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Italy

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Transcrime is the Joint Research Centre on Transnational Crime of Università Cattolica del Sacro Cuore of Milan and the University of Trento. The Centre, directed by Ernesto U. Savona, Professor of Criminology at Università Cattolica, represents the multiannual union between experience and innovation in the field of criminological research.

There are offices in Milan and in Trento. In each office there is a team of researchers and secretariat/management personnel. Transcrime aims at being a national and international point of reference in the criminological research panorama.

The vision of the Centre is to increase knowledge in the criminological field and in the prevention of crimes, developing innovative ideas and cutting-edge techniques.

Transcrime combines its experience in applied research with the consolidated scientific tradition of Università Cattolica del Sacro Cuore in Milan and Università di Trento, mixing a practice-oriented approach with a profound understanding of criminal phenomena. Through this experience, it developed a solid network of relationships in the academic field, institutions, international organisations and businesses.

The Centre also plays an important role in the support and development of educational activities at Università Cattolica del Sacro Cuore in Milan. Its principal aim is to achieve close integration between scientific innovation and academic education. In particular, since the academic year 2005/06, Transcrime has managed a MA programme dedicated to crime and security (until academic year 2012/13 the curriculum Crime&Tech: Crime Sciences and Technologies for Security within the MA in Applied Social Sciences; since the 2013/14 academic year Curriculum POLISI: Policies for security within the MA in Public Policy). In addition, the Centre has contributed to the development of the International Ph.D. programme in Criminology, coordinated by Professor Savona, which is currently the only doctoral course dedicated to Criminology in Italy.

Transcrime is an independent academic centre. It pursues an autonomous research agenda, which may be developed also through contracts and funding by private and public local, national and international institutions. The source of funding is always made public through Transcrime's website.



THE FACTBOOK ON THE ILLICIT TRADE IN TOBACCO PRODUCTS

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products* (henceforth ITTP).

The project has been developed by Transcrime after the *Round Table on Proofing EU Regulation against the Illicit Trade in Tobacco Products* hosted by Università Cattolica del Sacro Cuore of Milan, on 5 May 2011. During the Round Table, participants (researchers and policymakers with experience in the field of the illicit trade in tobacco products) agreed on a research agenda concerning the ITTP (Transcrime 2011). Items 3 and 6 of the research agenda focused on the need for better analysis of the tobacco market taking account of its dual nature (i.e. legal and illicit part) and on how licit and illicit markets vary across different countries and regions. Given these considerations, Transcrime has developed the Factbook on the ITTP, a multi-annual research plan providing detailed analyses of the ITTP and of its relations with the legal market and other socio-economic and political factors in a number of countries around the world.

The aim of the Factbook is to provide an innovative instrument able to shed light on the complex mechanisms behind the ITTP in different countries. This report focuses on Italy.

Tobacco consumption is undoubtedly a danger for human health, and governments should carefully regulate the tobacco market. Illicit tobacco avoids state regulation and taxation and may jeopardize tobacco control policies.

The Factbook will contribute to raising awareness about the global importance of the ITTP and about the strategies available to prevent it. The Factbook

has been developed for a wide readership ranging from policymakers, through academics, to interested stakeholders, **the intention being to provide a support to develop knowledge-based debates and policies on the ITTP.**

The information gathered for this report originates from academic literature, grey literature, open sources, questionnaires and interviews with experts and stakeholders. The data-gathering phase of the projects encountered major difficulties due to the number of sources, institutions and stakeholders involved.

The results of the report do not claim to be exhaustive, nor an accurate reflection of criminal practices. They provide an initial assessment of the ITTP in Italy and a starting point for future research.

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 Factbook on the ITTP with financial support and the provision of data. However, Transcrime retained full control and stands guarantor for the independence of the research and its results. Information and data for the study have been collected by Transcrime and have not been shared with PMI.

Especial thanks go to **Dr. Rocco Antonio Burdo** (*Agenzia delle Dogane e dei Monopoli*), **Colonnello Massimiliano Di Lucia** (*Guardia di Finanza*), **Dr. Fabio Lunati** (*Nomisma*), **Gen. B. Giuseppe Magliocco** (*Guardia di Finanza*),

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EXECUTIVE SUMMARY

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products*. It focuses on Italy, where the illicit trade in tobacco seems to have grown in recent years. This fact, combined with the geographical location of the country and the consolidated presence of organised crime, makes Italy an interesting country to explore in terms of ITTP flows in the Mediterranean basin and towards North European countries.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters:

- Chapter one deals with the **five drivers of the ITTP**: society and economy, the legal market, regulation, the crime environment and enforcement. ***The drivers are important areas whose structures may positively or negatively impact on the ITTP. To enable comparison with other country profiles, five key indicators have been selected for each driver.*** The data for the driver indicators come from comparable sources (latest available years). When possible, the report provides the most up-to-date data from national sources.
- Chapter two focuses on the **four components of the ITTP**: demand, supply, products, *modus operandi* and geographical distribution.
- Chapter three identifies the **key factors of the ITTP in Italy and frames the drivers in the components**, analysing how different elements of the drivers influence the components of the ITTP.

THE FIVE DRIVERS

- **Society and economy:** Italy is a high-income country with long life expectancy. The population is growing, mainly due to migration flows into the country. In recent years, the global financial crisis has hit Italy hard and weakened its economy, in terms of both GDP growth and employment. Furthermore, the crisis has impacted on social and cultural development. Public expenditure is mainly concentrated on education and health care expenditure, although it is lower than in other European countries.
- **Legal market:** Italy is one of the largest tobacco markets in Europe, especially because of raw tobacco cultivation, although this decreased in 2011. The tobacco sector employs 240,000 people and the total value of cigarettes sales was around 19.8 billion euros in 2012, an increase of 2.6% on 2011. The percentage of smokers has declined in comparison with 2011, and the highest percentage of smokers is concentrated in the South of Italy and on the Islands (Sicily and Sardinia).
- **Regulation:** The tobacco market is closely regulated in Italy. Italy is a party to the WHO Framework Convention on Tobacco Control and, as a European Union member state, it complies with the European directives on tobacco control. Tax incidence on the final retail price is high, and taxation per 1,000 sticks is medium-high. Supply chain control, and control over tobacco consumption, sales and advertising, are high.

- **Crime environment:** Between 2010 and 2011, crime increased in Italy. Homicides, assaults, thefts and robberies grew in number. Moreover, drug use, especially of cocaine and cannabis, is high. The presence of corruption and organised crime is large in comparison with other European countries. Corruption and organised crime, together with the presence of shadow economies, may increase opportunities for illicit trades, including the ITTP. It has been estimated that around 2% of the revenues of the Italian criminal organisations (mafia organisations) derive from the illicit trade in tobacco products.
- **Enforcement:** Italy has a high number of police personnel and judges. The prison population is below the European average; nevertheless prisons are overcrowded. The fight against the illicit trade in tobacco products is waged through cooperation between Italian law enforcement agencies and European institutions, as well as with third countries' customs offices, and through public awareness campaigns promoted by the government ministries. Enforcement action against the ITTP is only average because it lacks a national plan against the ITTP and the Italian institutions do not provide periodic estimates on the ITTP.

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THE FOUR COMPONENTS OF THE ITTP

- **The demand:** the main factors in the demand for illicit tobacco are its accessibility and availability. In Italy, illicit cigarettes cost half the price of legal cigarettes. Availability is an important component of the ITTP because in some areas of the country it stimulates the demand for illicit tobacco.
- **The supply:** The supply of illicit tobacco is mainly driven by the opportunity to make very high profits with relatively low risks. The actors involved in the ITTP supply chain are mainly criminal organisations.
- **The products:** There are no official updated and periodic estimates on the ITTP in Italy. Nevertheless, some sources try to quantify the size of this illicit market in Italy. In the past, contraband cigarettes were the most popular illicit product. In more recent years, however, illicit whites have undergone strong growth. In 2012, the majority of cigarettes seized were illicit whites (for more details on the different categories of illicit products, see p.14).

- **Modus operandi and geographical distribution:** There are three main points of entry of illicit tobacco into Italy: the Adriatic Sea, the Tyrrhenian Sea and the Friuli-Venezia Giulia region. Several illicit tobacco products enter Italian territory through these channels. Italy is also a major hub for illicit products transiting to other markets. Nevertheless, it is not possible to use the data available to quantify the exact proportion of the illicit tobacco products bound for other markets.

FRAMING THE COMPONENTS IN THE DRIVERS

The five key factors of the ITTP

The report identifies five key factors behind the ITTP in Italy. These are fundamental determinants of the illicit trade and affect its components. Hereafter, four subsections analyse how the five drivers affect the key factors and in turn the components of the ITTP. The key factors are:

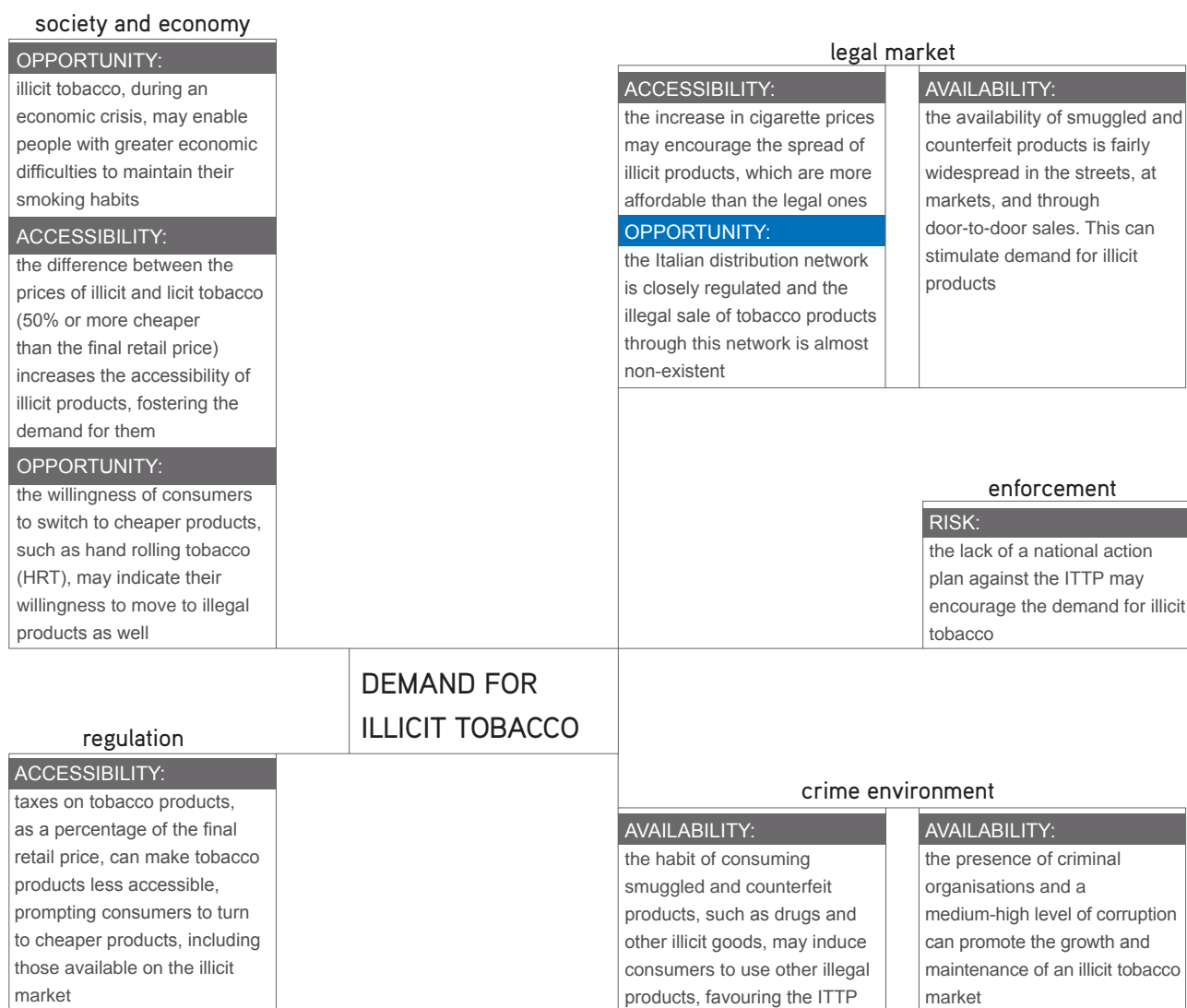
- **Accessibility:** the price of illicit tobacco, and particularly its relative price compared to legal products, is a crucial factor in determining the scope and prevalence of the ITTP.
- **Availability:** the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP.
- **Profitability:** the ITTP is an extremely profitable activity owing to the high income that it offers compared with its operational costs.
- **Risk:** the threat of *detection/accusation/conviction* and the sanctions imposable impact on the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market, the crime environment, and the law enforcement system.

This study analyses the complex interactions among the drivers, the key factors and the components of the ITTP. The following figures synthesise the main interactions, highlighting the multifaceted nature of the ITTP in Italy.

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

Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

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

Society and economy. In Italy, illicit tobacco products cost around half the price of legal products. The accessibility of illicit tobacco may stimulate the demand for it. Especially in times of economic crisis and rising unemployment, consumers may switch to cheaper tobacco products, including illicit tobacco products.

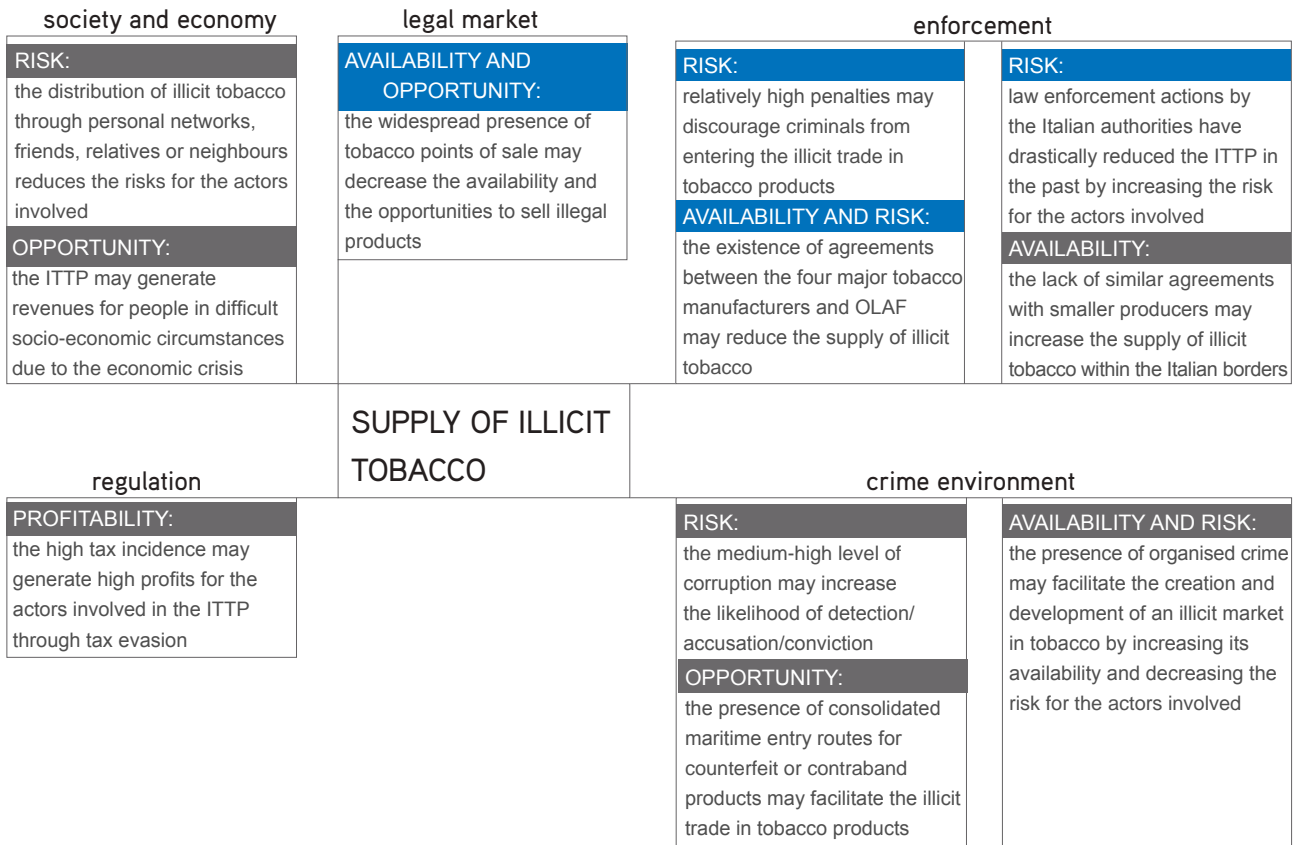
Legal market. The increasing price of cigarettes in Italy may induce smokers either to switch to cheaper tobacco products or to move to the illicit market. Cigarettes still seem to be affordable in the country, although in 2012 the affordability rate (the ratio between income and the cost of cigarettes) decreased slightly. This may induce consumers to buy tobacco products at lower prices, including illicit tobacco products. Furthermore, the availability of illicit products in street markets, on the streets, or through door-to-door sales, may increase the demand for them.

Regulation. In Italy, tax incidence as a percentage of the final retail price is high. Because this taxation affects the retail price, it reduces the accessibility of legal products and encourages consumers to switch to cheaper products (downtrade) or to move to the illicit market.

Figure 2. The interaction between the supply of illicit tobacco and the five drivers

Source: Transcrime elaboration

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



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Crime environment. Italy has a high level of drug consumption, particularly of cocaine and cannabis. A strong demand for illegal products may increase the availability of illicit tobacco. In addition, the country has medium-high levels of corruption, organised crime and informal economy. These conditions may foster the birth and growth of illegal markets such as the ITTP.

Enforcement. The lack of a national action plan against the ITTP may increase the demand for illicit tobacco.

THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Profitability, opportunity and risk are the main factors affecting the supply of illicit tobacco (Figure 2).

Society and economy. The ITTP may generate revenues for people in difficult socio-economic circumstances due to the economic crisis. In addition, illicit tobacco purchases through personal networks, friends, relatives or neighbours reduce the risks for the actors involved and increase the incentives to engage in the ITTP.

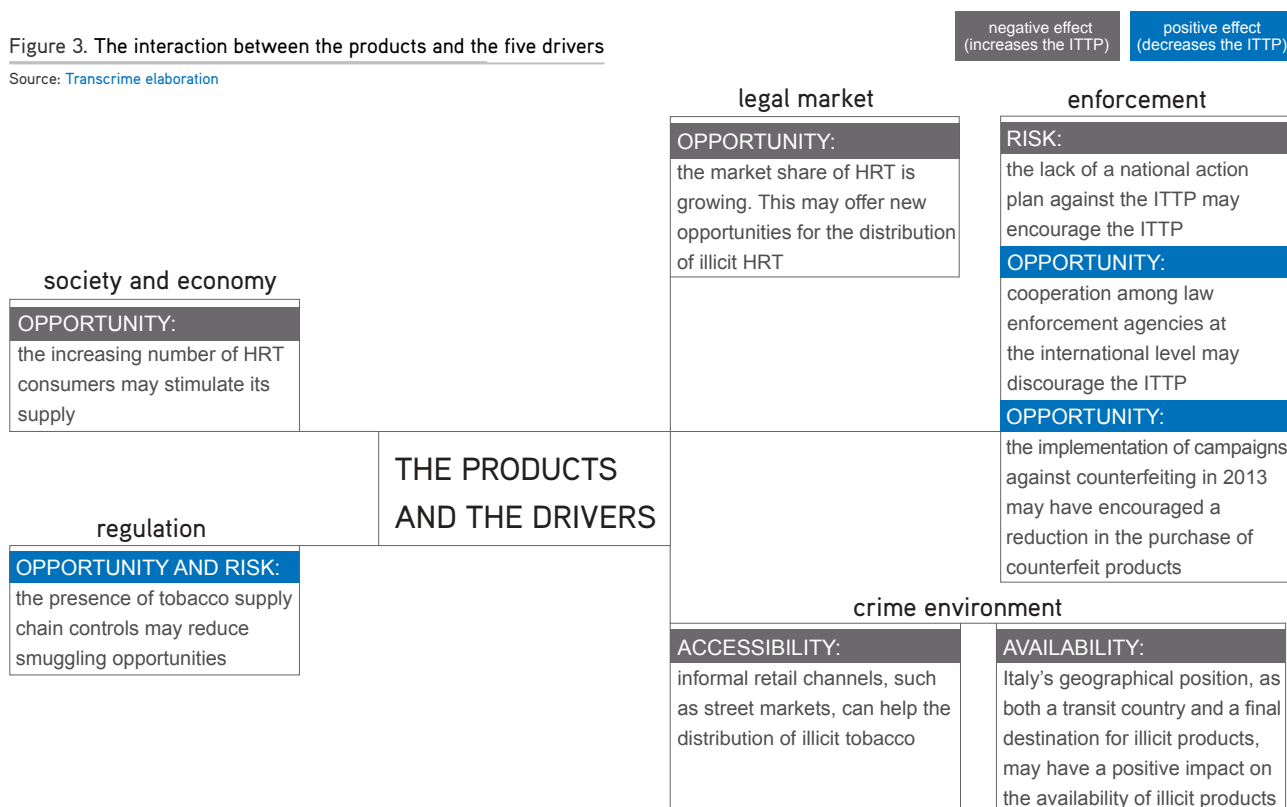
Legal market. The widespread presence of tobacco points of sale significantly increases the availability of legal products and reduces the opportunity for illicit tobacco to substitute licit tobacco.

Regulation. In Italy, taxation is high as a percentage of the final retail price and medium-high in terms of monetary amount per 1,000 cigarettes. In particular, the latter encourages the supply of illicit products. In fact, the higher the taxation per 1,000 sticks, the higher the final retail price and the net profit for traffickers.

Crime environment. A medium-high level of corruption facilitates all kinds of illicit trafficking because it reduces the risk of being caught. The presence of mafia organisations may reduce the risk of detection and arrest and increase the availability of illicit tobacco through the exploitation of economies of scope together with other forms of trafficking. The existence of shadow economies and consolidated maritime routes for the entry of other illicit products may also facilitate the illicit trade in tobacco products.

Figure 3. The interaction between the products and the five drivers

Source: Transcrime elaboration



Enforcement. Deterrence increases the risk and reduces the opportunities to engage in the ITTP. In Italy, relatively high penalties may be strong disincentives for traffickers. Moreover, law enforcement actions by Italian authorities have drastically reduced the ITTP in the past and could also be decisive in the future. On the one hand, existing agreements between the four main tobacco manufacturers and OLAF for a better tracking and tracing regime may reduce the supply of illicit tobacco in Italy. On the other hand, the lack of similar agreements between smaller producers and OLAF may increase its availability within the Italian borders. Finally, improving cooperation agreements with countries pivotal for the ITTP could reduce the availability of illicit tobacco products.

THE PRODUCTS AND THE DRIVERS

Opportunity and risk are key elements in the analysis of the products (Figure 3).

Society and economy. Social, cultural and economic factors may modify the choices of consumers in regard to illicit tobacco products. For instance, HRT is an emerging product because of its low price. This may increase the supply of illicit HRT.

Legal Market. The consumption of HRT has increased. This may augment the supply of this product on the illicit market.

Regulation. In Italy, there is a high level of control on the tobacco supply chain and on tobacco sales. Moreover, tobacco manufacturing and retail are subject to licensing, and a customer identification and verification system is in place. Furthermore, Italy has a tracking and tracing system of tobacco products, and the four largest cigarette manufacturers have a legal obligation not to facilitate smuggling. All these factors favour controls and help reduce the availability of illicit tobacco.

Crime environment. The presence of an informal shadow economy facilitates the sale of illicit tobacco products in Italy. Markets and illicit tobacco retail on the streets are common and are difficult to control. In addition, Italy is both a transit country and a final destination for illicit products. Its role as an importer and its geographical location makes it a hub for licit and illicit trade flows.

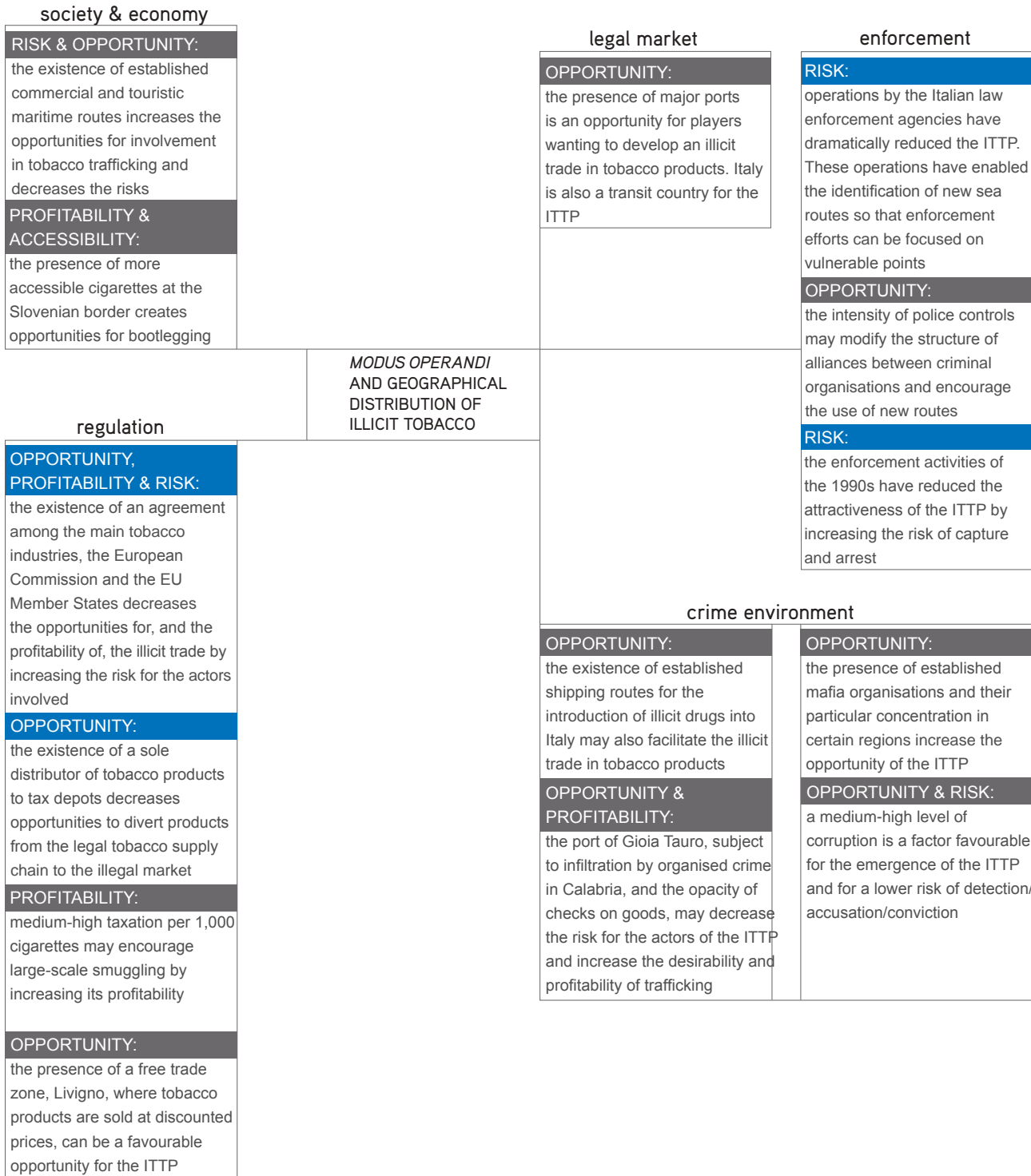
Enforcement. The lack of a programme against the ITTP may facilitate the illicit trade in tobacco products. However, the presence of various forms of cooperation, among European customs bodies as well as with ministries and supervisory bodies outside Europe, facilitates the control of illicit flows and decreases the traffic. Moreover, the presence of campaigns against counterfeiting creates and increases consumer awareness, encouraging a reduction in the purchase of counterfeit products.

Figure 4. The interaction between the *modus operandi* and geographical distribution of the ITTP and the five drivers

Source: Transcrime elaboration

negative effect
(increases the ITTP)

positive effect
(decreases the ITTP)



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THE MODUS OPERANDI AND GEOGRAPHICAL DISTRIBUTION AND THE DRIVERS

Each of the five drivers affects the *modus operandi* and geographical distribution of the ITTP. The key factors are **opportunity**, **risk**, and **profitability** (Figure 4).

Society and economy. The geography of Italy, a peninsula between the Adriatic, Ionian, Tyrrhenian and the Mediterranean seas, makes the country a hub and a strategic transit point for maritime traffic of illicit tobacco.

Legal Market. The presence of major ports used for legal trade is also an opportunity for the actors involved in the illicit trade in tobacco products. This is confirmed by tobacco seizures made by *Guardia di Finanza* (GdF-Italian Financial Police), which are mainly concentrated in the proximity of ports.

Regulation. On the one hand, the existence of a sole distributor of tobacco products – Logista Italia S.p.A. – impedes the diversion of products from the legal tobacco supply chain to the illegal market. Moreover, the existing agreements among the tobacco industry, the European Commission and the Member States prevent the diversion of tobacco products from the legal channel by increasing the risk for the actors involved. On the other hand, the medium-high taxation per 1,000 cigarettes encourages large-scale smuggling because it ensures greater profitability to the actors involved.

Crime environment. The existence of established shipping routes for the introduction of illicit drugs into Italy can also facilitate the illicit trade in tobacco products. Moreover, the presence of established mafia organisations and their particular concentration in certain regions increase the chance for the ITTP to develop and affect its geographic distribution.

Enforcement. Operations by the Italian police forces, especially in the 1990s, have changed and reduced the ITTP. Recent operations have enabled the identification of new sea routes and the focusing of enforcement efforts on the points of greatest vulnerability.

CONCLUSIONS

There are no official and periodically updated estimates on the ITTP in Italy. However, a number of studies on the ITTP are conducted every year (Empty Pack Survey and Project STAR), recognised by OLAF and in collaboration with the tobacco industry. Despite the lack of official data, smuggled and counterfeit cigarettes seem to be quite readily available in Italy, especially in areas bordering on Slovenia and in areas close to ports on the Adriatic and Tyrrhenian Seas.

The results of this study demonstrate the need for more data and more detailed studies on the illicit tobacco market in Italy. Key issues include the dynamics of wholesale, retail distribution, and types of illicit tobacco products, especially illicit whites cigarettes, which are widely available in the city of Naples. It is also important to investigate the actors involved in the ITTP and to determine whether they have specific features in terms of organisation. Furthermore, it is necessary to distinguish among the different types of illicit tobacco products, between non-domestic legal and non-domestic illegal cigarettes and between counterfeit cigarettes and illicit whites.

In addition, the actors seemingly in control of the illicit tobacco market in Italy are traditional criminal organisations (Cosa Nostra, 'Ndrangheta, Camorra and Sacra Corona Unita), foreign organised groups, and other foreign individuals or small groups of different ethnicities. Further investigations on the actors engaged in the ITTP would allow a more complete analysis.

The ITTP is a complex phenomenon not just a concern for police forces and the judicial system. Despite the efforts of the Italian authorities, which led to a collapse of the illicit market in the early 2000s, in recent years the ITTP has grown. Additional preventative measures, such as a national action plan against the ITTP, are necessary. In fact, effective action requires comprehensive strategies, including criminal punishment, administrative penalties and other measures to reduce opportunities for crime.

The evolution of the project has shown that countries have very different situations in relation to the available data on the ITTP. In some cases, the quality of the available data is poor, and there are no official, regularly updated, data. This inevitably affects the quality and reliability of the results. In these cases, institutions, businesses and other stakeholders concerned with the ITTP should consider how to improve the collection of data on illicit tobacco. This would result in improved knowledge about the ITTP and, hence, in better tobacco control policies, given that the impact of specific policy measures on crime may quite often be overlooked owing to the lack of reliable data.

Following the completion of the first phase of the project focused on collecting facts and data through the country profiles, Transcrime will perform a comparative analysis of the selected countries. This will provide additional insights into the complexity of the ITTP and allow for the elaboration of policy recommendations.



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Location:

Italy is a peninsula in southern Europe. The surface of the Italian territory covers 301,340 square km, divided between the peninsula and the islands, Sicily and Sardinia. Italy borders on France, Switzerland, Austria and Slovenia. In addition, the Italian territory includes the states of San Marino and the Vatican. The rest of the territory is surrounded by the Ligurian, the Tyrrhenian, Ionian and Adriatic seas. Italy is divided into 20 regions which include 110 provinces.

Population: 60,723,603 (2011)

Male: 29,954,565 (49.0%)

Female: 30,969,038 (51.0%)

Growth Annual Rate: 0.4% (2011)

Age Structure: (0-14) 14.1%; (15-64) 65.3%; (65+) 20.6%

Fertility Rate: 1.4 children born/woman (2011)

Life expectancy at birth (years): 82.1 (2011)

GDP: US\$ 2,193,971,063,000 (2011)

GDP growth: 0.4% (2011)

Inflation consumer price: 2.7% (2011)

Income level: High

WHY FOCUS ON THE ITTP IN ITALY?

Italy is a major hub for commercial flows between the Mediterranean Sea and Northern Europe. In the past, the penetration of contraband cigarettes into the legal market was high. The decisive action of law enforcement, accompanied by innovations in supply chain control and socio-economic changes, has drastically reduced the magnitude of this phenomenon. The country has been a worldwide example of effective action against the ITTP. Nevertheless, in recent years the ITTP has undergone growth driven primarily by the increasing incidence of illicit whites. In general, the methods of the ITTP in Italy have adapted and adjusted in response to the vigorous efforts of law enforcement and to socio-economic changes. The factors behind these changes are manifold.

First, Italy is an important junction between the Mediterranean Sea and Northern Europe. Its ports often receive illicit products intended for other markets. In particular, the ports on the Adriatic Sea receive products from Greece, while those on the Tyrrhenian Sea receive products from North Africa, China and the United Arab Emirates.

Second, there is a large presence of organised crime in Italy. In the past, the role of the Italian mafia in cigarettes smuggling was of major importance, especially in the South. Today, the partial control of certain infrastructures by criminal groups and the presence of corruption play an important role in enabling illegal products to enter Italy.

Third, Italy has been hit hard by the recent financial crisis. The possibility of new revenues may have stimulated the supply of illicit tobacco. High taxation and the opportunity to save money may augment the demand for illicit tobacco.

Finally, the lack of official and periodically updated estimates on the ITTP in Italy signifies a general lack of information about this topic, especially in the poorest areas of the country. This happens despite the best efforts of law enforcement agencies in their fight against the ITTP, in particular, the *Guardia di Finanza*, and the *Agenzia delle Dogane e dei Monopoli*. The KPMG Star report, recognised by OLAF and drawn up in collaboration with the tobacco industry, could be further developed with the involvement of national institutions.

Italy's geographical location, its port facilities and the consolidated presence of organised crime make the country an important component of the illicit tobacco trade in Europe.

Given the partial lack of information, this report is based on unofficial sources, interviews with experts, and military law enforcement agents, data from the authorities involved in the fight against the ITTP, press releases, and grey literature. In particular, the data provided by the *Guardia di Finanza* have been very useful for determining the components of the illicit trade in tobacco products and the main entry points of illicit tobacco into Italy. The reports of the DNA (*Direzione Nazionale Antimafia*, National Anti-Mafia Directorate) and the DIA (*Direzione Investigativa Antimafia*, Anti-Mafia Investigation Department) have been valuable sources with which to identify the main types of tobacco smuggling and the involvement of organised crime in the ITTP. Finally, the contribution of other law enforcement agencies has also been important, and future studies may yield more detained information on the topic.

Several sources confirm the high market penetration of illicit whites, especially in the past few years. Since 2011, seizures of illicit whites brands have been more numerous than those of contraband cigarettes. Seizures, unfortunately, do not afford understanding of where the demand for illicit tobacco is concentrated. Further investigation into the final destinations of illicit whites may be a major challenge for further research.

Tobacco is a dual market consisting of a legal and an illegal part (Figure 5). The two sides of the market are connected with each other: actions affecting one side of the market influence the other side as well.

Figure 5. The dual tobacco market



The ITTP comprises different activities and products:

Smuggling (or contraband): the unlawful movement or transportation of tobacco products (genuine or counterfeit) 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 2008).

Counterfeiting: the illegal manufacturing of a product bearing or imitating a trademark without the owner's consent. Illegally manufactured products can be sold in the source country or smuggled into another country (Joossens and Raw 2008).

Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal resale of these products 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).

Unbranded tobacco: manufactured, semi-manufactured and even loose leaves of tobacco (also known as "chop-chop" (Geis 2005)), illegally sold by weight (e.g. in large plastic bags, also known as "baggies"), with no labelling or health warnings and consumed in roll-your-own cigarettes or in empty cigarette tubes (Walsh, Paul, and Stojanovski 2006).

Cheap Whites or Illicit Whites: cigarettes produced legally in one country, but normally intended for smuggling into countries where there is no prior legal market for them. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Allen 2011).

Illegal manufacturing: cigarettes manufactured for consumption which are not declared to the tax authorities. These cigarettes are sold without tax and may be manufactured in approved factories or illegal covert operations (Joossens et al. 2010).

The literature on the ITTP in Italy is not large, and more detailed studies on the behaviours of consumers and sellers would be useful. Moreover, there are no periodically updated official estimates provided by the Italian institutions on the illicit market's penetration. This entails that the dynamics and structure of the illicit market have been poorly investigated. The main sources used by this study are *Guardia di Finanza's* data, press releases of the *Agenzia delle Dogane e dei Monopoli*, reports of the DNA and the DIA, the KPMG Star Report (recognised by OLAF), Euromonitor, Nomisma Empty Pack Surveys¹ (hereinafter EPSs) commissioned by the tobacco industry, interviews with experts, and news reports. All non-official sources have been used with caution in order to minimise the impact of their possible distortions.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters.

Chapter 1 is composed of five subsections analysing the **five drivers of the ITTP:**

- 1) society and economy
- 2) the legal market
- 3) regulation
- 4) the crime environment
- 5) enforcement

The drivers are important areas whose structures may influence the ITTP positively or negatively. Transcrime selected the drivers based on a review of the literature on the ITTP and discussions with stakeholders and experts. Each subsection provides information on the key aspects of each driver.

1. Empty Pack Survey: see section The products, chapter The Components, p.71.

To enable comparison with other country profiles, each driver has five key indicators. The data for the drivers' indicators come from different sources to ensure comparability among different countries in regard to the last available years (e.g. World Bank, WHO, UN). When possible, the report provides the most up-to-date data from national sources. For four indicators, Transcrime has developed composite indicators (see Regulation and Enforcement). These composite indicators assess the presence of specific policy measures in the country and range from 0 (no measure is present) to 5 (all measures are present). A higher value on the composite indicators does not always imply a better situation. The purpose of such indicators is rather to assess the intensity of policy measures in a specific field. The information used for the assessment is drawn from the literature, official sources (reports, websites, legislation), and experts.

The second Chapter analyses the illicit trade in Italy, dividing it into its **four components of the ITTP**:

- 1) the demand
- 2) the supply
- 3) the products
- 4) the modus operandi and geographical distribution.

Chapter 3 combines the results of the two previous chapters to identify the key factors behind the ITTP and shows how the various elements of the drivers influence the illicit trade.

Chapter 1

the five drivers

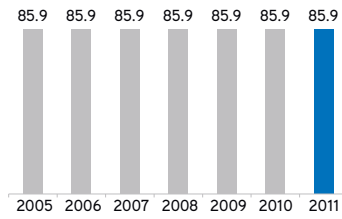
THE FIVE DRIVERS: SOCIETY & ECONOMY

Italy is a high-income country with long life expectancy. The population is slowly growing, mainly due to migration inflows. Since 2008, the global financial crisis has weakened the economy, especially in terms of GDP growth and rising unemployment.



Adult Population

Population aged 15+
Source: The World Bank



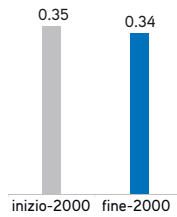
85.9%

9 out of 193 countries
(2011)



Income Inequality

GINI coefficient after taxes
Source: OECD



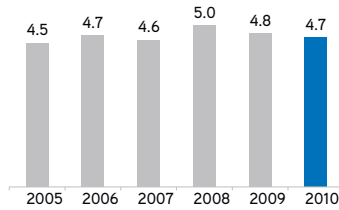
0.34

8 out of 34 countries
(late 2000s)



Education System

Education expenditure as % of GDP
Source: The World Bank



4.7%

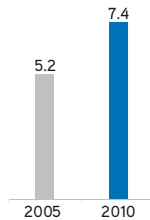
23 out of 157 countries
(2010)



20

Migration

International migrant stock as % of population
Source: The World Bank



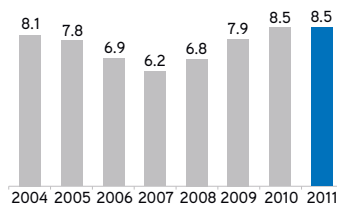
7.4%

87 out of 213 countries
(2010)



Unemployment

Total unemployment rate (% of labour force)
Source: OECD



8.5%

12 out of 34 countries
(2011)



Last national available data (May 2013): **12.2%** (ISTAT 2013)

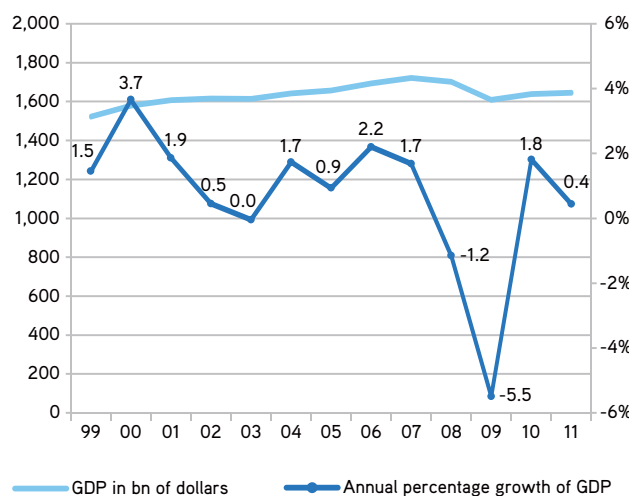
•• **Italy is a high-income country with long life expectancy.**

- The Italian population, with over 60 million inhabitants, is slowly but steadily growing, with an increase of 0.4% in both 2010 and 2011 (The World Bank 2012). This increase is mainly due to migration inflows. Indeed, the growth of the country's population is close to zero (ISTAT 2012a).
- Italy has a high percentage of adult population. The country ranks 9th among 193 countries with 85.9% of the population above 15 years old (The World Bank 2012).
- The population density of the country, with 201 inhabitants per km², is among the highest in Europe. The EU27 average was 114 inhabitants per km² in 2011 (ISTAT 2013a).
- Italy ranks 8th out of 34 OECD countries for income inequality, with a Gini index of 0.34, where 0 represents perfect homogeneity and 1 maximum income inequality (OECD 2012a).
- The country is among the OECD states with a *high income level*. Moreover, it has a high Human Development Index (0.881) and ranks 25th out of 186 countries (UNDP 2013).
- In Italy, the average number of children per woman is 1.4 and life expectancy was 82.1 years in 2011 (The World Bank 2012). Italians had the second highest life expectancy among OECD countries after Japan, exceeding the OECD average by 2.2 years for newborn in 2011 (OECD 2011a).

•• **The economic crisis has severely affected the growth and development of the Italian economy in recent years (Figure 6).**

Figure 6. Annual GDP growth (%)

Source: Transcrime elaboration on World Bank data



- Between 1999 and 2007, the annual GDP growth in Italy exhibited an oscillating trend, although it was always positive. In 2008, when the economic crisis began, GDP fell by 1.2%, and then by 5.5% in 2009. It rose again by 1.8 percentage points in 2010, and by 0.4 percentage points in 2011 (The World Bank 2012).
- The recession has hit Italy harder than other OECD countries. In addition, attempts to foster the country's economic recovery seem to have been slow and weak (OECD 2011b).
- The public debt, historically one of the highest among advanced countries, has grown in recent years. In 2009, it represented 115.9% of GDP and reached 119.2% in 2011 (OECD 2011b).
- Household final consumption expenditure markedly decreased during 2008 and 2009. This was in line with the trend of GDP at the national level (Figure 7).

Figure 7. Household final consumption expenditure in bn \$

Source: Transcrime elaboration on World Bank data

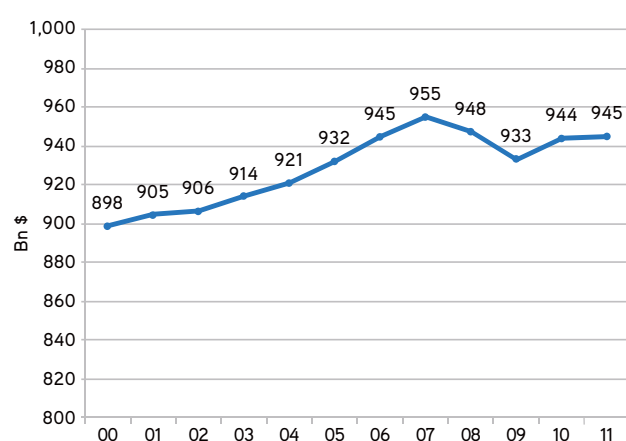
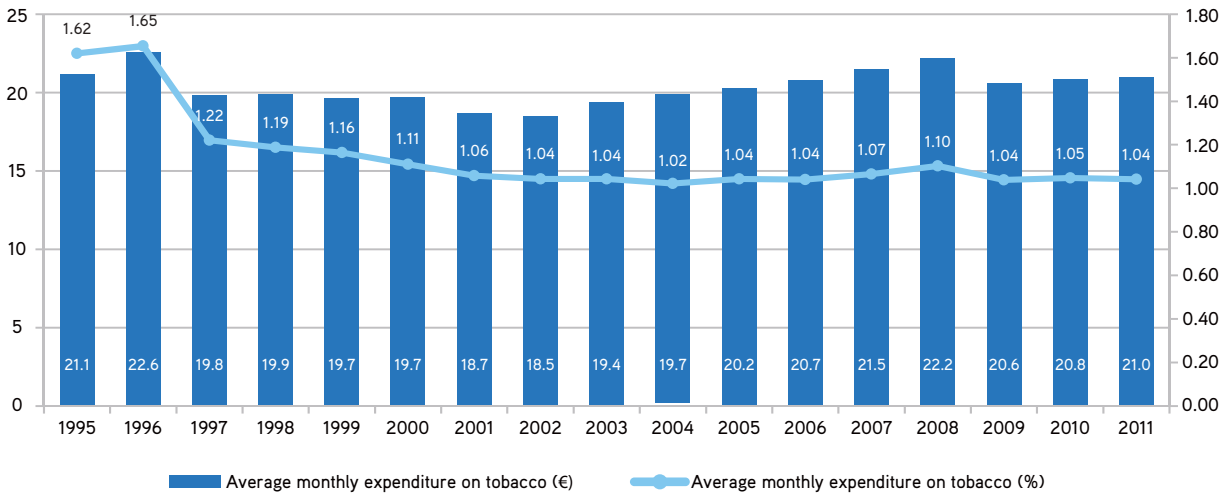


Figure 8. Average monthly consumption of tobacco per household in euros, and percentage of total consumption of non-alimentary goods

Source: Transcrime elaboration on ISTAT data



- In the past twenty years, average monthly expenditure on tobacco has substantially decreased, from 1.7% of the total expenditure on non-alimentary goods in 1996 to 1.0% in 2011 (Figure 8). Over the past decade, this expenditure seems to have stabilised at around 1% (ISTAT 2012b).
- Despite the economic crisis, according to a survey by DOXA, 25.2% of Italians would never give up eating and drinking out and 23.2% would never renounce cigarettes. 17.6% of Italians would not forgo discotheques and other forms of entertainment, 17.4% the cinema, and 16.6% their mobile phones (DOXA 2012).

- 55.6% of the monthly consumption of non-alimentary goods is expenditure on housing costs (35.7%), transport and telecommunications (19.9%) (Figure 9) (ISTAT 2012b).
- In 2010, 23.3% of the households in Southern Italy were in relative poverty; while the percentage was 4.9% in the North and 6.4% in the Centre. Families in absolute poverty were 8.0% in the South compared with 3.7% in the North and 4.1% in the Centre (ISTAT 2013a).

•• **The unemployment rate in Italy is growing: between 2007 and 2011 it increased by 2.3% (Figure 10).**

Figure 9. Average monthly consumption per household as a percentage of total consumption of non-alimentary goods.

Source: Transcrime elaboration on ISTAT data

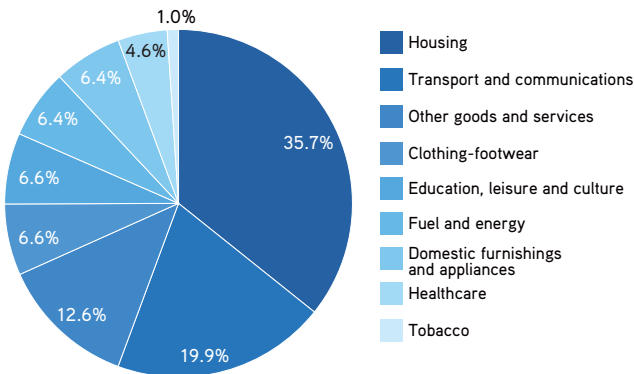
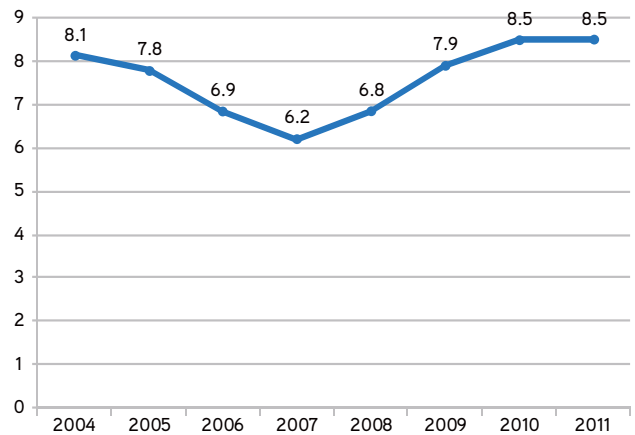


Figure 10. Unemployment rate in Italy (%)

Source: Transcrime elaboration on OECD data



- Italy's unemployment rate is below the European average (ISTAT 2012a), although in 2011 the rate was 8.5% and the country ranked 12th out of 34 member countries of the OECD (OECD 2012a). In May 2013, the unemployment rate was 12.2% (ISTAT 2013b).

- Between 2010 and 2011, the unemployment rate remained stable, also in terms of both male and female unemployment. In 2010, the percentage of unemployed men and women was 7.6% and 9.6% respectively (only 0.1% less than in 2010). Instead, youth unemployment in 2011 was 29.1%, a 1.3% increase on 2010 (ISTAT 2013a).

- The unemployment rate varies between 5.0% in the North-East and 13.6% in the South (ISTAT 2013a).

- People with scarce economic resources and lower incomes are more likely to start smoking at an early age. Moreover, they tend to smoke more, to be more addicted, and to find it more difficult to quit smoking (Vannoni et al. 1999).

- People with the same incomes, but with lower levels of education, are more likely to smoke (Vannoni et al. 1999).

- Adult and elderly women of low social status appear to smoke less than their peers of high social status. Nevertheless, this trend appears to be changing among the younger generation (Federico, Costa, and Kunst 2007).

- **Health care and education are the areas in which the Italian government invests most in terms of public expenditure (Figure 11).**

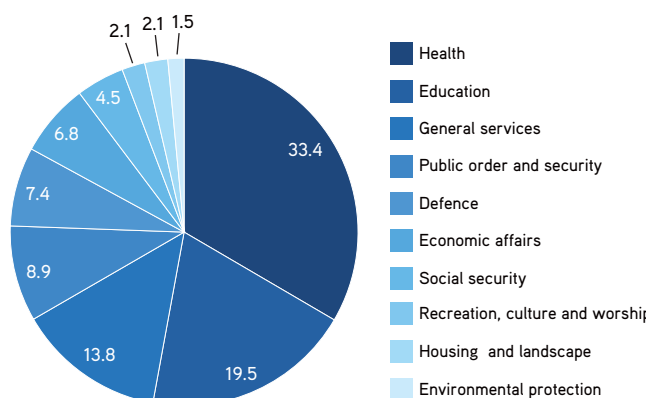
- In 2009, 34.4% and 19.5% of public expenditure were allocated to health and education, respectively, 13.8% to general services, and 8.9% and 7.4% to public order/security and defence (ISTAT 2012b).

- The share of public expenditure on education is 4.7% of national GDP, placing Italy below the EU27 average of 5.5% (The World Bank 2012). In 2010, Italy ranked 23rd out of 157 countries for education expenditure. Denmark ranked first with 10.4% of GDP (The World Bank 2012).

- Considering only the OECD countries, in 2009 Italy ranked 27th out of 32 countries, with public spending on education equal to 4.2% of GDP, which was below the OECD average of 5.1% (OECD 2012b).

Figure 11. Italian public expenditure per function (%). Year 2009

Source: Transcrime elaboration on ISTAT data



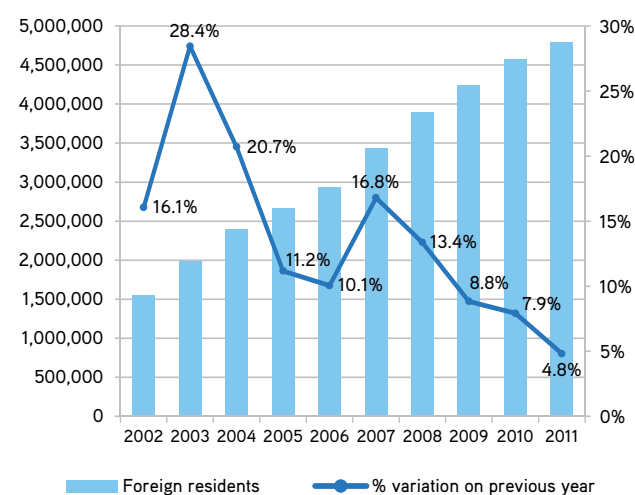
- In 2009, public spending on health accounted for 7.4% of GDP. Italy ranked 10th among 34 OECD countries (OECD 2012c).

- In 2011, public health expenditure was around €112 billion, equivalent to 7.1% of GDP and €1,842 per capita per year. The Italian expenditure on public health is much lower than in the other major European countries (ISTAT 2013a).

- **In Italy, foreign migration has grown in the past decade. Between 2010 and 2011, foreign residents in Italy increased by 4.8% (Figure 12).**

Figure 12. Foreign residents in Italy from 2002 to 2009 in absolute value and annual percentage growth

Source: Transcrime elaboration on ISTAT data



- In 2011, 4.8 million foreign citizens were legally resident in Italy, 7.9% of total residents (ISTAT 2013a).
- The largest increase was recorded between 2002 and 2003, when the population grew by 28.4%. In recent years, however, the growth rate on the previous year has diminished, with an increase of 4.8% between 2010 and 2011.
- According to the last census of the Italian population conducted in 2011, the number of foreign legal residents had tripled since the previous census of 2001 (ISTAT 2013a).
- The migration stock as a percentage of the total population was 5.2% in 2005 and 7.4% in 2010. Italy ranked 87th out of 213 countries (The World Bank 2012).

In conclusion, Italy is struggling to react to the economic crisis hampering the country's development economically, socially and culturally. Unemployment is growing, especially among young people and in Southern Italy. As far as welfare is concerned, education and health are the areas of greatest public spending, albeit at levels lower than in other European countries.



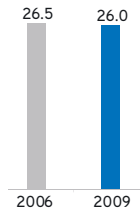
THE FIVE
DRIVERS:
LEGAL
MARKET

*I*taly is one of the largest tobacco markets in Europe, especially in terms of raw tobacco production. The sector employs 240,000 people and the total value of sales in 2011 was around 19.3 billion, an increase of 2.6% on 2010.



Smokers

Current smoking of any tobacco product (age-standardised rate)
Source: WHO-Country reports



26.0%

53 out of 147 countries
(2009)



Last national available data (2012): Daily smokers (15+) **20.8%** (DOXA 2012)

Affordability

% of annual per capita income needed to buy 100 packs of the cheapest cigarettes
Source: Tobacco Atlas

1.5%

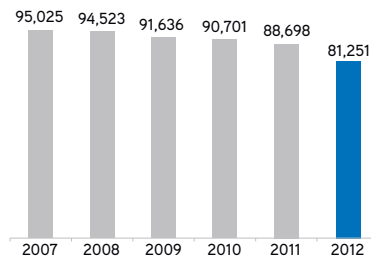
135 out of 168 countries
(2010)



Last national available data (2012): **1.6%** (Euromonitor International 2012, International Monetary Fund 2012)

Market Size

Cigarette retail volume (mn sticks)
Source: Euromonitor International



81,251

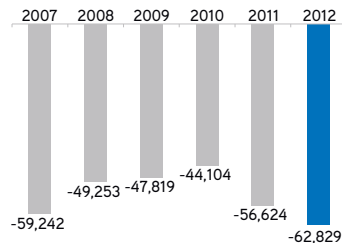
14 out of 209 countries
(2012)



26

Balance of Trade

Cigarette exports-imports (mn sticks)
Source: Euromonitor International



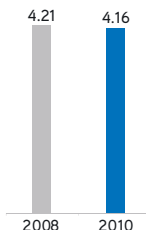
-62,829

71 out of 72 countries
(2013)



Price

Price of a pack of the most sold brand (Int.\$, PPP)
Source: WHO



Int.\$, PPP 4.16

17 out of 166 countries
(2010)



Last national available data (2012): **Int.\$, PPP 5.9** (Aams 2013, International Monetary Fund 2012)

TOBACCO MARKET

- Italy is one of the six largest tobacco markets in Europe together with Germany, France, the UK, Poland and Spain. 70% of the total volume of sales in Europe is absorbed by these countries (Roland Berger 2013).
- **Italy is the first European country in terms of raw tobacco cultivation, and it is the tenth worldwide.**
- In 2011, Italy was the largest producer of raw tobacco in Europe (Euromonitor International 2012). Nevertheless, from 2000 to 2011, production decreased by 38.2%, the extension of land used for cultivation fell by 29.1%, and the number producers diminished by 83.4% (The European House Ambrosetti 2011).
- This decrease in production was mainly due to tobacco decoupling in 2010 (Nomisma 2011a; Euromonitor International 2012).
- 94% of the domestic production of raw tobacco is concentrated in the regions of Campania, Veneto, Umbria, and Tuscany (Nomisma 2011a).
- **The production of cigarettes in Italy has fallen in recent years.**

Table 1. Manufacturing of tobacco products (tonnes)

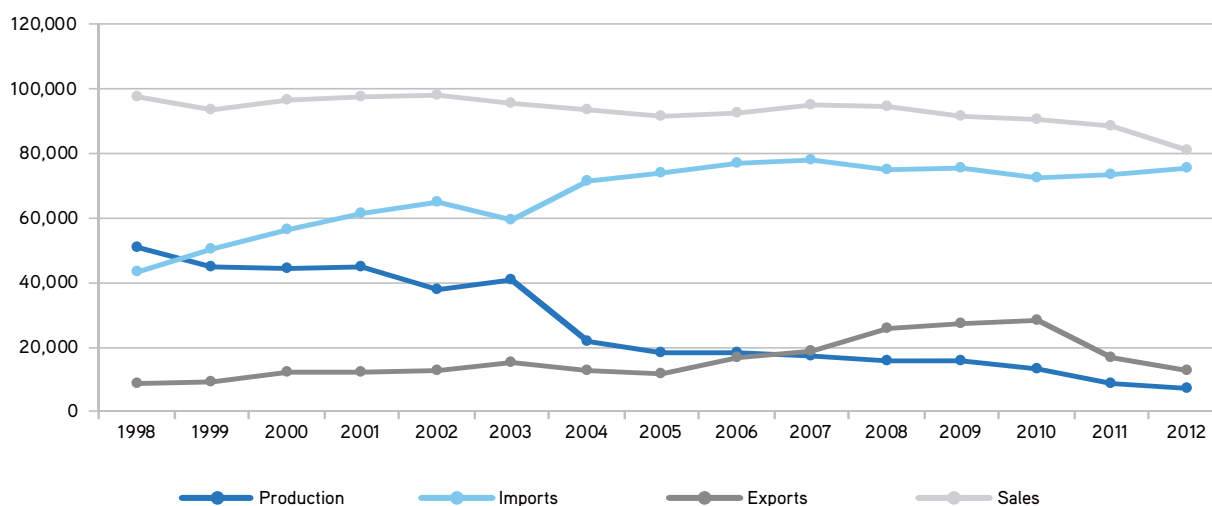
Source: Transcrime elaboration on Nomisma (2011) data

Products	2008	2009	2010	% Change 10/09
Cigarettes	15,645	15,665	13,371	-14.6%
Cigars	735	786	740	-5.8%
Cigarillos	18	20	30	48.4%
Smoking Tobacco	76	173	109	-37.0%
Total	16,473	16,644	14,250	-14.4%

- Cigarettes constitute the largest manufactured tobacco product in Italy (Table 1), although their production exhibits a downward trend (Figure 13). Indeed, according to Nomisma, the production of cigarettes decreased by 14.6% between 2009 and 2010, while during the same period the production of cigarillos increased by 48.4%. Smoking tobacco, which increased by 128% between 2008 and 2009, declined by 37% between 2009 and 2010 (Nomisma 2011a).
- The production of cigarettes continues to decline. In 2012, there was a 21.1% decrease in comparison with 2011 (Figure 13) (Euromonitor International 2013).
- Between 2003 and 2004, the production of cigarettes went into rapid decline, while the same years recorded a growing amount of cigarettes imports, although they have decreased slightly in most recent years (Figure 13).

Figure 13. Production, imports, exports, and sales of cigarettes in Italy

Source: Transcrime elaboration on Euromonitor International data



- In 1999, privatization of the tobacco production began. Hitherto it had been controlled by the Amministrazione Autonoma dei Monopoli di Stato (AAMS – Autonomous Administration of State Monopolies). Etinera and ETI (Enti Tabacchi Italiani- Italian Tobacco Bodies) were founded, the latter being acquired by British American Tobacco in 2004 (British American Tobacco Italia 2012).
- In 2011, British American Tobacco (BAT) closed its production facility in Lecce (Apulia region), one of the last tobacco manufacturing plants in Italy. This closure was part of a reorganisation plan to transfer tobacco manufacturing to other European countries (Euromonitor International 2012).
- The only entirely Italian manufacturer of cigarettes and smoking tobacco is controlled by Manifattura Italiana Tabacco (MIT – Italian Tobacco Manufacturing), located in Chiaravalle (Ancona). This plant produces the Futura, Linda, Virginia, and Burley & Virginia brands (Manifattura Italiana Tabacco 2013).
- **Italy is the second largest importer of cigarettes in the world after Japan.**
- In 2012, Italy was the second largest importer of cigarettes in the world after Japan, with 75,491 mn imported cigarettes and 12,661 mn exported cigarettes. These values represent, respectively, 2.7% more and 25.0% less than in 2010 (Euromonitor International 2013).
- Exports and production exhibited the same trend until 2006. Exports increased until 2010 and then decreased between 2010 and 2012. Italy today ranks 71st out of 72 countries, with a negative trade balance (exports-imports) of -62,829 mn cigarettes (Euromonitor International 2013).
- **Although the volume of cigarettes sales has decreased in comparison with 2010, revenues from cigarettes sales are growing.**
- In volume terms, the sale of cigarettes exhibits a downward trend. This is shown by a slight decrease since 2007 and a more substantial decline in 2012. In 2011, sales were around 88,698 mn cigarettes, -2.2% compared with 2010. In 2012, sales amounted to 81,251,000 cigarettes, -8.4% in comparison with the previous year. In 2012, the Italian cigarette market was 14th in size among 209 countries (Euromonitor International 2012; Euromonitor International 2013).
- The decline may have been partly due to the economic crisis and partly to price increases, as well as to the strong growth of HRT sales (Euromonitor International 2012; Euromonitor International 2013).
- Although the sale of cigarettes, in volume terms, decreased in 2012, the monetary value of cigarette sales amounted to €18.9 billion, +1.7% compared to 2011 (Euromonitor International 2013).
- During the same year, the total value of sales of tobacco products amounted to 19.8 billion euros, an increase of 2.6% on 2011 (Euromonitor International 2013).
- The tobacco sector employs 204,000 people mainly involved in the manufacture and retail of tobacco products (Nomisma 2011a).
- The retailing of tobacco products takes place through four types of distributors: ordinary points of sale (tobacconists indicated by the “T” sign outside the shop), special points of sale (within ports, airports, railway stations and service areas), licensed bars (bars with a licence for tobacco retail) and vending machines (AAMS 2008).
- The main channel for the distribution of tobacco products consists, in 73% of the cases, of ordinary points of sale, i.e. tobacconists. However, a growing number of kiosks and shops have recently acquired licences for the retail of tobacco products (Euromonitor International 2012).

2. Smoking tobacco comprises hand rolling tobacco (HRT) and pipe tobacco.

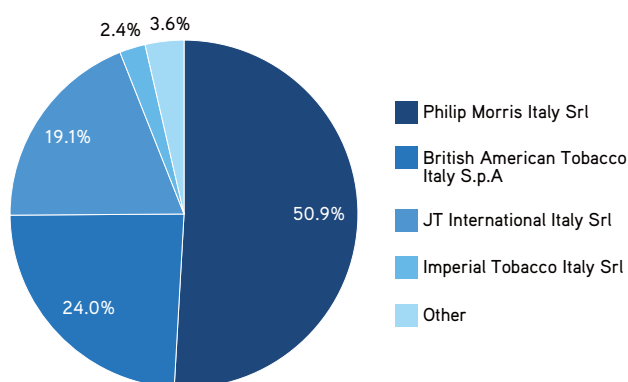
- Philip Morris Italy is the tobacco company with the largest share of the cigarette market, holding 50.9% (Figure 14). British American Tobacco Italy has a 24% share of total sales, while JT International Italy has 19.1%. The share of Imperial Tobacco Italy is smaller (2.4%) (Euromonitor International 2013).
- As regards smoking tobacco,² the tobacco company with the largest market share is Imperial Tobacco Italy with 38% of sales, followed by British American Tobacco Italy with 18.1%, and JT International Italy with 6.9% (Euromonitor International 2013).
- HRT accounted for 94.4% of the volume of sales of smoking tobacco in 2011; only 5.6% was represented by pipe tobacco (Euromonitor International 2013).
- In 2011, the most sold brands of cigarettes were Marlboro (22.3%), MS (12.5%) and Diana (10.0%). As for HRT, the most sold brands were Golden Virginia (22.5%), Drum (13.2%) and Old Holborn (3.7%) (Euromonitor International 2012).

TOBACCO CONSUMPTION

- In Italy, the percentage of smokers decreased between 2011 and 2012. Southern Italy and the Islands were the geographical areas with the highest smoking prevalence.**

Figure 14. Cigarette market shares (2012)

Source: Transcrime elaboration on Euromonitor International data



- Smoking prevalence among the total Italian population exhibits a fluctuating trend, especially in recent years (Figure 15). Between 2003 and 2008, the percentage of smokers steadily decreased until 2009, when an increase was recorded. The percentage decreased again in 2010 and then rose in 2011. It decreased again in 2012 (DOXA 2012).
- In 2012, Italian smokers accounted for 20.8% of the population, compared with 22.7% in 2011. The total percentage of smokers fell by nearly two percentage points with respect to the previous year (DOXA 2012).

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Figure 15. Smoking prevalence among men/women. Years 2001-2012

Source: Transcrime elaboration on DOXA data provided to the Istituto Superiore di Sanità (Superior Institute of Health)

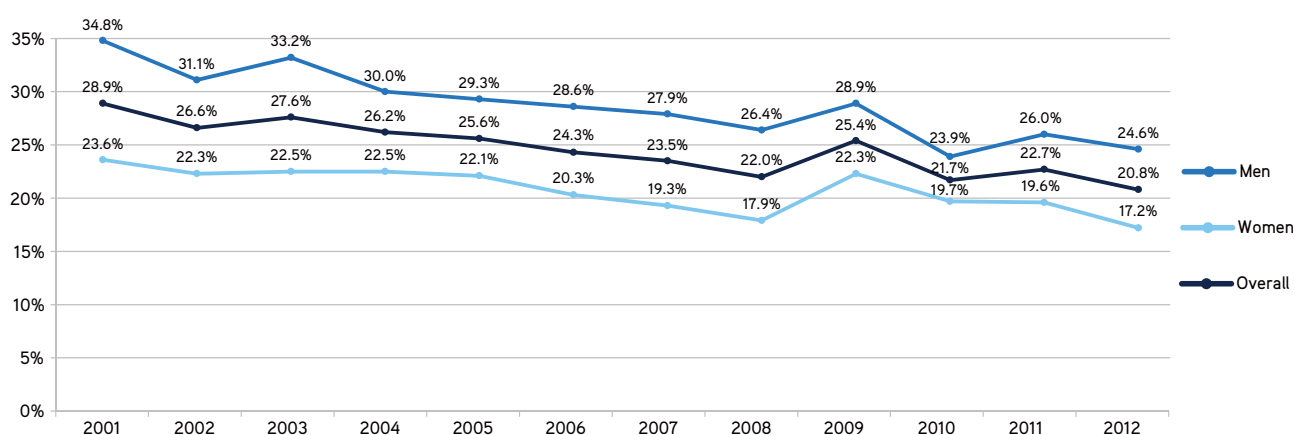
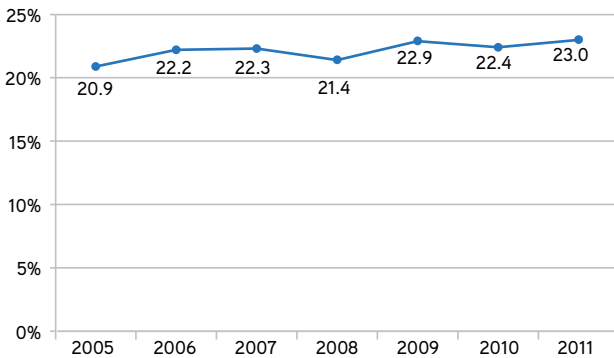


Figure 16. Smoking prevalence in Italy. Years 2005-2011

Source: Transcrime elaboration on ISTAT data

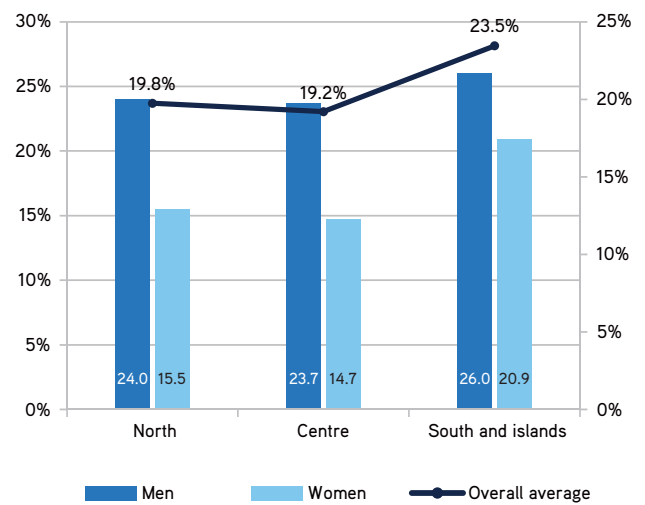


- Italy, compared with other countries worldwide, has a medium-high smoking population. In 2009, the country ranked 53rd out of 147 countries, with 31% of smokers among the total adult population (WHO 2011a).
- The declining trend in smoking prevalence of recent years (2007-2011) is confirmed by official ISTAT statistics (Figure 16) (ISTAT 2013a). Some difference, however, is apparent in the smoking pattern before 2007, when it recorded an upward rather than downward trend in the DOXA data.
- Men smoke more than women. In 2012, female smokers represented 17.2%, 2.4 percentage points less than in 2011. Male smokers represented 24.6%, 5.4% less than in the previous year (DOXA 2012).
- In 2012, in Italy, smoking prevalence is higher in Southern Italy and the Islands than in Central and Northern Italy (Figure 17). Women from the South and the Islands smoke more than the rest of Italian women: indeed, they record a 5% higher prevalence (DOXA 2012).
- However, in 2011, the percentage of smokers was lower in the South and Islands (21.9%) than it was in Central (24.6%) and Northern Italy (22.7%) (DOXA 2011).

- At the regional level, in 2011, the highest percentage of smokers was recorded in the Lazio region, followed by Piedmont, Lombardy, Tuscany, Abruzzo, Campania and Basilicata, with percentages of smokers between 21.7% and 24.0%. Smoking rates in Friuli-Venezia Giulia, Emilia Romagna, Liguria, Marche, Umbria, Molise and Apulia range between 20.1% and 21.6%. The regions with the lowest prevalences are Valle D'Aosta, Trentino Alto Adige, Veneto, Calabria and Sardinia, with less than 20.0% (Figure 18, p.31) (ISTAT 2013a).

Figure 17. Smoking prevalence (gender and area of origin). Year 2012

Source: Transcrime elaboration on DOXA data provided to the Istituto Superiore di Sanità (Superior Institute of Health)



- **In 2012, HRT consumption increased. Nevertheless cigarettes are still the most consumed tobacco product.**
- In recent years, the financial crisis and the worsened economic circumstances of Italians have impacted on tobacco consumption. Indeed, between 2005 and 2010, cigarette consumption, which previously accounted for 96% of total sales of tobacco products, decreased, while HRT and cigarillos consumption increased by 157% and 112% respectively (Nomisma 2011a).
- Between 2011 and 2012, there occurred a significant switch from the consumption of cigarettes to HRT, especially among male smokers. Indeed, males seem more likely to change their consumption habits in periods of crisis. The estimated cost of a manufactured cigarette is €0.18, while the cost of a hand-made cigarette (HRT) is nearly half that price: €0.09 (Gallus et al. 2013).

- Compared to 2011, HRT sales have increased by 37%, an exponential growth compared with that of cigarettes and pipe tobacco. In fact, since 2003 there has been a tenfold increase in HRT sales (Table 2, p.32) (Euromonitor International 2013).
- This trend is confirmed by the most recent survey conducted by DOXA, which shows that the percentage of HRT smokers increased between 2011 and 2012, from 3.4% to 8.5% of survey respondents (Figure 19, p.32).
- In 2011, the majority of Italian smokers bought packs of twenty unflavoured cigarettes.
- 20-unit cigarette packs are the most widely sold in Italy. According to Euromonitor, 20 unit cigarette packs accounted for 87.8% of the total number of packs sold in 2012, while 10 unit packs accounted for 12.1% (Euromonitor International 2013). According to KPMG, 10-unit packs accounted for 20.4% of the total number of packs sold in 2012 (KPMG 2013).

Figure 18. Smoking prevalence per Italian region (2011)

Source: Transcrime elaboration on ISTAT data

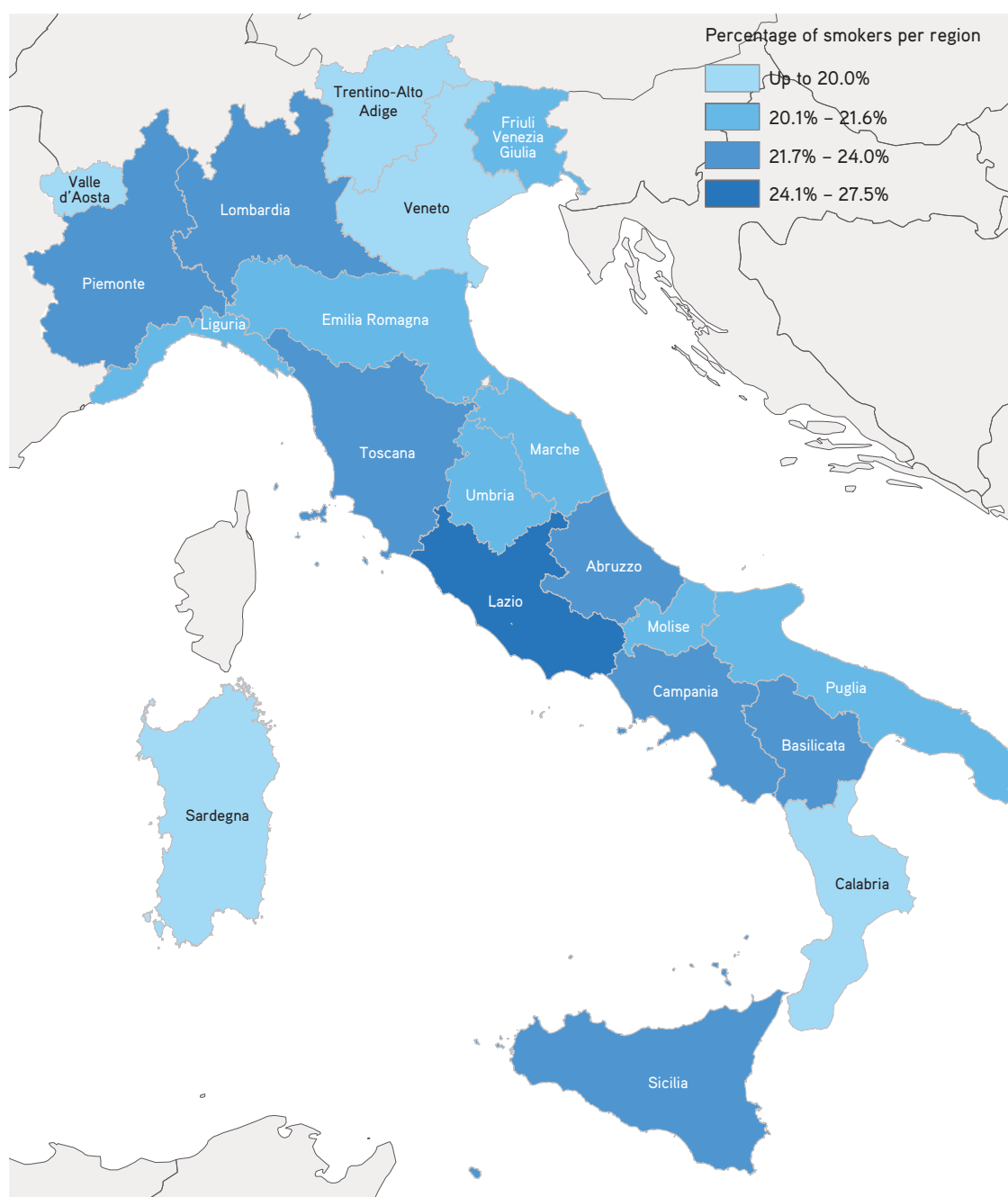


Table 2. Volume of sales of cigarettes and smoking tobacco (HRT and pipe tobacco)

Source: [Transcrime elaboration on Euromonitor International data](#)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	% Change 2012-11
Cigarettes (mln)	95,499	93,482	91,733	92,697	95,025	94,523	91,636	90,701	88,698	81,180	-8.5
Smoking Tobacco (ton)	688	774	911	1,006	1,145	1,385	1,669	2,086	2,923	4,005	37.0
<i>HRT (ton)</i>	436	538	689	787	929	1,170	1,454	1,870	2,703	3,782	39.9
<i>Pipe tobacco (ton)</i>	252	236	222	219	217	215	215	217	220	223	1.4

Note: Smoking tobacco comprises hand-rolling tobacco (HRT) and pipe tobacco.

- In 2012, 92.5% of smokers consumed regular cigarettes, 7.3% smoked slim cigarettes, while only 0.2% smoked super slim cigarettes. These values were stable also before 2011 (Euromonitor International 2013).
- During the same year, 99.3% of smokers consumed unflavoured cigarettes, while only 0.7% preferred menthol cigarettes. Also in this case, the trend proves constant over time (Euromonitor International 2013).

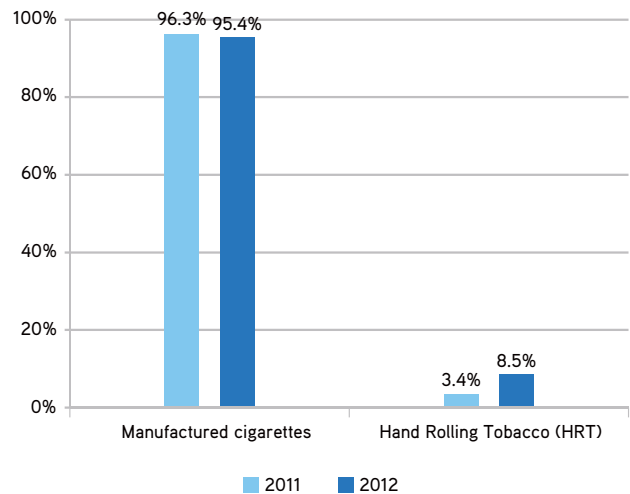
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- **The price of cigarettes is steadily increasing in Italy. Over the past two years, the price of the most sold brand has increased by 40%.**
- The price of a pack of the most sold brand of cigarettes slightly increased between 2008 and 2010, rising from International \$4.16 (henceforth Int. \$), to Int. \$4.21. Italy ranks 52nd out of 166 countries for cigarette price (WHO 2011a). Between 2010 and 2012, the price of the most sold brand increased by 40%, from Int. \$4.21 to Int. \$5.9.
- In 2012, the most sold brand was Marlboro, which cost €5.0 (Int. \$5.9). According to the latest update in April 2013, its price has remained stable at €5.0, like the other most-sold brands (MS and Diana), which cost €4,30 (Int. \$5.0), as in 2012 (AAMS 2013).
- The last increase in the price of cigarettes occurred in March 2012: 10 cents on every 20-cigarette pack (Formisano and Vico 2012).

- Compared with other countries worldwide, cigarettes in Italy are relatively cheap. Indeed, in 2010 the country ranked 135th out of 168 countries for cigarette affordability. In 2010, the percentage of per capita GDP needed to buy 100 packs of cigarettes of the cheapest brand was 1.5%, while in 2012 this figure increased to 1.6% (Eriksen, Mackay, and Ross 2012).³

Figure 19. Answers to the question: “Currently, which of these tobacco products do you smoke?”

Source: [Transcrime elaboration on DOXA data provided to the Istituto Superiore di Sanità \(Superior Institute of Health\)](#)



Note: The question was put to 698 smokers in 2011 and 641 smokers in 2012. The sample was considered representative of the Italian population.

³ The affordability was calculated according to the Euromonitor 2012 price of the cheapest brand and International Monetary Fund 2012 GDP current per capita.

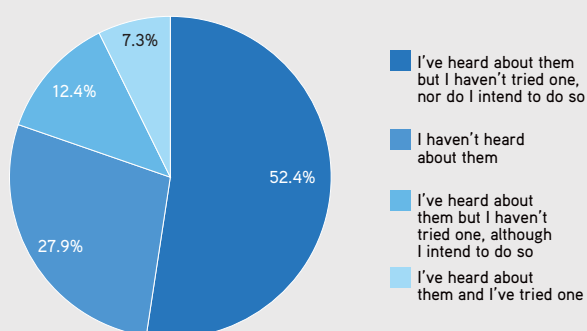
ELECTRONIC CIGARETTES

Electronic cigarettes have been launched on the Italian market in recent years. However, they are still at an early stage of diffusion and consumption (Euromonitor International 2012). According to the latest survey conducted in 2012 by DOXA for the Superior Institute of Health, only 7.3% of Italian respondents had already heard of electronic cigarettes and had tried them.⁴ In 52.4% of cases, respondents had heard of electronic cigarettes but had not tried them and did not intend to do so; while in 27.9% of cases, respondents had never heard of them (Figure 20). Finally, 12.4% of respondents had heard of them and wanted to try them (DOXA 2012).

The launch of this new product, which should discourage the consumption of traditional cigarettes and reduce the damage caused by the inhalation of smoke produced by combustion, opened a debate on the possible health risks to consumers. To date, in fact, there are still few scientific studies on the effectiveness of electronic cigarettes for smoking cessation (Istituto Superiore di Sanità 2012), and public opinion is divided between those in favour and those against the distribution of this product on the Italian market (Gallione 2013; Ghezzi 2013; Semmola 2013). The Italian Minister for Health Balduzzi has banned the sale of electronic cigarettes to persons aged under 18 (Corriere della Sera 2013). A recent study conducted by the Superior Institute of Health (Istituto Superiore di Sanità) states that “if the electronic cigarette is considered useful against addiction, it should also be regulated, sold and purchased on the same terms as apply to other products used for nicotine-replacement therapies (Istituto Superiore di Sanità 2012).

Figure 20. Have you ever heard of 'electronic cigarettes'? Have you ever tried one or are you willing to do so?

Source: Transcrime elaboration on DOXA – survey “Il fumo in Italia” (Smoking behaviours in Italy), 2012



In conclusion, the tobacco market is an important sector of the Italian economy, even if the production of raw tobacco is decreasing. In recent years, the volume of cigarette sales has declined, while the value of sales has increased. HRT and cigarillos sales are growing. This trend may be due to price increases. Nevertheless, in Italy cigarettes seem to be quite affordable in comparison with other countries.

4. For this survey, 3086 interviews were conducted with a representative sample of the adult Italian population (15+ years). Specifically, this question was put to 1,063 smokers and former smokers (15+ years).

THE FIVE DRIVERS: REGULATION

The tobacco sector in Italy is closely regulated. The country is party to the Framework Convention on Tobacco Control and, as a Member State of the EU, complies with European directives in the field of tobacco control. The taxation on cigarettes as a percentage of the final retail price is high, and medium-high as regards taxation per 1,000 cigarettes. Control over the tobacco supply chain, tobacco advertising, and promotion is high.

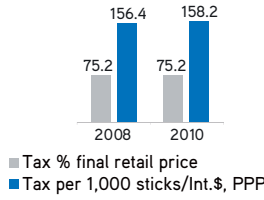


Taxation

Tax as % of the final retail price of the most sold brand

Tax per 1,000 sticks in Int.\$, PPP of the most sold brand

Source: WHO



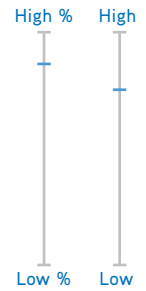
75.2 %

27 out of 181 countries

Int.\$, PPP 158.2

40 out of 164 countries

(2010)



Last national available data (2013): **75.2% - Int.\$, PPP 220.4** (European Commission 2013)

Government Action

Government expenditure on tobacco control not including the control on the ITTP per 1,000 inhabitants (US\$)

Source: WHO-Global Tobacco Epidemic

US\$ 25.8

45 out of 106 countries

(last available year)



36

Tobacco Supply Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4.5/5 points

(2013)

Tobacco Consumption and Sale Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4/5 points

(2013)

Tobacco Marketing and Promotion*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

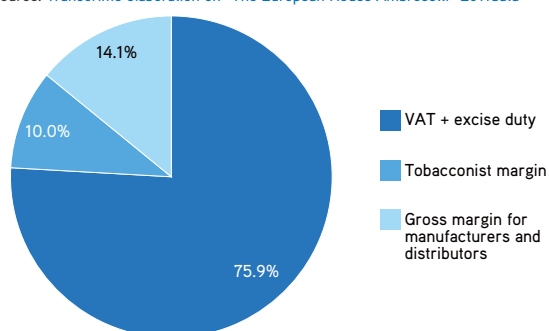
- **The regulation of tobacco in Italy dates back to the 1930s.**
- There are several laws that govern the tobacco sector in Italy. At the primary national level, the tobacco sector is regulated by laws, decrees and legislative decrees; at the secondary level by regulations, ministerial decrees, directorial decrees and explanatory circulars (The European House Ambrosetti 2011).
- In 1934, Royal Decree no. 2316 (“Consolidated Law on the protection and care of mothers and children”) prohibited tobacco sales to minors aged 16 years or under, and banned smoking in public places for minors aged below 16 (Ministero della Salute 2013). In 2012, the age limit of 16 years was raised to 18 (Ministero della Salute 2013).
- Law no. 584 of 11 November 1975 (“Prohibition of smoking in certain premises and on public transport”) banned smoking in such places as hospital wards, classrooms, railway station waiting rooms, enclosed places for public meetings, cinemas and dance halls. Thereafter, a Directive of the President of the Council of Ministers (14 December 1995), extended this ban to premises used for the provision of public services by the public administration, public companies, or private operators providing public services (Ministero della Salute 2013). With Law no. 3 of 16 January 2003 (“Protection of the health of non-smokers”), the smoking ban was extended to all enclosed spaces, including private workplaces, retail outlets and restaurants, gyms, and sports centres, the only exceptions being smoking rooms and strictly private areas (Ministero della Salute 2013).
- A Directorial Decree of 25 July 2005 introduced special provisions on minimum prices for cigarettes. The absolute value of the minimum price could not be higher than the price of the most widely sold brand of cigarettes. The sale of cigarettes below this minimum price was prohibited. In 2007, the European Commission requested Italy to modify this regulation because of its inconsistency with the European Union law and with the principles of free competition (European Commission 2007). On 27 February 2012, the European Commission sent to the Italian authorities a formal communication starting an infringement procedure for distorting competition in the tobacco sector and requesting written reasons within 60 days. In a communication of the Senate on May 9, 2012, Italy, in order to prevent further infringement proceedings by the Commission, agreed to comply with its obligations under European Union law.⁵
- The sale of tobacco products through internet retail channels is prohibited in Italy (Euromonitor International 2012).
- **The Italian tobacco regulations must comply with European directives.**
- The “Television without Frontiers” Directive (89/552/EEC) of 3 October 1989 banned the advertising of tobacco products on television. Therefore, all forms of advertising of cigarettes and other tobacco products, including indirect advertising through television, are prohibited. The Italian state implemented the above-mentioned Directive through the Ministerial Decree 425 of 30 November 1991.

5. 16th Legislature-Judicial Inspection Act No. 1-00633, Senate

- Directive 2001/37/EC contained several provisions relative to the labeling, production and sale of tobacco products. These provisions increased by 30/40% the size of the health warnings on the front and back of cigarette packs and abolished the terms “light” and “mild”. They required disclosure of the ingredients used in production of the cigarettes, the rotating of two general health warnings and 14 additional health warnings on packs, as well as reductions in the maximum amount of tar (10mg), carbon (10mg), and nicotine (1mg). Italy transposed the EU Directive through Decree no. 184 of 24 June 2003 (Ministero della Salute 2013). Considering the time required for the adoption of the Directive by Member States, it is assumed that its actual implementation will take place in 2015 (The European House Ambrosetti 2011).
- Under new EU safety standards, all cigarettes placed on the market from 17 November 2011 must be at low ignition propensity (LIP – Low Ignition Propensity). However, to date, there is no Italian law complying with this safety standard.
- **Italian regulations must comply with international treaty obligations.**
 - Italy signed the Framework Convention on Tobacco Control of the World Health Organisation in June 2003 and ratified it in July 2008. The ratification and implementation of the measures contained in this covenant reinforce anti-smoking legislation in Italy (Euromonitor International 2012). In December 2012, the Protocol on Illicit Traffic in Tobacco Products was presented within the Framework Convention mentioned above. The procedure for the signing of the Protocol was opened in January 2013 but Italy has not yet signed.
- **In Italy, smoking prevention takes place through research centres and institutions raising public awareness.**
 - In Italy, there are several organisations and institutions that deal with smoking prevention. Most of them use websites as means to communicate anti-smoking messages to the public (Euromonitor International 2012).
- The *Lega Italiana Anti Fumo* (LIAF – Italian Anti Smoking League) conducts prevention campaigns to disseminate information on the damage and inconvenience caused by smoking. Furthermore, the association aims to influence, monitor and study the Italian anti-tobacco legislation and to favour compliance with it (LIAF 2012).
- The *Movimento italiano genitori* (Moige – Italian Parents Movement) is committed to the prevention of smoking by young people and annually promotes, since 2009, a campaign entitled “*Alessio e Sara in tour per la prevenzione al fumo minorile!*” (“Alex and Sara on tour for youth smoking prevention!”) through shows for children on smoking prevention (Moige 2013).
- The *Lega Italiana per la lotta Contro i Tumori* (LILT – Italian League for the Fight against Cancer) is a public institution that operates under the patronage of the President of the Italian Republic and under the supervision of the Italian Ministry of Health. This body has joined the campaign “*Help – Per una vita senza tabacco*” (“Help – For a life without tobacco”), a campaign which aims to raise awareness on the risks associated with smoking sponsored by the European Commission and implemented in 27 EU Member States (LILT 2013).
- **In some Italian cities it is forbidden to throw cigarette butts on the ground. A fine is given to offenders.**
 - In 2004, Varese was the first Italian city to impose fines on smokers throwing cigarette butts on the ground. The fines amounted to between €100 and €500. Since then, other cities have implemented the same measure: Alba, Erba, Florence, Ferrara, Gardone, Lecce, Lucca, Pollica Acciaroli, Padua, Parma, Trento and Tirano (Osservatorio Fumo Alcool e Droga and Istituto Superiore di Sanità 2012).
- **In Italy, taxation per 1,000 cigarettes is medium-high. Tax incidence, as a percentage of the final retail price, is high.**

Figure 21. Composition of the final retail price of cigarettes (2012)

Source: Transcrime elaboration on "The European House Ambrosetti" 2011 data



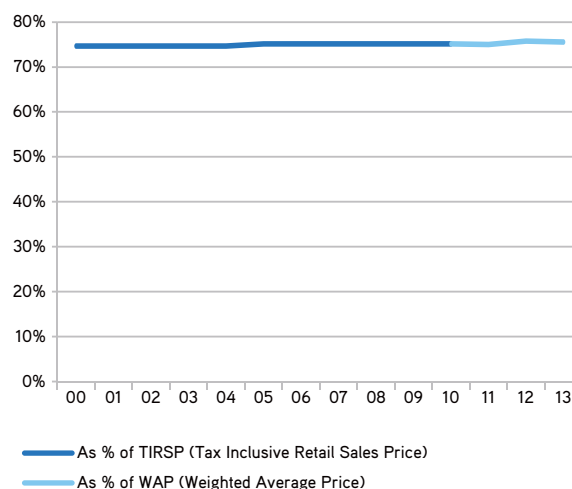
- A large percentage of the taxation on cigarettes consists of an ad valorem excise related to the final retail price, while a lower percentage consists of a specific excise. A European Commission directive requires an increase in the specific excise, stating that, from 1 January 2014, the specific excise on cigarettes shall be not less than 7.5% and no more than 76.5% of the total tax burden.⁶ Italy has complied with this directive by setting a minimum level for the specific excise: the Italian law provides that the specific excise shall be at least 7.5%, starting from January 2014.
- In 2012, the tax component (excise duty + VAT), accounted for approximately 75.9% of the final retail price of cigarettes. The remaining 24.1% was the margin for tobacconists (10% fixed by law) and the gross margin divided between the manufacturers and the distributors (Figure 21) (The European House Ambrosetti 2011).
- In 2010, tax incidence was approximately 75.2% of the final retail price, and Italy ranked 27th out of 181 countries (WHO 2012) (Figure 22). In 2013, tax incidence has remained constant at 75.58% of the final retail price of the most sold brand of cigarettes.⁷ Compared with other EU member states, Italy occupies the 26th position out of 27 member states for level of taxation; states in the top positions apply a higher taxation on cigarettes. In 2013, the total tax per 1,000 cigarettes rose to Int. \$ 220.4.⁸

6. Directive 2011/64/EU of the EU Council (21 June 2011) on the structure and rates of excise duty applied to manufactured tobacco.

7. Tax incidence, as a percentage of the final retail price, has been calculated by using the price of the most sold brand of cigarettes in 2013 and the tables on taxation of tobacco products provided by the European Commission in 2013.

Figure 22. Cigarette Tax incidence (as % of the final retail price)

Source: Transcrime calculations on the European Commission-Directorate General Taxation and Customs Union Tax policy data (TAXUD) (2000-2012)



- The increase of 1 percentage point of VAT, which took place in September 2011, resulted in a final increase of 20 cents on every pack of 20 cigarettes. VAT also applies to excise, so that an increase of one percentage point results in a five percentage points increase on the final retail price (Formisano e Vico 2012).
- **Tax incidence on HRT (Hand Rolling Tobacco).**
 - In Italy, the excise applied to HRT was aligned in January 2011 with that of cigarettes: 58.5%. However, the structure of tax incidence on smoking tobacco does not have the specific excise but is purely proportional to the price (*ad valorem*). Indeed, a lower price corresponds to a lower taxation. For each kilo of cut tobacco the total tax is €114.78.

8. Transcrime calculations on the Excise Duty Tables-2013 of the European Commission. Tax incidence as % of the final retail price and taxation per 1,000 sticks (tax level expressed in monetary terms) were calculated according to the most sold brand in 2013. Euro prices were converted into International \$ through the International Monetary Fund conversion factor in 2013.

- The minimum excise duty on HRT products in Italy complies with the basic EU requirements.⁹ Since 1 January 2013, the overall excise duty on smoking tobacco has been at least 43% of the weighted average price or at least €47 per kilogram; in 2015, 46% or at least €54 per kilogram; in 2018, 48% or €60 per kilogram; and in 2020, 50% of the final retail price or at least €60 per kilogram.
- **The Italian government's expenditure on tobacco control is medium.**
 - In 2010, the Italian government spent about US\$25.8 per 1,000 inhabitants on anti-smoking policies. The country ranked 45th out of 106 countries for this type of expenditure (WHO 2011b). In Europe, only Hungary, Croatia, Poland, Lithuania, Slovakia and Austria have lower levels of expenditure on anti-smoking policies.¹⁰
 - The Superior Institute of Health and the Italian League for the Fight against Cancer (LILT) have created centres for Smoking Cessation (*Cessazione dal Fumo di Tabacco*) throughout the country. There is also a toll-free number, the "toll-free number against smoking addiction", which provides counselling on smoking addiction.
 - The Italian Ministry of Health has launched several campaigns against smoking. In 2003, the campaign "Do the right thing, just light up your dreams" (*"Fai la cosa giusta accendi solo i tuoi sogni"*) was launched to disseminate anti-smoking messages through television, radio and the Internet. Other prevention campaigns have since been launched: in 2004 the campaign "Continue to be free, do not smoke. Cigarettes are addictive" (*"Continua a essere libero, non fumare. Il fumo da dipendenza"*) and in 2005 "Free to breathe" (*"Liberi di respirare"*), in 2009, "Smoking kills: defend yourself" (*"Il fumo uccide: difenditi"*) and in 2010 "I will never smoke" (*"Io non fumerò mai"*) (Ministero della Salute 2012).
- In 2011, the European Commission launched the "Ex-smokers are irresistible" campaign (*Gli Ex Fumatori Sono Irresistibili*) to combat smoking in the 27 EU Member countries. At the centre of this campaign is *iCoach*, a digital platform that provides advice on health and helps smokers in the process of smoking cessation (European Commission 2013).
- **The regulation of the tobacco industry has increased the use among Italians of nicotine replacement therapies.**
 - The ban on smoking in public places, introduced in 2005, was followed by an immediate increase in sales of nicotine replacement therapies (NRT) available at pharmacies. After 2005, the volume of sales decreased and then rose again in 2011 (Euromonitor International 2012).
 - The market of electronic cigarettes as substitutes for nicotine is expanding. However, the product is still at an early stage of diffusion and consumption (Euromonitor International 2012). According to a survey carried out by DOXA, in 2012 only 7.3% of Italians had heard of and used this type of product (DOXA 2012).
- **Italy has a high level of supply-chain control (4.5 points out of 5)** (Table 3, p.41).
- **The retail of tobacco products is subject to licensing.** The Italian legislation gives the task of controlling the production, distribution and sale of tobacco products to the Amministrazione Autonoma dei Monopoli di Stato (AAMS – Autonomous Administration of State Monopolies), which functions as a watchdog for the receipt and payment of taxes levied on tobacco products on behalf of the Ministry of Economy (DM 67/1999) (Point 1 in Table 3).

9. Directive 2011/64/EU of the EU Council of 21 June 2011. Transcrime calculations on the Global Health Observatory Data Repository 2012.

10. Transcrime calculations on the Global Health Observatory Data Repository 2012.

Table 3. Regulation on supply chain control in Italy

Source: [Transcrime elaboration](#)

Supply chain control indicator	Value
1) The retail of tobacco products is subject to licensing	1 point
2) The manufacture of tobacco products is subject to licensing	1 point
3) There is a mandatory system of customer identification and verification applied to the supply chain of tobacco products	1 point
4) There is a tracking and tracing system for tobacco products	1 point
5) Absence of free-trade zones for tobacco products	0.5 points

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field

- In accordance with Decree Law no. 95 (6 July 2012), converted into Law no. 135 of 7 August 2012, the Customs Agency (*Agenzia delle Dogane*) has incorporated the Autonomous Administration of State Monopolies (*Amministrazione Autonoma dei Monopoli di Stato*) (with effect from December 1, 2012) and changed its name into the *Agenzia delle Dogane e dei Monopoli* (Customs and Monopolies Agency).
- The rules governing the obligations of retailers at the point of sale are defined within the *Capitolato d'Oneri* (Terms of Reference) for the procurement of licensed monopolies. This code was enacted in 1997 and revised in 2010. It regulates the relationship between the retailer and the customer, the display of tobacco products, and the behaviour of retailers at point of sale (Philip Morris International).
- In 2012, there were approximately 55,750 tobacco points of sale: 54,200 of them were tobacconists and 1,500 alternative retail channels (e.g. gas stations) (Philip Morris International).
- **The manufacture of tobacco products is subject to licensing in Italy.**
 - Until 1999, the AAMS was the licenced producer, distributor and importer of all tobacco products in the Italian market. In 1999, the privatisation of the tobacco monopoly began and *Ente Tabacchi Italiani*¹¹ (ETI – Italian Tobacco Body) and Etinera were founded: the former for the production of tobacco in Italy, and the latter for its distribution. As a result of these privatisations, the Italian state abandoned the manufacture of cigarettes. In addition, in 2004, British American Tobacco acquired the Ente Tabacchi Italiani and started to control and rationalise the production of tobacco in Italy (British American Tobacco Italia 2012) (Point 2 in Table 3). On 30 August 2004, the *Compañía de Distribution Integral Logista* announced its acquisition of Etinera and its monopoly on the distribution of tobacco.
 - The AAMS (Autonomous Administration of State Monopolies), now *Agenzia delle Dogane e dei Monopoli* (Customs and Monopolies Agency), issues licences to “tax warehouses”. Possession of this authorization is necessary for the manufacture and processing of tobacco in Italy.¹²

11. Presentation of the draft law n.1882 of 1997.

12. Ministerial Decree 22.2.1999 n. 67 concerning rules on the establishment and regime of tax warehouses, circulation and assessment and control of taxes on manufactured tobacco.

- **Customer identification and verification.**¹³ There is a mandatory system of customer identification and verification applied to the supply chain of tobacco products. This system has been established by the European Commission and OLAF (European Anti-Fraud Office) agreements. Specifically, tobacco manufacturers must prevent criminals from obtaining their products, and they must ensure that they are sold to legitimate clients only (European Commission 2004). The system then provides for firms to verify the raw materials used by producers, as well as the traceability of products, certifying the entire system (Formisano and Vico 2012) (Points 3 and 4 in Table 3).
- Tobacco manufacturers have the dual task of performing quality checks before distribution and measuring consumer demand. In this way they ensure that retailers are aware of the exact amount of tobacco needed for retail. The Customs and Monopolies Agency can control illicit trafficking through documents that report the exact volumes of products delivered and consumed (Euromonitor International 2012).
- According to article 10 of the *Capitolato d'Oneri* (Terms of Reference), orders of tobacco from retailers should indicate the item code and quantity of product required, in order to ensure the traceability of orders and their attribution to the dealer. In addition, the retailer has the obligation to 'maintain records, also in electronic form, for checks and inspections by the competent authorities'.
- **Tracking and tracing** (Point 4 in Table 3).
 - The existence of a sole distributor of tobacco products to tax depots (Logista Italia S.p.A.) provides an effective monitoring system. In addition, purchases are recorded via Internet; this ensures better control over the supply chain. The 'tax depots' are often subject to inspection by the departments of the GdF (Italian Financial Police – *Guardia di Finanza*) and the Autonomous Administration of State Monopolies (since December 2012, the Customs and Monopolies Agency). It emerges from these inspections that in very few cases have counterfeit products been traced on the legal supply chain (Formisano and Vico 2012).
 - The four major cigarette manufacturers use a coding system that 'by unique alphanumeric codes, allows the marking of individual packs of cigarettes, thus making it possible to track the path of each of them to the final consumer' (Formisano and Vico 2012, 43).
- **In Italy there is a Free Trade Zone: Livigno** (Point 5 in Table 3).
 - The economic and legal autonomy of Livigno dates back to the 17th century. This city is a duty-free area and enjoys tax relief. Among the products on which tax relief are applied are certain foodstuffs, alcohol and cigarettes, of which only limited purchases are allowed. The maximum quantity of cigarettes that may be purchased in Livigno and exported to Italy is 10 packs, equal to a carton of cigarettes, and 250 grams of hand rolling tobacco (HRT) (www.livigno.eu 2013).
 - The port of Gioia Tauro, in the region of Calabria, is also considered a problematic commercial area. In fact, Chinese counterfeit goods transit towards other European markets through this port (BASCAP 2012). In addition, the 'Ndrangheta controls some commercial activities at Gioia Tauro. The *Maestro* Investigation of 2009 led to the arrest of 27 members of an 'Ndrangheta clan responsible for the importing of large quantities of counterfeit Chinese goods (Baldessarro 2009).
- **Regulation of tobacco consumption and sales in Italy is medium-high** (4 points out of 5, Table 4, p.43).
- **In Italy it is forbidden to smoke in public places such as workplaces, bars, restaurants and discos** (Point 1, 2 and 5 in Table 4, p.43).

13. Customer identification and verification comprise a number of measures ensuring that tobacco manufactures perform their activities with due diligence. This requires the industry to verify essential information about commercial partners and to avoid contact with dubious customers (Framework Convention Alliance 2010, 1). Tracking and tracing are systems (codes, markings or tax stamps) making it possible to track (i.e. monitor tobacco products in their route from the manufacturer to the retailer) and to trace (i.e. recreate the route of tobacco products in the supply chain) tobacco products, at least at the master case level or equivalent.

Table 4. Regulation on tobacco consumption and sales in Italy

Source: [Transcrime elaboration](#)

Tobacco consumption and sales indicator	Valore
1) Ban on smoking in public places	1 point
2) Ban on smoking in workplaces	1 point
3) Ban on the sale of tobacco products from vending machines	0 points
4) Prohibition of tobacco sales to minors	1 point
5) Ban on smoking in bars, cafés and restaurants	1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

- Italy was the third European country, after Ireland and Norway, to introduce a ban on smoking in public places. On 10 January 2005, the country introduced smoking bans in offices, pubs, bars and restaurants, unless they had a dedicated smoking room with a ventilation system. In 2007, the ban was extended to railway stations.
- In July 2005, the ban was extended to the autonomous region of Trentino Alto Adige, where legislation is more rigid. In this region, smoking areas are not allowed in restaurants and other places where food is served. Another distinctive case concerns the cities of Naples and Verona, where smoking is not allowed in public parks (Euromonitor International 2012).
- A fine of around €2,000 can be applied to the managers of premises in breach of the smoking ban. Smokers may also be fined, with harsher penalties, if they smoke in the presence of children or pregnant women (Euromonitor International 2012).
- **It is legal to sell cigarettes through vending machines** (Point 3 in Table 4).
- The sale of cigarettes through vending machines is legal in Italy. These machines are usually placed outside tobacconists and are active only when the shops are closed. In 2009, a directive established that vending machines can only be used after insertion of an identification card. This makes it possible to restrict the sale of cigarettes within the age limits prescribed for their legal purchase (Euromonitor International 2012).
- **Prohibition of tobacco sales to minors** (Point 4 in Table 4).
- Between 1934 and 2012, the minimum legal age at which a pack of cigarettes could be purchased was 16 years. In 2012, the age limit was raised to 18 years. Retailers are required to ask for the customer's identification card when his/her age is not evident. The sanctions on retailers who do not comply have been increased from €250 to €1,000, from €500 to €2,000 in case of relapse, up to suspension of the licence for three months. To comply with this law, starting in January 2013, also vending machines must be equipped with an automatic systems to recognise the age of customers (Ministero della Salute 2013).

Table 5. Regulation of tobacco marketing and promotion in Italy

Source: Transcrime elaboration

Tobacco marketing and promotion indicator	Valore
1) Ban on tobacco sponsorship and advertising in radio and TV broadcasts and in print media	1 point
2) Ban on billboards and outdoor advertising	1 point
3) Ban on the display of tobacco products at points of sale	0 points
4) Ban on free distribution of tobacco samples	1 point
5) Mandatory pictorial health warnings	1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

44

- **Regulation of the tobacco marketing and sales is medium-high** (4 points out of 5, Table 5).
- **All forms of tobacco advertising and sponsorship through billboards, TV, radio and printed media are prohibited** (Point 1 and 2 in Table 5).
 - Regulation of tobacco advertising in Italy started in 1962, when Law no. 165 stated that ‘the advertising propaganda of any tobacco product, either domestic or foreign, is prohibited’. This prohibition applied to both direct and indirect advertising (Ministero della Salute 2013).
 - Art. 8 of Decree no. 581 of 9 December 1993 “*Regolamento in materia di sponsorizzazioni di programmi radiotelevisivi e offerte al pubblico*” (Regulations on sponsorship during radio and television programmes and advertising to a public audience) banned any advertising by those ‘natural or legal persons whose principal activity is the manufacture or sale of cigarettes or other tobacco products’ (Ministero della Salute 2013).
- Directive 2003/33/EC extended the ban on tobacco advertising to press material and radio programmes. Moreover, it banned the free distribution of tobacco products as well as any other form of public or private sponsoring of events directly or indirectly advertising tobacco products. Italy complied with the European Directive with Law Decree no. 300 of 16 December 2004. It was thus possible to complete the national regulatory framework on tobacco advertising which, from 2005 onwards, banned tobacco advertising during the *Formula 1 Grand Prix* in San Marino and the *Moto GP* competitions (Ministero della Salute 2013).
- The new media are able to circumvent the prohibitions on advertising. In fact, according to a joint survey by DOXA and ISS (Istituto Superiore per la Sanità – Superior Institute of Health), in 2012, 13.5% of respondents claimed that they had seen or received advertisements for tobacco products on the Internet or by email, (Osservatorio Fumo Alcool e Droga and Istituto Superiore di Sanità 2012).
- **There is no ban on the display of tobacco products at points of sale** (Point 3 in Table 5).
 - In Italy, retailers licensed to sell tobacco products are free to display them at point of sale (Euromonitor International 2012). However, art. 17 of the *Capitolato d’Oneri* (Terms of Reference) obliges retailers to be neutral and prohibits any advertising. In no case may retailers display objects or materials of any kind that suggest a specific tobacco brand.

- **In Italy, the free distribution of tobacco samples is banned** (Point 4 in Table 5, p.44).
- The free distribution of tobacco products is prohibited (Euromonitor International 2012).
- **It is mandatory to display health warnings on tobacco products** (Point 5 in Table 5).
- In Italy, the first health warnings on cigarette packs were introduced in 1991. The warnings, printed in very small characters, were intended to inform consumers about the dangers of smoking. On 24 June 2003, Decree no. 184 introduced new and more specific health warnings, which should cover up to one third of the cigarette pack. In addition, leaflets have been introduced in packs in order to provide more detailed information on the dangers of smoking (Euromonitor International 2012).
- Italy has not introduced graphical images as health warnings on cigarette packs. This decision is up to the single European Union Member state (Euromonitor International 2012).

In conclusion, the regulation of the tobacco market in Italy is high. The taxation on cigarettes is high as a percentage of the final retail price, and medium-high as taxation per 1,000 cigarettes. Control on the tobacco supply chain and on tobacco advertising and promotion is high.



THE FIVE
DRIVERS:
CRIME
ENVIRONMENT

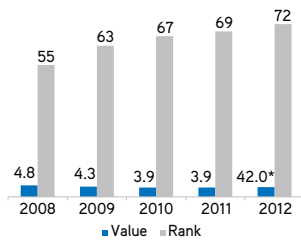
C *Crime in Italy increased between 2010 and 2011. The homicide, assault, theft and robbery rates rose. Furthermore, the use of drugs, especially cocaine and cannabis, is high. The presence of corruption and organised crime is medium-high in comparison with the other European countries.*



Corruption

Corruption Perception Index

Source: Transparency International



42.0*

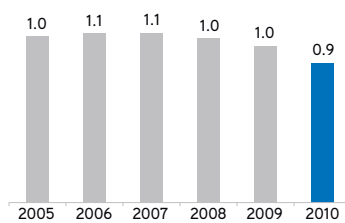
72 out of 176 countries

(2012)



Homicides

Homicide rate per 100,000 inhabitants
Source: UNODC



0.9

172 out of 187 countries

(last available year)



Organized Crime Index

Composite Organized Crime Index
Source: Van Dijk (2008), "The World of Crime"

48

46.81

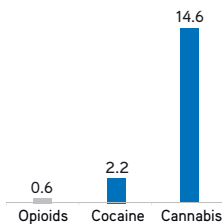
69 out of 156 countries

(last available year)



Drugs

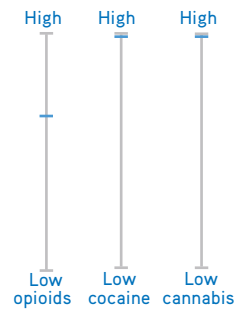
Annual prevalence of opioids, cocaine and cannabis use (15–64)
Source: UNODC–World Drug Report



opioids 0.6
cocaine 2.2
cannabis 14.6

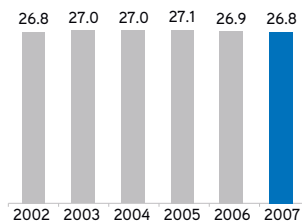
opioids: 32 out of 132 countries
cocaine: 3 out of 99 countries
cannabis: 4 out of 139 countries

(last available year)



Shadow Economy

Indicator of the presence of market-based activities that escape the official estimates of GDP
Source: Schneider, Buehn, Montenegro (2010), "New Estimates for the Shadow Economies all over the World"



26.8

51 out of 162 countries

(2007)



Last national available data (2012): 21.6 (Williams, Schneider 2013)

* Corruption perception index ranged from 0 to 10 until 2011. Since 2012, it ranges from 0 to 100. Highly corrupted countries occupy low positions in this rank.

CRIME TRENDS

- **Crime has decreased in recent years, although the trend reversed in 2011.**

- In recent years, crime in Italy has decreased (Ministero dell'Interno 2010), notwithstanding increases in the homicide, assault, theft and robbery rates in 2011 (Ministero dell'Interno 2011).
- In 2010, at global level, Italy ranked 172nd out of 187 countries for number of murders, recording 0.9 murders per 100,000 inhabitants (UNODC 2012a). The rate in 2009 was 1.0 lower than the EU27 average (ISTAT 2013a).
- According to the last available data, the rate of voluntary homicides recorded in Italy in 2011 was 0.91 homicides per 100,000 inhabitants, an increase of 0.04 homicides on 2010 (Figure 23) (Ministero dell'Interno 2011).
- The rate of assaults in 2011 was 112.7 per 100,000 inhabitants, an increase of 5.1% on 2010 (Figure 24).
- The rates of robberies and thefts per 100,000 inhabitants exhibits the same trend: in 2011, 66.7 robberies and 2402.8 thefts per 100,000 inhabitants, +19.6% and +9.7% in comparison with the previous year (Figure 25, Figure 26) (Ministero dell'Interno 2011).

Figure 23. Homicide rate per 100,000 inhabitants

Source: Transcrime elaboration on SDI (Sistema di Indagine - Investigation System) Italian Ministry of Interior data

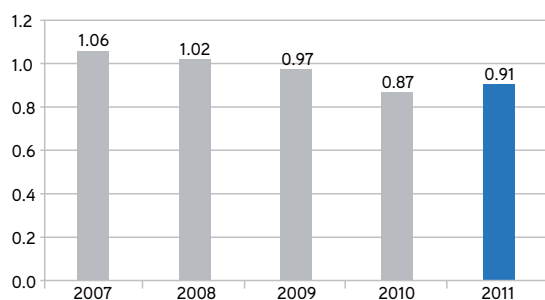


Figure 24. Assault rate per 100,000 inhabitants

Source: Transcrime elaboration on SDI (Sistema di Indagine - Investigation System) Italian Ministry of Interior data

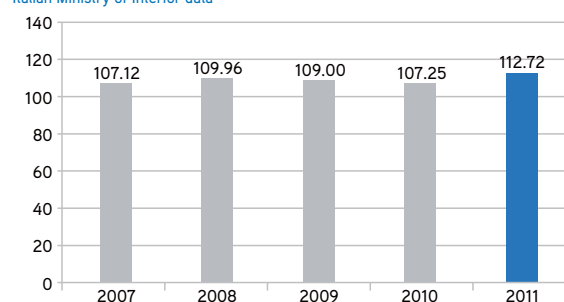


Figure 25. Robbery rate per 100,000 inhabitants

Source: Transcrime elaboration on SDI (Sistema di Indagine - Investigation System) Italian Ministry of Interior data

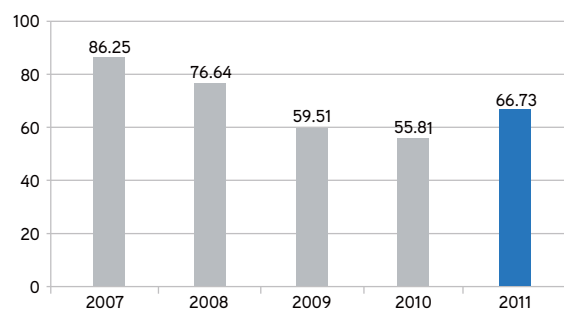
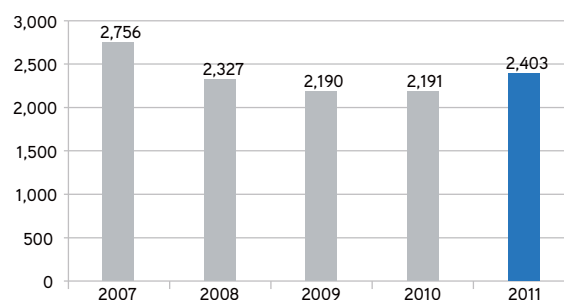


Figure 26. Theft rate per 100,000 inhabitants

Source: Transcrime elaboration on SDI (Sistema di Indagine - Investigation System) Italian Ministry of Interior data



DRUG CONSUMPTION AND MARKETS

- **Drug use is high in Italy, especially of cocaine and cannabis.**

- Italy has a high percentage of cannabis and cocaine consumers (Figure 27, p.50). With a prevalence of 14.6% and 2.2% respectively, Italy ranks 4th out of 139 countries for cannabis use and 3rd out of 99 countries for cocaine use (UNODC 2012b).
- The percentage of smokers of opioids, however, is much lower and stands at around 0.6%. With this value, Italy ranks 33rd out of 132 countries (UNODC 2012b).

- The prevalence of amphetamine use is not very high – around 0.4% – while the consumption of ecstasy is medium, 0.7% of the population (UNODC 2012b). Italy ranks respectively 71st out of 115 countries in the case of amphetamine use and 31st out of 103 countries for ecstasy use.
- The prevalence of cannabis use is higher among young people aged between 15 and 24 years (22.3%) (Figure 28).
- Italy, Bulgaria and Norway are the three countries with the least gender differences among drug consumers. In 2008, there were 67 female consumers for every 100 male cannabis consumers (UNODC 2012b).
- The number of Italians considered addicted to drugs and in need of medical treatment is about 338,425, or 8.5 per 1,000 people aged between 15 and 64. Among them, 218,425 are addicted to opioids (5.5 per 1,000 inhabitants) and 120,000 to cocaine (3.0 per 1,000 population) (DPA 2011).

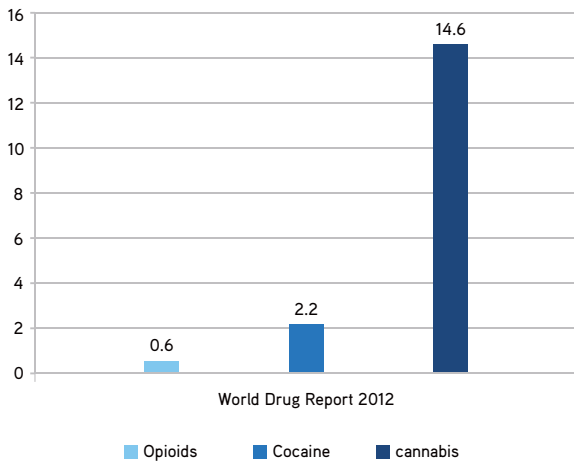
50

•• **In 2011, offences related to drug production, trafficking and smuggling grew slightly in comparison with 2010 (Figure 29).**

- Italy is one of the main gateways for the entry of drugs into Europe. The country’s position on the Mediterranean Sea is strategic for all illicit traffics coming from North Africa, the Balkans and Afghanistan (DPA 2010).

Figure 27. Prevalence of cannabis, cocaine and opioids use, 2012

Source: [Transcrime elaboration on UNODC data](#)

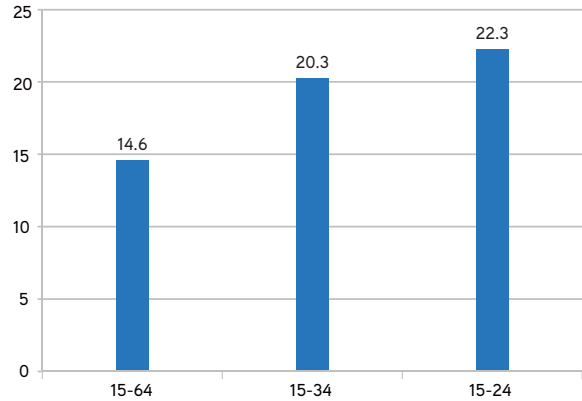


Note: Last available data, year 2008.

- Crimes related to the production/trafficking and smuggling of drugs have been constant in recent years, although in 2011 they increased slightly, rising from 54.2 offences per 100,000 inhabitants in 2010 to 56.0 in 2011 (Figure 29) (Ministero dell’Interno 2011).

Figure 28. Cannabis prevalence per age group

Source: [Transcrime elaboration on UNODC data](#)



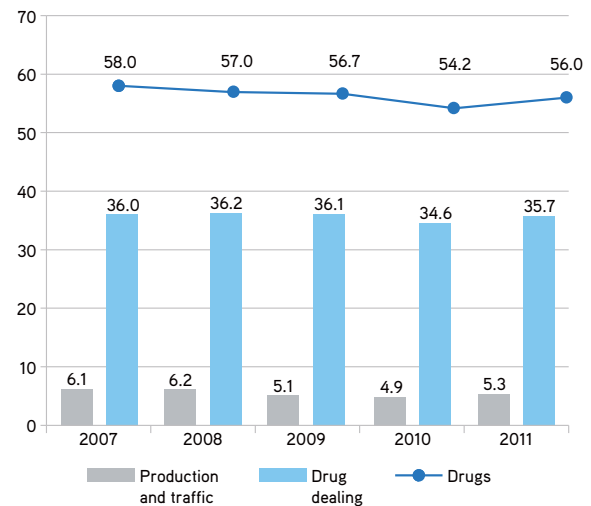
•• **Drug trafficking is the illegal market that generates most revenues for organised crime.**

- Drug trafficking is one of the most typical activities of criminal organisations and also the most profitable sector for them (DPA 2010).

Figure 29. Crime rate per 100,000 inhabitants (Drug production and drug trafficking)

Source: [Transcrime elaboration on SDI](#)

(Sistema di Indagine – Investigation System) Italian Ministry of Interior data



ITALIAN CRIMINAL ORGANISATIONS

The main Italian criminal organisations are Cosa Nostra, Camorra, 'Ndrangheta and Sacra Corona Unita.

The **“Cosa Nostra”** was born in Sicily after the abolition of the feudal system. Over the centuries, the organisation, became involved in political power, a situation which reached its climax with the “Sack of Palermo”, a real estate speculative boom which occurred during the post-war period. Thereafter, Cosa Nostra moved into drug trafficking and created ties with the political system. It concentrated on economic activities such as investments, usury, extortion and public procurements (Turone 2008). This organisation has a complex structure consisting of groups, called ‘families’, organised into a hierarchical system. The territory is divided into “commandments” made up of families which together elect a chief of commandment representing the provincial commission or “*cupola*” (“dome”) (Turone 2008).

The **Camorra** was born before Cosa Nostra, as a criminal confraternity in the urban environment of Naples. This organisation does not have a strong hierarchical structure. For this reason, it has been subject over the years to rapid and constant changes (Turone 2008). This organisation exerts social control on the Neapolitan underclass. It originally engaged mainly in extortion, cigarette smuggling, and it exploited state funding for reconstruction after the earthquake in Irpinia of 1980 (Turone 2008).

The **‘Ndrangheta** is a criminal organisation operating in the region of Calabria, where it began as a mutual aid association among the inhabitants of the southern Calabrian countryside. Through extortion, kidnapping and drug trafficking, the ‘Ndrangheta has expanded in northern Italy as well (e.g., in the regions of Lombardy and Piedmont). This has been mainly due to migration, policies of forced relocation, and dynamics internal to ‘Ndrangheta families’ (Turone 2008). This organisation has always had a horizontal structure with a strong control over the territory. Each family (called “*ndrina*”) is governed by a “*capobastone*” and has its own territory. Many “*ndrine*” form a “*locale*”. There may be trade relations and joint management of illicit activities between ‘*locali*’ and ‘*ndrine*’ (Turone 2008).

The **Sacra Corona Unita** is the most recent Mafia organisation (born in the 1970s) with its centre in the Apulia region. Its organisation is similar to that of the older mafias. Recently, it has taken on a more horizontal structure. It is unclear whether the Sacra Corona Unita was formed through colonisation by the other three criminal organisations or in order to counter it. However, it has the same characteristics as the other mafia organisations: it engages in extortion, uses intimidation and violence, participates in the illicit trafficking of drugs, weapons, tobacco, and infiltrates institutions and public procurement procedures (Turone 2008).

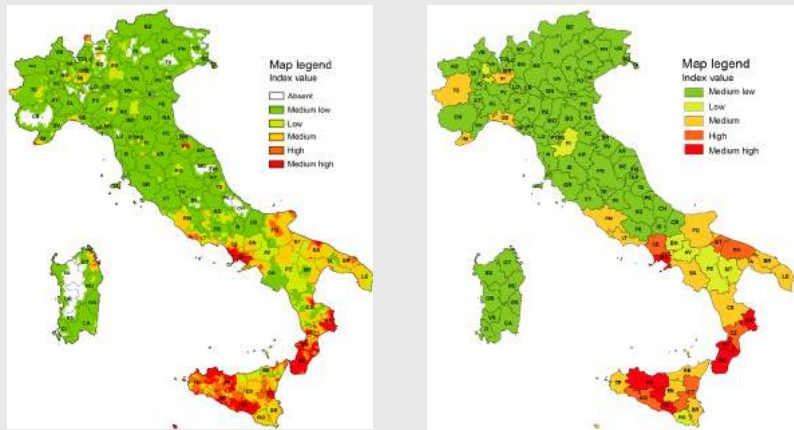
The Index of Mafia Presence (IPM-*Indice di Presenza Mafiosa*) is a useful tool with which to gain better understanding of the local presence of criminal organisations. Regions with higher indexes are those in which the main criminal organisations were born: Campania (61.21), Calabria (41.76) and Sicily (31.80). Among northern regions, however, the highest rate is recorded by Liguria (10.44), followed by Piedmont (6.11) and Lombardy (4.17) (Figure 30, p.52) (Transcrime 2013).

The maps on the geographical distribution of mafia organisations show that Cosa Nostra operates mainly in Sicily, but also in Lazio and some northern regions (Liguria, Lombardy and Friuli-Venezia Giulia). Camorra has a strong presence in Campania, Lombardy and in the central regions. As well as in Calabria, the ‘Ndrangheta is present in the North-West (Liguria, Lombardy, Piedmont). The Sacra Corona Unita is concentrated in Apulia and to a smaller extent in Abruzzo, Marche and Lombardy (Transcrime 2013).

According to the most recent estimates, the revenues generated by illegal activities in Italy correspond to 1.7% of GDP. These activities are only partially carried out by Italian criminal organisations, and Mafia organisations earn only a portion of the revenues. It has been estimated that the annual revenues of the mafias vary between a minimum of €8.3 and a maximum of €13.0 billion, accounting for 32% and 51% of total illegal revenues. On average, extortion provides 45% of this amount, drugs 23%, usury 10%, and counterfeiting and sexual exploitation 8% respectively (Transcrime 2013). These revenues are not divided equally among the four Italian organised crime groups, as the Camorra and ‘Ndrangheta prove themselves more active and powerful by achieving almost 70% of total revenues (Transcrime 2013).

Figure 30. The presence of criminal organisations at the municipal and provincial level from 2000 to 2011.

Source: [Transcrime elaboration](#)



52

- According to recent estimates, the drug market in Italy generates revenues amounting to €7.6 billion, but only a part of this sum is attributable to the Italian mafia (Transcrime 2013). Revenues from drugs account for 23% of the total revenues earned by the mafia from various illegal activities, while those from tobacco account for 2% (Transcrime 2013).
- **The use of drugs is closely associated with crime.**
- The stimulant effect of drugs is often a strong incentive for the commission of crimes of any type.

- The level of organised crime in Italy is measured by the Composite Organised Crime Index, which places Italy in 69th place out of 156 countries owing to the presence of Mafia organisations (see Box *Italian criminal organisations*). This value is medium-high (van Dijk 2008, 165-166). The majority of European countries stand above 90th position: the Netherlands and Denmark (105th and 106th), Germany (102nd), France (95th) and Portugal (91st).

ORGANISED CRIME AND CORRUPTION

- **The presence of corruption, organised crime and shadow economies may affect the development of parallel illegal markets such as the illicit tobacco trade.**
- The level of corruption in Italy is medium-high. In 2012, the country ranked 72nd out of 176 countries with a Corruption Perception Index (CPI) of 42 out of 100. Denmark, which ranked first, had a CPI of 90 points out of 100 (Transparency International 2012).
- In 2007, Italy, with a coefficient of 26.8, ranked 51st out of 162 countries for the presence of shadow economies in the country. This level can be considered average in comparison with other countries (Schneider, Buehn, and Montenegro 2010). In 2012, this ratio decreased to 21.6 (Williams and Schneider 2013).

In conclusion, organised crime and corruption practices are rather widespread in Italy, which records high-medium levels on both the Organised Crime Index and the Corruption Perception Index. The presence of these phenomena and shadow economies can stimulate the birth and growth of illegal markets such as the illicit tobacco trade. Revenues from drugs account for 23% of total revenues earned by the mafia from various illegal activities, while those deriving from tobacco account for 2%.

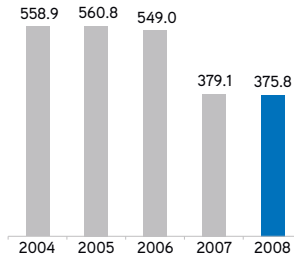
THE FIVE DRIVERS: ENFORCEMENT

Italy has a high number of police officers and judges. The prison population is below the European average; nevertheless, prisons are overcrowded. The fight against illicit trade in tobacco products is carried out through cooperation among Italian law enforcement forces and European institutions, as well as through cooperation with third countries' customs offices and through public awareness campaigns. The action against the ITTP is only average because of the lack of a national action plan against the ITTP and official estimates provided by Italian institutions for quantification of the ITTP.



Police

Police personnel rate per 100,000 inhabitants
Source: UNODC



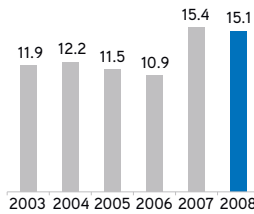
375.8

28 out of 81 countries
(last available year)



Judiciary

Professional judges rate per 100,000 inhabitants
Source: UNODC



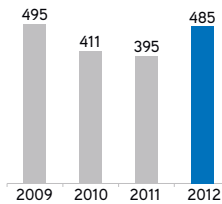
15.1

29 out of 73 countries
(last available year)



Tobacco Products Seizures

Quantity of seized tobacco in Kg per 100,000 inhabitants
Source: Guardia di Finanza



Tob. 485 Kg

(2012)

54

Penalty for ITTP

Likely maximum penalty for an hypothetical serious case of ITTP
Source: Transcrime elaboration

24 years and 4 months of imprisonment

Anti-ITTP Action*

Composite indicator measuring the presence of specific policy measures in the country
Source: Transcrime elaboration



2.5/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

LAW ENFORCEMENT IN ITALY

•• The police system includes several corps.

- The **Polizia di Stato** (National Police) is under the authority of the Department of Public Security of the Ministry of the Interior and is responsible for public order and safety in Italy. It protects the freedoms and rights of citizens, oversees compliance with laws, regulations and decisions of public authorities, provides for the prevention and repression of crime, and furnishes aid in case of natural disasters and accidents.¹⁴
- The **Carabinieri** is one of the four Italian armed forces and operates under the authority of the Ministry of Defence. It has a dual nature as both a military and police force. As a military force, it contributes to the defence of the Italian territory, ensures the security of diplomats in foreign countries and takes part in military actions. As a police force, it provides public security and performs judicial police duties. It is coordinated by the Ministry of the Interior.¹⁵
- The **Guardia di Finanza** (GdF – Italian Financial Police) is a military body under the authority of the Ministry of Economy and Finance. It performs judicial police duties, provides public security and has the exclusive role of tax inspection. It also deals with smuggling and drug trafficking. It represses crimes linked with criminal organisations and money laundering, and it combats the financing of international terrorism.¹⁶
- The **Polizia Penitenziaria** (Prison Police) is under the authority of the Prison Administration Department of the Ministry of Justice. It is a civilian police force and performs judicial police duties, enforces public security, and manages persons subject to measures of restriction or limitation of personal freedom.¹⁷

- The **Corpo Forestale** (Forest Service) is a civil police force. It carries out judicial police duties and provides public safety.¹⁸
- The **Guardia Costiera** (Coast Guard) is a Navy corps responsible for maritime safety. Duties relating to maritime safety and environmental protection are carried out by the *Corpo delle Capitanerie di Porto* (Harbour Corps).¹⁹
- The **Polizia Locale** (Local Police) is a police service provided by local authorities and dependent on municipalities. It carries out judicial police duties, controls traffic, and undertakes auxiliary public security functions.²⁰
- **The police personnel rate per 100,000 inhabitants in 2008 was 375.8.** This is a medium-high level compared with those of other countries. Italy ranks 36th out of 81 countries for the rate of police personnel per 100,000 inhabitants. The number of police officers per 100,000 inhabitants declined in 2007, from 549.0 to 379.1. This adjustment was due to a change in accounting methodology: in fact, the *Polizia Penitenziaria*, *Polizia Locale* and the *Corpo Forestale* were excluded from calculation of the rate (UNODC 2012a).
- **The rate of judges** per 100,000 inhabitants in 2008 was 15.1. Italy ranks 29th out of 73 countries surveyed by UNODC.²¹ The rate has increased since 2007, from 10.4 in 2006 to 15.1 in 2007 (UNODC 2012b).²²
- **Prison population** in Italy has increased in recent years from 2007 to 2011. In 2011, the total number of persons held in penal institutions or correctional institutions per 100,000 inhabitants was 112.6, which was below the European and global averages of 127.7 and 156, respectively (ISTAT 2012).

14. Law April 1, 1981, no. 121 (New Regulations of the Administration of Public Security).

15. Law Decree 297/2000 (Rules on the reorganisation of the Carabinieri, in accordance with Article 1 of the Law of 31 March 2000, no. 78).

16. Law Decree 68/2001 (Adaptation of the tasks of *Guardia di Finanza*, in accordance with Article 4 of the Law of 31 March 2000, no. 78).

17. Law of 15 December 1990, n. 395 (Order of the *Corpo di polizia penitenziaria*).

18. Law Decree 804/1948 (Implementing Rules for the restoration of the *Corpo forestale dello Stato*).

19. Ministerial Decree June 8, 1989 (Constitution of the *Guardia Costiera*).

20. Law 7 March 1986. 65 (Framework Law on the organisation of the municipal police)

21. The classification was made by UNODC in 2010. Last available data concerning Italy date to 2008.

22. The increase is due to a change in the system of counting judges made between 2006 and 2007.

- In 2008, the total **number of people held in penal institutions** or correctional institutions per 100,000 inhabitants was 99.0, equal to 59,284 persons detained. Italy occupied 76th position out of 110 (UNODC 2012b). More than half of the countries in the world have a prison population of under 150 prisoners per 100,000 inhabitants, Italy was 140th out of 221, with a rate of 108 in 2012 (ICPS 2013). In 2013, according to national statistics, the total number of prisoners is 65,917, amounting to 108.5 prisoners per 100,000 inhabitants.²³
- **Prison overcrowding** is an issue in Italy. Between 13 January 2010 and 31 December 2012, the Italian government declared a state of emergency for prison overcrowding. In 2010, an extraordinary plan for prison building was launched, the aim being to increase the capacity of prisons by about 1,515 prisoner beds (Dipartimento Amministrazione Penitenziaria 2012). According to official sources, in 2011, there were 146 prisoners per 100 beds in Italy, with the worst situation in Apulia, 182 prisoners per 100 beds, and the best in Trentino Alto Adige, 72 prisoners per 100 beds (ISTAT 2012c).
- The **Guardia di Finanza** (Italian Financial Police). This performs duties of customs supervision and assistance. On the one hand, the Agency monitors implementation of the regulations on the movement and storage of goods in order to prevent illicit operations. On the other hand, it represses trafficking and customs violations by supporting the activities of the Customs and Monopolies Agency. The Guardia di Finanza conducts investigations on criminal organisations involved in trafficking in order to intercept illicit cash flows in both Italy and abroad (Formisano e Vico 2012). The fight against smuggling divides into three main phases: seizures directed at the top level of criminal organisations; identification of the cash flows generated by trafficking; and attack on illegal assets accumulated by criminal organisations (GdF 2010).
- The **GdF** (Italian Financial Police) comprises Special Forces with expertise in the field of the illicit tobacco trade. Of particular importance is the *Servizio Centrale Investigazione Criminalità Organizzata* (SCICO – Central Service of Investigation on Organised Crime) which, together with the *Nucleo Speciale Spesa Pubblica e Repressione Frodi Comunitarie* (Special Unit on Public Expenditure and Community Frauds Repression), coordinates national investigations on tobacco smuggling. In particular, the SCICO coordinates the activities of 26 *Gruppi Investigativi sulla Criminalità Organizzata* (GICO – Investigation Groups on Organised Crime) (see Box *Recent law enforcement operations against the ITTP in Italy*).
- The **Servizio Centrale Investigazione Criminalità Organizzata** (SCICO – Central Service of Investigation on Organised Crime) is responsible for reporting information and giving technical, logistical and operational support to the various GICOs.²⁵ The SCICO, together with the Special Unit on Public Expenditure and Community Fraud Repression, collects data on seizures and ongoing investigations from different sources and creates models on criminal phenomena (Formisano and Vico 2012).

THE FIGHT AGAINST THE ITTP IN ITALY

- **The main bodies involved in the fight against the ITTP are:**
- The **Agenzia delle Dogane e dei Monopoli** (Customs and Monopolies Agency). This monitors, verifies and checks the movement of goods and the payment of tax excise in international trade practices, and compliance with European Union treaties.²⁴ The agency combats tax evasion, trafficking in drugs, tobacco, weapons, cultural heritage assets, or counterfeit products which do not meet the health and safety regulations (Agenzia delle Dogane e dei Monopoli 2013a).

²³ The rate was calculated using data from the Ministry of Justice for the prison population (2013) and World Bank (2011) on resident population.

²⁴ Law Decree 300/1999 (Reform of the Government, in accordance with Article 11 of the law of 15 March 1997, n. 59)

²⁵ Law Decree n.152/1991, art. 12.

- The **Gruppo Investigativo sulla Criminalità Organizzata** (GICO-Investigation Group on Organised Crime), is present in the 26 cities where the Courts of Appeal are located. It is responsible for investigating such crimes as ‘criminal association for the smuggling and counterfeiting of foreign tobacco’.²⁶ The GICO acts together with the units on tax frauds within the GdF (Formisano and Vico 2012).
- The **Nucleo Speciale Spesa Pubblica e Repressione Frodi Comunitarie** (Special Unit on Public Expenditure and Community Fraud Repression) is responsible for overseeing public spending, fraud against the Community budget, national budget and local authorities). It mainly carries out analytical functions and plans operational projects (GdF 2006).

RECENT LAW ENFORCEMENT OPERATIONS AGAINST THE ITTP IN ITALY

Now described are some enforcement operations conducted by GICO and SCICO of the *Guardia di Finanza*, with the coordination of the DDA – District Antimafia Units:

- The “**Alarico**” Operation, launched in 2008, identified the presence of Polish and Ukrainian criminal organisations importing contraband tobacco from Ukraine, Poland and Hungary into the regions of Campania, Lombardy and Emilia. During this investigation, 202 people were reported to the police, 77 arrested, and more than 8 tonnes of tobacco were seized, together with 49 vehicles. The seizure of 7 vehicles and 2 properties was also ordered (DNA 2012).
- In October 2008, the “**Web Tobacco**” Operation dismantled a vast tobacco smuggling network operating through the Internet. Thematic online forums were discovered during the monitoring of online sales. Consumers bought cheaper tobacco on these websites, and they were given suggestions on the most affordable websites. The investigations led to the identification of two websites used by a Swiss company for the acquisition of orders and their forwarding to a server located in Houston, Texas. It was also found that the US server had connections with offshore companies in Cyprus/Bahamas and credited income on current accounts in Bahrain, Shanghai, Switzerland, Latvia, USA, Lebanon, the Netherlands and Nassau. Between 2006 and 2007, the total amount of contraband tobacco in the Italian territory was about 10 tonnes of cigarettes, worth about €3.5 million. On conclusion of the investigation, a quantity of assets were seized: luxury real estate, bank accounts, high-powered automobiles, and company shares, for a total value of approximately €10 million. In addition, the two websites used for the illicit transactions were blocked, and three people were arrested on charges of continued and aggravated smuggling. An international arrest warrant was issued for a fourth person. Finally, more than a thousand buyers of tobacco were reported to the Judicial Authority (DNA 2009).
- In Liguria, in July 2011, the “**Omnibus**” Operation detected the existence of a criminal organisation consisting of Italian and Romanian citizens engaged in tobacco smuggling and other illicit activities such as aiding and abetting prostitution, theft, fraud against the state, receiving stolen property, and embezzlement (DNA 2012).
- In December 2011, the “**Alfabeto**” operation dismantled a criminal organization in Milan formed of Italian and Polish citizens working with other Poles, who bought cigarettes in Ukraine and transported them to Italy for sale on the black market in Lombardy. A network of non-EU citizens sold illicit tobacco on the streets. The operation was conducted in cooperation with the investigative agencies and the Judicial Authority of Poland. Ten tonnes of tobacco were seized, together with 11 vehicles; and 67 people were arrested on charges of tobacco smuggling (DNA 2012).
- In January 2012, the “**San Giuseppe**” Operation dismantled a Ukrainian criminal organization based in Veneto dedicated to tobacco smuggling. The tobacco came from Ukraine and was bound for Campania. During the investigation more than 3 tonnes of tobacco and 9 vehicles were seized (DNA 2012).(DNA 2012).

²⁶ Art. 51 c.3-*bis* of Codice di Procedura Penale (Criminal Procedure Code).

- The sale of contraband cigarettes on the Internet employs well-tested systems and platforms. For this reason, some teams within the GdF (units on tax fraud) monitor the Web, examine equipment and information systems, tries to identify possible alternative forms of entry of illicit tobacco products into Italy, and highlights possible links between criminal organisations. These teams are made up of experts in computer forensics who analyse computers and Internet service providers (Formisano and Vico 2012).
- The *Direzione Nazionale Antimafia* (DNA – National Anti-Mafia Directorate) is responsible for the fight against organised crime throughout the country. Under law no. 92 of 19 March 2001, in cases of criminal association for smuggling, the DNA has the power to investigate together with the *Direzioni Distrettuali Antimafia* (DDA – District Antimafia Units). The investigation is not limited to the specific case but to covers all the operations of the organisations involved in the smuggling (Russo 2013).
- **Italian police and cooperation in the fight against the ITTP.**
- In 2007, the GdF and the AAMS (since December, 2012, the Customs and Monopolies Agency) signed a Memorandum of Understanding against trademark infringement. Under this agreement, following major seizures of tobacco, the Customs Agency appoints experts who analyse the seized tobacco and establish whether it is genuine or counterfeit (Formisano and Vico 2012).
- Recently, DNA and the major players of the tobacco industry have proposed the creation of an observatory on tobacco smuggling. The intention is to strengthen strategic synergies with national and European forces against the ITTP and share reports, analyses and evaluations (Russo 2013).
- **Italian police and international cooperation in the fight against the ITTP.**
- The **Convention on mutual assistance and cooperation between customs administrations**, signed in Brussels on 18 December 1997 and in force since 23 June 2009, allows the *Guardia di Finanza* to forward and receive direct requests for cooperation to the customs of the European Union Member States (Formisano e Vico 2012).
- The *Guardia di Finanza* has signed cooperation agreements with the Spanish Guardia Civil, the Romanian Ministry of Administration and the Interior, the Indian Central Board of Excise and Customs, the Alcohol and Tobacco Tax Trade Bureau of the United States, and the Federal Administration of Revenues of Argentina. Finally, The GdF has approved a plan of joint measures with the Customs Service of the Russian Federation and an Action Plan against the violation of customs laws with the Customs and Excise Department of Hong Kong (Formisano and Vico 2012).
- The **Service for International Police Cooperation**, established by decree of the Minister of the Interior in 2000, brings together the existing structures of the Department of Public Safety Services, Interpol, Division S.I.R.E.N.E. and the Europol National Unit. The aim of this service is to speed up the sharing of operational information among police forces (Formisano and Vico 2012).
- **There are several legal sources governing the smuggling and counterfeiting of tobacco in Italy.**

Table 6. Measures against the ITTP in Italy

Source: Transcrime elaboration

Anti-ITTP action indicator	Valore
1) National Action Plan against the ITTP	0 points
2) Cooperation agreements between national public bodies and tobacco companies to prevent and control the ITTP	0,5 points
3) National public awareness campaign against the various forms of the ITTP	1 point
4) Legal duty for tobacco manufacturers not to facilitate smuggling	1 point
5) Official estimates of the size of the ITTP	0 points

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field

- The Decree of the President of the Republic no. 43 of 23 January 1973, art. 291 and following (291 bis, 291 *ter*, 291 c) governs the offence of foreign tobacco smuggling.²⁷ In particular, Article 291 *quater* defines the crime of criminal association for the smuggling of foreign tobacco, when ‘three or more persons conspire to commit the crime of smuggling foreign tobacco’. The offence is punishable with imprisonment from three to eight years for the promoters of the association, and from one to six years for those participating in it. The penalty is increased if the number of the organisation’s members is ten or more.
- Title III of Law n. 907 of 1942, in Article 64, governs the offence of domestic smuggling. According to this article, the offence of domestic smuggling is committed by ‘anyone who, without permission of the State monopolies, sows, transplants, cultivates, cures or processes tobacco, or, manufactures and processes tobacco for commercial purposes’.
- Art. 416 of the Criminal code regulates the offence of smuggling in case it is committed by three or more persons as part of a criminal association. Art. 416 *bis* of the Criminal Code regulates the offence of smuggling in case it is committed by a mafia criminal organization.
- In the past ten years, over 300 prosecutions have been brought for the crime of criminal association for the smuggling of foreign tobacco against more than 2,700 individuals. Almost half of them related to proceedings initiated by the DDA of Naples, Trieste, Lecce and Trento (Russo 2013).
- It is widely accepted that the Italian legal instruments aimed at combating the illicit trade in tobacco products, even when run by criminal organisations, are adequate (Formisano and Vico 2012) (see box *Hypothetical case of a criminal organisation involved in tobacco smuggling*).
- **With reference to supranational regulations, the Palermo Convention** has adopted the UN Convention on international crime, and has defined the crime of smuggling as an international crime, allowing for confiscation of the proceeds of that crime (Formisano and Vico 2012).
- **Anti-ITTP action in Italy is medium, with 2.5 points out of 5 on this indicator** (Table 6).
- **In Italy there is no national action plan against the ITTP** (Point 1 in Table 6).
- **Specific agreements have been reached between national public bodies and tobacco companies to prevent and control the ITTP** (Point 2 and 4 in Table 6).

²⁷ Decree of the President of the Republic of 23 January 1973, no. 43. (Approval of the consolidated text of the Customs Law). Art 291: Smuggling: Anyone who, during import or temporary export or re-export and re-import operations subjects those goods to artificial manipulation or uses fraudulent means in order not to pay excise, shall be punished with a fine of between 2 and 10 times the value of the duties evaded.

HYPOTHETICAL CASE OF A CRIMINAL ORGANISATION INVOLVED IN TOBACCO SMUGGLING

A criminal organisation composed of eleven members used a house in the periphery of a large city as an illicit factory for the production and distribution of tobacco products. For at least sixteen months, with a clear division of tasks and functions among them, the members of the organisation illegally manufactured tobacco products (cigarettes and hand-rolling tobacco); packed them in packaging bearing false trademarks of legitimate brands (produced by the same organisation); distributed the products to various wholesalers and retailers; and sold the illicit products through a network of bars and street sellers. No tax or duty was ever paid on these products. The law enforcement agencies seized a total of ten tonnes of illegal tobacco products stocked inside the house. All the members of the organisation had previous records for fraud, forgery and illicit trade in tobacco products. They could not justify their incomes through any form of employment, suggesting that the illicit business was their sole source of income.

Applicable penalties in Italy

According to Italian law, the above-described activities constitute criminal offences in the following areas:

1. Contraband
2. Intellectual property infringement
3. Tax evasion
4. Criminal conspiracy

1. Contraband

The organisation violated various provisions of Law no. 907/42 on the smuggling of tobacco products (Article 55 Prohibition of manufacture and possession of equipment for the processing of tobacco; Article 64 Production, preparation and sale of tobacco products and tobacco substitutes; Article 66, Transportation, storage and possession of tobacco; Article 72 possession of tools for manufacturing tobacco). These offences are aggravated because they were linked with other crimes against public trust (intellectual property infringement) and committed within a criminal association (Art. 81 Law 907/42, and Article 6 Law 27/51).

The penalty for these offences is imprisonment **from three months to four years and a fine** ranging from €15 to €45 per kilogram of tobacco (Articles 75 and 81 of Law 907/42 and Articles 1, 2 and 6 of Law 27/51). Since the members of the criminal organisation had previous convictions for the crime of counterfeiting, the principle of aggravated relapse applies (Article 99, second paragraph, of the Criminal Code), which increases the penalty by up to one half of the initial penalty.²⁸

The overall applicable penalty is imprisonment from three months to six years and a fine (according to the quantity of tobacco seized and increased by up to a half). In addition, under Article 87 of the law 907/42, the property used to commit the offence shall be confiscated, together with the illicit tobacco and the profits derived from it.

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28. According to Article 83 of Law no. 907/42, anyone, after three convictions for smuggling offences committed within ten years and not simultaneously, can be declared a "habitual smuggling offender". According to Article 84 of law 907/42, anyone who, after four sentences for smuggling offences, is again convicted for the same offence, can be declared a "professional smuggling criminal" if circumstances suggest that this offence is his/her source of income (or partial).

Accordingly, pursuant to Articles 109 and 199 to 240 of the Criminal Code, some additional restrictive provisions ("Administrative Measures for Safety") could be applied to that

habitual offender or professional, such as:

- assignment of the person to an agricultural colony or a workhouse, or surveillance under probation (Articles 216 and 228 of the Criminal Code);
- a good conduct deposit (Article 237 of the Criminal Code), i.e. an amount of between €103 and €2,065 deposited with "Cassa delle Ammende", a public entity owned by the Ministry of Justice, for a period between 1 and 5 years;
- confiscation of the goods (Article 240 of the Criminal Code) intended for use in committing the offence, the subject of the offence (e.g., raw tobacco), the product, and the profit from the offence.

2. Intellectual property infringement

Pursuant to Article 473 of the Criminal Code (Forgery, alteration or use of distinctive signs of intellectual or industrial products), counterfeiting of trademarks is punished with imprisonment for up to three years and a fine between €2,500 and €25,000. Since the members of the criminal organisation had previous convictions for the crime of counterfeiting, the principle of aggravated relapse applies (Article 99, second paragraph, Criminal Code), which increases the penalty by up to one half of the initial penalty.

The overall applicable penalty is **imprisonment for up to four years and six months and a fine between €3,750 and €37,500**. In addition, pursuant to Art. 474 *bis* of the Criminal Code, the goods used or intended to be used to commit the offence, the illicit tobacco (e.g. raw tobacco), the product of the offence, the price and the proceeds of the offence are confiscated. If it is not possible to identify these assets, the court orders the confiscation of those properties owned by the offender whose value corresponds to the profit of the offence.

3. Tax evasion

The falsification of and/or omission to submit an income declaration is a criminal offence pursuant to Legislative Decree 74/2000.

In particular, according to Article 5 of Legislative Decree no. 74/2000, those who omit to submit an income declaration with the purpose of evading taxes, when the unpaid tax is more than €30,000, are subject to imprisonment for up to three years. Moreover, according to legislative decree 471/1997, the non-submission of an income declaration is subject to an administrative fine ranging from 120% to 240% of the unpaid taxes. A penalty is also applicable for failure to present financial statements. This sanction of between €1,032.91 and €7,746.85 is doubled if the unpaid taxes exceed € 51,645.69. Since the members of the criminal organisation had previous convictions for the crime of counterfeiting, the principle of aggravated relapse applies (Article 99, second paragraph, Criminal Code), which increases the penalty by up to one half of the initial penalty.

The overall applicable penalty is **imprisonment for up to four years and six months**, payment of unpaid tax, and a fine amounting to between 120% and 240% of the unpaid tax.

4. Criminal conspiracy

Pursuant to Article 416 of the Criminal Code (i) those who promote or constitute, organise or control a criminal conspiracy with three or more people, with the aim of committing more than one offence, are subject to imprisonment from three to seven years; and (ii) those who are members of the conspiracy shall be punished with imprisonment from one to five years. According to the fifth paragraph of that article, the penalty is increased by up to one third should the number of the organisation's members exceed ten units.

The overall penalty is **imprisonment for between three and nine years and four months for the leader of the criminal association, and one year to six years and eight months for the members of the organisation**.

In conclusion, if further crimes occur in the commission of the same criminal offence, the offender shall be punished according to Art. 81 of the Criminal Code (continued offence). This involves the application of the most severe penalty and its increase by up to three times. However, the penalty cannot be greater than the sum of individual applicable penalties, and imprisonment may not exceed thirty years.

In practice, the selection of the most serious offence is based on the sentence that the court would apply to the subject for each crime within the framework prescribed by the law. As a result, the court determines the penalty for each additional offence (also adding monetary fines if applicable). In the present hypothetical case, it is not possible to anticipate the eventual decision of the court with respect to the most serious offence. Therefore, the most serious offence is criminal association, which provides for the most severe penalty in abstract for both the leaders and the members of the criminal organisation.

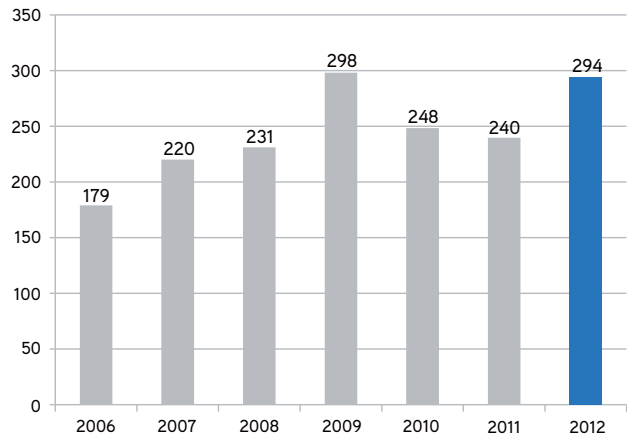
The maximum applicable penalty would be imprisonment for up to twenty-four years and four months for the leaders of the criminal organisation (corresponding to the sum of the four penalties for the crimes committed as it is lower than the augmented penalty due to *continued offence* corresponding to three times the initial penalty) and imprisonment for up to twenty years for the organisation's members (three times the maximum penalty for *criminal association*). The judge should also add monetary fines and assets confiscation, as described in paragraphs 1, 2 and 3.

- An agreement between the four major cigarette manufacturers and the European Commission provides for a mandatory system of identification and verification applied to the supply chain of tobacco products. This system was agreed in the European Commission and OLAF (European Anti-Fraud Office). It requires the four major tobacco manufacturers to prevent their products from being diverted from the legal supply chain to the illegal one and thereby ensure that they sell only to legitimate customers (European Commission 2004).
- **In 2013, a nationwide public awareness campaign against the ITTP will be launched** (Point 3 in Table 6, p.59).
- In 2013, the Ministries of Health and Economic Development, the Customs and Monopolies Agency in cooperation with the tobacco industry (Philip Morris International, British American Tobacco, Japan Tobacco International, Imperial Tobacco) implemented a campaign against counterfeiting.
- In December 2011, British American Tobacco launched a campaign against tobacco smuggling and counterfeiting with the aim of increasing public awareness and emphasising the ITTP's link with organised crime (British American Tobacco Italia 2012).

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Figure 31. Seizures of smuggled tobacco (tonnes, 2006-2012)

Source: Transcrime elaboration on Guardia di Finanza data



•• **In Italy there is a legal obligation on tobacco manufacturers not to facilitate smuggling.**

- According to Art. 1 of Law no. 50 of 1994, “in order to combat tobacco smuggling in the country and the criminal organisations involved in it, including international ones, the *Amministrazione Autonoma dei Monopoli di Stato* (AAMS – Autonomous Administration of State Monopolies) and cigarette manufacturers entitled to import, produce, distribute and sell their products in the country, or use the depots referred to in Article 1 of the Law of 10 December 1975 no. 724, even in the event of sale of trademarks, shall oversee the actual sale of tobacco goods in the country declared as the final recipient of the tobacco product (Point 4 in Table 6, p.59).²⁹

²⁹ In order to combat tobacco smuggling in the country and the criminal organisations involved, including international ones, the *Amministrazione Autonoma dei Monopoli di Stato* (AAMS-Autonomous Administration of State Monopolies) and cigarette manufacturers entitled to import, produce, distribute and sell their products in the country, or use the depots referred to in Article 1 of the Law of 10 December 1975 no. 724, even in the event of sale of trademarks, shall oversee the actual placement of tobacco goods for consumption in the country declared as the final recipient of the tobacco product.

- **The Italian institutions do not provide periodic estimates on the ITTP. There are some unofficial estimates (see The products, p.71), among them the KPMG Project Star, recognised by OLAF and the European Commission.**
- A report issued by the *Direzione Nazionale Antimafia* (DNA – National Anti-Mafia Directorate) of 2005-06 estimated cigarette smuggling, after the boom of the 1990s, at around 2% of total consumption (DNA 2006, 297).
- Another estimate of the illicit tobacco market share is given by tobacco seizures. These data are provided by the Customs and Monopolies Agency and the *Guardia di Finanza*, both responsible for seizing counterfeit and smuggled tobacco (Figure 31, p.62).

In conclusion, Italy has a high number of police officers and judges. The prison population is below the European average; nevertheless, prisons are overcrowded. The fight against illicit trade in tobacco products is carried out through cooperation among Italian law enforcement forces and European institutions, as well as through cooperation with third countries' customs offices and public awareness campaigns. The action against the ITTP is only average because of the lack of a national action plan against the ITTP and official estimates provided by Italian institutions for the quantification of the ITTP.

Chapter 2

the four components

THE FOUR COMPONENTS

This section analyses the four components of the ITTP. The components are the various elements of the illicit tobacco market, and their analysis highlights the complexity, diversity and dynamism of the ITTP.

THE DEMAND

- **An important driver of the demand for illicit tobacco is the price differential between legal and illicit tobacco products.**
- Following cigarette price increases, consumers can decide to smoke less or to quit, but they may also opt for other alternatives, such as choosing less expensive brands, smoking HRT, or buying illicit tobacco. The larger the tax incidence on the final retail price, the greater the potential savings for consumers (Formisano e Vico 2012).



- According to research conducted by Synovate in 2010, the main reason for buying illicit tobacco products is their price. The price of illegal cigarettes varies from brand to brand. A carton of Marlboro can cost between €30 and €35, a saving of around 35% on the legal price, while a carton of a national brand from Eastern European countries can cost between €20 and €25 (Di Lucia 2013). According to data provided by press reports, a pack of illicit cigarettes is sold at about half the price of legal cigarettes in 2013, and consumers save around €2.30 per pack (Il Mattino-Benevento 2012; La Gazzetta del Mezzogiorno-Bari 2013).
- The lower the affordability of genuine tobacco (expressed in Price relative to income – % of per capita GDP to buy 100 packs), the higher are the incentives to trade down to illicit products. Illicit tobacco may cost up to half the price of genuine products, since it evades taxation. In Italy, 1.5% of per capita GDP is needed to buy 100 packs of cigarettes of the cheapest brand (Italy ranks 135th out of 167 countries) (Eriksen, Mackay, and Ross 2012).
- **Another important element affecting the demand is the availability of illicit tobacco.**
- In Naples, open-air markets sell illicit cigarettes without particular concern. Illicit networks in some streets, neighbourhoods and surrounding municipalities facilitate this activity (see The Supply, P.67) (Landell Mills and Collins 2010; Philip Morris Italia 2012).
- **In Italy, some studies have analysed the characteristics of the consumers of illicit cigarettes.**
- According to a study conducted in 2009 on the habits of smokers in Italy, the consumption of illicit tobacco appears to be higher among heavy smokers. However, no significant difference was found with regard to the consumption of contraband tobacco and the variables of gender, age, geographical distribution and education. Finally, 1.6% of the current smokers interviewed between 2005 and 2008 seemed to buy cigarettes through illicit channels (Gallus et al. 2009).³⁰
- In 2010, the Synovate research centre conducted a survey on the consumers of illicit cigarettes. The purpose was to understand their level of awareness of the illicit tobacco market and evaluate their perception of difference between counterfeit and contraband tobacco. The research showed that consumer awareness differed among the locations investigated: Milan, Rome and Naples.
 - In Milan, the purchasers of illicit tobacco products were doubtful as to their actual quality and were concerned about the health and legal risks (Landell Mills and Collins 2010).
 - In Naples, and to a lesser extent Rome, purchasers associated illicit tobacco products with their availability, especially in some specific places (Landell Mills and Collins 2010).

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REASONS WHY PEOPLE BUY ILLICIT TOBACCO

- The price differential between legal and illegal tobacco products encourages the substitution of legitimate tobacco products with illicit products (Nomisma 2011b).
- The illicit trade is normalised, and it is easy for people to buy illicit tobacco products on the streets (Landell Mills and Collins 2010).
- Criminals and consumers do not see this type of traffic as a serious crime (Landell Mills and Collins 2010).

³⁰ The survey was conducted on a sample of more than 3,000 individuals, a representative sample of the Italian population aged 15 years and older. Interviews were conducted through a semi-structured questionnaire.

•• **The profile of the average illicit tobacco consumer varies according to the geographical area.**

- According to the Synovate survey, in Milan, the consumers of illicit tobacco products did not distinguish between contraband cigarettes (perceived as stolen cigarettes) and counterfeit cigarettes (perceived as very light cigarettes), and they connected both to low-quality products. Consumers in Milan knew that cigarette smuggling creates revenue for organised crime and felt a certain “sense of guilt” when purchasing these products. The illicit traffic was judged to be criminal behaviour in itself, and not just in relation to its legal consequences. Consumers perceived smugglers as marginalised and forced by poverty to carry out illegal actions. Nevertheless, the strong links between smugglers and organised crime induced consumers to perceive them responsible for their own criminal choice (Landell Mills and Collins 2010).
- In Naples and Rome, consumers perceived a clear difference between contraband and counterfeit cigarettes. On the one hand, contraband cigarettes were perceived as more sophisticated, better and stronger. On the other hand, there was some confusion and lack of knowledge about counterfeit cigarettes. For the inhabitants of these cities, buying illicit cigarettes did not provoke a “sense of guilt”: it was not considered a “real crime” that hurts people, it was instead an easy way to save money. The smugglers were perceived by consumers as harmless, and their actions as justified by poverty. Counterfeiters were instead considered to be real criminals who exploited foreign labour and damaged the health of unaware smokers (Landell Mills and Collins 2010).
- In general, there were two types of illicit tobacco consumers depending on their nationality. Foreigners tended to consume cigarettes from their countries of origin, while Italians were attracted by the lower price of illicit tobacco in comparison with legal tobacco (Di Lucia 2013).
- **The CENSIS institute has conducted a study on consumer perception of the risks associated with the consumption of counterfeit cigarettes.**

- In Italy, 70% of respondents believed that counterfeit cigarettes are more harmful than legal cigarettes because their content is uncontrolled (The European House Ambrosetti 2011).
- Consumers enter the illicit tobacco market in many ways. 63% of respondents believed that old and young consumers behave in the same way. However, according to 21% of respondents, young people have easier access to illegal products owing to their greater chance of encountering other types of illicit market. According to respondents, there are several reasons for this greater probability: young people frequent places where there are other illegal trades (12%); they are more sensitive to prices (4%); and they hesitate less about buying illicit tobacco products (4%) (The European House Ambrosetti 2011).

THE SUPPLY

•• **The supply of illicit tobacco products is influenced by the opportunity and profitability of this activity.**

- The supply of illicit tobacco is driven by its profitability deriving from the evasion of the high taxation on tobacco products.
 - At the international level, the amount of total taxes per 1,000 cigarettes is more relevant to large-scale smuggling, counterfeit goods, and illicit whites. In Italy, in 2010, taxes per 1,000 cigarettes were Int. \$158.2, and Italy ranked 40th out of 164 countries (WHO 2012). This may create an incentive for the suppliers of illicit tobacco. The higher the taxes, the greater the potential profit for smugglers.
 - The tax incidence (tax as % of the final retail price) provides incentives for the suppliers of illicit tobacco at the national level. This is most relevant to the illicit manufacturing and wholesale/retail distribution of illicit tobacco products within national borders. In Italy, in 2010, the tax incidence was 75.2% of the final retail price, and Italy ranked 20th out of 181 countries (WHO 2012). A high tax rate may facilitate the supply of illicit products by allowing a high profit margin for illegal suppliers.

- With regard to profitability, Transcrime has estimated the volume of the illicit cigarette market (revenue, costs and profits of criminal organisations, based on three different cigarette prices) starting from the percentage provided by KPMG (2012).
- In Italy, in 2011, the revenues from the illicit tobacco market ranged between €661 and €842 mn; the costs between €161 and €270 mn, and the profits between €391 and €681 mn. Between 2009 and 2011, revenues, costs and profits increased by around 57%. It is evident from these figures that the illicit tobacco market is highly profitable. The ITTP, in fact, offers profits ranging between 60% and 80% of revenues (Transcrime 2013).
- **Tobacco smuggling in Italy developed several decades ago.**
 - Until the 1980s, cigarette smuggling was especially common in border regions (see box *The history of cigarette smuggling in Italy*).
- **The main Italian criminal organisations take part in the ITTP in different ways.**
 - In Italy, 2% of the revenues of Italian criminal organisations derive from the illicit tobacco trade (Transcrime 2013). The Italian criminal organisations prefer to delegate the importation and supply of tobacco to smaller groups while maintaining control over the retail distribution (DNA 2001).

THE HISTORY OF CIGARETTE SMUGGLING IN ITALY

During World War II and after the Nazi occupation, the quantity and quality of legal cigarettes decreased and worsened respectively. For this reason, the black market started to spread (GdF 2010).

The first zone used for smuggling was the **border between Italy and Switzerland**, in the areas close to Lake Como and Verbano-Ossola, in Piedmont. In these areas the so-called “*spalloni*” (facilitators) traditionally carried out smuggling activities. The ‘*spalloni*’ loaded smuggled goods in baskets of woven straw and carried them on their shoulders across the mountains of the border (GdF 2010). Tobacco smuggling grew apace in the 1950s and 1960s. There were several causes: increased demand for cigarettes in the big cities of Northern Italy; lockouts in factories in Ossola; and a growing number of unemployed men. For some traders, entrepreneurs and families near the Ticino canton and the Italian border, illicit tobacco trafficking was an opportunity for profit (Tutto Tabacco 2001; Ferrari 2012).

After World War II, smuggling also spread in the **Campania region**. The Camorra, which initially served as a support for foreign traffickers, decided to invest its capital in cigarette smuggling. The ‘Mazzarella’ clan was created for this purpose. In those years, the ITTP was in the hands of the Marseille gangs which imported cigarettes from Algeria across the Tyrrhenian Sea. The ports of Campania were used until the 1960s and 1970s. As a result of more frequent monitoring by the *Guardia di Finanza* and conflicts among groups, the traffic in these ports became more difficult. For this reason, the Camorra began to make arrangements with the Sicilian Mafia in order to acquire a second maritime port. These “new” agreements broke down in around 1979 due to conflicts between the two criminal organisations (Arlacchi 1994; Guardia di Finanza 2010; Arlacchi 2010).

During the 1970s, smuggling also began in the **Apulia region**, from where cigarettes were transported to Naples, Venice and Genoa. Previously, tobacco smuggling had been in the hands of the Marseilles gangs, which imported cigarettes from Africa. Following the political changes of the 1980s, the Balkans, Montenegro and Greece became the new source countries of illicit tobacco.

The police carried out several operations against the ITTP in the 1990s.

In January 1996, the Anti-Mafia Investigation Department of Bari conducted the *Crna Gora* Operation against tobacco smuggling between the Republic of Montenegro and Italy. The operation uncovered the mechanisms of tobacco smuggling, the connivance of some representatives of foreign official bodies, and the channels used to launder money. The *Crna Gora* Operation covered Italy, France, Switzerland, the Yugoslav Federation, and the United States (Mantovano 2001).

Between 28 February and 30 June 2000, Operation *Primavera* in Apulia was stepped up in the areas most affected by smuggling, with the dispatch of 1,900 units of the GdF, the National Police and the *Carabinieri*. The operation took place along the coasts, and in certain mainland areas. The then National Anti-Mafia Prosecutor Piero Luigi Vigna stated that “Operation *Primavera* has had very positive results as it has led to the seizure of weapons, explosives and armoured vehicles, and to the capture of fugitives. The operation has thus induced smugglers to withdraw from Apulia and use other routes” (Mantovano 2001). The operation led to the arrest of 537 people, the issue of 461 arrest warrants, and the seizure of over 32 tonnes of tobacco, 125 weapons, 6,804 rounds of ammunition, 502.07 kilos of explosives, more than 5 tonnes of narcotics, 47 armoured jeeps, 223 cars, 21 trucks, 20 boats, and 24 clandestine depots (Di Lucia 2013).

Operation *Blue Moon* (since 2001), mounted by the special operations group of the Police and *Carabinieri* of the Apulia region, led to the discovery of new sea routes for tobacco smuggling and drug trafficking. These routes were used by smugglers to bring products from Montenegro and Albania to Italy, which served as a gateway to the European market. The operation led to the arrest of several members of the Apulian *Sacra Corona Unita* and the Sicilian *Cosa Nostra* (Mastrogiacomo 2001).

In December 2011, the *Alfabeto* Operation by the Tax Police Unit of the GdF and the GICO of Trieste dismantled an organization of Italian and Polish citizens resident in Milan. The tobacco was bought in Ukraine, transported to Italy, and sold on the black market in Lombardy. It was distributed by a ramified network of non-EU citizens. The authorities seized more than 10 tonnes of contraband tobacco (Di Lucia 2013).

In addition, according to a 2009 study, supervision of the tobacco supply chain has contributed substantially to the reduction of large-scale smuggling in Italy, as in other European countries such as Spain and the United Kingdom (Gallus et al. 2009).

- The Italian criminal organisations most active in the ITTP are the Camorra and the *Sacra Corona Unita* (The European House Ambrosetti 2011).
- The Camorra has been historically involved in cigarette smuggling. Originally, the activity was in the hands of third actors who paid for each load of cigarettes. Subsequently, the Camorra, encouraged by high earnings, assumed a direct role in the trade, mainly because of its lower risks compared with other illicit activities (Di Lucia 2013).
- A notorious Neapolitan Camorra group, the ‘Mazzarella clan’, began its illicit activities by smuggling cigarettes in the 1950s. This family used fishing boats to smuggle tobacco between Posillipo and Santa Lucia and between Bagnoli and Pozzuoli (Di Lucia 2013).
- Other leading Camorra organisations were involved in tobacco smuggling in the Naples area: among them were the groups headed by the Spadaro brothers, by Nunzio La Mattina, by the Nuvoletta brothers in Marano, and by Antonio Bardellino in Aversa. Clashes erupted between Camorra families for control of the traffic. For example, Raffaele Cutolo and his organisation *Nuova Camorra Organizzata* (New Organised Camorra) clashed with the *Federazione della Nuova Famiglia* (Federation of the New Family) of the Mazzarella family. The conflict originated from the demand by the Mazzarella Family that Raffaele Cutolo’s organisation pay a kickback on each box of illicit cigarettes disembarked in Naples (Di Lucia 2013).

- It seems today that smuggling has become more specialized. The organisation of the ITTP takes place at transnational level and then develops locally in several illicit processes (Di Lucia 2013). The Camorra seems to have links with Chinese criminal organisations dealing in counterfeit products, including cigarettes. There are also evident links with organised crime in Romania, especially for the transport and sale of contraband cigarettes (DIA 2010a; DIA 2010b; The European House Ambrosetti 2011). In the 2000s, some Camorra groups took advantage of their know-how acquired from trafficking illicit tobacco to use it for drug trafficking (DNA 2008). Moreover, the increased number of arrests related to the illicit tobacco trade is exhibited by an increase in the volume of illicit tobacco products (DNA 2007).
 - In regard to the connections between foreign criminal groups and Italian/Campania criminal groups, of particular importance is Operation *Katana* conducted by the *Gruppo Pronto Impiego* of the GdF of Naples against an Italian-Chinese criminal association engaged in the ITTP and the trafficking of other counterfeit Chinese products to the black market in Campania. The investigation, coordinated by the Naples DDA, discovered the association between Chinese criminal organisations engaged tobacco manufacturing (six illegal factories in Fujian province producing cigarettes and counterfeit clothing) and Campania criminal groups. The Italian criminal groups sold these products on the Italian market. 110 tonnes of tobacco were seized, together with numerous other types of counterfeit articles. This investigation also found that the individuals involved, both Italian and Chinese, had frequent relations with members of Camorra criminal groups in the area known to be “controlled” by the Licciardi and Mazzarella clans (Di Lucia 2013).
 - The Sacra Corona Unita operates in Apulia, which is a vital crossroads for the supply of illicit tobacco to the other Italian regions and to foreign countries. The smuggling of tobacco has decreased in Apulia; nevertheless, the traffic still develops through the ports of Bari, Taranto and Brindisi (DIA 2010a; DIA 2010b; DIA 2011a; The European House Ambrosetti 2011).
 - The role of the ‘Ndrangheta in the ITTP is more marginal. In the past, *‘ndrine* (the units of ‘Ndrangheta) reached agreements, especially with the Sacra Corona Unita, to ensure routes for the ITTP avoiding the Apulia region (GdF 2010).
 - Cosa Nostra was highly active in tobacco smuggling during the 1970s, especially through agreements with the Camorra. However, in the 1980s the increasing risks associated with cigarette smuggling induced Cosa Nostra to shift from tobacco smuggling to drug trafficking (Arlacchi 1994; GdF 2010; DIA 2011a).
 - In 23 out of 300 criminal proceedings for the offence of ‘criminal association for the smuggling of foreign tobacco’ (Article 291 *quater* of Presidential Decree 43/73), the organisations involved were mafia organisations (art. 416 *bis*). More than half of these cases concerned Naples, confirming the important role of the Camorra in the ITTP (Russo 2013).
- **Some organised groups of Chinese and Eastern European origins take part in the ITTP in Italy.**
 - Chinese criminal organisations are active in the transportation of contraband and counterfeit cigarettes. The products, manufactured in China and stored in Dubai, are then shipped to Italian ports, in particular Gioia Tauro (DNA 2009; DIA 2010a; DIA 2010b; DIA 2011a; DIA 2011b; Ministero dell’Interno 2011; The European House Ambrosetti 2011).
 - More recently, Romanian criminal organisations have started to cooperate with Italians from Campania in order to smuggle tobacco products (Ministero dell’Interno 2007; The European House Ambrosetti 2011). These organisations transport tobacco by sea, land and air, and through journeys by single individuals (Formisano and Vico 2012). Finally, there are frequent cases of theft or robbery of large quantities of tobacco (DIA 2010a; DIA 2010b).
- **In general, the ethnic groups involved in the ITTP are numerous, and they are involved in the ITTP in various ways.**

- Russian groups, South Slavs, Ukrainians, Lithuanians, Bulgarians and Moldovans have recently acquired an important role in the ITTP in Italy, especially through land transport to Italy and within the country. Their involvement ranges among tobacco production, tobacco storage and transport. They are sometimes organised groups; in other cases they are individuals carrying relatively small quantities of tobacco (DNA 2010; DNA 2011; DNA 2012; Virgilio 2013).
- According to DNA (National Anti-Mafia Directorate) reports, the ITTP is usually coordinated by foreigners living abroad, who also cover other roles, such as land or sea couriers. Italians are partners with these organisations; they control the infrastructure junctions and the transport of illegal products in Italy (DNA 2011; DNA 2012).
- **Investigations by the *Guardia di Finanza*, and the reports of the DNA (National Anti-Mafia Directorate) and the DIA (Anti-Mafia Investigation Department), show the presence of two other types of ITTP actors.**
- Small groups import small quantities of tobacco hidden in vehicles from the northeastern border. These are mainly Eastern Europeans who, in recent years, have started to transport small loads of cigarettes, mainly by car, in order to limit possible losses (DIA 2010a; DIA 2010b; DIA 2011a; Virgilio 2013).
- Mainly Eastern European and North African individuals import quantities of cigarettes in excess of the legal limits by air from their countries of origin in order to sell them to fellow-countrymen in Italy (Virgilio 2013; Russo 2013).
- **Illicit tobacco is sold through various channels: markets, private apartments, street sellers and motorbike sellers. The research carried out to date has focused mainly on Naples and Bari (GdF 2010; Philip Morris Italia 2012).**
- It is easy to find counterfeit and contraband tobacco goods in the local markets of Naples and Bari. Cigarettes are openly sold on stalls, without any fear or desire to hide them (GdF 2010; Philip Morris Italia 2012).
- Several surveys have shown that smuggling does not occur through the legal retail network of tobacconists. The tobacco manufacturers and control agencies supervise this network with systematic controls (see Legal Market) (Formisano and Vico 2012).
- In some areas of Naples, in addition to local markets, sales occur in places where numerous people congregate, such as public offices or hospitals. The buyers are regular customers well known to the sellers. Some sellers leave tobacco goods in their cars in order to reduce the likelihood of losing their load in the case of seizure. In some cases, the seller always works on the same street and hides the tobacco goods in a bag. Door-to-door sale is the most common method for trafficking cigarettes in the Neapolitan hinterland. The sellers usually move on scooters or bicycles and use their to transport cigarettes (Philip Morris Italia 2012; Russo 2013).
- In the early 2000s, the Camorra, in synergy with the Sacra Corona Unita and some new foreign mafias, was involved in tobacco smuggling on a large scale in Milan and its surroundings (DNA 2004). Moreover, the province of Milan is a major area for the concentration and distribution of Chinese illicit tobacco often introduced into Italy through the port of Genoa (DNA 2008).
- **Law enforcement operations affect the methods of the ITTP and the presence of criminal organisations.**
- The weakness of law enforcement against tobacco smuggling after World War II contributed to the growth and spread of illicit markets in border areas. Police action became stronger in the 1970s in both the North and the South. Thereafter, the traffic of illicit cigarettes in northern regions decreased until it almost disappeared. Tobacco smuggling in the South, despite shifting from the coasts of Campania to those of Apulia, has diminished dramatically because of law enforcement counter-measures (see Box *The history of cigarette smuggling in Italy*) (GdF 2010).

THE PRODUCTS

•• **The Italian institutions do not provide periodic estimates on the ITTP. There are some unofficial estimates, among them KPMG Project Star, recognised by OLAF and the European Commission.**

- In 2005-06, The National Anti-Mafia Directorate reported that tobacco smuggling, after the boom of the 1990s, had decreased considerably and amounted to 2% of total consumption (about 2 bn cigarettes) (DNA 2006).
- Euromonitor International estimates the size of the illicit market as a percentage of the total market.³¹ Estimates range between 7.3% in 2001 and 0.40% in 2003. The most recent data reveal a significant increase in this penetration, 5.8% (2012) (Euromonitor International 2012; 2013).
- The tobacco industry regularly carries out so-called 'Empty Pack Surveys' (EPSs). EPSs estimate the number of non-domestic packs found in Italian cities. The use of these data requires especial caution. Firstly, they analyse cigarettes and exclude HRT. Secondly, they focus on packs and not on individual butts. Thirdly, the EPSs identify non-domestic packs, which also include ones legally purchased, for example those imported by travellers. Finally, the EPSs do not identify the smuggling of domestic tobacco products and their diversion to illicit channels – for example, following thefts. Despite these limitations, the EPSs are interesting and useful for analysis of the illicit cigarettes market. In Italy, EPSs are available from 2009 to 2012. They suggest that the non-domestic incidence of cigarettes doubled between 2009 (4.94%) and 2012 (9.80%). The figure for the second quarter of 2013 was 7.2%.

- KPMG analyses multiple sources, including EPSs. Cigarette packs are categorized as legal domestic, legal non-domestic, and 'counterfeit & contraband'. The 'counterfeit & contraband' proportion provides an estimate of the illegal penetration into the Italian market. KPMG reported a strong increase of counterfeit and contraband cigarettes in 2012. In fact, the figure rose from 5.30% in 2011 to 8.50% in 2012 (one of the highest increases in Europe). According to KPMG estimates, the consumption of illicit tobacco products has nearly tripled since 2009. The Project Star is the only existing study that tries to estimate the annual ITTP at EU level using a transparent methodology. The involvement of national institutions could enhance and improve this report (KPMG 2013).
- Estimates by Nomisma for 2009 and 2010 are similar to those by Euromonitor. According to Nomisma, the illicit market stood at 3.40% in 2010 (3.10% in 2009) (Nomisma 2011b).
- Transcrime, within the "*Programma Operativo Nazionale Sicurezza*" (Operational Programme for National Security), estimates the revenues and costs of the illicit cigarette market for organised crime in Italy (see The Supply, p.67).
- Another estimate of the Italian illicit cigarette market has been conducted using the results of a survey carried out among Italians. The results, based on the statements of the respondents, show that in 2004 illicit cigarettes accounted for less than 5% of the total market. During the boom of the 1990s, this estimate stood between 10% and 30% (Gallus et al. 2003; Gallus et al. 2006; Gallus et al. 2009).
- Joossens et al. (2012) estimated the illicit market penetration in 18 European countries in 2010. The methodology involved a series of interviews in which respondents had to show their cigarette packs. In Italy, the estimate was 1.5% for the sample considered. However, the same study found that consumer surveys may lead to an underestimation of the illicit market.

³¹ Euromonitor International estimate the illicit market through industry press releases, press materials, interviews with manufacturers and retailers, as well as sources of the local market.

Table 7. Estimates of the size of the Italian illicit cigarette market. Percentage of the total market

Source: Transcrime elaboration on Euromonitor International, KPMG, EPS and Nomisma data

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Euromonitor International	7,30	2,90	0,40	3,00	2,80	2,80	2,70	2,60	3,00	3,30	4,50	5,80
KPMG						4,20	4,50	2,10	3,30	5,00	5,30	8,50
EPS									4,94	6,34	6,10	9,80
Nomisma									3,10	3,40		

- All the sources providing estimates over several years show an increase in the size of the illicit market in recent years (see Table 7 and Figure 32).
- **The structure of the illicit market in Italy.**
 - Illicit whites, counterfeit and contraband cigarettes are the main illicit tobacco products consumed in Italy (DNA 2011). Unfortunately, the statistics issued by the Customs and Monopolies Agency and the Nomisma study on counterfeiting in Italy do not make it possible to discriminate precisely between illicit whites and counterfeit cigarettes, whilst seizures by the *Guardia di Finanza* highlight that illicit whites are the predominant tobacco product (Virgilio 2013; GdF 2013a).
 - Italy's geographical position makes it a destination country, but also a transit country, for illicit tobacco. Using data on tobacco seizures in order to estimate the illicit cigarette market can be misleading. Much of the seized tobacco may be actually intended for other markets. In fact, investigative activities highlight that a large, though difficult to define, proportion of seized tobacco products is intended for Northern European countries: in particular, the UK, France, Holland, Germany and Belgium (DNA 2011; GdF 2013a; Virgilio 2013).

Figure 32. Estimates of the size of the Italian illicit cigarette market

Source: Transcrime elaboration on Euromonitor International, KPMG, EPS and Nomisma data

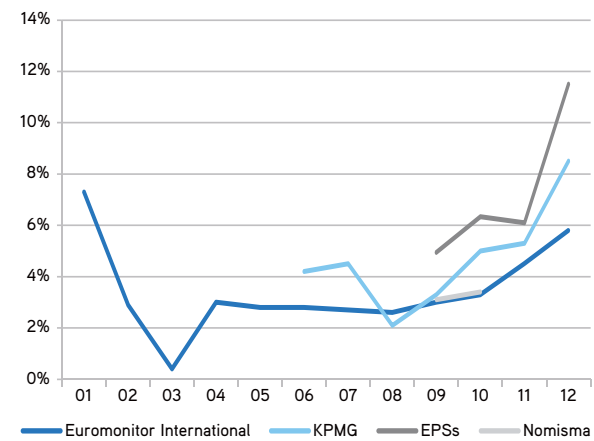
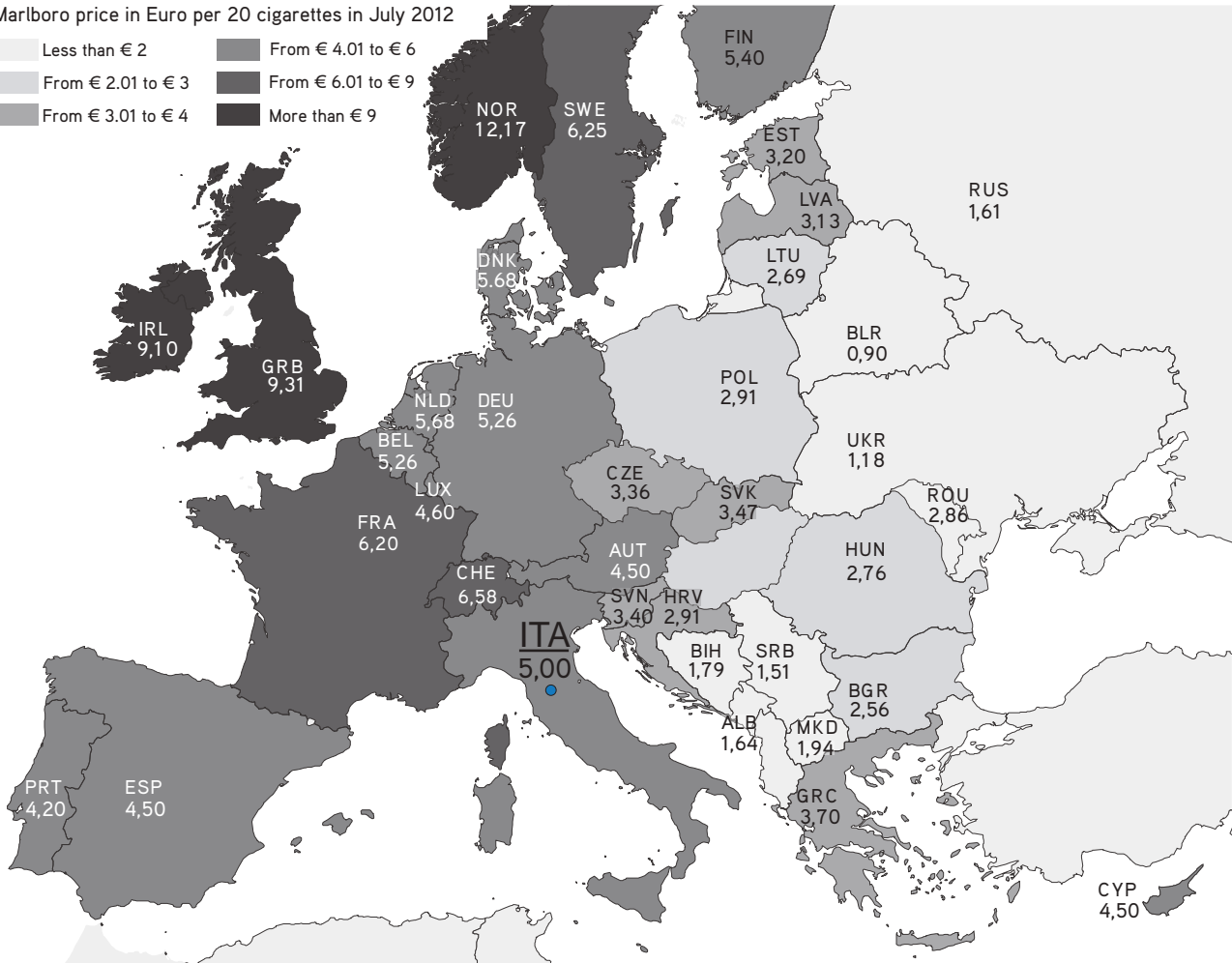


Figure 33. Retail selling prices in Europe in July 2012 (Marlboro brand)

Source: Transcrime elaboration on GMBH PMG data

Marlboro price in Euro per 20 cigarettes in July 2012



Note: Prices for UK and Ireland refer to recommended retail prices. Prices for Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovenia and Sweden refer to maximum retail prices. Norway is a free pricing market. Monthly fixed rates as in July 2012.

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•• **Types of illicit products and methods used for smuggling.**

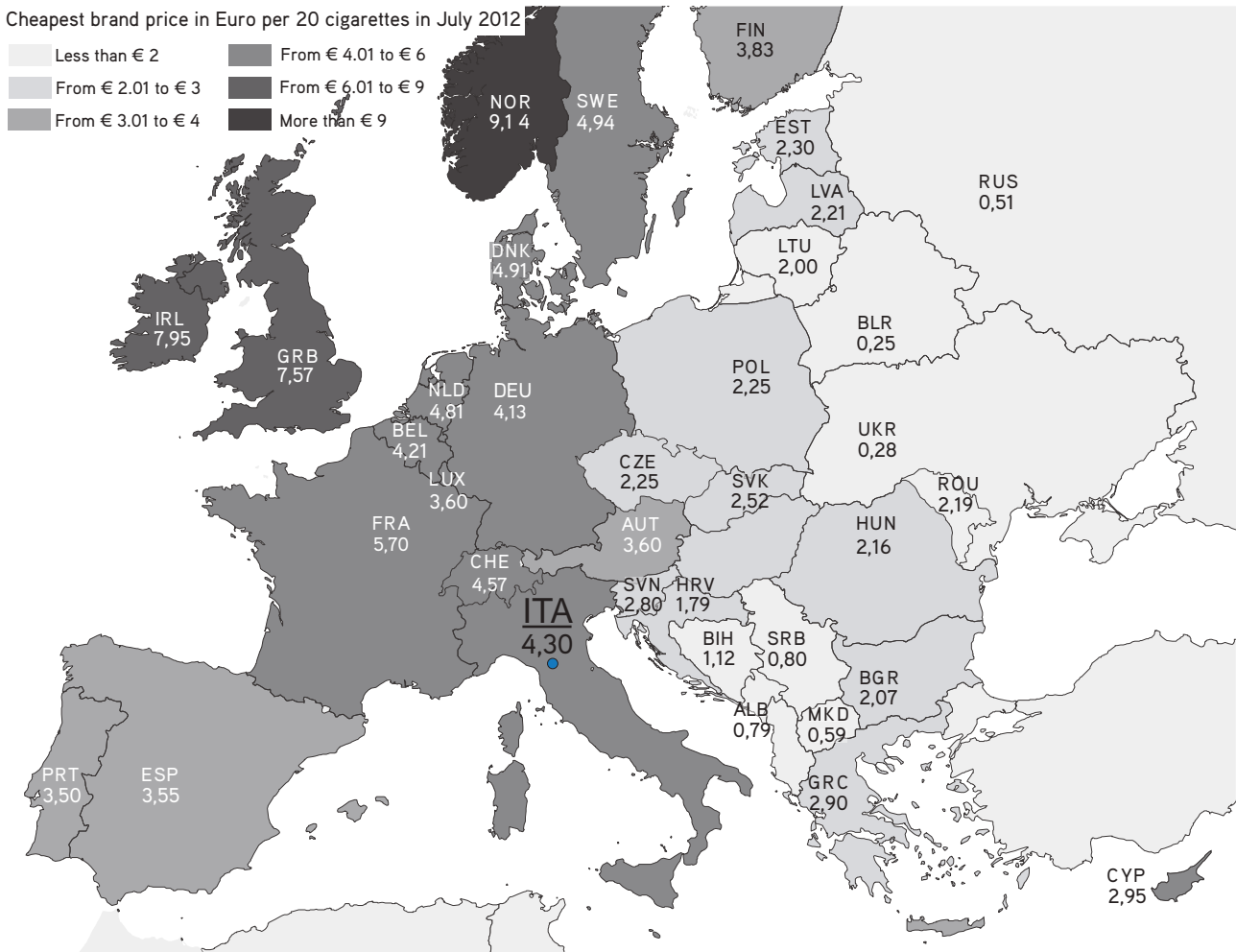
- Trentino Alto Adige, Veneto and Friuli-Venezia Giulia are the only regions bordering on Slovenia in which cigarettes cost less (see Figure 33 and Figure 34, p.75). The price differential between Austria and Trentino Alto Adige and Veneto is minimal (€0.50 and €0.70, Marlboro and the cheapest brand respectively).

Illicit whites

- **Jin Ling and American Legend are the most common illicit whites brands in Italy. According to the Customs and Monopolies Agency and the Guardia di Finanza, other popular illicit whites brands are Classic, Raquel and Gold Mount.**
- Illicit whites are produced by manufacturers which do not normally supply the legal market. In Italy, the most frequently seized brand is Jin Ling (Nomisma 2011b).

Figure 34. Retail selling prices in Europe in July 2012 (cheapest brand)

Source: [Transcrime elaboration on GMBH PMG data](#)



Note: Prices for UK and Ireland refer to recommended retail prices. Prices for Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovenia and Sweden refer to maximum retail prices. Norway is a free pricing market. Monthly fixed rates as in July 2012.

- In 2012, Italy was the second country after Poland by level of consumption of illicit whites. According to KPMG, 2.8 bn illicit whites were consumed in 2012. Between 2011 and 2012, consumption increased by 75% (KPMG 2013).
- The proportion of illicit whites in *Guardia di Finanza's* seizures is very high. In 2012, 72% of the seized cigarettes were illicit whites. The proportion has increased in recent years (Figure 35).

Figure 35. Illicit whites brands (most frequently seized brands) (2009-2012)

Source: [Transcrime elaboration on Guardia di Finanza \(2013\) data](#)

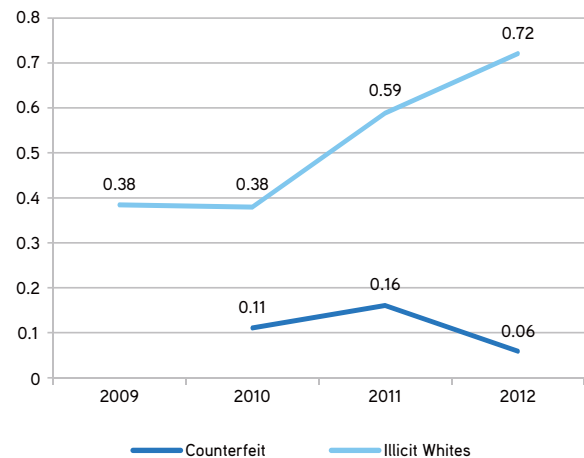


Figure 36. Illicit whites and counterfeit cigarettes: incidence among seizures by the *Guardia di Finanza* (2009–2013)

Source: [Transcrime elaboration on Guardia di Finanza \(2013\) data](#)



- In 2012, the most seized brand was Gold Mount (40 tonnes). These cigarettes are produced by Kaanee American International, based in the United Arab Emirates (Corriere del Mezzogiorno 2013; GdF 2013a). The Raquel brand is produced in Cyprus and Greece (Explosal Ltd 2013). At the national level, Raquel is one of the brands most frequently seized by Italian authorities (Figure 36).
- Italy is often a transit point or staging post for illicit tobacco on its way to other markets. The analysis of seizures does not make it possible to identify the places of consumption and distribution, but only the main points of access to the Italian market. Moreover, it is difficult to determine what loads are actually intended for the Italian market and those which are only passing through the country (see *Modus operandi* and geographical distribution, p.78).
- EPSs are useful for analysing the areas of consumption of non-domestic products, while data on seizures identify the main points of entry of illegal products. The EPS of 2012 showed that the incidence of illicit whites in the collected sample was approximately 2.5%, while in 2011 it was less than half, about 1.2%. The geographical distribution is markedly unbalanced. In fact, the largest prevalence was recorded in Southern Italy, particularly in Naples. In 2012, 40% of illicit whites packs were found in Naples.

Contraband cigarettes

- **Contraband cigarettes have played an important role in the history of the ITTP in Italy (see Box *The History of cigarette smuggling in Italy and The Supply*, p.67). Today their role is minor compared to the past; but their amount is still unclear, since many sources do not distinguish between contraband cigarettes and illicit whites.³¹**
- In Europe, an important source of smuggled tobacco is Greece. The loads depart from the ports of Patras and Thessaloniki. The smuggled goods are often hidden in lorries with foreign licence plates and transported by ferry to the ports of Ancona and Venice. The merchandise is often concealed in loads of fruit and vegetables bound for Northern European countries (Nomisma 2011b).
- The Nomisma Institute has estimated that the consumption of smuggled cigarettes was equivalent to 2.8% of legal consumption in 2010 (2.7% in 2009). Since Nomisma does not distinguish between illicit whites and contraband cigarettes, it is not possible to determine their relative importance (Nomisma 2011b).
- According to unofficial estimates, the number of counterfeit and contraband cigarettes increased greatly between 2011 and 2012. In 2012, counterfeit and contraband cigarettes represented 8.5% of total cigarettes consumption, while in 2011 they represented approximately 5.30%. However, this value is still below the European average (10.9%) (KPMG 2013).

Counterfeit cigarettes

- **The incidence of counterfeit cigarettes is declining, according to data on seizures.³²**

³² Contraband is the unlawful movement or transportation of tobacco products (genuine or counterfeit) 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 2008a).

³³ Counterfeiting is the illegal manufacturing of a product bearing or imitating a trademark without the owner's consent. Illegally manufactured products can be sold in the source country or smuggled into another country (Joossens and Raw 2008b).

- According to Nomisma, counterfeit cigarettes in Italy accounted for 0.6% of legal consumption in 2010 (0.3% in 2009) (Nomisma 2011b). In 2012, 6% of the seizures by the *Guardia di Finanza* involved counterfeit cigarettes. The percentage was down by 8 percentage points from the previous year (see Figure 35 in *The Illicit whites*, p.75).
- Owing to Italy's status as a tobacco importer and to its geographical position between non-EU and EU countries, it is the hub of counterfeit cigarettes flows, being both a transit market for Northern Europe and a final consumption market.
- Seized counterfeit cigarettes come from China, and loads generally originate from the port of Shenzhen. Other important ports are those of Xiamen and Huangpu (DNA 2011). The goods are often hidden in containers, where they are concealed among other goods, such as poor quality plastic products, shoes, household items or toys (Nomisma 2011b).

Bootlegging

- **Bootlegging is a relatively new phenomenon in Italy and is mainly carried out by non-EU citizens travelling by air.**³⁴
- Investigations by the *Guardia di Finanza* show a certain recurrence of small/medium seizures at Italian airports. The persons under investigation are mainly of Eastern European or North African origin, arrested with small amounts of imported cigarettes in excess of the legal limits. Their intention is to sell the cigarettes mainly to small circles of compatriots (Virgilio 2013; GdF 2013b). In 2011-12, the airport of Malpensa (Varese province) was one of those where seizures were most frequent, together with the airports of Bari, Tirano (Sondrio province, due to proximity with Livigno Free Trade Zone), Pisa and Palermo (DNA 2012).

³⁴ Bootlegging is the legal purchase of tobacco products in a low-tax country and the illegal resale of these products 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).

Price and origin of illegal tobacco products

- **The illegal market offers tobacco products at low prices which make them particularly attractive to consumers.**
- According to press articles, in 2013, a pack of illicit cigarettes is sold at half the legal price in Italy. The saving for consumers is therefore about €2.30 per pack (Il Mattino-Benevento 2012; La Gazzetta del Mezzogiorno-Bari 2013).
- **There are various illegal products, and the available data do not allow identification of which types and brands are the most sold.**
- It is difficult to determine what are the most smuggled brands by relying on GdF seizures, since around 45% of foreign tobacco products are not classified. Nevertheless, the other 55% is correctly classified. An increasing proportion consists of illicit whites, notably Gold Mount (14.4% of all seizures), Capital (6.4%), Jin Ling (5.8%), Classic (5.7%) and Raquel (5.4%) (GdF 2013a).
- Seizure data from 2009 to 2012 show that the relative majority of illegal cigarettes were not classified (39.7% of the volume seized in the four-year period was not classified). The two most common brands were Raquel (8.5%) and Marlboro Filters (8.2%). However, traditional brands like Marlboro or Chesterfield decreased in proportion between 2009 and 2012. By contrast, illicit whites brands exhibited a sharp increase. This was also due to the emergence of new products, such as Classic and Gold Mount, which were completely absent in 2009 seizures (GdF 2013a).
- A second indication of the most imported brands is provided by press sources, which report a high number of seizures of Marlboro Classic, Raquel, Jin Ling, Gold Mount and Chesterfield (Agenzia delle Dogane e dei Monopoli 2012b; Corriere del Mezzogiorno-Napoli 2012; Il Resto del Carlino 2012; Corriere del Mezzogiorno-Napoli 2012; La Repubblica-Napoli 2013; Comando Provinciale di Napoli 2013).

•• **Most illegal cigarettes come from China and Greece.**

- According to Nomisma, more than half of the tobacco seized in Italy originates from China and Greece. But Ukraine is becoming increasingly important in the illicit trade. Moreover, in 2009, 62% of the cigarettes seized came from China, followed by the United Arab Emirates (35%) and, to a lesser extent, Greece (3%) (Nomisma 2011b)
- EPSs, however, show that in 2011-12 most of the cigarettes came from the Ukraine (27% of the non-domestic packs collected were identified as of Ukraine origin). Generally, Eastern European packs are among those most frequently recorded by EPSs. Indeed, Belarus is another important source country (7%).

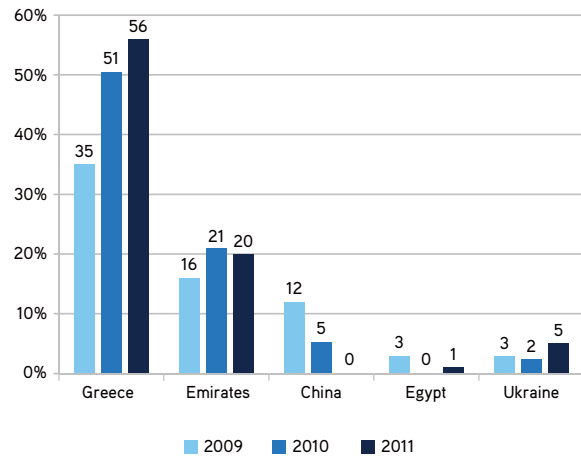
- GdF data and DNA reports indicate that Greece was the first source country for foreign cigarettes detected by Italian authorities, followed by the United Arab Emirates, in the period 2009-11. Nevertheless, these data must be taken cautiously because origin refers only to the last place of storage (Virgilio 2013). Indeed, although China appears to play a minor role, it is likely to be much more important in the inflows of ITTP (DNA 2012). Greece is a transit and storage country for Chinese products. In fact, the Chinese group COSCO (China Ocean Shipping Company) has obtained the rights to manage some Greek ports, and this may have important effects on the ITTP routes from Greece to Italy (DNA 2011) (Figure 37).

•• **Italy is both a destination and a transit country for illicit products.**

- In 2012, Italy was the intended destination for 35.4% of seized cigarettes. This percentage has increased over recent years. Montenegro, Greece, Belgium, Germany, Spain and the UK were other popular destinations (Agenzia delle Dogane e dei Monopoli 2012a).

Figure 37. Countries of origin of seized products (2009-11)

Source: Transcrime elaboration on GdF data (2013)



MODUS OPERANDI E GEOGRAPHICAL DISTRIBUTION

The *modus operandi*

•• **The *modus operandi* of the illicit tobacco trade varies according to the destination country (Italy or other countries) and the origin of the illicit products.**

- There are no comprehensive studies on the behaviour of smugglers in Italy, with the exception of the those by Transcrime and Nomisma. Much information stems from the data of the GdF (Italian Financial Police), which refer to the seizures of cigarettes from 2009 to 2012. Further information is obtained from the reports of the DNA and the DIA.
- Enforcement actions, legislation and taxation changes, corruption and geopolitical situation have shaped the ITTP. Recently, strategic decisions on the ITTP routes to and through Italy seem to have been mainly taken abroad (Di Lucia 2013; Russo 2013).

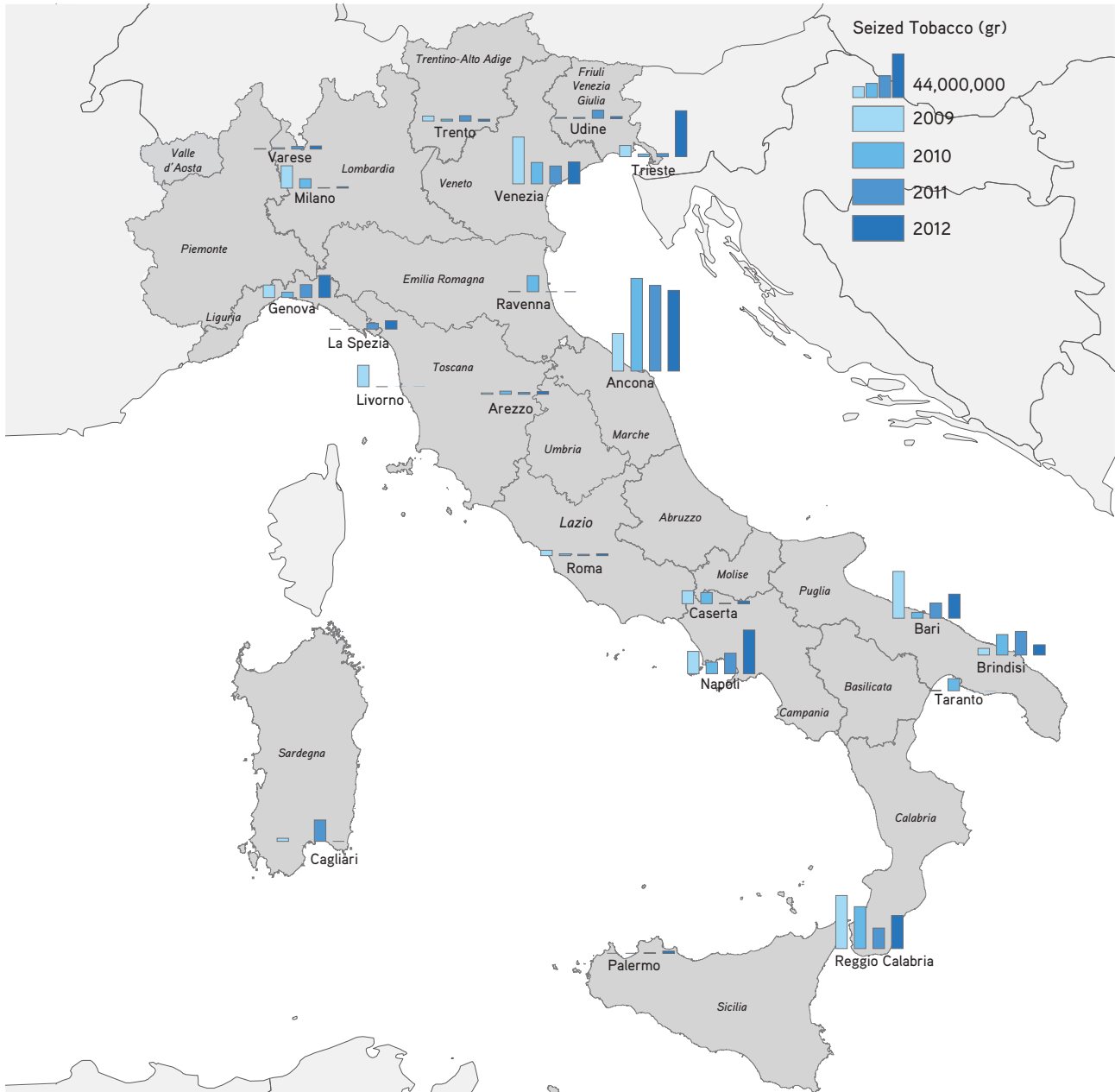
- Smuggling has assumed a transnational dimension also as a consequence of the elimination of internal borders among EU countries and the creation of a single economic area in the EU. This phenomenon obviously involves the majority of European Union countries, some of the Mediterranean area ones (France, Italy, Spain), and others in continental Europe (the UK, the Netherlands, Germany and Belgium). The Mediterranean Sea is an important channel for the illicit importation of cigarettes (Di Lucia 2013).
- Italy is part of this transnational trade of contraband cigarettes. Indeed, criminal groups are able gradually to adapt and react to the evolving external scenario, and they do so by modifying supply areas, routes, and target markets (Di Lucia 2013).
- **In Italy, enforcement actions have modified the ITTP routes.**
 - According to the figures on seizures by the Italian authorities, in the 1990s most ITTP products came from Montenegro. Cigarettes arrived in Italy from the Balkan countries on speedboats. Then, after some successful law enforcement operations, there occurred significant changes which induced a geographical shift in the traffic. Indeed, the routes were diverted to other geographical areas, such as the Middle and Far East (United Arab Emirates and China), Greece and Ukraine (Di Lucia 2013).
 - The *Primavera* Operation produced remarkable effects on the ITTP routes, both directly and indirectly. The role of Apulia as a destination changed. Its importance in the ITTP routes decreased, and ITTP actors encountered numerous logistical and organisational problems because they were forced to look for other landing points. Generally, the greater and more effective police presence seems to have induced the criminal organisations to diversify their operating strategies: extra-inspection smuggling was then gradually replaced by intra-inspection smuggling (Di Lucia 2013).
- **Two main methods are used to import illicit tobacco into Italy: intra-inspection and extra-inspection smuggling.**
 - Intra-inspection smuggling is carried out without avoiding controls by the authorities. The smugglers use fraudulent means or false documents. For example, the arrival of the foreign tobacco may be declared at customs, but the cigarettes are then placed on the Italian black market. Alternatively, through the misrepresentation system, the contents of the container – loads of cigarettes – are instead declared to be different goods subject to less taxes (DNA 2006).
 - Extra-inspection smuggling consists in crossing the customs border while avoiding any control by the authorities (DNA 2006).
 - The extra-inspection smuggling method, which used to be popular in Italy, is no longer employed. By contrast, there has been a concomitant increase in the intra-inspection method based on the fraudulent manipulation of customs documents. Indeed, smuggling often overlaps with other illicit trades (Di Lucia 2013).
- **Illicit products arrive in Italy mainly via sea routes to the Tyrrhenian and Adriatic ports, and via inland routes across the borders with Slovenia.**
 - The ports of the Adriatic and the Tyrrhenian Sea are important junctions for illicit tobacco products imported into Italy by sea. The ports of Ancona, Bari, Brindisi, Trieste, and Venice – on the Adriatic Sea – receive products from Greece, whereas the ports of Naples and Gioia Tauro – on the Tyrrhenian Sea – receive products mainly from China and the United Arab Emirates (DNA 2010; DNA 2011; Agenzia delle Dogane e dei Monopoli 2012a; Agenzia delle Dogane e dei Monopoli 2013b).

The four components

- The data on seizures by the GdF seem to confirm this trend. Indeed, the provinces with the highest number of seizures are those with the largest ports. Friuli-Venezia Giulia – which borders on Slovenia and has the port of Trieste – is also an important point of access (Figure 38).
- On comparing seizures data with EPSs, it seems that access points for illicit products (i.e. the places of seizures) usually differ from the places of consumption (identified by EPSs).
- **According to the figures on seizures, the Adriatic Sea is the main access point of ITTP products.**

Figure 38. Tobacco seizures by the GdF per province (2009-2012)

Source: [Transcrime elaboration on GdF data](#)



- In 2012, 171 tonnes of tobacco were seized at the five main ports on the Adriatic Sea. 75 tonnes (44%) were confiscated in the province of Ancona, establishing its importance as the point of entry for ITTP products into Italy. Other ports were Trieste (25%), Bari (13%), Venice (12%) and Brindisi (6%). In 2013, in the port of Ancona were made the largest seizures (see Box *Enforcement activities at the port of Ancona*) (GdF 2013a).
- These illicit cigarettes came from Greece, notably from the ports of Patras and Igoumenitsa. Final destinations may differ; indeed, Italy is often only a transit country. In 2012, Italians, Greeks and Eastern Europeans were the most involved in illegal operations (Agenzia delle Dogane e dei Monopoli 2013b). Moreover, Bulgarian individuals or groups are often involved in the transportation of illicit tobacco products from Greece to the Adriatic ports (DIA 2010b).
- The main *modus operandi* is shipping via cargo ships or pleasure craft. The cigarettes are hidden behind or in containers, trucks or cars (Agenzia delle Dogane e dei Monopoli 2013b). According to the documentation attached to customs declarations and the characteristics of foreign tobacco seized, Germany, Belgium, the Netherlands and the United Kingdom were the main destinations in 2010-11 (DNA 2011).
- Smugglers employ different methods at the port of Bari. The accomplices, often foreigners, take vessels from Albania and Turkey to the port of Bari. When they approach Bari, they throw hermetically sealed bags full of cigarettes into the sea. Local criminal gangs recover the illicit tobacco, using small boats and rafts. Finally, they sell the illegal products on the local market (DNA 2007; DNA 2008; DNA 2009; DIA 2010a; DIA 2011a).
- The coasts and ports of Apulia used to be the leading centres for the entrance of illicit tobacco into Italy. Effective action by customs and judicial authorities put an end to contraband in Apulia. The smugglers consequently moved to the North, notably to the port of Ancona. The importance of Apulia as an ITTP hub for Italy has oscillated between periods of decline and growth (DNA 2004; DNA 2005; DNA 2008; DNA 2009). During periods of decline, some local organisations started new illicit activities, such as assaulting trains carrying tobacco products, especially along the Adriatic coast in the province of Foggia (DNA 2004).

ENFORCEMENT ACTIVITIES IN THE PORT OF ANCONA

- Customs officials in collaboration with GdF seized 3,550 kg of cigarettes of illicit origin in Ancona. The brands seized were “Super Sunday” and “Kingdom” and were found in a Bulgarian truck. The origin was Greece and the intended destination was Spain. The cigarettes were hidden inside the cargo and the driver of the vehicle was Bulgarian (Agenzia delle Dogane e dei Monopoli 2013c).
- Italian officials seized 933 kg of “Raquel” and “Gold Mount”, two illicit whites brands. The illicit products were found inside a van coming from Greece and headed for Sesto S. Giovanni (Milan). The cigarettes were hidden inside wooden bookcases (the cargo declared by the attached custom document). The driver of the vehicle was Italian (Agenzia delle Dogane e dei Monopoli 2013d).
- The customs authorities in collaboration with the GdF seized more than 183 kg of illicit whites of the “Raquel” brand. They were found in the double bottom of a Bulgarian truck coming from Greece. In another operation, 180 cartonnes of “Raquel slim” cigarettes were found. They had been concealed in a similar way (Agenzia delle Dogane e dei Monopoli 2013e).
- **The Tyrrhenian Sea is the second most important access point for ITTP products. The ports of Genoa, La Spezia, Cagliari, Naples and Gioia Tauro (Reggio Calabria) are important nodes.**
- In 2012, more than 100 tonnes were seized in the provinces with the main ports on the Tyrrhenian Sea. Naples was the province with the largest number of seizures in tonnes (40), followed by Reggio Calabria, which has the port of Gioia Tauro (30). Between 2009 and 2012, the province of Reggio Calabria ranked first in terms of seizures – with a total exceeding 138 tonnes – followed by Naples (92 tonnes) and Genoa (50) (GdF 2013a).

- The main *modus operandi* is maritime transportation on cargo or other vessels. The cigarettes are hidden behind other cargo in containers, trucks or cars. The places of origin are usually China, the United Arab Emirates and the ports of North Africa, especially Tunisia and Egypt (Agenzia delle Dogane e dei Monopoli 2013b).
- The most important junction seems to be the port of Gioia Tauro (RC). The Chinese ports of Xiamen and Huangpu and the United Arab Emirates' ports of Dubai and Jabel Ali. The use of the ports of Dubai and Jabel Ali may be an attempt to hide the true Chinese origin of the goods and avoid excessive controls by the Italian authorities. Moreover, the loads seized in Gioia Tauro in 2010-11 were headed for the port of Koper (Slovenia) and the ports of Piraeus and Thessaloniki (Greece) (DIA 2010a; DNA 2011).
- Between 2009 and 2012, Marlboro was the most seized brand with about 38 tonnes (12% of total seizures), followed by Gold Mount with 27 tonnes (8%). It is interesting to note the exponential growth of Gold Mount, which in 2009 and in 2010 was virtually absent from seizures (GdF 2013a).

•• **In the North-East of Italy, the main entry point is the border with Slovenia.**

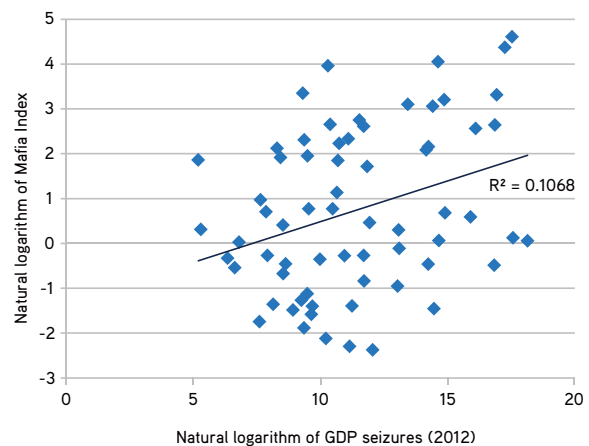
- The most frequently smuggled products come from Eastern European countries. Ukraine, Moldova, Albania and Romania are the origin countries of cigarettes and illicit whites smuggled into Italy through Slovenia (DIA 2011b; DNA 2011; GdF 2013a).
- Investigations reveal that the main actors are small groups composed of Eastern Europeans carrying small amounts of foreign tobacco. More or less elaborate devices are used to conceal the illicit products on different types of vehicles (Virgilio 2013). Couriers are usually dismissed after being involved in customs or police investigations (DNA 2012).
- The products enter on trucks, vans and cars travelling from Ukraine, Romania and Moldova to Italy. The illicit products are hidden inside the vehicles to avoid customs checks; sometimes cars are literally crammed with cigarettes. Once in Italy, the smugglers distribute illegal products in the major Italian cities (DNA 2010; Agenzia delle Dogane e dei Monopoli 2013b).

- Between 2009 and 2012, Classic (39%), Jin Ling (15%), Chesterfield (21%) and Marlboro (9%) were the most seized brands (GdF 2013a).

Geographical distribution

- **Non-domestic cigarettes prevalence does not seem to have particular geographical concentrations, with the exception of Naples (Figure 39).**

Figure 39. Mafia Index and seizures (2009-2012)
Source: Transcrime elaboration on GdF and Transcrime data



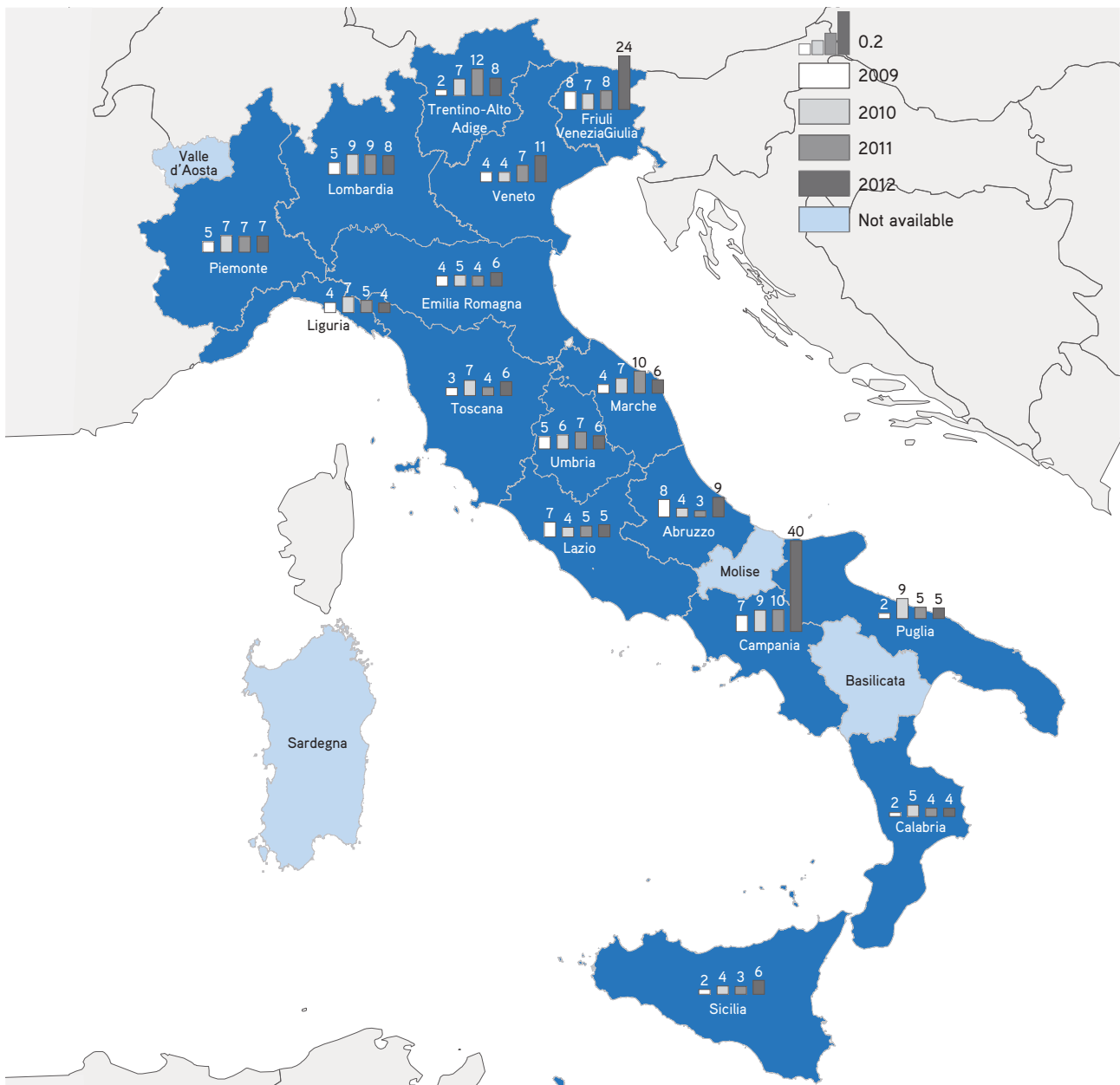
- **Socio-economic status and non-domestic prevalence seem to be uncorrelated.**

- Southern regions, with the relevant exception of Campania, have lower rates of non-domestic packs. This seems to confirm the presence of illicit product markets of a certain size especially in cities, where there are both demand and supply of illicit tobacco (see The demand, p.65 and The supply, p.67).
- The highest prevalence of illicit whites has been recorded in Naples. In 2012, 40% of all illicit whites packs collected in Italy were found in the city of Naples. Data on seizures confirm the prevalence of products from China and United Arab Emirates in the ports on the Tyrrhenian Sea (see The Supply, p.67 and *Modus operandi* and geographical distribution, p.78). Furthermore, the EPS data relative to 2013 seem to confirm the high levels of non-domestic packages collected in the city of Naples in 2012. In total, the non-domestic incidence stood at 38.3% in the second quarter of 2013, far above the national average (7.2%).

- **GdF data reveal a correlation between the presence of organised crime groups and the amount of seizures.**
- In 2012, there seems to have been some correlation between the Mafia index compiled by Transcrime on Mafia presence and seizures by the GdF at the provincial level. This finding apparently confirms the partial control by organised crime of illegal cigarette trafficking. In fact, the seizures are more frequent in the provinces where the presence of crime is higher (Figure 40).

Figure 40. Non-domestic incidence per region (2009-2012)

Source: Transcrime elaboration of EPS



Chapter 3

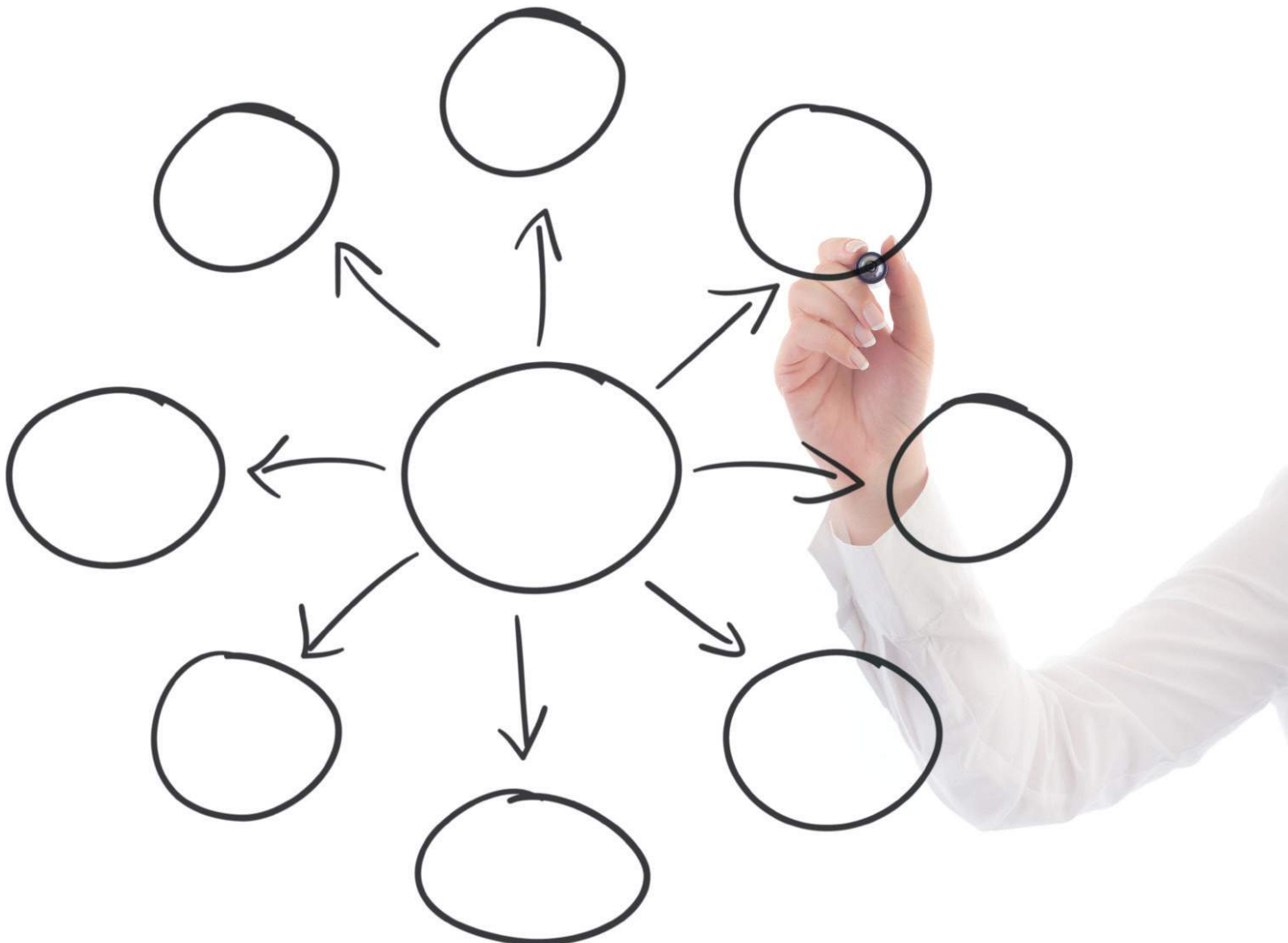
*framing the components
in the drivers*

This chapter analyses the interaction between the drivers (discussed in Chapter 1) and the components of the ITTP (Chapter 2). It draws on the information provided in the previous analyses, and identifies the **five key factors of the ITTP** (next subsection). These are **fundamental determinants of the illicit trade, and they affect all of its components**. Thereafter, four subsections analyse **how the five drivers affect the key factors and, in turn, the components of the ITTP**. Each subsection analyses **how the various elements of the drivers influence the demand, supply, products, *modus operandi* and geographical distribution of the ITTP**.

THE FIVE KEY FACTORS OF THE ITTP

The analyses presented in the previous chapter highlighted five key factors influencing the ITTP in Italy: accessibility, availability, profitability, risk, opportunity.

- **Accessibility:** the price of illicit tobacco is a crucial factor in determining the scope and prevalence of the ITTP.



- **Any growth in the price differential between domestic and non-domestic products (or between legal and illegal products) increases the relative accessibility of non-domestic products (or illicit tobacco).** In September 2011, VAT increased by one percentage point. This led to a final increase of 20 cents on a 20-cigarettes pack. VAT also involves excise duties, so that an increase of one percentage point results in an increase of five percentage points in the final price to the consumer (Formisano and Vico 2012).
- **Changes in socio-economic conditions may also impact on accessibility.** For example, a decrease in household income may result in the reduced accessibility of legal products.
- **Availability: the diffusion and accessibility of illicit tobacco products have a major impact on the ITTP.**
 - The easier it is to find and buy illegal products, the greater the likelihood of their diffusion in a specific area. Italy has a large availability of legal and illegal non-domestic tobacco products because it is at the centre of many international illicit products flows.
 - Furthermore, the availability of illicit tobacco should be considered in relation to the availability of genuine products. Any element increasing the diffusion of illegal cigarettes, or significantly restricting access to legal products (e.g. regulation or other measures), is likely to impact on the habits of the categories most attracted by illegal products, such as heavy smokers and people in disadvantaged socio-economic circumstances. In Italy the dense network of legal retailers may restrict space for illicit ones.
- **Profitability: the ITTP is an extremely profitable activity because of the high income that it offers compared with its operational costs.**
 - **The ITTP provides very high incomes** because most illicit tobacco products pay no, or very limited, taxes. In Italy, taxation, in terms of monetary amount per 1,000 sticks, is medium-high. This encourages engagement in illicit activities.
- The retail price of illicit tobacco is much lower than the legal price. An illicit pack costs even half the legal price. The gains for a consumer are around €2 per pack (Il Mattino-Benevento 2012; La Gazzetta del Mezzogiorno-Bari 2013). This gives high profit margins to ITTP actors (Transcrime 2012c).
- The ITTP has very low organisational costs. Actors of the ITTP in Italy range from national and foreign organised criminal groups to small groups and individuals.
- **Risk: the threat of detection/accusation/conviction and the sanctions impossible affect the diffusion of the ITTP.**
 - **The sanctions available deter the ITTP.** Indeed, legal instruments raise the risk of detection for people who take part in the ITTP.
 - Enforcement activities increase the risk for criminals active in the ITTP, especially at the junctions of illicit trade such as ports. In the past, enforcement activities successfully restricted the scope for organised groups, forcing them to change their *modus operandi* and severely reducing the magnitude of the ITTP in Italy.
- **The medium-high level of corruption and organised crime presence may create favourable conditions for the emergence of ITTP** and reduce the risk of detection for the people involved.
- **Opportunity: the ITTP exploits various opportunities in society, the market and law enforcement.**
 - The ITTP provides vulnerable groups with an opportunity to maintain their smoking habits, thus reducing attempts to quit.

- **Different types of ITTP exploit different market opportunities:**
 - Large-scale smuggling exploits loopholes and gaps in the controls on the legitimate supply chain.
 - Cheaper and more accessible printing technologies, allowing the accurate forgery of genuine packs may facilitate counterfeits.
 - The production of illicit whites exploits asymmetries in international legal regulation, a lack of cooperation by foreign countries, and the presence of FTZs.
 - International treaties, such as implementation of the Schengen area, may affect the ITTP, reducing the risk of detection for smugglers.
- **Italy is located at the centre of the Mediterranean Sea. Indeed, the country is in a position favourable for the flows of both legal and illegal products from Greece, United Arab Emirates and North Africa towards Europe.** Italy's geographical position also makes it a transit country. Future research should analyse these flows, also for the purpose of combating illegal traders.

THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

There are multiple interactions between the drivers and the demand for illicit tobacco. Figure 41, p.88 shows the main ones. In particular, **the principal factors affecting the demand are the accessibility, the opportunity, and the availability of illicit tobacco.**

There follow some of the most important interactions between the five drivers and the demand for illicit tobacco.

Society and economy

- Italy is going through an economic crisis characterised by a slow and weak recovery compared with that of other European countries. **Lower economic resources have affected tobacco consumption** by increasing the sales of cheaper HRT (see Society and Economy, p.19). The willingness of consumers to switch brands and types of tobacco products for cheaper ones may indicate a willingness to resort to the illicit market.

- **The unemployment rate is rising in Italy**, especially among young people (see Society and Economy, p.19). Part of the population may be induced by lower financial resources to resort to the illicit market in order not to quit smoking. Indeed, illicit tobacco costs about half the price of legal products.
- According to a DOXA survey, **23.2% of smokers would not give up smoking despite the economic crisis** (second highest proportion after respondents who would not give up eating and drinking out (see Society and Economy, p.19). This figure signals that a portion of smokers may decide to turn to the illicit market rather than quit smoking completely.

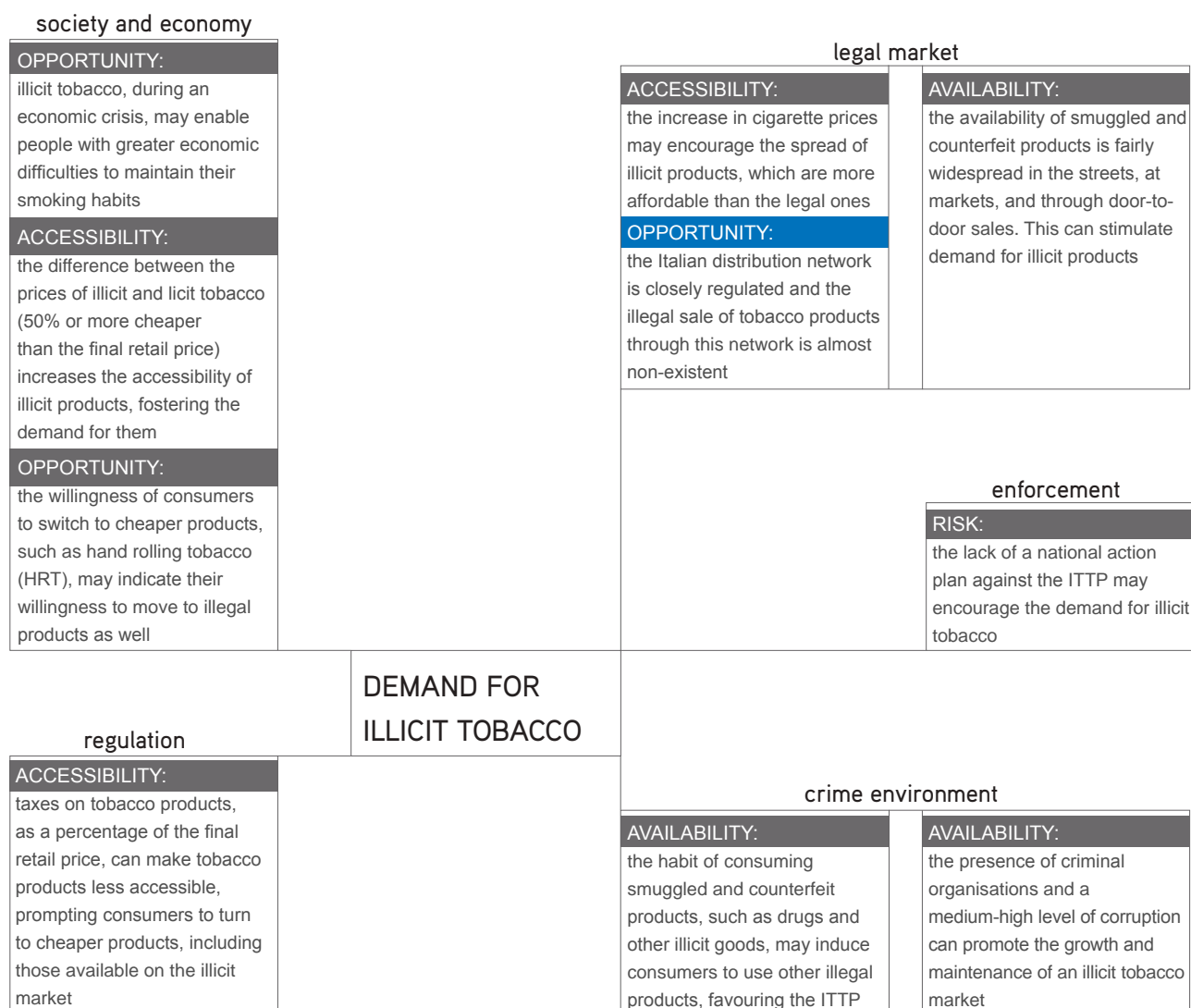
Legal market

- **The price of cigarettes is increasing in Italy.** In September 2011, the price of a 20-cigarettes pack was raised by about 20 cents due to a VAT increase of one percentage point. Furthermore, another increase of 10 cents per 20 cigarettes pack was recorded in March 2012. Such price increases may induce consumers to turn to cheaper markets, and also to the illicit market (see The demand, p.65).
- In Italy, cigarettes seem to be relatively affordable. However, their affordability has decreased due to the 2012 increase in the GDP per capita needed to buy 100 packs of the cheapest brand. This may induce consumers to buy cheaper or even illicit products (see Legal Market, p.25).
- The economic and social differences between the North and South of Italy are also reflected in tobacco consumption. In 2012, the inhabitants of the South and Islands (Sardinia and Sicily) smoked more (see Legal Market, p.25). In addition, the residents of Naples and Rome do not seem to consider the purchase of illicit cigarettes to be a "true crime" (see The demand, p.65). These two factors may affect the demand for illicit products in those areas.

Figure 41. The interaction between the demand for illicit tobacco and the five drivers

Source: [Transcrime elaboration](#)

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



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- **In Italy, although illegal products are not available from traditional retailers because they are closely controlled, illicit cigarettes are available in markets, on streets, and through door-to-door deliveries** (see The supply, p.67). Both the availability of illegal products on the market and the ease of finding them play a central role in development of the illegal market.

Regulation

- **Taxation as a percentage of the final retail sale price is high.** This is a key factor in determining the accessibility of tobacco products because taxation is one of the main reasons behind price increases (see Regulation, p.35). **High taxation as a percentage of the final retail price reduces the accessibility of legal products and may encourage consumers to buy cheaper products, including illicit tobacco.**

Crime environment

- Italy has a high level of drug consumption, notably of cocaine and cannabis (see Crime Environment, p.47). **A high demand for illegal products may increase the availability of illicit cigarettes.**
- Medium-high levels of corruption and organised crime may stimulate the development and growth of shadow economies and illegal markets such as the one for tobacco (see Crime Environment, p.47).

Enforcement

- The lack of a national action plan against the ITTP and the risks related to the consumption of illicit tobacco may boost demand for illicit tobacco products.

THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Elements from all of the five drivers affect both the supply and the demand for illicit tobacco. **Profitability, opportunity, and risk are particularly important for the supply.** This suggests that actions addressing the supply side of the ITTP should seek to reduce the profitability of illicit tobacco and increase the risks for suppliers (Figure 42, p.90).

There follow some of the most important interactions between the five drivers and the supply of illicit tobacco.

Society and economy

- **Distribution through informal networks decreases the risk of detection for the people engaged in illicit activities.** In fact, family, friends and district networks are relatively safe channels because they reduce the risks for the ITTP actors.
- **The income opportunity** may induce people to distribute and sell illicit tobacco. The economic crisis may favour the development of numerous informal activities.

Legal market

- **Points of sale for legal tobacco products are widespread in Italy. This may diminish availability and opportunity for illegal sales.** Indeed, a dense network of legal points of sale makes the absence of legal channels virtually impossible, reducing the extent of the black market.

Regulation

- **Medium-high taxation, in terms of monetary amount per 1,000 cigarettes, boosts the ITTP.** Indeed, higher taxation reflects a higher net profit, and thus a greater monetary incentive for criminals.
- **Since organised crime groups control certain infrastructures, they may facilitate the entry of illegal products into Italy.**

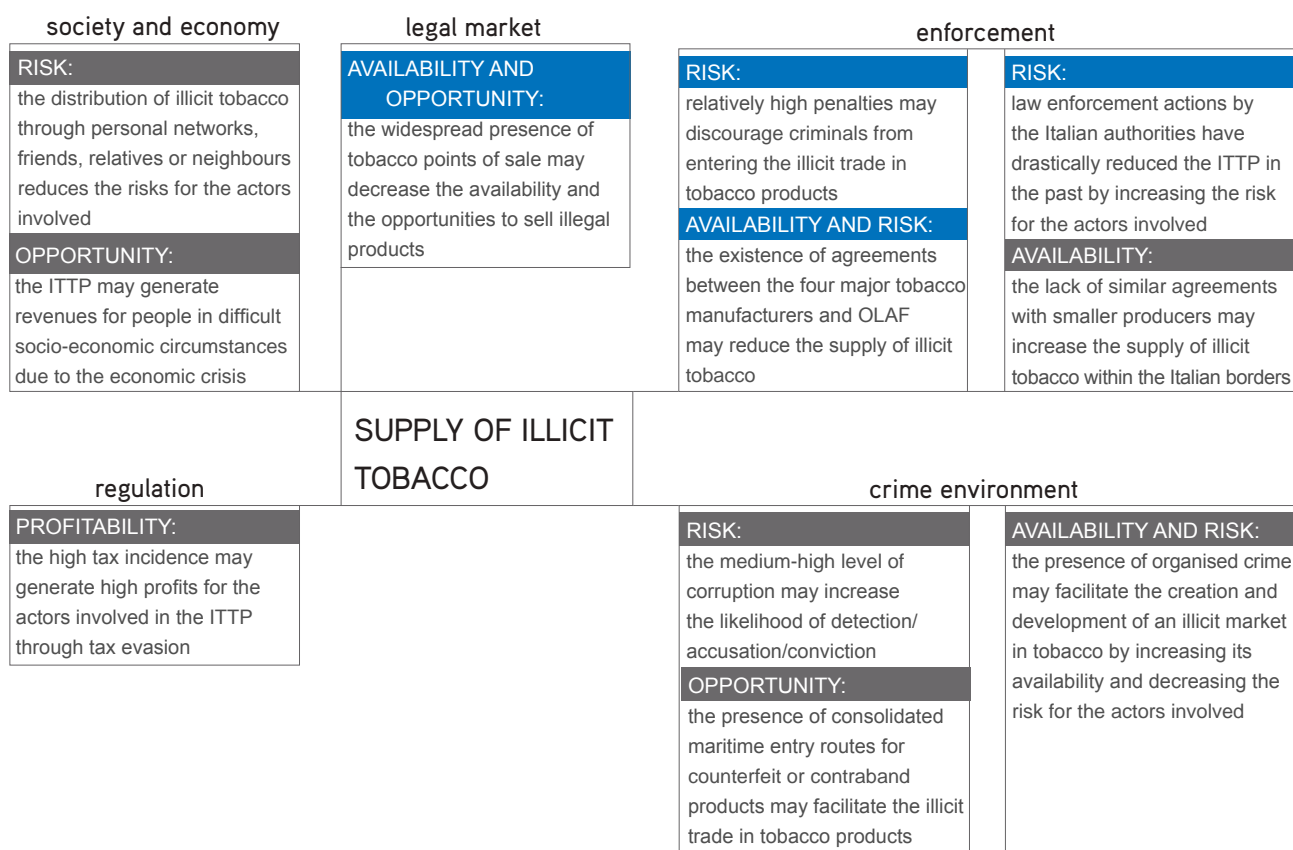
Crime environment

- **The main causes of the illicit tobacco trade are “corruption, the presence of criminal networks and weak government enforcement capacity”** (Joossens and Raw 2012, 232). The medium-high level of corruption recorded in Italy increases the opportunities for smugglers and criminals. Similarly, the presence of organised crime groups may favour the development of the ITTP in Italy by reducing its risks.
- The existence of established practices and sea routes for the entry of illegal products into Italy may also facilitate the trafficking of tobacco products, particularly through the exploitation of scope and learning economies.

Figure 42. The interaction between the products and the five drivers

Source: Transcrime elaboration

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



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- **Italy plays a pivotal role in the Mediterranean.** Italy's geographical location, connecting the ports of North Africa and Greece/Turkey with the rest of Europe, makes it a transit country for illicit tobacco products. A proportion of seizures by the *Guardia di Finanza* consists of products intended for other markets (see Modus operandi and geographical distribution, p.78).

Enforcement

- Deterrence increases the risk and reduces the opportunity of engaging in the ITTP. **Penalties are relatively high in Italy, which may be discouraging for criminal organisations.**
- The ability of Italian enforcement authorities to counter the ITTP has been demonstrated in the past (see *History of cigarette smuggling in Italy* and *The Supply*, p.67) and may deter criminals from such practices.

- On the one hand, the existence of agreements between the four major tobacco manufacturers and OLAF for the better tracking and tracing of tobacco products may diminish the supply of illicit tobacco in Italy. On the other hand, the lack of similar agreements between small producers and OLAF may increase its supply within Italian borders.
- Finally, better cooperation agreements with some key countries of the ITTP may reduce the availability of illicit tobacco products.

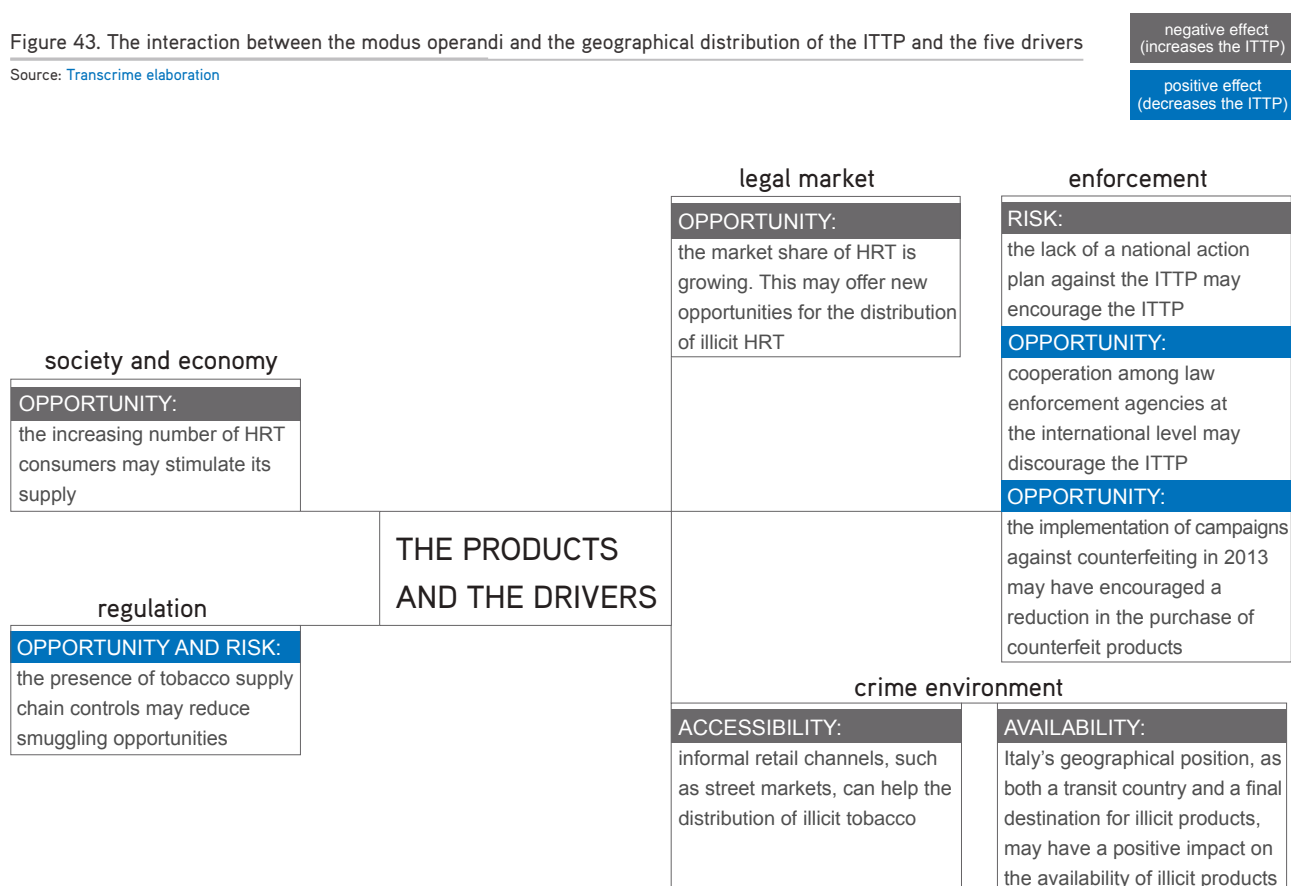
THE PRODUCTS AND THE DRIVERS

Many different illicit tobacco products are available in Italy: in particular, illicit whites, smuggled cigarettes and counterfeit cigarettes. Illicit whites brands are the most seized. **Opportunity and risk are key elements in the analysis of products (Figure 43, p.91).**

There follow some of the most important interactions between the five drivers and illicit tobacco products.

Figure 43. The interaction between the modus operandi and the geographical distribution of the ITTP and the five drivers

Source: Transcrime elaboration



Society and economy

- **Social, cultural and economic factors may influence the types of illicit products consumed by smokers.** For example, consumers are increasingly interested in HRT because it is less expensive than regular cigarettes. This new preference may result in an increase in the supply of illicit HRT.

Legal market

- **The consumption of HRT is increasing.** Since the onset of the financial crisis, the financial resources of Italians have decreased, and this has also affected tobacco consumption. Indeed, between 2005 and 2010, sales of HRT increased by 157% because of its greater affordability (cigarettes sales, instead, decreased by 6%) (see Society and Economy, p.19) (Nomisma 2011a).

Regulation

- **In Italy there is a close control of the supply chain.** The retail sale of tobacco products is subject to licensing by the *Amministrazione Autonoma dei Monopoli di Stato* (AAMS – Autonomous Administration of State Monopolies), and so is their production. Moreover, Italy has a system for customer identification and verification, and the tobacco producers have a legal obligation to prevent products from being diverted from the legal channel to the illegal one. Indeed, they must ensure that they supply only legitimate customers. These systems facilitate controls and make it difficult to smuggle tobacco (see Regulation, p.35) (Formisano and Vico 2012).
- **Italy has a coding system with alphanumeric combinations which makes each pack traceable.** This device can reduce the availability of illicit tobacco (Formisano and Vico 2012).

Crime environment

- **The presence of informal economies facilitates the sales of illicit tobacco products.** There are numerous street markets in Italy, and it is difficult to monitor the activities of all the actors involved. For example, Naples and Bari street markets also sell illicit cigarettes (see The supply, p.67) (GdF 2010; Philip Morris Italia 2012).
- **Italy is both a destination and a transit country for smuggled goods.** Indeed, Italy is a hub for numerous flows of illicit cigarettes and drugs because of its geographical position between EU and non-EU countries (see The supply, p.67). Through these import flows, smugglers may introduce various types of products, including illicit cigarettes, into the Italian market (DPA 2010; Nomisma 2011a).

Enforcement

- **Italy does not have a national plan against the ITTP.** This may boost the trafficking of illicit tobacco products (see Enforcement, p.53).
- **There are various forms of international cooperation to fight smuggling in Italy.** The Convention on mutual assistance and cooperation between customs administrations, which came into force on 23 June 2009, allows the *Guardia di Finanza* to forward and receive direct requests for cooperation from and to the customs of other Member States of the European Union (Formisano and Vico 2012).
- The *Guardia di Finanza* has also signed agreements on cooperation and joint action with the authorities of European and non-European countries (Spain, Romania, India, United States, Argentina, Russia, Hong Kong (Formisano and Vico 2012). This improves control over the flows of illegal products and diminishes the opportunities for the ITTP. Moreover, information campaigns against counterfeiting increase consumer awareness and may cause the purchase of counterfeit products to decrease.

THE MODUS OPERANDI AND GEOGRAPHICAL DISTRIBUTION OF THE ITTP AND THE DRIVERS

All the five drivers influence the modus operandi and the geographical distribution of the ITTP in Italy. There are three key factors: **opportunity, risk** and **profitability** (Figure 44. p.93).

There follow some of the most important interactions between the five drivers and the modus operandi and geographical distribution of the ITTP.

Society and economy

- The **geographical features of Italy**, a peninsula between the Adriatic, Ionian and Tyrrhenian Seas, makes it a **pivotal point** and a transit country for the sea routes of illicit tobacco trafficking. The existence of established commercial sea and tourism routes increases opportunities for the ITTP and reduces the risk of detection.
- The region of **Friuli-Venezia Giulia**, bordering on Slovenia, is an important access point for smuggled cigarettes and illicit whites coming from Eastern Europe. In addition, the price differential between Italian and Slovenian cigarettes is high, which creates opportunities for bootlegging.

Legal market

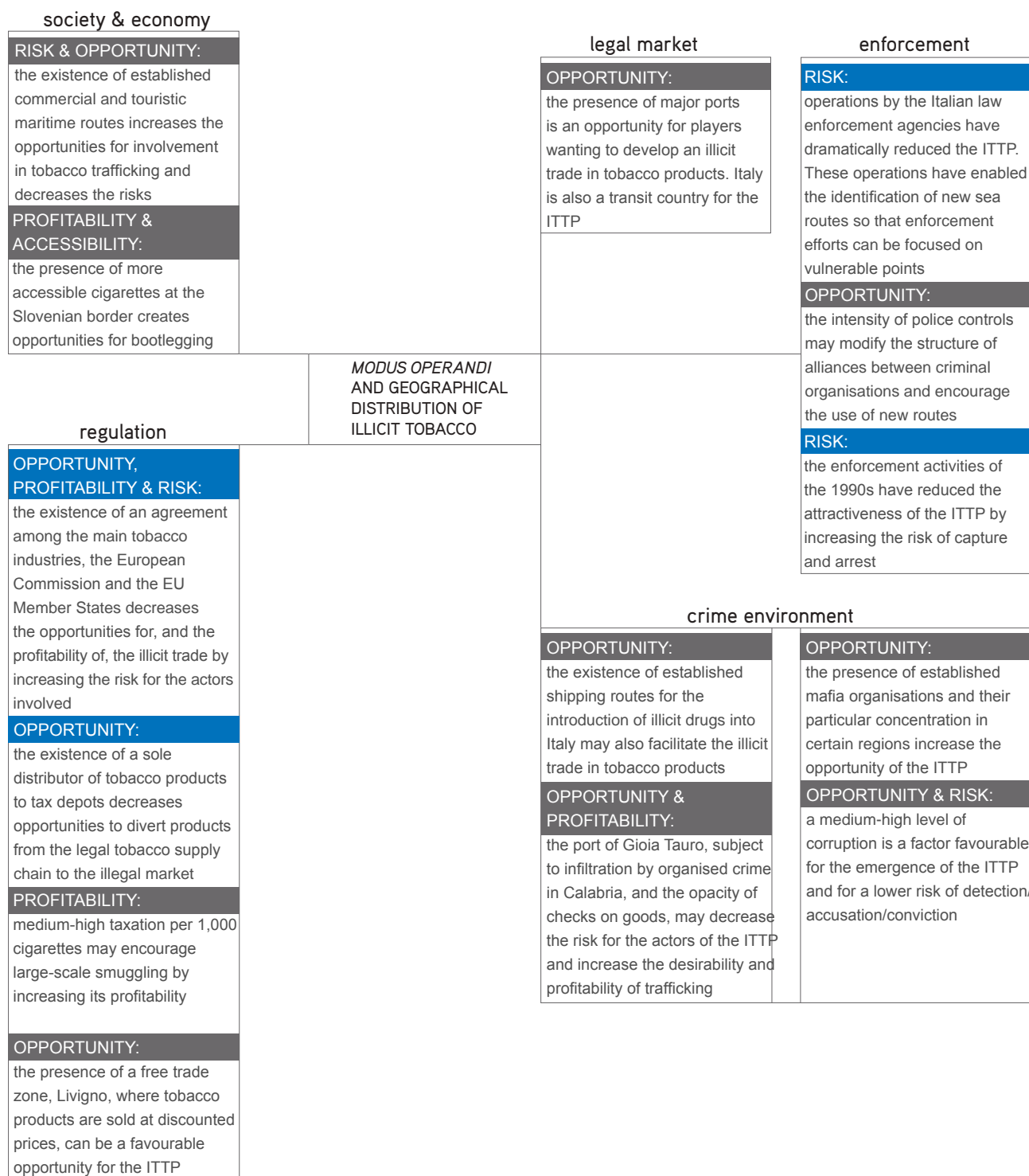
- The presence of **large ports** used for legal trade is an opportunity for actors wanting to develop trade in illicit tobacco, as confirmed by *Guardia di Finanza* seizures. In fact, the provinces with the highest levels of seizures have large ports, such as Ancona, Bari, Brindisi, Trieste, Venice, Naples and Gioia Tauro.
- Investigations into activities at the port of *Gioia Tauro* have highlighted the involvement of the 'Ndrangheta at various levels, particularly in the importing of counterfeit goods from China. The presence of a port subject to infiltration by organised crime in Calabria, and the opacity of controls on goods, may reduce the risk of detection for the ITTP actors and increase the opportunities for and the profitability of trafficking.

Figura 44. L'interazione tra *modus operandi* e distribuzione geografica dell'ITTP e i cinque *drivers*

Source: [Transcrime elaboration](#)

negative effect
(increases the ITTP)

positive effect
(decreases the ITTP)



Regulation

- The existence of an **agreement among the tobacco companies, the European Commission and the EU Member States**, the purpose of which is to prevent the diversion of legal tobacco products into illegal channels and ensure that only legitimate customers take part in the trade, decreases the opportunity and profitability of the ITTP and increases the risk for the actors involved.
- The existence of a **single distributor** of tobacco products to tax depots – Logista Italia S.p.A. – decreases opportunities to divert legal products from the tobacco supply chain to the illegal market.
- The presence of a **free trade zone**, Livigno, where it is possible to buy tobacco products at discounted prices may be a favourable opportunity for the ITTP. However, Livigno is not on the BASCAP list of problematic free trade zones, which diminishes its importance in terms of ITTP.
- **The total amount of taxes per 1,000 sticks is medium-high.** This encourages **large-scale smuggling**. The higher this taxation level, the higher the profitability of the ITTP, especially at international level.

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Crime environment

- Italy is one of the **main gateways for the entry of drugs into Europe**. The geographical position of the country, in the middle of the Mediterranean Sea, is strategic for illicit flows from North Africa, the Balkans and Afghanistan (DPA 2010). The existence of established shipping routes for drugs to Italy may boost the illicit trade in tobacco products.
- The level of organised crime in Italy is medium-high, as revealed by the Composite Organised Crime Index. Indeed, Italy ranks medium-high for the presence of **mafia organisations** in the country. Moreover, the level of **corruption** is medium-high as well. These two factors may favour the opportunity of illicit tobacco and decrease the risk of detection for the actors involved in the ITTP.

- The deep-rooted presence in Italy of organised crime groups such as Camorra, Cosa Nostra, 'Ndrangheta and the Sacra Corona Unita explains a historical involvement in the management of illegal activities. The ITTP is one of these activities. Indeed, Italian organised crime groups earn 2% of their revenues from the ITTP. The presence of established organised crime groups in certain areas increases the opportunity of the ITTP (see Crime Environment, p.47).

Enforcement

- The weakness of **law enforcement** against cigarettes smuggling during the **1950s** favoured the growth and diffusion of illicit markets, notably in border areas. Police action increased during the **1990s** in both the North and South. As a consequence, the ITTP almost disappeared in the North and declined in the South. The enforcement activities of the 1990s reduced the opportunity of engaging in the ITTP and increased the risk of detection. Finally, the ITTP in Apulia has had an oscillating trend in the 2000s, being strongly affected by judicial and law enforcement actions against smuggling.
- After the **intensification of controls by the Guardia di Finanza** on the port of Naples in the 1960s and 1970s, the Camorra made arrangements with the Sicilian Mafia to obtain a second sea route. The intensity of controls by the police may strongly modify the structure of alliances among criminal organisations and create opportunities for new routes.
- The **Primavera** (2000) and **Blue Moon** (2001) enforcement operations identified the new smuggling sea routes used to traffic drugs and tobacco. Furthermore, they made it possible to focus enforcement efforts on the points of greatest vulnerability.
- The **Maestro** enforcement operation (2009) and the imprisonment of members of the Calabrian 'Ndrangheta involved in the importing of counterfeit goods from China to the port of Gioia Tauro, may have reduced the opportunity to traffic through this port by increasing the risk of detection for the actors involved.

This report has provided the Italian country profile of the Factbook on the Illicit Trade in Tobacco Products project. The ITTP is a complex phenomenon comprising a variety of activities, products and actors. The analysis of the illicit trade must take account of a number of factors which may significantly influence it.

This report has analysed the multiple facets of the ITTP in Italy. The information gathered originates from academic literature, grey literature, open sources, questionnaires and interviews with experts and stakeholders.

Considering the limited number of previous studies and the lack of data, the results of this study are provisional. They offer a first analysis of the ITTP in Italy and show that more research is needed in this field.

THE FIVE DRIVERS

Chapter 1 (The five drivers, p.18) of the report analysed in detail the five drivers of the ITTP: society and economy, legal market, regulation, crime environment and enforcement. The five drivers are areas whose structures may affect the ITTP positively or negatively.

- **Society and economy:** Italy is a high-income country with a high life expectancy. The population is increasing, due to migration flows into the country. In recent years, the global financial crisis has hit Italy hard and weakened its economy in terms of both GDP growth and employment. Furthermore, the crisis has had an impact in terms of social and cultural development. Public expenditure is mainly concentrated on education and health care, although it is less than in other European countries.
- **Legal market:** Italy is one of the largest tobacco markets in Europe, especially in terms of raw tobacco cultivation, although it decreased in 2011. The tobacco sector employs 240,000 people and the total value of sales was around €19.8 bn in 2012, an increase of 2.6% on 2011. The percentage of smokers has declined compared with 2011 and the highest percentage of smokers is concentrated in Southern Italy and on the Islands (Sicily and Sardinia).
- **Regulation:** the regulation of the tobacco market is high in Italy. Italy is a party to the WHO Framework Convention on Tobacco Control and, as a European Union member state, it complies with the European directives on tobacco control. Tax incidence on the final retail price is high and taxation per 1,000 sticks is medium-high. Supply chain control, and control over tobacco consumption, sales and advertising are high.
- **Crime environment:** between 2010 and 2011, crime increased in Italy. Homicide, assault, theft and robbery rates rose. Moreover, drug use is high, especially of cocaine and cannabis. The presence of corruption and organised crime is high in comparison with other European countries. Corruption and organised crime, together with the presence of shadow economies, may encourage the emergence of illicit trades, including the ITTP. It has been estimated that around 2% of the revenues of the Italian criminal organisations (mafia organisations) derives from the illicit trade in tobacco products.

- **Enforcement:** Italy has a high number of police personnel and judges. The prison population is below the European average; nevertheless prisons are overcrowded. The fight against the illicit trade in tobacco products is waged through cooperation between the Italian law enforcement agencies and European institutions, as well as with third countries' customs offices, and through public awareness campaigns promoted by the government ministries. Enforcement action against the ITTP is average because it lacks a national plan against the ITTP and the Italian institutions do not provide periodic estimates on the ITTP.

THE FOUR COMPONENTS OF THE ITTP

Chapter 2 (The Four Components, p.64) discussed in detail the characteristics of the illicit trade in Italy by framing the illicit tobacco market with its four components: demand, supply, products and *modus operandi* and geographical distribution.

- **The demand:** the main reason for the demand are the accessibility and availability of illicit tobacco. In Italy, illicit cigarettes cost half the price of legal cigarettes. Availability is an important component of the ITTP because in some areas of the country it stimulates the demand for illicit tobacco.
- **The supply:** the supply of illicit tobacco is mainly driven by the opportunity to make very high profits with relatively low risks. The actors involved in the ITTP supply chain are mainly criminal organisations.
- **The products:** there are no official updated and periodic estimates on the ITTP in Italy. Nevertheless, some sources try to quantify the size of this illicit market in Italy. In the past, smuggled contraband cigarettes were the most popular product. In more recent years, however, illicit whites have undergone strong growth. In 2012, the majority of the cigarettes seized were illicit whites.

- ***Modus operandi* and geographical distribution:** there are three main points of entry for illicit tobacco into Italy: the Adriatic Sea, the Tyrrhenian Sea, and the Friuli-Venezia Giulia region. Various illicit tobacco products enter Italian territory through these channels. Italy is also a major hub for illicit products directed to other markets. Nevertheless, the data available cannot be used to quantify the exact proportion of products bound for other consumption markets.

FRAMING THE COMPONENTS IN THE DRIVERS

Chapter 3 (Framing the Components in the Drivers, p.84) addressed the interactions between the drivers and the components of the ITTP. The analysis identified five key factors with a fundamental role in Italy's illicit tobacco market (accessibility, availability, profitability, risk and opportunity).

- **Accessibility:** the price of illicit tobacco, and particularly its relative price compared with legal products, is a crucial factor in determining the scope and prevalence of the ITTP.
- **Availability:** the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP.
- **Profitability:** the ITTP is an extremely profitable activity owing to the high income that it offers compared with the operational costs.
- **Risk:** the threat of *detection/accusation/conviction* and the sanctions imposeable impact on the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market, the crime environment, and the law enforcement system.

RECOMMENDATIONS FOR FURTHER RESEARCH

The results of this study highlight that it is necessary to conduct further research on the ITTP.

- **There is a lack of analysis of the supply side at the level of wholesale distribution and retail.** A study on the behaviour of sellers when they interact with buyers could provide new information on the ITTP supply chain and on the characteristics of the supply side.
- **The lack of periodically updated official estimates of the size of the ITTP makes it difficult to determine the magnitude of the illicit tobacco trade in the Italian market.** The availability of official data, annually updated, could facilitate future research on illicit tobacco. In particular, the Star Report could be improved with the involvement of national institutions. Finally, it would be important to distinguish between the various types of illicit products.
- **Italy has a pivotal role in the Mediterranean.** Disentangling inflows directed to the domestic market and those directed to foreign markets is crucial. Further research should investigate this matter in order to identify the main smuggling routes at European level.

In conclusion, the results of the study have shown that the ITTP is a complex phenomenon. Individual factors, such as socio-demographic status and income, but also structural conditions – for example, Italy’s geographical position between EU and non-EU countries – should be considered when developing anti-ITTP strategies. Moreover, an effective awareness campaign is not possible without a detailed analysis of the demand for illicit tobacco. However, the Italian legal instruments aimed at fighting the illicit trade in tobacco products – even when it is run by criminal organisations – seem appropriate.

Given the complexity and numerousness of the factors involved, **the ITTP cannot be reduced to a problem which is exclusively the concern of law enforcement and criminal justice policy. It is necessary to adopt additional, non-criminal measures to prevent illicit consumption and to reduce smuggling.** Finally, the authorities should tackle the ITTP – especially in its key infrastructures such as ports – with comprehensive strategies including criminal, non-criminal/administrative, and other indirect measures, doing so for example through a wide-ranging situational crime prevention approach.

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