Illegal Market / Brazil

Unlawful trade in cigarettes, particularly smuggling and counterfeiting, undermines the inflow of government revenues, encourages organised crime, misleads consumers with products whose quality is doubtful, and hampers efforts to prevent consumption by minors. This unfair practice stunts the growth of the brands of the British American Tobacco Group in several countries, lowering the values of investments in distribution and weakens the systems regulating the legally-established side of this industry.

Easy profits, oversight difficulties and more recent ban on cigarette advertising made the black market in cigarettes an extremely profitable activity in Brazil, where high taxes on legal goods encourage these clandestine activities even more. Estimates indicate that the illegal market accounted for 28.6% of the cigarettes smoked in Brazil in 2007, equivalent to some 37.1 billion sticks, worth around R$ 2.1 billion.

Brazil’s illegal cigarette market ranks fourth by sales in Latin America, outstripping the total market in several countries. These unlawful activities may be split into three segments: smuggling (product made abroad that enter the country illegally); counterfeiting (counterfeit product sold in Brazil) and tax evasion (products made in Brazil without paying the necessary taxes).

Stepping up its actions in the struggle to establish a permanent programme for combating this illegal market, Souza Cruz is one of the founding members of the Brazilian Institute for Ethics in Competition (ETCO - Instituto Brasileiro de Ética Concorrencial), launched on April 8, 2003. A non-profit organisation, the ETCO Institute was set up as an initiative supported by corporations such as Souza Cruz, AMBEV, Coca-Cola, Kaiser and the National Fuels and Lubricants Distribution Company Association (SINDICOM - Sindicato Nacional das Empresas Distribuidoras de Combustíveis e Lubrificantes) in order to combat tax evasion, smuggling and counterfeiting.

Through another approach, Souza Cruz is investing in in-house policies in order to curb the progress of unfair competition. It is working with retailers, heightening their awareness of the problems caused by selling unlawful products – even for their own businesses: for example, a law promulgated in 2006 by São Paulo State allows the state registration to be cancelled for establishments working with this type of product.

But Souza Cruz goes even further. The Company is constantly launching pilot projects, cutting product prices and boosting supplies in areas where unfair competition is widespread. The outcomes already indicate gains in market share in these regions, showing that these activities are moving along the right path.

Moreover, Souza Cruz plays an active role in introducing electronic invoices – delivery notes (Nota Fiscal) in partnership with Federal and State governments. The Company issued electronic Nota Fiscal Nº 1 in Brazil, and has already adopted this system completely in 24 of Brazil’s 27 states.

The electronic Nota Fiscal is a powerful tool for combating tax evasion, paving the way to Brazil’s tax reform and boosting legal activities on the market, which helps competitors operating fairly. From April 2008 onwards, the entire cigarette sector will be bound to issue electronic Notas Fiscais.

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