

Policy Recommendations to Combat Illicit Trade

Inspired by the Global Illicit Trade Environment Index

Costa Rica

Introduction

To amplify the policy response to illicit trade, 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 formulate effective 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 Costa Rica.

Priorities for Costa Rica

- **Strengthen the enforcement capabilities of the Comisión Mixta.** Interagency coordination is crucial to tackle illicit trade. In Costa Rica, the public declaration on countering illicit trade created the Comisión Mixta contra Comercio Ilícito (Mixed Commission). This Commission coordinates Fiscal Police and Taxation and Customs Directorates to implement public policies against illicit trade; it must be empowered to more aggressively enforce anti-illicit trade regulations, especially in the areas of Intellectual Property Rights violations, untaxed and unregulated parallel (grey) market imports, illicit trade in tobacco and alcohol, and trafficking illicit products through Free Trade Zones (FTZ).
- **Upgrade public-private coordination.** Private companies actively engage in fighting illicit trade in Costa Rica, primarily through the Illicit Trade Observatory of the Chamber of Commerce of Costa Rica. The Comisión Mixta should increase opportunities for

partnerships with the Observatory and between all stakeholders (e.g. governments, brand owners and intermediaries) to better utilize investigative resources, data, and forensic capabilities provided by private companies affected by illicit trade.

- **Take strong and proactive measures to protect Costa Rica from imports from FTZs.** The FTZ of Colon (Panama) has become a transit hub for contraband, flooding neighbors in Colombia, Ecuador, Dominican Republic and Costa Rica with illicit consumer goods. While the General Directorate of Customs has legal authority to perform inspections in each FTZ under Costa Rica's Customs legislation, the inspection percentage of incoming products is only around 10%. Costa Rica should improve risk profiling of suspect shipments, implement “Know Your Customer” and “Due Diligence” measures, and require reporting from FTZs on tariff classification and information that identifies the owner of goods arriving from FTZs. Additionally, Costa Rica must adopt Annex D of the WCO Revised Kyoto Convention (RKC), which delineates measures the General Directorate of Customs can take to strengthen defenses of illicit trade in its own FTZs.
- **Tackle pervasive corrupt practices** that continue facilitate illicit trade, notably at the level of customs and law enforcement authorities. Increased automation in customs procedures can be effective in mitigating “opportunities” for corruption. Also, greater transparency in public procurement can limit corrupt practices and protect legitimate companies from financial loss and associated scandal. Addressing corruption must be tackled head on if strategies to combat illicit trade are to have any chance for success.
- **Increase the efficiency of customs procedures** to block the inflow of parallel (grey) market products into Costa Rica without paying taxes. These products tend to arrive from Poland (under the Free Trade Agreement) or via Free Trade Zones. While the current regulations have the capacity to block such imports—or to impose the proper taxes—there is little to no enforcement of these measures. Under-declaration and corruption of officials is also huge issue with imports of illicit products.
- **Strengthen criminal penalties.** Raising standards across the region should be a priority to prohibit illicit traders from exploiting the weakest penal regimes.
- **Strengthen IPR enforcement.** Costa Rica must make more progress on ensuring that government entities use only licensed software. In addition, steps must be taken against online markets that offer pirated works and counterfeits on their platforms. To improve border enforcement, Costa Rica should create a customs recordation system for trademarks, allowing Customs ex officio authority to inspect and detain goods.
- **Pursue law enforcement and customs cooperation within Latin America**, both bilaterally and within available multilateral mechanisms such as through an expanded initiative of the Pacific Alliance (Alianza del Pacífico) or through projects sponsored by the InterAmerican Development Bank (IDB) or the World Customs Organization (WCO).