



agencies reveal that smuggling of gold, cigarettes, oil, precious gems and stones, music and film DVDs, narcotic drugs and so on are major contributors towards financing of terrorism. A study by FICCI-CASCADE has looked into the detrimental impact of counterfeiting, smuggling and piracy on seven key Indian industry sectors like auto components, alcohol, computer hardware, mobile phones,

wine and food and the proceeds were used to fund terrorist operations in the Middle East. Three of those arrested were linked to known terrorist groups, including Hamas, a group that controls the Gaza strip and has vowed to wipe out Israel from the world map. Most African countries might be in the incipient stages of development but here too the bane of tobacco smuggling has penetrated deep down. Tobacco

COUNTERFEITING, PIRACY & SMUGGLING

There is a need for all stakeholders to address and stem this adventure being undertaken by various anti-national and anti-social elements

GROWING THREAT TO NATIONAL SECURITY

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THERE IS AN old adage that says what needs to be done tomorrow needs to be done today and what needs to be done today has to be undertaken right now. This is the urgency that needs to be shown in addressing the scourge of counterfeiting, smuggling and piracy. According to a FICCI-E&Y report, 'Counterfeiting, Piracy and Smuggling — Growing Threat to National Security', during the past few decades, intelligence and law enforcement agencies around the world have found conclusive evidence of the increasing involvement of terror organizations in counterfeiting, piracy and smuggling activities to fund terrorist attacks. While several such outfits are transferring portions of their proceeds to terrorist organizations, some of these are set up for the sole purpose of financing terrorism. Investigations by law enforcement

tobacco and FMCG. The study concluded that the grey market poses serious challenges to the government, industry and customers. On the one hand, customers face health and safety hazards and, on the other, genuine manufacturers' incentive and motivation to invest in business growth, research and development tends to decline on account of vulnerability to counterfeits and fakes. The counterfeiter-criminal nexus eventually results in the growth of anti-social activities along with violent and organized crime.

We have all heard about the Al-Qaeda, Hezbollah and the Provincial Irish Republican Army. However, do we know that it is their active indulgence in tobacco smuggling that provides the bulk of finances for their nefarious activities? Recently, authorities in New York uncovered a smuggling ring that sold cheap cigarettes to bodegas, which are essentially shops selling

tycoon Tribert Ayabatwa, who pleaded guilty to cigarette tax evasion charges in South Africa, had been funnelling money to Congolese rebel groups that had committed several human rights violations, including mass rape and murders.

In India as well, there is a reason why many anti-social elements turn to tobacco smuggling in particular. This has been explained in detail by Kate Wilson in an article titled 'Extremists, Insurgents Turn To Cigarette Smuggling'. The reason is the low cost involved and the very high profit margins.

On the face of it, they are scattered, well-organized acts of terrorism perpetrated by motivated groups to intimidate or coerce a government, civilian population or any other segment in furtherance of their political or social objectives. There is, however, a deeper thread that connects

them — the increasingly frightening propensity of terror outfits to fund their activities through counterfeiting, piracy and smuggling.

While conventional modes of terrorism financing, such as state sponsorship and donations, continue to play a big role, newer modes such as counterfeiting, piracy and smuggling have started emerging and terrorist organizations worldwide are exploiting such means to further their cause. A trend that was reflected in and today finds increasing relevance is former US President George W Bush's statement post 9/11, "Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment."

THE WORLD HAS, however, paid little heed. US Customs reported a 24 per cent increase in seizure of counterfeit goods from 2010 to 2011, representing more than \$ 1.1 billion in lost sales. According to the European Commission, in July 2012, more than 91,000 detention cases were registered by Customs in 2011 — an increase of 15 per cent as compared to 2010. The value of the intercepted goods represented nearly €1.3 billion, as compared to €1.1 billion in 2010. While these figures do bring out the scope of the problem that the rapid proliferation of counterfeiting, piracy and smuggling poses for the world, their perception as threats to the national security of India and other countries over the world has to factor in more than just numbers.

The first is the debilitating impact of counterfeiting, piracy and smuggling on the economy, governments and on the overall national security of nations all over the world. The Government incurs higher public welfare costs, including monetary compensation and healthcare-related ones along with legislative costs. For industry, it means increased packaging costs, reputational risks and loss of consumer patronage. It leads to loss of sale and profitability, loss of brand value and infringement of copyright. For the economy, it means lower GDP, increase in black money, fall in employment and reduced expenditure on research and development.

The extent of loss borne by governments can be gauged by the value of the resources lost in these activities. Based on anecdotal evidence and research, the illicit global flow (due to smuggling) is estimated at around US\$650 billion. As per the Motion Pictures Distributors Association (MPDA), India is among the top nations in the world in terms of video piracy with the loss due to piracy in 2012 pegged at \$1.1 billion, an increase of 15.79 per cent from 2008. Further, Business Software Alliance estimates the software piracy rate in India at 63 per cent, with the commercial value of software theft as \$2.9 billion.

The second reason why counterfeiting, piracy and smuggling have become formidable challenges is that the financing of terrorism has assumed new dimensions with state sponsorship drying up after the end of the Cold War. This has led to increasing decentralization of the structures of terrorist organizations with independent and frequently self-financed units responsible for operational activities increasingly developing strong linkages with organized crime and mafia organizations to fund their operations. Given their vast network, it is easier for organized criminal outfits to raise funds through counterfeiting, piracy and smuggling, which, as we have mentioned before, are then laundered to finance terrorist organizations.

Technological advancements that are nearly unstoppable have unwittingly encouraged the use of counterfeiting, piracy and smuggling as primary channels for sponsoring terrorist activities. Due to easy and widespread access to technological advances, it is easy and cheap to duplicate labels, packaging, documentation, authentication devices, symbols, marks and logos at a fast pace with remarkable accuracy and anonymity.

Though the use of all these illegal sources of terror funding is rampant, the most potent threat comes from counterfeiting which has managed to acquire a foothold in virtually all important sectors and domains. Counterfeiting has morphed from its

small-scale industry origins to a huge network of "international entrepreneurs" who are engaged in mass production of counterfeit goods by leveraging technology, intricate networks and considerable financial strengths.

Researchers have noted that counterfeited goods can bring returns of as much as 900 per cent. The Frontier Economics study commissioned by International Chamber of Commerce (ICC) Business Action to Stop Counterfeiting and Piracy (BASCAP) found that the total global economic value of counterfeit and pirated products was as much as \$650 billion in 2008. This figure is expected to reach a staggering \$1.7 trillion by 2015.

It is obvious that there is an urgent need to cut the financing of terror activities to deal with terrorism at large. India, with its rapidly growing economy as well as risks relating to money laundering and financing of terrorism, has taken several initiatives in this regard. This includes the enactment of regulations such as the Prevention of Money Laundering Act (PMLA) and the Unlawful Activities Prevention Act (UAPA). India has also set up the Financial Intelligence Unit (FIU), which plays a leading role in countering financing of terrorism (CFT) by collecting and monitoring activities in the financial and banking network and thereby identifying potential transactions that could possibly finance terror activities.

Agencies such as the National Intelligence Grid (NATGRID) and the National Investigation Agency (NIA) have been established for prevention and investigation of cases relating to financing of terrorism and other national security issues. In June 2010, India became a full member of the Financial Action Task Force (FATF), the premier international body, dedicated to anti-money laundering (AML) and counter-financing of terrorism (CFT). However, more needs to be done. *ItD.*

There is a need for all stakeholders to stop the activities of anti-national elements. Together, as history has proven, we have and we will achieve the desired results. ■