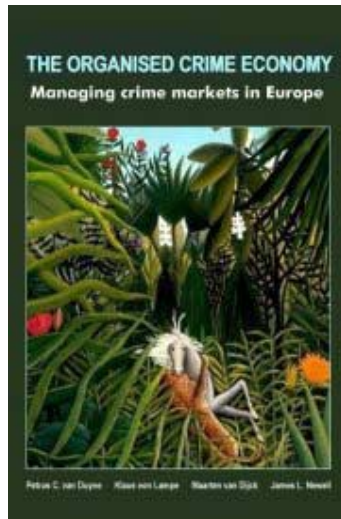


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Germany**

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Explaining the emergence of the cigarette black market in Germany

Klaus von Lampe¹

Introduction

The illegal trade in untaxed cigarettes has come to be recognised as a significant problem around the world. According to some estimates, almost one third of global cigarette exports is funnelled into black markets (Joossens and Raw, 1998: 66), accounting for between 6 and 8.5 percent of all cigarette consumption (Merriman *et al.*, 2000: 383). However, the problem appears to be unevenly distributed across countries and regions, with Germany, the focal point of this chapter, falling into a middle category of countries that experience a considerable level of cigarette smuggling but not as much as the countries that are most affected (European Parliament, 1997, 63; Merriman *et al.*, 2000: 373–374).

A number of factors have been identified to explain why cigarette black markets emerge and why the problem is more substantial in some countries than in others (Joossens *et al.* 2000; Bundesministerium der Finanzen, 2003). The most obvious reason for cigarette smuggling in a broad sense is seen in the fact that cigarettes are typically subject to high taxation. The difference between net (duty-free) prices and legal retail prices provides an incentive for circumventing taxes. Those capable of procuring untaxed cigarettes for distribution can pocket a large share of the difference between the duty-free price and the duty-paid price as a profit. The profit margins are huge considering that the total incidence of tax on the purchase price of cigarettes in many countries, including Germany, exceeds the 70 percent mark and in some cases may even be above 80 percent (European Parliament, 1997: 61; Körner 1996: 30). A second major factor which is regularly named is the difference in retail prices between countries due to different levels of taxation (Beare, 2002, 2003; Van Duyne, 2003). Depending on the extent of the price disparity and on the transport costs involved, it can be lucrative to buy cigarettes in a low-tax country and to sell them in a high-tax country (Merriman *et al.*, 2000: 366).

Other factors that have been linked to cigarette black markets include “the presence of informal distribution networks, organized crime, industry participation, and corruption” (Joossens *et al.*, 2000: 403; see also Beare, 2002, 2003). It is not clear however, to what extent these factors are causes of black markets or factors that only come into play in later stages of the developmental

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process. While some argue that cigarette smuggling will almost automatically increase with increases in the levels of taxation and cross-national price disparities, others claim that the problem takes on substantial proportions only when smuggling activities move from small-scale ‘bootlegging’, meaning the smuggling of cigarettes purchased in low-tax countries, to ‘large-scale organised smuggling’ involving the diversion of container loads of untaxed cigarettes to the black market (Joossens *et al.*, 2000: 398). According to this latter view, smuggling is not restricted to regions where taxes and prices are high, and it becomes a problem only when domestic brands become available to smuggling networks (Joossens and Raw, 2000: 949), which implies an open or tacit agreement between tobacco manufacturers and black marketeers.

The purpose of this chapter is to examine some of the factors that account for the emergence of the cigarette black market in Germany in the early 1990s. In a previous paper drawing on a variety of mostly open sources (von Lampe, 2002), the cigarette black market in Germany was described as an example of the social embeddedness of illegal markets; and in another paper, using a small sample of criminal files (n=14) as a primary data source (von Lampe, 2003), it served as a case study for examining the structure of criminal enterprises.² This chapter explores the emergence of the cigarette black market in Germany using official statistics, unpublished law enforcement statistics, and a larger sample of criminal files (n=47). These data show some peculiarities in the temporal and spatial distribution of cigarette trafficking in Germany, and shed some light on the offenders and offender groups involved in black market activities. The evidence collected raises doubts about many assumptions concerning the root causes of cigarette smuggling on a grand scale. Specifically, it will be argued that high levels of taxation, cross-border price differences and the involvement of crime syndicates are not adequate or sufficient explanations.

Historical origins of the German cigarette black market

There are primarily two images associated with the illegal cigarette trade in Germany: one is that of Vietnamese street vendors openly selling contraband cigarettes in East Germany. The other image is that of huge amounts of contraband cigarettes being seized by the authorities in shipments ranging from a few cartons to entire container loads. Both images are closely linked to a specific historic period, namely the years following the fall of the Berlin Wall. As has been described elsewhere (von Lampe, 2002), the emergence of the cigarette black market in Germany can be pinpointed with some accuracy. While some cigarette smuggling, mostly involving merchandise purchased in Luxemburg and

² For a similar study of the structure of illegal enterprises involved in the cigarette black market in the Netherlands, see Van Duyne (2003).

in Eastern European valuta stores, had existed on a small scale for some time, it was only in the years 1990 and 1991 that an extensive street market for contraband cigarettes developed and the numbers of seized contraband cigarettes skyrocketed (Bundesministerium der Finanzen, 2003).

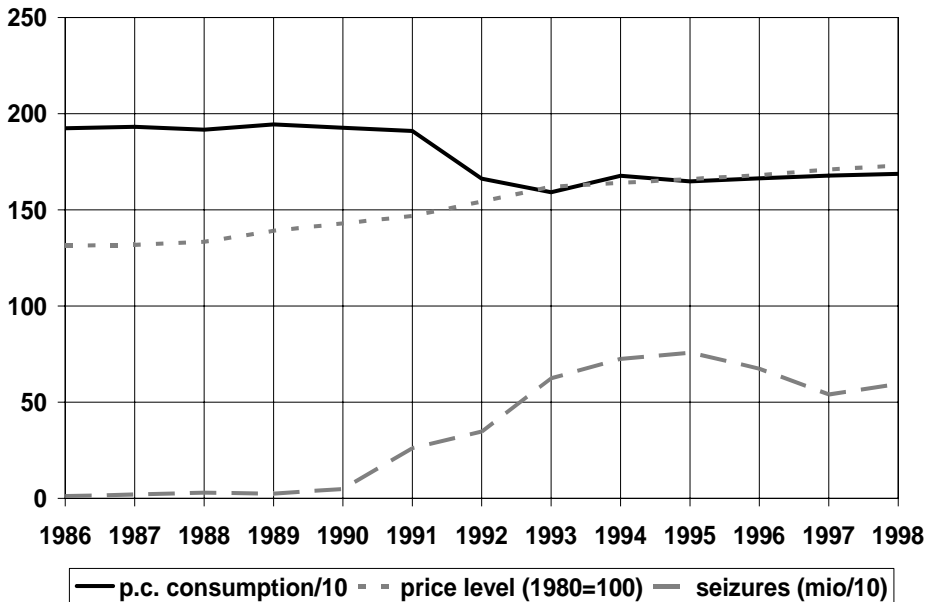
Before the question of causation is addressed it appears appropriate briefly to examine the history of the large-scale black market, again drawing on previous discussions (Von Lampe, 2002). The origins of the cigarette black market as it developed in the early 1990s can be traced back to the winter and spring of 1989. In January 1989 the visa obligation for Polish citizens travelling to the then capitalist enclave of West Berlin was lifted. This spawned an anarchic cross-border trade with a wide range of goods being brought from Poland to be sold on the streets or at make-shift, open-air markets. These goods included electronic appliances, tools, alcoholic beverages and cigarettes. In June of 1990, immediately after the currency union between the Federal Republic of Germany and the German Democratic Republic, and three months prior to German reunification, the open sale of contraband cigarettes shifted and spread to other places in Eastern Germany while the open market in West Berlin was successfully curbed through rigid police intervention. A year later, the illicit sale of cigarettes had become an established part of the economy, allegedly accounting for up to one third of the cigarettes consumed by East Germans (*Der Spiegel* 26/1991, 56). By then, in the summer of 1991, Polish vendors had largely given way to former Vietnamese guest workers, who had been recruited by the East German government and had lost their jobs in the course of economic reconstruction following the collapse of the socialist regime (Krebs, 1999). During the same period the annual number of contraband cigarettes seized by the Customs Service had risen from some 24 million in West Germany in 1989 to 260 million in unified Germany in 1991 and 346 million in 1992 (Von Lampe, 2002: 145-146).

Looking for explanations

The price argument

Having briefly outlined the origins of the cigarette black market, attention can be shifted to potential explanations. Let us begin with the price argument. We would expect the emergence of the cigarette black market to coincide with a marked increase in the price of cigarettes on the German retail market.

To test this assumption we are, as mentioned, in the advantageous position of being able to determine with some accuracy the point in time when the cigarette black market emerged as a large-scale phenomenon. When we look at figure 1 showing the trends in the per-capita consumption of taxed cigarettes, represented by the black line, and in the amounts of seized contraband cigarettes, represented by the grey broken line, significant changes taking place in the years 1991 and 1992 become discernible.

Figure 1. Trends in Retail Price, Legal Per-Capita Consumption and Seizures of Cigarettes

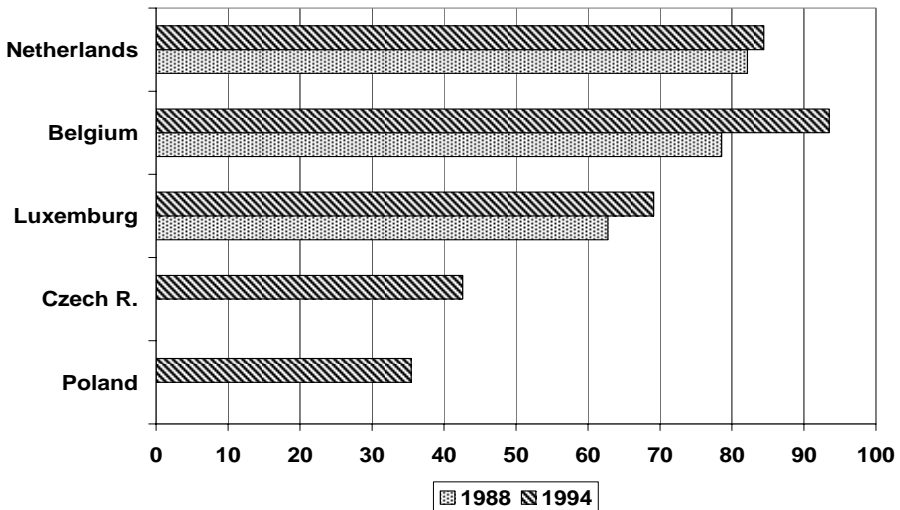
The drop in legal consumption (from around 1,900 in 1989 to around 1,600 in 1992) and the increase in the number of seized contraband cigarettes (from 24 million in 1989 to 346 million in 1992), which coincide with the mass appearance of street vendors of contraband cigarettes in East Germany, indicate a sudden growth in illicit cigarette trafficking. These developments, in turn, do indeed coincide with increases in the legal sales prices of cigarettes, represented in figure 1 by the dotted grey line. There is generally a high positive correlation of .94 (Spearman r) between legal prices and the number of seized cigarettes, and a high negative correlation of $-.89$ between legal prices and legal per-capita consumption in the time period to which this figure refers, 1986 through 1998. However, there is no *sharp* price increase in the early 1990s that would explain the turn of events that took place within this short time span. In fact, it is interesting to note that the price of cigarettes in East Germany was not affected by the currency union in June 1990 (Nierhaus, 1990).

Cross-national price disparities

Another factor seems to have more explanatory power: the increased difference between retail prices in Germany and neighbouring low-tax countries (figure 2). Whereas in the 1980s, the greatest price differential amounted to about 37 percent in the case of Luxemburg, after the fall of the Berlin Wall the differences in price levels increased to about 65 percent in the case of Poland and about 57 percent in the case of the Czech Republic (Eurostat, 1990; Körner, 1996). This

means that whereas in the 1980s, Germans could save only 37 percent on purchases of cigarettes in cross-border shopping, in the 1990s this margin increased to 65 percent. Quite obviously this has not only created incentives for shopping tours to neighbouring countries, but also opportunities for illicit profit making. However, the question remains: Does this sudden increase in cross-national price disparity provide an exhaustive explanation for the emergence of the cigarette black market in Germany? This would be the case if the factors that transformed Germany into a comparatively high-tax country had led to a more or less even spread of contraband cigarette trafficking nationwide. But this does not seem to have been the case.

Figure 2. Price Differentials between Germany and Selected Neighbouring Countries (Germany=100)



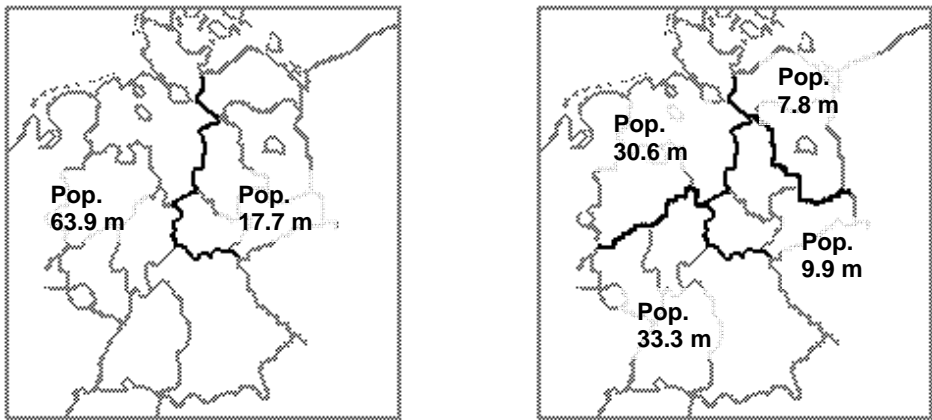
It has already been emphasised that the visible black market emerged in West-Berlin and later shifted to other parts of East Germany, but that it never took on similar proportions in West Germany. The available statistical evidence, derived from the Customs Service database INZOLL, confirms this geographical concentration.

Geographical concentration of the black market

The database INZOLL inter alia stores records on all cigarette-related proceedings initiated by the branches of the Customs Service across Germany. Apart from the investigations conducted by the central Customs agency Zollkriminalamt, which make up only a small share of the entire case load (between 0 and 5.5 percent per year), it is possible to determine the geographical

location of each investigation by looking at the branch office in charge. Using the records contained in the database as of November 2002 for the years 1989 through 1999 ($n = 216,612$), we were able roughly to group the cases into two categories, one comprising the investigations conducted by branch offices located in West Germany and the other comprising the investigations conducted by branch offices located in East Germany including Berlin (table 1). The East German branches cover an area with a population of 17.7 million, whereas the West German branches cover a territory that is about twice as large with a population that, at 63.9 million, is more than three times as large.

Figure 3. Dividing Germany for Analytical Purposes

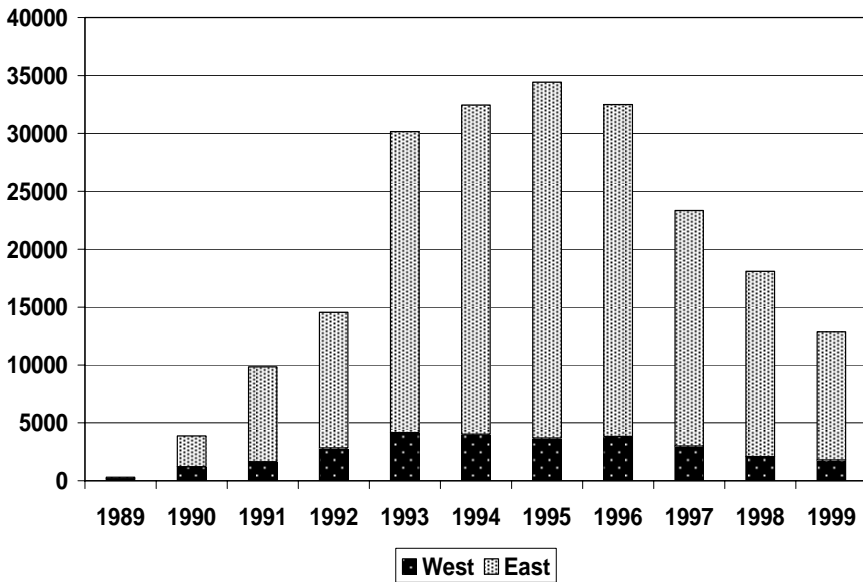


The analysis (figure 4) shows that despite the significantly smaller territory and smaller population of East Germany, the number of cigarette-related investigations conducted by the East German branches of the Customs Service by far exceed the number of investigations in West Germany in every year during the 1990s. Within limits these figures permit the conclusion that the cigarette black market has indeed been far more prevalent in East Germany than in West Germany.

Of course, law enforcement statistics are not a pure reflection of the crime picture. Other factors come into play, like the motivation to report crimes to the authorities and the willingness and ability of law enforcement agencies to respond to these reports and to initiate investigations. But considering that the Customs Service underwent fundamental reconstruction in East Germany during the early 1990s and thus was less well prepared to investigate cigarette smuggling than the Customs Service branches in West Germany, one would have expected these factors to contribute to higher numbers of recorded cigarette-related crimes in the West than in the East. Another aspect that points in the same direction is the fact that most of the cases centrally handled by the Zollkriminalamt pertain to the investigations of a special unit (“SOKO Blauer Dunst”) which was formed to support the East German branch offices of the

Customs Service in the fight against cigarette smuggling. So in sum, the actual geographical concentration in the East is likely to be even more substantial than indicated by the data presented in figure 4.

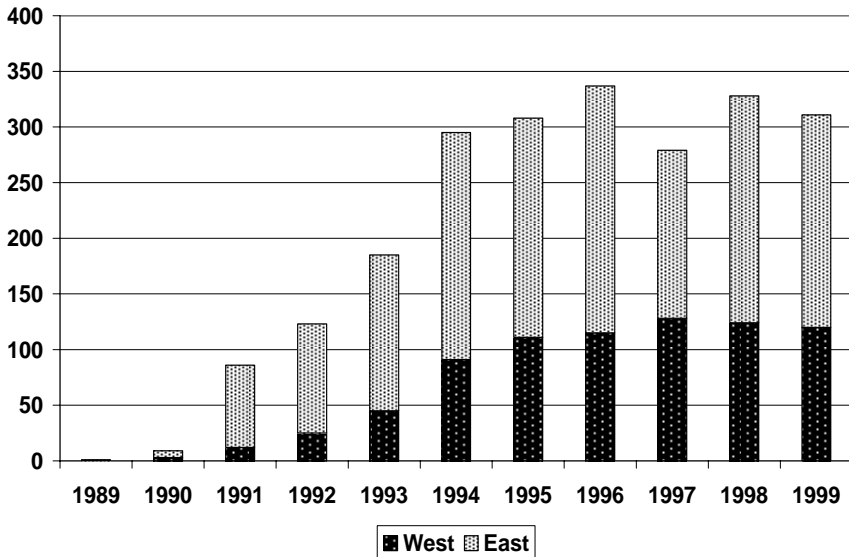
Figure 4. Number of Cigarette-Related Investigations by Branch Offices of the Customs Service in East Germany (incl. Berlin) and West Germany, 1989-1999



A less dramatic but still considerable difference between East and West Germany exists when the analysis is confined to cases involving bulk loads of 150,000 cigarettes and more (figure 5). This indicates that there is a higher regional concentration of the retail market than of the wholesale market.

At the same time, a comparison between the two graphs shows that bulk shipments make up only a small fraction of cigarette-related investigations by the Customs Service, which suggests that what has been termed ‘large-scale organised smuggling’ is not necessarily the dominating force in the German cigarette black market.

Figure 5. Investigations by Branch Offices of the Customs Service in East Germany (incl. Berlin) and West Germany Involving 150.000 Cigarettes or more, 1989-1999



Given the fact that the price differentials between Germany and its neighbouring low-tax countries affect the country as a whole (because there are no regional price differences within Germany) it needs to be explained why contraband cigarette trafficking emerged primarily as an East German problem. There are, in fact, some at first glance plausible explanations (von Lampe, 2002, 148-149), including:

- the greater geographical proximity of East Germany to the low-tax countries Poland and the Czech Republic;
- lower income levels and higher unemployment in East Germany as compared to West Germany;
- a legitimacy problem as regards the legal system which was quite rigidly transferred from West to East Germany;
- the structural weakness of law enforcement in the period of transition; and
- the existence of a Vietnamese community in East Germany that for peculiar reasons has provided a large workforce for the street sale of contraband cigarettes.

Some of these explanations are less convincing than others because they cannot explain the differences between East Berlin, with its extensive street selling of contraband cigarettes, and West Berlin, where the open black market has all but disappeared since 1989 and 1990. This is the case with regard to the explanations

that refer to the geographical proximity to Poland and the socio-economic situation. Berlin as a whole is only about an hour away by car or train from the Polish border and the unemployment rate, to take one socio-economic indicator as an example, has consistently been above the national average in both parts of Berlin with the West Berlin rate even exceeding the unemployment rate in East Berlin by 1994.

Leaving aside the special case of West Berlin, the factors listed could explain the geographical concentration of the cigarette black market in East Germany only if there were an even distribution across that area, because all the factors would seem to apply equally to all parts of East Germany. But again, the Customs Service records show a different picture. When for analytical purposes the set of cigarette-related investigations is broken down into smaller territorial categories (see table 1 above), a more specific geographical concentration surfaces.

East and West Germany, respectively, can be subdivided along state lines into two territories of roughly equal size (table 1): Northwest Germany (population 30.6 million) and Southwest Germany (33.3 million), and Northeast Germany (7.8 million) and Southeast Germany (9.9 million). On this level of analysis it becomes apparent that what at first had seemed to be an East-West difference is in fact to a large degree a difference between Northeast Germany and the rest of the country.

Figure 6 shows the number of cigarette-related investigations of the Customs Service branches located in Berlin, Brandenburg and Mecklenburg-Western Pomerania (Northeast) on one hand, and in Saxony-Anhalt, Thuringia and Saxony (Southeast) on the other. As can be seen, by far the largest number of cigarette-related investigations in East Germany were conducted in the Northeast. In 1991, the ratio was 6,171 : 2,022; in 1992, 9,194 : 2,524; in 1993, 18,392 : 7,611. Overall, the Northeast German branches of the Customs Service, which covered a territory with less than 10 percent of the national population, accounted for 43 percent of all cigarette-related investigations in Germany in 1989; 62 percent in 1990; 61 percent in 1991; 60 percent in 1992; 58 percent in 1993; 66 percent in 1994; 75 percent in 1995; 74 percent in 1996; 75 percent in 1997; 77 percent in 1998, and 74 percent in 1999.

The difference is less drastic but still considerable when we confine our attention to the up to 350 cases nationwide each year that involve bulk loads of 150,000 cigarettes and more. Figure 7 shows the comparative figures for Northeast and Southeast Germany, suggesting that the geographical concentration in the larger Berlin area applies more to retail sales than to bulk smuggling and wholesale trafficking.

Figure 6. Cigarette-Related Investigations by Branch Offices of the Customs Service in Northeast and Southeast Germany, 1989-1999

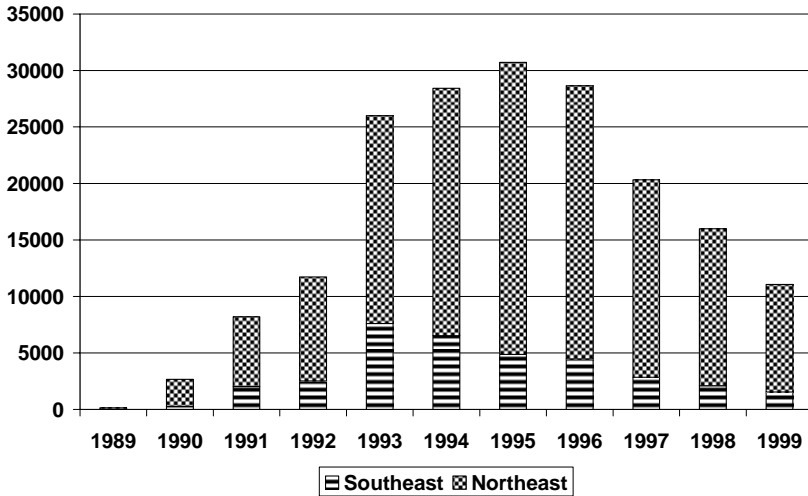
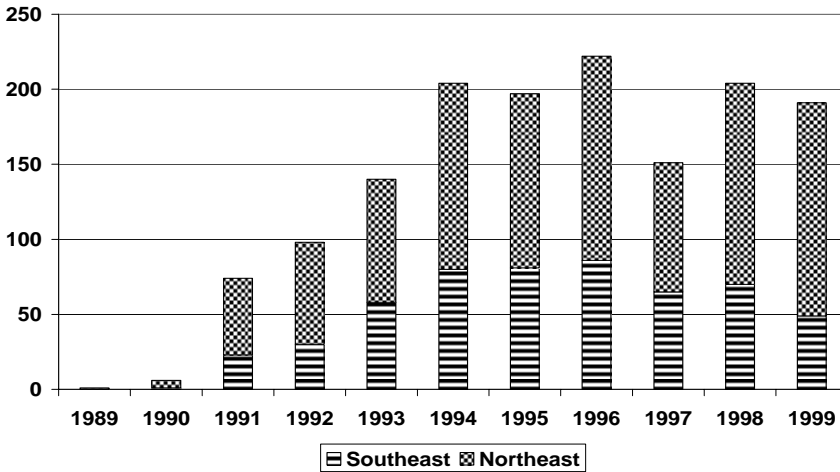
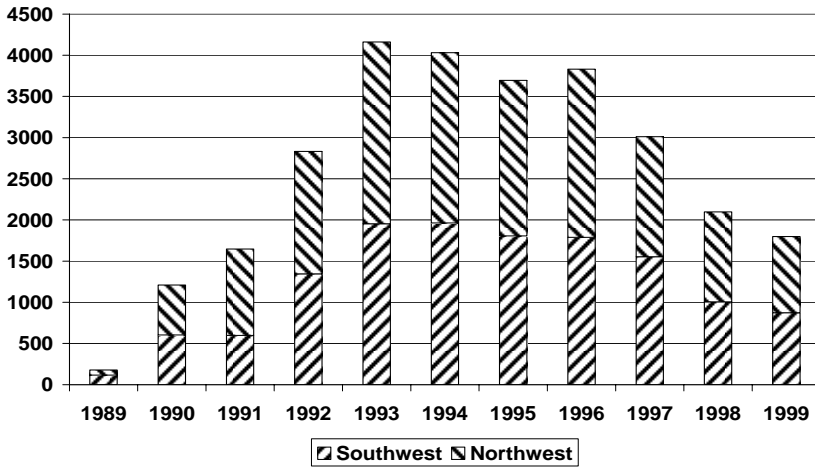


Figure 7. Investigations by Branch Offices of the Customs Service Involving 150.000 Cigarettes or more in Northeast and Southeast Germany, 1989-1999



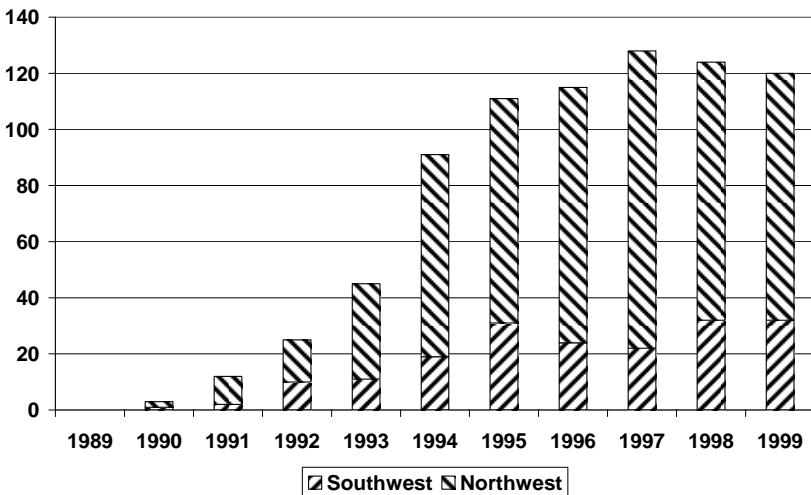
Interestingly, the opposite picture is provided by the statistics for the Western parts of the country (figure 8). Here, the investigations are evenly distributed between the Northwest and Southwest.

Figure 8. Cigarette-Related Investigations by Branch Offices of the Customs Service in Northwest and Southwest Germany, 1989-1999



However, a clear geographical concentration in the Northwest can be discerned for cases involving bulk shipments (figure 9). Without being able to go into details, we think it peculiar to find a concentration of bulk shipments in Northwest Germany from 1991 onwards – that is, long before a large scale black market for cigarettes developed in Britain and transit through Germany and the Benelux countries became a characteristic component of the cigarette smuggling picture in Northwest Europe (Joossens and Raw, 2000: 949).

Figure 9. Investigations by Branch Offices of the Customs Service Involving 150.000 Cigarettes and more in Northwest and Southwest Germany, 1989-1999



The People Behind the Black Market

Turning back to the situation in East Germany it appears justified to conclude from the available evidence that there is a concentration of trafficking activities in the larger Berlin area. This suggests that the conditions here are particularly conducive to the emergence of a cigarette black market even though it must be taken into account that a major share of investigations (about 20 percent in 1993) in the Northeast relates to smuggling activities at the German-Polish border in and around Frankfurt (Oder) which has been one of the most important transit points for East-West commerce and travel.

Assuming that the basic socio-economic conditions are more or less identical across Eastern Germany there have to be other factors that come into play to explain the concentration in the larger Berlin area.

The Vietnamese Community in East Germany

One aspect that merits closer attention is the involvement of Vietnamese on the lower levels of the black market. The fact of the matter is that beginning in 1990 and 1991 Vietnamese vendors by and large took over the street sale of contraband cigarettes. This development can be explained by a number of factors which have been detailed elsewhere (von Lampe, 2002). Briefly summarised, many of the Vietnamese living as guest workers in East Germany by the time the currency union made it lucrative to sell contraband cigarettes, were willing and able to enter the black market. They had the necessary experience from wheeling and dealing under the socialist regime, and faced with unemployment they had an economic incentive. But most of all they proved particularly resistant to law enforcement pressure. Investigations were hampered by the language barrier, by the spatial seclusion of the Vietnamese community in designated housing projects, and by the fact that Vietnam displayed great reluctance to accept extradited citizens. This effectively removed the most pressing burden that existed for non-German illicit cigarette vendors. Finally, Vietnamese had a competitive advantage over other ethnic groups because of their distinct appearance. They could be easily recognised as cigarette dealers and a Vietnamese standing by a subway station equipped with a plastic bag or a pack of cigarettes quickly became something of a trademark for the sale of contraband cigarettes. Retrospectively one is inclined to say that it was only because of the simultaneous visibility and relative immunity of the Vietnamese street vendors that a large-scale black market could develop.

Against this background it seems obvious to ask whether the geographical concentration of the black market in Northeast Germany is related to a similar concentration of the Vietnamese community. But the available evidence does not corroborate this assumption. On the contrary, figures provided by the German office of statistics (Statistisches Bundesamt) suggest that more

Vietnamese lived in Southeast Germany than in Northeast Germany. In 1991, the year when Vietnamese vendors took over the illegal retail market for cigarettes, 11,830 Vietnamese citizens officially resided in Berlin, Brandenburg and Mecklenburg-Western Pomerania, compared to 16,792 in Saxony-Anhalt, Thuringia and Saxony.

A Sample of 47 Criminal Cases

Having more or less exhausted the possibilities of finding an explanation for the apparent geographical concentration of the cigarette black market in Germany on the statistical level, attention can be shifted to the available qualitative data. These have been obtained from the analysis of a sample of criminal cases pertaining to cigarette trafficking in Berlin in the years 1990 through 1994. The cases were selected from investigations conducted by the Berlin branch of the Customs Service. Using the INZOLL database, the ten investigations involving the largest numbers of cigarettes recorded or seized, and at least three suspects, were selected for each year. These selection criteria were chosen in order to make it possible to examine cases that represent the highest market levels and that involve potentially the most complex detected offender networks, in order to gain insight into the operation of those actors that may be regarded as being among the key players in the black market.

Because for 1990 only few cases fit the criteria and overall the selected files were not always available for analysis, the sample contains different numbers of files from each year (1990: 3; 1991: 13; 1992: 14; 1993: 10; 1994: 7). Contrary to initial expectations the 47 cases that were eventually analysed do not pertain exclusively to high echelon groups. Rather, the investigations deal with networks from all market levels:

- 4 cases involve suspects who smuggled cigarettes and then sold them directly to consumers;
- 24 cases deal with the smuggling of cigarettes for the purpose of supplying wholesale and retail dealers in Germany;
- 6 cases pertain to retail dealing;
- 8 cases are about wholesale dealers who supply retail dealers;
- and in another 5 cases smugglers were apprehended without the destination of the contraband cigarettes becoming apparent.

It appears to be worth looking at these cases in search of answers to the question of why the cigarette black market emerged and developed primarily in Northeast Germany. While the cases do not allow a comparison with other regions, the analysis may hint at possible explanations in the sense that characteristic features of black market operations showing up in the analysis of the Berlin cases may be unique to this region. Against the background of

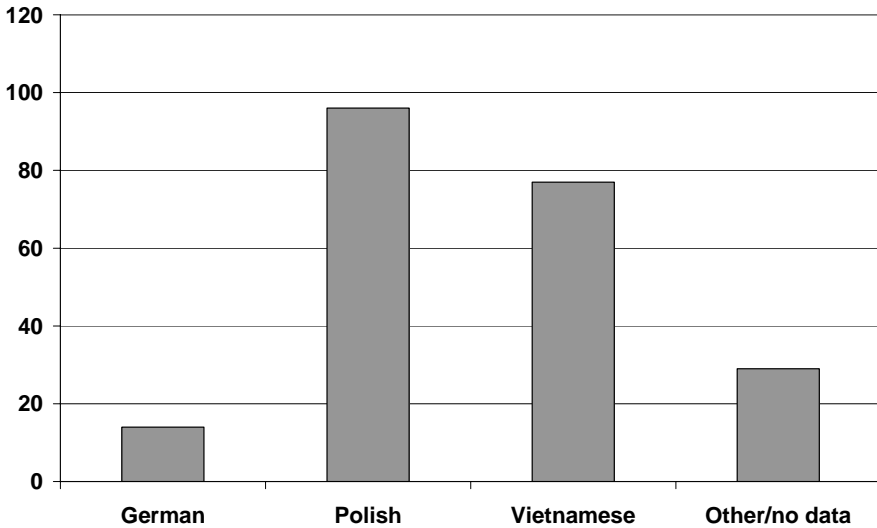
imagery linking large scale cigarette black markets with ‘organised crime’ the focus is on the individuals involved in the black market, the structure and sophistication of criminal enterprises and the linkage between different market levels.

Personal Characteristics

The 47 case files contain more or less complete information on 216 likely offenders. Drawing on the available information the average age of the suspects is 27 with a median age of 28. 11.7 percent of the suspects are women, mostly wives or relatives of co-offenders, and 93.4 percent are non-German nationals.

When we look at the nationality of these suspects (figure 10) we find two groups dominating: Polish citizens on the supply side and Vietnamese on the intermediate and retail levels. Typically, cases involve Polish smugglers supplying Vietnamese wholesale or retail dealers.

Figure 10. Nationality of Likely Offenders (n=216) in a Sample of 47 Cigarette Trafficking Cases from Berlin, 1990-1994



The clear dominance of these two groups is likely to conjure up images of ethnic mafias taking control of an illegal market and dividing it into zones of interest. But the information contained in the criminal files analysed paints a different picture. Most of the suspects do not seem to be hardened career criminals. According to the information contained in the criminal files, only 24 of the 216 suspects had been involved in crimes other than cigarette-related offences. Of these only 11 had been involved in property crimes and/or violent crimes. The remaining 13 had been charged with offences such as traffic

violations and infringement of migration laws. More specifically, evidence of criminal involvement outside the cigarette black market could be found for only 8 percent of the Polish smugglers and traffickers and for only 18 percent of the Vietnamese dealers. The shares for property crimes and violent crimes were 4.7 percent in the case of the Polish suspects and 3.5 percent in the case of the Vietnamese suspects. This is in line with the findings of Van Duyne (2003) concerning cigarette smuggling in the Netherlands.

A similar picture emerges with regard to legal employment. Of the 126 subjects for which the files contained information about their employment situation, there were 52 who held a legitimate job, went to school, or received a pension, and apparently used cigarette trafficking only to supplement their legitimate incomes. Interestingly, the share of suspects in this category was much higher in the first two years (77.8 percent in 1990 and 73.7 percent in 1991) than in the following three years (1992: 19 percent; 1993: 25 percent; 1994: 35.7 percent). In the case of Vietnamese dealers this is probably due in part to the fact that Vietnamese who had originally come to East Germany as guest workers were laid off during the transition period. Partly it is due to the fact that newly arriving Vietnamese who went into cigarette trafficking, typically relatives of Vietnamese guest workers, had to apply for political asylum and were not permitted to work.

Overall, it seems that market participants were drawn into crime through a combination of push and pull factors more or less specific to the illicit cigarette business.

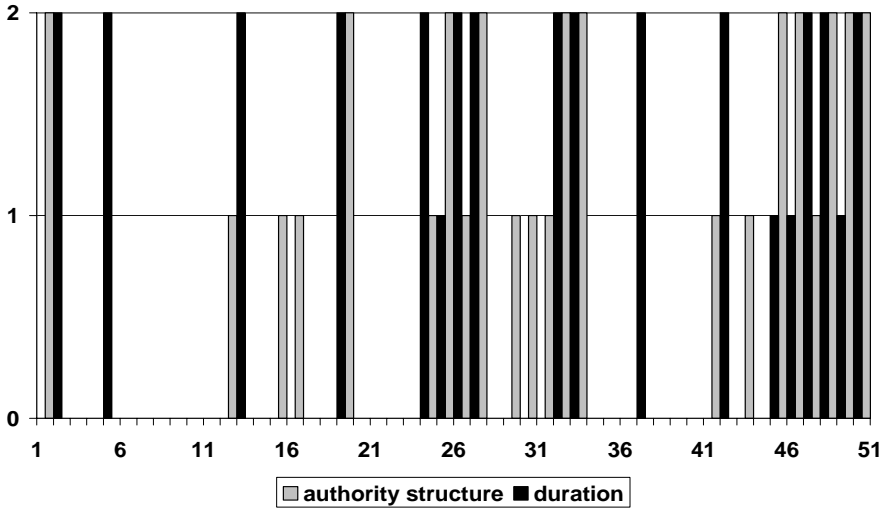
Patterns of Criminal Cooperation

The available evidence on the patterns of criminal cooperation corroborates this assessment. Cooperation seems to have been mostly opportunistic among actors who belong to fairly limited social networks. However, there appears to be a trend towards more durable and more complex patterns of cooperation over time.

In the 47 criminal files analysed, information was available concerning 51 different sub-networks. These can be tentatively classified along two dimensions: authority structure, meaning a vertical differentiation between leaders and followers; and duration, referring to the lifespan of the network beyond a single endeavour.

Given the fact that the information contained in criminal files is often ambiguous, the classification refers to indicators that suggest the possibility that a given network has reached a certain level of structural sophistication. Figure 11 lists the 51 identified sub-networks in chronological order and shows the presence or absence of information hinting at the existence of durable network links and authority relations.

Figure 11. Indications of Authority Structure and Duration for 51 (Sub-) Networks (in Chronological Order)



A grey column with a value of 1 indicates that there is an evidence that in the particular network one member stands out as *primus inter pares*, whereas a values of 2 stands for an outright command structure, as is the case when a trafficker hires a helping hand to unload a shipment of contraband cigarettes. A black column with a value of 1 indicates that the offenders concerned cooperate repeatedly though sporadically, while a value of 2 stands for continuous cooperation. If no columns are assigned to a case it means that there is no evidence contained in the file that the cooperation was anything other than a one-off joint venture among equals.

The graph suggests mainly two things. First, that the overall structural sophistication of the networks involved in the cigarette black market was low in the initial phase of development between 1990 and 1994: 24 out of the 51 identified networks show neither vertical differentiation nor existence beyond a single endeavour. Second, the graph hints at a trend towards increasing sophistication. The networks that fall into the period that runs from the second half of 1992 to the end of 1994 (networks 23 through 51) are more likely to show signs of some form of authority structure and/or a longer life span than the networks detected between 1990 and the first half of 1992 (networks 1 through 22).

Given these tentative findings it seems that the black market is not so much the product of sophisticated criminal networks but rather, that the sophistication of market participants has increased over time along with or following the growth of the black market. We can also find evidence of this trend on the biographical level. In the 47 criminal files analysed there are several examples of market participants who originally started out as unsophisticated amateur black

marketeers and then moved up from small-scale smuggling and selling to bulk smuggling and wholesale trafficking.

Thus, the explanation for the emergence of the cigarette black market in Germany and especially in the greater Berlin area apparently has to be sought elsewhere than in the alleged presence of crime syndicates.

The Link Between Polish Suppliers and Vietnamese Dealers

While the analysis of case files does not produce any conclusive results, the one feature that stands out is the link between Polish suppliers and Vietnamese dealers. It can be hypothesised that this cooperation has been crucial for the development of the black market and that the best conditions for this supply channel have been in existence in the Berlin area.

Indeed, from a purely statistical point of view it is noteworthy that the size of the Polish community is a factor that distinguishes Northeast Germany from Southeast Germany. Whereas 32,800 Polish Nationals officially resided in the Northeast in 1991, most of them (25,800) in Berlin, in the Southeast the number was only 16,500 (Statistisches Bundesamt, 1993: 72). Beyond pure statistics, the early history of the black market gives credence to the claim that the Polish-Vietnamese connection is vitally important. When the street selling of contraband cigarettes emerged in East Germany in mid 1990, supply lines from Poland had already existed in Berlin for more than a year while similar channels had yet to be established in other parts of the country. This probably allowed the black market to grow more rapidly in the Berlin area while also turning Berlin into a transshipment centre for contraband cigarettes going to other local black markets. In fact, in three of the 47 criminal files analysed, cigarettes were first brought to Berlin and then passed on to Vietnamese dealers in other cities, namely Halle and Magdeburg in the state of Saxony-Anhalt and Dresden in the state of Saxony, which are between 155 and 190 km away from Berlin.

Summary and Conclusion

According to conventional wisdom, high levels of taxation, cross-border price differences and the involvement of 'crime syndicates' explain the incidence of cigarette smuggling on a grand scale. The data collected for this study show that the emergence of the cigarette black market in Germany in the early 1990s indeed coincides with increasing discrepancies between duty-free and duty paid-prices on the one hand, and between retail prices in Germany and neighbouring low-tax countries on the other. These factors, however, cannot explain the geographical concentration of the cigarette black market in Northeast Germany and more specifically in the greater Berlin area. The records on cigarette-related investigations conducted by the German Customs Service show that despite the

small territory and a combined share of less than 10 percent of the national population, the three states of Berlin, Brandenburg and Mecklenburg-Western Pomerania account for between 58 and 66 percent of all cigarette-related cases per year in the period from 1990 until 1994. This geographical concentration can neither be explained by price discrepancies, nor by the presence of 'crime syndicates', because the available evidence, drawn from an analysis of 47 complex cases of cigarette trafficking in Berlin in the years from 1990 until 1994, suggests that more sophisticated patterns of criminal cooperation are a product of the emerging black market, rather than being the driving force behind it. A more prominent feature that surfaces in the case file analysis is the connection between Polish suppliers and Vietnamese distributors that in Berlin may have been stronger and more efficient than elsewhere. Supply channels for contraband cigarettes from Poland to West Berlin had been established as early as the winter and spring of 1989, i.e. more than a year before the sale of contraband cigarettes spread across the Eastern parts of Germany following the currency union between the German Democratic Republic and the Federal Republic of Germany.

The data presented do not reveal the role that legitimate tobacco manufacturers (may) have played. While allegations of conscious or unconscious collaboration with black marketeers have repeatedly been raised, there are indications, such as the relatively broad brand diversity in the black market and the small share of bulk shipments of contraband cigarettes in the overall case load of the Customs Service, that at least in the first few years of the black market, large-scale smuggling with the tacit agreement of cigarette manufactures was not a dominating aspect. Even less is there any indication that links between illegal entrepreneurs and the tobacco industry can explain the geographical concentration of the black market. Likewise, there is no evidence that widespread corruption has facilitated the black market or contributed in any way to the apparent fact that the black market is far more prevalent in Northeast Germany than in any other part of the country. So, while these factors cannot be ruled out as having had an impact on the scale and shape of the German cigarette black market, in light of the geographical concentration of the latter, explanations must go deeper.

Without being able to give any definite answers, the following tentative conclusions can be drawn:

The difference between duty-free and duty-paid prices, and between high-tax and low-tax countries, may be important factors, but they cannot fully explain the phenomenon because, at least in the German case, they are unable to account for the fact that the black market is highly concentrated in a particular region, namely the greater Berlin area.

It seems that factors other than price differentials have to come into play: in the case of Germany it appears that cooperation between Polish suppliers and Vietnamese retail dealers has been crucial in the creation of a large-scale black market. Given the fact that this constellation of ethnically defined supply and distribution networks, Polish and Vietnamese, respectively, cannot be found in

other retail markets, for example in the UK (Wiltshire *et al.*, 2001), these additional factors obviously vary across space and time.

Consequently, predicting the emergence of a cigarette black market on a grand scale requires more than a foreseeable increase in price discrepancies: it requires an understanding of the general conditions under which the supply of and demand for untaxed or low-taxed cigarettes can be linked up in an efficient way, and it requires an assessment of the extent to which these conditions are concretely manifested in a particular jurisdiction faced with an increase in price differentials.

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