

JTI destroys smuggled cigarettes and tobacco amounting to approximately EUR 2 million

Bucharest, February 2015 – JTI Romania destroys during the period February 23-27 around 600,000 packs of smuggled cigarettes and over 75 kg of confiscated tobacco. The captured cigarettes and tobacco quantity amount to approximately EUR 2 million, whereof about 80% represent taxes uncollected by the Romanian state. The 80% percentage represents the ratio of the taxes paid to the State budget from the total price of a cigarette pack sold legally.

According to the Fiscal Code, the tobacco companies having a market share exceeding 5% are liable to destroy the smuggled cigarettes, which are their own brands. Also, the legal manufacturers destroy the rest of the confiscated brands not traded in Romania, as well as the bulk tobacco, according to the market share corresponding to each of them. The destruction operation takes place in the presence of a commission consisting of representatives of the Police and of the National Agency for Fiscal Administration. Once the notice is received from the authority having performed the confiscation, irrespective whether it is in regard of two packs captured in Halmeu or 100,000 in Albița, the representative of the manufacturer goes to that place and takes them over, based upon a delivery protocol. The failure by the tobacco companies to take the products over within 30 days as of the date of the notice, triggers the suspension of the license.

The procedure to destroy the cigarettes proposed by the tobacco industry a few years ago has proven itself to be the most effective. About ten years ago, the confiscated cigarettes were re-traded by the authorities for prices lower than the ones charged by the manufacturers and without the consent of the trademark owners. Thus, the State involved itself in unfair competition and violated the ownership right of the companies over the trademarks. At the same time, there is no guarantee related to the quality, transport and storage conditions for the confiscated products. Under such circumstances, the Ministry of Finance has accepted the solution to destroy the products, although it was challenged over time by various authorities, given that a part of the amounts obtained from the same of the confiscated products are transformed into bonuses. Originally, JTI has destroyed the goods by incineration, but the high costs and the potential environment issues have required the identification of other solutions. Also the direct destruction was tried, at the landfill, where various substances were poured in order to corrupt the products, and then the products were pressed with the bulldozer and covered with earth. Currently, the packs are chopped before they are brought to the landfill, in order to eliminate the risk of their recovery.

"Although the destruction procedure is complicated and involves high costs, we consider that in this manner we help the authorities, whose efforts to fight against the black market should be supported also by the people deciding in the tax policy sector. The so-called indexation of the exchange rate upon which the excise duties are calculated and the subsequent establishment of an arbitrary exchange rate for 2015 have raised smuggling to record levels – the annual average of 16% in 2014, the highest level of the past four years, was exceeded by far by the level registered in January 2015, according to the preliminary data provided by Novel. Moreover, the structure of the excise was also changed, so that the ad valorem component is no longer gradually amended by 1%, but suddenly by 4%, which means that the price difference between the cheapest products and the most expensive products shall be reduced. Consequently, who is going to have the money shall smoke Sobranie, who's not, smuggled cigarettes. And the proposals to amend the Fiscal Code do nothing but increase our concerns. The excises for cigarettes are the only ones continuing to grow before their time, so that in 2015 they shall reach the level provided by the European Directive on the taxation of tobacco products for 2018! The experience of the past, which is forgotten by the government way too easily, shows that everything obtained in addition for a short term, was lost tenfold on a medium term. The tax-budgetary strategy provided an annual increase of 10% of the excise collections. The exchange rate upon which the excise was paid has artificially grown in 2014 by 3-4% only (the percentage includes the annual increase of the excise), due to the decrease of the legal market! I remind you that also in 2010, after the increase by 50% of the excise in less than nine months, smuggling exceeded the level of 36%. Given that a smuggling percentage point represents a loss for the State budget of approximately EUR 35 million, the subject became at the time a priority on the agenda of the Supreme Council of National Defence. It would be better if we did not find ourselves in that situation, in order to elaborate a national strategy for fighting against smuggling, strategy to be supported by all the actors involved, by the ones conceiving the tax policies and by the ones enforcing them", has stated Gilda Lazăr, Corporate Affairs & Communications Director, JTI Romania, Moldova and Bulgaria.

Last year, JTI Romania has destroyed over 985,000 packs of smuggled cigarettes and about 3,900 kg of tobacco. The company has spent EUR 75,000 just for the destruction procedures in 2014, amount representing transport, rents, labour force, security services, electricity costs. The original investment in the chopping equipment is added to such regular expenditures.

The tobacco industry is the second largest taxpayer to Romania's State budget, after the companies in the oil sector. In 2014, JTI has paid to the budget around EUR 650 million representing excise duties, VAT, fees and contributions.

Support information:

JTI has concluded in 2007 with the European Commission an Agreement according to which, in the case of confiscations exceeding 50,000 cigarettes, the company shall fully pay the tax difference between the State in which they were confiscated and the State where they were manufactured. Should the confiscations amount, in a year, to 90 million cigarettes, the tax difference shall be paid four times.

Furthermore, the company has implemented track and trace systems at carton level, based upon which it can be exactly determined when and where the product was manufactured (up to the details related to the work shift or the packing machine) and who the first distributor was. Also, the "Know Your Customer" program was implemented, which involved comprehensive verifications and the removal of several distributors who failed to meet the certification criteria.

JTI Romania was the first tobacco company that has initiated the cooperation with the State authorities in order to fight against the illicit cigarette trade, by signing a partnership agreement with the National Agency for Fiscal Administration in 2005. Subsequently, the company has concluded partnerships with the customs authority, the General Police Inspectorate and the Border Police. During the period 2010-2013, JTI has donated to the Customs 28 dogs trained to discover smuggled cigarettes and cars especially equipped for this purpose. At the same time, JTI grants the authorities support in order to identify counterfeit products, to discover false markings, information regarding the cigarette manufacturing process technique. Last autumn, the three large tobacco companies have signed a Cooperation Agreement with the General Customs Direction, in order to fight against the black market. This year, JTI shall donate the Customs other four dogs to be trained to discover smuggled tobacco products.