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Posted 7/9/2004 10:07 AM

Philip Morris to pay EU \$1.25B to end cigarette fight

BRUSSELS (AP) — The maker of Marlboro cigarettes agreed Friday to pay up to \$1.25 billion to help the European Union combat smuggling and fakes, ending years of legal wrangling over an illegal trade that costs both sides hundreds of millions of dollars annually.

Philip Morris International, a unit of U.S. tobacco and food giant Altria Group ([MO](#)), will make the payments — the most ever extracted from a single company by the EU — in varying amounts over 12 years in return for ending litigation on both sides.

The cigarette maker and the EU's head office hailed the deal, the outlines of which were revealed last April, as a "major step forward in the battle against the common enemy of counterfeit and contraband cigarettes."

They aim to wipe out the illegal black market in cheap cigarettes, usually run by crime gangs, which deprives manufacturers of sales and governments of tax revenue.

The money will go to the EU budget and the 10 countries that joined the EU's lawsuit against the company: Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal and Spain.

The civil lawsuits filed in New York accused the company of complicity in smuggling Marlboro and other brands into the EU — where cigarettes generally are heavily taxed — by intentionally oversupplying countries with lower duties.

The excess would allegedly be smuggled into EU countries and sold on the black market, depriving treasuries of tax and customs revenue.

Philip Morris has steadfastly denied the charges, and the deal involved no admission of liability.

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But part of Friday's deal requires it to make sure sales volumes are "commensurate with legitimate market demand." It also provides for additional, unspecified payments to the EU "in the event of future seizures in the (EU) of its genuine products above defined quantities."

The payments would be made regardless of fault or wrongdoing by Philip Morris.

Philip Morris also will beef up procedures for tracking its products, including indicating on certain packaging which market the cigarettes were intended for and putting scannable bar codes on "master cases."

European Commission President Romano Prodi said the agreement would enable the EU to "protect its financial interests."

Taking into account the smuggling of genuine cigarettes has been "greatly reduced" in recent years, the deal's main focus is on stopping the trade in counterfeits, which is growing rapidly, especially for top-selling brands like Marlboro.

"By ending disputes about the past, we can achieve the full benefit of cooperation," Philip Morris International President Andre Calantzopoulos said in a statement. "We, like the European Commission and the member states, are losing hundreds of millions of euros in revenue because of these fake cigarettes."

The money will help EU countries pay for "vigorously investigating cigarette counterfeiting" in cooperation with law enforcement agencies in "critical locations worldwide," which could stretch from the Balkans to Asia.

Both sides would work together to identify the source of counterfeit cigarettes and interrupt production as well.

Last year, 20 million counterfeit Marlboro cigarettes were confiscated and destroyed in Kosovo alone. Groups ranging from Vietnamese gangs in eastern Germany to paramilitaries in Northern Ireland have profited from the lucrative trade.

The problem is not unique to Europe. Federal authorities arrested 10 people in five states last February for smuggling more than 100 million fake cigarettes from Asia into the United States.

Contributing: Reuters

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