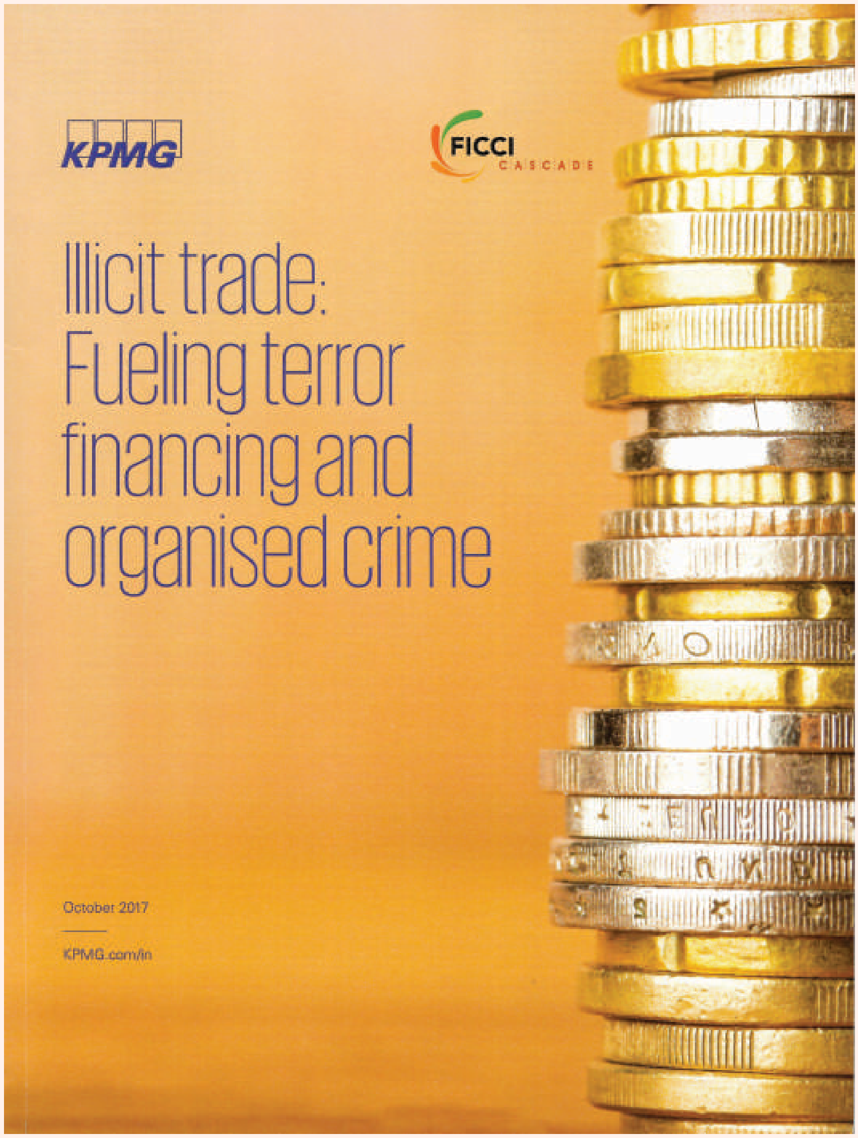
New Study on Illicit Trade, Terror Financing & Organized Crime

KPMG India has put the spotlight on the nexus between illegal trade in goods, Terrorism and Organized Crime in a recent publication **Illicit trade: Fuelling terror financing and organised crime**, released in October 2017. The study notes that illicit trade which includes smuggling, counterfeit and piracy is one of the most preferred mechanism by terrorist organisations worldwide to finance their operations.



According to this study, illicit trade is a widespread and ever growing problem having high economic impact globally. The study estimates that the tax loss caused due to counterfeiting and piracy will reach USD199 billion – USD270 billion in 2022 from the current USD96 billion – USD130 billion. Further, counterfeiting and piracy will lead to an estimated net employment loss of 4.2 million – 5.4 million in 2022, compared to 2 million – 2.6 million in 2013, the study adds.

On the Indian illicit trade scenario, the study states that India has been a region affected by terrorism, organised crime and illicit trade ever since its independence in 1947. “Of all forms of illicit trade, smuggling happens to affect the most. The nexus of smuggling is used to finance criminal activities,” the study notes. The study reveals narcotic drugs are the most smuggled goods in India accounting for the largest number of seizures by the authorities followed by gold, cigarettes and apparel.

It further points out that higher taxation rates, availability of cheaper alternative, lack of awareness and lack of enforcement mechanisms are key factors that encourage the consumers to opt for counterfeited, smuggled or pirated good without realising the after effects of promoting illicit trade.

IN FOCUS

Noting that the most commonly counterfeited and smuggled goods are tobacco, cigarettes, electronic items, gold, machinery and parts, alcoholic beverages, auto components, Fast Moving Consumer Goods (FMCG) and Mobile Phones, the KPMG study analyses the impact of illicit trade on the following key industries in India:

- **Tobacco and Cigarettes**
- **Alcoholic Beverages**
- **Auto Component**
- **Fast Moving Consumer Goods (FMCG)**
- **Packaged Foods**
- **Mobile Phones**
- **Computer Hardware**

Illicit Trade in Tobacco & Cigarettes on Rise

The KPMG study cites several reports from the Directorate of Revenue Intelligence (DRI) suggesting an increase in smuggling of cigarettes in the recent years due to tax increase and availability of cheap cigarettes in the neighbouring countries. The study points out that the sale of counterfeited and smuggled cigarettes has increased since legal sales of cigarettes has fallen from 2010-2015 with number of smokers not decreasing.

Legal sales of cigarettes in India fell from 98.58 billion stick units in 2010 to 88 billion stick units in 2015 while the number of smokers in India has increased from 50 million in 2010 to 54.5 million in 2015, the study notes. According to this study, the legal sale of cigarettes will fall further between 2015 and 2020 providing a larger share to the illicit market. Presently, the Illicit market for cigarettes in India is worth Rs. 25,000 crores, estimates the study.

Since illicit tobacco trade has been a catalyst for terrorism and organised crime, the study recommends that the effect of sin tax on cigarettes should be evaluated vis-à-vis the threat which is posed to the security of the country by indirect financing of terrorism and organized crime.

Study Recommendations

- **Better awareness about counterfeit and smuggled products through government initiatives**
- **Government and Industry can join hands to run campaigns for reducing the market of counterfeit and pirated goods**
- **Task forces can be formed to check the growth of illicit trade and links between terrorism, organized crime and illicit trade**
- **Government can draw a balance between its revenue needs through taxation and the incentives illicit market gets through increased taxes on goods**