East & Central Africa: Overview of the Illicit Trade in Tobacco Products

Cape Town – 12th November 201
Overview

• What is BAT’s East & Central Africa Area?
• Criminal threats to tobacco sector
• How big is the problem?
• Examples of the Illicit Trade in Tobacco Products
• A close look at one major threat – illicit whites
• Private sector capabilities in tackling illicit trade
What is our East & Central Africa Area?

Fifteen markets:

- Burundi
- Comoros
- DRC
- Djibouti
- Eritrea
- Ethiopia
- Kenya
- Madagascar
- Mauritius
- Reunion
- Somalia
- Somaliland
- South Sudan
- Tanzania
- Uganda
## Market Size versus Problem Size?

### Known Duty Paid Volumes

<table>
<thead>
<tr>
<th>Market/region</th>
<th>Million sticks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>5,770</td>
</tr>
<tr>
<td>DRC</td>
<td>6,796</td>
</tr>
<tr>
<td>Indian Ocean Isles</td>
<td>5,216</td>
</tr>
<tr>
<td>Horn of Africa</td>
<td>7,573</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>8,668</td>
</tr>
<tr>
<td><strong>Total Duty Paid</strong></td>
<td><strong>34,023</strong></td>
</tr>
</tbody>
</table>

### Illicit Volume Size?

- 5% ?  = 1.70 Billion Sticks
- 7% ?  = 2.38 Billion Sticks
- 9% ?  = 3.06 Billion Sticks
- 11% ? = 3.74 Billion Sticks
## Threats – types of ITTP

<table>
<thead>
<tr>
<th>Locally Produced, Tax Evaded</th>
<th>Smuggled Genuine, Commercial Use</th>
<th>Smuggled Genuine, Personal Use</th>
<th>Counterfeit</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPTE</td>
<td>SGCU</td>
<td>SGPU</td>
<td>CF</td>
</tr>
<tr>
<td>Locally produced and consumed products where full taxes are evaded</td>
<td>The import of product where the full taxes are evaded in the country of consumption</td>
<td>Duty free or duty paid imports in quantities in excess of customs allowances</td>
<td>Imitation of a branded product manufactured without the approval of the trademark owner. Almost always will not have full taxes paid in country where consumed</td>
</tr>
</tbody>
</table>
Source, Transit, Consumption in ECAA?

DRC: Source, Consumption
Smuggled Genuine, Commercial Use
Locally Produced, Tax Evaded

Ethiopia: Consumption
Smuggled Genuine, Commercial Use

South Sudan: Source, Transit, Consumption
Locally Produced, Tax Evaded

Uganda: Source, Transit, Consumption
Locally Produced, Tax Evaded

Somalia: Transit, Consumption
Smuggled Genuine, Commercial Use

Kenya: Source, Transit, Consumption
Locally Produced, Tax Evaded
Counterfeit, local manufacture
Smuggled Genuine, Commercial Use

Mauritius: Consumption
Counterfeit, imported
## Threat - “Cheap Whites” from Jebel Ali, UAE

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers</td>
<td>11</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>16+</td>
</tr>
<tr>
<td>Trading Companies</td>
<td>8</td>
<td>18</td>
<td>17</td>
<td>17</td>
<td>17+</td>
</tr>
<tr>
<td>Shipping Agencies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>79</td>
<td>79+</td>
</tr>
<tr>
<td>Raw Material Suppliers</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

*Producing up to 72 billion sticks per year*
“Cheap Whites” - a growing problem

- Low-cost cigarettes made and sold by 3rd or 4th tier producers who do not have adequate supply chain controls
- They are sold legally to a “first purchaser” in the country of manufacture
- Subsequent purchasers smuggle product across borders without paying tax
- They generally do not comply with regulatory product or packaging standards in consumption market
- Generally sold at one third of the price of domestic duty paid cigarettes
- They do not infringe intellectual property rights
- They are generally legal at the point of production
- Many elements of the supply chain are completely legal – in complete contrast to a counterfeit operation
Size of the cheap white problem?

<table>
<thead>
<tr>
<th>Brand</th>
<th>Mombasa to South Sudan</th>
<th>Massawa to Sudan</th>
<th>Djibouti</th>
<th>Berbera</th>
<th>Mombasa</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blues English</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,000</td>
<td>-</td>
<td>3,000</td>
<td>1.2%</td>
</tr>
<tr>
<td>Business Royals</td>
<td>23,000</td>
<td>2,000</td>
<td>37,000</td>
<td>160,000</td>
<td>-</td>
<td>222,000</td>
<td>88.4%</td>
</tr>
<tr>
<td>Gold Mount</td>
<td>14,000</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
<td>15,000</td>
<td>6.0%</td>
</tr>
<tr>
<td>Reds Virginia</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>2,000</td>
<td>-</td>
<td>3,000</td>
<td>1.2%</td>
</tr>
<tr>
<td>Sir</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,000</td>
<td>8,000</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Total (MC)</strong></td>
<td><strong>37,000</strong></td>
<td><strong>3,000</strong></td>
<td><strong>38,000</strong></td>
<td><strong>165,000</strong></td>
<td><strong>8,000</strong></td>
<td><strong>251,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Master Case = 10,000 sticks (500 pack of 20): **251,000 MC = 2.51 Billion sticks**

South Sudan, average street price for pack of 20 sticks = SSP 2

Street value of a Master Case = SSP 1,000 or about $500

South Sudan: 37,000 MC X $500 = $18,500,000 X 74% Duty = $13,690,000
Value for the illicit trader?

- Manufacturing cost known to range from $20 up to $90 per MC
- Gold Mount sold for between $75 to $90 to a UAE based exporter
- Gold Mount 10’s sell in Juba for SSP 1, which is about £25

Example: Gold Mount into South Sudan

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy Mastercase of 10’s in Dubai (1,000 packs)</td>
<td>$90</td>
</tr>
<tr>
<td>Sell in Juba for SSP 1 per pack X 1,000 packs</td>
<td>$500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$410</td>
</tr>
<tr>
<td>Gross profit on container of 1,000 MC</td>
<td>$410,000</td>
</tr>
</tbody>
</table>
Private sector capability?

- Vested interest in a level playing field for all business sectors
- International footprint – e.g. BAT operates in 183 markets globally
- Extensive knowledge of the global supply chain
- Extensive knowledge of our respective illicit trade sector
- Same is true for vast majority of large companies
- Keen to facilitate an efficient and clean supply chain
- Every FMCG is a Subject Matter Expert in its respective industry
- Private sector knowledge and information is applicable to:
  - Risk profiling
  - Detecting anomalies and suspicious consignments
  - Understanding the provenance of suspect goods
  - Identifying routes and illicit trade actors
Way ahead - partnership?
Case Study: Illicit whites to UK via East Africa

Cape Town – 12 Nov 2013
Modus Operandi

- UK based freight forwarder operated an ERTS (Enhanced Remote Transit Shed) facility enabling them to remove uncleared freight from London airports to their own warehouses.

- Circumvented UK Customs using deliveries of cigarettes and drugs concealed within consignments of fresh fruit and vegetables from East Africa.

- Various exporters and importers used – companies changed each and every time a seizure was made.

- 30+ separate consignments from Kenya and Uganda were seized.

- **33 Million** non-duty paid cigarettes seized in UK, Kenya and Europe from this same Organised Crime Group.

- 10 defendants currently standing trial in UK including alleged mastermind, a Uganda national based in Dubai.

- In addition to cigarettes, they are accused of smuggling 1.5 tonnes of cannabis, 105 kilos of cocaine and 1 kilo of heroin.
Routing
Kenya Revenue Authority seizures – June 2010

- 21Jun 2010 - Container from Dubai examined at Mombasa Port by KRA
  - Contents declared as assorted electrical goods
  - 6.1 million Richman cigarettes found

- 26 Aug 2010 - Container from Dubai examined at Mombasa Port by KRA
  - Contents declared as assorted electrical goods
  - 4 million Richman cigarettes found
Kenya Revenue Authority seizures - November 2010

400,00 Richman Cigarettes found at Mombasa Moi Airport, destined for UK
In addition

- 1\textsuperscript{st} June 2013 KRA found 88 kgs of cannabis resin at Jomo Kenyatta Airport (JKIA) Nairobi, concealed within boxes of fresh chillies destined for the UK

- Same exporting company linked to the group smuggling Richman cigarettes into the UK

- Operation ran until May 2012 when main protagonists were arrested
Issues

• HMRC got some but not *all* the evidence required for the on-going case from Kenya and none of the evidence from Uganda
• MFA systems for International Letters of Request were difficult
• *Nobody* was prosecuted in Kenya for the evasion of duty at Mombasa – the containers are still at the port with the cigarettes within
• Nobody was prosecuted in Uganda, however one Ugandan arrested in UK
• Officers gathering evidence in Kenya learned that fresh fruit and vegetable produce could be exported without any further examination or scanning if it arrives sealed as at (air) port of departure
• Strong likelihood that this MO or similar is still used, as it is clear that East Africa is a transit destination of choice for cigarette smugglers
• The drug traffickers in East Africa using same MO have never been identified
Learning points

• UK Border Force have reviewed potential misuse of ERTS (Enhanced Remote Transit Shed)

• This has resulted in a change programme starting 1 April 2013 and will take approximately 30 months to complete

• Potential for further engagement between Public and Private sectors to work together on similar future cases. Debrief required to work through the issues

• “Portwatch” proposition would allow better opportunities for detection, seizure, arrest and prosecution

• Drug traffickers and cigarette smugglers using same routes and MO

• Working together can we have an impact. Dealing with illicit trade in isolation is a difficult way forward