

tobacconomics

Economic Research Informing Tobacco Control Policy

Monitoring of Illicit Trade

Frank J. Chaloupka, University of Illinois at Chicago

Tobacco Control Monitoring – More than Measuring Tobacco Use

World Conference on Tobacco or Health

7 March 2018, Cape Town, South Africa



WORLD BANK
ECONOMICS OF TOBACCO TOOLKIT

Editors: Ayda Yurekli & Joy de Beyer

Tool 7. Smuggling

Understand, Measure, and Combat Tobacco Smuggling



NATIONAL CANCER INSTITUTE

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NCI TOBACCO CONTROL MONOGRAPH SERIES

The Economics of Tobacco and Tobacco Control



UNDERSTANDING THE U.S. ILLICIT TOBACCO MARKET

Characteristics, Policy Context, and Lessons
from International Experiences

NATIONAL RESEARCH COUNCIL ON
Tobacco Use and Health
NATIONAL ACADEMIES PRESS
INSTITUTE OF MEDICINE

full-tax avoidance low-tax economic modeling consumption tax paid sales smuggling illicit trade

evsion

legal tax avoidance tax revenue illegally transported monitoring tobacco trade

UNDERSTANDING AND MEASURING
**CIGARETTE TAX
AVOIDANCE AND
EVASION**
A METHODOLOGICAL GUIDE

HANA ROSS, PhD.

MARCH 2015

tobacconomics
Economic Research Identifying Tobacco Control Policy

Preventing and Reducing Illicit Tobacco Trade in the United States

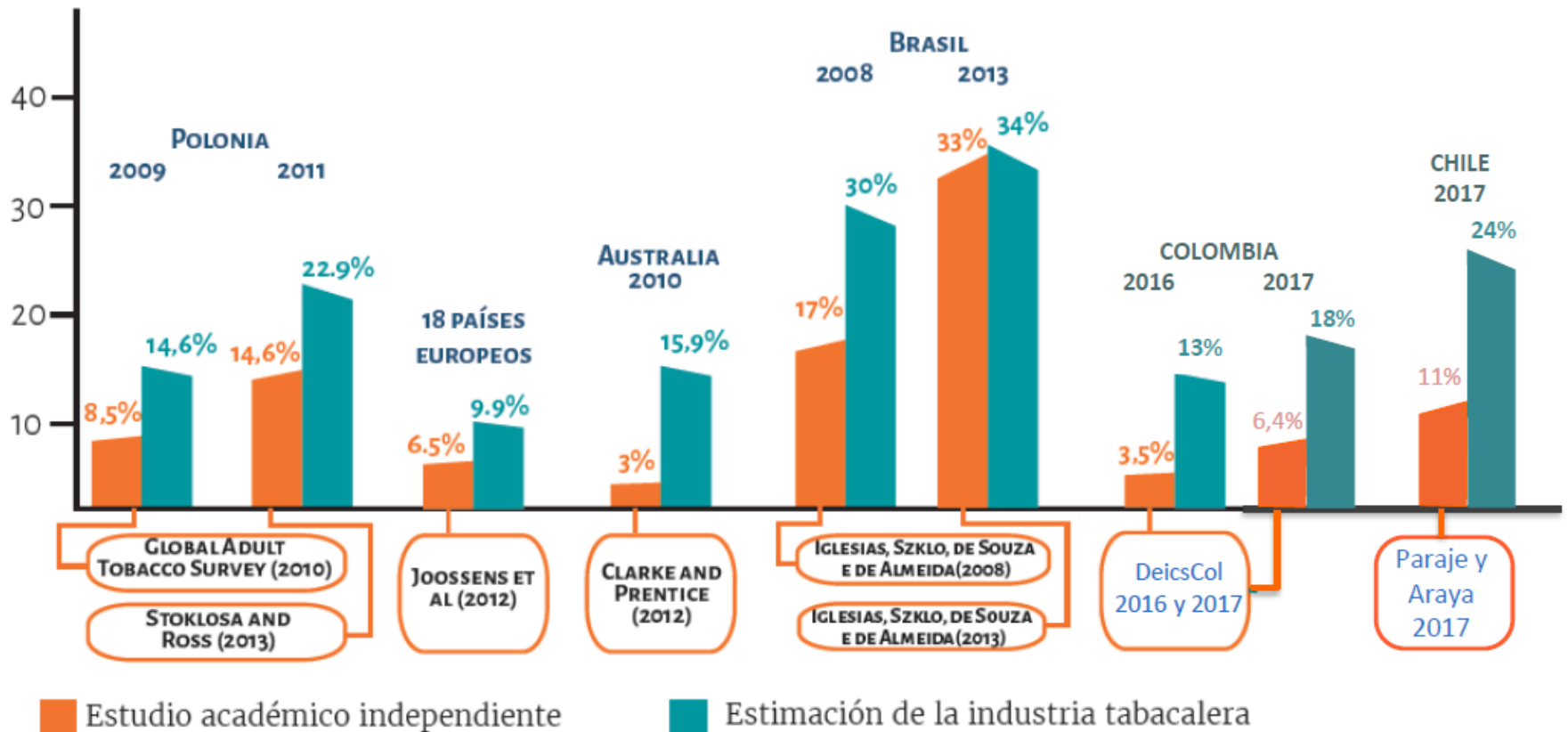


National Center for Chronic Disease Prevention and Health Promotion
Office on Smoking and Health



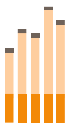
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Industry Estimates vs. Independent Estimates



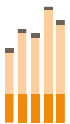
Monitoring Illicit Trade

- Many terms used for ‘illicit trade’
 - Smuggling, bootlegging, counterfeit, cross-border shopping, contraband.....
- Often combine legal activities from illegal activities
 - Tax avoidance vs. tax evasion
- Challenging to measure given the illegal nature of the behavior



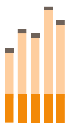
Monitoring Illicit Trade

- Several alternative approaches
 - Expert opinions
 - Econometric modeling
 - Gap analyses
 - Surveys of tobacco users
 - Discarded pack collection
 - Pack collection/inspection
 - Combinations of these

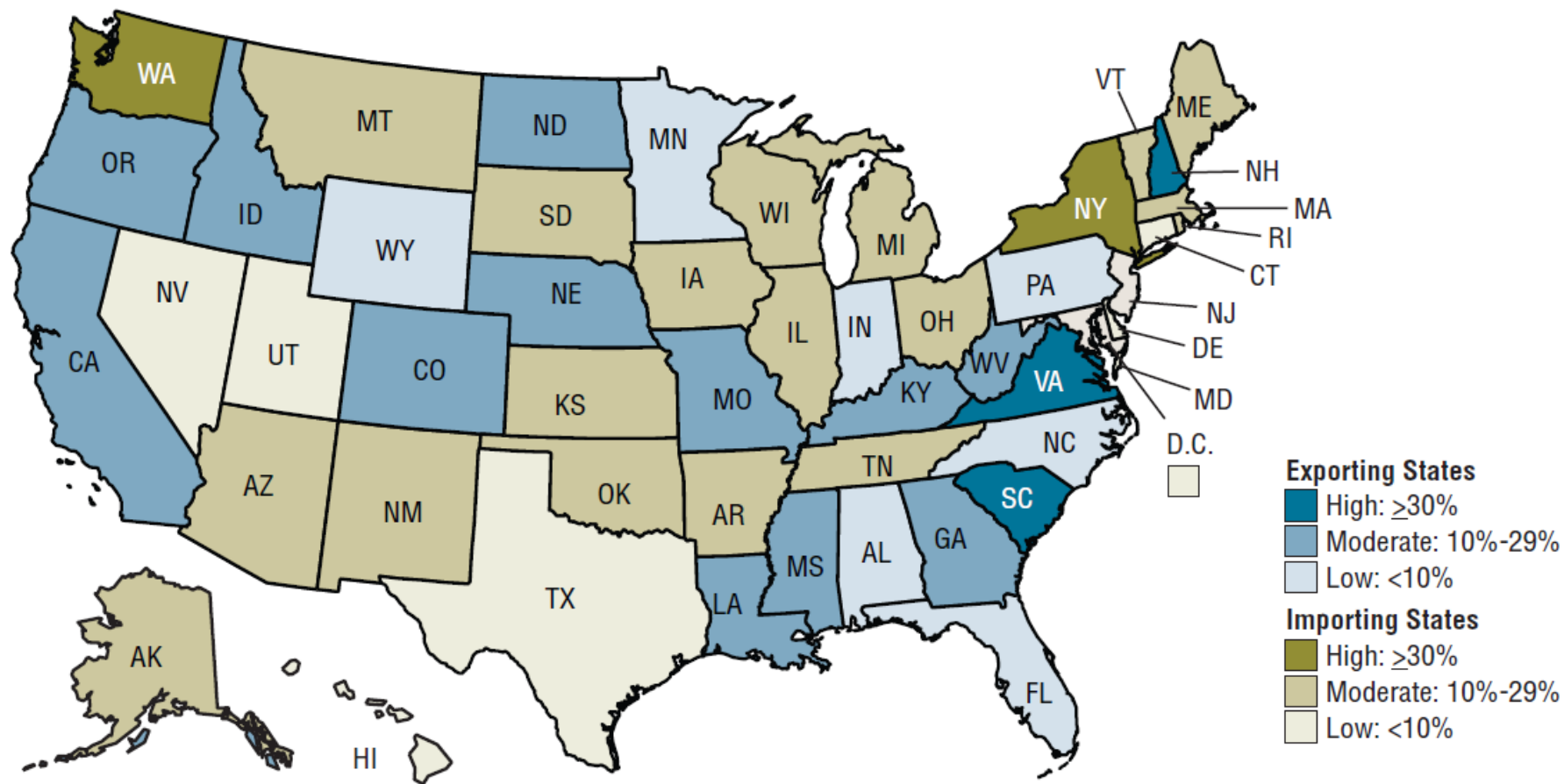


Consumption & Sales Gap

- Comparing tax paid sales with consumption estimated from national survey
 - Difference reflects tax evasion
 - Complicated by underreporting in surveys
 - More useful in assessing deviations from trends



Estimated State Cigarette ‘Importing’ and ‘Exporting’, 2010-11

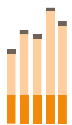
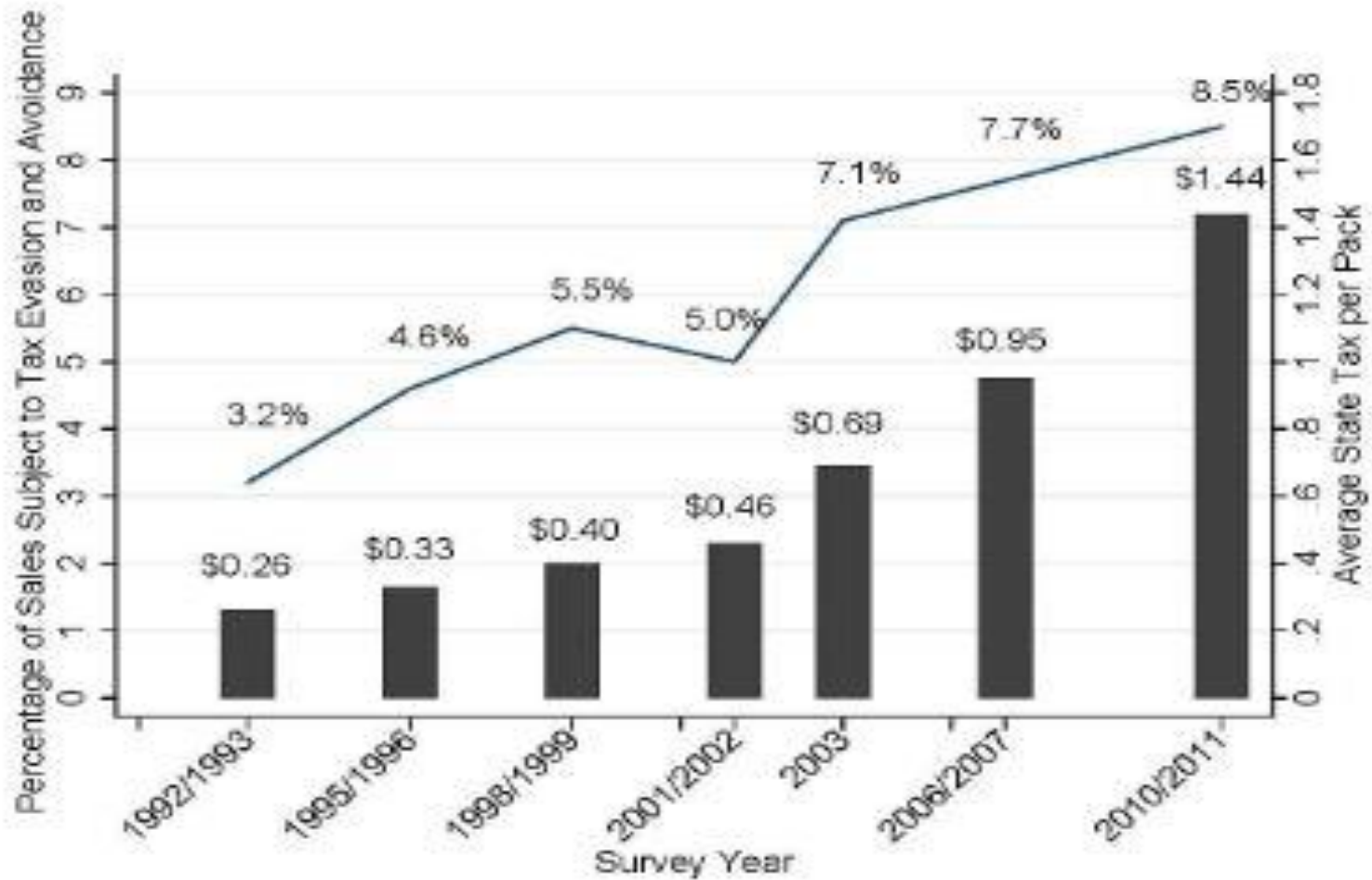


Note: “Importing states” are those where some consumers avoid or evade taxes by obtaining their tobacco products from states or federal tribal lands where taxes are lower. “Exporting states” are those where some tobacco products intended for consumption within that state are purchased by consumers from outside of the state to avoid or evade their “home” taxes.

Source: Created from data in National Research Council and Institute of Medicine, 2015.

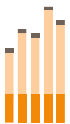
Source: CDC, 2015

Trends in Net Tax Avoidance & Evasion in the United States

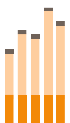
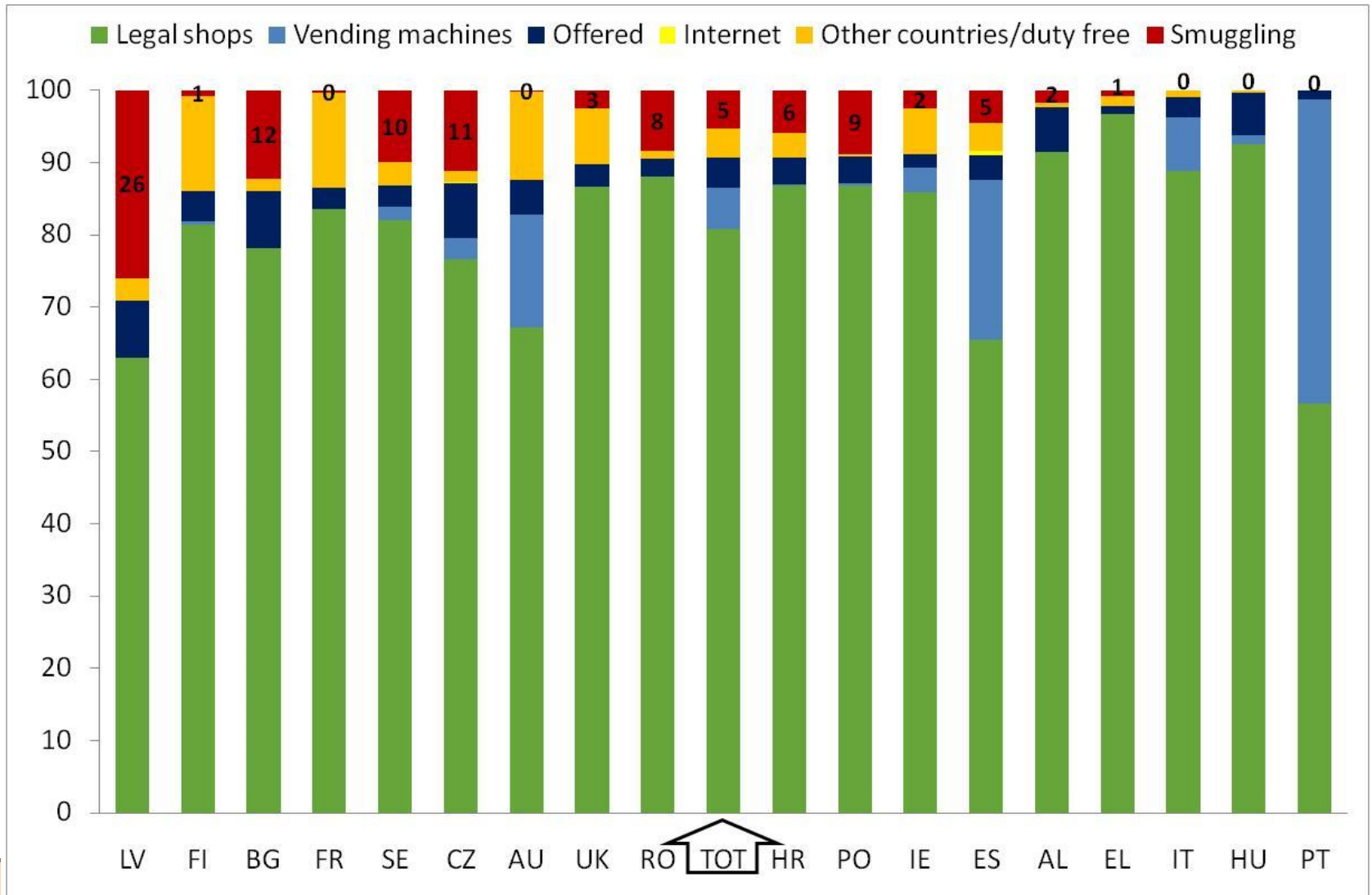


Surveys of tobacco users

- Direct questions about purchase and/or consumption of contraband, counterfeit, illicit, etc.
 - Need to clearly define what is being asked about to avoid double counting
 - Unclear how well users can identify illicit products, counterfeit products
- Questions about purchase location, brand, and/or price
 - Mostly capture avoidance, some evasion

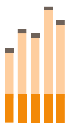


EU Tobacco/Economics Survey

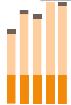
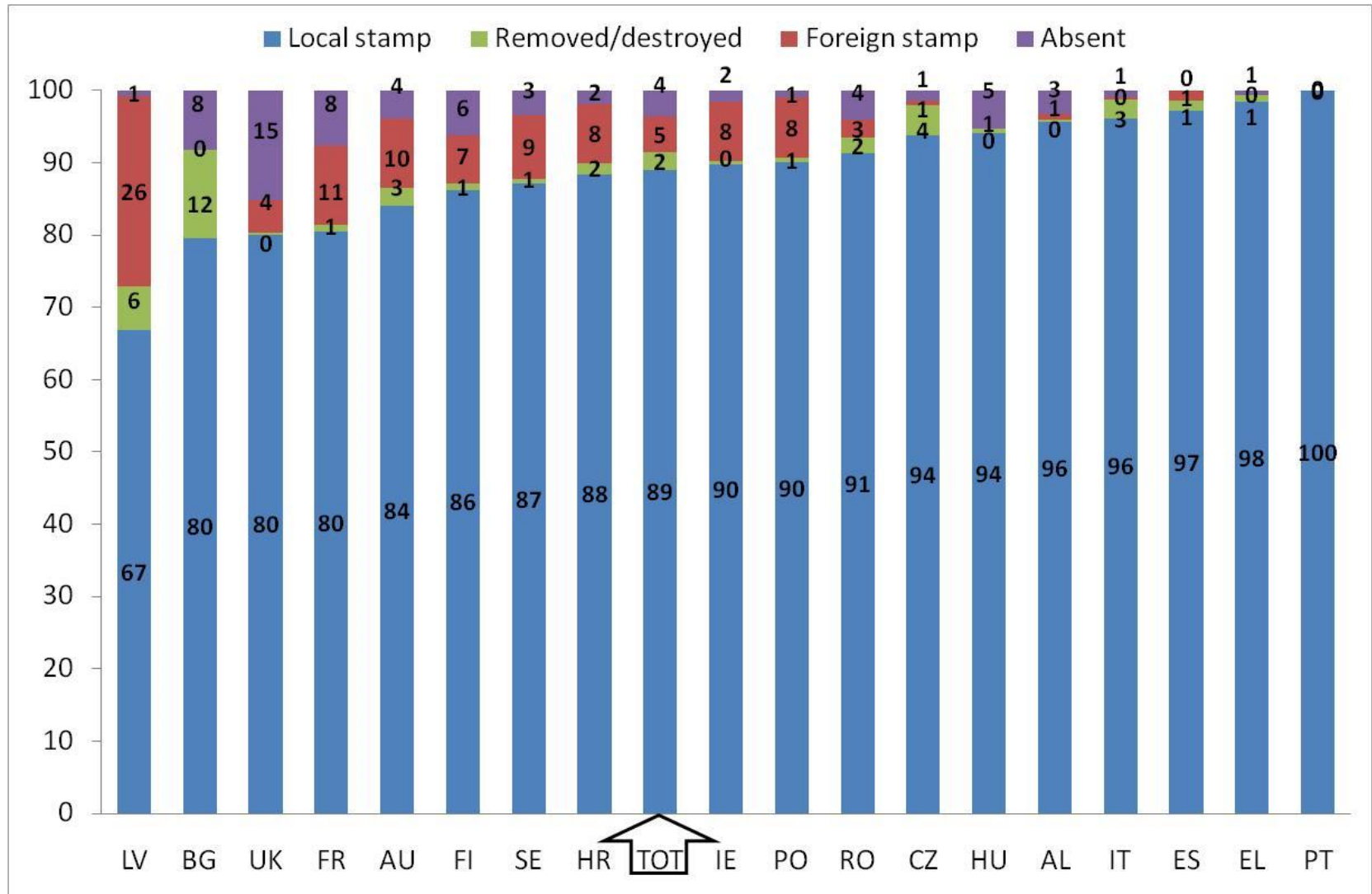


Pack Inspections

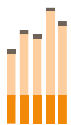
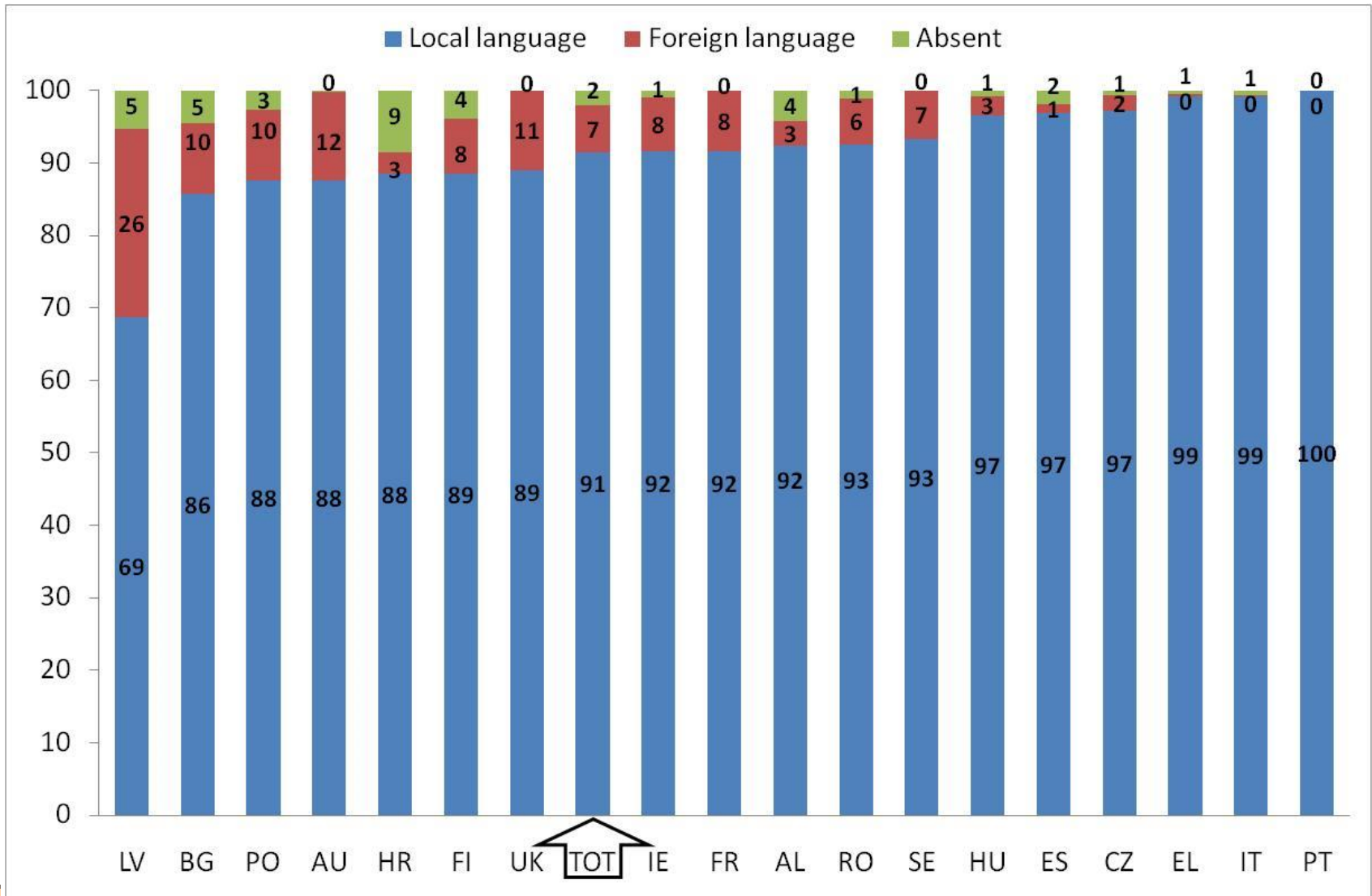
- Pack inspection as part of survey
 - Presence/absence of warning label in local language
 - Presence/absence of local tax stamp
 - Other local pack markings



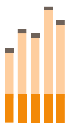
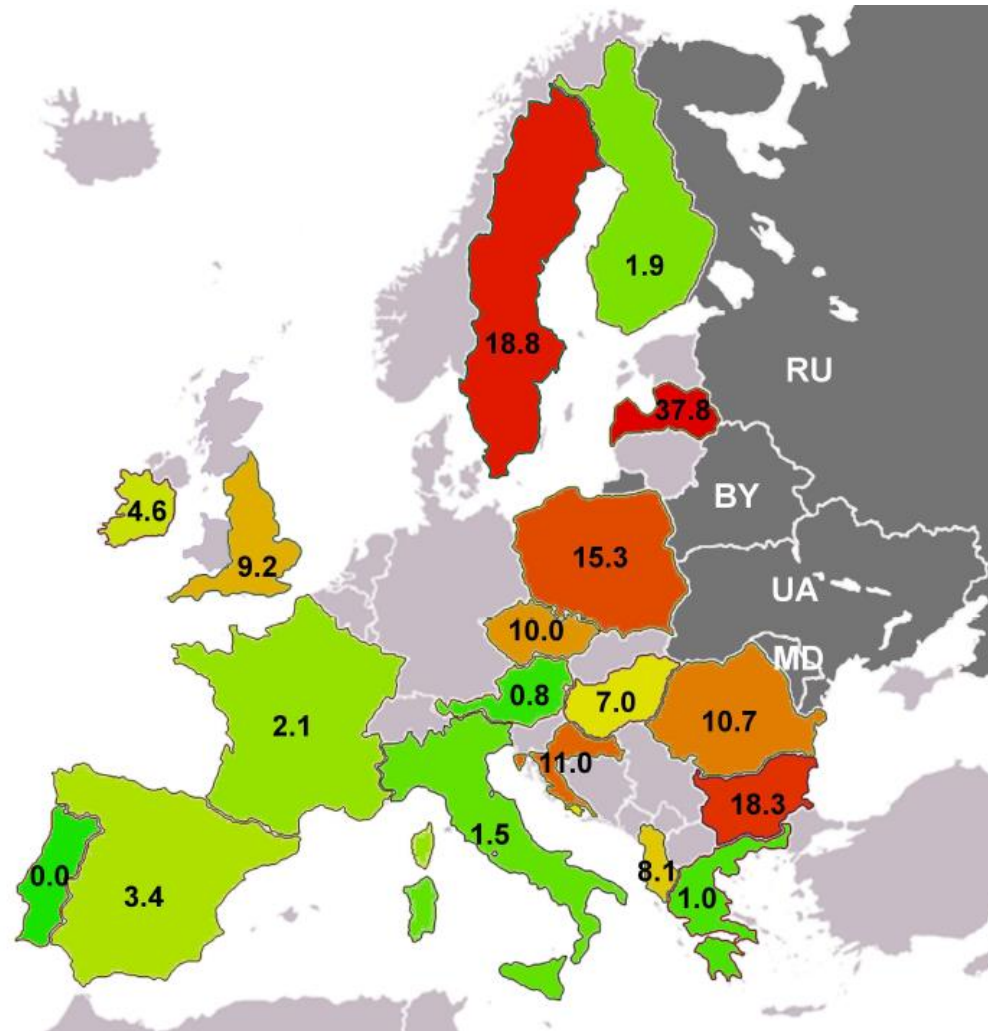
Pack Inspection: PPACTE Survey



Pack Inspection: PPACTE Survey

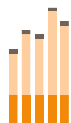


Combining Survey & Pack Inspection Data: PPACTE Survey Survey



Measuring Avoidance & Evasion

- Pack collection
 - Mix of tax avoidance & evasion
 - International Tobacco Control Policy Evaluation Study
 - Pack mail in by US survey respondents, 2009 and 2010
 - Usual brand purchased from usual source
 - ~77% of those invited returned packs
 - ~20% of returned packs did not have stamp matching respondent's state of residence
 - 37% from neighboring state
 - 35% with no stamp
 - 20% tribal stamp
 - 8% other stamp/markings



ITC: Classification Based on Tax Stamp



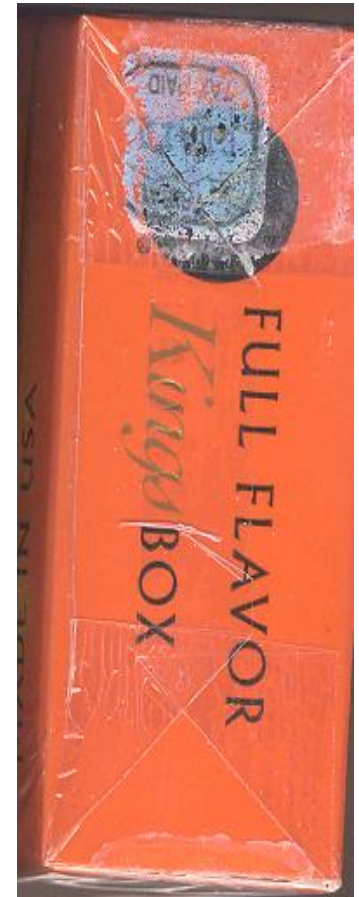
Likely Legitimate
State Tax Stamp



Non-State Stamp



No Tax Stamp

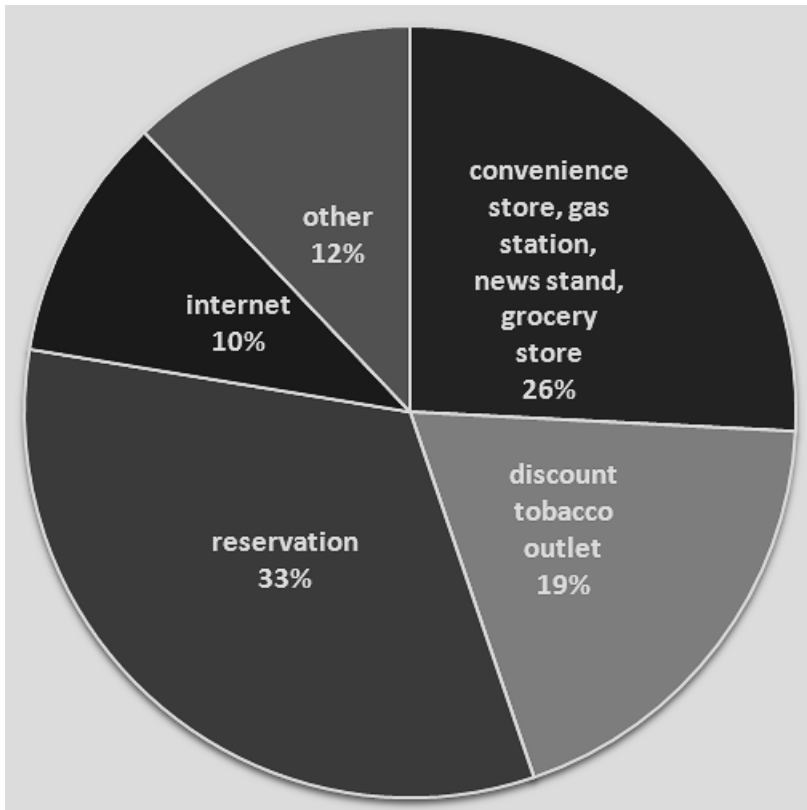


Illegible Tax Stamp

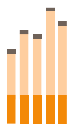
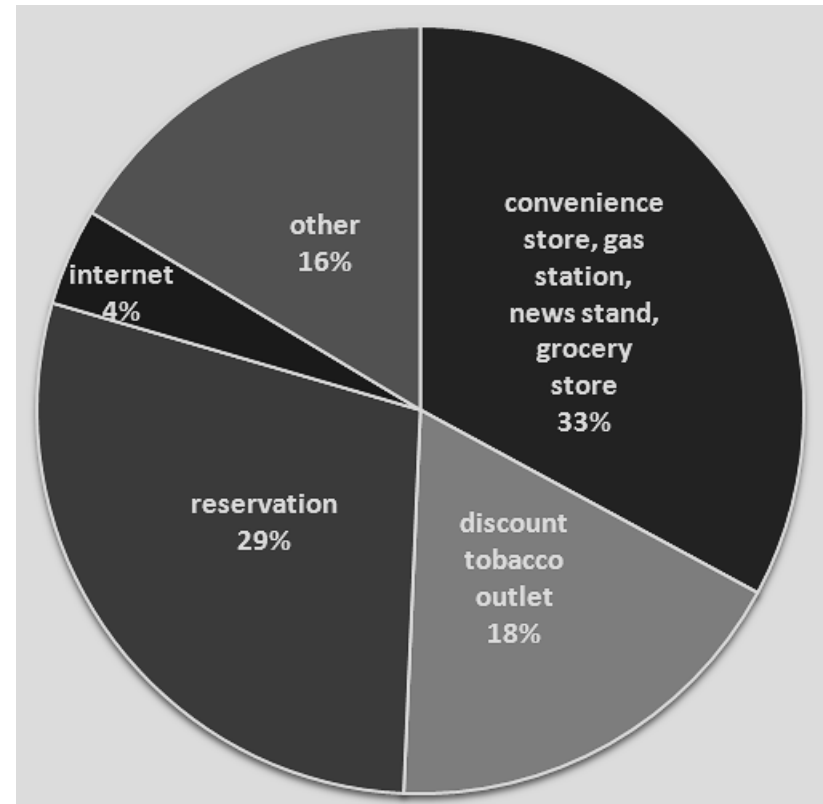


ITC: Classification Based on Tax Stamp Sources of “Untaxed” Cigarettes

2009

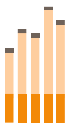


2010



Littered Pack Collection

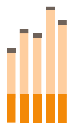
- Can identify purchase location (based on pack markings) and use location (based on location of littered pack)
- Challenges:
 - Defining sampling area and approach
- Limitations:
 - Smokers who litter may differ from other smokers
 - Will overestimate given commuting patterns, tourism
 - Timing unknown

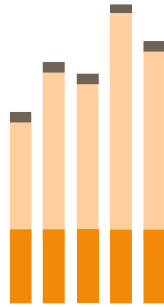


United States – 2012

Littered Cigarette Pack Collection

- One component of Bridging the Gap, NCI State and Community Tobacco Control program project
- Methodology:
 - Data collection teams used a strict protocol to collect littered cigarette packs at each BTG-COMP data collection site
 - Packs were returned to UIC and ~15 items of information relating to each pack were coded
 - Most important items were location found, whether cellophane was present and type of tax stamp found, if any
- Results:
 - 3,480 packs collected
 - 2,116 with cellophane
 - 20.6% (436 packs) avoided/evaded tax

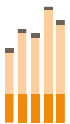




Summary

Monitoring Illicit Trade

- Industry misuses and overstate extent of illicit trade to deter governments from raising taxes and implementing other effective tobacco control policies
- Several methods have been developed/evolved over time to measure extent of tax avoidance and evasion
- Very useful to include illicit trade monitoring as part of a comprehensive tobacco control surveillance system



For more information:

<http://www.tobacconomics.org>

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