



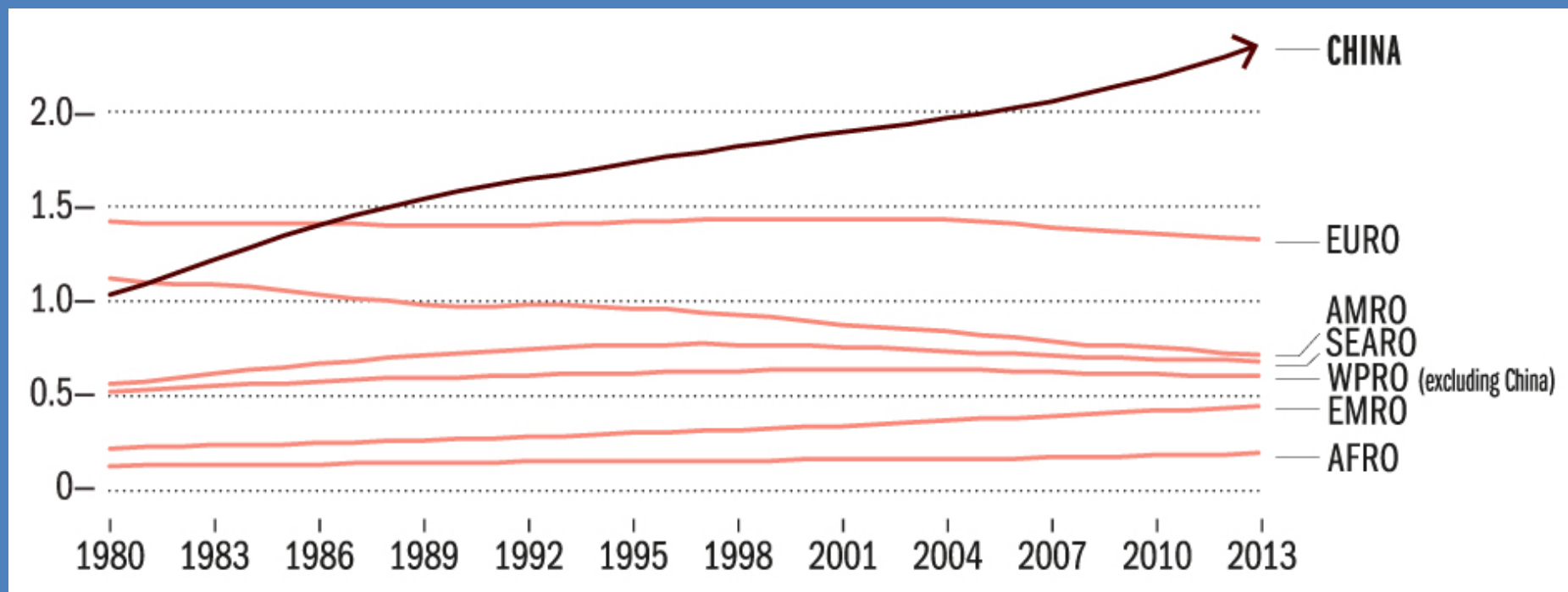
International Status of the Illicit Tobacco Trade and key developments

LUK JOOSSENS

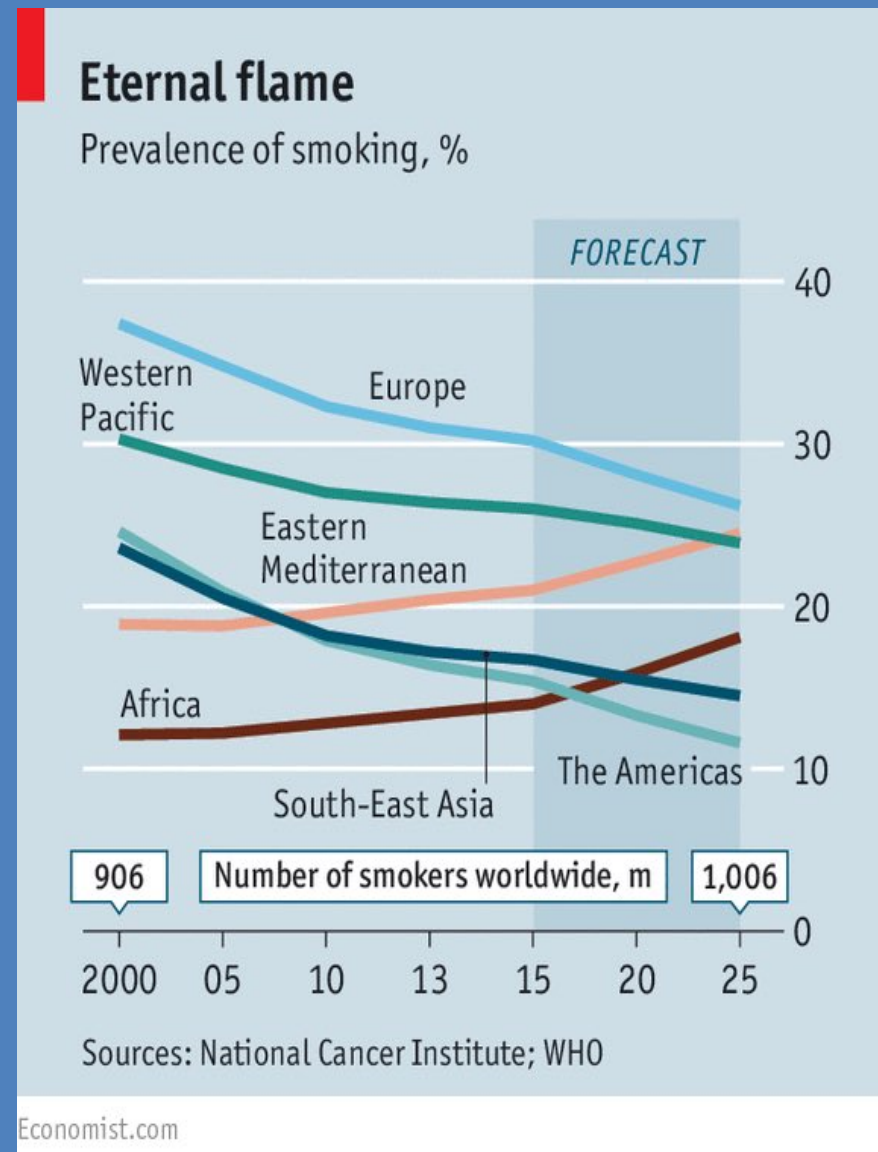
Beirut 8 November 2018

Legal cigarette sales:1980-2013

(source: Tobacco Atlas)



Less smokers except in Afro and Emro



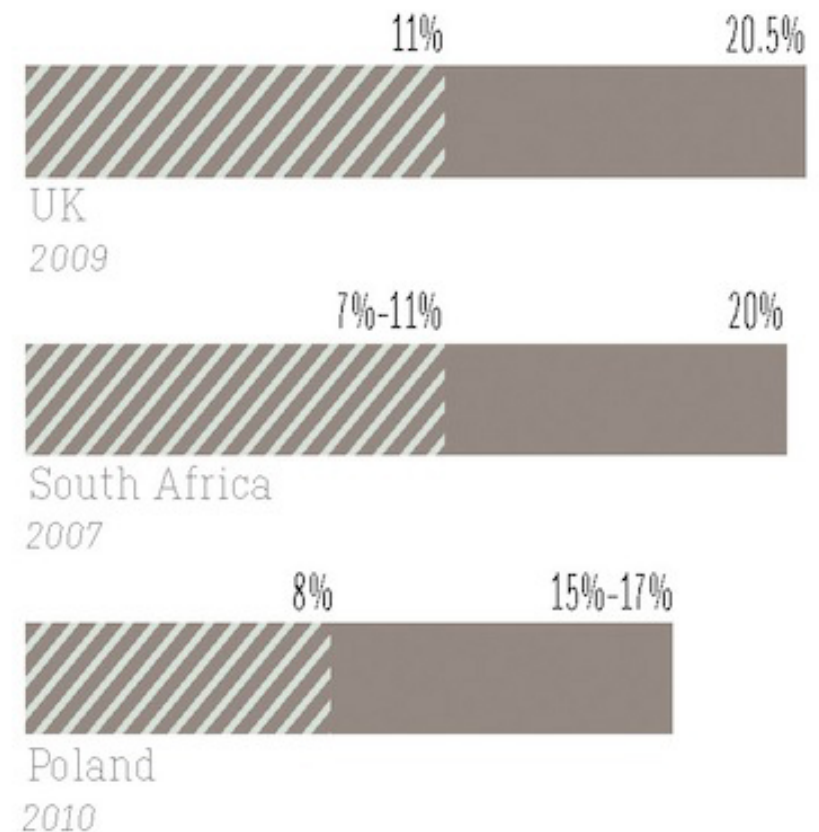
Illegal sales: Lack of reliable data

- It is estimated that one in every 10 cigarettes globally is illicit.
- Growing evidence that industry sponsored estimates are too high.
- Growing evidence that industry sponsored estimates use uncertain or unknown methodology

The Industry Tends to Exaggerate the Scope of Illicit Trade as a Counterargument Against Tobacco Control Measures

Estimates of illicit cigarette trade from the tobacco
industry vs. the estimates from academic studies

As a percent of total consumption



source: Tobacco Atlas, 4th edition; tobaccoatlas.org

Academic versus Industry estimates of the illicit cigarette market (%)

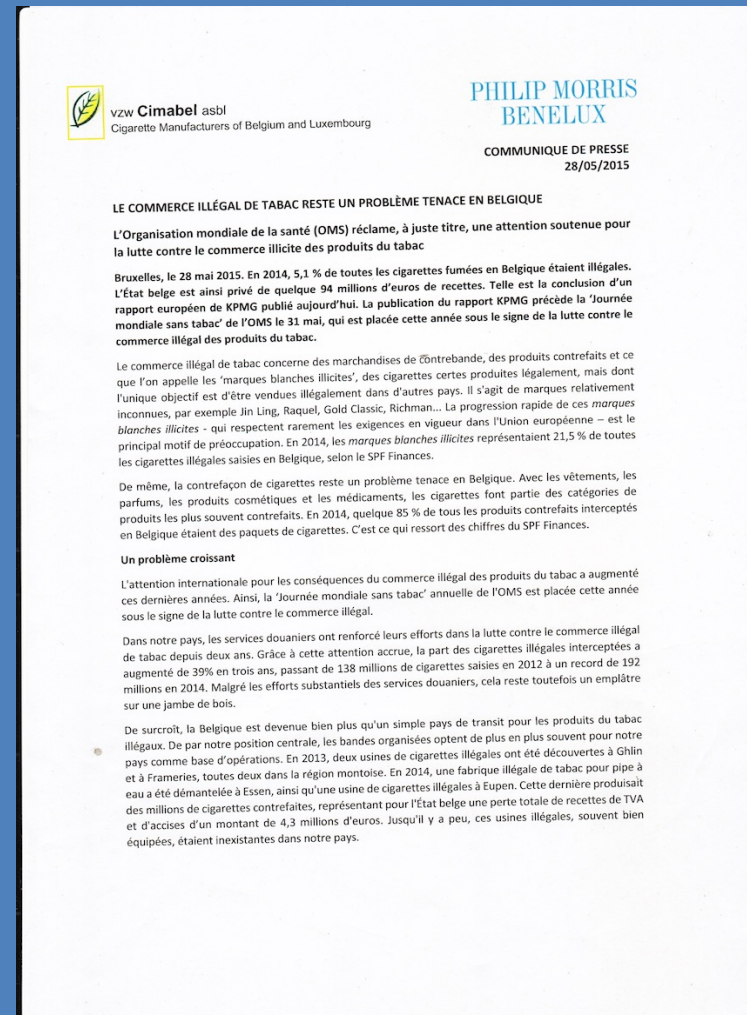
Country	Year	Academic %	Industry %
Hong Kong	2012	12	36
India	2016	3	20
Columbia	2016	3,5	20

Source: BMJ Tobacco
Control Journal

Industry data are always alarming

Press releases of the Belgian Tobacco Industry:

- 21/11/2012: Cigarette contraband, an increasing problem
- 2/2/2015: The illegal cigarette trade: an increasing problem.
- 28/5/2015: A persistent and increasing problem.



Tobacco industry data show a decrease of illicit trade in Belgium from 10% in 2009 to 5% in 2014.

According to their own data, Illicit trade is decreasing in 2014, but is still described as a growing problem.

2009	2010	2011	2012	2013	2014
9,9%	5,9%	5,9%	7,5%	7,6%	5,1%

The global illicit cigarette trade

- 11.6% of the global cigarette market is illicit
- The burden of illicit trade falls mainly on low and middle income countries

World Bank income group	Illicit market share	Revenue lost to government (US\$)
WORLD	11.6%	40.5 billion
High income	9.8%	17.6 billion
Low and middle income	12.1%	22.9 billion

Dollar Value of illicit markets

Cocaine Europe & N. America*	72 billion
Cigarettes**	40,5 billion
Heroin Europe*	33 billion
Counterfeit products Europe*	8,2 billion
Migrant smuggling Latin America*	6,6 billion
Illicit Timber South East Asia*	3,5 billion

Source: UNODC * and
Joossens, 2009**

Legal price and illicit trade (2007)

World Bank income group	Average legal price per pack (US\$)	Illicit market share
Low income	1.13	16.8%
Middle income	1.89	11.8%
High income	4.91	9.8%

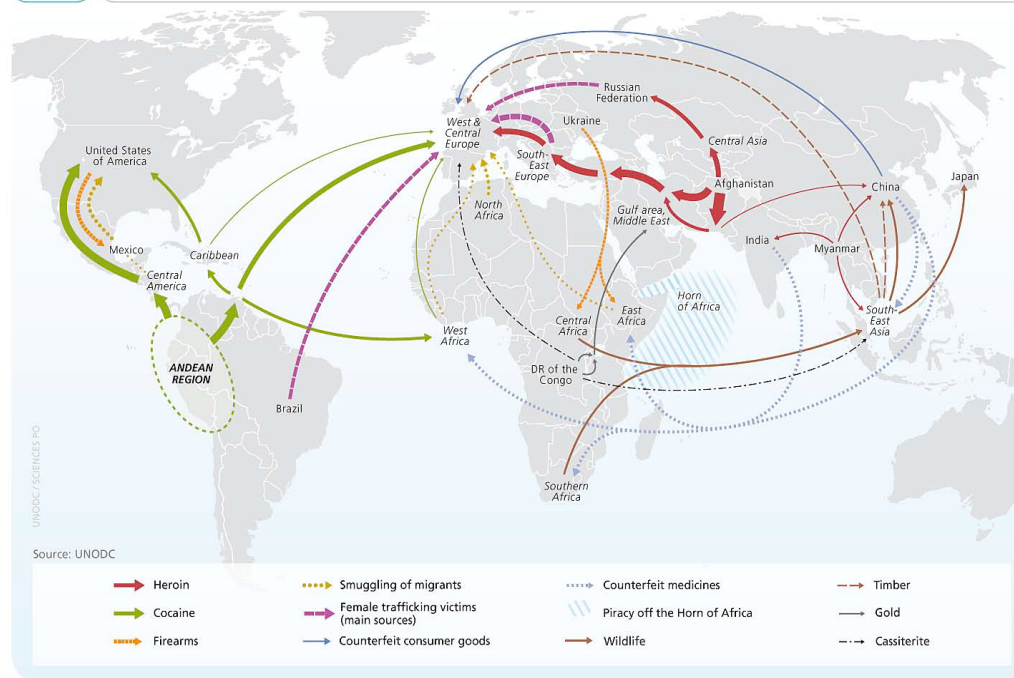
"The Globalization of Crime: A Transnational Organized Crime Threat Assessment"

This report by the United Nations Office on Drugs and Crime looks at major trafficking of products such as illicit drugs (cocaine and heroin), firearms, counterfeit products and stolen natural resources.

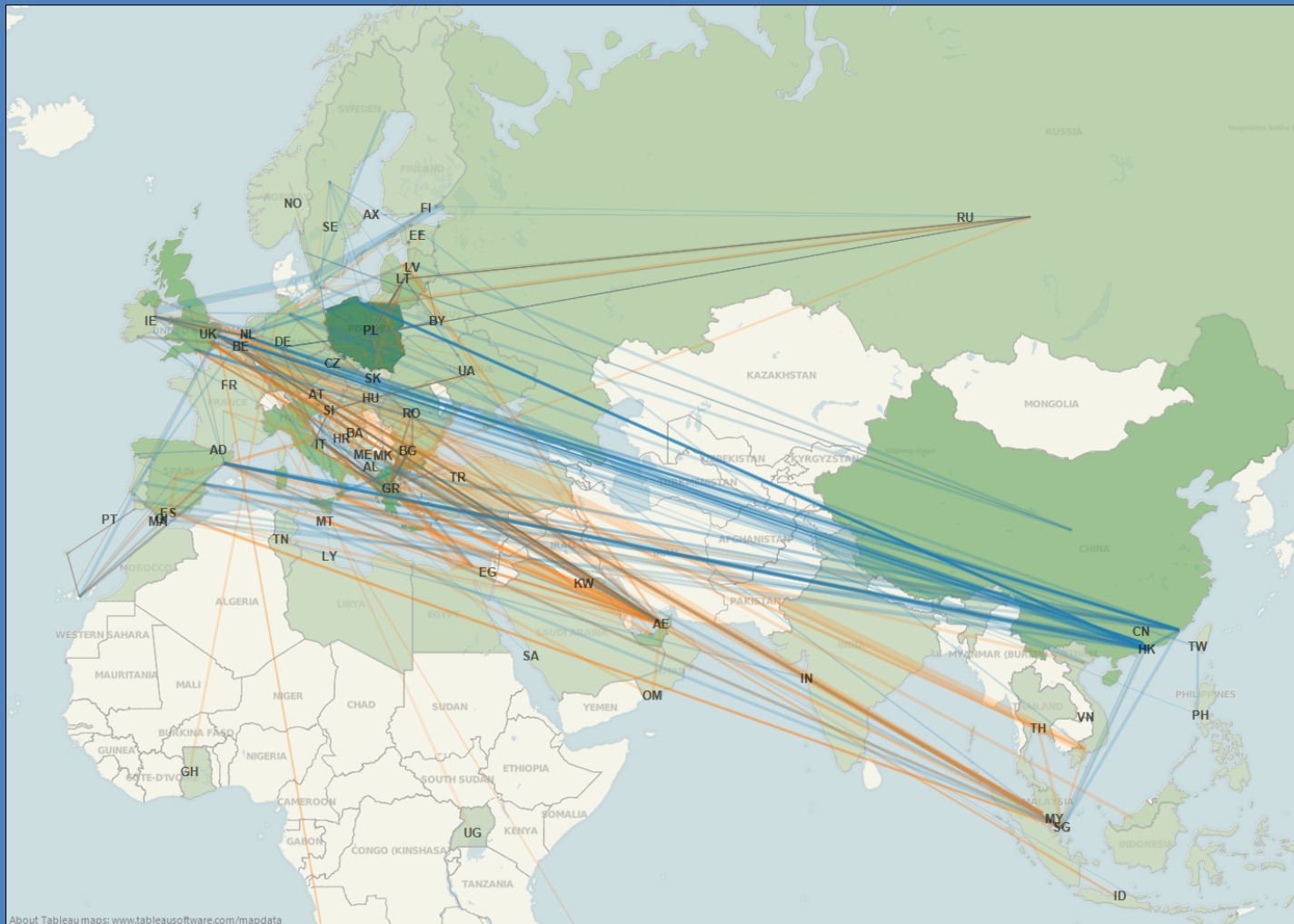
One of the main conclusions is that because transnational organized crime markets are global in scale, strategies to address them should also be global.

FIG. 1:

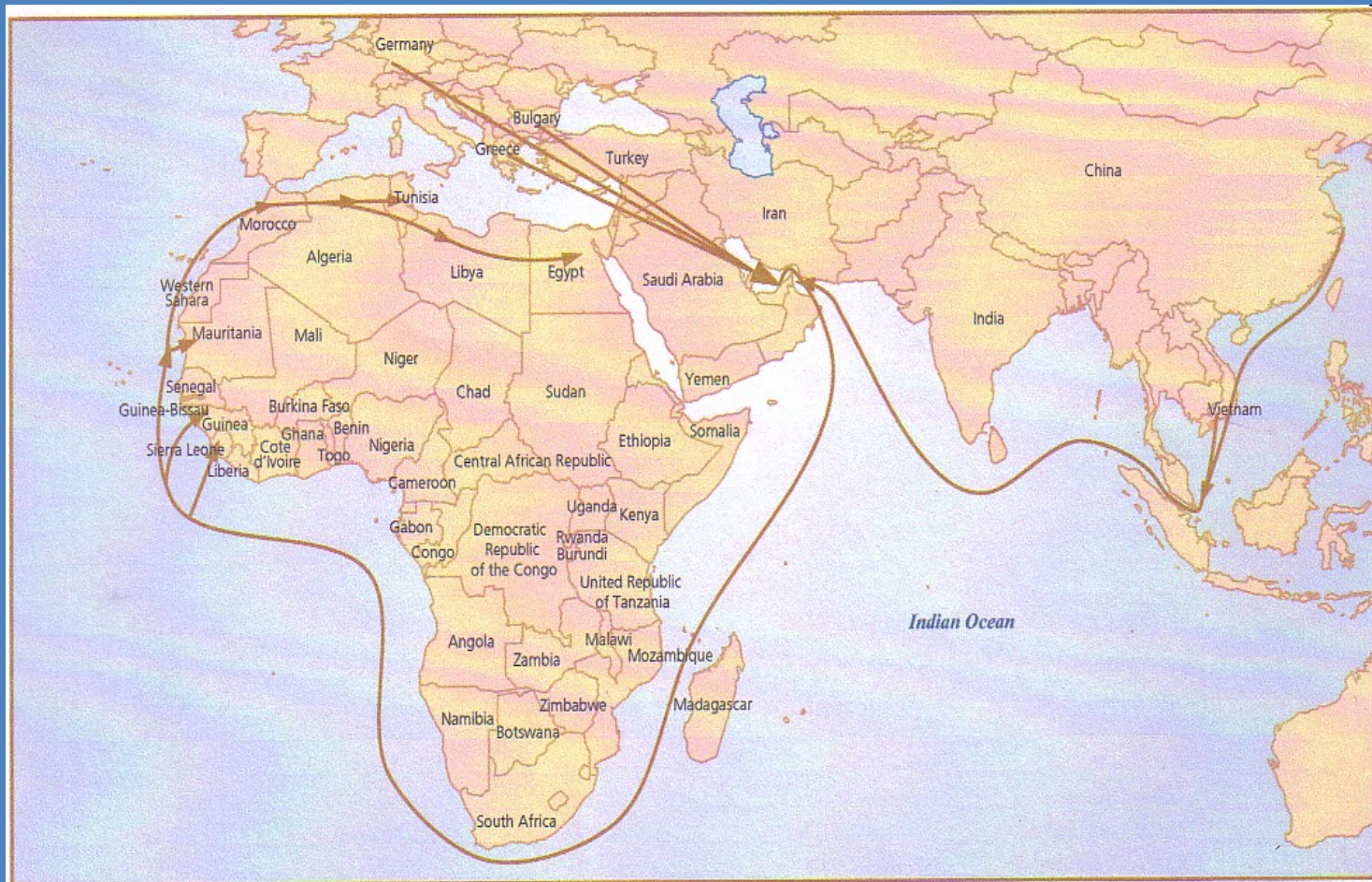
MAIN GLOBAL TRANSNATIONAL ORGANIZED CRIME FLOWS DISCUSSED IN THIS REPORT



Provenance of illegal cigarettes in the EU in 2010-11_(source: OLAF)

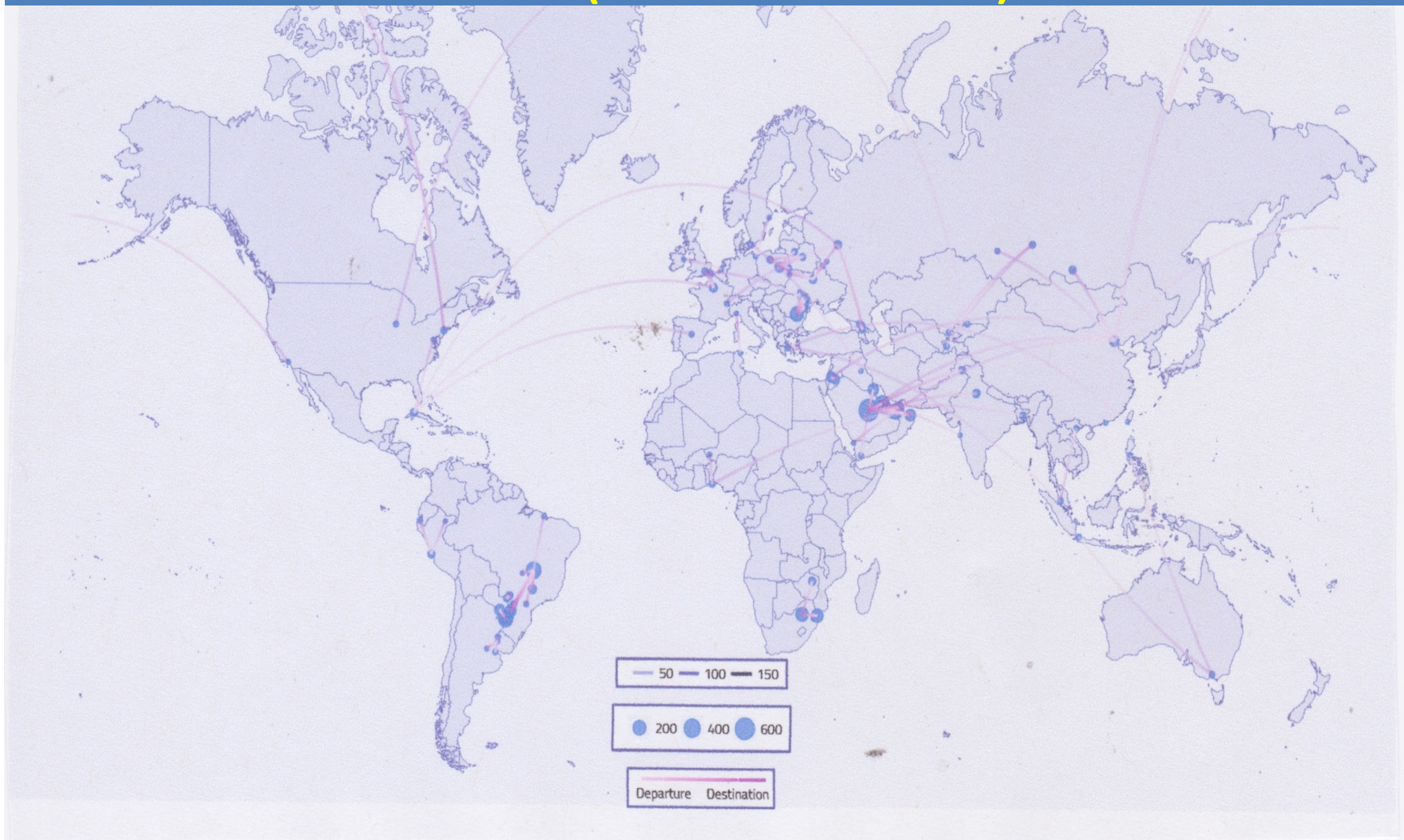


Cigarette smuggling routes to Africa



Source: UNODC 2009

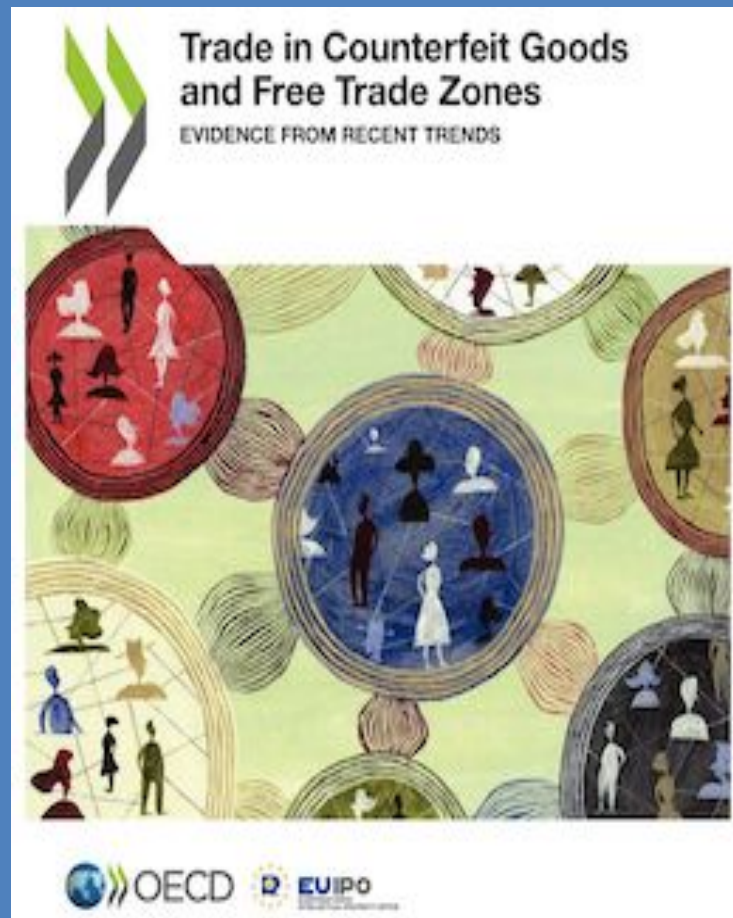
Illicit flows of tobacco products in 2016 (source WCO)



The modus operandi: disappearing containers during international transport.

- Containers often 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 with a cover load.
- Free zones may also have manufacturing facilities destined for the illegal cigarette market.
- Today, over 3,000 active free zones exist in 135 countries.

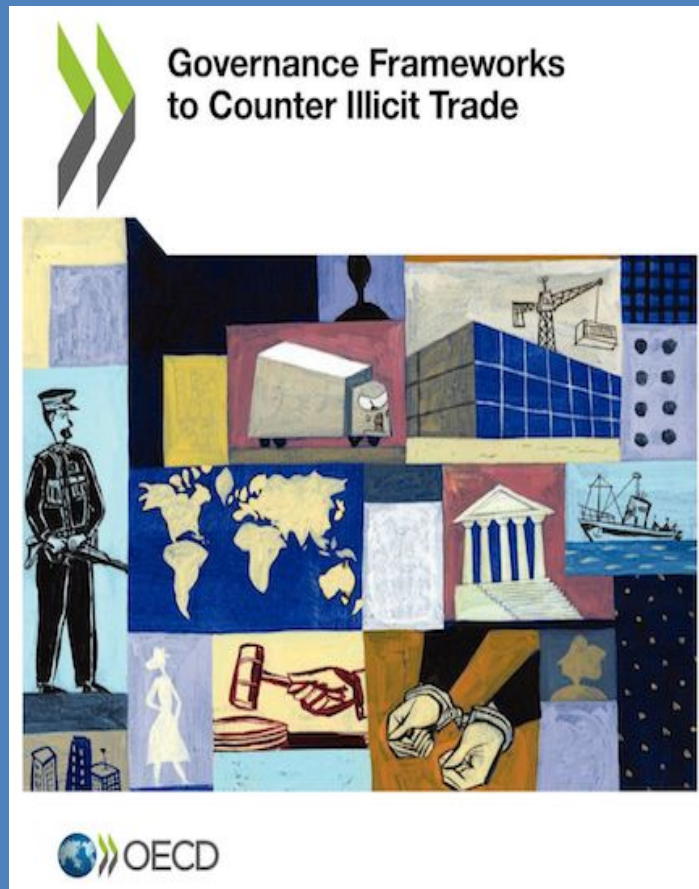
Free zones



“More effective actions and co-ordination at the national and international levels are urgently needed to ensure that free zones are not undermined by illicit activities.”

OECD, WCO, WTO,
INTERPOL, EUROPOL, OLAF,
UNODC, WHO. 2018

Free zones

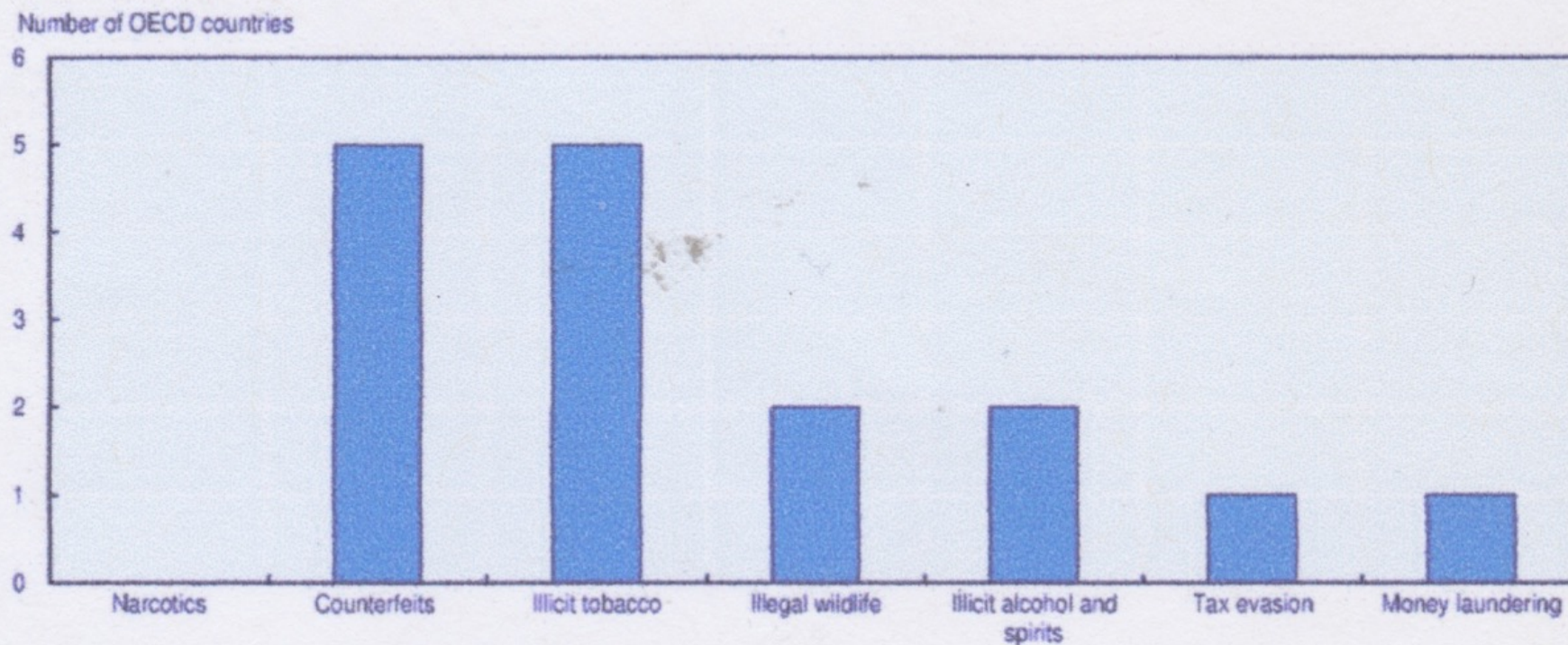


“Free zones can be used for the production and smuggling of “illicit whites”. Free zones in the UAE, such as Jebel Ali Free Zone become well known sources of illicit whites to authorities.” OECD, 2018

What are the identified forms of illicit trade in “high –risk” foreign free zones? N=10

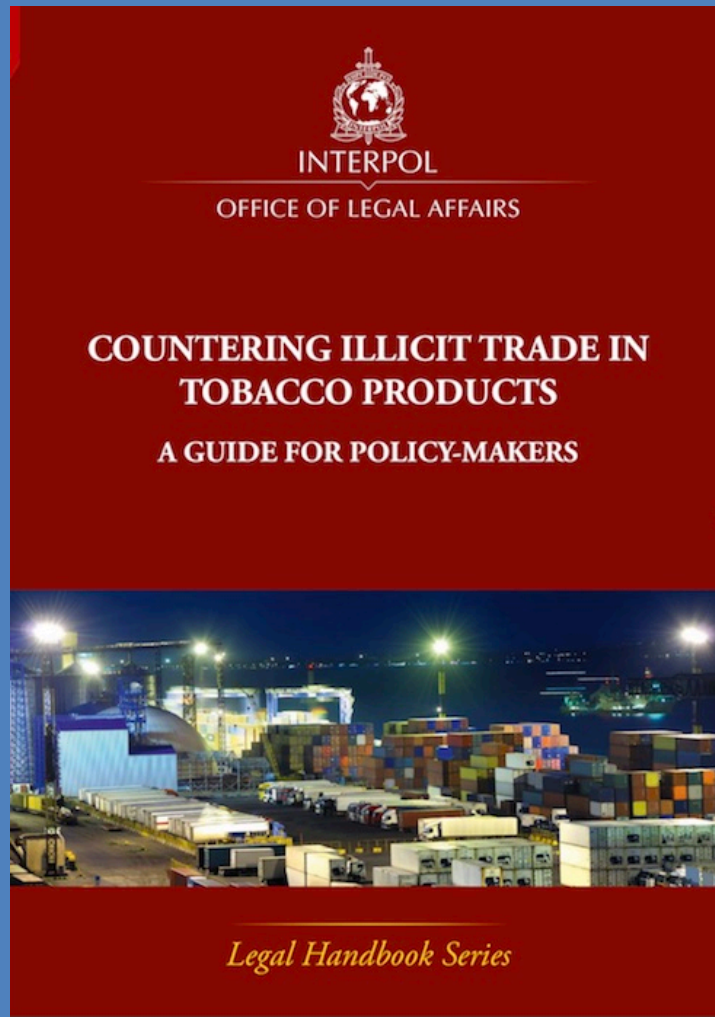
Figure 4.4. Illicit activities in foreign FTZs

Commonly identified illicit activities in foreign FTZs (by country responses).



Source: OECD Country Survey (2016) (see Box 1.1).

Interpol report 2014



Although created to improve and increase international commercial activities, free trade zones can be misused by criminal groups to traffic in goods, including alcohol, tobacco and energy products.

Most important cigarette seizure in 2016 (source : WCO)

- Jordan Customs reported the seizure at Aqaba seaport of 11 containers packed with 117 million cigarettes (a mix of different brands).
- The shipment was declared as coming from Germany, although other information suggested the routing was Jebel Ali – Germany – Aqaba.
- The bills of lading suggested the consignments were wood.

The three types of illicit cigarettes now.

- Illicit trade of well known cigarette brands (still ongoing)
- Illicit trade of new cigarette brands mainly destined for the illegal market (manufactured by legal companies)
- Illicit manufactured cigarette brands (including counterfeit cigarettes) (variable according to the regions)

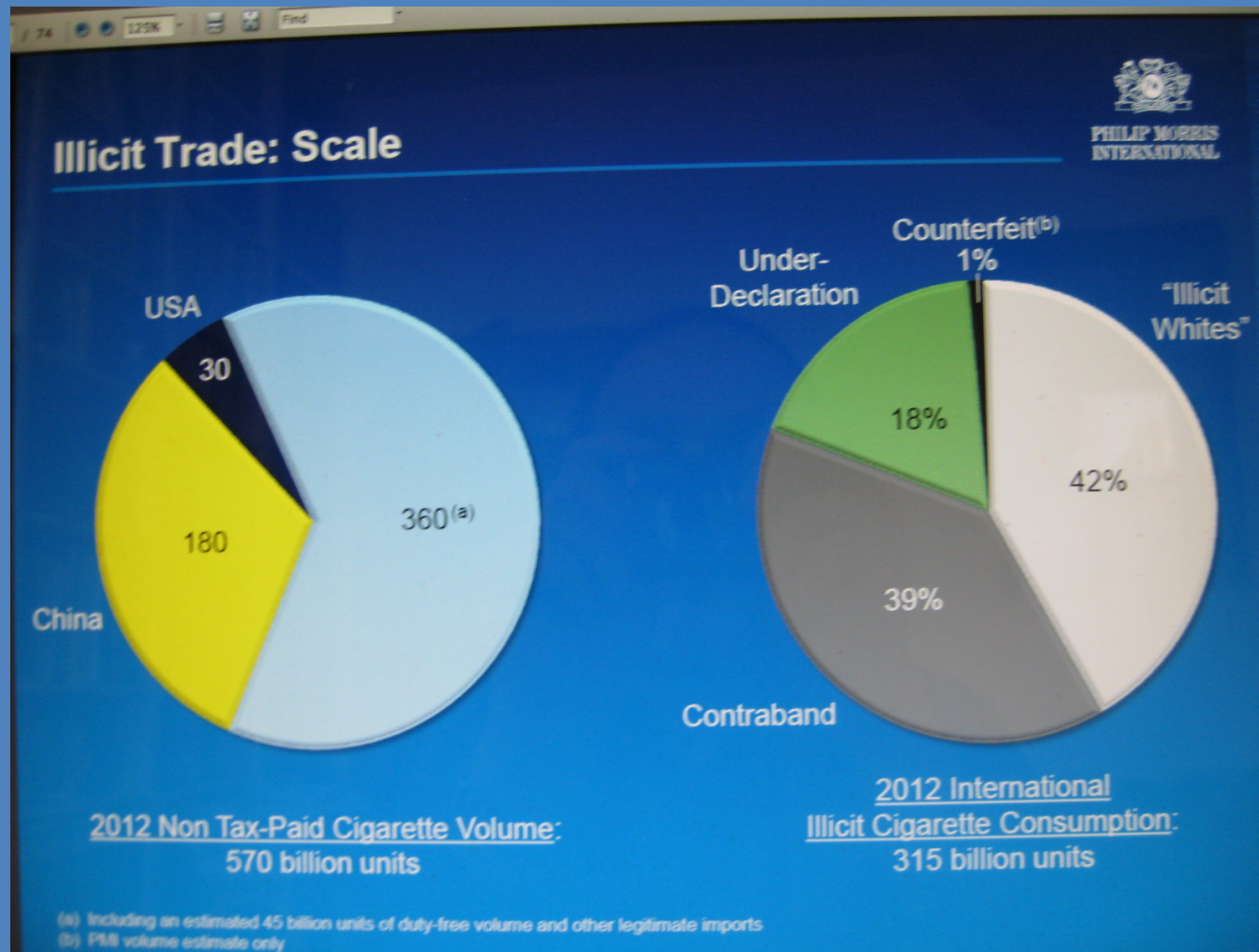
Illicit whites

Brands manufactured legitimately in one market, either taxed for local consumption or untaxed for export, and sold knowingly to traders who transport them to another country where the products are sold illegally without domestic duty paid.

(European commission, 2011)

CEO PMI Calantzopoulos 20/11/2013

New York



“The tobacco industry is complicit in illegal trade. Smuggling is one of its business strategies.”



The tobacco industry

- 50 years of experience in organising smuggling.
- More than 3 billion USD in payments and fines in EU and Canada to settle five smuggling lawsuits.
- Lawsuit against RJ Reynolds on smuggling charges involving Colombian and Russian crime syndicates.

TTC Internal Documents in Lebanon

“ Evidence of the complicity of Transnational Tobacco Companies (TTCs) in cigarette smuggling extends to Lebanon and the Middle East where this trade has especially benefited from weak governance and chronic political instability.”

Source: Nakkash R and Lee K, Tobacco control, 2008.

BAT internal Documents in Asia

“BAT documents demonstrate the strategic importance of smuggling across global, regional, national, and local levels. Particularly important in Asia, contraband enabled access to closed markets, created pressure for market opening, and was highly profitable.”

Source: Collin J and al, Tobacco control, 2004.

JTI has been accused in November 2011 of
orchestrating cigarette smuggling

“A subsidiary of Japanese Tobacco Inc (JTI) has been accused of smuggling cigarettes from Cyprus into Syria. 450 000 cartons of cigarettes were allegedly sold to the brother of Syrian President Bashar al-Assad.”

Source: Organized Crime and Corruption Reporting Project (OCCRP)

The Illicit Tobacco Trade Globally

Illicit trade is a global problem, which needs a global solution through the WHO FCTC Illicit Trade Protocol

- Tougher supply chain controls
- Tougher enforcement
- Greater international cooperation

The SWOT analysis of the Illicit Trade Protocol (ITP)

Strenght : international collaboration is effective to combat illicit trade.

Weakness : lack of expertise of health officials and fear of the implementation costs.

Opportunity : cigarette traceability will be obligatory in all ITP Parties in 2023.

Threat : the tobacco industry is proposing their own traceability system which they control.

The strategy of the Industry towards illicit tobacco trade

Use the illicit trade argument to attack

- high taxes and
- tobacco regulation

JTI-Macdonald ad in Canada

(September 2016)

“Plain packaging makes cigarettes easier to counterfeit.”



Plain packaging is loaded in favour of criminals.

Plain packaging makes cigarettes easier to counterfeit. In Australia, illegal cigarettes grew 21% after the policy was introduced. According to the RCMP, sales of illegal cigarettes are funding criminal gangs in our neighbourhoods.

Does that seem right to you?
Check out BothSidesoftheArgument.ca

(Source: KPMG 2015/16.) This is a JTI-Macdonald Corp. initiative.

The UK independent Review undertaken by Sir Cyril Chantler, April 2014.

The Chantler review identified that in Australia “hardly any counterfeit standardised packages have been found to date”.

Furthermore, a representative of one of the tobacco manufacturers informed Sir Cyril’s team that his company had seen a reduction in counterfeit product following the introduction of standardised packaging in Australia.

HM Customs and Revenue report (Aug. 2014)

“The conclusion of the HM Customs and Revenue was that there was no evidence to suggest that the introduction of standardised packaging would have a significant impact on the size of the illicit market.”

UK High Court decision on standardised packaging (May 2016)

The KPMG report indicates a rise of the illicit market in Australia. However, this report is funded by the tobacco companies and KPMG itself has said that it is a misinterpretation to suggest that it supports the contention that plain paper packaging could lead of itself to an increase of tobacco smuggling.

Conclusions

- One in every 10 cigarettes globally is illicit.
- Don't rely on tobacco industry estimates.
- Illicit trade is a global problem which needs a global solution.
- The WHO FCTC Illicit trade protocol might help.
- More international action is urgently needed to ensure that free zones are not undermined by illicit activities.