



WORLD CUSTOMS ORGANIZATION

Customs and Tobacco Report 2011



SECURING NATIONAL TAX REVENUES



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Contents

Foreword	2
EXECUTIVE SUMMARY	4
AIM AND OBJECTIVES	6
APPROACH	7
Structure of the report and source of information	7
Caveat	8
Notable seizures	10
GLOBAL OVERVIEW OF ILLICIT TRADE IN CIGARETTES	11
Number of seizures and quantities seized	11
Place and location type of interceptions	13
Country of departure and country of destination: main routing	14
REGIONAL OVERVIEWS	17
The Americas	17
North America	17
Caribbean	17
South America	17
Africa	18
North Africa	18
Central Africa	18
Western Africa	18
Eastern and Southern Africa	19
Middle East	20
Asia & Pacific	20
Europe	23
Western Europe	23
Eastern and Central Europe	27
Commonwealth of Independent States (CIS)	32
SPECIAL ITEMS	34
Illegal manufacturing	34
The identification of new cigarette brands	37
Seizures under 100,000 pieces	39
Other Tobacco Products	41
Operations and Projects	43
WHO FCTC Protocol against Illicit Trafficking in Tobacco Products	45
Cigarette Package Health Warnings	46
ALERT MESSAGES	47
ANNEX	48
THE WCO RILO NETWORK – CONTACTS	50
THE WCO RILO NETWORK – CONTACTS	52
WCO MISSION STATEMENT	52
ACKNOWLEDGMENTS	52



Illicit trade of tobacco continues to be a world-wide problem. As we all know, the availability of cheap cigarettes as a result of illicit trade contributes to the rise in tobacco consumption by making cigarettes more accessible. Illicit trade also deprives governments of vital revenues. As a consequence, governments are calling for stronger measures to combat this phenomenon.

Challenges associated with illicit tobacco trade are becoming more complex. Substantial profits derived from trafficking and successful law enforcement interdiction efforts have led perpetrators to continuously develop more sophisticated smuggling techniques. Today

FOREWORD

governments are increasingly facing well-networked and organized traffickers whose activities are harder to detect and disrupt.

Customs is the only government agency that has the authorities to monitor all international cross-border movements. As a result of its unique control powers, Customs plays a critical role in governments' efforts in the fight against illicit trade, including illicit trade in tobacco products.

The World Customs Organization (WCO), as the international organization responsible for Customs matters, has been on the front foot in assisting its Members in their efforts to curb such trafficking. For example, the WCO Customs Enforcement Network (WCO CEN) system, regional and national training events, and the various WCO operations in the field of tobacco smuggling are all examples of tools and activities that address illicit trafficking and aim to prevent it.

In addition to these more tactical activities, the WCO has also been representing the Customs community in the World Health Organization negotiations on the Framework Convention on Tobacco Control (FCTC). After four years of negotiations, on 4 April 2012 the Intergovernmental Negotiating Body on a Protocol on Illicit Trade (INB) agreed on a draft text for the Protocol to eliminate illicit trade in tobacco products. After its adoption, the Protocol will undoubtedly provide competent law enforcement agencies with an important instrument that sets out measures to assist countries in countering illicit trade. I will ensure that the WCO will keep following the developments with the Protocol and will inform and advise Members in relation to its requirements and impacts.

The WCO Customs and Tobacco report outlines global smuggling trends and patterns and provides WCO Members and the wider international community with valuable insights

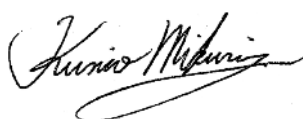
into the world-wide trafficking in tobacco products. This year's report marks the tenth anniversary of the publication and presents analysis of seizure information provided by Members to the WCO CEN system between 1 January 2010 and 31 December 2011.

I am very glad to note that the analysis of the data and national reports clearly indicate that Customs administrations are committed to facing the challenges posed by illicit trade and are doing so successfully. The report also points out several new trends and areas where Customs needs to devote more attention in the future. Among other things, the report underlines that certain criminal groups are focusing on exploiting the illicit hand-rolling tobacco market as the popularity of so-called "cheap whites" is increasing at the expense of counterfeit cigarettes.

I would like to commend all WCO Members that have contributed to this report. The report

reflects your achievements at the national level and could not have been produced without you. I would also like to specially thank the Regional Intelligence Liaison Offices for the enforcement-related support they are providing to the Members in their respective regions. Your efforts are very much appreciated.

I hope that you find this report both interesting and useful.



Kunio Mikuriya
Secrétaire général
Organisation mondiale des douanes

EXECUTIVE SUMMARY



»» (Photo courtesy of Chilean Customs)

The Report is intended to highlight current and expected trends, as well as initiatives undertaken by Members and RILOs to counteract the illicit trade of tobacco products, and may include contributions by third parties.

The Report is divided into two main sections : a global and regional overview of the illicit trade in cigarettes, and a section on items of particular interest.

The Report focuses primarily on the illicit trade in cigarettes as this appears to remain the main challenge, according to the information submitted to the WCO Secretariat by its Members.

The second section briefly covers items of particular interest, such as the illicit manufacturing of tobacco products, progress with

the Protocol on illicit trade in tobacco products within the WHO Framework Convention on Tobacco Control (FCTC), information on operations and projects tackling the illicit trade in tobacco products, and information on other initiatives undertaken by various entities, as a contribution for Customs administrations in the fight against the illicit trade in tobacco products at various levels.

First section

The analysis on illicit trade of cigarettes is based on a total of 2,550 pieces of information on cigarette seizures with a minimum limit of 100,000 pieces carried out in 2010 and 2011 by sixty-four WCO Members.

The relevant figures recorded in the CEN database come to a total of 1,524 seizures in 2010 and 1,026 in 2011 accounting for

around 3.2 billion pieces in 2010 and 1.9 billion pieces in 2011.

The figures show a remarkable decrease of both the number of seizures and the amount of contraband seized in 2011.

This trend has already been identified in the previous annual report.

In addition, a further decrease of seizures over 20 and 10 million cigarettes, respectively compared to previous years, was recorded.

The bulk of the data continues being reported by European Members. The Members affiliated to the three European RILOs reported 90% of the significant seizures entered in the CEN database.

Nevertheless, the Asia and Pacific region



» (Photo courtesy of Estonian Customs)

continues reporting various significant cases which have also been reported from other regions. The global nature of the phenomenon of illicit trade of tobacco products has, therefore, been confirmed.

The question of the completeness of CEN data remains however a challenge due to various reasons also of a technical nature.

Some Members have indicated that the implementation of anti-smuggling measures with increased international co-operation and usage of technology have led to positive results.

Although it is still impossible to assess the real degree of variation of the phenomenon of illicit trade over the last few years, it is extremely likely that the detections of significant illicit cigarette consignments did drop for the reasons mentioned above.

The largest seizure in 2011 was recorded in the Netherlands.

Whilst in 2010 half of the contraband was detected at seaports, in 2011 44% of the total amount of cigarettes seized was

detected in such locations, where around 15% of global seizures were carried out.

A slight increase in the proportion of detection of significant shipments at rail locations and corresponding quantities is noteworthy.

A remarkable decrease of cases involving consignments departing from China was recorded.

Lack of reporting or low quality of the CEN data do not seem, in fact, to be the only reason for this drop.

It is a realistic possibility that Chinese organized criminal groups are focusing on tobacco smuggling in order to exploit the illicit hand-rolling tobacco market, particularly as the popularity of “cheap whites” cigarettes is increasing at the expense of counterfeit cigarettes

A significant and growing threat is from cheap white cigarettes.

Second section

A few Members reported that fewer counterfeit consignments were detected in 2010, so

it is likely that a downward trend in this respect is ongoing.

Recognised for its success in combating illegal cigarette trades in the Asia/Pacific Region, Project Crocodile has now been considered for global implementation as combating the illegal cigarette trade is not just a regional concern.

At the 31st Session of the Enforcement Committee in June 2012, Members agreed to launch the first phase of the global project.

At the 5th session of the Conference of the Parties (COP) to the WHO Framework Convention on Tobacco Control (FCTC), which will be held in Korea in November 2012, the Parties will formally adopt the Protocol on Illicit Trade in Tobacco Products.

Given the significant impact that the future implementation of the Protocol will have on the Customs activities in this particular field, the WCO Secretariat strongly recommends that Customs administrations maintain close contact with the competent national office representing the country on the occasion of the final approval of this important international instrument.

The Canadian Cancer Society produced a report that summarizes international cigarette package health warning requirements by country/jurisdiction, including both Parties and Non-Parties to the WHO Framework Convention on Tobacco Control (FCTC).

The report may constitute a very helpful tool for Customs services for the identification of the likely origin or destination of illegal cigarette consignments as well as for consultation on the requirements concerning the health warnings on cigarette packages by country.

AIM AND OBJECTIVES



»» (Photo courtesy of Hungarian Customs)

Since 2002 the WCO Secretariat has published an Annual Report analysing all seizures of tobacco products reported by WCO Members.

The Report is intended to highlight current and expected trends, as well as initiatives undertaken by Members and RILOs to counteract the illicit trade of tobacco products, and may include contributions by third parties.

The aim of the project is :
to produce a detailed situation report and analysis reviewing illicit activities related to tobacco products and counteracting measures on a worldwide basis, in order to support future-oriented risk analysis and thus to assist in the anti-smuggling efforts of Customs administrations worldwide.



»» (Photos courtesy of French Customs)

APPROACH

Structure of the report and source of information

The Report is divided into two main sections :
 a global and regional overview of the illicit trade in cigarettes, and a section on items of particular interest.

The Report focuses primarily on the illicit trade in cigarettes as this appears to remain the main challenge, according to the information submitted to the WCO Secretariat by its Members.

The second section briefly covers items of particular interest, such as the illicit manufacturing of tobacco products, progress with the Protocol on illicit trade in tobacco products within the WHO Framework Convention on Tobacco Control (FCTC), information on operations and projects tackling the illicit trade in tobacco products, and information on other initiatives undertaken by various entities, as a contribution for Customs administrations in the fight against the illicit trade in tobacco products at various levels.

The database within the WCO Customs Enforcement Network (CEN) system is the main source for this analysis on seizures carried out over the last two years.

With a view to the preparation of the present Report, Members were also requested to provide brief reports or situation sheets, which proved to be extremely useful for a more comprehensive regional overview, particularly where little or even no information was available in the CEN.

Sixty-six Members reported information on seizures of cigarettes and other tobacco products to the CEN database. In addition, some Members provided a brief aggregated report, either directly or via the competent RILO, while another two Members informed the WCO Secretariat that no seizures of tobacco products had been carried out during the period under review.

Reporting limits (Tobacco commodity) by region – 1 piece = 1 cigarette

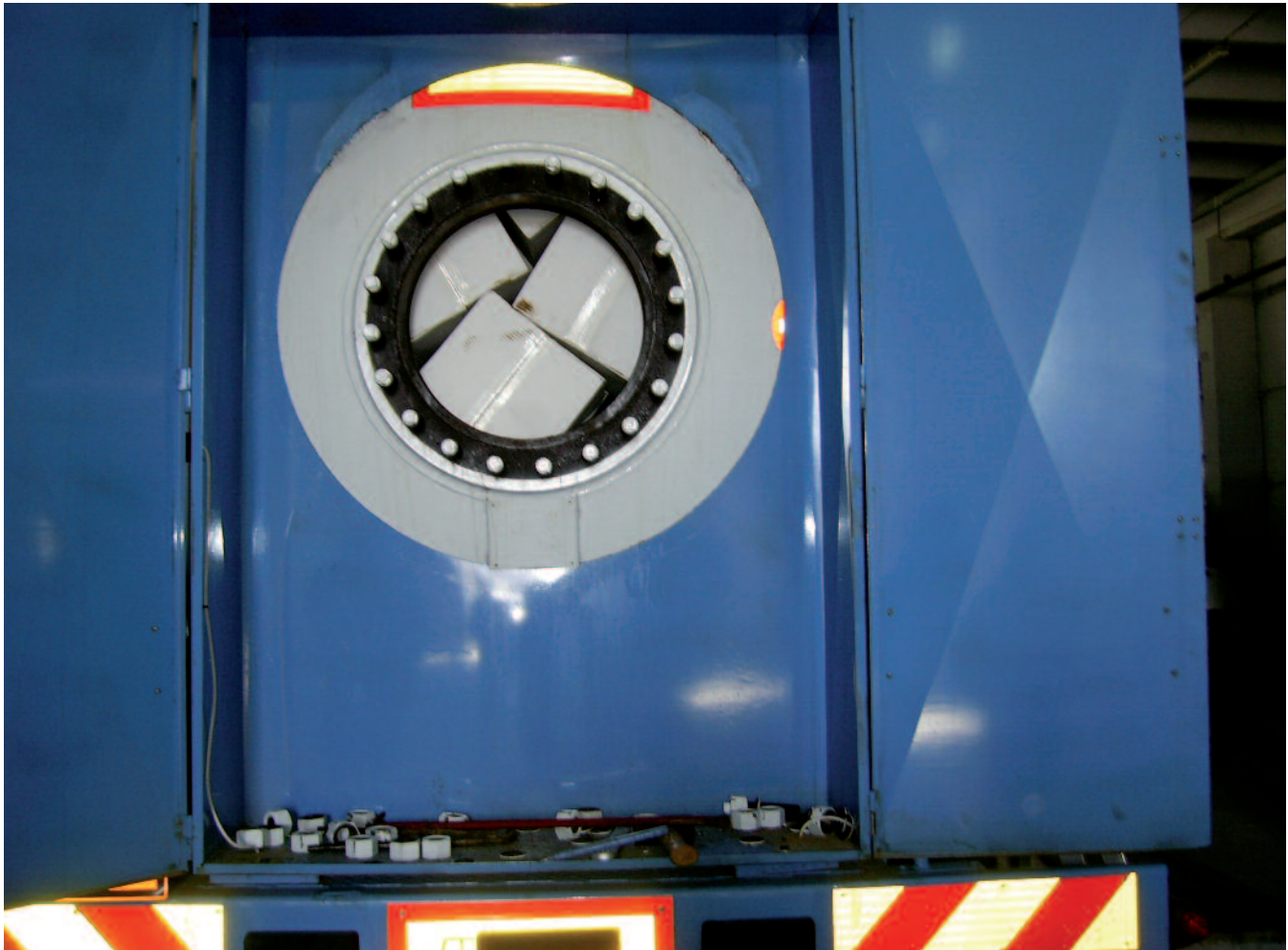
Asia/Pacific	No limit
Caribbean	No limit
Central Africa	No limit
Commonwealth of Independent States (CIS)	400 pieces
Eastern and Central Europe	Cigarettes: 100,000 pieces Smoking tobacco: no limit
Eastern and Southern Africa	1,000 pieces
Middle East	No limit
North Africa	No limit
North America	No limit
South America	No limit
Western Africa	No limit
Western Europe	Cigarettes: 100,000 pieces Smoking tobacco: no limit



»» (Photo courtesy of Serbian Customs)



»» (Photo courtesy of Spanish Customs)



»» (Photo courtesy of Bulgarian Customs)

A table showing the number of seizures and related quantities, for each country entering information into the CEN database, is appended.

The table refers only to seizures of more than 100,000 cigarettes.

Only two Members reported seizures below the aforementioned threshold.

Caveat

Only seizures carried out by Customs, joint Customs and Police Units or by other law enforcement agencies having Customs powers are included in the analysis, where the

relevant information was submitted to the CEN database or included in reports made available by the Members.

The CEN database is constantly being updated. The figures in the present Report may therefore be different from those taken into account in previous reports, and are subject to checking and constant review.

A new version of the CEN system was launched in June 2011. Data referred to the year 2011 are, therefore, captured in the new system only. Due to a combination of reasons, it is very likely that the 2011 data are incomplete or the quality of data provided is

rather low compared to previous years.

The new CEN enables forms of Electronic Data Interchange (EDI) in order to facilitate the transmission of information to the CEN database when huge numbers of seizures are involved. For some Members this procedure has been initiated recently, and therefore data may not be available for this year's Report.

Despite the fact that the submission of information to the WCO CEN database is not mandatory, most WCO Members, assisted by the competent RILOs or by the WCO Secretariat, enthusiastically share non-nominal information on Customs seizures and



»» (Photos courtesy of Austrian Customs)

offences with a view to combating any illicit trafficking more effectively.

The production of any analytical report depends on the quality and quantity of the data made available. The information provided to the CEN database enables very good national or regional analyses to be carried out, but unfortunately does not permit the production of in-depth threat assessments at a global level. This is due to the remarkable differences in the quality and quantity of data made available by the individual Members over the years. Nonetheless the material continues to be sufficient to identify trends and highlight particular issues, providing support for policy and decision makers, and for field officers.

The WCO Secretariat and the RILOs continue to invest effort into improving the quality and quantity of the seizure information reported to the CEN database. Despite these efforts, some Members still have not reported, partially or totally, their records concerning seizures of cigarettes and other tobacco products carried out during the period under review. Moreover, in many cases the information provided to the CEN database was not very detailed, and in some cases it was contradictory. Whenever possible the analyst has performed a thorough cross-check of the information provided, or contacted the source of the information for details or clarifications in order to integrate or amend the data. Due to time constraints related to the production of the present Report, dialogue with the source of the information was not possible for all questionable cases. Therefore the analyst has not taken into consideration, for the present Report, some records from the CEN database, where the information provided was completely unusable for the reason stated above.

For the submission of information to the CEN database, different reporting limits are set by different RILO regions. In order to allow consistent comparison amongst the different regions, the minimum common limit for all RILO regions has been taken into consideration. In the global and regional analyses, only seizures of 100,000

Notable seizures / 2010 : 7 seizures – 2011 : 1 seizure

Date	Quantity (pieces)	Region	Country	Location	Location type	Route	Brand	Counterfeit
06/01/2010	79,000,000	ECE	Greece	Edipsos	Seaport	EG-GR-BG	Camelot, Camelford, Cooper, Business Royal	Unknown
25/03/2010	20,000,000	W. Europe	Spain	Las Palmas	Seaport	AE-ES-MA	American Legend	No
25/03/2010	20,000,000	W. Europe	Spain	Las Palmas	Seaport	AE-ES-MA	American Legend	No
09/04/2010	26,390,000	ECE	Lithuania	Vilnius	Inland	BY-LT	Jin Ling	Unknown
23/02/2010	31,450,000	W. Europe	Ireland	Dundalk	Seaport	RU-SE-IE	Superkings	Yes
10/04/2010	20,240,000	ECE	Greece	Thessaloniki	Seaport	EG-GR-UA	Capital	Unknown
22/09/2010	31,320,000	W. Europe	Italy	Gioia Tauro	Seaport	AE-IT-SI	Manchester	No
Total 2010	228,400,000	7 seizures						
08/11/2011	21,463,300	W. Europe	Netherlands	Maarheeze	Inland	UN-NL	Unknown	No
Total 2011	21,463,300	1 seizure						

cigarettes or more have therefore been considered. Seizures amounting to a total which exceeds the specified limit but constitutes a summary of seizures made during a given period of time have not been included.

Seizures derived from the dismantling of illicit manufacturing are reviewed within the relevant paragraph.

In general, the regions being compared correspond to the geographical area which falls under the competence of a given RILO. Israel has been included in the Middle East region even though the country is affiliated to the Western Europe region.

In this Report the USA, Canada and Mexico form the North America region; a RILO has not yet been established there.

Regarding the data provided by the United Kingdom in particular, the reader should note the following two points: (i) all figures for the calendar year 2011 are subject to an ongoing data assurance activity and have yet to be published in the national Annual Report. Therefore, these figures are not yet in the public domain and remain strictly provisional until published; (ii) the UK figures published by HMRC are provided on a fiscal year basis, and therefore the calendar year figures provided to the WCO will not reconcile with the HMRC figures when these are eventually published. The same applies to the 2010 figures, as these are also subject to an ongoing assurance and may be subject to change.

The issues regarding the publication of figures which are referred to in (i) above also

apply to the data provided by most WCO Members.

Notable seizures

This paragraph highlights exceptionally large seizures (exceeding 20 million cigarettes) which may distort the analysis.

Only one notable seizure was reported in 2011 compared to seven in the previous year.

This seizure was carried out in the Netherlands in the premises of an inland location. Unfortunately, the brand of the cigarettes seized was not reported.

WHO FCTC Protocol against Illicit Trafficking in Tobacco Products

Bearing in mind the severe health risk factors derived from smoking, the World Health Organization (WHO) launched the idea for an international instrument to control tobacco. This idea resulted in the development of the Framework Convention on Tobacco Control (FCTC) which came into force in February 2005.

The Convention which currently has 168 Contracting Parties is a comprehensive legal instrument for tobacco control. The aspect related to the illicit trade in tobacco products is included in Article 15 of the Convention. In this Article, the Parties to the Convention recognise that the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing and counterfeiting, is an essential component of global tobacco control. Article 15 states that the Parties shall adopt and implement effective legislative, executive, administrative or other appropriate measures with a view to eliminating illicit trade in tobacco products.

At its first session in February 2006, the Conference of the Parties (COP) noted that Article 15 did not go far enough in facilitating international cooperation to enable Parties to effectively eliminate the illicit trade. They decided, therefore, to establish an intergovernmental negotiating body (INB) to prepare a template for a Protocol on Illicit Trade in Tobacco Products which will build upon and complement the provisions of Article 15 of the FCTC. Since its establishment, the INB has convened in Geneva five times.

The INB consists of Parties to the FCTC and observers which are non-Party, international intergovernmental organizations (notably the WCO) and non-governmental organizations (for example the Framework Convention Alliance).

The fifth session (INB-IT5) was held in Geneva from 29 March – 4 April 2012 and consensus on the Protocol was reached.

At the 5th session of the Conference of the Parties (COP) to the WHO Framework Convention on Tobacco Control (FCTC), which will be held in Korea in November 2012, the Parties will formally adopt the Protocol.

- measures to control the tobacco product supply chain (including tracking and tracing of tobacco products, licensing, anti-money laundering measures, and restrictions on internet sales of tobacco products)
- measures dealing with criminalization and enforcement (including the establishment of offences, sanctions, penalties, destruction, special enforcement techniques)
- international cooperative measures (including information sharing, cooperation in technical matters and in training, and mutual legal and administrative assistance)

The text of the Protocol (FCTC/COP/INB-IT/5/5) and other related documentation is available on the WHO Framework Convention Secretariat's official website.

As decided by the Intergovernmental Negotiating Body (INB), Parties were invited to submit comments on the accuracy of the Arabic, Chinese, French, Russian and Spanish translations of the English text of the draft protocol to eliminate illicit trade in tobacco products as it stood at the closure of the fifth session of the INB and as contained in document FCTC/COP/INB-IT/5/5. Comments had to be submitted to the Convention Secretariat by 26 April 2012 by e-mail.

Given the significant impact that the future implementation of the Protocol will have on the Customs activities in this particular field, the WCO Secretariat strongly recommends that Customs administrations maintain close contact with the competent national office representing the country on the occasion of the final approval of this important international instrument.

More information :
www.who.int/gb/fctc
www.wcoomd.org
www.fctc.org



»» (Photo courtesy of Slovak Customs)

Cigarette Package Health Warnings

Article 11 of the Framework Convention on Tobacco Control (FCTC) requires Parties to the treaty to adopt and implement large, clear, and rotating health warnings on all tobacco products within three years of FCTC ratification.

Under Article 11 of the FCTC, Parties to the Convention must require that all packages of tobacco products carry health warnings describing the harmful effects of tobacco use or other appropriate messages which “should be 50% or more of the principal display areas but shall be no less than 30% of the display areas” and may be in the form of or include picture warnings.

The Canadian Cancer Society produced a report that summarizes international cigarette package health warning requirements by country/jurisdiction, including both Parties and Non-Parties to the WHO Framework Convention on Tobacco Control (FCTC). The report is an update of a 2008 report which ranked 140 countries based on the size of the warnings on cigarette packages. This updated 2010 version provides an international overview ranking 175 countries/jurisdictions based on warning size, and lists countries/jurisdictions that have finalized requirements for picture-based warnings.

The report may constitute a very helpful tool for Customs services for the identification of the likely origin or destination of illegal cigarette consignments as well as for consultation on the requirements concerning the health warnings on cigarette packages by country.

More information :

http://global.tobaccofreekids.org/files/pdfs/en/WL_status_report_en_low.pdf



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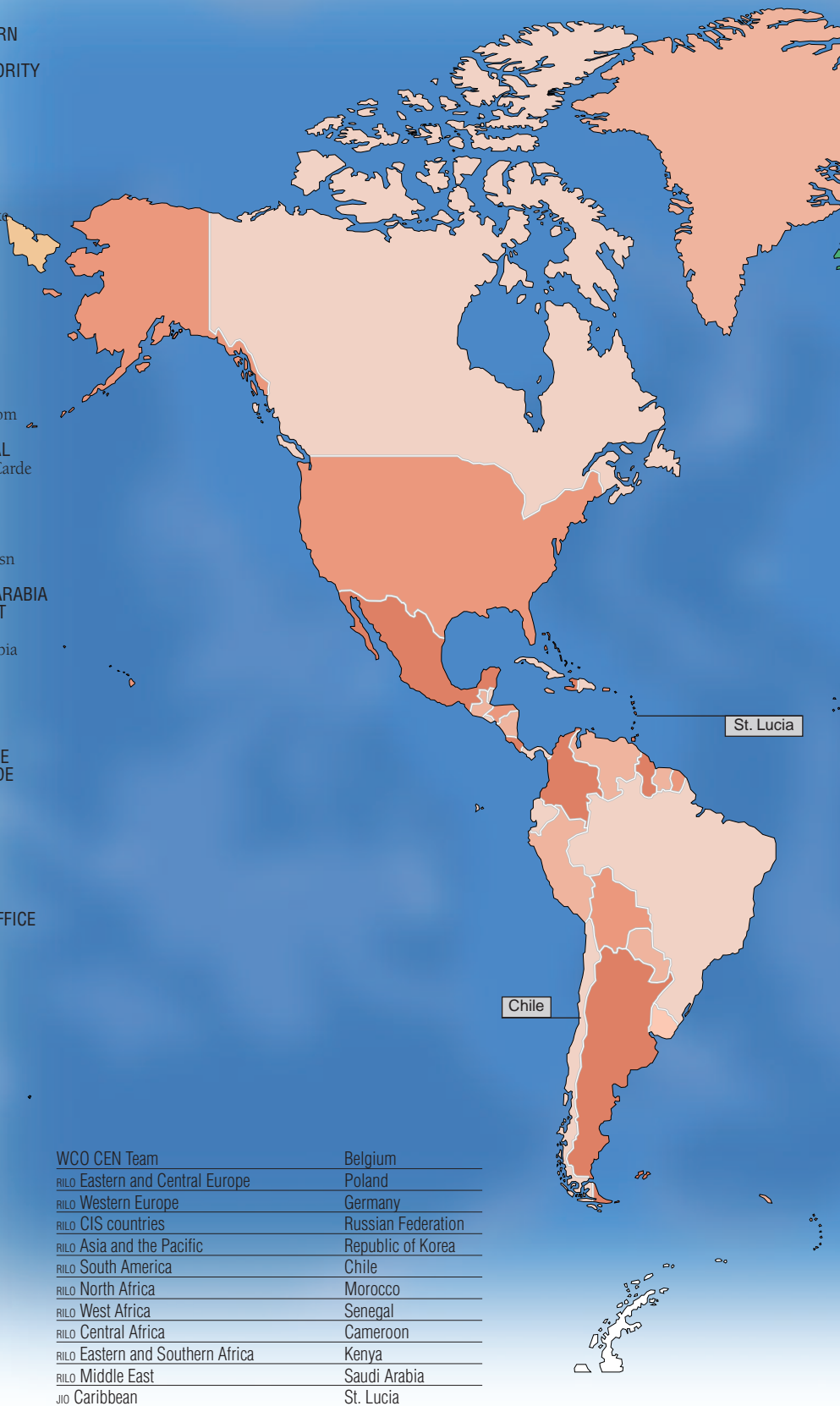
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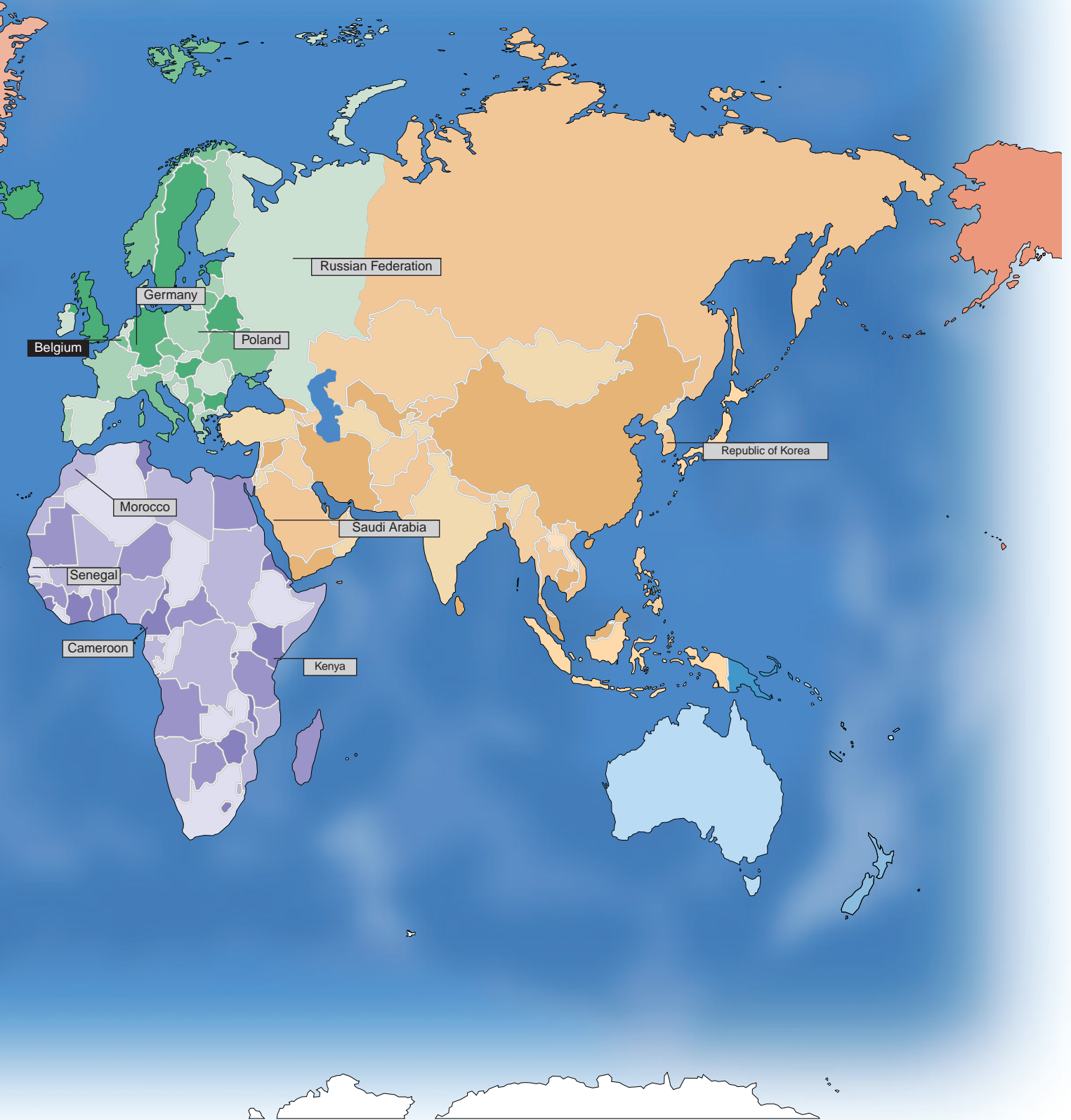
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WCO Mission Statement

The World Customs Organization is an independent intergovernmental body whose mission is to enhance the efficiency and effectiveness of Member Customs administrations, thereby assisting them to contribute successfully to national development goals, particularly in the areas of trade facilitation, revenue collection, community protection and national security.

WCO Vision Statement

The World Customs Organization is internationally acknowledged as the global centre of Customs expertise and plays a leading role in the discussion, development, promotion and implementation of modern and secure Customs systems and procedures. It is responsive to the needs of its Members and its strategic environment, and its instruments and best-practice approaches are recognized as the basis for sound Customs administration throughout the world.

Acknowledgements

The World Customs Organization is very grateful to the analyst for the hard work done in order to produce this analysis. The WCO is also very grateful for the specific contributions to this annual Report provided by the Members and by the Regional Intelligence Liaison Offices and their National Contact Points.

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