

THE FACTBOOK ON THE
ILLICIT TRADE IN TOBACCO
PRODUCTS

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Transcrime is the Joint Research Centre on Transnational Crime of the Università Cattolica del Sacro Cuore of Milan and the University of Trento. The Centre, directed by Ernesto U. Savona, Professor of Criminology at the Università Cattolica del Sacro Cuore in Milan, represents the multi-year 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 secretaria/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 the 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 University of Trento, mixing a practice-oriented approach with a deep comprehension of criminal phenomena. Its experience

contributed to the development of a solid network of relationships in the academic field, institutions, international organizations and businesses.

The Centre also plays an important role in the support and development of education activities at Università Cattolica del Sacro Cuore of Milan. Its principal aim is to achieve a strong integration between scientific innovation and academic education. In particular, since the academic year 2005/06, it has been managing the MA programme in Applied Social Sciences (curriculum Crime&Tech, Crime Sciences and Technologies for Security, under the coordination of Professor Savona). In addition, Transcrime has been contributing 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 provides the first country profile of the project *the Factbook on the Illicit Trade in Tobacco Products* (hereinafter 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, 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 on the ITTP (Transcrime 2011b). Items 3 and 6 of the research agenda focused on the need for better analysis of the tobacco market which takes account of its dual nature (i.e. a legal and an 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 United Kingdom (hereinafter the UK) was the first country selected.

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.** Tobacco consumption is undoubtedly a danger for

human health, and the tobacco market should be carefully regulated by governments. Illicit tobacco avoids state regulation and taxation and may jeopardize tobacco control policies. The Factbook will contribute to **raising awareness about the global relevance of the ITTP and about the strategies available to prevent it.** The Factbook has been developed for a wide readership, from policymakers, through academics, to interested stakeholders, with the **intention to develop knowledge-based debates and policies on the ITTP.**

The information gathered for this report originates from academic literature, grey literature (official reports, studies and papers), open sources, questionnaires and interviews with experts and stakeholders. Notwithstanding the wealth of documents on the tobacco market and the ITTP in the UK, the data-gathering phase of the projects encountered major difficulties due to the number of sources, institutions and stakeholders involved.

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 relevant information. However, Transcrime retained full control and stands guarantor for the independence of the research and its results. The information for the study has been collected by Transcrime and was not shared with PMI.

A special thanks goes to (in alphabetical order) **Georgios Antonopoulos**, Teesside University, **Peter Astley**, Public Protection Manager (Environmental Health, Trading Standards & Licensing) Warrington Borough Council Development & Public Protection, **Kerry Booth**, HM Revenue & Customs KAI Enforcement & Compliance, **Dick Hobbs**, University of Essex, **Rob Hornsby**,

Northumbria University, **Judith Kelly**, HM Revenue & Customs, Excise, Customs, Stamps & Money Business, Tobacco Strategy & Policy, **Neil Mills**, HM Revenue & Customs Performance Reporting & Analysis (CITEX), **Will O'Reilly**, former Detective Chief Inspector, Scotland Yard.



This report provides the first country profile of *the Factbook on the Illicit Trade in Tobacco Products* project. The country profile focuses on the UK, where the illicit trade in tobacco products (hereinafter ITTP) has become an important concern since the 1990s. Although Government action since 2000 has successfully reduced the market share of illicit tobacco, the UK's illegal market is still above the average of other EU Member States.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three sections:

- Section 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.***
- Section two focuses on the **four components of the ITTP**: demand, products, supply, *modus operandi* and geographical distribution.
- Section three identifies the **key factors of the ITTP in UK and frames the drivers in the components**, analysing how different elements of the drivers influence the components of ITTP.

THE FIVE DRIVERS

- **Society and economy:** The UK is a developed society, but social and economic inequalities have grown. The global financial crisis started 2008 is likely to heighten this trend. This situation may affect the ITTP, making cheap tobacco products attractive to smokers of lower socio-economic status, the ones most affected by the crisis.
- **Legal market:** The tobacco market is an important sector for the UK economy. The market is experiencing a decrease of consumption and a downtrading trend. Smokers are switching to cheaper brands and products as a consequence of price increases. This trend may have an impact on the ITTP, since illicit tobacco products are significantly cheaper than the products legally on sale in the UK.
- **Regulation:** The UK has invested a significant amount of resources in tobacco control policies and taxation on tobacco products is high.
- **Crime environment:** Crime is decreasing in the UK and there are low levels of structured organised crime groups and corruption. However, drug consumption is high and this signals that there may be different opportunities for illicit traffics, from drugs to illicit tobacco.
- **Enforcement:** In the UK, law enforcement in general is effective and strict. The action against the ITTP has been intense since 2000. The Government strategy

and its subsequent revisions have produced important results, although the market share of illicit hand rolling tobacco (HRT) remains high.

THE FOUR COMPONENTS OF THE ITTP

- **The demand:** The main causes of demand for illicit tobacco products are the low price and their availability. Furthermore, consumers are not concerned about implications and dangers of ITTP.
- **The supply:** the supply of illicit products is mainly due to its high profitability and relatively low risk of detection and conviction
- **The products:** Types of illicit products and methods of smuggling have changed over the years, as a reaction to enforcement strategies. Large scale smuggling has decreased and was partially superseded by counterfeiting and illicit whites. Notwithstanding the efforts by UK authorities, illicit HRT still accounts for nearly a half of the total consumption.
- **Modus operandi and geographical distribution:** The *modus operandi* of the tobacco illicit trade varies according to the type of trade, the destination, the availability of transportation connections and the need to evade countermeasures. There exist regional differences in the diffusion of ITTP: the North East of England records the biggest illicit market volume among the British regions.

FRAMING THE COMPONENTS IN THE DRIVERS

The five key factors of the ITTP

The report identifies five key factors of the ITTP in the UK. The key factors are **fundamental determinants of the illicit trade and affect all its components**. Thereafter, four subsections analyse **how the five drivers impact on the key factors and in turn on the components of the ITTP**. The key factors are:

- **Affordability:** 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 compared to the operational costs.
- **Risk:** the threat of detection/accusation/conviction and the imposing sanctions impact upon the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market and law enforcement.

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 complex and multifaceted nature of the ITTP in the UK.

THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

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

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)
---	---



Society and economy. The global financial crisis had an impact of the purchasing power of consumers in the UK. The affordability of legal tobacco products has decreased and this may stimulate the demand for illicit tobacco. The availability of cheaper illicit tobacco increased its attractiveness as switching option, particularly for smokers in lower socio-economic circumstances. Indeed, illicit tobacco provides opportunities to continue smoking with scant economic resources.

Legal market. Retail price increases contribute to make legal tobacco products less affordable stimulating the demand for illicit tobacco. Downtrading (consumers switching to cheaper brands and products) is a fact in the UK market. Consumers may access to illicit tobacco as a viable alternative within the overall downtrading trend.

Regulation. The high incidence of taxation on the retail prices increases the difference in the prices of legal and

illegal products. The last ones are more affordable due to the evasion of taxes. The lack of regulation of niche tobacco products may stimulate the illegal demand, thus fostering their availability.

Crime environment. High drug use in the UK may be associated with illicit tobacco consumption. The large UK drug markets may increase the availability of illegal tobacco products.

Enforcement. Anti-ITTP campaigns may increase consumers awareness of the dangers associated to illicit tobacco and provide instruments to report suspect activities and products.

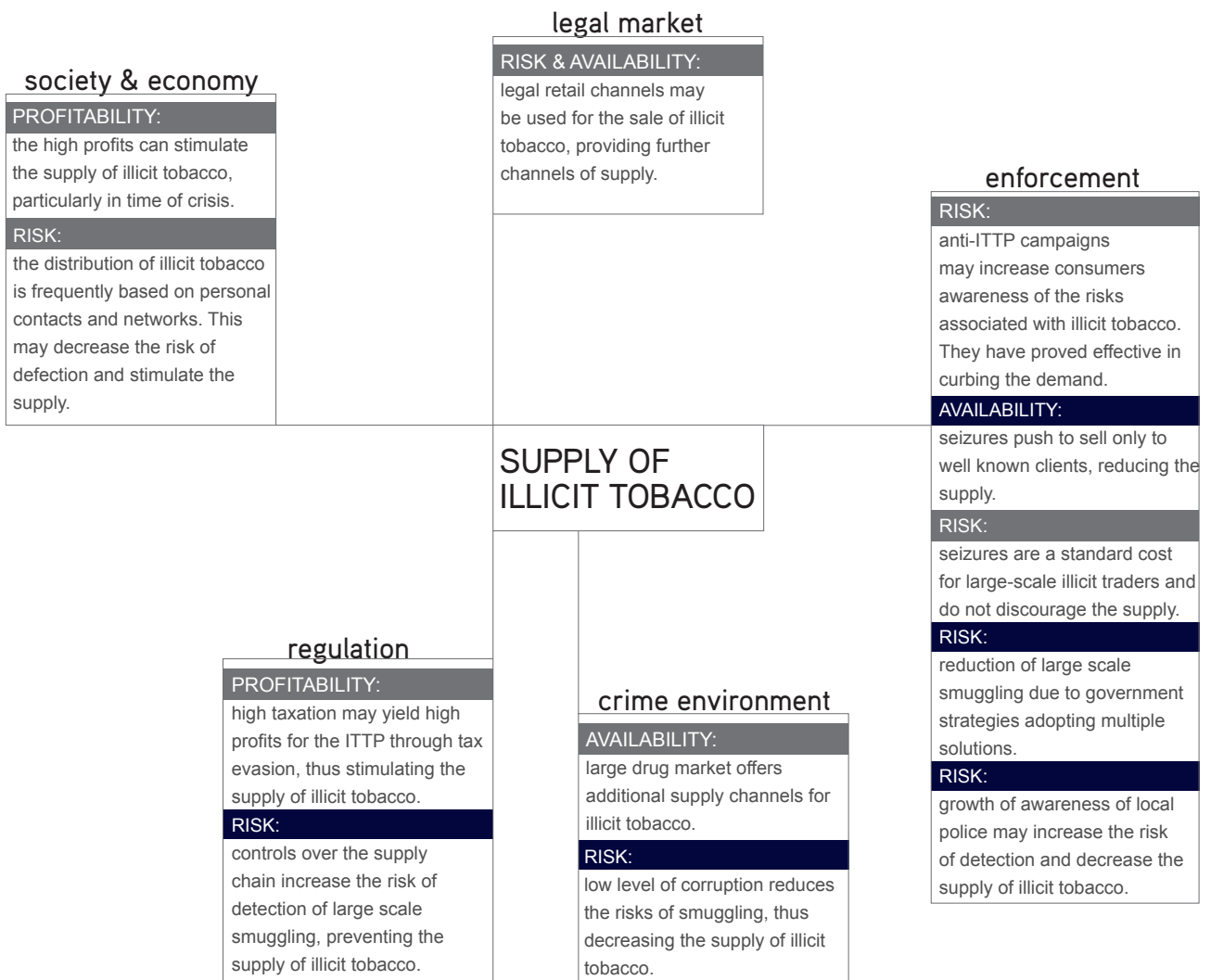
THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Profitability and risk are important factors for the supply of illicit tobacco.

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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Society and economy. The high profitability of the ITTP is a crucial element stimulating its supply. Furthermore, illicit tobacco is frequently distributed by ordinary people through personal contacts or small networks. This may decrease the risk of detection.

Legal market. Legal retail channels may be used for the sale of illicit tobacco. This increases the availability and diminishes the risk for the actors involved.

Regulation. High taxation on tobacco products busts the profitability of the ITTP, due to the possibility to evade taxes. Contrarily, the introduction of tighter controls on the supply chain has increased the risk of detection for large-scale smugglers and proved effective in curbing the ITTP.

Crime environment. The large UK drug markets provide a variety of distribution channels thus increasing the availability of illicit tobacco. Nevertheless, low UK

corruption rate reduces the possibility to bribe law enforcement and regulators, resulting in a higher risk of detection.

Enforcement. Low penalties and conviction rates diminish the risks for those involved in the ITTP. Seizures, while reducing the availability of illicit tobacco in the short term, are generally considered a standard cost for traffickers. The increasing police awareness of threats posed by the ITTP and the Government anti-ITTP strategy, which introduced a number of different policy measures, had a relevant impact in reducing the supply of illicit tobacco.

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

Source: Transcrime elaboration

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



THE PRODUCTS AND THE DRIVERS

The main factor determining the development and diffusion of different types of products is **opportunity**, particularly as a result of intensified enforcement efforts.

Society and economy. HRT is popular among manual and low income workers, which are also the most attracted by illicit tobacco due to its lower prices. This created opportunities for the diffusion of illicit HRT, whose share has remained significantly high.

Legal market. The market share of HRT has increased in the last years, due to lower retail prices and increasing popularity among young consumers. This may offer new opportunities for the distribution of illicit HRT.

Regulation. The restrictions on the availability of either tobacco products in general (e.g. through new policy

measures) or specific products (e.g. niche tobacco products) may provide opportunities for the diffusion of illicit products. Furthermore, the lack of controls over the legal supply chain may create opportunities for large scale smuggling.

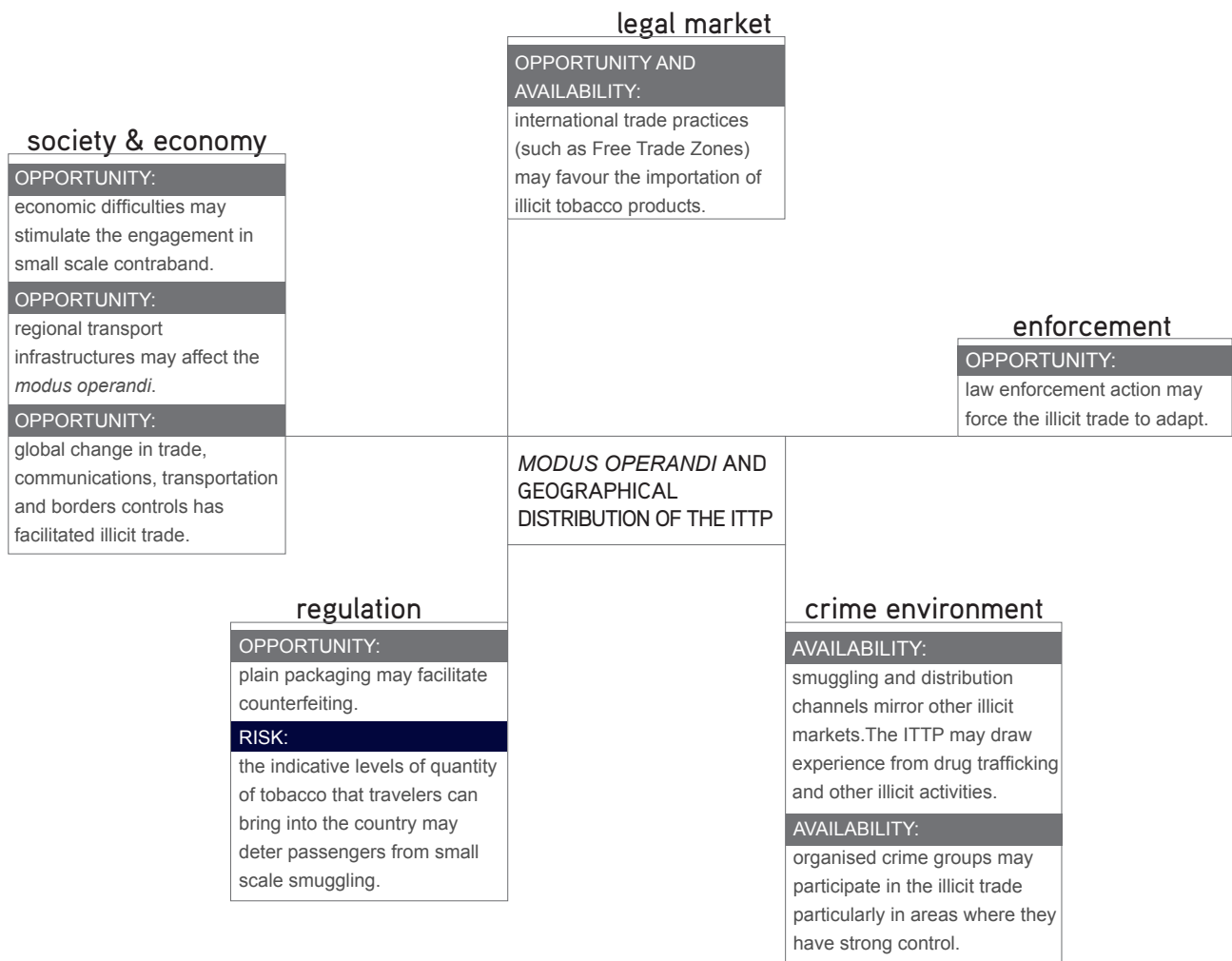
Crime environment. Informal economy, such as street markets, may facilitate the availability and distribution of illicit tobacco products. Illicit tobacco may be often sold together with other smuggled products.

Enforcement. Law enforcement action on specific types of ITTP may create opportunities for new illicit products. Furthermore the lack of a legal framework for international cooperation against the ITTP may favour the diffusion of illicit whites. Large scale seizures affect the availability of illicit products only in the short term.

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

Opportunity and availability play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP.

Society and economy. The reduction of border controls, the enlargement of the European Union and the UK participation in the Single European market and the development of international transportation connections provide important opportunities for the growth of the ITTP. Small scale smuggling provides an opportunity for those who face economic difficulties.

Legal market: international trade practices, e.g. the creation of free trade zones, may influence the ITTP increasing illegal opportunities and the availability of illicit

tobacco.

Regulation: regulation may unwillingly create opportunities for the ITTP. For example, the introduction of plain packaging may stimulate counterfeiting of tobacco products, decreasing the costs incurred by counterfeiters, reducing consumers' capacity to spot illicit products and reducing the perception of the differences between genuine and illicit tobacco products. The reduction (e.g. from 3,200 to 800 cigarettes) of the indicative quantity that may trigger controls by the law enforcement since 2011 may have deterred passengers from small scale smuggling.

Crime environment. The ITTP, as most illicit markets, consists of a fluid network comprising different actors, from individuals to organised crime groups. The actors involved in the different illicit markets may share their

practices and distribution channels, creating scope economies facilitating the ITTP and other traffics. Organised crime group, despite their marginal presence in the UK underworld, may be involved in the ITTP wherever they exert strong territorial control.

Enforcement. Law enforcement action may represent an opportunity for ITTP to react and adapt, making new products available to consumers.

CONCLUSIONS

The ITTP is a **complex and multifaceted phenomenon**. It comprises a number of different activities which are caused by different socio-economic and regulatory conditions. **Analysis of the illicit trade should consider the wider context** of the drivers in order to gain better understanding of the mechanisms of the illicit tobacco trade. The results of this study point out that **further research** is needed on the ITTP (recommendations for further research are discussed in the Conclusions).

The ITTP cannot be reduced to a problem relating exclusively to law enforcement and criminal justice policy. In addition, it is extremely reactive to enforcement strategies. Strong law enforcement efforts tackling large-scale smuggling have partially resulted in displacement to new emerging forms of illicit trade. The adoption of additional, non-criminal, prevention measures has proved effective in curbing the illicit trade. These results suggest that **the ITTP should be tackled with comprehensive strategies including criminal, non-criminal/ administrative and other indirect measures** which may be introduced, for example, through a wide-ranging **situational crime prevention approach**.

After the completion of the first year of the study, the Factbook on the ITTP will provide a comparative analysis on the selected countries. The comparative analysis will provide additional insight in the complexity of the ITTP and policy recommendations based on the results of the different country profiles.



Location:

The United Kingdom of Great Britain and Northern Ireland - made up of England, Scotland, Wales, Northern Ireland and smaller islands (Isle of Wight, Anglesey, and the Scilly, Orkney, Shetland, and Hebridean archipelagos) - is located in Western Europe between the North Atlantic Ocean and the North Sea, 35 km far from the northwest coast of France.

Population:

62,641,000 (2011) (WB)
Male: 30,844,448 (49.2%)
Female: 31,796,552 (50.8%)
Growth Annual Rate: 0.7% (2011) (WB)
Age Structure: 0-14 (17.3%); 15-64 (65.8%); 65+ (16.8%); (2011) (WB)
Fertility Rate:
1.8% children born/woman (2005-2010) (UN)
1.9% children born/woman (2010) (WHO)
1.9% children born/woman (2010) (WB)
Life expectancy at birth (years): 80 (2010) (WB)
GDP: \$2,431,588,709,677 (2011) (WB)
GDP annual growth: 4.2% (2011) (WB)
Inflation consumer price: 4.5% (2011) (WB)
Income level: High

WHY FOCUS ON ITTP IN THE UK?

The illicit trade in tobacco products (hereinafter ITTP) has become an important concern in the UK since the 1990s. The rapid economic and social changes of the past twenty years have influenced the illicit trade in tobacco products (Shen, Antonopoulos, and von Lampe 2010). The reduction of border controls, increasingly fast and easy inter-mobility and communication throughout the world, and the “boom in cross border consumption” (Hobbs forthcoming) have impacted on international and European illicit flows, facilitating smugglers in terms of connection and transportation, and increasing the demand for illicit products, including tobacco.

Although since 2000 the Government’s action has successfully reduced the market share of illicit tobacco, **the UK illegal market still remains above the average of other EU Member States** (KPMG 2011, 40).

In general, the tobacco market should be analysed as a dual market. Indeed, it consists of a legal and an illegal part. The two sides of the market are closely connected and changes to the legal market may affect the illicit one (Figure 5). The dual nature of the tobacco market implies that the ITTP is a threat to the effectiveness of tobacco control policies intended to curb smoking and its dangerous effects on human health.

The ITTP is a complex phenomenon comprising a number of 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).

Figure 5. The dual tobacco market



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 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 tobaccos: 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).

Except for attempts to assess the size and trend of the illegal market, there has been a limited amount of research on other aspects of the ITTP in the UK. In particular, only a few studies have analysed the social organization and the *modi operandi* of the illegal activities (Hornsby and Hobbs 2007; von Lampe 2006). This implies that the actual dynamics of the illicit market and its structure have to date been largely under-researched. At the same time, the tobacco industry has developed studies and analyses for its own purposes, i.e. reducing illicit tobacco and counterfeiting. For example, the industry has started to promote studies and investigations using different methods, such as empty pack surveys (hereinafter EPS) and test purchases of tobacco products.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three sections. Section 1 is composed of five subsections analysing the five drivers of the ITTP:

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

The drivers are ***important sectors and areas which may positively or negatively impact on the ITTP.***

The underlying assumption is that ***the structure and organisation of the five drivers have important effects on the extent and structure of the ITTP.***

Indeed, it is not possible to analyse the ITTP in one country without focusing on the above-listed drivers. These have been selected through a detailed review of the literature on the ITTP and discussion with stakeholders and experts. Each subsection provides concise information on the key aspects of each driver. ***To enable comparison with other country profiles, five key indicators have been selected for each driver.*** The data for the drivers indicators have been collected from a wide number of sources (e.g. World Bank, WHO, UN). In a few instances, Transcrime has elaborated composite indicators (see Regulation and Enforcement). 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).

The composite indicators should not be interpreted as if a higher score is always better than a lower one. Their goal is rather to synthetically assess the intensity of policy measures in a specific field. The information for the assessment is drawn from the literature, official sources (reports, websites, legislation) and experts.

The second Section analyses illicit trade in the UK, 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.

Section 3 combines the results of the two previous sections to identify the key factors of the ITTP and show how the various elements of the drivers influence the illicit trade.

Chapter 1

the five drivers

THE FIVE DRIVERS: SOCIETY & ECONOMY

The UK is a developed, dynamic and multicultural society. However, in recent decades social and economic inequalities have grown.

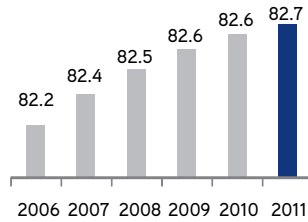
The Global Financial Crisis is likely to heighten this trend. Households have cut their expenditures, especially on durable goods.

This situation may affect the ITTP, making illicit tobacco attractive to smokers in lower socio-economic circumstances, the ones most affected by the crisis.



Adult population

Population aged 15+
Source: World Bank



82.7%

41 out of 193 countries
(2011)

Income Inequality

GINI coefficient after taxes
Source: OECD

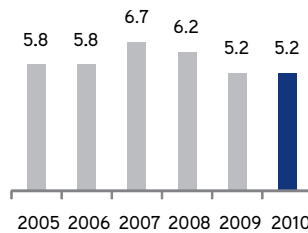


0.34

7 out of 34 countries
(late 2000s)

Education system

Education expenditure as % of GDP
Source: World Bank

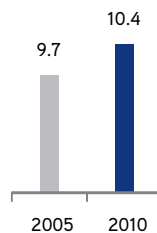


5.2%

17 out of 157 countries
(2010)

Migration

International migrant stock as % of population
Source: World Bank

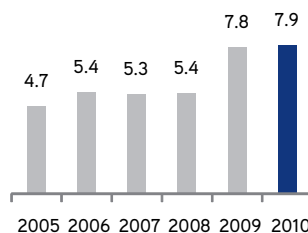


10.4%

68 out of 213 countries
(2010)

Unemployment

Total Unemployment rate as % of labour force
Source: OECD



7.9%

18 out of 34 countries
(2010)

•• **The UK is a modern and dynamic society facing economic difficulties.**

- Like other Western industrialized countries, in the past twenty years the UK has been affected by the globalization process.
- The evolution of the economy has impacted on the labour market. It has led to a decrease in manufacturing and manual jobs, a growth of the service industry and of professional and semi-professional jobs, the net result being an increase in unemployment (Abercrombie and Warde 2000, 26–63).
- Social groups are still closely linked to economic positions. Class identity and inequalities are still strong, although the notion of class in British society has lost significance compared with the past (Abercrombie and Warde 2000, 149).

•• **The UK has been affected by the global financial crisis that began in 2008.**

- The financial sector and the housing market have been the two sectors most affected by the economic crisis as a consequence of a fall in household savings and the rise in “relaxed lending conditions, expanded credit availability, and rising net wealth (supported by overshooting house prices)” (IMF 2011, 2).
- The crisis has led to a deterioration of employment conditions which has particularly hit the category of young, male, and less-educated people (Horsfield 2011, 88). This has had an impact on household incomes, which fell in 2010–11 (Cribb, Joyce, and Phillips 2012).

•• **The UK is a consumer society with various lifestyles and consumer patterns. However, the global financial crisis has reduced consumption.**

- High inflation has diminished the purchasing power of household. This effect doubled between 2009 and 2010 (Myers 2011).
- Average weekly household expenditure fell from £516.30 in 2004/05 to £473.60 in 2010 (Horsfield 2011, 75).

- Household expenditures vary remarkably across regions. London ranks first with £577.80 per week, while North-East England ranks last with £327.70.
- Compared to the crises of 1980s and 1990s, people have cut their expenditures more on durable goods than non-durable goods; young people and mortgage holders have cut more than old people and renters (Crossley, Low, and O’Dea 2012).
- Among non-durable goods, tobacco is the category least affected by household expenditure cutting. This may indicate that people do not easily give up smoking in periods of financial crisis, preferring to cut back on other expenditures, such as food or household services. At the same time, the decrease, although slight, in household expenditure on tobacco shows that the crisis has had an impact even on this habit (Table 1). The two trends indicate that tobacco consumers consider tobacco to be an important good; yet they strain to maintain the same level of consumption. These attitudes may contribute to the expansion of the ITTP.

Table 1. Household expenditure on tobacco

Average household expenditure on tobacco per week	Pounds
2006	5.30
2007	4.90
2008	4.80
2009	4.60
2010	4.60

Source: Office for National Statistics

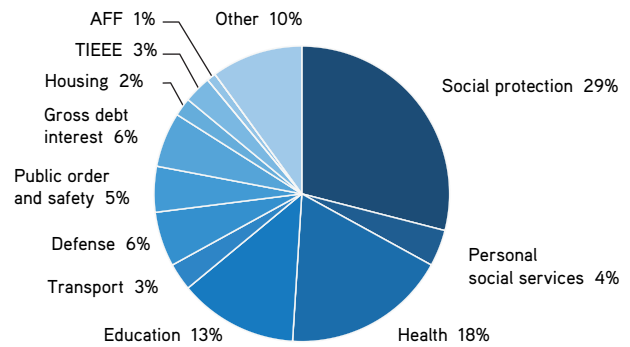
•• **UK welfare has been progressively reduced in recent years.**

- Since the mid-1970s, economic, social and political changes have induced the UK progressively to reform its welfare system in order to reduce public expenditures (Abercrombie and Warde 2000, 429–441). This tendency was accentuated under the post-1979 conservative administrations. These were defined as ‘Thatcherism’ and aimed at liberalization, deregulation, privatization and tax cuts (Abercrombie and Warde 2000, 436).
- In the late 1990s, Labour governments sought to mitigate the neo-liberal policies with a new approach based on social inclusion and intended to stimulate the redistribution of opportunities.

- Since 2010 the coalition government has planned a series of reforms in order to open the public sector to private subjects (HM Government 2011).
- **UK public spending on education and health has changed in the past thirty years.** This is linked to the change in governments' priorities, and to demographic and economic changes (Crawford and Johnson 2011, p. 2).
- UK public spending on education has been significantly cut after years of increases. From 1979 to 1997 public expenditure on education registered only a 1.5% annual increase. Between 1997 and 2005 it increased remarkably (Chowdry and Sibieta 2011):
 - between April 1997 and March 2001: +2.9%
 - between April 2001 and March 2005: +6.2%
- As a result of budget cuts, education expenditure will fall by 3.5% per year between 2010–11 and 2014–15. This will be the “largest cut in education spending over any four-year period since at least the 1950s, and would return education spending as a share of national income back to 4.6% by 2014–15” (Chowdry and Sibieta 2011, p. 1).
- Reducing education expenditure is risky because better-educated people are more likely to follow healthy lifestyles, which include quitting smoking or avoiding the consumption of illicit tobacco (Department of Health 2009a; NEMS Market Research 2009).
- UK public spending on health is constantly increasing. The health sector cost approximately £120 billion in 2010–2011. The sector has increased its share from 11.7% in 1988–89 and 14.2% in 1998–99 to the current 18% of total expenditure (Figure 6) (Crawford and Johnson 2011, p. 3). This trend is due to the raising of health service standards but also to “inflationary and demographic pressures within the health care system” (Crawford and Johnson 2011, p.6).
- **The UK is a pluralist and multicultural society but, at the same time, it is subject to inequalities and tensions.**

Figure 6. Composition of total public spending in 2010-11

Source: Crawford & Johnson (2011, p. 3)



Notes Fig.6: TIEEE is spending on trade, industry, energy, employment and the environment. AFF is spending on agriculture, fisheries and forestry. Others include spending on public and common services, international services, recreation, culture and religion, EU transactions and accounting adjustments.

- The UK has traditionally been a country of immigration. The migrant stock grew from 9.7% in 2005 to 10.4 % in 2011.
- This situation is a source of multiculturalism and diversity, but also of inequalities. Members of ethnic groups, in particular those belonging to Caribbean and Asian groups, experience more social deprivation in comparison with the Anglo-Saxon population (Abercrombie and Warde 2000, 8).
- Inequalities in income and health in the UK are higher than in other industrialized countries and compared to thirty years ago, as reported by the National Equality Panel in 2010 (Hills et al. 2010).
- Income inequalities grew during the 1980s (the Gini coefficient rose from 0.25 in 1979 to 0.34 in the early 1990s). During the 1990s inequalities slightly decreased, but rose again by the end of the decade (in 2000-01 the Gini coefficient was 0.35). The situation did not improve during the last decade (in 2007–08 the Gini coefficient was 0.36) (Jin et al. 2011). However there was a slightly decrease in 2010-2011 – the Gini coefficient was 0.34 (Cribb, Joyce, and Phillips 2012, 2).

- Social inequalities in incomes are driven both by gender and ethnicity and by social class and the area of residence. Data on income show that earnings of people in top economic positions have increased, unlike those at the bottom levels.
- Health inequalities between those at the top and bottom of the social scale have widened since the 1970s (National Audit Office 2010). Recently, the Department of Health has developed a strategy in order to reduce the health gap between socio-economic groups (National Audit Office 2010).
- The traditionally high levels of civiness (citizens' voting and participation) in the UK are declining. Civiness and social capital (voluntary work, networks and trust) have been traditionally high (Hall 1999). However, these factors have been declining since the 1980s (Abercrombie and Warde 2000, 302; Grenier and Wright 2003).

In conclusion, the combination of social aims driven by consumer culture, socio-economic inequalities, and the impact of the crisis threatens to bring the UK to a critical situation. The extent of these social strains was made evident during the London riots of August 2011. Indeed, social exclusion and consumption aspirations played a crucial role in provoking the riots. As reported by the Financial Times, “more than a third of suspects charged with offences related to the riots in London (...) live in the poorest fifth of the city’s areas (Gainsbury and Culzac 2011). This trend may propagate illegal behaviours, thus contributing to the expansion of the ITTP.

THE FIVE DRIVERS: LEGAL MARKET

The tobacco market is an important sector of the UK's economy. Two of the four top multinational tobacco companies are headquartered in the country, and the production of cigarettes exceeds national sales.

Tobacco consumption has generally declined and the market is experiencing a downtrading trend, with smokers switching to cheaper brands and products.

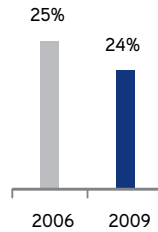
Downtrading may have an impact on the ITTP, since illicit tobacco is significantly cheaper than legal products.



Smokers

Current smoking of any tobacco product (age-standardized rate)

Source: WHO



24%

64 out of 147
(2009)

Affordability

Ratio between pack price and disposable income

Source: PMI

3%

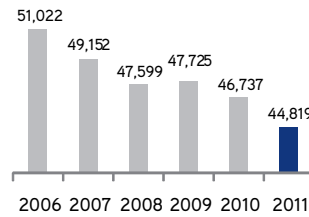
53 out of 107 countries
(2010)

26

Market Size

Retail (volume in million sticks)

Source: Euromonitor International



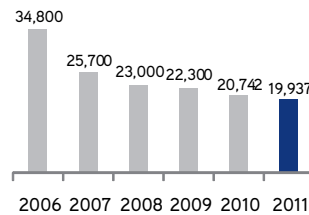
44,819

22 out of 208 countries
(2011)

Balance of Trade

Trade statistics (volume in million sticks)

Source: Euromonitor International



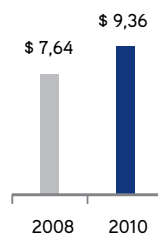
19,937

(2011)

Price

Price of a packet of the most sold brand (US \$)

Source: WHO



\$ 9.36

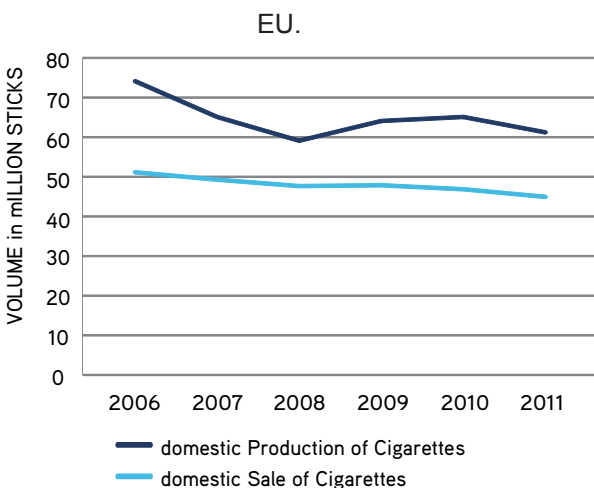
6 out of 166
(2010)

THE UK TOBACCO MARKET

- **The UK is an importer of tobacco leaves and an important producer of cigarettes.**
- Tobacco does not grow in the UK. The country is among the top 10 importers in the world with 57,328 tons of leaf imported (Eriksen, Mackay, and Ross 2012).
- Two of the top four multinational tobacco corporations are headquartered in the UK. British American Tobacco is based in London, while Imperial Tobacco is headquartered in Bristol.
- Legal sales of cigarettes have declined, but the production of cigarettes has remained well above the national sales (Figure 7). Sales of cigarettes are expected to decline by 4% from 2010 to 2015 (Euromonitor International 2011a). The sale decline is in line with the sales trends in other Western European countries, such as Italy, Germany, France and Spain, which can partly be explained by declining consumption (KPMG 2012).
- The exportation of cigarettes has always been more than the importation (Euromonitor International 2011a).

Figure 7. Cigarette production and sale (2006-11)

Source: Transcrime elaboration on Euromonitor International (2011a) data



- **The UK tobacco market is a dynamic sector.**
- The tobacco industry makes a major contribution to the UK economy - £2 billion Gross Value Added, 2%

of the total UK Manufacturing Gross Value Added (Cogent SSC 2012).

- Knowledge intensive, the industry invests around £158 million in R&D and £62 million in capital expenditure (Cogent SSC 2012).
- Productivity per employee increased by 45% from 2006 to 2009 (Cogent SSC 2012).
- The average income per week of tobacco industry employees (£727) is double that of employees in the UK manufacturing industry (Cogent SSC 2012).
- There are more than 5,700 people employed in high-value jobs. According to a Cogent estimate, the industry indirectly supports 20,000 jobs in the supply chain and 46,000 in distribution, retail and forward linkages (Cogent SSC 2012).

- **Four multinational companies lead the tobacco market in the UK.**

- Philip Morris International is the largest tobacco company in the world. It has a market volume share of over 30% in 36 markets. The operation center of PMI is in Lausanne, Switzerland. In 2010, PMI held a UK market share of 9% (Sources: Ash, Company Annual Report, Euromonitor International).
- British American Tobacco UK Ltd (BAT) is the second largest tobacco company in the world. The company is based in the UK and sells its products in 180 countries. In 2011, it had a market volume share of 13% of the global market. In 2010, BAT had a UK market share of 8% (Sources: Ash, Company Annual Report, Euromonitor International).
- Japan Tobacco International (JTI), controller of Gallaher Ltd, is the third largest tobacco company in the world and is based in Geneva, Switzerland. In 2011, the market share in the UK was 33% for volume of ready-made cigarettes (Sources: Ash, Company Annual Report, Euromonitor International).

- Imperial Tobacco Ltd (IT) is the fourth largest global tobacco company. Imperial Tobacco Group has a leader position within the UK tobacco market (cigarette, hand rolling tobacco and rolling papers). IT is also the UK

distributor of PMI products. In 2011, the group held 45% of the volume share of the UK cigarette market. It is based in Bristol, UK (Sources: Ash, Company Annual Report, Euromonitor International).

- **Cigarettes are distributed through various channels.**

- Supermarkets and hypermarkets held the leading position in 2010. However, the role of convenience stores has been rapidly growing (Euromonitor International 2011a).
- Sale from vending machines has been banned since 2010. This distribution channel had already experienced a decrease in the past, probably driven by the higher prices of cigarettes (the pack sold through the machine costs the same, yet it contains fewer cigarettes). For this reason many pubs decided to remove the machine and opted for 'behind-the-bar-sales' (Euromonitor International 2011a, 32).

28

HAND ROLLING TOBACCO

In 2010, **the** smoking tobacco sector grew by 11% in volume compared to the previous year. In particular, **HRT increased by 12% in volume terms and 19% in value terms** (Euromonitor International 2011a). The leading company in producing HRT is Imperial Tobacco Group TLC (54% of the entire volume sold). According to a Euromonitor International estimation, over the period 2010-2015 this category will increase by 8% CAGR in volume (Euromonitor International 2011a). The sale of smoking tobacco in general underwent a significant increase over the period 2006-10. In 2006, 3,615.8 tons of smoking tobacco were sold, whilst in 2010 the amount of smoking tobacco sold was 5,074.7 tons (Euromonitor International 2011a).

The share of people smoking HRT has increased since 1990.

Traditionally consumed by men, HRT has recently attracted women because it is cheap and 'trendy'. In 1990, 18% of men and 2% of women declared that they smoked hand-rolled cigarettes, while the figures in 2009 were 39% of men and 22% of women (NHS Information Centre 2011).

HRT is used prevalently by people employed in

routine and manual jobs (34%), more than smokers employed in managerial and professional occupations (24%) (NHS Information Centre 2011). According to a TMA estimation, in the past twenty years there has been a significant increase in the consumption of non-UK duty-paid products (including hand rolling tobacco smuggled, counterfeit, cross-border shopped and duty-free) (TMA).

TOBACCO CONSUMPTION

•• In the UK, tobacco consumption and sales are declining.

- According to WHO's 2009 data, smoking prevalence was 24% of the adult population. The UK ranked 64th out of 147 countries (WHO 2011a).
- Eurostat's tobacco survey of 2012 registered a smoking prevalence of 27% for the UK (EU average of 28%). The country ranked 18th out of 27 Members States (European Commission 2012).
- According to the UK National Statistics, smoking prevalence was 21% in 2009. Smoking has decreased in recent decades, although in 2009 the recorded prevalence was the same as in 2007 and 2008 (NHS Information Centre 2011).
- All the data sources report a general decrease in smoking prevalence.
- Men (22%) smoke more than women (20%), and more in the 16-19 and 20-24 age groups, respectively 27% and 28%. The proportion of smokers aged over 60 is 14%. The average number of cigarettes consumed per day is 13.1 (NHS Information Centre 2011).
- In 2010, £17.7 billion was spent on tobacco. As already seen in the Society and economy section, there was a decrease in household expenditure on tobacco.
- The decrease in tobacco consumption has been caused by increasing prices, the increasing awareness of health dangers linked to tobacco consumption, and anti-tobacco measures such as the ban on smoking in public places and the ban on advertising (Euromonitor International 2011a).

•• Cigarettes are expensive products in the UK.

- In March 2012 the recommended retail price (RRP) of a typical pack of 20 cigarettes in the most popular price category was £7.47. The recommended selling price (RSP) for a 20-size pack of Marlboro was £7.29, while for a 20-size pack of Pall Mall the price was £5.64 (PMI 2012b). Retailers in the UK are free to set the prices, as a consequence cigarettes are more expensive in high-traffic areas such as: airports, railway stations, supermarkets and petrol station operators. Retailers and manufacturers have to comply with competition rules when establishing retail prices. It has occurred that the OFT (Office of Fair Trade) in 2010 has fined those tobacco manufacturers and retailers who engaged in unlawful practices inflating the cost of tobacco products (Wray 2010) thus acting in breach of the Competition Act (1998).
- According to the WHO, in the UK the retail price of the most sold brand is among the highest in the world (sixth position). In the EU, the UK is second only to Ireland (WHO 2011b).
- The percentage of per capita GDP needed to purchase 100 20-cigarettes packs is 2.4% in the case of Pall Mall and 3% in the case of Marlboro (53rd position out of 107 countries). Within the EU, the UK ranks 4th position out of 27 EU Member States (after Bulgaria, Romania and Latvia) for the affordability of a 20-cigarettes pack of Marlboro¹.
- Cigarette affordability has changed in the past thirty years. In 2010, tobacco was 33% less affordable than in 1980 (NHS Information Centre 2011).
- Cigarette price influences tobacco demand. However, the nature of the product (addictive and driven by habits) prevents its study according to the classical demand model².

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Table 2. Sales of tobacco by category: Volume 2005-2011

Source: Transcrime elaboration on Euromonitor International Passport database

	2006	2007	2008	2009	2010	2011
Cigarettes (mn sticks)	51,022.0	49,152.3	47,559.3	47,725.1	46,736.5	44,818.8
Cigars (mn units)	999.6	886.3	825.4	785.2	735.0	698.7
Smoking tobacco (tonnes)	3,615.8	3,801.0	4,151.9	4,570.3	5,074.7	5,580.3

1. Philip Morris International Data on Affordability.
2. For a discussion on the methodology with which to model

tobacco demand see Czubek & Johal (2010).

•• **The UK market is experiencing a downtrading trend.**

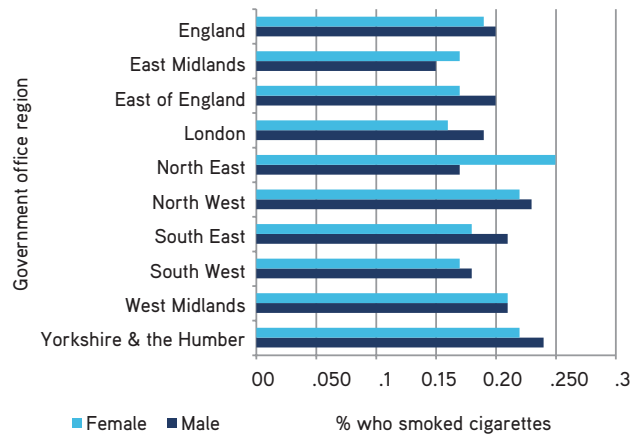
- In recent years, consumers have shifted to less expensive products and brands (downtrading) as a result of price increases and economic constraints (Table 2). In 2011, the sale of cigarettes declined (by 4.1%), and so did that of cigars, while the volume of HRT grew by 10% (after two consecutive years of two digit growth)³.
- The economy (lowest) price band has increased its share of total retail volume, rising to 65% of the market in 2010 from 55.5% in 2006⁴.
- Cigarette demand has also shifted to low tar cigarette brands (in 2011 this category grew in value by 10%). Women and higher-educated consumers are the main purchasers of such products.
- Downtrading is further facilitated by the UK's participation in the Single European market and the enlargement of the European Union, which has made cheaper overseas products (both legal and illegal) more available and accessible.
- Major tobacco companies are adapting to the downtrading. They have started either to manufacture HRT or launch new products (Euromonitor International 2011a).

•• **Various socio-demographic and economic variables play a significant role in determining tobacco demand.**

- **Place of residence** (Figure 8). There are regional differences in terms of smoking prevalence: Scotland and Wales record a high proportion (25% in 2010). More specifically, in England (whose smoking prevalence is 20%) the areas with the highest figures for consumption are North West (23%), North East (25%) and Yorkshire & the Humber (24%).

Figure 8. Smoking prevalence per region

Source: Transcrime elaboration on Cancer Research UK data

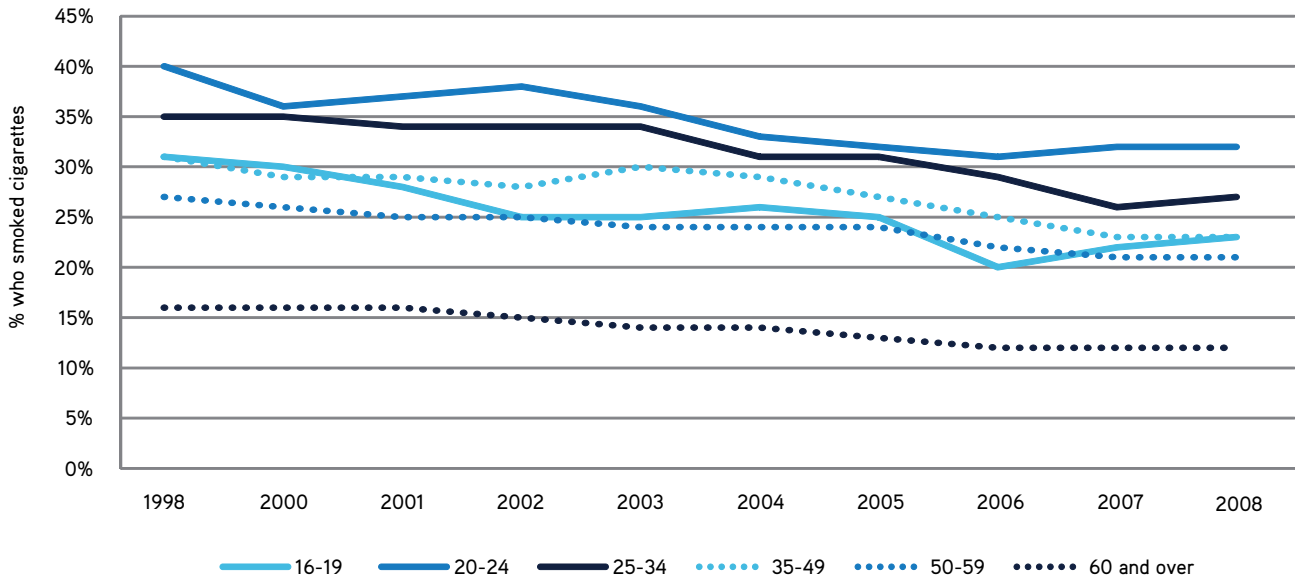


- **Gender.** In 2008 the UK ranked twelfth among the top 20 female smoking populations (Shafey et al. 2009, 25). It seems that men have been more affected than women by health campaigns and healthy lifestyles, given that the number of men quitting smoking exceeds that of women.
- **Age.** Since 2000, the number of young smokers (16-24 years; since 2007 the legal age for purchasing cigarettes has been raised from 16 to 18) has decreased, as shown in Figure 9 (Shafey, Dolwick, and Guindon 2003). There has been a long-term decline in young people who have tried smoking (Fuller 2008). The decline in juvenile smoking mirrors the decrease in adult smoking consumption and the general shift in public smoking habits (Fuller 2008, 108).
- **Social groups.** The smoking prevalence of people employed in manual jobs exceeds the prevalence of people employed in non-manual jobs (Figure 10). Poor people who smoke do not respond to tobacco policy control as much as rich people do. There are barriers to cessation in low-income level groups. Indeed, the decline in smoking prevalence usually does not concern lower income groups (Marsh and McKay 1994).

3. Data from Euromonitor International Passport database.
 4. Data from Euromonitor International Passport database.

Figure 9. Smoking prevalence per age

Source: Transcrime elaboration on UK National Statistics data

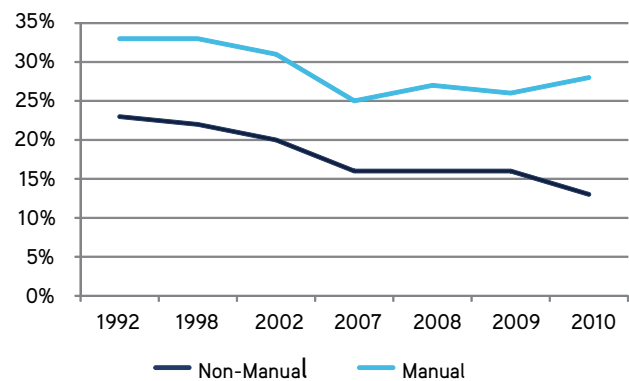


- UK Ethnic groups.** Differences in smoking patterns and rates are due to cultural and ethnic differences. The 1994 Health survey in England showed a high rate of smoking among Bangladeshi (28%) and African-Caribbeans (27%) and a low rate of smoking among Pakistanis (15%) and Indians (10%) (NHS 2000). These data were confirmed by the estimation of smoking prevalence by minority ethnic group reported by Cancer Research UK, relative to 2004. Ethnic minorities have less knowledge about the health damage caused by smoking (Rudat 1994).
- In conclusion,** the tobacco market is an important sector for the UK economy. Whilst tobacco is not grown in the country, the UK is among the top 10 importers of tobacco in the world. The price of

cigarettes in the UK is among the highest in the world and in the EU.

Figure 10. Smoking prevalence per employment in manual and non-manual jobs

Source: Transcrime elaboration on Cancer Research UK data



There has been a general decline in cigarette consumption and sales over recent decades, and at the same time the market has experienced a downtrading trend. Consumers have shifted to cheaper brands and products as a consequence of price increases. This trend may have an impact on the illegal cigarette market, since illicit products are significantly cheaper than genuine products.

THE FIVE DRIVERS: REGULATION

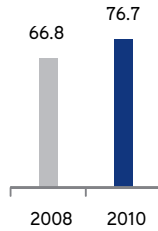
Regulation of the tobacco market is high in the UK. The country has invested a significant amount of resources in tobacco control policies. At the same time, the taxation of tobacco products is high.

In regard to the various areas of tobacco control, there is a medium level of supply chain control and a very high level of control on tobacco consumption and sales, as well as on advertising and promotion.



Taxation

Tax as a % of retail price
Source: WHO



76.7%
20 out of 181
countries
(2010)

Government Action

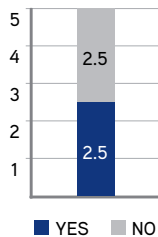
Government expenditure of tobacco control not including the control of the ITTP (US\$)
Source: Lencucha and Callard (2011), Lost revenue estimates from the illicit trade of cigarettes: a 12-country analysis

137,317,368
2 out of 110 countries
(2009)

34

Tobacco Supply Control*

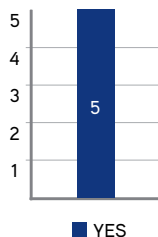
Composite indicator measuring the presence of specific policy measures in the country
Source: transcrime elaboration



2.5/5
points
(2012)

Tobacco Consumption and Sale Control*

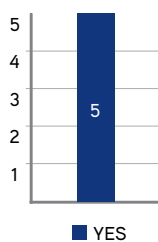
Composite indicator measuring the presence of specific policy measures in the country
Source: transcrime elaboration



5/5
points
(2012)

Tobacco Marketing and Promotion*

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



5/5
points
(2012)

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

- **The tobacco market is intensely regulated in the UK.**
- In 2010, the UK ranked first among 31 European countries on the Tobacco Control Scale (TCS) (Joossens and Raw 2011, 8)⁵ because it received good scores on the six tobacco control policies which, according to the World Bank, should be prioritized in a complete tobacco control programme.⁶ Similarly, the World Health Organisation (WHO) report reviewing country policies on tobacco control provides a positive evaluation of the UK's regulation and policies (WHO 2011c, 100).⁷
- **The UK regulation must comply with international and regional requirements and standards.**
- The UK is a Party to the WHO Framework Convention on Tobacco Control, an international treaty establishing a number of obligations for countries.
- As a Member State of the European Union, the UK is required to implement EU legislation. Since the EU's competence is more limited in the field of health, most EU provisions are focused on the tobacco market and the development of a common market among the 27 EU Member States (Transcrime 2011a). However, these measures inevitably affect also health issues and tobacco control in general.
- **Tobacco regulation and tobacco control policies are largely decentralized in the UK.**
- In particular, **the competence is divided among the central government and the four nations making up the UK** (England, Wales, Scotland and Northern Ireland) (ASH 2012b). Local governments have responsibility for their own smoking cessation and health education campaigns while UK-wide policy and law applies to taxation, smuggling, advertising, and consumer protection issues such as the provision

5. The TCS was developed to assess the level of national regulations in the six tobacco control policies identified by the World Bank, comprising higher taxation of tobacco products, bans in public and work places, bans on advertising and promotion, consumer awareness, warning labels and quitting help (World Bank 2011).

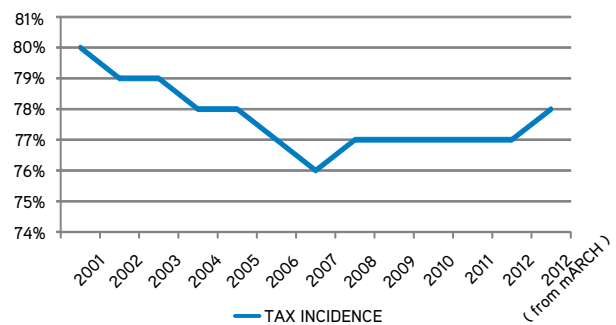
6. The six control policies are: price increases through higher taxes on cigarettes and other tobacco products; bans/restrictions on smoking in public and work places; better consumer information, including public information campaigns, media coverage, and publicizing research findings; comprehensive

of health warnings on tobacco packaging. Some of these measures are determined by European Union legislation (ASH 2012c).

- **All the four nations have developed and implemented tobacco control strategies** (Scottish Executive 2004; Scottish Executive 2008; Department of Health 2009a; Department of Health 2010; Welsh Government 2012; DHSSPS 2012). These strategies identify policy measures and set deadlines with clearly measurable aims to be achieved.
- **Taxation on tobacco products is high in the UK.**
- According to the WHO, in 2010 UK taxes accounted for approximately 77% of the final retail price of the most popular brand (Figure 11). The UK occupied the twentieth position among the 181 countries analysed by the WHO Report and the sixteenth position among the 27 EU Member States (WHO 2011d; WHO 2011c, 100).⁸

Figure 11. Taxation share of the final retail price, most popular brand of cigarettes (2001-2012)

Source: Transcrime elaboration on TMA data



bans on the advertising and promotion of all tobacco products, logos and brand names; large, direct health warning labels on cigarette boxes and other tobacco products; treatment to help dependent smokers stop, including increased access to medications.

7. The WHO report is based on the MPOWER package of measures developed by the WHO. MPOWER is an acronym of the six policy measures which include: monitor tobacco use and prevention policies; protect people from tobacco smoke; offer help to quit tobacco use; warn about the dangers of tobacco; enforce bans on tobacco advertising, promotion and sponsorship, and; raise taxes on tobacco (WHO 2008).

8. The most recent data from the EU Commission show that all taxes applied to cigarettes, including valued added tax, represent 82.12% of the weighted average price (WAP). According to Article 2 of *Council Directive 92/79/EEC* "The weighted average retail selling price shall be calculated by reference to the total value of all cigarettes released for consumption, based on the retail selling price including all taxes, divided by the total quantity of cigarettes released for consumption.". The UK occupies the ninth position among EU Member States for the highest tax percentage of the WAP.

Table 3. UK regulation on supply chain control

Source: Transcrime elaboration

Supply chain control indicator	UK scores
1) The retail of tobacco products is subject to licensing	No, 0 points
2) The manufacture of tobacco products is subject to licensing	Yes, 1 point
3) There is a mandatory system of customer identification and verification applied to the supply chain of tobacco products	Partially, 0.5 points
4) There is a tracking and tracing system for tobacco products	Partially, 0.5 points
5) Absence of free-trade zones for tobacco products	Partially, 0.5 points

Note table 3: the indicator should not be interpreted as if a higher score is always better than a lower one. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

•• **The UK government invests significant resources in tobacco control policies.**

- Joossens and Raw remark that “only Switzerland, Iceland and UK secured reasonable (but not sufficient) tobacco control funding in 2009” (Joossens and Raw 2011, 11). According to their data, the tobacco control budget for the UK amounted to £62 million (approximately US\$92.95 million at the yearly average exchange rates for 2009), corresponding to approximately £1 per person.⁹

•• **The government has made significant investment in helping people to quit smoking (Euromonitor International 2011a, 4).**

- In 2010/11 the total expenditure on NHS Stop Smoking Services in England (excluding Nicotine Replacement Therapy (NRT), Bupropion (Zyban) and Varenicline (Champix) prescriptions) was £84.3 million (NHS Information Centre 2011).¹⁰

•• **The UK has a low-medium level of supply chain control (2.5 points out of 5 for this indicator, Table 3).**

- **1) The retail sale of tobacco products does not require a licence in England, Wales and Northern Ireland.** It is merely subject to “negative licensing”. This means that the activity can be limited, sanctioned or prohibited due to infringement of criminal or civil

legislation (TMA). Scotland has recently introduced a registration system; since 11 October 2011 any tobacco retailer must be registered at the Scottish Tobacco Retailer Register (Tobacco Retailers Alliance 2011). This scheme differs from more burdensome licensing and merely requires retailers to notify the authorities, but also enables the sanctioning of retailers for not complying with the law and other regulations.

- **2) The manufacture of tobacco products is subject to licensing in the UK.** Regulations 4 and 5 of the Tobacco Products Regulations 2001 require registration of tobacco factories and stores. According to Regulation 6, the registration can be revoked.

- **3 and 4) The UK does not require mandatory customer identification and verification or tracking and tracing policies for tobacco products and/or manufacturing equipment.**¹¹ However, such measures have been introduced through public-private memoranda of understanding (MOU) between the main tobacco manufacturers and the UK government.¹²

10. In 2010/11, 787,527 people attempted to quit smoking through NHS Stop Smoking Services: after four weeks 383,548 persons (49%) were able to quit (NHS Information Centre 2011).

11. 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, p. 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. recreation of the route of tobacco products in the supply chain) tobacco products, at least at the master case level or equivalent (Framework Convention Alliance, 2010, p. 2).

12. The first MOU was signed in April 2002 with Gallaher and available at <http://www.ash.org.uk/current-policy-issues/taxation-smuggling/smuggling/smuggling-and-the-uk>.

13. Since 2004, the four major tobacco companies of the UK (Philip Morris International, Japan Tobacco International,

9. The figure included “funding at national level (for federal countries the sum of all funding by governments of the different regions, but not of the local communities) in 2009 for mass communication campaigns, tobacco control projects, educational programs, support for non-governmental organizations. Tobacco control spending from sources other than the government, such as the private sector, is not included in our figure. Funding for tobacco dependence treatment (including reimbursement of medications and quitlines) and enforcement of legislation are not included” (Joossens and Raw 2011, 6).

Table 4. UK regulation on tobacco consumption and sales

Source: Transcrime elaboration

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

Note table 4: the indicator should not be interpreted as if a higher score is always better than a lower one. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

Furthermore, the UK has been the last EU Member State to join the agreements signed between the EU (and the Member States) and the tobacco industry (Johnson 2012).¹³ Through the MOUs and the agreements, the industry has committed itself to supporting prevention of the ITTP through a number of measures, which include the “know your customer”, “know your payments”, volume controls/monitoring and tracking and tracing systems (Heyward, 11; Johnson 2012, 26).

- **5) The UK has a number of designated free trade zones** which enable the storage, handling, processing and destruction of tobacco products (HMRC 2011d). **None of the UK free zones are included in the list of problematic free trade zones** (BASCAP 2012).
- **Tobacco consumption and sales are highly regulated in the UK (5 points out of 5 on this indicator, Table 4).**
- **1 and 2) Smoking bans and restrictions are widespread.** According to the WHO, smoking bans are in place in seven out of eight categories of public places in England (WHO 2011c, 11).¹⁴ The only exception is the residual category “all other indoor public places” (WHO 2011e, 16). Furthermore, on the basis of the evaluation of national experts, the levels of compliance with smoking bans scored 10

points out of 10 (WHO 2011c, 11). In regard to bans on workplaces, all the four countries of the UK have introduced specific legislation with extremely limited exemptions (Department of Health 2011a).¹⁵

- **3) More recently, the sale of tobacco from vending machines has been banned in England, Wales and Northern Ireland.**¹⁶ In Scotland, the ban was provided by the Tobacco and Primary Medical Services (Scotland) Act 2010. Until recently, the Act was delayed owing to legal challenges (ASH 2011, 2; ASH 2012b). In October 2012 the court decided that none of the challenges was founded and dismissed the petition (BBC News 2012b) (Sinclair Collis v. The Lord Advocate [2012] CSIH 80 P576/10).
- **4) The sale of tobacco products has been restricted to people aged 18 years and above since 2007**, as a consequence of amendments introduced in all the four UK jurisdictions.¹⁷ However, this regulation only concerns retailers acting in the course of a business. Minors are not prohibited to smoke and proxy purchases (an adult buying cigarettes on behalf of a minor) are allowed (Conway 2008).

British American Tobacco and Imperial Tobacco) have signed agreements with the European Commission and the EU MSs to cooperate on anti-contraband and anti-counterfeit initiatives. The texts of the agreements and other useful information are available at http://ec.europa.eu/anti_fraud/investigations/eu-revenue/cigarette_smuggling_en.htm.

14. The assessed places are health-care facilities, educational facilities other than universities, government facilities, indoor offices and workplaces not considered in any other category, restaurants or facilities that serve mostly food, pubs and bars or facilities that serve mostly beverages (not applicable where

alcohol serving is illegal) and public transport.

15. See the Smoking, Health and Social Care (Scotland) Act 2005 for Scotland, the Smoking (Northern Ireland) Order 2006 for Northern Ireland and the Health Act 2006 for England and Wales.

16. See the Protection from Tobacco (Sales from Vending Machines) (England) Regulations 2010, the Protection from Tobacco (Sales from Vending Machines) Regulations (Northern Ireland) 2012, the Protection from Tobacco (Sales from Vending Machines) (Wales) Regulations 2011.

17. Relevant legislation is the Children and Young Persons (Sale of Tobacco etc.) Order 2007 for England and Wales, the Smoking, Health and Social Care (Scotland) Act 2005 (Variation of Age Limit for Sale of Tobacco Purchase and Consequential Modifications) Order 2007 for Scotland and the Children and Young Persons (Sale of Tobacco etc.) Regulations (Northern Ireland) 2008 for Northern Ireland.

Table 5. UK regulation on tobacco marketing and promotion

Source: Transcrime elaboration

Tobacco marketing and promotion indicator	UK scores
1) Ban on tobacco sponsorship and advertising in radio, TV, broadcasted programs and print media	Yes, 1 point
2) Ban on billboards and outdoor advertising	Yes, 1 point
3) Ban on the display of tobacco products at point of sale	Yes, 1 point
4) Ban on free distribution of tobacco samples	Yes, 1 point
5) Mandatory pictorial health warnings	Yes, 1 point

Note table 5: the indicator should not be interpreted as if a higher score is always better than a lower one. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

- 5) Smoking bans apply also to restaurants, bars and pubs, with no exceptions.
- **Tobacco marketing and promotion is extremely limited in the UK (5 points out of 5 on this indicator, Table 5).**
- **1 and 2) Nearly all forms of tobacco advertising and sponsorship are prohibited**, including bans on billboard, TV and radio and printed media advertising (WHO 2011d).¹⁸ It is still legal to promote tobacco-related products such as lighters and cigarette rolling papers (Doward 2010; ASH 2012a).
- **3) More recently, the UK has started to ban the display of tobacco products at the point of sale.**¹⁹ This measure is currently implemented in a relatively limited number of countries. For example, among the 27 Member States of the European Union, only Ireland, Finland and the UK have it (Triggle 2012). This highlights the strong regulatory approach adopted in the UK. Display bans started in April 2012

in England²⁰, in October 2012 in Northern Ireland²¹ and in December 2012 in Wales.²² For Scotland, the implementation is pending because of the already-mentioned legal challenge (ASH 2011, 2; ASH 2012b; BBC News 2012a). Display bans already in force concern only large retailers and shops (above 280 m²); smaller shops will have to adapt by April 2015 (ASH 2012b).

- **4) Section 9 of the Tobacco Advertising and Promotion Act 2002 prohibits the free distribution of tobacco products.** Nonetheless, the sale of cigarettes at a discount price has been registered in occasion of several music festivals (Doward 2010).
- **5) All cigarettes packs must mandatorily carry pictorial health warnings** (WHO 2011d). The UK was the first country in the EU to mandate this type of warning in 2009 (Department of Health 2009b).²³

18. The most important provisions in this field are the Broadcasting Act 1990, the Broadcasting Act 1996 and the Tobacco Advertising and Promotion Act 2002, which apply to all the UK jurisdictions.

19. For England and Wales and Northern Ireland, the possibility was enabled by section 21 of the Health Act 2009, which amended the Tobacco Advertising and Promotion Act 2002. For Scotland, the relevant provision is the Tobacco and Primary Medical Services (Scotland) Act 2010.

20. The Tobacco Advertising and Promotion (Display) (England) Regulations 2010 and the Tobacco Advertising and Promotion (Display and Specialist Tobacconists) (England) (Amendment) Regulations 2011.

21. The Tobacco Advertising and Promotion (Display) Regulations (Northern Ireland) 2012.

22. The Tobacco Advertising and Promotion (Display) (Wales) Regulations 2012.

23. The main provision for England and Wales is the Tobacco Products (Manufacture, Presentation and Sale)(Safety) Regulations 2002 and subsequent amendments.

24. The consultation preferred to use the expression 'standardised packaging' rather than 'plain packaging' or 'generic packaging' (Department of Health 2012b, 3).

PLAIN PACKAGING IN THE UK

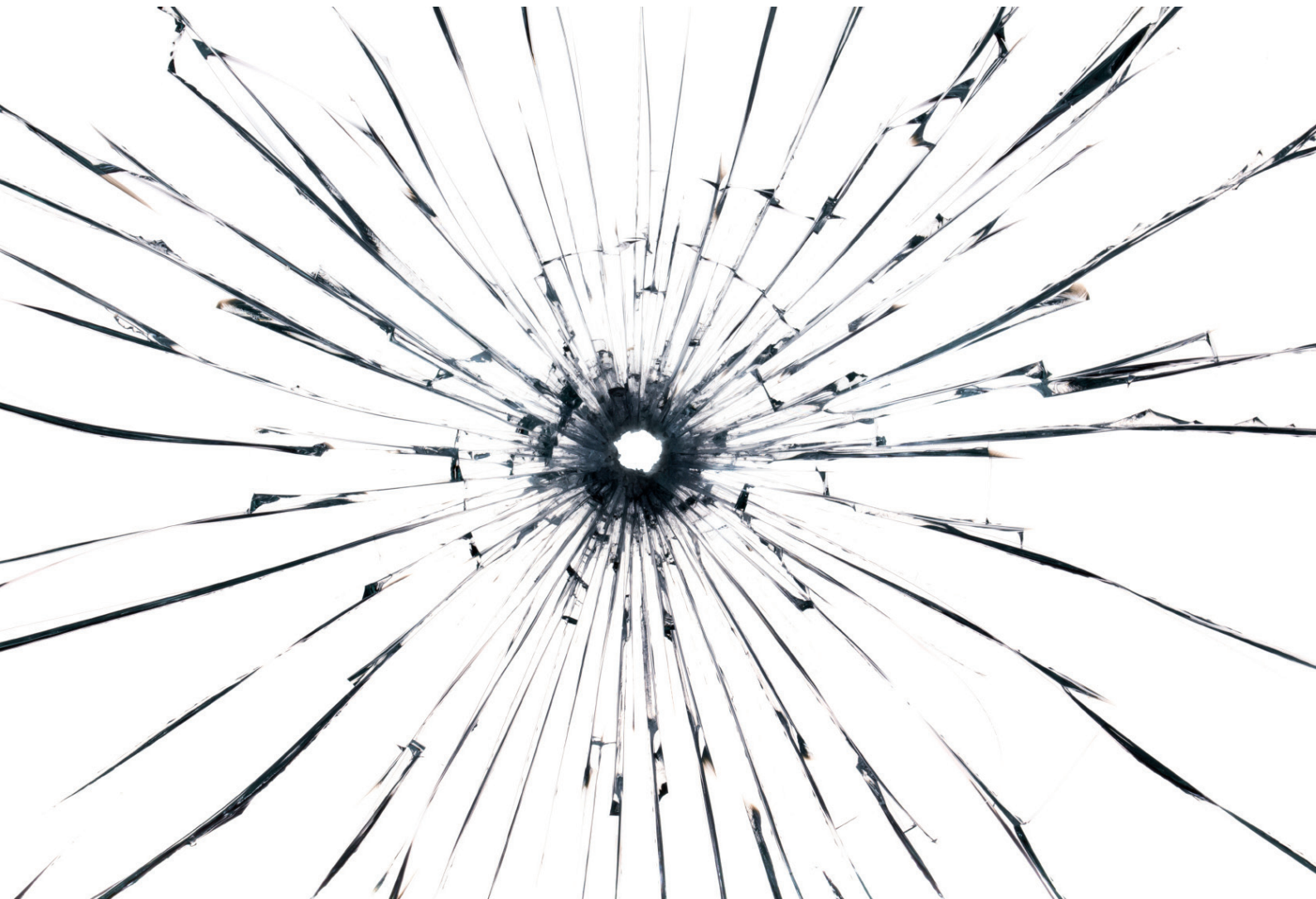
A further point demonstrating the strong approach to tobacco regulation in the UK is the discussion on plain packaging or standardized packaging of tobacco products. The plain packaging of tobacco products is a tobacco control policy prohibiting any form of branding or any other distinguishing feature on the packaging of tobacco products. As yet, plain packaging has not been implemented in any country in the world. Australia is the only country to have approved plain packaging legislation (the Tobacco Plain Packaging Act 2011), implemented in December 2012 (Transcrime 2012a). On 16 April 2006, the UK Department of Health launched the public Consultation on standardised packaging of tobacco products (Department of Health 2012b)²⁴. The Consultation document was accompanied by an impact assessment exercise on the introduction of plain packaging obligations in the UK (Department of Health 2012a) and a systematic review of evidence on plain packaging commissioned by the Department of Health (Moodie et al. 2012). Although the consultation does not necessarily imply that further action will be undertaken, nor that any legal proposal will be drafted, it demonstrates that the UK regulation on tobacco products is extremely strong and that further measures are currently being discussed.

In conclusion, the tobacco market in the UK is intensely regulated and the taxation of tobacco products is relatively high. There is a medium level of control on the supply chain, while there are high levels of control on tobacco consumption and sales, as well as on marketing and promotion.



THE FIVE
DRIVERS:
CRIME
ENVIRONMENT

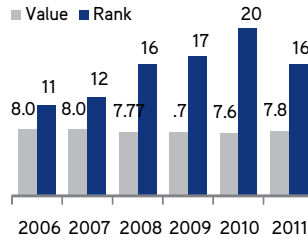
***T**he UK is experiencing a general decrease in crimes and low levels of structured organised crime groups and corruptions. However, drug consumption in the UK is the highest in Europe. This signals that illicit distribution networks are very active and may provide opportunities for a variety of illicit traffics, from drugs to illicit tobacco.*



Corruption

Corruption Perception Index

Source: Transparency International



7.8

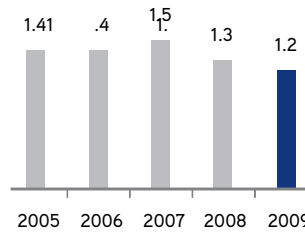
16 out of 183 countries

(2011)

Homicides

Homicide rate per 100,000 inhabitants

Source: UNODC



1.2

155 out of 187 countries

(Last available year)

42

Organized Crime Index

Composite Organized Crime Index

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

23.9

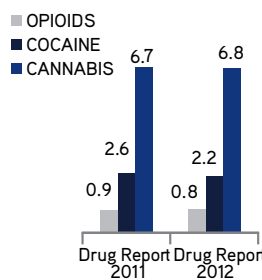
99 out of 156 countries

(last available year)

Drugs

Annual prevalence use of opioids (15-64), cannabis and cocaine (16-59 for England and Wales, 16-64 for Scotland and Northern Ireland)

Source: UNODC



opioids 0.8
cocaine 2.2
cannabis 6.8

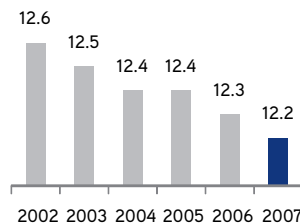
opioids: 19 out of 132 countries
cocaine: 3 out of 99 countries
cannabis: 36 out of 139 countries

(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"



12.2

9 out of 146 countries

(2007)

CRIME TRENDS

•• **Crime has been constantly decreasing in the last years in the UK.**

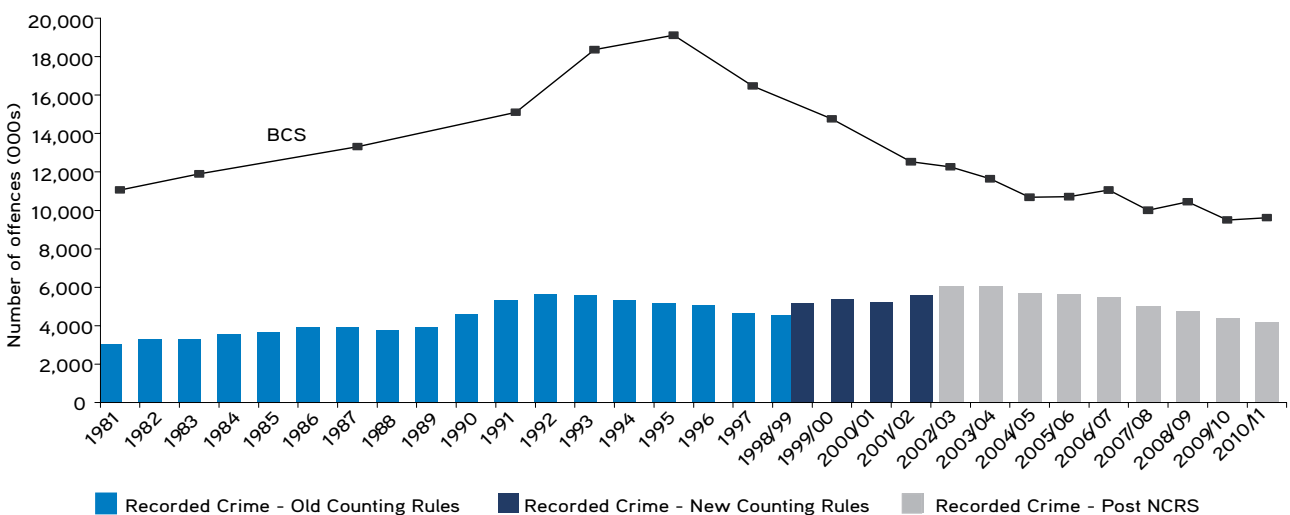
- According to the European Union there has been a notable decrease in total crime in the whole UK since 2006 (Eurostat 2012). This is confirmed by the most recent Crime Survey conducted in 2010/11 (Chaplin, Flatley, and Smith 2011; Scottish Government Social Research 2011; Northern Ireland Statistics & Research Agency 2011).
- The British Crime Survey (BCS) shows an overall decrease in the crime trend since 1995 (Chaplin, Flatley, and Smith 2011, 15; Osborne 2010, 13) (Figure 12). The Scottish Crime Survey (SCS) presents a decreasing crime trend for all types of crime, except for the category “Other hold theft” (Scottish Government Social Research 2011). The Northern Ireland Crime Survey (NICS) registered a general decrease in crime trend between 2009/10 and 2010/2011 (Northern Ireland Statistics &

Research Agency 2011).

- In 2009, the UK had a low homicide rate (1.2 homicides per 100,000 inhabitants) compared to the European average (3.5) (UNODC 2011a, 21). The homicide rate has decreased in all the regions of the United Kingdom since 2007 (Figure 13).
- Since the 1980s, fear of crime has increased (Abercrombie and Warde 2000, 526). This brought scholars to argue that “fear of crime in Britain was becoming as great a problem as crime itself” (Hough and Meyhew 1983, 22). This trend has gradually stabilized in the last years. The percentage of people believing that crime has risen in the country is still above 50%, but has passed from 75% in 2008/2009 to 66% in 2009/2010 and 60% in 2010/2011. This misleading perception can affect the quality of life and health conditions, and can increment crime itself (Chandola 2001, 113–114).
- In the UK, high crime rates are often linked with low socio-economic status, instability and disorganization

Figure 12. Trends in police recorded crime and British Crime Survey, 1981 to 2010/2011 ²⁵

Source: Home Office Crime Statistics, 2011

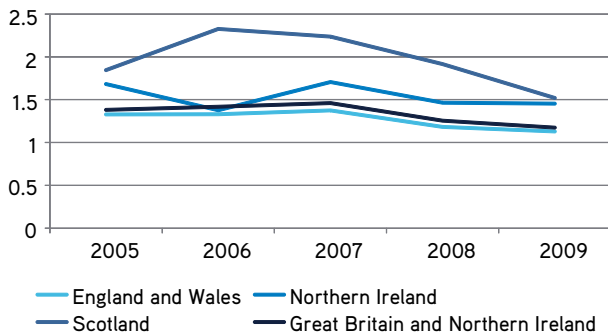


25. The bars of the histogram represent the number of the offences officially recorded by the police in the different years, while the line represents the time series of the crimes registered by the British Crime Survey. The colours of the bars correspond to the different counting rules used in the United Kingdom. The

first system was used from 1981 to 1999. It changed to a second system between 1999/00 and 2002/2003. Since 2003/04, the police has implemented the National Crime Recording Standard (NCRS), which is the data collection system currently in use.

Figure 13. Homicide rates per 100,000 inhabitants by regions of the UK, 2005-2009

Source: Transcrime elaboration of UNODC data



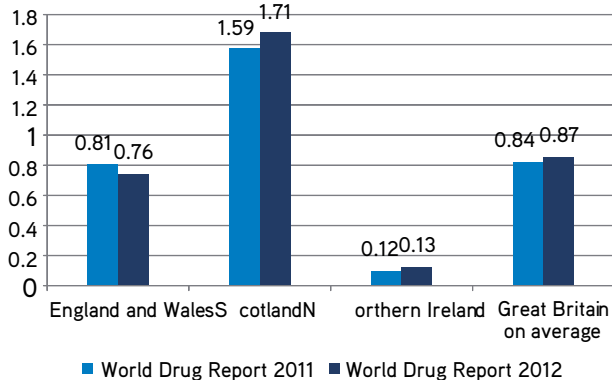
of neighbourhoods (Bursik and Grasmick 1993a; Bursik and Grasmick 1993b). Remarkably, weak neighbourhoods are considered the areas more likely to have high smoking prevalence by a number of studies (Chuang et al. 2005; Kleinschmidt, Hills, and Elliott 1995; Reijneveld 2002).

DRUG CONSUMPTION AND MARKETS

- **Drug consumption is high in the UK**
- **The UK reported the second highest opioid use prevalence rates in West and Central Europe.** The UK has 350,000 estimated users of opioids, which accounts for a prevalence rate of 0.81. Estonia has the highest rate (1.52) and Latvia the third highest rate (0.75) (UNODC 2011b, 51). Scotland has the highest rate of opioid users within the UK (1.59), while Northern Ireland registered the lowest prevalence of the country (0.12) (Figure 14). The data of the World Drug Report 2012 seem to confirm the high prevalence of opioid users, even if the prevalence of England and Wales decreased from 0.81 to 0.76 (UNODC 2012a).

Figure 14. Prevalence of opioid users per region, last available years per region

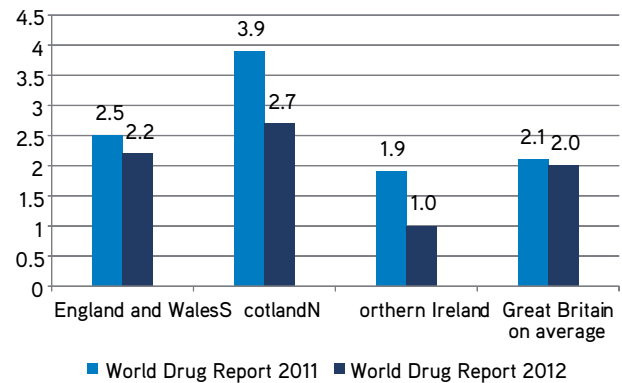
Source: Transcrime elaboration of UNODC data



- **Two thirds of European cocaine users live in just three countries:** the United Kingdom, Spain and Italy (UNODC 2011b, 93). However, although current cocaine use in Western and Central Europe is still high (estimated at 1, 3 per cent of the adult population), recent surveys in the region indicate some decline in past-year use of cocaine in countries with high prevalence rates such as Denmark, Spain and the United Kingdom (UNODC 2012a, 22–23). The highest prevalence in cocaine users in the UK is registered in Scotland according to the World Drug Report 2011 (Figure 15).
- **The consumption of cannabis is quite high in the UK (36th position out of 139 countries).** The use of cannabis decreased from 2011 to 2012, with a national prevalence dropping from 7.4% to 6.3% of population aged 15-64.

Figure 15. Prevalence of cocaine users per region, last available years per region

Source: Transcrime elaboration of UNODC data



- **Drug use is inherently related with crime.**
- Indeed, the costs associated with drug-related crime (fraud, burglary, robbery and shoplifting) are substantial: in England and Wales they estimated at 1.6 per cent of GDP, or 90% of all the economic and social costs related to drug abuse (Gordon et al. 2006).
- **The UK has a mature and diversified illicit drug market (UNODC 2012b, 83):**
- Drug trafficking has an international dimension due to the importation of goods from different part of the world to consumers in the most lucrative countries

(Woodiwiss 1993).

- The supply chain importation-distribution is characterized by a complex mechanism of illegal actors, traffickers, importers and dealers.
- The UK drug market is usually divided in an international trafficking level, a local retail level and in between, a middle market at national and regional level (McSweeney, Turnbull, and Hough 2008, 8).
- The structure of drug trafficking does not usually present a hierarchical and monolithic supply chain controlled exclusively by organised crime, but fluid and interchangeable networks, in which individuals often occupy different positions within the system at different times (Pearsons and Hobbs 2001, 12). **However, the upper level of importation and wholesale dealing reveals “tightly-organized, hierarchical systems”, while the middle market shows smaller and more flexible partnerships in the organization and distribution (Pearsons and Hobbs 2001, 12).**

ORGANISED CRIME AND CORRUPTION

- **The UK does not have large, structured organised crime groups and corruption is low.**
- The UK ranks low in the rank of the composite organised crime index, holding the 99th position out of 156 countries, with a score equal to 23.90 (van Dijk 2008, 165–166).
- The structure of the British organised crime groups is a “networks of career criminals, who come together only for the duration of specific criminal ventures” (SOCA 2010, 1). This confirms the fact **that in the UK the term “organised crime”, usually very difficult to define, takes a shape that somehow differs from the traditional definition** provided by the United Nation Convention against Transnational Organized Crime.²⁶
- **The UK organised crime policies received criticism.** Scholars argued that the threat of

organised crime was overestimated and that the perception of organised crime was largely influenced by right-wing media and the American foreign policy (Woodiwiss and Hobbs 2009). Furthermore, another study recently analysed the performance of the Serious Organised Crime Agency (SOCA) on the basis of its own official reports and other data (2012). It suggested that the UK government’s and SOCA’s discourses on organised crime may be excessively emphasizing the relevance of organised crime and that, in comparison with such alleged threats, the performance of the agency would appear relatively modest.

- **The United Kingdom ranks good positions in the international indices on corruption** due to strong institutions in a democratic framework (Chandrashekhar and Barrington 2011, 1; Transparency International UK 2010, 4). However, the country is not immune from corrupt practices.
- **The UK shadow economy is small.** The UK ranked 8th out of 162 in a study measuring shadow economies in 1999-2007. The lowest value is registered by Switzerland, while the highest score is registered by Bolivia (Schneider, Buehn, and Montenegro 2010). However, there is no information about the impact of the economic crisis that started in 2008 on this sector.
- Concerning the ITTP, UK law enforcement agencies argue that the smuggling of cigarettes and HRT is a key business for organised criminal gangs which are using the proceeds of this crime to fund the smuggling of drugs, weapons and also human beings. For example, the first anti-ITTP action plan by the UK Government suggested that “large scale tobacco smuggling has the potential to create the building blocks for organised crime networks run along business lines in a way rarely seen before in the UK, and to finance other serious criminal activity” (HM Customs & Excise and HM Treasury 2000, 6–7; von Lampe 2005, 10). According to a Government estimate, “one in five organised crime gangs involved in smuggling Class A drugs [heroin, cocaine, ecstasy] into the UK are also engaged in tobacco smuggling” (Seely 2002, 11; von Lampe 2005, 10).

26. “structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences [...] in order to obtain, directly or indirectly, a financial or other material benefit” (UNODC, 2004, p. 5).

- A review of media releases, official reports and criminal cases highlighted that tobacco smuggling gangs are mainly composed by UK nationals who gather in small criminal networks to engage in ITTP. However, in some cases Eastern European citizens such as Lithuanians, Slovaks and Ukrainians have proven to participate in British smuggling gangs. The size of these organizations is relatively small, the number of members varying from two to ten people, on average. Criminals, in many cases, share some expertise in transports and trade, thus simplifying their smuggling activity.
- The groups frequently engage both in smuggling and counterfeiting of tobacco products. As far as smuggling is concerned, gangs have managed to create contacts for mass importation of illicit tobacco both from European and non-European countries. Among the source countries, Moldova; Ukraine, Poland, Thailand, Dubai and China, are most frequently mentioned in HMRC investigations. As far as counterfeiting is concerned, certain criminal organizations have managed to manufacture counterfeit tobacco goods in fully equipped cigarette factories built in the UK territory (see box in The products).

46

In conclusion, the overall trend in crime registered in the UK has decreased, while the level of fear of crime, albeit stabilized, is still high. Notwithstanding apparently high levels of law enforcement, people do not feel safe in the UK. This may be caused by the vulnerability of the fabric of society, as a result of the shrinking in traditional social trust and social capital in the last decades. The high levels of drug use in the UK confirm this vulnerability. As in other European advanced societies, there is a great dependency on addictive substances. Such trends might offer a favourable environment for the diffusion and interactions of different types of illicit markets from drugs to illicit tobacco.

THE FIVE DRIVERS: ENFORCEMENT

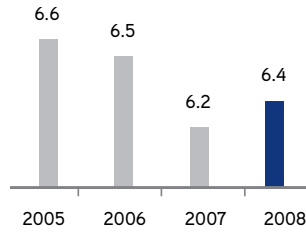
In the UK, law enforcement in general is effective and strict. The action against the ITTP is intense. Since 2000, the Government has made great efforts to reduce the ITTP. The Government's strategy and its subsequent revisions have produced important results and are periodically updated to ensure that innovative measures are introduced to address new types of ITTP.



Judiciary

Professional judges rate 100,000 inhabitants

Source: UNODC



6.4

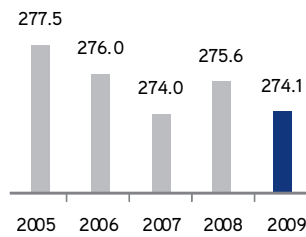
53 out of 73 countries

(Last available year)

Police

Police personnel rate 100,000 inhabitants

Source: UNODC



274.1

48 out of 81 countries

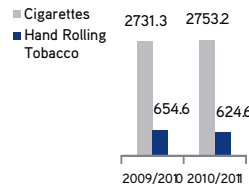
(Last available year)

48

Tobacco Products Seizures

Quantity of seized tobacco in Kg per 100,000 inhabitants

Source: HM Revenue and Customs (HMRC) and UK Border Agency (UKBA)



**Cig: 2753.2 Kg
HRT: 624.6 Kg**

(2010/2011)

Penalty for ITTP

Likely penalty for a serious case of tobacco counterfeiting

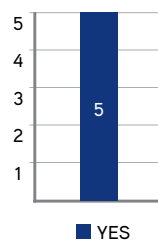
Source: TRANSCRIME ELABORATION

**Maximum
10 years
imprisonment**

Anti-ITTP Action*

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

Source: TRANSCRIME ELABORATION



5/5 points

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

LAW ENFORCEMENT IN THE UK

- **The UK has high levels of law enforcement compared with other countries.**²⁷ While the police rate is average and the judiciary rate is low, the UK has a large prison population. With relatively low staff in the law enforcement sector, the country sentences more people to imprisonment than other neighbouring countries. These considerations highlight that the UK law enforcement may be considered an efficient and strict system, with low inputs and high outputs, and where prison sentences are frequently applied to criminals. This emerges from the analysis of the police, the judiciary and the prisons:
- **Police rates are average** compared to other European countries and were quite stable in the period 2004-2009 (UNODC 2012b).
- The UK Police is composed of both decentralized forces, where each jurisdiction has different police forces, and centralized (so called 'non-geographic') forces (UK Police). The non-geographic forces have a national jurisdiction and deal with problems such as transport, motorways, drugs and organised crime (UK Police). In particular, in April 2006 the Serious Organised Crime Agency (SOCA) became operational.²⁸ The SOCA focuses on investigating

serious organised crime and does so in order to provide evidence to support prosecutions (Harfield 2006).

- **The UK has a relatively low rate of judges.** The number of members of the judiciary in England & Wales and Scotland was low compared to other European countries in the years 2003-2009, with around 6 per 100,000 inhabitants in England & Wales and around 5 in Scotland, whereas in Slovenia there were approximately 50 judges per 100,000 inhabitants (UNODC 2012b).
- **The UK has one of the largest prison populations of Europe.** The inmate population has grown since the 1990s, when the then home secretary Michael Howard adopted the approach that 'prison works' (Abercrombie and Warde 2000). In 2009 the prison population rate of the UK was at approximately 150 prisoners per 100,000 inhabitants. Compared with the other countries in Europe, the UK ranks second. Only Spain has a higher rate, with 166.7 prisoners per 100,000 inhabitants (UNODC 2012b).

Table 6. The UK measures against the ITTP

Source: Transcrime elaboration of UNODC data

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

Note table 6: the indicator should not be interpreted as if a higher score is always better than a lower one. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

27. In criminal matters, the United Kingdom of Great Britain consists of three jurisdictions: England and Wales, Scotland and Northern Ireland (Carter 2000).

28. SOCA operates in England & Wales, Northern Ireland and

Scotland but has more power in England & Wales because both Northern Ireland and Scotland have their own equivalents of the SOCA (the Organised Crime Task Force and the Scottish Crime and the Drug Enforcement Agency respectively).

THE FIGHT AGAINST THE ITTP IN THE UK

- **Anti-ITTP action in the UK is high, with 5 out of five points on this indicator (Table 6).**

The main bodies involved in the fight against the ITTP are:

- **HMRC** (Her Majesty's Revenue and Customs): a non-ministerial department of the UK government, its main task is ensuring correct direct and indirect tax payments (HMRC 2011a).
- **UKBA** (United Kingdom Border Agency): formed in 2008, this is one of the largest law enforcement agencies of the UK with around 23,500 employees (UKBA 2012a). Its main tasks are immigration, borders and external controls including visa issues. When UKBA was created, HMRC transferred detection functions to UKBA.
- **Trading Standards:** local government departments ensuring that commercial and trading practices are regular. The main tasks of the trading standards include control that tobacco is not sold to minors. This is achieved through civil sanctions, test-purchasing, advice to retailers, support for education, and implementation of prevention strategies (Trading Standards Institute).
- **Intellectual Property Crime group:** the IP Crime Group is not a law enforcement agency. It was founded in 2004 by the Intellectual Property Office and has the objective to bring together Government, enforcement agencies and industry groups to ensure a collaborative approach in mainly counterfeiting and piracy issues (Intellectual Property Office 2012).
- **Regional police forces:** there are a total of 49 regional police forces in England & Wales, Scotland and Northern Ireland. They have the competence to seize illicit tobacco products and arrest suspects if the activities do not fall under serious organised crime.
- **SOCA (see previous paragraph):** tackles serious and organised crime.
- Concerning border and customs controls, the UKBA is the only competent law enforcement agency.

Contrarily, within the borders of the UK all the above mentioned agencies have competence (local police forces for their territory, HMRC, the SOCA, and local Trading Standards). There seems to be no clear rule on which body has the responsibility for certain ITTP activities and this may create problems in coordinating the law enforcement action.

- **The UK has implemented various national action plans against the ITTP.** In 2000 illicit tobacco rates were extremely high in the UK and the government launched an action plan *Tackling Illicit Tobacco Smuggling (HM Customs & Excise and HM Treasury 2000)*. Since its introduction, the strategy has successfully reduced the illicit market, particularly for illicit cigarettes. Moreover, the action plan has undergone multiple revisions.
 - *Tackling illicit tobacco smuggling* was originally designed to decrease the ITTP by increasing the penalties and the chances of being caught; therefore one of the main objectives was to increase the amount of seizures. The government of the UK invested more than £200m in new staff and technology (HM Treasury and HMRC 2006). These key principles still apply today (HMRC & UKBA, 2011).
 - In 2006, additional measures were adopted and Memoranda of Understanding were signed between the Government and the main tobacco manufacturers (HM Treasury and HMRC 2006). The operational response was enhanced and a publicity and communication strategy was developed to raise awareness of the risks of smuggling and to undermine the appeal of smuggled products to smokers (HM Treasury and HMRC 2006). The main aim became to tackle counterfeit cigarettes and to achieve significant cuts in the persistently high levels of smuggled HRT (HMRC and UKBA 2008).
 - In 2008, a new version of the strategy led to the creation of the UKBA, which enabled better enforcement. HMRC and UKBA adopted a strategy to combat the ITTP jointly. HMRC is now responsible for collecting and enforcing tobacco duties, while UKBA concentrates more on detecting and seizing illicit tobacco products at the border and arresting suspects (HMRC and UKBA 2008).

- In 2011, HMRC and UKBA issued the latest update of the action plan. The aim is to build on the previous successes and apply further sustainable downward pressure on the ITTP through 2015 (HMRC & UKBA, 2011).
- **Law enforcement officers in the UK consider that the problem of illegal tobacco should receive more resources, even though the strategy implemented has had significant effects on the illegal tobacco market.** A survey on behalf of PMI suggested that 73% out of 501 interviewed police officers thought that there were not enough resources available to deal with the problem of illicit trade in tobacco.
- **Data on illicit tobacco are yearly and publicly available in the UK.** The excise gap for tobacco (cigarettes and hand rolling tobacco) makes it possible to measure the illicit market's share and the associated revenue losses (HMRC 2012a).
- **The amount of seizures of illegal tobacco products in the UK has increased since 1999, but has been somewhat stable since 2005.**
- 1999: 1.8 billion cigarettes;
- 2000: 2.8 billion cigarettes;
- since 2000: over 20 billion cigarettes and 2,700 tonnes of hand rolling tobacco seized (Progressive Vision 2011) and over 3,300 criminals involved in the ITTP prosecuted (HMRC and UKBA 2011; Hornsby and Hobbs 2007);
- 2002: 2,600 tonnes of illegal tobacco products seized.
- **Cigarette seizures have been constant since 2005/06 while seizures of HRT have been increasing (Table 7).**
- **Criminal law action does not seem to deter the ITTP.**
- The conviction rate for illicit trade in tobacco has halved over the past two years, with 233 convictions in 2010 and 133 in 2011 (BBC 2012). This may suggest that the law enforcement in the UK concerning the conviction of illicit tobacco traders is a weak point in the general law enforcement, which is high compared to other European countries.

Table 7. Seizures of cigarettes and hand rolling tobacco

Source: HMRC

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Cigarettes						
Total seized	2.0bn	1.9bn	1.8bn	1.8bn	1.69bn	1.72bn
Tax value (£m)	£215	£214	£204	£182	N/A	N/A
Hand Rolling Tobacco						
Total seized	160 tonnes	228 tonnes	194 tonnes	258 tonnes	406 tonnes	390 tonnes
Tax value (£m)	£21	£29	£29	£42	N/A	N/A

HYPOTHETICAL CASE

A criminal organization 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 organization illegally manufactured tobacco products (cigarettes and hand-rolling tobacco); packed them in packaging bearing false trademarks of legitimate brands (produced by the same organization); distributed the products to various wholesalers and retailers; 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 seized a total of ten tons of illegal tobacco products stocked inside the house. All the members of the organization had previous records for fraud, forgery and illicit trade in tobacco products. The members could not justify their incomes through any form of employment, suggesting that the illicit business was their sole source of income.

PENALTIES

The main offences that could be charged were counterfeiting (Sec 92 Trade Marks Act 1994, carrying a maximum penalty of 10 years) and tax evasion (Sec 170 Customs and Excise Management Act 1979, carrying a maximum penalty of 7 years). In general, the prosecution does not press for cumulative charges but opts for just one of them.

This case would most probably have triggered an investigation according to the Proceeds of Crime Act whereby the defendant must prove that he/she has not benefited from the amount assessed. The gain can run into many millions, and if this is not paid within certain time limits additional penalties of imprisonment can be imposed up to a maximum of 14 years. Conspirators in this case may find themselves faced with a total sentence of 24 years imprisonment if none of the profits have been paid back.

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The study consulted Will O'Reilly, former Scotland Yard detective, asking for the likely penalty for a hypothetical serious case of the ITTP (box).

- While the theoretical maximum penalties appear to be reasonably high, in practice convicted offenders receive far lower sentences. On average, penalties range from below twelve months of suspended imprisonment to three-five years on larger cases (HMRC 2011c; HMRC 2012d; HMRC 2011e). Exceptionally, higher penalties are imposed, reaching several years of imprisonment, including additional confiscation orders (HMRC 2012e; HMRC 2011b). These cases show that there is some distance between the "law in the books" and "the law-in action". The criminal law provides enough instruments to punish subjects involved in serious cases of ITTP, but the judicial practice appears to apply significantly lower sanctions.
- The UK does not have only national strategies against the illegal tobacco market; there are also agreements between the UK and other countries, between the UK Government and non-profit organisations and

the public, and between public bodies and tobacco manufacturers. The Illicit Trade Protocol (ITP) is the first subsidiary treaty under the WHO Framework Convention on Tobacco Control. The final text comprises measures such as the tracking and tracing of cigarettes, customer identification and verification, criminal and non-criminal sanctions, and international cooperation against the ITTP (Euromonitor International 2011b).

- **The UK has launched several national and regional campaigns to raise awareness of the dangers of the ITTP.**
- *Fakes Fund* Campaign (SOCA 2011): a campaign where SOCA teams up with Crimestoppers to raise awareness of the dangers of counterfeiting and its link with other criminal activity.
- *Get Some Answers* Campaign (Crimestoppers 2010): a Crimestoppers initiative whereby inhabitants of North West England, North East England and Yorkshire & Humber can obtain information about illegal tobacco, its dangers, and real-life stories. It is

also possible to share information and to make tip-offs anonymously.

- *Tobacco Free Futures*: an organization whose mission is to “prevent tobacco related health inequalities and poverty, by breaking the cycle of addiction and exposure to tobacco in every community” (Tobacco Free Futures). Part of this mission is to reduce the supply and demand of illicit tobacco so as to the improve public health. Achievements include a successful campaign against illicit tobacco (*Illegal Tobacco – Keep It Out*) which led to seizures of illegal tobacco throughout the county of Cumbria (Trading Standards Institute).
- *Tackling Illicit Tobacco for Better Health*: Trading Standards, HMRC, UKBA and regional police forces have cooperated to tackle the demand and supply of illicit tobacco products in an action programme in the North of England (North of England Illicit Tobacco).
- The UK Centre of Tobacco Control Studies (UKCTCS) has evaluated this action programme and reported quite positive results (UK Centre for Tobacco Control Studies 2012). The decrease in demand for illicit tobacco in the region of the North of England can be attributed to this programme, and the UKCTCS suggests that the action programme could be widely

adopted, given its success.

- **Tobacco manufacturers have progressively been bound by anti-smuggling measures.**
- The aforementioned **Memoranda of Understanding** between the member companies of the Tobacco Manufacturers’ Association (TMA) and HMRC are **comprehensive frameworks for cooperation in combatting the ITTP**, including:
 - agreements between the companies and HMRC that they will work together to, for example, assess and improve the technology that could help combat the ITTP (HMRC and UKBA 2011);
 - legislation ensuring that no tobacco manufacturer allows its products to be smuggled (section 2 of the Finance Act 2006). The law enjoins manufacturers not to facilitate smuggling. This provision contains various rules in regard to the interdiction on facilitating smuggling and the penalty for doing so.²⁹ The law also provides penalties for facilitating smuggling and tax evasion. When UK authorities suspect a manufacturer of these activities, they may serve it with a written notice requiring the payment of a penalty. Penalties of up to £5 million may be imposed.

In conclusion, general law enforcement in the UK is strict and effective, and anti-ITTP action is high, with various national and regional action plans. These actions have had important results and the government provides for periodical updates to ensure their effectiveness.

²⁹ A manufacturer of tobacco products:

- must avoid supplying to persons who are likely to smuggle the products into the UK;
- must avoid supplying when the nature or circumstances of the products make it likely that they will be resupplied to persons who will smuggle them into the UK,

- or otherwise facilitate smuggling;
- should consider whether the size or nature of the supply suggests that the products will be smuggled;
- is obligated to maintain a written policy about steps to be taken for the purpose of complying with the duty to pay the right amount of taxes.

Chapter 2

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

- **The main cause of the demand for illicit tobacco is the low price of illicit products.**
- The largest demand for contraband cigarettes and HRT comes from people who cannot afford legal tobacco products because of high prices, including:
 - low income and disadvantaged groups (NEMS Market Research 2009; Wiltshire et al. 2001);
 - heavy smokers (people who smoke an average of 18/20 cigarettes per day, compared to 16 cigarettes consumed by other smokers) (NEMS Market Research 2009; Siggens, Murray, and Walters 2010, 18).

REASONS WHY PEOPLE DO NOT ACCEPT ILLICIT TOBACCO (WEST-MIDLANDS)

- Don't know what's in them: 34%
- It's illegal: 9%
- They don't taste/smell nice: 8%
- They can make you ill: 7%
- I don't trust them: 6%
- They are poor quality: 5%
- Don't fancy them: 3%

Source: (Siggens, Murray, and Walters 2010, 26)

- People living in poor areas and those doing manual jobs tend to consume mainly illegal HRT, which is cheaper and more available than cigarettes (Wiltshire et al. 2001)
- **Another important element contributing to the demand is the availability of illicit tobacco.**
 - In the West Midlands 44% of people interviewed had been offered illicit tobacco (29% accepted the offer) (Siggens, Murray, and Walters 2010).



- In Birmingham 1% of smokers were frequently approached for the purchase of illegal tobacco (Siggens, Murray, and Walters 2010, 18).
- In some instances, illegal products are offered and easily available, for instance at pubs (NEMS Market Research 2009; Siggens, Murray, and Walters 2010).
- **Consumers’ perceptions of illicit products do not seem to take adequate account of the implications and dangers of illicit tobacco.**
- According to the West Midlands survey:
 - Buyers of illicit products, unlike those who do not buy them, do not tend to associate the illicit market with criminal activities and are not particularly worried about the quality of the tobacco of illicit cigarettes (Siggens, Murray, and Walters 2010).
 - Illicit tobacco buyers consider the sellers of illicit products to be persons providing an important service or doing something that does not harm anyone (Siggens, Murray, and Walters 2010, 32)
 - The quality of the products and lack of trust are the two factors inducing people to refuse the offer of illicit products (see box).
- In some cases, criminals disguised counterfeits as smuggled tobacco in order to deceive the consumers (Organised Crime Task Force 2011). This suggests that criminals suspect that consumers may be concerned about the components of cigarettes.

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REASONS WHY PEOPLE BUY ILLICIT TOBACCO (NORTHERN REGIONS)

- They make it possible for me to smoke when I couldn't afford it otherwise: 41%
 - Convenient to buy in bulk, e.g. a sleeve or 200 box: 48%
 - Everyone does it: 40%
 - I was offered them in the pub (or other social situation): 32%
- Respondents were able to give more than one answer.

Source: (Siggens, Murray, and Walters 2010, 37–38).

THE SUPPLY

- **The supply of illicit tobacco is mainly influenced by the opportunity to make very high profits with relatively low risks.**
- The suppliers of illicit tobacco can make large profits from the ITTP. Given the high prices of tobacco products in the UK, and particularly the high share of taxes, the sale of illegal tobacco is an important profit opportunity. Furthermore, the costs for suppliers are extremely low. The costs of smuggled products (which pay very low or no taxes) or counterfeits are only a minor part of the consumer price on the legal market (approximately 15-20 cents per pack, for a price of £3-4.50).
- **The supply side of the ITTP is composed of a wide variety of actors ranging from individual bootleggers to organised groups.**
- Most types of illicit trade can be run at individual level without it being necessary to belong to a structured and continuative organised group (Hobbs forthcoming; van Duyn 2003; Antonopoulos 2008; van Duyn, von Lampe, and Newell 2003).
- Large scale smuggling and counterfeiting activities require more organization. In these cases, criminals need, for example, to organize warehouse storage and reloading operations or the manufacture of illegal cigarettes. In the UK police have found spacious warehouses able to contain even the products used to cover the illegal goods (von Lampe 2007).
- **According to law enforcement agencies, organised crime has recently become increasingly interested in smuggling tobacco because it is a lucrative and low-risk activity compared with other illicit trades** (Organised Crime Task Force 2012; Transcrime 2012a, 25). The UKBA maintains that smuggling tobacco may be an organised crime method of making profits to invest in other crimes: “the smuggling of cigarettes is often linked to serious organised crime and can provide the funding for much larger criminal operations such as drug smuggling or people trafficking” (BBC 2010).
- In the view of the police, dissident republican groups

SUPPLY AND DEMAND: THE CASE OF MARIA AND TOM

“Maria is a 28-year-old Greek woman from Piraeus, and has been a student at a university in the Northeast of England. A friend, Pauline, who used to work at a café which was a meeting place for Greek students in the Northern English town, asked her whether she would be able to get her manager, Tom, a few cartons of cigarettes from Greece. Pauline, who was also ‘importing’ cigarettes into the UK, introduced Maria to Tom. A few weeks later Maria flew to Greece for the Christmas holidays. Before she left, Tom gave her the money and asked her to bring him specific brands of duty-paid cigarettes consumed in Britain. Maria imported 16 cartons (3,200 cigarettes) into Britain in her luggage, and received about £30 (US\$ 55/€ 44) as an ‘importation fee’. Maria kept importing cigarettes whenever she returned from Greece. The cigarettes were distributed to customers through a chain of bars and clubs in the town. Maria was not the only student involved in the scheme. Other Greek students also participated. She spent the money “primarily on pieces of clothing” (Antonopoulos 2007, 395).

in Northern Ireland have engaged in cigarettes smuggling in order to fund their terrorist activities (Organised Crime Task Force 2012, 23).

- Criminal organizations are reported to control specific areas. For example, the Barras market in Glasgow has historically been controlled by criminal groups. Furthermore, criminal gangs are active in some areas of London, as Chinese and East European in Camden and Southwark. Lastly, in the North of England organised groups, based mainly in Manchester, supply the demand of illicit drugs and tobacco by the North East and North West (O’Reilly 2012a).
- **Illicit tobacco is sold in many places, including shops, newsagents, public houses, clubs, streets, blocks of flats, car boot sales, flea markets, private homes** (known as “fag houses”- (Transcrime 2012d) or “**tab houses**” (Siggens, Murray, and Walters 2010; Wiltshire et al. 2001)).
- Markets are places where there is availability of smuggled goods, including tobacco. For example, the already mentioned Barras market in Glasgow is a notoriously important source of illicit tobacco products (Poling 2011). Even markets in London are sources of cheap illegal cigarettes and HRT (i.e. Camden or Brick Lane) (O’Reilly 2012b; Astley 2011).
- **At the retail level, the illicit tobacco market is composed mainly by small sellers which vary by age, sex, and ethnicity (NEMS Market Research 2009).**
- The majority of suppliers are friends, relatives, or colleagues of the customers (Siggens, Murray, and Walters 2010, 17). Purchasing illicit products from friends or relatives rather than acquiring them from street hawkers is considered safer and less risky (Siggens, Murray, and Walters 2010, 21).
- It is not possible to identify specific ethnic groups involved in the ITTP supply chain. As underlined by scholars, this is an issue that requires further investigation (Antonopoulos 2007). However, the participation of some ethnic groups in the ITTP emerges from test purchases and seizures. For instance, Chinese groups are involved in counterfeiting and street selling, and East European groups smuggle cigarettes from their countries of origin. There have been cases of legal ethnic shops or supermarkets run by Polish and Turkish or Iranian Kurds selling illegal products, as revealed by test purchases carried out in various UK cities (O’Reilly 2012b; O’Reilly 2012a; Siggens, Murray, and Walters 2010, 15).
- **Selling practices change according to places and sellers.**
- In many instances, people sell cigarettes in their homes to regular customers, delivering the product on the same day each week.
- There are people who sell door to door, for instance a man in Swansea, known as the “pop man”, who was detected while selling alcohol and illicit tobacco

A WIDESPREAD ILLICIT CHANNEL FOR SELLING ILLICIT TOBACCO: FAG HOUSES

After seizing 1200 homemade cigarettes and a quantity of hand rolling tobacco in two Tyneside homes suspected of being fag-houses, public authorities of Gateshead Council complained that people often view these illegal tobacco suppliers in a favourable light (BBC News 2010).

A total of 168,650 cigarettes and 237 pouches of tobacco, worth more than £55,000, have been seized in Nottingham from March 2010 to June 2012. Nottingham City Council's Trading Standards launched a campaign against illegal "fag houses" since black market cigarettes are often contaminated with dangerous chemicals (this is Nottingham 2012).

Individuals who run the business are often beyond suspicion. Indeed, in a Scottish town, Police found 4500 cigarettes and "tick lists" of customers' orders and payments when they raided a 70-year-old woman's flat. Furthermore, they discovered connections with drug market (Daily Record 2011).

products together with soft drinks and crisps (O'Reilly 2012c). There has also been a case of an ice-cream van selling single cigarettes to even children (Transcrime 2012d).

- Sellers often deal not only in tobacco but also in other smuggled goods, such as DVDs or clothes. This is the case of Chinese HRT street sellers in Liverpool, who also distribute counterfeit DVDs (O'Reilly 2012a), reflecting a new trend whereby Chinese sellers of DVDs are shifting to the ITTP (O'Reilly 2012b; O'Reilly 2012c).
- Over the past year there has been an increase in legitimate small shops selling illegal products (Transcrime 2012d). Test purchases have revealed that in some cases the illicit products sold in legal

shops are kept in the storeroom at the rear, while a few packs are hidden in the till (O'Reilly 2012d).

- **Retail practices may be influenced by enforcement countermeasures.**

- In the aftermath of raids, seizures or Trading Standards test purchases, sellers tend to supply mostly to known and trusted clients (O'Reilly 2012e; O'Reilly 2012f).

THE PRODUCTS

- **The types of illicit products and methods of smuggling have changed over the years (HMRC and UKBA 2011, 6).**

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Table 8. Estimates of the size of the UK illicit cigarette market. Percentage of the total market

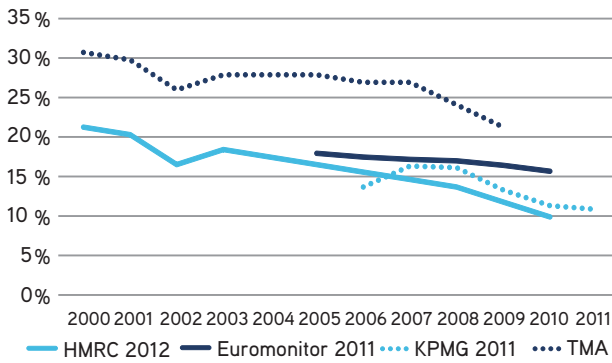
Source: Transcrime calculations on HMRC Euromonitor International, KPMG and TMA data

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
HMRC	21	20	16	18	17	16	15	14	13	11	9	
Euromonitor International						17.5	17	16.7	16.5	15.9	15.1	
KPMG							13	15.8	15.6	12.6	10.5	10
TMA	31	30	26	28	28	28	27	27	24	21		

- In the past, the market was mainly made up of genuine UK brands.
- Today, it is composed of a mix of genuine UK and non-UK brands of cigarettes, hand-rolling tobacco and counterfeits, and illicit whites (HMRC and UKBA 2008).
- In 1999-2000 HM Treasury estimated that the market share of illicit tobacco amounted to nearly 18% for cigarettes and 80% for hand-rolling tobacco (HM Customs & Excise and HM Treasury 2000, 5) (Table 8 and Figure 16).

Figure 16. Estimates of the size of the UK illicit cigarette market. Percentage of the total market

Source: Transcrime calculations on HMRC Euromonitor International, KPMG and TMA data

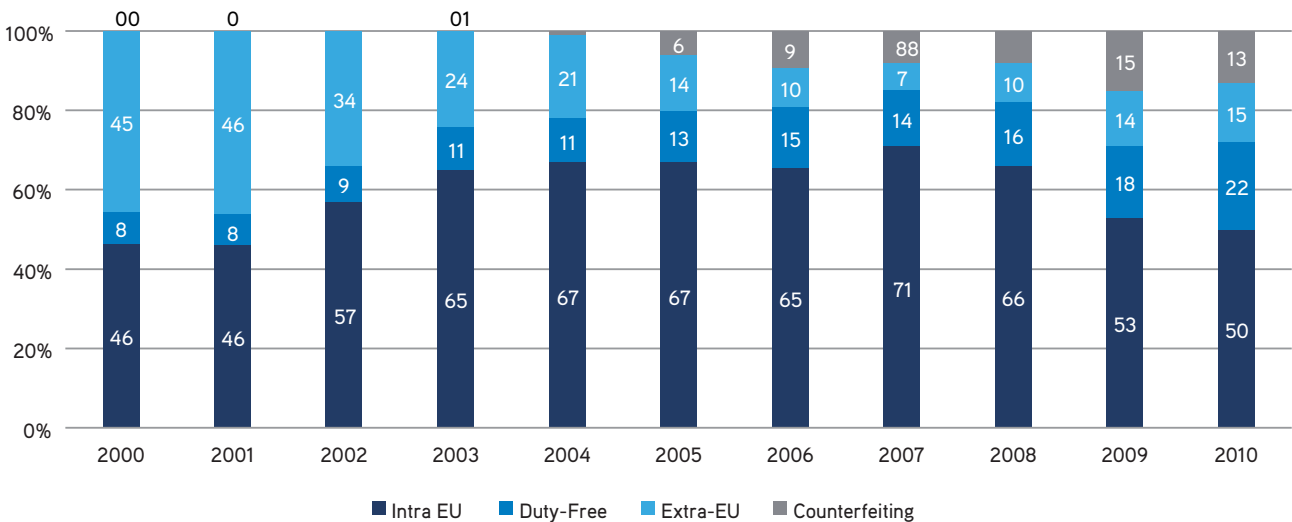


- In 1999-2000 the bulk of the ITTP consisted in the large-scale smuggling of genuine UK brands. This was conducted by exporting cigarettes and subsequently smuggling them back to the UK. The exportation was directed towards relatively small countries with low controls (e.g. Andorra, Latvia, Moldova) thereby evading taxation (e.g. exploiting VAT exemptions for exports) (Joossens and Raw 2008, 5).
- This very profitable illegal practice decreased with the implementation of the Tackling Illicit Tobacco Action Plan (HM Customs & Excise & HM Treasury, 2000; Joossens & Raw, 2008). As a consequence, seizures of UK genuine brands dropped from 31% to 6% of all large seizures made by UK law enforcement agencies (Figure 18).

- Similarly, the share of non-UK duty paid cigarettes (a figure calculated by the Tobacco Manufacturers' Association and which includes smuggling, counterfeiting, duty free and cross-border purchases of cigarettes) from extra-EU countries fell from 46% in 2001 to 15% in 2010 (Figure 17).

Figure 17. Non-UK duty paid by source. Percentage of the total

Source: Transcrime calculations on Fenton (2011, 5) data



Note table 17: Percentages may not total 100 due to rounding

Counterfeit cigarettes

•• **The growth of counterfeit cigarettes has become the main concern of UK law enforcement action against the ITTP (HMRC and UKBA 2008).**

- In 2001/2002 counterfeits accounted for only 15% of the large seizures made by HMRC (HMRC and UKBA 2011; HM Treasury and HMRC 2006). This figure grew to 70% in 2006/7. In the three following years, it stabilized at approximately 50% of the total seizures (HMRC and UKBA 2011). These figures show that some changes occurred in the UK illicit cigarette market (Figure 18). However, the estimates should be treated with particular caution because they rely exclusively on data from large seizures (i.e. > 100,000 sticks) and may be biased in favour of large-scale ITTP. It is likely that seizure data overestimate the presence of counterfeits, since these are frequently shipped in large loads. Indeed, data from the Tobacco Manufacturers Association indicate a significantly lower market share for counterfeits, although they confirm a growing trend from 2004 to 2009 (Figure 17). Some sources show that counterfeits are concentrated in specific areas (HM Treasury and HMRC 2006). The growing trend corresponds to the explosion of counterfeit cigarettes produced in China (von Lampe et al. 2002).

•• **The level of sophistication of counterfeits varies.**

- The packaging of counterfeit cigarettes can be very accurate, making it extremely difficult to identify even by law enforcement agencies. In some cases, counterfeits have been packaged in genuine packs, showing the complicity of some legitimate packagers (see HM report cited in von Lampe (2007)). Counterfeits are usually produced abroad – China, Russia, Southeast Asia, Eastern Europe – and smuggled into the UK. However, there have been numerous cases of illegal tobacco factories within the UK (see examples in box below).

•• **The increasing prevalence of counterfeit products may pose problems in terms of increased health dangers, due to the low quality of tobacco.**

- Counterfeit cigarettes may contain even 30 times more lead and cadmium than the original products,

making them more carcinogenic (Organised Crime Task Force 2012). Consuming 20 counterfeit cigarettes could be as harmful as smoking 600 genuine cigarettes (Organised Crime Task Force 2011).

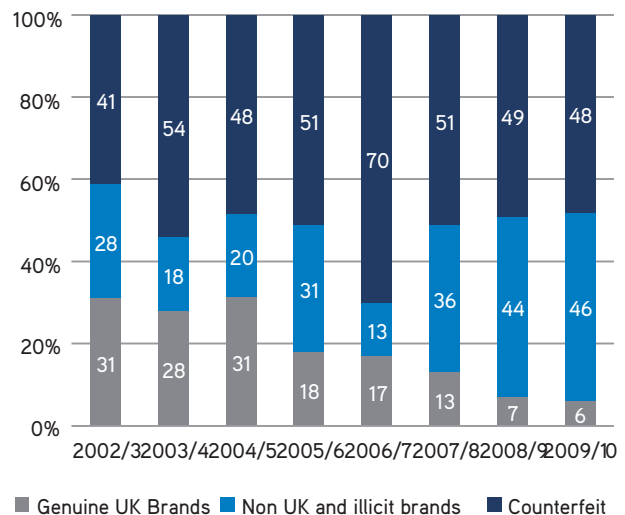
Illicit whites

•• **Besides the other products, illicit whites are emerging and gaining an increasingly large share of the market (Figure 18).**

- Illicit whites are cigarettes produced by manufacturers that do not normally supply to the legal market in a given country. In the UK the most frequently found brands are Raquel, Richman and Jin Ling (HMRC and UKBA 2008; 2011).
- The threat associated with these products was discussed for the first time by HMRC and UKBA in their joint report of 2008 (HMRC and UKBA 2008). Indeed, official seizure data show that from 2006/7 to 2009/10 the share of non-UK and illicit brands (i.e. illicit whites) rose from 13% to 46% of the total amount seized (HMRC and UKBA 2011).
- The analysis of two brands of illicit whites (Classic, produced in Ukraine and Jin Ling, produced in the Russian enclave of Kaliningrad on the Baltic Sea) showed the gradual diffusion of illicit whites in EU Member States. For both 2009 and 2010, the UK reported several local Jin Ling ‘hotspots’, i.e. places where more than 1% of the packs collected were Jin Lings (KPMG 2011).

Figure 18. HMRC and UKBA seizures of cigarettes (over 100,000 sticks) by type of cigarettes

Source: Transcrime calculations on HMRC and UKBA (2010a, 6) data



UNCOVERED ILLEGAL TOBACCO FACTORIES

HMRC discovered in May 2011 an **illegal tobacco factory in a Glasgow** house located in the Govanhill area. 198 kg of tobacco and 17,600 smuggled cigarettes were seized (value in revenues £38,000). The low-quality tobacco came from China and was packaged in counterfeit 50g Golden Virginia pouches showing Benelux tax stamps (BBC News 2011).

HMRC discovered an **illegal tobacco factory in a house in Aberdeen**. Investigators seized 260kg of tobacco (value in revenues £40,000) and also found counterfeit packaging, heat sealers and scales (Glasgowwired 2011).

HMRC swooped and closed down a **fully equipped cigarette factory in Chesterfield, Derbyshire**, before it went into production. The capacity of the factory was up to 625 million counterfeit cigarettes and five million pouches of fake hand rolling tobacco a year. Investigators found evidence that the gang were also planning to expand into making counterfeit alcohol (HMRC 2012b).

More than £800,000 worth of tobacco has been discovered during a raid on **an illegal cigarette factory** in Todds Green, Stevenage. HMRC seized and dismantled the factory. During the raid two machines used for shredding tobacco and several tons of raw tobacco with an estimated street value of £848,000 were discovered (EDP24 2006).

- The most recent empty pack survey (EPS) conducted by tobacco manufacturers has highlighted that the number of companies producing illicit whites and the number of illicit whites brands increased from 2007 to 2011 (HMRC and UKBA 2008; MSIntelligence 2012).

Hand rolling tobacco

- **The HRT market exhibits an evolution different from that of cigarettes.**
- **The market share of illicit HRT is still very high** (Figure 19 and Table 9)
- The HRT market is still largely dominated by smuggled genuine UK brands, which are exported to countries with lower taxation and then smuggled back to the UK.
- More recently, however, official sources have reported an increasing share of counterfeit HRT products (HMRC and UKBA 2008).

Price and origin of illegal tobacco products

- **The illegal market offers cheap tobacco products, making it particularly attractive for consumers.**
- Illicit cigarettes can generally be purchased at half the price of legal products, ranging from £3 to £4.50 per pack (Siggens, Murray, and Walters 2010, 19). The average amount of money paid by customers of the illicit market is £3.22 for a pack of 20 illicit cigarettes, according to a survey on the consumption of illicit tobacco products (Siggens, Murray, and Walters 2010).
- **Brands.** There is a variety of brands smuggled or counterfeit and it is difficult to identify the most popular ones. According to the EPS for last quarter of 2011 (MSIntelligence 2012), non-domestic products (including genuine and smuggled cigarettes) accounted for 14.9% of the total sample (in the second quarter of 2011 they were 10.6%).³⁰: The breakdown by brands highlights that L&M was the fourteenth brand by number of packs collected.

Table 9. Estimates of the size of the UK illicit HRT market. Percentage of the total market

Source: Transcrime elaboration, data HMRC and TMA data

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
HMRC (HMRC, 2011)	61	56	55	54	61	59	55	50	50	42	38
TMA (N.d.-b)(N.d.)	78	72	73	74	73	72	69	67	62	57	

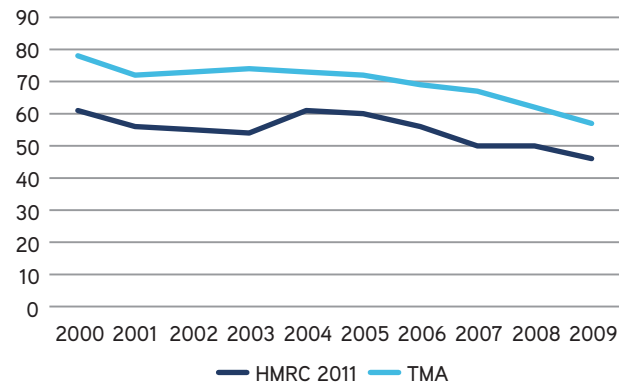
30. For the purpose of investigating the illicit trade, data from the EPS should be treated with care. The EPS focused on non-domestic products, which may also be legitimately-bought

cigarettes (e.g. travellers). Furthermore, the figures are based on packs collected in streets and bins and not on butts, and they exclude HRT (see the case of Glasgow O'Reilly 2012j).

Figure 19. Estimates of the size of the UK illicit HRT market.

Percentages of the total market

Source: Transcrime elaboration, data HMRC and TMA data



Interestingly, L&M are not legally distributed in the UK market. This implies that the collected packs are entirely attributable to legal imports (e.g. travellers, duty free) or to the illicit market. A significant share of L&M packs (17.1%) were counterfeits, compared to a total share of counterfeits below 1% (MSIntelligence 2012, 14–17). Also Marlboro, the most popular brand worldwide, had the second highest non domestic incidence (34.3%), but only 0.2% of the collected packs were counterfeits (MSIntelligence 2012, 19).

- **The main sources of illicit cigarettes in the UK are: Poland, Spain, Romania and Russia (KPMG 2012, 256).**

- **Liverpool:** Jin Ling are sold at £3 per pack, while Viceroy, Bond Street, L&M and both Marlboro Gold and Red are sold at prices between £3 to £4.50 (O'Reilly 2012a) with meaningful savings if compared to the RRP that, for example for both Marlboro Red and Gold, is £7.55 (PMI 2012a).

- **Luton:** 50g packs of HRT (Old Holborn, Golden Virginia and Amber Leaf) are sold for £8. The RRP suggested by IT for Golden Virginia HRT is £16.11 (IT 2012) and in the supermarkets to buy a pack of Old Holborn or of Amber Leaf it is necessary to pay respectively £15.75 and £14.47³¹. Smuggled Embassy No 1 and Benson and Hedges Gold cost £46 per carton of 200 (O'Reilly 2012g), while the RRP of a 20 cigarettes pack of Embassy No 1 is £7.73 (IT 2012) and at the supermarkets the price of a Benson and Hedges Gold carton of 200 is £74.69 (TESCO 2012).

- **Swansea:** Jin Ling packs can be bought for £3 in public houses (O'Reilly 2012c).

- **London:** American Legend costs £3 per pack. Products can be purchased in packs or in cartons of 200. For the latter some reduction may be made: at Camden market, Palace and Jin Ling cigarettes are sold at £25 per carton, while UK branded cigarettes were sold for £40 to £45 per carton (O'Reilly 2012b).

MODUS OPERANDI AND GEOGRAPHICAL DISTRIBUTION

The *modus operandi*

- **The *modus operandi* of the illicit tobacco trade varies according to the type of trade, the destination, the availability of transportation connections, and the need to evade countermeasures.**
- Towns with good transportation links – air, road, rail and sea – are more likely to attract illicit flows and/or to be important junctures of the illicit routes. Smugglers may use a single route or combination of itineraries according to the facilities available and the efficacy of border controls.
- Data regarding the interception points of the

smuggled products indicate that the itineraries of smuggled products vary (Table 10) and change according to the enforcement responses (HMRC and UKBA 2008, 10).

- **A number of important UK ports are crucial junctions for the ITTP, given the geographical configuration of the UK.**
- Ports well linked with other transport infrastructures are likely to be used for importing illicit products: for instance, it is suspected that illicit products pass through Portsmouth – the second busiest ferry port after Dover – and Southampton, which are then very well linked to London with motorway connections

31. Data collected at Tesco that, with a recorded share around 30%, is the main actor in the U.K. grocery market (Evans 2012).

(O'Reilly 2012e).

- Container ports are used to ship large quantities of illicit products originating from distant countries, like China. There have been significant seizures at the Port of Felixstowe, for example. Experts believe that Hull is another important port for illicit tobacco trade involving both single foot passengers and lorries (O'Reilly 2012j).
- Smaller ports are also used in smuggling activities because they may be considered less controlled. "At Ellesmere Port in October 2010 five Merseyside men were arrested over a haul of 10 million smuggled cigarettes. The tobacco, with a duty value of around £1.8m was imported into the UK from Dubai via Holland" (O'Reilly 2012a). In Northern Ireland at Larne Harbour in February 2012, 1.2 million cigarettes were seized by HMRC.
- **Illicit tobacco products smuggled via inland and sea routes are transported by cars or lorries, and by ferry or container ships.**
- Illegal products may be hidden inside vans transporting other legal products such as food, furniture, timber, etc. The camouflage can take a great variety of forms, from the most simple to the most sophisticated (von Lampe 2007). Criminals continuously adjust their methods of disguising illicit products to avoid interception (HMRC and UKBA 2008, 10). A criminal group hid 20 million cigarettes inside baby toys that were declared as the transported products in the shipping document. The illegal commodities were shipped to the port of Felixstowe from Dubai. The group was arrested while unloading the cigarettes at a warehouse in Upminster (HMRC 2012c).
- In the case of the smuggling of a large quantity of products, criminals may also organize the transport of containers by creating false companies or by using legitimate companies whose details are hijacked for so-called 'cuckoo importations' (Organised Crime Task Force 2012).

Seizures at the port of Felixstowe

In September 2011 at the port of Felixstowe – the largest container port in the UK – 12.5 tonnes of hand rolling tobacco and 10,000 "Winston" branded cigarettes (value in tax revenue: £2.5m) were found in a container from China whose shipment was listed as 'traffic cones' (UKBA 2011). In September 2010 a million cigarettes (£2m in unpaid VAT and excise duty) hidden in boxes of tomatoes in two containers from the Canary Islands were seized (O'Reilly 2012k).

- As a reaction to the seizures of large quantity of products, smugglers have also used the technique of importing cigarettes in small quantities, in order to avoid the interception of the entire amount of the smuggled goods (HMRC and UKBA 2008, 10).
- **Air transport is another popular method with which to import illegal tobacco because of the increasing number of air routes connecting numerous European cities easily and cheaply.**
- Bootlegging has proved to be an evergreen type of smuggling: it has developed from the 'white van trade', i.e. bringing cigarettes through the Channel Tunnel, to air transportation (von Lampe 2007). Individual smugglers often choose this route because it is more difficult for border police to detect the products transported and because of the increasing availability of low cost flights (von Lampe 2007, 15).
- Air transportation is used not only by individuals who travel to countries where the tobacco is cheaper and bring it home to sell it, but also by organised groups who employ people as 'runners' for the transportation work (von Lampe 2007, 15).
- Many seizures carried out at British airports demonstrate the use of air as means to import illicit tobacco products. Seizures are likely to be made after identification of unusual flight pattern or travellers –

Table 10. Points of interception of smuggled cigarettes

Source: (HMRC and UKBA 2008, 10)

	2006/07	2007/08	2008/09
Overseas	580m	726m	855m
Maritime	686m	491m	557m
Air	367m	478m	244m
Inland	256m	98m	180m

Figures in millions (m) or billions (bn) of cigarette sticks.

as UKBA did at the East Midlands Airport “since they registered that 16 travellers flew out from the airport together and all travelled back on a return flight having spent only 2 hours in Tenerife” (BBC 2010). The group was bringing 300,000 cigarettes and 6 kg of hand rolling tobacco. There have been large tobacco seizures in the past at Luton airport, particularly on late-night European flights (O’Reilly 2012g). Another important junction for the ITTP is Liverpool Airport, through which more than 5 million passengers travelled in 2010, making it the tenth busiest airport in the United Kingdom. People living in the large housing estate surrounding the airport are involved in the ITTP by “doing low cost same day return flights to mainland Europe bringing back large amounts of illicit tobacco products” (O’Reilly 2012a). In late March 2012 at Liverpool airport, people travelling from Lanzarote and from Malaga were stopped with 65,000 cigarettes and 12.8 kg of tobacco (UKBA 2012b).

•• **The use of postal deliveries is another increasingly common channel for the ITTP.**

- Postal seizures of cigarettes and HRT grew (Table

Table 11. Postal seizures of illicit tobacco products

Source: (HMRC and UKBA 2008)

	2004/2005	2005/2006	2006/07	2007/08	2008/09 - Quarter
Cigarettes (mn sticks)	49	120	172	311	24
HRT (tonnes)	2.1	20.7	26.3	44.6	17.7

11) between 2004–2008 (HMRC and UKBA 2008, 7). This is a method used by individual smugglers, but also by organised groups, which may send products via commercial courier companies. This concerns large consignments of illegal cigarettes, which can be divided into parts sent with different courier companies. The postal route is also used to send leaf, which is the base for making counterfeit cigarettes, as shown by the case of 50 kg of tobacco leaf packaged as Chinese tea detected by Northern Ireland police in December 2010. With that amount of leaf the criminals could produce 100,000 counterfeit cigarettes with a value of £25,000 (Organised Crime Task Force 2011).

The geographical distribution

•• **The consumption of illicit tobacco varies across the different areas of the UK.**

- According to 2009 and 2010 surveys, the North East has the biggest illicit market volume among English regions (Table 12).³²

Table 12. Illicit market volume share by region

Source: (Siggens, Murray, and Walters 2010a, 47)

South West	11%
South East	3%
West Midlands	7%
North East	16%
North West	7%
Yorkshire & Humberside	9%

32. There are data only concerning some England regions resulting from three surveys:
 - North of England illicit Tobacco Survey (2009): North East, North West, Yorkshire and Humberside
 - West Midland Regional Illicit Tobacco Survey (2010): South

West, South East, West Midlands
 - North of England illicit Tobacco Survey (2011): North East and North West
 This study has not analyzed the 2011 survey since at the time of writing it was not publicly available.

- According to the EPS of the fourth quarter of 2011, the highest incidences of non-domestic cigarettes have been recorded in London (28.5%, +8.2% compared to the second quarter of 2011), West Midlands (17.2%, +4.5 p.p.), and Northern Ireland (17.0%, +9.2 p.p.) (MSIntelligence 2012, 8).
- **Consumption of illicit tobacco frequently reflects the difference in smoking prevalence.**
 - The North East of England has the highest smoking prevalence (women's prevalence reaches 25%) and at the same time the highest prevalence of illicit tobacco purchases – 25% of smokers (NEMS Market Research 2009, 46). Also the South West presents high rates of illicit tobacco purchases (19% of smokers) and high rates of smoking prevalence (Siggens, Murray, and Walters 2010, 46).
- **In some regions there is a positive correlation between illicit smoking and deprived conditions.**
 - This correlation seems to be more significant in the North (O'Reilly 2012; NEMS Market Research 2009). However, also in the West Midlands “the lower social grades purchased the greatest proportion of illicit tobacco” (Siggens, Murray, and Walters 2010, 15).
 - The last empty pack survey found counterfeit packs in 22 cities: the majority were found in the South East, including Reading, Crawley, Oxford, Slough and Hastings (MSIntelligence 2012, 31). Also the data from the survey on the West Midlands regions show a higher prevalence of counterfeit cigarettes bought by smokers in the South West and West Midlands (20%) compared to purchasers in the South East (13%) (Siggens, Murray, and Walters 2010).

ECONOMIC CONDITIONS OF BUYERS OF ILLICIT CONSUMPTION (North of England)

- Struggling 28%
- Making ends meet 42%
- Able to save money on a regular basis 5%
- No financial problems 15%
- Well-off 1%

Source: (NEMS Market Research 2009)

Chapter 3

*framing the components
in the drivers*

FRAMING THE COMPONENTS IN THE DRIVERS

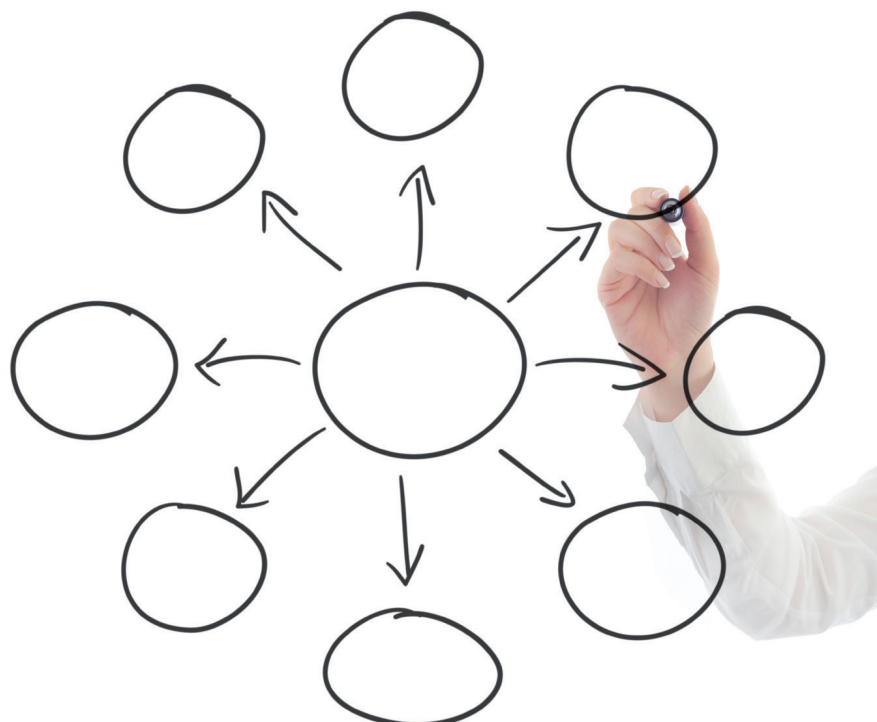
This section analyses the interaction between the drivers (discussed in Section 1) and the components of the ITTP (Section 2). Based on the information provided in the previous analyses, this section identifies the **five key factors of the ITTP** (next subsection). These are **fundamental determinants of the illicit trade, and they affect all of its components**. Thereafter, four subsections analyse **how the five drivers impact on the key factors and in turn on the components of the ITTP**. Each of the following subsections 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 section highlighted five key factors influencing the ITTP in the UK: affordability, availability, profitability, risk, opportunity.

- **Affordability: 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.**

- Given the dual nature of the tobacco market (it is composed of a legal and an illegal part, see the above section Why focus on ITTP in the UK?), **any growth in the price differential between legal and illegal products increases the relative affordability of illicit tobacco** and therefore stimulates the ITTP.
- Also **changes in socio-economic conditions may impact on affordability**. For example, decrease in households' income may result in reduced affordability of legal products.
- **Availability: the diffusion and accessibility of illicit tobacco products has a major impact on the ITTP.**
- **The easier it is to find and buy illegal products, the greater the likelihood of its diffusion in a specific area.**
- 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 lower socio-economic circumstances. This may increase the relative availability of illicit tobacco and therefore fuel demand for the ITTP.

•• **Profitability: the ITTP is an extremely profitable activity owing to the high income that it offers compared with the operational costs.**

• The ITTP provides very high income because most illicit tobacco products pay no, or very limited, taxes. At the same time, cigarettes are the commodity with the highest fiscal value per weight (Joossens 1998, 149–150). According to experts, cigarette counterfeiting may yield a return on investment amounting to more than forty times the capital invested (van Heuckelom 2010) and (Gutauskas 2011, 72).

• The ITTP has very limited costs. Given the high taxation, the actual production costs are a minimal fraction of the legal retail price (in the range of 15-20 pence per pack).

• The retail prices of illicit tobacco are generally half the legal prices. This leaves very high margins for ITTP, since no taxes are paid on illicit tobacco.

•• **Risk: the threat of detection/accusation/conviction and the imposable sanctions impact upon the diffusion of the ITTP.**

• Individuals involved in the ITTP are generally at low risk of detection/accusation/conviction. Several sources highlight that, notwithstanding government efforts, the ITTP is still a low priority for law enforcement. Police officers complain about the lack of resources (Populus Limited 2012) while convictions are relatively few in number (BBC 2012).

• Efforts to increase the threat of detection/accusation/conviction have triggered an evolution of the illicit market.

•• Increased controls and obligations across the legitimate tobacco supply chain have significantly reduced the share of large scale smuggling in the ITTP (see The supply). Furthermore, intense

efforts by legitimate manufacturers against counterfeiting have triggered the development of new products such as illicit whites.

•• Law enforcement efforts against large-scale smuggling and counterfeiting (mainly through increased human and technical resources assigned to controls) have prompted a change in the product mix in the illegal market.

•• Increased border controls have stimulated the creation of illicit factories on UK territory.

• The available sanctions do not seem to deter the ITTP. A conviction for a serious case of large-scale counterfeiting and distribution may carry up to ten years of imprisonment unless further investigations on proceeds of crimes ensue. In this case, the maximum penalty may rise to a maximum of 24 years of imprisonment. The obligations imposed upon manufacturers have proved more effective, reducing the amount of large-scale smuggling.

•• **Opportunity: the ITTP exploits different opportunities in society, the market and law enforcement.**

• **The ITTP provides vulnerable groups with an opportunity to maintain their smoking habits, thus reducing quitting attempts.**

• **Different types of ITTP exploit different market opportunities:**

•• Large-scale smuggling exploits loopholes and gaps in the controls on the legitimate supply chain.

•• Counterfeits may have been facilitated by cheaper and more accessible printing technologies, allowing the accurate forgery of genuine packs.

•• Illicit whites production exploits asymmetries in international legal regulation and a lack of cooperation by foreign countries.

• The evolution of transportation has created new opportunities for the ITTP. The development of low costs flights has stimulated small-scale smuggling by single individuals or groups. Less controlled airports are frequently preferred to bigger hubs.

Figure 20. The interaction between the products and the demand for illicit tobacco and the five drivers

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

Source: Transcrime elaboration



THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

The interactions between the drivers and the demand for illicit tobacco are multiple. Figure 20 presents the main interactions. In particular, the main factors affecting the demand are the affordability and availability of illicit tobacco.

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

1) Society and economy

- **The global financial crisis has had an impact on the purchasing power of consumers** (see

Society and economy). Many commodities, including legal tobacco, have become more expensive. As a consequence, **all income groups have started to seek cheap tobacco**. In particular, lower-income groups tend to purchase illicit tobacco (Siggens, Murray, and Walters 2010). This trend has increased the affordability of illegal tobacco products.

- Tobacco has been less influenced by the cutting of household expenditure on non-durable goods (see Society and economy). This suggests that **smokers are not likely to give up smoking even if it is expensive**. The gap between consumer aspirations and economic resources stimulates the demand for **illicit tobacco**: this **enables consumers to continue smoking** notwithstanding price increases; as a consequence, it may also discourage quitting.

- **Heavy smokers** are those most concerned with the high prices of tobacco products, and they are those who **are most likely to purchase illegal products in order to save money** (NEMS Market Research 2009).
- In response to increases in prices, **people living in disadvantaged areas adopt “switching strategies” which include buying cheaper brands, rolling tobacco or smuggled products** (Stead et al. 2001, 7:340; Wiltshire et al. 2001; Transcrime 2012d; Transcrime 2012c). Since smugglers permit them to satisfy their desire to smoke, they regard them as people who do them a favour (Wiltshire et al. 2001, 204). This favourable attitude increases the availability of illicit tobacco.
- **Poverty and social inequalities are the main factors in the illicit tobacco consumption** (Transcrime 2012d). The gap between rich and poor impacts on health inequality also in terms of smoking cessation. There is a negative correlation between the high level of disadvantage (i.e. in terms of employment, income, education, housing tenure) and the likelihood of quitting smoking (Wiltshire et al. 2001, 203). This is partly because poor people are less likely to be reached by public awareness-raising campaigns on the health dangers linked to tobacco (Department of Health 2011b). They are more likely to continue smoking and less likely to quit. **Illicit tobacco fosters these social and health inequalities** (Transcrime 2012d; Department of Health 2011b).

2) Legal market

- Retail price increases and the economic crisis have made **legal tobacco products less affordable** (Euromonitor International 2011b) and increased prices have further stimulated the **downtrading of tobacco products** (see The demand).
- **Purchasing illicit tobacco is a component of the downtrading to cheaper products and brands.** Illicit tobacco enables consumers to buy tobacco when ‘they could not afford it otherwise’ (Siggens, Murray, and Walters 2010). The downtrading may stimulate a wider availability of illicit tobacco.

3) Regulation

- **Taxation is a key factor in determining the affordability of tobacco products** because it is one of the reasons for their increasing prices (see Regulation). Increases in taxation on legal tobacco inevitably increase the relative affordability of illicit tobacco.
- **The incidence of taxation** on cigarettes prices may become **less acceptable to consumers during the economic crisis**. This holds in particular for low-income groups, since they have been hit hardest by the crisis. Low income groups consider taxation to be unfair when they compare cigarette prices in the UK with those abroad (Wiltshire et al. 2001, 323).
- **The lack of regulation or the ban of niche tobacco products (e.g. beedies, smokeless tobacco)** triggers the demand for such products on the illicit market. These products have a limited diffusion and they are most frequently consumed by black and minority ethnic groups (North of England Tackling Illicit Tobacco for Better Health). As a result, the lack of regulation for legal distribution causes these products to be very frequently distributed illegally, for example in street markets such as Camden Market in London, without paying taxes and with irregular health warnings (North of England Tackling Illicit Tobacco for Better Health; O’Reilly 2012h).

4) Crime environment

- **Smoking tobacco may be associated with drug consumption**, especially among young people. This is particularly the case in **weak and disadvantages neighbourhoods** (Chuang et al. 2005; Kleinschmidt, Hills, and Elliott 1995; Reijneveld 2002), in which the ITTP is more likely to be widespread (Wiltshire et al. 2001; Stead et al. 2001). This connection may impact on the availability of illicit tobacco.
- The UK, as much as other developed countries, has high levels of drug consumption (see Crime environment). Indeed, the UK belongs among those Western countries that play the role of ‘market determiners’ (Shen, Antonopoulos, and von

Lampe 2010, 252) expressing **high demand for commodities, including illicit substances, such as drugs, and cheap smuggled goods, such as tobacco.**

5) Enforcement

- In recent years the government has made great efforts to reduce smoking rates (Department of Health 2011b). There have been many significant initiatives throughout the country. Interestingly, these campaigns have included **educational programmes against the ITTP** (Department of Health 2011b), which in some cases seem to have had positive effects on reducing the illicit demand (O'Reilly 2012e). In particular, the multi-agency approach of *the North of England Tackling Illicit Tobacco for Better Health* scheme has proved to be particularly effective (see box). This programme has become an example of best practice for other regions (Lacors 2010).

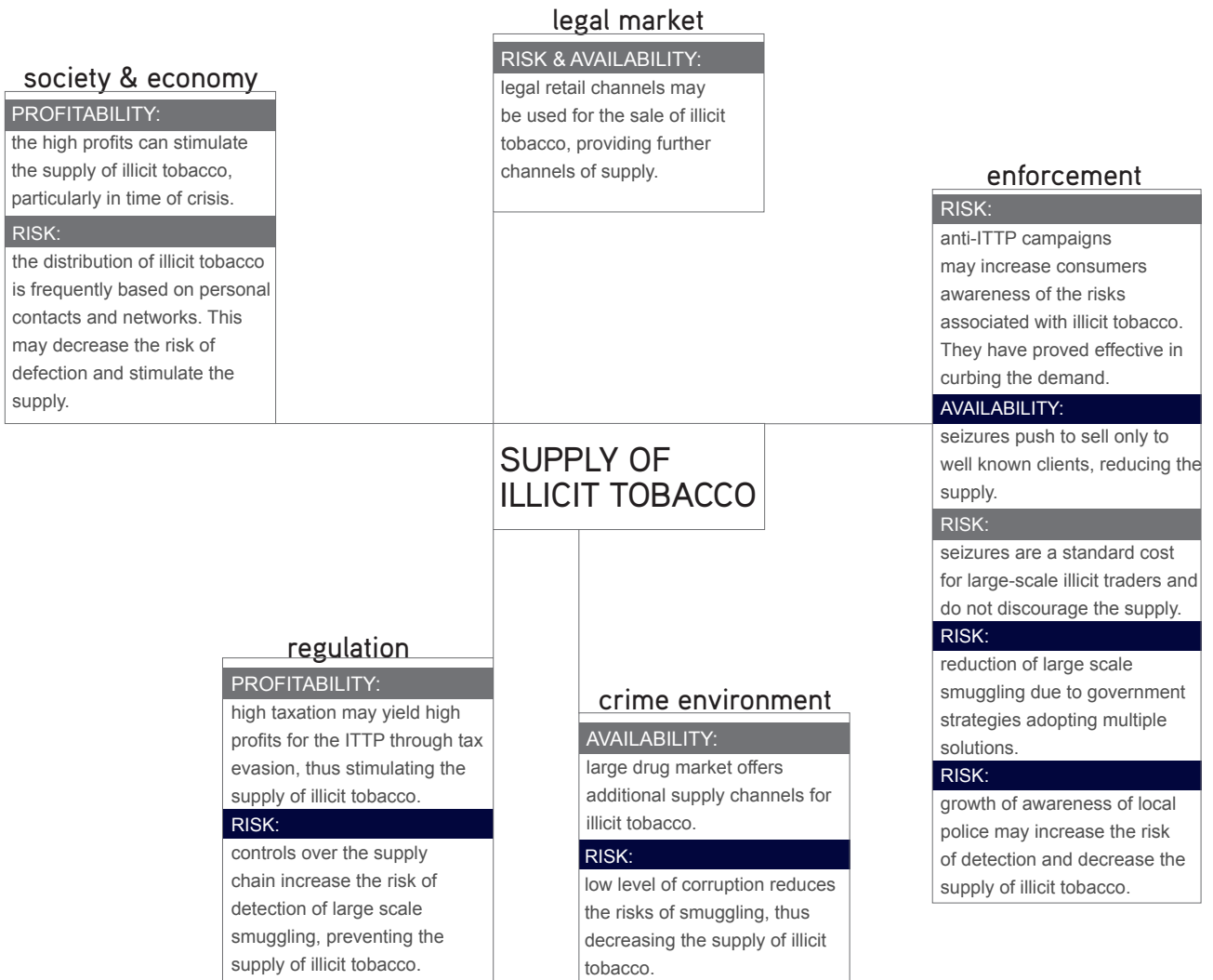
IMPACT OF THE CAMPAIGN TACKLING ILLICIT TOBACCO FOR BETTER HEALTH

“The overall impact of all these changes (reduced smoking prevalence, reduced purchase prevalence among smokers and reduced proportion of illicit purchased) has had a significant impact on estimated illicit tobacco volumes over the last two years. The volume change is estimated to be a reduction of 23%.” (North of England Tackling Illicit Tobacco for Better Health 2012).

Figure 21. 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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THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

The supply of illicit tobacco is affected by elements from all the five drivers. Profitability and risk are particularly important for the supply. This suggests that actions tackling the supply side of the ITTP should aim at reducing the profitability of illicit tobacco and increasing the risks for suppliers (Figure 21). There follow some of the most important interactions between the five drivers and the supply of illicit tobacco.

1) Society and economy

- Economic difficulties coupled with the recent crisis may provide further incentives for participation in the ITTP. **The ITTP provides income opportunities to**

ordinary people wishing to earn extra money – as in the case of the manual worker involved in illicit tobacco trade described by Hobbs (forthcoming).

- Distribution of illicit tobacco is frequently based on personal contacts and networks** because these channels are considered less risky and dangerous (NEMS Market Research 2009; Siggins, Murray, and Walters 2010).

2) Legal market

- Legal retail channels may be used for illicit selling** (NEMS Market Research 2009; Siggins, Murray, and Walters 2010). The practice of ‘behind-the-bar sales’ (Euromonitor International 2011a, 32) shows

that it is not rare for cigarettes to be sold in pubs. Also **illicit tobacco is frequently offered and purchased in pubs** (NEMS Market Research 2009; Siggens, Murray, and Walters 2010; Wiltshire et al. 2001).

3) Regulation

- High taxation provides high profits for the illicit trade. **The UK** ranks twentieth out of 181 countries for taxation share of the most popular brand (approximately 77% of the final retail price, with Bulgaria at the top position with 89%). Within the EU it has **the ninth position for the highest tax percentage of the WAP** (see footnote 8). **Smugglers exploit cross-border tax differentials in the UK** (Joossens and Raw 2012), namely the retail price differences among the EU countries.
- The introduction of **supply chain control legislation**, and particularly the exchange of information on large seizures with tobacco companies (see Regulation), has apparently had **positive effects on reducing the ITTP**. Since 2006 – when manufactures started to be obligated to control their supply chains to non-UK markets – “overall proportion of large cigarette seizures that are genuine has continued to decline” (HMRC e UKBA 2008, 3; Joossens e Raw 2008).

4) Crime environment

- The **low level of corruption** registered in the United Kingdom (see Crime environment) contributes to **reducing the risk of one of the main factors that facilitate smuggling, as well as the illicit trade in tobacco products** (Joossens et al. 2009).
- A large drug market offers distribution channels for the ITTP. The UK has an important drugs market; a “criminal infrastructure” which furnishes distribution channels and contacts for the illicit tobacco trade. Conversely, the ITTP may offer opportunities to sell other illicit goods. Not surprisingly, police operations against criminals often seize both drugs and tobacco products (O'Reilly 2012i; Collison 2012; HMRC 2012d).

5) Enforcement

- **The ITTP is a highly attractive sector, because it yields high profits with low risks.** Even when smugglers are detected, they are not subject to severe penalties (Transcrime 2012c). This aspect is more related to lower sentencing practices than to low penalties provided in the criminal law (see Enforcement). This approach may represent a weak point in the UK law enforcement system which **impacts negatively on repression of the ITTP**.
- The increasing **awareness of local police forces about the seriousness of the ITTP threat** has had a **positive impact on the detection of illicit tobacco suppliers** (Transcrime 2012d).
- **Seizures are a standard cost for illicit traders.** The low risks associated with the ITTP make it an attractive activity. Given the low deterrence of the penalties, the most significant impact of law enforcement actions is the seizure of loads. However, studies show that, as in the case of drug markets, illicit traders account for seizures as a standard cost (Hornsby and Hobbs 2007; Hobbs forthcoming; Pearsons and Hobbs 2001).
- **Seizures have an impact on selling practices:** in the aftermath of law enforcement intervention or after test purchasers carried out by Trading Standards **suppliers tend to sell prevalently to clients well known to them** (O'Reilly 2012e).
- **The UK government's anti-ITTP strategy implemented since 2000 has been the most important factor in reducing the supply of illicit tobacco.** Particularly since 2008 the synergy between the department in charge of revenues collection (HMRC) and the new law enforcement agency controlling borders (UKBA) has proved to be the key factor in curbing the ITTP, although the illicit share in 2011 remains above the EU average. This successful model of action has been praised at international level (Allen 2011).

Figure 22. 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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THE PRODUCTS AND THE DRIVERS

The variety of illicit tobacco products has significantly changed in recent years in the UK. The main factor determining the development and diffusion of different types of products is opportunity, particularly as a result of intensified enforcement efforts (Figure 22). Whilst action by the authorities has achieved important successes, it has also triggered the evolution of the illegal market, with the appearance of new products which require the constant adaptation of enforcement strategies.

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

1) Society and economy

- Social, cultural and economic factors affect the types of illicit products consumed. The increasing sales of HRT have supported the high levels of illicit HRT, notwithstanding law enforcement efforts. Moreover, HRT consumption is high among manual, low income workers, who are the most sensitive to prices and most inclined to purchase illicit products (see The demand).

2) Legal market

- **HRT consumption has increased** (see Hand Rolling Tobacco). Smugglers seem to adapt to this growing demand by **increasing the importation of counterfeit HRT** (see Hand rolling tobacco; (HMRC and UKBA 2008, 3)).

3) Regulation

- **Regulation may positively or negatively affect the availability of legal/illegal products.** Restrictions on availability create opportunities for illicit products:
- The 2010 **ban on the sale of tobacco from vending machines** (see Regulation) may reduce the opportunities to buy legal tobacco products and increase the need of consumers to move to the black market or accept the offer of sellers of illicit products.
- **Law enforcement actions have significant short-term effects in terms of the availability of products** (see The products) (O'Reilly 2012). Indeed, seizures inevitably provoke a lack of illicit products until smugglers do not provide the market with new ones.

4) Crime environment

- **Illicit tobacco is often sold together with other smuggled products** (see *Modus operandi* and geographical distribution). Environments characterized by an **informal economy, like street markets, facilitate the selling of illicit tobacco products** (Antonopoulos 2009). For example, in the UK there are markets, like the Barras in Glasgow or Camden in London, where contraband and counterfeit tobacco is likely to be on sale (see The supply).

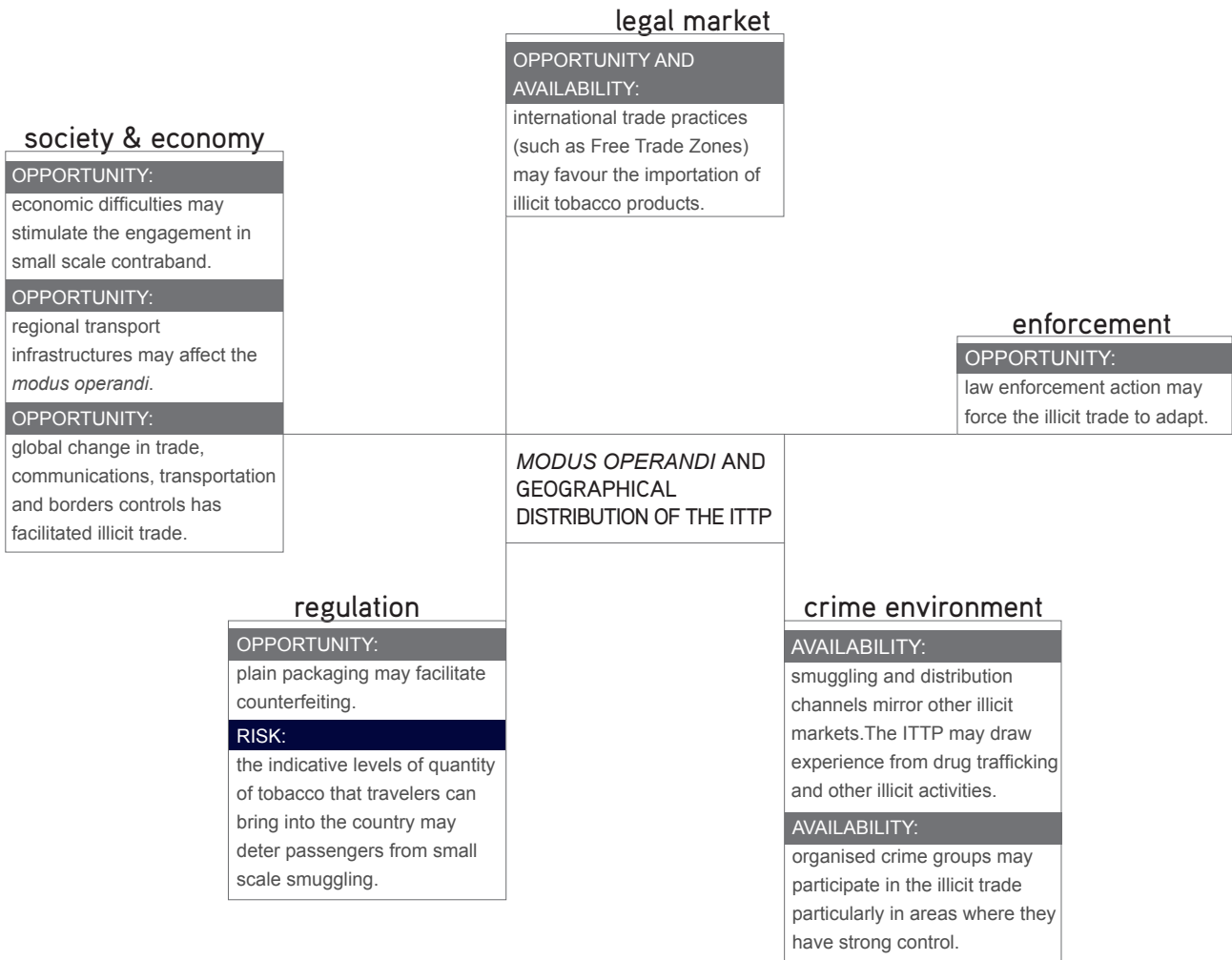
5) Enforcement

- **Law enforcement action on specific types of ITTP creates opportunities for new illicit products.** The strategy against smuggled genuine products has been effective (see Enforcement). However, illicit traders reacted by changing strategy and products: they **shift to counterfeit** (especially HRT, see (HMRC and UKBA 2008, 3) **and illicit whites** (see The products).
- **Lack of international cooperation favours the diffusion of illicit whites.**
- **Although the UK has been very active in establishing overseas partnership to prevent the importation of illicit whites** (HMRC and UKBA 2008, 10; HMRC and UKBA 2011, 15–16), **the actual cooperation of source countries is crucial** (Europol 2011, 25). Currently, there is no legal framework for international cooperation against the ITTP. A *Protocol on Eliminating Illicit Trade in Tobacco Products* to the WHO Framework Convention on Tobacco Control is expected in the coming months, but several studies have raised doubts about its actual impact (Boister 2010; Transcrime 2012b).

Figure 23. 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 OF THE ITTP AND THE DRIVERS

Opportunity and availability play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP (Figure 23). Indeed, illicit tobacco may be produced and distributed with different methods and through different channels.

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

1) Society and economy

- **Small scale smuggling stimulated by economic difficulties.** The ITTP offers easy profit opportunities

for ‘normal people’. In times of crisis, it may become an attractive opportunity for people suffering economic hardships (Hobbs forthcoming).

- **Global changes in communications, transportation and border controls have affected the supply and *modus operandi* of the ITTP** making illicit products more available. The enlargement of the European Union has reduced border controls, thereby facilitating the trade of illicit products. Moreover, the UK’s participation in the European Single Market has opened up opportunities for the smuggling of cigarettes (von Lampe 2007, 42). The development of international transportation connections has contributed to the use of different routes, e.g. air routes (von Lampe 2007, 15). **These macro-changes have expanded both opportunities and the**

methods used to import illicit products into the UK.

2) Legal market

- **International trade practices favour the importation of illicit tobacco products.** Free trade zones provide a number of opportunities for the transport, manufacture and handling of illicit tobacco products.

3) Regulation

- In intensely regulated markets, **regulation may unwittingly create opportunities for illicit and criminal activities** (Albrecht and Kilchling 2002; Morgan and Clarke 2006; Savona et al. 2006). The tobacco market is no exception. Recent studies have pointed out the unintended risks associated with the regulation of the tobacco market (Transcrime 2011a; Transcrime 2011b; Transcrime 2012a):
- For example, the **implementation of measures such as plain packaging may create opportunities for the ITTP.** A study by Transcrime has pointed out that plain packaging in the UK may increase the risks of the counterfeiting of tobacco products, of decreased differentiation between legitimate and illicit tobacco products, and of increased ITTP as a result of increased potential profits (Transcrime 2012a). Similarly, the Department of Health's Equality Impact Assessment (prepared for the public consultation on standardised packaging) acknowledged that

there may be the potential for a negative impact on equality in relation to socio-economic groups, if a policy of standardised packaging were to have the effect of increasing the availability of illicit tobacco. If availability of illicit tobacco increased, this could undermine the impact of high priced tobacco as a disincentive to use tobacco, particularly for those in poorer groups who are more likely to access illicit tobacco (Department of Health 2012c, 8).

- There are no restrictions in terms of quantity of tobacco allowed to be brought from EU countries to the UK, since the country belongs to the European Single Market. However, there is an indicative level

of quantity, beyond which customs officials are likely to question travelers to verify whether the products are only for personal use. In October 2011 the level was reduced from 3,200 cigarettes to 800 cigarettes and from 3kg of HRT to 1 kg. (HMRC). The aim of this reduction was to deter travelers who engage in cross-border shopping for the purpose of smuggling (HMRC and UKBA 2011).

4) Crime environment

- **Smuggling and distribution channels mirror other illicit markets.** For example, drug trafficking does not have a hierarchical and monolithic supply chain, but instead consists of a fluid network (Pearsons and Hobbs 2001, 12). There are, however, more levels corresponding to different specializations, including importation/wholesale/distribution (Pearsons and Hobbs 2001, 12). Likewise, **the ITTP comprises different actors – from individuals to organised criminals** – involved in the entire chain of the illicit tobacco trade (see *Modus operandi* and geographical distribution).
- **Organised crime groups participate in the illicit trade in areas where they exercise strong control** (see The supply). While police forces tend to stress the increasing involvement of organised crime in the ITTP, scholars tend to minimize its role (see Crime environment and Enforcement).

5) Enforcement

- **Enforcement actions – by law enforcement agencies and private companies – compel the illicit trade to react and adapt** (see *Modus operandi* and geographical distribution). Indeed, the methods and products of the UK illicit trade have changed markedly because they have had to adapt to the anti-ITTP strategy (HMRC and UKBA 2011, 6) which since 2000 has been very effective in reducing the large-scale smuggling of genuine UK products (see The supply).
- **Other forms of the ITTP have started to emerge, making new products available, such as illicit whites and counterfeit cigarettes.** The latter are more dangerous for the health of consumers and are also sometimes managed by organised crime.

'The dynamics of tobacco smuggling and the modus operandi of smugglers are constantly changing in response to enforcement activity by the UK authorities and counterparts overseas. Given the scale of the smuggling threat and the huge profits to be made, it is crucial that we continue to refine and adapt our enforcement activity in order to maintain downward pressure on the illicit market.' (HMRC and UKBA 2008, 10)

- **Since 2000 the anti-ITTP action has been highly effective against the 'white van trade'** (see *Modus operandi* and geographical distribution). **However, bootleggers also use other routes, like air travel.** Law enforcement agencies have started to pay close attention to this route as well. Indeed, UKBA has received agency custom powers, thus providing it with the authority for making seizures by air. Relevant seizures were reported in at least five 5 airports: Edinburgh, Teesport, Harwich, Coquelles and Gatwick Airport (HMRC and UKBA 2008, 11). This integration is likely to improve the interception of illicit tobacco at the country's borders.

This report provides the first country profile of *the Factbook on the Illicit Trade in Tobacco Products* project. The ITTP is a complex subject, comprising a variety of activities, products and actors. The analysis of the illicit trade must take into account a number of elements which may significantly influence it.

This report has analysed the multiple facets of the ITTP in the UK. The country profile focuses on the UK, where the illicit trade in tobacco products (ITTP) has become an important concern since the 1990s. The information gathered originates from academic literature, grey literature (official reports, studies and papers), open sources, questionnaires and interviews with experts and stakeholders.

THE FIVE DRIVERS

Section 1 (The five drivers) of the report analysed in detail the five drivers of the ITTP and namely society and economy, regulation, legal market, crime environment and enforcement. The five drivers are areas whose structures may positively or negatively impact on the ITTP.

Society and economy. The UK is a developed, dynamic and multicultural society. However, in the past decade social and economic inequalities have grown. Consumerist culture, socio-economic inequalities, and the impact of the global financial crisis threaten to bring the UK to a critical situation. Indeed, social exclusion and consumption aspirations played a crucial role in the riots of August 2011. This trend may propagate illegal behaviours, thus contributing to the expansion of the ITTP. Furthermore economic difficulties may push

consumers towards illicit tobacco with the aim to maintain consumption habits. The gap between consumer aspirations and economic resources has stimulated the demand for illicit tobacco and has enabled consumers to continue smoking notwithstanding price increases.

Legal market. The tobacco **market** is an important sector for the UK economy. While tobacco does not grow in the country, the UK is among the top 10 importers worldwide, domestic cigarette production exceeds consumption and two of the four top multinational tobacco companies are headquartered in the country. The price of cigarettes in the UK is among the highest in the world. As a result of price increases and other policy measures, tobacco consumption has declined over recent decades and smokers switched to cheaper brands and products (downtrading). Since illicit products are significantly cheaper than genuine ones, this trend may favour the illicit tobacco market,

Regulation. The UK tobacco market is heavily regulated. Taxation is high and both consumption and sales are intensively controlled. There is a medium level of control over the supply chain, mainly based on agreements between government authorities and tobacco manufacturers.

Crime environment. Crime is declining in the UK and the country has low levels of organised crime and corruption. Nevertheless, people do not feel safe. Fear of crime is high and social capital and social trust indicators have declined in recent years. As in other Western advanced societies, there is a great dependency on

addictive substances. Such trends may provide suitable environment for the diffusion of the illicit tobacco and for the interactions of different types of illicit markets from drugs to illicit tobacco.

Enforcement. The UK has high levels of law enforcement compared to the other countries. The country has implemented various national action plans against the ITTP. The measures adopted under the plans have reduced the illicit market, especially for illicit cigarettes. Notwithstanding the relatively high penalties provided by the law, convictions for cases of ITTP have declined and sentencing practice for serious cases imposed rather low penalties. This may result in lower deterrent effect of the law enforcement action.

THE FOUR COMPONENTS OF THE ITTP

Section 2 (The Four Components) discussed in detail the characteristics of the illicit trade in the UK framing the illicit tobacco market into its four components: demand, supply, products and *modus operandi*.

The main cause of the **demand** for illicit tobacco is the **low price of illicit products**. The largest demand for smuggled cigarettes and hand rolling tobacco (hereinafter HRT) comes from people who cannot afford legal tobacco products because of high prices, including low income groups and heavy smokers. Another important factor in the analysis of demand is the **diffusion and availability** of illicit tobacco. Consumers' perceptions of illicit products do not seem to take adequate account of the implications and dangers of illicit tobacco.

Supply of illicit products is mainly due to its high profitability and relatively low risk of detection and conviction. The supply chain of illicit tobacco is composed of a **great variety of actors ranging from individual bootleggers to organised groups**. The retail level is generally composed by small sellers, distributing illicit tobacco through informal networks of friends and acquaintances.

Types of **illicit tobacco products** have changed over the years. In the past the market was mainly made up of genuine UK brands; today, it is composed of a mix of genuine UK and non-UK brands of cigarettes, HRT, counterfeits, and illicit whites. In recent years counterfeit tobacco and illicit whites have been of increasing concern to the UK law enforcement agencies. Contraband and

counterfeit tobacco products can generally be purchased at half the price of legal products. Their main sources in the UK are Poland, Spain, Romania and Russia.

The ***modus operandi* and the geographical distribution** of the ITTP vary according to many factors. A number of important UK ports are crucial junctions for the ITTP, given the geographical configuration of the country. Air transport is another popular method with which to import illegal tobacco because of the increasing number of air routes connecting numerous European cities easily and cheaply. The use of postal delivery is also a widespread method for transporting illicit tobacco products. The consumption of illicit tobacco varies geographically across UK and seems to reflect differences in economic conditions and smoking prevalence.

FRAMING THE COMPONENTS IN THE DRIVERS

Section 3 (Framing the Components in the Drivers) addressed the complex network of interactions between the drivers and the components of the ITTP in the UK. In particular, the analysis identified five key factors which play a fundamental role in the illicit market in the country (affordability, availability, profitability, risk and opportunity). The key factors offer multiple interpretative paths contributing to the analysis and explanation of the dynamics of the ITTP in the UK.

Affordability: the low price of illicit tobacco, particularly in comparison to legal products, is main cause of the demand of illicit tobacco. The decrease in households' income due to the global financial crisis and the high incidence of taxation on prices make illicit products more attractive. People living in disadvantaged areas, in particular, adopt "switching strategies" which may include for example illegal HRT, illicit whites and counterfeited cigarettes.

Availability: the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP. In the UK, large and active drug trafficking channels, the lack of control over informal economy and the restriction on the access to legal products may contribute to increase the availability of illegal products.

Profitability: the ITTP is an extremely profitable activity yielding the high revenues compared to the operational costs. While cigarettes are the commodity with the

highest fiscal value per weight, most illicit tobacco products pay no, or very limited, taxes making this activity high profitable.

Risk: the threat of *detection/accusation/conviction* and the imposable sanctions impact upon the diffusion of the ITTP. However, low conviction rates and relatively moderate sentencing practices do not appear to deter the illicit trade. Conversely, the low levels of corruption in the UK, the increasing controls on the supply chain and other policy measures may increase the risks for those involved in the ITTP.

Opportunity: the ITTP exploits different opportunities in society, the market and law enforcement. The economic crisis, making legal tobacco products less affordable, further accelerated the downtrading toward cheaper products such as HRT. Remarkably HRT is a sector where the illicit market share is still at approximately half of the total consumption. As a result, the crisis may stimulate the consumption of illicit tobacco and is likely to have maintained a high share in the illicit HRT sector. Law enforcement action on specific types of ITTP and the lack of international cooperation favour the diffusion of new products as illicit whites and counterfeits. The introduction of new policy measures, such as plain packaging, may unintentionally favour counterfeiting.

The section also framed the different elements of the five drivers into the four components, showing how socio-economic, market, regulatory, crime and enforcement dynamics affect the demand, supply, products and *modus operandi* of the ITTP in the UK.

RECOMMENDATIONS FOR FURTHER RESEARCH

The results of this study point out that **further research** is needed on the ITTP.

- While penalties in the legislation are high, sentencing practices impose lower sanctions. Further research should assess whether this contributes to the low risks perceived by those engaged in the ITTP and whether changes in sentencing practices may increase deterrence.
- Second, the ITTP showed adaptability to law enforcement action in the UK. Research should focus on the patterns of innovation and evolution within the ITTP, assessing how and when the illicit trade adapts

to new policy measures.

- Third, just as most criminal activities, the ITTP is concentrated in a few areas (hotspots). This implies that prevention and enforcement strategies should be similarly concentrated. Studies should identify ITTP hotspots and study the dynamics leading to their creation, evolution and extinction.

In conclusion, the results of the study showed that the ITTP is a **complex and multifaceted phenomenon**. It comprises a number of different activities which are caused by different socio-economic and regulatory conditions. The **analysis of the illicit trade needs to consider** channels, the lack of sector where the illicit market share is still at approximately half of the total consumption. As a result, the crisis may stimulate the consumption of illicit tobacco and is likely to have maintained a high share in the illicit HRT sector. Law enforcement action on specific types of ITTP and the lack of international cooperation favour the diffusion of new products as illicit whites and counterfeits. The introduction of new policy measures, such as plain packaging, may unintentionally favour counterfeiting.

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