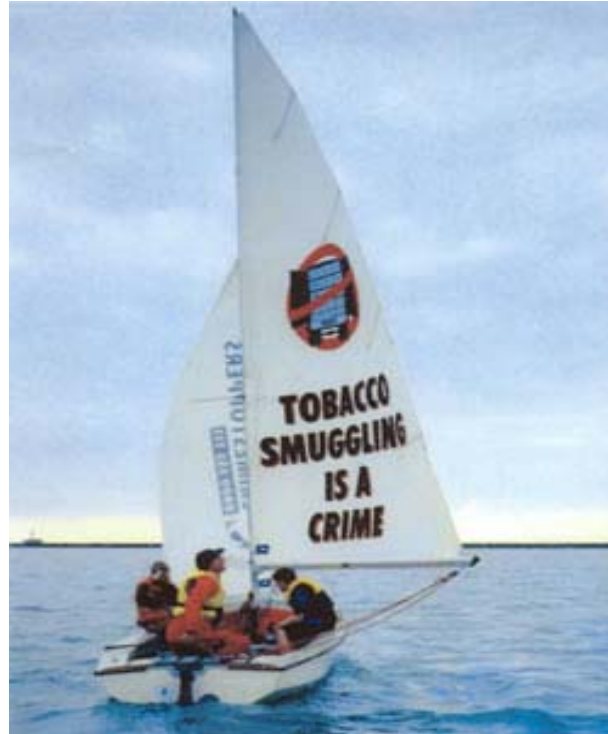


# Smuggling of Tobacco Products



By

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# Smuggling of Tobacco Products

- 1. How big is the world-wide tobacco smuggling problem?
- 2. Motivations for tobacco smuggling
- 3. Tobacco smuggling and tobacco consumption
- 4. Methods to deter tobacco smuggling

# 1. How big is the world-wide tobacco smuggling problem?

- Much is unknown
- Discrepancies between world-wide exports and imports
- Weighted average of individual country estimates
- Estimates for countries of South Eastern Europe

# World-Wide Tobacco Imports and Exports (billions of sticks)

Year	Imports	Exports	Ratio exports to imports
1975	171	223	1.30
1980	254	323	1.27
1985	313	356	1.14
1990	418	543	1.30
1995	668	987	1.48

# Weighted average of individual country estimates

Country	Estimate of smuggling as a percentage of 1995 domestic sales by expert sources		Country	Estimate of smuggling as a percentage of 1995 domestic sales by expert sources
Argentina	14		Latavia	39
Austria	15		Lithuania	30
Azerbaijan	13		Malaysia	18
Bangladesh	38		Myanmar	53
Belgium	7		Nepal	1
Belarus	23		Netherlands	8
Brazil	15		Pakistan	30
Bulgaria	15		Philippines	19
Cambodia	37		Poland	15
China	4		Romania	20
Columbia	30		Russia	6
Czech Republic	7		Korea Republic	9
Estonia	16		Singapore	2
France	2		Slovakia	3
Germany	10		Spain	15
Greece	8		Sri Lanka	10
Hong Kong	10		Sweden	2
Hungary	5		Taiwan	14
India	1		Thailand	11
Indonesia	5		UK	2
Ireland	4		Ukraine	5
Italy	12		Uzbekistan	11
Kazakhstan	17		Vietnam	28

# Smuggling estimates for countries of South Eastern Europe

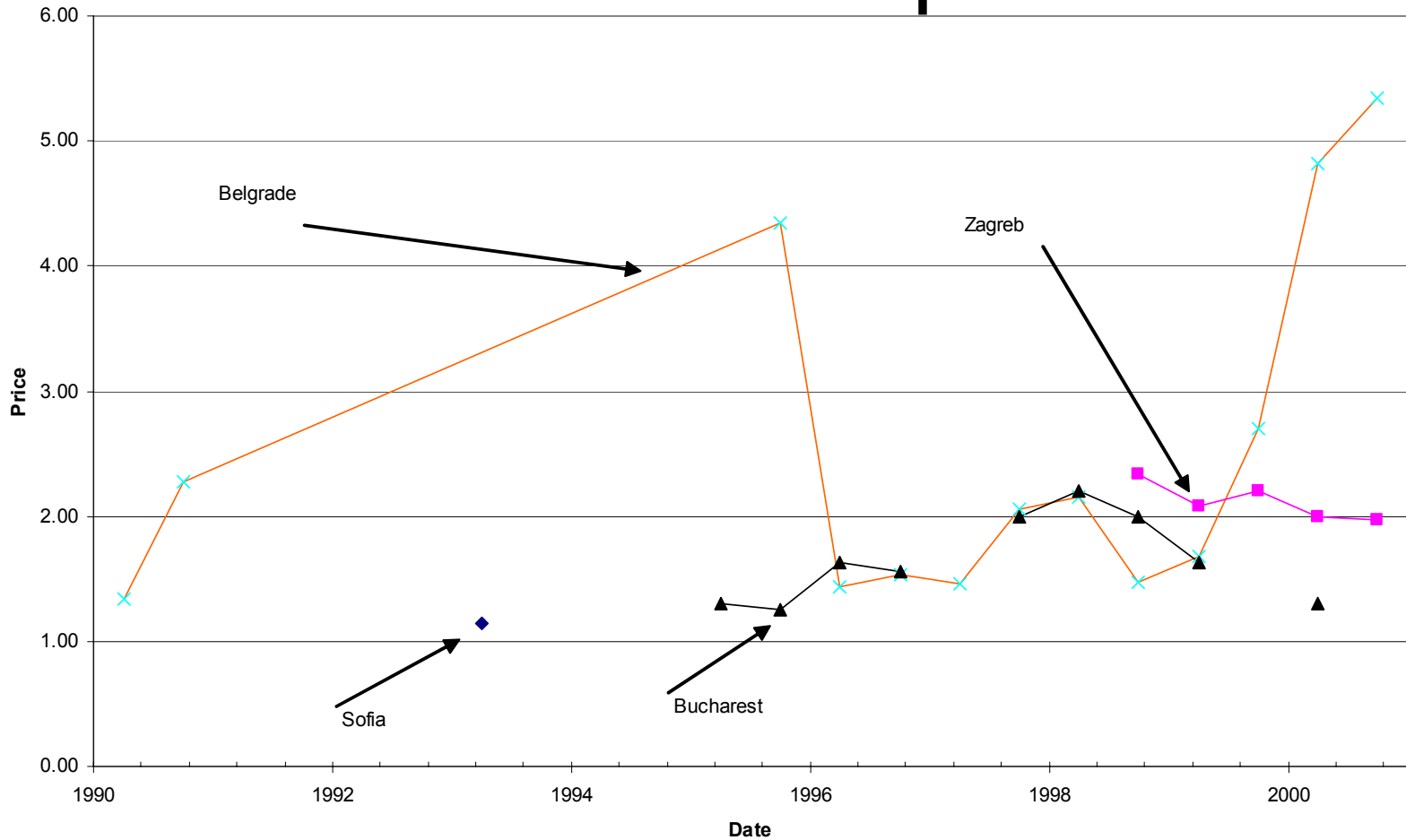
Country	Share of smuggled cigarettes
Albania	80%
Bosnia and Herzegovina	47%
Bulgaria	38%
Croatia	25%
Macedonia	40%
Romania	Not available
Yugoslavia (Serbia and Montenegro)	36.5%

Source Bozicevic, Ivana, Anna Gilmore and Stipe Oreskovic 2003. "Consequences of and Policy Responses to the Tobacco Epidemic in South-East Europe." Mimeo.

## 2. Motivations for tobacco smuggling

- Simple economic motives (**price differentials not tax differentials**)
- To increase market share
- Political/economic motivations

# Price Differentials: Price of Marlboros (US \$s) in selected cities in S.E. Europe



# Smuggling to increase market share and gain political leverage

Source: PBS <http://www.pbs.org/now/politics/smuggling.html>

“...smuggling helps tobacco companies make inroads into closed or restricted markets with a low-cost cigarette that can compete with local brands.... By doing this, the tobacco company gains market share and actually weakens the local producers.... tobacco companies often use the smuggling problem as a bargaining chip to convince governments to lower tariffs”

# Lawsuit charges tobacco companies with smuggling conspiracy

Source: CBC News, Tuesday, 12/21/99

[Canadian] Justice Minister Anne McLellan announced ... the government is taking ... several [multinational tobacco] companies to court ...

McLellan said the evidence now exists to prove that in 1991 the big tobacco companies established an "elaborate network of **smugglers** and shell companies." Their aim, she said, was to "undermine" Canada's policy to reduce tobacco use by increasing the price of cigarettes. That policy was "frustrated by tobacco smuggling," said the minister, and the government was "forced to reduce taxes and duties."

### 3. Tobacco **smuggling** and tobacco **consumption**

- **If** smuggled cigarettes substitute for legal cigarettes no effect on total consumption!!!!
- Some people (incorrectly) object that smuggled cigarettes are cheaper than legal cigarettes so people buy more.
- Who purchases the product may be affected.
- Tax increases may be appropriate policy even when smuggling is prevalent.

# 4. Methods to deter tobacco smuggling

- Reduce benefits from smuggling
  - Price harmonization
  - Penalize firms that use smuggling to increase market share
  - Inform political debate
- Increase cost of smuggling
  - Strengthen border controls
  - Increase certainty and severity of punishment