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# On Tap Europe

Organised Crime and Illicit Trade in Italy:  
Country Report

Aurora Ganz and Cathy Haenlein



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RUSI Occasional Paper, December 2017



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# Preface

**A** LARGE, GRAND TOWNHOUSE with an ornate and imposing façade seems an unlikely location for the offices of a local NGO. Moreover, this is one of the most desirable addresses in the centre of Rome, a stone's throw from the Piazza Venezia and Altare della Patria, one of the capital's most scenic and impressive sites. As the researchers are escorted inside and up the stone staircase, it becomes clear that at one time this must have been among the grandest houses in Rome. Today, one of the functions of the organisation is to manage the social re-use of seized mafia assets, including properties. During the researchers' meeting with the director, the townhouse's past is revealed: prior to being seized and donated as the headquarters of an anti-mafia NGO, this palatial building was the home of one of the country's most infamous mafia leaders.

The Italian mafias are notorious the world over, but as with many aspects of organised crime, public perception lags behind reality. Stories told by the NGO's staff reveal the overt glamour of mafia bosses' lifestyles to be a veneer, masking a hidden, corrupt world of powerful organisations silently infiltrating and undermining Italy's society and economy. Family businesses are presented with an 'offer they can't refuse' – intimidated into entering business deals or threatened with losing their livelihoods; long-standing crime families replace the state in providing a range of community services, from dispute resolution to refuse collection and redevelopment; Eastern European gangs are granted permission to run trafficking operations under mafia supervision, while surrendering a percentage of the profits.

As in the other countries covered in this series of papers, organised crime groups (OCGs) in Italy are innovative and entrepreneurial, they are quick to identify opportunities to exploit and operate as part of complex networks. What is striking, however, is that unlike in the other countries studied, in Italy there is the added complication that the mafias form a layer above these networks, overseeing the process as a whole.

There has always been reason to consider the mafias as a distinct phenomenon from 'standard' organised crime, with the traditional, localised mafia families operating a long-standing and highly effective model of power, business and crime. Notably, the mafias' priority is to profit from a variety of sectors and markets, both legal and illegal, by infiltrating legitimate political and economic structures. They have organisational structures comparable with businesses: those at the top set the strategic direction, diversifying portfolios and identifying new markets; those in 'middle management' run the supply chains, purchasing and distributing the products; those at lower levels – the salesmen – vie for business across the customer base. There is evidence to suggest that the business-like features of Italian mafias are becoming increasingly prominent. For example, in some cases, cooperation with other mafias and OCGs appears to be growing in importance as a strategy, while a reduction in instances of violence in others is thought to be motivated by the power of their licit networks.



While unique, the Italian example offers insights into the entrepreneurial aspect of organised crime witnessed across the rest of Europe. Here, there is little distinction made between legal and illegal markets and products; it is simply about where the profit lies. In this way, for an OCG, the emphasis is not necessarily placed on committing crime, but on seizing investment opportunities. Not all countries in Europe face the mafia challenges that Italy does, but parts of the Italian experience offer an extreme example of what can happen when such a system becomes entrenched.

# Executive Summary

**T**HIS IS THE fifth and last in a series of five country-level papers on the role of organised crime groups (OCGs) in the illicit trade in tobacco, alcohol and pharmaceuticals across Europe, focusing on Italy as a case study.

Italy has long been a hub for criminal activity of all kinds: its mafias are known globally for their wide-ranging criminal portfolios, control over territory and ability to penetrate domestic state structures.

In terms of illicit trade, it is clear from law enforcement operations that the mafias – and broader organised crime – play a central role. The form this takes, however, varies by location and commodity. At times, mafias themselves may run illicit trade supply chains; at others, foreign OCGs manage day-to-day operations with mafia authorisation and oversight.

Italy plays various roles in facilitating the illicit trade in tobacco, alcohol and pharmaceuticals, acting as a source, transit and destination country for different products. In responding to this situation, Italian law enforcement does not view illicit trade in isolation. Instead, strategically and operationally, it is accepted as an integral part of wider organised criminal portfolios, as well as broader categories of economic crime.

This paper identifies four core drivers of illicit trade across Italy. The first is the broad social acceptability of buying and selling illicit goods. This is most pronounced in hotspots such as Naples, where little social stigma is attached to illicit trade and little attempt is made to hide illicit consumption. Here, individuals involved in illicit trade may be regarded as providing a service to poorer citizens, with many quick to excuse participation on this basis.

A second driver is linked to the accessibility of illicit products. Again, Naples provides a clear example: the city's longstanding smuggling history ensures that advanced infrastructure for distribution exists, with sales taking place openly in the streets and other public areas. At the same time, particularly for illicit pharmaceuticals, the use of online marketplaces allows access to illicit products at a click, and even next-day delivery.

Third, price differentials play a key role in driving illicit trade in Italy. These are linked to the country's shared borders with both Slovenia (as a core access route from Eastern Europe) and higher-priced northern EU markets. This position bolsters the country's role as a transit and destination hub: an average pack of cigarettes sells at €3.05 in nearby Croatia and €3.51 in neighbouring Slovenia, compared to €4.76 in Italy and significantly more in Italy's northern neighbours.

Fourth, corruption acts as an enabler of both illicit trade and broader organised crime in Italy. This is due, in many cases, to the extensive infiltration by the mafias of the public sector, from municipalities to healthcare facilities. Meanwhile, a number of prominent cases of irregular activity in the tobacco industry have shown the role of private sector corruption in facilitating illicit trade.

## Key Findings

1. Data on the scale and scope of illicit trade in different commodities is patchy. As with other countries studied in this series, there is more comprehensive data available on illicit tobacco than on illicit trade in the pharmaceutical and alcohol sectors. These discrepancies in the extent of available information make it difficult to assess the comparative scale of activity, potentially influencing perceptions of the broader threat landscape. In addition, the limited intelligence picture makes trend analysis more challenging, potentially hampering the effective prioritisation of law enforcement activity.
2. OCGs involved in illicit trade in Italy operate as part of a complex, highly active and longstanding organised crime community, at the heart of which are the country's mafias. In this context, illicit trade depends on cooperation: while in some cases Italian mafias deal directly in illicit goods, in others foreign OCGs take the lead, forfeiting a percentage of their profits in 'tax' to the local mafia for the use of strategic areas of arrival and transit. Beyond areas dominated by the mafias, however, this influence wanes, with foreign OCGs able to exert greater control over illicit trade supply chains.
3. Italy plays several strategic roles in illicit trade supply chains. Most notably, the country acts as a core transit hub, given its position as a bridge between Eastern Europe, North Africa and the broader EU. This encourages smuggling both through sea ports and across land borders. However, Italy is also a source and destination country: for example, the theft of medicines from Italian medical facilities is a major source of pharmaceuticals smuggled across Europe. Meanwhile, the country's role in the illicit alcohol trade varies with the specific commodity in question.
4. Illicit trade in Italy is highly localised. In part, this is a function of the strong attachment of the country's mafias to their local territories, and their control over strategic areas of import and export within them. The existence of 'hotspots' in key regions is perhaps most pronounced in relation to illicit cigarettes: while illicit consumption sits at less than 5% of total consumption in many Italian regions, it accounts for a striking 33% of total consumption in Campania, and as much as 21% in Friuli-Venezia Giulia. These patterns reflect the location of two of the key hubs for illicit cigarettes entering Italy: Campania is home to the busy port of Naples, while Friuli-Venezia Giulia borders Slovenia, a core entry point for cigarettes from lower-priced Eastern Europe.
5. A strength of the Italian response to illicit trade lies in the rich body of legislation and extensive institutional architecture built up over time to disrupt organised crime activity.

This experience has also benefited Italy's operational approach to illicit trade, which is characterised by strong recognition of the link to organised crime, including the mafias. However, a recent move towards the decriminalisation of some smuggling activities hints at a shift in approach; the government now treats certain illicit trade activities as administrative offences and penalises them through fines. This reform could pose new challenges to law enforcement as OCGs adapt their methods in response, to further reduce risk and minimise losses.



# Introduction

**T**HE NATURE OF organised crime in Europe is changing. A number of strategic assessments have identified significant trends in both the structure of organised crime groups (OCGs), which are becoming more networked and often operate across multiple jurisdictions, and the criminal activities they undertake, with a rise in economic and relatively lower-risk crimes whose harm is more difficult to demonstrate. According to Europol, commodity counterfeiting and illicit trade in substandard goods are major emerging criminal markets in the European Union (EU).<sup>1</sup> Its *Serious and Organised Crime Threat Assessment* of 2013 notes that the low risks and high profitability of illicit trade increasingly attract OCGs, and the number of counterfeit products seized by law enforcement agencies continues to increase. OCGs are often known for their previous activity in other crime areas and are involved in more than one crime type, cooperating with counterparts in other countries. As a result, the assessment concludes, the distribution and production, as well as the increasing consumption of illicit goods pose a serious threat to EU citizens.

Building on its UK-based research, RUSI is undertaking a comparative analysis of the role of organised crime in the illicit trade in tobacco, alcohol and pharmaceuticals across the EU. The On Tap Europe project is gathering evidence from five EU member states to assess the methods and routes used by OCGs involved in illicit trade, which is understood as the unlawful production, transportation or sale of otherwise legal commodities. The project aims to demonstrate the impact of organised crime activity in this sphere across source countries, transit hubs and destination markets. The research assesses how illicit trade is viewed and prioritised in different countries, looking at the scale and scope of the threat and the approaches of governments and law enforcement agencies to tackling the problem. In particular, the objectives of On Tap Europe are to:

- illustrate the routes and methods adopted by organised criminals in their counterfeiting and smuggling operations (identifying notable ‘hubs’ and trends).
- assess how the scale and impact of illicit trade varies across European countries to determine how extensive it is across the region.
- explore the role of common enablers and facilitators of illicit trade, such as postal, fast parcel and internet-based services.
- identify best practice in law enforcement responses, cooperation and information sharing, helping the public and private sectors to identify common strategies for tackling illicit trade.

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1. Europol, *SOCTA 2013: Serious and Organised Crime Threat Assessment* (The Hague: European Police Office, 2013); Europol, *SOCTA 2017: Serious and Organised Crime Threat Assessment: Crime in the Age of Technology* (The Hague: European Police Office, 2017).

- look to understand the dynamics of both OCGs and law enforcement agencies in multiple countries in order to inform the EU's response to illicit trade as a whole.

This is the fifth and last in a series of five country-level papers, focusing on Italy as a case study. Italy has long been a hub of criminal activity: its extensive coastline and strategic location at the heart of the Mediterranean have long favoured the use of Italian trafficking routes by internationally operating criminal actors. Along these routes, drugs, humans and firearms from North Africa, the Balkans and Asia, among others, are easily introduced into the European market. In parallel, contraband and counterfeit goods are moved across Italy in large volumes, both for consumption domestically and for onward transit to other EU states.

The research for the Italy case study was split into three phases. The first consisted of a review of academic literature, government policy documents, law enforcement strategies and private sector reports on organised crime and illicit trade in Italy. In the second phase, a team of RUSI researchers spent one week conducting fieldwork in Italy. This combined operational research alongside border officials with a series of semi-structured interviews with experts from the public and private sectors and academia. The final phase involved a half-day workshop in Rome with representatives from law enforcement agencies and research institutes, as well as the tobacco, alcohol and pharmaceutical industries. This allowed the researchers to validate their findings from the first two phases, and to generate an informed discussion on likely future trends and policy implications.

This report consists of five chapters. Chapter I provides an overview of organised crime and the context for illicit trade in Italy. Chapter II assesses the scale and scope of the illicit trade in tobacco, alcohol and pharmaceuticals in Italy, examining existing estimates of scale by public and private sector bodies. Chapter III focuses on the OCGs behind illicit trade, including common routes and methods used. Chapter IV addresses some of the drivers behind this organised criminal activity, such as vulnerabilities in legislation, and considers how law enforcement agencies have approached illicit trade to date. Chapter V brings together the primary themes and trends for further analysis, and provides an overview of the paper's key findings.

# I. Organised Crime in Italy

**O**RGANISED CRIME HAS afflicted Italy for more than a century. The ‘mafias’, the country’s particular brand of criminal association, have been active since the late nineteenth century, operating as transnational criminal organisations and providing a parastatal form of local governance in the areas they control.<sup>1</sup> The activities of the most powerful and organised groups – the Calabrian ‘ndrangheta, Sicilian Cosa Nostra, the Neapolitan Camorra, and the Apulian Sacra Corona Unita – have affected individuals increasingly far afield.<sup>2</sup> Today, the term ‘mafia’ is understood globally to refer to criminal organisations whose activities span national borders. At home and abroad, Italy’s mafias persist in the minds of many as infamous exemplars of organised crime.

The scale of mafia activity is difficult to measure, given the hidden nature of the activities involved. According to a widely cited study by Confesercenti, a prominent Italian employers’ association, in 2012 the country’s mafias had a turnover of €140 billion, making an estimated annual profit of €100 billion, and maintaining more than €65 million in liquidity.<sup>3</sup> According to the study, a turnover of €140 billion makes organised crime the biggest industry in Italy, while the €100 billion in estimated annual mafia profit equates to 7% of the country’s GDP.<sup>4</sup> However, other estimates vary markedly: researchers at the Joint Research Centre on Transnational Crime (Transcrime) at the Università Cattolica del Sacro Cuore have called these numbers ‘mythical figures’, estimating annual mafia proceeds instead at just €10.7 billion, or approximately 0.7% of Italian GDP.<sup>5</sup> Unioncamere, the Italian Union for the Chambers of Commerce, has also criticised

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1. The origins of Italian mafia-style criminal groups have been studied extensively. See, for example, Paolo Buonanno et al., ‘On the Historical and Geographical Origins of the Sicilian Mafia’, Munich Personal RePEc Archive, 2011; Salvatore Lupo, *History of the Mafia* (New York, NY: Columbia University Press, 2009).
  2. Today, the ‘ndrangheta is viewed as the most powerful mafia, attracting the greatest attention from Italian law enforcement. See Anna Sergi and Anita Lavorgna, *‘Ndrangheta: The Global Dimensions of the Most Powerful Italian Mafia* (Basingstoke: Palgrave Macmillan, 2016).
  3. SOS Impresa, ‘Sos Impresa: “Mafia Spa è la prima banca d’Italia”’ [‘Sos Impresa: “Mafia SPA is the Biggest Bank in Italy”’], <<http://www.sosimpresa.it/1167/sos-impresa-mafia-spa-e-la-prima-banca-ditalia.html>>, accessed 21 September 2017; Nick Squires, ‘Mafia is Italy’s Biggest Business’, *The Telegraph*, 10 January 2012.
  4. SOS Impresa, ‘Sos Impresa: “Mafia Spa è la prima banca d’Italia”’ [‘Sos Impresa: “Mafia SPA is the Biggest Bank in Italy”’].
  5. Francesco Calderoni, ‘Mythical Numbers and the Proceeds of Organised Crime: Estimating Mafia Proceeds in Italy’, *Global Crime* (Vol. 15, No. 1–2, 2014); Stephen Jewkes, ‘Italian Mafia Revenues Much Lower Than Thought – Study’, *Reuters*, 16 January 2013.



these figures and the widespread acceptance of what it describes as exaggerated estimates, citing a lack of transparency in the methods used to generate the figures.<sup>6</sup>

The contribution made to overall revenues by different criminal activities is also difficult to measure. According to a 2013 study by Transcrime, drug trafficking, usury, extortion, sexual exploitation and counterfeiting account for the greatest proportion of illegal proceeds.<sup>7</sup> Beyond these activities, Europol notes the importance to mafia *modus operandi* of corruption and money laundering, both at home and abroad.<sup>8</sup> However, mafia operations extend beyond these spheres: Europol also details involvement in pursuits from trafficking in toxic waste to fraud, weapons trafficking, human trafficking and, pertinent to this paper, the smuggling of cigarettes.<sup>9</sup> Across all of their operations, Italy's mafias are known for their entrepreneurialism;<sup>10</sup> this applies particularly to their ability to combine traditional criminal activities such as extortion with innovative legitimate business ventures such as alternative energy.

It should be noted, however, that the priority assigned to each activity varies according to the mafia in question. Each mafia possesses specific characteristics; beyond the portfolio of illegal activities in which each engages, differences exist in the dynamics of internal structures, mode of integration into global illicit supply chains, behaviours and *modus operandi* – both at home and abroad. However, while each mafia is unique, a common feature is the importance placed on exploiting territory and local communities. Each mafia holds a quasi-monopoly over criminal markets in its provinces, using violence where necessary to maintain control.<sup>11</sup> As noted by Europol, this territorial attachment goes beyond the concept of 'turf' on which to perpetrate crime, as in the case of other locally rooted gangs and criminal organisations.<sup>12</sup> For the mafias, such attachment encompasses all facets of day-to-day life, extending from influence over political processes to control over legitimate economic activity.

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6. Unioncamere, 'La Misurazione Dell'economia Illegale - Sintesi Delle Principali Esperienze Sul Tema' ['Measuring the Illegal Economy: Summary of Key Experiences'], 2014, <<http://adapt.it/adapt-indice-a-z/unioncamere-la-misurazione-delleconomia-illegale-sintesi-delle-principali-esperienze-sul-tema-2014/>>, accessed 17 November 2017; Calderoni, 'Mythical Numbers and the Proceeds of Organised Crime'; Jewkes, 'Italian Mafia Revenues Much Lower Than Thought – Study'.
  7. Transcrime, 'Progetto PON Sicurezza 2007–2013: Gli investimenti delle mafie' ['Project PON Security 2007–2013: Mafia Investments'], 25 October 2013, p. 12.
  8. Europol, 'Threat Assessment: Italian Organised Crime', June 2013, pp. 14–15.
  9. *Ibid.*
  10. Ministero dell'Interno [Ministry of Interior], 'Rapporto Sulla Criminalità In Italia' ['Report on Criminality in Italy'], 2006, pp. 183, <[http://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/14/0900\\_rapporto\\_criminalita.pdf](http://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/14/0900_rapporto_criminalita.pdf)>, accessed 7 July 2017.
  11. Anna Sergi, *From Mafia to Organised Crime: A Comparative Analysis of Policing Models* (Cham, Switzerland: Palgrave MacMillan, 2017).
  12. Europol, 'Threat Assessment', June 2013, pp. 7–8.

Indeed, by its very nature, mafia-style criminality relies on a highly integrated model based on widespread infiltration of mainstream political and socio-economic activities.<sup>13</sup> According to Italy's National Anti-Mafia Directorate (Direzione Nazionale Antimafia, DNA), the mafias are present 'in all the niche areas of politics, public administration and the economy', taking hold wherever there is weakness in public administration, a gap in the justice system or corruption in the management of public funds.<sup>14</sup> As such, as noted by the DNA, mafia business models rely not only on traditional illicit activities, such as international drug trafficking and extortion, but also on infiltrating and corrupting public economic flows.<sup>15</sup> This infiltration can extend beyond mafias' local territories; particularly for the 'ndrangheta, penetration of the economy in wealthier northern Italy is crucial to their operations.<sup>16</sup> The DNA also observes this type of infiltration further afield, from the communal to the regional, national and even European level.<sup>17</sup>

The impact on Italy's economy and society is substantial, particularly in the mafias' local territories. Here, the mafias have often built their power on influence over votes for elected positions and are also known to interfere in the management of public investment, subsidies and procurement, either through intimidation or the recruitment of 'loyal' officers into strategic public and private positions. From these positions, the mafias can force firms to purchase overpriced goods or hire individuals that are 'close to the organisation', regardless of market forces and other business considerations.<sup>18</sup> The result is an escalation of costs and reductions in efficiency which, over the long term, have eroded competitiveness, particularly in the south, where the mafia presence is most pervasive. In 2015, a study carried out by Paolo Pinotti for the

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13. Article 416-bis of the Italian Penal Code defines a 'mafia-type unlawful association' in terms of control over economic and political activities, as discussed in Chapter IV. See also Italian Penal Code, 'Art. 416-bis, 'Associazione di tipo mafioso' ['Mafia-Type Associations'], <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 4 October 2017.
  14. Direzione Nazionale Antimafia (DNA) [National Anti-Mafia Directorate], 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], 12 April 2017; Alison Jamieson, *The Antimafia: Italy's Fight against Organized Crime* (Basingstoke: Macmillan, 1999), p. 23.
  15. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], p. 7.
  16. See Federico Varese, *Mafias on the Move: How Organized Crime Conquers New Territories* (New Jersey, NJ: Princeton University Press, 2011); Sergi and Lavorgna, 'Ndrangheta.
  17. *Ibid.*
  18. Paolo Pinotti, 'The Economic Costs of Organised Crime: Evidence from Southern Italy', *The Economic Journal* (Vol. 125, No. 586, 2015), p. 230.

Italian Central Bank (Banca d'Italia) calculated the aggregate loss to organised crime to be 16% of GDP per capita – a cost born disproportionately by residents in the south.<sup>19</sup>

The entrenchment of the mafias in their local territories also dictates the nature of their engagement with other OCGs. As noted by Transcrime, with the potential exception of extortion, not all illegal activity in Italy is conducted by the mafias; in 2013, it estimated that just 32–51% of total illegal activity was mafia-run.<sup>20</sup> In this context, numerous cases have been uncovered of cooperation between local mafias and other OCGs, both domestic and foreign.<sup>21</sup> In relation to the transnational movement of illegal goods, in particular, long-standing criminal synergies between mafias and foreign OCGs are grounded in well-established international supply chains, particularly for illegal drugs.<sup>22</sup> Where supply chains and cooperative arrangements require that foreign OCGs operate within Italy, they often do so on mafia terms, particularly in their home regions.

OCGs involved in illicit trade in Italy thus operate within a complex, highly active and longstanding organised crime community. Cigarette smuggling, in particular, is known to have played an important role in the evolution of the mafias, especially the Camorra, Cosa Nostra and the Sacra Corona Unita.<sup>23</sup> More recent research suggests that some mafia groups continue to deal in illicit tobacco, operating through strategic areas of arrival and transit. Other groups do not participate directly, but allow foreign OCGs to smuggle illicit goods under their supervision. Meanwhile, new criminal alliances have developed to smuggle illicit products out of Italy into higher-priced, northern European states. As with other forms of transnational trafficking, as noted by Italy's Ministry of Interior (Ministero dell'Interno), Italian and foreign groups often look to conceal illicit transactions under the guise of legal commercial operations, which may simultaneously increase opportunities to launder profits.<sup>24</sup>

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19. *Ibid.*

20. Transcrime, 'Progetto PON Sicurezza 2007–2013: Gli investimenti delle mafie' ['Project PON Security 2007–2013: Mafia Investments'], 25 October 2013, p. 12. It should be noted that numerous difficulties affect such calculations.

21. See, for example, Organized Crime and Corruption Reporting Project, 'Italian Police: Mafia and Nigerian "Vikings" Gang Collaborating in Palermo', 28 June 2017; Federico Varese, 'How Mafias Take Advantage of Globalization: The Russian Mafia in Italy', *British Journal of Criminology* (Vol. 52, No. 2, March 2012).

22. See, for example, Francesco Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy* (Trento: Transcrime and Università degli Studi di Trento, 2013), p. 70.

23. Fiamma Terenghi, Andrea Di Nicola and Denise Boriero, 'Italy: The Territoriality of the Illicit Tobacco Business', in Michael Levi, Ognian Shentov and Boyko Todorov (eds), *Financing of Organised Crime* (Sofia, Bulgaria: Center for the Study of Democracy, 2015), p. 322; Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*.

24. Ministero dell'Interno, 'Relazione al Parlamento sull'attività delle Forze di Polizia, sullo Stato dell'ordine e della Sicurezza Pubblica e sulla Criminalità Organizzata relativa all'Anno 2014' ['Report to Parliament on the Activities of the Police, on the State of Law and Public Security, and on Organised Crime for the Year 2014'], 2016.

Responsibility for countering illicit activity is shared between a number of law enforcement agencies. These include the Italian National Police (Polizia di Stato) and the Italian Financial Police (Guardia di Finanza), a body with military status under the direct authority of the minister of the economy and finance, which is responsible for dealing with financial crime and smuggling, with departments dedicated to anti-mafia operations.<sup>25</sup> Both work closely with the customs agency (Agenzia delle Dogane e dei Monopoli) and the Carabinieri, a military force with policing duties, within which the Special Operations Group (Raggruppamento Operativo Speciale, ROS) deals directly with organised crime. In terms of the illicit trade in pharmaceuticals, a further agency of relevance is the Italian Pharmaceutical Agency (Agenzia Italiana del Farmaco, AIFA), which operates under the direction of the Ministry of Health (Ministero della Salute). Although the agency lacks enforcement powers, it has a memorandum of understanding with the Carabinieri that allows it to share information on illicit pharmaceuticals.

In light of OCGs' extensive infiltration of public institutions, these agencies operate within a system that is particularly focused on judicial instruments. All mafia-related operations are supervised by the relevant District Anti-Mafia Directorate (Direzione Distrettuale Antimafia, DDA), which is composed of local magistrates with responsibility for anti-mafia activity. The DDAs' operations are overseen at the national level by the DNA, the judicial coordinating body that enforces anti-mafia legislation, comprising the National Anti-Mafia and Counterterrorism Prosecutor (Procuratore Nazionale Anti-Mafia e Anti-Terrorismo) and 20 deputy prosecutors (procuratori aggiunti). The DDA and DNA coordinate closely with the Anti-Mafia Investigations Directorate (Direzione Investigativa Antimafia, DIA), a specialised unit that conducts pre-judicial investigations into mafia-type organised crime.<sup>26</sup> The DIA is an inter-force investigative body made up of officers from the National Police, Financial Police and Carabinieri, and was created to improve coordination of information and investigation in the fight against organised crime.<sup>27</sup> Meanwhile, the Anti-Mafia Parliamentary Commission (Commissione Parlamentare Antimafia, CPA), a bicameral body of enquiry composed of members of the Chamber of Deputies and Senate, reports directly to parliament on organised crime. It also has the powers to instruct the Judicial Police (Polizia Giudiziaria) – a police force under the Ministry of Justice (Ministero della Giustizia), made up of officers from a range of law enforcement agencies – to initiate investigations.

Within this framework, illicit trade is taken seriously. An obvious strength of Italy's response lies in an explicit recognition in both legislation and law enforcement of the link between illicit trade and organised crime. Particularly telling is the country's willingness to create special units to tackle specific forms of illicit trade. The Carabinieri's Public Health and Anti-Sophistication Unit (Nucleo Antisofisticazione e Sanità, NAS), for example, is a specialised unit set up by the

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25. Council of the European Union, 'Evaluation Report on the Fifth Round of Mutual Evaluations "Financial Crime and Financial Investigations" Report on Italy', 10989/2/11 REV 2, 20 July 2011.

26. Francesca Ferraro, 'Italian Legislation on Organised Crime, Corruption and Money Laundering', Library Briefing for Library of the European Parliament, 120361REV1, 11 October 2012.

27. International Monetary Fund (IMF), 'Italy: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism', IMF Country Report No. 16/43, February 2016, p. 214.

Carabinieri and AIFA at the interface between organised crime and health protection, specifically to investigate illicit trade in medicines and food products.<sup>28</sup> Its responsibilities include detecting fraud in the certification of pharmaceuticals, monitoring expenditure by pharmaceutical retailers to guarantee traceability, and investigating drug-related accidents.<sup>29</sup> In parallel, the Carabinieri Command for Agricultural and Food Policy (Comando Carabinieri Politiche Agricole e Alimentari) operates an anti-fraud unit (Nucleo Antifrodi Carabinieri, NAC) that investigates fraud, counterfeiting, alteration and false labelling in the agricultural sector, including of wine and other alcohol products.

Awareness of the link to organised crime appears to extend to the public. In 2013, for example, a Eurobarometer survey found that 49% of Italians perceived one of the two main problems of the illicit cigarette trade to be the generation of revenue for OCGs – compared with an EU average of 35%.<sup>30</sup> However, the *importance* of this revenue stream to OCGs was considered lower than other sources of income: only 9% of respondents in Italy considered illicit cigarettes one of the most important sources of income for OCGs, compared to an EU average of 14%.<sup>31</sup> One result, to a large extent, is that social acceptability continues to facilitate illicit consumption, undermining the efforts of authorities to combat illicit trade.

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28. Ministero della Salute [Ministry of Health], 'Carabinieri dei Nas' ['The Carabinieri's NAS'], <[http://www.salute.gov.it/portale/ministro/p4\\_9\\_0\\_1.jsp?lingua=italiano&categoria=Farmaci&menu=ministeroSalute&id=155](http://www.salute.gov.it/portale/ministro/p4_9_0_1.jsp?lingua=italiano&categoria=Farmaci&menu=ministeroSalute&id=155)>, accessed 25 September 2017.

29. As identified and regulated by law; see Ministero della Difesa, 'Decreto 26 Febbraio 2008: Riordino del Comando carabinieri per la tutela della salute' ['Decree dated 26 February 2008: Reorganisation of the Carabinieri Command for the Protection of Public Health'], GU n. 102 del 5-5-2009, <[http://www.gazzettaufficiale.it/atto/serie\\_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=2009-05-05&atto.codiceRedazionale=09A04970&elenco30giorni=false](http://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=2009-05-05&atto.codiceRedazionale=09A04970&elenco30giorni=false)>, accessed 16 November 2017.

30. European Commission, 'Special Eurobarometer 443: Public Perception of Illicit Tobacco Trade – Italy', July 2016, p. 4.

31. *Ibid.*, pp. 3, 7.

## II. The Scale and Scope of Illicit Markets

**A**S IN ALL countries, the scale and scope of illicit markets in Italy are hard to measure, given the covert, cross-border nature of the criminal activities involved. Of note are the substantial differences in the volume and value of smuggled commodities such as tobacco, alcohol and pharmaceuticals, which complicate measurement efforts. The availability of data on different commodities varies significantly; as for other countries covered in this series, data on the illicit tobacco market greatly exceeds that on illicit alcohol and pharmaceuticals. There are similar disparities in data on specific routes and entry points, making it difficult to assess their comparative importance.

The data that exists also offers only partial insight. Estimates for all forms of illicit trade typically draw either on seizure data or estimates of the volume circulating for sale. While useful, these numbers may not represent the full extent of illicit activity within the country. Seizure data partly reflects law enforcement and customs activity: an increase in seizures might not indicate an increase in illicit trade, and by itself tells us nothing about the volumes evading control. For their part, estimates of the volume circulating for sale measure only the size of the destination market, offering no insight into illicit trade originating in, or transiting through, a country.

### Illicit Tobacco

Italy is the largest producer of raw tobacco in Europe, ranking tenth globally by volume produced.<sup>1</sup> Production is concentrated in four regions – Campania, Umbria, Veneto and Tuscany; however, in recent years, domestic production has declined, as EU regulations decoupling financial support from production and phasing out subsidies have taken effect.<sup>2</sup> Between 2006 and 2014, production declined from 96,600 to 53,924 tonnes of raw tobacco, as the number of hectares under cultivation dropped from 27,906 to 18,248 (Figure 1).<sup>3</sup> Despite these declines, however, Italy remains Europe's top producer, yielding over 20,000 tonnes more in 2014 than its nearest competitor – Greece.<sup>4</sup>

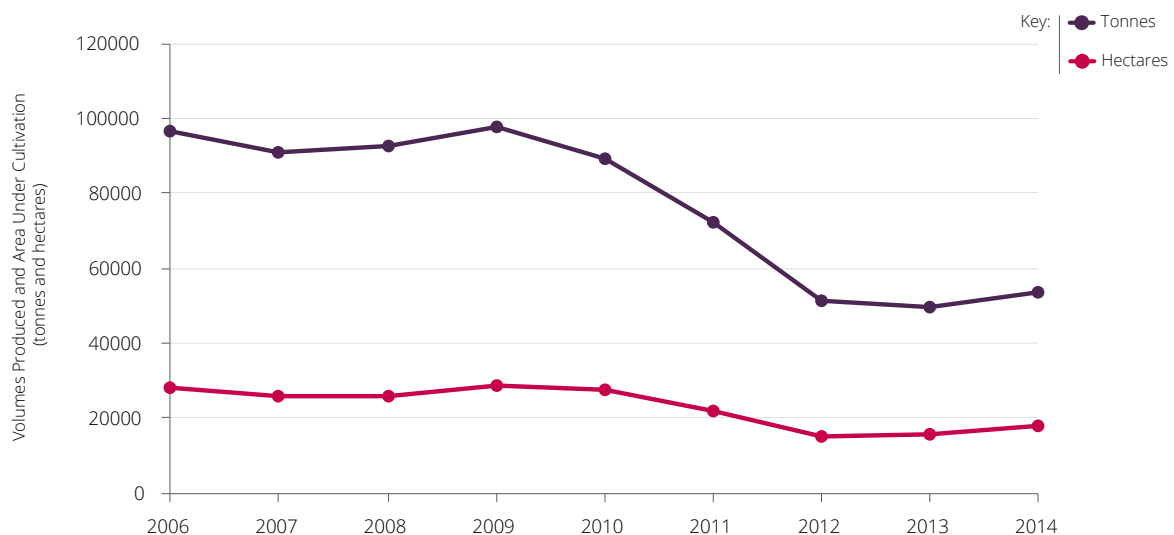
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1. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*.

2. European Commission, 'Agricultural and Rural Development: Raw Tobacco', <[https://ec.europa.eu/agriculture/tobacco\\_en](https://ec.europa.eu/agriculture/tobacco_en)>, accessed 27 August 2017.

3. European Commission, 'Raw Tobacco – Production Statistics – 2014 – 2003 Harvests', DGAGRI/C.2, last updated 11 December 2015, <[https://ec.europa.eu/agriculture/sites/agriculture/files/tobacco/statistics/production-statistics\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/tobacco/statistics/production-statistics_en.pdf)>, accessed 25 September 2017, p. 4.

4. *Ibid.*

**Figure 1:** Tobacco Production in Italy, 2006–14: Volumes Produced and Area under Cultivation

Source: European Commission, 'Raw Tobacco – Production Statistics – 2014 – 2003 Harvests', DGAGRI/C.2, last updated 11 December 2015, p. 4.

While Italy is a major producer of tobacco, it does not manufacture substantial volumes of cigarettes. Out of the eighteen domestic manufacturers operating in the late 1990s, few are still in operation; the only entirely Italian manufacturer is Italian Tobacco Manufacturing (Manifattura Italiana Tabacco spa), based in Chiaravalle, Ancona.<sup>5</sup> The latter has not operated free of controversy, however: the directors of this and another Italian manufacturer – Yesmoke – were arrested in 2014 after the discovery of illicit activity in their factories (Box 4).<sup>6</sup>

As such, instead of large-scale domestic manufacturing, Italy is one of the biggest importers of cigarettes worldwide.<sup>7</sup> Demand for these imports is sustained by a significant population of smokers: according to World Health Organization (WHO) data from 2016, 19.8% of the Italian adult population smokes tobacco products daily.<sup>8</sup> Industry data based on empty pack surveys (which involve collecting discarded cigarette packs to analyse their origin and authenticity)

5. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 28.

6. Lidia Baratta, 'I guai di Yesmoke, che osò sfidare i big del tabacco' ['The Woes of Yesmoke, which Dared to Challenge Big Tobacco'], *Linkiesta*, 5 December 2014; *Linkiesta*, 'Dopo Yesmoke, in carcere dirigenti Tabacchi Chiaravalle' ['After Yesmoke, the Directors of Tabacchi Chiaravalle are Put in Prison'], 16 December 2014.

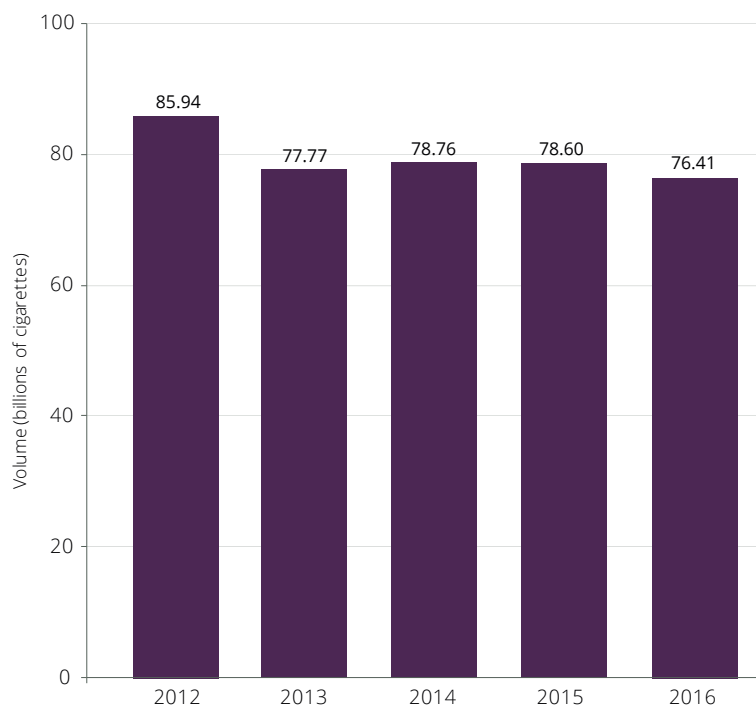
7. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 28.

8. World Health Organization, 'WHO Report on the Global Tobacco Epidemic, 2017', <[http://www.who.int/tobacco/surveillance/policy/country\\_profile/ita.pdf](http://www.who.int/tobacco/surveillance/policy/country_profile/ita.pdf)>, accessed 29 July 2016.



reveals relatively steady patterns of consumption in recent years. Data from KPMG’s Project Sun, for example, reveals a drop from 85.94 billion to 77.77 billion cigarettes consumed between 2012 and 2013, but highlights stable patterns of consumption ever since, albeit with a further slight drop to 76.41 billion cigarettes consumed in 2016 (Figure 2).<sup>9</sup> Surveys measuring sales of cigarettes in tonnes reveal a similar slight decline: data from the Italian health service’s clinical trial laboratory (Istituto Superiore di Sanità) measuring cigarette sales in the first three months of each year shows a drop from 16,843 tonnes of cigarettes sold in the first three months of 2013 to 16,135 tonnes sold in the first three months of 2017.<sup>10</sup>

**Figure 2:** Manufactured Cigarette Consumption, 2012–16



Source: KPMG, ‘Project Sun: A Study of the Illicit Cigarette Market in the European Union, Norway and Switzerland, 2016 Results’, p. 94.

Such consumption levels clearly make Italy an important market for legitimate tobacco companies. Yet such high demand for tobacco products can also provide substantial opportunities for illegal providers. At present, official public data on the size of Italy’s illicit tobacco market

9. KPMG, ‘Project Sun: A Study of the Illicit Cigarette Market in the European Union, Norway and Switzerland, 2016 Results’, p. 94.

10. Roberta Pacifici, ‘Rapporto Nazionale sul Fumo’ [‘National Report on Smoking’], Osservatorio Fumo, Alcol e Droga [Observatory on Smoking, Alcohol and Drugs], Istituto Superiore di Sanità, 2017, <[http://www.iss.it/binary/fumo4/cont/L\\_Osservatorio\\_Fumo\\_Alcol\\_e\\_Droga\\_presenta\\_il\\_Rapporto\\_Nazionale\\_sul\\_Fumo\\_2017\\_Roberta\\_Pacifici.pdf](http://www.iss.it/binary/fumo4/cont/L_Osservatorio_Fumo_Alcol_e_Droga_presenta_il_Rapporto_Nazionale_sul_Fumo_2017_Roberta_Pacifici.pdf)>, accessed 25 July 2017.



is not available; however, private sector studies based on empty pack surveys point to illicit products accounting for a consistent share of total cigarette consumption.

An important point of reference among such surveys is KPMG's Project Sun. Based on empty pack surveys, this is the only comprehensive year-on-year survey that displays trends in consumption over time. According to KPMG data, illicit consumption made up 5.8% of total consumption in Italy in 2016 – equivalent to around 4.43 billion cigarettes (Figure 3).<sup>11</sup> Aside from a significant surge in 2012, since 2014 this level of illicit consumption has remained roughly stable, rising slightly from 4.42 billion cigarettes consumed in 2014 to 4.6 billion in 2015, before falling again to 4.43 billion in 2016. Though accounting for substantial numbers of cigarettes, the latter figure puts Italy below the European average as a proportion of total consumption: 5.8% of total consumption compared with a 9.1% average across the EU, Norway and Switzerland in 2016.<sup>12</sup>

Meanwhile, according to KPMG data, the type of illicit cigarettes consumed in Italy has shifted dramatically in recent years. Between 2015–16, for example, there was a decline of 74% in counterfeit cigarettes consumed in the country.<sup>13</sup> Instead, at 63.4%, the largest proportion of all illicit cigarettes consumed in Italy in 2016 were illicit white brands – that is, cigarettes that are lawfully produced in one country but manufactured specifically to be smuggled into countries with higher taxes where there is no lawful market for them.<sup>14</sup> Beyond empty pack surveys, this shift is also reflected in seizure rates, with the DNA noting in 2016 the growing volumes of seizures accounted for by illicit whites.<sup>15</sup>

KPMG also notes a substantial shift in the sources and brands of illicit cigarettes discovered in Italy in recent years, indicating the flexibility of the illicit cigarette trade in the country.<sup>16</sup> In 2016, there were notable increases in Marble, Regina and Pine illicit whites brands, for example; of greatest note, the consumption of duty-free labelled Regina increased by 0.99 billion cigarettes, making this the largest contributor to illicit white brands consumed in Italy in 2016.<sup>17</sup> In terms of *sources* of illicit cigarettes with country-specific labelling, flows from Ukraine grew from 0.32 billion in 2015 to 0.99 billion in 2016, while flows from Belarus dropped from 0.59 billion to 0.2 billion.<sup>18</sup> Despite these fluctuations, however, these two countries continue to account for the

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11. KPMG, 'Project Sun', p. 94. Illicit consumption covers that of contraband and counterfeit cigarettes and illicit whites, identified through empty pack surveys.

12. *Ibid.*, p. 7.

13. *Ibid.*, p. 97.

14. *Ibid.*, p. 94.

15. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], p. 450.

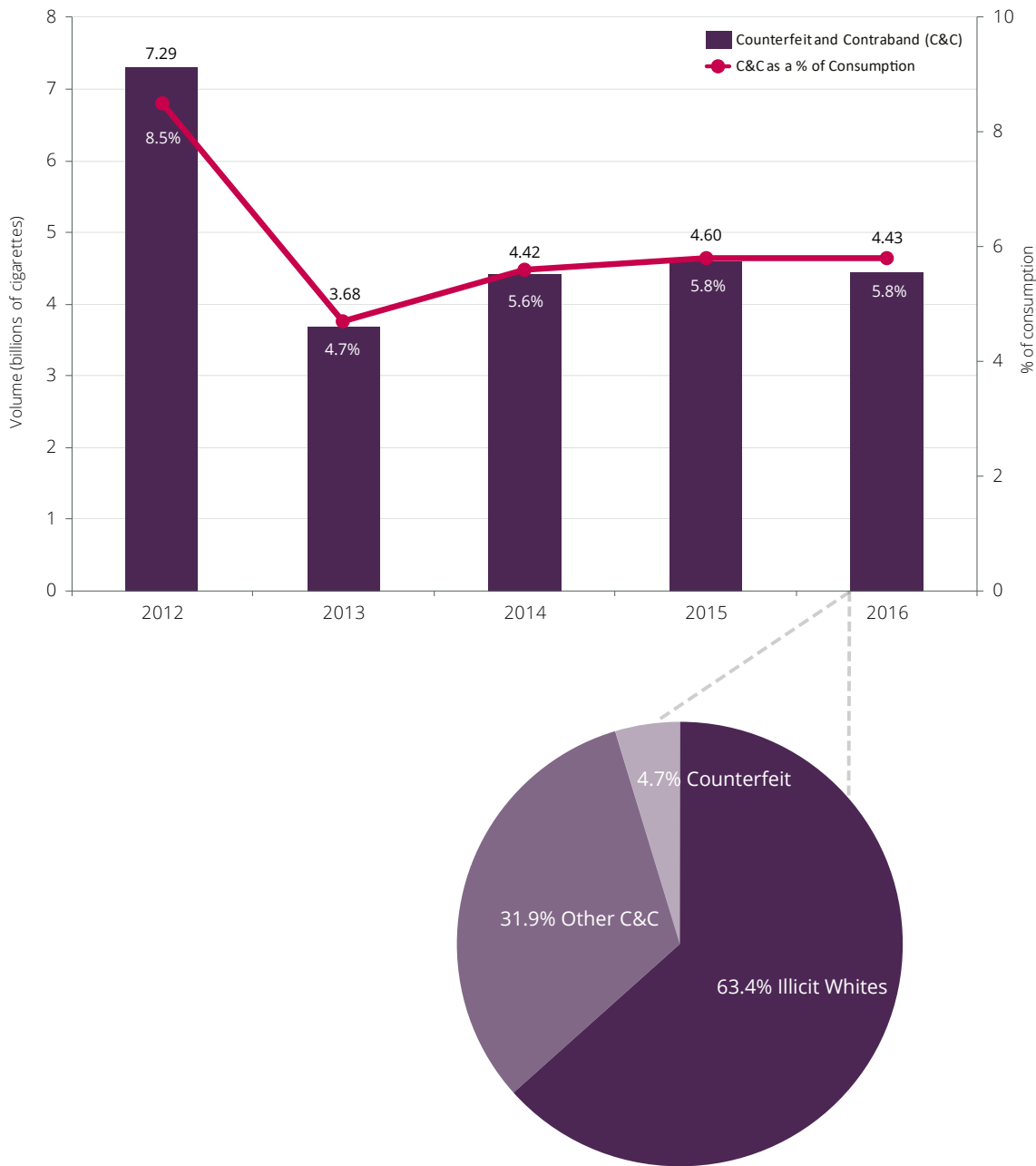
16. KPMG, 'Project Sun', p. 97.

17. *Ibid.*, pp. 94, 97.

18. *Ibid.*, p. 97.

largest volumes of illicit whites with country-specific labelling consumed in Italy, as identified by empty pack surveys.<sup>19</sup>

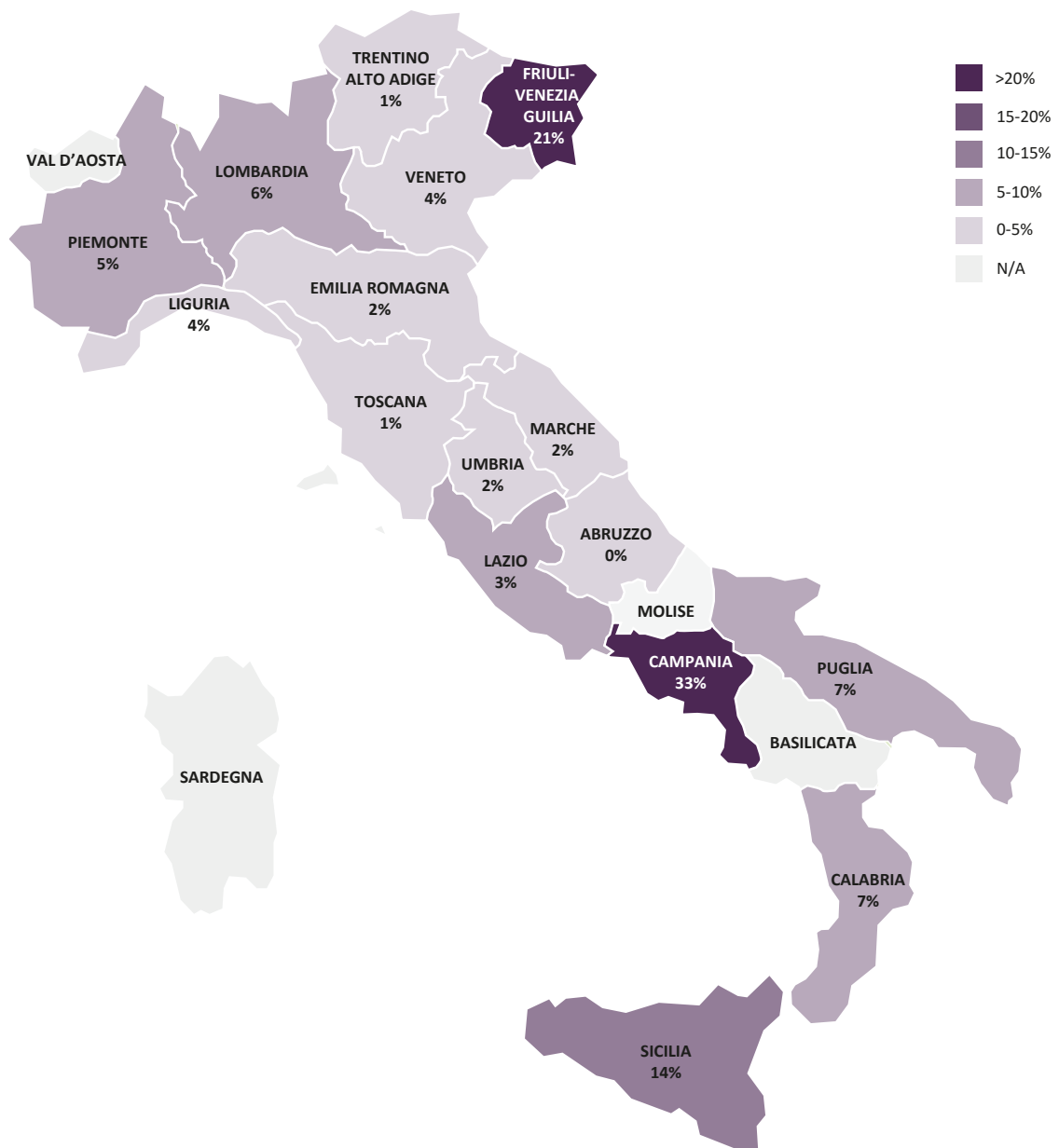
**Figure 3:** Illicit Cigarette Volumes and Share of Overall Cigarette Consumption in Italy, 2012–2016



Source: KPMG, ‘Project Sun: A Study of the Illicit Cigarette Market in the European Union, Norway and Switzerland, 2016 Results’, p. 94.

19. *Ibid.*, p. 97.

**Figure 4:** Heat Map Showing Illicit Cigarette Consumption by Region, 2016



Source: KPMG, 'Project Sun: A Study of the Illicit Cigarette Market in the European Union, Norway and Switzerland, 2016 Results', p. 98.

At the same time, consumption patterns are not uniform across Italy, with the scale and scope of the illicit cigarette trade varying substantially by region. This variation was significantly greater than that witnessed in any other country studied in this series, and a particularly striking finding

in the Italian case, with clear implications for targeting strategies. Indeed, according to KPMG data, in most of the country, illicit consumption as a proportion of total consumption is low, at less than 5% in eight regions, and below 10% in a further five (Figure 4).<sup>20</sup> However, in two regions KPMG data shows very high levels of illicit consumption, at a remarkable 33% of overall consumption in Campania and 21% in Friuli-Venezia Giulia.<sup>21</sup> Such stark variations reflect the location of two of the key hubs for illicit cigarettes entering the country: the port of Naples in Campania, through which significant volumes of illicit cigarettes are thought to enter by container, and on the border with Slovenia, where products enter Italy from a range of lower-priced eastern European states.

It must be noted, however, that many of the figures cited above rely on a single methodology – the empty pack survey – and relate only to manufactured cigarettes. Indeed, one of the limitations of such surveys is that they are unable to shed light on illicit consumption of other tobacco products, including hand-rolled tobacco (HRT). In Italy, HRT constitutes a relatively small proportion of overall tobacco consumption: a 2015 European Commission Special Eurobarometer report puts regular HRT consumption at just 14% of overall tobacco consumption – well below the EU average of 29%.<sup>22</sup> However, although HRT constitutes a small share of the market, it is not known how much of that share is illicit, with further research required to fill the knowledge gap in this sector.

#### **Box 1: History of the Illicit Tobacco Trade in Italy**

The literature tends to identify two main phases in the development of the illicit tobacco trade in Italy. The first phase, from the 1950s to the 2000s, involved mainly contraband tobacco and was dominated by the mafias, namely the Camorra, 'ndrangheta, Cosa Nostra and Sacra Corona Unita. The trade emerged after the Second World War, as the reduced availability and quality of legal cigarettes favoured the development of a new black market, from which each mafia could benefit. Initially, this was concentrated in the north of Italy, with cigarettes smuggled mainly from Switzerland and distributed throughout the country. From the late 1960s onwards, however, the trade spread to the south as routes shifted and smuggling activity expanded markedly.

A 2014 study by the Center for the Study of Democracy cites Operation *Primavera* in 2000 as a dividing event between the first and second phase of the evolution of Italy's illicit tobacco market. This operation marked the start of heightened law enforcement attention to the illicit cigarette trade and saw the dispatch of 1,900 units of the Financial Police, National Police and Carabinieri to areas in Puglia most heavily affected. The operation resulted in 537 arrests, the issuance of 461 arrest warrants and the seizure of more than 32 tonnes of tobacco, 125 weapons, 6,804 rounds of ammunition and over 5 tonnes of narcotics, among other goods. Since then, with a heightened

20. *Ibid.*, p. 98.

21. *Ibid.*, p. 98.

22. European Commission, 'Attitudes of Europeans Towards Tobacco and Electronic Cigarettes', Special Eurobarometer 429, May 2015, p. 18.

law enforcement focus on the trade ongoing, the nature of the illicit cigarette market has changed substantially. Notable shifts have included the increased involvement of foreign criminal organisations, notably from Eastern Europe, and the formation of new alliances and criminal joint ventures. As noted previously, other marked trends have seen the expansion of illicit whites brands as significant components in the country's broader illicit cigarette trade – a shift mirrored across other parts of Europe.

*Sources: Fiamma Terenghi, Andrea Di Nicola and Denise Boriero, 'Italy: The Territoriality of the Illicit Tobacco Business', in Center for the Study of Democracy, 'Financing of Organised Crime', 2015, p. 322; Francesco Calderoni et al., The Factbook on the Illicit Trade in Tobacco Products 2 – Italy (Trento: Transcrime and Università degli Studi di Trento, 2014).*

## Illicit Alcohol

Italy's alcohol sector is dominated by the wine industry – one of the country's most important socio-economic and cultural sectors. The country is the world's leading producer of wine, yielding 50.9 million hectolitres in 2016, according to data from the International Organisation of Vine and Wine (OIV) (Figure 5).<sup>23</sup> Despite this, OECD figures attest that national consumption is on the decline – dropping from 9.3 litres per capita in 2002 to 7.6 litres in 2014.<sup>24</sup> By contrast, exports of Italian wine are rising in value terms: in 2016, Italian wine exports were valued second highest in the world after those from France, with exports worth €5.6 billion, up 19.8% from €4.7 billion in 2012 (Figure 6).<sup>25</sup>

There is little specific data on the illicit alcohol market in Italy, which is thought to revolve largely around counterfeit wine. It is generally agreed by experts that, since wine is exempt from excise duties, the limited profits available mean that Italy is not a large destination market for illicit wine produced elsewhere. Instead, illicit wine is likely to be produced within the country, often by authorised wine producers themselves.

In 2014, the Italian Ministry for Economic Development (Ministero per lo Sviluppo Economico) published a report on counterfeiting in Italy's agricultural sector, which cited alcohol as the most seized counterfeit agricultural product in 2012.<sup>26</sup> According to the report, more than 6.26 million kg of illicit alcohol were seized in 2012, far more than the next category of product –

23. International Organisation of Vine and Wine (OIV), '2017 World Vitiviniculture Situation: OIV Statistical Report on World Vitiviniculture', 2017, p. 10.

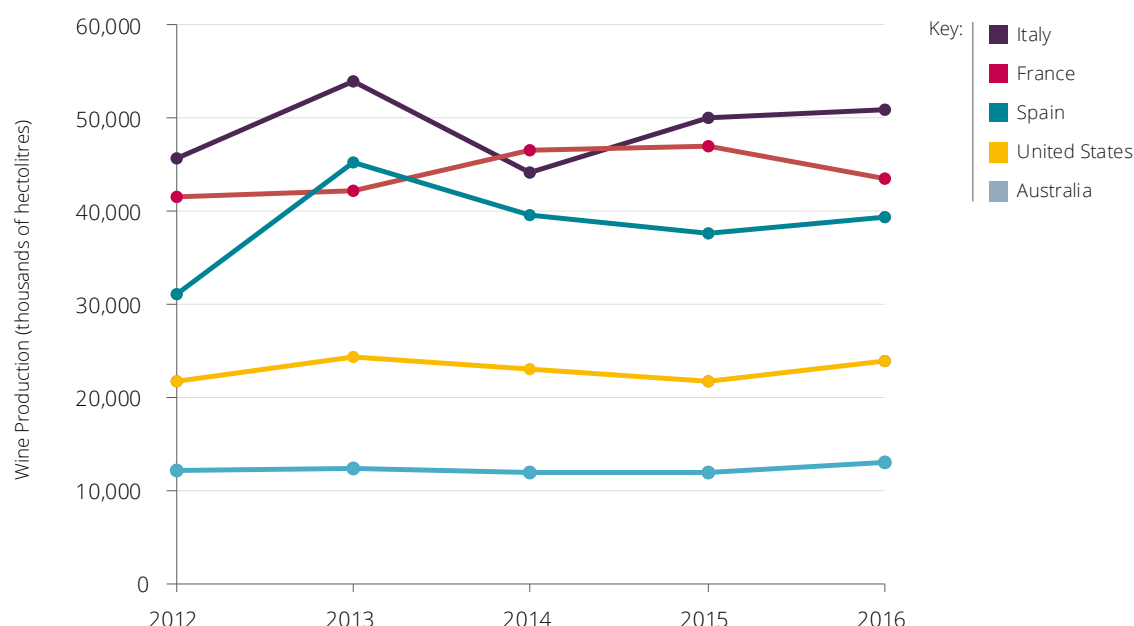
24. OECD.stat, 'Non-Medical Determinants of Health: Alcohol Consumption', <[http://stats.oecd.org/index.aspx?DataSetCode=HEALTH\\_STAT](http://stats.oecd.org/index.aspx?DataSetCode=HEALTH_STAT)>, accessed 25 September 2017. Data is for individuals over the age of 15.

25. OIV, '2017 World Vitiviniculture Situation: OIV Statistical Report on World Vitiviniculture', 2017, p. 17.

26. Ministero per lo Sviluppo Economico [Ministry of Economic Development], 'La Lotta Alla Contraffazione In Italia Nel Settore Agroalimentare 2009–2012' ['The Fight against Counterfeiting in Italy's Agricultural Sector 2009–2012'], 2014, pp. 46–47.

cereals and pulses – at 242,000 kg seized.<sup>27</sup> More recently, in 2015, the Carabinieri seized illicit alcohol valued at €41 million, reporting 117 people to the judicial authority and 261 to the administrative authority.<sup>28</sup> These figures represent significant rises on previous years; however, it is unclear whether this reflects growth in the illicit alcohol trade in Italy, more focused and successful law enforcement, or both. What is clear is that the issue has attracted growing political and popular attention, as bodies such as the Italian food industry association (Federalimentare) have cited counterfeit Italian wine as a €2 billion per year business.<sup>29</sup>

**Figure 5:** Wine Production in the Main Producing Countries (thousands of hectolitres), 2012–16

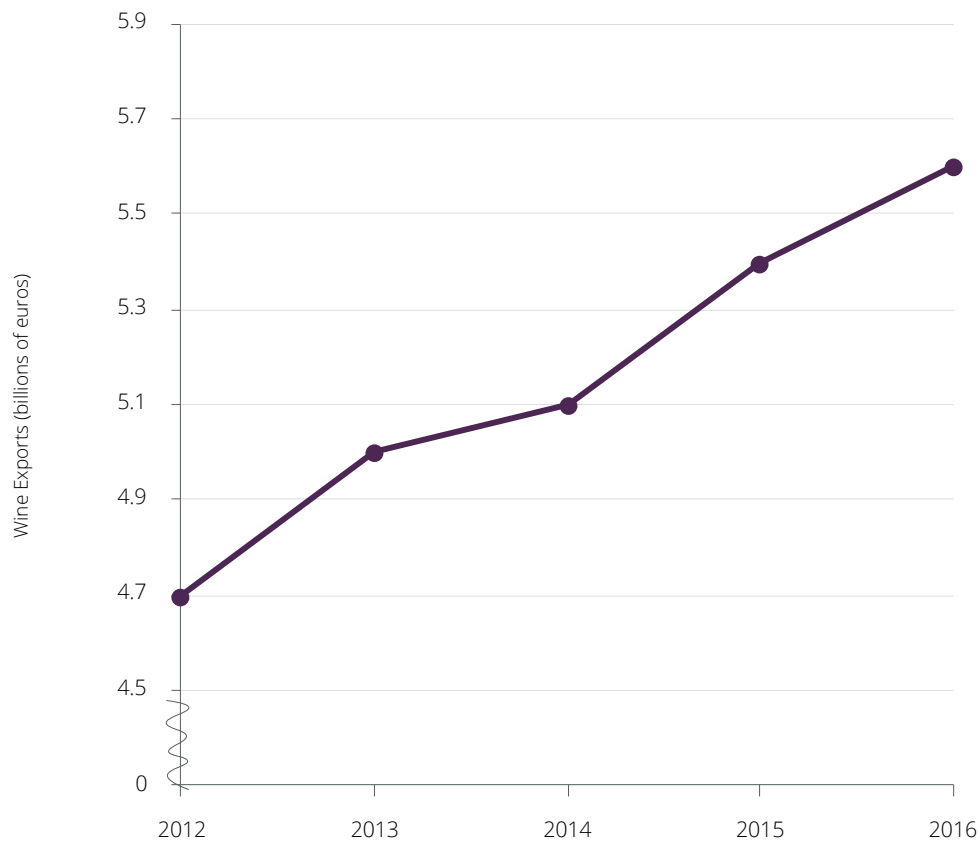


Source: International Organisation of Vine and Wine, '2017 World Vitiviniculture Situation: OIV Statistical Report on World Vitiviniculture', 2017, p. 10.

27. *Ibid.*

28. Coldiretti (Confederazione Nazionale Coltivatori Diretti) [National Confederation of Direct Cultivators], 'Frodi in Italia e vinopirateria nel mondo nel 2015' ['Fraud in Italy and Wine-Piracy Worldwide in 2015'], 2016; Emanuele Scarci, 'Vinopirateria: dal Whitesecco austriaco al vino in polvere, nel 2015 indagate 400 persone' ['Wine-Piracy: From the Austrian Whitesecco to Powdered Wine, in 2015 400 People Are Under Investigation'], *Il Sole 24 Ore*, 11 April 2016, <[http://emanuelescarci.blog.ilsole24ore.com/2016/04/11/vinopirateria-dal-whitesecco-austriaco-al-vino-in-polvere-nel-2015-indagate-400-persone/?refresh\\_ce=1](http://emanuelescarci.blog.ilsole24ore.com/2016/04/11/vinopirateria-dal-whitesecco-austriaco-al-vino-in-polvere-nel-2015-indagate-400-persone/?refresh_ce=1)>, accessed 18 November 2017.

29. Emanuele Scarci, 'Vino, contraffazione per due miliardi' ['Cost of Wine Counterfeiting Is €1 Billion'], *Il Sole 24 Ore*, 8 April 2014, <<http://www.ilsole24ore.com/art/notizie/2014-04-08/vino-contraffazione-due-miliardi-063749.shtml?uud=ABem7B9>>, accessed 9 November 2017.

**Figure 6:** Italian Wine Exports in Terms of Value, 2012–16

Source: International Organisation of Vine and Wine, '2017 World Vitiviniculture Situation: OIV Statistical Report on World Vitiviniculture', 2017, p. 17.

A further estimate of the scale of the illicit alcohol trade in Italy is ventured by the EU Intellectual Property Office (EUIPO). In 2016, EUIPO analysed the difference between forecast and actual alcohol sales across Europe between 2008 and 2013, to quantify the effect of counterfeiting on legitimate sales. In Italy, it estimated that €83 million in sales revenue at producer prices was lost to counterfeiting of wine – the highest of any EU country.<sup>30</sup> For spirits, EUIPO estimated that the country lost €78 million in sales revenue at producer prices to counterfeiting – the fourth highest of any EU country.<sup>31</sup> With a combined loss of €162 million, Italy experienced the second biggest absolute impact of wine and spirits counterfeiting in Europe, second only to Spain.<sup>32</sup>

The EUIPO study also estimated the level of direct employment lost to counterfeiting of wine and spirits. This was calculated at country level based on lost sales, both at home and across

30. EUIPO, 'The Economic Cost of IPR Infringement in Spirits and Wine', July 2016, p. 14.

31. *Ibid.*, p. 14.

32. *Ibid.*, pp. 14–15.

Europe. In Italy, the study estimated that 425 jobs had been lost, accounting for 2% of all employment in the country's legitimate wine and spirits sector.<sup>33</sup> Typically, many such jobs are lost to competition when criminals engage in fraud and counterfeiting, numerous cases of which have recently attracted media attention, in a further indication of their prevalence (see Chapter III).

## Illicit Pharmaceuticals

The pharmaceuticals sector is one of the most powerful drivers of the Italian economy and attracts some of the highest rates of foreign direct investment.<sup>34</sup> Notably, Italy is the fourth largest producer of pharmaceuticals in the EU, with a €20 billion market in 2016.<sup>35</sup> The illicit trade in pharmaceuticals presents a clear threat to this industry: although there are very few formal estimates, in 2016 EUIPO calculated that Italy lost €1.59 billion in legitimate sales to the counterfeiting of medicines. This represents the biggest direct impact of counterfeiting on legitimate sales in any EU state by value, with Spain suffering the next biggest impact at €1.17 billion in lost sales in the same year.

According to EUIPO, in relative terms, this loss is equivalent to 5% of Italy's total legitimate pharmaceutical sales – one of the highest proportions in Europe and above the EU average loss of 4.4% of legitimate sales.<sup>36</sup> The knock-on effects on employment are the second most severe in Europe after Germany: the EUIPO calculates annual losses in Italy of 3,945 jobs directly and 10,631 jobs both directly and indirectly to counterfeiting (when knock-on job losses in connected industries, such as packaging and export, are considered).<sup>37</sup> According to EUIPO, when direct and indirect job losses and the impact on government revenue is considered, the total cost is €1.87 billion (again, second to Germany, which is estimated to lose €2.225 billion annually to the counterfeiting of medicines).<sup>38</sup> However, these figures do not reflect the additional dangers posed to public health – for example, where active ingredients are absent, rendering medicine ineffective; where there are an excess of active and potentially toxic ingredients; or where ingredients are different from those indicated on the label, leading to potentially dangerous side effects.

A further indication of the scale of the problem in Italy can be found in records on the theft of medicines – a key feature of the illicit pharmaceutical trade in the country. Between 2006 and 2013, Transcrime reported that there were 68 cases of theft from Italian hospitals (51 in 2013 alone), with an economic cost of at least €18.7 million.<sup>39</sup> According to Transcrime, larger

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33. *Ibid.*, p. 15.

34. Michele Riccardi, Marco Dugato and Marcello Polizzotti, *The Theft of Medicines from Italian Hospitals* (Trento: Transcrime and Università degli Studi di Trento, 2014).

35. EUIPO, 'The Economic Cost of IPR Infringement in the Pharmaceutical Industry', September 2016, p. 11.

36. *Ibid.*, p. 19.

37. *Ibid.*, p. 19.

38. *Ibid.*, p. 19.

39. Riccardi, Dugato and Polizzotti, *The Theft of Medicines from Italian Hospitals*.



public hospitals with more than 800 beds, higher staff turnover and weaker internal monitoring systems were those most frequently targeted.<sup>40</sup> Among the 68 cases reported by Transcrime, high-price medicines were the most frequently stolen, particularly cancer drugs (stolen in 32 cases), immunosuppressive drugs (13 cases), anti-rheumatic drugs (12 cases) and biological drugs (10 cases).<sup>41</sup>

The incidence of such thefts has shifted over time, as shown by more recent data from the AIFA, which tracks the theft of medicines between 2011 and 2016 (Figure 7). According to the AIFA, instances of medicine theft rose rapidly from two in the first half of 2011 to a peak of 37 cases in the first half of 2014, before falling to single digits in the second half of that year. This decline is attributed to the disruptive impact of Operation *Volcano*, which was launched after concerns about illicit supplies were raised by a German pharmaceutical distributor (Box 2). More recently, however, the number of thefts has again begun to rise, albeit on a smaller scale; from one in 2015, numbers of thefts have increased to three in the first half of 2016 and four in the latter half of 2016.<sup>42</sup> Of concern is the volume of stolen medicines that a single case can involve; in 2015, for example, a single instance involved the theft of more than 200,000 packages of medicine from a pharmaceutical company's stockroom.<sup>43</sup>

**Box 2: Case Study – Operation *Volcano*: The Herceptin Case**

Operation *Volcano* constituted the largest and furthest-reaching investigation of pharmaceutical crime in Europe in recent years. A transnational initiative, the operation involved national competent authorities from across Europe in an effort to dismantle a network trafficking in the breast cancer drug Herceptin.

The operation began in 2013 after a German distributor raised concerns about a defective vial, reporting differences between the drug's primary and secondary packaging and the discovery of residue on the outside of the container. On further investigation by Italy's National Police and Carabinieri, it emerged that vials of Herceptin had been stolen from hospitals across the country, after which they were repackaged and reintroduced into the legal supply chain for export by bogus operators across Europe.

In this way, significant amounts of stolen Herceptin were found to have reached not only Germany, but also Finland and the UK. They reached these destinations via Italian retailers and operators in Cyprus, Hungary, Latvia, Romania, Slovakia and Slovenia, who were found to have issued fake invoices.

40. *Ibid.*

41. *Ibid.*

42. AIFA, 'Furti di Farmaci: Le evoluzioni del fenomeno dal 2013 ad oggi' ['Medicine Thefts: The Development of the Phenomenon from 2013 to Today'], 2017, p. 9.

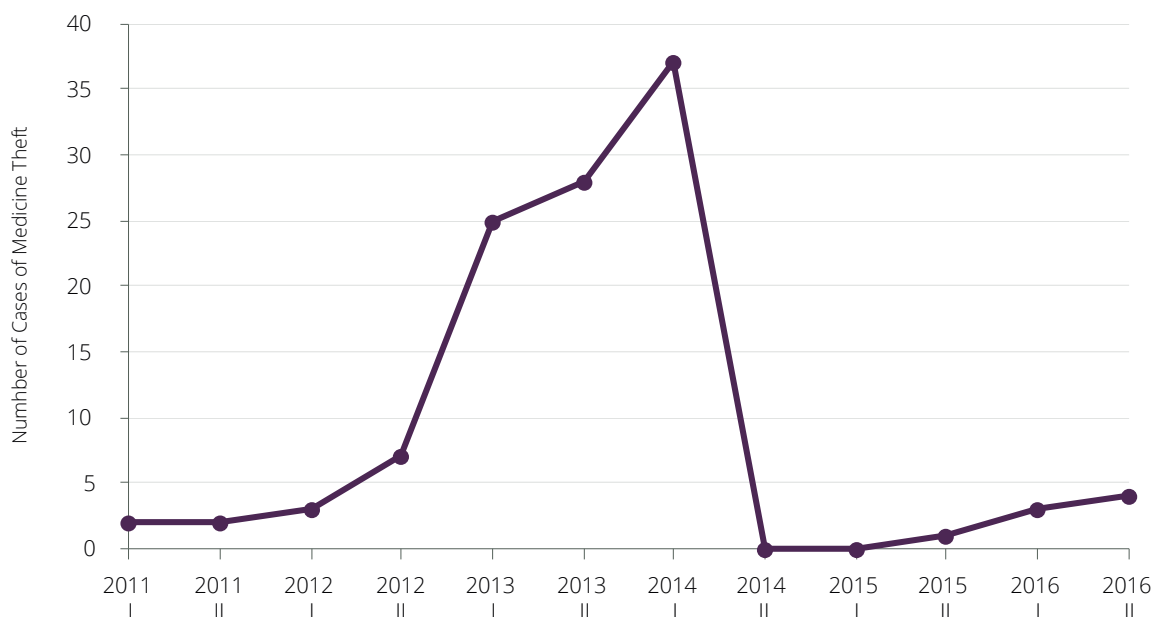
43. *Ibid.*, pp. 10–11.

During the operation, Italian authorities also discovered that other medicines stolen in Italy had been reintroduced into the legal market via unauthorised retailers linked to Italian OCGs. Again, this involved the issuance of fake invoices, resulting in the sale of stolen medicines to authorised Italian and Maltese operators, which subsequently exported them to other EU markets.

By July 2015, Operation *Volcano* and related police operations had resulted in more than 60 arrests and the seizure of more than 150,000 illicit drug packages. The operations also succeeded in dramatically reducing hospital thefts in Italy, from 37 cases in the first half of 2014 to single digits in the latter part of the year.

Source: AIFA, 'Operation Volcano: The Herceptin Case. Story, Lessons Learnt, Proposals', 2015.

**Figure 7:** Theft of Medicines from Italian Hospitals, Number of Cases, 2011–16



Source: AIFA, 'Furti di Farmaci: Le evoluzioni del fenomeno dal 2013 ad oggi' ['Medicine Thefts: The Development of the Phenomenon from 2013 to Today'], 2017, pp. 8–9.



# III. Organised Crime: Groups, Routes and Methods

**A**CROSS ITALY, OCGS play a central role in the illicit trade in tobacco, alcohol and pharmaceuticals. As with other organised crime activity in the country, Italy's mafias maintain a critical position in the process, particularly in regions where they exert territorial control. Here, their involvement can take various forms. Most directly, mafias may facilitate illicit trade through a range of means, facilities and distribution networks. Indirectly, mafias may 'tax' the activities of other, often foreign, OCGs operating through their territory, and may provide facilities and expertise to support them. However, beyond areas of direct mafia control this influence wanes, with foreign OCGs able to exert greater control over the illicit trade supply chain.

## Organised Crime and Illicit Tobacco

As noted previously, tobacco smuggling has played an important role in the evolution of the Italian mafias, especially the Camorra, Cosa Nostra and the Sacra Corona Unita.<sup>1</sup> Today, research suggests that some mafia groups continue to deal in illicit tobacco as part of diverse illegal portfolios; others simply demand oversight, leveraging their control over strategic areas of arrival and transit to 'tax' foreign OCGs looking to secure onward transportation. Such mafia oversight is clear at the port of Naples – according to Europol, the main entry point for finished counterfeit goods in Italy, and one heavily controlled by Campania's local mafia, the camorra.<sup>2</sup> As noted in Chapter II, the illicit cigarette trade is highly concentrated in the Campania region, as testified by rates of illicit consumption substantially higher – at 33% of total consumption – than those found in any other region.<sup>3</sup> Here, Transcrime, among other organisations, has noted the extent of links between the camorra and foreign OCGs, most notably Chinese criminal organisations dealing in illicit cigarettes, among a range of other products.<sup>4</sup>

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1. For more detail on the mafias' involvement in the illicit cigarette trade in previous decades, see Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, pp. 69–70; Transcrime, 'Progetto PON Sicurezza 2007–2013 – Gli Investimenti Delle Mafie'; The European House – Ambrosetti, 'Studio Strategico: i nuovi provvedimenti per il settore del tabacco: i fattori di rischio economici e sociali' ['Strategic Study: New Measures for the Tobacco Sector: Social and Economic Risk Factors'], 2011.
  2. Europol, '2015 Situation Report on Counterfeiting in the European Union', a joint project between Europol and the Office for Harmonization in the Internal Market, April 2015, p. 43.
  3. KPMG, 'Project Sun', p. 98.
  4. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 70.

In Naples and other mafia-controlled ports, there is general consensus in the literature, reinforced by interviews conducted for this paper, that little can be done without mafia authorisation. This may involve a foreign OCG forfeiting a percentage of profits from illicit trade or establishing active operational partnerships with local mafias (Box 3). Such partnerships, and the division of labour they require, can take a range of forms: according to Transcrime, Italian groups may prefer to delegate responsibility for importation to other groups, while maintaining control of domestic retail distribution.<sup>5</sup> The DNA, similarly, reports a tendency for foreigners to coordinate sea transit to Italy, and for Italians to take responsibility for storage, onward transportation and distribution of illicit products.<sup>6</sup>

**Box 3: Case Study – Collaboration between Italian and Chinese OCGs**

One example of the frequently discussed links between Italian and Chinese OCGs was exposed in Naples by Operation *Katana*, an investigation by the Financial Police's Counterterrorism Rapid Response (Gruppo Pronto Impiego), coordinated by the Naples DDA. The operation uncovered cooperation between Chinese OCGs engaged in illicit cigarette manufacturing and Campania-based crime groups involved in distribution and sale. The cigarettes were manufactured in Fujian province in China and imported by sea to Italy, with the Italian groups responsible for sale on the Italian market. The investigation also found that the Chinese and Italian groups involved were in frequent touch with members of the camorra. Some 110 tonnes of illicit tobacco products were seized, as well as numerous other counterfeit articles, such as clothing and trainers.

*Source: Calderoni et al., The Factbook on the Illicit Trade in Tobacco Products 2 – Italy, p. 70; Anti-Counterfeiting Information System, 'Tobacco Products', see 'video dell'operazione Katana' ['Video of Operation Katana'], <<https://siac.gdf.it/en-US/Pagine/scheda-tabacchi.aspx>>, accessed 4 October 2017.*

Naples is just one of several major sea ports, both Tyrrhenian and Adriatic, through which illicit tobacco is known to arrive in Italy. Alongside Naples, the Interior Ministry (Ministero dell'Interno) and Transcrime cite Gioia Tauro, Genoa and Taranto as core hubs for illicit tobacco

5. *Ibid.*, p. 68.

6. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° Luglio 2010 e il 30 Giugno 2011' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2010 and 30 June 2011'], 2011; DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° Luglio 2011 e il 30 Giugno 2012' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2011 and 30 June 2012'], 2012.

entering the country.<sup>7</sup> The origins of illicit products vary by port of entry: Transcrime notes that the Tyrrhenian ports of Naples and Gioia Tauro receive products mainly from China and the United Arab Emirates (UAE), while the Adriatic ports of Ancona, Bari, Brindisi, Trieste and Venice more often receive illicit cigarette flows from or via Greece.<sup>8</sup> The role of the UAE in the supply chain is notable; in particular, the DNA is aware of major flows of illicit cigarettes originating in the UAE's Jebel Ali Free Zone, in Dubai, from where products are shipped through the Suez Canal to Italian (as well as Libyan, Greek, Spanish and French) ports.<sup>9</sup>

A further significant entry point for illicit tobacco is Italy's northeastern border with Slovenia. This constitutes the main land route into the country from Eastern Europe – with Ukraine, Moldova, Albania and Romania, among others, cited by Transcrime as the main countries of origin of illicit cigarettes smuggled along this route.<sup>10</sup> Smuggling methods here take a different form to those employed on sea routes. On the Slovenian route, smugglers use cars, vans, buses, caravans and camper vans, at times concealing illicit tobacco products among furniture or food within vehicles or modified compartments; at others, moving illicit cigarettes in vehicles carrying families.<sup>11</sup> While illicit cigarettes from a range of Eastern European countries are moved across this border, in many cases activity simply takes the form of little-and-often 'ant smuggling' by individuals looking to profit from price differentials across the border itself: KPMG puts the price of an average pack at €4.76 and €3.51 in Italy and Slovenia, respectively.<sup>12</sup>

Smuggling in small quantities appears to be growing in importance as a methodology. In 2016, the Ministry of Interior reported an increase in the use of small vehicles to smuggle illicit tobacco, with such 'little-and-often' smuggling reducing the risk of large losses in the event of interception.<sup>13</sup> Increasingly, this shift has also been recorded on sea routes: a recent study by Transcrime highlights the use of vehicles transported on ships to smuggle smaller quantities of illicit tobacco into ports than by container. According to Transcrime, between 2010 and 2013, 305.6 million cigarettes were seized in 69 trucks aboard ships and motorboats, while 1.4 million

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7. See Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*.

8. *Ibid.*, p. 68.

9. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], p. 454; KPMG, 'Project Sun', p. 84

10. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 82.

11. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], p. 141.

12. KPMG, 'Project Sun', p. 21.

13. Ministero dell'Interno, 2016.

cigarettes were seized in 26 cars aboard ships and motorboats.<sup>14</sup> According to the study, on average, trucks intercepted on ships were found to be transporting 4.5 million cigarettes, while cars were found transporting an average of 53,400 cigarettes.<sup>15</sup> Though still relatively large volumes, these are likely to be smaller than those found in a range of cases across Europe where smuggling took place via container.

Having crossed the EU's external border on entry, free movement to other EU markets makes Italy an attractive hub through which to transport goods to the rest of the EU.<sup>16</sup> According to Transcrime, the main destinations of illicit cigarettes transiting Italy are the higher-priced markets of the UK, France, Germany, the Netherlands and Belgium.<sup>17</sup> However, Italy serves not only as a transit hub; it is also a destination country, with a proportion of imports destined for the domestic market. As noted previously, illicit consumption is highly localised, concentrated around core entry points in the regions of Campania and Friuli-Venezia Giulia.<sup>18</sup> Within these hotspots, however, consumption patterns are fluid and flexible; as noted, empty pack surveys have registered a shift in the source and brands of illicit cigarettes consumed year-on-year.<sup>19</sup> Here, as elsewhere, illicit whites brands account for the majority of consumption, having to a large extent replaced the counterfeit and well-known branded products that have traditionally comprised the bulk of the illicit market.<sup>20</sup>

To supply these markets, storage facilities are used. According to Transcrime, seizures of stockpiles of illicit tobacco take place mainly at private premises, such as houses, warehouses and garages, with a concentration in Campania.<sup>21</sup> Illicit cigarettes are not sold through Italy's tightly regulated legal network of tobacconists;<sup>22</sup> instead, they are marketed openly through other channels, with little social stigma attached to their sale. According to a 2016 survey by Eurobarometer, in Italy, 69% of respondents who had been offered illicit cigarettes had been approached on the street, compared with an EU average of 60%.<sup>23</sup> Such openness is perhaps most pronounced in Naples, where illicit cigarettes are sold freely in markets and on the street, with vendors stocking supplies nearby. In many residential areas of the city, cigarettes are sold from private apartments, with children and elderly people distributing illicit products from ground-

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14. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, 2015.

15. *Ibid.*

16. Ministero dell'Interno, 'Rapporto sulla criminalità in Italia. Analisi, Prevenzione, Contrasto' ['Report on Criminality in Italy. Analysis, Prevention, Comparisons'], 2016, p. 224, <[http://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/14/0900\\_rapporto\\_criminalita.pdf](http://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/14/0900_rapporto_criminalita.pdf)>, accessed 9 November 2017.

17. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 73.

18. KPMG, 'Project Sun', p. 98.

19. *Ibid.*, p. 97.

20. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, p. 24.

21. *Ibid.*, p. 24.

22. *Ibid.*, pp. 71, 88.

23. European Commission, 'Special Eurobarometer 443: Public Perception of Illicit Tobacco Trade – Italy', July 2016, p. 1.

floor windows or from chairs placed in the street. In some areas, illicit cigarettes have been observed being lowered by rope to street-level buyers from private upper-floor apartments, while door-to-door deliveries are also known to take place.<sup>24</sup>

In supplying the domestic market, there is little recent evidence of domestic production. Instead, most illicit products seized or registered in empty pack surveys are thought to be smuggled from abroad.<sup>25</sup> Indeed, in recent years, there have been few discoveries of unregistered factories, with little evidence of collusion by legitimate manufacturers. However, such activities have been exposed in the past (Box 4), and the possibility should not be dismissed that declining detection rates of illicit factories may simply hint at an as-yet-uncovered shift in production methods.

**Box 4: Case Study – Yesmoke and Manifattura Italiana Tabacco Spa**

A well-known case of illicit activity within registered tobacco factories was uncovered in 2014, involving two Italian manufacturers: Yesmoke and Manifattura Italiana Tabacco spa.

In both cases, the *modus operandi* was to declare a proportion of cigarette production to be destined for non-EU states to avoid paying VAT and excise duties due on products sold within the EU. On paper, between 2011 and 2015, large numbers of cigarettes were sold to non-existent companies in Ukraine, Moldova, Serbia, Kosovo and Transnistria. Manifattura Italiana Tabacco spa, for example, is believed to have exported 520 tonnes of cigarettes in this timeframe to non-EU states. However, the scam was uncovered when an operation by the Financial Police found that delivery vehicles leaving the manufacturers' warehouses for these countries were not arriving at their destinations. Instead, the cigarettes were diverted and sold untaxed in Italy and other parts of the EU, with seizures made as far afield as the UK, Germany, Spain, Poland, Slovakia and Lithuania.

Between 2011 and 2015, it is estimated that Yesmoke evaded €20 million in VAT and €70 million in excise duties, and that Manifattura Italiana Tabacco spa evaded €73 million in VAT and excise duties.

*Sources: Andrea Giamberti, 'Com'è cambiato il contrabbando di sigarette' ['How Cigarette Smuggling Has Changed'], L'Espresso, February 2015; L K Italia, 'Dopo Yesmoke, in carcere dirigenti Tabacchi Chiaravalle' ['After Yesmoke, the Head of Tabacchi Chiaravalle Sent to Jail'], 16 December 2014.*

24. Calderoni et al., *The Factbook on the Illicit Trade in Tobacco Products 2 – Italy*, pp. 9, 71, 88.

25. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' ['Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'].



## Organised Crime and Illicit Alcohol

As noted in Chapter II, there is a lack of data on illicit alcohol in Italy, which impedes a comprehensive evaluation of the scale and nature of associated illegal activity. However, there is a general consensus that the illicit alcohol trade in Italy takes a range of forms, from illicit production to counterfeiting and smuggling. Each involves different groups and dynamics, with Italy playing a combination of source, transit and destination roles in each case. The role the country plays also varies by product. Wine, for example, is exempt from excise duty, limiting the profits to be made from importing illicit bottles produced elsewhere. On the other hand, spirits are not exempt from excise duty, and are known to be smuggled in from abroad and sold illegally across the country.

Different forms of illicit trade similarly affect alcohol products differently. For example, illicit *production* mostly affects Italy's large domestic wine industry; as highlighted by the Carabinieri's NAS, the Italian tradition of growing high-quality wine has long been accompanied by trade in adulterated and *sofisticazione* wine, which is illegally blended using wine from different regions or countries.<sup>26</sup> In recent years, Italian authorities have uncovered numerous cases of local producers altering their wine before sale. This may be done in a variety of ways: to increase production and decrease costs, manufacturers may adulterate wine with colourants, methyl alcohol, illegal antioxidant preservatives, flavourings or anti-freeze – which can be toxic. In the most infamous case of wine fraud, in 1986, the excessive use of methanol (a cheap alcohol used in anti-freeze and for fuel) to facilitate wine fermentation killed 23 people.<sup>27</sup> Although there have been no known cases since that have resulted in similar casualties, ongoing investigations and public reports indicate the prevalence of the phenomenon across Italy's wine industry (Boxes 5–7).

The case studies in Boxes 5–7 show that adulteration of alcohol often takes place in parallel with counterfeiting. In many cases, beyond adulterating their wine, producers have also been caught falsifying labels to sell lower-quality wine as a higher-quality product.<sup>28</sup> In one of the best-known cases, in 2014, Italian police intercepted 160,000 litres of low-quality wine falsely labelled as such prized Italian reds as Tuscany's Brunello di Montalcino.<sup>29</sup> The wine had been

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26. NAS, Comando Carabinieri per la Tutela della Salute, 'Relazione al Senato' ['Report to the Senate'], 13 January 2016, p. 16, <<http://www.igienistionline.it/docs/2016/03nas.pdf>>, accessed 24 July 2017; Europol, 'Operation OPSON V', October 2016, p. 23, <[https://www.europol.europa.eu/sites/default/files/documents/report\\_opson\\_v.pdf](https://www.europol.europa.eu/sites/default/files/documents/report_opson_v.pdf)>, accessed 9 November 2017.

27. Emilio Vettori, 'Trent'anni fa lo scandalo del vino al metanolo: nessun risarcimento ancora per le vittime' ['Thirty Years Ago, the Scandal of Wine Made with Methanol: Still No Compensation for the Victims'], *Repubblica Torino*, 17 March 2016.

28. Ministero per lo Sviluppo Economico [Ministry of Economic Development], 'La Lotta Alla Contraffazione In Italia Nel Settore Agroalimentare 2009–2012' ['The Fight against Counterfeiting in Italy's Agricultural Sector 2009–2012'], 2014.

29. Nick Squires, 'Italian Police Seize 160,000 Litres of Fake Tuscan Red Wine in €5 Million Fraud', *The Telegraph*, 10 September 2014.

bottled and labelled with false quality certification documents, for sale to the international market at a price ten times higher than its true value. In volumes equivalent to 220,000 bottles, the wine could have sold for as much as €5 million across the globe.<sup>30</sup>

**Box 5: Case Study – Illicit Production and Counterfeiting of Alcohol**

In January 2016, the NAS dismantled an OCG in Potenza, Basilicata involved in the illicit production of alcohol, as well as food and household products such as detergents.<sup>31</sup> The OCG had been involved in counterfeiting – applying false labels and trademarks to alcohol products – before introducing the falsified products into the supply chain. The group had been active around Potenza, Naples and in the Agro Nocerino Sarnese region in southern Italy, with some 1,000 litres of ethyl alcohol and 380 kg of methyl alcohol seized in the NAS operation.

*Source: Comando Carabinieri per la Tutela della Salute, Ufficio Comando – Sezione Operazioni [Carabinieri Command for the Protection of Public Health – Operations Unit], ‘Senato - Commissione agricoltura e produzione agroalimentare. Audizione del 13 Gennaio 2016 – Gen. D. Claudio Vincelli’ [‘General D Claudio Vincelli, Senate Hearing – Commission on Agriculture and the Food Industry, 13 January 2016’], pp. 19–20.*

**Box 6: Case Study – Champagne Fraud in Campania**

Between 2013 and 2015, the NAS launched an investigation into the counterfeiting of Moët & Chandon and Veuve Clicquot Ponsardin champagne. The investigation uncovered numerous instances of counterfeiting and VAT evasion, with illicit products destined for both domestic and foreign markets.

In the process, the operation uncovered a criminal enterprise which spanned the country. The OCG in question was active in Campania, purchased bottles from a Piedmontese producer and filled them not with champagne but with sparkling white wine in the locality of Castelli Romani, in the province of Rome. Here, the bottles were adorned with falsified labels and packaged, ready for distribution.

The total value of the goods seized was around €400,000. Had the counterfeiting not been discovered, the value of products placed on the market would have amounted to an estimated €2 million, not considering the potential damage to the image of the legitimate champagne brands concerned.

*Source: Comando Carabinieri per la Tutela della Salute, Ufficio Comando – Sezione Operazioni [Carabinieri Command for the Protection of Public Health – Operations Unit], ‘Senato – Commissione agricoltura e produzione agroalimentare. Audizione del 13 Gennaio 2016 – Gen. D. Claudio Vincelli’ [‘General D Claudio Vincelli, Senate Hearing – Commission on Agriculture and the Food Industry, 13 January 2016’], p. 19.*

30. *Ibid.*

31. *Ibid.*, pp. 19–20.

**Box 7: Case Study – Adulteration and Counterfeiting of Italian Wine**

In December 2016, the NAS arrested three individuals in Florence for involvement in adulterating low-quality wine. The individuals had participated in a scheme whereby extra alcohol was added to the wine to increase its volume, before it was sold as Chianti, Brunello di Montalcino and Sassicaia, in Italy and abroad.

Those arrested – the owner of a farm in Empoli, Tuscany, and two men from Campania – were also involved in counterfeiting, with false labels used to sell the wine as high-quality, well-known brands. In addition, seals were fraudulently used to certify the products' credentials as DOC (*Denominazione di Origine Controllata*) and DOCG (*Denominazione di Origine Controllata e Garantita*) – the latter being the highest classification that exists for Italian wine, guaranteeing the use of certified production methods and quality. The three individuals arrested were among thirteen who were investigated; each was found to have a specific role in the production and distribution of the wine.

*Sources: Repubblica.it, 'Falsi Chianti, Brunello e Sassicaia: vini adulterati con l'alcol, tre arresti a Firenze' ['False Chianti, Brunello and Sassicaia: Wine Adulterated with Alcohol, Three Arrests in Florence'], 21 December 2016; Europol, 'Eur 230 Million Worth of Fake Food and Beverages Seized in Global Opson Operation Targeting Food Fraud', press release, 25 April 2017.*

Such examples also highlight the range of scales on which illicit activity occurs in Italy's wine sector. On a smaller scale, particularly in the case of adulteration, it can involve only small wine producers looking to reduce costs and maximise profits. On a larger scale, however, there is no doubt that sophisticated OCGs are involved; the activities described in the previous paragraph, for example, could not have taken place without the participation of transnationally connected criminal networks. While criminal activity has been exposed across the country, meanwhile, the illicit alcohol trade in the south is unlikely to be free of mafia involvement; as noted earlier, if this does not involve direct participation, it is likely to include indirect cooperation.

Such organised criminal involvement is also seen in the cross-border smuggling of illicit alcohol products. Often, such activity involves the smuggling of wine from Italy to higher-priced destination markets across Europe. A recent case shows the potential scale of this activity: in 2017, the head of an Italian wine firm and his accountant were found guilty of fraudulent evasion of duty and VAT and money laundering after smuggling 287,000 six-bottle cases of wine to the UK.<sup>32</sup> The smuggling took place between June 2008 and March 2013, at a total loss to HM Revenue & Customs of up to £45 million.<sup>33</sup>

32. Tristan Kirk, 'Hunt for Italian Wine Boss Facing Prison for £45m Tax Scam', *Evening Standard*, 12 June 2017.

33. *Ibid.*

Other forms of alcohol smuggling are more sophisticated and involve products other than wine. In June 2016, for example, the Financial Police detailed several cases in which spirits had been smuggled into Italy from other markets. Many such cases involve *modus operandi* similar to those seen with illicit tobacco: often, alcohol is declared to be destined for sale to entities that are in effect ‘phantom buyers’ in non-EU countries. The alcohol is then diverted and stored, ready for sale *within* the EU, thus evading taxes and excise. In a recent example, the Financial Police intercepted 22 tonnes of vodka in a warehouse in Perugia, Umbria that had been imported from Lithuania, with papers declaring its destination as Macedonia.<sup>34</sup> The alcohol in question had not continued to Macedonia; instead, it was intended for sale in Italy and other EU countries, with tax and excise unpaid.<sup>35</sup> In another case, three trucks moving alcohol from Bulgaria into Italy were seized, having evaded payment of VAT and excise estimated at €1 million.<sup>36</sup>

Where alcohol is destined for the Italian market, the OCGs involved have at times penetrated legal supply chains. Indeed, unlike with tobacco, in several cases legal retailers have been shown to be distributing illicit alcohol, with counterfeit or altered alcohol having been found on the shelves of local supermarkets. A well-known case involved one of Europe’s largest retail groups, Auchan, which was found to have sold counterfeit Amarone wine in stores in Padua, Veneto and across northern Italy.<sup>37</sup> The illicit products displayed counterfeit certifications that falsely labelled the wine as DOCG.<sup>38</sup> Although such cases do not provide sufficient evidence to determine the extent of retailer complicity, they point clearly to vulnerabilities in the legal distribution chain.

## Organised Crime and Illicit Pharmaceuticals

The illicit trade in pharmaceuticals in Italy is generally agreed to take two main forms: the sale of counterfeit pharmaceuticals and the theft of legitimate pharmaceuticals for onward sale. In both forms, the trade is viewed by law enforcement as a major source of revenue for OCGs: transnational networks are known to operate across the value chain, in import and export, manufacturing and distribution.<sup>39</sup> Many illicit products are destined for consumption in Italy; others for consumption elsewhere in Europe, and beyond. In all activities, the methods adopted are flexible and fluid, shifting in response to profit-making opportunities and law enforcement action.

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34. Guardia di Finanza [Financial Police] and Agenzia delle Dogane e dei Monopoli [Customs and Monopoly Agency], Press Release, 13 June 2016, <<https://www.agenziadoganemonopoli.gov.it/portale/documents/20182/2866520/Cre-s-20160613-69292-Rietialcool.pdf/0a8e23c8-6527-409a-aeba-383da8bc138b?version=1.1>>, accessed 4 October 2017.

35. *Ibid.*

36. *Ibid.*

37. *Corriere del Veneto*, ‘Falso Amarone venduto all’Auchan’ [‘False Amarone Sold at Auchan’], 29 November 2016.

38. *Ibid.*

39. AIFA, ‘Pharmaceutical Crime’, 2016, <<http://www.fakeshare.eu/sites/default/files/downloads/PharmaceuticalCrime.pdf>>, accessed 9 November 2017.

In relation to the sale of counterfeit pharmaceuticals, first, a major concern in Italy relates to the growth in online distribution, with products sold in this way often imported from China, Pakistan or India. Products sold via the internet to consumers in Italy range from active ingredients to ‘complete’ medicines: these are placed on the market through unregistered online pharmacies, auction or social media sites and, once purchased, may be distributed by brokers, mainly in sex shops and gyms.<sup>40</sup> Major drivers of demand include lower prices, the avoidance of embarrassment, an inability to access pharmaceuticals through legitimate channels, and the potential need for large quantities for use in activities such as sports doping.

The scale of this online trade is demonstrated by repeated investigations and seizures, perhaps most notably the annual Operation *Pangea*, which each year reveals the sheer volume of illicit products that can be seized in little over a week (Box 8). Such trade also knows very few boundaries: international websites can be used to target consumers in different countries, allowing transnational illicit trade. For example, one expert interviewed for this research spoke of a UK-based website found to be selling prescription products to Italian citizens.<sup>41</sup>

**Box 8: Case Study – Operation *Pangea* and E-Commerce**

Each year, Italy’s Ministry of Health, AIFA, Customs and Monopoly Agency and NAS participate in Operation *Pangea*, a joint international operation to counter the online trade in illicit medicines and medical devices.

The 2016 *Pangea IX* and 2017 *Pangea X* operations revealed sustained illicit trade in pharmaceuticals in Italy: During *Pangea IX*, from 30 May to 7 June 2016, more than 80,000 illicit drugs (in the form of capsules, tablets and vials) were seized as they entered the country’s main airports. During *Pangea X*, the seizure rate rose; between 12 and 19 September 2017, more than 90,000 illicit drugs were seized as they entered the country.

The operations also revealed continued growth in the number of people using unauthorised websites to purchase pharmaceuticals. The greatest demand was for drugs to treat erectile dysfunction, which accounted for over 60% of seized medicines in 2016, and over 80% in 2017. In 2016, these were followed by analgesics (3.9%), antivirals (2.4%), weight-loss pills (2.3%) and anti-inflammatories (1.9%). In 2017, the next biggest demand was for antidepressants, hormones and fake food supplements containing substances that are not permitted in Italy. All present health hazards relating to the uncontrolled conditions in which they are produced, uncertainty over the active ingredients used, and the purchase and use of medicines without the supervision of a trained physician.

40. *Ibid*, pp. 10–11.

41. Farmacia.it, ‘Vendeva online farmaci con obbligo di ricetta, il sito sarà bloccato’ [‘Website Selling Pharmaceuticals Without Prescriptions to be Taken Down’], no date, <<http://www.farmacia.it/index.php/news/articolo/74/11823>>, accessed 16 November 2017.

AIFA, 'PANGAEA X: in aumento gli italiani che si rivolgono ai canali illegali per l'acquisto di farmaci' [*'Pangea X: Increase in the Number of Italians Using Illegal Channels to Buy Pharmaceuticals'*], 26 September 2017; About Pharma Online, 'Operazione Pangea, sequestrati negli aeroporti 80mila farmaci illegali' [*'Operation Pangea 80,000 Illegal Pharmaceuticals Seized in Airports'*], 13 June 2016, <<https://www.aboutpharma.com/blog/2016/06/13/operazione-pangea-sequestrati-negli-aeroporti-80mila-farmaci-illegali/>>, accessed 4 October 2017.

Whether domestic or international, the NAS has pointed to the highly flexible methods used by those operating and exploiting such websites, with many created on a temporary basis so that they can be closed and re-established quickly and easily.<sup>42</sup> Often, these sites' temporary nature means that little care is taken over presentation – the NAS has noted the poor quality of some of the sites encountered, which contain grammatical mistakes in their sales pitches, for example.<sup>43</sup> In another modus operandi, meanwhile, customers are encouraged to place orders by phone through special call lines, with products delivered to their door via postal and courier services.

Not all illicit pharmaceuticals traded in Italy are sold in this way. In some cases, Italian OCGs are reported to have infiltrated or corrupted medical personnel and wholesalers, using them to place stolen products on the market, in Italy and abroad.<sup>44</sup> Specifically, in parts of southern Italy, it has been reported that mafias have forced pharmacies to stock illicit products and sell them through the legal supply chain.<sup>45</sup> Transcrime notes similarly that links between public healthcare and OCGs 'are particularly strong in southern Italy, where numerous public health agencies [ASL – Aziende Sanitarie Locali] have been dismantled because of mafia infiltration'.<sup>46</sup> However, the AIFA maintains that there have been no known cases of illicit medicines infiltrating the legal supply chain, and that the country's system of pharmaceutical product traceability allows for the regulation of the supply chain from manufacturer to pharmacy.<sup>47</sup>

Mafia involvement is more comprehensively acknowledged in the second broad type of illicit activity witnessed in the sector: the theft of pharmaceuticals from medical facilities.<sup>48</sup> In 2017, the DNA reported the involvement of the camorra in the theft of drugs from local pharmacies, for sale across Italy and abroad, including in Greece, Slovakia and Hungary.<sup>49</sup> In this sphere,

42. Carabinieri NAS, 'A Police Approach to the Illegal Traffic of Medicines', no date, <[https://www.unodc.org/documents/organized-crime/FM/Sergio\\_Tirro.pdf](https://www.unodc.org/documents/organized-crime/FM/Sergio_Tirro.pdf)>, accessed 4 October 2017.

43. *Ibid.*

44. Riccardi, Dugato and Polizzotti, *The Theft of Medicines from Italian Hospitals*.

45. *Ibid.*

46. *Ibid.*

47. AIFA, 'Furti dei farmaci: le evoluzioni del fenomeno dal 2013 ad oggi' [*'Pharmaceuticals Thefts: the Evolution of the Phenomenon since 2013'*], 2017; AIFA/EDQM, 'Q&A – Counterfeit Medicines: Facts and Practical Evidence', in AIFA [Italian Medicines Agency], *Pharmaceutical Crime*, EU Programme Prevention of and Fight against Crime, 2015, pp. 10–11.

48. Riccardi, Dugato and Polizzotti, *The Theft of Medicines from Italian Hospitals*, p. 24.

49. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso

despite a recent decline, Italy has retained its reputation as a notable supplier of stolen pharmaceuticals: at its peak in 2013, 51 thefts from Italian hospitals resulted in a total economic loss of at least €18.7 million.<sup>50</sup> As noted previously, although fewer instances of pharmaceutical theft are now witnessed – four in the latter half of 2016 – the size of some thefts remains a cause for concern. For example, in 2015, a single case involved the theft of more than 200,000 packages of medicine from a pharmaceutical company stockroom.<sup>51</sup>

The involvement of well-organised groups is clear from the extensive logistical preparations required to conduct such complex criminal operations. A high level of organisation is required, for example, to steal pharmaceuticals in one country, and to transport and sell them in another. Furthermore, extensive knowledge of the pharmaceutical sector is required, including of trends in demand for certain medicines, the specifics of the legal supply chain, and the methods needed to store and transport particular products. As noted by the DNA, the need for other advanced skills, such as the ability to enter highly monitored buildings and to shield GPS signals transmitted by targeted trucks, indicates the sophisticated nature of the groups involved.<sup>52</sup>

As in other countries covered in this series, a further vulnerability of supply chains is linked to the European system of parallel trade. This is the practice of buying pharmaceuticals cheaply in one part of Europe and selling them in another part at a higher price. The practice is legal, but can be vulnerable to abuse by creating opportunities for infiltration. Such opportunities often arise where medicines are repackaged so that health warnings appear in the language of the destination country. The Herceptin case detailed in Chapter II shows how such repackaging permits infiltration, and more broadly how parallel trade can complicate the enforcement and detection of illicit trade. In this example, parallel trade facilitated the onward distribution of products stolen from Italian hospitals and legitimised with fake invoices by OCGs in Cyprus, Hungary, Latvia, Romania, Slovakia, Slovenia and Greece (Box 2).

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tra il 1° luglio 2015 e il 30 Giugno 2016' [Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'], p. 507.

50. Riccardi, Dugato and Polizzotti, *The Theft of Medicines from Italian Hospitals*.

51. AIFA, 'Furti di Farmaci: Le evoluzioni del fenomeno dal 2013 ad oggi', pp. 10–11.

52. DNA, 'Relazione annuale sulle attività svolte dal Procuratore nazionale antimafia e dalla Direzione nazionale antimafia nonché sulle dinamiche e strategie della criminalità organizzata di tipo Mafioso tra il 1° luglio 2015 e il 30 Giugno 2016' [Annual Report on the Activities of the Anti-Mafia National Prosecutor and the Anti-Mafia National Directorate, as well as on Mafia-Type Organised Crime Dynamics and Strategies Witnessed Between 1 July 2015 and 30 June 2016'].



## IV. Legislation, Law Enforcement Response and Sanctions

A MAJOR STRENGTH OF Italy's response to illicit trade in tobacco, alcohol and pharmaceuticals lies in its recognition of the link between these activities and organised crime, with a focus on the role of the mafias. This link is acknowledged in both legislation and law enforcement practice, allowing strong sanctions and effective cooperation between specialised units. Most importantly, Italy's historic struggle with organised crime means that its response to illicit trade benefits from a comprehensive body of legislation and a wide network of law enforcement agencies established to disrupt OCGs and their operations. However, challenges remain in ensuring effective cross-border information sharing, in effectively tackling corruption, and in building the intelligence picture on OCG involvement in all forms of illicit trade.

### Regulation

The tobacco industry in Italy is tightly regulated, particularly following the entry into force of Legislative Decree No. 6 of 12 January 2016, which transposes the 2014 European Tobacco Products Directive into national law.<sup>1</sup> The 2016 law lays out strict requirements for those engaged in the production, import and distribution of tobacco products, including cigarettes, HRT and e-cigarettes. Notably, it enforces a strict registration system on those looking to sell tobacco products, and prohibits online trade in tobacco.<sup>2</sup> Beyond this, it requires all traders, from manufacturers to the last economic operator before final sale, to keep accurate records of all transactions, including the entry into their possession of all tobacco products, as well as intermediate movements and sales.<sup>3</sup>

Legislative Decree No. 6 also establishes further traceability mechanisms. These include the requirement that manufacturers and importers sign data-storage contracts with independent third parties, and that all tobacco products be labelled with a unique identifier detailing the date and place of manufacture, and all purchases from manufacturers to point of sale, among

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1. 'Decreto Legislativo 12 Gennaio 2016, no. 6' ['Legislative Decree 12 January 2016, No. 6'], <<http://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2016-01-12;6>>, accessed 4 October 2017; 'Directive 2014/40/EU of the European Parliament and of the Council', *Official Journal of the European Union*, L127/1, 29 April 2014.
  2. 'Decreto Legislativo 12 Gennaio 2016, no. 6' ['Legislative Decree 12 January 2016, No. 6'], Art. 16 Tracciabilità [Article 16: Traceability].
  3. *Ibid.*



other particulars.<sup>4</sup> The law also requires that tobacco products contain visible and invisible security markings that cannot easily be tampered with.<sup>5</sup> Notably, the law also bans cross-border distance sales of tobacco products to Italian consumers.<sup>6</sup>

In the case of alcohol, the Financial Police regulates all aspects of production, whether small or large in scale. Local retailers operate under the supervision of the Prefetto, the administrative authority acting at city level under the Interior Ministry. At the same time, Italy relies heavily for regulation on the certification of alcohol products, with labelling systems mandated to specify details such as the origin of grapes, production site and identity of the producer. Here, Italy's appellation system is used extensively (DOC, DOCG), in parallel with the EU geographic indication system designating products as protected designation of origin (PDO), protected geographical indication (PGI), or traditional specialities guaranteed (TSG).<sup>7</sup> Importantly, the provision of details on geographic origin on wine labels is compulsory, and viewed as a crucial element in safeguarding supply chains.

The pharmaceutical trade is regulated by Legislative Decree 219/2006, which implements Directives 2001/83/EC and 2003/94/EC (on the community code relating to medicinal products for human use, and on good manufacturing practice for medicinal products, respectively).<sup>8</sup> The Decree covers manufacture, import and distribution, and requires that all manufacturing and packaging activities be authorised by the AIFA, which can inspect facilities, collect samples of products and view associated documentation, at any time.<sup>9</sup> Parallel imports are allowed under the Decree, providing an import marketing authorisation from the AIFA is secured and a number of other criteria are met.<sup>10</sup> In terms of distribution, the Decree again requires AIFA or EU authorisation, granted in accordance with European Medicines Agency regulations. Retail distribution is generally limited to physical pharmacies, with the sale of prescription products by online pharmacies, by email or mail order prohibited. Only non-prescription pharmaceuticals can be sold online, with the authorisation of the Ministry of Health.

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4. *Ibid.*

5. 'Decreto Legislativo 12 Gennaio 2016, no. 6' ['Legislative Degree 12 January 2016, No. 6.'], Art. 17: Caratteristica di sicurezza, [Article 17: Security Features].

6. 'Decreto Legislativo 12 Gennaio 2016, no. 6' ['Legislative Degree 12 January 2016, No. 6.'], Art. 19: Vendite a distanza transfrontaliere di prodotti del tabacco [Article 19: Cross-border distance sales of tobacco products].

7. European Commission, 'EU Agricultural Product Quality Policy', <[https://ec.europa.eu/agriculture/quality\\_en](https://ec.europa.eu/agriculture/quality_en)>, accessed 8 November 2017.

8. Alberto Mocchi et al., 'Life Sciences in Italy: Overview', Practical Law, <[https://uk.practicallaw.thomsonreuters.com/3-502-3783?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/3-502-3783?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1)>, accessed 4 October 2017.

9. *Ibid.*

10. These include, among others, showing that the product fulfils certain criteria and providing documentation in Italian proving that the product has no different therapeutic effect to those authorised in Italy or that differences do not affect quality, safety or effectiveness.

As shown in Chapter III, the effectiveness of these regulations varies. As detailed above, in some cases mechanisms to prevent the sale of illicit goods through registered retailers appear to have prevented infiltration, complicating the operations of OCGs. In others, particularly those involving alcohol and pharmaceuticals, infiltration of legal supply chains has been reported (Chapter III). Even where effective, however, it should be noted that regulation cannot prevent the supply of illicit goods through means *beyond* the regulated sector. As such, while the existence of traceability and security mechanisms for the legal supply chain is undoubtedly positive, strong action must be taken both to enforce these regulations and, in parallel, to disrupt unregulated activity.

## Law Enforcement

Within law enforcement, the role of organised crime in illicit trade is clearly recognised. As such, illicit trade is prioritised alongside other organised criminality, with an emphasis on investigating the networks behind such activity. At key entry points, authorities make regular seizures: in 2016 alone, for example, the Financial Police seized a total of 2,232,084 packages containing more than 304 tonnes of illicit whites.<sup>11</sup> Meanwhile, Italy does not operate a seizure-only system, and agencies are required to initiate subsequent investigations into the organised criminal networks involved in the offence. Where possible, financial investigation tools are used to confiscate the assets of those engaged in illicit trade – as permitted under the Italian Penal Code, as well as Legislative Decree No. 159 of 6 September 2011 (the Antimafia Code – Codice Unico Antimafia).<sup>12</sup> Such efforts appear to be made in relation to all forms of illicit trade considered in this paper; unlike in some other countries studied in this series, commodities such as alcohol appear to be prioritised alongside other forms of illicit trade. This is likely to reflect the crucial socio-economic role played by the alcohol sector in the country, within which abuse – on both a small and large scale – receives significant attention.

Overall, feedback on the response of law enforcement from a variety of public and private sector stakeholders was therefore positive. However, it is also clear that each form of illicit trade presents its own challenges, many of which lie in the constantly evolving *modus operandi* of the

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11. Agenzie delle Dogane e dei Monopoli [Customs and Monopoly Agency], 'Organizzazione, attività e statistica 2016' ['Organisation, Activities and Statistics 2016'], p. 44, <<https://www.agenziadoganemonopoli.gov.it/portale/documents/20182/536133/Finale.pdf/be930354-13d9-46b9-958b-69eb128a1869>>, accessed 16 November 2017.

12. 'Decreto legislativo 6 settembre 2011, n. 159: Codice delle leggi antimafia e delle misure di prevenzione, nonché nuove disposizioni in materia di documentazione antimafia, a norma degli articoli 1 e 2 della legge 13 agosto 2010, n. 136' ['Legislative Decree No. 159 of 6 September 2011: Code of Anti-Mafia Laws and Preventative Measures, Including New Measures Relating to Anti-Mafia Documentation, In Line with Articles 1 and 2 of Law No. 136 of 13 August 2010'], <[http://www.bosettiegatti.eu/info/norme/statali/2011\\_0159.htm](http://www.bosettiegatti.eu/info/norme/statali/2011_0159.htm)>, accessed 17 November 2017; Italian Penal Code, 'Art. 416-bis, 'Associazione di tipo mafioso' ['Mafia-Type Associations'], <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 4 October 2017.

OCGs involved. In the case of illicit tobacco, for example, the move towards ‘little and often’ smuggling, as well as the continually shifting sources and brands of illicit cigarettes found in Italy, present enforcement agencies with a range of evolving issues.

In the case of pharmaceuticals, the extensive use of the internet to sell illicit products presents further operational challenges. While law enforcement agencies monitor online outlets and close sites as soon as they are identified, these are all too rapidly re-established or replaced with new, unknown domains. Moreover, the complexity of recent cross-border cases has emphasised the need to go beyond traditional reactive enforcement activities to embrace more proactive and tailored investigative approaches. The Herceptin case, for example, showed the remarkable reach of the European illicit pharmaceutical market and the vulnerabilities of the Italian system to penetration. In dealing with such a complex, transnational case, Operation *Volcano* revealed not only the need for new verification procedures among government bodies, but also the importance of proactive, rapid and networked responses at the regional level.

Some progress in this direction has been made. During Operation *Volcano*, a restricted website for sharing black lists and ‘webinars’ were created as informal channels to allow coordination between law enforcement bodies combating the illicit pharmaceuticals trade across Europe.<sup>13</sup> The AIFA (which lacks its own enforcement capacity) has reported that such channels have made it much easier to share information with domestic and European law enforcement bodies.<sup>14</sup> But more such mechanisms are needed: despite its innovations, Operation *Volcano* also demonstrated the limitations in existing cross-border systems in terms of the speed required to respond effectively to theft and fraud.<sup>15</sup> Particularly when it comes to pharmaceuticals sold in transit or over the internet, it is increasingly clear that effective law enforcement responses are required in days not weeks.

At a domestic level, significant effort has gone into ensuring inter-agency cooperation in responding to illicit trade. Such cooperation is embodied in the NAS: as a joint Carabinieri–AIFA initiative, the unit’s innovative structure and contribution to date have given it a leadership role within the European law enforcement framework and have made it a point of reference across the EU. Specialised taskforces further strengthen cooperation: an example is IMPACT Italia, a multiagency taskforce set up to combat the illicit pharmaceuticals trade across Italy. The taskforce is made up of representatives from The AIFA, NAS, the Ministry of Health and Istituto Superiore di Sanità.<sup>16</sup> In its efforts to detect and intercept illicit medicines, the taskforce also cooperates with other government institutions, such as the Customs and Monopoly Agency, as well as the private sector.

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13. AIFA, ‘Operation Volcano: The Herceptin Case: Story, Lesson Learned, Proposals’, 2015.

14. *Ibid.*

15. *Ibid.*

16. AIFA, ‘Falsified, Illegal and Stolen Medicines’, <<http://www.aifa.gov.it/en/content/falsified-illegal-and-stolen-medicines-0>>, accessed 28 November 2017.

In the fight against illicit trade, such public–private cooperation is crucial. Here, a positive role has at times been played by national industry bodies: IMPACT Italia, for example, has cooperated with Farindustria (an association of around 200 pharmaceutical companies); Assogenerici (Associazione Nazionale Industrie Farmaci Generici e Biosimilari, which represents over 50 pharmaceutical companies), Federfarma (Federazione Nazionale Unitaria Titolari di Farmacia – the National Pharmacies’ Association, which represents over 16,000 private pharmacies) and the Associazione degli Importatori Paralleli (Association of Parallel Importers).<sup>17</sup> With regard to illicit alcohol, Italian authorities have worked on investigations with the Italian Federation of Industrial Producers, Exporters and Importers of Wines, Sparkling Wines, Aperitifs, Spirits, Syrups and Vinegar (Federazione Italiana Industriali Produttori, Esportatori ed Importatori di Vini, Vini Spumanti, Aperitivi, Acquaviti, Liquori, Sciroppi, Aceti e Affini – Federvini).<sup>18</sup> In terms of the illicit tobacco, public–private cooperation is also developing, and has seen the DNA cooperate with both industry bodies and tobacco companies in a number of cases. Notably, a joint effort between the Observatory of the Customs and Monopoly Agency (Osservatorio dell’Agenzia delle Dogane e dei Monopoli), Financial Police, Ministry of Economic Development, Italian Tobacco Federation and a number of private tobacco companies has seen the creation of an Observatory on Illicit Trade in Tobacco Products (Osservatorio per la lotta al contrabbando e alla contraffazione di tabacchi lavorati) in Padua, Veneto.<sup>19</sup> The Observatory aims to provide analytical support to the development of strategies to combat the illicit cigarette trade, as well as facilitate debates on the revision of current legislation.<sup>20</sup>

Given the transnational nature of illicit trade, responses are also bolstered by participation in joint international initiatives. At the European level, though a range of challenges to effective cooperation remain, Italian agencies support a range of cross-border operations. As noted, these include Interpol’s Operation *Pangea* in relation to the illicit trade in pharmaceuticals,<sup>21</sup> and Operation *Opson* in relation to the illicit trade in food and alcohol.<sup>22</sup> Beyond this, Italy engages actively with the European Anti-Fraud Office (OLAF) as one of the most active contributors of information of potential investigative interest.<sup>23</sup> In 2016, for example, of all member states,

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17. AIFA and IMPACT Italia, ‘IMPACT Italia’, <[http://www.agenziafarmaco.gov.it/allegati/presentazione\\_forum\\_pa.ppt](http://www.agenziafarmaco.gov.it/allegati/presentazione_forum_pa.ppt)>, accessed 8 November 2017.

18. For more information, see <<http://www.federvini.it/index.php/en/federation/objectives>>.

19. Il Giornale dell’Università di Padova [Journal of the University of Padova], ‘Lotta al contrabbando dei tabacchi: nasce l’Osservatorio nazionale’ [‘The Fight against Illicit Tobacco: A National Observatory is Created’], 18 March 2014, <<http://www.unipd.it/ilbo/content/lotta-al-contrabbando-dei-tabacchi-nasce-l%E2%80%99osservatorio-nazionale>>, accessed 16 November 2017.

20. *Ibid.*

21. Interpol, ‘Operation Pangea’, <<https://www.interpol.int/Crime-areas/Pharmaceutical-crime/Operations/Operation-Pangea>>, accessed 4 October 2017.

22. See Europol, ‘Operations: *Opson*’, <<https://www.europol.europa.eu/operations/opson>>, accessed 4 October 2017.

23. European Anti-Fraud Office, *The OLAF Report 2016* (Luxembourg: Publications Office of the European Union, 2017), p. 51.

Italy submitted the second-highest number of notifications to OLAF containing information of potential investigative interest.<sup>24</sup>

## Legislation and Sanctions

As noted, a strength of the Italian response lies in the extensive existing body of legislation designed to disrupt organised crime. Much of this dates back to the 1980s and 1990s, when a wave of terror-like attacks orchestrated by the Sicilian mafia shocked Italy into action. The response sought to address gaps in existing legislation; between 1982 and 1992, Italy introduced 114 laws, recognising the mafias as ‘a criminal phenomenon distinct from common organised delinquency’.<sup>25</sup>

Today, criminal penalties for OCG and mafia membership are applied under Article 416 and 416-bis of the Italian Penal Code.<sup>26</sup> The former defines an ‘unlawful association’ – or OCG – as existing ‘when three or more people form an association with the purpose of committing a general programme of crime’.<sup>27</sup> Meanwhile, Article 416-bis defines a ‘mafia-type unlawful association’, specifically, as one that ‘take[s] advantage of the intimidating power of the association and of the resulting conditions of submission and silence to commit criminal offences, to manage or at all events control, either directly or indirectly, economic activities, concessions, authorizations, public contracts and services, or to obtain unlawful profits or advantages for themselves or for others, or with a view to prevent or limit the freedom to vote, or to get votes for themselves or for other persons on the occasion of an election’.<sup>28</sup>

Strong penalties, as well as asset confiscation, are available under both the Italian Penal Code and the 2011 Antimafia Code.<sup>29</sup> Under Article 416 of the Penal Code, for example, participation

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24. *Ibid.*

25. Francesco Salvatore De Siena, Elena Malerba, ‘Art. 416-bis c.p. e “metodo mafioso”: l’applicabilità dell’aggravante di cui all’art. 7 L. n. 203/1991’ [‘Article 416 bis c.p. and the “Mafian Method”: The Applicability of Aggravating factors referred to in art. 7 L. n. 203/1991’], 13 April 2017, <<https://www.diritto.it/art-416-bis-c-p-e-metodo-mafioso-l-applicabilita-dell-aggravante-di-cui-all-art-7-l-n-2031991/>>, accessed 16 November 2017.

26. Francesca Ferraro, ‘Italian Legislation on Organised Crime, Corruption and Money Laundering’, Library Briefing from the Library of European Parliament, 11 October 2012.

27. Italian Penal Code, Art. 416, <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 16 November 2017.

28. Italian Penal Code, ‘Art. 416-bis, ‘Associazione di tipo mafioso’ [‘Mafia-Type Associations’], <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 4 October 2017; Guiliano Turone, ‘Legal Frameworks and Investigative Tools for Combating Organized Crime in the Italian Experience’, Resource Material Series No. 73, Appendix A, p. 64, <[http://www.unafei.or.jp/english/pdf/RS\\_No73/No73\\_10VE\\_Turone.pdf](http://www.unafei.or.jp/english/pdf/RS_No73/No73_10VE_Turone.pdf)>, accessed 4 October 2017.

29. ‘Decreto legislativo 6 settembre 2011, n. 159: Codice delle leggi antimafia e delle misure di prevenzione, nonché nuove disposizioni in materia di documentazione antimafia, a norma

in an 'unlawful association' brings penalties of one to five years' imprisonment; promotion or organisation of the association results in three to seven years' imprisonment, with increased penalties available where associations number ten or more members.<sup>30</sup> Membership of a 'mafia-type unlawful association' is punishable by seven to twelve years' imprisonment, with promotion, direction or organisation of the association punishable by nine to fourteen years.<sup>31</sup> Where 'mafia-type unlawful associations' are armed, penalties rise to seven to fifteen years' imprisonment for membership and ten to 24 years for promotion or organisation.<sup>32</sup> Involvement with 'mafia-type unlawful associations' can bring other sanctions too; for instance, the justice minister can decide that inmates who are members of mafias should be cut off from relatives, with strict restrictions on communication.<sup>33</sup> In addition, Article 416-bis allows law enforcement agencies to confiscate the capital and profits deriving from offences committed by members of 'mafia-type unlawful associations'.<sup>34</sup>

These laws and sanctions can be used alongside legislation dealing specifically with offences linked to the illicit trade in tobacco, alcohol and pharmaceuticals. Here, multiple forms of anti-counterfeiting legislation exist, from Law No. 99 of 23 July 2009 to Articles 473 and 474 of the Italian Penal Code. In relation to tobacco, some offence-specific legislation includes stronger sanctions where perpetrators are members of OCGs. An example is Decree No. 43, 23 January 1973, which in Article 291-bis provides for penalties of €5 per gram of product and imprisonment of two to five years where an individual imports, sells, transports, acquires or stores over 10 kg of smuggled foreign tobacco in the country.<sup>35</sup> However, Article 291-quater of

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degli articoli 1 e 2 della legge 13 agosto 2010, n. 136' ['Legislative Decree No. 159 of 6 September 2011: Code of Anti-Mafia Laws and Preventative Measures, Including New Measures Relating to Anti-Mafia Documentation, In Line with Articles 1 and 2 of Law No. 136 of 13 August 2010', <[http://www.bosettiegatti.eu/info/norme/statali/2011\\_0159.htm](http://www.bosettiegatti.eu/info/norme/statali/2011_0159.htm)>, accessed 17 November 2017; Italian Penal Code, 'Art. 416-bis, 'Associazione di tipo mafioso' ['Mafia-Type Associations'], <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 4 October 2017.

30. Italian Penal Code, Art. 416, <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 16 November 2017.

31. *Ibid.*

32. *Ibid.*

33. Article 41-bis of the Prison Administration Act.

34. Italian Penal Code, 'Art. 416-bis, 'Associazione di tipo mafioso' ['Mafia-Type Associations'], <[https://www.unodc.org/cld/en/legislation/ita/codice\\_penale/libro\\_secondo/article\\_416-416ter/article\\_416-416ter.html?>](https://www.unodc.org/cld/en/legislation/ita/codice_penale/libro_secondo/article_416-416ter/article_416-416ter.html?>), accessed 4 October 2017

35. 'Decreto del Presidente della Repubblica del 23/01/1973, n. 43: 'Approvazione del testo unico delle disposizioni legislative in materia doganale' ['Presidential Degree of 23 January 1973, no. 43: Adoption of the Single Act for Customs Legislation'], *Gazzetta Ufficiale* (No. 80, 28 March 1973), Article 291-bis, p. 37, <[http://www.diritto24.ilsole24ore.com/content/dam/law24/lex24/CP\\_Contrabbando.pdf](http://www.diritto24.ilsole24ore.com/content/dam/law24/lex24/CP_Contrabbando.pdf)>, accessed 28 November 2017.



the same Decree directly addresses tobacco smuggling by an OCG and increases penalties to eight years' imprisonment, or 15 years where arms are involved.<sup>36</sup>

The illicit alcohol trade is addressed in Articles 516 and 517 of the Italian Penal Code, which outline provisions relating to the counterfeiting of agro-food products and the adulteration and counterfeiting of alcohol. Article 516 covers the offence of selling non-genuine products as genuine, providing penalties of up to six months' imprisonment or fines of up to €1,032.<sup>37</sup> Article 517, meanwhile, applies to any individual who contravenes or otherwise alters the geographical indications or designations of origin of agro-food products, providing penalties of up to two years' imprisonment and fines of up to €20,000.<sup>38</sup> Smugglers, retailers and suppliers of products with counterfeit labelling or denominations face the same sanctions.<sup>39</sup>

In the case of illicit pharmaceuticals, Article 147 of Legislative Decree 219/2006 (modified by Legislative Decree No. 274/2007) provides for fines of €10,000–100,000 and for the imprisonment of legal representatives for between six months and one year where manufacturers operate without authorisation, adequate equipment or qualified personnel.<sup>40</sup> Under this article, the same penalties apply to those who import pharmaceuticals without authorisation, adequate equipment or qualified personnel.<sup>41</sup> Meanwhile, penalties for the sale of pharmaceuticals without authorisation include imprisonment of up to a year and fines of €2,000–10,000 (with penalties halving where ingredients are not toxic).<sup>42</sup>

As noted, the strength of much Italian legislation of relevance to illicit trade lies in a recognition of the link with organised crime. For exactly this reason, concerns have been raised over recent

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36. *Ibid.*, p. 39.

37. Penal Code, Art. 516 [Article 516], 'Vendita di sostanze alimentari non genuine come genuine' ['Sale of Non-Genuine Food Products as Genuine'], <[http://www.brocardi.it/codice-penale/libro-secondo/titolo-viii/capo-ii/art516.html?utm\\_source=internal&utm\\_medium=link&utm\\_campaign=articolo&utm\\_content=nav\\_art\\_prec\\_dispositivo](http://www.brocardi.it/codice-penale/libro-secondo/titolo-viii/capo-ii/art516.html?utm_source=internal&utm_medium=link&utm_campaign=articolo&utm_content=nav_art_prec_dispositivo)>, accessed 4 October 2017.

38. Penal Code, Art. 517 quater [Article 217 Quater], 'Contraffazione di indicazioni geografiche denominazioni di origine dei prodotti agroalimentari' ['Counterfeiting of Agro-Food Products of Protected Denomination'], <<http://www.brocardi.it/codice-penale/libro-secondo/titolo-viii/capo-ii/art517quater.html>>, accessed 4 October 2017.

39. *Ibid.*

40. 'Decreto Legislativo del 24 Aprile 2006, n° 219, Attuazione della Direttiva 2001/83/EC relativo al Codice Comune su Medicinali per Uso Umano' ['Legislative Decree of 24 April 2006, No. 219 on the Implementation of Directive 2001/83/EC on the Community Code on Medicinal Products for Human Use']; 'Decreto Legislativo del 29 Dicembre 2007, n° 274, Articolo 147, Disposizioni correttive al decreto legislativo 24 aprile 2006, n. 219, in Attuazione della Direttiva Europea 2001/83/EC' ['Legislative Decree of 29 December 2007, n° 274, Article 147, 'Corrective Provisions to Legislative Decree of 24 April 2006, No. 219, Implementing Directive 2001/83/EC'], <<http://www.gazzettaufficiale.it/eli/id/2008/02/14/008G0042/sg>>, accessed 28 November 2017.

41. *Ibid.*

42. *Ibid.*

moves to decriminalise certain smuggling offences. These moves were enacted as acts of so-called ‘simple smuggling’ were decriminalised through Legislative Decrees 7/2016 and 8/2016, which came into effect in February 2016.<sup>43</sup> Through these reforms, a series of criminal offences previously covered by the Penal Code and special laws (including Presidential Decrees) were transformed into administrative offences.<sup>44</sup> The result is that offences designated as ‘simple smuggling’ are now punished with administrative sanctions, namely fines of €5,000–€50,000. This does not affect cases of ‘aggravated smuggling’, for which sanctions (including fines and prison terms) have not changed. Many of these sanctions are detailed above: for the aggravated smuggling of tobacco, for example, the sanctions outlined under Decree 291/1973 are still applied. However, the reform may pose new challenges to law enforcement as OCGs adapt their methods in response; such groups have long shown their ability to concentrate on activities – such as the importation of unmarked goods – that are either not criminal offences or are only lightly penalised.<sup>45</sup>

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43. Tele Consul Notiziario, ‘Contrabbando semplice: chiarimenti sulla depenalizzazione’ [‘Simple Smuggling: Clarification on Decriminalisation’], 26 May 2016; Associazione per il Diritto Doganale [Association on Customs Law], ‘Contrabbando e depenalizzazione: i casi in cui la sottrazione di merce al pagamento di diritti di confine non costituisce più reato’ [‘Smuggling and Deregulation: Cases that No Longer Constitute Crimes’], January 2016.

44. *Ibid.*

45. Europol, ‘Situation Report on Counterfeiting in the European Union’, p.44.





## V. Analysis

**O**CGS PLAY A central role in the illicit trade in tobacco, alcohol and pharmaceuticals in Italy, with those involved ranging from local mafias to foreign OCGs. As in other countries covered in this series, many of these groups are adept at adjusting routes and methods in response to profit-making opportunities and disruptive measures, complicating the task of law enforcement. However, in responding to this situation, a clear strength of Italy's approach lies in an explicit recognition of the link between illicit trade and organised crime, which allows the full power of Italy's existing institutional and legislative anti-mafia apparatus to be deployed. Also telling is the country's willingness to create special units to tackle specific forms of illicit trade: through specialised bodies such as the NAS, Italy has in place some of Europe's most innovative technical and institutional arrangements to tackle OCGs involved in illicit trade.

However, while law enforcement agencies recognise the key role played by OCGs in illicit trade, public awareness of this link appears less consistent. This lack of clarity is illustrated by the existence of diverse perceptions of the illicit tobacco trade as a source of funding for OCGs. On the one hand, in 2013, Eurobarometer found that as many as 49% of those surveyed in Italy perceived one of the two main problems of illicit trade in cigarettes to be revenue for OCGs, well above the EU average of 35%.<sup>1</sup> On the other hand, the *importance* of this revenue stream for OCGs was considered to be lower than elsewhere in Europe: only 9% of respondents in Italy considered illicit cigarettes one of the most important sources of revenue for OCGs, fewer than in all but five other countries and lower than the 14% EU average.<sup>2</sup> In recognition of this fact, a core emphasis in the work of the Financial Police is on raising public awareness of the scale of the financing accruing from illicit trade to organised crime.

### Drivers of Illicit Trade in Italy

This consideration points to the first of four key drivers of illicit trade identified in Italy, namely the broad social acceptability of buying and selling illicit goods. This is most pronounced in illicit trade hotspots: in Naples, for instance, little social stigma is attached to illicit trade and little attempt is made to hide illicit consumption. In some cases, the persistent economic disparities between Italy's north and south come into play: in Campania, individuals involved in illicit trade may be regarded as providing a service to poorer citizens, with many quick to excuse participation on this basis. This social acceptance also substantially lowers the psychological barriers to entry into illicit trade, removing many of the negative connotations attached to other types of crime.

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1. European Commission, 'Special Eurobarometer 443: Public Perception of Illicit Tobacco Trade – Italy', July 2016, p. 4.
  2. *Ibid.*, pp. 3, 7.

A second, and related, driver is linked to the accessibility of illicit products. Again, Naples provides a clear example: the city's longstanding smuggling history ensures that a sophisticated infrastructure for distribution exists, whether for tobacco, alcohol, pharmaceuticals or any other illicit product. Sales take place openly; illicit tobacco, for example, is offered in streets and other public areas, and is advertised openly in markets and car parks. With regard to pharmaceuticals, the extensive use of online marketplaces ensures that illicit products can be accessed at a click from the comfort of a customer's home, and can even be delivered the next day.

A third driver of illicit trade relates to price differentials. These are linked to Italy's geographic location, and specifically its shared borders with both Slovenia (as a core access route from lower-priced Eastern Europe) and higher-priced northern EU markets. This position bolsters the country's role as a transit and destination hub; an average pack of cigarettes, for example, sells at €3.05 in nearby Croatia and €3.51 in neighbouring Slovenia, compared to €4.76 in Italy and significantly more in Italy's northern neighbours.

A fourth and final driver relates to corruption – a theme that has recurred throughout this paper. Given the extent of mafia infiltration of public institutions, this has historically been recognised as a challenge to tackling organised crime, with similar impacts on efforts to combat illicit trade. According to the National Anti-Corruption Authority (Autorità Nazionale Anticorruzione), this challenge remains potent: in 2016, as many as 845 corruption investigations were initiated against municipalities, healthcare facilities and public companies across Italy.<sup>3</sup> The relevance of this to illicit trade is clear: as noted, numerous public health agencies have been dismantled over mafia infiltration, with reports of healthcare facilities forced to stock illicit products.<sup>4</sup> Meanwhile, the arrests of the directors of Yesmoke and Manifattura Italiana Tabacco Spa in 2014 point clearly to the role of private sector corruption in enabling illicit trade in tobacco products.

## Key Findings

1. Data on the scale and scope of illicit trade in different commodities is patchy. As with other countries studied in this series, there is more comprehensive data available on illicit tobacco than on illicit trade in the pharmaceutical and alcohol sectors. These discrepancies in the extent of available information make it difficult to assess the comparative scale of activity, potentially influencing perceptions of the broader threat landscape. In addition, the limited intelligence picture makes trend analysis more challenging, potentially hampering the effective prioritisation of law enforcement activity.
2. OCGs involved in illicit trade in Italy operate as part of a complex, highly active and longstanding organised crime community, at the heart of which are the country's mafias.

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3. Autorità Nazionale Anti-Corruzione [National Anticorruption Authority], 'Relazione annuale' ['Annual Report'], 6 July 2017, pp. 89–90, <[https://www.anticorruzione.it/portal/rest/jcr/repository/collaboration/Digital%20Assets/anacdocs/Attivita/Pubblicazioni/RelazioniAnnuali/2017/rel.anac.2016.doc.06.07.2017\\_.pdf](https://www.anticorruzione.it/portal/rest/jcr/repository/collaboration/Digital%20Assets/anacdocs/Attivita/Pubblicazioni/RelazioniAnnuali/2017/rel.anac.2016.doc.06.07.2017_.pdf)>, accessed 28 November 2017.
  4. Riccardi, Dugato and Polizzotti, *The Theft of Medicines from Italian Hospitals*.

In this context, illicit trade depends on cooperation: while in some cases Italian mafias deal directly in illicit goods, in others foreign OCGs take the lead, forfeiting a percentage of their profits in 'tax' to the local mafia for the use of strategic areas of arrival and transit. Beyond areas dominated by the mafias, however, this influence wanes, with foreign OCGs able to exert greater control over illicit trade supply chains.

3. Italy plays several strategic roles in illicit trade supply chains. Most notably, the country acts as a core transit hub, given its position as a bridge between Eastern Europe, North Africa and the broader EU. This encourages smuggling both through sea ports and across land borders. However, Italy is also a source and destination country: for example, the theft of medicines from Italian medical facilities is a major source of pharmaceuticals smuggled across Europe. Meanwhile, the country's role in the illicit alcohol trade varies with the specific commodity in question.
4. Illicit trade in Italy is highly localised. In part, this is a function of the strong attachment of the country's mafias to their local territories, and their control over strategic areas of import and export within them. The existence of 'hotspots' in key regions is perhaps most pronounced in relation to illicit cigarettes: while illicit consumption sits at less than 5% of total consumption in many Italian regions, it accounts for a striking 33% of total consumption in Campania, and as much as 21% in Friuli-Venezia Giulia. These patterns reflect the location of two of the key hubs for illicit cigarettes entering Italy: Campania is home to the busy port of Naples, while Friuli-Venezia Giulia borders Slovenia, a core entry point for cigarettes from lower-priced Eastern Europe.
5. A strength of the Italian response to illicit trade lies in the rich body of legislation and extensive institutional architecture built up over time to disrupt organised crime activity. This experience has also benefited Italy's operational approach to illicit trade, which is characterised by strong recognition of the link to organised crime, including the mafias. However, a recent move towards the decriminalisation of some smuggling activities hints at a shift in approach; the government now treats certain illicit trade activities as administrative offences and penalises them through fines. This reform could pose new challenges to law enforcement as OCGs adapt their methods in response, to further reduce risk and minimise losses.



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