The explosion of „illicit whites“

Illicit whites are cigarettes usually produced legally in one country, specifically for smuggling. They may be exported legally from some countries. In less than a decade, across the world, large scale smuggling of so-called "illicit whites" has increased exponentially.

Illicit trade in tobacco products is a booming business immune to recession. On the contrary, recession is one of the main drivers together with inappropriately high taxation. And within the illicit trade, "illicit whites" appear to be the fastest growing sector. Typically, "illicit whites" are manufactured specifically for export and may be sold legally to a first purchaser in the country of manufacture. First or subsequent customers then smuggle them across international borders for sale through legal and informal distribution chains without payment of tax. They do not infringe the trademark rights of other manufacturers, although some "illicit white" brands successfully replicate the packaging of the more popular international brands. The product can be of reasonable quality compared to counterfeit cigarettes.

Photo: Courtesy of ITIC

Elizabeth Allen

"Illicit Whites" in the EU

Since 2006, there has been an explosion of "illicit whites." Recent data from the KPMG STAR report demonstrates that "illicit whites" now account for nearly 25% of all contraband and counterfeit found in the EU. In 2006, that level was less than 2%, demonstrating a significant increase over the past seven years. The trade in "illicit whites" can expand very quickly. While there has been a recent decline in the more established "illicit white" brands, new illicit brands have been filling that gap, as illustrated by the recent increase in "illicit whites" coming from Belarus. In 2009, "illicit whites" from Belarus were only found in significant quantities in four EU countries. By 2012, this had expanded to 11, with an increase of well over 50% in some countries. Once these illegal brands gain traction in markets, it takes a concerted effort by law enforcement authorities and governments to bring the levels down again.

"Illicit whites" are made by smaller low-profile businesses and sold through criminal syndicates. As with other forms of illicit trade in tobacco products, there have been a number of cases reported by law enforcement agencies relating to the illicit trafficking of these cigarettes by, or on behalf of, terrorist groups. For the criminal, "illicit whites" provide excellent profits and have the advantage of not attracting the attention of a trademark owner.

They are much cheaper in the illicit mar- ▸

Case Study: Paraguay – Source Country for Smuggling and "Illicit Whites" in South America

Smuggled cigarettes and "illicit whites" produced in Paraguay have been found across Latin America. The illicit traffic involves major criminal organizations and local tax evasion. The magnitude of the problem is illustrated by an industry estimate that 44% of licensed retail outlets in Brazil stock illicit brands from Paraguay.

Paraguay produces an estimated 65 billion cigarettes per year, although domestic consumption is estimated at only 2.5 billion sticks per annum or less than 3% of domestic production. There are approximately 30 manufacturing sites, of which 12 are currently active, with an estimated capacity of 100 billion cigarettes.

The Paraguayan north-eastern frontier is 650 km long with more than 1,000 km of river banks and lake shores in the Ciudad Del Este/Itapúa 'Tri Border' area. Organized crime groups have been identified as involved in the illicit trade in cigarettes. "Illicit whites" and counterfeits are transited through Bolivia by road into Chile and Peru then transported by sea to other countries in South America, Panama and the Caribbean or along the Rio Parana and smuggled into Argentina and Brazil.

The Paraguayan Government has been improving the regulation of internal cigarette production, introducing an electronic industrial registration and licensees for tobacco companies and developing a digital verification system and electronic invoices with support from the International Monetary Fund (IMF). Recently, there has been some success in enforcement as a result of cooperation both with the industry and cross-border authorities, although this has not caused a marked reduction of contraband being smuggled to surrounding markets such as Brazil.

In addition, the Bolivian Customs Authority has restructured its resources to improve the effectiveness of interventions in stemming the flow of smuggled and counterfeit products from Paraguay transiting Bolivia to Chile and Peru.

ket than legal products and their branding gives them the appearance of being a legal product. Sales of these goods (without tax or duty payment) have rocketed throughout the world.

To recap, the first edition of the brochure "The Illicit Trade in Tobacco Products and How to Tackle It" was launched in April 2011 at a meeting of the WCO (World Customs Organisation) in Brussels and proved to be one of the most successful publications by the International Tax and Investment Center (ITIC) which serves as a clearinghouse for information on best practices in taxation and investment policy. The updated version was first presented at the International Conference to Combat Illicit Trade in Tobacco Products in Singapore on 25 September by lead author Elizabeth Allen. The conference was supported by a wide range of expert speakers including the WCO and Interpol, serving and former senior revenue officials from national Customs and Revenue Departments, Professor Ernesto Savona (a renowned criminologist), BASCAP, private sector experts and the industry.

The 75 delegates included many senior customs and revenue officials from 20 countries. All were keen to find out more about the latest research and trends in the illicit trade in tobacco products and to find ways of improving the effectiveness of their own organisations in reducing it.

A download is available from the ITIC's website at http://www.iticnet.org/publications/studies-and-reports.

The brochure is a fascinating and highly informative document and TJI will be publishing highlights of the various sections over the next issues.

William McEwen

Case Study: Poland's Fine-Cut Tobacco

There have been annual excise increases on all tobacco products in recent years in Poland, driven mainly by the need to meet EU excise tax requirements. In particular, these impacted on smoking tobacco and the alignment of pipe and fine-cut tobacco taxation, the non-duty paid share of the smoking tobacco market increased to 50 per cent in 2012. While the duty-paid volume decreased from 5.272 tons in 2009 to 4.081 tons in 2010 and to 3.546 tons in 2011 (source: DG TAXUD EU Excise Tables), the sales of cigarette paper and tubes grew continuously over the same period. From the non-duty paid half of the smoking tobacco market, some 60% were counterfeit and some of the counterfeit used well-known cigarette brand names for fine-cut tobacco. The remaining 40 per cent of non-duty paid smoking tobacco were sold as "unmanufactured tobacco leaves" not being subject to any excise duty. The leaves have been sold in specialised premises or convenience shops. The consumers use noodle or tea cutting machines, or simply document shredders to manufacture their own smoking tobacco. Due to the increasing size of the problem, the Polish Government included "dried tobacco" into excisable tobacco products. Unfortunately, due to misconceived definition, "dried tobacco is dry tobacco," the trade wets the tobacco leaves before sale and offers simple equipment to its customers to re-dry it again. Similar problems with illicit fine-cut tobacco or tobacco leaves have arisen in a large number of countries where tobacco products are not affordable for many consumers (Greece, Hungary, Australia, Slovakia, Turkey and many others).

Case Study: Cross Border Tobacco Smuggling into South Africa

South Africa is a prime destination for smuggling tobacco products from neighbouring and other countries. A significant source of illicit whites is Zimbabwe, where there are six factories manufacturing more than 20 brands of cigarettes. The majority of these factories are situated in an export zone with concessions given to improve foreign currency flows and a minimum of 80% of finished goods must be exported. There are no controls over the movement of the finished product or the influx of foreign currency. The situation is compounded by a lack of political commitment to address the illicit trade issue effectively in the country. Industry estimates that annually, more than 4 billion cigarettes are manufactured in Zimbabwe for export destined for Zambia, South Africa, Mozambique, Malawi and the Democratic Republic of Congo. The majority of this product enters South Africa. A portion of this was imported, historically, under warehousing for export or sale for local consumption. With the implementation of the South African Revenue Service (SARS) Customs Modernization Program, a marked change in the use of the above import purpose codes has been seen, with quantities declared for warehousing and domestic consumption reducing from 600 million cigarettes in 2011, to 250 million in 2012. Likewise, on the usage of the warehousing for export code, the quantity decreased from 600 million to 150 million cigarettes. This indicates a change in methodology from administrative exploitation to outright smuggling through concealed consignments and mule trafficking across the various borders between Zimbabwe and South Africa, as well as Zimbabwe via other neighbouring countries. Corruption at borders is high, where up to USD 50,000 per container can be offered to officials to let concealed cargo through. Effective enforcement actions within Zimbabwe are rare.

To combat this, there is close cooperation between the Tobacco Industry of Southern Africa (TISA) and the authorities. Monthly review meetings are held with the South African Revenue Services Strategic Stakeholder Forum, with an appointed "cigarette champion" with South African Police Service (SAPS) directorate of priority crimes, presentations to and workshops with the South African Customs Union members the National Treasury and various other national and provincial key stakeholders. Furthermore, cross-border forums have been established between countries neighbouring Zimbabwe – Mozambique, Swaziland, Botswana, Angola, Namibia and Zambia – and a memoranda of understanding was signed with all the Southern African Customs Union (SACU) countries.