



Illegal tobacco helps fund North Korea's nuclear regime

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The illegal tobacco trade is helping to prop up Kim Jong-un's nuclear program as well as the world's biggest terror groups, according to a US security chief.

David Luna says the North Korean regime accumulates most of its wealth through a network of "criminal enterprises that trade in everything from goods made by forced labour to counterfeit currency to narcotics".

One of the most lucrative is illicit tobacco, an industry worth tens of billions of dollars worldwide since the product can be sold without the high taxes that exist in many wealthy countries.

His allegation may at least partially answer the enduring question of where such a poor country finds the money for an intimidating military stockpile.

North Korea's gross domestic product is smaller than that of some American cities, Mr Luna points out, yet it is able to put on some terrifying displays of military power.

The outgoing chair of the OECD Task Force on Countering Illicit Trade, says that compared with drugs, smuggling tobacco is "low-risk, high reward".

A shipping container packed with tobacco can be obtained for \$130,000 and resold for \$2.6 million, with penalties paling in comparison to the lengthy prison terms handed down to narcotics traffickers, said Mr Luna.

During his tenure as a senior security director for the Bureau of International Narcotics and Law Enforcement Affairs, Mr Luna contributed to a 2015 report on how illicit tobacco "fuels transnational crime, corruption, and terrorism" and "creates greater insecurity and instability in many of today's security 'hot spots' around the world".

He said illicit tobacco was funding "bad actors", with open source reports showing 15 of the world's leading terrorist groups regularly rely on illicit cigarettes for funding, including al-Qaeda, the Taliban, Hezbollah and Hamas.

Others say Islamic State is also funded not only by oil but from the sale of counterfeit cigarettes, as well as pharmaceuticals, cell phones, antiquities and foreign passports.

Seizures of cigarettes smuggled into Turkey from Syria rose from ten million to 145 million between 2009 and 2012, with 14 million illegally imported from Turkey confiscated in Bulgaria.

How North Korea got involved

The production and sale of fake cigarettes in North Korea began in 1992, managed by Kim Jong-il's government, according to a 2006 article in the Seoul-based Daily NK.

Counterfeit goods are legal in the Hermit Kingdom, and have been since the former leader Kim Jong-il began selling fake products to the people back in the eighties.

As regulations tightened in China, counterfeit cigarette factories moved their materials and machines to cities including Pyongyang and Hoeryong.

North Korea supplied the labour, while Chinese companies controlled the supply of raw materials and distribution, often through the international mafia, defectors claimed.

In March 2016, Financial Times partner Nikkei Asian Review reported that UN sanctions could damage this important revenue stream for the North Korean regime. In the previous two years, high-quality counterfeit Marlboros had at least twice been seized at ports in Manila and Malta, after they were found hidden in shipments of legal North Korean cigarettes.

The fakes had similar packaging to those sold legally in Iraq, which may have been to facilitate sales in neighbouring Syria and Turkey, said an Iraqi official.

The Philippines is one of Asia's top markets for counterfeit cigarettes, accounting for an estimated 709 million of one billion counterfeit cigarettes consumed across 16 regional markets in 2014.

Where do Kim's fake cigarettes go?

Between 2002 and 2005, counterfeit Marlboros from North Korea were identified 1300 times within the US, according to a State Department report.

Meanwhile, the illicit tobacco trade has become a valuable commodity for crime gangs in Australia, although there is no evidence there are fake cigarettes from North Korea over here.

Exact data on volumes of illicit tobacco is hard to find, and supply ebbs and flows, but an investigator involved in recent seizures said the trade was believed "to be ongoing and increasing". The biggest barrier is said to be that North Koreans lack the machinery and spare parts they need to fulfil orders.

North Korea used to be one of the few countries where smoking was allowed almost anywhere, but since last year, it has officially been trying to get citizens to quit. While it is taboo for women to smoke, around 54 per cent of adult men regularly consume cigarettes, including Kim, who is often photographed puffing away.

As well as the black market, there is a grey market in which legal tobacco products are shipped to markets for which they were not intended. In 2010, the FT reported that North Korea was generating currency by re-exporting British cigarettes, despite renewed efforts by the international community to apply tougher sanctions to the impoverished state.

While the UN has banned luxury goods exports to North Korea, member nations have been allowed to compile their own sanctions lists.

British America Tobacco was sending cigarettes packaged in Singapore to North Korea, with millions of dollars worth rebounding to ports in Vietnam and the Philippines, from where they could be shipped to richer markets.

One problem is that China is keen to retain its monopoly on North Korea's large supply of rare earth metals, and Russia is more than willing to step in and do business with Kim if China ceases economic co-operation.

North Korea also earns money for its nuclear program by exporting workers to China, Russia, the Middle East, Eastern Europe and South East Asia.

Former security chief Mr Luna said governments and private companies now needed to work together to fight an illicit trade that is "fostering corruption", according to a US Commission on Security and Cooperation in Europe hearing on illegal tobacco last month.

"We must accelerate cross-border intelligence-led policing to disrupt and dismantle the illicit trafficking networks that are fuelling today's global insecurity," he said.

"By smartly targeting the illicit activities of North Korea, and other threat networks, we can curtail the financing that enables these criminal regimes to exist, better safeguard our security and world order, and help to win the peace."

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