

CIGARETTE TRAFFICKING

Introducing the Transnational
Dimension of Cigarette Trafficking
in Europe and Beyond

1 ITTP NEXUS
IN EUROPE
AND BEYOND

2019

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Acknowledgements and credits

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Preface

Cigarette trafficking is a global and complex crime. In the EU MSs, 40 billion illicit cigarettes are consumed originating from 128 countries spread across five continents. Most of these cigarettes originate from non-EU countries where cigarette prices are low, and there are weaknesses in the law enforcement, control, and regulatory systems.

Like cigarette trafficking itself, research on the topic must extend beyond national and regional borders. This transnational dimension calls for an analysis that considers the interaction between multiple countries to reveal, understand, and monitor cigarette trafficking in the EU. In particular, it should account for a wider context including the non-EU countries that are involved in the production, transit and consumption of illicit cigarettes. Only the combination of local and macro-regional perspectives enables the identification of the main factors behind the transnational illicit flows of cigarettes and the designing of effective policies to curb them.

In light of these considerations, *ITTP NEXUS in Europe and Beyond* includes an analysis of the illicit flows of cigarettes moving through EU countries, by also examining the role of and the connections with

relevant countries in North Africa, the Middle East, and Central Asia. The project identifies and quantifies these flows and highlights the existing connections within political, legislative and socio-economic frameworks. Through this process, *ITTP NEXUS in Europe and Beyond* provides an assessment of the enabling factors behind transnational cigarette trafficking.

The *ITTP NEXUS in Europe and Beyond* Report is presented in the form of 7 booklets, each focusing on a specific aspect of cigarette trafficking. Booklet 1 provides an overview of the main characteristics of the transnational cigarette trafficking network in Europe and beyond. Booklets 2, 3, 4 trace and explain the trafficking of cigarettes along the three main routes targeting European markets. These booklets are divided by route: Booklet 2 – the North-Eastern Route; Booklet 3 – the Extended Balkan Route; Booklet 4 – the Maghreb Route. Booklet 5 discusses the contextual factors and drivers behind cigarette trafficking and its evolution over time, relying on original estimates and analyses. Based on the total results of the analysis from Booklets 1-5, Booklet 6 puts forward policy implications to tackle the transnational illicit flows of cigarettes, overcome regulatory

gaps, and develop preventive measures for the reduction of specific risk-factors. Finally, Booklet 7 concludes the Report by detailing the methodological approach adopted to determine the estimates and analyses presented in this booklet series.

The results emerging from *ITTP NEXUS in Europe and Beyond* emphasise the importance of an integral and multilateral approach which involves multiple countries and simultaneously considers the demand, supply, and transfer of illicit cigarettes. The aim of the Report is to increase awareness about cigarette trafficking and its magnitude at regional and international levels. At the same time, the project's findings could be used to anticipate future scenarios, thus assisting governments and other stakeholders to forecast and prevent crime and to orient and support their regulatory choices. Finally, the comprehensive methodological approach suggested by this project could potentially be used for analysing other transnational illicit markets and criminal activities.

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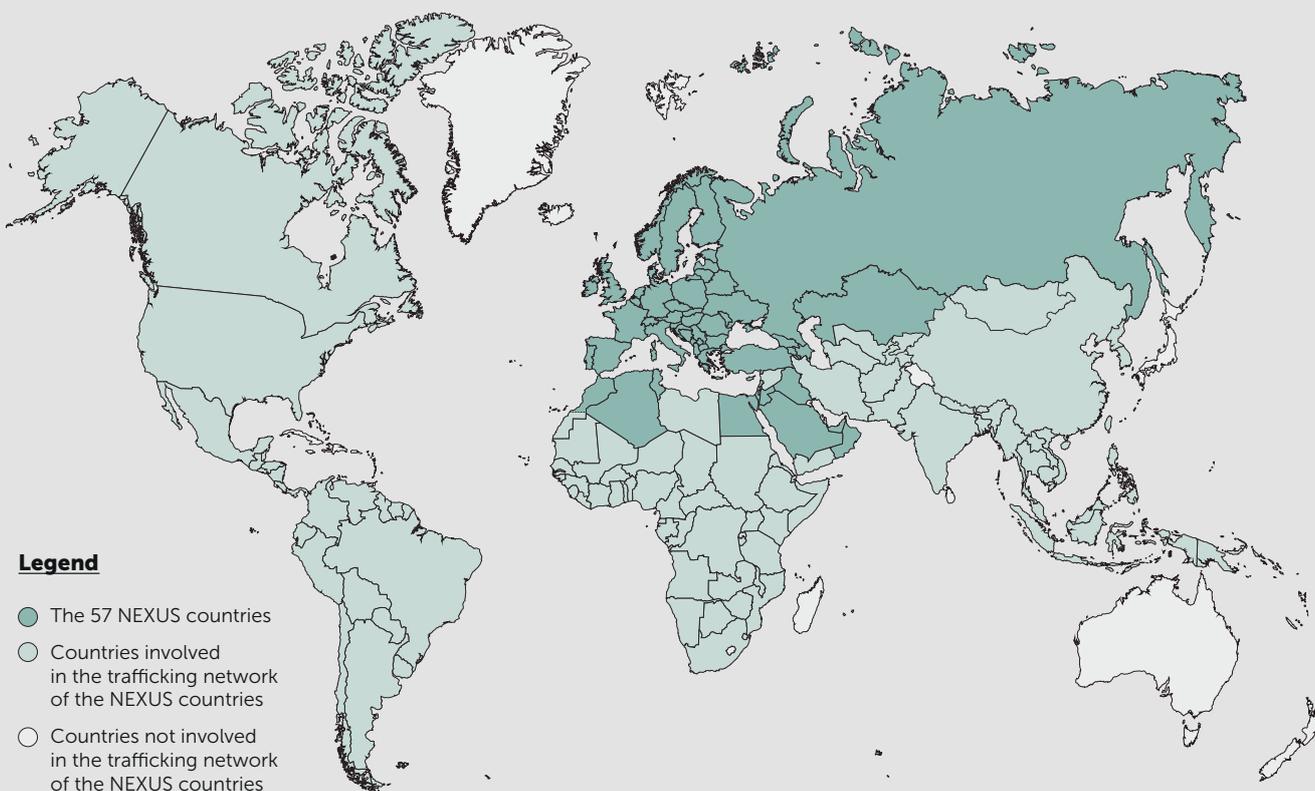
Explanatory notes

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

The following abbreviations have been used in the present booklet:

| | |
|-----|------------------------|
| EPS | Empty Pack Survey |
| EU | European Union |
| FTZ | Free Trade Zone |
| LEA | Law Enforcement Agency |
| MS | Member State |
| OCG | Organised Crime Group |
| VAT | Value Added Tax |

The 57 NEXUS countries and their trafficking network



The following ISO country codes have been used in the present booklet:

Legend

ISO: NEXUS country

ISO: Country mentioned in the present booklet

| | | | | | |
|-----|------------------------|-----|-----------------|-----|-------------|
| ALB | Albania | JOR | Jordan | AND | Andorra |
| ARE | United Arab Emirates | KAZ | Kazakhstan | CHN | China |
| ARM | Armenia | KWT | Kuwait | GIB | Gibraltar |
| AUT | Austria | LBN | Lebanon | IDN | Indonesia |
| AZE | Azerbaijan | LTU | Lithuania | IRN | Iran |
| BEL | Belgium | LUX | Luxembourg | KGZ | Kyrgyzstan |
| BGR | Bulgaria | LVA | Latvia | KOR | South Korea |
| BIH | Bosnia and Herzegovina | MAR | Morocco | LBY | Libya |
| BLR | Belarus | MDA | Moldova | MRT | Mauritania |
| CHE | Switzerland | MKD | North Macedonia | PAK | Pakistan |
| CYP | Cyprus | MLT | Malta | SEN | Senegal |
| CZE | Czech Republic | MNE | Montenegro | SYR | Syria |
| DEU | Germany | NLD | The Netherlands | THA | Thailand |
| DNK | Denmark | NOR | Norway | TJK | Tajikistan |
| DZA | Algeria | OMN | Oman | | |
| EGY | Egypt | POL | Poland | | |
| ESP | Spain | PRT | Portugal | | |
| EST | Estonia | ROU | Romania | | |
| FIN | Finland | RUS | Russia | | |
| FRA | France | SAU | Saudi Arabia | | |
| GBR | United Kingdom | SRB | Serbia | | |
| GEO | Georgia | SVK | Slovakia | | |
| GRC | Greece | SVN | Slovenia | | |
| HRV | Croatia | SWE | Sweden | | |
| HUN | Hungary | TUN | Tunisia | | |
| IRL | Ireland | TUR | Turkey | | |
| IRQ | Iraq | UKR | Ukraine | | |
| ISR | Israel | UNK | Kosovo | | |
| ITA | Italy | | | | |

Introduction

This booklet constitutes the first chapter of the *ITTP NEXUS in Europe and Beyond* Report. It introduces an overview of the transnational trafficking of cigarettes across Europe, Central Asia, Middle East and North Africa.

Section 1 describes the two principal forms of cigarette trafficking: i) the one occurring between neighbouring countries and/or within the same macro region, and ii) the one occurring between non-neighbouring countries belonging to different macro regions. At the same time, it introduces the explanatory factors—countries' characteristics and asymmetries—that give origin to the transnational traffic of cigarettes.

Section 2 focuses on the different origins of the illicit cigarettes smoked in the countries included in the analysis and in particular in the EU.

Section 3 presents the transnational trafficking network of illicit cigarettes. It provides an overview on the numerous paths along which illicit cigarettes move from their countries of origin to their final destinations.

Section 4 introduces the main trafficking routes linking the markets in the EU to the main trafficking hubs in North-Eastern Europe, Central Asia, Middle East and North Africa, and it shows how traffic concentrates along specific paths.

Key facts



Forms of cigarette trafficking

Cigarette trafficking is a global transnational crime. The trafficking of cigarettes to and through Europe, North Africa, Middle East and Central Asia involves 157 countries that form 884 different connections.

There are two forms of transnational trafficking:

- **the short-distance trafficking** of cigarettes on a local/regional scale;
- **the long-distance trafficking** of cigarettes on a global scale.

Different trafficking dynamics imply different **organisations, schemes and actors**.



Origins of illicit cigarettes

2017 figures

The United Arab Emirates is the main origin of illicit cigarettes consumed in the 57 countries considered within Europe, North Africa, Middle East and Central Asia. 9 billion out of about 132 billion illicit cigarettes originate from this country.

EU citizens consume almost 55 billion of illicit cigarettes:

- about 40 billion illicit cigarettes originate in 128 countries across 5 continents;
- about 15 billion cigarettes of unknown origin are also consumed in the EU.

Most of the illicit consumption in the EU concerns cigarettes originating from outside the EU:

- **more than 20% come from extra-EU Eastern European countries** (mainly Ukraine and Belarus);
- almost **40% come from** other regions, mainly the **Middle East** (United Arab Emirates) and **North Africa** (Algeria);
- in Romania, Greece, Lithuania, Latvia and Poland, cigarettes originating from the EU account for less than 1% of the illicit market.



Local and global flows of illicit cigarettes

2017 figures

Illicit cigarettes flowing from a specific origin to a specific destination may follow **numerous different paths**.

Almost all countries act as **origins and/or transits** for their neighbouring countries.

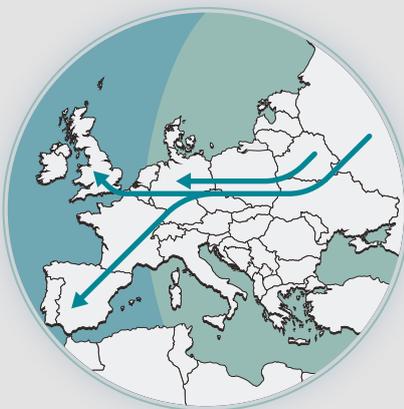
Large illicit flows of cigarettes move within the EU and between the EU and other regions mainly via land but also via sea routes. In particular:

- from Poland to Germany (about 7.2 billion);
- from Czech Republic to Germany (about 6.4 billion);
- from Bulgaria to Turkey (about 5.3 billion).



Routes of cigarette trafficking

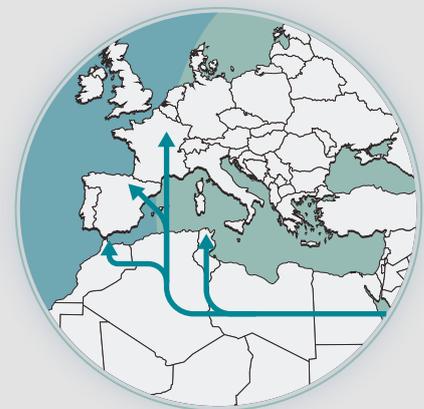
Cigarette trafficking through Europe clusters along 3 main routes:



**the
North-Eastern
Route**



**the
Extended Balkan
Route**



**the
Maghreb
Route**

1. Forms of cigarette trafficking

Cigarette trafficking is a multifaceted phenomenon

The **illicit trade in cigarettes** is a complex phenomenon that **comprises** different types of products (see Box 1), different criminal actors, and different *modi operandi*. These elements interact and merge together in multiple manners producing a wide range of scenarios. The majority of these combinations involve **transnational connections among multiple countries**.

The role of a country in the trafficking routes and the size of its consumption of illicit cigarettes is related to two classes of explanatory factors: i) its specific features and ii) asymmetries with other countries.

Proximity to countries where cigarettes are cheap is a driver of illicit consumption¹

The most influential **features of a single country** are its:

- criminal environment;
- economic, social, and cultural characteristics;
- geography;
- political situation.

The principal forms of **asymmetries between different countries** pertain to:

- cigarettes taxation and, consequently, prices (see Box 2, Box 3, Figure 1 and Figure 2);
- the quality of the regulations aimed at controlling the cigarette market;
- the effectiveness of the enforcement measures against cigarette trafficking.

Box 1. Types of illicit cigarettes

- Contraband genuine cigarettes are legally manufactured cigarettes that are then diverted to be smuggled from lower-tax to higher-tax jurisdictions or fully evading taxation; usually, the brands of these cigarettes are the same as those that consumers purchase from legitimate tobacco vendors.²
- Illicit whites—also called “cheap whites”—are cigarettes that are legally manufactured in one country with the deliberate intention of smuggling them—at least in part—into different markets where the brand’s owner has limited or no permission to distribute them.³
- Counterfeit cigarettes imitate packs of branded cigarettes without the permission of their legitimate trademark owner. Usually, also the tax stamp is counterfeit. Counterfeit cigarettes can be sold in the country where they are produced or smuggled into another market without the payment of any tax.⁴
- Unbranded illicit cigarettes are manufactured in legal or—more often—illegal factories without any licence and without their production being declared to the competent authorities. Unbranded illicit cigarettes are sold without the payment of any tax.⁵

Box 2. Price differentials in the EU

Within the EU, the cost of cigarettes varies hugely. The highest price differential is recorded between Ireland and Bulgaria. In 2017, a pack of premium cigarettes cost more than four times in Ireland (11.50€) than it did in Bulgaria (2.70€) resulting in a difference of about 8.80€.

Considering the most popular brands of cigarettes sold in the two countries, the difference is even greater: with a maximum of 9.00€ (2.50€ vs. 11.50€). Price differentials exist for various reasons, the main ones being taxation policies and local market structures.

Figure 1. Price of a 20-cigarette pack of the most sold brand by country (2017)

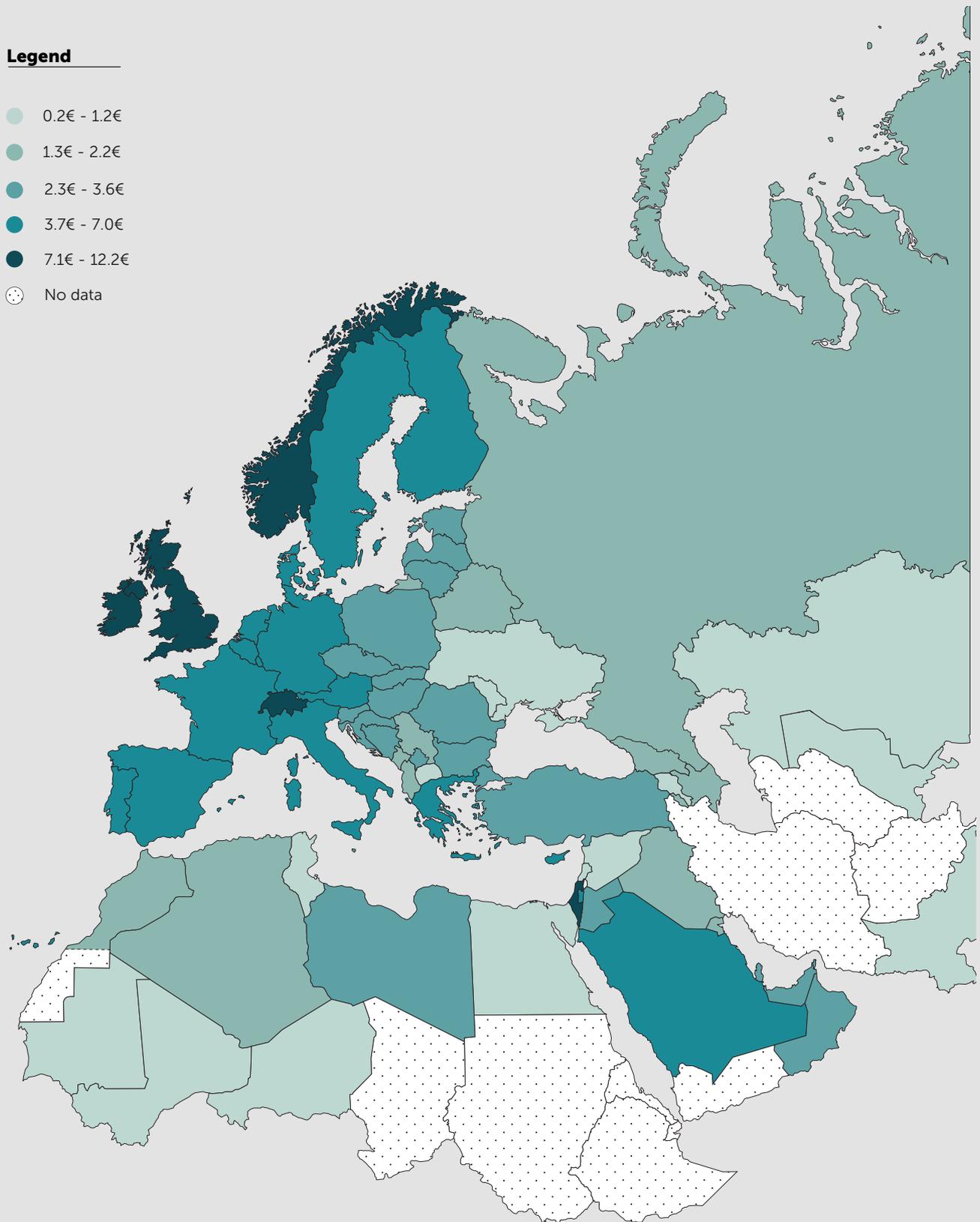
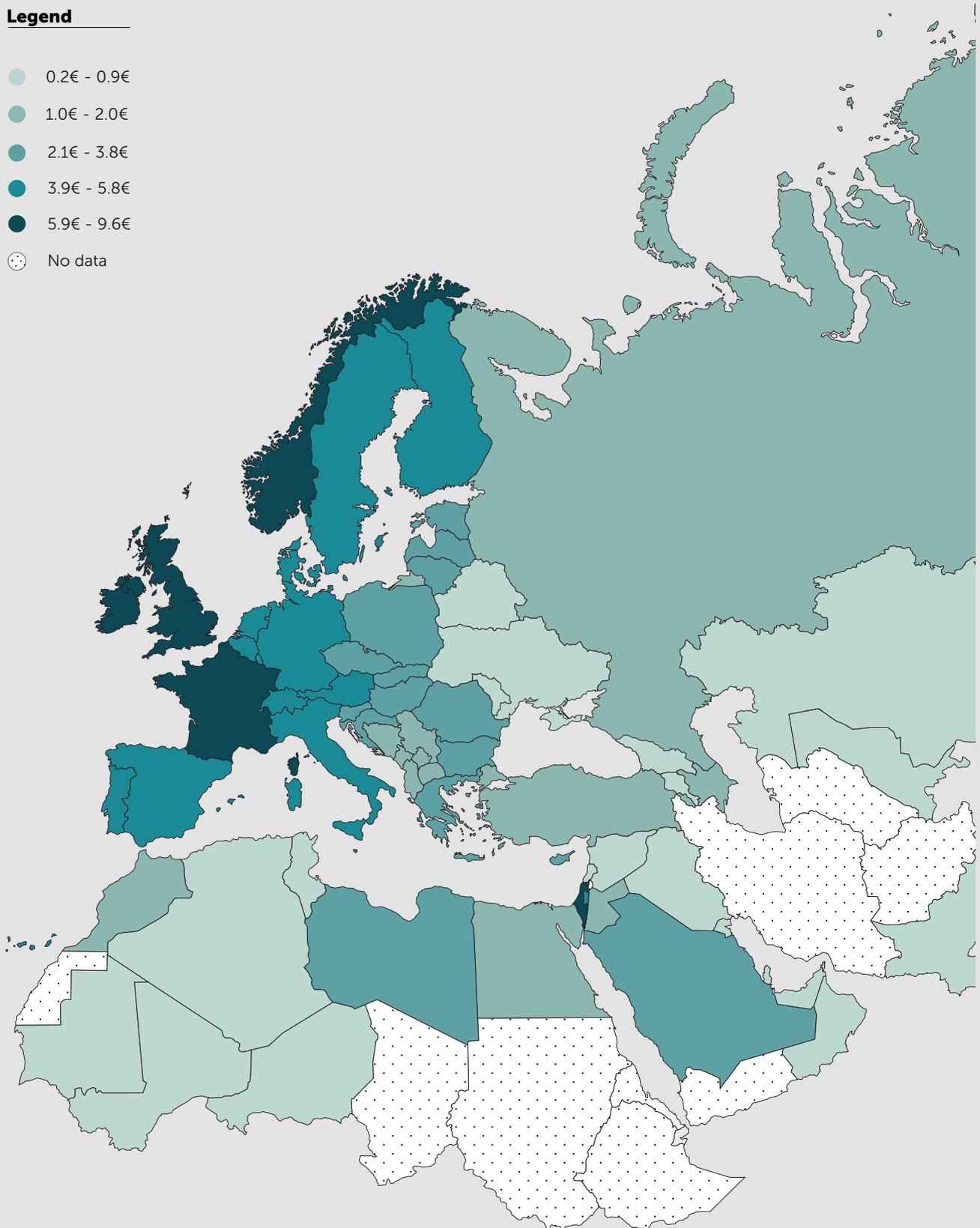


Figure 2. Price of the cheapest available 20-cigarette pack by country (2017)

Legend

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



Box 3. Price differentials in Europe and beyond

In 2017, Ukraine had the cheapest premium cigarettes (€1.06 per pack) among all countries that share borders with the EU. This incentivises the purchase of Ukrainian smuggled cigarettes by smokers in its neighbouring EU countries—i.e., Slovakia (4.00€), Hungary (3.86€), Poland (3.80€), and Romania (3.60€)—allowing them to save more than 70% of the price of their pack of cigarettes.

The Ukrainian case is not unique. The price difference along the Finnish-Russian border is above 4.30€ when purchasing cheap, premium, or most sold cigarettes. A price differential of more than 2.00€ per pack also applies for Romanian smokers that purchase their cigarettes in Moldova, or Polish and Latvian smokers in Belarus. In Serbia, for Romanians, the possible savings on the cost of cigarettes are also significant: between 25% and more than 50% depending on the cigarette category. A Greek smoker can save around 2.20€ by purchasing cigarettes—both the cheapest and premium ones—across the border with Albania or North Macedonia.

Cigarette trafficking has a global component

Two transnational dynamics emerge from the combination of national characteristics and international asymmetries (see Figure 3):

1. The short-distance trafficking of cigarettes on a local/regional scale.

The smuggling of cigarettes between neighbouring countries or within the same macro region.

2. The long-distance trafficking of cigarettes on a global scale.

The smuggling of cigarettes between non-neighbouring countries located in different macro regions.

Different trafficking dynamics imply different organisations, **from very simple schemes to highly sophisticated strategies:**

- on the one hand, there are independent individuals who autonomously smuggle a few cartons of cigarettes from a neighbouring country and resell them to acquaintances and friends;
- on the other hand, there are OCGs whose members have specific skills and responsibilities, and which traffic cigarettes across the globe in shipping containers (see Box 4).⁶

The use of one trafficking method rather than the other depends on:

- **the geographical position** of the countries along the intended route—landlocked or with sea/waterway access;
- **the type of actor(s)** involved in the trafficking—individual smugglers and small flexible criminal networks as opposed to OCGs;
- **the quantity of the illicit goods** that are trafficked—smaller volumes via land routes and larger quantities by sea.⁷

Cigarette trafficking involves both individuals smugglers and large OCGs

Box 4. Large-scale smuggling vs. bootlegging

- The term 'large-scale smuggling' denotes the trafficking of large quantities of cigarettes, usually over long distances.⁸ Large-scale smuggling operations are mainly run by transnational OCGs because of their organisational and financial requirements. For instance, Asian, Eastern European, and Italian mafia-type OCGs are—and have been—involved in large-scale smuggling.⁹
- The term 'bootlegging' denotes the purchase of cigarettes in a low-tax country from legitimate vendors and their smuggling into and sale in a high-tax country. Cigarettes are fully tax compliant in their country of origin, but bootleggers evade all taxes in their destination market. Usually, the volumes are small, and distances travelled by the cigarettes range from short to medium-short. Bootlegging is done by individuals or lightly organised small groups. Bootleggers mostly supply their cigarettes to friends and acquaintances.¹⁰ This smuggling method is also referred to as 'ant smuggling'.¹¹

Figure 3. Illicit flows of cigarettes bound for France: intra-regional vs. extra-regional trafficking (2017)

Legend

Volume - Number of sticks

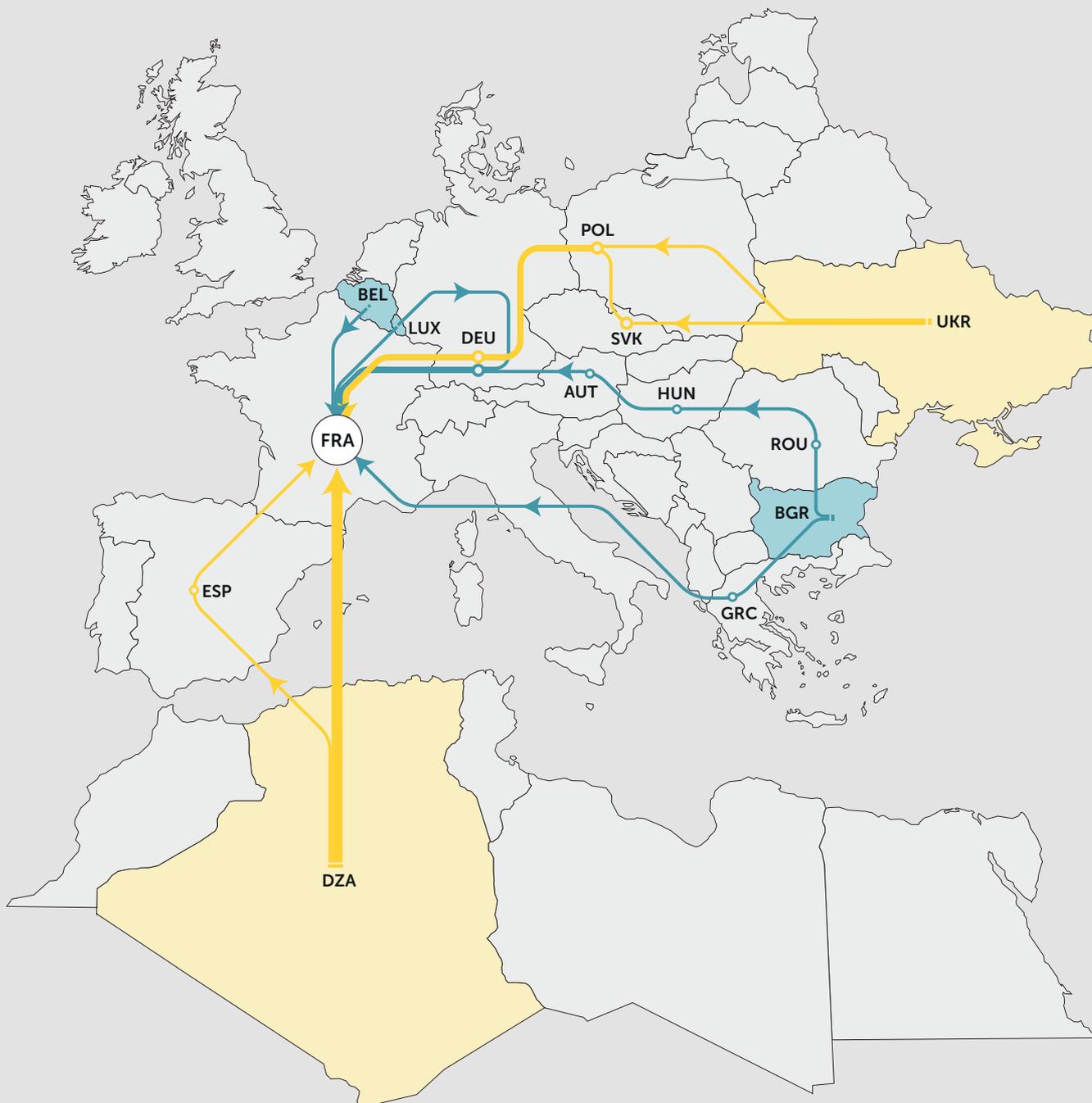
○ Transit and destination country

Graphic reference scale

≤ 0.5 billion
1 billion

Origin of the cigarette flows

— Within EU (intra-regional trafficking)
— From outside of EU (extra-regional trafficking)



Note: The map represents a selection of illicit flows of cigarettes destined to France. The graphic representation of the flows underlines the fact that illicit flows targeting the French market come both from within the EU and from outside the EU. The flows represented should be considered indicative and based on estimates rather than exact values. Such estimates rely upon data related to official cigarette seizures along the trafficking paths and data on the consumption of cigarettes obtained through EPSs. There are numerous secondary flows that are not represented.

There are two principal modes of transport related to these two strategies. The first method involves the **transport of the illicit cigarettes over land and across internal borders**. This is frequently observed between, for example, Albania, North Macedonia and Bulgaria,¹² or the trafficking routes that extend from Baltic states to Germany passing through Poland.¹³

With the second method, the **cigarettes pass through transit seaport(s) in multiple countries** before reaching their final destination. When in transit, the cargo may be loaded onto another ship, or the accompanying documents may be falsified. The shipping of cigarettes across multiple countries poses a challenge for LEAs in their attempts to retrace the actual journey of the illicit cigarettes because **this method facilitates the disguising by criminals of the true nature and origins of the products** (see Box 5).

Besides these principal modes, **traffickers move illicit cigarettes by air transport**. A common strategy is the repeated smuggling of small volumes of illicit cigarettes via air connections—in particular, from outside the EU to EU MSs—which may or may not be followed by a second part of the journey via land routes, once the illicit goods have passed the extra-Schengen customs controls (see Box 6 and Box 7).¹⁴

Cigarette smugglers use also hybrid tactics that combine the above-mentioned modes of transport. Cigarettes may be shipped and arrive at an European port, after which they are transported further by land to reach their final destination in a different country (see Box 8).¹⁵ For example, when cigarettes are

transferred to Western Europe, the tobacco products arrive through ports—e.g., Hamburg or Rotterdam. Upon arrival, the cigarettes are

moved further by land to their final destination, exploiting the Schengen Agreement, i.e. the absence of border controls.

Box 5. Transshipment of North Korean counterfeit cigarettes

North Korea has been implicated in the trafficking of illicit cigarettes. This illegal activity has enabled the country to circumvent United Nations' sanctions and obtain foreign currency. Over the past three years, port authorities in Manila and Malta have confiscated North Korean shipments concealing millions of counterfeited Marlboro cigarettes. Their packaging indicated that the cigarettes were

most likely destined for the Iraqi market. One of the shipments of illicit cigarettes seized in Manila was believed to be headed for the United Arab Emirates' FTZ Jebel Ali, to be subsequently transhipped to Syria. Another shipment discovered in Malta was supposedly bound for Libya because it was addressed to a Libyan businessman who was already implicated in a cigarette counterfeiting case in 2014.¹⁶

Box 6. Vienna airport seizures of illicit cigarettes up by 21.5% in 2017

In 2017, Austrian customs officers seized a total of more than 2.9 million cigarettes from air passengers travelling via Vienna International Airport. This was a 21.5% increase compared to 2016, when 2.4 million cigarettes were confiscated. The Austrian authorities noted that this substantial surge in the smuggling of cigarettes by air passengers has been part of a trend since 2015.¹⁷

A few large interceptions account for the vast majority of the cigarettes seized along air connections. In 2017, 11,200 thousand of the 14,700 cigarette cartons seized had been discovered in only 109 of the 1,543 total seizure cases. In other words, 7% of the seizures account for 76% of all intercepted cigarettes at the airport of Vienna. In certain

cases, passengers were caught concealing more than 150 cartons of cigarettes in their baggage.

The majority of the smuggled cigarettes came from Armenia, Ethiopia, Russia, the United Arab Emirates and Ukraine.

The intended destinations of the smugglers, besides Vienna, were mainly other destinations in the EU, among them Madrid, Barcelona, Lyon, Copenhagen, Brussels and London.

In 70 cases, the Austrian customs office at the Vienna International Airport handed baggage containing illicit cigarettes over to their counterparts in the destination countries—as part of mutual assistance procedures. As a result, approximately 1.5 million cigarettes were additionally seized by the customs authorities of other EU MSs.¹⁸

Box 7. Illicit cigarettes flying to Ireland

Although cigarette smuggling by plane may be perceived as riskier in terms of a higher probability of being detected by LEAs, criminals do not refrain from trafficking cigarettes using air transport. Because Ireland is an island, air travel is frequently used by traffickers to reach this country.

In particular, Dublin Airport is a hub and point of arrival for individuals engaged in the trafficking of illicit cigarettes. In late August 2017 alone, for example, revenue officers seized 28,000 illegal cigarettes from passengers arriving from the United Arab Emirates and Moldova.¹⁹

Both individuals and groups are involved in smuggling by air. Seizure records suggest that OCGs also run trafficking schemes (from distant countries), which involve the smuggling of tobacco products bound for the local Irish black market.²⁰

Box 8. From vessels to ambulances

In 2012, Bulgarian customs authorities uncovered a criminal network active in cigarette trafficking, following a major seizure in Sofia, which resulted in the confiscation of 25 million illicit cigarettes.²¹ Apparently, illicit cigarettes came from the United Arab Emirates by sea and were meant to be distributed

on different European markets, including the Bulgarian black market.

After having shipped illicit products to Greece, smugglers employed a distinctive strategy when trespassing the land borders with Bulgaria to avoid detection by the authorities. Transport activities

were organised using motor vehicles such as fake ambulances, but also hearses, where the cigarettes were hidden in coffins.²² This sole shipment of 25 million illicit cigarettes would have caused Bulgaria a loss of 1.8 million euros in excise duties if the cigarettes had not been seized.²³

2. Origins of illicit cigarettes

Illicit cigarettes account for a large portion of the cigarette consumption in 57 countries located in Europe, North Africa, Middle East and Central Asia. 132 billion illicit cigarettes are consumed annually in these 57 countries—i.e., 10% of their total consumption.

EU citizens consume illicit cigarettes coming from 128 countries, located on 5 different continents

The illicit cigarettes consumed in the EU have various origins, confirming the complexity of transnational cigarette trafficking (see Figure 4). In 2017, **the 39.6 billion illicit cigarettes**—of known origin—**consumed in the EU MSs originated in 128 different countries**. Among these, there are:

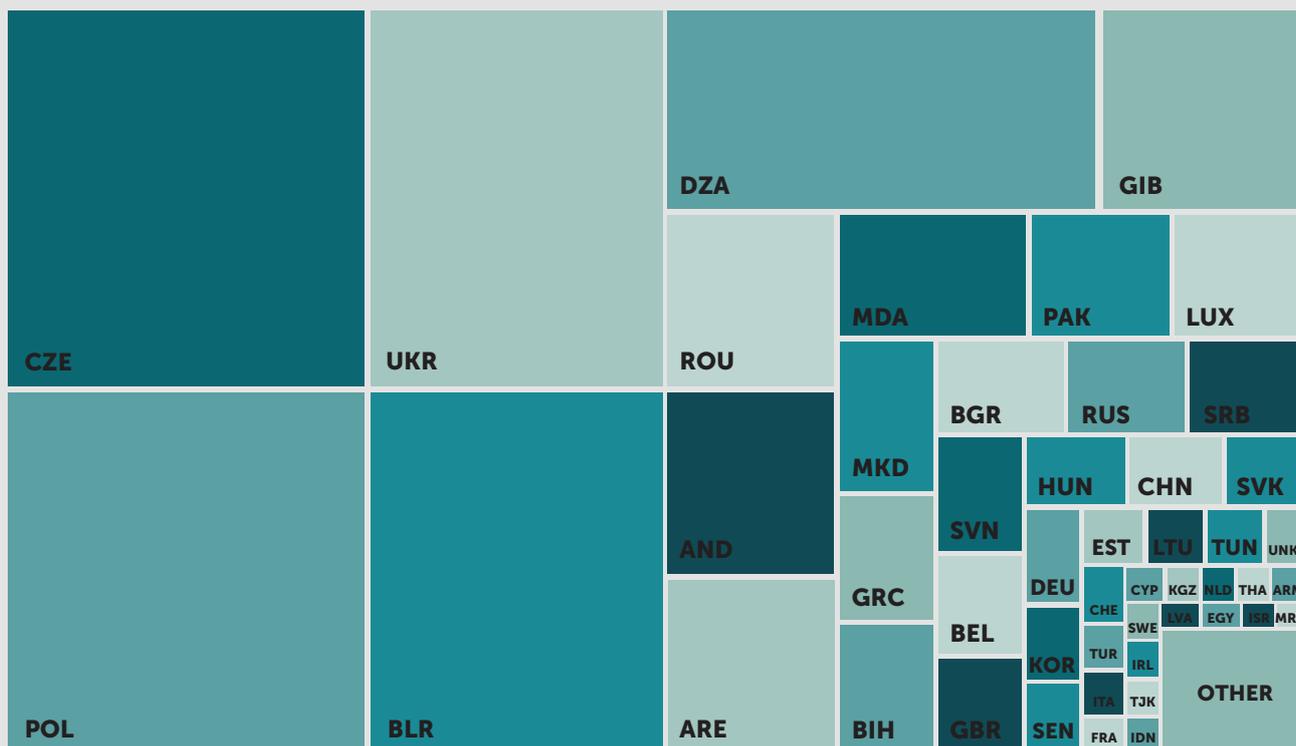
- contraband genuine cigarettes (about 30.5 billion);
- illicit whites (about 9.1 billion) (see Figure 5).

Germany—the largest EU market for illicit cigarettes—registered the illicit consumption of cigarettes coming from 41 different origins, principally Czech Republic and Poland, but also more distant countries such as Belarus, Ukraine, China, Turkey,

and Thailand. The particularly large flows (see Box 9) departing from Czech Republic (about 4.8 billion) and Poland (about 4.0 billion) are mainly explained by the important differentials in the prices of cigarettes in these countries and in Germany.²⁴

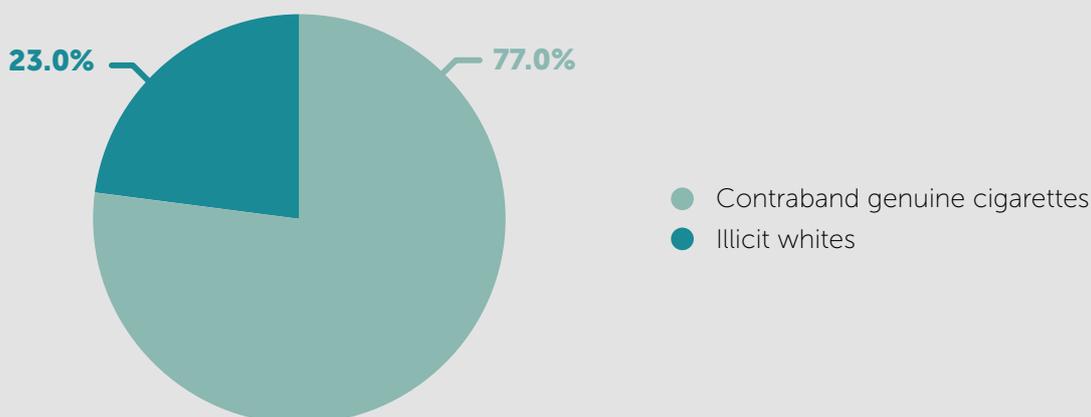
In the United Kingdom, France, or the Netherlands smokers consume illicit cigarettes coming from as many as 65, 74 and 82 countries, respectively.

Figure 4. Partition of the consumption of illicit cigarettes in the EU by country of origin (2017)



Note: The graph represents consumption of illicit cigarettes only. Transnational flows of cigarettes legally purchased and legally introduced into a different country have been separately estimated and they are not represented here (refer to Booklet 7. Methodology for technicalities of the estimates).

Figure 5. Illicit cigarettes of known origin consumed in the EU by cigarette type (2017)



Box 9. What is a flow?

This study defines a 'flow' as the cigarettes trafficked from one country to another. The flow may depart from an origin country A and reach a transit country B, from which cigarettes depart again to move to another country C. Therefore, in this example, cigarettes flowing from country B to country C do not originate in B, but in A. Alternatively, the

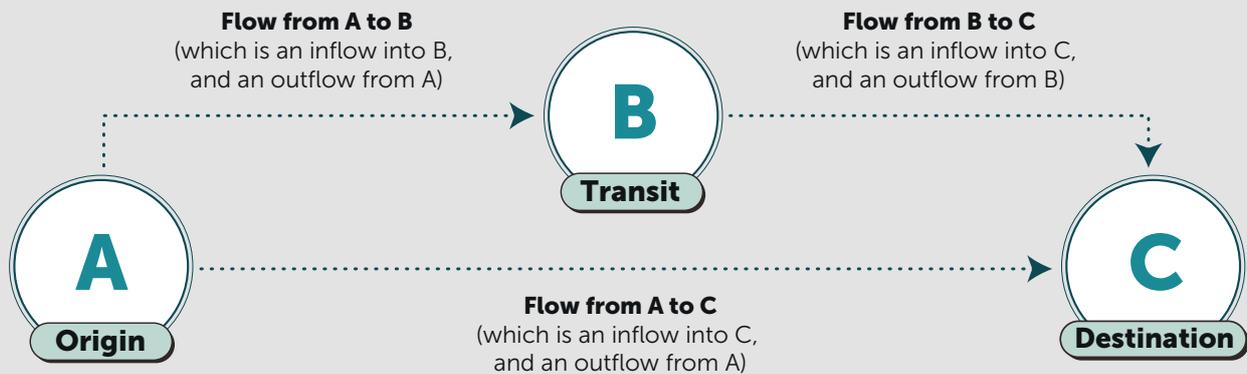
flow may move directly from the country of origin A to a final destination C where the cigarettes are consumed—or seized.

Depending on the perspective assumed, flows may be called 'inflows' and 'outflows'; inflows enter countries, outflows leave countries. For example, cigarettes moving from A to B are an inflow

for the country B and an outflow for the country A (see Figure 6).

The size of a flow can be estimated in terms of the number of cigarettes that are trafficked from country to country. Given their size, the largest flows of cigarettes moving between the countries included in this study are expressed in terms of billions of cigarettes.

Figure 6. Example of three different flows



In addition, 14.7 billion illicit cigarettes of unknown origin were consumed in the EU in 2017. Among these, there are:

- contraband genuine cigarettes of unknown origin (about 5.6 billion), of which:
 - about 80% were unspecified duty-free cigarettes;
- illicit whites (about 6.1 billion)—including domestic whites;
- counterfeits (about 3 billion) (see Figure 7 and Figure 8).

Figure 7. Illicit cigarettes of unknown origin consumed in the EU by cigarette type (2017)

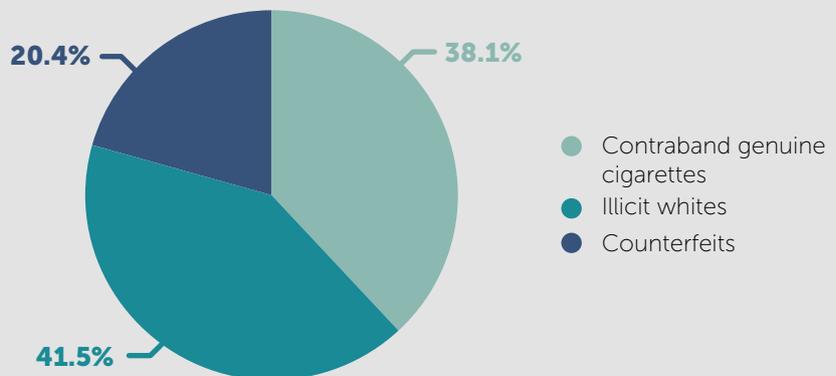
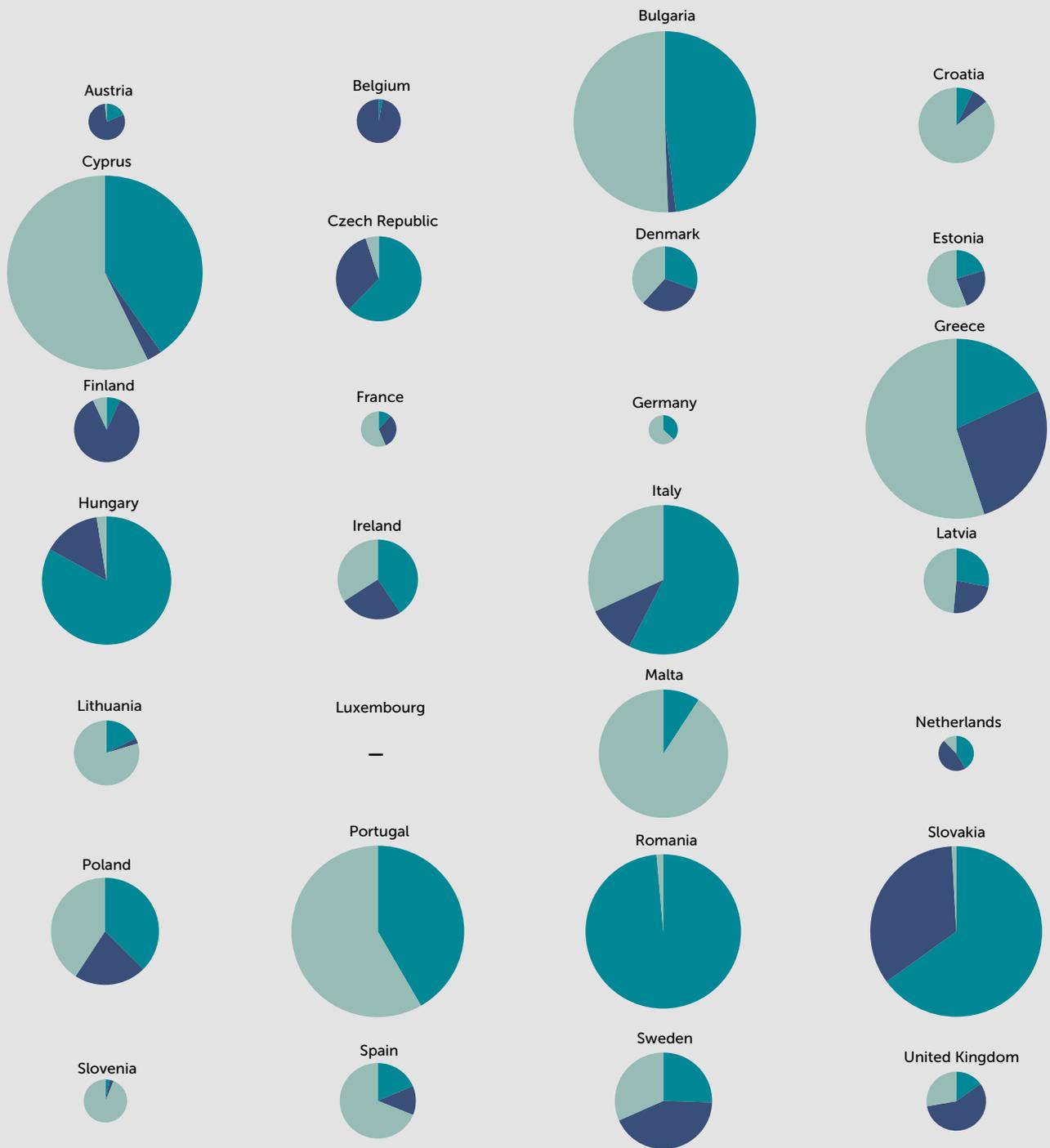


Figure 8. Illicit consumption of cigarettes of unknown origin in the EU MSs by cigarette type (2017)

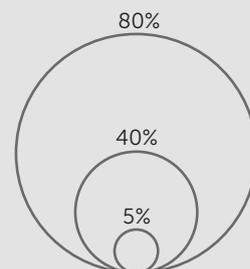


Legend

Type of illicit cigarettes

- Illicit whites
- Counterfeits
- Contraband genuine cigarettes

Size of the pie chart represents the share of illicit cigarettes whose origin is unknown on tot. illicit consumption



The majority of the illicit cigarettes circulating in the EU originate from non-EU countries

With respect to illicit cigarettes of known origin consumed in the EU in 2017:

- 42.8% (about 16.8 billion) came from another EU MS.
- 21.3% (about 8.2 billion) came from a non-EU country sharing a land border with the EU, especially:
 - Ukraine (11.9%), Belarus (11.0%), Moldova (2.4%) to the East;
 - Gibraltar (4.4%) and Andorra (3.2%) to the South-West.
- 36.9% (about 14.6 billion) came from a non-EU country that is not a EU neighbouring country, specifically:
 - Middle East and North Africa (about 5.1 billion illicit cigarettes), mainly originating from Algeria (3.6 billion), followed by the United Arab Emirates (1.2 billion).
 - South Asia (about 0.8 billion); in particular, illicit cigarettes from Pakistan (0.7 billion).
 - East Asia and Pacific (about 0.7 billion); in particular, cigarettes from China (0.3 billion) and South Korea (0.2 billion).
 - Sub-Saharan Africa (about 0.4 billion); the largest contributor here is Senegal (0.2 billion).
 - North America, Latin America and the Caribbean (about 0.1 billion).

Overall, a large share of the cigarettes circulating in the EU originate from non-EU countries where cigarette prices are low, law enforcement controls are weak, and the regulation is lax. Ukraine, Belarus, Algeria are the main extra-EU countries of origin of illicit cigarettes consumed in the EU. They accounted for 33.2% of the EU illicit consumption in 2017 (see Figure 9).

In Romania, Greece, Lithuania, Latvia and Poland, cigarettes smuggled from other EU countries account for less than 1% of the illicit market

Differences exist among the EU MSs in terms of the origins of illicit cigarettes. In Latvia, Lithuania, Romania, Greece and Poland almost no illicit cigarettes produced in other EU countries are recorded. Lithuania, Latvia, Poland and Romania lie on the eastern and north-eastern EU border; in these countries, illicit cigarettes mostly come from bordering countries—i.e., Belarus, Ukraine, Russia. In Greece, the black market mainly consists of illicit cigarettes coming from the United Arab Emirates, North Macedonia, and Belarus.

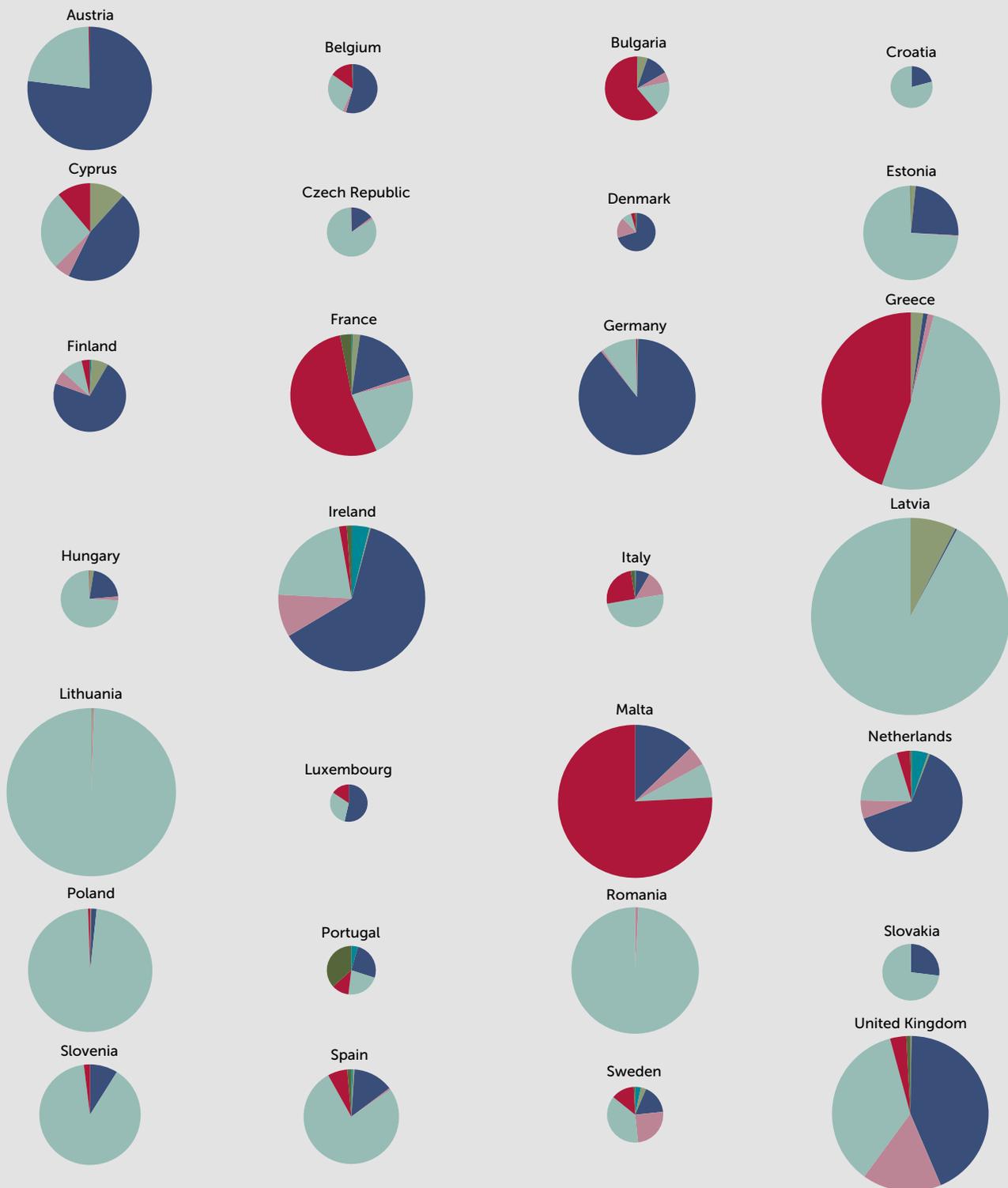
France and Malta register a high number of illicit cigarettes coming from the Middle East and North Africa—i.e., about 50% of the French black market and about 39% of the Maltese one.

Differently from the majority of the EU MSs, in some EU countries the illicit consumption is mostly made up of cigarettes originating from within the EU. This is the case of Germany (87% of the illicit consumption), Austria (71%), the Netherlands (59%), Finland (57%), Denmark (55%), Luxembourg (54%), Belgium (48%), and Ireland (45%).

The consumption of cigarettes coming from different regions also characterises the illicit markets of countries outside the EU, both in Europe and in other regions (see Figure 10).

Outside the EU, the consumption of cigarettes originating in the EU concentrates in few countries and it is majoritarian only in Norway (82.1% of the illicit cigarettes of known origin). Non-EU MSs in the Balkan Peninsula—i.e., Albania (90.8% of illicit cigarettes of known origin), Bosnia and Herzegovina (46.2%), Montenegro (63.8%), Kosovo (18.5%), North Macedonia (10.8%), Serbia (3.6%)—also register the consumption of illicit cigarettes originating from EU MSs—mostly from Bulgaria. However, in these countries of the Balkan Peninsula illicit cigarettes come mostly from other non-EU Balkan countries or from unknown origins.

Figure 9. Illicit consumption of cigarettes in the EU MSs by region of origin of the cigarettes (2017)



Legend

Origin of illicit cigarettes

- Americas
- Central Asia
- East Asia, South Asia and Pacific
- Europe extra EU
- EU
- Middle East and North Africa
- Sub-Saharan Africa
- Unknown

Size of the pie chart represents the share of illicit consumption on tot. cigarette consumption

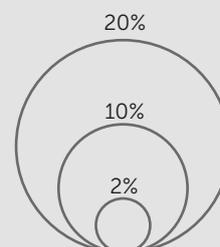
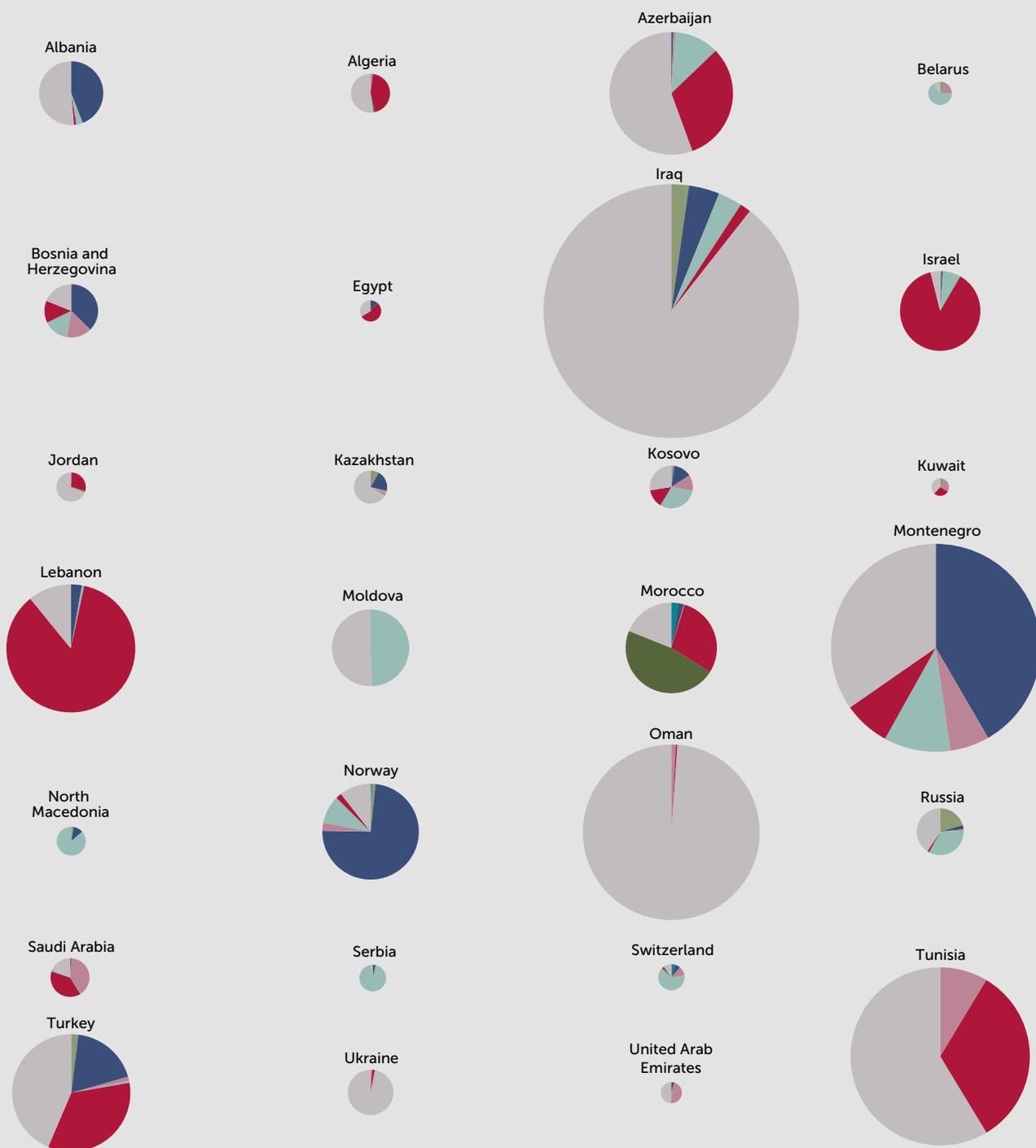


Figure 10. Illicit consumption of cigarettes in non-EU countries by region of origin of the cigarettes (2017)

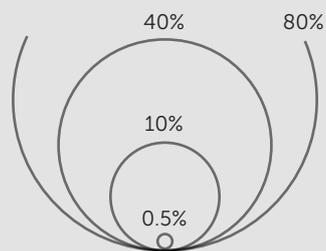


Legend

Origin of illicit cigarettes

- Americas
- Central Asia
- East Asia, South Asia and Pacific
- Europe extra EU
- EU
- Middle East and North Africa
- Sub-Saharan Africa
- Unknown

Size of the pie chart represents the share of illicit consumption on tot. cigarette consumption



3. Local and global flows of illicit cigarettes

Illicit cigarettes flow from country to country along multiple paths

The global dimension of the traffic emerges clearly when focusing on the paths along which traffickers move illicit cigarettes. Trafficking connections vary widely, and every country is part of a multitude of paths along which illicit cigarettes move across the world (see Box 10). Almost 900 different connections link the 150 countries involved in the trafficking of cigarettes targeting Europe, North Africa, Middle East and Central Asia.

While key origin countries (e.g., United Arab Emirates, about 9.0 billion illicit cigarettes leaving the country, Belarus 8.9 billion, Bulgaria 5.7 billion) are relatively few, **almost all countries act as origins and/or transits for their neighbouring countries**. In this regard, illicit cigarettes may transit along the same path, flowing between the same couple of countries in both directions (see Box 11).

Box 10. What is a path?

This study defines a 'path' as the ordered sequence of countries through which illicit cigarettes transit while going from their country of origin to their final destination, including both the countries of origin and destination.

For example, when moving cigarettes from country A to country B, criminals may pass through countries C and D or through countries E and F. Therefore, the cigarettes can move from A to B using two alternative

paths: A-C-D-B and A-E-F-B (see Figure 11).

Each of the 57 countries considered is involved in 52 different paths, on average (see Figure 12).

Figure 11. Two schematic paths from an origin country A to a destination country B

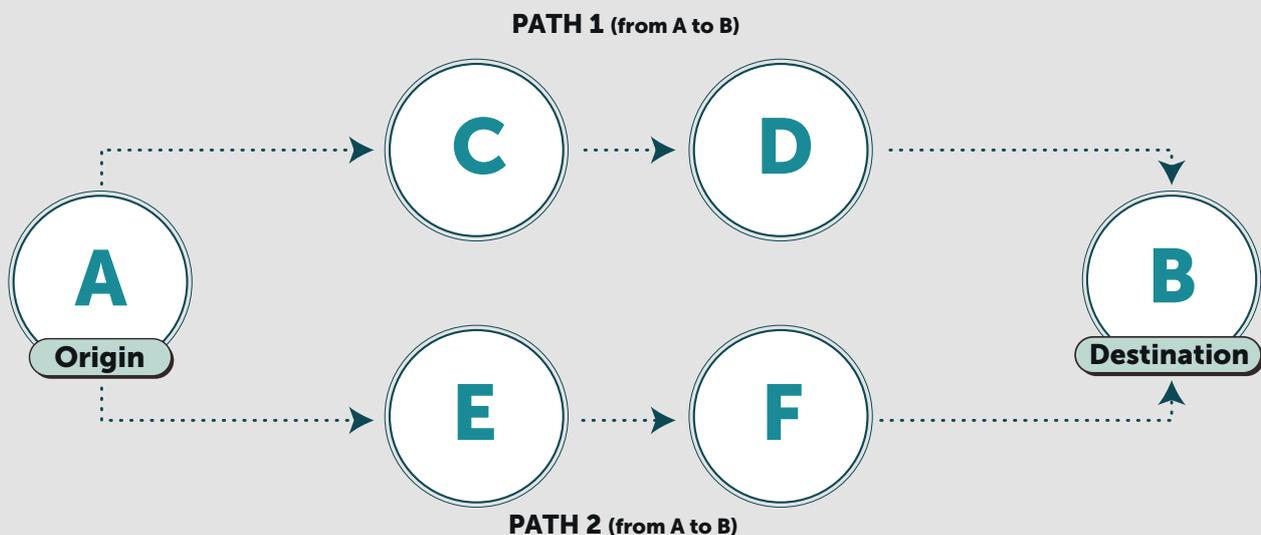


Figure 12. All links of cigarette trafficking in Europe, Central Asia, North Africa and the Middle East (2017)



Note: The map represents all links between pairs of countries forming the paths along which cigarettes move in the transnational trafficking of cigarettes. Larger lines between pairs of countries indicate larger flows of illicit cigarettes between those countries.

Box 11. Customs transit procedures

Customs transit procedures regulate the movement of goods either within a single customs territory, made up of multiple fiscal zones like the EU, or between different custom territories, which potentially extends these procedures over multiple fiscal zones. Customs transit procedures allow for customs taxation formalities to be carried out when a good arrives at its final destination, rather than at a transit point. This means that while a good is in transit the levying of duties and taxes is temporarily suspended.²⁵

The Union Customs Code regulates the movement of goods between EU MSs. The Convention on Common Transit also includes Iceland, Norway, Liechtenstein, Switzerland, Turkey, North Macedonia, and Serbia.²⁶

According to OLAF, criminals have found multiple ways to exploit weaknesses in transit procedures and at certain EU ports with weaker controls. Among them; undervaluing goods, hacking transit systems, bribing customs officials, and unlawfully unloading sealed

shipments of goods during the transition stage.²⁷

Additional controls and stronger enforcement could reduce these weaknesses. Additional controls and enforcement measures, such as the use of GPS seals, limiting the number of days allowed for transit, and weighing goods on both entry and exit of a customs territory, could reduce these weaknesses.

Illicit cigarettes flowing from a specific origin to a specific destination may follow numerous different paths.

Illicit cigarettes are estimated to flow from the United Arab Emirates to Algeria along as many as 98 different paths. Similarly, cigarettes manufactured in Ukraine may reach Ireland—one of their 30 final destinations—following 72 alternative paths.

These paths range from simple journeys to complex ones (see Figure 13). A cargo shipment that goes directly from the port of Istanbul in Turkey to the port of Athens in Greece is an example of a simple journey. At the other extreme, paths can involve more than 20 countries; this is the case when cigarettes consumed in Europe originate from South America or Eastern Asia.

On average, European, Central Asian, North African and Middle Eastern countries are connected to more than

10 countries—considering inflows and outflows—in the transnational trafficking of cigarettes.

Not all trafficking connections are equally important. The flows between two specific countries may be large because one or both of the involved countries have a key role as:

- origin of illicit cigarettes—e.g., due to the presence of large manufacturers of illicit whites;
- transit—e.g., due to the presence of poorly regulated FTZs (see Box 12);
- destination—e.g., due to large consumer markets with relatively unaffordable cigarettes.

Illustrative of this is the fact that, in 2017, both Germany and Turkey were recipients of two of the four largest illicit flows of cigarettes that intersected the area analysed (see Figure 14):

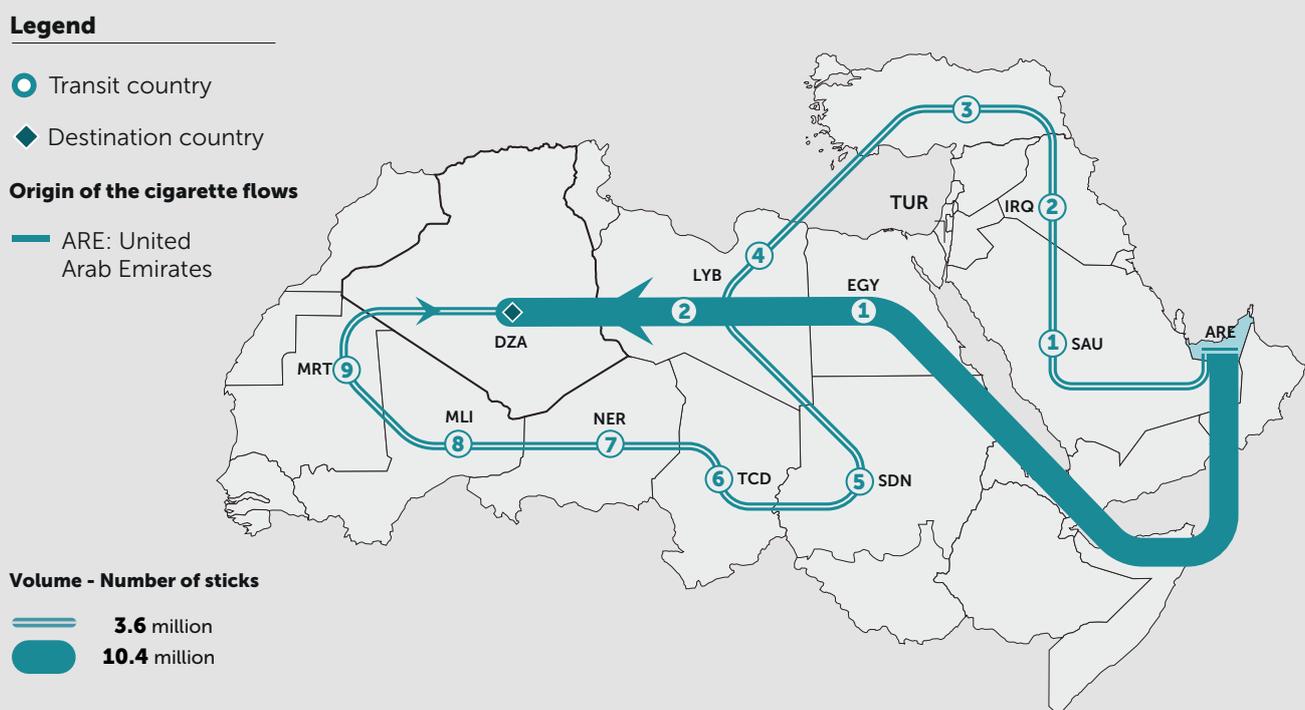
- 7.2 billion from Poland to Germany;

- 6.4 billion from Czech Republic to Germany;
- 5.3 billion from Bulgaria to Turkey;
- 4.4 billion from Iran to Turkey.

Germany and Turkey have a high consumption of illicit cigarettes and are also transits—Germany toward Western Europe, Turkey toward the Balkan Peninsula and the trafficking connections crossing the Mediterranean Sea.

Poland, Czech Republic, Bulgaria and Iran are, in turn, origins of illicit cigarettes but also transit countries for cigarettes of other origins. This is often the case of the largest flows; cigarettes flowing from one country to another are predominantly produced in the country from which they flow out, but not exclusively. For instance, Algeria is an important transit country for cigarettes originating in the United Arab Emirates and flowing into Algeria mainly from Libya.

Figure 13. Two alternative paths followed by illicit cigarettes smuggled from the United Arab Emirates to Algeria (2017)



Note: The visualization compares a shorter and a longer path. In the shorter path, illicit cigarettes flow from the port of Jebel Ali in the United Arab Emirates to Egypt and from there to Algeria traversing Libya. Along the longer path, the same cigarettes produced in the United Arab Emirates reach Algeria traversing more than 9 countries. Estimates refer to 2017.

Figure 14. Top 30 illicit flows of cigarettes by size (2017)



Legend

0.0 Billion of illicit cigarettes flowing from country A to country B

A-B

Note: The graph represents the main pairs of countries connected by the largest flows of illicit cigarettes in terms of number of cigarettes flowing along the connection. Flows sum all cigarettes moving along the connection regardless of their origin.

Box 12. The role of FTZs in cigarette trafficking

What are FTZs?

FTZs or commercial free zones are special areas created by governments to boost their economy and ease participation in global trade.²⁸ FTZs are ideally located at sea ports, or have easy access to internal waterways, or at airports, making them convenient transit points.²⁹ Within FTZs, goods are often exempt from any import and export duties and VAT. In some cases—e.g., in the United Arab Emirates' Jebel Ali FTZ—also no customs duties are levied on any machinery and raw materials.³⁰ The companies operating in FTZs may also be subject to less stringent labour, production and financial laws.

Vulnerabilities of FTZs

The exemptions from the common regulations cause FTZs to be subject to certain vulnerabilities:

- scarcity of data about the commercial and trade activities taking place in the FTZs;

- the inability of the authorities to perform checks or lack of clear procedures to perform checks;
- weak cooperation between local and foreign customs authorities on goods entering and leaving the FTZs.³¹

How criminals exploit FTZs' weaknesses?

The specificities and deregulations make the FTZs vulnerable to exploitation by criminal actors.³² Criminal networks misuse the FTZs for, among other things, the smuggling of illicit tobacco products.³³

Operating within FTZs enables OCGs to:

- conceal the illicit cigarettes among other goods;
- disguise the real country of origin and/or the final destination by relabelling cigarette packs;
- not declare the illicit cigarettes for transshipment.³⁴

These *modi operandi* became apparent when the World Customs Organization carried out a global operation against cigarette trafficking, which was dubbed 'Operation Gryphon'. The operation revealed that at the FTZs, smugglers typically transfer the illicit cigarettes into different containers and purposely declare them wrongly or hide them among a diverse range of goods, such as textiles, wood, fertilizers or food. In this way, the cigarettes continue their journey as a seemingly low-value shipment.³⁵

Actors involved in the trafficking of cigarettes possibly use FTZs, besides storage, as manufacturing sites for illicit whites, contraband or counterfeit cigarettes.³⁶ Illicit whites brands are often legally manufactured in the FTZs but illegally exported to their final markets. For instance, Richman cigarettes are produced in the Jebel Ali FTZ in order to be sold on the EU's black market. This brand of illicit whites has been frequently intercepted by customs in various European countries.³⁷

4. Routes of cigarette trafficking

The analysis of the flows shows that illicit cigarettes do not move randomly across countries. Many paths move across the same countries and **the main flows tend to align along identifiable routes**.

Three main routes emerge when focusing on cigarette flows entering the EU (see Figure 15):

1. The North-Eastern Route.

Along the North-Eastern Route, cigarettes produced in extra-EU Eastern Europe flow to Central and Western Europe.

2. The Extended Balkan Route.

The Extended Balkan Route connects the Middle East with countries in South and Central Europe—e.g., Italy, Austria—passing through Turkey, Greece, and the other Balkan countries.

3. The Maghreb Route.

The Maghreb Route traverses Libya, Tunisia, Algeria, Morocco. Along this Route, cigarettes coming from the Arabian peninsula, Sub-Saharan Africa, and the Maghreb countries, flow into Europe.

All three routes have a historical relevance for both licit and illicit trades; still today, cigarettes are not the only illicit goods flowing along them. For instance:

- the countries of origin of illicit cigarettes of the North-Eastern Route export also illicit firearms;
- along the Extended Balkan Route, multiple types of trafficking occur—in particular of heroin, but also human beings;
- operating along the Maghreb Route are drug—in particular hashish—traffickers but also human traffickers and firearm traffickers.

Countries along each of these routes connect primarily with each other in the cigarette trafficking. For instance, almost the entirety (97.9%) of the 8.8 billion illicit cigarettes leaving Belarus reach other countries of the North-Eastern Route:

- 49.8% of the outflows target Eastern EU MSs—in particular, Latvia, Lithuania, Poland;
- 48.1% of the outflows target other extra EU countries—in particular, Russia, Ukraine, Moldova.

Equally, 11.8 billion illicit cigarettes outflowing from Bulgaria reach other countries of the Extended Balkan Route, of which Bulgaria is a main hub. Flows of illicit cigarettes from Bulgaria to any other country amount to 0.8 million.

At the same time, **paths within different routes interconnect and overlap**. For instance, Romania is an intersection of both the North-Eastern Route and the Extended Balkan Route because it imports and exports illicit cigarettes flowing along the two routes. 4.2 billion cigarettes outflowing from Romania move along the Extended Balkan Route; outflows amounting to about 1.3 billion move along the North-Eastern Route. Other flows (0.1 billion) move by sea to directly reach other countries within the EU like Cyprus or the United Kingdom.

Similarly, illicit cigarettes originating from the Arabian peninsula transit through Greece to reach both North African countries—Maghreb Route—and the Balkans—Extended Balkan Route.

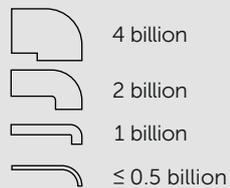
The routes of cigarette trafficking are traversed also by other illicit flows

Figure 15. Three main routes of cigarette trafficking entering Europe (2017)

Legend

Volume - Number of sticks

Graphic reference scale

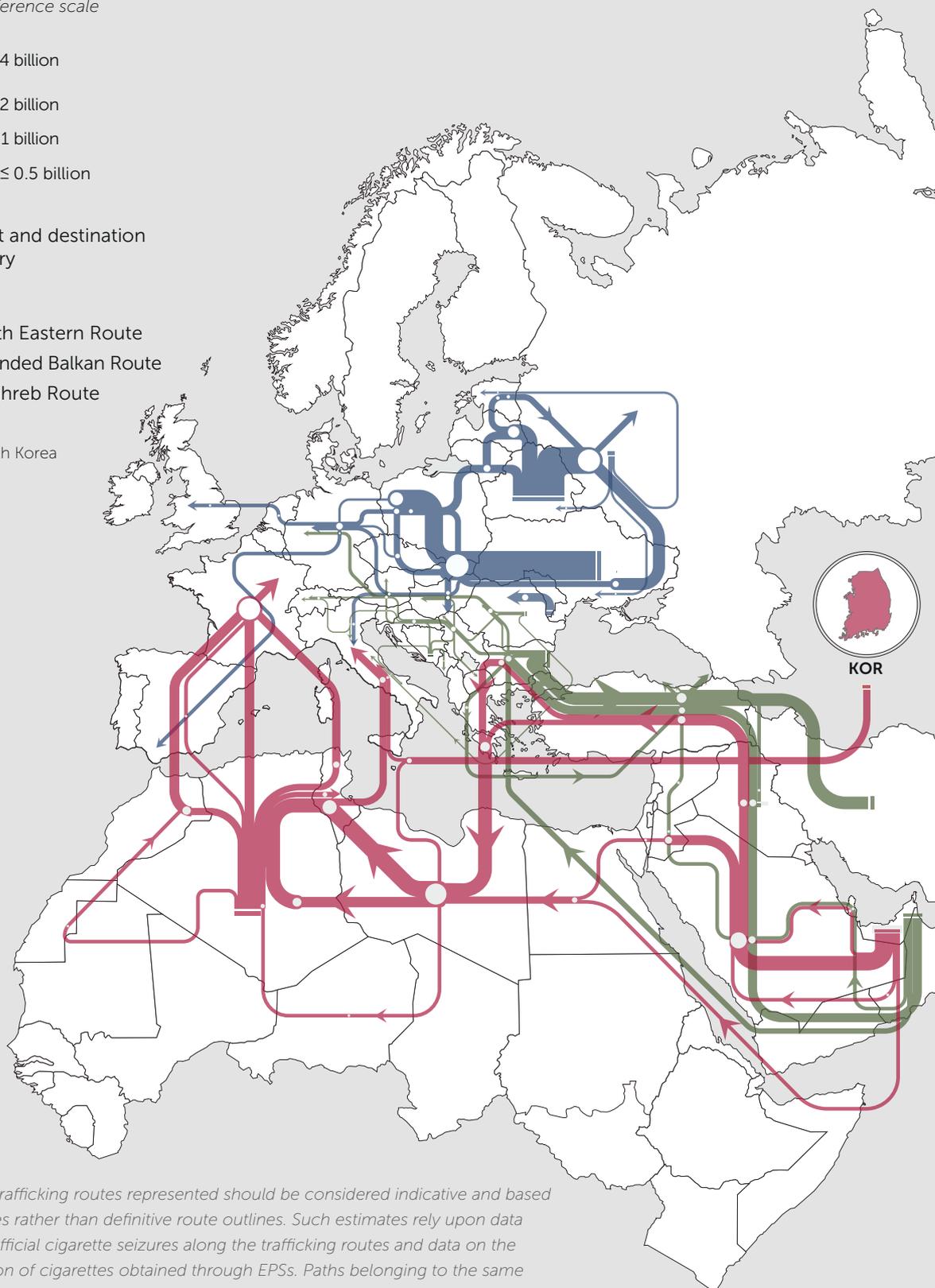


○ Transit and destination country

Routes

- North Eastern Route
- Extended Balkan Route
- Maghreb Route

KOR: South Korea



Note: The trafficking routes represented should be considered indicative and based on estimates rather than definitive route outlines. Such estimates rely upon data related to official cigarette seizures along the trafficking routes and data on the consumption of cigarettes obtained through EPSs. Paths belonging to the same route may deviate to other countries along the routes and there are numerous secondary flows that are not represented. Arrowheads on paths' extremes indicate that further smaller flows might leave the country.

Glossary

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

Bootlegging: the legal purchase of tobacco products in a low-tax country and their illegal retail in a high-tax country. Bootlegging concerns individuals or small groups who smuggle small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.³⁸

Contraband or smuggling: the unlawful movement or transportation of cigarettes from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.³⁹

Counterfeits: cigarettes illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled into another country, both without paying taxes.⁴⁰

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

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

Domestic whites: domestic cigarettes that are priced below the minimum tax yield. These cigarettes are treated as having not been legally sold in the country in question.⁴¹

Duty-free cigarettes: cigarettes bought without payment of customs or excise duties. Consumers may buy duty free cigarettes when travelling into or out of the EU (including Switzerland and Norway) by land, air or sea at legal duty free shops.⁴²

Empty pack survey (EPS): survey collecting and analysing empty cigarette packs to estimate the share of domestic, non-domestic and counterfeit packs in each country.

Flow: the movement of cigarettes between two countries.

Illicit whites: cigarettes manufactured legally in a country but intended for smuggling into other countries where they usually have limited or no legal market. While their exportation may occur legally—or may not—and taxes in manufacturing countries are usually paid, their import into and sale in destination countries is always illegal and takes place without the payment of applicable taxes.⁴³

Inflow: the inward flow of cigarettes.

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

Non-domestic cigarettes: cigarettes that originate from a market different from the one in which they are consumed. They may be legal if brought into the market legally by consumers, for instance during a cross-border trip, or illegal if brought into the market illegally.⁴⁴

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

Outflow: the outward flow of cigarettes.

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

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

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

Unspecified: cigarette packs which do not bear specific market labelling.⁴⁵

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