

SOUTH AFRICAN POLICE SERVICE



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DPCI NATIONAL ILLICIT CIGARETTES IN SOUTH AFRICA

Priority Crime Management Centre

Analytical Approach: To Focus on or/and Affect the Business System of Crime



PERIOD: 1 APRIL 2017 – 31 MARCH 2018

BACKGROUND

It will be seen that the name or reference in our view is rather a misnomer in that it does not amount to any illicit trade in tobacco but rather **CRIMINAL ACTS Fraud or Tax Evasion in terms of the tax laws.**

The illicit cigarettes trade is defined as “the production, import, export, purchase, sale, or possession of tobacco goods which fail to comply with legislation” (FATF 2012). Illicit cigarettes trade activities fall under 3 categories:

- **Contrabrand:** cigarettes smuggled from abroad without domestic duty paid.
- **Counterfeit:** cigarettes manufactured without authorization of the rightful owners, with intent to deceive consumers and to avoid paying duty.
- **Illicit whites:** brands manufactured legitimately in one country, but smuggled and sold in another without duties being paid.
- **Cigarette smuggling**, also informally referred to as “bootlegging,” is the illicit transportation of cigarettes or cigars from an administrative division with low taxation to a division with high taxation for sale and consumption. The practice, commonly used by organized crime syndicates and rebel groups, is a form of tax evasion.
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BACKGROUND

Modus operandi as followed by perpetrators regarding the illicit trade in tobacco

- Smuggling genuine, counterfeit and illicit branded cigarettes;
- Diversion of cigarettes intended for export;
- Trading in illicit tobacco;
- Non-reporting of income from trade in illicit tobacco to evade income and sales taxes;
- Operating legitimate businesses as using the business as a front to facilitate illicit trade (from Zimbabwe to SA)..

BACKGROUND

Primary role-players associated with the illicit trade in tobacco (Domestic vs Foreign role-players)

- Both play a major role on the:
- illegal manufacturing,
- importation and distribution, but the undocumented immigrants, and asylum seekers form the last part in the value chain.

BACKGROUND

How is the illicit trade in tobacco facilitated

- In the past the cigarettes have been found in trucks (false apartments in tankers and containers), false declared in containers, in other commercial vehicles, hidden in passenger vehicles, planes, passenger trains, goods trains, border pedestrian crossings and carried across the border by persons (mules).
- Most of the illicit trade in tobacco involves the purchasing of manufactured products from the neighbouring countries. Therefore the origin of the finance could be from any source possible. these items are the sold at way below market prices (i.e at R10, 00 and R15, 00 a packet)
- Regarding the illicit trade in undeclared production, cigarette meant for export and not exported, again the origin of the finance could be from any source. It is rather sold within the country.
- In some instances I is imported under the premise that it is destined for another country but it is then delivered to entities within the country.
- Sometimes the tobacco products form part of the barter system whereby another illicit product is provided to the supplier.

NATIONAL STRATEGIC ANALYSIS

NATURE AND EXTENT – ILLICIT CIGARETTES TRADE / SMUGGLING THREAT

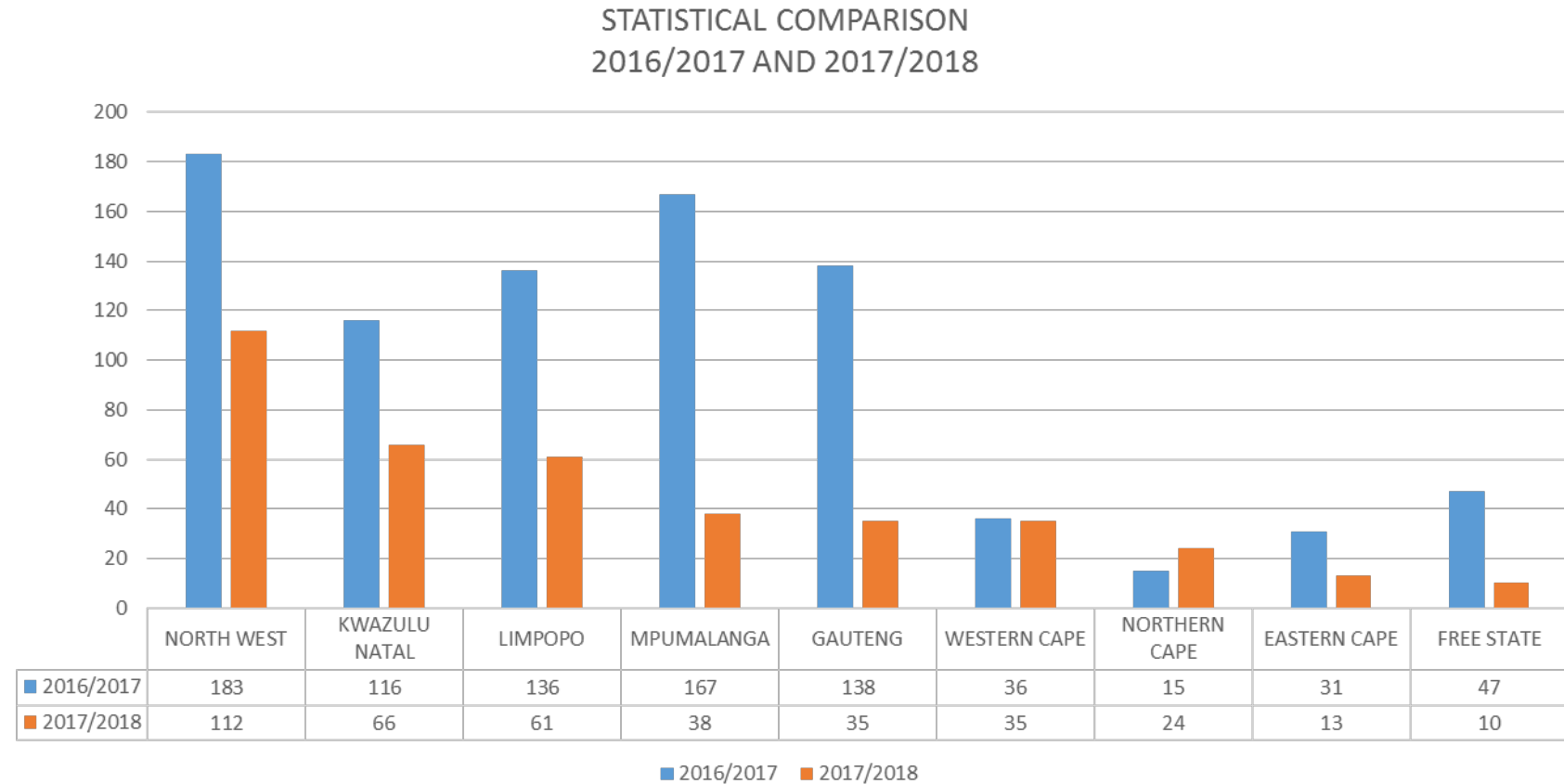
PERIOD: 1 APRIL 2017 – 31 MARCH 2018

ILLICIT CIGARETTES SMUGGLING / TRADE (National and Transnational)

- **Nature and Extent:** Globally – So profitable is the trade that tobacco products are the world's most widely smuggled legal product today. The illicit trade in tobacco products is a multi-billion-dollar business, fueling organised crime and corruption, as well as robbing governments of much-needed tax money. Internationally 330-660 billion cigarettes a year are illicit - smuggled, counterfeit or tax-evaded. This is 6 to 12% of world consumption, losing governments US\$20-40 billion a year in taxes and tobacco companies US\$5-10 billion. [Source: Tobacco Institute of Southern Africa]
- **Regional Trends:** Recent research shows the extent of the illicit trade in cigarettes in South Africa. Is the illicit trade in cigarettes undermining tobacco control policy in South Africa? A South African economist Evan Blecher, now with the American Cancer Society, argues that by 2007, illicit trade accounted for up to seven percent of the total market in South Africa. The tobacco industry has long argued that high taxes are responsible for the growth in illicitly traded cigarettes, because higher prices encourage cross border smuggling, tax evasion and domestic production and brand piracy. The Tobacco Institute of South Africa, which represents most tobacco growers and cigarettes manufacturers, claims the size of the illicit market to be 20 percent of the total market.
- Consumption taxes on cigarettes in South Africa comprise two separate taxes, a specific excise tax levied per packet of cigarettes as well as Value Added Tax (VAT), levied at a flat rate of 14 percent of value added.
- It is likely that there are other reasons, in addition to higher excise taxes, which have encouraged the growth in illicit trade in South Africa. Illegal traders in South Africa focus and specialise in trade routes rather than commodities and a route can host a wide range of commodities over time, and several commodities at the same time. For instance, routes between South Africa and China include other illicit trade in addition to cigarettes. The illicit trade in a number of commodities has been able to grow in South Africa as a result of large and highly effective organised crime criminal networks.
- This has been compounded by weak border controls and corruption. Routes lead into the country through Botswana, Namibia and Swaziland. From the various interceptions by customs authorities, the cigarettes appear to originate from China and Zimbabwe. [Source: Framework Convention Alliance – Economist Evan Becher]
- **National Priority Provinces:** A significant majority of illicit cigarettes trade/smuggling related crimes are concentrated in the **North West, KwaZulu Natal and Limpopo**. However, **Mpumalanga and Gauteng** are emerging provinces where police action and monitoring of the threat is required. Statistics reveal that these five provinces have registered more illicit cigarettes/smuggling related cases for the reported period.
- Country of **Origin:** Zimbabwe and Mozambique, Country of **Transit:** Botswana and Country of **Destination** is South Africa (on smuggled cigarettes).
- Research has indicated that 80% of illegal tobacco products found in the country today are produced domestically by manufacturers that are based or have a presence in South Africa.
- **Key Threat Drivers:**
 - ❑ **Vulnerabilities that fuel cigarettes smuggling:** Porous borders, weak control and enforcement measures, relaxed transit procedures, insufficient capacity, weak criminal penalties, Money Laundering and corruption which facilitates organised crime.
 - ❑ **Forms and methods of cigarettes smuggling:** Omission of customs officials at official exit and entry points, use of illegal crossing points, misclassification of goods, falsification of documents, false declaration of country of origin.
 - ❑ **Structural Socio-Economic Conditions:** Unemployment, Poverty, Inequality.

NATIONAL STATISTICAL COMPARISON PICTURE INFORMING SELECTION OF DOMINANT PROVINCES:- **PERIOD: 2016/2017 AND 2017/2018 FINANCIAL YEAR**

PROVINCE	2016/2017	2017/2018	%
NORTH WEST	183	112	-38.8%
KWAZULU NATAL	116	66	-43.10%
LIMPOPO	136	61	-55.14%
MPUMALANGA	167	38	-77.24%
GAUTENG	138	35	-74.7%
WESTERN CAPE	36	35	-2.8%
NORTHERN CAPE	15	24	60%
EASTERN CAPE	31	13	-58.06%
FREE STATE	47	10	-78.8%
Total	869	394	-54.7%



The above table depicts the percentage Increase and Decrease on Illicit Cigarettes Smuggling/Trade Prevalence in all nine (9) provinces in South Africa according to the **GACS BI System**. Through PCMC analysis, It was realised that overall there is a decrease of -54.7% for the reported period, Therefore the decrease is due to low detection of cases.

TOP THREE PROVINCES : TACTICAL MARKET PROFILE ANALYSIS
Preventative Orientation - (Criminal Capability and Practices)
Key Focus Areas: Organised Criminal Markets (Hotspots)

PROVINCE	NATIONAL %	CLUSTER	CLUSTER %	STATION & %					
NORTH WEST 1 APRIL 2017 - 31 MARCH 2018	112	Klerksdorp CC	35.8%	Wolmaransstad		Makwassie		Leeudoornstad	
		40		32	80%	4	10%	3	7.5%
	28.4%	Rustenburg CC	21.4%	Boitekong		Marikana		Sun City	
		24		6	25%	5	20.9%	4	16.7%
		Brits CC	18.8%	Mothutlung		Klipgat		Cyferskuil	
		21		4	19.0%	4	19.0%	4	19.0%
KWAZUU NATAL 1 APRIL 2017 - 31 MARCH 2018	66	Ethekwini Outer/N CC	18.1%	Verulam		Tongaat		Nil	
		12		11	91.7%	1	83%		
	16.8	Ethekwini Inner/N CC	13.7%	Inanda		Greenwod Park		Ntuzuma	
		9		7	77.8%	1	8.3%	1	8.3%
		Ethekwini Outer/ S CC	13.75	Isipingo		Bhekithemba		Umlazi	
		9		5	55.5%	2	0.23%	2	0.23%
LIMPOPO 1 APRIL 2017 - 31 MARCH 2018	61	Makhado CC	26.2%	Musina		Makhado		Alldays	
		16		10	62.5%	3	18.8%	1	6.25%
	15.4%	Mahwelereng CC	24.5%	Tinmyne		Mahwelereng		Mokopane	
		15		9	60%	3	20%	2	13.3%
		Groblersdal CC	11.4%	Rakgoadi		Marble Hall		Dennilton	
		7		3	42.9%	2	28.5%	1	14.2%

Top Province is North West with 112 reported cases followed by Kwazulu Natal with 66 cases and Limpopo with 61 reported cases. Illicit trade and smuggling in Tobacco is a crime dependent on Police action, Therefore the decrease is due to low detection of Illicit trade and smuggling in Tobacco cases and increase in cases is due to more police actions.

(Source Information used is form the GACS: 2016/2017 and 2017/2018)

- Avoidance of custom officials at official exit and entry points
- Use of illegal crossing points
- Under declaration of goods
- Undervaluation of goods
- Misclassification of goods
- Falsification of documents
- False declaration of country of origin

COMMONLY SMUGGLED BRANDS

Brands	Illicit Cigarettes Brands & Manufacturing Company		
	Brand	Country of origin	Manufacturer
	Chelsea	Zimbabwe	Olomide
	Derby Dullah's Mega	Zimbabwe	Fodya (Ex Breco)
	Pacific	Zimbabwe	Savanna
	Remington Gold	Zimbabwe	CRP
	Sevilles	Zimbabwe	Tadnet
	Sasha Caspian	Botswana	Benson Craig
	Chicago RG Savannah Sahawi Sharp	South Africa	GLTC
	CK	South Africa	ATM Africa
Derby Mega Pall Mall & Safari Shasha	South Africa Mozambique	Carnilinx British American Tobacco	

Summary of Persistent Threat Trends

North West is an inland South African province that borders Botswana. North West is highly affected for both periods (Stubborn). The province is located to the west of the major population centre of Gauteng. Klerksdorp is the top cluster in the province which contributed 35.8% of illicit cigarettes cases to North West Province. The top contributing station in Klerksdorp Cluster is Wolmaransstad with 80% contributed cases to the cluster. Together with Rustenburg, Klerksdorp forms the economic heart of North West Province. Low quantity of cigarettes have been seized in spaza shops owned by foreign nationals and J534 fine issued to perpetrators and no fingerprints taken. Rustenburg Cluster contributed 21.4 % of illicit cigarettes cases in the province. Rustenburg is a city at the Magaliesberg mountain range in North West of South Africa. The top station is Boitekong with 25% contributed to the cluster. The N4 is a national route in South Africa that runs from Skilpadshek on the Botswana border, past Rustenburg, Pretoria, Witbank and Nelspruit, to Komatipoort on the Mozambique border used for transporting of illicit cigarettes. The borderline between North West and Botswana is not fully covered by the SANDF, smuggling of illicit cigarettes do take place regularly on the borderline between North West and Botswana. Ports of entries used to smuggle contraband are Swartkopfontein and Groblersbridge. Smugglers take advantage of the low border fence to traverse the border between border posts.

Summary of Persistent Threat Trends

Limpopo is a South African province bordering Botswana, Zimbabwe and Mozambique. It is known for bushveld and wildlife reserves, including part of Kruger National Park. Large parts of the land borderland between South and its neighboring countries are mountainous, remain unfenced and are weakly patrolled. Smugglers make use of vulnerabilities around the borders and border lines and the landscape make it easier for smugglers to make use of road transport. The top cluster is Makhado with contribution of 26.2% to the province, Top station is Musina with 62.5% contribution to the cluster. Mahwelereng is second cluster and Tinmyne identified as the top station with 60% cases reported followed by Mokopane. N11 is the route to/from Groblersburg Port of Entry where smugglers/receivers use this road to distributed in Tinmyne and Mahwelereng area. On the borderline area of Limpopo, east of Musina to the Kruger National Park(Pafuri Gate), the borderline is crossed by foreigners to shop in South Africa and smugglers bringing in illicit goods such as cigarettes. Two groups identified operating in Limpopo. Information at hand indicates that Beitbridge POE and Groblersburg POE are regarded as security risks.

Summary of Persistent Threat Trends

KwaZulu-Natal, a coastal South African province, is known for its beaches, mountains and savannah populated by big game. KZN is sharing borders with three other provinces and the countries of Mozambique, Swaziland and Lesotho. The KZN ports of entry and borderlines are a serious threat to security due to high levels of organised multi-dimensional criminal activities resulting from weak border control. Locals and foreigners assist criminals and syndicates and provide forewarning during illegal activities on the border. The largest city is Durban. The top cluster is Ethekwini Outer/N with 18.1% contributing in the province and the top station is Verulam with 91.7% contributing to the cluster. Analysis and Intelligence report received confirms that the groups that is operating from Limpopo they also linked to individuals from KZN. Information at hand indicates that Golela POE and Kosi Bay are regarded as security risks. Manufacturer based in Pietermaritzburg also contributes to illicit cigarettes.

FINDINGS

- **Mpumalanga** – Large parts of the land borderline between SA and neighbouring countries are mountainous, remain unfenced and are weakly patrolled.
- **North West** – Borderline between NW and Botswana is not fully covered by SANDF, smuggling of cigarettes do take place regularly. Swartkopfontein and Groblesbrug are used daily to smuggle contrabrand.
- Borderline area of Limpopo, east of Musina to the Kruger National Park (Pafuri Gate) , is crossed by people doing shopping in South Africa and smugglers bringing in illicit goods.
- Retailers are selling cigarettes for as low as R10.00 per packet, such products are bought for cash without any invoices
- Other receivers of Smuggled cigarettes make use of rented vehicles to transport cigarettes from the border lines and drive with high speed
- Targets arrested for cigarettes trade are commonly issued with a J534 with a lesser fine at Police Stations, rather than securing the suspect in court
- Fingerprints of suspects arrested on J534's are not taken at Police Stations, it is difficult to do case linkages.
- Cigarettes are being transported from an administration division with low taxation to a division with high taxation for sale and consumption.
- There are various main cigarette manufacturers in the country and distribute their brands nationally.



THANK YOU