**Informal Trade & Smuggling For Tax Evasion**

Introduction

This entry covers otherwise-licit goods that are smuggled or traded informally to avoid regulations and tax, or for money laundering purposes. The specific issues of oil and counterfeit smuggling are covered elsewhere on this site.

A group of boats in a harbor

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The smuggling of goods to avoid tax and customs duties, as well as tariffs, associated costs, and regulations includes many types of products.[1](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-1-43) Examples include, but are not limited to, cigarettes, gold and other precious materials such as tanzanite, artworks, oil, charcoal, alcohol, foodstuffs, and clothing. Many of these goods are produced and sold legitimately in one country but then smuggled for sale in another due to variable costs resulting from different tax regimes.

These goods are not illicit in themselves but the method of trade is to varying degrees. There are two primary forms of this smuggling. The first, is to smuggle goods inside containers in large quantities, either concealing them physically or through false paperwork. These may often be marked as in transit before they are diverted. The second, is to use smaller boats to move goods across relatively porous borders, often making use of smaller private ports with few if any customs officers.

Characteristics

*Practices*

Not all such smuggling takes place via maritime routes. However, the containerisation of shipping cargoes means that it is possible to smuggle very large quantities of goods by sea,[2](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-2-43) and statistics reflect larger seizures from maritime sources.[3](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-3-43) Sea borders also tend to be more porous and difficult to monitor, making them an ideal choice for some forms of smuggling.[4](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-4-43)

*Motivations and actors*

The criminalization of these activities is varies according to the scale of the trade and the motivation behind it. At the lowest level is informal trade across porous and historically connected borders. At this level, trade occurs without the payment of excise duties, there are no real checks, profits are small, goods are often traded to meet local needs. State legitimacy, including the right to levy excise duties, may also be contested in such borderlands.[5](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-5-43)

More serious is the mass movement of goods for profit, to evade customs duties, or to launder the proceeds of crime. Smuggling of this type is often carried out by organised criminal networks. In 2015 for example, the Transcrime research centre estimated that the illegal cigarette market in the EU yielded between EUR 7.8 and 10.5 billion in criminal proceeds; comparable to the revenues generated in the cocaine and heroin markets.[6](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-6-43) Cigarette smuggling is attractive to organised criminals, who view the risks of smuggling licit goods as being smaller than those prioritised by law enforcement.[7](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-7-43)

*Terrorist financing*

Informal trade and tax evasion can also have security implications, due to the involvement of terrorist actors. In 2010 a UN Security Council investigative body established a link between excise fraud and the financing of terrorism.[8](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-8-43) For example, there is a growing body of work on charcoal smuggling for these purposes by organisations such as Al-Shabaab in Somalia.[9](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-9-43)

*Freeports*

The increasing prevalence of so-called ‘freeports’ adds a further dimension to these practices. Freeports are enclosed areas within the customs territory of a country where external goods can be introduced free of import duty and other charges. They have become popular for the storage of valuables, including art, precious stones, gold, antiques, and wine collections – often on a permanent basis. Critics have raised concerns that free ports could be used to hide illegally acquired assets, to launder money or evade tax.[10](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-10-43)

In 2010 the Financial Action Task Force on Money Laundering, an intergovernmental body based at the headquarters of the Organisation for Economic Co-operation and Development (OECD) in Paris, published a report claiming that free ports were a ‘money laundering and terrorist-financing threat’.[11](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-11-43)

Scope

Similar to other forms of maritime smuggling and trafficking, it is difficult to estimate the scale of the problem. A large range of goods are smuggled for these purposes, and while there are estimates for some products, there is little data collected on others.

Estimates are usually extrapolated from seizures, and then an estimate is made concerning how much has been revenue lost by the state and gained by other actors. According to KPMG, for example, 48 billion illicit cigarettes were consumed in the EU in 2016, depriving EU governments of EUR 10.2 billion in tax.[12](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-12-43) Similarly, the UN Somalia and Eritrea Monitoring Group (SEMG) also make an estimate for charcoal smuggling following a similar methodology, suggesting that that al-Shabaab received around US$7.5 million from some 60,000 tonnes of charcoal smuggled in 2018.[13](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-13-43)

These figures shed some light on the scale of these forms of smuggling. However, such data does not separate maritime routes of smuggling from land-based routes. There are few reliable estimates of the extent of the the smaller-scale trade.

Impact

Due to the otherwise licit nature of the goods being traded and smuggled, the primary negative impact is on the state. Countries lose excise duties from smuggled goods, which reduces governmental tax income and potential expenditure on public goods, and undermines competitiveness.[14](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-14-43) Bribery and corruption associated with these activities can undermine law and order, especially in vulnerable areas. Profits may also be used to support wider criminal enterprises or terrorist activities.

However, it is important to note that in some circumstances, these forms of smuggling can also fulfil important social and economic functions. Low level informal trade across borders may provide affordable access to goods such as medicines for for people living in relative poverty and for whom the state does not provide.[15](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-15-43)

Linkages & Synergies

At the level of informal small-scale trade smuggling of this type has been linked to practices such as bribery and corruption. More organised smuggling activities have evidenced strong linkages to other criminal practices such as drugs and counterfeit trafficking, as well as to terrorist financing.[16](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-16-43)

Smuggling for tax evasion has been strongly linked to IUU fishing. Fish are themselves laundered and landed informally to hide their origin and evade taxes. In consequence, this form of smuggling is also linked to labour issues such as human trafficking and forced labour at sea.

Responses

*International*

Smuggling for customs evasion is generally presented as a form of illicit financial flow, and international responses reflect a focus on broader tax rules rather than a focus on the smuggling itself. Legislative responses tend to be nationally focused rather than regional or international because regulations concerning tax differ significantly from country to country. However, there are some international and regional organisations that have taken measures in this area.

The G20 grouping for example has reportedly discussed this issue at length, with an emphasis on (as yet unrealised) information exchange and universally endorsed standards.[17](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-17-43) The Financial Action Task Force (FATF) focuses organised groups engaged in smuggling for tax evasion or money laundering.[18](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-18-43) The FATF promotes legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF also monitors countries’ progress in implementing FATF Recommendations, reviews money laundering and terrorist financing techniques and countermeasures, and encourages the adoption and implementation of the FATF Recommendations globally.

At an operational level, the World Customs Organization addresses what it refers to as ‘Illicit Financial Flows and Trade Mis-Invoicing’.[19](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-19-43) It works to develop capacity at a national level and develop stronger linkages between Customs and Tax authorities. The United Nations Office on Drugs and Crime (UNDOC) and the World WCO also launched the UNODC-WCO Container Control Programme (CCP) in 2004.[20](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-20-43) The main purpose of the programme is to facilitate the tracking of containers from the port of origin to the port of destination by collecting the information on the routes of the freight containers through Container Status Messages (CSM) data. Through this programme, UNODC aims to assist in the interception of containers that may contain smuggled goods.

*Regional*

At a regional level, the European Union has implemented a number of measures in this area. Excise Fraud is one of the priorities of the European Multidisciplinary Platform Against Criminal Threats initiative for example.[21](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-21-43) EUROPOL runs various operations targeting excise fraud. Its Analysis Project Smoke is dedicated to investigating the unlawful manufacturing and smuggling of excise goods, particularly tobacco and cigarettes.[22](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-22-43) They coordinate exercises with Frontex and national authorities which have resulted in significant seizures. They also develop operational meetings between relevant agencies.

*National*

Even so, efforts to combat smuggling for tax evasion continue to face difficulties.  This is especially so at a national level. Some countries with porous maritime borders do not have the capacity to monitor all sea channels, or place higher priority on issues such as IUU Fishing and terrorist movements. This is particularly so with regard to small scale smuggling. Enforcement of laws is often seen as inconsistent or arbitrary, with the permissibility of certain imports or activities changing regularly.

Even in countries with more developed capacity, customs officials are limited in how effectively they can monitor and inspect the thousands of containers that enter their ports, even on a single ship. A focus on efficiency and short turnovers further reduces the ability of customs officials to inspect containers. These searches are labour intensive and require specialized training. Even scanning can be prohibitively expensive and time-consuming.[23](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-23-43) In the EU for example, only 10 per cent of containers are scanned, and 2 per cent physically searched.[24](https://www.safeseas.net/evidence/2020/02/10/illicit-goods-smuggling/#easy-footnote-bottom-24-43)

While risk profiling has had some success, this is currently insufficient to tackle the breadth of the issue as the volume and quality of information can vary significantly. As a result, there has been a shift to focusing on investigative and risk-based assessments to identify potentially smuggled shipments.

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