Project SUN
A study of the illicit cigarette market in the European Union, Norway and Switzerland

RUSI Analysis

Dr Andrew Glazzard
Director, National Security and Resilience
Royal United Services Institute (RUSI)
AndrewG@rusi.org
Project SUN

• **Estimates** the scale of the illicit trade in cigarettes in the EU, Norway and Switzerland using KPMG’s quantitative methods;

• **Assesses** the nature and dynamics of illicit cigarette flows, from source to consumer countries;

• **Examines** five country case studies – Greece, Italy, Poland, Romania, Spain.
Methodology

UK
December 2014
Publication of UK Study, ‘On Tap: Organised Crime and the Illicit Trade in Tobacco, Alcohol and Pharmaceuticals in the UK’

EU
November 2015
Two-day conference, ‘Organised Crime and Illicit Trade in Europe’, bringing together more than 70 officials from Interpol, Europol, the European Commission and nine EU member states.

POLAND
- One week fieldwork
- Operational research in Gdansk port
- Half-day workshop in Warsaw

ITALY
July 2016
- One week fieldwork
- Additional research into the mafia
- Half-day workshop in Rome

ROMANIA
September – October 2016
- One week fieldwork
- Operational research at the border with Bulgaria
- Half-day workshop in Bucharest

SPAIN
February – April 2016
- One week fieldwork
- Operational research at the border with Gibraltar
- Half-day workshop in Madrid

GREECE
May – June 2016
- One week fieldwork
- Operational research in street markets
- Half-day workshop in Athens
Source Countries of Counterfeit and Contraband (C&C)

Map denotes weighted average prices for a pack of 20 cigarettes – January 2017

Key:
- EU countries
- Non-EU countries
Consumption of Counterfeit and Contraband (C&C)

- Norway and the Republic of Ireland were the most expensive markets in Europe.
- C&C in Baltic countries continued to decline against a backdrop of increased border security with Russia.
- 66% of Polish C&C came from Belarus and Ukraine, where average prices were over four times lower.
- Bulgaria saw significant declines in C&C, particularly from illicit White brand flows, alongside increases in the legal market.
Consumption of Counterfeit and Contraband (C&C)

Top 10 C&C countries by volume, 2016

- France: 8.96
- Poland: 6.16
- UK: 5.55
- Germany: 4.80
- Italy: 4.43
- Romania: 4.41
- Greece: 3.62
- Spain: 2.13
- Austria: 1.04
- Bulgaria: 0.98

The top five countries accounted for 61.9% of total C&C within the EU.
Groups, Routes and Methods

- Law enforcement agencies have detected **overlaps with other organised crime activity**. In Spain, a 2014 operation by the Civil Guard seized more than 5 million illicit cigarettes from a network also involved in distributing counterfeit clothing and producing marijuana.
- There are also **overlaps between organised crime groups (OCGs) trading in illicit cigarettes and other commodities such as fuel, alcohol and pharmaceuticals**. In Poland, an illicit cigarette factory was discovered at the site of a former illicit alcohol factory. Both were run by the same group, with products distributed via the same network.
Groups, routes and methods

- OCGs adopt a ‘little and often’ approach to smuggling in order to minimise loss in the event of detection and to operate under the radar of law enforcement. In Greece large cargo vessels stop just beyond Greek territorial waters, and feed smaller, faster boats which then smuggle contraband to small ports or isolated beaches.

- At borders, vessels are often searched based on their size and weight. Smuggling large numbers of small consignments minimises the risk of being searched.
Groups, routes and methods

- OCGs use sophisticated methods to mask the goods being transported by sea or road, such as using cover loads of legal products or switching the identifying markers on containers. In Romania, illicit consignments on trucks have been detected encased in cement blocks, concealed within hollow timber logs, or hidden under loads of rocks or gravel.

- Smaller-scale trafficking also occurs by road, with modified vehicles concealing products behind door panels, under seats or in the boot. There is also low-level pedestrian smuggling. In Spain, smugglers can be seen repeatedly crossing the border with Gibraltar, carrying one or two containers at a time.
Enablers

- **Corruption** at European borders is a critical enabler of the illicit trade. Corrupt officials allow OCGs to evade controls and breach the EU’s outer defences.

- **The internet** has become a major enabler for the sale of illicit goods, with groups using professional websites or social media to sell directly to consumers. **Postal and courier services** are used to transport illicit products directly to consumers, allowing groups to send lower volumes of goods with greater frequency.

- **Free trade zones (FTZs)** allow legal and illicit businesses to manufacture, store and transport large quantities of goods with minimal oversight. FTZs are suspected of being major hubs for organised crime to re-document shipments, conceal their true origin, and even to **manufacture process**.
Response: Our Recommendations

- Penalties should be strengthened.
- Law enforcement agencies should become more agile.
- **Corruption** should become a major focus of EU agencies and member states.
- **Border enforcement is not enough**: investigation and disruption should also focus on **domestic activity**, such as illicit manufacturing and the use of postal services.
- **International standards and global regulation** should be established for FTZs.
- Public communication campaigns should address the social acceptability of illicit trade.