

Illicit Tobacco Trade Overview

Briefing to Illicit Tobacco Taskforce

December 10, 2015



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Agenda

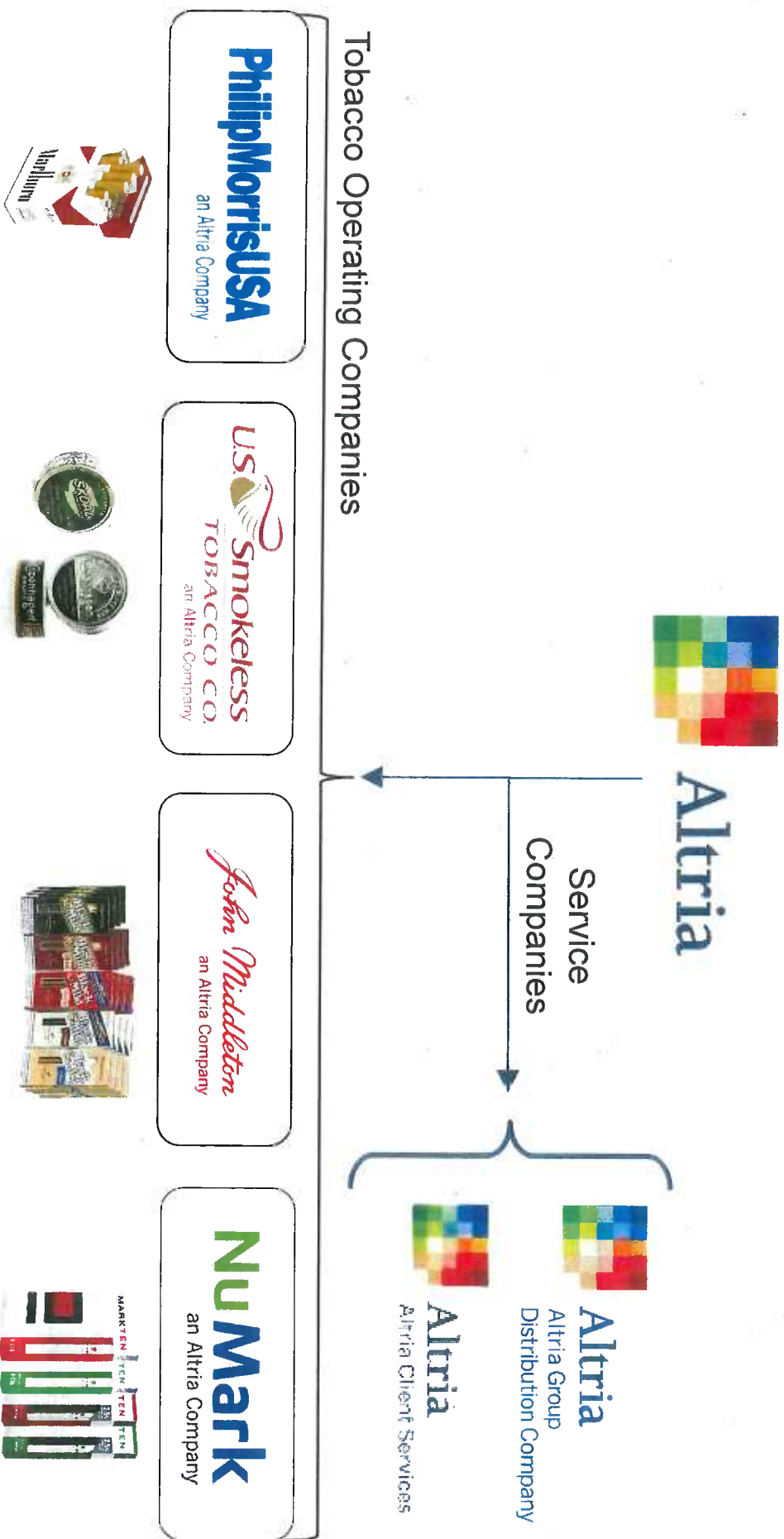
- Altria's Tobacco Operating Companies
- Cigarette Landscape
- Other Tobacco Products (OTP) Landscape
- Illegal Tobacco Task Force



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Altria Tobacco Operating Companies Structure



For illustrative purposes only.
Not actual corporate structure; does not reflect all Altria subsidiaries in its entirety.

Brand and Trade Channel Integrity

- **Mission:** To protect the integrity of Altria's tobacco operating companies' brands and the legitimate trade channels through which they are distributed and sold.

Strategies:

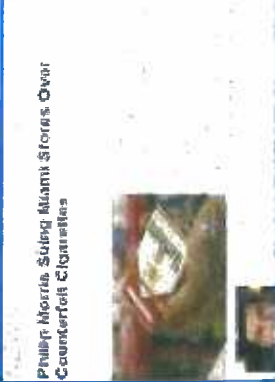


Marketplace Listing Enforcements to Date

Market Monitoring



Investigative Intelligence



Litigation



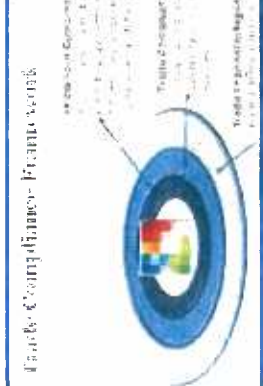
Communications



Product Security



Government Affairs



Trade Channel Integrity



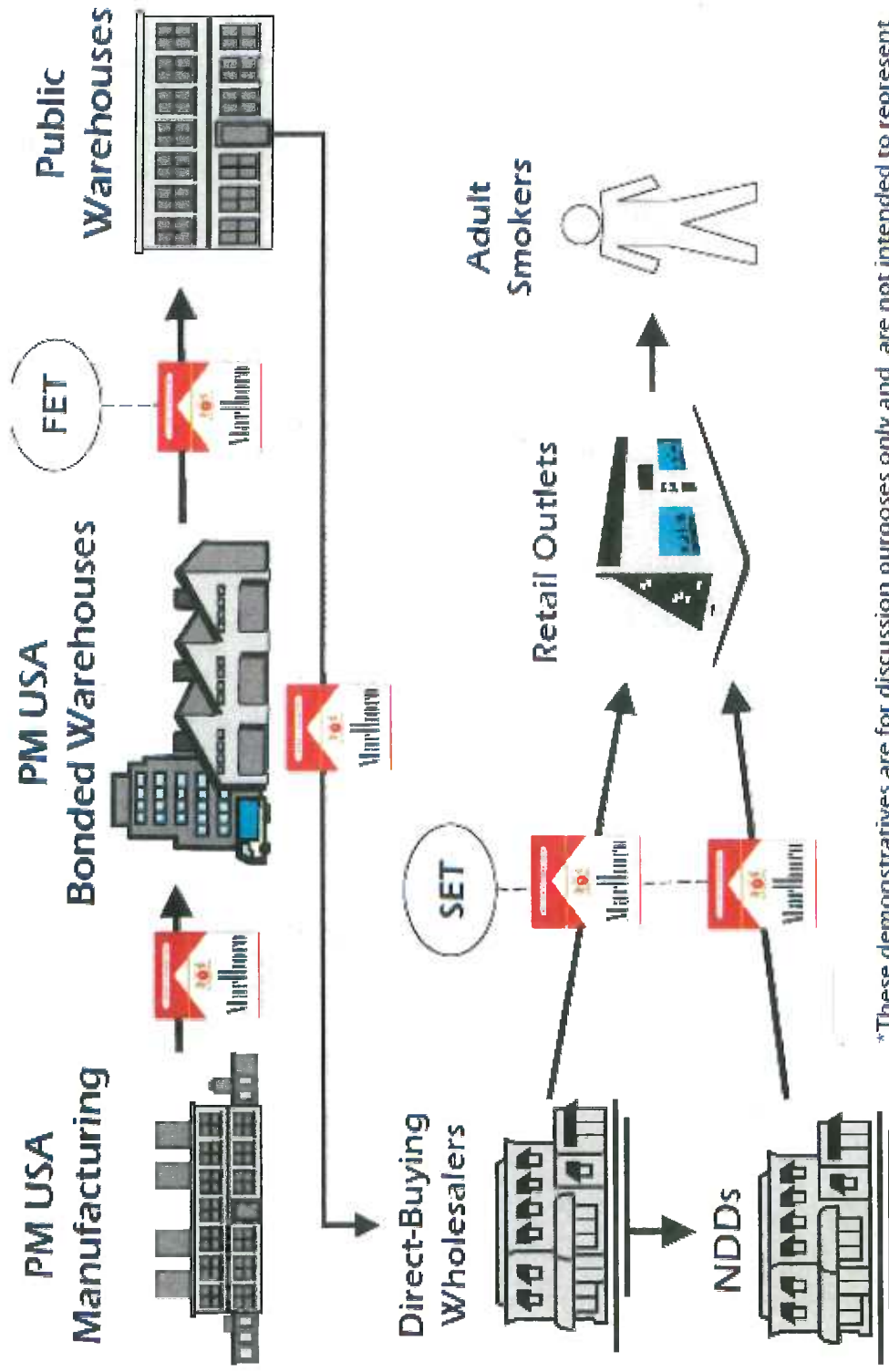
Law Enforcement Engagement & Support

Cigarettes



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PM USA Cigarette Distribution



*These demonstratives are for discussion purposes only and are not intended to represent every possible manner in which PM USA product is distributed and sold..



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How PM USA Cigarettes are Packaged/Sold



Pack contains 20 cigarettes



Pack with Tax Stamp



Carton contains 10 packs



Case contains 60 cartons



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brand
and trade
channel
integrity

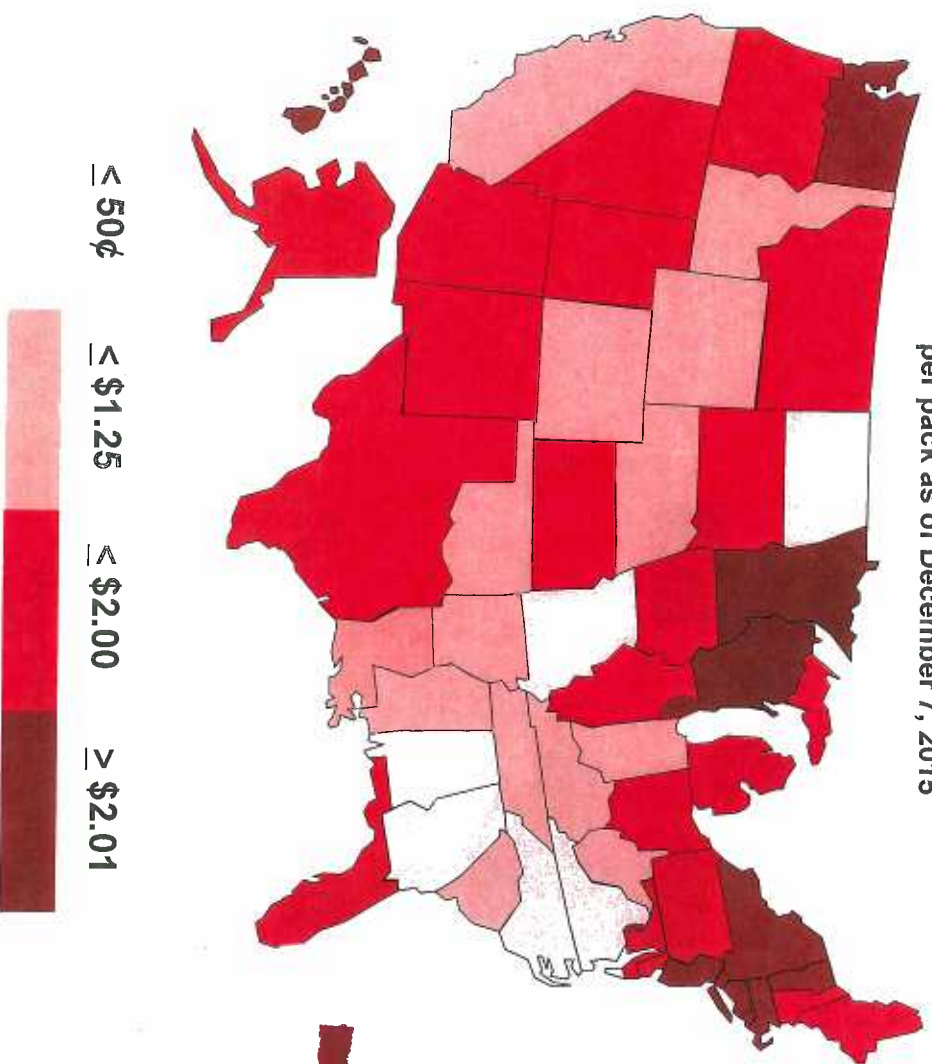
Types of Illicit Trade



The terms “smuggling,” “tax evasion,” “diversion,” “illicit trade” and “trafficking” and “contraband” are often used interchangeably in literature

Drivers of Illicit Trade

State Excise Tax (SET) rates
per pack as of December 7, 2015



National Average for Taxes
and Fees of Retail Price



Source: GAO – March 2011



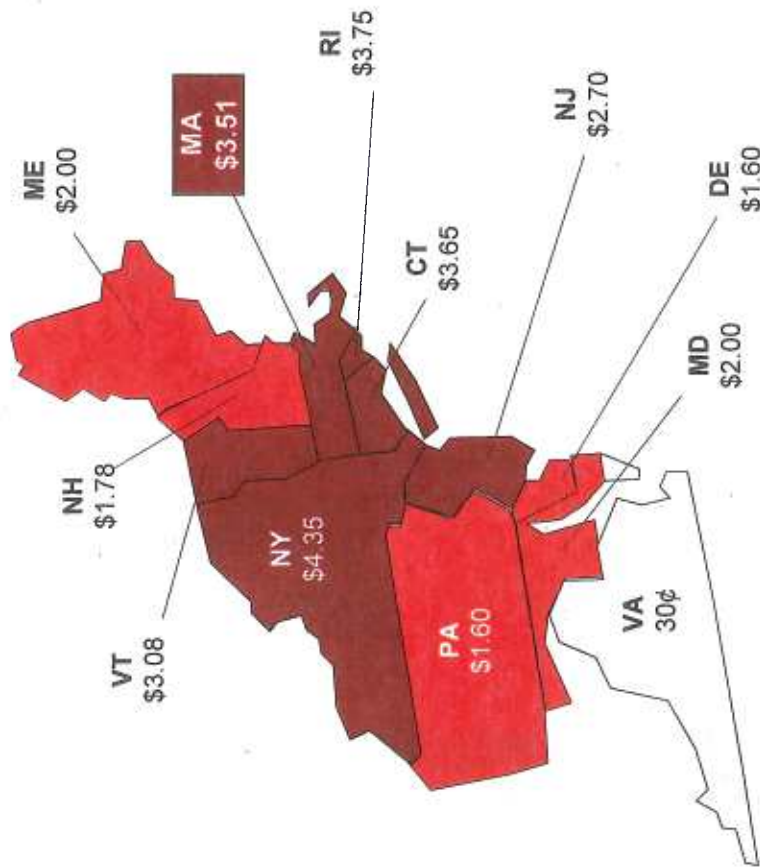
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Considerations for Massachusetts

Select State Excise Tax (SET) rates for cigarettes
as of December 7, 2015



Key: Cigarette excise tax rate per pack
 $\leq 50¢$ $\leq \$1.25$ $\leq \$2.00$ $\geq \$2.01$

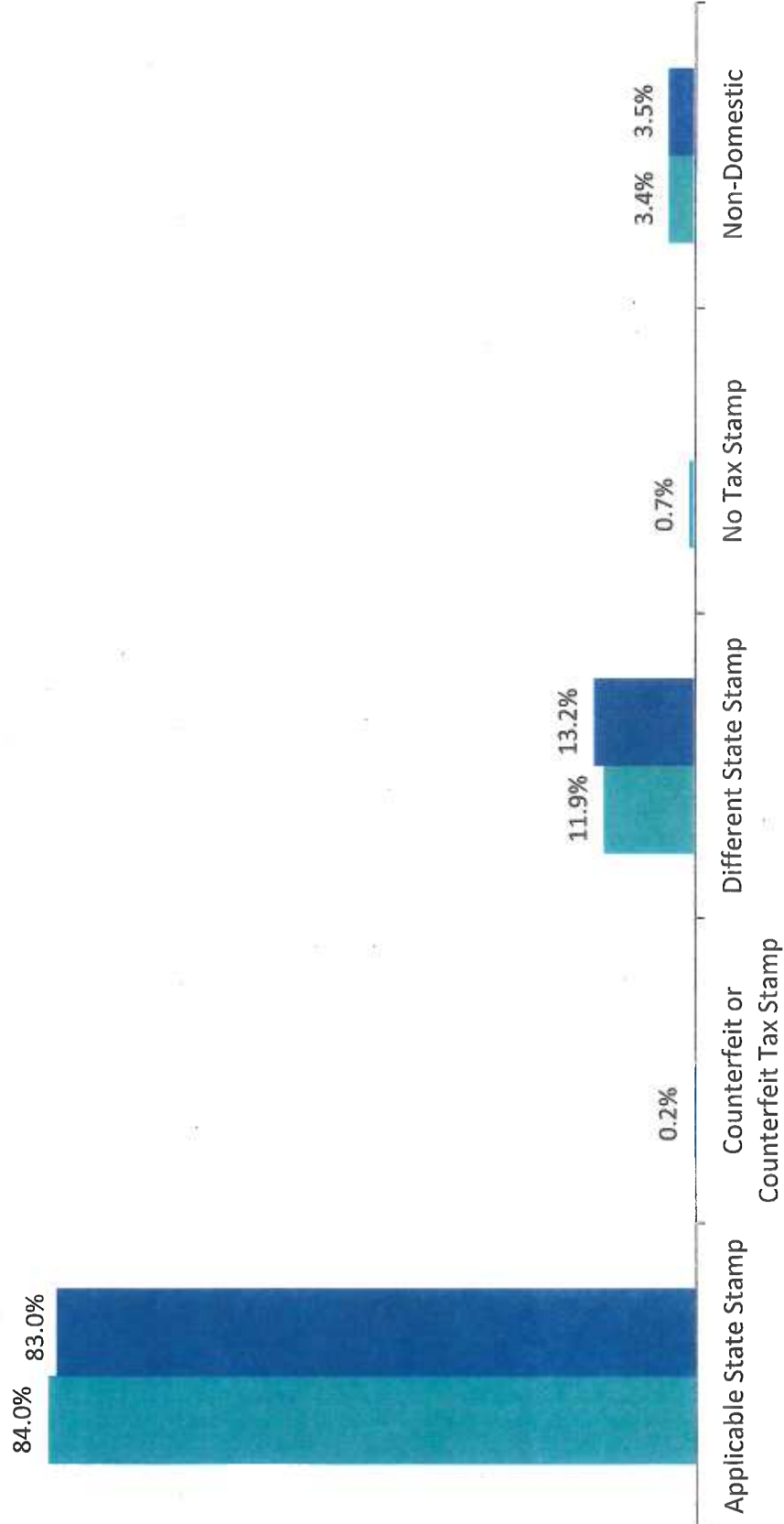
Empty Discarded Pack (EDP) Program



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Boston – Industry EDP Results

■ 2012 Industry ■ 2014 Industry



* Determination of Local Tax Not Paid based on packs not bearing jurisdictional stamps as required based on the zip code where packs were collected.



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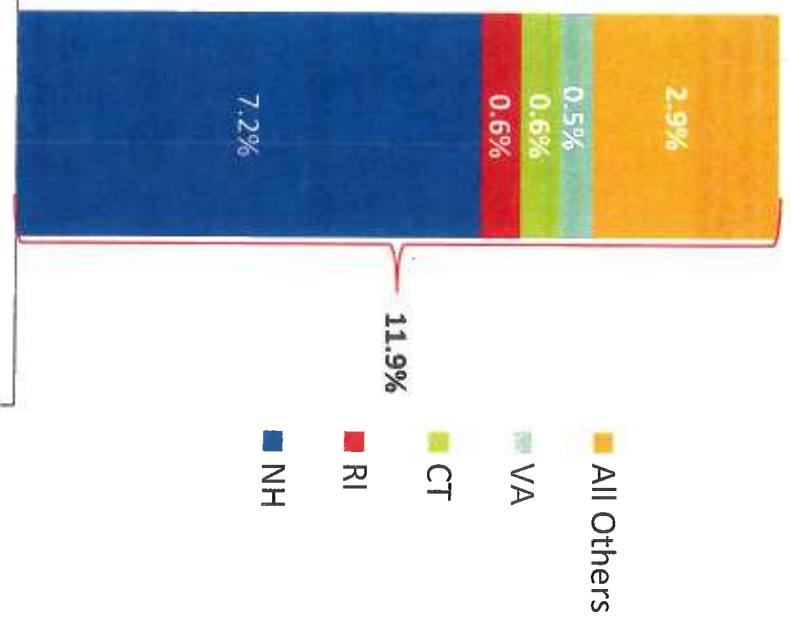
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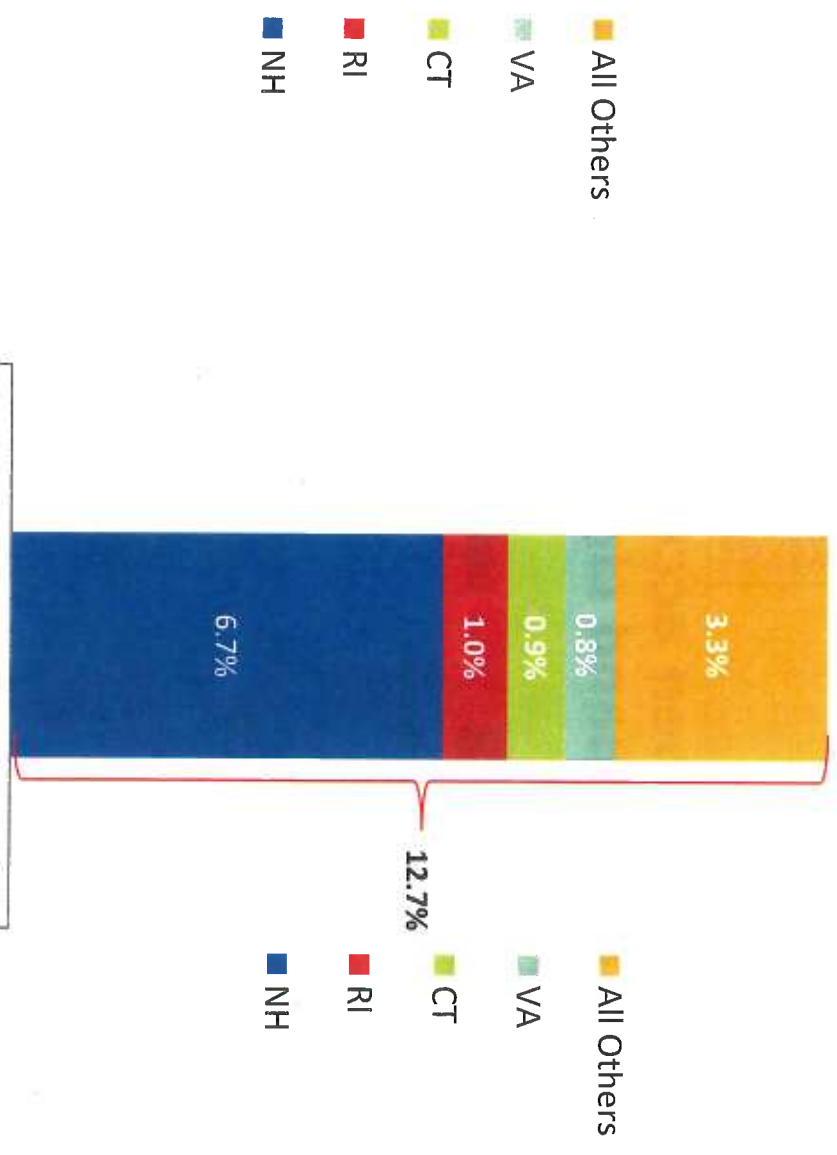
Boston - Industry EDP Results

State Stamps found in Boston EDP Collections

2011



2014



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Tax Avoidance vs. Evasion

3 Worcester men accused of selling contraband cigarettes from Vietnam



By Scott J. Croteau, TELEGRAM & GAZETTE STAFF

Posted Nov. 11, 2013 at 6:56 PM

WORCESTER — Three Worcester men are facing charges in federal court for selling contraband cigarettes they received from Vietnam.

3 Haverhill stores caught selling illegal smokes

Posted Saturday, June 6, 2015 12:05 am
By Bill Cantwell

[See the full story on WNH.com](#)

HAVERHILL — Three convenience stores face the possibility of fines or losing their tobacco licenses because they were caught illegally selling cigarettes that came from New Hampshire, police said. The cigarettes were bought in New Hampshire and then placed on shelves in the Haverhill stores, which means they were not subjected to the Massachusetts tobacco tax, police said. The stores were selling the cigarettes at regular Massachusetts prices — nearly \$2 a pack more than buyers pay in New Hampshire, said police Lt. Robert Pistone. He said that allowed the Haverhill stores to pocket the difference in prices. Pistone said the stores face the possibility of losing their state license to sell tobacco products. State officials will determine the

he seized 139 packs of untaxed cigarettes. Taxed cigarettes were seized. Of untaxed cigarettes were seized. Pistone said. The cigarettes were noticeable because the packs did not display a Massachusetts tax stamp.

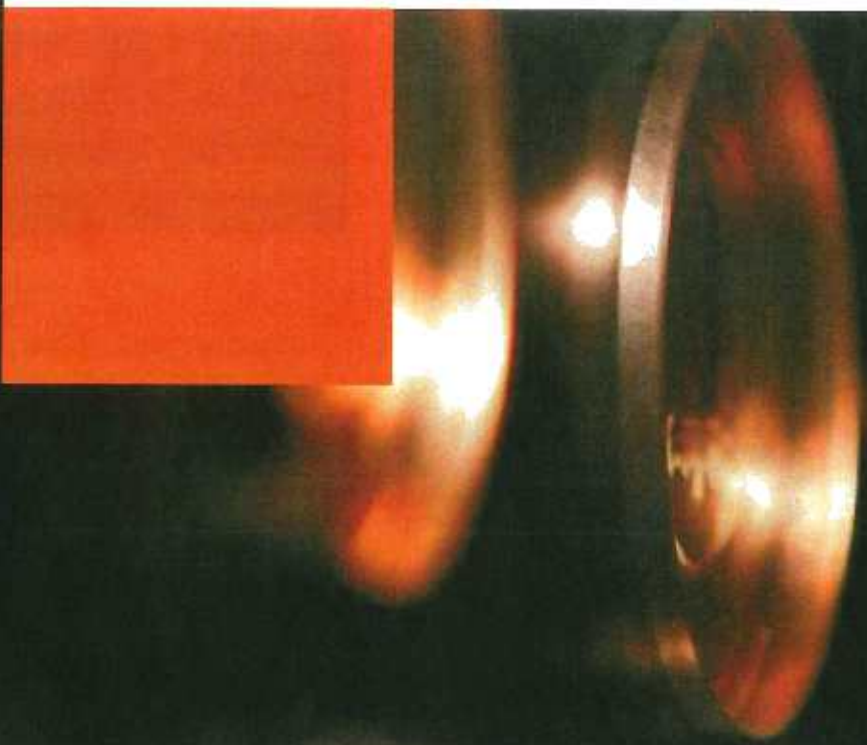
LOUDLOW MAN PLEADS GUILTY TO CIGARETTE TRAFFICKING

MONDAY, NOVEMBER 22, 2010

SPRINGFIELD, Mass. - A Ludlow man was convicted today in federal court of possessing contraband cigarettes.

WILLIAM BRANTLEY, 39, pleaded guilty before U.S. District Judge Michael A. Ponsor to possession of contraband cigarettes. At today's plea hearing, the prosecutor told the Court that had the case proceeded to trial the government's evidence would have proven that BRANTLEY purchased over 100 cartons of cigarettes without the required Massachusetts excise tax stamps and that he planned to re-sell them before he was caught with the cigarettes in a routine traffic stop.

Other Tobacco Products



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Other Tobacco Products – “OTP”

Large Cigars



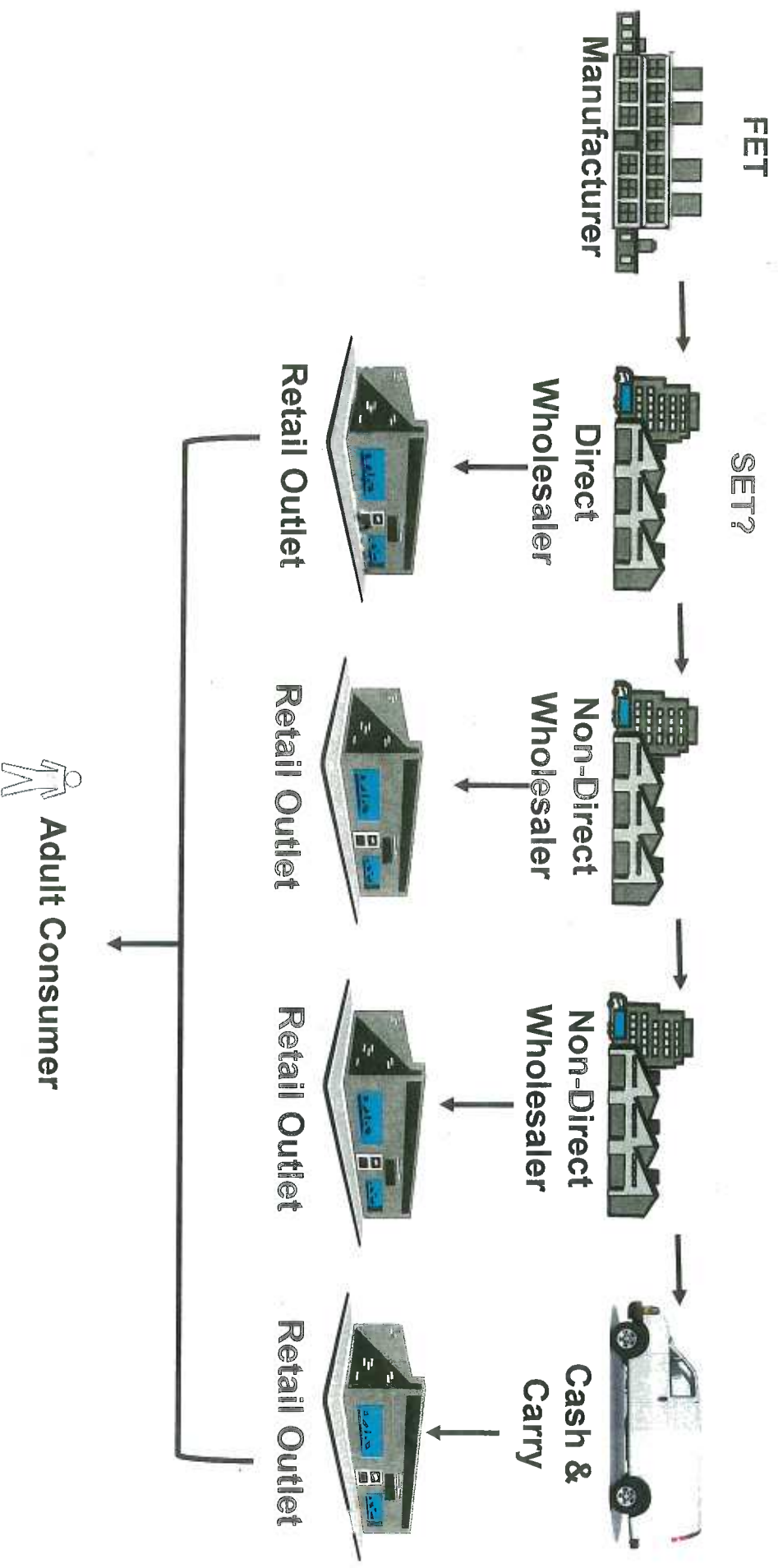
Moist Smokeless Tobacco (MST)



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OTP Distribution



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How USSTC Products are Packaged/Sold



Cans



Logs contain 5 cans



Case contains 90 cans / 18 logs*

*Case image for illustration purposes only. Not actual depiction of USSTC shipping case



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How JMC Cigars are Packaged/Sold



5 count
packs



25 single
cigar
dispensers*



Pre-priced 2
Pack Deals*



5 Packs
distributed in 50
pack
configurations



Cases contain various count configurations

*JMC Single Cigars and Pre-Price Cigars not distributed in jurisdictions where prohibited by law



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OTP Excise Tax Rates

State	MST Rate	Large Cigar Rate
Connecticut	\$1.00/oz	50%
Maine	\$2.02/oz	20%
Massachusetts	210%	40%
New Hampshire	65%	65%
New Jersey	\$.75/oz	30%
New York	\$2/oz	75%
Pennsylvania	N/A	N/A
Rhode Island	\$1.00/oz	80%*
Vermont	\$2.57/oz	92%

- As of December 7, 2015
- Federal excise tax rate is \$0.09438 per ounce. All ad valorem states base the tax on the manufacturer's price.
- Effective 7/1/10, Philadelphia increased its MST tax rate from 0% to \$0.36/oz. and large cigar rate from 0% to .036/unit

* Cigar tax cap of \$.50/unit

Massachusetts OTP Case

Feds: Defendant pleads guilty to role in tobacco wholesale tax fraud ring in Massachusetts, Connecticut



By [Conor Berry | cberry@repub.com](mailto:cberry@repub.com)

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on March 23, 2015 at 11:25 PM, updated March 23, 2015 at 11:35 PM



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Massachusetts Illegal Tobacco Task Force



For Immediate Release - February 28, 2014

Commission Issues Recommendations to Combat Tobacco Smuggling

Members call for unified enforcement, stiffer penalties

(Boston, MA) - In a comprehensive report released today, the Commission on Illegal Tobacco, chaired by Massachusetts Revenue Commissioner Amy Pitter, proposed the state create a multi-agency task force to enforce tougher laws and penalties. This was among 12 recommendations to reduce tobacco smuggling and the loss of an estimated \$62 to \$246 million in excise tax revenues.



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Illegal Tobacco Task Force

STATEMENT OF MICHAEL THORNE-BEGLAND

DIRECTOR OF BRAND INTEGRITY AND ASSISTANT GENERAL COUNSEL

ALTRIA CLIENT SERVICES INC.

SUBMITTED ON BEHALF OF PHILIP MORRIS USA INC.,

U.S. SMOKELESS TOBACCO COMPANY LLC AND JOHN MIDDLETON CO.

TO ILLICIT TOBACCO COMMISSION¹

ON OPTIONS FOR MASSACHUSETTS TO ENHANCE ITS EFFORTS
TO COMBAT THE ILLICIT TRADE IN TOBACCO

Commonwealth of Massachusetts

Report of Commission on Illegal Tobacco

03 #1 2014



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Other Examples



Cook County Department of Revenue Cigarette Enforcement Unit

- Task force is funded from the general fund of Cook County and is allocated to the Cook County DOR
- It is funded for 10 investigators, two supervisors and a manager of investigations
- Investigators are civil investigators and write civil citations that result in fines for violations
- Each investigator is partnered with Cook County Sheriff's Police officer



NYS Office of Tax Enforcement Cigarette Strike Force

- Strike force is funded by NYS through the general fund allocation for the NYS Dept of Taxation and Finance (DTF)
- It is within the larger NYS DTF Criminal Investigations Division and conducts criminal investigations and civil inspections
- It has approximately 30 members and is comprised of both criminal and civil investigators
- It has access to tax attorneys and auditors
- It pursues civil remedies and criminal cases that are prosecuted by local DAs or the state AG's office



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Other Examples

- Provide measures and annual reporting on tobacco enforcement
- California BOE monthly reporting

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Board of Equalization**

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Investigations Division – Cigarette and Tobacco Products Inspection Program

The Cigarette and Tobacco Products Licensing Act of 2003 authorized the Board of Equalization, Investigation Division, to inspect business locations and seize any untaxed tobacco products and cigarettes, "Untaxed" cigarettes include cigarettes without tax stamps, cigarettes affixed with counterfeit or other state stamps, cigarette packs (stamped or unstamped) that are marked "Not for sale in the United States," or cigarettes to which cigarette tax stamps are affixed in violation of the specified prohibitions under the Master Settlement Agreement (Revenue & Taxation Code section 30165.1). Untaxed tobacco includes tobacco products in inventory for which there are no valid purchase invoices that show excise taxes paid.

The table below reflects the results of current inspections conducted by the Investigations Division, and will be updated on a monthly basis. Prior year's figures can be viewed using the year's link below. Inspections conducted include retail, wholesale, and distributor business locations

Year 2015	Number of Inspections	Number of Cigarette Seizures	Total Packs of Cigarettes Seized	Number of Tobacco Product Seizures	Total Wholesale Cost of Tobacco Seized
January	663	23	10,693	6	\$ 3,294
February	854	5	328	14	11,931
March	863	5	2,202	9	8,836
April	1,157	4	61	15	32,794
May	923	2	37	10	14,030
June	1,042	8	6,556	4	845
July	886	8	9,795	5	518,791
August	1,045	6	1,141	8	4,313
September	1,057	8	28,637	5	1,809
October	980	6	43,890	4	33,570
November					
December					
Total	9,570	74	161,310	80	\$ 631,213



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