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Working together to
tackle **illicit trade**



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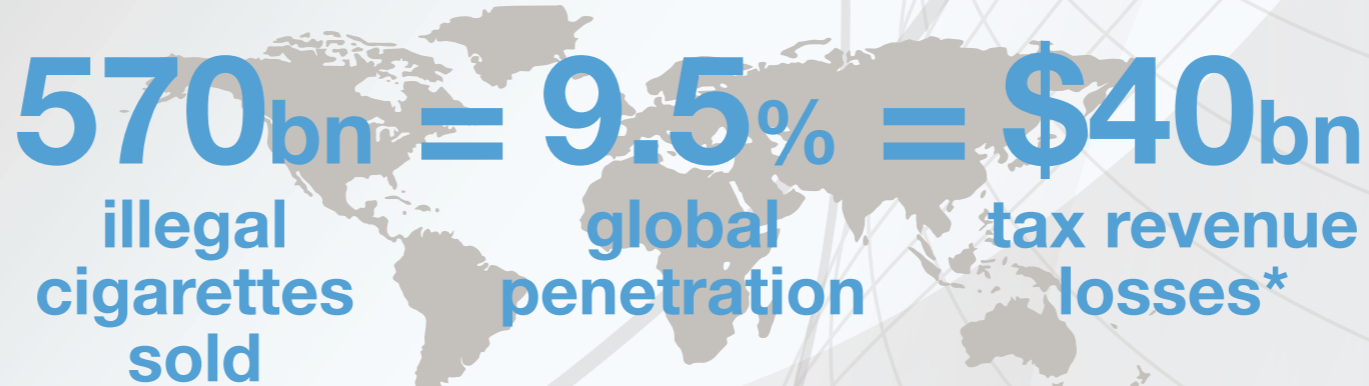


Introduction

Illicit trade in tobacco products is a significant and growing problem worldwide.

Illicit trade in tobacco products creates uncontrolled and unaccountable markets where governments are deprived of tax revenues, the livelihoods of tobacco retailers are threatened and where children can more easily obtain tobacco products. Consumers of illicit tobacco are exposed to products which are manufactured without regard to the strict standards and sophisticated regulatory requirements that legitimate tobacco manufactures are committed to achieving.

Ultimately, illicit trade benefits only the criminals involved.



Tobacco products tend to be popular for illicit traders as they are easily transported, have a high value-to-volume ratio, lower criminal penalties than other forms of criminal activity and offer a considerable profit opportunity due to taxes representing a significant proportion of the retail price. It is estimated that around 570 billion illegal cigarettes are sold worldwide each year – representing 9.5% of the global market – that costs governments an estimated US\$40billion in duty revenue losses*

*Source: Euromonitor International





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For some, national taxes can account for over 80% of the overall cost.

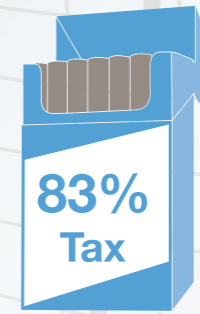
*Source: WHO Report on Global Tobacco Epidemic



UK



Turkey



Hungary

Contraband / 'black market goods'

Legitimate products purchased on a duty paid or duty free basis, which are then smuggled into other markets and sold illegally in contravention of fiscal or customs' laws.

Counterfeit

Fake replicas of existing brands or products, which are manufactured and/or sold in violation of trade mark rights. No duty is paid on these products.

'Illicit Whites'

Cigarettes that are usually produced legally in one country or market, primarily for smuggling purposes. While they may also be exported legally from some countries, they are often trafficked across borders on the way to their destination market, where they have limited or no legal distribution and are sold without payment of duty.





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In **2013** the EU saw its regional volume share of global illicit cigarette market reach

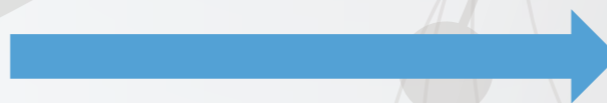
58.6bn
sticks



10.5%
of total EU consumption

Consumption of illicit white brands in the EU in 2013*

17.1bn



19.6bn

33%
of overall illicit consumption

*Source: KPMG (Project Sun)





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Our position

Imperial Tobacco is firmly opposed to illicit trade in all of its forms and cooperates with authorities globally to help prevent illegal tobacco products from finding their way into the legitimate market.



The prevention and elimination of tobacco smuggling and counterfeiting is one of our major business priorities.



We fight the criminals everywhere we do business.





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We are focussed on enhancing our capabilities in combating illicit trade. This includes our commitment to promoting responsible and sustainable trade, securing our supply chain and proactively working with governments and law enforcement agencies worldwide in a series of anti-illicit trade initiatives.

These programmes aim to assure the legitimacy, integrity and protection of our products and markets, customers, supply chain, facilities and employees.

We are committed to our 20-year partnership with the EU and its Member States, signed in 2010, through which we are investing US\$300m to combat the illegal trade in tobacco.

20 year + **\$300m** = 
partnership investment

We currently have **23 Memoranda of Understanding** in place around the world, which govern our cooperation agreements with national law enforcement agencies.





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Responsible and sustainable business

We will only conduct business with, or supply products to, customers who we are satisfied operate with honesty and integrity, are reputable and committed to honouring the objectives set out in our Product Supply Compliance Policy.



It is our policy to supply products on a commercial basis to approved customers and markets in accordance with the regulatory and legislative requirements of the intended market of sale.





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Products will only be supplied in quantities that are considered to be in-line with legitimate domestic market consumption and the travelling consumer. Any evidence of product diversion is investigated and appropriate action taken to mitigate any further risk – such as restricting overall supplies or termination of arrangements.

Our Product Supply Compliance Policy, supporting standards and guidance are made available to all employees.

Know your customer (KYC)

A robust KYC process underpins the way we establish and conduct sustainable business relationships – even in challenging markets.

Before we sell product to a customer, it is our policy to ensure that the entities and the individuals associated with that business, including beneficial owners are legitimate. Our AIT Compliance team is responsible for leading rigorous checks on new customers and undertaking periodic reviews for existing customers.

The AIT Compliance team ensures vetting procedures are carried out in accordance with regulatory and legislative requirements; these procedures often exceed the minimum legal requirements to confirm that our trading partners are legitimate.

Due diligence

A comprehensive appraisal of customers and suppliers demonstrates our commitment to the evaluation and management of any risks that these relationships may present to the business. The level of scrutiny varies according to the potential threat.

Put simply: the higher the risk, the more in-depth the enquiry.





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Sanctions

We also monitor our supply chain to help ensure compliance with applicable economic and international sanctions and trade restrictions. Customers and other business partners are screened on a daily basis and additional risk reviews are completed.

Our due diligence enquiries ensure that we take all reasonable steps to ensure that we trade only in accordance with international trade sanctions and restrictions.

Financial controls

Our financial control processes are designed to prevent sales of our products being used as a means to facilitate money laundering and to ensure that financial transactions are legitimate and transparent.

In accordance with our Product Supply Compliance Policy, payments must be received from a specified bank account in the market where the customer operates and in the local currency. As well as providing a key KYC control this also protects against the risk of money laundering. Any exceptions to this must be formally approved.





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Secure supply chain

We will only supply product that meets the legal and regulatory requirements of the intended market of sale. This is in accordance with all regulatory, fiscal and legislative requirements.

With a comprehensive security strategy in place to protect tobacco product manufacturing, storage and distribution facilities throughout the supply chain, we aim to offer high-quality products and provide absolute transparency of their origin and journey to market.

Legally binding agreements are required for all customers, distributors, agents and other third parties to ensure that our stakeholders share our standards for integrity.





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ITG Track & Trace

We are investing heavily in our Track & Trace capability, which enables us to track and monitor cartons, master cases and pallets from the factory, through the distribution chain and on to the first customer.

Our ambition is to offer high quality products and provide absolute transparency of products' origin and journey. This enables us to proactively help tackle illicit trade by securing legal supply chains to meet our Track & Trace requirements.



Track & Trace technology enables ITG to detect where genuine products could become diverted from legitimate supply chains into unintended markets.

We translate international regulations that are intended to help tackle illicit trade by securing legal supply chains into the implementation of effective Track & Trace infrastructure. The key regulatory drivers for these obligations are:

- **Our 20-year partnership with the EU and its Member States**
- **Article 15 and 16 of the European Union Tobacco Products Directive (EUTPD)**
- **Article 8 of WHO's FCTC Anti-illicit Trade Protocol (AITP)**

In addition, we undertake voluntary agreements with national customs agencies in order to fight illicit trade.





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We proactively work with governments and law enforcement agencies worldwide to provide training, support to law enforcement investigations and forensic analysis of seized tobacco products, as well as providing guidance on anti-illicit trade initiatives.

We believe that:

Ill-thought-through regulation along with excessive excise taxation regimes will lead to an increase in the volume of illicit trade

- As the real-life example of Australia shows, making all tobacco products available in easy to copy, standardised packaging leads to a significant increase in counterfeit products, undermining the considerable joint work being undertaken by the tobacco industry and custom authorities worldwide to combat illicit trade. Bans on categories or formats drive consumers to the illicit trade to find their favoured products from criminal sources. “Illicit Whites” have the cachet of being the only branded products in a plain packaging environment.
- Dramatic increases in excise rates encourage consumers to seek out cheaper, illicit products





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- The criminals will always have the cheapest products – and they sell to children.

Illicit trade in tobacco products undermines public health objectives

- Governments lose out on revenues badly needed for financing public services and infrastructure investments
 - Illicit traders have no scruples about selling to children
 - Production does not comply with laws and regulations on ingredients, emissions and hygiene processes
 - Illicit goods do not always carry required health warnings

Bottom line: only the criminals benefit

Significant resource is dedicated to supporting national and international law enforcement efforts and we engage with a wide range of stakeholders to highlight the risks of illicit trade – from governments to consumers. This includes our 20 year partnership with the EU and its Member States, through which we are investing US\$300m, as well as media engagement programmes at market level. We believe that effective collaboration plays a crucial role in the fight against the damaging trade of illegal tobacco products.

One specific development in this respect has been the adoption of the FCTC protocol to eliminate illicit trade in tobacco products by the World Health Organisation (WHO). The protocol is an international treaty and contains a series of effective controls and sanctions to help address the problem of transnational illicit trade.





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Anti-Illicit Trade Operations

Our AIT Operations team is committed to the investigation, enforcement and disruption of the international illicit trade in tobacco products. It also works hard to protect the brands and reputation of Imperial Tobacco from counterfeiting, contraband and other illicit threats to the business.

Developing industry intelligence on the illicit trade of tobacco, the AIT team works closely with law enforcement to ensure appropriate action is taken to protect tobacco brands.

In **2014** we supported law enforcement agencies across the globe to seize the equivalent of **834 million** illicit cigarettes.



All initiatives are in keeping with the meaning and spirit of all legislation and are subject to a defined and coherent system of approval, management and control. We continue to strengthen our security and risk resources to better understand and target the flows of illicit trade and maximise their disruptive impact on smugglers.





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Furthermore, we have established two senior management oversight groups:



The AIT Strategy Group

Responsible for producing, maintaining and delivering our overall AIT strategy to ensure it is clearly defined, fit for purpose and reflects the progressive illicit trade environment.



Product Supply Steering Group (PSSG)

Oversees the effective governance of the risks associated with illicit trade across our organisation in accordance with relevant legislation, regulations, our code of conduct and company principles.





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Our Code of Conduct, available in 24 languages, sets out the standards of responsible behaviour that all employees are expected to follow and provides practical guidance on how to deal with important ethical and legal issues.



The responsible way in which we do business has been instrumental in building our reputation as a trusted business partner and employer.





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Whenever an Imperial Tobacco employee has any concerns in relation to responsible business behaviour that may involve a breach of the law or our Code of Conduct, they are encouraged to act with integrity and raise their concerns. These incidents may include, but are not limited to, matters such as theft, bullying and harassment, discrimination, criminal activity, fraud, damage to property by the company, its management, supervisors, employees or suppliers.

We have appointed a specialist, independent organisation to provide employees worldwide with a confidential and impartial service to expose misconduct, alleged dishonest or illegal activities. Employees can phone in total confidence, knowing that calls won't be traced or recorded – and can be entirely anonymous if the caller wishes. Details regarding this process are provided by local human resources representatives and also form part of the employee induction process.

Any information offered to this service is assessed by senior managers, with an investigation conducted and the appropriate action taken. A similar approach is taken to information directly escalated within Imperial Tobacco to senior management, all of whose direct contact details are available to staff.

We may subsequently terminate the employment of anyone who has been found to breach the Imperial Tobacco Code of Conduct.

Imperial Tobacco Governance & Compliance e-learning site

The Imperial Tobacco Governance & Compliance e-learning site continues to promote honesty and integrity to ensure sustainability. The purpose of this site is to provide employees with information, guidance and training in support of our commitment to maintaining high standards of responsible behaviour. The elements of our control framework can be found within this site, along with training and support materials.





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via email:
<http://goo.gl/iu699t>



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