



..... [Customs and Tobacco Report 2008



WORLD CUSTOMS ORGANIZATION



FOREWORD

It is my great pleasure to present the Eighth WCO Customs and Tobacco Report. This Report provides an overview of the results of the daily efforts of Customs administrations worldwide counteracting the illicit trade in tobacco products.

In the Report, the significant seizures of cigarettes made by Customs services in the period from January to December 2008 are analysed and compared with the previous year. The Report also includes an overview of the successful activities against the illicit trade in other tobacco products and against the illegal manufacturing of cigarettes.

The analysis is based on the information on seizures provided by Members to the database created and maintained by the WCO Secretariat within the Customs Enforcement Network (CEN).

The WCO's analyst has also been supported by the national and regional overviews made available by numerous Customs administrations worldwide and by the Organization's Regional Intelligence Liaison Offices (RILOs).

As in previous years, the aim of the present document is to produce a detailed situation report and analysis reviewing the illicit activities related to tobacco products on a global basis, with a view to supporting risk analysis and thus assisting in anti-smuggling efforts of Customs services worldwide.

The more data is provided in a timely manner, the more effectively the WCO Secretariat is able to identify trends and emerging *modi operandi*. This is important given that Customs services worldwide are facing challenges from both large-scale and "ant" smuggling. In this respect, the various features of the same phenomenon require different approaches at domestic level, though the use of X-ray scanners remains an effective means for detecting both large and small shipments.

This Report also demonstrates that international co-operation is a key factor to success, as evidenced by the results of "Project Crocodile", which provides an effective platform for co-operation among Members to combat the illicit cigarette trade. As outlined in the Report, success depends prima-

rily on Members' effective use of the notification mechanism, which is based on the timely transmission of information on suspicious cigarette shipments to other Members, keeping track of their movements through close monitoring. This monitoring mechanism has become a routine operation within the Asia/ Pacific region and the possibility to expand this initiative to a global level is now under examination.

Clearly, the exchange of information amongst Members has to be facilitated to the largest extent possible and the development of the nCEN system goes in this direction, as does the maintenance and further development of the WCO RILO programme.

The RILO network remains an integral component of the collective efforts to combat all kind of illicit traffic, to prevent commercial fraud and to contribute to ensuring the security of international borders.

The illicit trade in tobacco products includes both genuine and counterfeit cigarettes. The market for counterfeit cigarettes

entails their illegal manufacturing. The discovery of illegal cigarette factories remains extremely difficult, as is shown by the situation report on the joint project against illicit productions involving the WCO, Interpol, Europol and the European Commission Anti-Fraud Office (OLAF).

It is also recognized that illicit trade in tobacco products causes more than just huge revenue losses for governments. The health-related aspects of smoking are an issue of particular relevance for the World Health Organization, which has developed the Framework Convention on Tobacco Control (FCTC). Given that illicit trade in tobacco products makes cigarette cheaper, more accessible and more difficult to regulate, Article 15 of the Convention foresees a comprehensive set of measures - at both domestic and international levels - to combat illicit trade. A Protocol is currently under examination by an intergovernmental negotiating body.

The WCO participates in the meetings as an observer and, in the spirit of its mandate, co-operates with the Convention Secretariat

as extensively as possible. It also encourages all Member administrations, especially those among the Parties to the FCTC, to examine the Protocol and to participate in its further development.

A specific international agreement on illicit trade in tobacco products may provide an opportunity for Customs services to strengthen their statutory powers in the fight against this criminal activity.

As the demands increase on Customs administrations to perform their duties with minimum interruption to the international flow of legitimate trade while securing the borders, so too does the requirement to use appropriate methods to select those consignments that merit particular Customs scrutiny.

As far as the exploitation of Free Zones by criminals is concerned, Customs is encouraged to take appropriate action within its competences comparing current enforcement practices with the best practices identified by the WCO in the context of the Commercial Fraud Working Group.

Finally, I would like to express my sincere appreciation to all those who have contributed to the compilation of this Report.



Kunio Mikuriya
Secretary General
World Customs Organization

EXECUTIVE SUMMARY



» The WCO Secretariat draws the attention of Members to an unprecedented modus operandi: cigarettes concealed within barrels of titanium sponge, which resulted in a health hazard for Customs officials checking the shipment. The total amount seized was at least 370,000 L&M and West branded cigarettes.

(Photo courtesy of German Customs)

The Report is divided into three main general sections : a global and regional overview of the illicit trade in cigarettes, a section on illicit trade in other tobacco products and a section highlighting items of particular relevance.

The first section is mainly based on data provided by Members utilizing the WCO Customs Enforcement Network (CEN) database. The 2008 figures are compared with those from the previous year taking into account only seizures carried out by Customs, joint Customs and Police units or by other law enforcement agencies having Customs powers. This section provides a global and a regional overview of cigarette smuggling concerning the significant cases reported (over 100,000 cigarettes per seizure). A separate chapter covers seizures under the given limit. National reports provided by Members are also considered as an addition to the information reported to the CEN database.

The second section reports on the illicit trade in other tobacco products, which includes smoking and non-smoking tobacco.

The last section is dedicated to special items. In this section the phenomenon of illicit manufacturing (including an overview of counterfeit tobacco products), an update on the developments of the protocol on illicit trade in tobacco products within the WHO Framework Convention on Tobacco

Control and an update on the operational activities undertaken within Project Crocodile are provided. A paragraph highlighting unprecedented occurrences is also included.

First section

The analysis on illicit trade of cigarettes is based on a total of 3,070 pieces of information on cigarette seizures with a minimum limit of 100,000 pieces carried out in 2007 and 2008 by sixty-four WCO Members. The relevant figures recorded in the CEN database come to a total of 1,416 seizures in 2007 and 1,654 in 2008 accounting for around 2.5 billion pieces in 2007 and 2.3 billion pieces in 2008.

It was regrettably not possible to include in this year's Report a very high number of records related to seizures made in the United Kingdom. The European region continues however to be the one reporting the highest figures : 93 % of the seizures and 85 % of the quantity seized globally were reported from Western and Eastern and Central Europe. As far as the other regions are concerned, only in the Middle East was a total quantity exceeding 100 million cigarettes recorded.

Lack of reporting from various regions is unfortunately noted again, despite the efforts of the WCO Secretariat and RILOs to improve the quality and quantity of data in the CEN database. The anti-smuggling

efforts of Customs administrations worldwide are shown in the reports made available in support of the present analysis. The global extent of the phenomenon is therefore confirmed.

In 2008 nearly one third of the cigarettes globally seized were intercepted in the top ten locations, which are all situated in Europe. The bulk of consignments were still seized at seaports in just 171 incidents (10 % of global interceptions). This shows that the movement of large consignments via containers is still a major trend worldwide.

At a global level, the bulk of contraband originated in China. The total quantity of cigarettes originating in China is still very prominent (30 % of the total) but a further decrease is recorded if 2006 is also included in the comparison. The consignments seized were, as usual, destined for various countries.

A further decrease of consignments originating in the United Arab Emirates is noted, whilst Paraguay remains the source for illicit consignments destined mainly for Brazil.

The “Asian route” has maintained its key role in the illegal import of cigarettes and tobacco over the years; this typically involves a sea route from Asian ports to ports in western and south-eastern Europe, from which the goods continue overland to European countries. The Peking – Hamburg direct railway connection, which opened in January 2008, represents a new transport route that reduces the transport time to less than half compared to transport by ship. Although there is no information at present on the use of this route to smuggle goods, the relevant Customs authorities should consider the development of this route for appropriate targeting.

Marlboro remains the most seized brand. It was also the brand most often counterfeited.

At a regional level other brands were also targeted by smugglers and involved shipments of genuine cigarettes.

Large consignments of cigarettes are illegally moved across borders worldwide by criminal organisations. In some regions the phenomenon of “ant smuggling” is additionally recorded.

Smugglers continue using courier and postal modes to move small quantities of cigarettes and other tobacco products. This practice entails sub-dividing a large quantity of tobacco into a number of smaller quantities that are then shipped individually. The advantage with this method is that the risk of the entire quantity of tobacco being intercepted is significantly reduced. Although individual shipments involve small quantities of tobacco products, the total quantity is significant.

The inventiveness of smugglers is boundless, even where small consignments are concerned.

The use of X-ray scanners remains an effective practice for the detection of both large and small shipments.

Second section

Customs administrations worldwide seize

all kinds of tobacco products: smoking tobacco which includes hand rolling tobacco (HRT), water pipe tobacco, raw tobacco and non-smoking tobacco, which includes chewing tobacco and snuff.

In many cases it was unfortunately not possible to identify the type of smoking tobacco seized.

Despite a decrease of seizures, an enormous increase in terms of the total quantity of smoking tobacco seized was recorded. This was mainly due to the seizures reported from the Russian Federation in the CIS region, although a significant increase is also noted in the other two European RILO regions.

Seizures of water pipe tobacco continue to be recorded worldwide.

Non-smoking tobacco (Chewing tobacco, snuff and snus) was also detected by some Member Customs administrations.

Third section

The discovery of illegal cigarette factories remains extremely difficult and in some cases this is simply due to logistics. It is obviously rather easy for criminals to hide such activities. In some countries, Customs have no competence for inland investigations. Thus detections of illicit cigarette factories may be made by Police or other law enforcement agencies. However, these cases remain linked to cross-border criminal activities where the provision of the materials for the illegal production and the exportation of the final products are concerned. In these cases an open and constant exchange of information between Customs administrations and other law enforcement agencies constitutes a key element.

The WCO Secretariat has been made aware of 4 cases of illegal manufacturing detected in 2008 in the Czech Republic, Romania, Slovakia, and the United Kingdom.

The bulk of information reported to the CEN database does not unfortunately indicate whether the cigarettes seized by the Customs services were genuine or counter-



» The Bulgarian customs administration carried out a complete customs check of a lorry in Zlatarevo at the border with the Former Yugoslav Republic of Macedonia and found a total of 1.2 million pieces of cigarettes with Arab signs behind a consignment of apples. Nearly 25 million cigarettes of the same brand were detected in April 2003 at the port of Genoa in Italy.

(Photos courtesy of Bulgarian Customs)

feit. Nonetheless, it may be noted that huge quantities of fake cigarettes have still been recorded, accounting for at least one third of the cigarettes seized in 2008.

Just as with the figures for the previous year, more than half of the consignments originated in China and the most commonly seized counterfeit brand was Marlboro.

In Project Crocodile, participating Members have engaged in strong and stable collaboration in monitoring suspicious cigarette shipments, sometimes even needing to extend such supervision outside the A/P region. Working together - international cooperation in combating smuggling of cigarettes - is of vital importance.

Participating Members have been passing information in a smooth and timely manner to other Members more accurately over the years, resulting in an increase in seizures, both in terms of number and quantity, in the past two years. The experience gained from the project also enabled Asia and the Pacific Members to build their own intelligence.

The work of the Intergovernmental Negotiating Body on a protocol on illicit trade of tobacco products within the WHO Framework Convention of Tobacco Control is ongoing, with the aim of presenting the final text at the Conference of the Parties in 2010.

Given the significant implications for Customs work resulting from the implementation of the protocol, the WCO once again encourages the participation of

Customs administrations in the work of the next INB and COP, pointing out that the negotiations will result in a binding agreement for the relevant Governments.

The WCO Secretariat draws the attention of Members to an unprecedented modus operandi : cigarettes concealed within barrels of titanium sponge, which resulted in a health hazard for Customs officials checking the shipment. Furthermore the results of a biological test on a counterfeit cigarette

packet indicating a significant mite infection, which may cause additional hidden danger to human health, are highlighted in this report.



» In November 2008 Finnish Customs seized nearly 3 million L&M cigarettes concealed inside a consignment of wooden elements.

(Photo courtesy of Finnish Customs)