraud Office) mainly focuses on the investigation and coordination of joint customs operations conducted in the Member States. It cooperates with Europol (OLAF 2014).

Besides these agencies, **Interpol**, the world's largest international police organisation, is also involved in the fight against the ITTP. Its mission is to facilitate international police cooperation by identifying, disrupting and dismantling transnational organised networks. Moreover, the **WCO** (World Customs Organisation) participates in the fight against the ITTP. It is the Customs' Cooperation Council and its mission is mainly to provide leadership and support to national Customs administrations (WCO 2014).

6.2 RESULTS OF JOINT EU OPERATIONS IN 2013

The European and international LEAs coordinate joint operations against the ITTP across the EU.

OLAF and Frontex declare in their annual reports the number of operations against the ITTP. In 2013, the former coordinated 29 operations against tobacco smuggling (OLAF 2014). The latter coordinated 374 operations across the Eastern EU borders in the same year. EU Member States' authorities coordinated by Frontex seized more than 26.8 million cigarettes, mostly in small numbers, smuggled by residents of the border regions or other frequently travelling individuals (Frontex 2014).

Europol and Interpol did not report on their websites the number of operations coordinated in 2013 against the ITTP, but only the results of their joint operations.

Those above are the cases reported on the websites of all these LEAs in 2013.

- **June 2013. A large number of cigarettes** were seized in France. Member States' authorities coordinated by Europol arrested 42 people belonging to a large Russian organised group. One of the men was receiving small quantities of cigarettes from Russia through the complicity of train conductors or by using small vehicles. People from Georgia, Armenia, the Russian Federation and Azerbaijan were also arrested in France.

- **September/November 2013. A large number of cigarettes** were seized in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro and Serbia. As part of Operation White Mercury, Interpol officers discovered a network involved in the production of fake goods, such as cigarettes, toys, shower gel and vehicle parts. During the operation, 330 people were investigated or arrested.

- **October 2013. A total of 660 cartons of cigarettes** were seized. National officers, with the cooperation of Europol and Airpol, also seized drugs and other counterfeit products. The police forces of Belgium, Cyprus, Denmark, the UK, France, Ireland, Luxembourg, the Netherlands, Norway, Romania, Portugal, Spain and Sweden participated in this action.

- **December 2013. A total of 348,000 packs of cigarettes** were seized in the Mediterranean Sea. OLAF officers provided support to the Spanish Customs Administration during Operation Eagle Hunt. The cigarettes had departed from the port of Famagusta (Cyprus) and were bound for the African market. During their transit, they were deviated to the Balearic Islands (Spain). The authorities arrested nine people.

- **October 2013/March 2014. 593 million cigarettes, 77 tons of smoking tobacco, 31 tons of raw tobacco, 15 tons of water pipe tobacco, 5 tons of chewing tobacco, 2.5 tons of hand rolling and pipe tobacco** and **three production facilities** were seized in Operation Gryphon. The WCO organised this first global Customs-centric operation against the ITTP with the aims of identifying the diversion of equipment, chemicals, papers and other materials involved in the illicit production of tobacco, monitoring abuses of Duty Free licences and implementing controls in Free Trade Zones (FTZs). They identified the ITTP via the Internet, mail and express consignments.

6.3 NATIONAL LAW ENFORCEMENT ACTIVITIES AGAINST THE ITTP

The activities of national LEAs against the ITTP include **the arrest of ITTP actors, the seizures of illicit tobacco products, and the dismantlement of illicit manufacturing facilities**.[2]

In 2010–2013, the open source analysis recorded 4,316 cases of cigarette seizures in the EU. These operations involved 8,211 ITTP actors and seizures amounted to 18.9 billion sticks, with an average of 4.7 billion per year.[3] In the same period, 150 illicit manufacturing facilities were dismantled in 15 EU countries.

ESTIMATE OF THE NUMBER OF INDIVIDUALS REPORTED FOR ITTP OFFENCES

No official data exist on the **number of individuals reported for ITTP offences** in the EU Member States. However, the figure **may have ranged between 7,000 and 10,500 individuals in 2013**.

Whilst this is only a rough estimate based on open sources and official data on seizures, it may provide a preliminary picture of the size of the law enforcement workload.

The estimate of reported individuals accounted for approximately **7.0% of the estimate of all the people involved in the ITTP** in 2013 (100,000-150,000) (see Chapter 4). Considering current law enforcement priorities and budgetary constraints, these results suggest that the risk of apprehension for criminals is low. The development of innovative strategies for opportunity reduction may adequately complement existing traditional law enforcement strategies, ensuring more effective action against the ITTP.

ILLICIT CIGARETTE SEIZURES IN EU

More accurate official data are available on seizures.[4] Between 2007 and 2013, **cigarette seizures decreased by 14.5% in the EU** (Figure 1). After a 16.9% increase in 2007–2011 (from 4.5 to 5.2 billion sticks), in the last two years total seizures have fallen (-26.9%). In the past year, cigarette seizures have dropped in 11 out of the 22 countries for which data are available.[5] **Slovenia (-87%), Finland (-86%) and Italy (-60%) registered the largest decreases.** There are several explanations for this decline. On the one hand, there has been a tactical displacement of smuggling routes and schemes, and smugglers have started employing different strategies of tobacco diversion in order to limit the LEAs' function. On the other hand, the decrease in the large-scale smuggling of genuine cigarettes due to better supply chain controls and the growth of the share of illicit whites has made law enforcement activity increasingly difficult.

Despite their efforts, **EU national authorities seized only 6.7% of the estimated illicit cigarette market** in 2013 (Figure 1).[6] Between 2007 and 2011, this percentage was around 8%. In 2012 it dropped to 7.2%. These results indicate that law enforcement action may not be able entirely to disrupt the illicit cigarette market. Criminals are likely to consider seizures as mere costs for their business, rather than as effective deterrents. This is a constant trend for the past which is not likely to change in the future, given the low priority of the ITTP and the budget constraints of most Member States.

These considerations support the idea of innovation in crime policies. **Opportunity reduction policies may effectively complement existing law enforcement efforts,** resulting in more effective action against the ITTP.

Figure 1. Cigarettes seized in the EU, billion sticks, and share of cigarette seizures on the ITTP volume (2007–2013) [7]

Source: Transcrime elaboration (details in the Annex)

Seizures among different European macro-regions exhibit an irregular trend between 2007 and 2013 (Figure 2).[8] On average, Northern Europe accounted for the majority of seized cigarettes (40.1% of the total EU seizures), although the amount rose from 1.9 billion sticks in 2007 to 1.3 in 2013. The UK accounted for the largest share of the seizures in Northern Europe. This country is one of the main ending points for illicit cigarettes, particularly because of its high cigarette prices (see Chapter 3). At the same time, the UK has invested significant resources in the fight against

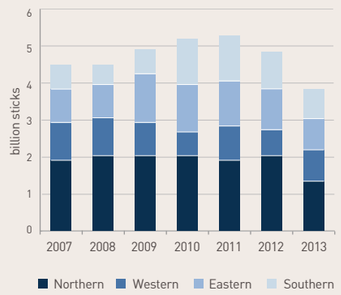
the ITTP, implementing effective action plans since 2000, national and regional awareness campaigns and Memoranda of Understanding since 2006. Moreover, it is an island country with borders that are easier to control.

Eastern Europe ranked second (average of 23.2% of total EU seizures in 2007-2013) due to its proximity to some of the sources of illicit cigarettes (Belarus, Ukraine, and Russia). The seizures decreased after 2010 (from 1.3 billion sticks to 1.1 billion), and so did the ITTP volumes (-21.9%) (KPMG 2014) (see Chapters 1 and 3).

The third and fourth macro-regions are Western (18.5%) and Southern Europe (18.2%) (Figure 2). Both these areas include important ports that are crucial entry points for illicit cigarettes. Cigarette seizures and the ITTP volumes decreased in Western Europe after 2009 (from 929 to 846 million sticks in 2013, -9.0%). In Southern Europe, 791 million sticks were seized in 2013, a 31.3% decrease since 2010.

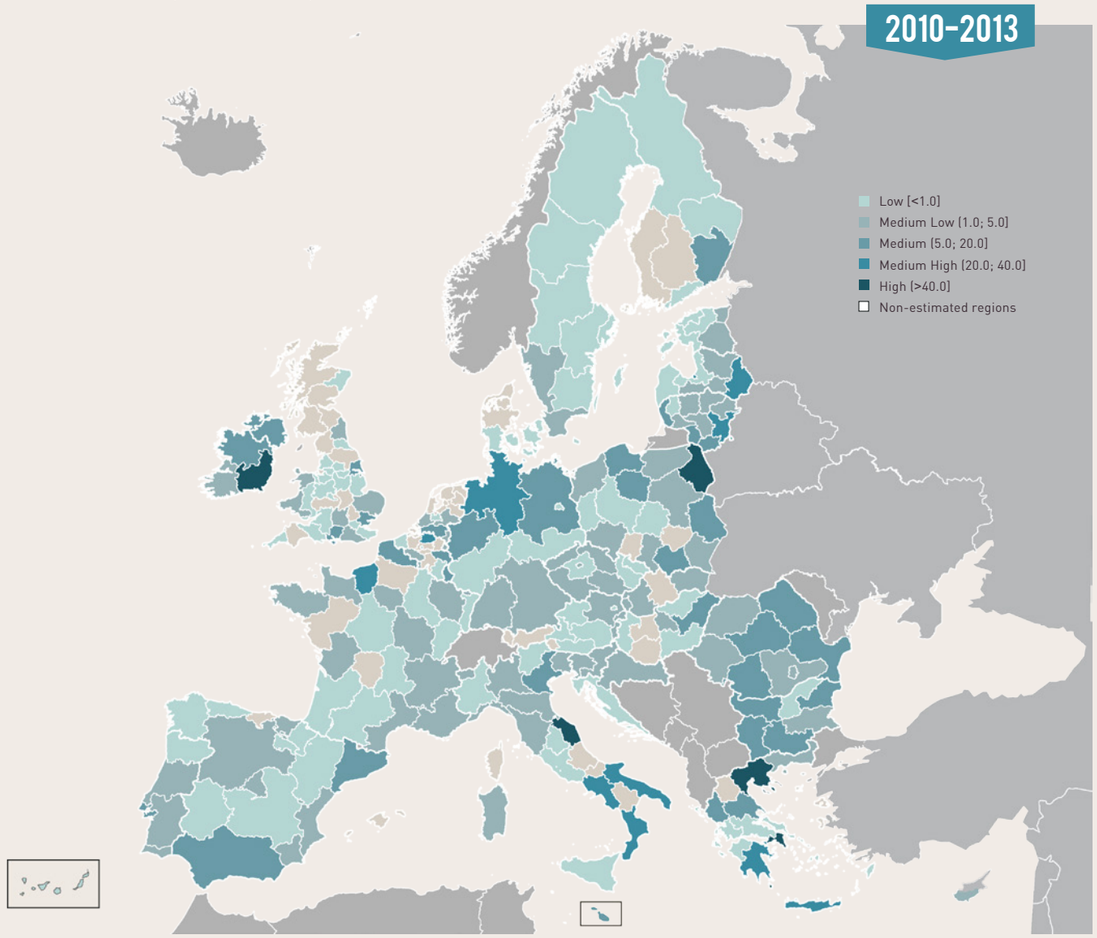
Figure 2. Cigarettes seized per macro-regions in Europe, billion sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



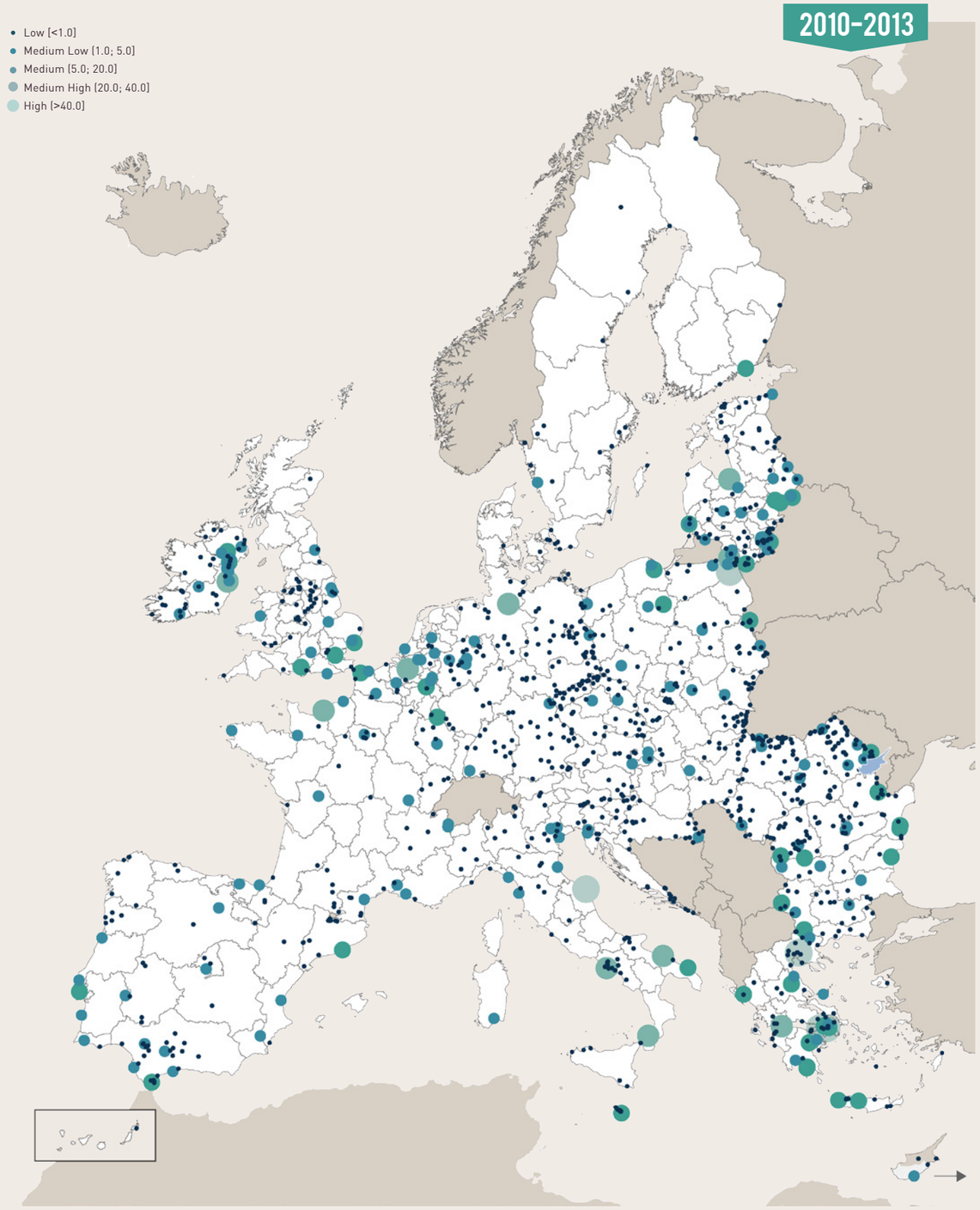
Map 1. Average quantity of cigarettes seized per area, million sticks (2010–2013)

Source: Transcrime elaboration (details in the Annex)



Map 2. Avarage quantity of cigarettes seized per city, million sticks (2010–2013)

Source: Transcrime elaboration (details in the Annex)



SEIZURES ACROSS EU AREAS AND CITIES

The number of cigarettes seized varies across the EU areas (Map 1).[9] The cities with the largest seizures between 2010 and 2013 were: Piraeus and Megara in Attica (Greece), Augustow in Podlaskie (Poland), Thessaloniki in Central Macedonia (Greece), Ancona in Marche (Italy) and Dublin in Leinster (Ireland) (Map 1; Map 2). With the exception of Augustow, which is located close to the Belarusian border, **all of these cities have important ports** receiving large quantities of illicit cigarettes mainly from China and the United Arab Emirates (see Chapter 3).

Overall, the Eastern EU borders recorded the highest concentrations of seizures between 2010 and 2013 (Map 3). These borders were: the border of Estonia, Latvia and Lithuania with Russia and Belarus; the border between Lithuania and Kaliningrad Oblast (Russia); the eastern border of Poland, Slovakia, Hungary and Romania with Ukraine; and the border between Romania and Moldova. This high concentration was related to the **lower prices of cigarettes in these neighbouring countries**.

Other areas with high concentrations of seizures were located in Croatia, on the border with Bosnia and Herzegovina and Serbia (see Chapter 9), and in Spain (Andalusia), on the border with Gibraltar. In these cases, the main cause of the high concentrations was also the cheaper price of cigarettes in non-EU bordering countries.

Furthermore, in other areas, a high concentration of seizures was due to the presence of major European ports. This was noted in Greece (Thessaloniki, Patras, and Piraeus), Italy (Ancona, Naples, and Brindisi) and Ireland (Dublin and Cork).

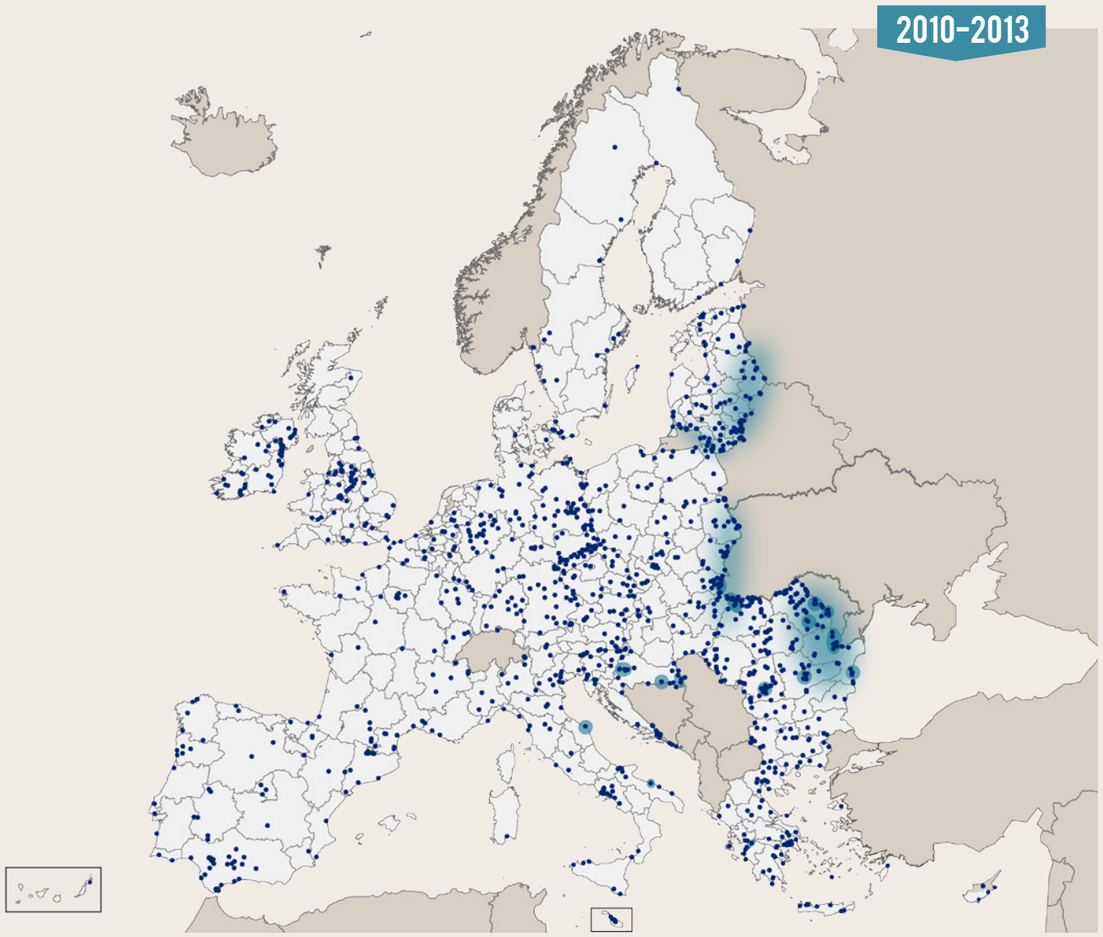
ILLICIT TOBACCO MANUFACTURING FACILITIES

Between 2010 and 2013, 150 illicit manufacturing facilities were dismantled in the EU (Map 4).

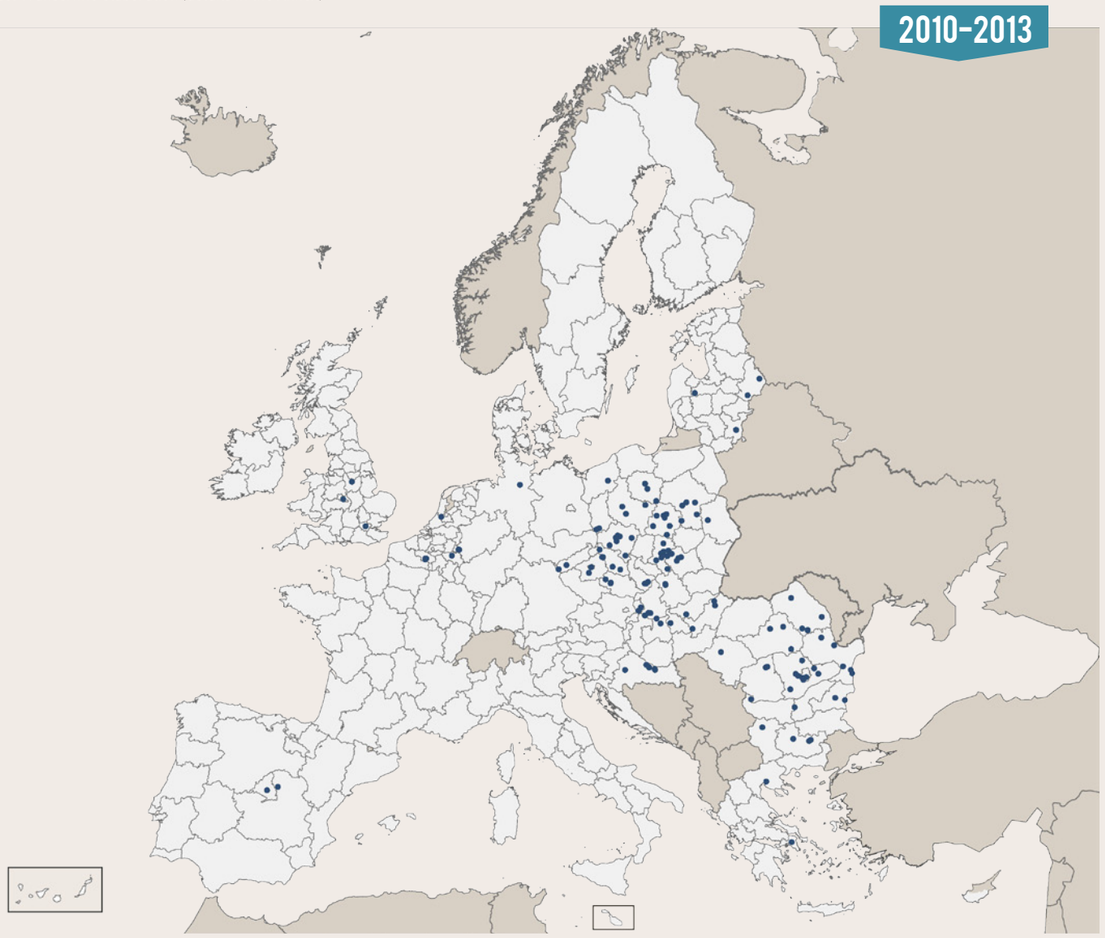
The highest concentration was in the areas on the eastern EU border. In particular, ten areas comprised 47.3% of the factories raided. The three areas with the highest concentration were located in Poland: Lower Silesia (6.7%), Łódź Province and Silesia Province (6.0%). Other important hubs for illicit manufacturing were Nord-Est and Sud (Romania), Continental Croatia (Croatia), Mazovia Province (Poland), all of which together accounted for 18.7% of raided facilities.

According to the European Commission, the number of illicit manufactouring facilities is increasing (European Commission 2013b). Indeed, since the end of EU tobacco subsidies, raw tobacco has been a product without registration, monitoring or control (Joossens, Ross, and Stokłosa 2014). Extending preventive measures (e.g. supply chain control) to the components essential for the manufacture of cigarettes (key inputs) may reduce the opportunities for illicit production (see Chapter 7).

Map 3. Places of seizures and Nearest Neighbor Hierarchical Clustering (NNH) hotspots (2010–2013)
Source: Transcrime elaboration (details in the Annex)



Map 4. Illicit manufacturing facilities raided in the EU (2010–2013)
Source: Transcrime elaboration (details in the Annex)



7. FUTURE CHALLENGES ON THE POLICY AND RESEARCH AGENDA

This study advocates the introduction of innovative policies aimed at the reduction of criminal opportunities as an effective complement to traditional crime policies. If the reduction of opportunities is adequately developed, it could contribute to achieving the right balance between crime reduction and health improvement at lower costs. This approach requires the collection of new data at a local level and the implementation of adequate policies. In conceiving this study, Transcrime developed a conceptual framework for a modern analysis conducted at the subnational level. However, the study had to use old data collected at country level (the only data available) and disaggregate them at subnational level.

Advocating new policies and new research approaches, this chapter highlights the existing gaps in policies implementation and data collection, and it identifies the challenges to improving them.

7.1 THE IMPLEMENTATION OF A GLOBAL TRACKING AND TRACING SYSTEM

Tracking and Tracing (T&T) is probably the most important policy for the purpose of reducing opportunities in the ITTP market. The success of T&T depends on its implementation, which should be effective and efficient.[1]

T&T systems enable the monitoring of tobacco products from the production through the supply chain (tracking) and the reconstruction of their route in order to identify points of diversion (tracing). In the past decade, T&T systems have contributed to the more effective prevention of the ITTP. Today, several measures require the establishment of T&T systems (see also Chapter 5).[2]

In the EU, the four main cigarette manufacturers have already adopted T&T systems. Yet the Protocol and the EU Tobacco Products Directive (TPD) will eventually generate a mandatory T&T system at the global/EU level. The Commission is working on a European interoperable system due to start, for cigarettes and hand rolling tobacco (HRT), on 20 May 2019. Determination of the T&T system's technical standards and their compatibility across EU Member States is still ongoing.[3]

Originally, the purpose of T&T systems was to secure the legitimate supply chain and to reduce opportunities for the diversion of genuine tobacco products, which in the 1990s was the most prevalent type of the ITTP (Interpol 2014a). Today, in Europe, the ITTP scenario is rapidly changing. Large-scale ITTP is decreasing, while illicit whites are increasing (KPMG 2014). Besides cigarettes, HRT and other tobacco products (e.g. green leaves and cigars to be processed into cigarettes) may become the new frontiers for the illicit market. A number of these new forms of illicit trade (e.g. counterfeiting, illicit whites and illegal manufacturing) fall outside the scope of T&T and need different strategies to be tackled. Therefore, simply extending the T&T systems to all the EU tobacco manufacturers/importers may have a limited additional positive impact on the ITTP trends.

The implementation of T&T systems in Europe. Although all stakeholders (e.g. tobacco industry, law enforcement, policy-makers, tobacco control activists) agree on the importance of T&T, there are differing views on how it should be implemented.

The four main tobacco manufacturers have jointly implemented the Codentify system. Codentify is managed by the Digital Coding & Tracking Association (DCTA), which groups the tobacco manufacturers. Initially developed by Philip Morris International (PMI), Codentify uses advanced digital coding technology printed directly onto product packaging. It can effectively replace outdated, easy-to-copy paper-based tax stamps and fiscal markers or burdensome administrative processes (Codentify 2012, 8). Codentify currently guarantees the T&T of 95% of the EU legal market (the market shares of the four main manufacturers) and it has been implemented worldwide in several other countries (Interpol 2014a, 89–92).

Tobacco control activists have criticized Codentify because it does not meet all the T&T requirements (no storing and no tracking of product codes). In addition, they believe that it breaches the Framework Convention on Tobacco Control (FCTC) Protocol, signed by the EU, which prohibits the delegation of T&T to the tobacco industry (art. 8.12) (Joossens and Gilmore 2013). As for the T&T systems implementation and effectiveness, experts in the field have already underlined the issue of its costliness (KPMG 2014, 35).

If T&T systems are to be widely implemented, they must be economically sustainable and easily embeddable in the business value chain. To achieve economic sustainability, they should move from proprietary solutions to open standards. Open standards would allow competition among providers and thus reduce the prices of T&T systems. Besides, experts suggest that T&T systems can be effective only through pan-regional/global cooperation (KPMG 2014, 35).

Today, an effective EU T&T can reduce large-scale ITTP only if its application extends beyond the Union's borders. Effectively, implementing T&T measures in EU Member States requires considering the characteristics of the ITTP market, all the main suppliers of which are outside the EU borders. Without a mandatory T&T obligation upon all manufacturers in non-EU countries, T&T may have a limited impact on the ITTP. This calls for a wider strategy from the EU Commission which should require international engagement towards: a) bordering countries (e.g. Belarus, Russia, Ukraine) where illicit whites originate (see Chapter 9); b) non-bordering countries from where illicit whites and counterfeit come from (e.g. United Arab Emirates and China).

In conclusion, **T&T could be a good policy, but if it is not effectively and efficiently implemented its results may be unsatisfactory**. This policy is opening a new market with competing interests. The main challenges for regulators are extending the area of implementation, monitoring the ongoing processes, and reducing the asymmetries and the costs.

7.2 THE CONTROL OF KEY INPUTS

Most preventive measures have focused on the control of raw tobacco, tobacco products, and manufacturing equipment (see the provisions of the Protocol to Eliminate Illicit Trade in Tobacco Products and of the EU Tobacco Products Directive, Chapter 5). **Extending preventive measures to other elements may reduce the opportunities** for the illicit trade.

Key inputs are components essential for the manufacture of cigarettes, e.g. cellulose acetate tow, cigarette filters, and cigarette paper. **Extending preventive measures to cover these key inputs may contribute to prevention of the ITTP.** It may effectively tackle the illegal manufacturing of tobacco products, reducing the opportunities for undeclared production, counterfeiting, and similar activities (Sweeting, Johnson, and Schwartz 2009; Framework Convention Alliance 2010a; Interpol 2014a, 65–68).

Currently, **international and EU regulations exclude key inputs from their scope**. For example, the Protocol to Eliminate Illicit Trade in Tobacco Products has only a broad recommendation on key inputs. It provides that, within five years from entry into force of the treaty, the Parties shall ensure that research should determine "whether any key inputs that are essential to the manufacture of tobacco products, are identifiable and can be subject to an effective control mechanism" (Article 6 (5)). The main argument for the exclusion of key inputs was the lack of information on whether any input was a) used exclusively for the manufacture of cigarettes, and b) easily identifiable and controllable.

In fact, **it may be possible to extend the controls on some key inputs**. For example, cellulose acetate is almost entirely used for the production of acetate tow for cigarette filters (more than 80% of the global production). This input is an ideal candidate for control, as it is a capital-intensive industry, vertically-integrated, and has a small number of global competitors. The main manufacturers of acetate tow are already members of the Global Acetate Manufacturers Association (GAMA) (Framework Convention Alliance 2010b, 4; Interpol 2014a, 67). GAMA has already shown awareness of issues associated with the ITTP, and has implemented know-your-customer standards (Interpol 2014a, 67).

7.3 ADDRESSING OTHER EMERGING ILLICIT TOBACCO PRODUCTS

Manufactured cigarettes are the most popular tobacco product in the EU (Euromonitor International 2013a). In recent years, rising cigarette prices have stimulated a demand for **other tobacco products**. Most price-sensitive consumers, i.e. people in difficul socio-economic circumstances and heavy smokers, may find it more difficult to maintain their smoking habits (Calderoni, Aziani, and Favarin 2013). **Price and tax differentials lead to substitution among tobacco products** (downtrading) (Chaloupka et al. 2000). Interest has increased in cheaper products like HRT, raw tobacco leaves, and cigars-to-be-cut. In turn, this has created new opportunities for the ITTP (WHO 2009; Euromonitor International 2012e, 60; Tokarski 2012; Pracodawcy RP 25 LAT 2014).

HAND-ROLLING TOBACCO

HRT provides a clear example of the emerging criminal opportunities generated by different tobacco products. With a volume of more than 92,000 tonnes, and a 75.0% increase in consumption since 2000, HRT accounts for approximately 17% of the EU market (Euromonitor International 2013a). The market share of HRT is particularly high in Belgium (50.4%), Hungary (44.6%), the Netherlands (42.5%), and Germany (24.7%). Due to its lower price, HRT is popular among young people and manual, low-income workers; the same groups that are also attracted by illicit tobacco.

Evidence from various countries shows the growing importance of illicit HRT (Calderoni, Favarin, et al. 2013; Calderoni, De Simoni, et al. 2013). For example, in the UK (the only country with reliable estimates of the illicit HRT market), the most recent estimates show that more than one third of HRT consumption is illicit (HMRC 2013). Despite a decline of the ITTP in recent years due to increased efforts by the authorities, HRT has recorded a less pronounced decrease (HMRC 2013; Interpol 2014a). Illicit HRT makes it possible to save up to half the retail selling price recommended by manufacturers (O'Reilly 2012a).

Information about the illicit HRT trade is limited due to the novelty of the trend. **There are no estimates** for the Member States of the EU, except the UK and most existing estimates exclude it. For example, empty pack surveys generally focus on cigarettes, and do not collect information on other products. Evidence suggests the existence of different types of illicit HRT. In the UK, the HRT illicit market mostly consists of genuine brands smuggled from low-tax countries, but also of counterfeit HRT (HMRC and UKBA 2008). In Poland, the authorities have reported both smuggled and illicitly manufactured HRT (Ministry of the Interior 2012).

NEW PRODUCTS AND OPPORTUNITIES FOR THE ITTP

Other instances of illicit tobacco products are **unprocessed tobacco – also known as "green leaf" – and cigars intended to be processed into cigarettes**. Both products exploit loopholes in the regulation.

In Poland in 2012, a large number of **consumers switched from HRT to green tobacco leaves** (Calderoni, Aziani, and Favarin 2013). The trend also attracted the interest of Bulgaria, the Czech Republic, and Hungary (KPMG 2013). Vendors sold green leaves as unprocessed tobacco that consumers had to cut and roll by themselves. Smokers could legally purchase this product online and from street-corner shops. The green leaf exploited a loophole in the Polish legislation enabling its sale without taxes. A specific government act closed the loophole in January 2013 (KPMG 2013,

155). **The avoidance of any taxes enabled substantial savings** (PMPL 2012). In 2012, the cheapest 20-pack of Polish cigarettes cost the equivalent of €2.24; the green leaves necessary to roll 900 sticks cost only around €4.50 (Pracodawcy RP 25 LAT 2014). According to industry sources, green leaf tobacco accounted for 7% of the entire Polish tobacco market, equivalent to over six billion cigarettes in 2012 (KPMG 2013, 155).

The introduction of duties on green leaf in January 2013 had a double effect. On the one hand, it reduced green leaf consumption; on the other, it displaced sales to the Internet and open air markets, where it is still possible to buy green leaves with no taxes (Niemczyk 2013). It appears that green leaf consumption persists, as do instances of its distribution (Niemczyk 2013; tvn24 2014).

In addition to green leaf tobacco, the sale of **cigars intended to be processed into cigarettes** by the final consumer has generated another opportunity for the ITTP. These cigars are legally manufactured within Poland. They are designed to enable fragmentation, so that the tobacco can be used as HRT. The cigares are typically between 14 and 17 cm in length, and allow the rolling of between 8 and 11 cigarettes (Pracodawcy RP 25 LAT 2014). In Poland, the lower taxation of these products compared with manufactured cigarettes generates substantial savings for consumers (Pracodawcy RP 25 LAT 2014).

These cigars are even cheaper than illicit cigarettes. The cost of a single manufactured cigarette is the equivalent of three to five cigarettes made from these cigars. Smuggled cigarettes usually allow the saving of between 25% and 50% of the regular price (Joossens et al. 2009). The only additional costs are associated with the purchase of tobacco cutting machines. Retailers usually make these tools available to customers (Pracodawcy RP 25 LAT 2014).

7.4 IMPROVING ESTIMATES OF THE ILLICIT CIGARETTE MARKET

Good policies require good data. This study advocates innovative policies against the ITTP despite using outdated and imprecise data. This means that a new research agenda on the ITTP should combine a new approach and better data.

At present, the main data sources for estimating the illicit cigarette market are the volumes of the illicit market (at national level), smoking prevalence, and empty-pack surveys (all at the subnational level).

These sources have several limitations.[4] If better data become available, they could be easily integrated into the methodology used in this study.

NATIONAL ESTIMATES

The national estimates of the illicit cigarette market are inputs to the estimates of the 247 subnational areas. This study has adopted the national estimates of the volumes of the illicit cigarette market made by the KPMG *Project Sun* (KPMG 2014), though aware of their limitations (Joossens et al. 2012; Gilmore et al. 2013; Stoklosa and Ross 2013).[5]

Despite the concerns raised by the literature, KPMG data are the best available data on the illicit cigarette market in the EU. Currently, no other source produces annual estimates for all the EU Member States. Estimates independent from the tobacco industry have a number of short comings: they are based on smaller samples, and they rely on surveys that have underreporting biases and are not conducted annually (Calderoni 2014).

Whereas the national estimates produced by *Project Star* and *Project Sun* are at present the most reliable sources, the quality of these data should be improved in the future so as to gain a clearer picture of the dynamics of the ITTP in Europe.

SMOKING PREVALENCE

Smoking prevalence data at the subnational level contribute to the disaggregation of national estimates at the level of the 247 areas. This study gathered smoking prevalence data from national statistics institutions and other available sources.

Whereas national annual estimates are available for all countries, only a few Member States provide yearly figures below the national level: Finland, Ireland, Italy and Sweden. Other countries provide data only for a few years and/or at different aggregations (e.g. at the NUTS-1, NUTS-2 or NUTS-3 levels).[6] This study imputed missing data by means of various strategies (see annex for details).

Evidence shows that smoking prevalence varies remarkably within a country. The lack of data for several EU Member States may affect the estimates of the illicit cigarette market.

The availability of periodic estimates of smoking prevalence at the subnational level would have improved the study's results by providing better evaluation of the levels of illicit cigarettes across the areas of a single country. When these data become available, it will be possible to point out priority areas and consequently support more efficient policies against the ITTP. For these reasons, **future research efforts should seek to improve the quality of smoking prevalence data through the production of yearly measurements at NUTS-2 or NUTS-3 levels**.

EMPTY PACK SURVEYS (EPSs)

The data on empty packs collected in the various cities of the EU Member States contribute to the disaggregation of the national estimates at the level of the 247 areas. This study has gathered the raw data of EPSs from the tobacco industry, after discussion of the criticisms made in the literature in their regard (Joossens et al. 2012; Gilmore et al. 2013; Stoklosa and Ross 2013). The choice was driven by the consideration that **current industry-sponsored EPSs are the best sources available for estimation of the illicit cigarette market at the subnational level** (Calderoni 2014). In particular, it should be taken into account that:

- analysis of homes and workplaces appears impracticable owing to problems related to privacy, costs and adequate sampling;

- no method currently enables a more precise identification of illicit products, because "it is impossible to discriminate between smuggled goods, legal cross-border purchases and illegal cross-border purchases. The only possible distinction that can be made thanks to [pack surveys] is between counterfeit packs and others" (Ben Lakhdar 2008, 16);

- independent market research companies conduct the surveys for the four main manufacturers with the purpose of measuring market shares, thus reducing the risk of bias due to the contrasting interests of different competitors;

- manufacturers participate in the identification of counterfeits because of their expertise in identification of the security features designed in the packs, a practice also common whenever law enforcement agencies (LEAs) seize large quantities of cigarettes.

Compared to existing alternative sources, EPSs have a number of additional advantages such as:

- EPSs are based on the actual packs and do not rely on consumers' perceptions and willingness to report;

- the surveys are repeated periodically (from one to four waves per year) and have samples larger than any other independent survey conducted so far;[7]

- EPSs are the only source that provides insight into city and regional differences in the prevalence of non-domestic packs which enable the elaboration of estimates at the subnational level, and even at the neighborhood level for larger cities;

- the raw data enable distinction among different types of illicit cigarettes (counterfeit, illicit whites and non-domestic cigarettes).

By considering all these aspects, the quality of EPS data for the future could be improved:

- providing full information on the city-, neighborhood- and street-sampling strategies and on the pack analyses;

- collecting EPSs data through similar methodologies across countries in order to enhance comparability.

7.5 IMPROVING KNOWLEDGE ON LAW ENFORCEMENT ACTIVITIES AGAINST THE ITTP THROUGH BETTER DATA

Law enforcement data are important for understanding not only the LEA workload but also the illicit tobacco market's dynamics. Although such data cannot be used to measure the ITTP, they are useful for understanding the ITTP route patterns (especially those originating from outside the EU), and they could potentially provide a more precise picture of smugglers and their *modi operandi*. In particular, knowledge about ITTP dynamics could be enhanced if LEAs annually provided:

- data on illicit tobacco seizures, broken down into types of products seized (e.g. counterfeit, contraband, illicit whites), brands of products, and product origins and destinations (when possible);

- data on convictions for the ITTP, which should include data on convicted persons (age, gender, and nationality) and on the type and amount of sanction (fine or detention) and, if possible, on the type and length of detention;

- estimates of the size of the ITTP, not only providing a number but also stating the methodology used for the calculation, as well as further analysis of the main components of the estimates (e.g. counterfeit, contraband, illicit whites).

Moreover, open data may become even more powerful means to gain better understanding of the ITTP. Although some national agencies have made great efforts to communicate their operational activities, others have not. In addition, at the European level, joint investigations against the ITTP have had scant online coverage. In order to increase the quality of the open data, LEAs should:

- regularly report – through press releases – the main operations against the ITTP, at least those that this study considers to pertain medium-scale ITTP (more than 100,000 cigarettes per single case);

- always provide a minimum set of information about the operations conducted. The minimum set of information on an operation should include: quantity seized, place of seizure, date of seizure, number of actors identified/arrested, means of transport of tobacco products, and types of products seized. Further information may include: characteristics of the perpetrators (age, nationality, existing criminal record for ITTP, member of OC), characteristics of the products (brands and quantity per brands), routes (origin and destination of the tobacco product seized), and characteristics of the means of transport (type of vehicles and models), and techniques of concealment of the tobacco product in the means of transport.

7.6 IMPROVING KNOWLEDGE ON TOBACCO SMUGGLING THROUGH THE CRIME SCRIPT

Further studies should devote greater effort to understanding the characteristics of the *modi operandi* of tobacco smugglers. Currently, there are only general assumptions on the types of smugglers based on their *modi operandi* (small and large scale) (Joossens et al. 2000; Joossens et al. 2009). Some studies have focused both on the role of organised crime in the illicit tobacco market (van Duyne, von Lampe, and Passas 2002; von Lampe 2005a; Kegö, Leijonmarck, and Molcean 2011) and on smugglers at the country level (Antonopoulos 2006).

A **crime script approach** may remedy this gap of information, and it may also help foster in-depth understanding of the illicit tobacco market chain. Indeed, crime script is designed to "identify every stage of the crime-commission process, the decisions and actions that must be taken at each stage, and the resources – such as criminal cast, props and suitable locations – required for effective action at each step" (Cornish and Clarke 2008, 31). Crime script has already been used to study complex criminal phenomena (Savona 2010; Chiu, Leclerc, and Townsley 2011; Savona, Mancuso, and Giommoni 2014). Adopting the crime script approach would enable analysts to:

- identify different types of crime commission in tobacco smuggling;

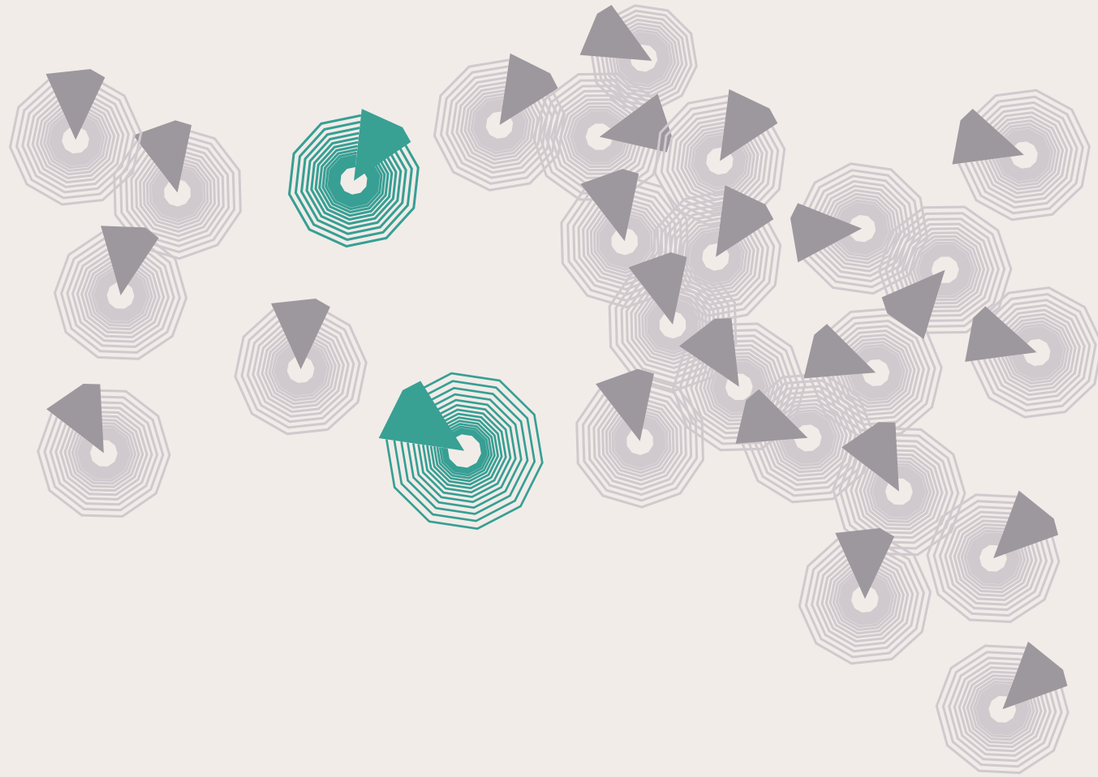
- provide better understanding of the illicit tobacco market chain – from the supply of raw materials, to the illicit cigarette manufacturing, through the wholesale and retail distribution;

- associate prevalent crime scripts with geographical hot-spots;

- suggest new or more effective crime prevention measures to reduce the phenomenon.

PART 2.

Zooming the scene: the ITTP in the EU Member States and beyond



8. COUNTRY PROFILES

This part of the study is devoted to the analysis of the illicit tobacco market in each Member State of the EU. For each country, a targeted profile estimates the size of the ITTP market and the different types of illicit tobacco products (counterfeits, illicit whites and other illicit products) at the subnational level (areas). The disaggregation at subnational level is one of the added values of the analysis produced by this study. As already mentioned, estimation of the illicit cigarette market in different areas extends beyond existing estimates at the national level. It identifies concentrations and enables more detailed analysis of the ITTP at the local level.

The study also provides insights on the ITTP actors and their modi operandi, the flows and the countries that are key players in the ITTP. In addition, the analysis focuses on law enforcement and regulatory actions against the ITTP. Each country profile provides recommendations to improve the action against illicit cigarettes. In providing information at country level, this study aims at developing a discussion within and across countries merging this section with the information provided at the EU level.

The cover of each country profile is the image of a bridge. This symbolically represents the cooperation that should link countries in fighting the ITTP. Indeed, throughout its entire analysis, this study stresses the importance of cooperative policies and joint actions among different EU and non-EU countries.

Austria

COUNTRY DATA

Capital City
Vienna

Surface (WB 2014)
83,879 km²

Total population (WB 2014)
8,473,786 (2013)

Borders
Czech Republic, Germany, Hungary, Italy, Liechtenstein, Slovakia, Slovenia, Switzerland

Gross Domestic Product, € (Eurostat 2014)
313.1 billion (2013)

Wooden bridge, Lake Traunsee

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

6.4%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

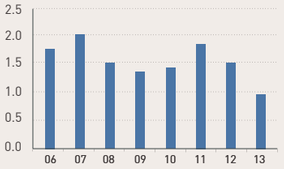


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

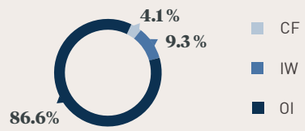
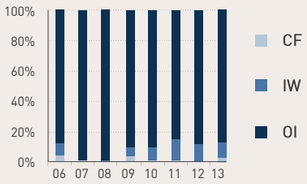


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

13.0

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

46.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

4.7

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

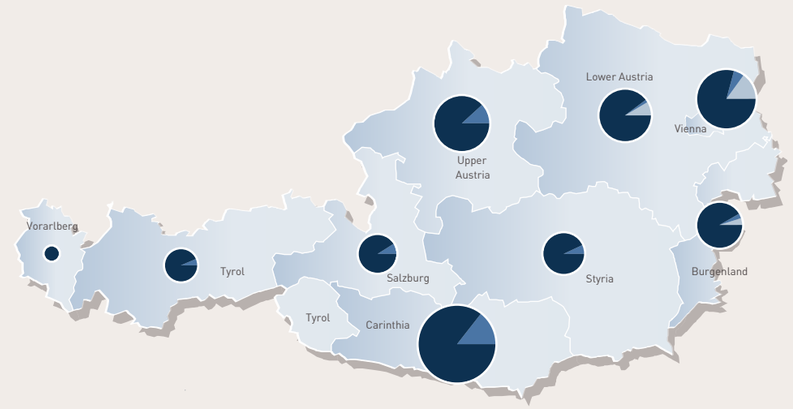
73.6%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

172.9

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Austria featured a medium-low level of the ITTP (6.4% of the cigarette market), with remarkable differences among areas** (Figure 1).

Vienna (251 million sticks), Lower Austria (193), Upper Austria (179) and Carinthia (128) had the largest illicit markets. Almost 80% of the Austrian illicit tobacco market was concentrated in these areas (Map 2).

Carinthia, along the Southern border, **had the highest prevalence of illicit cigarettes** (26.7 million sticks per 100,000 inhabitants). Its prevalence was two times higher than the national average of 13.1 million sticks per 100,000 inhabitants. **Vienna, Upper Austria and Lower Austria also had a relatively high prevalence of illicit cigarettes** (16.8, 14.9 and 13.9, respectively). The western areas of Tyrol (6.1) and especially Vorarlberg (1.7) recorded the lowest prevalence of illicit tobacco consumption (Map 1).

From 2012 to 2013, **the prevalence of illicit cigarettes decreased in 8 out of 9 areas, and the national ITTP diminished by more than a third** (Figure 2 and Figure 5). The most remarkable decreases occurred in Tyrol (-65%), in Carinthia (-47%) and in the eastern part of the country (Vienna -45%, Burgenland -42% and Lower Austria -39%). Vorarlberg, with an increase of +93%, was the only exception; however, it remained the area with the lowest prevalence (Figure 5).

THE PRODUCTS

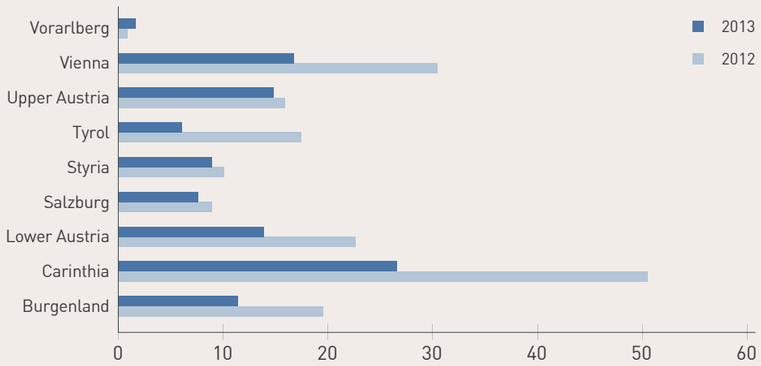
In 2013, **other illicit cigarettes constituted the most common illicit tobacco product** (86.6% of the illicit market) (Figure 3). Their share ranged from 79% in Vienna to 100% in Vorarlberg. The prevalence of these products tended to be lower in areas with the largest illicit cigarette markets: 79% in Vienna, 85% in Carinthia, 88% in Upper Austria and 90% in Lower Austria (Map 1).

Illicit whites were the second most important type of illicit cigarettes (9.3% of the illicit market) (Figure 3). In 2013, **the share of illicit whites varied** considerably **across the areas**. Vorarlberg, Lower Austria and Burgenland, with a share of 0%, 2% and 3% respectively, had the lowest shares. Carinthia (14%), and Upper Austria (12%) had the highest ones (Map 1). These two areas exhibited two opposite trends in the period 2012–2013; the share of illicit whites significantly decreased in Carinthia (from 20% to 14%), whereas it increased in Upper Austria (from 5% to 12%).

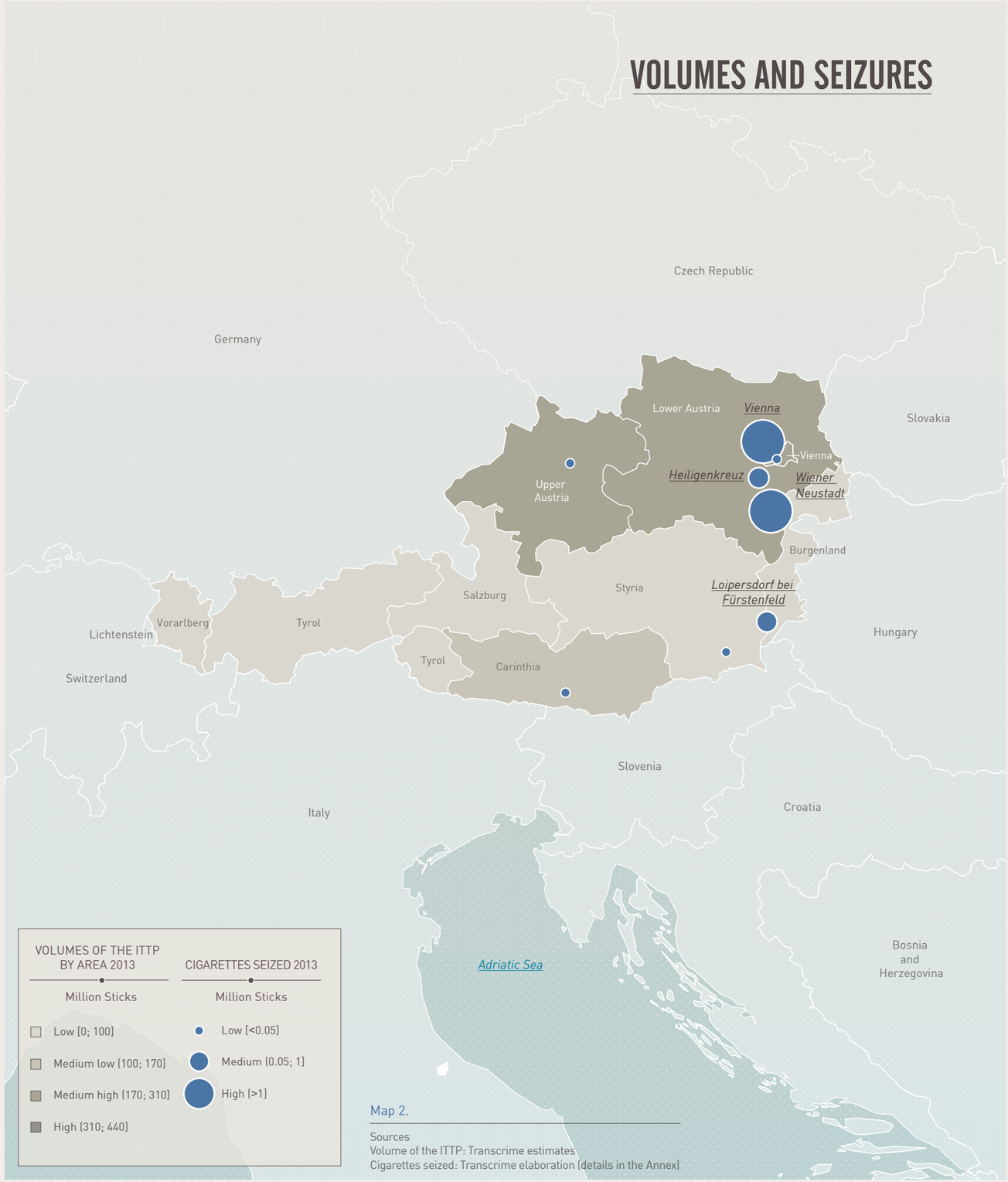
The third type of illicit cigarettes is counterfeits (4.1% of the illicit market) (Figure 3). **The three eastern areas** — Vienna (15% of the illicit cigarette market), Lower Austria (8%) and Burgenland (5%) — **had the highest shares of counterfeit cigarettes** (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Austria is both an ending and a transit point for the ITTP.

Considering the flows recorded between 2010 and 2013, illicit tobacco products intended for the **Austrian market** (Figure 6) originate mainly from **Serbia**, **Slovenia** and **Hungary** (see also Euromonitor International 2012a). The **Czech Republic** and **Ukraine** are also sources of illicit tobacco products smuggled into Austria (KPMG 2014). In these countries, cigarette prices are generally lower than they are in Austria (Euromonitor International 2012a). For instance, in October 2013, in all the starting points the cheapest brand was sold at a price between €0.4 and €3, whereas it was sold at €3.8 in Austria (PMI 2013a).

Austria is also a **transit** point for illegal products intended for other European countries (Lopatka 2010) due to its position between Eastern and Western countries. The **inflows** transiting through Austria originate mainly from **Poland**, **Serbia** and **Ukraine**. Once in Austria, the **outflows** are intended for **Italy** and **Germany** (Figure 7). France and the UK are other preferred ending point markets for illegal cigarettes passing through Austria (Euromonitor International 2012a). In these countries, cigarette prices are higher than they are in Austria; thus, illegal traders benefit from a higher price differential (PMI 2013a).

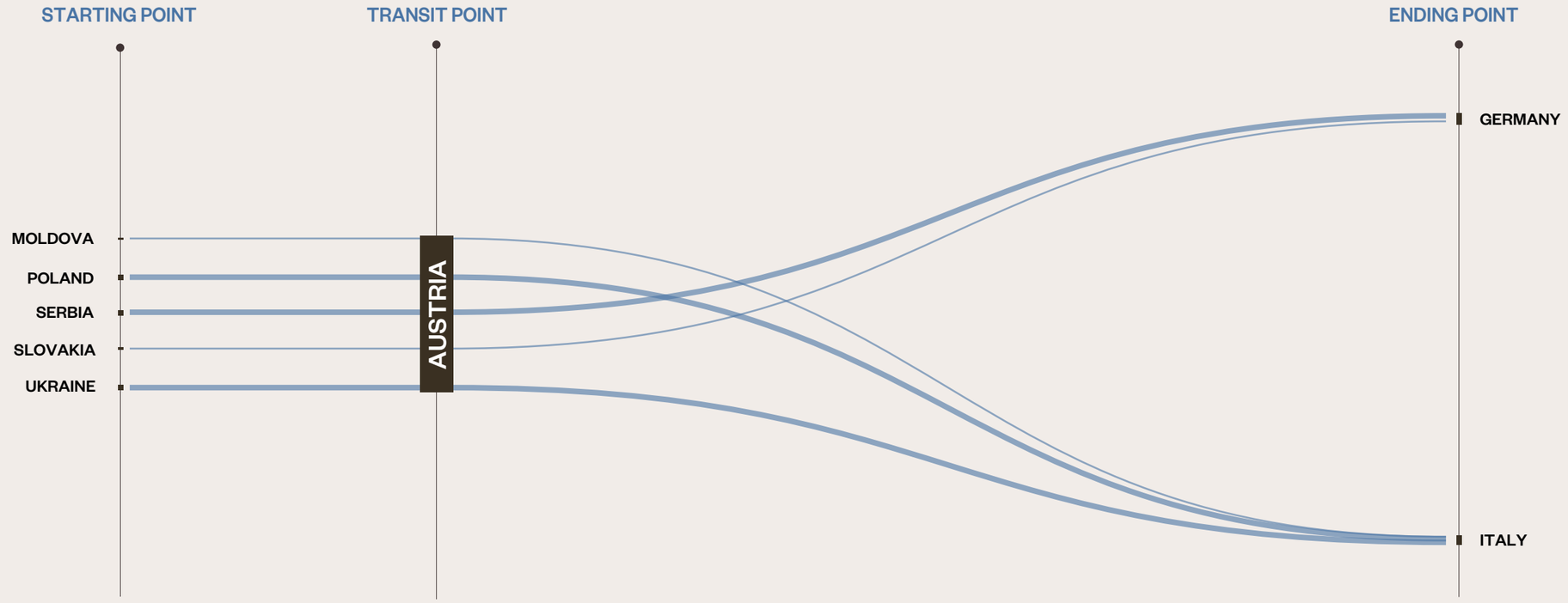
Illicit products arrive in, or transit through, Austria exclusively via **motor vehicles.** The key **entry points** for smuggled cigarettes are located along the southern border with Italy and Slovenia (**Villach** and **Thörl Maglern**) and along the eastern border with Hungary (**Loipersdorf** and **Nickelsdorf**) and Slovakia (**St. Polten**). Other cities close to the border with Germany, such as **Strass**, are key entry points.

Figure 6. Austria as ending point (2010–2013).* N=11

*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Austria as transit point (2010–2013).* N= 11



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Austrian newspapers reported 40 tobacco seizures involving 73 persons, mainly **Serbians** and **Ukrainians**, followed by **Poles** and **Romanians**. The smugglers were usually aged **between 51 and 60 years old**. In the majority of the seizures, the smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks.

Tobacco products are transported to Austria mainly by **car** and sometimes by **van** and **bus**. On average, the cars seized between 2010 and 2013 transported 113,600 cigarettes, vans 110,000, and buses 697,000.** In a small number of cases, the cigarettes were seized in **private houses** and **warehouses** located in the cities of Leibnitz, Linz, Salzburg and Wiener Neustadt.

The Austrian authorities discovered no illicit manufacturing facilities between 2010 and 2013. However, in 2006, an illicit factory was raided near **Salzburg**. It was producing counterfeit cigarettes with an annual production capacity of 4 million cartons. The tobacco used for production came from Argentina and was initially exported to Germany. Once there, official accompanying documents reported Kosovo as the final destination. However, the tobacco was taken to Salzburg, where it was processed and sold (New Europe Brussels 2006).

** Between 2010 and 2013, 2.0 million cigarettes were seized in 18 cars (quantity per seizure: 113,500); 660,400 cigarettes were seized in 6 vans (quantity per seizure: 110,100); and 3.5 million cigarettes were seized in 5 buses (quantity per seizure: 696,000).

REGULATION

The Austrian Government has adopted **few measures against the ITTP**. The Government has the legal duty to destroy all confiscated cigarettes, and the Federal Ministry of Finance publishes annual statistical reports on tobacco seizures.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities, through tracking and tracing and through the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Austria are the **Federal Ministry of Finance** (*Bundesministerium fur finanzen-BMF*), the **Federal Criminal Police Office** (*Bundeskriminalamt*), the **State Police Directorate** (*Landespolizeidirektion-LDP*) and the **Financial Police** (*Finanzpolizei*).

The quantity of cigarettes seized in Austria remained stable between 2010 and 2013 (Figure 8). However, cigarette seizures decreased remarkably between 2007 and 2010, dropping from 79 to 14 million sticks. In the same period, the ITTP volume decreased by 29%. The number of cigarettes seized reached **13 million sticks in 2013** (Map 2).

Top three seizures in 2013

A total of 5.4 million cigarettes were seized in Wiener Neustadt in March. The Financial Police discovered a depot of counterfeit Marlboro cigarettes. The investigators received this information from an anonymous complaint.

A total of 3.1 million cigarettes were seized in Vienna in February. Officers found counterfeit Marlboro cigarettes in a warehouse. The cigarettes arrived from an illegal facility in Europe and were destined for the Austrian illicit market. The owner of the warehouse was a Russian citizen.

A total of 743,000 cigarettes were seized in Vienna in May. Officers discovered illicit cigarettes on a private premises. The products originated in Ukraine and had Austria as their destination. Ukrainian and Armenian citizens were the owners of the premises.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased **by 45.4% in volume and by 47.6% in prevalence** (Figure 2 and Map 3).

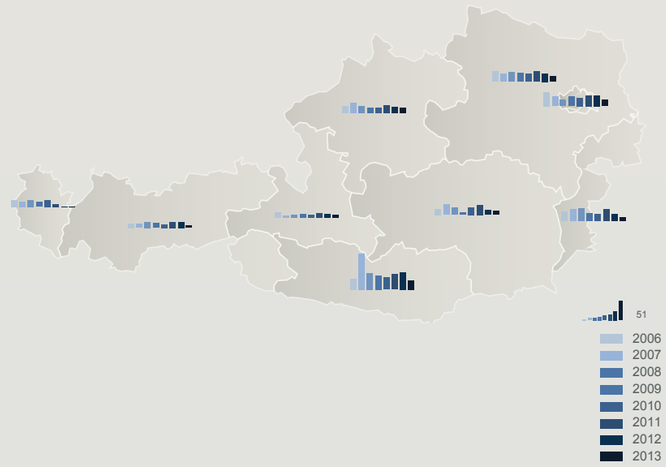
In terms of volume, the areas with the largest volumes of illicit cigarettes were Vienna, with an average yearly consumption of 392 million cigarettes in the period 2006–2013, Lower Austria (323), Carinthia (223) and Upper Austria (219). The trend in consumption in these areas drove the overall national ITTP.

Carinthia, located on the southern border with Italy and Slovenia, **was the area with the highest prevalence of illicit cigarettes in 2007 and thereafter**. In Italy, the price of cigarettes was higher than it was in Austria; therefore, smokers interested in saving on tobacco could not do so legally by purchasing across the border and thus may have turned to the illicit market. Burgenland, Vienna and Lower Austria were other areas where the prevalence was above the national average for almost the entire period (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes did not significantly change between 2006 and 2013 (Figure 4). The category other illicit cigarettes was the most common illicit product during the entire period in all of the Austrian areas. **Illicit whites almost disappeared from the market in 2007 and in 2008**; thereafter, their national market share ranged from 7% to 14%. Carinthia appears to have had a relatively high market share of illicit whites since 2009.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Carinthia

The high prevalence of illicit cigarettes in Carinthia may be related to the proximity of the area to the Slovenian border.
It is interesting that in 2013 the northern districts of **Wolfsberg and Sankt Veit an der Glan registered shares of non-domestic cigarettes (40.9% and 39.7%, respectively) higher** than those of the districts with larger areas bordering on Slovenia.
Hermagor was the only district in the area with a share of non-domestic cigarettes below 30.0%, confirming that Italy is not a major source of the ITTP, although this district **was the zone with the highest share of illicit whites (4.4% of the total consumption)** (Map 4).

Map 4. Prevalence of the ITTP and share of products in the districts of Carinthia (2013)
Source: Transcrime elaboration (details in the Annex)

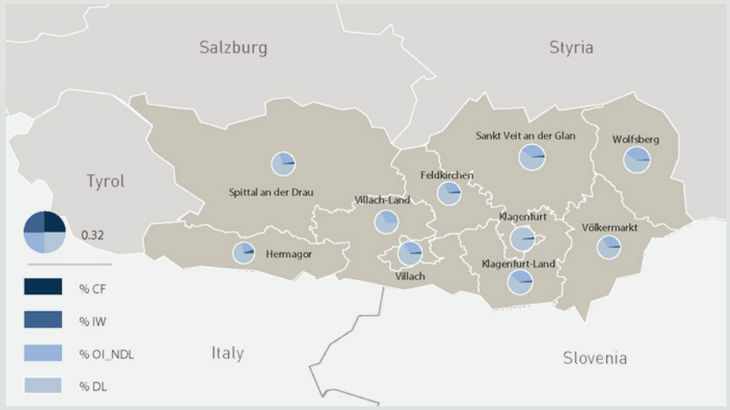
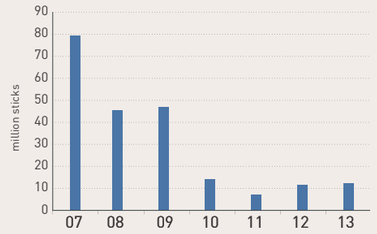


Figure 8. Cigarettes seized in Austria, million sticks (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Slovenian, Hungarian, Slovakian, Czech and German law enforcement agencies in order to tackle the inflows and outflows of illicit tobacco.
- Strengthening controls at the customs' checkpoints on the border with Italy and Slovenia (Carinthia area) and at checkpoints on the eastern border with Hungary and Slovakia (Lower Austria and Burgenland), which are key entry points of illicit tobacco.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on the possible membership of organised crime groups.
- Promoting awareness campaigns in Carinthia, where the illicit prevalence is double the national average.

Belgium

COUNTRY DATA

Capital City
Brussels

Surface (WB 2014)
30,530 km²

Total population (WB 2014)
11,195,138 (2013)

Borders
France, Germany, Luxembourg, Netherlands

Gross Domestic Product. € (Eurostat 2014)
382.7 billion (2013)

Liège Guillemins bridge, Liège

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

7.6%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

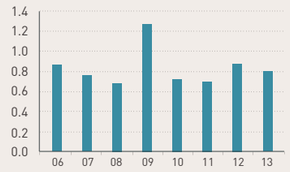


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

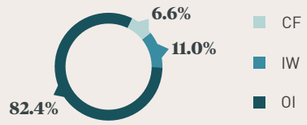
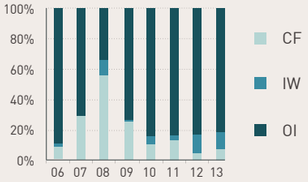
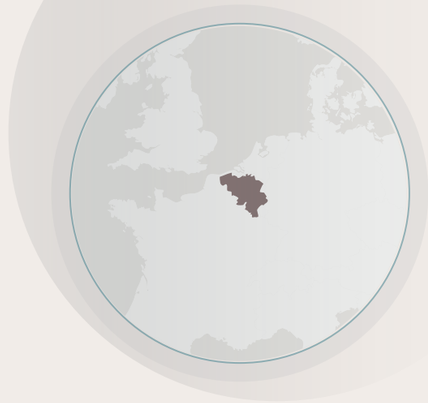


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates





THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

11.0

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

27.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

5.3

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

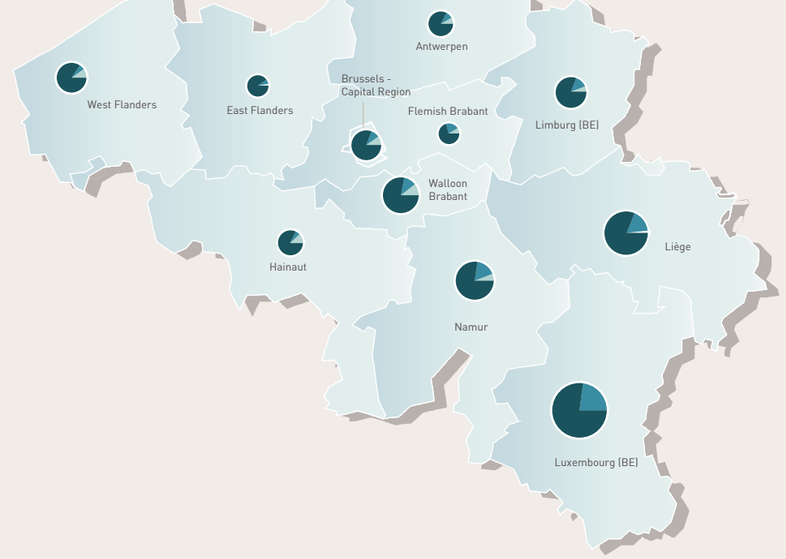
76.1%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

201.6

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **the level of the ITTP was 7.6% of the total cigarette market** (Figure 1). **Its distribution among Belgian areas was heterogeneous.** Out of 11 areas, four had a low, three a medium-low, three a medium-high, and one a high level of the ITTP (Map 2). Liège (152 million sticks) and Antwerp (87.8) had the largest illicit markets. Walloon Brabant, with 37.7 million sticks, had the smallest one.

The province of Luxembourg (BE) had the highest prevalence of illicit cigarettes (19.7 million sticks per 100,000 inhabitants). Its prevalence was more than twice the national average of 8.5 million sticks per 100,000 inhabitants. **Liège and Namur also had a relatively high prevalence of illicit cigarettes** (13.9 and 10.7, respectively). The northern part of the country — Flemish Brabant (4.1), East Flanders (4.3), and Antwerp (4.8) — was characterised by the lowest prevalence of illicit tobacco consumption (Map 1).

Between 2012 and 2013, the prevalence of illicit cigarettes increased in 6 out of 11 areas. The most remarkable decreases occurred in Hainaut (-56%) and in the province of Luxembourg (BE) (-57%). The prevalence of the province of Luxembourg (BE) diminished from 5.8 times to 2.8 times the national average; nevertheless, it remained the area with the highest prevalence. By contrast, Liège, with a yearly growth of +225%, registered the highest increase, becoming the area with the second-highest prevalence (Figure 5).

THE PRODUCTS

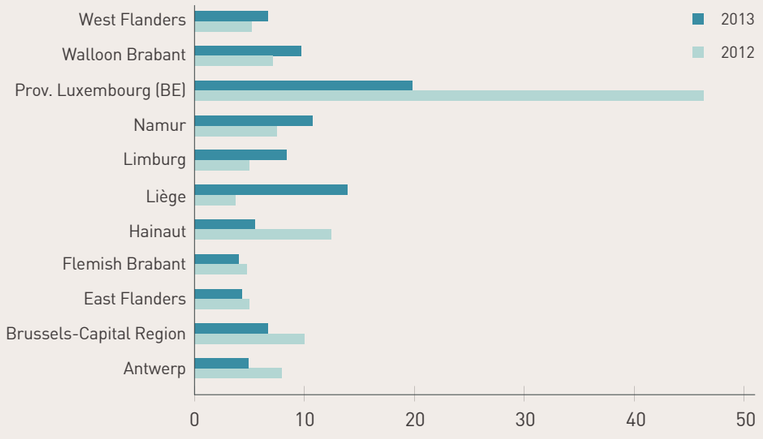
In 2013, **other illicit cigarettes were the most common illicit tobacco products** (82.4% of the illicit market) (Figure 3). Their share ranged from 71% in Flemish Brabant to 91% in East Flanders (Map 1).

The second most important type of illicit cigarettes was illicit whites (11.0% of the illicit market) (Figure 3). The share of illicit whites grew especially between 2011 and 2012, when it increased from 3.3% to 11.3% of the illicit market. In 2013, **their share varied** considerably **across the various illicit markets**. Hainaut and West Flanders, both with a share of 5.6%, had the lowest shares. The province of Luxembourg (BE) (22.8%) and Flemish Brabant (20.5%) had the highest ones (Map 1).

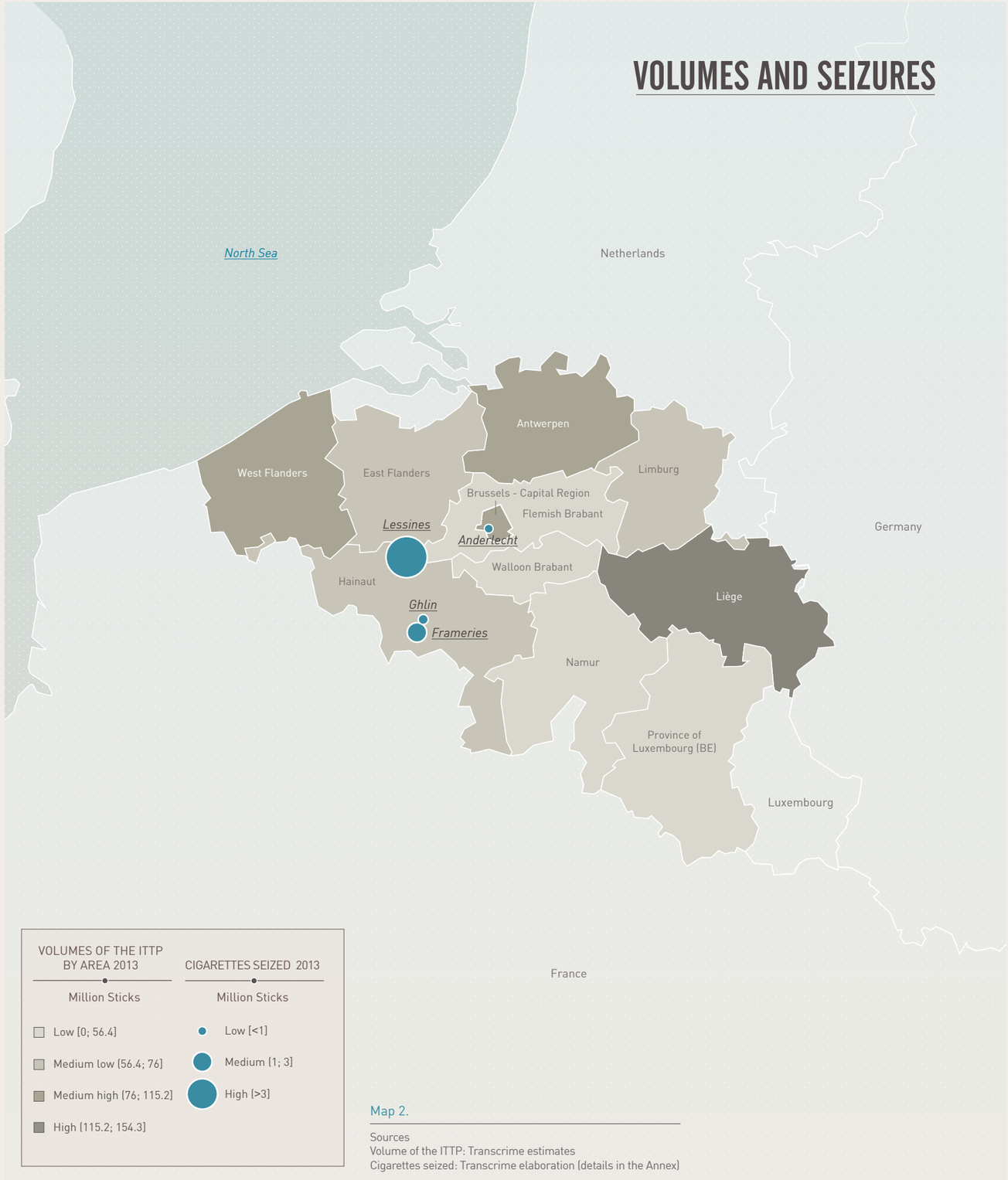
The third type of illicit cigarettes was counterfeits (6.6% of the illicit market) (Figure 3). **The share of counterfeits was heterogeneous among Belgian areas**. Smaller shares of 0%, 1.8% and 2.4% were registered in the province of Luxembourg (BE), Liège and East Flanders, respectively, and reached the higher levels of 16.3% and 11.6% in Walloon Brabant and Hainaut (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Belgium is mainly a starting point, and secondly a transit and an ending point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, Belgium appears to be primarily a **starting point** due to its lower cigarette prices compared with those of most of its bordering countries (PMI 2013a). Different illegal manufacturing facilities were discovered throughout the country (PMI 2013b). Moreover, Belgium is a producer of illicit whites, which are manufactured in Appelterre (located in the Flemish province of East Flanders) and illegally exported to foreign countries (KPMG 2014). Belgian illicit products are mainly distributed to **France**, **Ireland**, the **Netherlands** and the **UK** (Figure 6).

Belgium is also a **transit point** for illegal products intended for other European countries. The port of Antwerp is an important hub for maritime flows of both licit and illicit goods (Euromonitor International 2012b). The main **inflows** transiting through Belgium originate from **China**, **Greece** and the **United Arab Emirates**. Once in Belgium, the **outflows** are mainly destined for the **UK**, **France**, **Germany** and **Ireland** (Figure 7).

Belgium also has a role as an **ending point** (Figure 8). Flows intended for the Belgian market originate mainly from **China** and **Eastern European countries** (i.e., Belarus, Bulgaria, Poland, Russia) (see also KPMG 2014).

Illicit products are smuggled in, through, or from Belgium via **water** and **motor vehicles**. The key **entry points** are the **ports** of **Antwerp** and **Zeebrugge**, which receive large shipments from the Far East countries. Motor vehicles concealing illegal tobacco products arrive in the port of **Zeebrugge**, to be later embarked on ferries and reach the UK and Ireland. The vast majority of seizures on motor vehicles, headed for France, Germany and the Netherlands, occurred in **Arlon**, **Anderlecht** and **Ghlin**. A few cases of cigarette smuggling were detected on **air flights** at the airports of **Bierset** and **Zaventem**. In these cases, the flows originated from China and the United Arab Emirates, and reached Ireland and the UK.

Figure 6. Belgium as starting point (2010–2013).* N=24

Figure 7. Belgium as transit point (2010–2013).* N= 10

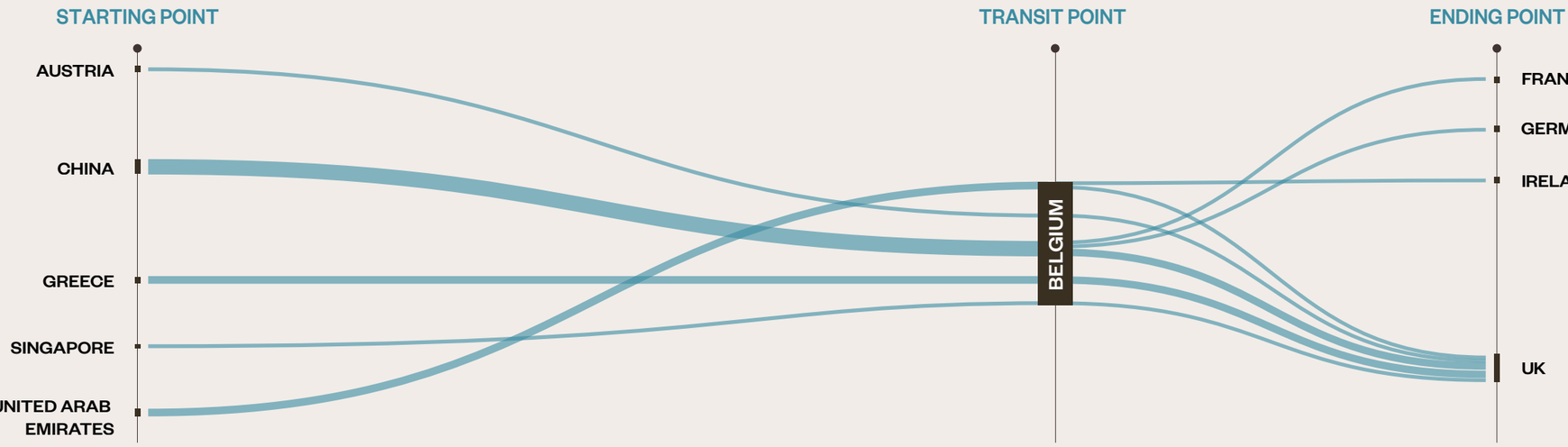
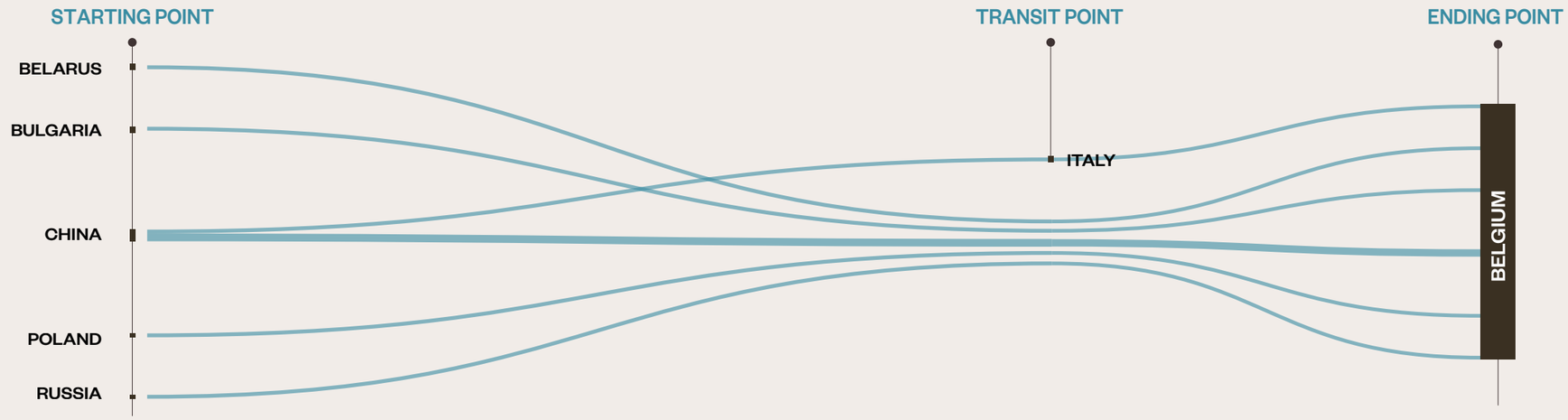


Figure 8. Belgium as ending point (2010–2013).* N= 7



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Belgian General Administration of Customs and newspapers reported 17 tobacco seizures involving 72 persons. At the beginning of the 2000s, the majority of smugglers were either **Belgian**, **British** or **Dutch** (Balcaen, Verpoest, and Vander Beken 2006). In the past four years, besides Belgians, smugglers have been mainly from Eastern Europe: **Poles**, **Moldovans** and **Bulgarians**. The ITTP in Belgium shows a clear, organised division of tasks among the actors involved. Smugglers are **generally employed** as truck drivers, business managers or employees of transport companies. Other smugglers supply **logistical support**, such as renting warehouses for tobacco storage (Balcaen, Verpoest, and Vander Beken 2006).

Tobacco products are mainly transported to Belgium by **car and truck**, sometimes via **containers** and **planes**. Maritime transport is used for **large-scale ITTP**. Indeed, large quantities of tobacco, between 1 and 8 million cigarettes, are concealed among legal goods inside containers (von Lampe 2005b). Cigarettes are generally stored on Belgian territory and then transported by truck to the destination markets (Sénat de Belgique 2006).

According to open sources and industry data, between 2010 and 2013, **four illegal manufacturing facilities** and their **warehouses** were raided in the cities of Liege, Seraing and Ghlin (PMI 2013b). Belgium is also a **source country for the production of illicit whites** (KPMG 2014).

REGULATION

The Belgian Government has adopted **some measures against the ITTP**. Cooperation between national customs and tobacco companies has been strengthened through a memorandum of understanding. A national action plan against the ITTP is in place, and some national public awareness campaigns against illicit cigarettes have also been conducted. Public data on the phenomenon are poor. Except for data on illicit tobacco seizures, no other data are available.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

Three bodies are involved in the fight against the ITTP in Belgium: the **General Administration of Customs and Excise** (*Administration générale des Douanes et Accises*), the **Federal Police** (*Police fédérale*), and the **Federal Public Service of Economy** (*FOD Economie*).

The quantity of cigarettes seized in Belgium fluctuated between 2007 and 2013 (Figure 9). After an increase in 2008 (from 148 to 212 million sticks), the number of cigarettes seized decreased by 40% in 2009 and by 9% in 2010. In 2011, cigarettes seizures increased by 78%, but in 2012, they decreased again (-33%). **In 2013**, officers seized **140 million sticks** (Map 2).

Top three seizures in 2013

A total of 25,200 kgs of tobacco in bales and **414,720 cigarettes** were seized in Ghlin (near Mons) in June. Officers of the Federal Police and Customs discovered an illicit cigarette manufacturing plant. The traffickers produced counterfeit Regal cigarettes intended for the British illicit market. Polish, Irish, Romanian and Moldovan people were arrested.

A total of 7.5 million cigarettes were seized in Lessines. Customs and Federal Police officers found illicit Capital, SK's and Palace cigarettes on a truck arriving from Spain and bound for the Netherlands. The driver of the vehicle was Greek.

A total of 1.4 million cigarettes and **8.3 kgs of tobacco** were seized in Frameries (near Mons) in October. Officers of the Police and Customs discovered an illicit cigarette manufacturing plant. The smugglers produced counterfeit Master cigarettes intended for the British illicit market. Polish and Bulgarian nationals were arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by 9% in volume and by 14% in per capita consumption (Figure 2 and Map 3).

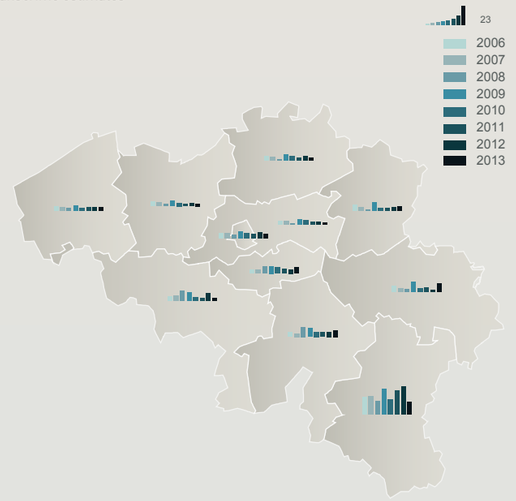
In terms of volume, the areas with the largest illicit cigarette markets were Hainaut, with an average yearly consumption of 116 million cigarettes in the period 2006–2013, Antwerp (110) and the province of Luxembourg (BE) (110).

The province of Luxembourg (BE), located on the border with France and Luxembourg, **had the highest prevalence of illicit cigarettes for the entire period**. The prevalence was not above the national average for almost the entire period in any other area.

Types of illicit cigarettes

The types of illicit cigarettes significantly changed between 2006 and 2013, even if other illicit cigarettes were the most common illicit products during the entire period with the exception of 2008. Indeed, the share of counterfeits grew significantly and reached its maximum in 2008 (54.7% of the illicit market). It then decreased until 2012, when it reached 4.7%. In 2013, it grew to 7%. Illicit whites also underwent a large increase in 2008, rising from 0% to 10% of the illicit market. After 2008, the proportion dropped again. It then began to grow constantly, rising from a share of 1.7% in 2009 to 11% in 2013 (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Belgian collection points

Analysis of the collection points highlights that Belgium's share of non-domestic cigarettes varies by area (Map 4). In 2013, the cities in eastern areas recorded a higher prevalence of illicit cigarettes than did the cities in the other parts of the country. This confirms that the Belgium's west border with Germany and Luxembourg is a hot spot for the ITTP. In particular, **the city of Arlon, close to the Luxembourg border, had a prevalence of non-domestic cigarettes that was almost triple the national average (44%)**. Also, the cities of **Liège (31.4%) and Hasselt (24.9%)** presented significant shares of non-domestics.

These concentrations indicate that these cities are the main hubs for the storage of the illicit products, as confirmed by the seizures and the presence of illegal warehouses.

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)
Source: Transcrime elaboration (details in the Annex)

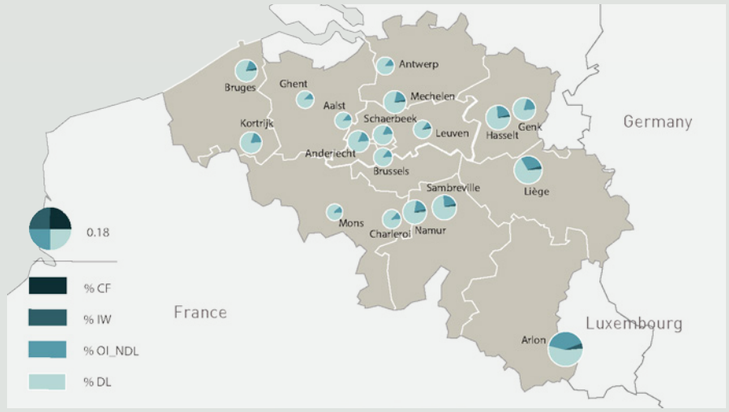
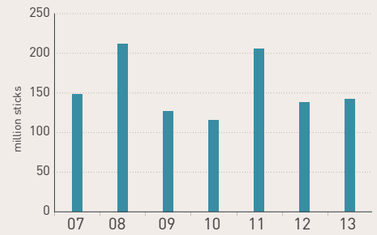


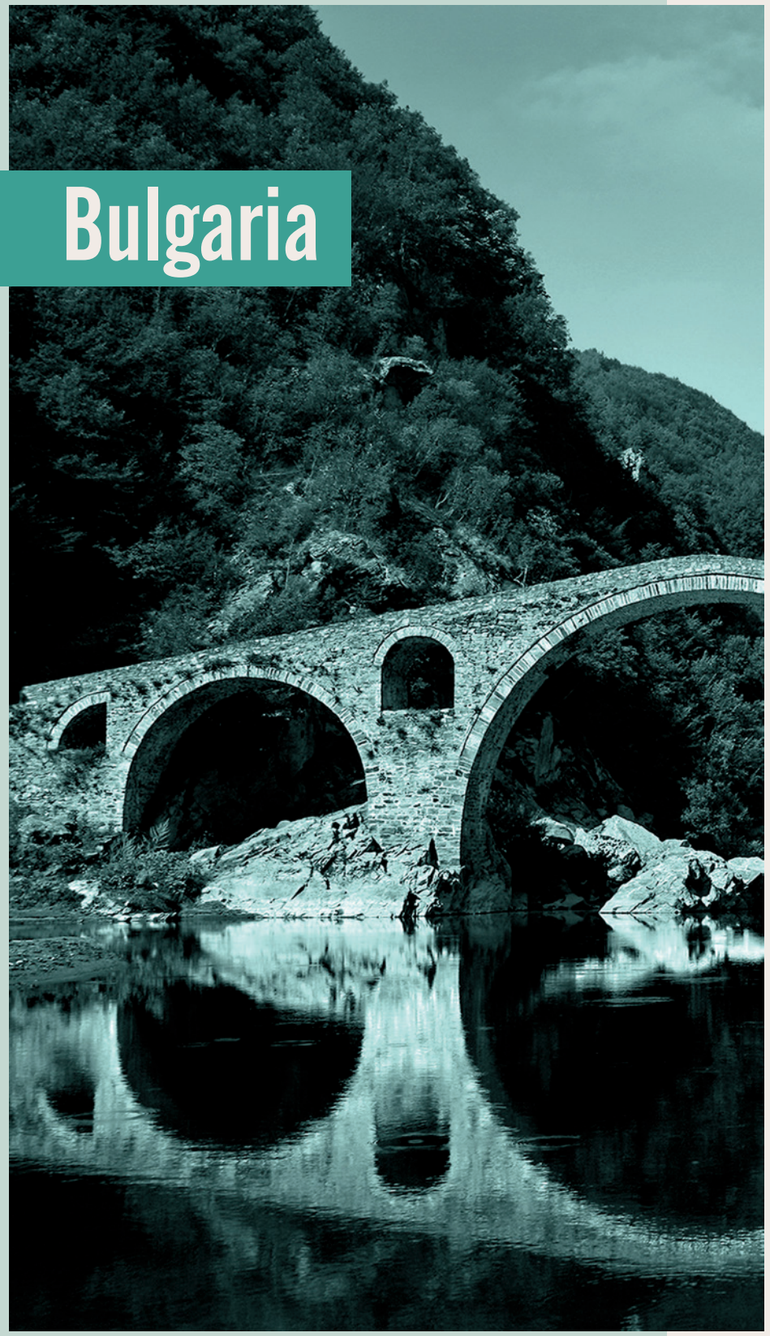
Figure 9. Cigarettes seized in Belgium, million sticks (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Dutch, German, Spanish, British, Irish and French law enforcement agencies in order to reduce tobacco outflows from Belgium.
- Strengthening controls in Belgian ports on the North Sea, particularly Antwerp and Zeebrugge, to tackle large-scale smuggling from China, Greece and the United Arab Emirates.
- Strengthening control over the inflow of tobacco raw components in order to dismantle local illicit manufacturing facilities and curb the local production of counterfeits and other illicit cigarettes.
- Promoting awareness campaigns in the province of Luxembourg (BE), where the illicit prevalence is well above the national average.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on possible membership of organised crime groups.
- Introducing an explicit legal duty to destroy all confiscated cigarettes.

Bulgaria



Devil's Bridge, Ardino

COUNTRY DATA

Capital City
Sofia

Surface (WB 2014)
111,000 km²

Total population (WB 2014)
11,195,138 (2013)

Borders
FYROM, Greece, Romania, Serbia, Turkey

Gross Domestic Product, € (Eurostat 2014)
39.9 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

18.2%

Figure 2. National volume of the ITTP, billion sticks (2007–2013)
Source: KPMG 2014

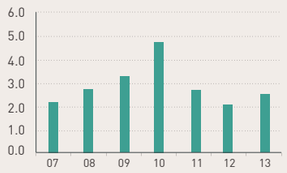


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

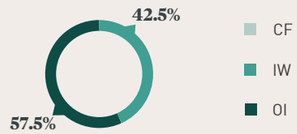
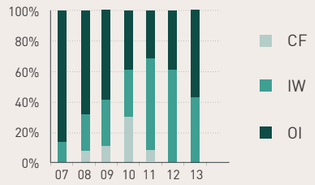


Figure 4. Share of illicit products, % (2007–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

11.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

39.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

2.2

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

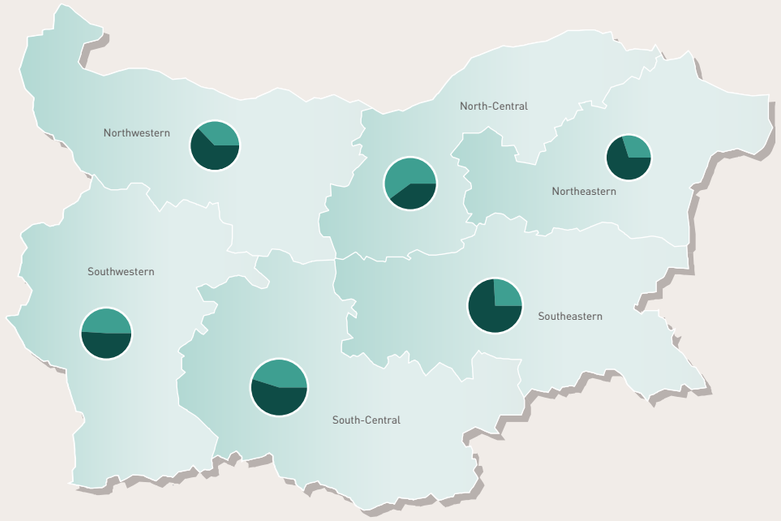
86.6%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

95.3

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

30 40

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

Bulgaria has the second cheapest cigarettes in the EU after Croatia; however, in 2013, **18.2% of the cigarettes consumed were illicitly purchased** (KPMG 2014) (Figure 1).

In 2013, **northern Bulgarian areas had a low volume of the ITTP, whereas the southern areas had medium-high and medium-low levels** (Map 2). The Southwestern (707 million sticks) and the South-Central (585) areas had the largest illicit markets.

The **South-Central area**, bordering on Greece and Turkey, **also had the highest prevalence of illicit cigarettes** (40.0 million sticks per 100,000 inhabitants). The **Southeastern, North-Central and Southwestern areas had relatively high prevalences of illicit cigarettes** (37.6%, 34.4% and 33.2%, respectively). The Northeastern area (27.7%) had the lowest prevalence of illicit tobacco consumption (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in 4 out of 6 areas** (Figure 5). The most remarkable increases occurred in the North-Central (+97%) and in the Northeastern (+64%) areas. The South-Central area decreased only by 0.04% so that the Northwestern area, with a drop of 7%, was the only exception.

THE PRODUCTS

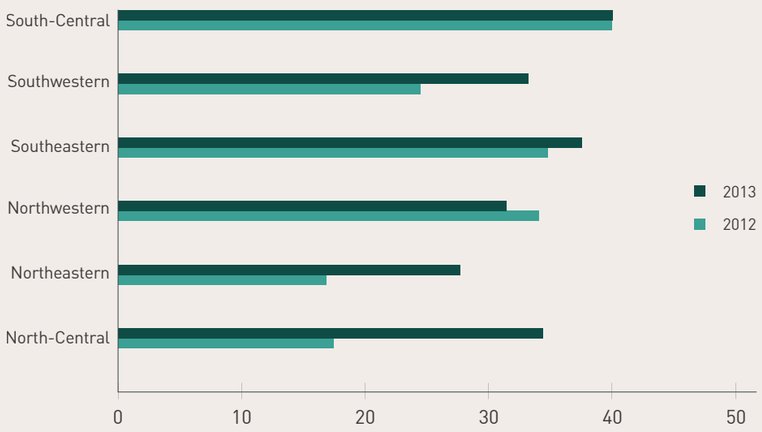
In 2013, **other illicit cigarettes were the most common illicit tobacco product** (57.5% of the illicit market) (Figure 3). The share of other illicit cigarettes ranged from 39.7% in the North-Central area to 74.2% in the Southeastern area (Map 1).

The second most important type of illicit cigarettes was illicit whites (42.5% of the illicit market) (Figure 3). The share of illicit whites constantly grew at national level from 2007 to 2012; it decreased by 16 pp between 2012 and 2013 (Figure 4). In the last year for which data are avaiable, **the share of illicit whites varied** considerably **across areas**. The Southeastern and Northeastern areas, with a share of 26% and 30% respectively, had the lowest shares. The North-Central area (60%) had the highest share. In 2012–2013, it had an opposite trend with respect to all of the other areas. In fact, the share of illicit whites almost doubled in the North-Central area (from 31% to 60%), whereas in all the other Bulgarian areas, it drastically dropped (with decreases ranging from -9% to -58%).

No perceptible consumption of **counterfeits** occurred in 2013 (Figure 3).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES

Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Bulgaria is mainly an ending point, and secondly a starting and a transit point, for the ITTP.

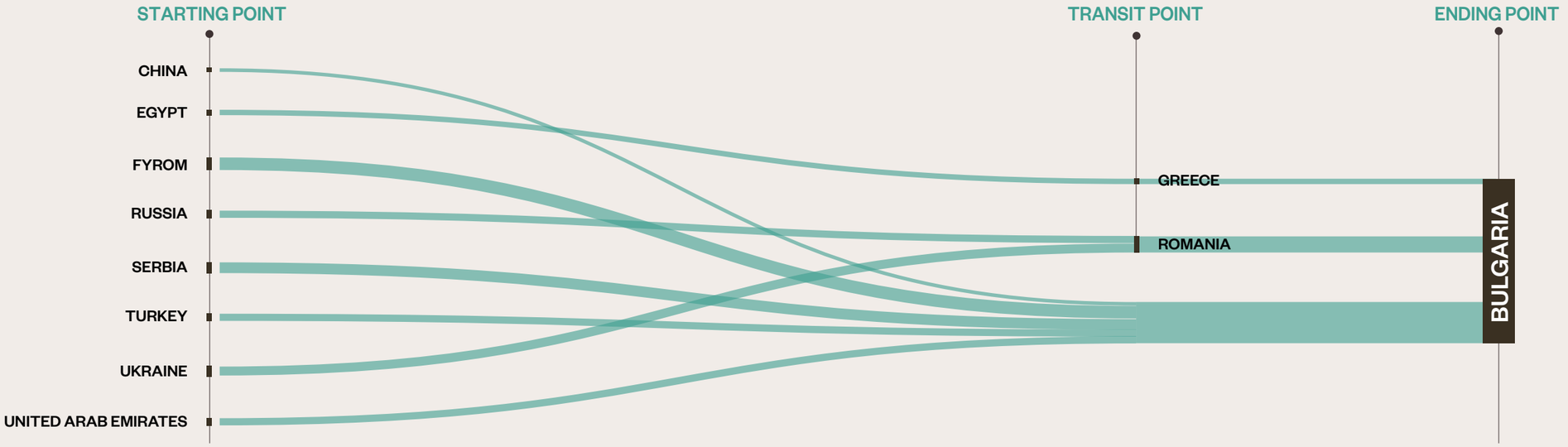
Considering the illicit flows recorded between 2010 and 2013, Bulgaria is primarily an **ending point** for illegal products coming from non-EU countries, mainly the **Former Yugolsav Republic of Macedonia (FYROM)**, **Serbia**, **Ukraine**, **Russia**, **Turkey**, **United Arab Emirates**, **China** and **Egypt** (Figure 6), due to relatively loose borders stemming from the end of visa requirements (CSD 2012; Loubeau 2012a; Euromonitor International 2013b). Indeed, Bulgaria has one of the highest shares of illicit cigarettes in total consumption (KPMG 2014).

Bulgaria is a **starting point** for tobacco products illegally exported mainly to **Greece**, **Romania**, **Belgium**, **France**, the **Netherlands**, **Spain** and the **UK** (Figure 7). In these countries, cigarette prices are higher than they are in Bulgaria. For instance, in October 2013, the cheapest brand was sold at €2.1 in Bulgaria, whereas it varied from €2.2 to €8.2 in the ending points (PMI 2013a). Moreover, several illegal manufacturing facilities were discovered throughout the country (PMI 2013b). Bulgaria was also a producer of illicit whites for the **Libyan and Turkish market** (UNODC 2009, 30; Melzer 2010; KOM Department 2012).

Bulgaria also has a minor role as a **transit point** for smuggled cigarettes coming from **Greece** and **Turkey** and directed to **Germany** and **Romania** (Figure 8) (see also Duarte Gomes Catarina 2013).

Illicit products are smuggled in, through, or from Bulgaria mainly by **motor vehicle** and **water**. The main **entry points** are located along the **western borders** with the FYROM and Serbia, and along the **southern borders** with Greece and Turkey. In 2010-2013, the vast majority of cigarette seizures on motor vehicles occurred in **Kulata** (on the border with Greece), **Kapitan Andreevo** (Turkey), **Gyueshevo** (FYROM), **Kalotina** and **Vidin** (Serbia). In the port of **Vidin**, which lies on the Danube River, motor vehicles arrive to be later embarked on ferries. In the port of **Varna** on the Black Sea, cigarettes arrive concealed in large shipments from China and the United Arab Emirates. A few cases of cigarette-smuggling on **trains** were discovered in the village of **Kalotina.**

Figure 6. Bulgaria as ending point (2010–2013).* N=35



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Bulgaria as starting point (2010–2013).* N= 20

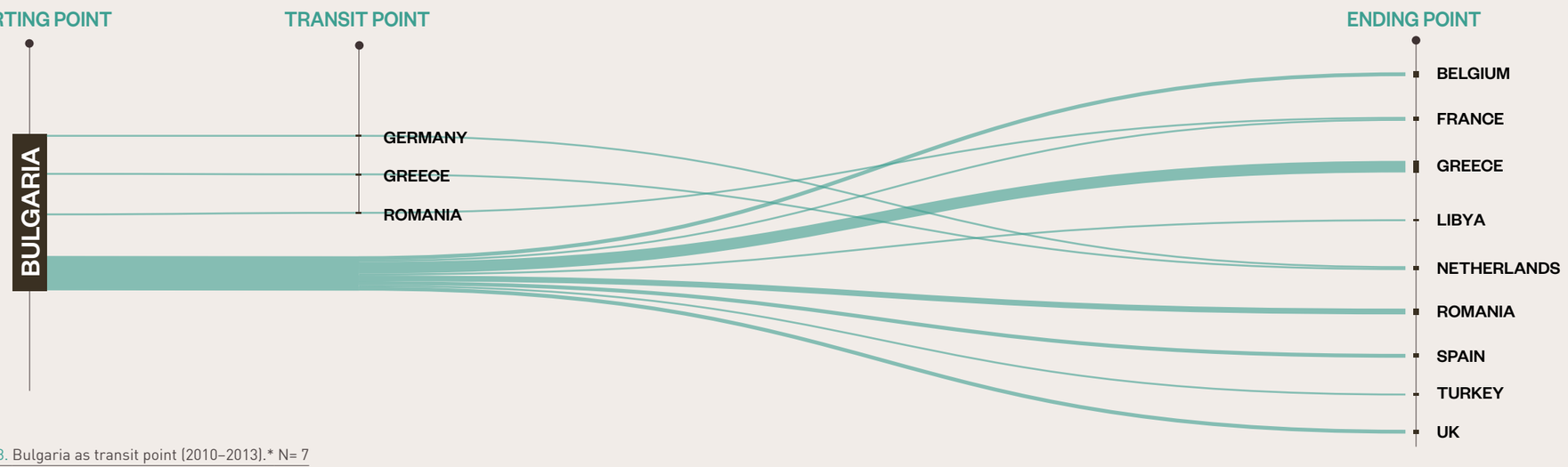
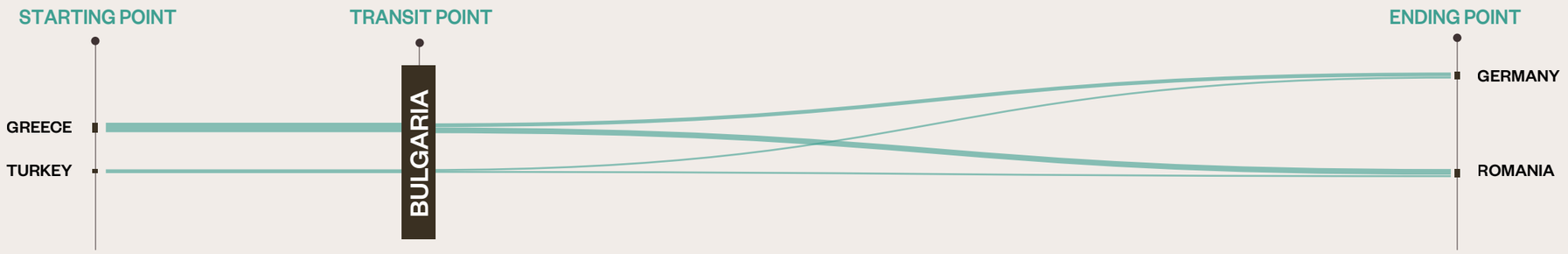


Figure 8. Bulgaria as transit point (2010–2013).* N= 7



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Bulgarian Customs and newspapers reported 96 tobacco seizures involving 200 persons. They were mainly **Bulgarians** and, in a smaller number of cases, **Spanish** and **Macedonians**. The majority of smugglers were between 31 and 40 years of age. In the majority of seizures, smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks. In Bulgaria, the FYROM and Serbia, there was an increase in the "**suitcase trade**", with individuals crossing Bulgarian national frontiers on foot, carrying suitcases stuffed with illicit cigarettes (Loubeau 2012a). However, evidence also exists that **corruption** and **organised crime** are linked to cigarette smuggling (Loubeau 2012b).

Cigarettes are transported to Bulgaria mainly by truck, **car** and **van**.**

According to open sources and industry data, between 2010 and 2012, **eight illegal manufacturing facilities** were raided, with a particular concentration in 2012. A greater density of illicit facilities was observed in northeastern Bulgaria, at the border with Romania — in the cities of Varna, Dobrotich and Levski — and in Central Bulgaria, in the cities of Plovdiv, Haskovo and Uzundzhovo (PMI 2013b).

** Between 2010 and 2013, 86.3 million cigarettes were seized in 26 trucks (quantity per seizure: 3.3 million); 2.1 million cigarettes were seized in 21 cars (quantity per seizure: 100,900); and 3.1 million cigarettes were seized in 6 vans (quantity per seizure: 516,500).

REGULATION

The Bulgarian Government has adopted **some measures against the ITTP**. There is a memorandum of understanding between national customs and tobacco companies, and the government imposes an explicit legal duty to destroy all confiscated cigarettes. Public data on the phenomenon are poor. Indeed, except for data on illicit tobacco seizures, no other data are available.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Bulgaria are the **Customs** (*Митници*), the **Border Police** (*Гранична полиция*) and the **National Police Service** (*Гранична полиция*).

The quantity of cigarettes seized in Bulgaria has decreased since 2010 (Figure 9). Cigarette seizures increased between 2007 and 2010 (from 19 to 250 million sticks). During the same period, the ITTP volume also increased constantly (+118%). Between 2010 and 2013, the number of cigarettes seized markedly decreased, reaching **44 million cigarettes in 2013** (Map 2). The ITTP volume also decreased during the same period (-48%).

Top three seizures in 2013

A total of 14 million cigarettes were seized in the port of Varna West at the end of December. Customs officers discovered Ruby Slim cigarettes without tax stamps in containers. The ship had arrived from Turkey and had been loaded in Dubai (United Arab Emirates). The receiver of the containers was a Bulgarian company.

A total of 5.1 million cigarettes were seized in Kulata, on the border with Greece, in early August. Border Police and Customs officers found Marble cigarettes without tax stamps on a truck. The Hungarian driver was travelling from Greece to Austria.

A total of 3.0 million cigarettes were seized in Kapitan Petko in April. Officers discovered different brands of illicit cigarettes concealed in a Bulgarian truck. The products were being transported from Greece to Bulgaria.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

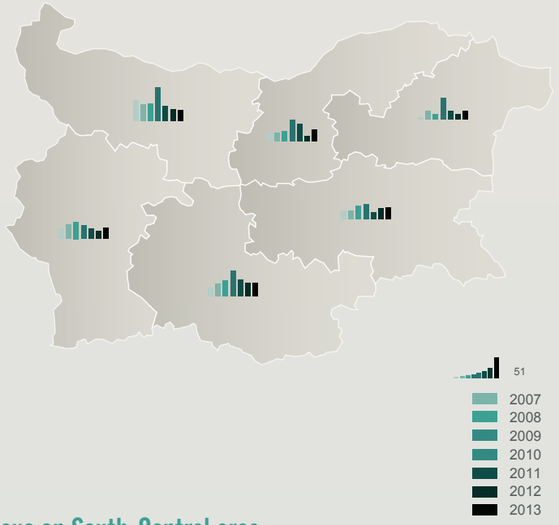
Between 2006 and 2013, the national ITTP increased by 15% in volume and by 21% in prevalence (Figure 2 and Map 3). In terms of volume, **most of this growth occurred between 2007 and 2010** (Figure 2). In those years, the Southwestern area registered the largest volumes of illicit cigarettes, with an average yearly consumption of 872.6 million cigarettes. After 2010, the national overall ITTP dropped, recording the minimum level in 2012 (2,080 million cigarettes). In 2013, the illicit cigarette market showed a slightly increase. The South-Central and Southwestern areas mainly drove the trend in consumption during these years. **The Northwestern area**, on the Black Sea and bordering on Romania, **featured the highest prevalence of illicit cigarettes until 2010. After 2010, the highest prevalence** of illicit cigarettes **moved toward the southern border**, in the South-Central and Southeastern areas.

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013 (Figure 4). In 2007, other illicit cigarettes were the most common illicit products (87%), whereas illicit whites accounted for the rest of the market. Thereafter, **the share of illicit whites grew constantly, peaking in 2011** (59.8% of the illicit market). After 2011, the level of illicit whites slightly decreased (in 2013, they constituted between 26% and 60% of the ITTP). Counterfeits followed a similar pattern, albeit at much lower levels. They were recorded for the first time in 2008. After that year, they began to grow, reaching a record peak in 2010 (29.7% of the illegal market), mainly due to large growth in the North-Central (64.9%), Northwestern (35.2%) and Northeastern (33.5%) areas**.** Therefter, counterfeits sharply dropped in all areas. In 2013, they were absent.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2007–2013)

Source: Transcrime estimates



A focus on South-Central area

The South-Central area had the highest prevalence of illicit cigarettes in Bulgaria (40.0 million sticks per 100,000 inhabitants).

Within this area, **Haskovo had the highest share of non-domestic cigarettes**. A total of 40.7% of the cigarettes collected in this city were not intended for the Bulgarian market.

Among them, other illicit cigarettes and legal non-domestic cigarettes constituted the largest category (Map 4).

The cities selected as collection points, however, are located far from the Greek and Turkish borders, the country's main entry points for the illicit products. This may lead to **underestimation of the actual level of the ITTP**.

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

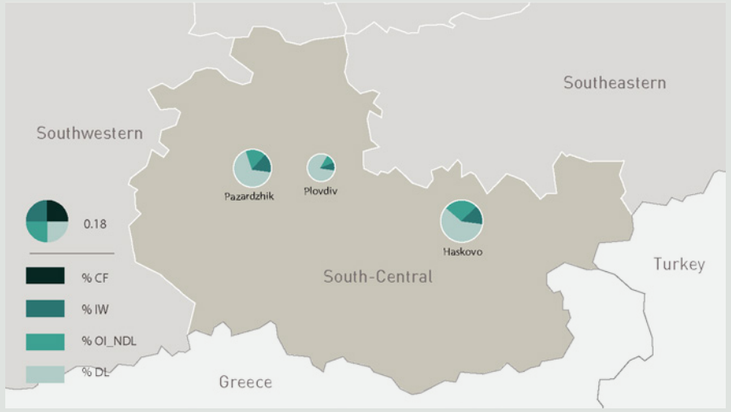
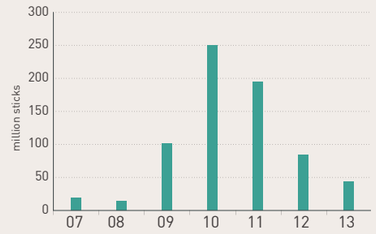


Figure 9. Cigarettes seized in Bulgaria, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Greek, Turkish, Serbian and Macedonian law enforcement agencies in order to reduce the vulnerability of the south-eastern and south-western borders.
- Strengthening control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on possible membership of organised crime groups.
- Promoting a national action plan against the ITTP in order to tackle illicit tobacco consumption in the country, among the highest in the EU.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country.

Croatia

Franjo Tuđman Bridge, Dubrovnik

COUNTRY DATA

Capital City
Zagreb

Surface (WB 2014)
56,590 km²

Total population (WB 2014)
4,252,700 (2013)

Borders
Bosnia and Herzegovina, Hungary, Montenegro, Serbia, Slovenia

Gross Domestic Product, € (Eurostat 2014)
43.1 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

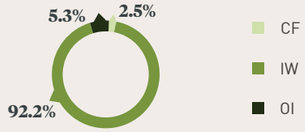
Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

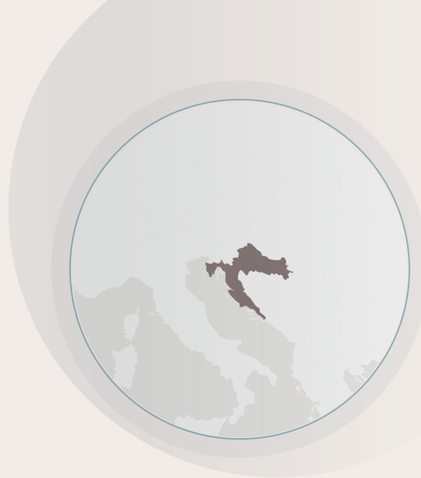
3.7%

Figure 2. National volume of the ITTP, billion sticks (2013)
Source: KPMG 2014

0.25

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates





THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

6.7

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

33.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

2.7

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

76.7%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

103.5

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates

Prevalence, million sticks per 100,000 inhabitants

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **the level of the ITTP was low in Croatia**. In fact, only 3.7% of consumed cigarettes came from the illicit supply chain (KPMG 2014) (Figure 1).

In 2013, **Continental Croatia had a medium-high level of the ITTP** (217 million sticks). **Adriatic Croatia had a medium-low level of the ITTP** (36 million sticks) (Map 2).

The prevalence was higher in Continental Croatia than in Adriatic Croatia. The consumption of illicit cigarettes was equal to 7.6 million cigarettes per 100,000 inhabitants in Continental Croatia. The prevalence of Adriatic Croatia was 2.6 million sticks per 100,000 inhabitants (Figure 4). Only 12 European areas had a prevalence lower than Adriatic Croatia.

THE PRODUCTS

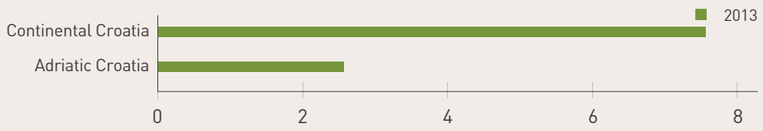
In 2013, **the most common illicit tobacco product was illicit whites** (92.2% of the illicit market) (Figure 3). **Continental Croatia had the highest share of illicit whites in the entire EU** (93.3% of the ITTP). Adriatic Croatia had a lower share (84.7% of the ITTP) and ranked fifth at the EU level (Map 1). Within the Croatian illicit cigarette market, cigarettes manufactured by TDR (Rovinj) were extremely widespread, but they were mostly intended for foreign markets.

The second most widespread type of illicit cigarettes was other illicit cigarettes, which accounted for only 5.3% of the national ITTP (Figure 3). The importance of other illicit cigarettes was higher in Adriatic Croatia (15.3% of the ITTP) than in Continental Croatia (3.8% of the ITTP).

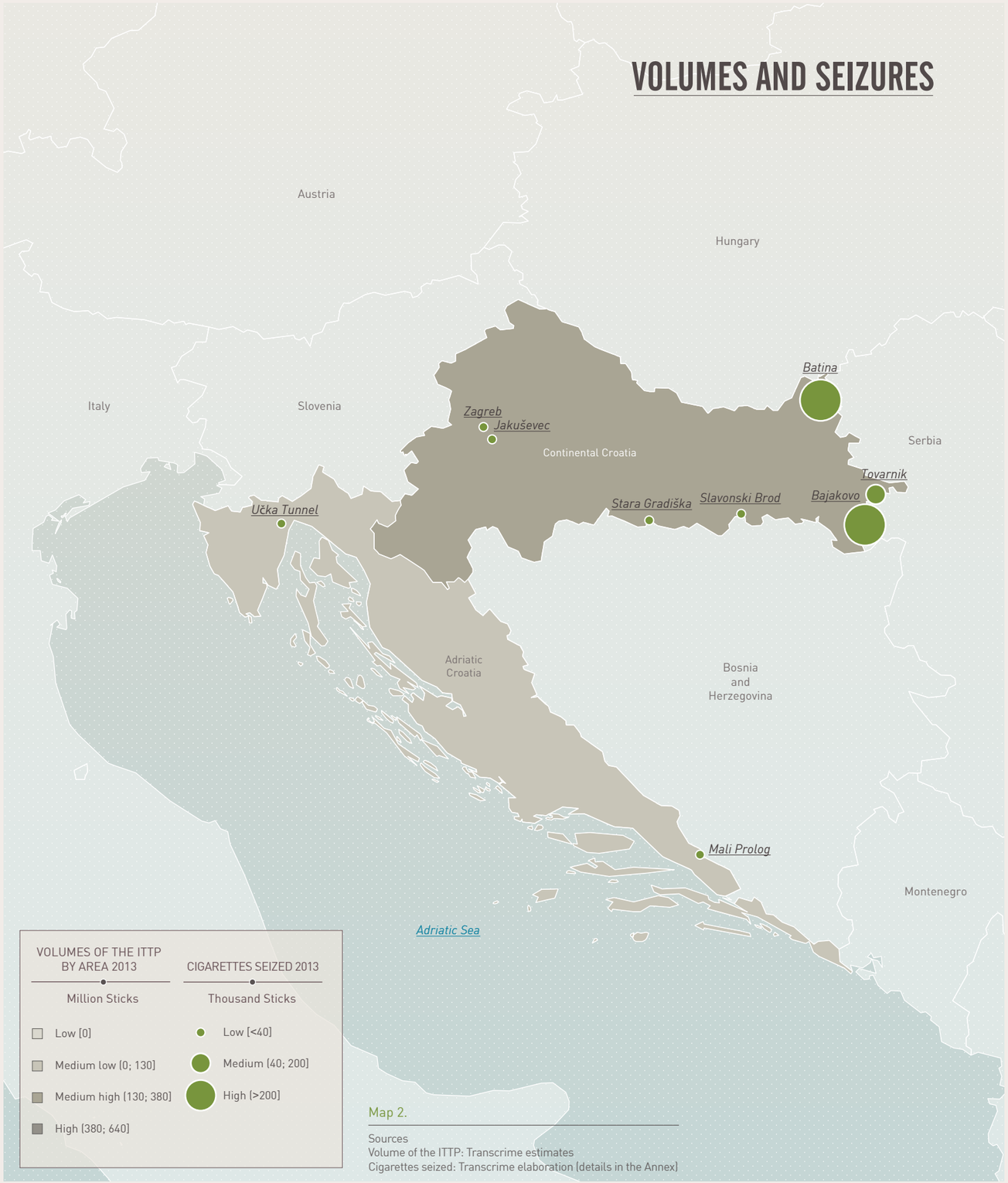
Counterfeit cigarettes were the third type of illicit products (2.5% of the national illicit market in 2013) (Figure 3). The role of counterfeits was marginal in Continental Croatia (2.9%). No consumption of counterfeit cigarettes was observed in Adriatic Croatia (Map 1).

Figure 4. Illicit prevalence by area, million sticks per 100,000 inhabitants (2013)

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Croatia is mainly an ending point, and secondly a transit and a starting point, for the ITTP.

The country records one of the lowest shares of illicit cigarettes in total consumption (Euromonitor International 2013c, 15; KPMG 2014). However, the illicit flows recorded between 2010 and 2013 reveal evidence of illegal cigarettes destined for the **Croatian market** and originating mainly from **Serbia**, **Bosnia and Herzegovina**, **Kosovo and Montenegro** (Figure 5). In these countries, cigarette prices are lower. For instance, in October 2013, the cheapest brand was sold at €2.1 in Croatia, whereas it cost less than or around €1 in the bordering **Balkan countries** mentioned (PMI 2013a).

Croatia is also a **transit** point due to its central location in the Balkan area, which divides Eastern and Western countries (Loubeau 2012a). The main **inflows** transiting through Croatia originate from **Serbia**, **Greece** and **Turkey**. Once in Croatia, the **outflows** are mainly intended for **Austria**, **Italy**, **Germany** and the **Netherlands** (Figure 6). Croatia is also a **starting point** for the production of illicit cigarettes. Indeed, several illegal manufacturing facilities were discovered throughout the country between 2011 and 2013 (PMI 2013b).

Illicit products arrive in, or transit through, Croatia almost exclusively by **motor vehicle**. Seizures on **motor vehicles** occurred mainly in the areas located along the **south-eastern border** with Serbia, Bosnia and Herzegovina and Montenegro, the main **entry points** for illicit cigarettes.

The vast majority of cases detected on motor vehicles along the border with Serbia occurred in **Bajakovo**, **Vukovar**, **Batina**, **Erdut** and **Tovarnik**. All these cities lie on the Danube river, which separates the two countries. The main entry points along the border with Bosnia and Herzegovina were **Slavonski Brod**, **Županja**, **Stara Gradiška**, **Maljevac**, **Slavonski Šamac** and **Dubrovnik**. Illegal cigarettes entering from Montenegro by motor vehicle were all intercepted in **Karasovići**. A few cases of illegal import were detected on international **trains** in the city of **Tovarnik**. The trains came from Serbia and were directed to Austria.

THE FLOWS

Figure 5. Croatia as ending point (2010–2013).* N=22

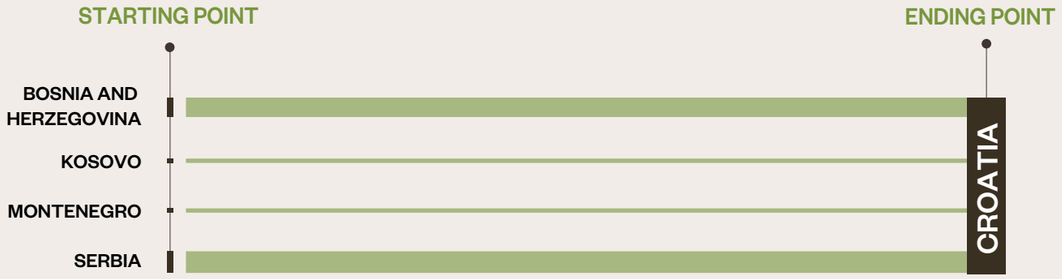
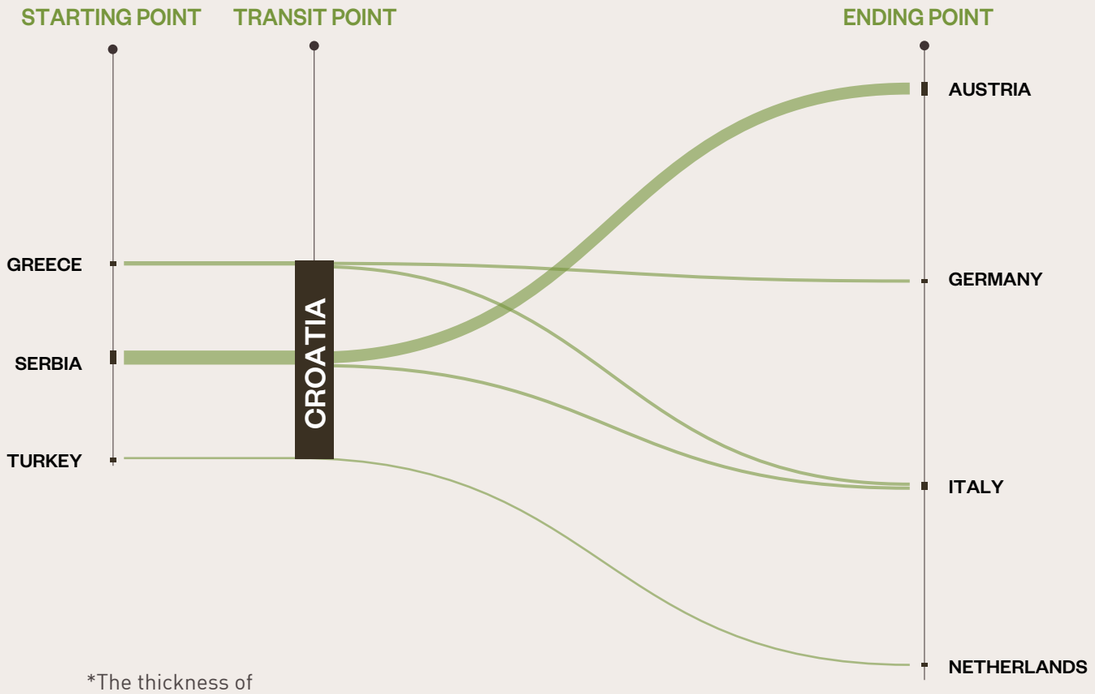


Figure 6. Croatia as starting point (2010–2013).* N= 9



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Croatian Customs Service and newspapers reported 331 tobacco seizures involving 381 persons, mainly **Croatians** (31%), **Serbians** (15%), **Bosnians** (13%) and **Bulgarians** (12%). Many Croatians living near the border with Bosnia and Herzegovina and Serbia cross the border to buy cheaper cigarettes. Despite the legal allowance of 10 packs per trip, a portion of these purchases may be illicit (Euromonitor International 2013d). In the majority of seizures, smugglers were alone at the moment of seizure. They may have been either individual bootleggers, or members of larger organised crime networks.

Tobacco was transported to Croatia mainly by car (61%), **truck** (17%) and **bus** (9%). On average, cars transported 24,000 cigarettes, trucks 141,700 and buses 38,900.** Six percent of seizures occurred in private houses and warehouses where the tobacco was **stored**.

Croatia is also a producer of illicit cigarettes. Indeed, between 2011 and 2013, **six illicit manufacturing facilities** were raided, mainly in the cities near the **border with Hungary** (Bakić, Pitomača, Slatina, Virovitica). One factory was dismantled in the capital city of Zagreb.

** Between 2010 and 2013, 3.8 million cigarettes were seized in 158 cars; 5.9 million cigarettes were seized in 42 trucks; and 854,900 cigarettes were seized in 22 buses.

REGULATION

The Croatian Government has adopted **few measures against the ITTP**. The Government has an explicit legal duty to destroy all confiscated cigarettes, and the Customs Service regularly publishes data on tobacco seizures.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Croatia are the **Customs Service** (*Carinska služba Republike Hrvatske*), the **Police Directorate** (*Ravnateljstvo policije*), and the **Service for Suppression of Corruption and Organised Crime** (*Ured za suzbijanje korupcije i organiziranog kriminaliteta-USKOK*). Croatia is not yet part of the Schengen area, and security checks are still performed at the borders with EU countries.

The quantity of cigarettes seized in Croatia has shown an increase in recent years (Figure 7). The highest increase was registered between 2012 and 2013 (+23%) (Map 2). It could be related to the adjustment of the tax level after the accession of Croatia to the EU (1st of July 2013). Indeed, the quantity of cigarettes seized grew significantly from July to December 2013.

Top three seizures in 2013

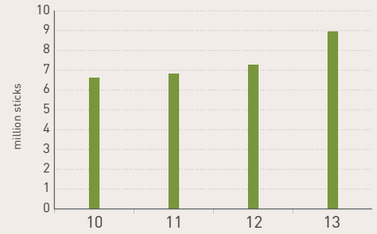
A total of 6.8 million cigarettes were seized during a criminal investigation carried out by the officers of the USKOK between March and November. An organised criminal group with 12 members, two of whom were police officers, were smuggling cigarettes from Bosnia and Herzegovina to Croatia.

A total of 549,800 cigarettes were seized in Batina in January. Customs service officers stopped a truck travelling from Greece (Athens) to Italy (Trieste) and discovered Jin Ling and Raquel cigarettes. The Greek driver was arrested.

A total of 250 kgs of tobacco were seized in Kutina in October. Police officers found tobacco in a car. The 25-year-old Croatian driver revealed that a man in Vivotika (Croatia) provided tobacco to be sold in Sisak (Croatia).

Figure 7. Cigarettes seized in Croatia, million sticks (2010–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation with non-EU countries by exchanging data with Montenegrin, Bosnian and Serbian law enforcement agencies in order to reduce the porosity of the southern and eastern borders, the main entry points of illicit tobacco.

- Strengthening control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes, especially in north-eastern Croatia.

- Enhancing the conduct of due diligence and promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country in order to prevent all suspicious transactions.

- Providing yearly public estimates on the size of the ITTP as well as yearly public data on tobacco seizures.

- Providing yearly public data on convictions for the ITTP and on the membership, if present, of organised crime groups.

Cyprus

COUNTRY DATA

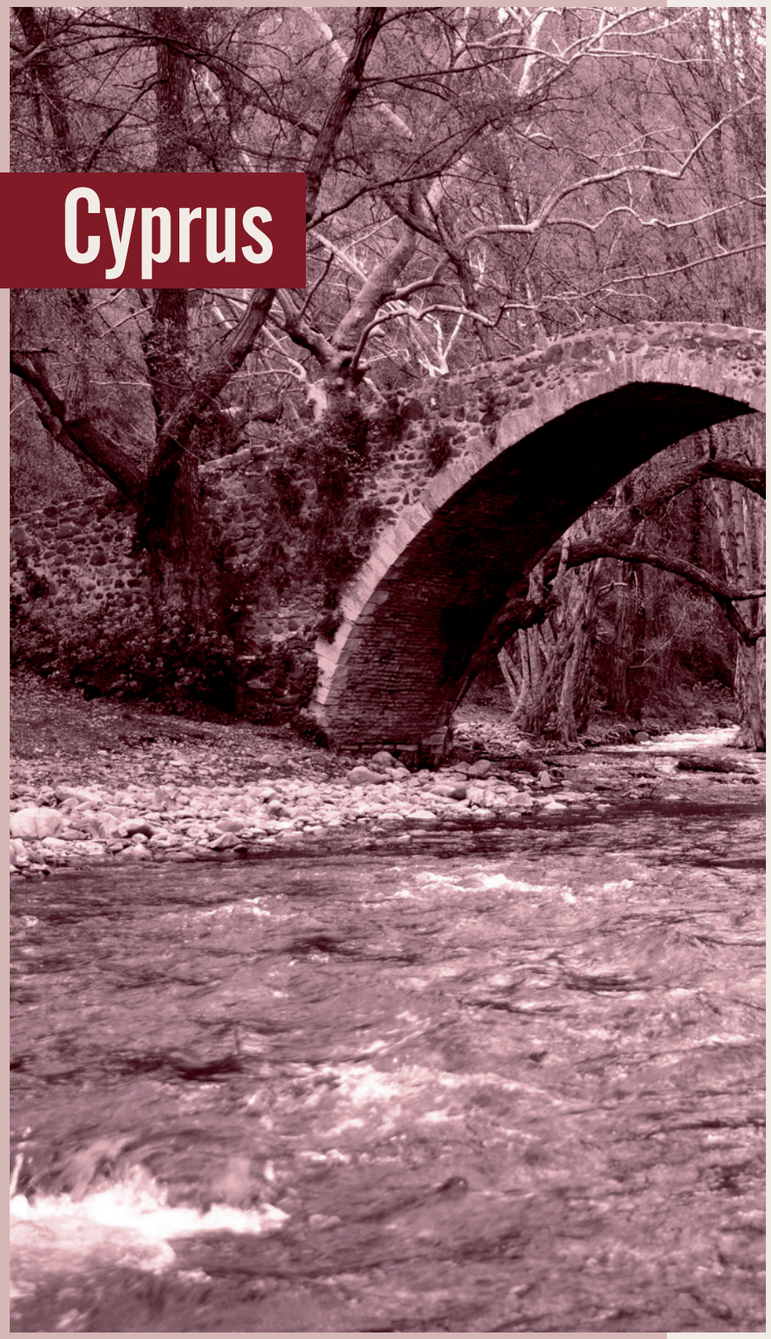
Capital City
Nicosia

Surface (CIA 2014)
5,896 km²

Total population (Eurostat 2014)
865,878 (2013)

Borders
-

Gross Domestic Product, € (Eurostat 2014)
16.5 billion (2013)



Kelefos Bridge, Paphos Mountains

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

4.5%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

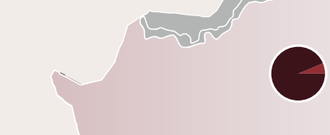
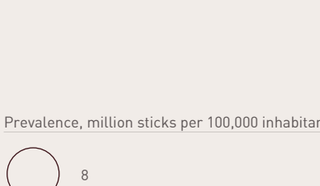


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

1.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

30.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

4.5

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

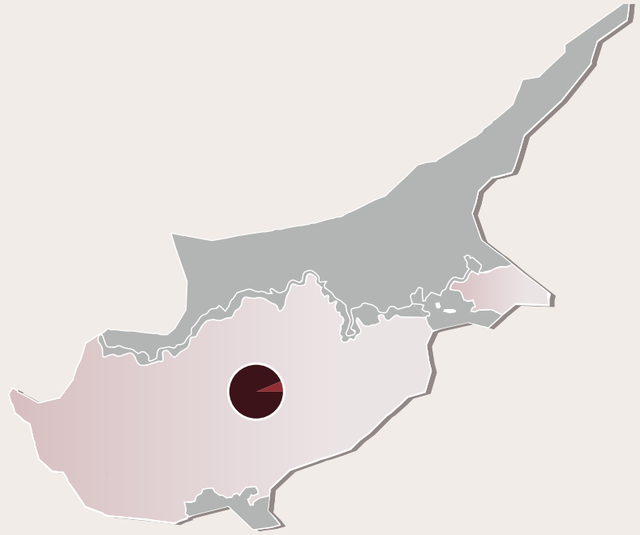
73.7%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

165.8

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, the illicit tobacco market in Cyprus reached a level of 67 million sticks (4.5% of the total cigarettes market) (KPMG 2014) (Figure 1). With respect to 2012, in terms of volume, it increased by 122% (Figure 2).

From 2012 to 2013, the prevalence of illicit cigarettes increased by 121%. Indeed, it rose from 3.5 to 7.7 million sticks per 100,000 inhabitants (Figure 5).

THE PRODUCTS

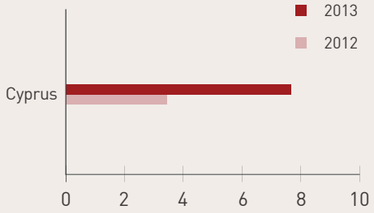
In 2013, **other illicit cigarettes constituted the most common illicit tobacco product** (93.6% of the illicit market) (Figure 3).

The second most important type of illicit cigarettes was **illicit whites, accounting for the remaining share of the illicit market** (6.4%).

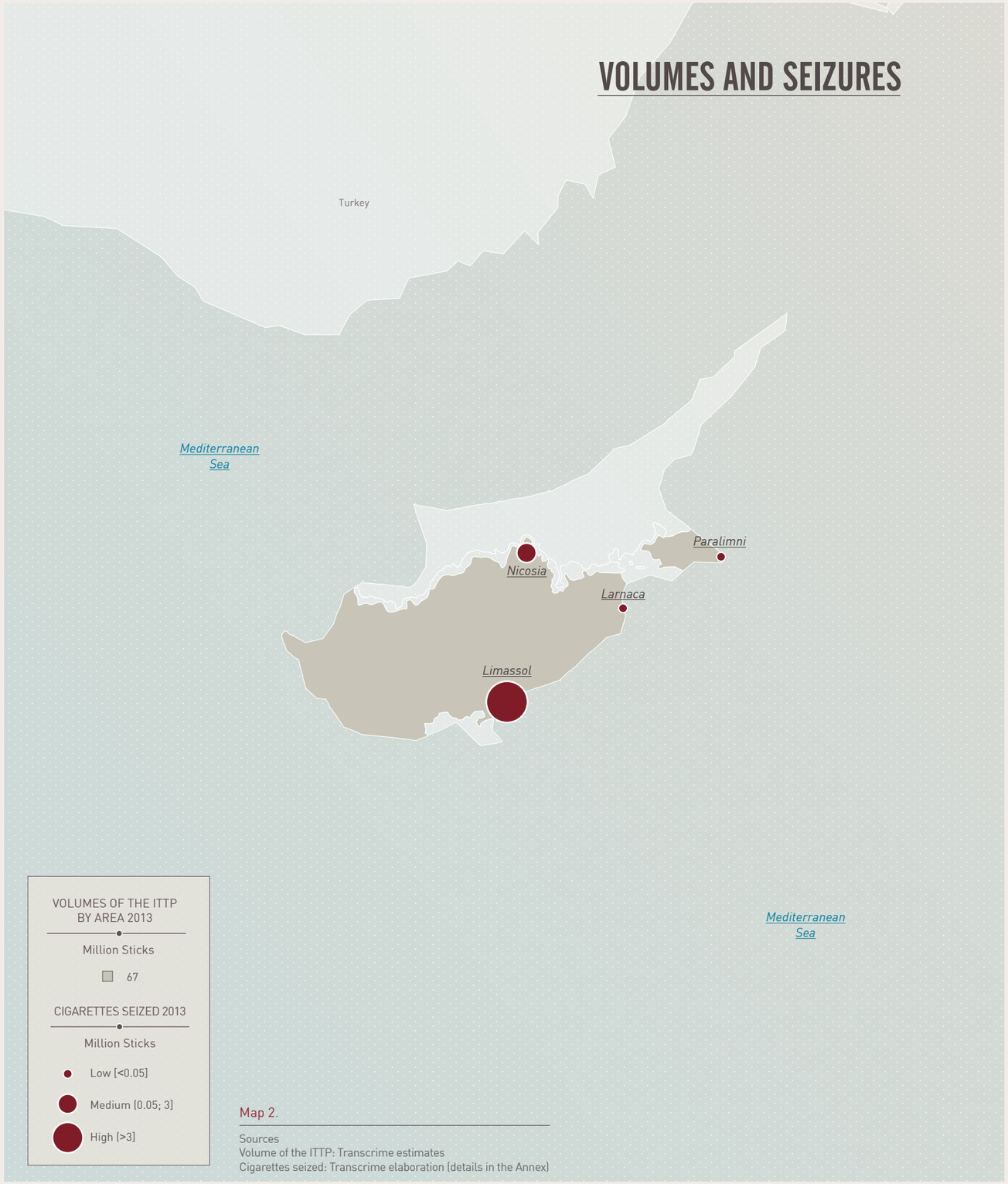
In 2013, **no trace of counterfeits was found** in the country (Figure 3).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Cyprus is mainly a transit point, and secondly an ending and a starting point, for the ITTP.

Cyprus is often used as a transhipment point before entry to the other EU countries. In some areas the EU law enforcement community has weaker cooperation arrangements, and the government does not have effective control (Europol 2011).

Considering the illicit flows recorded between 2010 and 2013, illicit tobacco products **transiting through Cyprus** originate from **China**, **Egypt**, **Russia** and **United Arab Emirates** and are mainly destined for **Bulgaria**, **Montenegro**, **Libya**, **Italy**, **Ireland**, **Spain** and the **UK** (see also ICIJ 2009, 18; KPMG 2014) (Figure 6). In some cases, **Greece** is also an ending point for illicit products transiting through Cyprus (Pappas 2013). Anti-smuggling operations showed that smugglers stored cigarettes in Cyprus and then moved them to Turkey and Europe (Melzer 2010; KOM Department 2012). Evidence also exists of an ongoing OLAF (European Anti-Fraud Office) investigation into cigarette smuggling **transiting through Cyprus towards Syria** (Doward and Fulford 2012; European Parliament 2012c; European Parliament 2013).

Data on illicit flows reveal that Cyprus is secondly an **ending point**. Illegal tobacco products intended for the Cyprus market originate mainly from **Bulgaria**, **Russia**, **China**, **Egypt** and **Saudi Arabia** (Figure 7).

Cyprus is also a **starting point**. In Larnaca, a tobacco manufacture produces illicit whites mainly exported to Greece (KPMG 2014).

Illicit products are smuggled into, or transit through, Cyprus mainly by **water**. Tobacco seizures occurred mainly in **Famagusta**, in the Turkish part of the island, **Larnaca** and **Limassol**. The few cases of seizures on **air flights** were registered in the **Larnaca** airport, one of the largest on the island. The flows originated from both Egypt and Cyprus and were directed to the UK.

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Cyprus Department of Customs and newspapers reported 10 tobacco seizures. Information on the persons involved revealed that they were mainly **Cypriot** and **British**. The involvement of British people can be explained by the presence of outflows intended for the British markets. In addition, British tobacco companies export more than 6 billion cigarettes to Cyprus every year, only for them to be smuggled back to Britain and sold on the black market (Denmark Media and Journalist University 2008).

In the vast majority of seizures, people were alone at the moment of seizure. However, in 2008 the involvement of organised crime in the ITTP was proved in a couple of cases. These criminal groups were facilitated by the complicity of some customs' officers (Gounev and Bezlov 2010, 94). In the past, tobacco smugglers tried to establish ties with politicians either by arranging to appear in public with them in order to show that they were well-connected or by blackmailing them to avoid prosecution (Denmark Media and Journalist University 2008). Cyprus is a **source country for the production of illicit whites** (KPMG 2014).

Tobacco products are transported to Cyprus mainly by **container**, sometimes by **boat** and by **ship**. In some cases, tobacco has been seized in **houses** and **warehouses** in **Limassol** and **Nicosia**.

REGULATION

The Cypriot Government has adopted **several measures against the ITTP**. The Government has an explicit legal duty to destroy all confiscated cigarettes as well as to provide public and yearly official estimates on the size of the ITTP. Furthermore, the annual reports of the Department of Customs provide public data on tobacco seizures and convictions for the ITTP.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

THE FLOWS

Figure 6. Cyprus as transit point (2010–2013).* N=8

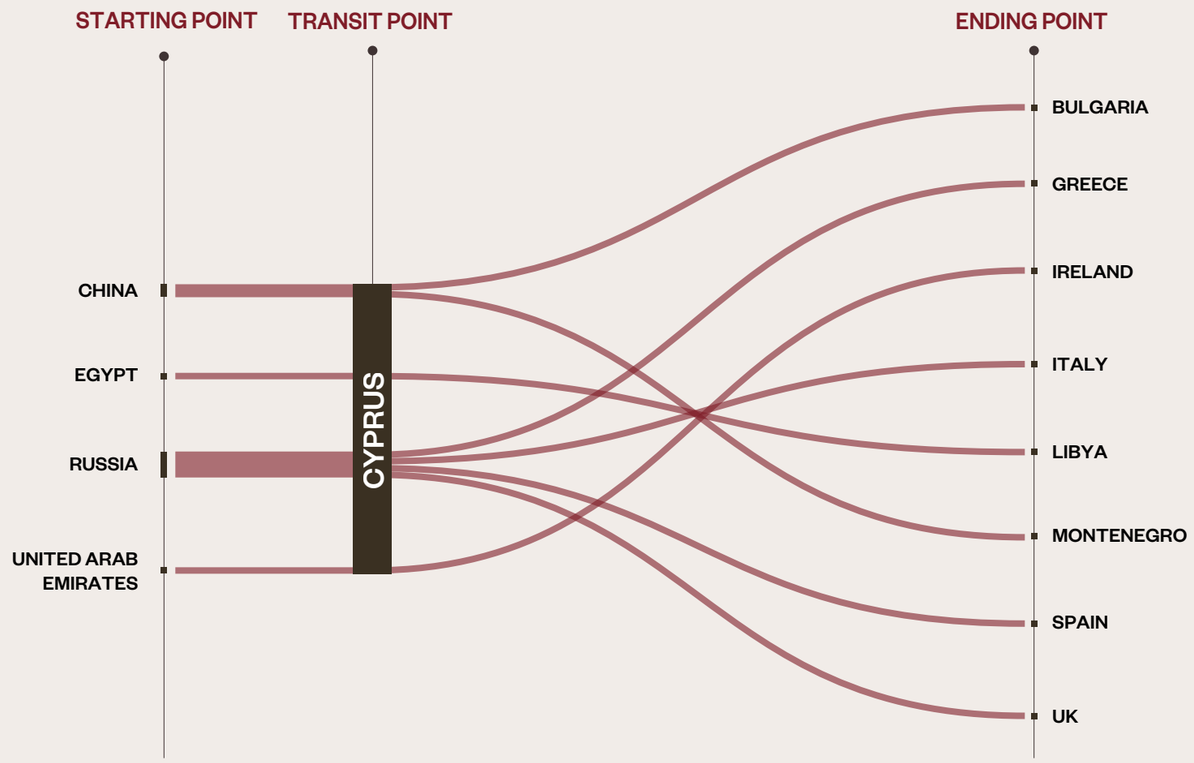
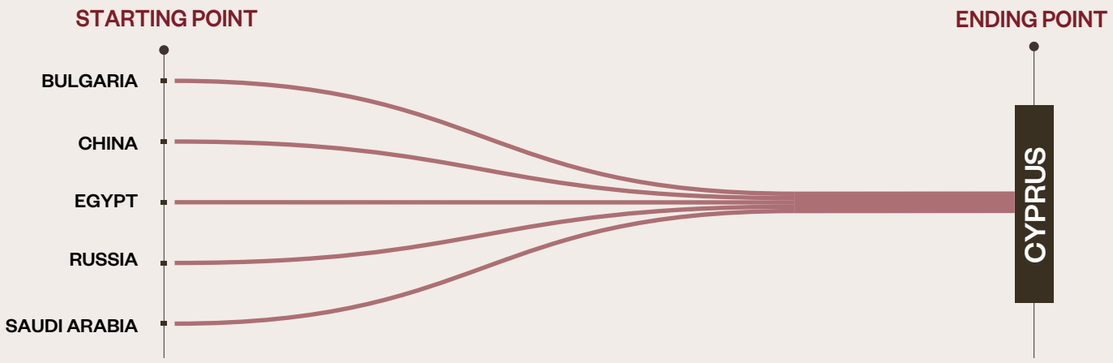


Figure 7. Cyprus as ending point (2010–2013).* N= 5



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

LAW ENFORCEMENT

Two bodies are involved in the fight against the ITTP in Cyprus: the **Department of Customs** (*Τμήμα Τελωνείων*) and the **Cyprus Police** (*Αστυνομία Κύπρου*).

The quantity of cigarettes seized in Cyprus shows a decreasing trend (Figure 8). In 2009, cigarette seizures amounted to around 29 million sticks, but between 2009 and 2010, they strongly decreased, reaching about 430,000 sticks in 2010. In the same period, the ITTP volume decreased by about 67%. By contrast, a strong increase was registered between 2012 and **2013**, when **6 million cigarettes** were seized (Map 2). This increase corresponded to an increase in the ITTP volume (+121.7% between 2012 and 2013).

Top three seizures in 2013

A total of 6,000 kgs of water pipe tobacco were seized in the port of Limassol in September. Customs officers inspected a container, arriving from Jebel Ali (United Arab Emirates) and bound for Cyprus.

A total of 3.5 million cigarettes were seized in the port of Limassol. Customs and Police officers discovered counterfeit cigarettes in two containers arriving from Egypt. The containers were transiting through Cyprus and were bound for Lebanon. A Syrian citizen, was arrested.

A total of 641,700 cigarettes and **6.3 kgs of raw tobacco** were seized in the port of Limassol. Police officers found illicit duty free cigarettes in a car. The owner of the vehicle was a Cypriot-Turkish national.

Figure 8. Cigarettes seized in Cyprus, million sticks (2009–2013)

Source: Transcrime elaboration (details in the Annex)

MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Bulgarian, Montenegrin, Italian, Irish, Spanish, Greek and British law enforcement agencies in order to reduce the outflows of tobacco.
- Strengthening controls in the Cyprian ports of Limassol, Larnaca and Famagusta to tackle illicit flows from China, Egypt, Russia, Saudi Arabia and the United Arab Emirates.
- Providing yearly data on convictions for the ITTP and on the possible membership of organised crime groups.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 189% in volume and by 156% in per capita consumption (Figure 2 and Map 1).

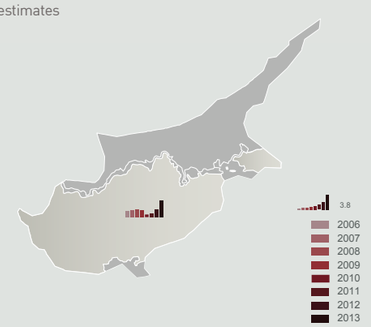
Most of this increase occurred between 2012 and 2013. The trend of the ITTP remained stable until 2009. In 2010, it showed a significant decrease, reaching its minimum level of nine million sticks. Thereafter, the ITTP began to grow at an increasing rate, reaching a record in 2013 (67 million sticks) (Figure 2).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013 (Figure 4).
Initially, counterfeits were the most common type of illicit products (70.1% of the illicit market), and there was no sign of illicit whites.
In 2007, the market changed: other illicit cigarettes became the most common type of illicit products, whereas the share of counterfeits fell by 58% in one year.
Since 2008, counterfeits have disappeared from the country.
The first illicit whites were recorded in 2009, reaching a record share in 2010 (40.3% of illicit market). Subsequently, they steadily decreased until 2013, when they accounted for 6.4% of the illicit market.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



Czech Republic

Charles Bridge, Prague

COUNTRY DATA

Capital City
Prague

Surface (WB 2014)
78,870 km²

Total population (WB 2014)
10,521,468 (2013)

Borders
Austria, Germany, Poland, Slovakia

Gross Domestic Product, € (Eurostat 2014)
149.5 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

3.1%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

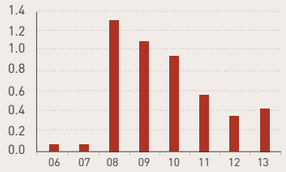


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

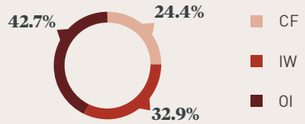
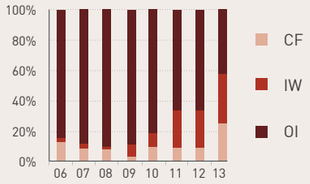


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

19.7

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

36.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

2.7

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

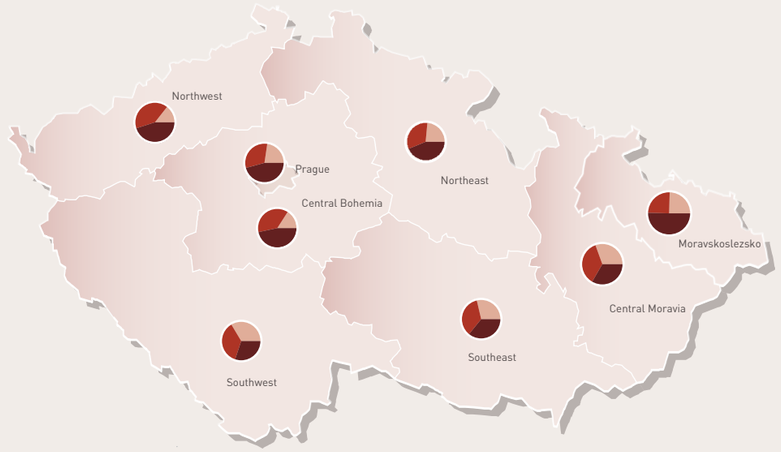
78.5%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

106.4

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **the overall level of the ITTP was 3.1% of the total cigarettes market** (KPMG 2014) (Figure 1). The eastern part of the country recorded a medium-low volume of the ITTP, and the western areas a low level (Map 2). The **Southeast had the largest illicit market, with an annual consumption of 68.5 million sticks**. Moravskoslezsko had the second largest illicit market (55.8 million sticks).

In 2013, **the overall prevalence of illicit cigarettes was homogeneous across Czech areas**; it ranged from 5.3 million sticks per 100,000 inhabitants in Moravskoslezsko to 4.0 million sticks in the Northeast. Moravskoslezsko borders on the Polish Silesia Province. The level of the ITTP and the illicit prevalence were considerably higher in Silesia Province than they were in the Czech Republic, and they may have had negative externalities on border areas. Northwest had the second highest prevalence (5.0 million sticks) and Central Moravia had the third (4.9 million sticks). Together with the Northeast, Central Bohemia reported the lowest prevalence: 4.3 million sticks per 100,000 inhabitants (Map 1).

Between 2012 and 2013, the prevalence of illicit cigarettes increased in all the Czech areas. The Southeast registered the most remarkable increase; its prevalence rose by 40.1%, from 3.4 million sticks per 100,000 inhabitants to 4.8 million sticks. The prevalence of Moravskoslezsko grew by 32.0%, making this area the one with the highest prevalence (Figure 5).

THE PRODUCTS

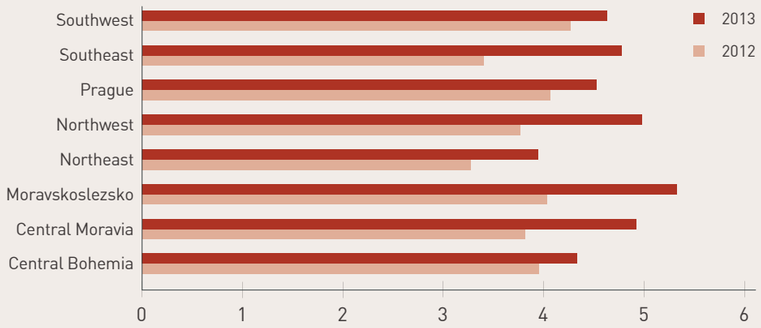
In 2013, **the most common illicit tobacco product was other illicit cigarettes** (42.7% of the illicit market) (Figure 3). Moravskoslezsko had the highest share of other illicit cigarettes within its ITTP; it was the only area where these products accounted for more than a half of the illicit market (50.4%) (Map 1).

The second most important type of illicit cigarettes was illicit whites cigarettes (32.9% of the illicit market) (Figure 3). The Northwest had the largest share of illicit whites (40.1%). Moravskoslezsko had the lowest one (25.1%). **In the Czech Republic, legal cigarettes' prices were lower than in neighbouring countries**. This may have discouraged individual smugglers from trafficking genuine legal brands, thus favouring the diffusion of illicit whites.

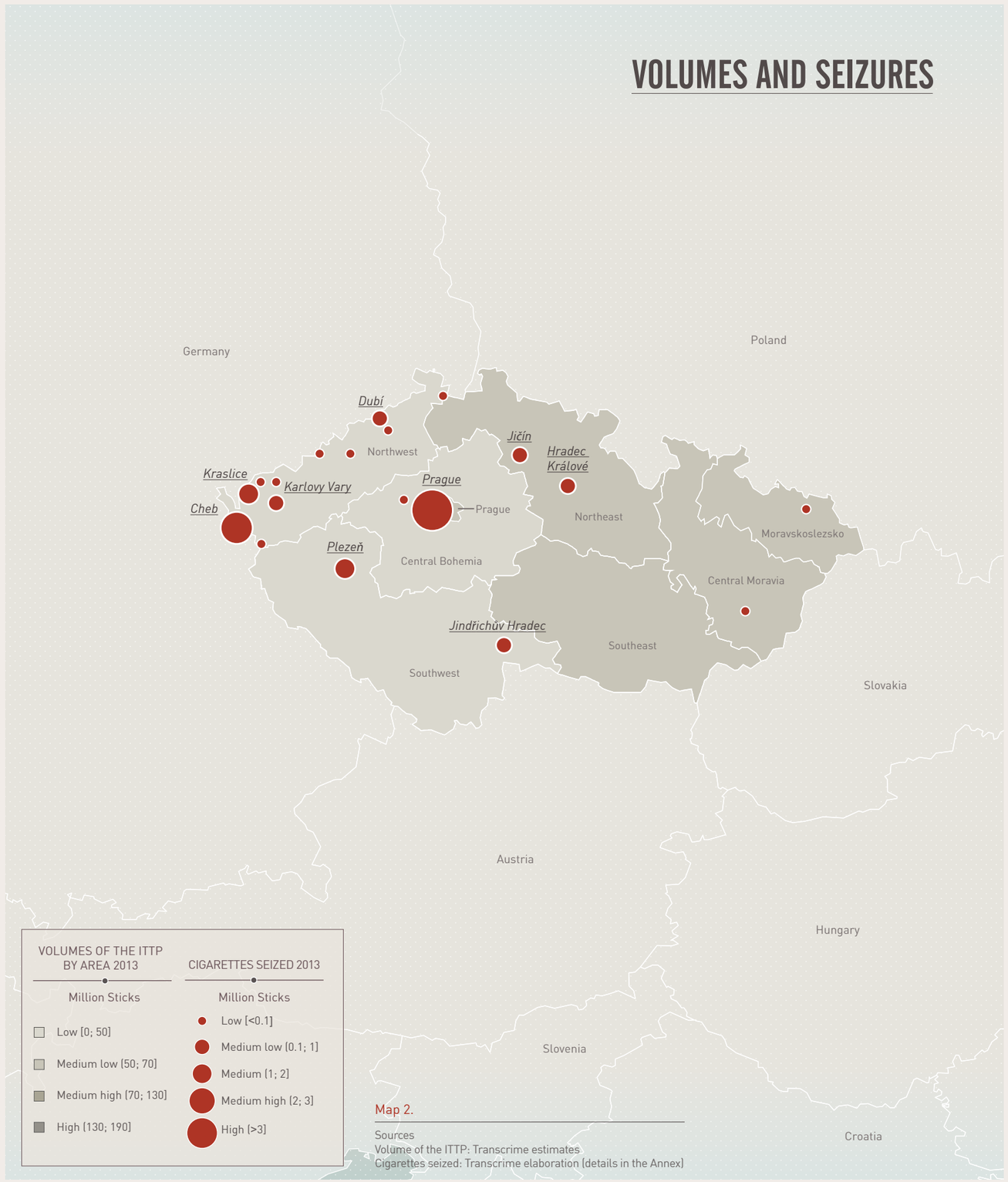
The third type of illicit cigarettes was counterfeit cigarettes (24.4% of the illicit market) (Figure 3). **Areas along the southern borders presented higher concentrations of counterfeits.** Indeed, the Southwest (33.5%) and Central Moravia (30.8%) had the highest shares of the ITTP. The Central and the Northwestern parts of the country presented the lowest shares (Prague 22.6%, Central Bohemia 16.0%, Northwest 14.7%) (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

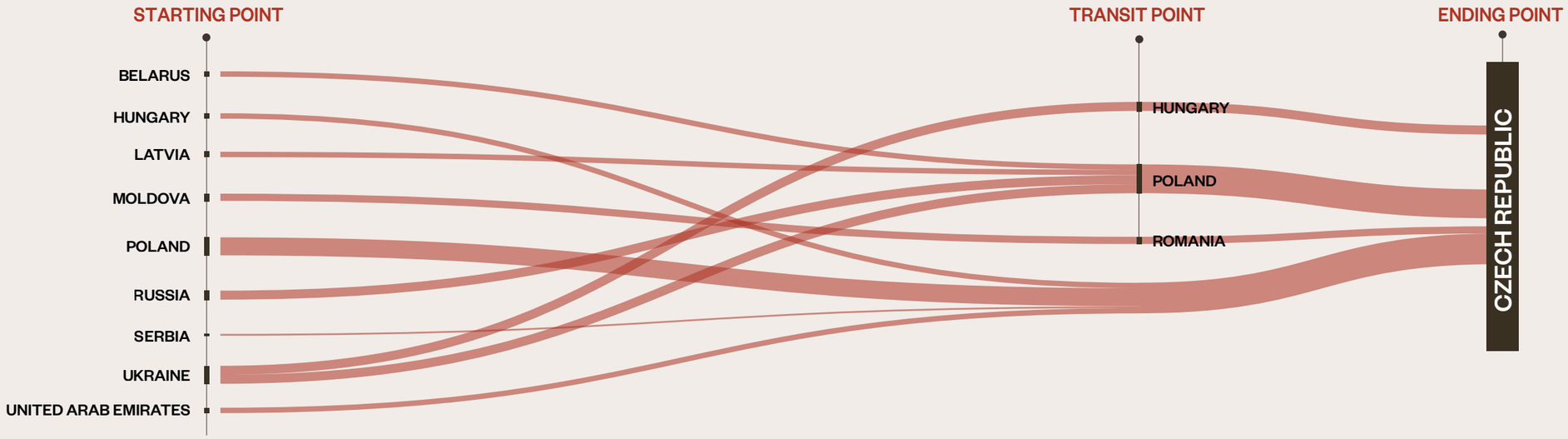
The Czech Republic is mainly an ending point, and secondly a starting and transit point, for the ITTP.

The country has one of the lowest shares of illicit cigarettes in total consumption in Europe (Euromonitor International 2013c, 15; KPMG 2014). However, the illicit flows recorded between 2010 and 2013 show that the Czech Republic is primarily an **ending point** for illegal tobacco products originating from **Poland**, **Russia**, **Ukraine**, **Hungary**, **Moldova** and **Belarus** (see also Junek 2011) (Figure 6). These countries generally have cigarette prices lower, than those in the Czech Republic. For instance, in October 2013 in Russia, Ukraine and Belarus, the cheapest brand cost less than €1 (from €0.3 to €0.6), whereas in the Czech Republic it was sold at €2.6 (PMI 2013a). **Serbia** is another starting point of illegal cigarettes (KPMG 2014).

The Czech Republic also has a minor role as a **starting** and **transit point** for illicit tobacco products intended for Western European markets, where cigarettes prices are higher. Several illegal manufacturing facilities were discovered throughout the country between 2010 and 2013 (PMI 2013b). The Czech products are mainly exported to **Germany**, **Austria**, **France** and the **Netherlands** (Figure 7). Products **transiting** through the Czech Republic come from **Poland** and **Ukraine**. The **outflows** are mainly intended for **Germany** and **Italy**, where smugglers benefit from a higher price differential (see also Euromonitor International 2013e) (Figure 8).

Illicit products are smuggled in, through, or from the Czech Republic mainly by **motor vehicles.** Tobacco seizures on motor vehicles have occurred mainly in **Prague**, **Olomuc**, **Cheb**, **Brno**, **Karlovy Vary**, **Decin** and **Havirov**. A few attempts to import cigarettes illegally have been detected on international **trains** from Poland and Russia at the **railway stations** of **Prague, Ostrava** and **Otrokovice**. Cases of cigarette smuggling have also been discovered at the **airports** of **Prague** and **Ostrava**, where passengers arrive from Arabic countries, such as Iran and the United Arab Emirates.

Figure 6. The Czech Republic as ending point (2010–2013).* N=37



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. The Czech Republic as starting point (2010–2013).* N= 11

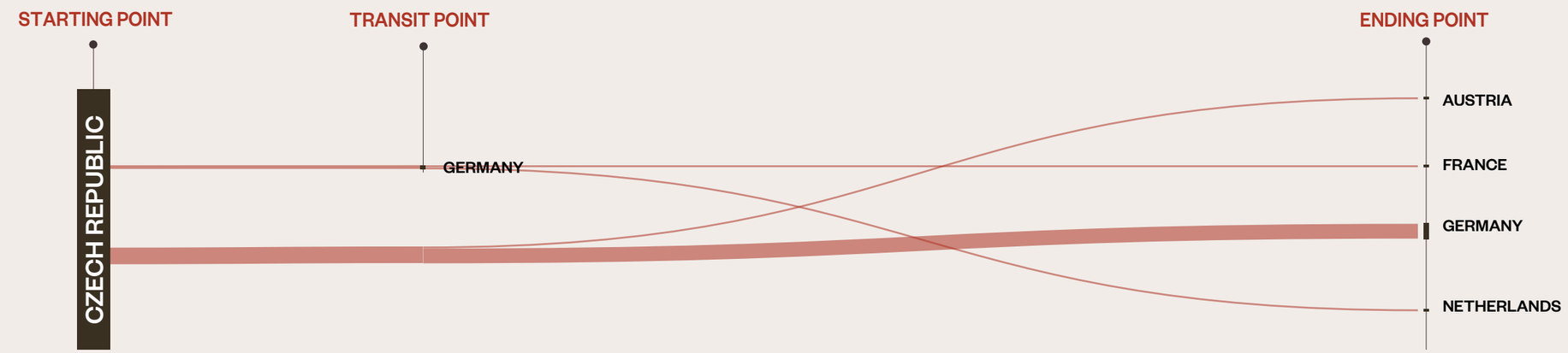
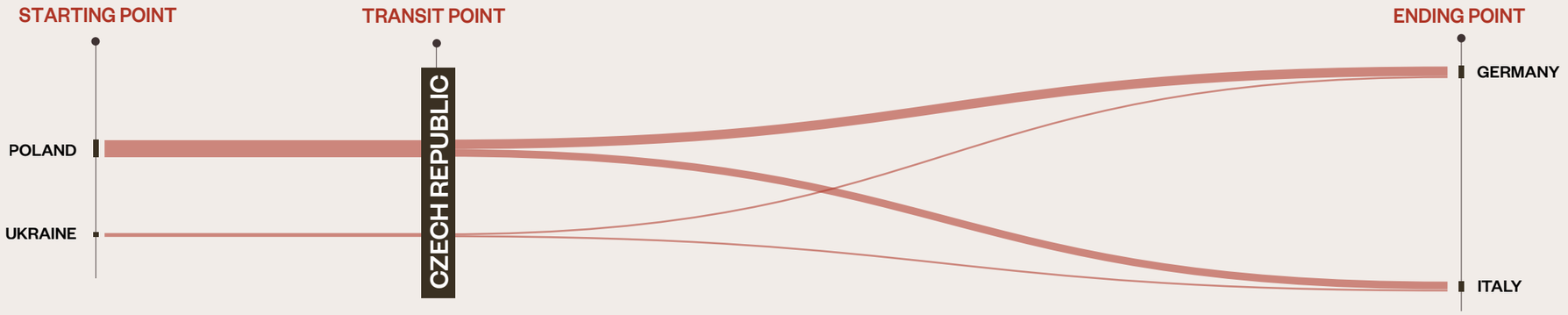


Figure 8. The Czech Republic as transit point (2010–2013).* N= 11



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Czech Customs and newspapers reported 126 tobacco seizures, involving 213 persons, mainly **Poles**, **Czechs**, **Vietnamese** and **Ukrainians**. In the majority of the seizures, smugglers were alone. However, they may have been either individual bootleggers or members of larger organised crime networks. Smuggling rings involve mainly Polish and Vietnamese smugglers, who either produce cigarettes locally or import them from Russia, Ukraine, Belarus and Moldova. Tobacco is transported to the Czech Republic, stored in warehouses and delivered to Vietnamese groups on the German-Czech border (Cejp 2010; Junek 2011). While **Vietnamese groups** focus on the production of cigarettes, **Poles** engage in smuggling (Cejp 2010). However, Vietnamese are also involved in street selling in open air markets, selling counterfeit products, including tobacco (Interpol 2014b).

Cigarettes are transported to the Czech Republic mainly by **car**, sometimes inside **trucks** and **vans**. Additionally, **tobacco leaves** for cigarette production have been seized in cars and trucks with an average quantity of 180 and 7,900 kgs, respectively.** According to open sources and industry data, in the Czech Republic, **19 illegal manufacturing facilities** were raided between 2010 and 2013. The cities with the highest incidence were **Cheb**, near the German border, **Prague** and **Všemina**, near the Slovakian border (PMI 2013b). However, Czech Customs have argued that illicit production is decreasing and displacing to Slovakia and Poland (Junek 2011).

** Between 2010 and 2013, 7.9 million cigarettes were seized in 44 cars (quantity per seizure: 178,500); 17.5 million cigarettes were seized in 14 trucks (quantity per seizure: 1.3 million); 4.1 million cigarettes were seized in 11 vans (quantity per seizure: 375,800); 1,261 kgs of tobacco were seized in 7 cars and 7,869 kgs were seized on 5 trucks.

REGULATION

The Czech Government has adopted **very few measures against the ITTP**. Indeed, except for the publication of yearly data on illicit tobacco seizures by the Customs Administration, no other measures have been implemented against the illicit market.

Control of the legal supply chain is partially guaranteed through the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions as well as to report to the competent authorities any evidence that the customer is engaged in illicit trade activities.

LAW ENFORCEMENT

Two bodies are involved in the fight against the ITTP in the Czech Republic: the **Customs Administration of the Czech Republic** (*Celní správa* České *republiky*) and the **Police of the Czech Republic** (*Policie* České *republiky*).

The quantity of cigarettes seized in the Czech Republic decreased after 2008 (Figure 9). Cigarette seizures slightly increased between 2007 and 2008 (+9.2%), as did taxation on cigarettes (+8.5%) (European Commission 2008). Between 2008 and 2011, the number of cigarettes seized decreased by 86% and taxation on cigarettes decreased by 5.2% (European Commission 2011b). **In 2012**, seizures increased again, reaching **17 million cigarettes**, while taxation increased by 1.9% (European Commission 2012). Annual official data on seizures are missing for 2013 (Map 2).

Top three seizures in 2013

A total of 11,331 kgs of tobacco were seized in Náchod at the end of February. Customs officers stopped a truck destined for Poland. The driver was a Polish citizen.

A total of 10 tonnes of tobacco were seized in several places in Pardubice and Hradec Králové. Police and customs officers found illicit products and a machinery for the production of cut tobacco in warehouses and offices. 14 people were detained and 6 accused and prosecuted.

A total of 3 million cigarettes were seized in Prague. Customs officers found the Jin Ling cigarettes in a truck on the 9th of May. The truck had Moldova as its destination.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased almost six fold, both in volume and in prevalence. In particular, the **ITTP homogeneously expanded by more than 2000% between 2007 and 2008**. Thereafter, it decreased (Figure 2).

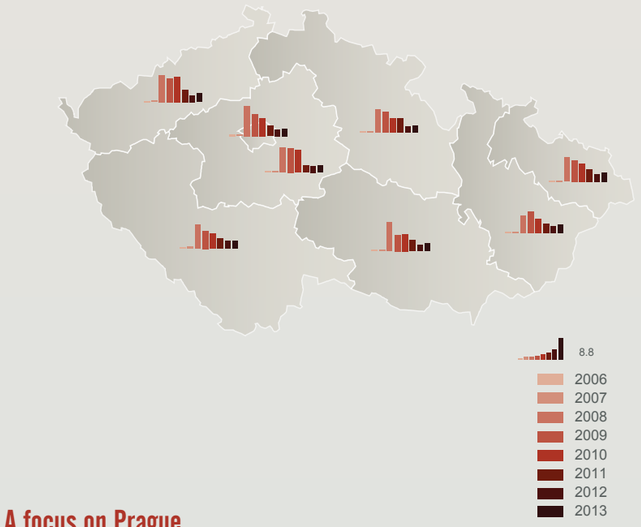
In terms of volume, during the period analysed, the Southeast was constantly the area with the largest illicit cigarette consumption.

All areas showed a strong expansion of the ITTP between 2007 and 2008. However, while Prague (17.6 million sticks per 100,000 inhabitants) and Southeast (17.0) had the highest prevalences in 2008, the consumption of illicit cigarettes was higher in Central Moravia and in Moravskoslezsko in 2013.

Types of illicit cigarettes

The types of illicit cigarettes changed from 2006 to 2013 (Figure 4). Other illicit cigarettes constituted the most common illicit product throughout the entire period. Nevertheless, **the share of other illicit cigarettes within the national ITTP decreased remarkably after 2009, when illicit whites entered the market**. In 2009, the shares of other illicit cigarettes and illicit whites were 88.7% and 8.3%. In 2013, they were 42.7% and 32.9%, respectively. The expansion of illicit whites concerned the entire country, with minor differences among areas. The share of counterfeits oscillated around 9% of the ITTP from 2006 to 2008 and from 2010 to 2012; their total consumption decreased in 2009 (3.0%) and expanded in 2013 (24.4%), reaching all areas of the country.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Prague

During the period analysed, the prevalence of non-domestic cigarettes significantly increased at the collection points where it was lower in 2011, whereas it increased less or even decreased where it was higher. In particular, the levels of the ITTP were generally higher in the central-west part of the city than they were in the eastern one, whereas the situation seemed to be more balanced in 2013. As a result, most recently **the prevalence in Prague has been higher and more homogeneous** across different parts of the city (Map 4).

In 2013, Veletržní (2.5%) and Nuselská (3.3%) were the collection points recording the lowest prevalence of non-domestics; Novodvorska (9.8%) and Chodovska (8.3%) recorded the highest.

Map 4. Prevalence of the ITTP in Prague's collection areas (2011–2013)
Source: Transcrime elaboration (details in the Annex)

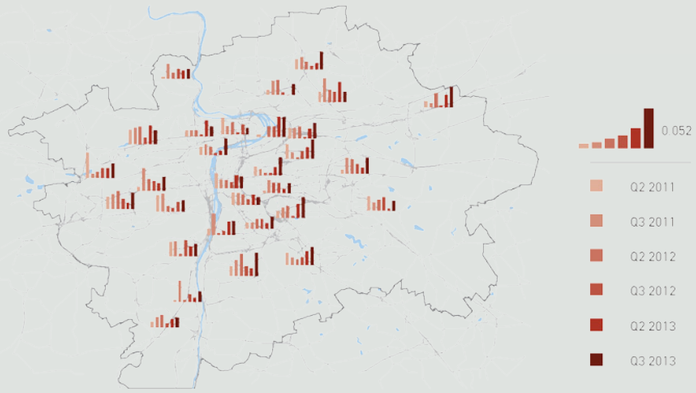
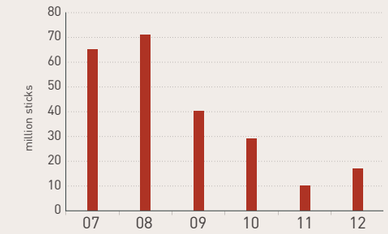


Figure 9. Cigarettes seized in the Czech Republic, million sticks (2007–2012)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Polish, Russian, Ukrainian, Hungarian, Moldovan and Belarusian law enforcement agencies in order to reduce the inflows of illicit tobacco products.
- Strengthening the control over the inflow of tobacco raw components towards the Czech-German and the Czech-Slovakian borders in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.
- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.
- Providing public yearly data on tobacco seizures, on convictions for the ITTP and on the possible membership of organised crime groups.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country.

Denmark

COUNTRY DATA

Capital City
Copenhagen

Surface (WB 2014)
43,090 km²

Total population (WB 2014)
5,613,706 (2013)

Borders
Germany

Gross Domestic Product, € (Eurostat 2014)
249.0 billion (2013)

Storm bridge, Copenhagen

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

3.7%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

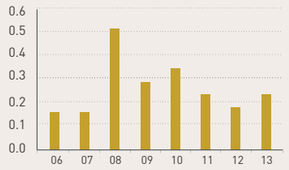


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

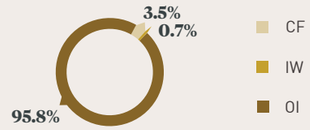
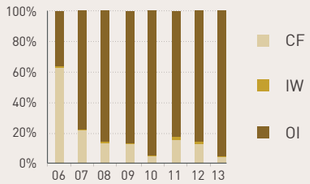


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

6.0

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

29.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

5.8

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

75.3%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

217.0

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates

Prevalence, million sticks per 100,000 inhabitants

4 6 8

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Denmark presented an overall low level of the ITTP (3.7% of the cigarette market)** (KPMG 2014) (Figure 1). **Four out of five Danish areas had a medium-low volume of the ITTP**. The capital region was the only area that recorded a medium-high volume (Map 2).

Denmark also had a quite low prevalence of illicit cigarettes. Central Denmark was the area with the highest level in 2013. Its prevalence (7.3 million illicit sticks per 100,000 inhabitants) was a third larger than the national value (5.5 million sticks per 100,000 inhabitants). North Denmark had the second-highest prevalence of illicit cigarettes (6.1 million sticks). Southern Denmark featured the lowest prevalence among Danish areas (4.7 million sticks) (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in all 5 areas of Denmark** (Figure 5). Central Denmark registered the highest increase in the consumption of illicit cigarettes (+67%) and became the area with the highest prevalence. North Denmark reported the second-most remarkable increase (+41%). Price-sensitive consumers from the South may have purchased cigarettes from nearby Germany, where prices are slightly lower. Cross-border purchasing entails higher transaction costs for people coming from northern areas. This may partially explain the higher prevalence of illicit cigarettes in the northern region of the country, where legal cross border purchase is likely to be a less common phenomenon.

THE PRODUCTS

Denmark covers a relatively small area, and **the distribution of illicit tobacco products is homogeneous across the country** (Map 1).

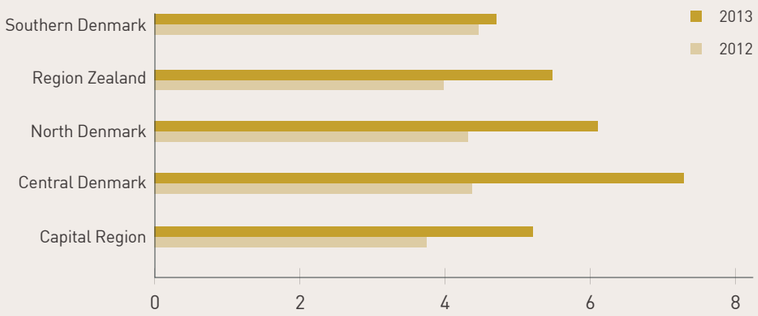
In 2013 **other illicit cigarettes were by far the most widespread kind of illicit cigarettes** (95.8% of the illicit market) (Figure 3). Their share ranged from 91.5% of the ITTP in North Denmark to 97.1% of the illicit market in the Capital Region and in Central Denmark. Denmark is relatively distant from all the main source countries of illicit whites and does not have any large international port. These reasons may explain the extremely high prevalence of other illicit cigarettes in Denmark (Map 1).

The second most widespread type of illicit cigarettes was counterfeits (3.5% of the ITTP) (Figure 3). Their concentration was significantly higher in North Denmark (8.0% of the ITTP) (Map 1). In 2006, the share of counterfeits accounted for more than 60% of the national ITTP, and it gradually decreased reaching 4.2% in 2010. The share of this product rose again in 2011 (14.6%), but immediately decreased once again, reaching a level of 3.5% in 2013 (Figure 4).

Illicit whites were almost absent from the Danish illicit tobacco market (Figure 3). In Southern Denmark, they accounted for 0.8% of the ITTP. In all the other areas, they accounted for no more than 0.5% of the illicit market (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES

Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Denmark is mainly an ending point, and secondly a transit and starting point, for the ITTP.

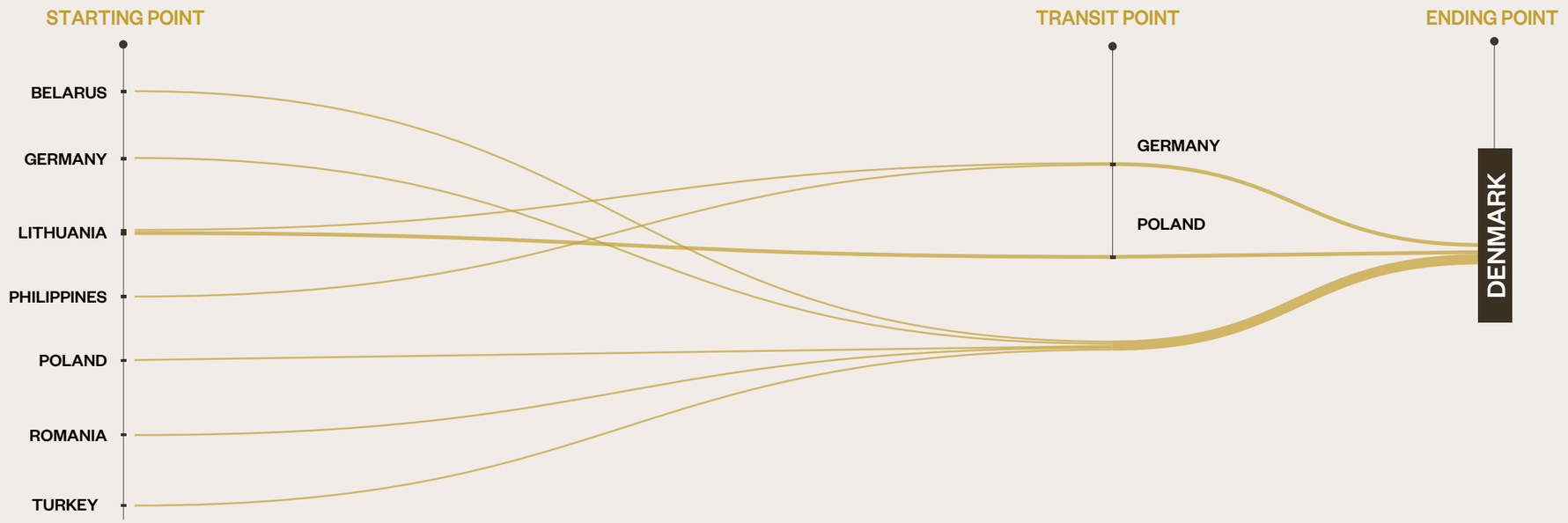
The country presents low levels of illicit cigarettes in total consumption in Europe (Euromonitor International 2013c, 15; KPMG 2014). However, the illicit flows recorded between 2010 and 2013 show evidence of illegal cigarettes destined for the **Danish market**, originating mainly from **Lithuania,** followed by the **Philippines, Belarus, Turkey, Poland, Romania** and **Germany** (see also Euromonitor International 2013c; KPMG 2014) (Figure 6). In these countries, the prices of cigarettes are lower than they are in Denmark, where, in October 2013, the cheapest brand was sold at €4.8, while in Belarus, Germany, Lithuania, Poland and Romania, it cost from €0.3 to €4.2 (PMI 2013a). **Germany** plays a role as a transit point for illegal tobacco products originating from the Philippines and Lithuania and intended for Denmark.

Denmark also has a role as a **transit** and **starting point** for illicit tobacco products intended for other European markets. In the former case, the products originate from **Russia** and **Luxembourg** and are destined respectively for **Ireland and** the **UK**, countries where the prices of cigarettes are significantly higher than they are in the other EU countries (Figure 7). When Denmark is a starting point, illegal tobacco products are intended for **Ireland** and **Sweden**, where criminals benefit from a higher price differential (Figure 8).

Illicit products are smuggled into Denmark mainly by **water** and **motor vehicles embarked on ships**, **ferries or boats**. Tobacco seizures have occurred mainly in **Fredericia** and **Copenhagen**, situated on the Baltic Sea. By contrast, illicit products intended for (but which have never arrived in) or are transiting through Denmark are mainly transported by **motor vehicle**. In these cases, seizures have occurred mainly in Germany but also in Sweden and Poland. In one case, officers found illicit cigarettes, destined for the Danish illicit market, on a plane which had departed from the Philippines and was checked during its stopover at the airport of Hamburg.

THE FLOWS

Figure 6. Denmark as ending point (2010–2013).* N=9



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Denmark as transit point (2010–2013).* N= 2

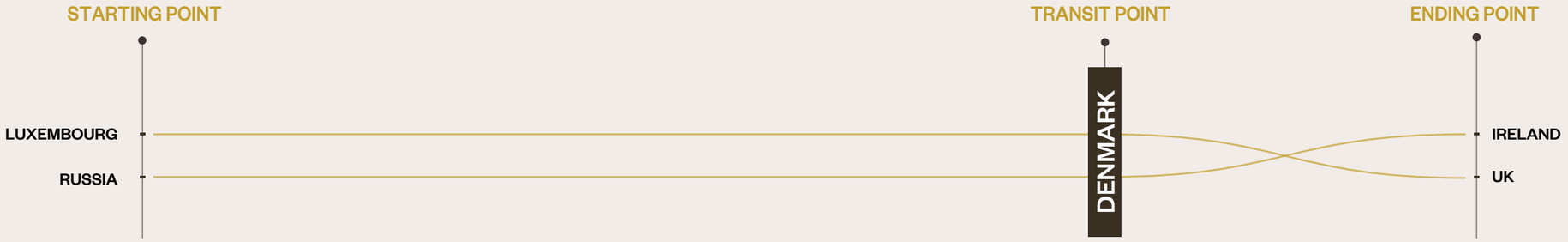


Figure 8. Denmark as starting point (2010–2013).* N= 2

ACTORS AND *MODUS OPERANDI*

Danish newspapers reported six tobacco seizures between 2010 and 2013.

Evidence exists that tobacco was stored in **houses** and **warehouses** located in different Danish cities, both in the Jutland peninsula (Southern Denmark) and on the island of Zealand (Region Zeeland), the largest island of the country. They were: **Copenhagen**, **Vesthimmerland**, **Haslev and Herlev**.

Information about the means of transport is available for only two cases, in both of which cigarettes arrived via sea (in a truck on a ferry and in a container) at two ports: Fredericia in Southern Denmark and Copenhagen in Capital Region.

REGULATION

The Danish Government has adopted **no measures against the ITTP**.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities, and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

Two bodies are involved in the fight against the ITTP: in Denmark the **Ministry of Taxation** (*Skatteministeriet*), and the **National Police** (*Politi*).

The quantity of cigarettes seized in Denmark has shown a stable trend since 2009 (Figure 9). Cigarette seizures decreased between 2008 and 2009 (from 10 to 2.5 million sticks), when the ITTP volume strongly decreased (-45.1%). After 2009, the number of cigarettes seized remained stable at 2 million sticks in 2010 and in 2011. The quantity seized reached **1.6 million cigarettes in 2012**. Data for 2013 are available only for the first semester, when 811,940 cigarettes were seized (Map 2).

Top two seizures in 2013

A total of 120,000 cigarettes were seized in Haslev, on the 26th of November. Customs officers discovered illicit cigarettes, together with a large quantity of beer and soft drinks, in a house. The Danish property owner was arrested and then released after interrogation.

A total of 12,140 cigarettes were seized in Vesthimmerland on the 23rd of February. Police and Customs officers found illicit cigarettes destined for the Danish market in three different houses.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by 52.5% in volume and by 47.3% in terms of prevalence (Figure 2 and Map 3).

In terms of volume, in the 2006–2013 period, **the areas with the largest illicit cigarette consumption were the Capital Region** — with an average yearly consumption of 88 million cigarettes (34.1% of the yearly national consumption) — Southern Denmark (62 million sticks) and Zealand (41 million sticks).

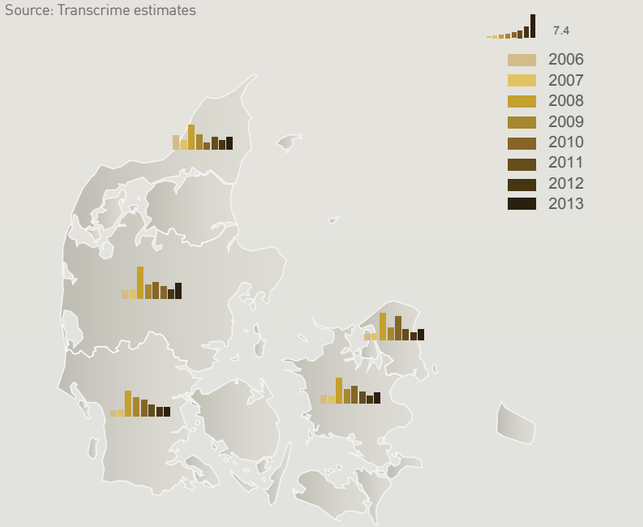
Central Denmark was the area that, on average, had the highest prevalence. However, considering the entire period, the average levels were quite similar across the country. The evolution of the prevalence, instead, had slightly different trends in the various areas. Indeed, in 2010, the prevalence significantly increased in certain areas, while it decreased in others (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes changed during the of 2006–2013 period. In particular, it significantly changed between 2006 and 2007, despite the fact that the overall volumes of the ITTP remained constant during that period. In 2006, the prevalent product was counterfeit cigarettes (61.8% of the ITTP). In 2007, the counterfeits share dropped to 21.1% (other illicit cigarettes accounted for 78.1% of the ITTP); thereafter, the share of counterfeits decreased, fluctuating between 12% and 3%. The level of illicit whites was particularly low during the entire period. Illicit whites never accounted for more than 2% of the national ITTP (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Copenhagen

The prevalence of non-domestic cigarettes in Copenhagen (6.1%), the capital and main Danish city, is similar to the national one (6.0%), and it is low when compared with that of other EU capitals.

The three neighbourhoods with the highest prevalence in 2011 (Viborggade (18.2%), Krimsvej (16.4%) and Folehaven (12.9%)) experienced a drastic decrease in the consumption of non-domestic cigarettes and are now among the zones with the lowest prevalence: 2.7%, 5.4% and 2.7%, respectively (Map 4).

The surveys do not show clear patterns in the geographical distribution of non-domestic cigarettes.

Map 4. Prevalence of the ITTP in Copenhagen's collection areas (2011–2013)

Source: Transcrime elaboration (details in the Annex)

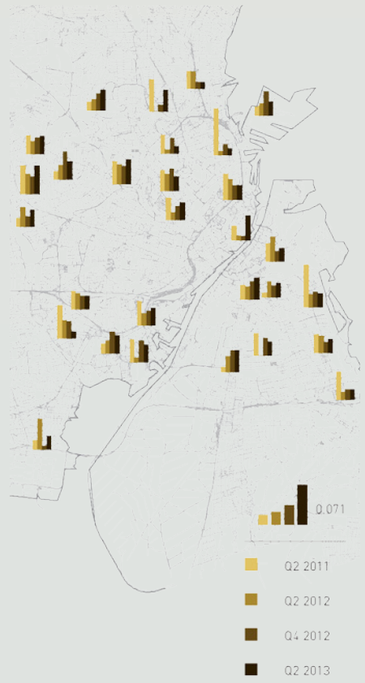
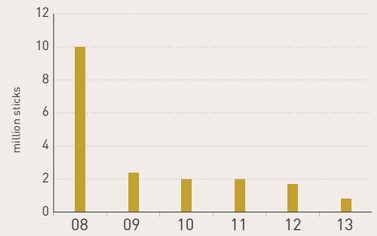


Figure 9. Cigarettes seized in Denmark, million sticks (2008–2013)**

Source: Transcrime elaboration (details in the Annex)



** For 2013, only data on the first semester of the year are available.

MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Lithuanian, Belarusian, Turkish, Polish, Romanian and German law enforcement agencies may help to further reduce the inflows of illicit tobacco in Denmark.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on the possible membership of organised crime groups.

Estonia

Mill Bridge, Põlvamaa

COUNTRY DATA

Capital City
Tallinn

Surface (WB 2014)
45,230 km²

Total population (WB 2014)
1,324,612 (2013)

Borders
Latvia, Russia

Gross Domestic Product, € (Eurostat 2014)
18.6 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

18.6%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

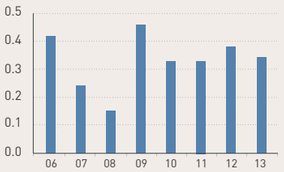


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

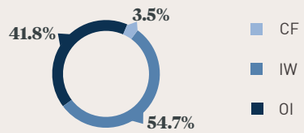
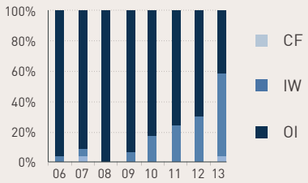


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

1.8

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

31.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

2.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

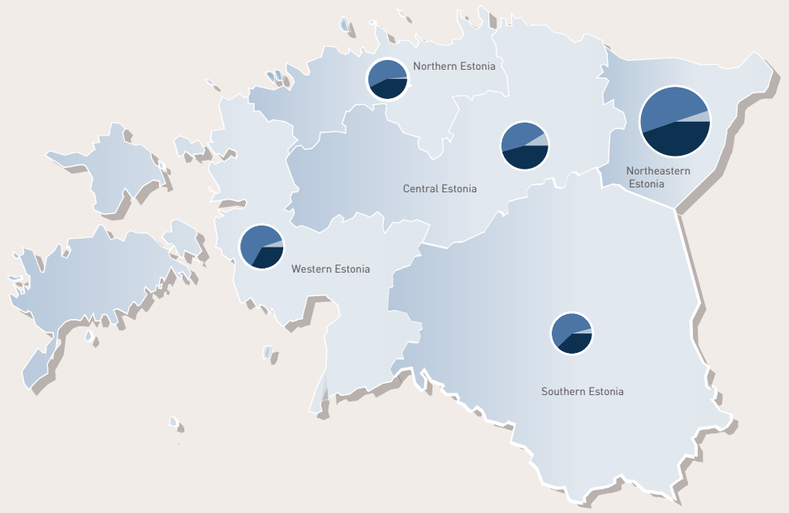
84.0%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

110.1

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Estonia had the fifth highest level of the ITTP in the EU** (18.6% of the cigarette market), after Latvia, Lithuania, Ireland and Greece (KPMG 2014) (Figure 1).

Central Estonia had a high volume of the ITTP (149 million sticks). Northeastern Estonia had a medium-high volume of illicit cigarettes. The other areas had a low or a medium-low volume of the ITTP (Map 2).

In 2013, **the prevalence of illicit cigarettes was high in Estonia, and it varied considerably across areas. The prevalence in Northeastern Estonia was the highest in the EU** (59.6 million sticks per 100,000 inhabitants). Central Estonia had the second highest prevalence in the country (31.3 million sticks per 100,000 inhabitants). In Western Estonia (25.5 million sticks), Southern Estonia (22.7 million sticks) and Northern Estonia (23.4 million sticks) the prevalence was below the national value of 31.0 million sticks per 100,000 inhabitants (Map 2).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in 3 out of 5 areas, while it decreased by 9% at the national level** (Figure 5). Central Estonia registered the largest decrease with a reduction of 5.8 million sticks in the consumption of illicit cigarettes per 100,000 inhabitants (-15%). Between 2012 and 2013, the consumption of illicit cigarettes further grew in Northeastern Estonia, the area that traditionally had the highest prevalence of the ITTP (+0.03% in terms of prevalence).

THE PRODUCTS

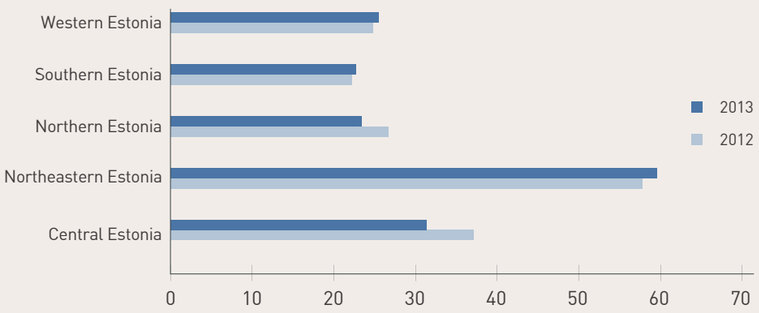
In 2013, **illicit whites cigarettes were the most common illicit tobacco products** (54.7% of the illicit market) (Figure 3). **Geographical proximity to Russia and low customs barriers among the Baltic Republics are crucial in explaining the high share of** illicit cigarettes and in particular of **illicit whites in Estonia**. Indeed, Russia hosts key manufacturers of illicit whites, which accounted for at least half of the ITTP in all the areas except for Central Estonia (Map 1).

The second most important type of illicit cigarettes was other illicit cigarettes (41.8% of the illicit market) (Figure 3). The share of this type of product **gradually decreased between 2006 and 2013** with the gradual increase of illicit whites (Figure 4). The two southern areas of Southern Estonia (37.7%) and Western Estonia (33.1%) recorded the lowest shares of other illicit cigarettes (Map 1).

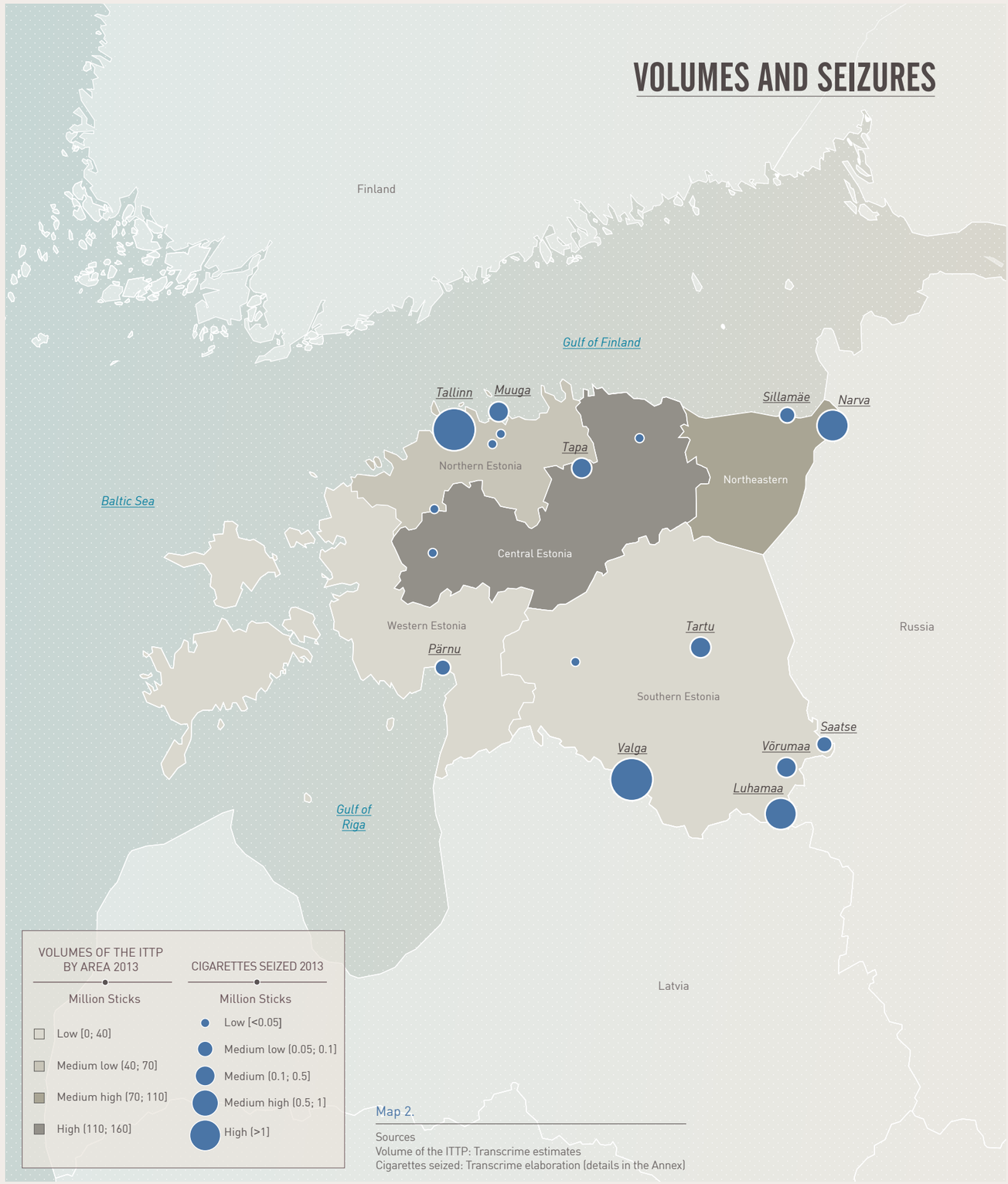
The third type of illicit cigarettes was counterfeit cigarettes, which accounted for 3.5% of the ITTP (Figure 3). In 2013, **Central Estonia was the area with the highest share of counterfeits** (8.4%) (Map 1). Proximity to the main producing countries of illicit whites, wide price differentials between the two sides of the EU borders, and trade partnerships with countries with high consumption of illicit whites and other illicit cigarettes, may reduce the appeal of counterfeits.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Estonia is mainly an ending point, and secondly a starting and transit point, for the ITTP.

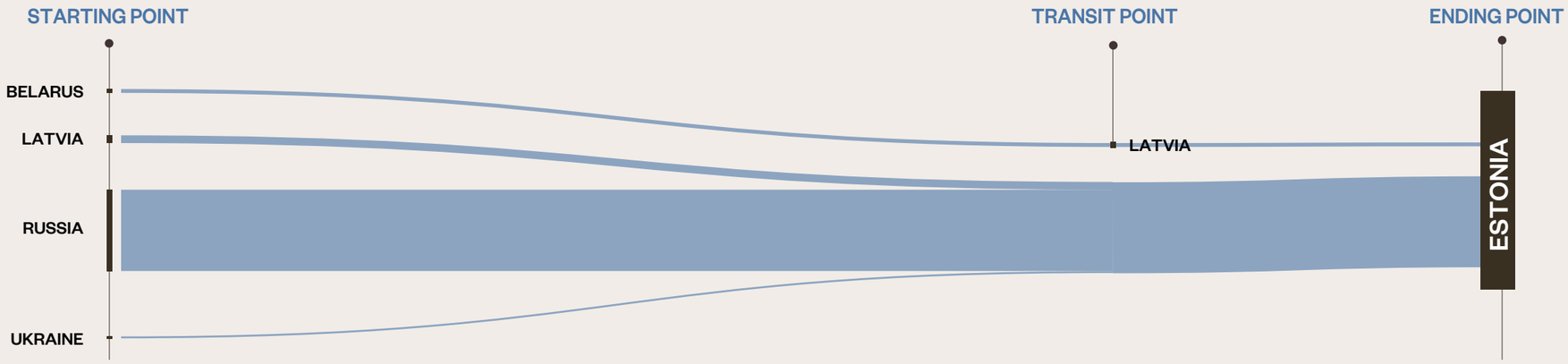
Estonia has one of the highest share of illicit cigarettes in total consumption in Europe (KPMG 2014). Indeed, the illicit flows recorded between 2010 and 2013 show that the country is primarily an **ending point** for the ITTP. Illegal tobacco products intended for Estonia originate mainly from **Russia**. Other starting points are **Latvia**, **Belarus** and **Ukraine** (see also KPMG 2014) (Figure 6). In these countries, cigarette prices are lower than they are in Estonia. For instance, in Russia, Belarus and Ukraine the cheapest brand cost less than €1 (from €0.3 to €0.6) in October 2013, whereas, in Estonia, it was sold at €2.5 (PMI 2013a).

Estonia is secondly a **starting point** and also a **transit point** of illicit products smuggled to other EU countries, where cigarette prices are higher. Data show that Estonian products are mainly exported to **Finland**, **Germany** and **Sweden** (Figure 7). Regarding Estonia as a transit point, the main **inflows** come from **Russia** and **Latvia**. Once in Estonia, the **outflows** are mainly intended for the **Scandinavian countries**, **Germany** and the **UK**, where smugglers benefit from a higher price differential (see also Krasovsky 2012) (Figure 8).

Illicit products are smuggled in, through, or from Estonia mainly by **motor vehicle**. The main **entry points** into the country are mostly located along the **eastern border** with Russia. The vast majority of tobacco seizures on motor vehicles have occurred in **Koidula**, **Luhamaa**, **Narva** and **Pärnu**. There is also evidence of smuggling by **water**, especially in the **port of Tallinn**, which receives large shipments of illegal products concealed beneath legal goods from Russia and China. Also the **River Piusa**, flowing between Russia and Estonia, is used by smugglers to move illicit tobacco products. Some attempts to import cigarettes illegally have also been detected on international **trains** coming from Russia and Latvia in the **railway stations** of **Narva** and **Tapa**.

THE FLOWS

Figure 6. Estonia as ending point (2010–2013).* N= 49



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Estonia as starting point (2010–2013).* N= 10

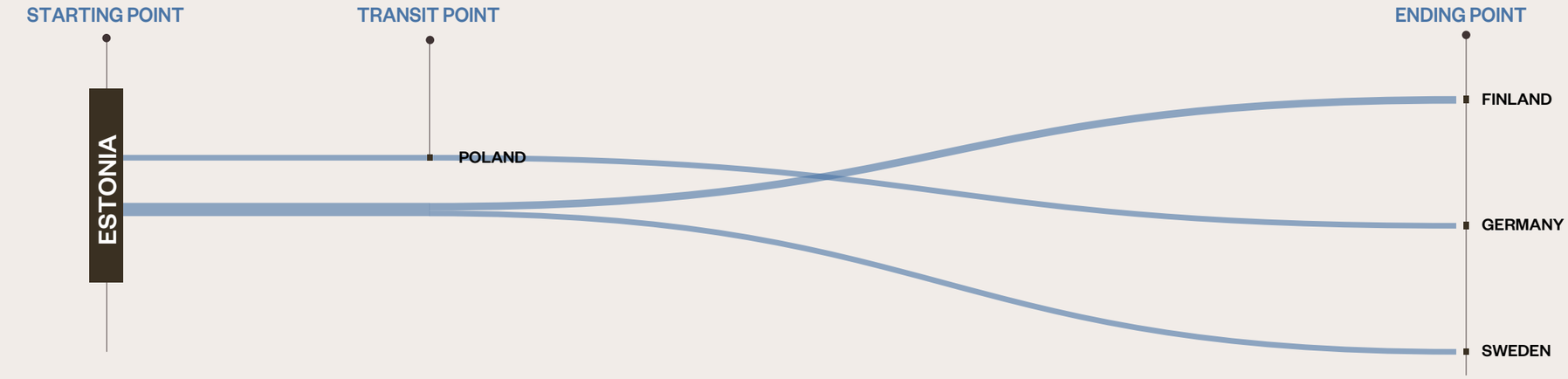
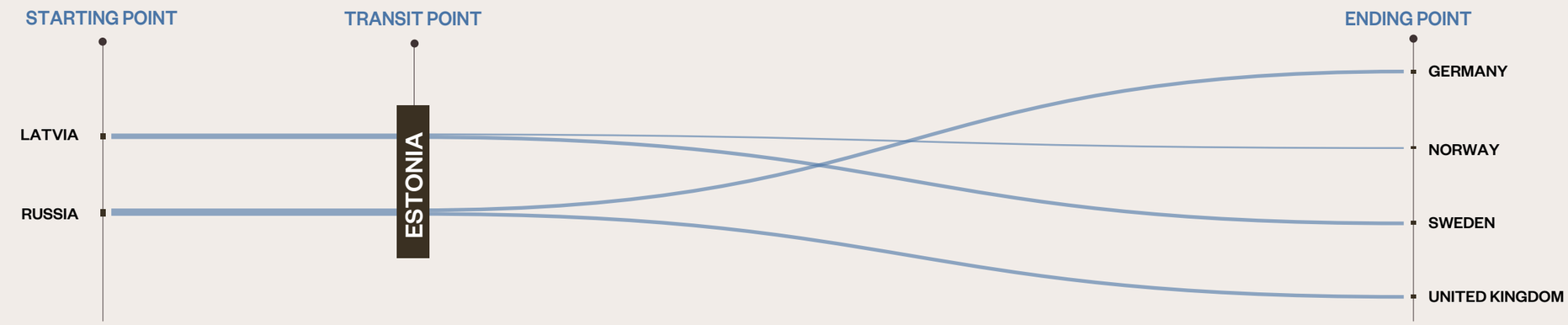


Figure 8. Estonia as transit point (2010–2013).* N= 7



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Estonian Customs and newspapers reported 256 tobacco seizures involving 232 persons. They were mainly **Latvians**, **Russians**, **Estonians aged between 20 and 35 years old**. In the majority of the seizures, the smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks. Indeed, on the supply side, there is evidence of **large-scale ITTP**, **bootlegging**, **cross-border purchasing** and **counterfeiting** of cigarettes (van Duyne et al. 2007).

Tobacco was transported to Estonia mainly by car (52%) **and sometime by bus** (15%), **truck** (14%) and **ship** (8%). The remaining 12% consist of residual categories (van, train, airplane). Buses are a peculiarity of the Estonian cigarette smuggling process. **Narva**, at the border with Russia, recorded a significant concentration of seizures on buses. This may be due to the porosity of the Estonian-Russian border (van Duyne et al. 2007). On average, cars transported 40,000 cigarettes, buses 61,800, trucks 143,400, and ships 614,000.** In most cases, tobacco was seized in private premises, particularly **garages** and **houses,** mainly in **Tallinn**.

** Between 2010 and 2013, 3.9 million cigarettes were seized in 97 cars; 1.7 million cigarettes were seized in 28 buses; 3.7 million cigarettes were seized in 26 trucks; and 9.2 million cigarettes were seized in 15 ships.

REGULATION

The Estonian Government has adopted **many measures against the ITTP**. In 2013, a national action plan was adopted, and national and regional public awareness campaigns were launched. The outdoor media campaigns were focused on Eastern Esonia and the area of Riga. The Estonian Economic Research Institute publishes yearly official estimates of the size of the ITTP, and the Tax and Customs Board provides public and yearly data on tobacco seizures and convictions for the ITTP. Moreover, there is an explicit legal duty to destroy confiscated counterfeit cigarettes. Furthermore, cooperation between the local National Manufacturers' Association and the national Tax and Customs Board has been strengthened by a memorandum of understanding signed on January 2014.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Estonia are the **Estonian Tax and Customs Board** (*Maksu-Ja Tolliamet*) and the **Police and Border Guard Board** (*Politsei- ja Piirivalveamet*).

The quantity of cigarettes seized in Estonia fluctuated between 2008 and 2013 (Figure 9). Between 2008 and 2009, the number of cigarettes seized more than doubled (from 6.4 million sticks in 2008 to 14.6 in 2009). This increase in seizures corresponded to an increase in the ITTP volume (+207%) and to a decrease in legal sales (-20%). After a 38% decrease in 2010, cigarettes seized increased again in 2011 (year of the adoption of the euro), reaching 15 million sticks (+67%). In 2012, a new decrease occurred, but the number of cigarettes seized once again increased **in 2013**, reaching **11.2 million sticks** (Map 2).

Top three seizures in 2013

A total of 1.9 million cigarettes were seized in Valga. Estonian Customs and Police officers checked a railroad wagon in early April. Officers seized Premjer, NZ Gold Superslim and NZ Black Superslim cigarettes with Belarusian tax stamps.

A total of 600,260 cigarettes were seized in Luhamaa. In July, Estonian Customs officers checked an Estonian bus and found illicit Fest and Winston with Belarusian tax stamps. The cigarettes were probably bound for Estonia.

A total of 360,000 cigarettes were seized on the Narva River in April. Customs officers found illicit cigarettes with Russian tax stamps on a boat bound for Estonia.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased. The contraction was 18% in volume and 16% in prevalence (Figure 2 and Map 3).

Central Estonia had the largest ITTP for the entire period. Northern Estonia had the second largest illicit market until 2009; thereafter, Northeastern Estonia became the second largest illicit market.

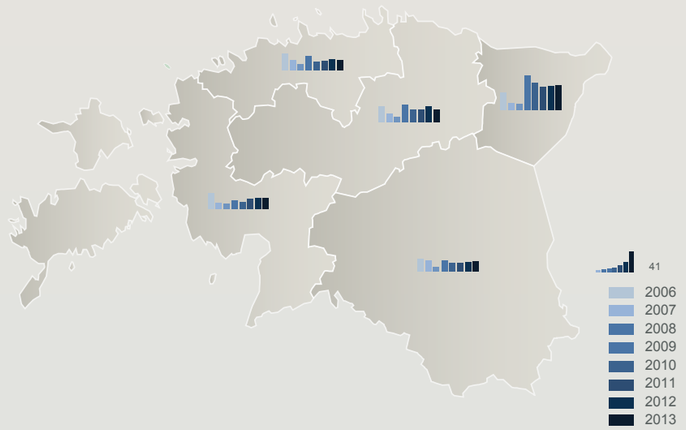
Despite important differences in terms of prevalence, the consumption of illicit cigarettes evolved following similar trends in all of the areas (Map 3). Except for 2007, Northeastern Estonia was always the area with the highest prevalence of illicit cigarettes. Moreover, after 2009, its prevalence was almost double the national one. Central Estonia became the area with the second highest prevalence of illicit cigarettes after 2008.

Types of illicit cigarettes

The types of illicit cigarettes changed from 2006 to 2013. The proportion of illicit whites significantly increased. Indeed, after being nearly absent in 2006–2008 they became the prevalent product in 2013 (54.7% of the ITTP). Conversely, the consumption of other illicit cigarettes contracted over time. Counterfeit cigarettes always accounted for a marginal part of the market. Their share ranged from 0.0% (in 2006 and in 2008) to 3.8% (in 2007) (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on North-Eastern Estonia

Northeastern Estonia had the highest prevalence of illicit cigarettes in the entire EU in 2013 (59.6 million sticks per 100,000 inhabitants), and **the share of non-domestic cigarettes was 45.9%**. This figure included legal cross-border purchases; however, it underlines the problematic situation of this area bordering on Russia, where cigarettes are substantially cheaper.

The four collection points analysed presented similar shares of products. Other illicit cigarettes and legal non-domestics accounted for almost half of the non-domestic products.

Illicit whites were the second most important product, whereas the role of counterfeit cigarettes was only marginal (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

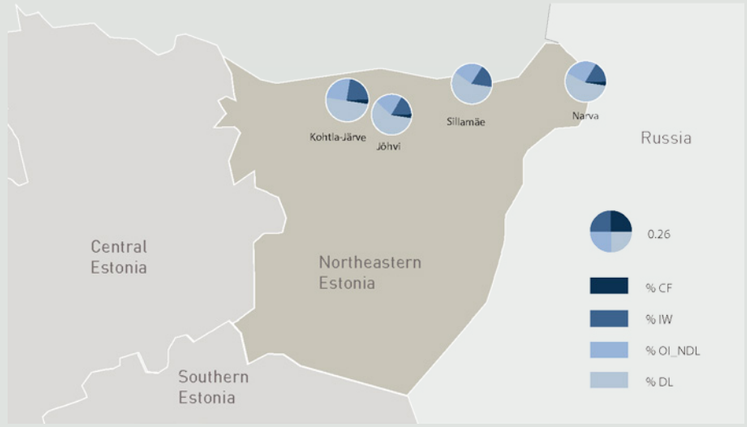
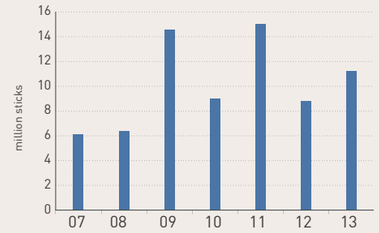


Figure 9. Cigarettes seized in Estonia, million sticks (2007–2013)

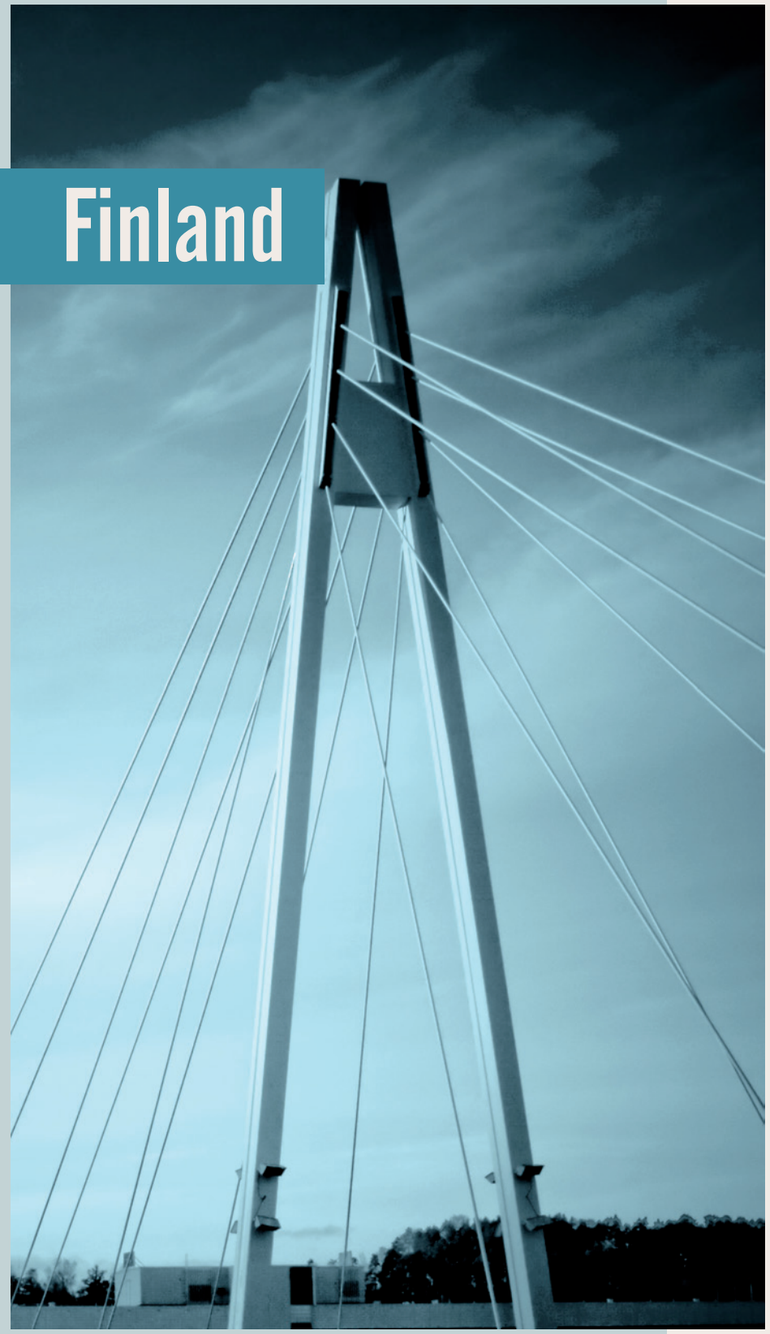
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Latvian and Russian law enforcement agencies in order to reduce the vulnerability of the southern and eastern borders, the main entry points of illicit tobacco.
- Promoting security preventative measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public data on convictions for the ITTP and on the possible membership of organised crime groups.

Finland



Jyväskylä Bridge, Jyväskylä

COUNTRY DATA

Capital City
Helsinki

Surface (WB 2014)
338,420 km²

Total population (WB 2014)
5,439,407 (2013)

Borders
Norway, Russia, Sweden

Gross Domestic Product, € (Eurostat 2014)
193.4 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

15.4%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

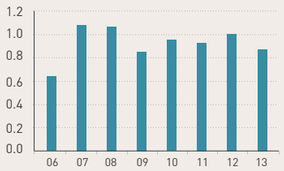


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

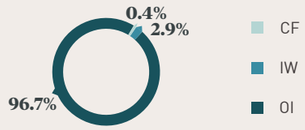
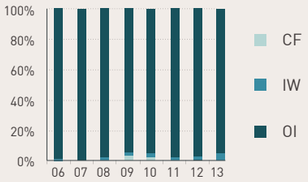


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

4.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

24.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

4.9

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

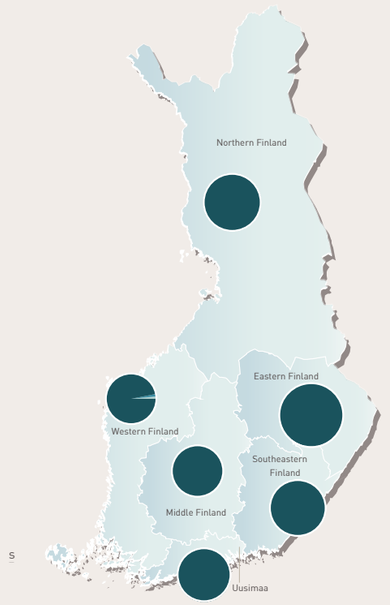
84.5%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

197.3

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

Finland had a medium-high level of the ITTP in 2013, with Illicit products accounting for 15.4% of the cigarette market (KPMG 2014) (Figure 1). **The largest illicit cigarette market was Uusimaa**, with a total consumption of 482 million sticks. **All the other areas consumed a medium-low or a low volume of illicit cigarettes** (Map 2). Uusimaa accounted for 55% of the national illicit cigarettes market and comprised 56% of Finnish smokers.

The prevalence of illicit cigarettes was high throughout the country (Map 1). Eastern Finland (49.6 million sticks per 100,000 inhabitants), Southeastern Finland (48.3), and Northern Finland (42.9) were among the 15 European areas with the highest prevalences of illicit cigarettes. All of them are located along the Russian border. A pack of the cheapest brand of cigarettes was seven times more expensive in Finland than in Russia. This considerable price differential may provide incentives for both individual smuggling and large-scale operations. The lowest prevalence in the country was recorded by Western Finland (33.8 million sticks per 100,000 inhabitants).

Between 2012 and 2013, **the prevalence of illicit cigarettes decreased in all the Finnish areas (Figure 5). The overall national consumption dropped by 14%.** The share of the ITTP in the tobacco market fell from 16.9% to 15.4%. Middle Finland experienced the largest decrease in prevalence (-31%), after having been the area with the highest prevalence.

THE PRODUCTS

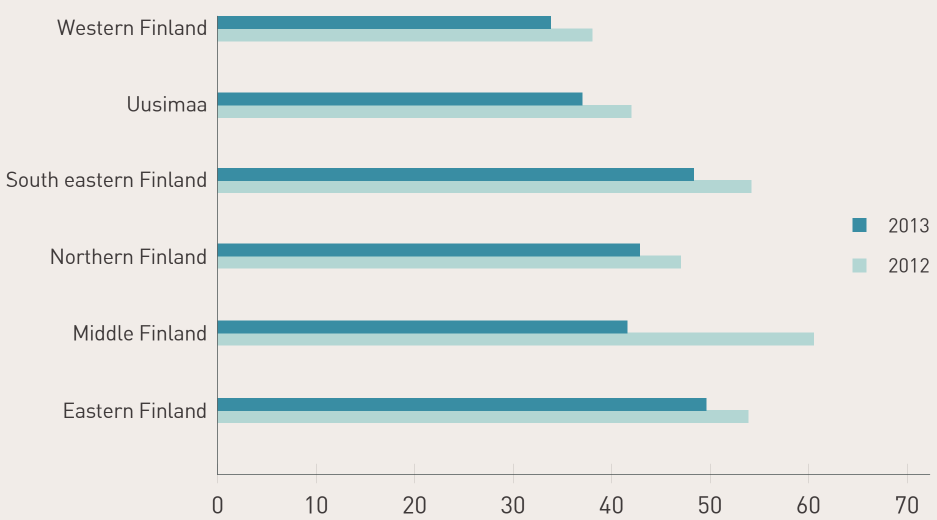
In 2013, a total of 96.7% of the Finnish ITTP consisted of other illicit cigarettes. Illicit whites accounted for less than 3.0% of the black market and counterfeits for 0.4% (Figure 3). This trend was quite stable over the years under analysis (Figure 4). **Finland had the highest share of other illicit cigarettes among all the EU Member States.**

In 2013, no illicit whites or counterfeits were found in Northern Finland or in Southeastern Finland. Western Finland was the only Finnish area with a prevalence of counterfeits and illicit whites higher than 1% (Map 1).

Finland shares a 1,340 km border with Russia, and its southern coast is close to Estonia. Cigarettes are significantly cheaper in those countries than they are in Finland. By purchasing illicit cigarettes smuggled into Finland from these markets, price-sensitive consumers may achieve significant savings while continuing to smoke their favourite brands.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES

Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

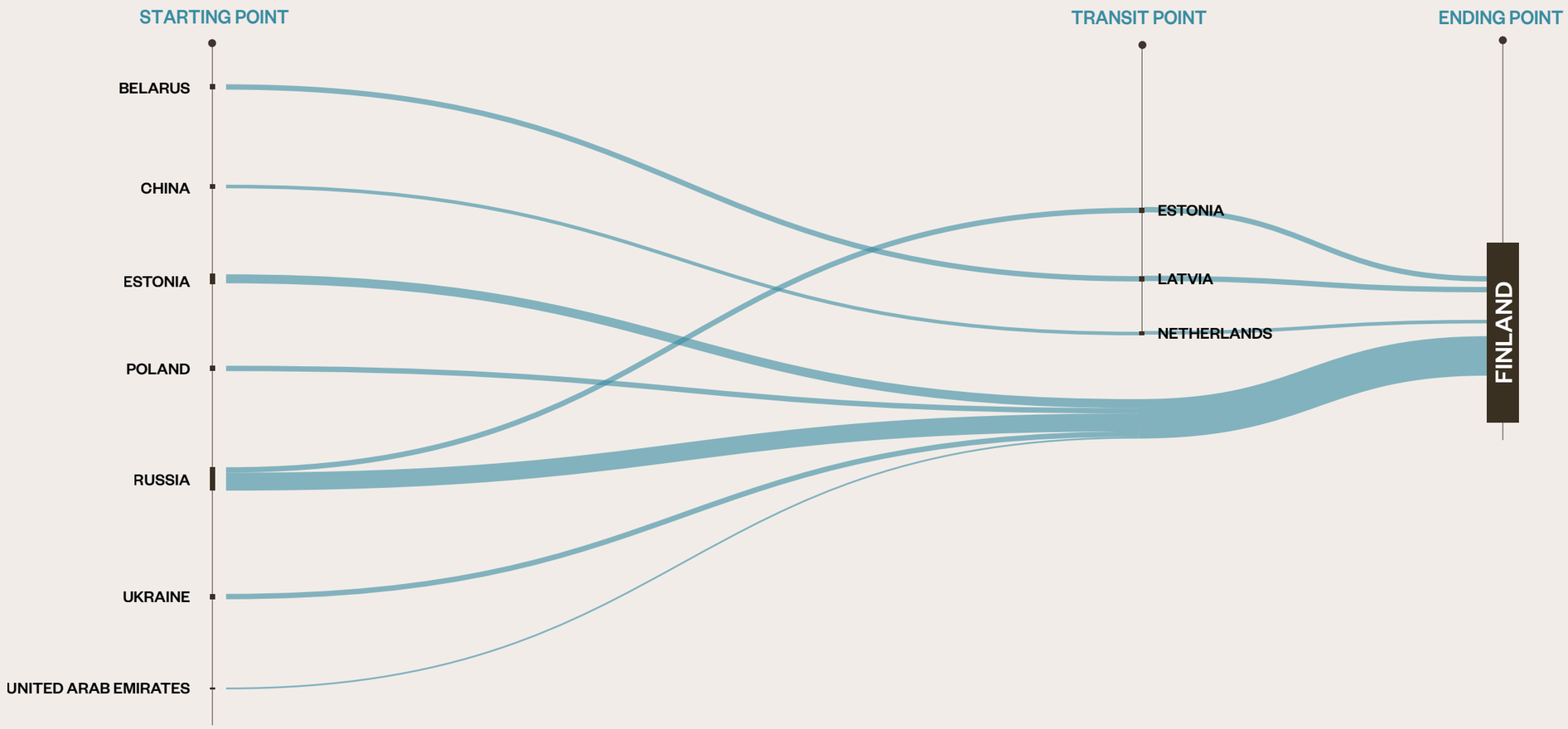
Finland is mainly an ending point, and secondly a transit point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **Finnish market** and detected by the authorities originated mainly from **Russia**, **Estonia**, **Belarus**, **Poland**, and **Ukraine** (Figure 6) (see also Euromonitor International 2013f; KPMG 2014), where cigarette prices are lower. In October 2013, the cheapest brand was sold at a price of between €0.3 and €2.5 in these countries, whilst it was sold at €4.6 in Finland (PMI 2013a). Little evidence exists of illicit flows originating from **China** and the **United Arab Emirates**. Before reaching Finland, illicit tobacco products often transit through Estonia, Latvia and the Netherlands (i.e. the port of Rotterdam).

Data on illicit flows reveal that Finland has a minor role as **transit point** for illegal tobacco products destined for the other **Scandinavian countries** (i.e., Norway and Sweden) and the **UK** (Figure 7). In these cases, illegal inflows originate from **Latvia**.

Cigarettes are smuggled into Finland mainly by **motor vehicle** and **water**. Illicit tobacco products concealed on motor vehicles have been mainly seized in the areas bordering with Russia, the main entry points for smuggled cigarettes (see also Frontex 2012). For instance, seizures have occurred in **Raja-Jooseppi**, in the north of Finland, along the state highway 91 leading to Russia. Illegal cigarettes have also been discovered in **Niirala** along Highway 9, which enters the country at the southern part of the Russian border. Illicit tobacco products entering Finland by water have been seized in the port of **Kotka**, which receives large shipments from Russia (St. Petersburg), China (Shekou), Estonia and the United Arab Emirates. There is also evidence of cigarette smuggling on **trains** coming from Russia in the border city of **Imatra** in Southern Finland.

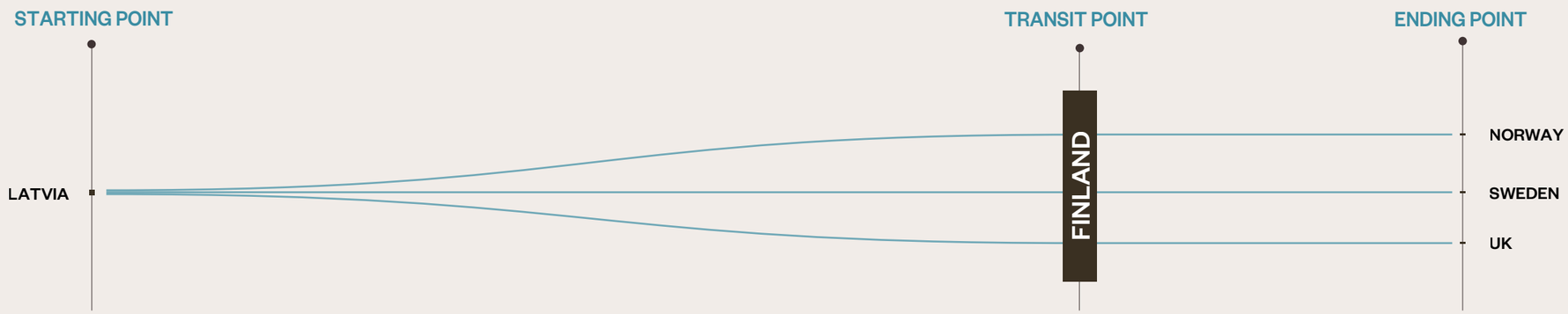
Figure 6. Finland as ending point (2010–2013).* N= 30



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Finland as transit point (2010–2013).* N= 3



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Finnish Customs reported 12 tobacco seizures involving 38 persons. They were mainly **Latvians**, **Russians** and **Finns**. According to the Finnish Ministry of the Interior, other ethnicities involved in the ITTP are **Estonian** and **Lithuanian**. The latter are involved in **large-scale operations** to import cigarettes from Russia through Finland, with foreign markets as their final destinations (Sisäasiainministeriö 2008).

Tobacco is transported to Finland mainly by van and in some cases by container and **train**. Containers are often used to transport large tobacco imports. Indeed, in the port of **Kotka** on the **Finnish Gulf**, around 20.3 million cigarettes were seized in two different cases between 2011 and 2012.

** Between 2010 and 2013, 917,000 cigarettes were seized in 4 vans (quantity per seizure: 229,300); 20.3 million cigarettes were seized in 2 containers (quantity per seizure: 10.1 million); and 6.5 million cigarettes were seized in 2 trains (quantity per seizure: 3.3 million).

REGULATION

The Finnish Government has adopted **very few measures against the ITTP**. Indeed, except for the publication by the Finnish Customs of yearly data on tobacco seizures and convictions for the ITTP, no other measures have been implemented.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities; a national legal provision to identify and trace tobacco products; and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The bodies involved in the fight against the ITTP in Finland are the **Finnish Customs** (*Tulli*), the **Border Guard** (*Rajavartiolaitos*) and the **Finnish National Police** (*Poliisi*).
The quantity of cigarettes seized in Finland exhibited a fluctuating trend between 2007 and 2013 (Figure 8)**.** After a decrease between 2007 and 2010 (from 23 to 10 million sticks), the number of cigarettes seized increased strongly until 2012, reaching 28 million sticks. The large increase in the quantity seized in 2012 was related to two major seizures that occurred in February (8.8 million sticks on a truck in Helsinki) and in August (12.5 million sticks in the port of Kotka) (Finnish Customs 2013). **In 2013**, the Finnish Customs seized **4 million sticks** (Map 2).

Top three seizures in 2013

A total of 480,000 cigarettes were seized in Helsinki in May. Four Latvians were transporting illicit cigarettes in two vans. The cigarettes had Belarusian and Russian tax stamps. The vans had arrived from Latvia via Estonia and had Norway as their destination.

A total of 350,000 cigarettes were seized in Tornio in April. Customs officers discovered the illicit products imported from Latvia via Estonia, in a camper van. The cigarettes had Belarusian tax stamps and were probably bound for Sweden. The smuggler was a Latvian citizen.

A total of 60,000 cigarettes were seized in Niirala, on the Eastern Finnish border, in December. Customs officers found cigarettes concealed in a Russian van. The cigarettes had arrived from Russia and were destined for the Finnish market. The Russian driver was detained.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 37% in volume and 29% in per capita consumption (Figure 2). The ITTP volume reached its peak in 2007 when Finns smoked 1,080 million of illicit cigarettes, with a yearly growth of +69%. In particular, the ITTP more than doubled in Northern Finland and Western Finland (Figure 4).

In terms of volume, the area with the largest illicit cigarette consumption has always been Uusimaa.

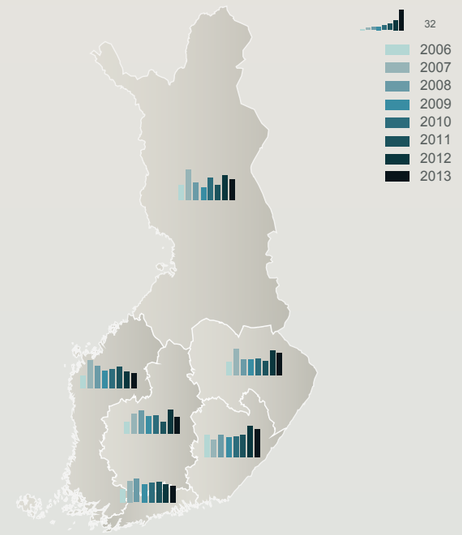
In terms of prevalence, the relative weights of the various areas have changed considerably in recent years without any clear patterns. Between 2011 and 2012, the prevalence decreased in the two areas where it was higher (Western Finland and Uusimaa). Simultaneously, it increased in the other areas.

Middle Finland was the area with the lowest prevalence in 2011, but it was the one with the highest prevalence in 2012. Western Finland had the opposite trajectory (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes did not change from 2006 to 2013. **Other illicit cigarettes accounted for almost all of the Finnish ITTP every year** and never went below the 95% threshold (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Finnish collection points

In 2013, the share of non-domestic cigarettes was homogeneous among Finnish cities, with the collection points showing extreme similarity also in the shares of products. In all the cities, the sum of other illicit cigarettes and legal non-domestic cigarettes accounted for at least 94.9% of the total of non-domestics (Map 4).

In Finland, unlike in other countries, the presence of a border with a non-EU state (i.e., Russia) does not seem to impact on internal consumption. The closeness of the cities to this border does not affect their share of non-domestic products. However, the fact that no collection points were located directly on the Russian borders may have led to underestimation of this influence.

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)
Source: Transcrime elaboration (details in the Annex)

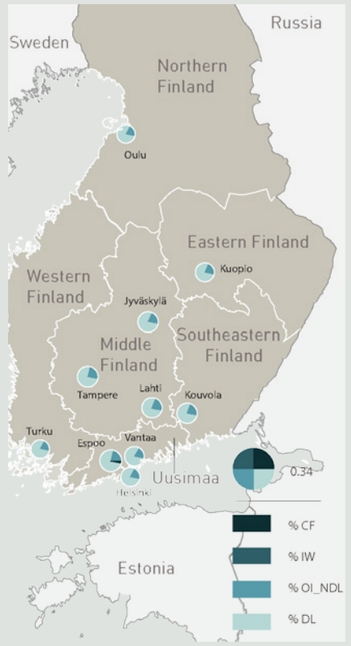
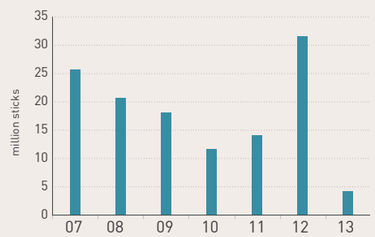


Figure 8. Cigarettes seized in Finland, million sticks (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Russian and Estonian law enforcement agencies in order to reduce the vulnerability of the Finnish eastern border and reduce illicit flows through the southern coast.
- Increasing cooperation and exchanging data with countries such as Belarus, Poland and Ukraine — other starting points of illicit tobacco.
- Promoting a national action plan against the ITTP to reduce illicit tobacco consumption.
- Promoting national awareness campaigns to reduce illicit consumption.
- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.
- Promoting security preventative measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public estimates on the size of the ITTP, data on convictions for the ITTP and data on the possible membership of organised crime groups.

France

Bir Hakeim, Paris

COUNTRY DATA

Capital City
Paris

Surface (WB 2014)
549,190 km²

Total population (WB 2014)
66,028,467 (2013)

Borders
Andorra, Belgium, Germany, Italy, Luxembourg, Monaco, Spain, Switzerland

Gross Domestic Product, € (Eurostat 2014)
2,060 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

15.4%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

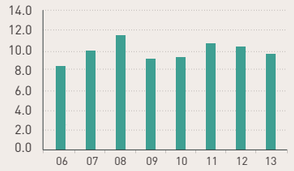


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

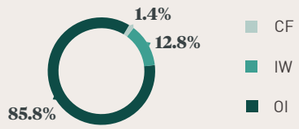
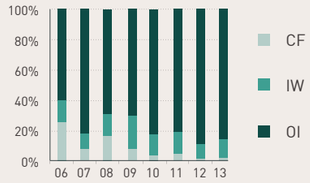


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

47.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

36.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

6.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

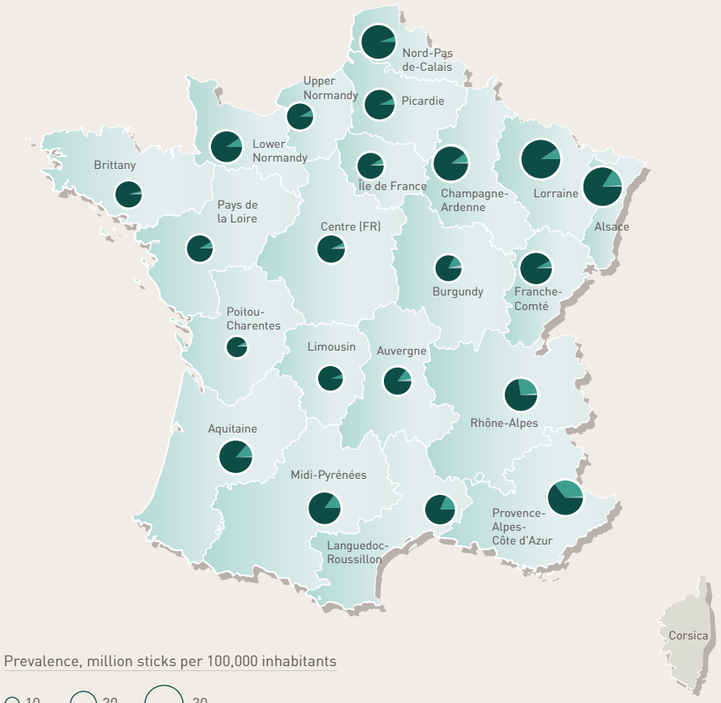
80.0%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

263.8

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

France had a medium-high level of the ITTP in 2013. The illicit share of the market was equal to 15.4% of the total (Figure 1). In volume terms, however, it was the second largest after the German one (KPMG 2014).

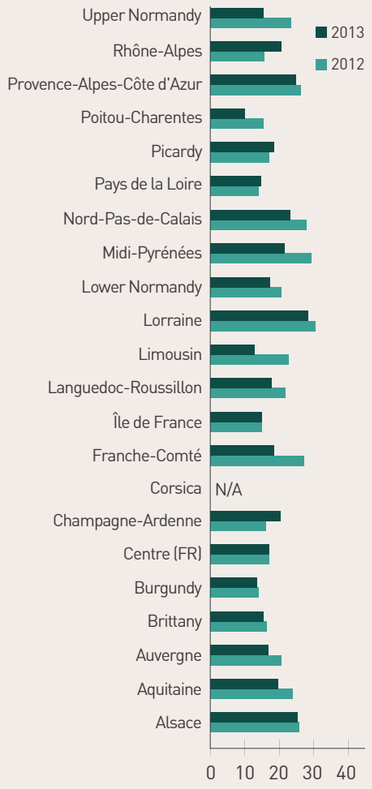
In 2013, **the distribution of the ITTP among French areas was quite heterogeneous.** Out of 21 areas analysed, 14 had a low and medium-low level, six a medium-high and high level and one a very high level of the ITTP (Map 2). Île de France (1,440 million sticks), Rhône-Alpes (1,066 million) and Provence-Alpes-Côte d'Azur (1,015 million) were the areas with the largest illicit cigarette markets. Limousin, with 81 million sticks, was the smallest one.

Lorraine (28.3 million sticks per 100,000 inhabitants), **Alsace** (25.3), **Nord-Pas-de-Calais** (23.1) **and Provence-Alpes-Côte d'Azur** (24.8) **had the highest prevalence of the ITTP** (Map 2). The first three areas are located along the borders with Belgium, Luxembourg, Germany and Switzerland. The main city of Provence-Alpes-Côte d'Azur is Marseille, whose port is a crucial junction for the national ITTP. This fact contributes to making the ITTP a well-established practice in the city (Lalam et al. 2012).

Between 2012 and 2013, the prevalence of illicit cigarettes decreased in 16 out of 21 areas analysed (Figure 5). Limousin (-43%), Poitou-Charentes (-35%), Upper Normandy (-34%) and Franche-Comté (-32%) were the areas where the prevalence decreased the most. Significant increases occurred in Champagne-Ardenne (27%) and Rhône-Alpes (33%), possibly because of the increase in the price differential with Belgian (+7%) and Swiss (+12%) cigarettes.

Figure 5. 2012-2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates

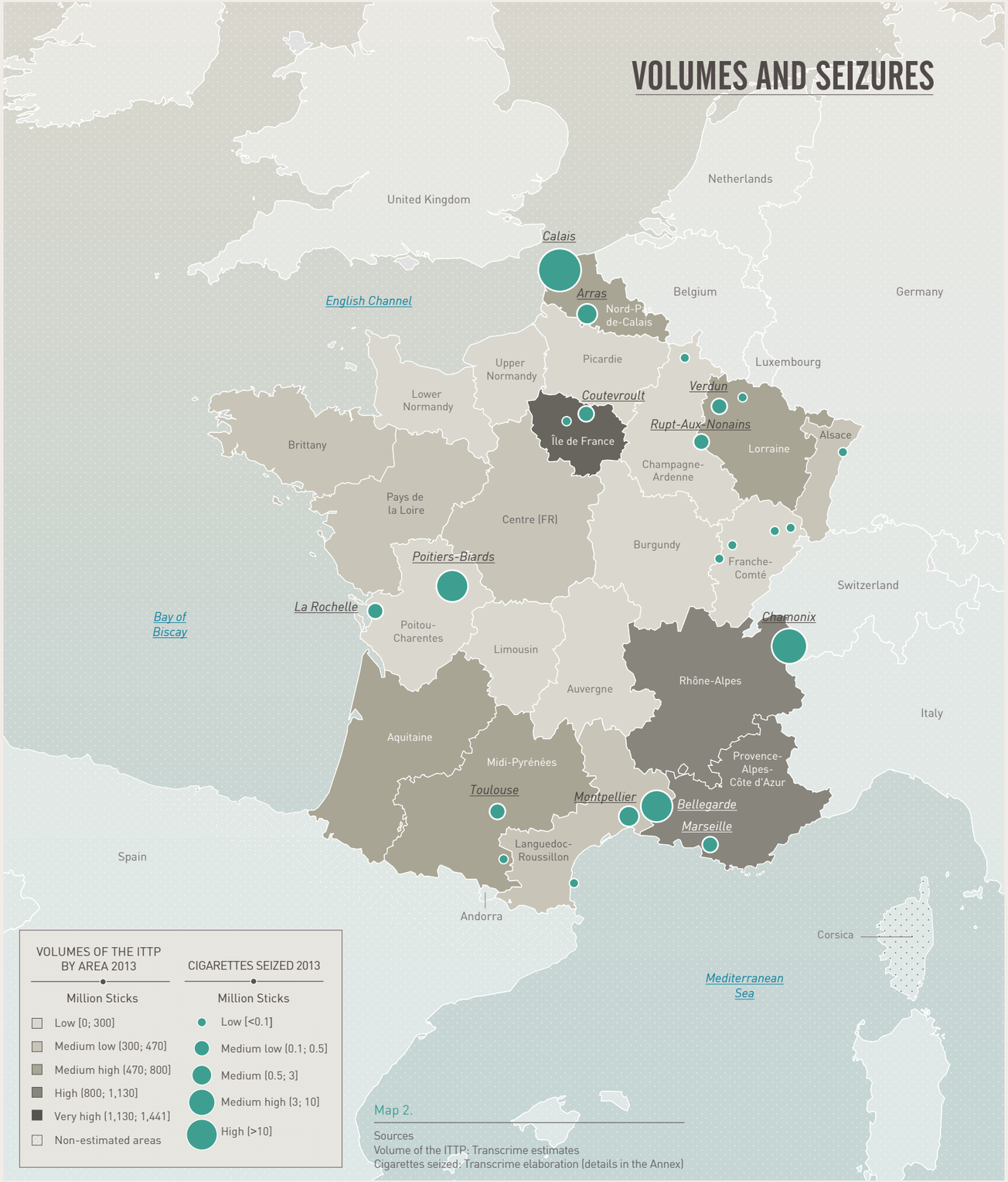


THE PRODUCTS

In 2013, **the prevalent illicit tobacco product was other illicit cigarettes** (85.8% of the ITTP) (Figure 3). The northern areas had a share above 90% due to the proximity to Belgium and Luxembourg, where cigarettes are cheaper. Brittany (96.0%), Limousin (94.3%), Nord-Pas-de-Calais (94.3%) and Picardy (93.4%) had high concentrations (Map 1).

The second most important type of illicit cigarettes was illicit whites (12.8% of the ITTP) (Figure 3). The port of Marseille is considered the main channel for the transit of illicit products (Lalam et al. 2012). It is likely that illicit whites also enter France through this port and are distributed across the South. In fact, Provence-Alpes-Côte d'Azur (34.7% of the ITTP), Rhône-Alpes (25.9%), Languedoc-Roussillon (17.7%) and Midi-Pyrénées (15.0%) were the areas with the highest prevalence. By contrast, Brittany (2.8%) and Centre (FR) (4.6%), registered the lowest shares (Map 1).

The third type of illicit cigarettes was counterfeits (1.4% of the ITTP) (Figure 3). **In all of the areas, counterfeit cigarettes had a marginal role**. Burgundy was the only area with a share above 3% in 2013 (3.8%) (Map 1).



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

France is mainly an ending point, and secondly a transit and starting point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **French market** originate mainly from cross-purchases with bordering countries: **Andorra**, **Belgium**, **Luxembourg** and **Spain** (Figure 6) (see also Euromonitor International 2012g). In these countries, cigarette prices are lower than in France. For instance, in October 2013, in these countries, the cheapest brand cost from €2.1 to €4.5, whereas in France it was sold at €6.3 (PMI 2013a). Other starting points are **Eastern European countries** (Poland, Romania, Russia and Ukraine), **Maghreb countries** (Algeria, Morocco and Tunisia) and the **United Arab Emirates**. France is also an ending point for illicit whites produced in Greece (KPMG 2014).

France is also a **transit** point for smuggled cigarettes (Direction générale des douanes et droits indirects 2011b; Euromonitor International 2012g; Le Pays 2012) (Figure 7). The main **inflows** transiting through France originate from **Poland**, **Bulgaria**, **China**, **Greece**, **Hungary** and **Spain**. The **outflows** are mainly intended for the **UK**, **Ireland**, the **Netherlands** and **Spain**.

France has a minor role as a **starting point** (Figure 8). Smugglers illegally export French products to **Ireland** and the **UK**, benefiting from a higher price differential.

Illicit products are smuggled in, through, or from France mostly by **motor vehicle** and **water**. Many tobacco seizures on motor vehicles have occurred in border areas such as **Arras**, **Perpignan**, **Toulouse**, **Bayonne**, **Chamonix** and **Lorraine**. Motorways are frequently used by traffickers as crucial links between ports and the final markets (in particular the A1 motorway connecting Lille to Paris and the A6 from Paris to Lyon) (France 3 2012).

French ports are key junctions for the ITTP. Seizures occurred mainly in the commercial **ports** of **Le Havre**, **Marseille** and **Dunkirk** (see also Lalam et al. 2012), which received large shipments from China and other Asian countries, and in the ports of **Calais**, **Cherbourg** and **Dieppe** on motor vehicles embarking on ferries to Ireland and the UK.

Figure 6. France as ending point (2010–2013).* N= 59

*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. France as transit point (2010–2013).* N= 14

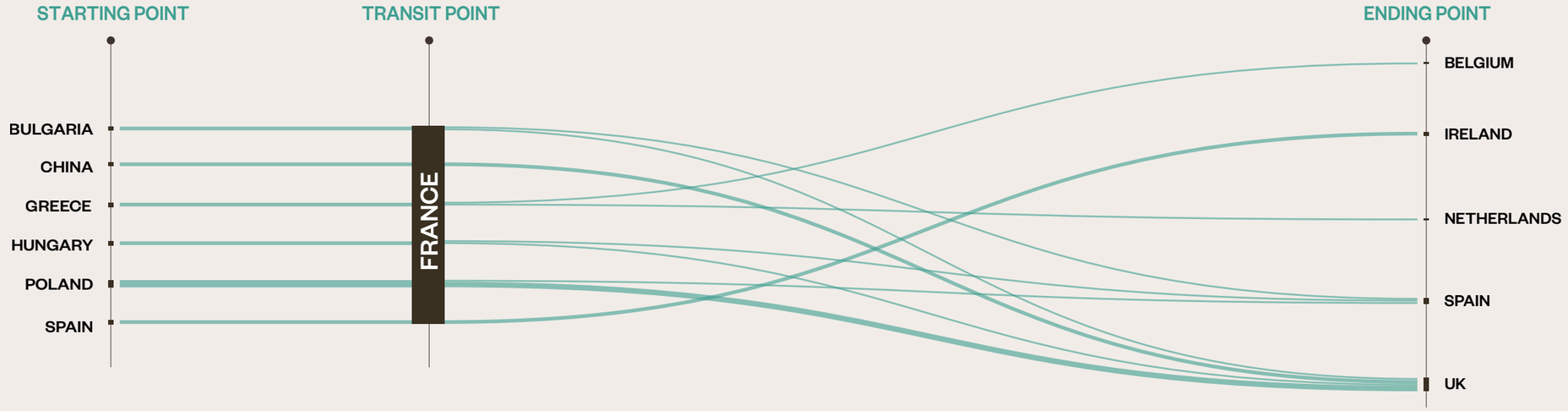
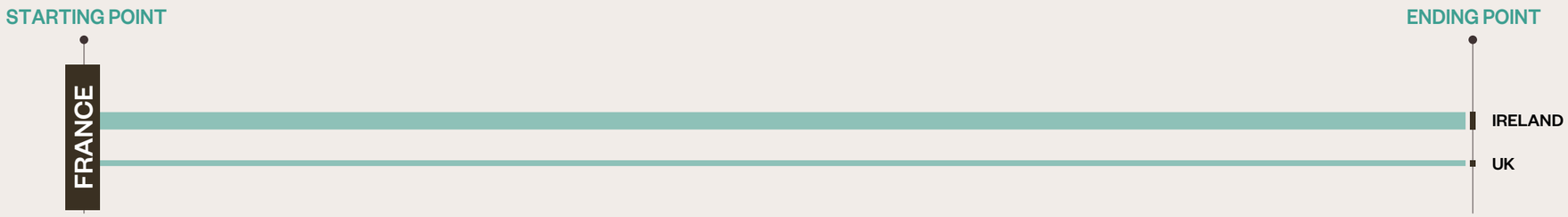


Figure 8. France as starting point (2010–2013).* N= 12



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 the French Directorate-General of Customs and newspapers reported 131 tobacco seizures involving 293 persons. They were mainly **Romanians** and **French**. In some instances, recent immigrants from **Maghreb** also engage in the ITTP (Lalam et al. 2012). In the majority of seizures, smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks. Indeed, according to the French Customs, illicit tobacco smuggling is managed by **well-organised groups** which control the illegal importation of tobacco into France, its storage in clandestine places/apartments and the final distribution to street sellers (Direction générale des douanes et droits indirects 2010).

Tobacco is transported to France mainly by car and **sometimes** inside **trucks** and **containers** or inside **trucks on board ships**.** The use of trucks is widespread along the Andorran-French route, where organised groups purchase cigarettes at a lower price and transport them to France using **commercial trucks** (Lalam et al. 2012). **Internet sales** of tobacco products are an emerging trend. They accounted for nearly 10% of total tobacco seizures in 2012 (Direction générale des douanes et droits indirects 2011a).

** Between 2010 and 2013, 3.9 million cigarettes were seized in 28 cars (quantity per seizure: 140,200); 97.5 million cigarettes were seized in 20 trucks (quantity per seizure: 4.9 million); 111.7 million cigarettes were seized in 7 containers (quantity per seizure: 16.0 million).

REGULATION

The French Government has adopted **some measures against the ITTP**. A memorandum of understanding between national customs and tobacco companies to strength their mutual cooperation is in place. In 2011, a national action plan against the ITTP was promoted. The Directorate General of Customs and Indirect Taxes also provides public and yearly data on illicit tobacco seizures and convictions for the ITTP.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities. A national legal provision on a tracking and tracing system is also in place; however, the publication of a decree in the *Conseil d'Etat* is still necessary to implement this system. Maintaining complete and accurate records of all relevant transactions is also mandatory for all persons engaged in the supply chain of tobacco products.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in France are the **Directorate-General of Customs and Indirect Taxes** (*Direction générale des douanes et droits indirects*), the **National Police** (*Police Nationale*) and the **National Gendarmerie** (*Gendarmerie Nationale*).

In recent years, the quantity of cigarettes seized in France has shown a fluctuating trend (Figure 9). Cigarette seizures increased between 2007 and 2011 (from 203 to 262 tonnes). Between 2011 and 2012, the number of cigarettes seized decreased to 371 tonnes. However, **in 2013**, this number increased again, reaching **430 tonnes** (Map 2).

Top three seizures in 2013

A total of 16,650 kgs of water pipe tobacco were seized in Aulnay-sous-Bois. Customs officers discovered illicit tobacco in a warehouse in Garonor. The products originated in the United Arab Emirates and arrived in France through the port of Le Havre.

A total of 11,000 kgs of hand rolling tobacco were seized on Highway A9, near Avignon on the 7th of October. Customs discovered the illicit tobacco in a motor vehicle. It came from Bulgaria and had Portugal as its destination. The driver, a 50-year-old Bulgarian, was taken into custody.

A total of 10.8 million cigarettes were seized in Calais. Customs officers searched a truck heading for the UK which had arrived in France through the port of Le Havre.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

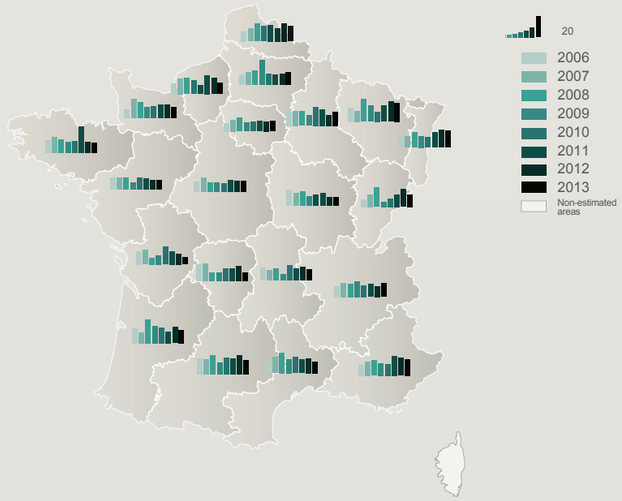
Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 14% in terms of volume and by 10% in terms of per capita consumption (Figure 2 and Map 3).
In volume terms, the areas with the largest illicit cigarette markets in 2013 had the largest markets for the entire 2006–2013 period. Île de France, Rhône-Alpes, Provence-Alpes-Côte d'Azur and Nord-Pas-de-Calais together accounted for about 40% of the French ITTP during the period analysed.
In terms of prevalence, the relative weight of the various areas changed considerably over the years, without forming any clear patterns. The only areas whose prevalence exceeded the average for most of the years analysed were those along the borders with Belgium, Luxembourg, Germany and Switzerland (Lorraine and Nord-Pas-de-Calais) together with Provence-Alpes-Côte d'Azur and Midi-Pyrénées, whose prevalence was affected by the presence of Marseille and Andorra (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes did not significantly change from 2006 to 2013 (Figure 4)**.** Other illicit cigarettes were the most common illicit product during the entire period. Moreover, their share increased over time, rising from 59.9% (2006) to 85.8% (2013), mostly because of the progressive reduction of counterfeits. Indeed, the shares of counterfeits fell from 28.5% of the illicit market in 2006 to 1.4% in 2013. The share of illicit whites oscillated around 12% of the ITTP for the entire period. The only exception was in 2009, when their share reached a peak of 22.1% of the ITTP. This increment was mainly due to the high level of illicit whites recorded in Provence-Alpes-Côte d'Azur (46.6%) and Rhône-Alpes (55.6%).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Marseille

The city of Marseille is the most problematic French city with respect to the ITTP owing to its port and the presence of specialized local criminal groups (Alvarez 2003).

In the fourth quarter of 2013, the non-domestic incidence stood at 37.7%, far above the national average (7.2%). **Illicit whites**, in particular, **were** more **widespread** in this city than any other in the country (9.8% of the total cigarette market).

Regardless of the quarterly fluctuations, **the prevalence of non-domestic cigarettes was quite homogeneous across the city**. In 2013, the collection points of Boulevard de Die (44.4%) and Rue de Chalusset (44.0%) in the northern part of the city had the highest levels of non-domestics (Map 4).

Map 4. Prevalence of the ITTP in Marseille's collection areas (2011–2013)
Source: Transcrime elaboration (details in the Annex)

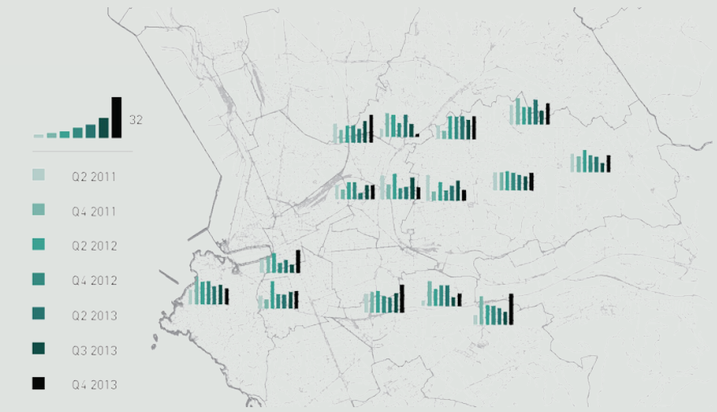
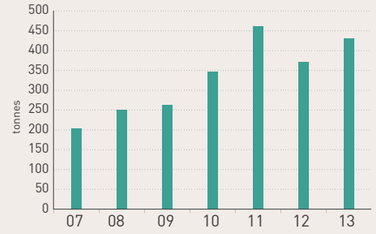


Figure 9. Cigarettes seized in France, tonnes (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with the law enforcement agencies of Andorra, Belgium, Luxembourg, and Spain in order to reduce the vulnerability of these borders.
- Strengthening controls in the French ports of Le Havre, Marseille and Dunkirk in order to reduce tobacco illicit flows. In particular, strengthening controls in Marseille's harbour, a key entry point for illicit whites.
- Launching awareness campaigns to tackle illicit tobacco consumption in the areas with the highest prevalence, such as Lorraine, Alsace, Nord-Pas-de-Calais and Provence-Alpes-Côte d'Azur.
- Providing yearly public estimates on the size of the ITTP, data on convictions for the ITTP and data on the possible membership of organised crime groups.

Germany

COUNTRY DATA

Capital City
Berlin

Surface (WB 2014)
357,127 km²

Total population (WB 2014)
80,621,788 (2013)

Borders
Austria, Belgium, Czech Republic, Denmark, France, Luxembourg, Netherlands, Poland, Switzerland

Gross Domestic Product, € (Eurostat 2014)
2,738 billion (2013)

Moltke Bridge, Berlin

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

11.3%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

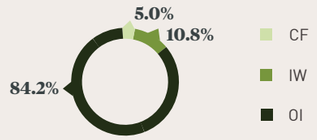
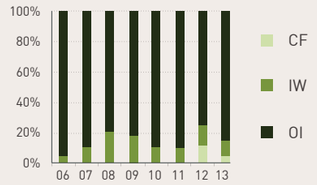


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

79.6

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

30.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

5.3

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

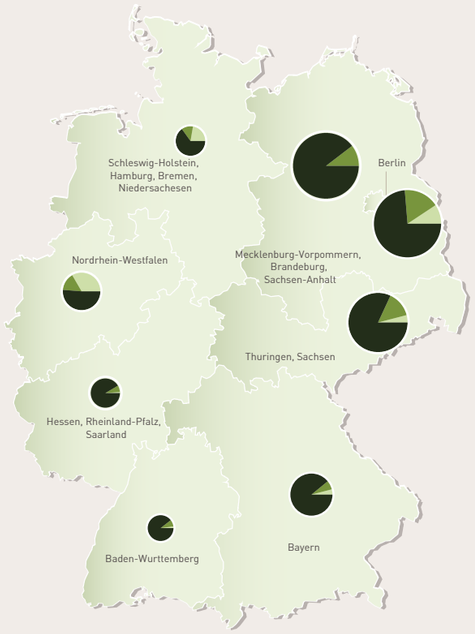
73.4%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

194.5

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

Germany, with a population of more than 80.6 million inhabitants, **had the largest cigarette illicit market in the EU in 2013** (11.3 billion illicit cigarettes) (KPMG 2014). **The level of the ITTP was medium at national level (11.3%) compared to other EU Member States, but irregular across the country** (Figure 1). In 2013, the three **areas along the eastern border had medium-high levels of the ITTP, whereas western areas had low levels**. Nordrhein-Westfalen was an exception. This area had the largest population and the largest volume of the ITTP (2,016 million sticks) (Map 2).

The areas with the highest prevalence were in the northeastern part of the country: Berlin (38.2 million sticks per 100,000 inhabitants), Mecklenburg-Vorpommern, Brandenburg, Sachsen-Anhalt (35.1) and Thuringen, Sachsen (29.1).[1] Western areas of Baden-Wurttemberg (7.5), Hessen, Rheinland-Pfalz, Saarland (8.5) and Schleswig-Holstein, Hamburg, Bremen, Niedersachesen (8.8) recorded lower prevalences of illicit cigarettes (Map 1). The cigarette price differential between Germany and Poland and the Czech Republic, is one of the main factors behind these differences (Locke 2010).

Between 2012 and 2013, **the prevalence of illicit cigarettes decreased in 6 out of 8 areas** (Figure 5). Berlin recorded the largest decrease (-14%), but still had the highest prevalence in the country. Bayern (+30%), and Thuringen, Sachsen (+16%) were the two exceptions. The **prices** of the cheapest cigarettes **fell in Austria between 2012 and 2013**, generating opportunities for the smuggling of cigarettes to neighbouring Bayern.

THE PRODUCTS

In 2013, **the most common illicit tobacco product was other illicit cigarettes** (84.2% of the ITTP) (Figure 3). Germany borders with four EU Member States where cigarettes are cheaper (Poland, Czech Republic, Austria and Luxembourg). Furthermore, a flow of illicit cigarettes from Eastern Europe to the profitable French and British markets transits through Germany (Calderoni, De Simoni, et al. 2013). These factors may determine the high share of other illicit cigarettes. **Hessen, Rheinland-Pfalz, Saarland (91.7%) had the highest shares**, Nordrhein-Westfalen (51.3%) the lowest (Map 1).

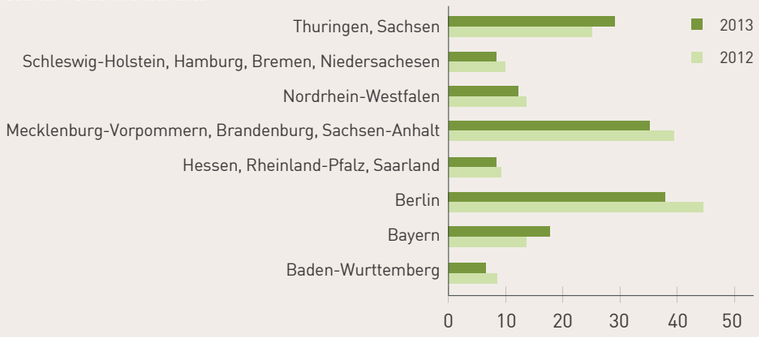
Illicit whites were the second most important type of illicit cigarettes (10.8% of the illicit market) (Figure 3). **Their share was higher** particularly **in Berlin (17.1%), Nordrhein-Westfalen (15.2%) and Thuringen, Sachsen (14.1%)** (Map 1). These areas may register a high share of this product beacause they border with Belgian, Polish and Czech areas reporting high shares of illicit whites.

The third type of illicit cigarettes was counterfeits (5.0% of the illicit market) (Figure 3). **Their share was high in Nordrhein-Westfalen (33.5%) and in Schleswig-Holstein, Hamburg, Bremen, Niedersachesen (22.3%)**, which ranked 7th and 20th among all of 247 EU areas. The port of Hamburg is a pivotal entry gate for counterfeit cigarettes coming from China (BASCAP 2012; Bundeszollverwaltung 2012).

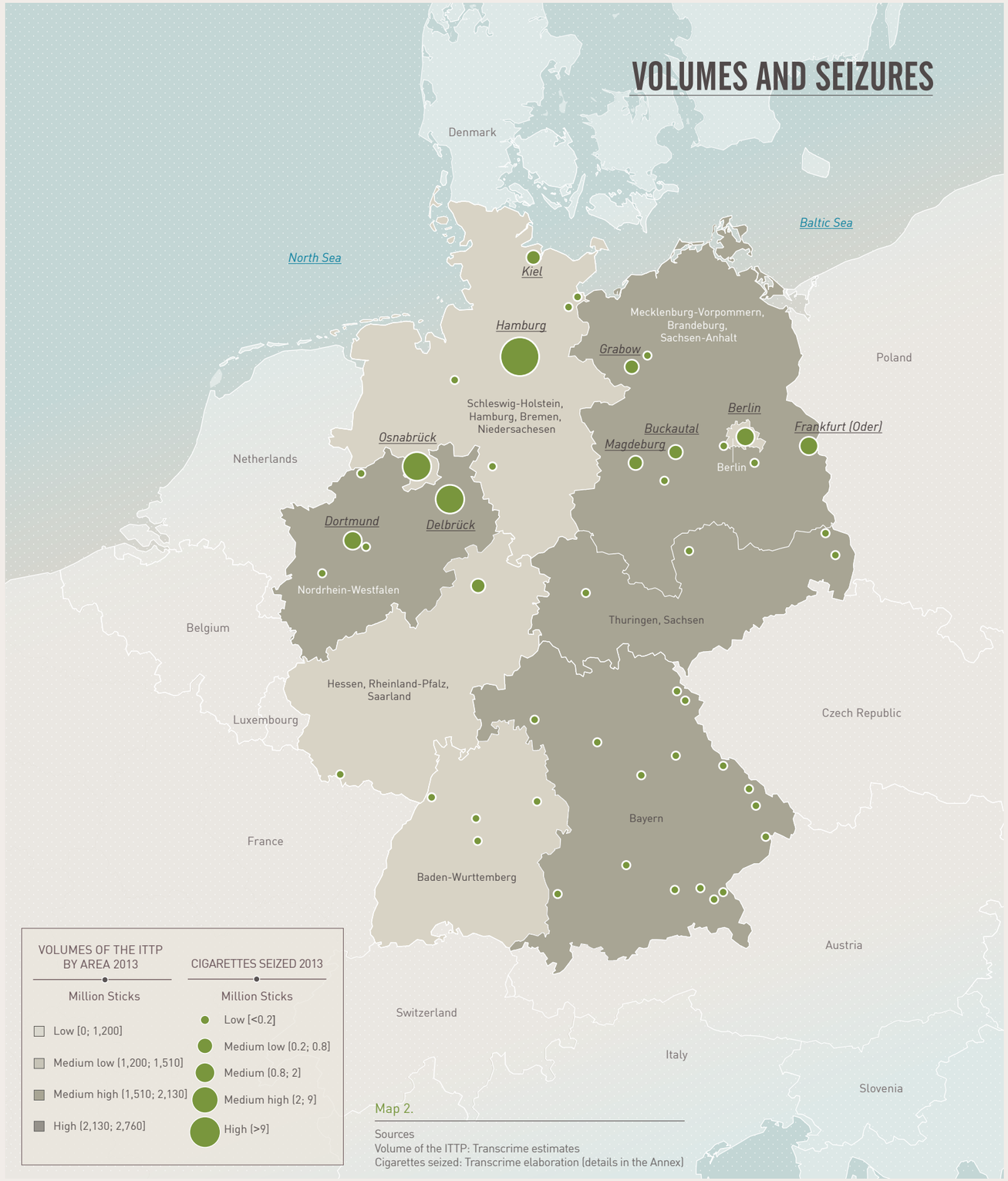
[1] The disaggregation in sub-national areas applied to Germany follows the territorial subdivision of the Yellow Bag Survey for a matter of sample significance.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Germany is mainly an ending point, and secondly a transit and starting point, for the ITTP.

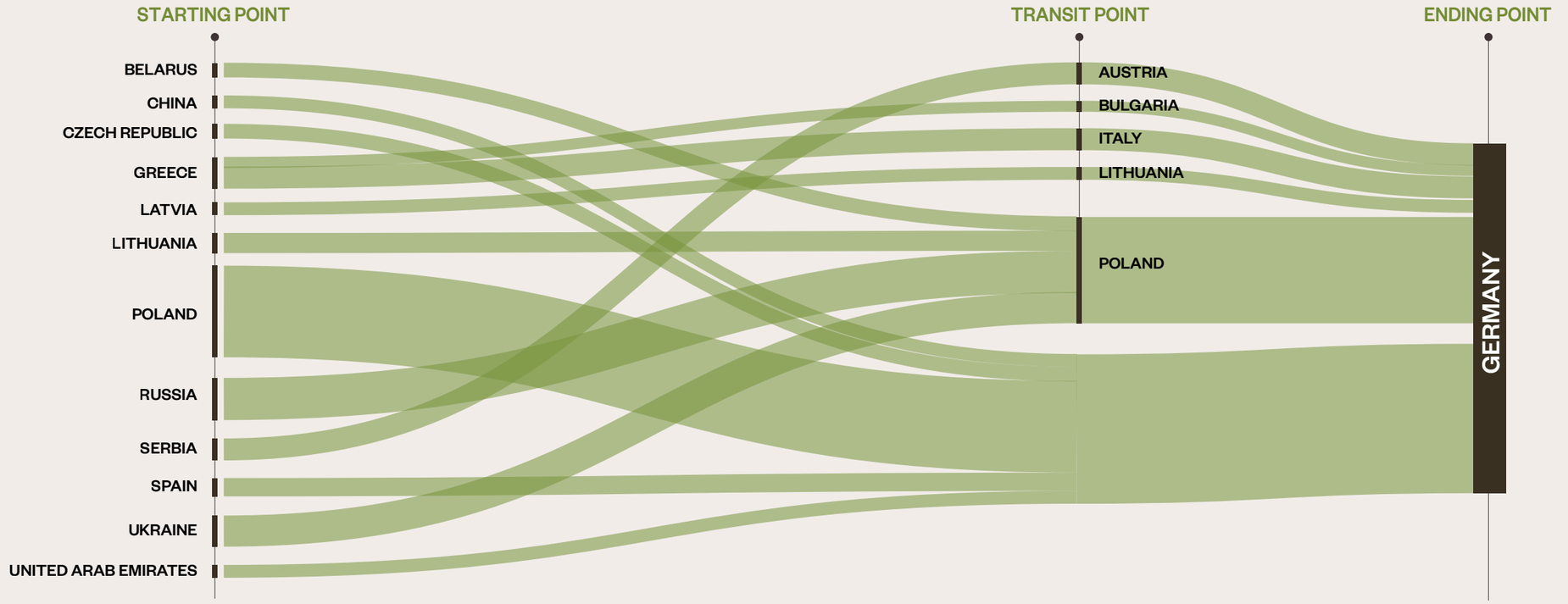
Considering the illicit flows recorded between 2010 and 2013, Germany is primarily an **ending point** for illegal tobacco products circulating within the EU. Illicit flows towards the **German market** originate mainly from **Poland**, **Russia**, **Greece**, **Ukraine**, **Serbia**, **Lithuania**, **Spain**, the **Czech Republic**, **China**, **United Arab Emirates** and **Belarus** (see also KPMG 2014) (Figure 6). Before reaching Germany, illicit tobacco products transit through Poland, Italy, Lithuania, Austria and Bulgaria.

Germany has a secondary role as **transit** point from Eastern to Western Europe (Calderoni, De Simoni, et al. 2013). The main **inflows** transiting through Germany originate from **Romania**, **Poland**, **Moldova**, **China**, the **United Arab Emirates**, the **Czech Republic** and **Greece**. Once in Germany, the **outflows** are mainly intended for the **UK**, the **Netherlands**, **France** and **Ireland**, where smugglers benefit from a higher price differential (Figure 7). Germany is also a **starting point** of illicit whites, which are manufactured in Trier (located in the west of Hessen, Rheinland-Platz, Saarland area) and illegally exported mainly to the Spanish market (KPMG 2014).

Illicit products arrive in or transit through Germany mainly by **motor vehicle**, **water** and **air flights**. Tobacco seizures on motor vehicles have occurred in the areas surrounding **Bad Muskau**, **Berlin**, **Frankfurt Oder** and **Forst**, which are close to the Polish border, and along the main motorways entering Germany from Austria and the Czech Republic (*Autobahn* 3, 8 and 6). Here, the main entry points were **Furth im Wald**, **Nuremberg**, **Passau**, **Piding** and **Regensburg**.

Cases of **sea smuggling** have been detected in the **port of Hamburg**, which receives large shipments of illegal products mainly from the United Arab Emirates, China and South Eastern Asia (e.g. Singapore). Several attempts to import illicit cigarettes have been detected at the **airports** of **Bremen**, **Dusseldorf**, **Frankfurt** and **Munich**. In these cases, the illicit flows originated mainly from the Canary Islands, Greece, Iraq and Kosovo.

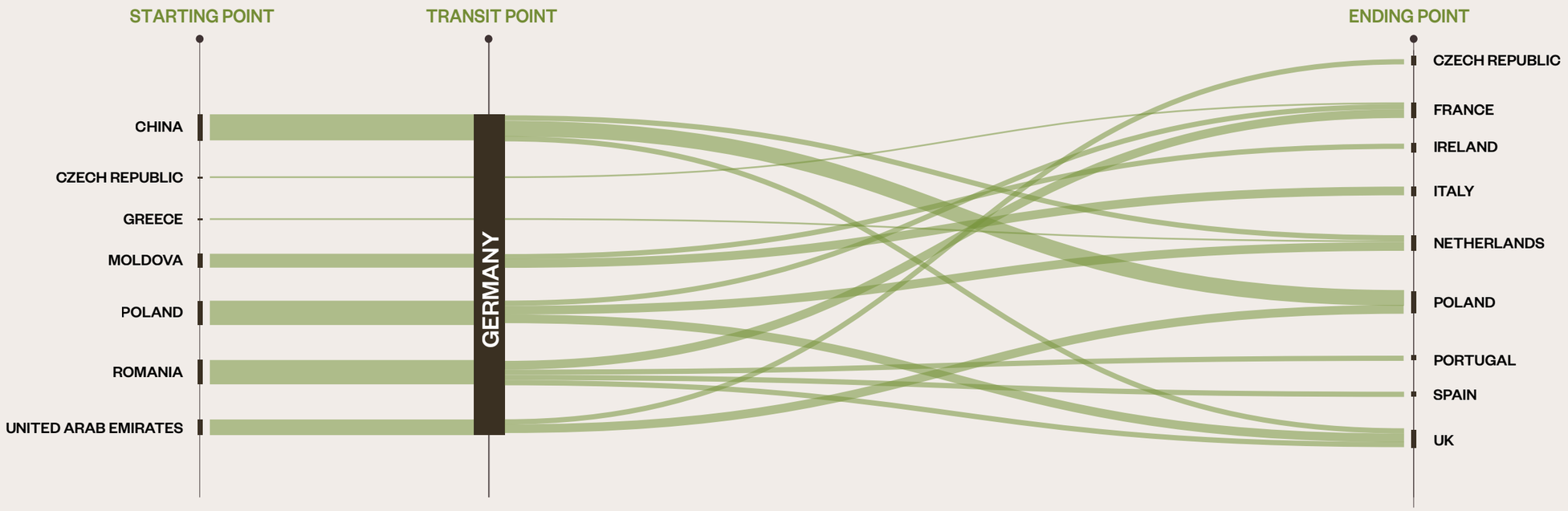
Figure 6. Germany as ending point (2010–2013).* N= 178



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Germany as transit point (2010–2013).* N= 25



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 German Customs Criminal Office and newspapers reported 305 tobacco seizures involving 747 persons, mainly **Germans** (25%), **Poles** (22%), **Lithuanians** (8%), **Serbians** (8%) and **Vietnamese** (7%). They may have been either bootleggers or members of larger organised groups. In the majority of the seizures, they were alone at the moment of seizure. The German ITTP is composed of **low-density networks**, formed by small-structured enterprises, and individual entrepreneurs (von Lampe 2003). In particular, Poles are specialised in supplying tobacco, while Vietnamese are specialised in street selling (von Lampe 2005a; Bundeskriminalamt 2011; Bundeskriminalamt 2012).

Tobacco was transported to Germany mainly by car (46%) **and sometimes by truck** (20%) due to the efficient German motorway system (DKFZ 2010; Teevs 2010).** Tobacco was also transported by **van** (11%), **plane** (10%) and by **ship in containers** (6%). German ports are used to ship large quantities of tobacco from Asian countries (Zollfahndungsamt Hamburg 2012a; Zollfahndungsamt Hamburg 2012b). In 14% of seizures, tobacco was seized in **private houses**, **warehouses and garages**.

In 2011, an **illicit tobacco factory** was raided in Hamburg (www.ksta.de 2011). Germany also hosts a factory **producing illicit whites** (KPMG 2014).

** Between 2010 and 2013, 10.7 million cigarettes were seized in 117 cars (quantity per seizure: 91,000); 85.1 million cigarettes were seized in 50 trucks (quantity per seizure: 1.7 million); 7.8 million cigarettes were seized in 29 vans (quantity per seizure: 268,900).

REGULATION

According to the anti-ITTP policies considered in this analysis, the German Government has adopted only the publication of annual statistical reports on tobacco seizures by the German Customs Criminal Office.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities, tracking and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Germany are the **Customs Criminal Office** (*Zollkriminalamt*), the **German Customs** (*Zoll*), the **Federal Criminal Police Office** (*Bundeskriminalamt*), the **Federal Police** (*Bundespolizei*), the **State Police** (*Landespolizei*), the **Federal Intelligence Service** (*Bundesnachrichtendienst*), the **Joint Drug Investigation Team** (*Gemeinsame Ermittlungsgruppe Rauschgift*) and the **Joint Cigarette Investigation Team** in Greater Berlin (*Gemeinsame Ermittlungsgruppe Zigaretten*).

The quantity of cigarettes seized in Germany decreased from 2007 (Figure 8). Cigarette seizures markedly decreased between 2007 and 2010 (from 465 to 157 million cigarettes). These data remained stable after 2010. After a slight increase in 2011 (160 million cigarettes), the German Customs seized 146 million cigarettes in 2012 and **147 million cigarettes in 2013** (Map 2).

Top three seizures in 2013

A total of 53 million cigarettes were seized in the port of Hamburg. On the 24th of July, Customs investigators discovered the products in six containers arriving from Dubai (United Arab Emirates) and Singapore. The cigarettes had probably been produced in the United Arab Emirates and were destined for the German illicit market.

A total of 44 million cigarettes were seized in the port of Hamburg on the 25th of May. Customs officers checked a container arriving from Dubai (United Arab Emirates) and Singapore and found illicit Kings & Lords and Dodgers cigarettes. The products were destined for the German illicit market.

A total of 9.5 million cigarettes were seized in the port of Hamburg. On the 6th of May, Customs officers found contraband cigarettes in a container arriving from the United Arab Emirates and destined for Poland.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, **the national ITTP decreased by 7%, in both volume and prevalence** (Figure 2 and Map 3). Over the entire period, Nordrhein-Westfalen (yearly average of 2,463 million sticks), Mecklenburg-Vorpommern, Brandenburg, Sachsen-Anhalt (1,934), and Bayern (1,872) were the largest illicit markets.

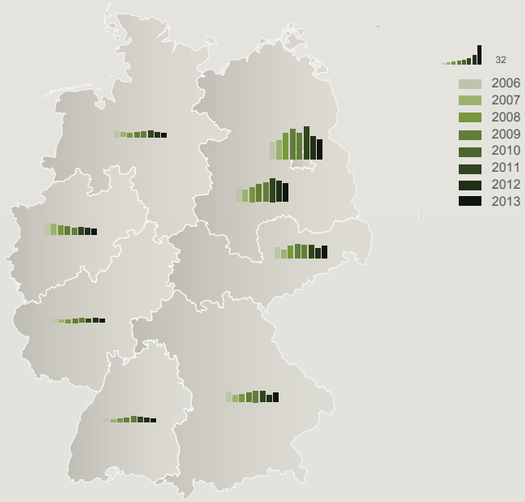
Berlin, Mecklenburg-Vorpommern, Brandenburg, Sachsen-Anhalt and Thuringen, Sachsen showed a high prevalence from 2006 to 2013. With Baden-Wurttemberg, they also recorded the largest increases in prevalence. After the entry of Poland and the Czech Republic in the Schengen area in December 2007, cigarette smuggling from those countries and the levels of the ITTP in eastern Germany grew (Locke 2010; Calderoni, De Simoni, et al. 2013).

Types of illicit cigarettes

The types of illicit cigarettes slightly changed in the period 2006-2013. **Other illicit cigarettes were always the most widespread kind of illicit cigarettes. However, their share dropped over time.** The weight of illicit whites fluctuated during the entire period, mostly concentrating in the northern part of the country (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on the Eastern Border

German Yellow Bag Surveys are based on packs collected from recycling centres. Whilst these data do not make it possible to distinguish between legal and illegal non-domestics, they show the importance of foreign cigarettes in these areas.

Eastern areas report very high shares of non-domestics. Also, illicit whites concentrate close to the eastern border, suggesting that eastern neighbours may be pivotal in their supply. These phenomena are particularly significant in the former German Democratic Republic, where public opinion has been traditionally higherly tolerant of smuggling (Map 4) (Calderoni, De Simoni et al. 2013).

Map 4. Prevalence of the ITTP and share of products at the collection areas (2013)

Source: Transcrime elaboration (details in the Annex)

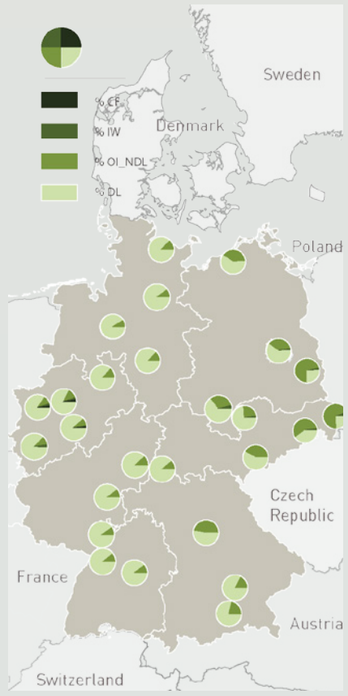
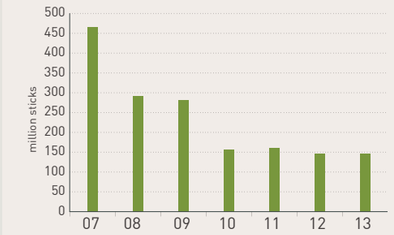


Figure 8. Cigarettes seized in Germany, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Czech and Polish law enforcement agencies to limit illicit tobacco inflows through the German Eastern border. Further, increasing cooperation with western bordering countries in order to reduce tobacco outflows to France, the Netherlands, UK and Ireland as well as with Europol and International Joint Investigation Teams related to the ITTP.

- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of counterfeits and other illicit cigarettes.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country in order to reduce the presence of illicit whites.

- Providing yearly public estimates on the size of the ITTP, data on convictions for the ITTP and on the possible membership of organised crime groups.

Greece

COUNTRY DATA

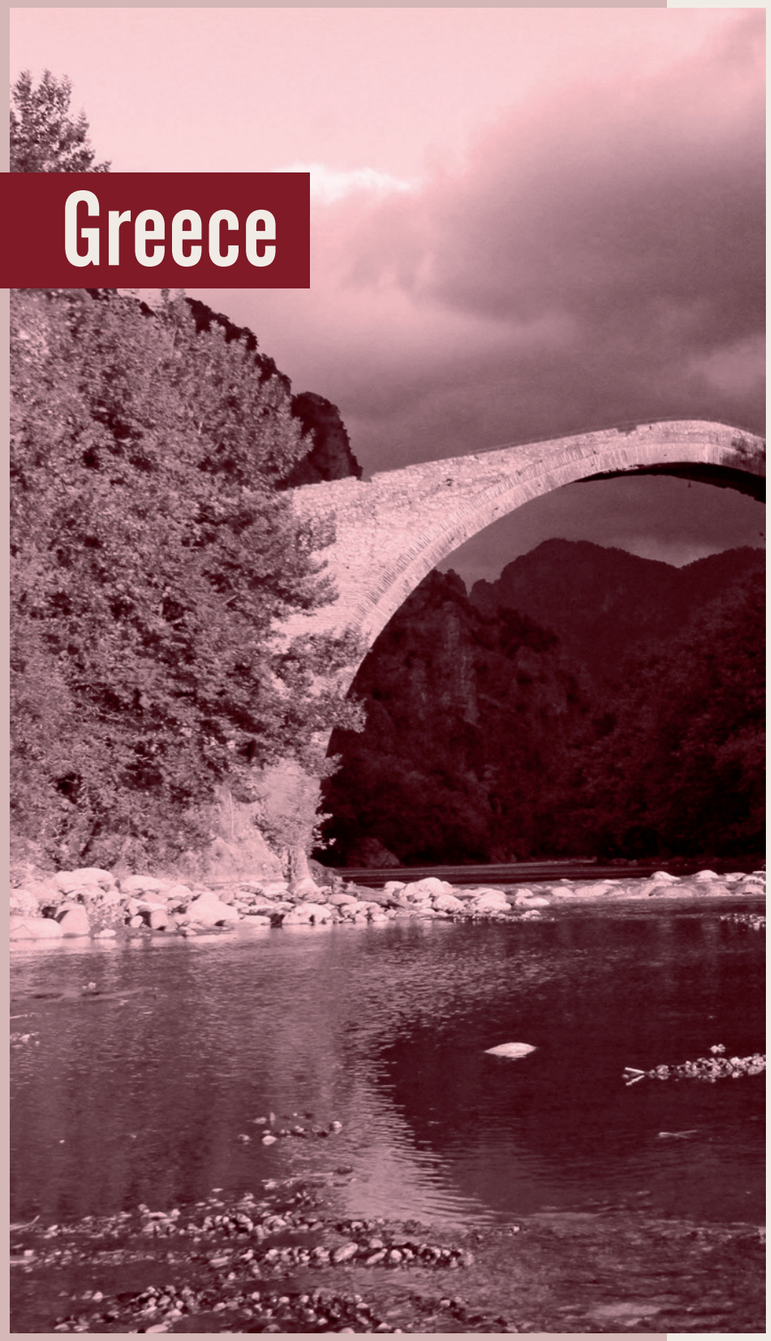
Capital City
Athens

Surface (WB 2014)
131,960 km²

Total population (WB 2014)
11,032,328 (2013)

Borders
Albania, Bulgaria, FYROM, Turkey

Gross Domestic Product, € (Eurostat 2014)
182.1 billion (2013)



Stone bridge, Aoos river

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

17.8%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

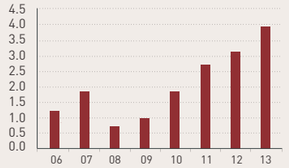


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

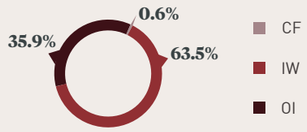
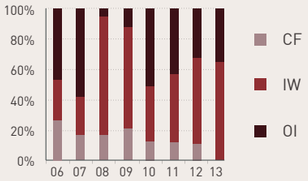


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

18.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

40.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

3.8

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

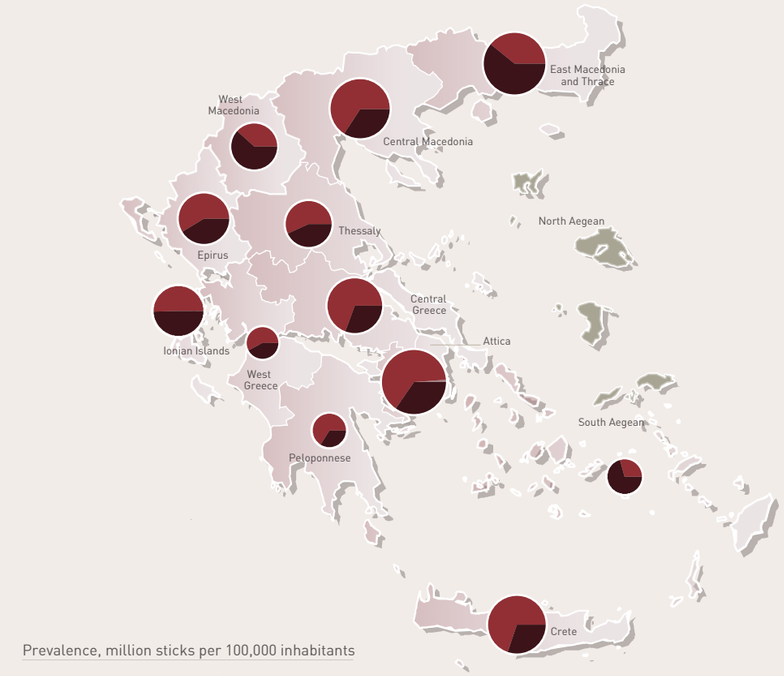
84.4%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

153.5

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

Greece had a high level of the ITTP in 2013, when illicit cigarettes accounted for 17.8% of the national market (KPMG 2014) (Figure 1).

In 2013, **7 out of 13 Greek areas had a medium low level of the ITTP** in terms of volume (Map 2). The level of the ITTP was very high in Attica (1,753 million sticks) and in Central Macedonia (745 million sticks). Together, these two areas made up 63% of the Greek illicit tobacco market. All of the other Greek areas had a medium-low or medium-high volume of the ITTP (Map 2).

Attica also had the highest prevalence of illicit cigarettes (52.2 million sticks per 100,000 inhabitants). **East Macedonia and Thrace, Central Macedonia, and Crete were** other **areas with a relatively high prevalence of illicit cigarettes** (50.8, 46.0 and 44.6 respectively). Southern areas of West Greece (16.0), Peloponnese (16.5) and South Aegean (17.5) presented the lowest prevalence of illicit tobacco consumption (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in 11 out of 13 areas** (Figure 5). The most remarkable increases occurred in Crete (+258%) and Thessaly (+104%). The only exceptions were South Aegean and West Macedonia, which recorded a decrease of -53% and -4%.

THE PRODUCTS

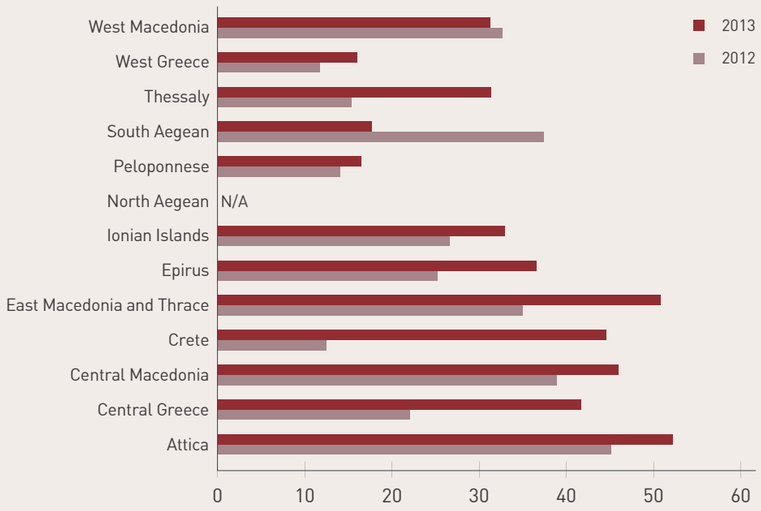
In 2013, **illicit whites were the most common type of illicit cigarettes** (63.5% of the illicit market) (Figure 3). Their share ranged from 29.8% (South Aegean) to 69.9% (Crete), exceeding 50% in 10 out of 13 areas (Map 1). Nationally, the share of illicit whites was particularly high in 2008 and 2009, it then decreased in 2010, to rise again between 2011 and 2013. The growing trend followed by illicit whites between 2010 and 2013 corresponded to a decrease in the share of both other illicit tobacco products and counterfeits (Figure 4).

In 2013, the second most important illicit tobacco product was other illicit cigarettes (35.9% of the illicit market) (Figure 3). South Aegean, West Macedonia, East Macedonia and Thrace were the areas with the highest shares with a percentage of, respectively, 70.2%, 61.6% and 60.9%. Central Greece (30.7%) and Crete (30.1%), the areas with the highest prevalences of the ITTP, had the lowest ones (Map 1).

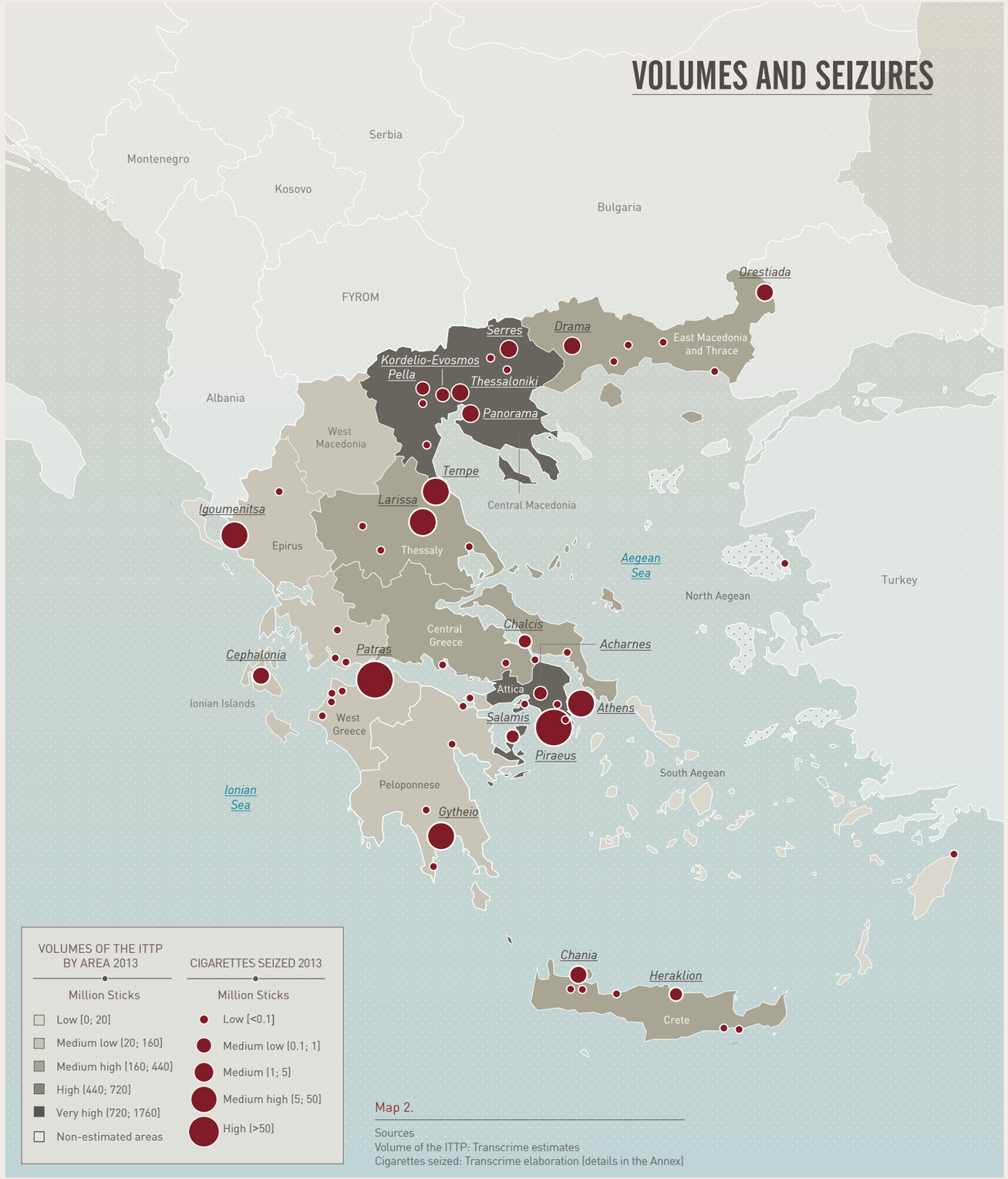
The third type of illicit cigarettes was counterfeits (0.6% of the illicit market) (Figure 3). Attica (1.2%), Central Macedonia (0.5%) and North Aegean (0.2%) were the only two areas where the consumption of counterfeits was observed (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Greece is a mainly a transit point, and secondly a starting and ending point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, Greece is primarily a **transit** point for smuggled cigarettes (Figure 6). The 70–75% of illicit products arriving in Greece are intended **for other countries** (Hellenic Police 2013; KEPE 2013). Chinese companies use Greece as the last storage point before smuggling cigarettes in the EU (DNA 2011). Illicit products **transiting** through Greece come mainly from **China**, **Egypt**, **United Arab Emirates** and **Cyprus**. Once in Greece, they are mainly **distributed** to **Italy**, **the Netherlands**, **Germany**, **Belgium**, **Bulgaria**, the **UK**, **Montenegro**, **FYROM** and other **Eastern European countries** (e.g. Bulgaria).

Greece also has a role as a **starting point**. Cigarettes are mainly exported to **Germany**, **Italy**, the **Netherlands** and the **UK**, where criminals benefit from a higher price differential (Figure 7). Greece is additionally a producer of illicit withes manufactured in Kalamata (Peloponnese) and illegally exported mainly to France and Spain (KPMG 2014). Following the riseof cigarette unit prices in 2010, Greece also became an **ending point** market (Antonopoulos 2013; Euromonitor International 2013k; Hellenic Police 2013). Illicit tobacco products come mainly from **Bulgaria**, **Turkey** and other **Balkan countries** (i.e. FYROM, Kosovo, Moldova, Serbia), where cigarette prices are significantly lower (Figure 8). Greece is also an ending point market for illicit whites produced in Cyprus (KPMG 2014).

Illicit products are smuggled in, through, or from Greece by **water** and **motor vehicle.** The vast majority of seizures have occurred in the **ports** of **Igoumenitsa**, **Patras**, **Piraeus** and **Thessaloniki**. Cigarettes arrive in Greece in large shipments originating from China, Egypt, Singapore and United Arab Emirates (see also Hellenic Police 2013). Once in Greece, cigarettes are transferred to motor vehicles either on ferries/motorboats or via inland routes (Stamatakis 2013; Tsiadis 2013).

THE FLOWS

Figure 6. Greece as transit point (2010–2013).* N= 31

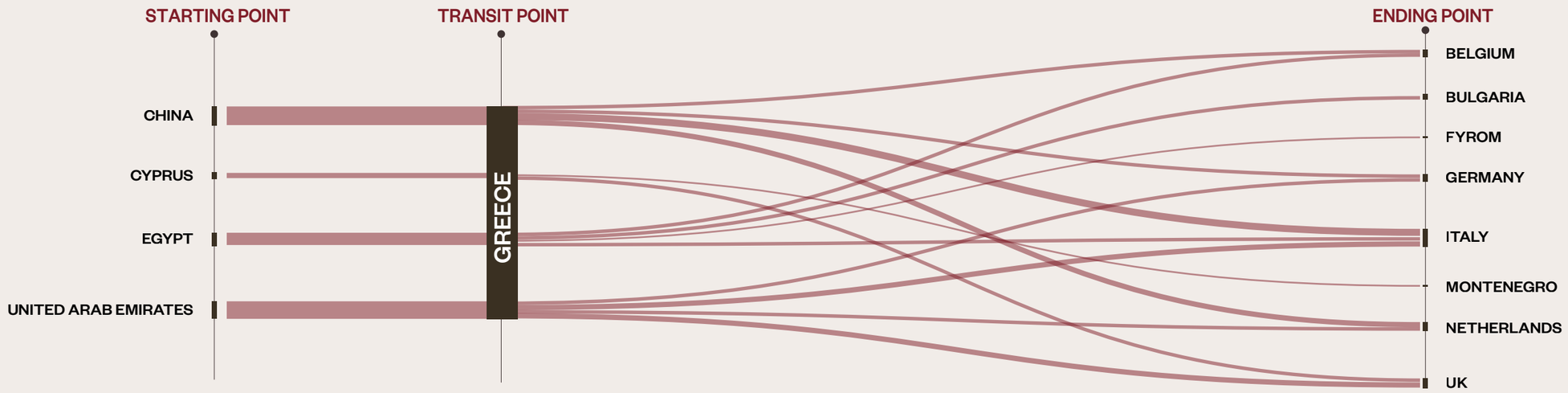


Figure 7. Greece as starting point (2010–2013).* N= 22

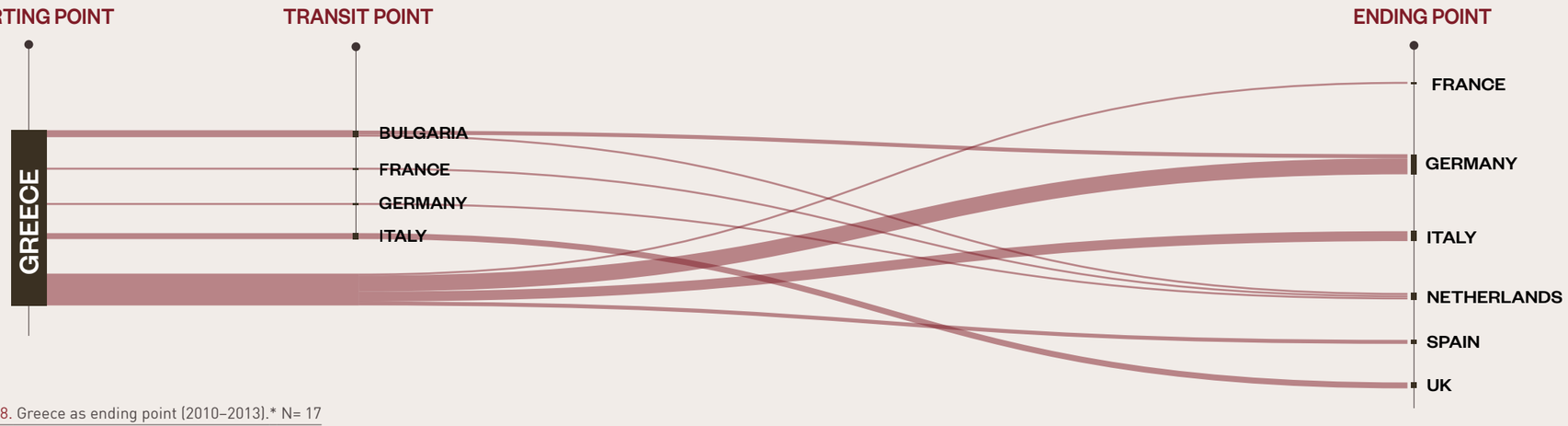
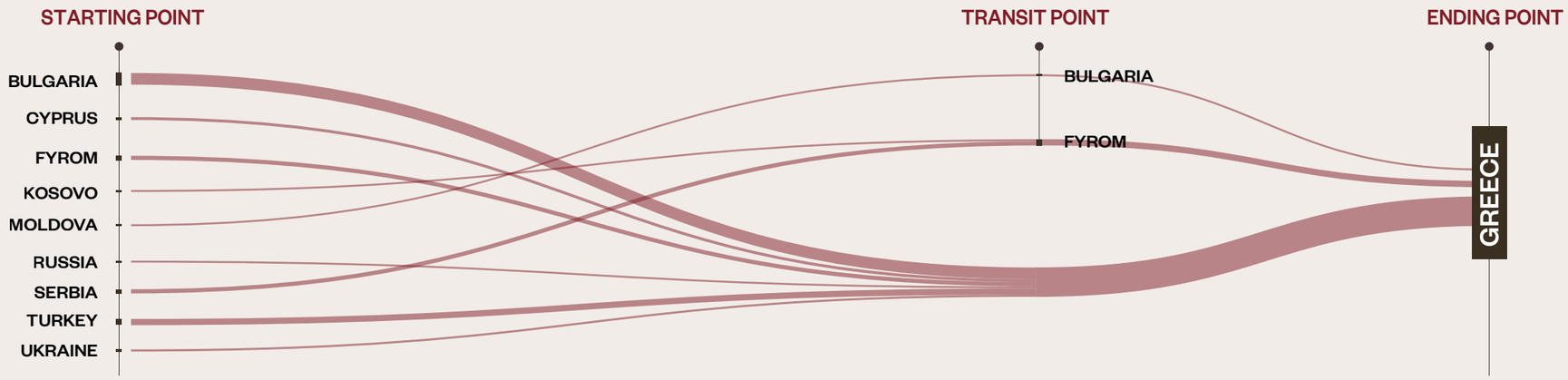


Figure 8. Greece as ending point (2010–2013).* N= 17



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Greek Customs and newspapers reported 259 tobacco seizures involving 603 persons, mainly **Greeks** (25%), **Pakistanis** (22%) and **Bulgarians** (9%). **Criminal organisations** from Russia, Ukraine and Albania were also involved in the ITTP (Antonopoulos 2003; MPO 2005; Antonopoulos 2007a; Gounev and Bezlov 2010). **No specific profile of the tobacco smugglers exists**. They may have been either individual bootleggers, small groups or large-scale smugglers (Antonopoulos 2006; 2007a; 2007b).

Tobacco was transported to Greece mainly by container (21%), inside **trucks** or **cars aboard ships** (21%)**,** inside **ships** (10%), and in **smaller boats**.** Ships with illicit tobacco either remain in international waters and downloaded tobacco in smaller vessels, or dropped tobacco to trucks waiting on the coastline (Tsiadis 2013). Once downloaded from ships, tobacco was transported by car and truck (respectively 19%). Tobacco was also seized in **private houses** and **warehouses** (24%), as well as in **open air markets and streets** (10%).

In 2010, **three illicit manufacturing facilities** were raided in Greece — in particular, in Menidi and Thessaloniki (PMI 2013b). Greece is also a **producer of illicit whites** (KPMG 2014).

** Between 2010 and 2013, 884.6 million cigarettes were seized in 32 containers (quantity per seizure: 27.6 million); 121.7 million cigarettes were seized in 23 trucks (quantity per seizure: 5.3 million); and 132,700 in 6 cars aboard ships (quantity per seizure: 22,120).

REGULATION

The Greek Government has adopted **several measures against the ITTP**. Two awareness campaigns against the ITTP have recently been promoted, and there is an explicit legal duty to destroy all confiscated cigarettes. Official estimates of the size of the ITTP and limited public data (not for every year and related only to the Hellenic Coast Guard) both on tobacco seizures and convictions for the ITTP are also published by KEPE (Greek Centre of Planning and Economic Research).

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions. There is also a national legal provision on a tracking and tracing system. However, a publication by the Minister of Finance on implementing technical and operational specifications is still necessary for implementing this system.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Greece are the **Greek Customs** (*Ελληνικά Τελωνεία*), the **SDOE-Financial and Economic Crime Unit Research** (*Σώμα Δίωξης Οικονομικού Εγκλήματος*), the **Hellenic Coast Guard** (*Λιμενικό Σώμα-Ελληνική Ακτοφυλακή*), and the **Hellenic Police** (*Ελληνική Αστυνομία*).

After a significant increase between 2008 and 2011 (2009 data are missing), **the quantity of cigarettes seized in Greece decreased from 2012** (Figure 9). About 56 million sticks were seized in 2008, but the number increased markedly in 2010 and in 2011 (544 and 744 million sticks respectively). This increase could be explained by the significant investments made in 2011 by the Greek government to combat the ITTP (Onisenko 2012). Seizures decreased by 39% in 2012 (456 million sticks) and by 1% **in 2013**, reaching **450 million sticks** (Map 2).

Top three seizures in 2013

A total of 37.2 million cigarettes were seized in the port of Piraeus in September. Officers of the Narcotics Division of the SDOE found illicit cigarettes in three containers arriving from Singapore.

A total of 32.9 million cigarettes and **540 packs of tobacco** were seized in Athens in December and in April. The cigarettes were destined for Italy. Six Greeks, one Bulgarian and two unidentified persons organised the smuggling.

A total of 19.2 million cigarettes were seized in Piraeus in November. SDOE officers identified the contraband cargo in two containers originating from Singapore and Vietnam.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 223% in volume and by 226% in terms of prevalence (Figure 2 and Map 3).

Attica showed the largest volume of the ITTP for the entire 2006–2013 period with an average yearly consumption of 893 million cigarettes. This value was almost six times the national average yearly consumption (157 million cigarettes). The trend in consumption in Attica and in Central Macedonia drove the overall national level of the ITTP. Those areas absorbed 63% of the country's ITTP on average each year.

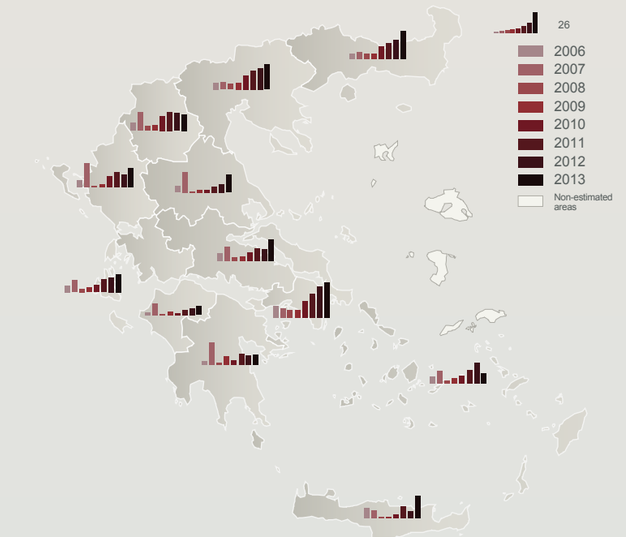
Attica, which comprises the capital Athens, together with the areas along the northern border — West Macedonia, Central Macedonia, East Macedonia and Thrace — were the areas with the highest prevalences of illicit cigarettes for the whole period under study (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed after 2006. Other illicit cigarettes were the most common illicit product in 2006 (47.2%), 2007 (58.4%), and 2010 (51.1%). In 2010 and thereafter, their share progressively diminished in favour of illicit whites. **Illicit whites constituted the most common type of illicit cigarette** in 2008 and thereafter, when their share reached the record of 78.8% of the illicit market, with the sole exception of 2010. Counterfeits maintained a relatively stable share (around 16% of the illicit market) until 2013, when they dropped sharply to 0.6% of the illicit cigarette market (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Athens

The prevalence of non-domestic cigarettes increased in Athens collection points between 2009 and 2013 (Map 4). This increase may have been connected to the socio-economic crisis affecting Greece, which may have boosted the consumption of illicit cigarettes.

Among the collection points, **the average increase was +539%**.

This intensification concentrated in areas where the illicit market was null or almost inexistent in 2009, such as Kykladon-Agiou Meletiou, Lymperopoulou-Triantafylidi (+1,800%) or Kalipoleos-Ioanniton (+1,659%).

Conversely, areas already affected by the phenomenon registered less pronounced increases (e.g. Paramythias-Salaminos (+153%) or Xalepa-Synodinou (+160%)).

With respect to 2013, Athinaidos-Karori (41.3%) and Kykladon-Agiou Meletiou (39.4%) registered the highest prevalence of non-domestics.

Map 4. Prevalence of non-domestics in the Athens' collection areas (2009 and 2013)

Source: Transcrime elaboration (details in the Annex)

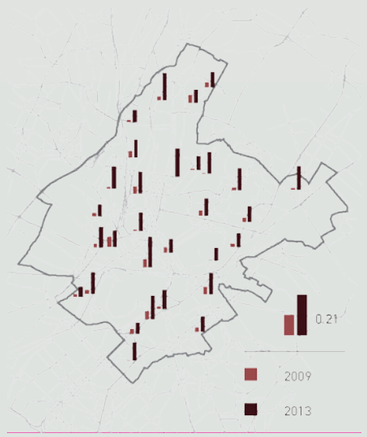
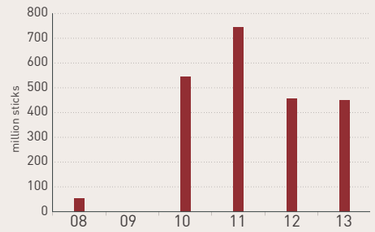


Figure 9. Cigarettes seized in Greece, million sticks (2008–2013)***

Source: Transcrime elaboration (details in the Annex)



*** 2009 data are missing

MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with EU and non-EU law enforcement agencies in order to reduce the inflows and outflows of illicit tobacco.

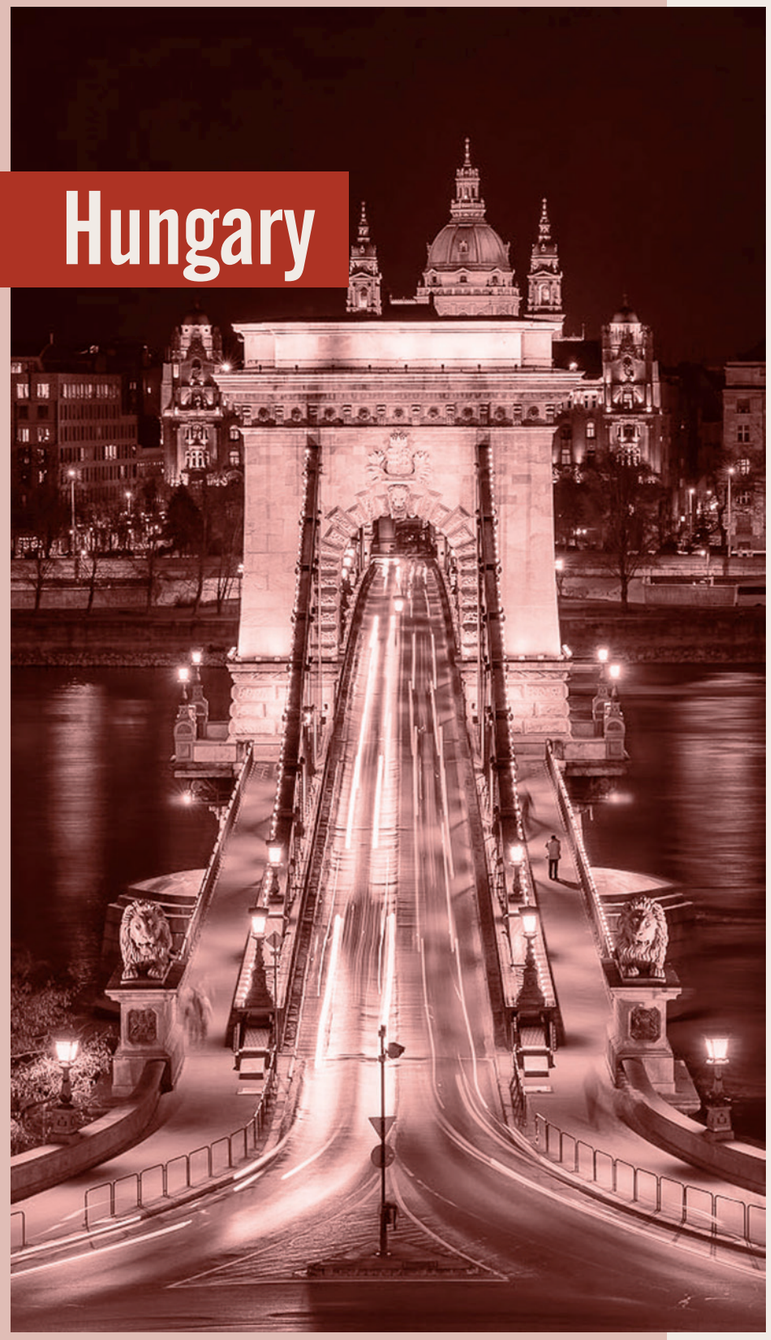
- Strengthening controls in the Greek ports of Igoumenitsa, Patras, Piraeus and Thessaloniki, to reduce illicit inflows mainly from Asia and Middle East.

- Strengthening the control over the inflow of tobacco raw components, in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco in oder to reduce the presence of illicit whites.

- Providing yearly data on convictions for the ITTP and on the possible membership of organised crime groups.

Hungary



Chain Bridge, Budapest

COUNTRY DATA

Capital City
Budapest

Surface (WB 2014)
93,030 km²

Total population (WB 2014)
9,897,247 (2013)

Borders
Austria, Croatia, Serbia, Slovakia, Slovenia, Romania, Ukraine

Gross Domestic Product, € (Eurostat 2014)
98.0 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

8.0%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

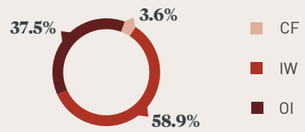


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates

THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

9.4

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

31.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

2.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

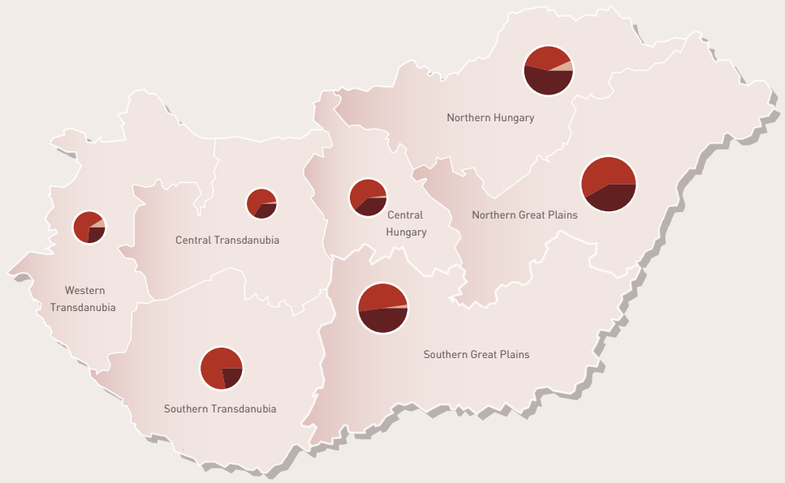
86.0%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

111.8

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

4 8 12

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

Illicit products accounted for 8.0% of the Hungarian cigarette market in 2013 (Figure 1) (KPMG 2014).

In 2013, **six out of seven of the Hungarian areas had a low or a medium-low volume of the ITTP**. Northern Great Plains, with a medium-high volume, was an exception (Map 2). The eastern areas had the largest illicit markets: Northern Great Plains (183), Central Hungary (152), Southern Great Plains (122) and Northern Hungary (117) (Map 2).

In 2013, **Northern Great Plains**, on the border with Romania, Ukraine and Slovakia, **had the highest prevalence of illicit cigarettes** (12.3 million sticks per 100,000 inhabitants). **Northern Hungary** (9.9) **and Southern Great Plains** (9.5) **had also relatively high prevalences of illicit cigarettes**. Western areas of Central Transdanubia (4.0) and Western Transdanubia (4.1) showed the lowest prevalence (Map 1). The price of the cheapest cigarettes was seven time higher in Hungary than in Ukraine. This wide price gap may provide opportunities both for individual and large-scale ITTP. It may partly explain the differential in terms of prevalence between eastern and western areas.

Between 2012 and 2013, **the prevalence strongly increased in all Hungarian areas** (Figure 5). The most remarkable growths occurred in Southern Transdanubia (+279%) and Central Transdanubia (+261%). Northern Great Plains recorded the smallest increase (+27%). However, it presented the highest prevalence in 2013.

THE PRODUCTS

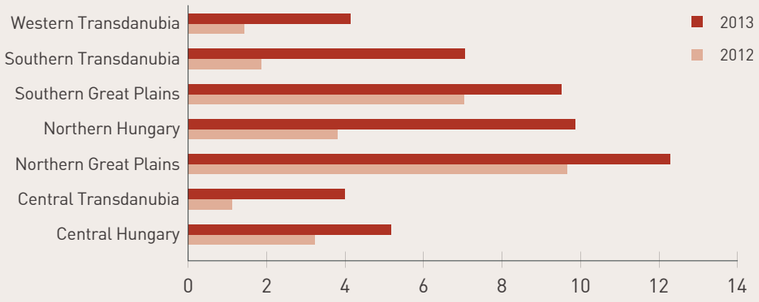
In 2013, **illicit whites were the most important type of illicit cigarettes** (58.9% of the illicit market) (Figure 3). In five out of seven areas, the share of illicit whites exceeded 50% of the illicit market. The only exceptions were Southern Great Plains (49.9%) and Northern Hungary (39.7%) (Map 1). Nationally, the share of this illicit product rose by almost 34 pp between 2012 and 2013 (Figure 4).

The **second most common type of illicit cigarettes were other illicit cigarettes** (37.5% of the illicit market) (Figure 3). In 2013, **their share reached the highest values in** Northern Hungary (53.6%) and Southern Great Plains (47.7%). Western Transdanubia (26.6%) and Southern Transdanubia (22.1%) featured the lowest shares of other illicit cigarette (Map 1).

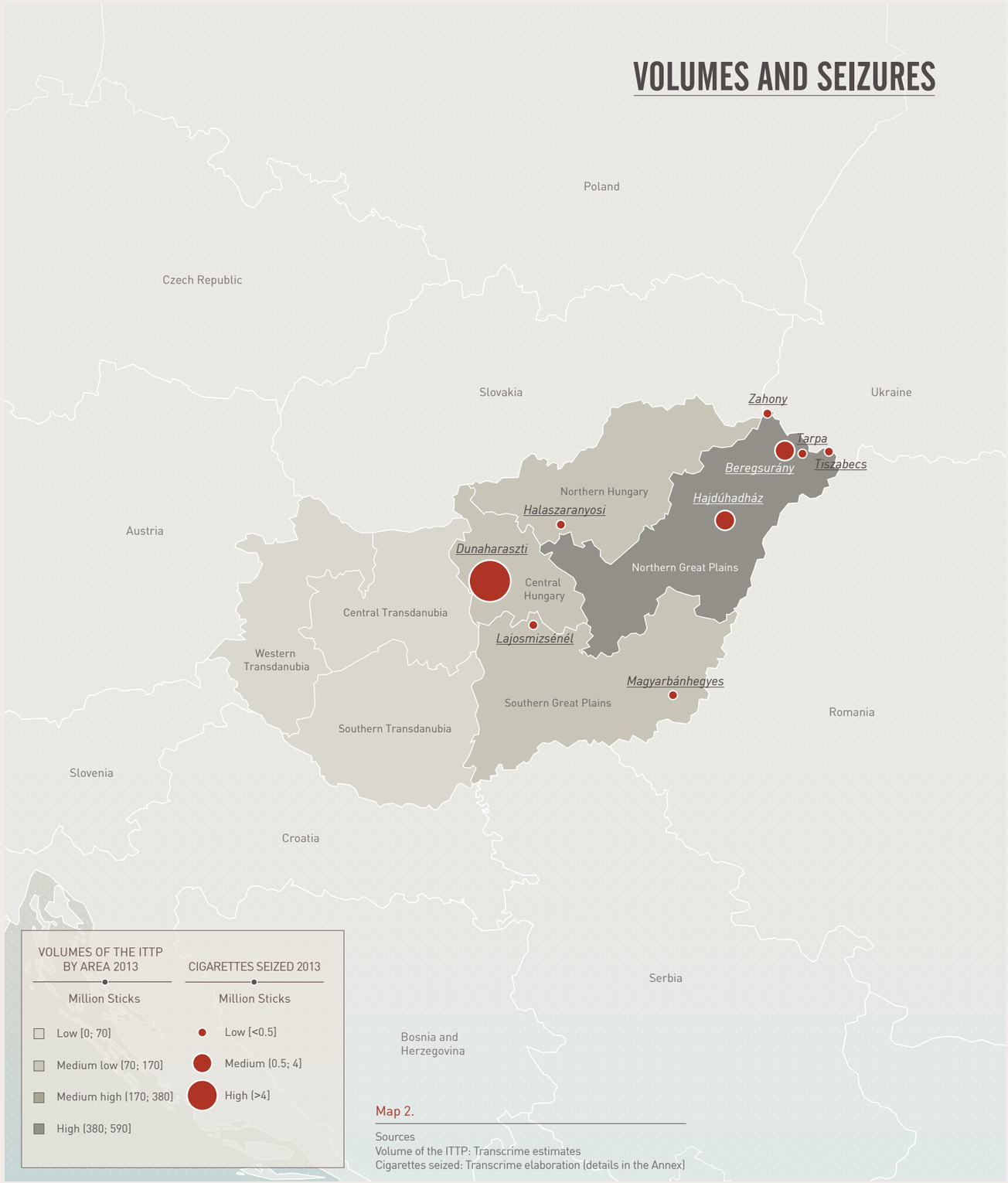
The **third type of illicit cigarettes was counterfeits** (3.6% of the illicit market) (Figure 3). Western Transdanubia (8.7% of the illicit market) and Northern Hungary (6.7%) had the highest shares of them (Map 1). Nationally, the shares of this illicit product constantly decreased between 2011 and 2013 (Figure 4). Ukraine was a pivotal supplier of smuggled genuine cigarettes and illicit whites. This may explain the scant consumption of counterfeit cigarettes.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Hungary is mainly an ending point, and secondly a transit and starting point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **Hungarian market** originate mainly from bordering countries such as **Ukraine**, **Romania** and **Serbia** (see also Allen 2011; Nagy 2012; Balázs et al. 2013) (Figure 6). In these countries, cigarette prices are lower. For instance, in October 2013, the cheapest brand cost €0.4 in Ukraine, €1.3 in Serbia and €2.2 in Romania, whilst it was sold at €2.6 in Hungary (PMI 2013a). **Belarus** is another starting point of illicit tobacco products destined for Hungary (KPMG 2014).

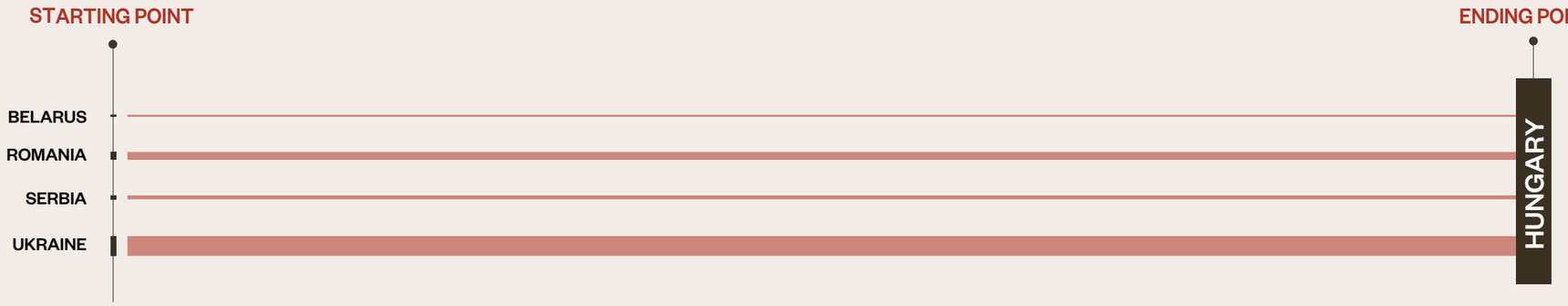
Hungary is also a major **transit point** between Eastern Europe and Western markets (see also Euromonitor International 2013g). Products transiting through Hungary once again come from **Ukraine**, **Romania** and **Serbia**, as well as from **Russia**. After passing through Hungary, the outflows are mainly intended for **Germany**, **Italy** and the **Czech Republic** (see also Frontex 2012) (Figure 7).

The country has a minor role as a **starting point.** Hungarian illicit products are mainly exported to the **Czech Republic**, **Germany** and **Austria**, where cigarette prices are higher (Figure 8). In Hungary, illicit whites are also manufactured in the area of Debrecen (the second largest city located on the Eastern border).

Illicit products are smuggled in, through, or from Hungary almost exclusively by **motor vehicle**. A few cases of cigarette smuggling have also been discovered on **trains** and **boats**. Tobacco seizures on motor vehicles have occurred mainly in the border areas, such as **Röszke**, **Szabolcs-Szatmár-Bereg county**, **Nyíregyháza**, **Beregsurány**, **Debrecen** and also in **Gelej** and **Ózd**. A few attempts to import cigarettes illegally have been detected on international trains coming from Ukraine at the **railway stations** of **Kisvárda** and **Zahony**. There is evidence of cases of cigarette smuggling also on boats along the **Tisza River**, which for a short section marks the border between Hungary and Ukraine.

THE FLOWS

Figure 6. Hungary as ending point (2010–2013).* N= 17



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Hungary as transit point (2010–2013).* N= 9

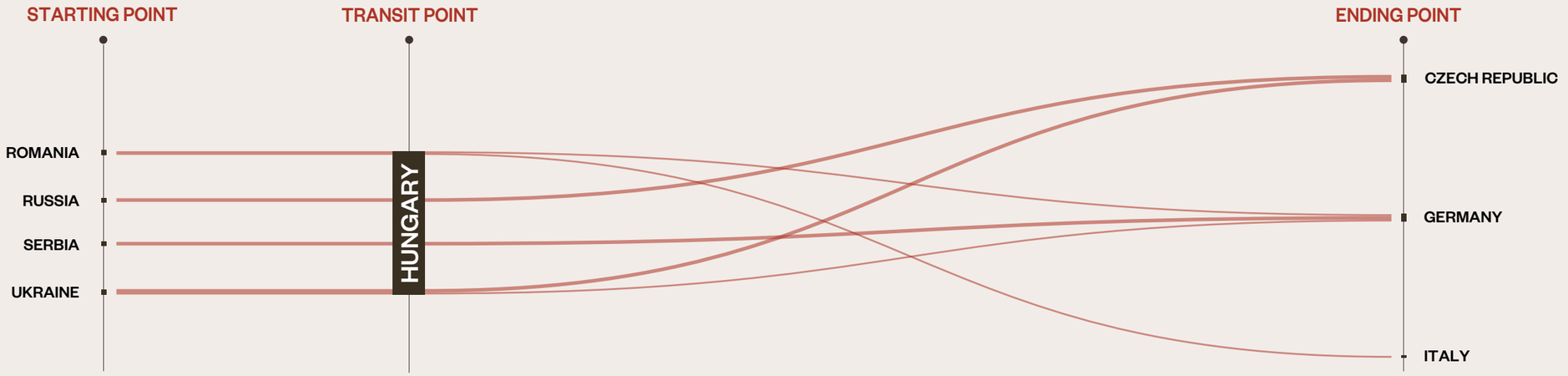
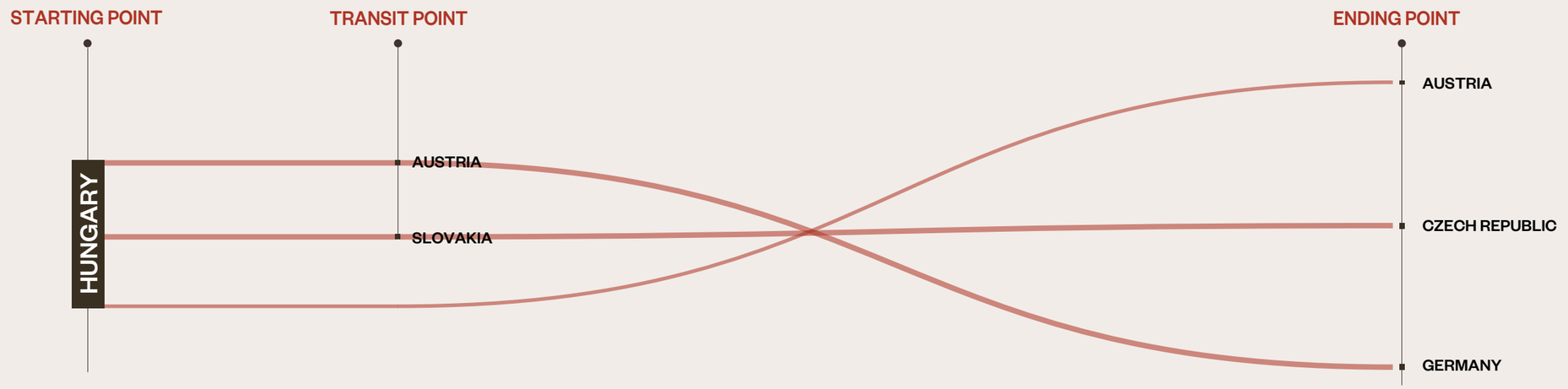


Figure 8. Hungary as starting point (2010–2013).* N= 8



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Hungarian Tax and Customs Administration and newspapers reported 71 tobacco seizures involving 85 persons, mainly **Hungarians** and **Ukrainians**. In the majority of seizures, smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks.

Tobacco is transported to Hungary mainly by car, followed by **trucks** and **vans**.** Tobacco is also transported by **plane**. In some cases, smugglers depart from Ukraine, fly to Hungary and drop **as much as 100 cartons of contraband cigarettes** each (ICIJ 2009). In recent times, the **Tisza River**, originating in Ukraine, is increasingly being used to transport Ukrainian tobacco into Hungary aboard **small rafts**. Smugglers do not even climb on board; they pull the rafts from one shore to the other and collect the cigarettes in order to resell hundreds of cartons every day (Molnar 2013).

According to open sources and industry data, between 2010 and 2013 **six illicit manufacturing facilities** were raided in Hungary (PMI 2013b). Hungary is also a **source country for the production of illicit whites** (KPMG 2014).

** Between 2010 and 2013, 4.3 million cigarettes were seized in 22 cars (quantity per seizure: 194,700); 9.4 million cigarettes were seized in 11 trucks (quantity per seizure: 850,700); and 3.0 million cigarettes were seized in 7 vans (quantity per seizure: 426,100).

REGULATION

The Hungarian Government has adopted **few measures against the ITTP**. The cooperation between national customs and tobacco companies has been strengthened through a memorandum of understanding. An explicit legal duty to destroy all confiscated cigarettes is also in place.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The **National Tax and Customs Administration of Hungary** (*Nemzeti Adó- és Vámhivatal-NAV*) is the main body involved in the fight against the ITTP in Hungary.

The quantity of cigarettes seized in Hungary shows a fluctuating trend (Figure 9). Cigarette seizures increased between 2007 and 2009 (from 137 to 152 million sticks), but they strongly decreased between 2009 and 2010 (from 152 to 77 million sticks). The number remained stable until 2012 (68 million sticks). No consolidated data are available for seizures in 2013, but open sources report that the quantity seized could have varied between 70 and 85 million sticks (Map 2).

Top three seizures in 2013

A total of 18 million cigarettes were seized in Dunaharaszti. In December, NAV officers discovered illicit cigarettes, branded Marlboro, Classic, 99, Yesmoke, Winstons and others. Hungarian and Ukrainian citizens were loading a truck in a warehouse. The products had probably arrived from Ukraine.

A total of 2.9 million cigarettes were seized in Beregsurány. In September, NAV officers found illicit Yesmoke, Fest 7, Pall Mall, Viceroy and Bond cigarettes. The illicit products originated from Ukraine and had Hungary as their destination. The Ukrainian driver was arrested.

A total of 2.0 million cigarettes were seized in Hajdúhadház in May. NAV officers found illicit Jin Ling, Chesterfield and Fest cigarettes in a mini-van and in a house. The illicit products originated from Ukraine and were destined for the Hungarian market. One Hungarian citizen was arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by 78% in volume and by 77% in prevalence. Almost two-thirds of this reduction occurred in the period 2006–2007 (Figure 2).

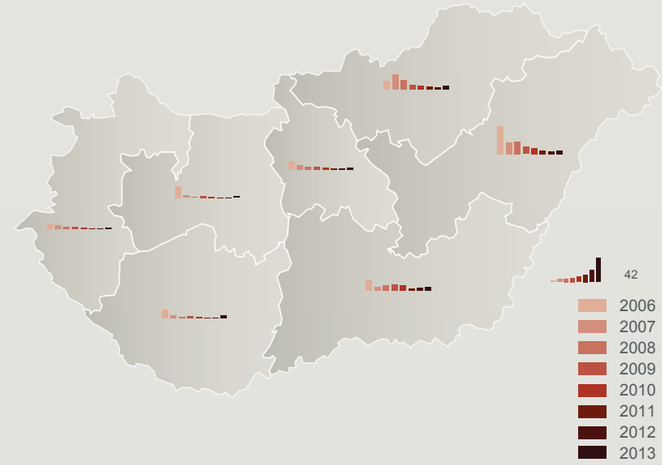
In volume terms, **Northern Great Plains had the highest average yearly consumption in the period 2006–2013** (439 million sticks). Central Hungary (221) and Northern Hungary (209) also showed a relatively high volume of the ITTP over the entire period. The decreasing trend in consumption in these areas drove down the overall national ITTP. **Northern Great Plains**, located on the eastern border with Ukraine, Romania and Slovakia, **had the highest prevalence of illicit cigarettes for the entire period except for 2007**. The Southern Great Plains and Northern Hungary also recorded a prevalence above the national average for almost the entire period (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013. Other illicit cigarettes were the most common illicit product across all of the Hungarian areas until 2012. In 2013, illicit whites were the main illicit products (Figure 4). Illicit whites appeared in the cigarette illicit market in 2009, with a share of 4.2%. After disappearing again in 2011, **the share of illicit whites grew and scored its record in 2013** (58.9%) (Figure 4). Counterfeits accounted for a very small proportion of the illicit market until 2011, when their share sharply increased (16.2%). This growth stemmed mainly from the rise of counterfeits in Western Transdanubia (28.3%) and in Southern Transdanubia (21%). Since then, the national share of counterfeits has steadily decreased (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on collection points in the Northern Great Plains

The Northern Great Plains, on the border with Romania, Ukraine and Slovakia, were Hungary's main problematic areas in 2013.

The city of Nyíregyháza had the highest level of non-domestics and illicit cigarettes (26.8%) and the highest share of illicit whites. Because this collection point is closer to the Ukrainian borders, it is likely that the consumption of non-domestic cigarettes in Nyíregyháza is influenced by flows of non-EU products. This is also suggested by the analysis of the seizures in the cities of Nyíregyháza and Debrecen, which bears out that Ukraine was the main source of the ITTP for the country (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

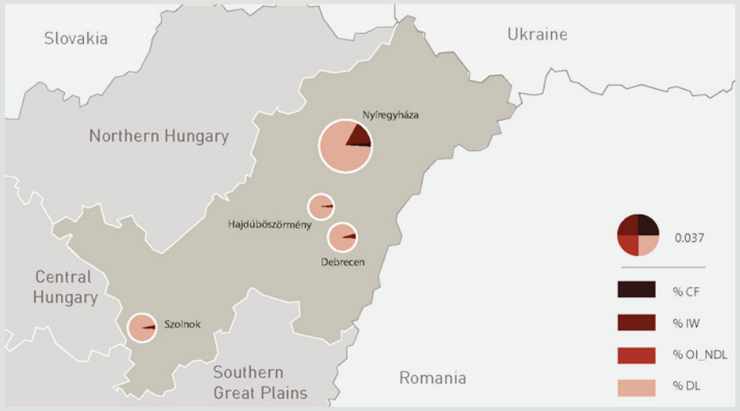
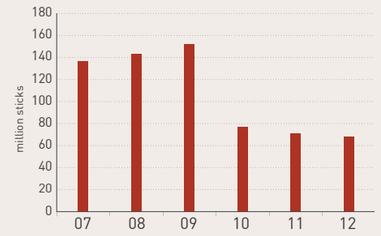


Figure 9. Cigarettes seized in Hungary, million sticks (2007–2012)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Romanian, Serbian, and Ukrainian law enforcement agencies in order to reduce tobacco inflows from these countries.

- Strengthening customs' controls in the area of Northern Great Plains, bordering on Ukraine, to reduce illicit cross-border purchases between Ukraine and Hungary and the inflows of illicit whites.

- Strengthening the control over the inflow of tobacco raw components in order to dismantle possible illicit manufacturing facilities and curb the local production of counterfeits and other illicit cigarettes.

- Promoting awareness campaign in Northern Great Plains, the area with the highest consumption.

- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco in order to reduce the presence of illicit whites.

- Providing yearly public estimates on the size of the ITTP and data on the ITTP seizures.

- Providing yearly public data on convictions for the ITTP and on their possible membership of organised crime groups.

Ireland

COUNTRY DATA

Capital City
Dublin

Surface (WB 2014)
70,280 km²

Total population (WB 2014)
4,595,281 (2013)

Borders
UK

Gross Domestic Product, € (Eurostat 2014)
164.1 billion (2013)

Samuel Beckett Bridge, Dublin

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

21.1%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

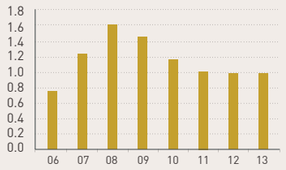


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

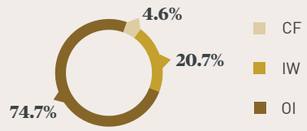
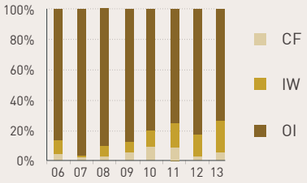


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

3.4

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: OECD 2013

29.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

9.4

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

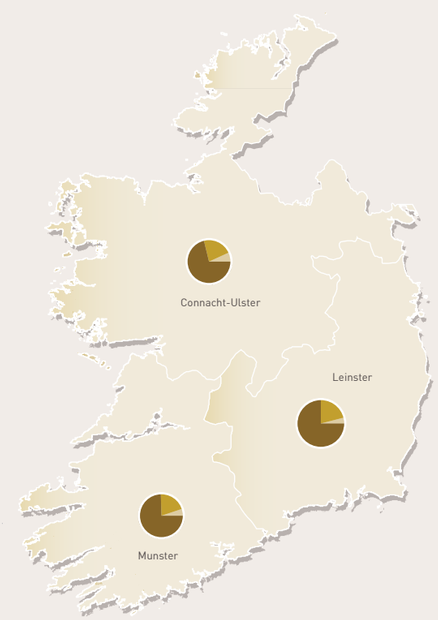
78.1%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

367.2

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

20

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, the price of the cheapest cigarettes in Ireland was the second highest in the EU, after the UK, and **the level of the ITTP was the third highest (21.1% of the cigarette market)** (KPMG 2014) (Figure 1).

In 2013, Leinster had a medium-high volume of the ITTP (543 million sticks); Munster (254 million sticks) and Connacht-Ulster (168 million sticks) had a low volume of the consumption of illicit cigarettes (Map 2).

In 2013, **the prevalence of illicit cigarettes was extremely homogeneous in the 3 areas.** Connacht-Ulster recorded 20.1 million sticks per 100,000 inhabitants, whereas Munster and Leinster had, respectively, 20.4 and 21.7 million sticks per 100,000 inhabitants (Figure 5). Located in Leinster are the ports of Dublin and Rosslare. These are two key entry gates for illicit tobacco products (Calderoni, Favarin, and Rotondi 2013).

Between 2012 and 2013, the prevalence of illicit cigarettes decreased in Leinster (-3%) and in Munster (-6%). By contrast, it increased in Connacht-Ulster (+18%). This attenuated the differences in the prevalence of the areas and caused a **+2% increase in the national prevalence** (Figure 5).

THE PRODUCTS

In 2013, **the most common illicit tobacco product was other illicit cigarettes** (74.7% of the illicit market) (Figure 3). The share of other illicit cigarettes was homogeneous across the three areas. In Leinster, it was 75.2%; in Munster, it was 74.6%; and in Connacht-Ulster, it was 71.1% (Map 1). Nationally, other illicit cigarettes had always been the type of product with the largest share of the illicit market, even though the shares of illicit whites and counterfeits grew between 2007 and 2012 (Figure 4).

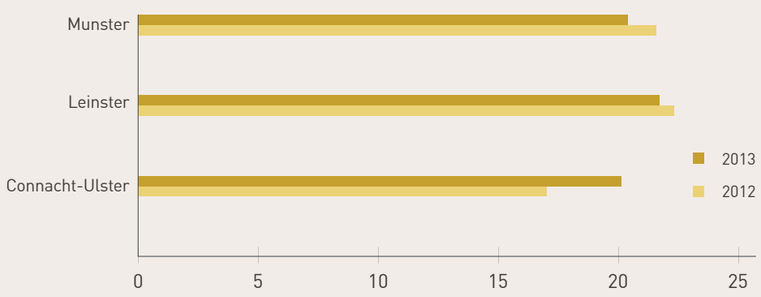
The second most important type of illicit cigarettes was illicit whites (20.7% of the illicit market) (Figure 3). The share of illicit whites ranged from 20.1% in Munster to 22.1% in Connacht-Ulster (Map 1).

The third type of illicit cigarettes were counterfeit cigarettes (4.6% of the illicit market) (Figure 3). Connacht-Ulster registered the highest share of counterfeits (6.8%), and Leinster the lowest (4.0%).

The relative weight of the three types of product resembled the British one. Indeed, in the UK, other illicit cigarettes accounted for 76.5% of the national ITTP, illicit whites for 19.2%, and counterfeits for 4.3%. This fact may suggest that the two countries were targeted by the same flows of illicit whites and contraband cigarettes.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Ireland is an ending point for the ITTP.

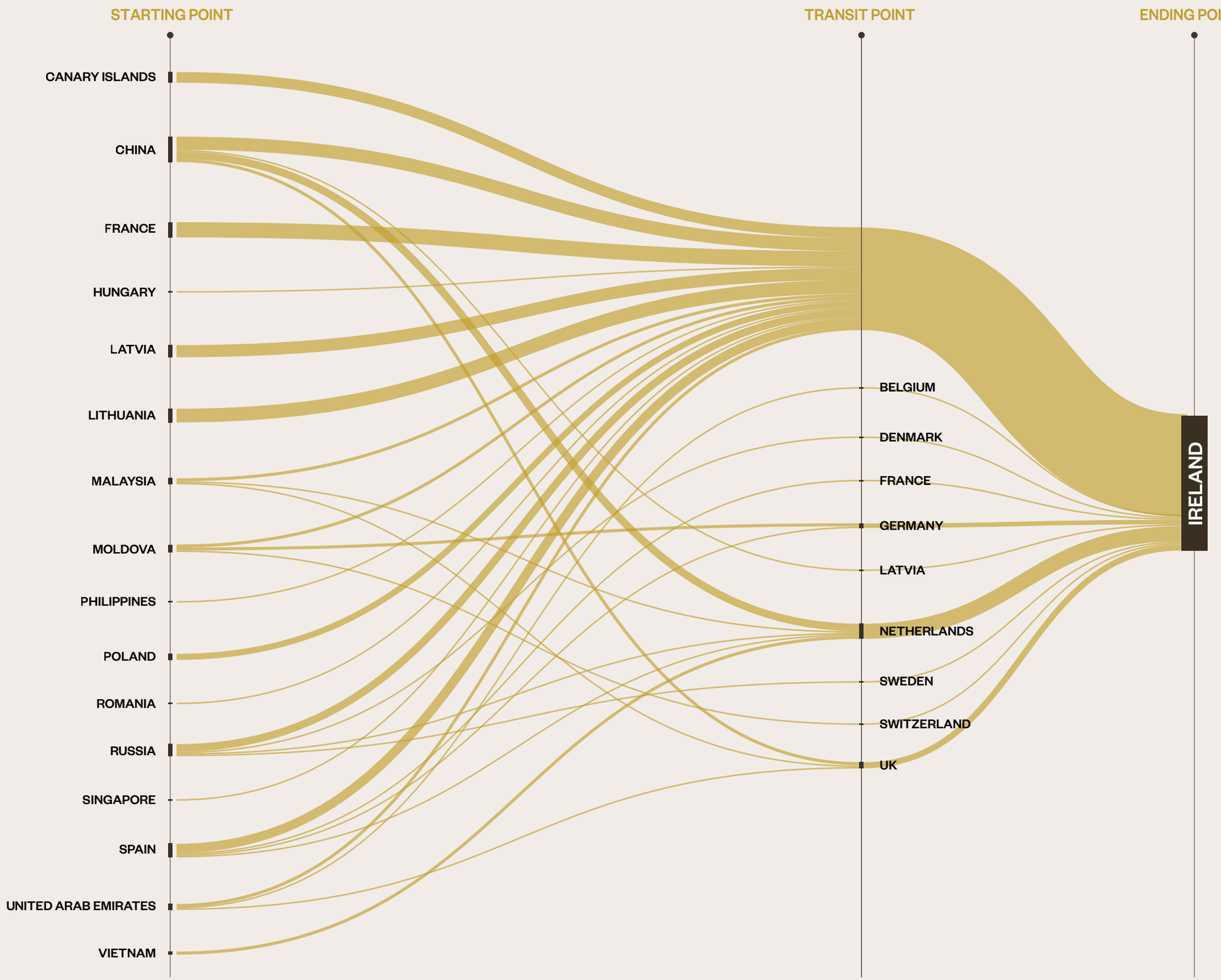
Considering the illicit flows recorded between 2010 and 2013, Ireland is an **ending point** for illegal tobacco products due to cigarette prices among the highest in the EU. In October 2013, one pack of the cheapest brand cost €8 (PMI 2013a), and illegal products could generally be purchased at half the price of the legal ones (Grant Thornton 2013; O'Shea 2013).

Illegal tobacco products arrive in Ireland by **air** and **water**. Starting points vary according to the methods of importation. Flows intended for the **Irish market** and detected at the Irish airports originate mainly from the **Canary Islands**, **Latvia**, **Lithuania**, **Russia**, **Moldova**, **Poland**, **United Arab Emirates** and **China**. By contrast, the illicit products seized at the Irish ports come from **China**, **Egypt**, **Spain**, **United Arab Emirates** and other **South-Eastern Asian countries**, such as Malaysia, Philippines, Singapore and Vietnam. There have also been cases of illegal products imported from **France**, **Hungary** and **Romania** (Figure 6).

The greatest number of seizures have occurred at the Irish airports. **Dublin airport** is the most important hub, followed by **Cork**, **Kerry** and **Shannon** airports. At the Dublin airport security control area, law enforcement officers first check the luggage with a dog, and then search suspicious passengers (e.g. people who travel frequently to and from the same countries, who seem anxious, or who behave strangely) (Shay Doyle, Dublin Airport Customs Manager, in Gallagher and Tallon 2012).

Smugglers often use Irish ports as a back door for introducing illegal products into Northern Ireland and the UK (Whiting 2013), because it is more difficult to bring cigarettes through the Belfast Port (House of Commons - Northern Ireland Affairs Committee 2012; Healy 2013). The **ports** of **Dublin**, **Dundalk**, **Cork** and **Rosslare** receive large shipments of illegal cigarettes from the largest European ports (e.g., Antwerp, Rotterdam). In two of these ports, Rosslare and Cork, smuggling is also carried out using **motor vehicles** embarked on **ferries** coming from France (i.e. Cherbourg, Le Havre).

Figure 6. Ireland as ending point (2010–2013).* N= 91



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Revenue Commissioners and newspapers reported 171 tobacco seizures involving 250 persons. They were mainly **Irish**, **Lithuanians**, **British** and **Chinese between the ages of 20 and 30**. In the majority of the seizures, they were alone at the moment of seizure. According to the literature and Irish law enforcement, smugglers range from **serious organised crime groups**, based both in Ireland and Northern Ireland, through **foreign groups**, to **individual bootleggers** (Allen 2011; Organised Crime Task Force 2011; FATF 2012; Doherty 2013).

Tobacco was transported to Ireland mainly by airplane (46%) and **container** (20%),** in fewer cases, by car (12%) and truck (9%). The use of planes is frequent among organised crime groups. Indeed, they hire people to travel by plane from Eastern Europe **several times a week**, and on each trip, they bring small numbers of cigarettes back to Ireland (Gallagher and Tallon 2012).

Seizures have also occurred in **private houses** (9%) and **commercial premises** (6%). Indeed, the channels used for the retail of illicit tobacco vary from street sellers, through market stalls, to legal unlicensed **shops** and **private houses** (Gallagher and Tallon 2012; Maguire 2012; Doherty 2013; Gilsenan and Brophy 2013).

** Between 2010 and 2013, 2.7 million cigarettes were seized in 60 air flights (quantity per seizure: 45,000); 130.0 million cigarettes were seized in 26 containers (quantity per seizure: 5.6 million); and 1.1 million cigarettes were seized in 16 cars (quantity per seizure: 69,000).

REGULATION

The Irish Government has adopted **many measures against the ITTP**. In 2009, the cooperation between Revenue Commissioners and JTI (Japan Tobacco International) was strengthened by a memorandum of understanding to combat the smuggling of contraband and counterfeit JTI products. Since 2009, the Revenue Commissioners has provided official estimates of the ITTP as well as public and yearly data on tobacco seizures and convictions for the ITTP. The Program of Government (2011–2016) and the Finance Statement of Strategy (2011–2014) were adopted to combat the ITTP.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities. Maintaining complete and accurate records of all relevant transactions is also mandatory for all persons engaged in the supply chain of tobacco products.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Ireland are the **Revenue Commissioners**, the **An Garda Síochána** (National Police Service), and the **Cross Border Tobacco Fraud Enforcement Group** (CBTFEG).

The quantity of cigarettes seized in Ireland decreased between 2009 and 2013 (Figure 7). Cigarette seizures increased from 75 million sticks in 2007 to 219 million in 2009. This number was high in 2009 because of the largest seizure of the 2007-2013 period ("Operation Samhna", 120 million cigarettes). After 2009, cigarette seizures decreased. The largest decrease (-57%) was registered between 2012 and 2013, when the number of cigarettes seized reached **41 million sticks in 2013** (Map 2).

Top three seizures in 2013

A total of 10.4 million cigarettes were seized at Dublin Port. In July, Revenue Commissioners officers found Gold Classic cigarettes in a container arriving on a ferry from Rotterdam.

A total of 9 million cigarettes were seized in Castlebellingham. In September, Revenue Commissioners and Garda officers stopped a truck on the M1. The cigarettes had arrived in Ireland from Malaysia. Four men, aged 36 to 44 years, were arrested.

A total of 2 million cigarettes were seized in Atherny. In May, Revenue Commissioners and Garda officers discovered Benson and Hedges cigarettes on commercial premises. The cigarettes had arrived through Dublin Port and originated from Belgium.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 30% in volume and by 22% in terms of prevalence (Figure 2).

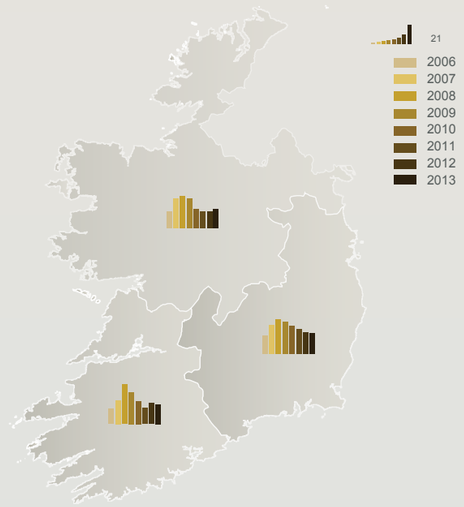
In volume terms, **Leinster had the largest illicit cigarette consumption during the entire period**. The average yearly consumption was equal to 647 million sticks or 57% of the national consumption. In terms of prevalence, it ranked first in 2010 and thereafter, whereas in the previous years, the three areas alternately had the highest prevalence rank (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes slightly changed from 2006 to 2013. Other illicit cigarettes were the most common kind of illicit cigarettes during the entire period, but their share contracted by 13 p.p. between 2006 and 2013, reflecting the **increase in the consumption of illicit whites.** The overall consumption of illicit whites grew by 168% between 2006 and 2013, mainly because of the large increase in Leinster, which registered an increment of +180% in consumed volumes (+72.4 million sticks) and in Munster (+470%, + 42 million sticks). The share of counterfeits oscillated during the entire period between 1.1% (2007) and 8.2% (2010). The illicit market of Leinster often showed the lowest share of counterfeits, whereas Munster showed the highest, registering a peak in 2011 (19.2% of the ITTP).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Dublin

Dublin had one of the highest prevalences of non-domestic cigarettes in Ireland (Calderoni, Favarin, and Rotondi 2013). Important sources of illicit tobacco products exist within the city (i.e. the Moore Street market) or in the surrounding areas (i.e., the Balbriggan market) despite strong anti-ITTP actions and the high level of control (Maguire 2012; O'Reilly 2012g; Doherty 2013). Despite the presence of these sources, Dublin does not seem to produce a higher level of ITTP in the adjacent collection points. In 2013, Royal Canal Avenue (45.4%) and Tolka Valley Road (40.3%) registered the highest shares of non-domestics. Considering the period 2011-2013, the most remarkable peak in the level of non-domestics was observed in Dawson Street in the fourth quarter of 2011, when 69.8% of the cigarettes were non-domestics (Map 4).

Map 4. Prevalence of the ITTP in Dublin's collection areas (2011–2013)

Source: Transcrime elaboration (details in the Annex)

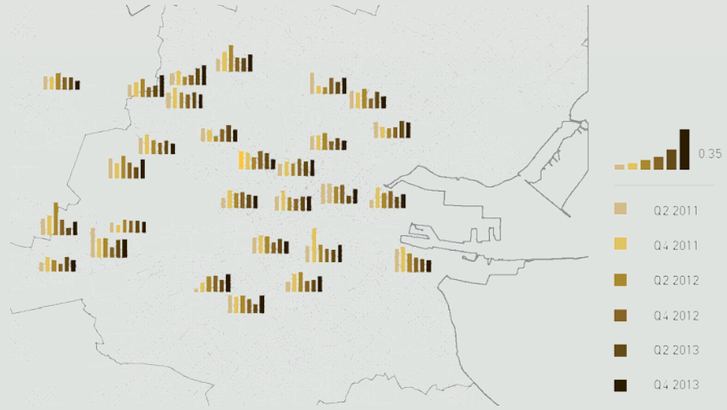
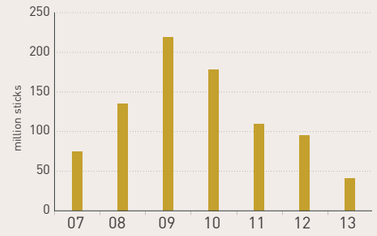


Figure 7. Cigarettes seized in Ireland, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with EU and non-EU law enforcement agencies to reduce illicit tobacco flows directed to Ireland.

- Strengthening controls in the Irish ports and airports of Dublin, Dundalk, Cork and Rosslare, which are key entry points of illicit tobacco.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco in the country.

- Providing yearly public data on the number of persons convicted for the ITTP belonging to organised crime groups.

Italy

COUNTRY DATA

Capital City
Rome

Surface (WB)
301,340 km²

Total Population (WB)
59,831,093 (2013)

Borders
Austria, France, San Marino, Slovenia, Switzerland, Vatican City

Gross Domestic Product (WB) € (Eurostat 2014)
1,560 billion (2013)

Ponte della Musica-Armando Trovajoli, Rome

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

4.7%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

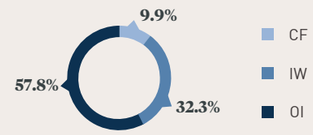


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates

THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

74.0

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

25.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

4.3

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

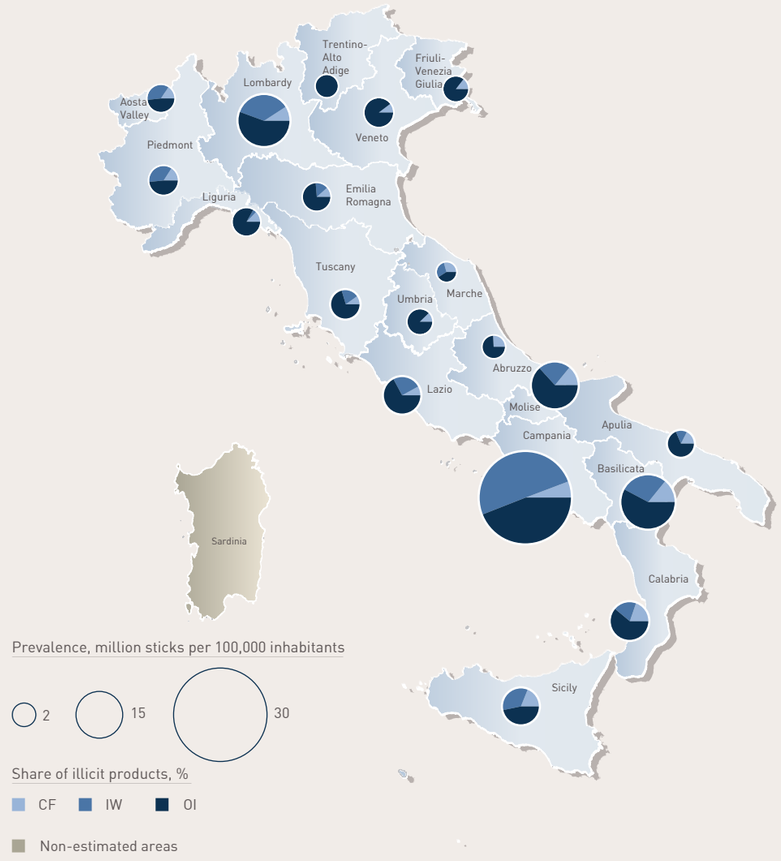
75.9%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

163.1

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In Italy, the level of **ITTP is medium-low**. **Illicit consumption corresponded to 4.7% of the total** national market in 2013 (KPMG 2014) (Figure 1).

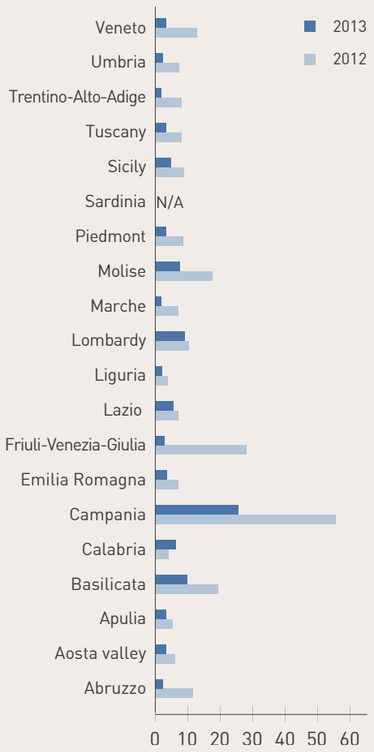
In 2013, Italy reported volumes of illicit cigarettes below the European average, with the exception of**: Campania** (1,300 million sticks), **Lombardy** (812 million sticks) and **Lazio** (289 million sticks) (Map 2).

In terms of prevalence, **Campania recorded the highest value** (26.8 million sticks per 100,000 inhabitants) possibly due to the traditional importance of cigarette smuggling in the area of Naples (Calderoni 2014). Basilicata had the second-highest prevalence of illicit cigarettes (10.4 million sticks per 100,000 inhabitants); Lombardy, the most populous area, had the third (9.7). 11 out of 19 areas had a relatively low prevalence of the ITTP, with values below 3.5 million sticks per 100,000 inhabitants (Map 1).

Between 2012 and 2013, the consumption of illicit cigarettes decreased in all of the Italian areas, except Calabria (Figure 2 and Figure 5). The areas of the North-East, Friuli-Venezia Giulia (-90.6%), Trentino Alto Adige (-75.2%), Veneto (-74.8%) and those of the central-Adriatic coast, such as Abruzzo (-81.3%) and Marche (-77.6%), recorded significant decreases in the prevalence of the consumption of illicit cigarettes. Interestingly, in Abruzzo (+185%) and Friuli-Venezia Giulia (+151%), the ITTP grew most in 2012, together with Campania (+300%) (Figure 5).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



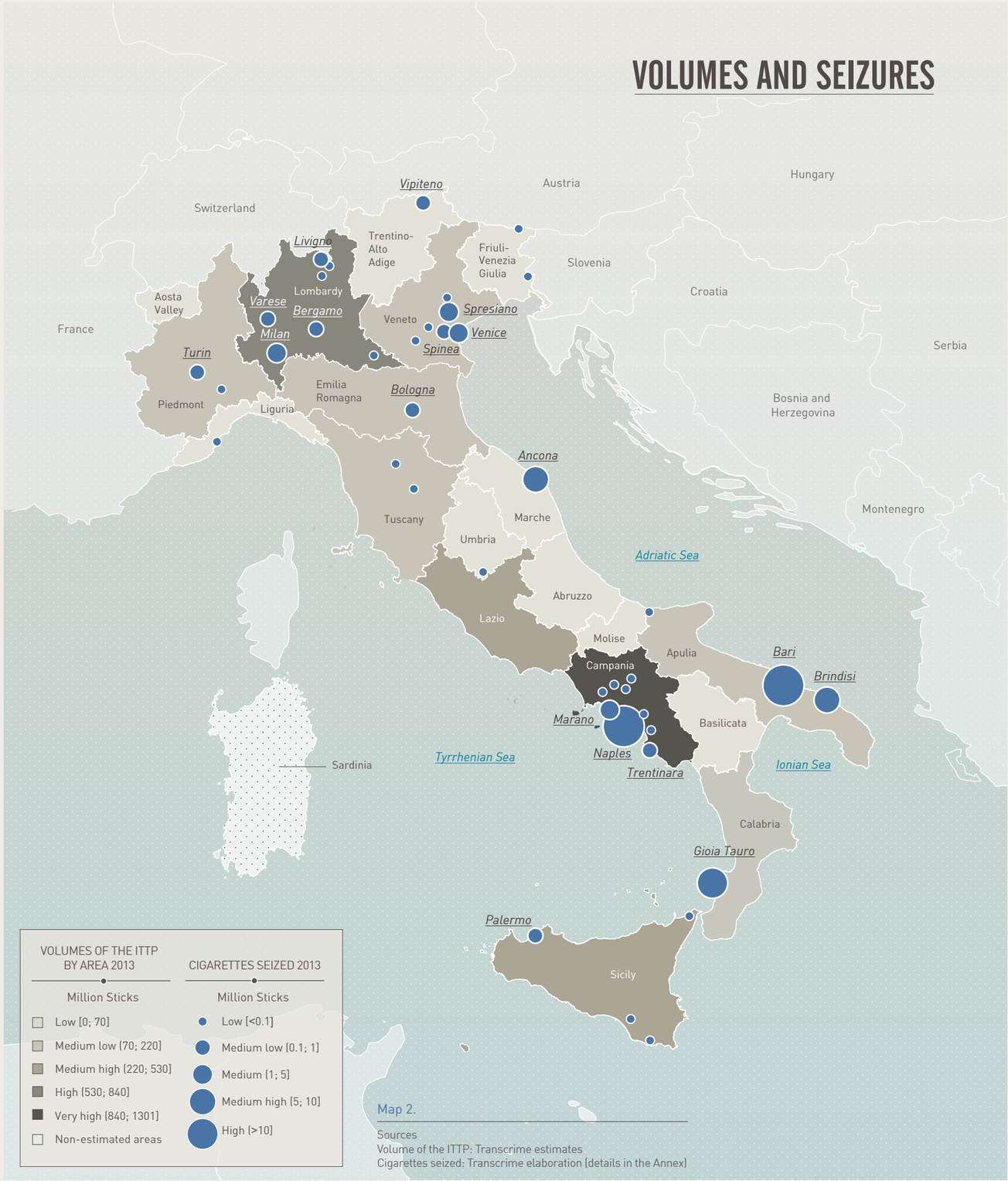
THE PRODUCTS

Other illicit cigarettes were the most common type of illicit tobacco in 2013 (57.6% of the illicit market) (Figure 3). The areas of the North-East had higher shares of other illicit cigarettes. The geographical proximity to Slovenia, where the cheapest cigarettes cost 25% less than they did in Italy, may partially explain this distribution (Map 1).

Illicit whites were the second-most important type of illicit cigarettes and **accounted for** approximately **a third of the national ITTP**. The **prevalence of illicit whites was** remarkably **heterogeneous across areas**; it tended to be high in southern and northwestern areas, while it was low in the North-East. In 2013, **in Campania, illicit whites amounted to 652 million sticks**. This was equal to 50% of the illicit market in the area, to 18% of the national ITTP, and to half of the overall Italian consumption of illicit whites (Map 1).

The third type of illicit cigarettes was counterfeits, accounting for 9.9% of the cigarette black market (Figure 3). Marche (29.7% of the ITTP) and Abruzzo (25.6%) were the areas with the highest prevalences of counterfeits.

VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Italy is mainly an ending point, and secondly a transit and starting point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal products intended for the **Italian market** originate mainly from **Moldova**, **Greece**, **Ukraine**, **Tunisia**, **Egypt**, **China**, **Romania**, **Poland** and **Belarus** (see also KPMG 2014) (Figure 6).

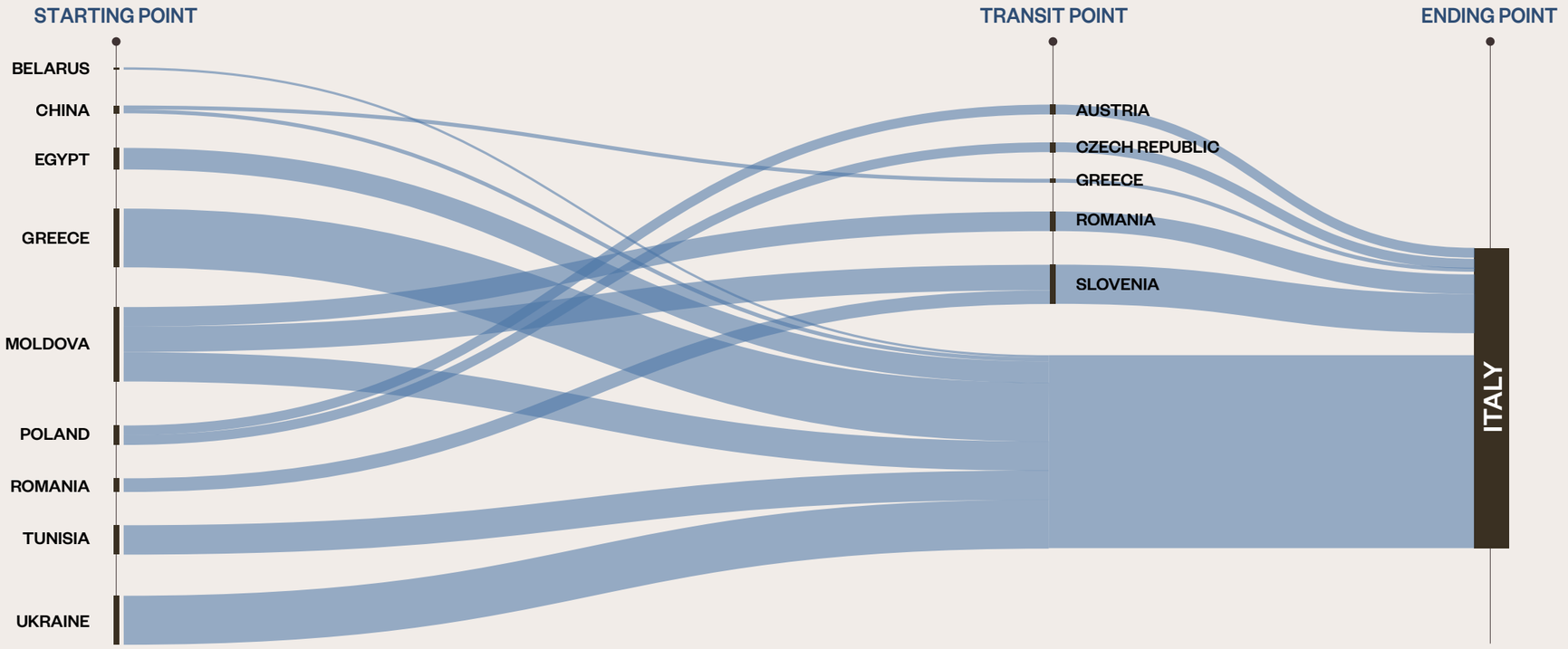
Italy is also a **transit point** due to its central location in the Mediterranean between EU and non-EU countries (Calderoni, Angelini, et al. 2013, 78). The main **inflows** transiting through Italy originate from **Greece**, **China** and the **United Arab Emirates**. Once in Italy, the **outflows** are mainly destined for **Germany**, **Belgium**, **France**, the **Netherlands** and the **UK** (Figure 7).

Italy is also a **starting point for the production of illicit whites**. It hosts two manufacturing facilities producing illicit whites, respectively located in Chiaravalle (Marche) and Settimo Torinese (Piedmont) (KPMG 2014).

Illicit cigarettes arrive in or transit through Italy by **water**, **motor vehicles** and **air flights**. Illicit tobacco detected in the **ports** on the **Adriatic Sea** (Ancona, Bari, Brindisi, Trieste and Venice) came from Greece. The **ports** of the **Tyrrhenian Sea** (Palermo, Civitavecchia, Trapani and Gioia Tauro) received products from Tunisia and the United Arab Emirates (see also DNA 2010; 2011; Agenzia delle Dogane e dei Monopoli 2013). However, seizure data usually record only the last place of storage as the origin of shipment. In fact, Chinese companies use Greece and the United Arab Emirates as storage countries (DNA 2011). These countries may thus appear as the source of the cargo, although the actual origin is China (Virgilio 2013).

The **north-eastern border** with Slovenia is the main entry point for illegal cigarettes transported by motor vehicles. The products come mainly from Eastern European countries (see also DIA 2011; DNA 2012). Several attempts to import illicit cigarettes have been detected at the **airports** of **Milan** (Malpensa and Orio al Serio), **Naples**, **Turin** and **Genoa**. In these cases, the illicit flows originated mainly from **Egypt**, **Moldova** and **Ukraine**.

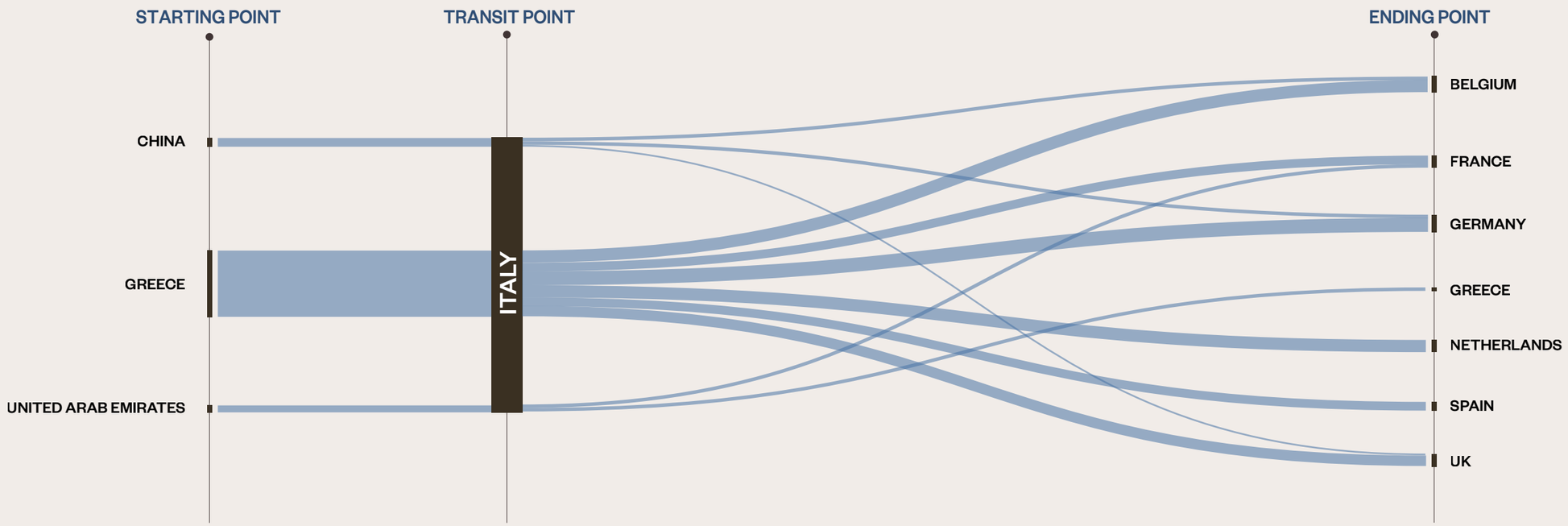
Figure 6. Italy as ending point (2010–2013).* N=141



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Italy as transit point (2010–2013).* N=38



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Italian Customs Agency and newspapers reported 305 tobacco seizures involving 798 persons. They were mainly **Italians** (23%), **Ukrainians** (16%), **Tunisians** (10%), **Romanians** (9%) and **Bulgarians** (8%). Usually, the smugglers are between 31 and 40 years of age. The actors are **single individuals, small networks and mafia-type organisations**. Italian mafia organisations (**Camorra** and **Sacra Corona Unita**) delegate the illegal importation of tobacco to smaller groups while maintaining control over the retail distribution (DNA 2011). In addition, they develop partnerships with Eastern European criminal organisations in charge of tobacco production, warehousing and transport (DNA 2010; DNA 2011; DNA 2012; Virgilio 2013).

Tobacco is transported to Italy mainly by motor vehicles aboard ships, especially by truck (61%), and by car (26%). Tobacco is often concealed among legal goods bearing **false accompanying documents**. This *modus operandi* is called "**intra-inspective" smuggling** (DNA 2006)**. On average**, every truck seized on ships was transporting 4.5 million cigarettes, every car 53,400 cigarettes.** In 10% of cases, tobacco was seized in private premises such as **houses**, **warehouses and garages**. A particular concentration was registered in **Campania**.

** Between 2010 and 2013, 305.6 million cigarettes were seized in 69 trucks aboard ships and motorboats; 1.4 million cigarettes were seized in 26 cars aboard ships and motorboats.

REGULATION

The Italian Government has adopted **several measures against the ITTP**. The fight against the ITTP is a priority because of the presence of mafia-type organisations in the market. A nationwide public awareness campaign against the ITTP was launched in 2013, supported by the Italian Ministry of Health and Economic Development. The Italian Financial Police provides public and yearly data on tobacco seizures and convictions for the ITTP. An explicit legal duty to destroy all confiscated cigarettes is also in place. On March 2014, a cooperation between the National Antimafia Directorate and tobacco companies was established at the University of Padua. One of the results of this agreement was the creation of the *"Observatory on Illicit Trade in Tobacco Products"*.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities, the tracking and tracing system and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Italy are the **Customs Agency** (*Agenzia delle Dogane e dei Monopoli*), the **Italian Financial Police** (*Guardia di Finanza*) and the **National Anti-Mafia Directorate** (*Direzione Nazionale Antimafia*).

The quantity of cigarettes seized in Italy decreased between 2009 and 2013 (Figure 8). From 2009 to 2011, the quantity decreased from around 298 to 248 million cigarettes. In 2012, seizures increased to around 294 million cigarettes. In the same year, the ITTP volume increased by 51.6%. However, the decreasing trend in seizures continued **in 2013**, when officers seized about **119 million cigarettes**. Between 2012 and 2013, ITTP volume also decreased by 49.6% (Map 2).

Top three seizures of 2013

A total of 11.4 million counterfeit JTI cigarettes were seized in the port of Goia Tauro (Calabria) in August. These products had arrived from the port of Jebel Ali in the United Arab Emirates.

A total of 7.5 million cigarettes were seized in a van and in a garage in Naples in April. The illicit tobacco had arrived from Moldova and Ukraine and was destined for the Italian market. Three persons were arrested.

A total of 6 million cigarettes were seized in the port of Bari (Apulia) in July. Customs and Financial Police officers discovered cigarettes in a truck arriving from Greece. The 37-year-old Italian driver was arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Overall, during the period of 2006–2013, **southern areas registered remarkable increases in the consumption of illicit cigarettes. In the rest of the country**, with the exception of Lombardy (+53.7%), **the ITTP decreased** (Map 3).

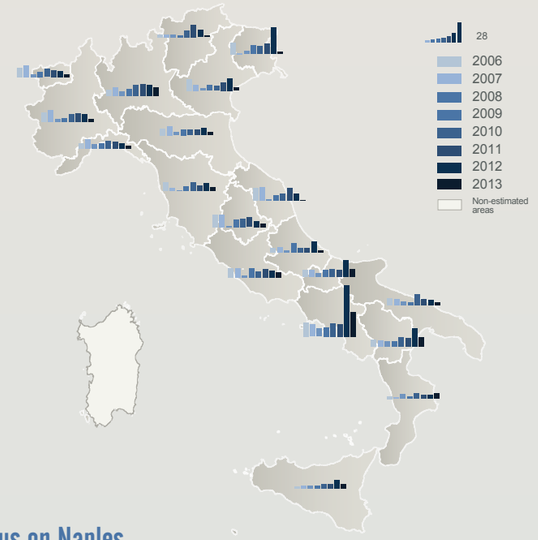
Campania and Lombardy were constantly the two largest markets for illicit cigarettes. Together, the two markets increased from 28.7% of the national ITTP in 2006 to 57.4% in 2013.

In the period 2006–2013, prevalence evolved homogeneously across Italy. Only in 2012 was the trend of the prevalence different across the areas: It increased in the North-East and in many southern areas, while it decreased in the rest of the country (Map 3).

Types of illicit cigarettes

Between 2006 and 2013, the composition of the ITTP changed. **Other illicit cigarettes were always the prevalent product, although they considerably decreased** (from 95.6% to 57.6%, respectively). **Illicit whites significantly increased during the last three years** (from 7.6% of the national ITTP in 2010 to 32.5% in 2013). Indeed, Italy is one of the EU countries most affected by the diffusion of illicit whites (DNA 2011; GdF 2013; KPMG 2013a). Between 2006 and 2013, their volume grew by 137%; however, no clear trend characterises the illicit whites market. **The share of counterfeits boomed in 2008**, jumping from 4.5% of the ITTP to 20.9% of the illicit cigarette market, mainly **due to southern areas** (reaching 43% of the ITTP in Apulia, 36% in Calabria, 27% in Sicily, and 16% in Campania). Thereafter, they did not exceed 10% of the national illicit cigarette market (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



A focus on Naples

The city of Naples was the most problematic city with respect to the ITTP. The non-domestic incidence stood at 38.3% in the second quarter of 2013, far above the national average (7.2%) (Calderoni, Angelini, et al. 2013).
The ITTP market is **long-established** in the city and is often related to **OC groups** — in particular, Camorra and Italian-Chinese OC (DIA 2010; GdF 2010; The European House Ambrosetti 2011; Di Lucia 2013).

A drastic increase in the prevalence of illicit tobacco occurred in 2012. But it was not uniform. Several neighbourhoods mainly located outside the city centre recorded non-domestic rates with **peaks of 81-89%** in the second quarter of 2012. Other areas registered low levels of non-domestic cigarettes during the same period (Map 4).
In 2012, **Naples had the highest prevalence of illicit whites in the entire country.**

Map 4. Prevalence of the ITTP in Naples's collection areas, (2011–2013)
Source: Transcrime elaboration (details in the Annex)

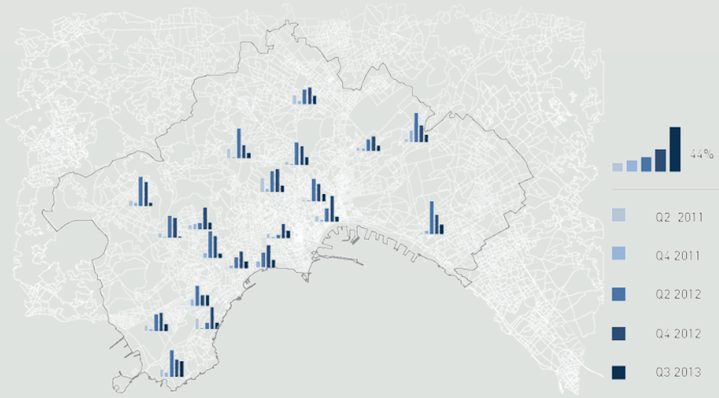
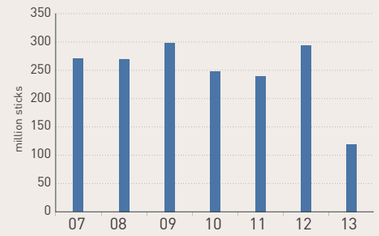


Figure 8. Cigarettes seized in Italy, million sticks (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with EU law enforcement, particularly Greek, Polish and Romanian agencies, to reduce the inflows of tobacco coming from these countries.

- Strengthening controls in the ports of the Adriatic and Tyrrhenian seas — particularly Ancona, Bari, Brindisi, Naples and Palermo — to tackle illicit flows from Greece, China, Tunisia and the United Arab Emirates.

- Launching a regional awareness campaign in order to tackle illicit consumption in the area of Campania, the Italian area with the highest prevalence.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco in order to reduce the presence of illicit whites.

- Providing yearly public estimates on the size of the ITTP and data on the smugglers' possible membership of organised crime groups.

Latvia

COUNTRY DATA

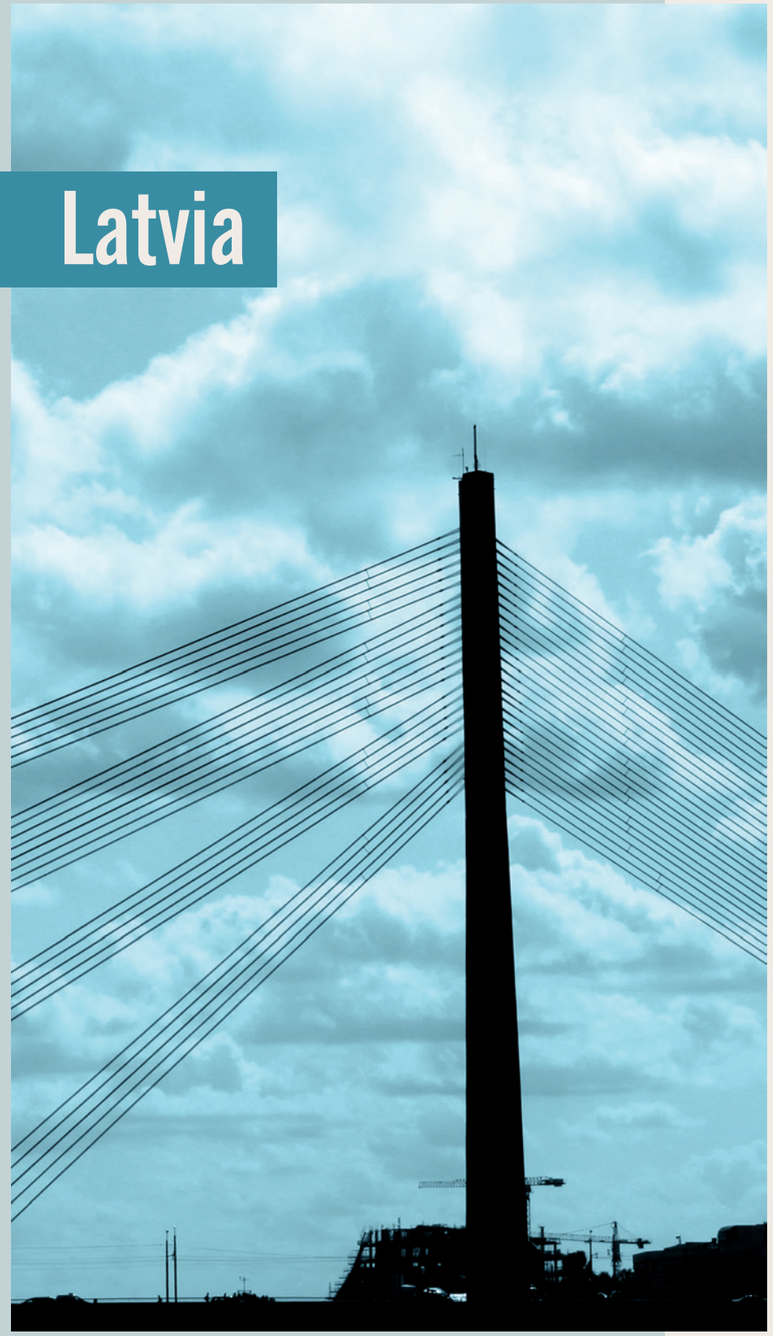
Capital City
Riga

Surface (WB 2014)
64,480 km²

Total population (WB 2014)
2,013,385 (2013)

Borders
Belarus, Estonia, Lithuania, Russia

Gross Domestic Product, € (Eurostat 2014)
23.4 billion (2013)



Vanšu Bridge, Riga

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

28.8%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

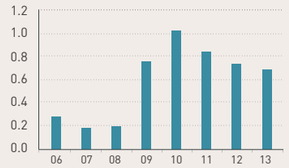


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

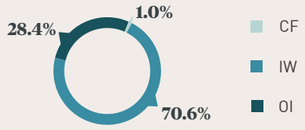
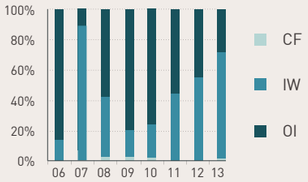


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

1.7

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

32.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

2.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

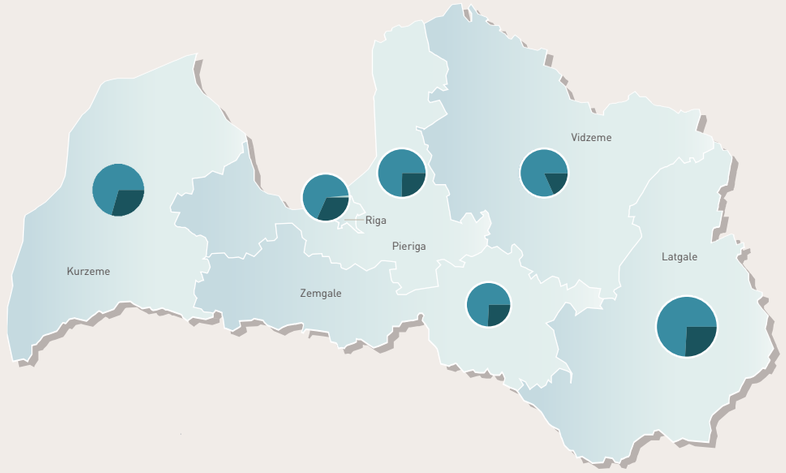
79.0%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

102.7

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, Latvia had the highest level of the ITTP in the entire EU: illicit cigarettes accounted for 28.8% of the cigarette market (KPMG 2014) (Figure 1).

In the same year, **five out of the six Latvian areas had a medium volume of the ITTP**. Vidzeme (68 million sticks), Zemgale (69) and Kurzeme (90) had medium-low volumes. Pierīga (117), Latgale (145) had medium-high volumes. Riga with 192 million sticks showed a high volume of the ITTP (Map 2).

Latgale (57.1 million sticks per 100,000 inhabitants) **and Kurzeme** (40.5 million) — the former on the border with Russia and Belarus, the latter on the Baltic Sea — **had the highest prevalence of illicit cigarettes**. Latgale, in particular, had the second highest prevalences among all European subnational aggregations. On accounting for the population, Riga was the area with the second lowest prevalence (34.5 million), after Zemgale (32.7 million) (Map 2).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in the 3 north-eastern areas and decreased in the three south-western ones**. Overall, the national prevalence diminished by 6%. The most important increase, in terms of prevalence, occurred in Vidzeme (+19%). Zemgale registered the most remarkable decrease in both volume (-36%) and prevalence (-36%) (Figure 5).

THE PRODUCTS

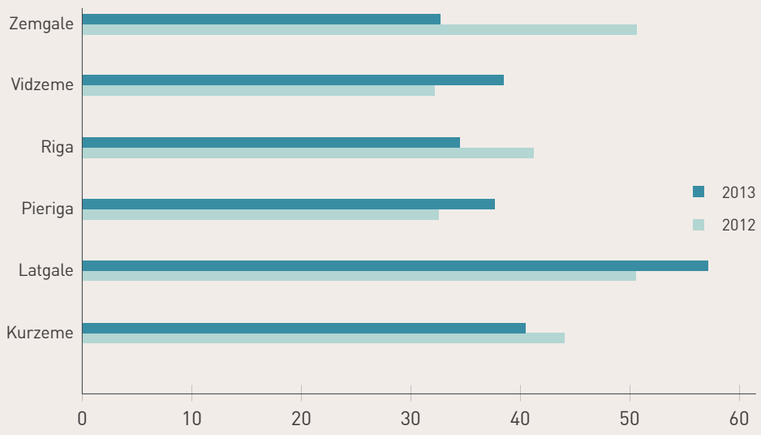
In 2013, illicit whites cigarettes were the most common illicit tobacco product (70.6% of the ITTP) (Figure 3). **Latvia's geographical proximity to Russia and Belarus**, two of the main sources of illicit whites**, can explain this high share**. Illicit whites had a share above 70% of the ITTP in 5 out of the 6 areas analysed and exceeded 80% in Vidzeme (81.8%).

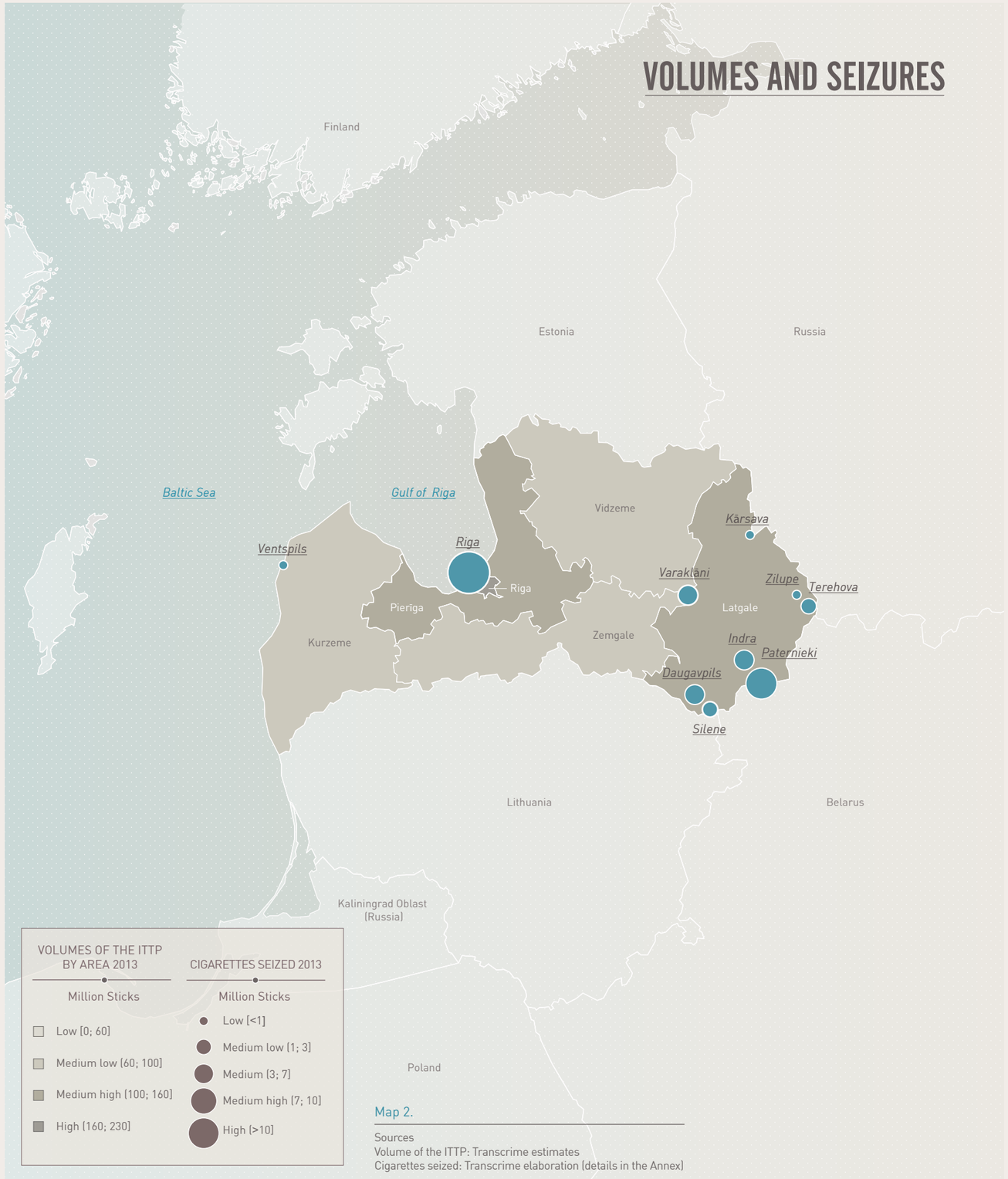
The second most important type of illicit cigarettes was other illicit cigarettes (28.4% of the ITTP) (Figure 3). **Latvia had the fourth lowest share of other illicit cigarettes among EU countries** after Croatia (5.2%), Poland (22.6%) and Lithuania (23.5%). Riga was the only area with a share of these products above 30% of the ITTP.

The third type of illicit cigarettes was counterfeit cigarettes, which accounted for only 1% of the ITTP (Figure 3). In 2013, **no evidence of the consumption of counterfeit cigarettes existed in 4 out of the 6 areas**. The highest share was recorded in Riga (2.0%).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates





Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Latvia is mainly an ending point, and secondly a starting and transit point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, Latvia is primarily an **ending point**. Illegal tobacco products intended for the **Latvian market** originate mainly from **Russia** and **Belarus** (Figure 6). In these countries bordering on Latvia, cigarette prices are lower. For instance, in October 2013, the cheapest brand cost less than €1 (from €0.3 to €0.6) in Russia and Belarus, whereas it was sold at €2.3 euros in Latvia (PMI 2013a).

A small percentage of illicit flows detected by the authorities originated from **China** and the **United Arab Emirates** (Krasovsky 2012). These flows may have been flows of counterfeit cigarettes because these countries are known as the first worldwide producers of counterfeit cigarettes (Melzer 2010; Shen, Antonopoulos, and von Lampe 2010; Levinson 2011).

Latvia also has a minor role as a **starting** and **transit point**. The Latvian products are mainly exported to **Ireland**, **Germany**, **Poland**, **Sweden**, the **UK**, **Estonia** and the **Netherlands** (Figure 7). Products **transiting** through Latvia come from **Russia** and **China**. Once in Latvia, the **outflows** are mainly intended for the **Scandinavian markets** and for **Lithuania** and the **UK** (Figure 8).

Illicit products are smuggled in, through, or from Latvia mainly by **motor vehicle**. Tobacco seizures have occurred mainly in the areas along the **eastern border** with **Russia** and the **south-eastern border** with **Belarus**, the main entry points for cigarettes in the country. The vast majority of cases detected have been in **Silene**, **Terehova**, **Grebnova** and **Paternieki**. Many attempts to import cigarettes illegally have been detected also on international **trains** coming from Belarus and Russia. Illegal cigarettes have been detected at the **railway stations** of **Kārsava**, **Zilupe**, **Indra** and **Daugavpils**. Some cases of sea smuggling have been discovered at the ports of **Riga** and **Ventspils**, which receive large shipments of illegal tobacco products from China.

THE FLOWS

Figure 6. Latvia as ending point (2010–2013).* N= 132

*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Latvia as starting point (2010–2013).* N= 38

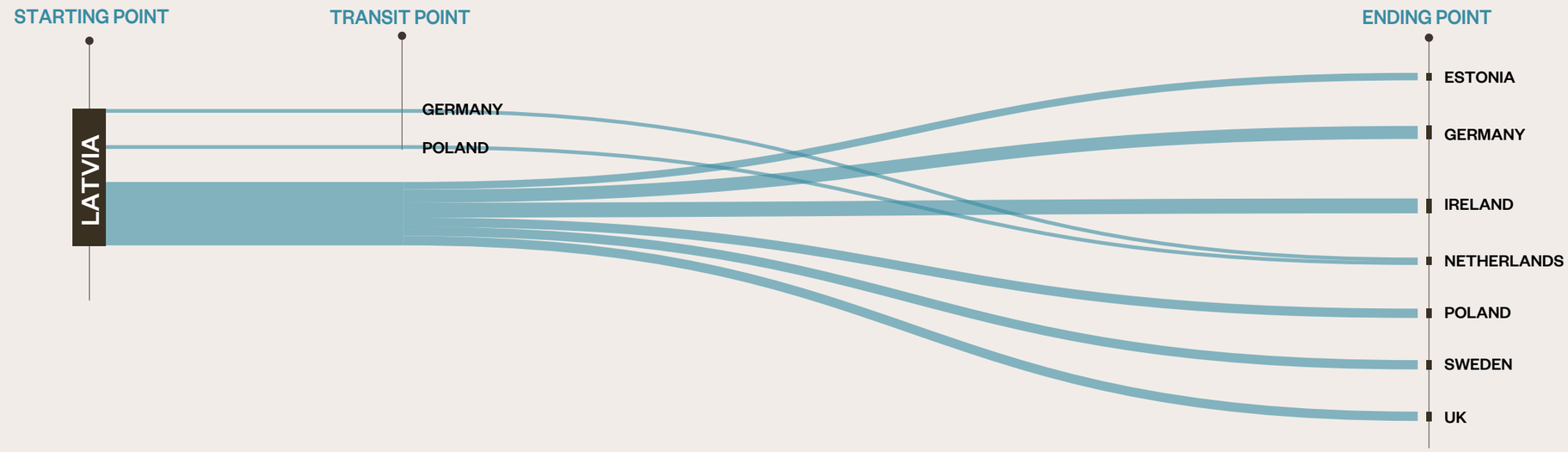
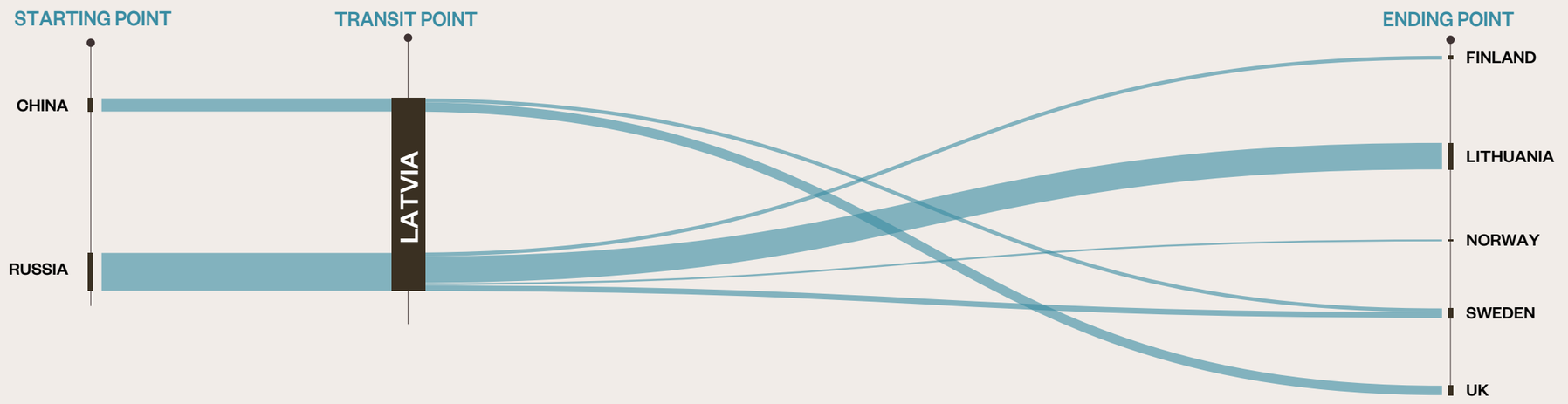


Figure 8. Latvia as transit point (2010–2013).* N= 27



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Latvian State Revenue Service and newspapers reported 535 tobacco seizures involving 564 persons, mainly **Latvians** (51%), **Lithuanians** (30%) and **Belarusians** (9%) aged **20–30**. In the majority of the seizures, the smugglers were alone. In a few other cases, up to eight persons were present. Because the information collected refers to the exact moment of seizure and excludes the results of subsequent investigations, these persons may have been either individual bootleggers or members of larger organised crime networks. Indeed, **organised crime groups** manage the importation, storage and sale of smuggled goods (Kegö, Leijonmarck, and Molcean 2011).

Tobacco was transported to Latvia mainly by car (49%), **truck** (20%) and **train** (16%). On average, cars transported 29,000 cigarettes, trucks 1.2 million cigarettes, and trains 192,700.**

Latvia is also a **source country for the production of illicit cigarettes**. Between 2010 and 2013 **three illegal manufacturing facilities** were raided, two of them in 2012. Along the **state border**, called the "green" border, uncontrolled corridors have hundreds of privatised and unused production facilities and warehouses used by organised groups for the ITTP (Kegö, Leijonmarck, and Molcean 2011).

** Between 2010 and 2013, 7.4 million cigarettes were seized in 253 cars; 118.7 million cigarettes were seized in 101 trucks; and 16.4 million cigarettes were seized in 85 trains.

REGULATION

The Latvian Government has adopted **few measures against the ITTP**. An explicit legal duty to destroy all confiscated cigarettes is in place, and a national public awareness campaign ("Domino") was launched in 2013. Except for public and yearly data on illicit tobacco seizures that the State Revenue Service provides, no other data are available.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

Three bodies are involved in the fight against the ITTP in Latvia: the **State Revenue Service** (*Valsts ieņēmumu dienests*), the **State Border Guard** (*Valsts Robezsardze*) and the **State Police** (*Valsts Policija*).

The quantity of cigarettes seized in Latvia increased between 2008 and 2012 (Figure 9). The largest increase was registered in 2009 (+71%), rising from 30 million sticks in 2008 to 52 million in 2009. The second largest increase occurred in 2011, when the State Revenue Service seized 87 million sticks, 45% more than in the previous year (42 million sticks in 2011). The number of cigarettes seized has decreased in recent years, dropping from 89 million sticks in 2012 to **51 million sticks in 2013** (Map 2).

Top three seizures in 2013

A total of 9.4 million cigarettes were seized in Riga on the 5th of February. State Revenue Service officers discovered counterfeit Prince cigarettes without tax stamps in a container arriving from Vietnam or China and destined for Denmark or Sweden.

A total of 6.9 million cigarettes were seized in Paternieki on the 11th of June. State Revenue Service officers stopped a truck transporting Premier cigarettes from Belarus. These products had Baltic States as their destination. Seven people were detained.

A total of 3.7 million cigarettes were seized in Paternieki on the 11th of May. State Revenue Service officers checked a truck and found Fest cigarettes with Belarusian tax stamps, which were destined for the Baltic States. One person was arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 152% in volume and by 186% in prevalence.

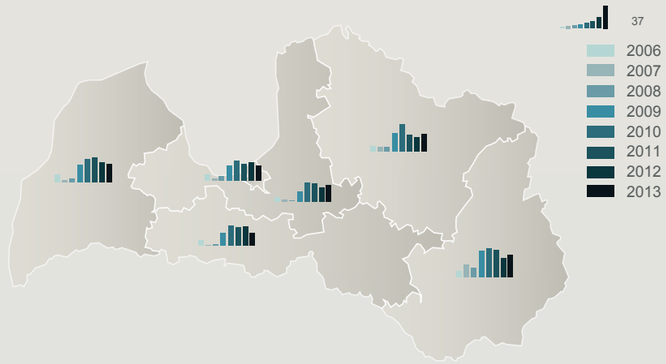
Riga and Latgale had the largest ITTP during the entire period. The consumption of illicit cigarettes slightly decreased until 2008, when it rose sharply in all of the Latvian areas. **Between 2008 and 2010, the national illicit cigarette market grew by 437%.** Thereafter, the ITTP volume began to decrease steadily in all the areas of the country (Figure 2). The **prevalence followed a similar pattern.** During the entire period, Latgale was the area with the highest prevalence. In fact, it is located along the border with Russia and Belarus, which are two key exporters of illicit cigarettes.

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013. Except in 2007, other illicit cigarettes were the prevalent illicit product in all of the Latvian areas until 2011. The only exception was Pierīga in 2011 (48%). **In 2012, illicit whites became the most widespread illicit kind of cigarettes** in six out of seven areas. In 2013, Vidzeme again registered the highest share of illicit whites (82% of its ITTP). Empty pack surveys (EPSs) indicated the presence of few counterfeits in 2008. After 2008, their share remained modest, ranging from 0.3% in 2012 to 2.6% in 2008 (Map 1).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on collection points in Latgale

Latgale, bordering on both Russia and Belarus, **had the highest prevalence of illicit cigarettes** among Latvian areas. These neighbouring countries are the main sources of the ITTP due to their lower prices and their large production of illicit whites.

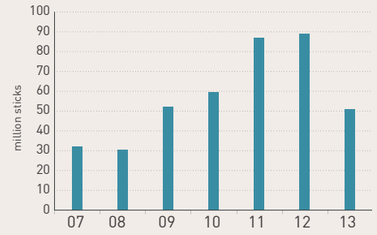
Indeed, illicit whites were the most widespread non-domestic product at all of Latgale's collection points. The city of **Livani, located far from the borders, had the lowest share of the consumption of non-domestic cigarettes (31.6% of the total)** (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

Figure 9. Cigarettes seized in Latvia, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Russian and Belarusian law enforcement agencies in order to reduce the vulnerability of the southeastern borders, main entry points of illicit tobacco.

- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the production of illicit cigarettes.

- Promoting a national action plan against the ITTP and launching an awareness campaign in the area of Latgale, where illicit consumption is the highest at national level and the second-highest at EU level.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the domestic demand and the supply of tobacco.

- Providing yearly public estimates on the size of the ITTP, data on convictions for the ITTP and on the possible membership of organised crime groups.

Lithuania

COUNTRY DATA

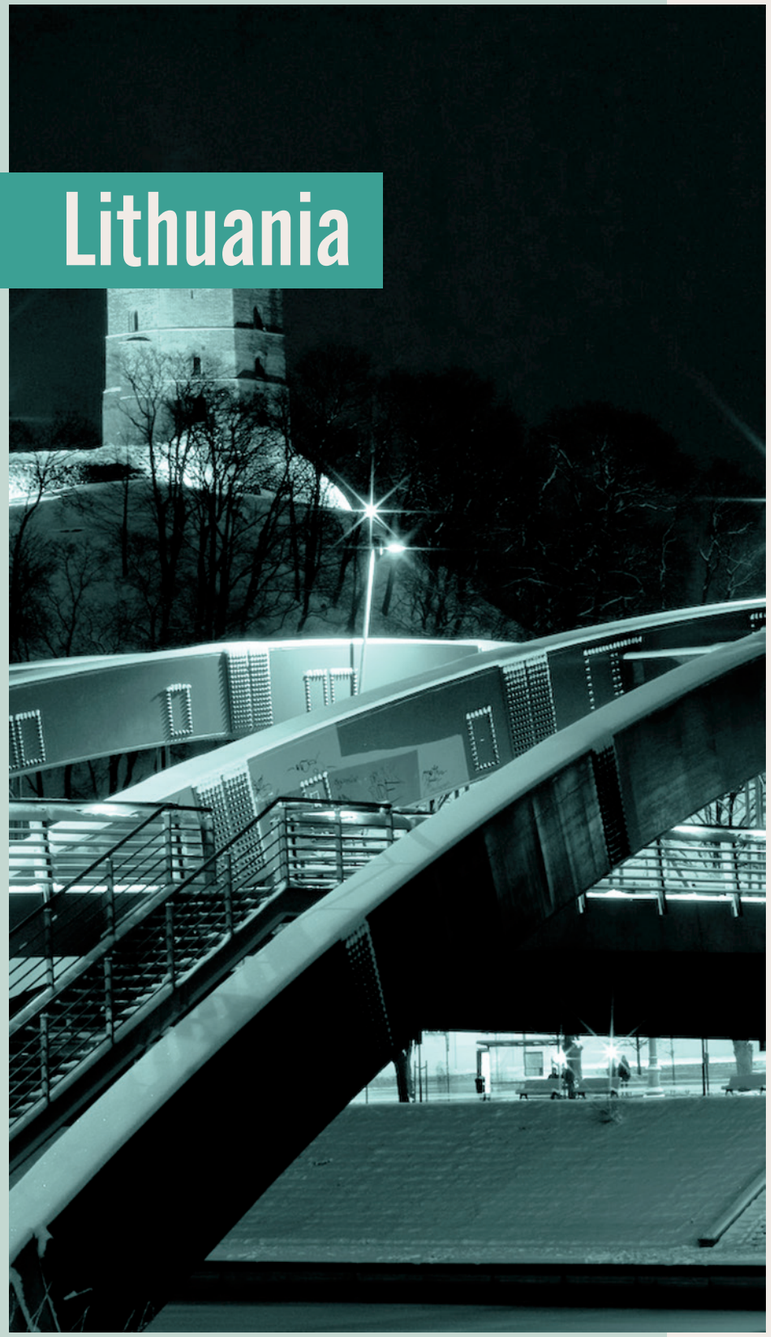
Capital City
Vilnius

Surface (WB 2014)
65,300 km²

Total population (WB 2014)
2,956,121 (2013)

Borders
Belarus, Kaliningrad Oblast (Russia), Latvia, Poland,

Gross Domestic Product, € (Eurostat 2014)
34.6 billion (2013)



King Mindaugas bridge, Vilnius

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

27.1%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

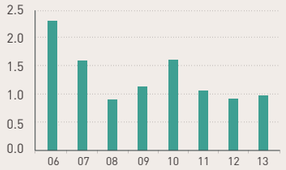


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

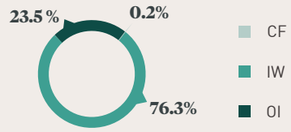
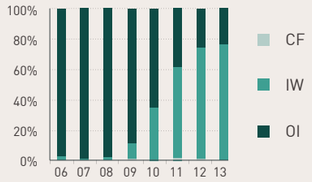


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

2.8

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

33.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

2.2

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

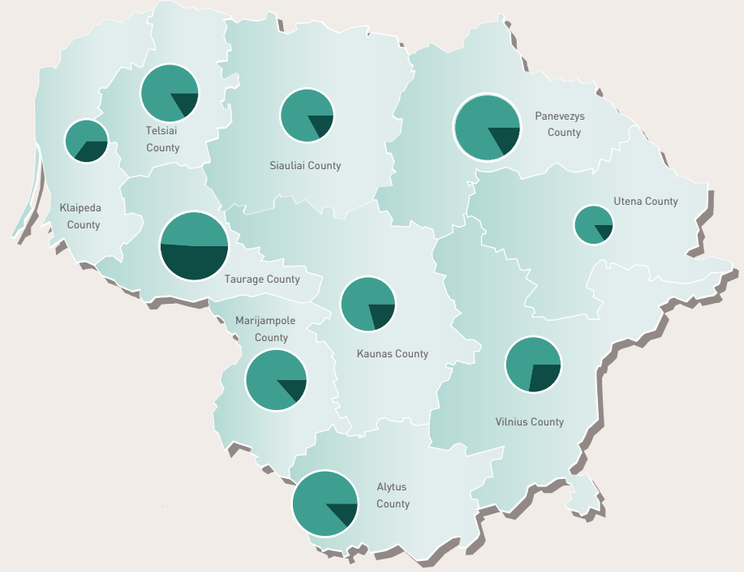
81.3%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

89.5

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Lithuania had the second highest level of the ITTP in the entire EU**. Indeed, **illicit consumption accounted for 27.1% of the cigarettes market** (KPMG 2014) (Figure 1).

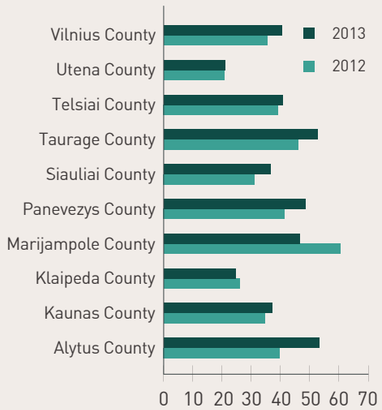
8 out of 10 areas had low or medium-low levels of the ITTP in terms of volume (Map 2). The areas with the largest illicit cigarette markets were Vilnius County (273 million sticks) and Kaunas County (186 million sticks). Altogether, they made up more than 45% of the national ITTP (Map 2).

In 2013, out of 100.0 cigarettes consumed, 27.1 were of illicit origin (KPMG 2014). Indeed, 5 out of 10 **Lithuanian areas were among the 20 European areas with the highest prevalence of illicit cigarettes**. Alytus County (52.6 million sticks per 100,000 inhabitants) and Taurage County (52.1 million sticks per 100,000 inhabitants), in particular, had the third and the fifth highest prevalences in the entire EU. Klaipeda County (24.2) and Utena County (20.8) were the areas with the lowest prevalence (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in 8 out of 10 areas** (Figure 5). The overall **national ITTP expanded by 7% in terms of prevalence and 8% in terms of volume**.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



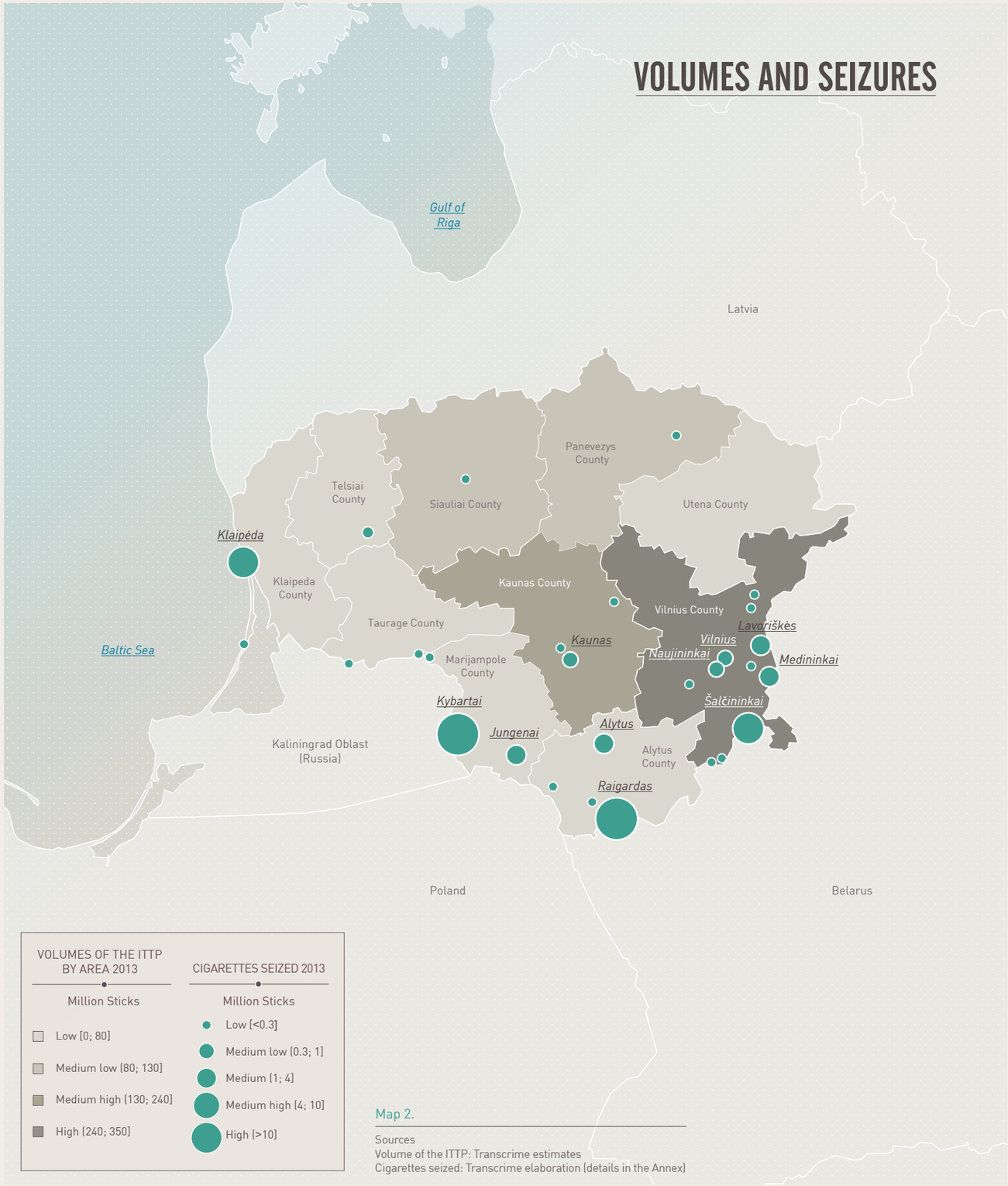
The most marked increase occurred in Alytus County, in terms of both prevalence and volume (respectively, +34% and +32%). Marijampole County registered the most remarkable decrease in both prevalence (-23%) and volume (-24%). In 2012, Marijampole County had the highest prevalence among Lithuanian counties; in 2013, the fourth (Figure 5).

THE PRODUCTS

In 2013, illicit whites cigarettes were the most common illicit tobacco product (76.3% of the illicit market) (Figure 3 and Map 1). **Geographical proximity to Kaliningrad Oblast and Belarus**, two of the main source countries of illicit whites**, is a key element in explaining the extremely high share of these products in Lithuania** (Calderoni et al. 2014). Illicit whites had a share above 80% of the ITTP in six out of ten areas. Their relative weight was slightly lower in the three most populous areas (Vilnius County 72.0%, Kaunas County 79.0%, Klaipeda County 64.9%) and in Taurage County (48.9%) than in the rest of the country.

The second most important type of illicit cigarettes was other illicit cigarettes (23.5% of the illicit market) (Figure 3 and Map 1). In 2013 **Lithuania had the third lowest share of other illicit cigarettes among EU Member States** after Croatia (5.2%) and Poland (22.6%). The two western areas of Klaipeda County (35.1%) and Taurage County (51.1%) were the only two areas with a share of other illicit cigarettes above 30%.

The third type of illicit cigarettes was counterfeits, which accounted for only 0.2% of the ITTP (Figure 3 and Map 1). In 2013, **in eight out of ten counties, no evidence of the consumption of counterfeits** was available. Empty pack surveys (EPSs) indicated the presence of few counterfeits in Vilnius County and in Kaunas County. These two areas also presented the largest samples. Proximity to the main producing countries of illicit whites and wide price differentials between the two sides of the EU borders may reduce the appeal of counterfeits.



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Lithuania is mainly an ending point, and secondly a starting and transit point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **Lithuanian market** originate mainly from bordering **Russia** (Kaliningrad Oblast) and **Belarus** (see also Lithuanian Free Market Institute 2012) (Figure 6). In these countries, cigarette prices are lower. For instance, in October 2013, the cheapest brand cost less than €1 (from €0.3 to €0.6) in Russia and Belarus, whereas it was sold at €2.1 in Lithuania (PMI 2013a). A portion of illicit cigarettes circulating within Lithuania consists of illicit whites produced in Belarus and Russia (KPMG 2014).

Lithuania also has a minor role as a **starting** point and **transit** point for illicit tobacco products intended for European markets, where cigarettes prices are higher. The Lithuanian products are mainly exported to **Germany**, **Ireland,** the **UK**, **Poland**, **Denmark** and **Sweden** (see also Krasovsky 2012) (Figure 7). Products **transiting** through Lithuania come from **Russia** (Kaliningrad Oblast) and **Belarus**. After passing through Lithuania, the outflows are mainly intended for **Poland**, **Germany**, **Latvia** and the **UK** (see also Europol 2011; Gutauskas 2011) (Figure 8).

Illicit products are smuggled in, through, or from Lithuania mainly by **motor vehicles**. Tobacco seizures have occurred mainly in the areas located along the **border with Kaliningrad Oblast** and **Belarus**, the main entry points for illicit cigarettes. The vast majority of cases detected have been in **Kybartai**, **Nida**, **Ramoniškiai** and **Marijampolė**, which border with Kaliningrad Oblast, and in **Medininkai**, **Raigardas**, **Šalčininkai**, **Lavoriškės** and **Eišiškės**, along the border with Belarus.

Many attempts to import cigarettes illegally were also detected on international **trains** coming from Belarus and Russia and mainly directed to Vilnius at the **railway stations** of **Kena**, **Kybartai**, **Marijampolė** and **Valčiūnai**. Cases of cigarette smuggling have occurred also at the **airports of Kaunas**, **Siauliai** and **Vilnius**, where passengers were about to leave for the UK.

THE FLOWS

Figure 6. Lithuania as ending point (2010–2013).* N= 118

*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Lithuania as starting point (2010–2013).* N= 41

Figure 8. Lithuania as transit point (2010–2013).* N= 24

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Lithuanian Customs and newspapers reported 651 tobacco seizures involving 842 persons, mainly **Lithuanians** (55%), **Belarusians** (17%) and **Russians** (13%). They were mainly **unemployed** or fictitiously employed with low incomes (Subačius 2013). The Lithuanian ITTP is managed both by small organised groups and very complex criminal alliances of 50–150 members (Vainauskienė 2008; Subačius 2013). About **30 organised crime groups** smuggle cigarettes from Lithuania to Western European, Scandinavian and Northern countries (Customs of the Republic of Lithuania 2012, 6).

Tobacco was transported mainly by car (62%) and **truck** (25%). Few seizures occurred on **trains** (3%).** Inside cars, cigarettes are mostly hidden in spare-wheel storage compartments and trunks (Alfa 2006; ZEBRA 2007; ZEBRA 2009; Customs of the Republic of Lithuania 2011a). Since 2010, the *modus operandi* of smugglers has remained constant, with the exception of a more frequent use of rail shipments (Customs of the Republic of Lithuania 2011b; Frontex 2012; Bikelis and Nikartas 2013; Subačius 2013). Lithuania is also a **starting point for illicit tobacco production**. Indeed, according to open sources and industry data, in 2010 and 2013, **two illicit manufacturing facilities** were raided in the capital city of Vilnius and in Avižieniai (PMI 2013b).

** Between 2010 and 2013, 28.1 million cigarettes were seized in 381 cars (quantity per seizure: 73,800); 265.4 million cigarettes were seized in 155 trucks (quantity per seizure: 1.7 million); and 12.0 million cigarettes were seized in 20 trains (quantity per seizure: 599,800).

REGULATION

The Lithuanian Government has adopted **some measures against the ITTP**. The Lithuanian Police Department, Customs and Border Guards signed a memorandum of understanding in 2011. In 2011 and 2013 two national and regional public awareness campaigns were launched. The Lithuanian Customs provide public and yearly data on tobacco seizures and convictions for the ITTP. An explicit legal duty to destroy all confiscated cigarettes is also in place.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities. Tracing system by batch numbering on the unit packet to determine the place and time of manufacture is in place. Maintaining complete and accurate records of all relevant transactions is also mandatory for all persons engaged in the supply chain of tobacco products.

LAW ENFORCEMENT

Three bodies are involved in the fight against the ITTP in Lithuania: the **Lithuanian Customs** (*Lietuvos Respublikos muitine*), the **State Border Guard Service** (*Valstybės sienos apsaugos tarnyba*), and the **Police Department under the Ministry of the Interior** (*Lietuvos policija*).

The quantity of cigarettes seized in Lithuania fluctuated since 2010 (Figure 9). Between 2008 and 2010, cigarette seizures increased constantly (from 57 to 211 million sticks), as well as taxation on cigarettes (+15%) (European Commission 2010). In 2011, the number of cigarettes seized decreased by 47%, and in 2012, it increased by 51%. **In 2013,** the Customs seized **118 million cigarettes** (Map 2).

Top three seizures in 2013

A total of 13.1 million cigarettes were seized on Road A8. In November, Customs officers stopped a truck and found MG cigarettes without tax stamps. A 35-year-old Lithuanian was driving the vehicle. The cigarettes were intended for Western Europe.

A total of 12.3 million cigarettes were seized on Road A5 in November. Officers of the Customs found Excellence and MD cigarettes without tax stamps in a truck. A 37-year-old Lithuanian was transporting illicit cigarettes to Western Europe.

A total of 6 million cigarettes were seized at Kybartai check point. In September, Customs officers discovered Jin Ling cigarettes with Russian tax stamps in a truck. A 50-year-old Russian was arrested. The cigarettes were intended for Western Europe.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by more than 50%, in both terms of volume and prevalence. Vilnius County and Kaunas County had the largest ITTP during the entire period.

The evolution of the ITTP was homogeneous across all the areas. In 2006, illicit cigarettes accounted for 40.8% of the national tobacco consumption; the prevalence and the volumes reduced in 2007 and in 2008. Thereafter, the ITTP fluctuated around 1.0 billion cigarettes per year, with the exception of a peak in 2010 (1.6 billion sticks) (Figure 2).

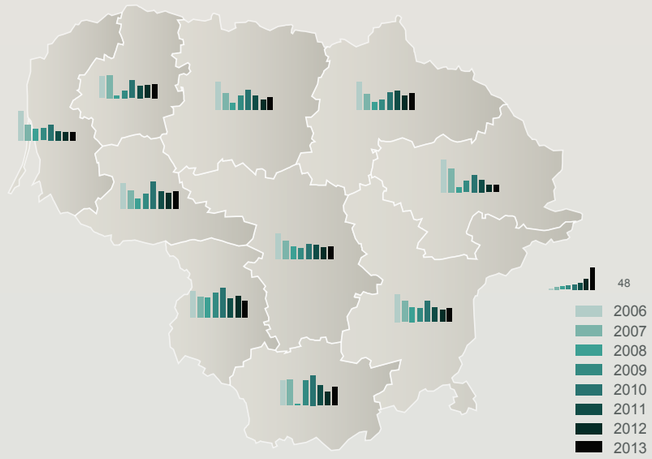
The border with Kaliningrad Oblast was a key entry gate for illicit cigarettes (Beseselio 2013; Calderoni et al. 2014). Indeed, **Marijampole County and Taurage County showed the highest prevalence of illicit cigarettes** during the 2006–2013 period (Map 3). Nevertheless, given the geographic position and the small size of Lithuania, illicit tobacco reached all of its areas (Calderoni et al. 2014).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013. **Until 2010, other illicit cigarettes had been the prevalent illicit product in all of the Lithuanian areas except for Utena County**, which recorded a particularly high share of illicit whites after 2009. **In 2011, illicit whites became the most widespread type of illicit cigarette in nine out of 10 areas.** Taurage County was the only area where other illicit cigarettes were the most common illicit cigarettes for the entire period (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on the Alytus, Taurage and Marijampole counties

In 2013, Alytus County and Taurage County had the third and fifth highest prevalences of the ITTP in the EU.

Marijampole County had the highest prevalence among Lithuanian counties in 2012. These areas are among the most important hot spots for the ITTP in the EU. However, in terms of non-domestic products, **Alytus County (33.1%) and Marijampole County (28.7%) presented higher shares of illicit whites**. This may be due to their closeness to Belarus, which is a major source of this kind of product. By contrast, **Taurage County recorded a higher share of other illicit cigarettes and non-domestic legal cigarettes (26.5%)**, which may have been due to its closeness to Kaliningrad Oblast (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

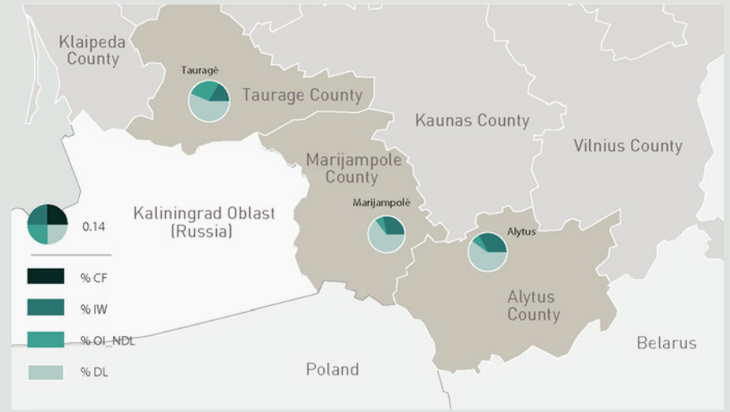
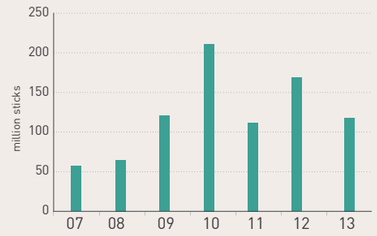


Figure 9. Cigarettes seized in Lithuania, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Russian and Belarusian law enforcement agencies in order to reduce the vulnerability of the south-western border with Kaliningrad Oblast and of the eastern border with Belarus, the main entry points of illicit tobacco.

- Strengthening control over the inflow of illicit whites from Kaliningrad Oblast and Belarus, in order to reduce the prevalence of illicit whites, the main illicit tobacco product in the country.

- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.

- Promoting a national action plan against the ITTP to reduce illicit tobacco consumption, the second highest at the EU level.

- Providing yearly public estimates on the size of the ITTP and yearly public data on the possible membership of the smugglers of organised crime groups.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.

Luxembourg

Adolphe Bridge, Luxembourg City

COUNTRY DATA

Capital City
Luxembourg

Surface (WB 2014)
2.590 km²

Total population (WB 2014)
543,202 (2013)

Borders
Belarus, Kaliningrad Oblast (Russia), Latvia, Poland,

Gross Domestic Product, € (Eurostat 2014)
45.5 billion (2013)

NATIONAL ESTIMATES OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

1.6%

Figure 2. National volume of the ITTP, bn sticks (2006 – 2013)
Source: KPMG (2014)

Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

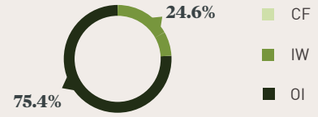
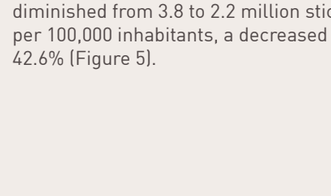


Figure 4. Share of illicit products, % (2006 - 2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

3.4

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: OECD 2013

17.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

4.4

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

69.1%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

152.1

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

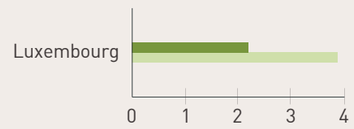
THE SIZE OF THE ILLICIT CIGARETTE MARKET

Luxembourg had a low level of the ITTP in 2013, when the share of illicit cigarettes was 1.6% of the total consumption (KPMG 2014) (Figure 1).

In 2013, the illicit cigarette market in Luxembourg had a total volume of 12 million sticks. It was decreasing compared with in 2012 (Figure 2). This amount accounted for 1.6% of the national tobacco market (KPMG 2014). The low level of the ITTP may be due to the affordability of cigarettes in Luxembourg, the highest across the entire EU. Furthermore, the price of the cheapest cigarettes was lower than in the neighbouring countries (10.5% lower than in Germany, 18.4% lower than in Belgium, and 65.8% lower than in France).

Between 2012 and 2013, the prevalence of illicit cigarettes decreased. It diminished from 3.8 to 2.2 million sticks per 100,000 inhabitants, a decreased of 42.6% (Figure 5).

Figure 5. 2012-2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants
Source: Transcrime estimates



THE PRODUCTS

In 2013, **other illicit cigarettes were the most common illicit tobacco product** (75.4% of the illicit market) (Figure 3).

The second most important type of illicit cigarettes was **illicit whites, which accounted for the remaining share of the illicit market** (24.6%).

In 2013, **no trace of counterfeits was found in the country** (Figure 3).

THE FLOWS

Luxembourg is mainly a starting point, and secondly an ending point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, the vast majority of cases identified that Luxembourg is mainly a **starting point** for illegal tobacco products circulating within the EU countries. Illicit cigarettes exported from Luxembourg are mainly destined for **France** and the **UK** because of the higher cigarette prices in these countries (Map 1). Luxembourg has a manufacturing facility producing illicit whites (located in the capital city) (KPMG 2014). These cigarettes are intended for the **Libyan market**. They are transported through Dubai to Benin and Togo before arriving in Libya (UNODC 2009, 30).

Luxembourg also has a minor role as an **ending point**, even though it registers low levels of illicit cigarettes in total consumption (see also KPMG 2014) (Map 1). Illegal products intended for the **Luxembourg market** originate mainly from **Hungary**, **Poland**, **Russia** and the **United Arab Emirates** (see also KPMG 2014).

The illicit products are smuggled by **motor vehicle**, **water** and **air flights**.

ACTORS AND *MODUS OPERANDI*

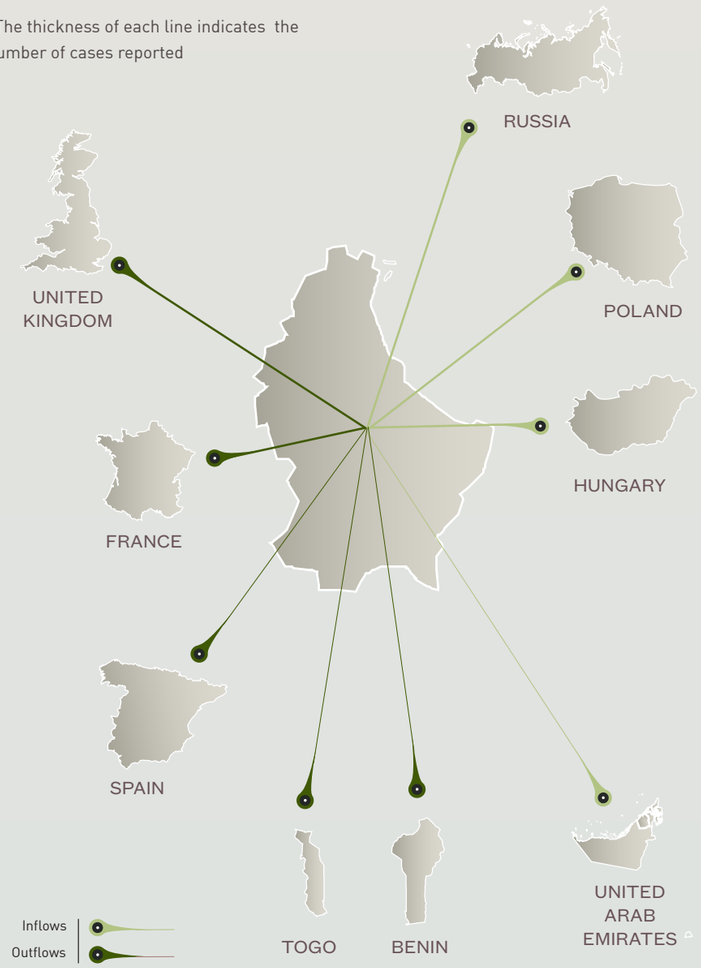
Luxembourg newspapers reported one seizure of counterfeit cigarettes between 2010 and 2013. However, Luxembourg is also a **source country for the production of illicit whites** (KPMG 2014).

THE FLOWS

Map 1. Luxembourg as starting point (N=7) and ending point (N=7) (2010-2013)*

Sources: Transcrime elaboration (details in the Annex)

*The thickness of each line indicates the number of cases reported



REGULATION

The Luxembourg Government has adopted **very few measures against the ITTP**. Indeed, except for a memorandum of understanding to strengthen cooperation between national customs and tobacco companies, no further measures have been implemented against the illicit market.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by 70% in volume and by 74% in prevalence (Figure 2 and Map 1).

The development of the ITTP went through three main phases over the period 2006-2013. Between 2006 and 2008, the volume of illicit cigarettes was stable (40 mn sticks). In the following two years, the ITTP volume showed a significant increase (+50%), peaking at 60 mn sticks in 2010. In 2011, it dropped by 67%, reaching a level of 12 mn sticks in 2013 (Figure 2).

Types of illicit cigarettes

The types of illicit cigarettes changed over the period 2006-2013. Other illicit cigarettes were the most common type of illicit products for the entire period. However, their share fluctuated, ranging between 54% (in 2012) and 100% (in 2007). In 2006, counterfeits and illicit whites accounted for 17.2% and 20.9% of the ITTP, respectively. In 2007, no consumption of these two products was observed. From 2008 to 2010, counterfeits grew slightly. In 2011, their consumption dropped to zero again. By contrast, except for 2010 (4.6% of the illicit market), no consumption of illicit whites was registered until 2012, when they reached a record share (46.2%). In 2013, they accounted for 24.6% of the illicit market (Figure 4).

Map 2. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006-2013)

Source: Transcrime estimates

LAW ENFORCEMENT

Two bodies are involved in the fight against the ITTP in Luxembourg: the **Administration of Customs and Excise** (*Administration des Douanes et Accises*) and the **Grand Ducal Police** (*Police Grand-Ducale*).

Luxembourg law enforcement agencies do not provide official annual data on cigarette and tobacco seizures.

The only case of cigarette seizures found on open sources occurred in 2012. On the 30th of March, Customs officers found **25.3 million counterfeit cigarettes** on a cargo flight that had departed from Dubai (United Arab Emirates). Palace cigarettes were destined for the Luxembourg market (Gouvernement du Grand-Duché de Luxembourg 2012).

MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Belgian, French and Spanish Law Enforcement, to reduce illicit tobacco outflows from Luxembourg to France, Spain and UK.
- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing and tracking and tracing systems.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public data on tobacco seizures and providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for ITTP and on the membership, if present, of organised crime groups.

Malta

The Breakwater bridge, La Valletta

COUNTRY DATA

Capital City
Valletta

Surface (WB 2014)
320 km²

Total population (WB 2014)
423,282 (2013)

Borders
-

Gross Domestic Product, € (Eurostat 2014)
7.3 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

14.4%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

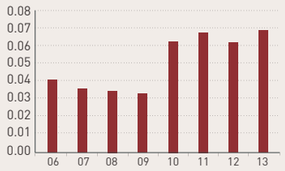


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

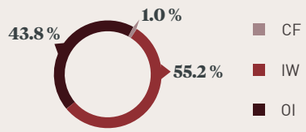
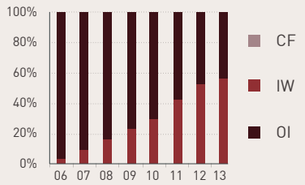


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

0.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

25.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

4.7

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

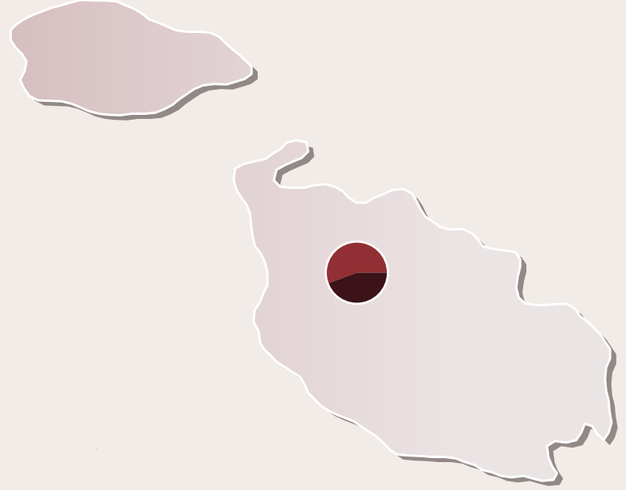
75.4%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

177.1

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

20

Share of illicit products, %

CF IW OI

VOLUMES AND SEIZURES

THE SIZE OF THE ILLICIT CIGARETTE MARKET

Malta has a medium-high level of the ITTP. **In 2013, illicit cigarettes accounted for 14.4% of the cigarette market** (KPMG 2014) (Figure 1).

In 2013, **the illicit tobacco market had a volume of 68 million sticks**, which was the third smallest in the EU. With respect to 2012, it had increased by 11% (Figure 2). The level of the ITTP in the country was medium-high in comparison with the other EU Member States.

From 2012 to 2013, the prevalence of illicit cigarettes increased by 10%. Indeed, it rose from a volume of 17.1 to 18.9 million sticks per 100,000 inhabitants (Figure 5).

THE PRODUCTS

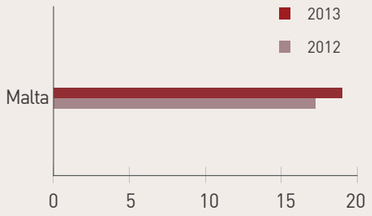
In 2013, **illicit whites were the most common illicit tobacco product** (55.2% of the illicit market) (Figure 3).

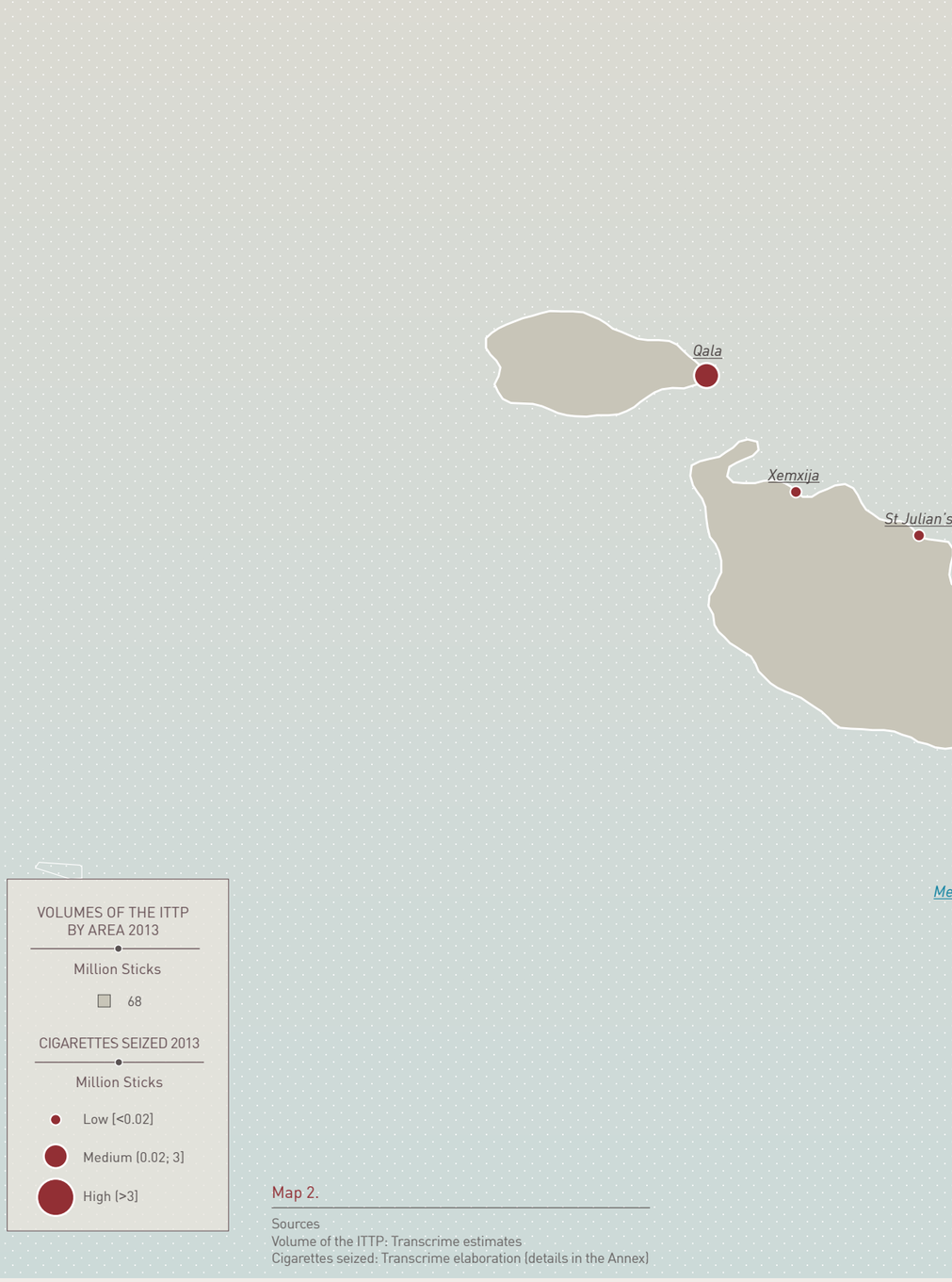
The second most important type of illicit cigarettes was other illicit cigarettes, which accounted for 43.8% the illicit market (Figure 3).

The least widespread type of illicit cigarettes was counterfeits, which covered the remaining 1.0% of the illegal market (Figure 3).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates





Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Malta is mainly an ending point, and secondly a starting and transit point, for the ITTP.

Considering the flows recorded between 2010 and 2013, illegal tobacco products intended for the **Maltese market** originate mainly from **Libya**, **Bulgaria**, **Russia**, **Ukraine** and **Belarus** (see also KPMG 2014) (Figure 6). In all these countries, in October 2013, the prices of cigarettes (between €0.3 and €2.1) were lower than they were in Malta (€3.7) (PMI 2013a).

Malta also has a minor role as a starting and a transit point of illicit tobacco products. When Malta is the **starting point**, illicit products pass through **Italy**, **Greece** and **Germany** and are intended for Western EU countries, such as the **Netherlands** and the **UK**, where criminals benefit from a higher price differential (see also KPMG 2014) (Figure 7). When it is **transit** point, flows concern non-EU countries. They exploit the Malta's strategic central position in the Mediterranean Sea to transport illicit products from **Turkey** and **China** to **Panama** and **Libya** (Figure 8).

Illicit products are smuggled into Malta mainly by **water** and **air flight**. Seizures have mainly occurred in the port of **Grand Harbour**, and at the **Valletta airport**. Illicit products transiting in Malta pass through the port of **Freeport**.

ACTORS AND *MODUS OPERANDI*

Maltese newspapers reported 16 tobacco seizures between 2010 and 2013, with 16 actors involved in seven seizures. Both **natives** and people of other nationalities (e.g. **Egyptian** and **Libyan**) are involved in the smuggling of illicit tobacco. Evidence also exists that smugglers operate both **alone** and in **groups composed of three or more people**.

Tobacco products are transported to Malta mainly by boat and **container**. In particular, on boats, 3.6million cigarettes were seized in total, with 730,000 cigarettes on average per boat. Containers were used to transport larger quantities of illicit tobacco products, around 8.3 million cigarettes per shipment.**

** Between 2010 and 2013, cigarettes were seized in 5 boats and 4 containers.

THE FLOWS

Figure 6. Malta as ending point (2010–2013).* N= 5

Figure 7. Malta as starting point (2010–2013).* N= 4

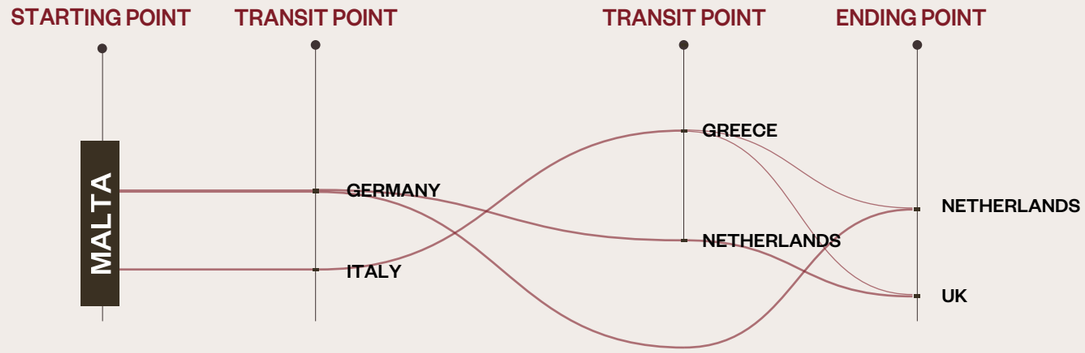
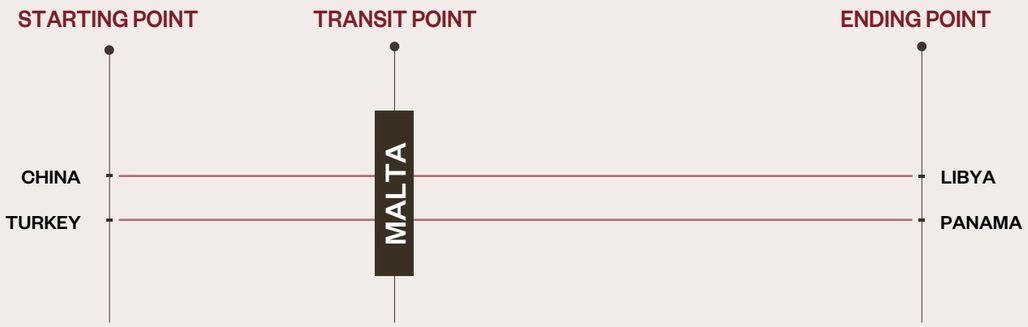


Figure 8. Malta as transit point (2010–2013).* N= 2



REGULATION

The Maltese Government has adopted **few measures against the ITTP**. An explicit legal duty to destroy all confiscated cigarettes is in place. Official estimates of the size of the ITTP are published, and public data on illicit tobacco seizures are provided by the Customs Department (relative only to the major operations).

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

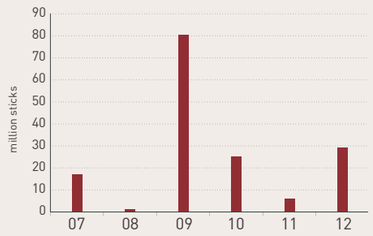
LAW ENFORCEMENT

Three bodies are involved in the fight against the ITTP in Malta: the **Malta Customs Department**, the **Malta Police Force** (*Pulizija ta Malta*) and the **Armed Forces of Malta**.

The quantity of cigarettes seized in Malta followed a fluctuating trend between 2007 and 2013 (Figure 9). Between 2007 and 2009, cigarette seizures increased from 17 to 81 million sticks. The strong increase registered in 2009 can be related to the high number of cigarettes seized (in containers) during that year (more than 67 million sticks). Thereafter, cigarette seizures decreased, reaching 6 million sticks in 2011. **In 2012**, Maltese officers seized **29 million sticks**. Annual official data on seizure are missing for 2013 (Map 2).

Figure 9. Cigarettes seized in Malta, million sticks (2007–2012)

Source: Transcrime elaboration (details in the Annex)



Top three seizures in 2013

A total of 10.6 million contraband cigarettes were seized at Freeport. On the 12th of July, Customs Department officers checked a container arriving from the Persian Gulf and found illicit cigarettes. The container had a European country as its destination.

A total of 10.5 million contraband cigarettes were seized at Freeport on the 4th of July. Customs Department officers discovered a container full of contraband cigarettes. The container had arrived from Asia and was destined for a European country.

A total of 2 million cigarettes were seized in Gozo on the 14th of April. Police officers checked a van and discovered smuggling.

MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with EU and non-EU law enforcement agencies in order to reduce the inflows of tobacco from Libya, Belarus, Bulgaria, Russia and Ukraine.

- Strengthening controls in the Maltese ports of Grand Harbour and Freeport and at Valletta's airport, the main entry points of illicit tobacco.

- Promoting a national action plan against the ITTP to reduce illicit tobacco consumption.

- Providing public yearly data on convictions for the ITTP and on possible membership of organised crime groups.

- Providing yearly data on the tobacco products seizures.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

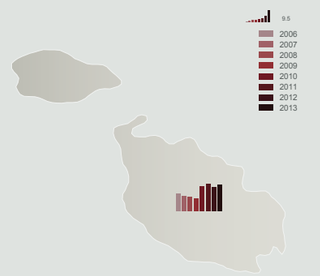
From 2006 to 2013, the national ITTP increased by 70% in volume and by 58% in prevalence (Figure 2 and Map 1). The pattern of the ITTP over the period 2006–2013 can be divided into two periods. **From 2006 to 2009, the illicit market decreased slightly**, diminishing from 40 to 32 million sticks overall. **In 2010, the volume of the ITTP sharply increased (+94%)**. After that, it oscillated around 65 million sticks (Figure 2).

Types of illicit cigarettes

The types of illicit cigarettes changed significantly from 2006 to 2013 (Figure 4). **Initially, other illicit cigarettes were the most common type of illicit product (97.2% of the illicit market)** and illicit whites accounted for the remaining 2.8%. **Over time, illicit whites constantly grew.** In 2012, illicit whites became the most widespread type of illicit product, and in 2013 they had an illicit market share of 55.2%. Counterfeits appeared only in 2013, with a very low share of the illicit market (1.0%).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006-2013)

Source: Transcrime estimates



Netherlands

COUNTRY DATA

Capital City
Amsterdam

Surface (WB 2014)
41,540 km²

Total population (WB 2014)
16,804,224 (2013)

Borders
Belgium, Germany

Gross Domestic Product, € (Eurostat 2014)
602.7 billion (2013)

Bridges Borneo-Sporenburg, Amsterdam

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

10.3%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

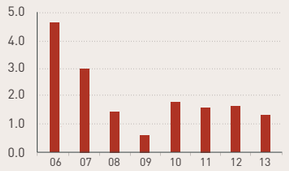


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

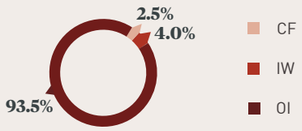
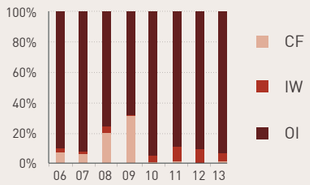


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

10.3

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

26.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

6.0

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

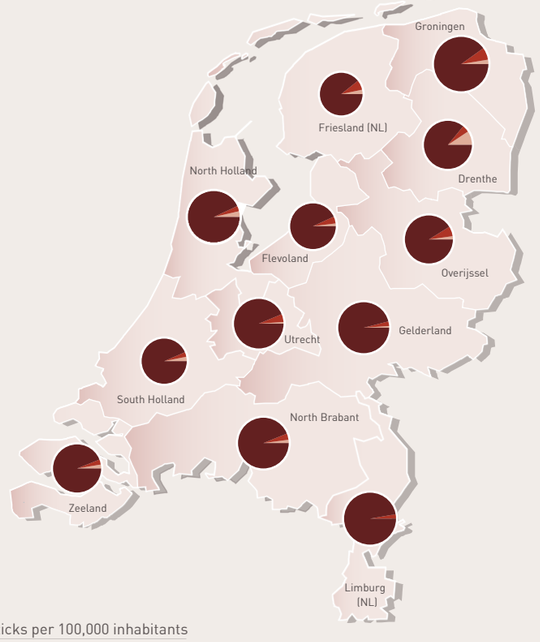
76.3%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

229.0

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

8 12

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

The Netherlands has an average level of the ITTP. In 2013, the illicit consumption corresponded to 10.3% of the total national market, and the country had the tenth largest illicit cigarette market in the EU in terms of volume (1.3 billion sticks) (KPMG 2014) (Figure 1).

Within the country, in 2013, the areas with the largest illicit cigarette markets were South Holland (240 million sticks), North Holland (221 million sticks) and North Brabant (207 million sticks). They had a medium-high level of the ITTP (Map 2).

Groningen registered the highest prevalence of ITTP (11.3 million sticks per 100,000 inhabitants). Limburg (10.4 million sticks) and North Brabant (10.1 million sticks) were the other areas with the highest prevalences (Figure 2). These three areas are located along the German (Groningen) and Belgian border (Limburg, North Brabant), suggesting that the flows of illicit cigarettes from neighbouring countries with lower prices may be pivotal for the Dutch ITTP.

Between 2012 and 2013, the prevalence of illicit cigarettes decreased in 11 out of 12 areas (Figure 5). Only Groningen recorded an increase in prevalence (+13%) and jumped from being the area with the second-lowest prevalence to the one with the highest. Friesland and South Holland registered the most marked decreases (-39% and -37%, respectively) (Figure 5).

THE PRODUCTS

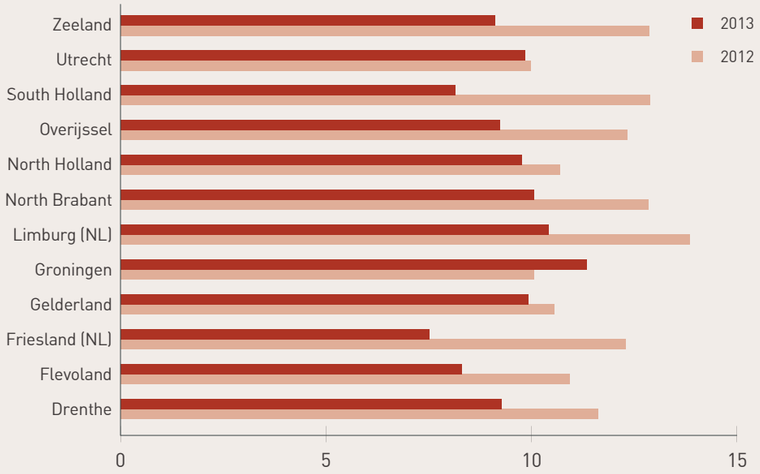
In 2013, **the most common illicit tobacco product was by far other illicit cigarettes** (93.5% of the illicit market) (Figure 3). Limburg (97.1%) and Gelderland (96.1%) had the highest shares of other illicit cigarettes. They bordered on countries where cigarettes cost less than in the Netherlands, and this may partially explain the relative abundance of smuggled cigarettes (Map 1).

The second most important type of illicit cigarettes was illicit whites (4.0% of the illicit market) (Figure 3). The areas with relatively higher shares of illicit whites tended to concentrate in the northeastern part of the country. They included Friesland (7.1% of the ITTP), Groningen (7.1%) and Overijssel (6.8%) (Map 1).

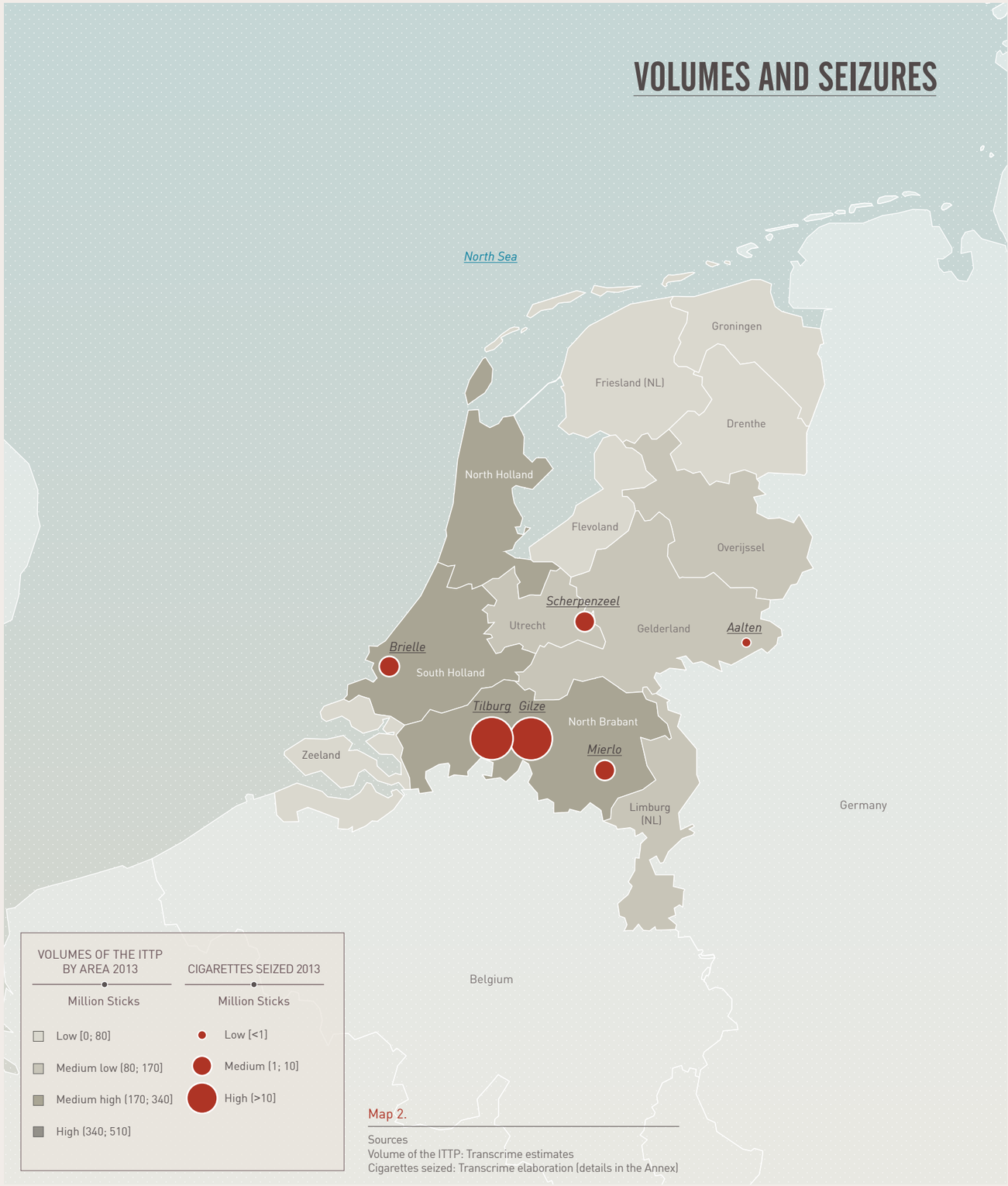
The third type of illicit cigarettes consisted of counterfeits, with a marginal share of the illicit market (2.5%) (Figure 3). Drenthe reported a share of counterfeits more than 3.5 times the national one (9.3%). It was the only area where counterfeit cigarettes had a share higher than that of illicit whites (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

The Netherlands are mainly an ending point, and secondly a transit and starting point, for the ITTP.

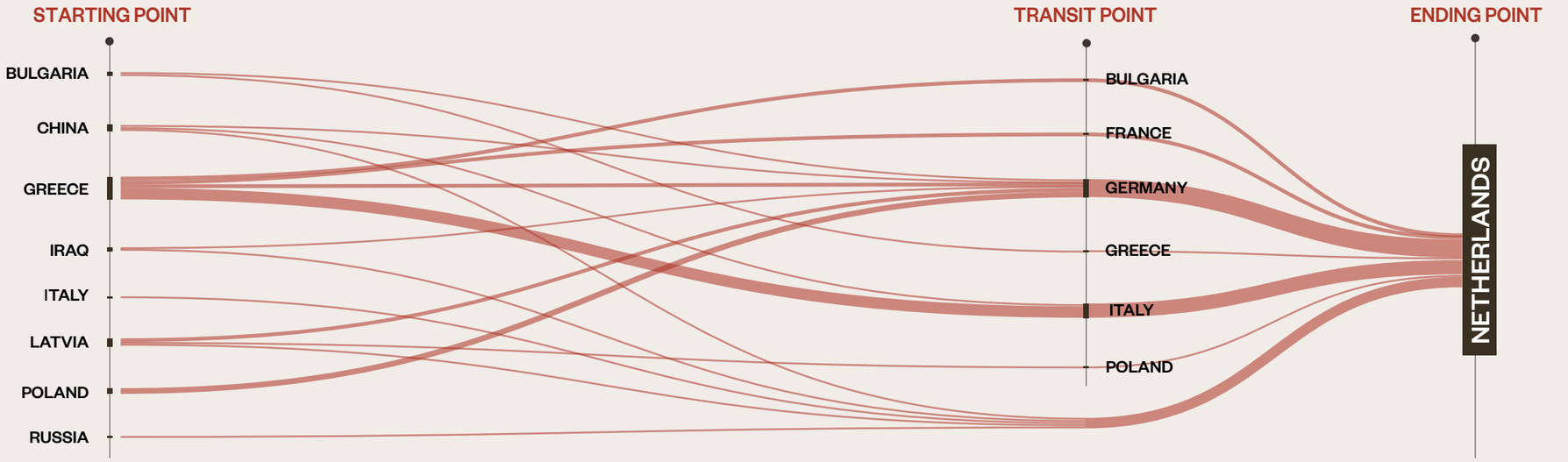
Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **Dutch market** originate mainly from **Greece**, **Latvia**, **China**, **Poland**, **Bulgaria** and **Iraq** (Figure 6). **Russia** and **Italy** are other starting points of illicit products smuggled into the Netherlands (KPMG 2014). In these countries, cigarette prices are generally lower than they are in the Netherlands. For instance, in October 2013, the cheapest brand was sold at a price from €0.6 to €4, while in the Netherlands, it was sold at €5.2 (PMI 2013a).

The Netherlands are also a **transit** point for illegal products intended for other European countries (van Dijck 2007). The main **inflows** transiting through the Netherlands originate from **China** and **Vietnam**. Once in the country, the **outflows** are mainly intended for **Ireland**, the **UK** and **Finland** (Figure 7).

The Netherlands are additionally a **starting point** of both illicit products and illicit whites. Illicit products are mainly destined for **Ireland** and the **UK**, while illicit whites are manufactured in Roosendaal (located in southern Netherlands close to the border with Belgium) (KPMG 2014) (Figure 8).

Illicit products arrive in, or transit through, the Netherlands almost exclusively by **water** and **motor vehicles**. The key **entry point** for smuggled cigarettes is the **port of Rotterdam**, which receives large shipments of illegal tobacco products from China and Vietnam. The vast majority of cigarette seizures on motor vehicles have occurred in the southern part of the country along the borders with Belgium and Germany, in **Deurne**, **Heerlen**, **Landgraaf**, **Nijmegen**, **Stein** and **Tilburg**. Some cases of cigarette smuggling have also occurred on air flights at the **airport** of **Amsterdam**. The flows originated from China and Iraq and either transited through or were destined for the Netherlands.

Figure 6. The Netherlands as ending point (2010–2013).* N= 25



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. The Netherlands as transit point (2010–2013).* N= 15

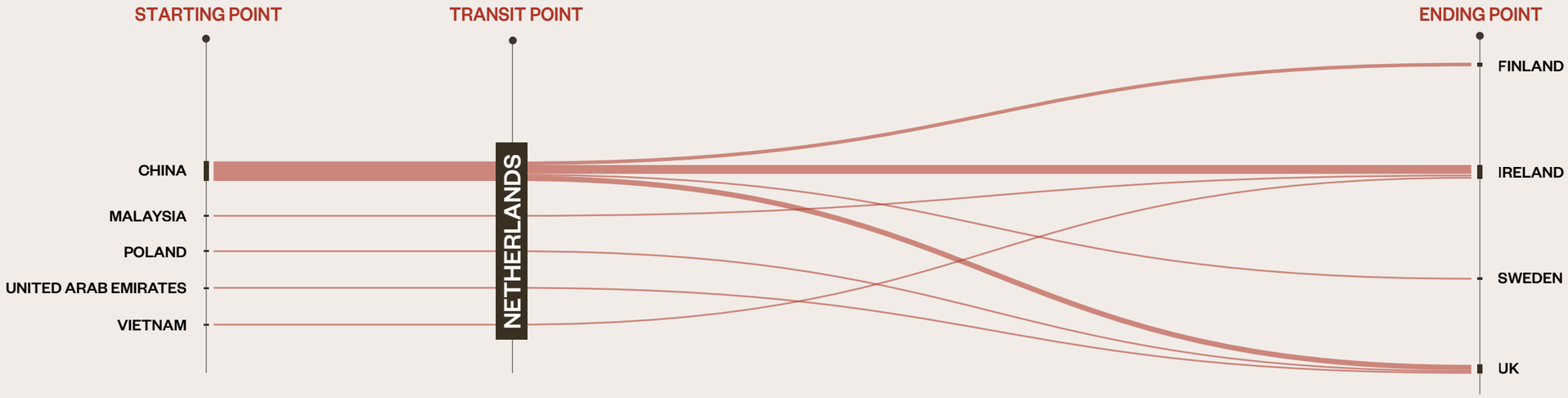
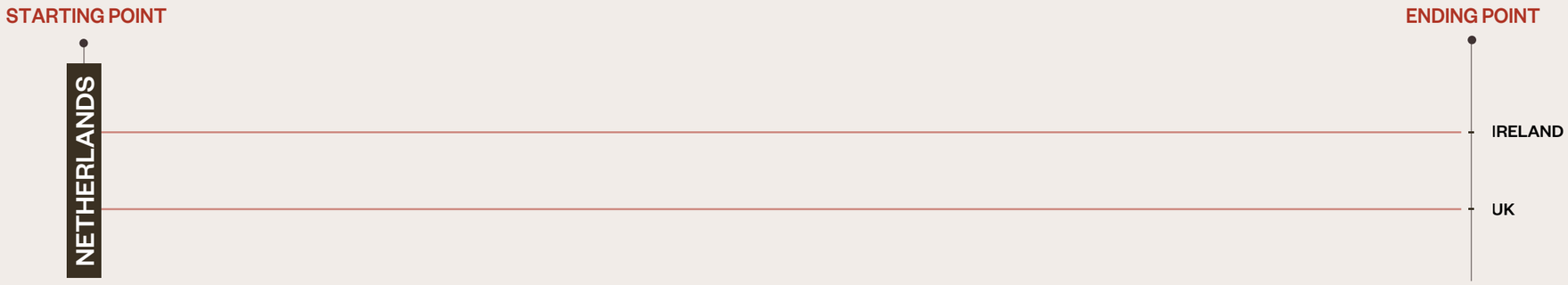


Figure 8. The Netherlands as starting point (2010–2013).* N= 2



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Tax and Customs Administration and newspapers reported 17 tobacco seizures involving 30 persons. These were mainly **Dutch**, but according to the academic literature, also Poles, Central-Eastern Europeans, and individuals from the Middle East are involved in the ITTP (van Duyne et al. 2007). The **ages of the offenders** are rather high, slightly less than 40 years, with a median age of 38 years (van Duyne et al. 2007). In the Netherlands, the cigarette black market is run by small groups engaged in commercial relations with other groups. The structure of this network is based on acquaintances/friends and involves a **relatively lower level of cooperation** (van Duyne et al. 2007).

Cigarettes are often trafficked to Rotterdam from Poland by **truck**, or by **container** from the Far East (van Duyne et al. 2007). The largest number of seizures occurred in **clandestine warehouses** and **private houses**.** No particular concentration was observed in the distribution of the cities in which tobacco was seized.

The Netherlands are an **illicit whites producing country as well as a producer of illicit cigarettes** (KPMG 2014). Between 2011 and 2013, **two illicit manufacturing facilities** were discovered in the cities of Nieuwveen, 35 km south of Amsterdam, and Landgraaf, near the Dutch-German border.

** Between 2010 and 2013, 61.9 million cigarettes were seized in 10 warehouses and 2 houses (quantity per seizure: 5.2 million).

REGULATION

The Dutch Government has adopted **few measures against the ITTP**. In June 2011, the Tax and Customs Administration signed a memorandum of understanding with the SSI (Foundation Cigarette Industry). The Tax and Customs Administration provides public and yearly data on tobacco seizures.

The control of the legal supply chain is partially guaranteed through the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The bodies involved in the fight against the ITTP in the Netherlands are the **Tax and Customs Administration** (*Belastingdienst*), the **Fiscal Information and Investigation Service** (*Fiscale inlichtingen- en opsporingsdienst-FIOD*), the **Royal Military Police** (*Koninklijke Marechaussee*) and the **Police** (*Politie*).

The quantity of cigarettes seized in the Netherlands decreased from 2009 to 2012 (Figure 9). After an increase between 2007 and 2009 (from 85 million sticks to 210 million sticks), the number of cigarettes seized has decreased in recent years. The quantity seized passed from 83 million sticks in 2011 to 62 million sticks in 2012. **In 2013**, the number of cigarettes seized increased, reaching **102 million sticks** (Map 2).

Top three seizures in 2013

A total of 4.8 million cigarettes, **16,000 kgs of fine-cut tobacco** and two machines for the manufacture of cigarettes were seized in Langraaf on the 25th of April. Customs Administration officers discovered an illicit plant manufacturing counterfeit Marlboro destined for Dutch, German and Austrian markets. The raw materials had arrived from Bulgaria, Hungary and Slovakia. The 29 suspects were Dutch, German, Russian and Bulgarian.

A total of 11 million illegal cigarettes were seized in Gilze on the 14th of March. FIOD and Customs Administration officers found cigarettes without tax stamps in a shed. Five suspects were arrested.

A total of 10 million cigarettes were seized in Tilburg on the 22nd of February. Cigarettes without tax stamps, intended for the British illicit market, were found in a shed by FIOD and Customs Administration officers. A 68-year-old suspect was arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by about 70%, in both volume and per capita consumption. All of the areas experienced a similar reduction in the volume of the ITTP. Drenthe had the most marked contraction of the prevalence (-78.2%), and Groningen the weakest (-55.3%) (Figure 2 and Map 3).

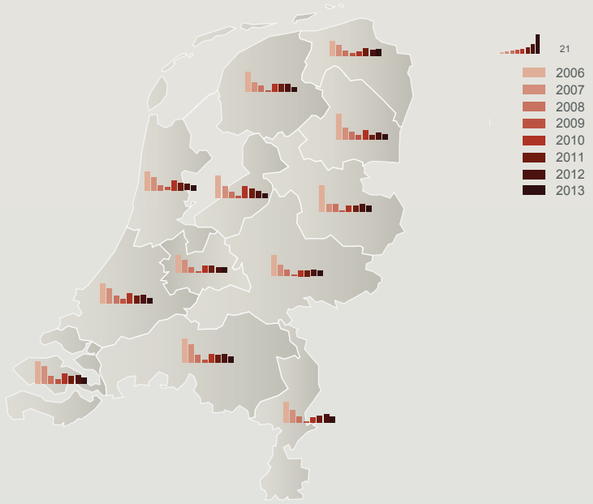
In volume terms, South Holland recorded the largest illicit cigarette consumption. Not only is this area the most populous in the Netherlands but it also has one of the most important ports in Europe: Rotterdam. The port of Rotterdam may act as an entry gate for illicit cigarettes originating from all over the world.

Types of illicit cigarettes

The types of illicit cigarettes slightly changed from 2006 to 2013. Other illicit cigarettes accounted for about 90% of the ITTP during the entire period, except for **2008 and 2009** when counterfeits **significantly expanded** (the share of counterfeits was 20.6% in 2008 and 31.0% in 2009). **Illicit whites became the second most widespread product after 2010**. Yet, in the period 2010–2013, their share never exceeded 8.5% of the ITTP (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Amsterdam

In 2013, **the prevalence of non-domestic cigarettes was heterogeneous across the collection points**, possibly reflecting the different economic functions and socio-cultural characteristics of the neighbourhoods of Amsterdam. Vorselaarstraat (41.0%) and Bos en Lommerweg (40.7%) were the collection points with the highest prevalences of non-domestics. Werengouw (8.2%), Nes (11.0%), Zekeringstraat (12.3%), Mauritskade (13.7%) and Amstelkade (14.8%) had the lowest prevalences (Map 4). However, clear pattern emerges on observing the general evolution, and the values of the ITTP prevalence were characterized by large fluctuations. The prevalence of non-domestics in the city showed a **significant decrease during the second quarter of 2012**, but it increased again from the fourth quarter of 2012.

Map 4. Prevalence of the ITTP in Amsterdam's collection areas, (2011–2013)

Source: Transcrime elaboration (details in the Annex)

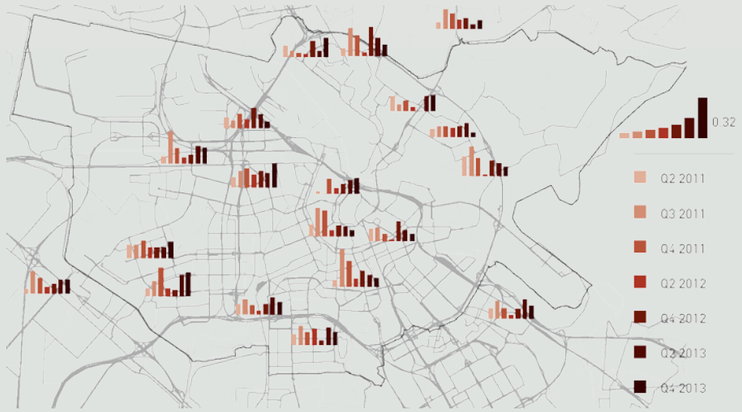
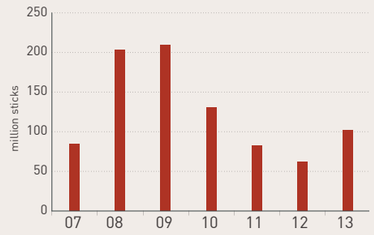


Figure 9. Cigarettes seized in the Netherlands, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with German and Belgian law enforcement agencies in order to limit illicit tobacco inflows by motor-vehicles.
- Strengthening controls in the Dutch port of Rotterdam, to reduce illicit inflows mainly from China and Vietnam.
- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.
- Promoting a national action plan against the ITTP to reduce illicit tobacco consumption.
- Launching national awareness campaigns to tackle illicit tobacco consumption.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on the possible membership of organised crime groups.

Poland

COUNTRY DATA

Capital City
Warsaw

Surface (WB 2014)
312,680 km²

Total population (WB 2014)
38,530,725 (2013)

Borders
Belarus, Czech Republic, Germany, Lithuania, Kaliningrad Oblast (Russia), Slovakia, Ukraine

Gross Domestic Product, € (Eurostat 2014)
390.0 billion (2013)

Tumski bridge, Breslavia

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

13.9%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

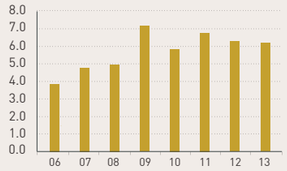


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

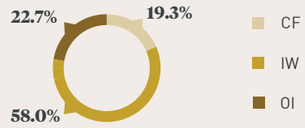
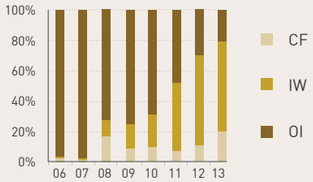


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

46.6

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

32.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

2.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

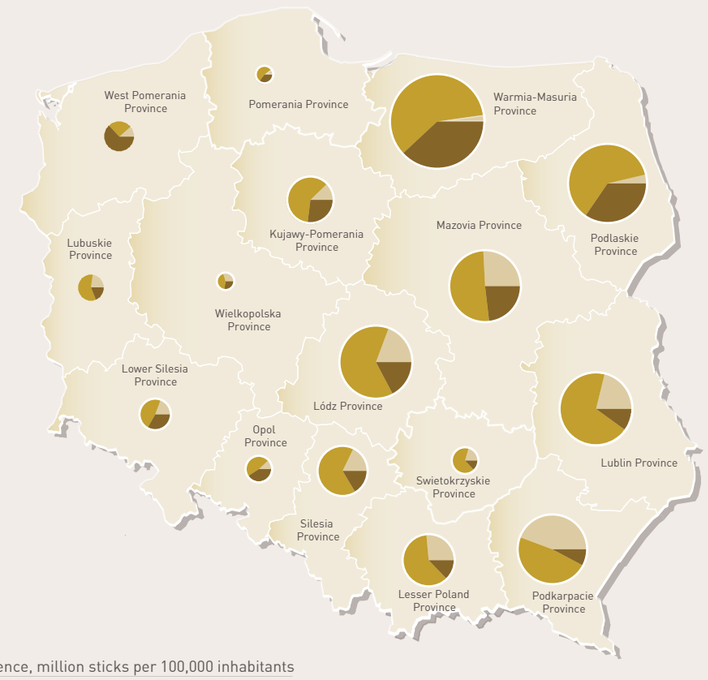
85.3%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

110.9

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

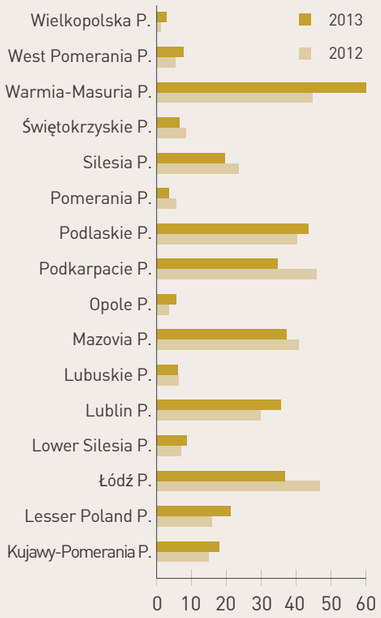
The Polish ITTP was the third largest in the EU in terms of volume in 2013 (6.1 billion cigarettes). This amount accounted for **13.9% of the cigarette market**, which is a medium-high share from an EU perspective (KPMG 2014) (Figure 1).

In 2013, **Mazovia Province had a very high volume of the ITTP** (1,397 million sticks) (Map 2). Łódź Province (672 million sticks), Silesia Province (651 million sticks) and Warmia-Masuria Province (615 million sticks) were the other areas with the largest illicit cigarette markets.

The prevalence of illicit cigarettes varied considerably across areas in 2013. It was high in the eastern and central-eastern areas and lower in the rest of the country. Warmia-Masuria Province had by far the highest prevalence, consuming 50.3 million sticks every 100,000 inhabitants. Also, Podlaskie Province (36.5), Mazovia Province (31.1), Łódź Province (30.9), Lublin Province (30.0) and Podkarpacie Province (29.1) had high prevalences. Wielkopolska Province and Pomerania Province had prevalences below 4 million sticks per 100,000 inhabitants (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



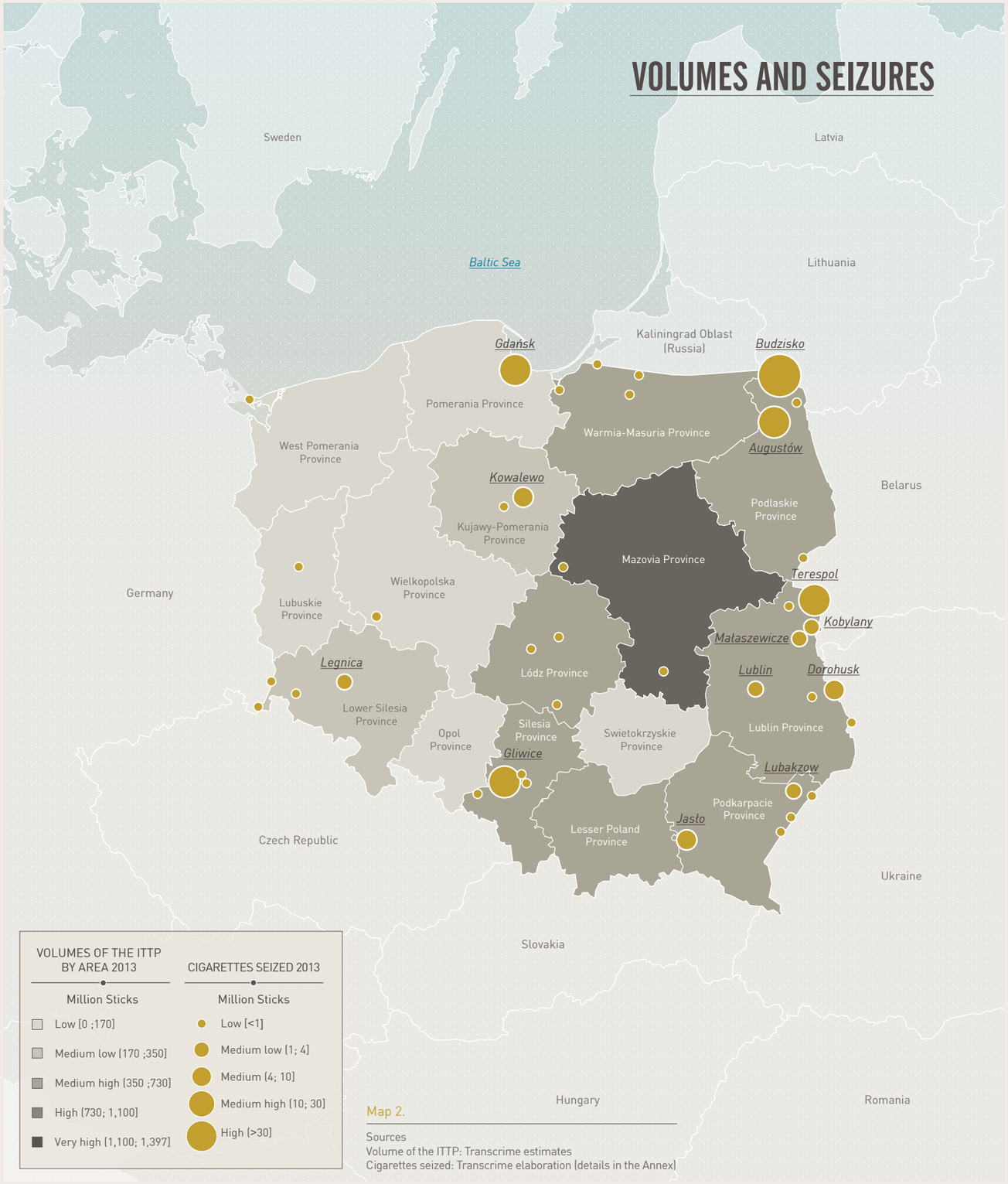
Between 2012 and 2013, **the prevalence of illicit cigarettes increased in half of the areas and decreased in the other half**; **overall, the national prevalence remained quite stable** (+2.2%). The most remarkable increase occurred in Warmia-Masuria Province (+12.7 million sticks per 100,000 inhabitants). Łódź Province and Podkarpacie Province recorded the most marked decreases (-9.3 and -8.4 million sticks, respectively) (Figure 5).

THE PRODUCTS

In 2013, **the most common illicit tobacco product was illicit whites** (58.0% of the national illicit market) (Figure 3). Areas along the **EU borders**, such as Warmia-Masuria Province (30.0 million sticks per 100,000 inhabitants), Podlaskie Province (22.6), and Lublin Province (20.7), had the highest prevalences of these products. The high consumption in these areas may be partially explained by their proximity to key manufacturers of these products (Calderoni, Aziani, and Favarin 2013).

The second most important type of illicit cigarettes was other illicit cigarettes (22.7% of the illicit market) (Figure 3). The areas with the highest shares were West Pomerania Province (62.9%) and Opole Province (40.6%). **The share of other illicit cigarettes tended to be relatively low in areas located on the south-eastern border**. Indeed, Podkarpacie Province (7.7%), Lublin Province (10.0%) and Lesser Poland Province (12.8%) had the lowest shares of other illicit cigarettes. The higher prices in the neighbouring Slovakia may partially explain this phenomenon, despite the proximity of these provinces to Ukraine.

The third type of illicit cigarettes was counterfeits (19.3% of the illicit market) (Figure 3). In the areas **where the ITTP strongly increased, counterfeits tended to assume a marginal role**. In fact, the two areas with the highest prevalences of the ITTP had the lowest shares of counterfeits. In Warmia-Masuria Province, they accounted for 2.3% of the illicit market, and in Podlaskie Province for 3.5%.



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Poland is mainly an ending point, secondly a starting point, and to a lesser extent also a transit point for the ITTP.

The proximity of Poland to the main non-EU producers of illicit tobacco products located close to its eastern borders, as well as the richest EU markets, contributes to making Poland a key player in the ITTP (Europol 2011; Lentowicz 2010; Ministry of Finance 2012; Ministry of the Interior 2012; Tokarski 2012).

Considering the illicit flows recorded between 2010 and 2013, Poland is primarily an **ending point**. Flows intended for the Polish market originate from **Belarus**, **Ukraine**, **Russia**, **China**, **Lithuania and Latvia** (Figure 6). Poland also receives illicit whites produced in **Belarus and Kaliningrad Oblast** (Russia) (KPMG 2014).

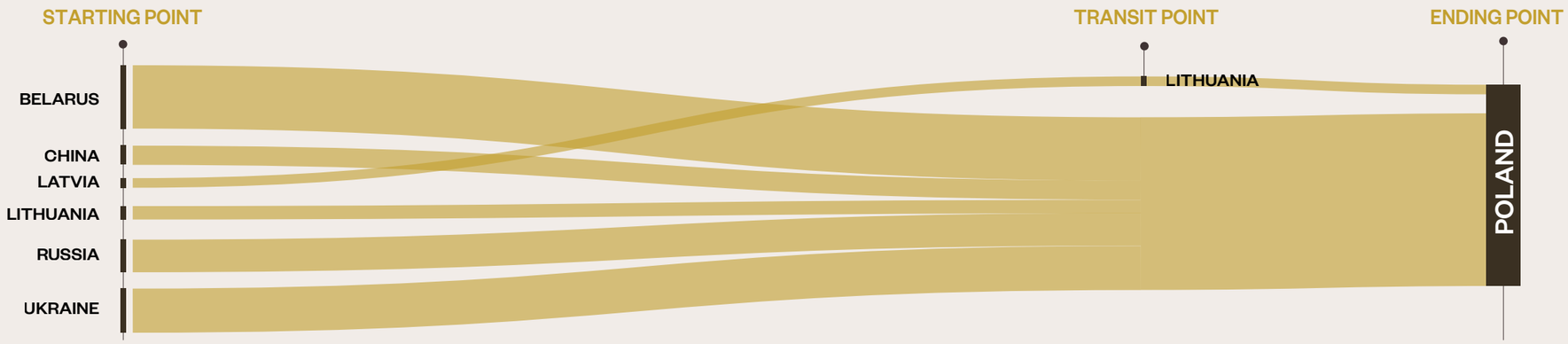
Poland is also an important **starting point** because of the presence in the country of illegal manufacturing facilities and prices significantly lower than in the Western European markets (Lentowicz 2010; Europol 2011, 201; Eriksen, Mackay, and Ross 2012; Ministry of the Interior 2012). Polish illicit products are mainly exported to **Germany**, the **UK**, **Sweden**, **Italy** and the **Czech Republic** (Figure 7).

There is also evidence that Poland is a **transit point**. Products transiting through Poland come mainly from **Ukraine**, **Russia**, **Latvia and Lithuania**. Once in Poland, the outflows are mainly intended for **Germany**, the **UK**, the **Czech Republic** and **Belgium** (Figure 8).

Illicit products are smuggled in, through or from Poland by **motor vehicles**, **trains and water**. The main entry points into the country are mostly located along the northeastern borders with Lithuania, Ukraine, Belarus and Russia. The bulk of illegal smuggling by motor vehicles occurs in **Budzisko** (Lithuania), **Dorohusk**, **Hrebenne Koczowa**, **Medyka** (Ukraine), **Augustów** and **Kuźnica** (Belarus). International trains were stopped in **Dorohusk**, **Kowalewo**, **Kobylany** and **Medyka**. Smugglers also targeted the **ports on the Baltic Sea** (Gdansk and Gdynia) mainly to import Chinese counterfeit cigarettes (Ministry of the Interior 2012).

THE FLOWS

Figure 6. Poland as ending point (2010–2013).* N= 95

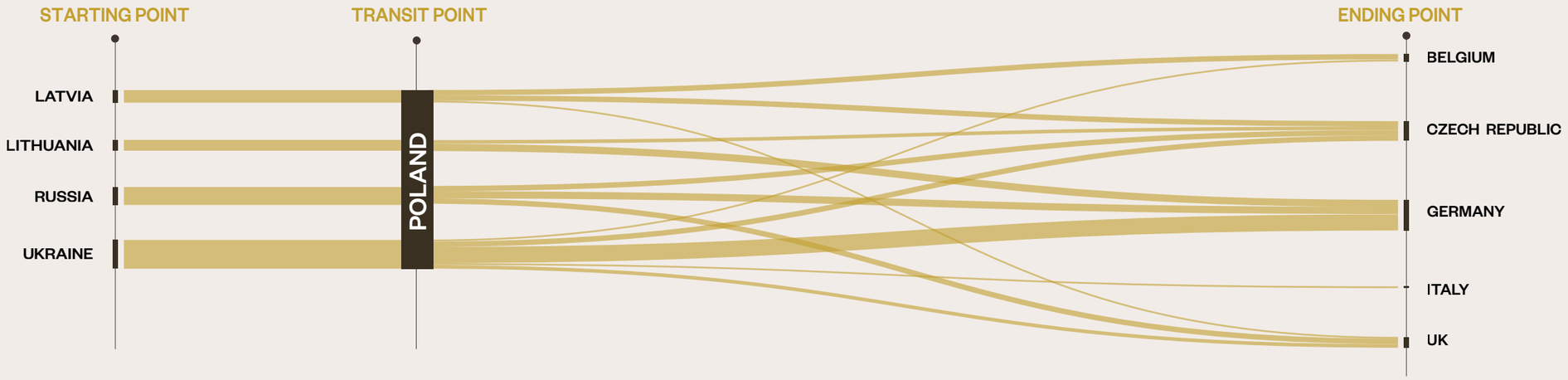


*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Poland as starting point (2010–2013).* N= 90

Figure 8. Poland as transit point (2010–2013).* N= 39



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Polish Customs Service and newspapers reported 325 tobacco seizures involving 403 persons, mainly **Polish** (39%), **Ukrainians** (21%), **Lithuanians** (13%) and **Belarusians** (10%). They were mostly **between 31 and 40 years of age**. In the majority of the seizures, the smugglers were alone at the moment of seizure. However, two categories of smugglers are active in the Polish ITTP: **large-scale organised groups** and **individual "ant" smugglers** (Ciecierski 2007; WHO 2009; Frontex 2012).

Tobacco was transported to Poland mainly by truck (38%), **car** (32%) and **train** (11%). The extensive use of trucks shows the importance of **large-scale ITTP** in Poland. Indeed, on average, every truck seized was transporting more than 5.4 million cigarettes, every car 115,180 cigarettes and every train 2.1 million.**

Between 2010 and 2013, **51 illegal manufacturing facilities** were raided in Poland. Most of them were located in Central, Southern and Eastern Poland (e.g. Cracow, Warsaw) (PMI 2013b; Policja 2013). In order to manufacture cigarettes, smugglers import raw tobacco from Ukraine and other cigarette components from Lithuania (Europol 2011).

** Between 2010 and 2013, 582.3 million cigarettes were seized in 108 trucks; 10.5 million cigarettes were seized in 91 cars; and 65.8 million cigarettes were seized in 31 trains.

REGULATION

The Polish Government has adopted **several measures against the ITTP**. In 2012 a national action plan to prevent and control the ITTP was adopted. An explicit legal duty to destroy all confiscated cigarettes is also in place. In 2012 and 2013, regional public awareness campaigns against the ITTP were launched. The Customs Service promoted the first campaign by placing posters at border crossings and in public places. The second, called "Stop 18", was conducted in cities with high consumptions of smuggled cigarettes. The annual reports of the Polish Ministry of Interior-Security provide public and yearly data on tobacco seizures and convictions for the ITTP.

Control of the legal supply chain is partially guaranteed through the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Poland are the **Customs Service** (*Służba Celna*), the **Polish Border Guard** (*Straż Graniczna*), the **Central Bureau of Investigation** (*Centralne Biuro Śledcze*), the **Internal Security Agency** (*Agencja Bezpieczeństwa Wewnętrznego*) and the **National Task Force on Combating Tobacco Smuggling** (*Krajowa Grupa Zadaniowa ds. Wyrobów Tytoniowych*).

Cigarette seizures decreased between 2010 and 2013 (Figure 9). Between 2007 and 2009, the quantity seized increased from 539 million to 606 million sticks. The quantity of cigarettes seized then decreased by 34% between 2009 and 2013, reaching **402 million cigarettes in 2013** (Map 2).

Top three seizures in 2013

A total of 52,000 kgs of tobacco and three machines used to cut tobacco leaves were seized in Sosnowiec, Bielsko-Biala and Będzin. In March, officers of the Customs Service and Internal Security Agency discovered a tobacco warehouse. The organisation had bought tobacco from farmers and accumulated raw materials to produce, pack, and distribute tobacco.

A total of 24 million cigarettes were seized in Terespol in June. Customs officers found the illicit cigarettes on a freight train arriving from Belarus.

A total of 3.5 million cigarettes and **22,000 kgs of tobacco** were seized in Legnica. On the 4th of October, Customs Service and Police Border Guard officers discovered an illicit tobacco factory, where they also found various components used in the production, and thousands of labels for Marlboro cigarettes. Six people were arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the ITTP increased by more than 60% nationally, in both volume and prevalence (Figure 2). The differences among the regional growth rates were striking; they ranged from -85% in the volumes consumed in Pomerania Province to the +428% in Warmia-Masuria Province.

Considering the entire period (1,286 million sticks of yearly average consumption), Silesia Province (790 million sticks), and Łódź Province (687million sticks) had the largest overall illicit cigarette consumption.

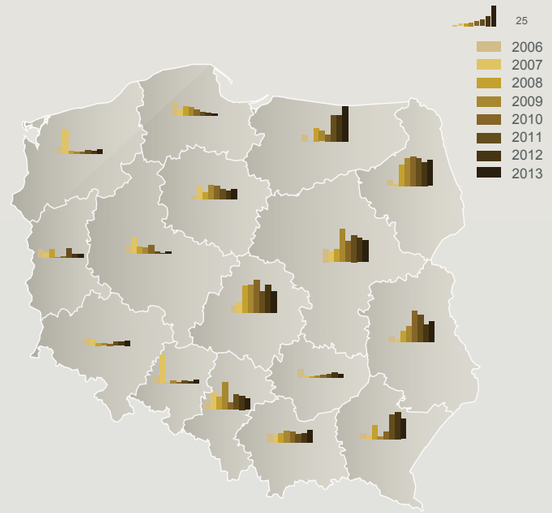
Subnational prevalences followed different trends during the period analysed. Between 2006 and 2007, prevalence mainly increased in western areas and decreased in eastern ones. In 2008, instead, the current situation started to emerge, with higher prevalence values in the eastern and central-eastern parts of the country, while they were lower elsewhere (Map 3). Simultaneously with this change in the relative weights of the subnational markets, the overall ITTP grew (Figure 4).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed from 2006 to 2013. **Illicit whites were the prevalent illicit product but were almost absent until 2008.** Thereafter, they grew in every area. The overall average yearly growth rate was +66% (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on on the collection points

Data show stark differences in terms of the shares of non-domestic cigarettes and consumed products within Poland in 2013. Lower prices in eastern neighbouring countries and higher prices in western neighbours created illicit opportunities and, subsequently, determined the local levels of the ITTP (Calderoni, Aziani, and Favarin 2013).

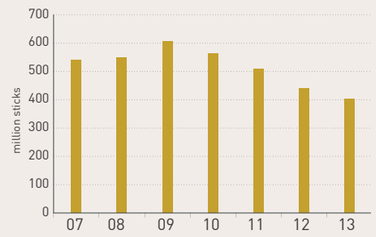
However, the figures on collection points suggest that although the distribution of products and the prevalence of non-domestic cigarettes varied across the country, the diffusion of the ITTP was homogenous within each area. No evident hubs or hot spots were present at the local level (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

Figure 9. Cigarettes seized in Poland, million sticks (2007–2013)

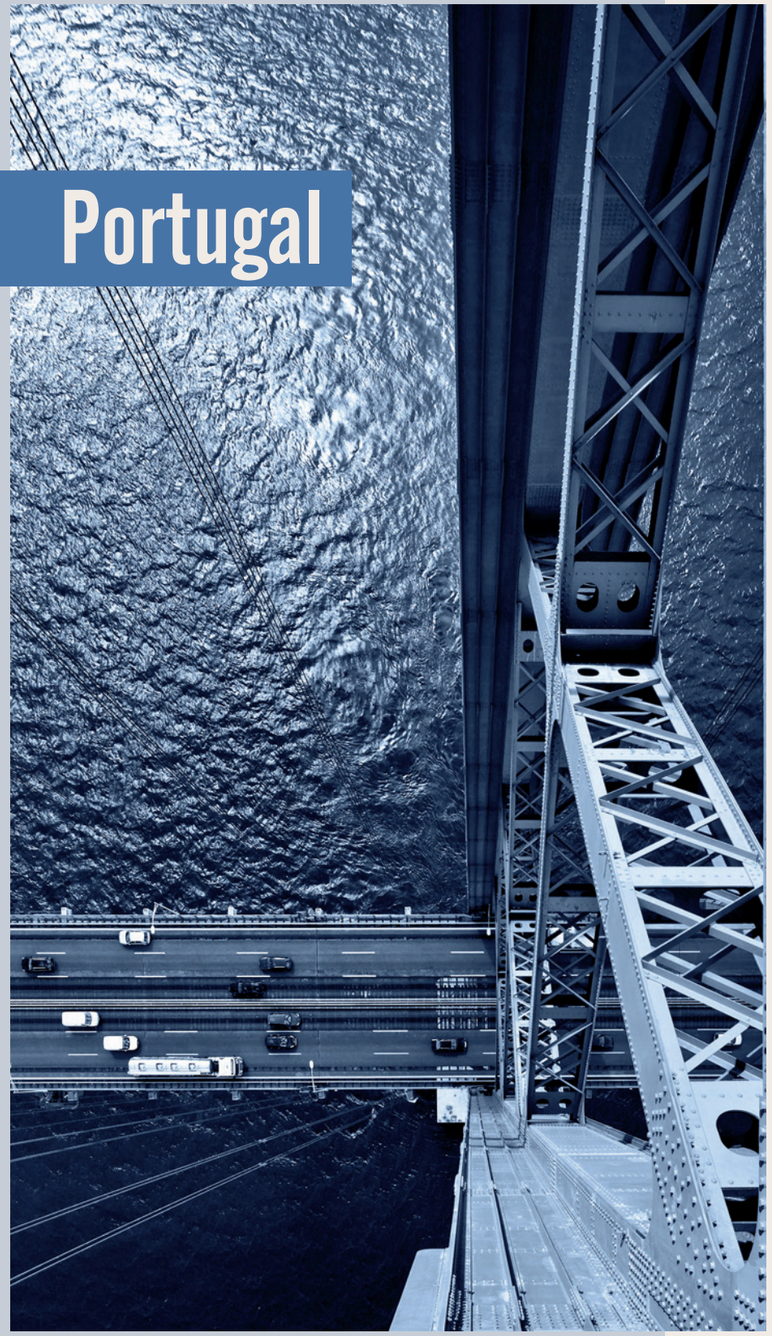
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Ukrainian, Belarusian, Lithuanian and Russian law enforcement agencies in order to reduce the vulnerability of the Polish Northern and Eastern borders.
- Strengthening controls at customs' checkpoints bordering on Belarus and Kaliningrad in order to tackle the flows of illicit whites.
- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of counterfeits and other illicit cigarettes.
- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.
- Providing yearly public estimates on the size of the ITTP and monitoring emerging trends (e.g. green leaf).
- Providing data on the number of convicted smugglers belonging to organised crime groups.

Portugal



25 de Abril Bridge, Lisbon

COUNTRY DATA

Capital City
Lisbon

Surface (WB 2014)
92,020 km²

Total population (WB 2014)
10,459,806 (2013)

Borders
Spain

Gross Domestic Product, € (Eurostat 2014)
165.7 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

1.9%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

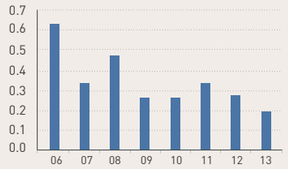


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

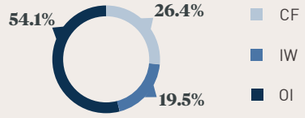
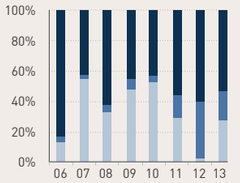


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

10.0

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

22.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

3.8

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

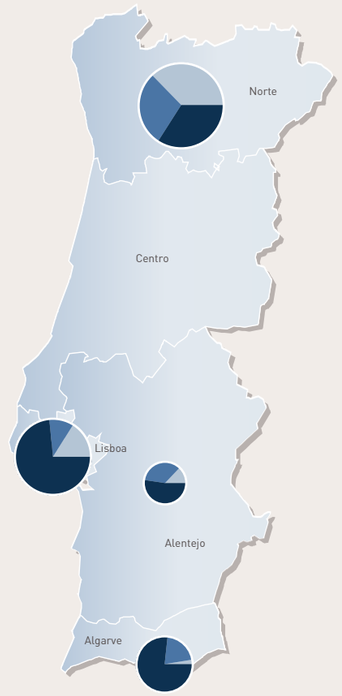
80.5%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

152.9

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants

1 2 4

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

The level of the ITTP in Portugal is the second-lowest in the EU. In 2013 the consumption of illicit cigarettes amounted to 0.2 billion sticks, equal to **1.9% of the cigarette market** (KPMG 2014) (Figure 1).

In 2013, **Norte was the Portuguese area with the highest volume of the ITTP**. Its illicit market amounted to107 million sticks, and it was medium-high when compared with all of the European areas. Lisboa had a medium-low illicit tobacco market (69 million sticks). In the other areas, the volume of the ITTP was low (Map 2).

In 2013, **the prevalence of illicit cigarettes was low in all of the Portuguese areas**. **Centro**, in particular, was the only European area that **recorded no consumption of illicit cigarettes**. Also Alentejo and Algarve had very low prevalences of illicit cigarettes; respectively, 1.0 and 1.7 million sticks per 100,000 inhabitants. **Norte** (3.4 million sticks per 100,000 inhabitants) **had the highest prevalence** in Portugal. Norte's proximity to Galicia, which had the third highest prevalence in Spain (8.0 million sticks per 100,000 inhabitants), may have boosted the availability of illicit tobacco in the area (Map 3 and Figure 5).

Between 2012 and 2013, the prevalence of illicit cigarettes decreased in all the areas (Figure 5). In Lisboa, the prevalence dropped by 5%; in all the other areas, it contracted by more than a third. The main reductions took place in Norte (-1.7 million sticks every 100,000 inhabitants) and in Centro (-100% in consumption) (Figure 5).

THE PRODUCTS

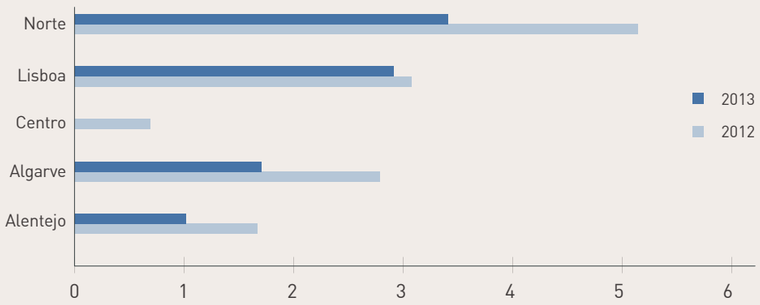
In 2013, **the most common illicit tobacco product was other illicit cigarettes** (54.1% of the illicit market) (Figure 3). Lisboa (73.6%) and Algarve (76.9%) were the two areas where the shares of other illicit cigarettes was highest. In terms of volume, Lisboa was the largest market for other illicit cigarettes (51 million sticks). The area with the lowest share was Norte (34.0%) (Map 3).

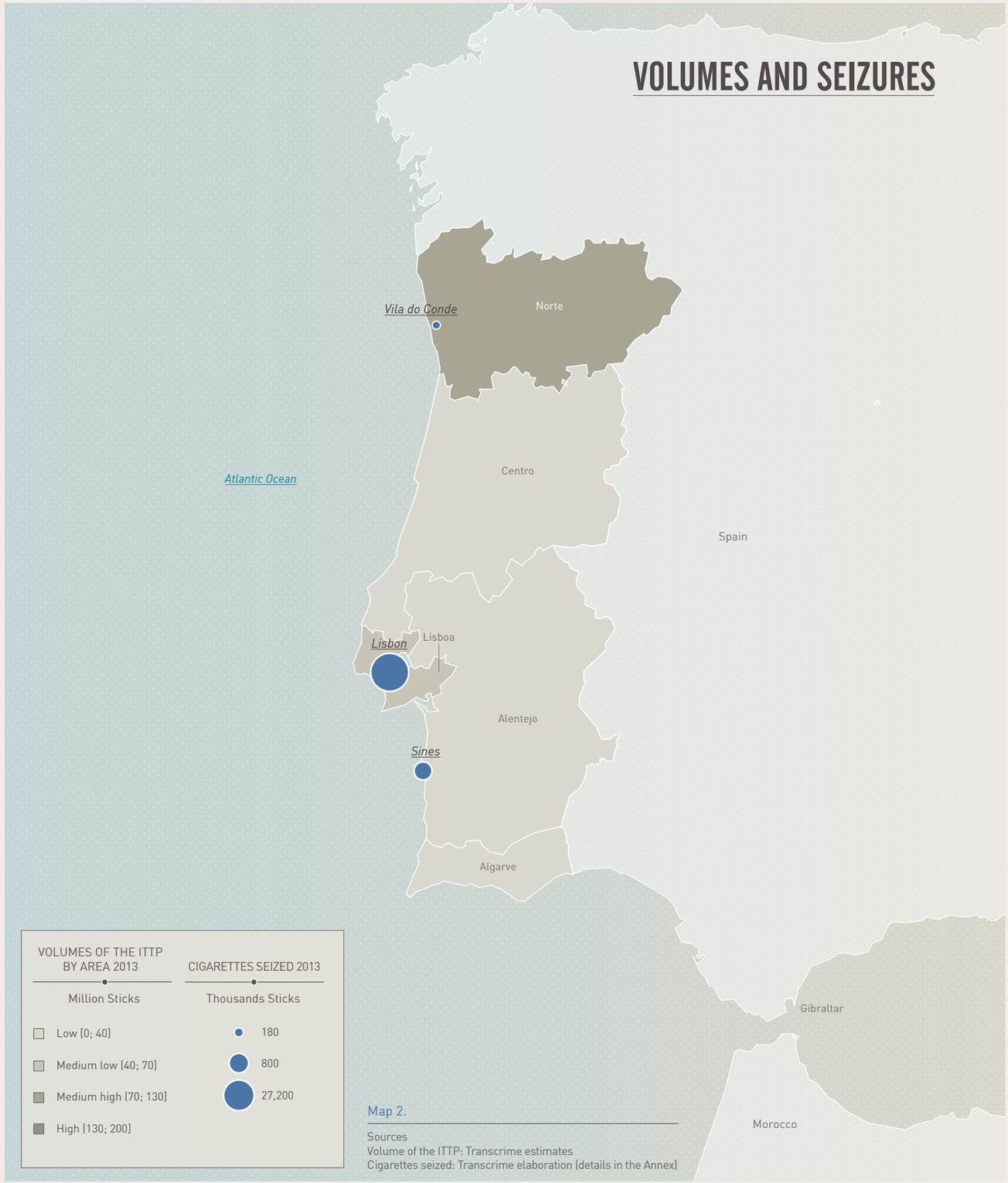
The second most important type of illicit cigarettes was counterfeit cigarettes (26.4% of the illicit market) (Figure 3). Counterfeits **were the most widespread illicit tobacco product in Norte** (37.3%). This area had the fifth highest share of counterfeits among all the EU subnational aggregations. In Algarve, counterfeits had a marginal role (2.8% of the illicit market) (Map 3).

The third type of illicit cigarettes was illicit whites (19.5% of the illicit market) (Figure 3). Alentejo (34.2% of the ITTP) and Norte (28.7%) were the areas where illicit whites were most common (Map 3). Alentejo borders on Andalusia and Extremadura, while Norte borders on Galicia. These three Spanish areas had particularly large markets of illicit whites, which may have had negative side effects on Portugal.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates





Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

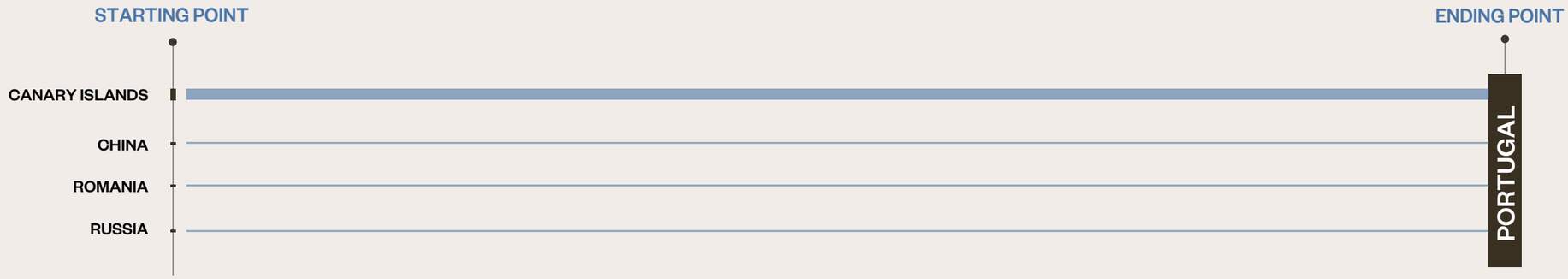
Portugal is both an ending point and a transit point for the ITTP.

The country has the second lowest share of illicit cigarettes in total consumption in Europe (KPMG 2014). However, the illegal flows recorded between 2010 and 2013 showed evidence of illicit tobacco products intended for the **Portuguese market**. They originate mainly from the **Canary Islands**, **China**, **Romania** and **Russia** (see also KPMG 2014) (Figure 6). In these countries, cigarette prices are generally lower than in Portugal. For instance, in October 2013, the cheapest brand was sold at a price between €0.6 and €2.1 in the Canary Islands, Romania and Russia, whilst it was sold at €3.7 in Portugal (PMI 2013a). China instead is known as the first worldwide producer of counterfeit cigarettes (Melzer 2010; Shen, Antonopoulos, and von Lampe 2010; Levinson 2011).

Portugal is also a **transit** point for illegal products intended for other European countries, owing to its long and almost unguarded coastline (Euromonitor International 2013h). The **inflows** transiting through Portugal originate mainly from **China**, the **Middle East** and the **Far East**. Once in Portugal, the **outflows** are intended for **Spain** and the **UK**, where smugglers benefit from higher price differentials (Oliveira 2012) (Figure 7).

Illicit products arrive in, or transit through, Portugal by **water**. Indeed, the key **entry points** for the smuggling of cigarettes into and through the country are the ports. The vast majority of seizures have occurred in **Portimão** (located in the Algarve region), which is the destination of ferries from the Canary Islands. Other seizures have occurred in the ports of **Lisbon**, **Porto** and **Sines**, where large shipments of illicit tobacco products arrive from China, the Middle and Far East (see also Euromonitor International 2013h). Besides water, illicit products are smuggled in **motor vehicles**. In this case, seizures have occurred in the **Algarve** area (i.e., Olhão, Portimão), **Elvas**, **Aveiro**, **Braga** and **Vila do Conde**.

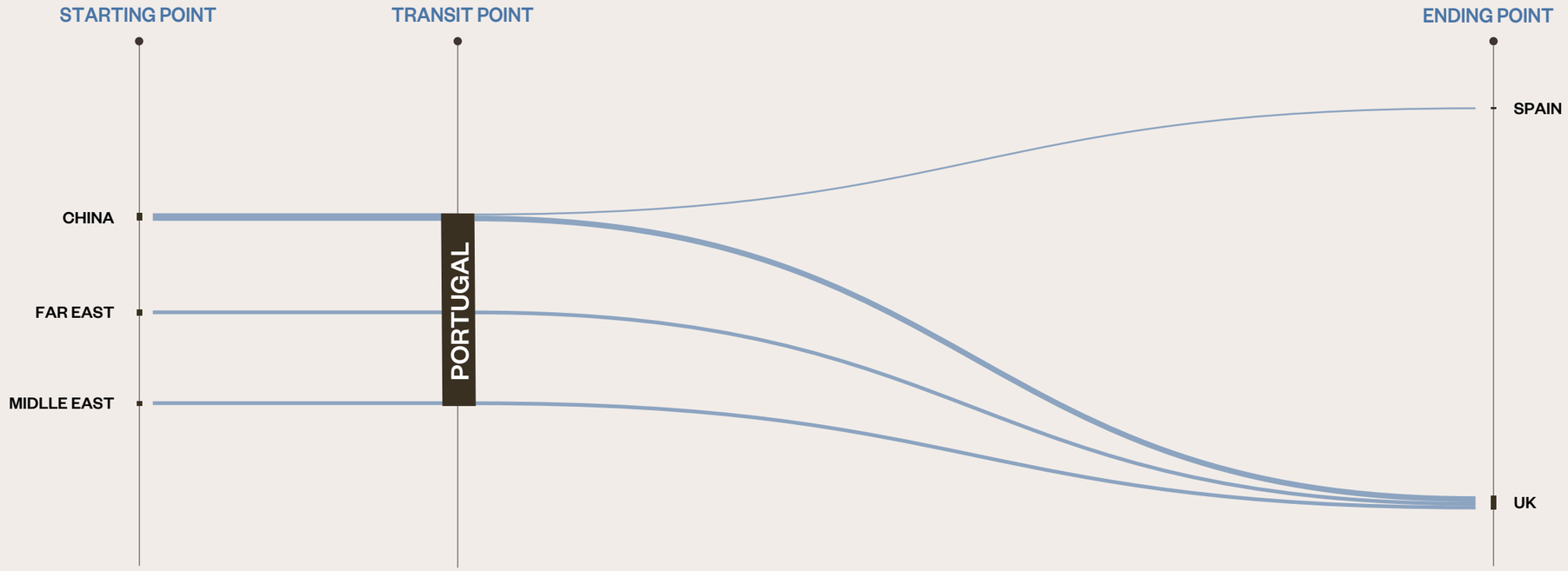
Figure 6. Portugal as ending point (2010–2013).* N= 9



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Portugal as transit point (2010–2013).* N= 8



ACTORS AND *MODUS OPERANDI*

Portuguese newspapers reported 37 tobacco seizures between 2010 and 2013 involving 107 persons. They were mainly **Spanish** and **Portuguese**. In the majority of the seizures, the smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks. However, in 2012, the National Anti-Corruption Unit of the Portuguese Judicial Police dismantled **an international network of tobacco smugglers** importing counterfeit cigarettes from the Middle East to Portugal with the British market as the final destination (Oliveira 2012). Moreover, in 2013, the Spanish Civil Guard dismantled another **transnational criminal organisation** with branches in several EU countries. This organisation exported cigarettes on **ship containers** from India and Dubai to several European ports, including the Portuguese port of Lisbon (Voz Populi 2013).

Ship containers are the most frequent means of transport used, followed by cars and trucks. On average, the containers seized transported 17.8 million cigarettes, cars 234,400, trucks 6.4 million.**

** Between 2010 and 2013, 160.2 million cigarettes were seized in 9 containers; 1.9 million cigarettes were seized in 8 cars; and 32.0 million cigarettes were seized in 5 trucks.

REGULATION

The Portuguese Government has adopted **few measures against the ITTP**. At the beginning of 2011, a national awareness campaign against the ITTP was launched by the *Direcção de Serviços Anti-Fraude da Direcção-Geral das Alfândegas e dos Impostos Especiais sobre o Consumo* (DGAIEC), the *Unidade de Acção Fiscal da GNR* (Fiscal Action Unit of the GNR) and the *Tabaqueira* SA. Leaflets carrying the slogan "Cigarettes of illegal origin affect us all' were distributed among the country's main tobacco points of sale. The Portuguese Tax and Customs Authority reports yearly data on tobacco seizures.

Control of the legal supply chain is partially guaranteed through an authorization system for some tobacco activities which controls the manufacturing and distribution of tobacco products and tax payments. Maintaining complete and accurate records of all relevant transactions is also mandatory for all persons engaged in the supply chain of tobacco products.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Portugal are the **Tax and Customs Authority** (*Autoridade tributária e aduaneira*), the **National Republican Guard** (*Guardia National Republicana*), the **Public Security Police** *(Polícia de Segurança Pública*), and the **Judicial Police** (*Polícia Judiciaria*).

The quantity of cigarettes seized in Portugal has decreased in recent years (Figure 8). Between 2007 and 2010, cigarette seizures increased markedly, jumping from 0.4 to 53 million sticks. However, **in 2011**, the Tax and Customs Authority seized **24 million sticks.** Annual data on seizures are missing for 2012 and 2013 (Map 2).

Top three seizures in 2013

A total of 18 million cigarettes were seized at the port of Lisbon. The Judicial Police found illicit cigarettes destined for the British market in August. The cigarettes had been transported in containers from China.

A total of 8 million cigarettes were seized at the port of Sines in January 2013. Customs officers found illicit 305's cigarettes in a container arriving from the United States of America. The final destination of cigarettes would not have been Portugal.

A total of 180,000 cigarettes were seized in Vila do Conde on the 7th of May. National Republican Guard officers checked a vehicle and found illicit English branded cigarettes without tax stamps. The driver was a 50-year-old male.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP significantly diminished. In both volume and prevalence, the market dropped by 70% (Figure 2 and Map 3).

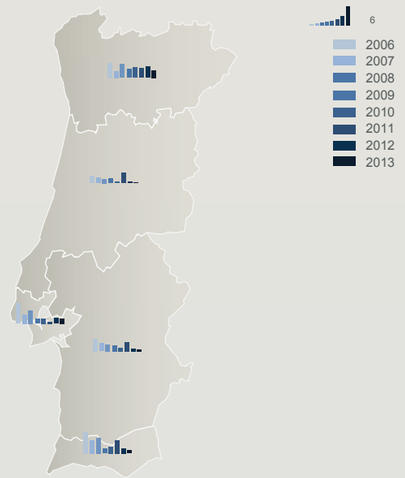
In volume terms, Lisboa had the largest illicit market in the years 2006 and 2007. Thereafter, Norte was the first in terms of consumed volumes (Figure 5).

All of the Portugal areas, except for Norte, had a decreasing trend from 2006 to 2013, interrupted in 2011 by a remarkable increase. Norte had a less marked decreasing trend and today is the area with the highest prevalence. The increasing trend of the illicit market in the neighbouring Galicia may have also influenced the evolution of the ITTP in Norte.

Types of illicit cigarettes

The types of illicit cigarettes changed during the period 2006–2013. In 2013, as in 2006, the most common illicit product was other illicit cigarettes. However, counterfeits were the prevalent illicit product in both 2009 and 2010 (Figure 4).
Illicit whites had a market share of about 5% until 2011, when they reached 15.2% of the ITTP. Their growth accentuated in 2012 (37.0% of the ITTP) together with a fall in the share of counterfeits (1.8%). Nevertheless, the share of counterfeits in 2013 rose again, reaching 26.4%.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



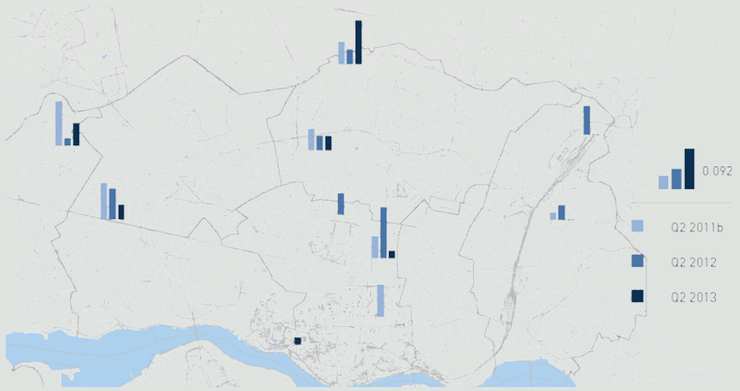
A focus on Porto

Porto is the main city of the Norte region in Portugal, which is the area recording the highest prevalence. However, between 2011 and 2013, **the prevalence of non-domestic cigarettes was relatively low in Porto compared with other EU cities** (Map 4).

At the collection point of Rua Formosa, non-domestics were present only in 2011 (10.5%).

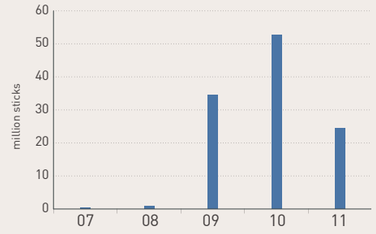
Important fluctuations are the other characteristic of the consumption of non-domestic cigarettes in the city of Porto. Rua do Bonjardim, for example, had a 7.9% prevalence of non-domestics in 2011, 18.4% in 2012, and only 2.6% in 2013. Rua do Amial, which also had a 7.9% prevalence in 2011, decreased to a 5.3% prevalence in 2012 and increased its prevalence to 15.8% in 2013.

Map 4. Prevalence of the ITTP in Porto's collection areas, (2011–2013)
Source: Transcrime elaboration (details in the Annex)



b - The collection points of Rua da Constituicao, Rua da Nau Vitoria and Rua da Restauracao were not part of the sample until 2012.

Figure 8. Cigarettes seized in Portugal, million sticks (2007–2011)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Spanish law enforcement agencies in order to limit illicit tobacco inflows through the Norte region, bordering on Galicia, and through the Algarve region, the destination of ferries from the Canary Islands.

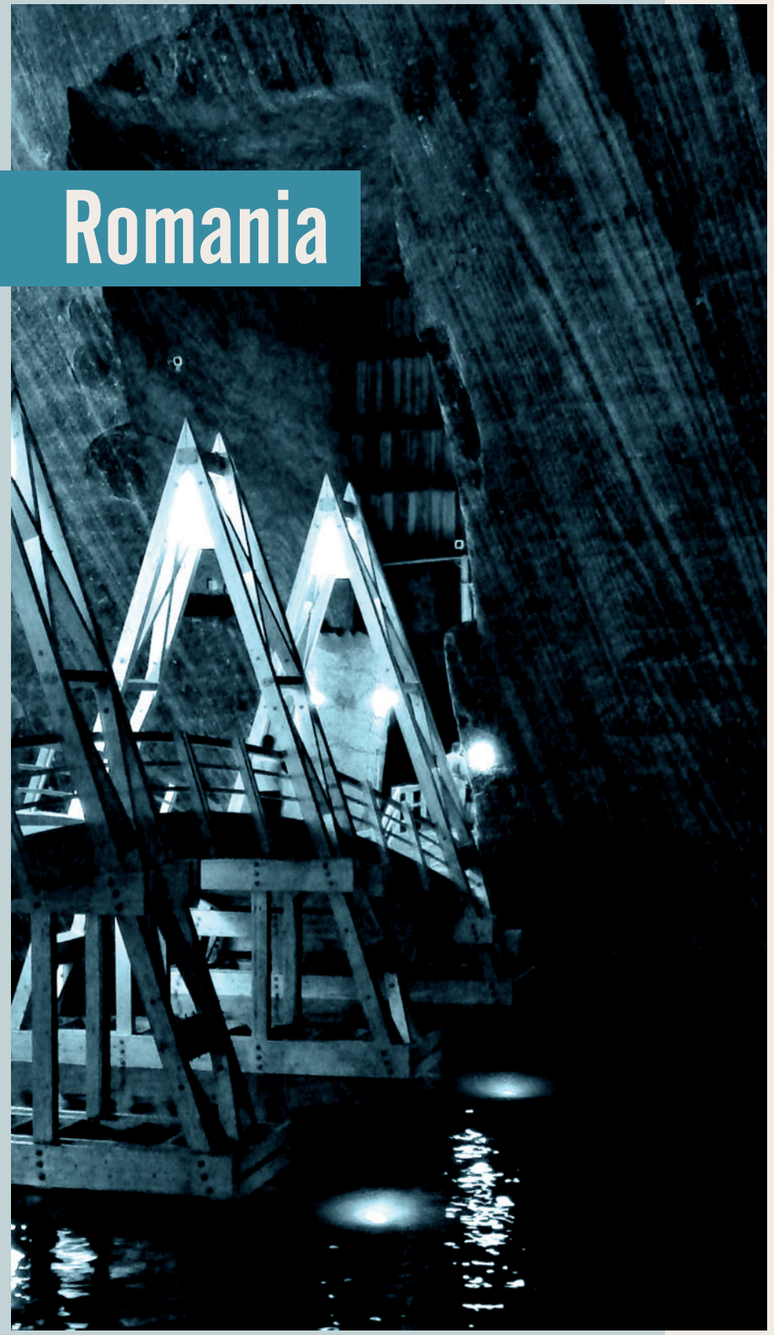
- Increasing international cooperation and exchanging data with Romania, China and Russia, to reduce illicit tobacco flows from these countries and particularly those of counterfeit cigarettes, mainly originating from China.

- Strengthening controls in the Portuguese ports of Lisbon, Porto and Sines, where the majority of tobacco seizures occur.

- Providing yearly public estimates on the size of the ITTP.

- Providing yearly public data on convictions for the ITTP and on possible membership of organised crime groups.

Romania



Turda salt mine bridge, Transylvania

COUNTRY DATA

Capital City
Bucharest

Surface (WB 2014)
238,390 km²

Total population (WB 2014)
19,963,581 (2013)

Borders
Bulgaria, Hungary, Moldova, Serbia, Ukraine

Gross Domestic Product, € (Eurostat 2014)
142.3 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

10.9%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

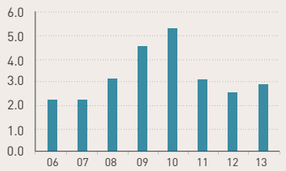


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

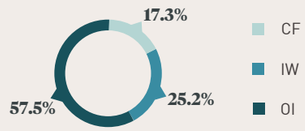
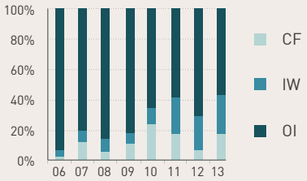


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

24.5

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

28.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

3.1

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

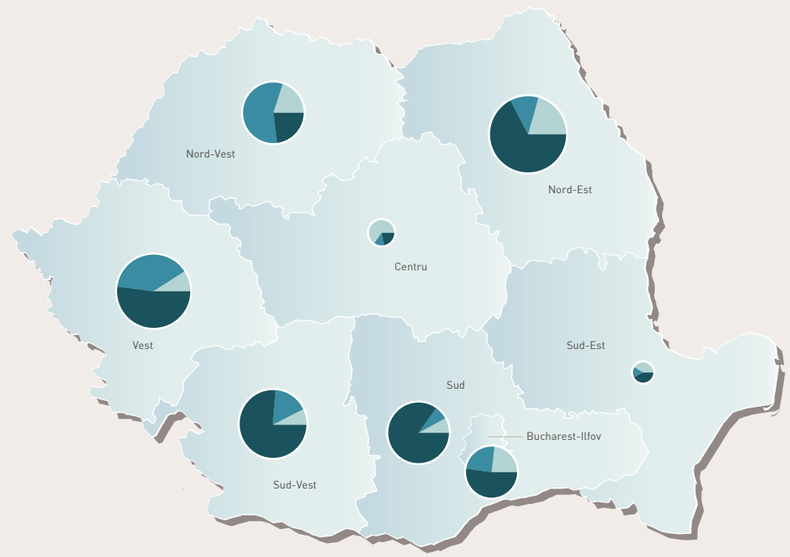
74.9%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

116.2

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

Romania has a medium level of the ITTP. In 2013, illicit cigarettes accounted for 10.9% of the cigarette market (KPMG 2014) (Figure 1).

In 2013, the distribution of the ITTP among Romanian areas was quite heterogeneous. Out of the 8 areas analysed, 3 had a low, 4 a medium-high, and 1 a high volume of the ITTP. Nord-Est had the largest illicit market (733 million sticks). Centru and Sud-Est, with 63 and 78 million sticks, respectively, had the smallest ones (Map 2).

Nord-Est, along the border with Moldova and Ukraine, **together with Vest and Sud-Vest**, located on the border with Serbia and Bulgaria, **are the areas with highest prevalences of illicit cigarettes** (27.3, 26.6 and 23.0 million sticks per 100,000 inhabitants). In all of these neighbouring countries, cigarettes cost less than they do in Romania. Centru (3.9) and Sud-Est (4.0) record the lowest prevalences (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in five out of eight areas** (Figure 5). The most remarkable increases occurred in the western areas (Vest +65% and Nord-Vest +41% and in Nord-Est (+45%). Bucharest-Ilfov (-10%), Centru (-10%) and especially Sud-Est (-79%) registered decreases (Figure 5).

THE PRODUCTS

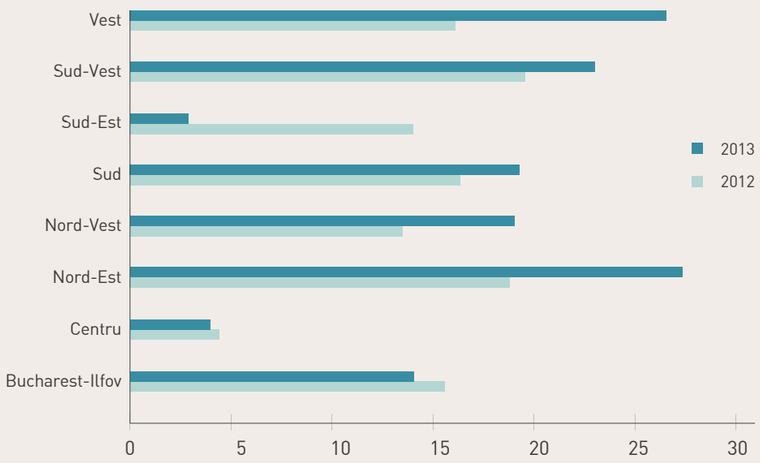
In 2013, **other illicit cigarettes were the most common illicit tobacco product** (57.5% of the illicit market) (Figure 3). Their shares varied widely within the country. They ranged from 21.8% and 23.0% in Centru and Nord-Vest to 76.4% and 85.0% in Sud-Vest and Sud, respectively (Map 1).

Illicit whites were the second most important type of illicit cigarettes (25.2% of the illicit market) (Figure 3). The share of illicit whites **varied considerably across the areas** in 2013. Sud, with a share of 7.1%, had the lowest share. Nord-Vest (57.1%) had the highest share. Nord-Vest borders Ukraine, from which departs a flow of illicit whites bound for Italy, which transits through Romania (KPMG 2014).

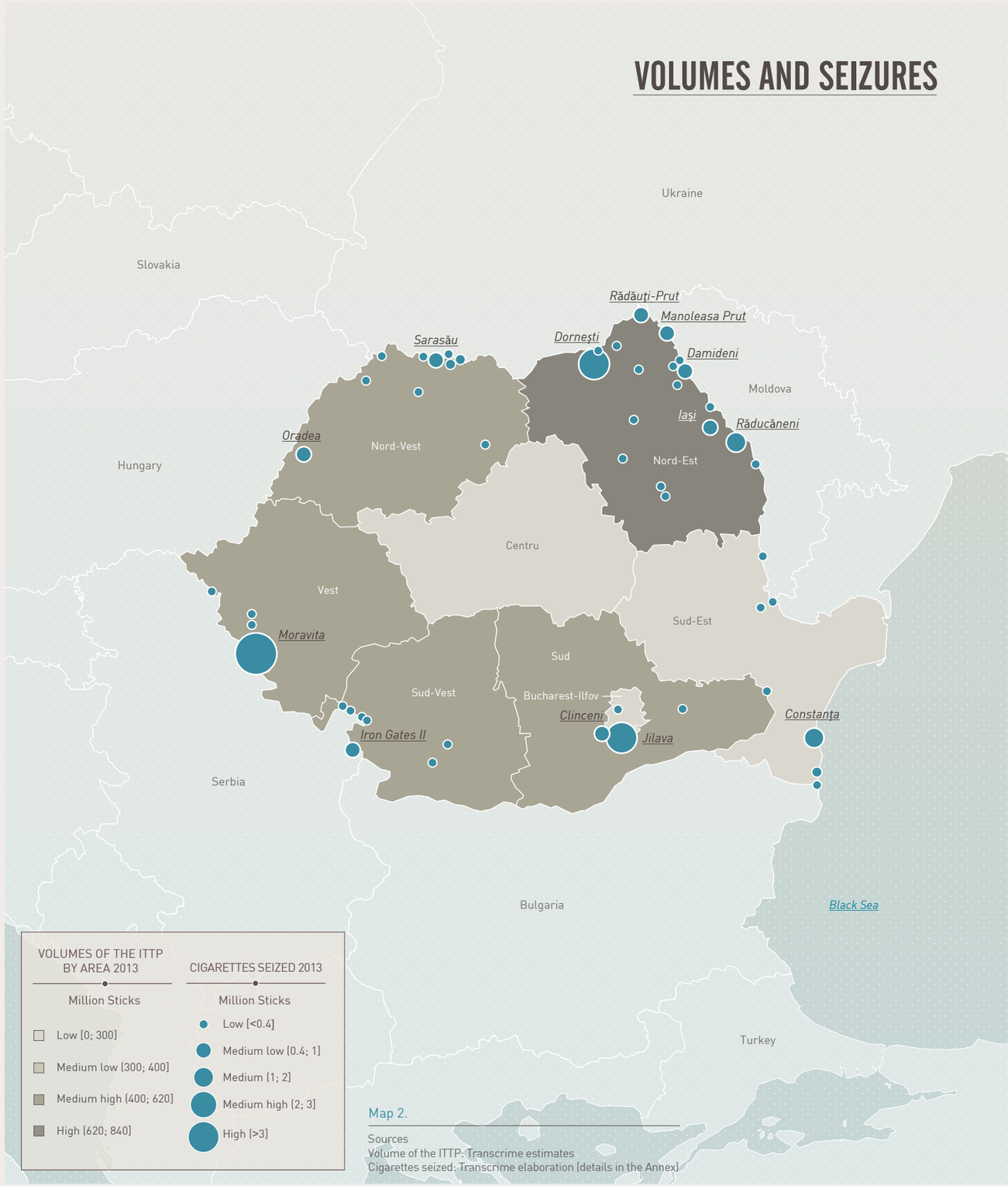
The third type of illicit cigarettes was counterfeits (17.3% of the illicit market) (Figure 3). The highest concentrations of counterfeits were registered in the areas of Centru (65.2%) and Sud-Est (40.6%).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Romania is mainly an ending point, and secondly a transit and starting point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, illegal tobacco products intended for the **Romanian market** originate mainly from **Moldova**, **Ukraine**, **Serbia**, **Turkey**, **Belarus** and **Russia** (see also Loubeau 2012a) (Figure 6). In October 2013, the cheapest brand cost from €0.2 to €1.7 in the starting points (€2.2 in Romania) (PMI 2013a). Romania is also an ending point for illicit whites produced in Kaliningrad Oblast (Russia) (KPMG 2014).

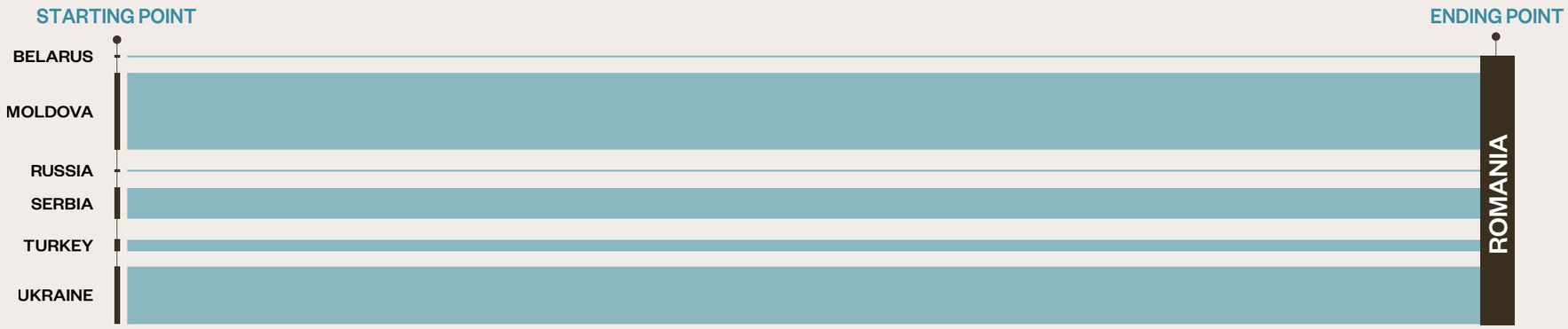
The country is also a **transit point**. Products transiting through Romania come from **Moldova**, **Greece**, **Ukraine**, **Bulgaria** and **Russia** and are mainly intended for **Italy**, the **UK**, **Germany** and **Poland** (Figure 7). Romania has a minor role as **starting point** for illicit tobacco products, although several illegal manufacturing facilities have been discovered throughout the country (PMI 2013b). The Romanian products are mainly exported to **Italy**, **Germany**, **Hungary**, the **UK** and **France** (Figure 8).

Illicit products are smuggled mainly by **motor vehicle.** The vast majority of cases detected along the border with Moldova have occurred in **Albiţa**, **Sculeni**, **Giurgiuleşti**, **Galaţi** and **Oancea**. The main entry points along the border with Ukraine are **Siret**, **Satu Mare**, **Sighetu Marmaţiei**, **Halmeu** and **Suceava** (see also Gounev and Bezlov 2010). Most illegal cigarettes transported from Serbia have been intercepted in **Moravița**, **Naidăș**, and at the so-called **Iron Gates I** and **II** bridges on the Danube River. Cigarettes from China and Turkey arrive in the **port** of **Constanţa** on the Black Sea.

Attempts to import cigarettes illegally **on foot** have occurred in the areas surrounding **Botoșani**, **Satu Mare**, **Valea Viseului** and **Naidăș** (see also Gounev and Bezlov 2010; Loubeau 2012a). A few cases of cigarette smuggling have also been discovered on international **trains** at the railway stations of **Iaşi**, **Dornești**, **Moravița** and **Ungheni**. Cases of cigarette smuggling have been discovered at the **airports** of **Bucharest** and **Timișoara**, where passengers had arrived from Moldova or were about to leave for Italy.

THE FLOWS

Figure 6. Romania as ending point (2010–2013).* N= 178



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Romania as transit point (2010–2013).* N= 47

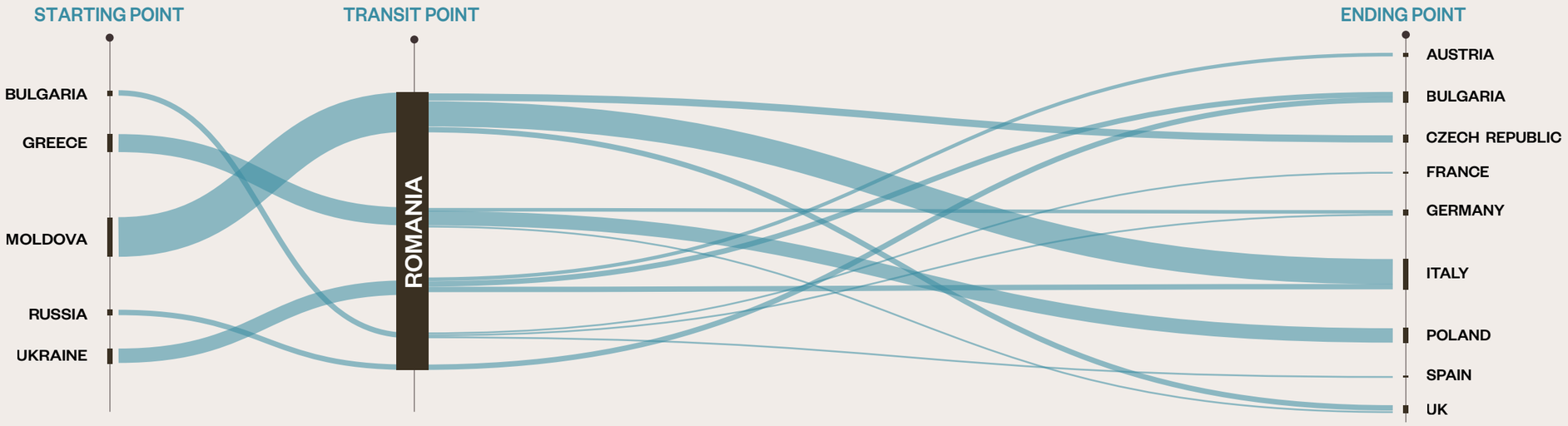
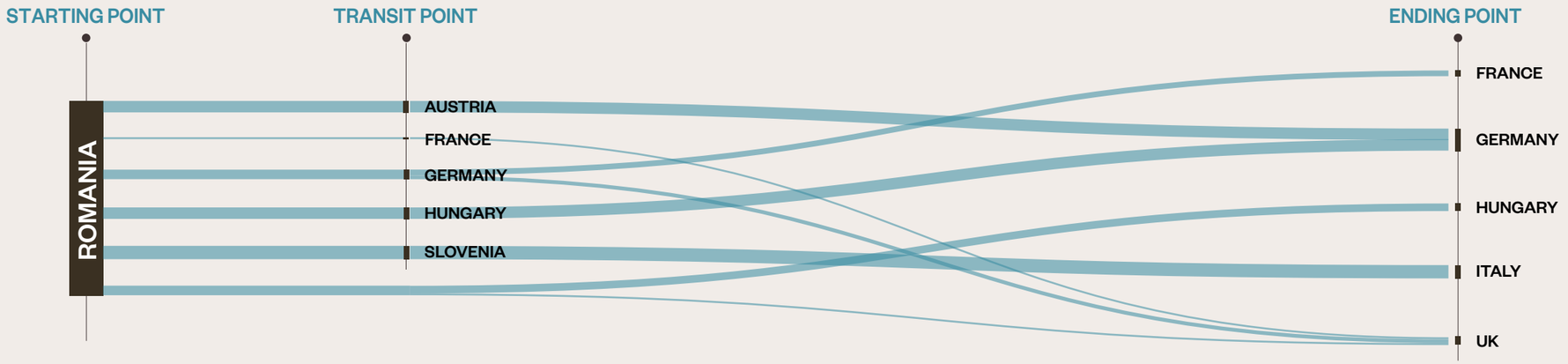


Figure 8. Romania as starting point (2010–2013).* N= 22



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 the Customs National Authority and newspapers reported 956 tobacco seizures involving 1,531 persons, mainly **Romanians** (63%), **Moldovans** (20%) and **Ukrainians** (7%), **aged between 20 and 30**. Individual **bootleggers** cross the border between Romania and Ukraine several times a day to buy cheaper cigarettes, and **networks of warehouse owners** provide storage places for tobacco (Loubeau 2012a). Evidence furthermore exists of **criminal groups** that have ties within the country and abroad, with a clear division of tasks and responsibilities (Caunic, Prelipcean, and Suciun 2010).

Tobacco was transported to Romania mainly by car (61%), **van** (12%) and **bus** (7%).** While seizures on cars and trucks had no specific geographical concentration, seizures on buses occurred mainly in **Siret**, bordering with Ukraine, **Albita** and **Oancea**, bordering with Moldova.

According to open sources and industry data, between 2010 and 2013, **26 illicit manufacturing facilities** were raided in Romania. The last one was discovered in Bucharest in July 2013 (PMI 2013b). A significant concentration of illicit manufacturing facilities was observed in Eastern Romania.

Houses and **warehouses** were used to store illicit tobacco. Indeed, 12% of seizures occurred in houses (8%) and clandestine warehouses (4%), with a higher prevalence in the southeastern city of **Constanţa**.

** Between 2010 and 2013, 31.5 million cigarettes were seized in 480 cars (quantity per seizure: 65,500); 19.1 million cigarettes were seized in 93 vans (quantity per seizure: 205,800); and 3.4 million cigarettes were seized in 56 buses (quantity per seizure: 60,700).

REGULATION

The Romanian Government has adopted **some measures against the ITTP**. At the beginning of 2012, the national authorities adopted a strategy for combating illicit cigarette smuggling (2012–2014). An explicit legal duty to destroy all confiscated cigarettes is in place, and the Romanian General Directorate of Customs releases yearly data on illicit tobacco seizures.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities, a tracking and tracing system, and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Romania are the **Customs National Authority** (*Autoritatea Naţională a Vămilor-ANAF*), the **Romanian Border Police** (*Poliția de Frontieră Română*), and the **Romanian Police** (*Poliția Română*).

The quantity of cigarettes seized in Romania has shown a fluctuating trend in recent years (Figure 9). Cigarette seizures decreased between 2009 and 2010 (-36%). In 2011, there was a strong increase in cigarette seizures (+71%), which may have been related to the implementation of a national plan against smuggling (2010–2012). A further increase was registered in 2012 (+6%), while **in 2013** there was a decrease, and **167 million cigarettes** were seized (Map 2).

Top three seizures in 2013

A total of 11 million cigarettes were seized at Moravita Customs Point, in September. Customs officers discovered Airlife cigarettes in a truck. The products were being shipped from a Latvian company to a Moldovan company. The driver was a Lithuanian citizen.

A total of 988,960 cigarettes and **14,723 kgs of processed tobacco** were seized in Clinceni (Ilfov county) on the 20th of September. Customs officers discovered an illicit tobacco manufacturing plant and seized material for the production, labelling and transport of cigarettes.

A total of 2.3 million cigarettes were seized in Jilava (Ilfov county) on the 12th of July. Customs and Police officers found Marble and Plugaru cigarettes and materials used to wrap, label and transport cigarettes.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 30% in volume and by 41% in prevalence (Figure 2 and Map 3).

In volume terms, Nord-Est, with an average yearly consumption of 607 million cigarettes in the period 2006-2013, Sud (510), and Nord-Vest (453) were the areas with the largest volumes of illicit cigarettes. The trend in consumption in these areas drove the overall national ITTP.

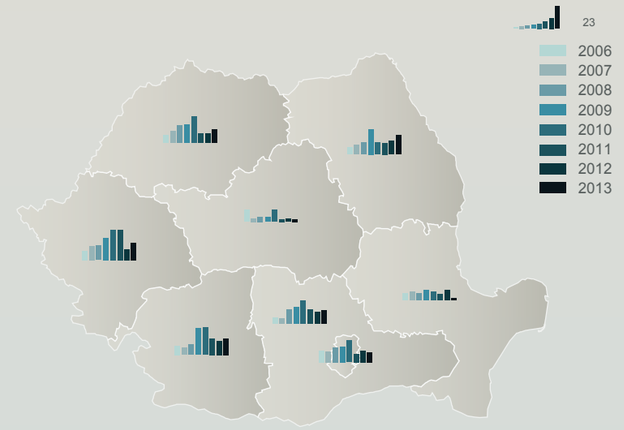
In terms of prevalence, the areas located on the southwestern border with Serbia (Vest (yearly average of 28.3 million sticks per 100,000 inhabitants) and Sud-Vest (22)), **and the areas along the north-eastern border with Ukraine** (Nord-Est (20.6) and Nord-Vest (19.9)), **were those with the highest prevalences of illicit cigarettes**. Indeed, Serbia and Ukraine are two of the main starting points of illicit cigarettes.

Types of illicit cigarettes

The types of illicit cigarettes changed marginally after 2006. Other illicit cigarettes were the most common illicit product during the entire period. **Illicit whites grew steadily over the period,** reaching their peak in 2013 (25.2% of the illicit market) (Figure 4). The share of counterfeits had an unstable pattern. It reached a record high in 2010 (24.1%), when the level of counterfeits was as its historical maximum in almost all of the areas. The only exceptions were Sud-Est and Centru, whose shares have recently reached the outstanding shares of 52.8% (in 2012, Sud-Est) and 65% (in 2013, Centru), respectively.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Vest and Sud-Vest

Vest and Sud-Vest, located on the border with Serbia, Hungary and Bulgaria, were areas with high prevalences of illicit cigarettes in 2013. In Sud Vest, the majority of the non-domestic cigarettes were concentrated in the city of **Drobeta-Turnu Severin (48.5%),** close to the Serbian border, whereas the other cities in the area recorded a share of domestic products that exceeded 90% of the market (Map 4).

The areas with the highest values for the prevalence of non-domestic cigarettes were **Arad, characterized by a large share of illicit whites (15%),** and **Resita, with a significant presence of other illicit cigarettes and non-domestic legal cigarettes (13.5%).**

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

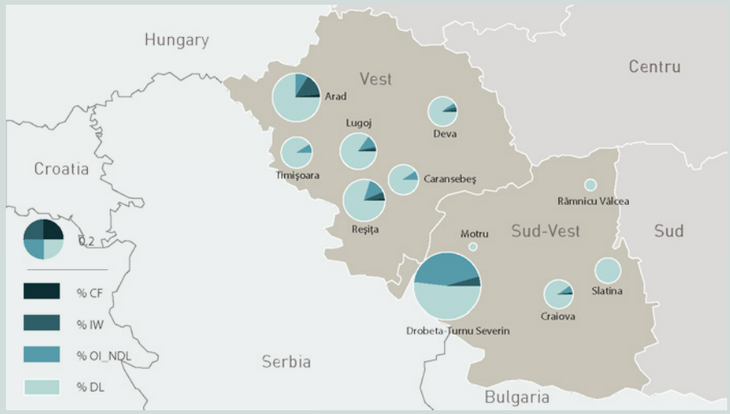
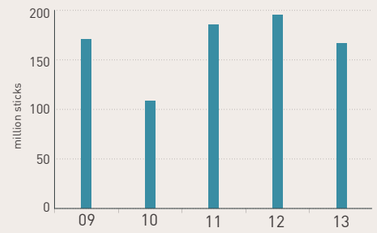


Figure 9. Cigarettes seized in Romania, million sticks (2009–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Moldovan, Serbian, Ukrainian, and Turkish law enforcement agencies in order to reduce the inflows of illicit tobacco from these countries.

- Strengthening customs' controls on the northern border with Moldova and Ukraine, and on the southern border with Serbia, where the majority of tobacco seizures occur.

- Strengthening controls on the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of counterfeits and other illicit cigarettes.

- Tackling illicit whites inflows from Ukraine and Kaliningrad Oblast (Russia), either directed to Romania or transiting through the country to other Western EU countries.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.

- Providing yearly public estimates on the size of the ITTP.

- Providing public yearly data on convictions for the ITTP and on possible membership of organised crime groups.

Slovakia

New bridge, Bratislava

COUNTRY DATA

Capital City
Bratislava

Surface (WB 2014)
49,036 km²

Total population (WB 2014)
5,414,095 (2013)

Borders
Austria, Czech Republic, Hungary, Poland, Ukraine

Gross Domestic Product, € (Eurostat 2014)
72.1 bn (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

1.7%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

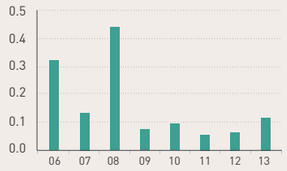


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

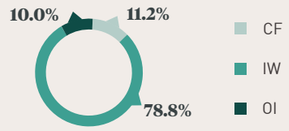
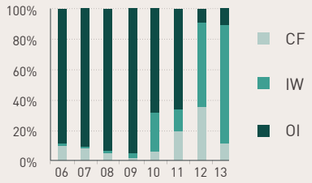


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

6.6

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

29.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

3.1

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

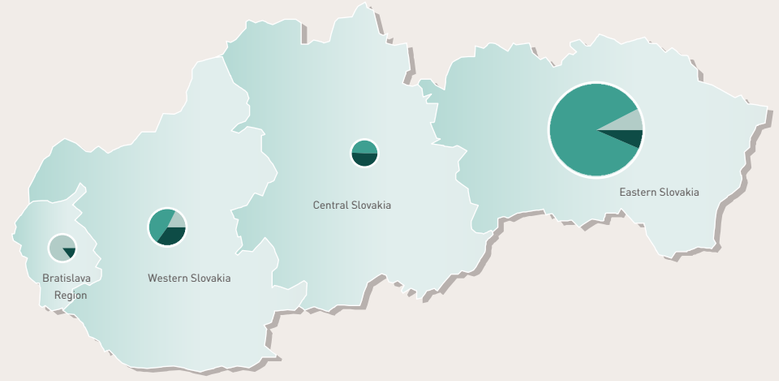
78.1%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

121.0

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

Slovakia has the lowest level of the ITTP in the EU. In 2013, illicit cigarettes accounted for the **1.7% of the cigarette market** (KPMG 2014) (Figure 1).

In 2013 the Slovakian ITTP was particularly heterogeneous, with significant differences among areas in terms of both prevalence and products consumed (Map 2). **Eastern Slovakia had the largest volume of the ITTP**. The illicit tobacco market of Eastern Slovakia (87 million sticks) was more than five times bigger than the second largest illicit cigarette market in the country, Western Slovakia (16 million sticks) and almost 30 times bigger than the smallest one, Bratislava Region (3 million sticks) (Map 2). Eastern Slovakia alone accounted for 77% of the entire Slovakian ITTP.

Eastern Slovakia, along the border with Hungary, Ukraine and Poland, **had by far the highest prevalence of illicit cigarettes** (6.5 million sticks per 100,000 inhabitants). Its prevalence was three times higher than the national average of 2.2 million sticks per 100,000 inhabitants. Bratislava Region (0.5), Central Slovakia (0.6) and Western Slovakia (1.0) had the lowest prevalences of illicit tobacco consumption in the entire EU, after the Portuguese area of Centro (Map 1).

Between 2012 and 2013, **the prevalence of illicit cigarettes increased in 3 out of 4 areas** (Figure 5). The most remarkable increase occurred in Central Slovakia, whose prevalence increased by 989%, but remained the second-lowest in the EU. The Bratislava Region, with a decrease of -29%, was the only area where the prevalence diminished.

THE PRODUCTS

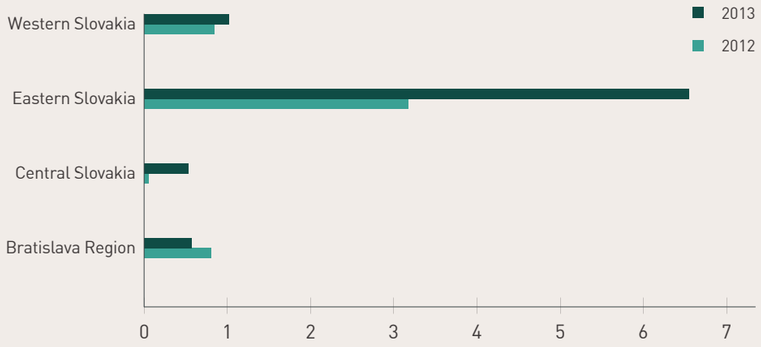
In 2013, **illicit whites were the most important type of illicit cigarettes** (78.8% of the illicit market) (Figure 3). This share was mainly due to the level of illicit whites in Eastern Slovakia (85.9%), which had 88% of the illicit cigarette market (Map 1).

The second most common type of illicit cigarettes was counterfeits (11.2% of the illicit market) (Figure 3). In 2013, **their share varied** considerably **across the subnational illicit markets**. In the two western areas, Bratislava Region (85.4% of the ITTP) and Western Slovakia (17.7%), their levels were very high. In Eastern Slovakia (7.5%) and especially in Central Slovakia (0.0%), counterfeit cigarettes were less popular (Map 1).

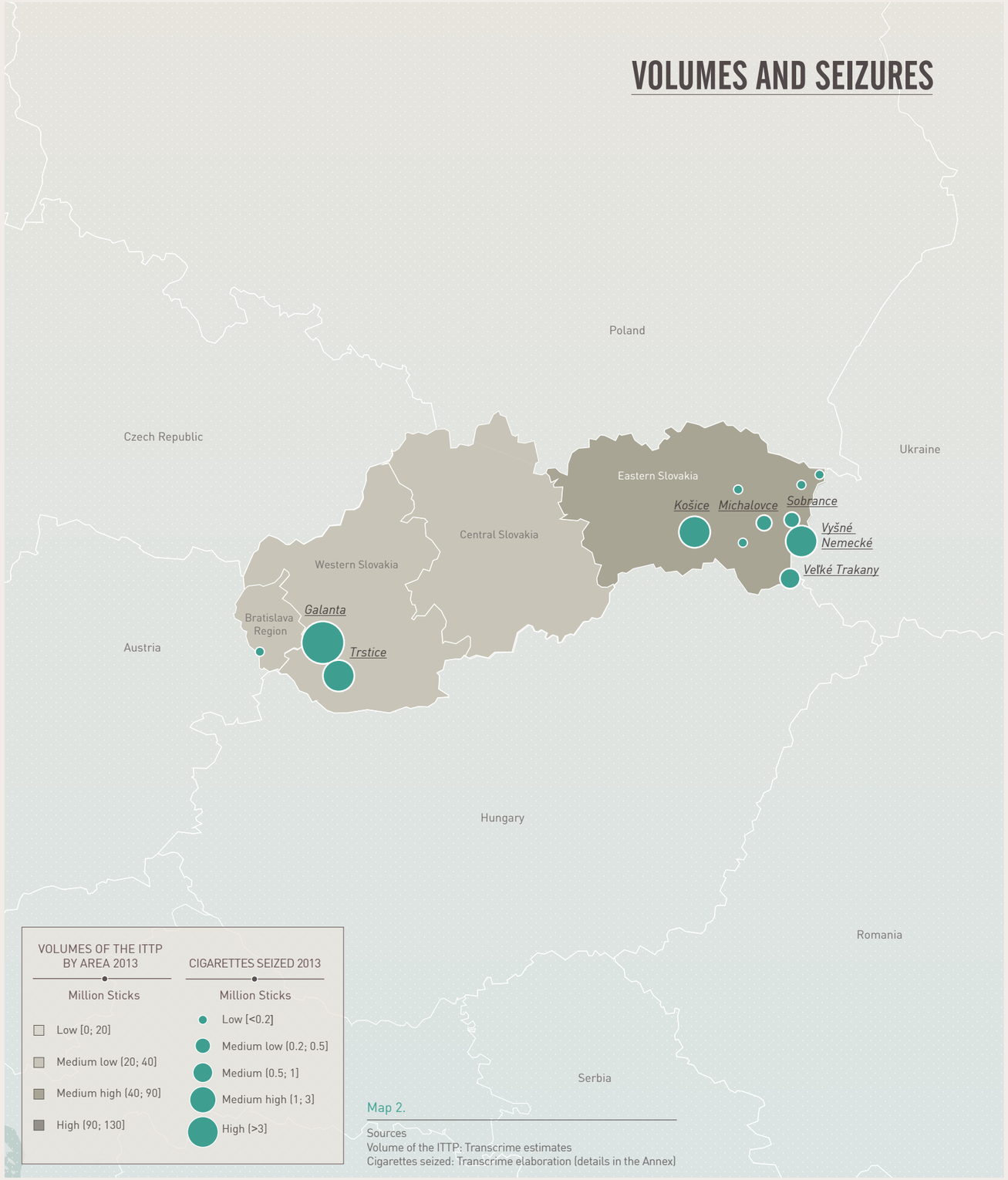
The third type of illicit tobacco product was other illicit cigarettes (10.0% of the illicit market) (Figure 3). Their share varied significantly across the areas, ranging from 50.8% of the total ITTP in Central Slovakia to 6.5% in Eastern Slovakia, which had the second-lowest share of these products in the entire EU, after Continental Croatia (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



VOLUMES AND SEIZURES



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Slovakia is mainly an ending point, and secondly a transit and starting point, for the ITTP.

The country has the lowest share of illicit cigarettes in total consumption (Euromonitor International 2013c, 15; KPMG 2014). However, on considering the illicit flows recorded between 2010 and 2013, the vast majority of cases show that Slovakia is an **ending point** for illegal tobacco products circulating within the EU. Flows intended for the **Slovakian market** originate mainly from **Ukraine**, on which Slovakia borders, and **Belarus** (see also Karjanen 2011; KPMG 2014) (Figure 6). Cigarette prices in Ukraine and Belarus are lower than in Slovakia. For instance, in October 2013, the cheapest brand cost €0.4 and €0.3 in those countries, whilst it was being sold at €2.7 in Slovakia (PMI 2013a).

Slovakia is also a **transit point** between Eastern Europe and Western markets (see also Karjanen 2011; Euromonitor International 2013i). Products transiting through Slovakia once again originate from **Ukraine** and **Russia**. After passing through the country, the **outflows** are mainly intended for **Germany** and the **Czech Republic** (Figure 7). Slovakia is also a **starting point** of illicit cigarettes because of the presence of various illegal manufacturing facilities, located especially in the Western part of the country (PMI 2013b). Slovakian tobacco products are mainly exported to the **Czech Republic** and **Germany** (Figure 8).

Illicit products are smuggled in and through Slovakia mainly by **motor vehicles**. Tobacco seizures have occurred mainly in the areas bordering with Ukraine, such as **Vyšné Nemecké** and **Michalovce** (see also Gounev and Bezlov 2010). A few cases of cigarette smuggling by people crossing the border **on foot** have been discovered. Such smugglers have been detected in **Brezovec**, **Husak**, **Sobrance** and **Ubľa**. Attempts to import illegal cigarettes have also been made by **boats** along the **River Uzh**, which rises in Ukraine and a short section of which forms the border with Slovakia (see also Frontex 2013).

Figure 6. Slovakia as ending point (2010–2013).* N= 13

*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Slovakia as transit point (2010–2013).* N= 5

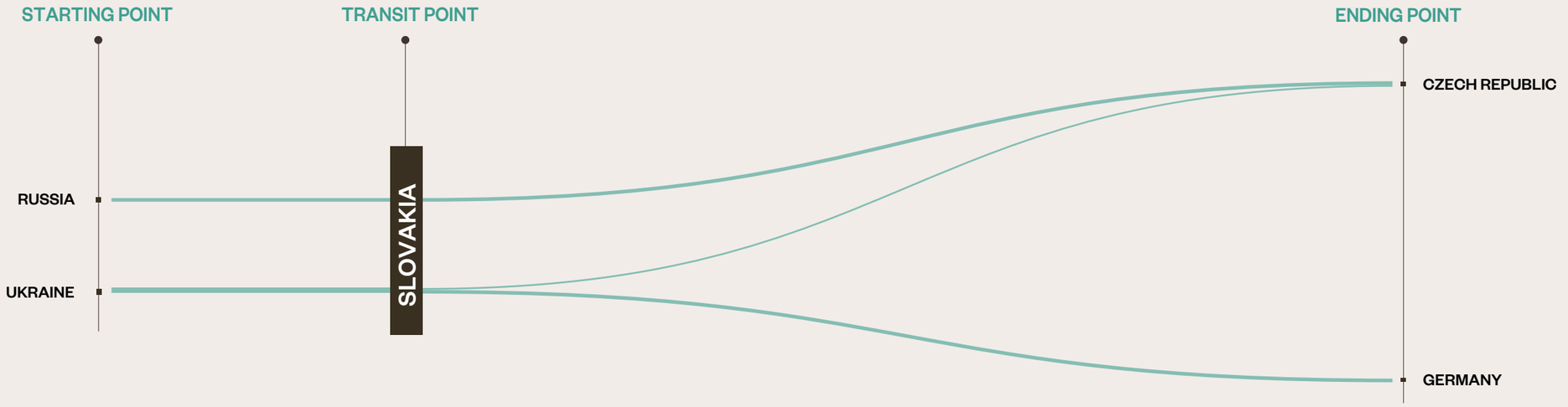
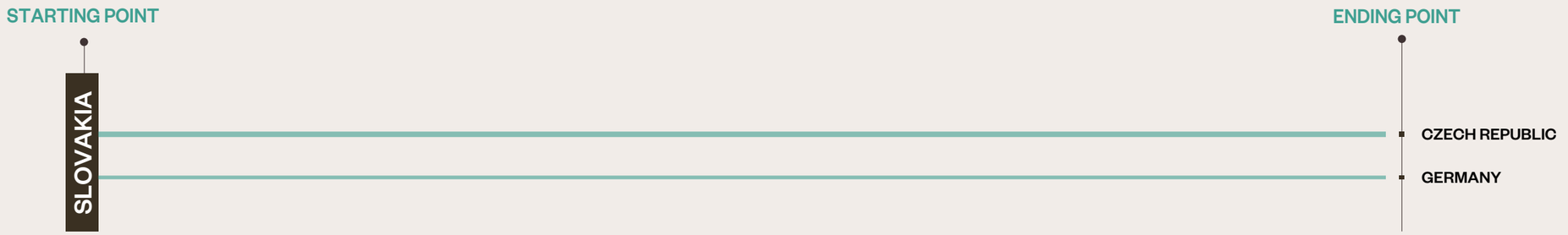


Figure 7. Slovakia as starting point (2010–2013).* N= 5



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Slovakian Customs Directorate and newspapers reported 38 tobacco seizures involving 68 people. They were mainly **Ukrainians**, **Slovakians** and **Bulgarians**. In the majority of the seizures, the smugglers were alone at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks. Tobacco seizures occurred mainly at customs' checkpoints at borders. However, in some cases, illicit tobacco **smugglers** were the owners of legal premises, such as open-air market stalls, cafés, convenience stores and petrol stations, where illicit tobacco was sold under the counter (Karjanen 2011).

Cigarettes are transported mainly by car and, to a minor extent, **on foot by people crossing the border with Ukraine** and **by truck**. On average, the cars seized transported 115,302 cigarettes, people on foot 94,920 cigarettes and trucks 2.5 million.** In July 2012, Slovakian Customs Directorate discovered a **700-metre-long tunnel** connecting Ukraine to Slovakia. This tunnel, used two to three times a week, was equipped with tracks and trolleys to transport cigarettes from the Ukrainian city of Uzgorod to the Slovakian city of Nižné Nemecké (The Economist 2012; WCO 2013).

According to open sources and industry data, **nine illegal manufacturing facilities** were raided between 2010 and 2013 in the western cities of Vrutky, Martin, Pezinok, Dunajsky Klatov, Bratislava and Trstice (PMI 2013b).

** Between 1.4 million cigarettes were seized in 12 cars; 474,600 cigarettes were seized on 5 smugglers; and 7.6 million cigarettes were seized in 3 trucks.

REGULATION

The Slovakian Government has adopted a **few measures against the ITTP**. Cooperation between the Customs Directorate of the Slovak Republic and Philip Morris International Management SA has been strengthened through a memorandum of understanding signed on March 2010. The Customs Directorate provides public and yearly data on illicit tobacco seizures.

The tobacco supply chain does not appear to be regulated, as no evidence of any security and control measures implemented is available.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Slovakia are the **Customs Directorate of the Slovak Republic** (*Colné riaditeľstvo Slovenskej republiky*), the **Financial Administration Criminal Office** (*Kriminálny úrad finančnej správy*), the **Police Forces of the Slovak Republic** (*Policajný zbor Slovenskej republiky*) and the **Border and Alien Police** (*Úrad hraničnej a cudzineckej polície*).

The quantity of cigarettes seized in Slovakia has fluctuated in recent years (Figure 9). Cigarette seizures decreased between 2007 and 2010 (from 38 to 9 million sticks). In 2011, the number of cigarettes seized increased to 26 million cigarettes. After another decrease in 2012 (11 million sticks), the Customs seized **45 million cigarettes in 2013** (Map 2). This last increase may be connected with a corresponding increase in the ITTP volume (+86%).

Top three seizures in 2013

A total of 32.3 million cigarettes were seized in the district of Galanta on the 12th of January. Customs officers discovered illicit Yesmoke cigarettes in non-residential premises. The products had been transported from Italy to Slovakia.

A total of 8.5 million cigarettes were seized in the district of Michalovce on the 9th of October. Customs officers found illicit Yesmoke White and Red without Slovak tax stamps in warehouse premises. They arrested a Ukrainian and a Slovakian.

A total of 2.1 million cigarettes and **1,400 kgs of tobacco** were seized in the village Trstice on the 16th of April. Customs officers searched non-residential premises and found the illicit tobacco manufacture of Marlboro cigarettes. Six Slovakian people were arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

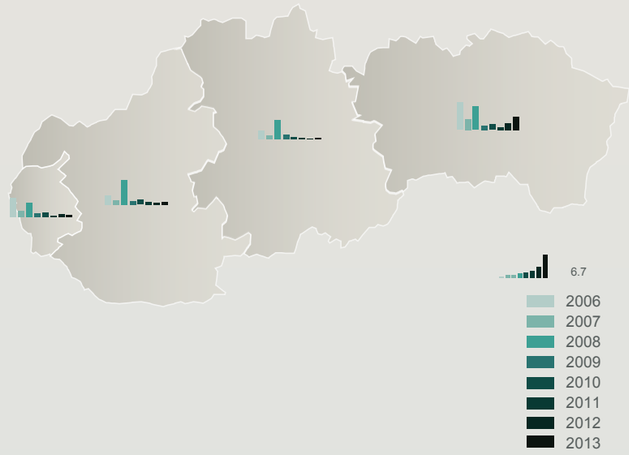
Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by about two-thirds in both volume and prevalence (Figure 2 and Map 3). In volume terms, Eastern Slovakia had the largest amounts of illicit cigarettes, with an average yearly consumption of 74 million cigarettes in the period of 2006–2013. The trend in consumption in this area drove the overall national ITTP, especially in the years 2006–2008 (Figure 2).
Eastern Slovakia had the highest prevalence of illicit cigarettes for the entire period of analysis, except for 2011. The distance in terms of prevalence between this area and the other Slovakian areas was particularly evident in 2012–2013. In fact, the values for Eastern Slovakian were 3.2 and 6.6 million sticks per 100,000 inhabitants, whereas for the rest of the country they were 0.6 and 0.7 (Map 3).

Types of illicit cigarettes

The types of illicit cigarettes significantly changed after 2006 (Figure 4). Other illicit cigarettes were the most common illicit product until 2011 in all Slovakian areas. Thereafter, illicit whites became the prevalent illicit product. **Illicit whites underwent three sharp increases**, in 2010, 2012 and 2013. The first was mainly due to the rise of illicit whites in Bratislava Region and in Western Slovakia. Eastern and Western Slovakia were the main drivers of the second increase. The third one came together with the increase in Eastern Slovakia. In 2010, the level of counterfeits also began to rise, with a peak of 35.7% in 2012. In 2013, despite the fact that counterfeits represented 85.4% of the ITTP in the Bratislava Region, their national share was lower than in 2012 because the Bratislava Region accounted for only 3% of the illicit market.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)
Source: Transcrime estimates



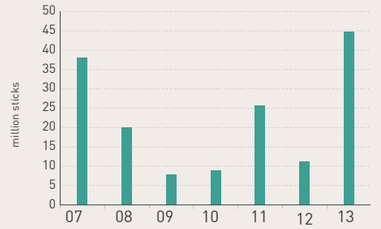
A focus on Eastern Slovakia

In 2013, Eastern Slovakia had the largest volume and the highest prevalence of the ITTP in the country. The average share of non-domestics was 6.7% of the cigarette market.

The cities in the western part had a lower level of illicit or non-domestic products. In the city of Spisska Nova Ves, all of the cigarettes collected were domestic legal products. By contrast, the highest level of the ITTP was registered in the cities of Humenne and Michalovce. In these **cities, the share of non-domestics was almost 23% of the market**. These differences were due to the proximity of those cities to the border with Ukraine, one of the main sources of the ITTP (Karjanen 2011; KPMG 2014). The high shares of illicit whites registered in these cities confirm this hypothesis (Map 4).

Map 4. Prevalence of the ITTP and share of products at the collection point level (2013)
Source: Transcrime elaboration (details in the Annex)

Figure 9. Cigarettes seized in Slovakia, million sticks (2007–2013)
Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Hungarian, Polish and Ukrainian law enforcement agencies in order to reduce illicit tobacco inflows to Eastern Slovakia, the Slovak area with the highest illicit prevalence.
- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of counterfeit cigarettes, especially in the area of Bratislava.
- Strengthening the control over inflows of illicit whites in order to reduce their prevalence, especially in Eastern Slovakia.
- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on their possible membership to organised crime groups.

Slovenia

COUNTRY DATA

Capital City
Ljubljana

Surface (WB 2014)
20,270 km²

Total population (WB 2014)
2,060,484 (2013)

Borders
Austria, Croatia, Hungary, Italy

Gross Domestic Product, € (Eurostat 2014)
35.3 billion (2013)

Triple bridge, Ljubljana

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

7.1%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

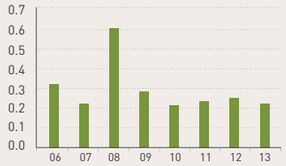


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

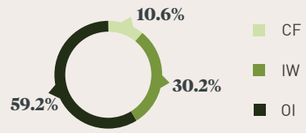
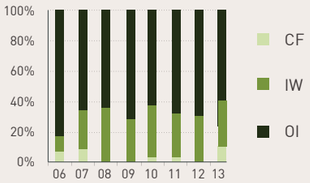


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

3.9

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

24.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

3.1

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

81.8%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

126.8

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates

Prevalence, million sticks per 100,000 inhabitants

9 12

Share of illicit products, %

CF IW OI

THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Slovenia had a medium-low level of the ITTP. Illicit cigarettes accounted for 7.1% of the cigarette market** (KPMG 2014) (Figure 1).

Eastern Slovenia had a medium-low volume of the ITTP (132 million sticks), whereas **Western Slovenia had a low level of the ITTP** (88 million sticks) (Map 2).

The prevalence was higher in Eastern Slovenia than in Western Slovenia. Eastern Slovenia had a prevalence of 12.2 million of illicit cigarettes every 100,000 inhabitants, whereas Western Slovenia reported 9.0 million (Figure 5). Both areas had a medium level of prevalence, compared with all the other EU sub-regions.

Between 2012 and 2013, **the prevalence of illicit cigarettes increased by 25% in Eastern Slovenia**, equal to an increase of 2.4 million sticks every 100,000 inhabitants. **In Western Slovenia, the prevalence decreased by 39%** (-5.8 million sticks per 100,000 inhabitants) (Figure 5).

THE PRODUCTS

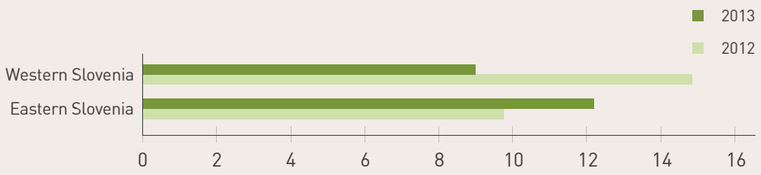
In 2013, **the most common illicit tobacco product was other illicit cigarettes** (59.2% of the illicit market) (Figure 3). In Western Slovenia, the share of other illicit cigarettes was much higher than in Eastern Slovenia (73.3% and 43.6% respectively) (Map 1).

The second most important type of illicit cigarettes was illicit whites (30.2% of the illicit market) (Figure 3). Eastern Slovenia had a higher share of this type of cigarettes (38.4%) than Western Slovenia (22.8%) (Map 1). Eastern Slovenia occupies most of the border with Croatia, where illicit whites accounted for a high share of the ITTP. This may explain the difference in the shares of illicit whites between the two Slovenian areas.

Counterfeit cigarettes were the third type of illicit cigarettes (10.6% of the illicit market) (Figure 2). The role of counterfeits was marginal in Western Slovenia (3.9%), whereas their presence was larger in Eastern Slovenia (18.0%) (Map 1).

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Slovenia is mainly a transit point, and secondly an ending and starting point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, the vast majority of cases shows that Slovenia is primarily a **transit point** for smuggled cigarettes destined for Western European countries (see also Euromonitor International 2013j). Illicit products transiting through Slovenia come mainly from **Bosnia and Herzegovina**, **Moldova**, **Romania**, **Serbia**, **China** and the **United Arab Emirates**. Once in Slovenia, illegal cigarettes are mainly **distributed** to **Italy**, **Germany** and **Austria**, where smugglers benefit from a higher price differential (Figure 6).

Data on illicit flows reveal that Slovenia is also an **ending point**. Illicit products intended for the Slovenian market come mainly from **Bosnia and Herzegovina** and **Serbia**, where cigarettes prices are significantly lower (see also KPMG 2014). For instance, in October 2013, the cheapest brand was sold at €1.3 in Bosnia and Serbia, whilst it was sold at €3 in Slovenia (PMI 2013a). Before entering Slovenia, illicit tobacco products are smuggled through **Croatia** (Figure 7).

Some illegal flows also show the role of Slovenia as a **starting point**. Indeed, Slovenian cigarettes are exported to neighbouring countries, such as **Austria** and **Italy**, where cigarette prices are higher (Figure 8).

Illicit products are smuggled in, through, or from Slovenia mainly by **motor vehicle** and **water**. The vast majority of seizures have occurred along the motorways entering Slovenia from Croatia and along those directed to Austria and Italy. For instance, attempts to smuggle cigarettes have been detected in **Obrežje**, **Murska Sobota**, **Spodnje Gruškovje**, **Celje** and **Lormanje**. In the cases of water smuggling, the most important hub for the import of illegal cigarettes into the country and across the EU borders is the **port** of **Koper**. Here seizures of large shipments of illicit cigarettes from China and the United Arab Emirates have occurred.

Figure 6. Slovenia as transit point (2010–2013).* N= 18

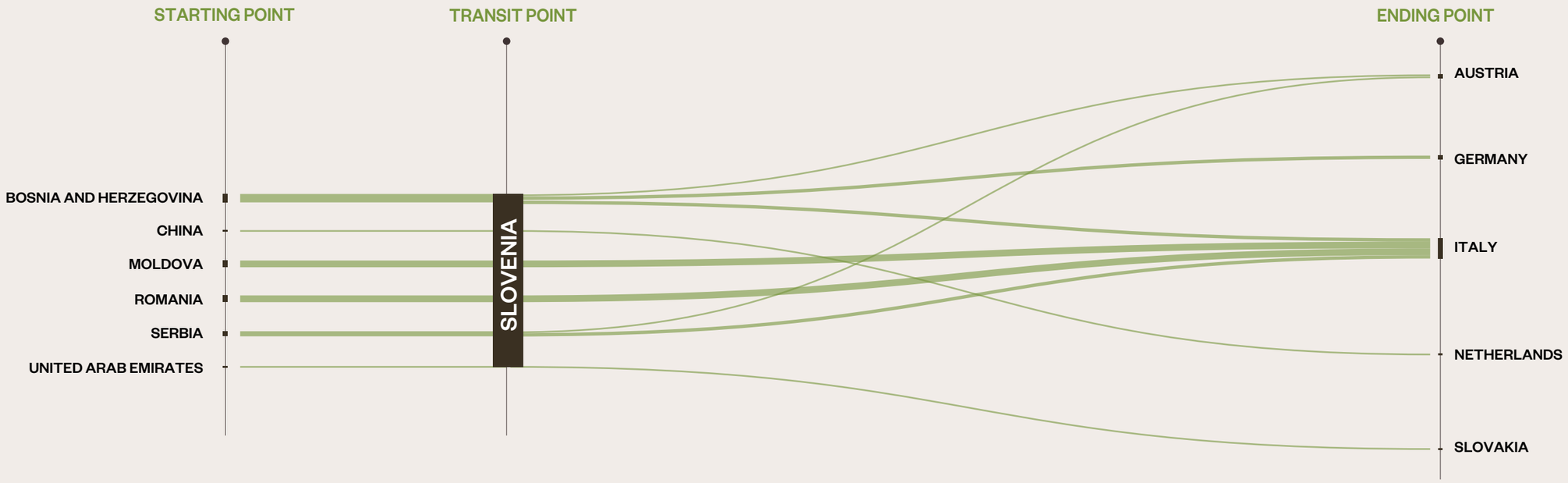
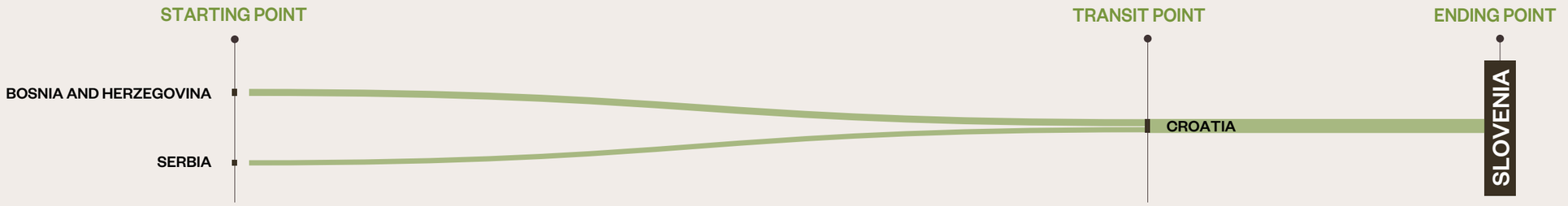


Figure 7. Slovenia as ending point (2010–2013).* N= 7



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 8. Slovenia as starting point (2010–2013).* N= 5

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Slovenian Customs Administration and newspapers reported 53 tobacco seizures involving 58 persons. These were mainly **Romanians**, **Bosnians**, **Moldovans** and **Polish**. Slovenians were involved in only a very limited number of cases. In most seizures, the smugglers **acted alone, and only in a few cases were they organised in groups composed** of a minimum of two to a maximum of six persons. Indeed, according to the Customs Administration, there are **no large crime networks involved in the ITTP in Slovenia** (Euromonitor International 2013j).

Cigarettes are transported mainly by car, but also to a minor extent by **van** and **bus**. Indeed, the most popular way to transport illegal cigarettes is by road. In this case, it is more difficult for smugglers to be apprehended because the quantities transported are smaller and journeys are more frequent than in the case of smuggling carried out by other means of transport (Euromonitor International 2013j). In a few seizures, cigarettes have also been seized **inside containers** at the port of **Koper**. On average, the cars seized were transporting 89,577 cigarettes, vans 156,340, buses 33,540 and containers 2.4 million cigarettes.** **Bigger quantities** are usually **sent via ship to the port of Koper**, **where they are transferred to trucks and transported by road** within the country (Euromonitor International 2013j).

** Between 2010 and 2013, 1.9 million cigarettes were seized in 21 cars; 1.6 million cigarettes were seized in 10 vans; 335,400 cigarettes were seized in 10 buses; 14.4 million cigarettes were seized in 6 containers.

REGULATION

The Slovenian Government has adopted **very few measures against the ITTP**. Indeed, except for the availability of annual reports on illicit tobacco seizures provided by the Customs Administration of the Republic of Slovenia, no further measures are implemented against the illicit market.

Control of the legal supply chain is partially guaranteed through the licensing and registration system for some tobacco activities.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in Slovenia are the **Customs Administration of the Republic of Slovenia** (*Carinska uprava Republike Slovenije*), and the **Police** (*Policija*).

The quantity of cigarettes seized in Slovenia exhibited a fluctuating trend between 2007 and 2013 (Figure 9). Cigarette seizures increased in 2008 (from 12 million sticks in 2007 to 25 in 2008), and so did the ITTP volume (+173% between 2007 and 2008). In the period 2008–2010, the quantity of cigarettes seized decreased and the Customs Administration seized 11 million sticks in 2010. After an increase in 2011 (17 million sticks), the number of cigarettes seized again decreased, reaching **1 million cigarettes in 2013** (Map 2).

Top three seizures in 2013

A total of 3.8 million cigarettes were seized in Maribor on the 1st of February. Customs Administration officers searched a Polish truck and found illicit Classic Blue and Red cigarettes with Moldovan tax stamps. The cigarettes were probably bound for Italy. The Polish driver was prosecuted.

A total of 13,100 kgs of water pipe tobacco were seized in the port of Koper on the 11th of April. Customs Administration officers checked a container arriving from Jordan and found illicit Al Waha tobacco, probably intended for the Slovakian market.

A total of 9,932 kgs of water pipe tobacco were seized in the port of Koper on the 5th of April. Customs Administration officers discovered unreported Al Fakher tobacco in a container arriving from Dubai (United Arab Emirates). The tobacco was probably intended for Slovakia.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, **the national ITTP decreased by about one third**, in terms of both volume and prevalence (Map 3).

The volume of the illicit market followed a downward trend which was interrupted only in 2008. Indeed, between 2007 and 2008, the illicit trade expanded by 173%, increasing from 220 million sticks to 600 million sticks; the contraction of the ITTP then restarted (Figure 2).

The volumes of the ITTP were quite similar in the two areas between 2006 and 2011. In 2012, the volume grew in Western Slovenia, while it decreased in Eastern Slovenia. In 2013, the trend reversed, and Eastern Slovenia had a larger ITTP than did Western Slovenia (Map 3).

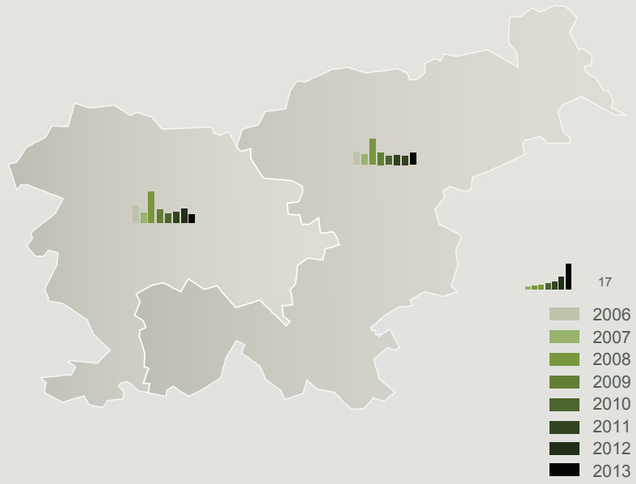
In terms of prevalence, Western Slovenia had a higher level until 2012. Since 2013 Eastern Slovenia has had the highest prevalence.

Types of illicit cigarettes

The types of illicit cigarettes slightly changed from 2006 to 2013. **The main illicit product had always been other illicit cigarettes**; however, these cigarettes fell from 82.5% of the illicit market in 2006 to 59.2% in 2013. This was mainly due to the expansion of the share of illicit whites. **Between 2006 and 2007, the share of illicit whites increased by 15%**. Thereafter, they constantly accounted for more than a fourth of the Slovenian ITTP (Figure 4).

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Ljubljana

Ljubljana is the capital of Slovenia and its largest city; however, in 2013, its prevalence of non-domestic cigarettes (9.2%) was lower than the national level (10.2%).

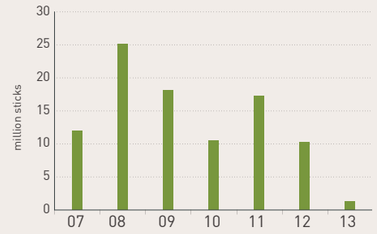
In the 2011–2013 period, **the city's overall prevalence of non-domestic cigarettes increased** (+1 p.p.). However, different areas show different trends. For example, the area around Zibertova Ul.-Medvedova Cesta, which had the highest prevalence in 2011 (23.2%), in 2013 had a medium level of 11.8%. By contrast, the consumption of non-domestics increased in the areas of Ul. Ane Ziherlove-Lubejeva Ul. (+11 p.p.), Jamova Cesta-Langusova Ul. (+9 p.p.), Smartinska Cesta-Smartinska Cesta (+9 p.p.) and Valjavceva Ul.-Zbasnikova Ul. (+10 p.p.). In 2013, this area was the zone with the highest prevalence (21.5%) (Map 4).

Map 4. Prevalence of the ITTP in Ljubljana's collection areas (2011–2013)

Source: Transcrime elaboration (details in the Annex)

Figure 9. Cigarettes seized in Slovenia, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Austrian, Croatian and Italian law enforcement agencies in order to reduce illicit tobacco flows transiting through Slovenia, towards Western EU countries.
- Strengthening customs' controls at the port of Koper to reduce shipments of illicit tobacco originating from China and the United Arab Emirates.
- Strengthening the control over illicit whites' inflows in order to reduce their prevalence in Eastern Slovenia.
- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.
- Providing yearly public estimates on the size of the ITTP.
- Providing yearly public data on convictions for the ITTP and on possible membership of organised crime groups.

Spain

COUNTRY DATA

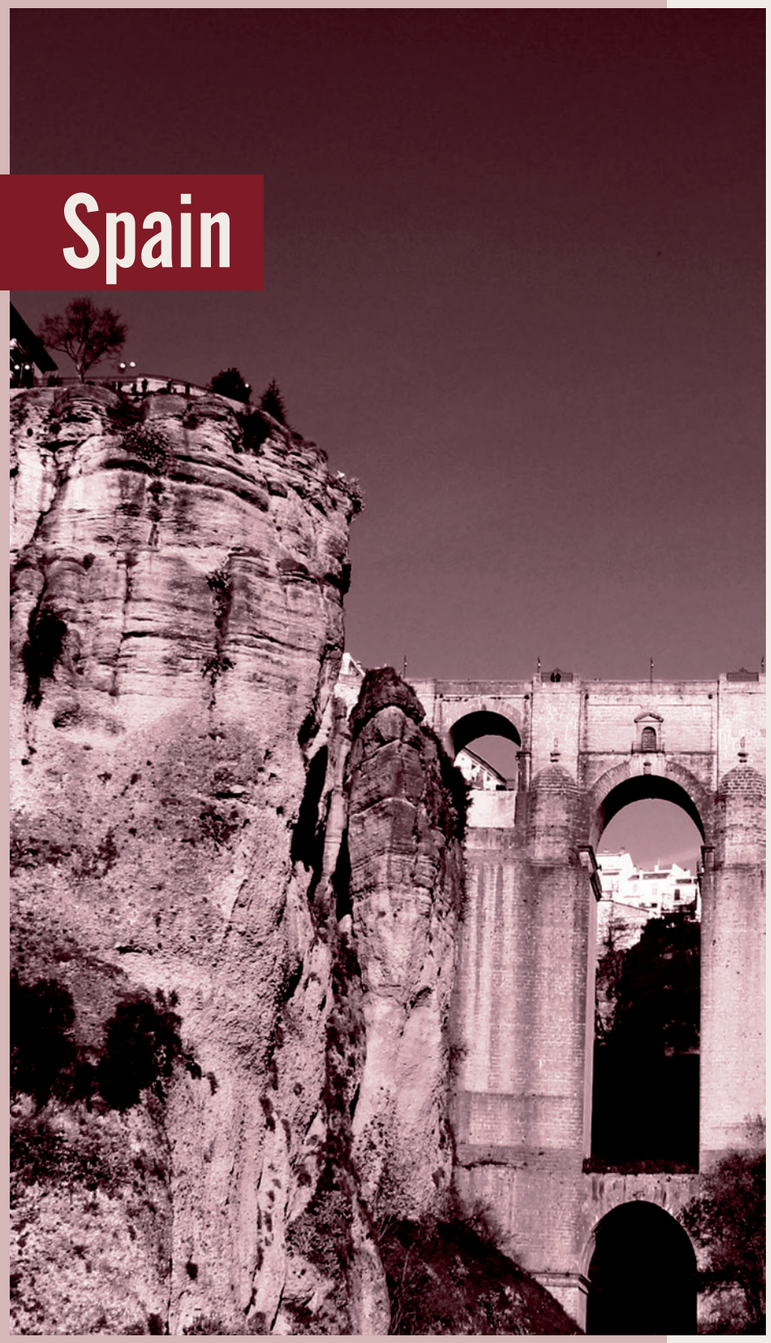
Capital City
Madrid

Surface (WB 2014)
505,600 km²

Total population (WB 2014)
46,647,421 (2013)

Borders
Andorra, France, Gibraltar (United Kingdom), Portugal

Gross Domestic Product, € (Eurostat 2014)
1,023 billion (2013)



Ronda bridge, Malaga

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

8.8%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

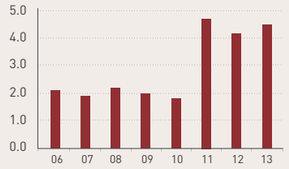


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

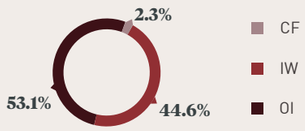
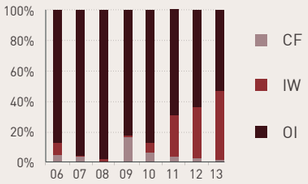
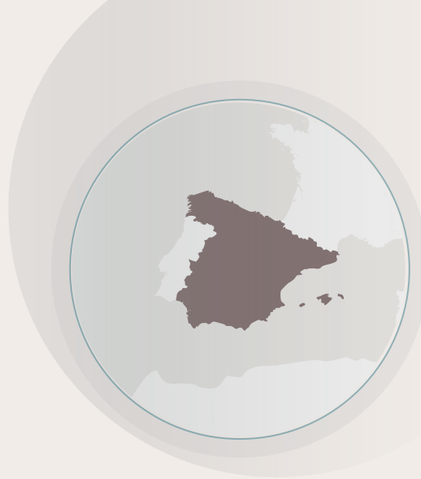


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates





THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

47.7

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

30.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

4.3

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

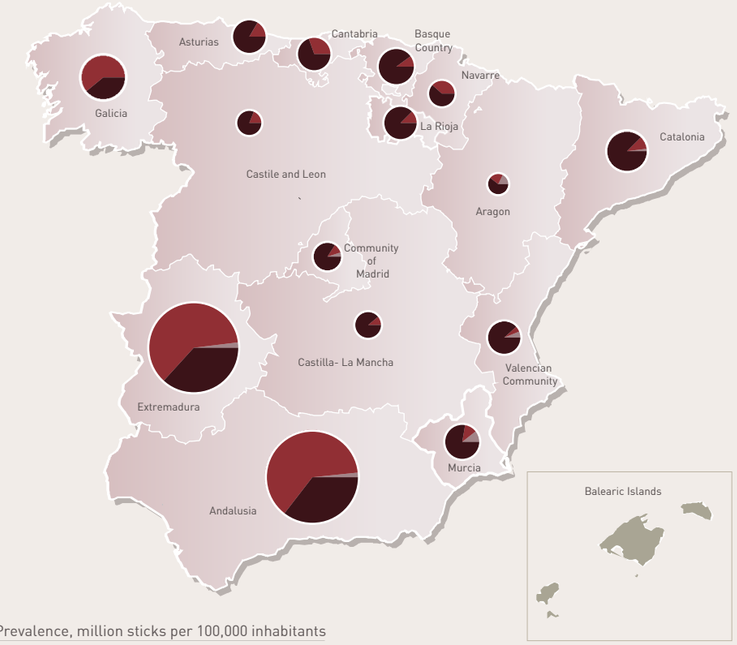
79.6%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

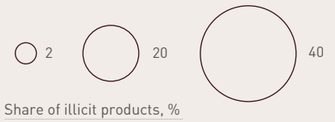
171.1

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



Prevalence, million sticks per 100,000 inhabitants



Share of illicit products, %

CF IW OI

Non-estimated areas

THE SIZE OF THE ILLICIT CIGARETTE MARKET

The Spanish level of the ITTP was medium, with an illicit cigarettes consumption of 8.8% in 2013 (KPMG 2014) (Figure 1).

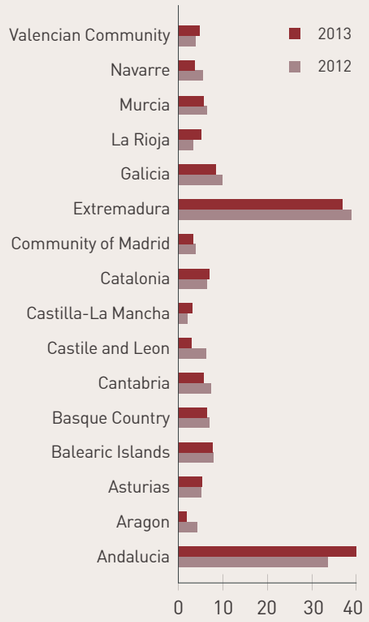
In 2013, **11 out of 16 Spanish areas had a medium-low level of the ITTP** (Map 2). **Andalusia, bordering wih Gibraltar and close to North Africa, presented a very high level and was the area with the largest illicit market** (2,634 million sticks). **This area represented 60% of the Spanish ITTP**, with volumes six times that of Catalonia (413) and eight times that of Extremadura (327), the second and third areas by volumes of illicit cigarettes respectively.

Andalusia also had the highest prevalence of illicit cigarettes (37.6 million sticks per 100,000 inhabitants). In terms of prevalence, it was followed by the neighbouring Extremadura (34.7). All of the other areas had low or medium-low prevalences of illicit cigarettes, ranging from 8.0 (Galicia) to 1.8 (Aragon) million sticks per 100,000 inhabitants (Map 1).

From 2012 to 2013, **the prevalence of illicit cigarettes decreased in 10 out of 16 areas** (Figure 5). La Rioja (+52%) and Castilla-La Mancha (+48%) registered the highest increases; however, their prevalence remained relatively low. The most remarkable decreases occurred in Aragon (-54%) and Castile and Leon (-54%), which were the areas with the lowest prevalence in 2013.

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates

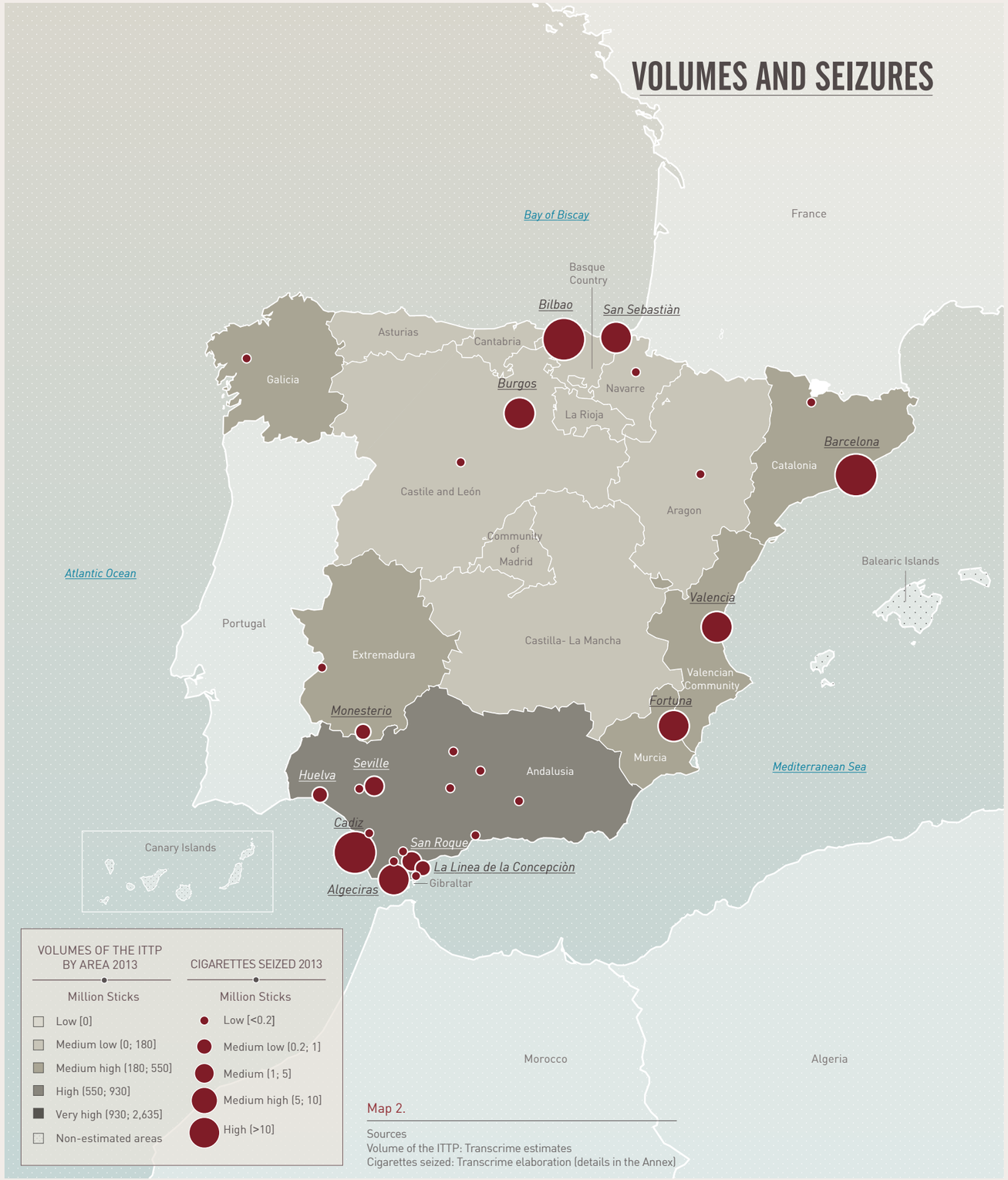


THE PRODUCTS

In 2013, **other illicit cigarettes were the most common illicit tobacco product** (53.1% of the illicit market) (Figure 3). In 2013, their share varied considerably across the areas. Andalusia and Extremadura, areas with the highest prevalences of the ITTP, had the lowest shares of other illicit cigarettes (35% and 37%, respectively). The Basque Country (90%), Castilla-La Mancha (89%), Valencian Community (88%) and La Rioja (88%) had the highest shares (Map 1).

The second most important type of illicit cigarettes was illicit whites (44.6% of the illicit market) (Figure 3). In 2013, **the share of illicit whites was much higher for the areas on the western and southern borders,** which were those with the highest prevalences of the ITTP. Indeed, the shares of Andalusia (63.0%), Extremadura (61.2%) and Galicia (60.8%) were well above the national average. Conversely, the areas with the lowest levels of illicit whites were the Valencian Community (5.3%) and the Basque Country (10.1%), which are both located along the French border (Map 1).

The third type of illicit cigarettes was counterfeits (2.3% of the illicit market) (Figure 3). Aragon (17.5%), Murcia (10.4%), the Valencian Community (6.4%) and the Community of Madrid (5.1%) were the only areas whose share of counterfeits was above the national level. These areas registered a low prevalence (Map 1).



Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

Spain is mainly an ending point, and secondly a starting and transit point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, Spain is primarily an **ending point** for tobacco products. They originate from illegal cross-border purchases made in **Gibraltar** and **Andorra**, where cigarette prices are lower than in Spain, and from **China**, **Greece**, **Russia**, **Ukraine** and **Malaysia**. Spain is also a preferred ending point for illicit whites produced in **Belgium**, **Germany** and **Greece** (KPMG 2014) (Figure 6).

Spain is also a **starting point** for illicit tobacco products intended for EU countries, where cigarette prices are higher, primarily **France**, **Germany** and **Ireland** (Figure 7) (Baquero 2013; KPMG 2013). Spain also has a minor role as a **transit point** (Figure 8). It receives large shipments of illicit products from **China** and are destined for the illegal markets of **Ireland** and the **UK** (Notimex 2011; AEAT 2013).

Illicit products are mainly smuggled in, through, or from Spain by **motor vehicle**. The vast majority of tobacco seizures have occurred at the **border with Gibraltar** (i.e. La Línea de la Concepción, San Roque) and in **Andalusia** (e.g. Cádiz, Jerez de la Frontera, Málaga) (ThinkCom 2013; Yamagata 2013).

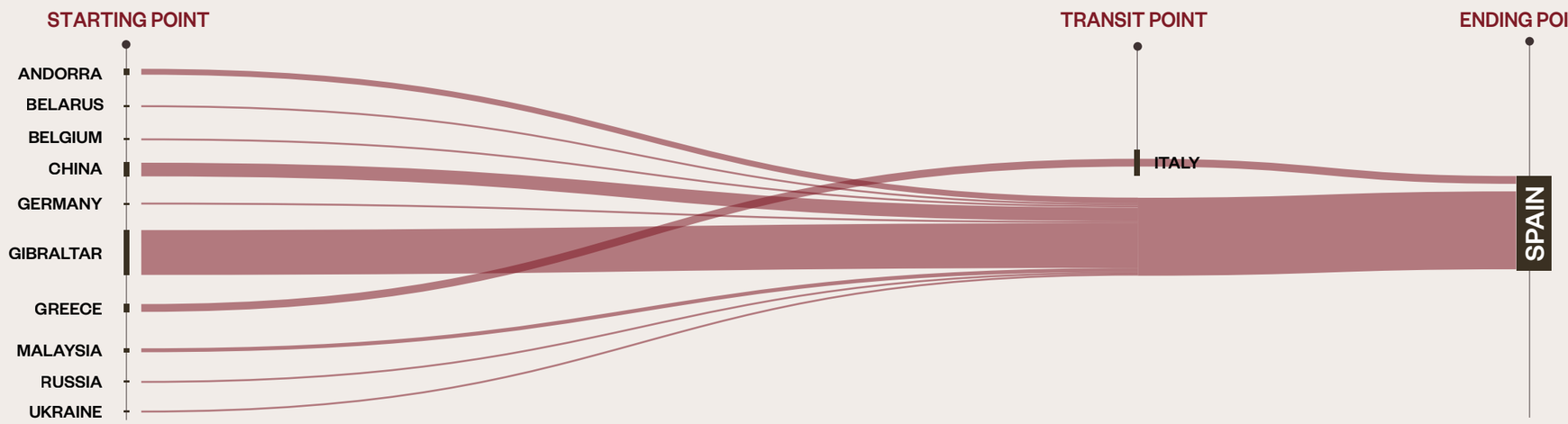
Cigarettes have also been detected at the ports of **Barcelona**, **Algeciras**, **Cadiz** and **Valencia**, which receive illegal tobacco products mainly from Chinese and Malaysian harbors. Attempts to import cigarettes illegally have been detected at the **airports** of **Seville**, **Santiago de Compostela**, **Valencia** and **Málaga**. In these cases, the illicit flows originated mainly from Eastern European countries (i.e. Russia and Ukraine).

ILLICIT FLOWS FROM THE CANARY ISLANDS

The Canary Islands are the starting point for the ITTP owing to cigarette prices lower than in Spain (Euromonitor International 2012i). 16.9% of illicit products destined for Spain come from the Canary Islands, mainly by air flights. Illicit flows from the Canary Islands also affect Germany, Ireland, Portugal and the UK (Figure 9).

THE FLOWS

Figure 6. Spain as ending point (2010–2013).* N= 40



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Spain as starting point (2010–2013).* N= 29

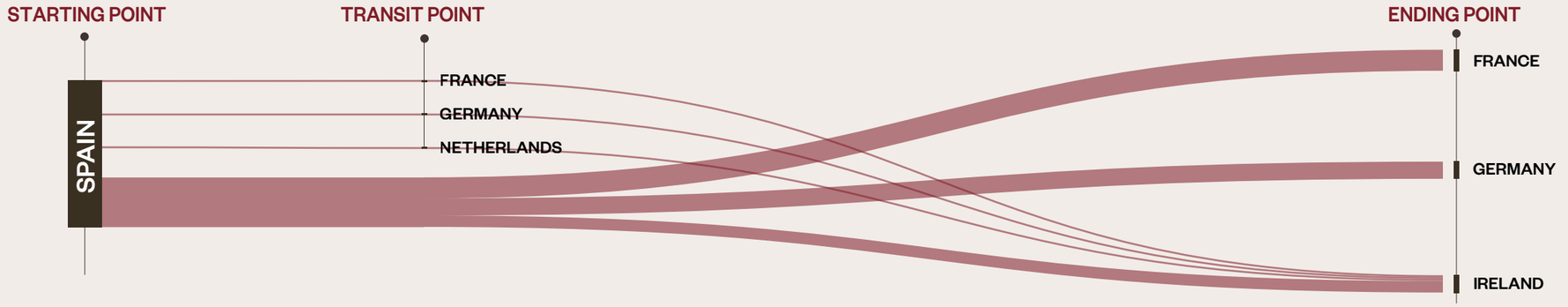
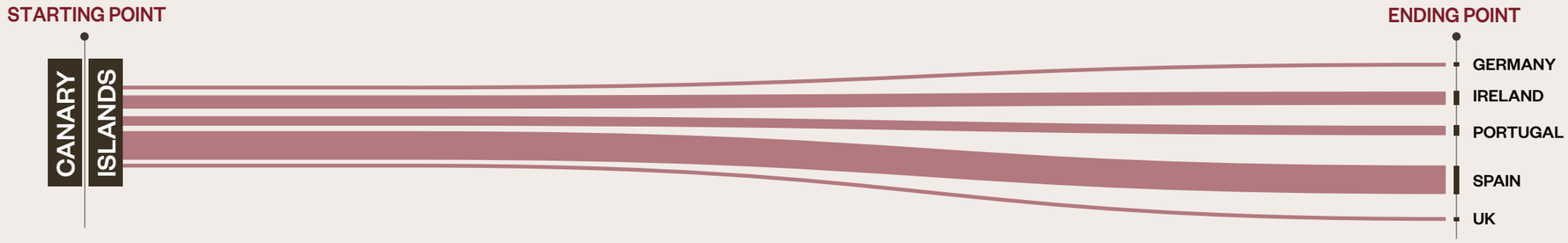


Figure 8. Spain as transit point (2010–2013).* N= 4

Figure 9. Canary Islands as starting point (2010–2013).* N= 31



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Spanish Customs and newspapers reported 133 tobacco seizures involving 351 persons, mainly **Spanish** (50%), **Polish** (16%), **Chinese** (9%) and **Romanians** (8%), aged **between 41 and 50**. The average smuggler is around 40 years old and travel alone (Baquero 2013). In most seizures, **only one person was involved**, although **criminal organisations** from Romania, UK, Bulgaria and France are increasingly involved in the ITTP in Spain (Baquero 2013).

Tobacco is transported mainly by car (39%), **container** (19%), **plane and van** (respectively 11%). On average, every car seized transported 151,461 cigarettes, every container 10 million, every plane 295,812, and every van 286,533 cigarettes.** The specific technique used to move illicit tobacco products consists of using two containers, one loaded with legal goods and one with contraband tobacco; the destinations are then exchanged, and the tobacco is diverted to Spain (Alonso Miranda 2014).

In most cases, the tobacco was being stored in **warehouses, houses and garages**. In a few cases, it was seized in **bars, kiosks, markets and shops**.

** Between 2010 and 2013, 6.5 million cigarettes were seized in 42 cars; 200.6 million cigarettes were seized in 20 containers; 3.5 million cigarettes were seized in 12 airplanes; and 3.4 million cigarettes were seized in 12 vans.

REGULATION

The Spanish Government has adopted **some measures against the ITTP**. In 2011 and 2013, public awareness campaigns against illicit cigarettes were launched (e.g. *"No te la juegues con el Tabaco illegal"* by Altadis and *"Stop Contrabando de tabaco"* by *Mesa del Tabaco*). The Spanish Customs publishes yearly data on tobacco seizures and convictions for the ITTP.

Control of the legal supply chain is adequately guaranteed through the licensing system for some tobacco activities, the tracking and tracing system and the requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions and to commensurate the sale with the demand for tobacco products.

LAW ENFORCEMENT

In Spain, three bodies are involved in the fight against the ITTP the **Spanish Customs** (*Agencia Estatal de Administración Tributaria - AEAT*), the **National Police Force** (*Cuerpo Nacional de Policía*) and the **Civil Guard** (*Guardia Civil*).

Cigarette seizures in Spain exhibit a fluctuating trend (Figure 10). The number of cigarettes seized dropped from 358 million sticks in 2007 to 222 in 2008. Seizures then increased until 2010, but in 2011 they decreased by 41%. From that year on, cigarette seizures started to increase again, reaching **207 million sticks in 2013** (Map 2).

Top three seizures in 2013

A total of 20,000 kgs of tobacco were seized in June. Customs officers dismantled an illegal manufacture of cigarettes with two locations, one in Coslada and one in Guadalajara. The machinery, tools and raw materials had been transported from Poland. Four Poles, one Ukrainian and one Spaniard were arrested.

A total of 10 million cigarettes were seized in Barcelona in August. Customs and Civil Guard officers found illicit Aroma cigarettes in a container arriving from Vietnam. The products had been manufactured in Vietnam and carried health warnings in English.

A total of 9.4 million cigarettes were seized in Villarienzo. In October, Customs officers found counterfeit Manchester cigarettes with health warnings in English in a ship arriving from Valencia but originating from Singapore. One Bulgarian and one Pole were detained.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP increased by 115% in volume and by 47% in prevalence (Figure 2 and Map 3). This increase was mainly **driven by Galicia, Andalusia and Extremadura, whose prevalences of illicit cigarettes grew**, respectively, **by 990%, 306% and 202%.**

In volume terms, **the area with the largest illicit cigarette consumption was Andalusia for the period 2006–2013, except for 2007 and 2009**. Especially in the last three years, Andalusia was the main driver of the illicit tobacco market in the country, with an average yearly consumption of 1,832 million cigarettes.

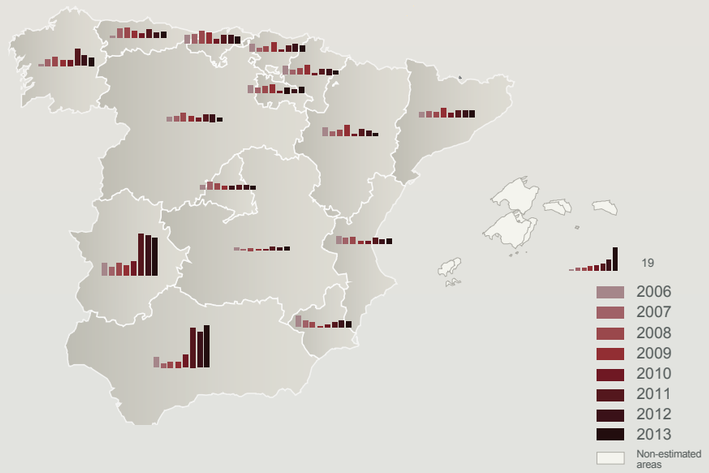
In the period 2006–2012 the area with **the highest prevalence of illicit cigarettes was Extremadura**. In terms of prevalence, **Andalusia** ranked second after 2009 and moved to first place in 2013.

Types of illicit cigarettes

The types of illicit cigarettes changed from 2006 to 2013 (Figure 4). Other illicit cigarettes were the most common illicit products during the entire period; however, their share started to decrease significantly in 2011. From a share of 8% in 2006, illicit whites almost disappeared from the market in 2007 and 2008. After 2011, their national market share began to grow significantly, reaching a share of 44.6% in 2013. This trend may have mainly stemmed from the high prevalences in Andalusia, Extremadura and Galicia. The share of counterfeits was relatively low for the entire period, except for 2009, when it reached a share of 16.2%.

Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on Andalusia

Andalusia accounted for 60% of the Spanish ITTP in 2013. This makes Andalusia a hot spot for the ITTP at the EU level.

Andalusia's proximity to Gibraltar is likely to boost **the consumption of illicit or non-domestic products. Indeed, the highest shares of non-domestic cigarettes, which had exceeded domestic cigarette shares, were recorded in Marbella (82.4%) and Algeciras (76.2%).**

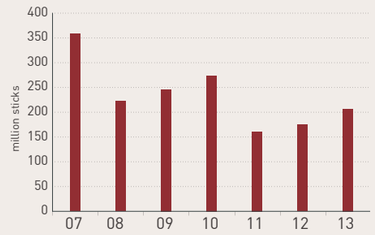
By contrast, non-domestic cigarettes respectively represented 4.0% and 7.1% of the cigarette market in the inland cities of Jaen and Granada (Map 4).

Map 4. Prevalence of the ITTP and share of products at collection point level (2013)

Source: Transcrime elaboration (details in the Annex)

Figure 10. Cigarettes seized in Spain, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Gibraltar and Andorra law enforcement agencies in order to limit illicit tobacco inflows through the Spanish regions of Andalusia and Catalonia.

- Strengthening controls over tobacco flows between the Canary Islands and Spain mainland.

- Promoting a national action plan against the ITTP in order to reduce illicit tobacco consumption.

- Promoting an awareness campaign in the areas with highest consumption, such as Extremadura and Andalusia.

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.

- Providing yearly public estimates on the size of the ITTP, and data on the number of persons convicted for the ITTP belonging to organised crime groups.

Sweden

Älvsborg Bridge, Gothenburg

COUNTRY DATA

Capital City
Stockholm

Surface (WB 2014)
450,300 km²

Total population (WB 2014)
9,592,552 (2013)

Borders
Norway, Finland

Gross Domestic Product, € (Eurostat 2014)
420.9 billion (2013)

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

10.7%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

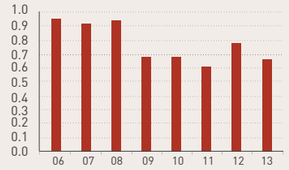


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

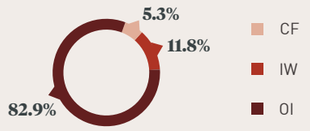
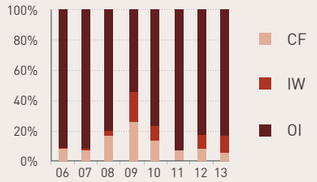


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

5.9

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

24.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: European Commission 2013a

6.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

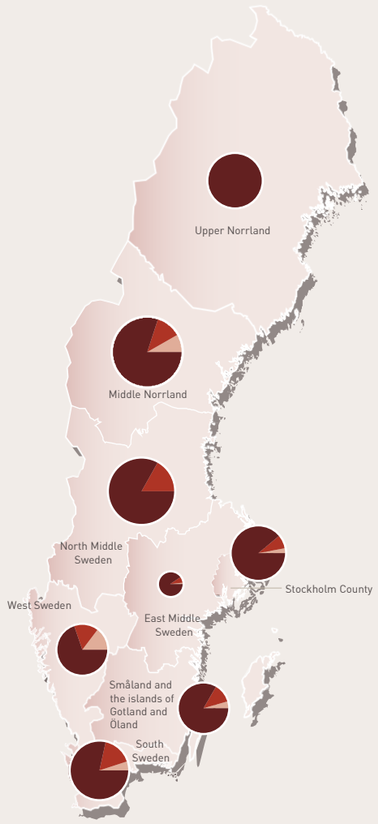
71.4%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

235.7

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates



THE SIZE OF THE ILLICIT CIGARETTE MARKET

In 2013, **Sweden had a medium level of the ITTP (10.7%)** (Figure 1), with areas ranging from a high volume of illicit cigarettes to areas with a low level. Stockholm County (158 million sticks) had the largest volume of the ITTP within the country. West Sweden (130) and South Sweden (125) were the other areas with the largest illicit markets (Map 2). These three areas together accounted for 62% of the Swedish illicit tobacco market.

Compared with the EU average, **all of the Swedish areas reported a medium prevalence of illicit cigarettes**. Middle Norrland (13.3 million sticks per 100,000 inhabitants) and North Middle Sweden (12.6) had the highest prevalence of illicit cigarettes. East Middle Sweden (2.3) had the lowest prevalence of illicit tobacco consumption (Map 3).

Between 2012 and 2013, **the prevalence of illicit cigarettes decreased in 4 out of 8 areas and by -18% at the national level** (Figure 5). North Middle Sweden registered the most remarkable decrease, with a variation of -60%. **The reduction in North Middle Sweden accounted for 88% of the national decrease**. Nevertheless, North Middle Sweden remained the area with the second highest prevalence in the country. The highest increases occurred in Upper Norrland (+46%), in Småland and on the islands of Gotland and Öland (+39%).

THE PRODUCTS

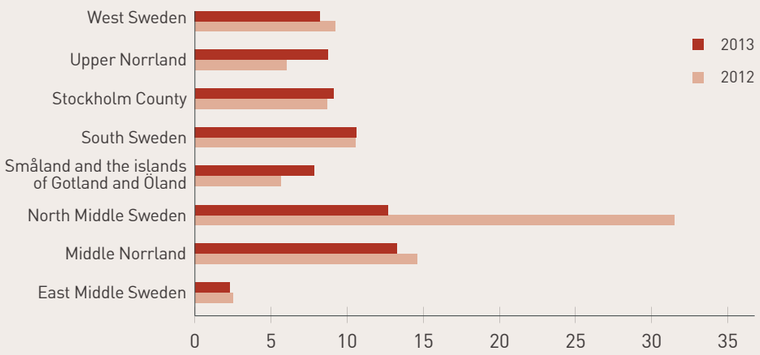
In 2013, **other illicit cigarettes were by far the most common illicit tobacco product** (82.9% of the illicit market) (Map 1 and Figure 3). Their share ranged from 70% in West Sweden to 100% in Upper Norrland, which borders on Finland, where a pack of the cheapest cigarettes cost 13% less than in Sweden. Sweden had the highest prices of cigarettes in the area, excluding Norway. Swedes may achieve considerable savings by purchasing illicit cigarettes from the Baltic Republics. This may partially explain the high shares of other illicit cigarettes compared with the other kinds of illicit products.

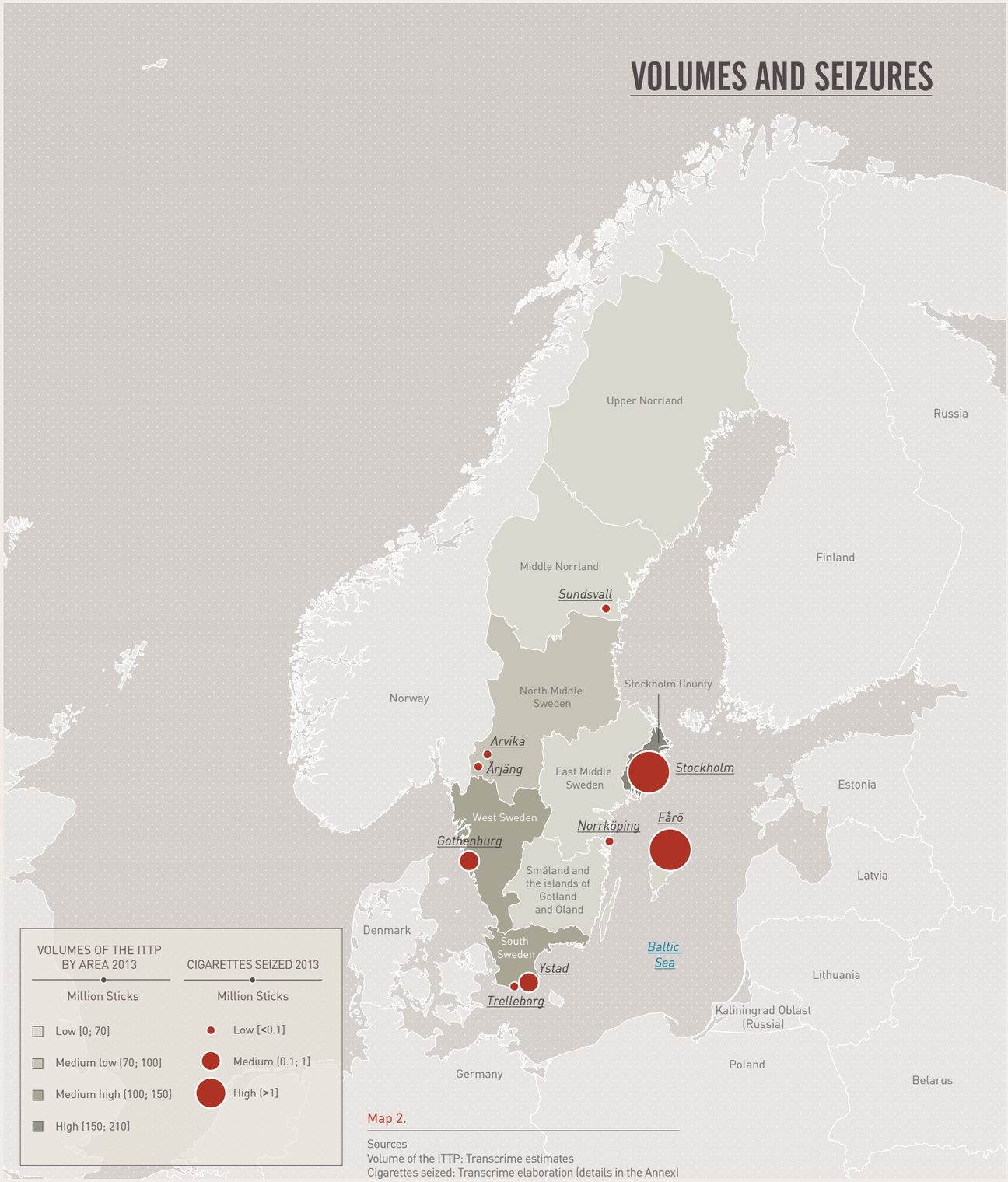
The second most important type of illicit cigarettes was illicit whites (11.8% of the illicit market) (Map 1 and Figure 3). In 2013, **the share of illicit whites varied** considerably **across the areas**. Upper Norrland, with a share of 0.0%, was the area with the lowest share. North Middle Sweden (16.6%), South Sweden (16.2%) and West Sweden (15.9%) had the highest shares. The distribution of illicit whites was unstable over the years. For example, in 2012, Upper Norrland had the second-highest share of illicit whites (30.1%) after North Middle Sweden (42.6%).

The third type of illicit cigarettes was counterfeits (5.3% of the illicit market) (Map 1 and Figure 3). **Counterfeits were concentrated in West Sweden** (14.2% of the illicit market in the area) **and Middle Norrland** (8.3%). The other **six areas had a share of counterfeits below the national average (5.3%).**

Figure 5. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates





Map 2.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

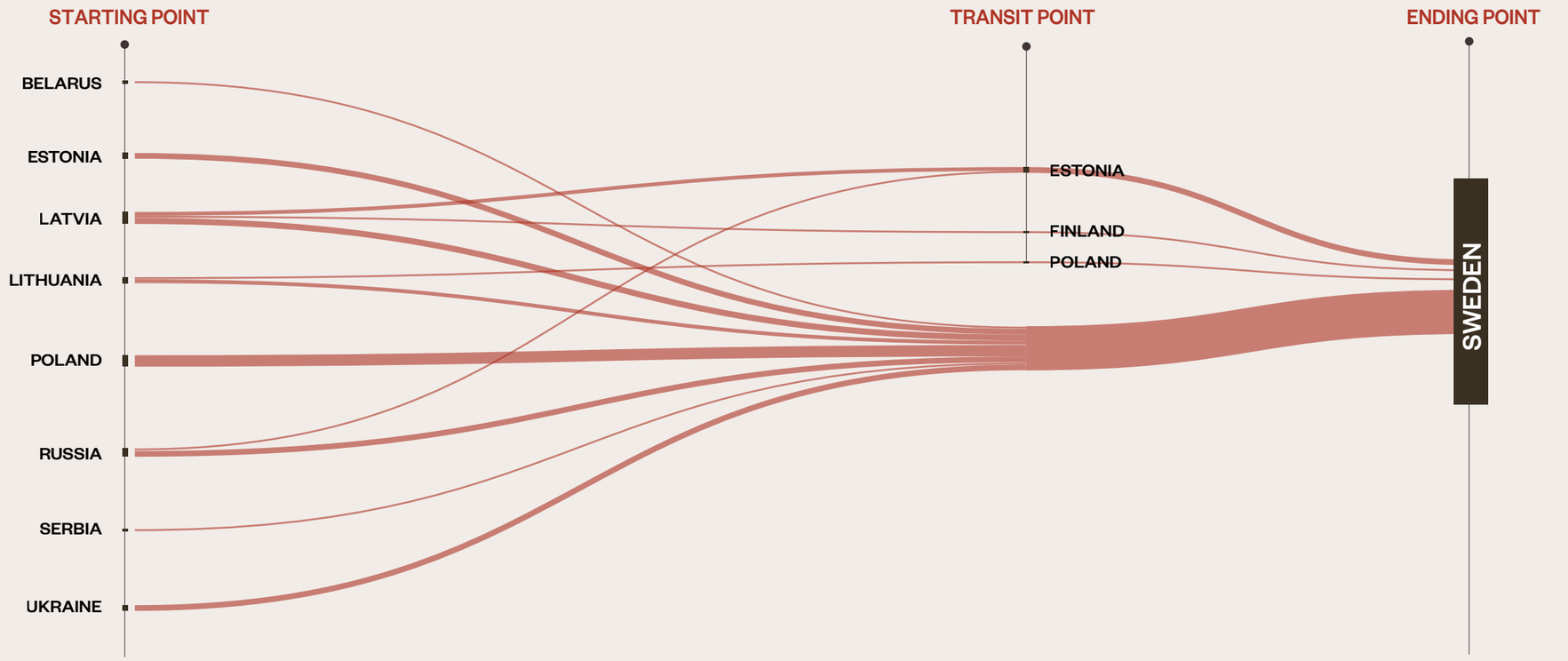
Sweden is mainly an ending point, and secondly a transit point, for the ITTP.

Considering the illicit flows recorded between 2010 and 2013, the vast majority of cases show that Sweden is primarily an **ending point**. Flows intended for the **Swedish market** originate mainly from **Poland**, **Latvia** and **Russia**. Other starting points are **Ukraine**, **Lithuania** and **Estonia** (Figure 6). Cigarette prices in these countries are lower than in Sweden. For instance, in October 2013 the cheapest brand was sold at a price between €2.1 and €2.5 in the Baltic countries, whilst it was sold at €5.2 in Sweden (PMI 2013a). Illicit tobacco products enter Sweden by crossing the Baltic Sea or through Finland.

Sweden is also a **transit point** (Albertini 2012; BRA 2012). Once again, illicit products **transiting** through Sweden originate from **Poland**, **Russia**, **Ukraine** and also from **China** and the **United Arab Emirates**. Once in Sweden, illegal cigarettes are mainly **distributed** to **Norway,** the **UK** and **Ireland**, where smugglers benefit from a higher price differential (Figure 7). Indeed, these countries recorded the highest cigarette prices among the EU countries in 2013 (PMI 2013a).

Illicit products are smuggled in and through Sweden mainly by **water**. The most important hubs are the **commercial ports** of **Gothenburg**, **Ystad** and **Arlöv**, which receive large shipments from China, Poland and the United Arab Emirates (see also Tullverket Brottsbekämpningen 2010). In a few cases, illegal products have been transported via motor vehicles embarked on ferries arriving in Ystad and Trelleborg on their way from Poland. The vast majority of seizures on motor vehicles have been made in **Ystad**, **Trelleborg**, **Lernacken**, in **Svinesund**, **Årjäng**, **Arvika** (close to the border with Norway) and in the **Norbotten area** on the border with Finland.

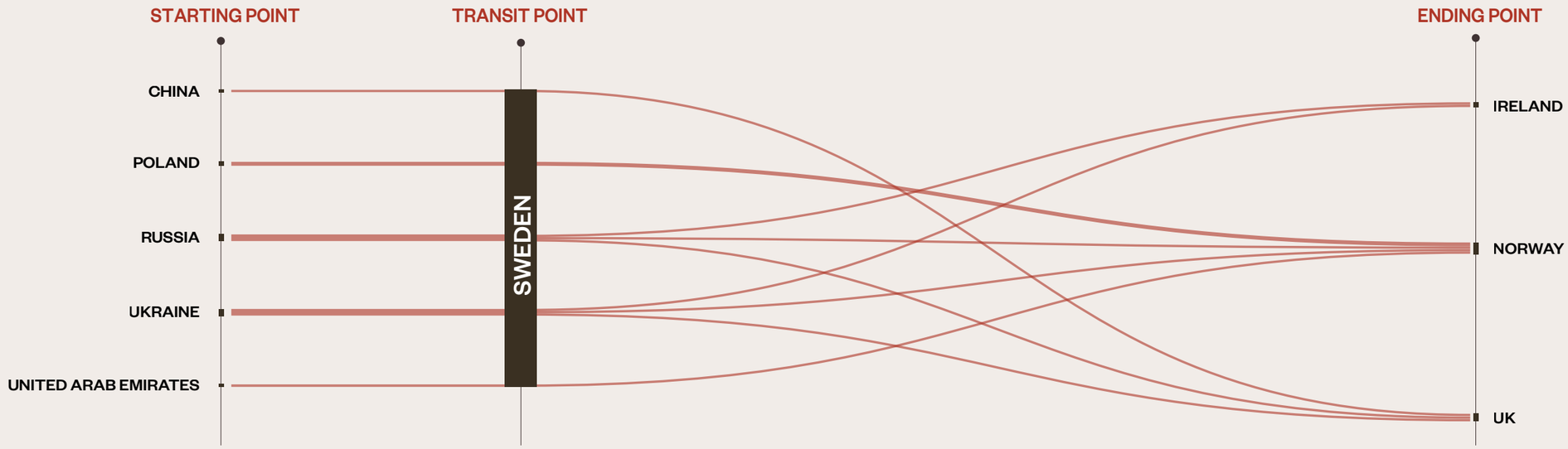
Figure 6. Sweden as ending point (2010–2013).* N= 27



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

Figure 7. Sweden as transit point (2010–2013).* N= 6



ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 Swedish Customs Administration and newspapers reported 42 tobacco seizures involving 106 people. These were mainly **Swedish, Polish** and **Lebanese**. In most seizures, **only one person was involved**. However, cigarettes are smuggled into Sweden both by **private individuals** and **organised crime.** The former category is composed of **travellers returning from vacations abroad** or **cross-border shoppers** (Arnberg and Junkka 2011). The latter is composed of approximately **a dozen groups** assumed to be part of larger European organisations engaged in the ITTP. These **networks** have a clear and complete organisation and are characterised by the use of violence and threats (Björnsdotter 2005). Organised crime's involvement in the smuggling of cigarettes is assessed to be substantial (Arnberg and Junkka 2011).

Cigarettes are transported to Sweden mainly by car, sometimes in **containers** and **vans**. On average, cars transported 45,100 cigarettes, containers 3.7 million, vans 65,000.** Illicit goods shipped by truck and container are generally concealed among legal goods belonging to reputable transport companies (Björnsdotter 2005). In recent times, the emergence of **Internet sales** has made it easier to buy cheap foreign cigarettes, so that people are no longer required to travel abroad physically (Arnberg and Junkka 2011).

** Between 2010 and 2013, 586,800 cigarettes were seized in 13 cars; 7.3 million cigarettes were seized in 2 containers; 195,000 cigarettes were seized in 3 vans.

REGULATION

The Swedish Government has adopted **some measures against the ITTP**. The cooperation of national customs and tobacco companies has been strengthened through a memorandum of understanding. The Customs Administration provides public and yearly data on tobacco seizures and convictions for the ITTP. Furthermore, there is an explicit legal duty to destroy all confiscated cigarettes.

Control of the legal supply chain is partially guaranteed through the licensing system for some tobacco activities.

LAW ENFORCEMENT

Two bodies are involved in the fight against the ITTP in Sweden: the **Customs Administration** (*Tullverket*), and the **Police** (*Polisen*).

The quantity of cigarettes seized in Sweden has decreased in recent years (Figure 8). After a first increase (from 32 million sticks in 2007 to 19 in 2008), the number of cigarettes seized further increased between 2008 and 2010, reaching 77 million sticks in 2010. In 2011, cigarette seizures decreased strongly to 18 million sticks, but in recent years, the quantity has remained stable, standing at **22 million sticks in 2013** (Map 2).

Top three seizures in 2013

A total of 8,737 kgs of smoking tobacco and 70,000 empty tobacco packs were seized in the period March-April 2013. Customs officers discovered 132 shipments of smoking tobacco arriving from China. The final destination of the products was the UK. A Chinese citizen was a suspect in the crime.

A total of 2 million cigarettes were seized in Stockholm. Customs officers searched a truck that had arrived by ferry from Riga (Latvia) and found illicit cigarettes. The products had unknown origin and destination. A Lithuanian driver was arrested.

A total of 1.8 million cigarettes were seized in Stockholm. Customs officers discovered the illicit products on a truck that had arrived in Stockholm on a ferry from Riga (Latvia). The cigarettes were supposed to be Belarusian in origin and destined for Sweden or the UK. A Lithuanian driver was arrested.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the national ITTP decreased by 30% in terms of both volume and prevalence (Figure 2 and Map 3).

In volume terms, the areas with the largest illicit cigarette consumption were North Middle Sweden, with an average yearly consumption of 161 million cigarettes during the period 2006–2013, Stockholm County (142) and West Sweden (141). Conversely, East Middle Sweden (34) and Middle Norrland (44) reported the smallest illicit cigarette markets.

North Middle Sweden, located at the centre of the country, **had the highest prevalence of illicit cigarettes until 2013**, when it ranked second after Middle Norrland (Map 3). The northern area of Upper Norrland was the other area where the prevalence was above the national average for almost the entire period.

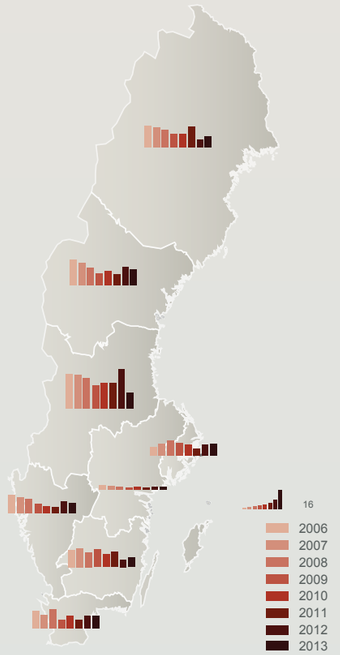
Types of illicit cigarettes

The types of illicit cigarettes changed in the period 2006–2013. Other illicit cigarettes were the most common illicit product during the entire period across all the Swedish areas. However, **the relative weights of illicit whites and** counterfeits **evolved over the years**. After 2012, illicit whites were the second most widespread type of illicit cigarettes. By contrast, **the share of** counterfeits **increased until 2009**, when it reached 25.3% of the ITTP; it then started to decrease (Figure 4).

Note: 2011 Empty pack surveys (EPSs) do not provide information about the manufacturers, other than PMI, of the collected cigarettes. Therefore, the share of illicit whites has not been estimated for 2011.

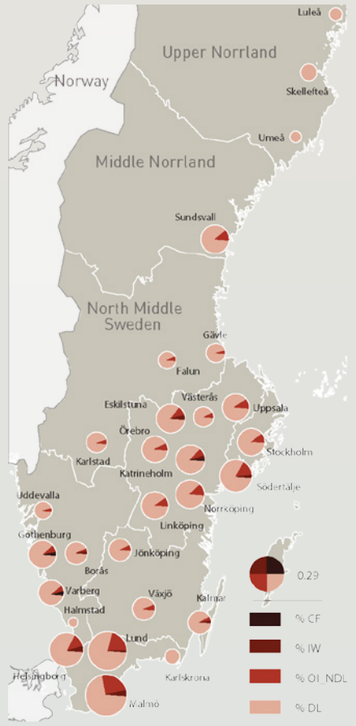
Map 3. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



Map 4. Prevalence of the ITTP and share of products at collection point level (2013)

Source: Transcrime elaboration (details in the Annex)



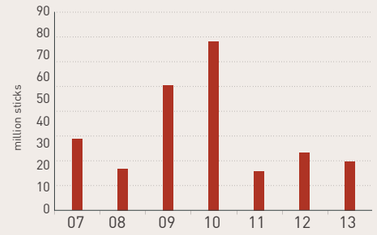
A focus on Swedish collection points

Malmö (29.0%) and Lund (23.1%) in the southern part of the country were the only two collection points where the share of non-domestics was above one fifth of total consumption in 2013. In all the other collection points, the consumption of illicit or non-domestic cigarettes was low.

Apart from the southern part of the country, the higher concentrations of the ITTP in the coastal and eastern areas confirmed that a large part of the illicit products reached the country by water from the Baltic and East-European countries (Map 4).

Figure 9. Cigarettes seized in Sweden, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with Poland, Russia, Ukraine and the Baltic states in order to reduce illicit tobacco inflows.

- Increasing control in the commercial Swedish ports of Gothenburg, Ystad and Arlöv, which receive large shipments from China, Poland and the United Arab Emirates.

- Launching regional awareness campaigns to reduce illicit consumption in Middle Norrland, North Middle Sweden and South Sweden the areas with highest prevalences.

- Monitoring tobacco cross-border purchases in Upper Norrland bordering on Finland, where other illicit cigarettes are the only illicit product (100%).

- Promoting security preventive measures for all persons engaged in the tobacco supply chain, especially by monitoring the balance between the demand and the supply of tobacco.

- Providing yearly public estimates on the size of the ITTP.

- Providing yearly public data on the number of persons convicted for the ITTP belonging to organised crime groups.

United Kingdom

COUNTRY DATA

Capital City
London

Surface (WB 2014)
243,610 km²

Total population (WB 2014)
64,097,085 (2013)

Borders
Ireland

Gross Domestic Product, € (Eurostat 2014)
1,899 billion (2013)

Millennium Bridge, London

NATIONAL ESTIMATE OF THE ITTP

Figure 1. Share of illicit cigarette market out of total consumption (2013)
Source: KPMG 2014

10.2%

Figure 2. National volume of the ITTP, billion sticks (2006–2013)
Source: KPMG 2014

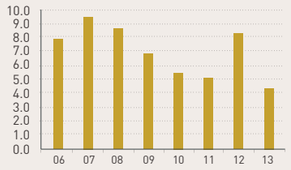


Figure 3. Share of illicit products, % (2013)
Source: Transcrime estimates

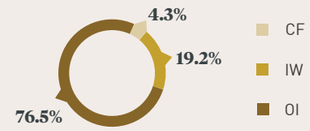
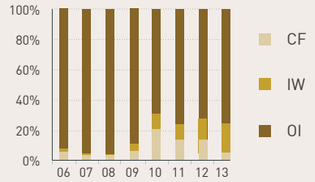


Figure 4. Share of illicit products, % (2006–2013)
Source: Transcrime estimates



THE LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG 2014

35.8

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO 2014

22.0%

PRICE | 2013

Price of a pack of the most sold brand in €
Source: Euromonitor International 2013a

8.6

TAXATION | 2013

Tax as % of the final retail price of the most sold brand
Source: European Commission 2013a

84.5%

Tax per 1,000 sticks in € of the most sold brand
Source: European Commission 2013a

363.3

THE PREVALENCE OF ILLICIT CIGARETTES (2013)

Map 1. Prevalence and share of illicit products by area (2013)
Source: Transcrime estimates

THE SIZE OF THE ILLICIT CIGARETTE MARKET

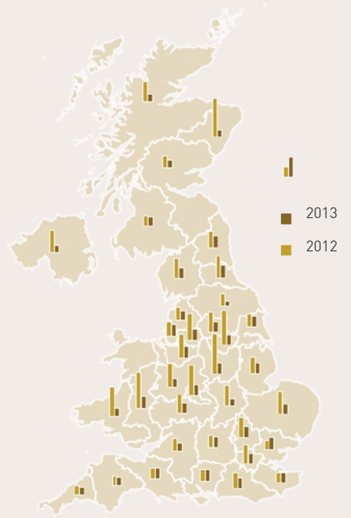
UK had a medium level of the ITTP in 2013, when 10.2% of the cigarettes consumed were illicit (KPMG 2014) (Figure 1).

In 2013, **London had a very high level of the ITTP** (555 million sticks). Greater Manchester (199 million sticks) and Surrey, East and West Sussex (194 million sticks) had the second and the third largest illicit tobacco markets in the UK (Map 3).

In 2013, **Merseyside recorded the highest prevalence of the ITTP** (10.4 million sticks per 100,000 inhabitants). Neighbouring East Yorkshire and Northern Lincolnshire (9.8 million), Greater Manchester (9.1 million), and Cheshire (9.1 million) also had relatively high prevalences. The **presence of smaller ports,** which may be considered less controlled, and the activities of **organised groups dedicated to the ITTP** may explain the high prevalence in these areas (O'Reilly 2012b). Tees Valley and Durham (10.2 million), Northumberland and Tyne and Wear (9.6 million), and Cumbria (8.5 million) are other areas where the ITTP is high. The presence of a hotspot for air-travelling bootleggers, like Teesport, and the widespread presence of fag houses may contribute to explaining the high prevalence of the ITTP in these areas (HMRC and UKBA 2008; BBC News 2010) (Map 3).

Map 2. 2012–2013 comparison of illicit prevalence by area, million sticks per 100,000 inhabitants

Source: Transcrime estimates



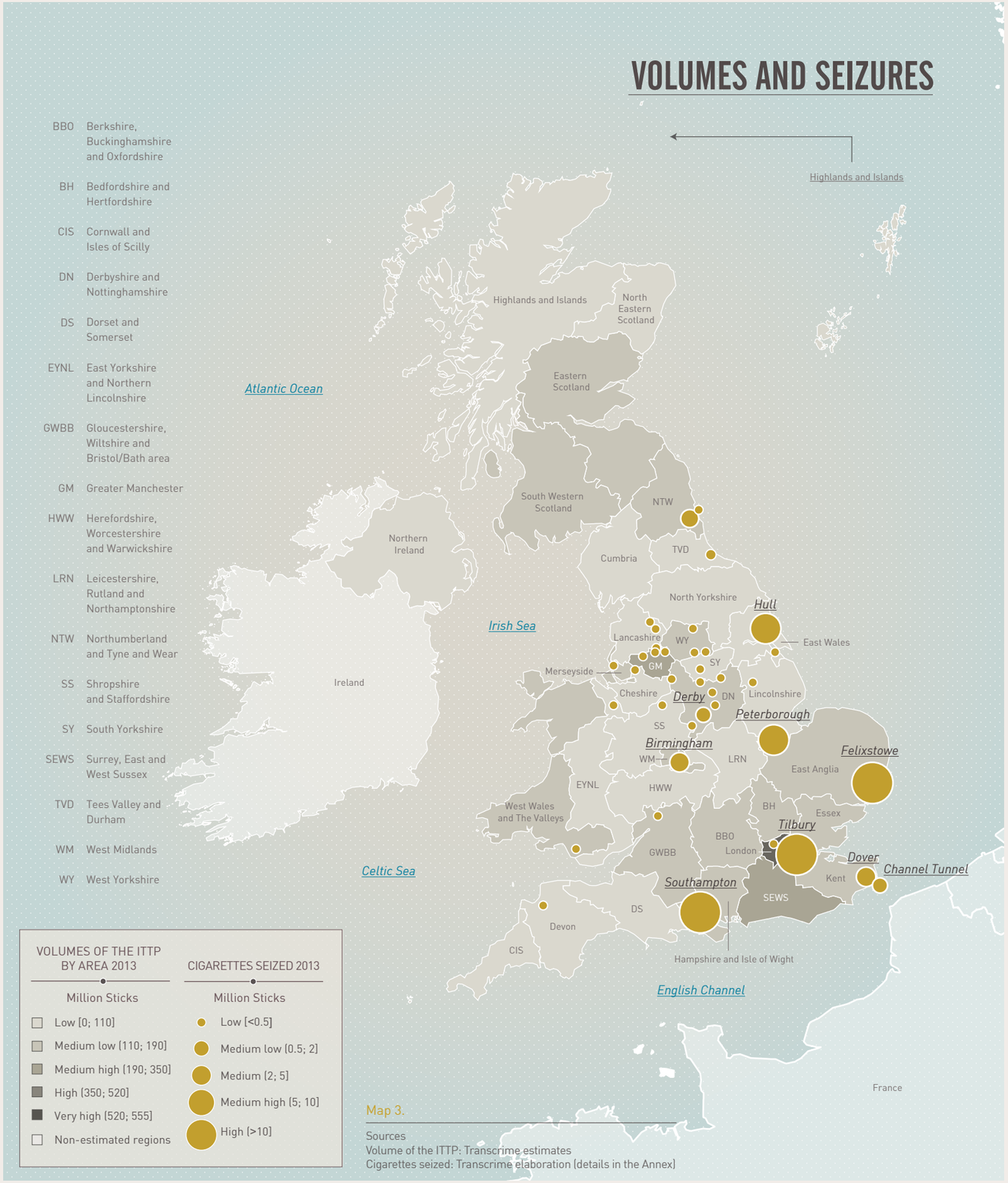
From 2012 to 2013, the prevalence of illicit cigarettes decreased in 34 out of 36 areas. Essex (+31.1%) and Dorset and Somerset (+13.3%) were the two areas like the prevalence increased. The most remarkable contractions occurred in North Eastern Scotland (-81.1%), in Derbyshire and Nottinghamshire (-73.5%), in South Yorkshire (-72.1%) and in West Wales and The Valleys (-71%) (Map 2).

THE PRODUCTS

In 2013, **the most common illicit tobacco product was other illicit cigarettes** (76.5% of the illicit market) (Figure 3). **Other illicit cigarettes were the main illicit product in each single British area**. Indeed, only North Yorkshire (63%) reported a share of other illicit cigarettes below 70% of the illicit market. West Wales and The Valleys (85.3%), East Wales (84.5%), and Shropshire and Staffordshire (84.5%) had the highest shares of other illicit cigarettes (Map 1).

In 2013, **the second most important type of illicit cigarettes was illicit whites (19.2% of the illicit market)** (Figure 3). North Yorkshire had by far the highest share of illicit whites (37.3% of the ITTP). Interestingly, North Yorkshire had the lowest overall prevalence of illicit cigarettes. Moreover, in Bedfordshire and Hertfordshire (27.4%) and East Yorkshire and Northern Lincolnshire (26.2%), illicit whites accounted for more than a quarter of the illicit market. Only in Shropshire and Staffordshire was the share of illicit whites below 10% (6.8%) (Map 1).

The third type of illicit cigarettes was counterfeit cigarettes (4.3% of the illicit market) (Figure 3). The consumption of counterfeits was higher in Scotland than in the rest of the country. Indeed, North Eastern Scotland (16.4% of the ITTP), Highlands and Islands (10.5%), Eastern Scotland (8.7%) were all among the areas with highest shares of these products, together with Devon (11.0%) and Cornwall and Isles of Scilly (11.0%) (Map 1). The uncovering of illegal tobacco manufacturing facilities in Scotland confirmed its centrality for the market of counterfeit cigarettes (BBC News 2011; Glasgowwired 2011).



Map 3.

Sources
Volume of the ITTP: Transcrime estimates
Cigarettes seized: Transcrime elaboration (details in the Annex)

THE FLOWS

The UK is an ending point for the ITTP.

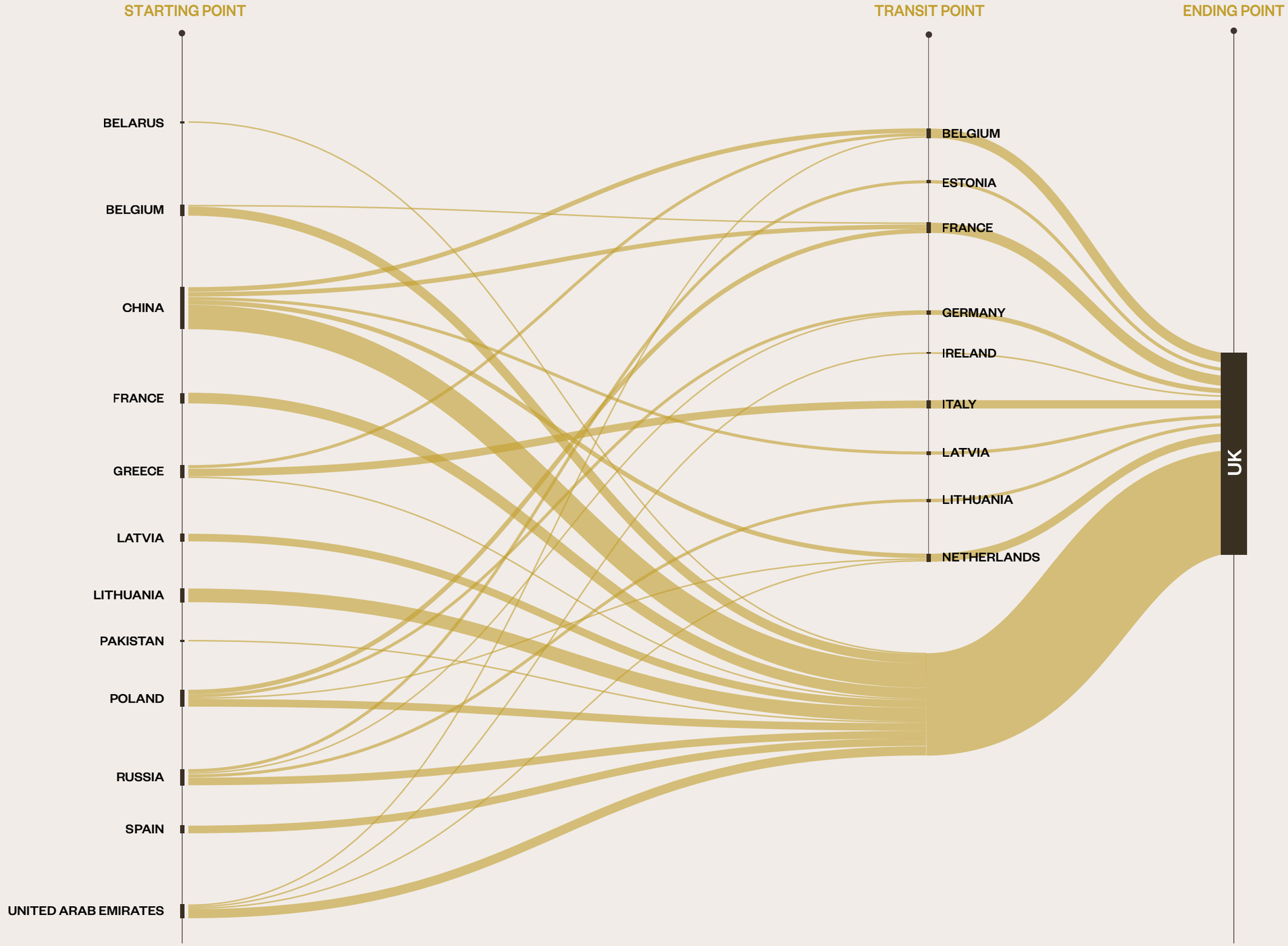
The illicit flows recorded between 2010 and 2013 show that the UK is exclusively an **ending point** market for illegal tobacco products, due to cigarette prices which are among the highest in the EU. Indeed, one pack of the cheapest brand cost €8.2 in October 2013 (PMI 2013a), and illegal products can be generally purchased at half the price of legal ones (Siggens, Murray, and Walters 2010).

Flows intended for the **British market** originate mainly from **China**, **Poland**, **Russia**, **Lithuania**, **United Arab Emirates**, **Greece**, **Belgium**, **France**, **Latvia** and **Spain** (Figure 5). According to the different routes, before reaching the UK, illicit tobacco products transit mainly through Belgium, France, Germany, Italy and the Netherlands. Illegal cigarettes arrive in the UK mainly by **water**, **motor vehicle** and **air flight**.

Ports are crucial junctions for the ITTP. The ones which are well connected with other transport infrastructures are likely to be used to import illicit tobacco products (O'Reilly 2012c). The vast majority of tobacco seizures have occurred in the **ports of Belfast, Felixstowe**, **Hull**, **Newhaven**, **Portsmouth** and **Southampton**, where containers loaded with large quantities of cigarettes have arrived directly from **China** or after passing **through the largest European ports**, such as Antwerp, Hamburg and Rotterdam (see also O'Reilly 2012d; O'Reilly 2012f). The smugglers often use Irish ports as a back door to introduce illegal products into the UK (Whiting 2013).

Illicit tobacco products have also been smuggled into the UK via the **Channel Tunnel** hidden in motor vehicles transporting other legal products. They have also been transported on ferries along the **Calais-Dover** sea route. Attempts to import cigarettes illegally have been detected at the British **airports** of **East Midlands**, **Leeds**, **Liverpool** and **London** due to the increasing number of air routes connecting European cities at low cost (see also UKBA 2012). In these cases, the illicit flows mainly originated from the Canary Islands, Latvia and Lithuania.

Figure 6. The UK as ending point (2010–2013).* N= 100



*The thickness of each line indicates the number of cases reported

Source: Transcrime elaboration (details in the Annex)

ACTORS AND *MODUS OPERANDI*

Between 2010 and 2013 HM Revenue & Customs and newspapers reported 158 tobacco seizures involving 197 persons, mainly **British** (74%) **Polish** and **Irish** (both 8%) **aged 20-30**. Also, Chinese groups are involved in counterfeiting and street-selling (Siggens, Murray, and Walters 2010; O'Reilly 2012b; O'Reilly 2012e). In most seizures, the **smugglers were alone** at the moment of seizure. They may have been either individual bootleggers or members of larger organised crime networks.

Tobacco was transported to the UK mainly by trucks and **containers**. In fewer cases, they were transported by **airplane**. On average, 3.9 million cigarettes were seized on trucks, on containers 6.7 million, and on airplanes 85,611.**

Between 2010 and 2013, some **illicit manufacturing facilities** were discovered across the UK, including London, the West Midlands, Chesterfield and Scotland.

The information available reveals that tobacco is stored in **houses** and **warehouses.** Indeed, in many cases, people sell cigarettes in their homes to regular customers (Wiltshire et al. 2001; Siggens, Murray, and Walters 2010). There is also evidence of illegal tobacco products being sold in **markets**, **bars**, **legal ethnic shops** or **supermarkets** (Siggens, Murray, and Walters 2010; O'Reilly 2012b; O'Reilly 2012e).

** Between 2010 and 2013, 73.8 million cigarettes were seized in 19 trucks; 94.0 million cigarettes were seized in 14 containers; and 770,500 cigarettes were seized in 9 air flights.

REGULATION

The British Government has adopted **many measures against the ITTP**. In 2013, the government signed a revised MoU on the ITTP with the Tobacco Manufacturers' Association. The purpose was to tackle counterfeit cigarettes and smuggled HRT. Further, in August 2013, HMRC and PMI signed a MoU which sets out a framework of cooperation to combat all forms of ITTP. The MoU outlines the principles governing cooperation such as data sharing, supply chain controls, due diligence and anti-smuggling measures. In 2011, a national action plan against the ITTP was adopted, while national and regional public awareness campaigns were launched . The annual reports of HMRC provide public data on tobacco seizures and convictions for the ITTP.

Control of the legal supply chain is highly guaranteed through control measures for some tobacco activities, implemented by HM Revenue & Customs. There is also a tracking and tracing system and a requirement for all persons engaged in the supply chain of tobacco products to maintain complete and accurate records of all relevant transactions and to commensurate the sale with the demand for tobacco products.

LAW ENFORCEMENT

The main bodies involved in the fight against the ITTP in the UK are **HM Revenue & Customs** (HMRC), the **Border Agency** (UKBA), the **British Police**, and the **National Crime Agency** (NCA).

The quantity of cigarettes seized in the UK has shown a stable trend in recent years (Figure 6). The only slight decrease occurred between 2008-2009 and 2009-2010, when the cigarettes seized passed from 1.8 to 1.7 billion sticks (-8%). Cigarette seizures then increased slightly in 2010-2011 and 2011-2012. The largest increase occurred in 2012-2013, when the amount of cigarettes seized increased from 1.7 million sticks in 2011-2012 to **1.9 million sticks in 2012–2013** (+7%) (Map 3).

Top three seizures in 2013

A total of 21.7 million cigarettes were seized in the port of Southampton on the 1st of March. Border Agency officers checked two containers shipped from China. They contained Lambert & Butlers and Regal cigarettes, all believed to be counterfeit.

A total of 10.5 million cigarettes were seized in Tilbury Docks on the 6th of February. Border Agency officers inspected a container shipped from Cyprus and found illicit Pacific Mist cigarettes.

A total of 9 million cigarettes were seized at the port of Felixstowe. On the 17th of April, Border Agency officers found illicit cigarettes in a container arriving from Malaysia.

INSIDE THE DATA

Evolution of the ITTP from 2006 to 2013

Volumes and prevalence

Between 2006 and 2013, the ITTP decreased by 45% nationally, in terms of both volume and prevalence (Figure 2 and Map 4). **The decrease affected 34 out of 36 areas.** The volume of the ITTP expanded in East Anglia (+10.1%) and in Shropshire and Staffordshire (1.9%). Cheshire and Merseyside registered the most important decreases, respectively -80.6% and -79.1%. Nevertheless, they were still among the areas with the highest prevalence in the country. The volume of the ITTP also reduced to a significant extent in Northern Ireland (-72.8%).

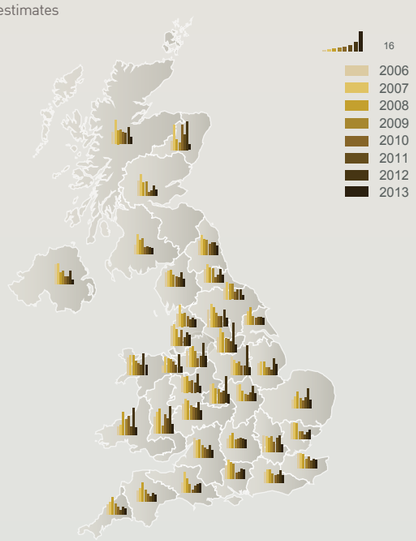
The consumption of illicit cigarettes did not decrease during the entire period. A sharp increase occurred in 2012. West Wales and The Valleys (+267 million sticks, +224% of the volume of the ITTP), Derbyshire and Nottinghamshire (+375 million sticks, +210%), and Greater Manchester (+238 million sticks, +116%) were among the areas where the expansion was larger. Considering the entire period, four parts of the country featured a high average prevalence: 1) East Yorkshire and Northern Lincolnshire, 2) North Eastern Scotland, 3) Northern Ireland, and 4) West Yorkshire, South Yorkshire, and Derbyshire and Nottinghamshire (Map 4).

Types of illicit cigarettes

The types of illicit cigarettes changed slightly from 2006 to 2013. **Other illicit cigarettes were the main type of illicit cigarettes for the entire period**. However, counterfeits **and illicit whites gained considerable shares of the market after 2010** (Figure 4). In particular, effective action against counterfeiting may have incentivized the growth of illicit whites in the latest years (Calderoni, Favarin, et al. 2013).

Map 4. Prevalence of the ITTP by area, million sticks per 100,000 inhabitants (2006–2013)

Source: Transcrime estimates



A focus on London

The prevalence of non-domestic cigarettes in London began to increase again during the last two quarters of 2013 after a fall registered in the first part of the year (Map 5).

The prevalence of non-domestics became more homogenous across areas of the city between 2011 and 2013. Indeed, the prevalence at collection points in the western part of London are now in line with that of the rest of the city, with the levels of non-domestics at these collection points being higher in 2011.

With respect to the fourth quarter of 2013, Oakfield Road (36.4%), Camden Town (32.7%), Charlton Way (32.7%) and Bow Common Lane (31.9%) registered the highest prevalence of non-domestics.

Map 5. Prevalence of the ITTP in London's collection areas, (2011–2013)

Source: Transcrime elaboration (details in the Annex)

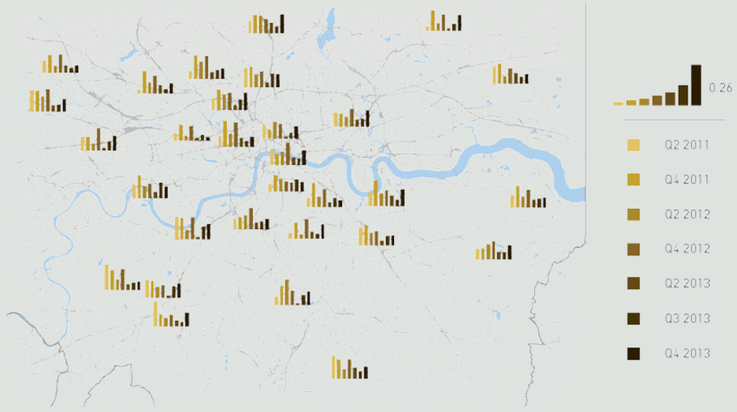
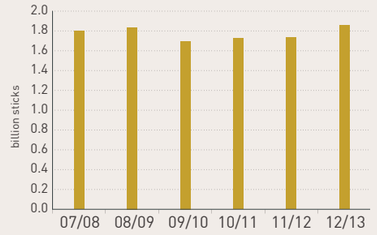


Figure 6. Cigarettes seized in the UK, million sticks (2007–2013)

Source: Transcrime elaboration (details in the Annex)



MAIN RECOMMENDATIONS

- Increasing international cooperation and exchanging data with EU law enforcement agencies in order to reduce illicit tobacco inflows directed to the UK, particularly those transiting through the ports of Antwerp, Hamburg and Rotterdam.

- Strengthening controls in the ports of Belfast, Felixstowe, Hull, Newhaven, Portsmouth and Southampton, key entry points of illicit tobacco.

- Preventing the diversion of tobacco products through the adoption of legal provisions on licensing systems.

- Strengthening the control over the inflow of tobacco raw components in order to dismantle illicit manufacturing facilities and curb the local production of illicit cigarettes.

- Providing yearly public data on the number of persons convicted for the ITTP belonging to organised crime groups.

9. OUTSIDE THE BORDERS BUT INSIDE THE MARKET

This chapter analyses five non-EU countries of significance for the illicit cigarette market in the EU: Belarus, the Russian Federation, Serbia, Turkey and Ukraine. These are important starting points and transit points of illicit cigarettes in Europe. Estimation of the illicit cigarette market in areas of the EU shows that areas close to its eastern and south-eastern borders have high levels of illicit cigarettes (see Chapter 1 and also Joossens and Raw 2011; Joossens et al. 2012; Interpol 2014, 18). Examination of these neighbouring countries is necessary to achieve better understanding of the illicit market in the EU.

BELARUS

COUNTRY DATA

Capital City

Minsk

Surface (WB 2014)

207,600 km²

Total population (WB 2014)

9,466,000 (2013)

Borders

Latvia, Lithuania, Poland, Russia, Ukraine

Gross domestic product, € (WB 2014)

51.9 billion (2013)

LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG — **33.09**

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO-country reports — **29%**

PRICE | 2012

Price of a pack of the most sold brand in €
Source: WHO-country reports — **0.60**

TAXATION | 2012

Tax as % of the final retail price of the most sold brand
Source: WHO-country reports — **42.5%**

TAXATION | 2012

Tax per 1,000 sticks in € of the most sold brand
Source: WHO-country reports — **12.8**

In recent years, **Belarus has become the largest starting point of illicit cigarettes in the EU** (from 0.4 billion sticks in 2006 to 6.9 in 2013) (KPMG 2014). One of the seven top-ranking areas for the prevalence of illicit cigarettes borders on Belarus (Alytus County in Lithuania) (see Chapter 1).The share of illicit Belarusian cigarettes on the EU market increased from 2006 to 2013, especially in Lithuania, Latvia and Poland, where it accounted for 77.9%, 57.0% and 48.8% of the illicit market, respectively (Map 1; Map 2).

Four factors determine the role of Belarus in the EU illicit cigarette market: **low cigarette prices**, **the presence of illicit whites manufacturers**, **the existence of criminal networks**, and **weak cooperation with foreign customs**.

1. **Cigarettes in Belarus are cheaper than those in the EU.** In 2013, the price of a 20-cigarette pack of the cheapest brand was €0.3, far below the European average (€3.3) (PMI 2013a). A severe economic crisis hit Belarus in 2011, devaluing the national currency (Belorussian Ruble) by 63.3%, and widening the price gap between Belarus and neighbouring EU countries (Euromonitor International 2012h). The largest increase in illicit cigarettes arriving in the EU from Belarus was registered between 2010 and 2011 (+100%).

2. Located in Belarus is **the Grodno Tobacco Factory Neman (GTFN)**, the fastest-growing illicit whites' manufacturer in the EU market. Its output rose from 0.7 billion sticks consumed in 2009 to 5.0 billion in 2013 (European Parliament 2014; KPMG 2014, 21). GTFN is Belarus's largest manufacturer of tobacco products (80% of the market) (GTFN 2013). In 2013, flows of illicit whites from Belarus comprised several GTFN brands, such as Fest, NZ, Minsk, Premier, Queen, Magnat and VIP (KPMG 2014).

3. The **actors involved are well-organised** and regularly engaged in criminal activities (Charnysh 2014). In 2011, the organised *"Švinius"* criminal group smuggled cigarettes from Belarus, through the Baltic states, to Germany and the UK (Gutauskas 2011). Another international criminal group smuggled cigarettes from Kaliningrad (Russia) and Ukraine, via Belarus and Lithuania, to Poland and Germany (OLAF 2011).

4. **Cooperation between Belarus and EU countries is difficult** (Subačius 2013). The Belarusian-Russian border is uncontrolled, so that cigarettes from Russia are able to enter Belarus. Neighbouring EU countries have implemented special restrictions to protect EU borders against smuggled cigarettes from Belarus. Since November 2008, travellers from Belarus have been allowed to import only 40 sticks of cigarettes (two packs) (previously, it was 200 sticks). Since 2011, customs and border agencies have purchased new equipment and have organised seminars on the fight against cigarette smuggling (Euromonitor International 2012f).

Belarussian illicit cigarettes are primarily destined for Latvia, Lithuania and Poland, as well as Western Europe (Gembicki 2011; Euromonitor International 2012e; Lithuanian Free Market Institute 2012). The main entry points are: Indra, Paternieki and Silene in Latvia; Medininkiai, Šalčininkai, Lavoriškės and Raigardas in Lithuania; and Augustow and Terespol in Poland (Heneghan 2013; Charnysh 2014).

Owing to the availability of illicit whites and other cigarettes, **bootlegging** is an attractive activity in Belarus (Gutauskas 2011; Euromonitor International 2012h; Lithuanian Free Market Institute 2012). The **main mode of transport used is the motor vehicle**. Other important means of transport are **trains and boats** (via the River Nemunas) (Heneghan 2013; Charnysh 2014). According to open sources, the **smugglers are primarily Belarusian and Eastern European**.

Belarus has implemented **few anti-ITTP measures**. However, in 2008, the Belarus' State Customs and JTI signed a memorandum of understanding (MOU) to prevent and control the ITTP (State Customs Committee 2008). Moreover, in 2011, JTI provided the state customs with vehicles (State Customs Committee 2011). In 2013, a MOU was also signed between the Belarus' State Customs and PMI.

Belarus has an extremely high number of seizures. In 2013, it ranked fourth in the world, with 278 of them (WCO 2014). Law enforcement agencies (LEAs) do not provide yearly data on seizures. However, according to press sources, **43 million cigarettes were seized in Belarus in 2012** (-60.6%, compared to 2011). Cigarette seizures strongly increased between 2008 and 2010 (from 22.1 to 116.8 million sticks) and then started to decrease in 2011 (Nanivy.by 2012; Belarusian Universal Commodity Exchange 2013).

RUSSIAN FEDERATION

COUNTRY DATA

Capital City

Moscow

Surface (WB 2014)

17,098,240 km²

Total population (WB 2014)

143,499,861 (2013)

Borders

Azerbaijan, China, Belarus, Estonia, Finland, Georgia, Kazakhstan, Latvia, Lithuania, Mongolia, North Korea, Norway, Poland

Gross domestic product, € (WB 2014)

1,518 billion (2013)

LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG — **374.14**

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO-country reports — **40%**

PRICE | 2012

Price of a pack of the most sold brand in €
Source: WHO-country reports — **0.75**

TAXATION | 2012

Tax as % of the final retail price of the most sold brand
Source: WHO-country reports — **40.5%**

TAXATION | 2012

Tax per 1,000 sticks in € of the most sold brand
Source: WHO-country reports — **28.0**

The Russian Federation is one of the major starting points of illicit cigarettes. In 2013, about 3 billion illicit cigarettes flowed from Russia into the EU (KPMG 2014). Four of the seven top-ranking areas for the prevalence of illicit cigarettes border on Russia and Kaliningrad: Northeast Estonia, Latgale (Latvia), Taurage County (Lithuania) and Warmia-Masuria Province (Poland) (see Chapter 1). Nevertheless, at national level, the increasing presence of Belarusian illicit products may have influenced the decrease of the share of illicit Russian cigarettes in Latvia, Lithuania and Poland from 2006 to 2013 (Map 1; Map 2). This trend did not affect Estonia, which recorded a share of Russian illicit cigarettes equal to 64% in 2013, compared with 39% in 2006.

Four factors explain the Russian Federation's role in the European illicit cigarette market: **a low level of taxation, poor cooperation with Russian customs, the presence of illicit whites manufacturers and illicit tobacco factories, and widespread criminal networks**.

1. In 2012, taxes on the price of the most-sold brand in Russia (40.5%) were almost half the European average (78.4%) (WHO 2012). The relatively **low taxation level determines important price differentials** between Russian cigarettes and the same products sold within the EU markets. In 2013, the average price of a 20-cigarette pack of the cheapest brand in the EU was six times more than the price in Russia (PMI 2013a).[1]

2. **Cooperation with Russia is difficult** owing to its low level of willingness to cooperate as well as the scarcity of agreements between customs (Subačius 2013; Calderoni et al. 2014). For example, the Russian authorities forbid direct communication with customs in Kaliningrad-Oblast, a well-known source of illicit whites. Communications must be in written form and approved by Moscow authorities (Subačius 2013).

3. **The Baltic Tobacco Factory (BTF), an important manufacturer of illicit whites, is located in the Russian Federation.** The BTF produces **Jin Ling** cigarettes, the most popular brand of illicit whites in the EU (Shleynov et al. 2008; ICIJ 2009; KPMG 2014; WCO 2014). Jin Lings began to flow from the Russian exclave of **Kaliningrad-Oblast** in 2005 (ICIJ 2009; Europol 2011; KPMG 2012). **Illicit manufacturers** also produce counterfeit cigarettes in Russia: between 2010 and 2013, six illegal manufacturers were raided in the country (PMI 2013b).

4. Russian criminal networks smuggle illicit whites from Kaliningrad-Oblast to at least 11 EU countries (Belgium, Germany, the UK, Poland, Latvia, Romania, Greece, Italy, Bulgaria, the Netherlands and France) (Shleynov et al. 2008; Hauptzollamt Rosenheim 2012). **Russian organised crime groups are also spread throughout many EU countries and are engaged in the ITTP**, as investigations in several EU Member States have confirmed (Antonopoulos 2006; DNA 2010; Europol 2011; Ministry of the Interior 2012; Subačius 2013).

Between 2010 and 2013, Russia was **the most frequently identified starting point of illicit cigarettes seized in the EU** (see Chapter 3). Most of the **flows were directed towards the Baltic Republics** (see Chapter 3). The main entry points were Narva (Estonia), Grebnova and Therehova (Latvia) from Russia, as well as Panemunė, Klaipeda and Kybartai from Kaliningrad Oblast.

Owing to the availability of illicit whites and other cigarettes, bootlegging is an attractive activity in Russia (Euromonitor International 2012h; Gutauskas 2011; Kegö, Leijonmarck, and Molcean 2011; Lithuanian Free Market Institute 2012). According to open sources, the **main mode of transport used is motor vehicles** (especially cars), followed by **trains**. Further, **the actors involved are mainly Russian and Eastern European** individuals between 20 and 30 years old.

Russia has implemented **few anti-ITTP measures**. However, in 2010, on the initiative of the President, the Cabinet of Ministers approved a five-year national action plan to combat tobacco consumption which included measures to prevent the ITTP.

Russia reports a **high number of seizures**. In 2013, it ranked third in the world, with 359 cases (WCO 2014). LEAs do not provide yearly data on seizures. However, press sources report that **20 million cigarettes were seized in 2013** (Business News Agency 2014).

UKRAINE

COUNTRY DATA

Capital City

Kiev

Surface (WB 2014)

603,550 km²

Total population (WB 2014)

45,489,600 (2013)

Borders

Belarus, Hungary, Moldova, Poland, Romania, Russia, Slovakia

Gross domestic product, € (WB 2014)

128.5 billion (2013)

LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG

82.45

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO-country reports

30%

PRICE | 2012

Price of a pack of the most sold brand Int.$, PPP
Source: WHO-country reports

1.75

TAXATION | 2012

Tax as % of the final retail price of the most sold brand
Source: WHO-country reports

67.0%

TAXATION | 2012

Tax per 1,000 sticks in Int.$, PPP of the most sold brand
Source: WHO-country reports, IMF

55.7

Ukraine is one of the major starting points of illicit cigarettes.[2] However, its importance has markedly decreased in recent years, dropping from 10.5 billion sticks illegally imported into the EU in 2006 to 1.3 billion sticks in 2013 (KPMG 2014). The strong decrease could be connected to the installation of cigarette detectors and X-ray scanners as well as the reinforcement of controls at the borders with Poland and Hungary (European Parliament 2014). At national level, in 2006, the highest shares of illicit Ukrainian cigarettes on the total illicit market were registered in Slovakia (73.9%) and Hungary (72.4%). In 2013, the same countries, registered a decrease of, respectively, 30% and 58% (Map 1; Map 2).

Four factors determine the role of Ukraine in the EU illicit cigarette market: **a low level of taxation**, **the presence of illicit whites manufacturers and illicit tobacco factories**, **the existence of criminal networks**, **and the presence of Free Trade Zones (FTZs)**.

1. **Cigarettes in Ukraine are cheaper than those in Europe.** In 2013, the average price of a 20-cigarette pack of the cheapest brand in the EU was around eight times more expensive than it was in Ukraine (€3.3 and €0.4 respectively). In the same year, taxes accounted for 67.0% of the most-sold brand, while the tax level expressed in monetary terms (total taxes per 1,000 sticks) amounted to €8.1. These amounts were well below the EU average (78.4% and €170.4).

2. Ukraine hosts **illicit whites manufacturers.** The BTF has one production site in Lviv. The Jin Ling cigarettes produced in Ukraine are exported mainly to Romania (European Parliament 2014; KPMG 2014). Ukraine also had **12 illicit manufacturing facilities** between 2010 and 2013 (PMI 2013b).

3. **Organised criminal groups are active in the black market** (Lavrov 2009; Balázs et al. 2013). OLAF (European Anti-Fraud Office) reported a case of an international criminal group smuggling cigarettes from Kaliningrad (Russia) and Ukraine, via Belarus and Lithuania, to Poland and Germany in 2011 (OLAF 2011).

4. The **Port of Ilyichevsk** receives Chinese counterfeit products, as well as shipping Ukrainian and Moldovan counterfeit products. The destinations for these products are mainly Germany, Hungary and Poland (BASCAP 2012).

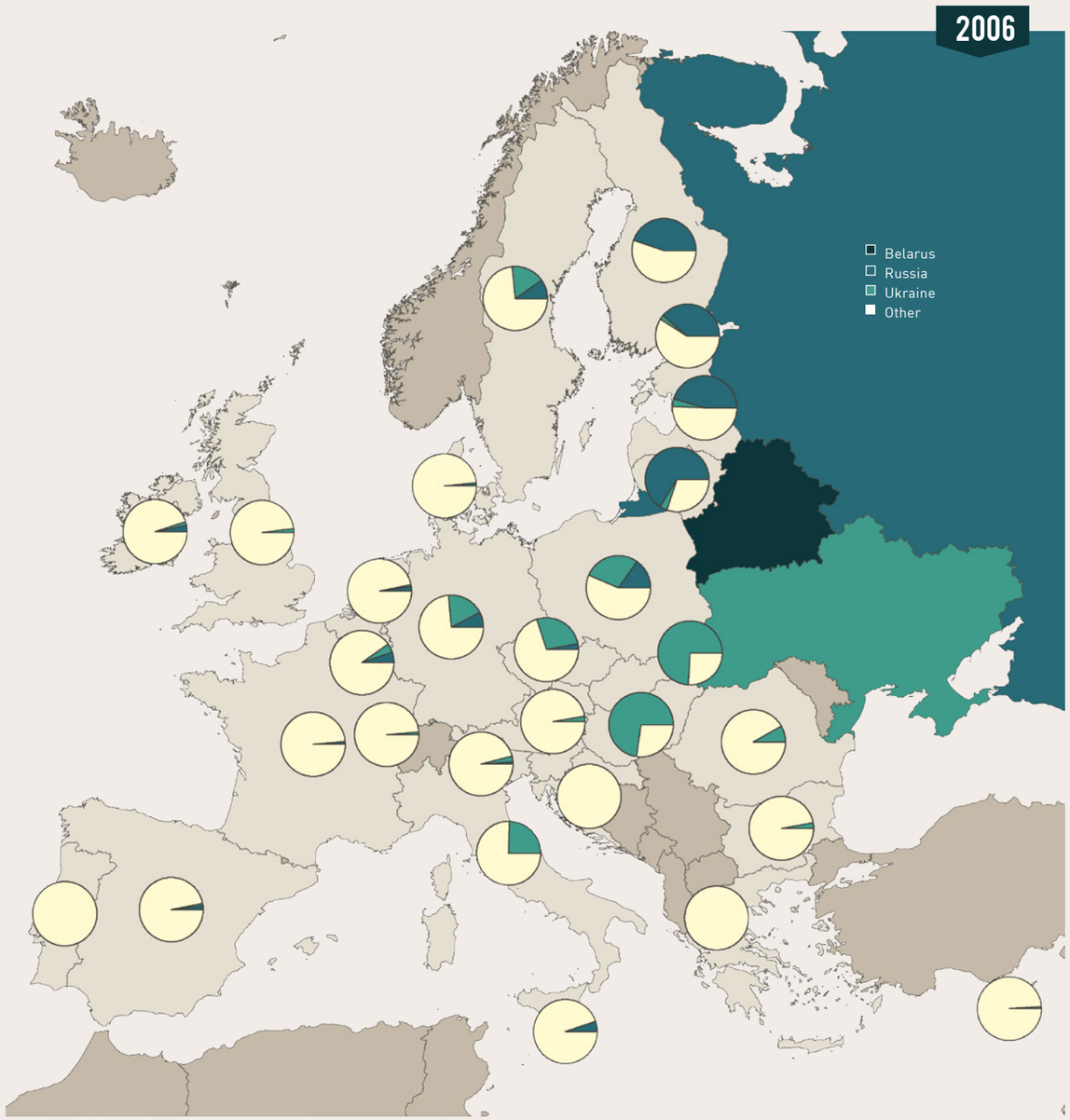
Illicit cigarettes from Ukraine are mainly destined for Romania, Italy, Poland, Germany and Hungary (KPMG 2014). The main entry gates are: Siret (Romania), Dorohusk (Poland) and Magosliget (Hungary). Some of the cigarettes are sold in these countries, and some are illegally exported to the Netherlands, Belgium, Germany and France (Czyżowicz and Brodziński 2013).

The main mode of transport used for cigarette smuggling is the motor vehicle. Moreover, on a small scale, smugglers use **airplanes and trains** (for example, to Hungary or Poland) (Lavrov 2009; European Parliament 2014). Other smugglers exploit areas with rugged and densely wooded terrain or areas on the rivers Tisza and Uh (on the border with Slovakia) (Karjanen 2011). Actors search constantly for new smuggling methods. In 2012, a **highly sophisticated tunnel connecting Ukraine with Slovakia** was discovered. It was equipped with electronics and a small railway and was used for smuggling (Frontex 2013). **The smugglers in this country are mainly Ukrainian and Eastern European** (Lavrov 2009) aged between 20 and 30 years old.

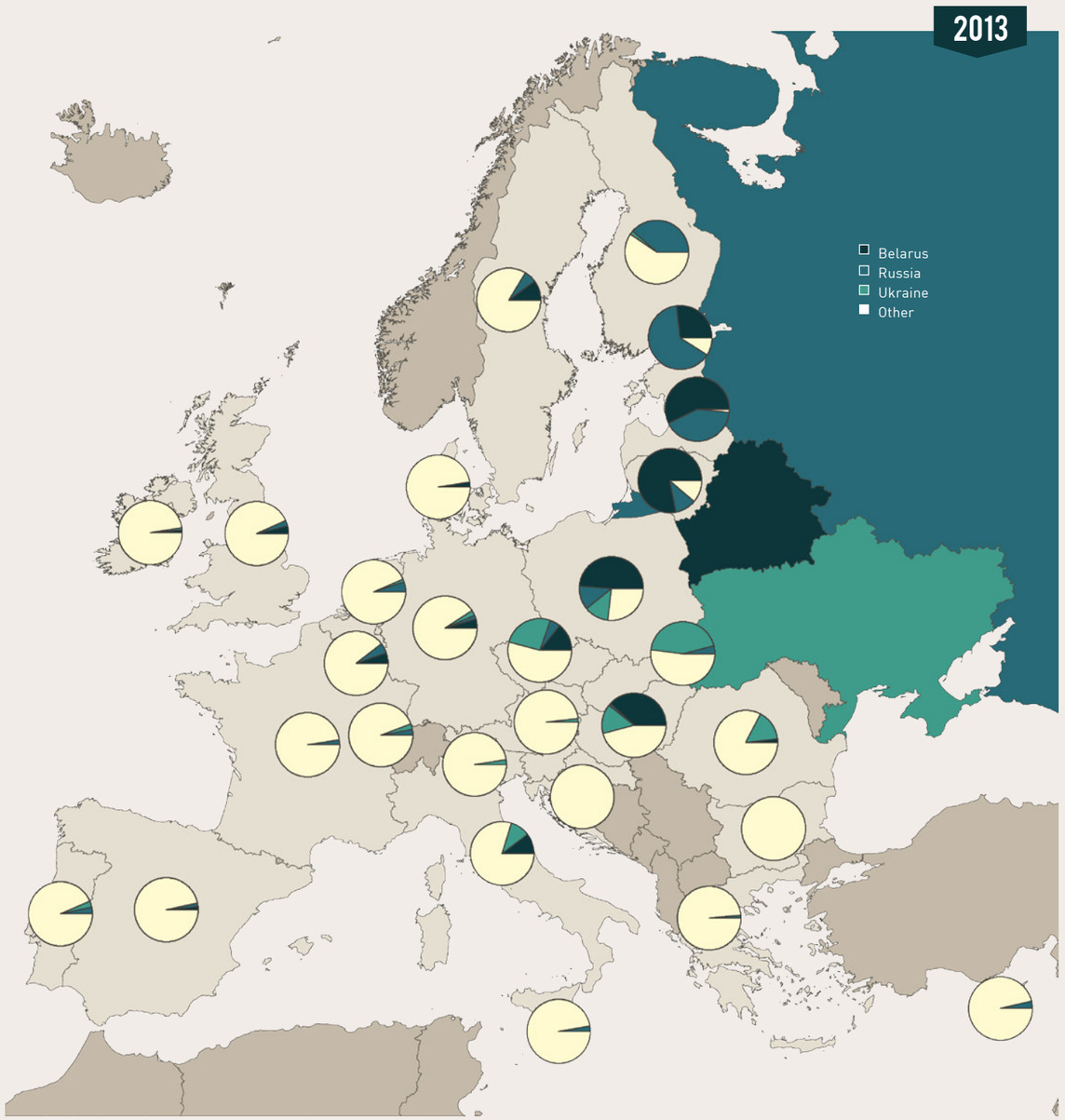
The **Ukrainian authorities are paying closer attention to tobacco control policies**. In June 2008, on the initiative of the President, the Cabinet of Ministers approved the concept of the National Programme for Reducing the Harmful Impact of Tobacco on Public Health in Ukraine for 2008-2012, which the Ministry of Health developed.

LEAs are cooperating with bordering countries and are increasing their efforts against the ITTP (Europol 2011; Euromonitor International 2012c). Between 2010 and 2012, the number of cigarettes seized by Ukrainian Customs increased (from 100 to 142 million sticks). In 2013, with 476 cigarette seizures, Ukraine ranked second in the world (WCO 2014).

Map 1. Share of illicit cigarettes coming from Belarus, Russia, Ukraine and other countries on the total number of illicit cigarettes (2006)[3]
Source: Transcrime estimates



Map 2. Share of illicit cigarettes coming from Belarus, Russia, Ukraine and other countries on the total number of illicit cigarettes (2013)
Source: Transcrime estimates



SERBIA

COUNTRY DATA

Capital City

Belgrade

Surface (WB 2014)

88,360 km²

Total population (WB 2014)

7,163,976 (2013)

Borders

Bosnia and Herzegovina, Bulgaria, Croatia, FYROM, Hungary, Kosovo, Montenegro, Romania

Gross domestic product, € (WB 2014)

30.8 billion (2013)

LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG

15.19

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO-country reports

32%

PRICE | 2012

Price of a pack of the most sold brand in €
Source: WHO-country reports

1.08

TAXATION | 2012

Tax as % of the final retail price of the most sold brand
Source: WHO-country reports

74.7%

TAXATION | 2012

Tax per 1,000 sticks in € of the most sold brand
Source: WHO-country reports

43.4

Serbia is an important transit and starting point for illicit cigarettes. Its importance increased between 2006 and 2012 (from 0.19 to 1.27 billion sticks) and then decreased in 2013 (-40.9%), reaching 0.75 billion sticks (KPMG 2014). This reduction may be related to increased efforts by anti-smuggling agencies (Euromonitor International 2012d). The top-five flows entering the EU from Serbia reach Romania, Germany, Austria, Croatia and Bulgaria (Map 3).

Two factors determine Serbia's role in the European ITTP: **its geographic position** and **the existence of consolidated smuggling routes in the country**.

1. **Serbia is situated in the Balkan Peninsula** bordering on the EU and non-EU countries. In the EU Member States, cigarettes are much more expensive than they are in non-EU countries (Bosnia and Herzegovina, FYROM, Kosovo, and Montenegro). These price differentials may boost Serbia's role as a transit point.

2. The **Balkan Route**, a consolidated smuggling route, runs through Serbia. It is a land route used to transport drugs, migrants, weapons, contraband cigarettes and stolen cars (Markovic 2009).

The main destinations for illegal cigarettes transiting through Serbia are **Romania**, **Germany**, **Austria** and **Croatia**, with Moravița (Romania), Oltomantzi (Bulgaria) and Bajakovo (Croatia) serving as the principal entry gates (Ministry of Interior 2013; KPMG 2014).

Bootlegging is widespread in Serbia (Gounev and Bezlov 2010). According to open sources, the main means of transport are **motor vehicles** (especially cars) and trains. Moreover, the actors are **mainly Serbian and Eastern European** between the ages of 20 and 30.

Several anti-smuggling measures have been introduced since 2001 (Hajdinjak 2002). In 2007, the government adopted the Tobacco Control Strategy comprising different actions aimed at reducing the supply of illicit tobacco (see Chapter 5).

In recent years, the number of **cigarettes seized** by Serbian LEAs **has decreased**. It fell from 17.8 million sticks in 2010 to 2.1 in 2012 (Ministry of Interior 2013).

TURKEY

COUNTRY DATA

Capital City

Ankara

Surface (WB 2014)

783,560 km²

Total population (WB 2014)

74,932,641 (2013)

Borders

Armenia, Bulgaria, Greece, Georgia, Iran, Iraq, Nakhchivan (Azerbaijan), Syria

Gross domestic product, € (WB 2014)

593.9 billion (2013)

LEGAL TOBACCO MARKET

MARKET SIZE | 2013

Legal sales of genuine domestic products (billion sticks)
Source: KPMG

95.33

SMOKERS | 2011

Current smoking of any tobacco product (age standardised rate)
Source: WHO-country reports

27%

PRICE | 2012

Price of a pack of the most sold brand in €
Source: WHO-country reports

2.35

TAXATION | 2012

Tax as % of the final retail price of the most sold brand
Source: WHO-country reports

80.3%

TAXATION | 2012

Tax per 1,000 sticks in € of the most sold brand
Source: WHO-country reports, IMF

78.7

Turkey is a key transit point for illicit cigarettes flowing towards the EU. One of the seven top-ranking areas for the prevalence of illicit cigarettes borders on Turkey (East Macedonia and Thrace, Greece) (see Chapter 1). The top-four flows entering the EU from Turkey reach Romania, Bulgaria, Germany and Greece (Map 3).

Six factors determine Turkey's role as a transit point in the EU illicit cigarette market: **geographical position**, **the existence of consolidated smuggling routes**, **weak controls at the borders with Eastern neighbours**, **the presence of FTZs**, **a high level of corruption**, and **the presence of terrorist and organised crime groups**.

1. **Turkey's geographical position between the West and the East** has always favoured trade, including various illicit trades (Keser and Özel 2008). This also applies to illegal tobacco products (Melzer 2010; KOM Department 2011a).

2. Since the 1980s, the Balkan drug route has been the primary link between Afghanistan and Western Europe markets, running from Pakistan through Iran and Turkey (UNODC 2012). **Tobacco smugglers exploit the historically consolidated illicit routes** used for other illegal goods to contraband cigarettes through Turkey towards Europe (Interpol 2012).

3. Smugglers introduce cigarettes into Turkey from **neighbouring countries experiencing internal conflicts** — in particular, Syria and Iraq (Melzer 2010; KOM Department 2013). They exploit the weak border controls in place in these countries by moving illicit cigarettes into Turkey and then into the EU markets (KOM Department 2013; Taştekin 2014).

4. **The Mersin port is a problematic FTZ.** It is an important transit and storage point for tobacco products arriving from Iraq and Iran and intended for further shipment to Europe (Melzer 2010; Ertem 2011; BASCAP 2012);

5. **Corruption is a serious concern for Turkey** (Joossens et al. 2009; Melzer 2010). Corruption strongly impacts on the ITTP, facilitating its diffusion (Hürriyet 2006; Melzer 2010). Corrupted officials support smugglers by providing them with fraudulent bills and shipping invoices (van Bruinessen 2002; Bureau of Democracy, Human Rights, and Labor 2009; Melzer 2010). Alternatively, they directly extort money from smugglers (Hürriyet 2006; Melzer 2010).

6. **Organised crime groups exploit Turkey's long coastline** (7,200 km). They are active on the Black Sea and along the Mediterranean shores (KOM Department 2012). Since the 1990s, terrorists have financed themselves through criminal activities (Makarenko 2004; Bovenkerk and Chakra 2007). **Terrorist groups participate in the ITTP** directly (smuggling cigarettes or counterfeiting tax stamps) and indirectly (by extorting money from smugglers or forcing locals to smuggle for the organisation) (Coker 2003; Roth and Sever 2007; Melzer 2010; Kaya 2012).

Illegal tobacco products transiting through Turkey are primarily destined for Bulgaria, Germany and Romania. Smugglers introduce cigarettes from neighbouring countries, such as Syria, Iraq and Iran, and from China, the United Arab Emirates, Egypt and Lebanon (Melzer 2010; KOM Department 2011a). The Kapikule Border Gate (between Bulgaria and Turkey) is the second-busiest border crossing in the world

(Melzer 2010). The provinces of Van, Ağrı, Artvin, Hakkari, Şırnak, Mardin, Hatay and Şanliurfa are the country's main entry points. The ports of Istanbul, Mersin (Southern Mediterranean coast) and Konya (Central Anatolia Region) are also key hubs for the ITTP.

Traffickers mainly use motor vehicles (buses and trucks) and ships. They also use motorbikes, donkeys and horses to cross the borders (Melzer 2010; KOM Department 2011b). When the route is long, smugglers usually opt for small and fast vehicles, which can contain between 10,000 and 20,000 packs. Small loads reduce losses in the case of detection (Melzer 2010). Alternatively, smugglers use ships, taking advantage of Turkey's long sea borders. According to open sources, **the actors are mainly Turkish and Eastern European individuals** between 31 and 40 years old.

The Turkish Government invests in tobacco control policies. In 2004, Turkey ratified the Framework Convention on Tobacco Control (FCTC). In 2008, the Turkish Ministry of Health implemented its National Tobacco Control Programme and Action Plan for 2008–2012, which includes measures to reduce the ITTP. Furthermore, Turkey signed the Protocol to Eliminate Illicit Trade in Tobacco Products in January 2013.

Map 3. Flows of illicit cigarettes entering the EU borders from Serbia and Turkey (2010-2013)
Source: Transcrime elaboration (details in the Annex)

Turkey has recently increased overseas partnerships to prevent the entry and transit of illegal products (KOM Department 2012). This may have a positive impact on law enforcement capacity, as shown by the **increase in cigarette seizures**. Between 2008 and 2012, the number of cigarettes seized increased from 213 to 1,982 million sticks.

WHAT TO DO ABOUT ILLICIT CIGARETTES ORIGINATING FROM THESE COUNTRIES?

The above countries play an important role in the illicit cigarette market in the EU. In addition to the recommendations presented in Chapter 7, the following ones point out possible actions to improve the prevention of, and the fight against, the ITTP originating or transiting from these countries.

- **Extension of tracking and tracing (T&T)**. T&T can effectively reduce large-scale ITTP only if applicable to a majority of countries and products. At present, **no mandatory T&T obligation exists for all manufacturers in the EU neighbours mentioned**. The existing EU and international regulation applies to them only in part. The EU Tobacco Product Directive (2014/40/EU) requires traceability of products manufactured outside the Union only if they are destined for, or placed on, the EU market (Article 15). The future implementation of the Protocol to Eliminate Illicit Trade in Tobacco Products may generate a global system of T&T.[4] However, the Protocol is not yet in force, and it may take years for it to apply worldwide. Except for Turkey, none of the abovementioned countries have signed the Protocol. **The above-mentioned countries should implement mandatory T&T systems for all manufacturers.** This would prevent systematic smuggling of cigarettes, including illicit whites.

- **Increasing political pressure.** The EU should increase political pressure on the neighbours, systematically raising the issue of the ITTP. Starting points often argue that illicit whites manufacturers are legitimate enterprises according to their domestic legislation. Yet, a large percentage of their production is made to be smuggled into the EU market. The EU may exert political pressure (the above-mentioned countries are candidate or partner countries and/or once receiving substantial EU aids) to improve controls on domestic manufacturers and implement the Protocol to Eliminate ITTP. The EU Commission's 2013 strategy against the illicit trade in tobacco products mandates the European External Action Service (EEAS) to systematically raise the issue of illicit tobacco with the main starting points and transit points (European Commission 2013b). A report on the outcome of this action may provide further information concerning its impact on the targeted countries.

- **Improving international cooperation.** Customs and police cooperation with the above-mentioned countries against the ITTP has often encountered difficulties. The EU should improve cooperation by rapidly implementing the actions envisaged in the Commission's 2013 strategy against the ITTP, and evaluate whether or not further measures may be required.

- **Cooperating with manufacturers.** When considering the renewal of the agreements among the Commission, the Member States and the four main manufacturers, it may be appropriate to include provisions concerning EU-neighbouring countries. Furthermore, similar agreements may be developed with other minor manufacturers and particularly with those involved in the production of illicit whites brands, such as BTF and GTFN.

CONCLUSIONS

This study is an Outlook on the future of the fight against the ITTP in the EU. The rationale of Transcrime's research is to advocate a new direction in the analysis and control of the illicit cigarette market: from traditional crime control policies to opportunity reduction. The report has adopted two complementary approaches. Its first part has provided a horizontal examination of the main elements of the illicit market at the European level. The second part has provided a vertical analysis of the ITTP in each EU Member State and in selected non-EU European neighbors.

The analyses conducted in this study have enabled identification of the forthcoming challenges in developing effective opportunity-reduction actions against the ITTP. These challenges, which may result in the growth or decline of the ITTP, are:

At European, horizontal, level:

- European regulators should develop the cultural and political capacity to simultaneously address the legal and illegal parts of tobacco markets. Considering the limited amount of current knowledge about the impact of regulation on crime, it will be necessary to develop impact assessments. These exercises should evaluate the impact of current and proposed regulation on tobacco markets with particular regard to illicit products. Impact assessments will contribute to the design of better and more efficient policies, thereby enhancing the health of consumers and reducing crime against citizens;

- European regulators should develop actions toward countries outside Europe's borders that contribute significantly to the development of the illicit market in Europe.

At country, vertical, level:

- national policymakers should consider reducing the regulatory asymmetries among countries close to their borders, and they should work with European regulators to reduce these asymmetries, in both the regulation of legal markets and control of the illicit trade.

- national law enforcement agencies should improve their capacity to analyse how illicit markets, including the ITTP, are structured and to monitor their evolution in size, flows, actors, and *modi operandi* in the various areas of the country;

- national governments should provide the resources (both human and technological) necessary to meet the above challenges. This may require changes in the organisation of law enforcement agencies, such as the establishment of specialised units dealing with serious and organised crime and able to apply opportunity reduction strategies. Police cooperation will work provided that the asymmetries among countries in law enforcement resources are reduced. This requires assistance to be given to countries able to invest fewer resources in achieving the requisite changes.

ENDNOTES

CHAPTER 1 "THE SIZE OF THE ILLICIT TOBACCO MARKET"

[1] The estimation only covers Croatia (2 areas) in 2013 and Bulgaria (6 areas) from 2007 to 2013. Details about the methodology are in the Annex.

[2] The classification excludes areas bordering on Norway, Switzerland, Lichtenstein, San Marino, and Monaco, where cigarettes are expensive. Conversely, it includes areas bordering on Croatia, which joined the EU on 1 July 2013.

[3] The Pearson's linear correlation coefficient (R) has been used to measure the linear association between the prevalence of illicit cigarettes in 2006 and in 2013 (N= 249 areas). The R value is about 0.46, showing a moderate positive association between the two variables.

[4] The percentage change in the prevalence of illicit cigarettes for Bulgaria is calculated for the period 2007-2013.

[5] The estimation of the proceeds of the illicit cigarette market assumed that the price of an equivalent 20-cigarette pack in the illegal market is 66% of the price of a legal pack in any country. The prices of a Marlboro pack and of the cheapest pack in each country from 2007 to 2013 yielded the upper and lower bound estimates, respectively. For more details, see the Annex.

[6] The strength of these relations has been investigated using the Pearson's linear correlation coefficient (R).

[7] Identification of specific causal factors falls outside the scope of this study and will require further research.

[8] The value of the Pearson's linear correlation coefficient between average GDP PPS per capita (€ thousands, 06-11) and average prevalence of illicit cigarettes (million sticks per 100,000 inhabitants, 06-11) is about -0.39, attesting a moderate and negative relation. The higher the value of the GDP, the lower, on average, the level of the ITTP. Eurostat provides data on regional GDP PPS per capita only for 2011. The analysis excludes the two Croatian areas, because the estimation of illicit cigarettes was performed only for 2013, and the three Irish areas, as they do not correspond to the Eurostat regional classification.

[9] The corresponding values of the Pearson's linear correlation coefficient are about -0.35 for the bordering areas and -0.16 for the other ones. These results confirm that the association between GDP and ITTP is stronger in the bordering areas.

[10] The value of the Pearson's linear correlation coefficient between the share of the regional GDP per capita required to purchase 100 20-cigarette packs (07-11) and the average prevalence of illicit cigarettes (million sticks per 100,000 inhabitants, 07-11) is 0.32 showing a positive and moderate association. The analysis is based on the price of a pack of Marlboro cigarettes. GDP data are from Eurostat; price data from 2007 to 2013 were provided by PMI. Examination of the prices of the nationally most sold and cheapest brands yielded similar results. The analysis excludes the two Croatian areas, because the estimation of illicit cigarettes was performed only for 2013, and the three Irish areas, because they do not correspond to the Eurostat regional classification.

[11] The corresponding values of the Pearson's linear correlation coefficient are about 0.39 for the bordering areas and 0.19 for the other ones.

[12] In line with the criminological literature, the analysis used homicide data as a proxy for crime levels in the areas. Homicide data are used because they are less biased by the dark number, i.e. the levels of crime reporting, which affects most official statistics on crime. Alternative sources, e.g. victimization surveys, do not provide data at the subnational level for most of the countries considered. The value of the Pearson's linear correlation coefficient between the rate of homicides (average 08-11 per 100,000 inhabitants) and the average prevalence of illicit cigarettes (million sticks per 100,000 inhabitants, 07-11) is about 0.52, highlighting a positive and significant relation. Eurostat provides homicide data from 2008 to 2011 only for 183 out of 247 areas. The analysis excludes the two Croatian areas, as the estimation of illicit cigarettes was performed only for 2013.

[13] The corresponding values of the Pearson's linear correlation coefficient are about 0.58 for the bordering areas and 0.45 for the other ones. The differences are minimal.

CHAPTER 2 "THE PRODUCTS"

[1] The estimation only covers Croatia (two areas) in 2013 and Bulgaria (six areas) from 2007 to 2013. Details about the methodology are in the Annex.

[2] Counterfeit cigarettes are 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 (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 3).

[3] In general, Bratislava has a low prevalence of illicit cigarettes. Yet, within the small illicit market, most cigarettes are counterfeits.

[4] To allow comparability among the years, the classes in the maps for counterfeits, illicit whites and other illicit cigarettes are constant (see maps in the *Inside the*

Data). For each product, thresholds were defined as the average of the break values calculated using the natural breaks method optimized by the Jenks algorithm for each year.

[5] The exploration of reports, media and industry data on raided illicit cigarette factories in the EU between 2006 and 2013 provided information on 183 factories.

[6] In Map 2, the average share of counterfeits during 2006–2013 is categorised according to the values' distance from the mean of the distribution: low (value above the mean minus a standard deviation); medium low (value below the mean); medium high (value above the mean); high (value above the mean plus a standard deviation); and very high (value above the mean plus two standard deviations).

[7] Illicit whites are cigarettes manufactured legally in one country, but normally intended for smuggling into countries where they are normally unavailable on the legal market. Exportation from manufacturing countries may occur legally, whereas import and sale into destination countries is always illegal. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Joossens and Raw 2012, 231; Allen 2014, 7; KPMG 2014, 4).

[8] In 2013, the most important manufacturers of illicit whites destined for the EU were Grodno Tobacco (Belarus), Baltic Tobacco Factory (Kaliningrad, Russian Federation), Karelia Tobacco (Greece), H. Van Lendewyck GMBH (headquartered in Luxembourg, but with manufacturing plants in the Benelux countries, Germany, and Hungary), and Explosal Ltd. (Cyprus). In 2013, these manufacturers account for 60% of illicit whites in the EU (KPMG 2014, 23).

[9] The classification excludes areas bordering on Norway, Switzerland, Lichtenstein, San Marino and Monaco, which are not associated with the production of illicit whites. Conversely, it includes areas bordering on Croatia, which joined the EU on 1 July 2013.

[10] Other illicit cigarettes include contraband, bootlegged and illegally manufactured cigarettes.

CHAPTER 3 "THE FLOWS"

[1] The starting point of a flow is the country from which the movement of illicit tobacco products originates. It is not necessarily the producer of the tobacco products. The ending point of a flow is the country towards which the illicit tobacco products are moved. The ending point is not necessarily the final destination market. The transit point of a flow is the country through which the illicit tobacco products are moved, before reaching the ending point. Identification of the starting, transit and ending points is based on the analysis of flows, as specified in the Annex.

[2] The different time frame is due to the limited availability of open sources before 2010.

[3] Bootlegging is the legal purchase of tobacco products in a low-tax country and their illegal retail in a high-tax country. It concerns individuals or small groups that smuggle smaller quantities of cigarettes.

[4] In these cases, Greece should not be considered the actual origin of the shipment. Indeed, seizure data usually record only the last place of storage as the origin of shipment. Because Chinese companies exploit Greek ports to store tobacco consignments, the country may appear as the starting point, although the actual origin is China (DNA 2011; Virgilio 2013).

[5] Details about the methodology and the full ranks are in the Annex.

CHAPTER 4 "ACTORS AND *MODUS OPERANDI*"

[1] The different time frame is due to the limited availability of open sources before 2010.

[2] 615,000 is the number of full-time and part-time employees in the EU legal tobacco market estimated by Roland Berger in 2011. Seasonal workers are excluded. In particular, 35,000 workers are involved in the growing and first processing, 30,000 are suppliers, 75,000 people are engaged in the manufacturing, and 475,000 in wholesale, distribution and retail (Roland Berger 2013).

[3] Details about the methodology are in the Annex.

[4] The study identified the different types of actors through the amount of cigarettes seized per single case. In particular, it considered small-scale ITTP cases with up to 99,999 sticks in a single seizure; medium-scale ITTP cases between 100,000 and 749,999 sticks in a single seizure; and large-scale ITTP cases with more than 750,000 sticks in a single seizure. Details about the methodology are in the Annex.

[5] Ant smuggling is the organised and frequent border crossing by single individuals with relatively small amounts of low taxed or untaxed tobacco products (Joossens et al. 2009; Joossens et al. 2000).

CHAPTER 5 "THE EU AND NATIONAL ANTI-ITTP POLICIES"

[1] The first agreement was signed in 2004 between the EU and Philip Morris International. Further agreements have been signed with Japan Tobacco International (2007), BAT and Imperial Tobacco (2010).

[2] According to the FCTC protocol, "Tracking and tracing" means systematic monitoring and recreation by competent authorities or any other person acting on their behalf of the route or movement taken by items through the supply chain (art. 1(14)).

[3] The EU has developed a multi-annual policy cycle in order to fight serious international and organised crime. It consists of four steps: definition of the priorities based on the recommendations of the EU Serious and Organised Crime Threat Assessment; definition of the strategic goals for priority; elaboration of EMPACT projects to tackle the priority threats; review and assessment (Europol 2014).

CHAPTER 6 "LAW ENFORCEMENT AGAINST THE ITTP"

[1] The analysis of the national law enforcement seizures is from 2007 to 2013 because official data are reliable from 2007. The analysis at the subnational level is from 2010 to 2013 due to the limited availability of open sources before 2010. Details about the methodology are in the Annex.

[2] Another important activity carried out the law enforcement agencies in the fight against the ITTP is the confiscation of assets. As open sources do not provide information and data on confiscated assets, the analysis has excluded this activity.

[3] Yearly data for some countries are missing: 2007 (Croatia, Cyprus, Denmark, Greece, Luxembourg and Romania); 2008 (Cyprus, Luxembourg and Romania); 2009 (Croatia, Greece and Luxembourg); 2010 (Luxembourg and the Netherlands); 2011 (Luxembourg); 2012 (Luxembourg and Portugal); 2013 (Czech Republic, Denmark — only for the second semester — Hungary, Luxembourg, Malta and Portugal).

[4] For the data on cigarette seizures available per country, see the Annex.

[5] The calculation was made on 22 countries because for six countries it was not possible to make the comparison.

[6] Some data were missing for 2013. Details are in the Annex.

[7] Some data were missing. Details are in the Annex.

[8] Eastern Europe comprises Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Northern Europe comprises Denmark, Finland, Ireland, Sweden and the United Kingdom. Southern Europe comprises Croatia, Cyprus, Greece, Italy, Malta, Portugal and Spain. Western Europe comprises Austria, Belgium, France, Germany, Luxembourg and the Netherlands.

[9] Calculation based on the average number of cigarettes seized in each area between 2010 and 2013.

CHAPTER 7 "FUTURE CHALLENGES ON THE POLICY AND RESEARCH AGENDA"

[1] T&T is an useful instrument that could be successfully applied also in other vulnerable markets (e.g alchol and drugs).

[2] The 2003 WHO Framework Convention on Tobacco Control ([Art. 15(2)(b)] and its 2012 Protocol to Eliminate Illicit Trade in Tobacco Products (Article 8); the agreements between the EU, the Member States and the four main tobacco manufacturers, and the 2014 EU Tobacco Products Directive (TPD) (2014/40/EU).

[3] The use of the GS1 in Europe could be a valid solution since it lead the creation and implementation of harmonised, user-driven solutions for improving the supply and demand chain of European companies (GS1 in Europe 2014).

[4] Full details on the methodology are available in the Annex.

[5] Data for 2013 were collected through the KPMG *Project Sun*, and previous data through KPMG *Project Star.*

[6] NUTS refers to the Nomenclature of Units for Territorial Statistics.

[7] Sample details are available in the Annex.

CHAPTER 9 "OUTSIDE THE BORDERS BUT INSIDE THE MARKET"

[1] In 2013 the Russian Government decreed a significant tax increase on the final retail price of cigarettes. It corresponded to a significant increase in cigarette prices (+50%). The reasons of this decision were: 1) equalizing taxation of tobacco products with other European countries; 2) fighting against smoking (Malgavko 2013). This increase is part of a broader strategy adopted by the Governmet which also decided to ban smoking in most public places and restrict cigarette sales (Marquez 2013).

[2] There is some evidence of illegal flows involving smoking tobacco transported by ship from India and Belgium via Ukraine to Transnistria, where it was used for the production of contraband cigarettes (OLAF 2013).

[3] Map 1 and 2 were created by summing the total number of counterfeit, illicit whites and other illicit cigarettes originating respectively from Belarus, Russia and Ukraine for each EU country in each year and calculating the percentage of these values on the total number of illicit cigarettes present in each country in each year.

[4] A protocol to the WHO Framework Convention on Tobacco Control, signed in Seoul, Korea, on 12 November 2012. The Protocol will enter into force 90 days after the deposit of the 40th instrument of ratification (or of other procedures). As of October 2014, the Protocol has only three Parties.

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