



Illegal Cigarettes and Organized Crime in Mexico

EL COLEGIO DE MÉXICO

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Studies from the Seminar on Violence and Peace (SVP)
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1. Introduction

According to studies by the National Institute of Public Health (INSP), the illicit cigarette trade in eight Mexican cities has surged by 240% in less than a decade, increasing from 8.5% of national consumption in 2017 to 20.4% in 2023. This is a nationwide issue, as the most affected cities are spread across different regions. The table below provides a clearer breakdown of the data.

Table 1. Illicit Cigarette Trade Between 2017 and 2023

City	Illicit cigarettes trade 2017	Illicit cigarettes trade 2023	Region
Mexico City	6.6%	10.6%	Center
Durango	17.5%	10.6%	Northwest
Guadalajara	10.6%	23.9%	West
Hermosillo	0.3%	0.3%	Northwest
León	27.5%	2.7%	West
Mérida	7.8%	19.5%	Southeast
Monterrey	1.4%	18.6%	Northwest
Veracruz	1.0%	2.2%	Southeast

Source: National Institute of Public Health 2023 (Instituto Nacional de Seguridad Pública [INSP], 2024).
Note: The division of regions follows the guidelines of the 2008 Federal Expenditure Budget (PEF) for Regional Spending (Center for Public Finance Studies [CEFP], November 9, 2007).

1.1. The Urgent Need to Tackle a Growing Illicit Market

The distribution, sale, and consumption of illegal cigarettes have broad social implications. The core of the issue is nicotine addiction, common to both legal and illicit cigarettes, which contributes to severe health conditions such as cardiovascular disease, respiratory illnesses, diabetes, and various types of cancer (Ministry of Health, 2015).

However, illegal cigarettes, produced and sold outside regulatory frameworks, lack incentives to meet quality and safety standards. As a result, they likely pose even greater health risks than legal alternatives. For instance, illicit manufacturers may introduce unknown toxic substances without being subject to any form of control or supervision.

Beyond public health concerns, the illicit cigarette trade has significant economic and social consequences. Black market operators evade fiscal regulations, depriving the government of tax revenues that could be used to mitigate the health impacts of smoking. Moreover, illegal cigarettes are frequently sold to minors, exacerbating health risks and fostering early tobacco addiction.

This study explores a lesser-known aspect of the issue: the connection between illegal tobacco and organized crime in Mexico—an area largely overlooked in Mexico’s national governance. While the illicit tobacco trade is not new, records indicate that as early as 2012, authorities seized over 116 million illegal cigarettes, according to an information request from the Federal Commission for the Protection against Sanitary Risks (COFEPRIS). The largest seizures took place in Mexico City, Quintana Roo, and Colima.”

From a fiscal perspective, the impact is substantial. In 2016, security and organized crime expert Alejandro Hope estimated that each illegal cigarette pack sold in Mexico cost the public treasury 27 pesos (Editorial, 2016). By 2017, COFEPRIS projected that 340 million illegal packs had been sold, resulting in a tax loss of 9.18 billion pesos in that year alone (Franco, 2021)

A 2021 Oxford Economics study on Mexico’s illicit cigarette market found that smuggled cigarettes accounted for 18.8% of national consumption. The leading brands in this black market were the Chinese-made Win and Brass, alongside domestically produced illegal cigarettes (Oxford Economics, 2021). That year, the estimated fiscal loss surged to 13.5 billion pesos.

Further research is essential to fully understand and address the growing illicit tobacco trade in Mexico.

1.2 Methodology to Understand a Complex Issue

This exploratory study examines the relationship between criminal groups, illegal tobacco, and its impact on Mexico. Its primary objective is to analyze the link between illegal tobacco and organized crime. Our hypothesis is that criminal organizations are expanding their involvement in the illicit tobacco market by using the same capabilities they use in other criminal activities.

1.2.1 Objectives

From this analysis, three secondary objectives emerge:

1. Clarify the role of criminal organizations in the illicit tobacco trade.
2. Assess the potential public health consequences in Mexico.
3. Evaluate the potential fiscal impact in Mexico.

1.2.2 Research Techniques Implemented

Given the exploratory nature of this study, we combined two complementary research strategies. The first is document analysis, which examines written records and other recorded sources to extract data and understand social phenomena. This method identifies patterns, relationships, and meanings in both formal documents (e.g., laws, official reports, historical archives) and informal documents (e.g., letters, personal notes, blogs). It is particularly useful for studying historical contexts and analyzing how narratives, practices, and values evolve.

The second technique is process tracing, a qualitative methodology in social sciences that examines causal mechanisms in historical or political events. Identifying the sequence of events and interactions leading to a specific outcome helps evaluate the validity of causal theories (Bennett, 2015).

Finally, we relied on three sources of information. First, we submitted multiple information requests through Mexico’s National Transparency Platform (PNT), though responses were limited due to data scarcity and operational challenges within the responsible autonomous agency. Second, we utilized data provided by our research partners. Third, we comprehensively reviewed news reports from both print and digital media.

1.3 Structure of the Document

This study is the first to explore the relationship between violence, organized

crime, and the illicit tobacco trade. Given the complexity of this relationship, multiple aspects must be examined. Accordingly, the text is structured as follows:

The first section introduces the topic, methodology, objectives, and overall structure. Section 2 analyzes the conceptual framework of the illegal tobacco trade in Mexico, including its market logic, diversification, and relevant literature. Section 3 examines how criminal networks operate within this market, focusing on business models and associated violence. Section 4 explores the consumer perspective, identifying illegal products, factors facilitating their acquisition, and perceptions of quality. Section 5 addresses regulatory challenges, evasion strategies, and alleged corruption cases linked to the illicit tobacco trade. Section 6 presents the study's conclusions and key findings. Finally, Section 7 outlines future research directions, including market dynamics, the impact of organised crime, and public health implications.

2. Approaches to the Illegal Tobacco Market in Mexico

This section provides a general framework for understanding the context and dynamics of the illegal tobacco trade in Mexico. First, it examines how the diversification of criminal activities has fueled the expansion of illicit and gray-zone markets, including tobacco. Next, it explores the underlying economic and social factors that sustain these markets. Finally, it reviews existing literature to highlight key findings, gaps, and perspectives on the study of illegal tobacco in Mexico.

2.1 How Have Criminal Activities Diversified in Mexico?

Mexican organized crime has undergone profound transformations in recent decades. Over approximately 40 years, criminal groups have evolved from loosely connected local traffickers overseen by Mexico's secret police to influential transnational organizations (Astorga, 2015). Today, these groups not only

engage in violent conflicts with each other but also challenge state authority and exert control over vast territories (Lessing, 2015).

Beyond drug production and trafficking, Mexican criminal organizations derive revenue from human trafficking, kidnappings, extortion, local crime syndicates, and illegal taxation. They also exploit legal industries such as mining (Herrera, 2022), oil extraction, and even public funds from the prison system (Aguayo, 2018).

As expected, their firepower and tactical capabilities have significantly increased through a process of paramilitary professionalization, driven by the recruitment of former elite soldiers from Mexico and Central America. This escalation has enabled them to compete with a growing number of similarly violent criminal organizations (Dudley, 2011; Sánchez & Pérez, 2018), many of which possess paramilitary training (Atuesta, 2018).

As a result, systematic violence has plagued Mexico for years. The so-called 'war on drugs,' launched by President Felipe Calderón in 2006, intensified violence nationwide and plunged the country into a prolonged armed conflict. One statistic underscores this reality: the homicide rate surged from 10 per 100,000 inhabitants in 2007 to 24 in 2023.

2.2 Approaching the Logic of Illegal Markets and Tobacco

Considering this, it is worth examining how and why cigarettes became an attractive commodity for organized crime. This section synthesizes contributions from the literature on the subject. First, it is essential to define illegal markets. Phil Williams identifies four key characteristics:

1. The trade of prohibited goods and services, such as narcotics.
2. The irregular sale of regulated goods, including antiques, flora and fauna, counterfeit products, or those that fail to meet local legal standards.
3. The sale of taxed goods outside the destination market without paying the required local tax.
4. The sale of stolen goods, such as cars and electronics (Williams, 2015).

Jack Radisch (2016, p.21) asserts that black markets tend to emerge when governments impose price ceilings or create regulatory barriers that make formal trade nearly impossible. This phenomenon deprives governments of significant tax revenue and often leads to the consumption of non-standardized products or even industry collapse. In an increasingly globalized world, these risks diversify and multiply.

Radisch (2016, p.21) further argues that the illicit tobacco trade is a multifaceted crime involving counterfeiting, cross-border smuggling, and tax evasion. It has even been identified as a potential funding source for various criminal activities. Cigarettes offer exceptionally high-profit margins and are among the most commonly traded black-market goods due to their ease of production and distribution, low detection rates, and minimal legal consequences.

2.3 Literature on Illegal Tobacco in Mexico

According to the Organized Crime and Corruption Reporting Project (OCCRP), Latin America is flooded with cigarettes from the China National Tobacco Corporation (CNTC), whose products are unregulated in the region and even banned in Mexico for health reasons (Jaccard, 2021). Cat Rainsford (2021), a contributor to *Insight Crime*, contextualizes this issue, warning that the influx of Chinese cigarettes poses a challenge to traditional Latin American mafias, many of which have vested interests in the tobacco market.

In Mexico, the illicit tobacco trade is not a new phenomenon. Legislative proposals to increase taxes on tobacco products emerged as early as 2006, with some studies arguing that such measures would not significantly increase smuggling. Armendares and Reynales (2006) expressed optimism about the effects of the WHO Framework Convention on Tobacco Control, which Mexico had joined in 2004. Following this rationale, in January 2011, tobacco taxes were raised by 30%. However, according to the Center for Regulatory Effectiveness, this tax hike had the opposite effect, making cigarettes unaffordable for certain sectors of the population and driving consumers toward cheaper, illicit alternatives (Ramos, 2013).

The effects on the market were significant. In 2012, CONCAMIN reported a substantial increase in illicit cigarette consumption. Illegal cigarettes accounted for 2% of the total market in 2010, which had risen to 16.6% by 2013 (Ramos, 2013). In just three years, the illegal cigarette trade grew by 800%, significantly increasing health risks for consumers of unregulated tobacco products.

The demand for more affordable products created a new business opportunity for organized crime. Evidence of this is that in 2013, the Guatemalan government reported that half of the Zetas' funding in the region came from three main activities: human trafficking, arms trafficking, and tobacco trafficking (Méndez, 2013).

That same year, the Federal Commission for the Prevention of Sanitary Risks (COFEPRIS) issued a warning: it was no longer feasible to combat tobacco trafficking solely through container seizures, as criminal groups were exploiting minor border vulnerabilities to carry out small-scale smuggling (Méndez, 2013).

But how did drug cartels become involved in tobacco smuggling? Kruisbergen et al. (2015, p.239) provide an explanation: criminal organizations exhibit flexibility in switching between economic sectors and destination markets. The cost of entering a new illicit trade is determined by law enforcement pressure and the risks associated with that sector or country. Stricter oversight increases costs, leading criminal groups to reassess whether potential profits justify the risks (Dalby, 2018).

In the case of illicit tobacco, David Shirk attributes this shift to changes in drug trafficking dynamics. The rise in synthetic opioid consumption, particularly fentanyl, has reduced demand for traditional drugs like marijuana and heroin. This has created a market imbalance: organizations with access to synthetic drug production enjoy higher revenues than those reliant on traditional narcotics, prompting the latter to diversify into lower-risk, less specialized markets (Dalby, 2018).

Contrasting this perspective, Jaime López Aranda, an expert in criminal economies, argues that illicit tobacco revenue does not compare to drug trafficking and other criminal enterprises. He contends that the trade is more localized, thriving in regions where other illicit products are scarce and where

local tobacco production eliminates the need for cartels to navigate territories controlled by larger criminal organizations (Appleby, 2022).

Regardless of the motivation, examples exist of criminal organizations specializing in illicit tobacco, such as the Tobacco Cartel. Their *modus operandi* is relatively new: they intimidate and threaten small business owners and major distributors with death to force them to replace legal brands with cartel-controlled products (Fierro & Mendoza, 2021).

3. Criminal Networks Behind the Illegal Tobacco Trade

The illegal tobacco trade in Mexico not only constitutes an economic and health challenge, with the added concern of potential underage consumption, but also a national security problem due to its role in financing criminal networks. This section analyzes how criminal groups structure and operate this illicit market. It focuses on the business models representing distinct but complementary marketing strategies: while the Sinaloa Cartel prefers smuggling foreign tobacco, the Jalisco New Generation Cartel focuses on illegal tobacco production within Mexican territory. Additionally, it examines the violence associated with these dynamics, demonstrating how this market contributes to strengthening criminal organizations and perpetuating violent conflicts in the country.

3.1 What is the relationship between the illegal tobacco trade and organized crime in Mexico?

Tobacco is one of the most illegally trafficked commodities worldwide. Between 10% and 12% of all cigarettes consumed annually are illicit, amounting to an estimated 400 to 460 billion cigarettes per year (Tobacco Insider, 2024). In Mexico, the percentage is even higher—illegal cigarettes account for 20% of the national market (National Customs Agency of Mexico [ANAM], 2023), up from 18% in 2021 (Confederation of Industrial Chambers [CONCAMIN], n.d.).

Criminal groups employ two primary business models in this trade: domestic production of non-compliant cigarettes and smuggling foreign cigarettes for resale in the country. Understanding the structure of the illicit cigarette market in Mexico requires distinguishing between these two approaches.

President Claudia Sheinbaum’s new security strategy identifies two criminal organizations as the dominant forces in Mexico’s organized crime landscape: the Jalisco New Generation Cartel (CJNG) and the Sinaloa Cartel.”

Both criminal organizations profit from the illegal tobacco trade, but available evidence suggests they employ different methods. The Sinaloa Cartel primarily traffics cigarettes from China, India, and other parts of Asia, while the CJNG, in addition to smuggling foreign cigarettes, also operates a business model based on local production. Table 2 outlines the capabilities of each group.

Table 2. Trafficking Routes for Each Cartel (Sinaloa vs. CJNG)

Criminal Organization	Sinaloa	CJNG
Border Checkpoint Control	Border: Arizona, California, Texas	It does not directly control entry points at the border but maintains relationships with local groups that can provide access.
Port Control	Port: Mazatlan and Manzanillo (disputed).	Manzanillo (disputed), Lázaro Cárdenas, Veracruz, and Matamoros.
International Expansion	Global expansion, operating in at least 47 countries, including China, Australia, New Zealand, Europe, and Mozambique.	Active in 40 countries across South America, Asia, Europe, and Africa.

Source: National Drug Threat Assessment (DEA, 2024). To better understand the dynamics of Mexico’s illegal cigarette market, it is essential to examine the differences between these criminal groups, which possess significant logistical capacity to transport all types of goods across the country.

3.2 The Sinaloa Cartel and the Smuggling Model

The Sinaloa Cartel appears to focus primarily on marketing foreign cigarettes. With its long-standing presence in Mexico's illicit markets, it has established extensive international trafficking networks for thousands of products. Its involvement in the illegal cigarette trade dates back years. For instance, in 2012, authorities recorded the largest illicit tobacco seizure at the time in the port of Mazatlán, Sinaloa. The confiscated cigarettes originated from China, Vietnam, Paraguay, and India (Notimex, 2012).

The Sinaloa Cartel's trafficking networks span over 47 countries, making it the criminal group with the most international connections. Notably, it collaborates with entities in Asia, the primary source of illegal cigarettes. In July 2024, the U.S. Drug Enforcement Administration (DEA) uncovered a money laundering scheme between the cartel and Chinese criminal organizations, facilitated by an intermediary in Los Angeles, California.

Far from diminishing, international trafficking networks have diversified. According to *El Financiero*, six illicit cigarette brands account for nearly 90% of all tobacco smuggling in Mexico, with sources in Vietnam, China, India, and Korea (Hernández, 2024). Research by *El País* (Suárez, 2024) further indicates that criminal groups exploit the same routes and networks used for drug smuggling to increase the black-market supply of illicit cigarettes and launder drug profits.

The Sinaloa Cartel exerts market control not only through violence but also through legitimate businesses. According to the U.S. Department of the Treasury (2024), the cartel operates pharmacies and supermarkets to establish legal enterprises that sell everyday goods. Its business model follows two main strategies:

1. Money laundering through legal businesses – Profits from illegal cigarette sales are funneled through legitimate establishments, allowing for tax compliance.
2. Direct distribution in the underground market – Illegal cigarettes are sold through small local retailers, generating untaxed profits that may not necessarily involve laundering.

3.3 The CJNG and the National Production Model

The Jalisco New Generation Cartel (CJNG) was established in 2011 following a split from the Milenio Cartel, a sub-faction of the Sinaloa Cartel. Since its founding, the CJNG has demonstrated a high capacity for violence, initially targeting and eliminating members of Los Zetas, a group composed of former elite military personnel. The CJNG has since maintained a franchise-like structure, forming alliances with smaller criminal groups. Prospective affiliates must pay a fee and provide services to the cartel's central organization.

Under this franchise model, the CJNG absorbed the Tobacco Cartel, a criminal group that emerged in 2018, allegedly under the direction of former state security agents. Initially, it operated under a smuggling scheme similar to the Sinaloa Cartel's. However, recent reports indicate a shift toward domestic cigarette production. Currently, the alliance between the CJNG and the Tobacco Cartel dominates Mexico's illegal cigarette market, operating in more than 10 states (Infobae, 2022). Many merchants report being victims of extortion and threats from Tobacco Cartel members, who pressure them to sell only CJNG-produced brands (Puig & García, 2018a).

According to *Milenio*, the Tobacco Cartel operates through three legally registered companies, with cigarette prices ranging from 17 to 25 pesos per pack (Puig & García, 2018a). These companies exist in a legal gray area—while formally registered, some lack the necessary tobacco codes and brand authorizations required under Annex 11 of the 2024 Miscellaneous Fiscal Resolution.

3.4 Criminal Violence Associated with the Illegal Tobacco Trade

Studies on violence related to the illegal cigarette trade are extremely scarce, if not nonexistent. As a result, there is no clear understanding of its frequency. However, we present several examples of how organized crime groups use violence to coerce small merchants into selling illegal tobacco.

The first form of violence is threats. A *Milenio* report describes how, in Michoacán and Jalisco, criminal groups begin by warning merchants of the consequences of selling certain cigarette brands. (García, 2024).

The second form is physical punishment. Criminals impose *tablazos* (a military-style beating) on merchants who continue selling restricted brands. *Milenio* documented a case where a shopkeeper was violently assaulted with a blowtorch, suffering severe burns (Puig & García, 2018b).

The third form is the simulation of legal sanctions. Instead of direct threats, criminals posing as law enforcement officers visit merchants, delivering fake official documents bearing the logos of the Tax Administration Service (SAT) or the now-defunct Federal Attorney General's Office (PGR). These fraudulent notices warn of 'prohibited' brands and threaten legal action or forceful intervention (Puig & García, 2018b).

The fourth form is road control. Criminal groups intercept trucks transporting legal cigarette brands and force distributors to dispose of the merchandise.

The fifth and most extreme form of violence is homicide, which follows the traditional execution methods of organized crime in Mexico. One such case is the murder of Brandon, an 18-year-old killed over a dispute involving illicit Chinese-origin cigarettes (Jiménez, 2024). The murder took place in Tepito, a neighborhood in Mexico City where authorities have conducted operations against illegal tobacco for years (Dorantes, 2018).

It is crucial to recognize that the illegal tobacco trade is just one of many illicit activities within organized crime's portfolio. Consequently, four of the five forms of violence described here—threats, physical punishment, road control, and executions—are not exclusive to the illicit cigarette trade but are common tactics in broader criminal operations.

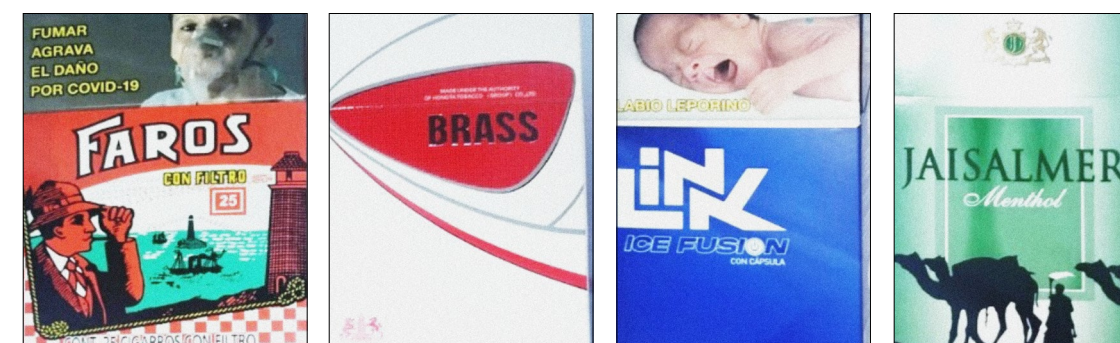
4. The Consumer and Their Role in the Illegal Market

Following the process-tracing methodology, we acted as consumers, searching for cigarette packs available outside traditional points of sale, such as convenience stores and supermarkets. Using the 2018 COFEPRIS list, which identified 192 illegal brands, we verified which cigarettes were illicit and compared them to fully legal brands: Faros, Camel, and Marlboro

4.1 How to Identify an Illegal Cigarette? Appearance and Labeling

Using this methodology, we identified four types of cigarette packs, as shown in the following image: legal packs (far left), mixed imports (left), mixed made in Mexico (right), and packs with no information (far right). Our classification considered elements such as health warning images, warning messages about cigarette effects and their exclusive sale in Mexico, and the Tax Administration Service (SAT) code.

Image 1. Types of cigarettes, front view of the cigarette packs



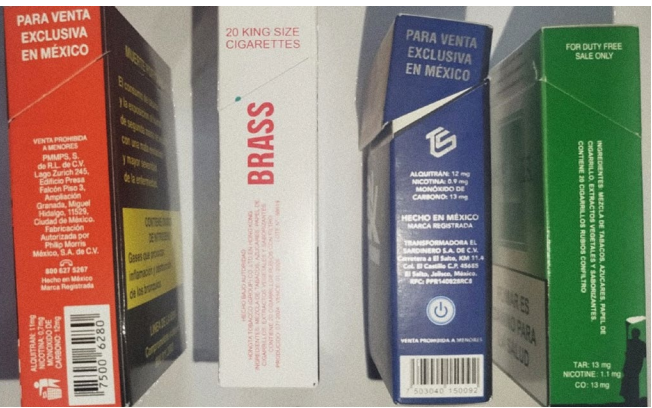
As can be observed, cigarettes without information (far right) are at the opposite end of the spectrum from traditional cigarettes (far left), as they lack even the most basic details. Specifically, they provide no information about the place of manufacture, manufacturer, or importation process. This contrast becomes even clearer when compared to mixed-zone cigarettes, which closely resemble traditional packs. At first glance, these packs appear to contain even more fiscal information than traditional ones. It is important to highlight—though the fiscal evasion strategies used in illegal tobacco marketing will be discussed in greater depth later—that Mexican regulations operate under the assumption that consumers will prefer products that comply with Official Mexican Standards (NOM) and reject those that do not. This assumption is deeply flawed, as it disregards the economic reality of consumers and absolves the

Mexican state of its responsibility to enforce the law and penalize those trading in illicit tobacco.

Image 2. Types of cigarettes, back view of the packs



Image 3. Types of cigarettes, side view of the packs



Finally, it is important to address imported mixed cigarettes, which appear in the top-right corner of Images 1 and 2. Unlike domestically produced mixed packs, these cigarettes do not closely resemble traditional packs. Their warning messages are often in English or may be entirely absent, along with the warning images mandated by national regulations. Additionally, they provide minimal fiscal information about the importing company. In this regard, unlike

domestically produced mixed cigarettes, imported mixed cigarettes differ significantly from traditional packs in their appearance

4.2 Accessible Prices, Points of Sale, and Their Impact on Consumption

In Mexico, cigarette prices are closely tied to the point of purchase, reflecting market segmentation based on legality, regulation, and accessibility. Each type of retail outlet has distinct characteristics that influence cost, quality, origin, and compliance with fiscal and health regulations.

Legal cigarettes, which fully comply with national regulations regarding labeling, health warnings, and tobacco taxation, are sold in formal establishments such as convenience stores (e.g., OXXO) and supermarkets. These products have the highest prices due to the heavy tax burden imposed to reduce consumption and finance public health programs. Additionally, the formal nature of these points of sale ensures product traceability and compliance with quality standards but also limits access for lower-income consumers.

In the mid-price segment, cigarettes are available in small local stores such as grocery shops and some self-service outlets. While these establishments sell legal products, they often also offer “mixed” options that may partially evade local regulations. These packs are more affordable than fully legal alternatives, making them a viable option for some consumers. However, their origin and degree of regulatory compliance vary significantly.

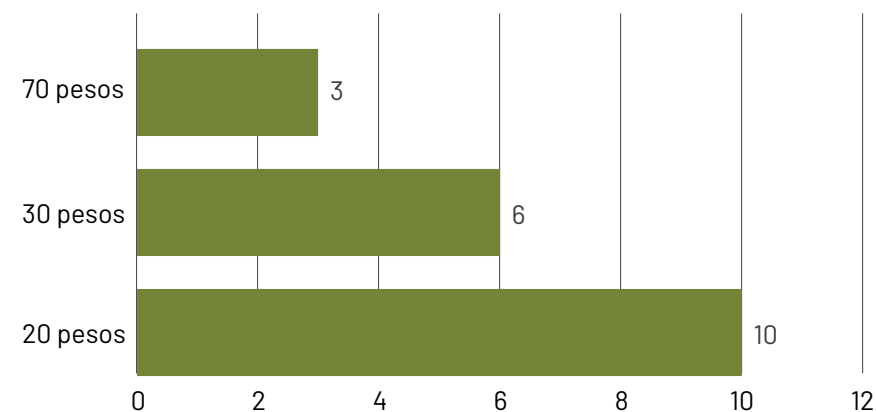
The informal market dominates the cheapest cigarette segment, with products commonly found in street markets and popular bazaars. These cigarettes are often illegal, as they evade taxes and do not comply with labeling and health warning regulations. Their low cost makes them particularly attractive to lower-income consumers, despite the risks associated with their consumption. In many cases, these cigarettes come from smuggling or counterfeiting, increasing uncertainty regarding their composition and quality.

This scenario highlights not only economic inequalities but also the challenges authorities face in regulating the tobacco market. The following price

trends illustrate these disparities: three packs cost 70 pesos, six were worth 30 pesos, and ten were in the 20-peso range.

Moreover, the sale of illegal cigarettes to minors presents a double harm. On the one hand, it endangers young people's health by exposing them to tobacco products that, being unregulated, may contain substances even more harmful than those in conventional cigarettes. On the other hand, it fosters addiction from an early age, potentially prolonging tobacco consumption into adulthood and negatively impacting physical and mental development. This practice not only violates laws designed to protect minors but also increases the social and economic costs associated with smoking-related diseases, further burdening public health systems.

Graph 1. Approximate price per pack

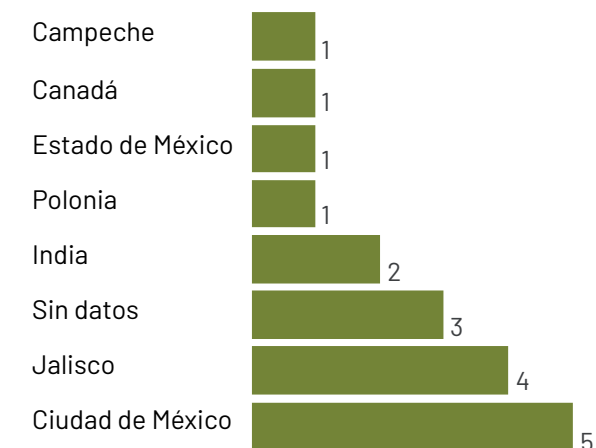


Combining stricter monitoring measures with consumer awareness strategies could be key to addressing these issues. In this regard, it is essential to highlight the significance of loose cigarette sales in small stores, street markets, and establishments selling alcoholic beverages. Priced at approximately 5 pesos per unit, this format caters to consumers who either cannot or choose not to purchase a full pack due to economic constraints or consumption preferences. However, its widespread availability complicates market regulation and facilitates access to tobacco for minors and other vulnerable groups.

4.3 Manufacturing Origins and Perception of Quality

The manufacturing locations of cigarettes reveal significant geographical diversity, involving both domestic and international producers. Based on the information available on the packs, one originates from Campeche, one from the State of Mexico, four from Jalisco, and five from Mexico City, totaling 11 Mexican-made packs. Meanwhile, one pack comes from Canada, one from Poland, and two from India, totaling four foreign-made packs. Additionally, three packs lack manufacturing information, making classification difficult. This scenario highlights the participation of both local and global sources in the supply chain.

Graph 2. Place of fabrication



5. The Challenge of Regulation and Law Evasion

The regulation of the tobacco market in Mexico faces significant challenges, both due to the complexities inherent in its regulatory framework and the ability of illegal actors to circumvent these regulations. This section explores the requirements and costs associated with the legal marketing of tobacco and the strategies implemented by the government, such as the SAT security code, to combat illicit trade. It also analyzes the tactics employed by organized crime

to evade the law and the role of institutional corruption in facilitating these activities, highlighting emblematic cases that illustrate gaps in the enforcement of regulations.

5.1 Legal Requirements and Costs for the Marketing of Tobacco

The regulation of the tobacco market in Mexico is based on several legal instruments, the most important of which include:

- a. The IEPS Law, which regulates taxes paid by tobacco producers and/or importers.
- b. The General Tobacco Law, which regulates the health control of tobacco products.
- c. The Federal Penal Code, which regulates federal crimes in Mexico.

Manufactured tobacco products are subject to an IEPS tax rate of 160%, plus an additional charge of 0.6166 MXN per cigarette. Furthermore, both importing and manufacturing tobacco companies must obtain a health license from the Federal Commission for the Prevention of Sanitary Risks (COFEPRIS), with application costs of 214,493 pesos for manufacturers and 69,487 pesos for importers.

According to the General Tobacco Law (2008, Article 46), failure to comply with these regulations or committing any of the listed violations may result in the following administrative penalties:

1. A warning with notice;
2. A fine;
3. Temporary or permanent closure, which may be partial or total; and
4. Arrest for up to thirty-six hours.

Article 56 of the same law states that anyone who adulterates, falsifies, contaminates, alters, or allows the adulteration, falsification, contamination, or

alteration of any tobacco product will face a prison sentence of one to nine years, along with a fine ranging from one hundred to one thousand times the daily value of the Unit of Measure and Update. The same penalty applies to anyone who mixes adulterated, falsified, contaminated, or altered tobacco products with legitimate ones within the supply chain.

Additionally, Article 57 penalizes individuals who import, export, store, transport, sell, or distribute adulterated, falsified, contaminated, altered, or mixed tobacco products with a prison sentence of one to nine years and a fine of one hundred to one thousand times the daily value of the Unit of Measure and Update (General Tobacco Law, 2008, Article 56).

5.2 The Federal Bet on the SAT Security Code

In 2018, the Mexican government introduced new measures to prevent the sale and consumption of illegal cigarettes. The Tax Administration Service (SAT) implemented a regulation requiring tobacco manufacturers to include a security code on cigarette packs. This electronic system allows consumers to verify a product's origin. Specifically, the code contains the following elements (Sáenz de Miera, 2019):

1. Random security folio
2. Production plant
3. Manufacturing machine
4. Production date
5. Brand name
6. Country of origin
7. RFC key and business name of the producer, manufacturer, or importer

The rationale behind this measure is that consumers would choose products that comply with the Official Mexican Standards (NOM) and reject those that do not. However, the strategy received mixed reactions from international organizations. The World Bank acknowledged its potential as a tool for monitoring and

tracking tobacco products, which could improve regulatory compliance. Nonetheless, the measure presents several obstacles, particularly a lack of transparency in the generation of security codes. The regulation states that only SAT can generate these codes, yet reports indicate that pre-authorized companies can also obtain them for manufacturers and importers (Sáenz de Miera, 2019). This loophole undermines transparency, verification, and traceability, ultimately weakening enforcement.

Furthermore, companies can choose not to renew their registration codes with SAT, which reduces their tax obligations. In theory, this measure was designed to curb the sale of illegally produced cigarettes. However, in practice, the security codes do not appear to be a crucial deterrent, given the challenges consumers face in verifying the code and the coercion exerted by criminal groups to ensure sales. This, in turn, raises concerns about compliance with NOM regulations regarding chemical content in tobacco products (ANAM, 2023).

5.3 Evasion Strategies: The Ingenuity of Organized Crime

The federal government’s strategies to combat illegal cigarette trafficking failed to account for the evolution of organized crime in Mexico, particularly the emergence of criminal groups dedicated to this illicit trade. Such as the Tobacco Cartel. According to Insight Crime, this organization employs various criminal tactics, including impersonating public officials to seize and destroy competing brands—even those from established companies—as well as extorting and coercing small retailers to force them to sell only cartel-approved brands (Appleby, 2022).

Government efforts have continued to try and curb the illegal tobacco trade. In a statement, the National Customs Agency of Mexico (ANAM) reported:

“The seizure of a total of 49.8 million cigarettes at the 50 customs points across the country, achieved through coordinated efforts with the Ministry of National Defense, the Mexican Navy, international intelligence exchanges, non-intrusive technological screening equipment, and canine detection units” (ANAM, 2023).

However, these efforts have clearly fallen short. Confidential yet reliable sources indicate that Mexican customs allocate minimal resources to detecting this type of smuggling. Moreover, the scarcity of public information regarding customs enforcement suggests a lack of interest from both Mexican and U.S. authorities in effectively addressing the issue. This negligence not only reduces tax revenue but also strengthens organized crime networks, allowing them to operate with impunity on both sides of the border.

If the costs of shifting between illicit products or markets for criminal organizations are measured—following the framework of Kruisbergen et al. (2015)—by the severity of penalties and risks involved, then the illegal tobacco trade offers significant incentives:

- 1. Low production costs – Illicit cigarette manufacturing requires minimal investment and expertise, as products are not subject to health regulations or quality standards.
- 2. High tax burden on legal tobacco – The steep IEPS tax on legally produced cigarettes makes illicit alternatives more appealing to both consumers and criminal groups.
- 3. No requirement for COFEPRIS health licenses – Criminal groups evade sanitary licensing fees, further boosting their profit margins beyond those of legal manufacturers.
- 4. Lenient legal penalties – Compared to other forms of organized crime, the General Tobacco Law imposes relatively mild sanctions for illicit cigarette trafficking.

The following Table 4 compares prison sentences for various crimes related to organized crime with those for illegal tobacco trade.

Table 3. Penalties for Various Crimes in Mexico

Crime	Sanction (prison years)
Trafficking	5-15
Migrant smuggling	8 to 16
Extortion	2 to 8
Kidnapping	40 to140
Piracy	15 to30
Illegal logging	0.5 to 9
Extortion of mining operations	2 to 8
Crimes against public health	20 to 40 in cases of administration, leadership, or supervision within organized crime: 10 to 25 years if not holding the aforementioned roles.
Illegal tobacco trade	1 to 9

Note: *Human Trafficking* (General Law to Prevent, Punish, and Eradicate Crimes Related to Human Trafficking and for the Protection and Assistance of Victims of These Crimes, 2012, Article 10); *Migrant Smuggling* (Migration Law, 2011, Article 159); *Extortion, Piracy, Illegal Logging, and Crimes Against Public Health* (Federal Penal Code, 1931, Articles 390, 146, 418, and 194); *Kidnapping* (General Law to Prevent and Punish Crimes Related to Kidnapping, 2010, Articles 9-11); *Illegal Tobacco Trade* (General Law for Tobacco Control, 2008, Article 56).

5.4 Institutional Corruption: Landmark Cases and Lessons Learned

As explained in the theoretical-conceptual section, organized crime groups require specific elements to minimize risks when operating in an illegal market. This is particularly crucial in ‘gray’ markets, where legal loopholes play a key role. The following case illustrates the complexity of the networks used by organized crime to distribute illegal cigarettes.

The Tobacco Cartel gained notoriety after the *Milenio* report “*Tobacco Cartel: Death Threats to Those Who Sell Other Brands*” sparked national attention,

even reaching the Congress of the Union. On October 30, 2018, Deputy Martha Tagle Martínez introduced a motion urging the federal government to launch a thorough investigation into a tobacco company suspected of ties to organized crime. She identified individuals allegedly involved (Tello, 2023).

A key advantage of this criminal group over others in the illegal tobacco trade is its connections within the Mexican state. In 2009, the U.S. Immigration and Customs Enforcement (ICE) announced the deportation of two members of the Mexican Federal Investigation Agency who had been arrested in a Los Angeles residential area with over \$600,000 in cash (ICE, 2009). These individuals are now believed to be leading figures within the Tobacco Cartel. Additionally, other suspects linked to the group reportedly have criminal records as Federal Ministerial Police agents, with accusations including disappearance and kidnapping (Tello, 2023).

The organization also has access to violence specialists. Through its alliance with the Jalisco New Generation Cartel (CJNG), the Tobacco Cartel benefits from the backing of one of Mexico’s most powerful and feared criminal groups. This strategic partnership provides the military-style force necessary to make their threats credible (Appleby, 2022).

6. Conclusions and Recommendations

The main conclusions can be summarized in two key points:

- a. It is a problem of enormous and unexpected complexity.
- b. It receives very little governmental, social, and media attention.

Within this complexity, one central assumption frames the phenomenon: for criminal organizations, the illegal tobacco trade is a highly profitable business, operated using the same strategies they apply across their illicit activities. With this in mind, we outline the following conclusions and recommendations.

6.1 Public Health

Due to the lack of regulatory controls, illegal cigarettes may contain toxic or unknown substances, increasing the risk of cardiovascular and respiratory diseases, among other health issues. This also places an additional burden on an already deficient public health system, a problem further exacerbated by the impact of these cigarettes on minors.

A laboratory investigation is urgently needed to analyze the toxic content of various types of illegal cigarettes and compare them with legal products. The National Institute of Public Health is the most qualified institution to conduct this study.

6.2 Tax Evasion

Although we know that illegal cigarettes do not pay taxes, we still ignore the extent of the drain on public finances. This gap must be filled through case studies involving collaboration with the authorities of the Ministry of Finance. For example, a pilot study could be conducted by selecting the two most frequent illegal brands from a sample in a district of Mexico City. The results would allow for a broader study of the entire Metropolitan Area of the Valley of Mexico and the city of Puebla. This would provide an approximation of the size of the business and the scale of tax evasion nationwide.

6.3 Official Protection Networks

For organized crime to operate, it requires ongoing support from public officials at various levels. While denouncing impunity is easy, eradicating it is far more complex. The most pragmatic way to address this issue is to identify specific areas where intervention is feasible.

One particularly concerning aspect is the lack of available information on customs enforcement efforts against illegal tobacco. This data gap, both in

public and confidential records, may indicate a lack of institutional interest in the issue. We hope this text serves as a wake-up call for Mexican authorities, particularly the Ministry of Economy and the National Customs Agency of Mexico. For instance, Chinese cigarettes, which account for a significant portion of the illegal tobacco market, could serve as a starting point for more rigorous enforcement efforts.

6.4 On Business Models

The information gathered allows us to propose two working hypotheses:

- a. There is a strong connection between the illegal tobacco trade and the broader criminal ecosystem. Criminal groups exploit their territorial control to import, manufacture, distribute, and sell illicit tobacco. This product is integrated into their criminal portfolio, alongside other goods such as clandestine alcohol, which, while not inherently illegal, operates in a regulatory gray zone. This market dominance extends to counterfeit and smuggled goods, reinforcing the “mixed ecosystem” that enables organized crime to commercialize both illegal and quasi-legal products in the informal economy.
- b. The illegal tobacco trade operates under two primary models. The first is domestically based, featuring a wide distribution network sustained through profit, extortion, and threats against small vendors. The second relies on the smuggling of foreign-manufactured cigarettes, primarily from China, Vietnam, and India.

6.5 Society’s Involvement

We identified several ways in which society participates in the sale and consumption of illegal cigarettes:

- a. Formal retailers (OXXO and supermarkets) sell legal cigarettes at high prices due to the tax burden. These establishments follow a clear pricing policy, which warrants further analysis in terms of its rationale, costs, and consequences.
- b. The distribution of illegal cigarettes in small shops and popular markets provides a lower-cost alternative, making them more accessible to low-income consumers.
- c. Legally established companies operating in a regulatory gray area. For example, Link and Catalina manufacture products in Mexico that appear in Annex 11 of the 2024 Fiscal Miscellaneous. However, the legality of these products and the reason for their fiscal coverage remain unclear.

6.6 Regulation

This highlights the complexity and inadequacy of the current regulatory framework. It is clear that organized crime effectively exploits legal loopholes to evade enforcement while also benefiting from the fact that penalties for the illegal tobacco trade are far less severe than those for crimes such as kidnapping or drug trafficking.

Therefore, specialized studies on this issue are essential and would be valuable for legislators in the Mexican Congress (Congreso de la Unión). Although revising the regulatory framework is urgent, it should not be done in isolation. A realistic prevention policy must incorporate the perspectives of all stakeholders in the production chain, including producers, traders, and consumers.

We emphasize the critical importance of continued research on this topic, as studies like this can contribute informed insights to the legislative debate and support the development of effective regulatory solutions.

6.7 The Consumer's Logic

It is essential to gain a deeper understanding of the consumer's perspective by adopting their viewpoint to describe and analyze their experience and the motivations behind their choice to purchase illegal cigarettes.

Key questions include: Are consumers aware of the potential health risks? Are they addicted to more addictive products? Do they know how to verify the legality of their cigarettes using the SAT security code? These inquiries could serve as the foundation for a new study aimed at understanding the behavior of both legal and illegal cigarette consumers.

Such research would enable the development of evidence-based policy recommendations that comprehensively address the various dimensions of the problem, ensuring a more effective regulatory approach.

6.8 The Importance of Dissemination

The research clearly showed that *Milenio* was the capital city newspaper that provided the most extensive coverage on the issue of illegal tobacco. It is crucial to engage other media outlets in order to disseminate high-quality information to the public about the illegal cigarette trade and its role as one of the key pillars of Mexican organized crime.

7. Opportunities to Understand the Illegal Tobacco Trade: Future Research Directions

Below are several plausible research lines derived from the analysis presented in this study. First, an in-depth examination of the market dynamics and strategies used in the illegal tobacco trade is needed. Second, further exploration of the relationship between the criminal ecosystem and the commercialization of unregulated tobacco. Finally, a comprehensive study of the impact of illegal tobacco trafficking on the national health system.

7.1 The Logic of the Illegal Tobacco Market in Mexico

This research provides an overview of illegal tobacco marketing. Broadly speaking, criminal groups operate under two primary business models: first, smuggling cigarettes through customs, potentially using illegal immigrant routes; second, producing cigarettes domestically, which either partially or completely fail to meet Mexico's legal tobacco standards. However, further analysis is necessary to clarify the mechanisms by which both models operate.

For example, Link and Catalina cigarettes are just two of many brands linked to domestic illegal tobacco production. By examining Annex 11 of the 2024 Fiscal Miscellaneous, we found that ownership of these brands has changed multiple times. Originally, Braxico owned Link, but the brand now belongs to Transformadora El Sardinero S.A. de C.V., which holds multiple production permits for different Link-branded products. Similarly, Catalina cigarettes were initially owned by Tabacos Magnos S.A. de C.V., LWGN Comercio Internacional S.A. de C.V., and Hikuri Imports S.A. de C.V.. Currently, they are produced by Hikuri Imports S.A. de C.V. and Cantobacco S.A. de C.V.

Although transferring brand ownership is not illegal, its potential significance in this study lies in its possible use as a strategy to evade regulatory oversight. It is worth investigating whether frequent ownership changes allow these companies to maintain a quasi-legal status, avoiding sanctions or circumventing potential closures.

The following is a preliminary index for process-tracing analysis

- The Tobacco Tax System and how it is being evaded by Mexican organized crime.
 - Estimating the size of the illegal tobacco business.
 - Tax Evasion Strategies, including:
 - Corruption in Mexican customs.
 - Money laundering through Mexican tobacco brands.
 - Mixed brands: The Case of Link and Catalina.

- Conduct an in-depth review of the regulatory framework to identify legal loopholes that facilitate the “mixed” brand strategy.
- Submit multiple access to information requests regarding various “mixed” brands, i.e., those that partially comply with regulations.
- Request official data from Mexican customs on tobacco seizures.
- Replicate this research with data from the United States to assess international trade dynamics.

7.2 Illegal Tobacco and Organized Crime: Impacts on the Criminal Ecosystem

Since criminal groups leverage their territorial control to import, manufacture, distribute, and sell illegal tobacco, a key research avenue would be exploring the relationship between the illicit tobacco trade and the broader criminal ecosystem. Illegal tobacco is integrated into a portfolio of products that, while not necessarily illegal, operate in regulatory gray zones. This control also extends to the sale of counterfeit and smuggled goods, reinforcing a “mixed ecosystem” where organized crime facilitates the commercialization of non-illegal products in the informal market.

Thus, as a preliminary index for this proposed participant observation study (which would necessarily have an anthropological approach), we would start by deepening the user's perspective, positioning ourselves as consumers to describe and explain their experience.

- The relationship between the criminal ecosystem and the marketing of illegal tobacco
 - Criminal networks within Mexican customs
 - The urban criminal ecosystem, including:
 - Street markets
 - Illegal breweries (micheladas)
 - Street vendors

7.3 Consequences for Public Health: Costs of an Uncontrolled Market

As previously mentioned, the starting point of this issue is the addiction caused by all types of cigarettes, whether legal or illegal, and the health consequences they may trigger. However, illegal cigarettes pose an even greater risk, as they lack regulatory oversight, allowing the inclusion of toxic or unknown substances. Additionally, these products do not contribute tax revenue, further limiting public resources to mitigate their impact on public health.

Thus we propose a preliminary index for a comparative analysis. This study aims to compare different types of illegal cigarettes identified so far, including mixed domestic cigarettes (e.g., *Link*) and smuggled imported cigarettes that lack legal traceability.

- The impact of the illegal tobacco trade on the national health system
 - Estimating the market size and its public health implications
 - Laboratory analysis of various illegal cigarette types to assess their chemical composition and associated health risks

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