



**EUROPEAN COMMISSION**

**[CHECK AGAINST DELIVERY]**

## **Algirdas Šemeta**

Commissioner responsible for Taxation and Customs Union, Statistics, Audit and Anti-fraud

## **Speaking points**

Committee on Budgetary Control (CONT) - European Parliament  
**Bruxelles, 7 octobre 2014**

Dear Chair, Honourable Members, Ladies and Gentlemen,

Good morning.

I first would like to express my apologies that we had to delay this discussion by two weeks, due to unforeseen circumstances. And I would like to thank you for your kind words during my absence from the office.

The agreements between the EU and the tobacco producers are part of our multi-pronged fight against tobacco smuggling. As you know, this fight has always been a subject dear to my heart. I am therefore glad to have the occasion today to discuss it with you.

To start, let me briefly recall why I think that the clamp down on smuggling is so important.

The first reason is simple: Cigarette smuggling causes yearly losses to Member States and the EU of at least 10 billion euro in evaded customs duties and taxes. This is an intolerable loss of revenue, particularly in the current economic climate.

Secondly, cigarette smuggling is not a light misdemeanour. We are speaking of serious organised crime. We are speaking about gangs that operate smuggling on an industrial scale. We are speaking about dangerous criminals who finance other illegal activities through the revenue they make from cigarette smuggling.

Finally, smuggled tobacco respects no rules, and poses great risks to both consumers and businesses. It undermines our anti-smoking and public health campaigns, and violates strict rules we have on manufacturing, distribution and sale.

Fighting cigarette smuggling, therefore, is essential both to protect public budgets and to make Europe a safer place.

The anti-fraud agreements with four big cigarette manufacturers are part of this fight. They give a strong signal to criminals everywhere that they have both the authorities and industry working against them within the EU.

But they are not our only tools. We work on every level possible, and with Member States, international partners and stakeholders, to ensure our battle against cigarette smuggling is as robust as it can be.

Moreover, we are constantly reviewing and improving our approach in this area.

In June last year, for example, we put forward a comprehensive Strategy against illicit tobacco, which followed up on our earlier Eastern Border Action Plan.

Let me mention just two examples of measures that the Commission has taken under the Strategy so far:

Firstly, it signed, on behalf of the European Union, the FCTC Protocol against illicit trade in tobacco products. Our services are currently preparing the implementation of the Protocol, in close cooperation with the World Health Organisation.

Secondly, OLAF coordinated several Joint Customs Operations, targeting the illicit trade in tobacco products. In such operations, as well as in other operations carried out by national authorities with OLAF support over the past five years, some 1.15 billion cigarettes have been seized. That is the equivalent of 22 packs being seized every minute, over a period of five years.

Good cooperation – with all partners – clearly yields results.

And cooperation in fighting this serious crime is the essence of our anti-fraud agreements with the four manufacturers too.

The four manufacturers concerned are Philip Morris International, Japan Tobacco International, British-American Tobacco and Imperial Tobacco Limited. Through the agreements, these manufacturers have committed themselves to far-reaching obligations.

For example, they have to track and trace the products that they sell –not only in the EU, but in many third countries.

They also have to carry out a due diligence of their customers. These obligations help to prevent cigarettes produced by the cooperating manufacturers in third countries from being smuggled into the EU.

These key elements of the agreements have since inspired other important initiatives. For example, both the FCTC Protocol that I mentioned earlier and the EU's new Tobacco Products Directive contain similar rules on tracking and tracing. However, in these two cases, the rules have yet to become operational. With the agreements, however, they have already been working for several years.

I am very aware of the sensitivities around contact with the tobacco sector. I am very aware that some of you question whether the EU and its Member States should have agreements with tobacco producers at all.

Let me address these concerns head-on.

Firstly, being party to these agreements does not mean that the EU, or the European Commission, are endorsing cigarettes in any way.

The agreements are certainly not about encouraging people to smoke, and do not in any way affect EU determination to combat tobacco consumption and regulate the tobacco industry.

These agreements are aimed solely at combating the illicit trade in cigarettes, which has so many negative consequences for the EU and its taxpayers.

Moreover, the agreements are by no means a "blank cheque" for manufacturers, which would allow them to buy their way out of any of their other obligations.

Instead, the companies retain full criminal and fiscal liability for all their actions, and the EU firmly holds them to account in this respect. We have never, ever considered limiting this responsibility.

In fact, these bilateral agreements are anything but soft on the companies.

And a material breach of the Agreement by the company can result in binding arbitration.

Allow me to turn now to what we gain from these agreements. What the beneficial results are.

Take, as an illustrative example, the seizure figures that Member States have reported to us.

Since 2006, the number of seized Philip Morris cigarettes –both genuine and counterfeit ones – has declined by four fifths, and it continues to decline.

This is part of a general trend. All available indicators show that the agreements work in reducing smuggling, and have been effective in contributing to the wide EU campaign in this area.

For the sake of contrast, we could look at the situation where we have no agreements. For example, "no name" or "cheap white" cigarettes are increasingly replacing branded cigarettes in the smuggling chains.

Looking at Member States' seizure data of last year, it turns out that eight of the ten most prominent cigarette types in seizures were cheap whites. The producers of these cheap whites are not party to any agreement, nor are they covered by EU legislation, given that they are produced outside the EU.

So I really must stress this point. There is clear, statistical evidence that the agreements work in reducing smuggling in those brands.

Honourable Members,

I understand that the main reason that you have put the tobacco agreements on your agenda today is because the agreement with Philip Morris International will expire in July 2016. In fact, this is the oldest of our four anti-fraud agreements.

The current agreement requires the parties to sit together two years earlier – that is by July this year - and start exploring a possible extension. My services therefore participated in such an exploratory meeting just before the summer break.

The result of that meeting was that Philip Morris International is ready to engage in discussions on an extension of the agreement. We have also begun to raise this prospect with Member States. The preliminary feedback so far received has encouraged us to continue these exploratory talks later this year.

The Commission, for its part, has not yet taken any decision on this matter. And I do not intend to submit this question to my colleagues during the remainder of this Commission's mandate.

This is an important political discussion that should be led by the new Commission, and I am confident that the incoming Juncker Commission will give this question its full attention. For that reason, while waiting for the new political mandate to be in place, there have been no further meetings with Philip Morris International on this issue since July.

This does of course, not mean, that the Commission services have gone into hibernation. Instead, they are starting work now to assess possible benefits that could be expected from an extension of the agreement. Today's debate is therefore very timely and hopefully, will allow us to take home additional useful information that we should consider in that context.

I thank you for your attention and will be happy now to reply to any questions you might have.