

# Policy Recommendations to Combat Illicit Trade

*Inspired by the Global Illicit Trade Environment Index*

## Free Trade Zones

### 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 Free Trade Zones.

### Priorities for 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.

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.

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.

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

*We encourage policymakers 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.*