

## FAQs

### TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE

#### **What is illicit trade?**

Generally, illicit trade involves the production, import, export, purchase, sale or possession of goods, services, humans or wildlife *in violation of applicable laws*. Whether the activity, such as logging, is illegal depends on the legal framework established by individual States and/or international treaties. Consequently, illicit trade is also referred to illegal trade deriving from the illegal nature of the activities.

#### **Which industries are vulnerable to illicit trade?**

Illicit trade is a major problem for a growing number of industries such as agri-foods, alcohol, fisheries, forestry, pesticides, petroleum, pharmaceuticals, precious metals and gemstones, retail and tobacco. It includes trafficking in persons, wildlife and all forms of products vulnerable to trademark counterfeiting and copyright piracy.

#### **What about narcotics and arms?**

Illicit trade also notoriously includes illegal trade in narcotics, arms trafficking, human trafficking, and the robbery and resale of antiquities and cultural artifacts. TRACIT, however, does not currently focus on these activities, except for the forced-labor aspects of human trafficking.

#### **How big is the problem?**

The World Economic Forum estimates financial losses across 11 industrial sectors at US\$1.6-2.2 trillion per year. This means businesses are unable to compete fairly, to invest to the maximum extent to protect and create jobs and products; to increase their profits and make higher contributions to local, state and national taxes. Collectively, the value of illicit trade and transnational criminal activities are estimated at between 8% and 15% of global GDP.

#### **Why do we need to be concerned about illicit trade?**

- From an economic perspective, these activities divert money from governments' tax revenue, impose unfair and/or corrupt competition to legitimate goods, increase supply chain costs, destabilize the balance sheets of legitimate businesses – and put cash in the hands of criminals.
- From a social perspective, illicit trade fuels corruption and criminal activity at the local level, threatening human life and the environment and pressuring governments to

step up law enforcement. Illicit trade also undermines many of the UN Sustainable Development Goals.

- From a security perspective, part of the money stemming from illicit trade – counterfeits, tobacco, etc. – is bankrolling extremists, terrorists and other criminal groups.

### **TRACIT is a business initiative, so what are the impacts on business?**

Damages to businesses include:

- Loss of market share, particularly due to unfair competition practices;
- Slower growth in legitimate markets;
- Rising supply chain monitoring, regulatory compliance, security and insurance costs;
- Risk of destruction of business infrastructure;
- Reputational risks and repercussions on consumer perception and corporate brand image when fake and sub-standard goods, or goods of unidentified origin, reach legitimate markets;
- Liability stemming from customer complaints and lawsuits based on alleged breaches of health and safety standards; and
- An increasingly hostile environment for legitimate business because of organized crime and the undermining of the rule of law.

### **What does this mean for consumers?**

Consumer health and safety can be at risk when purchasing products that do not meet regulatory and quality control standards. A few recent examples include tainted alcohol, counterfeit pharmaceuticals and fake auto parts including air bags.

Most consumers don't want to be associated with illicit trade, but may unknowingly contribute to environmental degradation (e.g., deforestation from illegal logging), wildlife crimes (e.g., animal skins and overfishing), violence (e.g., conflict diamonds), and terrorism (e.g., smuggled petroleum). In addition, consumers purchasing the product of illicit trade may well be contributing to human trafficking in the form of forced manufacturing labor.

These risks are further amplified when shopping online, where weaknesses in Internet services can conceal illicit trade from regulatory controls, especially via anonymous sellers.

Ultimately, consumers may pay more for legitimate products that struggle to recover lost market share and investment from unfair competition with illicit products, which generally are produced and sold at a lower cost, sidestep compliance with regulatory standards (such as health and security standards), use slave or underpaid labor, and utilize stolen or counterfeit components.

### **What does this mean for the supply chain?**

The globalization of trade has dramatically multiplied the number of intermediaries and increased the complexity of global supply chains, where intermediaries who supply raw materials, package, transport and deliver goods, or provide web-based services consumer services are based in a variety of different countries and trade cross national borders. The greater the number of intermediaries and the more elaborate the supply chain, the more vulnerable the system is to infiltration and exploitation by illicit traders.

Illicit traders use the infrastructure of the legitimate economy to conduct their business, which generates additional costs and risks for legitimate business. These costs and risks are both individual (e.g., monitoring, compliance, liability, reputation, health and safety of consumers) and systemic (e.g., possible major disruptions of the global supply chain).

### **What can be done to better secure supply chains?**

The fight against the global epidemic of illicit trade requires responsible action by multiple parties: governments to enact legislation; police to enforce laws; customs agents to protect borders; businesses to build protections into their product development, manufacturing, marketing and distribution systems; and consumers to “say no” to illicit products such as counterfeits, illicit tobacco, alcohol and conflict diamonds.

Supply chain intermediaries have an important responsibility to restrict use and abuse of their infrastructures to prevent illicit trade. Most act responsibly and do not want to be involved in violating their business partners’ rights, but the need is increasing to ensure they recognize the consequences of this illegal trade. All businesses, including intermediaries, have a corporate and social responsibility to fight illicit trade. Experience shows that most intermediaries, when better informed about potential exploitation and the damage done by illicit trade, demonstrate a willingness to secure their portion of the supply chain from abuse.

While a sectoral approach presents the undeniable advantage of addressing the specific features and dynamics of supply chains in any given sector, it limits opportunities for the sharing of intelligence, resources and interconnected enforcement programs.

One of TRACIT’s primary objectives is to work across supply chains, exchange information and mitigation tactics, and generally promote better controls in and across key industry sectors exploited by illicit trading. TRACIT will also highlight prevention and the protection of the supply chain through the adoption of increased and better due diligence and “know your customer” (KYC) procedures *across sectors*.

### **How does illicit trade affect national economies?**

According to the World Economic Forum, collectively, the value of illicit trade and transnational criminal activities are estimated at between 8% and 15% of global GDP.

Illicit trade creates an enormous drain on national economies – crowding out billions of dollars in legitimate economic activity and facilitating an "underground economy" that deprives governments of revenues for vital public services, forces higher burdens on tax payers, dislocates hundreds of thousands of legitimate jobs and exposes consumers to

dangerous and ineffective products. For business, these effects lead to greater risk, lower returns on investment, less job creation.

Moreover, the presence of organised crime in these sectors, along with the associated corruption, impacts stability, governance, development and the effective implementation of rule-of-law. Even in what are considered strong and prospering states, organised crime has a serious corrosive effect.

Conversely, legitimate companies help reduce poverty through direct employment, sourcing goods and services locally and the payment of taxes to governments which enable the development of essential social and economic infrastructure. Where companies operate in remote areas, opportunities to grow a community out of poverty are dependent upon legitimate industry's ability to create jobs and develop skills.

### **What currently is being done to deal with the problem?**

Large multinational businesses have people, resources and extensive compliance programs aimed at assuring their products are sourced and produced with legitimate components. These entities generally track and fix issues associated with their vulnerabilities, work with governments, law enforcement and custom's officials with jurisdiction in areas through which their products travel. Governments are increasingly realizing it is essential to work together with the private sector to share trends and intelligence as well as to enforce existing legal standards and tools.

But illicit trade has grown well beyond the capabilities of individual governments and individual companies, and now demands a sustained, coordinated response.

### **What is TRACIT?**

TRACIT is organized as a non-governmental, not-for-profit organization under US tax code 501(c)(6). Membership is open to corporations and select trade associations committed to mitigating the economic and social impacts of illicit trade.

TRACIT plans to include among its members businesses and trade organizations from across the world. Currently, issues are addressed within industry segments and through cross-cutting approaches. The industry sectors include: alcohol; agri-foods; fisheries; forestry; pesticides; petroleum; pharmaceuticals; precious metals and gemstones; retail; and tobacco. The work program also focuses on addressing trafficking in persons, wildlife and all forms of products vulnerable to trademark counterfeiting and copyright piracy.

The membership-driven organization is led by a Board of Directors, Executive Committee, Advisory Group and a Secretariat composed of a Director General, Deputy Director General and expert staff.

### **Why TRACIT? Why now?**

Illicit trade has grown well beyond the capabilities of individual governments and individual companies, and now demands a sustained, coordinated response. Connecting and mobilizing

businesses across industries, sectors and national borders makes it possible to achieve results more effectively than any single actor can accomplish alone.

TRACIT is a not-for-profit private sector initiative focused on mobilizing the international business community and specific industry sectors most affected by illicit trade. Business has an important role to help shape the political and regulatory response to illicit trade – and to help itself across sectors by sharing intelligence, data, resources and measures demonstrated to effectively control illicit trade and associated supply chain abuses. TRACIT draws from industry strengths and market experience to build habits of cooperation between business, government, intergovernmental organizations and the diverse group of countries that have limited capacities for regulatory enforcement.

### **What's TRACIT's work plan?**

TRACIT's principal objective is to help shape the regulatory response to illicit trade so as to reduce and ultimately eliminate illicit trade. The organization leverages the political momentum against the social and economic consequences of illicit trade to:

- Mobilize the international business community to work collectively across industry sectors, build synergies and develop, promote and share mitigation tactics common to all forms of illicit trade.
- Promote a holistic, interconnected approach to the sprawling governmental missions and operations to achieve more effective government controls on illicit trade and leverage business' own efforts to stop illicit trade.

Operationally, TRACIT's work plan aims to:

- Reduce vulnerabilities of supply chains exploited by all forms of illicit trade (e.g., transportation channels, digital channels, free trade zones, financial networks, etc.).
- Strengthen the business response to illicit trade by exchanging information and mitigation tactics in and across key industry sectors.
- Improve awareness, expand the knowledge base, and energize the global dialogue on illicit trade with the goal of promoting shared policy development and implementation of enforcement measures.
- Contribute industry expertise, know-how and best practice to strengthen local, regional and global policies, legislation, institutions and enforcement mechanisms, and close governance gaps that facilitate illicit trade.
- Drive action with global governance bodies that influence the work programs of Intergovernmental Organizations (IGOs) and key UN agencies. G7, G20, OECD, APEC and ASEAN leaders play key roles in setting priorities and funding for key IGOs and setting standards for national government performance. TRACIT presses for a more effective cross-sectoral coordination among IGOs, and promotes systemic approaches, interconnected strategies and shared resources.

This work will be conducted through meetings, roundtables and summits; research reports; information and mitigation tactics sharing; developing and advocating policy recommendations; and building partnerships with key NGOs, IGOs, business and sectoral trade associations and other entities.

### **Who should join TRACIT and what are the membership levels?**

Businesses who are facing market disruptions due to illicit trade of their products are welcome to join TRACIT to work collaboratively with other members companies facing similar problems in the same or other industry sectors. There are two annual membership levels: Full members contribute US\$25,000 and Associate Members contribute US\$10,000.

For more information visit [www.TRACIT.org/join](http://www.TRACIT.org/join).

### **How can I get involved?**

To learn more about our work program or how to join,

- Send an email to [info@TRACIT.org](mailto:info@TRACIT.org)
- Or visit [www.TRACIT.org/join](http://www.TRACIT.org/join).

### **How can I stay informed?**

TRACIT publishes a regular e-newsletter. Interested parties are invited to [subscribe here](#), or visit our ABOUT pages at [www.TRACIT.org/about](http://www.TRACIT.org/about).

We welcome your participation in our events.