High Level Risk Forum

ITIC Report: Understanding and Reducing Demand for Illegal Products

5th OECD Task Force meeting on Countering Illicit Trade

28-29 March 2017
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This report supports discussion in SESSION VI on demand side reduction. It discusses the effectiveness of demand reduction policies on illicit tobacco products.

Delegates are invited to comment on and discuss in the broader context of demand reduction policies for all illicit products, including commonalities and differences across product classes.

TASK FORCE MEMBERS ARE INVITED to submit written comments to OECD by 30 April 2017.

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1. WHAT INFLUENCES DEMAND FOR ILLEGAL TOBACCO PRODUCTS?

1. The legitimacy of the taxation, as viewed by the consumer and society, can influence the demand and purchase of illicit tobacco. Research conducted in Edinburgh, Scotland focused on the attitudes of smokers concerning illicit tobacco products. Some respondents indicated that the smugglers were providing a service, smuggling was a “reasonable response” to the price, taxation levels on tobacco products were excessive, the taxation encouraged smuggling, and “nearly all respondents expressed dissatisfaction with the price of legal tobacco products (Wiltshire, Bancroft, Amos, and Parry 2001). Additional research conducted in the UK revealed that 60-69% of illicit tobacco buyers claim that cheaper illicit tobacco makes it possible for them to smoke when they otherwise could not afford to purchase legal cigarettes. Although, the same survey indicated that only 15-28% of the respondents were comfortable with illicit tobacco products and 18-20% of the respondents stated they buy illicit tobacco products (All Party Parliamentary Group on Smoking and Health 2013). Another study, conducted in Nottingham, UK, showed similar results for the support of smugglers and the purchase of illicit tobacco products, with the notable exceptions of counterfeit products and smugglers selling to children; respondents did not care for the counterfeit products and selling to children was not supported. Overall, respondents felt the smugglers assisted the local economy and the high taxation rates were unfair (Stead, Jones, Docherty, Gough, Antoniak, and McNeil 2013). Similar views can be found in New York and New York City. When New York increased taxation rates for cigarettes in 2002, smokers in Harlem started to openly buy their cigarettes from the “$5 Man” to avoid the price increase and smugglers received the same admiration from respondents as they did in the Edinburgh study: “a justifiable and appreciated response” (Shelley, Cantrell, Moon-Howard, Ramjohn, VanDevanter 2007).

1.1 Price, tax policy and affordability

2. Governments often find it easy and popular to raise taxes on tobacco products on the basis that this should deter consumers from tobacco consumption and provide revenues that compensate for the cost of the externalities caused by smoking e.g. health costs, enforcement costs, consumer protection costs. As a result the proportion of tax (excise and VAT/GST) included in the tax paid retail price can be as much as 70%. In several countries, the total tax charged on tobacco products more than outweighs the cost of the externalities. One of the accepted features of tobacco taxation is that it is regressive bearing more heavily on the poorest in society who are least able to afford high prices.

3. The 2012 Euromonitor International report states that, “in countries with high prices, like Germany, only a comparatively low level of price growth is necessary to cause a significant rise in illicit trade”. Whilst the economists may posit about the elasticity of tobacco tax and the point at which tax increases lead to diminishing returns common sense dictates that people, who may be addicted to tobacco products and who have limited incomes, may choose to spend what cash they have on illicit cigarettes rather than pay the tax paid price and forego necessities for their families. Thus, affordability is key to driving demand.

1.2 Economic circumstances

4. According to the July 2015 ASH fact sheet, there is a strong link between cigarette smoking and socio-economic group. In 2013, 29% of adults in routine and manual occupations smoked compared to
14% in managerial and professional occupations. Similar results have been reported in a survey in Canada.  

Table 1. Prevalence of cigarette smoking by socio-economic classification – persons 16 and over GB 2013

<table>
<thead>
<tr>
<th>Class</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large employers and higher managerial</td>
<td>14</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>Higher professional</td>
<td>11</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Lower managerial and professional</td>
<td>18</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Intermediate</td>
<td>19</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Small employers / own account</td>
<td>26</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>Lower supervisory and technical</td>
<td>28</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Semi-routine</td>
<td>29</td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td>Routine</td>
<td>32</td>
<td>29</td>
<td>31</td>
</tr>
</tbody>
</table>

5. Historically, there has been a slower decline in smoking among manual groups, resulting in smoking becoming increasingly concentrated in this population. In recent years, smoking rates have fallen by a similar amount across all social groups, so that the differential between non-manual and manual has not changed significantly. The data from the ONS Lifestyle survey 2011 revealed an association between socio-economic group and the age at which people started to smoke. Of those in the managerial and professional households, 31% had started smoking before they were 16, compared with 45% of those in routine and manual households. People in the lowest social group are more likely to be heavy smokers. 15% reported smoking 21 to 30 cigarettes a day compared with 9% in the highest social group.

6. It is hardly surprising therefore that UK research revealed that around two-thirds of illicit tobacco buyers claim that cheaper illicit tobacco makes it possible for them to smoke when they otherwise could not afford to.

7. Research by Hilary Graham in 1993 revealed that, for women in the lowest socio-economic groups, smoking behaviour is undertaken in the full knowledge of health-damaging effects to both smokers and those in their presence for the assistance it gives women in caring for their families in situations of low income and high levels of stress and anxiety.

1.3 Media and cultural influences

8. Over the years, television shows and films have featured stars smoking from Humphrey Bogart in classic films to Uma Thurman in Pulp Fiction. Despite the reduction in smoking prevalence in the UK, popular TV series such as “New Tricks” and “Scott and Bailey” as well as peak viewing time soap operas still feature many characters smoking. Research indicates that many young women who smoke do so because they think it looks “cool” and because they think it will keep help them lose weight or keep them thin.
1.4 Forbidden fruit

9. Despite the fact that youth smoking rates have declined over the past two decades in the UK, regular smoking in young people remains a public health issue. In England, the prevalence of regular smoking among young people aged 11 to 15 is 9%. In the US, 6.8% of middle school students (grades 6–8, or ages 11–14) were current smokers in 2006. In Canada, the rate of current smokers in 2004–2005 among youth in grades 5 (age 10–11) to 9 (age 14–15) was 1.7%. Furthermore, statistics indicate that smoking rates for girls are greater than, or equal to smoking rates for boys. Girls between the ages of 11 and 15 (10%) in the UK are more likely to be regular smokers than boys (7%). Perhaps some retailers are flouting the ban on selling tobacco products to minors, perhaps some parents or older siblings are providing their children with legal cigarettes or these youngsters are obtaining their supplies from illicit sources. Illegal cigarettes have been sold to schoolchildren from ice-cream vans in the UK. The “Keep it Out” website reports that illegal tobacco is surprisingly easy to get hold of in parts of SE London. 40% of the smokers they interviewed in SE London indicated that they had bought illegal tobacco at least once in the previous year. And it’s cheap. Many dealers deliberately target children and vulnerable young people – around half of teenage smokers aged 14-17 will be offered illegal cigarettes each year – which means they’re more tempted to smoke and more likely to get hooked.

1.5 Resentment

10. A study by Wiltshire et al. in the British Medical Journal in 2001 “They’re doing people a service” revealed that there is a high degree of resentment of the high tax on tobacco products in the UK with nearly all respondents expressing dissatisfaction with the price of legal tobacco products. “It was thought to be unjust and directed against people on low incomes”.

1.6 Ease of access to regular supplies

11. An academic assessment of the “North of England Tackling Illicit Tobacco for Better Health” Programme August 2013 reported that, in 2009, the first survey showed that the most common sources for IT purchases were friends (62%) and family (16%), followed by pubs and clubs (14%), shops (6%), private homes (5%) and street hawkers (4%).

12. Findings from the UK regional illicit trade survey in 2015 show that Research published by Mustard on smoking behaviour of young people in 2015 for Trading Standards North West (UK Consumer Protection) revealed that the percentage of cigarettes purchased from “other sources” such as neighbours, market stalls, car boot sales and ice-cream vans had dropped in comparison with the 2011 survey results though, in some towns there had been an increase over the 2013 survey results. The same survey results shows some interesting gender differences in the source of cigarettes with females more likely than males to obtain their supplies from brothers, sisters and friends over 18.

1.7 Low risk of penalty

13. In many countries the penalties for selling illegal tobacco products are comparatively low and the frequency of inspection of retailers by tax or consumer protection officials is also low. New York State has bucked this trend by introducing, in January 2014, more stringent penalties on retailers who:

- Sell cigarettes to an unlicensed dealer or dealer whose license has been suspended or revoked.
- Purchase cigarettes from any person other than a manufacturer or licensed wholesale dealer.
• Sell, offer, possess or transport altered or counterfeit cigarette tax stamps, imprints or impressions.

• Hide or conceal cigarettes that are in unstamped or unlawfully stamped packages, loose cigarettes not contained in a pack or tax stamps that are unattached, altered or counterfeit.

14. It remains to be seen whether or not these measures result in reduced sales of illegal tobacco products in New York City as much will depend on the strength of enforcement.

15. Penalties for those purchasing cigarettes from street sellers or unlicensed distributors are either non-existent or comparatively low. An exception to this is the imposition of penalties on purchasers of illegal cigarettes by Singapore Customs where a 2014 Press Release shows that over 6000 purchasers of illegal cigarettes were caught inland.
2. TACKLING DEMAND FOR ILLICIT TOBACCO PRODUCTS

16. Whilst global efforts to reduce illegal trade in tobacco products have focused on enforcement to stem supplies, there are a few examples, such as those from Canada and the United Kingdom, of attempts by authorities to reduce demand. The Royal Canadian Mounted Police (RCMP) included illicit tobacco in their Contraband Tobacco Enforcement Strategy Progress Report (May 2008- May 2009). Their strategy included disrupting organised crime with traditional law enforcement efforts as well as a public awareness campaign about the illicit market in tobacco products. Priority Five of their strategy included “Heighten awareness about the public safety and health consequences of the illicit tobacco trade” (RCMP 2010). To that end, the RCMP’s strategy included releasing declassified versions of intelligence assessments on illicit tobacco and the bad actors associated with it, such as organised crime. Additionally, the strategy included briefing police chiefs and developing public service announcements concerning the harms associated with illicit tobacco. It is notable that the RCMP directed their efforts at educating consumers of the illicit trade in tobacco products. More important, the RCMP concluded that key government and enforcement decision-makers needed to have an awareness of the nature, harms, and reach of illicit tobacco (RCMP 2010).

17. Singapore Customs reported that, in 2014 “More than 200 anti-contraband cigarette talks and road shows were held at schools, foreign-worker dormitories and in the heartlands to raise public awareness about the contraband cigarette situation and to encourage the public to play a part by reporting such illegal activities.”

18. Publicity given to successful enforcement campaigns reinforces the message that the UK government is determined to reduce the illegal trade in tobacco products. A report on Operation Henry - one of the UK campaigns across revenue/customs and trading standards - is at https://www.tradingstandards.uk/media/documents/policy/improving-the-health-of-society/oh_final_for_publication-1.pdf

2.1 UK Initiatives

19. Sustained efforts to reduce demand for illegal tobacco products have been made by the Health and Local Authorities in the United Kingdom on the basis that illicit tobacco undermines the effect of tobacco control strategies. The first efforts took place in the North of England and were funded by the Health Authority. The public awareness campaign focused on two key messages: “IT [illicit tobacco] made it easier for children to start smoking, and that IT brought crime into the community” A mixed-method evaluation of this public awareness campaign, including interviewing stakeholders at the time of the campaign and a year later, concluded:

“To our knowledge, this is the first assessment, globally, of any programme developed to reduce the demand as well as the supply of IT. Indeed, the main preoccupation of IT work in the past has
been on supply, but the large numbers of buyers (and small sellers) identified across the socio-demographic spectrum highlights the limited likely impact of approaches focusing purely on supply. Misperceptions about IT were also observed which militated against an appreciation of the wider harms of tobacco smuggling arising from its links to organised crime and terrorist funding, irrespective of the financial and health costs. The resultant “Get Some Answers” campaign, was based on evidence collected by the Programme that the messages that would influence demand were those focusing on the harm IT causes children and the criminality that IT brought into communities. Awareness and the volume of calls concerning supply increased, although only small attitudinal shifts were observed, mostly in the preferred direction. The one channel of IT supply that reportedly increased, namely shops, could be a consequence of some of the imagery about street sellers shown in the campaign. The sale of IT through shops is of concern, but retailers in England can currently be fined for doing this” (McNeill et al. 2013).

20. In comparison with the 2011 survey in the same region, the results showed both a decline in young people claiming to buy “black market” cigarettes and an increase of 4% in the percentage of young smokers obtaining cigarettes from siblings and friends. The public awareness campaign “Smoke Free North West” in the same region over the period concerned may have influenced this change in behaviour.


22. Individual cities have also taken action see - https://www.newcastle.gov.uk/wwwfileroot/legacy/regen/phep/CoreCitieshandoutfinal.pdf

23. Information about the success of the South West campaign can be found at - http://www.publichealthaction.org.uk/what-we-do/ where a survey has found that there are now 60,000 fewer smokers buying illegal tobacco products and at

24. http://www.smokefreesouthwest.org.uk/what-we-do/tackling-illegal-tobacco.html where the local health authority announcement below suggests a clearly positive outcome as a result of the local campaign.

“Tackling Illegal Tobacco - a campaign that shifts attitudes and drives action across the South West
Cheap illegal tobacco is widely available across the South West. It makes it easier for children to
smoke, and it brings crime directly into local communities.

In the South West, one in every six cigarettes and more than half of hand rolling tobacco smoked is illegal.

In June 2014, the third phase of the Tackling Illegal Tobacco campaign ran across the South West to raise awareness of the dangers of illegal tobacco.

The campaign, which was developed working with partners to shape local plans, ran on radio, outdoor billboards, advans (mobile billboards), and online, as well as community events across the region.

The results are clear. Since it launched in the South West in November 2011, we now have over half a million more people claiming that they are very uncomfortable about the issue of illegal tobacco.

Perhaps most importantly however, is that this shift in awareness has resulted in almost a third more people claiming that they are now more compelled and likely to report illegal tobacco trading in their local area.”

2.2 Proposal - A Comprehensive Public Awareness and Education

25. Governments can implement policies and programs that decrease demand for the illicit products through public awareness and educational campaigns and programing. Governments may wish to involve several Ministries or Departments, such as health, justice, and education. To educate young people, governments may wish to develop age-appropriate, schools programme so that youths are aware that by purchasing illegal goods they are funding large scale criminal organisations and terrorists. And by doing so, they are depriving governments of taxes that pay for services and increasing the health risks because the products may not meet health regulations. For non-school age programmes, governments may fund demand reduction campaigns focused on how the illicit trade in tobacco products funds organised crime and terror groups, facilitates corruption, increases interdiction and law enforcement costs, and reduces tax collection – taxes needed to pay for other programmes and services. Governments may also consider influencing popular media programmes to feature storylines about smugglers enticing young people into purchasing illegal tobacco products or the dark side of cigarette smuggling.


Passport 2012, Euromonitor International

Trends in educational inequalities in smoking and physical activity in Canada: 1974–2005

“Smoking statistics who smokes and how much” Ash Factsheet July 2015


