# CONTRABAND AND COUNTERFEIT OF TOBACCO PRODUCTS IN DIGITAL AGE

Nedko Tagarev*

## Introduction

The C&C of tobacco products results in a huge losses of revenue for government. Implementation of cyber/digital technologies in these activities is the ***problem*** of this article. These technologies change the scope of counteracting illegal activities.

*Object* in this paper is Contraband & Counterfeit(C&C) of tobacco products as the subject is implementation of digital technologies in these illegal activities.

*Methodology* uses some cases as document analyses, comparative analyses and analyses of strong and week points. *Results* show the opportunities and the new reality of C&C of tobacco products.

The *scope* of paper is limited to the basics of C&C of tobacco products. The material does not claim exhaustiveness. It lists factors and views that are often ignored in other researches.

## Conventional Contraband and counterfeit of tobacco products

**C&C of tobacco products in general** is also called ***illicit cigarette trade*** and it's defined by Financial Action Task Force (FATF)[1] as "the production, import, export, purchase, sale, or possession of tobacco goods which fail to comply with legislation"[2].

The illicit trade falls in three categories that are shown in Fig.1.

* Nedko Tagarev, Chief. Assist. Prof. PhD, Department of National and Regional Security, UNWE, email: ntagarev@e-dnrs.org

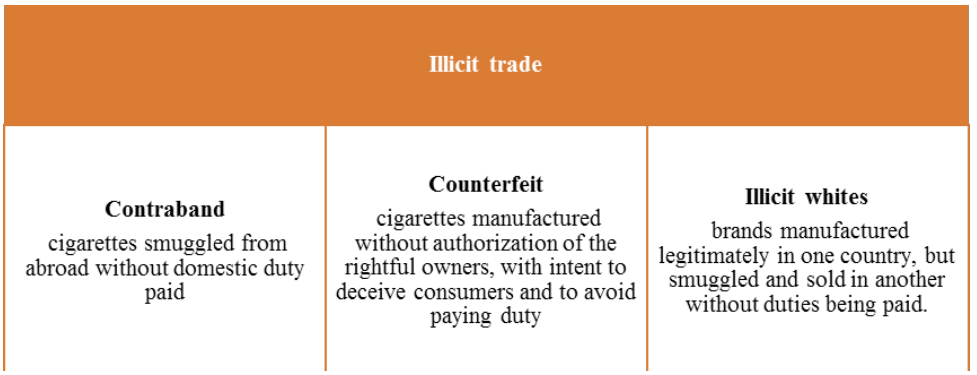


**Fig. 1.** Categories in illicit tobacco trade

Also the contraband of illicit tobacco products sometimes is called ***smuggling***. This often refers to *illegal transportation* from state with low taxation to the state with higher one. The *participants* that are connected to smuggling of this kind of products can be *individuals* or *organized crime groups* or *groups of other interest* (like terrorist or groups benefiting by the law). The goal of illicit activities connected to tobacco often is benefit by *evading taxes*. Taxation on tobacco products is specific and includes: "excise taxes, value added taxes (VAT) or general sales taxes and import duties"[3]. The taxes directly reflect on the sale price of these products. From country to country tax sizes defer but they are in the range of 25-90% (Chaloupka, YEAR) of the price. For EU these taxes are "at least EUR 90 per 1000 cigarettes, or at least 60% of the weighted average retail selling price"[4]. This increase of the price of the product leads to expand of the illicit market and the expectation of tax gathering don't connects with the reality. For example in UK "the tobacco tax gap is driven by the illicit markets in cigarettes and hand-rolling tobacco and was estimated to be £2.5 billion in 2016-17. Of this £1.9 billion was lost in tobacco duties and a further £0.6 billion in VAT" (АВТОР НА ПЪРВАТА РЕФЕРЕНЦИЯ).

Other aspect of illicit tobacco trade is ***location***. Location often provides some limitations on smuggling aspect of this activities. As long is the road to travel as big is the risk of detection. Often the resources for production of illicit cigarettes for example (raw tobacco, cigarette paper, card boxes and est.) travel form one state to other and back again as a product. For example in North America the raw tobacco that is produced in US is smuggled to Canada for production of cigarettes [7]. When we talk for illicit tobacco products in digital age probably the location is the thing that changes the most. Even that the location is very important for distribution there are also the factor of *knowledge*. This knowledge can be found in every stage of the process from production through smuggling to distribution.

It's interesting fact that the governments control the production of raw tobacco. But in combination of taxes the price on the black market for it is 7-8 times higher than the official retail price. For example in Australia "the farm gate market price for chop-chop is around 4 to 6 times the market rate paid by manufacturers" (Price Waterhouse Coopers, 2005). So some quantities of production reach the illegal market.

Other important aspect is the *payment*. Payment is often in cash because it's untraceable. That often connects the C&C of tobacco products with other crimes like money laundering. The last aspect are the *tools* that are used for these illegal activities. They include the instruments of production, instruments for transportation and instruments for distribution. Based on these aspects that we can call also a resources of C&C of tobacco products we can create a matrix for illicit activities. This is shown on Fig. 2 Matrix of conventional C&C activities.

| Aspects | Activities |
|---|---|
| Participants | Individuals/Group*s |
| Location | Farms/Storage buildings/Border points/Factories/Roads |
| Knowledge | Production/Transportation**/Distribution |
| Payment | Cash |
| Tools | Machines/Lorries/Cars/Ships |

*Often there are different roles in the groups. In many cases "the smuggler" the individual who transports the goods is outsider for the group and he takes the biggest risks.
**For example there is specific knowledge for crossing the border check point in exact time and in exact lane.

**Fig. 2.** Matrix of conventional C&C activities.

## C&C with implementation of digital technologies

In the first place digital technologies provide anonymity. The "anonymity (or pseudonymity) is, theoretically, one of its greatest strengths. Without it, dissident, marginalized, and otherwise ignored populations could not make their voices heard" (Waldman, 2016). But this anonymity provides the criminals a lot of opportunities for their illegal activities. These problems extend when in it is implemented the "Dark net". There can be found such a services or products like contract killers, child pornography, drugs and so on. So for almost no investment [6] everybody can become almost invisible and untraceable because of the basic principles of encryption that are applied in this cyber environment. This anonymity lowering the risk for participants in illegal activities. Also this reflects

on the *participants* and their anonymity. So in the digital/cyber sphere it does not matter who is the buyer and who is the seller.

For example and compare there can be provided a popular case of the "Silk road". It's connected to drug trade where the risk is bigger as the punishments by the law are severe.

Silk Road was an online black market and the first modern darknet [7] market, best known as a platform for selling illegal drugs. As part of the dark web, it was operated as a Tor hidden service [8], such that online users were able to browse it anonymously and securely without potential traffic monitoring. The website was launched in February 2011; development had begun six months' prior (Hout, Bingham, 2013). Initially there were a limited number of new seller accounts available; new sellers had to purchase an account in an auction. Later, a fixed fee was charged for each new seller account.

From February 6, 2011 to July 23, 2013 there were approximately 1,229,465 transactions completed on the site. The total revenue generated from these sales was 9,519,664 Bitcoins, and the total commissions collected by Silk Road from the sales amounted to 614,305 Bitcoins. These figures are equivalent to roughly $1.2 billion in revenue and $79.8 million in commissions, at Bitcoin exchange rates at 2014 [9]. According to the September 2013 complaint, and involved 146,946 buyers and 3,877 vendors. According to information users provided upon registering, 30 percent were from the United States, 27 percent chose to be "undeclared", and beyond that, in descending order of prevalence: the United Kingdom, Australia, Germany, Canada, Sweden, France, Russia, Italy, and the Netherlands. During the 60-day period from 24 May to 23 July, there were 1,217,218 messages sent over Silk Road's private messaging system [10].

The change that provides digital technologies in C&C of tobacco products can be seen on Fig. 3 Matrix of C&C activities with implementation of digital technologies

| Aspects | Activities |
|---|---|
| Participants | Individuals/Group |
| Location | Farms/Storage buildings/Border points/Factories/Roads/*Everywhere in the world* |
| Knowledge | Production/Transportation/Distribution/ *All the knowledge that provides WWW + Dark web* |
| Payment | Cash/*Cryptocurrency* |
| Tools | Machines/Lorries/Cars/Ships/*Post and postal services for distribution/Darknet browsers/Block-chain/ Peer-to-peer/Online trade* |

**Fig. 3.** Matrix of C&C activities with implementation of digital technologies

The aspect of *location* changes a lot. Everybody can purchase tobacco products anywhere in the world. Even that there are advises on the legal channels how to purchase tobacco products and evade the taxations [11], [12]. Also there can be found a legal manufacturers of tobacco products, so the product will be legal and covers all standards. The most important thing is that the provider of the shipping service don't know for the illegal activity. France reacted to that with law that forbids the online trade of tobacco products (Decree No. 2004-68 of January 16, 2004 issued drawn from an application of the first paragraph of the General Tax Code with respect to retailers of tobacco and resellers [13]). Actually the selling can be made from visible as the "dark part" of the internet. For distribution the best part for participants is that there have to be no physical place for this activity. The distribution can be made through post or through deliverer without his knowledge.

The aspect of *knowledge* provides a lot of information about the recipes of tobacco, protection measures for intellectual property and so on. Whit several clicks on the buttons in the Darknet such information can be provided as it's facilitates the counterfeit of tobacco products. Also there is legal requirements for every country for the look of the box. They concern the warning text and the "scary picture". They defer from country to country but these requirements can be found online. Such example can be seen on Fig. 4. Genuine and Counterfeited boxes of cigarettes. This incompetence in counterfeiting can be avoid with some online research.


**Fig. 4.** Counterfeited boxes of cigarettes (Moodie, Purves and all, 2013)

The most interesting part is probably the *payment*. Payment by cryptocurrency provides anonymity and intractability of the participants. Also it's guarantees the payment and the sending of the stock. For example Control and Security [14]:

- Allowing users to be in control of their transactions help keep Bitcoin safe for the network.
- Merchants cannot charge extra fees on anything without being noticed. They must talk with the consumer before adding any charges.
- Payments in Bitcoin can be made and finalized without one's personal information being tied to the transactions.
- Due to the fact that personal information is kept hidden from prying eyes, Bitcoin protects against identity theft.
- Bitcoin can be backed up and encrypted to ensure the safety of your money.

The tools that are used in C&C of tobacco products change a little bit with implementation of computers and Internet. Of course the machines that are required for cigarette production can be bought and delivered anywhere in the world and it's not illegal. The online trade provides competition in producers of such technologies. Such machines can be bought for 1000-10000 USD [15] with a production capacity of 1000 cigarettes per hour. Also there can be found tobacco leaves for up to 8.50 EUR per kg [16]. The legal quantity that can be bought in this source is up to 24 kg and one cigarette stick is assumed to contain 0.8 grams of tobacco. The calculation of the profit is just optional and this is from legal sources of tools and resources. The distribution can be made in small qualities by the post and in large by the logistic companies. The documents may be counterfeited or there can be used other goods for cover.

## Conclusion

The implementation of digital technologies provides allot of opportunities in C&C of tobacco product activities. The basic of them can be listed as:

- Anonymity of the participants;
- Large range of location/s;
- Knowledge of production and technologies;
- Huge range for options of delivery and access to the market – distributors and end clients;
- Large range of providers of different resources;
- Guarantee (if there is such thing in criminal world) of payment and delivery.

**Notes**

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**Abstract**

In the first part in this paper are shown the basics of conventional C&C of tobacco products aspects. In second part is shown the changes that provide digital technologies in illicit trade of tobacco products. There are provided some examples and some cases.

**Key words:** Contraband & Counterfeit, tobacco, digital, Internet, online

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