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ILLICIT TRADE IN TOBACCO PRODUCTS

A threat to global security

Crime Stoppers USA | Annual Conference
Omaha, Nebraska, September 2021

About Us

Philip Morris International

Philip Morris International is the leading international tobacco company, with a diverse workforce of around 73,500 people who hail from every corner of the globe.

PMI is in the midst of a large-scale transformation, from a cigarette manufacturer to a science and technology-driven company that provides smoke-free alternatives to cigarettes. Replacing cigarettes with smoke-free products as fast as possible is a dramatic move. It's the biggest shift in the history of the company. And it's the right one for our consumers, shareholders, and society.

Furthermore, PMI strives to be environmentally and socially responsible. The company is dedicated to fighting the illicit cigarette trade to protect consumers from counterfeit or tampered products.



73,500

Employees around
the World



400+

R&D scientists,
engineers and
technicians working
on smoke-free
products



180+

Markets where our
products are sold



150

Million consumers
worldwide



6

of the world's top
international 15
brands, including
Marlboro



38

Production facilities
worldwide



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Our Vision

A Smoke – Free - Future



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We're building PMI's future on smoke-free products that are a much better choice than cigarette smoking.

Indeed, our vision – for all of us at PMI – is that these products will one day replace cigarettes.

“ IQOS is a fundamentally different product than combustible cigarettes and must be regulated differently, as the FDA has recognized. Now, more than ever, there is an urgent need for a fundamentally different conversation on a cooperative approach to achieve a smoke-free future

André Calantzopoulos, Chief Executive Officer, Philip Morris International

On July 7th, the U.S. Food and Drug Administration (FDA) has authorized the marketing of our flagship electronically heated tobacco system, IQOS, as a *modified risk tobacco product (MRTP)*, which represents a historic opportunity for public health. a whole

In doing so, the agency found that issuing an exposure modification order for the IQOS Tobacco Heating System (THS) is appropriate to promote the public health, and is expected to benefit the health of the population as a whole



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THE SCOPE OF THE PROBLEM

Illicit Trade In Tobacco Products

The Numbers



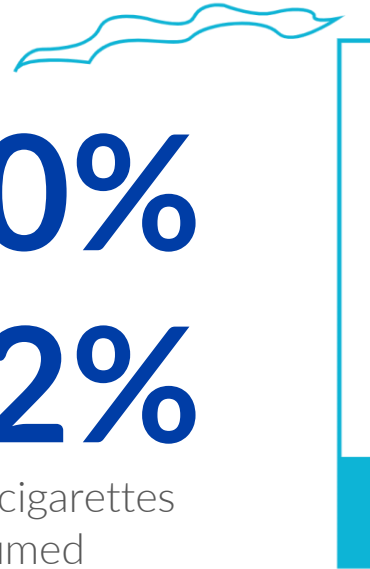
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The estimated size of the global illegal tobacco trade

**10%
12%**

of all cigarettes
consumed



\$40 – 50 BILLION

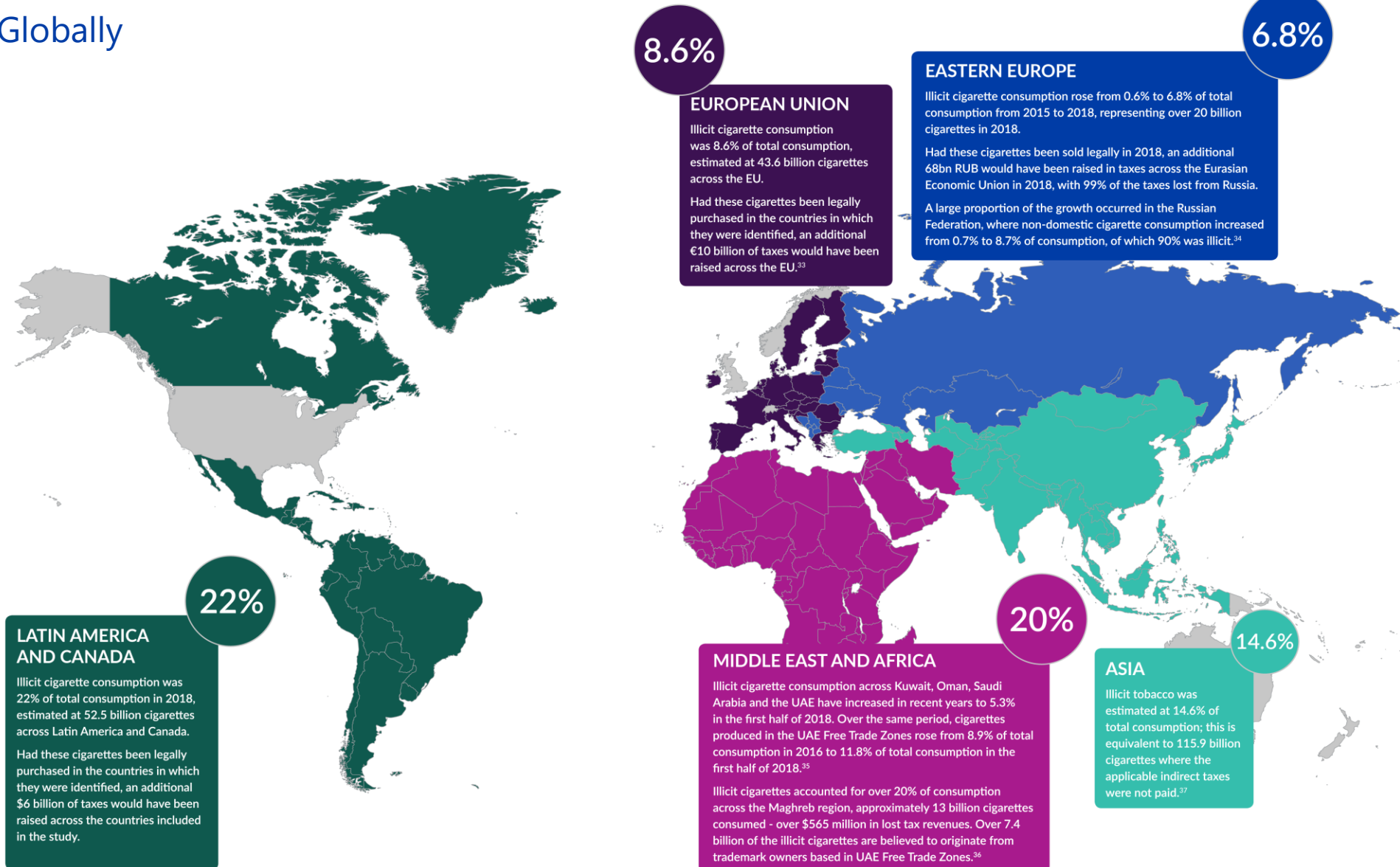
estimated global annual tax loss

Illicit Trade In Tobacco Products

The Impact Globally



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Source: World Health Organization

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www.pmi.com | www.stopillegal.com

Illicit Trade In Tobacco Products

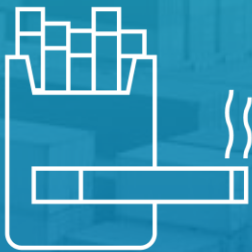
High Profit Low Risk



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\$2.3

MILLION IN PROFIT FOR ONE CONTAINER



US\$ 0.20

Cost to produce one
counterfeit pack of cigarettes in
China



US\$ 5.00 – 10.00

Approximate street value of one
pack of 20 counterfeit cigarettes



US\$ 100,000

Cost of smuggled container of
10 million counterfeit cigarettes



US\$ 2,300,000

Potential profit to smugglers from 1
container of counterfeit cigarettes



Illicit Trade In Tobacco Products

The Consequences



TAX REVENUE LOSS

Robs governments of tax revenues



CORRUPTION

Encourages corruption and threatens the rule of law in countries where illicit trade is rampant



IMPACT ON CONSUMERS

Exposes consumers to unregulated products often manufactured in unsanitary conditions



ACCESS TO MINORS

Makes it easier for minors to access tobacco products



FINANCES TCO

Poses threats to security by providing a major source of illegal income for transnational organized criminal groups;



PUBLIC HEALTH

Reduces the effectiveness of public health policies

The background is a solid teal color with several stylized, semi-transparent virus particles scattered across it. These particles are spherical with a textured surface and small protrusions, resembling coronaviruses. They are positioned at various sizes and depths, creating a sense of a microscopic environment.

ILLICIT TRADE IN TIMES OF A PANDEMIC

Illicit Trade in Times of a Pandemic

Change in trends



Criminal groups quickly using lockdown measures to scale up activities



Illicit Trade is now even more profitable than before



Health Sector significantly affected



E-Commerce abused to sell counterfeits



Cybercrime highest risk area



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E-COMMERCE AND ILLICIT TRADE

E-Commerce and Illicit Trade

New Challenges

The shift from traditional markets to online marketplaces has allowed sellers to interact with a larger global audience.

The rise of the e-commerce industry and number of social media users, as well as the advent of online marketplaces —including the deliveries of online sales- have led to a drastic shift in the way counterfeit goods move from the point of production to customers.

While online marketplaces made it easier for businesses to serve customers on an international scale, the ease of access to technologies such as encryption and geolocation blocking allow counterfeiters to operate under a veil of anonymity and thus, conveniently avoid detection by law enforcement and other relevant authorities.



E-Commerce and Illicit Trade

The Drivers



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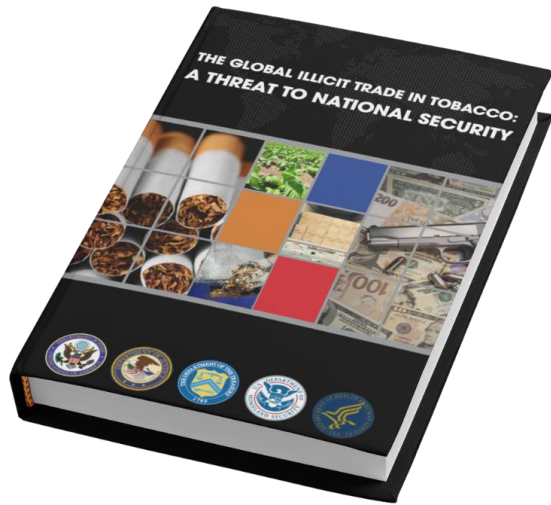
CONVERGENCE WITH TCO AND TERRORISM

Illicit Trade in Tobacco Products

Convergence with Terrorism



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Illicit tobacco is “a lucrative crime for some terrorist groups and a potential revenue source to finance acts of terror.”

The Global Illicit Trade in Tobacco: A Threat to National Security, U.S. Government Report, 2015



Center for Public Integrity, May 2014

“In addition to al-Qaeda in the Islamic Magreb, at least half-dozen terrorist groups and insurgencies have profited from the black market”

Dr. Louise Shelley, in her recent book “Dark Commerce” (Princeton, 2018), discusses how the illicit cigarette trade, is attractive to terrorist groups given the low-risk and high profit. She writes, “**The trade in counterfeit, diverted, and illicit white cigarettes resembles the trade in drugs and humans, with which it often intersects. Ignored by many law enforcers, this trade provides an ideal funding source for states, corrupt officials, criminals, and terrorists.**”



“Although the link between illicit trade and terrorist financing has been proven for decades, it is reaching new proportions”

CAT Centre
d’analyse
du terrorisme

Center for the Analysis of Terrorism by Laurence Bindner 201

Illicit Trade in Tobacco Products

Convergence with Human Trafficking



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"Concerns have been raised over the challenges faced by tribal lands directly adjacent or in close proximity to the U.S.-Canada border....TCOs have used these lands to smuggle immigrants, narcotics, and other illicit goods..."

U.S. Sen. Ron Johnson (R-Wis.), Chairman of the Homeland Security and Governmental Affairs Committee, facilitated a report in 2015 titled, "The State of America's Border Security" flagging porous borders in the region.



"ICE officials said that the same transnational criminal organizations that smuggle narcotics and humans into the United States generate additional revenue streams by legitimately purchasing low-cost duty-free cigarettes and other items in the United States and smuggling them into Mexico, and sometimes back into the United States, for black market resale"

GAO, "Duty-Free Cigarettes Sold in Unlimited Quantities on the U.S., Report, October 2017)



North Korea is not integrated into the global licit economy, but human trafficking is one way that it is integrated into the illicit economy. Just as the North Korean state produces counterfeit money and cigarettes distributed throughout the world, the North Koreans use the trade in humans as a way of generating hard currency for the state

Dr. Louise Shelley | Excerpt from the 2010 book "Human Trafficking: A Global Perspective" by George Mason University



THE ISSUE IN THE UNITED STATES

Illicit Trade in Tobacco Products

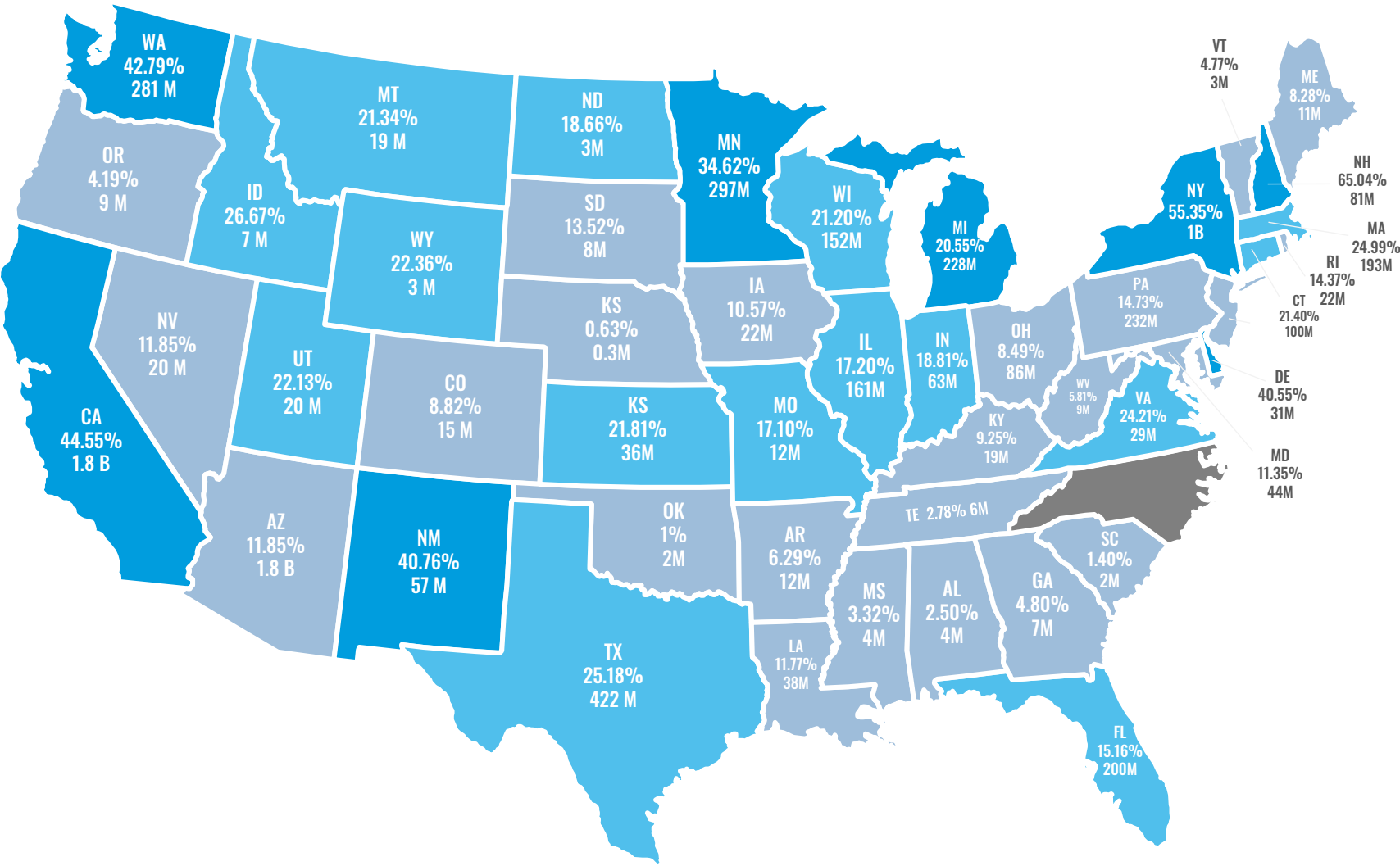
The impact in the United States



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21%
ILLICIT CIGARETTES SALES

\$6.92 B
ESTIMATED TAX LOSS



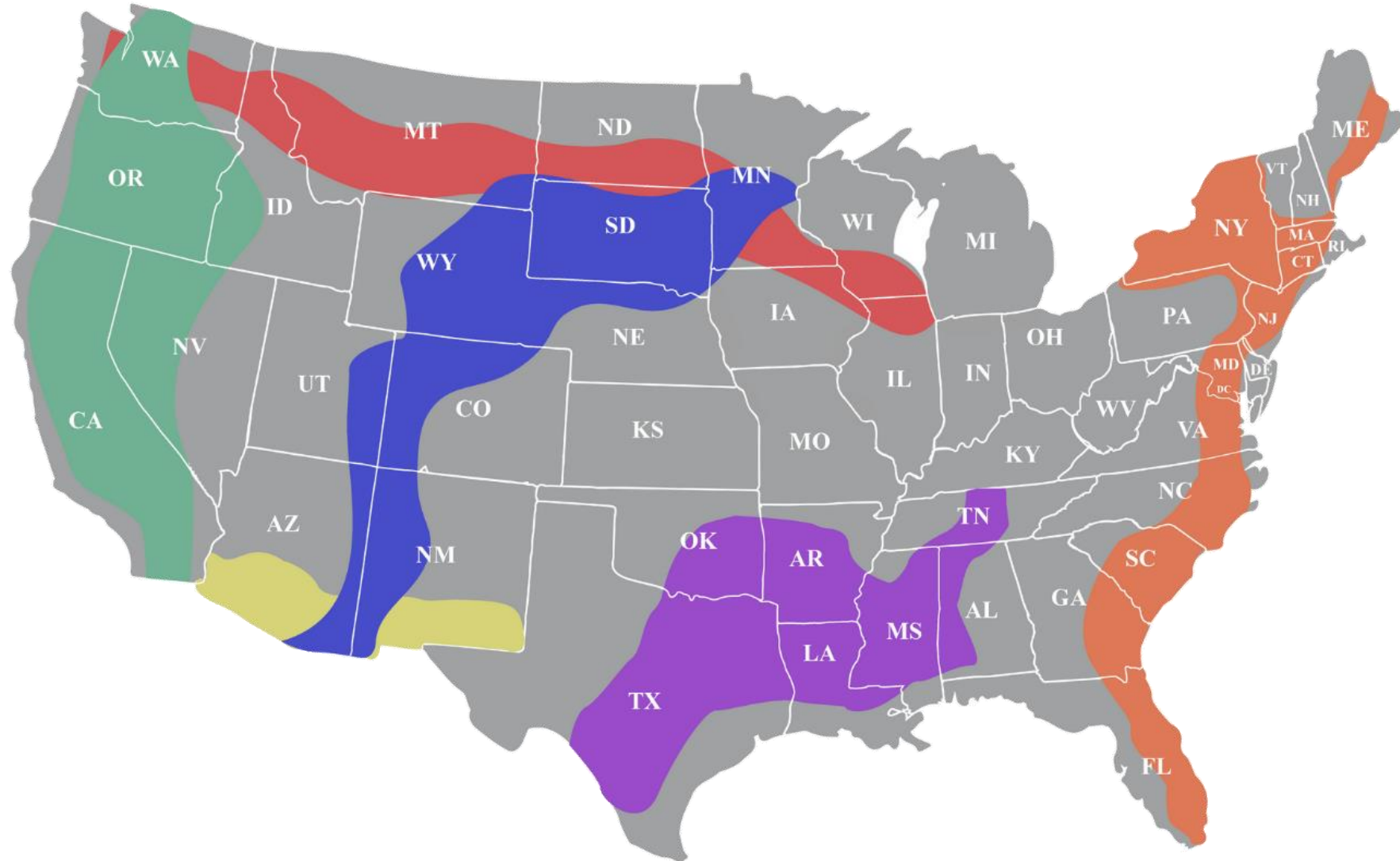
Source: Estimated Cigarette Tax Avoidance and Evasion by State, 2017 | Mackinac Center for Public Policy

Illicit Trade in Tobacco Products

The impact in the United States | Flow of products



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HOW THE U.S. GOVERNMENT IS FIGHTING BACK

Illicit Trade in Tobacco Products

U.S. Work to combat the issue



DEVELOPING A COMPREHENSIVE FEDERAL STRATEGY

In 2018, the President signed into law a mandate requiring the U.S. Department of State to determine a national strategy to combat the international illicit tobacco trade.



THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE

Also known as the U.S. Helsinki Commission, held a hearing in 2017 on illicit cigarette smuggling. The committee found that: "The global illicit tobacco trade costs governments around the globe approximately \$40 billion to \$50 billion annually. The U.S. Department of State classifies illicit cigarette smuggling as low-risk, high-reward behavior for traffickers; they are regularly able to avoid detection and punishment while bringing in millions of dollars. This money is frequently used to fund other criminal activities such as human trafficking, drug trafficking, and terrorism."



SANCTIONING HEZBOLLAH

U.S. President Donald J. Trump signed into law the Hizballah International Financing Prevention Amendments Act, requiring federal agencies to report on efforts to combat terrorist tobacco trafficking networks and sanction Hezbollah for conducting narcotics trafficking and other significant transnational criminal activities. This 2018 legislation strengthens reporting requirements on both Hezbollah's racketeering activities and efforts by foreign governments to disrupt Hezbollah's global logistics networks and fundraising, financing and money laundering activities.



FOCUSING THE U.S. PENTAGON ON THE ILLICIT TRADE OF TOBACCO

In the FY 2018 National Defense Authorization Act Senate committee report, illicit tobacco is designated as an Item of Special Interest: "The committee is concerned by the illicit trade in tobacco and its propensity to fund transnational organized crime



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Global Solutions to combat Illicit Tobacco Trade

A comprehensive global effort



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DATA AND INTELLIGENCE

Use of research and intelligence to better understand the problem and its drivers.



EFFECTIVE POLICY

A framework that regulates the legal supply chain and severely penalizes those involved.



ENFORCEMENT RESOURCES

Significant human and financial resources devoted to enforcement to ensure that laws are properly enforced and criminals are brought to justice.



TECHNOLOGY

A tracking and tracing system based on open standards that can be used by all relevant stakeholders in the supply chain across different technological platforms and geographies.



AWARENESS

Hard-hitting education campaigns that raise public awareness of the problem and its impact on society.



COOPERATION

Cooperation between governments, enforcement agencies and private industry.

Illicit Trade in Tobacco Products

PMI's Strategy to counter this scourge



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PARTNERSHIPS

Build strong and sustainable public private partnerships with civil society, academia and governments to implement innovative strategies to address the issue

PROTECTING OUR SUPPLY CHAIN

Implementing product authentication and tracking and tracing technologies

RESEARCH & INTELLIGENCE

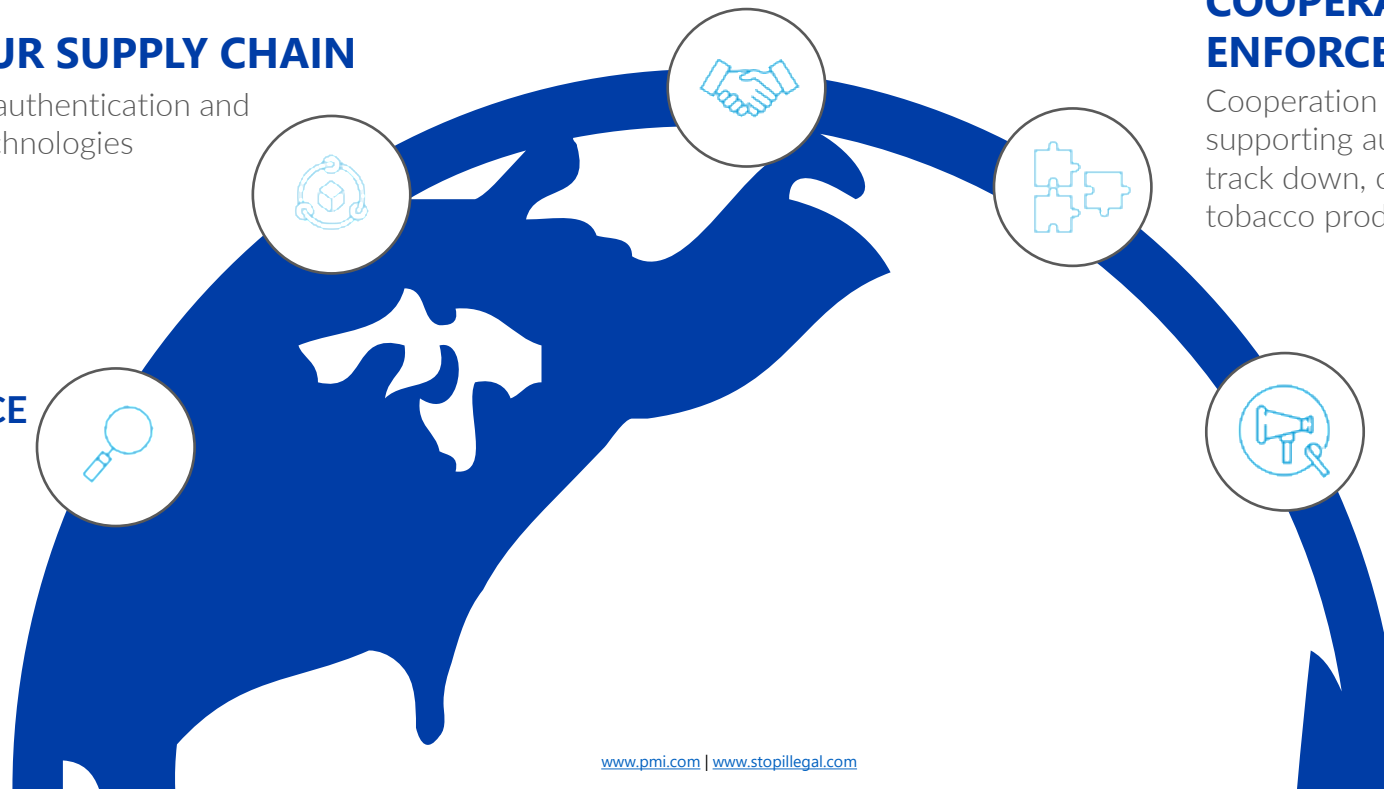
Monitoring levels and identifying trends of illicit tobacco products through research

COOPERATION WITH LAW ENFORCEMENT

Cooperation with law enforcement and supporting authorities' efforts to find, track down, confiscate and destroy illicit tobacco products

AWARENESS RAISING

Information campaigns designed to inform people about illicit trade and its consequences



Illicit Trade In Tobacco Products

PMI's Strategy to counter this scourge



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\$100 MILLION

FOR PROJECTS TO FIGHT IT

PMI **impact**

PMI IMPACT is a global initiative to support public, private, and nongovernmental organizations to develop and implement projects against illegal trade and related crimes. The initiative was launched in 2016 by Philip Morris International (PMI), which has pledged USD 100 million to fund the first three rounds of grants.



EXPERT COUNCIL

The centerpiece of PMI IMPACT is a council of external independent experts in the fields of law, anti-corruption, and the fight against organized crime and illegal trade. The Expert Council evaluates the project proposals and selects the applications for the award of grants by PMI.

63 PROJECTS YTD

Projects can range from research initiatives to awareness programs to on-the-ground activities, in line with the theme of each funding round

Illicit Trade in Tobacco Products

Awareness: United to Safeguard America from Illegal Trade



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- + 55 Partners
- Digital Awareness Campaign in 12 states (CA, AZ, TX, LA, FL, MI, PA, IL, NH, CT, MA, TN)
- Law Enforcement Trainings
- Events
- Media Engagements



**WE ARE UNITED
TO SAFEGUARD
AMERICA
FROM ILLEGAL TRADE.**
[LEARN MORE](#)





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ILLICIT TRADE IN TOBACCO PRODUCTS

A threat to global security



PMI RESEARCH & DEVELOPMENT