

Big Tobacco's Overproduction Fuels \$2 Billion Black Market

By Vlad Lavrov

The hang glider pilot insisted it was a routine flight, and that strong winds had blown him over the border from Hungary into Ukraine. But the man arrested by Ukrainian authorities last July, with his flight suit and night-vision gear, looked suspiciously like other hang-gliding smugglers along the border — smugglers who take off from Ukraine, fly into Hungary, and each drop as much as 100 cartons of contraband cigarettes.

Ukraine is home to some of the world's cheapest cigarettes — at \$1.05 per pack — making the country a bonanza for smugglers, whether by glider or more mundane pathways on the ground. Cars and trucks filled with Ukrainian-made Marlboros and Viceroy's get waved through border checkpoints by customs guards who seem more than eager to accommodate, for a price. Loads also move by bus and train, bound for other European countries where high taxes make packs cost as much as \$5 (Germany) or \$10 (United Kingdom).

The backbone of this underground commerce — the acquisition of the cigarettes themselves — is by far the easiest part of the entire operation. The world's four leading multinational tobacco companies, Philip Morris International, Japan Tobacco International (JTI), Imperial Tobacco, and British American Tobacco (BAT), have produced billions of excess cigarettes in Ukraine, fueling a teeming black market that reaches across the European Union. Today, Ukraine is rivaled only by Russia as the top source of non-counterfeit brand cigarettes smuggled to Europe, EU officials say.

The booming trade in tobacco smuggling has major consequences, say industry experts. The growing traffic pushes huge supplies of cheap, untaxed, and unregulated cigarettes into the rest of Europe, undercutting otherwise successful attempts to curtail smoking. Worse, officials say, the trade is boosting organized crime gangs, who find the soft penalties and big profits hard to resist.

Smuggled Smokes: Ukraine's 30 Billion "Missing" Cigarettes

Led by Philip Morris International, Big Tobacco in 2008 produced 130 billion cigarettes in Ukraine. Officials estimate nearly a quarter of those were smuggled abroad, fueling black markets across Europe.



