

ILLEGAL CIGARETTES

"A leading international tobacco company sold large quantities of duty-not-paid cigarettes, worth billions and billions of dollars, with the knowledge that those cigarettes would be smuggled into China and other parts of the world. . . . In my view, the tobacco companies were clearly putting their commercial interests above whatever moral duty they may have towards our society and to some extent such irresponsible behavior amounted to assisting criminals in transnational crime."

—JUSTICE WALLY YEUNG CHUN-KUEN, HONG KONG COURT OF APPEAL OF THE HIGH COURT, 1998

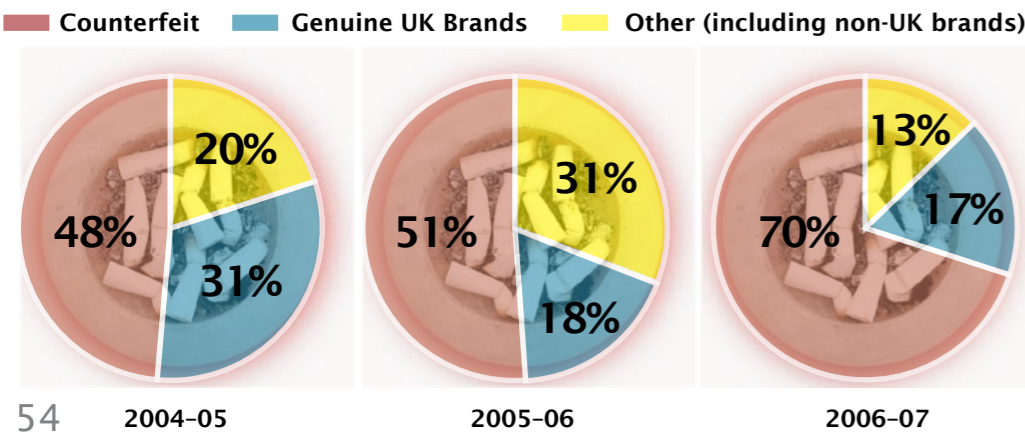
Cigarettes are the world's most widely smuggled legal consumer product. In 2006, contraband cigarettes accounted for 11 percent of global cigarette sales, or about 600 billion cigarettes. For years, the tobacco industry claimed that high cigarette taxes encouraged smuggling from low tax jurisdictions. However, documents uncovered during recent lawsuits confirm that the tobacco industry itself is responsible or involved in many large-scale cigarette smuggling operations worldwide.

Cigarette smuggling undermines public health efforts to reduce tobacco use by making international brands more affordable to low-income consumers and to youth, thus stimulating consumption. In addition, illicit products often fail to comply with health warning requirements and often violate youth access laws due to informal and underground distribution networks. Illicit trade also deprives governments of billions of dollars in annual tax revenue needed for tobacco control and to treat tobacco-related diseases. Illicit trade deprives governments of US\$40–50 billion in tax revenue each year. This revenue is siphoned by organized crime networks and the tobacco companies themselves, assisting in greater sales volume and higher profit margins. Tobacco companies also smuggle cigarettes to launch new brands, enter new markets, and fight price wars with competitors.

Article 15 of the WHO Framework Convention on Tobacco Control addresses the illicit trade problem and is the basis for a new international protocol to control cigarette smuggling formulated by the parties to the Convention.

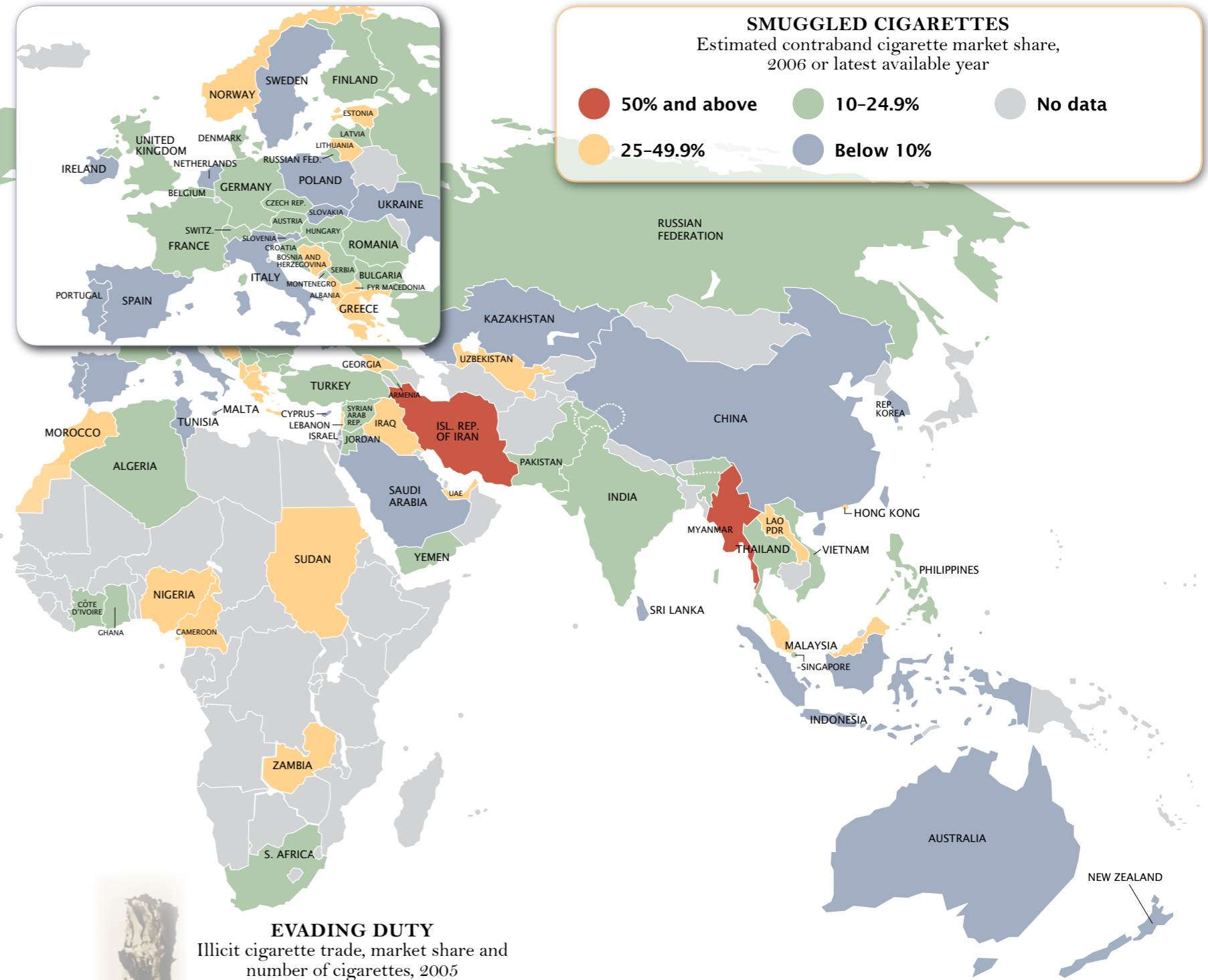
! IN 2008, Canada's two largest tobacco companies paid US\$1.12 billion in fines and penalties for smuggling cigarettes, the largest fines ever levied in Canada.

SEIZURES OF CIGARETTES IN THE UNITED KINGDOM BY TYPE, 2002–2007



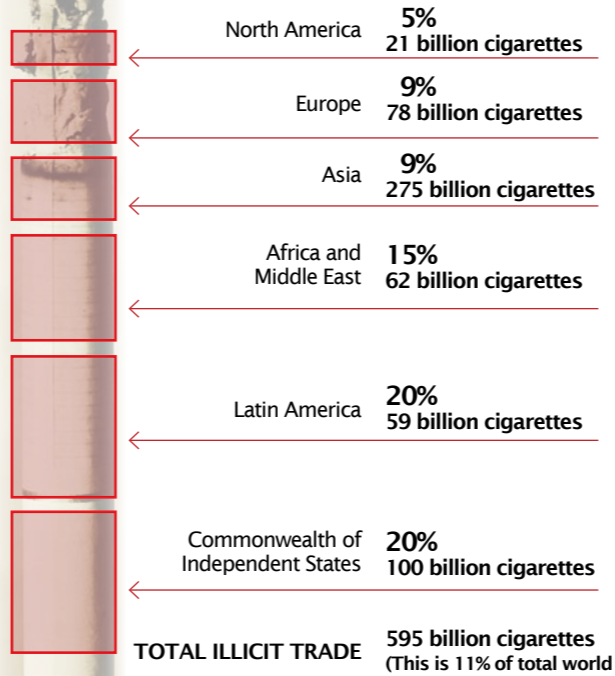
RECOMMENDATIONS TO CONTROL CIGARETTE SMUGGLING, FRAMEWORK CONVENTION ALLIANCE, 2007

- Track and trace tobacco products to identify points of diversion to illicit markets
- Require that cigarette manufacturers control their distribution chain, with serious penalties and tax liabilities for failure to do so
- License and monitor tobacco product supply and distribution chain personnel
- Enhance law enforcement and international cooperation to investigate and prosecute illicit trade



EVADING DUTY

Illicit cigarette trade, market share and number of cigarettes, 2005



SEIZURES OF ILLICIT SHIPMENTS EXCEEDING 100,000 CIGARETTES

By region, 2006

