



The illicit tobacco trade.

Luk Joossens

Senior policy advisor FCA

September 4 2008

Article 15 of the FCTC : Illicit trade in tobacco products

1. The Parties recognize that the elimination of **all forms of illicit trade** in tobacco products, **including smuggling, illicit manufacturing and counterfeiting, (....)** are essential components of tobacco control.

Illicit manufacturing

refers to illegally manufactured products (the production of tobacco products contrary to law.) The laws in question may be taxation laws or other laws (such as licensing or monopoly related laws) that restrict the manufacture of tobacco products.

Counterfeit

Counterfeit tobacco production is a form of illegal manufacturing, in which the manufactured products bear a trademark without the consent of the owner of the trademark.

Smuggling & contraband

- **Smuggling** is the trade in illegally imported products.
- **Contraband** is smuggled goods.

Large-scale organized smuggling

Large-scale organized smuggling of tobacco products involves the illegal transportation, distribution and sale of large consignments of cigarettes.

Small-scale smuggling or 'bootlegging'

Small-scale smuggling or 'bootlegging' involves the purchase, by individuals or small groups, of tobacco products in low tax countries in amounts for resale in high tax country.

Cigarette packaging and smuggling

- **A carton contains 10 packs or 200 cigarettes**
- **A master case contains 50 cartons or 10.000 cigarettes**
- **A container contains 1000 master cases or 10 million cigarettes**

SOURCE OF SMUGGLED CIGARETTES



How to smuggle cigarettes?

- 1) manufacturing
- 2) first purchaser in a transit country
- 3) play hide-and-seek with customs
- 4) cigarette container “disappears” and cigarettes are concealed
- 5) the illegal transport
- 6) the illegal distribution

How to smuggle cigarettes?

- 1) Cigarettes are manufactured. For commercial and legal reasons, the manufacturer should know its final destination.

Monitoring

What is striking in the internal industry documents, is the capacity of the industry to monitor and their intention to control both the legal and the illegal market. BAT documents suggest that with production codes marked on each cigarette packet, the company is quite capable of monitoring where its brands are finally sold.

How to smuggle cigarettes?

2) A first purchaser places a cigarette order with a manufacturer.

Transit

The essence of transit is to allow temporary suspension of taxes on goods destined for a third country.

One BAT document on Transit Trade:

“Question: What is Transit Trade ?

Answer: Transit trade is the movement of goods from one country to another without payment of taxes and tariffs. It is more commonly known as smuggling.”

How to smuggle cigarettes?

3) Hide-and-seeK:

Payments are often made in cash or from countries favouring bank secrecy.

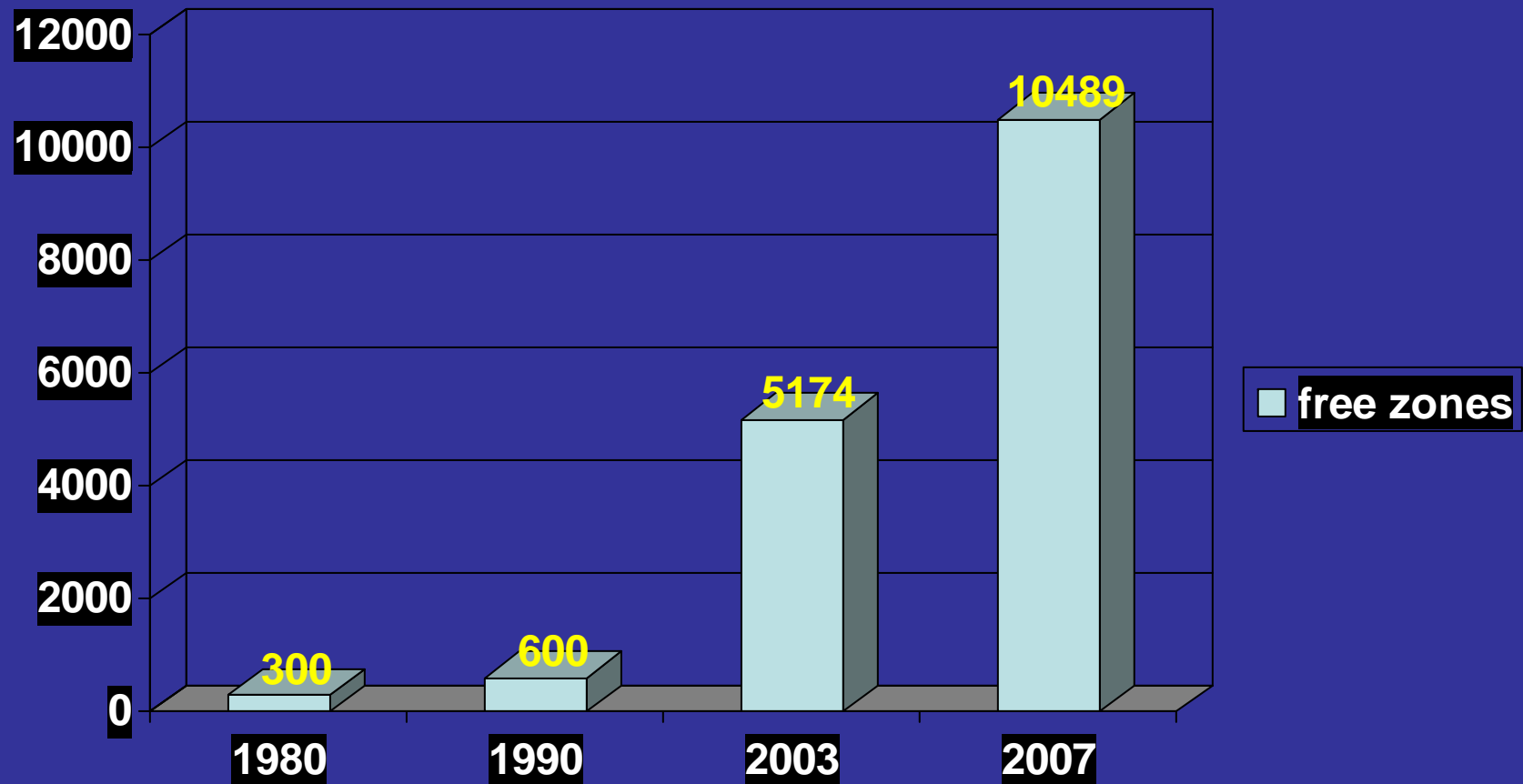
How to smuggle cigarettes?

3) Hide-and-seek:

Containers disappear in “free zones”

Goods introduced in a free zone are generally not subject to usual Customs controls. Due to the lack of control in some free zones, the goods may leave the zones unnoticed.

The free zones boom



source: World customs
organisation

How to smuggle cigarettes?

4) illegal trade starts:
container has
disappeared,
container is
unloaded and cover
load is chosen.



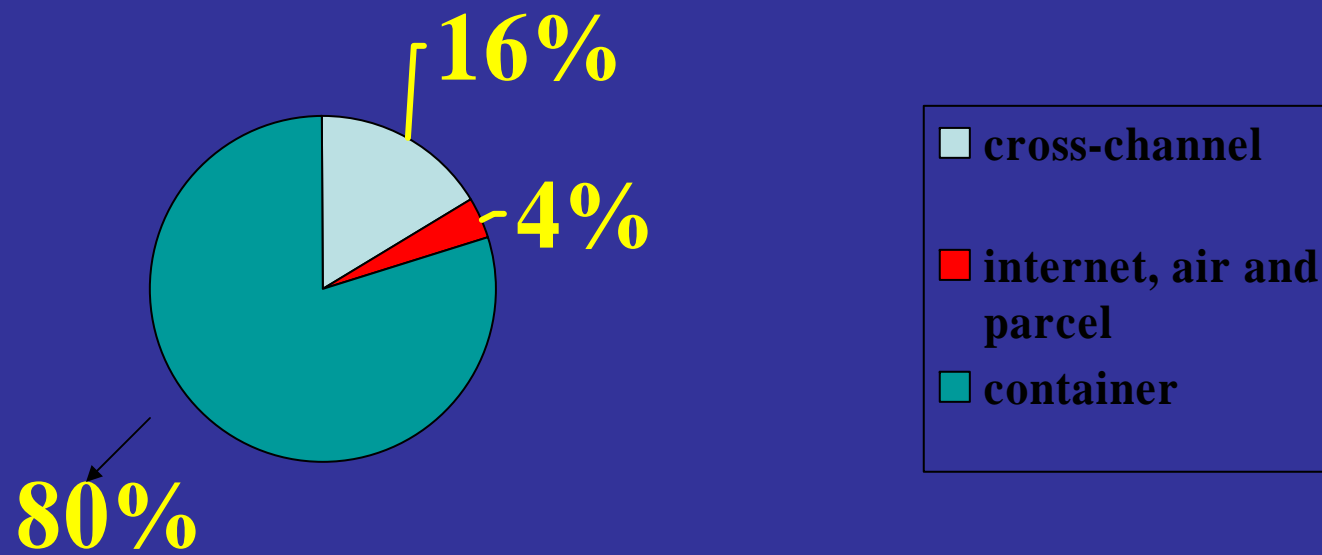
How to smuggle cigarettes?

5) illegal transport with a cover load to the final country of destination.

How to smuggle cigarettes?

- 6) Distribution at the country of final destination with the help of an informal distribution network.

Cigarette smuggling in the UK 2000



source: Dawn Primarolo MP, 7
March 2001, written answer

Regal and Superkings in 2001

- **Exported massively to countries such as Latvia, Kaliningrad, Moldova, Afghanistan and Andorra**
- **65% of the 12 billion exported Regal and Superkings are smuggled back into UK**

Regal and Superkings in 2001

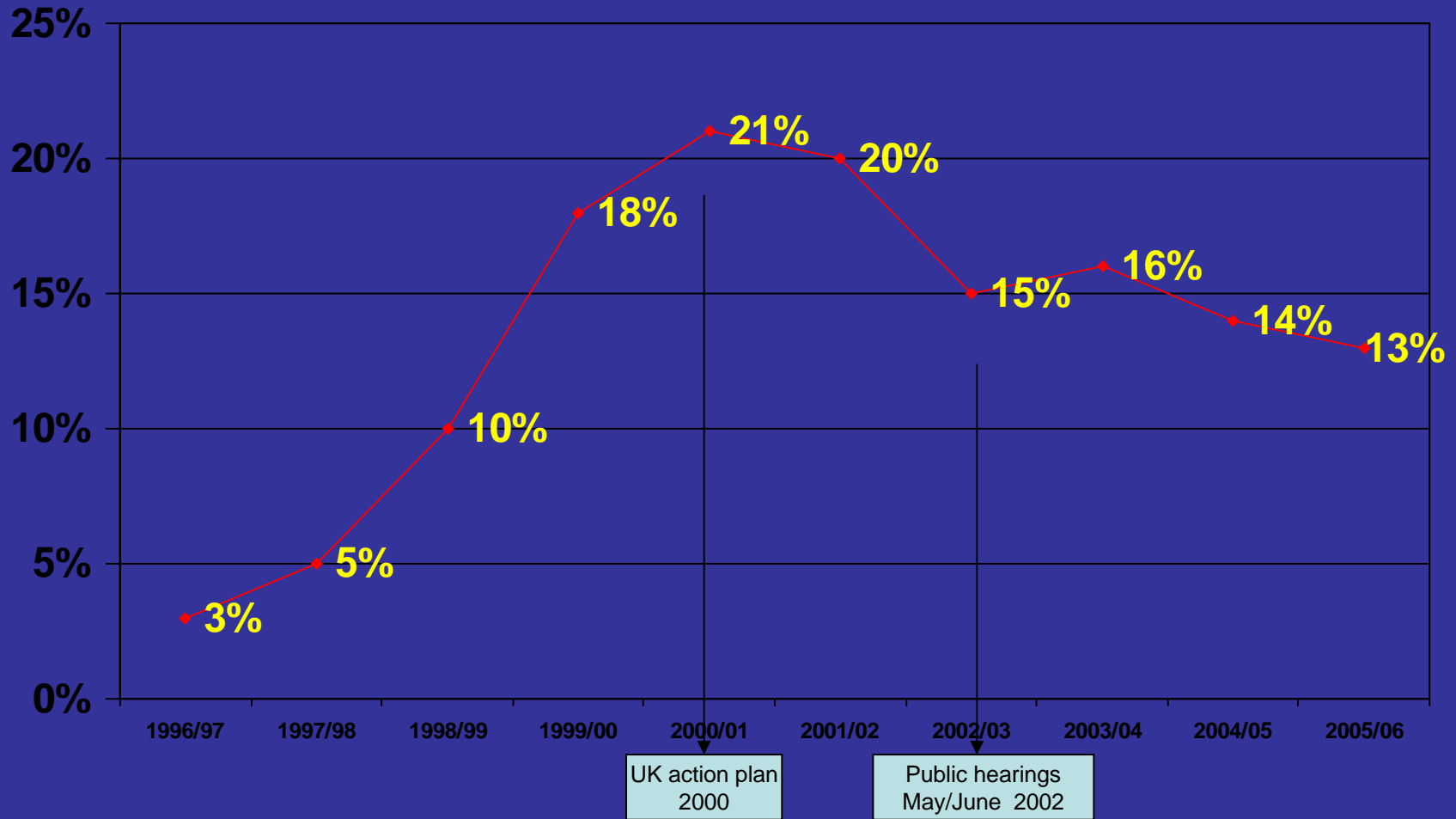
- **nearly 8 billion illegal cigarettes and only 5 billion legal cigarettes**
- **8% of the legal and 50% of the illegal market**



Committee of Public Accounts

One comes to the conclusion that you are either crooks or you are stupid, and you do not look very stupid. How can you possibly have sold cigarettes to Latvia, Kaliningrad, Afghanistan and Moldova in the expectation that those were just going to be used by the indigenous population or exported legitimately (...) and not in the expectation they would be smuggled?

Figure 1. Percentage of UK cigarette market that is illegal



Source: figure is based on data from "Tackling Tobacco Smuggling (2000) (14) and HM Revenue & Customs Departmental Autumn Performance report (2007) (15)

Smuggling trend in Italy

Italy has the longest history of smuggling in Europe. As in Spain, cigarette smuggling in Italy has strongly declined when the tobacco companies stopped their supply as result of the EC lawsuit.

The sales of smuggled Marlboro in Naples in 1995



US made Marlboro

Steps in smuggling American cigarette brands into Italy

1. The cigarettes are manufactured in the US
2. A first purchaser places an order with manufacturer
3. The containers are exported to the ports of Antwerp in Belgium, under the “transit” regime.
4. The containers are exported and imported through many different locations over a short period of time.

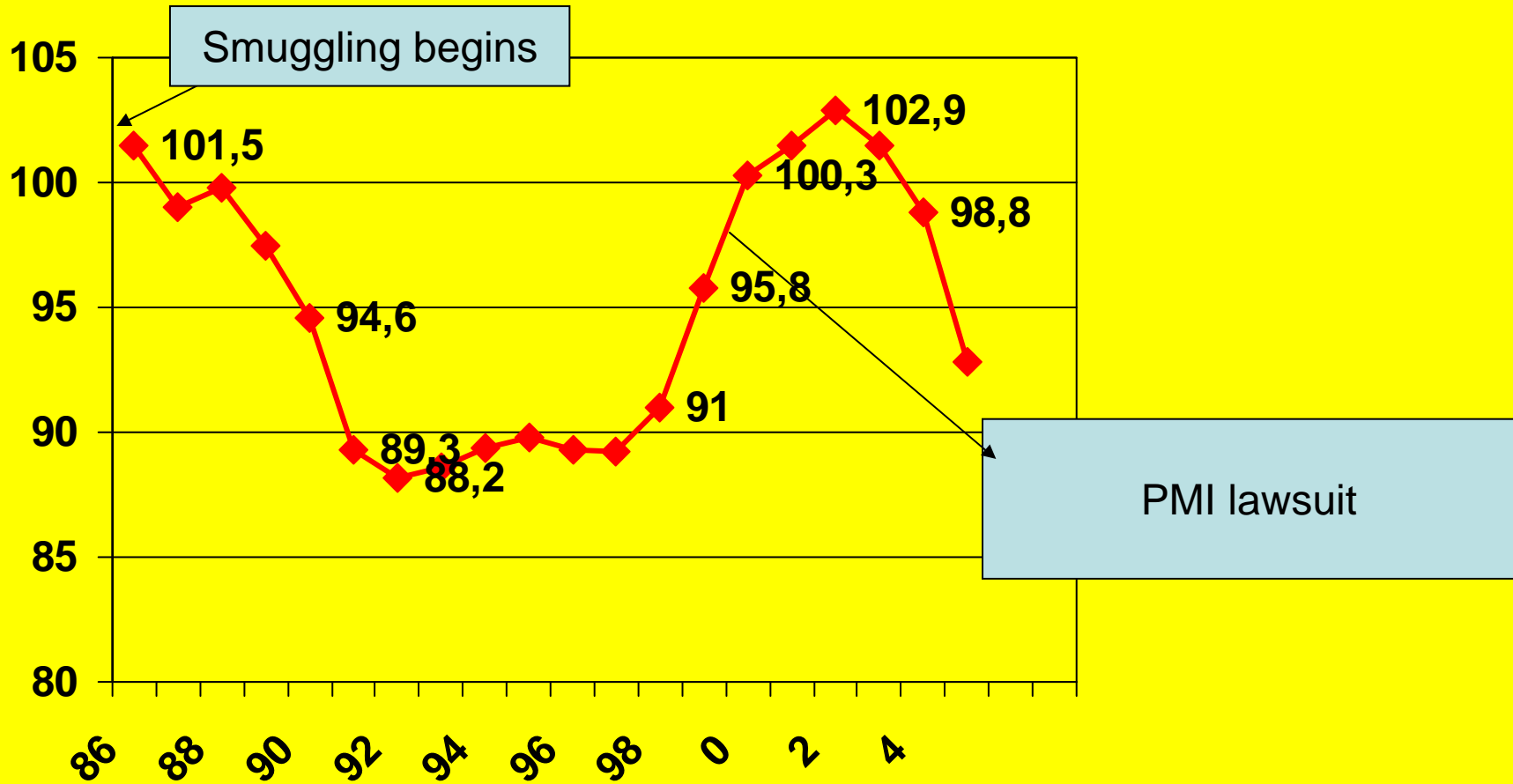
Steps in smuggling American cigarette brands into Italy

5. Payments are often made in cash or from tax havens or countries with secretive banking laws, such as Liechtenstein or Switzerland.
6. The containers are then transferred from the legal transit regime to the illegal domain, in a location known for its lack of surveillance, for example the warehouses in the Montenegro.

Steps in smuggling American cigarette brands into Italy

7. Cases of cigarettes are transferred to speed boats and shipped at night across the Adriatic to Italy.
8. The cigarettes are sold in the streets of Naples and Bari, often by immigrants.

Sales of cigarettes in Italy 1986-2005 (in thousand tons)



Controlling the supply chain

Enforceable measures to control the supply chain should be at the heart of the FCTC protocol on illicit tobacco trade. These measures should facilitate investigations into smuggling operations and make the industry liable for controlling the supply chain.