

# Illicit Trade Annex

## Annex 1: The main types of illicit trade

The following table contains synthetic answers to the following questions, in order to characterize the current situation of the main types of illicit trade:

1. What is the current state of knowledge on the global extent of the main types of illicit trade?
2. What is the current policy response to address each of these problems from a global perspective?
3. How effective is the current approach and what are the remaining gaps?

We note that this table does not lend justice to the variety of initiatives at the regional or state level, and the wide array of NGOs and industry lobbies that focus on specific types of illicit trade, and which we could not mention here.

Type of illicit trade	Knowledge on the global extent of the problem	Policy response at the global level	Effectiveness of current approach and remaining gaps
<b>All types of illicit activity</b>	Including only goods, the value of illicit international trade is \$650 billion (GFI). Illicit financial flows are on the order of \$1.3 trillion (GFI)	United Nations Convention against Transnational Crime, entered into force in 2003 WCO Conventions and standards in respect of international trade, such as International Convention on the Harmonised Commodity Description and Coding System (1988), International Convention on the Simplification and Harmonisation of Customs Procedures as amended (2006) and WCO SAFE Framework of Standards (2007), designed to exercise state control over the flows of goods, people and means of conveyance across international borders.  Interpol facilitates information exchange and cooperation between national police ISO (e.g. in combination with NASPO and others)	Despite serious studies demonstrating its scale and impact, illicit trade is not sufficiently studied and documented. The consequence is that some policy makers are not sufficiently aware of its importance, while others take advantage of this situation to discredit possible initiatives to curb illicit trade.  The globalization of the economy has allowed illicit traders to infiltrate all areas of the licit economy, while the complexity and size of global supply chains make it difficult to detect infringers  Increased cooperation between states is a good step forward, but the real paradigm shift that remains to be taken is to focus on disabling the conditions that enable illicit markets to flourish; and on the engagement of business and its customers in targeting illicit trade as a distinctly bad thing.
<b>Human trafficking and forced labour</b>	ILO estimate: 12.5 million people in forced labour in 2005, of which 2.4 million are trafficked	UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the Convention against Transnational Organized Crime.  UN Global Plan of Action against Trafficking in Persons  Various ILO conventions	The low number of arrests and prosecutions of traffickers testifies to the inefficacy of current efforts to fight human trafficking.  Migration policies of industrialised countries need to be revised to keep pace with changing demographics and the increasingly free movement of goods and capital, to enable more legal labour migration channels.  Businesses need to strengthen their supply chain monitoring to ensure against the use of forced or trafficked labour.
<b>Illicit financial flows</b>	\$1300 billion from developing countries in 2006 (GFI, using data of the IMF)	US FCPA – Foreign Corrupt Practices Act  OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transaction  UN Convention against Corruption  OECD Financial Action Task Force (FATF) and its regional bodies	In the last 10 years countries around the world have generally enhanced their laws and regulations. However, there is some way to go on effectiveness – a topic which is becoming a key focus of the FATF and its regional bodies. Effectiveness depends on an enhancement in understanding and behaviour amongst the public at large, government departments, and the commercial sector – not in one area alone. Implementation of effective due diligence (“Know your customer”) rules, by banks especially around Politically Exposed Persons (PEP) is a major problem.  The global offshore sector provides a haven for illicit financial flows and opaque business arrangements which help all forms of illicit trade.  There is an urgent need to require of banks that they determine ultimate beneficial ownership of entities prior to providing banking services.
<b>Wildlife resources</b>	Crudely estimated at over \$5 billion a year, mostly made up of illegal timber and fisheries products. (Interpol)  Threatens thousands of species of wild animals and plants, from tigers and turtles to mahogany and ginseng. (TRAFFIC)	Convention on International Trade in Endangered Species (CITES)  UN Convention on Biodiversity  United Nations Fish Stocks Agreement  Regional Fisheries Management Organisations  International Tropical Timber Agreement  Forest Law Enforcement and Governance Initiatives	A considerable array of national legislation and international agreements is in place to ensure that trade does not threaten conservation, but significant illegal activity undermines effectiveness. Law enforcement effort in this field is all too often under-resourced and poorly coordinated within and between countries. As a result detection and prosecution rates are low. Even when prosecutions are successful, penalties are seldom a strong deterrent to major actors in this trade. Connections with other areas of illicit trade, including narcotics and financial crime are poorly understood.
<b>Other natural resources</b>	Oil & Mining  Diamonds	Extractive Industries Transparency Initiative  Dodd Frank 1504  Dodd-Frank - 1502  Kimberley Process Certification Scheme for diamonds	EITI has some compliant countries, though compliance in each country varies. A major problem is the inability of civil society to hold governments accountable for revenue streams. 1504 requires oil, gas and mining companies to disclose all payments on a country-by-country & project-by-project basis. Implementation is pending SEC rule-making. Europe plans to replicate this law.  Requires effective due diligence to be conducted around sourcing of minerals from DRC  The KP remains at a cross-roads, in danger of losing global civil society support. The first real test of its efficacy over Zimbabwean diamonds has resulted in failure. Lack of effort by the Industry, together with inadequacies in the functioning of the KP, and the role of allies of Zimbabwe within the KP has led to this situation.
<b>Illegal drugs</b>	Cocaine production: 800-1100 tons  Heroin production: 400 tons (UNODC estimates for 2009)	UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)	Trends of the last two decades show no decline in global production levels, only changes in location and nature of drug abuse.  There is increased focus on treatment and activities aimed at reducing adverse consequences of use, trafficking and production Increasing connection between trafficking on one hand and violence and political instability on the other
<b>Excisable goods</b>	10.7% of worldwide cigarette consumption (Framework Convention Alliance), with an estimated loss of \$50 billion in government taxes  Similar rates on other excisable goods	WHO FCTC Protocol	The Protocol is not yet implemented, however this is one of the promising areas where government, business and civil society are working together and attempting to leverage the power of technology to facilitate enforcement
<b>Counterfeiting</b>	No reliable global estimate exists (sources: US GAO, EC, OECD)	WTO TRIPS	Manipulations of the global IP agenda have polarized the debate and slow down progress  There has been insufficient focus on the health and safety risks caused by IP infringement, and the linkage between IP and development issues Counterfeits are by nature hard to detect; technologies that enable transparency in the supply and distribution chains must be used with intelligence and a risk management approach on a larger scale to facilitate inspection  Lack of public-private partnerships
<b>Small arms</b>	\$1 billion for small arms (2001), Small Arms Survey	UN Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition of the UN Convention on Transnational Crime UN Program of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in all its Aspects, 2001	Intimately linked to other forms of illicit trade and efforts at control suffer many of the same weaknesses and barriers to success.  Multiple initiatives at national, regional, and global level illustrate the difficulties of tackling the problem effectively, but also the belief that a “web of prevention” will be the best approach to the wide variety of circumstances in which one finds illicit arms trading.  This is one issue where the UN has taken a leading role and much of the initiative has come from the States most affected. Not the North/South divisions that plague many other UN efforts.  A key new effort will be the negotiations of an Arms Trade Treaty that encompasses both major weapons systems and small arms and tries to establish criteria to govern arms exports.

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## Annex 2: Harm caused by illicit trade

Type of harm	Impacts, harms and risk
<b>Costs to businesses</b>	<p>Illicit traders use the infrastructure of the legitimate economy to conduct their business, which induces various costs and risks onto legitimate business. These costs and risks are both individual (monitoring, compliance, liability, reputation, health and safety of consumers) and systemic (e.g. possible major disruptions of the global supply chain).</p> <p>Powerful organized crime groups thriving on illicit trade often exacerbate a weakened or corrupted state that is unable to assert the rule of law, thereby creating a hostile environment for legitimate business and discouraging investment. In some cases, there may be significant threats to the safety and security of personnel and facilities, substantially increasing costs of doing business. Intellectual property infringement is, by nature, a major threat to any information-based economy; it introduces severe market distortions as counterfeit products compete with legitimate industries.</p> <p>Smuggling of taxed goods and uneven application of tax policies between states provide a strong economic advantage to infringers.</p>
<b>Costs and loss of revenues to states</b>	<p>Lost taxes: illicit trade in cigarettes alone costs states an estimated \$50 billion per year and tens of billions of dollars more if other excisable goods are added.</p> <p>In most cases of illegal extraction of natural resources (logging, oil, mining, etc.), duties are not paid to the state that is the owner of the resources. In cases of state complicity or collusion in illegal extraction, this further undermines the transparency and legitimacy of government and hinders efforts at reform and accountability.</p> <p>Beyond lost taxes, the difficulties to compete in an environment where contraband and illicit trade are rife reduce the country's attractiveness for legitimate industries, and therefore undermine its tax base.</p>
<b>Global governance and legitimacy of institutions</b>	<p>The international multilateral trading system is threatened by the rise of illicit trade. There is an increasing division regarding the role and impact of IP policies on economic development, health, education, and agriculture.</p> <p>The subversion and exploitation of the international regimes established to facilitate key aspects of multilateral trade (e.g., transportation, finance, the ISO system) for illicit purposes undermine the credibility and effectiveness of global governance arrangements.</p> <p>The growing scope and scale of illicit trade make it increasingly difficult for the regimes created to support international security and the rule of law to function in key areas, such as post-conflict reconstruction, the development or prevention of proliferation of weapons and technology, or the implementation of international sanctions.</p> <p>The widespread availability of contraband the corruption with which it is associated undermine confidence in the rule of law and the institutions delegated with its enforcement. Where organized criminal groups are strong, they may proactively attack those officials that oppose them, further undermining the rule of law. They may also target journalist and activists, producing a chilling effect on civil society.</p>
<b>Health and safety of citizens</b>	<p>Counterfeit malaria and tuberculosis medications alone kill an estimated 700'000 people per year.</p> <p>Counterfeit parts have infiltrated the supply chains of safety related products as well as the automobile and aviation industry, and are much less reliable and much more likely to fail than standard parts.</p> <p>Illicit tobacco trade undermines tobacco control policies. This could result in an additional 1,000,000 deaths by 2030.</p> <p>Several hundred thousand people every year are lured into slavery-like conditions by human traffickers, working in inhumane conditions in such sectors as agriculture, construction, fisheries, catering and the commercial sex industry.</p>
<b>Security of citizens</b>	<p>To protect illicit markets, criminals engage in competitive violence with rival groups and with law enforcement; non-participants are often caught in the crossfire. For example there are more casualties from drug-related violence in Mexico in 2008 than in all but one of the 16 international armed conflicts underway that year [source: Stockholm International Peace Research Institute], and more civilian casualties in Mexico than Iraq in 2009 [source: New York Times.]</p> <p>In places where enforcement pressures have become extreme, criminal groups may engage in terrorist violence against innocent citizens to destroy the political will to combat them.</p> <p>Various reports demonstrate that illicit trade (in illegal drugs, tobacco, counterfeits, arms,..) have been one of the major direct sources of funding, over the years, of several terrorist groups (IRA, Al Qaeda, D Connection, Hezbollah.)</p>
<b>Conflicts and geopolitical risks</b>	<p>Most if not all conflicts that involve non-state actors also involve illicit trade. In fact, illicit goods often become the de facto currency, whether it is diamonds or illegal timber logging traded for weapons, or commodities extracted or produced through forced labour.</p> <p>In the case of states emerging from conflict or those plagued by substantial internal armed conflict, the presence of a strong illicit economy and the groups associated with it can undermine efforts to establish peace and restore normal economic activity and development. Combatants who become rich through the contraband trade have few incentives to come to the negotiating table.</p> <p>Illicit trade in weapons of all sorts, from small arms to major conventional weapons, fuels and prolongs conflicts. Illicit trade is also the most likely source for the materials and equipment that enable the proliferation of weapons of mass destruction and the means to deliver them (e.g., missiles).</p>
<b>Economic disparities and other social consequences</b>	<p>GFI reports suggest that \$1.3 trillion may have illegally left developing countries to the detriment of local productive investment.</p> <p>The near monopoly of illicit trade in certain societies or areas of a city or country, means that a number of people have a limited choice that may lead them to turn to illicit activities and become criminals to provide for themselves and their families.</p> <p>Human trafficking and smuggling, for which economic disparities are a major driver, lead to a drain of valuable human resources from developing countries which in turn provide an obstacle to achieving development goals.</p>
<b>Environment and biodiversity</b>	<p>According to TEEB, global fisheries underperform by \$50 billion annually because of overexploitation. In turn, illegal fishing may contribute to a significant percentage of overexploitation and therefore to an economic loss of tens of billions of dollars. Illegal trade in timber, fisheries and other wildlife resources greatly undermines benefits that should flow from legal sustainable trade to harvesters and businesses in this sector.</p> <p>Significant levels of threat to the conservation of many wildlife species from over-exploitation.</p>