

Key issues on cigarette smuggling.

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Tobacco smuggling

- **One in three internationally traded cigarettes**
- **400 billion cigarettes**
- **Lost revenue estimated at \$25-30 000 million**

What's new?

- **The court cases in the US on industry involvement**
- **High smuggling rates in low tax countries**
- **The FCTC**

Industry's favoured argument

The smuggling issue has become the argument most used by the industry to counter the policy of those governments who want to reduce the consumption of tobacco through taxation.

Which is the cause of
smuggling?

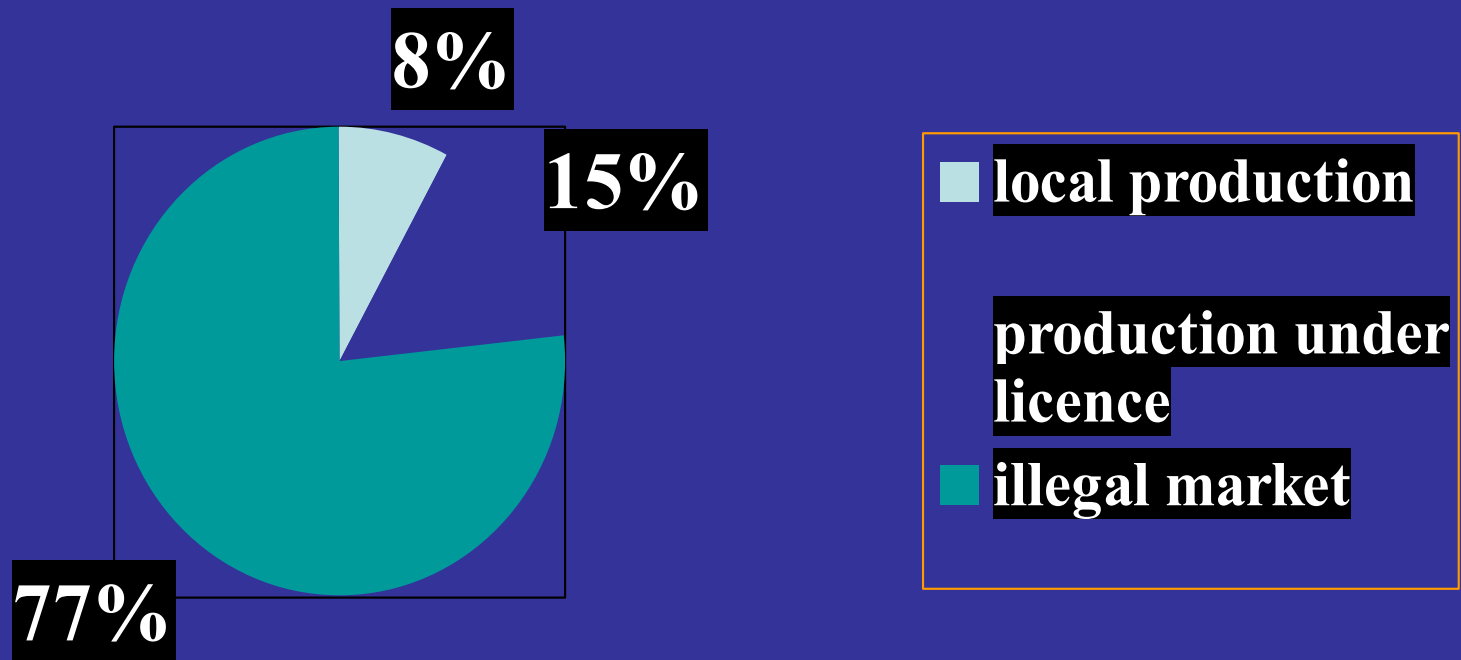
*Are high taxes the
main cause for
smuggling?*

ALBANIA (2001)

A pack of cigarettes costs only 0,310 US Dollar, but 72% of the market is illicit.

Source: Tobacco Reporter, winter 2001

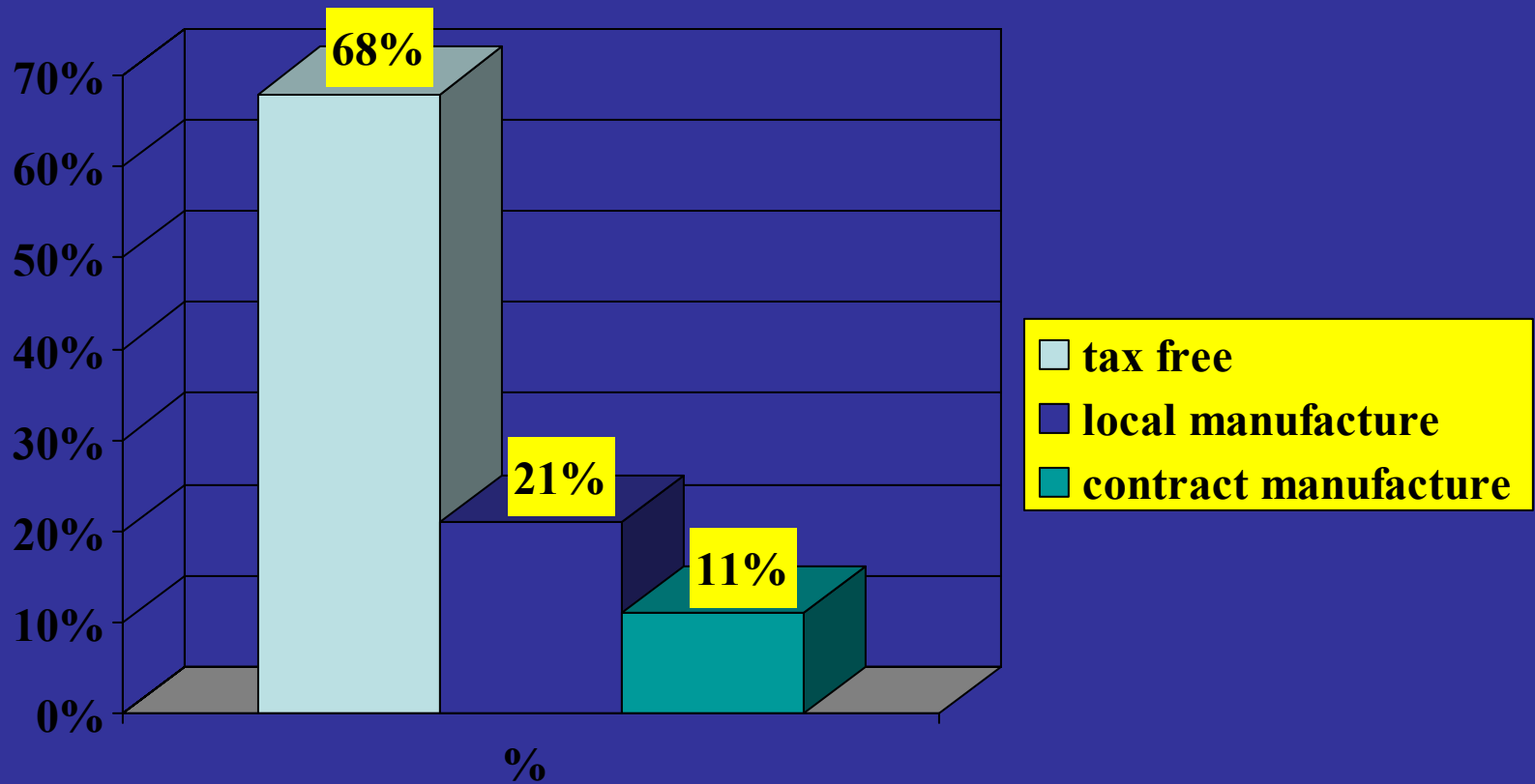
Cigarette market in Mali (November 1999)



Source: Sonatam

Iran

(RJR doc 29/7/1994, 513214977-5199.)



Vietnam

The price of smuggled SE555, considered to be of higher quality, is higher than the same brand manufactured in Vietnam



Source: Tobacco control, 2003,
12:119-20

Vietnam: smuggling adds value



Other factors may be more important

While tax levels and tax and price differentials are important factors, the evidence suggests that others, including the presence of informal distribution networks, organized crime, industry participation, and corruption, may be as, or more, important.

Source: Joossens, Chaloupka, Merriman, Yurekli, 2000

Role of the tobacco industry

- **Oppose efficient tax policies (Canada, UK)**
- **Avoid import obstacles (China, Iraq)**
- **Dismantle state monopolies (Italy, Iran)**
- **Conquer new markets (Asia, Africa)**
- **Supply international brands at affordable prices (the whole world)**

Court cases on industry involvement

**In recent years Canada, Colombian
Governors, Ecuador, the European
Community and ten EU Member
States (Italy, Germany, Spain,
France, Finland, Belgium,
Netherlands, Portugal, Greece and
Luxembourg) and Honduras and
Belize have filed lawsuits in the US
against international tobacco
companies for smuggling.**

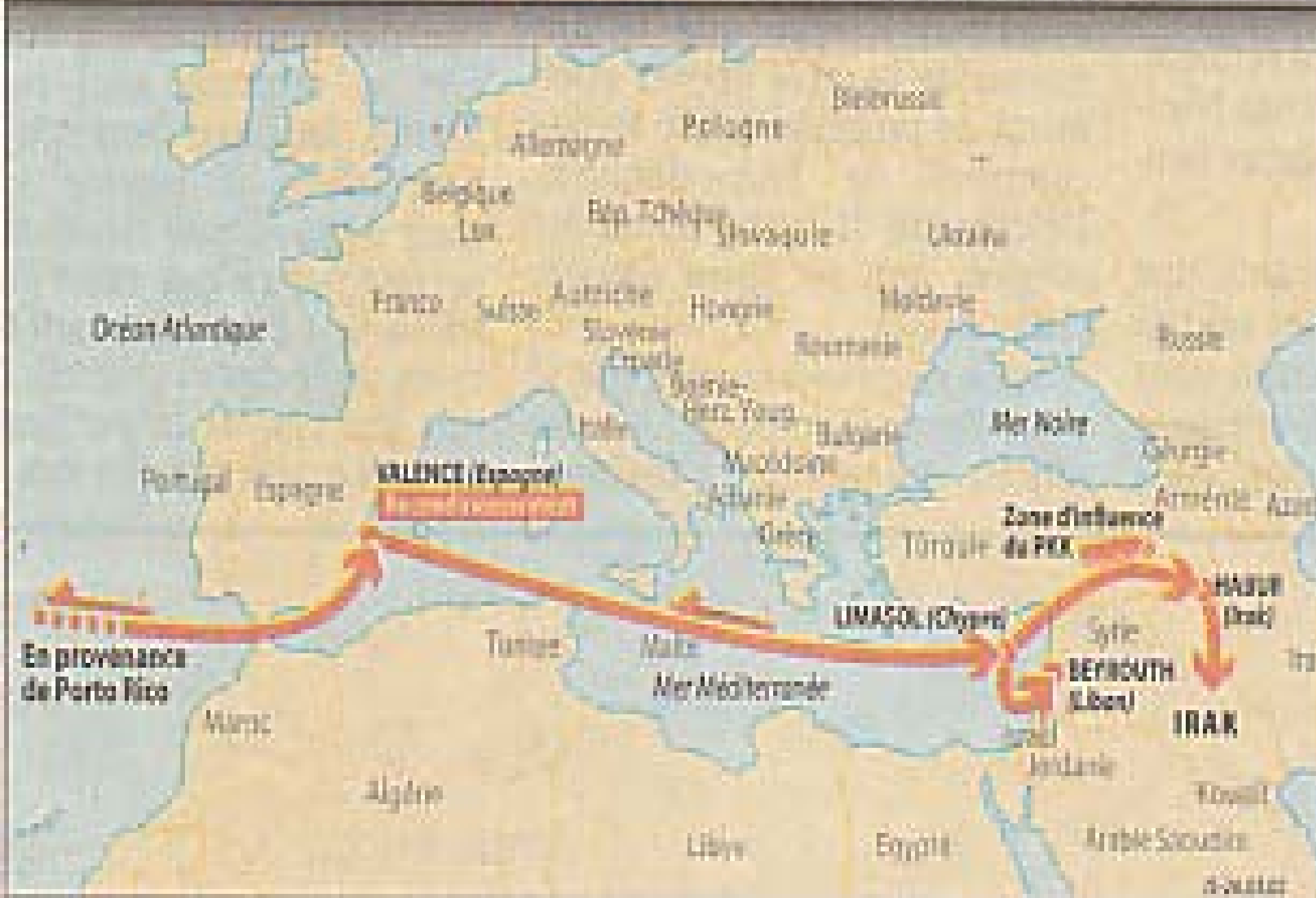
The most recent lawsuit

On 30 October 2002 The EU and ten Member States launched another lawsuit against RJR. The new EU lawsuit goes far beyond any previous allegations, accusing RJR of direct complicity in facilitating not only money laundering schemes but also other criminal enterprises. Allegations on cigarette smuggling into Iraq were even more detailed.

Editorial in the Washington Post, “Mr. Bush and Tobacco”

“Organizations that violate U.S. sanctions on Iraq cannot usually expect sympathy from the Bush administration. Nor can groups that collude with Russian mobsters or Colombian drug gangs. If the allegations recently filed by 10 European governments in a New York district court have merit, R.J. Reynolds Tobacco Holdings Inc. (RJR) has run a smuggling conspiracy involving all three offences.” (November 25 2002)

LE TRAFIC DE CIGARETTES VERS L'IRAK



IRAQ

- **Exports of billion of cigarettes from major tobacco manufacturers**
- **Complex transport routes**
- **Removing marks and numbers from its products**
- **Frequently switched bank accounts**
- **Operations led from Switzerland**
- **Off shore companies located in Lichtenstein**
- **Use of tax-free harbors**

Source: EU complaint

IRAQ

Since 1996, approximately 50 billion cigarettes have been sent by RJR and JTI from Puerto Rico to Cyprus. Approximately one-half of such shipments were exported from Cyprus to Turkey, direction Iraq.

The son of Saddam

Cigarette smuggling profited Uday Hussein, who controlled also the smuggling of whisky, fertilizers and petrol.

Source: EC complaint



How to stop the 400 billion cigarettes illegal trade?

Cigarette smuggling is caused by an abuse of the transit system and the onus should be placed on the tobacco industry to prove that their products arrive in the end user market.

Problems with the cigarette transit trade

- **No markings**
- **No traceability**
- **No liability**
- **No end-user markets and certificates**

The FCTC

If tobacco smuggling is to be tackled successfully it will require international collaboration; the most likely mechanism for achieving this is the FCTC

The FCTC

Article 15 deals with the following issues: markings, tracing and tracking, monitoring and data collection, penalties, confiscation of equipment, cigarettes and proceeds, cooperation and licensing

The concern

**Article 15 does not
contain specific
obligations for the
major cigarette trading
countries**

A protocol

A protocol should contain obligations which would be specific for exporting countries, transit countries and importing countries. A proper system of supervised international tobacco trade should be developed.