

Title	Important notice	How to use this report	Background to analysis	About this report	Executive Summary	Focus on key markets	C&C source countries	Focus on counterfeit	Focus on Illicit Whites	Illicit cigarette manufacturing	Appendices
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# Project Stella

A study of the illicit cigarette market in the EU

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## Important Notice and navigation

### Important Notice

This presentation of key findings (the 'Report') has been prepared by KPMG LLP, the UK member firm ("KPMG") for the Philip Morris Products SA, described in this Important Notice and in this Report as 'the Beneficiary', on the basis set out in a private contract dated 07 March, 2019 agreed separately by KPMG LLP with the Beneficiary (the 'Contract').

Information sources, the scope of our work, and scope and source limitations are set out in the introduction, footnotes and appendices contained within this Report. The scope of our work, information sources used, and any scope and source limitations were fixed by agreement with the beneficiary. We have satisfied ourselves, where possible, that the information presented in this Report is consistent with our information sources, but we have not sought to establish the reliability of the information sources by reference to other evidence.

This Report has not been designed to benefit any specific organisation other than the beneficiary. In preparing this Report we have not taken into account the interests, needs, or circumstances of any specific organisation, other than the beneficiary. This Report is not suitable to be relied on by any party wishing to acquire rights or assert any claims against KPMG LLP for any purpose or in any context. As such, any person or entity (other than the beneficiary) who reads this Report and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report.

In particular, and without limiting the general statement above, although in light of the fact that we have prepared this Report for the beneficiary, this Report has not been prepared for the benefit of any other manufacturer of tobacco products nor for any person or entity who might have an interest in the matters discussed in this Report, including for example those who work in or monitor the tobacco or public health sectors or those who provide goods or services to those who operate in those sectors.

### Navigating this report

#### Project Stella - Executive Summary

Title	Important notice & contents	How to use this report	Background to analysis	About this report	Europe: Executive Summary	Europe: key findings
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Navigation around this report is interactive and the reader can view each screen by clicking on the contents boxes above.

The key trends can be found in the **Executive Summary** tab

Methodology and country report can be downloaded as PDFs using the links in the **Appendices** tab

Alternatively, viewers can analyse country-specific results by [clicking here](#).

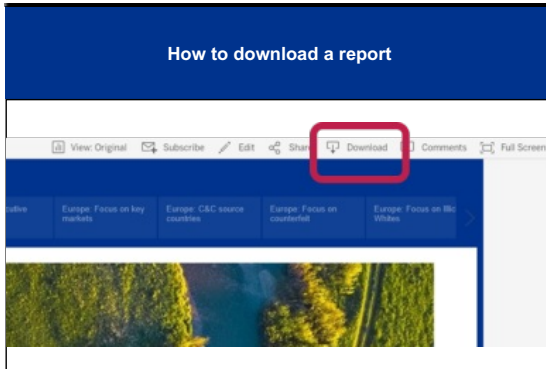
A glossary of terms can be found by [clicking here](#)

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## How to use this report

Access Country Reports: [Click here](#)



### Downloading a report

Ensure that all pages with interchangeable charts are showing the country and information you require

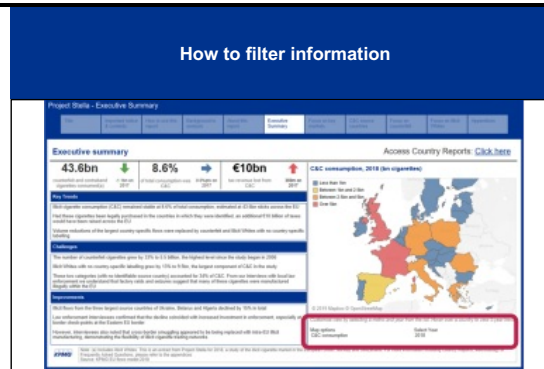
In the top-right corner, click the 'Download' button, this will download the entire report containing the charts you have selected

Select the file format in which you wish to download the report

Click 'Create'

Once the file has been created, click download to view the results

Documents can also be downloaded using the links in the appendices tab of this report

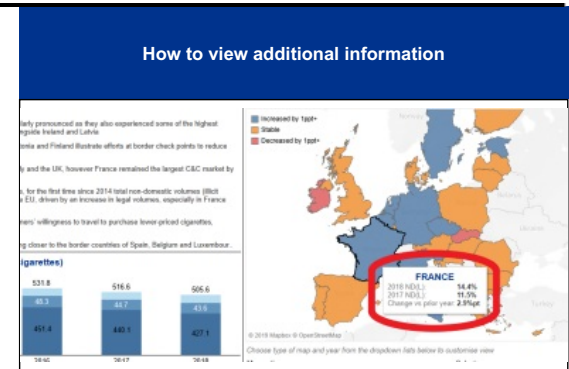


### Type filter

The following screens have an additional drop-down lists to update the visuals based on the option selected:

1. Executive summary
2. Focus on key markets
3. Focus on counterfeit
4. Focus on Illicit Whites

Wherever these options are available, we have included instructions in italicised text for guidance



### Additional tooltip details

Hover your cursor over a coloured area on a chart or map to get additional details about the selection

Wherever these options are available, we have included instructions in italicised text for guidance



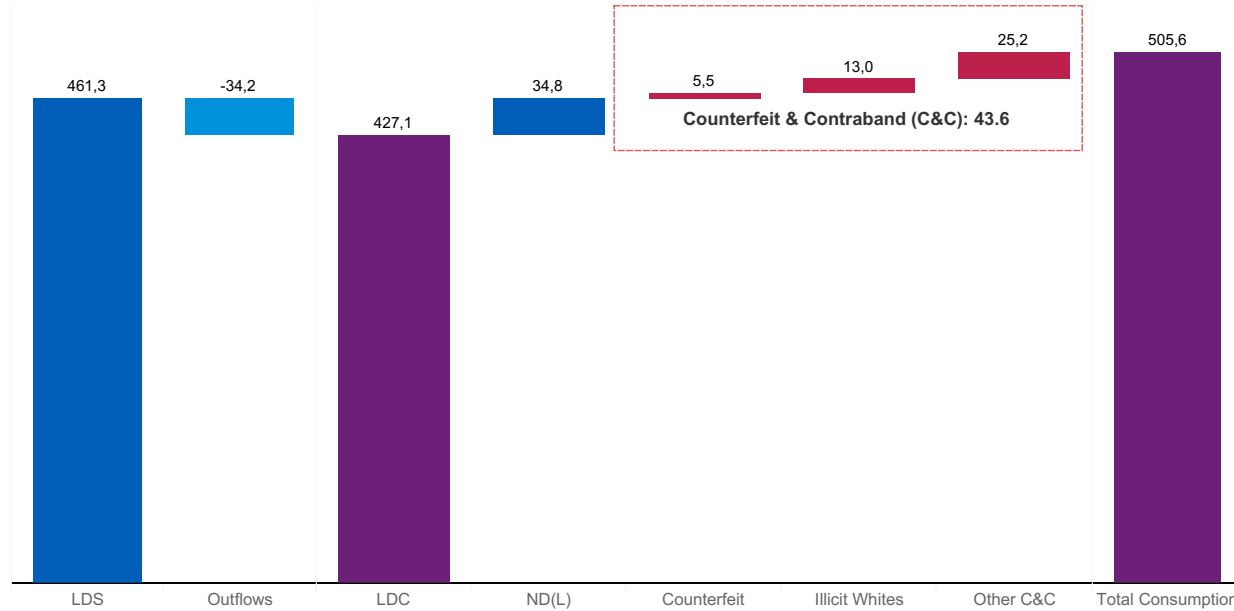
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## KPMG's approach to categorising legal and illicit cigarette consumption

Access Country Reports: [Click here](#)

### Estimate of total cigarette consumption in the EU, 2018 (bn cigarettes)

Hover over the bars to view descriptions of each component



The chart opposite illustrates KPMG's core approach to estimating the size and scale of illicit cigarette consumption, known as Counterfeit & Contraband (C&C)

KPMG's approach, using Empty Pack Surveys (from market research agencies commissioned by the tobacco industry) and Legal Domestic Sales (provided by manufacturers and third party research agencies) allows it to split total cigarette consumption into its constituent parts

Legal Domestic Sales, available in every country, underpin the initial volume estimate, whilst Empty Pack Surveys enable KPMG to determine the additional 'non-domestic' component of consumption, which can be further analysed depending on the source and brand of each pack

KPMG's flows model ensures that inflows and outflows around the EU are all equal, so that the overall consumption in each country can be estimated

Hover over each component of cigarette consumption for further definitions

For a detailed methodology and data sources please go to KPMG's [methodology](#) booklet



Note: (a) Other C&C is predominantly contraband, but also includes counterfeit for manufacturers who do not participate in the EPS surveys. However, this volume is expected to be small  
Source: KPMG EU flows model 2018

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## About this report

Project Stella is an annual study estimating the scale and development of the illicit cigarette market in the EU. This report was commissioned by Philip Morris Products SA for data covering 2018. KPMG LLP was previously commissioned by RUSI (Royal United Services Institute) to undertake Project SUN in 2017. The study covers all 28 European Union member states, with an EU market overview. There are also individual country reports for Norway and Switzerland in the country dashboard. More information on the agreed scope of work can be seen in the appendices to this report.

The methodology used to estimate the size of the illicit cigarette market in connection with the Project SUN reports has continued to be applied consistently in the Project Stella report, with the underlying data-sources remaining the same. The methodology is underpinned by a combination of hard data, such as legal sales of cigarettes within the EU and travel data, publicly available data-points, such as smoking prevalence and average prices of cigarettes, and the Empty Pack Surveys, undertaken by independent market research agencies. KPMG's approach is to review all data-points to produce the relevant estimates. An overall methodology booklet is provided within the appendices, along with a 'key assumptions' box in each country report.

This report refers to interviews with law enforcement, which took place as part of the research process for the first time in the study (and listed in the methodology). Historic references to previous versions of the study are also made within KPMG's Project SIA report ([available here](#)) which documents seizures of tobacco products throughout Europe.

Having concluded this report a second study will be launched in September. This study will go into more details around some of the key issues highlighted in the first report, after additional analysis and research by KPMG.

## The inclusion of an Expert Panel

For 2018, KPMG are appointing an Expert Panel as part of the approach to reviewing and refining the results of the Stella report. The panellists were approached by KPMG, based on their diversity of experience in studying and fighting illicit trade (hover over the names opposite for their bios), coming from a range of backgrounds, including industry, law enforcement, academia and tobacco control. The panel reviewed KPMG's approach to assessing the different data-sources and have made a series of recommendations to KPMG in order to ensure a robust and independent approach. During the project, KPMG provided the panel with underlying data and where necessary, the reasoning and rationale behind its assumptions. The panel's role was to assess the integrity of data sources and to provide challenge to any assumptions that KPMG made throughout the study, ensuring that these were accurately and transparently reflected in the methodology.

Having spent time undertaking this background exercise, the panel will use their knowledge and insights to play a significant role in inputting into the second study, where they will play a role in driving the key issues to highlight and advise KPMG on avenues for additional research.

## Expert Panel:

*Hover over to view biographies*



Meena Sayal



Karl Lallerstedt



Michael Ellis



Jill Battley






Claude Jeanrenaud

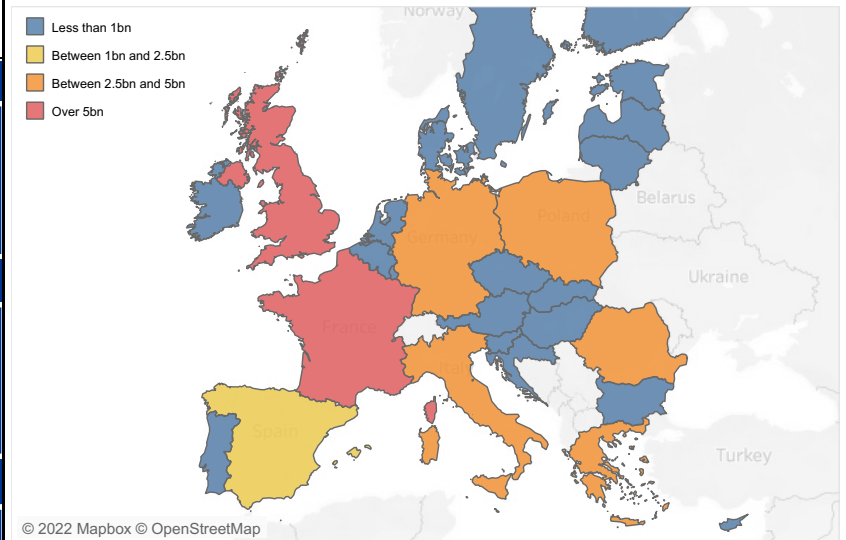
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**Executive summary**

Access Country Reports: [Click here](#)

<b>43,6bn</b> <small>counterfeit and contraband cigarettes consumed(a)</small>	 <small>-1,1bn on 2017</small>	<b>8,6%</b> <small>of total consumption was C&amp;C</small>	 <small>0,0%pts on 2017</small>	<b>€10bn</b> <small>tax revenue lost from C&amp;C</small>	 <small>369m on 2017</small>
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**C&C consumption, 2018 (bn cigarettes)**



Customise view by selecting a metric and year from the list. Hover over a country to view 5-year trend

Map options  
C&C consumption

Select Year  
2018

**Key Trends**

Illicit cigarette consumption (C&C) remained stable at 8.6% of total consumption, estimated at 43.6bn sticks across the EU  
 Had these cigarettes been legally purchased in the countries in which they were identified, an additional €10 billion of taxes would have been raised across the EU  
 Volume reductions of the largest country-specific flows were replaced by counterfeit and Illicit Whites with no country-specific labelling

**Challenges**

The number of counterfeit cigarettes grew by 33% to 5.5 billion, the highest level since the study began in 2006  
 Illicit Whites with no country-specific labelling grew by 15% to 9.5bn, the largest component of C&C in the study  
 These two categories (with no identifiable source country) accounted for 34% of C&C. From our interviews with local law enforcement we understand that factory raids and seizures suggest that many of these cigarettes were manufactured illegally within the EU

**Improvements**

Illicit flows from the three largest source countries of Ukraine, Belarus and Algeria declined by 15% in total  
 Law enforcement interviewees confirmed that the decline coincided with increased investment in enforcement, especially at border check-points at the Eastern EU border  
 However, interviewees also noted that cross-border smuggling appeared to be being replaced with intra-EU illicit manufacturing, demonstrating the flexibility of illicit cigarette trading networks



Note: (a) Includes Illicit Whites. This is an extract from Project Stella for 2018, a study of the illicit cigarette market in the European Union, Norway and Switzerland. For more information including Country Reports and Methodology, please refer to the appendices. KPMG's approach to consumption is explained in the 'Background to Analysis' page  
 Source: KPMG EU flows model 2018

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## C&C consumption declined in 11 countries in the EU

Whilst the share of illicit consumption (C&C%) remained stable across the EU, successful volume reductions in some countries were offset by growth in Greece and the UK

The challenges faced in Greece and the UK are particularly pronounced as they also experienced some of the highest shares of illicit consumption (C&C%) within the EU, alongside Ireland and Latvia

Declining illicit volumes (C&C) in Poland, Germany, Estonia and Finland illustrate efforts at border check points to reduce flows across the Eastern EU\*

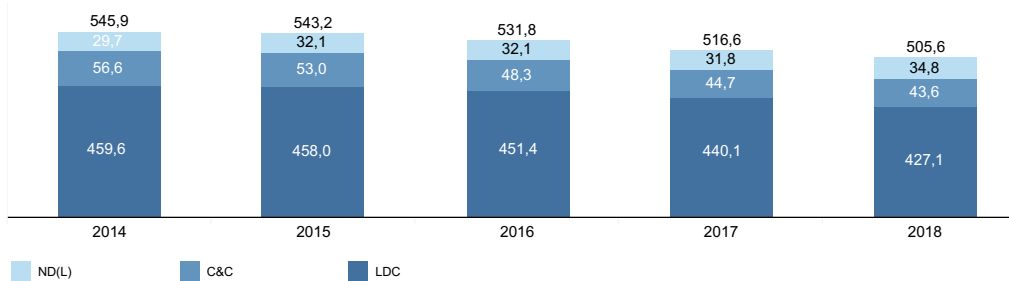
Illicit volumes grew in The Czech Republic, Greece, Italy and the UK, however France remained the largest C&C market by volume in the EU

Whilst total consumption continued its long-term decline, for the first time since 2014 total non-domestic volumes (illicit (C&C) plus legal (ND(L)) volumes) increased across the EU, driven by an increase in legal volumes, especially in France and Italy

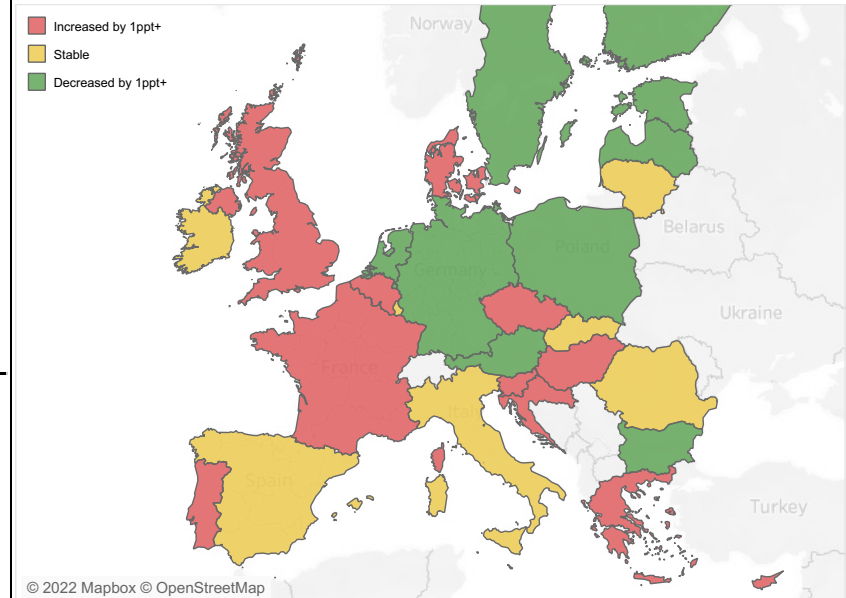
The increase in legal (ND(L)) volumes indicates consumers' willingness to travel to purchase lower-priced cigarettes, especially in other EU countries

This trend is illustrated in France where consumers living closer to the border countries of Spain, Belgium and Luxembourg have taken advantage of the growing price difference between countries to increasingly purchase cigarettes abroad

### EU Consumption trend, 2014-2018 (bn cigarettes)



### Change in C&C consumption vs prior year, 2018 (ppt)



Choose type of map and year from the dropdown lists below to customise view

Map options  
 Change in C&C consumption vs prior year

Select year  
 2018



Source: KPMG EU flows model 2014-2018; KPMG analysis of UNWTO data; \*Discussions with local law enforcement and customs

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## C&C volumes continued their decreasing trend, but counterfeit volumes increased

Access Country Reports: [Click here](#)

### Illicit consumption trend

Counterfeit was the only C&C category to show year on year volume growth in 2018, with Illicit Whites and 'Other C&C' volumes (predominately contraband) declining

However, the amount of Illicit Whites with no country specific labelling increased by 1.2 billion cigarettes

Together these categories of illicit consumption are growing, however both have no identifiable source country and may have originated from within the EU

### Illicit consumption sources

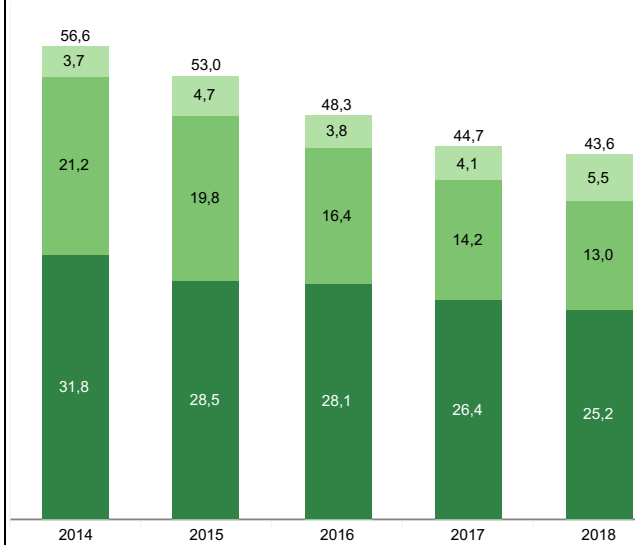
Illicit cigarette traders appear to have shifted their efforts to alternative sources of cheap cigarettes, especially counterfeit and Illicit Whites with no country specific labelling, which increased their combined share of C&C from 28% to 34%

The majority of flows from Belarus are also illicit whites as the brands sold in Belarus have no legal distribution within the EU

As in prior years, illicit cigarettes coming from outside the EU remained the largest source of C&C consumption in the EU, but there was evidence of production of both counterfeit and Illicit Whites with no country-specific labelling within the EU\*. Ukraine, Belarus and Algeria remained the largest country specific sources, but all declined as law enforcement efforts to restrict flows continued

The EU-labelled volume share of C&C has remained stable since 2015, mainly accounted for by flows from Poland and Romania to the highest priced countries such as the UK and Ireland

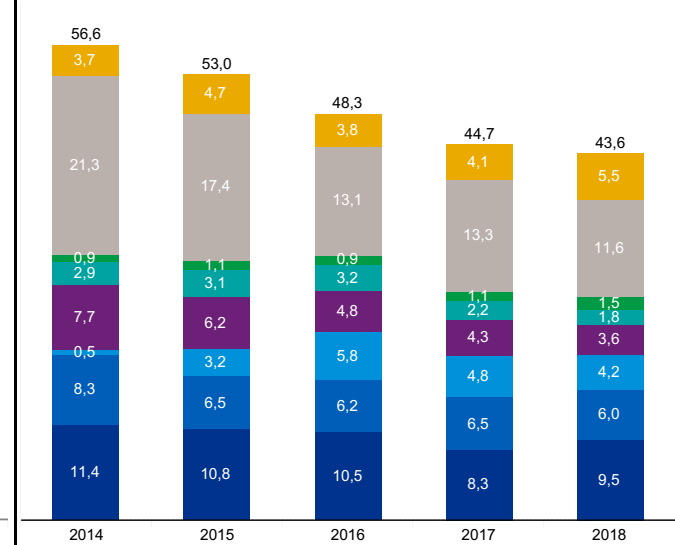
C&C trend by type, 2014-2018 (bn cigarettes)



Y-o-Y Growth, 2018 (%)

Counterfeit	33.0%
Illicit Whites	-8.5%
Other C&C	-4.6%

Sources of C&C, 2014-2018 (bn cigarettes)



Counterfeit	Belarus
Other non-EU	Ukraine
Moldova	EU
Algeria	IW: no country label



Notes: (a) Other C&C is predominantly contraband, but also includes counterfeit for manufacturers who do not participate in the EPS surveys. However, this volume is expected to be small; (b) Seizure information suggests that counterfeit volumes may also come from within the EU  
Source: KPMG EU flows model 2014-2018; \*Discussions with local law enforcement and customs



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## Counterfeit consumption has increased in 15 EU countries

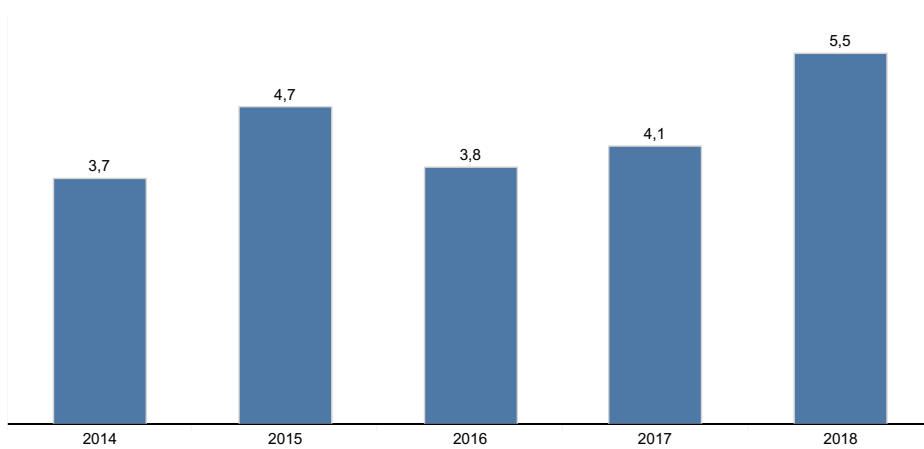
Access Country Reports: [Click here](#)

Counterfeit volumes increased by 1.4bn in 2018 to the highest level recorded since measurement began in 2013

The countries with the largest counterfeit volumes were Greece (1.5bn), UK (0.9bn) and Poland (0.8bn)

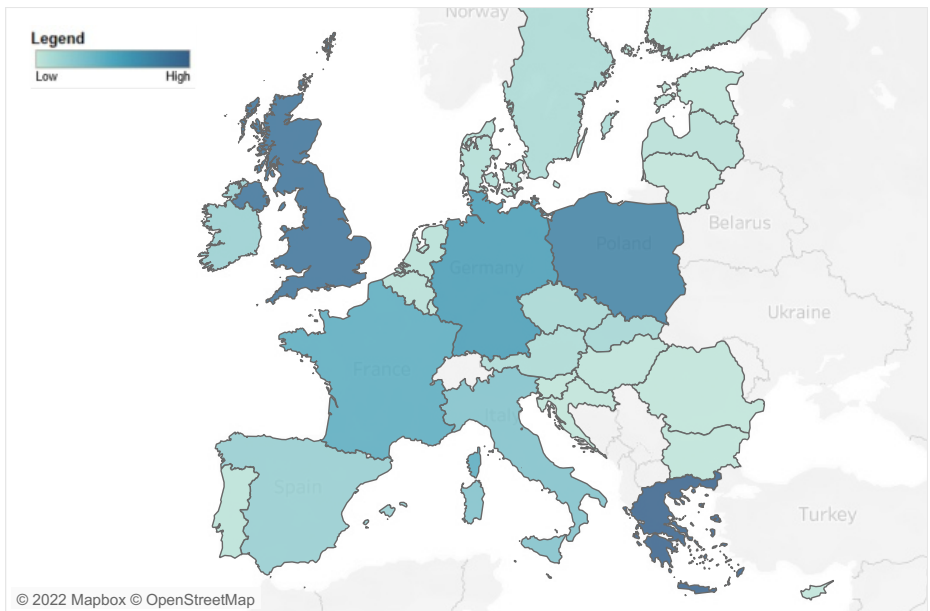
European law enforcement interviewees have indicated that the increased EU volumes may be driven by illegal factories located within the EU, in particular in Greece, but also the UK, Poland, Spain and the Netherlands, where seizures and factory raids have taken place

### Counterfeit volumes, 2014-2018 (bn cigarettes)



Source: KPMG EU flows model 2014-2018

### Counterfeit volume, 2018 (bn cigarettes)



Choose type of map and year from the dropdown lists below to customise view

Counterfeit volume Year 2018

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## Illicit White brands consumption in the EU accounted for approximately 30% of C&C

Access Country Reports: [Click here](#)

Illicit Whites continue to be a major source of C&C volumes in the EU, with the largest brands at an EU level being Marble, NZ, and Regina

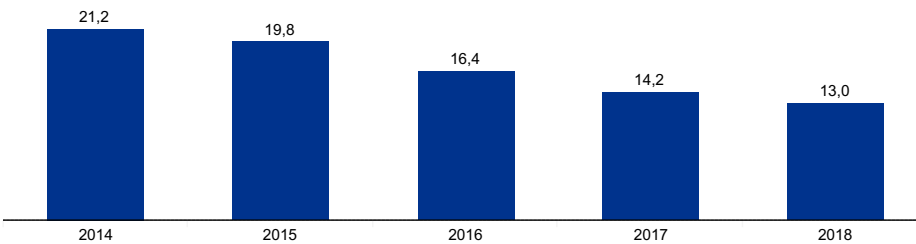
Marble replaced Fest as the largest Illicit Whites brand between 2014 and 2018. Fest, mainly with Belarusian labelling was identified in multiple countries close to the Eastern EU border, whilst Marble was predominantly identified in Romania where it is the largest illicit flow

As in prior years the brands collected via the Empty Pack Surveys indicate that some of these Illicit Whites had Belarusian labelling, however, many have no health warnings or have Duty Free labelling in order to evade detection. These are categorised as Illicit Whites with no country specific labelling

Whilst Illicit Whites have often been thought to originate in Belarus, Russia and Ukraine, law enforcement interviews also highlighted a belief that in some countries in the EU, such as Poland and Greece, there may also be an increase in domestic Illicit White production

In addition, seizures made of plastic bags full of cigarettes with no identifiable brand, indicated a trend towards Illicit White and counterfeit production rather than the smuggling of genuine brands\*

### Top 5 Illicit White Brands, 2018 (bn cigarettes)

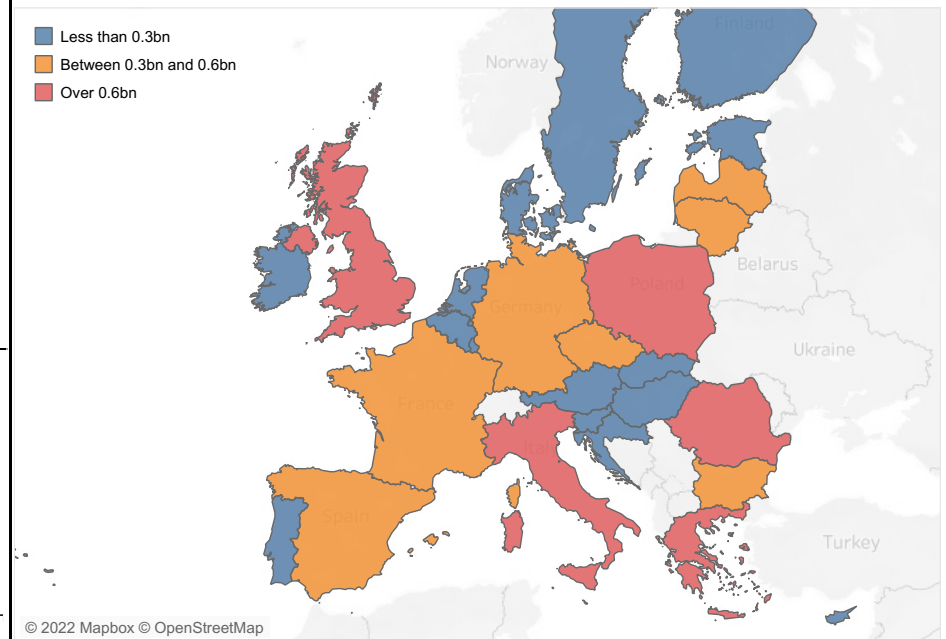


Hover over a bar to see the key Illicit White brands for that year



Source: KPMG EU flows model 2014-2018; \*Discussions with local law enforcement and customs

### Volume of Illicit Whites by country, 2018 (bn cigarettes)



© 2022 Mapbox © OpenStreetMap

Hover over a country to view the largest Illicit White brands in that country. Select a year to update view

Year  
2018

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**Supplemental report: Illicit cigarette manufacturing in the EU**

Access Country Reports: [Click here](#)



[Click here](#) to access a supplemental report with additional analysis and commentary on illicit cigarette manufacturing in the EU

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## Appendices

### Downloadable Content

*Click on titles below to download content*

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3. Methodology

4. 2017 Results

5. Glossary

5. Country Reports

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