



# FINANCING OF ORGANISED CRIME



CENTER FOR  
THE STUDY OF  
DEMOCRACY

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The report *Financing of Organised Crime* contributes to a better understanding of the financial aspects of organised crime. The analysis explores topics such as the sources and mechanisms for financing organised crime, settlement of payments, access to financing in critical moments, costs of business and the management of profits. Drawing on the results of the analysis, the report also suggests possible new approaches to tackling organised crime.

The report has been produced with the joint efforts of the Center for the Study of Democracy, the University of Trento and Teesside University and in close collaboration with the State Agency National Security in Bulgaria, the State Police in Latvia and the French National Institute for Advanced Studies in Security and Justice.

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## LIST OF ABBREVIATIONS

<b>API</b>	active pharmaceutical ingredient
<b>BGN</b>	Bulgarian levs
<b>Brå</b>	The Swedish National Council for Crime Prevention
<b>C&amp;C</b>	counterfeit and contraband
<b>CDGEFID</b>	Central Office for Combating Organized Economic and Financial Delinquency, Belgian Federal Police
<b>CSD</b>	Center for the Study of Democracy, Bulgaria
<b>CSEW</b>	Crime Survey for England and Wales
<b>CTIF – CFI</b>	Belgian Financial Intelligence Processing Unit
<b>CZK</b>	Czech crowns
<b>DCPJ</b>	Direction Centrale de la Police Judiciaire (French national judicial police)
<b>DCSA</b>	Direzione Centrale Servizi Antidroga – Ministero dell’Interno (Central Antidrug Bureau, Ministry of the Interior), Italy
<b>DDA</b>	Direzione Distrettuale Anti-mafia (Anti-Mafia District Directorate), Italy
<b>DGDDI</b>	Direction Générale des Douanes et des Droits Indirects (Directorate-General of Customs and Indirect Taxes), France
<b>DNRED</b>	Direction Nationale du Renseignement et des Enquêtes Douanières (National Directorate of the Intelligence and Customs Investigations), France
<b>EBM</b>	Ekobrottsmyndigheten (Swedish Economic Crime Authority)
<b>EGF</b>	excisable goods fraud
<b>EMCDDA</b>	European Monitoring Centre for Drugs and Drug Addiction
<b>EMCS</b>	Excise Movement and Control System
<b>EU</b>	European Union
<b>EU-15</b>	Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the United Kingdom
<b>FATF</b>	Financial Action Task Force
<b>FYROM</b>	The Former Yugoslav Republic of Macedonia
<b>GHB</b>	gamma hydroxybutyrate
<b>gr</b>	gram
<b>HMRC</b>	Her Majesty’s Revenue and Customs, UK
<b>HRT</b>	hand-rolling tobacco
<b>HUI</b>	Swedish Retail Institute
<b>INHESJ</b>	Institut National des Hautes Etudes de la Sécurité et de la Justice, France
<b>ITP</b>	illicit tobacco products
<b>ITT</b>	illicit tobacco trade
<b>kg</b>	kilogram
<b>LEA</b>	law enforcement agents

<b>LFO</b>	light fuel oil
<b>MinFin</b>	Ministry of Finance
<b>MTIC</b>	missing trader intra-community fraud
<b>NCA</b>	National Crime Agency, UK
<b>NRA</b>	National Revenue Agency, Bulgaria
<b>NTE</b>	night-time economy
<b>OCG</b>	organised crime group
<b>OCS</b>	Support Cell Carousel Fraud, Belgium
<b>OCTA</b>	Organised Crime Threat Assessment
<b>OCTF</b>	Organised Crime Task Force
<b>OFDT</b>	Observatoire Français des Drogues et des Toxicomanies (Monitoring Centre for Drugs and Drug Addiction), France)
<b>OIVO</b>	Onderzoeks en Informatiecentrum van de Verbruikersorganisaties (Research and Information Centre of Consumer Organisations), Belgium
<b>pcs</b>	pieces
<b>PMI</b>	Philip Morris International Inc.
<b>RAF</b>	Royal Air Force
<b>RUC</b>	Swedish Regional Intelligence Centre
<b>SANS</b>	State Agency National Security, Bulgaria
<b>SEK</b>	Swedish Krona
<b>SKV</b>	Swedish Tax Agency
<b>SOCA</b>	Serious Organised Crime Agency, UK
<b>SODN-EMP</b>	Central Anti-drug Coordination Unit – National Intelligence Unit, Greece
<b>THC</b>	tetrahydrocannabinol
<b>TMA</b>	Tobacco Manufacturers' Association, UK
<b>UK</b>	United Kingdom
<b>UKBA</b>	United Kingdom Border Agency
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>VAT</b>	value-added tax
<b>WDF</b>	World Duty Free
<b>xtc</b>	Ecstasy

## Access to capital at critical moments

As mentioned above, the profit from illegal tobacco products is mixed together with the profit gained from other legal and illegal activities. That is why access to capital at a critical moment is influenced by the overall business of the players. Short-term loans are provided by people included in network of acquaintances or, more often, by official, semi-official or unofficial companies lending the money at an interest rate. There are approximately 50,000 individuals registered as credit tradesmen in the Czech Republic and 33,651 non-bank credit subjects registered by the Financial Arbiter. According to the study *Secure Credit Navigator*<sup>605</sup> the market share of non-bank loans is around 35% (€2.9 billion). The main reason for using non-bank institutions are credit conditions and higher interest rate imposed by banks on consumer lending. These institutions range from companies with brand credibility (e.g. Provident, Home Credit, Cetelem) to completely unknown and predatory entities charging high rates and unclear rights and obligations. Some of the latter are considered to be established for money laundering purposes.<sup>606</sup> Although this kind of crediting is perceived as socially disrupting, it is not defined as organised crime in the official documents.

Accessing to capital at critical moments in the Vietnamese community is provided by the mechanisms for raising communitarian capital. This does not mean the whole Vietnamese community is involved in criminal activities but that mutually connected family and business channels cover also investments in illegal activities. The significant feature of the Vietnamese community is limited mobility between social classes, although there is no single hierarchical system. To put it differently, “there exist varying degrees of connectivity and seniority, meaning that although there is no single and united Vietnamese criminal organisation, common interests and family ties connects the units and hold them together.”<sup>607</sup>

Accessing capital at critical moments in HRT production does not differ from the other parts of the business, as sources include legal or other illegal activities, personal savings, short-term loans with unknown interest rates or the use of legal or semi-legal bank companies.

## ITALY: THE TERRITORIALITY OF THE ILLICIT TOBACCO BUSINESS

### Introduction

The illicit tobacco trade represents one of the oldest illegal activities of Italian OCGs. In particular, it is around the 1950s and 1960s that the high level of cigarettes consumption (estimated in 90,000 tonnes a year) and State taxation acted as facilitating factors for the growth of the

<sup>605</sup> EEIP, *Navigátor bezpečného úvěru [Navigator of Secure Loan]* (Charles University, 2013).

<sup>606</sup> High interest rates combined with high penalties for delay or default allow these lenders to forfeit real estate used as collateral which then becomes the subject of money laundering (People in Need – Rozhodně ně (2014): *Byznys s dluhy: Licha [Loan business: Loansharking]*).

<sup>607</sup> P. Kupka and T. Šmíd, “The Outsiders: Vietnamese Crime Groups in the Czech Republic”, *Jane’s Intelligence Review*, 2011 23, no. 12 (2011): 40-43.

illegal cigarette market at the national level, thus creating a profitable opportunity exploited by Italian criminal entrepreneurs.<sup>608</sup>

In particular, the evolution of this illicit market is characterised by two distinct phases, with the police operation “Primavera”<sup>609</sup> functioning as a key dividing event:

- In the first period (between the 1950s and the 2000s), the illicit tobacco market in Italy represented the initial and very profitable illegal activity of Italian OCGs (the Camorra, the ‘Ndrangheta, Cosa Nostra and Sacra Corona Unita) that, in this way, had been able to foster the recovery of economic growth employing different individuals, residing especially in deprived areas of the country. Due to the type of products smuggled and their low prices, the number of persons involved (estimated, for example, at 15% of the total population residing in the city of Brindisi, region of Apulia) the illicit tobacco market expanded rapidly, thus becoming accepted and, in some cases, supported at the social level (IT-E1, IT-E15, IT-E7, IT-E11). Tobacco products at this time consisted mainly in contraband cigarettes, with smugglers adopting a *modus operandi* aimed at avoiding police control at borders or officials control at customs, and tobacco manufactures in many cases as compliant suppliers (IT-E1, IT-E2).<sup>610</sup>
- In the second period (2000s to nowadays), resulting from the counteraction attempts of Italian and European authorities (e.g. police operation “Primavera”, national laws, and agreements between EU institutions and major international tobacco companies), the scenario of the illicit tobacco market has consistently changed in the following features: 1. a renewed interest of traditional Italian OCGs (especially the Camorra and the Sacra Corona Unita); 2. the appearance of new criminal organisations from Eastern Europe (due to the opening of borders), the former Soviet Union and Asia; 3. the formation of new alliances and business joint ventures among criminal entrepreneurs used to introduce illicit tobacco products not previously traded on the national market (e.g. counterfeit brands and illicit whites), imported in huge quantities through container shipments or lorry trucks to hide the merchandise at customs (IT-E1, IT-E4, IT-E15).

Indeed, at present, the national illicit tobacco market appears to be undergoing a renewed expansion, also due to the contingent economic crisis, displaying vibrant and mutating dynamics, while involving the interplay of different actors (see section on market structure and actors).

<sup>608</sup> G. Nanula “Il contrabbando come fonte di finanziamento della mafia” [Contraband as a Source of Mafias Financing] (Guardia di Finanza, Palermo, 18-19/11 2009).

<sup>609</sup> The operation “Primavera” was carried out in 2000s by the Guardia di Finanza, National Police and Carabinieri in the region of Apulia, which has represented since the beginning a key area of tobacco smuggling carried out by the collaboration between the Sacra Corona Unita and Albanian/Montenegrin smugglers. This counteraction originated as a response to the heavy contraband phenomenon that was becoming more and more widespread and violent, having also caused the death of some officials. See La Repubblica, Duemila uomini in Puglia contro i contrabbandieri [Two Thousand Policemen in Apulia Against Smugglers], February 2000.

<sup>610</sup> See also F. Calderoni “A New Method for Estimating the Illicit Cigarettes Market at the Subnational Level and Its Application to Italy”, *Global Crime* 15 (2014): 51-76; L. Joossens, *PACTE. Industry and Market Response. Work Package 5. Illicit Tobacco Trade in Europe: Issues and Solutions*, 2011.

## Market overview

Data on consumers of illicit tobacco products in Italy are limited. Available research estimate a slight decrease of smokers in the general population between 1990 and 2010 (from 26% to 23%), and, on the contrary, an increase of ITP smokers since 2010 (10% in the first months of 2013, 6.4% in 2012 and 3.3% in 2011.<sup>611</sup> The latter present differences in regard to the areas of the national territory: people are more aware of possible health damages in the Northern regions and thus less likely to buy this type of products; less worried and more used to this illicit market are smokers in the Southern regions where individuals, also for the different socioeconomic conditions, turn to ITP more frequently (IT-E3).<sup>612</sup> Furthermore, one expert (IT-E15) has suggested higher levels of use of contraband cigarettes among the juvenile population compared to other age groups, due to lower levels of affordability and awareness of eventual health risks.

As for the expenditure on tobacco products, according to Nomisma,<sup>613</sup> it amounted to €18.9 billion in 2011, with an increase in value of 3% compared to 2010 (€18.4 billion), and with a 74.5% out of the total corresponding to tax revenue in the same year (€10.9 billion for excise duty and €3.1 billion for VAT). Although prices of tobacco products are not the highest in Italy compared to other EU countries (e.g. the average price of a pack of 20 cigarettes is around €4.58), taxes on tobacco products have constantly and gradually increased during the last years, with repercussions on customers' affordability.<sup>614</sup> The latter has been also undermined by the present economic crisis, affecting mainly lower social classes in which smoking prevalence appears to be higher.

Indeed, the slight but constant decrease in the volume of cigarettes sold starting from 2010 (-1.8% in 2011; -5.3% in 2012 and -6.3 in 2013) can be interpreted as the choice of customers for other tobacco products: from low priced cigarettes (from 0.8% to 2.5% of the legal consumption in the period between January and October 2013), HRT (+47.3% in 2011 compared to 2010), to e-cigarettes.<sup>615</sup>

Consistently, some experts (IT-E1, IT-E3, IT-E2, IT-E15) and authors<sup>616</sup> have argued that the increasing tax burden which results in higher prices of

<sup>611</sup> Nomisma, *La filiera del tabacco in Italia. Impatto socioeconomico ed aspetti di politica fiscale. XVI Rapporto [The Tobacco Supply Chain. Socio-economic Impact and Fiscal Policy Issues. XVI Report]*, 2012.

<sup>612</sup> See also Transcrime, *European Outlook on the Illicit Trade in Tobacco Products*, 2015.

<sup>613</sup> Nomisma, *La filiera del tabacco in Italia. Impatto socioeconomico ed aspetti di politica fiscale. XVI Rapporto [The Tobacco Supply Chain. Socio-economic Impact and Fiscal Policy Issues. XVI Report]*.

<sup>614</sup> KPMG, *Project Sun. A Study of the Illicit Cigarette Market in the European Union. 2013 Results*.

<sup>615</sup> Philip Morris Italia, *Audizione di Philip Morris Italia Srl su Accise e Tabacchi [Audition of Philip Morris Italy on Excise Duty and Tobacco Products]*, 2013.

<sup>616</sup> Nomisma, *La filiera del tabacco in Italia. Impatto socioeconomico ed aspetti di politica fiscale. XVI Rapporto [The Tobacco Supply Chain. Socio-economic Impact and Fiscal Policy Issues. XVI Report]*; F. Calderoni, M. Angelini, S. Favarin, *Italy: the Factbook on the Illicit Trade in Tobacco Products 2*; Commissione parlamentare, *Relazione sulla contraffazione nel settore del tabacco [Report on Counterfeiting in the Tobacco Sector]*, 2012; Philip Morris Italia, *Audizione di Philip Morris Italia Srl su Accise e Tabacchi [Audition of Philip Morris Italy on Excise Duty and Tobacco Products]*; Censis, *Nuove regolazioni del mercato dei tabacchi lavorati: le posizioni degli attori, il rilievo economico, l'atteggiamento dei cittadini [New Regulations on the Market of Tobacco Products: Actors Roles, Economic Importance, Citizens Attitudes]*, 2011.

tobacco products represents a significant factor for the presence of the illicit tobacco trade (ITT) in Italy. In this regard, different estimations are available at the national level, although not updated and regular, that underline how the ITT “passed from high levels until the 1990s to very low ones at the beginning of the 2000s”,<sup>617</sup> while starting to increase again in recent years.

In particular, Nomisma<sup>618</sup> has estimated the ITT in the years 2009 – 2010 at about 3.2% of the total legal consumption, corresponding to a volume of 2.8 billion cigarettes, among which 413 million pieces being counterfeited (Table 48). Furthermore, the illegal market value is estimated at €615 million, with €485 million representing the amount of loss in tax revenue by the State. As for the years 2011 and 2012, the incidence of the ITT on the total legal consumption was estimated respectively at 3.3% and 6.4%.<sup>619</sup>

**TABLE 48. ESTIMATIONS OF THE ILLICIT TOBACCO TRADE IN ITALY. YEARS 2009 – 2010 AND % VARIATION**

	2009		2010		2009 – 2010 (average)	
	<i>Cigarettes (millions)</i>	<i>Incidence of legal consumption</i>	<i>Cigarettes (millions)</i>	<i>Incidence of legal consumption</i>	<i>Cigarettes (millions)</i>	<i>Incidence of legal consumption</i>
Counterfeit	305	0.3%	520	0.6%	413	0.5%
Contraband	2.438	2.7%	2.419	2.8%	2.429	2.7%
Illegal market*	2.741	3.1%	2.926	3.4%	2.833	3.2%

\* The illegal market does not correspond to the sum of the counterfeit and contraband cigarettes since one pack can produce both law violations at the same time.

Source: Authors' elaboration on Nomisma (2011).

In most recent years, there has been a decline in counterfeit and contraband (C&C) tobacco products “as a share of the total consumption in 2013”<sup>620</sup> at the European level, a trend which is in line with consumption at the national level: between 2012 and 2013, both the overall consumption of manufactured cigarettes and of C&C tobacco products decreased from €7.29 billion in 2012 to €3.68 billion in 2013 (-50% drop in consumption), (Table 49). In this regard, several factors have been contended: 1. Additional law enforcement activity in areas recognised of being at risk (streets and ports), and especially in the city of Naples where contraband of cigarettes accounts for the 30% of the national ITT; 2. The withdrawal of “Classic”, heavily counterfeited in Ukraine and becoming increasingly recognised as illicit brand; 3. The

<sup>617</sup> F. Calderoni, “A New Method for Estimating the Illicit Cigarettes Market at the Subnational Level and Its Application to Italy”, *Global Crime* 15 (2014): 51-76, 57.

<sup>618</sup> Nomisma, *La contraffazione delle sigarette in Italia. Presentazione del Primo Rapporto Nomisma [Cigarettes Counterfeiting in Italy. Presentation of the First Report Nomisma]* (Rome: June 2011).

<sup>619</sup> Nomisma, *La filiera del tabacco in Italia. Impatto socioeconomico ed aspetti di politica fiscale. XVI Rapporto [The Tobacco Supply Chain. Socio-economic Impact and Fiscal Policy Issues. XVI Report]*.

<sup>620</sup> KPMG, *Project Sun. A Study of the Illicit Cigarette Market in the European Union. 2013 Results*, 10.

effect produced by the introduction of the “super-low” segment that maintaining stable prices have prevented customers to turn to the illicit market (4% of overall market share in 2013).<sup>621</sup>

**TABLE 49. TOTAL MANUFACTURED CIGARETTE CONSUMPTION.**  
YEARS 2009 – 2013 AND % VARIATION 2012 – 2013

Billion cigarettes	2009	2010	2011	2012	2013	2012 – 2013 %
Legal domestic sales (LDS)	89.16	87.05	85.47	78.74	74.04	6
Outflows	-0.92	-0.93	-1.01	-0.93	-0.78	16
Legal domestic consumption (LDC)	88.24	86.12	84.46	77.81	73.25	6
Non-domestic legal (ND(L))	1.46	1.09	1.12	0.84	0.84	1
Counterfeit and contraband (C&C)	3.04	4.55	4.81	7.29	3.68	50
Total non-domestic	4.50	5.64	5.93	8.13	4.52	44
<b>Total consumption</b>	<b>92.74</b>	<b>91.76</b>	<b>90.39</b>	<b>85.94</b>	<b>77.77</b>	<b>10</b>

Source: Authors' elaboration on KPMG (2013).

Besides the price of tobacco products and the role of the economic crisis that may be at the basis of ITT in Italy, other key factors have been underlined: 1. The presence of organised crime groups involved, in particular native ones (see section on market structure and actors), due to the high profits and the low risks of being detected and apprehended, while exploiting consolidated routes used for other criminal activities (e.g. cocaine trafficking); 2. Medium to high levels of corruption; 3. The lack of a national plan to counteract the ITT; 4. The geographical position of Italy as a key destination and transit country for the illicit tobacco trade, especially perpetrated by sea routes.<sup>622</sup>

Illegal tobacco products arrive to Italy through three main entry points: the Adriatic Sea, the Tyrrhenian Sea and the Eastern European border (Croatia) reaching the region of Friuli-Venezia Giulia, with Italian ports as the most vulnerable places for smuggling.<sup>623</sup> As indicated by data on seizures provided by the Customs and Monopolies Agency, National Anti-Fraud and Control Directorate for 2012, gathered during the interview and in line with more recent data provided by experts (IT-E1, IT-E2, IT-E5, IT-E3, IT-E8), illicit tobacco products are imported from:<sup>624</sup>

<sup>621</sup> Ibidem, A. Greco, “Crolla in Italia il contrabbando di sigarette: -50% nel 2013” [Cigarettes Contraband Collapse in Italy: -50% in 2013], *La Repubblica*, June 2014.

<sup>622</sup> F. Calderoni, M. Angelini, S. Favarin, *Italy: the Factbook on the Illicit Trade in Tobacco Products 2*.

<sup>623</sup> Transcrime, *European Outlook on the Illicit Trade in Tobacco Products*; Commissione parlamentare, *Relazione sulla contraffazione nel settore del tabacco [Report on Counterfeiting in the Tobacco Sector]*.

<sup>624</sup> It is specified that: the port of Ancona is situated in the region of Marche (Central Italy) on the Adriatic coast; the port of Bari in the region of Apulia (South of Italy) on the Adriatic coast; the port of Gioia Tauro in the region of Calabria (South of Italy) on the Tyrrhenian coast; the port of Genoa and La Spezia in the region of Liguria (North West of Italy) on the Tyrrhenian coast; the port of Trieste in the region of Friuli-Venezia Giulia (North East of Italy) on the Adriatic coast; the port of Naples in the region of Campania (South of Italy) on the Adriatic coast.



- Eastern European countries such as Montenegro, Moldavia, Romania, Bulgaria, by land routes and reaching the city of Trieste;
- Eastern European countries such as Montenegro and Albania to the ports of Venice, Ancona, Bari;
- Greece to the ports of Venice, Ancona, Bari;
- United Arab Emirates to the port of Gioia Tauro and Saudi Arabia to the port of Genoa;
- Northern African countries such as Egypt reaching the ports of Trieste and La Spezia;
- China to the port of Genoa, Taranto, Naples.

In particular, contraband cigarettes seized by regional and provincial custom agencies amounted to a total of 12,357,031 packs in 2012, imported mainly from Greece (5,498,383 packs), United Arab Emirates (2,227,754 packs) and Egypt (1,944,709 packs), hidden in container shipments carrying other legitimate or counterfeit products. The highest quantity remains on the national territory (4,378,680 packs), while the higher volumes are further exported to Montenegro (1,960,000 packs), Greece (1,800,300 packs), Belgium (739,490 packs) and Germany (687,430 packs).<sup>625</sup> Lesser quantities are also exported to the United Kingdom (IT-E7, IT-E8, IT-E2, IT-E1). Once ITP reach the national territory, the major destination areas are the regions of Lombardy, Apulia, and Campania, with the latter considered to be the place more frequently used to sort, storage and distribute the merchandise at the wholesale and retail level (IT-E10, IT-E9, IT-E19).

**TABLE 50. MAIN CIGARETTES BRANDS CONFISCATED AT CUSTOMS IN 2012**

Brands	No. of packs	% total
Gold Classic	2,099,732	17.0
Ronhill	1,978,480	16.0
Capital	922,915	7.5
Gold Mount	895,254	7.2
Raquel	877,100	7.1
Richman	828,330	6.7
Jin Ling	509,580	4.1
Brooks	500,00	4.0
Marlboro	439,653	3.6

**Source:** Authors' elaboration on Customs and Monopolies Agency, National Anti-Fraud and Control Directorate (2012).

Among the different types of ITP, Italy has been recording high growth of illicit whites, especially starting from the 2000s (IT-E14, IT-E15, IT-E1). In 2010, 106 tonnes out of a total of 280 contraband cigarettes seized; while in 2011, 141 tonnes out of 240 of contraband cigarettes seized.<sup>626</sup> Furthermore, one expert (IT-E15), reported for the first semester of 2013, a 75.5% of illicit whites seized in the national territory. In 2012, main brands of illicit whites intercepted at customs have been Gold Mount, Raquel, Richman, Jin Ling, together with other legal brands (Table 50).

At the same time, as pointed out by some experts (IT-E1, IT-E15)

<sup>625</sup> Data provided by the Customs and Monopolies Agency, National Anti-Fraud and Control Directorate during the interview with the appointed expert and referring to 2012.

<sup>626</sup> Commissione parlamentare, *Relazione sulla contraffazione nel settore del tabacco [Report on Counterfeiting in the Tobacco Sector]*.

new type of tobacco products have entered the national market during the last years. These are produced by tobacco manufacturers to be sold online to companies, mainly located in Eastern Europe, that in turn supply duty free shops. This trend resembles to one of the 1990s and 2000s when Switzerland was used to sell cigarettes in virtue of legal licences to Montenegro, that once imported were further diverted to Italy through maritime transportation (via motorboats), (IT-E1, IT-E15). Indeed, in 2014, a major case involved an Italian tobacco manufacture, named Yesmoke (situated in the municipality of Settimo Torinese, region of Piedmont), that was seized because of suspected €70 million of evaded taxes for cigarette contraband through fictitious exportations carried out among EU and extra EU companies.<sup>627</sup>

## Market structure and actors

The illicit tobacco market in Italy is particularly fragmented into the interplay of various actors: from native OCGs (the Camorra, the Sacra Corona Unita, and to a lesser extent the 'Ndrangheta and Cosa Nostra) and foreign OCGs, to more or less organised criminal organisations (mainly foreigners) and individuals, (IT-E10, IT-E9).<sup>628</sup>

As contended by one expert (IT-E2), at present the illicit tobacco trade seems to be characterised by the territory in which criminal organisations are settled within the country: 1. The regions such as Campania and Apulia, where the more traditional and historical Italian OCGs (respectively the Camorra and the Sacra Corona Unita) reside, structured more as oligarchic organisations with a clear definition of tasks and duties among members; 2. Criminal organisations, mainly of Eastern European origin, with members located in metropolitan areas (e.g. cities of Milan, Turin, Rome) acting as points of reference and controlling from 5 to 15 affiliates. These criminal entrepreneurs, characterised by different roles and *modus operandi* within the ITT, may either collaborate or act as solo criminal entrepreneurs.

In the first case, it is then possible for larger networks to be formed in virtue of business opportunities and type of relations among smugglers (i.e. stable vs. occasional), (IT-E1, IT-E5, IT-E3, IT-E7, IT-E19).

“In our investigation we started from a small Polish group, but soon we discovered different groups all connected and already knowing each other in virtue of previous joint ventures and/or mutual support (e.g. a group needs a courier/a mean of transport and ask to members of the other groups). A real network” (IT-E1). “The [same] investigation revealed the involvement of 301 individuals of the following nationalities: Italian,

<sup>627</sup> M. Peggio, “Sequestrato per contrabbando lo stabilimento Yesmoke di sigarette a Settimo Torinese” [Seized Yesmoke Company in Settimo Torinese for Cigarettes Contraband], *La Stampa*, November 2014. It is underlined that the tobacco manufacture Yesmoke has been recently reopened by the owners. For further information on this case see also D. Turrini “Smokings, docufilm su azienda che sfidò i big del tabacco. Ma proprietari in cella [Smokings, Documentary on the Company that Challenged the Tobacco Big Manufacturers. Owners in Jail], *IlFattoQuotidiano*, December 2014.

<sup>628</sup> See also F. Calderoni, “A New Method for Estimating the Illicit Cigarettes Market at the Subnational Level and Its Application to Italy”; F. Calderoni, M. Angelini, S. Favarin, *Italy: the Factbook on the Illicit Trade in Tobacco Products 2*; Commissione parlamentare, *Relazione sulla contraffazione nel settore del tabacco [Report on Counterfeiting in the Tobacco Sector]*.

Greek, German, Russian, Ukrainian, Polish, Moldavian, Kazakh, Bulgarian, Slovak, Romanian, Latvian and Argentinian”.<sup>629</sup>

Loose and fluid networks of variable dimensions exist within the national illicit tobacco market, in order to share costs and risks of tobacco smuggling operations among groups, diversify routes of trafficking, and provide mutual support. Although participating in joint ventures, these groups tend to remain separated because they are in charge of and specialise in each distinct phase of the smuggling operations. Indeed, individuals operating within these networks carry out specific and distinct tasks: transportation (e.g. couriers, drivers), unloading (unloaders, dockers), storage (warehouse keepers), selling (wholesalers and retailers), payment (intermediaries, couriers). The aim is to avoid reciprocal knowledge as to guarantee the safety of groups involved (IT-E14, IT-E1, IT-E2, IT-E5, IT-E11). For this reason, some experts have underlined the key role of intermediaries (IT-E1, IT E-7), useful to connect potential buyers and suppliers, and guaranteeing for the deal. Furthermore, their strategic function is to ensure constant contact among the groups involved, as well as the arrival of the products, being usually located in the destination areas (both in Italy and other EU countries).

“Intermediaries are key persons, functioning as trusted linkages among groups. They are useful to keep contacts with couriers transporting ITP that in many cases do not know the Italian language. The Neapolitan buyer, for example, would have problems in being acknowledged about variations occurred (e.g. delays in delivery, change of routes due to police control), so there is the need of persons able to communicate with both sides of the operation. During the last years and in regard to cases of collaborations between Camorra clans and Ukrainian criminal entrepreneurs, we have detected Eastern European intermediaries residing in Naples representing the *trait d'union* between the two groups” (IT-E1).

In the second case, criminal organisations present a more ‘centralised’ structure and are based on familial, kinship or ethnic bonds. The bosses are usually the financiers and the organisers of the entire smuggling operations with direct contacts with suppliers. Roles and duties are extremely separated among members and are functional to carry out all the necessary phases of trafficking as well as to avoid the circulation of information, reducing in this way the risks of apprehension. At the same time, other external individuals are recruited to perform specific tasks (IT-E3, IT-E18, IT-E5).

“We detected a group presenting an oligarchic structure, capable to perform all the necessary steps to accomplish tobacco smuggling operations. At the top level there were three Ukrainian bosses investing equal capitals to purchase the ITP. Among them, one was in charge of logistics, one of transportation, and one of finding couriers for further distribution throughout the national territory. Individuals of the same

<sup>629</sup> Trentino Corriere Alpi, *Traffico illecito di sigarette lungo il Brennero, maxi sequestro della Finanza Illicit Cigarettes Trade Through the Brennero Route, Huge Seizure of Guardia di Finanza*, January 2015.

nationality were also recruited in Italy in order to identify warehouses, recover vehicles for transportation and contact possible clients” (IT-E3).

High/middle and low segments are active within the national illicit tobacco market which are characterised by different scale of tobacco smuggling operations, nationalities of smugglers, countries of origin of ITP and *modus operandi*. In particular, high/middle segments include both native and foreign OCGs that organise large scale smuggling operations, manage production and/or importation of huge quantities of tobacco products and their further distribution throughout the national territory and to other EU countries. Low segments, involve small groups (more or less organised) or solo criminal entrepreneurs mainly of foreign origin, that arrange small importations of ITP to be further sold especially to compatriots.

### Importation and wholesale levels

#### *High/middle segment – large scale smuggling operations*

At this level, both native and foreign OCGs are active within the national illicit tobacco market exercising different roles. As pointed out by the majority of experts (IT-E15, IT-E17, IT-E18), Camorra clans located in Naples are nowadays the criminal entrepreneurs that import huge quantities of ITP, while at the same time controlling strategic areas of arrival and transit, and the further distribution within the national territory. “34.3% (more than 115 tonnes) out of the total illicit tobacco seizures occurred in Italy in 2013 was registered in the region of Campania” (IT-E15). In particular, the Camorra imports illicit tobacco products collaborating with the Sacra Corona Unita and the ‘Ndrangheta (to a lesser extent), and with other groups of smugglers from China, the former Soviet Union (Russia, Georgia, Belarus), Eastern Europe and Greece. Collaborations with Maltese and Turkish criminal entrepreneurs, although in minor cases, are also present (IT-E7, IT-E8, IT-E1).

Support from Italian OCGs is obtained having at disposal strategic ports (such as Bari and Brindisi on the Adriatic coast and Gioia Tauro on the Tyrrhenian coast) where tobacco products arrive from Eastern European countries, China and Russia. The Sacra Corona Unita especially, controls the arrival of container shipments and cooperates with Camorra transporting the merchandise by land (e.g. vehicles, lorries) to warehouses located in the region of Campania (especially in the city of Naples); while at the same time being involved in national distribution as well (IT-E17, IT-E2).

Camorra clans are also in contact with groups of Neapolitan smugglers (made of 5 up to 15 members), named “paranze”, active in the areas of Naples and in the nearby provinces as well as in the region of Apulia (IT-E16, IT-E15). The latter manage tobacco smuggling operations independently, importing ITP from Eastern European countries, although submitted to the permission of Camorra clans for both operating and selling. While, on the one hand, Camorra families may also finance these

tobacco smuggling operations, on the other (and in more recent times), they have started to charge smugglers with payments per each master case entering these local illicit markets (IT-E15, IT-E2).<sup>630</sup>

Similarly, collaborations between the Camorra and foreign criminal entrepreneurs such as Chinese, Russian, and Eastern European (Romanian, Ukrainian, Moldavian, Polish, Bulgarian, Hungarian, Slovak), are fundamental in order to purchase and import ITP. Indeed, as underlined by some experts (IT-E1, IT-E7, IT-E10, IT-E14), in most cases the latter manage production, importation, storage and final delivery of contraband cigarettes to the former. For example, joint ventures with Chinese OCGs exist as to import to Italy huge quantities of counterfeit cigarettes. Indeed, these groups own and manage illegal factories (almost 80% located in the provinces of Guangdong and Fujian) producing counterfeit tobacco products directed to Italy via container shipments and further introduced into the illegal national market in virtue of the cooperation with Camorra clans (IT-E14, IT-E4, IT-E1, IT-E15). Nevertheless, counterfeit cigarettes are not intended for the Neapolitan illicit market, being instead subsequently diverted to the cities located in the Northern regions (e.g. Lombardy, city of Milan). As suggested by one expert (IT-E15), “Neapolitans smoke good quality cigarettes being able to discern among products. They do not smoke Chinese brands, which indeed are not present in their illegal local markets”.

Eastern European criminal organisations either collaborate with Camorra clans or act as autonomous groups of smugglers cooperating with each other. In particular, these groups produce illicit whites and, in many cases, import them to Italy together with contraband cigarettes. While in their countries are also in charge of storing ITP coming from Russia and China, in Italy they mainly supply Camorra families and other groups of similar origin. Furthermore, these groups act as importers, brokers (mediating between Italian buyers and Eastern Europe suppliers), warehouse keepers and transporters for the former.

“We have detected a group of Moldavians active in the area of the city of Pesaro [central Italy] with intermediaries settled in Greece. Tobacco products were transported by ships to the port of Ancona and from there by lorries to the city of Pesaro to be stored. The loads were intended for a Camorra clan, revealing strong links among these groups. The latter are always present, together with the Sacra Corona Unita. Furthermore, Camorra clans have also contacts with Ukrainian and Polish criminal groups that import ITP from Romania and Hungary” (IT-E7).

With regards to the role of Eastern Europe criminal entrepreneurs within the illicit tobacco national market, experts (IT-E1, IT-E2, IT-E7, IT-E17, IT-E18) agree that these entrepreneurs need, in the initial phase of smuggling (dated back to the beginning of 2000s), to establish alliances with Italian OCGs and in particular the Camorra as to operate within the

<sup>630</sup> As suggested by one expert (IT-E15), this practice has a long history, being in use since the beginning of this type of illicit activity. Indeed, Raffaele Cutolo, one of the main bosses of the Nuova Camorra Organizzata involved in tobacco smuggling used to charge €2.50 per each master case.

national territory. Nevertheless, at present, it seems that these organisations have been able to open independent channels of importation and further distribution. For example, Ukrainian, Polish, Moldavian, Hungarian and Slovakian, that have been settled in Italy for a long time, have gradually acquired prominence, visibility and credibility as to establish themselves at the top levels of the smuggling chain. “Criminal groups from the Eastern Europe (Ukrainian, Polish, Moldavian) started to appear in the national illicit tobacco market around 2005/2006. From that time, they have developed and rooted rapidly” (IT-E1). Indeed, in the hinterlands of different Italian metropolitan cities, the ITT is now managed by the same ethnicities assisted by Arabs recruited for minor tasks (e.g. retail selling), (IT-E2).

In general, as explained by one expert (IT-E2), OCGs and more organised crime groups adopt a common step by step *modus operandi* in order to organise and carry out tobacco smuggling operations: 1. Arranging initial contacts with foreign suppliers to verify availability of the merchandise, quantity, quality and price; 2. Starting negotiations through coded messages or cryptic languages. “We have intercepted a Greek smuggler owning 50 mobiles and phone cards using them randomly, and another Italian smuggler from Apulia that used to discard his mobiles after every 7 calls. He would then communicate from a public telephone box changing alphanumeric codes to transmit his new numbers” (IT-E1); 3. Organising procedures for the illicit transportation; 4. Recovery and storing in temporary warehouses; 5. Distribution through retail markets.

Importation of ITP to Italy occurs through container shipments or lorries depending on whether suppliers are respectively Chinese, Russian or Eastern European used to deliver huge quantities of tobacco products. In both cases, the latter may be transported together with other commercial goods (e.g. pieces of furniture, animal food cans, engine tanks, vegetables) or counterfeit products (e.g. clothes, shoes, gabs, accessories) especially when Chinese groups are involved, or hidden in the interspaces of transports (IT-E2, IT-E7, IT-15, IT-E5). “I suppose that the use of vegetables, for example, reside in the similarity of weight compared to ITP, alternatively the use of cold storages depend on the impossibility for customs to control without products getting altered” (IT-E14).

“At some point of our investigation we detected a supplier working with criminal entrepreneurs in Naples. He was a Kazakh with a Greek passport supplying huge quantities of illicit tobacco to Italy recovered from Southern East Asia and Bulgaria. He used to take care of the consignment of the merchandise: illicit cigarettes were unloaded in the port of Brindisi, Bari, Ancona accompanied by fake dispatch notes declaring as final destination the North of Europe. In practice, once cigarettes were unloaded, dispatch notes were replaced by the intermediary of the Kazakh-Greek smuggler reporting the city of Naples as final destination.

The Kazakh-Greek smuggler has delivered many loads this way, organising the transportation of illicit cigarettes that were hidden in container shipments together with several and different commercial products. His

criminal organisation in Greece is rooted and wide, and linked to numerous compliant transportation companies” (IT-E1).

Thus, in order to transit through customs, dispatch notes are falsified in terms of products, quantity and destination. At the same time, container shipments for example, are more likely to cross several different transshipment spots (among countries and in a same country) as to hide the origin of the merchandise (IT-E7, IT-E1, IT-E8). In other cases, smuggling is facilitated by the direct control of OCGs of strategic delivery spots, as it is for Chinese groups in the port of Taranto (region of Apulia), and Camorra clans in the ports of Naples and Salerno (region of Campania), (IT-E1).

Companies that provide commercial products to hide ITP, as well as transportation services are owned by smugglers (usually registered to straw men), or compliant individuals. “We have discovered cigarette packs hidden in the structure of wooden doors, made for sure by a colluding factory since introduced during the production cycle” (IT-E1). In other cases, transportation can be managed either by unaware companies exploited by traffickers, or holdings acting as filters to hide the identity of criminal entrepreneurs which are the effective owners and organisers of the smuggling operations (IT-E14). As for transporters (e.g. truck drivers), some experts agree that unaware individuals are not the rule (IT-E2, IT-E1, IT-E14).

Eastern European criminal organisations (e.g. Ukrainians) also import ITP employing cars (with double-bottoms) and vans, transporting larger numbers but separate loads (around 40 kilos up to 5,000 kilos in total), decreasing this way the likelihood of interception of all the merchandise. “This Ukrainian group was used to import huge quantities of contraband tobacco through high-powered cars (Mercedes, BMW). Loads left from the city of Chernivtsi in Ukraine, crossing the Romanian customs thanks to complicit officers. Using outriders (in some cases couches transporting unsuspected Ukrainian citizens coming back to Italy for work), the loads of tobacco reached the hinterland of the city of Milan to be further stored in rented garages run by affiliates” (IT-E3).

Corruption of customs officials is considered by some experts (IT-E1, IT-E15, IT-E7) to represent a means used by smugglers to run tobacco smuggling operations smoothly. Cases of corruption have been identified pertaining both to Eastern European and Italian officials. The latter, indeed, may facilitate importation of contraband tobacco products either by avoiding controlling suspected loads, or approving irregular dispatch notes.

Once ITP reach the Italian territory, loads are then divided into smaller ones and transported by cars, vans, campers, lorries (carrying from 100 kilos [100 master cases] to 9,000 kilos [900 master cases]) by recruited couriers or lorries to be stored in huge quantities in warehouses located in the Northern and Central regions as to avoid the risks of police seizures. From these locations, the smuggled tobacco is subsequently delivered to the main distribution areas for retail selling (IT-E15).

*Low segment – small scale smuggling operations*

At this level of operation, the illicit tobacco trade appears more fragmented involving different smugglers either linked to small criminal groups or acting as solo criminal entrepreneurs. Again, a prominent role is exercised by Eastern European (Belarusians, Ukrainians) but also North Africans (Egyptians, Senegalese)<sup>631</sup> transporting ITP in lesser quantities (i.e. bootlegging), and selling them mainly to circumscribed circles of customers, that are usually compatriots, family members or friends.

“In the city of Bologna we detected an inside man working for an Ukrainian and Moldavian group. His clients were 99% Ukrainians living in the area. Cigarettes were sold to acquaintances, friends and relatives that were used to make orders. In some cases he would deliver the cigarettes, in other clients would come to pick them up” (IT-E1).

More generally, these actors purchase small quantities of tobacco products (exceeding the legal limits) in other countries exploiting differences in prices among countries. The merchandise can be transported by land, air or sea, hidden in travelling bags or suitcases. The following examples have been reported:

- East European (e.g. Ukrainian, Romanian) exploiting legitimate travels and means of transport (e.g. coaches and minibuses) to import ITP (hidden in bags) together with passengers, luggage containing personal belongings and other goods. An example is the importation by Ukrainians of contraband cigarettes/illicit whites through trips made by caregivers from their home country to Italy (IT-E4).
- Egyptian individuals travelling with many bags from Egypt to Italian airports importing cigarettes of foreign (produced in their country) and EU brands acquired at a very low price compared to Italy. The products are sold to country-fellow men. The same method is used by Eastern European importing cigarettes with EU brands (IT-E6).

## Retail level

At the retail level, the illicit tobacco trade in Italy is characterised by the coexistence of different markets related to the type of actors involved (i.e. OCGs/criminal groups, solo entrepreneurs) and areas within the country (North, Centre and South). “Retail selling could be defined as South and North models, with a prominent role of Camorra in sorting loads and directing them to Southern and Northern markets on the basis of the quality of ITP” (IT-E1).

In the regions of Campania and Apulia, the presence of Italian OCGs (Camorra and Sacra Corona Unita) has brought to the creation of open

<sup>631</sup> It has been pointed out by one expert (IT-E10) that the *modus operandi* of North Africans (i.e. Senegalese) may also include the use of container shipments. Indeed, they import small quantities of cigarettes using luggage of couriers travelling by plane, or they introduce illicit tobacco in Italy through shipping the products via ship cargos. The latter may also transport other counterfeit products, foodstuffs, medicines, commercial goods and typical African products in the same loads.



markets where illicit tobacco products are sold in the streets. The city of Naples is an example of stalls selling contraband cigarettes and located in different neighbours where individuals are recruited for this purpose, performing work shifts. This illicit widespread market has become almost a “normal” commercial activity especially for inhabitants (IT-E15).

“Once the groups of Neapolitan smugglers (paranze) have introduced the illicit tobacco in the national territory, they get in contact with wholesalers (named ‘bozzatori’) that in turn supply stalls where the retail distribution occurs. In some cases, it is wholesalers (bozzatori) that manage stall networks. Clients are mainly Neapolitan aware and used to this market and able to recognise quality illicit tobacco products” (IT-E15).

At the same time, contraband cigarettes are sold in private apartments known by customers. A similar method of selling is carried out by Eastern European individuals (e.g. Ukrainian, Moldavian, Romanian, Polish) in the Northern parts of the country, although illicit cigarettes can be found hidden in cars/vans in daily/weekly ethnic markets where they sell other commercial products as well. Clients are either family members, friends, acquaintances, residing in the same areas, or North Africans (e.g. Egyptians). These covert markets are present mainly in the North of Italy, that is areas not controlled by Italian OCGs and corresponding to the ones where higher presence of Eastern European citizens is registered, functioning as networks of retail distribution. Examples are the markets of Cascina Gobba and Molino Dorino in the city of Milan or Porta Palazzo in the city of Turin (IT-E4, IT-E5).

## Financing and financial management

Financing and financial management depend on the criminal entrepreneurs involved in tobacco smuggling and the scale of operations. Due to the interplay of very different actors within this market, start-up capital to initiate and sustain the trafficking may come from illegal and legal sources and from personal savings as well. At the same time, besides OCGs (as for example the Camorra), a common characteristic of smugglers structured in smaller and less organised crime groups is the involvement only in this type of illegal activity where they are able to consolidate their criminal career, while guaranteeing this way not only huge profits but also constant financing of smuggling operations.

### Sources of capital for tobacco trafficking and profiles of financiers

#### *Illegal sources of financing and criminal careers*

Italian OCGs organising tobacco smuggling operations (the Camorra and the Sacra Corona Unita) are, due to their criminal background and profile, involved in other criminal activities. In the case of the Camorra some experts (IT-E1, IT-E15) have underlined the coexistence of different organised crimes being perpetrated that range from drug trafficking, extortions, loansharking, counterfeiting. All of them represent sources of financing of the illicit tobacco trade, which in turn provides capital to

be further reinvested. “It is more likely that the Greek smuggler would have €300,000 in cash to be reinvested in other tobacco smuggling operations” (IT-E1). Similarly, Chinese crime groups finance tobacco smuggling operations with profits gained from counterfeiting (IT-E15, IT-E2, IT-E3, IT-E1).

In general, these OCGs are able to finance and sustain the trafficking without turning to external financiers. Furthermore, capital acquired may also constitute a source of investment into other criminal activities. For example, Camorra clans lend money to persons or families in need through what is called ‘neighbourhood loansharking’: “This system exists only in the city of Naples where smugglers with availability of money lend small sums of money to individuals for their ordinary expenses (e.g. €500 to the lady that has to pay gas or phone bills). They are mainly acquaintances, paying back at high interest rates to affiliates in charge of collecting the loaned sums of money” (IT-E1).

Nevertheless, in most cases criminal entrepreneurs involved in the illicit tobacco market, whether more or less organised, invest capital exclusively in tobacco smuggling operations. As pointed out by one expert (IT-E1), only in very few cases smugglers may decide to join drug trafficking. The majority starts with tobacco and remains in this market where they develop their criminal careers. At the basis of this choice, there are both practical reasons as well as ethical and moral motivations. On one side, the nature and the dynamics of the two markets are different (e.g. origin and prices of the product, routes of smuggling, type of customers), (IT-E3). On the other, smugglers perceive drug trafficking as a real criminal activity, more risky and with a higher social impact. In their opinion, tobacco smuggling regards legal products sold by the State, thus consisting in committing a minor crime, tax evasion mainly. The “not to blame” perception of their role within this market is well explained by an Italian high profile ex smuggler as follows:

“I am a much respected person. Everyone loves me and is respectful since I am a brave man. Gifted with uncommon courtesy and elegance. I cannot say to be a saint, but in my feelings, I could say to be a saint criminal. Circumstances made me lead my life according to society rules, for which I am a criminal, but my spirit is more similar to the one of a benefactor”.<sup>632</sup>

Thus, when smugglers are at the beginning and in need of initial capital turn to external financiers either belonging to the criminal milieu or legal entrepreneurs.

“In different cases, we have detected the participation of external financiers, facilitated by acquaintances in contact with the criminal organisations or thanks to the action of intermediaries. These individuals are not involved in tobacco smuggling operations, although investing capital coming from other illegal activities (e.g. drug trafficking, frauds,

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<sup>632</sup> F. Capececiatro, *Lo spallone. Io, Ciro Mazzearella, re del contrabbando [The Smuggler. Me, Ciro Mazzearella, King of Contraband]*, (Milan: Mursia, 2013), p. 51.

gambling, counterfeiting) and receiving the invested money back plus lump sums or alternatively agreed cents per each carton or pack sold" (IT-E15).

Italian OGCs, both the Camorra and the Sacra Corona Unita, employ a system called "puntate", dated back to the 1980s and 1990s, to gather the amount of money required among different external financiers (IT-E1, IT-E7, IT-E17, IT-E15). Indeed, during these years in the region of Campania and in particular in the city of Naples, before the arrival of the load from Montenegro, smugglers were used to visit different important and wealthy families and to collect the money on the basis of the quantity ordered to be further carried to Switzerland. Once cigarettes were recovered, they were distributed among families on the basis of the initial investment. The families would have then sold the products and kept the profits (IT-E7). Similarly, in the city of Brindisi (region of Apulia) a virtual bank was created by smugglers where different individuals external to the operations invested money that was subsequently used to buy contraband cigarettes. The invested capital was periodically returned with accrued interest (IT-E1). Nowadays, as explained by one expert (IT-E1) a similar method exists, since regarding customers anticipating the sums of money needed to purchase the loads of tobacco:

"At present in the city of Naples, there is a form of 'call-up' financing, consisting in previous agreements between wholesalers and customers on the quantity of master cases to be ordered. The latter would proceed with anticipated payments, while the former would contact suppliers. It is a sort of capital collecting" (IT-E1).

A similar specialisation has been pointed out by experts for Eastern European smugglers as well (IT-E9, IT-E1, IT-E3, IT-E6), that at present sustain tobacco smuggling operations mainly investing profits gained. Indeed, financiers are members of the criminal organisation, usually at the top levels, that in most cases are not involved in the operations, and may reside abroad in the countries of origin. Nevertheless, at the initial stage, source of financing may be acquired committing minor crimes such as thefts of vehicles, commercial products, thefts in apartments, robberies, credit card frauds. For example, Polish, Ukrainian, and Moldavian criminal entrepreneurs were used to perpetrate cars thefts to gather start-up capital, since implying low initial costs (e.g. number plates and documents) and allowing consistent earnings: "A stolen car in Ukraine can be sold at €20,000" (IT-E1). Once the business is thriving, sources of financing come exclusively from illicit tobacco trade. At the same time, some groups start with small tobacco smuggling operations, being able in short time to expand their illicit activity as to have no need of other sources of capitals besides the profits acquired.

"During our investigations we detected a group of Moldavians composed of seven members that have started to smuggle tobacco carried in bags and suitcases during coach trips on the route Romania-Italy. After a period of time, we intercepted the same group smuggling 1 tonne and 800 kilos of contraband cigarettes hidden in marble slabs and transported by lorry" (IT-E1).

*Legal sources of financing*

While during the first period of the tobacco illicit trade in Italy (1990s – 2000s) criminal entrepreneurs used to be involved solely in this market, at present the engagement in both legal and illegal activities characterises the *modus operandi* of smugglers, in particular belonging to high-middle segments. The latter are active mainly in running trading businesses (pubs, import-export/construction/food companies), that may either represent start-up capital to enter the illicit tobacco market or a continuous source of financing (IT-E1, IT-E3, IT-E7). Indeed, in the first case, one expert (IT-E3) described an Ukrainian criminal group financing tobacco smuggling operations in the initial phase with proceeds gained in running a construction company, dismissed once the trafficking have started to grow allowing for illegal capitals to be invested. In the second case, the strict co-existence of legal and illegal activities was mentioned (IT-E3) in regard to an Egyptian group, owning and managing a café in the city of Milan, where clients could smoke the smuggled tobacco using narghile.<sup>633</sup> At the same time, if on one side legal activities are functional to hide tobacco smuggling operations and laundering profits, on the other they allow entrepreneurs to benefit from EU funds for the sustainment and implementation of the businesses, that in turn may be employed into the tobacco trade: “In one investigation we have detected a lorry truck coming from Ukraine transporting loads of illicit tobacco intended for an Italian company. It then resulted that, to acquire the illicit tobacco products, the owner had used funds received from the European Commission” (IT-E2).

*Financial joint ventures*

Besides the cooperation among groups of smugglers (Italian and foreign OCGs, more or less organised criminal organisations) in relation to each phase of the tobacco smuggling operations, joint ventures can be formed aimed at gathering capital to purchase products, sustains costs and increase profits. These alliances regard both high and low segments and are functional to enter the market at first as well as to sustain the illicit activity over time. Furthermore, they can be formed in virtue of previous and well-tested business relations, temporary agreements concerning single tobacco smuggling operations, or contacts provided by intermediaries (IT-E15).

Depending on cases financial partnerships can involve Italian OCGs, foreign criminal entrepreneurs of East European origin (e.g. Ukrainians, Polish and Moldavian), or Italians and Eastern Europeans (e.g. the Camorra and Ukrainians or Russians). For example, in the region of Campania, small groups of smugglers operate together with Camorra clans providing financial resources to acquire the tobacco products. The latter, although remaining external to the different phases of the smuggling operations, only purchase the merchandise that is indeed distributed by smugglers both at the wholesale and retail level. In the

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<sup>633</sup> Water-pipe.

end, Italian OCGs receive the revenues and smugglers are paid for the service provided with profit margins. Capital acquired, in line with this well-tested collaboration, is then invested for subsequent tobacco smuggling operations (IT-E2).

These financial joint ventures among criminal entrepreneurs based, in most cases, on reciprocal trust and knowledge, are not only functional to finance tobacco smuggling operations, but also to preserve smugglers from situations where capitals are lacking or from different unexpected episodes (see next section). Indeed, although the use of violence among partners does not emerge as a typical trait of this illicit market, retaliations can occur when agreements are not respected or trust is betrayed as to re-establish own control and reputation: "In 2000, we have assisted to a dispute settlement among smugglers in the city of Brindisi resulting in three homicides due to a failed tobacco smuggling operation involving all of them" (IT-E17). At the same time, since criminal organisations may, in some cases, operate in other criminal markets, financial joint ventures allow for capital compensation, that is the possibility to partly repay back financiers through other valuable illegal goods (e.g. counterfeit products, drug, arms) when, for example, occurs a delay in the selling of tobacco products.

### Settlement of payments

Compared to other criminal markets (e.g. cocaine), the illicit tobacco trade is usually managed by smugglers active at all the levels of the operation (high/medium and low) through a common scheme of payment which is cash-up front (IT-E2, IT-E1, IT-E5, IT-E3, IT-E6, IT-E7, IT-E16, IT-E15, IT-E13). In this regard, some experts (IT-E1, IT-E3) have underlined two main reasons: a general lack of trust among smugglers characterising this illicit market and the necessity for suppliers to avoid the risk of remaining unpaid (i.e. critical moments, or the impossibility to sell all the merchandise).

In one case, for example, although cash up-front payment was agreed between two groups of smugglers (Italians from the Centre of Italy and Polish) operating through the intermediation of Neapolitan criminal entrepreneurs (residing in the region of Campania), a particular form of guarantee was requested by the Polish suppliers. Since tobacco products were imported through fictitious transactions of glasses, an export international credit was opened via bank services, thus assuring the payment of the products (i.e. tobacco) via legal bank transfer in case of problems. "Neapolitans were in charge of recovering the loads at customs, probably corrupting some officials, and of the consignment in a nearby area. Actually, at delivery tobacco was paid cash up-front with the guarantee remaining unused, but if, for example, Neapolitans were not able to recover the load, suppliers would have still been paid. The loss was Neapolitans' responsibility, not of Polish suppliers" (IT-E1).

Exceptions exist to this general scheme, which are revolving credit and part payment arrangements (IT-E7, IT-E15, IT-E1). Nevertheless, when

the tobacco is not paid cash up-front, smugglers may in some cases ask for the anticipated payment of the entire loads, especially at the initial phase of the business relationship where trust and credibility are yet to be built, thus functioning as a form of guarantee of the smuggling operations (IT-E2, IT-E19). Consistently, one expert (IT-E2) has underlined how this type of arrangement has appeared in more recent times due to the economic crisis, which in turn can impact on the possibility to sell all the tobacco products acquired, or to repay back suppliers rapidly.

*Revolving credit and part payment arrangements*

Revolving credit and part payment schemes are agreed among buyers and suppliers during the negotiation phase (definition of quantity, price, time and place of delivery) that precede tobacco smuggling operations. At this point, responsibilities in regard to the loads smuggled are also decided as to prevent retaliation in case of unexpected circumstances (IT-E15).

In particular, the first type of agreement consists in the possibility to receive the tobacco products and to pay suppliers after selling, while the second is based on multi-step payments usually carried out as follows: part during the negotiation phase to demonstrate the commitment and reliability of buyers, another part before sending tobacco products as to cover logistic expenses, and a final part when loads are delivered (IT-19, IT-17, IT-E5, IT-E6).

As underlined by some experts (IT-E1, IT-E15, IT-E7), these settlement of payments are used only when trust characterises the business relationships among criminal entrepreneurs or when groups detain solid credibility within the illicit tobacco market, as this is the case for example of Camorra clans (IT-E1, IT-E15).

“A Greek smuggler was used to come to Italy together with the loads of cigarettes. He then stayed in Naples two or three days waiting to collect the money after the selling by Neapolitan buyers. In other cases he would employ couriers for this purpose, while if difficulties occurred, the Greek would allow the purchase on credit also of huge quantities of cigarettes since these smugglers have being knowing each other for a long time. In two occasions Neapolitans faced problems in selling the merchandise quickly (2 or 3 days) to wholesalers and the Greek went back to Greece waiting for the payment to arrive later” (IT-E1).

Furthermore, revolving credit or part payment arrangements are also facilitated by the difference in prices of illicit tobacco products between countries of suppliers and buyers. Indeed the former can purchase the merchandise at a very low cost, without the need to make considerable investments (IT-E15).

## Methods of payment

Illicit tobacco products are paid mainly in cash, and in few instances using other legal methods (when tobacco is transported with other commercial products in container shipment) or exchanging valuable goods (form of compensation between groups as for example the payment of a consignment of drugs in a subsequent moment with quantities of tobacco of equal value), (IT-E1). In both high and low segments, specific actors are in charge of facilitating the payment process.

### *Cash settlements of payments*

The most used means of payments is cash, either at delivery or after having sold the tobacco products on an agreed time scale among smugglers. Cash is less detectable, transfers are harder to be reconstructed by law enforcement and in case of apprehension couriers do not encounter heavy consequences. Consistently, as it occurs within cocaine trafficking, one expert (IT-E14) has in particular underlined the facilitating role of large denomination notes (e.g. €500 banknote) allowing criminals to carry huge amounts of money through small means of transport (bags, suitcases).

Individuals (i.e. money couriers) in charge of consigning cash to suppliers are present both in OCGs and more or less organised criminal organisations, and can be either internal members or persons recruited for this purpose (IT-E7, IT-E5, IT-E3, IT-E17, IT-E19). In particular, in case of OCGs, bosses or trusted affiliates are in charge of delivering further payments to suppliers, after other individuals have collected the money derived from selling (i.e. money collectors), (IT-E14, IT-E1). “They use facilitators and transporters that are part of the organisation since employed every fifteen days” (IT-E5). In case of minor groups (e.g. foreign criminal entrepreneurs from Eastern Europe), payments can be also managed by tobacco transporters or couriers, especially when they occur at the same time of delivery or when groups have at their disposal means of transport that allow to hide cash (i.e. double-bottomed vehicles), (IT-E1, IT-E15, IT-E7).

“There have been cases in which specific individuals were in charge of collecting the money and transferring it to the suppliers. It depends on the type of organisation involved and quantities of tobacco smuggled. For example, we have detected a group of Ukrainians using a variety of means of transport from cars, vans, and in one occasion even an unused German ambulance. In some cases, cash is collected and transported by dispatch riders that accompany the vehicles transporting the loads of tobacco. The boss of the foreign organisation that recovers the money often travels in the cars of dispatch riders” (IT-E1).

On the contrary, solo entrepreneurs that contraband cigarettes travelling, for example, by plane exercise both roles; indeed they import the illicit tobacco products, transporting at the same time the money back as to purchase other quantities: “when smuggling is by air, actually no facilitators are needed. The quantity of tobacco is small and travelling with €1,000 cash is not liable to suspicion” (IT-E6).

*Non-cash settlement of payments*

Legitimate transactions are employed by criminal entrepreneurs, especially when dealing with large scale tobacco smuggling operations (IT-E14, IT-E15, IT-E8). In these cases, tobacco products are more often concealed in containers transporting other commercial products, thus the merchandise can be paid through the issue of regular invoices between import-export companies. The latter may be either compliant or owned by OCGs and registered to other family members.

Besides regular shipping or land transportation of commercial products, the use of bank accounts and shell companies has been reported, again registered to the same individuals, and located especially in off-shore jurisdictions. “The worrying aspect is the use of a legal supply chain which, in the context of marketing of legal goods, distributes or pays for contraband products. In other words, the buyer simulates a legal transaction but he is actually purchasing loads of illicit tobacco products” (IT-E14).

## Costs of doing business

Costs of tobacco smuggling operations are variable depending on different factors: 1) Type of tobacco products (e.g. counterfeit, branded, illicit whites) and quality; 2) Country of origin; 3) Scale of the operations (i.e. logistics and number of individuals involved).

When organising large scale tobacco smuggling operations, both OCGs and less or more organised criminal organisations need consistent start-up capital (IT-E1). Nevertheless, the amount required depend at first on the type of tobacco products purchased. In the opinion of one expert (IT-E7) prices present in the illicit market for contraband cigarettes have in general increased, starting from the 1990s due to the appearance of new products (e.g. illicit whites). Indeed, if one master case of Marlboro cost around €300-€400 20 years ago, nowadays it costs around €700-€800, with illicit whites costing in comparison much less, around €200-€300 per master case, at the national level (Table 51). Consistently, it has been underlined an increase of 40% in the price of tobacco products between 2010 and 2012.<sup>634</sup>

“Small smuggling operations have limited costs, while larger ones from 200 kilos to 5 tonnes of tobacco imported require more financial and material resources. Indeed, costs vary consistently. Furthermore, it also depends on the type of product acquired: it is different if smugglers buy counterfeit or branded Marlboro (the former cost 50% less), or if they buy Jin Ling coming mainly from Belarus” (IT-E1).

“The price per pack of contraband cigarettes may range from €1.30-€1.50 to €2-€2.50. The latter price, which is higher, refer to cases in which branded and top quality cigarettes are smuggled (e.g. Red Marlboro, Marlboro Lights) or other brands produced by major tobacco companies such as Philip Morris, British American Tobacco” (IT-E3).

<sup>634</sup> F. Calderoni, M. Angelini, S. Favarin, *Italy: the Factbook on the Illicit Trade in Tobacco Products 2*.



**TABLE 51. EXAMPLES OF COSTS FOR PURCHASING ILLICIT TOBACCO PRODUCTS AT THE WHOLESALE LEVEL IN ITALY**

Region/country of supply	Type of illicit tobacco product	Cost of purchase(€)
		Master case
Eastern Europe	Illicit whites	200-300
Bulgaria/Macedonia	Illicit whites	350
Italy	Illicit whites	700
Italy	Counterfeit Marlboro	600
Italy	Marlboro	1,200
Italy (Naples)	Chesterfield Red and Blue	625
United Arab Emirates	Richman	350
China	Jin Ling*	400-500
		<b>Pack</b>
North Africa	Local brands	1.50-2

\* Counterfeit product.

**Source:** Authors' elaboration on collected data.

The costs of purchasing the loads of illicit tobacco products also depend on the place of supply, that is directly from producing tobacco companies, or from warehouses located in both transit or destination countries. Furthermore, agreements between smugglers on which players is taking the risk of transportation and method of payment can impact on the final price of the merchandise, as well as the quantity bought and the type of relationship among buyers and suppliers (e.g. occasional versus well-tested), (IT-E1, IT-E3, IT-E7, IT-E6, IT-E5). For example, in countries of Eastern Europe a master case of illicit whites acquired by producers costs around €70-€100, while in warehouses located in Greece or Montenegro the cost goes up to €350-€500. If acquired in Italy delivered by suppliers taking the risk of transportation, the price is around €800-€900 (IT-E2). At the same time, when payments are made through revolving credit, in most cases, the price of cigarettes is overcharged compared to cash payments (IT-E6).

While, on one side, importation of small quantities of cigarettes to the Italian territory imply very low costs, as contended by one expert (IT-E6), especially when couriers travel by plane (e.g. €500 for transportation plus the cost for the tobacco products), on the other, groups of smugglers involved in large scale smuggling operations sustain higher costs related in particular to logistics (means of transport, renting of warehouses and employees). For example, if tobacco is delivered by land or sea, the price of one carton of cigarettes may vary up to €2. "Ukrainians sell to Neapolitans at €18 per carton since transported by cars or vans, while the Greeks at €20 since transported by container shipments. But then it depends also on the quantity acquired" (IT-E1).

The actors employed are either members/affiliates or external recruited individuals. In particular, the former are remunerated through profit sharing, while the latter with monthly, weekly, daily payments or lump sums (IT-E1, IT-E3, IT-E14, IT15, IT-E6, IT-E16). Compared to other illegal markets (e.g. cocaine trafficking), some experts (IT-E3, IT-E7) have pointed out how external employees are more frequently paid in cash than in part of the smuggled tobacco loads (e.g. in-kind payments). “There are individuals receiving €50-€100 a day to unload or transport the merchandise; others, such as warehouse keepers, are paid with monthly salaries varying from €1,000 to €2,000” (IT-E15). At the same time, in the case of OCGs, other actors that remain completely external to the tobacco smuggling operations are employed to perform specific tasks and paid lump sums as well. Examples refer to foreign individuals in charge of buying and registering telephone cards or storehouses, paid €500 for this service (IT-E1).

The existence of a price list has been underlined by some experts (IT-E1, IT-E14) in regard to high-middle segments operating within the illicit tobacco trade, with remunerations fixed on the basis either of the role and tasks accomplished, or the skills, importance and reliability of employees (Table 52). “Italian professional lorry drivers, for example, may take from €35,000 up to €50,000 per trip. Indeed, they organise not only the trip, recovering the merchandise and the goods to hide it, but also the transit in more safe routes together with dispatch riders” (IT-E1). Furthermore, the country of origin of the employees is another

**TABLE 52. EXAMPLES OF COSTS RELATED TO RUN TOBACCO SMUGGLING OPERATIONS IN ITALY**

Role of individuals	Remunerations
Intermediary	€50-€250 per master case
East European car driver	€200 per trip
East European lorry driver	€600 per trip
Italian professional lorry driver	€35,000-€50,000 per trip
Unloader (warehouses)	€50.00-€100.00 per day
Unloader (transferring containers at ports)	€50,000
Warehouse keeper	€500 per service (storage)
Stable driver/warehouse keeper	€1,000-€2,000 (monthly salary)
Air courier	€200 per trip
Other individuals (registering phone cards, transferring money)	€500 per service
Official at Eastern EU customs	€500 per service
Official at Italian customs	€10,000

**Source:** Authors' elaboration on collected data.

discriminating variable for the amount of payments since compared to life standards of the different areas. Some experts (IT-E14, IT-E1, IT-E6) have indeed argued that North Africans and Eastern European are paid less than Italian counterparts.

“There are groups of smugglers preferring to use individuals that appear completely external to the organisation, such as more or less unaware transporters of vegetables to whom the illicit tobacco loads are consigned without revealing the content and paid €400 for 18 hours of work. On the contrary, larger loads are entrusted to members that are paid with higher remunerations since transporting an entire illegal load facing more risks” (IT-E14).

Major costs are then sustained for importation since at the retail level and in street markets they consist mainly in acquiring bags to transport cigarettes and in organising very basic stalls. Furthermore, smaller quantities of tobacco are kept in apartments or garages of retailers, friends or acquaintances (IT-E1).

Besides individuals employed, other expenses may be also faced by smugglers at all the levels of operation, i.e. costs related to unforeseen circumstances (e.g. arrestee of members, theft of loads by competitors, police seizures) and corruption. The former are usually charged in the total price of the tobacco loads, being this way difficult to identify precisely, while the latter were indicated to be lower in East European countries and non-EU countries compared to Italy (IT-E1). As for the costs related to promotion techniques, one expert (IT-E15) has contended that due to the economic crisis, the illicit tobacco market has flourished again, pushing consumer trends to levels similar to the phase previous to the operation “Primavera”. Thus, smugglers are not in need of promoting cigarettes.

At the same time, as underlined by one expert (IT-E14), it is possible for criminal entrepreneurs, especially OCGs, to cut costs mainly in two ways: 1. Owning import-export companies trading in licit goods, used also to carry out tobacco smuggling operations. Indeed, the latter are perpetrated through the solely payments of commercial products, and supported by logistics already available; 2. Acquiring, through loansharking, legal companies with a well-established reputation within the legal market but facing economic difficulties. Thus, in a first moment, the debts of the owners secure collaboration and allow them to exploit logistic services and warehouses; while in a second moment the impossibility to repay back lenders facilitates the acquisition of the companies, in some cases accomplished through the introduction of OCGs members into the advisory boards. In general, criminal entrepreneurs prefer this second option since decreasing the possibility to be intercepted (IT-EX1).

## Profits and profits sharing

According to experts (IT-E15, IT-E1, IT-E16, IT-E18) and in line with previous research<sup>635</sup> proceeds from the illicit tobacco trade are consistent: “Profits gained through tobacco smuggling allow the sustenance of an entire family involved in retail selling as well as the accumulation of thousands of euros by high level criminal entrepreneurs” (IT-E15).

Nevertheless, the actual amount gained by criminal entrepreneurs operating in this illicit market depend on different factors: the level of the operation (high/medium and low segments), the type of tobacco products smuggled, the location of the illicit tobacco markets at the national level (i.e. Northern, Central, Southern areas of the country) and the number of groups/actors in the supply chain. Indeed, higher profits are gained when buyers and suppliers are able to arrange importation directly, using own already available resources (i.e. import-export companies, means of transportation, drivers, warehouses) and at least one intermediary (IT-E1). More generally, some experts (IT-E1, IT-E15, IT-E17, IT-E6) have pointed out that profit margins gained by smugglers are almost double the initial investment, while reporting the following examples:

- at the wholesale level a pack of cigarettes costs around €1.7-€2.5, while at the retail level around €3.5-€5, allowing to earn around €2 per pack;
- a master case of contraband cigarettes is purchased at around €100 in countries of suppliers, and introduced into the wholesale market at around €500-€1,000 depending on the type of products;
- a master case of good quality branded cigarettes (e.g. Marlboro, Philip Morris) is sold at €700 by suppliers and at €1,000 by wholesalers so that profits are around €200-€300 per master case;
- Ukrainians sell to wholesalers at €1.60 per pack, while retailers in markets/streets at €2.80-€3, with a profit of €1.50-€2;
- A pack of cigarettes from North Africa costs 0.70 cents-€1.00, which is sold at the retail level at €3.

Profit margins decrease during the tobacco smuggling chain with individuals at the higher levels receiving the larger amounts. Within OCGs and more or less organised criminal organisations (both Italian and foreign) financiers and organisers are the individuals receiving the larger amounts of profits, in accordance with the risk taken in the smuggling operations and the amount of the initial investments. Whereas employees and retailers mainly gain revenues from respectively fixed salaries and the selling of tobacco products. For these reasons, investment schemes are strictly related to the level of the operation within the illicit tobacco market (IT-E1, IT-E7, IT-E13, IT-14, IT-15).

## Investment schemes

At lower levels (medium-low segments), the better part of the profits is used for personal expenses and to raise the life standards of

<sup>635</sup> See F. Calderoni, “A New Method for Estimating the Illicit Cigarettes Market at the Subnational Level and Its Application to Italy”; F. Calderoni, M. Angelini, S. Favarin, *Italy: the Factbook on the Illicit Trade in Tobacco Products 2*.

criminal entrepreneurs. Especially in regard to foreign smugglers, some experts have underlined the acquisition of luxury items or goods (high-powered cars, yachts, etc.), the latter registered more often to straw men, relatives or family members (IT-E15, IT-E7, IT-E17): “in the city of Naples, we intercepted elderly women to whom motorcycles were registered” (IT-E1).

Profits are also invested in continuing the illicit tobacco trade, both in high/medium and low segments. A characteristic of this illicit activity, as underlined previously, is its almost exclusive involvement of actors, thus money is mainly used to finance subsequent tobacco smuggling operations and to expand this illicit activity. Many groups of smugglers save part of the profits as “rainy day” funds, useful to sustain critical moments (i.e. payment of legal assistance to arrested members and support to their families, investing in subsequent operations after eventual seizures or stealing of loads by police or competitors), (IT-E7, IT-E18).

Foreign smugglers operating at medium-low levels, and especially from Eastern Europe, send back profits to the countries of origin, via money transfer services or through cash transportation, while maintaining a low profile in Italy (IT-E7, IT-E2, IT-E5). Criminal entrepreneurs active at the high level (Italian and foreign OCGs such as for example Chinese and Russian) invest into the legitimate economy, preferring the acquisition of business companies, real estates, restaurants, general stores, and tourist facilities, especially in the Northern part of Italy. Indeed, cash is laundered and further reinvested into the legal economy through complex money-laundering processes that may involve the use of banks (in some cases with the support of complicit officers) and bank accounts (especially in off-shore zones), business companies registered to family members or straw men, allowing criminal entrepreneurs to perform fictitious transactions of goods (IT-E1, IT-E14, IT-E). As stated by one expert (IT-E1), the deposit of revenues into accounts in Swiss banks by Camorra clans was widespread during the “golden times” of cigarettes contraband in Italy, and this method is still in use.

“There have been smugglers linked to Camorra clans offering their know-how and bank accounts to families of Cosa Nostra for both running other criminal activities (e.g. cocaine trafficking) and favouring the flows and laundering of proceeds coming from tobacco smuggling (e.g. deposits in Camorra clans bank accounts)” (IT-E1).

At the same time, the economic crisis, in the opinion of some experts (IT-E1, IT-E14, IT-E17), is at present a facilitating factor for the laundering of profits, as well as the acquisition of legal companies, mainly through loansharking, to be further employed for this purpose and for arranging tobacco smuggling operations. “Huge amounts of illegal money previously deposited into bank accounts had indeed been introduced into the legal economy due to the financial crisis. Although criminal entrepreneurs may lose part of their capital in this process, the remaining part becomes a source for investments into different legal businesses. Many smugglers, indeed, interrupt their criminal career at some point in life: owning and managing trading companies (e.g. olive oil production) or restaurants,

hotels, represent assets also to recycle themselves as ‘unsuspected’ individuals, while securing own retirement” (IT-E14).

## Access to capital in critical moments

In general, all smugglers (OCGs, more or less organised criminal organisations, solo criminal entrepreneurs) active within the illicit tobacco market are able to continue operating although facing critical moments (e.g. arrestee of members, stealing of loads by competitors, police seizures). Sources of capitals to re-enter the business correspond to the finances used to initiate illicit tobacco smuggling operations, i.e. money coming from other type of criminal activities, legal businesses, external financiers, personal savings or small loans borrowed by friends or acquaintances. Nevertheless, the capacity to maintain the illicit tobacco activity varies in terms of profile and criminal career of smugglers.

In case of high/middle segments (native and foreign), the part of capital that have being saved and not intercepted by the authorities represents the main source for continuing the smuggling, also thanks to trusted individuals acting as reliable substitutes in cases of arrest of other members of the organisation. When capitals are not readily available, individuals at the top levels are able to re-establish contacts with both financiers and suppliers quickly due to maintained trust and reputation; while players at the lower levels are often assisted by the group and then reintegrated into the business once out of prison. Furthermore, the latter receive legal assistance together with other forms of aid for their family members (e.g. a monthly salary to arrestee families in the case of Camorra clans), (IT-E1, IT-E15, IT-E3, IT-E7, IT-E16).

“More often they go back to the tobacco business. Although vehicles used for smuggling are detected and couriers arrested, after a period of detention it happened to find the same individuals, using different and bigger means of transport” (IT-E1).

“There is real specialisation. Once out of prison, members re-enter the illicit tobacco trade. Usually, financiers do not experience judicial problems so they can continue lending capital. Indeed, in most cases individuals arrested belong to the lower levels (couriers, lorry drivers, wholesalers, unloaders)” (IT-E15).

“Smugglers remain smugglers for their entire lives. In some cases we recognise the same voices during interceptions. They are specialised and exploit channels and contacts previously detained” (IT-E7).

Mutual assistance exists among members which favours the reintegration into the tobacco business (IT-E1). At the same time, some experts have pointed out other ways allowing to continue to operate (IT-E1, IT-E7, IT-E15, IT-E16). First, the practice of preserving rainy day funds: “A real fund is present within groups, and usually foreseen, as to sustain critical moments. It is used to compensate losses of loads, seizures, but also to assist arrestees and their families, to rent means of transport, assure the silence of individuals or to corrupt officials when needed” (IT-E1). Second, the possibility to receive tobacco on credit as to restart and

acquire capitals as well as repay back eventual previous debts, in virtue of trusted and well-tested relations with suppliers or intermediaries.

On the contrary, there are cases in which criminal entrepreneurs are not capable to re-enter the illicit tobacco business, especially small groups of smugglers that have not at their disposal saved capitals or trusted contacts with suppliers. As a result, responses may range from dismissal of the illicit tobacco trade to the involvement in other illegal activities (e.g. counterfeiting, organised VAT frauds).

“In some instances they are not able to restart once apprehended and their capital and material resources seized. This can happen with small groups lacking financial support. Nevertheless, some members may ‘recycle’ themselves in other illicit activities, for example the alternative energy sector. We have detected ex-smugglers being managing directors of companies dealing with wind turbines or solar panels, maintaining a criminal profile since perpetrating frauds” (IT-E1).