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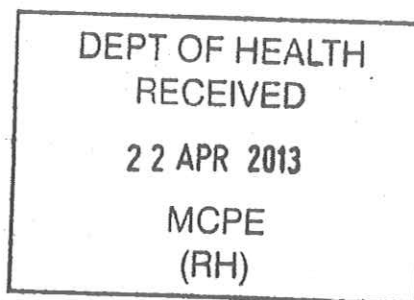


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17th April 2013

Anna Soubry MP
Department of Health
Richmond House
79 Whitehall
London
SW1A 2NS



Dear Minister,

I would like to share with you a new report called the STAR Report completed by KPMG for the European Union and all 27 EU Member States and commissioned by PMI.

The STAR report estimates the level of contraband and counterfeit cigarettes in the EU and is shared with the European Anti-Fraud Office (OLAF) and HMRC here in the UK each year. The study has been conducted by KPMG yearly since 2006 as part of the cooperation agreement between the European Commission, all 27 EU Member States and PMI.

The top line findings in the report for the UK are:

- **The UK has seen the sharpest increase in contraband and counterfeit consumption than any other member state, with a rise of 6.4% in the last year.**
- **Illicit trade in the UK has now reached 16.4%.**
- **Overall contraband and counterfeit consumption has increased to record levels of 11.1% across the European Union.**

The report shows that the UK, after seeing several years of decline from 2007 to 2011, has now returned to levels of contraband and counterfeit consumption higher than those in 2007. The increase from 10.1% to 16.4% was the sharpest increase in illegal cigarette consumption of any EU country. For reference, this equates to more than the legitimate cigarette market of Scotland and Northern Ireland combined, or the size of the Midlands region.

The illicit trade in tobacco products fuels organised crime and damages economies and societies in the UK, EU and around the world. The primary drivers of this activity are: high profitability compared to low risk of penalties for criminals; insufficient financial and human resources and lack of cross-border cooperation to combat the problem; extreme tax and

regulatory schemes that shift consumption from the legal to the illegal tobacco market; the current economic downturn; and low public awareness about the penalties and consequences of the illegal tobacco trade.

PMI has a dedicated team to assist in tackling this issue in the UK and around the world. Tackling the problem requires both the private and public sectors to address the supply and demand of illegal tobacco products, in addition to ensuring that the regulatory and fiscal environment does not further drive its growth.

I would welcome the opportunity to meet to discuss the STAR report with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Martin Inkster', written over a vertical line that extends down to the printed name below.

Martin Inkster
Managing Director, UK & Ireland
Philip Morris Ltd



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Project Star 2012 Results

16 April 2013