CONTROLLING ILLICIT TOBACCO TRADE:

Lessons for Vietnam from Global Experience Implementing Track-and-Trace and Tax Stamp Systems

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Introduction

Increasing excise tax rates on tobacco to reduce its affordability and, as evidence shows, lower its consumption is a policy measure that can simultaneously save millions of lives, reduce poverty, and increase countries’ domestic resources for financing development. Higher tobacco taxes improve public health, increase tobacco tax revenue, and reduce the economic burden associated with tobacco use.¹

Illicit trade in tobacco products undermines global tobacco prevention and control interventions, particularly with respect to tobacco tax policy. For instance:

- Illicit trade in tobacco products impacts average prices of these commodities, therefore their affordability;
- It can increase equity gaps in health, since low-income populations are the primary market for untaxed, and so cheaper, illegal products;
- It increases the choice of brands, which can increase overall demand; it enhances access to tobacco products, particularly for youth, as illegal products are often distributed via unregulated channels;
- It undermines health warning and ingredients disclosure policies, since illegal products often do not comply with the local laws;
- Additionally, tax evasion associated with the illegal tobacco market reduces government tax revenue and can alter attitudes toward paying taxes more generally.

It has been estimated that the illegal cigarette market reduces average cigarette prices by about 4 percent and is responsible for about 2 percent higher cigarette consumption. There also are concerns about the relationship between illicit tobacco trade, public safety, and governance, since illegal networks both thrive in and contribute to weak governance contexts. Recent consensus among experts estimates the annual revenue loss in tobacco taxation worldwide at US$40–50 billion, that is, about 600 billion sticks (i.e., individual cigarettes), or 10 percent of global consumption.²

² Patrick Petit and Janos Nagy. How to design and enforce tobacco excises? International Monetary Fund 2016.
In addition, tobacco business interests often use the presence of illegal tobacco products to advocate for reductions in tobacco control policies and/or to prevent tobacco tax increases. The tobacco industry commonly argues that higher taxes and prices (as well as other tobacco control measures), will motivate customers to buy illegal products rather than smoking less or quitting, and that this will impact tax revenue without a decline in tobacco use.


This current analysis presents an overview of this WBG report (including a discussion of tobacco tax administration and strategies proven effective in addressing illicit trade as an integral approach to tobacco tax reform), and subsequently provides a more detailed focus on key country experiences in implementing both track-and-trace and tax stamp systems to control tobacco illicit trade. The lessons and country experiences shared in this report could have relevance for Vietnam’s evolving response to tobacco control, tobacco tax reform, and tobacco illicit trade.

**Why does controlling illicit tobacco trade matter?**

From a public health perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption—and consequently on preventable morbidity and mortality—by increasing the affordability, attractiveness, and/or availability of tobacco products. Furthermore, tobacco illicit trade often depends on and can contribute to weakened governance.

Reducing illicit trade in tobacco products is important whether viewed from the perspective of public health, public finance, the rule of law, governance, or equity. Illicit trade in tobacco products contributes to numerous health, economic, and governance challenges, of which the following are most relevant:

- **Illicit tobacco kills.** The fundamental reason to confront illicit trade in tobacco products involves its public health impact. All tobacco products are dangerous to human health, including those produced and sold in strict legality. However, illicit tobacco harms individual and population health in additional ways. From a public health perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption - and consequently on preventable morbidity and mortality - by increasing the affordability, attractiveness, contamination (beyond that inherent in cigarettes), and/or availability of tobacco products.

- **Youth and the poor are most impacted.** Illicit cigarettes generally sell for considerably less than their tax-paid equivalents, as further evidenced by the case studies presented in

this report. Accordingly, illicit tobacco products inflict the greatest harm on the most price-sensitive population groups: in particular, young people and those with low incomes. The availability of inexpensive illicit cigarettes increases the likelihood of young people developing addiction. It also encourages the poorest quintiles of the population to continue smoking, rather than choose to quit, even when tobacco taxes and the price of legal cigarettes rise. This is a particular problem because the poor tend to have higher tobacco consumption levels and consequently are disproportionately impacted by tobacco-related diseases and premature deaths. And it places them at higher risk of being pushed into extreme poverty due to costs of treatment and/or loss of income when an income-earning smoker develops a tobacco-related disease. As a result, illicit trade in tobacco products exacerbates equity gaps.

• **Confronting illicit trade in tobacco products supports improved governance.** Tobacco illicit trade, by definition, reduces government revenues that could be invested in tobacco control and other priority programs that benefit the population. It also negatively impacts public welfare in other ways. For instance, illicit trade in tobacco is not only inconsistent with the rule of law, but often depends on and can contribute to weakened governance (e.g., through corruption and the presence of organized criminal networks). In contrast, confronting this issue can yield broader benefits for governance - tools and capacities developed to address illicit trade in tobacco products can help strengthen overall tax administration, compliance, and enforcement (including for other products subject to excise taxes, such as alcohol and fuel). Controlling illicit trade in tobacco products and enhanced overall governance are mutually reinforcing.

• **Uncontrolled illicit trade in tobacco provides opportunities for the tobacco industry to misinform public opinion and unduly influence public policy.** As emphasized in recent analyses, the tobacco industry routinely uses inflated estimates of the impact of tobacco taxes on illicit trade to campaign against tobacco tax increases and misinform public opinion. By accurately measuring and better controlling illicit trade in tobacco, governments reduce industry’s ability to distort policy priorities supporting improved public health, tax administration, and governance. The presence of reliable data, analysis, planning, and implementation oversight are important to this process. However, it should be noted that not having data regarding the size of the illicit market is not an excuse for inaction. The absence of such data has not stopped Kenya, Georgia, or the Philippines, for example, from moving ahead in controlling illicit trade in tobacco products.
Key issues in tobacco tax administration

As has been noted by the IMF⁴, the central concern in the administration of tobacco taxes is to tightly control the import/production and distribution of excised products in order to achieve both health and fiscal objectives. Increasing taxes should go hand-in-hand with adoption and effective implementation of tighter controls. This control should as much as possible be exercised at all points of the supply chain, from the fields where tobacco leaves are grown or port of entry, to the final purchase by the individual consumer of the product. Such controls need a clear legal framework and dedicated services or functions in the revenue administration. In addition, only licensed and strictly controlled economic operators should be involved at any stage of import, production, and distribution (including retail).

Excise stamps as well as other markings affixed to the packs of cigarette can facilitate the collection of excise taxes and controls, as well as audits and enforcement actions at various stages of distribution. Excise stamps should have strong security features similar to those used for banknotes and passports. The high cost of such stamps and consequent use of low-quality stamps has often led to counterfeit stamps and fraud in many countries, yielding a general concern about the efficiency of stamps as a proof of payment for taxes. For these reasons, some countries have replaced tax stamps by fiscal stickers that contain or give access to product-specific useful information (often through bar codes). However, fiscal stickers have a major disadvantage as compared to tax stamps, in that they do not aim to prove the payment of taxes (as stamps do). They are still, though, useful for taxation (without proof of payment), control, and auditing purposes.

Sophisticated marking systems can range all the way to track and tracing systems. This process would require producers to apply appropriate signs on packs and packages (master cartons) to track every product along the distribution chain. The date, time, and place of production; origin; intermediaries; intended destination; and taxation status can therefore be identified and controlled to determine the genuineness and point of diversion of smuggled tobacco products.

Sound and coherent VAT, excise and criminal laws, and regional and international coordination are important first steps to minimize the incentives and opportunities for smuggling and bootlegging. In addition, understanding the size, characteristics, and patterns of the illegal production and trade is a pre-requisite to developing effective anti-fraud strategies and actions. It is important to note that effectiveness of control systems and other steps to reduce illicit trade depends heavily on their enforcement. For example, if substantial fines and jail sentences called for as penalties in legal frameworks are not enforced, as has happened in some countries, there is far less deterrent effect on illicit trade.

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Additionally, a May 2019 IMF\textsuperscript{5} blog further emphasized the importance for governments to keep pace with new challenges as technology (and opportunities for wrongdoing) evolve. Track-and-trace systems to monitor the movement of tobacco products from manufacturing to their distribution and sale constitute a critical element of such a comprehensive response to illicit trade.

**Tracking and tracing tobacco products** refers to the determination of past and current locations and recording the future location of all tobacco packages (such as packs, cartons, master cases and pallets) through the chain supply, until duties are paid.

**Do high taxes increase tobacco illicit trade and reduce tax collection?**

Evidence presented in the WBG’s 2019 *Confronting Illicit Tobacco Trade* report from over 30 countries across the income and development spectrum, shows that raising tobacco taxes is not the primary cause of illicit trade.

The evidence indicates that the illicit cigarette market is relatively larger in countries with low taxes and prices, while relatively smaller in countries with higher cigarette taxes and prices. Non-price factors such as governance status, weak regulatory framework, and the availability of informal distribution networks – and the strength and effective implementation of overall control systems -- are far more important factors.

**How do efforts to strengthen control of illicit trade relate to overall national tobacco control efforts?**

Country cases, including those of the Philippines, the UK and Ireland clearly demonstrate the complementary nature of addressing tobacco illicit trade and implementing tobacco tax reform. Confronting illicit trade in tobacco products should be an integral part of a country’s overall approach to tobacco control. The key elements of tobacco tax reform have recently been synthesized in the World Bank report *Tobacco Tax Reform: At the Crossroads of Health and Development* and are summarized below:

- **Go big, go fast.** Tax strategies should focus on health gains first, then on fiscal benefits. This means going for big tobacco excise tax rate increases starting early in the process.
- **Attack affordability.** Tobacco taxes only reduce tobacco consumption if they reduce cigarette affordability.
- **Change expectations.** Communication with the public is also critical. Governments must make sure consumers know that cigarette prices will keep going up.
- **Tax by quantity.** Tobacco tax rates should be simplified and based on the quantity of cigarettes, not their price.

• **“Soft earmarks” can win support.** Although earmarking tax revenues through legislation is criticized by fiscal experts as contributing to rigidities, fragmentation, and eventual distortions in public expenditure, “soft” earmarking of funds (for example, linking increased taxes to increased health spending) has helped generate grassroots support for the tax hikes.

• **Regional collaboration can boost results.** Momentum for ambitious tobacco tax reform can be enhanced, and cross-border threats like cigarette smuggling minimized, when countries work together in a regional structure.

• **Build broad alliances.** Country leaders face sharp resistance to tax rate increases and other tobacco control measures from the tobacco industry. Countering these pressures requires reliable data and economic analysis, multi-sectoral policy development, and strong partnerships among key stakeholders at the local, national, and international levels.

**What are the key findings of the Confronting Illicit Tobacco Trade report?**

The *Confronting Illicit Tobacco Trade* report summarizes the good practices and recommendations that emerge from its numerous country cases. It also draws on guidance from the WHO Framework Convention on Tobacco Control’s (FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products, from the IMF report on this issue, and from the World Bank report, *Tobacco Tax Reform: At the Crossroads of Health and Development*. The essence of these good practices and recommendations can be summarized in the following three points:

• **To reduce illicit trade in tobacco products, it is both crucial and feasible for all countries to strengthen tax (including customs) administration and enforcement.** There is growing experience and agreement on the package of steps needed to do so, the main elements of which are described in the Protocol.

• **Tobacco taxes play only a minor role in illicit trade, although several country cases found that the tobacco industry used exaggerated estimates of illicit trade to argue against tobacco tax increases.** Significantly, in every case study where there was a significant tax or price increase, there was a resultant increase in government revenue and (where data was available) a decrease in smoking prevalence. As a result, countries should not hesitate to increase tobacco taxes and improve their tax structures, even while at an early stage of efforts to improve tax administration. Even at relatively high levels of tobacco illicit trade, the overwhelming majority of smokers will still be buying on the official market and paying full taxes. Thus, countries will still benefit from tobacco tax reform in terms of reduced consumption (as smokers quit, cut back, or do not initiate smoking) and increased revenues.

• **The strengthening of tax administration and tobacco tax reform – significant and sustained increases and restructuring of tobacco taxes -- should be viewed as complements rather than substitutes.** They reinforce each other in helping countries to reduce preventable morbidity and mortality and in increasing public revenues.
A recent example from Canada’s Quebec Province clearly illustrates that raising tobacco taxes is not the primary cause of illicit trade. Quebec’s relative success in decreasing illicit tobacco consumption and in increasing tobacco tax revenue has been attributed to a concerted and coordinated enforcement effort with substantial funding. According to the Quebec Ministry of Finance, tobacco tax revenue increased from CAD $654 million in 2008-2009 to CAD $1,026 million in 2013-2014 – a period during which the prevalence of tobacco use did not increase.

In parallel, Quebec’s illicit market share decreased, from some 30 percent in 2009 to less than 15 percent in 2012 (Figure 1). Moreover, this illicit market share has held steady or declined slightly more since 2012 despite three tax increases, providing strong evidence that efforts to improve tax administration and enforcement are much more important that taxes in determining the illicit market share.

Figure 1:
Change in rate of Specific Tax on Tobacco Products & in Market Share of Illicit Products

A similar example can be illustrated in the United Kingdom (UK). In 2000, the UK embarked on a comprehensive strategy to reduce the illicit tobacco trade. Between 2001 and 2008, the Government increased taxes in line with inflation, while the illicit market was brought under control. During the first ten years of the illicit tobacco strategy, the illicit market share for cigarettes was nearly halved, falling from 22 percent to 12 percent. The scale and success of the enforcement effort is also indicated by the large volumes of seizures of both cigarettes.

The UK’s strategy focused on supply-side measures, investing in a range of operational responses including disrupting the supply and distribution chains for illegal tobacco products and increasing sanctions. The strategy has been regularly revised since 2000, in
response to ongoing tobacco industry involvement in the illicit market and newly emerging threats, such as counterfeit products. The UK illicit tobacco strategy has been underpinned by the principle that smuggling is an enforcement issue, rather than being caused by high tobacco prices.

What specific actions can decision makers prioritize to rapidly achieve gains?

The discussion above provided broad, strategic directions for enhancing progress in controlling/preventing illicit trade in tobacco products. However, what specific actions can decision makers prioritize to rapidly achieve gains? Findings from the country case studies presented in Confronting Illicit Tobacco Trade suggest the following specific actions (which are consistent with the IMF guidance on this issue).

- **Avoid reliance on the tobacco industry.** The role of the tobacco industry poses challenges to countries seeking to address illicit trade. Cases even in OECD countries, the UK and Ireland, emphasize the need to fulfill obligations under Article 5.3 of the FCTC to prevent the tobacco industry from influencing public policy. The case studies, including Colombia, Australia, Georgia, and Malaysia, also confirm prior findings that the tobacco industry regularly overstates levels and changes in tobacco illicit trade to oppose tobacco tax reforms. The Georgia and Uruguay case studies show that when the government responds to industry pressure and reduces taxes due to fears regarding tobacco illicit trade, the result is a decline in revenues and an increase in consumption, while the true drivers of illicit trade in tobacco products remain unaddressed.

- **Require licensing for the full tobacco supply chain.** At present there is licensing at least for all manufacturers, importers, exporters, and distributors in almost all country cases. What is needed is for each country to assess its capacity to require licensing the rest of the supply chain, particularly retail. A good practice example of using licensing to control the supply chain is in the Canadian province of Quebec, where the entire supply chain is licensed including tobacco growers, transporters, manufacturers, those who store raw tobacco and/or final products, importers, wholesalers, retailers, as well as those in possession of manufacturing equipment. Tobacco retailers are licensed in Malaysia, and the Philippines requires suppliers of raw materials to the production process, including those providing tobacco papers and filter components, to be licensed.

- **Establish effective enforcement teams equipped with automated reporting devices, to reduce human discretion in tobacco tax administration.** This issue has played a major role in improving the level of enforcement in numerous countries including Kenya and Georgia. However, the Kenya case also underlines the importance of enforcement agents with the power to carry out inspections at any time and at any point in the supply chain, to seize illicit products on the spot, and to bring immediate charges against offenders.

- **Obtain detection equipment (and use it effectively at customs posts), including developing a risk profile to target inspections.** Most countries already have access to detection equipment, although not necessarily in adequate quantity. Potential governance challenges, with respect to
the use of this equipment, can be further reduced by separating the roles of generating and interpreting scans (as evidenced in Kenya). Similarly, in Chile, the use of a risk analysis tool was used to effectively target suspicious cargos and to generate customs alerts.

- **Set relatively low duty-free allowances for tobacco product purchases, both in terms of amounts (e.g. only two packs, as in Australia) and frequency (e.g. only once every 30 days as in Georgia).** Chile demonstrates how the lack of restrictions on frequency led to substantial but legal small-scale tax avoidance that contributed to increased consumption and reduced tax revenues.

- **Regulate or ban trade in tobacco products in free trade and other special economic zones.** The Chile illustrates how the relative freedom from regulation in these zones can make them gateways for domestic sale of untaxed tobacco products. In contrast, Colombia and Malaysia both established a strict regulatory framework for free trade zones to prevent this challenge.

- **Set and enforce significant financial penalties and penal provisions for illicit trade in tobacco products.** Seizures, financial penalties, and other punishment severe enough to be a deterrent are important. Criminal prosecutions are particularly important as deterrents. Colombian officials also realized the importance of punishment as a deterrent when it substantially boosted penalties for those involved in smuggling.

- **Provide for secure and environmentally friendly destruction of seized cigarettes, carried out by the regulatory authorities and not by the tobacco industry.** In Mexico, customs officials destroy seized cigarettes, while in the Philippines approval and presence of a Bureau of Internal Revenue representative is required. In contrast to this guidance, in South Africa an industry-representative body is responsible for the destruction of illicit goods.

- **Educate the public on the impact of tobacco illicit trade.** Getting the public involved supports enforcement and reduces the demand for illegal products. The Philippines and Kenya introduced apps for the public to verify the authenticity of cigarette packs, while the UK ran a public awareness campaign explaining how purchasing illegal cigarettes harms the country and local communities.

- **Require use of secure excise tax stamps and other product markings to facilitate enforcement and tax collection.** These markings should possess multiple layers of security (as implemented in Kenya, Georgia, and the Philippines, for example); they should not be removable (not the case in Indonesia where the stamps are being reused illegally); and they should be destroyed when the pack is opened (also to prevent reuse). The absence of secure excise marking in Chile or Mexico weakens the ability of the tax authorities to collect taxes.

- **Establish effective track-and-trace systems to follow tobacco products through the supply chain from production or import to sale to consumers.** Secure excise stamps are crucial but not enough to prevent tax evasion if there is no downstream verification that cigarettes have tax stamps and that they are authentic. Georgia, Kenya, and the Philippines, for example, already possess tight monitoring of production and import using unique IDs and excise stamps.
These efforts could be readily developed into full-fledged track-and-trace systems throughout the supply chain with relatively small investments. Notably, Ecuador’s tax track-and-trace system, the first track-and-trace to comply with the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, has become a benchmark for other countries in the region as they begin to tackle these issues.

Country and regional examples of track-and-trace and tax stamp systems

As previously noted, strategies and tools exist to effectively reduce tobacco illicit trade, including traditional tax stamps and high-tech tax stamps, in addition to increased enforcement, stronger penalties, and comprehensive licensing policies. Traditional cigarette tax stamps, which indicate payment of cigarette taxes have been extensively used across a wide range of countries. High-tech tax stamps, which use the latest “track and trace” technology to enable enforcement officials to rapidly confirm payment of applicable taxes and allow them to follow the supply chain to confirm that the products are where they should be.

However, to be most effective at addressing illicit trade, the use of tax stamps and/or high-tech tax stamps needs to be implemented with increased enforcement and comprehensive licensing of retailers and wholesalers. The following section of this report provides an overview of implementation issues and features associated with key successful track-and-trace and tax stamp systems currently under implementation.

Ecuador: SIMAR Track-and-trace system

Ecuador’s tax track-and-trace system for domestically produced cigarettes, alcoholic beverages, and beer is known as the SIMAR (Sistema de Identificación, Marcación y Rastreo) and was implemented by Ecuador’s Internal Revenue Service (SRI) in 2017. The implementation of the SIMAR system earned the Ecuador a 2017 award from WHO on World No Tobacco Day. As the first national track-and-trace system to comply with the Protocol to Eliminate Illicit Trade in Tobacco Products, SIMAR has become a benchmark for other countries in the region as they begin to tackle these issues. The government of Ecuador has signed an international cooperation agreement with the Dominican Republic to establish a similar system, cooperated with various other countries in the region, and participated in international events to share its experiences.

SIMAR is primarily designed to minimize tax evasion associated with domestically produced cigarettes, beer, and alcoholic. In the case of cigarettes, the SRI defined an indirect type of marking, -- the application of visible physical security features to the product or the packaging containing the product on the production line. In addition to the required coding that would facilitate the tracing of the product, the physical security features include overt, semi-covert, covert, and forensic elements. The reason for semi-covert and covert features is to increase the chances of spotting counterfeits and to deter illicit trade by increasing risk and uncertainty among those in the counterfeit production and marketing chain.
SIMAR solution includes two important components of a business intelligence platform which contains data facilitating decision making. One is a system for use by cigarette manufacturers and producers of alcohol and beer that facilitates the interface between the tax administration and the provider. The other supports the tax administration’s own business intelligence system to allow it to consolidate and group information on the basis of the parameters that the control units might require, enabling flexibility in response to the changing requirements of the Revenue Authority. Furthermore, by avoiding the need to depend completely on the provider, this approach facilitates more rapid cross-referencing and report preparation.

In Ecuador, the Internal Revenue Authority’s collections on cigarettes increased steadily between 2000 and 2015. With the 2017 launch of SIMAR, it is anticipated that revenue collections, which reduced in recent years, will increase due to both the improved monitoring and strengthened enforcement. This example highlights the need for an evolving response to tobacco illicit trade, including utilizing new technologies, such as track-and-trace systems.

**European Union: A regional track-and-trace approach**

The European Union (EU) has been at the forefront in fighting cross-border illicit tobacco trade over the past years and has developed a comprehensive strategy to step up the fight against cigarette smuggling. The EU-wide Excise Movement and Control System (EMCS) is a computerized, paperless system that is used by businesses when moving duty-suspended excise goods (alcohol, tobacco, and certain mineral oils) between EU Member States as part of their commercial activities. Its purpose is to combat fiscal fraud by providing tax authorities and the traders involved with real-time information and checks on individual consignments of excise goods along the supply chain. As a standardized, electronic system for the whole EU, it also simplifies procedures and reduces administrative costs for businesses and tax authorities.

The EU tracking and tracing system is primarily characterized by its broad coverage of the supply chain, including the collection of data on supplies dispatched to retail outlets. The system design embeds several elements that together provide public authorities with full control over operations. The EU system of tobacco traceability requires all unit packets of tobacco products manufactured in or imported into the EU to be marked with a unique identifier and their movements to be recorded throughout the supply chain. Correctly marked unit packets can be tracked and traced throughout the supply chain.

The EU system of tobacco traceability is the first of its kind. It is the first regional system designed to accommodate a range of distribution structures, both concentrated and dispersed supply chains. High priority has been given to the overall design of the system, which embeds several elements that together will provide public authorities with full control over the system's operations. In this respect, the key aspects are the independence of the generation of unique identifiers and of the data storage from the tobacco industry, along with the independence criteria and rules on structuring and reporting traceability data. The EU system represents a scalable example of a system of tobacco traceability that is sufficiently flexible to be implemented both at
the regional and the single-country scale. It is based on a strong policy case, where substantial social and economic benefits are expected if the system is properly rolled out.6

**Ireland: Use of tobacco tax stamps**

Ireland’s Revenue Commissioners emphasize that effective action to inhibit the illicit tobacco trade requires a multi-pronged approach by agencies within a country, along with international cooperation. Ireland uses tax stamps for fiscal purposes and to identify tax-paid tobacco products. A tobacco tax stamp for cigarettes and roll-your-own tobacco products was introduced in 1994 and must be affixed to products for retail sale in Ireland. The tobacco tax stamp has a range of sophisticated security features to minimize the risk of counterfeiting. In addition, a newly designed tax stamp is held in reserve by Revenue should security be breached on the current stamp.

In Ireland, it is an offense to sell cigarettes and roll-your-own tobacco which do not carry an Irish tax stamp and the penalties currently available on conviction for these offenses were increased in 2010. Ireland’s approach to tobacco illicit trade benefits from a comprehensive legislative framework to support its work against those who sell or smuggle excisable products. Revenue strategy towards combatting the illicit trade includes a range of measures designed to complement each other in identifying and targeting the supply of illicit tobacco products, with a view to disrupting the supply chain, seizing the illicit products and prosecuting those responsible.

The most recent data from Ireland indicate that the general trend in market share of illicit cigarettes, between 2007-2017, has been downward, as can be seen in Figure 2 (red line in graph). Notably, this occurred during a period where price of cigarettes increased, and smoking prevalence decreased (by about 10 percentage points). This suggests that, while Ireland’s tobacco illicit trade has not been eliminated, its extensive program of enforcement has largely contained it.

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6 For further information on the EU system of tobacco traceability and its implementation, see: [https://ec.europa.eu/health/tobacco/tracking_tracing_system_en](https://ec.europa.eu/health/tobacco/tracking_tracing_system_en)
**Indonesia: Use of tobacco tax stamps**

**Indonesia has been using excise stamps as fiscal markers for tobacco products and alcohol for decades.** All tobacco products that are domestically produced or imported must bear an excise stamp on the packaging. To prevent forgery, the government has added a series of security features to the excise stamps that were difficult to falsify. Since 2016, the Ministry of Finance’s Directorate General of Customs and Excise (DGCE) on illegal cigarettes has implemented the High-Risk Excise Control Program, a flagship program under the Customs and Excise Strengthening Reform Program. Enforcement operations focusing on points of production and distribution of illegal cigarettes have been carried out by regional and central DGCE offices and have been supported by police and the army.

**Due to such concerted tax administration and enforcement efforts, the market share of illegal cigarettes has decreased significantly in Indonesia.** The estimated share fell by more than two thirds, from 12.1 percent in 2016, to 7.0 percent in 2018 (Figure 3), representing success of the DGCE enforcement reforms. Moreover, over this same period, the government raised the tobacco excise tariff annually by more than the inflation rate. The experience of Indonesia provides further evidence that increasing the tobacco excise tariff is not necessarily a significant factor in tobacco illicit trade. Comprehensive and concerted enforcement efforts are key to suppressing these activities.
**Figure 3: Estimated Market Share, Illegal Cigarettes, Indonesia, 2010–18**

<table>
<thead>
<tr>
<th>Year</th>
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</tr>
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<td>2018</td>
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**Philippines: Use of tobacco revenue stamps**

The Philippines has recently made progress in addressing illicit tobacco trade, within an ambitious overall reconfiguration of the country’s tobacco control efforts. The Philippines’ 2012 excise tax reform eliminated previous weaknesses in the excise tax structure on tobacco products, which had limited the tax system’s capacity to curb tobacco consumption, raise government revenues, and complicated efforts to address illicit trade flows. The 2012 reform introduced broad changes, notably abolishing the previous multi-tiered classification of cigarettes based on net retail price, in favor of a single-tier cigarette excise tax structure (which has been operational in the Philippines since 2018). Philippine leaders have continued to raise tobacco tax rates and are weighing further increases to reach WHO’s recommended levels.

The Bureau of Internal Revenue (BIR) and the Bureau of Customs, the two major revenue-generating agencies of the Philippine government, are at the forefront of the fight against illicit tobacco. Both bureaus employ a wide range of enforcement tools, including the affixture of revenue stamps, profiling, licensing, monitoring and surveillance of taxpayers and importers, use of x-ray machines and other technology, audit programs, and the imposition of stiff penalties for violators. Although the requirement to affix internal revenue stamps has been mandated since 1997, this system not implemented until 2014. The BIR developed the Internal Revenue Stamp Integrated System to implement the affixture of new internal revenue stamps on both imported and locally manufactured cigarettes, whether sold domestically or for export. Through the IRSIS, revenue stamps can be ordered, distributed, and monitored in real-time, and these stamps possess multi-layered security features.

Additionally, in 2016, the BIR launched the use of a Stamp Verifier application in verifying the authenticity of revenue stamps. The Stamp Verifier app is innovative and smart, as it uses modern technology as well as involving the cigarette user or smoker in identifying illegal cigarettes. This technology encourages consumers to download the mobile app and use it to check the validity of the revenue stamp affixed to the cigarette being purchased. With the affixture of tax stamps, it has become easy for the BIR to determine whether the excise tax due on the cigarette pack has been properly paid or not. The BIR can easily confiscate cigarettes for which taxes were unpaid or erroneously paid, or to assess the proper taxes due. Building on this experience, opportunities potentially now exist to implement a tighter track-and-trace system involving...
reinforced collaboration between the two bureaus, other government agencies, and legitimate industry players.

Conclusion

Complementing and supporting the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, the case studies presented in this book illustrate how countries have confronted illicit trade in tobacco products, in addition to summarizing the progress achieved, and the lessons learned. The case studies presented in this work demonstrate the importance - and feasibility - of addressing illicit trade in tobacco products as an integral part of tobacco tax reform and comprehensive tobacco control.

Country experiences also demonstrate that a comprehensive and effective system of customs and tax enforcement, alongside strong regulatory control of the tobacco market, contains the illicit flow of tobacco products. The lessons and country experiences shared in this report possess relevance for Vietnam’s evolving response to tobacco control, tax reform, and illicit trade.
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