

transcrime

Università Cattolica del Sacro Cuore
Università degli Studi di Trento

THE FACTBOOK ON THE
ILLICIT TRADE IN TOBACCO
PRODUCTS

directed by: Ernesto U. Savona

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Ireland

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Transcrime is the Joint Research Centre on Transnational Crime of Università Cattolica del Sacro Cuore of Milan and the University of Trento. The Centre, directed by Ernesto U. Savona, Professor of Criminology at Università Cattolica, represents the multiannual union between experience and innovation in the field of criminological research.

There are offices in Milan and in Trento. In each office there is a team of researchers and secretariat/management personnel. Transcrime aims at being a national and international point of reference in the criminological field.

The vision of the Centre is to increase knowledge in the criminological field and in the prevention of crimes, developing innovative ideas and cutting-edge techniques.

Transcrime combines its experience in applied research with the consolidated scientific tradition of Università Cattolica del Sacro Cuore in Milan and University of Trento, mixing a practice-oriented approach with a profound understanding of criminal phenomena.

Through this experience, it developed a solid network of relationships in the academic field, institutions, international organisations and businesses.

The Centre also plays an important role in the support and development of educational activities at Università Cattolica del Sacro Cuore of Milan. Its principal aim is to achieve close integration between scientific innovation and academic education. In particular, since the academic year 2005/06, Transcrime has managed a MA programme dedicated to crime and security (until academic year 2012/13 the curriculum *Crime&Tech: Crime Sciences and Technologies for Security* within the MA in Applied Social Sciences; since the 2013/14 academic year Curriculum *POLISI: Policies for security* within the MA in Public Policy). In addition, the Centre has contributed to the development of the International Ph.D. programme in Criminology, coordinated by Professor Savona, which is currently the only doctoral course dedicated to Criminology in Italy.

Transcrime is an independent academic centre. It pursues an autonomous research agenda, which may be developed also through contracts and funding by private and public local, national and international institutions. The source of funding is always made public through Transcrime's website.



THE FACTBOOK ON THE ILLICIT TRADE IN TOBACCO PRODUCTS

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products* (henceforth ITTP).

The project has been developed by Transcrime after the *Round Table on Proofing EU Regulation against the Illicit Trade in Tobacco Products* hosted by Università Cattolica of Milan, on 5 May 2011. During the Round Table, participants (researchers and policymakers with experience in the field of the illicit trade in tobacco products) agreed on a research agenda concerning the ITTP (Transcrime 2011b). Items 3 and 6 of the research agenda focused on the need for better analysis of the tobacco market taking account of its dual nature (i.e. legal and illicit) and on how licit and illicit markets vary across different countries and regions. Given these considerations, Transcrime has developed the Factbook on the ITTP, a multi–annual research plan providing detailed analyses of the ITTP and of its relations with the legal market and other socioeconomic and political factors in a number of countries around the world.

The aim of the Factbook is to provide an innovative instrument able to shed light on the complex mechanisms behind the ITTP in different countries.

This report focuses on Ireland. Given the close geographical, social, economic and cultural connections, it also focuses, where appropriate, on Northern Ireland, a part of the United Kingdom.¹

Tobacco consumption is undoubtedly a danger for human health, and governments should carefully regulate the tobacco market. Illicit tobacco avoids state regulation and taxation and may jeopardize tobacco control policies.

The Factbook will contribute to raising awareness about the global importance of the ITTP and about the strategies available to prevent it. The Factbook has been developed for a wide readership ranging from policymakers, through academics, to interested stakeholders, **the intention being to provide a support to develop knowledge-based debates and policies on the ITTP.**

The information gathered for this report originates from academic literature, grey literature, open sources, questionnaires and interviews with experts and stakeholders. While there are some studies on the ITTP in Ireland, the data–gathering phase of the projects encountered major difficulties due to the number of sources, institutions and stakeholders involved.

The results of the report do not claim to be exhaustive, nor an accurate reflection of criminal practices. They provide an initial assessment of the ITTP in Ireland and a starting point for future research.

As a concerned stakeholder in the fight against the illicit trade in tobacco products, Philip Morris International (PMI) welcomed Transcrime’s initiative to develop the Factbook on the ITTP with financial support and the provision of relevant data. However, Transcrime retained full control and stands guarantor for the independence of the research and its results. Information and data for the study have been collected by Transcrime and have not been shared with PMI.

1. The first country profile of the project The Factbook on the ITTP focused on the UK and was released in January 2013. See <http://transcrime.cs.unitn.it/tc/1104.php>.



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Spokesperson, Retailers Against Smuggling), **Deirdre Healy** (CA Director at John Player/Imperial Tobacco, ITMAC), **Will O'Reilly** (former Detective Chief Inspector, Scotland Yard) and **John Whiting** (Assistant Director HMRC Criminal Investigation Carne House).



This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products*. It focuses on Ireland, where the illicit trade in tobacco products has been an important concern since 2007–2008. According to unofficial estimates, 29.7% of total tobacco consumption was illicit in 2012, when Ireland ranked 3rd (after Latvia and Lithuania) among 22 European countries for illicit tobacco penetration (Euromonitor International 2013a). To tackle the ITTP, the Revenue Commissioners have launched the Revenue’s Strategy on Combating the Illicit Tobacco Trade (2011–2013), the aim of which is to deter people from buying illicit trade products and to reduce their availability. Given the close geographical (shared land border), social, economic and cultural connections, the report also focuses, where appropriate, on Northern Ireland, a part of the United Kingdom.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters:

- Chapter one deals with the **five drivers of the ITTP**: society and economy, the legal market, regulation, the crime environment and enforcement. ***The drivers are important areas whose structures may positively or negatively impact on the ITTP. To enable comparison with other country profiles, five key indicators have been selected for each driver.*** The data for the driver indicators come from comparable sources (last available years). When possible, the report provides the most up-to-date data from national sources.

- Chapter two focuses on the **four components of the ITTP**: demand, products, supply, *modus operandi* and geographical distribution.
- Chapter three identifies the **key factors of the ITTP in Ireland and frames the drivers in the components**, analysing how different elements of the drivers influence the components of the ITTP.

THE FIVE DRIVERS

- **Society and economy:** Ireland is one of the last countries in Western Europe to become multicultural. From 1994 to 2007 Ireland experienced an economic boom that earned it the name of the “Celtic Tiger”. The global financial crisis severely affected the country, but Ireland showed great capacity for recovery. The effects of the crisis, however, are still apparent: Ireland has high unemployment and the largest public debt among the EU Member States. However, consumption expenditures have slightly increased.
- **Legal market:** Ireland has not been a cigarettes producer since 2006. Factories moved to Northern Ireland, owing to its lower production costs. The only remaining facility produces HRT. Ireland has the second highest cigarette prices in Europe. Tobacco consumption has declined, and the market has entered a downtrading trend, with smokers switching to cheaper products.

- **Regulation:** the tobacco market is highly regulated in Ireland, which was the first country in the world to ban smoking in all indoor places in 2004. Tax incidence is high. There is a high level of supply chain control and on tobacco consumption, as well as on tobacco advertising and promotion.
- **Crime environment:** Ireland has low crime levels. There are various organised crime groups and paramilitary groups operating within the country. The level of corruption is low. Drug use in the country is relatively high, if compared to other countries (6.3% for cannabis, 1.7% for cocaine and 0.7% for opioids). This signals that illicit distribution networks may provide opportunities for illicit traffic, from drugs to illicit tobacco.
- **Enforcement:** Ireland has efficient law enforcement with an average number of police officers and low rates of judges and prison population. The Government is taking specific actions against the illicit trade in tobacco, and there is a medium–high level of anti–ITTP action.

8 THE FOUR COMPONENTS OF THE ITTP

- **The demand:** the main causes of the demand for illicit tobacco are the low prices in comparison to the price of legal product and its availability. Illicit cigarettes cost half the legal price (or slightly more). Consumers are mainly working–class males between 18 and 39 years old or under–age people.
- **The supply:** the supply of illicit tobacco is influenced by its high profitability, with relatively low risks of detection and conviction. There is a wide variety of actors involved in ITTP, such as serious organised crime groups, based in both Ireland and Northern Ireland, foreign–based groups, opportunistic groups, and individual bootleggers.
- **The products:** the Revenue Commissioners report official estimates of the illicit tobacco market. KPMG Star Report provides a further assessment of the illicit market. In addition, there are various unofficial estimates. The main illicit products are illicit whites (according to seizures and interviews with experts) and contraband cigarettes (according to Empty Pack Survey data). Counterfeit cigarettes are not widespread and have a low incidence.

- **Modus operandi and geographical distribution:** the *modus operandi* of the illicit tobacco trade varies according to the type of trade, the destination, and the level of controls. In Ireland, ports are crucial for the ITTP, but smugglers also use air transport, small vehicle transport, and postal transport. The consumption of non–domestic tobacco varies among the different areas of the country.

FRAMING THE COMPONENTS IN THE DRIVERS

The five key factors of the ITTP

The report identifies five key factors of the ITTP in Ireland. They are fundamental determinants of the illicit trade and affect all its components. Hereafter, four subsections analyse how the five drivers impact on the key factors and in turn the components of the ITTP. The key factors are:

- **Accessibility:** the price of illicit tobacco, and particularly its relative price compared to legal products, is a crucial factor in determining the scope and prevalence of the ITTP.
- **Availability:** the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP.
- **Profitability:** the ITTP is an extremely profitable activity owing to the high income that it offers compared with the operational costs.
- **Risk:** the threat of *detection/accusation/conviction* and the sanctions imposable impact on the diffusion of the ITTP.
- **Opportunity:** the ITTP exploits different opportunities in society, the market, the crime environment, and the law enforcement system.

This study analyses the complex interactions among the drivers, the key factors and the components of the ITTP. The following figures synthesise the main interactions, highlighting the multifaceted nature of the ITTP in Ireland.

Figure 1. The interaction between the demand for illicit tobacco and the five drivers
 Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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The demand for illicit tobacco and the drivers

The main factors affecting the demand are the **accessibility** and the **availability** of illicit tobacco (Figure 1).

Society and economy. In 2008–2009, the global financial crisis provoked major economic difficulties for Ireland. Nevertheless, household expenditure slightly increased. Expenditure on cigarettes increased as well, but consumers switched to cheaper products (downtrading). The high price of legal cigarettes and the low price of illegal ones may induce lower income groups to switch to illicit tobacco in order to maintain their habits.

Legal market. Ireland has the second highest cigarette prices among the European countries. Tobacco consumers are changing their habits and shifting to cheaper products, such as HRT. This trend may also include illicit tobacco, which is widely available in Ireland.

Regulation. Tax incidence on tobacco products in Ireland is high. This may affect the demand for cheaper illicit tobacco. Furthermore, the proposed introduction of plain packaging may reduce consumers' capacity to spot counterfeits as well as the differentiation between genuine and counterfeit products. This may increase the demand for illicit tobacco.

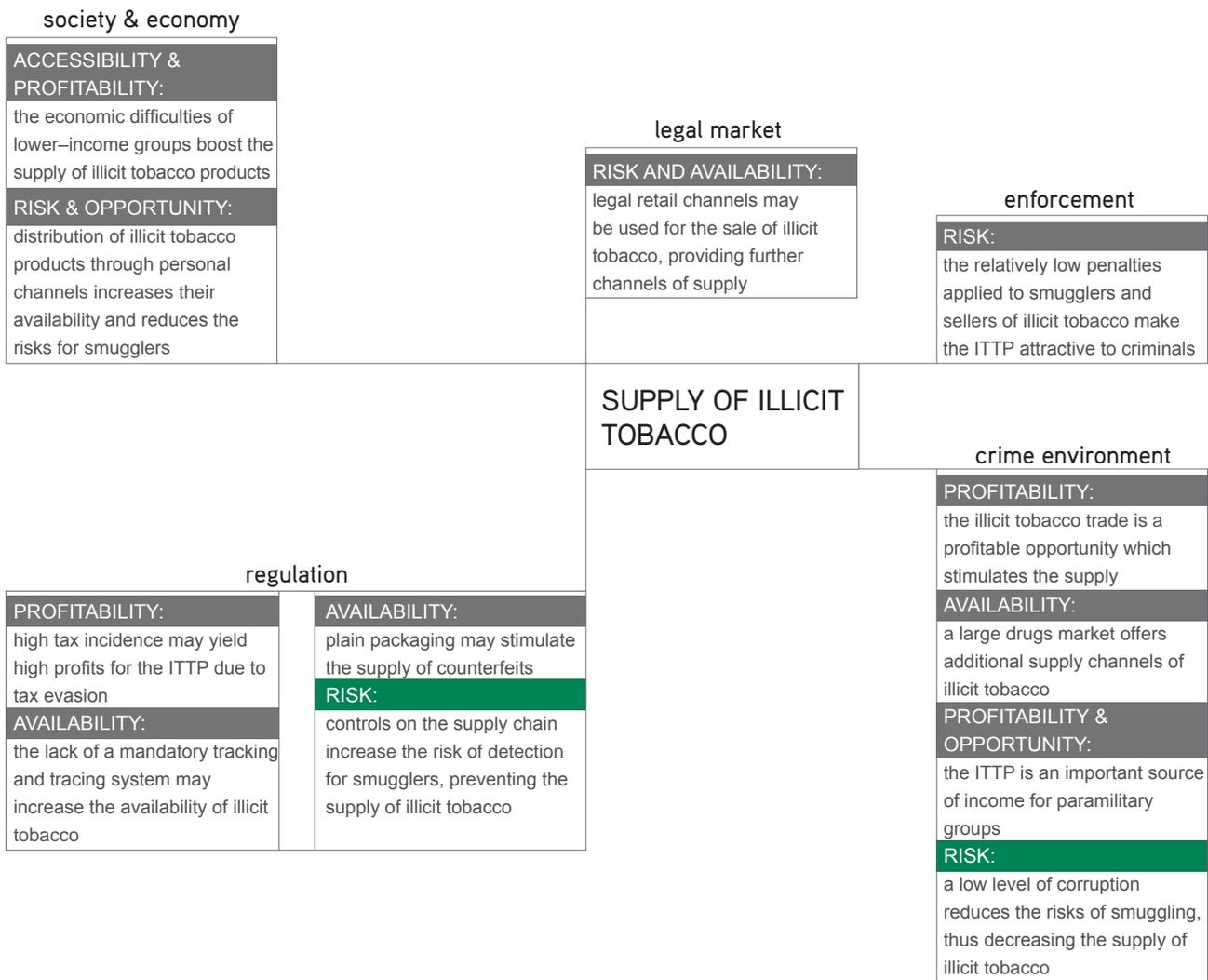
Crime environment. Ireland has relatively high levels of drug consumption and a large drugs market. The annual prevalence of cannabis (6.3%), cocaine (1.7%) and opioids (0.7%) is high if compared with other countries. A high demand for illicit commodities, such as illicit substances and drugs, may increase the availability of smuggled tobacco.

Enforcement. The criminal penalties against the ITTP appear to be mild in Ireland. Furthermore, there are no fines for the purchase/possession of illicit tobacco and no public awareness campaigns funded by the Government. These factors may prevent the reduction of consumption of illicit tobacco.

Figure 2. The interaction between the supply of illicit tobacco and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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The supply of illicit tobacco and the drivers

Risk, profitability and availability are important factors in the supply of illicit tobacco (Figure 2).

Society and economy. Economic difficulties and the crisis may provide incentives for participation in the ITTP. Illicit cigarettes can be easily purchased in street markets or through personal channels, and this may reduce the risks for smugglers.

Legal market. Illicit tobacco can be available in certain pubs, street markets, willing retailers and from street or door-to-door dealers. Ireland has the second highest cigarette prices among the European countries. As a consequence, the Irish market has entered a downtrading trend, with people switching to cheaper cigarettes and to HRT. The growing demand for HRT may increase the availability of illicit HRT in forthcoming years.

Regulation. High tax incidence, implementation of a display ban at all tobacco points of sale, and the lack of a tracking and tracing system may increase the availability of illicit tobacco. However, measures such as mandatory licensing for tobacco retailers and manufacturers and customer identification during tobacco sales transactions may decrease the availability of illicit tobacco and increase the risks for smugglers. The proposed introduction of plain packaging, potentially in 2014, may increase the availability of smuggled tobacco products.

Crime environment. Ireland has low levels of corruption and a relatively limited presence of organised crime activity. This may reduce opportunities to smuggle tobacco and increase the likelihood of detection/accusation/conviction of potential smugglers. Conversely, paramilitary groups are involved in ITTP and the existence of consolidated smuggling routes as well as of a large drugs market may positively affect the supply side of the illicit tobacco trade.

Figure 3. The interaction between the products and the five drivers
 Source: Transcrime elaboration



Enforcement. In Ireland, criminal law seems to have a limited deterrent effect. In a serious case of ITTP, the suspects may face a fine of up to €126,970 (or a maximum of three times the evaded duty) or a term of imprisonment not exceeding five years, or both. Furthermore, there is no minimum fine, and the fines imposed in practice are low compared with the maximum imposable fines.

The products and the drivers

The main factors determining the development and diffusion of different types of products are **opportunity** and **risk** (Figure 3).

Society and economy. Social, cultural and economic factors affect the types of illicit products consumed by smokers. For example, HRT is a growing product due to its cheaper price. This may increase the supply of illicit HRT.

Legal market. HRT consumption has increased, and smugglers seem to adapt to this growing demand by increasing the trade of HRT.

Regulation. The absence of a national tracking and tracing system may favour different types of ITTP. This loophole can make it more difficult to spot counterfeit products. Further, the introduction of plain packaging may stimulate the diffusion of counterfeit products.

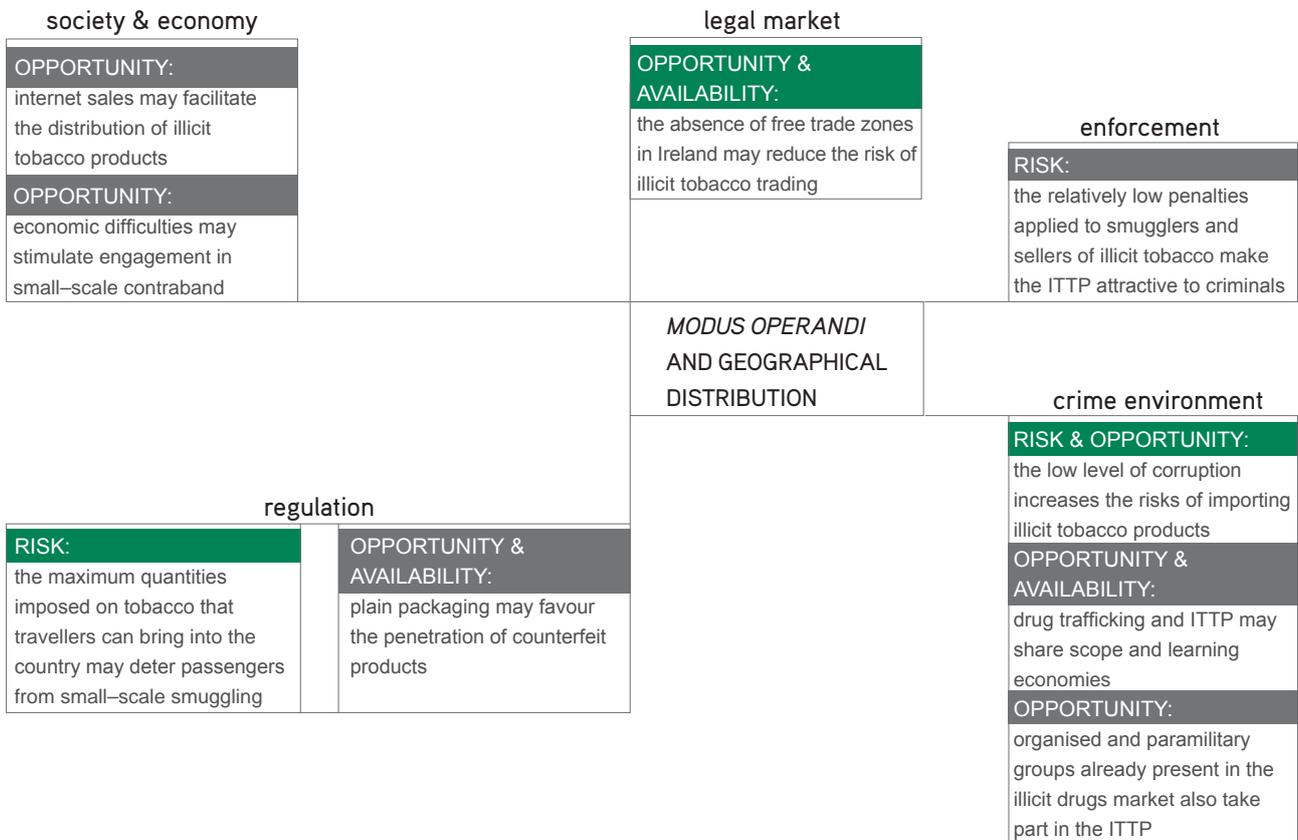
Crime environment. Contexts of the informal economy, like street markets, facilitate the sale of illicit tobacco products. Street markets are a feature in Ireland, and it is difficult to control the activities of all street retailers.

Enforcement. There are no formal international cooperation agreements with other countries. However, the authorities of the Republic of Ireland and Northern Ireland are working closely to fight the illicit trade.

Figure 4. The interaction between the *modus operandi* and geographical distribution of the ITTP and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP)
positive effect (decreases the ITTP)



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The *modus operandi* and geographical distribution and the drivers

Opportunity and **risk** play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP (Figure 4).

Society and economy. People in Ireland have started using the Internet to buy cheaper tobacco products. The websites are often registered abroad and not subject to Irish regulation. High levels of unemployment and the financial crisis have stimulated small-scale smuggling.

Legal market. Ireland has no Free Trade Zones. The Shannon Free Trade Zone is just a government owned developed company for a region.

Regulation. The presence of rules and restrictions on the personal transportation of tobacco products in Ireland may deter travellers from illegal imports, small-scale smuggling, and bootlegging. Further, the proposed introduction of plain packaging may favour the penetration of counterfeit products.

Crime environment. Smugglers may import illicit tobacco products through the same channels as drugs. Various actors participate in the ITTP, such as occasional smugglers, professional bootleggers, Irish and foreign criminal organisations, and paramilitary groups.

Enforcement. In Ireland, new forms of ITTP have emerged in recent years and made new products available. Only the three major Irish ports are staffed by law enforcement and have detection devices available. This may create new opportunities for smugglers.

Conclusions

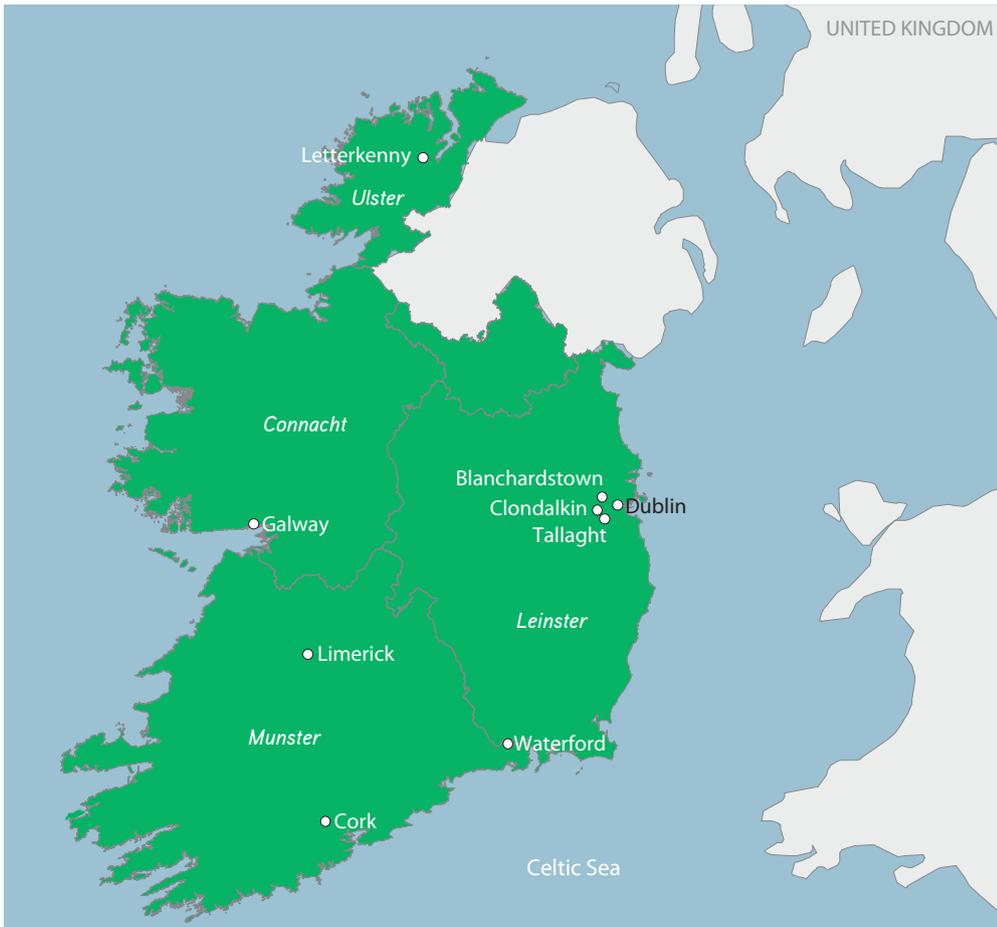
The Revenue Commissioners provide official estimates of ITTP in Ireland. Another source is the KPMG Star Report, which estimates the ITTP penetration in all the EU countries. Further, there are also unofficial estimates, which furnish different figures. Despite discrepancies, the illicit tobacco trade in Ireland appears to be high if compared with other European countries. According to various sources, the ITTP consists mainly of contraband products and illicit whites.

The results of the study show the need for more data and research. Required in particular is investigation of the demand for illicit products and the types of products. First, there is no research on the consumers of illicit tobacco, and this makes it difficult to determine what drives the demand for cheap tobacco. Further, there is no agreement on the most widespread types of illicit tobacco, and there are difficulties in distinguishing between non-domestic legal and illegal cigarettes. Furthermore, additional research is needed to assess the impact of new policy measures, such as plain packaging.

The ITTP is a complex problem, not limited to an issue of law enforcement and criminal justice policy alone. According to the Revenue Commissioners, government measures halted the growth of the ITTP in 2009 and 2011. However, other sources report an increase in the ITTP in recent years. Additional preventive measures, such as a national public awareness campaign and a mandatory tracking and tracing system for all manufacturers, may be necessary. Effective action against the ITTP requires comprehensive strategies including criminal law, administrative sanctions, and other indirect measures aimed at reducing crime opportunities.

The evolution of the project showed that countries have very different situations in relation to the available data on the ITTP. In some cases, the quality of the available data is low and there are no official, regularly updated, data. Inevitably, this may affect the quality and reliability of the results. In these cases, institutions, businesses and other stakeholders concerned by the ITTP should consider how to improve the data collection on illicit tobacco. This will result in an improvement in the knowledge of the ITTP and, in turn, in better tobacco control policies, since quite often the impact of specific policy measures upon crime may be overlooked due to the lack of reliable data.

Following the completion of the first phase of the project focused on collecting facts and data through the country profiles, Transcrime will perform a comparative analysis of the selected countries. This will provide additional insights in the complexity of the ITTP and allow for the elaboration of policy recommendations.



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Location:

Ireland is an island in the North–Western Europe. It is the third largest island in Europe and it is surrounded by the Irish Sea. To the East of Ireland, there is the island of Great Britain. Politically, Ireland is divided between the Republic of Ireland and Northern Ireland (which is formally part of the United Kingdom). The Republic of Ireland is divided in four regions and in twenty–six traditional counties.

Population: 4,576,317 (2011)

Male: 2,290,447 (50.05%)

Female: 2,285,870 (49.95%)

Growth Annual Rate: 0.28% (2011)

Age Structure: (0–14) 21.33%; (15–64) 66.77%; (65+) 11.90%

Fertility Rate: 2.05 children born/woman (2011)

Life expectancy at birth (years): 80.5 (2011)

GDP: \$ 217,274,951,000 (2011)

GDP growth: -0.7% (2011)

Inflation consumer price: 2.6% (2011)

Income level: High

WHY FOCUS ON THE ITTP IN IRELAND?

The Republic of Ireland (henceforth Ireland) is geographically part of Ireland, the second biggest island of the British Isles. The Republic of Ireland borders with Northern Ireland, which is part of the United Kingdom. Owing to its geographical position, Ireland is primarily a destination for ITTP, but it is also a country of transit towards Northern Ireland and the UK.

The Revenue Commissioners provide official estimates on the ITTP. According to these estimates, 13% of Ireland's total cigarettes market was illicit in 2012 (Revenue Commissioners 2013a). Another source is the KPMG Star Report, which estimates the illicit market at 19.1% of the total consumption (KPMG 2013). There are also unofficial estimates. These show that the ITTP increased in 2007–2008, after increases in tobacco tax incidence, and would reach 29.7% of the total market in 2012 (Euromonitor International 2013a). This would make Ireland 9th out of 80 countries in terms of the illicit trade in 2012, 3rd among 22 European countries (Euromonitor International 2013a). Ireland has a high level of tax incidence on tobacco products, the second highest cigarette retail prices among EU countries, and a high level of unemployment. These factors make the country vulnerable to the illicit tobacco trade.

In 2011, the Revenue Commissioners launched the *2011–2013 Strategy on combating the illicit tobacco trade* (Revenue Commissioners 2011a). It aims to deter the purchase of illicit trade products and to reduce their availability. In the long term, the Strategy will increase the amount of tax and duties paid, protect legitimate businesses, and deter criminal activity. This demonstrates the Government's commitment to combating the ITTP.

The report also provides information about the ITTP in Northern Ireland, part of the UK. The close geographical, social, economic and cultural connections between the two countries require the joint analysis of specific issues.

Tobacco is a dual market consisting of a legal and an illegal part (Figure 5). The two sides of the market are connected with each other: actions affecting one side of the market influence the other side as well.

The ITTP comprises different activities and products:

Smuggling (or contraband): the unlawful movement or transportation of tobacco products (genuine or counterfeit) from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export (Joossens and Raw 2008).

Counterfeiting: the illegal manufacturing of a product bearing or imitating a trademark without the owner's consent. Illegally manufactured products can be sold in the source country or smuggled into another country (Joossens and Raw 2008).

Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal resale of these products in a high-tax country. Bootlegging concerns individuals or small groups who smuggle small quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income (Hornsby and Hobbs 2007).

Unbranded tobacco: manufactured, semi-manufactured and even loose leaves of tobacco (also known as "chop-chop" (Geis 2005)), illegally sold by weight (e.g. in large plastic bags, also known as "baggies"), with no labelling or health warnings and consumed in roll-your-own cigarettes or in empty cigarette tubes (Walsh, Paul, and Stojanovski 2006).

Figure 5. The dual tobacco market



Cheap Whites or Illicit Whites: cigarettes produced legally in one country, but normally intended for smuggling into countries where there is no prior legal market for them. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Allen 2011).

Illegal manufacturing: cigarettes manufactured for consumption, which are not declared to the tax authorities. These cigarettes are sold without tax and may be manufactured in approved factories or illegal covert operations (Joossens et al. 2010).

Studies on the ITTP in Ireland are provided by official and unofficial sources. However, the official source is available only since 2009, which has limited the inquiry. The main sources used by this study have been the Revenue Commissioners data on ITTP and on illicit tobacco products seizures, KPMG and Euromonitor International data, empty pack surveys commissioned by the tobacco industry, interviews with officials, key informants, and media news. Unofficial sources are treated with caution to minimise the impact of their possible bias.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters.

Chapter 1 is composed of five subsections analysing the **five drivers of the ITTP:**

- 1) society and economy
- 2) the legal market
- 3) regulation
- 4) the crime environment
- 5) enforcement

The drivers are important areas whose structures may influence the ITTP positively or negatively. Transcrime selected the drivers based on a review of the literature on the ITTP and discussions with stakeholders and experts. Each subsection provides information on the key aspects of each driver.

To enable comparison with other country profiles, each driver has five key indicators. The data for the drivers' indicators come from different sources, to ensure comparability among different countries to the last available years (e.g. World Bank, WHO, UN). When possible, the report provides the most up-to-date data from national sources. For four indicators, Transcrime has elaborated composite indicators (see Regulation p. 35 and Enforcement p. 49). Composite indicators assess the presence of specific policy measures in the country and range from 0 (no measure is present) to 5 (all measures are present). A higher value on the composite indicators does not always imply a better situation. Their purpose is rather to assess the intensity of policy measures in a specific field. The information used for the assessment is drawn from the literature, official sources (reports, websites, legislation) and experts.

Chapter 2 analyses the illicit trade in Ireland, dividing it into its **four components of the ITTP:**

- 1) the demand
- 2) the supply
- 3) the products
- 4) the *modus operandi* and geographical distribution.

Chapter 3 combines the results of the two previous chapters to identify the key factors behind the ITTP and show how the various elements of the drivers influence the illicit trade.

Chapter 1

the five drivers

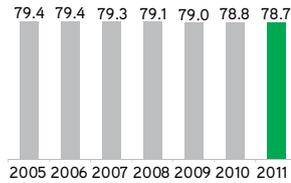
THE FIVE DRIVERS: SOCIETY & ECONOMY

After an economic boom between the mid-1990s and the 2000s, Ireland has been severely affected by the global financial crisis. It has shown a great capacity for recovery. Household expenditure has slightly increased, but unemployment and the public debt are still high.



Adult Population

Population aged 15+
Source: The World Bank



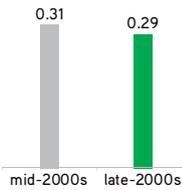
78.7%

65 out of 193 countries
(2011)



Income Inequality

GINI coefficient after taxes
Source: OECD



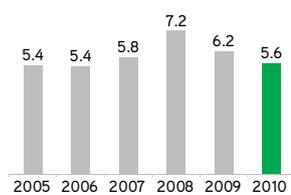
0.29

22 out of 34 countries
(late 2000s)



Education System

Education expenditure
as % of GDP
Source: The World Bank



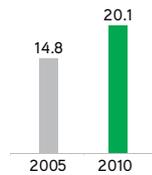
5.6%

15 out of 157 countries
(2010)



Migration

International migrant stock
as % of population
Source: The World Bank



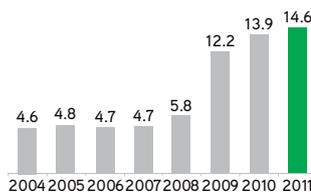
20.1%

37 out of 213 countries
(2010)



Unemployment

Total unemployment
rate (% of labour force)
Source: OECD



14.6%

3 out of 34 countries
(2011)

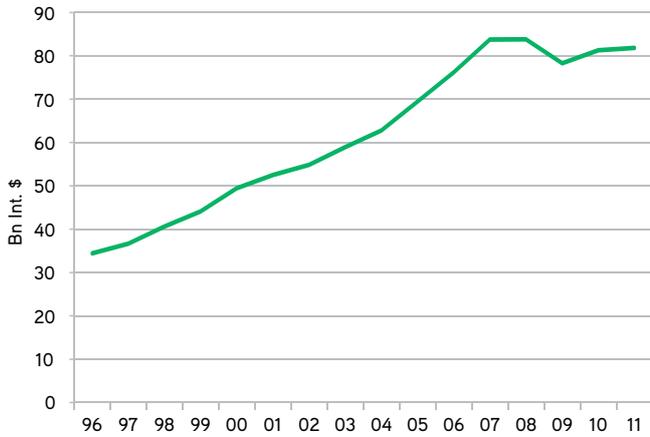


Last national available data (May 2013): **13.7%** (Central Statistics Office 2013e)

- **Ireland experienced an economic boom between the 1990s and the 2000s.**
 - From 1994 to 2007 Ireland experienced an economic boom, which earned it the name of the “Celtic Tiger”. Yearly GDP growth averaged 7% and per capita incomes exceeded the EU average to reach “the fourth highest level of GDP per capita in the OECD” (OECD 2011, 5).
 - The economic expansion, since 2001 was mainly based on construction, credit and consumption. This resulted in an unbalanced growth. In the second half of the 2000s the burst of the property bubble had serious economic consequences.
 - Between 2004 and 2006 a growth of around 30% was recorded in bank lending fuelling further the construction boom of the 2000s. The main reasons for this increase were low real interest rates and an integrated financial market. Credits grew more than deposits, and Irish banks started to borrow resources from abroad to finance the property boom. In 2005–2009, the nation borrowed about 4% of the national income from abroad (Department of Finance 2012c).
 - In 2008–2009 the global financial crisis exacerbated these difficulties and Ireland entered a recession. GDP decreased by 5.2% in 2008, 9.8% in 2009 and 3% in 2010 (Central Statistics Office 2011, 17). The situation changed in 2011, when GDP grew by 1.6% (Central Statistics Office 2011, 17). Preliminary estimates indicate that GDP increased by 0.9% between 2011 and 2012 (Central Statistics Office 2013a).
- **Ireland showed great capacity of recovery from recession.**
 - The government reacted by recapitalising the banks through public funds in 2009. The National Asset Management Agency (NAMA), a state bank, played an important role in cleaning up the bank system. It forced banks to concentrate on new lending, acknowledging their losses. NAMA acquired 11,500 property development–related loans, with nominal loan balances of €71.2 billion. It paid a consideration of €30.2 billion, a discount of 58%, in return for NAMA bonds. The government used bonds as guarantee for the European Central Bank (OECD 2011, 19).
- The public debt increased due to the financial crisis and state support for the banking sector. It rose from 25% to 108% of GDP between 2007 and 2011. **Ireland has the highest public balance deficit among EU Member States, just above 13% of GDP (Central Statistics Office 2011, 22).**
- However, NAMA interventions were insufficient. In 2010 Ireland entered the EU–IMF Programme of Support, receiving €67.5 bn on the basis of specific conditions (Department of Finance 2012c).
- The government implemented further austerity measures in order to meet the EU–IMF conditions, such as pay reductions for all public servants (CIA 2012).
- According to the chief economist of the Bank of Ireland, Dan McLaughlin, the GDP will grow by 1.5% in 2013 (Percival 2013). However, preliminary estimates for the first quarter of 2013 show that GDP declined by 0.6%, if compared to the fourth quarter 2012. Further, GDP decreased by 0.9%, if compared with the first quarter of 2012 (Central Statistics Office 2013b).
- **Ireland is increasing its exports.**
 - The European Commission forecasts an increase of Irish exports amounting to around 110% of GDP in 2013. In particular there will be a concentration of services and technology exports (Department of Finance 2012c, 43).
 - Ireland is a country promoting entrepreneurship. It ranked 10th in the World Bank’s 2012 Ease of Doing Business Index (The World Bank 2012).
 - According to the Human Development Report, Ireland has the 7th Human Development Index (HDI) out of 187 countries in 2011 (UNDP 2011). In 2012, Ireland ranks again 7th out of 187 countries in HDI (UNDP 2013).
- **The country still shows signs of difficulties (employment rate and internal demand).**

Figure 6. Household final consumption expenditure, PPP (constant 2005 International \$) (1996–2011)

Source: Transcrime elaboration of World Bank (2012) data



- Unemployment is high. Ireland ranks 3rd among the OECD countries, with an unemployment rate of 14.6% in 2011 (OECD 2012a). In January 2013, the rate was 14.6%, and the figure was stable after January 2012 (14.9%) (Central Statistics Office 2013c). In May 2013, the standardised unemployed rate was 13.7%, slightly changed from the revised February 2013 rate (14.0) (Central Statistics Office 2013e). Forecasts for 2013 are negative, estimating that the unemployment rate will reach 15% (Percival 2013).
- The decline in labour–market participation mainly affects young people with low qualifications (OECD 2011, 21). It has especially affected the public, financial and construction sectors (IBEC 2012b). This may result in persistent underemployment, as occurred between the mid–1970s and the mid–1990s, with risks of social conflict (OECD 2011, 21).
- Domestic demand also fell in 2011. Investments decreased by 10.6%, personal consumption by 2.7%, and government spending by 3.7%. The situation is now better than in the previous years, thanks to the growth of exports and employment (Department of Finance 2012c).
- **Ireland became a consumer society after the economic boom in the 1990s. Recent economic difficulties have slightly affected consumption.**
- Household final consumption expenditure increased until 2007; it then slightly decreased in 2008–2009, with a new increase in 2010 (Figure 6) (The World Bank 2012).
- According to the latest Household Budget Survey – carried out between August 2009 and September 2010 – average weekly household expenditure increased from €787 in 2005 to €811 in 2010 (+3%) (Central Statistics Office 2012a, 7).
- In 2009–2010 housing (rent and mortgage) accounted for 18.2%, up by 56% since 2004–2005. Food expenditure decreased by 8% (from 18.1% in 2004–2005 to 16.2% in 2009–2010). Expenditure on fuel and light increased by 15.3% as a result of the rising prices of energy. The worst decrease (16.3%) was in the consumption of alcoholic drink and tobacco (respectively 6.0% and 4.9%) (Central Statistics Office 2012a, 16).
- Urban households spend more than rural households as a result of their higher expenditure on rents and mortgages in urban locations (Central Statistics Office 2012a, 15).
- Households at risk of poverty spend more on housing than those not at risk (19.5% compared with 18.1%), food (19.3% compared with 15.8%), fuel and light (5.9% compared with 4.2%) (Central Statistics Office 2012a, 15).
- **According to the last Household Budget Survey, expenditure on cigarettes and alcohol dropped by more than 16% between 2005 and 2010 (below €40 per week).**
- Weekly expenditure on tobacco increased from €12.19 in 2004–2005 to €13.09 in 2009–2010. Instead, alcohol expenditure decreased from €34.99 to €26.40 per week (Central Statistics Office 2012a, 7).
- In 2010, there were differences in alcoholic drink and tobacco expenditure between urban and rural areas. Urban households spent €42.15 per week on tobacco and alcoholic drink (5.1% of the total expenditure), rural households €34.98 per week (4.5% of the total expenditure) (Central Statistics Office 2012a, 15). Households at risk of poverty spent more than those not at risk on alcoholic drink and tobacco (6.3% compared with 4.7%) (Central Statistics Office 2012a, 30).

- **Ireland envisages cuts to the social welfare system.**
- Scholars classify the Irish welfare system between the liberal and corporatist models (Payne and McCashin 2005, 16).
- To reduce the budget deficit to below the 3% of GDP by 2015, the government envisages cuts to public sector wages, social welfare, and capital spending (OECD 2011, 14).
- **In OECD countries, average health spending accounted for 9.5% of GDP in 2010, while in Ireland it was slightly less (9.2%).** However, between 2007 and 2009, health spending in Ireland rose from 7.8% to 9.9% of GDP (OECD 2012b).
- Health spending in Ireland increased between 2000 and 2009 at a rapid rate of 8.4% per year in real terms on average, but it decreased by 7.6% in 2010 owing to a sharp reduction in public spending on health as part of government-wide efforts to reduce the large budgetary deficit.
- **Ireland ranked 15th out of 157 countries in 2010 for education expenditure (5.6% of GDP in 2010).** This shows that Ireland has a high interest in education system (The World Bank 2012).
- In 2009, life expectancy in Ireland was 81 years, better than OECD countries average (79.8 years), but lower than in other countries, such as Japan, Switzerland, Italy and Spain (82 years) (OECD 2012b; UNDP 2013).

- Estimates for public spending in Ireland in 2011 concentrated on social protection (36.1%), health and children (25.3%), and education and science (15.6%) (Figure 7) (Department of Public Expenditure and Reform 2011).
- **Ireland has recently become a multicultural society.**
- Ireland has 4.5 millions inhabitants and a medium-high percentage of adult population (78.7%). It ranked 65th out of 193 countries in 2011 (The World Bank 2012).
- Ireland was the last country in Western Europe to become multicultural (Banks 2008, 63). It was traditionally a country of emigration. The 1990s economic boom attracted people from around the world. In 1994 around 30,100 people moved to Ireland (Gilmartin 2012, 2). From 2002 to 2012 over 860,000 people immigrated into Ireland, whereas over 550,000 people left the country (Gilmartin 2012, 2).
- Ireland ranked 37 out of 213 countries in 2010 when it was found to have a 20.1% migrant population (The World Bank 2012).
- The decline in the Catholic Church's influence on society has played an important role in the integration of other nationalities and religions (Banks 2008, 69–70).
- During the crisis, Irish started to emigrate again, being induced to do so by high unemployment rates (Banks 2008, 90). The number of Irish who decided to emigrate tripled between 2008 and 2011 (OECD 2011).
- From April 2008 to April 2011, net migration turned negative, with a cumulative outflow of 1.7% of the total population (estimated data). Most emigrants are young and prime-age workers, but there is evidence of the migration of highly-skilled people such as young graduates who enter the labour market abroad (OECD 2011, 21).

Figure 7. Composition of total public spending (estimates), 2011
 Source: Transcrime elaboration on Department of Public Expenditure and Reform (2011) data

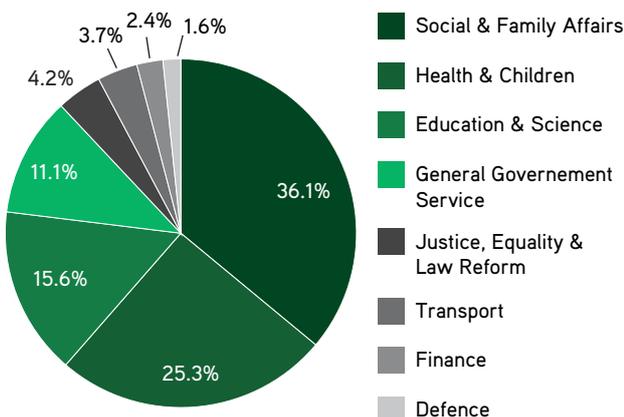


Table 1. Population of Ireland by nationality

Source: Transcribe elaboration of Central Statistics Office (2012e) data

Place of birth	2002 (%)	2006 (%)	2011 (%)
Irish	92.9	88.8	86.8
UK	2.7	2.7	2.5
Rest of EU	0.8	3.9	6.1
Other European	0.6	0.6	0.4
USA	0.3	0.3	0.2
African	0.5	0.8	0.9
Asian	0.6	1.1	1.4
Other	0.4	0.6	0.5
Not stated	1.3	1.1	1.2
Total Population (mn)	3.86	4.17	4.53

- The top ten national groups in Ireland in 2011 were: Polish (122,585), English (112,259), Lithuanians (36,683), Latvians (20,593), Nigerians (17,642), Romanians (17,304), Indians (16,986), Filipinos (12,791), Germans (11,305) and Americans (11,015) (Table 1) (Gilmartin 2012, 9; Central Statistics Office 2012e).
- **Poverty in Ireland was below average EU levels in 2010 (14.7% and 16.4% respectively) (Central Statistics Office 2010a; 2013d).** In 2011, people at risk of poverty in Ireland were 16% of the population, significantly higher than the previous year.
- During the years 2007–2009, Irish poverty rates recorded the highest increase in the EU (6%). Poverty rates are limited by social transfers and are continuing the decline that began earlier in the decade. The use of welfare benefits to fight poverty had a positive outcome, but this measure alone is a burden on the public finances, and a cause of poverty persistence (due to dependence on social transfers) (OECD 2011, 21).

2. The Gini coefficient, based on equivalised household disposable income, after taxes and transfers. The values of the Gini coefficient range between 0, in the case of "perfect equality" (i.e. each share of the population gets the same share of income), and 1, in the case of "perfect inequality" (i.e. all income goes to the individual with the highest income) (OECD 2012a).

- There was an increase in poverty and income inequality between 2009 and 2010. The annual SILC (Survey on Income and Living Conditions) reveals that people at risk of poverty amounted to 16% in 2011 (14.7% in 2010 and 14.1% in 2009). In 2006–2007 the rate was higher (17.0% and 16.5% respectively) (Central Statistics Office 2010a; 2013d). The situation changed because there was an increase in social welfare payments. Recently, the Government has decided to cut these payments. This decision and the reduction of employment and wages have produced an increase in poverty levels.
- In 2010, poverty is more likely to occur in rural areas than in urban ones. The unemployed and those not able to work due to illness or disability are the groups at highest risk of poverty. Women, people with low education levels, and non-Irish nationals are more at risk of poverty due to their lower incomes. (Central Statistics Office 2010a, 56).
- In 2011, poverty occurred more in rural areas, to men, unemployed people or students (Central Statistics Office 2013d).
- **With a Gini index² of 0.293 Ireland ranks 22nd out of 34 OECD countries in 2009.** The level of income inequality is low and it has decreased since 2002 (0.314) (OECD 2012a). The Gini index in 2011 was 0.311 (Central Statistics Office 2013d).
- **Northern Ireland has been affected by the global financial crisis in a different way from Ireland.** In the past ten years, Gross Value Added (GVA)³ has increased by 186% in Ireland and 71% in Northern Ireland (Central Statistics Office and Northern Ireland Statistics & Research Agency 2008, 109).
- In 2009–2010, the highest levels of consumption in Northern Ireland were on food and non-alcoholic drinks (12.72%), transport (12.70%) and recreation and culture (11.62%). The consumption of alcoholic drinks, tobacco and narcotics was 3.47% in the same years (Northern Ireland Neighbourhood Information Service 2012).

3. The Goss Value Added (GVA) measures the difference between output and intermediate consumption. It provides a dollar value for the amount of goods and services that have been produced, less the cost of all inputs and raw materials that are directly attributable to that production.

HISTORY OF IRELAND

The Republic of Ireland (here Ireland) is divided from Northern Ireland, a region of the United Kingdom. The situation in Northern Ireland has been complex since its division from Ireland in 1920.

The Irish population was originally divided into clans constantly in conflict with each other. Christianity began to spread in the country in the first century AD, and between 1100 and 1300 Ireland was occupied and divided by the English (Foster 2001; Bartlett 2010).

During the European Renaissance, Henry VIII unified the countries and took the title of King of Ireland. He broke with Rome and supported the Protestant Reformation in England. He then wanted to extend it to Ireland, with the consequence that Catholics were expelled from churches and monasteries (Foster 2001).

In the sixteenth century, Mary I, a Catholic queen, expelled Protestants and returned the churches to Catholicism. With the purpose of reducing rebellion by the Irish clans, Mary decided to create a plantation system in Ireland. The English government confiscated land from Irish people and assigned them to English subjects. This policy continued under Elizabeth I, James I, Charles I and Oliver Cromwell, who, during the seventeenth century, sought to expel all Irish people from Ireland (Foster 2001).

In 1691, with the Treaty of Limerick, William of Orange promised the free exercise of religion to Catholics and equality if they agreed to take an oath of allegiance. The English Parliament did not accept those clauses and persecutions continued (Foster 2001).

In 1791, Theobald Wolfe Tone founded United Irishmen, an association without distinction of religion, with the aim of creating an independent and republican Ireland. Prime Minister William Pitt took advantage of the insurrection (United Irishmen Rebellion, 1798) to unify the Irish and English Parliaments with the Union Act. Ireland thus lost its Parliament, and this created nationalism and provoked insurrections in the country (Foster 2001).

The main problem in Ireland was agriculture. Irish people did not have lands and lived in impoverished conditions. In 1870, William Ewart Gladstone abolished the privileges of the Protestant Church and assured tenants that they could keep their leased land by paying the dues fixed by the British Government (Foster 2001).

In 1905, the journalist Arthur Griffith created Sinn Féin, a party dedicated to the independence of Ireland. He organised a rebellion in 1916 and in 1918 won the general elections.

After almost five years of internal clashes and the Irish War of Independence (1919–1921), with the Government of Ireland Act (1920) the British divided Ireland and recognised Northern Ireland (mostly Protestant) and Southern Ireland (Catholic). The Irish Civil War (1922–1923) established the Irish Free State as independent from the UK (Perry 2010).

- Public spending was concentrated on pensions (26%), health (20%) and education (12%) in 2012 (UK Governmental and Local Authority Spending 2012).
- In Northern Ireland, people in relative poverty in 2010–2011 represented 20% of the population; people in absolute poverty represented 13% (Northern Ireland Statistics & Research Agency 2012).

In conclusion, after an economic boom between the mid 1990s and 2000s, Ireland has been severely affected by the global financial crisis. It has shown a great capacity for recovery, however, and adopted a number of reforms. Yet unemployment and the public debt are high and, although still below the EU level, poverty is increasing because of budgetary cuts. In response to the crisis, people have modified their expenditure, although total expenditure has slightly increased.



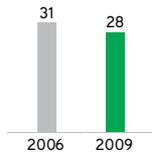
THE FIVE
DRIVERS:
LEGAL
MARKET

Ireland has not produced cigarettes since 2006 due to high production costs. It also has the second highest cigarette prices in Europe. Tobacco consumption has generally declined and the market is experiencing a downtrading trend, with smokers switching to cheaper products.



Smokers*

Current smoking of cigarettes (age-standardised rate)
Source: WHO-Country reports



28%

39 out of 151 countries
(2009)



Last national available data (2012): **23.5%** (Euromonitor International 2013b)

Affordability

% of annual per capita income needed to buy 100 packs of the cheapest cigarettes
Source: Tobacco Atlas

2.3%

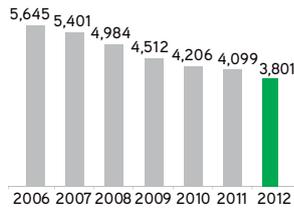
113 out of 168 countries
(2010)



Last available data (2012): **2.2%** (Euromonitor International 2012, International Monetary Fund 2012)

Market Size

Cigarette retail volume (mn sticks)
Source: Euromonitor International



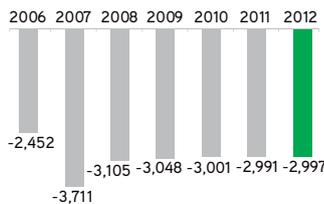
3,801

83 out of 209 countries
(2012)



Balance of Trade

Cigarette exports-imports (mn sticks)
Source: Euromonitor International



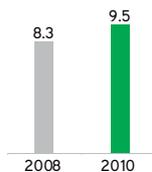
-2,997

51 out of 72 countries
(2012)



Price

Price of a pack of the most sold brand (Int.\$, PPP)
Source: WHO



Int.\$, PPP 9.5

5 out of 166 countries
(2010)



Last available data (2012): **Int.\$, PPP 10.8** (Euromonitor International 2012, International Monetary Fund 2012)

* Data on current smoking of any tobacco product (age-standardize rate) not available.

TOBACCO MARKET

• Ireland is no longer a cigarettes producer.

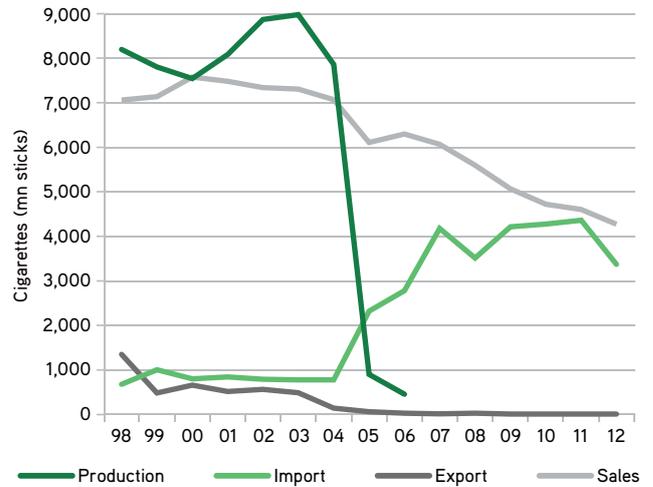
- All cigarettes manufactures in Ireland have been closed since 2006. The last factory to be closed was John Player & Sons' factory in Dundalk in mid-2006 (Euromonitor International 2012, 14). The factories decided to move away because of the high production costs in Ireland (Euromonitor International 2012, 14).
- There remains one last factory, which produces HRT (Imperial Tobacco Mullingar). Its entire output is exported from Ireland (Doherty 2013; Healy 2013).
- The level of cigarette exports has been practically zero since 2004. Exports were already low in 1999. In 1998, Ireland exported 1,200 mn sticks, in 1999 only 426 mn. This decrease was probably due to the low capacity of Irish manufactures (Euromonitor International 2012).
- Cigarettes imports amounted to 3,003 mn sticks in 2012. Between 2004 and 2005 they grew from 690 to 2,065 mn sticks (Figure 8) (Euromonitor International 2013b).
- Ireland had a negative balance of trade (-2,996.9 mn sticks in 2012) and ranked 51st out of 72 countries in 2012 (Euromonitor International 2013b).
- Irish cigarettes market is narrowing. However, Ireland has a medium-large cigarettes market and it ranked 83rd out of 209 countries in 2012, with 3,801 mn sticks retail volume (Euromonitor International 2013b).

• In 2009, three companies led the tobacco market in Ireland.

- Gallaher (Dublin) Ltd was founded in 1963. In 2007 Japan Tobacco International (JTI) purchased Gallaher in one of the largest acquisitions ever made by the JTI Company. In 2003, it moved production to Northern Ireland, from where it exports to the Republic of Ireland. In 2012, JTI dominated the Irish cigarettes market (50.1% of volume share) and was the second seller of cigars (33.3%) and smoking tobacco (21.5%) (Euromonitor International 2013b).

Figure 8. Cigarette production, imports, exports and legal sales, mn sticks (1998–2012)

Source: Transcrime elaboration on Euromonitor International (2013b) data



- John Player & Sons was founded in 1877 in Nottingham (UK), and in 1901 it joined the Imperial Tobacco Group Plc based in Bristol. Present in Ireland since 1923, in 1997 it acquired the leading manufacturer of rolling paper (Rizla). In 2012, the Imperial Tobacco Group ranked second in the Irish cigarettes market (21.1% of volume share) and was the first seller of cigars (49.9%) and smoking tobacco (64.5%) (Euromonitor International 2013b).
- P J Carroll & Co was founded in 1824 in Dundalk, County Louth. In 1999, it was acquired by British American Tobacco Plc. In 2012, British American Tobacco was the third seller of cigarettes (11.3% of volume share) and smoking tobacco (6.4% of volume share) and the fourth seller of cigars (0.4% of volume share) in Ireland (Euromonitor International 2013b).

• Cigarettes are distributed through various channels.

- In 2010, 4,000 grocery stores (small, privately-owned food and non-food stores), 6,500 HoReCa (all kinds of hotel, restaurant and catering service outlets) and kiosks (single outlets selling newspapers and other products) sold tobacco products (Pantini et al. 2012, 30).

- Convenience stores held the leading position with a 57% share in volume sales in 2012 – this value has been stable over the past four years. Newsagent–tobacconists/kiosks had a 23% share of volume in 2012. Sales via large supermarkets are limited (about 6% share), because Irish smokers prefer to buy cigarettes daily. There is a minimum selling price in Ireland, so that competition among retailers does not exist. There is little differentiation between premium and economy brands (Euromonitor International 2013b).

TOBACCO CONSUMPTION

- **Tobacco sales and consumption are declining in Ireland.**
- **Smoking prevalence in Ireland is reported to be between 23.9% and 29.0% (Eurobarometer 2012; Euromonitor International 2013b).** The office of Tobacco Control reports that the overall prevalence (people aged 15 or over) of cigarette smoking in Ireland at June 2012 was 22% (National Office of Tobacco Control 2012).
- However, according to a survey conducted by the WHO in 2009, the smoking prevalence of cigarettes was 28%. Ireland ranked 39th among 151 countries (WHO 2012).
- Ireland has one of the strictest tobacco control regimes in place. Despite this, “Ireland [still] has one of the highest smoking rates in Europe and it has seen the smallest drop in smoking prevalence of any Western European country since 1990” (OECD 2013; Snowdon 2013).
- In 2012, the most popular brands in Ireland were Silk Cut and Benson & Hedges (respectively 23.5% and 20.0% share), both property of Japan Tobacco Inc. The third was John Player, the property of Imperial Tobacco Group Plc (with a 14.1% share) (Euromonitor International 2013b).

- There is an on–going shift towards low–tar cigarettes in Ireland. 40–50% of Irish smokers prefer cigarettes of this type, especially women and persons with high levels of education. This movement is probably driven by health concerns. People start smoking low–tar cigarettes more than switching from mid–tar variants (Euromonitor International 2012, 6). Between 2006 and 2012 the sales of low–tar cigarettes decreased by 27.8%, while those of cigarettes in general decreased by 32.7% (Euromonitor International 2013b).
- In the period 2006–2012, sales of premium, mid–priced, and economy brands remained relatively stable in their market shares, with a small decrease in premium and mid–priced brands and a small increase in economy brands. In 2012, premium cigarettes accounted for 57% of the total cigarette market, while mid–priced and economy brands accounted for 27.5% and 15.6% respectively (Euromonitor International 2013b).
- **The price of cigarettes in Ireland is high.**
- **Ireland has the second highest cigarettes price, after the UK, among the European countries (KPMG 2013).** In March 2013, the recommended retail price of a premium brand pack (20 sticks) was €9.30 (it was €9.54 in the UK) (KPMG 2013).
- Ireland had the highest cigarette prices among the European countries in 2012 (KPMG 2012). In April 2012, the recommended selling price (RSP) for a 20–size pack of Silk Cut was €9.10, identical to that of a 20–size pack of Benson & Hedges Gold or a premium pack of Marlboro.
- The price of a pack of the most sold brand of cigarettes is among the highest worldwide. Indeed, in 2010 a pack cost International \$9.5, and the country ranked 5th out of 166 (WHO 2012). In 2012, this price was International \$10.8.⁴

4. Transcrime elaboration on Euromonitor International, International Monetary Fund and industry data.

- The percentage of per capita GDP needed to purchase 100 20–cigarettes packs is 2.6% in the case of Marlboro (64th out of 107 countries) (PMI 2012). Ireland ranked 113th out of 168 countries (8th among EU Member States), with a percentage of 2.3% of a worker’s income required to buy cigarettes in 2010 (Eriksen, Mackay, and Ross 2012). In Ireland, cigarettes are relatively affordable. In 2012, the percentage of GDP per capita needed to purchase 100 20–cigarettes packs of the cheapest brand was 2.2%.⁵ An increase in tax incidence and in price may provide incentives for downtrading to cheaper products and brands and this may also include illicit tobacco.

- According to the ‘Big Mac Index of Cigarette Affordability’ – which calculates the number of cigarettes that can be bought for the price of a Big Mac hamburger within the country – in 2002, Ireland ranked 5th (with USA) out of 30 countries, with 12 cigarettes for one Big Mac (Lal and Scollo 2002).

•• **The Irish market is experiencing a downtrading trend. The consumption of cigarettes and cigars is declining, while HRT (Hand Rolling Tobacco) is increasing (Table 2).**

- Ireland was the country with the largest growth in OTP (other tobacco products)⁶ consumption in 2012. Between 2011 and 2012, OTP grew by 40% (KPMG 2013).
- Between 2010 and 2012, cigarettes sales declined by 7.3%, while HRT sales increased by 18.4%, reaching more than 342 tonnes and €131 mn. In the period between 2006 and 2011, the changes in sales volumes were –32.7% for cigarettes, –15.4% for cigars, and +127.0% for HRT (Figure 9) (Euromonitor International 2013b).

- In 2011, HRT accounted for the equivalent of 272 mn sticks per annum (about 6% of the total sale). HRT retail volume and value sales increased during 2011 (+19% and +21% respectively) (Figure 10). This is mainly attributable to the large price differential between factory–made cigarettes and HRT. HRT is similar in characteristics to the tobacco used in cigarettes, thus making the shift from cigarettes to less expensive products (downtrading) more acceptable to consumers – people save 16% on the unit price with HRT (Euromonitor International 2012, 54–55).

Figure 9. Hand Rolling Tobacco sales (tonnes). 2006–2012

Source: Transcrime elaboration on Euromonitor International (2013b) data

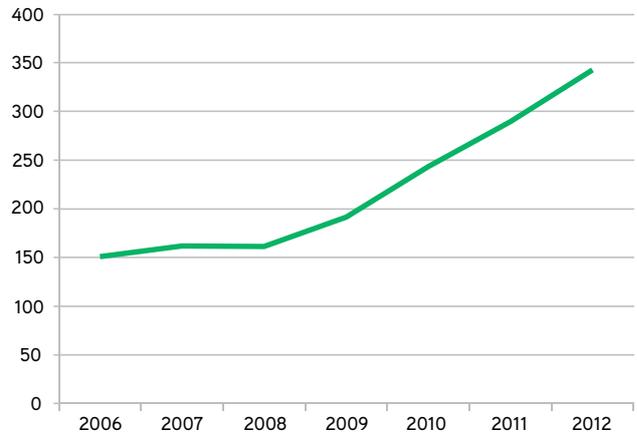


Figure 10. Tobacco products volume of sales in 2012 (tonnes)

Source: Transcrime elaboration on Euromonitor International (2013b) data

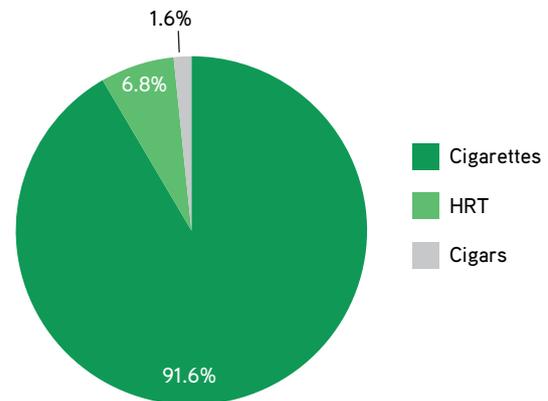


Table 2. Sales of tobacco by category: Volume 2006–2012

Source: Transcrime elaboration on Euromonitor International (2013b) data

	2006	2007	2008	2009	2010	2011	2012
Cigarettes (mn sticks)	5,645.4	5,401.4	4,984.2	4,511.8	4,205.9	4,099.3	3,801.0
Cigars (mn units)	25.3	25.4	24.4	23.8	22.9	22.5	21.4
HRT (tonnes)	117.3	129.4	135.5	169.3	224.0	271.9	342.4

5. See note 2.

6. OTP is defined as HRT, HRT volume tobacco, and cigarillos

as appropriate, whose cigarette equivalents are defined as 0.6g per cigarette for HRT volume tobacco

Table 3. Average expenditure on tobacco classified by type of tobacco product and area (euros) (2010)

Source: Transcrime elaboration of Central Statistics Office (2012a) data

	Total	Urban areas	Rural areas
Cigarettes and Cigarette papers	12.44	12.59	12.18
Cigars and Snuff	0.14	0.08	0.25
Other tobacco	0.50	0.40	0.69

•• **Various socio–demographic and economic variables influence the demand for tobacco.**

- **Geography.** The highest expenditure on tobacco products was in rural areas (€13.12) in 2010 (Central Statistics Office 2012a). Urban areas have higher expenditures on cigarettes, rural areas on cigars and other tobacco products (Table 3).
- **Gender.** There is no gender difference in smoking patterns. The smoking prevalence of men and women were similar in 2012 (24% and 23% respectively) (Euromonitor International 2013b). The prevalence decreased more for men between 2004 and 2012 (from 29.0% to 23.5%) (Figure 11). According to the National Tobacco Control Office a higher percentage of men (23.5%) than of women (20.5%) reported being smokers in 2012 (National Office of Tobacco Control 2012).

- **Age.** The National Office of Tobacco Control survey showed that the smoking prevalence was highest among young adults (30.1% of those aged 25–34 and 27.9% of those aged 18–24) (National Office of Tobacco Control 2012).
- **Social groups.** The highest cigarette smoking prevalence rates were in the lower income groups (skilled/semi–skilled/unskilled manual workers and unemployed). The lowest smoking rates (14.4% and 14.8%) were among farmers and higher socio–economic groups (National Office of Tobacco Control 2012).
- The smoking prevalence was higher among lower socio–economic groups in 2007 (Department of Health and Children 2009, 8). 37% of smokers were from the lower class, 30% from the middle class, and 20% from the upper class (25% were unclassified). There were no significant differences between 1998 and 2007 (Department of Health and Children 2009, 8).

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Figure 11. Smoking prevalence in the adult population (2006–2012)

Source: Transcrime elaboration on Euromonitor International (2013b) data

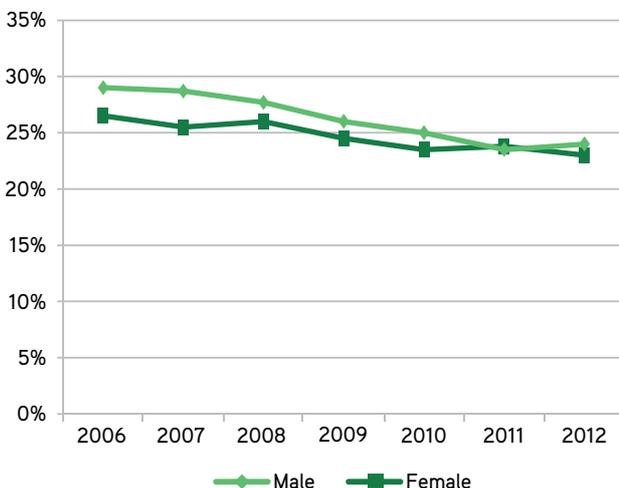


Table 4. Average expenditure on tobacco by type of product and social class (euros) (2010)

Source: Transcrime elaboration of Central Statistics Office (2012a) data

	Lower class	Medium class	Upper class
Cigarettes and Cigarette papers	49.64	44.04	30.73
Cigars and Snuff	0.22	0.67	0.51
Other tobacco	2.81	1.53	0.7
Total of tobacco expenditure	52.67	46.24	31.94

Note: Lower class has a household income of €0–500; medium class of €500–1,200; upper class of €1,200–2,000 and more.

- **Social classes.** The amounts of expenditure on tobacco products by the different social classes are another source of information (Table 4). In 2010, the lower class spent the most on tobacco products (Central Statistics Office 2012a, 74–75).
- **Ethnic groups.** According to the World Health Organisation, there is no information available on the differences in smoking prevalence among different ethnic groups.
- **The tobacco market in the Republic of Ireland is closely related with the UK market and particularly with that of Northern Ireland.**
- All Irish manufacturers moved their cigarettes production facilities to Northern Ireland after 2004 (e.g. Gallaher (Dublin) Ltd). The Republic of Ireland imports mostly from the UK (66% of 37,400 tonnes of total imports was from the UK in 2012; this was 71% of 41,587 tonnes in 2011) (Central Statistics Office 2012b).
- There is only one HRT factory left in Ireland, and it mostly exports to the UK. Approximately 80% of Irish HRT is exported to the UK (Central Statistics Office 2012b).
- In 2012, Irish exports to the UK increased by 88% due to the increase in cigarette price in the UK. Indeed, Ireland diminished the imports from the UK by 44% compared with 2011 (KPMG 2013).

Owing to high costs, cigarette manufacturing has ceased in Ireland since 2006, and there is only one factory of HRT left. Tobacco sales and consumption are declining. This is due to increasing tax incidence and prices (the second highest among EU countries), tobacco control policies, and increasingly healthy lifestyles. Despite this decline, Ireland still has one of the highest smoking rates in Europe. The tobacco market is experiencing a downtrading trend, with consumers switching to cheaper brands and products. While cigarettes have become less affordable, HRT retail volume and sales have significantly increased.

THE FIVE DRIVERS: REGULATION

The tobacco market is closely regulated in Ireland, which was the first country in the world to ban smoking in all indoor workplaces in 2004. Tax incidence is high, so that cigarettes have the second highest prices in Europe. There is a high level of supply chain control and on tobacco consumption and sales, as well as on tobacco advertising and promotion.

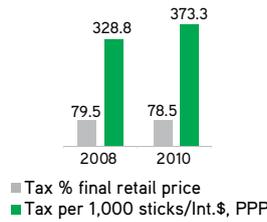


Taxation

Tax as % of the final retail price of the most sold brand

Tax per 1,000 sticks in Int.\$, PPP of the most sold brand

Source: WHO



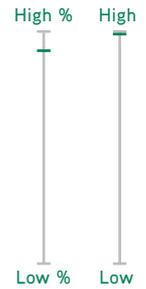
78.5 %

14 out of 181 countries

Int.\$, PPP 373.3

3 out of 164 countries

(2010)



Last available data (2013): **78.6% - Int.\$, PPP 432.3** (European Commission 2013)

Government Action**

Government expenditure on tobacco control not including the control on the ITTP per 1,000 inhabitants (US\$)

Source: WHO-Global Tobacco Epidemic

US\$ 190.0

20 out of 106 countries

(last available year)



Tobacco Supply Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4.5/5 points

(2013)

36

Tobacco Consumption and Sale Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4.5/5 points

(2013)

Tobacco Marketing and Promotion*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



5/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

** The rank is calculated for 2010 from WHO data (Global Tobacco Epidemic). Ireland figure is for 2009 and it is taken from Joossens and Raw (2011).

- **The tobacco market is intensely regulated in Ireland.**

- In 2010, Ireland ranked 2nd among 31 European countries on the Tobacco Control Scale (TCS) (Joossens and Raw 2011, 10), after the UK and followed by Norway.
- The WHO has reviewed countries policies on tobacco control using six measures (MPOWER). Ireland is one of the countries with the highest score on the six policy measures (WHO 2008, 39).⁷

- **Irish regulation must comply with international and regional requirements and standards.**

- Since 2005, Ireland has been a Party to the WHO Framework Convention on Tobacco Control, an international treaty establishing a number of obligations for countries.
- As a Member State of the European Union, Ireland is required to implement EU legislation. Since the EU's competence is more limited in the field of health, most EU provisions are focused on the tobacco market and the development of a common market among the 27 EU Member States (Transcrime 2011a). However, these measures inevitably affect also health issues and tobacco control in general.

- The main legislation on tobacco is the Public Health (Tobacco) Act 2002 (PHA). This law concerns: smoking in public places, workplaces, and on public transport tobacco advertising, promotion and sponsorship and tobacco packaging and labelling. It has implemented the European directive 2003/33/EC on advertising promotion and sponsorship. The Public Health (Tobacco) (Amendment) Act 2009 revised provisions regarding penalties, exemptions from the advertising ban, registration of tobacco sellers and exemptions from retail offences.

- The Public Health (Tobacco) (Amendment) Act 2010 established the replacement of the Office of Tobacco Control with the Health Service Executive.

- **Tax incidence on tobacco products is high in Ireland.**

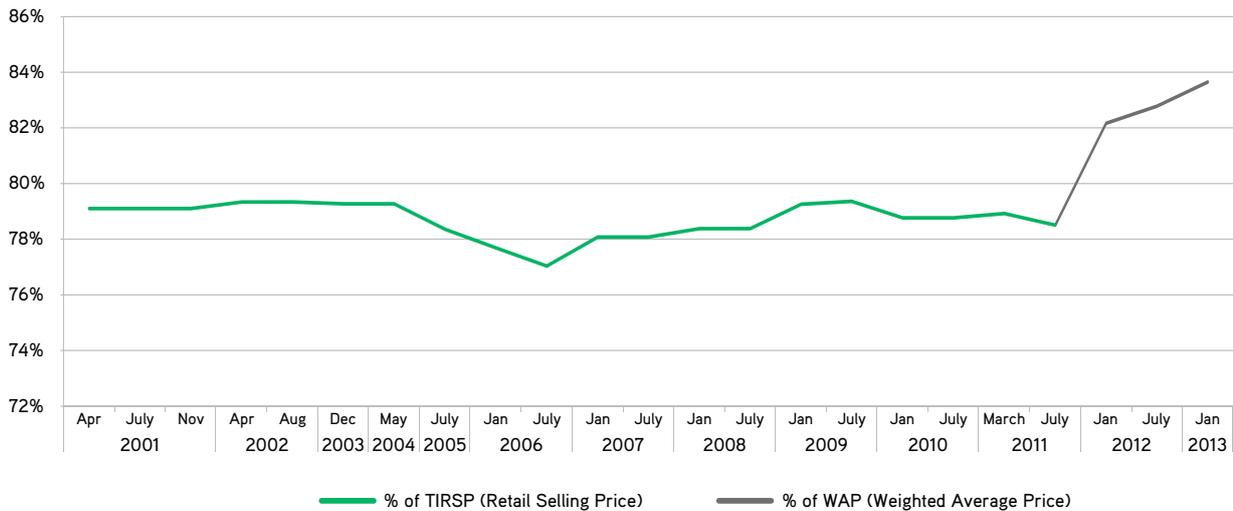
- In 2010, Ireland taxes accounted for 78.5% of the final retail price of the most popular brand (79.5% in 2006) (WHO 2011a, 100). Ireland ranked 14th out of 181 countries analysed by the WHO and 13th among the 27 EU Member States (WHO 2011a, 100; WHO 2011b).⁸

7. The WHO report is based on the MPOWER package of measures developed by the WHO. MPOWER is an acronym of the six policy measures which include: monitor tobacco use and prevention policies; protect people from tobacco smoke; offer help to quit tobacco use; warn about the dangers of tobacco; enforce bans on tobacco advertising, promotion and sponsorship, and; raise taxes on tobacco (WHO 2008).

8. The most recent data from the EU Commission show that all taxes applied to cigarettes, including valued added tax, represent 83.65% of the weighted average price (WAP). According to Article 2 of Council Directive 92/79/EEC "The weighted average retail selling price shall be calculated by reference to the total value of all cigarettes released for consumption, based on the retail selling price including all taxes, divided by the total quantity of cigarettes released for consumption" (European Commission 2013).

Figure 12. Taxation share of the final retail price (2001–2013)

Source: Transcrime elaboration of European Commission (2013) data



- Tax incidence has increased since 2006, reaching 83% of the final retail price in January 2013 (calculation on percentage of WAP). Between 2011 and 2012 tobacco taxes increased by about 4.7% (from 78.5% to 82.2%) (Figure 12) (European Commission 2013).
- In January 2013, tax incidence of the final retail price of the most sold brand (Silk Cut) was 78.6% (European Commission 2013; KPMG 2013).
- Concerning total taxes for 1,000 sticks, taxation is Int. \$373.3 and Ireland ranked 3rd out of 164 countries in 2010 (it was 6th out of 170 countries in 2008). Ireland showed a high level of taxation for 1,000 sticks (WHO 2012). In 2013, total taxes per 1,000 sticks amounted to Int. \$432.3 (European Commission 2013; KPMG 2013).
- In 2011, €4,863 mn was collected in excise receipts, €1,126 mn was from tobacco excise (Revenue Commissioners 2012). In 2010, the Revenue Commissioner received €1,463 mn from taxation on tobacco products (Pantini et al. 2012, 33).
- In 2013, the Government is increasing the excise duty on a packet of 20 cigarettes by €0.10. The excise duty on Hand Rolling Tobacco (HRT) is being increased by €0.50 per 25g pouch (Department of Finance 2012a).
- **The Irish Government invests resources in tobacco control policies and in helping people to quit smoking.** In 2009, the Government spent \$190 for every 1,000 habitants on tobacco control (Joossens and Raw 2011). Ireland ranked 20th out of 106 countries for government expenditure in tobacco control policies in 2010 (WHO 2011a).⁹ Despite this medium–high position, Irish investments are below the medium level (\$290.7 every 1,000 inhabitants). Furthermore, Irish figure is far below the highest in the rank (New Zealand with \$8,749.5 every 1,000 inhabitants) (WHO 2011a).
- There is a **National Smokers' quitline** (www.QUIT.ie). It was established in 1997 by the Irish Cancer Society, and later managed in partnership with the Health Boards and Eastern Regional Health Authority. The service is now funded by the Health Service Executive.
- **Nicotine replacement therapies, bupropion and varenicline** are free for all General Medical Service registered patients. Others smokers can get bupropion and varenicline through the Drugs Payment Scheme (Health Service Executive 2010, 20–21).

9. In this ranking, Ireland figure is provided by a different source (Joossens and Raw 2011) and it is a 2009 datum.

Table 5. Ireland's regulation on supply chain control

Source: Transcrime elaboration

Supply chain control indicator	Value
1) The retail of tobacco products is subject to licensing	Yes, 1 point
2) The manufacture of tobacco products is subject to licensing	Yes, 1 point
3) There is a mandatory system of customer identification and verification applied to the supply chain of tobacco products	Yes, 1 point
4) There is a tracking and tracing system for tobacco products	Partially, 0.5 points
5) Absence of free-trade zones for tobacco products	Yes, 1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

- **Ireland has a high level of supply chain control (4.5 points out of 5, Table 5).**
- **In Ireland retailers of tobacco products must register with the HSE.** The National Tobacco Control Office deals with applications – a fee of €50 is requested for each application (Office of Tobacco Control 2012). In reality, this provision is seldom if ever respected in street markets (IBEC 2012a) (Point 1 in Table 5).
- **The manufacture of tobacco products is subject to licence (Part 2, Chapter 3 of Finance Act, 2005, No.5).** The Commissioners must authorize warehouse keepers and manufacturers to produce, receive or dispatch excisable goods such as tobacco products (Point 2 in Table 5).
- **Ireland requires mandatory customer identification.** In the Finance Act (2005, Chapter 3, Section 83), the Commissioners “require a manufacturer of tobacco products and a person who imports materials or tobacco products to keep in a specified manner, and to preserve for a specified period, such accounts and records relating to the purchase, receipt, sale, disposal or manufacture of materials and tobacco products as may be specified and to keep for a specified period any other books or documents relating to any of the matters aforesaid and to allow an officer to inspect and take copies of such accounts and records and of any other books or documents kept by the manufacturer relating to any of the matters aforesaid” (Point 3 in Table 5).
- **The Government does not require verification or tracking and tracing policies for tobacco products and/or manufacturing equipment at national level.**
- However, the major tobacco manufacturers have agreements with the EU Commission requiring tracking and tracing systems. The European Commission has signed legally binding and enforceable agreements with the world's four largest tobacco manufacturers. One of the main obligations is implementation of a tracking system to help law enforcement authorities (European Commission 2004; European Commission 2007; European Commission 2010a; European Commission 2010b).
- Further, this type of verification takes place at company level. In November 2009, JTI (Japan Tobacco International) Ireland Limited and the Revenue Commissioners signed a Memorandum of Understanding (MOU). They established bilateral cooperation against the smuggling and sale of counterfeit cigarettes in Ireland (Revenue Commissioners 2009a) (Point 4 in Table 5).
- **Ireland has no free trade zone.** The Shannon Free Trade Zone, close to the Shannon International Airport and established in 1959, is government owned developed company for a region and not a FTZ as generally intended (BASCAP 2012) (Point 5 in Table 5).

Table 6. Regulation on tobacco consumption and sales

Source: Transcrime elaboration

Tobacco consumption and sales indicator	Value
1) Ban on smoking in public places	Yes, 1 point
2) Ban on smoking in workplaces	Yes, 1 point
3) Ban on the sale of tobacco products from vending machines	Partially, 0.5 points
4) Prohibition of tobacco sales to minors	Yes, 1 point
5) Ban on smoking in bars, cafés and restaurants	Yes, 1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

•• **Regulation on tobacco consumption and sales is high in Ireland (4.5 points out of 5, Table 6).**

•• **Smoking bans and restrictions are widespread.**

- The compliance score assessed by WHO in relation to public places smoke-free legislation is 10 points out of 10. The ban concerns the following places: health-care facilities, educational facilities except universities, universities, government facilities, indoor offices, restaurants, pubs and bars, public transport, all other public places. However, in some places, including residential healthcare facilities-public areas, residential healthcare facilities-patient rooms, universities/vocational facilities, hotels/lodgings-guest rooms, there are some restrictions, while there are no smoking restrictions in prisons (WHO 2011b).
- The National Tobacco Control Inspection Programme, developed by HSE Environmental Health Services and the Office of Tobacco Control, monitors the legislation. In 2008, 97% of workplaces controlled were compliant with the legislation (Health Service Executive 2010, 18) (Points 1 and 2 in Table 6).

•• **The sale of tobacco from vending machines is allowed. Only licensed premises and registered clubs may use tobacco vending machines.**

However, the legislation prescribes that the machines:

- “(a) must be located adjacent or in close proximity to that part of the licensed premises or the premises of the registered club which is generally attended by a member of staff,
- (b) within the line of sight of a member of staff at all times, and
- (c) activated by means of a disc or card obtained from a member of staff or by a device controlled by such staff” (Health Service Executive 2012) (Point 3 in Table 6).

•• **It is prohibited to sell tobacco products to people under the age of 18 years.** Prosecution would be brought against both the seller and the owner of the shop. The Environmental Health Officers verify that the retailers do not sell tobacco to minors (i.e. by making test purchases). In 2008 the OCT produced an Information Guide for Retailers and Staff with information relative to the law concerning sales to minors (Health Service Executive 2012) (Point 4 in Table 6).

•• **Smoking bans also apply to restaurants, bars and pubs (Public Health (Tobacco) Act, 2002 (Section 47) Regulations 2003) (Point 5 in Table 6).**

Table 7. Regulation on tobacco marketing and promotion

Source: Transcrime elaboration

Tobacco marketing and promotion indicator	Value
1) Ban on tobacco sponsorship and advertising on radio, TV, broadcasted programmes and in print media	Yes, 1 point
2) Ban on billboards and outdoor advertising	Yes, 1 point
3) Ban on the display of tobacco products at points of sale	Yes, 1 point
4) Ban on free distribution of tobacco samples	Yes, 1 point
5) Mandatory pictorial health warnings	Yes, 1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

- **Regulation on tobacco marketing and promotion is high in Ireland (5 points out of 5, Table 7).**
- **There is a comprehensive ban on advertising and promotion of tobacco products.** However, it is allowed to signal that a shop sells tobacco products (WHO 2011b). The law prohibits the use of tobacco brand logos or names in visible places. Tobacco advertising on radio and television has been illegal since the 1970s. However, tobacco brands still support sporting events like Formula One motor racing, which are broadcast on television (Euromonitor International 2012, 7–8) (Points 1 and 2 in Table 7).
- **No advertising or display of tobacco products is permitted in retail premises that sell tobacco products.** Retailers must store tobacco products in a closed container or a hidden dispenser accessible only by retail staff. A person who advertises or causes advertisement of a tobacco product is guilty of an offence, according to Section 33 of the Public Health (Tobacco) Acts 2002 and 2009 (Health Service Executive 2010, 26).
- This measure is currently implemented in a relatively limited number of countries. For example, among the 27 Member States of the European Union, only Ireland, Finland and the UK have it (Triggle 2012). This highlights the strong regulatory approach adopted in Ireland (Point 3 in Table 7).
- **There is a ban on the free distribution of tobacco samples.** According to Section 33A of the Public Health (Tobacco) Acts (2002 and 2004), it is prohibited to expose tobacco advertising and promotional material of tobacco products (such promotional lighting, clocks, mouse pads, pens) in stores (Point 4 in Table 7).
- **All cigarettes packs must carry pictorial health warnings.** According to the Public Health (Tobacco) Act 2002, by 1 February 2013 a graphic health warning must appear on the rear side of the package. Ireland joins Belgium, France, Latvia, Malta, Romania, Spain and the United Kingdom in requiring picture warnings (Framework Convention Alliance 2012) (Point 5 in Table 7).
- In November 2012, the Government discussed The Public Health (Tobacco) (Amendment) Bill 2012, a private member's bill which proposes the introduction of plain packaging. Australia is the only country in the world to have approved and implemented plain packaging legislation. There are some perplexities concerning the introduction of plain packaging. From a trademark point of view, plain packaging is unconstitutional because there is no possibility to use marks and to distinguish products, and this affects intellectual property rights and devalues trademarks. From a constitutional view, in Ireland there are protections of property rights greater than in Australia, so that the Australian decision will not affect the Irish one (Ring 2012).

- On 28 May 2013, the Minister of Health Reilly announced that he had received Government approval to begin the process of introducing plain packaging of tobacco products. He said he expected the law on plain packaging be enacted by the Parliament early in 2014 (Cullen 2013; Department of Health 2013; Ring 2013; Smyth 2013).

In conclusion, Ireland has a strong tobacco control policy and was the first country in the world to ban smoking in public places. The tax incidence of tobacco products and the taxation in monetary terms are high. There is a high level of control on the supply chain as well as on tobacco consumption and sales and on marketing and promotion.



THE FIVE
DRIVERS:
CRIME
ENVIRONMENT

Ireland has low crime levels and the level of corruption is low. There are, however, a number of organised crime and paramilitary groups. Drug use in the country is high, signalling that illicit distribution networks may provide opportunities for illicit trafficking, from drugs to illicit tobacco.



Corruption

Corruption Perception Index
Source: Transparency International



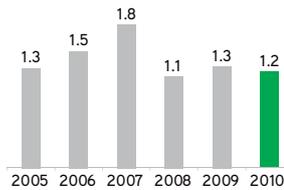
69.0*

25 out of 176 countries
(2012)



Homicides

Homicide rate per 100,000 inhabitants
Source: UNODC



1.2

154 out of 187 countries
(last available year)



Organized Crime Index

Composite Organized Crime Index
Source: Van Dijk (2008), "The World of Crime"

27.5

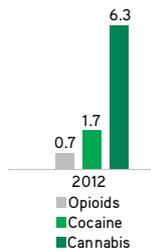
94 out of 156 countries
(last available year)



44

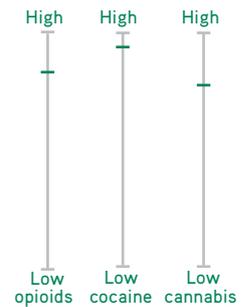
Drugs

Annual prevalence of opioids, cocaine and cannabis (15–64) use
Source: UNODC–World Drug Report



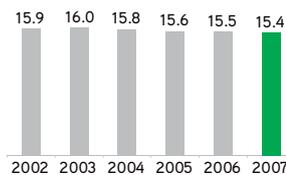
opioids 0.7
cocaine 1.7
cannabis 6.3

opioids: 26 out of 132 countries
cocaine: 8 out of 99 countries
cannabis: 36 out of 139 countries
(last available year)



Shadow Economy

Indicator of the presence of market-based activities that escape the official estimates of GDP
Source: Schneider, Buehn, Montenegro (2010), "New Estimates for the Shadow Economies all over the World"



15.4

19 out of 162 countries
(2007)



Last available data (2012): 12.7 (Williams and Schneider 2013)

* Corruption perception index ranged from 0 to 10 until 2011. Since 2012, it ranges from 0 to 100. Highly corrupted countries occupy low positions in this rank.

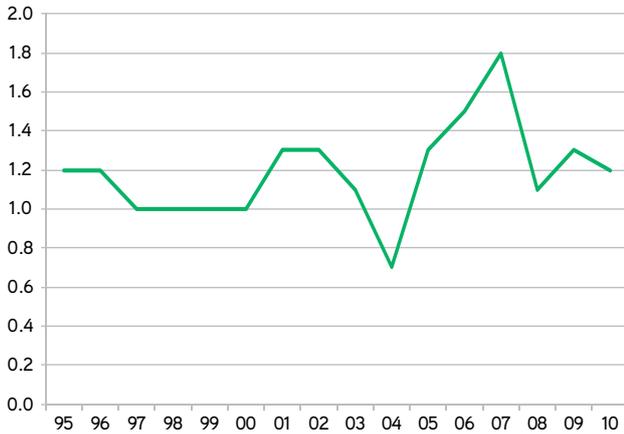
CRIME TRENDS

•• **Crime has recently decreased, but fear of crime is high.**

- Not all violent crimes have decreased in Ireland since 2004. Assault has recorded an increase of about 38%, while robbery and homicide have decreased (by 4% and 33% respectively) (Central Statistics Office 2012c).
- In 2010 the homicide rate was 1.2 per 100,000 inhabitants (Figure 13). Ireland ranks 154th out of 187 countries, showing a low homicide level (UNODC 2012a).

Figure 13. Homicide rate per 100,000 inhabitants (1995–2010)

Source: Transcrime elaboration on UNODC (2012a) data



- Among property crimes, burglary increased by about 64% between 2004 and 2010. In general, theft decreased between 2004 and 2010 (about 2%), but shop theft increased by 34% (Central Statistics Office 2012c).
- Over 50% of individuals aged 18 years and over reported fear of crime in 2010. This percentage was slightly higher for females (about 58%) and for middle-aged people (about 58%) (Central Statistics Office 2012c).
- 49% of the people interviewed in 2010 thought that crime in Ireland was a very serious problem, and 34% that it was a serious problem. The perception was the same in 2003 and in 2006 (Central Statistics Office 2010b).

DRUG CONSUMPTION AND MARKETS

•• **Drug use is high in Ireland (Figure 14).**

Figure 14. Prevalence of cannabis, cocaine and opioids use, 2009

Source: Transcrime elaboration on UNODC (2012b) data

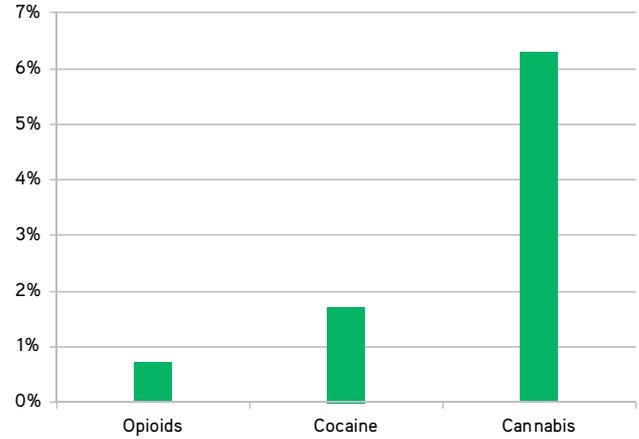
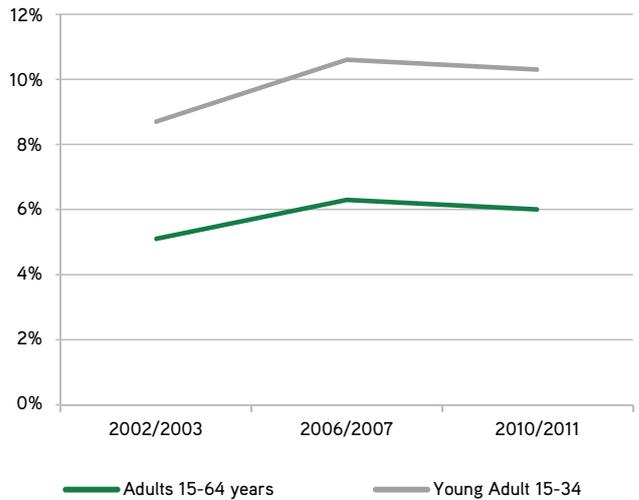


Figure 15. Illicit cannabis users (last year use): proportion of the population aged 15 and over by years

Source: Transcrime elaboration on NACD and PHIRB (2012) data

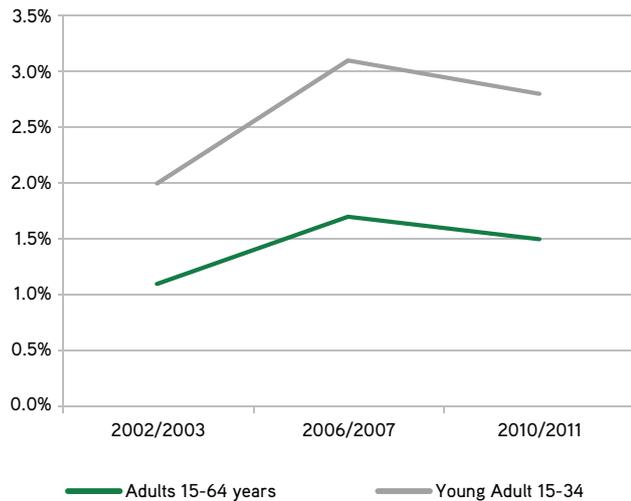


- The annual prevalence of cannabis use in Ireland is high. It ranked 36th out of 139 countries (UNODC 2012b). Cannabis is the most commonly used drug in Ireland, with an adult population consumption rate of 6.3% in 2009 (UNODC 2011).
- The proportion of young adults who reported using cannabis in the last 12 months was 10.3% in 2010–2011 (Figure 15).

- Cannabis is the illicit drug most frequently seized in Ireland. In 2011, the weight of cannabis seized decreased by about 29% (Central Statistics Office 2012d).
- Ireland, ranks 26th out of 132 countries for opioids use, with a prevalence of 0.72% (UNODC 2012b). However, according to the EMCDDA, Ireland reported the highest consumption of opioids among European countries (EMCDDA 2012, 71).
- Cocaine consumption is high in Ireland. With a prevalence of 1.7%, Ireland ranks 8th out of 101 countries, according to the 2012 World Drug Report (UNODC 2012b). 2.8% of young adults declared that they had used cocaine in the last 12 month in 2010–2011 (Figure 16) (NACD & PHIRB 2012).

Figure 16. Prevalence of cocaine users (last year use) in population aged 15 years or over

Source: Transcrime elaboration on NACD and PHIRB (2012) data



46

- Use of ecstasy is increasing at all ages, and especially among young adults (10.9%) (EMCDDA 2011). Ireland has one of the highest prevalence of lifetime use: it ranks 2nd (after Norway) with a value of 6.9% of persons aged 15–64 who have tried ecstasy in their lifetimes; it ranks 3rd (after UK and Netherlands) with a value of 10.9% of persons aged 15–34 who have tried ecstasy in their lifetimes (EMCDDA 2012, 54–55). In 2010–2011, 0.5% of adults and 0.9% of young adults (2.4% in 2006–2007) admitted that they had used ecstasy in the last 12 months (NACD & PHIRB 2012).

•• **Research on the illicit drug market in Ireland is limited (Drug Misuse Research Division 2006).**

- Information can be obtained from law enforcement agencies (Custom Drug Law Enforcement and Garda National Drug Units) (Drug Misuse Research Division 2006, 1–2).
- Having drug price data makes it possible to estimate the value of the drugs market. According to estimations, the total retail market value in 2003 was: €378 mn for cannabis; €54 mn for heroin; €75 mn for cocaine, and €129 mn for ecstasy (Drug Misuse Research Division 2006).

ORGANISED CRIME AND CORRUPTION

•• **Ireland has a relatively limited presence of organised crime activity and corruption.**

- **It ranked low on the Composite Organized Crime Index**, scoring 27.5 and ranked 94th place among 156 countries (Van Dijk 2008, 165–166).
- **Organised crime groups in Ireland operate mainly in the illicit drugs markets**, especially the one for cannabis. However, they also commit other types of crime: tobacco and alcohol smuggling, armed robbery, cash-in-transit robbery, kidnapping, large-scale theft, cybercrimes, intellectual fraud, money laundering, oils fraud, human exploitation (Europol 2011a; Police Service of Northern Ireland and An Garda Síochána 2012; Grant Thornton 2013).
- **Corruption is low. The country ranks in a good position in the Corruption Perception Index.** With a score of 69, it occupies 25th position out of 176 countries in 2012 (Transparency International 2012a). Nevertheless, the latter was the worst ranking ever. The Irish government is implementing anti-corruption laws and it is promoting transparency (Transparency International 2012b).
- **The shadow economy is small.** Ireland ranked 19th out of 162 countries (with a value of 15.4) in a study measuring shadow economies over the period 1999–2007 (Schneider, Buehn, and Montenegro 2010). The shadow economy decrease at a value of 12.7 in 2012 (Williams and Schneider 2013).

- **In Ireland there are different paramilitary groups, which operate in arms, tobacco and drug trafficking.** They draw their origins from the military formations created during the fight for the independence from the UK.
- The Irish Republican Army, IRA or Old IRA, conducted a military campaign against British armies in Ireland between 1919 and 1921. As a result of the war, the Anglo–Irish Treaty gave birth to the Irish Free State (Saorstát Eirann) in 1921. According to the provisions, Northern Ireland exercised the right to opt out of the Irish Free State within a few days. The Treaty created different factions within the IRA, which led to the 1921–1923 civil war which ended in the defeat of the faction against the Treaty.
- In the late 1960s the Catholic minority, started a campaign of civil disobedience; in 1969 London employed the British Army to restore order. In response to the British engagement, the Provisional Irish Republican Army (PIRA) led offensives against the British Army and bomb attacks on “economic subjects” such as pubs, restaurants and manufacturing (Bartlett 2010). In 1986, a group broke away from the PIRA. This group created a political party, the Republican Sinn Féin, and an armed party called CIRA (Continuity Irish Republican Army). In 1994, the PIRA announced a ceasefire. As a reaction, the CIRA continued military actions. The PIRA ceasefire was interrupted in February 1996 and reinstated in July 1997. This led to a new split, as members of the PIRA not favourable to the ceasefire formed the Real IRA.
- In April 1998, delegates of the Northern Ireland parties (Ulster Unionist Party, the SDLP, Sinn Féin, the Alliance Party, Progressive Unionist Party, Northern Ireland Women’s Coalition, Labour Party and the Ulster Democratic Party) along with the British and Irish governments signed the Good Friday Agreement, which open the way for the creation of a Protestant and Catholic government in proportion to election results. The Agreement had five main points: the country’s future constitutional status was in the hands of its citizens; if the people wanted to unite with the Republic of Ireland, they could do so by voting; the country’s current constitutional position was still within the UK; citizens could be Irish, British, or both; the Republic of Ireland would drop its territorial claims. Since then, Northern Ireland lived through a period of peace.
- In 2005, the PIRA announced the end of its armed actions and decommissioned its arsenal. It declared it would pursue its aim to reunify Northern Ireland with the Republic of Ireland through democratic and peaceful means.
- **Crime has recently been decreasing in Northern Ireland.** The number of offences recorded between 2009 and 2011 decreased by 3.8%, and this was the lowest level of crime recorded since 1998 (Police Service of Northern Ireland 2011).

In conclusion, crime levels have decreased in Ireland and the country has low corruption. The informal economy is very limited. There are paramilitary groups which engage in crime to finance their activities or merely to make a living. There are organised crime groups, mostly engaged in drug trafficking. Indeed, drug consumption is high. This may indicate that illicit distribution networks provide opportunities for illicit trafficking, from drugs to illicit tobacco.



THE FIVE DRIVERS: ENFORCEMENT

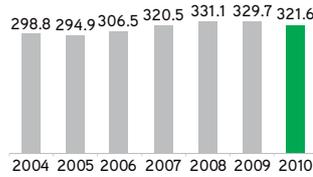
Ireland has efficient law enforcement, with an average number of police forces and low rates of judges and prison population. There is a medium-high level of anti-ITTP actions, and the Government is taking specific action against illicit trade.



Police

Police personnel rate per 100,000 inhabitants

Source: UNODC



321.6

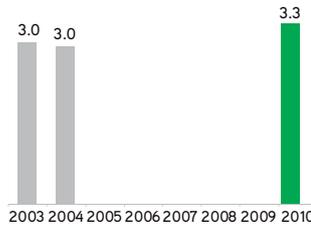
41 out of 81 countries
(last available year)



Judiciary

Professional judges rate per 100,000 inhabitants

Source: UNODC



3.3

64 out of 73 countries
(last available year)

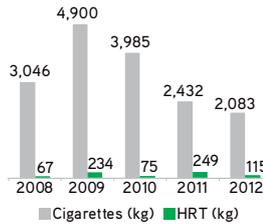


Tobacco Products Seizures

50

Quantity of seized tobacco in Kg per 100,000 inhabitants

Source: Revenue Commissioners



Cig. 2,083 Kg
HRT 115 Kg

(2012)

Penalty for ITTP

Likely maximum penalty for an hypothetical serious case of ITTP

Source: Transcrime elaboration

5 years
of imprisonment

Anti-ITTP Action*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



3.5/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

LAW ENFORCEMENT IN IRELAND

- **In Ireland, law enforcement is medium–high if compared with the levels in other countries.** Police personnel rate is average and the rate of judges is low. The prison population has increased in the past decade. Despite relatively low staffing levels in the law enforcement sector, and decreasing crime trends, an increasing number of people are sentenced to imprisonment. This indicates that the Irish law enforcement system may be considered strict and efficient, with low inputs and high outputs.
- **The police system is unitary. The An Garda Síochána is the only national police force.** The Garda Inspectorate in Dublin (the headquarters) maintains strategic direction; there are six Garda regions, which are responsible and accountable for all aspects of policing in their regions. (Garda Inspectorate 2007).
- The police personnel rate per 100,000 inhabitants in 2010 was 321.6. This is average compared to other countries. Ireland ranked 41st out of 81 countries in 2010 (UNODC 2012a).
- The rate of judges per 100,000 inhabitants in 2010 was 3.3. Ireland ranks 64th out of the 73 countries surveyed by UNODC (UNODC 2012c). The number of judges has slightly increased since 2004 (3.0).
- **Ireland’s prison population has increased in the past decade.** Data for years 2004–2010 showed an increase in the prison population, but in 2011 it was slighter (Irish Prison Service 2011).
- In 2010, the total number of persons held in prisons, penal institutions or correctional institutions per 100,000 inhabitants was 96.6, corresponding to a total amount of 4,318 detained persons and in 2010 Ireland ranked 78th out of 110 countries for its prison population (UNODC 2012c). More than half of the countries in the world have a prison population rate below 150 per 100,000 inhabitants (Walmsley 2011). According to the International Centre for Prison Studies classification, Ireland ranks 156th out of the 221 countries surveyed in 2012 (ICPS 2013).

THE FIGHT AGAINST THE ITTP IN IRELAND

- **The main bodies involved in the fight against the ITTP are:**
 - The **Revenue Commissioners**, which collect taxes and duties and implements customs controls. They launched the *2011–2013 Strategy on combating the illicit tobacco trade* (Revenue Commissioners 2011a). The Revenue participates with HM Revenue & Customs in Northern Ireland in the Joint Investigations Teams (JITs) which conduct controlled deliveries between Ireland and Northern Ireland (Police Service of Northern Ireland and An Garda Síochána 2012, 22). The Revenue has also conducted a Cigarette Consumption Survey with the Office of Tobacco Control since 2009. This survey quantifies illicit cigarettes consumption in Ireland.
 - **An Garda Síochána** is the Irish national police service. It has the task of enforcing action against the illicit market, intercepting illegal imports, and disrupting the sale of illegal tobacco products (ITMAC 2009, 11–12).
 - The **Criminal Assets Bureau** is a division of the Garda and reports yearly to the Minister of Justice and Equality (Garda Inspectorate 2007). The Bureau participates in the Cross Border Tobacco Fraud Enforcement Group (2010), which includes representatives from law enforcement agencies.
 - The **Organised Crime Unit (OCU)** was created on a temporary basis in 2005 by the Garda. In January 2008, the Garda Commissioner established the unit on a permanent basis. It targets international criminal organisations which commit all types of crime, including the importation of counterfeit and contraband tobacco products (Police Service of Northern Ireland and An Garda Síochána 2012, 4).

- The **Cross Border Tobacco Fraud Enforcement Group (CBTFEG)** was established in May 2010 to combat cigarettes smuggling within the island of Ireland. The CBTFEG comprises representatives of the Revenue Commissioners, An Garda Síochána and the Criminal Assets Bureau from Ireland and of HM Revenue & Customs, the UK Border Agency, the Police Service of Northern Ireland and the Serious Organised Crime Agency from the UK/Northern Ireland. It aims to identify the key organised crime groups involved in cigarettes smuggling on both sides of the land border, to share information, and to coordinate multi-agency actions. (Police Service of Northern Ireland and An Garda Síochána 2012; Doherty 2013).
- The **Department of Social Protection** was created to formulate appropriate social protection policies. It has interests in combating welfare fraud and fraud in general. One of the aims of this campaign is to de-incentive those engaged in the smuggling of illicit tobacco (JTI Ireland 2012a).
- **In Ireland, there are a number of criminal offences applicable to the ITTP (see Box *Hypothetical case*, p.52–53).** Analysis of the legal provisions and of data on sentencing suggest that the criminal law may have a limited deterrent effect (Doherty 2013; Healy 2013).
- **Overall, the criminal penalties appear very mild.** Individuals involved in the hypothetical serious case of ITTP analysed in the box below are likely to face a fine of up to €126,970 (or a maximum of three times the evaded duty) or a term of imprisonment not exceeding five years, or both (see Box *Hypothetical case*, p.52–53).

HYPOTHETICAL CASE

A criminal organisation composed of eleven members used a house in the periphery of a large city as an illicit factory for the production and distribution of tobacco products. For at least sixteen months, with a clear division of tasks and functions among them, the members of the organisation illegally manufactured tobacco products (cigarettes and hand – rolling tobacco); packed them in packaging bearing false trademarks of legitimate brands (produced by the same organisation); distributed the products to various wholesalers and retailers; sold the illicit products through a network of bars and street sellers. No tax or duty was ever paid on these products. The law enforcement agencies seized a total of ten tons of illegal tobacco products stocked inside the house. All the members of the organisation had previous records for fraud, forgery and illicit trade in tobacco products. The members could not justify their incomes through any form of employment, suggesting that the illicit business was their sole source of income.

The applicable penalties in Ireland

In theory, there are several offences applicable to the above case.

(1) The organised crime offences (Part 7 of the Criminal Justice Act 2006, as amended by the Criminal Justice (Amendment) Act 2009) (Davey 2008). These offences comprise conspiracy to commit a serious crime (s.71), direction of a criminal organisation (s.71A), participation in, or contribution to, certain activities (s.72) and commission of an offence for a criminal organisation (s.73). The penalties range between life imprisonment for the direction of a criminal organisation to a maximum of 15 years of imprisonment for participation in and commission of an offence for a criminal organisation.

(2) The offence of conspiracy is agreement to commit an offence. Ireland is the only common law jurisdiction which has not yet legislated conspiracy law, although the Irish Law Reform Commission has invoked such reform (Law Reform Commission 2010, 93–94). The penalty for conspiracy is “at large”, i.e. at the discretion of the court. In practice, however, conspiracies are punished less than the predicate offences (Law Reform Commission 2010, 17–18).

(3) Fraudulent application or use of trademark in relation to goods (Section 92 of the Trade Marks Act 1996). The penalty on summary conviction is a fine to a maximum of €1,270 or a term of imprisonment not exceeding 6 months or both. On indictment, it is imprisonment for a term not exceeding five years or a fine to a maximum of €126,970, or both.

(4) Offences relating to excise law, including:

– **Evasion of excise duty** (s.119 Finance Act 2001): “take possession, custody or charge of, or to remove, transport, deposit or conceal, or to otherwise deal with, excisable products in respect of which any duty of excise is for the time being payable, with intent to defraud, either directly or indirectly, the State of such duty”.

– **Offering or keeping for sale tobacco products in packets without a tax stamp; being in the process of delivering tobacco products which do not have tax stamps; to be knowingly concerned in the holding, selling or dealing in counterfeit/altered tax stamps** (s.78 Finance Act 2005).

The penalties for excise law offences are these: on summary conviction a maximum fine of €1,270 or a term of imprisonment not exceeding 6 months or both; on indictment, imprisonment for a term not exceeding five years or a maximum fine of €126,970, or both. For evasion of excise duty, where the value of the goods concerned is greater than €250,000, the fine may be no greater than three times the value of the products.

(5) Manufacturing, storing and selling tobacco products without Revenue authorization. There are several offences applicable in these cases.

- For **manufacturing and storing in unauthorized premises**, the maximum fine imposed is €5,000.¹⁰
- For **unregistered retail sale of tobacco products**, the penalty on summary conviction is a fine of up to €3,000 and/or imprisonment of up to 3 months; the penalty on conviction on indictment is a fine of up to €127,000 and/or imprisonment of up to 2 years.¹¹
- For **prohibited commercial purposes** the penalties vary and increase according to the number of previous convictions.¹²

(6) Money laundering (s.7 Criminal Justice (Money Laundering and Terrorist Financing) Act 2010): the penalty on summary conviction for a money laundering offense is a fine of up to €5,000 and/or imprisonment of up to 12 months. The penalty on conviction on indictment is a fine and/or imprisonment of up to 14 years.

In practice, not all the above provisions would apply to the hypothetical case. The offences of organised crime have been used in very few cases and not for the ITTP (Doherty 2013). In Ireland, conspiracy is charged only in alternative to the predicate offence (“a conviction for a substantive offence precludes conviction for conspiring to commit it in respect of the same factual instance” (Law Reform Commission 2010, 19)).¹³ Also money laundering may not be the preferred charge for the prosecution. In general, cases of ITTP are dealt with through the provisions of the trademark and excise law (Points (3), (4) and (5)). Given the seriousness of the case, it appears likely that the prosecution may opt for an indictment. Also, the Irish Prosecution Guidelines require not to over-charge, particularly when the same set of conducts infringe multiple provisions (Director of Public Prosecutions 2010, 26). This suggests that the prosecution may opt for charging only for one of the applicable offences.

In conclusion, the suspects may face a fine of up to €126,970 (or a maximum of three times the evaded duty) or a term of imprisonment not exceeding five years, or both.

10. Manufacturing and storing in an unauthorized premises: s. 10 of the Finance (Excise Duty on Tobacco Products) Act, 1977.

11. Unregistered retail sale of tobacco products: s.8(14) of the Public Health (Tobacco) (Amendment) Act 2004.

12. Prohibited commercial purposes: s.55(1)(a) of the Consumer Protection Act 2007: on the first summary conviction, the penalty is a fine of up to €3,000 and/or imprisonment of up to 6 months. The penalty for any subsequent conviction for any offense under the Consumer Protection Act 2007 is a fine of up to €5,000 and/or imprisonment of up to 12 months. If, after being convicted of an offense, the trader continues to make prohibited representations, the trader is guilty of a further offense, on each day that the contravention continues, and for each such offense is liable on summary conviction to a fine of up to €500. The penalty on

conviction on indictment for a first offense is a fine of up to €60,000 and/or imprisonment of up to 18 months. The penalty for any subsequent conviction under the Act is a fine of up to €100,000 and/or imprisonment of up to 24 months. If, after being convicted of an offense, the trader continues to contravene the provisions of the Act, the trader is guilty of a further offense, on each day on which the contravention continues, and for each such offense is liable on summary conviction to a fine of up to €500 and on conviction on indictment to a fine of up to €10,000.

13. The Irish prosecution guidelines state that “conspiracy charges are generally not appropriate where the conduct in question amounts to a substantive offence and there is sufficient reliable evidence to support a charge for that offence” (Director of Public Prosecutions 2010, 26).

Table 8. Convictions, fines and custodial sentences for evasion of tax duty (2010–2012)

Source: Transcrime elaboration on Revenue (Doherty 2013) data

	2010	2011	2012
N. Convictions	97	104	57
Total Fines imposed	€50,380	€138,800	€93,550
N. Custodial Sentences	14	31	26
N. Custodial Sentences suspended	9	21	7

•• **Sentencing practices show low penalties for the ITTP.**

- In 2012, the Revenue Commissioners obtained less convictions and lower total fines for evasion of excise duty than in 2011. In 2010, the number of convictions was higher than 2012, but the average fine imposed was lower (Table 8). In 2012, the average fine imposed was €2,528 (out of 37 fines, 20 convictions had custodial sentences only). There were also less custodial sentences than 2011 (26 and 31 respectively). Custodial sentences ranged from 2.5 years to 21 days; suspended sentences ranged from 3 years to 2 months in 2012 (Doherty 2013).
- Convictions, custodial sentences and total fines imposed for selling tobacco products in a pack without a tax stamp were higher in 2012 than in 2011 (Table 9) (75 and 57 respectively). In 2012, the average fine was €2,834 (out of 54 fines, 21 had custodial sentences only). Custodial sentences ranged from 1 day to 3 years and suspected sentences ranged from 2 months to 2.5 years (Doherty 2013).

•• **Anti ITTP action in Ireland is medium–high, with 3.5 points out of 5 on this indicator (Table 10, p.55).**

- **There is a national action plan against ITTP elaborated in 2011.** The *Program of Government 2011–2016* states the government’s commitment to increasing the penalties for tobacco smuggling and to providing stronger detection measures to combat it.
- In 2012, The Department of Finance published the *Finance Statement of Strategy 2011–2014*. This proposed to “increase the penalty for tobacco smuggling for commercial purposes and provide robust detection measures to counteract such smuggling” (Department of Finance 2012b).
- The *Revenue’s Strategy on Combating the Illicit Tobacco Trade (2011–2013)* aims to deter people from buying illicit trade products and to reduce their availability. In the long term, this will increase the amount of tax and duties paid, protect legitimate businesses, and deter criminal activity.

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Table 9. Convictions, fines and custodial sentences for sale of illicit tobacco products (2010–2012)

Source: Transcrime elaboration on Revenue (Doherty 2013) data

	2010	2011	2012
N. Convictions	41	57	75
Total Fines imposed	€107,750	€114,350	€153,050
N. Custodial Sentences	7	14	21
N. Custodial Sentences suspended	4	7	13

Table 10. Measures against the ITTP in Ireland

Source: Transcrime elaboration

Anti-ITTP action indicator	Value
1) National Action Plan against the ITTP	Yes, 1 point
2) Cooperation agreements between national public bodies and tobacco companies to prevent and control the ITTP	Partially, 0.5 points
3) National public awareness campaign against the various forms of the ITTP	Partially, 0.5 points
4) Legal duty for tobacco manufacturers not to facilitate smuggling	Partially, 0.5 points
5) Official estimates of the size of the ITTP	Yes, 1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. Its purpose is rather to synthesise the intensity of policy measures in a specific field.

- The strategy is organised into five sets of actions:
 - 1) The Revenue must ensure that the legitimate trade remains compliant through the increase of controls and visits to targeted retailers, and the monitoring of excise duty collection;
 - 2) It must intervene more effectively by taking action against illicit trade, reviewing the effectiveness of detection processes, and increasing the number of inland and frontier operations;
 - 3) It must increase cooperation at the organisational (regional/divisional), national (Criminal Assets Bureau, An Garda Síochána, Office of Tobacco Control, Department of Social Protection, Irish manufacturers Advisory, port and airport authorities), and international levels (OLAF);
 - 4) It must increase prosecutions in all cases of tobacco tax evasion and identify measures suitable for prosecution;
 - 5) It must reduce the demand for contraband tobacco through education of the public on the negative aspects of its consumption and optimization of media coverage of prosecutions (Revenue Commissioners 2011a).
- On November 2011, the **Advisory Group for Small Business (AGSB)** identified five actions to implement to impact on the economic environment for small businesses in Ireland. One of the actions concerned the hidden economy and the illicit tobacco trade. The AGBS proposed introducing container scanners in ports and increasing the judicial penalties upon conviction for illicit trade (JTI Ireland 2012a, 30) (Point 1 in Table 10).
- **There are no cooperation agreements between national public bodies and tobacco companies to prevent and control the ITTP at national level. However, there are written agreements between tobacco industry and public bodies at European level.**
- The European Commission has signed legally binding and enforceable agreements with tobacco manufacturers. The four largest tobacco manufacturers agreed to finance the EU and the countries participating in the agreement and to prevent their products from falling into the hands of criminals. Notably, they must supply only quantities required by the legitimate market, ensure that they sell only to legal clients, and implement a tracking system (European Commission 2004; European Commission 2007; European Commission 2010a; European Commission 2010b).
- In Ireland, Department of Health officials meet representatives of the tobacco industry only when such meetings are necessary to regulate the industry effectively and to advance tobacco control policies (WHO 2013).
- However, the Revenue Commissioners have a MoU to sign for tobacco companies. Companies are considering the opportuneness of signing this memorandum (Point 2 in Table 10).
- **There are no state-sponsored national public awareness campaigns against the various forms of the ITTP in Ireland.**

- However, **Retailers Against Smuggling (RAS)** was created in 2009 to represent tobacco retailers in action against the illicit trade of tobacco. The aims are to raise awareness about cigarettes smuggling and illegal cigarettes selling and about the effects of illicit tobacco on retailers, and to campaign for legislative reform. In June 2011, RAS organised the Annual Retailers Against Smuggling Conference in Dublin with Revenue Commissioners, Europol and OLAF (JTI Ireland 2012a, 32).
- In August 2012, RAS launched the “Smell A Rat” consumer awareness campaign with a high level of national media coverage. The aim was to inform consumer that illicit cigarettes are unregulated and possibly counterfeit. The campaign also highlights the connection between organised crime and illicit trade of tobacco products. This promotion used different channels, such as a press launch, mobile outdoor advertising campaign, a social media campaign, an in-trade advertising campaign and full-page advertisements in the national print newspapers (JTI Ireland 2013a) (Point 3 in Table 10, p.55).
- **In Ireland, there is no explicit legal obligation for tobacco manufacturers not to facilitate smuggling.**
- However public-private agreements are in place, such as those between the European Commission and the main tobacco manufacturers (European Commission 2004; European Commission 2007; European Commission 2010a; European Commission 2010b).
- Furthermore, the Department of Health is discussing publication of the new Public Health Act. One of the proposals is to impose a legal duty on the tobacco industry not to facilitate smuggling (Department of Health 2012) (Point 4 in Table 10, p.55).
- **Revenue Commissioners have provided official estimates of the size of the ITTP since 2009.** In 2012, 13% of all smokers had an illegal pack of cigarettes and 7% of all packs were legal Non-Irish Duty Paid (NIDP). In 2011, the figure was slightly higher, 15% of all smokers had an illegal pack of cigarettes and 8% of packs were legal NIDP ones. These features were similar in 2009 (16% of smokers and 6% of packs) and in 2010 (15% of smokers and 9% of packs) (Revenue Commissioners 2009b; 2010a; 2011b) (*Modus operandi* and geographical distribution, p. 68) (Point 5 in Table 10, p.55).
- **The Revenue Commissioners publish yearly data on illicit tobacco seizures.** Irish seizures of illicit cigarettes and HRT have fluctuated in recent years (Figure 17). Cigarettes seizures increased in 2008–2009 (134.8 and 218.5 mn respectively) and then decreased in 2011 (109.1 mn), and again in 2012 (95.6 mn) (Revenue Commissioners 2007; 2008; 2009c; 2010b; 2011c; 2012; 2013a) (Table 11). 2009 recorded the highest number of seizures because, in October, there occurred the largest seizure of cigarettes (120 mn) in Ireland and in the European Union (in Greenore Port, County Louth) (see box in *Fight against contraband cigarettes: Operation ‘Samhna’*, p. 67).

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Figure 17. Seizures of cigarettes and HRT (2006–2012)

Source: Transcrime elaboration on Revenue (2007; 2008; 2009c; 2010b; 2011c; 2012; 2013a) data

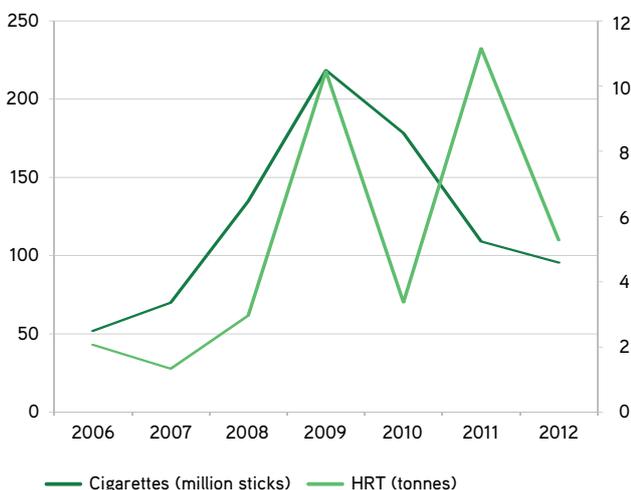


Table 11. Seizures of cigarettes and hand-rolling tobacco

Source: Transcrime elaboration on Revenue (2007; 2008; 2009c; 2010b; 2011c; 2012; 2013a) data

	2006	2007	2008	2009	2010	2011	2012
Cigarettes							
Total seized	52.0 mn	70.0 mn	134.8 mn	218.5 mn	178.3 mn	109.1 mn	95.6 mn
Value (€m)	18.0	24.0	54.3	92.1	75.1	45.9	43.3
Hand-rolling Tobacco							
Total seized	2,068 kg	1,335 kg	2,965 kg	10,451 kg	3,369 kg	11,157 kg	5,277 kg
Value (€m)	0.59	0.38	1.00	3.70	1.20	4.00	1.95

- Between January and June 2013, the Revenue seized about 4.5 mn cigarettes and about 950 kg of HRT (Table 11) (Revenue Commissioners 2013b).
- Seizures of Hand-Rolling Tobacco (HRT) have increased since 2008. The highest increases were in 2009 and 2011 (10,451 and 11,157 kg respectively). In 2012, seizures decreased (only 5,277 kg) (Figure 17, p.56) (Revenue Commissioners 2007; 2008; 2009c; 2010b; 2011c; 2012; 2013a).
- Ireland signed the WHO Framework Convention on Tobacco Control on 16 September 2003. The Treaty entered into force on 5 February 2006. According to article 15.1 of the Convention, “parties recognize that elimination of all forms of illicit trade and development and implementation of related national law are essential components of tobacco control”. Thus Ireland “shall promote and strengthen public awareness of tobacco control issues, using all available communication tools” (WHO 2003). The Irish Government reports every three years to the Conference of the Parties on progress in implementing the FCTC.

In conclusion, Ireland has effective law enforcement. The police personnel rate per 100,000 of the population is average, while the prison population and the rate of judges have increased in the past decade.

There are a number of law enforcement and intelligence agencies tackling the ITTP. Innovative approaches, such as awareness campaigns (funded by private organisations), are adopted together with traditional ones. Agreements between tobacco companies and national public bodies to prevent and control the ITTP and the explicit legal obligation for tobacco manufacturers not to facilitate smuggling are provided only at European level. Criminal law does not seem to deter smuggling, since the penalties appear very mild.

Chapter 2

the four components



THE FOUR COMPONENTS

This section analyses the four components of the ITTP. The components are the various elements of the illicit tobacco market, and their analysis highlights the complexity, diversity and dynamism of the ITTP.

THE DEMAND

- **Low price is the main driver of the demand for illicit tobacco. On average, illicit cigarettes in Ireland cost half the price of legal cigarettes (JTI Ireland 2012a).**
- Estimates show that the illicit tobacco market grew from 590 mn sticks in 2007 to 1.6 bn sticks in 2011. One of the causes of this rise is probably the increase in tobacco tax incidence (see box *Reasons why people buy illicit tobacco*, p. 60). The higher the share of taxes out of the retail selling price, the higher the incentives for consumers of illicit tobacco (Euromonitor International 2012; Gallagher and Tallon 2012).



- An increase in cigarette prices produces a decrease in the consumption of taxed cigarettes and an increase in the consumption of untaxed ones. The fall in the consumption of taxed cigarettes is related to a lower level of smoking and to the substitution with untaxed cigarettes, which are a lower-cost alternative (Reidy and Walsh 2011).
- Furthermore, the lower the affordability of genuine tobacco (expressed in Price relative to income – % of per capita GDP to buy 100 packs), the higher the incentives for illicit products. In Ireland, cigarettes are relatively affordable (2.3% of per capita GDP to purchase 100 packs). However, the high tax incidence and the prices may increase the relative affordability and the demand for illicit products (Eriksen, Mackay, and Ross 2012; Grant Thornton 2013).
- According to various associations, price is not the main problem. To detect illicit traffic, it is necessary to block the entry into the country of smuggled products, to impose severe penalties on smugglers, and to increase the cost of smuggling (Michael O'Shea, Chief Executive of Irish Heart Foundation in Gallagher and Tallon 2012).
- **People with lower incomes or who are unemployed choose to purchase illicit cigarettes because they cost less.** The number of these buyers has grown due to the financial crisis and because buying illicit cigarettes is not considered a serious crime (Gilsenan and Brophy 2013; Healy 2013).
- **The consumers are mainly men aged between 18 and 39 years old,** and from the working class (Healy 2013). **Under-age people also purchase illicit tobacco** because of its unregulated nature (Doherty 2013; Grant Thornton 2013).
- **There is one study on illicit tobacco consumers.**
- Japan Tobacco International (JTI) conducted a survey on the availability and accessibility of illicit cigarettes. In 2011, about 37% of people were aware of the availability of lower-priced cigarettes and about 15% declared that they had bought such cigarettes (JTI Ireland 2012a, 12).

REASONS WHY PEOPLE BUY ILLICIT TOBACCO

Many factors stimulate the purchase of illicit tobacco.

- Price, because legal tobacco is expensive in Ireland and people can buy illicit tobacco at half the price (Doherty 2013; Healy 2013).
- Normalisation: the illicit trade is normalised and available (people can buy illicit cigarettes in street markets) (Doherty 2013; Healy 2013).
- Criminals and buyers do not consider the illicit tobacco trade as a serious crime (Healy 2013).
- The cost in neighbouring countries is lower, and it is easy to travel by airplane to countries where products can be purchased at low prices (Doherty 2013).

- People were less aware of the availability of these products than in the past. In 2012, between 47% and 49% of respondents reported that they knew of the existence of lower-priced cigarettes (Non-Irish Duty Paid, NIDP). In 2009, the share was between 38% (at the beginning of the year) and 49% (at the end of the year) (JTI Ireland 2011, 14).
- Men aged 18–24 were most likely to buy NIDP cigarettes in 2010 (40%). In Cork, 50% of the 18–34 year olds interviewed said that they had purchased NIDP cigarettes. Among foreigners, 31% declared that they had purchased NIDP cigarettes (JTI Ireland 2011).
- **The demand for illicit tobacco is higher in regions with lower population density.**
- Munster and Connaught/Ulster are the regions with the highest number of respondents who had declared to have purchased NIDP cigarettes (JTI Ireland 2011, 15).
- The research reported the highest incidence of awareness and purchase in the West and South of the country in 2011 (about 40–45% for awareness and about 20% for purchase) (JTI Ireland 2012a, 12).

- **Illicit tobacco is easy to find.**

- Illicit products are available for purchase from black-market suppliers. The most frequent channels are black-market street dealers, market stalls, legal shops, hawkers in pubs and private houses, and online shops (Gallagher and Tallon 2012; Maguire 2012).

- **It is important to make consumers aware of the implications and dangers of smoking illicit tobacco.**

- The illicit tobacco trade is a critical public health issue because lower priced cigarettes enable greater consumption and consequently cause more damage to health. Simultaneously, the health care system worsens due to a decrease in the state funds (JTI Ireland 2011, 35).
- Various associations (Retailers Against Smuggling, Crimestoppers) are trying to start a nationwide consumer awareness campaign on the damage caused by illicit tobacco. They want to make consumers aware of the bad quality of counterfeit products. Furthermore, the campaign intends to show the relation between the illicit tobacco market and other types of crime, such as dealing in drugs and firearms, and human trafficking (JTI Ireland 2012a; Gallagher and Tallon 2012).

THE SUPPLY

- **High tax incidence and low penalties for the ITTP offer high profits for traffickers.**

- The suppliers of illicit tobacco can make large profits from the ITTP. Tobacco products are particularly expensive in Ireland owing to high tax incidence, so that the profit margin for smugglers is considerable (Grant Thornton 2013).
- The amount of total taxes per 1,000 sticks was Int. \$373.3 in 2010. Ireland had one of the highest amounts in the world (3rd out of 164 countries) (WHO 2012). In 2013, total taxes per 1,000 sticks amounted to Int. \$432.3 (International Monetary Fund 2012; European Commission 2013). At international level, this figure is relevant for large scale smuggling, counterfeiting and illicit whites and may provide incentives for suppliers of illicit tobacco.

- The share of taxes out of retail selling price was 83% in January 2013 and Ireland had one of the highest level of taxes in the European Union (calculation on percentage of WAP) (European Commission 2013). This is mostly relevant at national level for illicit wholesale and retail distribution of illicit tobacco products within the national borders and provides incentives for the ITTP.

- **The supply side of the ITTP is composed of a wide variety of actors.**

- According to the literature on tobacco smuggling, individuals can run most types of illicit trade without having to belong to a structured and continuative organised group. The smuggling actors range from serious organised crime groups, based both in Ireland and Northern Ireland, through foreign-based groups which import relatively small but regular consignments via air passenger traffic from Eastern Europe, to opportunistic groups and individual bootleggers (Allen 2011; Organised Crime Task Force 2011; FATF 2012; Doherty 2013).

- **International criminal gangs and local thieves operate throughout the country in the trafficking of 25% of illegal cigarettes.** Irish criminal gangs make about €3 mn a week from selling illegal cigarettes (IBEC 2012b, 14).

- **Irish organised crime gangs choose to traffic illicit tobacco because of the low risk of fines and the low penalties imposed and the lucrative business opportunities available.** Ireland has no minimum penalties, and this attracts organised crime groups, which use the profits from tobacco smuggling to fund other criminal activities such as human smuggling, drug and gun crimes, and terrorism (JTI Ireland 2012a; Michael O'Shea in Gallagher and Tallon 2012; Joint Committee on Finance, Public Expenditure and Reform Debate 2012; Grant Thornton 2013). Cigarettes are replacing cocaine as a major source of criminal income, because operations are risk-free and the fines are insignificant if compared with the potential profits (Hickey 2012).

- Irish criminal organisations are the principal groups involved in illicit trafficking, but there are also Chinese and Eastern European groups (Gilsenan and Brophy 2013).

- According to Tom Talbot, Senior Investigator for the Revenue Commissioners, “the illegal cigarette trade is costing the Exchequer €250 mn per year. The Irish gangs make €2 mn for every 40 feet container of cigarettes smuggled in Ireland” (Irish Times 2011).
- Organised crime groups have become interested in illicit whites. Those products are manufactured specially for the illegal market and produce bigger profits (Police Service of Northern Ireland and An Garda Síochána 2010).
- The principal paramilitary group involved in cigarettes smuggling in Ireland and Northern Ireland is the IRA (see box *IRA and cigarettes smuggling*).
- **Illegal importation by travellers is another type of trade.**
- There are two sources of untaxed cigarettes. The first is the transportation of cigarettes by travellers returning to Ireland. This is known as ‘ant smuggling’ or bootlegging. The second source of untaxed cigarettes is the purchase of illegal untaxed cigarettes produced abroad and smuggled into the country for resale (Reidy and Walsh 2011).

IRA AND CIGARETTES SMUGGLING

The high level of tax incidence, differentials in duty rates, impact of the land border, and the role of criminal organisations contribute to the smuggling of tobacco products between the Republic of Ireland and Northern Ireland (JTI Ireland 2012a; Police Service of Northern Ireland and An Garda Síochána 2012).

The IRA, the Provisional IRA (PIRA), the Real IRA (RIRA) and the Continuity IRA (CIRA) make money from the trafficking of illicit cigarettes (Kaplan 2009; Northern Ireland Audit Office 2009; Organised Crime Task Force 2011; 2012). The Provisional IRA and the Real IRA are the largest organisations involved in tobacco trafficking (Kaplan 2009; Rollins and Wyler 2012). They are reported to be engaged in container trafficking (Whiting 2013).

The Loyalist paramilitary groups (Ulster Volunteer Force and Ulster Defence Association) are also involved in tobacco smuggling. They probably pay people to travel to holiday destinations to buy illicit tobacco, and are not engaged in large container smuggling (Organised Crime Task Force 2011; Whiting 2013; Organised Crime Task Force and Police Service of Northern Ireland 2013).

The dissidents of the Real IRA were considered to be the largest-scale smugglers, but it seems that they worked alongside Provisional IRA bosses. Investigations by Interpol showed that cigarettes were produced in China. Smugglers bought them via internet and then smuggled them to Tripoli in Libya. Cigarettes were shipped to Malta and then arrived in containers in Ireland by sea (Cusack 2009).

The RIRA and the CIRA are generating significant sums of money from tobacco smuggling (Police Service of Northern Ireland and An Garda Síochána 2012).

In 2009, a man was charged in Miami for cigarette smuggling in connection with the Real IRA. The cigarettes were transported from the Canary Islands to Panama through the port of Miami, and then to Ireland and the UK (Kaplan 2009; Duncan 2012).

In 2011, two suspected Real IRA members were arrested in Portugal. The Police identified one of them as a Real IRA member involved in drugs, weapons and cigarettes smuggling (McDonald 2011).

In 2013, Brian Arthurs (previously named as a member of the IRA’s ruling Army Council) has been inquired for cigarettes smuggling in the UK. Arthurs runs the operation with a convicted terrorist and cigarette smuggler called Aidan Grew. The cigarettes originated from the East (Wright 2013).

- In March 2010, the Government introduced rules and limits on the personal transportation of cigarettes from EU member states (Reidy and Walsh 2011). According to the regulation (PN 1878– Information for Travellers Arriving in Ireland from Member States of the European Union), a traveller can bring 800 cigarettes, 400 cigarillos, 200 cigars or 1 kg of smoking tobacco into the country, and people cannot transport these products for commercial purposes (for Canary Island the limit is 200 cigarettes, 100 cigarillos, 50 cigars and 250 g of HRT).
- Organised crime groups use ‘ant smuggling’ to smuggle cigarettes. They hire people to travel to a variety of destinations several times a week, and on each trip these people transport small amounts of cigarettes. It is estimated that criminal organisations earn between €30,000 and €50,000 on 10,000 smuggled cigarettes after costs deduction (courier payment and plane ticket costs) (Shay Doyle, Dublin Airport Customs Manager, in Gallagher and Tallon 2012).
- **People also smuggle illicit cigarettes into Ireland and sell them without being involved in criminal organisations (Maguire 2012).** They may buy cigarettes abroad and then sell them to relatives or friends. This type of smuggling is difficult to detect, because buying illicit tobacco products through personal channels diminishes the risks for smugglers and increases the opportunities to obtain illicit tobacco (Healy 2013).
- According to estimates, about 37,000 Irish citizens travelled weekly for shopping to Newry (Northern Ireland) in 2010. This signifies a loss of sales of about 33 mn cigarettes and a loss for the Exchequer of €11 mn (JTI Ireland 2011, 13). This is probably due to the different level of tax incidence on tobacco products, but also because of the exchange rate.
- **There are various channels for the sale of illicit tobacco products: black–market street dealers, market stalls, hawkers in pubs, legal unlicensed shops, door–to–door sales, private houses, online shops, workplaces and sporting events (Gallagher and Tallon 2012; Maguire 2012; Doherty 2013; Gilsenan and Brophy 2013).**
- Those channels are differently concentrated in the country’s various regions. Street markets are places where smuggled goods, including tobacco, are available (JTI Ireland 2012a, 36). For example, the Balbriggan market and the Moore Street market (in the centre of Dublin) are notoriously important sources of illicit tobacco products (Maguire 2012; O’Reilly 2012a). To avoid this type of selling it could be useful to introduce CCTV cameras, which oblige illicit tobacco sellers not to operate there anymore. An example is the Clara market, where, after the introduction of cameras, the illicit tobacco traders were obliged to move away.
- In certain parts of Dublin, illicit cigarettes sellers distribute door–to–door advertising flyers with phone contacts (Euromonitor International 2012, 15; Retailers Against Smuggling 2013). In Limerick County, smugglers also use door–to–door sales (O’Reilly 2012d).
- It is easier to buy illicit cigarettes online because there is a lower risk involved, but the products are more likely to be counterfeit. The issue of online shops is more complex. There is a ban on tobacco products advertising in Ireland, and such websites are illegal in the country. However, they are not registered within the country and they are not subject to legal regulation (JTI Ireland 2012a, 16).
- Internet sales occur in two distinct ways. The first is the direct purchase by consumers from foreign–based suppliers. The second is the retail distribution of products which have been smuggled into the country. The Revenue Commissioners target areas through import controls at postal/courier depots and importation operations. The level of direct Internet supplies is not especially significant (Doherty 2013).
- **Retailers sell illicit tobacco products only to know customers in certain parts of the country.**
- In North Dublin, Waterford, Mayo and Westmeath counties, the majority of the illicit trade on large council estates takes place via long–standing delivery rounds. Only known and loyal customers can buy illicit tobacco (O’Reilly 2012a; 2012b; 2012c; 2013b).

THE PRODUCTS

•• There has been an evolution in the smuggled products.

- In the 2000s smugglers concentrated on the best-selling genuine UK (for Northern Ireland) and Irish brands from continental Europe. In those ten years, first the counterfeit versions of these products and then the illicit whites and non-UK and Irish brands started to appear (JTI Ireland 2012b).

- In 2011 the seizures of genuine brands continued to fall, and those of illicit whites and counterfeit products continued to grow (JTI Ireland 2012b). In 2012, the quantities of counterfeit HRT available in the black market increased (JTI Ireland 2013a).

•• There is official data on the Irish illicit cigarette market.

- The Revenue Commissioners and the HSE's National Tobacco Control Office have issued data since 2009. This nationwide survey is conducted among Irish and foreign adult smokers with the purpose of estimating the volume of illegal cigarettes consumed in Ireland.

- **In 2012 the Revenue estimated that 13% of all smokers had an illegal pack. A further 7% of all packs were found to be NIDP (Non-Irish Duty Paid) (Revenue Commissioners 2013a).** In 2011, the figures were similar (15% of all packs were illegal and 8% were NIDP). It was estimated that Irish smokers consumed approximately 770 mn illegal cigarettes, with a loss to the Revenue (Excise & VAT) of approximately €258 mn in 2011 (Revenue Commissioners 2011b).

- The research showed that 14% of all smokers had an illegal pack of cigarettes in 2009 and 2010. Irish smokers consumed about 745 mn illicit cigarettes in 2010, with a loss to the Revenue (Excise Duty and VAT) of approximately €249 mn (in 2009 849 mn illegal cigarettes with a loss of approximately €285 mn) (Revenue Commissioners 2009b; 2010a).

- In addition, 8% of cigarettes in 2010 and 6% in 2009 were legal NIDP (Revenue Commissioners 2009b; 2010a).

- These findings were based on the 2006 Census population figures, which were the most up-to-date ones available at the time of the survey. The illegal packs amounted to 16% in 2009 and 15% in 2010; the legal NIDP to 6% in 2009 and 9% in 2010. These data may be affected by the new data from the 2011 Census (Revenue Commissioners 2011b).

- **KPMG Star Report is an important study on the ITTP is another important source.** KPMG conducts an annual study for PMI and OLAF as part of EU agreements. KPMG analyses EPSs results to disentangle the different sources of non-domestic packs found in Ireland. Packs are catalogued as: legal domestic; legal non-domestic; and counterfeit and contraband (estimates of illegal market penetration) (KPMG 2013). The Star Report estimated an illicit market penetration of 19.1% in 2012 (KPMG 2013).

•• There are also several unofficial estimates of the Irish ITTP (Table 12, p.65):

- estimates provided by Euromonitor International;¹⁴
- estimates based on Empty Pack Surveys (EPSs);¹⁵
- estimates based on the Flows Model.¹⁶

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14. Euromonitor sources for estimating the illicit trade include the trade press, customs offices, interviews with manufacturers and retailers, as well as local knowledge of the market – for example how porous borders are, how high unit prices are, whether a market is a conduit for cigarettes versus actual consumption.

15. EPS gives estimations of the penetration of the illicit market and of its evolution over time in Ireland's main cities. There are several reasons for treating the findings of EPSs with caution:

- they assess non-domestic products, which include legitimately purchased cigarettes (e.g. by travellers);
- figures are based on packs of cigarettes and exclude other products such as HRT or cigars;
- they do not identify domestic contraband cigarettes;
- the sample is collected at the street level and does not consider homes and workplaces.

This may lead to underestimation of the size of the illicit tobacco

market. Notwithstanding these limitations, EPSs may provide data useful for analysing the illicit cigarettes market. Indeed, they provide estimates at the city level, which are unavailable from other sources.

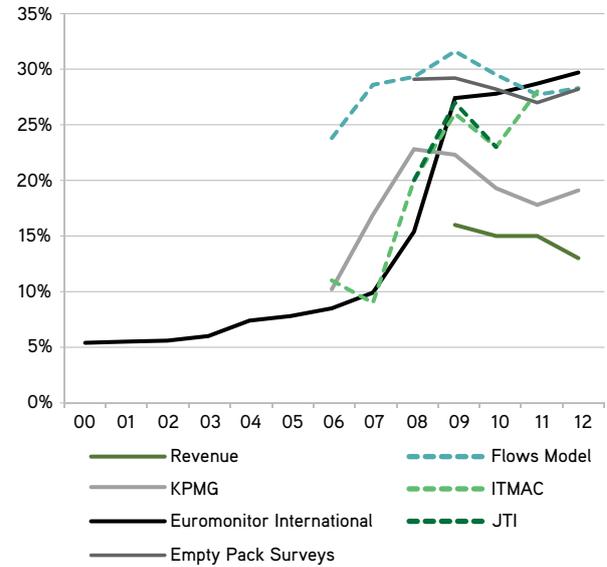
16. The flows model details the volume of inflows and outflows of tobacco products in a market (the model only specifies flows to EU countries). Estimation of the penetration of the illicit market is based on analysis of imported, exported, produced and consumed volumes. The sum of production and imports should be equal to the sum of consumption and exports. Differences in the equation indicate the misappropriation of certain volumes that have been diverted from the legal market to the illicit one. This methodology considers only EU flows and aims to quantify the non-domestic (legal) and counterfeit and contraband cigarettes consumed in each country and the EU as a whole. It is therefore necessary to treat its results with caution.

•• **Different estimates can produce different and conflicting results (Figure 18).**

- **Revenue Commissioners data present the lowest estimates of illicit market penetration.** 13% of cigarettes packs were illegal in 2012, and the figure decreased from 15% of 2009–2011 (Revenue Commissioners 2011b; 2013a). They did not agree with EPS estimates, because EPSs do not distinguish between legally imported cigarettes and illicit products. The Commissioners pointed out that their research conducted with the Tobacco Control Unit drew that distinction (O’Halloran 2013).
- **In 2012, KPMG estimated an illicit market penetration of 19.1%.** The trend has fluctuated since 2006. There was a growth of the illicit market between 2006 and 2008, then one year of relative stability and then a decrease from 2010. However, between 2011 and 2012, the ITTP increased again (KPMG 2013).

Figure 18. Estimates of the illicit tobacco market. Percentage of the total market (2000–2012)

Source: Transcrime elaboration on Euromonitor International (2013a), MSIntelligence (2012b), the Revenue Commissioners (2009b; 2010a; 2011b; 2013a), KPMG (2013) data



Note: EPSs estimates: The survey’s results for 2008–10 are provided by PMI. In these surveys, non–domestic incidence may include genuine or counterfeit packs. In 2011–12, non–domestic incidence includes non–domestic packs of all companies, counterfeit non–domestic packs and counterfeit domestic packs of participating companies. The Revenue Commissioners estimate the number of illegal cigarettes packs consumed in Ireland as a percentage of the legal market.

Table 12. Estimates of the size of the Irish illicit cigarette market. Percentages of the total market.

Source: Transcrime elaboration on Euromonitor International (2013a), MSIntelligence (2012b), the Revenue Commissioners (2009b; 2010a; 2011b; 2013a), KPMG (2013) data.

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenue										16	15	15	13
KPMG							10.2	16.9	22.8	22.3	19.3	17.8	19.1
Euromonitor International	5.4	5.5	5.6	6.0	7.4	7.8	8.5	9.9	15.4	27.4	27.8	28.7	29.7
Empty Pack Surveys									29.1	29.2	28.2	27.0	28.2
Flows Model							23.8	28.6	29.3	31.6	29.5	27.7	28.3
ITMAC							11	9	20	26	23	28	
JTI									20	27	23		

Note: EPSs estimates: The survey results for 2008–10 are provided by PMI. In these surveys, non–domestic incidence may include genuine or counterfeit packs. In 2011–12, non–domestic incidence included non–domestic packs of all companies, counterfeit non–domestic packs, and counterfeit domestic packs of participating companies. The Revenue Commissioners estimate the number of illegal cigarettes packs consumed in Ireland as a percentage of the legal market. JTI non–domestic incidence was discontinued in 2011.

- Euromonitor International source and EPSs identify similar trends (Table 12, p.65). **The penetration of the illegal market was around 28–29% in 2012** (Euromonitor International 2012; MSIIntelligence 2012b). Euromonitor figures show the largest increase in 2007–2008, after the Government’s decision to increase tobacco tax incidence (Regulation, p. 35) (Euromonitor International 2012). According to Euromonitor estimates, Ireland ranked 9th out of 80 countries for illicit trade volume in 2012 (Euromonitor International 2013a).
- **The Flows Model data estimated an illicit market penetration of 28.2%, the third after Latvia and Lithuania (33.7% and 32.4% respectively (KPMG 2013). Ireland had the highest estimates of illicit market penetration in 2011, with 27.7%.** This figure was the lowest since 2007 (KPMG 2012, 154). As seen for Euromonitor and EPSs data, the illicit market started growing in 2008 (after the tax increase).
- **JTI and ITMAC estimates showed a similar trend.** They estimated that illicit cigarettes represented 23% of all cigarettes consumed in 2011. JTI explained that this decrease between 2009 and 2010 was due to action by the Revenue Commissioners and An Garda Síochána (JTI Ireland 2012b, 3).
- Furthermore, a study on ITTP conducted in 2012 on 18 countries in Europe, estimated that 4.6% of the Irish tobacco market is illicit. Nevertheless, the study may have possible limitations as it relies on self-reported data provided by approximately 300 smokers (Joossens et al. 2012).
- **The ITTP causes important revenue and financial losses.**
 - The Revenue Commissioners estimate these losses in about €250 mn in 2012 (Grant Thornton 2013; Revenue Commissioners 2013a).
 - The same figure is calculated by ITMAC (Irish Tobacco Manufacturers’ Advisory Committee). ITMAC has estimated that the revenue lost for counterfeit and contraband tobacco in the market amounts up to €569 mn (Grant Thornton 2013; ITMAC 2013).
- Grant Thornton performed an independent assessment of the methodology used by the tobacco industry to calculate the losses to the Exchequer and conclude that their approach appears to be robust. A comparison of the three most significant variables (price, receipts and prevalence of smoking in Ireland) suggests that the Revenue figure of €250 mn is likely to be undervalued (Grant Thornton 2013, 29).
- Further, Grant Thornton underlines that the sale of illicit tobacco products generates losses for the legal retailers and has an impact on retailers employment (Grant Thornton 2013).
- **In Ireland there are various illicit products:**
 - contraband cigarettes;
 - Illicit whites;
 - counterfeit cigarettes.

Contraband cigarettes

- According to the Revenue’s estimates, **86% of the illicit cigarettes imported in 2011 were contraband.** The distinction between contraband and illicit whites is available only since 2011 (Revenue Commissioners 2011b).
- **According to KPMG estimates, the number of counterfeit and contraband cigarettes declined slightly after 2008 and reached 19.1% of total cigarette consumption in 2012.** However, the figure is still high if compared with the EU total (10.9%). Furthermore, with this figure Ireland ranked 4th out of 27 European countries, after Latvia (31%), Lithuania (27%) and Estonia (20%) (KPMG 2013).

Illicit whites

- **The figures on penetration by illicit whites are conflicting.**
 - According to the Revenue’s survey, **7% of illicit cigarettes were illicit whites in 2011** (Revenue Commissioners 2011b).

Figure 19. Illicit whites incidence in Ireland (% of total packs collected) (2010–2012)

Source: Transcrime elaboration on MSIntelligence (2010a; 2011a; 2011b; 2012a; 2012b) data



Note: Calculation based on number of packs for 2010–2011 and on number of cigarettes for 2012.

- EPSs identified approximately 3% of total collected packs as illicit whites in 2012 (MSIntelligence 2012b). This figure is lower than in 2011 (about 5.5%) (Figure 19) (MSIntelligence 2012a).
 - According to KPMG estimates, illicit whites brands penetration in Ireland decreased of 9% between 2011 and 2012 (KPMG 2013).
 - Seizures are an important source of information about illicit tobacco traffic (see box *Fight against contraband cigarettes: Operation ‘Samhna’*). **The Revenue reported that 76% of seized cigarettes were illicit whites in 2012 (46% in 2011) (JTI Ireland 2012a, 14; JTI Ireland 2013b)**. Also, 69% of cigarettes seized in ports were illicit whites (Revenue Commissioners 2012).
 - **EPSs found that the most popular brand of illicit whites was Gold Classic (about 43% of the illicit whites) in 2012**. Two other important brands were Palace and GB (about 16% and 8% respectively) (MSIntelligence 2012a; 2012b).
 - **The largest seizures of illicit whites in 2012 concerned Golden Eagle (38 mn cigarettes), Raquel and Capital (7 mn cigarettes), Capital and Master (7.6 mn cigarettes) (JTI Ireland 2013b)**. Between January and June 2013, the largest seizure was of Benson and Hedges (2 mn cigarettes in May) (Revenue Commissioners 2013b). According to industry sources, a recent addition to the illicit whites brands are Email both blue and red.
- **There has been a shift from counterfeit cigarettes to illicit whites in recent years.** However, market research (such as EPSs) indicates that the majority of illegal products consumed in Ireland are genuine contraband (tax paid in low tobacco tax regime countries) or duty free (MSIntelligence 2012b; Doherty 2013). Even if EPSs have shown a decrease in illicit whites incidence, illicit whites are the most widespread type of ITTP in Ireland, according to industry sources (Gilsenan and Brophy 2013; Healy 2013).

Counterfeit cigarettes

- **Counterfeit cigarettes are not a major concern in Ireland.**

- For every 100 sticks entering the illicit Irish market, approximately 7 are counterfeits of known brands. The remainder are contraband cigarettes and illicit whites (Revenue Commissioners 2011b).

FIGHT AGAINST CONTRABAND CIGARETTES: OPERATION ‘SAMHNA’

Cross-border operations between Ireland and Northern Ireland are often conducted to prevent the illegal tobacco trade. In 2009 these operations led to the largest single seizure ever made in the EU (OLAF 2009).

In *Operation ‘Samhna’*, the police seized over 120 mn contraband cigarettes in Greenore Port, County Louth, with a potential revenue loss of €40 mn. Cigarettes were shipped from the Philippines in general cargo to Ireland and were described as animal feed (FATF 2012, 67).

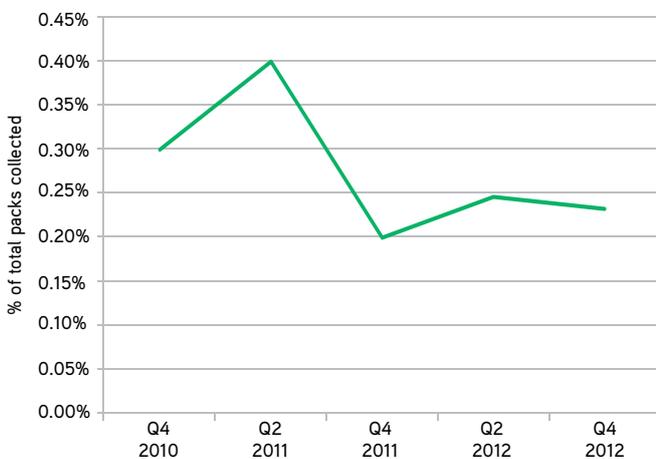
About 99 mn of the cigarettes seized were illicit whites, such as Palace and Chelsea, common brands in Northern Ireland (Whiting 2013).

The operation involved the Revenue Commissioners, An Garda Síochána, the Criminal Assets Bureau, the Irish Naval Service and Air Corps in the Republic of Ireland, and Officers of HM Revenue & Customs and the Police Service of Northern Ireland in Northern Ireland, together with the European Anti-Fraud Office (FATF 2012, 68).

- The Revenue Commissioners reported that about 62% of cigarettes seized were counterfeit in 2010 (74% in 2009) (JTI Ireland 2010, 17–18). In 2011, 29% of the cigarettes seized in ports were counterfeit (Revenue Commissioners 2012).
- EPSs showed a low level of counterfeit incidence in the period considered (fourth quarter of 2010–fourth quarter 2012). The number of counterfeit cigarettes decreased and reached 0.2% of non–domestic packs collected in the fourth quarter of 2012 (Figure 20) (MSIntelligence 2012b).

Figure 20. Counterfeit incidence in Ireland (% of total packs collected) (2010–2012)

Source: Transcrime elaboration on MSIntelligence (2010a; 2011a; 2011b; 2012a; 2012b) data



Note: Calculation based on number of packs for 2010–2011 and on number of cigarettes for 2012.

Brands and prices

- There is a variety of illicit products, and it is difficult to identify the most popular brands.
- Breakdown by brands in the EPSs highlights that **Marlboro and L&M were the first and the second brands by number of non–domestic packs collected in 2012** (about 40% and about 6% of non–domestic products respectively in 2012) (MSIntelligence 2012a; 2012b). This is probably due to the leading position of Marlboro and L&M brands in the European market (they are the first and the second most sold brand in Europe).
- In the legal market in Ireland, Marlboro is only the fourth most popular brand (9.2%), but it is the first in number of non–domestic packs collected in 2012 (MSIntelligence 2012a; 2012b).

- L&M’s cigarettes are sold in Ireland, but they have a minimum share of the market. The packs collected were addressed to Poland, duty–free areas (in Europe, Egypt and Turkey) and Lithuania (MSIntelligence 2012a; 2012b).
- The most popular brands in the legal market do not have high prevalence among non–domestic packs. While in 2012 Silk Cut had a market share of 23.4%, Benson and Hedges 19.0% and John Player 16.4%, in the Q4–2012 EPS their non–domestic shares were 2.4%, 2.6% and 0.8% respectively (MSIntelligence 2012b).

- **Illicit cigarettes can generally be purchased at half the price of legal products. There is no agreement on this price, which could vary from €3.50 to €5.00 (Grant Thornton 2013).** According to Retailers Against Smuggling, **in 2012 a pack of 20 illicit cigarettes cost €3.20** (in 2011 the price was €4) (IBEC 2012a, 14). News stories and covert purchases report that the price of an illegal pack was between €4 and €6 in 2012 (Gallagher and Tallon 2012; O’Reilly 2012a; O’Reilly 2012b; O’Reilly 2012c; O’Reilly 2012d; O’Reilly 2012e; O’Reilly 2013a; O’Reilly 2013b). Smugglers can buy packs of counterfeit cigarettes at €0.20 each and sell them at €4.50 (O’Shea 2013).

Modus operandi and geographical distribution

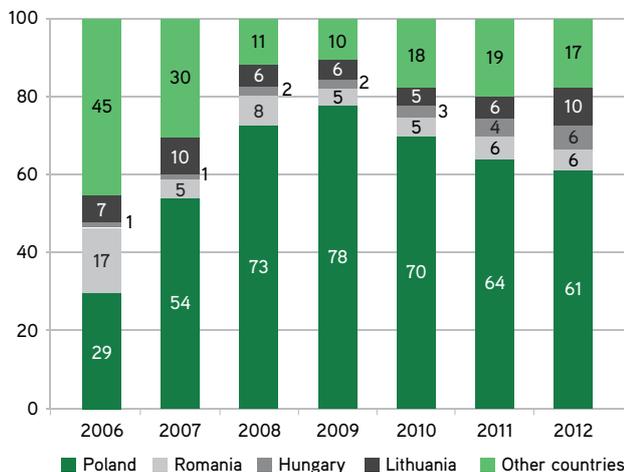
The modus operandi

- The *modus operandi* of the ITTP varies.
- There are no comprehensive studies on the behaviour of importers. Most information comes from press releases issued by law enforcement agencies engaged in the fight against ITTP and by the media. These sources are usually focused on large–scale operations, while less media attention is paid to small cases. For this reason, the information should be interpreted with caution.
- **According to agencies and media press releases, foreign illegal tobacco is sourced mostly from China, the Philippines, Hong Kong, Ukraine, Russia, Poland, and the Canary Islands (O’Riordan 2009; White 2012; Lally 2012; Gilsean and Brophy 2013; Healy 2013).**

- In recent years, there has been a relocation of illegal manufacturers within the borders of the European Union. This may be due to the absence of border controls within the EU and to the ease of distribution after production (Gallagher and Tallon 2012; Maguire 2012).
- In 2012, the sources of non-domestic cigarettes were other countries (60.8%), Poland (17.3%) and Romania (9.8%) (Figure 21) (KPMG 2013).
- The origins of contraband products depend on various factors (the method of importation, whether they are cigarettes or other tobacco products, whether the product is genuine duty paid, counterfeit or illicit whites). The main source countries for large maritime importations include China, Malaysia, Vietnam and United Arab Emirates for cigarettes and China for other tobacco products. The sources of illicit tobacco products imported by air include the Canary Islands, Poland, Russia and Moldova for cigarettes, and the Canary Islands and China for tobacco (Doherty 2013).

Figure 21. Contraband and counterfeit cigarettes by country of origin, 2006–2012, % shares

Source: Transcrime elaboration on KPMG (2013) data



•• Irish ports are crucial junctions for the ITTP.

- Sea trafficking involves smuggling in maritime containers from various countries and Ro/Ro traffic – vessels designed to carry wheeled cargo such as automobiles, trucks, semi-trailer trucks, trailers or railroad cars that are driven on and off the ship on their own wheels – from mainland Europe (Doherty 2013).

- The ports of Dublin, Cork, Dundalk and Rosslare Harbour reported the largest seizures in 2011. As said above, these seizures accounted for about 76% of all the seizures made in 2011 (47% in 2010) (JTI Ireland 2012a, 17).
- There is a mobile scanner at Dublin Port. The controls are intelligence-driven because smugglers have become sophisticated in camouflaging products in recent years, and they hide cigarettes packs within legitimate products (Alan Morris, Customs Scanner Manager, in Gallagher and Tallon 2012).
- Only the three major ports in Ireland have all kinds of detection devices or a law enforcement presence. This helps smugglers because there is less control (Gilsenan and Brophy 2013).
- **There is evidence of air transport being used to import illegal tobacco into Ireland.**

- Air traffic involves the smuggling of tobacco products in passenger baggage and airfreight from the Canary Islands, Poland, Russia and Moldova (Doherty 2013).
- Law enforcement sources report the importation and distribution of illicit products by means of air transport. The smugglers are usually citizens of eastern European countries (Poland, Ukraine, Lithuania and Hungary) or the Canary Islands who live in Ireland. They travel to their countries of origin, and when they return to Ireland, they bring a large number of cigarette packs with them. These cigarettes are cheaper in the smugglers' countries of origin because of low tax incidence, and they sell the packs in Ireland. They make profits because they sell the cigarettes at prices higher than in their countries of origin but lower than the taxed Irish price (Maguire 2012).

- In 2010, 14% of all cigarettes were seized at airports (JTI Ireland 2011, 20). At Dublin airport, law enforcement officers conduct controls in two steps. First, they check the travellers' luggage on the roller with a dog; they then search suspicious passengers – people who travel frequently to and from the same countries, who look anxious, or who behave strangely (Shay Doyle, Dublin Airport Customs Manager, in Gallagher and Tallon 2012).

- Retailers Against Smuggling report that there has been an increase in “ant smuggling” (air smuggling) to bring illegal tobacco and cigarettes into the country. Smugglers appear to be changing their tactics: they try to hide cigarettes in their luggage through airports instead of in containers through Irish ports (The Journal.ie 2011).
- **The use of small commercial vehicles to transport products across Europe is another method of importation.**
 - Smugglers seek to import illicit tobacco into the UK and into Ireland through a ferry service or from Northern Ireland (JTI Ireland 2012a, 14; Doherty 2013).
- **The postal service may be an emerging channel for the smuggling of cigarettes and HRT.**
 - The Revenue reported an increase in postal seizures between 2010 and 2011. They raised from 5,385 mn sticks (3% of total seizures) in 2010 to 7,253 mn sticks (about 7% of total seizures) in 2011, with an increment of about 35% for cigarettes seizures. HRT seizures increased by 678% between 2010 and 2011 (JTI Ireland 2012a, 14).
 - Most of the products smuggled through post and courier traffic originate in China (Doherty 2013).
- **Ireland is not only a destination of smuggled tobacco but also a transit point through Northern Ireland (and UK) and the rest of Western Europe (House of Commons–Northern Ireland Affairs Committee 2012, Ev.5).**
 - In the cases of air traffic, postal and express courier traffic and road traffic, Ireland is the destination for imported illicit products (Doherty 2013).
 - In the case of maritime traffic, Ireland is both a transit and a destination country. The vast majority of maritime shipments of illicit products bound for Ireland transit through other EU states (Belgium, the Netherlands, France, Spain, and the UK) (Doherty 2013).
- Law enforcement activities target the market, but the illicit trade is flexible and adaptable. When specific shipping routes are identified, alternatives are found. The same applies to smuggling concealments and attempts to avoid detection by X-ray scanning or canine detection (Doherty 2013).

The geographical distribution

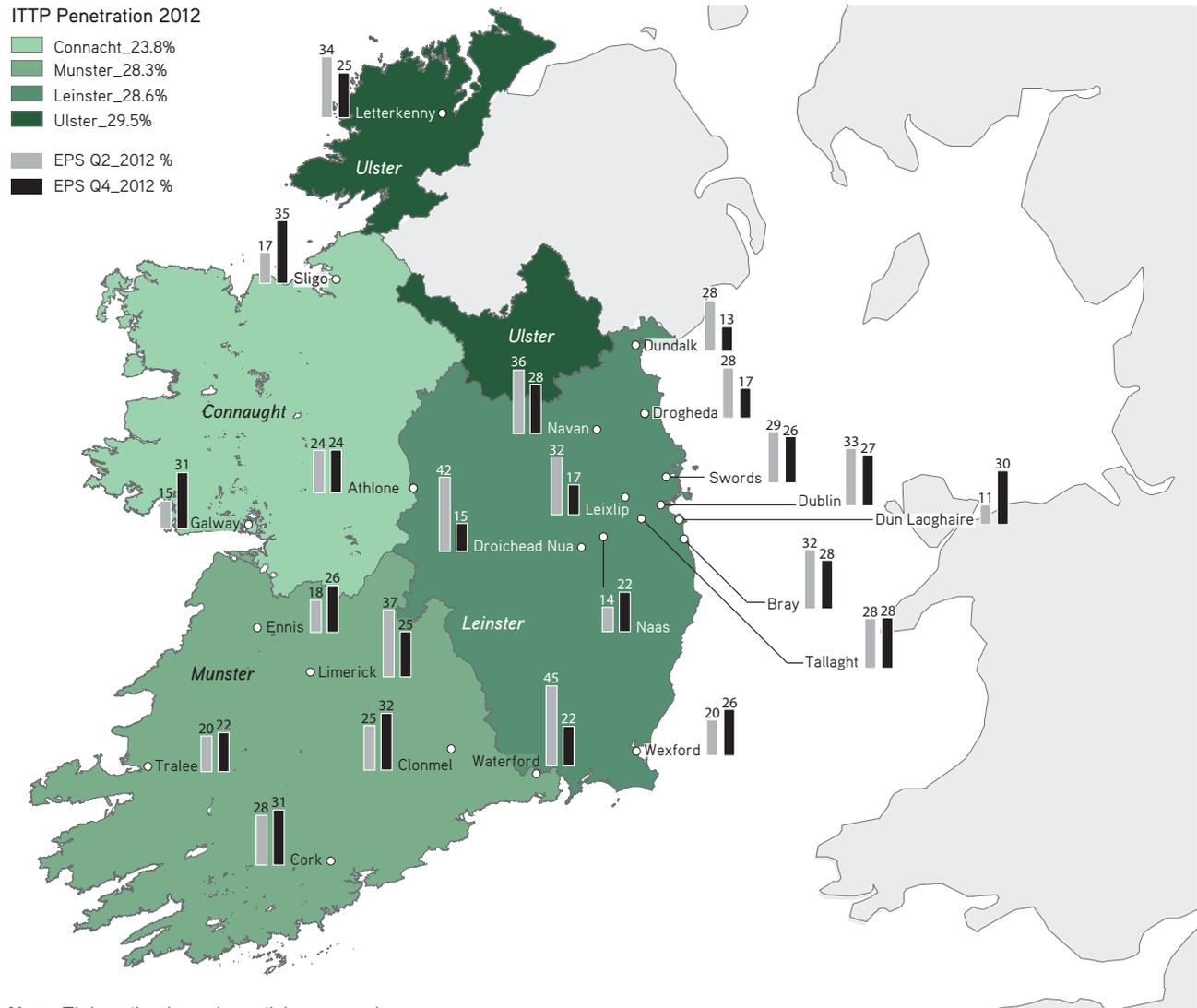
- **The consumption of non-domestic tobacco varies across the different areas of Ireland.**

- Official sources (such as the Revenue Commissioners) do not provide detailed data on areas, but state that the consumption of illicit cigarettes is more prevalent in urban rather than rural areas (Doherty 2013). The Revenue Commissioners showed that Dublin reported the highest number of convictions related to tobacco smuggling/selling (34), followed by Cork (14), Limerick (11), Galway and Louth (7) in 2012 (McGreevy 2013).
- Unofficial data (EPSs) are available for a restricted number of cities. Furthermore, EPS changed its sample plan in 2012. Surveys from 2008 to 2011 sampled 8 cities and calculated only the number of non-domestic packs; the 2012 survey sampled 22 cities and calculated both the number of non-domestic packs and cigarettes. This created differences in the data collection and in the analysis (MSIntelligence 2012a; 2012b).¹⁷
- **Among cities, in 2012 Waterford (County Waterford, Leinster, 33.2%), Navan (County Meath, Leinster, 31.6%) and Limerick (County Limerick, Munster, 31.4%) had the highest shares of non-domestic packs (MSIntelligence 2012a; 2012b).**
- In the fourth quarter of 2012, the city with the highest incidence of non-domestic packs was Sligo (County Sligo, Connaught, 35%); the second one was Waterford (County Waterford, Leinster, 37.9%) (Figure 22, p.71).

17. Until the second quarter of 2012, the EPS had a sample plan of 8 cities (Dublin, Cork, Galway, Tallaght, Blanchardstown, Limerick, Waterford and Clondalkin). From the second quarter of 2012 onwards, the EPS sampled the 22 largest towns and cities across Ireland (Anthonne, Bray, Clonmel, Cork, Drogheda, Droichead Nua, Dublin, Dun-Laoghaire, Dundalk, Ennis, Galway, Leixlip, Letterkenny, Limerick, Naas, Navan, Sligo, Swords, Tallaght, Tralee, Waterford and Wexford). The most recent EPSs allow in-depth analysis of not only cities but also counties.

Figure 22. Non-domestic cigarettes in Irish cities (percentages of total collected cigarettes 2012)

Source: Transcrime elaboration on MSIntelligence (2012a; 2012b) data



Note: Elaboration based on sticks per pack

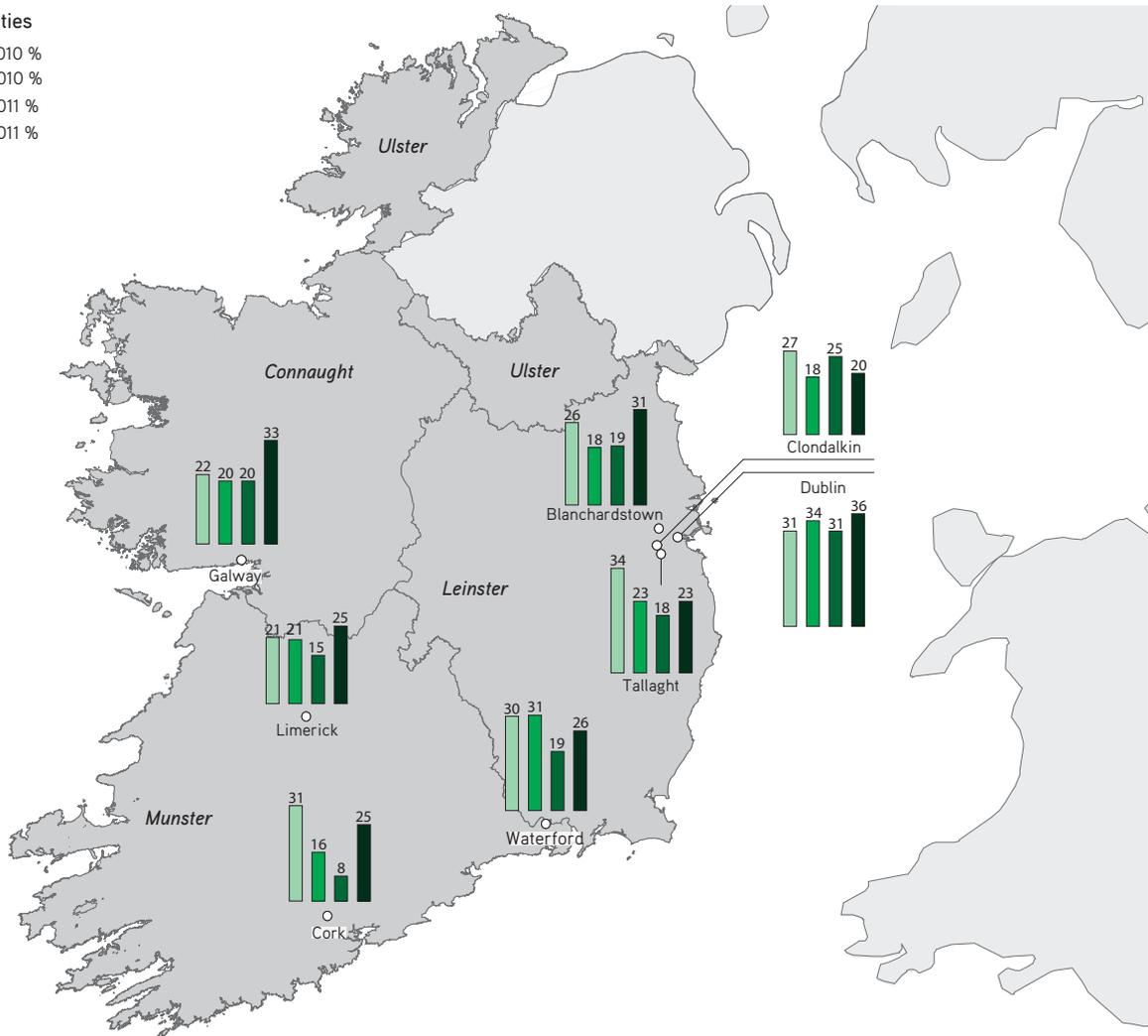
- Among regions, Ulster had the highest incidence of non-domestic packs in 2012 (29.5%); but the only city sampled was Letterkenny, and this has to be evaluated. The others were Leinster (with an incidence of 28.6%), Munster (28.3%) and Connaught (23.8%).¹⁸
- As regards trends, Dublin was the city with the highest incidence of non-domestic packs in 2010 and 2011 (32.4% and 33.5% respectively).

18. Calculations on regions are based on calculations on the counties surveyed. Ulster includes Donegal; Leinster includes Dublin, Dun-Laoghaire, Fingal, Kildare, Louth, Meath, South Dublin, Westmeath, Wexford and Wicklow; Munster includes Clare, Cork, Kerry, Limerick, South Tipperary and Waterford; Connaught includes Galway and Sligo.

Figure 23. Non-domestic packs in Irish cities (percentages of total collected packs 2010-2011)

Source: Transcrime elaboration on MSIntelligence (2010a; 2011a; 2011b) data

EPS Ireland cities
 ■ EPS Q3_2010 %
 ■ EPS Q4_2010 %
 ■ EPS Q2_2011 %
 ■ EPS Q4_2011 %



Note: Elaboration based on number of non-domestic packs for 2010 and 2011. The table reports the 8 original cities of the EPSs.

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- Galway experienced the highest increase in the number of non-domestic packs (+25.6%). The city of Cork experienced the largest decrease between 2010 and 2011 (-30%) (Figure 23) (MSIntelligence 2010a; 2011a; 2011b).
- An in-depth analysis on counties is possible only for 2012. **Meath (East, 31.6%), Limerick (South West, 31.4%), Dublin and Wicklow (East, 30.2%) were the counties with the highest incidences of non-domestic packs (Figure 24, p.73).** The only county not in the Leinster region was Limerick (Munster). In the fourth quarter of 2012, Sligo (Connaught, 35%) had the highest incidence; in the second quarter of 2012 it was Limerick (Munster, 37.5%) (MSIntelligence 2012a; 2012b).
- Tobacco seizures may be another indicator of illicit market penetration.**
- Data on tobacco seizures show that trends in both cigarettes and HRT seizures are increasing. From 2006 to 2012, cigarette seizures increased by about 84% and HRT seizures increased by about 155.2%, with differences over the years (Figure 25, p.73).

Figure 24. Non-domestic cigarettes in Irish counties (percentages of total collected cigarettes 2012)

Source: Transcrime calculation on MSIntelligence (2012a, 2012b) data

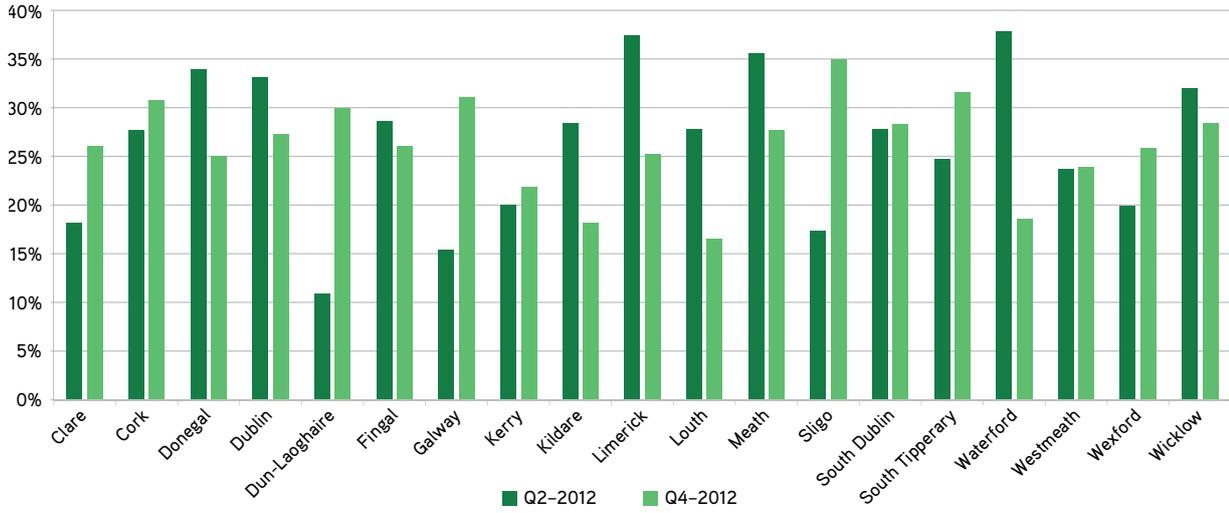
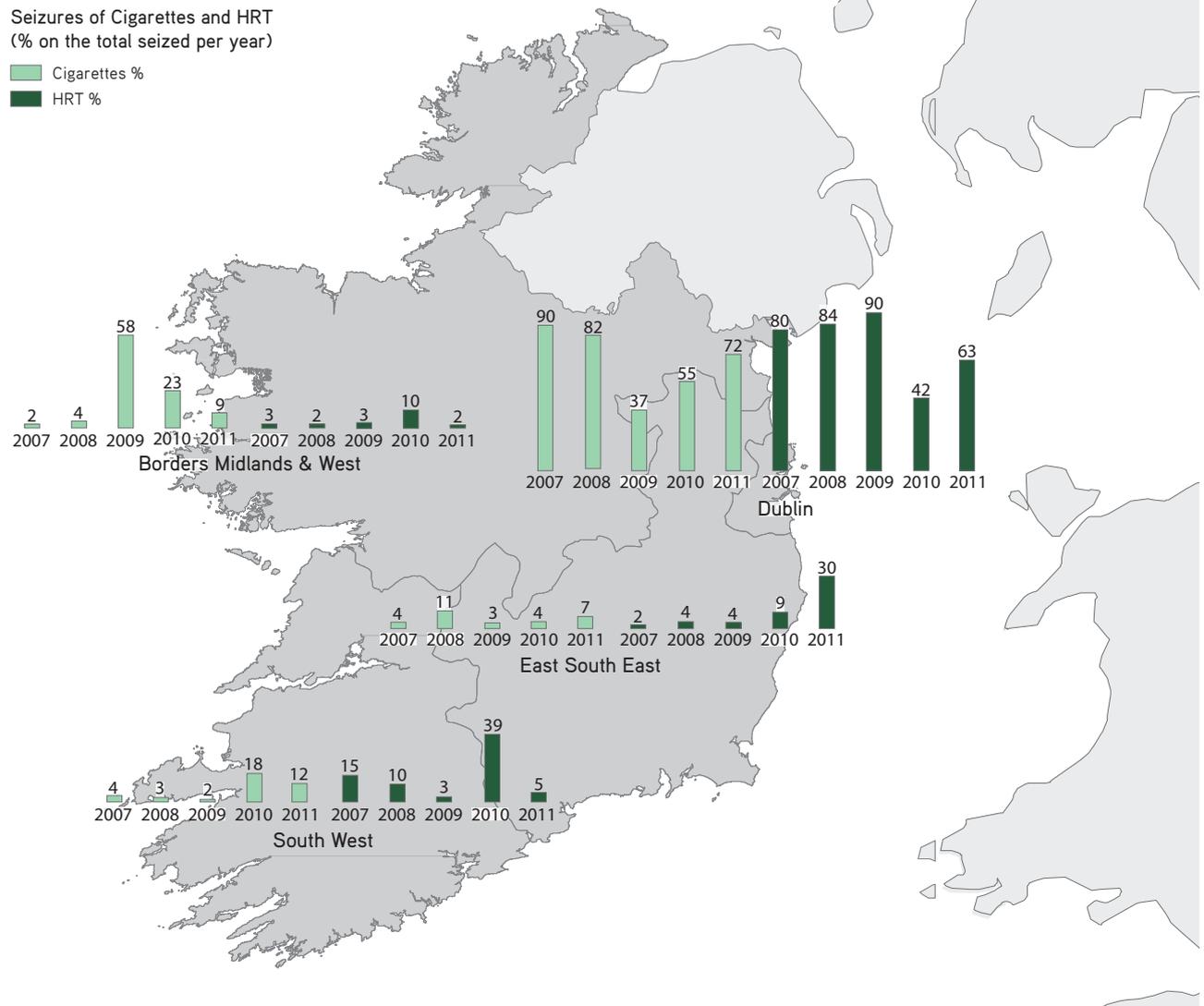


Figure 25. Seizures of illicit cigarettes and HRT by region

Source: Transcrime elaboration on Revenue Commissioners (2008; 2009c; 2010b; 2011c; 2012) data



- **The largest seizures of 2012 were made at Dublin Port (38 mn cigarettes) (JTI Ireland 2013b).** Dublin is the place with the largest number of seizures in general (about 70% of total cigarettes seizures) (JTI Ireland 2013b). One of the causes is the presence in Dublin of the largest Irish airport and port (Revenue Commissioners 2008; 2009c; 2010b; 2011c; 2012). Another cause may be the constantly stronger anti-ITTP actions, because Dublin is the most closely controlled city in Ireland (Doherty 2013). Dublin is also one of the cities with the highest concentration of non-domestic packs (MSIntelligence 2012a, 2012b).

•• **Consumption of illicit tobacco seems not to generally reflect the difference in smoking prevalence.**

- Data on estimated illicit tobacco and EPSs do not show a clear correlation between smoking prevalence and the consumption of illicit tobacco. In fact, the smoking prevalence was lower in the Health Service Executive (HSE) South Region (21.4%) in 2012. This region includes Cork, with a medium-high incidence of non-domestic packs and Waterford, the city with the highest incidence. The highest smoking prevalence was in HSE West Region (28%) in 2012. This region includes Galway, one of the cities with the lowest incidence of non-domestic packs, and Limerick, one of the cities with the highest incidence (MSIntelligence 2012a; MSIntelligence 2012b; NTCO 2012).

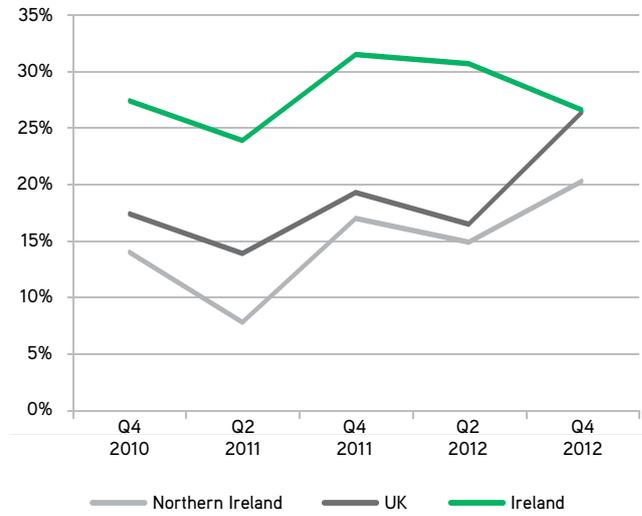
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THE ITTP IN NORTHERN IRELAND

- **There are no official estimates of the illicit tobacco trade in Northern Ireland.** However, in 2009 HMRC assessed the illegal trade throughout the UK at between 9% and 17% of total sales (Northern Ireland Audit Office 2009).

Figure 26. Non-domestic cigarettes in Northern Ireland, UK and Ireland (percentages of total collected cigarettes 2010–2012)

Source: Transcrime elaboration on MSIntelligence (2010a; 2010b; 2011a; 2011b; 2011c; 2011d; 2012a; 2012b; 2012c; 2012d) data



Note: For Ireland, elaboration is based on sticks per pack for 2012 and on the number of non-domestic packs for 2010 and 2011.

- **Northern Ireland and the UK have similar trends in the number of non-domestic packs collected, but Northern Ireland has a lower level (Whiting 2013).** The Republic of Ireland recorded the highest incidence of non-domestic packs in all the years, but reached the same incidence as the UK in 2012 (Figure 26) (MSIntelligence 2010a; 2010b; 2011a; 2011b; 2011c; 2011d; 2012a; 2012b; 2012c; 2012d).
- JTI has conducted a survey in Northern Ireland. **The levels of Non-UK Duty Paid (NUKDP) tobacco were 13% for cigarettes and 53% for HRT in 2011 (17% and 59% respectively in 2010).** Those levels were among the highest in the UK (JTI Ireland 2012a, 22).
- A high level of tax incidence, different duty rates between countries, the impact of land borders, and the role of criminal organisations are the primary factors that contribute to smuggling between Northern Ireland and Ireland (in both directions) (JTI Ireland 2012a, 22).

- Consumers of illicit tobacco are generally people on lower incomes and young people, due to the cheap price of these products (Whiting 2013; Organised Crime Task Force 2011; Organised Crime Task Force 2012; Grant Thornton 2013). Research has shown that lower income levels are related to higher levels of NUKDP. Between 2010 and 2012, Northern Ireland discretionary income decreased by 15%. In the same period, in 2011 the level of NUKDP cigarettes was 10.6%; in 2012 it rose to 14.9% (JTI 2012).
- **Law enforcement agencies do not observe illicit trade in any of the major street markets of Northern Ireland.** In the past, illegal cigarettes sellers used markets of this kind, but in recent years there has probably been a change in illicit sales tactics (JTI Ireland 2012b, 7). Illicit rather than lawful channels sell illicit tobacco products (House of Commons–Northern Ireland Affairs Committee 2012, Ev.114).
- Certain smaller legal supermarkets sell illicit cigarettes. This is the most remarkable difference with illicit market in the Republic of Ireland, where legal retailers rarely sell illicit products. Other sites in Northern Ireland are car boot sales, pubs, public houses and clubs. Another particular way of selling is door-to-door sales (Organised Crime Task Force 2011; Organised Crime Task Force 2012; Whiting 2013).
- According to industry sources, it seems that the illicit cigarettes sale is more organised in Northern Ireland than in the Republic of Ireland. Those cigarettes can be sold through normal retail systems or through mobile shops, which appears to be a route that is used in many communities (Northern Ireland Assembly 2013).
- **In Northern Ireland, the cost in lost revenue of tobacco smuggling is £42 mn (about €47 mn), and it amounts to between £1.1 (€1.2 bn) and £3 bn (€3.4 bn) for the UK as a whole.**
- **Estimates show that illicit cigarettes had a 12% share of the legal market and HRT a 46% share in 2009–2010 (House of Commons–Northern Ireland Affairs Committee 2012, 3; HM Revenue & Customs 2012).** Past figures for 2000 reported an illicit market share of 21% for cigarettes and over 60% for HRT (House of Commons–Northern Ireland Affairs Committee 2012, Ev.52).
- There are different types of smuggled products:
 - counterfeit cigarettes;
 - illicit whites;
 - cross-border smuggled products, which are imported by travellers who go abroad and purchase duty-paid products in other countries and then sell them in Northern Ireland.
- Estimates showed that 17% (350 mn) of cigarettes were NUKDP in 2011. Of these, 170 mn (48.6%) were counterfeit and illicit whites, 10% were duty-free, and 40% were cross-border purchases (House of Commons–Northern Ireland Affairs Committee 2012, Ev.13).
- JTI estimated that 17% of cigarettes and 59% of HRT were NUKDP in Northern Ireland in 2010. 20% of these cigarettes were counterfeit and 27% were illicit whites (House of Commons–Northern Ireland Affairs Committee 2012, Ev.103).
- The most popular illicit brands sold in Northern Ireland are Palace and Chelsea. These brands are typically British and they are not popular in the Republic of Ireland (House of Commons–Northern Ireland Affairs Committee 2012, Ev.91).
- Tobacco products are smuggled into Northern Ireland, often from the Far East, after being landed at ports in Ireland. The smugglers use Irish ports as a back door to Northern Ireland and the UK in general (Whiting 2013). The destinations of these cigarettes are the Republic of Ireland, Great Britain or Europe (House of Commons–Northern Ireland Affairs Committee 2012, 13).

- **One smuggling route into Northern Ireland is through the Republic of Ireland. In fact, it is more difficult to bring cigarettes through Belfast Port (House of Commons–Northern Ireland Affairs Committee 2012, Ev.91; Whiting 2013; Healy 2013). The Republic of Ireland and the UK are a single market for smugglers (Healy 2013).**
- One of the smuggling methods in Northern Ireland employs containers/lorries entering the UK and which may yield up to £1.5 mn (€2.6 mn) of profit per load. This is a common procedure in both Ireland and Northern Ireland (House of Commons–Northern Ireland Affairs Committee 2012, 6). To undertake this large-scale smuggling via container, the smugglers sometimes create false companies and entities only for this purpose. Other cases have involved so-called ‘cuckoo-importations’ in which the legitimate companies have their details hijacked by smugglers (Organised Crime Task Force 2011; 2012).
- Smugglers use air transportation. They pay individuals or groups to bring tobacco products into the country from countries where the prices are lower (Organised Crime Task Force 2011; 2012).
- Another method is to use the so-called ‘white van man’, which are popular in the UK. These vans enable the smugglers to carry large quantities of cigarettes across borders (Whiting 2013).
- Smugglers also send HRT via parcel post from China to Northern Ireland (JTI Ireland 2012b, 6). Although police forces have no significant evidence of this type of smuggling (Whiting 2013), in 2010 they seized 50 kg of tobacco leaf detected in an attempted postal importation (Organised Crime Task Force 2011).
- Northern Ireland has a disproportionate share of the UK gangs involved in tobacco fraud (Northern Ireland Audit Office 2009; Whiting 2013).
- **The consumption of non-domestic cigarettes varies slightly among cities in Northern Ireland. There are three different ways to analyse the geographical distribution of non-domestic cigarettes in Northern Ireland.**
- The EPSs focused on five cities in different regions. Belfast is located between Antrim and Down, Lisburn in Down, Derry in Derry, and Newtownabey in Antrim (Table 13).
- However, there are several limitations with regards to this research. The first was the small number of cities analysed (the surveys did not cover all the regions of Northern Ireland). The second limitation was the small number of packs collected: only 500 packs (240 in Belfast, 58 in Craigavon, 67 in Lisburn, 78 in Derry and 57 in Newtownabey). This explains the marked differences recorded in different years (MSIntelligence 2010b; 2011c; 2011d; 2012c; 2012d).

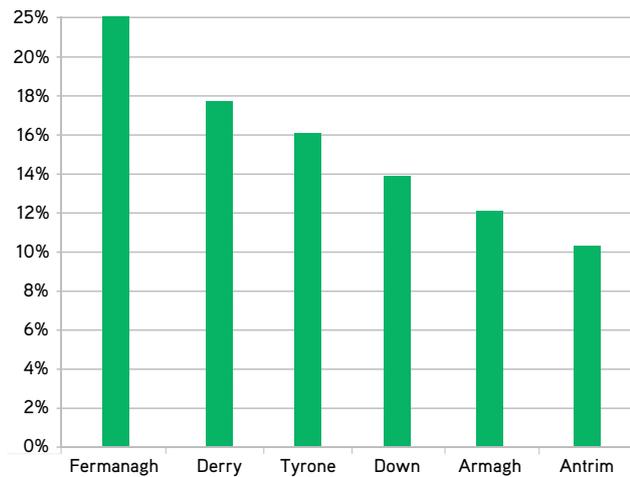
Table 13. Non-domestic cigarettes in Northern Ireland’s cities (percentages of total collected cigarettes 2010–2012)

Source: Transcrime elaboration on MSIntelligence (2010b; 2011c; 2011d; 2012c; 2012d) data

City	Q4–2010 Incidence of non-domestic cigarettes	Q2–2011 Incidence of non-domestic cigarettes	Q4–2011 Incidence of non-domestic cigarettes	Q2–2012 Incidence of non-domestic cigarettes	Q4–2012 Incidence of non-domestic cigarettes
Belfast	13.8	15.2	6.7	17.1	22.5
Craigavon	6.9	13.3	1.9	0.0	21.6
Lisburn	17.9	5.9	52.2	7.2	16.8
Derry	21.8	3.7	4.7	24.0	20.6
Newtownabbey	7.0	2.4	73.8	9.8	13.9

Figure 27. Non-UK Duty paid cigarettes consumption (2011)

Source: Transcrime elaboration on JTI (2012a) data



Note: The figures include smuggling and legitimate cross-border purchases.

- The city in Northern Ireland with the highest number of seizures was Belfast in 2012 (with about 12 mn cigarettes), probably because of the presence of the largest Northern Ireland port (JTI Ireland 2013b). Furthermore, in 2011 the city with the largest seizures was Armagh (16 mn cigarettes). This city is located in the Armagh County near the Irish border (JTI Ireland 2012a).
- The highest incidences of non-domestic packs were recorded in Belfast in the fourth quarter of 2012 (22.5%) and in Derry in the second one of 2012 (24.0%) (Table 13, p.76) (MSIntelligence 2012c; 2012d).
- JTI conducted a research in 2011 on the consumption of NUKDP cigarettes. Figures showed that Fermanagh County (in the South of Northern Ireland) had the highest incidence of NUKDP cigarettes (25.0%), followed by Derry (North West, 17.7%) and Tyrone (South East, 16.1%) (Figure 27) (JTI Ireland 2012a, 22).
- According to industry research, in a purchases test, Derry shows a very high level of selling of illicit products.
- **The last way to analyse the illicit tobacco market is to consider the number of seizures.** In total, 23.45 mn counterfeit and smuggled cigarettes were seized in 2011–2012 (35 mn in 2005–2006) (Northern Ireland Audit Office 2009; Organised Crime Task Force 2012, 10). HMRC officers in Northern Ireland seized 2.1 mn counterfeit and smuggled cigarettes and 356 kg of HRT, with a value of £828,000 (€1,015,000), in 2011–2012. UK border agency officers seized 21.35 mn cigarettes and 500 kg of HRT in 2011–2012 (Organised Crime Task Force 2012, 14).

Chapter 3

*framing the components
in the drivers*

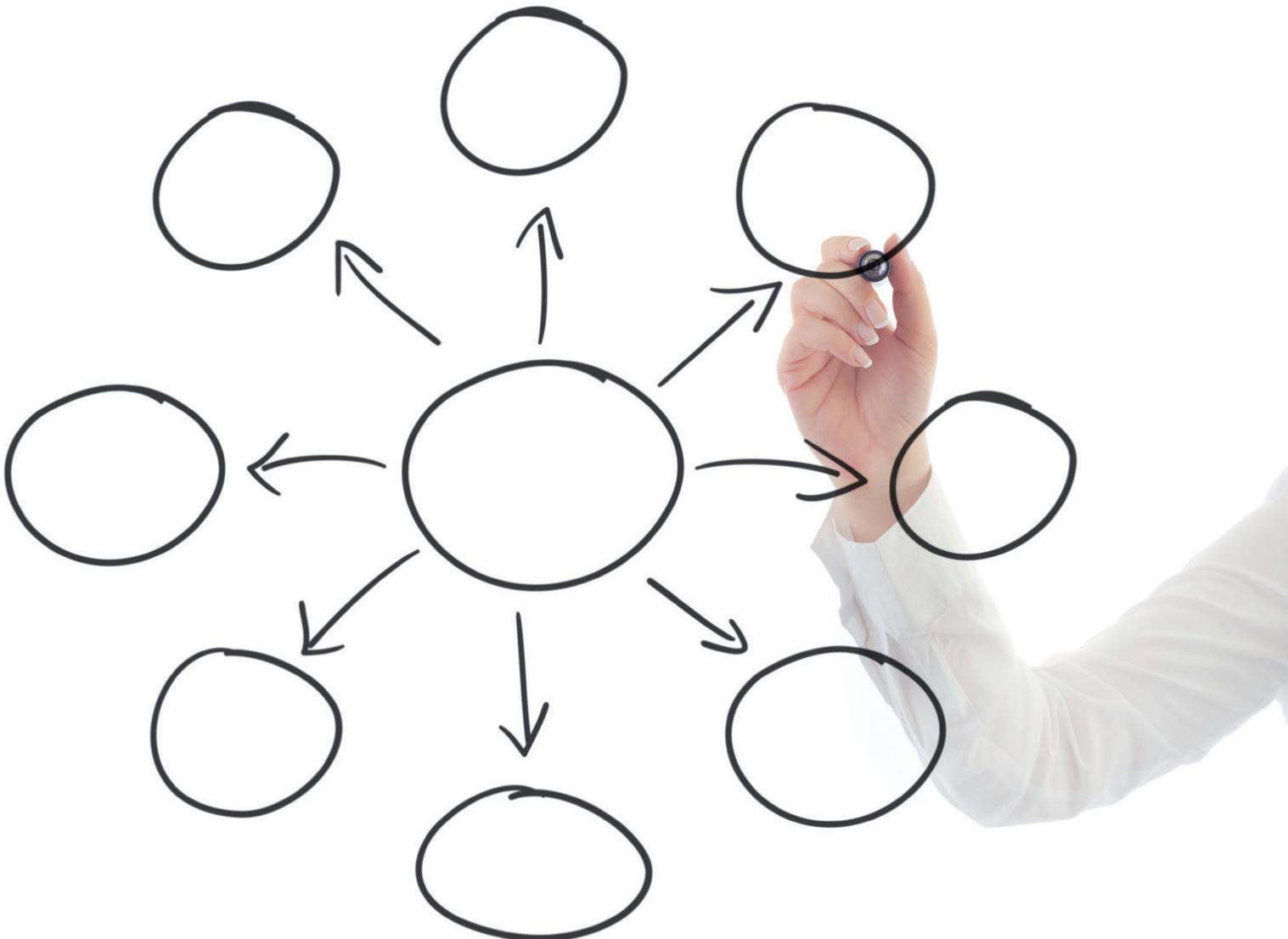
FRAMING THE COMPONENTS IN THE DRIVERS

This chapter analyses the interaction between the drivers (discussed in Chapter 1) and the components of the ITTP (Chapter 2). It draws on the information provided in the previous analyses, and identifies the **five key factors of the ITTP** (next subsection). These are **fundamental determinants of the illicit trade, and they affect all of its components**. Thereafter, four subsections analyse **how the five drivers affect the key factors and in turn the components of the ITTP**. Each subsection analyses how the various elements of the drivers influence the demand, supply, products, *modus operandi* and geographical distribution of the ITTP.

THE FIVE KEY FACTORS OF THE ITTP

The analyses presented in the previous chapter highlighted five key factors influencing the ITTP in Ireland: accessibility, availability, profitability, risk, opportunity.

- **Accessibility: the price of illicit tobacco is a crucial factor in determining the scope and prevalence of the ITTP.**



- **Any growth in the price differential between legal and illegal products increases the relative accessibility of illicit tobacco. In Ireland, this occurred in 2007–2008** after the significant rise in tobacco tax incidence (Euromonitor International 2012b). Ireland has the second highest cigarette prices among the European countries (KPMG 2013). As a consequence, the country is a target for cigarette smugglers (Gallagher and Tallon 2012).
- **Availability: the diffusion and accessibility of illicit tobacco products has a major impact on the ITTP.**
 - The easier it is to find and buy illegal products, the greater the likelihood of their diffusion in a specific area. **Ireland has a great availability of legal and illegal tobacco.**
 - **The availability of illicit tobacco should be considered in relation to the availability of genuine products.** Any increase in the diffusion of illegal cigarettes, or any restriction on access to legal products, is likely to impact on the categories most attracted by illegal products. These include heavy smokers, people in lower socio-economic circumstances, and minors. This may increase the relative availability of illicit tobacco and therefore fuel the demand for the ITTP.
- **Profitability: the ITTP is an extremely profitable activity because of the high income that it offers compared with its operational costs.**
 - **The ITTP provides very high incomes** because most illicit tobacco products pay no, or very limited, taxes. At the same time, cigarettes are the commodity with the highest fiscal value per weight (Joossens 1998, 149–150). According to experts, cigarette counterfeiting may yield a return on investment amounting to more than forty times the capital invested (van Heuckelom 2010; Gutauskas 2011, 72). However, Ireland does not have a great availability of counterfeit products. On average, only 0.3% of non-domestic packs were counterfeit between the fourth quarter of 2010 and the fourth one of 2012 (MSIntelligence 2012b).
- **Ireland has the second highest cigarette prices among the European countries and one of the highest tax incidence on WAP¹⁹ (83.65% in January 2013) (European Commission 2013; KPMG 2013).** The situation changed in 2006–2007, when the Government started to increase tax incidence on tobacco. In fact, in 2010 Ireland taxes accounted for 79% of the final retail price of the most popular brand (WHO 2011a, 100). Ireland ranks 14th out of 181 countries analysed by the WHO and 13th among the 27 EU Member States (WHO 2011a, 100; WHO 2011b).
- **The retail price of illicit tobacco is much lower than the legal price, about 50–60% of the legal price (IBEC 2012a; Gallagher and Tallon 2012).** However, in some cases, the price may be lower (Retailers Against Smuggling reported that a pack of illicit cigarettes cost €3 in 2012). This leaves very high margins for the ITTP.
- **Risk: the threat of detection/accusation/conviction and the sanctions imposable affect the diffusion of the ITTP.**
 - **Individuals involved in the ITTP are at low risk of detection/accusation/conviction.**
 - **The available sanctions seems not to deter the ITTP (Gallagher and Tallon 2012).** The maximum penalties for trade mark or excise law offences are a maximum of five years of imprisonment or a maximum fine of €126,970, or both (for evasion of excise duty, where the value of the goods concerned is greater than €250,000, the fine may be no greater than three times the value of the products).
 - **Sentencing practices are well below the legal maximum.** There is no a minimum fine. Also, the average fine for evasion of tax duty was about €2,528 and custodial sentences ranged from 21 days to 2.5 years in 2012 – suspended sentences ranged from 2 month to 3 years in 2012 – (Doherty 2013). For keeping/selling untaxed tobacco products the average fine was €2,040 in 2012 (Enforcement, p. 49).

19. According to Article 2 of Council Directive 92/79/EEC “The weighted average retail selling price shall be calculated by reference to the total value of all cigarettes released for consumption, based on the retail selling price including all taxes, divided by the total quantity of cigarettes released for consumption” (European Commission 2013).

- A conviction for a serious case of large-scale counterfeiting and distribution is likely to carry a fine of up to €126,970 (or a maximum of three times the evaded duty) or a term of imprisonment not exceeding five years, or both (see box *Hypothetical case*, p. 52–53). Increasing law enforcement action against the ITTP may yield important results in the forthcoming years. Measures envisaged by the *Finance Statement of Strategy 2011–2014* and in the *Revenue's Strategy on Combating the Illicit Tobacco Trade (2011–2013)* are to increase the penalty for tobacco smuggling for commercial purposes, to strengthen the detection measures to counteract such smuggling, and to reduce the availability of these products. This may make the ITTP more risky.
 - The combination of structured groups and informal channels may provide opportunities for illicit traffics, especially the ITTP. The development of low-cost flights has stimulated small-scale smuggling by single individuals or groups. Less controlled airports are frequently preferred to larger hubs.
- THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS**
- There are multiple interactions between the drivers and the demand for illicit tobacco. Figure 28 (p.82) shows the main ones. In particular, **the accessibility and availability of illicit tobacco are the main factors affecting the demand.**
- There follow some of the most important interactions between the five drivers and the demand for illicit tobacco.
- Society and economy**
- **Opportunity: the ITTP exploits various opportunities in society, the market, and law enforcement.**
 - The ITTP enables disadvantaged people to maintain their smoking habits, thus reducing quitting attempts.
 - Different types of ITTP exploit different market opportunities.
 - **Large-scale smuggling** exploits loopholes and gaps in the controls on the legitimate supply chain. In Ireland, the presence of numerous ports makes it impossible for the Revenue to control every entry point, and it facilitates the importing of illicit cigarettes.
 - **Counterfeiting** has been facilitated by cheaper and more accessible printing technologies allowing the accurate forgery of genuine packs. However, counterfeit products are not particularly present on the Irish illegal market.
 - **Illicit whites** production exploits asymmetries in international legal regulation and a lack of cooperation by foreign countries. Various brands are imported in Ireland.
 - **Cross-border** purchase is the practice of buying cheaper tobacco in other countries, and it is common in Ireland. The Republic of Ireland is part of an island, and the best way to import small quantities of illicit cigarettes is via air. Travellers are allowed to import small quantities of cigarettes/tobacco, but this mode of transport may produce bootlegging.
 - **Ireland experienced an economic boom in 2004–2006, but in 2008–2009 the global financial crisis exacerbated the economic difficulties** and Ireland entered a recession. The country showed great capacity for recovery from recession, but it still shows signs of difficulties, such as a high unemployment rate and a decrease in internal demand (OECD 2011).
 - **Between 2005 and 2010, expenditure on cigarettes increased.** Urban households and households at risk of poverty spent more on tobacco than others in 2010. Recent trends in tobacco consumption show a general decrease in cigarette sales and an increase in HRT (Legal Market, p. 27). This downtrading trend, with consumers switching to less expensive products, may increase the attractiveness of illicit tobacco.

Figure 28. The interaction between the demand for illicit tobacco and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP) positive effect (decreases the ITTP)



Legal market

- **Ireland has the second highest cigarette prices among the European countries** (KPMG 2013). As a consequence, the Irish market is experiencing a downtrading trend. Consumption of cigarettes has declined (by 7.3% between 2011 and 2012), while HRT has increased (by 18.4% between 2011 and 2012) (Euromonitor International 2013b). Indeed, OTP consumption increased by about 40% between 2011 and 2012 (KPMG 2013). HRT is similar in characteristics to the tobacco used in cigarettes, thus making the switch from cigarettes to HRT more acceptable for consumers. People save about 16% on the unit price with HRT (Euromonitor International 2012, 54–55). The growing demand for HRT may increase the availability of illicit HRT in the forthcoming years.

- Tobacco is widely available in Ireland. Various channels, such as convenience stores, newsagent–tobacconists, kiosks and supermarkets distribute cigarettes. These legal retailers are not particularly involved in illicit tobacco sales. However, illicit cigarettes can be purchased in street markets and from street dealers (Pantini et al. 2012; Euromonitor International 2013b).

Regulation

- Irish government has closely regulated the tobacco control (Regulation, 35). Tax incidence is the main reason for the increase in tobacco prices. In particular, **the government has increased tax incidence on, and consequently the relative accessibility of, illicit tobacco.** In 2010 Ireland's taxes accounted for 79% of the final retail price of the most popular brand and it ranked 14th out of 181 countries analysed by the WHO and 13th among the 27 EU Member States (WHO 2011a, 100; WHO 2011b). In January 2013, tax incidence accounted for 83.65% of the final retail prices of cigarettes (calculation on percentage of WAP) (European Commission 2013).

- The increases in tobacco tax incidence (applied since 2006–2007) may affect the purchase of legal tobacco and drive the demand for cheaper illicit tobacco.

In fact, in Ireland ITTP has grown since these increases in legal prices, showing that some parts of tobacco demand are price-sensitive (Euromonitor International 2013b; KPMG 2013).

- **Plain packaging may increase the demand for illicit tobacco.** The removal of branding and other features may reduce consumers' capacity to spot counterfeits. Furthermore, consumers' differentiation between genuine and illicit products may decrease (Transcrime 2012a).

Crime environment

- **Ireland has high levels of drug consumption (Crime Environment, p. 43) and a large drugs market.** A high demand for illicit commodities, such as illicit substances and drugs, may increase the availability of smuggled tobacco.

Enforcement

- Law enforcement action against the ITTP is quite intense in Ireland. Nevertheless, the criminal legislation does not function as deterrent due to the low penalties and the absence of fines for the purchase of illicit tobacco. This may affect the demand for illicit tobacco products, reducing the risk of buying them (Baker 2012).
- There are no public awareness campaigns against the risks of consuming ITTP products. This may prevent a reduction in black-market consumption. However, **Retailers Against Smuggling was created to raise awareness about cigarettes smuggling** and illegal cigarettes selling, and about the effects of illicit tobacco on retailers.

THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Elements from all five of the drivers affect the supply of illicit tobacco. **Risk, availability, and profitability are particularly important for the supply.** This suggests that actions addressing the supply side of the ITTP should seek to reduce the profitability of illicit tobacco and increase the risks for suppliers (Figure 29, p.84).

There follow some of the most important interactions between the five drivers and the supply of illicit tobacco.

Society and economy

- Economic difficulties coupled with the recent crisis may provide further incentives for participation in the ITTP. **The ITTP provides income opportunities to ordinary people wishing to earn extra money (Maguire 2012).**
- Illicit cigarettes can be easily purchased in street markets or by asking people for someone who sells cheaper cigarettes. In some regions, the sellers sell illicit cigarettes only to known clients. It is consequently easy to find illicit tobacco products, and this decreases the risk for smugglers (Gallagher and Tallon 2012; Maguire 2012).

Legal Market

- **Legal tobacco retail channels** may be used for illicit selling, but this is not a major concern. However, **illicit tobacco is frequently offered and purchased in pubs** (Gallagher and Tallon 2012; Maguire 2012).

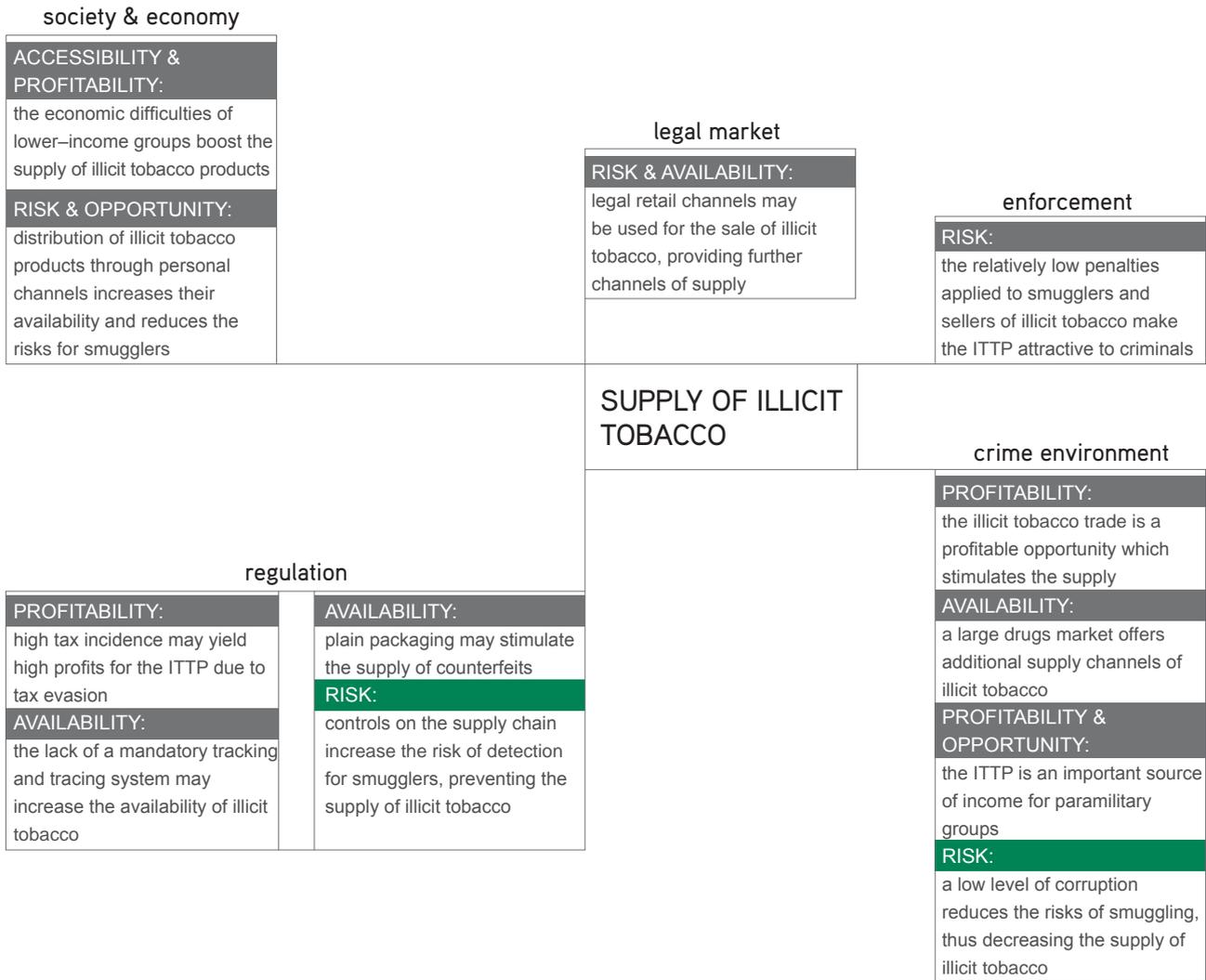
Regulation

- **High tax incidence yields high profits for the ITTP.** Tobacco tax incidence increased after 2006 and in 2013 reached 83.65% of the final retail price (calculation on percentage of WAP) (European Commission 2013).
- Ireland has implemented a **ban on display of all tobacco products at points of sale** (WHO 2011b). The aim of this measure is to reduce the visibility and attractiveness of tobacco products. However, display bans may positively influence the availability of illicit tobacco.
- The lack of a specific marking on the “final destination” of tobacco products and the lack of a practical tracking and tracing regime on the distribution of tobacco products may increase the availability of illicit tobacco.

Figure 29. The interaction between the supply of illicit tobacco and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP) positive effect (decreases the ITTP)



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- **Supply chain control measures**, which require mandatory licensing for tobacco retailers and manufacturers and customer identification during tobacco sales transactions, **may decrease the availability of illicit tobacco and increase the risks for smugglers.**
- The introduction of **plain packaging**, potentially in 2014, could increase the availability of smuggled tobacco products, due to lower risks of detection by consumers. Ireland would be the first country in Europe and the second in the world after Australia to have introduced this measure. Since in Australia plain packaging has been introduced in December 2012, it is too early to validate the actual impact on the ITTP (Transcrime 2012a).

Crime environment

- **Cigarettes represent a profitable opportunity for criminals.** Illicit tobacco has particular appeal to potential smugglers because taxes often account for a large share of the final retail price, making it a highly profitable product to smuggle (Merriman, Yurekli, and Chaloupka 2000).
- The main causes of the illicit tobacco trade are “corruption, the presence of criminal networks and weak government enforcement capacity” (Joossens and Raw 2012, 232). **The low level of corruption recorded in Ireland, together with a relatively limited presence of organised crime activity (Crime Environment, p. 43), reduces the opportunities to smuggle by increasing the likelihood of detection/accusation/conviction of potential smugglers.**

- **Tobacco smugglers use the historically consolidated illicit routes** employed for drugs and arms (Gallagher and Tallon 2012; Maguire 2012).
- Drug use is high in Ireland. It always ranks high for the prevalence of cannabis, opioids and cocaine use. **This large drugs market offers additional opportunities to tobacco smugglers.**
- **Paramilitary groups use the ITTP as an important source of income.** It funds the political and the illicit activities of the groups, such as drugs, firearms and human trafficking or bomb attacks. Different groups, both Loyalists and Nationalists, are differently involved in tobacco smuggling (see box *IRA and cigarettes smuggling*, p. 62).

Enforcement

- **Analyses of the legal provisions and of data on sentencing suggest that the criminal law may have a limited deterrent effect.** In fact, in a serious case of ITTP, the suspects may face a fine of up to €126,970 (or a maximum of three times the evaded duty) or a term of imprisonment not exceeding five years, or both.
- Furthermore, **there is no minimum fine which has to be applied in these cases, and the level of fines imposed is low compared with the applicable ones** (Joint Committee on Finance, Public Expenditure and Reform Debate 2012; Dáil Éireann 2012b). In 2012, the average fine imposed for evasion of excise duty was €1,640 and for selling/keeping tobacco products in packs without a tax stamp was €2,040 (Doherty 2013).

THE PRODUCTS AND THE DRIVERS

Many different illicit tobacco products are available in Ireland: in particular, contraband cigarettes, counterfeit cigarettes and illicit whites. Illicit whites are particularly widespread (JTI Ireland 2012a; Whiting 2013).

Opportunity and risk are key elements in the analysis of products (Figure 30, p.86).

There follow some of the most important interactions between the five drivers and illicit tobacco products.

Society and economy

- **Social, cultural and economic factors affect the types of illicit products consumed by smokers.** For example, there is a growing interest among consumers in HRT because it is cheaper. This may increase the illicit supply of this product (Legal Market, p. 27).

Legal market

- **HRT consumption has increased. Smugglers seem to adapt to this growing demand by increasing the trade of HRT.** In fact, HRT seizures have increased in recent years (Revenue Commissioners 2013a).

Regulation

- **The absence of a national tracking and tracing system may favour different types of ITTP.** This lack may make it more difficult to spot counterfeit products.
- **The introduction of plain packaging may have controversial effects.** The ease of counterfeiting may increase the share of counterfeit products in the illegal market due to lower costs and decreased differentiation between legal and illicit tobacco (Transcrime 2012a).

Figure 30. The interaction between the products and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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Crime environment

- **Contexts of the informal economy, like street markets, facilitate the selling of illicit tobacco products.** In Ireland, street markets are common, and it is difficult to control the activities of all retailers. For example, the Balbriggan and Dublin Moore street markets are places where contraband and counterfeit tobacco is likely to be on sale (The supply, p. 49) (Gallagher and Tallon 2012; Maguire 2012; Euromonitor International 2013b).

Enforcement

- Cooperation with source countries is crucial (Europol 2011b, 25). In November 2012, the WHO approved a *Protocol on Eliminating Illicit Trade in Tobacco Products* to the WHO Framework Convention on Tobacco Control. However, several studies have raised doubts about its actual impact (Boister 2010; Transcrime 2012b).
- There are no international cooperation agreements with other countries. However, the Republic of Ireland and Northern Ireland are cooperating closely to fight the illicit trade (JTI Ireland 2012b; JTI Ireland 2012a; Whiting 2013).

THE *MODUS OPERANDI* AND GEOGRAPHICAL DISTRIBUTION OF THE ITTP AND THE DRIVERS

Opportunity and risk play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP (Figure 31, p.88). Indeed, criminals may produce and distribute illicit tobacco with different methods and through different channels.

There follow some of the most important interactions between the five drivers and the *modus operandi* and geographical distribution of the ITTP.

Society and economy

- **With the increase in internet use, more people have started shopping online, also to buy cheaper tobacco products.** These websites are often registered abroad (for example in Poland), so that they are not subject to Irish regulation (for example, the ban on tobacco products advertising) (JTI Ireland 2012a; Healy 2013).
- **The Irish economy has suffered from the financial crisis, and there is a high level of unemployment. This situation has stimulated small-scale smuggling** because this is an easy way to make money. The type of smuggling most practised is bootlegging, especially by Eastern Europeans (Northern Ireland Audit Office 2009; Organised Crime Task Force 2011; Organised Crime Task Force 2012).

Legal market

- **In Ireland there are no Free Trade Zones (FTZs).** Indeed, the Shannon FTZ, close to the Shannon International Airport and established in 1959, is government owned developed company for a region and not a FTZ as generally intended (BASCAP 2012; Doherty 2013).

Regulation

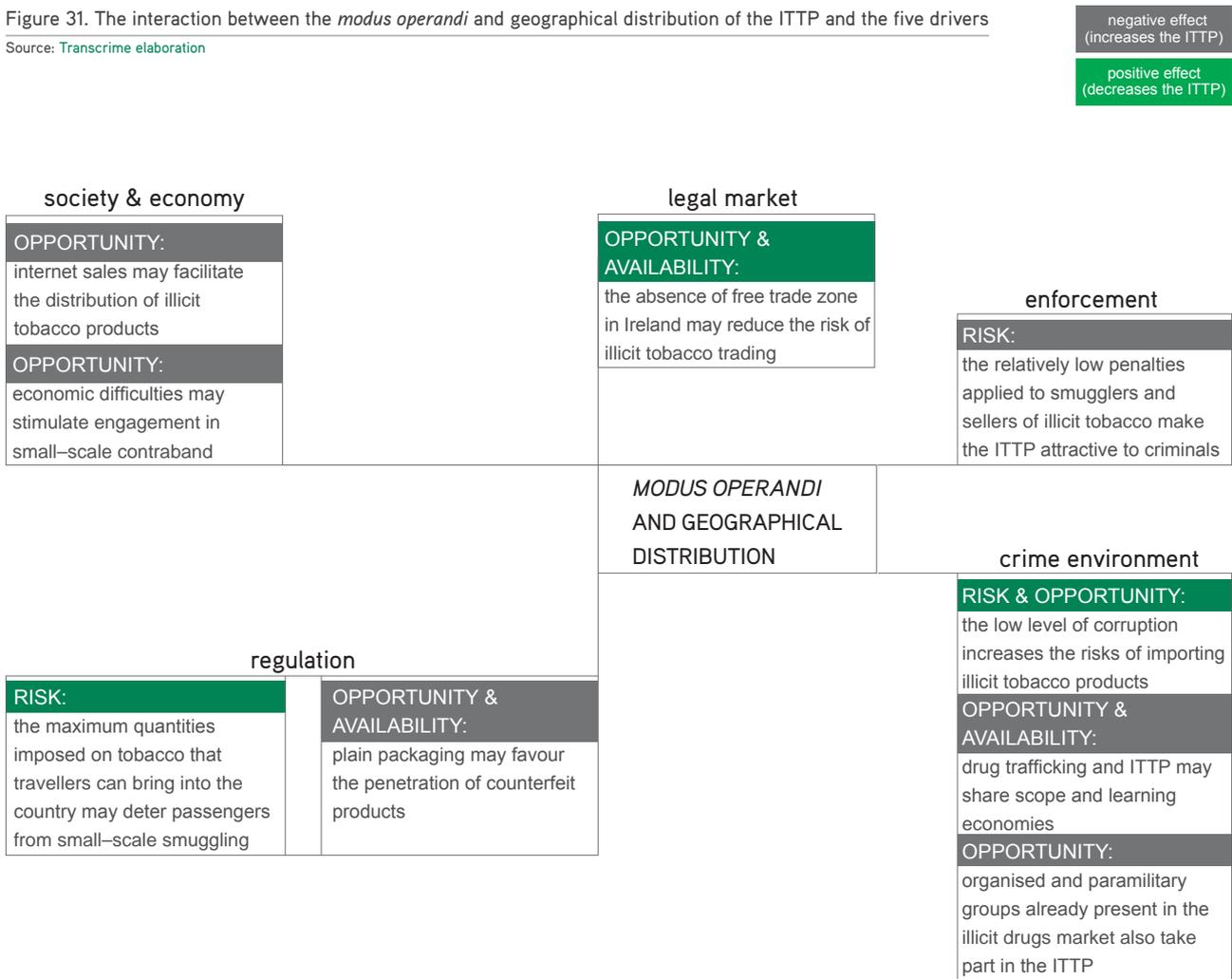
- **There have been rules and limits on the personal transportation of tobacco products in Ireland since 2010.** Travellers can bring from European countries into Ireland 800 cigarettes, 400 cigarillos, 200 cigars or 1 kg of HRT (200 cigarettes, 100cigarillos, 50 cigars or 25 g of HRT from Canary Island and countries outside Europe). The aim of this restriction is to deter travellers who engage in cross-border shopping from smuggling.
- **The implementation of measures like plain packaging (potentially in 2014) may create opportunities for the ITTP.** A study by Transcrime has pointed out that plain packaging may generate risks of tobacco products counterfeiting, decreased differentiation between legitimate and illicit tobacco products, and increased ITTP as a result of increased potential profits (due to higher taxes to counterbalance a general price decrease because of increased competition) (Transcrime 2012a).

Crime environment

- **Smugglers may use the same channels to import tobacco products and drugs illegally.** This is the case of paramilitary groups, which smuggle tobacco using the same routes that they employed in the past for drugs and arms (Gallagher and Tallon 2012; Maguire 2012).
- **The ITTP in Ireland comprises different actors** involved in illicit tobacco. There are occasional smugglers, individuals systematically involved in bootlegging, Irish and foreigner criminal organisations, and paramilitary groups (Allen 2011; Organised Crime Task Force 2011; FATF 2012).
- The criminal organisations involved in tobacco trafficking are mostly Irish, but there are also Chinese and Eastern European groups (Gilsenan and Brophy 2013).

Figure 31. The interaction between the *modus operandi* and geographical distribution of the ITTP and the five drivers

Source: Transcrime elaboration



- **There is a connection between paramilitary groups and the ITTP in Ireland.** The IRA, the Provisional IRA (PIRA), the Real IRA (RIRA) and the Continuity IRA (CIRA), as well as the Loyalist paramilitary groups (Ulster Volunteer Force and Ulster Defence Association) make money from the trafficking of illicit cigarettes (Northern Ireland Audit Office 2009; Organised Crime Task Force 2011; Organised Crime Task Force 2012). **There are different types of paramilitary engagement.** The Provisional IRA and the Real IRA are involved in container trafficking. The Loyalists pay people to travel to holiday destinations to buy illicit tobacco, and they do not engage in large container smuggling (Organised Crime Task Force 2011; Whiting 2013).

Enforcement

- **Law enforcement actions compel the illicit trade to react and adapt.** New forms of ITTP have started to emerge, making new products available. The industry exhibits a shift from genuine brands to illicit whites. The percentage of counterfeit cigarettes has remained stable and low over the years (JTI Ireland 2012b; Healy 2013).
- **Only the three major ports in Ireland have all kinds of detection devices or law enforcement presence.** This lack of control creates new opportunities for smugglers (Gilsenan and Brophy 2013; Healy 2013). Law enforcement activities target the market, but the illicit trade is flexible and adaptable. When specific shipping routes are identified, alternatives are found. The same applies to smuggling concealments and to attempts to avoid detection by X-ray scanning or canine detection (Doherty 2013).

The ITTP is a complex phenomenon comprising a variety of activities, products and actors. Analysis of the illicit trade must take account of a number of factors which may significantly influence it.

This report has analysed the multiple facets of the ITTP in Ireland. The information gathered originates from academic literature, grey literature (official reports, studies and papers), open sources, questionnaires and interviews with experts and stakeholders.

Considering the limited number of previous studies and the lack of data, the results of this study are provisional. They offer a first analysis of the ITTP in Ireland and show that more research is needed in this field.

THE FIVE DRIVERS

Chapter 1 (The five drivers, p. 18) of the report analysed in detail the five drivers of the ITTP: society and economy, regulation, legal market, crime environment and enforcement. The five drivers are areas whose structures may affect the ITTP positively or negatively.

- **Society and economy.** Ireland was the last country in Western Europe to become multicultural. The global financial crisis has seriously affected the country, but the country has shown a great capacity of recovery from recession. There are still signs of the crisis, such as a high level of unemployment and the highest public balance debt among the EU countries. Recent economic difficulties have affected consumption expenditure, that, however, slightly increased.
- **Legal market.** Ireland has not been a cigarettes producer since 2006, but there is still one tobacco factory, which produces HRT. Factories moved to Northern Ireland because of its lower production costs. Ireland has the second highest cigarette prices in Europe after the UK, and tobacco consumption has generally declined. The market is experiencing a downtrading trend, with smokers switching to cheaper products.
- **Regulation.** Regulation of the tobacco market is high in Ireland. In 2004, Ireland banned smoking in all indoor places; the first country in the world to do so. Tax incidence is high in Ireland, compared with OECD members. Furthermore, cigarettes have the second highest prices in Europe. There is a high level of supply chain control and a high level of control on tobacco consumption, as well as on tobacco advertising and promotion. The country has invested a low per capita amount of resources in tobacco control policies (\$190.0 compared with a medium level of \$290.7). However, Ireland ranked 20th out of 106 countries for government expenditure in tobacco control policies in 2010 (WHO 2011a).
- **Crime environment.** Ireland has low crime levels. Drug use in the country is high, signalling that illicit distribution networks may provide opportunities for illicit traffic, from drugs to illicit tobacco. There are various organised crime groups and paramilitary groups operating within the country. The level of corruption is low.

- **Enforcement.** Ireland has efficient law enforcement with an average number of police forces and low rates of judges and prison population. The Government is taking specific actions against illicit trade in tobacco, and there is a medium–high level of anti–ITTP actions.

THE FOUR COMPONENTS OF THE ITTP

Chapter 2 (The Four Components, p.58) discussed in detail the characteristics of the illicit trade in Ireland by framing the illicit tobacco market within its four components: demand, supply, products and *modus operandi*.

- **The demand.** The main causes of the demand for illicit tobacco are its low prices and availability in comparison to legal products. Illicit cigarettes cost half or more than half of the legal price in Ireland. The consumers are mainly men, aged between 18 and 39 from the working class, or under–age people.
- **The supply.** The supply of illicit tobacco is mainly influenced by high profitability with relatively low risks of detection and conviction. There are various actors involved in the ITTP: serious organised crime groups, foreign–based groups, opportunistic groups, and individual bootleggers.
- **The products.** The Revenue Commissioners estimate the illicit tobacco market (13% of the market is illicit), as well as the KPMG Star Report (19.1%). In addition, there are different unofficial estimates. The main illicit products are illicit whites (according to seizures and interviews with experts) and contraband cigarettes (according to EPSs data). Counterfeit cigarettes are not widespread and have a low incidence.
- **Modus operandi and geographical distribution.** In Ireland, ports are crucial for the ITTP, but smugglers also use air transport, small vehicle transport, and postal transport. The consumption of non–domestic tobacco varies across the different areas of Ireland.

FRAMING THE COMPONENTS IN THE DRIVERS

Chapter 3 (Framing the Components in the Drivers, p. 78) addressed the interactions between the drivers and the components of the ITTP. The analysis identified five key factors with a fundamental role in Ireland’s illicit market (accessibility, availability, profitability, risk and opportunity).

Accessibility: the price of illicit tobacco, and particularly its relative price compared to legal products, is a crucial factor in determining the scope and prevalence of the ITTP. Given the dual nature of the tobacco market, the growth in price differentials between legal and illegal products increases the relative affordability of illicit tobacco, thus stimulating the ITTP.

Availability: the diffusion and accessibility of illicit tobacco products has an important impact on the ITTP. In Ireland, a large drugs market, lack of controls on the informal economy, and the presence of paramilitary groups may influence the availability of illicit tobacco products.

Profitability: the ITTP is an extremely profitable activity owing to the high income that it offers compared to its operational costs. Legal cigarette prices in Ireland are the second highest among EU countries. This increases the opportunities to make profits from ITTP.

Risk: the threat of detection/accusation/conviction and the sanctions imposeable impact on the diffusion of the ITTP. Penalties for ITTP are high in Ireland, but they are not imposed in full. This may decrease the risk for those involved in the ITTP.

Opportunity: the ITTP exploits different opportunities in society, the market, the crime environment, and the law enforcement system. The introduction of new policy measures, such as those envisaged in the *Revenue’s Strategy on Combating the Illicit Tobacco Trade (2011–2013)*, may contribute to reducing the illicit market.

RECOMMENDATIONS FOR FURTHER RESEARCH

The results of this study highlight that it is necessary to conduct further research on the ITTP.

- No surveys or research on the demand for illicit tobacco products are provided for Ireland. **It is essential to identify the socio-economic characteristics and the reasons for illicit tobacco purchase.** This will make it easier to build effective counter-strategies against those behaviours and to reduce the demand.
- There is a **lack of analysis of retailers at street market level.** A study on their behaviour in relation to the selling of illicit tobacco would provide further information on suppliers' behaviour.
- The Revenue Commissioners provide official estimates on the illicit tobacco market. However, **it should better distinguish between non-domestic and illegal cigarettes** (concentrating also on the percentage of illicit whites, counterfeit and contraband) **and include HRT.** Such study may enhance understanding of the structure of the illicit tobacco market. Further, the Star Report should be improved with the participation of national institution.
- In Ireland, there are two specific offences, under the Excise Law, relating to the illegal tobacco trade. The first is the smuggling of excisable products (included tobacco). The second is keeping untaxed tobacco products (which covers sale and distribution) (Doherty 2013). These crimes are punishable with a €5,000 fine or a term of imprisonment not exceeding 12 months, or both. However, it seems that these sanctions are not actually applied. **Further research on the application of these offences may assess whether they contribute to the low risk perception among ITTP smugglers.**

In conclusion, the results of the study have shown that the ITTP is a complex phenomenon. The Government should consider individual factors, such as socio-demographic status and income, when it develops anti-ITTP strategies. Moreover, the penalties foreseen by the Finance Act should be completely applied to reduce the low risk perception among smugglers. Given the complexity and the multitude of factors involved, **the ITTP cannot be reduced to a problem relating exclusively to law enforcement and criminal justice policy. It is necessary to adopt additional, non-criminal measures to prevent illicit consumption,** such as a fine for the illegal manufacture of tobacco (to cover unmanufactured tobacco which is not liable to excise duty) (Doherty 2013). Furthermore, the government should combat the ITTP by considering the creation of a tracing and tracking system and by implementing controls in Irish ports. Finally, the government should tackle the ITTP with comprehensive strategies including criminal, non-criminal/administrative and other indirect measures, for example through a wide-ranging situational crime prevention approach.

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