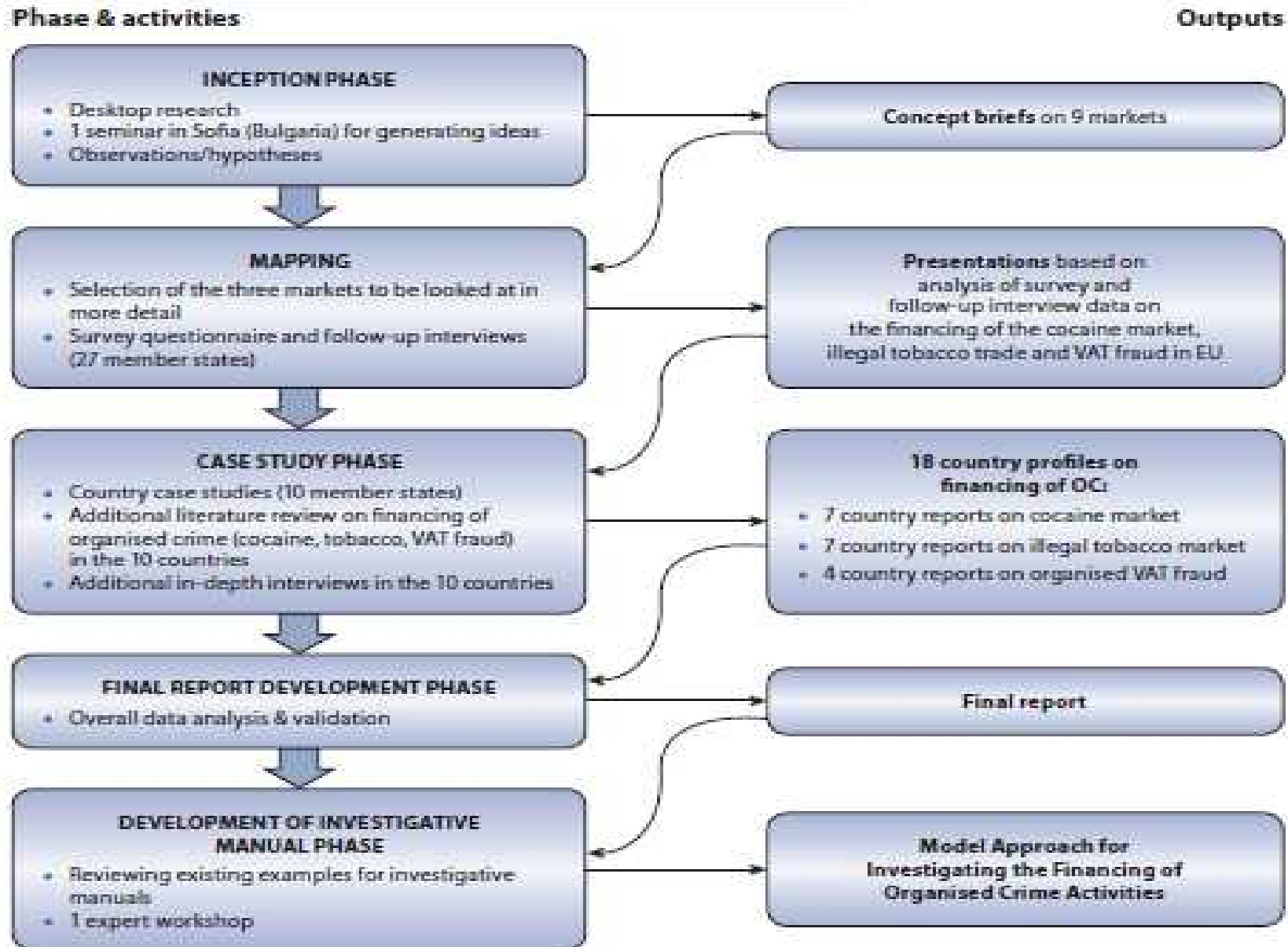


The Illegal Tobacco Trade in the EU: *Financial Aspects of a Fragmented Business*

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FIGURE 1. METHODOLOGICAL APPROACH

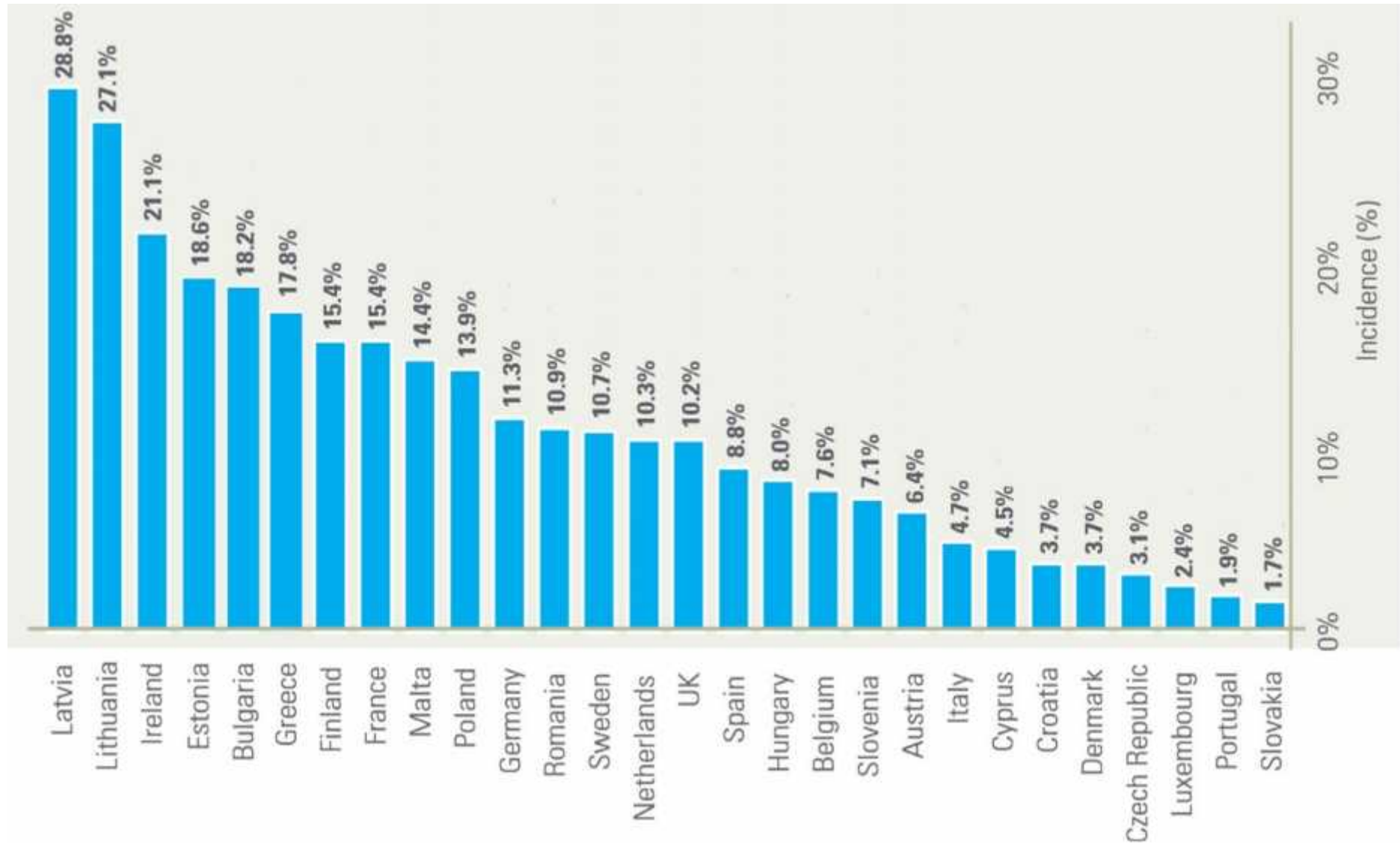


The schemes

- *Bootlegging* - buying an amount of cigarettes that exceeds customs regulations.
- *Large-scale smuggling* - diversion from *licit* international trade.
- *Counterfeiting* – or the manufacturing of fake brand cigarettes.
- *Other sources*



Extent of the illegal trade in tobacco products in the EU (KPMG, 2014)

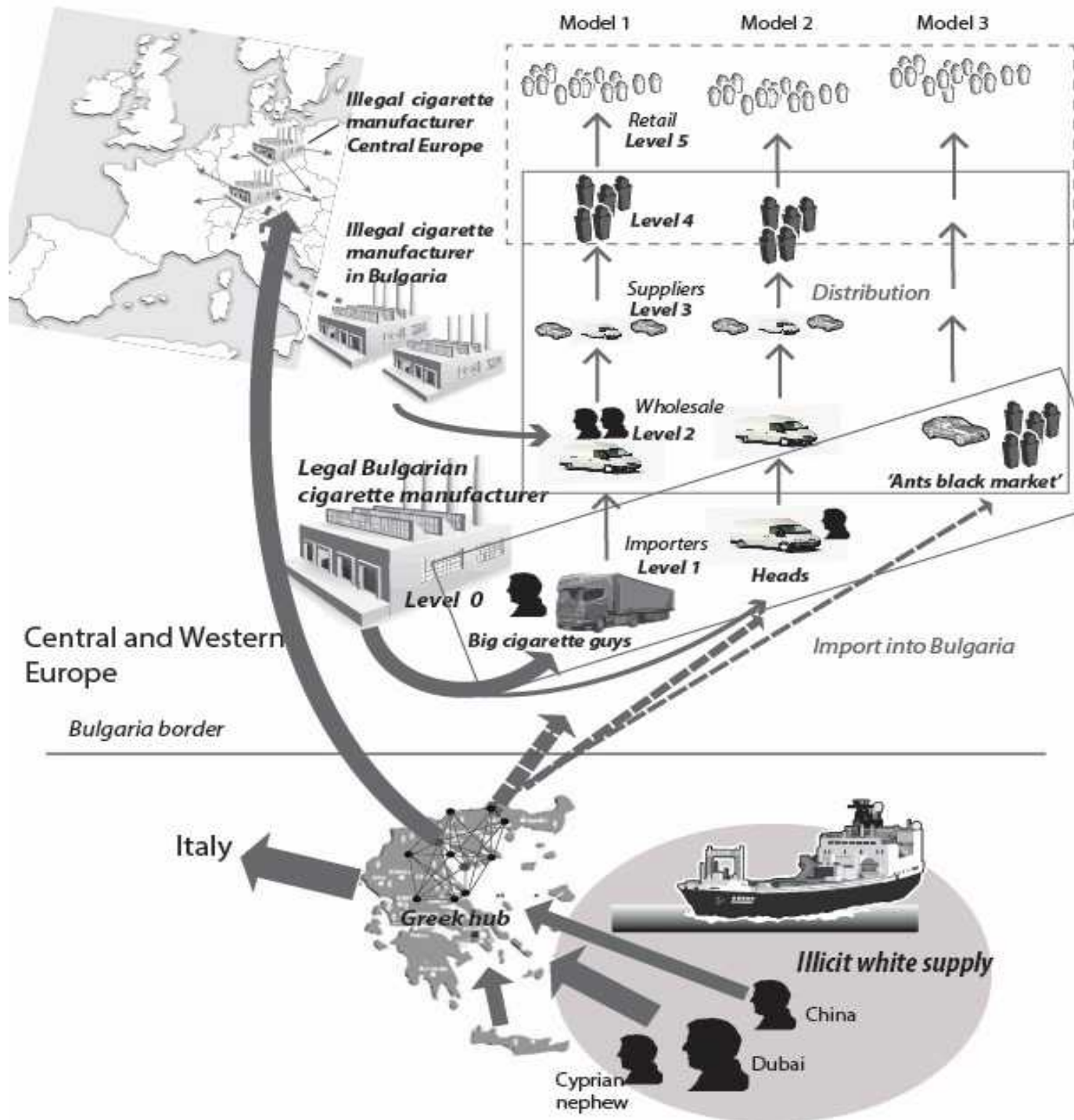


Largest increases in consumption of contraband and counterfeit cigarettes, 2013 compared to 2012

Country	Increase %	Country	Decrease %
Greece	+4.4	United Kingdom	-6.2
Hungary	+3.9	Italy	-3.8
Bulgaria	+2.7	Austria	-3.4
Cyprus	+2.4	Latvia	-1.8
Malta	+2.3	Sweden	-1.7

Structures and key actors

- Diversity
 - Family or kinship
 - intra-legal business relationships-
 - Violence and threat of violence are rare
- *Manufacturers – legal or illegal* business
- *Importers and Wholesalers*
- *Retailers: diverse category*



1. Sources of capital & Background of investors/financiers

- 1. Small funds from legitimate work and savings**
- 2. Funds from legal businesses**
- 3. Financing 'consortia'- political and judicial protection (see BG)**
- 4. Illegal activities and businesses**
 - 'self-financing cycles'
- 5. Loans from criminals**
- 6. Multiple sources**
 - **Legal businessmen**
 - with links to functional industries
 - irrelevant to tobacco
 - **Criminals involved in a variety of illegal activities**
 - **Ethnic links (CZ; FR); business links (CZ; NL; UK) Familial and neighbourhood links (UK); criminal links/prison (UK; LT)**

2. Settlement of payments

- **Small-scale schemes:** no special arrangements
- **Large-scale schemes:**
 - In some cases, **pre-payment for a load** (BG; DE; LT),
 - In extreme cases, **guarantees are offered in the form of other assets and commodities** (BG; UK).
- **Credit is rare in the tobacco business** – more prevalent in importation/wholesale level
- **Actors facilitating the process:**
 - bank transfers
 - Brokers (IE; NL; UK; EL; DE; HU)
 - money transfer services (AT); cash couriers/money collectors (BE; BG; CZ; DE; LV; NL; UK);
 - Payment: fee, % of profit after sale (BG), merchandise (HU)

3. Costs of doing business

- **Buying and producing the merchandise** – price-dependant
 - Illegal factory –
 - huge variations depending on scale, sophistication
 - Machinery costs
 - Cigarettes vs tobacco (UK)
- **Transportation costs:**
 - distance
 - depending on presence of cover load and type of cover load
- **Payment to actors** in the business
 - Huge variety depending on role and scale of operation
- **Extra costs:** CJS-related (BG); supporting family members of smugglers out of prison (DE); bribes (DE); bonuses for informants (DE; SE); corruption costs (UK); Insurance; extortion/'taxation'; decoy expenses; **'unforeseen circumstances'** (UK)

4. Profits and profit sharing

- Profit depends on:
 1. **Type of merchandise sold**
 2. **Role and position of entrepreneur in the supply chain**
 3. **Price variation**
 4. **Access to consumers**
- Ensuring profit share
 - **No need to 'ensure' share (EL)** – *"I don't understand the question. The business is simple"*
 - **Trusted relationships** (BG, DK; FI; HU; IE; NL; RO; UK)*
 - **Threat of violence and use of violence, coercion** (AT, EL, ES, UK)
 - **Agreements with 'guarantees'** (real estate, stocks, vehicles etc.) (CZ**; EE)

4.1. Spending and re-investment of profits

- **Personal expenses and lifestyle**

“Life as a party! Cars, gold...’more gold than I could choke a dog with”. (excerpt from UK interview)

- **Investment in legal businesses**

- bars, clubs, restaurants, pubs – CZ, IE, ES; NL; UK/
Hotels: PL / transport companies – LV / gambling schemes, stock exchange, football and basketball clubs - EL)

- Foreign currency (PL); precious metals (PL)

- Real estate (BE; CZ; ES; IE; LU; NL; FI; LT; PL; SE; UK)

- **Investment in criminal businesses – upgrading tobacco business**

- **Deposits in bank accounts abroad**

5. Access to capital in critical moments

- **‘Contingency funds’** - 1960s and 1970s (UK) – contemporary case (Bulgaria)
- **Critical moments and access to capital in critical moments an issue depending on scale and level**
- **Capitalising on *social capital***
- **‘*Welcome back*’ gift** to apprehended members of network to invest in tobacco business (EL)

THANK YOU

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