

# ***“Industry Perspective - Illicit Tobacco Trade and How to Tackle It”***

*WCO Knowledge Academy*

*Brussels*


*3 July 2014*



# **Industry Perspective – illicit tobacco trade and how to tackle it**



## **Agenda**

- 1. Extent, nature, impact and trends in illicit trade**
  - 2. What industry is doing internally to ensure product is tax/duty paid**
  - 3. How the industry can/wants to work with authorities to curb illicit trade**
  - 4. What industry would like authorities to do/improve in minimising illicit trade**
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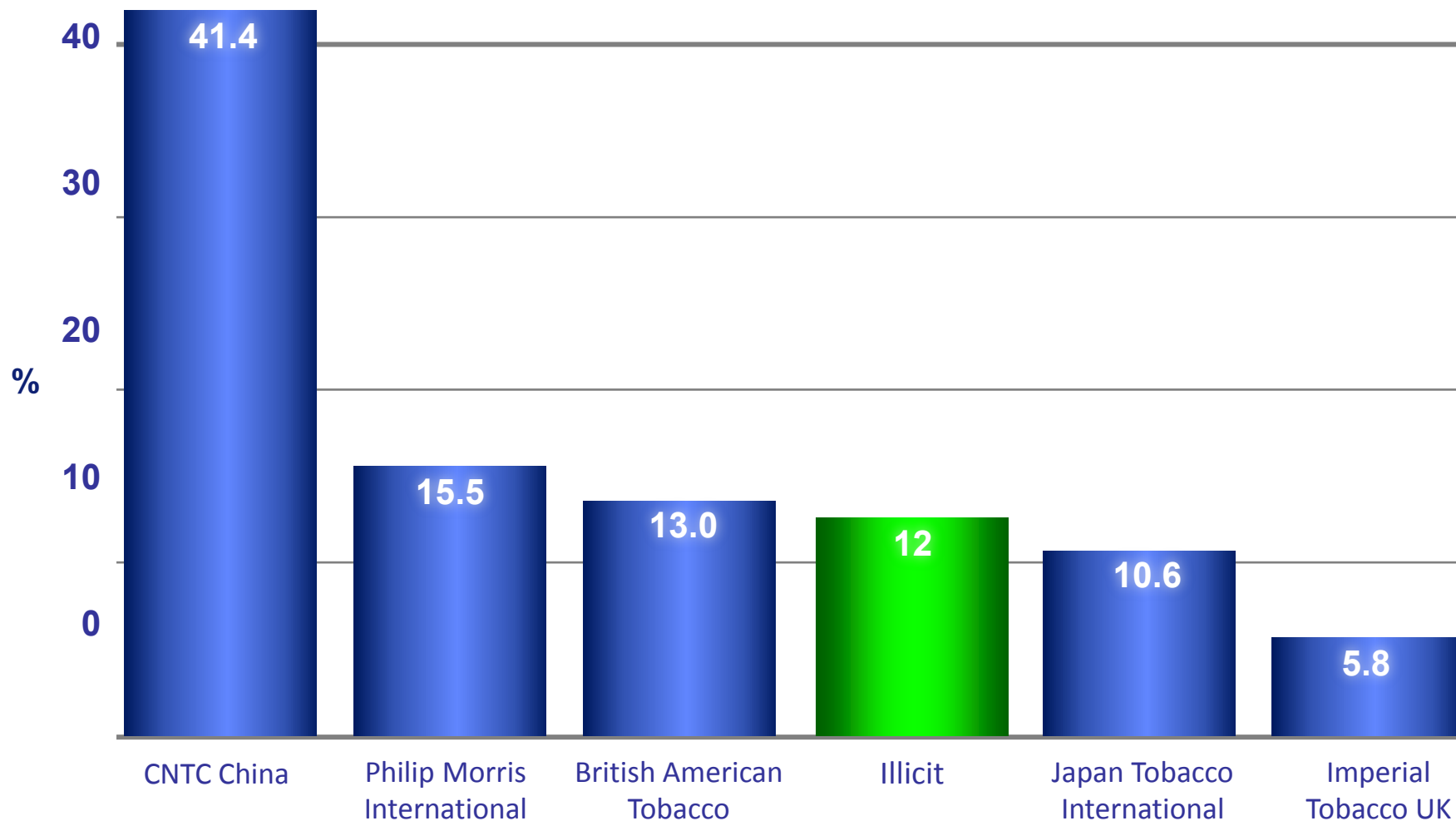
## Extent - the global Illicit trade problem

With **60% – 80%** of the average price of one pack of cigarettes being tax, there is great incentive for criminals and organised crime to want to exploit the opportunity of evading it...



- Some **330 - 660 billion** cigarettes consumed each year are illicit – either smuggled, counterfeit or locally tax evaded
- Equivalent to **6% – 12%** of world cigarette consumption
- **Governments** globally **losing** some **US\$20 – \$40 billion a year** in tobacco taxes
- Legitimate tobacco companies' revenue loss = **US\$5 – \$10 billion year**

## Nature - global market share (%) of major players



## Impact - Why should we care about Illicit Trade?

### If you are government:

- It undermines the tax base
- It undermines government health and fiscal objectives
- It exposes consumers to unregulated product
- It encourages widespread criminality
- It stifles innovation

### If you are the business sector:

- It disrupts the market for suppliers, distributors & retailers
- It undermines investment in distribution networks
- It damages brand equity
- It fosters counterfeit production
- It undermines industry reputation

### If you are an ordinary citizen:

- It funds organised crime



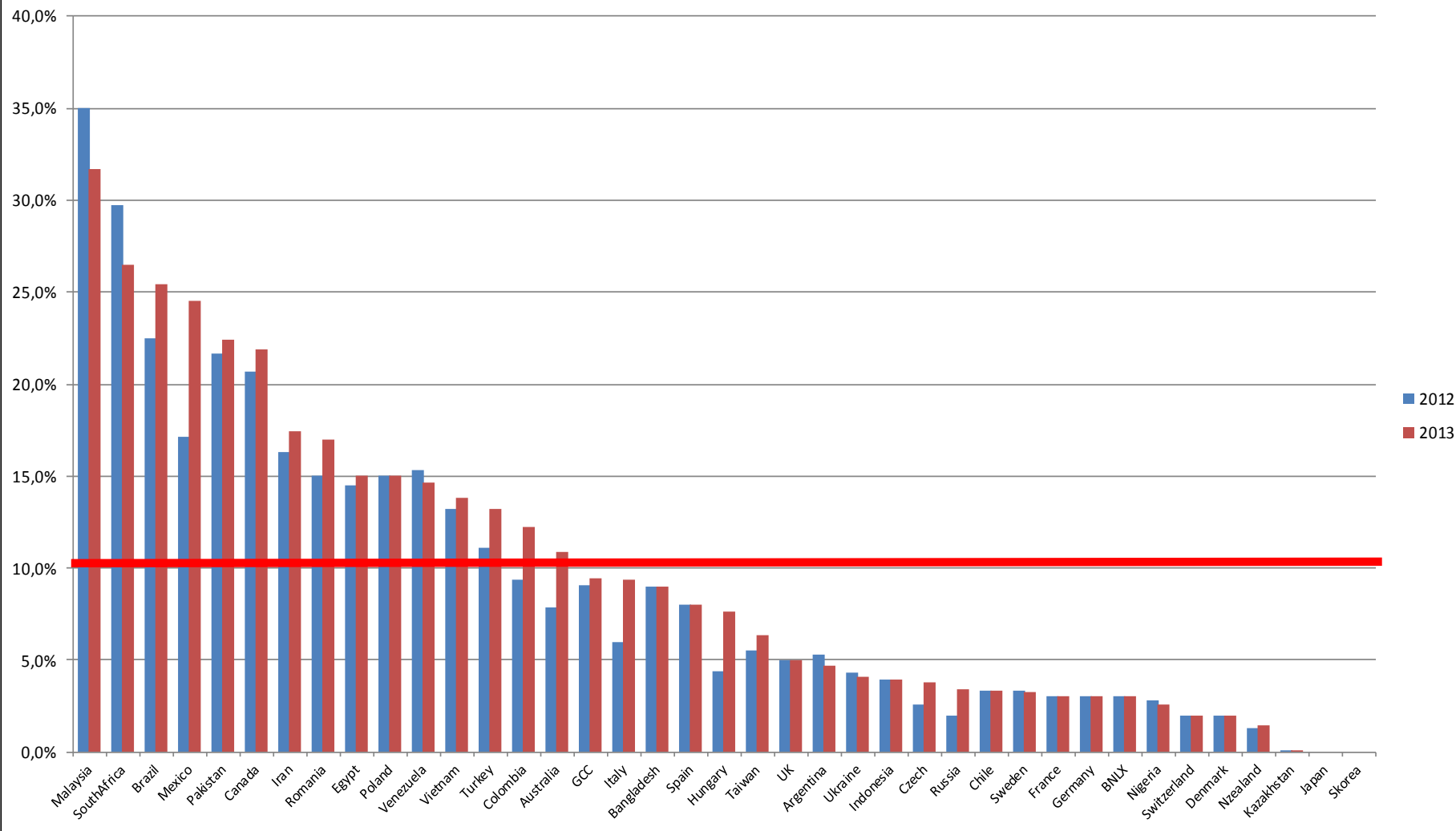
Illicit trade  
undermines the  
economic and social  
fabric of society

# Trends - Illicit Trade Volumes - 2012 / 2013 - rising



BRITISH AMERICAN

Illicit Trade Incidence - Global Focus Markets  
2012 and 2013 Forecast





## 2. What industry is doing internally to ensure product is tax/duty paid

- Treating AIT as a competitor
- Raising awareness with, and educating, policy makers
  - Media / trade associations / tobacco industry / multi-sectoral bodies
- Varying our approach between local, regional and global, as appropriate
  - National governments / regional trade blocs / international bodies (e.g. IMF, WTO, WCO)
- Working with the wider industry
  - Developing technological solutions (Track & Trace, Digital Tax Verification)
  - Enforcement related intelligence gathering and analysis
  - Shared AIT market research in the EU and beyond
- Working with law enforcement across borders
- Supporting development of a strong WHO FCTC AIT Protocol





## 2. What industry is doing internally to ensure product is tax/duty paid



### BAT Global Strategy

#### 'Six pillars'

- Price, excise & portfolio (Marketing)
- AIT Market insight (SP&I)
- AIT Intelligence and Enforcement (AIT IU)
- Regulation and Legislation (legal)
- External engagement (CORA)
- Governance and compliance (OPS, TM&D, CORA)





## 2. What industry is doing internally to ensure product is tax/duty paid


www.bat.com



The screenshot shows the British American Tobacco (BAT) website. The header includes the BAT logo, navigation links (Sustainability, Investors, Media, Reporting, Careers, Contact us, Worldwide), and a search bar. A stock price ticker shows BAT: LSE GBP 3427.50 (+12.00). The main navigation menu includes 'About us', 'Our industry' (highlighted), 'How we work', 'Our products', and 'Innovation'. The 'Our industry' section is expanded, showing links to 'The global market', 'Marketplace', 'Regulation', 'Tobacco trafficking' (selected), 'Fighting the black market', 'WHO Protocol', and 'Youth smoking prevention'. The 'Tobacco trafficking' page features the title 'Tobacco trafficking' and subtitle 'A growing black market'. The main text states: 'The black market in tobacco involves criminal gangs producing counterfeit cigarettes, cross-border smuggling and large-scale tax evasion. With weak penalties for criminals, poor border controls, low arrest rates and tobacco taxes creating disparity between neighbouring countries, it's a problem that's set to grow.' Below this is a video player with the title 'Not a victimless crime' and a play button. To the right of the video player, there are two sections: 'Stripping branding strips our rights' with a link to 'Plain packaging', and 'External links' with links to 'World Trade Organization', 'World Customs Organization', and 'World Health Organization'. The bottom of the page shows a Windows taskbar with various application icons and a system clock displaying 11:54 on 06/05/2014.



### **3. How the industry can/wants to work with authorities to curb illicit trade**

1. Sensible regulation
    - Applied to all manufacturers
    - ‘levelling the playing field’ – free, legitimate competition
  2. Engagement – not just enforcement
  3. Sharing of information and intelligence – MoUs ?
- 



#### **4. What industry would like authorities to do/improve in minimising illicit trade**

1. Apply regulation and legislation universally
2. Prioritise where the problem is biggest
3. Distinguish between compliance and illicit trade
4. Focus less on seizures more on enforcement, particularly against organised crime
5. Work with industry



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