

## Royal United Services Institute (RUSI) News Release

**EMBARGO: TUESDAY 31 JULY 00:01 (BST)**

For attn: News Desks / Crime / Business Correspondents

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### **Europe's illicit cigarette trade is a major loss of tax revenue despite a declining trend, new study finds**

*The latest KPMG study commissioned by RUSI reveals that almost 45 billion illicit cigarettes were consumed in Europe in 2017, despite a 7.4% decline on 2016 figures. This equates to €10 billion in lost tax revenues for governments, with illicit cigarettes accounting for 8.7% of total consumption in 2017.*

The overall decline in the consumption of illegal cigarettes occurred against a backdrop of continued efforts by law enforcement. However, in some countries, including the UK, the Baltic States and Romania, illicit cigarette consumption continued to reach high levels. These levels were sustained as smugglers and counterfeiters continued to take advantage of the large price difference on cigarettes between non-EU and EU countries.

#### Key insights:

- 44.7 billion counterfeit and contraband cigarettes were consumed in Europe in 2017, depriving governments of as much as €10 billion in lost tax revenues.
- Illicit consumption declined by 7.4% on 2016 levels, when lost tax revenue stood at €10.2 billion, continuing the declining trend seen in 2015-2016.
- Flows of illicit whites with no country-specific labelling accounted for the largest single source of illicit cigarettes across Europe in 2017, despite declining flows from Belarus and Ukraine – the largest source countries in 2016.
- In 2017, counterfeit cigarettes accounted for a larger share of overall illicit cigarette consumption than in any of the previous four years.
- Five countries (France, Poland, the UK, Germany and Romania) accounted for over 62% of all illegal consumption in Europe in 2017.
- Despite the overall decline, contraband and counterfeit cigarettes in the UK and Ireland grew to 18% and 20% of consumption respectively – two of the highest rates in the study.

This study was commissioned by RUSI, with quantitative data supplied by KPMG through their annual Project SUN report. This is the only report of its kind to investigate the scale and forms of illicit cigarette consumption across the EU, Norway and Switzerland on an annual basis, allowing for year-on-year

comparisons.

This year, RUSI has provided additional analysis on important trends and developments in the illicit marketplace, including the use of the internet and postal system to facilitate illicit trade in cigarettes. This analysis paves the way for a forthcoming RUSI report due for release in early October 2018, which will explore in greater detail how organised crime groups exploit online and postal services to their advantage.

Cathy Haenlein, Senior Research Fellow at RUSI, notes the importance of this topic: “Organised crime groups involved in the illicit cigarette trade are increasingly using online platforms and postal services to facilitate their activities – a trend which poses significant challenges to law enforcement across Europe and does not appear set to decline. It is crucial that we deepen our knowledge of these dynamics, which add crucial context to the consumption figures published by KPMG”.

### Report Methodology

Following an established and rigorous quantitative methodology, KPMG conducted a range of statistical analyses for each of the countries studied. These examine the prevalence of illicit cigarette consumption in each country, the origins of non-domestic inflows, the destinations of outflows, as well as the main brands involved.

This year, RUSI has provided additional analysis on important trends and developments in the marketplace for illicit cigarettes. The research draws on desk-based research as well as semi-structured interviews with law enforcement, industry and academic experts in a range of countries, as detailed in the Methodology section of the report.

### NOTES TO EDITORS

1. The Executive Summary of *Project SUN: A Study of the Illicit Cigarette Trade in the European Union, Norway and Switzerland*, is attached to this email.
2. The annual KPMG Project SUN report investigates the scale of illicit cigarette consumption in the EU, Norway and Switzerland. The quantitative data supplied by KPMG was supplemented with additional commentary from RUSI. A full version of this RUSI analysis will be published in early October 2018 at <<https://RUSI.org/illicittrade2018>>.
3. RUSI received funding for the study from British American Tobacco and Philip Morris International.
4. RUSI is the world’s oldest independent defence and security think tank. Its mission is to inform, influence and enhance public debate on a safer and more stable world. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today’s complex challenges.
5. Contraband cigarettes are genuine products that have either been bought in a low-tax country and exceed legal border limits or have been acquired without payment of tax for export purposes to be illegally re-sold in a higher priced market. Counterfeit cigarettes are illegally manufactured and sold by a party other than the original trademark owner. Illicit whites are cigarettes that are usually manufactured legally in one country/market but which evidence suggests have been smuggled across

borders to a destination market where they have limited or no legal distribution and are sold without payment of tax. A full glossary can be found on pages 1–2 of the Executive Summary.

6. For further information, or interviews, contact Saqeb Mueen, [smueen@rusi.org](mailto:smueen@rusi.org), +44 20 7747 2618