



# **Imperial Tobacco Ltd**

## **The Problem of Fake Cigarettes**

London

3 October 2011

Pg

# The problem of Fake Cigarettes



- Background/History
- Source & Routing
- Motivation
- Answers?

# Imperial Tobacco Group 2010



- Volumes

White Stick Equivalent	348.5 bn
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- Financials

Total Revenue	£28,173 m
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Operating Profit	£2,528 m
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Dividend per share	84.3 p
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**CIGARETTES**



**FINE CUT TOBACCO**



**VAN NELLE**

**CIGARS**



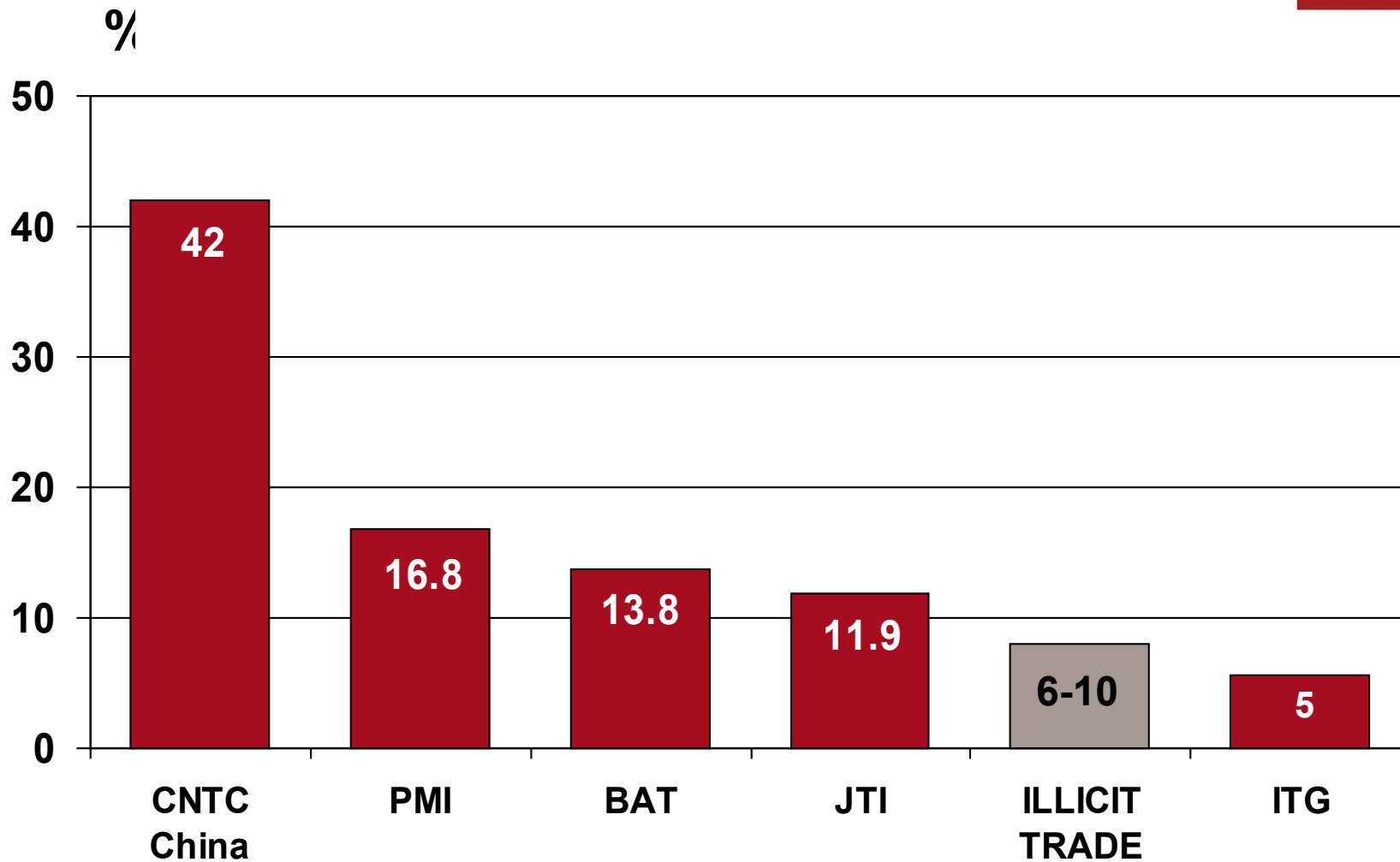
**PAPERS & TUBES**



**Our Balanced  
Geographic  
Footprint**



# Global market share (%) of major players



# Illicit Trade – The New Competition

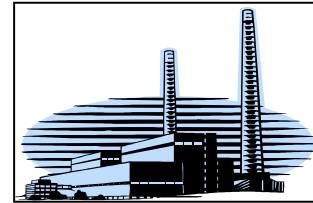
Consumers



## “Counterfeit Cigarettes Inc.”

- 5<sup>th</sup> largest manufacturer in the world \*
- 190 billion counterfeit sticks manufactured in China
- International criminal organisations involved (EU)
- 6-10% market share

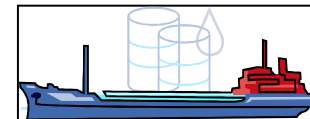
Production



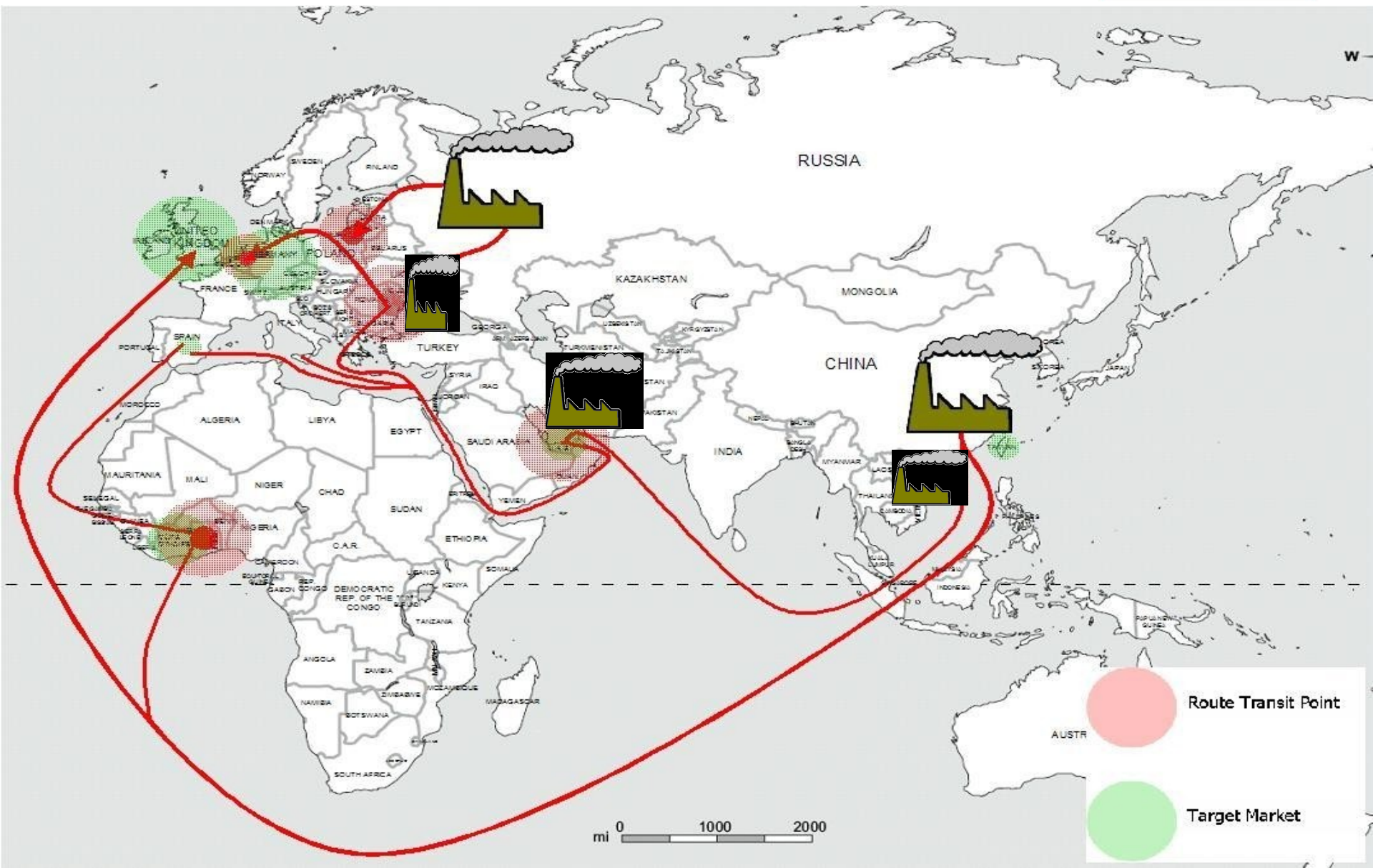
Distribution & Retail



Transport & Logistics



# Illicit Trade – Trading (smuggling) Routes



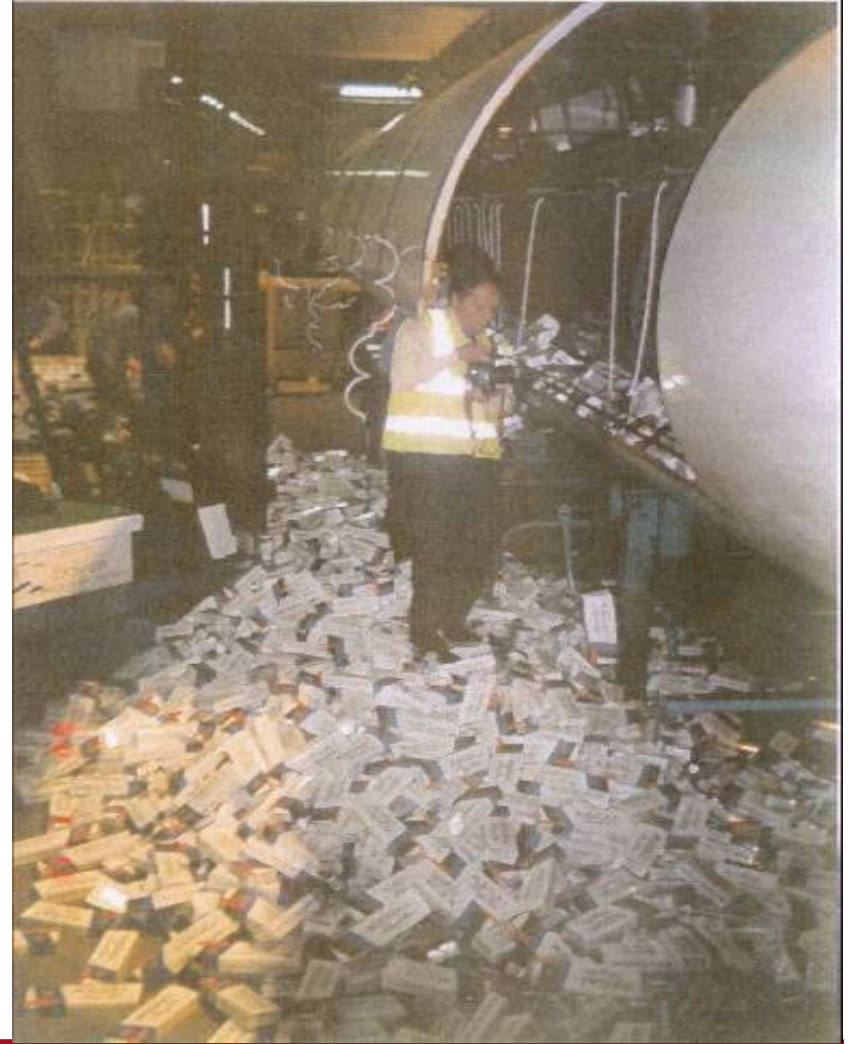
# Illicit Trade – Counterfeit Cigs Inc. - China



# Illicit Trade – From Russia with Love



# Illicit Trade – Bulk Orders -



# Illicit Trade – & Direct Sales



## GV – Seizure Dubai



## Street Sellers London



# Quantifying illicit trade



- Estimated that 330–660 billion cigarettes smoked a year are illicit
- Illicit = smuggled genuine product OR undeclared local production (“illicit whites”) OR counterfeit
- 6% - 10% of world consumption
- Government losses estimated to be US\$20-40 billion in unpaid tobacco taxes
- Legitimate tobacco companies losing US\$5–10 billion in revenue
- Rule of thumb - Global proportion of illicit trade in cigarettes is 70 per cent smuggled genuine or local tax evaded and 30 per cent counterfeit
- Counterfeit is a big problem, but smuggling is more significant

# Who does AIT hurt?



- Imperial Tobacco: loss of profits; brand equity; reputation; smaller legitimate markets
- Employees: exposure to allegations of criminal complicity incl. smuggling and money laundering
- Industry: fosters counterfeit products and increased regulation
- Distributors: loss of profits
- Consumers: poor quality; contaminated counterfeit
- Governments: undermines fiscal and health policies
- Society: funds crime and terrorism



The Times  
Circulation 692,111  
Monday, 27 January 2003



Imperial cut distributors when it was accused of exporting cigarettes to markets such as Afghanistan and knowing that they would return to the UK

# Contributing Factors to Growth

Increasing  
Taxation and  
excise  
differentials

Free Trade  
Zones

Commoditisation

Lack of  
Enforcement  
Resources

Lightweight  
Penalties

Victimless  
Crime

Internet

Irresponsibility  
of some  
Manufacturers

Regulation &  
Legislation

Globalisation  
of Brands

Global Economic Crisis



# The Motivation

A premium brand purchased by smuggling ring at retail price in Ukraine and sold in the UK at 50% of RRP nets criminals a profit of.....

**€1,300 per Master Case**



**€65,000 per white van**



**€6,500 per car**



**€1,100,000 per container**

# Why is AIT so important to ITG?



## Superkings Kingsize

- Never launched in UK by ITL
- Launched “de facto” through contraband
- Contraband controlled by Supply Policy in 2003/4
- Now 45% of UK illicit trade is in counterfeit SKKS
- 58 Counterfeit Variants
- 485 million counterfeit sticks seized since 2004



*A lesson learned?*

# Current Situation



- Imperial Tobacco announced on 27<sup>th</sup> September 2010 that we have entered in to an agreement with the EU Member States (through OLAF) to combat illicit trade
- OLAF l'Office européen de Lutte Anti-Fraude (European Anti-Fraud Office)

# 27 September 2010

## Imperial Tobacco and European Union sign co-operation agreement to jointly combat illicit trade in tobacco



Imperial Tobacco is pleased to announce that it has today signed a co-operation agreement with the European Commission and the Member States of the European Union to jointly combat illicit trade in tobacco.

Under the agreement Imperial Tobacco will work together with the European Commission and the law enforcement authorities of the Member States to tackle the smuggling and counterfeiting of tobacco products.

The agreement will strengthen cooperation in a number of areas and includes payments by Imperial Tobacco of US \$300 million (EUR 207 million\*) over 20 years to fund anti-illicit trade initiatives.

Imperial Tobacco Group Chief Executive, Alison Cooper, said: "Imperial Tobacco initiated this agreement to strengthen joint initiatives to combat the illicit trade in tobacco.

"Illicit trade benefits no one but the criminals involved, adversely affecting governments, consumers, retailers and the legitimate tobacco industry.

"The agreement will enhance anti-illicit trade initiatives across the European Union and underlines our commitment to partner with authorities worldwide in the fight against tobacco smuggling and counterfeiting."

Imperial Tobacco applies stringent controls to its global network of distributors and has a dedicated team of specialists who operate internationally in conjunction with governments and customs and excise authorities on a global scale to disrupt the manufacture and supply of illicit tobacco products.

# Anti Illicit Trade



- As a company operating in an ever-changing environment we are subject to more and more legislation and restrictions
- We have a stringent internal supply policy
- Know Your Customer – wider implications
  - This now encompasses much more than just customers.
    - Customers
    - Freight Forwarders
    - Warehousing
    - Contract Manufacturers
    - Agents & Commission Receivers

# What is a Contractor?



Contract  
Manufacture



Sale

**Customers and  
handlers of finished goods**



Distribution



Storage



Shipment e.g.  
freight  
forwarders

# Approved Contractors



- Imperial have established a database to contain information and checks for all contractors.
- All of these contractors are checked against sanctions lists in the first instance and then at least annually.
- Data collected in the database includes
  - Company details
  - Directors details
  - Delivery Point
  - Products and pricing
  - Bank information
- The information is then be validated and authorised by senior management to ensure Imperial are meeting their obligations under the EU AIT Agreement and their own supply policy



# Syria

- High on a number of lists from the USA
- Supporter of Terrorism
- ITG inherited by acquisition
- Large volumes/profit
- Justification for trading to D of J / FCPA involvement

- Again inherited through acquisition
- Controls all Duty Free outlets/Border shops in Syria/Lebanon
- Brother in law of President's uncle and major controller of product into ME
- New arrangements made for sales into Region



- The world is getting smaller!

- Our corporate and legislative responsibilities are getting larger