

GTNF 2015

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Session 13: Anti-illicit trade

At the start of the regulation stream panel session on anti-illicit trade at the GTNF in Bologna in September, the point was made that the session had not attracted as many participants as it might have been expected to attract, given the hugely negative impact the illegal trade in tobacco products was having on the legal trade. More forum delegates had chosen to go to one of the other three parallel streams: next-generation products, sustainability and industry inclusion. There was some truth in this observation, but perhaps delegates felt they were unable greatly to influence the illegal trade, which, by and large, is controlled indirectly but effectively by governments through their taxation policies.

If such an attitude did keep the numbers down, it was unfortunate because the session was the most balanced that I can remember having attended on this subject. The usual and, in my view, ludicrous mantra spouted at such sessions that casts smokers who buy illicit products as the villains of the piece was this time tempered by views that had these people as victims of often unjust and socially destabilizing taxation systems.

Unfortunately there was the usual attempt to link the actions of those who buy illicit tobacco products to the funding of terrorist groups. There was evidence that the proceeds from the trade was funding ISIS, we were told, but then most of us were old enough to remember having been told that there had been evidence that Saddam Hussein was in possession of weapons of mass destruction, and I trust that the evidence bar was set somewhat higher in the case of the latter.

The session was reminded of the circumstances that drive the illegal tobacco trade, starting with the fact that tobacco products have always been an easy road for governments to take toward boosting tax revenues. And of course this road has been nicely paved with the reduction in the number of manufacturers from which taxes have to be collected, the demonizing of smokers and the backing of tobacco control organizations.

But while this is true, it is also the case that such a smooth surface has allowed governments to travel too quickly, which, in turn, has encouraged criminals to build diversions. And these diversions are not difficult to construct because tobacco products and even product components are easy to transport, borders are often difficult to police, and the rewards are high enough that corruption becomes an issue. In places, there are open borders allowing the free movement of goods even though taxes on opposite sides of those borders can differ, sometimes significantly.

Additionally, it is still the case that many people do not see smuggling as a “real” crime, just as many people don’t see speeding as a real crime, which makes it difficult to attack demand. And I should imagine that there are parallels here in that the higher tobacco taxes are pushed, the more people will come to see the illegal trade in tobacco products as justified, just as motorists see speeding as more justified the lower the maximum speed is set.

But no matter what the rights and wrongs of the situation are, the outcome apparently is that worldwide, outside China, the illegal trade in tobacco products, in all its aspects, amounts to about 570 billion pieces (presumably cigarettes and cigarette equivalents). The session heard about the criminality behind the illegal trade in tobacco products and an interesting case study from Romania, where law enforcement worked with the tobacco industry to reduce the illegal trade in tobacco products from 36.2 percent of the market in 2010 to 11.8 percent of the market in 2013.

This is all well and good, but the high cost of enforcement exposes nonsmoking taxpayers to sidestream and secondhand taxes, with all of the economic damage that that implies. And it is not only direct economic costs that are a problem. We were told how huge differences in tobacco taxation were creating major inducements to smugglers and, indirectly, imposing extremely high societal costs. People with low incomes were being pushed toward illegal activities, and rates of incarceration were high. Last year, a man in New York, USA, where cigarette taxes were increased by 190 percent between 2006 and 2013, died while being arrested on suspicion of selling single cigarettes. When did this start making sense?

Strangely, while it was admitted that attacking both the demand for and supply of illicit tobacco products was difficult, as I recall no mention was made of the one light at the end of the tunnel: the rise of reduced-risk tobacco substitute products, which, beyond counterfeiting, will leave little opportunities for criminals if they are left untaxed. And while the gradual substitution of taxed tobacco products with untaxed, reduced-risk products—some of which might include tobacco—would mean a reduction in government revenues, as I understand government propaganda, this would be more than compensated for by lower health care costs and increased productivity within the workforce.

And one final observation: Just as in reference to an earlier session I made the point that it is unhelpful to the industry's cause to refer to medically explicit packaging by the more benign term "plain packaging," it is equally unhelpful, in my view, to refer to the illegal trade in tobacco products by the more benign term "illicit trade." The products are illicit; the trade is illegal.