

**THE GLOBAL ILLICIT TRADE  
ENVIRONMENT INDEX:  
TRACIT RECOMMENDATIONS  
TO COMBAT ILLICIT TRADE**



**TRANSNATIONAL ALLIANCE  
TO COMBAT ILLICIT TRADE**

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**ISRAEL  
Recommendations**

# Policy Recommendations to Combat Illicit Trade

*Inspired by the Global Illicit Trade Environment Index*

## Israel

### Introduction

The Transnational Alliance to Combat Illicit Trade (TRACIT) commissioned the Economist Intelligence Unit (EIU) to produce the *Global Illicit Trade Environment Index*. It evaluates 84 countries on their structural capability to effectively protect against illicit trade, highlighting specific strengths and weaknesses across 25 policy, legal, regulatory, economic, trade, institutional and cultural indicators.

The findings are intended to help policy makers: (i) better understand the regulatory environment and economic circumstances that enable illicit trade; (ii) identify areas that merit greater attention; and (iii) formulate strategies to address the serious threats posed by illicit trade.

To encourage an effective policy response to illicit trade, TRACIT prepared a set of policy recommendations inspired by the thematic categories upon which the *Global Index* was constructed. These recommendations are universal in nature, providing a “checklist” of fundamental measures governments can implement to improve their ability to defend against illicit trade. They are published in the TRACIT Report: [Recommendations to Combat Illicit Trade: Inspired by the Global Illicit Trade Environment Index](#). Additionally, we have prepared topical recommendations relevant to Israel.

### Priorities for Israel

- **Strengthen cooperation with intergovernmental organizations** to help address cross-border issues such as tax arbitrage and smuggling. Regional cooperation mechanisms including bilateral and multilateral trade negotiations should be utilized, along with projects and policy standards promoted by international organizations such the Organization of Economic Cooperation and Development (OECD), United Nations Commission on Trade and Development (UNCTAD), and World Customs Organization (WCO).
- **Continue to sustain close interagency cooperation at the national level**, particularly coordination between health, economic, security, finance and customs agencies. To further strengthen interagency cooperation, Israel may consider appointing an “Anti-Illicit Trade Coordinator” with high-level authority within the national government. Objectives

would include raising the profile on illicit trade, allocating necessary financial and personnel resources to effectively enforce anti-illicit trade regulations, especially in the areas of Intellectual Property Rights violations.

- **Prioritize IPR enforcement.** Over the past few years, Israel has carried out significant reforms in this area on the institutional, regulatory and law enforcement fronts. These enhancements were necessary to sustain the country's increasing role as one of the world's hubs for global innovation. However, the effectiveness of IPR laws will depend upon continued attention to enforcement, along with efforts to combat digital piracy, and closer scrutiny of producers and importers of counterfeit goods. Other regulations, such as standardized packaging for tobacco products, including heated tobacco and electronic cigarettes, can undermine the effectiveness of trademarks to deter illicit trade.
- **Tackle pervasive corrupt practices** that continue to facilitate illicit trade. Increased automation in customs procedures can be effective in mitigating "opportunities" for corruption. Addressing corruption must be tackled head on if strategies to combat illicit trade are to have any chance for success.
- **Strengthen criminal penalties.** Increasing penalties sufficient to deter illicit activity should be a priority to prohibit illicit traders from exploiting countries and markets with the weakest penal regimes. In addition to court-imposed penalties and fines, consideration should be given to introducing licensing regimes and rescinding business licenses from retailers, manufacturers and distributors involved in illegal trade.
- **Tighten controls on money laundering.** Denying access to entities and mechanisms used to launder proceeds of crime—and thereby depriving criminals and their networks of related profits—is one of the most effective ways to deter illicit trade. This requires a holistic, comprehensive anti-money laundering regime including the ability to trace, freeze, seize and confiscate assets related to illicit financial flows. The Financial Action Task Force (FATF) has recognized that Israel has taken several steps towards addressing anti-money laundering and counter-terrorist financing (AML/CFT), but that greater efforts are required to address identified deficiencies, particularly in the supervision and implementation of preventive measures. Continuing to work with the FATF to strengthen the effectiveness of its AML/CFT regime, including tackling money laundering associated with illicit trade, must be a high-level political policy priority.
- **Rationalize tax policies and subsidies** to ensure that they do not incentivize illicit trade, smuggling, adulteration and theft. For example, excessive tax levels can reduce affordability of legitimate products and drive demand for illicit substitutes. Organized crime groups (OCGs) also may practice "tax arbitrage" to gain profits by smuggling products from relatively lower to higher taxed markets. Tax policies and subsidy policies need to account for various demand-related factors including overall consumption, price, income levels and the ensuing affordability of products. The introduction and

enforcement of regulatory frameworks must necessarily account for differences in neighboring countries and in the region to protect against tariffs, tax levels and subsidies that can incentive illicit trade and smuggling.

- **Take proactive measures to protect Israel from illicit goods transiting through Free Trade Zones.** Ensuring transparency, monitoring and Customs oversight in the Eilat Free Trade Zone is an important measure to reduce trafficking vulnerabilities. Trade conducted via Eilat is subject to the same procedures as imports generally. In addition to customs inspection points within Eilat, as in other Israeli ports, inspection posts are maintained on the main roads out of Eilat, enabling customs officials to inspect vehicles travelling from the FTZ to the center of the country, to oversee and monitor goods purchased in Eilat or imported. National Customs should continue to enforce laws, including powers for seizure and confiscation of goods and protection of IPR, to ensure that zones do not become hotspots for illicit trade. Priority attention should be given to ensure proper controls on risk profiling suspect shipments; ex-officio checks on goods stored and services conducted in FTZs; Customs supervision of the FTZ perimeter and entry and exit points; validation of identity of an FTZ's economic operators and their clients; and implementation of "Know Your Customer" and "Due Diligence" measures.
- **Commit to international treaties.** Acceding to the full range of international instruments dealing with illicit trade is important for multiple reasons, including to ensure the availability of legal bases for international cooperation and the ability to smoothly assist other countries in cross-border investigations and information exchange.
- **Improve public awareness and education on the threat of illicit trade.** Consumers have a role to play in fighting illicit trade. Therefore, regulatory policies in relation to consumer goods (legal and illicit) should enable consumers to more readily identify illicit, illegal and fake products; and to make informed choices about legal products in accordance with their individual needs. Informed decisions enhance the individual health and well-being of consumers. Therefore, Israel should promote local and regional education campaigns and community-level awareness activities are essential to help shift public perception and understanding of the negative impacts of illicit trade.
- **Initiate partnerships** between all stakeholders (e.g. governments, brand owners, intermediaries, NGOs) to bring about effective change, information sharing and mechanisms for early detection. Methodologies for cooperating with the private sector should be non-coercive and designed to facilitate the sharing of the private sector's on-the-ground experience and information without imposing undue obligations.