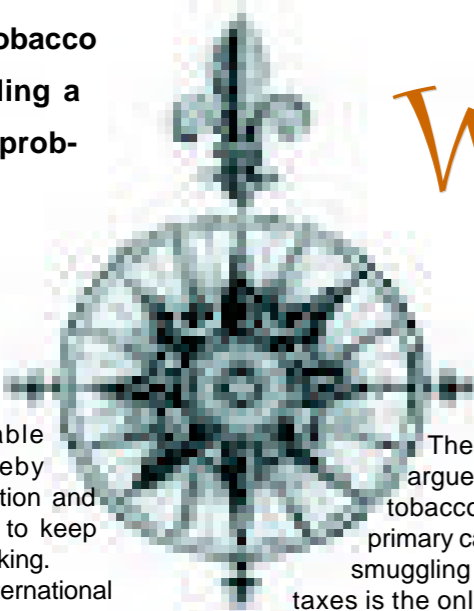


Why is tobacco smuggling a health problem?

- Smuggled cigarettes are sold at a lower price, making cigarettes available cheaply, thereby increasing consumption and undermining efforts to keep youngsters from smoking.
- Smuggling makes top international brands available at affordable prices to low-income consumers and to image-conscious young people in developing countries where western products are regarded as sophisticated and stylish.
- Contraband cigarettes evade legal restrictions and health regulations, such as bans on selling to minors, labelling requirements, and regulations on additives.
- Smuggling of cigarettes gives opportunities for organized crime networks to survive and may increase the general level of corruption in a country.



Why does tobacco smuggling occur?

The tobacco industry argues that high tobacco taxes are the primary cause of tobacco smuggling and that reducing taxes is the only cure. The reality is that price is only one of many factors that influence smuggling rates. Other more important factors include: the tobacco industry's own role in facilitating smuggling; the lack of appropriate controls on tobacco products in international trade; and the existence of entrenched smuggling networks, unlicensed distribution, lax anti-smuggling laws, weak enforcement and official corruption.



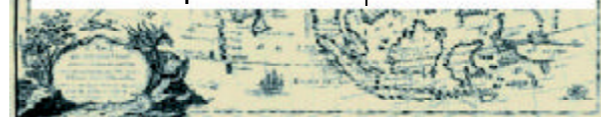
Is the lowering of taxes therefore a solution to smuggling?

NO. The tobacco industry has been using the issue of smuggling to bring down taxes on tobacco – saying that high taxes promote illegal activity. However, countries with a high level of cigarette smuggling are not the countries with the highest prices or taxes, but mostly countries that score high on the corruption index. Criminal networks specializing in cigarette smuggling operate more easily in countries where corruption is high; where the control of authorities is lacking; and where smuggling of commodities other than tobacco is going on.

Even in the face of high rates of smuggling, taxation reduces consumption of cigarettes and increases state income that can be used for more productive activities.

The Canadian experience is illustrated in the following table:

	1979-1991	1994 (Tax reduction for cigarettes implemented)
Prices of Cigarettes	Increased 159%	Decreased by 33%
Teenage Smoking	Decreased from 42% to 16%	Increased from 16 to 20%
State Income		Loss of C\$1.2 billion



Reducing taxes, as Canada did in 1994, is not a solution to smuggling concerns; when cigarette taxes were lowered consumption among teenagers increased. From a health point of view this is a clear and significant loss. In addition, state revenue losses were considerable.

Smuggling is a serious problem. The solution is not to forego tax increases but to crack down on criminal activity. Collaboration with other international organizations, such as the World Customs Organization and the International Criminal Police Organization (Interpol) is necessary. The control of smuggling requires the multi-sectoral cooperation of health, tax, customs and police departments.

Is tobacco smuggling an international problem?

- YES.**
- Tobacco smuggling involves international brands, produced by multinational companies
 - Smuggled cigarettes are distributed by criminal organizations operating in all parts of the world
 - Large scale smuggling operations involve the illegal movement of large amounts of tax free cigarettes that disappear during international transport

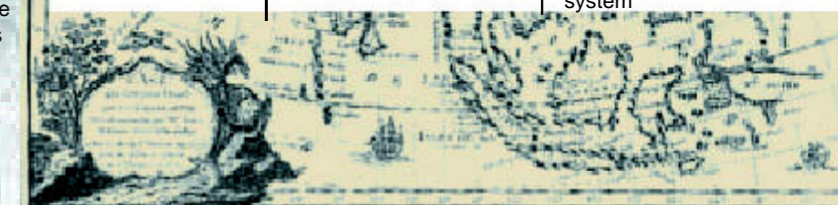


How does smuggling occur?

There are two types of smuggling: bootlegging and large scale organized smuggling.

The degree to which smuggling occurs is related to factors such as price differentials between neighbouring states and countries, public tolerance, the culture of street selling, and uncontrolled international movement of tax-free cigarettes. But the major factor is the presence of organized crime that runs large-scale smuggling operations.

	Bootlegging	Large Scale Organized Smuggling
Mechanism	Transfer of tobacco products from low tax jurisdictions to high tax ones	Involves transport, distribution, and large scale consignments generally evading all taxes
Volume	Small compared to other forms of illegal smuggling; commands only a small market share since price differences are not too common	Trade can easily amount to billions of dollars
Distance covered in trade	Short, usually across neighbouring countries or jurisdictions	Trade moves all over the world
Driving market force	Price differences	An industry run by criminal organisations with a sophisticated distribution system



What is the attitude of the tobacco industry towards smuggling?

The tobacco industry benefits from the existence of smuggling.

Despite its professed opposition to criminal activity, the tobacco industry benefits from smuggling in several ways:

- Smuggling stimulates consumption through the street sale of cheap cigarettes.
- Smuggling is used as an argument to lower taxes, thereby making cigarettes more affordable.
- When smuggled cigarettes account for a high percentage of the total sold, the average price for all cigarettes - taxed and untaxed - will fall, increasing sales of cigarettes overall.
- The threat of smuggling has been used to avoid trade barriers or to force open new markets.

Since 1997, there have been several court cases and official investigations accusing the tobacco industry of supplying smuggled cigarettes or at least of being aware of the illegal destination of their products. Two cases are most prominent:

- A former British American Tobacco Co. executive was found guilty by Hong Kong's High Court for his role in an operation that smuggled cigarettes into China.
- An affiliate of RJ Reynolds International pleaded guilty to charges of helping smugglers export cigarettes into Canada.

Other investigations continue, spurred on, in part, by internal industry documents released in various lawsuits brought against tobacco companies.



What is the current volume of tobacco smuggling?

It is not too difficult to gauge the volume of tobacco smuggling. World cigarette production is known fairly accurately, and since cigarettes do not keep for very long, world production is very close to world consumption. The tobacco trade therefore operates under a simple equation:

Global Exports = Global Imports

But imports are always lower than exports to a degree that cannot be adequately explained. In 1996, for example, 1,107,000 million cigarettes were exported, but only 707,000 million were imported - a difference of 400,000 million. After deducting 45,000 million for legitimate duty free sales, there are still almost 355,000 million cigarettes missing. The only plausible explanation for these missing cigarettes is smuggling.

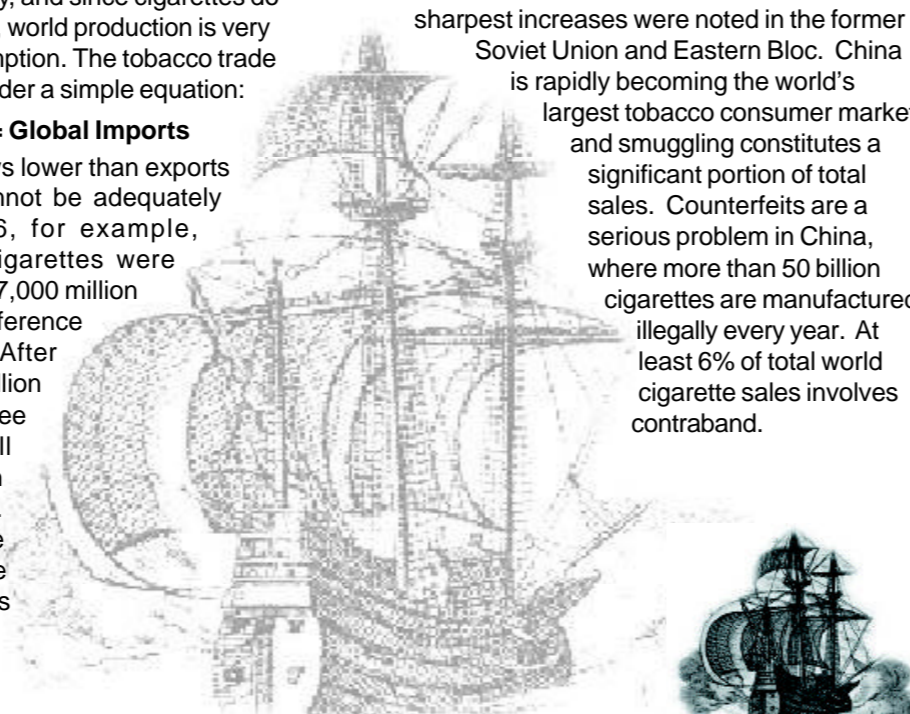
Global Exports
1,107,000
million
cigarettes

≠

Global Imports
707,000
million
cigarettes

Some 30% of internationally exported cigarettes are lost to smuggling - a far higher percentage compared to losses incurred during international trading of other consumer goods.

The trade in contraband sales world-wide grew by more than 110% between 1990 and 1997. The sharpest increases were noted in the former Soviet Union and Eastern Bloc. China is rapidly becoming the world's largest tobacco consumer market and smuggling constitutes a significant portion of total sales. Counterfeits are a serious problem in China, where more than 50 billion cigarettes are manufactured illegally every year. At least 6% of total world cigarette sales involves contraband.



What can I do to stop tobacco smuggling?

Find out whether your country supports a protocol on the elimination of smuggling.

During the second working group on the Framework Convention for Tobacco Control in Geneva in March 2000, many countries expressed strong support for a possible protocol on the elimination of tobacco smuggling. Some countries felt that the protocol should be extended to the illegal trade of cigarettes and include measures to prevent the production and marketing of counterfeit cigarettes.

Support initiatives toward the creation of a protocol to eliminate tobacco smuggling

TRACKING

- Collect and monitor data on the illegal, tax-free and cross-border trade of tobacco products;
- Improve information systems in order to target physical checks and controls;
- Install tracking systems which may include a computerised control system for the monitoring of consigned tobacco products, particularly consignments most liable to irregularity;
- Place technologically sophisticated tax-paid markings on tobacco products;
- Print unique serial numbers and/or other covert or overt features and chain-of-custody marks on all packages of tobacco products;

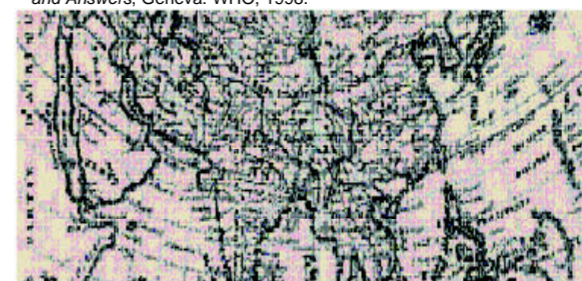
LICENSING

- Develop a system for licensing manufacturers, exporters, importers, wholesalers, warehouses, transporters and retailers as regards tobacco products;
- Establish a code of good practice regarding measures for granting or withdrawing authorisations to warehouse keepers and for controlling goods in warehouses;

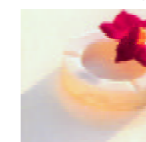
ENFORCEMENT

- Review the adequacy of guarantees and penalties for transit transactions;
- Improve co-operation between different national administrations

Adapted from:
Joossens, L., *Technical Paper on Tobacco and Smuggling - Questions and Answers*, Geneva: WHO, 1998.



World Health Organization
Western Pacific Region



Tobacco Free Initiative
July 2000



Tobacco And Smuggling

