

The Global Illicit Cigarette Trade

Based on *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives*. By Luk Joossens, David Merriman, Hana Ross, and Martin Raw. Paris: International Union Against Tuberculosis and Lung Disease; 2009.

In most countries, illicit cigarettes are much cheaper than legal, fully taxed cigarettes. Cheap, illicit cigarettes increase tobacco consumption and tobacco-related deaths and cheat governments of staggering sums of money through tax evasion. If the global illicit trade were eliminated, governments would gain at least US\$31 billion annually and from 2030 onwards would save over 160,000 lives a year.

The illicit cigarette trade is enormous

- 11.6% of the global cigarette market is illicit.
- At least US\$40.5 billion in current tax revenues is lost each year by governments to illicit trade.

Countries with low income and middle income bear the greatest burden

The burden of illicit cigarette trade falls mainly on low income and middle income countries.

- 12.1% of the cigarette market in low income and middle income countries is illicit, compared to 9.8% in high income countries.
- Annual tax revenue lost to governments in low income and middle income countries due to illicit cigarette trade greatly exceeds the tax revenue lost in high income countries.

CURRENT SITUATION	Worldwide	High income countries	Low income and middle income countries
Illicit market share	11.6%	9.8%	12.1%
Illicit cigarette market (cigarettes per year)	657 billion	124 billion	533 billion
Total revenue lost to governments each year (US\$)	\$40.5 billion	\$17.6 billion	\$22.9 billion

Illicit cigarette trade is highest in countries where cigarettes are cheap and smuggling is easier

Higher income countries, where cigarettes are more expensive, have lower levels of cigarette smuggling than lower income countries.

World Bank income group	Average legal price per pack (US\$)	Illicit market share
Low income	1.13	16.8%
Middle income	1.89	11.8%
High income	4.91	9.8%

While a higher tax can provide an incentive for smuggling, it is not the most important factor in determining the level of illicit trade in a country. Other factors which determine illicit cigarette trade are the ease and cost of smuggling tobacco in a country, the presence and level of development of organized crime networks, the presence of informal distribution networks, the extent of tobacco industry participation, and the overall level of corruption.

Eliminating illicit cigarette trade saves lives and generates new revenues

Eliminating illicit cigarette trade would:

- Result in an overall cigarette price increase of 3.9% and a global cigarette consumption decline of 2%.
- From 2030 onward, more than 160,000 lives would be saved each year. In just six years after 2030, more than 1 million lives would be saved, the vast majority of them in low income and middle income countries.
- Governments would immediately gain at least US\$31.3 billion in revenues worldwide each year, with governments in low income and middle income countries gaining the most revenues.

IF ILLICIT TRADE IS ELIMINATED	Worldwide	High income countries	Low income and middle income countries
Annual gain in revenue (US\$)	\$31.3 billion	\$13 billion	\$18.3 billion
Lives saved in 2030, and annually thereafter	164,000	32,000	132,000