

Tobacco Control in Developing Countries



Cigarette Smuggling is Not Only Determined by Price, and Can be Controlled

THE SMUGGLING SPECTRUM

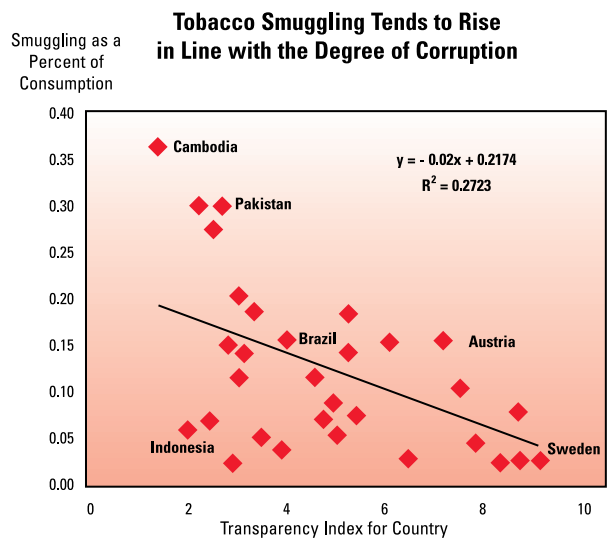
Wholesale smuggling: Large-scale organized smuggling involving illegal transportation, distribution and sale of large consignments of cigarettes on the “black market” without paying applicable taxes in either the country of origin or sale. This accounts for the lion’s share of worldwide smuggling.

Bootlegging: Cigarettes purchased legally in one country but sold illegally (i.e., without paying taxes or duties) at higher prices in another. This often occurs in neighbouring states or countries with substantial price differentials.

HOW BIG IS THE PROBLEM?

- Smuggled cigarettes account for 6% – 8.5% of global consumption.
- In countries like Bangladesh, Cambodia, Colombia, Latvia, Lithuania, Myanmar and Pakistan, smuggled cigarettes accounted for between 30% – 53% of domestic sales in 1995.
- Nearly a fifth of all cigarette production is exported. Of that amount, almost one-third (30%) – about 355 billion cigarettes a year – finds its way into the contraband market.
- It is estimated that a single truckload of smuggled cigarettes could evade US\$ 1.2 million in taxes in the European Union.
- Because taxes on cigarettes often account for a large share of their price (50% – 66%), they are especially appealing to potential smugglers. But price and tax rates are not the only incentive.
- Smoking and smuggling are mutually reinforcing activities that thrive wherever corruption is rife, informal distribution networks (e.g. street vendors) are abundant, laws are lax and crime networks flourish. A simple index of how corrupt a country is explains more of the variation in smuggling than price differences.

Figure 2.1 Tobacco Smuggling



- Crime, corruption and tolerance for street sales are closely linked to smuggling. For example, although high-tax Scandinavian countries show little evidence of smuggling, despite lower prices and taxes, it is widespread in Spain, Italy and many Central and Eastern European countries.
- There are major crime concerns: potential profits associated with wholesale cigarette smuggling create incentives for organized crime networks to develop. These in turn put pressure on legitimate distributors and increase the general level of corruption.

WHAT ARE THE SOLUTIONS?

The study suggests a wide spectrum of solutions, including the following:

- Hike the price. Despite its addictive nature, cigarette smoking responds to economic variables: when price goes up, consumption goes down.
- Don't buckle to false arguments that higher cigarette taxes don't work in the face of smuggling. Just the reverse has proven to be true as Canada and Sweden's cigarette tax cuts in the 1990s demonstrated.

- Stem smuggling. The key supply-side measure to reduce smoking is to reduce the supply of illegally tax-free, cheap cigarettes.
- The right response is for countries to adopt policies that make it “less profitable, more difficult and more costly to engage in smuggling”. These include prominent tax stamps, serial numbers, special package markings, health warning labels in local languages and better tracking systems.
- Crack down on crime. The level of corruption statistically explains more about smuggling than cigarette prices. Impose tougher smuggling penalties.
- In South Africa, where cigarette taxes were raised by over 350% between 1990 and 1997, consumption fell by 22%, revenues increased by 177%, and smuggling rose from almost zero to about 6% over the same period.
- In Europe, even in the presence of bootlegging, action by an individual country to increase cigarette tax would result in higher revenues. However, a coordinated increase in tax rates among neighbouring countries would lead to even higher revenues.

Table 2.1 Percent of Cigarette Tax Revenue Increase Resulting from a 10% Price Increase, Taking Bootlegging into Account.

Country	Each country raises tax alone	All countries raise tax together
Bulgaria	+9.7%	+9.8%
France	+5.8%	+7.0%
Germany	+2.6%	+4.7%
Turkey	+9.6%	+9.6%
UK	+4.6%	+5.9%
All 17 European countries	+6.9%	+8.2%

The 512-page book, *Tobacco Control in Developing Countries*, is an authoritative and comprehensive study that examines such key issues as poverty and smoking, rationale for government intervention, taxation, advertising and promotion bans, smuggling, trade and the supply side impact of control policies. Building on the comparative advantages of WHO and the World Bank in epidemiology and health economics, an international team of 40 professionals from 13 countries, under the guidance of Dr Prabhat Jha and Dr Frank Chaloupka, prepared this book over a period of three years. It is targeted primarily at ministries, academics and health professionals engaged in tobacco control.

The book is available in English only; Price: US\$ 49.50 paperback ISBN 0192632469.

For more details or to place your order, please contact:

- Within the US: Oxford University Press, Order Department, 2001 Evans Road, Cary, NC 27513 Call toll-free 1-800-451-7556 or fax 1-919-677-1303.

- In Europe or rest of the world: by phone: 24 hour credit card hotline: +44 (0)1536 454534; By e-mail: book.orders@oup.co.uk; by fax: +44 (0)1536 454 518; By post: Oxford University Press, Saxon Way West, Corby Northamptonshire, NN18 9ES, UK