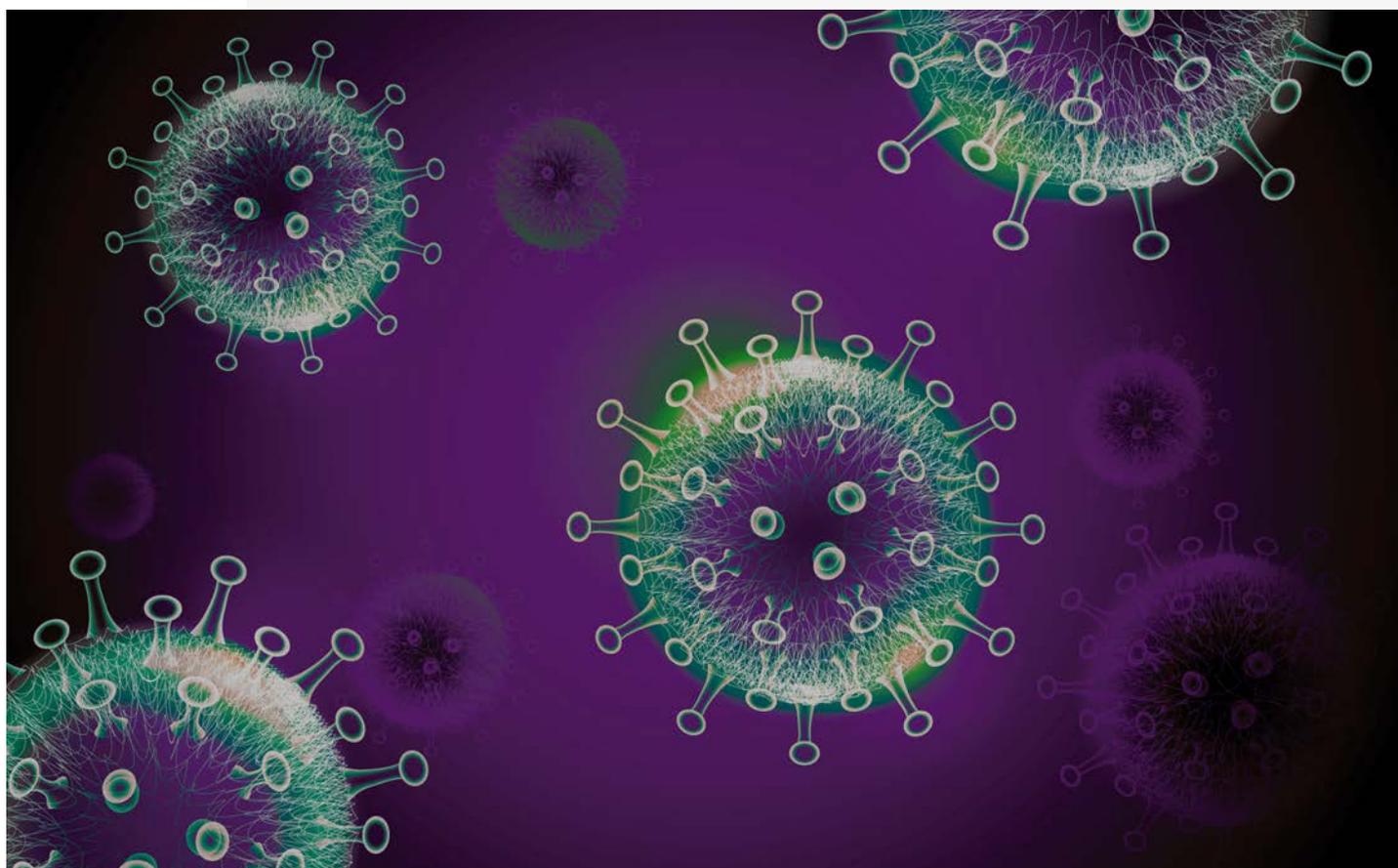


CHAIR'S NOTE

HIGH RISK SECTORS IN COVID-19 RECOVERY



THIS DOCUMENT PRESENTS A CHAIR'S SUMMARY OF THE WEBINAR "HIGH RISK SECTORS IN COVID-19 RECOVERY" ORGANISED BY THE OECD TASK FORCE ON COUNTERING ILLICIT TRADE ON 16 SEPTEMBER 2020.

Background

While communities and economies around the world confront the lethal effects of COVID-19, the threat of illicit trade keeps wreaking havoc on people's health and safety, and the security of nations. Before the coronavirus, global illicit trade was already booming from an array of trafficking and smuggling crimes. COVID-19 has hastened illicit trade across the internet on thriving social media, e-commerce platforms, Free Trade Zones (FTZ), and online marketplaces, alarming law enforcement, and broader communities in many parts of the world.

During the early stages of the COVID-19 outbreak, governments worldwide grappled with social distancing policies to stem the spread of the deadly virus. Among these, several countries across regions enacted various bans on the production or consumption of alcohol, tobacco, and other goods. In most cases, the restrictions generated consequences that ended up being more harmful to consumers and businesses alike, damaging to the economy than policymakers anticipated.

On April 23, the OECD Task Force on Countering Illicit Trade (TF-CIT) organized an online webinar to scope the main areas of impact that the COVID-19 pandemic has on illicit trade. One of the main findings of the dialogue was that several sectors might be at risk for e-commerce fraud and illicit markets. These include pharmaceuticals, medical supplies, fast-moving consumer goods (FMCG), and other sectors, such as tobacco or alcohol, which criminals frequently targeted before the pandemic.

Building on the conclusions of the April 23 webinar and following another webinar organized on June 10 that focused on illicit trade in fake medicines, the OECD TF-CIT organized a webinar on high-risk sectors in coronavirus pandemic recovery. The primary purpose of the webinar was to discuss in-depth the critical impact areas of the COVID-19 pandemic on illicit trade in several high-risk industries, such as tobacco, alcohol, or food, and to identify the relevant governance gaps and market risks that should be further addressed in dedicated dialogues.

The webinar was held on 16 September 2020. It was co-organized with the Anti-Illicit Trade Expert Group (AITEG) of the Business@OECD. The meeting gathered about 150 participants from the TF-CIT public and private stakeholder networks. Mr. Chris Martin, the Senior Counsellor at the UK HMRC and Chair of the TF-CIT, chaired the webinar. Speakers at the webinar represented both the public and private sectors. Mr. David Luna, President of the AITEG, and Mr. Alvis Giustiniani, Vice-president of the AITEG, delivered opening remarks.

COVID-19 pandemic flames the problems in high-risk sectors such as tobacco, alcohol, and food

The on-going COVID-19 pandemic has triggered one of the biggest global crisis since World War 2 that has had lethal effects on many sectors of an economy. The pandemic has had and will continue to have a significant impact on illicit trade in high-risk industries such as alcohol, tobacco, or food.

For criminals and other bad actors that drive illicit trade networks, the on-going pandemic is an excellent opportunity to exploit systemic problems related to illicit trade and free ride on new possibilities opened by the pandemic.

The key COVID-19-related elements that shape the dynamics of illicit trade in these high-risk sectors include the closure of borders, reshape of suppliers' structure, destruction of existing relations in supply chains, as well as the change in enforcement priorities. Corruption and insecurity continue to fuel illicit trade across markets and economies. Besides, these changes have been occurring very rapidly, leaving minimal scope for a reaction.

in supply chains. These distortions have been generating both: excess supplies of goods (for example, in cases of closures in the food industry that did not need contracted food anymore) and unsatisfied demand (in cases of limited access to existing suppliers). In all these cases, criminals exploited these opportunities for illicit profits.

Regarding illicit trade in food, enforcement officials provided illustrative examples of new, sometimes unexpected mechanisms that generated an additional influx of illicit food on the market.

For example, recent targeted actions in Europe revealed many cases of infiltration of legal supply chains by criminals with substandard or counterfeited food products. In 2020, during the ninth edition of the Europol-coordinated operation, OPSON enforcement officers confiscated 12 thousand tons of substandard food and stopped operations of nine organized criminal groups.

Specific examples referred to large volumes of excess milk and dairy products due to lower demand (for example, closed restaurants). Such milk and other dairy product were kept frozen, which drastically damaged their quality, and later were introduced by criminals on the market. Another example referred to substandard seed oil falsified with chlorophyll and beta-carotene and then entered legitimate supply chains as extra virgin olive oil. Another example was horsemeat coming from illegal horse slaughtering, involving forging of transportation documents for animals.



Illicit tobacco, alcohol, and food flood the markets

During the COVID-19 pandemic, additional volumes of illegal food, tobacco, and alcohol have been entering the markets through vulnerable supply chains, weak enforcement, and porous borders. Closures of some businesses and disruptions in transport methods have led to significant distortions

Notably, in all these cases, illicit food was substandard and could pose significant health risks to consumers.

Regarding illicit tobacco, participants highlighted a recent sharp increase in seizures of illegal cigarettes, including seizures of containers filled with illicit cigarettes. Besides, there were also seizures of tobacco production equipment in several EU countries. These instances point at preparations made by criminal gangs to increase the supply of illicit tobacco. Such an increase in supply will be a natural consequence of stable demand for tobacco and the expected sharp reduction in consumers' purchasing power. Following the pandemics, consumers will demand cheaper tobacco, and criminals are already preparing to meet this demand.

Last, the evidence also points to strong growth of trade and the production of illicit alcohol, including illicit supply of wine. During the pandemic, demand for alcohol has remained relatively stable. Still, the supply of licit alcohol is limited: chains are often broken, retail shops were usually closed during the lockdowns, and policymakers often limit alcohol consumption. This gap between demand and supply is exploited by criminals who continue to supply illicit, substandard alcohol including wine. For example, in Europe, the production of substandard wine has been booming. Enforcement officials recalled cases of forging of labels or production of inferior quality wine.

Importantly, illicit alcohol supplied by criminals is often substandard, out of any health norms, and poses very high health risks. Participants noted that, for example, in the Dominican Republic, there were at least 300 cases of death due to the consumption of substandard alcohol. In India, more than 100 deaths were reported. Many more hundreds of death stemming from illicit alcohol were reported in other countries around the world.



New trends in illicit trade

The scope of crimes related to smuggling in high-risk sectors keeps broadening. Webinar participants highlighted two new trends observed recently by enforcement officers:

- Misuse of essential goods for smuggling of illegal products, and
- Fiscal frauds based on exports of alcohol.

Regarding the misuse of essential goods, participants highlighted those goods, such as personal protective equipment (PPE) or medicines, that have been recently misused to facilitate illegal trade, for example, drug trafficking. During the pandemic, essential goods have high priority during border controls -- criminals free ride on it by placing illegal goods among crucial goods in a consignment. Such illicit goods were also flourishing online including the dark web.

Another presented trend was tax fraud related to alcohol exports. Criminals declare exportation of alcohol consignment and collect the return of excise tax. In reality, no alcohol exports occur -- containers that were supposed to contain alcohol are empty or contain other goods than alcohol. In addition to fuelling criminal networks, this procedure is damaging from the fiscal point of view.

“ For criminals, the COVID-19 is an excellent opportunity to exploit systemic problems related to illicit trade and free ride on new possibilities. ”



Misuse of e-commerce speeds up

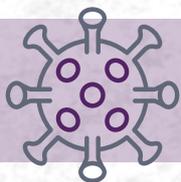
Due to the lockdown, the online environment has become more intensely used, and the overall rate of digitization has skyrocketed. For example, during the COVID-19 crisis, the online retail activity in the US and Canada has grown by 146% compared with the previous year.

This boom in the on-line environment offers many opportunities – it can enhance transparency on the one hand. On the other hand, e-commerce is becoming the leading

platform for illicit products and related fraud and poses enormous challenges for enforcement. The number of websites offering illegal alcohol or tobacco keeps growing. Apart from websites, criminals also begin to misuse new on-line channels of communication, such as WhatsApp or Facebook messenger. Also, to offset the consequences of lockdown, some jurisdictions, for example, Latvia or some US States, have relaxed e-commerce restrictions for the on-line distribution of alcohol. While these policy actions were made with overall economic benefits in mind, for criminals, they offered additional opportunities for misuse of the on-line environment with their illicit offers.

Public policy – actions and (sometimes) unwanted consequences

Governments in many countries react to these challenges to protect citizens' health and safety and counter the expansion of criminal networks. However, the fast pace of the pandemics and the complexity of related effects pose enormous challenges for effective policymaking. The key challenges refer to the structure of governance frameworks to counter illicit trade and to potentially unwanted, negative consequences of some policy actions.



Challenge for governance frameworks

Challenges related to COVID-19 and illicit trade in high-risk sectors spur across many policy areas. Many of these areas are within the focus of various institutions and systems. Moreover, they occur very suddenly, and it takes some time to monitor and compare existing evidence.

From the public authorities' perspective – the questions of appropriate allocation of policy issues and the subsequent coordination become essential. To address this challenge, the UK government carried out a scan and developed a map of governance issues (Figure). This figure reflects the various risks related to varying pandemic-related criminality identified from open-source horizon scanning. While all risks are connected, different authorities are usually in charge of addressing them.

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With all these complexities, the scan identified some patterns of criminality surrounding this pandemic. These similarities can be seen across numerous countries in various degrees. For example, there is a resemblance between activity targeting supermarkets to steal hygiene products in Hong Kong, China, as the demand product grew under lockdown. The breakings into hospital warehouses in the UK storing personal protective equipment.



Figure. International pandemic wall of risk (developed by the UK Government)





Enforcement continues its mission and faces new problems

Concerning border enforcement, customs continue their efforts during the crisis. The WCO furthers its efforts to coordinate and exchange information with national customs offices to treat essential goods (e.g., medicines, PPEs). In particular, in early 2020, the WCO has created a specific closed user expert group "TobaccoNET" focused on countering illicit trade in tobacco products. The group is dedicated to exchange of information on seizures, and sharing of best practices, tools and instruments.

These activities are also complemented by operations co-ordinated by the WCO. A good example is the "operation Lynx", designed to enhance exchange of information via WCO-provided communication platform. The operation was successfully run firstly in the Western Balkans and is going to continue in other regions.

Last, enforcement officials highlight that with the high dynamism of changes in illicit networks, useful risk profiling becomes very difficult.

or indirect reduction in the supply of such products as alcohol or tobacco. For example, South Africa introduced in 2020 two bans on sales of alcohol – between March and June and between mid-July and mid-August.

The pace of the pandemics and the complexity of transmission between various impact areas – as illustrated on the wall of risk – imply that such actions can result in significant unwanted consequences. Consequently, while these actions were designed to protect consumer health, they also can have some unwanted effects that impacted their economies. Governments should keep in mind that such actions might have negative fiscal consequences and stimulate supply on illicit markets that meet unsatisfied demand. For example, in South Africa, a drop of ZAR 3.5 billion (USD 210 million) in excise tax was reported following the ban. Besides, only during the first period of prohibition, 470 stores were looted, and a substantial increase in smuggling of alcohol to South Africa was reported.

Participants of the webinar highlighted that many of these unwanted consequences would be difficult to counter. Illicit networks that develop based on the unsatisfied demand are long-lasting and very hard to combat. Some consumers that enter and make transactions on illicit markets might want to get back there, even if the external conditions are back to normal.



Beware of unwanted consequences

National governments react to these significant and sudden challenges with targeted policies keeping in mind the overall goals of protecting citizens' health and safety and countering criminal networks. In some cases, these actions include a direct

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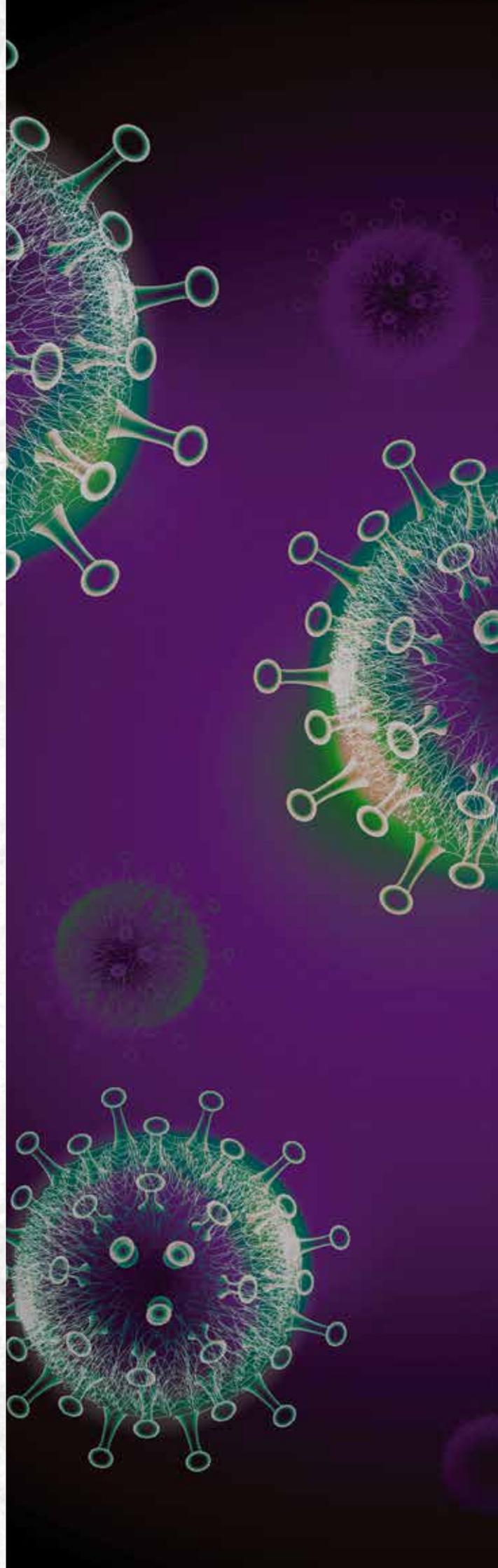


Longer-term impacts

Participants highlighted that at the beginning of the pandemic, in early 2020, COVID-19 was perceived as a temporary shock. The actual persistence of the pandemic implies that the recent trends in illicit trade become much deeper rooted. Organized criminals and other bad actors continue to seek new ways to exploit the pandemic-generated opportunities and, at the same time, to accommodate to “the new normal” proactively. Given the enormous profits that are being generated by illicit trade globally, there was concern that terrorist groups and other threat networks will also continue to infiltrate markets through such criminality. For example, enforcement noted that organized crime keeps booking storage space in anticipation of the market opportunities to arise.

Organized crime also actively seeks ways of free-riding on government actions aimed at countering the pandemic. Participants highlighted that given the complexity of transmission mechanisms and the very high pace of action, policies launched by governments bear an increased risk of misuse. At the same time, many of the negative consequences can be long-lasting. While it is relatively easy to switch the effects on, it is often impossible to switch them back off.

“ The actual persistence of the pandemic COVID-19 implies that the recent trends in illicit trade become much deeper rooted. ”



THE WAY FORWARD

Participants at the webinar formulated several messages to policymakers to counter this threat effectively:

- **Strengthening and coordinating of information sharing** is essential across sectors not only to observe the situation but also to prevent actively and counter the threat. This includes an effective exchange of information between the private and public sectors and between the relevant authorities. It also includes efforts to enhance transparency within the supply chains, such as “know your supplier”, and monitor the market proactively.
- In this context, **continued monitoring of the risk as carried out by the TF-CIT** is essential in developing a global standard for unbiased and robust evidence on illicit trade.
- It is essential to continue **building awareness of consumers and policymakers**. Consumers should be aware that illicit trade is not a victimless crime, and turning on illicit markets is not a smart buy. Policymakers should keep in mind the complexity of the policy context and potentially damaging the unwanted consequences of their actions. In that context, monitoring of the effects of policies becomes even more critical.
- **Illicit trade is not a stand-alone problem, and a holistic approach is needed.** The wall of risk shows the complexity of a policy environment that calls for coordinated action, which would involve all actors, including customs, tax authorities, health, etc.
- **Fighting illicit trade entails whole-of-society approaches.** The OECD and Business@OECD should continue to strengthen international cooperation and cross-regional frameworks including with the G7, G20 and B20, and other regional and international organizations such as the Asia Pacific Economic Cooperation (APEC) forum, the Association of Southeast Asian Nations (ASEAN), Gulf Cooperation Council (GCC), to disrupt and dismantle illicit trade including across Free Trade Zones (FTZ), ecommerce marketplaces, and other spaces.
- In-depth dialogue with private stakeholders must continue, as **public-private partnerships seem to be a promising and effective tool for modern governance**. Such partnerships rightly balance incentive setting, taking into account industry-specific sensitivities and competitive advantages on private and public sides. In this context, the OECD Task Force on Countering Illicit Trade and the Business at OECD initiative – Anti-Illicit Trade Experts Group must be optimally leveraged as a very useful platform to more robustly fight illicit trade across sectors, markets, and communities around the world.