



## Info

# Cigarette smuggling: MEPs assess EU deal with Marlboro maker Philip Morris

The anti-smuggling alliance between the EU and cigarette giant Phillip Morris has been hailed a success by a Parliamentary draft report adopted on 12 September. The unlikely alliance, concluded in 2004 after the Commission took legal action against the company, has been called a "gold standard" for future agreements by Parliament's rapporteur Bart Staes. Cigarette smuggling is huge; last year in the EU cigarettes worth €460 million in taxes were seized. The trade also fuels organised crime.

Smugglers love cigarettes: they are light, easily transported and best of all - heavily taxed. One "masterpack" can contain 10,000 cigarettes. This makes for huge profit margins and attracts organised criminal gangs in large numbers. With such huge amounts of money at stake, many often resort to violence if crossed.

Where are the cigarettes from? Most arrive from the US and are stored in warehouses in preparation for transport across Europe to other destinations. It is on this journey that they go astray and then re-enter Europe by land or sea as contraband.

### Parliamentary inquiry points way towards smuggling sanctions

It was a Parliamentary inquiry back in 1997 that first highlighted the case and led to a major change in dealing with fraud and cigarette smuggling. Among the recommendations were sanctions that could work best against individuals and companies involved in the trade. Belgian Green MEP Mr Staes was involved in that inquiry - an experience he describes as a "real adventure". Fellow MEPs on the Budgetary Control Committee backed his report on Wednesday, while the full Plenary will debate the issue in October.

The enquiry also prompted greater attention to cigarette companies. Naturally a loss of taxation does not affect their profits. In fact it could be argued that they indirectly benefited from it. The inquiry found that cheaper black market cigarettes stimulate demand and that replacing seized tobacco means more have to be produced and sold.

The enquiry helped prompt the Commission and 10 European countries to file a lawsuit in 2001 with the New York district Court against Phillip Morris and several other tobacco manufacturers. They alleged loss of tax revenue due to smuggling.

### Marlboro men and Commission cooperate

In 2004 an out of court settlement between the two sides led to Phillip Morris paying compensation for loss of revenues. However, the most important part of the settlement

was that the - makers of the world's best selling "Marlboro" brand offered to help combat smugglers. They agreed to set up a database to help track cigarettes and funding measures to fight contraband worth €904 million over 12 years. It also led OLAF - the EU's anti-fraud watchdog - to work closely with the company to trace contraband.

The Staes report urges other cigarette companies like Japan Tobacco and Reynolds American to conclude similar agreements with the EU. By the end of next year the Commission will draw up a comprehensive report on the issue. One thing is for sure, pressure will continue to mount for others to follow the example of Philip Morris and cooperate against smuggling.