




Smuggling of goods



Definition and impact of smuggling of goods

The smuggling of goods constitutes one of the most neglected aspects of illicit trade in academia, and refers to a form of illicit trade that displaces “normally licit” goods ([WCO](#)) and more genuinely to the “contraband trade in excise goods” ([Lallerstedt, 2016](#)). For instance, a high luxury Louis Vuitton bag is counterfeited if it is illegally produced and resold by someone who does not own the mark. It would be considered smuggling if it was an authentic Louis Vuitton bag bought in a low-tax country and illegally resold in a country with higher prices.

Although the prevalence and exact scale of the smuggling of goods remain unknown, the consequences are widespread. An obvious impact is that once these products are smuggled at low prices into the market, the same product sold at the original price is ultimately less attractive, generating large losses in revenues for both law-abiding companies and governments. It has come so far as robbing governments of tax revenue, fueling corruption and terrorism, and subsidizing other forms of illicit trade such as drugs, arms and human trafficking ([TRACIT](#)).

Drivers and impact of smuggling of goods

According to the [World Health Organization \(WHO\)](#), the main causes of the smuggling of goods are as follows:

Causes	Enabling factors
<ul style="list-style-type: none"> • The industry blames differences in tax rates between countries and uses this (everywhere) as an argument against higher taxes. • The evidence does show that price and tax differences can motivate bootlegging by individuals, especially in border or transit areas. • But highly organized, large-scale smuggling is typically the main threat to the Government's tax base and to public health. 	<ul style="list-style-type: none"> • Weak governance/lack of high-level commitment. • Ineffective customs and excise administration. • Corruption and complicity of licit good manufacturers. Presence of informal sectors/distribution channels. • Population perceptions and socioeconomic status.

Causes and enabling factors of the smuggling of goods.

In this regard, the custom police and administrators are of paramount importance, as they are one of the most responsible actors in the collection of revenues across the globe. Many additional challenges arise as criminal groups increase their efforts in finding sophisticated methods to avoid taxes, including “deliberate under-valuation, misuse of origin to attract preferential rates, drawback fraud, mis-description and straightforward smuggling of excise goods” ([WCO](#)). Excise taxes are imposed when purchases are made on a specific good, often with the aim of reducing the consumption of such goods or protecting local markets ([IMF](#)). Non-compliance consequently results in weak global supply chains and losses in funding public services.

Commodity	Quantity (pieces)	Value (USD)	Quantity (pieces)	Value (USD)
	2012	2012	2013	2013
Pharmaceutical products	4,140,318	14,405,404	2,325,247,466	19,388,693
Electronic appliances	3,423,896	170,355,748	470,821,728	74,551,410
Other	17,722,180	121,548,149	95,242,873	56,865,587
Foodstuff	1,316,034	6,924,247	50,338,796	5,715,238
Clothing	12,090,266	111,511,445	32,877,929	115,400,776
Transportation and spare parts	4,120,790	27,887,278	17,957,325	13,945,339
Cigarettes	47,322	214,095	17,636,183	21,819
Accessories	6,712,922	426,677,500	10,079,064	229,781,652
Games and toys	3,505,486	22,649,732	5,750,377	28,882,956
Toiletries/cosmetics	3,268,255	60,318,717	5,663,822	65,590,057
Mobile phones and accessories	1,736,595	21,293,090	3,783,787	24,427,504
Footwear	2,352,318	69,881,973	3,139,816	112,530,010
Computers and accessories	848,578	11,493,152	2,227,604	22,461,541
Textiles other than clothing (towels, bed sheets etc.)	4,106,207	8,653,485	1,716,023	7,916,642
Watches	602,911	391,236,132	1,510,171	229,694,582
Phonographic products	3,929,684	6,483,568	736,330	6,112,419
Soft drinks	0	0	11,580	22,168
Alcoholic beverages	24,041	118,340	9,864	179,522
Total	69,947,803	1,471,652,055	3,044,750,738	1,013,487,915

Intellectual Property Infringing Detentions Reported by National Customs Organizations to the World Customs Organization.

Source: [Lallerstedt, 2016](#)

Typology of popular smuggled goods

A report led by the [Royal United Services Institute for Defence and Security Studies](#) indicated that the three main areas of smuggling of goods - tobacco, alcohol, and pharmaceuticals - are becoming increasingly linked to organized crime. An additional area concerned is that of trafficking in cultural goods.

- **Tobacco:** The illicit trade in tobacco products is perhaps the most well-documented sector in the shadow economy ([OECD](#)). The term refers to “any practice or conduct prohibited by law which relates to shipment, receipt, possession, distribution, sale, or purchase of tobacco products including any practice or conduct intended to facilitate

such activity” ([U.S. Department of State](#)). It costs an average of USD 40.5 billion in tax revenue ([Joossens et al., 2009](#)).

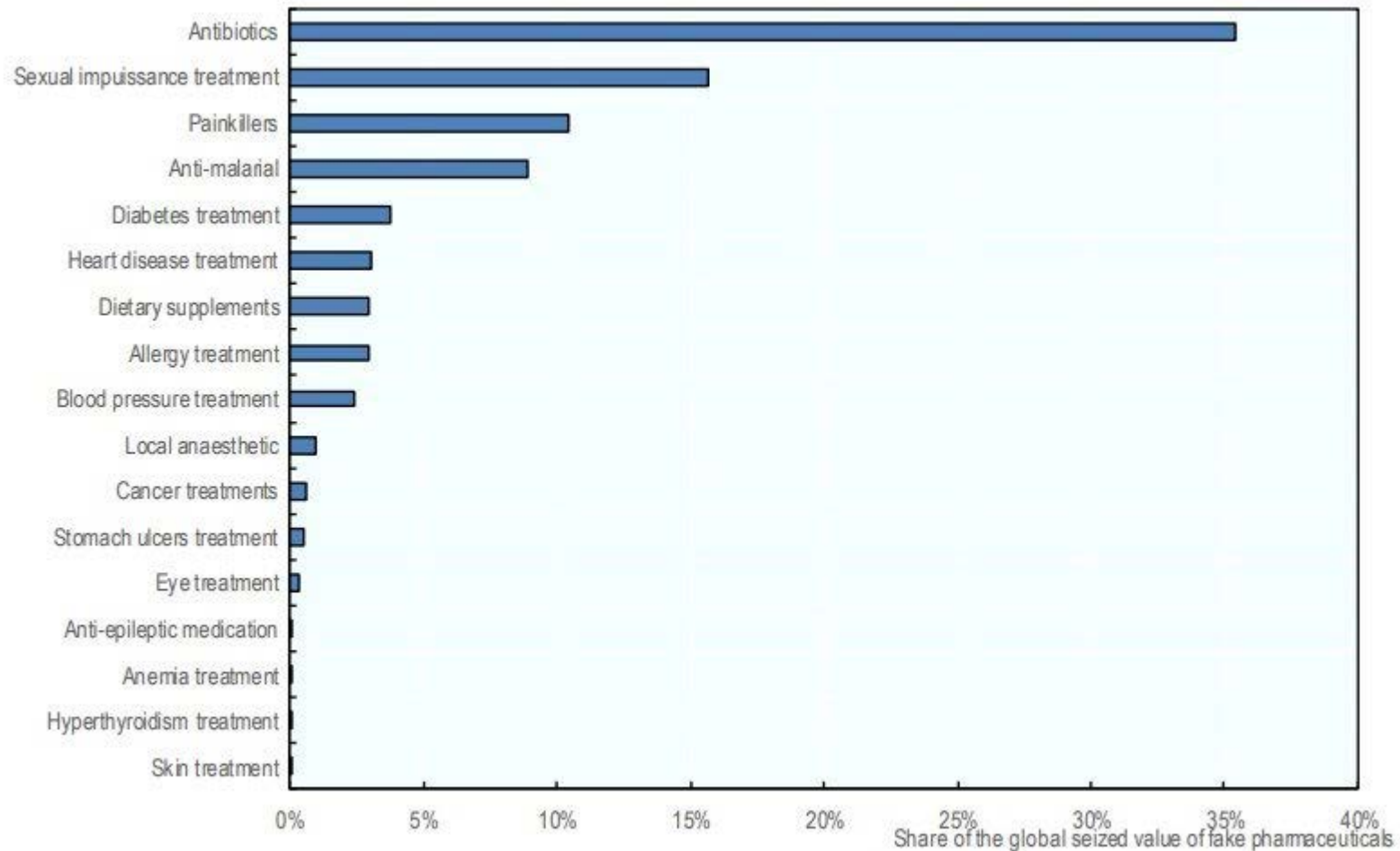
Euromonitor estimates	Retail Sales volume (Billion Sticks)	Illicit Trade Share (% retail sales)	Illicit trade volume (Billion Sticks)
Asia and the Pacific	3,474	8.4%	291
Eastern Europe	701	8.4%	59
Latin America	252	16.7%	42
Middle East & Africa	405	10.6%	43
North America	343	7.9%	27
Western Europe	562	8.7%	49
World	5,152	9.0%	462

Regions most affected by the illicit trade in tobacco.

Source: [WHO](#)

- **Alcohol:** The illicit trade in alcohol represents a significant percentage of worldwide consumption with a sharp 25.5% of total world consumption in the form of unrecorded alcohol that is said to increase by 2% in 2020, generating over USD 19.4 billions in sales ([WHO](#)). It is not typically contained within one single definition and is rather categorized as contraband alcohol, [...], illicit artisanal alcohol, tax leakage alcohol and non-conforming alcohol. (To know more about the illicit trade of alcohol, visit: [OECD](#))

- **Pharmaceuticals:** The illicit trade in pharmaceuticals includes “substandard, [...], unregistered and unlicensed drugs as well as their theft, fraud, illicit diversion, smuggling and trafficking” ([TRACIT](#)). Its worldwide sales are said to amount between USD 75 to 200 billion each year ([WHO](#)). The [WHO](#) categorized the illicit trade in pharmaceuticals as substandard (or "out of specification"), unregistered or unlicensed pharmaceuticals. (To know more about the illicit trade in pharmaceuticals, visit [TRACIT](#)).



Types of pharmaceuticals smuggled.

- **Cultural goods:** The trafficking in cultural goods, which refers to the “illicit import, export and transfer of ownership of cultural property, (i.e. items being of importance for archeology, prehistory, history, literature, art or science). Often this is the result of the impoverishment of the cultural heritage of the country of origin of such property ([European Commission](#)). According to the [UNODC](#), it represents between USD 3.4 and 6.3 billion of illicit trade every year.



Sources of cultural goods trafficking.

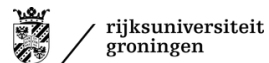
The smuggling of goods is said to have a large economic impact on the global economy, generating large losses in tax revenue worldwide. They “reduce governments’ revenues, and undermine the rule of law, jeopardise the economic sustainability of private companies in the alcohol sector and its supply chain and disadvantage the population in general through the loss of jobs and deterioration of the environment” ([OECD](#)).

References

Ellis, C. (2017). On Tap Europe. *Organised Crime and Illicit Trade in Tobacco, Alcohol and Pharmaceuticals*, RUSI Whitehall Report, 2-17.

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