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PERFORMANCE ASSESSMENT ON REGIONAL LEVEL OF AUTHORITIES WITH MANDATE TO COMBAT ILLICIT TRADE IN CIGARETTES



**PERFORMANCE ASSESSMENT ON REGIONAL LEVEL OF
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TRADE IN CIGARETTES**

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ABBREVIATIONS

ANAF	National Agency for Fiscal Administration
BVF	Border Customs Offices
BVI	Interior Customs Offices
DGV	General Customs Directorate
DRV	Regional Customs Directorate
EPS	Empty Pack Survey
GNPF	Border Police Vessel Group
IGPR	The General Inspectorate of Romanian Police
IGPF	General Inspectorate of the Border Police
INS	National Institute of Statistics
ITPF	Territorial Inspectorate of Border Police
OUG	Emergency Government Ordinance
PTF	Border crossing
SPF	Border Police Sector
STPF	Territorial Border Police Service

1. INTRODUCTION

This report aims at assessing the work of institutions empowered to combat illicit trade in tobacco and cigarette smuggling in Romania. This publication is a continuation of the report "Vulnerability Assessment of Illicit Trade in Tobacco Products in Romania" launched on 19 April 2018. The first report is available in electronic format both in Romanian and English¹.

In the first report, we discussed institutional weaknesses, legislative contradictions and resource shortages that facilitate illicit trade of cigarettes. In Romania, illicit trade and smuggling of tobacco products is considered a discussion of secondary importance to the public interest and is associated with poor collection of revenues to the state budget. Therefore, the main concerns of citizens regarding the illicit cigarettes market are the failure to collect taxes to the state budget (50% of the respondents) and the increase of organized crime revenues (31%). The lack of quality control of illicit cigarettes is only on the third place of public concern about the negative effects of illicit trade in tobacco products (for only 27% of respondents).² Romanian smokers decide to use illegal products because of their low price (58% of the respondents) and reduced purchasing effort (12%). Approximately 20% of respondents said they would not buy illegal cigarettes.³

At legislative level, customs and tax regulations do not seem to be coordinated, and an emergency ordinance in 2010 that limited the duty-free shops was approved by the Romanian Parliament only at the end of 2018, generating controversy.

Another vulnerability identified was the limited ability of the competent authorities to investigate all cases within a reasonable time and the sanctions applied inconsistently and indulgently did not have a deterrent effect⁴.

Based on these vulnerabilities, the second phase of the project aimed at developing an index to measure regional performance (NUTS3) of authorities with mandate in the fight against illicit trade and cigarettes smuggling. The performance of the General Directorate of Customs, the General Inspectorate of Border Police, the Romanian Police and the Romanian Gendarmerie was analysed. We invite you to read the results and conclusions of the research in this report.

The report was prepared in the framework of the project "The ITTP along the Balkan Route: Addressing Institutional Gaps and Corruption", financed by Philip Morris International Management SA. The overall aim of the project is to develop and promote public policy based on data and intervention measures addressing existing institutional gaps that enable the proliferation of illicit trade and smuggling of tobacco products by organized criminal groups and the prevention of corruption among authorities which apply the law.

We thank all the authorities that have provided us with data to prepare this report. Special thanks to all county inspectorates of the Romanian police for promptness in the provision of data.

¹ <http://syene.ro/publications/>

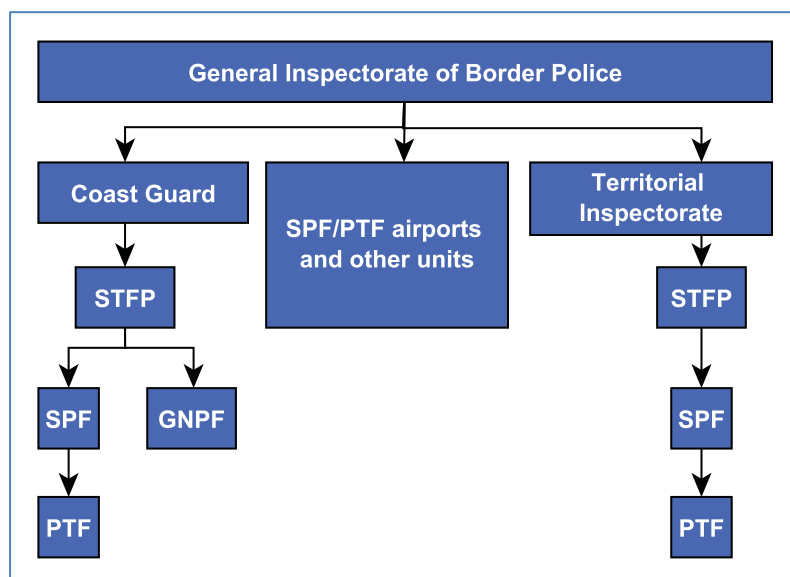
² European Commission: Special Eurobarometer 443 - Illicit tobacco trade, Romania fact sheet, Iulie 2016. Sursa: https://ec.europa.eu/anti-fraud/public-perception-illicit-tobacco-trade_en.

³ ibidem

⁴ SUN report, p. 141 – "law enforcement report seeing the same individuals returning to C&C smuggling again and again".

for the discovery and identification of persons who have violated or are in possession of data that they intend to violate the rules of the legal regime of the border or conducting activities for establishing and investigating criminal offenses⁷. At the same time, OUG no. 105/2001 on the state border of Romania establishes control of goods at the border.⁸

Figure 2 the organisation of the Romanian Border Police



Source: Syene graphic design

2.1.2 Organisation

According to OUG no. 104/2001, the Border Police is organized at central, regional (NUTS3) and territorial level. Therefore, the General Inspectorate of Border Police (IGPF) is the central structure with territorial competence for the entire area of border police responsibility. The following hierarchical structures are Territorial Inspectorates (ITPF) and Coast Guard, with defined territorial competences, internally organized on services, offices and compartments. ITPF and Coast Guard subordinates are Territorial Border Police Services (STPF) operating in border counties (NUTS3). Other ITPF and / or STPF subordinate structures are also the border police sectors (SPF) and ship groups (GNPF), which are structures with a limited implementation function. The last link in the hierarchical chain of the Border Police is represented by the crossing points (PTFs), subordinated to the SPF.⁹ Within the Romanian Border Police, there are also schools of shipbuilding or repair.

2.2. General Customs Directorate (DGV)

2.2.1 Tasks and competencies

The General Customs Directorate operates within the National Agency for Fiscal Administration (ANAF), the Ministry of Public Finance. The General Directorate of Customs has mandate in the

⁷ Art. 1, lit. k), art. 11, paragraph 1 and paragraph 2, art. 14, paragraph 1 and paragraph 4, art. 17 of OUG no. 105/2001 regarding the Romanian state border

⁸ Art. 1, lit. k), art. 11, paragraph 1 and paragraph 2, art. 14, paragraph 1 and paragraph 4, art. 17 from OUG no. 105/2001 regarding the Romanian state border

⁹ Art. 1, lit. k), art. 11, paragraph 1 and paragraph 2, art. 14, paragraph 1 and paragraph 4, art. 17 from OUG no. 105/2001 regarding the Romanian state border

application for the entire territory of the country of the regulations in the customs field (Customs Code of Romania) and the excises (Fiscal Code)¹⁰.

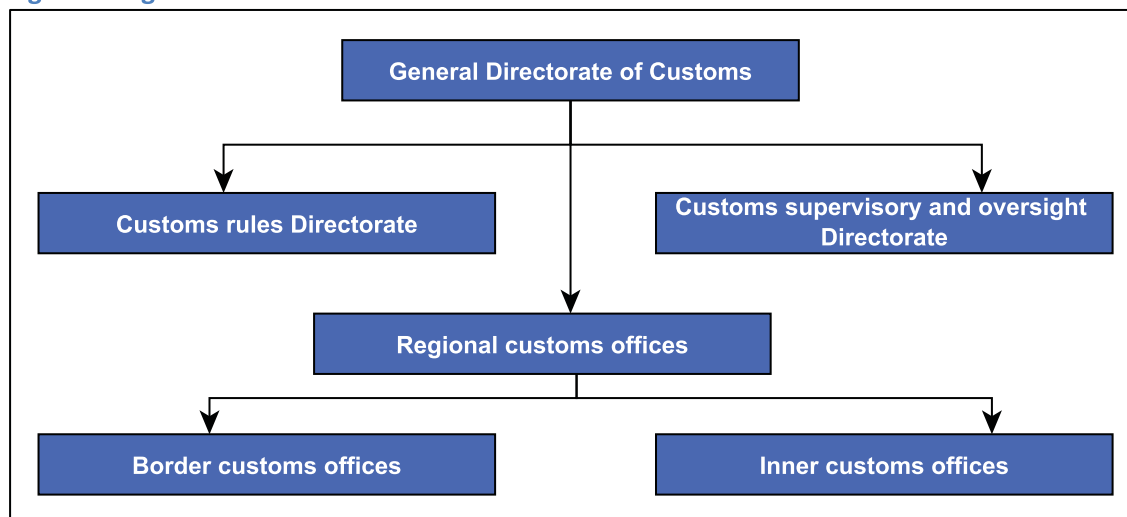
In the area of combating illicit trade and smuggling of cigarettes and tobacco products, the DGV can control the means of transport loaded with import, export or transit goods as well as the accompanied or unaccompanied baggage of the passengers crossing the state border of Romania and verifies the legality and their customs regime. DGV may seize goods for misappropriation of customs legislation¹¹ and notify police or prosecution in the case of offenses. Within the DGV's Directorate of Customs and Excise Control, it is organized an office to combat illicit trafficking in tobacco¹² products and a canine team office employing trained service dogs for cigarettes' detection¹³.

The Office for Combating Trafficking in Tobacco Products carries out the activity of combating smuggling of cigarettes and other illegal forms of illicit production or trade with tobacco products, respectively conducts investigations, controls, customs surveillance actions and verifications in cases where there are indications of violations of the trade with tobacco products.

2.2.2 Organisation

The General Customs Directorate (DGV) is hierarchically organized from the centre to the regions. Thus, the central structure coordinates and guides at the territorial level eight regional customs offices (DRV), where 89 border customs and customs offices (BVF and BVI) are organized. The 8 regional departments (DRVs) are organized by development regions (NUTS2): Bucharest (Ilfov region), Galati (South-East region), Ploiesti (South region), Craiova (West), Cluj-Napoca (North-West Region), Iasi (North-East Region), and Braşov (Central Region).¹⁴

Figure 3 Organisation of the General Directorate of Customs



Source: Syene graphic design

¹⁰ Art. 245 of the Annex to the Order no. 1566/2017 of the President of National Agency of Fiscal Administration, with subsequent modifications (OPANAF 3193/2018)

¹¹ Art. 254, lit B, paragraph 20 of the Annex to the Order no. 1566/2017 of the President of National Agency of Fiscal Administration, with subsequent modifications (OPANAF 3193/2018)

¹² Art. 278 of the Annex to the Order no. 1566/2017 of the President of National Agency of Fiscal Administration, with subsequent modifications (OPANAF 3193/2018)

¹³ Art. 275, paragraph 5 of the Annex to the Order no. 1566/2017 of the President of National Agency of Fiscal Administration, with subsequent modifications (OPANAF 3193/2018)

¹⁴ <https://www.customs.ro/info-ue/presentation>

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The second line to combat smuggling, production and illicit trade in cigarettes and tobacco products is represented by the General Inspectorate of the Romanian Police (IGPR), the Romanian Gendarmerie and local police.

2.3. GENERAL INSPECTORATE OF THE ROMANIAN POLICE / ROMANIAN POLICE (IGPR)

2.3.1 Tasks and competences

The Romanian Police is a specialized institution subordinated to the Ministry of Internal Affairs with mandate in the protection of the fundamental rights and freedoms of the persons, private and public property, prevention and detection of crimes, observance of order and public peace¹⁵. Concerning smuggling and illicit trade in tobacco products, the Romanian Police has mandate to fight against economic and financial crime, cross-border crime and organized crime, identifying and investigating criminal offenses¹⁶. Police officers are empowered to carry out checks on persons and luggage as well as on vehicles in circulation when there are good grounds about committing crimes such as the storage, possession or sale of smuggled cigarettes, unmarked or inappropriately marked with false markings, or searches when there are indications of committing offenses or concealment of property acquired from offenses¹⁷.

2.3.2 Organisation

The Romanian police is organized in accordance with the administrative-territorial division of Romania. At county level (NUTS3), police inspectorates with legal status are established. In Bucharest, there is the General Police Directorate of Bucharest Municipality¹⁸. Within the organizational structure of the Romanian Police, other units are also established for the prevention and fight against organized crime, such as the Department for Combating Organized Crime¹⁹.

2.4. Romanian Gendarmerie

2.4.1. Tasks and competences

The Romanian Gendarmerie is a specialized institution with military status, a component of the Ministry of Internal Affairs, which exercises duties regarding the defence of order and public peace, the fundamental rights, and freedoms of citizens, public and private property, the prevention and detection of crimes and other violations of applicable laws²⁰. The Romanian Gendarmerie cooperates with the other components of the Ministry of Internal Affairs (such as IGPR and IGFP)²¹. Gendarmes have the right to carry out preventive corporal control of the persons and their luggage when there is clear evidence that a crime has been committed, it is committing or it is being prepared²². In the

¹⁵ Art. 1 from Law no. 218/2002 regarding the organization and functioning of the Romanian police

¹⁶ Art. 26, paragraph 7 and paragraph 8 from Law no. 218/2002 regarding the organisation and functioning of the Romanian police

¹⁷ Art. 31, paragraph f), g) of the Law no. 218/2002 regarding the organization and functioning of the Romanian police

¹⁸ Art. 7 and art. 12 from Law no. 218/2002

¹⁹ IGPR organisational chart available at: <https://www.politiaromana.ro/files/userfiles/Organigrama.jpg>

²⁰ Art. 1 din Law no. 550/2004 regarding the organization and functioning of the Romanian Gendarmerie

²¹ Art. 3, paragraph 1 and art. 19, paragraph 1, lit. d of the Law no. 550/2004 regarding the organization and functioning of the Romanian Gendarmerie

²² Art. 27, paragraph 3, lit. a of the Law no. 550/2004 regarding the organization and functioning of the Romanian Gendarmerie

execution of specific tasks of ensuring public order, the Romanian Gendarmerie may find offenses, including cigarette smuggling or excise goods²³.

2.4.2. Method of organisation

The Romanian Gendarmerie is organized according to the administrative-territorial division of Romania, and at the county level (NUTS3) there are county gendarmerie inspectorates.

2.5. Local police

2.5.1 Tasks and competences

Local police have mandate in the field of public order and peace, property guarding, public road traffic, building discipline and street display, environmental protection, commercial activities and registration of population. Concerning combating smuggling and illicit cigarette trade, the competencies are limited. Thus, the local police can immediately communicate to the competent bodies (such as IGPR, IGPF, Romanian Gendarmerie) the data on violations other than those set out in its competence, which it has been aware of when carrying out missions and specific activities²⁴. Concerning commercial activities, local police may find facts such as the conduct of trade in goods of unknown origin, which are falsified or substituted (such as smuggling cigarettes)²⁵

2.5.2. Methods of organisation

The local police forces are organized and they operate by a decision of the deliberative authority of the local public administration as a functional department within the specialized apparatus of the mayor / mayor of Bucharest or as a public institution of local interest with legal status²⁶.

2.6 Challenges at the regional level

As regards the illicit cigarettes' trade, counties at the Romanian borders are more exposed than counties in the centre of the country. The data collected by Novel Research over the period 2013-2017 show that the most exposed regions in terms of illicit cigarette consumption are the Northeast, Northwest, West, and Southwest. Illegal cigarettes arrive in Romania mainly through Ukraine, the Republic of Moldova and Serbia. Another important route is through the port of Constanta or the southern part of the country, from Bulgaria. In 2018, the Bulgarian authorities closed four illegal cigarette factories, one of them operating in the town of Tutrakan, near the border with Romania (Oltenita-Silistra area). According to the Bulgarian authorities, each plant had an average production capacity of 100,000 packs of cigarettes per day²⁷. Thus, the challenges of cigarettes' smuggling and cigarettes illicit trade to which authorities have to answer are extremely different from one county to another. In addition to issues related to smuggling or illicit trade, each county faces different levels of crime, economic development or law enforcement capacity. For this reason, it is important to analyse the complex of causes that support illicit cigarettes' trade at the lowest possible territorial level (NUTS3). Data at the national or development regions level is insufficient to identify the performance of law enforcement authorities.

²³ Art. 19, paragraph 1, lit. r of the Law no. 550/2004 regarding the organization and functioning of the Romanian Gendarmerie

²⁴ Art. 2, paragraph 2 din Law no. 155/2010 on local police

²⁵ According to art. 1, lit. e and k of the Law no. 12/1990 on the protection of the general public against illicit activities of production, trade or services

²⁶ Art. 4 of the Law no. 155/2010 on local police

²⁷ Source: http://www.xinhuanet.com/english/2018-08/25/c_137418716.htm

3. PERFORMANCE AT REGIONAL LEVEL OF IGPF, DGV AND IGPR

3.1. The purpose of the research and methodology

The research aims to measure the performance, capacity to fight and ability to discourage of the public authorities empowered with the fight against illicit trade in tobacco products in Romania. The hypothesis of the research is that the efficiency and performance of authorities responsible for combating illicit trade in cigarettes vary from one county to another. A secondary hypothesis derived from the earlier one is based on the assumption that any variation in efficiency is caused by extrinsic phenomena to the authorities. More specifically in conducting research, in order to explain the persistence of illicit trade in cigarettes over time, apart from the performance of the authorities in seizing illicit cigarettes, we have to account also for structural causes such as the level of economic development of the area, crime rate, tourism development, and human resources deployed in the area by the relevant public authorities. At the theoretical level, if the legitimate formal institutions fail, then their place will be taken by the parallel ones, legally unrecognized, precisely to maintain social stability and ensure predictability. The size and profile of the active crime groups at the level of each county are important, since, after the destruction of specialized groups in illicit trade in cigarettes, as long as there is an important crime zone, the freed space will be quickly occupied by regrouping and reorientation. In the same way, the lack of opportunities for obtaining decent legal income may determine people to join organized crime groups or help them. The standard of living (eg, average income or GDP per capita) may directly reflect the purchasing power of the individual and may be an important factor in the dynamics of the illicit market. The broad explanation of the theoretical model used is available in subchapter 3.3.

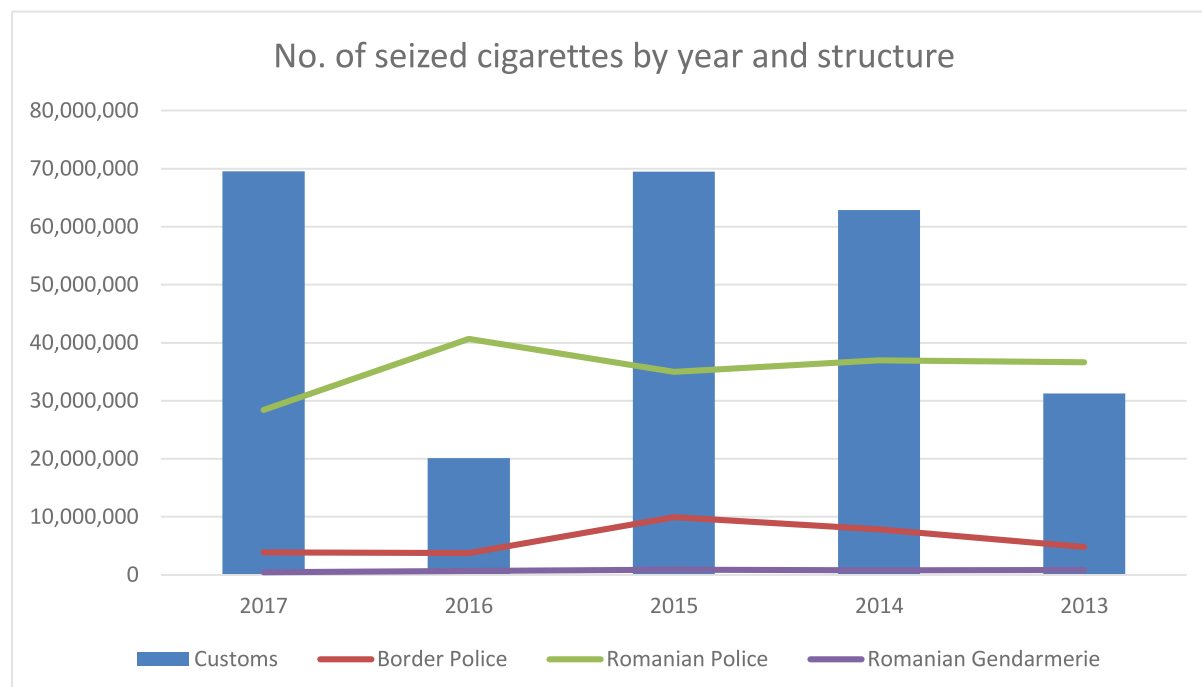
As a result of analysing the legal competencies of public authorities (Chapter 2), we initiated a process of data collection from these authorities. By public information requests, data on the number of cigarettes seized by each authority were collected at the territorial level, regardless whether those cigarettes were seized because they were smuggled cigarettes under the Customs Code or were illicit cigarettes according to the Fiscal Code, regardless whether the act of holding those cigarettes is a crime or an administrative contravention. The data collected accounted for the period 2013-2017. We have selected this period to be as close as possible to present times and because this interval is the most consistent and generous in terms of data availability.

The IGPF communicated the data on the number of seized cigarettes at the sector/group of ships level, as well as the assessment of their value. To be used in the study, IGPF data were organized by counties, according to the geographical location of the sectors and groups of ships. DGV communicated data on the number of seized cigarettes at DRV, BVI, and BVF level. In order to be used in the study, DGV data was reorganized by counties according to the geographical location of DGV, BVI and BVF structure. The data about the Romanian Police were collected from each county inspectorate. At the central level, the IGPR communicated the annual number of cigarettes seized by the central structure without being able to "extract from it the number of seized cigarettes during the activities carried out by police officers within the Combating Directorate of Organized Crime". The Romanian Gendarmerie communicated the data at the county level. No data was requested from the local police as it has limited competencies and the centralization of these data at the national level requires a disproportionate effort relative to the actual number of seized cigarettes by these structures. Thus, totalling the number of seized cigarettes by the four structures with relevant competences in the field, a national total estimated figure could be achieved (Figure 4). The highest annual number of sized

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cigarettes was reported by DGV (3 years, 2014, 2015, 2017 respectively) and the Romanian Police (in 2 years respectively 2016 and 2013).

Figure 4 Number of seized cigarettes during 2013-2017



Source: data provided by IGPF, DGV, IGPR and the Romanian Gendarmerie

These data were then correlated with data on non-domestic cigarettes' consumption at the county level, according to Novel Research. Based on sociological studies of Novel Research, the percentage of non-domestic cigarettes' consumption was established for each county and each year of the period. In order to be able to carry out an analysis of the authorities' performance it was also necessary to establish the total number of cigarettes consumed annually at each county in order to be able to apply the percentage of non-domestic cigarettes determined according to Novel Research studies and thus evaluate the efficiency of the seizing compared to total non-domestic consumption in that county. To determine the total number of cigarettes (sticks) consumed annually at the level of each county, we determined the number of smokers in each county based on the population data of the NIS and the data on the percentage of smokers and smoking behaviour in the studies of OMS²⁸, IRES²⁹ and Novel Research³⁰. The number of smokers and the average number of smoked cigarettes per day were determined. For example, according to the calculation methodology used in this research, an average of 4,118,418 smokers at the national level, broken down by counties, with an average daily consumption of 16.6 cigarettes (sticks) was estimated for 2016, resulting in total consumption (domestic and non-domestic) of 24,611,662,980 sticks nationwide. Unlike us, the IRES study of 2016 established that there are 5 million smokers in Romania, of which 4.4 million people smoke daily. Thus,

²⁸ WHO global report on trends in prevalence of tobacco smoking 2000–2025, second edition, Geneva: World Health Organization; 2018

²⁹ Source: <https://www.hotnews.ro/stiri-esential-20756016-studiu-ires-fumatul-romania-sfert-din-adultii-daily-romania-declara-fumatori-4-din-10-incercat-lase-ultimul-numar-mai-mare-fumatori-mediul-urban-randul-barbatilor-varste-intre-18-35-ani.htm>

³⁰ <https://www.novelresearch.ro/>

the data in this report is extremely cautious, minimal in order to evaluate performance without being criticized for having reported in the analysis of unrealistic domestic and non-domestic consumption. It is very likely that the total consumption of cigarettes in Romania during the analysed period to be significantly higher than our estimates, including the consumption of illicit cigarettes. Thus, the performance in terms of percentages of seized sticks from the total number of illicit cigarettes available on the market at the county level can only be adjusted by decreasing percentages. In other words, the performance of the authorities determined by this study reflects an optimistic scenario.

To correlate data at the county level, other socio-economic and resource / activity indicators from INS³¹ and law enforcement authorities were also used³².

Data normalization was performed using the Min-Max method. The number of police officers was requested from each county police and Bucharest police inspectorate, as well as from the IGPR. The following categories of crimes reported by the Romanian Police were analysed at county level: a) offenses against property - theft; b) offenses against property - robbery; c) offenses against property - fraudulent management; d) offences against property - deception; e) offenses against property - embezzlement; f) offenses against property - destruction; g) False; h) offenses incriminated in special laws - smuggling and import - export crimes. For the present study, data from the prosecution or the courts were not requested or used, as the purpose of the research concerns the ability of the authorities mentioned in Chapter 2 to combat and deter illicit trade not the way to deal with criminal cases, other factors being relevant at the prosecution or trial stage. Concerning the customs surveillance activity, a single indicator was included in the study: the number of fines applied.

To verify the results, we have also carried out a press monitoring of the cases of seized cigarettes, as well as interviews with persons from the authorities mentioned in chapter 2 and market experts. In the middle of 2018, we asked approval to conduct interviews at border crossing points in the northeast but we were unable to get approval in this respect. The reasons put forward related to the lack of leadership during that period, crowded periods, and insufficient numbers of people to answer questions.

This theoretical model and methodology have been applied in the other countries included in the analysis, namely Bulgaria, Greece, and Italy.

3.2. Research limits and access to data

Research has an innovative character, so it is possible to improve it by using better indicators and data. Thus, it may also be possible to refine the theoretical model. The research was based on the common set of quantitative data available across all four states. All partners reported difficulties in collecting relevant data. For Romania, we encountered three types of shortcomings in collecting data:

I. Unavailable or non-public data. The Border Police General Inspectorate considered that the number of border guards for each territorial structure of the IGPF during the period 2013-2017 is information exempted from free access to public information, although the request concerned historical data. Thus, sub-index 2 for IGPF could not be calculated. The IGPF was also excluded from the calculation of the final index (the illicit market pressure) for uniformity reasons. To ensure the uniformity of the index among all four states involved, a similar structure was chosen for which there were complete data in all states, namely the police.

³¹ INS indicators used in the research: number of completed nights from foreigners per region, average annual wage for the region/county

³² Number of registered crimes per region, number of police personnel per region at the beginning of each year, indicators of customs surveillance and control.

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Statistical indicators of customs surveillance and post-control activities were available only at the level of the regional customs offices (regions) and not at BVI and BVF. To compensate for this lack of data, we divided the customs surveillance data from each region equally into each county within that region. The county statistics on the number of crimes registered by the Romanian police by categories of offenses were not available for the years 2013 and 2014. The IGPR informed us that "the statistical data for the period 2013-2014 is not available in the requested format, namely are not broken down by administrative - territorial units".

Also, statistics on the number of events/actions/situations in which illicit cigarettes have been seized and the number of cigarettes seized at each event/action/situation were not available. An event/action/situation refers to seizing some cigarettes from a person or a crime group on a given day, at a particular hour by a policeman or a group of police officers in mission.

Last but not least, the data on the number of seized cigarettes by brand (for IGPF and DGV) were not available. This information was available from IGPR only in three counties.

II. Not centralized data at the national level. Another methodological difficulty that prolonged the period of completion of the research was the lack of centralized data at the level of the central structures of the authorities dealing with the fight against illicit trade / smuggling. IGPR did not have / did not provide a centralized database with the total number of police officers assigned to each county police inspectorate at the beginning of each year. Thus, these data were collected from each county inspectorate using public information requests. IGPR did not have / did not provide a centralized database with the number of seized cigarettes annually at the level of each county inspectorate. Thus, these data were collected from each county inspectorate using public information requests.

III. Problems of scheduling and updating the information. In the research, we also used data from the National Institute of Statistics through the Tempo online system. Due to the Tempo online website change, it took time to monitor the ongoing update of the data. Another methodological problem was the availability of all non-domestic consumption samples at the county level in Novel Research studies. Although the regional and national samples were statistically relevant, the samples at the county level were not large enough so that in some years and some counties non-domestic packages were not identified during all the research waves, although law enforcement reported sizing illicit cigarettes. Thus, for these counties and years, the percentage of seized cigarettes in total non-domestic consumption could not be identified. An alternative explanation would be that the percentage of non-domestic consumption in those counties and years was very low or non-existent so that sampling correctly transposed reality and seized quantities represent inter-county transport catches.

3.3. The theoretical model of the illicit market pressure index

In many European countries, EPS data has been used as a legitimate indicator to measure institutional efficiency in combating illicit trade in tobacco products. The level of illicit cigarette consumption is influenced by various factors, including socio-economic factors. Even when authorities work optimally, other external factors may be involved in increasing the illicit consumption phenomenon as reported by sociological studies (such as Novel Research) or EPS. Therefore, to assess the impact of these authorities on controlling and deterring illicit consumption, a more in-depth analysis of factors facilitating illicit trade is needed.

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The impact of the authorities on the illegal cigarettes market is based, in principle, on their crime control activities. Their responsibilities in the area of control and fight against illicit cigarettes trade involve two major interventions:

- 1) Territory monitoring and discovery, investigation and identification of the perpetrators of illicit trade or smuggling;
- 2) Confiscation /seize of illicit cigarettes for confiscation.

The first assumption is that by identifying the authors of the illicit activities, the authorities disrupt the supply chain and thus limit the capacity of criminal networks to maintain a steady supply of illicit cigarettes. The secondary assertion refers to the seizing of illicit products - the more cigarettes are seized by the authorities, the less the quantity remains in the supply chain, and thus the less profitable the illicit trade operations become. This reasoning may either leads to a decline in profit or an increase in the prices of illegal cigarettes for consumers, and this inevitably leads to a collapse of the illicit market.

In addition to fighting, the actions of many other institutions, such as those influencing the socio-economic context (employment agencies, private investors), can also have an impact on the trends of the illicit tobacco market. So, to assess the magnitude of the differences between regional authorities' performance, it was necessary to develop a comprehensive empirically tested model of illicit trade in cigarettes.

Within this model, several working hypotheses have been developed based on previous research. These working hypotheses were as follows: the authorities' activity of seizing illicit cigarettes reduces trade and illicit consumption; levels of criminal activity recorded in a region indicate the capacity of criminal networks to aggregate and ensure the continuity of supply of illicit cigarettes; the level of certain types of offenses (eg those against property) may indicate the existence of criminal organisations that can easily cover the area of illicit trade / smuggling when the authorities are dismantling groups specialized in smuggling or illicit trade in cigarettes; tourism can be a factor influencing the illegal trade volume in the EPS studies; living standards (eg, average income or GDP per capita) may directly reflect the purchasing power of the individual and may be an important factor in the dynamics of the illicit market.

Linear regression analysis was used to test the link between different factors or mechanisms to encourage the phenomenon (independent variables) and illicit cigarettes consumption as reported in the Novel Research / EPS (dependent variable) studies for all countries included in the research. As a whole, the NUTS2 (8 development regions) and NUTS3 (41 counties + Bucharest) regions of Romania for the period 2013-2017 generated 250 cases for linear regression analysis (5 years multiplied by 42 NUTS3 counties and 8 NUTS2 regions). The data collected and presented in the methodology chapter is organized in the form of 27 primary factors / variables / indicators that were tested in several regression models. Because of the multicollinearity (correlation between factors), some indicators were excluded, especially those in the area of criminality that show collinearity between them, so the best predictor that was the most plausible in the theoretical sense in terms of explanation of effects was selected and remained within the model. The primary indicators tested, the pattern and the result of the regression are found in the technical annex of this report.

It has been statistically confirmed the expected negative link between authorities' performance and illicit cigarettes' consumption, but only for the number of cigarettes already seized. All indicators related to offenses have had a positive link with the level of illicit consumption (i.e. the higher the number of offenses recorded in the respective county, the higher the level of non-domestic cigarettes' consumption reported by the Novel Research / EPS studies).

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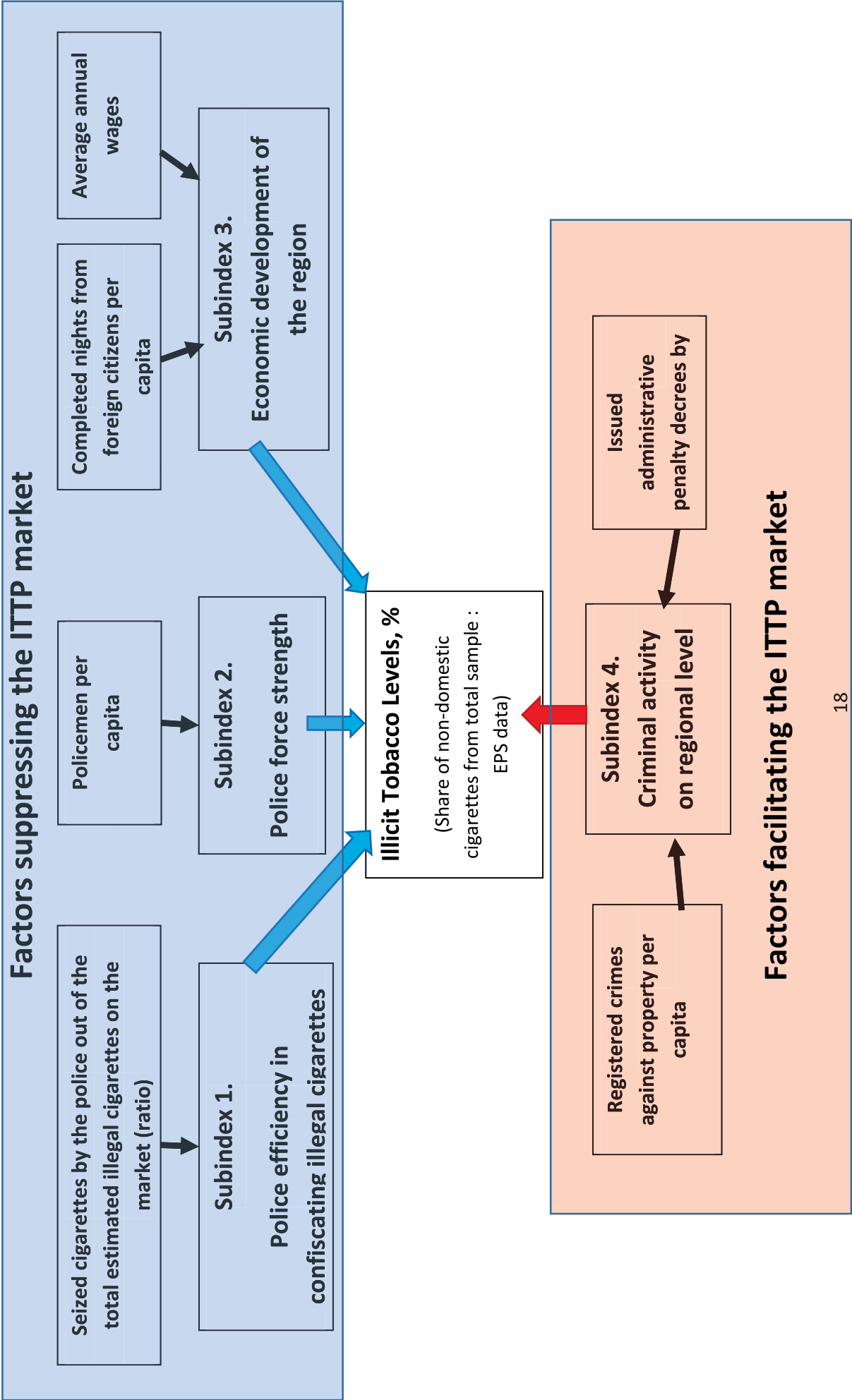
The purchasing power hypothesis was confirmed by a strong negative link - regions with higher economic growth and higher incomes had lower levels of illicit consumption, an effect that most likely comes from the higher affordability of regular domestic cigarettes (lower demand for cheaper non-domestic cigarettes). The tourism hypothesis has led to a statistically significant effect, but the link between the nights of accommodation of foreign tourists and the levels of illicit cigarette trade reflects the economic development of the region, as tourist destinations are usually more economically developed. The geographic location (risk region) and share of the population at risk were not statistically confirmed at the level of the 4 states included in the analysis.

The final model consists of 6 primary indicators that were organized into 4 groups of indicators / sub-indices (Figure 5). The lack of sufficient data and the diversity of the authorities of the states included in the analysis have determined that in the final index only the performance of police in all four states to be taken into account. Thus, although sub-index 1 was built in Romania also for IGPF and DGV, only the IGPR performance remained in the final index. Thus, for Romania, the final index - entitled Illegal Market Pressure - contains the following sub-indices: Sub-index 1 - Police efficiency in the seizure of illicit cigarettes; Subindex 2 - Police force, Subindex 3 - Economic development of the region, Subindex 4 - Illicit activity at the regional level.

To compute the aggregated indicator Illegal Market Pressure, first the four sub-indexes are computed: those which consist of two primary indicators are computed as the weighted mean where weights reflect relative importance derived from the standardized beta, according to the technical annex of the report. Illegal Market Pressure is once again computed as the weighted mean of the four sub-indexes with weights derived from a regression model with the four sub-indexes as independent variables and the share of non-domestic cigarettes from the total sample as a dependent variable.

The Illegal Market Pressure Index can be calculated even when some components are missing. If one of the two primary indicators for sub-index 3 or sub-index 4 is missing, the sub-index is calculated based on the other primary indicator. If a subindex is missing, the Illegal Market Pressure Index is calculated as the weighted average of the remaining subindexes, with the divisor always remaining the same regardless of whether all four components are present or are not present.

Figure 5 Illicit Market Pressure Index



3.4. The research results

On the basis of the collected data, we can make the analysis on subindex 1 which was calculated for four public authorities: IGPF, DGV, IGPR and Gendarmerie. Thus, the four structures have seized the following quantities of cigarettes:

Table 1: The number of seized cigarettes by all competent authorities and the percentage of seized cigarettes from total illicit market

Authority	2017	2016	2015	2014	2013
No. of seized cigarettes (sticks) by all authorities	110,493,740	61,521,064	115,346,583	112,132,511	65,351,508
% seized cigarettes by all authorities from total illicit market	3.13%	2.11%	3.17%	4.66%	2.89%
IGPR	36,656,314	36,984,235	34,993,219	40,691,131	28,400,140
IGPF	3,882,509	3,768,779	9,953,078	7,841,453	4,836,358
DGV	69,527,238	20,094,428	69,513,831	62,842,319	31,256,930
Gendarmerie	427,679	673,622	886,455	757,608	858,080
Total no. of illicit cigarettes	3,535,392,947	2,917,256,666	3,637,212,965	2,405,702,210	2,257,401,342

We recall that factors such as the population of smokers, the average number of smoked cigarettes per day, and non-domestic consumer data were taken into account for estimating the total annual number of illicit cigarettes. Thus, the assessment of the illicit market is a prudent one, the figures being oriented to the minimum. The illicit market may be larger, so the statistics above reflect the reality, at best presenting a more optimistic situation than it is in the field.

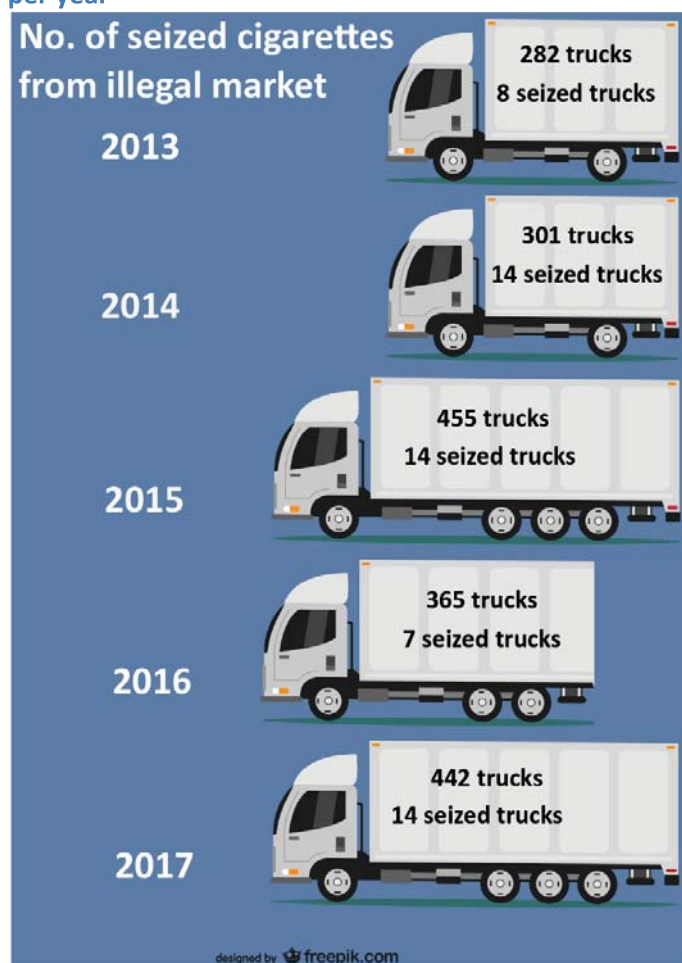
If we determine that all local police have seized less illicit cigarettes than the Romanian Gendarmerie, it results that the impact of all Romanian authorities against illicit trade in cigarettes is between 2% and 5%, depending on the year concerned. To illustrate graphically and intuitively what is a performance between 2% and 5% we used a metaphor (Figure 6). If we assume that all illicit cigarettes entered the country in fully loaded trucks³³, and a fully loaded truck contains 800 boxes of cigarettes³⁴, it turns out that there are between 280 and 450 such hypothetical fully loaded trucks with illicit cigarettes entering annually in Romania. Of all these fully loaded trucks, all four authorities together manage to capture between 7 and 14 such hypothetical trucks of cigarettes.

This extremely low performance cannot be fully explained by internal factors of these concerned authorities, such as internal organization, resources, exchange of information or corruption. As discussed below, there are counties where the problem of illicit trade is constant in the analysed years, and all the measures applied have proven to be ineffective.

³³ This is not true in reality because some of the illicit cigarettes may be produced illicitly even in the country, others don't have a label or mark and others can be brought by carriers or by water. The hypothesis has just a metaphoric effect.

³⁴ Again a box accounts for 10,000 cigarettes (sticks)

Figure 6 Infographic- total confiscated/seized cigarettes per year



That is why we need to analyse other explanatory factors for the very high level of illicit consumption in some counties. This research proposes several explanatory factors that encourage the illicit market, no matter how many counter-measures are taken by the four authorities involved. Thus, authorities in counties with illicit trade issues must also have a complementary socio-economic strategy, in addition to a more vigorous combating strategy. The illicit market pressure index shows how high the impact / pressure of factors that encourage illicit trade compared with the factors that discourage the illicit cigarettes trade. The illicit market pressure indexes annually the counties with the highest illicit market pressure and it allows authorities to prioritize measures in those counties. For example, similar research in Bulgaria has highlighted that the number of per capita policemen is higher in poorer regions.

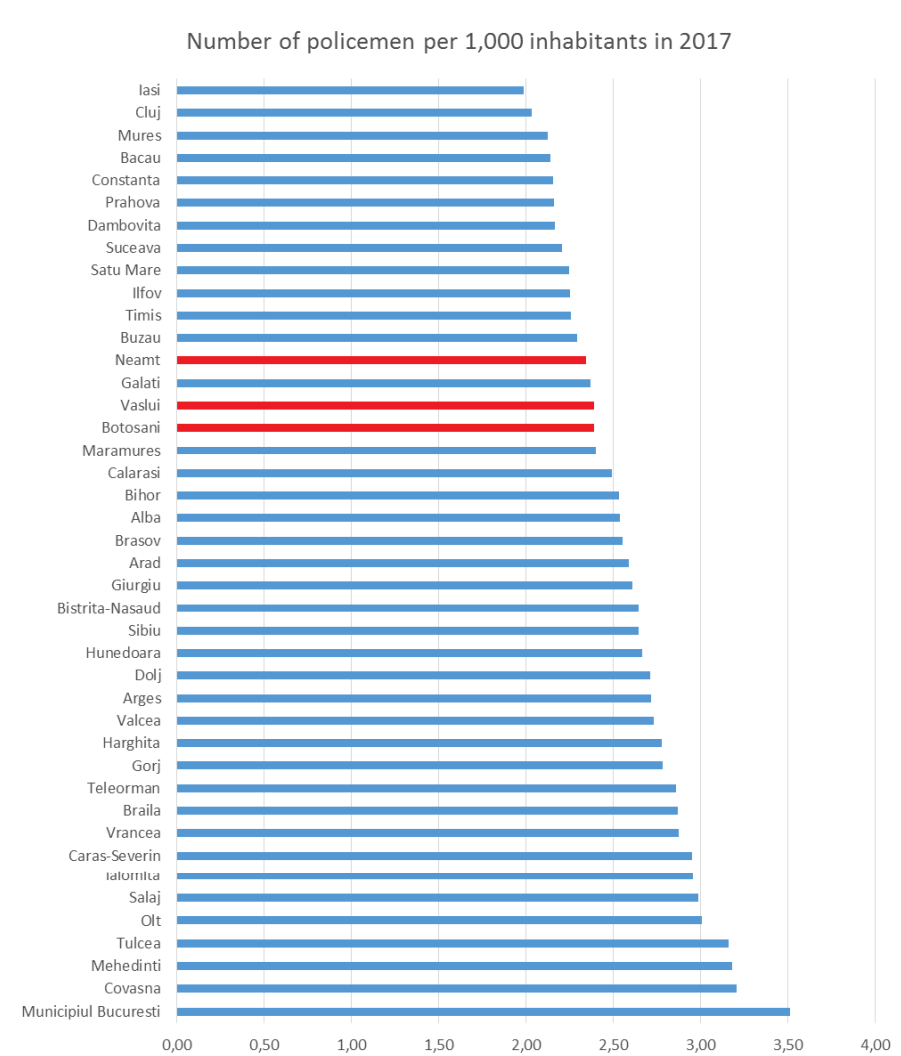
Thus, the number of policemen in Bulgaria has a statistically inhibiting effect. It seems that this is not an intentional situation because the number of policemen positions is related to the number of inhabitants, but in the richer regions, the number of vacancies is higher than in the poor regions. In Romania, the number of police officers in county inspectorates fluctuates extremely during the year and between the years, and there are differences of dozens of policemen in addition or in minus from one year to another. If we compare the number of policemen per one thousand inhabitants (Figure 7), there is a homogeneity of police distribution in the counties of Romania, the differences between the highest and the lowest being 1.5 police officers (the lowest number in 2017 was in Iasi County with 2 policemen per one thousand inhabitants, the highest number was registered in Bucharest with 3.5 policemen per one thousand inhabitants). In Figure 7, the counties ranked in the first three places in the index of the illicit market pressure for 2017 (i.e. Neamţ, Botoşani and Vaslui) are stressed in red. They have a number of policemen per one thousand inhabitants less than in the other 26 counties. Returning to sub-index 1, the performance in the fight against illicit trade can also be analysed at the county level (figure 8³⁵). By analysing the data at the county level, the law enforcement authorities can be ranked according to their impact on the illicit market (the percentage of cigarettes confiscated/seized from the total number of illicit cigarettes available in the respective county). The analysis of illicit consumption data at the county level, in conjunction with the data on the level of

³⁵ The maps are available in large format in the technical annex of the report.

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seized sticks at the county level, indicates the ability of the different authorities to have a proactive approach. Maps show the dynamics of illicit consumption in relation to the dynamics of confiscations /seized sticks. The maps indicate the percentage of seized cigarettes by the public authority that ranked first in seized sticks in that county, in that respective year.

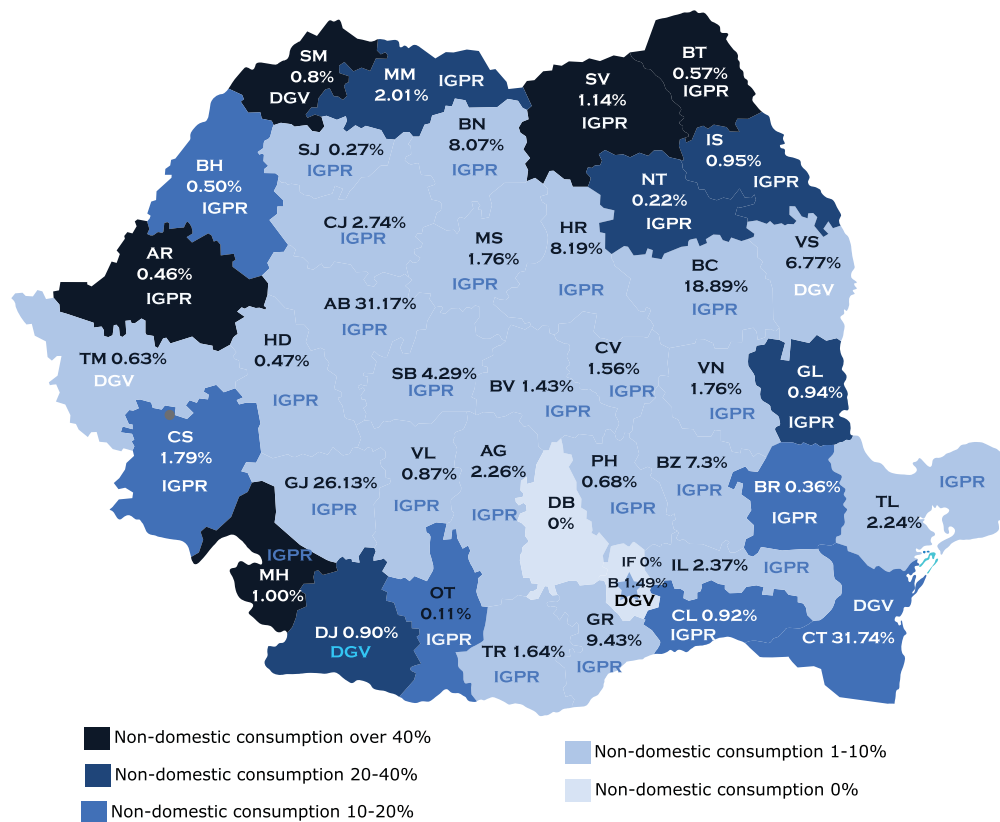
Figure 7 Number of policemen per one thousand inhabitants, subindex2



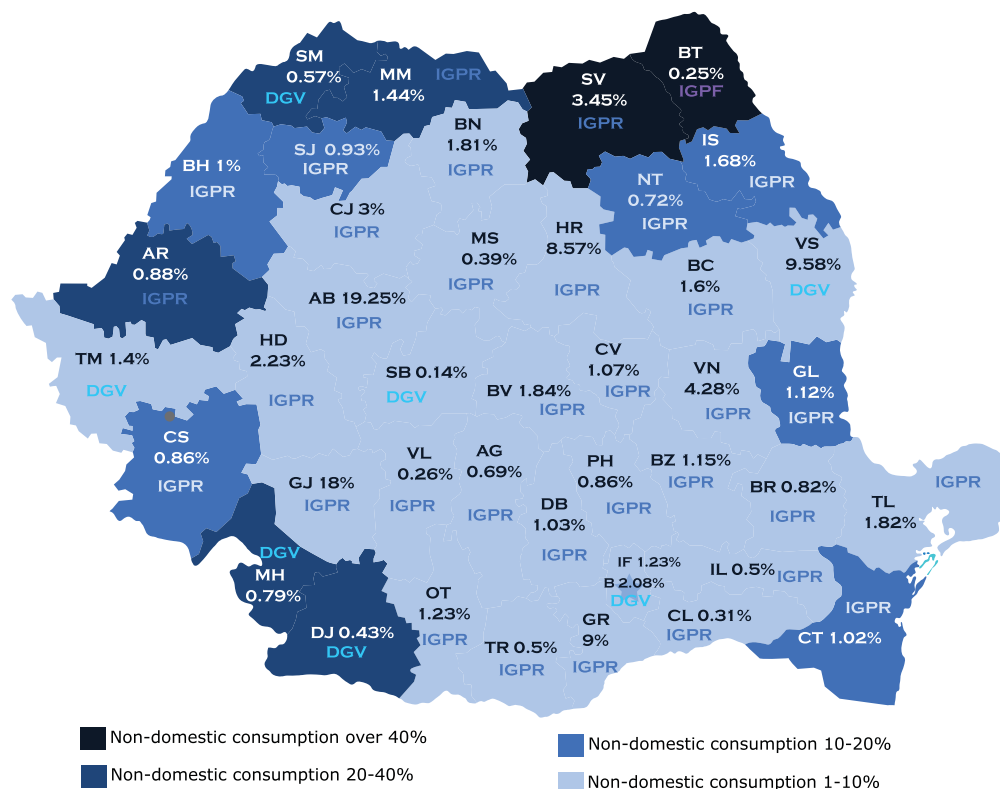
Maps show how consumer and performance patterns change from one year to the next. Thus, for the entire analysed period Botoşani is the county with a constantly high illicit consumption. Next in line are Suceava, Satu-Mare, and Dolj. The dynamics of consumption also indicate the dynamics of transport and distribution networks. The large catches in 2015 in the Constanta area (probably influenced by other factors, such as the closure of an illegal factory in Bulgaria) determined in 2016 the decrease in consumption in the Dobrogea-Romanian Plain area. The area has returned to large illicit consumption in 2017. Seized quantities, in some areas, seems to depend largely on fortune than on a concerted effort by law enforcement authorities. In 2017 there is a very large catch in Prahova, after years in a row when the seized quantities were very low. The Gorj / Alba and Bacau / Vaslui counties appear to be transit counties with relatively small consumption compared to neighbouring counties and large captures. Constanţa seems to be a county of origin of the illicit commodity.

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Subindex 1 - % Seized sticks from total non-domestic consumption, 2015

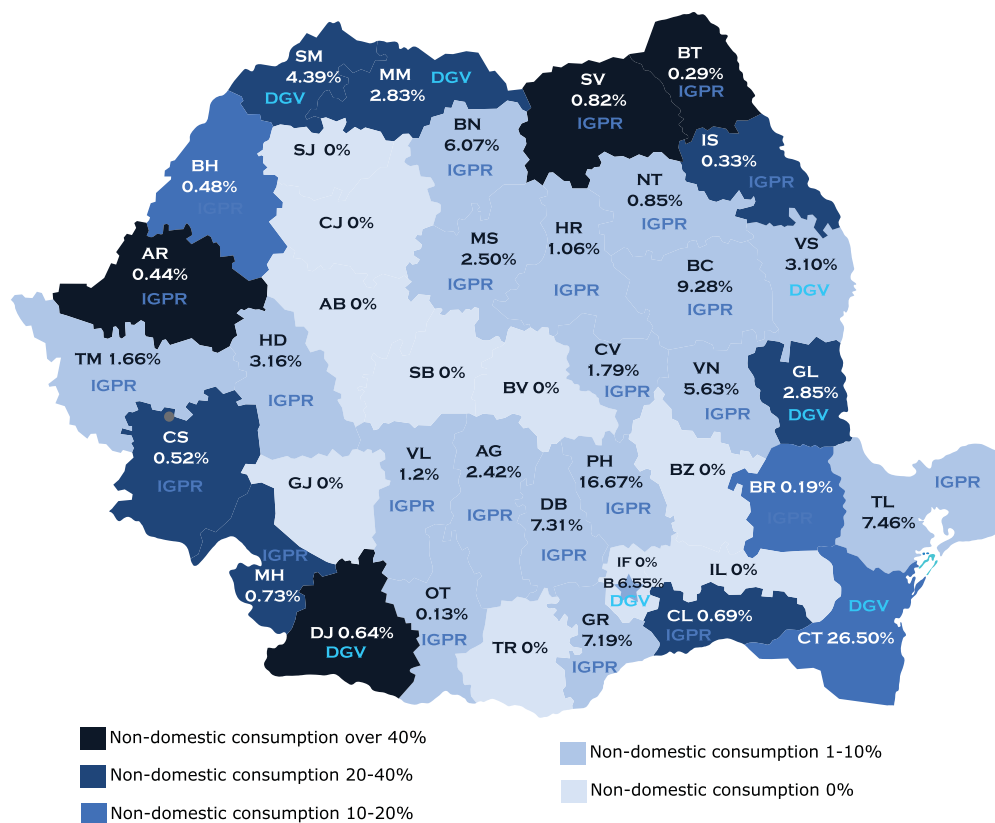


Subindex 1 - % Seized sticks from total non-domestic consumption, 2016



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Subindex 1 - % Seized sticks from total non-domestic consumption, 2017



Sub-index 1 also allows the annual ranking of structures of each authority in the counties where the best performances in the fight against illicit trade have been registered. Thus, at the level of the DGV, the customs authorities in Bucharest, Vaslui, and Constanța are ranked in the top three DGV structures in four, respectively three years out of the five years analysed (Table 2). At the IGPF level, the structures in the Maramureș, Constanta and Timiș counties are ranked in the top three IGPF structures in five, respectively two years out of the five years analysed (Table 3). At IGPR level, the structures in the counties of Bacău, Gorj, and Alba are ranked in the top three IGPR structures in three years out of the five years analysed (Table 4).

Table 2: Subindex 1 efficiency of the DGV in confiscating illicit cigarettes

Year	Rank	DGV county structures	% confiscated/seized illicit cigarettes out of the total illicit cigarettes on the market	No. confiscated/seized cigarettes (sticks)
2017	1	Constanța	26.50	34,679,900
	2	București	6.55	9,797,020
	3	Satu Mare	4.39	6,891,640
2016	1	Vaslui	9.58	5,192,300
	2	București	2.08	3,112,500
	3	Cluj	1.81	152,040

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2015	1	Constanța	31.74	52,596,760
	2	Vaslui	6.77	1,425,320
	3	București	1.49	3,807,680
2014	1	Vaslui	56.96	23,404,500
	2	Constanța	14.94	10,260,980
	3	Bacău	11.04	3,931,760
2013	1	București	6.07	11,458,460
	2	Teleorman	4.93	939,316
	3	Bacău	3.61	990,320

Source: DGV data processing

Table 3 Subindex1 efficiency of the IGPF at the county level in confiscating illicit cigarettes

Year	Rank	Territorial structure of IGPF	% confiscated/seized illicit cigarettes out of the total illicit cigarettes on the market	No. confiscated/seized cigarettes (sticks)
2017	1	Maramureș	0.71	1,343,805
	2	Constanța	0.33	323,098
	3	Satu-Mare	0.24	368,634
2016	1	Maramureș	0.91	1,224,956
	2	Constanța	0.39	433,904
	3	Giurgiu	0.39	5,834
2015	1	Constanța	5.48	6,558,199
	2	Maramureș	0.67	1,276,636
	3	Timiș	0.27	477,012
2014	1	Vaslui	4.98	926,147
	2	Constanța	4.65	2,850,063
	3	Maramureș	0.93	1,738,506
2013	1	Constanța	0.98	609,278
	2	Maramureș	0.83	887,195
	3	Timiș	0.65	645,587

Source: IGPF data processing

Tabel 4: Subindex1 efficiency of the IGPR at the county level in confiscating illicit cigarettes

Year	Rank	IGPR inspectorate	% confiscated/seized illicit cigarettes out of the total	No. confiscated/seized cigarettes (sticks)
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illicit cigarettes on the market				
2017	1	Prahova	16.67	1,094,260
	2	Bacau	9.28	12,248,632
	3	Tulcea	7.46	189,804
2016	1	Alba	19.25	375,400
	2	Gorj	18.01	702,730
	3	Giurgiu	9.07	147,159
2015	1	Alba	31.17	820,274
	2	Gorj	26.13	712,832
	3	Bacau	18.89	1,265,194
2014	1	Sibiu	8.16%	293,184
	2	Bacau	6.46%	2,187,202
	3	Cluj	4.13%	110,894
2013	1	Alba	11.45%	1,050,375
	2	Gorj	10.58%	237,507
	3	Maramures	3.73%	4,097,249

Source: IGPR data processing

The data presented in this chapter (subindex 1 and 2) should be corroborated with two other sub-indices, those on economic development and illicit activity.

4. DATA ANALYSIS WITHIN THE CONTEXT

Within this chapter, we discuss the results obtained from the calculation of the aggregate index illicit market pressure. This index was calculated for the entire period 2013-2017 and the results are described in table no. 5.

Table 5 the aggregate index, the illicit market pressure

An	Order	County	Illicit market pressure
2017	1	Vaslui	0.86
	2	Botoşani	0.82
	3	Neamţ*	0.80
2016	1	Vaslui	0.88
	2	Botoşani	0.83
	3	Neamţ*	0.81
2015	1	Vaslui	0.86
	2	Hunedoara*	0.77
	3	Botoşani	0.77

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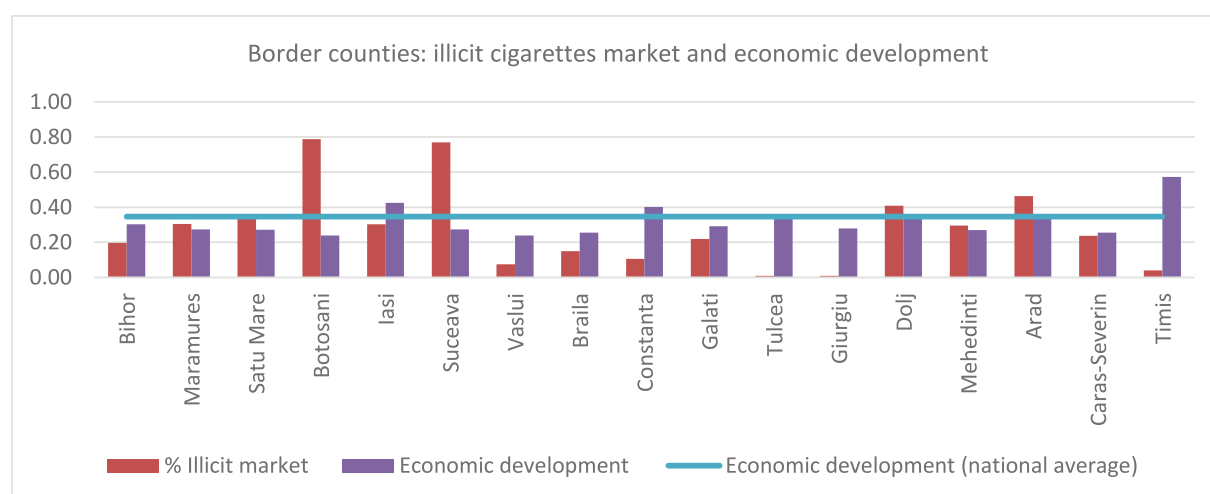
2014	1	Caraș-Severin	0.82
	2	Brăila	0.80
	3	Vaslui	0.79
2013	1	Vaslui	1.00
	2	Botoșani	0.97
	3	Mehedinți	0.96

* they aren't border counties

Aggregate index results of illicit market pressure confirm the hypothesis that factors facilitating the illicit market (the crime sector and insufficient economic development) explain the persistence of illicit cigarettes' trade. The pressure of the illicit market is manifested especially in the counties of Botoșani, Vaslui and Neamț, the most vulnerable counties in the analysed period. The results for Vaslui County are counterintuitive because it is registered in the same time a good performance of the authorities (DGV), a low level of illicit consumption (below 10%), but great vulnerabilities in terms of economic development (the weakest economic development, along with Botoșani, among all border counties according to the methodology of this research and among the last counties on economic development at national level alongside Vrancea, Botoșani and Teleorman) and illicit activities (in the first 5 places according with the indicator offences against property per 100,000 inhabitants at national level). The full results of the illicit market pressure index are presented in the technical annex of the report.

As Romanian authorities have a highly shared mandate in the fight against illicit trade, to discuss the performance of the Romanian authorities, it is necessary to evaluate at least four entities: DGV, IGPF, IGPR and the Romanian Gendarmerie. Three (IGPF, IGPR, Gendarmerie) out of the four structures under consideration are part of the same Ministry, the Ministry of Internal Affairs. Thus, there are prerequisites for designating a national authority responsible for coordinating anti-smuggling/illicit trade efforts, with competencies in analysing and centralizing data and promoting public policies in the field. Such a national authority could mobilize resources for a sufficient time to control the phenomenon in the most vulnerable counties, such as Botoșani.

Figure 9 Illicit cigarette market and economic development at the border



We believe that this innovative performance analysis tool can be taken up and improved to substantiate the allocation of additional resources at the level of risk counties and to document the dynamics of smuggling/illicit trade networks.

Another recommendation is the development and use of similar instruments at regional level, especially in cooperation with the Republic of Moldova and Ukraine.

5. CONCLUSIONS AND RECOMMENDATIONS

Following the analysis, we have found incomplete statistical data management at the level of the competent institutions, **leading to errors in the process of problem analysis and substantiation of public policies and operational plans**. The lack of basic information such as the brands of seized cigarettes greatly affects the ability of in-depth analysis and forecasting, being an operational and strategic impediment. Although Romania has signed agreements with the European Union regarding the control of the illicit market of tobacco products, the assumed obligations are not implemented. Thus, we believe that at least three public policy measures are needed to lower in Romania the percent of the trade in illicit cigarettes down to the European average (which implies a 40% decrease in illicit trade in Romania):

- Designation of the Ministry of Internal Affairs as the national authority to coordinate the efforts against illicit trade in tobacco products, as three structures within the MAI are directly involved in combating illicit trade in cigarettes (IGPR, IGPF, and the Romanian Gendarmerie). This coordination body will have data analysis and centralization competencies as well as the ability to initiate public policies in the field. Moreover, at the MAI level, there are resources and expertise for this new activity, with the Ministry having strategic analysis structures such as the Centre for the Coordination of Scientific Research and the Institute for Crime Prevention and Research within the General Inspectorate of the Romanian Police.
- Develop at the national level a unitary procedure for the collection and analysis of operational data on illicit trade in cigarettes / other tobacco products and reporting of results, including in open format on the *data.gov.ro* portal
- Involvement of the civil society, the academia and the business environment in the coordination, research and analysis of the illicit trade in cigarettes phenomenon through the organization of an advisory council in the field of combating illicit trade in tobacco products.

Recognizing the vulnerabilities exploited by illicit traders (such as the length of borders, the economic precariousness of border areas, the incidence of crime in border counties), we must admit at the same time that the phenomenon of illicit trade in tobacco products directs important resources to organized crime, diminishes confidence in state institutions and encourages regional insecurity.

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