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INTERNATIONAL

# Fighting illicit trade, an imperative for public security, public health and a smoke-free future

*Illicit trade directly impacts people's lives. It endangers consumers by exposing them to inferior, noncompliant products; it hurts legitimate businesses and deprives governments of much-needed tax revenues; and it fuels criminal organizations, facilitating other serious crimes.*

In recent years, eliminating illicit trade in tobacco products has become even more urgent as it hinders progress toward improving public health, and undermines Philip Morris International's (PMI) envisioned smoke-free future—in which cigarettes no longer exist, having been replaced by better alternatives for those adults who would otherwise have continued to smoke.

Cigarettes are by far the most harmful form of nicotine consumption, and it is in society's interest to help smokers move away from them. Unfortunately, the availability of cheap, unregulated cigarettes in the underground economy impairs efforts to reduce smoking rates and prevent youth from smoking. With the emergence of smoke-free categories, rouge operators have also started to turn their attention to these. **If we are to achieve a smoke-free future, it is vital that governments tackle illicit trade in all nicotine-containing products.**

It will not be an easy task. Illicit trade is a complex and far-reaching phenomenon that will only be resolved with an approach that is holistic and coordinated. Such a response must include moving past failed tobacco control policies to more effective solutions, empowering law enforcement efforts, and fostering productive public-private partnerships.

For PMI, illicit trade prevention is a top priority. Efforts and investments to secure our supply chain, protect our products and consumers, and prevent criminals from dealing in cigarettes and smoke-free products extend across our entire business.



## Preventing illicit trade is critical for public health

*The world today has an unprecedented opportunity: to eradicate smoking—and not in some far-off future but potentially within five to 10 years in some markets. Advances in science and technology have spurred the development of better alternatives for adults who would otherwise continue to smoke, making it possible for the first time to envision a future free from cigarettes.*

That future is threatened by the vast quantities of unlawful and inferior-quality tobacco products easily accessible worldwide. These illicit products have potentially serious consequences for consumers, as these goods are produced in substandard conditions in complete disregard of the rule of law and applicable tobacco control regulations. When basic safety and quality standards are ignored, consumers pay the price.

The easy availability of low-priced illicit products also discourages smoking cessation efforts, undermines youth access prevention measures, and may prevent adult smokers who don't quit from considering better alternatives to cigarettes. This, in turn, undermines public health goals.

Philip Morris International is calling on regulators and policymakers to advance a sensible approach that puts public health—and the interests of adult smokers—front and center. At present, millions of adult smokers are turning to the black market rather than quitting (the best choice to make) or potentially switching to one of the better alternatives now available. We must make every effort to close this avenue of access in the interest of smokers and public health.

### KEY FACTS AND FIGURES

The [World Economic Forum](#) has warned that illicit trade creates an annual drain on the global economy of USD 2.2 trillion.

As much as 14-15 percent of total cigarette sales (excluding China and U.S.) are sourced from the black market, according to PMI estimates based on [Euromonitor](#) and WHO statistics. PMI estimates that close to 500 billion illicit cigarettes are consumed globally every year.

Criminals can make as much as USD 2.3 million in profit from a single smuggled container carrying 10 million illegal cigarettes.



## Preventing illicit trade promotes public security

*Organized crime is thriving while putting consumers—and society as a whole—at risk. Illicit tobacco products are a major and growing source of funding for transnational criminal networks. These goods appeal to criminals due to their high profitability, ease of transport, and—in the absence of efficient regulatory oversight—lighter penalties and sanctions compared with other illegal goods.*

### ILLICIT TRADE IN TOBACCO IS NOT A VICTIMLESS CRIME

Around the globe, criminal organizations are a significant and growing threat, and they feed off illicit trade. Illicit trade fuels ruthless gangs, with an outsized impact on the most vulnerable communities and populations. It deprives governments of tax revenue needed to provide public services, including security, and undermines trust in institutions and the rule of law. On top of this, those involved in illicit trade often are linked to other serious crimes such as human trafficking, corruption, human rights abuses, and money laundering.

Illicit trade—in all its forms—undermines global efforts to promote peaceful, just, equitable, and prosperous societies and achieve a sustainable future. **It is in the whole of society's best interest to work together to eradicate it.**

### WHAT IS THE INTERNATIONAL COMMUNITY SAYING?

The OECD estimates that the volume of international trade in counterfeit and pirated products could amount to as much as USD 464 billion. This represents up to 2.5 percent of world trade.

The U.S. Department of State has called the illicit tobacco trade a “threat to national security,” costing taxpayers and governments worldwide between USD 40 and 50 billion annually.





## The real-life consequences of failed policymaking

*Traditional tobacco control policies are not doing enough to curb illicit trade and reduce smoking prevalence. These four deficits must be urgently addressed:*

### 1. STEEP AND ABRUPT TAX INCREASES CAN DRIVE ADULT SMOKERS TO SEEK OUT BLACK MARKET ALTERNATIVES

The taxation of tobacco products generates government revenue and plays an important role in discouraging youth access and promoting cessation. When these taxes are too high, or are subject to steep increases, however, criminals rush to offer less expensive, unregulated, and untaxed illegal products, including counterfeits—and consumers of nicotine products have a compelling financial incentive to purchase them rather than using legal routes.

Tax-based price disparities of legitimate products across countries—and sometimes even across states or provinces in the same country—may also encourage smuggling schemes.

In times of economic hardship, demand rises for illicit products that skirt excise taxes and don't comply with applicable laws, including safety and quality standards. In effect, excessive taxation prices millions of adult smokers out of the legitimate tobacco market and pushes them into the black market.

### THE CONSEQUENCES OF FOLLOWING OLD RECIPES FOR TOBACCO CONTROL:

In **France**, smoke-free products are legal but are treated similarly to cigarettes and subjected to high taxes. While tobacco consumption has remained largely stable, illicit trade is on the rise.

According to a 2023 KPMG Report, France has the highest illicit cigarette consumption in all of Europe. With 16.8 billion illicit cigarettes, the market is responsible for nearly half the total illicit consumption of the entire European Union. This results in an annual tax revenue loss of €7.3 billion.

### 2. PROHIBITIVE POLICIES SIMPLY DON'T WORK

“Endgame” proposals such as bans do not prevent people from smoking or using other nicotine-containing products. As we've seen in **Australia, Brazil, Mexico and Singapore**, such bans are almost impossible to enforce and only spur further growth of the black market. We need sound regulation that creates an environment in which adult smokers have access to and incentives to switch to better alternatives if they don't quit.



Real-world data show that preventing adult smokers from accessing the better smoke-free products now available deters them from quitting and allows illicit trade to flourish. Rather than prohibiting products and pushing them further underground—to the benefit of criminal enterprises—governments should take immediate steps to support adult smokers in making better choices.

## A GLIMPSE INTO THE REAL-WORLD CONSEQUENCES OF PROHIBITIVE APPROACHES:

**Australia** has some of the most restrictive policies on tobacco and nicotine-containing products. In an attempt to prevent youth uptake of e-cigarettes, the nation restricted legal e-cigarette sales in 2021 to pharmacy/prescription-only. The result: More than 90 percent of users now buy their vapes on the black market, and e-cigarette use has grown dramatically, especially among youth. This spike in illicit trade has even fueled “wars” between rival criminal gangs, which has led to over 80 fire bombings and at least two shootings connected to the illicit tobacco and vape trade since restrictions were put in place.

A similar trend has been observed in other countries that have taken a prohibitionist approach, including **Brazil, Mexico, and Singapore**. In these countries, where e-cigarettes and other smoke-free products have been banned or heavily restricted, between 23 and 30 percent of nicotine consumers still have access to them via the black market rather than legitimate outlets.

## 3. LAW ENFORCEMENT AGENCIES ARE OVERSTRETCHED, AND PENALTIES FOR ILLICIT CIGARETTES AND OTHER NICOTINE-CONTAINING PRODUCTS ARE INADEQUATE.

Stringent penalties for illicit trade and strict enforcement of the law are critical for success.

## 4. INADEQUATE INFORMATION ABOUT AND LIMITED ACCESS TO BETTER ALTERNATIVES KEEPS SMOKING RATES HIGH AND MAY STOKE THE ILLICIT MARKET.

It is not enough for better alternatives to cigarettes to exist. Ultimately, we need to eliminate the demand for cigarettes. Adults who smoke, especially in lower-income strata, need to be made aware of these better products and be able to access them. Countries such as Japan, New Zealand, and Sweden have reduced smoking rates without a corresponding rise in criminal activity thanks in large part to policies that encourage adult smokers to switch to better alternatives.



To promote public health, it is imperative that societies worldwide enact policies that support the decline of cigarette consumption while also reducing illicit trade. We need policies that combine existing measures to discourage smoking with new approaches which make better alternatives to cigarettes affordable and accessible so more adult smokers who don't quit, switch to them and give up cigarettes once and for all. This is how we will end cigarette smoking soonest.



## Effective policymaking for the millions of adult smokers and nicotine users

*Governments must be relentless about 1) preventing organized crime syndicates from profiting from illicit trade in tobacco and nicotine-containing products and 2) encouraging adults who would otherwise continue to smoke to switch to better alternatives. These are complementary goals.*

An efficient regulatory approach to curb illicit trade will inform consumers about the risks of the black market, and provide tools and resources to empower law enforcement to vigorously pursue and penalize those dealing in illicit goods.

### THE FOLLOWING MEASURES ARE CRITICAL TO THE ERADICATION OF THE BLACK-MARKET TRADE IN TOBACCO PRODUCTS:

- **Balanced regulation for products and sensible taxation schemes.** Avoiding prohibitive approaches and excessive taxes are fundamentals in fighting illicit trade.
- **Strengthen penalties and enforcement.** Deterrent penalties and effective law enforcement are the other cornerstone of any strategy to curb illicit trade.
- **Heighten consumer awareness.** Consumers need to recognize the consequences of buying unregulated, smuggled, or counterfeit products. Education and awareness campaigns are critical to ensuring the most vulnerable in society can protect themselves from illicit trade and its repercussions.
- **Seize and destroy.** Seized products and manufacturing equipment should be routinely destroyed, and the assets of convicted tobacco traffickers should be forfeited.
- **Enhance supply chain controls.** Technological innovation can give governments, retailers, and consumers the ability to rapidly determine whether a product is genuine or fake. Track and trace solutions can help address smuggling activities. Security features can help authenticate products and address counterfeiting issues.
- **Foster public-private partnerships.** Coordinated, committed, and continuous action across the public and private sectors, locally and internationally, is vital.

Illicit trade is a societal ill with far-reaching consequences. From depleting government coffers to undermining efforts to end cigarettes, illicitly produced and sold products undermine societal progress and safety. We cannot afford to take half measures in combating this growing threat.



## PMI's illicit trade prevention efforts extend across our entire business

From implementing supply chain controls and product authentication measures to collaborating with law enforcement agencies, fostering public-private partnerships, protecting the legitimate commercialization of our products, and ensuring our customers are sold only genuine products, fighting illicit trade is an integral part of our work to protect consumers and our brands from smugglers and counterfeiters and to drive operational excellence at PMI.

Eliminating the illicit tobacco trade has been a long-standing priority for PMI. We must do all we can to ensure adult smokers and nicotine users are not exposed to illicit products. As we advance on our journey toward a smoke-free future, we must increase our efforts to secure both our supply chain and the complete portfolio of products we sell.

We invest heavily in safeguarding the consumer journey for the millions of adult smokers who choose to switch to better alternatives. This includes protecting the legitimate commercialization of our products according to applicable regulations.

PMI has a zero-tolerance approach to illegal trade. We implement track and trace solutions, sophisticated security features, and comprehensive controls to secure our supply chain and protect our products and consumers.

**Supply chain controls.** PMI's efforts to fight illicit trade are embedded in our day-to-day operations. We hold all customers and suppliers to strict due diligence standards and protocols. We use state-of-the-art technology and appropriate safety and quality controls. And we have in place internal processes to secure our supply chain and protect our entire portfolio and brand integrity.

Every year, we conduct a rigorous and comprehensive risk assessment to identify markets at higher risk of outflows in combustible or smoke-free products. To ensure our products are sold legally in the markets for which they are intended, we apply anti-diversion tools such as a "know your customer" policy, volume monitoring, and track and trace technologies.

In 2023, PMI's track and trace processes reached more than 150 countries. Including third-party manufacturers, this involves tracking the production and movement of our products across more than 40 combustible product factories and more than 20 smoke-free consumables factories.





**Product protection.** At PMI, we work hard to ensure our customers are sold only genuine and authentic products from authorized channels, including in the e-commerce space. To that end, we leverage innovative tools and techniques to detect and tackle illicit trade; these include the application of authentication and security technologies and the use of AI to identify and prevent illegal online sales.

Safeguarding our product portfolio is vital. We invest heavily in product protection, incorporating both visible security features (e.g., serialized digital codes) and invisible/forensics features. Additionally, we use tamper-proof features or system features such as firmware level protection in our electronic products to ensure that they are protected against tampering and other unauthorized modifications.

**Public-private collaboration.** To protect consumers and our brands from smugglers and counterfeiters, our internal efforts need to be coupled with strong cross-sectoral collaboration, including with law enforcement. Coordinated partnerships involving governments, the private sector, and civil society are vital to combating this issue.

PMI collaborates with law enforcement agencies and other organizations all over the world to root out and shut down illegal activities, including counterfeiting and smuggling operations. We assist law enforcement agencies by inspecting and authenticating seized products, performing forensic evaluations and profiling, sharing intelligence about emerging routes and trends shaping the black market, and training officials on the product authentication tools and security features we use to protect our products.

We work in close collaboration with authorities to identify and bring to justice those involved in illicit trade, using our experience, network, operational intelligence, resources, and technology.

Over the past few decades, PMI has entered into numerous cooperation framework agreements with customs authorities and governments around the world as part of our comprehensive program to combat illicit trade.

In 2021, for instance, PMI signed a memorandum of understanding with the U.S. Department of Homeland Security's National Intellectual Property Rights Coordination Center to assist and support Homeland Security Investigations' targeting of transnational criminal networks involved in the illicit tobacco trade and intellectual property rights violations.

Illicit trade and criminal economies are a complex global scourge that requires a coordinated response by multiple parties. PMI stands ready to work with law enforcement agencies, regulators, and policymakers worldwide to enact impactful changes. PMI supports relevant regulations such as the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products and the EU Tobacco Products Directive's track and trace provisions.

**Youth access prevention.** Tobacco and nicotine products are not intended for people who have never smoked, people who have already quit cigarettes and other nicotine-containing products, or anyone below the legal age for of purchase. Unfortunately, criminal organizations respect no ethical boundaries, regulatory restrictions, or age limits regarding illicit tobacco and other nicotine-containing products.



## YOUTH ACCESS PREVENTION PROGRAM

PMI has developed a holistic and comprehensive approach to guarding against youth access to our products.

These measures primarily consist of ensuring that, when attempting to purchase our products, potential buyers are age-verified across all access channels, including PMI-managed boutiques, PMI e-commerce platforms, third-party retailers, and online marketplaces. While our control over these channels varies, we make every effort to guard against youth access to our products regardless of the point of sale.

In 2023, we strengthened governance of our youth access prevention programs in our indirect retail channels and continued to cover a high share (98 percent) of our total shipment volume with these programs.

## PMI'S APPROACH TO ILLICIT TRADE PREVENTION IN BRIEF

- We are committed to helping legal-age smokers switch to better, smoke-free alternatives. Doing so requires that we build and maintain a robust and secure supply chain, guaranteeing that our products reach only their intended markets and consumers.
- PMI invests in public awareness of the real-life consequences of the black market. Consumers must be made to understand that purchasing illicit tobacco products undermines public safety, funding for social programs, youth safeguards, and the achievement of a smoke-free future.
- To combat illicit trade on social media and e-commerce platforms, we leverage AI and other advanced technologies to monitor unauthorized resellers and help law enforcement authorities remove illegal listings.

## FIGHTING ILLICIT TRADE, AN IMPERATIVE FOR A SUSTAINABLE FUTURE

The proliferation of illicit financial flows, corruption, human rights abuses, tax avoidance and other activities connected to illicit trade schemes is depriving vulnerable countries of much needed resources, undermining a sustainable future.

Prioritizing efforts to reduce illicit trade is, therefore, essential for countries around the world to advance sustainable development. For PMI, fighting illicit trade and the criminals that profit from this scourge is critical to upholding public security and protecting our community, and benefits consumers, legitimate businesses, governments, and civil society.



Societies can only grow and prosper within a stable and secure environment. Accordingly, eliminating illicit trade in tobacco and nicotine-containing products is a significant element of PMI's approach to sustainability, creating long-term value while minimizing the negative impacts associated with our products, operations, and value chain. **Securing our supply chain and fighting illicit trade is integral to our efforts to drive operational excellence and build a sustainable future.**

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As PMI works to achieve a smoke-free future, tackling illicit trade in all its forms will be crucial.

In short: To deliver a smoke-free future, we must defeat illicit trade.

For more information about PMI's illicit trade prevention efforts, visit [PMI.com](https://www.pmi.com).