

AN ANALYSIS OF THE ILLEGAL TRADE OF ALCOHOLIC  
BEVERAGES, CIGARETTES AND TOBACCO, FUEL AND  
MOBILE PHONES IN TURKEY



A TRADITIONAL HOME-MADE (BOĞMA) RAKI BREWER IS ARRESTED AT THE SCENE OF THE  
CRIME IN POSSESSION OF AN ALEMBIC. BARTIN, 1939

BAHÇEŞEHİR UNIVERSITY CENTER FOR ECONOMIC AND SOCIAL RESEARCH  
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Bahçeşehir University Center for Economic and Social Research (Betam), a research center headquartered within Bahçeşehir University in Istanbul, Turkey, was founded in 2008. Betam conducts applied research on economic and social issues by evaluating the efficiency and success of current policies and producing policy recommendations, aiming to increase social and economic welfare. To learn more about Betam, visit: <http://betam.bahcesehir.edu.tr/en>

## Executive summary

### **About the project:**

The objective of our project is to enhance our understanding of the demand and supply side factors shaping the illegal trade of the following goods:

- smuggled and counterfeit cigarettes; unregistered tobacco trade
- smuggled and counterfeit alcohol products
- smuggled fuel and derivatives; illegally processed crude oil
- smuggled mobile phones

Our project started at 1 March 2019 and lasted 24 months. *The present report and the website dedicated to the project, <https://www.illegaltradeinturkey.info>, was funded by PMI IMPACT, a grant award initiative of Philip Morris International (“PMI”). In the performance of its research, Betam maintained full independence from PMI. The views and opinions expressed in this document are those of Betam and do not necessarily reflect the views of PMI. Responsibility for the information and views expressed in this report and the project website lies entirely with Betam. Neither PMI, nor any of its affiliates, nor person acting on their behalf may be held responsible for any use which may be made of the information contained herein.*

To fulfill the above objectives, we designed a field survey with consumers in 12 NUTS 1 regions of Turkey. The survey aims to understand the motivation behind demand for illegal products. More specifically, we compared consumers not preferring illegally traded goods and consumers consciously preferring these goods. The field survey was conducted between December 2, 2019 and 11 March 2020. In total, 4,924 survey interviews were completed in the 12 NUTS 1 regions

We also realized in-depth interviews with experts and various stakeholders to understand the spatial and organizational structure of supply in the illegal trade: how smuggled and counterfeit goods reach the “market”, how and where they are sold and finally what types of networks are used for the distribution of these illegal goods. In-depth interviews with business associations, law enforcement officers, lawyers, retailers, etc. allowed us to analyze production, marketing and the organization of illegal trade networks. The in-depth interviews started on 14 November 2019 and

were completed on 23 February 2020. Overall, 228 interviews were conducted in 22 provinces distributed across 12 NUTS 1 regions.

We created an interactive website to share a rich set of information obtained during our project. The first set of information comes from freely available reports of Customs Enforcement and Anti-Smuggling and Organized Crime Department (KOM) of national police. We visualized seized amounts of smuggled and counterfeit goods for each product under consideration by 12 NUTS 1 regions in Turkey. The second set of information comes from 4924 surveys with consumers. We compare consumers of legal and illegal products in each NUTS 1 region of Turkey and visualize differences between them in terms of education, gender, income, household size, age, and gender composition on a Turkish map. The third set of information comes from 228 in-depth interviews with consumers and stakeholders/experts/officials. We visualize findings on factors shaping the supply and demand of illegal trade in each NUTS 1 region in a user-friendly way.

By combining quantitative findings of the field survey with qualitative findings obtained from the in-depth interviews with consumers, experts, and various stakeholders we derived policy recommendations about public policies, legislative regulations and awareness raising. Some lessons learned and policy recommendations can be summarized as follows.

**General remarks:**

Illegal trade is very common and to some extent “tolerated” in Turkey. There are various factors feeding this “tolerant view” regarding illegal trade that stimulates demand for and supply of illegal trade. The survey and in-depth interviews put especially 3 factors forward that nourish both supply and demand.

- Higher taxes that increase prices of legal goods create a demand for illegal goods because, in the eyes of consumers, illegal goods are substitutes (although imperfect) for legal goods. And they do not want to bear large price differences for relatively small quality differences. So, it is not surprising that when prices of legal ones skyrocket, especially poor consumers have no other choice than preferring illegal products. Consumers use these high prices of legal goods to legitimize their preference for illegal products. This view is widespread in Turkish society, even among security officers.

- At the same time, higher taxes that increase prices of legal goods stimulates supply of illegal goods because large price differentials between legal and illegal goods create an opportunity for making profits. If the number of poor households or unemployed individuals is high in border regions, one should expect all kinds of illegal trade activities. This is the case of regions bordering Syria, Irak, Iran, Georgia, Bulgaria, and the Turkish Republic of Northern Cyprus where large number of people are involved in illegal trade activities to make a living.
- Because of historical reasons and geographic location of Turkey, cross-border trade and smuggling has always been important in Turkey. Particularly, smuggling from Syria and Northern Iraq is a historically well-established activity for the Kurdish population living in the Southeastern Anatolia and having family relations on both sides of the border. Combined with poverty, such a historical background is used to justify the use of illegal trade activities as way of making a living in the region. Illegal trade has always constituted the most important income source for several families. Despite growing difficulties on the borders (like the construction of a wall), smugglers make a great effort to overcome these difficulties as their survival depends on illegal trade income.

According to the statements of several smuggled goods consumers as well as the quantitative analysis, if the price differences were not so large (around 50%, and higher in some cases) but limited to 10-20% consumers of illegal products would switch to legal goods.

The in-depth interviews with experts and various stakeholders offer information about the spatial and organizational structure of supply of illegal trade: how smuggled and counterfeit goods reach the “market”, how and where they are sold and finally the types of networks used for the distribution of these illegal goods. These interviews imply that whether small- or large-scale, all smuggling is essentially organized. At the lower levels of the smuggling networks, there are usually unskilled, less educated, unemployed, and even poor people whose main motive is to earn a living. A third party often involved in the networks are law enforcement officers. Without the help or collusion of law enforcement officers, it is not possible to make large quantity and high value illegal shipments.

The in-depth interviews with consumers of both legal and illegal products shed light on the channels and mechanisms consumers use to seek, find, and buy these illegal products. As expected, the two most important determinants for choosing illegal goods over legal equivalents are the lower price of the illegal goods and poverty. Unsurprisingly, border regions with higher rates of poverty are characterized by a higher volume of smuggling. Occasionally, some respondents stated that they prefer smuggled rolling tobacco and alcoholic drinks produced underground due to their higher quality and better flavor.

The in-depth interviews with consumers also offered insight into the motives of consumers preferring only legal goods. Health considerations and brand loyalty (through brand attachment and brand quality) seem to be important factors here. There is widespread mistrust in illegal products among consumers of legal products, who usually see illegal products as being of lower quality and/or having a worse taste or smell.

The field survey with consumers provided important insights into the motives behind the choice of legal vs illegal products. This comparison allows us to see how these two groups differ in terms of income, education, tastes, social culture, location of residence, ethnicity, and other characteristics. Women, younger individuals, rich households, and more educated individuals are less likely to choose illegal products over legal ones.

Respondents approach the issue of whether smuggling is a criminal offense or not from different perspectives based on their status and world views. Overall, there is a consensus that gun and drug trafficking is a criminal offense while opinions vary concerning other goods. Those who do not consider the smuggling of cigarettes, tobacco, alcoholic drinks, and mobile phones as a crime are mostly the people who purchase these goods.

### **Methods and routes of illegal trade:**

There are basically two kinds of smuggling networks in Turkey. The most important one with regards to smuggled quantities as well as the complexity of organization is the wholesale networks.

However, the piecemeal networks also constitute a non-negligible part of the illegal trade in Turkey.

There are several methods used in illegal wholesale smuggling. The first of them is hiding or "stashing" the goods in secret compartments or containers. The second method is issuing a "false statement" which is used for the purpose of tax fraud. Goods brought in are either declared as other products or their weight/amount is reported incorrectly. The third method that is widely used to avoid high taxes is "valuation fraud". For this method, a fake bill is issued, showing the price of the purchased goods as much lower. The fourth method is "insider sabotage" (corruption). The value of the smuggled goods at risk is so high that it is worth spending a part of the profit for the bribery.

Piecemeal (individual) smuggling, also called "ant trade" in Turkish does not need any complex organization. There are two versions of piecemeal smuggling: modern "coach smuggling" and traditional "mule smuggling". In the first version, the organizer is the coach driver who makes a deal on his own with his passengers and in the second version, the inhabitants living near the border in the Southeast carry smuggled goods on the backs of their mules. However, according to in-depth interviews in the region mule smuggling is in decline for a couple of reasons: Roboski incident, the civil war in Syria, stricter border controls.

Over the last few years, the volume of the illegal trade of tobacco products, mobile phones and fuel has been decreasing mainly due to the less-tolerant attitude and stricter legal measures taken by the government. The continuous depreciation of the Turkish Lira in the last years made the smuggling of the cigarettes and alcoholic drinks unprofitable. But on the other hand, tobacco rolling, and the production of counterfeit alcoholic drinks have increased.

There are very sharp regional differences regarding the dynamics and composition of illegal trade in Turkey. Fuel is mostly smuggled into Turkey both through the Black Sea and the Mediterranean regions. While smuggled alcohol products are mostly found in the Aegean and Mediterranean regions, smuggled cigarettes are mostly found in the Southeastern Anatolia region. For mobile phones, the distribution is relatively more homogenous.

Maritime trafficking both through the Black Sea and the Mediterranean plays an essential role in wholesale cigarette and fuel smuggling. Purchasing smuggled fuel from ships anchored off the Black Sea coast is widespread. Once brought ashore, the smuggled fuel is either sold on the spot or transferred to wholesaler intermediaries. In the Mediterranean, Aegean, and Marmara regions all kinds of goods are smuggled via the Mersin, Izmir and Istanbul ports. In these instances, undervaluing or misrepresenting the value of the goods or smuggling goods in container stashes are common practices.

### **Fight against illegal trade:**

There are important differences in the legal sanctions regarding the smuggling of the four goods studied in this project. The penalties imposed for smuggling mobile phones are relatively lighter compared to smuggling tobacco, alcoholic beverages, and fuel. Criminal Law stipulates increasing sentences for repeating offenders. For this reason, while shopkeepers, business owners, and law enforcement officers argue that initial penalties are not sufficiently discouraging, others (consumers and experts) generally feel that sentences are sufficient. For the latter group smuggling cannot be prevented by punishment if it is done due to financial imperatives. If the prices of legal goods keep rising, the smuggling will continue.

It is claimed that penalties cannot be imposed on leaders as they succeed to stay behind thick curtains. Some law enforcement officers state that punishments can only be imposed on lower-level organization members, so it does not make much sense.

Customs officials state that using informants is a good way for detecting smuggling. They say that many smugglers were caught using this method and approve of giving informants monetary rewards. Therefore, they recommend continuing the reward system.

Law enforcement officers suggest that the customs, police, gendarmerie, and the National Intelligence Organization should work together; "inter-institutional competition," which is thought to weaken cooperation, should also be prevented. Some even go as far as suggesting that various agencies should gather under the same roof.

Smuggling networks adapt to changing circumstances very quickly. Since smuggling has become more difficult in recent years “valuation fraud” has been gaining in importance. The reasons making smuggling more difficult are (i) modular walls installed along the Syrian border and the military take-over of border security (ii) drone surveillance at borders (iii) technical improvements contribute to better surveillance of smuggled goods and a higher chance of discovering stashes during customs checks (iv) Large depreciation in Turkish Lira in recent years that rendered the smuggling of cigarettes and alcoholic drinks unprofitable.

New measures to prevent smuggling and illegal trade are constantly introduced. Recent examples include X-ray and camera monitoring in Customs areas, vehicle/vessel tracking on land and at sea, and K9 units, among others. However, as several Customs officials put it, their effectiveness is not guaranteed. Whenever a certain method of smuggling is discovered and measures against it are taken, smugglers replace it with a new one. They are always one step ahead of the law enforcement officers.

### **Recommendations:**

Even if poverty or large price differentials between legal and illegal goods can help in understanding why illegal trade is so common in Turkey, it is evident that the fight against illegal trade should continue even stronger because of loss of public tax revenue, health problems and ethical reasons. However, applying stricter punitive measures or increasing penalties will likely not be enough to fight against illegal trade. Poverty is clearly a factor shaping both the demand and supply of illegal trade. Especially, poverty in Southeast Anatolia is seen as a major factor explaining the considerable size of the smuggling activities in the region. On the one hand, it is impossible for poor individuals to purchase these goods legally. In fact, it should be admitted that there are some obstacles involved in the fight against illegal trade in Turkey. A successful policy should involve not only punitive and preventive measures but also an income support policy for poor households, incentives for firms to offer jobs in border regions and free job training programs for unemployed individuals.

Almost everybody agrees that taxes on alcoholic beverages, tobacco products, fuel and mobile phones are unreasonably high. As a result, naturally, the most frequent and strongest suggestion offered to control the demand for illegal products was for the taxes to be reduced. Indeed, many users of illegal products report that they would switch to legal products if the prices of the legal products were to decrease. So, a reduction in special consumption tax on the goods analyzed in this report is necessary to fight against illegal trade. Since revenues coming from special consumption tax is an important component of the budget, the real question is to find the optimal decrease in taxes that minimizes the loss of public tax revenue while stimulating demand of legal goods.

Certainly, illegal trade is impossible without demand for illegal goods. Therefore, some respondents insist on raising awareness to combat illegal trade. As a matter of fact, smuggled goods can be unhealthy and dangerous. The public should indeed be made aware of these risks. The respondents argue that raising awareness is primarily the duty of the state. They do not believe that bans, fines, or higher taxes will keep people from smuggling, especially for products such as cigarettes and alcoholic drinks because the problem is also about addiction. Thus, illegal trade can only be eliminated through good education, starting at a young age.

Current laws and regulations about smuggling need modification. Some possible areas of improvement are (i) increasing lower and upper limits of imprisonment; (ii) raising judicial fines; (iii) rewards for law enforcement; (iv) conditioning penalties on the quantity and the value of smuggled products; (v) implementing the confiscation of goods and earnings more effectively and efficiently; (vi) formation of a "judicial police" organization as well as "special courts" where police officers, prosecutors and judges are specialized in illegal trade crimes. Naturally, this is a sensitive subject that needs discussion with various social groups including, but not limited to, economists, jurists, politicians, businesspeople, and consumers. Such legal changes are successful only if they are done with social consensus.

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## I. Introduction

### A. Glossary of concepts and definitions

There are multiple forms of illegal trade. First and foremost, illegal trade refers to the trade of smuggled goods. These are goods that enter a country in an illegal way – that is, without paying the required customs duty. This can be accomplished either by committing fraud at customs or by smuggling goods across the border. A basic and frequently seen form of smuggling is when international passengers cross the customs borders with goods exceeding their allowance.

Secondly, illegal trade refers to counterfeit goods. These are “fake” replications of internationally recognized brands. They are usually of low quality, extremely cheap (compared to “original” prices) and produced under unknown conditions. In developing countries, where property rights are not fully enforced, counterfeits of internationally recognized brands such as Adidas and Nike are often illegally traded.

Thirdly, it may refer to goods that are produced and/or sold without paying taxes. Again, this usually occurs in developing countries, where many activities are completely or partially informal. For instance, unincorporated firms produce and/or sell goods without declaring them to avoid paying consumption and income taxes.

Unfortunately, in everyday language “smuggled goods” may refer to all forms of illegal trade: truly smuggled goods, counterfeit goods, and even informally produced goods. Especially for tobacco products, alcoholic beverages, and liquid fuel the fake products that are produced are sometimes called “smuggled” (*kaçak* in Turkish). A good example is “*kaçak rakı*”, which is produced at home, usually for personal consumption. A verbatim translation for “*kaçak rakı*” would be “smuggled *rakı*” but in many circumstances it is neither counterfeit nor smuggled. It is not counterfeit because, in Turkey, there are several national brands of rakı (a traditional Turkish alcoholic beverage), but “*kaçak rakı*” produced at home is not a fake of those brands. Moreover, it is not smuggled because it does not cross any international border. In this report, we will use “illegal trade” to refer especially to the first two meanings of illegal trade: smuggled and counterfeit goods. Since consumers are likely to use the words “smuggled”, “counterfeit” and

“illegal” interchangeably during the in-depth and survey interviews we have used the “with a tax stamp”/ “tax stamped” qualifier to refer “legal products” to avoid any ambiguity. After discussing this with our project partners and using field experience from pilot studies, we decided to use “products with a tax stamp” for legal goods and “products without a tax stamp” for illegal products when referring to tobacco products and alcoholic beverages. This clarified the terms and eliminated the possibility of misunderstanding. Products with a tax stamp are legal products for which customs and consumption taxes were paid. Products without a tax stamp are illegal products for which customs and consumption taxes have not been paid. It is illegal to sell alcoholic beverages and tobacco products that do not have a tax stamp.

In the case of alcoholic beverages, the share of homebrewed drinks has been increasing rapidly in recent years. However, since the borders are not easy to draw between personal consumption (home brewing) and trade (commercial brewing), we purposely decided to exclude home brewing in our project. Anecdotal evidence suggests that the average home brewer does not sell what they produce. Of course, there are also cases where some home brewers regularly sell their product and earn significant amounts of money. Furthermore, with rising alcohol prices, it is likely that an increasing number of “average” home brewers will convert into commercial brewers over the next few years. For the time being, since we want to focus exclusively on illegal trade, we have decided to exclude home brewing because it is difficult to separate what is made for personal consumption from the part made for sale.

Having said this, in-depth interviews reveal some interesting findings about home brewing as well. According to these interviews, home brewing is becoming increasingly widespread. Low production costs and the ability to change the flavor and alcohol volume are significant benefits of homebrew drinks. Rakı and beer are the most common homemade drinks. Additionally, producing alcohol at home for sale is skyrocketing. The sellers generally start home brewing for individual use but later begin to sell their product. The rise in taxes appears to contribute to the flourishing of this new line of business with its small retail components. These small-scale producers initially attract their immediate neighbors. Existing relations of friendship or acquaintance allow consumers to believe that they will not be sold potentially harmful products. Some respondents report that they prefer buying illegal alcoholic drinks not only because of the price gap but for

better quality and flavor. Nevertheless, safety plays an important role. Respondents prefer to buy homebrew drinks only from people they fully trust.

## B. Objectives of our project

The objective of our project is to enhance our understanding of the demand and supply side factors shaping the illegal trade of the following goods:

- smuggled and counterfeit cigarettes; unregistered tobacco trade
- smuggled and counterfeit alcohol products
- smuggled fuel and derivatives; illegally processed crude oil
- smuggled mobile phones

There are two reasons for our decision to analyze smuggled and counterfeit goods together. Firstly, as mentioned above, the boundaries between counterfeit and smuggled products are not very clear, at least to the consumers of those goods. And secondly, our preliminary research showed that smuggled products constitute only part of the illegal trade; the other significant part being counterfeit commodities.<sup>1</sup> For instance, according to the legal counsel of Mey-Diageo, almost 60% of the illegally traded alcoholic beverages are made by refilling used bottles, and the remaining 40% are imported illegally.

Our project aims to enhance the understanding of factors shaping the demand and supply aspects of the illegal trade of the selected goods and come up with concrete policy proposals likely to lead to some modifications in the existing penal legislation and taxation rules. Furthermore, the lessons learned from this project may help in the design of different activities aiming to raise awareness in Turkish society regarding the adverse consequences of illegal trade in terms of health concerns, public finances, and organized crime. The questions we would like to answer directly or help in answering are:

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<sup>1</sup> We met with the legal counsel of the biggest alcoholic beverage producer/importer of Turkey (Mey-Diageo which controls over 70% of the market), the responsible person of Philip Morris-Turkey (whose market share is above 40%), and a former expert from the Energy Market Regulatory Authority (EPDK).

- Who produces such products as the supplying party? Why and how do such suppliers produce or smuggle them into Turkey?
- Which networks are used to deliver such illegal products to the consumer?
- Why do consumers prefer such illegal products (smuggled and counterfeit) as the demanding party? How and where can they procure them?
- How does the police force fight against such illegal activities? What are the respective penalties foreseen by the applicable legal regulations? Can those penalties and their implementations ensure a deterrent function?
- What can be offered to prevent and/or lessen illegal trade?

To fulfill these objectives, we organized our projects around five components. The first component of our research project was a field survey with consumers in 12 NUTS 1 regions of Turkey. The survey aims to understand the motivation behind consumers' choices. More specifically, we compared consumers not preferring illegally traded goods and consumers consciously preferring these goods. This comparison allows us to see how these two groups differ in income, education, tastes, social culture, location of residence, ethnicity, and other characteristics. Women, younger individuals, rich households, and more educated individuals are less likely to buy illegal products. Istanbul, as the most developed and richest city in Turkey, has the highest share of illegal trade despite not being a border city. The field survey was conducted between December 2, 2019 and 11 March 2020. In total, 4,924 survey interviews were completed in the 12 NUTS 1 regions although the number initially predicted in the project application was 4,800. The number of interviews conducted per product within each region was also in accordance with our initial plan. To guarantee the quality of data collection, we conducted 41 interviews on November 19-22, 2019 in four provinces (Istanbul, Izmir, Şanlıurfa, Van) of Turkey.

The second component, the in-depth interviews with experts and various stakeholders, aims to understand the spatial and organizational structure of supply in the illegal trade: how smuggled and counterfeit goods reach the “market”, how and where they are sold and finally what types of networks are used for the distribution of these illegal goods. In-depth interviews with business associations, scholars, retired law enforcement officers, lawyers, retailers, etc. allowed us to analyze end-to-end smuggling of original or counterfeited goods and to describe production,

marketing and the organization of networks. Respondent narratives suggest that, whether small- or large-scale, all smuggling is essentially organized. The network consists of managers who organize the criminal activity as well as workers who smuggle in the goods and distribute them in the country. Respondents say that both sea and land routes are used and that large quantity and high value illegal shipments often involve law-enforcement officers. The collusion of law enforcement officers seems to be only possible explanation for the success of such methods as faulty declaration at Customs or product storage cover-up when stopped for a search during the transportation of illegal goods. The in-depth interviews started on 14 November 2019 and were completed on 23 February 2020. Overall, 228 interviews were conducted in 22 provinces distributed across 12 NUTS 1 regions. The pilot study ran from March 29 through June 28, 2019 and included in-depth interviews with 32 respondents in seven cities.

Smuggling has always been an activity that adapts to changing circumstances. We observed that methods and routes are changed to adapt to recent developments. The main developments are regional political changes and technical improvements to counter smuggling activities. Recently, the government is said to have introduced further measures to prevent smuggling. These include X-ray and camera monitoring in customs areas, vehicle/vessel tracking on land and at sea and K9 units, among others. However, several Customs officials have concerns regarding the effectiveness of such measures: “Any method we discover and take measures against, they replace it with a new one. They are always one step ahead us.” Adding “national markers” to fuel, for example, has reduced physical fuel smuggling considerably. This time, however, “allocated tax-free” fuel finds its way to the market through “billing fraud”. Even greater tax evasion can result from invoice manipulation by fuel distributing companies. Installing mobile walls along Turkey’s Syrian and Iraqi borders and bringing these areas under the control of the military largely reduced cross border smuggling. In this case, smugglers apparently responded by a novel arrangement whereby they act in concert with border stations to get goods over the wall. These and other similar examples point to the difficulty of preventing smuggling completely so long as the demands created by the price gap and low-income levels persist in the domestic market.

The third component of our project is in-depth interviews with consumers preferring illegally traded goods as well as consumers not preferring them. Using this (and other publicly available)

information, we analyzed the channels and mechanisms consumers use to search, find, and buy these illegal products. Only partial information could be obtained from the survey about the behavior of consumers. For a richer assessment, we needed in-depth interviews with some selected consumers for detailed information. Obviously the two most important determinants for the choice of illegal goods over legal ones are the lower price of illegal goods and poverty. In border regions of Eastern and Southeastern Anatolia, poverty is especially widespread due to the lack of industrial production and poor-quality agricultural land. Inhabitants of these regions work in livestock farming if they have the resources; otherwise, they participate in smuggling activities. Occasionally, some respondents stated that they prefer smuggled rolling tobacco and underground production of alcoholic drinks due to their higher quality and better flavor.

Higher prices of legal goods (due to higher Special Consumption Taxes) are used to justify the preference for illegal products. This view is widespread even among security officers. Once legitimized, it naturally follows that illegal trade is seen as unavoidable. This in turn creates a “tolerant view” of illegal trade.

For the users of legal goods health considerations and brand loyalty (due to brand attachment and brand quality) seem to be important factors. There is widespread mistrust of illegal products by consumers of legal products. According to them, illegal products are usually seen as having low quality, or bad taste or smell. The lack of warranties seems to be important in the eyes of legal product users. Some consumers report that they are worried about the possibility of supporting criminal organizations by consuming smuggled products.

The fourth component of our project is the legal advice we received from Ernst & Young (EY)-Turkey. Since we wanted our project to contribute to the fight against illegal trade, in cooperation with EY-Turkey, we decided which crimes and legislation our project is likely to have an impact on. The forms of illegal trade and related crimes that are related to our project are

- smuggling defined under Anti-Smuggling Code No.5607,
- crimes against trustworthiness and functioning of the public administration (such as corruption and bribery) defined under the Turkish Criminal Code No.5237,

- crimes committed against intellectual property rights defined under the Intellectual Property Law No. 6769,
- organized crimes and crimes related to illegal production, operation (marketing, purchasing, sales and import/export) of the targeted goods (defined under several laws such as Petroleum Market Law No.5015, Law on the Regulation of Tobacco, Tobacco Products and Alcohol Markets No. 4733, etc.)

After deciding which crimes and laws are related to our project, we asked EY-Turkey to prepare two separate mini reports. The first mini report is on the legal framework applicable in Turkey within the scope of the crime types relevant to the project with a brief historical background. From this report, we learned that there are important differences in the legal penal sanctions prescribed by law regarding the smuggling of the four types of goods studied in the project. Penalties imposed for the smuggling of mobile phones are relatively lighter compared to tobacco, alcoholic beverages, and fuel. The second mini report concerns recommendations on the amendments to be made to the current legislation or in practice or new legislative regulations which might help combat the crimes relevant to the project. The quantitative and qualitative findings of the project, especially the qualitative report by SAM, were the main inputs of this mini report. The contribution of this second mini report to our project is crucial. The main message of this second report was the need for a change in current laws and regulations related to smuggling and illegal trade. Relying on recommendations made in this report we make the following legislative recommendations:

- increasing the lowest limit of imprisonment for smuggling crimes to more than 1 year
- increasing the upper limits of judicial fines and setting a lower and deterrent limit of judicial fines
- a more efficient implementation of bonus mechanism for law enforcement and provision of legal security for denouncers
- conditioning penalties on the quantity and the value of smuggled products
- implementing the confiscation of goods and earnings more effectively and efficiently
- formation of a "judicial police" organization as well as "special courts" where police officers, prosecutors and judges are specialized in illegal trade crimes

Finally, the last component of our research project is raising awareness in Turkish society about the adverse consequences of illegal trade. For this part, we broadcasted the report during a one-day webinar where we can get feedback from various stakeholders and exchange ideas. In our project proposal, we planned a face-to-face conference, but because of the Covid-19 pandemic this conference has to be online. This report, which the final report of the project, and four research briefs (one for each of the products under consideration: cigarettes, alcoholic beverages, fuel, and mobile phone) will be published at website of Betam. Betam's research briefs reach international institutions (such as World Bank, IMF, OECD), government bodies (ministries, regulation authorities, TurkStat), academics, business associations and print and visual media. Finally, for a lasting impact, we created an interactive website which will visualize the outcomes of the project.<sup>2</sup> This will help to draw the attention of the public and the media to the issue in a non-technical way.

The website has three sets of information. The first set of information comes from freely available reports by "Directorate General of Customs Enforcement" and "Anti-Smuggling and Organized Crime Department". We visualized seized smuggled and counterfeit goods for each product under consideration by 12 NUTS 1 regions in Turkey. The second set of information comes from 4924 surveys with consumers. We compare consumers of legal and illegal products in each NUTS 1 region of Turkey and visualize differences between them in terms of education, gender, income, household size, age, and gender composition on a Turkish map. The third set of information comes from 228 in-depth interviews with consumers, experts, law enforcement officers, and businesspeople. We visualize findings on factors shaping the supply and demand of illegal trade in each NUTS 1 region in a user-friendly way.

A combined evaluation of all these components provides useful insights to reinforce the fight against illegal trade. Especially the insights obtained by in-depth interviews with consumers, experts and various stakeholders provide crucial information from which we derive policy recommendations about changes in existing penal legislation, justice procedures and attitudes. The project website <https://www.illegaltradeinturkey.info> will visualize the outcomes of the project and hopefully catch the attention of the general public regarding the actual volume and spatial distribution of illegal trade in Turkey.

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<sup>2</sup> <https://www.illegaltradeinturkey.info>

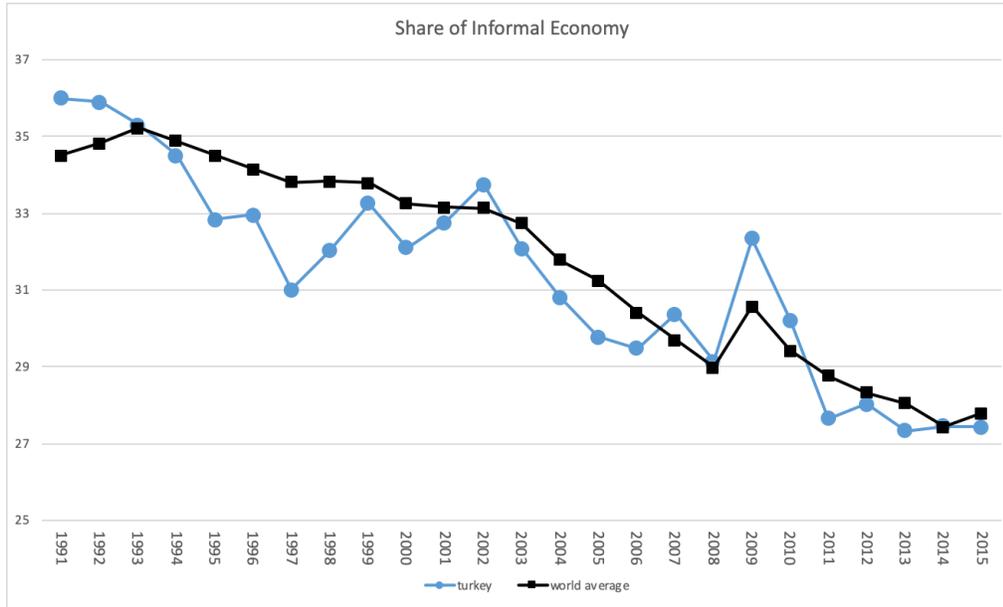
## C. Importance of the subject

### a. Illegal trade statistics

Illegal trade not only contributes to loss of public revenues and creates unfair competition, but it may also have serious impacts on public health. Furthermore, illicit money supports the underground economy. Due to these reasons, illegal trade activities are banned in all countries.

Before discussing how illegally traded goods are used in Turkey, it would be appropriate to see how Turkey compares to other countries. The evolution of an informal economy in national income in Turkey and throughout the world is demonstrated in Figure I.1. Accordingly, the share of the informal economy is decreasing in time both in Turkey and throughout the world. The share of the informal economy decreased to approximately 27% in 2015 compared to 35% in 1993. It can be observed that this downward trend continues in an almost linear manner. It has also been established that the share of illegal economic activities increases during economic crisis and the following years. The share of illegal activities only increased in 2009 throughout the world, while it increased in 1998-1999, 2001-2002 and 2009 in Turkey. The aforementioned years are crisis years for Turkey. It is interesting to note that there was no significant increase in the share of illegal activities in 1994, which was also a crisis year for Turkey, and in 1995, the following year.

**Figure I.1. Share of informal economy in Turkey and the world**



Source: Medina, L. and F. Schneider (2018). Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? IMF Working Paper 18/17.

In Turkey, counterfeit and smuggled products are widely consumed. This situation can be confirmed merely by watching the news on any media. We only selected the news about illegal trade that appeared in media with national coverage during July and August 2019.

- On August 2, 2019, 4 adults and 1 child died and 15 people were injured during a fire on a coach in Balıkesir province<sup>3</sup>. The prime cause of continuous coach fires is an illegal type of oil called “Oil No. 10”.<sup>4</sup>
- According to a news piece dated August 19, 3 tons and 280 liters of ethyl alcohol, 432 bottles of various volumes and 90 liters of counterfeit alcohol and a vast number of materials used to produce alcoholic beverages have been confiscated during an operation conducted in Adana<sup>5</sup>.
- Again, according to a news item dated August 1, a cache comprising 255 liters of counterfeit “*rakı*” (a traditional Turkish alcoholic beverage) was seized during an operation

<sup>3</sup> <http://www.hurriyet.com.tr/gundem/son-dakika-balikesirde-yolcu-otobusu-yandi-biri-cocuk-5-kisi-hayatini-kaybetti-41291739>

<sup>4</sup> <https://bianet.org/bianet/yasam/211299-otobus-yanginlarinda-bir-numarali-supheli-10-numara-yag>

<sup>5</sup> <https://www.haberturk.com/adana-da-metil-alkol-operasyonu-tonlarca-litre-2507215>

carried out by Adana Provincial Police Force – Anti-Smuggling and Organized Crimes Department teams in the Seyhan Town of Adana<sup>6</sup>.

- 1,401 bottles of smuggled and counterfeit alcohol, 10,264 empty bottles, 6 tons and 670 liters of methyl alcohol were seized, and 19 people were taken into custody during an operation organized by the police force in Istanbul between July 20 and August 6, 2019.<sup>7</sup>
- 5,800 and 3,200 packets of smuggled cigarettes were confiscated in Kahramanmaraş and Elazığ respectively on August 19, 2019.<sup>8,9</sup>
- According to the news dated July 11, 2019, 34 suspects were taken in custody during operations carried out simultaneously across 16 provinces. 4,146 telephones, a labelling machine used in copying IMEI numbers, 126 mobile phone screens, 230 batteries, 655 mobile phones, chargers, earphones, and various materials were discovered in Istanbul. It is predicted that the value of these illegal goods is approximately 3 million TL.<sup>10</sup>
- Unfortunately, counterfeit alcohol news on the media is not limited to news like the above referring to the volume of illegal trade. The deaths of dozens of people were on the news during the same time interval. According to these news items, 23 people died due to methyl alcohol poisoning in Mersin, Niğde and Osmaniye during the month of July. 17,234 liters of counterfeit alcohol, 95,859 alcohol bottles, 4,683,672 tax stamp labels and a total of 439,912 TAPDK (Tobacco and Alcohol Market Regulatory Authority) tax stamp labels and foreign tax stamp labels were seized by the Anti-Smuggling and Organized Crime Department (KOM) of the Istanbul Police Force during the first half of 2019.<sup>11</sup>

All these news items call attention to at least two consequences. First, there is a considerable volume of illegal trade in Turkey. As a result, the loss of tax revenue for the government has reached a significant sum. Second, illegal trade may have fatal consequences on human life. Therefore, it is of high priority to understand the dynamics that generate illegal trade.

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<sup>6</sup> <https://www.ntv.com.tr/turkiye/adanada-sahte-icki-operasyonu,V9eyLv8FWUyeA4L5epECAg>

<sup>7</sup> <http://www.hurriyet.com.tr/gundem/istanbulda-sahte-icki-uretilen-villalara-operasyon-cok-sayida-gozalti-41295863>

<sup>8</sup> <https://www.aksam.com.tr/yasam/elazigda-3-bin-200-paket-kacak-sigara-ele-gecirildi/haber-998801>

<sup>9</sup> <https://www.haberturk.com/kahramanmaras-haberleri/71214715-kahramanmarasta-5-bin-800-paket-kacak-sigara-ele-gecirildi>

<sup>10</sup> <http://www.hurriyet.com.tr/yerel-haberler/istanbul/merkez/16-ilde-kacak-telefon-sebekesine-operasyonu-41270729>

<sup>11</sup> <https://www.sabah.com.tr/guney/2019/07/30/sahte-icki-bilancosu-23-olum-100-bin-sise-39-tutuklu>

To understand the importance of each of the goods analyzed in the project, we will use data from the Anti-Smuggling and Organized Crime Department of Turkish National Police (hereafter KOM) and Directorate General of Customs Enforcement operating under the Ministry of Trade (hereafter CE).

### KOM Data

KOM's primary objective is to fight against the smuggling of miscellaneous products, corruption, money laundering and organized crimes and primarily against drug smuggling. Annual reports of the KOM Department can be downloaded from its website free of charge.<sup>12</sup> The final report is for 2019. These reports contain a breakdown of illegal products seized during operations performed throughout the country. KOM reports are highly comprehensive since they cover all smuggling and organized crimes. Crimes are examined under 4 titles in KOM Reports.

- Financial crimes: counterfeit money smuggling, corruption, usury, forgery, fraud, tax evasion,
- Organized crimes: mafia type crimes, weapon and ammunition smuggling
- Fight against crime revenues
- Smuggling: Fuel, mobile phones, cigarettes, alcoholic beverages, historical artefacts, medicine, and miscellaneous foods.

The KOM Department took into custody approximately 20 thousand suspects during more than 13 thousand operations in 2018 and reported similar operation and suspect numbers in 2017. To give an idea, it can be said that 42 million smuggled cigarette packets were seized during operations in 2017, and this number was more than 20 million in 2018. We have retrieved information only about the 4 products studied in our project from KOM reports. Unfortunately, information on confiscated mobile phones has only been available since 2011. There are some inconsistencies in KOM reports for the years prior to 2010. For example, the top 10 provinces have provided information for fuel, cigarettes and alcohol starting from 2004, 2005 and 2006, respectively. In addition, a breakdown based on provinces was not provided for certain years. For example, in 2009, annual total statistics have been provided in terms of fuel and cigarettes, but province

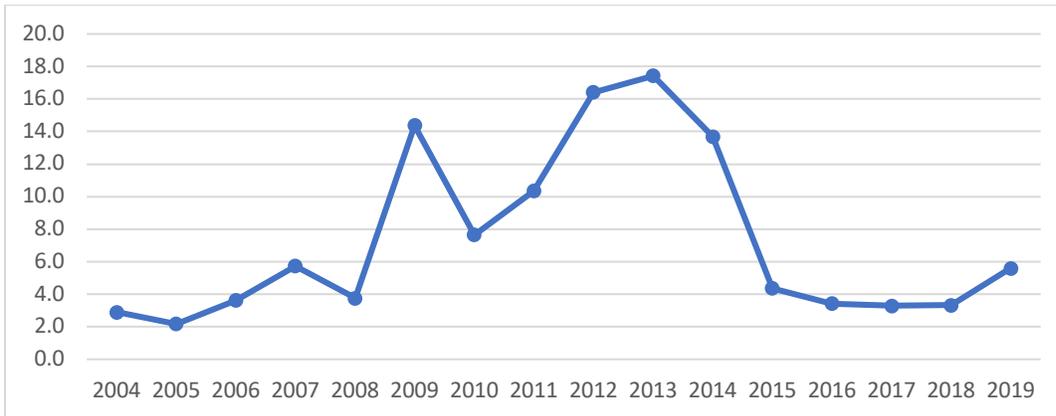
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<sup>12</sup> <https://www.egm.gov.tr/kom/raporlarimiz>

information was not included. The analysis of KOM data is limited to the 2004-2019 period due to these data restrictions. Numbers regarding amounts seized between 2004 and 2019 in terms of the four products are shown in Figures I.2-5. The following remarks can be made when the four products are evaluated collectively:

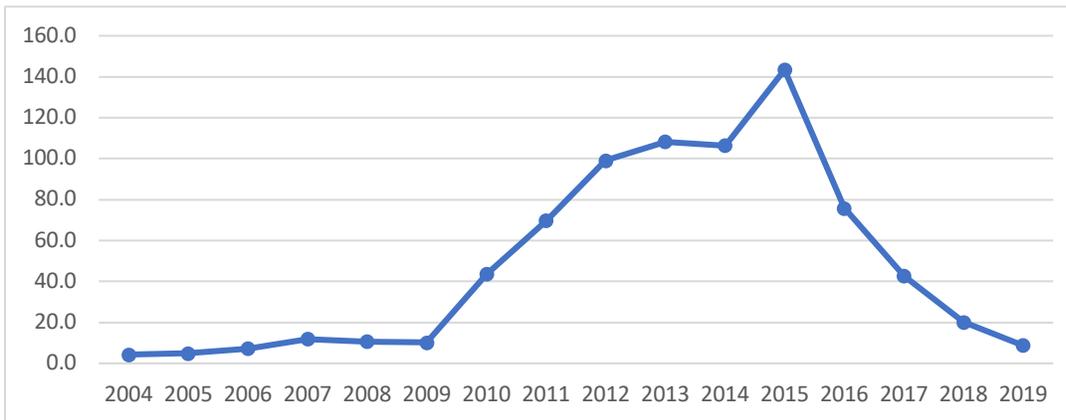
- There is a decline in terms of seizures regarding all products except for alcoholic beverages in recent years, especially after 2015.
- The most dramatic decline is in fuel. The amount of smuggled fuel declined to one fourth between 2013 and 2015 and then stayed constant in the following years. This is very likely related to the physical and military measures taken on the Syrian and Iraqi borders since the Syrian Civil War started.
- 2009 happened to be a year in which mainly alcoholic beverages and fuel smuggling cases were noted. If there is a correlation between seizures and actual amounts, it can be stated that the smuggling amount reached a peak in 2009.
- In this context, it can be said that there is a strong correlation between seized amount and actual smuggled amount. It is well known that fuel smuggling is highly difficult due to the usage of markers in legal fuel distribution.
- It is notable that the smuggled amount is increasing in terms of alcoholic beverages while declining in the other three products. The recent increase after 2016 and especially the second peak in 2018 is important. As will be seen in the next subsection on prices, this recent period was characterized by very high price increases in alcoholic beverages because of rises in the Special Consumption Tax (SCT) on alcoholic beverages.
- Cigarette and Fuel smuggling increased regularly during the 2009-2014 period, while it had been on a stagnating trend before 2009. It has declined since 2014.

**Figure I.2. Seized fuel by year (million liters)**



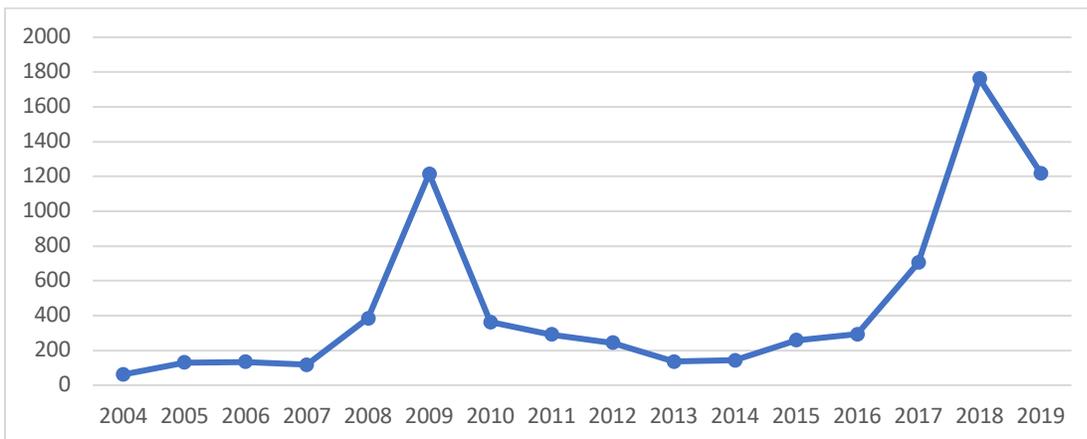
Source: KOM reports

**Figure I.3. Seized cigarettes by year (million packets)**



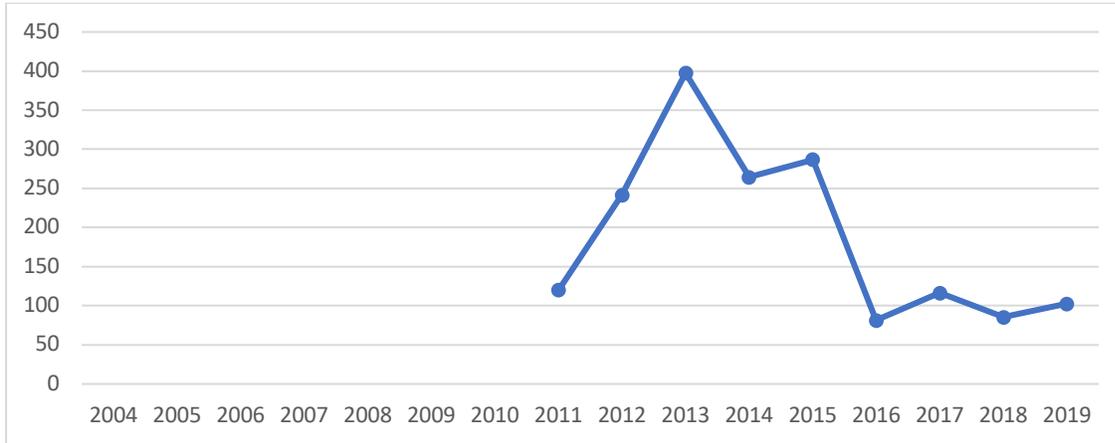
Source: KOM reports

**Figure I.4. Seized alcoholic beverages by year (1000 bottles)**



Source: KOM reports

**Figure I.5. Seized mobile phones by year (1000 items)**

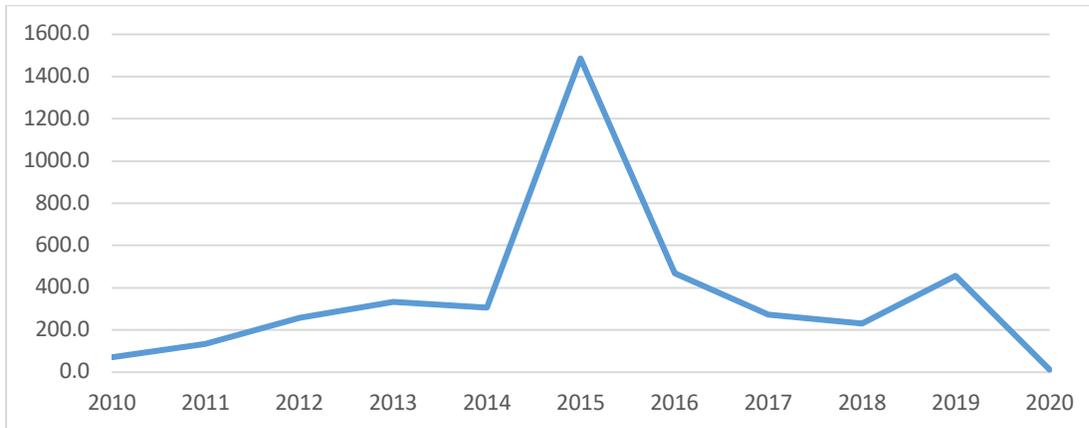


Source: KOM reports

### CE Data

CE data which we download freely from the website Directorate General of Customs Enforcement is coming from seizures made by Center and District units of the directorate.<sup>13</sup> Values of confiscated goods are in terms of Turkish Lira calculated at 2020 market prices. It should be noted that they comprise different data than illegal product amounts, which were seized by police forces and included in KOM reports.

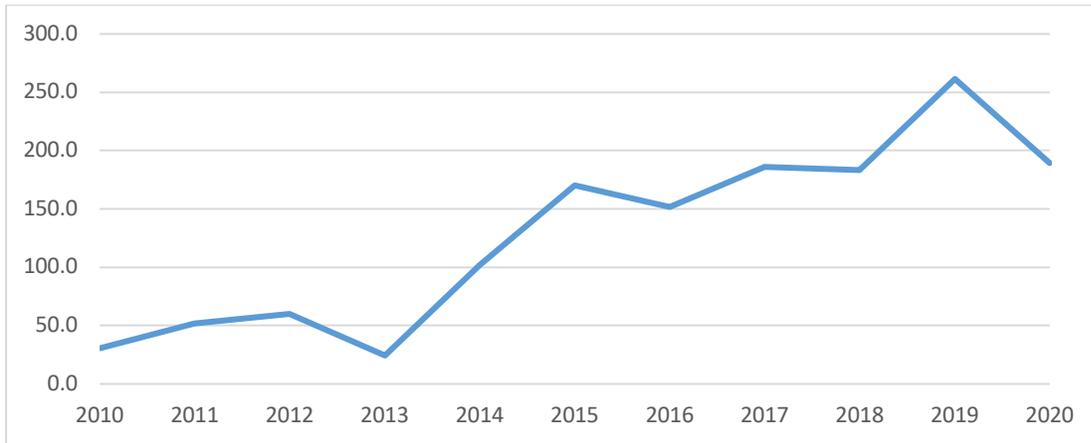
**Figure I.6. Value of confiscated fuel by year (million TL, 2020 prices)**



Source: CE reports

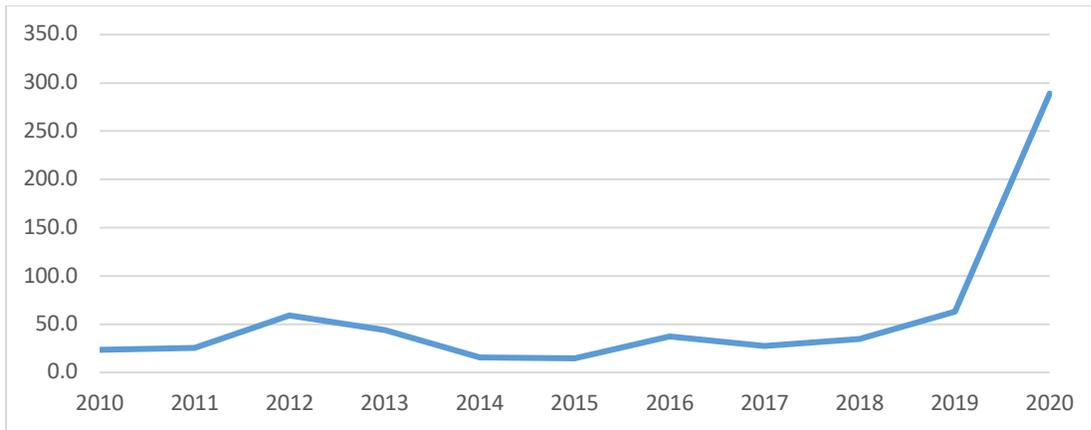
<sup>13</sup> <https://ticaret.gov.tr/istatistikler/bakanlik-istatistikleri/gumruk-istatistikleri/kacakcilikla-mucadele-verileri>

**Figure I.7. Value of confiscated cigarettes by year (million TL, 2020 prices)**



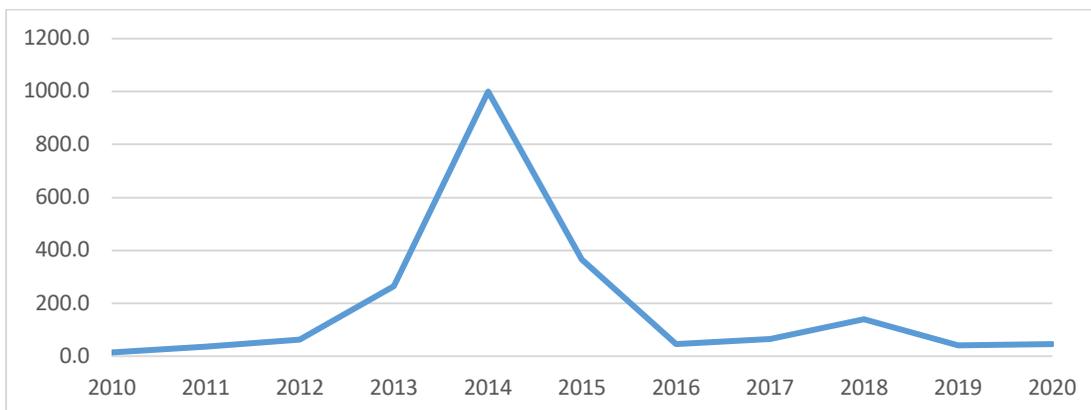
Source: CE reports

**Figure I.8. Value of confiscated alcoholic beverages by year (million TL, 2020 prices)**



Source: CE reports

**Figure I.9. Value of confiscated mobile phones by year (million TL, 2020 prices)**



Source: CE reports

The following comments can be made following an evaluation of all four products:

- According to CE data, there is no decline in seized smuggled cigarettes, which is in contradiction with the trends in the KOM reports. There is an almost regular increase as of 2010, for which data is available.
- There is an increase for alcoholic beverages in recent years as in the KOM reports. Again, the very sharp increase in recent years is very revealing about the peak in prices of alcoholic products due to hikes in the Special Consumption Tax.
- Mobile phones and Fuel seizures were very high in 2014 and 2015 respectively, which is consistent with the KOM reports.
- An increasing trend is observed in alcoholic beverages and cigarettes while a decreasing one is observed for Fuel and mobile phone seizures after 2015.

**Table I.1. Yearly shares of the four products analyzed in this research compared to total seizures (commodities and drugs) in CE reports**

	Fuel	Alcoholic Beverages	Cigarette	Mobile Phone	Total (million) 2020 TL)
2010	6.1%	2.0%	2.7%	1.2%	1,148
2011	8.7%	1.7%	3.4%	2.4%	1,528
2012	15.2%	3.5%	3.5%	3.7%	1,689
2013	14.5%	1.9%	1.1%	11.5%	2,300
2014	9.9%	0.5%	3.3%	32.5%	3,075
2015	30.7%	0.3%	3.5%	7.5%	4,844
2016	10.7%	0.8%	3.4%	1.1%	4,403
2017	7.2%	0.7%	4.9%	1.7%	3,816
2018	5.9%	0.9%	4.7%	3.6%	3,924
2019	12.8%	1.8%	7.4%	3.0%	3,555
2020	0.3%	6.6%	4.3%	1.9%	4,404
Average	12.1%	1.4%	3.4%	7.3%	

Source: CE reports

The shares of these four products out of the total customs seizures are provided in Table I.1 above. Although the share of fuel smuggling is around 12%, there are years in which it is quite low (2010, 2017 and 2018) and quite high (2015). Seizures of alcoholic beverages are 1.4% on average and do not demonstrate much fluctuation. Cigarette seizures do not demonstrate much fluctuation

either and comprise approximately 3.4% of the total. Mobile phone seizures demonstrate a high level of fluctuation over the years. The average of mobile phone seizures is 8.8% although it varies between 1.1% and 32.5%.

## b. Tax and price statistics

### Price Statistics

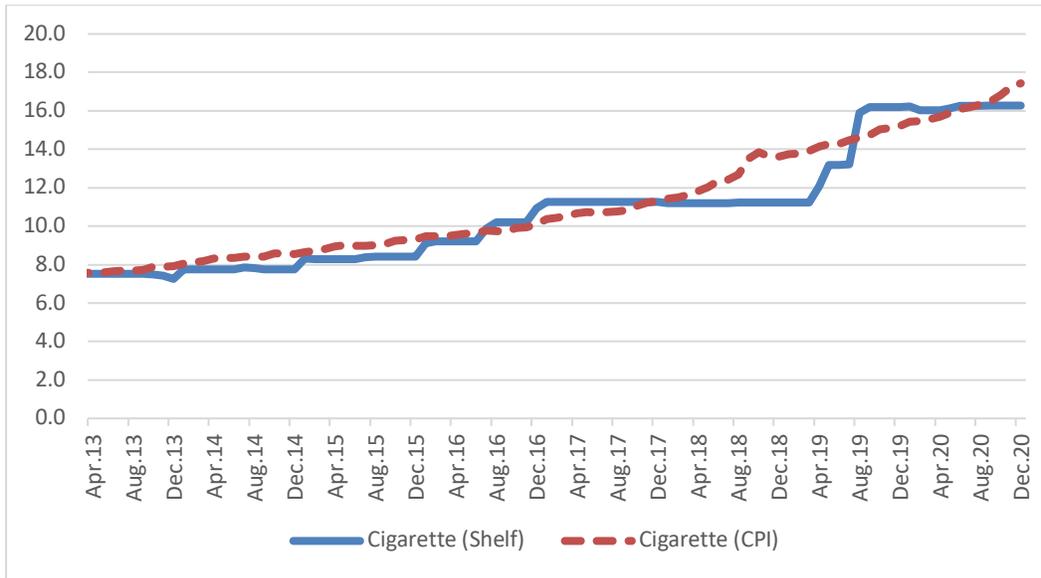
In the figures on prices (Figures I.10- I.15), the “observed prices” (blue, continuous line) are compared with the “counterfactual prices” if the product under consideration were to follow the aggregate Consumer Price Index (CPI) trend in Turkey (red, dashed line). These price statistics are obtained from Turkish Statistical Institute (TurkStat). In Figure I.10, the dashed curve of cigarette price increases is notable while the CPI is increasing almost regularly. While prices were not raised in 2014 and 2015 for only one year, cigarette prices stayed constant from the start of 2017 to January 2019 (last available data when this report is written). Instead, consecutive raises were made from 2016 to March 2017. Another notable development was that shelf prices were above the relative price curve, adjusted for inflation. In addition, the rapid price hikes due to tax increases ended as a result of the acceleration of inflation and price stagnation experienced as of 2017.

An additional tax of 4TL for each cigarette pack was charged by increasing the Special Consumption Tax (SCT) rate from 63% to 67% in early 2019 and cigarette companies increased their prices by 2TL in May 2019. A difference of 2.5TL had emerged from the beginning of year when cigarette prices increased by 2TL while the tax burden for cigarette companies increased by 4.5TL upon the additional tax increase applied in July<sup>14</sup>. This difference was eliminated by raising prices again on August 3, 2019. Therefore, the difference between observed and counterfactual cigarette prices disappeared.

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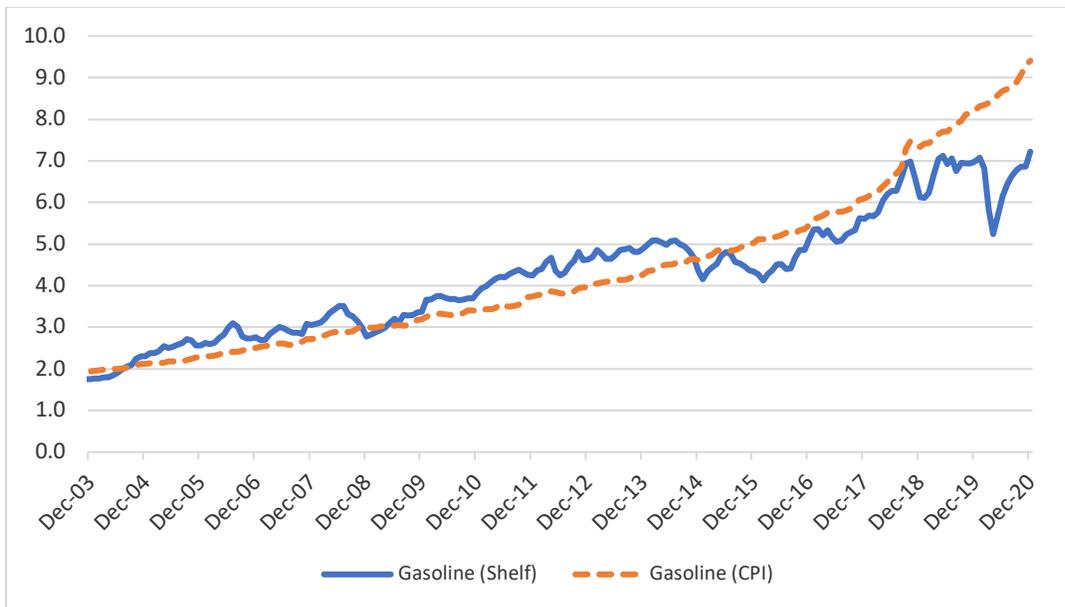
<sup>14</sup> <https://www.haberturk.com/sigaraya-liderlik-zammi-sigara-fiyatlarinda-vergi-ne-kadar-haberler-2510255-ekonomi>

**Figure I.10. Comparison of observed and counterfactual cigarette prices**



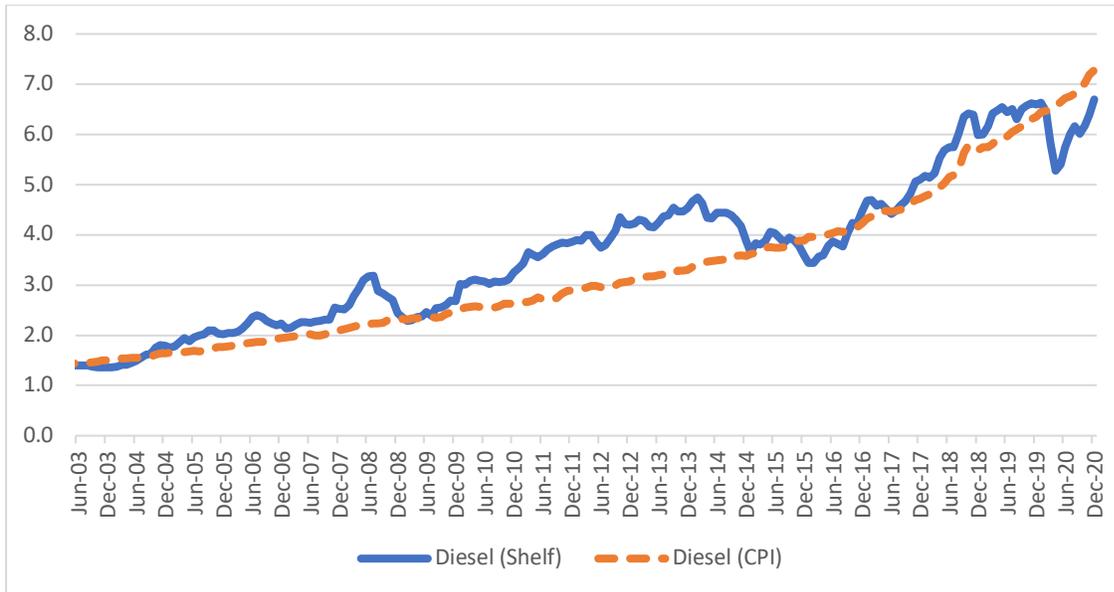
Source: TurkStat. Note: The solid line demonstrates shelf prices of cigarettes (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual cigarette prices that would be observed if cigarette prices increased as much as the CPI.

**Figure I.11. Course of observed and counterfactual gasoline prices**



Source: TurkStat. Note: The solid line demonstrates the liter price of gasoline (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual gasoline prices that would be observed if gasoline prices increased as much as the CPI.

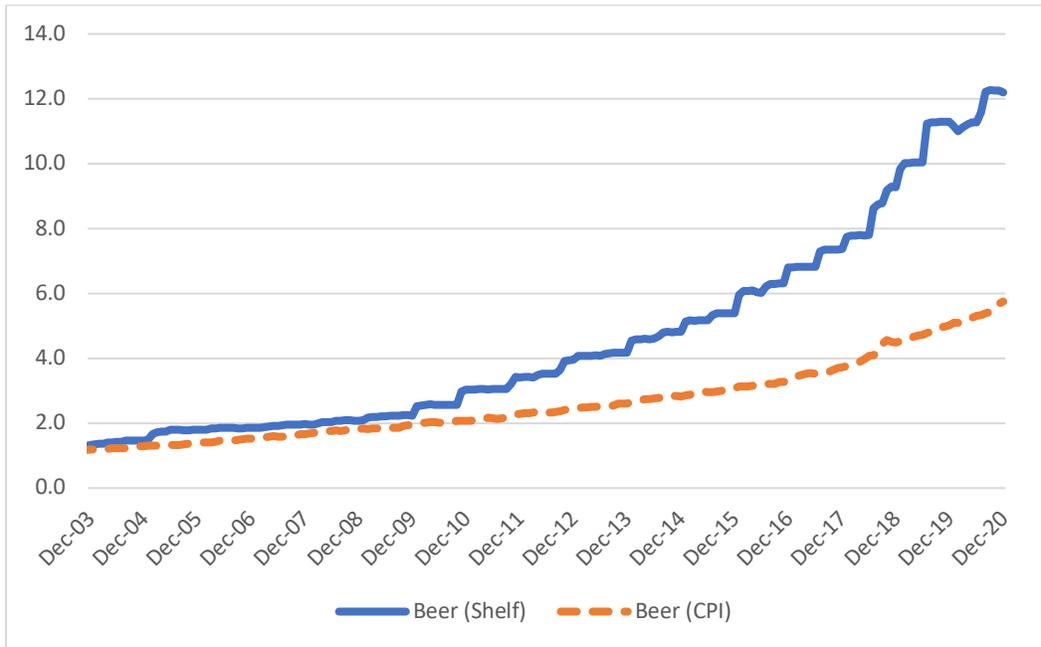
**Figure I.12. Course of observed and counterfactual diesel prices**



Source: TurkStat. Note: The solid line demonstrates the liter price of diesel (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual diesel prices that would be observed if diesel prices increased as much as the CPI.

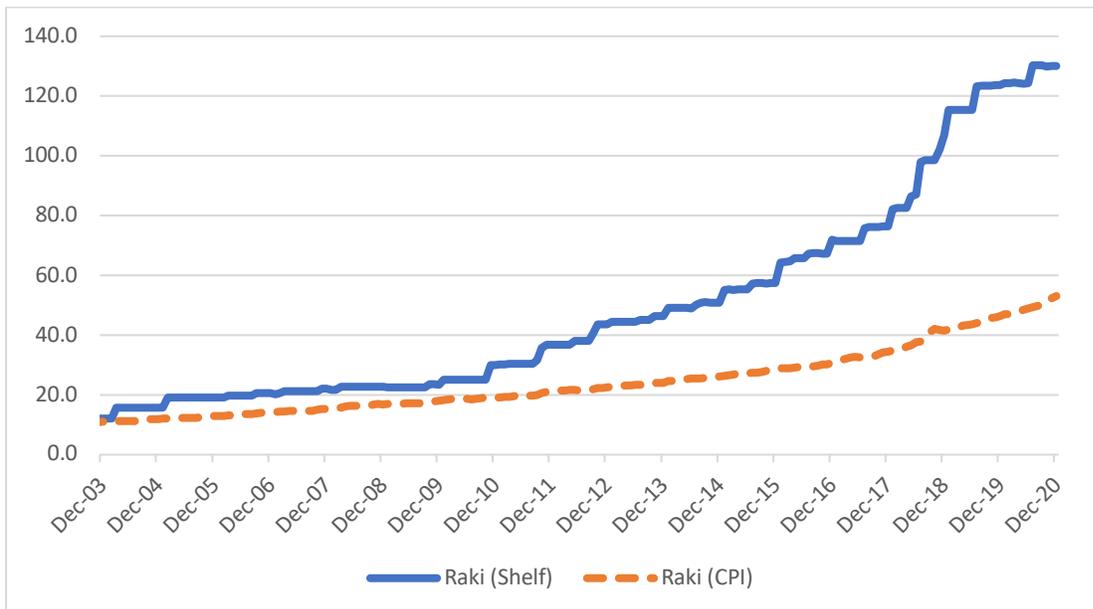
It is notable that gasoline (Figure I.11) and diesel (Figure I.12) prices tend to be higher compared to the CPI until 2015 and lower as of 2015. It is understood that the SCT adjustment policy implemented by the government in order to prevent the impact of strong FX rate increases on fuel prices, commencing as of April 2018, were highly effective for 2018 and the following periods. Otherwise, if the “increase in line with the USD rate” policy had been followed when the USD rate was increased from 4TL to 6TL in the 3-month period between May and August 2018, the impact of such a policy on fuel prices would have been a price rise of at least 50%. Another notable issue is that gasoline and diesel prices had seen almost no changes during 2015 by following an up and down course. The reason behind this was the fluctuations in international oil prices. The price per barrel of crude oil fell to 89TL in January 2016, whereas it had been over 220 TL in January 2014.

**Figure I.13. Course of observed and counterfactual beer prices**



Source: TurkStat. Note: The solid line demonstrates the shelf price of beer (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual beer prices that would be observed if beer prices increased as much as the CPI.

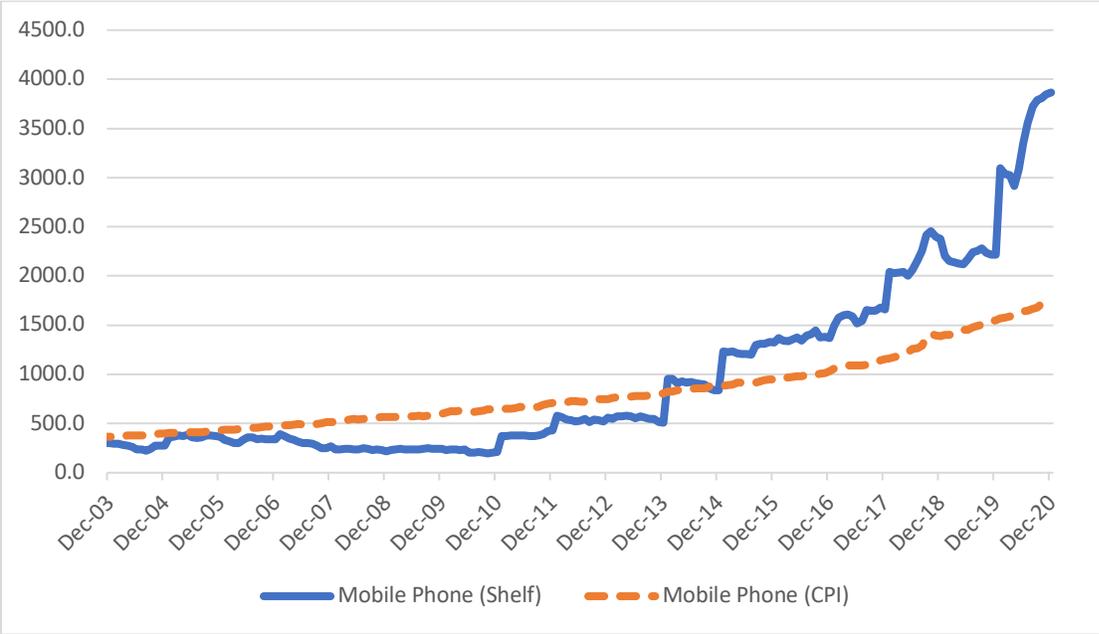
**Figure I.14. Course of observed and counterfactual Raki prices**



Source: TurkStat. Note: The solid line demonstrates the shelf price of raki (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual raki prices that would be observed if raki prices increased as much as the CPI.

It can be observed that the prices of alcoholic beverages are consistently high compared to CPI (Figure I.13 and I.14). This difference is extremely high for beer and raki, the two alcoholic products most widely consumed in Turkey. The observed price is about 2.5-fold higher than the would-be price if raki and beer prices increased as much as the CPI. It is obvious that price rises in alcoholic beverages are different from other sections of the economy. Thus, these huge amounts create greater incentives for smuggling and counterfeiting.

**Figure I.15. Course of observed and counterfactual mobile phone prices**



Source: TurkStat. Note: The solid line demonstrates the shelf price of mobile phones (TurkStat CPI basket average prices) and the dashed line demonstrates the counterfactual mobile phone prices that would be observed if mobile phone prices increased as much as the CPI.

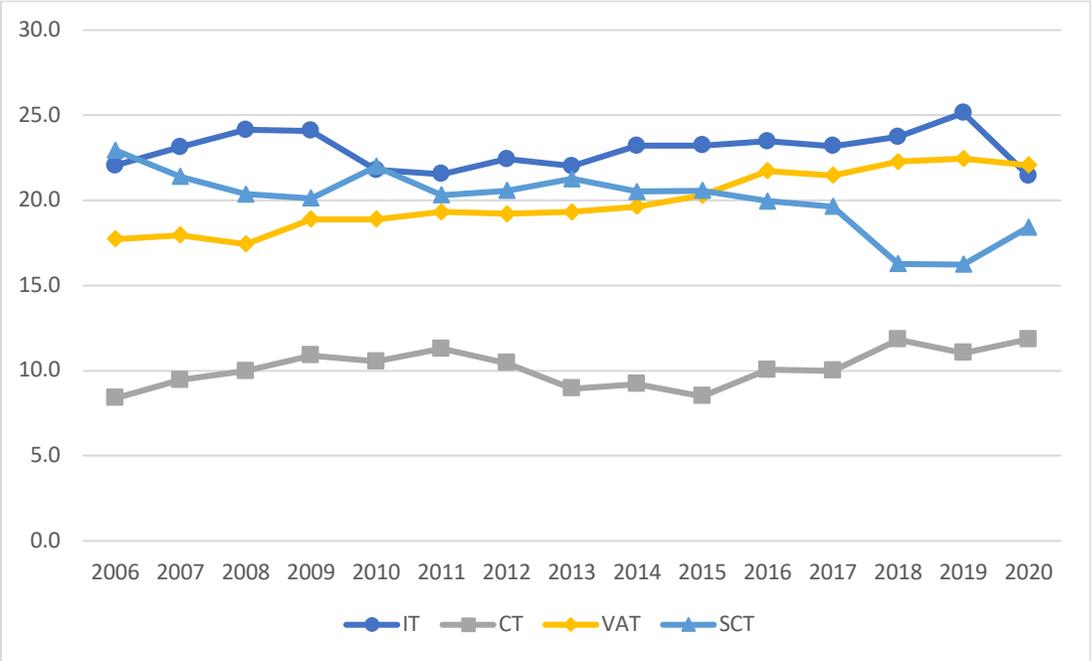
Figure I.15 compares the observed and the would-be prices of mobile phones in Turkey. It is notable that increases in mobile phone prices had remained lower than the CPI increases until 2014 and afterwards leaped forward to exceed the CPI. Again, increases in the Special Consumption Tax explain this contrast between the observed prices of mobile phones and CPI trends.

Tax Statistics

The distribution of tax revenues (Figure I.16) shows that shares of VAT and SCT are around 20% and CT and IT are around 10% and 20% respectively of the total tax revenues. During recent years

the VAT has exceeded the SCT. It has a 3% higher share than SCT and VAT on average. A significant decrease is notable for SCT. The main reason behind such a decrease is that the government waived taxes on fuel in order control fuel prices following the depreciation of the TRY against foreign currency. SCT rates were reduced for vehicles and durable consumer goods upon the economic recession that started as of the third quarter of 2017. Such support ended following the Istanbul Municipality election, which was repeated on June 23, 2019.

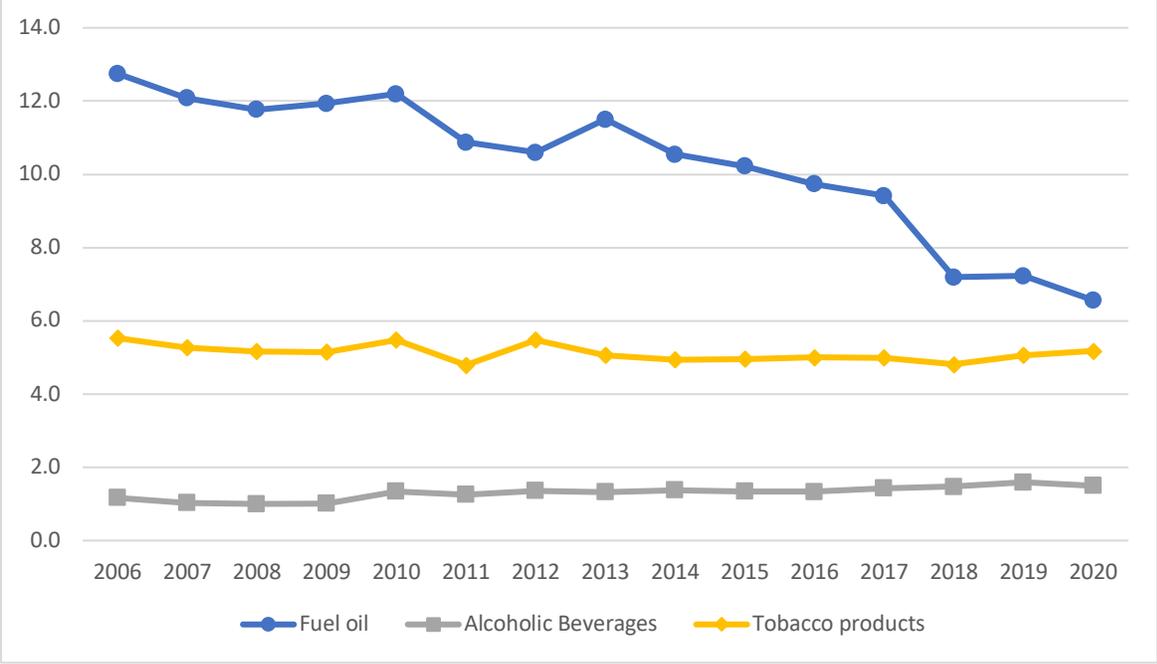
**Figure I.16. Distribution of tax revenues (%)**



Source: Turkish Revenue Administration, [https://www.gib.gov.tr/fileadmin/user\\_upload/VI/GBG1.htm](https://www.gib.gov.tr/fileadmin/user_upload/VI/GBG1.htm). Note: VAT: Value Added Tax, SCT: Special Consumption Tax, CT: Corporate Tax, IT: Income Tax

The shares of taxes levied on fuel products, tobacco products and alcoholic beverages, in comparison with total taxes are demonstrated in Figure I.17. The share of taxes collected from fuel products has almost regularly decreased since 2010. The decrease in 2018 exceeded 2% and was relatively high. The share of taxes collected from fuel products was higher than the Corporate Tax share with a rate of 10.8% (See Figure I.16). The share of taxes collected from tobacco products and alcoholic beverages has an almost horizontal course. Approximately 5% of tax revenues is collected from tobacco products, while 1.5% is collected from alcoholic beverages.

**Figure I.17. Shares in total tax revenues of taxes levied on Fuel products, tobacco products and alcoholic beverages**



Source: Turkish Revenue Administration, [https://www.gib.gov.tr/fileadmin/user\\_upload/VI/GBG1.htm](https://www.gib.gov.tr/fileadmin/user_upload/VI/GBG1.htm).

## II. Data

### A. Data collection

Our project used publicly available data on illegal trade (such as KOM annual reports and CE statistics), taxes and prices along with specific data we collected from the field for the project. To better understand the complicated dynamics shaping the supply and demand of illegal trade we planned a nationwide survey with 4,800 consumers and 200 in-depth interviews with various stakeholders (experts, law enforcement officers, shopkeepers, and consumers). To be able to see what motivates individuals to choose illegal goods, we designed the survey so that half of respondents (approximately 2400) would be illegal good consumers (“smuggled good users”) while the other half would be legal good consumers (“legal good users. Similarly, to ensure a 360-degree view of society, we included experts, law enforcement officers, shopkeepers and consumers who consume illegal goods (“illegal good users”) and consumers who consume legal goods (“legal good users”).

We planned to have 50 in-depth interviews with experts and various stakeholders and 150 in-depth interviews with consumers (100 consumers preferring illegally traded goods, 50 consumers preferring legally traded goods). Since the subject of the project is multidimensional and complicated by nature, we also planned a pilot study as the first phase, where we would perform early in-depth interviews with consumers (20) and with other stakeholders (10). The outcome of this pilot study would be used as feedback for the questionnaires to be used during the in-depth interviews that would be used later, during the second phase in-depth interviews. Originally, we predicted we would be using 3 questionnaires: one for surveying consumers, one for in-depth interviews with experts and finally one for in-depth interviews with consumers.

The field work (both surveys and in-depth interviews) was performed by our partner Sosyal Araştırmalar Merkezi (SAM). A senior Betam team member was present during these early in-depth interviews to ensure SAM was aware of Betam's priorities. After we received the early in-depth interviews, we saw that the questionnaire for the in-depth interviews with experts should be split into at least 3 separate questionnaires. We needed to formulate questions differently for each profession to collect the maximum amount of information from interviews. Discussions with our project partners and the feedback we received from the first early in-depth interviews made it clear that we would need:

- one questionnaire for law enforcement officers (customs office, police force and gendarmerie),
- one questionnaire for shopkeepers and retailers
- one questionnaire for experts (subject matter experts people like academics or journalists)

Thus, we ended up with 5 questionnaires: the above 3, a questionnaire for in-depth interviews with consumers and a questionnaire for the field survey with consumers.

The greatest challenge was the selection of consumers for the field survey, which was expected as we mentioned in our PMI Project application (Section 12. Methodology). Since we lack reliable information on the number of users of smuggled or counterfeit products in Turkey, instead of “probability sampling methods”, SAM and our team decided to use “non-proportional quota sampling”. We planned 4,800 interviews in 12 NUTS 1 regions. Since the distribution of

consumers of illegally traded goods within Turkey is not homogenous, it would not have been practical, to say the least, to perform 400 interviews in each NUTS 1 region to have 1,200 interviews for each good. Based on information from the KOM reports and the early in-depth interviews, SAM and our team decided to conduct 1,200 interviews about mobile phones and alcoholic drinks, 1,000 interviews about fuel and 1,400 interviews about cigarettes. The details of the planned surveys by NUTS 1 regions and commodities are in Table 7 in the “field report” provided with the second progress report.

For the in-depth interviews, there were no selection related problems. In each region we selected the experts, stakeholders, and consumers in such a way that the 4 product groups were covered in each NUTS 1 region. The idea was to have 4-5 interviews with experts and stakeholders in each NUTS 1 region so that the total number of in-depth interviews with experts and stakeholders is 50, as planned. Similarly, we planned 12-13 interviews with consumers of legal goods for each of 4 products so that the total number of in-depth interviews with “illegal good users” is 50. As we want to analyze illegal good users more closely, we planned around 25 interviews with consumers of illegal goods for each of 4 products so that we have 100 in-depth interviews with illegal good users. The details of the planned surveys by NUTS 1 region and commodity are given in Table 1 in the “field report” provided with the second progress report.

Both the in-depth interviews and field survey meetings went smoothly, without any major obstacles thanks to the field experience of SAM in data collection. At the end of the second phase, we had 28 more in-depth interviews (228 in total) and 124 more survey interviews than originally planned (4,924 in total). The number of interviews by product within each region was also in accordance with our initial plan, as can be seen in Table II.2. At the end, we had 80 in-depth interviews with experts and various stakeholders and 148 in-depth interviews with consumers (98 “smuggled good users” and 50 “legal good users”). Table II.2 shows the distribution of planned and actual interviews by NUTS 1 region for both survey and in-depth interviews. Table II.3 displays the distribution of in-depth interviews by goods and respondent group. Table II.4 adds regional breakdown to Table II.3. Finally, Table II.5 gives the regional distribution of survey interviews for each good.

**Table II.2. Planned and actual interviews by region**

Nuts 2 Regions	Survey interviews		In-depth interviews	
	Planned	Actual	Planned	Actual
TR1 ISTANBUL	530	567	20	26
TR2 WESTERN MARMARA	410	425	15	17
TR3 AEGEAN	410	413	16	16
TR4 EASTERN MARMARA	390	397	13	14
TR5 WESTERN ANATOLIA	390	399	15	16
TR6 MEDITERRANEAN	410	420	22	24
TR7 CENTRAL ANATOLIA	280	295	9	9
TR8 WESTERN BLACKSEA	390	393	14	15
TR9 EASTERN BLACKSEA	400	414	15	16
TRA NORTHEASTERN ANATOLIA	310	312	17	19
TRB CENTRAL EASTERN ANATOLIA	420	428	15	18
TRC SOUTH EASTERN ANATOLIA	460	461	29	38
<b>Total</b>	<b>4,800</b>	<b>4,924</b>	<b>200</b>	<b>228</b>

Not: The numbers in the table show the number of interviews per product. Actual number of unique respondents is 4,612 of which 312 provided information on a second product as well.

**Table II.3. Distribution of interviews by goods and respondent group**

	L	S	Retailers	Customs and police officers	Academics and experts	Total
Tobacco	12	33				45
Alcohol	11	20				31
Mobile phone	13	25				38
Fuel	14	20				34
All goods			29	16	35	80
<b>Total</b>	<b>50</b>	<b>98</b>	<b>29</b>	<b>16</b>	<b>35</b>	<b>228</b>

Not: L refers to “legal good users” while S refers to “smuggled good users”.

**Table II.4. Distribution of in-depth interviews by goods and regions**

Goods	Tobacco		Alcohol		Mobile phone		Fuel		All Goods			
	L	S	L	S	L	S	L	S	Retailers	Customs and police officers	Academics and experts	Total
TR1 ISTANBUL	1	2	2	2	1	2	1	1	4	3	7	26
TR2 WESTERN MARMARA	1	3	2	4			1		3	1	2	17

TR3 AEGEAN	1	2	2	2	1	1	1	1	1	1	3	16
TR4 EASTERN MARMARA	1	2	1	2	1	2	1	1	1	1	1	14
TR5 WESTERN ANATOLIA	1	2	1	2	1	1	1	1	1	2	3	16
TR6 MEDITERRANEAN	1	4		2	1	3	1	2	4	1	5	24
TR7 CENTRAL ANATOLIA	1	1			1	1	1	1	2		1	9
TR8 WESTERN BLACK SEA	1	2		2	1	2	1	1	2	1	2	15
TR9 EASTERN BLACK SEA	1	1	1	1	1	2	3	2	2	1	1	16
TRA NORTHEASTERN ANATOLIA	1	4			1	3	1	3	2	2	2	19
TRB CENTRAL EASTERN ANATOLIA		4	1	1	2	2	1	2	1	2	2	18
TRC SOUTHEASTERN ANATOLIA	2	6	1	2	2	6	1	5	6	1	6	38
Total	12	33	11	20	13	25	14	20	29	16	35	228
TOTAL	45		31		38		34		29	16	35	228

Not: L refers to “legal good users” while S refers to “smuggled good users”.

Below are the planned and actual numbers of interviews distributed by Turkey NUTS1 regions, product and nature of trade.

**Table II.5. Actual survey interviews by goods and regions**

	Tobacco		Alcohol		Mobile Phone		Fuel		Total
	L	S	L	S	L	S	L	S	
TR1 ISTANBUL	50	104	80	90	55	101	53	34	567
TR2 WESTERN MARMARA	51	62	64	73	53	43	50	30	425
TR3 AEGEAN	50	60	61	71	50	40	51	30	413
TR4 EASTERN MARMARA	49	62	60	52	55	40	50	30	397
TR5 WESTERN ANATOLIA	41	64	51	53	47	50	50	43	399
TR6 MEDITERRANEAN	49	55	67	83	49	41	44	32	420
TR7 CENTRAL ANATOLIA	53	66			55	40	45	36	295
TR8 WESTERN BLACK SEA	50	60	61	52	50	40	50	30	393
TR9 EASTERN BLACK SEA	51	61	68	51	50	41	49	43	414
TRA NORTHEASTERN ANATOLIA	50	79			50	42	50	41	312
TRB CENTRAL EASTERN ANATOLIA	52	61	57	53	52	63	50	40	428
TRC SOUTHEASTERN ANATOLIA	50	79	74	49	49	80	44	36	461
Total	596	813	643	627	615	621	586	425	4,924

Not: L refers to “legal good users” while S refers to “smuggled good users”. The numbers show number of interviews per product. Actual number of unique respondents is 4,612, of whom 312 provided information on a second product as well.

## B. Monitoring data quality

To ensure that the collected data from the survey and in-depth interviews was high quality, Betam monitored each step of the field work closely. To guarantee the quality of the survey, SAM agreed to provide a two-day training for the surveyors. SAM delivered one day of training to the surveyors in Istanbul on 12 November 2019, and another day in Ankara on 14 November 2019. One Betam team member participated in both sessions to monitor the quality of the training.

As promised in our PMI Impact project application, SAM applied certain direct control procedures in order to ensure that the final survey data was of good quality and ready to use for statistical analysis. These direct control procedures include (for details on the quality control procedures see the “Quality Control Procedures” section in the “field report”):

- “passive controls” embedded in CAPI script: The CAPI script provides interviewer instructions as well as the show/hide/skip etc. rules so that only relevant questions and response options appear for the interviewer to ask and record. Responses to closed-ended questions go directly into the data file eliminating errors in data entry
- “live controls” for simultaneous monitoring of fieldwork: All fieldwork is supervised on site. Supervisors check the street, oversee household selection and remain in observing, but not hearing, distance to avoid jeopardizing soundness.
- “post-interview controls” allowing SAM to search for unusual patterns or anomalies, inconsistent responses and extreme values.

Using all these controls SAM canceled 618 interviews. These cancelled interviews were repeated at the same sampling point, later.

A second measure to ensure high quality of collected data was to monitor closely in-depth interviews. Both the leader and the manager of the project participated several in-depth interviews in Istanbul and Ankara. The Betam team shared their observations with SAM members to provide early feedback.

A third measure to ensure data quality was having two pilot studies conducted by SAM (one for the in-depth interviews and the other for the field survey). These pilot studies preceding the field work showed us some of the shortcomings of our questionnaires and improved the implementation.

One of the most important benefits of these pilot studies was that we saw that some interviewees had difficulties answering questions involving either numbers or basic calculations. Some of the respondents, especially women and older people had trouble with numbers. To overcome this problem, we reformulated a question regarding fuel consumption. Initially, one of the survey questions was "What is your average monthly gas consumption", which we changed as "How many liters does your vehicle burn per 100 kilometers?". The pilot study for the in-depth interviews ran from March 29 through June 28, 2019 and included in-depth interviews with 32 respondents in seven cities. The pilot study for the survey consisted of 41 interviews, and was conducted in November 19-22, 2019, in four provinces (Istanbul, Izmir, Şanlıurfa, Van) in Turkey.

### C. Challenges faced during data collection

One of the greatest challenges we faced, was that the sellers (shopkeepers and retailers) of these illegally traded (counterfeit or smuggled) goods did not want to expose themselves. SAM's field experience shows that the interviewer is able discern with almost 100 % certainty whether any shopkeeper sells illegally traded goods. Given this, we decided to inquire about the practices, methods, and routes of illegally traded goods "on the market" instead of questions addressed directly to the shopkeepers interviewed. The shopkeepers mostly revealed their own practices while answering these questions.

Our second challenge was finding retired or currently working law enforcement officers in the police force and in the gendarmerie. We had no such problem with the customs enforcement officers. After the failed coup attempt in 2016, tens of thousands of soldiers and police officers were arrested and jailed. Retired and working officers in the police force and in the gendarmerie were reluctant due to these recent events and were not willing to give interviews. Thanks to the hard work of SAM and our project partners, we not only reached but exceeded the target we had set for law enforcement officers. We planned 13 interviews with customs and police officers while we conducted 16 interviews. Also, public officers had reservations about going on record. In those interviews, note-taking replaced audio recording.

### III. Demand for illegal products

In this section, we analyze the survey data and in-depth interviews with consumers. Since we have both users of legal and illegal goods, we are able to make a detailed comparison of both groups of consumers and gather insight on the determinants of demand for illegal goods. For this, we start with a set of detailed descriptive statistics to shed light on consumption patterns for legal and illegal products and to reveal the decision-making processes of consumers. In doing so, we also try to uncover the socio-economic differences between the consumers of legal products and the consumers of illegal products.

Before presenting our findings regarding legal-illegal divide, we should note some general points regarding our sample, taken as a whole, regardless of the legal-illegal divide. First, our sample is skewed towards men. This is even more pronounced for fuel and for alcohol. Second, the alcohol and fuel subsamples are somewhat older than the tobacco and mobile phone subsamples. Third, the educational distributions indicate that the respondents in the alcohol and mobile phone subsamples have higher education levels. Finally, the alcohol and fuel subsamples have higher personal and household income levels.

**Table III.1. Socio-demographic Characteristics of Respondents, by Type of Product and Legality Status**

	Tobacco		Alcohol		Fuel		Electronic		Total	
	L	I	L	I	L	I	L	I	L	I
<b>Gender</b>										
Male	66.1	82.0	87.1	92.8	85.7	97.4	51.2	82.0	72.6	87.4
Female	33.9	18.0	12.9	7.2	14.3	2.6	48.8	18.0	27.4	12.6
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>Age group</b>										
18-29	26.2	25.1	21.5	15.4	17.3	6.2	42.8	31.8	27.0	21.1
30-39	38.5	36.5	40.6	34.7	42.4	33.7	35.2	39.4	39.1	36.3
40-49	23.5	25.1	29.9	33.4	28.9	40.1	15.6	22.4	24.5	29.1
50+	11.8	13.3	8.1	16.5	11.5	20.0	6.4	6.5	9.4	13.5
<b>Observation</b>	<b>595</b>	<b>810</b>	<b>643</b>	<b>623</b>	<b>585</b>	<b>421</b>	<b>614</b>	<b>620</b>	<b>2,437</b>	<b>2,474</b>
<b>Education (1)</b>										
Less than high school	39.8	49.6	30.3	43.4	32.4	54.7	32.0	39.5	33.6	46.4
High school or more	60.2	50.4	69.7	56.6	67.6	45.3	68.0	60.6	66.4	53.6

<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>Education (2)</b>										
Less than high school	39.8	49.6	30.3	43.4	32.4	54.7	32.0	39.5	33.6	46.4
High school	43.6	43.4	48.4	44.0	42.8	38.6	50.2	46.2	46.4	43.5
More than high school	16.6	7.0	21.3	12.6	24.7	6.6	17.7	14.3	20.1	10.2
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>Income (TL)</b>										
Reported zero income	15.4	13.8	5.3	4.2	4.6	1.7	25.0	12.1	11.8	8.6
<2,000	10.4	13.1	5.6	8.6	4.6	4.7	12.2	11.9	7.9	10.1
2,000-3,000	40.4	47	42.5	44.3	29.9	30.6	32.2	49.6	36.5	43.9
3,000-4,000	21	17	24.3	25.5	34.1	31.8	19.8	18.5	25.1	22.3
4,000-5,000	9.6	6.6	11.5	12.1	16.0	17.1	7.6	6.1	11.4	9.9
>5,000	3.2	2.6	10.9	5.3	10.8	14.2	3.1	1.8	7.3	5.2
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>Mean Income</b>	2,986	2,806	3,409	3,132	3,595	3,690	2,928	2,772	3,278	3,064
<b>Median Income</b>	2,500	2,500	3,500	2,500	3,500	3,500	3,500	2,500	3,500	2,500
<b>Observation</b>	<b>504</b>	<b>701</b>	<b>609</b>	<b>601</b>	<b>559</b>	<b>415</b>	<b>461</b>	<b>546</b>	<b>2,153</b>	<b>2,270</b>
<b>Employment Status</b>										
Employed	95.9	94.5	96.9	97.9	97.9	97.8	92.4	94.2	96.0	96.0
Unemployed	4.1	5.5	3.2	2.1	2.1	2.2	7.6	5.8	4.0	4.0
<b>Observation</b>	<b>468</b>	<b>670</b>	<b>604</b>	<b>583</b>	<b>564</b>	<b>416</b>	<b>445</b>	<b>536</b>	<b>2,081</b>	<b>2,205</b>
<b>Labor Force Status</b>										
LF Participation Rate	78.5	82.4	93.9	93.0	96.3	98.6	72.4	86.3	85.3	88.8
Inactivity Rate	21.5	17.6	6.1	7.0	3.8	1.4	27.6	13.7	14.7	11.2
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>HH Income</b>										
Reported zero income	0.5	0.4	0.6	0.6	1.7	0.7	0.5	0.5	0.8	0.5
<2,000	4.0	4.8	1.3	2.7	2.1	3.1	4.2	5.5	2.9	4.2
2,000-3,000	25.2	34	17.9	21.5	13.8	19.0	24.1	32.7	20.3	28.0
3,000-4,000	19.3	21.8	16.0	20.6	23.2	27.3	23.3	16.8	20.4	21.2
4,000-5,000	20.8	18.9	21.2	22.2	19.5	18.5	18.7	18.7	20.0	19.6
5,000-6,000	13.3	10	18.0	15.6	17.4	11.4	14.0	13.7	15.7	12.6
>6000	16.9	10.2	25.0	16.7	22.4	20.1	15.3	12.2	19.9	14.0
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<b>Mean Household Income (TL)</b>	4,445	3,917	5,123	4,580	4,984	4,628	4,323	4,009	4,721	4,227
<b>Median Household Income (TL)</b>	3,500	3,500	4,500	4,500	4,500	4,500	3,500	3,500	4,500	3,500
<b>Observation</b>	<b>593</b>	<b>810</b>	<b>639</b>	<b>623</b>	<b>576</b>	<b>419</b>	<b>612</b>	<b>618</b>	<b>2,420</b>	<b>2,470</b>
<b>HH Personal Equivalent</b>	2,391	2098	2771	2520	2781	2433	2370	2132	2,579	2,270
<b>Observation</b>	<b>593</b>	<b>810</b>	<b>639</b>	<b>623</b>	<b>576</b>	<b>419</b>	<b>612</b>	<b>618</b>	<b>2,420</b>	<b>2,470</b>
<i>(HH size) (Average)</i>	3.79	3.86	3.88	3.67	3.60	3.92	3.78	3.96	3.77	3.85
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>
<i>(HH size) / (# of working</i>	2.92	3.09	2.89	2.76	2.83	3.22	2.92	3.04	2.89	3.02
<i>(# of registered workers in</i>	0.89	0.87	0.91	0.92	0.92	0.87	0.91	0.84	0.91	0.88

<b>Observation</b>	<b>582</b>	<b>797</b>	<b>632</b>	<b>615</b>	<b>582</b>	<b>418</b>	<b>604</b>	<b>614</b>	<b>2,400</b>	<b>2,444</b>
<b>Region</b>										
TR1 ISTANBUL	8.4	12.8	12.4	14.4	9.0	7.8	8.9	16.3	9.8	13.2
TR2 WESTERN	8.6	7.6	10.0	11.6	8.5	6.9	8.6	6.9	8.9	8.3
TR3 AEGEAN	8.4	7.4	9.5	11.3	8.7	7.1	8.1	6.4	8.7	8.1
TR4 EASTERN	8.2	7.6	9.3	8.3	8.5	6.9	8.9	6.4	8.8	7.4
TR5 WESTERN	6.9	7.9	7.9	8.5	8.5	10.2	7.6	8.1	7.7	8.5
TR6 MEDITERRANEAN	8.2	6.8	10.4	13.2	7.5	7.6	8.0	6.6	8.6	8.5
TR7 CENTRAL	8.9	8.1	0.0	0.0	7.7	8.5	8.9	6.4	6.3	5.7
TR8 WESTERN	8.4	7.4	9.5	8.3	8.5	7.1	8.1	6.4	8.6	7.3
TR9 EASTERN	8.6	7.5	10.6	8.1	8.4	10.2	8.1	6.6	8.9	7.9
TRA NORTHEASTERN	8.4	9.4	0.0	0.0	8.5	9.5	8.1	6.4	6.1	6.3
TRB CENTRAL EASTERN	8.7	7.9	8.9	8.5	8.5	9.7	8.5	10.5	8.6	9.0
TRC SOUTHEASTERN	8.4	9.7	11.5	7.8	7.5	8.5	8.0	12.9	8.9	9.8
<b>Observation</b>	<b>596</b>	<b>813</b>	<b>643</b>	<b>627</b>	<b>586</b>	<b>422</b>	<b>615</b>	<b>621</b>	<b>2,440</b>	<b>2,483</b>

### A. How buyers of illegal goods differ from buyers of legal goods

The demographic and socioeconomic characteristics of the respondents by the type of the product consumed and its legal status are provided in Table III.1. Here are some patterns that emerge:

- Women are underrepresented in the sample. Among the consumers of illegal products, the share of women is even lower, at 12.6%. Their share among the consumers of legal products is 27.4%. The data implies that women are more likely to purchase legal products. The data also indicates that there may be further gender differences across the products. The share of women among the fuel users and alcohol users is even lower. And within these products, women’s share among illegal users falls even further. On the other hand, note that the share of women among users of legal mobile phones increases to almost one half.
- The age distributions at the legal vs. illegal product consumption divide imply that older age groups may be more likely to consume illegal products, except for tobacco where the age distributions of legal product users and illegal product users are quite similar. Another interesting finding is that the share of young consumers preferring illegal alcoholic beverages is relatively low, compared to tobacco. One factor that may explain this is that younger individuals are more likely to consume beer, and beer is less likely to be illegal.
- The educational distributions seem to paint a similar picture. The share of individuals with higher levels of education is relatively lower among the illegal product consumers than

among the legal product consumers, indicating that lower education groups may be more likely to purchase illegal products. Consistent with the younger generations having more education, the educational distribution implies that the consumers of legal products have relatively higher education levels in the case of alcoholic beverage consumption (compared to tobacco products).

- The income distributions indicate that legal product consumers have higher levels of personal income and household income, particularly when the household income is adjusted for household size (household equivalent income). The only exception here is the fuel users. The mean personal income level of legal fuel users is lower than the mean personal income level of illegal fuel users. However, for both household income and household equivalent income, the usual pattern emerges, and the legal product consumers report higher levels. Also, note that both personal and household equivalent income levels are higher among the consumers of legal alcoholic drinks.

The regional distributions reflect important differences for legal vs. illegal product use.

- Istanbul stands out in the illegal consumption of tobacco, alcohol, and mobile phones.
- Among the users of illegal tobacco products, other regions that have relatively high shares are Western Anatolia, Central Anatolia, Northeastern Anatolia, and Southeastern Anatolia. However, separating cigarettes and rolling tobacco we see important differences (see Table 3.2 in the Betam survey report). Istanbul, Western Marmara, Western and Eastern Black Sea as well as the Northeastern and Central Eastern Anatolia have relatively higher shares of illegal cigarette consumers. These data indicate that illegal cigarette consumption is relatively higher in regions that are closer to the land borders. Note that Southeastern Anatolia is an important exception. Even though it is at the land border, it seems that the consumers there are relatively more likely to consume legal cigarettes. However, this is misleading. Reading this data with the rolling tobacco data, it is clear that in this region, the consumption of illegal tobacco is concentrated on rolling tobacco. In other words, consumers of illegal rolling tobacco are disproportionately more likely to be in this region, i.e., the Southeastern Anatolian region.
- Among the alcoholic beverage users, Istanbul, Western Marmara, Mediterranean and Aegean regions clearly have higher shares among the illegal alcoholic beverage consumers. So, in the case of alcoholic beverages, one can say that Western regions have relatively

higher shares of illegal product consumers. Note that there are no observations in Central Anatolia and Northeastern Anatolia regions.

- Among the Fuel users, Western Anatolia, Central Anatolia, Eastern Black Sea and the regions of the East have higher shares of illegal fuel consumers. The eastern and western regions are close to the border where smuggling may be easier. Central Anatolia is also in this group, although the reasons are not as clear.
- As for the mobile phone users, the regions that have relatively higher shares of illegal purchases are Istanbul, Western Anatolia, Central Eastern and Southeastern Anatolia. Again, the last two regions are located by long borders.

### B. Socio-demographic determinants of demand for illegal goods: regression analysis

To shed light on the common correlates of illegal product consumption, regressions were run on the entire sample under study. Even though the sample may not be representative of the entire population in Turkey, there is still information to be extracted concerning the correlates. In these regressions, the dependent variable is a dummy variable that takes on the value 1 if the respondent consumes illegal products, and zero if otherwise. Consistent with the dependent variable, both linear probability models and probit models are used in the econometric analysis. They provide qualitatively similar results in all cases. Details are in Table 2.4 in Betam survey report. Here, we present only the results of the linear probability model. The independent variables can be summarized in two broad categories: (1) the demographic and socioeconomic characteristics of the respondent, such as gender, age, education, and income; (2) region of residence. Table III.2 below presents partial effects and associated standard errors. Using these partial effects and standard errors we are able to say which variables have a statistically significant effect on the likelihood of a user consuming illegal products. Each coefficient should be interpreted in a “*ceteris paribus*” way (all things being equal). For instance, let us focus on a female dummy which is equal to 1 for women and 0 for men. Even if in our survey data there are differences regarding age, education, income etc. levels between men and women, the coefficient on female in Table III.2 reflects how the likelihood of consuming illegal products differ between men and women who have the same levels of age, education, income etc. The coefficient on female represents gender effects after correcting for any differences that exist in the data regarding age, education, income etc. As we already mentioned, given that our sample is not a random sample that can represent the

entire population in Turkey, we do not claim that our results can be generalized to Turkish society. But still, with the survey data we have, we are able to know which variables are positively associated with the likelihood of consuming illegal products and we think this is an important contribution as well.

Demographic and socioeconomic variables are as follows. *age*: the age categories are 18-29, 30-39, 40-49, and 50 and older. *female*: takes on the value one if the respondent is a woman. *education*: Two different sets of dummies are used in the regressions. In *education1*, there are two categories: less than high school and high school or more. In *education2*, there are three categories: less than high school, high school, more than high school. Variables on personal income and household income are also included in the model. The latter is being corrected for household size using an equivalence scale. More specifically, household income is divided by the square root of the household size.<sup>15</sup> *inactive* is a dummy variable that takes on the value 1 if the individual is not in the labor market. *unemployed* is a dummy variable that takes on the value 1 if the individual is unemployed. When both *inactive* and *unemployed* dummies are included in the regressions, the reference category is *employed*. A set of dummies for the NUTS1 regions are also included.<sup>16</sup> The regression results are provided in Table III.2. The reference category in the regressions is a male between the ages of 30 and 39, does not have a high school degree, is employed, resides in Istanbul and owns his home. The regressions presented below are obtained using a linear probability model. Our results are as follows:

- Women are significantly less likely to consume illegal goods.
- Even though age is not always a significant correlate of consuming the illegal goods under study here, a common pattern emerges. The older the individual, the more likely they are to consume illegal products.
- Education is also correlated with consuming illegal goods. The higher the education level of the consumer, the less likely are they to consume illegal goods. The effect of education

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<sup>15</sup> This is the new equivalence scale used by the OECD. The Eurostat measure requires information for the number of individuals aged 14 and below. We do not have this information in the survey.

<sup>16</sup> We also used two different types of household dependency ratios: household size / the number of working members in the household and the number of members who are working formally / the number of working members. However, none of these variables provided robust or reliable results, so we have left them out of the regressions.

may be due to the following possibilities: (1) More educated consumers may be more aware of the risks associated with illegal product use; (2) There may be income effects for which we fail to fully account, as the income variable is difficult to measure in these types of surveys.

- Neither labor market status nor personal income are significantly important correlates. However, household equivalent income is. In other words, the higher the household equivalent income, the lower the probability that the individual consumes illegal goods.
- Furthermore, being a homeowner is negatively correlated with consumption of illegal goods. Regression results indicate that individuals who are renters are significantly more likely to consume illegal goods, controlling for all other covariates.
- As for the household characteristics, household size is not a significant correlate of illegal goods consumption. Neither are the various dependency ratios considered here. Remember that one reflects the share of members in the household who hold formal jobs, and the other is a traditional dependency ratio that reflects the share of working household members.
- At the regional divide, Istanbul emerges as an important region in the consumption of illegal products. Consumers in all other regions, except for Western Anatolia, are significantly less likely to consume illegal products. Why Istanbul stands out as an outlier in this regard remains to be explored. Given that it is a huge metropolitan area, it may be about the availability of illegal products. It may also be that law enforcement finds it more difficult to rely on informal networks to identify and catch illegal product procurers. It may be easier to track and catch illegal procurers in smaller towns where informal networks are stronger.
- As another exercise, the models also include dummies for different types of illegal products, the reference category being tobacco (cigarettes and rolling tobacco). In other words, Models 3 and 4 include dummies for the type of product, i.e., alcohol, fuel, and mobile phones. The findings are robust to the inclusion of the types of goods in the regressions. Women are still significantly less likely to consume illegal goods. The probability of consuming illegal goods is higher for older age groups and lower levels of educational attainment. This pattern may partially be explained by income. Note that homeowners are less likely to consume illegal goods, further emphasizing the importance of the income channel. Furthermore, consumption of illegal goods declines with household

equivalent income. The regional differences are also parallel to the previous regressions. The regression results indicate that the probability of consuming illegal products is somewhat lower for alcohol and considerably lower for fuel when compared to tobacco products.

The Betam survey report also presents separate econometric analyses provided below for each type of product. Even though there are some minor differences across different product types, the main findings remain consistent with Table III.2.

**Table III.2. Results of the linear probability model**

VARIABLES	(1)	(2)	(3)	(4)
	LPM illegal	LPM illegal	LPM illegal	LPM illegal
<b>Type of product</b>				
Alcohol			-0.040*	-0.037*
			[0.021]	[0.021]
Fuel			-0.154***	-0.151***
			[0.022]	[0.021]
Mobile phone			0.024	0.025
			[0.020]	[0.020]
Female	-0.211***	-0.200***	-0.229***	-0.218***
	[0.020]	[0.020]	[0.020]	[0.020]
<b>Age categories (ref : age 30-39)</b>				
Age 18-29	-0.019	-0.015	-0.033*	-0.029
	[0.020]	[0.020]	[0.020]	[0.020]
Age 40-49	0.035*	0.031	0.045**	0.041**
	[0.019]	[0.019]	[0.019]	[0.019]
Age 50+	0.074***	0.070**	0.091***	0.087***
	[0.028]	[0.028]	[0.028]	[0.028]
<b>Education (ref: Less than high school)</b>				
High school and more	-0.097***		-0.094***	
	[0.017]		[0.017]	
<b>Education (ref: Less than high school)</b>				
High school		-0.078***		-0.076***
		[0.018]		[0.018]
University and more		-0.178***		-0.173***
		[0.025]		[0.024]
Unemployed	0.042	0.047	0.054	0.058
	[0.045]	[0.045]	[0.045]	[0.045]
Inactive	-0.005	-0.012	-0.017	-0.024
	[0.029]	[0.029]	[0.029]	[0.029]

Income	-0.009	-0.007	-0.002	-0.000
	[0.007]	[0.007]	[0.007]	[0.007]
<b>Home ownership ( ref: homeowner)</b>				
Renter	0.092***	0.097***	0.097***	0.102***
	[0.015]	[0.015]	[0.015]	[0.015]
Equivalent income	-0.042***	-0.034***	-0.037***	-0.029***
	[0.008]	[0.008]	[0.008]	[0.008]
dependency_ratio_a	-0.009	-0.006	-0.006	-0.003
	[0.007]	[0.007]	[0.007]	[0.007]
dependency_ratio_b		-0.030		-0.025
		[0.030]		[0.030]
Household size	-0.001	-0.004	-0.003	-0.006
	[0.006]	[0.007]	[0.007]	[0.007]
<b>Region (ref: ISTANBUL)</b>				
WESTERN MARMARA	-0.088***	-0.088***	-0.079**	-0.079**
	[0.033]	[0.033]	[0.033]	[0.033]
AEGEAN	-0.074**	-0.081**	-0.066**	-0.073**
	[0.033]	[0.033]	[0.032]	[0.032]
EASTERN MARMARA	-0.102***	-0.103***	-0.092***	-0.093***
	[0.036]	[0.036]	[0.035]	[0.035]
WESTERN ANATOLIA	-0.028	-0.027	-0.014	-0.013
	[0.033]	[0.033]	[0.033]	[0.033]
MEDITERRANEAN	-0.130***	-0.129***	-0.121***	-0.120***
	[0.034]	[0.035]	[0.034]	[0.034]
CENTRAL ANATOLIA	-0.142***	-0.142***	-0.132***	-0.131***
	[0.037]	[0.037]	[0.037]	[0.037]
WESTERN BLACKSEA	-0.164***	-0.164***	-0.156***	-0.156***
	[0.033]	[0.033]	[0.033]	[0.033]
EASTERN BLACKSEA	-0.136***	-0.135***	-0.121***	-0.120***
	[0.034]	[0.034]	[0.034]	[0.034]
NORTHEASTERN	-0.148***	-0.153***	-0.122***	-0.126***
	[0.038]	[0.039]	[0.038]	[0.038]
CENTRAL EASTERN	-0.155***	-0.153***	-0.138***	-0.137***
	[0.036]	[0.036]	[0.035]	[0.036]
SOUTHEASTERN	-0.132***	-0.131***	-0.130***	-0.128***
	[0.034]	[0.035]	[0.034]	[0.034]
R-squared	0.074	0.078	0.089	0.093

Robust standard errors in brackets

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### C. Legal vs. illegal products: Reasons behind preferences, price and income sensitivity

In the survey and in-depth interviews with consumers, we posed questions to identify the reasons why certain consumers prefer illegal goods while others do not. For all four products analyzed in

the project, price is the most important determinant. We present the sensitivity of illegal good consumption to product prices for each product respectively.

a. Tobacco products

According to the in-depth interviews with consumers, there are several reasons that trigger smuggled cigarette consumption. A low level of income and the price gap between legal and smuggled cigarettes are the most important factors affecting consumer trends. Also, we find that some respondents prefer smuggled cigarettes because they like the flavor and think the quality is better; there are even some who think smuggled cigarettes are less harmful to health. In some cases, the combination of price, flavor and quality factors determines preference. However, price is still the primary factor in illegal product consumption. Finally, a small number of high-income respondents see no point in paying more for legal tobacco products even though they can afford it.

It appears that, for most of respondents, illegal cigarettes are almost perfect substitutes for legal cigarettes. When the price difference is so large, there is no point in paying more for the same good. Some respondents say that their primary reason for buying illegal tobacco is the dramatic increase in cigarette prices. They feel “forced” to switch to tobacco since it costs about one-fourth of their preferred brand of legal cigarettes. The rapid increase in legal cigarette prices due to the increasing tax rates is seen as a sign that the government does not care about low-income groups. Apparently, this is used to legitimize smuggled cigarette consumption by these people.

We learn, from the in-depth interviews, that low-income respondents typically spend 10-20 % of their monthly income on cigarettes. The fact that some respondents “buy legal packs” when they can “find the money” also points to high prices and low-income levels as main factors. It appears that these people prefer legal cigarettes but cannot always afford them. For those who make 10,000TL a month, it is not low income but the price differential between legal and illegal cigarettes that leads to a preference for smuggled cigarettes.

Respondents were also asked about the conditions that would make them stop buying smuggled cigarettes in favor of legal ones in the in-depth interviews. The findings suggest that the demand

depends on the price/income ratio. Some respondents said they would switch to legal cigarettes if prices went down while others said they would do the same if they made more money.

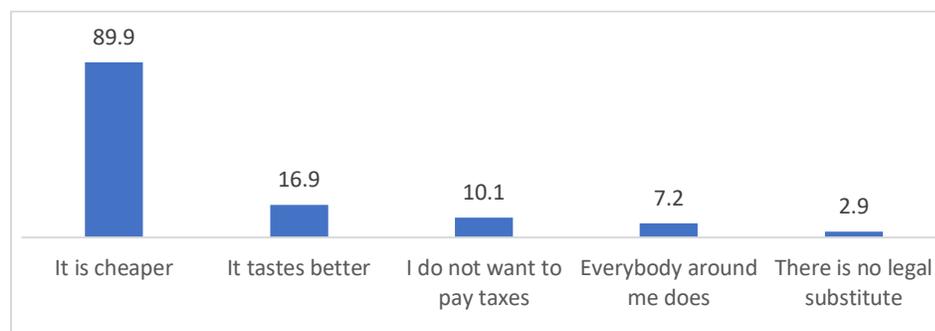
Some respondents believe that smuggled cigarettes have more negative effects on health as compared to legal ones. Among the negative consequences are throat aches, coughing, and shortness of breath. Another reason behind negative feelings towards smuggled cigarettes is that respondents do not know the origin of these cigarettes or how they are produced and stored. Such people prefer legal cigarettes.

In recent years, there has been a surge in the demand for rolling tobacco, which smokers convert into cigarettes by "rolling" or "filling". The first reason for the increase in demand for tobacco is the rising prices of legal cigarettes. Tobacco is an "imperfect substitute" for packed cigarettes. The perception that tobacco is "healthier" and "natural" is another factor for favoring it over packed cigarettes. In the in-depth interviews, the respondents say that packed cigarettes are processed products with unknown ingredients, whereas tobacco and particularly unprocessed local tobacco comes directly from the farmers to the users. In other words, it is additive-free and natural, therefore healthier. Whatever their reason for starting to smoke plain, bulk, illegal tobacco, many respondents say that they keep buying it because they like the flavor and quality. In particular, smokers who mention "satisfaction" come to find packed cigarettes light, of poor quality and flavor after they have been smoking bulk tobacco.

Tobacco for "rolling" or "filling" is on sale in the market both in tax-stamped legal and non-taxed illegal forms. Legal and illegal tobacco are sold by weight or in packs of 20 cigarettes. Selling tobacco in packs of 20 cigarettes is illegal because the production process lacks any legal permissions and is not subject to any taxation. Selling tobacco by weight may be legal or illegal depending on the nature of tobacco. Tax-stamped plain tobacco is usually produced in Turkey and sold by weight legally in shops. Illegal, non-taxed tobacco for rolling cigarettes can be smuggled from abroad or produced in Turkey. Illegally imported tobacco that is packed and labeled is widely marketed without tax stamps. Domestically produced non-tax-stamped tobacco, on the other hand, may be sold directly by farmers or through wholesalers and retailers. While all non-tax-stamped

tobacco, whether imported or locally produced, is called “smuggled” or “illegal”, the sale of local tobacco is generally not subject to prosecution.

**Figure III.1 : Reasons why respondents consume illegal tobacco products**



As reported in Figure III.1, almost 90 % of those who consume illegal tobacco products stated that they do so because these products are cheaper.<sup>17</sup> This result confirms our findings from the in-depth interviews. We also asked about the reasons why people prefer legal goods. Consumers of legal tobacco products commonly reported that they find illegal tobacco products to be harmful. As for the health effects reported in Table III.3, almost half of the legal product consumers stated that all tobacco is harmful, yet 32.3% said that they think illegal cigarettes are more harmful. Only 17.8% said that rolling tobacco is worse for health than legal cigarettes.<sup>18</sup> Again this table is consistent with our findings from the in-depth interviews.

**Table III.3. Which of these tobacco products is most harmful for human health? (%)**

They're all the same	48.0
Illegal cigarettes	32.3
Rolling tobacco	17.8
Legal cigarettes	1.6
No answer	0.3
Total	100.0

Among the legal product consumers, 63% said that they have never tried cigarettes without tax stamps, whereas 37% reported having tried illegal products, and 76.4% of those who did try said that they did not like the taste.

<sup>17</sup> Note that multiple answers were allowed in this question.

<sup>18</sup> The consumers of illegal tobacco products were not asked this question.

The reasons reported for consuming rolling tobacco as opposed to cigarettes are clustered around affordability and health reasons. Table III.4 shows that 74.7% of tobacco consumers said that they smoke tobacco because of the high prices of legal cigarettes. 13.4% reported that they smoke less when smoking tobacco as opposed to cigarettes. 7.2% said that tobacco was less harmful for health, citing concerns about additives.

**Table III.4. Reasons for consuming tobacco instead of cigarettes (%)**

Increases in legal cigarette prices	74.7
Smokes less compared to cigarettes	13.4
Smoking tobacco is healthier than cigarettes	7.2
Has always consumed tobacco	2.4
Friends and family consume tobacco	2.0
Tastes better than cigarettes	0.3
Total	100.0

Consistent with the stated reasons of preferring illegal tobacco products, consumers have switched from legal to illegal alternatives following the steep increase in the taxes of tobacco products in recent years. Supporting this conjecture are the answers to the questions on the reasons for such a switch, as presented in Table III.5. Among the consumers of illegal tobacco products, 72.9% stated that they could not afford legal products anymore, and about 22% said that they had switched after trying. This finding is consistent with our earlier remarks on the effect of Special Consumption Tax on prices in subsection I.C (Importance of the subject)

**Table III.5. The switch from legal to illegal tobacco products (%)**

I could not afford legal products anymore	72.9
I tried it, and I liked the taste	11.4
A friend was smoking, I tried it	10.9
I wanted to smoke a weaker cigarette	3.9
I wanted to smoke a stronger cigarette	0.9
Total	100.0

**Table III.6. When would the consumers switch from illegal to legal cigarettes? (%)**

If legal tobacco prices fall	57.2
If my income rises	11.2

Never	9.4
If illegal tobacco supply decreases	8.6
If there is an additional health risk	7.9
If there is a legal punishment	5.5
Other	0.2
Total	100.0

The switch back from illegal to legal cigarette also seems possible. As shown in Table III.6, 57.2% of the illegal cigarette consumers stated that they would switch if the prices fall. Another 11.2% stated that they would switch if their income rose. In other words, if it were not for the cost, more than two thirds would prefer to smoke legal cigarettes. Decreasing the supply will discourage 8.6% who claimed that they would switch if it became more difficult to find illegal products. Only 7.9% said that they would switch if they learned that illegal cigarette leads to additional health risks. Another 5.5% will be deterred by legal punishments.

Both Table III.5 and III.6 are confirming qualitative findings from the in-depth interviews with consumers. We see clearly the role of rising prices of legal cigarettes and low-income levels in switching from legal cigarette to illegal ones. Respondents who stated that they would switch if the prices fell or their income increased, were asked further questions to help estimate the elasticity of demand. Their data indicates that those who consume illegal cigarettes may switch to legal cigarettes if the prices of legal cigarettes were 39% cheaper on average.<sup>19</sup>

When asked about the prices of their cigarette of choice with and without a tax stamp, the consumers of illegal cigarettes reported that the illegal product that they consume is 45% cheaper than the legal version. More interestingly, for the subsample who stated that they would switch if the prices fell by 39.5%, the stated price differential between legal and illegal cigarettes is 49.7%. Therefore, it is difficult to assume that legal and illegal products are perfect substitutes for each other in the eyes of consumers of illegal products. The consumers would be ready to pay a higher

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<sup>19</sup> When studying the switches from illegal products to legal products, we used only data from respondents who stated that they would switch only if prices fell. However, for some of them this switch is only possible if prices of legal products are lower than prices of illegal ones. This does not make sense given that there is no superiority of illegal products in terms of quality. We think this reflects most likely a misunderstanding of the survey question by respondents, or probably lack of calculation skills. So, we discard such observations when calculating the required drop in prices of legal products for switching from illegal products to legal ones.

price for the same good while its market price was lower. This proves that, in the eyes of consumers of illegal products stated that they would switch if the prices fell, legal goods are “better” enough to justify a price higher by about 10%. This is consistent with the findings in Table III.3, which shows that approximately one third of the legal product consumers stated that they think illegal cigarettes are more harmful.

These data indicate that the income elasticity of demand is much lower than price elasticity of demand. An increase of 84.8%, on average, in income is necessary to trigger a switch from illegal to legal tobacco products. Therefore, we claim that the income increase needed to trigger a switch from illegal to legal products should be much larger than a price decrease that would trigger the same switch. Such a sustained increase in income levels may take years in Turkey. Moreover, a price decline such as one caused by a decline in the Special Consumption Tax (and the possibility of keeping it at that level) may dampen the relatively strong demand for illegal tobacco products.

#### b. Alcoholic beverages

According to the in-depth interviews with the consumers there are several reasons behind the choice of illegal alcoholic drinks. The respondents stated that the high prices of tax-stamped alcoholic beverages are the most important reason why they purchase illegal products. Some attribute the increase in consumption of illegal alcoholic drinks to the tax policies of the government. Indeed, many current users highlighted that they used to drink tax-stamped products in the past. In the market we find smuggled products, counterfeit (fake) products and homebrew products. All of them have a price advantage over legal drinks. In recent years, some restaurants have opted for BYOB (“bring your own bottle”), mostly for *raki*. As such, alcoholic drink consumers save money by taking their smuggled or homebrew drinks to restaurants. This practice is a notable example of the challenges and outcomes of an increase in alcoholic beverage prices. Respondents stated that in the event of a decrease in alcoholic drink prices, they would start buying tax-stamped products. This is an important indicator proving that price is the main factor that affects the consumption rate of illicit products.

The news in the media about people dying of poisoning due to counterfeit / illegal alcoholic products, in particular has raised awareness regarding illegal alcoholic products that are produced

under inappropriate or unhealthy conditions. People mostly fear the possible use of methyl alcohol in distillation as opposed to ethyl alcohol, since methyl alcohol causes blindness and may result in death. Counterfeit drinks are offered to consumers in two ways: The most common is serving counterfeit drinks in restaurants and pubs. Occasionally, counterfeit products are branded after popular products and bottled using original bottles. This makes it difficult to distinguish between counterfeit drinks and originals, which scares people. Almost every respondent who consumes alcoholic drinks has developed "security measures" to protect themselves from fake products. One of the first measures they take is to demand that a bottle (of wine, *raki*, etc.) be opened in front of them at a restaurant. Drinks brought in a nondescript carafe or glass are not accepted. While opening drinks, customers pay attention to whether the bottle was opened in advance or is tax-stamped.

As with counterfeit drinks, there is a group of people who find homemade drinks rather dangerous according to in-depth interviews. The reasons underlying this perception are similar to the concerns about counterfeit products. These respondents state that homebrew drinks are produced without inspection by non-experts who are not knowledgeable about hygiene rules or the distillation process. Notably, the distillation process is very error-prone in drinks such as *raki*. A small mistake can have fatal consequences. All these worries push consumers not to take risks, and they certainly do not want to drink homebrew drinks, even if a close friend has produced it.

The information provided by consumers of illegal alcoholic beverages in the survey are reported in Table III.7. It should be recalled that the respondents answer these questions based on the beverage that they consume the most. It includes price, amount, and price per liter by alcoholic beverage. Since the bottle sizes of the legal versus illegal products are not the same, we need to adjust for size differences. This is why, we report price per liter instead of price per bottle. The data shows that the average price differential is about 51%. To be more specific, an illegal liter of alcoholic beverage is, on average, 51.3% cheaper than a liter of legal one, as reported by consumers of illegal beverages.

**Table III.7. Price and amount of consumption of illegal alcoholic beverages (%)**

	Price of a bottle (TL)	Amount in a bottle (lt)	Price per liter
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	With Tax stamp	Without Tax stamp	With Tax stamp	Without Tax stamp	With Tax stamp	Without Tax stamp	% difference per liter
Beer	27.6	13.3	0.523	0.532	56.3	27.7	50.7
Raki	148.5	70.3	0.704	0.727	213.8	99.3	53.6
Whiskey	193.4	101.7	0.669	0.674	296.8	159.4	46.3
Vodka	122.3	63.7	0.646	0.643	192.6	101.8	47.1
Wine	63.6	29.2	0.742	0.775	100	39.3	60.7
TOTAL	140.7	69.1	0.678	0.695	209.2	101.7	51.3

The data in Table III.7 also indicates that the illegal alcoholic beverages are cheaper for all types of alcoholic beverages. The price of an illegal liter of beer is 50.7% cheaper than the legal one on average. The consumers of illegal raki report a similar difference. A liter of illegal raki is 53.6% cheaper than a legal one. The price differences between legal and illegal bottles are a little lower for whiskey and vodka, around 46 and 47% respectively.

The consumers of legal alcoholic beverages also report prices of both legal and illegal alcoholic beverages, and the amounts, from which prices per liter can be computed. Price differences are significantly lower than those reported by consumers of illegal alcoholic beverages (see Table 4.10 in the Betam survey report for details). The average price differential of a bottle is 32.4%, whereas the same differential was about 51% in the reports by illegal alcoholic beverages consumers. Then, it is not surprising that the most common reason for drinking illegal alcohol reported by consumers is the price. Table III.8 shows that 87.9% of the consumers of illegal beverages stated that they buy them because illegal products are cheaper. The same share for those who purchase illegal raki increases to 90.6%. Note that other reasons have much lower shares among the respondents. These results largely confirm the qualitative findings from the in-depth interviews with consumers.

**Table III.8. Reasons for Consuming Illegal Alcohol (%)**

	It's Cheaper	Tastes Better Compared to the Legal One	My favorite drinks are not sold in Turkey	My friends do not have health issues despite drinking
Beer	90.0	6.3	0.0	3.7
Raki	90.6	5.8	0.2	3.5
Wine	90.3	6.5	0.0	3.2
Vodka	88.4	5.2	0.0	6.5
Whiskey	93.9	4.9	0.6	0.6
Other	74.0	16.0	0.0	10.0

Total	87.9	7.7	0.3	4.2
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Among the legal alcoholic beverage consumers interviewed, 63.1% said that they did not drink illegal alcohol because of the possibility of methyl alcohol in illegal beverages (Table III.9). About 20.3% said that they wanted to drink legal alcoholic beverages. There is also a non-negligible 7% of respondents who stated that they did not want to support illegal and terrorist organizations by buying illegal alcohol. Again, these results confirm the qualitative findings from the in-depth interviews with consumers.

**Table III.9. Reasons for Not Consuming Illegal Alcohol (%)**

Possibility of methyl alcohol in illegal beverages	63.1
Just because it's legal	20.3
Don't want to support illegal or terrorist organizations by buying alcohol without tax stamp	7.0
Purchase alcohol rarely, don't prioritize price issues	6.5
Can't find alcohol without tax stamp	3.1
Total	100

Almost half of the illegal alcoholic beverage consumers (49.4%) said that they would switch from illegal to legal beverages if the prices of legal ones fell. They reported that they would switch if prices decreased by 39% on average.<sup>20</sup> Data in Table III.10 breaks down this average by beverages. The price decline that would trigger a switch from illegal to legal beverages is lowest for whiskey (36.3%) whereas the actual difference is 49.3% per liter. The consumers of illegal vodka said that they would need a price decline of 41.6% to switch to legal vodka, and the actual difference is 52.4% per liter. The switching price decline is reported to be 39.2% by illegal raki consumers, whereas the actual difference is 58.1% per liter. For beer, the switching price decline is 51 % while the actual difference is 58.8%. As for wine, the switching price decline is reported to be similar to vodka, 41.8%, yet the actual difference stands at 54.1% per liter.

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<sup>20</sup> Like in the case of cigarettes, we used only data from respondents who stated that they would switch only if prices fell. Again, we discarded observations who state that they will switch to legal products only if prices of legal products are lower than prices of illegal ones.

**Table III.10. Price differential and switch point for consumers of illegal alcoholic products who stated that they would switch if the prices of legal alcoholic products fell (%)**

	Switch if price of the legal beverage decreases by	% price difference between the legal and the illegal beverages (per liter)
Beer	51.0	58.8
Raki	39.2	58.1
Whiskey	41.8	54.1
Vodka	41.6	52.4
Wine	36.3	49.3
TOTAL	39.0	55.7

In short, if the consumers of illegal alcoholic beverages are good observers of the market prices, the prices of legal products are significantly higher than the threshold prices that would trigger a switch. Another interesting finding is that, according to Table III.10, the average price differential between legal and illegal alcoholic beverages is approximately 55%, meaning the price of legal products is almost twice the illegal ones. And consumers of illegal products require a decline of 39% in prices of legal products to make the switch to legal products. Thus, they are ready to pay more (approximately 16% of price of legal products) for legal products. As in the case of cigarettes, this proves again that legal and illegal products are not perfect substitutes for each other in the eyes of consumers of illegal products who stated that they would switch if the prices of legal alcoholic products fell.

Only 10.7% of the respondents who drink illegal alcoholic drinks stated that they would switch if their income levels increased (n=67). They stated that an increase of 63.8% of income (1,958TL) would convince them to switch from illegal to legal alcoholic beverages. Note that most of this data comes from the consumers of illegal raki, rather than other beverages.

The comparable data for consumers of illegal tobacco indicates that they would require a much larger increase in income to switch to legal products, i.e., 84.8%, or 1,707TL. These differences in price elasticities may be caused by the fact that consuming illegal alcohol is considered to present a higher health risk, and therefore, consumers of illegal alcoholic beverages are more inclined to switch to legal products.

### c. Fuel

According to in-depth interviews with consumers the only reason for the choice of illegal fuel is the price differential between legal and illegal products. Respondents claim that smuggled diesel fuel is between 40% and 66% cheaper than legal diesel.

Illegal fuel appears to be mainly used in heavy vehicles operating in professional passenger transportation or conveying goods. However, only some of the corporate bus companies resort to this method with various reservations. Owners of private passenger vehicles with diesel engines generally prefer legal fuel.

Since it is common knowledge that it damages vehicles' engines, illegal fuels are mostly used by low-income owners of old vehicles. New vehicle owners who are also better off do not use illegal fuel because they value their vehicles more. Using smuggled fuel provides a significant advantage for long-distance vehicles. Illegal fuel is mostly used for commercial and passenger transportation where oil prices affect both expenses and pricing. There is intense competition in the ground transportation sector, and transporters resort to illegal fuel in order to cope with severe competition despite known damages and malfunctions in vehicles and costly repairs. The use of "Number 10 Oil" by some bus companies, which is very dangerous and runs the risk of exploding, can be attributed to the same reason. Some respondents claim that pricing in transportation does not leave room for a reasonable profit margin for service providers. Therefore, making a profit entails using illegal fuel for many.

We learn from the in-depth interviews that any kind of fuel can be smuggled. The most preferred type is diesel oil, which is mostly used in heavy vehicles. Moreover, it can be stored safely. It is followed by gas and "Number 10 Oil". There is even smuggled LPG. However, it is not available everywhere and used less due to the risk of explosion as illegal gasoline evaporates more easily.

According to the in-depth interviews, there are differing opinions about the quality of smuggled fuel. Some respondents think it is no different than its legal counterpart, while others think smuggled fuel damages vehicles. Nevertheless, it appears that there is some sort of consensus among users about the quality of illegal fuel produced locally in Turkey in illegal refineries. The respondents state that they can easily tell when the fuel is poor quality, that bad fuel causes

misfires, low motor thrust and blockages in the engine. However, there are no complaints about the quality of smuggled Fuel, which is legal in its country of origin.

Table III.11 shows the main reason for consumers preferring illegal fuel is high prices of legal fuel using survey data. While 80.3% of the users of illegal fuel cite lower costs, 17.1% complain about high taxes. Considering both as a proxy for higher prices, we see that they add up to almost 100% (97.4% to be exact). There is a very small group of respondents, 2.6%, who stated that they would like to support their relatives and family members who are smugglers, by buying their illegally traded fuel. The survey data shows also that commercial vehicle users are more likely than private vehicle users to report that it's about the prices, 83.8 vs. 77.9% respectively.

**Table III.11. Reasons for illegal fuel usage (%)**

It's cheaper in comparison to legal fuel	80.3
I don't want to pay high taxes	17.1
Family solidarity	2.6
Total	100.0

The most common reason for not using illegal fuel, as reported by the consumers of legal fuel, is the fear that it will damage the vehicle. Table III.12 shows that private vehicle users are more worried about damage to their vehicles (50.2%) than commercial vehicle users (44.7%). Close to one third also said that they do not want to use illegal fuel because it is illegal to evade taxes. 11.4% of all users said that they do not want to support terrorist organizations by using illegal fuel. Incidentally, this reason is more common among the commercial vehicle users at 18.4%.

**Table III.12. Reasons for legal fuel usage, purpose of use and type of fuel (%)**

	Purpose of use		Type of fuel	
	Private	Commercial	Gas	Diesel
No place nearby to find it	9.5	7.9	9.4	10.0
It can damage the car	50.2	44.7	48.7	49.4
Supports illegal (terrorist) organizations	9.8	18.4	10.3	110.6
Illegal to evade taxes	30.5	29.0	31.6	30.0
Total	100.0	100.0	100.0	100.0

In the survey, the consumers of illegal fuel were also asked about the conditions under which they would switch from illegal to legal fuel (Table III.13). The most common answer by 54.9% was “if

fuel prices fall”. The second most common answer was about the availability of illegal fuel. 26.5% said that they would switch if it became more difficult to find. Interestingly, 11.9% of illegal fuel users stated that they would never switch to legal fuel.

**Table III.13. The condition under which consumers switch from illegal to legal (%)**

	Car	SUV	Bus, truck	Tractor	Total
If legal fuel prices fall	48.6	57.1	72.3	50.0	54.9
If income rises	7.2	7.1	6.4	3.1	6.7
If illegal fuel becomes more difficult to find	33.5	21.5	9.6	28.1	26.5
Never	10.7	14.3	11.7	18.8	11.9
Total	100.0	100.0	100.0	100.0	100.0

Table III.14 shows that availability is more important for private vehicle users, as 34.5% stated that they would switch to legal fuel if illegal fuel were more difficult to find, whereas only 15% of the commercial vehicle users said the same. For commercial vehicle users, the cost is reported to be more important. 67.6% said that they would switch if legal fuel were cheaper, the same share being 45.4% among private vehicle users. Lastly, the share of users who said that they would not switch from illegal to legal is similar across private and commercial users. In other words, respondents who said that they would not switch from illegal to legal fuel are not affected by prices, income or availability, and the underlying preference for illegal fuel would be difficult to address.

According to Table III.14, among the illegal gas users, 41.9% said that they would switch to legal gas if illegal gas became harder to find. This is less common among the diesel fuel users. For the latter, the data indicates that cost is a more important determinant. That is, 60.3% of illegal diesel fuel users said that they would switch if legal fuel prices fell. The same share is 28.4% among the illegal gas users.

**Table III.14. The condition under which consumers would switch to legal, purpose of use and type of fuel (%)**

	Purpose of use		Type of fuel		Total
	Private	Commercial	Gas	Diesel	
If legal fuel prices fall	45.4	67.6	28.4	60.3	54.6
If income rises	7.6	5.2	8.1	6.2	6.5

If illegal fuel becomes harder to find	34.5	15.1	41.9	23.7	27.0
Never	11.7	12.1	20.3	9.5	11.4
Other	0.8	0.0	1.3	0.3	0.5
Total	100.0	100.0	100.0	100.0	100.0

To recap, more than half of the illegal fuel consumers (54.6%) stated that they would switch if legal fuel prices were to fall. The survey data show that, on average, a 35.4% decrease is necessary for such a switch, while the stated price differential between legal and illegal fuel is 42.4% on average.<sup>21</sup> Once more, it is difficult to assume that legal and illegal products are perfect substitutes in the eyes of consumers of illegal products. The consumers of illegal fuel are ready to pay a higher price (7%) for the legal fuel.

Lastly, the share of respondents who said that they would switch if their income rose was 6.6%. They state that an average increase of 39.5% (1,942TL) would trigger such a switch (n=27). Note that the number of observations here is very small. Also, observe that the income elasticity here is much lower. It should also be recalled that the corresponding increase in income is 84.8% for tobacco and 63.8% for alcohol.

d. Mobile phones

According to the in-depth interviews, consumers prefer illegal mobile phones because of the price differential between legal phones and illegal ones. The prices of popular legal mobile phones are higher than minimum wage, which make them inaccessible to many in Turkey. Also, some respondents state that the inability to pay in installments when buying mobile phones pushes many to seek smuggled phones. Those who cannot pay a large amount all at once have two options: The first is to buy a legal but affordable product with simple features and poor performance. The other is to buy a much more advanced, new, and high-performing illegal product for a similar price. As such, some consumers opt for illegal mobile phones.

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<sup>21</sup> Again, we used only data from respondents who stated that they would switch only if prices fell. Also, we discarded observations who state that they will switch to legal products only if prices of legal products are lower than prices of illegal ones. If we consider all consumers of illegal products (instead of only respondents who stated that they would switch only if prices fell) the price gap between legal and illegal fuel is 39%.

Even if one finds “fake” phones (imitations of international brands) in the market as well, the majority of illegal mobile phones are smuggled originals. All illegal phones lack the IMEI number, which is necessary for a mobile phone to operate. The usual “solution” is to transfer the IMEI numbers of old phones that are not used anymore to these illegal ones. The IMEI numbers are checked continuously, and if it is detected that the same IMEI number is used by more than one phone, the phones using these numbers are blocked. Such users, then, have to prove that they purchased their phone legally to avoid being blacklisted. Respondents state that it has become harder to duplicate IMEI in newer models of certain brands. Also, it seems that mobile phone smuggling has decreased in recent years because of strict measures including tightened customs controls.

We learn from the in-depth interviews that the main reason for consumers not preferring illegal phones (despite huge price differences) is lack of warranties. The stories they hear coupled with their own experiences lead them to be sensitive about this issue. Also, it is an advantage that phones with a corporate warranty can be repaired reliably at a manufacturer's facilities regardless of the repair fee. In addition to the warranty issue, some think that counterfeit products do not offer efficiency in performance or quality. According to these respondents, expensive legal products do not fail, like smuggled phones, and can be used for longer periods of time. Another concern relates to IMEI registration. Respondents report constant problems with IMEI numbers, which they do not want to deal with. It is risky to buy a smuggled phone because of the need to transfer IMEI numbers, which can be costly.

Using survey data, we see that consumers who were using illegal phones report lower prices as the main reason for their choice. As Table III.15 shows, near 80% of the users purchased mobile phones illegally because they were cheaper. Furthermore, more than 10% of users cited high taxes as to the reason of using illegal phones. Taken together, these two reasons imply that more than 90% of the respondents use illegal phones because they cost less, whether it is due to the price directly or to the associated tax. Note that the mobile phones are relatively more expensive goods compared to tobacco, alcohol, and fuel products. The ratio of the price to the personal income is 52.9%, the ratio of the price to the household equivalent income is 69.7%. In other words, it is not

surprising that the cost-related concerns are more frequently reported by the illegal mobile phone users.

**Table III.15. Reasons for illegal phone usage (%)**

Because it is cheaper	78.4
Taxes are too high	12.9
My acquaintance brought from another country	6.3
Everybody around me uses illegal phones	2.0
My favorite phone is not for sale in Turkey	0.3
Other	0.2
Total	100.0

The problems that illegal phone users run into are also well-known among the users of legal phones. More than half of the legal phone users stated that illegal phones caused problems that were mainly related to the IMEI numbers. The legal phone users also seem to be aware that these problems are usually resolved by the seller. To clarify, the legal mobile phone users reported that 65.5% of illegal phone users solved this problem taking by copying another IMEI number. Another 24.7% stated that the users of illegal phones had to take their phones back to the shop each time they ran into a problem. Table III.16 also emphasizes that the consumers know that the shops are capable of solving these issues.

**Table III.16. Ways of solving problems due to illegal phone usage, reported by legal phone users (%)**

The store copied another IMEI	65.5
They take their phones to the store every time	24.7
Could not be solved	2.1
The seller exchanged my phone with another one.	7.8
Total	100.0

Another obvious problem that users of illegal phones are bound to face is the need for repairs and thus lack of warranty. Even though 60% of the users of legal phones reported that the warranty on their phones were still active, 89% of illegal users said that they used their phones without one (see Table III.17). It is surprising that the remaining 10% of the illegal phone users have a warranty

on their phone, granted by the stores that sold them the phones.<sup>22</sup> 16.2% of illegal users mention having had problems with their phone due to their phone being illegal. Among those who did have an issue, 86% said that they resolved their problems by taking their phones back to the same store. About half of these respondents (43%) reported IMEI related problems, which were solved by the phone shop.

**Table III.17. Warranty status of phones, by users of legal and illegal phones (%)**

	Legal	Illegal	Total
Has a valid warranty	59.51	0.32	29.77
Warranty expired	39.51	0.64	19.98
Guaranteed by the store	0.49	9.98	5.26
Never had a warranty	0.49	89.05	44.98
Total	100.0	100.0	100.0

According to Table III.18, nearly 55% of the users of illegal phones indicated that they would not use illegal phones if the legal equivalent of the phone were affordable. Another 15% said that they would switch to legal phones if their income increased. 12.4% of them would start using legal phones if they got fined for using their phones. Availability is also important for illegal phone users, as 8.5% said that they would switch to legal phones if the illegal ones were harder to find.

**Table III.18. The condition under which users switch from illegal to legal phone, (%)**

If I can find a legal phone for an affordable price	54.8
If my income rises	15.0
If illegal users get fined	12.4
If finding phones without a tax stamp gets harder	8.5
Never stop using phone without a tax stamp	5.5
If purchasing illegal phones becomes more costly over time	3.3
Other	0.7
Total	100.0

The users of illegal phones, who stated that they would switch if prices of legal phones were to fall, reported that they would switch from illegal to legal phones if the prices of legal phones

<sup>22</sup> 62 respondents said that their illegal phone had a warranty from the shop that sold it to them. 43 respondents said that they had IMEI problems with their illegal phones and took the phone back to the shop to have it replaced.

decreased by 39.6%.<sup>23</sup> According to the same users of illegal phones, illegal phones are 50.5% cheaper than the corresponding original, on average. The decline that would trigger a switch and the price gap between legal and illegal phones differs by type of illegal mobile phone. Those who use smuggled phones stated that they would switch to legal phones if the prices fell by 37.4%, and this is significantly less than the threshold price decline reported by consumers who use counterfeit phones (56%). As reported by their respective users, the smuggled phones were 49.0% cheaper, while the counterfeit phones were 63.3% cheaper than their legal substitutes.

In this regard, illegal mobile phone users are similar to users of illegal cigarettes. They are ready to pay 11% higher for the legal mobile phones. In the case of alcoholic drinks, the extra price consumers of illegal products are ready to pay was 16% while in the case of cigarettes this was only 10%. Illegal fuel users are the least willing to pay an extra price for the legal fuel (7%).

As for the income increase that would trigger a switch from illegal mobile phones to legal mobile phones, the users declared that this switch would require an increase in their income of 109.4%. Among all the illegal product consumers considered here, the income increase that would trigger users to switch to the legal product is highest among the mobile phone users. This is probably because the mobile phones are a relatively larger purchase item and thus require a larger share of the consumer's budget.

#### IV. Supply of Illegal Products

The smuggled goods of interest in this report (cigarettes and tobacco products, alcoholic drinks, fuel, and mobile phones) are all individual consumption goods. For this reason, in the final stage they should be sold at retail either in small shops, streets, fuel stations or in restaurants and bars. Whether they are imported illegally across borders or produced locally in underground facilities, they must be delivered to retail sellers using organized networks which may differ according to goods and regions. That is to say, the methods of smuggling, the routes by which they are conveyed, and their marketing have some common characteristics. As a result, before studying the

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<sup>23</sup> For mobile phones as well, we used only data from respondents who stated that they would switch only if prices fell. Again, we discarded observations who state that they will switch to legal products only if prices of legal products are lower than prices of illegal ones.

specific aspects of the supply for each commodity in our scope we would like to describe these common characteristics of smuggling in terms of organizational setup and the main methods of smuggling while noting the most striking regional differences in order to avoid repetition when we analyze the goods individually.

#### A. Main characteristics of smuggling networks

There are basically two kinds of smuggling networks in Turkey. The most important with regards to smuggled quantities and values as well as the complexity of organization are certainly the wholesale networks. However, the piecemeal networks also constitute a non-negligible part of the illegal trade in Turkey, so they present interesting social features.

##### a. Wholesale networks

#### ***Organizations and methods of smuggling***

Smuggling large quantities of goods requires complex organization combining financing, centralized planning of purchases in neighboring countries, transportation, necessary connections with customs and law enforcement officers, and delivery of goods to local intermediaries who are responsible for the distribution of goods to retail sellers. It has been observed that the planners and the executive “boss” give the impression of respectable businessperson. They may have offices and companies that conduct legal activities such as restaurants, hotels, car dealerships, construction contracts that are suitable for money-laundering. The “big boss” along with expert retired consultants form the brain of the organization (Interview 1, İstanbul, Customs Officer).

The “brain” establishes top-ranking connections, secures capital, watches international markets, and sources of the goods. The person who is in contact with the boss plans the connections at customs and borders, assigns duties to those in the field and hands over the earnings to the boss. If the operation is taken to court, the same person communicates with lawyers or judges.

According to a law enforcement officer in Ağrı, wholesale smuggling organizations possess the typical characteristics of criminal organizations: “Management and lower level staff do not know each other... A single person maintains the connection between the foreign supplier and the local buyer. Neither the transporters nor the delivery men know the supplier” (Interview 198). A high ranking customs officer from İstanbul explained also how sophisticated arrangements might be used in order to erase the traces: “During transportation they use the name of a completely different

company... The company had changed hands before, they had falsely declared a worker as the owner of the company. Transportation costs were paid through accounts in other countries, names on contracts belong to unknown people. In short, they had done everything to prevent anyone from reaching a phone number, an identity (Interview 2, Istanbul, Customs officer).

There is a hierarchical system in the network. For example, those who distribute the goods are called "errand boys". They are at the bottom of the network and not in touch with the group leaders. Thus, when they are caught, they cannot give away any essential details about the smuggling organization. Another reason for not informing the police is said to be their "fear of death".

Like many other criminal structures, smuggling organizations divide and multiply from within, including networks, gangs, and cells. After working for a certain period and gaining the necessary skills, some organization members establish their own gang by creating the financial and operational relations needed for doing business on their own.

It can be seen that there are a few basic methods used in illegal wholesale trade. One of them is hiding or "stashing" the goods in secret compartments or containers: "There was a one meter difference between the measurements I took from inside and from outside. They had tampered with the trailer. They had created a hollowed-out place where they could hide things" (Interview 114, Samsun, Law Enforcement Officer). Illegal goods can also be smuggled by covering the goods with rotten watermelons or hiding illegal goods inside of legally transported ones or by reattaching the seal they broke or informing the authorities that someone else removed it, as explained by a high-ranking customs officer who gave very comprehensive and detailed information about the state of smuggling in Turkey: "One way or another they hide smuggled goods among legal goods. Even if those goods or containers are sealed, they know of ways to open those seals... After they deliver those goods, they go to the police station and file a complaint saying that while parked someone had come and broken their seal (Interview 2, İstanbul, Customs Officer).

Smugglers also try to bring the goods into the country through the most appropriate customs gate. If an entry point is found to be problematic, smugglers go to others that, for various reasons, are believed to be less controlled, as a logistic company owner from Şanlıurfa explains: "When people have trouble in Mersin, they go to İzmir, if they cannot succeed there then they go to Tekirdağ (Interview 24).

Another method is issuing a "false statement". This is used for the purpose of tax fraud. Goods brought in are either declared as other products or their weight/amount is reported incorrectly. For example, products declared as chargers may actually be illegal mobile phones. That way, less tax is paid.

Another widely used method used to avoid high taxes is "valuation fraud". For this method, a fake bill is issued, showing the price of the purchased goods as much lower. Goods are brought from countries with which Turkey has no bilateral agreements. When the customs officials get suspicious of the prices written on the invoice and start to investigate, they cannot reach the actual price of the product because the third-party countries do not share this information due to the lack of legally binding rules. As a result, the parties may go to court; but most of the time, the desired results cannot be obtained.

Wholesale smuggling methods have always been adapted to changing circumstances. These are mainly related to changes in regional politics and in technical improvements to counter smuggling activities. Modular walls installed along the Syrian border and the military take-over of border security as a counter-terrorism measure has made border crossings more challenging. Drone surveillance toughens these conditions. Technical improvements contribute to better surveillance of smuggled goods and a higher chance of discovering stashes during customs checks.

As a result, valuation fraud is gaining in importance. These developments have led to the testing of new methods. The prevailing method today is reported to be bribing customs and law enforcement officers, as the only way such crimes can be committed. Some respondents stated that cigarette smuggling could not occur without the cooperation of law enforcement officers. Some shared their observations on the role of law enforcement agents in cigarette smuggling in Turkey: "Especially on the Syrian border, they were cleaning the minefields. I know because I lived in Eastern Anatolia for a long time. Smuggling is the main source of income and it has been tolerated for the last ten years. Those cigarettes are even sold in Samsun... They are certainly tolerating it" (Interview 114, Samsun, Law Enforcement Officer).

The in-depth interviews reveal interesting ways in which smugglers escape from law enforcement officers, with these methods getting more diversified by the day. One example of these new methods is that when a load of smuggled goods is to be transported, a small portion of it is sent by a separate vehicle and reported to the police. When law enforcement officers raid that vehicle, the

big party has already been smuggled. Another example is to keep the goods in a neighboring shop/warehouse rather than at the sales point. Thus, illegal goods cannot be found when law enforcement officers make a raid (Interview 115).

The method called "insider sabotage" deserves attention. The value of the smuggled goods at risk is so high that it is worth spending a part of the profit for the bribery. In this case, a customs officer is arranged in advance and the smuggling operation is done when that particular officer is on duty. The challenge is described in detail by the high-ranking customs officer already quoted: "A container of cigarettes is worth between \$100-130 thousand, it is \$100 thousand at minimum... Last year a total of ten containers were caught, with a total worth of \$1.3 million. If you consider the volume of money in circulation, it is not the harmless smuggling attempt of an individual. They must have ties within... A smuggler tries to minimize the risk as much as possible" (Interview 2).

### ***Main routes of illegal trade***

Smuggled products entering Turkey are brought in by land, sea and air, but it is mainly sea shipments and trucks that are used for large-scale smuggling operations. After collecting large quantities from various foreign cities or ports, ships obliterate their tracks by circling between different ports before entering Turkish ports or delivering at a large port. The complexity of wholesale illegal trade operations suggests that only international or internationally linked local crime organizations can coordinate such activities. A customs officer from Kilis states that "İstanbul is the main entry point for most of the smuggled goods. From there they are distributed country wide" (Interview 28).

### ***Regional specializations in smuggling***

The type of goods and methods in wholesale smuggling differ between regions. However, one should underline that East and Southeast Anatolia have an overwhelming presence in illegal trade. Besides various favorable conditions that will be analyzed later, one could say that this particular place also has a historical legacy. Cigarettes, fuel, and mobile phones continue to be smuggled from Iran, Iraq, and Syria despite a decrease in volume. Iraq is a transit center for electronics and especially mobile phones coming from Dubai and the Far East.

The Eastern region is also the location of tobacco production in Turkey. Rolling tobacco is sent from there to other regions of the country. Many settlements have their own tobacco markets. Tobacco is not considered illegal in these local markets.

Maritime trafficking both through the Black Sea and the Mediterranean plays an essential role in wholesale cigarette and fuel smuggling in particular. Purchasing smuggled fuel from ships anchored off the Black Sea coast is widespread. Once brought ashore, the smuggled fuel is either sold on the spot or transferred to wholesaler intermediaries. In the Mediterranean, Aegean, and Marmara regions all kinds of goods are smuggled via the Mersin, Izmir and Istanbul ports. In these instances, undervaluing or misrepresenting the value of the goods or smuggling goods in container stashes are common practices.

The Eastern Black Sea region with connections to Georgia and the Thrace region connected to Bulgaria also play a role in wholesale smuggling but these two regions emerge as places specializing in the piecemeal illegal trade of cigarettes and alcoholic drinks as will be seen below.

#### b. *Piecemeal or individual smuggling*

Besides wholesale smuggling, piecemeal or individual smuggling of all the goods studied here takes place in Turkey and plays a non-negligible role, particularly in the illegal trade of brand-name alcoholic drinks and cigarettes. This individual smuggling, called “ant trade” in Turkish does not need any complex organization. Nevertheless, it should be noted that there exist two alternative versions of piecemeal smuggling that present some similarities to wholesale smuggling. The first version could be called “coach smuggling” and the second is the traditional “mule smuggling”. In the first version, the organizer is the coach driver who makes a deal on his own with his passengers and in the second version, the inhabitants living near the border in the Southeast carry smuggled goods (tea, sugar, and fuel in particular) on the backs of their mules. Since the smuggled quantities are limited and the carrying of goods is done by an individual, we chose to address these particular versions of smuggling within the framework of piecemeal or “ant” trade.

#### ***Piecemeal smuggling proper***

Piecemeal smuggling proper concerns Turkish citizens who travel very frequently to the Turkish Republic of Northern Cyprus (TR of NC) as well as to Georgia and Bulgaria. In this method, passengers hide goods in their clothes or their luggage. For example, there is an anecdote that passengers returning from Georgia try to pass through customs with meat wrapped onto their bodies. In vehicles, products are also hidden in door gaps, seats, and the engine cavity. It is claimed that trucks also have reserve fuel tanks and drivers fill them up before entering Turkey.

TR of NC is a quite singular entity. It is an “independent” country where taxes on cigarettes and alcoholic drinks are much lower than in Turkey. Furthermore, casinos are free there but banned in Turkey, and Turkish citizens have the right to travel to TR of NC as often as they desire using only their identity cards. Not surprisingly, a number of Turkish citizens do not fail to take advantage of such opportunities for smuggling name-brand of cigarettes and alcoholic drinks individually. The ambiance in the flights returning from Cyprus, as depicted by journalist from Adana, speaks volumes: “You cannot fall asleep on return flights from Cyprus due to the clanks and jingles. No one returns empty. Everyone brings alcohol for himself or a friend. Sometimes they declare them to the customs, sometimes they hide them in their suitcases. Everything is cheap there, cigarettes, alcohol...” (Interview 49).

In the case of smuggling across the Bulgarian border, the main actors are Turkish citizens forced to immigrate to Turkey at the end of the 1980’s and later obtained Bulgarian citizenship in addition to their Turkish citizenship in the 1990’s after the collapse of the socialist regime in Bulgaria. “They have lives over there, grandmothers, grandfathers. For these reasons they visit those countries a lot and they often bring goods into Turkey. They also have a business mindset; they bring goods, sell them here, buy other goods and sell them there” (Interview 5, Edirne, Customs Officer).

As for the Georgian case, both Turkish and Georgian citizens who have travel permits can make daily trips to Georgia and Turkey. They bring cigarettes and alcoholic drinks in their luggage by exceeding their passenger allowances. Piecemeal trade is the primary source of livelihood for many Georgian women who come from Georgia almost every day and easily sell the goods they bring: “You will see them if you go right now... Especially Georgian women, they all have five or ten cartons of cigarettes in their bags” (Interview 103, Artvin, Journalist).

In this piecemeal smuggling, Turkish citizens traveling to TR of NC, Georgia or Bulgaria (besides what they reserve for self-consumption), sell the excess quantity either to peers and acquaintances or to retail sellers and restaurants directly. For some Turkish citizens, this individual trade is a professional activity that provides them an income, certainly modest compared to wholesale profits, but quite important nonetheless compared to alternative income sources they might have.

The number of these individual smugglers, and thus the quantities of smuggled goods, is not negligible at all as suggested by a customs officer from Artvin (Eastern Black Sea): “Three to four thousand people pass the border every day depending on the season, more during summer, on school holidays... As long as they pay the fees they can cross the border and return as often as they want, but if someone passes 4-5 times in a day it attracts suspicion and you start tracking that person” (Interview 99).

### ***Coach smuggling***

Individual smuggling may take on the appearance of modest wholesale smuggling when coach drivers transporting Turkish citizens to Georgia or Bulgaria “convince” their passengers to bring back with them alcoholic drinks and cigarettes exceeding their personnel needs and deliver them to the bus driver once the border is crossed. It is also reported that coach companies may carry out smuggling by abusing the customs exemption rights of passengers. These companies take people, particularly with dual citizenship, to the neighboring country free of charge and give them pocket money for expenses; and in return, the passengers let them use their exemption rights: “Every passenger on the bus is a dual citizen and let's say each one of them has the right to carry in 5 bottles ... an 80 year old lady passes the border with 5 bottles of Mastic. Those bottles are bought from her afterwards. They sometimes also offer food or pocket money. With 40-45 passenger per bus doing this means lots of goods are being brought into Turkey this way” (Interview 55, Tekirdağ, Farmer).

Another method of exploiting the customs exemption is "asking others for help". Here, the smuggler stands at the border and tries to take advantage of the exemption rights of people passing through customs. The passenger might be convinced by a modest commission to buy the quantity of goods legally allowed and deliver them to the waiting person on the other side of the customs (Interview 99, Artvin, Customs Officer).

The earnings from individual smuggling, though not nearly as high as profits made from wholesale smuggling, are more than what one would make working a typical, salaried job. The statement of a law enforcement officer in this regard is particularly illuminating: “Let’s say a guy makes two trips with a minibus full of cigarettes, from Batman to Kayseri. If driver earns 7-8 thousand liras for the trip... I would do it... Once you start smuggling you can’t stop. A smuggler can earn my monthly wage in one run, maybe not on the first try but the gains are high, they won’t stop” (Interview 79).

### ***Mule smuggling***

Another method of smuggling is done using mules and even horses as a means of transportation crossing the borders in the East and Southeast via historical routes. Mule trade is usually done in places where two border settlements are relatively near each other because people need to pass mountainous regions quickly and reach settlements as soon as possible. Usually, around fifty-sixty mules are ridden. Once the smuggled goods brought on mules arrive on the other side of the border, they are loaded onto vehicles and then either transported to villages and sold to intermediaries or transported to neighboring cities and marketed to retail sellers (Interview 133).

The quantity of goods smuggled by the mule trade is much greater than the quantities smuggled by coach passengers: “There were sacks that we called ‘*çutra*’. Those sacks could hold up to 65 liters, which was the equivalent of three and a half canisters. Each trip they would bring 7 canisters, 10 canisters, 12 canisters per mule. In those days mules were more expensive than cars” (Interview 132, Şırnak, Tobacco user). But at the same time this is the most dangerous kind of smuggling; the lives of smugglers are at risk. The smugglers may be shot or blown up by mines (Interview 228, Van, Customs Officer).

Even the expectation of high earnings relative to alternative sources of income (raising animals or crops) cannot explain the choice of such a dangerous “profession”. In the last section of this report, living conditions in the Southeast of Turkey will be discussed in greater detail, but it is worthwhile to point out here that mule smuggling is also a traditional way of life for the inhabitants of the region: “This is their profession. I even get the reply "I'm an ant" when I ask them their occupation. They even have Whatsapp groups among themselves called "The Ants" or

"Association of Ants". They see themselves as hardworking as ants... From their perspective, our ants are not smugglers, they are traders" (Interview 133, Şırnak, Customs Officer).

However, mule smuggling is in decline for a couple of reasons according to information received from the in-depth interviews in the region. The turning point seems to have been the tragic bombing of a convoy of local smugglers by Turkish air force jets in Roboski, a village in Şırnak, on December 28<sup>th</sup> in 2011<sup>24</sup>. It has also been reported that this traditional way of smuggling has decreased considerably as the region has become more dangerous due to the war in Syria. Other respondents suggest that the mule trade is no longer carried out because border controls have become very tight: "I do not think that the mule trade continues. I have friends in the military and I know that during patrols they even have orders to shoot any mule traders they see" (Interview 219, Van, Journalist).

That being said, the ant traders do not seem to have given up, still making all possible efforts to overcome the new obstacles and dangers. It is reported that tunnels were dug under border walls to facilitate smuggling. Moreover, a law enforcement officer stated that mobile pulley systems and cable cars are used to smuggle goods over the wall along the Syrian border: "As an example, after the erection of the wall on the border, smugglers started using mobile cable car contraptions. They get over the wall with those whenever there are no patrols. If the wall is too tall for their contraptions, they will dig under it" (Interview 198, Ağrı, Law Enforcement Officer).

#### B. Supply of smuggled cigarettes, tobacco products, alcoholic drinks, fuel and mobile phones

Having explained the common characteristics of wholesale and piecemeal smuggling, we will examine each of the goods in focus here separately by taking into consideration their variety, the specific methods and routes used, as well the estimated smuggled quantities and the ways of marketing. The trends observed, up or down, in the smuggling of each category of goods will also be discussed. We will begin with cigarettes and continue on to rolling tobacco, which has many specific aspects that deserve a separate section. Alcoholic drinks, fuel and mobile phones will follow.

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<sup>24</sup> Four bombs were launched on a convoy composed of 38 persons and 50 mules. In this tragic and not fully investigated event, 34 people lost their lives, 19 of them younger than 18 years old.

a. Cigarettes

***Variety of smuggled cigarettes***

There are three different categories of smuggled cigarettes in the Turkish market: The first is called “smuggled original” comprising the well-known international brands of cigarettes. This category also includes cigarettes that have been produced in Turkey, legally exported without VAT and SCT and then smuggled back into the country. The second category includes “cheap” cigarettes produced primarily in Eastern European and Middle Eastern countries for Middle Eastern and Turkish markets. These cigarettes include brands such as Zumerret, MM, JJ, Oscar and Prestige. Some of these cigarettes are reportedly produced in Afghanistan as well. The final category is “fake” cigarettes. These are counterfeits of internationally recognized brands. They are of low quality and produced in some neighboring countries as described below. Apart from these categories, e-cigarettes or “IQOS”s are being smuggled into the country. These products and their components can be found in many places despite being banned in Turkey.

***Smuggling Methods and Routes***

**i. Wholesale smuggling**

The wholesale smuggling of cigarettes can only be organized by domestic criminal networks with international connections. Large quantities of cigarettes are transported either by truck or ship using different methods to hide or camouflage them. Some typical methods are presentation of fake documents, disappearance of trucks in transit, transferal of cartons from ships to small boats at large ports, bribing customs and law officers when possible: “Smugglers will wait for the right moment, they will be informed, 99%. No one can risk million dollars’ worth of product. They will buy off everyone, hold every corner, the customs, the police. These are big crime syndicates, big organizations” (Interview 78, Istanbul, Customs Broker).

The routes taken are impressively large and complex, spread over all border regions as the very detailed explanations of our high ranking customs officer indicate: “Cigarette smugglers have different routes. Products can come from Albania, Serbia or Montenegro through Cyprus and Libya to Turkey and Georgia. There are container depots in Egypt and Jebel Ali Port... Cigarettes can either come from Jebel Ali or Egypt, it can be from Piraeus if smuggled from Aegean region. If the smugglers are aiming for Turkey, the products will come from one of these places. Smugglers

try to find ways to declare and pass cigarettes at customs as different products... What's important is that products will not be smuggled directly from the country of origin. They will be shipped to a few countries before being smuggled to the target country" (Interview 2) .

The Iranian border is one of the key entry points for smuggled cigarettes. Contraband Marlboro cigarettes are produced in Iran. A similar brand name to Marlboro is written on these packs. These illegal products have been distributed across the country through Van and Hakkari. Other cigarette brands such as M&M, Kent 8, Kent 6, Empire and Capital are smuggled from Iran (Interview 2, Istanbul, Customs Officer).

Iraq is another entry point. Among the smuggled cigarettes from Iraq, the original Marlboro holds a special place. An expert on the topic said that Iraq imports cigarettes in quantities above its consumption capacity in hopes of smuggling these goods into Turkey (Interview 1, Istanbul, Customs Officer).

The smuggled cigarettes are not only those originating from foreign countries but also include cigarettes that are produced in Turkey and exported to neighbouring countries through legal channels and then smuggled back into Turkey illegally. The city of Torbalı, a district of İzmir, where cigarette manufacturing companies are localized emerges as the origin of these exports whose destinations are TR of NC, Iran, Iraq, etc. Northern Cyprus is mentioned frequently for smuggling exported cigarettes back into Turkey. Mercantile vessels and private yachts are used for this illegal trade. That way, cigarettes can be sold at half price without having to pay heavy taxes (Interview 114, Samsun, Law Enforcement Officer).

Fake cigarettes produced in Georgia are also smuggled. The testimony of a truck driver concerning the Georgian factories which produce fake versions of internationally known brands from the same tobacco (sic.) is striking: "I worked as a truck driver for a period. Back then, once, we loaded tobacco on my truck in Sason, Diyarbakır. I brought it to Georgia, some to Tbilisi some to Kutaisi. I have been to the factories. They had all kinds of boxes there, Marlboros and Winstons and everything. Tobacco entered from one end and exited packed as different brands on the other end. There is no difference. The difference in taste is only psychological (Interview 101, Artvin, Tobacco user).

Another incredible example of fake cigarettes is depicted by a customs officer from Kilis (on the Syrian frontier): "What did we catch in Pendik Port in İstanbul? Murat Alemdar. That's Polat

Alemdar, the fictional TV character, with pictures. He is known as Murat Alemdar in Arab countries. They put his picture on the packs. Named the brand after him. It was from Iraq, Arab countries (Interview 28).

The Bulgarian border is also one of the important routes for cigarette smuggling. It is reported that many cigarette brands are produced in Bulgaria, and some of them, such as Prestige, are produced solely for illegal trade. These kinds of low quality, cheap cigarettes produced in Bulgaria have been smuggled into Turkey from Iraq (Interview 5, Edirne, Customs Officer). Another customs officer commented “What’s interesting is they are not sold in the countries they are produced in”(Interview 1, Istanbul).

For the fake originals from Russia, Georgia is another significant entry point for cigarette smuggling in the Eastern Black Sea and Northeast Anatolia regions. In this type of smuggling, changing tax stamps constitutes an original method. The tax-stamped cigarettes coming from Russia are labeled with a fake Turkish badge. Shops sell these like legal cigarettes manufactured in Turkey: At the time when I was working, they smuggled Parliament cigarettes from Russia and changed the tax-stamps. They brought in cigarettes with blue stamps from Russia for cheap prices. You couldn’t tell the difference by just looking, it looked like the legally tax-stamped cigarettes. Smugglers removed the old stamps and put new ones on them.” (Interview 114, Samsun, Law Enforcement Officer)

Before closing this section on wholesale cigarettes smuggling methods, it is worthwhile to share a particularly remarkable example of illegal trade related to domestic production. It is a very sophisticated and cunning method revealed by our high ranking customs officer from Istanbul: “Certain foreign brands of cigarettes used to be produced in Turkey. You could find them in black markets. We focused on the production firm and listed the cigarette brands it produced. We checked if this firm had the necessary licenses or not. One of the brands turned out to be an Italian company. We got in touch with this Italian company and they replied that they were not selling any tobacco or producing any cigarettes under their name in Turkey. We began inspecting how this company in Turkey acquired these licenses. They had a license for a name in Dubai and that license is not for cigarette production but for giveaway samples” (Interview 2).

## **ii. The piecemeal trade**

As has been explained already, the piecemeal trade plays an important role in the smuggling of cigarettes in terms of the total quantities at stake. Each person passing through customs has the right to bring in three or four cartons. The coach can easily pass through customs because the number of products per passenger is within the legal limits. Between 2,000 and 2,500 passenger coaches go and return daily, bringing approximately 15,000 cartons of cigarettes into the country "legally". Then those cigarettes are either sold directly to users and wholesale traders or collected by the drivers and they join the wholesale network (Interview 133, Şırnak, Customs Officer).

As mentioned above, the other smuggling method used mainly by long-distance truck drivers is hiding a limited quantity of cigarettes inside a tire, under the engine or in a secret compartment of the vehicle. With this method, it is possible to bring maybe 5-10 or even 40-50 cartons of cigarettes at once. However, it is understood that drivers mainly do this to earn additional income (Interview 193, Erzurum, Retail seller and Interview 220, Van, Law Enforcement Officer).

More audacious “ant traders” may try to pass the cartons of cigarettes by hiding them in their clothes or bringing them into the country in their luggage. A customs official from Istanbul reported that an old woman was once caught with no less than 100 cartons of cigarettes concealed in her loose clothes (Interview 2).

As for IQOS smuggling, let us note briefly what has been reported in a few interviews. IQOS are brought from the Ukraine to Cyprus by sea. Respondents stated that the Ukraine has the cheapest cigarette prices. Those involved in the shuttle trade from the Ukraine bring IQOS products, as well (Interview 1, Istanbul, Customs Officer). TR of NC constitutes an important hub, since IQOS products are allowed there: “People are trying to smuggle from Cyprus. They try to hide it in vehicles, bring it in passenger luggage; they have a variety of ways” (Interview 50, Mersin, Customs Officer). The profit margin in IQOS seems to be quite appealing: Bought for 60TL in Ukraine, it may be sold for 200TL to an intermediary agent in Turkey.

### ***Retail marketing methods and market shares***

Smuggled cigarettes are sold in a variety of places: street vendors, grocery stores, kiosks, and local supermarkets. It is reported that “second class gas stations sell both smuggled diesel and smuggled cigarettes, they sell smuggled cigarettes under the counter... They have smuggled Prestige cigarettes at Sultanbeyli, Kurtköy, Samandıra and Sarıgazi (districts of Istanbul). You can even

order on the phone. We order two cartons and a guy delivers with a motorcycle”. It is also stated that illegal cigarettes are sold in butchers, gas stations, and grocery and clothing stores (Interview 75).

It should be noted that the retail sale of smuggled cigarettes is largely tolerated in the Eastern and Southeastern regions, where the majority of Kurdish people live. The testimony of a smoker from Ağrı offers evidence for this tolerance: “There is this Bayram Market, you can easily find there... I mean I shopped alongside a cop before, I asked for and bought smuggled cigarettes right in front of a cop. Never had any problems to this day” (Interview 206). There are also those selling illegal cigarettes in the weekly neighborhood markets and even in special smuggled goods markets. The most interesting example is the street market of Adıyaman (Southeast). It opens every day at 5 am and closes at 10 am. In Section VI of the report this particular case will be discussed.

However, in other regions of Turkey this tolerance does not exist, and the retail selling of smuggled cigarettes must be quite discreet and some precautions must be taken: “There were a lot of them in Basmane (a district of İzmir), but nowadays they sell under the counter. They used to display on the streets. Now they put them in plastic bags... They don’t put these on shelves or displays anymore; they sell them under the counter” (Interview 184). Another user from Samsun (Western Black Sea) says: “If you don’t know the customer you get suspicious as he or she can be a cop. If anyone asks, you tell them that you don't sell. You need to know, customers have to have a reference. Because they can be cops, they might be there for an inspection” (Interview 115).

According to a law enforcement officer, the market share of smuggled cigarettes in the Southeast region is not less than 70% of the total consumption. The relative shares as given in the KOM reports also implicitly support the claim that the illegal trade of cigarettes in the East and South is relatively high. Indeed, all of the provinces with the highest shares of seized smuggled cigarettes between 2011 and 2017 (except Adana) are located in the East and Southeast: 7.9% in Van, 6.2% in Adana, 5.1% Şanlıurfa, 4.8% in Ağrı, 4.6% in Gaziantep. It is also worth mentioning that these shares greatly exceed the shares these provinces have in the national income.

In the Western regions it is estimated that the consumption of illegal cigarettes may be 20-30% at most, since the entry of original cigarettes through duty-free shop smuggling, which used to be very common, has now decreased because of the huge depreciation of the Turkish Lira in the last

two years (Interview 79). We will return to this impact when we discuss the smuggling of other goods.

Retailers often do not keep stock as the cost of storing expensive products is high, and its release to the market is fast. On the other hand, they keep stock to some extent in the winter as there might be potential challenges in the supply chain due to weather conditions: “I rented a different warehouse and stocked them there. I took as much as I could sell to store at my shop. I stored them in secret compartments in my shop. I sold just like a retailer. Sold some in packs and some in cartons. I bought 500 to 1,000 cartons and stored them in my warehouse (Interview 196, Erzurum, Taxi Driver).

Needless to say, retail selling of smuggled cigarettes is severely punished in Turkey, as explained in the Legal Framework section. Even though in the East and Southeast retail selling benefits from a certain unofficial tolerance, this not the case in the rest of Turkey. Therefore, the earnings must be satisfactory. Indeed, according to the information collected through the in-depth interviews quoted below, profitability appears to be at least around 25-30%, sometimes reaching up to 60%: “We sell a pack of smuggled Marlboro Touch for 7 or 7.5 liras. It costs me 3 liras, I profit 4 liras on the pack. 50 cents of it goes to rent and workers. I profit more than 3 liras, my profit is 2 liras with tax-stamped cigarettes” (Interview 83, Ankara, Retailer, Seller); “The cheapest tax-stamped cigarettes are 17-18 liras. We bought smuggled cigarettes for 5 liras and sold them for 7, bought them for 6 and sold them for 8 (Interview 196, Erzurum, Taxi Driver).

### *Changes in supply over time*

The main fact that should be underlined regarding the trends in the smuggling of cigarettes is the significant decline due to improvements in the control techniques at the border gates and on domestic routes. As already stated, the decisive official efforts at the customs and borders have significantly decreased the arrival and sale of smuggled cigarettes. Some customs officials state that special measures have been put into effect against smuggling. Moreover, international cigarette manufacturers have an active role in the fight against smuggled cigarettes. In an effort to further their support, they seem to be in close collaboration with the European Anti-Fraud Office (Interview 81, Istanbul, Customs Broker).

The number of captured cigarettes given in the KOM reports supports this (See Figure I.3). This number is almost negligible in the 2004-2008 period (around 10 million packets), then it increased rapidly from 2009 onwards, reaching 140 million packets in 2015. Then a rapid decline is observed and the seized cigarette quantity decreased to 10 million again by 2019. The factors that caused this decline are largely explained in the in-depth interviews.

Some respondents stated that besides these developments, the wars in Syria and Iraq have also caused disruptions in the arrival of smuggled cigarettes in the Southeast region. It has to be noted also that the share of the original bands in smuggling declined tremendously because of the great depreciation of the Turkish Lira, as already noted. As a result, the use of tobacco increased dramatically as will be explained below (Interview 137, Şanlıurfa, fuel user).

Some changes have been implemented in recent years concerning the rules and practices that were allowing people to frequently cross over the border. Thus, the “organized piecemeal trade” has become quite challenging. Indeed, the “exit fee” has been increased from 15 to 50TL. Moreover, the frequency of visits are now limited for Georgians, who used to have the right to make daily visits to Turkey. As for Turkish citizens, who were able to make daily visits to Batumi, they now must stay at least one night in a hotel. These new rules have increased the operational costs of smuggling, and combined with the depreciation of the Turkish Lira, have affected adversely and sizably the piecemeal illegal trade.

Although there is a consensus that there is a decline in the quantity of smuggled cigarettes in recent years, the estimations about the size of the decline differ. The high-ranking customs officer quoted previously on different issues estimates that “the share of smuggling that had attained 26% in the 2010’s has declined to 8% nowadays” (Interview 2). According to another customs officer from Van (Southeast), “smuggled cigarettes’ share is around 2 or 3% in Turkey” (Interview 228). The view of the streets of Gaziantep as described by a smuggled cigarette consumer gives an idea about the size of the decline: “There is a great decline; for example, you could see street vendors openly selling smuggled cigarettes every thirty meters. Not anymore. You can go down this street, you can see one three hundred meters away in a small shop in the corner. Only people who know the seller can go and buy, otherwise you cannot buy” (Interview 149).

The fact that the share of smuggled cigarettes became marginal in the market does not mean that the smokers of these cigarettes have started to smoke legal ones, for the simple reason that the tax-

stamped cigarettes continue to be very expensive. Instead of giving up smoking, they have moved to other tobacco products.

#### **b. Tobacco**

Turkey is a historical producer and exporter of tobacco. Currently it is ranked as 10<sup>th</sup> in the world in terms of total production and ranked first for the production of oriental tobacco. Tobacco cultivation is mainly concentrated first in Aegean, second in the Southeast then in the Central Black Sea regions.

Until 2000, the public company TEKEL (meaning monopoly in Turkish) was in charge of the purchase of all of the tobacco produced, regardless of quality, at the floor price decided by the government. This public support policy was crucial for the tobacco farmers in the Southeast as the tobacco cultivated in this region was mostly of low quality and not in demand by the international tobacco companies. The support policy was abandoned gradually in the 2000's and tobacco became a free market product. From 2003 to 2009, the share of the tobacco production in the Southeast decreased from 16.8% to 2.2%, but as private companies encouraged the cultivation of good quality tobacco, production rose, reaching 14% in 2014<sup>25</sup>.

#### ***The particularity of tobacco production in the Southeast***

Not only is the production of tobacco a source of livelihood for a significant number of households in the region but also the inhabitants have had the habit of smoking rolled rolling tobacco for centuries. Nowadays, it is produced mainly in the provinces of Adıyaman, Bitlis, Şanlıurfa, Şırnak and Van at various qualities. Tobacco cultivation is a quite labor-intensive production process. That is why it is a vital occupation in a region where the employment rate is the lowest and the unemployment rate is the highest compared to other regions. During the in-depth interviews made with the stakeholders of Adıyaman, they stated that about two-fifths of the population in this province earn their living directly or indirectly through tobacco-related jobs (Observation 2).

Moreover, the return on tobacco farming is much higher than any alternative product. According to a tobacco retailer in Adıyaman, the money that might be earned from sowing and trading five hectares of tobacco equals fifty hectares of wheat. Nevertheless, the same retailer claimed that

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<sup>25</sup> The Philip Morris / Sabancı company played an important role in the revival of tobacco production in the Southeast by promoting the cultivation of Aegean tobacco in Adıyaman and Hatay. For more information see the report by Betam entitled “Tütün Tarımı ve Kalkınma Projesi Ekonomik Etki Analizi” dated August 2016.

tobacco cultivation is not very common because of the excessive legal regulations it is subject to. Another challenge is when producers are forced to sell at low prices due to lack of proper marketing channels (Interview 146).

### ***Main smuggling methods for tobacco***

There is a consensus that tobacco cultivation is regulated by the state through a quota system. However, in the Southeast the quotas are easily granted. International cigarette manufacturers buy from their contracted producers or from their regular vendors. Those products are taxed. A portion of the tobacco production for the use of rolling tobacco smokers may also be legally traded after paying taxes. However, the taxes are so high and the rolling tobacco smokers in general are so poor that an important part of the tobacco produced in the Southeast constitutes the object of the illegal trade. It is sold in local markets without any risk of prosecution but the same tobacco is considered illegal when distributed to other regions. However, once the tobacco arrives in Western cities, its marketing is mostly tolerated, as will be explained below in the marketing section (Interview 18, Şanlıurfa, Tobacco user).

Tobacco smuggling is almost a matter of wholesale trade. It is stated that the wholesale of bulk tobacco is carried out mostly by large families “like a tribe”. Family members work as brokers. They can easily spread to different regions and establish a network through acquaintances, and they may even constitute “armed gangs” (Interview 146, Adıyaman and Interview 83, Ankara , Retail sellers). These gangs are also responsible for preventing dumping in the retail market; the shopkeepers cannot cut prices in order to get a bigger market share (Interview 83, Ankara, Retail seller).

“Tobacco laundering” is certainly the most efficient method for tobacco smuggling. In this method, the smuggler gives the smuggled product to a contracted producer. Once the buyer merchant issues an invoice for the total amount, the sale of illegal tobacco is legalized. The explanation given by a customs broker of Istanbul clarifies this method: “A farmer produces a ton of tobacco but sells thirty-five tons to the market, how is this possible? By legalising illicit goods. Let’s say I am a smuggler and I want to sell my smuggled goods without hassle, you have a tobacco farm, I give you twenty tons of tobacco, you produced ten tons but declare it as thirty tons, voila, we have thirty tons of legally produced tobacco” (Interview 78).

Besides domestic tobacco, the tobacco produced in neighboring countries is imported by illegal ways and sold in Turkey. It has been reported that foreign smuggled rolling tobacco comes from Greece and Bulgaria to West Marmara, and from Syria and Iran to East and Southeast Anatolia. The tobacco from Greece enters the country via the Evros River. Waterproof bales are thrown into the sea close to the river. Afterwards, the GPS coordinates of the package are shared with the people who will receive the package on the Turkish side (Interview 5, Edirne, Customs officer).

In the Idlib and Latakia regions of Syria, very suitable for tobacco farming thanks to a micro climate, production takes place without any supervision. A major part of this tobacco is planted only to be sold in Turkey. This trade has become a significant source of income for Syrians both in Turkey and Syria; therefore, it has transformed into a growing "business". Involving large groups ("40-50 people at a time"), these people open shops and sell smuggled tobacco within their circles (Interview 161).

Iranian hookah tobacco is smuggled mostly on horseback and on mules. It arrives in Bitlis, which is also a production center of high quality tobacco. Legal tobacco from Bitlis is very expensive while "smuggled ones are more affordable" as explained by a tobacco consumer from Van. All this smuggled tobacco is sold in the city center. A sizable part is shipped to Western cities, transported at night on side roads (Interview 215).

### ***From field to retailer: Main routes and marketing methods***

In the cities in the Southeast, tobacco is sold in traditional sacks in open markets and consumers can buy any quantity they like based on their preferences. In other regions, in the big cities in particular, rolling tobacco is consumed either by wrapping it in paper or putting tobacco in "macarons" which are paper tubes with a filter at the end and sold individually in small shops and on the street. This rolling tobacco is sold in packages of one kilogram or five kilograms (Observation 2).

Macarons, on the other hand, can be sold empty for the customer to fill or can be found pre-filled. These ready-made and empty macarons are sold at tobacco shops. The places that sell both empty and tobacco-filled macarons have recently started to sell these pre-filled cigarettes in 20-piece packs, just like legal cigarettes as admitted by a retail seller in Ankara (Interview 83). They can write the names of their own brands on these packs or the names of various well-known brands: "For example, I saw this yesterday, a seller had a sign that said, '5-6 liras worth of tobacco'. There

is Adıyaman tobacco, Mardin tobacco, they all have grades depending on its taste being stronger or lighter. I saw a seller in a Gediz (district of İzmir) open-market whose sign said ‘Parliament tobacco’, ‘Marlboro tobacco’, ‘Winston tobacco’ (Interview 184, tobacco user).

Since it is difficult to prepare large volumes of pre-filled macarons with small tools, there are filling machines designed for this purpose. These machines are not cheap but the cost can be recovered in a short time. Those who do not have a machine may choose to employ people, mostly housewives, and give them the materials to roll the cigarettes for a small payment (Interviews 83, 160, 165, Ankara, Kayseri, Bursa; Retail sellers).

Non-tax stamped rolling tobacco can be sold in different ways. The first is cargo delivery. This method is considered to be especially safe when selling to distant markets, as there is a higher risk of getting caught for shipments via land: “They used to do it through cargo shipments. To give an example, Mehmet ships a package, declares the cargo’s contents differently... Cargo companies and tobacco sellers have an agreement. They pay-off a cargo agency manager and ship their products without any problems (Interview 136, Batman, Businessperson). But sometimes the packages might be seized. However, this is not very frequent. Thus, the money losses can be easily covered by the high profit margins (Interview 77, Istanbul, Retail seller).

Generally, shipping is done by brokers. Farmers do not have the knowledge and connections to sell their products, so intermediaries come into play: “Farmers in Adıyaman have neither the know-how or skills to sell their tobacco nor the means to do it. Tradesmen like us buy the tobacco. We are intermediaries. Wherever you go in İstanbul, for example Tahtakale, you can definitely find tobacco there... More than half of the tobacco is shipped to İstanbul. We mostly ship with regular cargo companies. Otherwise, if the police or gendarme see tobacco in bulk in a car trunk they seize it. It is illegal to possess more than fifty kilograms of tobacco... Not all of the cargo companies do it but there are two or three of them doing it” (Interview 146, Adıyaman, Retail seller).

Apart from cargo, some wholesalers or retailers go to cities close to production areas to buy their tobacco directly: “We bring tobacco from Diyarbakır but not all of it is farmed in Diyarbakır. It is farmed in Iraq and also Syria. Production continues despite the war in Syria” (Interview 83, Ankara, Retail seller); “I bought from Mersin and I sell here “(Interview 116, Samsun, Retail seller).

Retailers usually buy from the same wholesalers. They make these purchases either at their own shop or at the wholesaler's place. This approach helps the wholesalers work with steady customers and creates an atmosphere of trust. After all, mutual trust is necessary to continue a smooth and profitable smuggling business. With trust established, the wholesaler knows he will always receive the payment while the retailer guarantees access to high-quality goods. As a result, wholesalers can maintain their position in the market for a long time (Interview 83, Ankara, Retail seller).

The retail sellers' storage problem was mentioned several times in the interviews and seems to be a critical issue for retailers for many reasons. First, the supplier may not be able to provide the product due to the risk of being caught. Secondly, weather conditions may jeopardize transportation, especially during the winter, causing price increases (Interview 215, Van, Tobacco user). Moreover, tobacco goes stale over time. Though preventable, the initial freshness is hard to maintain and easily noticeable by customers, making it impossible to sell (Interview 83, Ankara, Retail seller).

### ***Smuggled tobacco marketed all over Turkey***

The tobacco markets were described in so many of the interviews that it is both impossible and unnecessary to quote even some of them. Therefore, here are a few examples from all corners of Turkey, East to West, North to South:

“They are sold on the streets in Eminönü, around Tahtakale in Women’s Markets around Aksaray, Fatih (districts of Istanbul)” (Interview 11, Istanbul).

“There are tobacco shops all around Urfa. Some are underground, some sell as street vendors with their products in a plastic bag, some sell openly in the middle of the street but most of them are in the Tobacco Bazaar in Derya Market (Interview 16, Şanlıurfa).

“Of course it is sold everywhere nowadays, it is easy to acquire... Go and take a look at the American Bazaar (Interview 181, Izmir).

“If you look up or ask for Yerleşim, everybody knows the place. There are small arcades between markets. Those arcades are full of tobacco shops. You can easily find it there (Interview 172, Bursa).

“Everybody knows the Egyptian Bazaar, I sometimes buy from there. Regular buyers know the place (Interview 48, Adana).

“This place is the Kilis Bazaar, you can find everything, smuggled cigarettes, tobacco... Tobacco selling is legal, so it is easier to find under any condition” (Interview 149, Gaziantep).

“There are tobacco shops on every street. They are selling Adıyaman tobacco as if it is taxed, it is probably smuggled” (Interview 124, Samsun).

“Tobacco selling is unrestricted here; there is a tobacco seller on every corner (Interview 55, Tekirdağ).

Besides the general tolerance accorded to the illegal tobacco trade in Turkey, this impressive affluence and accessibility to non-taxed tobacco can also be explained by the use of “fake invoicing”. Tobacco, rolling paper, macarons and filters can be sold in shops with an invoice justifying the payment of VAT and SCT charges. Respondents say that the shops selling these products have official documents and permits. In this case, the smuggling happens when selling rolling tobacco, alongside tax-stamped products and invoicing it all as “tobacco”. The complaint of a retail seller from Kayseri who refuses to sell smuggled goods is very meaningful in this regard: “They obtain their permits and sell both legal and smuggled products. We are selling legal products. Our sales have declined greatly. It decreased by 50%” (Interview 159).

That being said, although it is usually easy to access smuggled tobacco, it can sometimes be challenging to find the expected quality and taste, as reported by tobacco users from Hatay and Istanbul: “No, the only downside is, after I smoke all my cigarettes and order a new batch of macarons to be filled, it is never the same quality tobacco. Other than that, I can find whenever I want” (Interview 31, Hatay). “Finding high quality Bitlis tobacco can be difficult sometimes. Adıyaman tobacco is more common... It is not possible to be sure. You trust the shop you buy from.” (Interview 7, Istanbul).

The earnings among tobacco retail sellers seems a bit lower than for the smuggled cigarette sellers. While in the retail trade of cigarettes profit margins vary from 25 to 60%, in the tobacco trade the profit margins may be estimated at 25-30%. According to a tobacco seller in Adıyaman: “We can buy cheap because we buy in bulk. For example, it costs 90 to 140 liras per kilogram on the market, we buy directly from the farmers for lower prices. When we buy a ton or two, it costs us 50 to 80 liras per kilogram, depending on the quality of the product. If we buy for 80 we add 20 liras as profit, some add 30” (Interview 146). The same seller explains that the brokers providing tobacco

to the shops in the big cities can make up to 100% in profits: “The broker goes and buys for 50, ships it for 100 liras per kilo.”

### *Changes in supply over time*

It has already been underlined that there have been sizable increases in the prices of smuggled cigarettes in the last few years due to both a more efficient battle against smuggling and a strong depreciation of the Turkish Lira. As the smokers did not stop smoking – “nobody quit smoking” said a seller in Istanbul (Interview 77) – the demand shifted gradually to rolling tobacco and its derivatives. People first shifted from better and higher quality brands to below-average brands, then to TEKEL products. When TEKEL increased prices, eventually people switched to plain tobacco. A smoker in Gaziantep explains this gradual substitution effect in a colorful manner: “Parliament smokers started smoking Chesterfield. Those smoking the cheapest cigarettes started buying smuggled cigarettes. Smuggled cigarette smokers started smoking tobacco (Interview 149).

It is difficult to make even a rough estimation about the size of this substitution effect. Nevertheless, it is possible to get a broad idea with some information collected from in-depth interviews. For example a woman from Kayseri says that “Especially after the latest price hike nearly everyone started smoking tobacco” (Interview 154) while a retail seller from Şanlıurfa comments, “60% of smokers are smoking tobacco in Urfa today” (Interview 145).

#### c. Alcoholic drinks

The illegal trade of alcoholic drinks is one of the more interesting and complex cases among the smuggled goods studied here for various reasons. First of all, the prices of legal products were increased tremendously above CPI, as underlined in the section on the causes of the demand for smuggled goods. This made the relative prices of legal alcoholic drinks very high. As a result, the incentives for consuming smuggled alcoholic drinks or for producing counterfeit ones have been strongly reinforced. Second, the illegal production of some local alcoholic drinks is a historical tradition in Turkey; as the cover page of this report mentions. Third, the production of alcoholic drinks is relatively easy as it requires equipment and ingredients widely available. Fourth, home production has increased substantially in the past few years. Although homemade products are not included in the scope of our research, this substantial expansion has blurred the line separating self-consumption and illegal trade. Thus, it also deserves some comments. Finally, the production

of illegal alcoholic drinks in unhygienic facilities using methyl alcohol has caused numerous deaths in recent years.

### ***Variety of smuggled and illegal alcoholic drinks***

Illegal alcoholic drinks entail broadly three categories: “Smuggled original”, non-tax stamped international brands smuggled from abroad; “Fake” international brands in the form of authentic branded bottles giving the impression of the original; and finally illegally produced local drinks. However, we have to make a distinction in this category between the traditional production of alcoholic drinks like “*boğma raki*” or fruit raki and fake alcoholic drinks produced with either ethyl or methyl alcohol. Additionally, homemade alcoholic drinks (wine, raki, vodka and beer) have become a kind of piecemeal trade.

### ***Smuggling Methods and Routes***

#### ***i. Original drinks***

In the wholesale illegal trade, original alcoholic drinks coming in large batches from countries like Denmark, Poland or Georgia are shipped mainly by sea. Large shipments are reported to the customs authorities of the destination countries by the authorities of the countries of origin. Knowing this, the smugglers do not take the goods directly to the target country but move the ships around on the seas to cover their tracks. Goods rerouted to an available port nearby are eventually shipped to the destination country with the help of officials – “insider sabotage”- turning a blind eye. As noted by our high-ranking customs officer: “These are crime syndicates, there are great amounts of money and profit involved” (Interview 2).

However, the piecemeal trade is certainly the most widely used method in the smuggling of alcoholic drinks. The most popular method used in the piecemeal trade is the violation of customs exemptions in various ways, as already explained in the section about the common characteristics of smuggling methods. These violations may result in large quantities of alcohol obtained for commercial purposes. The hordes of “ants” constituted by Turkish citizens visiting TR of NC or Georgia frequently as well as Turkish people with dual citizenship, which allows them to make very frequent visits to Bulgaria, may bring with them “three or four bottles and many of these people sell them” (Interview 97, Ankara, Law Enforcement Officer).

Some respondents argue that as alcoholic drinks in Cyprus are produced by the factory of the company MEY in Famagusta people can purchase a similar, if not the same, alcoholic beverage at

a much more affordable price in Cyprus than in Turkey, raki being especially popular (Interview 1, Istanbul, Customs Officer).

A great number of Georgians and Bulgarians who made the ant trade their profession must be added to these crowds. “I know a nineteen year old guy who has been doing it for two years. He is richer than me. His father is Georgian... A large bottle of rakı is 200-250 liras here, it is 100-120 liras there. If he was to shuttle across the border fifteen times a month, it adds up to a significant number.” (Interview 115, Samsun, Alcohol user).

The in-depth interviews revealed, to our surprise, that even Greek and Bulgarian citizens who come frequently to shop in borders cities, as they do not need a visa to visit Turkey, have become major players in this piecemeal trade since “they realised that alcohol is really expensive in Turkey”. (Interview 54, Kırklareli, Businessperson and Interview 5, Edirne, Customs Officer).

Finally, special street markets have been organized in places like Edirne on the Greek and Bulgarian border: “You can go to Pazarkule and see for yourself; children, men and women, everyone walks around holding duty-free shopping bags” (Interview 59, Edirne, Alcohol user).

Truck drivers also make up a group of active players in the piecemeal trade of alcoholic drinks. They buy and smuggle through customs three to four bottles – one for themselves and the others to sell. Some of them make deals with customs officers. The border officials can be bribed with money or illegal goods handed as "gifts": “Customs officers take bribes, people are telling us how much they had to pay to pass” (Interview 119, Samsun, Alcohol user). The crew of ships traveling overseas can also smuggle serious amounts of product. Goods purchased at low cost from other countries can be “sneaked in” in the ship's various compartments and later sold in Turkey: “When I first came to İzmir I worked in a water distribution job. Ships come and go, crew members sold goods that they brought. I bought a lot of alcohol from them” (Interview 184, Izmir).

It is reported that nepotism is particularly common in the piecemeal trade. Respondents state that some officials and soldiers working at the customs favor their acquaintances: “I have friends among military personnel... I make requests of them. They bring a box from Northern Iraq when they come for annual leave... Guest workers from the west bring a lot in during the summer, we buy from them... They bring more than their legal limits... Especially with large vehicles” (Interview 119, Samsun, User). In some cases, uncoloured drinks like vodka are hidden in water

bottles: “They fill water bottles with vodka, it becomes unnoticeable” (Interview 220, Van, Law Enforcement Officer).

Another method of piecemeal trade is “valuation fraud”. This is done by passing a high-priced product through customs as a product of the same kind yet costs less. That way, the high tax on the expensive product is avoided. The example of Petrus being smuggled told by a customs broker is an example in this regard: “You can bring a thousand dollar bottle of Petrus and swap it with a five dollar bottle of wine. You pay the tax per litre, you haven’t declared anything different. It is still wine but what you have done is still smuggling” (Interview 78, Istanbul, Customs Broker).

## **ii. Counterfeit or fake drinks**

Fake alcoholic drinks are produced both locally in underground facilities in the vicinity of their consumption area (mainly in the West and South). It is claimed that “Cyprus is also great at counterfeit production, they are able to produce exact copies. Cyprus is the capital of smuggled alcohol... You cannot distinguish between originals and copies over there” (Interview 188, Izmir). To a lesser extent, counterfeit raki is produced in Iran and Syria then smuggled across the border (Interview 29, Kilis and Interview 213, Van).

Ethyl alcohol is important for the production of fake and home-brewed drinks such as raki, vodka, and whiskey. It is crucial to understand how ethyl alcohol enters and gets sold in the market in order to fully grasp the production of smuggled alcoholic drinks in Turkey. Ethyl alcohol is both produced and imported, and in the past it was possible to buy it from pharmacies easily. However, ethyl alcohol produced after March 2018 is sold by being "denatured", which means adding a substance that alters its flavor. Ethyl alcohol that has not been "denatured" can only be sold by licensed alcoholic beverage producers. Other than that, its sale is prohibited. The purpose of this prohibition is of course to prevent the use of ethyl alcohol in the illegal production of alcoholic drinks.

However, ethyl alcohol is either illegally imported or produced locally in large quantities as was claimed by a customs broker in Istanbul: “Do you know what the most smuggled product is, it is ethyl alcohol... People are bringing in tankers full of ethyl alcohol” (Interview 81). Once produced or imported it is distributed and can be bought “from herbalists or from places selling chemical goods... It is sold under the counter. There are a lot of names we know in Kemeraltı, I can’t give you the names but locations are apparent” (Interview 190, Izmir, Journalist).

The increasing difficulties and risks in the ethyl alcohol illegal trade chain in turn raised the transaction costs and pushed up the market prices. This induced the big producers of counterfeit drinks with high alcohol content, like rakı and vodka, to use methyl alcohol instead of ethyl alcohol. The use of methyl alcohol, a poison, has caused numerous deaths in recent years “Secluded warehouses in rural, unpopulated places” are chosen for the production of these very dangerous drinks and “original bottles are filled” and they use “the fake Turkish tax-stamps that give these counterfeit drinks the appearance of the original ones, which makes them so easily marketed” (Interviews 48, 8 and 61, Istanbul and Kırklareli).

Before discussing home production, which, over the last few years, has become a relatively important player in the illegal trade of alcoholic drinks, we would like to focus on the particular case of “*Boğma rakı*”. “*Boğma*” means “strangle” in Turkish, which refers to its production process. It is not a counterfeit drink because *Boğma rakı* is itself a special brand. Moreover, the production and consumption of this traditional drink go far back in the history of Anatolia. For centuries, it has been produced not only for self-consumption but also for commercial purposes, which makes it a historical and typical example of a product standing on the blurred line between innocent homemade drink and the smuggled one.

*Boğma rakı* is made by distilling alcoholic fruits. The most common fruits are grapes, figs, and blueberries. *Boğma rakı* is particularly popular in the Eastern Mediterranean region. According to our respondents, its production for private consumption as well as for trade has increased considerably in the last few years due to the price increases in tax-stamped alcoholic drinks: “There are people producing rakı themselves in Adana... they both drink and sell... There are some doing it for trade... Police caught some of them twice. Gendarmerie is taking it seriously” (Interview 36, Adana). Besides household production, it has been also expanded into large scale production: “They used to make it in the yards and gardens in the village but now they produce in secret... You need a hefty sum of money for it. It depends on the kilogram price of grapes, their availability, grapes can be expensive... They do it in a clandestine way” (Interview 52, Mersin, Businessperson).

It is worth noting briefly the case of wine produced by the Assyrians living in Midyat (Mardin) close to the Syrian border. This ancient Christian population produces large quantities of wine but

only part of it is marketed through legal channels. The remainder is sold at quite low prices in many shops under the counter in Midyat.

### *iii. Homemade drinks in the illegal trade*

In Turkey, producing up to 350 liters of homemade fermented drinks such as wine or beer for household consumption is permitted. Amounts that exceed the legal limit are considered commercial production and strictly prohibited. Homemade distilled alcoholic drinks, such as raki and vodka, are considered illegal because the production of "high alcoholic drinks" is prohibited, even if made for private use and not sold to anyone. However, in addition to *boğma raki*, strong distilled drinks with high alcohol such as vodka and whiskey can be made from fruits, rice, and potatoes (Interview 38, Adana).

As noted above, some individuals who were, at first, producing alcoholic drinks for their own consumption started to produce them in larger quantities for commercial purposes and became sellers over time. Although the quantities sold by a single producer might be modest, the number of these individuals has increased so much that the total quantity of alcohol drinks commercialized in this way has reached very high levels. The example given by a lady from Samsun in this regard is particularly striking: "Chemists at a university are producing raki and selling it at 70 liras per litre. We had a friend working there, he came and told us about it and asked if we wanted to buy... They are trading (Interview 119, Samsun). To some up, "the demand created the supply" as noted by one of our informants.

### *Retail marketing and market shares*

On the one hand, whatever the category, the price differences between legal and illegal alcoholic drinks is so high<sup>26</sup> that there is a huge demand for the latter. On the other hand, the profit margins in legal trade are so tiny that this creates an irresistible temptation for the sale of smuggled originals and counterfeit alcoholic drinks among retailers as well as among bars and restaurants. As a consequence, the number of interviewees expressing these attitudes is striking. Here we will

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<sup>26</sup> "The price difference between tax-stamped ones and smuggled ones is close to double, even more than double sometimes. Unfortunately, it is really profitable as long as you don't get caught, especially for restaurants, bars and such". (Interview 9, Istanbul, Retailer Non-seller)

present a selection of statements in order to explain how the illegal trade in this market is not only widespread but also how access to illegal alcoholic drinks has become rather easy.

Here are 6 quotations selected from among the in-depth interviews and representing almost every corner of Turkey from West (Kırklareli, Izmir) to East (Artvin, Van) and from North (Samsun) to South (Mersin):

“We buy our wine from people we know around us... We buy our rakı from someone we know too. People that make the wine use special combinations of grapes just for us” (Interview 65, Kırklareli, Tobacco and Alcohol user).

“You drink a beer for around 20 to 30 liras in Bornova. Camdibi is a neighborhood of Bornova, there people sell 5, 6 beers for ten liras... They must be producing at home, otherwise it is impossible to sell at such a price difference” (Interview 191, Izmir, Journalist).

“People who know can find it easily... From shops or even from street vendors... If you place an order, the seller meets you, takes your money and comes with you to a safe place for delivery” (Interview 222, Van, Alcohol user).

“Ninety% of the shops selling alcohol also sell smuggled alcohol” (Interview 99, Artvin, Customs Officer).

“You can buy alcohol at any time of day in any district of Samsun... Once I bought at 2 am in Ordu from a roadside kiosk” (Interview 119, Samsun, Tobacco and Alcohol user).

“They used to sell out in the open around the Cyprus market” (Interview 53, Mersin, Lawyer).

The state of smuggled and homemade alcoholic drinks has reached such dimensions that besides shops and street bazaars, Facebook has become an important channel of marketing, and it is reported that now there are even chat groups: “There is a significant trade. There are open Facebook groups with ten to forty thousand members. They actively communicate in these groups, rate the products or praise the products” (Interview 15, Istanbul, Employee of a Liquor Company); “They have a chat group... Bulgarian immigrants do this for a living; I try to reach one of them by phone and tell them what I need for the night, they deliver... Not from a shop, a person takes one from his or her home and delivers it” (Interview 60, Kırklareli, Alcohol user).

Consumption of non-tax-stamped alcoholic drinks is quite widespread in places such as restaurants, bars and taverns. According to hearsay, in some regions of the country like Alsancak

(a district of İzmir), 90% of these establishments serve counterfeit drinks (Interview 190) or in Artvin, “You go to a restaurant, the waiter asks: ‘Do you want export or Turkish rakı?’. If you drink Turkish rakı and eat fish, the bill reaches 200 to 300 liras. If you drink the exported one bill will be around 100 liras”(Interview 101, Artvin).

The basic motivation of the retail sellers and owners risking illegal trade is the threat of bankruptcy on account of the serious risk of losing customers. Small businesses say that their profit margins and working capital are not enough to carry on the legal business due to constant increases in the prices and taxes of alcoholic drinks. Business owners cannot buy the expensive tax-stamped drinks in the quantities necessary for decent earnings, and even those capable of ordering such quantities are not able to sell all of them as explained by a shopkeeper who refuses to sell illegal products: “Especially last year, prices increased step by step... I could buy three to four boxes of goods, now I can only buy one box of goods... If you are asking about rakı, sales dropped close to 70% (Interview 67, Kırklareli, Retailer, Non-seller).

The state of affairs in the restaurant and bar business is not too different, in particular for those located in popular zones. Owners and managers of alcohol-serving establishments say they have to find a way to obtain "cheap drinks" in order to avoid bankruptcy. They have to be on par with the customer's purchasing power and avoid becoming more expensive than their competitors: “The customers want to drink alcohol, but they don't want to pay that amount of money. There is also competition. So, you see people scavenging for used bottles. What a pity” (Interview 8, Istanbul, Non-seller retailer).

A journalist in Izmir explained that establishments that offer alcohol by the glass (like bars and restaurants) do end up having to sell illegal drinks, to some extent, since otherwise they apparently cannot afford their own pricing. “For example” he says “they write on the door, two vodkas for thirty liras. Who can sell it at that price, there can be no such thing. A small bottle of vodka is sold for 120 liras in Turkey”(Interview 190, Izmir).

### ***Regional disparities***

The consumption of alcoholic drinks varies greatly from one region to another according to the degree of conservatism prevailing in each region. Smuggling and the production of counterfeit as well as homemade production of alcoholic drinks are determined according the amount of regional

consumption. Moreover, a regional specialization in the type of alcoholic drinks exists along with the historical preferences.

Illegal and home-brew alcohol is widely consumed almost throughout the country except in the East and Southeast: While the consumption of smuggled cigarettes and local tobacco has an overwhelming share in the Southeast, this region constitutes only an entry point with minimal consumption regarding alcoholic drinks: “I haven’t seen alcohol trading around here” (Interview 136, Batman, Businessperson), “I haven’t run into alcohol. Alcohol consumption is low in Ağrı. People in Ağrı do not drink” (Interview 203, Ağrı, Law Enforcement Officer).

Two regions emerge as leaders in the demand and supply of alcoholic drinks: The Mediterranean and the Western regions. In the Mediterranean region, in particular in Adana and Mersin, there is a sizable production of “*boğma rakı*” as this is a historical tradition in the region. Indeed, according to the KOM reports, Mersin and Adana rank third and fourth in terms of their shares in illegal alcohol seizures between 2011 and 2017, with 10.7% and 9.9% respectively. In this regard the first and second ranks belong to İzmir (17.4%) and to İstanbul (16.4%) situated in the West and close to the Greek and Bulgarian borders. Muğla and Antalya, which are also in the Mediterranean region, rank fifth, with 4.4% and 4.3%. The Thrace, being close to the Greek and Bulgarian borders, is a privileged place of smuggled originals in particular Bulgarian Mastic and Greek Ouzo (Interview 54, Kırklareli, Businessperson). The quantity of these smuggled drinks is so large that they are distributed widely in the Marmara region.

Thrace being a region of vineyards, the illegal production of wine is also very widespread as indicated by two respondents: “We have an advantage, we can easily get grapes. ... As a result winemaking is really popular around here” (Interview 55, Tekirdağ, Farmer). “As I said, wine from Yeniköy is famous, every family makes their own. We buy from them, as many others do (Interview 59, Edirne, Alcohol user). It is worth noting that even in Central Anatolia, known for its conservatism, homemade production and trade of wine exists: “Kayseri has a history of vineyards. On the outskirts of the city... They make their own or buy from people around them. Alcohol consumption is actually very high but they aren’t reflected in the statistics” (Interview 161, Kayseri, Journalist). In the Black Sea region, as already noted, smuggled original drinks come from Georgia and are sold easily either to different kinds of shops or to restaurants and bars.

### *Changes in supply over time*

It is very difficult to make even a rough estimate about the extent of the illegal trade of alcoholic drinks as well as their market shares in the past and nowadays for three main reasons. First, the smuggled goods come into Turkey from different points mostly by way of ant traders and ordinary passengers. Second, the underground production of counterfeit drinks continues under well-hidden conditions. Third, the extent of homemade production for commercial purposes is quite unclear. However, it is possible to point out some observations and facts mentioned in the KOM reports as well as in the in-depth interviews in order to give some idea about the trends in the illegal trade of alcoholic drinks. According to the KOM reports, the number of seized bottles remained rather small (around 250 thousand) until 2017. Then, within two years, the number of smuggled and counterfeit alcoholic drink bottles rose to approximately 1 million 750 thousand. Although a rather limited decrease is observed in 2019, this decrease cannot be considered as definitive evidence for a decline in the production of counterfeit or commercialized homemade alcoholic drinks.

First of all, one should remember that the sizable depreciation of the Turkish Lira in recent years in addition to improved customs controls had the same effect on the demand of smuggled original alcoholic drinks as in the case of the international brand cigarettes. As they became more expensive their demand shifted to counterfeit or homemade products. In fact, the same substitution effect is observed in the tax-stamped domestic drinks like raki as their prices rose rapidly not because of the depreciation of the Turkish Lira but because of increasing taxes. The manager of an alcoholic drink producer company claims, “Before the privatization of TEKEL, annual rakı production was at 75 million litres. Today rakı production is down to 35 million liters and the whole alcohol market has shrunk to 50 million liters (Interview 15, Istanbul).

As the demand for smuggled original and tax-stamped local drinks decreased, the consumption of counterfeit and homemade drinks increased. A simple computation made by a retail seller in Istanbul concerning estimated quantities consumed per month, in only one district of Istanbul, is striking: “There are around 800 bars in Taksim. If a bar owner was to buy two bottles of smuggled alcohol every day, that makes sixty a month. Multiply that by 800, that makes approximately fifty thousand bottles of smuggled alcohol... “ (Interview 77, Istanbul, Retailer seller). On the other hand, a retailer from Lüleburgaz (a town in Thrace) claims that “30-40% of all alcohol in Lüleburgaz is smuggled” (Interview 67, Kırklareli, retailer non-seller).

As might be expected, homemade production has increased dramatically both for personal consumption and for commercial purposes: “There were not this many people before who make their own beer or alcohol. People made wine for their own consumption. They saw an open market for it and so they began producing five hundred kilograms of it instead of a hundred” (Interview 63, Kırklareli, Alcohol user).

#### d. Fuel

Among the smuggled goods under study in this research project, smuggled fuel is certainly the one whose trade became rather marginal due to various reasons that will be explained at the end of this section (see “changes over time”). It is worth noting at this point that fuel has no substitute as is the case for cigarettes and for alcoholic drinks. We should say that all descriptions and explanations concerning the smuggling and marketing methods belong largely to the past and the smuggled fuel file is not completely but mostly closed. That being said, we would like to point out that fuel smuggling caused a sizable decline in public tax revenues (Interview 179, a prominent member of a business association in the energy sector).

#### *Smuggling Methods and Routes*

Diesel is the primary type of smuggled fuel, with LPG and “Number 10 oil” (a fuel produced by mixing Number 10 machine oil and certain chemicals) being smuggled at a lesser extent. Illegally imported crude oil or oil stolen from pipelines and refined in underground and primitive facilities are also in the smuggled category.

Fuel smuggling is done both on a small scale through "piecemeal trade" or as "illegal wholesale trade. In addition to these, there is the tax evasion method carried out through false billing. Respondents stated that this latter method was resorted to more often after the recent prevention efforts. Outcomes of this kind of smuggling, which reduce tax revenues and cause unfair competition, are no different than physical smuggling. Therefore, we covered them in our research.

##### **i. Wholesale smuggling**

Illegal wholesale trade is a matter of complex organizations, extensive networks, and a hierarchical structure. Indeed, getting into the country, transferring the fuel through the distribution channels, transporting them to the market, and reaching the user require an expansive network of relationships. According to the respondents, the leading figures of these criminal activities stay

behind the scenes; even if they are known in the market, nobody can reach them (Interview 179, İzmir, a prominent member of a business association in the energy sector).

Moreover, illegal money needs to be laundered in some way. It is reported that there are two methods for this. First, during wholesale trade, the amount of fuel shown on the invoice is not delivered to the customer, but the cost is charged. Excess fuel, which is paid but not delivered, is later sold to others without an invoice. Another method is to establish legal businesses such as construction, shipping, or auto dealing, where the illegal money can be easily transferred to the system (Interview 179, İzmir, a prominent member of a business association in the energy sector).

A journalist in Istanbul confirms what may seem a serious and unfounded accusation: Apparently the “big players” used the money they earned in fuel and other kinds of smuggling as capital in the legal fuel trade, and are now “considered highly respected businesspeople” (Interview 80). A law enforcement officer from Samsun went even further by pointing out the collaboration with state bureaucracy: “It is impossible to think a single person can handle all this. Once there was a group stealing oil from a pipeline in Adana. Among the group were wealthy people, bureaucrats... The government is aware of these things” (Interview 114).

Allegedly, law enforcement officers condone the use of illegal fuel by some "privileged" persons, sometimes in return for small bribes: “Local law enforcement units like police, gendarme, usually know about it but look the other way, so they get their small share... People who do these things are generally owners of local football clubs, gang leaders in places like Sultanbeyli or Sultangazi, popular local people like land owners, people who have friends in high places” (Interview 78, İstanbul, Customs Broker).

According to another respondent, fuel smuggling took on a different form with the Syrian War. After the Turkish involvement in Syria, fuel was smuggled through zones controlled by independent oppositional forces, and this organization is run under the surveillance and control of Turkish military: “I heard that it is done with tankers, through opposition controlled zones to Reyhanlı (under Turkish military watch). I haven’t seen it with my own eyes but that’s what people around are saying” (Interview 52, Mersin, Businessperson).

Smuggled diesel comes from Russia, Bulgaria, Romania, Iran, Iraq and Syria. LPG comes from Libya and Algeria. Crude oil comes from Central Asian countries. The wholesale illegal trade of fuel is primarily conducted via the Mediterranean and Black Seas by ships mooring at the large

ports. It is transferred to smaller ships. As an alternative method, ship captains may covertly sell fuel from their ships' fuel tanks. Diesel smuggled by trucks was coming mainly from Georgia, Greece and Bulgaria, but it is no longer profitable because of the depreciated Turkish Lira. Nevertheless, smuggling from Iraq and Syria continues due to the very low prices in these countries (Interview 23, Şanlıurfa, Lawyer).

Maritime trafficking plays an essential role, particularly in wholesale smuggling. That way, smugglers bring enormous amounts of fuel into Turkey. Petroleum products are transferred from a tanker to small boats in international waters and distributed after landing. One well-known example is the Libya-Turkey route. In Libya, small ships fill fuel from large tankers waiting in the open sea and then go to Malta. These ships are believed to carry around 500 tons of fuel in total. Forged documents are prepared in Malta. These ships come to Turkey after traveling around various ports, such as Kerch (Crimea) or ports in Georgia (Interview 2, İstanbul, Customs Officer).

An important whole sale fuel smuggling route starts in Central Asia. Due to the insufficiency of fuel refineries in Central Asia, large quantities of crude oil (10 to 50 million gallons) are imported from Turkmenistan and Uzbekistan by Turkish companies. Those companies declare that they purchased less than they actually did, and the under-reported quantity is sold on the black market to primitive underground refineries (Interview 161, Kayseri, Journalist).

Another example of wholesale smuggling is stealing from pipelines: "I heard that in the Southeastern region they make many holes on the main pipeline that carries fuel, just across the border. Then they use smaller plastic pipes to suck the fuel from the main pipeline and transfer it into Turkey (Interview 179, İzmir, a prominent member of a business association in the energy sector).

The last and most interesting method of wholesale smuggling reported is to declare the fuel as another product in order to pay less customs duty and SCT (Special Consumption Tax). For example, there are cases where diesel is declared as yoghurt or is passed by adding oil to hide it (Interview 223). In another case, the smuggler had filled a gas container partly with fuel and the remaining part with air so that when the container was checked it would make a hissing sound, giving the impression of being filled with air (Interview 203, Ağrı, Law Enforcement Officer).

ii. Piecemeal smuggling

In the case of fuel, piecemeal smuggling obviously does not refer to any kind of individual cross-border smuggling carried out by passengers or home producers, as is the case for piecemeal trading of cigarettes and alcoholic drinks. The so-called “piecemeal trade” in the case of fuel smuggling still requires a minimal organization and some ingenious methods but the scale of the smuggling is quite small comparatively.

In this small scale smuggling truck drivers are in the forefront. It seems these people shuttling across states put in their tanks a higher quantity of diesel than the authorized limits. As the diesel is almost half the price in Iraq and Iran, this extra quantity allows them to lower the transportation prices they offer to the customers.

A very similar method is to exceed or abuse customs duty exemptions using different methods. According to experts, trucks have the right to bring 550 liters of fuel into the country. Smugglers illegally sell the diesel they buy legally. When they bring more than 550 liters they hide the fuel: “The truck driver brings in 1,000 liters instead of 550 by hiding some in the normal gas tank or in the extra gas tank built just for this purpose” (Interview 50, Mersin, Customs Officer).

An alternative and apparently legal method is to fill the authorized 550 liters of diesel in Iran in a station close to the border, then come back in Turkey, empty it, go back to Iran, fill the tank again and return to Turkey. The calculation of this “go and come back” method has been made by a customs officer in Ankara: “He (the driver) already has the right to bring in 550 liters, right? He arrives at Rize with 450 liters of fuel, he needs 50 more for going back to the Sarp border gate, so he leaves (sells) the remaining 350 liters in Rize. This causes a market to emerge around the Rize, Artvin and Sarp border gate (Interview 95, Ankara, Customs Officer).

Another domestic smuggling method is stealing fuel from large boats and then selling it underhand. This method is described as follows: First, they wait for everyone on the ship to go on leave. The remaining people with whom the watchman has a deal start filling bins with fuel and exchange them with other boats. These people are usually fishermen. An expert indicated that these large ships have thousands of liters of storage, but the amount that can be stolen cannot exceed more than a few cans, that is equal to 1,500 liters. That way, the crew does not notice the theft (Interview 115, Samsun).

Besides these various methods, tax evasion, which is not actual smuggling but is still illegal, has to be briefly mentioned. In fact, there are two ways for avoiding the heavy taxation on fuel products: The first is to profit from the tax exemption granted to fishers and farmers as public subsidy. Farmers and fishers buy a larger quantity of tax-exempted diesel than they need and store it, then they sell this stored diesel below the legal price. According to a journalist in Istanbul, selling the diesel might be even more lucrative than sailing out to sea for fishing: “The fishing boats stay at the coast in order to sell that fuel for a larger profit than they would normally get from fishing” (Interview 80, İstanbul).

The second way is invoice or valuation fraud. The government has been using markers since 2007 to inspect and detect illegal fuel. As a result, fuel smuggling has decreased considerably in the last few years (see “changes over time” below). However, this efficient method of monitoring pushed a number of gas stations to sell diesel without invoices. When companies, especially construction companies, are in need of invoices to record expenses, they ask for invoices from fuel companies and they only pay the VAT of the fuel shown in the invoice. They do not actually buy the fuel. In this way, fuel companies get a reserve of tax-paid fuel and they sell it below market price.

### ***Retail marketing***

According to respondents' statements, illegal oil is sold all across the country, including major cities. However, these sales are made underground and in some cases a reference is required. There is lots of illegal fuel on sale at stations with "cheap diesel" signs on the roads where commercial truck traffic is intense. The four quotations that we have selected out of many examples highlight the state of the retail selling of illegal fuel in Turkey:

“It is sold on the main Adana-Mersin and Adana-Osmaniye roads, excluding the city center. You can identify them by the prices that are plainly written on signs. 5.40 liras for diesel oil, for example. Normally it is sold for 6.50 liras... You can find them in unknown gas stations because they are checked less often by the authorities” (Interview 40, Adana, Fuel and Mobile phone user).

“There is one on the road from İzmir to Turgutlu, one on the Menemen Aliğa route. I have seen others on roads towards Uşak and Çanakkale. Already, there are lots of spots in the East. In Bitlis and Van, between Muş and Diyarbakır, between Elazığ and Bingöl... In the past, there were more spots; it is not like that anymore but still there are lots of places that sell smuggled fuel” (Interview 178, İzmir, Fuel user).

“I was around Bolvadin, near Antalya, driving my own car that day rather than my truck. I entered a gas station. A worker there asked me whether I want "real" or "smuggled" fuel? I said "nice offer, I would say smuggled if I was driving my truck but for this car I want real fuel" (Interview 75, İstanbul, Fuel user).

“You can find smuggled fuel in all gas stations around here... When you enter the station, they ask you whether you want an invoice or not... Sometimes, they give you smuggled oil but they still bill you” (Interview 203, Ağrı, Law Enforcement Officer).

That being said, our informers claim that the amount of diesel sold wholesale to large consumers is higher in comparison to the amount sold in actual gas stations: “Construction of highways, mines and other construction sites are where most of the fuel is used. Turkey has a very large construction sector, it has a decent mining industry. Mines consume huge amounts of fuel. Much more fuel is sold wholesale than in daily sales” (Interview 179, İzmir, a prominent member of an association in the energy sector).

In addition, tankers function as mobile gas stations: “We easily find it from truck drivers. They may have extra fuel left in their gas tanks or they may have an extra gas tank. I siphon some with a hose and transfer it to my own gas tank” (Interview 157, Kayseri, Fuel user); “10-15% of our monthly use consists of illegal fuel... Each tanker has its own pump, they transfer the fuel using that pump.” (Interview 122, Samsun, Fuel user). It is reported that some of those mobile gas stations are so daring that they sell the illegal diesel even at bus or minibus stations “like a delivery service” (Interview 40, Adana).

### ***Regional disparities***

Accessibility to illegal fuel varies from one region to another depending on their proximity to smuggling routes and production areas as well as the severity of controls. The use of markers has also had an uneven effect on regions. Illegal fuel is fairly widespread in East and Southeast Anatolia where crude oil is produced (Batman) and pipelines cross. The region has borders with many oil countries: “It is much easier to find smuggled fuel here than in İstanbul. Batman is 200 km away, Ağrı 180 km. Just drive 50 km and you reach the border. It is easy to find illegal fuel around here” (Interview 197, Erzurum, Fuel user). It is also possible to obtain crude oil by stealing it from pipelines as described above. Fuel is produced and sold after processing illegal crude oil in

underground refineries. Respondents emphasized that this activity requires bribing law enforcement officers (Interview 136, Batman, Businessperson).

The use of illegal fuel is also widespread to some extent in the Mediterranean region. According to a respondent, more than half of the population in Antakya, on the Syrian border, prefers smuggled fuel: “Compared to Izmir you would find much cheaper oil in Antalya, Mersin, Adana or Osmaniye. In Hatay you might find it for half the normal price “ (Interview 36, Adana, Fuel user). The case of Hatay is interesting: According to the KOM reports, Hatay ranked first by far in terms of the quantity of seized smuggled fuel during 2011-2014. However, Hatay was not even included in the top 20 provinces after 2014; but for the period of 2011-2017, it maintained its top position with 14.2%, followed by İzmir (13.4%) and Istanbul (9.0%). The physical and military measures taken on the Syrian border may have played an important role in this decrease.

In the other regions, except for the piecemeal trade practiced by farmers and fishers, the systematic sale of illegal fuel is rather rare nowadays. Some respondents explained that before the rapid depreciation of the Turkish Lira buses and trucks were filling their tanks with legal quantities of diesel in Georgia or Bulgaria at lower prices than in Turkey and were selling the excess diesel in regions like the Black Sea and West Marmara. However, since the huge value loss of the Turkish Lira made this trade unprofitable, it ceased completely, at least for a long time.

### *Changes over time*

As we have already noted and explained with various reasons, the practice of fuel smuggling has decreased tremendously. According to the KOM reports (Figure I.2) the amount of seized smuggled fuel increased up to 17 million liters in 2013. Then it decreased to around 5 million liters in 2015 and remained at this level in the following years. Furthermore, a prominent member of an association in the energy sector quoted above estimates that “physical smuggling decreased approximately 95% compared to previous years” and it is “about to die away, because people prefer the second method (tax evasion), which is less risky” (Interview 179).

The most essential and efficient countermeasure has been the use of national markers.<sup>27</sup> It has been in effect since January 2007, and physical smuggling has decreased significantly since that time.

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<sup>27</sup> National marker means adding an invisible chemical substance to the fuel. This chemical has a secret formula which cannot be imitated. It has been used across the country since 1.1.2007 under the "Regulation on National Marker Application in the Petroleum Market" based on Petroleum Market Law No. 5015

The successful record of this measure described by a customs officer is quite amazing: “There were reports released by the parliament that stated that the total value of smuggled oil was 35 billion dollars before markers were introduced (Interview 2, İstanbul, Customs Officer).

Unfortunately, the smuggling organizations have not given up. It is reported that fuel smuggling can be done through the procurement of national markers. Smugglers save up on marker chemicals by mixing markers with fuel at the minimum required concentration. The extra marker is later mixed with smuggled fuel: “Some people got caught selling markers once. They were saving up marker fluids. There is a concentration range for it, its concentration in fuel cannot be higher or lower than certain limits. Some mix it at low concentration and sell the rest” (Interview 93, Ankara, Public Employee).

In addition to the use of markers, the government prohibited the border trade of oil and petroleum products in 2008, and the technical equipment used in border monitoring has been improved and controls tightened (Interview 28, Kilis, Customs Officer). Gas stations, for example are inspected in multiple ways with the coordinated efforts of the security, finance and Energy Market Regulatory Authority (EPDK). One fuel user from Van recounts the slow-motion death of the illegal fuel trade by giving a very romantic description of the old days:

“In the past years, everyone would sell smuggled fuel around Başkale to anyone whether he knew them or not. It was even sold in the Van city centre. Even truck drivers from the West would do that. Everybody did... People used make a living doing this. They had bought houses and land with the money from selling smuggled fuel. But due to controls along the border, it has now died down.” (Interview 212, Van, Fuel user)

Also it is worth repeating that the sale of diesel by trucks or bus drivers coming from Bulgaria and Georgia came to a halt because of the depreciated Turkish Lira: “We used to be the most expensive country in terms of fuel prices. But now, due to currency depreciation, the opposite is true. Right now, fuel prices are lower than in Bulgaria and this time the Bulgarians visit Turkey to buy fuel” (Interview 5, Edirne, Customs Officer).

Finally, it should be noted that some political events also adversely affected the illegal fuel trade. The Syrian civil war and the "trench warfare" in Southeastern Anatolia (2015-2016) are the most significant events in this regard. The government decided to tighten the controls in the region along

with the declaration of a state of emergency. This caused a sizable decrease in illegal border trade activities (Interview 219, Van, Journalist).

e. Mobile phones

Illegal mobile phones are categorized as “smuggled original”, “smuggled fake” and “smuggled spot”. Smuggled original refers to international brands that are brought into Turkey by passengers via legal or illegal ways. Smuggled fake refers to a counterfeit of any brand. Smuggled spots are built with authentic components.

***Smuggling Methods and Routes***

Mobile phones generally enter the country along with passengers in small quantities (piecemeal trade) or in large quantities stashed in truck containers or in luggage (wholesale trade). Another method is to import disassembled phone components and then assemble them since taxes on disassembled parts are lower than phones. It is also possible to import legally those phones without an official distributor in Turkey. This allows importers to obtain invoices at artificially lower prices, thus paying much lower VAT and SCT. It is also reported that devices that are manufactured in Dubai with the knowledge of the manufacturer are imported to Turkey after their IMEI numbers are altered and then sold at lower prices.

**i. Wholesale smuggling**

Small yet valuable mobile phones are considered to be a convenient commodity to smuggle through customs. Officers say “a malicious, commercially-minded passenger can put 500 phones in one suitcase” and they can be caught if “you find them suspicious” (Interview 2, Istanbul, Customs Officer). Many more can be hidden in one box among the hundreds of boxes that are in a container (Interview 50, Mersin, Customs Officer). Therefore, it is not always possible to detect mobile phones intended to be smuggled; except if you do a full sweep or if you receive intelligence (Interview 228, Van, Customs Officer).

The method called "internal sabotage" is also in play in the case of mobile phone smuggling, as explained by our high ranking customs officer from Istanbul: “There are a lot of employees that work in airports like customs officers, police officers, health workers, veterinarians... People can smuggle products by getting in touch with someone who knows the place and bribing them (Interview 2).

Another method is to hide contraband phones in special sections of trucks in such a way that X-Ray machines at customs cannot detect them as they are loaded at the back or in the middle of the truck and covered so that they won't be visible on the X-ray (Interview 24, Şanlıurfa, Logistics Company Owner).

Valuation fraud is also widely used in the smuggling of mobile phones through different methods. One of them is to declare a lower price on the invoice of the imported goods. In this scenario, someone who is not a distributor brings the goods and imports them at a lower price than the original by making a deal with the seller. Since the price on the invoice is low, so is the tax paid. (Interview 6, Istanbul, GSM Operator Employee).

An alternative method of valuation fraud consists of making minor changes in the model of the phones manufactured in Dubai and then smuggling them into Turkey as a different product. This method appears quite ingenious given the explanation of our high ranking customs officer: “For example, it is a Samsung S9 but it has a "i" at the end (Samsung S9i). When you investigate Samsung phones, the phone comes up as a product made for Dubai. So this person declares the phone's price at 36 Dollars. When you use the customs system to investigate the product in Dubai, they say that they don't have a bilateral agreement with us and that they cannot give us any information” (Interview 2).

The final example of valuation fraud that deserves to be mentioned is importing parts of a phone separately and assembling them in Turkey. Since the tax on these parts is lower than the tax on the assembled phones, they can be sold at lower prices in the market (Interview 228, Van, Customs Officer).

## **ii. Piecemeal trade**

"Piecemeal trade" can be carried out by air or land. If done by air, illegal mobile phones are hidden in secret spaces in carry-on luggage or in the pockets of clothes made specifically for this purpose. When passing through customs in vehicles, phones are brought into the country hidden in special compartments made for this purpose. This type of smuggling is mostly done by truck drivers or private drivers who travel abroad for carrying freight or for a private trip. “Since these devices are small in size, they bring them by hiding them in vehicles. They put them in small compartments inside the truck ... And they try to bring tiny objects like memory cards by hiding them in their clothes (Interview 5, Edirne, Customs Officer). The quantity of smuggled phones is appreciable:

“...They make customs bags. they add secret compartments inside the bags and hide 30-40 mobile phones in them” (Interview 193, Erzurum, Retail seller).

As for the routes in this type of wholesale smuggling, the goods are mostly produced in the Far East. Dubai emerges as the main international hub in the marketing of all kind of electronics but particularly functions as a smuggling base for mobile phones. Illegal products are distributed all over the world from there (Interview 28, Kilis, Customs Officer). As noted above, Dubai is also the primary source of "parallel imports", in which goods are billed at a lower price (see value fraud above) (Interview 1, Istanbul, Customs Officer). From Dubai, the phones come to the East and Southeast of Turkey, transiting through various neighboring countries like Syria, Iraq and Iran. (Interview 161, Kayseri, Journalist and Interview 173, Bursa, Phone user). Cyprus is also cited among the source countries (Interview 190, Izmir, Journalist).

The most preferred route of approximately 150 km starts in Arbil (Northern Iraqi Kurdistan) and continues through to Batman, then Cizre and ends in Silopi. It is claimed that this city constitutes a hub from where the smuggled phones are distributed all over Turkey (Interview 136, Batman, Businessperson and Interview 161, Kayseri, Journalist).

Alternatively, mobile phones produced in the Far East (E.g. Xiaomi) are smuggled into Turkey by sea as well. According to respondents, smugglers come together and fill a container. Those containers come to Mersin by ship; then everyone takes their own goods and delivers them to dealers in Turkey (Interview 128, Samsun, Law Enforcement Officer and Interview 228, Van, Customs Officer).

There are also some secondary routes for phone smuggling. One of them starts in China, then the phones arrive in Dubai and are transferred to Bulgaria through legal channels before being smuggled into Turkey (Interview 5, Edirne, Customs Officer). Another one also starts in China, from where the phones are shipped via sea to the Bandar Abbas Port in Iran and then smuggled through the Doğubeyazıt customs gate (Interview 24, Şanlıurfa, Logistics Company Owner).

### ***Retail marketing***

Consumers can purchase smuggled mobile phones without any difficulty and they are widely sold, not in secret, but with caution. Smuggled phones can be found next to legal, postpaid phones at the same vendor. Allegedly, even some corporate vendors sell illegal phones (Interview 193,

Erzurum, Retail seller and Interview 224, Van, Phone user). As was pointed out by a lady from Kayseri, “Smuggled phones are sold everywhere. They even sell them in bazaars. ... You can even buy them on the Internet” (Interview 153). It should be noted that there are no significant regional differences in the illegal phone trade except in the East and Southeast, where demand is relatively strong because of the generally lower per capita income in these regions.

Smuggled phones are mostly sold by vendors who are concentrated at specific locations. Every city has a bazaar, arcade, or shopping mall where phone vendors are located in groups. Thanks to multiple in-depth interviews<sup>28</sup>, it is possible to note some of these specialized and very popular markets. Kapaklı Arcade" in Şanlıurfa, "Cumhuriyet Business Center" in Erzurum, "Tahtakale" in Istanbul, "Çakmak Plaza" and "Spice Bazaar" in Adana, "Hunat Bazaar" in Kayseri are some of the most popular places for illegal phone sales.

"Kapaklı Arcade" in Şanlıurfa is a critical center in this sense. Supposedly, there are plenty of smuggled phones not in the front counters, but in stock. If the customer demands a specific phone that is not in stock, the vendor can provide it within a week (Interview 137, Şanlıurfa, Fuel user). Apart from the specialized markets, the smuggled phones are sold by street vendors along with smuggled cigarettes or tobacco products. A smuggled phone using lady offered a good description of this street market in Ağrı: “There is a street hawker who sells phones across the Teachers' Lodge. ...He sells to everyone... The economic situation of people in Ağrı is obvious, so no one would report him. We are all experiencing financial difficulty. So you don't need to know anybody to buy a smuggled phone” (Interview 200, Ağrı).

In addition to sales in shops or in streets, smuggled phones are sold by truck drivers trying to make some extra earnings, as explained by a smuggled fuel user from Kayseri: “Truck drivers, my friends, my relatives from Germany, they all bring smuggled phones” (Interview 157). On the other hand, illegal mobile phone sales are extensively and publicly made on the internet. It is even explicitly written in the advertisements that the phone "comes with a renewed IMEI number" (Interview 191, Izmir and Interview 157 Kayseri).

The retail trade of smuggled phones appears very lucrative, which makes their marketing so appealing and widespread. For example, a low quality legal phone that costs 600TL in Turkey can

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<sup>28</sup> Interview 16, Şanlıurfa; Interview 192, Erzurum; Interview 155, Kayseri; Interview 41 & 43, Adana; Interview 219, Van; Interview 73, Istanbul.

be bought for 150-200TL abroad and easily sold at 400TL (Interview 24, Şanlıurfa, Logistics Company Owner). The profit margin is large enough to satisfy not only the smugglers but also the retail sellers.

But some risks exist and precautions must be taken as pointed out by a customs officer:” We go to Tahtakale, we have a special unit for this. Someone calls 136 (the smuggling informant hotline) or we make a risk analysis. We write a report regarding suspicious locations. ...We send it to the prosecutor's office and we obtain a search warrant. ...we go to those locations and conduct a search. ...Sometimes interesting things happen, like, we find a lot of boxes but they all turn out to be empty. They keep the boxes in the shop and if a customer wants a phone, they bring it from their storeroom. So the important thing is to find the storeroom” (Interview 2, Istanbul, Customs Officer).

Among different types of mobile phone smuggling, the particular case of value fraud, specifically "assembled phones", deserves attention. These phones are made by assembling parts that have been legally imported. Some respondents reported that the parts are also taken from damaged or out of use phones: “A friend of mine has a son. He is an electronics engineering senior. He knows all about mobile phones. He collects old phones from all around Turkey, brings them back, changes their parts and makes them brand new. He has made a lot of money“ (Interview 105, Artvin, phone user).

Smuggled old-fashioned "press-button" “dumb” phones that are no longer marketed through legal channels also find buyers in the market. These are mostly preferred by the elderly who cannot use smartphones and military personnel, as it is forbidden to bring smartphones onto the base (Interview 40, Adana, Phone user). The prices of these phones are “absurd, almost the same as the soup that is sold next door,” explains a smuggled phone user from Adana (Interview 91 and Interview 40, Adana).

Although the trade of smuggled phones is lucrative and widespread, it has two serious obstacles. The first one is related to the IMEI numbers and the second one to the dealer warranty. However, it has been observed that retail sellers invented and developed some interesting ways to overcome these obstacles.

The main obstacle in the illegal trade of mobile phones is the application of IMEI numbers. Smuggled phones can in principal be intercepted by tracing this number. However, there are

various methods to overcome this. The most crucial point here is finding an IMEI number that will not cause the phone to be blocked. The numbers are checked continuously, and if it is detected that the same number is being used by more than one phone, both phones using this number are blocked.

The most “popular” method is to transfer the IMEI numbers from disused devices to smuggled phones. A phone seller from Samsun explains clearly this method as an expert: “The IMEI numbers of the old, defective devices are transferred to the new ones. You can write the numbers manually, there is a program for it. There are maybe three hundred defective phones in my shop right now. The phone that you transferred the IMEI number to stays open, but the other one gets blocked” (Interview 116).

The “push-button phones” constitute a very safe method for obtaining a valid IMEI number. The prices of these push-button phones are known, so they can be bought for 150-200 liras just for transferring their IMEI numbers to a smuggled phone bought at a much higher price: “I have heard and seen people who buy push-button phones for a song and transfer their IMEI numbers to the phones they brought from abroad (Interview 162, Bursa, Phone non-user). Nevertheless, it has been reported that transferring the IMEI number is not applicable to every phone brand and model. It has become harder to duplicate the IMEI in the models of certain brands such as iPhone and Samsung, but it is still possible for Xiaomi or Huawei (Interview 24, Şanlıurfa, Logistics Company Owner).

The second obstacle is related to the dealer warranty. As smuggled phones cannot be purchased with invoices, the manufacturer's warranty is not applicable. Although this is an essential disadvantage for the user, it is ignored by some users due to the enormous price gap. On the other hand, sellers are obliged to offer a "dealer warranty" as a remedy for more demanding customers, particularly in the case of original contraband products. Retail sellers promise the buyer that they will undertake any repair for a certain period of time in the event the device malfunctions: “Most people in Van use a smuggled mobile phone, so the sellers need to stand behind their product to be able to sell them” (Interview 214, Van, Phone user). Interestingly, a female seller from Şanlıurfa claimed that this is a question of not only marketing but also ethics: “For us, customer satisfaction matters. Also it is wrong to put the burden on the customer if it's not their fault, it is against work ethics” (Interview 139, Şanlıurfa, Retailer seller).

### *Changes in supply over time*

Although illegal phone sales are still widespread in Turkey, it seems that mobile phone smuggling has decreased due to the tightening of customs controls and the implementation of new rules on one side and the adverse economic developments on the other. In the KOM reports, the number of seized mobile phones is available as of 2011 (Figure I.5). The number of seized phones increased within two years from 100 thousand in 2011 to 400 thousand in 2013. This was followed by a rapid decrease. By 2016, the number of captured smuggled phones decreased to 100 thousand and it has remained at that level since then.

Our usual high ranking customs officer from Istanbul explains that a legal loophole has finally been sorted, preventing an important smuggling method. In the past, phones registered to a foreign passport were not audited. In other words, no one was checking whether the passports had in fact been used to enter and exit the country on specified dates. That way, thousands of phones used to be brought into Turkey. Once brought in, these phones could get an IMEI number for about 140TL. However, this discrepancy was noticed and fixed. Therefore, it is no longer possible to smuggle phones this way (Interview 2).

Additionally, the regulation on installments seems to have affected the illegal trade as well. Once phones were not given installment options on credit card purchases, people switched to telecommunication companies that could offer installments via invoices. This negatively affected the small retailers because the customers were unable to purchase phones from them due to the lack of installment opportunities: “The State preventing people from buying phones on installment caused a lot of trouble and affected us as well. Now people go to Turkcell, Vodafone, and Türk Telekom communication centers and buy a phone with a contract. The phone's price is added to their plan. ...But we can't sell phones like that” (Interview 30, Hatay, Retail seller).

As in the case of smuggled brand name cigarettes and alcoholic drinks as well as in the case of fuel, the depreciation of the Turkish Lira adversely affected the demand for mobile phones and thus the demand for the smuggled ones also: “Smuggled phone use decreased because it was affected by the dollar rate. Smuggled phones used to be much cheaper but over the last 2 years, the gap between the smuggled phones and legal phones has closed” (Interview 137, Şanlıurfa, fuel user).

The economic crisis in Iran seems to have had a negative impact on the illegal trade of mobile phones: “Mobile phones haven't been coming for the past year... there was a price increase due to the crisis in Iran. After the embargo... the prices of all products increased here.. ...That's why electronics and mobile phones are expensive (Interview 201, Ağrı, Journalist).

Regarding the decrease in the demand for mobile phones, all there seems to be is rough guesses rather than reliable estimations. According to an employee at a GSM operator, annual phone sales were around 13 to 14 million units before the economic crisis. Sales are around 10-11 units now. Smuggled phones make up ten% of this” (Interview 6, Istanbul).

## V. Combatting illegal trade: legal framework

Our legal adviser in the project, Ernst & Young (EY) – Turkey, wrote two mini reports. The first one was on the legal framework applicable in Turkey within the scope of the crime types relevant to the project, including a brief historical background. The second one involved recommendations for amendments that should be made in the current legislation or in practice or new regulations that could help combat the crimes relevant to the project. The EY – Turkey team benefitted from both quantitative and qualitative findings of the project, especially the qualitative report by SAM. This section is based on these two reports and heavily borrows from these two reports by EY – Turkey. Below, in subsection A we summarize the current legislation while in subsection B we make concrete recommendations about changes to be made in the current legislation.

### A. Current legislation

Even though fundamental crimes and penalties are regulated under the Turkish Penal Code (TPC), regulations and sanctions about illicit trade are stipulated under different laws. In addition, international agreements, duly entered into force, have the power of Law in accordance with article 90 of the Constitution. There are various measure and sanction mechanisms which must be considered in terms of the respective international agreements against illicit trade. The Anti-Smuggling Law numbered 5607, which regulates smuggling related conduct in importation, is the main law on regulations and sanctions prohibiting the illicit trade of alcoholic drinks, tobacco products, mobile phones and fuel products. Moreover, crimes and sanctions regarding illicit trade that breaches intellectual and industrial property rights are stipulated under the Law on Intellectual

and Artistic Works numbered 5846 and Industrial Property Law numbered 6769. Similarly, a series of regulations prohibiting illicit trade and imposing sanctions are given under the Petroleum Market Law numbered 5015, Law on Regulating Tobacco products and Alcohol Products numbered 4733 as well other miscellaneous laws.

The customs rules that apply for goods and vehicles going in or out through the customs territory of Turkey are determined under the Customs Law numbered 4458; the crimes and punishments for illicit trade violating these rules are regulated under the Anti-Smuggling Law. In that regard, smuggling through customs can be defined as a breach of the customs rules by way of conducting the acts defined under the Smuggling Law.

There is no exception in the Anti-Smuggling Law concerning the product subject to smuggling. However, in certain cases, there is an increase in penalty, such as when the product smuggled is fuel, tobacco, tobacco products, ethyl alcohol, methanol and alcoholic beverages.

For the smuggling crimes stipulated in the Anti-Smuggling Law, offenders can receive prison sentences as well as judicial fines. In the event of attempted smuggling, the punishment stands and the penalty cannot be reduced even if the act did not go beyond an attempt. As a rule, the lowest limit for prison sentences for smuggling crimes is 6 months, while the limit for smuggling tobacco, tobacco products and alcoholic beverages is 3 years for some crimes and 4 years for others. For Fuel, the lower limits are 2, 3 and 4 years of imprisonment depending on the criminal conduct, whereas for mobile phones, the lower limits are 6 months, 1 year and 2 years of imprisonment, differing according to the criminal conduct in question.

The product group that is subject to the heaviest sanctions regulated in the Anti-Smuggling Law are tobacco, tobacco products, alcoholic beverages and fuel. The only exception to this rule is when the product in question is subject to a crime that could disrupt the State's political, economic or military security or threaten the environment or public health. In those cases, the crimes may be subject to the heavier penalties.

Except for cases that require an increase in the penalty, such as being a repeat offender, the prison sentences set for smuggling can be extended to 6 years for mobile phones and for tobacco, tobacco products, alcoholic beverages and Fuel, the upper limit can reach up to 22.5 years, depending on the criminal conduct.

In terms of the judicial fines; the smuggling of tobacco, tobacco products, alcoholic beverages and fuel calls for judicial fines of up to 60,000 days. Assuming a hypothetical sentence of a 60,000-day judicial fine applied by the Court at the upper limit per day, which is 100TL, the sentenced judicial fine comes out to 6 million TL. If this crime is committed within an organized activity, judicial fines of up to 12 million TL can be imposed.

According to Article 9 of the Anti-Smuggling Law, if smuggled goods are detected on any container, package or any other vehicle used for transportation, the goods and the persons suspected of transporting smuggled goods are immediately seized. In addition to the above-mentioned items, the vehicles used for committing the crimes can also be seized.

Confiscation is defined as the transfer of ownership of certain goods or earnings related to a crime to the State. Article 13 of the Anti-Smuggling Law includes special regulations regarding confiscation, and states that both goods and earnings can be confiscated. If a certain good related to a crime is being confiscated, any earnings and material benefits obtained as a result of the crime or that constitute the source of the crime are confiscated.

If, at the end of trial, the sentence is two years' or less imprisonment or a judicial fine, the court may decide for the deferment of pronouncement of the verdict, which means that the convicted judgement does not cause a legal outcome for the accused.

- For smuggling crimes involving tobacco, tobacco products or alcoholic beverages, it is not possible to rule to defer the announcement of the verdict, because the lower limit of imprisonment for smuggling these goods is 3 years.
- In the case of fuel, as well, it is not possible to rule on deferment of the announcement of the verdict for smuggling crimes for which the lower limit of the imprisonment is 3 years. However, it might be possible to rule on deferment of the announcement of the

verdict for smuggling crimes for which the lower limit of the imprisonment is 2 years, if the Court rules imprisonment at the lower limit.

- For mobile phone smuggling, since the lower limit of imprisonment is foreseen as 6 months, 1 year and 2 years depending on the criminal acts, if the other conditions stipulated in the law are present and a maximum of 2 years of imprisonment is sentenced by the Court, a deferment of the announcement of the verdict may be decided.

According to Article 51 of the TPC, for a person sentenced to 2 years or less imprisonment, the execution of the sentence may be suspended. The maximum limit for this period is 3 years for persons who are younger than 18 or older than 65 on the date the crime was committed.

- For smuggling tobacco, tobacco products and alcoholic beverages, the suspension of imprisonment is not possible for those who are between the ages of 18 and 65, because, the lower limit of imprisonment for smuggling these goods is 3 years. For individuals younger than 18 and older than 65, leaving aside the case of deductions which need to be handled case by case, the suspension of imprisonment is possible if the Court rules imprisonment at the lower limit.
- For smuggling fuel, the suspension of imprisonment is not possible for smuggling crimes for which the lower limit of the imprisonment is 3 years under the Law (except for individuals younger than 18 and older than 65). However, it might be possible to rule on the deferment of the announcement of the verdict for smuggling crimes for which the lower limit of the imprisonment is 2 years for all ages, if the Court rules for imprisonment at the lower limit.
- In the case of mobile phone smuggling, since the lower limit of imprisonment is 6 months, 1 year and 2 years; depending on the criminal acts, the suspension of imprisonment will depend on the final sentence following the general principles in Article 51 of the TPC.

According to Article 49 of the TPC, imprisonment for one year or less is considered as short-term imprisonment. And in accordance with Article 50 of the TPC, short-term imprisonment may be converted into a judicial fine and other optional sanctions (such as employment in jobs for public

interest, prohibition from traveling to certain places, reimbursement of damage, etc.) according to the personality, social and economic status of the convict, repentance from criminal activities during the trial period and the characteristics of the crime.

- If the good involved in the smuggling crime is fuel, tobacco, tobacco products and alcoholic beverages, imprisonment cannot be converted to judicial fines or other optional sanctions because the lower limit of imprisonment for smuggling of these goods is more than 1 year.
- In the case of mobile phone smuggling, since the lower limit of imprisonment is foreseen as 6 months, 1 year and 2 years; depending on the criminal acts, the imprisonment sentence can be converted into judicial fines or other optional sanctions if the court sentences the offender to an imprisonment of 1 year or less.

## B. Recommendations on legal framework

We suggest the following recommendations regarding the current legislation.

### **1. Increasing the lowest limit of imprisonment in smuggling crimes to more than 1 year:**

This would avoid the conversion of imprisonment into a judicial fine or other optional sanctions.

### **2. Setting the lower limit of judicial fines at more deterrent levels and increasing their upper limits:**

While the upper limits of judicial fines are defined in the Anti-Smuggling Code, the lower limits are not. Therefore, the general provisions are implemented, and per Article 52 of the TPC, the lower limit of judicial fines for smuggling crimes are considered as 5 days. The lower and upper limit per day is 20TL and 100TL. The judicial fine to be sentenced in smuggling crimes, in terms of both the number of days and the daily amount, is at the discretion of the Court. If the Court decides on a low amount, it may not deter the smuggling crime. Therefore, both setting a preventive lower limit and increasing the existing upper limits of judicial fines may play a deterrent role for these crimes.

### **3. Increasing bonus amounts, offering denouncers legal security, effective implementation of bonus system:**

The in-depth interviews with stakeholders point to carriers', messenger boys' and dealers' tendency to conceal information when brought before the Court and they are penalized due to smuggling crimes. This could be explained

by the fact that bonus payments are not paid at all in most cases, or the amount paid being too low when they are paid. The lack of guaranties assuring legal security for denouncers may also play a role here. The most important handicap in implementing a bonus system is the requirement of a final Court decision ruling on conviction or confiscation for the denouncers and customs officials to get bonus payments. Such a Court decision is possible only if the Court is provided with sufficient evidence. But to find sufficient evidence bonus payments may be necessary to make dealers, carriers reveal what they know.

- 4. Differentiating the penalties according to the quantity and value of the smuggled product discovered:** The penalties stated under the Anti-Smuggling Law are not tied or proportional to the quantity or the market value of the product smuggled. However, setting weight or market value type conditions on the penalties based on the smuggled product discovered would be both a fairer and a more efficient method of punishment of smuggling.
- 5. Implementing the confiscation of goods and earnings more effectively and efficiently:** Turkish Law prohibits general confiscation, rendering the transfer of a person's ownership over all of their property to the State impossible even if for a crime. However, smuggled goods and income that relate to criminal activities can be confiscated. Past experience shows that the confiscation of goods is more common compared to the confiscation of earnings in Turkey. In fact, the confiscation of earnings is almost never applied under the current Turkish legislation. There is a major obstacle in practice. This obstacle is due to technical difficulties involved in evaluating income generated from criminal activities. It is extremely difficult to distinguish between income generated from criminal activities and income generated from legal activities in a household where only some members commit criminal activities.
- 6. Formation of a "judicial police" organization as well as "special courts" where police officers, prosecutors and judges are specialized in illegal trade crimes:** Both judicial police and special courts are necessary for an efficient system of confiscation of goods and earnings related to smuggling crimes. This would allow to manage better inquiries as well as an accurate and fair evaluation during confiscation of goods and earnings.

## VI. Combatting illegal trade: Multi-dimensional obstacles

In section IV of the report (“The supply of illegal goods”), we have already noted that in the last few years there has been considerable success in the combat against the smuggling of cigarettes, alcoholic drinks, fuel and mobile phones. It is estimated that the quantity of smuggled items in the market are in decline, particularly fuel and brand name cigarettes as well as alcoholic drinks, thanks to more efficient control measures and the sizable depreciation of the Turkish Lira. Nevertheless, the smuggling of these goods still continues to some extent because the demand for illegal goods is still there. It does seem that the demand has shifted to tobacco products instead of cigarettes, and to counterfeit and homemade products that are commercialized in the case of alcoholic drinks. Furthermore, smugglers have developed some new methods to circumvent the controls, especially in the case of mobile phones and fuel.

In sum, the strategies used in the fight against all kinds of illegal trade need to be revisited in order to deter illegal trade, not only by reviewing the Turkish Penal Laws but by also addressing the main causes. Without question, efficiently deterring illegal trade in all its aspects would require measures and policies targeting the demand and the supply of smuggled as well as counterfeit goods. In the previous section, we made some recommendations with regards to penalties and their applications. These measures mainly concern the supply of smuggled goods rather than the demand for them.

Nevertheless, we think that the priority should be on targeting the demand for these goods. As long as the demand aspect is ignored, the supply of these goods will not come to a halt. Much more stringent methods do need to be applied against individual smugglers in particular by enforcing harsher penalties and controls. However, given the current social, economic, and political conditions, there is clearly a great risk of adverse consequences. In fact, it should be admitted that there are some obstacles involved in the fight against illegal trade in Turkey.

### A. Targeting the demand of smuggled goods

Both the field surveys and in-depth interviews indicate that there is a consensus regarding the main culprit: the great price difference between legal and smuggled goods due to the excessive taxes on many goods. To eliminate the demand rapidly and permanently for smuggled cigarettes, alcoholic

drinks, fuel and mobile phones, it is necessary to make sizeable cuts in the lump-sum taxes and Special Consumption Tax. According to the statements of several smuggled goods consumers as well as the quantitative analysis, if the price differences were not so large (at least 50%, and higher in some cases) but limited to 10-20% they would shift to legal goods. Whether this kind of tax cut is economically and politically feasible will be discussed below.

### **The issue of tax reduction**

Besides the VAT of 18%, there is a very high lump-sum tax, which, in the case of cigarettes, increased from 7.79TL to 9.13TL in May 2020. This amount constitutes roughly half of the tax-stamped price of an original brand pack of cigarettes. Additionally, there is a Special Consumption Tax (SCT), whose rate is currently 63%. In the case of rakı, the increase in SCT in the last 10 years has reached 442%, with the last increase of 6.9% in July 2020. Indeed, the price for 1 liter of rakı was 51.5TL in 2010 and now it is 279.3TL. As a result, the gap between the legal price of rakı and the CPI has increased tremendously, as shown in Figure I.14. In other words, alcoholic drinks have become extremely expensive.

In nearly all in-depth interviews, respondents assert that the taxes on cigarettes, alcoholic drinks, fuel, and mobile phones are too high and unjust. If the government were really determined to conduct an effective battle against illegal trade, it would have to reduce taxes. Here are only four noteworthy and straightforward quotes from smuggled goods users that tell the true story about the taxes:

“Unfortunately, because of the high taxes people are turning to such products... If taxes were lower, I would have preferred to buy from a shop near me, not the smuggled goods.” (Interview 186, İzmir, User).

“They collect taxes from everything... The government literally gets by on taxes collected from alcohol, fuel and cigarettes. It’s like, you are the government and the one that puts taxes on all these goods and then you ask me why I’m drinking ethyl alcohol. It is none of your business! That’s all I can afford!” (Interview 119, Samsun, User).

“No one wants to pay foreign countries for smuggled fuel. We all want our own government to get that money. But ultimately, fuel is too expensive in Turkey, so... (Interview 178, İzmir, Male, Fuel user).

“If the government lowered the SCT on mobile phones just a little, no one would resort to second-hand or smuggled phones because at that point we, as shopkeepers, would be able to tell our customers, "look how similar the prices are now, pay just 200-300 liras more and you'll get a two-year warranty on your phone" (Interview 129, Şırnak, Retail seller).

Law enforcement officers also think that taxes are too high and cause smuggling. They also suggest reducing taxes: “High prices increase smuggling. All four product types you ask about are expensive... It is possible to prevent smuggling by lowering prices and taxes, by law-enforcement and customs officials working in coordination and by expanding inspections” (Interview 128, Samsun, Law Enforcement Officer).

At first glance, the primary motivation of the Ak Party government for increasing the taxes was to collect as much income as possible for the public budget given the rigid price elasticity of demand in the case of cigarettes, alcoholic drinks and fuel in particular.<sup>29</sup> However, it is well known that fiscal theory predicts that this type of policy might be counter-productive in terms of tax revenues if the prices of goods are increased beyond certain limits. In other words, the higher the taxes, the higher the prices; so the decline in the demand for legal goods could be so great that the amount of taxes collected would ultimately decrease. The impact of this fiscal mechanism becomes more pronounced if substitution is possible. This is exactly what has happened, especially in the case of tobacco products and alcoholic drinks.

An expert in this matter, Dr. Ozan Bingöl, asserted in an interview he gave to Sözcü, a national Turkish newspaper, on 15 October 2020 that this limit has already been reached in the case of alcoholic drinks. According to Dr. Bingöl, “the optimal balance” has already been exceeded. He added that 5% of the total SCT income in 2006 was constituted by the SCT on alcoholic drinks, and in 2019 this share accounted for 10%. Dr. Bingöl called attention to another aspect of the tax policy of the Ak Party government, namely the ideological fight against smoking and consuming alcoholic drinks: “The current situation no longer has anything to do with public health concerns or preventing the youth from forming harmful habits. The excesses in the tax policy has turned the SCT from a fiscal policy into direct interference in lifestyle”.

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<sup>29</sup> A very clear and popular explanation of the rigidity in the demand has been made by a smoker: “Taxes on cigarettes are too high... This is not stopping anyone from smoking. I mean, this is a need of mine, drop the prices. It's my decision whether I smoke or not. I am paying 15 liras for cigarettes. I'll still be smoking if it is 50 liras. I will sell my car to buy smokes. I'm not quitting” (Interview 197, Erzurum).

This assertion is not an exceptional point of view; it is also defended by some citizens in the interviews, where they state that the government tries to prevent the consumption of these products in line with their own beliefs using health risks as an excuse: “All they care about is stopping people from drinking and from smoking. How is that your concern? Everyone drinks for themselves, they poison themselves. They are trying to get people in line.” (Interview 87, Ankara, Alcohol user). This judgment certainly constitutes a moral justification for the consumption of smuggled goods and creates a tolerant atmosphere regarding the ant traders and retail sellers, at least for some citizens.<sup>30</sup>

Even if it is true that the excessive taxation, especially on alcoholic drinks, has gone beyond the optimal level and even though a sizable tax reduction would certainly create a noticeable switch from illegal goods to legal ones, it is unlikely that tax reduction will be put into practice as part of an anti-smuggling policy under the Ak Party rule because of the party’s ideological attitude. That being said, we would like to state that during entire history of Turkish Republic, since its foundation in 1923, taxes on alcoholic drinks were reduced significantly only one time, in 1946, by the government of Recep Peker (Prime Minister). The cut in taxes was so radical that the price of rakı was lowered by half.

### **Depreciation of the Turkish Lira: An unexpected gift**

We have already stated in Section IV and offered evidence for how the sizable depreciation of the Turkish Lira in recent years has had an important negative effect on the demand for certain smuggled goods – especially original cigarettes, alcoholic drinks and fuel. Indeed, over the last 20 years, the real value of the lira against other currencies has had dramatic ups and downs depending on the economic situation in Turkey as well as in the world economy. Let us remember that the Turkish economy has been open to capital flow since 1989, and a flexible exchange regime is in force. According mainly to the stance of the monetary policy pursued, tight or loose, to the size of capital inflow and outflow as well as to the level of inflation, the real exchange rate index has experienced great volatility, as shown in Figure VI.1.

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<sup>30</sup> It is worth noting that in European countries excessive taxes are also perceived as unjust and this perception creates some tolerance to smuggling of cigarettes in particular: “On the demand side, social acceptability is a key enabler of the illicit cigarette trade. In many EU states, consumers are quick to excuse involvement on the grounds of high taxes and low incomes.” (KPMG Sun, 2017)

**Figure VI.1: The real exchange rate index based on CPI (2003=100): January 2007-March 2021**



Source: CBRT

The real exchange rate index of the Turkish Lira based on the Consumer Price Index has varied over the last 14 years, roughly between 125 and 60. As the index base of 100 represents the average real exchange rate in 2003, 125 means that the Turkish Lira is overvalued by 25% against the weighted basket of foreign currencies, and 60 means that it is undervalued by 40%. As can be observed in Figure VI.1, the Turkish lira was largely overvalued before 2011, which encouraged smuggling because of the price differences between inside and outside of the country – the goods being cheaper outside, particularly in neighboring countries, than in Turkey in terms of Turkish Lira. From 2017 onwards, the Turkish Lira has been undervalued, and this undervaluation has accelerated over time. What is remarkable is that the real exchange index has stayed below 70 since August 2018. It is worth noting that this is the first time that the Turkish Lira has depreciated so much and for so long a time. Furthermore, it seems that this will continue in the foreseeable future.

This sizable depreciation dramatically increased the market prices of smuggled original brands of cigarettes, alcoholic drinks and diesel and caused a decrease in the demand for these goods, as already noted. This was certainly an unexpected bonus for the fight against smuggling. Nevertheless, it is necessary to remember once again that this impact did not end smuggling.

Instead, the high prices pushed consumers of alcoholic drinks to favor homemade and fake alternatives, while cigarettes smokers shifted to rolling tobacco and cheaper smuggled cigarettes.

### B. Targeting the supply of smuggled goods

We believe that the priority in fighting illegal trade through supply channels should be given to organized wholesale smuggling and to the domestic production of fake alcoholic drinks for the simple reason that without these organized smuggling networks, the amount of retail sales would be reduced considerably. In fact, the smuggled goods market would be limited to ant trade, homemade drinks and tobacco products. On the other hand, it should be noted that consumption of illegally traded goods is so widespread among the low-income households of Turkish society that fighting illegal trade means risking serious undesirable social and political consequences. This issue will be discussed at the end of this section.

#### **How can customs controls be improved?**

In section IV, we already explained that some measures (like new restrictions on travel permits across the Georgian and Bulgarian borders) have been implemented. These measures obstructed, to some extent, the organized piecemeal smuggling of branded cigarettes and alcoholic drinks. Moreover, the use of markers in tracking smuggled fuel has also proven effective. A new method for tracking invoice fraud, the alternate approach designed by smugglers to overcome the marker obstacle, has been implemented recently.

Besides these measures, there are many others that were recommended by the customs and law enforcement officers interviewed. They particularly insisted on the necessity for close cooperation among official institutions like Customs, Police, Gendarmerie and the National Intelligence Organization. Furthermore, 'Inter-institutional competition' should be avoided as this weakens cooperation: "In order to tackle smuggling, law enforcement agencies should be professionalized, specialized and various different agencies should be assembled under the same roof. There should not be competition among the police, the gendarmerie and customs officials" (Interview 228, Van, Customs Officer).

Another proposal relates to the police force. While the police force's level of education and knowledge may be notable, respondents feel that a "judicial police" organization is also needed

for better inquiries: “Although, compared to the past, the police force is better trained and more specialized in this subject, there is still a need for a justice police force. The prosecutor should be specialized in smuggling, the judge should be specialized in smuggling, as well as everyone else involved” (Interview 51, Mersin, Journalist).

When we analyzed the smuggling methods in Section IV, we underlined the difficulties caused by so called “internal sabotage,” in other words by corruption. Although the fight against corruption among customs and law enforcement officers has been taken more seriously in recent years, these efforts should be pursued without respite. The assertions made in two interviews on this issue are quite relevant: “There is at least one official at each customs office who looks the other way” (Interview 178, İzmir, Fuel user); “I retired from the police force. What I see now and what used to be cannot be compared. The current police force is awful. Smuggled alcohol and cigarettes are being sold right in front of their eyes. This is definitely something that the government should be concerned about.” (Interview 114, Samsun, Law Enforcement Officer). In this respect, the revision of the incentive and reward policies that we recommended in Section V must be especially underlined.

There are also some shortcomings regarding customs' capacity, although many respondents have stated that the capacity and technological equipment of customs enforcement have increased. Speaking out on the issue, customs officers reveal that no matter what measures have been taken, the number of customs personnel will never be enough for the volume of such transactions: “A ship arrives carrying thousands of containers, hundreds of different kinds of goods in them. Due to trading volume and the field being so large, the number of customs staff is never sufficient (Interview 133, Şırnak, Customs Officer); “It is impossible for us to check every little detail because if we did, then we would be obstructing trade completely” (Interview 2, İstanbul, Customs Officer).

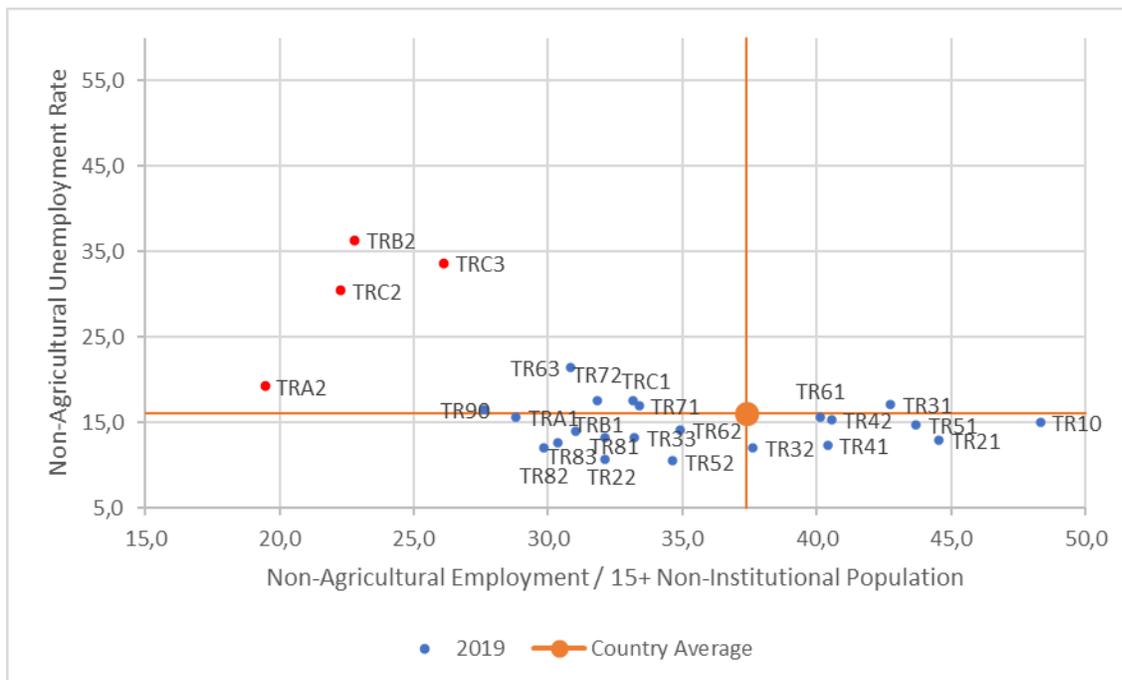
### C. Socio-economic obstacles in combatting illegal trade

Besides the problems related to some inefficiencies still existing in legal deterrence as well as in custom controls, some difficulties specific to Turkey exist in the fight against illegal trade. These arise from various factors like economic, social and even political conditions but also from moral values particular to Turkey and its geographical environment.

## Poverty effect

Turkey is a developing country with not only a per capita income around \$8.000 but also a very unequal distribution of welfare among regions. Especially, the regions of Eastern and Southeastern Anatolia suffer from very high unemployment and very low per capita income but poverty is also a serious concern in other regions and in the big cities. According to the Severe Material Deprivation rate (Eurostat definition), Turkey has a rate of over 30%, which tops the European ranking list (along with Bulgaria). In order to give a more concrete idea about the size of the interregional inequalities existing in Turkey, we present figures VI.2 and VI.3 below:

**Figure VI.2: Great inequalities in regional labor markets (2019)**



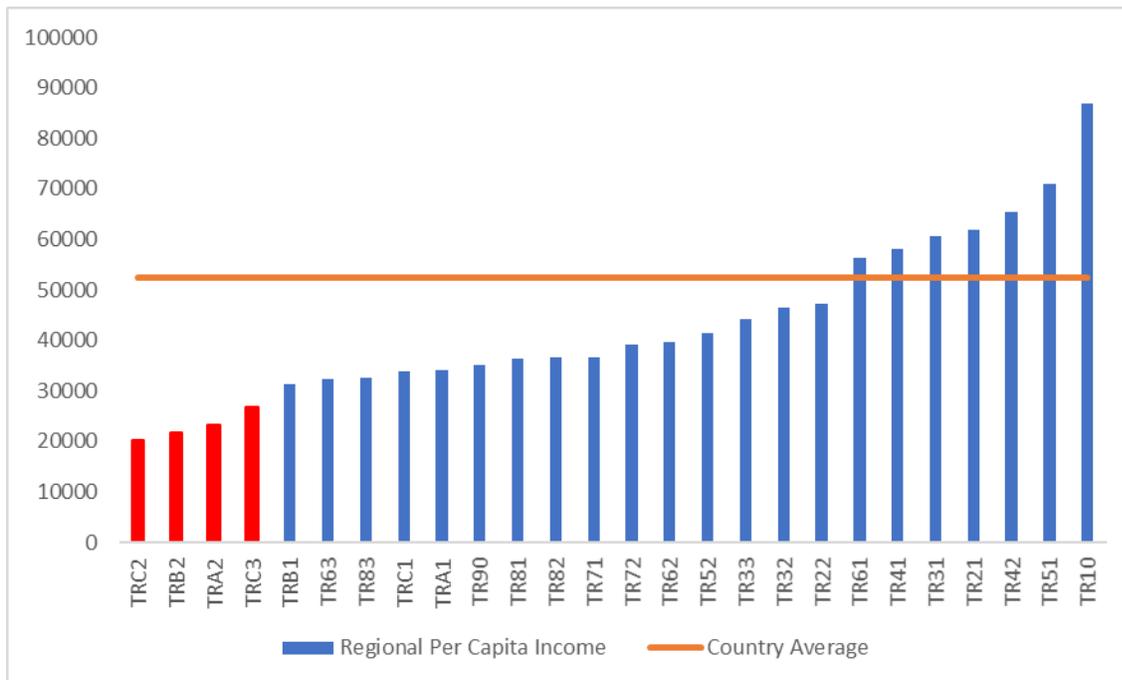
**Source:** TurkStat. **Note:** The names of provinces included in each region are presented at the end of the current section

In Figure VI.2, the non-agricultural employment ratio (on the horizontal axis) and the non-agricultural unemployment rate (on the vertical axis) are shown for each of the 26 regions (NUTS 2) for 2019. The average figures of these two labor market indicators are noted by orange lines. The non-agricultural employment rate was approximately at 37% and the non-agricultural unemployment rate was slightly over 15%.

The uneven distribution of these two main indicators is obvious. Employment rates vary roughly between 20% and 48%, while unemployment rates vary between 10 and 36%. What is striking is the case of the four regions marked in red, the true outsiders. In the one side, the non-agricultural employment rates are quite low and on the other side the non-agricultural unemployment rates quite high in these four regions comparatively and in absolute terms. The TRA2 region has an unemployment rate close to the average, but the lowest employment rate by far. Where are those four regions<sup>31</sup> located in Turkey? Of course, they are in the East of Turkey, where Kurdish people make up the large majority of the inhabitants.

The regional per capita income distribution is presented in Figure VI.3. The highest per capita income (TR10 İstanbul) is almost five times greater than the lowest per capita income (TRC2 Şanlıurfa, Diyarbakır). As might be expected, the four lowest regional per capita incomes (marked in red) are the four regions constituting the East and Southeast.

**Figure VI.3: Per Capita incomes in various regions in current Turkish Liras (2019)**



**Source:** TurkStat. **Note:** The names of provinces included in each region are presented at the end of the current section

<sup>31</sup> The provinces constituting these regions are: TRA2: Ağrı, Kars, Iğdır, Ardahan; TRB2: Van, Muş, Bitlis, Hakkari; TRC2: Şanlıurfa, Diyarbakır; TRC3: Mardin, Batman, Şırnak, Siirt.

In a region where an appreciable number of households are poor and a large share of the working age population (in particular the young people) are unemployed, one must expect that all kinds of illegal trade activities would be even more widespread, since smuggling is a tradition and not perceived as immoral in this region. It has already been underlined that smuggling from Syria and Northern Iraq is a historically well-established activity for the Kurdish population living and having family relations on both sides of the border. Illegal trade has always constituted the most important income source for a number of families. Despite growing difficulties on the borders (like the construction of a wall), smugglers make a great effort to overcome these difficulties as their survival depends on illegal trade income; that they dig tunnels is evidence of the magnitude of these efforts.

With respect to the poverty existing in this region, one in-depth interview paints a very dramatic picture: “It’s easy. Tomorrow it is Saturday and schools are out on Sunday. So, the children of poor families will sell cigarettes on the streets. You can find them in every coffee house” (Interview 202, Ağrı, Fuel, Non-user).

On the other hand, tobacco production is an important source of income for a number of small farmers as well as for many retail sellers in this region. Under these circumstances, how would it be possible to prevent the smuggling of cigarettes and tobacco or mobile phones by applying tough measures or even the existing penalties? It seems that in this region the smuggling activities limited to piecemeal trade and retail sales are tolerated in order to avoid the social unrest that might arise from poverty and unemployment.

### **The Kurdish issue**

This tolerance should also be considered within the context of the Kurdish issue. The existence of a strong Kurdish political movement jeopardizes the fight against smuggling. Indeed, since the 1980’s, the PKK (Kurdistan Workers' Party) has pursued organized armed violence in the region. The high youth unemployment obviously provides favorable ground for recruiting militants to the PKK.

The People’s Democratic Party (HDP), whose electoral support is over 50% in the region, is politically challenging for the incumbent Ak Party power. HDP obtained 12% of the votes in the general elections of 2018 and became the third party in the National Assembly with 65 representatives. The challenge is that the choice of the HDP electors will be decisive in the next

presidential elections to be held in June 2023. Under the new presidential regime established in 2017, the executive power as well as part of the legislative power belongs to the president, who is elected in two rounds, and a candidate has to get a simple majority (50% + 1) of the votes to become president. Without the support of HDP electors, no candidate is likely to attain sufficient votes according to the most recent public surveys. Under these conditions, it is hard to imagine that the Ak Party government, like all other governments in the past, would undermine the existing tolerance afforded to piecemeal illegal trade in the East and Southeast.

### **Specificity of relations with neighboring countries**

Within the framework of the specific obstacles described in this section and the considerable difficulties in combatting illegal trade, it is worth pointing out some specific conditions regarding relations with neighboring countries. It has already been mentioned how the frequent cross border travel to and from Georgia, Bulgaria and the TR of NC in particular creates favorable grounds for piecemeal smuggling. Even though some restrictions have been introduced regarding the frequency of these visits for citizens of Georgia and Bulgaria as well as Turkish citizens, the ant trade will continue as long as the price differences in alcoholic drinks prevail. This piecemeal smuggling has almost ended in the case of cigarettes and fuel due to the sizable depreciation of the Turkish Lira, but it continues in the case of alcoholic drinks. The only way to stop this smuggling is to either increase the taxes on alcoholic drinks in Bulgaria, Georgia and the TR of NC or reduce them in Turkey in order to sufficiently narrow the existing price gap. However, the lack of authority in countries likes Syria, Libya and Iraq due to internal conflicts must be mentioned as a factor that facilitates the organization of wholesale smuggling.

#### **D. What about the future of these obstacles?**

No doubt, overcoming all these specific obstacles will continue to be a daunting task as long as the deep-rooted causes are not addressed. However:

\*it would be too optimistic to believe that a more efficient enforcement of penalties and controls might be able to notably diminish piecemeal smuggling as long as the living conditions in the East and Southeast are not improved tremendously, and a peaceful settlement of the Kurdish problem is not reached.

\*It would also be too optimistic to expect that the incumbent government will lower the taxes on tobacco products, alcoholic drinks, fuel and mobile phones since neither their economic nor their ideological/political agendas would be served. Indeed, on the one hand, the demand inelasticity of these goods makes them an important source of tax income and on the other, smoking and drinking alcohol is prohibited by Islam.

\*It would also be too naïve to hope that the “popular” perception of smuggling (except guns and drugs) would change and these would be judged as crimes by a large majority of the society. Small tax evasions are not considered a crime since Turkey has not had the same historical experiences as Western countries regarding the legitimation of taxation. Therefore, the “tolerant view” of piecemeal smuggling may last for a while yet.

The names of provinces included in each region

TRC2	Şanlıurfa, Diyarbakır
TRB2	Van, Muş, Bitlis, Hakkari
TRA2	Ağrı, Kars, Iğdır, Ardahan
TRC3	Mardin, Batman, Şırnak, Siirt
TRB1	Malatya, Elazığ, Bingöl, Tunceli
TR63	Hatay, Kahramanmaraş, Osmaniye
TR83	Samsun, Tokat, Çorum, Amasya
TRC1	Gaziantep, Adıyaman, Kilis
TRA1	Erzurum, Erzincan, Bayburt
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane
TR81	Zonguldak, Karabük, Bartın
TR82	Kastamonu, Çankırı, Sinop
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir
TR72	Kayseri, Sivas, Yozgat
TR62	Adana, Mersin
TR52	Konya, Karaman
TR33	Manisa, Afyonkarahisar, Kütahya, Uşak
TR32	Aydın, Denizli, Muğla
TR22	Balıkesir, Çanakkale
TR61	Antalya, Isparta, Burdur
TR41	Bursa, Eskişehir, Bilecik
TR31	İzmir
TR21	Tekirdağ, Edirne, Kırklareli

TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova
TR51	Ankara
TR10	İstanbul

## VII. Project web page

For a lasting impact, we created an interactive, user-friendly website visualizing the outcomes of the project. This will help draw the attention of the public and the media, offering information suitable for lay people. The website has three sets of information. The first set of information comes from freely available Customs Enforcement and KOM reports. We have visualized seized smuggled and counterfeit goods for each product under consideration according to the 12 NUTS 1 regions in Turkey. The second set of information comes from 4,924 surveys with consumers. We compare consumers of legal and illegal products in each NUTS 1 region in Turkey and visualize differences between them in terms of education, gender, income, household size, age, and gender composition on a map of Turkey. The third set of information comes from 228 in-depth interviews with consumers and in-depth interviews. We visualize findings on factors shaping demand and supply of illegal trade in each NUTS 1 region in a user-friendly way.

## VIII. Lessons learned and policy recommendations

A combined evaluation of all components of our project provides useful insights that could contribute to the fight against illegal trade. In particular, the insights obtained from the in-depth interviews with consumers, experts and various stakeholders provide crucial information from which we have derived policy recommendations about public policies, legislative regulations and awareness raising. Some lessons learned and policy recommendations can be summarized as follows.

### **General remarks:**

1. Illegal trade is very common and to some extent “tolerated” in Turkey. There are various factors feeding this “tolerant view” regarding illegal trade that stimulates demand for and supply of illegal trade. The survey in-depth interviews put especially 3 factors forward that nourish both supply and demand.

- Higher taxes that increase prices of legal goods create a demand for illegal goods because, in the eyes of consumers, illegal goods are substitutes (although imperfect) for legal goods. And they do not want to bear large price differences for relatively small quality differences. So, it is not surprising that when prices of legal ones skyrocket, especially poor consumers have no other choice than preferring illegal products. Consumers use these high prices of legal goods to legitimize their preference for illegal products. This view is widespread in Turkish society, even among security officers. Partly because of this, smuggled or counterfeit goods are not perceived as illegal, by a large number of people, as long as they do not harm human beings.
- At the same time, higher taxes that increase prices of legal goods stimulates supply of illegal goods because large price differentials between legal and illegal goods create an opportunity for making profits. If the number of poor households or unemployed individuals is high in border regions, one should expect all kinds of illegal trade activities. This is the case of regions bordering Syria, Irak, Iran, Georgia, Bulgaria and the TR of NC where large number of people are involved in illegal trade activities to make a living. Even though some restrictions have been introduced regarding the frequency of these cross-border visits, the ant trade (piecemeal smuggling) is likely to continue as long as the price differences between legal and illegal alcoholic drinks prevail.
- Because of historical reasons and geographic location of Turkey, cross-border trade and smuggling has always been important in Turkey. Particularly, smuggling from Syria and Northern Iraq is a historically well-established activity for the Kurdish population living in the Southeastern Anatolia and having family relations on both sides of the border. Combined with poverty, such a historical background is used to justify the use of illegal trade activities as way of making a living in the region. Illegal trade has always constituted the most important income source for a number of families. Despite growing difficulties on the borders (like the construction of a wall), smugglers make a great effort to overcome these difficulties as their survival depends on illegal trade income; that they dig tunnels is evidence of the magnitude of these efforts.

2. According to the statements of several smuggled goods consumers as well as the quantitative analysis, if the price differences were not so large (around 50%, and higher in some cases) but limited to 10-20% consumers of illegal products would switch to legal goods.

3. The in-depth interviews with experts and various stakeholders offer information about the spatial and organizational structure of supply of illegal trade: how smuggled and counterfeit goods reach the “market”, how and where they are sold and finally the types of networks used for the distribution of these illegal goods. These interviews imply that whether small- or large-scale, all smuggling is essentially organized. The higher levels of the smuggling networks involve managers who organize the criminal activity. High profits seem to be the main motive for these managers. At the lower levels of the smuggling networks, there are usually unskilled, less educated, unemployed, and even poor people whose main motive is to earn a living. A third party often involved in the networks are law enforcement officers. Without the help or collusion of law enforcement officers, it is not possible to make large quantity and high value illegal shipments.

4. The in-depth interviews with consumers of both legal and illegal products shed light on the channels and mechanisms consumers use to seek, find and buy these illegal products. As expected, the two most important determinants for choosing illegal goods over legal equivalents are the lower price of the illegal goods and poverty. Unsurprisingly, border regions with higher rates of poverty are characterized by a higher volume of smuggling. Occasionally, some respondents stated that they prefer smuggled rolling tobacco and alcoholic drinks produced underground due to their higher quality and better flavor.

5. The in-depth interviews with consumers also offered insight into the motives of consumers preferring only legal goods. Health considerations and brand loyalty (through brand attachment and brand quality) seem to be important factors here. There is widespread mistrust in illegal products among consumers of legal products, who usually see illegal products as being of lower quality and/or having a worse taste or smell. Also, the lack of a valid warranty seems to be important in the eyes of legal product users. Some consumers also report that they are worried about the possibility of supporting criminal organizations by consuming smuggled products.

6. The field survey with consumers provided important insights into the motives behind the choice of legal vs illegal products. This comparison allows us to see how these two groups differ in terms of income, education, tastes, social culture, location of residence, ethnicity and other characteristics. Women, younger individuals, rich households and more educated individuals are less likely to choose illegal products over legal ones. İstanbul, the most developed and richest city in Turkey, has the highest share of illegal trade despite not being a border city.

7. Respondents approach the issue of whether smuggling is a criminal offense or not from different perspectives based on their status and world views. Overall, there is a consensus that gun and drug trafficking is a criminal offense while opinions vary concerning other goods. Those who do not consider the smuggling of cigarettes, tobacco, alcoholic drinks, and mobile phones as a crime are mostly the people who purchase these goods. Many of them do not consider smuggling as a criminal offense because the government is seen as the cause of this activity, referring to high taxes. Others describe smuggling as "innocent" except when weapons and drugs are concerned.

#### **Methods and routes of illegal trade:**

1. There are basically two kinds of smuggling networks in Turkey. The most important one with regards to smuggled quantities as well as the complexity of organization is the wholesale networks. However, the piecemeal networks also constitute a non-negligible part of the illegal trade in Turkey.

2. There are several methods used in illegal wholesale smuggling. The first of them is hiding or "stashing" the goods in secret compartments or containers. The second method is issuing a "false statement" which is used for the purpose of tax fraud. Goods brought in are either declared as other products or their weight/amount is reported incorrectly. The third method that is widely used to avoid high taxes is "valuation fraud". For this method, a fake bill is issued, showing the price of the purchased goods as much lower. Goods are brought from countries with which Turkey has no bilateral agreements. When the customs officials get suspicious of the prices written on the invoice and start to investigate, they cannot reach the actual price of the product because the third-party countries do not share this information due to the lack of legally binding rules. The fourth method is "insider sabotage" (corruption). The value of the smuggled goods at risk is so high that it is

worth spending a part of the profit for the bribery. In this case, a customs officer is arranged in advance and the smuggling operation is done when that particular officer is on duty.

3. Piecemeal (individual) smuggling, also called “ant trade” in Turkish does not need any complex organization. There are two versions of piecemeal smuggling: modern “coach smuggling” and traditional “mule smuggling”. In the first version, the organizer is the coach driver who makes a deal on his own with his passengers and in the second version, the inhabitants living near the border in the Southeast carry smuggled goods on the backs of their mules. However, according to in-depth interviews in the region mule smuggling is in decline for a couple of reasons: Roboski incident, the civil war in Syria, stricter border controls.

4. Over the last few years, the volume of the illegal trade of tobacco products, mobile phones and fuel has been decreasing mainly due to the less-tolerant attitude and stricter legal measures taken by the government. The continuous depreciation of the Turkish Lira in the last years made the smuggling of the cigarettes and alcoholic drinks unprofitable. But on the other hand, tobacco rolling, and the production of counterfeit alcoholic drinks have increased. The illegal trade of alcohol products is increasing mainly because of higher consumption and import taxes.

5. Smuggled products entering Turkey are brought in by land, sea and air, but it is mainly sea shipments and trucks that are used for large-scale smuggling operations. After collecting large quantities from various foreign cities or ports, ships obliterate their tracks by circling between different ports before entering Turkish ports or delivering at a large port. The complexity of wholesale illegal trade operations suggests that only international or internationally-linked local crime organizations can coordinate such activities.

6. There are very sharp regional differences regarding the dynamics and composition of illegal trade in Turkey. Fuel is mostly smuggled into Turkey both through the Black Sea and the Mediterranean regions. While smuggled alcohol products are mostly found in the Aegean and Mediterranean regions, smuggled cigarettes are mostly found in the Southeastern Anatolia region. For mobile phones, the distribution is relatively more homogenous.

7. İstanbul and Southeast Anatolia have an overwhelming presence in illegal trade. İstanbul appears to be the main entry point for most of the smuggled goods. From there, they are distributed country wide. Cigarettes, fuel and mobile phones are smuggled from Iran, Iraq and Syria despite a decrease in volume. Iraq is a transit center for electronics and especially mobile phones coming from Dubai and the Far East. The Eastern region is also the location of tobacco production in Turkey. Rolling tobacco is sent from there to other regions of the country.

8. Maritime trafficking both through the Black Sea and the Mediterranean plays an essential role in wholesale cigarette and fuel smuggling. Purchasing smuggled fuel from ships anchored off the Black Sea coast is widespread. Once brought ashore, the smuggled fuel is either sold on the spot or transferred to wholesaler intermediaries. In the Mediterranean, Aegean and Marmara regions all kinds of goods are smuggled via the Mersin, Izmir and Istanbul ports. In these instances, undervaluing or misrepresenting the value of the goods or smuggling goods in container stashes are common practices.

9. The Eastern Black Sea region with connections to Georgia and the Thrace region connected to Bulgaria also play a role in wholesale smuggling but these two regions emerge as places specializing in the piecemeal illegal trade of cigarettes and alcoholic drinks as will be seen below.

### **Fight against illegal trade:**

1. There are important differences in the legal sanctions regarding the smuggling of the four goods studied in this project. The penalties imposed for smuggling mobile phones are relatively lighter compared to smuggling tobacco, alcoholic beverages and fuel. Criminal Law stipulates increasing sentences for repeating offenders. For this reason, while shopkeepers, business owners, and law enforcement officers argue that initial penalties are not sufficiently discouraging others (consumers and experts) generally feel that sentences are sufficient. For the latter group smuggling cannot be prevented by punishment if it is done due to financial imperatives. If the prices of legal goods keep rising, the smuggling will continue.

2. It is claimed that penalties cannot be imposed on leaders as they succeed to stay behind thick curtains. Some law enforcement officers state that punishments can only be imposed on lower-level organization members, so it does not make much sense.

3. Customs officials state that using informants is a good way for detecting smuggling. They say that many smugglers were caught using this method and approve of giving informants monetary rewards. Therefore, they recommend continuing the reward system.

4. Law enforcement officers suggest that the customs, police, gendarmerie, and the National Intelligence Organization should work together; "inter-institutional competition," which is thought to weaken cooperation, should also be prevented. Some even go as far as suggesting that various agencies should gather under the same roof.

5. Smuggling networks adapt to changing circumstances very quickly. Since smuggling has become more difficult in recent years "valuation fraud" has been gaining in importance. The reasons making smuggling more difficult are (i) modular walls installed along the Syrian border and the military take-over of border security (ii) drone surveillance at borders (iii) technical improvements contribute to better surveillance of smuggled goods and a higher chance of discovering stashes during customs checks (iv) Large depreciation in Turkish Lira in recent years that rendered the smuggling of cigarettes and alcoholic drinks unprofitable.

6. The in-depth interviews reveal interesting ways in which smugglers escape from law enforcement officers, with these methods getting more diversified by the day. One example of these new methods is that when a load of smuggled goods is to be transported, a small portion of it is sent by a separate vehicle and reported to the police. When law enforcement officers raid that vehicle, the big party has already been smuggled. Another example is to keep the goods in a neighboring shop or warehouse rather than at the sales point. Thus, illegal goods cannot be found when law enforcement officers make a raid.

7. New measures to prevent smuggling and illegal trade are constantly introduced. Recent examples include X-ray and camera monitoring in Customs areas, vehicle/vessel tracking on land

and at sea, and K9 units, among others. However, as several Customs officials put it, their effectiveness is not guaranteed. Whenever a certain method of smuggling is discovered and measures against it are taken, smugglers replace it with a new one. They are always one step ahead of the law enforcement officers. A case in point is the use of “national markers”, which reduced physical fuel smuggling considerably. This time, however, “allocated tax-free” fuel finds its way into the market. Even greater tax evasion results from invoice manipulations by fuel distribution companies. Another example is the installation of mobile walls along Turkey’s Syrian and Iraqi borders and the placing of these areas under military control, which largely reduced cross-border smuggling. In this case, the smugglers apparently responded with a novel arrangement whereby they act in concert with border stations to throw goods over the wall. These and other similar examples point to the difficulty of preventing smuggling completely so long as the demand created by the price gap and low levels of income persist in the domestic market.

### **Recommendations:**

1. Even if poverty or large price differentials between legal and illegal goods can help in understanding why illegal trade is so common in Turkey, it is evident that the fight against illegal trade should continue even stronger because of loss of public tax revenue, health problems and ethical reasons. However, applying stricter punitive measures or increasing penalties will likely not be enough to fight against illegal trade. Poverty is clearly a factor shaping both the demand and supply of illegal trade. Especially, poverty in Southeast Anatolia is seen as a major factor explaining the considerable size of the smuggling activities in the region. On the one hand, it is impossible for poor individuals to purchase these goods legally. On the other, it is believed that those on the lower levels of the smuggling network take on the risks of this job out of desperation due to poverty, unemployment. Given the current social, economic, and political conditions, there is clearly a great risk of adverse consequences. In fact, it should be admitted that there are some obstacles involved in the fight against illegal trade in Turkey. A successful policy should involve not only punitive and preventive measures but also an income support policy for poor households, incentives for firms to offer jobs in border regions and free job training programs for unemployed individuals.

2. Almost everybody agrees that taxes on alcoholic beverages, tobacco products, fuel and mobile phones are unreasonably high. As a result, naturally, the most frequent and strongest suggestion offered to control the demand for illegal products was for the taxes to be reduced. Indeed, many users of illegal products report that they would switch to legal products if the prices of the legal products were to decrease. So, a reduction in special consumption tax on the goods analyzed in this report is necessary to fight against illegal trade. Since revenues coming from special consumption tax is an important component of the budget, the real question is to find the optimal decrease in taxes that minimizes the loss of public tax revenue while stimulating demand of legal goods.

3. Certainly, illegal trade is impossible without demand for illegal goods. Therefore, some respondents insist on raising awareness to combat illegal trade. As a matter of fact, smuggled goods can be unhealthy and dangerous. The public should indeed be made aware of these risks. The idea is that if consumers are aware of both the social and individual dangers of illegal trade, at least some may no longer demand such goods. The same is valid for those who provide or sell illegal goods. People should be informed about the potential dangers of illegal goods. The respondents argue that raising awareness is primarily the duty of the state. They do not believe that bans, fines or higher taxes will keep people from smuggling, especially for products such as cigarettes and alcoholic drinks because the problem is also about addiction. Thus, illegal trade can only be eliminated through good education, starting at a young age.

4. Current laws and regulations about smuggling need modification. Some possible areas of improvement are (i) increasing lower and upper limits of imprisonment; (ii) raising judicial fines; (iii) rewards for law enforcement; (iv) conditioning penalties on the quantity and the value of smuggled products; (v) implementing the confiscation of goods and earnings more effectively and efficiently; (vi) formation of a "judicial police" organization as well as "special courts" where police officers, prosecutors and judges are specialized in illegal trade crimes. Naturally, this is a sensitive subject that needs discussion with various social groups including, but not limited to, economists, jurists, politicians, businesspeople, and consumers. Such legal changes are successful only if they are done with social consensus.