

A Response to Tobacco Industry's Illicit Trade Narratives to Interfere with Policy Making: The Triple Fiscal Loss

Executive Summary

Background. Tobacco use results in an estimated **US\$1.4 trillion in annual economic costs globally**¹ — comprising US\$422 billion in direct healthcare expenditure² and approximately US\$1.0 trillion in productivity losses from morbidity and premature mortality.³ These costs are borne by governments, health systems, and households.⁴ Globally and in major jurisdictions, tobacco excise revenues do not fully offset this burden.⁵

The pattern. Amid ongoing regulatory scrutiny and publicly reported allegations concerning smuggling, tobacco companies have emphasized illicit trade concerns in regulatory debates, presenting themselves as partners in enforcement efforts. The *Global Tobacco Industry Interference Index 2025* documents that about **19 governments** have collaborated with the tobacco industry through memoranda of understanding (MOUs), joint enforcement operations, or training programs⁶ — despite explicit prohibitions under World Health Organization Framework Convention on Tobacco Control (WHO FCTC) Article 5.3 and its implementing guidelines.⁷ The *GTI 2023*⁸ confirms that this pattern is recurrent, multi-year, and worsening across all regions assessed.

Judicial record. Historical evidence — including a 2004 European Commission settlement⁹, a 2006 U.S. federal RICO judgment¹⁰, and Canadian criminal proceedings¹¹ resulting in guilty pleas between 2008 and 2010 — establishes that major transnational tobacco companies have, in documented cases, **facilitated or failed to prevent diversion of their own products into illicit channels**. This judicial record is directly relevant to the credibility of any industry claim to be a good-faith enforcement partner.

The triple fiscal loss. The result is a triple fiscal loss: governments absorb tobacco's health, environment and other social costs; they then fund enforcement operations shaped by tobacco industry narratives¹²; and they ultimately sacrifice revenue when they yield to pressure to reduce taxes. This report's **Three-Loss Framework** demonstrates that governments accepting enforcement partnerships consistently incur greater cumulative fiscal losses — across all three components — than they would have faced from illicit trade alone, had they maintained independent enforcement capacity.

Principal recommendation. No government should enter into or maintain enforcement partnerships with the tobacco industry, rely on industry-generated data to justify tax moderation, or adopt excise tax moratoria that benefit the tobacco industry. Independent enforcement capacity — through intergovernmental customs cooperation, including through the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products and domestic investment — is sufficient to address illicit trade without incurring the governance risks that tobacco industry partnerships create.

I. Introduction: The Strategic Function of Illicit Trade Narratives

Illicit tobacco trade is a documented and significant policy problem. Global estimates place the volume of illicit cigarettes at approximately **657 billion sticks per year**¹³— approximately 11.6% of total global cigarette consumption, with an average illicit share of 16.8% in low- and middle-income countries.¹⁴ Governments lose an estimated **US\$40.5 billion per year** in excise and value-added tax revenue attributable to illicit trade.¹⁵

What is substantially less acknowledged in public policy discourse — and systematically obscured in tobacco industry-funded research — is that **the tobacco industry itself has been a structural contributor to the illicit market it claims to be combating**. Independent analysis of PMI's Project Stella methodology, found that up to **two-thirds of illicit cigarettes globally are products of major tobacco manufacturers**, entering informal channels through oversupply, weak supply-chain controls, and deliberate leakage. Industry-commissioned research — principally produced through KPMG— systematically reclassifies these products as items of 'organized crime,' concealing the manufacturer's documented role in the illicit market.¹⁶

This is not a theoretical claim. Judicial records across multiple jurisdictions — including a 2004 European Commission settlement,¹⁷ a 2006 U.S. federal RICO judgment,¹⁸ and Canadian criminal proceedings¹⁹ resulting in guilty pleas between 2008 and 2010 — establish manufacturer-level complicity in illicit tobacco trade as a matter of legal record. Box 1, below, summarizes these precedents in detail.

The tobacco industry's deployment of illicit trade narratives serves three distinct commercial functions: (1) it manufactures justification for engagement with non-health government agencies that Article 5.3 of the WHO FCTC would otherwise prohibit; (2) it installs industry-generated data as the primary evidentiary basis for fiscal policy deliberation; and (3) it creates the political conditions under which tax moderation becomes a plausible government response to a problem the industry has itself helped to create.

Both the GTI 2023 and GTI 2025 document this pattern as systematic and deteriorating. The 2025 Index notes that tobacco industry interference in government processes worsened in the majority of countries assessed, with illicit trade cited as a primary vector of access to non-health ministries.²⁰ Notably, 17 of the 19 governments²¹ documented as collaborating with the industry on illicit trade were not Parties to the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products²² — meaning they accepted industry partnerships in the absence of the independent legal framework that the Protocol is designed to establish.

BOX 1: Judicial and Regulatory Precedents — Tobacco Industry Complicity in Illicit Trade

Historical evidence demonstrates that major transnational tobacco companies have, in several jurisdictions, been found by courts or formally accused in regulatory proceedings, to have facilitated, or failed to prevent, the diversion of their products into illicit channels. The following three precedents form part of the public legal record and are directly relevant to any government assessing the credibility of tobacco industry claims to be a good-faith enforcement partner.

Philip Morris International — European Commission Settlement, 2004

In July 2004, Philip Morris International (PMI) entered into a legally binding cooperation agreement with the European Commission and all 10 then-Member States of the European Union, agreeing to pay **US\$1.25 billion over 12 years** to resolve allegations that the company's supply practices had contributed to large-scale smuggling into the EU, including through illicit distribution channels linked to organized crime. Under the agreement, PMI also committed to enhanced controls over the distribution of its products in markets identified as high-risk for contraband. This settlement — the first of its kind between a major tobacco company and a supranational regulatory authority — resulted in substantial financial obligations and compliance commitments arising from supply-chain failures by a transnational tobacco manufacturer.²³

United States v. Philip Morris et al. — U.S. District Court RICO Judgment, 2006

On 17 August 2006, the U.S. District Court for the District of Columbia issued its judgment in *United States v. Philip Morris USA Inc. et al.*, Civil Action No. 99-2496 (GK), finding that the defendant tobacco companies had engaged in a decades-long conspiracy to deceive the American public, in violation of the Racketeer Influenced and Corrupt Organizations (RICO) Act. Among the conduct documented by the Court was the deliberate suppression of evidence relevant to health effects and

other conduct affecting regulatory oversight and transparency. While the RICO judgment did not concern illicit trade as its primary subject matter, it established a judicial record of systematic deceptive conduct across multiple policy domains.²⁴

Canadian Criminal Proceedings — Guilty Pleas and Penalties, 2008–2010

Between 2008 and 2010, subsidiaries of major tobacco companies — including JTI-Macdonald Corp., a subsidiary of Japan Tobacco International — pleaded guilty in Canadian courts to charges related to cigarette smuggling and paid substantial financial penalties. The proceedings arose from a large-scale contraband scheme in which Canadian tobacco was exported to the United States and subsequently re-imported as contraband, evading Canadian tobacco excise taxes. The guilty pleas confirmed that the smuggling operations involved manufacturer-level conduct, not solely external criminal actors, and demonstrated that illicit diversion can occur with the knowledge or facilitation of the company personnel.²⁵

Taken together, these precedents demonstrate that illicit trade in tobacco products has not been solely an external criminal phenomenon. In documented and judicially verified cases, it has been directly linked to manufacturer supply practices, oversupply strategies, and weak or deliberately maintained gaps in supply-chain controls that facilitated criminal diversion. This history is material to any government's assessment of industry-proposed enforcement partnerships: the entities seeking collaboration are, in several instances, entities found or alleged in formal proceedings to have contributed the very problem they now offer to help solve.

2. The Economic Baseline: What Tobacco Already Costs Governments

2.1 The Global Burden

Goodchild, Nargis, and Tursan d'Espaignet (2018) estimate that tobacco use imposes a global economic cost of approximately **US\$1.4 trillion per year**, equivalent to 1.8% of world GDP. This figure encompasses US\$422 billion in direct healthcare costs attributable to tobacco-related disease and approximately US\$1.0 trillion in productivity losses from morbidity and premature mortality.²⁶ The WHO independently confirmed this order of magnitude in its 2021 MPOWER report (WHO report on the global tobacco epidemic).²⁷ Recent estimates further suggest that cigarette-related plastic waste causes roughly US\$26 billion in annual losses primarily in terms of marine ecosystem damage.²⁸

Approximately **40% of this burden falls on low- and middle-income countries**²⁹ — the precise jurisdictions where enforcement partnerships are most frequently solicited,^{30,31} where fiscal systems face greatest pressure, and where the political incentive to accept short-term fiscal solutions is highest. This distributional dimension is integral to understanding why the enforcement partnership model is most aggressively deployed in these settings.

Tobacco kills over **7 million people per year globally**.³² The economic consequences of this mortality — lost labor productivity, increased healthcare demand, and elevated social welfare costs — are embedded in the US\$1.4 trillion estimate. Excise revenues partially defray this cost in high-performing tax regimes; they do not eliminate or offset it fully in any jurisdiction for which data exist.³³

Table 1: Global Economic Burden of Tobacco Use — Key Parameters and Sources

Burden Component	Estimate
Total annual economic cost of tobacco use globally	US\$1.4 trillion (~1.8% of world GDP) ³⁴
Direct healthcare expenditure attributable to tobacco	US\$422 billion (2012 base year) ³⁵
Indirect productivity losses (morbidity + premature mortality)	~US\$1.0 trillion (residual component) ³⁶
Share of burden in low- and middle-income countries	~40% of global economic cost ³⁷
Annual deaths attributable to tobacco globally	~7 million per year ³⁸

Annual cost of cigarette-related plastic waste	~ US\$26 billion ³⁹
Global illicit cigarette market volume	~657 billion sticks/year (~11.6% of total consumption) ⁴⁰
Government revenue lost to illicit tobacco trade — global	~US\$40.5 billion per year ⁴¹
Share of illicit market attributable to major tobacco manufacturers	Up to two-thirds globally (oversupply, leakage, supply-chain gaps) ^{42,43}
Governments collaborating with tobacco industry on illicit trade (2025)	At least 19 governments documented (in the GTI 2025) ⁴⁴
Of those: not party to the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products	17 governments documented (In the GTI 2025) ⁴⁵

Note: Country-level burden data should be sourced from national WHO FCTC Investment Cases, peer-reviewed cost-of-illness studies using standard methodology, or national Ministry of Finance or health expenditure publications. Industry-generated economic estimates should not serve as primary or sole sources for any entry.

2.2 The Revenue Shortfall: Excise Collections versus Economic Costs

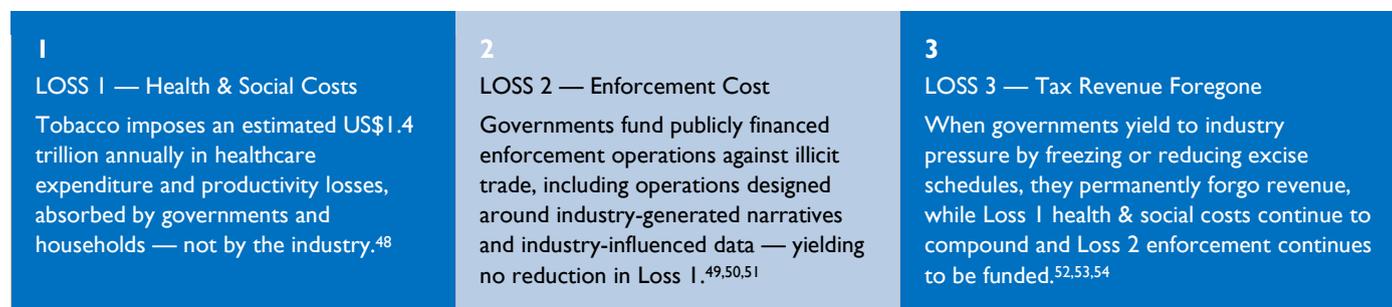
A common framing in tobacco policy discourse holds that illicit trade is causing governments to 'lose revenue.' This framing, mistakes a partial accounting of excise shortfalls for a fiscal reality as it obscures a more fundamental truth: **governments were already recording a net negative fiscal position with respect to tobacco, because the health costs attributable to tobacco use exceed excise receipts in every documented jurisdiction.**^{46,47}

In high-performing tobacco tax regimes, excise collections represent a fraction — typically between 10 and 30 per cent — of the total economic burden tobacco imposes on the same economy. The revenue shortfall created by illicit trade is therefore a loss within an already negative net fiscal position. Reducing taxes to address that shortfall does not restore fiscal balance; it worsens it, by reducing the partial offset while leaving the underlying health and social costs entirely unchanged.

2.3 The Triple-Loss Framework

This report advances a **Triple-Loss Framework** to describe the cumulative and sequential fiscal damage that accrues when governments engage with tobacco industry enforcement narratives. The three losses are not alternatives to one another — they compound. A government that accepts enforcement partnerships will, over time, incur all three: it absorbs tobacco's health, environment, and social costs (Loss 1); it funds enforcement shaped by industry narratives (Loss 2); and — when it yields to tax pressure — it permanently forfeits revenue that was partially defraying those health costs (Loss 3).

Figure 1: The Triple-Loss Framework — Sequential Fiscal Damage



Loss 1 is structural and unavoidable given current tobacco consumption patterns. It is the fiscal baseline from which all subsequent analysis must proceed. **Loss 2** arises from publicly funded enforcement operations — customs interdictions, intelligence units, interagency task forces. When these operations are designed around industry-generated narratives or industry-influenced data, their scope reflects the industry's commercial priorities

rather than the government's genuine enforcement requirements. **Loss 3** is the most severe and the most avoidable. It is the permanent reduction in excise revenue resulting from moratoria, rollbacks, or freezes conceded in response to industry tax pressure. Loss 3 does not reduce tobacco's health burden, does not reduce Loss 1, and does not reduce the need for Loss 2 enforcement. It compounds both, across fiscal years extending well beyond the political moment that produced it.

3. The Five-Stage Pattern: From Partnership to Tax Concession

The GTI 2023⁵⁵ and GTI 2025⁵⁶ document a consistent, multi-stage sequence through which tobacco companies convert illicit trade narratives into enforcement access and ultimately into fiscal concessions. The five stages below are derived from cross-country evidence and are presented as an analytical framework for governments assessing their own exposure to this pattern, and not as a deterministic sequence — governments may be exposed to any stage without having passed through all prior stages.

Table 2: The Five-Stage Pattern — From Illicit Trade Narrative to Tax Concession

Stage	Label	Description
1	Narrative Seeding	Industry-commissioned research — principally through KPMG and Euromonitor International — asserts that illicit trade is primarily driven by high taxation. This narrative is disseminated through trade associations, allied think tanks, and industry-adjacent media. ⁵⁷
2	Partnership Solicitation	Tobacco companies approach customs, police, and revenue authorities with offers of technical assistance, training, equipment, or data-sharing, framed as cooperative anti-crime initiatives. ⁵⁸
3	Normalization	MOUs and cooperation agreements are formalized. Non-health agencies develop operational relationships with industry representatives. Article 5.3 protections atrophy in practice even where formally recognized in law. ^{59,60}
4	Policy Access	Having established enforcement credibility, industry representatives gain access to finance ministries, budget committees, and legislative proceedings. Industry-generated illicit trade volume data becomes the primary reference for fiscal deliberation — often without independent verification. ⁶¹
5	Tax Pressure and Concession	Industry formally requests tax moratoria, rollbacks, or freezes. Finance ministries and legislative bodies in multiple documented cases have accepted these arguments, resulting in permanent excise revenue losses. ^{62,63}

Note: Sources: GTI 2023; GTI 2025; STOP Project Stella Issue Brief. Not all documented cases progress through all five stages.

3.1 The Role of Industry-Generated Data

A structural feature frequently observed in all five stages is the industry's reliance on proprietary, and non-peer-reviewed data. Research report identifies four methodological problems relevant to any government assessing industry-sourced illicit trade claims:

- (a) Non-independence:** KPMG, the primary contractor for industry-commissioned illicit trade studies, has a commercial relationship with the commissioning tobacco companies. The methodology is generally not subject to publicly disclosed audit or transparent peer review.
- (b) Reclassification bias:** Products that are genuinely manufacturer contraband — originating from oversupply or deliberate supply-chain leakage — are reclassified as 'other illicit' or 'counterfeit,' systematically minimizing the industry's documented share of the illicit market.
- (c) Liability disclaimers:** Published reports include explicit disclaimers removing legal liability from the authors for the accuracy of the data — a standard inconsistent with peer-reviewed academic or official

government statistical methodology.

(d) Non-public enforcement data: Some reports incorporate law-enforcement intelligence obtained through enforcement partnerships, making independent replication of the methodology structurally impossible.

Governments that rely on this data in legislative proceedings or executive decision-making — without independent verification — are, in effect, delegating aspects of their fiscal policy analysis to a regulated entity with a direct financial interest in the outcome of that analysis. Even assuming for the sake of argument that the industry data is to be believed, it does not account for the inflated volume and value due to the tobacco industry complicity in smuggling, which has been widely documented.^{64,65}

3.2 Non-Health Agencies as the Primary Entry Point

Across all 25 documented country cases in Table 3, the primary entry point for tobacco industry enforcement engagement is non-health. Customs agencies, finance ministries, revenue authorities, trade departments, and police forces are the agencies most frequently approached and engaged.^{66,67}

This pattern has been consistent. Health ministries in countries that have ratified the WHO FCTC are generally sensitized to Article 5.3 obligations through sustained tobacco control engagement. Revenue and enforcement agencies lack comparable institutional defenses. The enforcement partnership model routes around agencies most likely to apply Article 5.3 safeguards, toward those least likely to do so.⁶⁸

The GTI 2025 states explicitly that **non-health agencies remain the primary vulnerability in whole-of-government tobacco control**, and that effective Article 5.3 reforms are those that extend identical interaction standards across all ministries — not only the health sector.

Article 5.3 of the WHO FCTC obligates Parties, in setting and implementing tobacco control policies, to protect those policies from the commercial and other vested interests of the tobacco industry. Its Guidelines for Implementation clarify that this obligation applies across government and recommend limiting interactions with the industry to those strictly necessary for regulation, ensuring transparency of any such interactions, and avoiding partnerships or arrangements that may create conflicts of interest. The provision establishes a structural safeguard intended to prevent tobacco industry interests from shaping public policy.

4. Country Evidence: GTI 2023 and GTI 2025

Table 3 consolidates documented government–tobacco industry enforcement engagements from the GTI 2023⁶⁹ and GTI 2025.⁷⁰ For each entry, the nature of engagement, the agency involved, the industry actor, and the documented or probable fiscal outcome are recorded.

Table 3: Government–Tobacco Industry Enforcement Engagements on Illicit Trade (Sources: GTI 2023 and GTI 2025)

Country	Type of Engagement	Agency Involved	Industry Actor	Fiscal Challenges
Argentina	Supporting national security forces in the investigation of smuggling; training on illicit trade	National Security Ministry	PMI	Derailed tax increase; no fiscal policy on new tobacco products
Bosnia & Herzegovina	Multi-company anti-smuggling campaign ('Stop the Smuggling' / SWOT initiative)	Indirect Tax Authority	PMI, BAT, JTI	No excise tax increase on tobacco
Bulgaria	Data-sharing;	Ministry of Finance,	Bulgarian	Derailed tax increase;

	consultations used by industry to oppose excise increases	Ministry of Economy and the Customs Department	Association of Tobacco Industry (BATI)	minimal excise duty increases on tobacco products in 2023, following a new tax calendar adopted in 2022 after close consultation with TI representatives.
Burkina Faso	Training of enforcement officers	National Coordinating Body to Fight Against Fraud (CNLF)	Imperial Tobacco subsidiary	Not documented
Chad	DG of Customs accepted support of MCT in the fight against smuggling.	Customs Department	Manufacture des Cigarettes du Tchad (MCT)	Not documented
Chile	Industry participation in enforcement observatory; training session on tobacco smuggling and identification of illegal products	National Chamber of Commerce; Tarapacá Region Undersecretariat for Crime Prevention	BAT Chile	Not documented
Colombia	Formal MOU; industry-funded training for customs officials	National Federation of Departments	PMI	No excise tax increase on tobacco
El Salvador	Training of customs officials by industry-linked distributor	Customs Department	PMI-linked distributor association	Tax exemption for the manufacture of tobacco that is meant for export
Georgia	Training seminars for enforcement officers; and supplying detection dogs and drones to identify smuggling	State Customs; Revenue Service	JTI	Derailed tax increase; 50% tax reduction on raw tobacco, chewing tobacco, snus and hookah tobacco in May 2024.
Indonesia	Cooperation agreements; industry positioned as enforcement partner	Directorate General of Customs and Excise	Sampoerna	Tobacco farmers receive support from local governments, funded through a 2% tobacco excise tax, sharing revenue to finance a universal health insurance program (50%) and tobacco growing activity (50%); industry in obtained a 90-day extension in paying taxes.
Israel	Cooperation with the industry to tackle illicit trade.	Federation for Intellectual Property	PMI	Derailed tax increase; implementation of the 2024 State Budget Balancing Plan to cancel the tax exemption on tobacco and nicotine products sold in duty-free stores, was slowed

				to a gradual phase-in until 2028; tax only final products, not components
Italy	Partnership with the industry Italy enforcement-related issues.	Ministry of Defence	Philip Morris Italy	60% lower for e-cigarettes, HTPs
Lao PDR	MOU with the tobacco industry to enforce smuggling control.	The Ministry of Industry and Commerce	Lao Tobacco Company/Imperial Tobacco	Low tax due to investment agreement
Lebanon	Anti-smuggling training in collaboration with the industry	Ministry of Finance	JTI	Derailed tax increase; lowered tobacco taxes in support of the state-owned tobacco enterprises; subsidies are given through a price support system with a set quote and price
Netherlands	MOU with groups associated with the tobacco industry to combat fraud and the smuggling of tobacco products.	Customs Department	Not specified	Not documented
Paraguay	Regional tri-border training program sponsored by industry	Police, Customs	PMI (via International Relations Institute of the University of São Paulo,)	No excise tax increase on tobacco
Peru	Membership of national anti-illicit trade committee	Ministry of Production	PMI, BAT	Bill to tax e-cigarettes delayed
Poland	Formal enforcement agreement	General Police Headquarters	BAT, JTI	Derailed tax increase; Ministry of Finance sent a letter to the Ministry of Development to decelerate two bills on tax increase ⁷¹
Romania	Equipment donation (industry-funded scanning equipment) to border police	Customs & Border Police	BAT	Delayed implementation of tax increases; direct subsidies to raw tobacco growers
South Africa	Work with tobacco industry experts to develop a way of detecting illicit cigarettes	Revenue Service	Not specified	Not documented
Sri Lanka	Assistance to destroy illicit cigarettes	Government	Ceylon Tobacco Company	Delayed implementation of tax increases
U.S.A.	Training for state and	Department of	PMI	Subsidies and reinsurance

	local law enforcement directly related to tobacco enforcement	Homeland Security		support for farmers, including tobacco growers, effectively subsidizing tobacco production
Uganda	Acceptance of cigarette destruction machine from the industry as a donation to support the national fight against illicit cigarette trade	Uganda Revenue Authority	BAT	Tax rate decrease
Venezuela	Collaboration with the industry to fight smuggling between 2023 and 2025	Government	Not specified	Tax exemption
Vietnam	Collaboration with the industry to tackle smuggling	Government	Not specified	Tax exemption

Note: Sources: GTI 2023; GTI 2025; Where fiscal outcome data are not available in the sources reviewed, consult: (a) national Ministry of Finance annual reports; (b) WHO FCTC Investment Cases where completed; (c) peer-reviewed cost-of-illness studies for the jurisdiction; and (d) official revenue authority publications. Industry-generated estimates should not serve as primary or sole sources.

4.1 Cross-Cutting Observations

Recurrence across index years. A number of countries appear in both the 2023 and 2025 editions of the GTI. This indicates sustained, institutionalized arrangements rather than isolated incidents. In several cases — Colombia, Indonesia, and Bulgaria, among them — the GTI documents progression from initial training or data-sharing toward formal MOUs and active engagement on excise tax questions.

Proprietary track-and-trace as a parallel instrument. Several documented cases involve tobacco companies promoting proprietary anti-illicit trade platforms as vehicles for inserting industry-controlled data into enforcement and tax-policy processes. These systems are inconsistent with the independent monitoring infrastructure required under Articles 6–9 of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products⁷² and should be rejected where they substitute for Protocol-compliant infrastructure rather than complementing it.

Fiscal transparency deficit. Governments rarely publish formal analyses documenting how industry-generated illicit trade narratives have influenced their excise decisions. This opacity prevents civil society, oversight bodies, and FCTC monitoring mechanisms from assessing whether Article 5.3 non-compliance has occurred and at what fiscal cost.

Tax concession pattern. The GTI 2025 states that **many governments gave in to industry pressure to not increase taxes, or allowed the industry to influence tax reductions or preferential tax rates for specific products.**⁷³ While country-specific fiscal loss estimates are not uniformly available in GTI sources, the directional finding is robust: enforcement partnerships translate into tax concessions in a significant and documented share of cases.

5. Governance Risks and Article 5.3 Compliance

5.1 The Treaty Obligation

Article 5.3 of the WHO Framework Convention on Tobacco Control^[7] provides: "In setting and implementing their public health policies with respect to tobacco control, Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law."⁷⁴ The Guidelines for implementation of Article

5.3 — adopted at the fourth session of the Conference of the Parties to the WHO FCTC (FCTC/COP3(7)) — specify, inter alia, that Parties should:

- (a) Not accept assistance from, collaborate with, or endorse the tobacco industry or bodies working to further its interests in setting or implementing public health or fiscal policies;
- (b) Interact with the tobacco industry only when, and to the extent, strictly necessary for the purpose of regulation, and only with demonstrated safeguards against policy distortion;
- (c) Ensure full transparency of any such interaction, including proactive public disclosure of its existence, nature, and content; and
- (d) Extend these obligations to all government departments and agencies — not solely those with a health mandate.

Enforcement MOUs and cooperation agreements with tobacco companies on illicit trade materially exceed what is 'strictly necessary for the purpose of regulation.' Governments possess — or can develop — independent capacity through bilateral and regional customs cooperation frameworks including through the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products;⁷⁵ and domestic enforcement investment. Accepting industry-funded training, equipment, or data-sharing as substitutes for this independent capacity creates both functional and structural conflicts of interest that are inconsistent with Article 5.3 compliance.

5.2 Regulatory Capture

The governance risk created by enforcement partnerships is not limited to formal treaty non-compliance. The progression from enforcement partnership to fiscal policy access, and from fiscal access to tax concession, describes a process of **regulatory capture**: the process by which a regulatory agency advances the commercial or political interests of the industry it is mandated to regulate, rather than the public interest it is mandated to serve.

Regulatory capture in this context typically does not manifest as overt corruption but as a gradual normalization: the relevant agency comes to regard the industry as a partner; industry data becomes the default reference; and industry representatives acquire standing in policy deliberations that should be governed by public health or fiscal governance standards. The GTI 2023 and GTI 2025 document this normalization process in multiple jurisdictions.

This report makes no criminal allegations against any individual official or institution. The concern is structural and systemic: the enforcement partnership model operates in a manner that generates regulatory capture risk as a predictable consequence, regardless of the intentions of the officials involved.

5.3 The WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products

The WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products — adopted at COP5 in November 2012 and entered into force on 25 September 2018 — establishes a legally binding framework for government enforcement action that is explicitly independent of the tobacco industry. Key obligations include: establishment of a government-controlled independent track-and-trace system (Articles 6–8); prohibition on delegation of enforcement functions to industry; country-to-country information sharing through official government channels; and manufacturer due diligence obligations including financial liability for product found in illicit channels above defined thresholds.⁷⁶

The GTI 2025 documents that 16 of the 19 governments collaborating with the tobacco industry on illicit trade are not Parties to the Protocol. Non-ratification means that the Protocol's specific structural safeguards do not apply which may create space for industry-proposed arrangements — such as proprietary track-and-trace systems, cooperative MOUs, and data-sharing agreements — to play a more prominent role. Regardless of ratification status, Article 5.3 of the WHO FCTC requires Parties to protect tobacco control policies from industry interests. Governments should therefore ensure that any illicit trade enforcement framework is implemented in a manner fully consistent with Article 5.3, including maintaining institutional independence from industry-operated systems.

6. Findings

Finding 1. Tobacco imposes a global economic burden of US\$1.4 trillion per year. This burden is not offset by excise revenues in any documented jurisdiction. Governments that reduce or freeze excise schedules reduce the partial offset without reducing the underlying health cost.

Finding 2. The tobacco industry has been the subject of findings and proceedings concerning conduct linked to the diversion of its products into illicit channels. The 2004 EU settlement, the 2006 U.S. RICO judgment, and the 2008–2010 Canadian criminal proceedings together form a documented legal record of manufacturer-linked misconduct that directly calls into question the credibility of tobacco industry claims to act as a good-faith enforcement partner.

Finding 3. At least 19 governments have established formal or informal enforcement partnerships with the tobacco industry on illicit trade. The GTI 2023 and GTI 2025 document 25 specific country cases across four regions, summarized in Table 3.

Finding 4. These partnerships are systematically routed through non-health agencies — customs, finance, police, and revenue authorities — that are less institutionally equipped to apply WHO FCTC Article 5.3 safeguards.

Finding 5. In multiple documented cases, enforcement partnerships have provided tobacco industry access to fiscal policy processes, and that access has been used to advocate successfully for tax moderation. The GTI 2025 states explicitly that many governments yielded to industry pressure to suppress or reduce excise tax increases.

Finding 6. Industry-commissioned illicit trade data — principally from KPMG and Euromonitor International — is produced under commercial commissioning arrangements, has been criticized for potential reclassification bias and limited methodological transparency, and includes liability disclaimers regarding data accuracy. Reliance on such data as the primary basis for fiscal decisions may create structural governance risks.

Finding 7. The Three-Loss Framework demonstrates that governments accepting enforcement partnerships and subsequently yielding to tax pressure incur cumulative fiscal losses — through unreimbursed health costs, publicly funded enforcement, and foregone excise revenue — that exceed any plausible enforcement benefit derivable from those partnerships.

7. Recommendations

7.1 Terminate or decline enforcement MOUs with tobacco companies. Independent enforcement capacity through the international cooperation and bilateral government-to-government cooperation, including through the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, is adequate to address illicit trade. No MOU or cooperation agreement with the tobacco industry on illicit trade enforcement is consistent with the WHO FCTC.

7.2 Require independent verification of illicit trade volume data before using such data in fiscal policy deliberations. Euromonitor, KPMG, and trade association estimates should not serve as primary or sole references. Governments should commission analyses using customs microdata, independent survey methods, or verified methodologies.

7.3 Adopt whole-of-government protocols binding on all agencies — finance, customs, police, trade, and legislative budget bodies — not only health ministries, to avoid any interaction with the tobacco industry. Any interaction between government officials and tobacco industry representatives or their agents regarding excise policy, should it be absolutely necessary, should be publicly disclosed within a defined period.

7.4 Require tobacco companies to provide complete, accurate, and verifiable information in

enforcement and fiscal contexts, and authorize proportionate, dissuasive, and effective sanctions for false or inaccurate information. WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco provides a list of information to require from the tobacco industry in order to effectively address tobacco smuggling. Information from the tobacco industry will support a track-and-trace systems and enforcement data infrastructure that should be operated by or under the exclusive authority of government agencies. Proprietary tobacco industry systems should be rejected.

7.5 Reject excise moratoria predicated on unverified industry data. No excise schedule should be suspended, reduced, or frozen on the basis of industry-generated or industry-adjacent illicit trade claims. Any proposal for excise modification should require a government-produced fiscal impact assessment — independently reviewed — incorporating healthcare and other cost projections over a period of time.

7.6 Disclose enforcement-related expenditure separately. Governments should publish the costs of enforcement operations related to illicit tobacco trade as a discrete budget line, enabling civil society, oversight bodies, and legislative committees to assess proportionality and independence from industry influence. This process of accounting for costs also enables cost recovery or other forms of ensuring accountability for costs.

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GGTC empowers change-makers with cutting-edge strategies and tools to ensure that the health of millions around the world would not suffer at the hands of the tobacco industry.



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