

New Report: *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives*

The most authoritative report yet produced on the extent of the global illicit trade in cigarettes has been published, in time to inform discussions on the Illicit Trade Protocol at INB-3.

The report *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives* contains four key elements:

- Updated country level estimates of the illicit cigarette market around the world, using 2007 data or as close to 2007 as available;
- Evidence that higher income countries, where cigarettes are more expensive, have lower levels of cigarette smuggling than lower income countries, contrary to the tobacco industry claim that the overall level of smuggling is dependent on cigarette price;
- Evidence that the burden of cigarette smuggling falls disproportionately on low and middle income countries, where the majority of the world's tobacco users live; and
- Estimates of the number of lives saved and revenue gained globally in the future if smuggling were eliminated.

The summary table from the report is shown below.

	Global	High income countries	Low and middle income countries
Current situation			
Total illicit cigarette market (per cent of consumption)	11.6	9.8	12.1
Total illicit cigarette market (cigarettes per year)	657 billion	124 billion	533 billion
Total revenue lost to governments	\$40.5 billion	\$17.6 billion	\$22.9 billion



Estimated deaths in 2030	8.3 million	1.5 million	6.8 million
If this illicit trade were eliminated			
Immediate gain in revenue	\$31.3 billion	\$13 billion	\$18.3 billion
Lives saved in 2030 and annually thereafter	164,000	32,000	132,000

The table shows that 11.6 per cent of the global cigarette market is illicit, equivalent to 657 billion cigarettes a year and \$40.5 billion in lost revenue. This is substantially higher than the 2000 report commissioned by the World Bank, based on 1995 data, which estimated that between 6 and 8.5 per cent of global cigarette consumption was smuggled.

If this illicit trade was eliminated, governments would gain, in principle immediately, at least \$33 billion by doing so, and from 2030 onwards save over 160,000 lives a year, resulting from an overall increase in cigarette price of 3.9 per cent and a consequent fall in consumption of 2.0 per cent. In just six years over a million lives would be saved, the vast majority of them in middle and low income countries.

The table also shows how the burden of this illicit trade falls mainly on lower income countries. The total illicit cigarette market is 9.8 per cent in high income countries compared with 16.8 per cent in low income countries. The report shows that the illicit is below 15 per cent in nine of the fourteen high income countries for which data is available. In many low and middle income countries illicit trade reaches much higher levels: 50 per cent in Georgia, 40 per cent or more in Uzbekistan, Bosnia and Herzegovina, Albania and Bolivia, and over 20 per cent in fifteen more countries.

The tobacco industry frequently argues to governments that they should not increase tobacco tax because this will increase the level of smuggling. The suggestion is that smugglers will smuggle into a country where they can make the highest profit. This should be a country where tax is a high proportion of the price, so that there is a large margin to reduce the price, by avoiding tax, while still retaining a profit. The authors state that while a high tax margin can provide an initial incentive to smuggle, it is not the most important factor. In Norway, the country with the highest cigarette prices in the world where in January 2008 a packet of Marlboro cost \$12, only six per cent of survey respondents had seen tobacco products which they believed were smuggled over the previous year. In

Lithuania, the country with the lowest prices in the European Union where in January 2008 a packet of Marlboro cost \$2, the percentage was 36 per cent.

Relationship between legal price and illicit trade in 2007

World bank income group	Average legal price (US\$)	Average percent of consumption that is illicit
Low income	1.13	16.8 per cent
Middle income	1.89	11.8 per cent
High income	4.91	9.8 per cent

Other factors affecting illicit trade include the presence of informal distribution networks, organized crime, industry participation and corruption, probably contribute more to cigarette smuggling than price levels. Because illicit trade levels are higher in lower income countries, it is important that governments in low and middle income countries are aware of the evidence, and thus of the value of increasing prices, which will improve the health of their populations and increase tax revenue.

The authors report recent published evidence on substantial reductions in smuggling in Italy, Spain and the UK, shows that smuggling can be successfully tackled. They also list the measures proposed by the Framework Convention Alliance, which they believe would significantly reduce the illicit trade. If governments act together, especially to ensure a strong illicit trade protocol, smuggling and illicit trade can be significantly reduced, tax revenue will consequently be increased, and millions of lives will be saved.

"How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save lives" (published by the International Union against Tuberculosis and Lung Disease) was written by:

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