

The illicit trade in tobacco products

The illicit production and distribution of tobacco products

The illicit supply of tobacco products is a massive global problem that leads to tobacco-related death and disease. Illicit tobacco products are untaxed and therefore less expensive, leading to increased tobacco use and the loss to governments of enormous amounts of potential tax revenue.

The illicit and counterfeit production of tobacco products may be carried out by legal manufacturers who declare only a fraction of their production to the tax authorities or by unlicensed manufacturers. It is done to avoid paying tax.

The illicit distribution of tobacco involves the diversion of cigarettes through complex exporting and importing tactics during international transit when taxes are suspended. This is done to obscure the actual, rather than official, final destination for the products. This smuggling is often organized on a large scale and involves significant quantities and profits for the smugglers. The tobacco industry is often aware of this activity, which happens with its compliance.

The illicit trade in tobacco products increases tobacco consumption

The illicit supply of tobacco products leads to an increase in tobacco consumption by making cigarettes more affordable and accessible. This makes it more attractive, especially to people who are price sensitive, such as young people and the poor. It also allows cigarettes to be sold as singles instead of in packs and in unregulated outlets, making them more accessible to youth.

The illicit manufacture and trade in tobacco products contributes to the global death and disease burden caused by tobacco consumption. Illicit tobacco manufacture and smuggling also:

- ▶ undermines national pricing policies;
- ▶ deprives governments of tax revenues;

- ▶ permits tobacco companies to subvert and undermine international cooperation in tobacco control;
- ▶ undermines legal restrictions and health regulations, such as those that deal with health warnings and sales to minors.

The illicit trade in tobacco is a global problem

The illicit trade is a worldwide problem. Smuggled cigarettes accounted for an estimated 10.7% of global sales of cigarettes in 2006 (1). Cigarette smuggling has particularly targeted certain countries in the Eastern Mediterranean Region as places of transit or final destination. The illicit trade in tobacco is enabled by conflict, trade sanctions, political instability and weak governance and border controls.

It is hard to get accurate figures on the size of the illicit trade in tobacco in the Region. Cigarette sales attributed to the illicit trade in tobacco have been estimated at 25% in Islamic Republic of Iran, 22% in Morocco, 17% in Pakistan, 10%–12% in Jordan and 10% in Tunisia (2). A study by the Tobacco Prevention and Control Centre in Tehran in 2005–2006, found that 44% of cigarettes in the city were illicit, with much a higher rate (72.5%) among women (2).

Governments lose significant tax revenues from the illicit trade in tobacco

Around one third of all internationally-exported cigarettes are diverted and smuggled into countries and sold illegally, evading taxation. Smuggled cigarettes are sold at lower prices than official sales, leading to an increased volume of sales and consumption. Total revenue lost by governments due to cigarette smuggling is estimated at US\$ 40–50 billion annually (1).

Tobacco companies argue that high taxes on tobacco stimulate illicit production and smuggling.



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They want governments to reduce taxation, allowing lower tobacco prices that stimulate tobacco consumption. However, tobacco smuggling is not caused by high tobacco taxes. Cigarette smuggling occurs in all parts of the world, even in regions where taxes are low. The illicit trade in tobacco is mainly the result of weak governance and border controls.

Tobacco industry complicity in the illicit trade

Tobacco companies benefit from the existence of smuggling. The sale of smuggled cigarettes, especially in markets that have been closed to them, stimulates demand for their brands. Tobacco companies have been complicit in large-scale tobacco smuggling in the Region, particularly to Iraq and the Islamic Republic of Iran, often via Lebanon and the Syrian Arab Republic (3). Deteriorated cigarettes have also been 'dumped' on Iraq.

Tobacco smuggling is used as a tactic to undermine state monopolies on the sale of tobacco by reducing their market share. This allows companies to argue for permission to legally import or locally produce their brands by doing deals with state tobacco authorities.

Best practices and the way forward

The illicit trade in tobacco can be best prevented by cutting off the supply of illegal tobacco products. Article 15 of the WHO Framework Convention on Tobacco Control on illicit trade in tobacco products requires Parties to adopt and implement

effective measures to regulate the production and distribution of tobacco products. Such measures include the following.

- ▶ Practical tracking and tracing systems for tobacco product manufacture and distribution should be implemented. This can be done by marking packaging to indicate the origin and destination of the product. Packaging information or markings should be legible and in the principal local language.
- ▶ The tobacco industry should be made liable for controlling the supply chain. Manufacturers should provide a list of all intermediate traders and ensure that packaging carries the required tracking statement or markings. Responsibility should reside with tobacco manufacturers to prove that their products have reached their intended destinations.
- ▶ Legislation against the illicit trade in tobacco should be enacted and enforced with effective penalties and remedies. All confiscated tobacco product manufacturing equipment and counterfeit or contraband tobacco products should be destroyed and proceeds confiscated.
- ▶ A coordinated international response should be adopted, with cooperation between national and intergovernmental agencies. The storage and distribution of tobacco products under suspension of taxes or duties should be monitored, and information on cross-border trade and smuggling collected and exchanged between customs, tax and other relevant authorities.

References

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3. *The cigarette "transit" road to the Islamic Republic of Iran and Iraq: illicit tobacco trade in the Middle East*. Cairo, WHO Regional Office for the Eastern Mediterranean, 2008.