

Measures to Control Illicit Tobacco Trade

Nine key measures used by governments to control illicit tobacco trade to curb tobacco tax avoidance and evasion.

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The tobacco market, like many other markets, is subject to illegal activities, primarily related to tax evasion and counterfeiting of legal products. Since a sizable illicit tobacco market can both deprive governments of much needed revenue and undermine the effectiveness of tobacco control efforts, governments dealing with the issue have developed a set of strategies and measures for curbing tobacco tax avoidance and evasion. Given the complexity of the issue, countries need to take a comprehensive

approach and implement their own unique combination of efforts to address their specific situation. This combination will be driven by the type of illicit trade, the characteristics of the supply chain for illicit products, and the type of consumers using these products. Efforts to address the illicit tobacco trade require governments to dedicate tobacco-specific resources that are sufficient to develop the systems, to enforce the measures, to monitor and evaluate the performance of those measures, and to stay in communication with the key stakeholders and the public. Nine key measures to control illicit tobacco trade are used by government: licensing, record keeping/control measures, enhanced enforcement, markers, tracking and tracing, legally binding agreements and memoranda of understanding with the tobacco industry, tax harmonization, public awareness campaigns, export tax and agreements with first nations and native American communities.

- **The best results are generated by adopting comprehensive multifaceted intervention strategies** that encompass a variety of regulatory, enforcement, and policy approaches that are location-specific and include the collaboration of a wide range of stakeholders



Licensing: Governments can require participants throughout the supply chain to be licensed, imposing obligations or restriction on them under the threat of penalties.

Recordkeeping and continuous monitoring across players in the tobacco supply chain are the most effective mechanisms to ensure that tobacco crops are not diverted to the illicit supply channel.

Enhanced inspection and enforcement efforts should be publicized through public awareness campaigns to effectively notify consumers.

Markers such as tax stamps can serve as a product authentication tool, a tracking/tracing tool, and a revenue collection tool. They can be placed on a pack as a label or printed directly on the pack.

Tracking and tracing monitors tobacco products produced and traded legally, provides an incentive for adherence to legal export practices, and identifies countries, areas, and ports at which tobacco products are diverted into illicit markets.

The best practices of tracking and tracing system

- Real time control on all production lines with real time secured data transmission to a government authority.
- Tracking and tracing codes activation on production lines
- Independent real time control of aggregation on all production lines with real time data transmission to a government authority
- Linking stock keeping unit (SKU) labels and logistic codes with the tracking and tracing code
- Integration of the tracking and tracing system with a computerized system for monitoring movements of excise goods for which no excise duties have yet been paid. This will allow physical control of declared goods
- A push-button device capable of immediate and unequivocal authentication of fiscal marks, confirmation of genuine products, fulfilment of excise obligation, verification of tracing information, and uploading information for reporting of audit results

Legally binding agreements and memoranda or understanding with the tobacco industry create potential liability and encourage the industry to cooperate with the authorities to limit illicit tobacco trade.

Tax harmonization is when jurisdictions agree to cooperate and try to equalize tax rates across jurisdictions.

Public awareness campaigns might try to change the public attitudes by directly attacking the “culture of tolerance” for smuggling, which allows contraband to thrive and encourage discussion about the negative implications of smoking and illicit consumption.

Export tax reduces the motivation for illegal re-import of exported products.

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