

EXECUTIVE SUMMARY

**MONEY TALKS:
THE CROOKED CONNECTION
BETWEEN CORRUPTION
AND ILLICIT TRADE**

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ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

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Understanding the imperative to combat illicit trade

Illicit trade has emerged as a major policy and regulatory challenge worldwide. It encompasses a wide spectrum of illegal activities, conducted both offline and online, including narcotics and arms trafficking, environmental and wildlife crime, intellectual property theft, and robbery and resale of antiquities and cultural artifacts. Illicit traders also exploit a wide range of industries, most notably including pharmaceuticals, consumer goods, tobacco, alcohol, entertainment content, oil products, fish, timber, food, precious metals and gemstones, pesticides, and thousands of products vulnerable to trademark counterfeiting and copyright piracy.

Collectively across these sectors, illicit trade creates a vast underground economy estimated to account for 8 to 15 percent of global GDP, according to the World Economic Forum (WEF).¹ Such a significant diversion of commercial activity presents considerable negative consequences to the global economy. The United Nations Conference on Trade and Development (UNCTAD) notably recognizes that illicit trade crowds out legitimate economic activity and deprives governments of revenues for investment in vital public services.²

Illicit trade also presents a direct threat to security and stability. The links between illicit trade and organized crime are well-established. The involvement of members of criminal syndicates has been observed in virtually all global trading sectors, provoking violence, undermining the rule of law, breeding corruption and financing terrorism.³ These findings are echoed by the US Department of Homeland Security (DHS), which found that illicit goods trafficked to American consumers threaten U.S. national security.⁴

Investigating corruption as a facilitator of illicit trade

There are few public policy challenges more intractable than eliminating corruption. In the absence of sufficient accountability and transparency, the motives of corrupt actors can eclipse policy prescriptions intended to maintain integrity in public sector transactions.

If power tends to corrupt and absolute power corrupts absolutely, then preventing corruption will require extraordinary controls and the subsequent and consistent application of these controls from the lowest to highest levels of governance.

This report uniquely confronts corruption by targeting the incentives that motivate it as a facilitator of illicit trade. By revealing unambiguous acts of corruption occurring in specific economic transactions vulnerable to illicit trade, a typology of trade-related corruption can be established as a basis for purposeful policy and legislative remedies.

Among the key findings in the report are that (i) corruption is emergent in every economic sector where illicit trade occurs and (ii) corrupt actions are often common across sectors such that corruption in one sector is emulated in other sectors. Taken together, this suggests that once a criminal identifies a weakness – such as a Customs official accepting a bribe to overlook human or narcotics trafficking – the same or connected smugglers may exploit the same corrupt officer to facilitate the transit of counterfeits or illegally traded wildlife.

The identification of the types and common patterns of corruption can also be of value to lawmakers, enabling them to design more effective corruption control mechanisms where needed. For this reason, the report presents a set of policy recommendations aimed at facilitating an effective response to corruption in the context of illicit trade. These recommendations provide a “checklist” of fundamental measures that governments are encouraged to implement to improve their ability to defend against the wider societal harms of illicit trade, with a particular emphasis on addressing the enabling role of corruption in perpetuating illicit supply chains.

Explaining where and how corruption facilitates illicit trade

Corruption is generally defined as the abuse of entrusted power for private gain. It includes bribery, abuse of functions, trading in influence, illicit enrichment and embezzlement of public funds, resulting in undue advantage. Corruption is one of the key underlying conditions that increases vulnerability to illicit trade. It can occur at virtually any stage in the supply chain and with virtually any actor along the way: border control, law enforcement, the judiciary, regulatory agencies, financial markets and transportation networks. This report focuses on the impact and effects of corruption and where it is encountered during illicit trading, including:

- In interactions with intermediaries such as transporters, customs, and border agents to facilitate the movement of illicit goods.
- To ensure law enforcement officials overlook illegal factories that manufacture counterfeit or sub-standard goods.
- In the process of fraudulently obtaining permits and licenses, to exceed quotas, or in the course of regulatory inspections.
- To overlook illegal shipments.
- To prevent arrests (e.g., by leaking information about an impending police raid) or release suspects.
- To help evidence disappear in the course of criminal proceedings, delay or drop prosecutions, or to return acquittals for those who are brought to justice.

Documenting corruption in illicit operations

Section III delineates examples of corruption as it occurs in specific sectors vulnerable to illicit trade. It shows overarching trends and specific cases that illustrate the manifestation of corruption in illicit trade in agrifoods, alcohol, fishing, forced labor, logging, wildlife, pharmaceuticals, pesticides, precious metals and gemstones, tobacco products, petroleum, and consumer products vulnerable to counterfeiting and piracy.

- **Illicit trade in agri-foods.** Bribery of regulators and the assistance of corrupt public officials in placing illicit products in the market endangers food supplies, threatens the viability of legitimate food suppliers, and can have wide-ranging consequences that go beyond a specific country's borders.
- **Illicit alcohol.** Regulations designed to mitigate illicit alcohol trade are often rendered ineffective by corruption. Bribery is particularly common and it can occur in all parts of the supply chain, undermining countries' efforts to prevent smuggling and ensure effective enforcement of alcohol regulations.
- **Illegal, Unregulated and Underreported (IUU) fishing.** Corruption is increasingly recognized as a major challenge for the sustainable management of fisheries. In IUU fishing, this includes officials taking bribes to issue licenses or to verify forged fishing licenses. The United Nations Office on Drugs and Crime (UNODC) states that "corruption enables fisheries crimes to occur at every stage of the value chain, and almost without exception results in significant losses of revenue for the country in question."⁵
- **Forced labor, child labor and human trafficking.** Experts argue that human trafficking could not occur on the scale that it does if it were not for the complicity and collusion of corrupt officials with criminal gangs.⁶ Conversely, research shows that if human trafficking is to be significantly reduced, then corruption must be curbed.
- **Illegal logging and illicit trade in timber.** One of the main reasons illegal logging continues in many parts of the world is because corruption enables criminals to operate with impunity. Reports from INTERPOL and United Nations Environment Programme (UNEP) show that corruption is entrenched in illegal logging operations. The link to corruption is so prevalent in the forestry sector that Interpol attributes USD 29 billion to criminal networks bribing officials to establish "safe passage" for the illegal movement of timber. Criminal groups also frequently exploit the same routes to transport other illicit goods, such as drugs and firearms.⁷
- **Illicit trade in wildlife.** Corruption has emerged as a clear facilitator of the illegal trade in wildlife. In jurisdictions where corruption is pervasive, bribery ensures that traffickers build informal relations with public officials and ensure the illicit sourcing, transfer and sale of wildlife and products, as well as the laundering of the proceeds from the illegal wildlife trade. The Organisation for Economic Co-operation and Development (OECD) reports that offenders reduce their exposure to the risk of being caught by bribing their way out of arrests, investigations, prosecution and convictions, and argues that illegal wildlife trade could not take place on a global scale without corruption.⁸

- **Illicit trade in pharmaceuticals.** According to the *Committee on Understanding the Global Public Health Implications of Substandard, Falsified, and Counterfeit Medical Products*, corruption is a key enabler of the manufacture, trade, and distribution of falsified medicines.⁹ Bribery is critical for unwarranted product approvals, overlooking compliance and even to delay product approvals of competitors. In West Africa, it is understood that corruption within the supervisory, control and enforcement agencies is the fundamental problem impeding efforts to stop counterfeiting.¹⁰
- **Trade in illegal pesticides.** Corruption plays a role in all stages of the illegal pesticides trading cycle, involving a wide range of actors from regulators offering illegitimate licenses to customs officials who allow illegal products to cross borders. UNEP highlights that corruption and lax enforcement – often coupled with relabeling – allow for the return of seized stocks of illicit pesticides to the market.¹¹ This observation is echoed by the United Nations Interregional Crime and Justice Research Institute (UNICRI) and the Organization for Security and Co-operation in Europe (OSCE) in reporting that illicit traders in pesticides often rely on corrupt custom officers, law enforcement officials and staff in charge of pesticide procurement to carry out their crimes.¹²
- **Illicit trade in precious metals and gemstones.** The presence of criminal groups in the mining and minerals sector drives corruption and negatively impacts stability, governance, development and the rule of law. Corruption in this sector includes everything from customs officials facilitating cross-border smuggling to corrupt officials enabling the distribution of illegal export and mining licenses. This illicit trade not only fuels conflict across Africa but also finances armed groups, encourages forced labor, and leads to widespread human rights abuses. Additionally, the vast profits generated from this trade provide ample opportunities for money laundering and corruption.¹³
- **Illicit trade in tobacco products.** The pervasiveness of illicit tobacco trade is largely attributable to weak governance, poor government commitment to combatting illicit tobacco, and ineffective customs and tax administrations. However, corruption stands out as a fundamental element and facilitator of the illicit trade in tobacco products. It can encompass bribes to customs officials to permit the cross-border movement of smuggled cigarettes, bribes to law enforcement officials to allow the operation of an illegal manufacturing facility (e.g., through the tip-off of raids), and can play a role in the process of obtaining permits and licenses from national authorities or issuing clearance documents.
- **Illicit trade in petroleum.** The petroleum sector is particularly susceptible to integrity violations due to the high complexity of related supply chains, the close interaction between the public and private sectors, and the vast sums of money generated. By some estimates, more than 57 percent of all fraud cases in the oil and gas sector relate to corruption schemes.¹⁴

- **Counterfeiting and piracy.** According to the UNODC, corruption is inherently linked to the illicit trafficking of counterfeit goods, especially when these are shipped internationally.¹⁵ The significance of corruption as a facilitator is echoed by the OECD, stating that “high levels of corruption and gaps in intellectual property rights enforcement [...] are the crucial factor for trade in fakes.”¹⁶ Furthermore, criminal networks use bribery or extortion of government officials to reduce disruptions in their illicit distribution channels and risks of punishment. Corruption can manifest itself in myriad ways, with the most common being to bribe Customs officials to ensure that counterfeit goods avoid inspection, to bribe law enforcement officers to provide advance notice of raids and protection during investigations, and finally as a means to derail the criminal justice phase once a crime has been uncovered.

Policy recommendations

Based on the findings of this report, TRACIT has formulated a set of policy recommendations to promote a more intensive focus on eliminating corruption as a leading solution to stop illicit trade.

These recommendations provide a “checklist” of fundamental measures that governments are encouraged to implement to improve their ability to defend against the wider societal harms of illicit trade, with a particular emphasis on addressing the enabling role of corruption in perpetuating illicit supply chains.

Treaties, laws and policies

- **Enforce the provisions of existing international legal instruments addressing both corruption and illicit trade.** International treaties are a source of guidelines and legally-binding standards to drive national action and international cooperation. Consequently, governments are urged to ratify, adopt and enforce the provisions of existing anti-corruption treaties, including notably: (i) OECD’s instruments on integrity and corruption, (ii) the UN Convention against Corruption, and (iii) the recommendations of the Financial Action Task Force (FATF), especially in relation to actions aimed at preventing the laundering of proceeds of corruption and confiscating those proceeds. Countries should also ensure maximum support for, and engage proactively within, such peer review initiatives as the Inter-governmental Review Mechanisms for the UN Convention Against Corruption. Intergovernmental organizations active in the anti-corruption and illicit trade spaces could consider developing a multi-stakeholder action plan on corruption in illicit trade, taking into consideration existing government regulations and enforcement efforts, initiatives from the business community, and input from civil society stakeholders.
- **Effectively leverage domestic criminal justice systems to tackle corruption.** On-the-ground anti-corruption capacities urgently need to be strengthened. Furthermore, crimes associated with corruption and illicit trade related offences should be criminalized and be listed as serious crimes under domestic law. Clear prosecutorial and sentencing guidelines need to be established that emphasize the grave nature of these offences.

- **Adopt and enforce robust agency-specific measures to uphold transparency, integrity and ethical conduct.** An anti-corruption regime that mitigates abuses of position and sets clear rules and administrative procedures to mitigate and reduce incentives to engage in corrupt behavior is essential – both at-large and in relation to illicit trade. The following are key actions that should be considered by individual agencies to enhance transparency and integrity in their operations:
 - To the extent possible, streamline and automate permit and licensing processes and controls.
 - Strengthen prevention by implementing and enforcing strong codes of conduct and regulating matters related to conflict of interests and asset declarations for public officials.
 - Invest resources around the concept of continuous, career-long training on ethical conduct for public officials.
 - Ensure a robust reporting system of wrong-doing and provide adequate protections for whistleblowers against all forms of retaliation.
 - Establish and ensure the proper functioning and independence of agency-specific units in charge of internal investigations for breaches of codes of conduct.
 - Set up specific criteria and procedures for the selection, training and vetting of candidates wishing to join public agencies vulnerable to corruption and illicit trade.
 - Establish clear case management and standing operating procedures (SOPs) to reduce agencies' vulnerability to corruption and other forms of integrity-related misconduct.

Implementation and enforcement

- **Elevate the importance of combatting illicit trade.** Combating illicit trade will require stronger controls to prevent corruption. This will require governments to approach corruption and illicit trade more holistically, with an all-of-government approach. It will also require governments to elevate punitive damages associated with the crimes of illicit trade and the crimes of corruption.
- **Include anti-illicit trade policies as integral components of national plans to combat corruption.** As corruption and illicit trade related offences are mutually reinforcing, governments should proactively include illicit trade controls into the anti-corruption policy sphere.
- **Implement cross-cutting operational approaches to fighting corruption and illicit trade.** With the objective to maximize the public welfare benefits of reduced illicit trade, governments should pursue cross-cutting approaches to fighting corruption as it occurs in illicit trade. This starts with establishing a national-level joint task force that would convene anti-illicit trade and anti-corruption experts, build cooperation with the private sector to help expose corruption in illicit supply chains, and shift the risk-versus-reward to an increased likelihood that crimes of corruption and illicit trading will face swift prosecution and heavy deterrent penalties.

- **Ensure a strong customs environment.** Customs and other border control agencies have a critically important role in combating cross-border illicit trade, largely because their officers have front-line responsibility for conducting inspections and detecting and seizing illicit goods. However, this level of authority creates ample opportunities for corruption that merit targeted anti-corruption controls.
- **Take proactive measures to prevent illicit trade and corrupt practices in Free Trade Zones.** Free Trade Zones (FTZs) have emerged as a notorious vulnerability in the global supply chain, enabling the facilitation of illicit trade in many sectors. Greater supervision over zone operators can prevent acts of corruption that impede inspections of shipments into and out of FTZs or cover up illicit goods stored and services conducted in zones.

Supporting environment

- **Support and protect a free press.** A free and independent press plays a crucial role in detecting and exposing instances of corruption and illicit trade, thereby increasing transparency and accountability of public officials and fighting against impunity. Governments should ensure that journalists are free to report on cases of corruption and illicit trade without fear of retaliation or censorship. To this end, governments should ensure laws protecting freedom of the press, including whistleblower protections and laws allowing journalists to protect their sources.

Conclusions

The objective of this report is to strengthen capabilities to combat illicit trade by demonstrating that corruption is a significant factor in the facilitation of illicit trade. It presents correlations between corruption, criminal activity and government policies to mitigate illicit trade, categorizes specific types of corruption that occur in illicit trade, and delineates trends and specific cases that illustrate the manifestation of corruption in illicit trade across multiple sectors including agrifoods, alcohol, fishing, forced labor, logging, wildlife, pharmaceuticals, pesticides, precious metals and gemstones, tobacco products, petroleum, and consumer products vulnerable to counterfeiting and piracy.

There is a deep intersection between corruption and illicit trade, with a long typology of corrupt actions emerging as primary facilitators of illicit trade. Moreover, it is evident that no sector vulnerable to illicit trade is immune from the effects of corruption, especially where there are readily available profits to be made, enabling criminal schemes to remain undetected across borders, and helping offenders evade the consequences of illicit trade.

As long as illicit trade persists as a significant part of global commerce, it will be critical to fortify policies and controls to prevent corruption and corrupt actors from compromising the integrity of the global supply chain.

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