THE GLOBAL ILLICIT TRADE ENVIRONMENT INDEX:

TRACIT RECOMMENDATIONS TO COMBAT ILLICIT TRADE

TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE

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- TRACIT commissioned the *Global Illicit Trade Environment Index* by *the Economist Intelligence Unit* to improve the knowledge and understanding of the regulatory environment and economic circumstances that enable illicit trade.

- The TRACIT policy recommendations are inspired by the thematic categories upon which the *Index* is constructed: (i) government policy, (ii) supply and demand, (iii) transparency and trade, and (iv) customs environment.

- The urgency to address illicit trade is clear and it's time to prioritize and implement solutions that will have a sustained impact.

ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, business-led initiative to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and integrating supply chain controls across industry sectors. To learn more, visit www.TRACIT.org or follow us on Twitter / LinkedIn.

OUR OBJECTIVES

TRACIT commissioned the *Global Illicit Trade Environment Index* to improve the knowledge and understanding of the regulatory environment and economic circumstances that enable illicit trade. The *Index* provides critical information for policy makers and all stakeholders to make informed decisions and formulate effective strategies to address the serious threats posed by illicit trade against the health and security of our societies.

ECONOMIST INTELLIGENCE UNIT

We've been privileged to collaborate with the Economist Intelligence Unit on this project. Their reputation, thought-leadership and research-savvy is unparalleled. The *Index* will yield significant dividends in our collective efforts to combat illicit trade.

FOREWORD

This report is presented as a "living document" with the aim to continually review, revise and update its recommendations to maintain relevance and accuracy. The recommendations in this initial version are primarily derived from the first edition of the *Global Illicit Trade Environment Index* and designed to maximize the usefulness of its findings. But the evergreen nature of the process is already underway as we have begun to add some recommendations in Section III that go beyond the universe of the *Index*.

There will be an ongoing process of seeking input and perspectives from colleagues in intergovernmental organizations; partners in non-governmental organizations; key intermediaries; TRACIT member companies; and other stakeholders committed to fighting illicit trade. This report will be updated regularly, topics will be added or developed further, and deeper focus will be given to regional priorities and sector specific issues.

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I. INTRODUCTION

The problem of illicit trade

Illicit trade presents a major and growing policy challenge worldwide. It encompasses a wide spectrum of illegal activities, both offline and online, including narcotics and arms trafficking, human trafficking, environmental and wildlife crime (e.g., ivory trade), robbery and resale of antiquities and cultural artifacts. On the commercial side, illicit trade is a nemesis to major industries such as pharmaceuticals, tobacco, alcohol, entertainment content, petroleum products, fishing, forestry, agri-foods, diamonds and pesticides—just to name a few.

The adverse knock-on impact of illicit trade exposes consumers to poorly made, unregulated products; drains global GDP; robs governments of tax collections; clogs legitimate trade routes and internet bandwidth; multiplies burdens on border control; perpetuates corruption; amplifies the demand for forced labor; poses environment risks; undermines rule-of-law; puts cash in the hands of organized criminals and bankrolls terrorists around the globe.

These are major and sometimes horrific scars on global society that cry out for an urgent policy response by governments—and their international governance bodies—worldwide.

Evidence-based policy-making

Policymakers typically require clear evidence that a phenomenon has attained a certain threshold of seriousness to be able to orient and prioritize policy and legislative responses. To make the case for prioritizing illicit trade, estimates from experts are often cited. In this case: research from the World Economic Forum (WEF) places the value of illicit trade and transnational criminal activities at 8% to 15% of global GDP;[1] and similar work conducted by Global Financial Integrity indicates financial losses across 11 industrial sectors susceptible to illicit trade amount to US$ 1.6 to 2.2 trillion per year.[2]

There also exist valuable quantifications of illicit trade in specific sectors, such as the World Health Organization (WHO) estimate that counterfeit medicines account for 10% of all medicines available globally;[3] the International Labor Organization (ILO) and the Walk Free Foundation assessment that 25 million people globally are trapped in forced labor.[4] Other sources estimate that: $133 billion of oil and fuels are illegally stolen, adulterated or defrauded every year;[5] global illicit trade in tobacco has grown to more than $35 billion annually,[6] causing substantial tax losses and providing a major source of financing for organized criminal groups;[7] and food fraud robs the global food industry of $30-40 billion each year.[8] And, the commercial value of music digital piracy in 2015 was estimated at $29 billion worldwide and could grow to $53-$117 billion in 2022.[9]

The *Index*: an additional policy tool to help prioritize action

In addition to the vital necessity for more research and data, it is equally important to improve the understanding of the regulatory environment and economic circumstances that enable illicit trade—and critically to assess a nation's capability to prevent illicit trade.

With this in mind, the Transnational Alliance to Combat Illicit Trade (TRACIT) has commissioned the Economist Intelligence Unit (EIU) to produce the *Global Illicit Trade Environment Index*. The *Index* 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.

Through a process of highlighting gaps and weaknesses in national responses to illicit trade, and then measuring the degree to which existing practices tackle the problem, the *Index* contains critical information to help policy makers identify areas that merit greater attention and formulate effective strategies to address the serious threats posed by illicit trade.

As a policy tool, the *Index*:

1. Generates a checklist of the fundamental measures governments can implement to improve their ability to defend against illicit trade.
2. Benchmarks areas where countries are weak or strong, thereby helping governments establish priorities, honor commitments and gauge progress over time.

II. RECOMMENDATIONS

Many of recommendations presented in this report reflect the thematic categories upon which the *Global Illicit Trade Environment Index* is constructed: (i) government policy, (ii) supply and demand, (iii) transparency and trade, and (iv) customs environment. Additional specific recommendations are also put forward in Section III, and these are based on standards and guidelines contained in relevant international instruments, selected national best practices and operational experience from TRACIT member companies in their respective efforts to combat illicit trade.

They are all intended to highlight critical priority actions and help policy makers identify, initiate and improve practical and actionable steps to combat illicit trade.

1. Commit to illicit trade-related treaties

International treaties are a source of guidelines and legally binding standards aimed to foster countries' domestic action and international cooperation. Given the transnational nature of illicit trade, treaties play a critical role in facilitating information-sharing for law enforcement purposes and providing common terminologies and concepts to ensure coordination by countries with different legal and institutional systems.

The *Index* recognizes the importance of international treaties as an indicator of a country's commitment to addressing illicit trade and identifies 14 international treaties related to mitigating illicit trade.[10] These range from the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) to the United Nations (UN) Convention Against Corruption and the UN Convention against Transnational Organized Crime.

Despite the value of an international approach to fighting illicit trade, only 15 (18%) of the countries in the *Index* are signatories to all 14 treaties.

Policymakers are encouraged to:

- *Become parties to all 14 international treaties related to illicit trade.*
- *Limit as much as possible the amount and scope of reservations made to such treaties.*
- *Take the necessary steps to adapt and implement treaty standards and requirements into domestic legal systems.*
- *Ensure that practitioners (law enforcement authorities, prosecutors, judges, etc.) are familiar with and trained on treaty language and, to the greatest extent possible, use treaty mechanisms as tools to facilitate information-sharing and coordination with other States Parties.*

2. Tighten controls on money laundering

The illicit financial flows generated by illicit trade are laundered through various means and re-invested into additional criminal ventures or back into the legal economy. At the same time, illegal trade serves as a tool for money laundering, terrorism finance and proliferation of Weapons of Mass Destruction (WMD). The Financial Action Task Force (FATF), the leading international standard-setting body, issued 40 Recommendations in 1990. These were revised to include measures applicable to government agencies and financial institutions aimed at the prevention, detection, reporting and sanctioning of money laundering and terrorism finance. In 2012, the FATF issued another revision, this time covering the financing of proliferation of WMDs.

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 *Index* measures the degree to which a jurisdiction engages in international cooperation on money laundering, based on compliance with FATF recommendations.

Policymakers are encouraged to:

- *Implement the FATF recommendations and improve cross-border cooperation to counter money laundering and terrorist financing.*
- *Increase transparency in the international financial system—including through recommendations suggested by Global Financial Integrity—to deter criminals from laundering and hiding the proceeds of illicit crime.*
- *Promote and deploy the development of expertise, training and adequate resources for national practitioners to carry out sound financial investigations.*

3. Eliminate corruption

Corruption poses structural challenges to economic and social development, as it can divert resources beneficial to the wider economy; erode the effectiveness of rule of law; generally unravel the social fabric of impacted economies; provoke instability in many parts of the world; and undermine competition in global markets.[11]

Development is further undermined as corruption, fraud and illicit financial outflows often hide behind illegal trade transactions. Illicit trade enables the payment of bribes as well as fraud, tax evasion, money laundering, terrorism finance and sanctions violations. Security threats and risks to the integrity and effectiveness of all public policies are thus tightly linked to both corruption and illegal trade.

Corruption can facilitate illegal trade at virtually any stage in the supply chain but also critically with respect to Customs and border control agencies. Its insidious prevalence in border control, law enforcement and the judiciary, financial markets and transportation networks severely impedes efforts to combat illicit trade. Corruption undermines all public policy, rule of law and justice efforts. For example, corruption is routinely identified as the central obstacle to effective wildlife crime enforcement. Illegal mining, trading and smuggling of conflict diamonds thrive on a complex system of bribes.[12] And in Europe, corruption in customs and law enforcement is a driver of the unofficial alcohol market.[13]

It is thus critical that policies and controls targeted at preventing corruption contribute to reinforcing integrity in the global supply chain. Addressing corruption must become a much higher priority for world order and must be tackled head on if governance strategies to combat illicit trade have any chance for success.[14]

Policymakers are encouraged to:

- *Adhere to and effectively implement the UN Convention Against Corruption, the Organisation for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials and other applicable regional treaties on the prevention and suppression of corruption.*
- *Ensure appropriate balance within the scope of immunities or jurisdictional privileges afforded to public officials in relation to the possibility of investigating, prosecuting or adjudicating corruption-related offences involving such officials.*
- *Provide adequate protection against any unjustified treatment for persons who report in good faith to the authorities any corrupt behavior ("Whistle-blowers"), as well as clearly identify responsible channels for reporting.*
- *Promote transparency and access to information to increase responsiveness of government bodies and facilitate watchdogs' ability to hold governments to account.*

- *Elaborate codes of conduct/ethics for public officials envisaging clear and effective (disciplinary) procedures for holding them administratively accountable in case of misconduct, and requiring legal self-certification.*
- *Ensure the adoption of adequate vetting procedures for access to public functions (e.g., background checks on criminal records) and the repetition of the exercise at regular intervals.*
- *Adopt legal frameworks enabling the effective recovery of corrupt proceeds located abroad and ensuring that foreign requests are equally executed in a prompt manner.*
- *Continue to encourage more dialogue between government and business in an effort to share information and promote better understanding of best practice in anticorruption, both in the public and private sectors.*
- *Implement cross-cutting approaches to corruption and illicit trade. This includes creating national-level joint task forces combining anti-illicit trade and anticorruption experts.*
- *Develop and employ appropriate indicators of progress and success in the prevention and control of corruption, illegal trade and money laundering.*

4. Rationalize tax policies

Given the importance of mobilizing revenues, many countries look to introduce tax reforms that can deliver significant health, revenue, and good governance benefits. Introducing or increasing excise taxes are often among these reform policies and can generate significant public revenue. However, governments need to ensure that tax policies do not incentivize illicit trade. For example, excessive tax levels can reduce affordability of legitimate products and inadvertently 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. These shortcomings in tax policy drive demand for illicit petroleum, alcohol and tobacco products.

Policymakers are encouraged to:

- *Include proactive monitoring, evaluation and countervailing measures when considering tax reforms to ensure that they reach the desired revenue, societal and governance outcomes, as well as mitigate the risk of adverse outcomes.*
- *Further study empirically the consequences of excise taxes, subsidies and tax exemptions that lead to smuggling, adulteration and theft.*
- *Adopt simple, single tier specific tax structures, taking into account various demand-related factors including overall consumption, price, income levels and the ensuing affordability of products.*[15/16]

5. Strengthen the customs environment

Customs and other border control agencies have a key role in combating illicit trade at the border, with officers on the front-line conducting inspections and detecting and seizing illicit goods. A strong, clean, customs environment contributes strongly to combating illicit trade. Conversely, corruption at the border is a significant non-tariff barrier to trade that hampers economic growth and trade performance. Recent figures from the OECD show that improving integrity policies in customs alone has the potential to reduce trade costs by 0.5% and 1.1%.[17] If customs' role is compromised, the system fails and enables opportunities for illegal trade, criminal activity, illegal financial flows and trafficking in products and persons. Promoting a better customs environment through enhanced public-private dialogue in cross- border processes can create significant benefits for society, as well as the public and private sectors.

Policymakers are encouraged to:

- *Empower customs authorities to take enforcement action—acting ex officio or at the request of legal cargo owners—to seize or suspend the release of illicit products and those suspected of infringing laws when they are imported, exported, in-transit and in all situations where the goods are under customs supervision including in free trade zones or other zones with special economic and tax regimes as well as bonded warehouses.*
- *Promote the adoption of sound, intelligence-based and risk-management approaches for the detection of illicit trade by customs agencies taking into account, in particular, the organizational framework and processes outlined in the World Customs Organization's (WCO) Customs Risk Management Compendium.*
- *Move towards a comprehensive digital environment for customs and border clearance, as automated systems reduce human touch points in the clearance process and thus lessen the opportunities for improprieties (i.e., bribes). In addition, digital tools and automation enable better tracking and analysis of transactions that could be used to identify control weaknesses and reveal suspicious transaction patterns. The UN Conference on Trade and Development (UNCTAD) Automated System for Customs Data (ASYCUDA) is valuable example of an integrated customs management system for international trade and transport operations in a modern automated environment.*
- *Ensure balance in implementation of the World Trade Organization (WTO) Trade Facilitation Agreement to ensure that "quick and easy processing" does not obviate long-standing customs and tariff systems necessary to control illegal trading.*
- *Ensure greater integrity and transparency in customs and cross border regulatory agencies, including through enhanced public-private dialogue in cross-border processes.*
- *Implement the recommendations and practices outlined in the "Ten Principles" of the WCO Revised Arusha Declaration on Integrity in Customs and the G20 High Level Principles on Countering Corruption in Customs.*

6. Strengthen law enforcement efforts

Criminalizing illicit trade with deterrent penalties and laws is only as effective as the actions taken by the law enforcement community. Effective enforcement depends on better coordination and the availability of adequate funding and training sufficient to address new challenges and patterns. Governments also must respond to the magnitude of the problem by not only amending national laws and regulations, but also: (i) introducing legislation that targets various forms of illicit trade issues, such as the recent efforts of the US government to fight against illicit trade in wildlife[18] and tobacco;[19] (ii) setting deterrent penalties; and (iii) enforcing a zero-tolerance enforcement regime. Governments must also adapt their enforcement legislation and court procedures to a reality in which illicit operators covertly utilize a range of modern communications technologies and adeptly manipulate privacy laws to structure their international operations to remain undetected or to increase the costs and difficulty of detection.

Policymakers are encouraged to:

- *Amend national laws and regulations (where necessary), to strengthen enforcement efforts and ensure the prosecution, conviction and proportionate and dissuasive sentencing of criminals.*
- *Ensure that criminal penalties for illicit trade reflect the magnitude of the crime, including jail time and the imposition of higher penalties for illegal activities that have health and safety repercussions. Penalties should be sufficiently high to remove the monetary incentive of traffickers.*
- *Ensure that law enforcement officials are regularly trained on illicit trade-related laws and regulations, evidence collection and preservation and assembling case files.*
- *Ensure that law enforcement teams are well-funded, fully staffed and properly supplied with equipment necessary to detect illicit trade, including illicit online trade.*
- *Ensure that law enforcement and judicial procedures sufficiently address cases involving electronic evidence and online activities.*

7. Protect Intellectual Property (IP)

Counterfeiting and piracy comprise a significant share of global illicit trade–both physical goods and intangible content are lucrative targets for illicit trade operators. Moreover, the illicit trade in counterfeiting drives pathways, trade routes, corruption and money laundering practices that facilitate illicit trade in other products, such as wildlife trade, falsified and substandard pharmaceuticals, and tobacco and alcohol smuggling. Accordingly, strong IPR protection and enforcement to protect copyright, trademark and other IP rights and to combat piracy and counterfeiting is essential.

According to the OECD, international trade in counterfeit and pirated goods has grown from $250 billion annually in 2008, to more than $461 billion in 2013, an increase of more than 80% in less than 5 years. Counterfeit goods now represent more than 2.5% of world trade—including 5% of all imports into the European Union.[20] Moreover, the growth of illicit digital trade of

copyrighted works continues to grow; the value of digital piracy in music, movies and software in 2015 alone was estimated to be more than $200 billion.[21]

The *Index* measures the extent to which a high standard of comprehensive IP laws is available and enforced. Only 30 of the 84 countries evaluated exhibit strong characteristics for IP enforcement, which would suggest that this area deserves greater attention.

Policymakers are encouraged to:

- *Abolish all known counterfeiting and pirate markets (physical and online/internet).*
- *As per Article 61 of the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement,[20] provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale, including imprisonment and/or monetary fines sufficient to provide a deterrent, consistent with the level of penalties applied for crimes of a corresponding gravity. Measures also should include the seizure, forfeiture and destruction of the infringing goods and of any materials used in the commission of the offence.*
- *As per Article 41 of the WTO TRIPS agreement, ensure that laws and procedures permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.*
- *Implement a Customs Recordal System for IPR. The system should be digitalized so that key information (e.g., IP rights, contact details, authorized shippers, etc.) can be easily accessed by enforcement officers.*
- *Require that illegal traders be primarily held liable for storage and destruction costs of infringing goods.*
- *Recognize the role played by various intermediaries and incentivize cooperation of all parties involved.*
- *Strengthen and expedite adjudication of counterfeiting and piracy cases presented to authorities.*
- *Recognizing that organized criminal groups are often behind commercial level counterfeiting trade, utilize the full spectrum of investigative techniques available to disrupt such groups (e.g., controlled deliveries).*

8. Enhance interagency cooperation

Government approaches to combat illicit trade must become as cooperative as the criminal elements they seek to stop. This requires internal cooperation in the form of whole-of-government processes. It is therefore crucial for the law enforcement community to forge close operational links and set up functioning information-sharing platforms with key administrative agencies in charge of regulating legal trade through *inter alia* the granting of licenses, import and export permits, powers of inspection.

Effective cooperation also should be established between investigative authorities and Financial Intelligence Units in the fight against money laundering and to uphold financial investigations. It is also crucial for customs officers and police to develop close working relationships, given their complementary roles in tackling cross-border crime. Last, but not least, it is essential that law enforcement efforts directed at combatting illicit trade, whether online or offline, be conducted in cooperation with international counterparts. Given the public nature and sovereignty-related implications of law enforcement activities, such international cooperation does not always come naturally or may not be easy to achieve. Consequently, this vulnerability is exploited by illicit operators to reduce the risk of detection or enforcement action being taken against them.

The *Index* shows that only 54 countries (64%) have formal and regular collaboration between law enforcement and customs authorities, with 22 countries (26%) having irregular or informal collaboration and 8 (9%) countries having no collaboration at all.

Policymakers are encouraged to:

- *Designate an "Anti-Illicit Trade Coordinator" with high-level authority to raise the profile of the issue, oversee coordination of relevant government officials and agencies, and allocate necessary financial and personnel resources.*
- *Strengthen law enforcement interagency cooperation—particularly police and Customs—through the adoption of memoranda of understanding or other coordinating mechanisms and the setting up of mixed investigative teams.*
- *Consider the establishment of multi-agency task forces at the ministerial level in charge of defining policies, monitoring and collecting data on illicit trade patterns in and across specific illicit trade sectors.*
- *Strengthen public-private cooperation with an aim to render regulatory and legislative enforcement for IPR protection and illicit trade more efficient.*
- *Promote joint training opportunities and exercises to ensure each agency understands constraints and expectations of other agencies, to discuss/validate common procedures and, generally, encourage a culture of mutual support.*

9. Improve governance of Free Trade Zones

The misuse of transshipment points in cargo routings, especially through Free Trade Zones (FTZ)—including other zones with special economic and tax regimes, as well as bonded warehouses—represents a significant challenge to combating illicit trade. Deceptive transshipment practices, mislabeling and fraudulent invoices allow illegal traders to bypass sanctions, trade tariffs and regulations by obfuscating the identity of the country of origin or the illicit nature of the goods. Criminal operators also exploit unregulated zones to fully manufacture or assemble products from raw materials or subcomponents, and then package or repackage the final illicit products for further shipment. Unrestricted regimes for transshipment and transit of goods through FTZs, along with the manufacturing and packaging of illicit products, contribute to a wide range of other illicit activities including

money laundering, organized criminal activity in illegal wildlife trade, tobacco and alcohol smuggling and counterfeiting and piracy.

Enhancing transparency and improving governance in FTZs is thus an important measure to reduce trafficking vulnerabilities and strengthen the integrity of global supply chains.[23]

The *Index* includes two key indicators that provide insight on protecting against illicit trade in FTZs. The first is whether and to what extent a country has accepted Annex D of the WCO Revised Kyoto Convention (RKC), which includes two chapters, one covering customs warehouses and one addressing FTZs, with standards and recommended practices. The other indicator is FTZ governance, which measures the extent of monitoring and oversight of FTZs.

Findings from the *Index* suggest that there is significant room for improvement, specifically because only 13 of the 84 countries (15%) in the *Index* have adopted Annex D in any form. Notably, as of August 2017 only 25 of the WCO's 182 members (14%) had adopted RKC Annex D, Chapter 2.[24]

Policymakers are encouraged to:

- *Adopt Annex D of the Revised Kyoto Convention and follow the guidelines addressed therein on explicit Customs jurisdiction over FTZs, rules on origin of goods, and Customs transit and transshipment procedures.*
- *Declare that FTZs are under the jurisdiction of national Customs and provide national Customs with unrestricted rights to enforce laws, including: right to enter and observe day-to-day operations; audit records of companies in the zone; and validate goods status and conformance with tariff and non-tariff measures under the national Customs mandate.*
- *Take strong and proactive measures to protect FTZs from illicit traders, including risk profiling of suspect shipments; ex-officio checks on goods stored and services conducted in FTZs; Customs supervision of the FTZ perimeter and entry and exit points; validate identity of an FTZ's economic operators and their clients; implement "Know Your Customer" and "Due Diligence" measures; and require reporting from each FTZ on statistical data on goods entering and leaving the FTZ on the basis of their tariff classification and information that identifies the owner of goods. A good example of leadership in this area is the work of the OECD Task Force on Countering Illicit Trade, which is currently working to develop guidance with the goal to enhance transparency in FTZs.*
- *Establish or designate a competent authority to issue licenses to manufacture, import, export, broker, or ship raw materials and other key inputs necessary for production within manufacturing and packaging facilities in FTZs. Such authority should also be responsible for renewal, suspension, and cancelation of the licenses, in accordance with national law.*

10. Report and share statistical data across borders

Many governments and non-governmental organizations currently collect information on aspects of illicit trade, such as UN Office of Drugs and Crime's (UNODC) World Wildlife Crime Report, OECD's Mapping the Real Routes of Trade in Fake Goods, and the US Department of State's Trafficking in Persons Report and International Narcotics Control Strategy Report.

Sharing this type of data and related information across jurisdictions, and between government and non-governmental entities, is a valuable tool for combatting illicit trade. The availability of precise information about the habits and actors conducting illicit trade is essential to tailoring effective governance responses, developing best practices or developing common strategies such as for improving border management.

The *Index* examines the extent to which governments report statistics on illicit trade, including human trafficking, IP infringements and drug seizures. The results are mixed, with roughly half of the 84 economies regularly publishing and sharing statistics on illicit trade. Conversely, half of the economies surveyed have considerable potential to begin collecting and sharing data.

Policymakers are encouraged to:

- *Collect and share information and data on illicit trade with other governments at regional and sub-regional levels, whether through formal or informal mechanisms.*
- *Publish statistics on illicit trade, both online and offline as well as both trade in tangibles and intangibles, including the number of cases, quantity of seized illicit goods or popularity of sites taken down, broken down by industry categories, and in instances of shipped physical goods, percentage of shipments against the total shipments through the jurisdiction in question.*
- *Develop secure data sharing mechanisms with nongovernmental entities that enable data to be accessible at all levels. It is critical that information sharing is carried out in a timely manner to facilitate monitoring, enforcement, and prosecution.*
- *Collect, analyze and make available trade data (all imports and exports), in order to enable national and international strategic and operational approaches to prevention and control of illegal trade, trade-based money laundering and other trade-facilitated financial crime.*

III. ADDITIONAL SUGGESTIONS, BEYOND THE INDEX

In this section, we are initiating the "evergreen" process of expanding our policy work beyond the recommendations (Section II) inspired by the *Global Illicit Trade Environment Index*. These are based on standards and guidelines contained in relevant international instruments, selected best practices and operational experience from TRACIT member companies in their respective efforts to combat illicit trade. They are intended to highlight critical priority actions and help policy makers identify, initiate and improve practical and actionable steps to combat illicit trade.

1. Raise awareness about illicit trade

Raising awareness of the threat of illicit trade is a cornerstone of any effort to curb illicit trade. As a prerequisite for responsible action, consumers, politicians, enforcement agencies, IGOs and the business community all need to fully understand the harmful consequences of illicit trade on the economy, consumer health and safety, and the environment. As addressed above, it will be essential to continue researching and reporting on the size of the problem to elucidate policy makers on the urgency of solutions. Many intermediaries, when better informed about potential exploitation of their infrastructure and the damage done by illicit trade, demonstrate a willingness to secure their portion of the supply chain from abuse. Also, in the face of the escalating global growth in demand for illicit products, not the least of which including counterfeits and copyright infringements, it has become clear that consumer education must be undertaken to control the demand-side of these nebulous markets and to ensure consumers' rights to have access to information and innovation.

Policymakers are encouraged to:

- *Launch public awareness campaigns and educational drives on the threat and harms of illicit trade in tangibles and intangibles, both online and offline. Specifically, policymakers should consider their obligations under the UN Guidelines for Consumer Protection to improve consumer awareness.*[25]
- *Encourage organizations such as the OECD and UNODC to continue their concerted efforts to quantify and communicate the extent of illicit trade.*
- *Promote legal and sustainable alternatives to illegal goods, including through economic incentives and by endorsing credible certification programs and licensing schemes that guarantee that goods are legally sourced and produced in an environmentally and socially responsible manner.*
- *Educate intermediaries on how their infrastructures are vulnerable to and exploited by illicit trade; and promote voluntary (best practice) measures to encourage and/or require intermediaries to restrict use and abuse of their infrastructures to prevent illicit trade.*
- *Educate governments on how privacy laws and cryptocurrencies can be exploited by illicit traders and promote pragmatic, fact-specific application of relevant legislation.*
- *Explore integration of multiple existing governmental awareness campaigns by aggregating the key messages and sharing "campaign" resources and outreach networks. A useful model to build upon is UNODC's campaign "Counterfeit - Don't buy into organized crime," which is unique in its cross-cutting story.*

2. Promote a clean digital environment

Online marketplaces are increasingly vital links in global supply chains, especially given the rapid growth in online shopping, expanding forms of digital markets and innovative uses of cloud storage and social media networks. However, these platforms are also vulnerable to exploitation and misuse by illicit traders or otherwise illegitimate operators.

As a result, the spectrum of illicit trade increasingly comprises illicit digital trade, including cybercrimes (like hacking, denial of service attacks, spam, copyright piracy and child pornography) and money-laundering in the financial system. Copyright piracy (including piracy of copyrighted works and live events) are significant forms of cybercrime that require increased attention and action by governments to more effectively deter these illegal activities. The illicit digital trade of copyrighted works also constitutes a sizable portion of economic value lost through illicit trade.

Policymakers are encouraged to:

- *Examine the corporate responsibility and supply chain compliance role for online marketplaces and social media platforms in preventing illicit trade.*
- *Increase transparency requirements for digital supply chains, with a special focus on online marketplaces and social media platforms, to improve know-your-customer and know-your-seller programs.*
- *Increase expectations on online platforms to intensify the implementation of good practices for preventing, detecting, removing and disabling access to illegal content to ensure the effective removal of illegal content, increased transparency and the protection of fundamental rights online, while preventing abuse of those principles by illicit traders. This must include intermediary responsibility to know their customers.*
- *Promote more effective prevention measures by encouraging the development and adoption of the appropriate use of advanced technologies, such as automated tools for rapid notice, takedown and stay down, filtering and redress and the use of risk scoring services, and preventive measures to be implemented by online payment solutions offering services on non-safe online platforms. Preventative measures should also include website blocking. The use of such expeditious actions should match the speed and volume of transactions on a platform.*
- *Ensure that online platform operators and participating intermediaries may face liability for operating services based on promoting access to illegal, illicit or otherwise infringing materials and that so-called Internet Service Provider (ISP) safe harbor laws are not misused by actors whose business is dependent on the unlicensed use of protected content.*
- *Promote policies requiring ongoing access to contact information for registrants of domain names used in online commerce to ensure law enforcement, cyber security professionals, brand protection representatives and others have continued access to this data in order to protect consumers and to protect against illegal activity online.*

3. Address illicit trade in the express and postal mail sector

The knock-on impact of the sharp growth in the digital commerce sector and rise of social media platforms is the delivery of illicit products through postal and courier streams. Illicit products, including counterfeit medicines, ivory and IPR infringing goods are increasingly sold online and distributed in small parcels via express mail, international courier and postal services, directly to often unwitting customers. As of 2015, express mail now accounts for over half of all IP-related seizures in the US and more than 70 percent in the EU. For traffickers, small shipments also are a way to avoid detection and minimize the risk of sanctions.

Policymakers are encouraged to:

- *Streamline Custom's lengthy and time-consuming seizure process, including regulatory changes to reflect the shift in international shipping from ocean shipping containers to small parcels.*
- *Promote technologies and practices to improve targeting, prediction, and decisional processes.*
- *Collect data on patterns and trends at each point-of-entry, by product category, sector, and brand—including analysis of the corresponding country of origin, transshipment routes, evasive tactics employed, repeat offenders, and other illicit characteristics.*
- *Increase engagement with intermediaries and digital commerce platforms and deepen cooperation between government and the private sector to prevent the unfettered flow of illegal, illicit and counterfeit items through the post.*

4. Deploy technological solutions

As a supplement to regulatory approaches, technology solutions can be a powerful tool to secure supply chains and prevent illicit trade. The success of measures aimed at tackling counterfeiting, food fraud and other forms of illicit trade relies heavily on close cooperation and dialogue between regulators and the private sector. Industry has developed a number of tools to track and trace consignments, ensure chain of custody throughout the supply chain, and secure the integrity of traded goods. Examples include molecular marking of fuels to reduce fuel fraud and minimize fuel-related tax evasion, and the use of blockchain technology in the food supply chain to improve traceability and detect food fraud.[26]

Policymakers are encouraged to:

- *Promote and encourage the development of new or existing technology solutions to secure supply chains, counteract illicit trade and help consumers identify genuine products.*
- *Adopt measures to encourage innovation in consumer goods and facilitate consumer access to these innovative products, as such technological advances make it more difficult for illicit traders to counterfeit products.*
- *Work closely with the private sector to develop technology applications. Governments should focus on setting standards or guidelines, while allowing the private sector to choose technologies in response.*
- *Guard against pursing a "one-size-fits-all" regulatory strategy. Companies must be able to stay ahead of illegal traders when it comes to the security features used to protect their products. Security features should be cost-effective so as to ensure wide-spread usage by all brand owners, large or small.*
- *Consult the private sector when considering regulations covering technology solutions to avoid onerous legislation that hampers economic growth and ensure harmonization, as contradictory requirements between jurisdictions drive up compliance costs without added supply chain security benefits.*

IV. CONCLUSIONS

Any long-term solution to the societal threat of illicit trade in tangible and intangible goods, both online and offline, will be dependent on sustained collaboration between governments and the private sector. Business can contribute by continuing to develop technical solutions that protect the integrity of supply chain, and share intelligence, data, resources and measures that effectively control illicit activity. And Business is willing to work with partners to convene stakeholders, improve awareness, expand the knowledge base, and energize the global dialogue.

Governments, however, need to improve regulatory structures, set deterrent penalties, rationalize tax policies, strengthen capacity for more effective enforcement and international cooperation, and educate consumers. This is a matter of urgency and government efforts to fight illicit trade should be considered investments that pay tangible dividends to economic development and global security. Governments need to convene stakeholders, improve awareness, expand the knowledge base, and energize the global dialogue. But most importantly, governments need to promote shared policy development and ramp up implementation of enforcement measures.

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TRANSNATIONAL ALLIANCE
TO COMBAT ILLICIT TRADE
TRACIT.ORG

Transnational Alliance to Combat Illicit Trade
One Penn Plaza, New York, NY | +1.917.815.2824
email: info@TRACIT.org I TRACIT.org