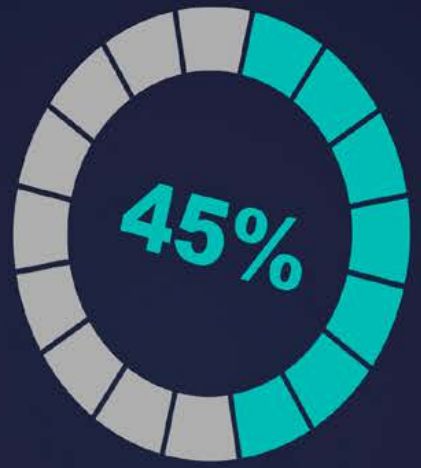




COMBATTING ILLCIT TRADE

CONSUMER MOTIVATIONS AND STAKEHOLDER PERSPECTIVES





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EXECUTIVE SUMMARY

Illicit trade is a persistent and growing threat, as technology, the global economy and e-commerce open new opportunities for counterfeit products to infiltrate supply chains and provide consumers with illicit products. Many understand the risks—that illicit trade can cause serious public health issues, and that the proceeds from illicit sales fund other criminal activities. Others view some form of illicit trade as the soft underbelly of the global economy—the price to be paid for frictionless trade.

Our research study seeks to understand this evolving issue better—specifically, the attitudes and behaviours of those that influence the demand and the supply for illicit goods, so that illicit trade can be contained. Often, when considering how best to reduce illicit trade, the focus has centred on enforcement actions to curb supply without looking also at how to reduce the demand for illicit products through a better understanding of consumer behaviours. We look at five representative product categories with high levels of illicit trade; cigarettes and tobacco, alcoholic drinks, films, music and games, clothing and accessories, and medicines.

Our analysis of more than 37,000 consumer survey respondents fielded across 37 European countries provides a comprehensive picture of how consumer attitudes and behaviours regarding illicit trade are changing:

- “Possibly illicit” purchases, where consumers lack full confidence in the legitimacy of products, comprise 27% of total purchases across Europe, much larger than the estimated figure for known illicit purchases of 11%. This figure excludes the illicit goods that consumers may be buying unknowingly.
- Illicit purchases are increasingly bought through official retail channels. Consumers lack confidence in the legitimacy of goods sold online, particularly via online marketplaces. Many consumers also distrust the legitimacy of goods sold in official physical retail outlets, as leaks in extended supply chains and the proliferation of high-quality copies undermine consumer confidence.
- Illicit trade impacts the whole of society. Our survey reveals high levels of illicit trade among the highly paid and those in managerial jobs. All countries in Europe have high levels of illicit trade, with some of the fastest growth reported in advanced Western countries, such as Germany and the UK.
- Consumers’ reasons for buying illicit goods are highly nuanced. Though many seek out illicit trade to get a better deal, it’s not just about the price—consumers can be influenced to buy legitimate goods through improvements in quality, reliability, and availability. Our data also suggest that many consumers are aware and concerned about the implications of illicit trade, on themselves and broader society.

In this report we introduce a new way of connecting specific consumer attitudes—which vary by product use, country, and other demographic factors—with effective countering strategies among policy-makers, law-enforcement officials, and business executives, collectively referred to as stakeholders. Specifically, we divided responses from our consumer survey on the reasons for purchasing illicit goods to create four distinct segments—Bargain Hunters, Opportunists, Critics, and Activists—based on their behaviours and beliefs about illicit trade. From these profiles we can provide specific guidance to stakeholders across countries and product segments on how best to target these groups with actions that might influence their decision-making.

To combat the changing patterns of illicit trade, stakeholders need to update their approaches on several fronts. Policy, regulatory, and legal frameworks need to keep pace by, for example, responding to the growth of e-commerce. Supply chains need to be secured from end to end, recognising the new roles of many intermediaries. Law enforcement at the border and in-country needs to be strengthened, making best use of the latest technologies. The cross-border nature of illicit trading presents particular challenges in Europe, with a need to co-ordinate national approaches across the European Union as well as securing borders with the wider world.

Our analysis of over 8,000 stakeholder survey respondents highlights some areas where stakeholders' perspectives appear not fully aligned with consumers. This points to specific policy and strategic responses, such as more attractive business models, improved product authentication, and public awareness campaigns.

Stakeholders seem aware of the shifting nature of illicit trade and are refocusing their priorities. Implementation, however, is patchy, with many businesses, policy-makers, and law enforcement agencies recognising that there is much more to be done. It's difficult to secure resources, particularly when competing against other initiatives and priorities.

There are plenty of reasons to be optimistic, however. Our study reveals a strong preference among consumers for the security of legitimate goods and authorised channels, and concern about the implications and victims of illicit trade that could be reinforced through public awareness campaigns. Our research aims to provide detailed information, by product, country, and several demographic factors, to help guide efforts to both improve enforcement actions and steer consumers away from buying illicit goods.

INTRODUCTION: THE CHALLENGES OF COMBATTING ILLICIT TRADE

In 2015, Operation Volcano led to the arrest of 60 people across Europe and the seizure of 150,000 packets of stolen and adulterated Herceptin, a breast cancer treatment. The drug was stolen from Italian hospitals, diluted and repackaged via operators in Cyprus, Hungary, Latvia, Romania, Slovakia, and Slovenia, and was discovered in hospitals and pharmacies in Germany, Finland, and the UK.¹ It was an elaborate, pan-European scheme that challenges the popular perceptions of illicit trade—the rebellious teenager downloading a newly released film, or the thrifty suburban housewife on a big-city holiday haggling for a knock-off designer handbag. Yet it is indicative of the pervasiveness of illegal goods infiltrating legitimate supply chains—and indeed the increasing complexity and breadth of illicit trade happening across Europe.

Our research indicates that only 11% of illicit trade is seized, on average, across Europe. Even the most effective border enforcement authorities cannot seize more than a small share, perhaps a quarter at most, of the illicit goods crossing their borders. So curbing supply needs to be complemented with reducing consumer demand. In order to influence demand, we need to know more about consumer motivation. What drives consumers to buy illicitly traded goods? Is cost their

only motivation, or do other factors come into play? While many studies attempt to size the market and approximate the volume of illegal trade, our research takes a purposely different angle: to understand and quantify consumers' behaviours—their attitudes and inclinations toward illicit purchases—and how they might be influenced. Our research challenges four longstanding myths about why consumers buy illicit products and introduces a new way to understand consumers' nuanced perspectives.

Illicit trade has grown in pervasiveness across Europe in recent years, even infiltrating legitimate supply chains.

We sought insight that would help identify the actions that can be taken to combat illicit trade. Are businesses, policy-makers, and law enforcement officials (collectively referred to as stakeholders) aligned with the reasons consumers give for buying illicit goods? Are their approaches adaptable to the shifting patterns of illicit activity? Work is needed to update policy and legal frameworks, secure supply chains, and enhance enforcement on the ground. Stakeholders are very aware that it's a collective effort, requiring effective collaboration between the public and private sectors and multiple agencies

working domestically and internationally. The latest technologies can also help their efforts.

We looked at 37 different actions that have proved effective in combatting illicit trade. By comparing the extent they have been implemented, their effectiveness and prioritisation, we have developed a comprehensive view of the progress being made by stakeholders, and can make recommendations for future actions.

This report, and accompanying detailed materials on our website, can be used to inform a broad audience about shifting attitudes and behaviours regarding illicit trade. We hope that the research is used by others and built upon as patterns of illicit trade continue to shift. Understanding illicit trade and identifying the best ways to reduce it is a continuous endeavour. "The interconnectedness through global trade and the internet is unlikely to change," says Karl Lallerstedt of the Confederation of Swedish Enterprise. "So we need to be smarter and anticipate that there will be new technical capabilities and new types of illicit trade that can have significant impact quickly. We need to look ahead of the curve and address these issues before they become big problems."

ABOUT OUR RESEARCH

Combatting Illicit Trade: Consumer

Motivations and Stakeholder Perspectives is an independent research study financed by PMI IMPACT, a global grant initiative by Philip Morris International to support projects dedicated to fighting illegal trade and related crimes. It aims to address three distinct questions:

- What drives consumers to buy illicit goods, and how are these motivations different by product and country?
- How aware are policy-makers, law enforcement officers, and business executives of these motivations?
- What changes in policy, law enforcement, and company practices might change behaviours?

To answer these questions, Oxford Economics embarked on a year-long study spanning 37 European countries (listed in the Annex) and five product groupings: cigarettes and tobacco; alcoholic beverages; films, music, and games; clothing and accessories; and medicines and pharmaceutical products (we shorten the descriptions of these categories throughout this report).

We carried out two concurrent surveys between November 2017 and February 2018:

- **The consumer survey** asked 1,000 purchasers in each country for their motivations for buying illicit goods and how their behaviours are influenced by different interventions to combat it. From their responses we generated more than 85,000 product purchase profiles (describing how individual consumers typically buy one of the five products), of which over 32,000 were potentially illicit purchases.

- **The stakeholder survey** interviewed 150 business executives and approximately 75 public-sector officials (comprising policy officials and law enforcement officers) working to combat illicit trade in each country. We asked about their perspectives and priorities toward tackling illicit trade in their country and analysed 37 different actions to evaluate how many they have implemented, their effectiveness, and prioritisation over the next three years.

We supplemented this quantitative analysis with thorough desk research of recent studies on illicit trade and guidance from an advisory panel of four independent experts to provide feedback at key stages of the research:

- Liz Allen, former HMRC Excise Divisional Head
- Allen Bruford, former WCO Deputy Director
- Stefano Betti, Senior Criminal Justice Expert and Deputy Director, Transnational Alliance to Combat Illicit Trade (TRACIT)
- Dr. Peggy Chaudhry, Associate Professor, Villanova University, Author and Editor of *“The Handbook of Research on Counterfeiting and Illicit Trade”* (2017)

We also carried out in-depth interviews with an additional 12 experts working in their own ways to combat illicit trade. They comment in a personal capacity, rather than representing the views of their organisations. Their insights and contrasting perspectives into the trends in illicit trade, consumer motivations, and effective strategies are added throughout as commentary on the research findings.

TRENDS IN ILLICIT TRADE: DISPELLING 4 MISPERCEPTIONS

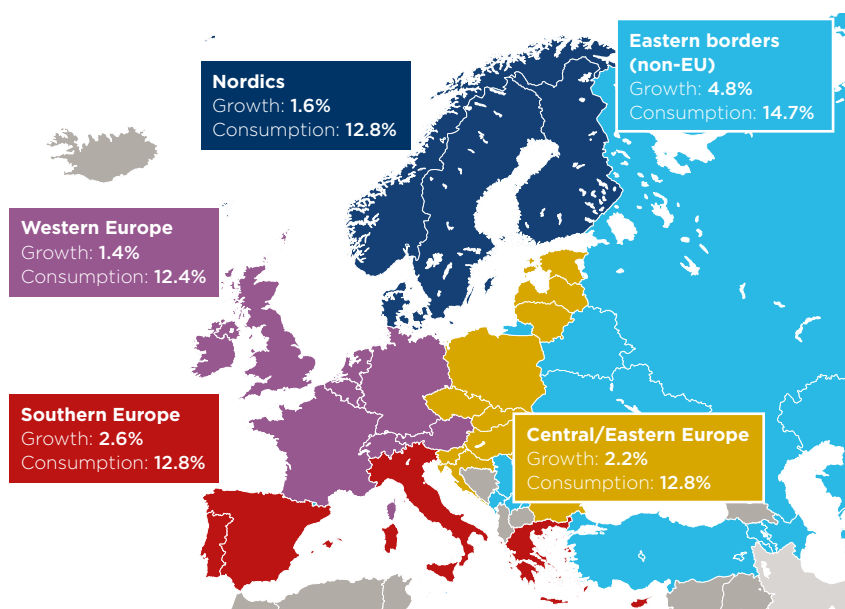
According to our survey analysis of stakeholders, roughly 13% of purchases across the five product categories under study are illicit, with similar levels across all categories. These estimates are in a comparable range to other thorough quantitative studies.²

“To think that developed countries are immune from illicit trade is nonsense. It’s a global problem.”

*Dr. Peggy Chaudhry,
Villanova University*

Illicit trade is an issue for all countries across Europe (see Fig. 1), with no obvious distinction between the regions we studied. In fact, stakeholders report fast growth in the overall level of illicit trade over the last three years in several countries considered to have deployed sophisticated approaches to resist it, such as Spain (5.5%), Germany (3.6%), and the UK (3.2%). As Dr. Peggy Chaudhry of Villanova University notes, “The stereotype has been that illicit trade happens most often in undeveloped or corrupt countries, but to think that developed countries are immune from illicit trade is nonsense. It’s a regional and global problem.” (See Annex 2 for region and country analysis of the extent and growth of

Fig. 1: Stakeholders estimated Illicit trade by region



| Rank | Country | Estimated illicit trade |
|------|----------------|-------------------------|
| 1 | Ukraine | 16.2% |
| 2 | Turkey | 15.2% |
| 3 | Belarus | 15.0% |
| 4 | Russia | 14.9% |
| 5 | Azerbaijan | 14.6% |
| 6 | Hungary | 14.2% |
| 7 | Lithuania | 13.6% |
| 8 | Germany | 13.5% |
| 9 | Italy | 13.5% |
| 10 | Czech Republic | 13.5% |
| 11 | Serbia | 13.5% |
| 12 | Denmark | 13.3% |
| 13 | Spain | 13.3% |
| 14 | Slovenia | 13.2% |
| 15 | Netherlands | 13.1% |
| 16 | Croatia | 13.1% |
| 17 | Poland | 13.1% |
| 18 | Kazakhstan | 13.1% |
| 19 | Greece | 13.0% |

| Rank | Country | Estimated illicit trade |
|------|----------------|-------------------------|
| 20 | Portugal | 13.0% |
| 21 | Sweden | 12.8% |
| 22 | Slovakia | 12.8% |
| 23 | Austria | 12.7% |
| 24 | Cyprus | 12.7% |
| 25 | France | 12.5% |
| 26 | Switzerland | 12.5% |
| 27 | Finland | 12.5% |
| 28 | Norway | 12.5% |
| 29 | United Kingdom | 12.4% |
| 30 | Latvia | 12.2% |
| 31 | Romania | 12.2% |
| 32 | Belgium | 11.9% |
| 33 | Luxembourg | 11.4% |
| 34 | Malta | 11.4% |
| 35 | Bulgaria | 11.3% |
| 36 | Estonia | 11.2% |
| 37 | Ireland | 10.9% |

Source: Oxford Economics, stakeholder survey; n=8,121

illicit trade by product).

Yet when we asked consumers to forecast their future illicit purchases, they estimated a decline over the next three years of almost 5%. Illicit purchases are estimated to

decline for all products, from 2.7% of cigarettes to 6.7% for medicines and 6.8% for films. Declines are forecast in all countries, with the largest in Estonia (9.5%), Portugal (7.6%), Turkey (7.3%), Hungary (7.1%), Azerbaijan (7.0%), Romania

² For example, see the Project Sun 2016 report; OECD/EUIPO 2016 Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact; June 2016 Eurobarometer report on public perceptions of Illicit Tobacco trade; Transcrime 2015 report, “Estimating the counterfeit markets in Europe.”

(6.8%), and Italy (6.5%).

How can we explain these conflicting views? The rapid evolution of technology, globalisation, and the development of e-commerce and frictionless supply chains have shifted the traditional patterns of illicit trade on both the demand and supply sides (see sidebar). Perhaps consumers may be underestimating the amount

of illicit goods they will buy as supply chains are increasingly compromised. Alternatively, it is possible that stakeholders are unaware that consumers are changing their behaviours in response to improved legitimate product offerings, or have developed greater awareness of the risks and costs of illicit trade.

Our research sought to understand how consumer

attitudes and buying decisions are changing as a result of these developments. Our findings challenge four widely held perceptions about consumers' illicit trading behaviour, spanning what consumers understand to be illicit goods, where they buy them, who participates in illicit trade and, most importantly, why they buy illicit goods.

THE SHIFTING NATURE OF ILLICIT TRADE

Michael Ellis, a consultant on illicit trade, has tracked the increase in counterfeiting over the last 20 years, during which he served as the head of Interpol's illicit crime unit. "It started with music and films, but we are now seeing technology being used in more sophisticated ways," he says. "We are now seeing the internet used to quickly transfer design patterns for clothing and accessories, and the availability of machinery and materials has produced very high-standard copies." Piotr Strykowski, the OECD's lead economist on illicit trade, agrees: "Counterfeiting is changing and becoming more democratic. Now any product with IP becomes a target."

E-commerce has made it easy for consumers to buy illicit goods. As the number of products available online proliferate, consumers use price-comparison sites and user reviews to ensure they are getting a good deal rather than relying on trusted brands. "The vast majority of online shoppers don't really understand the degree of fraud on the internet, nor do they have the tools to avoid it. Most still just think they're getting a deal," says TRACIT Director General Jeff Hardy. "With so many product choices available, it's almost impossible to separate the fakes from genuine products."

Globalisation has led to extended and complex product supply chains spanning many suppliers, intermediaries, and countries, which introduces vulnerabilities. Goods are increasingly delivered in small consignments, which can more easily slip past border controls and customs checks. Some countries are known to be prolific producers of illicit goods, and often goods pass through free-trade zones, where there is limited scrutiny.

Patterns of illicit trade shift constantly as criminals react to countering measures and seek new opportunities. If agreements are signed with governments to tackle known routes of illicit trade, operators can shift activity to neighbouring countries. As one route closes, criminals look for other routes to exploit. "It's a cat-and-mouse game," explains Hugo Bonar, enforcement manager for the Irish Health Products Regulatory Authority (HPRA). "We have success closing down one area, like steroid abuse, and the criminals then come down another stream."

MYTH 1: CONSUMERS KNOW THAT THEY ARE BUYING ILLICIT GOODS

Most illicit goods are usually clearly signalled by their price, whether it's a free film or a designer handbag at a fraction of the retail price. Consumers know when buying under the counter, in a back alley, or on the dark web that they are buying illicit goods.

Reality: Consumers increasingly find it difficult to confirm their purchases are genuine even when they buy through trusted sources.

Consumers estimate
27%
of their purchases are
possibly illicit.

In a rapidly globalising economy where more goods are available over the internet—from official online stores to online marketplaces and auction sites, then delivered through extended, low-cost supply chains—it's getting harder and harder for consumers to tell when a product is genuine.

We asked consumers to rank the confidence they had that their purchases were legitimate.³ They estimated 11% of purchases as illicit, but a far greater number, 27%, had a degree of uncertainty—what we define as “possibly illicit” purchases (see Fig. 2). For some countries and products this uncertainty is even more widespread. For example, in Slovakia, 54% of all purchases and 61% of films are reported as possibly illicit.

Undoubtedly some purchases are known by the buyer to be illicit—usually signalled by an unrealistically cheap price (the Rolex for \$10), or the source (a film downloaded from a file-sharing site). Some consumers deliberately seek

out illicit goods, for example, buying medicine through an unofficial source to avoid visiting a doctor. For some, returning home with fake branded shirts or a designer handbag has become part of the holiday experience. Dr. Chaudhry's research into customer complicity suggests that some consumers buy illicit goods simply for the “hedonic experience,” the thrill and adventure of buying from illicit channels.⁴

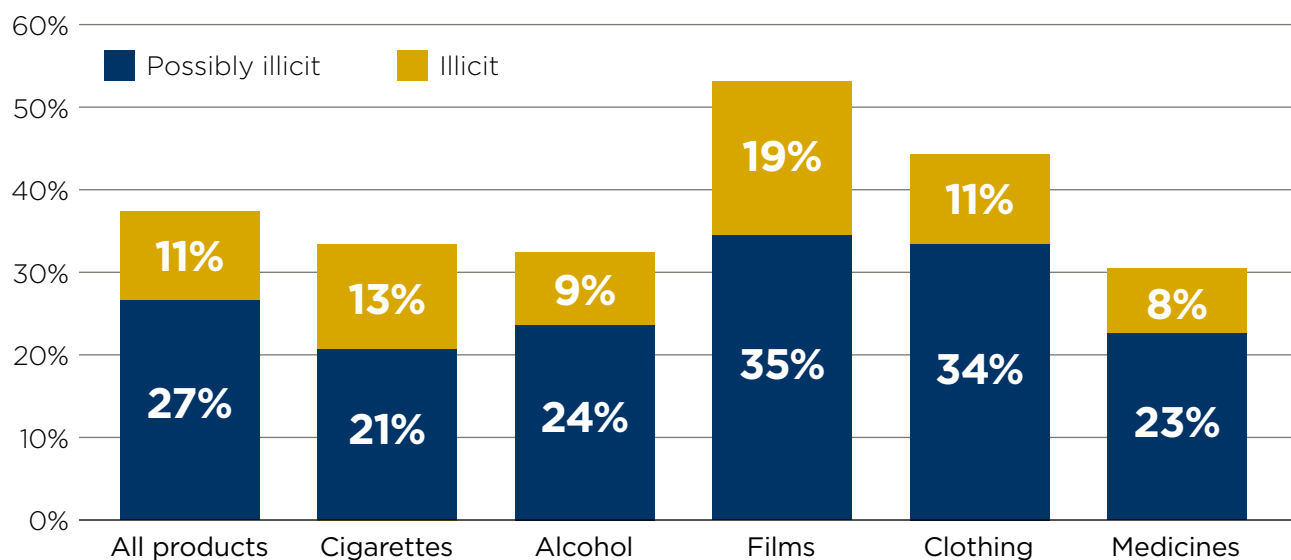
But many illicit purchases are not deliberate. Consumers may buy cheaper goods online or from an independent retailer and not realise they could be illicit. There are also many blurred areas between legitimate and illicit trade—such as crossing the border to load up a van of goods for personal consumption, receiving a link to a film or song from a friend, buying a locally produced alcoholic drink or buying a “grey” import of a branded fashion product.

³ We worked out the purchase profile for each product that a consumer bought regularly (at least monthly). See the Annex for more information.

⁴ Dr. Peggy E Chaudhry, Ronald Paul Hill, Stephen A Stumpf, Goksel Yalcinkaya: “Consumer complicity across emerging markets” (2011). *Advances in International Marketing*, Volume 22, 223–239.

Fig. 2: Consumer estimates of illicit trade by product

How likely are some of the products that you've purchased been illicit?



Source: Oxford Economics, consumer survey. Cigarettes n=12,988; alcohol n=18,966; films n=8,611; clothing n=23,194; medicines n=22,448

There are also cases where consumers think they are buying legitimate goods but are in fact being duped with illicit goods. Says the OECD's Mr. Strykowski: "Many illicit traders have fantastic web sites that look much better than the genuine web pages of legitimate sellers." Copies of clothing, accessories, and DVD box sets, for example, are increasingly high quality and hard to distinguish from legitimate goods.

Counterfeiting is often invisible to consumers, as it occurs further down the supply chain, in business-to-business products. The International Chamber of Commerce BASCAP's 2015 report highlighted the growing importance of intermediaries—such as wholesalers,

infrastructure service providers (ISPs), freight forwarders, distribution and postal depots, and payment providers—on supply chain security: "It is much more difficult for rights holders to know, manage, and control every intermediary involved in their supply chains and to see their every transaction. Intermediaries face similar challenges with their sub-intermediaries, suppliers, and customers."⁵

These intermediaries, making decisions on behalf of consumers, also have incentives to use fake products. Michael Ellis describes how some large wholesalers in the UK buy products sourced from Eastern Europe that they believe are "grey" imports, meaning legitimate branded goods

produced in another country, and then find they receive a container of fake goods. "Confusion between grey and counterfeit does happen—it's a real problem," he says.

This combination of deliberate, suspected (what we describe as "possibly illicit"), and unaware illicit purchases causes added difficulties in understanding the true extent of illicit trade. It also leads to widespread confusion among consumers. In many cases, they don't know if they are buying legitimate goods, or if what they are doing is wrong. It undermines consumer confidence in brands and authorised sources, and may increase the likelihood that they stray to more deliberate illicit activity.

⁵ BASCAP, March 2015, "Roles and responsibilities of Intermediaries: fighting counterfeiting and piracy in the supply chain."

MYTH 2: ILLICIT GOODS ARE MAINLY BOUGHT THROUGH ILLICIT CHANNELS

Illicit goods are mostly bought through unofficial retail outlets—markets, from strangers in the street, under the counter at small shops, pubs, and restaurants, or through unofficial websites.

Reality: Illicit trade passes through many retail channels and undermines consumer confidence in legitimate goods. Official online channels, with high volumes and easy access to illicit goods, may pose a bigger long-term risk than criminal sites on the dark net.

It's far more likely that consumers today buy illicit goods through an online marketplace than a stranger's rucksack. As the dividing line between legitimate and illicit goods grows hazier, consumer confidence in all retail outlets has plummeted. Our research indicates this is leading to a shift in consumers' attitudes and shopping behaviours.

Confidence in official retail stores is low and considerably worse online, particularly for online marketplaces.

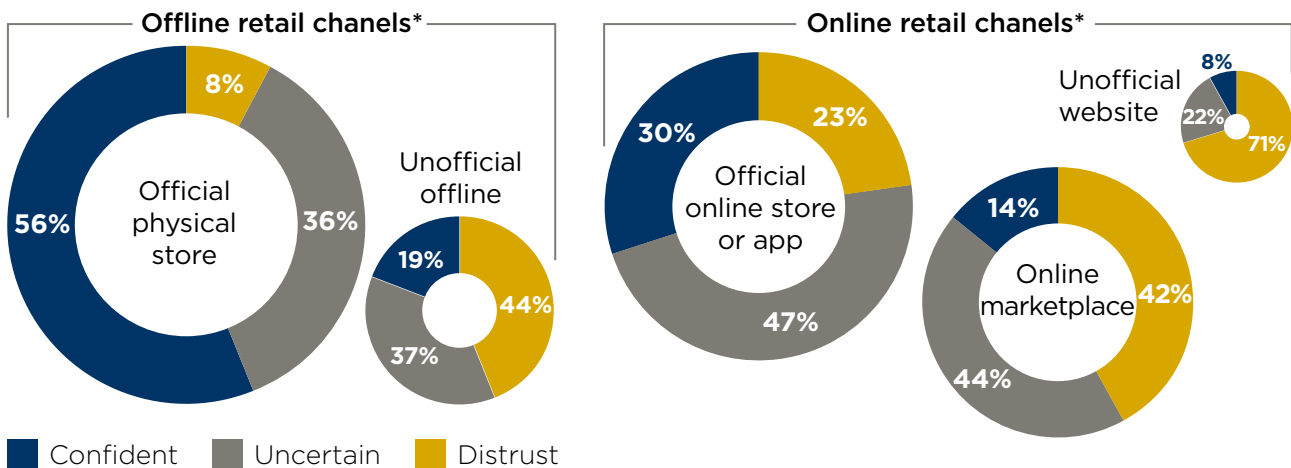
Confidence levels are understandably low for "unofficial sources" of goods, both offline and online, such as buying from a market, a friend or stranger, or an unofficial website. But unofficial sources make up a small share of total purchases. Of greater concern are the low levels of confidence in official outlets—both physical stores and online retailers—such as retailers' websites, apps, auction sites, and popular online marketplaces.

Only 56% of consumers have complete confidence that purchases they have made from official physical stores were legitimate, with 36% expressing uncertainty and 8% actively distrusting purchases (see Fig. 3). Almost half (47%) say it's difficult to tell if goods sold in physical stores are legitimate. "The old, traditional high street retailer is also moving online," says Allen Bruford, former Deputy Director at the WCO, "so goods may no longer be sourced in the ways consumers expect." Liz Allen, former HMRC Excise division head, notes an increase in under-the-counter sales following the introduction of tobacco display bans in many European countries. "Some formerly compliant retailers are now selling licit and illicit goods together," she says.

In some countries where illicit trade is high for some products, faith in retail outlets may be particularly low. Marjana Martinic, Deputy CEO and SVP, Science & Policy at the International Alliance for Responsible Drinking (IARD) explains that in such countries, consumers can only be sure they are buying the genuine product if someone trusted brings it in from another country. "If you are buying, say, a premium brand whisky from the shelf in Russia, you may not know if it's the real thing. This can be a huge challenge to legitimate producers because it shakes consumer confidence in their ability to ensure the quality of brand."

Fig. 3: Consumer confidence by retail channel

For each of the different ways you may have bought goods, please rate your confidence that you were buying authentic and legitimate products.



*Size of chart approximates to volume of purchases using the channel.

Source: Oxford Economics, consumer survey. Official physical store, n=85,895; unofficial offline, n=167,995; official online store or app, n=84,615; online marketplace, n=83,984; unofficial website, n=82,995

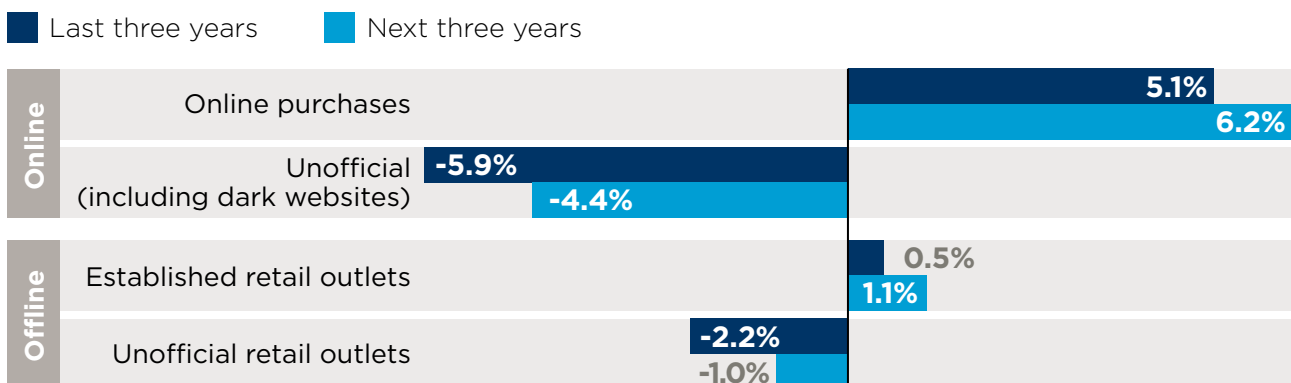
Confidence is even worse on the internet, with 63% of consumers agreeing it's difficult to tell if a product bought online is legitimate. Forty-four percent of consumers overall say illicit goods are easy to source

online, compared with 25% in a physical store. And only 30% of purchases are completely trusted by users of official online stores or apps (see Fig. 3). For online marketplaces, only 14% of purchases are fully trusted as

legitimate products. Unofficial websites (including file-sharing sites and the dark web) appear mostly to be for illicit purchases, though transaction volumes are much smaller than other channels.

Fig. 4: Consumer estimates of past and future purchasing behaviour

Please tell us how your shopping attitudes and behaviours have changed over the last three years, and how you expect them to change over the next three years. (Mean %)



Source: Oxford Economics, consumer survey; n=37,370

Our research shows a continuing shift to online retail channels (see Fig. 4). Consumers also report they are moving away from unofficial outlets, particularly online, a trend they expect to continue over the next three years.

There are several possible reasons to explain why consumers are moving away from unofficial outlets:

- Many businesses are improving their product offerings, introducing new business models like online subscription services and in-app purchases. Retailers are developing more

sophisticated “omnichannel” strategies, combining the best of offline and online channels to deliver improved availability, convenience, and an improved customer experience. All these initiatives could push consumers back to official outlets.

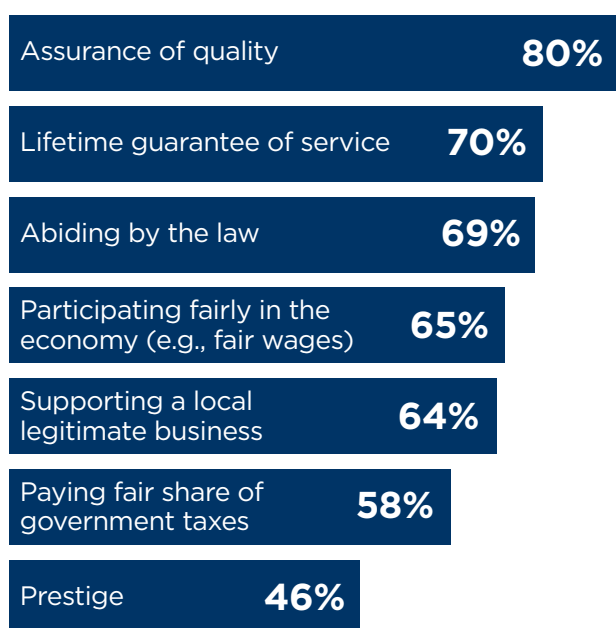
- Businesses, often working with public officials, are adapting to the threat and introducing ways to authenticate products, verify official websites, introduce Codes of Practice with digital retailers, and close down unofficial websites. These initiatives

may be starting to influence consumers’ shopping habits.

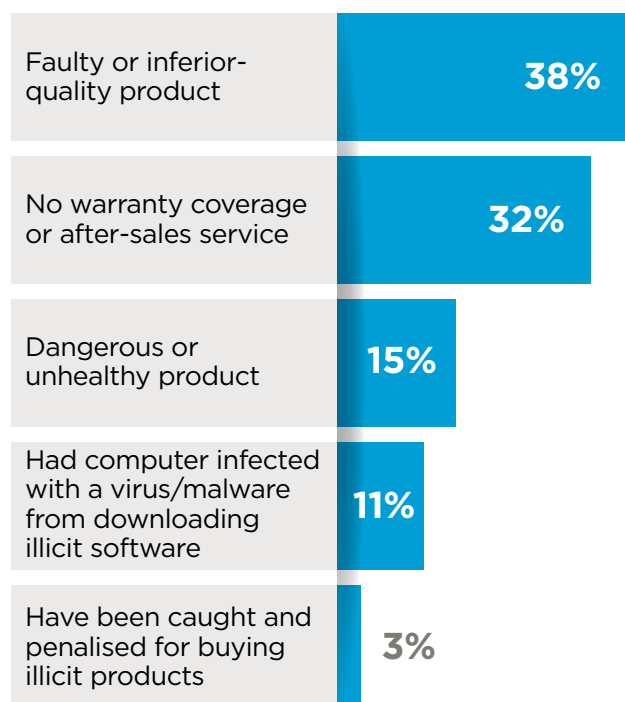
- Consumers generally prefer to buy from authorised sources of legitimate goods. Quality assurance is reported as the most important reason for buying from official sources. Consumers are generally becoming more demanding of products’ authenticity and the traceability of ingredients. Some who have bought illicit goods report bad experiences, with 38% reporting inferior quality, 15% a dangerous or unhealthy product, and 11% a computer virus (see Fig. 5).⁶

Fig. 5: Consumers’ reasons for buying legitimate; experiences with illicit

Rate the importance of each of the following factors in buying from authorised sources.
“Important” and “Very important” responses



Have you ever experienced any of the following as a result of buying potentially illicit goods?



Source: Oxford Economics, consumer survey; n=32,023 (purchases with some distrust of legitimacy).

MYTH 3: ILLICIT TRADE IS MOSTLY CARRIED OUT BY PEOPLE ON LOW INCOMES

Most illicit trade is carried out by people on lower incomes, who can't afford to pay for legitimate goods and have easier access to illicit sources in their communities.

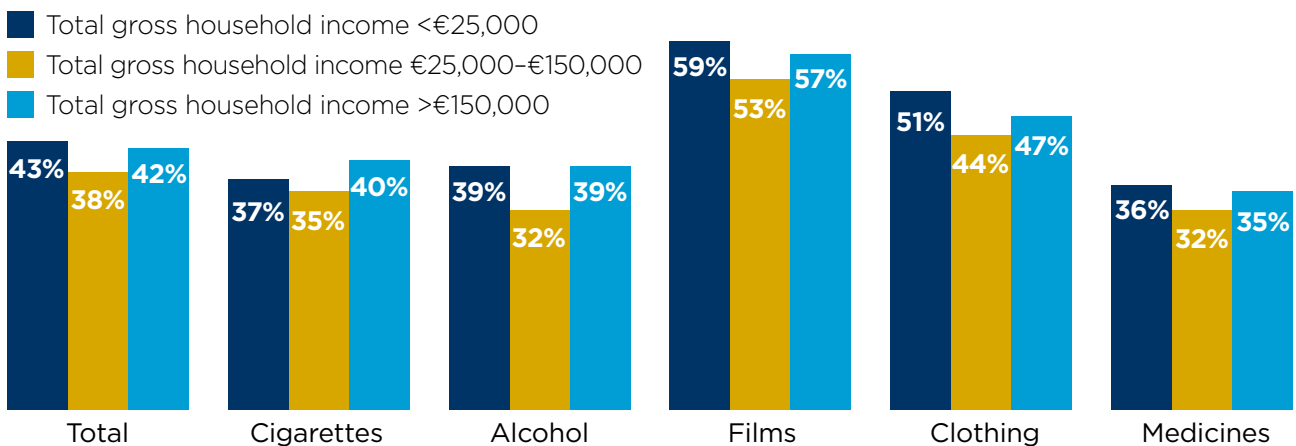
Reality: Illicit trade occurs across all levels of society. As illicit trade expands to more products and is increasingly online, it becomes easily accessible to a wider population. There are many reasons why people buy illicit that aren't related to income level.

While our research shows that illicit trade is highest among the lowest-income bands and with students, it is surprisingly high among those with annual

household incomes greater than €150,000, those with a university degree, and among those working in managerial and professional roles (all at 42%).

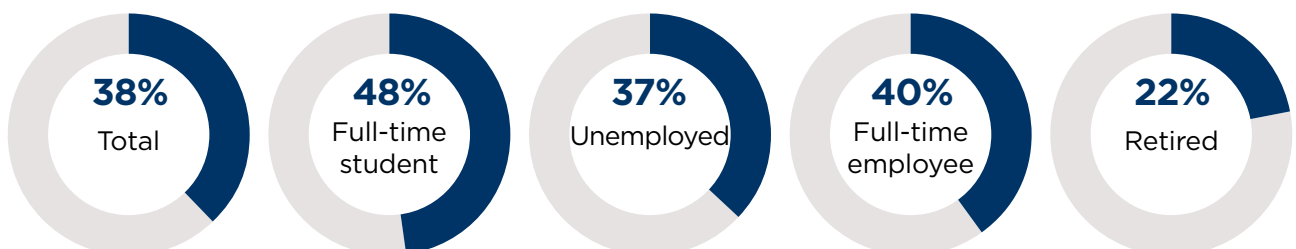
Fig. 6: Illicit trade by income level and occupational group

Percentage of respondents by income range who have purchased “illicit” or “possibly illicit” goods



Source: Oxford Economics, consumer survey. Cigarettes, n=2,940; alcohol, n=4,128; films, n=3,272; clothing, n=6,768; medicines, n=4,432
Note: Many respondents preferred not to reveal their incomes.

Percentage of illicit and possibly illicit purchases by working role



Source: Oxford Economics, consumer survey. Total, n=32,738; full-time student, n=2,932; unemployed, n=2,682; full-time employee, n=19,034; retired, n=2,253

Consumers may be increasingly tempted to purchase illicit goods as the opportunities to do so become more frequent and more convenient. Many calculate that there are few downsides from buying illicit goods. Our survey shows that consumers think that for some products, there is little difference in quality between legitimate and illicit goods (35% agree vs. 21% disagree). Very few expect to be prosecuted, particularly as they may not even think they are doing anything illegal (for example buying grey imports, or keenly priced products on an online marketplace). As Europol's Chris Vansteenkiste explains, "in former days, people had to go to physical markets or outside the country to buy counterfeited goods. But now these goods are brought into your living room."

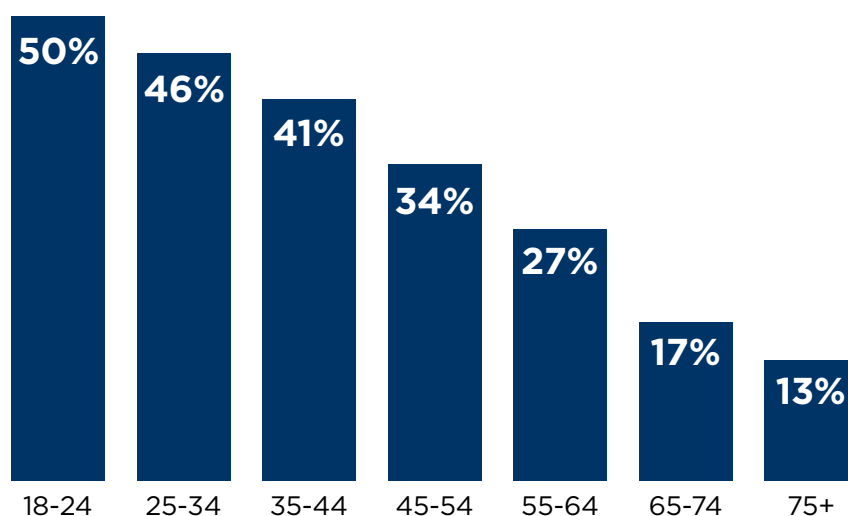
In fact, consumers from the highest income band are more likely than those in the lowest band to say that it is easy to source illicit goods online (52% vs. 47%). The UK IPO's 2017 study into online trade and use of social media surveyed over 3,000 UK consumers and reported that social groups AB (upper middle class and middle class) acknowledged complicit behaviour at almost double the level of social grades C (skilled class) (24.5% vs. 12.7%).⁷

Yet our data shows an even closer correlation to age than any other factor (see Fig. 7). Younger people are more likely to be consumers of films, music and games, where high levels of illicit trade are almost accepted norms. Older people are more likely to be concerned about the impact of illicit trade on wider society. For example, those over 55 years old agree that illicit trade is harmful to businesses (80% vs. 66% in the youngest group) and that it funds criminals and terrorists (60% vs. 42%).

There is a closer correlation of consumer illicit purchases with age than any other factor.

Fig. 7: Illicit trade by age group

Percentage of total illicit purchases by consumer age



Source: Oxford Economics, consumer survey. 18-24, n=4,197; 25-34, n=9,199; 35-44, n=8,845; 45-54, n=6,146; 55-64, n=3,467; 65-74, n=791; 75+, n=93

MYTH 4: CONSUMERS BUY ILLICIT GOODS BECAUSE THEY ARE CHEAPER

For both smuggling and counterfeiting of goods, the motivation of consumers and incentive for criminals is the significant price differential between legitimate and illicit goods. Consumers see illicit trade as essentially victimless—they are buying a cheaper product and no one gets hurt, unlike more serious crimes like drug- or people-trafficking.

Reality: Consumers buy illicit goods for many reasons. Though price is clearly a key factor, there are several other strong influences relating to both the product offering and the implications of illicit trade on society.

To identify why consumers buy illicit goods, we asked them to rate the importance of eight different motivations. Four are related to the attractiveness of the product—price, quality, availability, and convenience (highlighted in light blue below). The other four are more concerned with attitudes about illicit trade (highlighted in dark

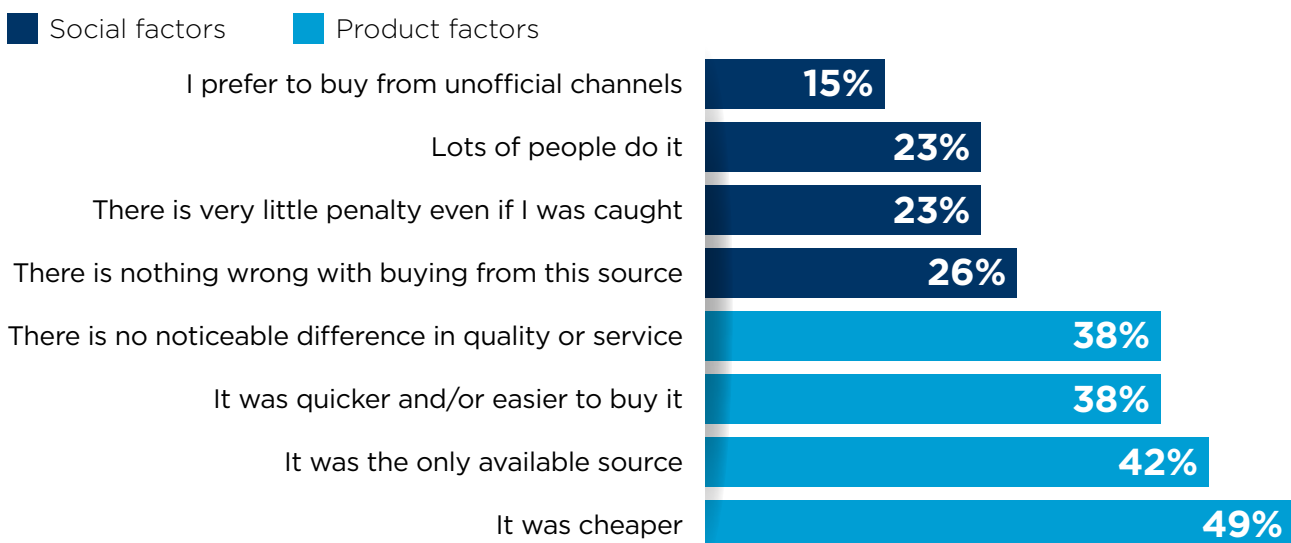
blue)—that there is nothing wrong with doing it, others do it, there is little chance of sanction, or that they prefer to buy from unofficial channels.

Though the aggregate responses show that most consumers prioritise price, other factors are close behind (see Fig. 8).

While most consumers prioritise price, other factors significantly contribute to their decision to purchase illicit goods.

Fig. 8: Reasons for buying from illicit sources

Please rate the importance of each of the following factors in buying potentially illicit goods from unauthorised sources. “Important” and “Very important” responses



Source: Oxford Economics, consumer survey; n=32,023

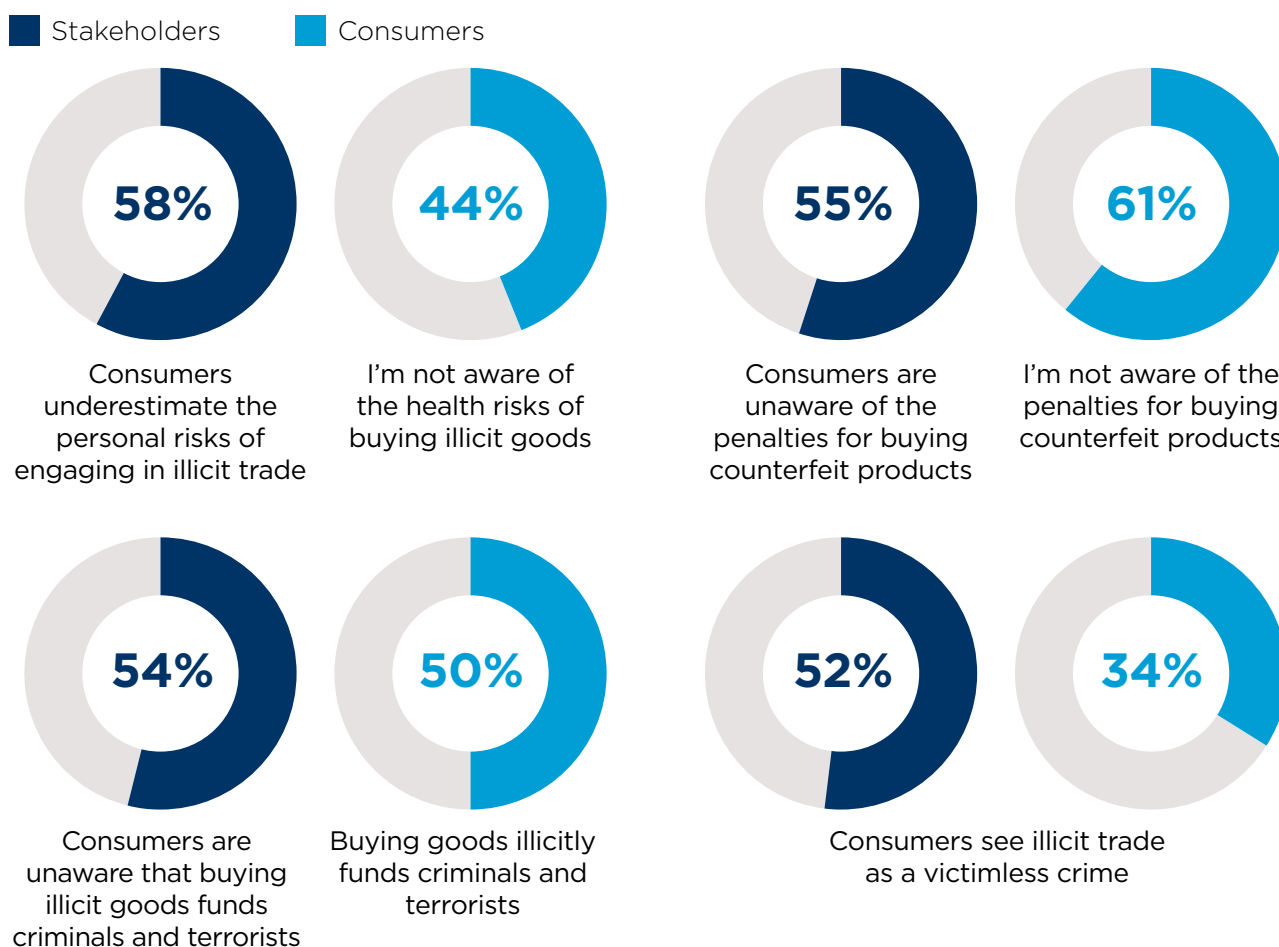
Stakeholders tend to underestimate consumers' awareness of the implications of illicit trade. Just over half of stakeholders (52%) say consumers see illicit trade as victimless, compared with 34% of consumers (see Fig. 9).

Our research shows that most consumers are aware of some of the implications of illicit trade and that this impacts their buying decisions. For example, more than 60% agree that supporting local businesses, participating in the economy, and abiding by the law are reasons to buy legitimate goods (see Fig. 5).

Liz Allen says we need a more sophisticated understanding of what drives consumer decision-making to arrive at better strategies to tackle illicit trade. "We've always considered consumers as one mass, mainly in the lower socio-economic groups, who like cheap products. Whereas what is needed is to better understand motivations to arrive at a range of targeted initiatives."

Fig. 9: Consumer awareness of the impact of illicit trade

Please rate your level of agreement with the following statements about consumer attitudes toward illicit trade in your country. "Agree" and "Strongly agree" responses



Source: Oxford Economics, stakeholder survey; n=8,121

Source: Oxford Economics, consumer survey; n=37,370



A NEW WAY OF LOOKING AT CONSUMER MOTIVATION

Effective strategies need to be based on a solid understanding of why people are buying illicit goods and the factors that would be most effective at influencing them. We have developed an illicit trade matrix that identifies consumers' potentially illicit purchases⁸ and segments them based on two dimensions: (1) their level of complicity (either possibly illicit or illicit purchases) and (2) the motivations for the illicit purchase (either mostly product related or socially motivated). Mostly product-related purchases score higher on the total of product-related factors (highlighted in light blue in Fig. 9) than the total of societal ones (dark blue). The remaining illicit purchases are classified as socially motivated, as they score

equal or higher on social factors. The matrix creates four separate groups that share certain characteristics (see Fig. 10).

The matrix helps to identify the distribution of consumers across the four quadrants, capturing the percentage spread across all potentially illicit European purchases, with Opportunists representing the largest group, at 40%. This spread varies significantly by country and by product—providing insight into which groups are most important to prioritise.

The matrix also allows us to highlight strategies that most effectively steer consumers away from illicit trade. For each quadrant, we identify

the top three strategies in deterring illicit purchases. The percentage scores reflect the likely effectiveness of the strategy, so one rating 70% would be far more effective than one scoring 40%.⁹

Looking at the data this way, we can see a range of strategies stakeholders can use across countries and product categories to influence specific types of consumers. Below we present the matrices for the five separate products, highlighting the three most effective strategies for each consumer quadrant. A full segment breakdown by country and product can be found by using the interactive dashboard on our research webpage (see Annex A).

Fig. 10: Illicit trade consumer matrix, European total averages



Source: Oxford Economics, consumer survey; n=32,430

⁸ We selected consumers that were regular buyers of one or more of the five product categories, defined as buying at least monthly. We then asked them to assess whether some of those purchases, for each product, could have been illicit. This allowed us to create a profile for their potentially illicit purchases by product. An individual consumer could have up to five illicit purchase profiles, depending on how many of the products they buy could be illicit.

⁹ Respondents were asked for each of their potentially illicit purchases, the effectiveness of ten different strategies in deterring them from buying illicit goods. A score of 70%, means that for 70% of all the illicit purchases in that segment, respondents said that the strategy would be effective or very effective.

Deterring illicit trade in cigarettes

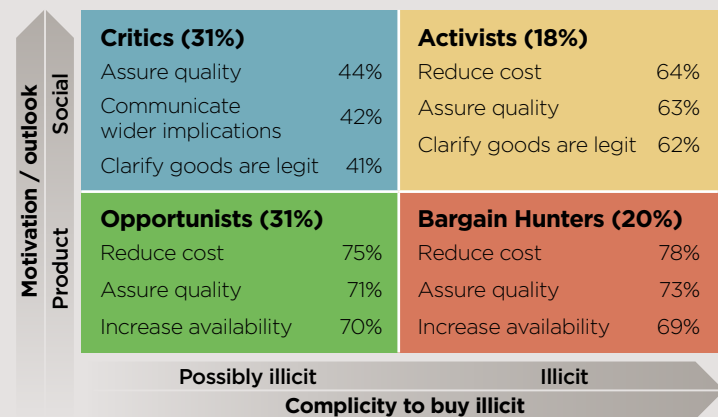
For cigarettes, there are more Bargain Hunters and Activists and fewer Opportunists than the overall population.

Those buying illicit cigarettes are more likely than respondents overall to have suffered from faulty or inferior products (52% vs. 38%) and dangerous or unhealthy products (30% vs. 15%).

Reducing cost appears to be the most effective strategy for all quadrants but Critics, though high levels of excise rates that vary across countries make price particularly difficult to influence. Providing quality assurance comes a close second for many consumers, and is the most effective influencer for Critics.

Efforts to assure quality include tax stamps and track-and-tracing systems. At an international level, progress is being made in adding signatories to the FCTC protocol,¹⁰ extending use of security features and track-and-tracing systems, with implementation anticipated across Europe from next year.

Fig. 11: Illicit trade consumer matrix—Cigarettes
Strategies to reduce illicit trade in cigarettes
Top 3 responses by consumer segment



Source: Oxford Economics, consumer survey; n=4,448

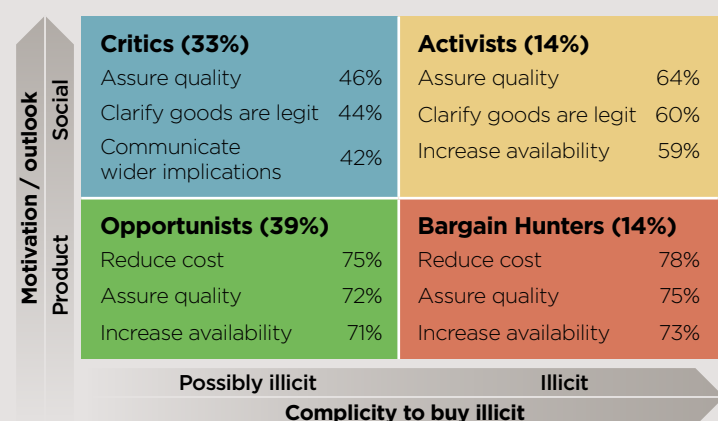
Deterring illicit trade in alcohol

The spread of illicit purchases of alcoholic drinks has more Critics and Opportunists than cigarettes, similar to the European population as a whole. Strategies directed at these groups should deter them from progressing to more deliberate illicit purchasing.

Improving quality assurance of alcoholic products is seen as a top influencing strategy for all consumer segments. Authentication initiatives to clarify goods are legitimate could deter the 47% of Critics and Activists.

The industry is introducing QR codes on bottles so that consumers can verify authenticity by using an app on their smartphones. They are also aiming to improve supply-chain security through introducing seals and tamper-proof caps, and using track-and-trace technologies.

Fig. 12: Illicit trade consumer matrix—Alcohol
Strategies to reduce illicit trade in alcohol
Top 3 responses by consumer segment



Source: Oxford Economics, consumer survey; n=6,146

¹⁰ For a summary of the 2016 update to the EC Tobacco Directive and the World Health Organization's FCTC protocol, see http://europa.eu/rapid/press-release_IP-16-1762_en.htm

Detering illicit trade in medicines

Opportunists (41%) are the largest group in this product category. Cost is what most motivates this group, but they (and Bargain Hunters) also highlight that quality assurance is an important influencer.

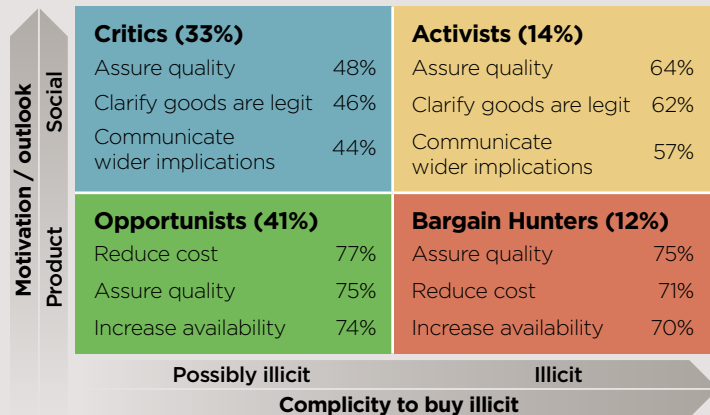
For Critics and Activists, cost does not feature among the top influencing motivations.

Quality assurance and authentication are particularly important drivers, considering the reported incidents of illicit goods entering official supply chains and the health risks of illicit medicines. One-quarter of illicit purchasers of medicines report experiencing a dangerous or unhealthy product.

New initiatives, such as the use of authentication identifiers on packets, will make it harder to infiltrate supply chains. Adopting technologies like blockchain and other authentication techniques could help build more confidence in legitimate products. Operation Pangea, coordinated by Interpol, has helped raise awareness of the risks of buying medicines over the internet as well as cracking down on illicit suppliers, intermediaries, and retailers.¹²

Fig. 15: Illicit trade consumer matrix—Medicines

Strategies to reduce illicit trade in medicines
Top 3 responses by consumer segment



Source: Oxford Economics, consumer survey; n=6,898

¹² More information about operation Pangea is available at <https://www.interpol.int/Crime-areas/Pharmaceutical-crime/Operations/Operation-Pangea>

STAKEHOLDER STRATEGIES TO COMBAT ILLICIT TRADE

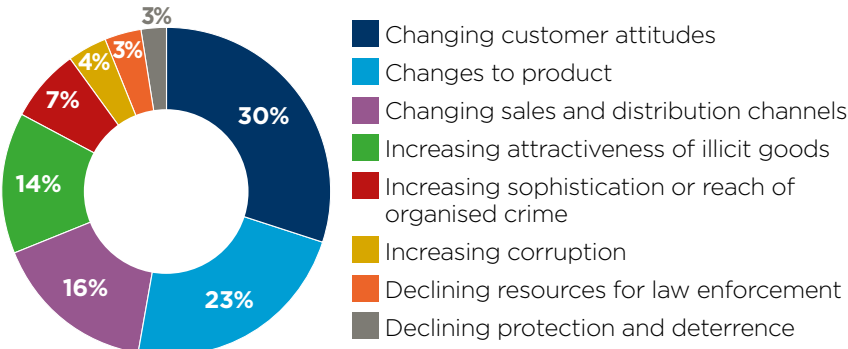
We interviewed over 8,000 Europeans working in a variety of roles to combat illicit trade to discover how they are adapting to its shifting patterns. We also explored their views of consumers' motivations and purchasing behaviours, to see if they are aligned with those of consumers.

As parts of a much larger ecosystem, business executives, policy-makers, and law enforcement officials naturally have distinct goals and initiatives available to combat illicit trade. But at a broad level there is agreement about the drivers of illicit trade and where actions are most needed. These stakeholders highlight changing customer attitudes as the most important driver of illicit trade growth, followed by changes in products (of both legitimate and illicit goods) and sales and distribution channels.

Stakeholders know there is no simple solution and that illicit trade must be targeted from multiple angles. These include developing better legal and policy frameworks, tightening supply chains, improving enforcement at the border and inland, and influencing customer behaviour. Effective collaboration between the multiple agencies involved in combatting illicit trade and deployment of technologies will be needed to support initiatives in all these areas.

Fig. 16: Stakeholders' reasons for illicit trade's increase

What is the main driver for the increase in illicit trade?
Top-ranked responses



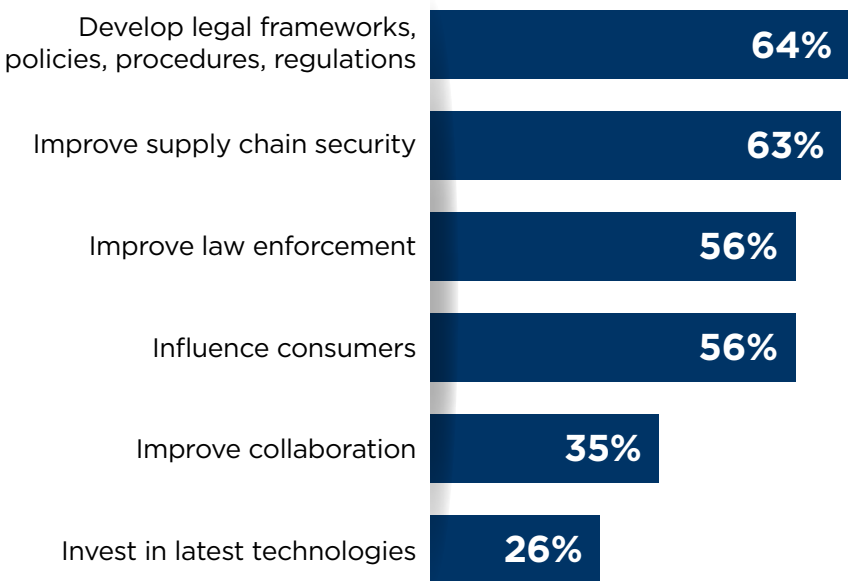
Source: Oxford Economics, stakeholder survey; n=8,121

Where stakeholders ultimately put their focus naturally is influenced by cost and implementation challenges. This may explain the apparent preference for proactive and preventive strategies to reduce

the incidence of illicit trade, such as influencing consumers, designing regulatory frameworks, and enhancing supply-chain security, rather than investing in strengthening enforcement.

Fig. 17: Stakeholder strategies to combat illicit trade

Which of the following actions would be most effective in combatting illicit trade? *Top-three ranked responses*



Source: Oxford Economics, stakeholder survey; n=8,121

INFLUENCING CONSUMERS—STICK OR CARROT?

Stakeholders believe that reducing the price difference between legitimate and illicit goods is by far the most effective action to influence consumers. Significant price changes may be difficult to execute in a competitive

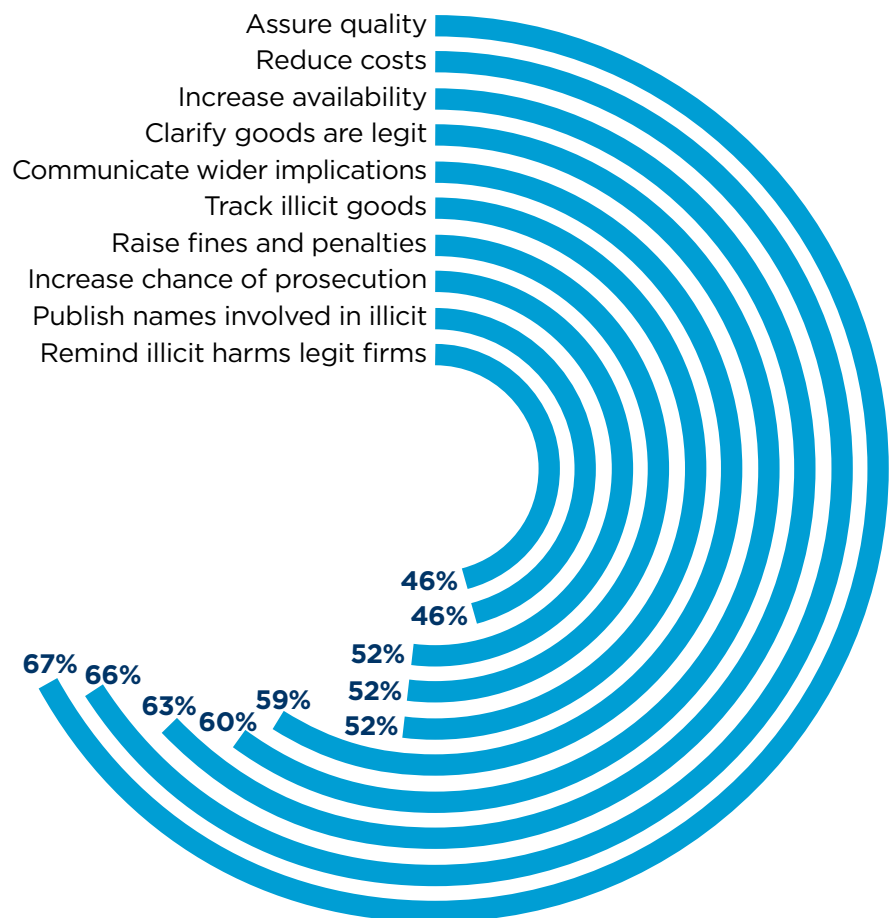
market, or where different rates of excise duty create large cross-border price differences. This finding contrasts with the views of consumers, who attach similar importance to quality assurance and confidence that products are legitimate.

Fig. 18: Stakeholder strategies to influence consumers vs. consumers' effective strategies to deter illicit purchases

Which of the following actions would be most effective in discouraging consumers from illicit trading?
Top-ranked choices



In your view, how effective would the following actions be in discouraging you from buying from sources that may not be legitimate? *"Effective" and "Very effective" responses*



Source: Oxford Economics, stakeholder survey; n=8,121

Source: Oxford Economics, consumer survey; n=32,023

This comparison highlights several areas where stakeholders' and consumers' perspectives are not aligned:

- Providing positive incentives to buy licit goods is seen as most effective by only 21% of stakeholders, yet initiatives to assure quality and increase availability are seen by consumers as among the most effective. Mary-Anne Venables, economic advisor at the UK's Intellectual Property Office (IPO), notes that "people are willing to pay for legal access to films and music if they can. Accessibility is very important. Access to legal alternatives has had positive effects."

- Explaining the potential risks and wider implications of illicit trade is top priority for 14% and 8% of stakeholders, respectively. Consumers, however, appear receptive to being made aware of the implications of illicit trade. Karl Lallerstedt thinks campaigns can have an impact if they focus on plausible risks to individuals, such as with medicines or computer ransomware: "I think we'll see some consumer segments becoming more aware of the risks and many thinking it's worthwhile paying for peace of mind."

Stakeholders are more aligned with consumers when it comes to not prioritising penalties for buying illicit goods. Only 7% of stakeholders highlighted increasing the chances of prosecution and penalties as their top priority. More than half of business executives (55%) fear that overzealous efforts to combat illicit trade would generate negative publicity. Liz Allen notes that making penalties harsher won't be useful without effective enforcement. "When you are prosecuting so few, people are going to still think it won't happen to me, regardless of the penalty."

Positive incentives to buy legitimate goods and awareness campaigns score very low among stakeholders compared with what consumers say would most influence them.

SECURING THE FULL SUPPLY CHAIN

Approaches to secure the supply chain need to adapt to the rapid changes in the increasingly global, digital economy. As more products include digital elements with designs that can be easily copied, and as manufacturing becomes more fragmented, outsourced, and extended across continents, supply chains become far more difficult to control and secure. E-commerce has transformed traditional distribution networks. "Nowadays, goods are entering in small-parcel

form. It has become almost impossible for customs or parcel couriers to stop and check the enormous floods of small packages," says Europol's Chris Vansteenkiste.

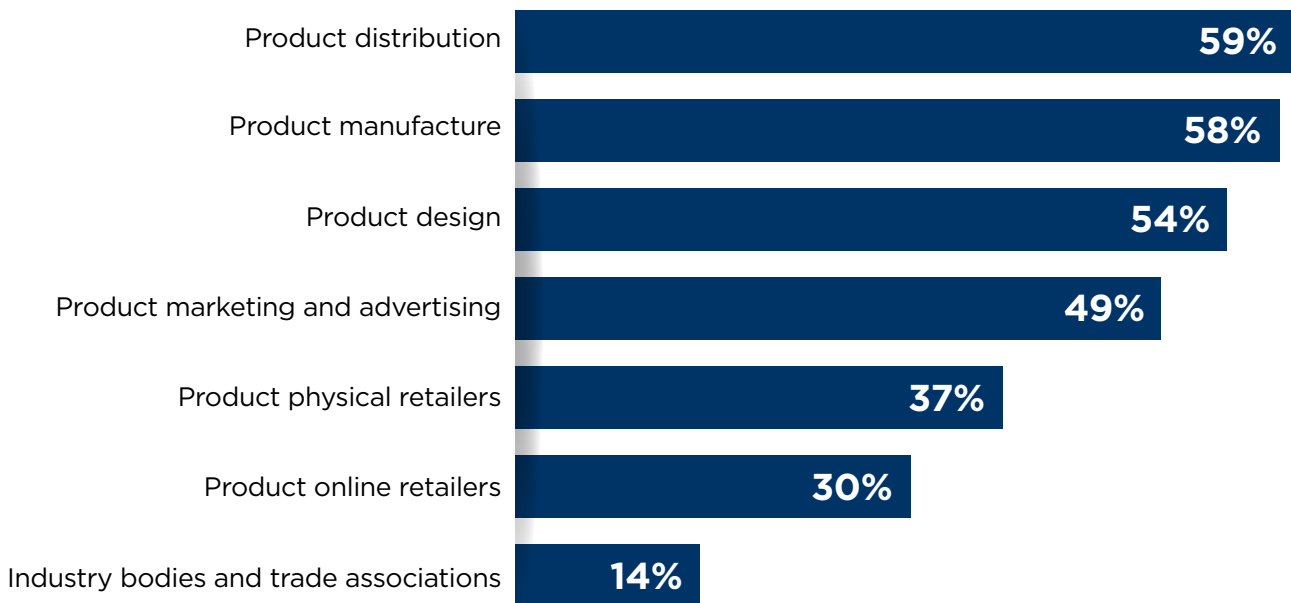
Stakeholders identified actions in product design, manufacture, and distribution as key to reducing illicit trade (see Fig. 19). There are many strong examples of such initiatives. At the design stage, cigarettes and medicines suppliers are putting identification markers on packets. The European Anti-

Fraud Office (OLAF)'s strategy to combat the illicit tobacco trade includes controlling inputs to the manufacturing process, such as the acetate tow used in filters.¹³ There are ongoing efforts by alcohol producers to deter the use of industrial alcohol in illicit drinks by adding a chemical, (brand name Bitrex), which has an unattractive taste. Customs departments, meanwhile, are collaborating increasingly with courier companies and freight forwarders to tackle the problem of small packages.

¹³ May 2017, European Anti-Fraud Office (OLAF), Progress report on the implementation of the Commission Communication, "Stepping up the fight against cigarette smuggling and other forms of illicit trade in tobacco products—a comprehensive EU strategy (Com (2013) 324 final of 6.6.2013)."

Fig. 19: Strategies to secure the supply chain

Where would action be most effective in improving products, the supply chain, and retailing?
Top-three ranked choices



Source: Oxford Economics, stakeholder survey; n=8,121

However, others suggest that more urgent action may be needed to tackle the reality of modern supply chains. Piotr Strykowski thinks that while there is lots of emphasis on voluntary agreements with intermediaries, a stronger legal framework could actually be very effective. Jeff Hardy notes that some are adapting more quickly than others: “In the transportation supply chain, the express carriers have been among the intermediaries that have taken early, pre-emptive steps to guard against exploitation of their infrastructures. Part of this advantage has to do with the availability of information on shippers, but more importantly their willingness

to analyse, use, share and act on this information. Leading companies will be those that recognise that profitability and responsibility go hand in hand.”

Our research shows stakeholders’ actions to secure retailers rank surprisingly low (with online even lower than offline) despite consumers’ lack of confidence in the legitimacy of goods sold through official retail channels. “The reality is that most shoppers—online and offline—depend on the retailer to ensure a safe and secure shopping experience. So we need online platforms to take any and all steps possible to responsibly deliver on this expectation,” says Mr. Hardy.

Stakeholders’ actions to secure retailers rank surprisingly low (with online even lower than offline) despite consumers’ lack of confidence in the legitimacy of goods sold through official retail channels.

At the European level, Europol's Mr. Vesteenkiste reports his organisation has made rapid progress closing down the domain names of known online illicit traders—from just 100 domain names taken down in 2013 to 21,000 in 2017. But his unit doesn't look at the widely used legitimate websites, like online marketplaces and auction sites, where large amounts of illicit trade take place. Several online retailers have stepped up efforts to combat illicit

trade and work with policy-makers to combat it, but these agreements tend to be voluntary. "Online retailers should demonstrate that they are respected retailers and not just in it for the money," says Mr. Vansteenkiste. There is also the wider digital ecosystem of search engines, social media, and payment providers. Policy-makers at the national level are starting to look at how to deal with the problem, but much remains to be done (see UK IPO case study below).

Only 14% of stakeholders overall prioritise industry bodies and trade associations to play a leading role in combatting illicit trade, despite the potentially positive role they could play.

THE UK IPO's multi-pronged approach to the digital supply chain

The UK's Intellectual Property Office (IPO) has been tracking the evolution of online copyright infringement for several years. Its online copyright tracker¹⁴ is now in its eighth wave. The IPO's latest report (Wave 7) showed IP infringement levels stabilising while consumers adopt subscription services like Netflix and Spotify, but that new threats are emerging, including stream-ripping of music and new set-top boxes allowing free access to films and subscription TV channels.

The IPO is funded by its receipts from granting patents, trademarks, and design rights. This gives it independence from government funding constraints and has helped support research and a number of enforcement initiatives. In October 2017 the UK updated the penalties for online infringement from two to 10 years, in line with penalties for physical goods. It is also undertaking a thorough review of its legal framework to see if updates are needed. The IPO's funding has also led to the establishment of the Police Intellectual Property Crime Unit (PIPCU), an operational team that can carry out investigations and arrest wrong-doers.

But Enforcement Director Ros Lynch doesn't think enforcement action alone will contain illicit trade. A lot of the IPO's work is awareness-raising and influencing the behaviour of the accidental infringer. The IPO has worked with the major search engines and rights holders in the creative industries to develop a Code of Practice, taking illicit suppliers off the first page of search results, and are extending its work to look at online marketplaces, digital advertising, and social media and user-upload platforms. "The aim is to make sure that consumers who innocently go to search for something do not get diverted from the legitimate site to those offering illegal downloads," she says. The agencies' responses must touch all parts of the supply chain internationally: "We need to work with industry, different intermediaries, the shipping and logistics companies, the warehouse people, and with the government," she says.

UPDATING AND HARMONISING LEGAL AND POLICY FRAMEWORKS

Legal and policy frameworks need to keep up with the changing nature of illicit trade. Work is ongoing at the EU and national levels on IP and copyright reform, e.g., working with YouTube and other platforms to tackle copyright infringement. Harmonising legal and regulatory policy is important at an international level to reduce asymmetries (such as those created by varying excise rates, for example) that can encourage illicit trade.

When asked where work was most needed in policy design, stakeholders highlight trade (e.g., tracking and reporting), borders and customs, tax

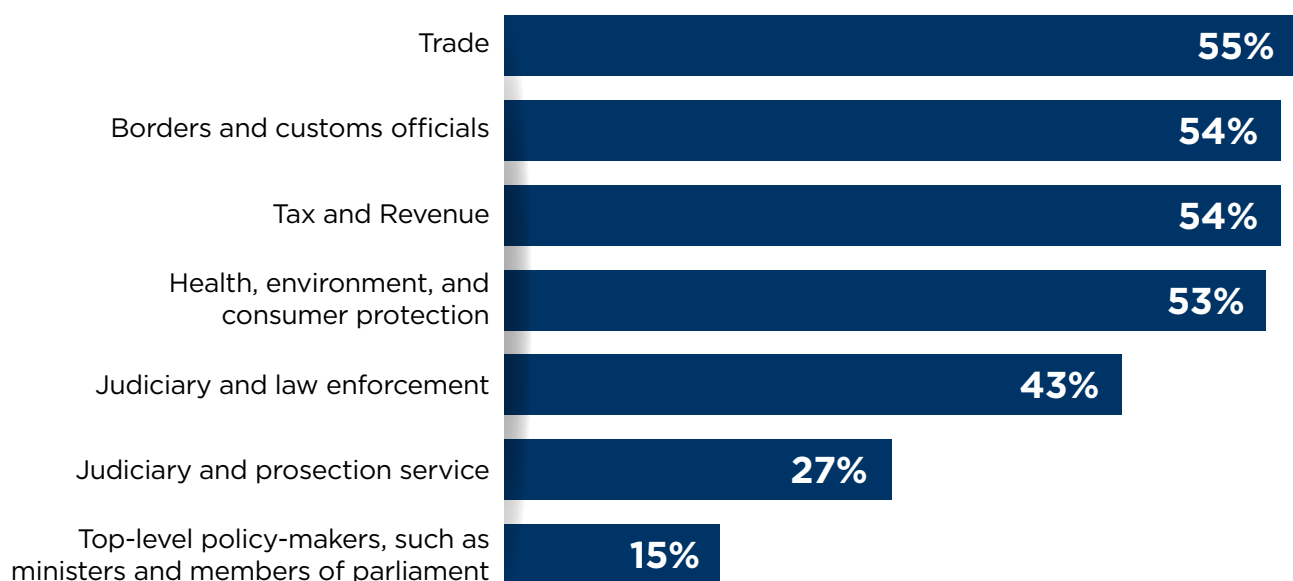
and revenue, followed by health, the environment, and consumer protection. These scored higher than judiciary, law enforcement, and prosecution enforcement. This demonstrates the breadth of policy work needed and indicates that updating sanctions for illicit trade is a lower priority for stakeholders.

There are ongoing efforts to harmonise standards across the EU and internationally, such as the Tobacco Directive and the World Health Organisation's FCTC Protocol. However, it's particularly difficult to co-ordinate tax policies, as ministers in each country want and expect to

be in charge of tax policy. Differences in legislation across so many countries can inhibit information exchange. Mr. Stryszowski points to the US, where an appointed IP Enforcement Co-ordinator (IPEC) has direct access to the president. "It's a relatively small office with decisive powers; he can tell different agencies what to do. This is naturally much more difficult to achieve in Europe."

Fig. 20: Strategies to improve design of policy, legal, or regulatory frameworks

Where would action be most effective in improving the design of frameworks, policies, regulations, and procedures? *Top-three ranked choices*



Source: Oxford Economics, stakeholder survey; n=8,121

Penalties for IP crime and counterfeiting vary considerably across Europe. In many places it's not considered a serious crime, and prosecution rates are low. Bernard Leroy, director of the medicines research agency IRACM, thinks policy-makers need to urgently update penalties, to reflect the threat that fake medicines present to public health. "Intellectual property crime is considered more of a misdemeanour than a crime, like parking your car incorrectly. Prosecutors don't take action because they see they can have no impact. This is a strong incitement of the criminal network because it is a lot of money and no danger of prosecution."

"Intellectual property crime is considered more of a misdemeanour than a crime, like parking your car incorrectly."

Bernard Leroy, IRACM

IMPROVING ENFORCEMENT

Law enforcement agencies recognise that there is room for improvement. Less than 60% of law enforcement respondents said they had access to good information, effective systems, policies, and procedures. As a result, just over half (56%) report they have difficulty ensuring compliance with systems, policies, and procedures.

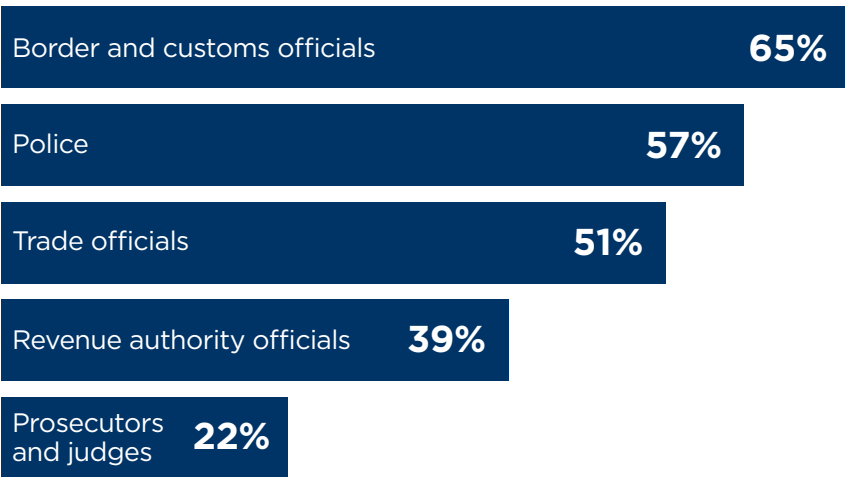
When asked to prioritise improvements in law enforcement, borders and customs came first, followed by police (see Fig. 21). This applies in almost all countries except for some non-EU countries such as Belarus, Russia, and Ukraine, where improvements for police and trade officials are seen as more important. Improving prosecution and the

judicial process are consistently considered far less important, despite the inconsistencies and known difficulties securing convictions for illicit trading.

There are significant differences in resources and capabilities between countries. The EU has invested in improving the external border, largely in response to the immigration crisis. Many customs officers are collaborating with freight forwarders, parcel delivery companies and distribution depots to deal with the large volume of small packages. Some border forces are investing in scanning equipment or collecting better information and sharing it with others to strengthen intelligence. However, it's a challenge to keep up with changing routes and cunning disguises of illicit supplies.

Fig. 21: Improving enforcement

Where would action be most effective in improving enforcement?
Top-three ranked choices



Source: Oxford Economics, stakeholder survey; n=8,121

Corruption remains a problem with public sector officials in some countries. According to Karl Lallerstedt, “for countries with resource shortages and serious corruption problems, creating an effective enforcement environment may be a long way off. Providing consumers with authentication solutions to check the product is legitimate themselves might be a more effective alternative.”

As the patterns of international trade and illicit activity evolve, it’s difficult to keep up, particularly with public sector budget constraints and more urgent priorities. Nearly 60% of stakeholders agree that law

enforcement resources have not kept pace with shifts in global trade, both at the international border and in-country.

Professor Ernesto Savona of Transcrime believes it’s a long-term process, involving culture change and new ways of working. “Things are changing quickly, and you need to change your cultural paradigm of investigation from the typical investigation routine using tactical data to risk assessment using strategic intelligence. You need a big technological evolution and a couple of generations to educate people in new ways to tackle illicit trade.”

**It’s a long-term process:
“You need a big technological evolution and a couple of generations to educate people in new ways to tackle illicit trade.”**

Professor Savona, Transcrime

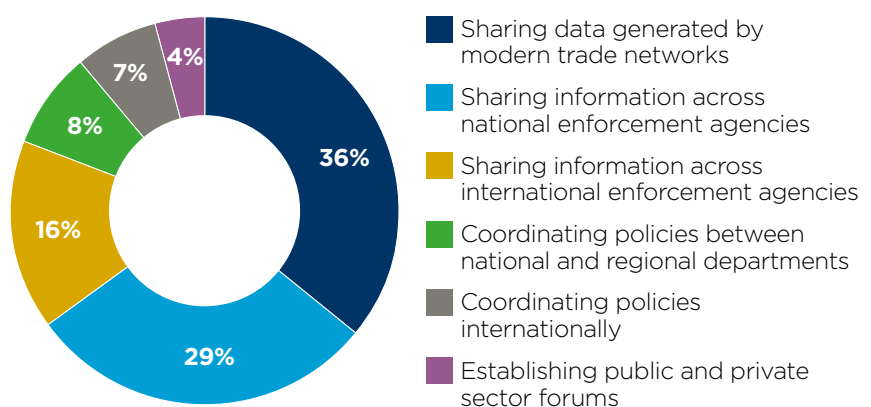
MAKING COLLABORATION WORK

As Michael Ellis says, “Illicit trade and counterfeit crime doesn’t belong to any one country, any one enforcement agency, any one brand holder. It has to be shared in partnership between the private and public sectors.” So it’s crucial that stakeholders work effectively together on policy design and implementation.

We asked stakeholders to identify the most effective actions to improve collaboration (Fig. 22). These responses clearly show a preference for collaborating on data and intelligence rather than policies and procedures.

Fig. 22: Stakeholder actions to improve collaboration

Which actions would be most effective in improving collaboration among different parties involved in combatting illicit trade?
Top-ranked choices



Source: Oxford Economics, stakeholder survey; n=8,121

“Agencies work in silos for their own targets...there has often been mistrust between the public and private sectors, particularly where there are high levels of corruption.”

Liz Allen, former HMRC Excise Divisional Head

Other interesting findings include the following:

- Collaborating by sharing data to build intelligence on the patterns of trade is clearly the most important sphere of cooperation, and cited by over 50% of stakeholders in some counties, like Luxembourg (53%) and Malta (51%).
- Sharing data among national agencies, though second overall, is the highest priority for several countries, including Austria, Belgium, Belarus, Germany, Greece, the Netherlands, Portugal, and Spain.
- Collaboration among national agencies scores higher than international collaboration, for both data-sharing and co-ordination of policies and operations. Ms. Martinic of IARD asks for a “whole-of-government” approach, with all departments working together to consider the wider implications for society. “It is critical that governments create an environment where legal businesses can thrive and collaboration to stamp out illicit alcohol is encouraged,” she says.

- There are many successful examples of effective international collaboration, in information sharing, or joint investigations, co-ordinated by pan-national organisations like Interpol, Europol, the WCO, OLAF, EUIPO, the OECD Taskforce on Illicit Trade, and others. But challenges still exist in harmonising standards with significant differences remaining between member states, for example in customs procedures.
- Establishing public and private sector forums is the least popular, the top priority for only 4% of respondents.

Improving collaboration is a long-term endeavour, needing incremental improvements (see case study below). Liz Allen identifies structural barriers that often need to be overcome: “Agencies work in silos for their own targets, and people are reluctant to share findings and credit if it affects their bonus at the end of the year. And there has often been a lack of public trust between the public and private sectors, particularly where there are high levels of corruption.”

Making the most of limited resources at the Irish HPRA

“All agencies have limited powers; we can’t do this job on our own,” says Hugo Bonar, Enforcement manager of Ireland’s Health Products Regulatory Authority (HPRA). Though his mandate is specifically to contain the illicit supply of medicines and other health products to protect public health, he has developed a wider, more holistic approach, co-operating with several different agencies to share intelligence, resources, and equipment. The HPRA has arrangements with the Irish Police, including the drugs and organised crime bureau, the Irish customs service and a number of separate government departments, including Sport Ireland, to share intelligence on products, trades, behaviours, or potential criminals. When a search warrant is executed, people from different agencies come together to support whoever has the lead. The HPRA, police and customs support each other with the provision of evidence to aid prosecutions. Mr. Bonar describes a recent investigation, on both sides of the border with Northern Ireland, of a supplier of anabolic steroids that involved the co-operation of customs, police, and revenue departments deploying armed response units and a cash detector dog. None of the agencies involved would have had the resources on their own, and all benefited from the joint operation. “In one site we detained over €2 million in anabolic steroids, we caught the suspected largest supplier in the country. We wouldn’t have had the resources to do that on our own,” he says.

As Ireland is a large exporter of pharmaceutical medicines, medical devices and other health products, the HPRA works closely with international partners in the regulation of the legitimate market. The organisation is also an active participant in international initiatives to combat illicit trade in medicines in Europe. These include the Heads of Medicines Agencies Working Group of Enforcement Officers and the Council of Europe (COE). The COE has developed the Medicrime Convention, the only international legal instrument addressing counterfeit and falsified medicines and medical devices. Participation in other initiatives includes the UNODC, the WHO’s Member State Mechanism on substandard and falsified medical products and the industry research body IRACM. It also works with the private sector through Operation Pangea, an Interpol co-ordinated operation to thwart illegal online trade, and involving regulators, the WCO, Europol, social media platforms, e-payments providers, auction houses, and corporations.

Mr. Bonar has built important relationships over the 18 years he has worked at the Authority. “It’s a slow build, but we’re getting there,” he says. The key to successful collaboration, he adds, is creating a situation where everyone can win. “If you can develop a situation where there’s no competition everybody gets the credit and above all the public is protected—that works.”

TECHNOLOGY IS NOT A QUICK FIX

Modern technologies promise significant advances in fighting illicit trade, but they can be expensive to implement and upgrade. We asked stakeholders to assess the value of five technologies in combatting illicit trade, and none were particularly enthusiastically endorsed. The most popular—surveillance and identification technologies—are seen as effective by only 61% of stakeholders.

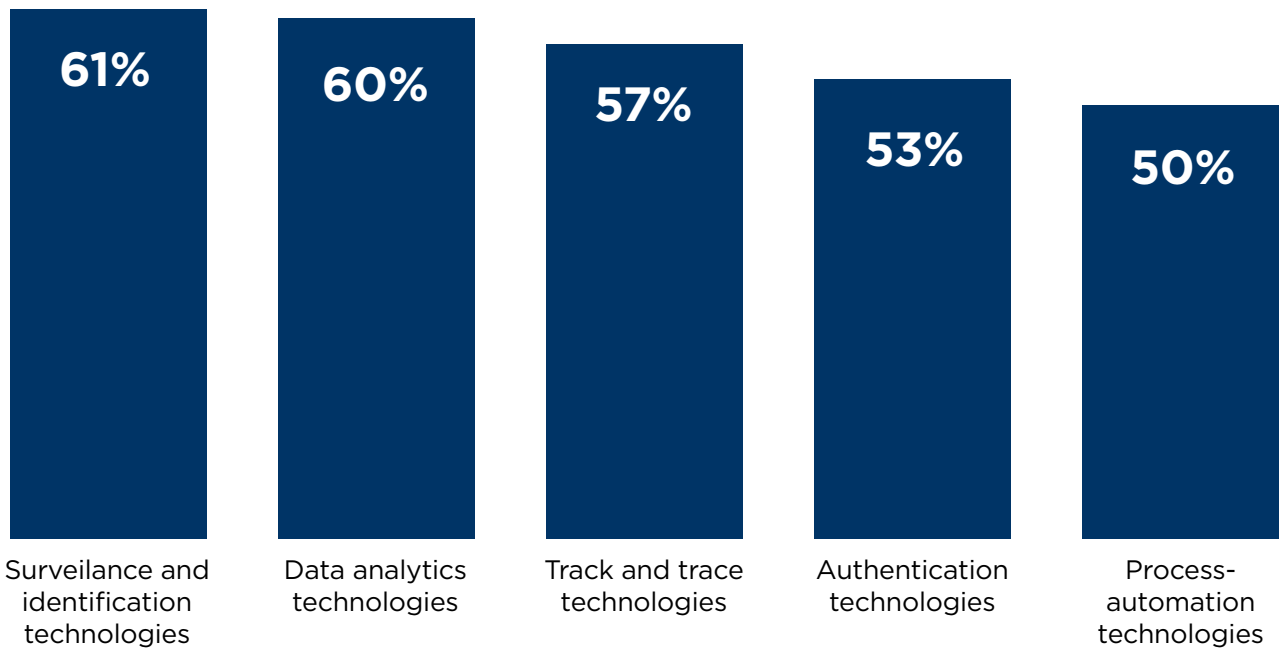
There are several reasons to explain this underwhelming response. Allen Bruford, who worked as Deputy Director

at the WCO, says while technology is advancing rapidly, and millions are being spent, past investments in authentication technologies like security bar codes and holograms have had limited results: “We found counterfeiters were copying them and law enforcers were struggling to tell the difference.” Lack of standards between technologies also proves challenging: “A customs officer would need to wear 15 different devices on his belt to scan or check labels and holograms because everyone is using different systems,” says Europol’s Chris Vansteenkiste.

Only 48% of business executives say they have access to good information on the extent and changing patterns of illicit trade (compared with 56% of policy officials and 58% of law enforcement officers). The cigarette industry has invested heavily in collecting data through empty pack surveys, but other products still lack sufficient data to analyse patterns of illicit trade.

Fig. 23: Effectiveness of technologies to combat illicit trade

Please rate the effectiveness of the following technologies in tackling illicit trade. “Effective” and “Very effective” responses



Source: Oxford Economics, stakeholder survey; n=8,121

Still, our research suggests that technology will provide better results at lowered cost, in several areas:

- **Scanning equipment** is expected to improve rapidly. According to Transcrime's Professor Savona, "A scanner can only be used today on about 5% of cross-border shipments. The people developing this technology tell me scanning will become much cheaper and more powerful, which means it could be 50% in a very short time."
- **Data collection and analysis**, using Big Data and analytical tools to recommend actions based on risk assessments. Modern trade networks and supply chains often leave an extensive digital trail that can help to highlight patterns in illicit trade. Our survey shows stakeholders are shifting their focus from collecting data to data analysis. The OECD's Mr. Strykowski sees big opportunities to provide better information for customs and enforcement agencies. "It's not rocket science," he says. "It's about digitising information, especially in the context of small parcels, and creating a secure, pan-European information-sharing centre."
- **Authentication technologies** such as blockchain can have a material impact on illicit trade. Mr. Lallerstedt sees potential in this new technology but recognises that implementation could be expensive for the early movers.

CLOSING THE GAP: RECOMMENDATIONS FOR STAKEHOLDERS

To reach conclusions about effective actions to combat illicit trade, we considered each stakeholder group in turn. We first compared their view of the effectiveness of different initiatives with those of consumers. We then looked at their track record in implementing a total of 37 different initiatives to combat illicit trade, covering the strategies discussed in the previous section: influencing consumers (e.g., through awareness campaigns); changing legal, policy, and regulatory frameworks; securing the supply chain; improving law enforcement compliance; collaborating externally; and using more data and technology. We asked if they had implemented these initiatives in the last three years, how successful they had been in reducing illicit trade, and their priorities over the next three years.

BUSINESSES' IMPLEMENTATION CHALLENGES AND PRIORITIES

Consumers have a more positive outlook on the effectiveness of a range of business strategies (see Fig. 24), with particularly large gaps in providing positive incentives to buy legitimate goods (57% vs. 49% of business execs) and using materials, packaging, or other features to differentiate legitimate products (56% vs. 42%).

Consumers have a more positive outlook on business actions to reduce illicit trade than businesses themselves.

Business execs appear to be shifting priorities, with the most implemented product enhancements (in Fig. 25) in reverse priority over the next three years. Consumer awareness campaigns (in purple), only implemented by 27% to date—the least implemented of all actions—is the second-highest priority for the next three years, while promoting the benefits of legitimate products moves in the opposite direction. Collaborative actions (in green) are becoming a higher priority; actions to collect information (in blue) are shifting. Collecting intelligence on illicit trade is becoming a higher priority, but collecting intelligence on consumer motivations is the second least popular initiative over the next three years.

Businesses could improve their effectiveness by aligning their strategies closer to the motivations of consumers, by:

- **Collating better intelligence** on consumer motivations and the effectiveness of alternative strategies.
- **Considering strategies beyond price.** Businesses need to develop innovative business models, products, and services to convince consumers to buy legitimate products. Other effective strategies that businesses have more control over include product authentication technologies, track-and-trace systems, and promotional campaigns to influence consumer opinion (e.g., of the risks inherent in illicit trade).
- **Responding to the growing mistrust in online transactions** by working with online retailers and intermediaries to develop effective actions to influence consumers, including awareness campaigns, and authentication and loyalty schemes.
- **Collaborating more actively** with trade bodies, policy officials, and law enforcement officers in joint initiatives to combat illicit trade.
- **Investing more in the fight against illicit trade.** Business executives in our study recognise they will need to prioritise illicit trade more actively to make progress.

Fig. 24: Effectiveness of strategies to combat illicit trade

How effective are the following business strategies and actions for combatting illicit trade in your country? “Effective” and “Very effective” responses



Source: Oxford Economics, stakeholder survey; n=5,562

Source: Oxford Economics, consumer survey; n=37,370

Fig. 25: Business priorities to combat illicit trade

| Rank | Strategy implemented last three years | Effective reducing illicit trade | Priority next three years |
|------|--|--|--|
| 1 | Change product design (51%) | Product authentication technology | Product authentication technology (48%) |
| 2 | Promote benefits of legit products | Supply-chain contractual controls | Consumer awareness campaign |
| 3 | Improve supply chain tracking & reporting | Collaborate with retailers, police, etc. | Collaborate with retailers, police etc. |
| 4 | Change manufacture or packaging | Change price, quality, or service | Collect intelligence on illicit trade patterns |
| 5 | Change price, quality, or service | Improve supply chain tracking & reporting | Change price, quality, or service |
| 6 | Supply-chain contractual controls | Collect intelligence on illicit trade patterns | Share information with others |
| 7 | Collect intelligence on consumer motivations | Consumer awareness campaign | Improve supply chain tracking & reporting |
| 8 | Share information with others | Share information with others | Supply-chain contractual controls |
| 9 | Collaborate with retailers, police, etc. | Collect intelligence on consumer motivations | Change manufacture or packaging |
| 10 | Product authentication technology | Promote benefits of legit products | Promote benefits of legit products |
| 11 | Collect intelligence on illicit trade patterns | Change manufacture or packaging | Collect intelligence on consumer motivations |
| 12 | Consumer awareness campaign (27%) | Change product design | Change product design (39%) |



There are encouraging signs from our research that consumers prefer to buy legitimate products and are moving away from unofficial retail outlets, both online and offline. Businesses have an opportunity to re-establish themselves as trusted suppliers of authentic products. As Jeff Hardy, DG of TRACIT says, “Twenty years ago, most corporations didn’t have a vice president for climate change or corporate social responsibility. But times have changed and companies are getting ahead of the problem, investing more at the corporate level to bring in smart people, new technologies, and programs to tackle illicit trade head on.”

POLICY OFFICIALS’ IMPLEMENTATION CHALLENGES AND PRIORITIES

Generally, policy officials and law enforcement officers are more positive about the impact of their strategies than consumers (see Fig. 26). Significant gaps where policy officials are out of line with consumer sentiment include increased penalties for consumers (55% vs. 33%) and increased security at postal and parcel depots (51% vs. 42%).

Public officials are more confident in the effectiveness of their anti-illicit trade initiatives than consumers.

For policy officials, changing penalties (in yellow in Fig. 27) for retailers, criminals and public awareness campaigns (in purple) are priorities. Penalties for consumers are a low priority, despite being assessed as the most effective in combatting illicit trade. Collecting information (in blue) shifts from the most implemented over the last three years to the lowest priority for the next three.

Fig. 26: Existing capabilities to combat illicit trade

How effective are the following policy and law enforcement strategies and actions for combatting illicit trade in your country? “Effective” and “Very effective” responses



Source: Oxford Economics, stakeholder survey; n=1,146

Source: Oxford Economics, consumer survey; n=32,023

Fig. 27: Policy officials' priorities to combat illicit trade

| Rank | Strategy implemented last three years | Effective reducing illicit trade | Priority next three years |
|------|---------------------------------------|-----------------------------------|--------------------------------------|
| 1 | Collect information (51%) | Change penalties for consumers | Change penalties for retailers (50%) |
| 2 | Coordinate with other departments | Change penalties for criminals | Public awareness campaigns |
| 3 | Collaborate internationally | Public awareness campaigns | Provide business guidance/forums |
| 4 | Update legislation | Update legislation | Change penalties for criminals |
| 5 | Change penalties for businesses | Change penalties for businesses | Update legislation |
| 6 | Public awareness campaigns | Collaborate internationally | Coordinate with other departments |
| 7 | Provide business guidance/forums | Change penalties for retailers | Change penalties for businesses |
| 8 | Change penalties for criminals | Coordinate with other departments | Collaborate internationally |
| 9 | Change penalties for consumers | Provide business guidance/forums | Change penalties for consumers |
| 10 | Change penalties for retailers (27%) | Collect information | Collect information (39%) |

■ Changes to legal & policy
■ Information and intelligence

■ Collaborating externally
■ Promotion and awareness raising

Policy officials could improve their effectiveness by aligning their strategies closer to the motivations of consumers, by:

- Investing in awareness campaigns.** Many consumers would be receptive to targeted campaigns that highlight the genuine risks of illicit trade and the benefits of buying legitimate products.
- Responding to the growing distrust of online purchases** by upgrading policy, legal, and regulatory frameworks. Penalties can be increased for criminals and retailers that trade illicitly, as well as intermediaries in the supporting ecosystems that benefit from illicit trade. Targeted penalties for consumers (e.g., for particularly heavy and/or repeat offenders) may also be effective with some segments, but this may meet resistance from businesses.
- Co-ordinating policies and procedures more effectively** across departments and stakeholders, both domestically and internationally. This is undoubtedly difficult to achieve, but policy officials should learn from those who have been more successful, for example by aligning incentives across departments and agencies.
- Developing joined-up business cases** that demonstrate the full economic benefits of combatting illicit trade (e.g., increased tax, improved health, and crime reduction). There are many effective policies that countries have still to implement, but they are held back because of resource shortfalls and competing priorities. Often the difficulty is presenting business cases when the economic benefits go to other departments.

LAW ENFORCEMENT OFFICERS' IMPLEMENTATION PRIORITIES

For law enforcement officers, actions to improve collaboration (green) with a wide range of domestic and international partners are recognised as effective and will take priority over the next three years, particularly collaboration with e-commerce suppliers, couriers, and distribution depots.

Actions to collect information and intelligence (blue), though among the most implemented, are generally not assessed as highly effective and are becoming less popular for law enforcement investment, with the exception of data analytics and risk assessments, the second-highest priority over the next three years.

Various enhancements to searching and seizing capabilities and technologies have been implemented (e.g., track and trace, RFID technology), with mixed results. Training law enforcement officers in new patterns and approaches to illicit trade is viewed as the second most effective and is a high priority for the next three years.

Fig. 28: Law enforcement priorities to combat illicit trade

| Rank | Strategy implemented last three years | Effective reducing illicit trade | Priority next three years |
|------|--|--|--|
| 1 | Collect information (54%) | Collaborate with distribution cos. (5.8%) | Collaborate with e-commerce suppliers |
| 2 | Monitor & track shipments with technology | Train law enforcement officers | Data analytics and risk assessments |
| 3 | Random searches at new locations | Collaborate with industry partners | Improve compliance with existing policies |
| 4 | Product authentication | Collaborate with policy officials | Collaborate with international organizations |
| 5 | Collaborate with distribution cos. | Monitor & track shipments with technology | Train law enforcement officers |
| 6 | Collaborate with policy officials | Collaborate with international organizations | Collaborate with distribution cos. |
| 7 | Measure & report enforcement effectiveness | Collaborate with e-commerce suppliers | Product authentication |
| 8 | Collaborate with industry partners | Random searches at new locations | Collaborate with policy officials |
| 9 | Automate manual customs procedures | Product authentication | Monitor & track shipments with technology |
| 10 | Train law enforcement officers | Measure & report enforcement effectiveness | Collaborate with industry partners |
| 11 | Anti corruption initiatives | Automate manual customs procedures | Anti corruption initiatives |
| 12 | Data analytics and risk assessments | Data analytics and risk assessments | Measure & report enforcement effectiveness |
| 13 | Improve compliance with existing policies | Improve compliance with existing policies | Automate manual customs procedures |
| 14 | Collaborate with international organizations | Anti corruption initiatives | Random searches at new locations |
| 15 | Collaborate with e-commerce suppliers | Collect information (4.7%) | Collect information (54%) |

Technology solutions

Collaborating externally

Information and intelligence

Process compliance and improvement

Law enforcement officers could improve their effectiveness by aligning their strategies closer to the motivations of consumers by:

- **Aligning actions with the shifting nature of trade,** for example by working with online retailers and their distribution networks to tackle supply chain vulnerabilities.
- **Collaborating effectively** with others, nationally and internationally, and across public and private sectors. The danger is that this willingness is not reciprocated. Incentives need to be aligned to encourage effective collaboration.
- **Enforcing compliance with policies and procedures.** This is a persistent challenge for many departments and countries. Training of law enforcement officers, anti-corruption initiatives and use of technologies (for example automation of manual procedures) have all proved effective.
- **Focusing investment on effective actions.** Develop data analytics and use risk assessments to direct resources to those areas with most impact. Business cases need to highlight those initiatives that will have the greatest impact on combatting illicit trade. For example, using data analysis for risk assessments may be a higher priority than investing in some technologies that risk becoming outdated or countered by criminals.

For law enforcers, fighting illicit trade is a never-ending struggle. Our research suggests that many of the preventive measures listed here, with political will and investment, can result in substantial progress.

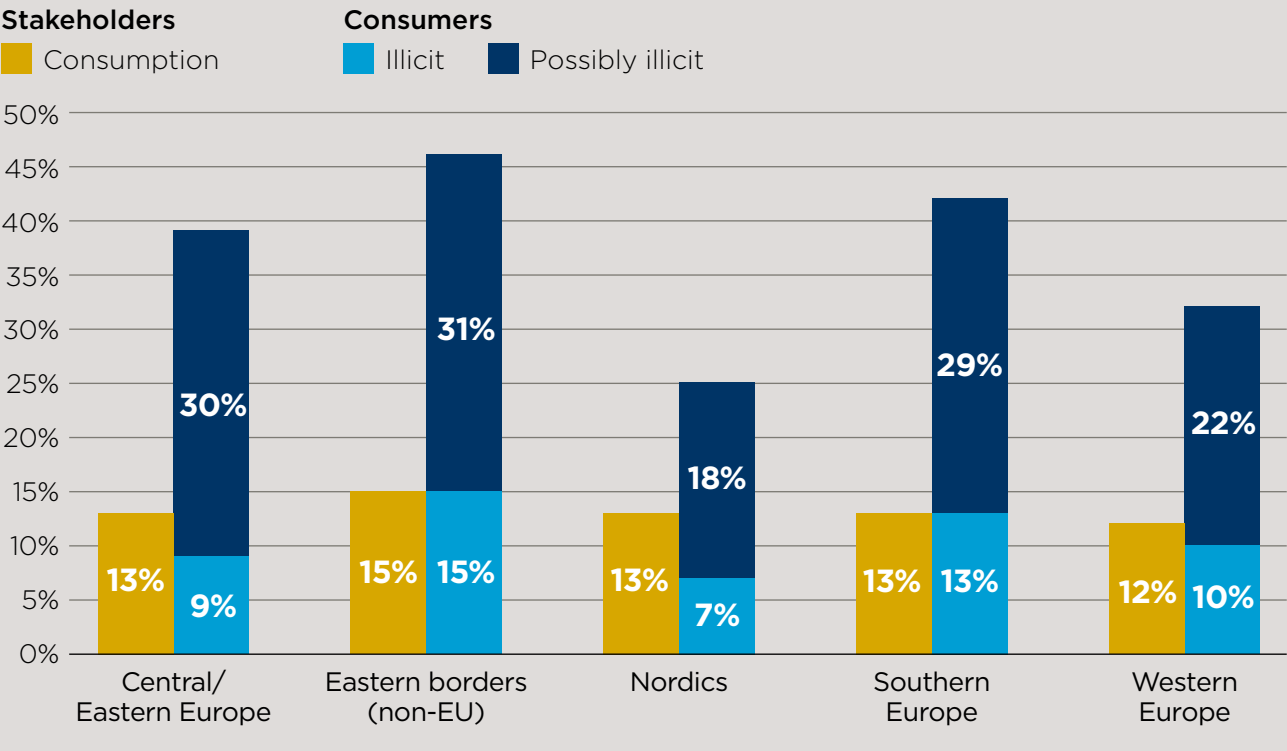
ANNEX A: REGIONAL ANALYSIS OF ILLICIT TRADE

Illicit trade will vary significantly by country, as a result of different approaches adopted to combat it (e.g., the policies, regulations, legal environment, and effectiveness of border controls). It will also be influenced by cultural factors that influence consumer attitudes and behaviours. Our surveys produced a rich data set explaining these differences. The data, together with country spotlight reports and an interactive dashboard that presents consumer segments by country and product, can be accessed via the research project's website (<https://www.oxfordeconomics.com/thought-leadership/combating-illicit-trade>).

Stakeholder estimates of the extent of illicit trade range from 12% in Western Europe and 15% in the Eastern borders (Fig. 29), though there are significant differences within regions, as set out in the tables below. There is greater regional variation in consumers' estimates. For illicit purchases, they range from 7% in the Nordics to 15% in the EU borders. For possibly illicit purchases, there appear to be a group with relatively lower levels (18% in the Nordics and 22% in Western Europe) with other regions all estimating much higher levels, around 30% of all purchases as possibly illicit.

The regional analysis on the following pages is calculated from stakeholders' estimates. Survey respondents provided estimates in broad bands. We used the mid points to calculate averages for the extent and growth in illicit trade over the last three years.

Fig 29. Overview of estimates of illicit trade—Stakeholders vs. Consumers



WESTERN EUROPE

Illicit consumption

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-----------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Austria | 12.5% | 12.7% | 12.8% | 12.0% | 13.5% | 12.7% |
| Belgium | 11.9% | 10.4% | 13.0% | 12.9% | 11.5% | 11.9% |
| France | 12.3% | 11.3% | 13.2% | 13.2% | 12.3% | 12.5% |
| Germany | 12.9% | 12.2% | 14.9% | 13.4% | 13.9% | 13.5% |
| Ireland | 9.1% | 10.8% | 13.3% | 12.1% | 9.3% | 10.9% |
| Luxembourg | 10.0% | 10.7% | 13.6% | 12.0% | 10.9% | 11.4% |
| Netherlands | 11.6% | 11.9% | 14.3% | 14.5% | 13.4% | 13.1% |
| Switzerland | 12.2% | 11.2% | 12.2% | 13.3% | 13.5% | 12.5% |
| United Kingdom | 12.9% | 11.9% | 13.6% | 13.0% | 12.3% | 12.7% |
| Western Europe | 11.7% | 11.5% | 13.4% | 12.9% | 12.3% | 12.4% |

Growth

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-----------------------|--------------|--------------|-------------|-------------|-------------|----------------|
| Austria | 2.5% | 0.6% | 2.8% | 3.1% | 5.5% | 2.9% |
| Belgium | 1.1% | 2.2% | 2.5% | 2.0% | 4.7% | 2.5% |
| France | 1.6% | -0.9% | 2.6% | 1.7% | 4.2% | 1.8% |
| Germany | 3.9% | 1.4% | 7.4% | 6.8% | 6.4% | 5.2% |
| Ireland | -8.7% | -4.9% | 0.6% | -1.7% | -10.8% | -5.1% |
| Luxembourg | -7.6% | -3.1% | 0.3% | -3.0% | -4.1% | -3.5% |
| Netherlands | -0.5% | -1.2% | 0.8% | 4.5% | 3.4% | 1.4% |
| Switzerland | 1.8% | 0.1% | 1.2% | 2.5% | 8.7% | 2.9% |
| United Kingdom | 2.4% | 3.1% | 3.3% | 6.1% | 8.5% | 4.7% |
| Western Europe | -0.4% | -0.3% | 2.4% | 2.4% | 2.9% | 1.4% |

- Western Europe's estimated illicit trade averages 12.4% for all products, only just below the whole of Europe (by 0.6 percentage points). Ireland reports the lowest level in the region with 10.9% and Germany the highest with 13.5%. Alcohol's illicit trade is evaluated at 11.5% in the region compared with 12.7% for the whole of Europe, with all countries except Austria being below average.
- Illicit trade growth over the last 3 years averages 1.4% for all products, far below the 2.5% observed for the whole of Europe. The trade in illicit cigarettes has seen a 0.4% decline over the last three years. Ireland has estimated an impressive 8.7% decrease whereas Germany reports a 3.9% increase.

NORDICS

Illicit consumption

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Denmark | 13.8% | 12.9% | 13.3% | 12.3% | 14.1% | 13.3% |
| Finland | 13.9% | 12.4% | 12.6% | 10.7% | 12.9% | 12.5% |
| Norway | 11.9% | 14.1% | 14.1% | 11.7% | 10.9% | 12.5% |
| Sweden | 12.3% | 12.6% | 14.7% | 12.4% | 12.0% | 12.8% |
| Nordics | 13.0% | 13.0% | 13.7% | 11.8% | 12.5% | 12.8% |

Growth

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Denmark | 0.3% | 0.7% | 2.2% | -1.7% | 6.0% | 1.5% |
| Finland | 1.7% | 2.1% | -0.9% | 2.0% | 3.2% | 1.6% |
| Norway | 3.6% | 5.1% | 2.6% | 3.1% | -2.6% | 2.4% |
| Sweden | -1.4% | 3.0% | 1.5% | 1.3% | 0.8% | 1.0% |
| Nordics | 1.1% | 2.7% | 1.4% | 1.2% | 1.9% | 1.6% |

- The Nordics' estimates illicit trade at 12.8% for all products, very close to the Europe average. Denmark reports the highest with 13.3%, with above average illicit trade in cigarettes and medicines. Finland and Norway report the lowest level in the region with 12.5%, despite above average estimated consumption of illicit cigarettes and alcohol. Clothing's illicit trade is evaluated at 11.8% in the region compared with 13.2% for the whole of Europe with all countries below average.
- Illicit trade growth over the last 3 years averages 1.6% for all products, far below the 2.5% observed in the whole of Europe. Medicines has seen a 1.9% increase over the last three years. Denmark reports a 6% increase, whereas Norway estimates an encouraging 2.6% decrease. Norway estimates above average increases of illicit cigarettes and alcohol.

SOUTHERN EUROPE

Illicit consumption

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|------------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Cyprus | 11.4% | 11.8% | 14.2% | 14.1% | 12.1% | 12.7% |
| Greece | 13.1% | 12.5% | 12.2% | 13.2% | 14.1% | 13.0% |
| Italy | 12.9% | 11.5% | 15.1% | 14.7% | 13.3% | 13.5% |
| Malta | 9.9% | 11.2% | 13.8% | 12.5% | 9.8% | 11.4% |
| Portugal | 13.7% | 12.5% | 13.5% | 12.1% | 13.4% | 13.0% |
| Spain | 13.3% | 12.3% | 15.6% | 13.2% | 12.1% | 13.3% |
| Southern Europe | 12.4% | 12.0% | 14.1% | 13.3% | 12.5% | 12.8% |

Growth

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Cyprus | 1.5% | 1.5% | 3.0% | 6.8% | 1.1% | 2.8% |
| Greece | 0.2% | 2.0% | 2.0% | 4.1% | 8.0% | 3.3% |
| Italy | 2.7% | 2.5% | 5.3% | 7.8% | 6.8% | 5.0% |
| Malta | -6.2% | -4.2% | 0.0% | 0.3% | -3.7% | -2.8% |
| Portugal | 4.1% | 2.3% | 1.7% | 1.8% | 2.7% | 2.5% |
| Spain | 4.7% | 3.1% | 3.3% | 6.0% | 7.0% | 4.8% |
| Southern Europe | 1.2% | 1.2% | 2.6% | 4.5% | 3.7% | 2.6% |

- Southern Europe's estimated illicit trade averages 12.8% for all products, close to the European average. Italy reports the highest in the region, with 13.5%; Malta reports the lowest level, with 11.4%. Illicit alcohol is below the European average of 12.6% for all countries in the region.
- Illicit trade growth over the last 3 years averages 2.6% for all products, in line with the 2.5% observed in the whole of Europe. But there are significant variations between countries in the region. Italy has seen the largest increase, at 5%, with the largest increase in clothing (7.8%). Spain also estimates a large increase over the last 3 years of 4.8%. Malta has seen a 2.8% decline in illicit trade, with large decreases in cigarettes (6.2%) and alcohol (4.2%). Illicit medicines are estimated to have increased 3.7% across southern Europe, with particularly large increases in Greece (8%) and Spain (7%).

EASTERN/CENTRAL EUROPE

Illicit consumption

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Bulgaria | 10.5% | 11.6% | 13.1% | 11.0% | 10.1% | 11.3% |
| Croatia | 13.2% | 12.2% | 14.6% | 12.9% | 12.6% | 13.1% |
| Czech Republic | 12.8% | 12.9% | 14.7% | 14.1% | 13.0% | 13.5% |
| Estonia | 11.3% | 12.3% | 12.1% | 10.4% | 9.7% | 11.2% |
| Latvia | 11.9% | 11.7% | 13.5% | 11.5% | 12.2% | 12.2% |
| Lithuania | 12.3% | 13.6% | 13.3% | 14.4% | 14.2% | 13.6% |
| Slovakia | 12.7% | 12.3% | 14.9% | 13.7% | 10.5% | 12.8% |
| Slovenia | 10.9% | 13.4% | 14.6% | 14.3% | 13.0% | 13.2% |
| Hungary | 14.9% | 13.4% | 16.0% | 14.5% | 12.2% | 14.2% |
| Poland | 13.0% | 14.3% | 13.6% | 11.8% | 12.7% | 13.1% |
| Romania | 13.7% | 11.8% | 13.6% | 11.1% | 10.7% | 12.2% |
| Central/Eastern Europe | 12.5% | 12.7% | 14.0% | 12.7% | 11.9% | 12.8% |

Growth

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Bulgaria | -2.0% | 0.1% | 2.1% | 0.2% | -3.4% | -0.6% |
| Croatia | 3.1% | 3.9% | 7.4% | 5.3% | 4.4% | 4.8% |
| Czech Republic | -0.6% | -2.1% | -0.2% | 0.3% | 0.0% | -0.5% |
| Estonia | -3.2% | -2.2% | -1.2% | -2.6% | -1.6% | -2.2% |
| Latvia | 1.4% | 2.7% | 0.6% | 2.8% | 3.4% | 2.2% |
| Lithuania | -1.9% | 0.7% | -0.7% | 0.2% | 3.9% | 0.4% |
| Slovakia | 2.8% | 2.1% | 4.6% | 8.0% | -5.0% | 2.5% |
| Slovenia | -2.5% | 1.4% | 3.0% | 4.7% | 5.6% | 2.4% |
| Hungary | 10.1% | 9.0% | 8.1% | 9.8% | 6.8% | 8.8% |
| Poland | 2.1% | 4.7% | 2.9% | 1.9% | 8.7% | 4.1% |
| Romania | 2.6% | -2.2% | 6.2% | 4.1% | 2.9% | 2.7% |
| Central/Eastern Europe | 1.1% | 1.6% | 3.0% | 3.2% | 2.3% | 2.2% |

- Eastern/Central Europe's estimated illicit trade averages 12.8% for all products, only just below the whole of Europe (by 0.2 percentage points). Hungary estimates the highest with 14.2%, with above average illicit levels in cigarettes, films and clothing. Estonia reports the lowest level in the region with 11.2%, with estimated illicit trade below European averages for all products. Medicines' illicit trade is estimated at 11.9% in the region compared with 12.5% for the whole of Europe, with disparities between countries, from 9.7% in Estonia to 14.2% in Lithuania.
- Illicit trade growth over the last 3 years averages 2.2% for all products, in line with the 2.5% observed in the whole of Europe. However, there are large differences between countries. Hungary reports a large increase of 8.8%, with large increases across all products. In contrast, Estonia estimates a 2.1% decrease over the last three years, with declines across all products.

EASTERN BORDERS (NON-EU)

Illicit consumption

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Azerbaijan | 14.9% | 14.2% | 16.8% | 15.0% | 11.9% | 14.6% |
| Belarus | 14.2% | 16.0% | 15.3% | 14.9% | 14.8% | 15.0% |
| Kazakhstan | 14.8% | 13.3% | 12.5% | 12.4% | 12.6% | 13.1% |
| Russia | 14.0% | 15.7% | 16.1% | 15.4% | 13.4% | 14.9% |
| Serbia | 12.7% | 12.4% | 15.1% | 15.3% | 11.9% | 13.5% |
| Turkey | 14.3% | 13.1% | 18.2% | 16.5% | 13.9% | 15.2% |
| Ukraine | 16.4% | 17.0% | 17.5% | 14.2% | 16.1% | 16.2% |
| Eastern borders (non EU) | 14.5% | 14.5% | 15.9% | 14.8% | 13.5% | 14.7% |

Growth

| Country / Product | Cigarettes | Alcohol | Films | Clothing | Medicines | Total Products |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Azerbaijan | 9.2% | 7.8% | 9.9% | 10.9% | 6.3% | 8.8% |
| Belarus | 3.6% | 5.9% | -4.2% | 1.3% | 4.0% | 2.1% |
| Kazakhstan | 2.6% | 2.2% | 1.2% | 2.8% | 4.7% | 2.7% |
| Russia | -1.9% | 0.8% | -3.9% | 3.2% | 0.6% | -0.2% |
| Serbia | 4.1% | -0.6% | 6.6% | 8.5% | 4.6% | 4.6% |
| Turkey | 6.6% | 8.3% | 10.3% | 10.4% | 6.5% | 8.4% |
| Ukraine | 9.0% | 9.9% | 4.0% | 4.8% | 8.3% | 7.2% |
| Eastern borders (non EU) | 4.7% | 4.9% | 3.4% | 6.0% | 5.0% | 4.8% |

- In the Eastern borders, estimated illicit trade averages 14.7% for all products, significantly higher than the whole of Europe average (by 1.7 percentage points). Ukraine reports the highest in the region with 16.2%, Kazakhstan the lowest with 13.1%. Illicit trade is above the European average for all products at the regional level, though some countries do report better than average figures for individual products, such as Serbia, Kazakhstan, and Azerbaijan.
- Illicit trade growth over the last 3 years averages 4.8% for all products, far above the 2.5% observed in the whole of Europe. There are big differences in growth estimates across the region. Azerbaijan estimates the largest increase of 8.8%, with Turkey and Ukraine close behind. Russian stakeholders report a small decrease and growth below the European average across all products.

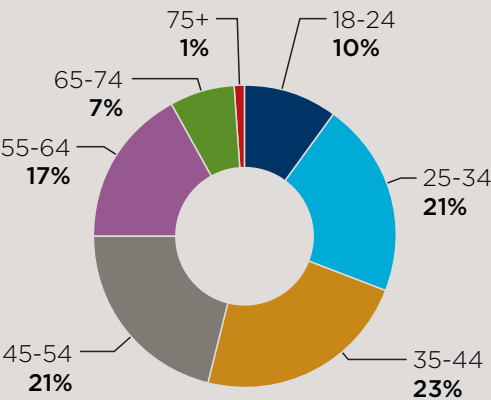
ANNEX B: SURVEY DEMOGRAPHICS

SURVEY DEMOGRAPHICS

| Trade Survey Demographics | | | | |
|--|--------------------------------|---|------------------------------------|--|
| Geography | Number of consumers (Survey 1) | Number of executives (Survey 2) | Number of policy-makers (Survey 2) | Number of law enforcement officials (Survey 2) |
| Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Kazakhstan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, Ukraine | 1,000 in each country | 150 in each country, with 30 respondents each in the following five industries: Clothing/ footwear and accessories; pharmaceuticals; tobacco; alcoholic beverages; films, music and games | 30 in each country | 35 or 40 in each country |
| Total | 37,370 respondents | 5,550 respondents | 1140 respondents | 1,410 respondents |

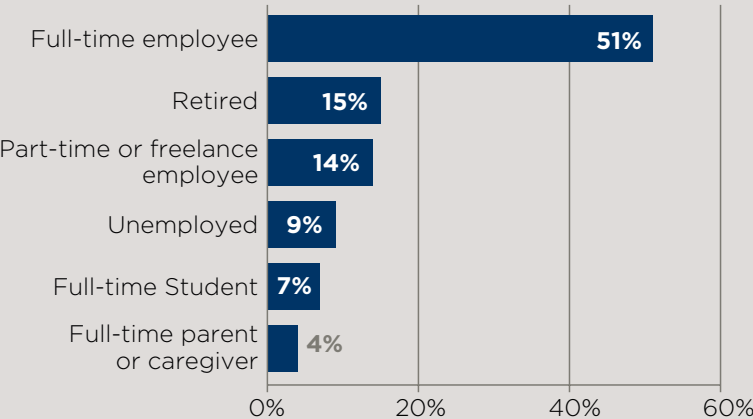
SURVEY DEMOGRAPHICS: CONSUMER SURVEY

What is your age?



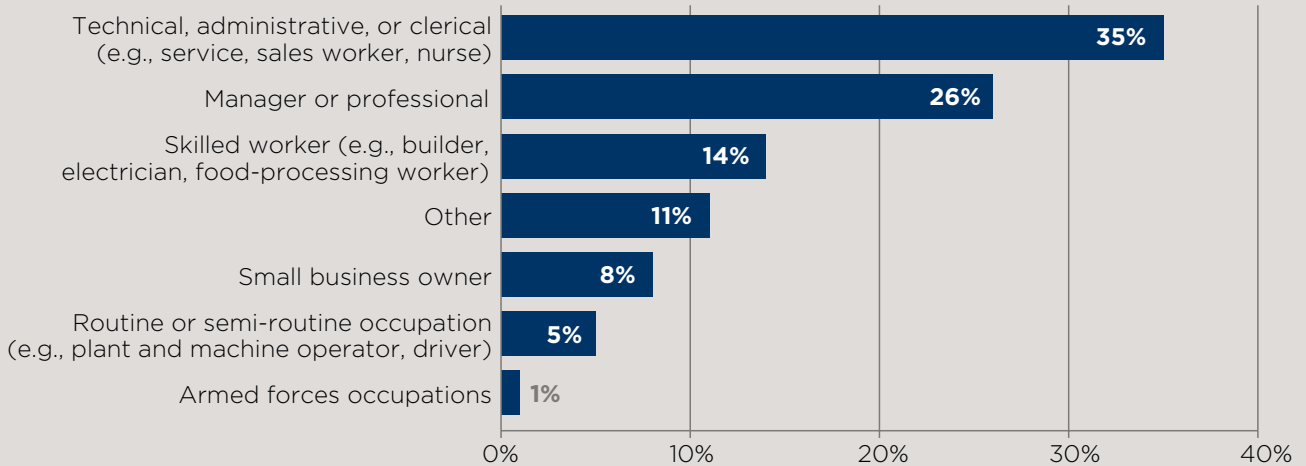
Source: Oxford Economics, consumer survey; n=37,370

Describe your working role



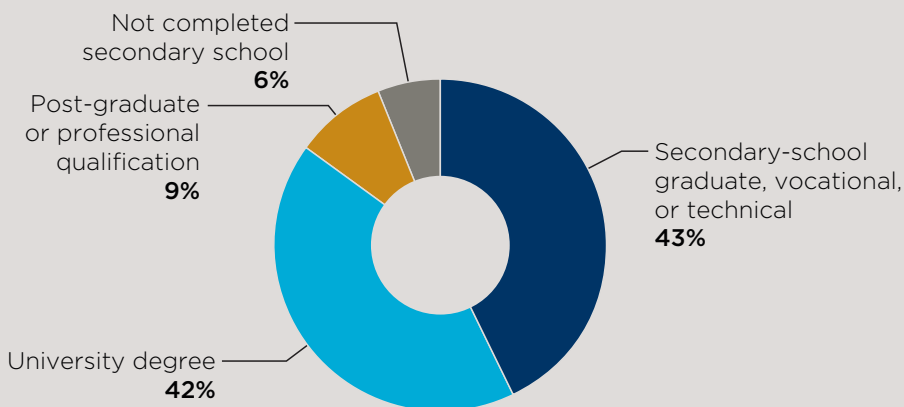
Source: Oxford Economics, consumer survey; n=37,370

Describe your occupation



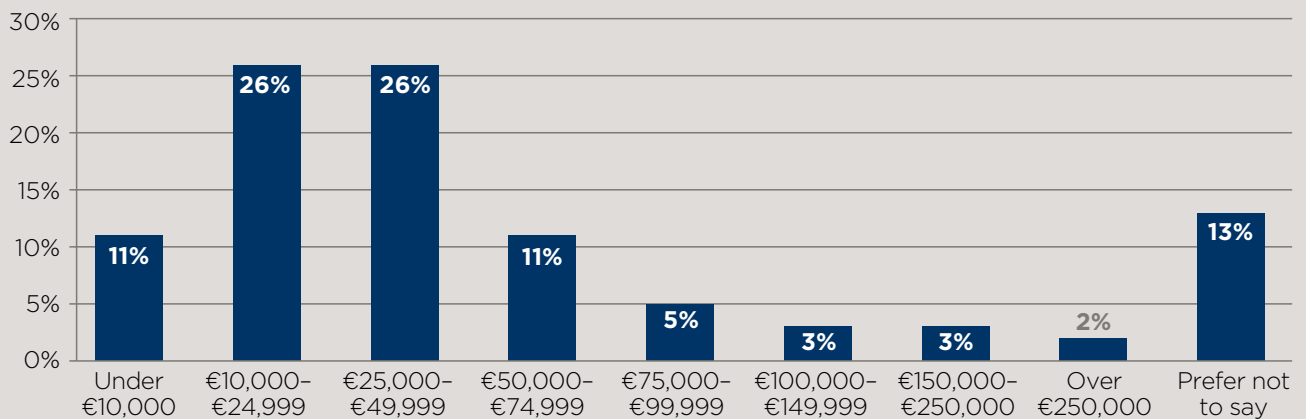
Source: Oxford Economics, consumer survey; n=24,354

Highest level of education attained



Source: Oxford Economics, consumer survey; n=37,370

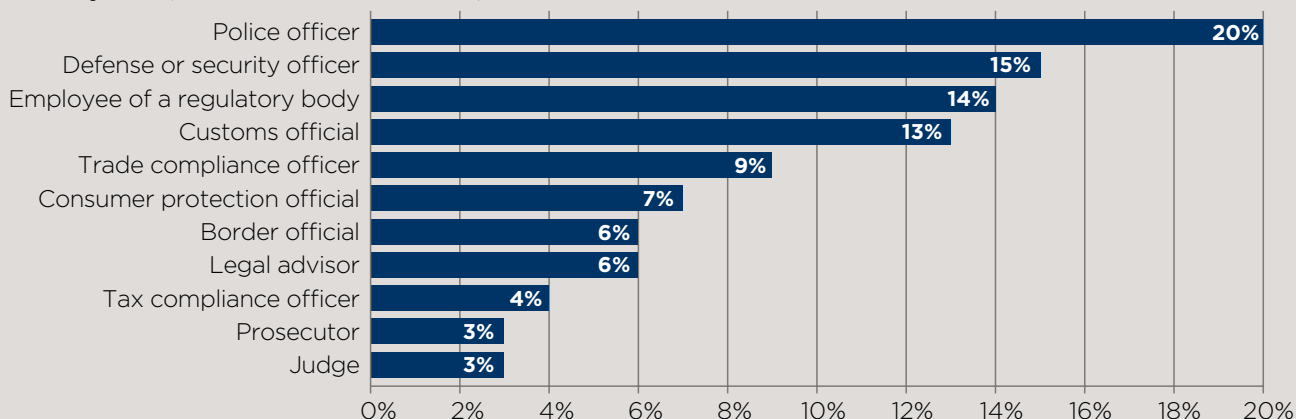
Approximate total yearly gross household income (local currency equivalents)



Source: Oxford Economics, consumer survey; n=24,354

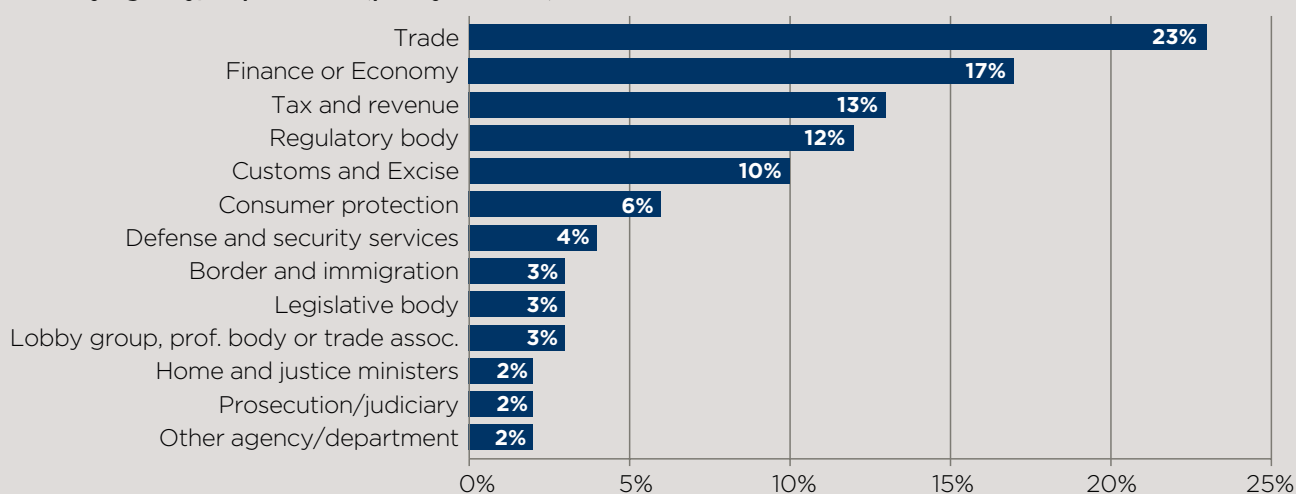
SURVEY DEMOGRAPHICS: STAKEHOLDER SURVEY

Primary role (law enforcement officers)



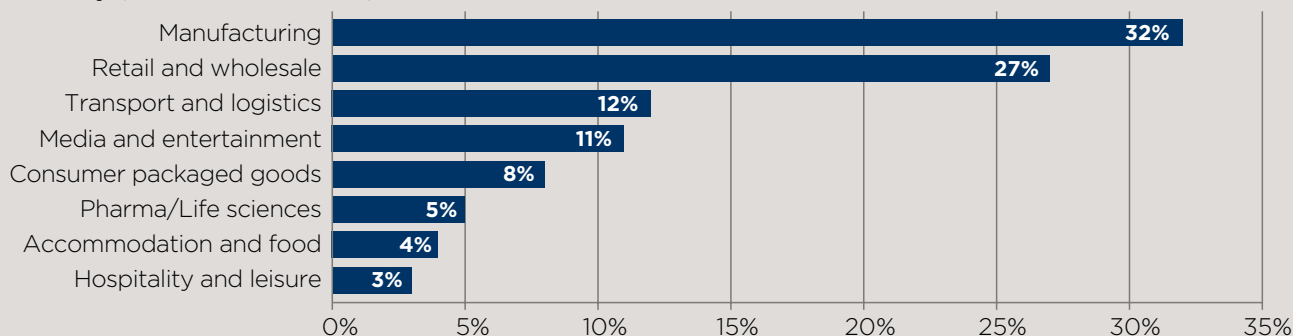
Source: Oxford Economics, stakeholder survey; n=1,413

Primary agency/department (policy officials)



Source: Oxford Economics, stakeholder survey; n=1,146

Industry (business executives)



Source: Oxford Economics, stakeholder survey; n=5,562

ANNEX C: GLOSSARY OF TERMS

| Term | Definition |
|------------------------|--|
| Activists | Consumer illicit purchases segment. Strongly opinionated about social factors, they tend to view illicit trade as a victimless crime, and see low risk of prosecution, so decisively choose to buy illicit goods. |
| Bargain Hunters | Consumer illicit purchases segment. Deliberately buy illicit goods, mostly to get a better deal (e.g., cheaper, available, better quality). |
| BASCAP | Business Action to Stop Counterfeiting and Piracy |
| COE | Council of Europe |
| Critics | Consumer illicit purchases segment. Buy “possibly illicit” goods. They don’t have strong reasons for seeking out illicit goods, and are concerned about the implications of illicit trade, that they may get caught, or receive an inferior product. |
| EUIPO | European Intellectual Property office |
| Europol | The European Union’s law enforcement agency |
| FCTC | Framework Convention on Tobacco Control |
| HMRC | Her Majesty’s Revenue and Customs |
| HPRA | Health Products Regulatory Authority |
| IARD | International Association for Responsible Drinking |
| IPEC | Intellectual Property Enforcement Co-ordinator |
| Interpol | International police organisation, with 192 member countries |
| IRACM | Institut du Rescherche Anti-Contrefaçon de Medicaments |
| MEDICRIME | A Council of Europe-sponsored convention to harmonise an international legal approach to tackling fake medicines. |
| OECD | Organization for Economic Cooperation and Development |
| OLAF | European Commission Anti Fraud Office |
| Opportunists | Consumer illicit purchases segment. Buy “possibly illicit” goods, mostly to get a better deal (e.g., cheaper, available, better quality). They don’t actively seek out illicit goods but may buy as opportunities present themselves. |
| TF-CIT | OECD Task Force on Countering Illicit Trade |
| TRACIT | Transnational Alliance to Combat Illicit Trade |
| UK IPO | UK Intellectual Property Office |
| UNODC | United Nations Office on Drugs and Crime |
| WCO | World Customs Organization |

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