



CAUSES AND CONTROL OF ILLEGAL TOBACCO FOURTH EDITION: 2024

EXECUTIVE SUMMARY



WHAT'S THE PROBLEM?

The illegal tobacco trade undermines public health objectives and funds organized crime and terrorist activities.

In addition, illegal trade costs \$40–\$50 billion in lost global tax revenue every year that could be invested in essential services.

Because illegal traffickers do not pay taxes, they profit from their criminal activity by introducing cheaper illegal products to the market, encouraging some consumers to switch away from consuming legal cigarettes.

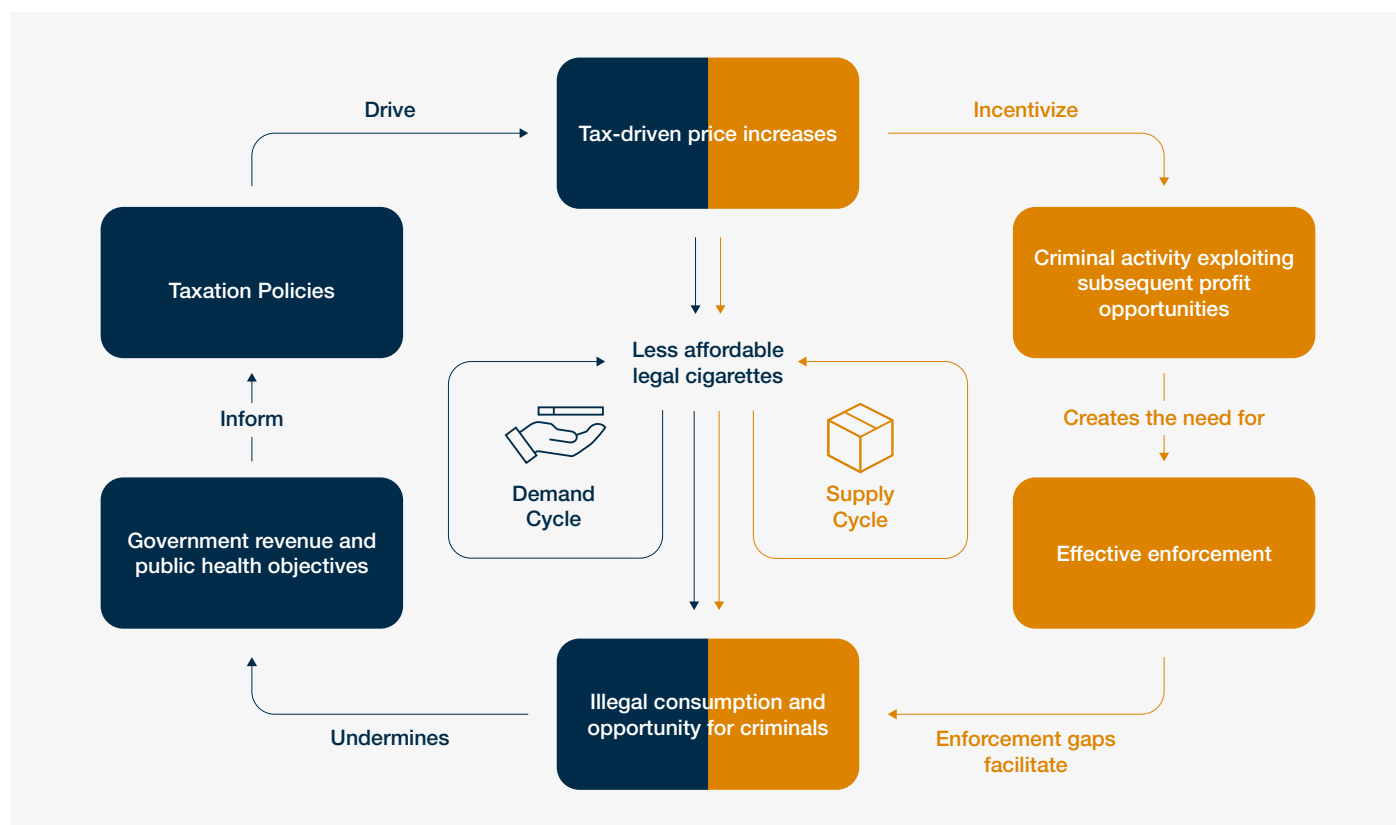


WHAT'S CAUSING IT?

Tobacco taxes are typically increased with the twin objectives of reducing the adverse health outcomes associated with smoking and strengthening tax revenues.

However, increasing the price of tobacco and thus reducing affordability encourages smokers to seek cheaper products and create opportunities for criminals.

The diagram below illustrates how taxation and consequent cigarette pricing can create demand for illegal tobacco and, as a result, encourage the development of illegal supply chains. Gaps in enforcement risk exacerbating this problem.





WHAT HAVE WE FOUND?

Analyzing 71 countries across 17 years, we find that making legal cigarettes more expensive through excessive increases in tax leads to increased consumption of illegal tobacco.

Across markets, we observe that when cigarettes become 1 percentage point more expensive relative to smokers' incomes, the illegal trade market share grows by 0.8 percentage points.

We also find that lower-income groups are likely to be more susceptible to substituting to illegal tobacco when their economic situation deteriorates.

In addition, we demonstrate the role – and limits – of enforcement in the control of illegal tobacco trade. Countries with stronger enforcement controls enjoy generally lower illegal share. This is validated by our econometric analysis which show that improvements in a country's enforcement level are associated with a decrease in its illegal market share.

However, while it can help combat illegal tobacco, enforcement alone is not a solution. Effective fiscal policy and collaboration between the different stakeholders – governments, regulators, enforcement agencies and tobacco companies – is essential to tackle the problem.

We explore these findings in detail in our full report, **Causes and Control of Illegal Tobacco: Fourth Edition**



WHAT IS THE SITUATION WITH REDUCED-RISK PRODUCTS?

The increasing popularity of reduced risk products, such as e-cigarettes and heated tobacco, comes with new challenges when it comes to regulation.

Illegal trade in these products has flourished in countries like Brazil and Singapore, where they have been banned. In others, like the United States, where the regulatory burden is very high, unauthorized products continue to make their way into the hands of consumers.

Instead of forbidding reduced risk products entirely or creating excessive regulatory hurdles to market them, governments should take a more pragmatic approach by implementing a balanced and reasonable taxation and regulatory regime.



WHAT CAN BE DONE?

Relevant stakeholders should be aware of the impacts that tax decisions have on the affordability of tobacco and hence on consumer switching to illegal cigarettes.

Attention should also be paid to understanding and establishing the appropriate level of enforcement to mitigate the destructive impact of illegal trade.

In the case of reduced risk products, bans or excessive regulation will not eradicate demand from the market, and may have the unintended effect of pushing consumers of these products to illegal trade.

Therefore, there is a strong case for governments, industry bodies, legitimate tobacco companies and enforcement agencies to work together to tackle illegal trade in tobacco and alternative products, creating a balanced and reasonable taxation and regulatory environment which is supported by effective enforcement.