

Preliminary evidence of illicit tobacco trade in Mexico

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Some definitions

- **Illicit trade in tobacco products is any practice or conduct prohibited by law, relating to production, shipment, receipt, possession, distribution, sale or purchase of tobacco products, including any practice or conduct intended to facilitate such activity. Includes both genuine and counterfeit cigarettes.**
- **Smuggling is the trade in illegally imported products.**

Source: Framework Convention Alliance (2008). *Glossary of terms in the illicit trade in tobacco products*.
World Customs Organization (2008). *Customs and Tobacco Report 2008*.

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Illicit trade in tobacco as an obstacle to tobacco control

- Illicit trade in tobacco products causes revenue losses for governments and makes cheaper cigarettes more accessible which increases consumption and thus tobacco-related deaths.
- ✓ Article 15 of the FCTC contains a set of measures to combat illicit trade. A Protocol is currently under examination.

Source: Shafey, et al. (2009). *Tobacco Atlas*.

World Customs Organization (2008). *Customs and Tobacco Report 2008*.

Joossens, et al. (2009). *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives*.



Global illicit trade in tobacco

Seizure

- **2.3 billion cigarettes were seized in 2008.* At least one third were fake (approximately 767 million pieces).**
- **93% and 85% of the cigarette seized were reported from Western and Eastern and Central Europe, respectively.**
- **Most of the seized contraband (30% of the total) and fake cigarettes came from China.**
- **Marlboro was the most seized brand and also the most commonly counterfeited.**

* Cigarette seizures with a minimum limit of 100 000 pieces carried out by 64 WCO Members.
Source: World Customs Organization (2008). *Customs and Tobacco Report 2008*.



Estimates

- It has been estimated that total illicit trade accounts for 657 billion cigarettes per year, i.e. 11.6% of global consumption.
- 81% (533 billion pieces) in low and middle income countries.
- \$40.5 billion is lost in revenue.
- In Argentina and Uruguay, it has been estimated that contraband accounts for 10% and 12% of total consumption, respectively (Ramos, 2009).

Source: Joossens, et al. (2009). *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives.*

Ramos A (2009). *Illegal trade in tobacco in the Mercosur countries.*



Contraband of tobacco in Mexico

- **Contraband in Mexico appears to be below the global average (Shafeley, et al., 2009).**
- **In 2006, it was estimated at 3.3% of total cigarette sales, a much lower level than the estimated for the first years of the decade (11% - 12%). This reduction has been associated with government efforts to combat contraband (ERC group 2007, Euromonitor). Interestingly, cigarette taxes increased from 2002 to 2005.**
- **Revenue losses related to contraband account for MX(dic 08) \$750 million, i.e. 3.4% of government revenue from cigarette taxes in 2006.**

Source: Shafey, et al. (2009). *Tobacco Atlas*.
ERC Group (2007). *World Cigarettes 2007/1*.
Euromonitor (2005). *Tobacco in Mexico*.



Evidence from the ITC Survey

- The ITC Survey-Mexico is a population-based survey of adult smokers (i.e. 18 years or more, smoked at least once a week and had smoked at least 100 cigarettes in their life).
- The data is representative for 4 of the largest cities in Mexico: Mexico City, Guadalajara, Tijuana and Ciudad Juarez.
- The first wave data was collected between September and November 2006 (1079 participants). The second wave was collected between November and December 2007 (733 successfully followed-up, i.e. 68%).



- **Smokers were asked if they had a pack of cigarettes of the brand they smoke the most. Then, they were asked: Has standard warning label? / ¿La etiqueta de advertencia es...?, with response options: 1) standard / normal, 2) non-standard / no es normal, 3) none / no tiene etiqueta or 4) don't know / no sabe.**
- **Those packs with non-standard warning labels are likely to be contraband.**



	Wave 1 (2006)	Wave 2 (2007)	P>F	X² test
Standard	97.1%	92.5%	0.231	0.928
Non-standard	1.9%	4.5%	0.320	
None	No observations	0.6%		
Don't know	1.0%	2.4%	0.335	

These numbers are similar to the estimate showed before. No significant increase in reported packs with non-standard labels is observed. Between 2006 and 2007 cigarette taxes increased again.

The most common brands of packs with non-standard warning labels were Camel (at Wave 1) and Marlboro (at Wave 2).



Counterfeit trade in Mexico

- In Mexico, about 23.4 million pieces of fake cigarettes were seized last year, i.e. 0.1% of total consumption.
- The seizures took place in Ensenada and Manzanillo, seaports in the Pacific coast (the first close to the US border), and in Guadalajara and Mexico City, the two largest cities in the country (the first close to Manzanillo).
- Previous seizures had also taken place in Ensenada and Manzanillo.
- The seized counterfeit brands were Marlboro, Montana and Boston and mainly came from China.

Source: Customs General Administration.

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Conclusions

- **Contraband in Mexico is low compared to other countries. Still, as it is elsewhere, illegal trade in tobacco causes losses in government revenue (at least 3.4% of tobacco tax revenues) and reduces the effectiveness of taxes in reducing cigarette consumption.**
- **Tobacco manufacturers commonly argue that tax increases increase smuggling. Smuggling in Mexico, however, was lower in 2006 than in 2001-05 despite taxes increased in those years.**
- **Current policies to combat illicit trade in Mexico (articles 30 to 34 of the LGCT) focus on licensing. Necessary to implement stronger policies (importance of protocol).**

Source: Joossens, et al. (2009). *How Eliminating the Global Illicit Cigarette Trade would Increase Tax Revenue and Save Lives.*

