

Plain packaging and illicit trade

LUK JOOSSENS

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A new tobacco industry theory

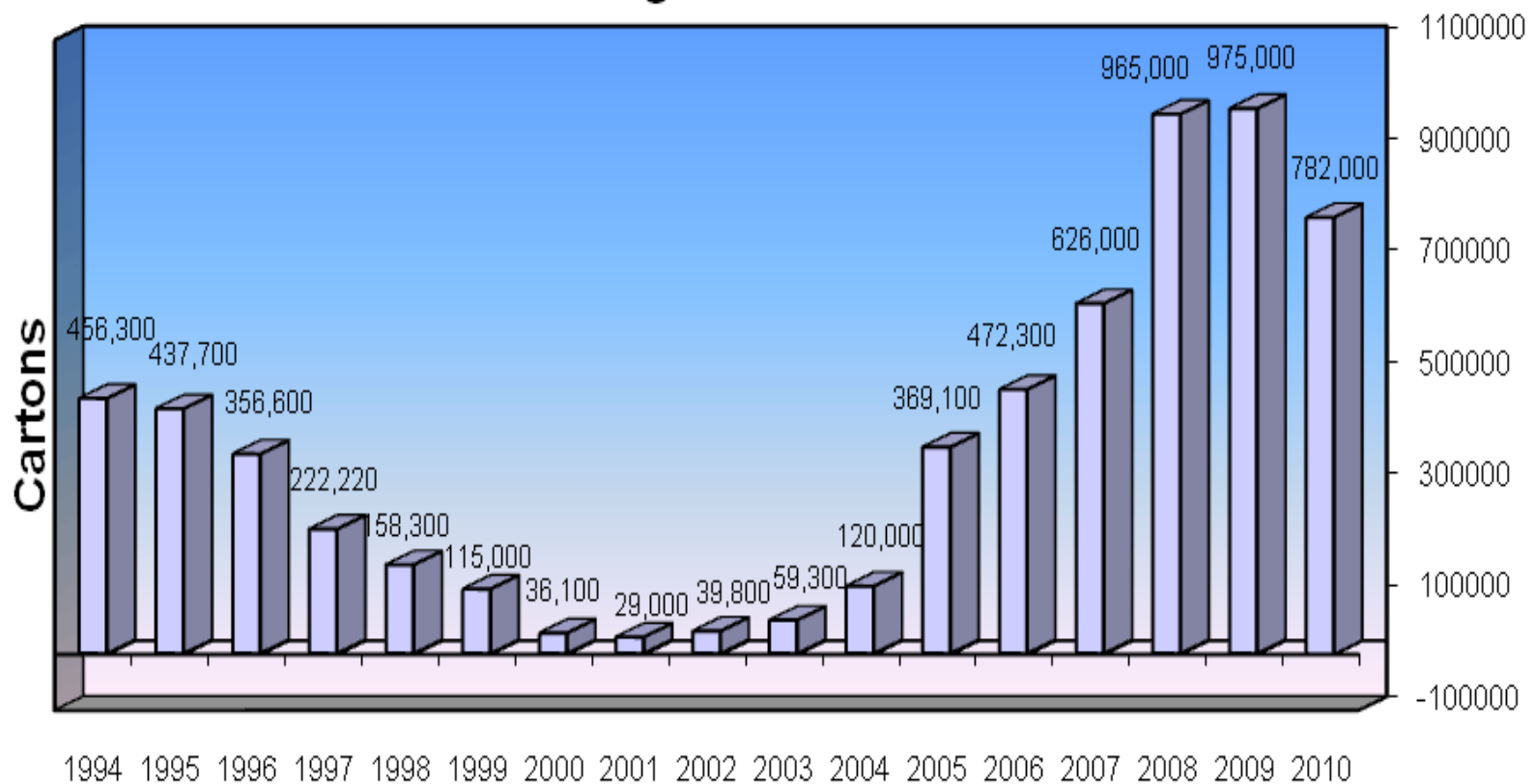
More tobacco regulation (such as tobacco display bans or plain packaging) will lead to more illicit trade.

Display ban in Iceland since 2001: no effect on illicit trade



Display ban in Canada since 2008: no effect on illicit trade

RCMP Cigarette Seizures - 1994 to 2010



2010: Approximately 782,000 Cartons

Display ban in Canada since 2008: no effect on illicit trade



Display ban in Canada since 2008: no effect on illicit trade

tobacco in Canada



LIVING IN THE B

Canadian retailers have already had to learn to live with a tobacco display ban. David Rees went to see it in action

While retailers in the UK are wondering what effect the tobacco display ban might have on their business, c-store operators in Canada have already been there, done that, bought the covers.

The Canadian ban was imposed by the provincial authorities rather than federal government, and so became law at different times in different parts of the country. But just like in the UK, the proposal was controversial and subject to legal challenges. The first province to ratify a ban, Saskatchewan in 2002, actually reversed its decision in 2004 only for it to be re-instated in 2006. But despite the opposition and legal challenges, the ban was fully national by 2008, and retailers have had to learn to adapt.

Peter Chappell, senior category manager from Mac's, which operates 570 stores in Ontario and is part of Alimentation Couche-Tard, Canada's leading c-store operator and one of the largest groups worldwide, explains that consumer behaviour followed similar patterns wherever the ban was introduced.

"Customers would walk into the store on day one, see the covered gantry and say 'Oh, you don't sell cigarettes any more'," he explains. "The dark market had a negative impact on sales for about the first three months."

Now that the ban has had time to bed in, the full effect on tobacco sales can be measured. And the effect is... nothing.

The province of Manitoba has been dark since 2004 and, after the initial drop, sales have followed the national trends closely. A similar story occurred in Saskatchewan, where in the first eight weeks following the ban in 2006 stores suffered a 15-20% drop in tobacco sales. Four weeks later, the sales were back in line with the national trend. And in Ontario, the most populous Canadian province, sales dropped by 10% for 12 weeks after the ban came in, but again returned to normal soon afterwards.

Chappell reports that much of the sales drop-off can be explained by shoppers bulk-buying in the days immediately preceding the bans.

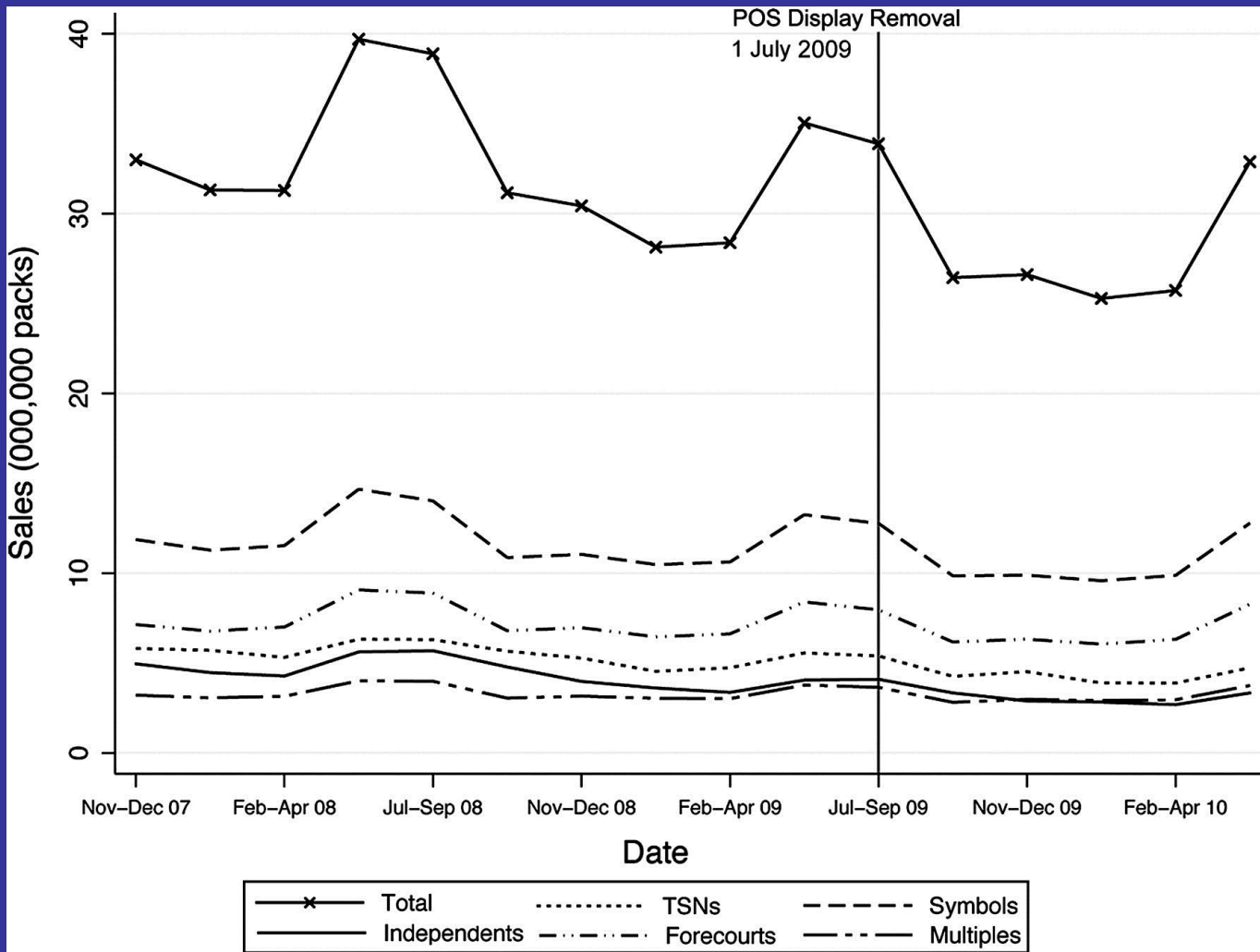
Although sales have levelled out, retail profitability has been hit as tobacco companies used to pay advertising allowances to display certain brands – a typical store might have received up to £9,000 a year for this. Ironically, the end of these incentives meant that tobacco manufacturers' profits increased.

A further complication is the secondary market in Canada. Indigenous 'first nation' people are permitted by government treaty to manufacture and sell tobacco, and are able to significantly undercut mainstream retailers. A tax-paid carton of 200 branded cigarettes retails at about \$42 (\$26.50), while a bag of 200 sticks bought from a

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Trends in tobacco packs sold bimonthly across different retail outlets in Ireland (source: AC Nielsen)



Quinn C et al. *Tob Control* 2011;20:151-155



Plain Packaging and illicit trade

It is very likely that plain packaging may help to combat illicit trade.

In other words, exactly the opposite what the industry pretends.

The causes of the illegal tobacco trade in Europe

- **Demand** by smokers for cheaper tobacco products
- **Supply** by legal and illegal tobacco manufacturers looking for profits or increasing market shares, facilitated by corruption, the presence of criminal networks and weak government enforcement capacity.

The reduced price determines the demand for illicit tobacco

The main reason that smokers buy illicit cigarettes is their reduced price, not the packaging.

In the North of England, 64% of illicit tobacco buyers indicated that illicit tobacco made it possible for them to smoke when they couldn't afford it otherwise.

(Source: NEMS, North of England Illicit Tobacco Survey, 2009)

Research in Scotland

Qualitative research among young adult smokers in Scotland has shown that plain packaging has no impact on the decision to buy counterfeit cigarettes, which was driven by availability and price.

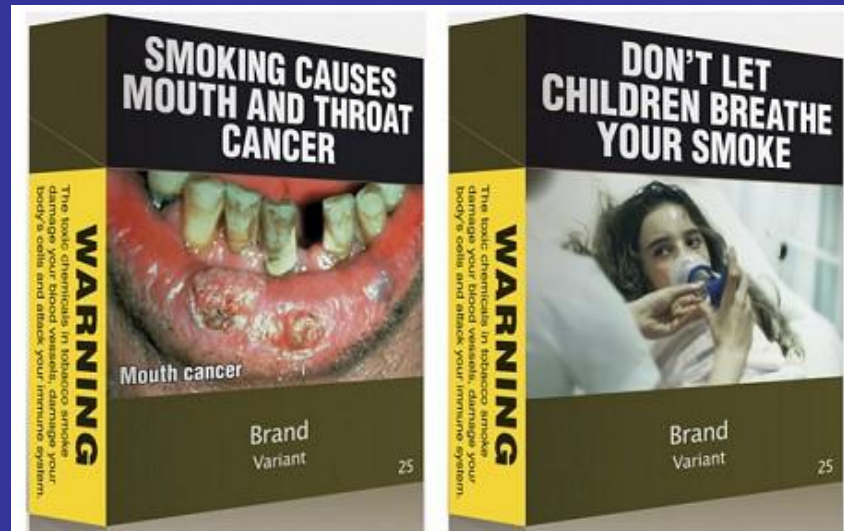
Source: Moodie C, Hastings G, Joossens L, European Journal of Public health, 26 March 2011

www.plain-packaging.com

« Various experts have expressed concerns that plain packaging will increase illicit trade by making cigarettes easier and cheaper to counterfeit »



Plain packs will always contain pictorial health warnings



Every visible item is easy to counterfeit

“The overt security features on stamps are easily and successfully copied by counterfeiters within a matter of weeks- in a quality good enough to fool most consumers.”

Mark Hill, Digital Tax Verification, October 2010 (A report agreed by the 4 major cigarette companies)

Anti-counterfeit technology is needed to recognise counterfeiting



Easier to counterfeit????

1. All visible items on the packs are easy to counterfeit
2. Plain packaging will contain pictorial health warnings
3. Anti-counterfeit technology is needed to recognise counterfeiting

www.plain-packaging.com



« The introduction of plain packaging will stimulate both the demand and supply of illicit cigarettes as it will be easier to counterfeit cigarettes whilst also increasing demand for branded black market cigarettes. »

Illicit whites

Brands manufactured legitimately in one market, either taxed for local consumption or untaxed for export, and sold knowingly to traders who transport them to another country where the products are sold illegally without domestic duty paid.

(European commission, 2011)

Most seized cigarette brands in the EU in 2008

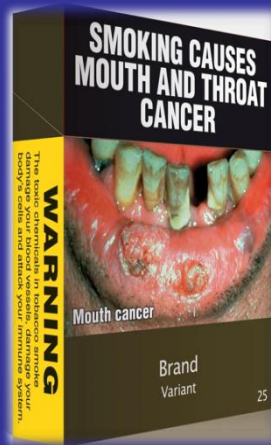
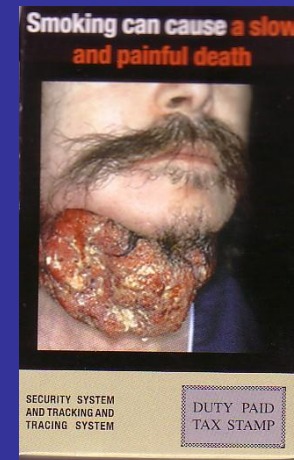


Jin Ling Cigarette Smuggling

Through a network of companies across Russia and Eastern Europe, the Baltic Tobacco Factory manufactures billions of contraband Jin Ling cigarettes now flooding into Western Europe. Untaxed and unregulated, the cigarettes are smuggled by criminal networks into a dozen countries. In 2007, officials seized 258 million Jin Lings across the European Union.



Which pack is illicit?



Conclusion

- 1) Plain packaging has no impact on the decision to buy counterfeit cigarettes, which is driven by availability and price.
- 2) Plain cigarette packets will always have large pictorial health warnings and such packs will therefore be as difficult to counterfeit as any other pack.
- 3) After the introduction of plain packs, enforcement officials will find it easier to recognise the illicit cigarettes.