

Anti-Contraband Policy Measures: Evidence for Better Practice



THE ONTARIO
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DE RECHERCHE
SUR LE TABAC
DE L'ONTARIO

To review the complete report go to the Peterborough County City Health Unit's website at www.pcchu.ca

The Ontario Tobacco Research Unit has recently completed a report dealing with the implications of contraband tobacco.

Tobacco taxation has been used in many jurisdictions as a policy measure to discourage smoking. The effectiveness of taxation strategies can be undermined by widespread availability of tobacco products.

This paper identifies and defines the different forms of contraband tobacco, including casual bootlegging, organized international smuggling, illicit manufacturing, tax-avoidance from duty-free sources, and counterfeit cigarettes. The effectiveness of ten anti-contraband policy measures are explored: licensing, tax-markings/stamping, tracking and tracing, record-keeping/control measures, enhanced enforcement, export taxation, tax harmonization, tax agreements/compacts, legally binding agreements with the tobacco industry and memoranda of understanding (MOUs), and public awareness campaigns.

Analysis suggests that both type of contraband and means of distribution influence the effectiveness of different policies and the unintended consequences of action. For example, policy measures that were effective for legally manufactured, but cross-border smuggled cigarettes in the 1990s are less effective for illicitly manufactured and counterfeit cigarettes that dominate contraband activity today in many countries. Case studies of Brazil, Australia and Canada indicate that while contraband sources often emerge domestically, given the ease of transport and manufacture, sources can be easily displaced to neighbouring or overseas jurisdictions. Inter-agency cooperation (both domestic and international) emerges as a vital component of all successful anti-contraband strategies. The dynamic nature of contraband supply requires a comprehensive approach that focuses on both immediate and future threats.

Policies designed to ensure contraband tobacco products do not appear in the legitimate retail sector (such as tax-paid markings, licensing, record-keeping) and measures to ensure that counterfeit products are easily identified (such as enhanced taxation stamps) are vital resources. Adequate investment in enforcement is critical to the success of anti-contraband measures. (Source: Anti-Contraband Measures: Evidence for Better Practice Ontario Tobacco Research Unit 2)

Given the global scope of the phenomenon, greater international cooperation and information sharing is paramount. Obstacles and potential solutions to implementing various anti-contraband measures are examined from the unique perspective of Canadian First Nations. Very little data exists on contraband tobacco and there is almost no evaluative research on the effectiveness of anti-contraband policy measures, making study of the problem extremely challenging.

Future Directions:

Dynamic Nature of Contraband

Policymakers should be particularly attentive to the methods of smuggling and production, to what entities are involved in the trade, and how successfully regulatory policies can curb these activities. Attention must be paid to the political feasibility of different policies, in order to foster a long-term sustainable resolution.

There must be a multi-faceted approach for successful anti-contraband tobacco policies which require combinations of regulation, fiscal/taxation policy, enforcement, and public awareness campaigns. Policies designed to address contraband tobacco must take into account the potential for unintended consequences on broader tobacco control measures, as the two are not always complementary in nature. For example, in Canada in the early 1990s sales tax cuts, higher export taxes, and regulatory measures significantly reduced the level of contraband tobacco but promoted higher smoking rates, especially among youth, representing a step backwards for tobacco control. Price cuts due to lowered taxes allowed tobacco companies to focus their efforts on expanding the legitimate tobacco market in Canada. Contraband tobacco policies should support general tobacco control measures, because, as some informants suggested, addressing one at the expense of the other is an unsustainable approach.

Brand Recognition

The report notes the growth of a market for “baggies” of loose cigarettes in Canada. Tobacco control measures such as advertising bans, public awareness campaigns, and point-of-sale display bans have had the cumulative effects of denormalizing traditional cigarette brands, stripping them of the social significance they once had.

As big tobacco company brands have been denormalized, there has been growth in demand for “no-name” cigarettes and discount brands. This demand has been filled by the contraband market through “baggies” and Native brands of cigarettes. The significance of this shift is twofold. First, it explains why “baggies” have not emerged significantly in other countries, especially the United States. Some suggest that brand recognition is stronger in the US than in Canada, and therefore smokers in the US would prefer to smoke brand name cigarettes (namely Marlboros), rather than no-name singles. Thus, there has been a rise in counterfeit Marlboros in the US, as well as cross-border smuggling (either by truck, or through internet sales), rather than “baggie” sales, despite suggestions that the US side of the Akwesasne is a major source of “baggies” in Canada. Second is the fact that policymakers may see “baggies” emerge in other countries also, as tobacco control policies have a continual impact, and smoking rates decline.

Ease of Transport

Contraband tobacco is successful in carving out a market share because it is both easy to manufacture and easy to smuggle. Some policy solutions propose controls on cigarette machinery or production-related products (such as tipping paper), but given the simplicity of transport and the huge demand for cigarettes, policymakers should be aware of the ability of smuggling operations to remain dynamic. An interesting example of this is in the UK, where smugglers use the Royal Mail to ship individual components of counterfeit cigarette products, such as packaging, tobacco, or paper, to be collected and assembled at a single site. These operations are a testament to the “cottage industry” possibility of contraband tobacco, which should be considered by policymakers.

Data Sources

Transparent, public data on contraband tobacco is extremely limited, and in some jurisdictions, non-existent. One major recommendation of this paper is to make statistics and information regarding the tobacco trade and contraband tobacco much more available to the public, in order to assist with research and debate of this subject. For example, many jurisdictions (including Canada) do not provide official estimates of the size of the illicit market or comprehensive data on contraband tobacco seizures made by federal and provincial agencies, making it extremely difficult to evaluate and assess approaches in this area.

Local Implications:

“This report shows that while local comprehensive tobacco control efforts have benefited the Peterborough region, tobacco use is still a key area of concern for the public health of our community...” “It is particularly worrisome to see the smoking rates of our local youth and prenatal women above the provincial average... We commend the efforts of the city and the county to reduce public exposure to second hand smoke through new initiatives like the recent inclusion of parks in the City’s Smoking by-law.”

- Dr. Rosana Pellizzari, Medical Officer of Health

According to the Peterborough County City Health Unit, smoking is still a pervasive local health issue. Here are some facts:

- An estimated 286 people die every year in the local region due to tobacco use.
- Overall public awareness of the risks associated with tobacco use and exposure to second hand smoke has increased in the past two years in this region.
- Smoking rates have not dropped significantly in recent years. In 2007, 22.8% of residents in the Peterborough region were smokers.
- Youth experimentation rates do not appear to be decreasing.
- Prenatal smoking rates in the Peterborough region were 18.74% in 2008, almost twice as high as the provincial rate of 9.53%.
- There was an increase in smokers’ “intention to quit” – over half of smokers intend to quit smoking in the next 6 months.
- A drop in exposure to second hand smoke – 72% of homes in 2008 did not allow smoking indoors.

For more information about our **Info Notes**
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