

# Philip Morris, drugs, and organized crime

by Roger Moore

The July announcement that free trade ideologue Baroness Margaret Thatcher had landed a \$1 million "geo-political consulting" contract with American tobacco giant Philip Morris suggests that, like Britain's free trade Opium Wars against China in the 1850s, free trade and organized crime go together. The latest police reports concerning organized crime in eastern Europe and the members of the Community of Independent States (CIS) document that Philip Morris's Malboro brand has become a major black market product line for the rapidly expanding mafias. German Customs expert Dirk Hahn has stated that highly organized criminal structures are being built around cigarette smuggling which will be used for drug smuggling when narcotics consumption in the East takes off.

Philip Morris's involvement with crime is nothing new. In December 1991, then Italian Finance Minister Formici banned Malboro sales in Italy, charging that the company was complicit for decades with the Naples Camorra and Palermo Mafia networks that control Italy's black market for cigarettes. In fact, numerous accounts of the mid-1970s boom in heroin consumption in Europe and the United States, document that the startup capital for the Balkan route heroin pipeline, which brought in the Golden Crescent morphine base from the Middle East, came out of profits from the Palermo Mafia and Naples Camorra cigarette smuggling. Malboro was the prime brand, and the KGB-supervised secret services of Bulgaria and Yugoslavia helped organize the cigarette-, and later drug-smuggling across the Adriatic Sea into Italy.

Although Philip Morris has no direct need for smugglers to open up the vast untapped eastern markets—deals with Moscow have already given them a major stake—their business relations with smugglers give them an "in" with the "new breed" of pirates who are profiting on the shambles of the old Comecon planned economy. Collapsing real production, scarcity, ruble inflation, and flight capital have put a premium on "quick buck" operators with international connections. According to German Customs, there are three major sources of supply for the booming cigarette black market in Germany: Philip Morris's licensed production in Poland; stockpiles of Malboros on Red Army bases in Germany; and western-produced cigarettes sold out of warehouses in Antwerp, Belgium or Hamburg's free trade zone, which are freight documented for duty-free transit through Germany, but which get diverted into the black market. The controllers of the black market are

mafias hidden away in Poland and the CIS states.

According to a Russian diplomatic source, western-produced cigarettes and liquor are flooding the CIS republics in legal trading relations worked out in context of the liberalization reforms. Trading companies staffed by the old *nomenklatura*, perhaps with western partners, dominate the trade. The economic situation is so catastrophic that cigarettes and liquor are becoming means of payment, i.e., money, in the state-run factories. The factories purchase cigarettes at a wholesale price above the 25 ruble-equivalent production cost per pack, and "pay" their work force, accounting these at retail prices up to 70-150 rubles per pack. The source claims that state enterprises are increasingly preoccupied by such "quick buck" investments and are not investing the "profits" in new technology for rebuilding the factories.

## The Red Army role

The Red Army central supply structure also comes upon large quantities of western-produced cigarettes. There are reports that soldiers are receiving payment in cigarettes, but, in Red Army units still in eastern Germany, smuggling seems to be the key. According to one investigator, every Red Army soldier and all dependents and personnel would have to smoke two cigarettes at a time, 24 hours a day, to account for the cigarette stockpiles. Of course, no German police are going to ever raid a Red Army base to search for contraband. Russian and Polish mafias, who have worked together bringing stolen luxury cars into the East, are now dominating the booming cigarette black market.

A fraud case being pursued by U.S. and U.K. officials has cast light on Philip Morris's role with smugglers. According to the International Chamber of Commerce in London, some crooks set up front companies with the promise to deliver cigarettes to businessmen in eastern Europe and Southeast Asia. Upon receipt of the freight forwarding documents, payment is made, but the cigarettes don't exist—the freight documents are counterfeit. London investigators have another problem—the victims in the upwards of \$100 million fraud are not coming forward to the police. It turns out that the victims are smugglers.

Philip Morris has promoted "parallel structures" for marketing their cigarettes among criminal networks. In the fraud case, these were the glue between Philip Morris and their smuggling customers. The criminals, obviously having intimate knowledge of how smugglers are supplied, counterfeit documents à la carte, convincing smugglers that they were part of an inside track of Philip Morris's delivery system. Interestingly, a familiar name in Philip Morris's business with the former communist German Democratic Republic, the state-owned DSR freight company, turns up in the falsified documents. As documented in West German Customs cases, DSR helped smuggle Marlboros to the Italian mafia, and it seems that "DSR Senator Lines," the privatized successor, is still delivering cigarettes.