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FIFTH GLOBAL CONGRESS, CANCUN,

¡Buenos días a todos! Es un placer para mí estar en Cancún, destino turístico reconocido por sus playas de arena blanca y mar azul turquesa, así como cuna de la ancestral cultura maya.

Mark Cobben
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Good morning Secretary General Noble, Director Schmitz, Director Toledo, Mr Heath, distinguished guests, ladies and gentlemen. I am very pleased to be here in sunny Cancun to represent BASCAP and my company, British American Tobacco, in helping open this event.

BASCAP is very proud to be a part of the outstanding public-private partnership that has organized this important Congress.

BASCAP has been involved since the beginning, and we are proud of the leadership role we have played in all four of the previous Global Congress events and the many regional events in between.

We wish to thank INTERPOL for hosting this Fifth Congress and to Secretary General Ron Noble for his personal involvement and support.

Thanks as well to the WCO and WIPO for their continued personal involvement and support in fighting counterfeiting and piracy, and the leadership they have continued to show in supporting these Global Congresses and the work of their staff on these issues.

We would also like to thank the Mexican government for co-hosting this event, and for the leadership and involvement of IMPI in organizing this Congress. Thank you to Mr. Jorge Amigo for his personal leadership and (add other Mexican government leaders as they are confirmed).

This is the first Global Congress to be held in Mexico and the Americas more broadly. This is an important step for those of us in the private sector. We are encouraged by the progress being made against this critical issue in Mexico and the rest of the region, but clearly progress has been slower than any of us would like. I am hopeful that this Congress will identify new, creative approaches to achieve real results against these huge problems in the region as well as globally.

Everyone here recognizes that counterfeiting is a multi-billion dollar problem and that it costs trademark owners and governments millions, even billions of dollars, per year. But, first and most important, counterfeiting is a problem for the users of our products. I can assure you that this is the number one reason BASCAP members are so concerned about this issue and getting counterfeiters out of business.

Counterfeit products cheat customers of the quality they expect, and rob them of their shopping dollars. Counterfeiting also destroys trust in brands and in the

manufacturers of legitimate products. It hurts the general public because their governments are losing tax revenues and diverting resources that could be spent on other, more important activities and benefits. In the tobacco industry, we estimate that Governments lose \$20 billion annually in lost revenue through sales of illicit tobacco while tobacco manufacturers and the trade each lose \$5 billion annually. So, it's not just a Big Business problem which many people try to make it out to be. It affects government revenue much more, therefore it is a problem for every citizen. It also exposes consumers to unsafe products.

While we are encouraged by the steps that have been taken and continue to be taken since the First Global Congress, there is much yet to be done. We need more action and more aggressive action, and we need it now.

For the tobacco industry, and many of the industry sectors represented here today, our priorities in the region include our continuing efforts to work with governments in the tri-border areas between Paraguay, Brazil and Argentina. For my industry, we are working to ensure more effective controls of those borders in an attempt to stop the smuggling of tobacco products from Paraguay.

However, we realise that the challenges in the region are not limited to the tri-border areas. To illustrate, I thought I would take this opportunity to tell you a real life story about an important country in the region. It is about Canada. Controlled by organized crime, every year 13 billion illegal cigarettes flood unimpeded into this country. One third of the cigarette market is illegal. Controlled by organized crime, young people are recruited into the smuggling trade and are targeted as

potential customers. Most worryingly, however, this trade is fuelling drug, firearms and alcohol networks and Governments are losing billions of dollars.

What I would like to speak about is the inconvenient truth of Canada's tobacco industry today: over one third of the Canadian tobacco industry has been handed over to an illegal, unregulated, un-enforced and untaxed free for all.

Elements of this story highlight why we are here today: lost tax dollars, questionable product quality, eroded consumer trust, lost revenues.

How these cigarettes get into the marketplace is unique. Several First Nations Native Indian reservations straddle the Canada – US border. Day in and day out, trucks and boats carrying millions and millions of illegal cigarettes are delivering their illegal goods unhindered. Over 90% of the illegal cigarettes are manufactured on First Nations reserves in Quebec, southern Ontario, and on the US side of the border. Some are produced by operations that are unlicensed but surprisingly some are actually licensed by the Canadian government.

Most of the cigarettes are unbranded and sold in transparent plastic bags for between \$6 and \$15 for 200 cigarettes. Their legal and taxed cousins sell for between \$60 and \$80 for 200 cigarettes.

Some are branded to look similar to legal brands. Others have their own distinct brands. And still others are pure counterfeit.

I know what you are thinking – our profits are being threatened. It is true that the rampant sale of illegal tobacco impacts the bottom line of our subsidiary – Imperial Tobacco Canada. I know that few will shed a tear for the tobacco industry. But there are larger issues at play here. The unravelling of tobacco control in Canada has disastrous economic and social consequences.

In 2008, the federal and provincial governments together lost approximately \$2.4 billion in taxes and that number is growing as the sale of illegal cigarettes grows. I don't think that in today's economic climate any government can afford to turn its back on billions of dollars in lost revenue.

In addition, left unchecked, this illegal activity is bringing crime into Canadian neighbourhoods.

The RCMP states that over 100 criminal groups with varying levels of sophistication are involved in this illicit trade. Compounding the problem is that 69% are also involved in drug trafficking, mainly marijuana and cocaine, and/or weapons trafficking.

In 2009 the Canadian Convenience Stores Association commissioned research outside high schools in Ontario and Quebec and found that the penetration of illegal tobacco amongst youth was as high as 48% in Ontario and 83% in Quebec.

It is easy to see why illegal tobacco is so attractive to kids. As I mentioned earlier, a teenager can buy 200 illegal cigarettes for as low as \$6, compared to between \$60 and \$80 for the same number of taxed legal

cigarettes. Furthermore, criminals selling illegal cigarettes do not ask for ID.

So how did this problem arise?

We believe that the Canadian federal and provincial governments are abdicating their responsibilities, proposing ineffective solutions and refusing to deal with the real problem. They choose to introduce politically expedient and opportunistic legislation which does nothing to address the monumental rise in illicit trade.

The illegal tobacco trade in Canada is a warning bell for governments and industry everywhere dealing with the counterfeiting and piracy issue. I hope that we all keep the Canadian example in our discussions over the next three days. We need to work together to identify the new strategies and creative ideas that will take us to the next level to solve this problem.

In contrast to the situation in Canada, I want to talk about Brazil and the effectiveness of the anti-illicit trade initiatives that have been implemented. Illicit trade in Brazil accounts for 27% of the Brazilian market. Despite the significance of the issue here, illicit trade is at the lowest levels ever (it was 33% a few years ago).

This is due to the steps taken by the Brazilian Government at fighting tax evasion in the tobacco sector through provisions including licensing , the implementation of an integrated control and monitoring system and the introduction of electronic invoicing for all cigarette manufacturers and distributors. In addition, the Brazilian authorities have been making undeniable progress on border controls and law

enforcement initiatives and continues to push Paraguay to implement the international standards of production, commercialization, taxation and fiscal controls.

In addition, I know that the Mexican Government and Congress have heard the warning from Canada, and I would also like to commend them for their wisdom and responsibility in deciding to raise tobacco excise tax in a gradual manner over the next four years. This, coupled with effective authentication technology and border controls, is the best way to keep the criminals out. The excellent working relationship with the Mexican Government is another example of the invaluable public-private partnership model which we hope the Congress will aim to achieve on a global footing in its discussions over the next few days.

As Ron Noble just highlighted in his remarks, there are new challenges since the Fourth Congress that threaten to divert attention and resources away from the fight against fakes. The critical economic crisis being felt around the world, by governments and by business, has created pressure to maintain the priority focus on fighting counterfeiters and copyright pirates. One goal of this Congress should be to show why this focus must be maintained and why it makes economic sense, even in today's financial crisis to continue to devote the attention and resources needed to stop these fakes and the criminals who sell them.

For my company, British American Tobacco, fighting illicit trade continues to be a top priority and we will not relegate the issue in our annual budget despite the economic downturn. We urge other businesses and governments to do the same. We have achieved a lot in

the last few years and we cannot afford to lose momentum at this stage and destroy the fruits of our past efforts. It is tough but we have to fight to hang on, if not consolidate our position.

Greater awareness and education on the issue will continue to be a critical element of the battle, and to this end, we are very pleased to note that BASCAP has devoted significant resources to develop plans for a global awareness and education campaign. You will hear much more about this over the next few days, but I want to emphasize that we have approached this work with an attitude that our communications campaign will not be a proprietary effort, but rather something that we will share and make available to governments, private sector trade groups and others for their adaptation and reapplication. We are all in this fight together and this is one area where we can have the greatest impact and greatest reach by joining together to create greater awareness and more education of the risks and dangers of counterfeiting and piracy.

These Congresses are an essential step in maintaining focus on the issues, sharing steps that have been taken and exploring new opportunities for actions and collaboration. Industry is committed to find ways to improve the coordination and collaboration of our efforts, and to improve our ability to present a consistent voice to our government partners.

We also need more action to support important initiatives from our government partners, including initiatives being taken by Interpol, WCO and WIPO that you will be hearing about over the course of the Congress.

Over the next three days, we need to work together to identify the new strategies to take us to the next level of impacting this drain on our consumers, our governments and our companies.

I also look to Congress to find specific solutions to combat the serious misuse of free-trade zones for the manufacture and trans-shipment of counterfeit products. The last Congress in Dubai went some way towards recognising the extent of the problem. What we need now is a focused plan of action to tackle the issue.

I also want to highlight the use of technology in securing the supply chain including the identification of counterfeit products and in verifying the tax collectable from sales of products. It is key for governments to recognise that while technology plays an important role in these processes, it is counter-productive for the use of any specific proprietary technology to be prescribed. It is more important to lay down standards that industry can adhere to. In addition, we are seeing an increasing number of governments looking into more enhanced tax collection methods and we believe Digital Verification is the way forward for this purpose. As I mentioned before, I applaud the efforts of the Mexican government and major industry players in the recent successful trial of a digital form of fiscal verification and authentication within the tobacco industry.

The companies that are members of BASCAP, including my company, British American Tobacco, are committed to be active participants in this process over the next three days and the months ahead.

Thank you again to Mr. Noble and to the entire Interpol, WCO, WIPO organizations for their partnership.

Muy a mi pesar mi estadía será breve, pues me voy el día de mañana y hubiera querido compartir con ustedes un poco más del atractivo turístico de Cancún y las bellezas naturales de esta península.

Thank you.