



Regional Hubs of Illicit Trade: Ukraine

HUBS OF ILLICIT TRADE (HIT) PROJECT

Regional Report

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ACRONYMS AND ABBREVIATIONS

AITI	Anti-Illicit Trade Institute
AML/CFT	Anti-money laundering/Combating the financing of terrorism
CICIG	International Commission against Impunity in Guatemala
CODECOF	Commission for the Defense of Formal Commerce (Guatemala)
DHS	Department of Homeland Security (United States)
DIPAFRONT PNC	Border Points Division of the National Civil Police (Guatemala)
DTO	Drug trafficking organization
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation (United States)
FinCEN	Financial Crimes Enforcement Network (United States)
FSI	Financial Secrecy Index
FTZ(s)	Free trade zone(s)
GAFILAT	Financial Action Task Force of Latin America
GAO	Government Accountability Office (United States)
GDP	Gross domestic product
IACHR	Inter-American Commission on Human Rights
ICE	Immigration and Customs Enforcement (United States)
ICIJ	International Consortium of Investigative Journalists
INL	Bureau of International Narcotics and Law Enforcement Affairs (United States)
IT	Information technology
ITP	Protocol to Eliminate Illicit Trade in Tobacco Products
OECD	Organisation for Economic Co-operation and Development
SENAFRONT	National Border Service (Panama)
TraCCC	Terrorism, Transnational Crime and Corruption Center
TTU	Trade Transparency Unit
UAE	United Arab Emirates
UN	United Nations
WCO	World Customs Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

This regional report was written within the Hubs of Illicit Trade project, a strategic evidence-based research initiative that was launched by the Terrorism, Transnational Crime and Corruption Center (TraCCC) and the Anti- Illicit Trade Institute (ATI) at George Mason University in 2022. The primary aim is to inform policymakers and communities about the harms and risks linked with hubs of illegal trade, and to propose strategies for disrupting them by addressing their intertwined nature. This report focuses on Ukraine as a regional hub for illicit trade. Its key findings are summarized below:

KEY FINDINGS

The report looks at illicit trade in Ukraine, complicit and enabling actors, and tracks the impact of the war on the illicit trade. It advances several arguments:

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| The impact of war on organized crime | <ul style="list-style-type: none"> > The impact of war on organized crime and illicit trade crime is not uniform. Some forms of organized criminal activity, such as organized robberies and drug distribution, have decreased due to increased police presence on the streets and community patrols, which have enhanced visibility of illegal activity especially in urban settings. However, the war may have also diverted law enforcement resources away from investigating serious organized crime, including organized smuggling and illicit trade. > organized crime in Ukraine has always been dominated by state-embedded actors (political elites, corrupt officials, and law enforcement representatives). The abolition of lawmakers' immunity from prosecution in 2019 was an important step which may have long term positive effects. But over the medium term the state embeddedness partially explains why most of the organized smuggling and large-scale illicit trade have not decreased dramatically or have not been displaced elsewhere as a result of Russia's invasion. The reason for this is that the Ukrainian state itself cannot be moved or displaced. |
| Illicit Trade in Ukraine | <ul style="list-style-type: none"> > Most of the illicit trade activities have gotten a boost or went on unabated. Disruption in illicit trade is limited to Black Sea ports and the frontline in Donbas as well as the Ukraine-Belarus border. The analysis of UN comtrade data and more granular customs data suggest that overall, the proportion of illicit trade vis-à-vis licit trade in Ukraine might have increased since the start of the Russian invasion. > The formerly crucial Odesa seaport has now relinquished its primary role as a hub of illicit trade due to interruptions in shipments across the Black Sea. Similarly, licit and illicit commerce along the border areas between Russia-Ukraine and Belarus-Ukraine has also been disrupted. Nonetheless, certain trade between Ukraine, on one side, and Belarus and Russia, on the other side, has persisted via third countries frequently involving Poland and Moldova. As an outcome of the disturbances resulting from conflict, both legal and illegal trade have shifted toward the western borders of Ukraine. > A significant component of illicit trade in Ukraine has been enabled by collaboration between Ukraine-based and Russia-based illicit networks. The links between traditional mafia-style groups as well as cybercriminals have been severed to a significant extent but the links between illicit and shadow trade networks facilitating most of the illicit trade have largely survived. This explains why several sanctioned commodities are still traded between Russia and Ukraine in violation of Ukrainian legislation and Western sanctions. |
| Complicit and Enabling Actors | <ul style="list-style-type: none"> > Despite the extensive refugee exodus triggered by the war, there hasn't been a surge in human trafficking. This can likely be attributed to the UK's and European Union's proactive choice to extend social benefits and labour rights to refugees hailing from Ukraine. Nevertheless, the involuntary uprooting of civilians, especially children, from Ukraine to Russia, remains a pressing humanitarian issue. |

KEY FINDINGS

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|-----------------------------|--|
| Agricultural Effects | <ul style="list-style-type: none"> > The war has significantly heightened the threat of illicit timber logging in the occupied territories and along the frontlines where trees are being felled for both military fortifications and commercial purposes. Moreover, the forests located in the northern and southwestern regions of the country, which house the primary deposits of valuable timber, continue to face a grave risk due to the persistent corruption. > The war has resulted in a notable scarcity of fertilizers for the declining agricultural sector. In the short and medium term this shortage has driven an upsurge in the demand for counterfeit fertilizers, alongside reported cases of fertilizer theft from enterprises. |
|-----------------------------|--|

This research is based on a combination of qualitative and quantitative data. The research approach encompasses a case study analysis, trade data analysis and in-depth interviews conducted with illicit trade experts in Ukraine and with industry representatives. Additionally, secondary sources such as scholarly research articles, investigative media publications, court and law enforcement statistics, official statements, and reports from regional and international organizations have been examined. The operational data from several law enforcement agencies, namely SBU, ESB, Border Guards, Customs, and SBI, has been meticulously examined. The customs data from the UN Comtrade Database and Exportgenius (specifically for Russian and Belarusian customs data) has been collected and analysed.

Open-source information presents a significant challenge: distinguishing fact from fiction. A lot of the coverage regarding illicit trade through Ukraine is heavily influenced by political propaganda. For instance, Russian propaganda attempts to substantiate claims of Western-supplied heavy weaponry being illegally diverted from Ukraine. However, there is no credible evidence to support such claims. On the other hand, Ukrainian law enforcement argues that the circulation of illicit drugs is connected to Russian attempts to weaken Ukraine's resistance by targeting frontline troops through illicit drug deliveries. While this assertion may hold some truth, the evidence provided often falls short, limited to the discovery of "Soviet symbols" among the possessions of drug traders.¹ This type of propaganda likely aims to obscure Ukraine's internal corruption issues, as there is scant evidence suggesting motives other than financial gain behind the drug trade. After all, delivering drugs to the frontlines necessitates successfully traversing multiple checkpoints, which can only happen through the complicity or complacency of law enforcement and military personnel.²

This report examines the ways in which illicit goods are traded, the current trends in this trade, and the factors that contribute to it. It also looks at the impact of the war in Ukraine on illicit trade. The report focuses on four main commodities: drugs, cigarettes, arms, and humans.

1. INTRODUCTION: Trade in Ukraine

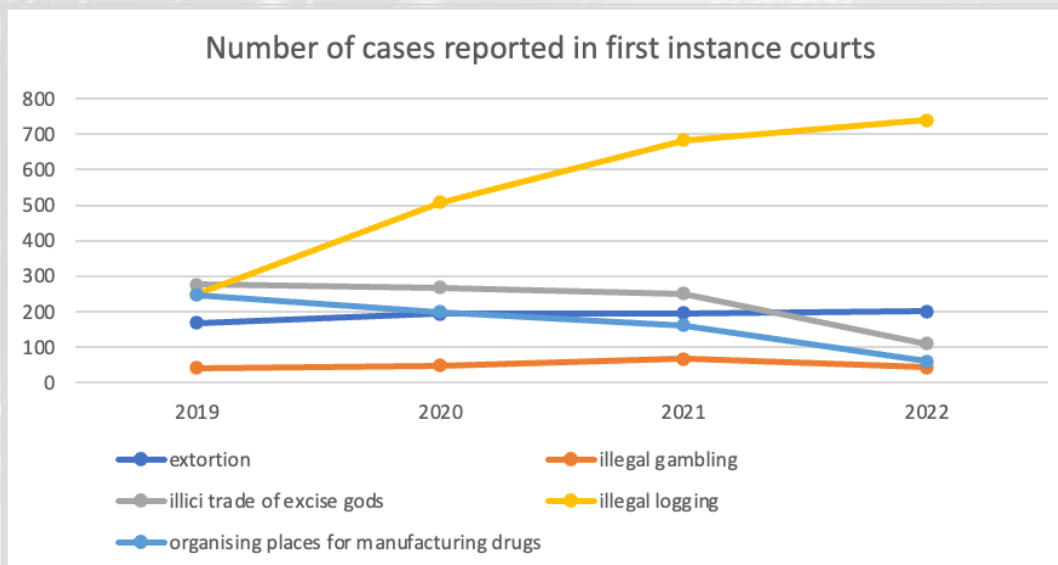
Illicit trade in Ukraine has been a growing problem together with corruption, organized crime and money laundering. Prior to March 2022, Ukraine had emerged as a significant epicentre of illicit trade along Europe's eastern borders, playing host to a considerable industry of illicit cigarettes and synthetic drugs. Notably, it also hosted a contraband "superhighway," as described by The Economist,³ which connected Russia and Ukraine and traversed through the regions of eastern Ukraine that had been occupied by Russia in 2014. Additionally, key global smuggling hubs in cities like Odesa and other Black Sea ports added to its prominence in the illegal trade. According to various researchers, the 2014 annexation of Crimea and the war in Donbas has opened up possibilities for a rise in transnational crime,⁴ and has also resulted in a decline in collaborative efforts across borders to combat such criminal activities.⁵

1.1. Decline in Criminal Activity

Since the start of Russia's full-scale invasion, there has been a an apparent decline in overall criminal activity, including various types of organized crime inside Ukraine. This decline can be attributed to the enhanced presence of law enforcement personnel and community engagement in street patrols aimed at counteracting acts of sabotage and reconnaissance by Russia rather than crime detection. Additionally, the implementation of martial law has increased criminal liability for specific offenses, such as property crimes. These factors may have contributed to the observed decrease in criminal incidents. However, investigations of war crimes,⁶ continuous street patrolling and the prioritization of military defense could have diverted law enforcement resources away from tackling serious organized crime, such as various forms of organized smuggling and illicit trade. The effect of street patrolling is more felt in urban settings. There was a noticeable decline in in violent banditry and thievery according to official statistics, while criminality in less supervised settings have increased (e.g. illegal logging as shown on the graph below).

2021-2022 court statistics show that the trend in cases of extortion remains unchanged, suggesting the continued presence of mafia-style groups. However, there is a noticeable decrease in registered cases of illicit trade in excise goods and drug production. These highlights diverted or lacking law enforcement resources rather than an actual decline in this type of criminal activity. As shown in the analysis below, there was only a temporary disruption in various forms of illicit trade, and most of them resumed after several weeks, albeit some with increased intensity.

Graph 1. Temporal trends in select criminality in Ukraine (2019-2022)⁷



Armed conflict had a profound impact on illicit trade activity along the frontline in Donbas and sea traffic through Ukraine's seaports.⁸ However, these were the primary areas of disruption and as this report shows, the majority of other illicit trade activities remained resilient and, in fact, demonstrated growth.

Source: Supreme Court of Ukraine (2023).⁷

1.2. Trade Analysis

In order to assess the risks of illicit trade we first did a mirror trade analysis of Ukraine and its trading partners before delving into more problematic aspects of Russia-Ukraine and Belarus-Ukraine trade. Mirror trade analysis, pioneered by Global Financial Integrity, has become a valuable tool for assessing illicit flows and trade-based money laundering.⁹ Although not flawless, this method is regularly employed to estimate such activities. Discrepancies in reported values can arise from various factors, including merchanting trade, re-exports, customs errors, different reporting standards, or trade-based money laundering practices (TBML) such as over-invoicing, under-invoicing, or false invoicing.¹⁰ Consistent value gaps mostly serve as warning signs and can aid in identifying potential instances of illicit flows.¹¹ However, a more detailed analysis is often required to understand the underlying nature of the discrepancies, particularly for specific commodities.

The presented table presents the values in US dollars of reported trade between Ukraine and its major trading partners. It reveals notable disparities in the reported trade values, which have shown an increasing trend in 2022 across all countries, except for Belarus and Russia, as they did not report their 2022 trade data with Ukraine to the UN Comtrade.

Table 1. Discrepancies in reported value based on the UN Comtrade database¹²

	2019 (USD million)	2020 (USD million)	2021 (USD million)	2022 (USD million)
Ukraine-Belarus trade	+523	+321	-3,515	1,570*
Ukraine-Russia trade	+1,237	+2,743	+3,804	2,033*
Ukraine-Poland trade	+787	+1,237	+2,222	+3,748
Ukraine-Moldova trade	-169	-157	-190	+497
Ukraine-China trade	-889	-493	+616	-3,492
Ukraine- Türkiye trade	-93	-162	+272	+1,213
Ukraine- Germany trade	+368	+775	+1,291	+1,617

*Ukraine-reported number only

Taking into account certain considerations and limitations outlined above, one can infer the likelihood that illicit trade and related practices (TBML) have experienced an upward trajectory in 2022. Ukraine experienced a significant overall trade decline (with exports falling by 35.1% and imports by 24.2% in 2022 compared to 2021¹³), so, while the absolute volume of illicit trade might not have increased, there is a clear indication that it has grown in proportion to legal trade.

Independent assessment suggests that illegal imports in some categories (e.g. certain equipment) might have reached as high as 50-70% in 2021.¹⁴ The official numbers from Ukrainian customs suggest the opposite. In 2022, there were only 60 recorded cases of smuggling, a significant decrease from the 135 cases reported in 2021.¹⁵ This decrease is consistent with the registered reduction in customs rule violations, with 11,098 instances recorded in 2022 compared to a higher number of 28,000 in 2021.¹⁶ The disparity observed between the official statistics and the analysis conducted implies that the issue of corruption persists, and there might be problems with diverted or insufficient law enforcement resources, rather than a real decline in illicit trade.

The analysis now turns to examining Ukraine's trade with two neighbours, Russia and Belarus. Illicit practices are examined in detail in the section on sanctions busting, but here, the graphs show the trade trends, followed by a few observations.

Graph 2. Russia-Ukraine trade (2020-2023)¹⁷



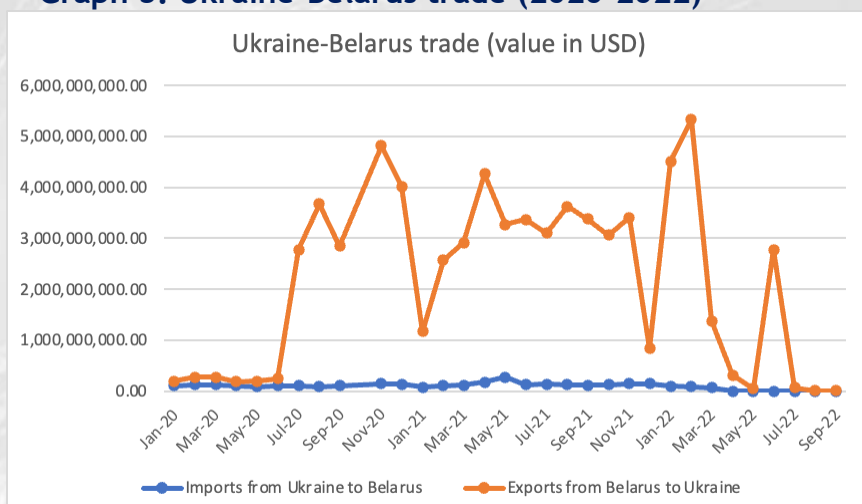
An in-depth analysis of the trade between Russia and Ukraine using Russian customs data reveals a discernible disruption in trade patterns during the post-invasion period between Ukraine and Russia. However, it is worth noting that substantial trade was observed in the period of March-June 2022. Specifically, in April 2022, the trade turnover reached a level comparable to that of February 2020.

Part of it can be explained by the delays in the customs registration of goods that were on the move before the Russian invasion started. However, the persistence of trade indicates how difficult it is for two major trade partners to stop trading overnight.

It is noteworthy that imports from Ukraine to Russia have experienced a comparatively slower decline, potentially attributed to Russia's decision not to prohibit all types of imports from Ukraine. In 2023 while the import ban from Ukraine persists, it remains at a non-negligible level. Conversely, Russian exports to Ukraine have dwindled significantly and are now approaching negligible levels. A significant portion of these trade flows can be classified as illegal due to Ukraine's ban on all trade with Russia. Consequently, illicit trade has flourished, involving the smuggling of Russian-produced goods into Ukraine through intermediary states such as Türkiye, Moldova and Belarus. Moreover, certain companies based in third countries i.e. in South Korea, Türkiye, UAE and China, have used Ukraine as a means to circumvent sanctions imposed on Russia. Further insights into this issue are discussed in detail in the section on sanctions busting.

Belarus has emerged as one of the intermediary states facilitating ongoing trade between Russia and Ukraine. Although the Ukraine-Belarus relationship has been strained by Belarus' military collaboration with Russia, the shipment of Ukrainian goods to Belarus has not been banned. As shown on the graph below significant volumes of exports from Belarus to Ukraine have also persisted even during the war, and these trade flows could potentially serve as a cover for Russian-produced goods attempting to reach Ukrainian territory. Importantly, just like in the case of Russia-Ukraine trade, some of the embedded trade networks between Belarus and Ukraine have also proven their resilience as exemplified by a large-scale illicit cigarette smuggling case in September 2022.

Graph 3. Ukraine-Belarus trade (2020-2022)¹⁹



2. MAJOR ILLICIT TRADES

2.1. Illicit cigarettes trade

Ukraine has emerged as an important source and transshipment point of illegal consumer products. In 2019-2020 it already displaced China in supplying illegal tobacco to Europe.

The share of illicit cigarettes in tobacco consumption within Ukraine increased to 21.9% in 2022 from 16.9% in 2021.²¹ The share of illegal products (counterfeit and smuggled) is estimated to be as high as 80% in the market of e-liquids²² and 50% in the case of e-cigarettes.²³ The main contributors to the internal consumption of tobacco products are illegal duty-free (produced by local manufacturers, illicitly labelled for export but not exported) and counterfeit cigarettes. However, the percentage of contraband cigarettes (smuggled from other countries) in the illicit tobacco market has been decreasing in Ukraine and continued to decline in 2022, primarily due to a significant decrease in smuggled tobacco products from Belarus to Ukraine.²⁴ On the other hand, the share of Belarus-produced illicit tobacco products on the European market remained stable²⁵ that indicates some disruption of Belarus-Ukraine illicit tobacco trade. Instead of flowing to Ukraine, Belarus-produced illicit tobacco goes to Belarus' EU-member neighbours. The continuous presence of Belarus-produced illegal tobacco products in the European market indicates that Belarus is persistently manufacturing and exporting illicit tobacco products to other European countries, even though it has faced certain disruptions in its trade with Ukraine.

Ukraine is both the importer and the exporter of illicit tobacco. Among the illegally imported or smuggled products, Belarus and Moldova/Transnistria cigarettes have been dominant. Conversely, when it comes to illicitly exported cigarettes, a significant portion is attributed to local tobacco manufacturers in Ukraine proper as well as those operating outside the jurisdiction of Kyiv.²⁶ Additionally, cigarettes of Chinese origin were transhipped via the Odesa seaport and Transnistria, though this practice ceased due to the impact of the war. Furthermore, there has been a substantial decline in shipments of illicit tobacco from clandestine factories in Crimea, Donbas, and Luhansk via Ukrainian territory. This decline serves as a clear indicator of the breakdown of illicit trade across the frontline.

Illicit tobacco products are still flowing from Ukraine-based factories to Europe in the post-war period, albeit in reduced quantities, mainly to neighbouring countries like Romania. Overall, the share of Ukrainian illicit whites in EU's illicit tobacco products declined from 2% in 2021 to 1.7% in 2022.²⁷ For a comparison the share of Belarusian illicit whites increased from 4.1% to 4.6% and Polish ones from 0.1% to 1.1%.²⁸ Several factors explain this decline, including improved monitoring and enforcement against illicit traders and manufacturers within Ukraine, as well as the increasing sophistication of illicit traders in Europe. According to an interview with a tobacco industry representative, a significant amount of counterfeiting has shifted to European countries, resulting in illicit cigarettes being manufactured closer to the main consumption market. There is some evidence that Ukrainian manufacturers are trying to boost the production inside Ukraine. For example, in March 2023 in Odesa ESBUS seized a newly imported cigarette packaging line disguised as equipment for packaging household chemicals.²⁹

There were several major closures of illicit tobacco production sites in 2022-23. Factories were shut down in Odesa,³⁰ in Kyiv,³¹ and Volyn.³² These three factories could have produced a combined total of 4 million packs per month. However, the most important closure was the United Tobacco LLC in Zhovti Vody, Dnipropetrovsk region in 2022. According to available information the intervention of President Zelensky's office was required to stop the operation of the factory.³³ The illicit tobacco production was functioning under the protection of law enforcement officials as well as elected members of Parliament.³⁴

The closure of the Zhovty Vody factory has been widely celebrated as a significant blow to illicit traders and as a downfall of Ukraine's 'symbol of corruption'. However, its key competitor Lviv tobacco factory continued functioning unabated. With its infamous brands of Compliment and Marvel, Lviv tobacco factory has been a significant player in the market of illicit whites. A compelling journalistic investigation has put forward the suggestion that the Lviv factory might be benefiting from political protection, which was also the driving force behind the closure of the Zhovty Vody factory. According to the report, Deputy Prosecutor General Oleksiy Simonenko took a ten-day New Year's vacation in 2023 to Spain's Marbella, riding in a "Mercedes" belonging to Hryhoriy Kozlovskiy, the co-owner of the Lviv factory.³⁵ Acknowledging the complexity of the issue, it is essential to highlight that the continued existence of the Lviv Tobacco Factory poses a significant challenge to Kyiv's publicly stated commitment to combating corruption and organized smuggling. The factory stands as a vivid illustration of the collusion between the private sector, political authorities, and the underworld.³⁶ Its presence undermines the credibility of the government's efforts to address these pressing issues, and it serves as a vivid reminder of the deep-rooted challenges that Ukraine faces in tackling corruption and illicit activities.

2.2. Illicit Trade Under the Guise of Humanitarian Aid

Ukraine has been the recipient of extensive humanitarian aid from across the globe. However, during the initial stages, the absence of clear regulations and guidelines pertaining to the authorization, transportation, and handling of this aid created several challenges. This situation presented various opportunities for abuse.³⁷ Firstly, customs officials had the discretion to impose artificial barriers to hinder the entry of goods or manipulate the ambiguous criteria that define humanitarian aid. Secondly, private companies could import different commodities, falsely claim them as humanitarian aid, and subsequently sell these goods under commercial terms. Lastly, criminals and illicit traders took advantage of the humanitarian aid cover to transport illicit substances, including drugs to Ukraine or exploited the humanitarian aid system to smuggle conscripts and various commodities, such as cigarettes, out of Ukraine.

The first cases of illicit trade under the guise of humanitarian aid were observed shortly after the Russian invasion started.³⁸ Recognizing the gravity of the situation, Ukraine's Parliament took swift action by amending the Criminal Code to explicitly criminalize the illegal utilization of humanitarian aid. The amendments, which were passed in tandem with other crucial changes, aimed at addressing significant loopholes in the existing legislation such as unlawful dissemination of information pertaining to the location of weapons and equipment and the denial of the armed aggression perpetrated by the Russian Federation.³⁹ Nevertheless, the distribution of humanitarian aid was abused to cover the illicit movement of various commodities:

- One cargo hid 1.5 thousand bottles of wine even though the papers claimed it was humanitarian aid⁴⁰
- Cars have been illicitly imported under the guise of charitable donations and claimed to be intended for the benefit of the armed forces of Ukraine. However, instead of being transferred to the Ukrainian military as intended, these vehicles were unlawfully sold for commercial profit.⁴¹
- A shipment of military equipment consisting of 1,500 armour plates and 300 ballistic helmets, initially presented as humanitarian aid, was imported from Poland. However, the entrepreneurs involved in this trade, despite holding an official license for such activities, later revealed their intention to transfer the equipment to the Ukrainian army exclusively on a commercial basis, indicating a deviation from the original charitable intent.⁴²
- Counterfeit oncology medications were smuggled in Ukraine disguised as humanitarian aid. The counterfeits were then sold to patients through online stores.⁴³
- Large amounts of cannabis were discovered by Spanish police in December 2022, being trafficked from Spain to Ukraine. A criminal network, consisting of 30 individuals from Ukraine, Spain, Germany, and Morocco, was involved in disguising the shipment as 'Ukraine aid' transporting 'essential supplies for displaced Ukrainians.'⁴⁴
- In April 2023, ESBU in the Lviv region made a significant discovery of warehouses spanning an area of 1,600 square meters. These warehouses were found to be storing 200 tons of humanitarian aid of unknown origin. The detected goods included a range of items such as food products, children's goods, bed linen, blankets, hygiene products, household chemicals, and clothing, amounting to approximately a thousand pallets in total. It would have taken 60 lorries to deliver this cargo to the warehouse,⁴⁵ indicating that it was a well-organized activity potentially involving the government representatives. Later on, these goods were transferred to the armed forces of Ukraine.⁴⁶

2.3. Arms Trafficking

The topic of arms trafficking is highly politicized, giving rise to a multitude of controversial reports and numerous allegations. This issue has become a central focus of heavily propagandized discourse within the realm of Russian state-controlled media. For example a 2022 article published by "Russia Today" garnered substantial attention in Russian telegram channels and news agencies. The article claimed that a wide range of Western-supplied weapons was being made available on the darknet.⁴⁷ However, Western journalists undertook investigative efforts to challenge these assertions and ultimately revealed that the adverts for these weapons were fake.⁴⁸ Apart from the Russian intelligence-financed propaganda stories and fake online advertisements, some of the darknet shops of arms may simply be scams.⁴⁹

However, there is some evidence pointing to the existence of a black market in weapons, primarily man-portable, non-heavy weaponry. The CNN-acquired report from the USD Department of Defence highlights various incidents of Western-supplied weapons being stolen in Ukraine in 2022. However, the report also mentions that Ukraine's law enforcement effectively thwarted the trafficking of these weapons. One notable case outlined in the report involves a Russia-linked organized crime group, which managed to infiltrate a volunteer battalion using counterfeit documents. They proceeded to steal weapons, including a grenade launcher, machine gun, and over 1,000 rounds of ammunition. During the same period, two other arms traffickers were identified, attempting to sell stolen weapons and ammunition taken from the frontlines.⁵⁰ In yet another case from April 2023 a law enforcement officer who was detained, had stolen weapons from his military unit and was looking for buyers among criminals who had previously been charged with gun trafficking. The dealer set up illegal sales in November 2022 and managed to sell F-1 ammunition and grenades.⁵¹

However, there has been scarce evidence of these weapons being discovered overseas since February 2022, suggesting that the majority of illegal firearms are probably circulating within Ukraine's borders at present.⁵² Researchers discuss a longstanding practice in Ukraine of burying or stockpiling weapons, with the intention of selling them on the black market at a later time. This indicates the potential danger that the issue of arms trafficking may escalate into a more significant problem after the war, particularly when these hidden caches are put up for sale.⁵³

2.4. Human trafficking and human smuggling

The Russian invasion led to the large-scale state-sponsored human trafficking from Ukraine. Numerous reports have indicated that Russian military engaged in the coercive relocation of thousands of Ukrainians, including children, to Russia through "filtration camps" situated in areas of Ukraine under Russian control. During this process, individuals were stripped of their documents and compelled to acquire Russian passports. Once in Russia, widespread accounts have emerged, revealing that thousands of Ukrainians were forcibly transported to remote regions within the country as far away as Vladivostok in the Far East of Russia. Additionally, Russian authorities reportedly engaged in the separation of Ukrainian children from their parents, subsequently placing them in the care of Russian families. These actions rendered Ukrainians displaced to Russia highly susceptible to trafficking.⁵⁴

According to earlier estimates, approximately 59% of Ukrainians are at risk of exploitation, as they are willing to accept precarious job offers both domestically and abroad. Within this group, nearly half are open to risky job opportunities overseas, which often entail being confined to restricted premises, facing obstacles in leaving their workplaces and crossing borders irregularly.⁵⁵ Moreover, it has been noted that traffickers are increasingly utilizing online platforms for recruitment purposes, further exacerbating the risks faced by potential victims.⁵⁶ However the expectations of large-scale human trafficking linked with the refugee flows from Ukraine did not materialize.⁵⁷

The available evidence regarding the exploitation and trafficking of Ukrainian refugees remains limited, with only a few documented cases thus far. In one case a criminal organization consisting of Moldovan and Ukrainian individuals engaged in the abduction and extortion of businessmen. Additionally, this same group participated in the trafficking of Ukrainian women, transferring them from Ukraine to criminals based in Moldova, who subsequently subjected them to sexual exploitation.⁵⁸ A recent instance involved the dismantling of an illicit tobacco production ring in Valencia by Spanish law enforcement, which was found to be exploiting Ukrainian refugees who had fled the war.⁵⁹ The scarcity of evidence can be attributed to the nature of human trafficking cases, as it often takes time for such instances to come to light due to the victims being subjected to exploitation over an extended period before the cases are uncovered. A more plausible explanation for the limited evidence could be the unprecedented support provided to Ukrainian refugees in many Western countries, granting them access to social care and benefits. The support they received may have made them less vulnerable to exploitation.

The most important human smuggling industry in Ukraine now is the smuggling of conscripts. There are two main schemes of smuggling conscripts across the border: outright illegal (bypassing border checkpoints) and semi-legal (using fake documents to pass via formal checkpoints). Some of it involves corruption at the border, in other cases military servicemen are involved who help conscripts with faking medical documents of 'unfit for service' (usually implying some disability) or employees of local military centres.⁶⁰ The networks organising smuggling of conscripts include customs officers, border guards⁶¹ and the Ministry of Defence.⁶² Semi-legal schemes involved employing draft evaders as drivers of humanitarian cargo,⁶³ employing draft evaders at local charity funds and sending them abroad as volunteers,⁶⁴ and registering evaders as Pastors of Protestant Church.⁶⁵ In a large-scale case, a local hospital in Khmelnytskyi oblast was mass producing 'unfit for service' certificates. SSU discovered more than 100 cases of fake documents by the hospital staff.⁶⁶ In Zhytomir region a local company that received a defence-related public procurement contract abused the related permission to defer conscription for up to 50% of its personnel.⁶⁷

Nevertheless, it should be acknowledged that there exist alternative channels that circumvent the border, thus suggesting that border guards are not corruptible in all instances and at all locations. One scheme involved swimming or taking the boat across the local river to reach Moldova.⁶⁸ Another case involved using remote trails in the Carpathian Mountains.⁶⁹ These routes could have been also used for other commodities especially in the instances where organized criminal groups are the organizers of smuggling. There are cases when criminals based in Moldova organize transportation of conscripts. In one case a Transnistria-based group was involved.⁷⁰

Massive solidarity in the West and the willingness of Western nations to offer work permits and social care to Ukrainian citizens made Ukrainian passports valuable. Illegal migrants from other countries are trying to acquire Ukrainian documents to enjoy similar privileges in European countries. For example, in telegram channels some Georgian migrants have been asking whether fraudulent Ukrainian documents would give them right to work in the UK. This has incentivised the production of fake Ukrainian documents (passports, driver's licenses, vehicle registration certificates). For example, in June 2023 SSU exposed a clandestine 'workshop' which counterfeited documents, making 50 fake documents monthly on average.⁷¹ In Kyiv a network was busted that would supply fake documents to confirm medical personnel's qualification level for institutions based in the EU, supposedly on behalf of the Ministry of Health of Ukraine. The counterfeits included reference letters, certificates of experience, certificates of integrity and of successful completion of specialized training. The investigation has found that medical doctors from Russia as well as doctors from the occupied Donetsk and Luhansk regions have been benefiting from the scheme.⁷²

2.5. Drugs

Prior to the war, Ukraine was a transit country for Afghan heroin destined for Western Europe, although the amount trafficked was smaller than the opiate flows that moved along the Balkan route. Afghan opiates would travel through Iran, Türkiye or South Caucasus and onwards via Mariupol or Odesa seaports.⁷³ Ukrainian seaports have played a significant role in facilitating the transportation of Latin American cocaine to Europe and Russia. However, the previously established routes for heroin and cocaine trafficking, which relied heavily on Ukrainian seaports, have been disrupted. As a result, smugglers are seeking alternative pathways to access their target markets. The challenging circumstances surrounding shipping via the Black Sea have prompted these shifts in smuggling routes. Consequently, there is a possibility of smuggling being rerouted to the already prominent Balkan route or diverted towards Baltic Sea routes. According to a recent assessment there is increased vulnerability at the ports of Constanta in Romania and Varna in Bulgaria since they have become important hubs for imports to and exports from Ukraine but without investment in boosting the port security infrastructure.⁷⁴ There has been an increase in drug seizures in Northern Europe seaports as well. However, it remains uncertain whether this escalation is directly attributable to the war in Ukraine or an intensified crackdown on drug movement via major seaports such as Antwerp and Rotterdam.⁷⁵

Pre-war Ukraine also hosted many clandestine laboratories producing synthetic drugs (including amphetamine, methamphetamine, and alpha-PVP), supplying Poland, Romania, Moldova, Belarus, and Russia. In 2020 alone, 79 such laboratories were dismantled, the highest number of disassembled labs reported in the world.⁷⁶ There were attempts to move some of the synthetic drug laboratories to Moldova and there were reports of criminals looking for chemists with relevant skills in Chisinau even though most synthetic drugs continue to flow unabated from Ukraine to Moldova.⁷⁷ Interestingly the supplies of synthetic drug precursors and substances to Ukraine did not decrease substantially either. The supplies are still reaching the country from China, the EU (the Netherlands, in particular) and Türkiye.⁷⁸

In different regions of Ukraine, the production and distribution of synthetic drugs have returned to their regular levels following the initial disruption. Drugs are distributed via online platforms, the postal system, and direct hand-to-hand delivery methods.⁷⁹ In 2023 alone SBI has detected 10 large-scale organized criminal grouping involved in drugs trade in Ukraine.⁸⁰ Worryingly, drug trafficking groups are often either protected by law enforcement officers or feature their direct participation.⁸¹

Before the war, 350,000 people in Ukraine (1.7 per cent of the adult population) were estimated to inject drugs, mostly opioids, including heroin and methadone sold on illicit markets.⁸² Ukraine also had one of the highest prevalences in the world of people who inject drugs and live with HIV. The war and war-related stress and traumas are likely to make people more vulnerable to drug use disorders.⁸³

The threat assessments indicate that there is a decline in heroin and cocaine consumption that can be partially explained by the large population displacement from Ukraine. The prices of cannabis and cocaine have also seen an increase, which reflects the closure of the Odesa seaport for drug shipments and other disruptions in the supply chain of heroin and cocaine. In contrast, the prices and consumption levels of synthetic drugs have remained relatively stable.⁸⁴

The effect of population displacement has been offset by an increased numbers of new users dealing with the stress of the war including military personnel at the frontlines.⁸⁵ In first six months from the start of Russian invasion National Police has investigated more than 270 criminal proceedings on the trafficking of drugs to the frontlines.⁸⁶ The obscure and difficult-to-trace Russian-Ukrainian group Khimprom is the main supplier of alpha-PVP, a synthetic cathinone drug that has become popular among military personnel.⁸⁷

2.6. Environmental Crime, illegal logging, and counterfeit fertilizers and pesticides

Several other commodities stand out as most frequent traded items in Ukraine. This includes timber, fertilizers and pesticides. Timber is the most valuable natural resource for Ukraine after coal, oil, and natural gas.⁸⁸ Ukraine's total forest area is 10.4 million ha or 15.9 percent of the country.⁸⁹ Virtually all forests in Ukraine are state-owned⁹⁰ and nearly all of the logging is carried out by the government itself, through State Forestry Enterprises (SFEs), mostly under the auspices of the national forestry agency (SAFR).⁹¹

Several different forms of illegal logging can be distinguished, with the most prevalent one being 'illegal logging with papers.' There is a relatively lower occurrence of illegal logging by private actors, such as local communities and criminal groups, involving wood theft and felling of trees without the necessary permits.⁹² However, 'Illegal logging with papers' is estimated to account for 5-30 percent of the total timber harvested.⁹³ A significant portion of this practice involves 'sanitary felling,' which is facilitated and often perpetuated by forest management officials, who justify it as necessary to prevent the spread of disease. In fact, sanitary felling is being carried out illegally where it is not needed.⁹⁴

Corruption in forest management, law enforcement, and customs stands as the primary driver of illegal timber logging.⁹⁵ A 2018 report by Earthsight revealed the pervasive nature of corruption, which spans from the lowest-level forest rangers to national forestry officials issuing illegal permits for felling. The illegally harvested timber is frequently exported abroad, with corrupt customs officials facilitating the process.⁹⁶ At least 40% of the timber imported into the EU, which is the main destination market for Ukraine's timber, was harvested or traded illegally.⁹⁷ There is no indication of significant improvement regarding illegal logging-related corruption since the invasion began.⁹⁸

The primary sources of timber supply lie in the regions surrounding the Carpathian mountain range in the south-west of the country, and Polissia in the north.⁹⁹ These forest remain at risk,¹⁰⁰ however, reports indicate that there is an elevated risk of illegal timber logging in occupied territories where trees are being felled for both military fortifications and commercial purposes.¹⁰¹ According to a survey on the impact of the war on illegal logging, 39.2% of respondents reported an increase in illegal logging incidents, while 33.3% said that such an increase is not known. The remaining 27.5% of respondents claimed that the situation has remained similar to pre-war times.¹⁰² Forestcom's research from December 2022, which involved 51 respondents with expertise in Ukraine's forestry, identified the most problematic zones as occupied territories, newly de-occupied areas, and the frontlines, where both sides' military forces engage in unaccounted logging activities.¹⁰³

The trade in prohibited, unregistered, and counterfeit pesticides and fertilizers is another important market in Ukraine where both local production and the use of imported pesticides have been increasing. Ukraine is one of the world's largest agricultural producers and exporters, with top-ranking positions for wheat, sunflower oil and corn.¹⁰⁴ Ukraine's agricultural sector covers nearly 42 million hectares, more than 70% of the country's land area.¹⁰⁵ About 55% is arable land that is classified as agrarian land, mainly growing corn, wheat, barley and sunflowers, while this industry provides employment to 14% of the country's population.¹⁰⁶ Large amounts of pesticides and herbicides are needed to spray the crops. Ukraine is estimated to use 100,000 tons of pesticides on an annual basis, often of dubious origin. Prior to the war, Ukraine struggled with illegal imports and domestic production of illicit pesticides, which made up about 25% of the total pesticide market in Ukraine, with many of the illegal pesticides kept in unsafe storage facilities.¹⁰⁷

There has been a large decline in agriculture as a result of military action. In 2022 the harvest of the main types of cereals (corn, wheat and barley) and oil crops (sunflower, soybean and rapeseed) declined by 40% compared to 2021. According to the estimates of Ministry of Agrarian Policy and Food of Ukraine this decline continues in 2023 with the possible reduction of the area under cultivation by 7 million hectares (24%) compared to 2021.¹⁰⁸

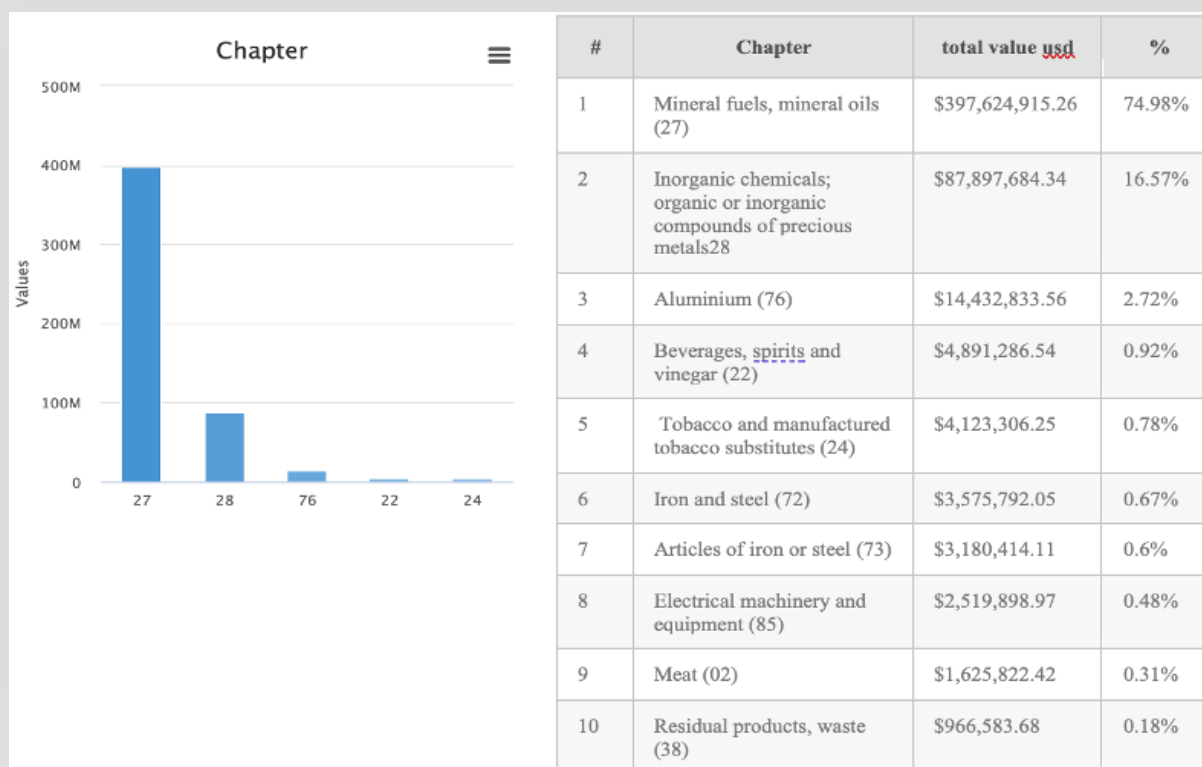
The war also led to significant fertilizer shortages for the surviving agricultural industry. Some Ukrainian producers ceased the production of fertilizers.¹⁰⁹ The government tried to address the problem by restoring long-defunct fertilizer factories and helping the existing ones to expand production.¹¹⁰ However, in the short and medium term, the shortages have increased demand for counterfeit fertilizers¹¹¹ and there are incidents of theft of fertilizers from the enterprises.¹¹² In March 2023, a fraudulent call center was closed down that was engaged in the sale of scarce commodities such as fertilizers, diesel fuel, and electric generators to unsuspecting customers, predominantly agricultural companies and farms. The fraudsters managed to carry out their illicit deception in 14 instances before being arrested.¹¹³

The local production of counterfeit pesticides faced initial challenges due to the disruption in shipping chemical ingredients in containers from China to Ukraine, where illicit pesticides were assembled, packaged, labelled, and subsequently distributed to the European Union and Russia.¹¹⁴ Despite potential obstacles, these shipments continue to reach Ukraine through the seaports of Bulgaria and Romania. In several instances, illegally supplied fertilizers from Belarus and Russia have been intercepted. Notably, a substantial shipment of 23 thousand tons of fertilizers was discovered in Lviv, disguised as being manufactured in Kazakhstan.¹¹⁵ In March 2023, Kyiv customs made a significant seizure of fertilizers imported to Ukraine from Turkey, falsely registered as Turkmenistan-produced fertilizers, despite the goods originating in Russia.¹¹⁶ There were several other cases of illegal fertilizer trade linked to Belarus.¹¹⁷

2.7. Illicit trade with Russia and sanctions busting via Ukrainian territory

For obvious reasons Ukraine and its territory are not typically considered the primary culprits in the circumvention of sanctions imposed by Western nations on Russia. Despite frequent complaints from Ukrainian authorities about third countries aiding Russia in evading sanctions, it is noteworthy that actors and companies operating within Ukraine are engaged in significant illicit activities that facilitate sanctions evasion, often supplying Russia with vital commodities. Unlike other post-Soviet neighbours of Russia that have refrained from formally joining Western and Ukrainian sanctions against Russia, engaging in sanctions-busting activities within Ukraine is considered illegal. While it may not be deemed unlawful when a company based in Georgia or Kyrgyzstan exports goods to Russia that are sanctioned by the West, the same activity conducted within Ukraine constitutes an illegal activity. After the full-scale Russian invasion started, Ukraine officially banned all imports of goods from Russian territory.¹¹⁸ This has facilitated illegal schemes with Russian exporters still sending commodities to Ukraine under the guise of non-Russian produced goods using documents from other jurisdictions.¹¹⁹ Based on Russian customs data, it is apparent that Russian exports to Ukraine since March 2022 primarily consist of consumer products and other supplies, which are being shipped to the occupied territories but are still registered as shipments to Ukraine. However, it should be noted that certain crucial commodities continue to be openly traded with Ukraine proper, involving the participation of Ukrainian companies. An illustrative example of this is the potential ongoing supply of Russian company Lukoil's oil from Russia to Ukraine.¹²⁰ The following graph lists the top 10 commodities supplied to Ukraine from Russia along with top 10 buyers of these commodities in Ukraine.

Graph 4. Imports from Russia to Ukraine in the period of April 2022-May 2023¹²¹



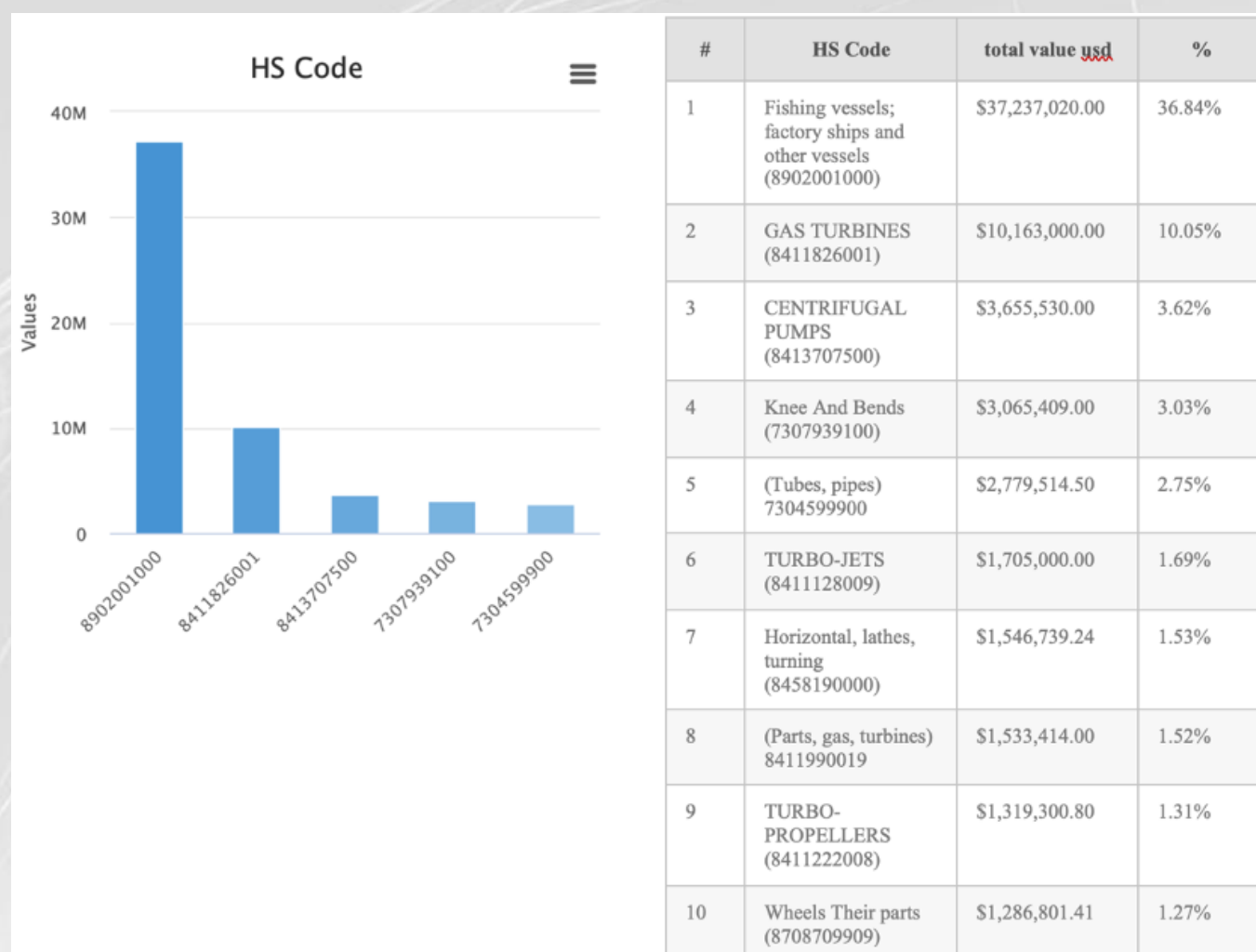
Buyers¹²²

#	Buyers	Total Value USD	Percentage
1	PJSC ARSELORMITTAL KRYVOY RIG, Kryvoy Rig, Ukraine	\$121,265,125.60	22.87%
2	JSC ODESA PORT PLANT, Odesa, Ukraine	\$78,283,900.00	14.76%
3	LLC ALPEN TRADE, Kyiv, Ukraine	\$54,421,970.88	10.26%
4	PJSC ZAPORIZHSTAL, Zaporozhye, Ukraine	\$15,069,300.00	2.84%
5	LLC LIBRO TRADING, Kyiv, Ukraine	\$12,726,400.00	2.4%
6	PJSC MMK IM. ILYICH, Mariupol, Ukraine	\$23,790,607.00	4.49%
7	Anvittrade LLC, Kyiv, Ukraine	\$11,523,570.00	2.17%
8	West Union Group Limited, Hong Kong China	\$9,795,470.00	1.85%
9	PJSC ZAPOROZHKOXS, Zaporozhye, Ukraine	\$9,090,420.00	1.71%
10	LC EXPLOYLE, Kyiv, Ukraine	\$8,569,568.00	1.62%

The list makes it clear that the majority of buyers of Russian commodities based in Ukraine are located in the occupied territories. Interestingly, a few Kyiv-based companies still trading with Russia on a large scale, are engaged in the commerce of light petroleum distillates, which serves as further evidence supporting the claim that Russian oil is still flowing to Ukraine proper.

The export data from Ukraine provides more noteworthy insights. Even though all exports to Russia were banned in September 2022,¹²³ direct trade, albeit at a minimum level, continued. More importantly, the trade between Russia and Ukraine via third countries (as documented below) and the use of Ukrainian territory for sanctions busting by third countries has become a significant problem. The graph below shows that commodities imported to Russia from Ukraine are mostly the ones that are either regulated or restricted by Western sanctions (e.g. most of the HS code 8411). The suppliers often are the companies based in South Korea, Türkiye, UAE and China. These companies are either using Ukraine for transshipment of the commodities destined for Russia or are nominating Ukraine as the origin country in order to circumvent sanctions.

Graph 5. Exports from Ukraine to Russia in the period of Sep 2022-May 2023¹²⁴



2.8. Suppliers

*Footnote 125

#	Suppliers	Total Value USD	Percentage
1	SUNJIN ENTECH CO.,LTD, South Korea	\$24,822,300.00	24.56%
2	HARBIN GUANGHAN GAS TURBINE CO.,LTD, China	\$10,163,000.00	10.05%
3	DK NET ENERJI SANAYI VE TICARET ANONIM SIRKETI, Türkiye	\$6,226,906.58	6.16%
4	JEIL CM CO., LTD, South Korea	\$3,866,010.00	3.82%
5	INUS CO.,LTD, South Korea	\$3,564,080.00	3.53%
6	R PLUS LOJISTIK INSAAT ITHALAT IHRACAT SANAYI VE TICARET LIMITED SIRKETI, Türkiye	\$2,924,066.00	2.89%
7	Unknown	\$2,616,610.26	2.59%
8	DEFESSA TRANS FZE, UAE	\$1,544,400.00	1.53%
9	DONGIL SHIPYARD CO LTD, South Korea	\$1,398,910.00	1.38%
10	JEIL SYC CO.,LTD, South Korea	\$1,343,220.00	1.33%

Equally significant are several instances in 2022-23 where essential commodities were sourced from Ukrainian territory through enterprises that are under the control, either openly or covertly, of Russian businessmen. Russian businessman Sergei Kabargin has been involved in the provision of rare clay, specifically refractory clay, through his Ukrainian company to both Rosatom and Lukoil. Additionally, a substantial quantity of clay and other construction materials, derived from Ukrainian raw materials, have been supplied to Russian troops stationed at the frontlines. These materials are primarily utilized for the construction of fortifications in the war zone.¹²⁶

In a separate incident in June 2023, the State Security Service (SSU) uncovered a trade involving Ukrainian titanium being supplied to the Russian military-industrial complex, specifically for the production of Kalibr cruise missiles, MiG-35 and SU-35 combat aircraft, and Ka-52 helicopters. The Ukrainian company responsible for the supply was the Demurinsky Mining and Processing Plant LLC, located in the Dnipropetrovsk region. It was revealed that the plant was covertly controlled by Russian businessman Mikhail Shelkov, who was sanctioned by Ukraine and its Western partners. Shelkov had become a hidden beneficial owner prior to the commencement of the Russian invasion.¹²⁷

In February 2023, investigators from the State Bureau of Investigations (SBI) took control of Hlukhiv Quartzite Quarry LLC, a company owned by an offshore entity associated with Oleg Deripaska. The company was found to be engaged in the unlawful extraction of high-purity quartzite, silicon, and other minerals from the Banitsky deposit located in the Sumy region. Disturbingly, these extracted commodities were being illicitly sent to Russia, raising concerns about their potential use in the production of missiles.¹²⁸

Local Ukrainian businessmen with long established ties to Russia are also involved in sanctions busting. A Lviv-based entrepreneur devised an intricate scheme aimed at smuggling luxury cars into Russia. Notably, among his clientele were officials from Gazprom, and TV company Russia Today. The entrepreneur would initially acquire the vehicles for display in showrooms located in Ukraine. Subsequently, he would organise the transportation of these cars, accompanied by falsified documents, to Belarus before ultimately reaching their destination in Russia. Remarkably, between August 2022 and March 2023, the entrepreneur managed to successfully supply a total of 45 cars to his Russian customers.¹²⁹

Two entrepreneurs hailing from the Sumy and Kyiv regions have established a large-scale manufacturing operation dedicated to producing diesel engine starters specifically for the Russian railway sector. In order to circumvent border checkpoints, they resorted to smuggling the products in small quantities directly into Russia from Ukraine. The prevailing sanctions have resulted in a scarcity of comparable components within Russia, allowing the entrepreneurs to demand a premium price of twice the original value of USD 850 for each unit.¹³⁰

The two other cases suggest that the scale of sanctions-busting via Ukraine is larger than one might initially assume. A significant operation was uncovered in June 2023, involving the Kyiv Central Design Bureau of Valves, which devised an extensive scheme to evade sanctions imposed on Russia. This particular entity holds a monopoly in the development and production of pipeline valves for nuclear power plants. Prior to February 2022, the company exported its products to Russia through a Moscow-based dealer, effectively supplying RosAtom. However, following the Russian invasion and Ukraine's subsequent imposition of sanctions on RosAtom, along with its Western allies, the company altered its export strategy. Instead of directly shipping goods to Russia, they were redirected to Türkiye under the guise of a final destination in Bangladesh. In Türkiye, shipping documents were modified, and the commodities were ultimately sent to RosAtom. Investigations conducted by the State Security Service (SUS) have revealed that since the commencement of the full-scale invasion, the company has executed 16 export transactions with RosAtom, involving commodities valued at USD 1.1 million.¹³¹

Furthermore, adding to the disconcerting nature of these activities, it has come to light that some supplies are directly aiding the military-industrial complex in Russia. In late 2022, the State Bureau of Investigations (SBI) uncovered a scheme involving the NICMAS machine-building concern, which is owned by former Rada deputy Grigory Dashutin. This company was found to be illicitly providing equipment with applications in various industries, including the military sector. Since the onset of the Russian invasion, the company has been supplying components, such as compressors and compressor units, to Russia, amounting to a value of 160 million hryvnias (equivalent to 4.4 million US dollars). These supplies have been directed towards enterprises engaged in the production of ammunition (Sibpribormash), aviation equipment (Smolensk Aviation Plant), spacecraft (Miasky Mashzavod), as well as critical infrastructure entities such as the Federal Passenger Company, Volga-Balt Administration, Sakhalinenergo, and Kuzbassenergo.¹³²

2.9. Other Commodities

Numerous other commodities are illicitly traded in Ukraine, but further research is needed to comprehensively explore this issue. Among the goods that warrant examination are amber, grain, alcohol, and oil products, to name a few. However, this list is not exhaustive, and a more in-depth investigation is necessary to gain a good understanding of the scope and impact of illegal trade in these and other commodities.

The effect of Russia's invasion varies on different types of illicit trade. The shadow market in alcoholic beverages did not change much compared to 2021 and remained at the same level in 2022.¹³³ There are dozens of cases across Ukraine of discovery of falsified alcohol products. Very often these products are moving together with counterfeit and illicit cigarettes¹³⁴ indicating some overlap in the supply chains and complicit networks. On the other hand, illegal trade in illegally mined amber must be declining mostly due to the changes before the Russian invasion started. The introduction of new legislation in 2019 has played a crucial role in enhancing regulation within the amber mining sector and implemented a more streamlined licensing process. The law has also become more stringent, increasing the liability for those engaging in illegal amber mining.¹³⁵ These positive changes have resulted in a significant rise in the volume of legally mined amber. In 2019, a mere 2,819 kilograms were mined legally but this figure soared to 24,174 kilograms in 2022, marking an extraordinary increase of 8.5 fold.¹³⁶ The impact of the Russian invasion has influenced the dynamics of moving illegally mined amber abroad. Formerly, the illicit amber trade directly flowed to China. Yet, there has been a change in the routes, and presently, illegally mined amber is being transported through Turkey and Western neighbours of Ukraine.¹³⁷

3. KEY ILLICIT TRADE ACTORS

In the assessment of GI-TOC's Organized Crime Index, Ukraine scores significantly higher on the scale for state-embedded actors than the score for mafia-style groups, with scores of 8 points out of 10 and 6 points, respectively.¹³⁸ Historically, the distribution of illicit markets is an issue of bargaining between various factions of political elites in Ukraine. Elite bargains function as 'provision pacts' regulating the distribution of exclusive economic privileges and opportunities, or rents between elites. The natures of these pacts depend on the distribution of political power and are constantly negotiated and re-negotiated between political actors.

For many years, a select few in Ukraine have held significant control over the country's political landscape and economy. These privileged individuals, often referred as Oligarchs, have leveraged their considerable wealth to manipulate governing bodies and direct policies in ways that primarily serve their interests, disregarding the detrimental effects imposed on society. Oligarchs would often seek election in Rada, Ukraine's parliament in order to have immunity from prosecution and to obtain influence over national policies.¹³⁹ In September 2019, a landmark law was passed, putting an end to impunity by abolishing lawmakers' immunity from prosecution. This crucial step may contribute in the future to tackling the problem of corrupt officials and powerful oligarchs exploiting parliamentary seats as a way to manipulate the political landscape and evade responsibility for their actions.

Illicit trade in certain commodities and in specific areas also had its own "minigarchs"¹⁴⁰ i.e. gatekeepers who are the key individuals with connections to political and economic power and sell their access to the market. For instance, in Odesa, a notorious scheme involved a local gatekeeper securing a corrupt agreement with the customs department to receive preferential treatment. Under this arrangement, customs officials would conveniently overlook cargoes registered under specific company names, allowing these companies to employ various forms of mis-invoicing (under-declaring weight, volume, or misrepresenting product nature, such as labelling costly items as inexpensive ones). Other businessmen were compelled to use the services of these companies if they wished to bypass customs scrutiny and engage in illicit imports.¹⁴¹

Within the Ukrainian context, discerning and categorizing various complicit and enabling actors into distinct groups, such as politicians, law enforcement officials, and private companies, often poses a significant challenge. In truth, the lines between these entities frequently blur to the point where distinguishing one from the other becomes practically impossible. For example, in 2021 President Zelensky officially sanctioned several smugglers.¹⁴² Among these, there are individuals with a background in Customs (Valery Peresolyak, Ivan Bokalo, Oleksandr Kravchenko¹⁴³), individuals with a background in the post-Soviet underworld (Volodymyr Didukh aka Morda¹⁴⁴), private businesses (Vadym Alperin, Yuri Kushnir, Victor Sherman). At the same time many of them had links to politics either through financing politicians (Didukh contributed to party Svoboda¹⁴⁵) or by being elected members of regional and local councils on the lists of well-established political parties (Kushnir was elected from 'Party of Regions' in Chernivtsi, Bokalo represented 'Strong Ukraine' party¹⁴⁶). Private companies accused of being complicit in illicit trade frequently have ties to ex-customs and law enforcement officials who were once responsible for combating smuggling. This raises suspicions about the potential exploitation of their government connections for personal gain and adds weight to the argument of collusion.

Crucially, despite their notoriety, certain well-known smugglers have not faced sanctions under Zelensky's administration. Some respondents speculate that their apparent immunity could be attributed to their affiliations with the ruling Servant of the People political party.¹⁴⁷ For example, Rostislav Sementsov from Odesa, a regional council deputy from 'Servant of the People' and Vadim Slyusarev from Kharkiv, formerly a high ranking officer of the State Border Service both have close ties with the Servant of the People party.¹⁴⁸ The media reported that both were considered to be sanctioned but the final list did not include them.¹⁴⁹ These recent trends indicate some crackdown on crucial actors in illicit trade but also highlight the concerning possibility that politically shielded 'gatekeepers' might persist in their illicit trade operations with less opposition.

3.1. Corrupt officials, law enforcement and customs

Before the Russian invasion, corrupt practices by law enforcement officers was one of the major problems in the country. Examples include high-profile cases not being investigated, bribery, smuggling, non-declaring of assets, and relatives of officials being appointed to top positions in the law enforcement structures.¹⁵⁰ In a survey commissioned in 2020, customs, the courts, Parliament, the Prosecutor's Office, medical institutions, and the police (excluding patrol officers) were found to be the most corrupt among 23 public institutions.¹⁵¹

In 2021 President Zelensky referred to smuggling as “economic terrorism” against the country¹⁵² and stated that according to experts' calculations, losses due to smuggling reach UAH 300 billion per year (USD 10 billion by 2021 exchange rate). More than UAH 100 billion of that amount (USD 3.3 billion) is due to inefficient work of customs.¹⁵³ Customs has undergone several major cleanups and changeovers of leadership. In 2021 more than 125 employees were fired following allegations they were complicit or complacent with contraband, including many in senior positions within various regions of Ukraine. Zelensky also initiated legislation against the purported smugglers.¹⁵⁴

Despite these efforts, evidence suggests that little progress has been made in curbing bribery among customs employees. A significant portion of Ukraine's border population relies on trading with neighbouring EU member countries, often exceeding the permitted cargo limits when crossing the border. These traders are typically subjected to a predetermined fee, which they are aware of in advance. Regular traders have intelligence about the work shifts of corrupt officers, allowing them to safely cross the border without repercussions. One such corruption scheme came to light in April 2023, involving the acting head of the Yavoriv customs post of the Lviv Customs, along with two other inspectors. These officials consistently demanded bribes from traders crossing the border. Monthly earnings of the customs officers amounted to at least half a million hryvnias, and the scheme had been operational for approximately three years.¹⁵⁵ For a comparison the average salary of a customs officer in Ukraine is 16 thousand hryvnias per month.¹⁵⁶

Law enforcement data suggests that corrupt officials are regularly detected and punished but some of the reporting inadvertently uncovers deeper problems. In a case from February 2023, SSU exposed the chief of a local customs office for corruption. He would remove artificial barriers and facilitate easy customs clearance of a commercial cargo in exchange of a fee. In the scheme the local customs chief would use an intermediary, a former customs officer previously prosecuted for corruption.¹⁵⁷

Some illicit commodities are only detected by the customs of the neighbouring countries. At best, it suggests a lack of efficiency, while at worst, it points to potential complicity or complacency within the Ukrainian customs system. In March 2023, Romanian customs officers apprehended a truck with Ukrainian license plates that was transporting 200 thousand packs of cigarettes labelled as “Duty-Free,” but were officially declared as confectionery products. Surprisingly, the truck had passed electronic clearance at the Vinnytsia customs post, and the accompanying documents were certified by Odesa customs.¹⁵⁸

Corruption goes beyond law enforcement officials being occasional recipients of bribes in exchange for providing protection to criminals, or police officers moonlighting as illegal traders. Indeed, the collusion is such that it is more relevant to discuss law enforcement's complicity or complacency rather than the capacity of the ‘underworld’ actors when it comes to smuggling of various commodities. Customs employees and other law enforcement officers often participate in organising large volume smuggling themselves rather than merely offering protection to smugglers or turning a blind eye in exchange of turning occasional bribes.

3.2. Local Organised Crime Groups

With its roots in the Soviet Union, Ukraine's professional organised criminals, so-called vory-v-zakone or ‘thieves in law’, emerged from the gulag system as key actors in the post-Soviet transition, where they gained new roles outside of prison and took control of lucrative extortion rackets and illicit trafficking. Even though thieves' influence in Ukraine was limited and represented mainly by ethnic Armenian and Georgian criminals, professional criminality is still relevant in the Ukrainian context, especially in prisons. Another important group were men trained in the use of violence (e.g. athletes, ex-police personnel), who found themselves without employment, but with easy access to weapons. These groups established a near-monopoly over illicit markets and extortion rackets, and some racketeering schemes were successfully converted into legal ownership of enterprises. Several widely known businessmen came out from this underworld.¹⁵⁹ The early and mid-90s were characterized by criminal violence motivated mainly by competition for the spoil of resources “up for grabs” after the fall of the Soviet Union. In the early 2000s, the state was able to reclaim its authority, although state capture remains a problem albeit by different actors who are often referred as state-embedded or state-affiliated networks.

In post-war Ukraine, organized crime is motivated and guided by more than just financial gain. There is evidence that OCGs are taking sides, supporting the army on either side of the conflict. There have been reports of Ukrainian security services arresting criminals in Odesa allegedly working for Russian intelligence services. The investigation revealed that these criminals were in communication with Russian intelligence agencies, providing them with updates on the situation in the region.¹⁶⁰ Also, Russian armed forces arrested a local crime boss in Zaporozhie for colluding with Ukrainian authorities.¹⁶¹

Ukrainian law enforcement occasionally announces that they are targeting this type of criminal groups. In June 2023 SSU dismantled a group in Kremenchuk that was engaged in extortion and racketeering. The group was headed by a professional criminal nicknamed *Moskva*.¹⁶² Another group in Dnipro was also engaged in systematic kidnappings and extortion from local businessmen.¹⁶³ In February 2023 the racketeering group seized in Odesa was coordinated by thief-in-law of Georgian origin nicknamed *Avto Kopala*. A similar group dismantled in Sumy region was also a mafia style group because it was allegedly contributing to the criminal *obshyak*.¹⁶⁴ These groups are primarily involved in extortion and racketeering, but they are also known to participate in smuggling of cigarettes and consumer products and drugs trafficking. With the closure of the Odesa seaport and the subsequent halt in smuggling income, it is expected that their focus will shift even more towards extortion activities.

4. ENABLING ENVIRONMENT

4.1. Geographic Location

Ukraine's strategic location at the crossroads of Eastern Europe makes it a crucial transit point for illicit trade activities. Situated between the European Union, Russia, and other neighboring countries, Ukraine serves as a vital corridor for the illegal movement of goods, including drugs, counterfeit products, weapons, and human trafficking. Its extensive network of border crossings and ports facilitates the transportation of contraband to various destinations, providing opportunities for criminal organizations to exploit the porous borders and weak enforcement measures.

The Black Sea coast adds another layer of significance to Ukraine's strategic location for illicit trade. The region's numerous ports, such as Odesa, Kherson and Mariupol, attract traffickers and smugglers looking to move their illicit goods discreetly. Odesa has historically been a significant logistical and strategic centre for criminal networks and the main transport link in the smuggling of consumer goods such as fuel, alcohol and cigarettes as well as trafficking of Afghan heroin and Latin American cocaine. It was a major outlet for the illicit economy of Transnistria for many years.

Moreover, Ukraine's close proximity to the European market renders it an alluring entry point for illegal commodities destined for European countries. The notable tax disparity on certain goods, such as cigarettes, serves as one of the key incentives for exploiting the substantial price difference. For example, weighted average price for cigarettes¹⁶⁵ in Ukraine is EUR 2.56 while in Poland it's 3.14, in Hungary it's 4.24 and in Romania 4.22.¹⁶⁶ Criminal organizations capitalize on this opportunity to smuggle large quantities of low-cost goods from Ukraine into neighbouring EU countries, where higher taxes result in significantly higher prices for the same products.

The war has forced the closure of several customs checkpoints due to impassable areas along the Ukraine-Belarus and Ukraine-Russia border regions. This has also been reflected in a notable decrease in trade between Ukraine and both Belarus and Russia, even though alternative routes through third-party states have been established. Trade flows have surged along Ukraine's Western borders since major shipments have been redirected there. The trade disruption from Russia and Belarus has resulted in commodities previously sourced from these countries now entering Ukraine via its Western neighbours. This change has unavoidably increased the workload of customs officials on both sides of Ukraine's borders, raising the risk of illicit commodities slipping through. In some cases, it has had positive effects, as seen in the example of Transnistria discussed below.

4.2. Conflict zones and their role in illicit trade

Ukraine lacks Free Trade Zones, but the historical presence of conflict zones near and within its borders have been poorly governed space and served as the hubs for unregulated and unchecked trade. One such area is Transnistria, a no man's land and a haven for smuggling, officially part of Moldova, spanning approximately 1,500 square miles and inhabited by around 530,000 people.¹⁶⁷ Positioned conveniently between Moldova proper and Ukrainian Black Sea ports, Transnistria has evolved into a smuggling hub for various commodities.¹⁶⁸ The region's economy has become heavily reliant on illicit activities, encompassing the smuggling of weapons, oil, drugs, and consumer goods.¹⁶⁹ The most commonly smuggled items are illicit tobacco and illicit ethanol/spirits. Sherif, a company run by the son of the former President Smirnov, is the dominant actor in Transnistria, seemingly exercising a near-monopoly over both legal and illegal enterprises, including the contraband and counterfeit sectors.¹⁷⁰

Following the Russian invasion of Ukraine, the border and customs checkpoints on the Transnistrian-Ukrainian border were swiftly closed, disrupting existing smuggling operations.¹⁷¹ The closure of the Transnistrian-Ukrainian border checkpoints may have inadvertently led to the legalization of specific contraband flows. As a consequence of the closure, goods that were previously smuggled through Transnistria now had to be rerouted through official Moldovan checkpoints.¹⁷² The closure of Black Sea ports also prompted a redirection of certain illicit commodities produced in Transnistria, with a considerable portion now flowing through Moldova's Western borders with the EU.

The Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) have played a significant and troubling role in Ukraine's illicit trade from 2014 to 2022. During this period, they effectively transformed into 'bandit kingdoms,' sustaining themselves primarily through smuggling and contraband activities.¹⁷³ The illicit trade extended across the contact line, involving networks within the security services, customs, and military, who either protected, facilitated, or directly participated in these illegal operations. Organized crime groups from both sides were also willing partners in these illicit activities.¹⁷⁴

A study conducted by Transparency International documented pre-war instances in which combatants from both sides, despite their separate involvement in facilitating illegal trade, engaged in military attacks against each other.¹⁷⁵ In some cases, military confrontations arose due to disagreements over the division of spoils from smuggling ventures. However, the heightened tensions and ongoing military actions have put an end to the practice of collaborating in smuggling schemes, leading to a cessation of much of the illicit trade across the frontlines. Nevertheless, concerns persist among experts that if the conflict in Ukraine reverts to a 'frozen' state, some of these illicit trade activities may resurface. The risk of a revival of smuggling and contraband trade remains a troubling prospect.¹⁷⁶

4.3. Embeddedness of Ukrainian-Russian trade and business networks

Ukrainian smuggling networks have maintained a remarkably close relationship with their counterparts in Russia over the years. Russian and Ukrainian legal and illegal trade actors have had deep-rooted connections, stemming from their shared history during the Soviet era and their mutual business activities in the post-Soviet period. Russia has been a significant trading partner for Ukraine and a major investor in the Ukrainian economy for over three decades. Throughout the post-Soviet era, regardless of Ukraine's political orientation being "pro-Russian" or "pro-European," there has consistently been a high level of collaboration between Russian and Ukrainian oligarchs and criminal networks. These collaborations involved raiding enterprises and taking them over,¹⁷⁷ engaging in smuggling operations, and exploiting state resources.

Even oligarchs who were overtly "anti-Russian" willingly worked with Russian industrial groups with few qualms. The business ties between Russia and Ukraine have thrived during the Yanukovich era. Although some of these connections were disrupted following Russia's annexation of Crimea, many links have endured.

Many observers have noted that the links between Russian and Ukrainian organised crime have been severely damaged after Russia's full-scale invasion.¹⁷⁸ This can be partially true for traditional mafia-style groups and cybercriminal groups (as shown in the next section), but as the section on sanctions busting demonstrated illicit and shadow trade and business networks involved in various types of illicit trade have largely survived and continued unabated even after the Russian invasion of Ukraine. In part this is not surprising since Russia was among the largest trading partners of Ukraine for many years and Russian businessmen, some of them linked to the Kremlin, have been investing in Ukraine. It would take some time to dismantle these networks.

4.4. Cybercrime

Before the war, Ukraine hosted major cybercriminal groups that have been acting individually as well as part of the 'Russian speaking' cyber gangs and specialised on phishing, ransomware and online sale of counterfeit and illegally diverted goods. The Russian invasion had a significant and disruptive impact on the relationship between Russian and Ukrainian cybercriminals. In Russia, this invasion led to a dangerous convergence of cybercriminals with the state, blurring the already diluted line between state-sponsored hackers and their criminal counterparts.¹⁷⁹ The motivation for the Russian government to crack down on cybercriminals has also diminished significantly due to deteriorating relations with the West, and the role of cybercrime as a geopolitical tool for the state has become even more pronounced.¹⁸⁰

The war had intensified the existing division within the cybercrime community. Particularly, major Russian-speaking cybercriminal organizations such as Conti and Comming Project experienced internal turmoil as Ukrainian sympathizers and Ukrainian nationals were part of their ranks. Once these groups declared loyalty to the Russian state, it had adverse consequences within their circles. A series of internal leaks that occurred since February 2022 can be attributed to Ukrainian members attempting to undermine their own gangs.¹⁸¹

Certain cybercriminals, including Mark Sokolovsky, a prominent figure in the Raccoon Infostealer malware program known for stealing millions of login credentials globally, fled Ukraine. Sokolovsky, along with his girlfriend, managed to leave the country by bribing their way out, given his draft age. Upon reaching the Netherlands, he was promptly arrested by the police.¹⁸² The reporting from 2022 suggested that some cybercriminals have moved to Moldova.¹⁸³ Criminals who stayed in Ukraine found lucrative means to make illicit profit. The war has opened opportunities for various forms of cybercrime. The fraudsters have used various ways, including setting up website soliciting donations supporting humanitarian aid or military assistance to Ukraine, baiting email recipients with giveaways of fake gift cards and links in the emails to malicious websites designed to steal money and personal information.¹⁸⁴ Phishing has become the most important source of income for Ukrainian cybercriminals, and its scale is growing. The financial losses due to online fraud has doubled compared to 2021 and reached UAH 968.5 mln (USD 26.5 mln).¹⁸⁵

Online stores selling fraudulent, counterfeit, and illegal goods continued to operate. In July 2023, authorities discovered a group involved in selling counterfeit grains.¹⁸⁶ Another incident occurred in April 2023, when an online store selling non-existent tactical equipment such as ammunition, helmets, and body armour was shut down. The organizer of this illicit operation was actively targeting military personnel, recruiting potential clients via Instagram and offering them these non-existent products.¹⁸⁷

4.5. Corruption

The country ranked 116th among 180 countries and regions surveyed for Transparency International's Corruption Perceptions Index (CPI) in 2022 with only +1 point of improvement compared to 2021 score.¹⁸⁸ Between the introduction of martial law and 15th of April 2023 Ukrainian border guards are reported to have prevented 550 attempts to offer bribes totalling approximately million UAH (\$160 thousand).¹⁸⁹ Most likely this is just a tip of the iceberg.

There is an elevated risk of illicit profiteering under the fog of war, but experts also highlight that corruption might be less tolerated in an existential moment for the country.¹⁹⁰ Patriotism and willingness to prevail in an unjust war may account for the lack of Russia's success in using the 'strategic corruption' against Ukraine that was deployed before with much greater effect.¹⁹¹ Nevertheless, this hypothesis lacks substantial explanatory capacity as the evidence indicates that corruption persisted as a significant issue in crucial sectors of the economy, notably impacting vital grain exports and the importation of electric generators during the peak of the energy crisis.

In June 2023 the SSU detained officials of the State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP) in the Odesa region and Odesa Phytosanitary Lab for extorting bribes from grain exporters in exchange for unimpeded processing of laboratory tests and certificates of conformity.¹⁹² Law enforcement documented illegal extortion of USD 100 per truck from 20 trucks loaded with Ukrainian grain.¹⁹³

In another case the 'strategic importance' of exporting Ukrainian grain did not prevent over 10 high ranking officials of Odesa customs from setting up a highly sophisticated fraudulent scheme. The accomplices would procure wheat from private farmers, agricultural enterprises, and large agricultural holdings. Subsequently, they would transfer the goods among numerous shell companies, totalling 370, to obfuscate the trade chains and effectively evade tax payments to the state budget. Eventually, the grain was sold to foreign exporters, resulting in the illegal export of over 1 million tons of grain products, thereby evading taxes.¹⁹⁴

Odesa customs employees were also involved in a case concerning electric generators. In January 2023, the SBI (State Bureau of Investigations) arrested customs officers in Odesa who were found to be extorting money from anyone bringing goods into Ukraine, including those transporting electric generators. Despite the generators being eligible for preferential customs clearance conditions due to the critical shortages of electricity during that period, these customs officers demanded bribes to avoid causing "unnecessary" problems during customs clearance. They would charge 50% of the official payments as their fee for providing such services.¹⁹⁵

4.6. Informal Economy

The size of Ukraine's informal economy is estimated to be 44.2% which represents approximately \$238 billion at GDP PPP levels.¹⁹⁶ There is significant variation across different sectors of the economy, with shadow sectors accounting for approximately 30% to 60%, depending on the specific sector.¹⁹⁷ There are no post-invasion figures available but given the growing illicit trade and new opportunities for illicit trade, the informal economy could have only grown.

There has been a slight decrease in the number of people working in the informal economy, from 3.7 million in 2017 to 3.2 million in 2020. This represents around 20% of the employed population in Ukraine. According to the labor force survey conducted in 2020 by the Statistics Service of Ukraine informal employment is most prevalent in the agriculture sector, accounting for 44% of informally employed individuals, followed by construction at 17%, and wholesale and retail trade at 16%.¹⁹⁸

A study conducted by the Razumkov Centre in 2019 revealed that the average monthly salary in the fully informal sector was approximately 8% higher than that in the formal sector. Interestingly, the highest monthly salaries, averaging 8,600 hryvnia, were observed in the "partially informal" sector. This refers to individuals working under a formal employment contract but receiving undisclosed compensation under the table.¹⁹⁹

The informal economy seen in conjunction with other variables creates an environment conducive to illegal trade. Surging inflation, rising commodity prices and declining economy in Ukraine increases the demand for low-cost goods and services. This demand eventually extends to untaxed, illicitly diverted or illegally produced goods such as counterfeit products.²⁰⁰

4.7. Money Laundering Infrastructure

Over the years, money laundering has been a notable issue in Ukraine, due to a combination of factors. These include a weak regulatory framework, inadequate enforcement measures, and systemic corruption, all of which have created an environment conducive to money laundering activities. However, Ukraine has made significant strides in addressing this issue in recent years. Notably, Ukraine does not appear on the Financial Action Task Force (FATF) list of countries identified as having strategic anti-money laundering (AML) deficiencies. The FATF's most recent monitoring mission in 2020 assessed Ukraine as compliant with 11 out of the FATF's 40 Recommendations, largely compliant with 22.²⁰¹ However the US Department of State's Money Laundering Assessment categorises Ukraine as a country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes. It states that money laundering remains a significant problem and public corruption is the primary source of laundered funds.²⁰²

After the Russian invasion, the Ukrainian central bank implemented a temporary suspension of electronic money transfers/wire transfers outside the country in order to mitigate potential capital outflows. As a result, the use of cryptocurrencies has experienced a surge in popularity for both storing funds and facilitating international transfers. Notably, the Ukrainian crypto exchange has observed a substantial increase in interest for tether's USDT stablecoin, which maintains a fixed value relative to the US dollar.²⁰³ However, in April 2022, the National Bank of Ukraine also enforced a prohibition on the purchase of cryptocurrencies using bank accounts denominated in Ukrainian hryvnia.²⁰⁴ This approach has demonstrated a degree of effectiveness, as a majority of individuals opt to physically transport cash across borders when seeking to move funds out of Ukraine.

Consequently, the only viable method for transferring funds out of Ukraine currently involves physically carrying cash across the border. Nevertheless, stringent limitations have been imposed, restricting the amount of cash an individual can transport to the equivalent of \$10,000 USD. This situation has inadvertently fostered opportunities for corruption at border crossings, as individuals attempting to move undeclared or underdeclared cash can be subjected to extortion by border and customs officials. Instances have been documented where substantial sums of cash successfully crossed the Ukrainian border undetected, only to be discovered in neighbouring countries. A notable incident occurred in 2022, when Romanian customs intercepted an undeclared transfer of \$1.6 million USD originating from Ukraine.²⁰⁵ Another case, which was investigated by the ESBU, involved a Ukrainian citizen who declared the transportation of 3.6 million EUR cash when attempting to leave Ukraine. However, the origin of the funds raised suspicions, prompting a thorough examination. Subsequent scrutiny uncovered discrepancies between the declared amount and the individual's official income records, casting doubt on the legitimacy of the funds being transported.²⁰⁶

The data presented in Table 1 indicates that trade-based money laundering tactics are potentially being used to evade the established regulations governing the cross-border movement of funds. These tactics may involve mis-invoicing to move the money across the borders. However, it is important to acknowledge that while the figures in the table imply these trends, further research is required to fully grasp the extent to which trade-based money laundering is being employed in this scenario. Conducting a more thorough investigation would offer a clearer understanding of the specific strategies and mechanisms employed.

5. NATIONAL ANTI-ILLICIT TRADE EFFORTS

Since Euromaidan Ukraine has demonstrated significant progress in fighting against corruption and Organised Crime. The Ukrainian government has established anti-corruption infrastructure including the National Agency on Corruption Prevention (NACP), National Anti-Corruption Bureau of Ukraine (NABU), Specialized Anti-Corruption Prosecution Office (SAPO), Asset Recovery and Management Agency (ARMA), State Bureau of Investigations (SBI) and High Anti-Corruption Court of Ukraine (HACC). In 2021 the Economic Security Bureau of Ukraine (ESBU) was inaugurated as an umbrella body to investigate all manner of economic crimes, including smuggling and illicit trade.

The Zelensky administration also passed new legislation to strengthen customs cooperation with the EU to better combat corruption and smuggling and started close collaboration with the EU's anti-fraud office (OLAF)²⁰⁷ as well as with the EU's Border Assistance Mission to Moldova and Ukraine (EUBAM)²⁰⁸ forming crucial partnerships aimed at enhancing Ukraine's capacity to combat cross-border illicit trade. In 2019 Zelensky signed a decree to counter smuggling and corruption at customs points.²⁰⁹ In 2021 the Cabinet of Ministers of Ukraine established an Interdepartmental Working Group on the de-shadowing of the economy and the development of fair competition. The working group is chaired by the Minister of Economy and comprises the heads of all tax collection and law enforcement organisations.²¹⁰

Table 2: Ukraine's ratification of international treaties regulating specific types of illicit trade

Treaty	Year	Ratified by Ukraine
UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances ²¹¹	1990	1991
Arms Trade Treaty ²¹²	2014	2014
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) ²¹³	1973	1999
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal ²¹⁴	1992	1999
UNESCO 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property ²¹⁵	1972	1988
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) ²¹⁶	1995	2008
Protocol to Eliminate Illicit Trade in Tobacco Products (ITP) ²¹⁷	2018	---

6. CONCLUDING REMARKS AND RECOMMENDATIONS

Illicit trade in Ukraine is a multifaceted and complex issue that poses significant challenges to the country's and the wider region's security and stability. Various commodities, including environmental products, people, antiquities, and even humanitarian aid, are traded illegally within and across Ukraine's borders. Moreover, Ukraine's territory has also been misused for sanctions-busting activities, facilitating the supply of sanctioned goods to Russia. Various commodities, including construction materials and components for missile production, have been illegally supplied to Russia via Ukrainian enterprises and companies.

The war has created opportunities for criminals and illicit traders to exploit the chaos and engage in activities such as arms trafficking, human smuggling, and the abuse of humanitarian aid. One of the key areas of concern is the illicit trade of tobacco products, where Ukraine has emerged as a major source and trans-shipment point of illegal consumer goods. The share of illicit cigarettes in local tobacco consumption has increased significantly, and the country remains both an importer and exporter of illicit tobacco.

The flow of humanitarian aid has been exploited for various illegal activities, including the smuggling of goods and drugs. Despite significant efforts to combat corruption and illegal activities, the closure of some illicit tobacco production sites, and interventions to stop the abuse of humanitarian aid, challenges persist.

Illicit trade in Ukraine is driven by a complex web of actors and factors that facilitate the flow of illicit commodities across the country's borders. The key actors in this illicit trade ecosystem include political elites, corrupt officials, law enforcement, local organized crime groups, and an enabling environment characterized by geographic location, embeddedness of Ukrainian-Russian trade networks, corruption, the informal economy, and money laundering infrastructure. Understanding these key actors and factors is crucial for developing effective strategies to combat illicit trade and its negative impact on society and the economy.

Convergence manifests in several forms, encompassing network convergence, commodity convergence, or a combination of both. To illustrate, consider the Odesa smuggling networks, which facilitate the movement of diverse consumer goods like cigarettes, clothing, and apparel. Additionally, there is a convergence in certain commodities, such as the interplay between alcohol and tobacco smuggling discussed in the section on major illicit trades. The nature of convergence often aligns with the specific commodity involved. For instance, as demonstrated in various sections of this paper, the illegal diversion of small arms tends to be linked to illicit networks associated with the military, whereas illicit tobacco trade is primarily driven by semi-legal factories within Ukraine. These two illicit trade categories are less inclined to converge compared to a range of consumer products. The war could potentially have spurred specialization within smuggling networks, given that delivering drugs to the frontlines necessitates unique access and corrupt connections, similarly to sourcing arms.

A reshuffle in the maritime routes has resulted in a considerable redirection of shipments that were originally destined for Odesa seaports. These shipments now pass through seaports in Romania and Bulgaria, causing a notable displacement of illicit trade hubs away from Ukraine. Consequently, Odesa, which was once the primary illicit hub of Ukraine, has temporarily relinquished its status, as most of the trade has shifted to parts of the Polish-Ukrainian, Bulgarian-Ukrainian, Moldovan-Ukrainian and Romanian-Ukrainian border. Russian and Belarussian goods are still illegally traded with Ukraine via third countries including Poland and Moldova avoiding Ukraine-imposed restrictions on these goods. More research is needed within these border regions to pinpoint specific areas presenting key challenges.

Political elites and their networks play a significant role in the distribution and control of the illicit market in Ukraine. Gatekeepers with close ties to political and economic power manipulate policies and institutions for personal gain, perpetuating an environment conducive to illicit activities. The blurred lines between politicians, law enforcement officials, and private companies further exacerbate the issue, making it challenging to distinguish between complicit and enabling actors.

Corruption remains a pervasive issue in Ukraine, acting as a facilitator of illicit trade. Despite efforts to combat bribery and extortion, many law enforcement and customs officials continue to engage in corrupt practices, enabling the movement of contraband across borders. The country's strategic location and extensive network of border crossings and ports contribute to its significance as a transit point for illegal goods.

In conclusion, Ukraine's illicit trade landscape is influenced by a combination of factors and actors that intertwine in complex ways. Combating illicit trade in the country requires a multifaceted approach that addresses corruption, strengthens enforcement measures, and promotes transparency and accountability within government institutions.

6.1. Recommendations

RECOMMENDATIONS	
Anti-Corruption Reforms	> Ukraine had progressed significantly, but corruption remains to be a key challenge. There is a need to implement comprehensive measures to root out corruption within law enforcement, customs and government.
Enhance Border Surveillance and Security	> Strengthen border control through technology and increased personnel to curb illicit trade. This may include developing specialised mobile cross-border/anti-trafficking units in coordination/collaboration with Ukraine's Western neighbours.
Regional Cooperation and Intelligence Sharing	> Collaborate with neighbouring countries especially Poland, Romania and Bulgaria to share information and tackle cross-border illicit activities.
Enhancing International Cooperation to Counter Cybercrime and Illicit Online Activities	> International collaboration and training provided to Ukrainian law enforcement have already been instrumental in boosting cyber defenses in Ukraine; however, a more concerted effort and international cooperation are needed to effectively counter cybercrime and illicit online activities.

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- ³ This topic has got extensive and professional coverage by the Global Initiative against Transnational Organised Crime, see Deep Dive podcast titled "Death Can Wait": Drugs on the Frontline in Ukraine dated 22 May 2023, available at <https://globalinitiative.net/analysis/deep-dive-podcast/>
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