



**BRITISH AMERICAN  
TOBACCO**

## **Cigarette smuggling in the EU: a social evil**

*When consumers light up smuggled or counterfeit cigarettes, keen to save money, they may be unwittingly helping to fund international organised crime and terrorists. We fully support regulators, governments and international organisations such as the World Customs Organisation, the World Trade Organisation, World Health Organisation and European Union in seeking to eliminate all forms of illicit tobacco trade everywhere.*

### **Scale of the problem**

The illicit tobacco trade in the EU is huge and is run by serious organised crime rings. With 10% of the market in the EU, organised crime groups illegally sell 65 billion cigarettes a year, making a profit of up to €5 billion. A number of law enforcement agencies and European national governments believe that organised criminal gangs use the proceeds from illicit tobacco to fund the trafficking of drugs, weapons and also human beings.

### **Financial and social impacts**

Where serious organised crime gains, EU governments and taxpayers lose at a time of economic crisis in Europe. Official figures estimate that cigarette smuggling cost the 27 EU Member State governments over €11 billion in tax revenues in 2011 alone.

Nor are the effects only financial. These days cigarette smuggling is not just a couple of extra cartons in a holiday-maker's suitcase. It is a large-scale criminal activity funding drugs rings, arms trading, people-trafficking and prostitution rackets. Ordinary people are co-erced into becoming involved in criminal activity and illicit cigarette traders often use children as 'runners' to avoid prosecution.

Criminals who sell illicit tobacco are unscrupulous about both the quality of their products and to whom they sell them; thus potentially undermining public health objectives. Criminals

will sell products that do not meet EU standards for tar and nicotine levels. They will sell to underage people. And counterfeit cigarettes are made in unregulated conditions to poor quality standards and often contain unwanted content, such as rat faeces.

The growth of trade in illicit tobacco threatens the livelihoods of legitimate retailers, whose shops lie at the heart of communities. Legitimate retailers lose out twice when people buy illicit cigarettes; firstly through the lost profit on tobacco but also on the lost sales of other goods to the smokers who don't shop there anymore.

The illegal trade in cigarettes is attractive to criminals, not solely because of the huge potential for profit. The available penalties for cigarette smuggling are often light, particularly compared to those for smuggling drugs and other controlled goods and are frequently not fully imposed by judges.

### **Why is this happening?**

#### **High profits**

The black market in cigarettes is driven by large differentials in tobacco taxes and therefore prices in neighbouring countries. In Ukraine, for example, a pack of cigarettes can be bought legally - with all local taxes paid - for €1.33. The same brand would retail in Poland for €3.41, in Germany for €5.26 and in Ireland for €9.30. Consequently, the financial rewards for smuggling can be huge. A single 40 foot long container (8.5 million cigarettes) smuggled into the UK and sold at half the recommended retail price - by avoiding local UK taxes - could net criminals over €1 million in profit.

#### **Low risks**

Since penalties and sentences for tobacco smuggling are frequently much lighter than those for smuggling drugs and other goods, criminals see it as a soft and easy option. In some EU countries, cigarette smuggling is not even a criminal offence and in others the penalties are so low as to be meaningless.

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### **Limited resources**

The resources of customs, border control and law enforcement authorities are stretched as never before and challenged to deal with the increasing flow of smuggled goods.

### **Why does BAT care?**

Overall, cigarette smuggling into the EU costs the tobacco industry around €1 billion per year. The profit on a pack of cigarettes sold legally in an Eastern European country such as Ukraine or Moldova is significantly less than that on a pack of the same brand sold legally - with all taxes paid – in any EU member state. And counterfeit or ‘illicit white’ cigarettes are in direct, illegal competition with our products.

Our business is also damaged by the erosion of consumer confidence that arises from our brands and high-quality products being traded at low prices in illegitimate places of sale.

### **What is BAT doing?**

BAT is committed to ensure that its own systems are designed to minimise the potential for illicit trade and that its suppliers and customers comply with stringent requirements in support of this. It also actively supports competent authorities in their efforts to counter illicit trade. Measures we are taking include: introducing a ‘track and trace’ system which can track every carton from manufacture until it leaves BAT’s hands; destroying redundant machinery to ensure that illegal manufacturers can’t obtain and use it; resourcing an Anti-Illicit Trade Intelligence Unit which works with law enforcement agencies worldwide to share intelligence & analyse suspected counterfeit products and supporting international organisations which work to combat illegal trade and counterfeiting of branded goods.

We have a Cooperation Agreement with the European Commission and the Member States of the European Union to collectively tackle the problem of illicit trade in tobacco and have signed

Memoranda of Understanding and industry agreements with Customs authorities in 35 countries to tackle illicit trade.

### **How can EU policy help?**

#### **More cross-border co-operation**

Serious organised crime and cigarette smuggling is international or global in nature and knows no borders. Working alone, national authorities are simply not equipped to deal effectively with the phenomenon. Joint operations between EU agencies such as OLAF, Europol, Frontex and Eurojust have delivered some spectacular successes and more such co-operation is needed. Swift ratification and thorough implementation by the EU of the World Health Organisation’s recently adopted Anti Illicit Trade Protocol is vital. Extension of the EU’s internal security policy priorities to include all forms of cigarette smuggling – and not just in containers – would also promote more effective cross-border countermeasures.

#### **More and much tougher sanctions**

In many EU Member States, the penalties for cigarette smuggling are too low and are simply not dissuasive to criminals. Adoption of two proposed EU directives could help if applied to cigarette smuggling. The directive on protection of the EU’s financial interests (COM 2012/363) would introduce meaningful minimum and maximum prison sentences. The directive on the freezing and confiscation of proceeds of crime in the European Union would hit cigarette smugglers where it hurts most – in their pockets.

#### **More pressure on source countries**

Two out of three cigarettes smuggled into the EU are bought by criminals legally – with all taxes paid - in 3<sup>rd</sup> countries on the EU’s Eastern border. Many of these countries are seeking favourable terms with the EU in association agreements and in customs and trade treaties. EU insistence on binding conditions in such agreements obliging 3<sup>rd</sup> countries to combat cigarette smuggling could help greatly in tackling the problem at source.

## European institutional stakeholders say:



“Estimates show that in some of the border countries of the EU, up to half the cigarettes smoked are contraband. Smugglers of tobacco, alcohol, fuel and other goods make incredible profits at the expense of honest tax payers. In addition, it is widely known that smuggled goods – in particular tobacco products - are transiting and finally reaching Western markets.” [Algirdas Šemeta, EU Commissioner for Taxation and Customs Union, [Speech](#) delivered to a High Level Seminar on Customs Co-operation and Controls at the External Borders of the EU, 14 April 2011]



“Tobacco smuggling is organised fraud on a global scale. It brings criminality into our communities and robs millions of euro from the State each year.” [Liam Irwin, Revenue Commissioner (Ireland), [Comments](#), 12 August 2012]



“The smuggling of foreign tobacco has now taken on transnational dimensions and represents a phenomenon of great danger ‘social, economic, financial and tax able to subtract huge resources to the national budget and the European Union and to finance the activities in a relevant way ‘of criminal organizations, because of the enormous profits that can accrue.” [Lieutenant Colonel Fabrizio Pisanelli from the Financial Police (Italy), [Interview](#) translated from Italian by the Center for Regulatory Effectiveness, 28 September 2011]



“One of the less obvious but more serious impacts of cigarette smuggling is that it is almost exclusively the domain of organised crime groups who are making substantial financial gains from their illegal activities. As cases show, these groups operate internationally and are often involved in other types of serious organised crime. Cigarette smuggling thus impacts significantly on the economic prosperity, health and public order of our communities.” [European Commission, [Anti-fraud strategy: Action plan to fight against smuggling of cigarettes and alcohol along the EU Eastern border](#), 24 June 2011]



“A lot of people perceive this as a ‘Robin Hood’ type of fraud and that the ordinary person in the street, who has a lot less money these days, is gaining the benefit,” said Austin Rowan, head of the unit responsible for cigarette smuggling at OLAF. “But this trade is financing organizations that are involved in other activities including drugs smuggling.” [Austin Rowan, Head of Unit, Task Group Cigarettes, European Anti-Fraud Office (OLAF), [Comments](#), 11 July 2012]



“There were also several reports in 2011 of migrants being smuggled together with cigarettes on the Eastern Mediterranean land route.... According to the Turkish media, a Turkish registered lorry was stopped by the police en route from Dogubeyazit (near the Iranian border) to Istanbul. In the lorry, the police found not only 53 migrants (Pakistanis and Afghans) but also approximately 2.5 million illegal cigarettes in a hidden compartment... either two different criminal networks are cooperating to use the same transportation logistics in Turkey, or a single facilitation network is dealing with both the smuggling of cigarettes and the facilitation of migrants.” [Frontex, [Annual Risk Analysis 2012](#), April 2012]



“The [700-meter-long cigarette smuggling] tunnel was equipped with a railway cart to transport all kinds of goods and possibly humans.” [Interior Minister of the Slovak Republic, Robert Kaliňák, [Press Conference](#), 19 July 2012]



“The trade in illicit tobacco is not a victimless crime. Those who are involved are very often also responsible for other forms of serious organised crime, such as drug dealing, money laundering and human trafficking. The commodity is not important, so long as it generates profits. The money raised from this trade is benefiting no-one other than the criminals, many of whom live lavish lifestyles funded by their illegal activities.” [Detective Chief Inspector Ronnie Megaughin, Head of the Scottish Crime and Drug Enforcement Agency (SCDEA) interventions unit, [Comments](#), July 10 2012]



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"This happens, for example, in ships on the Danube or trucks. A small tip might ensure that the lorry driver is not having a closer look at what is carried on his truck. In the medium term he will depend on this additional, but illegal income and will become vulnerable for blackmail. Next time he will then perhaps not only transport cigarettes, but also drugs or people. This is how criminals build up "solid" networks." [Maximilian Burger Scheidlin, CEO of the International Chamber of Commerce in Austria, [Interview](#), February 2011]



"The scheme of contraband is like a spider where in the centre there are the organised crime groups that are responsible for absolute majority of fuel and cigarette contraband in the country. According to the information provided by the customs, there are 25 such groups operating in Latvia." [Ainārs Latkovskis, Chairman of the Defence, Internal Affairs and Corruption Prevention Committee of the Saeima (Parliament of the Republic of Latvia), [Comments](#) translated, 20 July 2011]



"It's costing the British taxpayer around £2 billion a year in lost revenue and has a devastating impact on honest retailers having to compete with the black market." (Adrian Farley, Assistant Director of Criminal Investigation for HMRC, [Comments](#), 11 September 2012)



"As well as causing huge financial losses, the illegal trade in tobacco undermines public health initiatives to curb tobacco consumption by making cheap cigarettes available in an unregulated environment where they may be sold to vulnerable groups such as minors. In addition the illegal trade in tobacco harms the interests of legitimate businesses throughout the supply chain, particularly tobacco manufacturers and retailers." [European Commission, [FAQs on contraband and counterfeit cigarettes](#), 15 July 2010]

 "Cheaper and smuggled products also constitute a marked threat to EU efforts on tobacco control, and by extension the objective of reducing consumption." [EUROPOL, [EU Organised Crime Threat Assessment 2011](#), 15 June 2011]



"Most people buying cheap cigarettes are unlikely to realise they are buying counterfeits, which provide a whole new set of risks to smokers. Tests on previous counterfeit hauls have revealed the cigarettes contained up to 60 per cent more tar, 80 per cent more nicotine, and 133 percent more carbon monoxide. In addition research has shown counterfeit cigarettes can contain three times the levels of arsenic, five times the level of cadmium and nearly six times the level of lead found in genuine brands. They have also been found to contain rat droppings, camel dung, sawdust and tobacco beetles." [HM Revenue & Customs (UK), [Briefing](#) for the media, 2008]



"It is not only the customs and excise fees smugglers cheat on, but also with the quality of these products: border police have found cigarettes containing different kinds of plants or bird excrement." [Attila Siller, Spokesperson for the National Tax and Customs' duties and excise (Hungary), [Comments](#) translated from Hungarian, 17 May 2007].



**EUROPOL** "Organised crime groups based in the EU are increasingly active in cigarette smuggling, seen as an attractive alternative to drug trafficking because of its lower penalties and large profits." [EUROPOL, [EU Organised Crime Threat Assessment](#), May 2011]



"The smuggling of tobacco products is one of the most profitable types of smuggling. It has been estimated that the profit gained upon acquiring legally produced tobacco in the third countries and upon selling them illegally in the black market of the European Union states amounts to 1000 percent." [Customs of the Republic of Lithuania, [news item](#), 19 January 2012]



**FRONTEX** "Price differential remains the most important driver for smuggling tobacco and petrol products through the common borders." [Frontex, [Eastern Borders - Annual Overview 2012](#), July 2012]