



intrinsic 

FIGHTING THE DARK UNDERWORLD

How the illegal trade in tobacco threatens to overwhelm us

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**“ ONE EURO FOR A
TOBACCO TRAFFICKER
IS ONE EURO FOR
MAFIA NETWORKS
AND CRIMINAL
ORGANISATIONS. ”**

M. G. Attal, French Prime Minister

01 OVERVIEW



FOREWORD

In a precarious geo-political environment, conflicts and fragile economies are creating ideal conditions for criminals to exploit

Current political upheavals and the rising threat of illegal trades are an alarm call that should make us realize our global communities and societies are at a critical juncture.

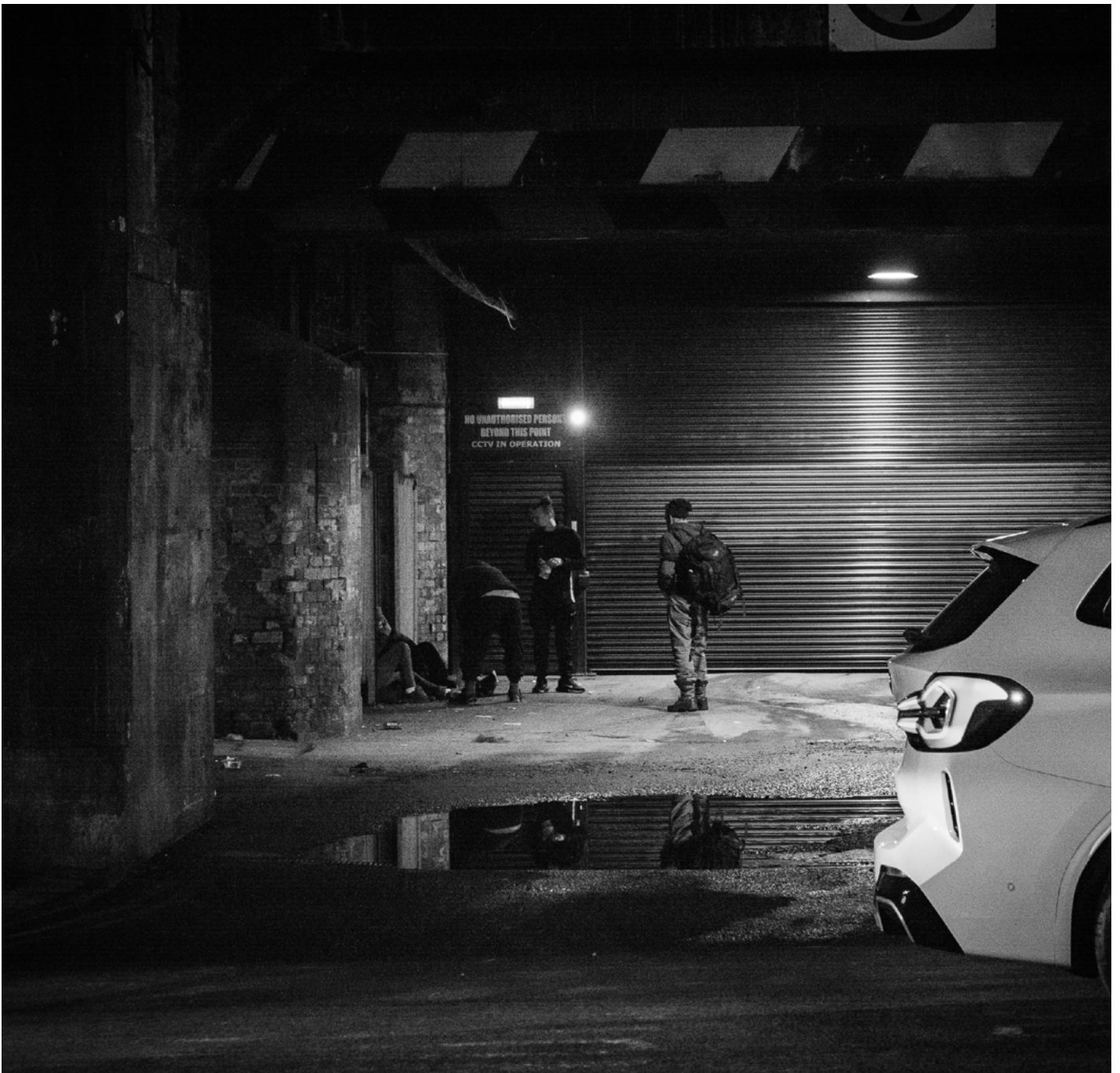
Globally, it is widely acknowledged that the illegal trade poses a direct threat to national security and regional stability due to its connection to organized crime. Amongst the various forms of criminality, the illegal trade in tobacco stands out as particularly widespread and prevalent. This document explores the key factors that drive the illegal trade in tobacco, as well as the negative societal impacts of this criminal phenomenon.

Our investigation, focusing on Canada, France, Philippines, and the United Kingdom, demonstrates a rising array of catalysts causing ever greater numbers of people to now contemplate purchasing illegal tobacco products. Aside from the already well-known triggers such as global conflict, social instability and rising living costs etc., through our research we've identified other important factors, that are allowing the illegal trade to flourish. We pinpoint changing consumer attitudes towards illegal tobacco that forces us to reappraise the seriousness of this crime.

In this report, we delve into these factors and explore some of the strategies being implemented by the four markets. By working with and alongside private enterprise, governments already have the resources, tools, and legislative powers to be able to make a severe dent in the illegal trade. It's therefore critical that we re-examine the threat that illegal tobacco poses and take urgent measures to prevent its spread.



02 EXECUTIVE SUMMARY



The drivers of the illegal trade in tobacco have global impacts

The fundamental drivers of the Illegal Trade in Tobacco (ITT) are evident in each of the four markets examined in this report. Yet they will also be replicated in many other markets globally. In **France**, high levels of taxation, an absence of border controls and issues of affordability caused by rising living costs are having a big impact on the increase in the illegal trade. Whereas, in **Canada**, the high volume of tobacco produced by First Nation states is a major anomaly that drives the illegal trade there. This bears a similarity to 'free trade zones' such as those that exist in places like the UAE. Tobacco produced legally in these zones often ends up in other jurisdictions where it then becomes an illegal product.

In the **Philippines**, weak enforcement enabled by corruption means that the illegal smuggling of tobacco is relatively easy across its highly porous island borders. Whilst, in the **United Kingdom**, a combination of high taxation, legislation and the complexities of enforcement through competing authorities continues to present gaps that criminals can exploit. As we highlight throughout this report, the existence of any one or more of small factors can quickly become drivers for illegal products almost anywhere in the world.

Fragile global economics create a demand for illegal products.

Compromised living standards are forcing greater numbers of consumers into making difficult lifestyle decisions. This creates ripe territory which criminals will increasingly exploit as unaffordable legal tobacco prices push ever larger numbers of smokers towards illegal channels and illegal products.



Over **4 in 10 smokers (43%)** we surveyed for this report claim that they would now be 'comfortable buying cigarettes that they know to have been produced or sold illegally'.

Excessive taxation seriously wounds governments

It is clear in our research that high levels of taxation serve mainly to increase the potential consumer audience for illegal products. This benefits neither governments who, globally, are estimated to be losing out on **\$40-50Bn of tax revenue annually**¹, or the consumer, who is lured into buying poor quality, badly manufactured illegal products. Conversely, criminals benefit from increasing numbers of consumers willing to move to illegal products to sidestep perceived 'unfair levels of tobacco taxation' and save money.

Existing research indicates that a 10% increase in retail tobacco pricing would now lead to an average:

↑ 7% increase in the illegal share of the market².

¹International Monetary Fund/World Bank, ²Alvarez & Marsal 2021

Lost revenue makes organised crime groups stronger and law enforcement more difficult

As illegal sales continue to infiltrate the legal tobacco market, governments are facing a decline in available revenue. This presents two major problems. Firstly, it limits the funding for important public services and law enforcement efforts. According to 88% of consumers surveyed, governments' inability to collect tax revenue due to the illegal trade is a significant issue. Secondly, it further enriches organized criminal groups (OCGs) who use their profits from illegal tobacco to advance their operations through technology, production and distribution. To effectively combat criminal networks, we must increase investment in technology, manpower, and resources for stronger enforcement that will discourage them from engaging in the illegal tobacco trade.

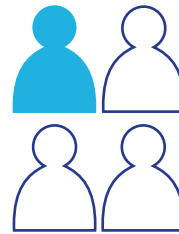
Most importantly, more focus by governments should go to targeting the profits and proceeds of crime generated by the ITT. There are several countries which have increased their efforts in this area of criminal investigations over the last decade, but the focus on this and the efforts being made are still quite sporadic.

Existing penalties fail to deter criminals

Discovery or seizures aside, only a fraction of the illegal trade is currently uncovered. According to the United Nations, it's estimated that just 2% of global shipping containers are inspected. This merely emboldens criminals who see illegal tobacco as a relatively 'risk free' enterprise with large financial upsides. In each market covered by this report, commentators universally highlight the relatively leniency of fines, penalties, or sentences for those caught in illegal tobacco activity. The penalties for smuggling or retailing illegal product must be strengthened if criminals are to be seriously deterred and this should include the confiscation of the proceeds of crime.

Rapid technological progress is a challenge to enforcement

The criminal shift towards e-commerce and the development of Artificial Intelligence (AI) will lead to an increase in the sophistication of production, distribution, and sale of illegal goods.



Consumers' awareness and willingness to consider buying tobacco illegally online is climbing with more than **one in four (28%)** smokers surveyed indicating they have recently seen promotions for cigarettes online or on social media. 14% have also claimed to have recently purchased tobacco via social channels.

Closing illegal online sites can be time consuming, complex, and short lived. Without effective technological enforcement, criminals have demonstrated how easy it is to pivot to new IP addresses and websites within days. This further highlights the additional challenge of intercepting illegal products delivered to consumers via postal services and couriers.

The illegal trade thrives when corruption goes unchecked

Where corruption grows unhindered, criminals will take advantage of any human weakness or system failures. The link between countries experiencing higher levels of local, state, or political corruption and the growth of the illegal trade is clear. Corruption is a problem at different levels within government and law enforcement agencies in many countries and this is a hindering factor in efforts to tackle the problem. An average of 6 out of 10 (64%) of the public surveyed for this report believe there's too much government corruption to tackle the illegal tobacco trade effectively. Addressing corruptibility will require a degree of self-examination combined with action to address the cultural and socio-economic factors that result in individuals falling under the influence of bad actors.

The public genuinely considers the illegal trade a threat

Our new insight highlights that illegal tobacco is not perceived to be a harmless activity. Data collected across the four markets shows that among a majority of the public:



Do not believe that the sale of illegal tobacco is a victimless crime.



Of consumers believe it is a good idea for their governments to co-operate more closely with industry to combat the illegal trade.

Consumer understanding of the illegal trade and its links with other forms of serious criminality, particularly where it shows its public face, is that it represents a wider threat to society. In focussing on prosecuting the illegal trade in tobacco governments will also be reducing more serious levels of crime conducted by OCGs.

Over-regulation is making life easier for organised crime

As governments reinforce policies designed to eliminate smoking, they appear indifferent to fact that they are likely to result in greater illegal consumption. With stricter laws and regulations surrounding the sale and promotion of legal tobacco products, governments unintentionally make it easier for criminal networks to operate. Due to advancements in production and printing technology, OCGs can now easily replicate and produce counterfeit items. This not only allows them to imitate legal cigarettes more effortlessly but also makes their products visually similar and more attractive to consumers with little or no consideration towards quality or safety.



INACTION IS NOT AN OPTION

If we're to avoid being overwhelmed

Focusing on illegal trade in tobacco will curb other serious crime

The impact of the illegal trade in tobacco can no longer be viewed in isolation. Instead, we must candidly accept it is just one component within a sophisticated web of criminality that extends into narcotics, people trafficking and the funding of terrorism. Our research suggests that policy makers are likely to be underestimating the extent to which illegal tobacco worries consumers.



This places it at similar levels to those expressing concerns about drugs (54%) and organised crime (56%). Governments must prioritize the enforcement of illegal tobacco and accept that focusing on it will systematically curb other forms of serious crime.

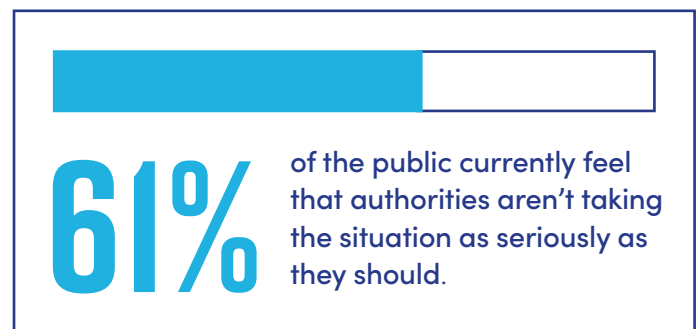
Failing to invest will worsen a bad situation

With LEAs having varying levels of authority, jurisdiction and, in some instances, lack of power to search and arrest, criminals actively seek to exploit any weaknesses in the system. Since OCGs do not operate by the same rules, the way in which different agencies work collaboratively is key to stopping the smuggling of illegal tobacco.

Many recognise the importance of working together to combat criminals but find their effectiveness hindered by a severe lack of technological resources, manpower, oversight, and coordination. Almost 8 out of 10 people (79%) surveyed for this study feel that law enforcement agencies should be working more closely together to address the illegal trade in tobacco.

The public want their governments to act more decisively

The public are prepared to support stronger law enforcement measures to curtail the illegal trade.

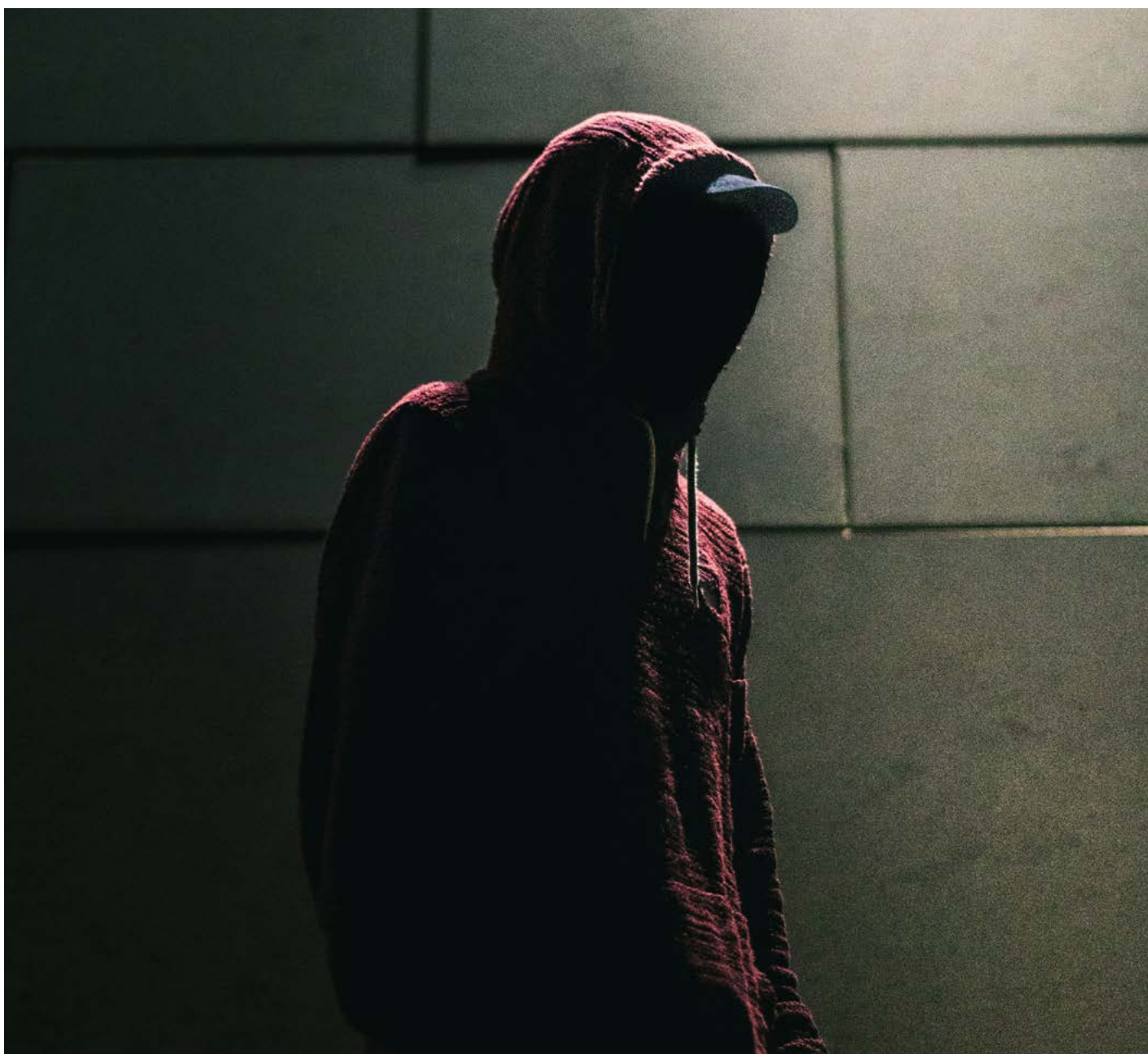


In France and the Philippines, this has led to 76% and 79% of the respective populations feeling that their neighbourhoods are now less safe due to the trade in illegal tobacco. More than three-quarters (75%) of the public would therefore support additional resources for government agencies to fight the illegal tobacco trade.

The tools needed already exist, let's use them!

Evidence from contributors across the law enforcement, academic and policy making spectrum suggest that it is not necessarily a lack of legislation or legal powers that is the problem, but the way in which they are enforced. As part of a comprehensive review of how law enforcement agencies can fight ITT within their own country and internationally, there needs to be a concerted effort to examine the most effective ways to apply enforcement powers for arrests and seizures.

By collaborating with industry partners, we can significantly hinder criminals' ability to engage in and profit from illegal activities.



03 MAIN FINDINGS



WHAT CONSTITUTES THE ILLEGAL MARKET?

The Illegal Trade in Tobacco is described by the WHO as “any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase including any practice or conduct intended to facilitate such activity”. In truth, the illegal trade in tobacco is a serious crime that is too often overlooked

There is a widespread network of individuals and groups involved in this illegal activity, varying in the extent to which they benefit. At the pinnacle of the supply chain, organized crime groups (OCGs) are endemic in the illegal trade in tobacco. These groups have a well-structured system in place, with suppliers of materials like packaging, filters, and machinery for production, as well as illegal storage facilities and transportation services. Whilst lower down, others operate on a street level, selling illicit goods through methods such as street corners, door-to-door sales, markets, and increasingly through social media.

As our report highlights:

64% of the public surveyed across these four markets do not feel that their governments and law enforcement agencies take the threat of illegal trade in tobacco seriously enough.

78% believe that they need to be doing more to combat its spread.

WHY NOW? IT'S TIME TO FACE THE FACTS!

The UK and France is a warning of what can happen anywhere

In France, taxation on legal tobacco has risen so fast over the past 10 years that a pack of cigarettes that cost €6 in 2005 now retails for €12.50 in 2024³. However, the incidence of smoking remains virtually unchanged at 25% of the population⁴, just 2% points lower than a decade ago. Instead, France now records the highest level of illegal tobacco consumption in Europe with one in three of all cigarettes smoked illegally sourced⁵. It also accounts for around 61% of all Counterfeit and Contraband sold in Europe. Similarly, in the UK, duty tax on cigarettes has risen from around £3.92 per pack in 2005 to £6.33 by the end of 2022⁶, whilst, consumption has fallen only marginally from 15.1% to 12.9% over the same period⁷.

The loss of tax revenue helps build criminal empires

When governments increase tobacco taxes, their intended goals are often not met. Instead, there is a rise in the black market for tobacco products, leading to the growth of criminal networks. The most pressing issue is the loss of government tax revenue, estimated at \$40-50 billion per year globally. This considerable amount of money could otherwise be allocated towards various public services, such as strengthening law enforcement against serious crime. We forget, at our peril, that these lost billions represent only a small percentage of the profits that are actually being made by the OCGs operating in the dark underworld of illegal trade in tobacco.

The illegal trade in tobacco funds serious crime, including terrorism

In truth, the illicit trade yields significant profits while posing minimal risk for those involved in it. This has wide-ranging repercussions that harm society and hinder efforts to curb its proliferation. It's not just a matter of governments missing out on potential tax revenue. Studies conducted by research organizations and law enforcement consistently reveal that proceeds from illegal tobacco sales are often used to finance other forms of serious criminal activity, including drug dealing, the illegal arms trade, and human trafficking. Additionally, these funds have been found to contribute significantly to the funding of terrorist groups across the globe.

³OFTD 2024, ⁴OFTD 2021, ⁵KPMG 2023, ⁶HMRC 2023, ⁷Office of National Statistics (ONS) 2023

Criminals are taking advantage of our inaction

Under the increasing weight of legislation that surrounds legal production, packaging and retailing, legal producers have to adhere to rules that criminals do not have to follow. This gives OCGs a free hand to produce harmful and dangerous products that are visually attractive and cheaper for consumers. According to our research, the impunity with which criminals operate also results in increased danger to society through lower-level street crime leading the public to feel anxious and less safe in their neighbourhoods.

The penalties need to increase to meet the severity of the crime

To prevent criminals reaping \$billions in profits all governments must shift their focus and treat illegal tobacco as a form of serious organized crime, considering its close ties to other criminal activities. ITT has long been a low-risk endeavour due to minimal chances of being caught and prosecuted. Penalties must include targeting the source of criminal networks' wealth, implementing stricter punishments, improving legislation, and coordinating in-country and transnational agency efforts rather than focusing on seizures and confiscations.

By implementing these courses of action, we can show criminal networks that their involvement in the illegal trade in tobacco is not only unwise but also unsustainable. Without stronger government and law enforcement measures, the battle against illegal tobacco may ultimately be lost with devastating consequences for our societies.

THE UNINTENDED CONSEQUENCES THAT ARE FACILITATING ILLEGAL TRADE IN TOBACCO

Restrictive regulation on tobacco production and retailing, combined with higher taxes are proving to be blunt levers on legal tobacco consumption

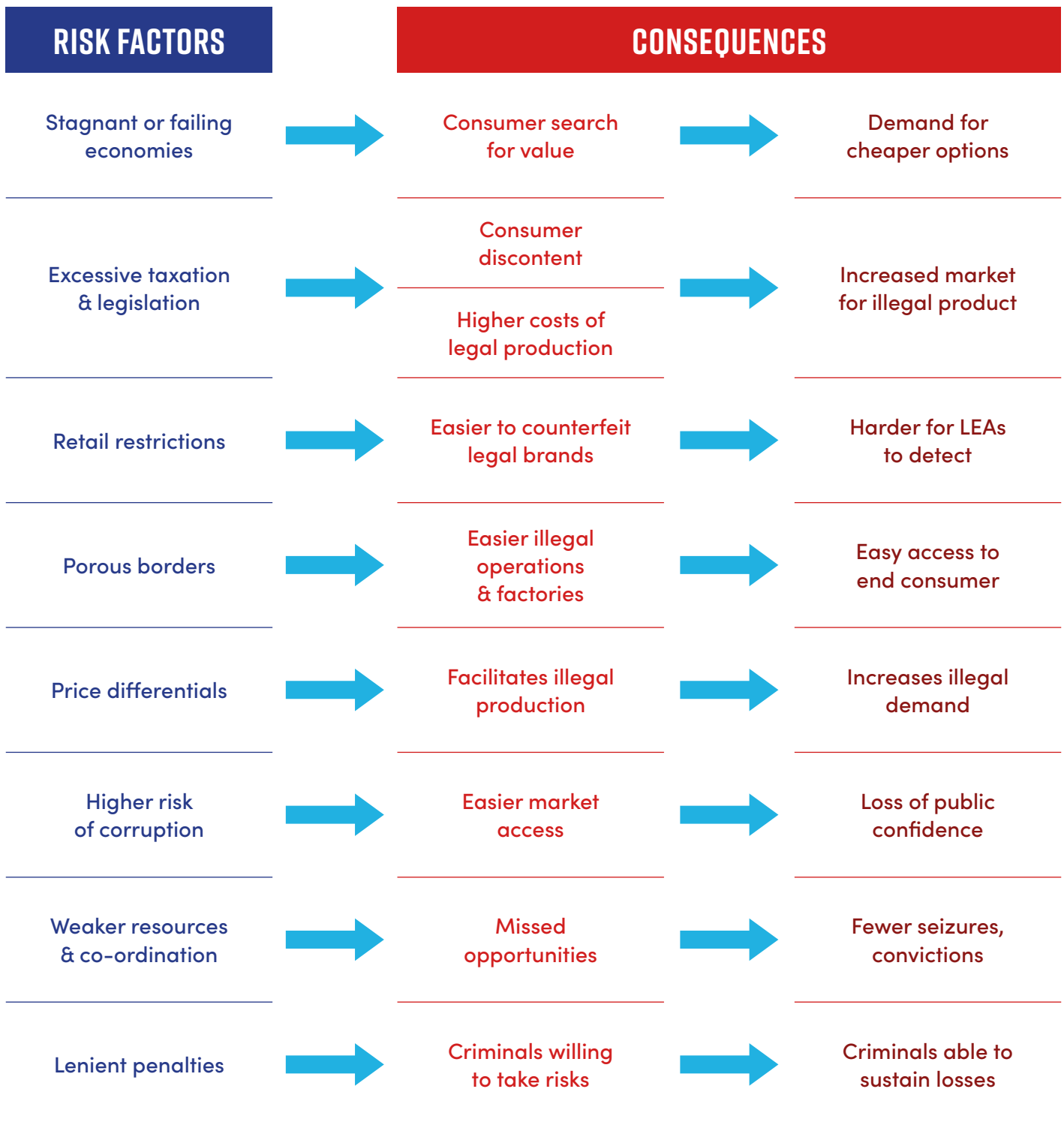
Rather than controlling trade they are effectively creating a parallel illegal one that is doing more harm than good. Shackling the legal tobacco trade has merely allowed cunning and resourceful criminals to exploit weaknesses in the system for their own ends.

But, just as climate change is the result of multiple changes in human behaviour, i.e. the burning of fossil fuels, deforestation, intensive farming etc., so the spread of illegal tobacco happens not as a single event, but through the gradual build-up of smaller seemingly unconnected activities. A gradual drip, drip, drip of factors by different players over time that's creating a skewed market. It's one that governments, law enforcement and consumers, for so many reasons, have been complicit in creating almost without noticing.

Just as no one single factor is responsible for climate change, the collective build-up of factors driving the illegal tobacco trade is on course to reach a tipping point beyond which combatting the trade could become unsustainable unless action is taken now.



THE KEY 'INGREDIENTS' FUELLING THE ILLEGAL TRADE



The ingredients of this 'ticking bomb' can affect any market to greater or lesser degrees.

1 Poor economic conditions:

When consumer incomes shrink relative to inflationary pressures higher living costs drive consumers to look for cheaper brands and alternatives. With lower discretionary spends available the consumer becomes more willing to consider alternative and non-legal sources.

2 High levels of taxation and legislation:

Begin to create consumer discontent as people see their preferred legal product disproportionately over-taxed relative to other sectors. This creates an environment in which normally law-abiding consumers start to consider illegal sources of product. At the same time, the legal trade faces additional barriers and costs that increase the price of legal brands.

3 Restrictions on packaging, retailing:

Make it easier for criminals to use new technology and printing techniques to mirror and duplicate legal brands. This adds to consumer confusion and makes it harder for LEAs to detect.

4 Weak border controls:

Make it easier for criminals to smuggle product, people and machinery into markets. This not only helps fuel illegal sales but brings production closer to the end consumer.

5 Imbalances in taxation:

Specifically, fiscal tax imbalances create significant price differentials that facilitates the market for both illegal production and smuggling.

6 Corruption:

Weaker governance and lower relative pay in public services and LEAs encourages criminals to exploit individual moral weaknesses that help facilitate the illegal trade.

7 Limited public resources:

An inability to invest in new technology reduces the ability of LEAs to enforce existing measures and keep pace with the advances being used by OCGs to avoid detection and arrest.

8 Weaker agency co-ordination:

This can result in imprecise sharing of data, intelligence, and the duplication of efforts across LEAs both nationally and transnationally, leading to missed opportunities to track shipments, seize product, confiscate assets and apprehend criminals.

9 Ineffective Penalties:

Lenient penalties for illegal activities only motivates criminals to continue with their behaviour and allows them to easily accept occasional losses.

Globally, it's been estimated that 372.2 billion cigarettes per year are smuggled, manufactured illegally or counterfeited⁸. In a tight fiscal environment, the financial losses of between \$40-50Bn to the global public purse is significant.

With **43%** of smokers surveyed stating that they're comfortable choosing to buy illegal tobacco, the potential for this loss to grow should be a concern. But this is not the only reason we should take the illegal trade more seriously. Its negative impact on society is growing with **67%** of the public surveyed believing that on-street selling of illegal tobacco is making their neighbourhoods less safe.

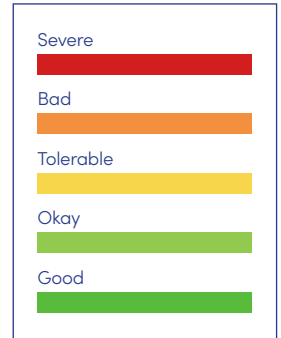
In all markets, multiple issues are fuelling the rise of illegal tobacco trade.

⁸Euromonitor/BAT estimates

FROM GOOD TO BAD: HOW THE ILLEGAL TRADE IS IMPACTING THESE FOUR KEY MARKETS

As illustrated below, each market has similar yet unique problems in dealing with the illegal trade in tobacco

These challenges offer both cautionary lessons and some potential strategies to tackle the issue of illegal tobacco trade. Through our research we've qualitatively graded** the challenges that these markets face across a range of factors to visually illustrate the extent to which they exist in driving the illegal market for tobacco.



Where are the biggest challenges for markets?

	CANADA	FRANCE	PHILIPPINES	UK
High taxation	█	█	█	█
Retail restrictions	█	█	█	█
Legislation / 'Red Tape'	█	█	█	█
Penalties	█	█	█	█
Border controls	█	█	█	█
Tax harmonisation	█	█	█	█
Co-ordination	█	█	█	█
Economic performance	█	█	█	█
Resources	█	█	█	█
Corruption	14 th █	21 st █	116 th █	18 th █

Ranking out of 180 countries according to transparency.org corruptibility index 2022

**Based on a qualitative analysis of existing published research and qualitative interviews with experts across law enforcement, academia, border control and policy making.

There are many reasons why **France** has emerged as the largest market for illegal tobacco in Europe. Progressively high tax hikes, year on year, coupled with stringent retail restrictions and the freedom of movement within the EU have made it easy for criminals to expand their enterprises and bring production closer to their core markets.

In the UK, a faltering economy combined with high taxation, and impositions on the retail trade make legal sales equally difficult and easier for criminals. Canada though must deal with the fiscal imbalances in taxation between federal government and First Nation states that have allowed criminality to take advantage of significant price differentials in the cost of cigarettes. Conversely, the Philippines must deal with the dual issue of corruption and highly porous borders that allows the ease of smuggling primarily through its southern borders. Each market is addressing their specific challenges to a greater or lesser extent.



France

Adopting a zero-tolerance stance on street selling

A determined attempt by government to remove illegal tobacco sellers from the streets is a cornerstone policy in the run up to the 2024 Olympics. The French governments' assertive imposition of strong fines, penalties, and arrests of street sellers is generally supported by city residents who increasingly feel their neighbourhoods are made less safe when illegal tobacco sellers ply their trade. This is an important step in demonstrating to criminals that the French government is serious about the growth of illegal tobacco and a measure that other countries would be advised to adopt. In the wake of the Olympic games the challenge will be to ensure that the same level of policing and enforcement is continued.

Canada

Effectively utilising the assets of crime

Canada is grappling with serious disparities in tax harmonisation created through its complicated relationship with First Nation states. To-date, this has allowed contraband tobacco to spread unchecked across the country to the detriment of revenue receipts. Whilst not perfect, the 'Acces-Tabac' programme implemented in Quebec province is an innovative approach that allows communities, including regional law enforcement, to share in the proceeds of criminal seizures and assets. This provides an opportunity for agencies to invest more intensively in manpower, resources, and technology.

Philippines

Reducing smuggling through the creative use of legislation

In moving to classify tobacco as an agricultural product, the Philippines Congress has creatively proposed amendments to the country's agricultural bill that establishes the smuggling of tobacco as an act of economic sabotage. In automatically imposing non-bailable conditions, unlimited fines, and long jail terms for those convicted it sends a strong signal to criminals that smuggling illegal tobacco will no longer be a risk-free enterprise. This amendment has the potential to cut off illegal imports into the southern islands eliminating a large proportion of the illegal trade overnight.

UK

Illogical legislative restrictions compound the problem

Following a free vote in Parliament in April UK MPs have backed a plan to ban anyone born after 2009 from buying cigarettes, effectively ensuring it will become law, probably before the end of 2024. It joins a series of increasing restrictions and impositions on the sale of legal tobacco products that's making it easier for criminals to generate huge profits. Introducing this legislation is seen by some commentators as an infringement against freedom of choice and at odds with the government's stance on other legal products such as disposable vapes, alcohol and sugary foods that are not as harshly sanctioned.

04 RECOMMENDATIONS



A 7-POINT PLAN TO MAKE LIFE MORE DIFFICULT FOR CRIMINALS

1 Confront the dark underworld

Experts in policy making and law enforcement make clear that tackling the root causes of the illegal trade should be a priority given that is a key source of illegal income for individuals, OCGs and terrorist networks. It is closely linked to other forms of serious criminality, i.e. drug trafficking, trafficking of human beings, terrorist financing, money laundering etc. Taking a zero-tolerance policy towards illegal tobacco means acting more aggressively at every level, from street level to Kingpin.

A current emphasis on demonstrating accountability via targets on seizures and confiscations, means the focus is still mainly about looking for specific illegal products, i.e. drugs, or tobacco and less about the key actors behind them. Instead, it is as VITAL to focus on dismantling the OCGs by seizing and freezing the proceeds of their criminal conduct. Making the illegal tobacco trade financially unviable is a key factor to reducing levels of criminality.

2 Increase the penalties and deterrents – imprisonment, fines and seizure of assets

Criminals operate in a sophisticated manner which ride viciously over the concepts of borders and any respect for the rules of law making \$Billions on their way. Significantly, as they pay no taxes, their ability to absorb both financial and logistical losses is a cost that's typically built-in to their modus operandi.

The lax penalties for illegal tobacco activities are a significant issue. Acknowledging the connection between the illegal trade of tobacco products and other forms of criminality, stricter sanctions must be enforced to deter OCGs from engaging in these activities. This includes applying harsher punishments at every stage of the illegal supply chain to increase the deterrence factor. In cases where trans-border investigations are successful, it may be beneficial to transfer prosecution to jurisdictions with tougher penalties. Governments should consider this option to ensure the maximum punishment can be imposed. Additionally, conducting mandatory financial investigations, following the money and seizing assets from OCG leaders should also be a key part of this deterrent approach.

3 Improve enforcement through co-ordinated oversight

To achieve this requires all those involved in policy making and enforcement to take a joined-up approach to counter this threat. It is not the un-willingness of authorities to work together, but the informal and ad-hoc nature of collaboration that creates gaps for criminals to exploit. For collaboration to work effectively it cannot be left to individual parties to co-ordinate intelligence and enforcement activity. To do so runs the risk of diluting the effective use of resources and duplication of investigations.

Establishing structures and allocating resources to address illegal criminal activity is a significant step in increasing the number of prosecutions, raids, seizures, and convictions. The main obstacle to more effective enforcement is not a lack of legal statutes or authority, but rather the ability to effectively utilize them under one unified effort. By centralizing efforts under a single lead authority in each market, the fight against illegal tobacco trade and by virtue other forms of serious crime can be strengthened. This will give the designated agency a clear view of operations and enable them to coordinate with other representatives in the region. The appointment of a formal, coordinating body within each market would comprise representatives from all the major enforcement and policy stakeholder groups including expertise from private industry. This would be a focal point for integrated, multi-stakeholder activity making better informed use of intelligence, technology, and manpower, ensuring the illegal tobacco trade receives greater priority than at present.

4 Revisit public education and information campaigns

Though illegal tobacco is seen as less of a concern at an individual level, our research indicates that its impact across society is viewed as a significant threat by many. Consumers worry about its wider effect on their country and its links with more serious forms of criminality.

Based on our research, policy makers may not fully recognize the extent of the illegal trade's effects on society. Therefore, education campaigns should not only highlight the harmful consequences of illegal tobacco, but also shed light on how it contributes to the destruction of cultural values, democracy, security and the rise of criminal empires through immense profits. Our data, particularly in the Philippines and France, suggests that emphasizing the impact on illegal activities within communities could greatly resonate with the public.

5 Tackling the technological enablers of illegal trade in tobacco

Though the distribution of illegal product is still largely a person-to-person activity, technology is playing an increasingly significant role in facilitating criminal activity. Social media is increasingly connecting criminals with their consumers. Private, encrypted, closed channels are incredibly challenging to scrutinise and pose a major headache for law enforcement that needs to keep up with technological advancements.

These channels are set to increase in popularity as criminals become more adept in using technology for counterfeiting, e-commerce, and postal distribution. With over 28% of consumers surveyed having seen advertising or promotions for cigarettes or tobacco on social media, this segment of the illegal market will increase if left unchecked. Law enforcement needs to be fully resourced to match the technological threat posed by OCGs. A recent EU initiative aimed at countering online drug trafficking should be further expanded to include private public partnerships in the tobacco trade to counter the growing threat of illegal sales through social media.

6 Explore creative workarounds

Competing with criminals is not a level playing field. OCGs don't have to play by the same rules. So, whilst governments and authorities have boundaries within which to work, we need to think creatively to find ways of making life significantly uncomfortable for illegal actors.

As demonstrated in the Philippines, adopting measures that reclassify tobacco's use and its value to an economy can be highlighted as one way in which to impose stricter sanctions to make the smuggling of tobacco less viable and more dangerous for criminals. Policy makers need to look closely again at existing statutes, the powers that these confer and their applicability by different agencies to tighten up potential loopholes.

7 Deal with the reward as well as the risk

The ratio between risk and reward is a key determinant that drives both the scale and the scope of the illegal trade in tobacco. Both parts of this ratio, which establish supply and demand, must be addressed in equal measure. So, while an increased focus on increasing penalties and enforcement will support on the risk side, equal attention needs to be paid on the reward.

When it comes to the illegal tobacco trade, criminal profit or reward is driven by excise and regulation. These two elements are implemented with good intention – to dissuade and reduce consumption. However, when designed in a way that pushes legal tobacco products beyond the affordability or availability of adults that continue to choose to consume these products, they create a significant profit opportunity for OCGs. It is, therefore, key that the approach to increases in both excise and regulation is moderate and somewhat predictable, so that these remain in step with what adult consumers can tolerate. Failing to do this will only serve to drive greater demand for illegal products.



05 APPENDICES



ABOUT THIS REPORT

This report has been created by Intrinsic Insight Ltd and was commissioned by JT International to expose the global impact of the illegal trade in tobacco on markets worldwide

We examine, specifically, the impact that it is having on four key markets: Canada, France, Philippines, and United Kingdom.

The report follows an extensive review of publicly available literature, in-depth interviews with subject experts across law enforcement, policy making and academia and new research among the public. The names of individuals have been withheld for reasons of confidentiality.

METHODOLOGY

This report combines insight from several sources including a review of existing sector literature and expert qualitative in-depth interviews with academics, policy makers and law enforcement officials from across the United Kingdom, France, Canada, and the Philippines. Interviews with expert contributors were conducted between November and December 2023

Additionally, the study includes new findings from n=2,000 survey-based interviews* conducted with the public and smokers across the four key markets represented. Quantitative research was conducted by Intrinsic Insight among a nationally representative sample of members of the general public in each market between the 1st December 2023 and 12th January 2024.

The authors of this report do not necessarily endorse or substantiate the views of others, merely using existing articles and published data as the basis for our own arguments. We cannot be held responsible for the accuracy of secondary data or published articles. All assertions are those of the authors of this report alone.

*A note on the quantitative survey: As part of this study, we conducted a nationally representative random quantitative survey among 2,000 consumers aged 18 years + across four markets, Canada, France, Philippines, and United Kingdom. The survey was conducted online by Atomik Research, part of the 4media group of companies.

GLOSSARY OF TERMS

Some of the main terms and abbreviations that may be found in the report are as follows:

AI	Artificial Intelligence
Bn	Billions
Bootlegger	A person who makes, distributes, or sells goods illegally
Consumption	Total cigarette and/or tobacco consumption among the population
Contraband	Genuine products that have been either bought in a lower-tax country and which exceed legal border limits or acquired without taxes for export purposes to be illegally re-sold (for financial profit) in a higher priced market
Counterfeit	Cigarettes that are illegally manufactured and sold by a party other than the original trademark owner
Duty Free	Cigarettes bought without payment of customs or excise duties. Consumers may buy Duty Free Cigarettes when travelling into or out of the EU27 (including Switzerland and Norway) by land, air or sea at legal Duty Free shops
EU	European Union
Governance	A system by which an organisation is controlled and operates, and the mechanisms by which it, and its people, are held to account
HMRC	His Majesty's Revenue and Customs

Illicit Whites	Cigarette brands produced legally in one jurisdiction but produced intentionally for smuggling into other countries where there is no prior legal market for them
Incidence/ Smoking incidence	The percentage of smokers in the population of a legal smoking age
ITT	Illegal Trade in Tobacco
LEAs	Law Enforcement Agencies
OCG	Organised Crime Group
ONS	Office for National Statistics
Red Tape	Regulations or conformity to formal rules or standards which are claimed to be excessive, rigid or redundant, or to bureaucracy claimed to hinder or prevent action or decision-making
Taxes/Taxation	The sum of all types of taxes, including excise duty levied on tobacco products, including VAT
Trading Standards Body	The UK body to protect consumers and safeguard legitimate businesses by tackling serious national and regional consumer protection issues and organised criminality
TRACIT	Transnational Alliance to Combat the Illicit Trade
Tr	Trillions
WCO	World Customs Organisation

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Our own research analysis is further supplemented by relevant insight and data, as indicated in the text from, among others, the following sources:

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2. Alvarez & Marsal – The Causes and Control of Illicit Tobacco, 2021
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8. Euromonitor/BAT estimates
9. United Nations Office on Drugs and Crime (UNODC)/WCO, 2024
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Intrinsic
30 Stamford Street
London
SE1 9LQ