

Combating the global Illicit trade in tobacco and the consequences for Europe and Africa




Luk Joossens

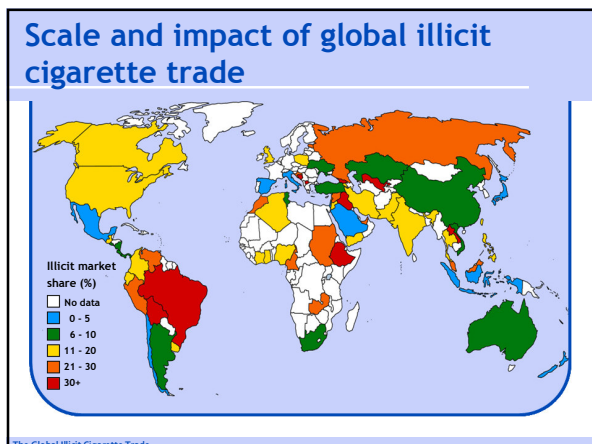
International expert on illicit trade in tobacco

The Global Illicit Cigarette Trade

Based on *How Eliminating the Global Cigarette Trade would Increase Tax Revenue and Save Lives*. By Luk Joossens, David Merriman, Hana Ross, and Martin Raw. Paris: International Union against Tuberculosis and Lung Disease; 2006.

Scale and impact of global illicit cigarette trade

| | Illicit Market Share (%) | | | | |
|----------------------|--------------------------|---------------|----------------|--------------|--------------|
| | 30+ | 21-30 | 11-20 | 6-10 | 0-5 |
| Albania | Cameroon | Algeria | Pakistan | Argentina | Chile |
| Bolivia | Croatia | Armenia | Philippines | Australia | Indonesia |
| Bosnia & Herzegovina | Estonia | Canada | Poland | China | Israel |
| Brazil | Lebanon | Columbia | Singapore | Costa Rica | Italy |
| Ethiopia | Malaysia | Côte d'Ivoire | Taiwan | El Salvador | Japan |
| Georgia | Morocco | Ecuador | Thailand | Kazakhstan | Mexico |
| Hong Kong | Peru | Ghana | United Kingdom | Nicaragua | New Zealand |
| Iraq | Russia | Guatemala | United States | Panama | Saudi Arabia |
| Laos | Sudan | India | Uruguay | South Africa | Spain |
| Macedonia | Syria | Iran | Yemen | Tunisia | |
| Uzbekistan | UAE | Jordan | | Turkey | |
| | Venezuela | Nigeria | | Ukraine | |
| | Zambia | Pakistan | | Vietnam | |



The global illicit cigarette trade

- 11.6% of the global cigarette market is illicit
- The burden of illicit trade falls mainly on low and middle income countries

| World Bank income group | Illicit market share | Revenue lost to government (US\$) |
|-------------------------|----------------------|-----------------------------------|
| WORLD | 11.6% | 40.5 billion |
| High income | 9.8% | 17.6 billion |
| Low and middle income | 12.1% | 22.9 billion |

Legal price and illicit trade (2007)

| World Bank income group | Average legal price per pack (US\$) | Illicit market share |
|-------------------------|-------------------------------------|----------------------|
| Low income | 1.13 | 16.8% |
| Middle income | 1.89 | 11.8% |
| High income | 4.91 | 9.8% |

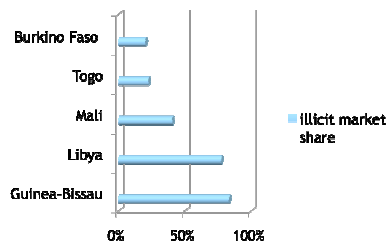
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UNODC report "Transnational Trafficking and the Rule of Law in West Africa: A Threat Assessment." June 2009

"As much as 80% of the cigarette market in some West and North African countries is illicit, meaning that most of the smoking in these countries profits criminals."

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UNODC report "Transnational Trafficking and the Rule of Law in West Africa: A Threat Assessment." June 2009



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Levels of smuggling depend on...

- Presence of organized crime networks
- Presence of informal distribution networks
- Level of corruption
- Likelihood of getting caught and prosecuted
- Level of penalties
- Industry participation

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Effects of illicit trade

- Robs governments of tax revenue
- Increases availability of cheap cigarettes
- Increases cigarette consumption
- Increases tobacco-related deaths

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The taxes on tobacco products

In the United States, federal and state governments estimate that tobacco diversion costs over \$5 billion in revenue from unpaid excise taxes annually.

Source : US Department of Justice, September 2009

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The taxes on tobacco products

Taxes on tobacco products can consist of excise duties, value added tax, sales tax and import duties.

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The average tax revenue of one cigarette container in the EU is €1.5 million .



Source: The European Anti-Fraud Office (OLAF)

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Lost revenue

- US\$40.5 billion in tax revenue is lost by governments worldwide
- The loss is higher than the GDP of some countries.

| GDP of selected countries (US\$) | |
|----------------------------------|------------|
| Tunisia | 35 billion |
| Kenya | 24 billion |
| Paraguay | 12 billion |
| Georgia | 10 billion |
| Laos | 4 billion |
| Rwanda | 3 billion |

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The tobacco epidemic

- Tobacco use kills more than 5 million people globally each year.
- If current patterns continue, it will cause more than 8 million deaths each year by 2030.

Source: World Health Organization: The MPOWER Package, 2008; Global Health Risks, 2009 and Global Burden of Disease 2004 update, 2008

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Price matters...

According to the World Bank, price increases are the **most effective** and **cost effective** means of reducing tobacco consumption.

Source: World Bank, Curbing the Epidemic, 1999

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Price difference between illicit and legal cigarettes in selected countries

| Country | % cheaper |
|---------|-----------|
| Canada* | 90 |
| UK | 50 |
| Brazil | 50 |
| Niger† | 40 |
| China | 25 |

* Cigarettes in loose bags of 200

† Smuggled Marlboro

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In Canada 200 cigarettes in loose bags are 90% cheaper than the discount brands.



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Saves lives

Eliminating illicit cigarette trade would:

- Result in an overall cigarette price increase of 4% and a global cigarette consumption decline of 2%
- From 2030 onward, more than 160,000 lives would be saved each year.

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Generates new revenues

If the illicit cigarette trade was eliminated...

- Governments would immediately gain at least US\$31 billion in annual revenues worldwide
- Governments in low and middle income countries would gain US\$18 billion

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Thank You

For more info, please contact me at joossens@globalink.org

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ILLICIT TRADE IN TOBACCO PRODUCTS: AN AFRICAN PERSPECTIVE

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Outline of presentation

1. Definition
2. Is the fight against illicit tobacco trade necessary
3. Impact of illicit tobacco trade on public health
4. Illicit tobacco trade and tobacco control efforts
5. Extent of illicit tobacco trade in Africa
6. Area of special challenge of illicit tobacco trade to Africa
7. Route of illicit tobacco trade in Africa
8. Issues for Control strategy
9. FCTC Protocol on illicit tobacco trade: important elements
10. INB4 Issue for Africa & EU

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Definition

This is the supply, distribution and sale of smuggled or counterfeit tobacco products, or tobacco products on which necessary duties and taxes have not been paid

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Is the fight against illicit tobacco trade important

- To promote public health: Saves lives (if illicit trade is eliminated, by 2030 164,000 lives saved yearly)
- Protect public revenue: most governments across the world losses estimated \$40.5billion a year, with \$22.9 billion lost to governments in low and middle income countries.
- To fight organized crime: Moneys accruing from illicit trade in tobacco products have been found to be used in organized crime and funding of Terrorism and conflict

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Impact of illicit trade on tobacco products on public Health

- Makes known international and local brands of cigarettes easily available to the vulnerable (children, poor people in low or middle income countries) very cheap price
- Increases consumption of tobacco products
- Increases morbidity and mortality due to tobacco related diseases.
- 5m people die yearly worldwide from tobacco related illnesses (70% occurring in developing countries particularly Africa).

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Illicit trade in tobacco & Tobacco control efforts in Africa

- Major challenge to tobacco control efforts in Africa by making tobacco accessible at very cheap price.
- 10% increase in price reduces the tobacco consumption by 8% in Low & middle income countries
- Deprives governments of tax revenue ; about 40 – 50 billion
- Undermines high tax on tobacco
- **Creates a significant threat to public safety**

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Extent of the problem in Africa

- Occur in most African countries
- Represent 15% of the cigarette market
- In 2007, 600 billion cigarettes are from illicit source
- 80 % of cigarettes in North and West Africa are from illicit sources
- Evidence show that the industry has a hand in the illicit tobacco business in Africa
- WHO estimate 11 billion illicit cigarettes are smoked in West Africa & 21 billion in North Africa; total value of \$774 million

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Areas of Special Challenge of illicit tobacco trade to Africa

- Dumping of used manufacturing equipments
- Trans shipment making it difficult to track and trace
- Illegal manufacture of cigarettes
- Lack of appropriate regulation
- Enforcement issues

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Route of Illicit trade in tobacco in Africa

- From far east (China & Vietnam) , Europe (Bulgaria, Luxembourg, Greece) reaches West and North Africa via worldwide free trade zones particularly Dubai and tax havens
- From Ghana, Benin & Togo, Guinea & Mauritania, via trans-Sahara route to North African markets (Algeria, Egypt, Libya, morocco and Tunisia)

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Issues for Control Strategies

- Illicit trade is a global phenomenon
- Requires actions at national & international level
- Needs international collaboration & cooperation
- Focus on controlling the supply chain, by national authorities
- Realistic and enforceable measures to control supply chain

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FCTC Protocol on illicit trade: Important elements

- Obligate the tobacco industry to control the supply chain for their products
- Tracking and tracing of tobacco products & manufacturing equipments to identify point of diversion from legal market to illicit market
- Serious penalties including liabilities for unpaid taxes & duties on seized products for manufactures that fail to control their supply chain
- Customer identification & verification: due diligence
- Traceable methods of payment for tobacco transactions
- Ban on internet or telecommunication base sale of tobacco products
- Ban Free trade areas and duty free sales
- Strengthening law enforcement & international cooperation: information sharing & cooperation in investigation & prosecution of offences
- Mutual legal assistance & extradition arrangements

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INB4 Issue for Africa & EU

- Tracking & tracing using unique markings; up to pack level
- Unique identification for manufacturing equipment
- Licensing to control behavior of participants
- Information sharing and cooperation in investigation of offences
- Technical assistance for African countries by the EU in building infrastructure and capacity

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Thank you for listening

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