

## CANCER RESEARCH UK BRIEF ON SMUGGLING

Cancer Research UK is the world's leading independent charity dedicated to cancer research. We carry out scientific research to help prevent, diagnose, and treat cancer. Our groundbreaking work, funded almost entirely by the general public, has saved hundreds of thousands of lives.

### What Cancer Research UK is asking for

1. Ambitious goals to reduce the level of smuggled cigarettes.
2. A strong commitment to the World Health Organisation's Framework Convention on Tobacco Control.
3. Minimising personal allowances for products bought from other EU member states.

### WHY SMUGGLED TOBACCO MATTERS

**As well as lost revenue of £1bn-2.7bn, by cutting the price of smoking, smuggling is costing hundreds of lives.**

- Studies show that the long-term effect of a 10% increase in price is a 5% fall in demand for tobacco including a 3% fall in the number of smokers.<sup>1, 2</sup>
- The World Bank says high prices are the most effective policy to reduce smoking.<sup>3</sup>
- Significant increases in tobacco duty in the 1980s were accompanied by major falls in the number of smokers.

### Smuggled tobacco worsens health inequalities and is used particularly by children

*The North of England Tackling Illicit Tobacco for Better Health Programme* found<sup>4</sup>:

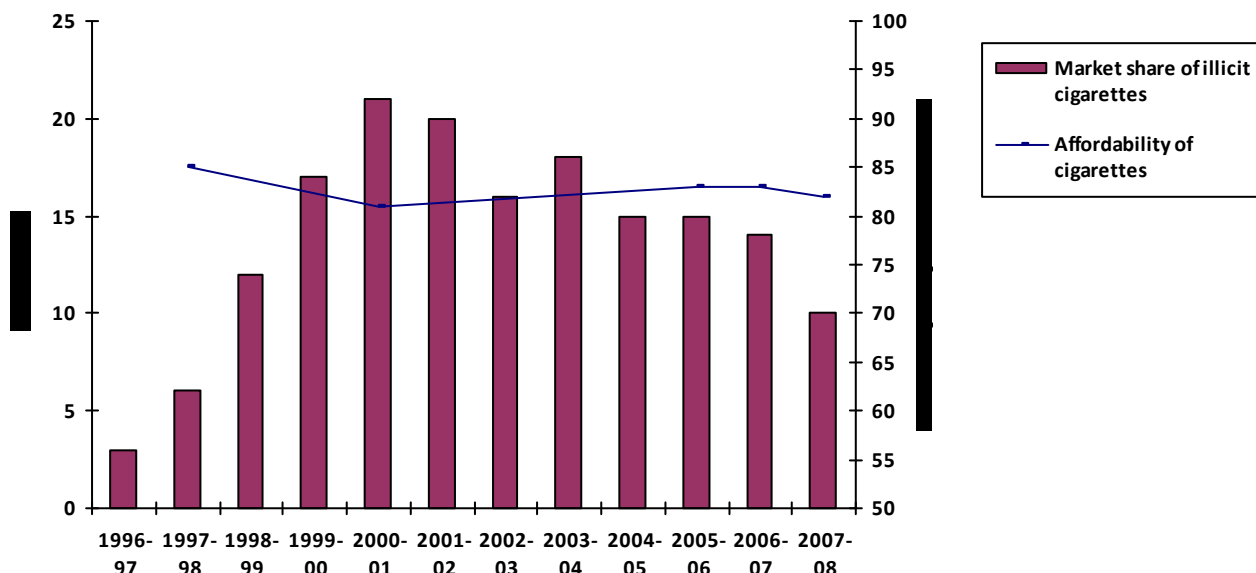
- One in five smokers admits to buying illegal tobacco, but amongst 14-17 year olds this rises to one in three and on average it accounts for almost half of their total consumption.
- Socio-economic groups D and E account for 61% of illicit tobacco consumption.
- 64% of smokers who buy illicit tobacco say it makes it possible for them to smoke when they could not otherwise afford to.

### UNDERSTANDING TOBACCO SMUGGLING

#### Tobacco smuggling is falling but is still a major problem

- Significant smuggling of hand rolled tobacco began in the early 1990s, with big rises in cigarette smuggling towards the end of the decade.
- £1.8bn of revenue was lost due to smuggling in 2007-08 with 10% of cigarettes and 47% of hand-rolled tobacco being smuggled.<sup>5</sup>
- The affordability of cigarettes has not changed significantly during this time<sup>6</sup> suggesting taxation levels are not the main cause.

#### Market share of illicit cigarettes and the affordability of cigarettes<sup>5,6, 7,8</sup>



## WHAT CAN BE DONE

### Regulation of the tobacco industry

- In the early years of major tobacco smuggling most illicit cigarettes were genuine products manufactured in the UK, exported to continental Europe and then smuggled back to the UK. For example, Andorra was supplied by tobacco companies with 3.1 billion cigarettes in 1997 - equivalent to every Andorran smoking seven packets a day. These were then smuggled back to the UK.<sup>9</sup>
- Following court cases and reports by the health select committee and public accounts committee a process began, that in 2002-03 led to the leading UK tobacco manufacturers signing a Memorandum of Understanding requiring them to control the supply chain and place more responsibility for smuggled cigarettes on producers.
- The European Commission also signed a legal agreement with Philip Morris in 2004 in return for dropping legal action over smuggling, paying \$1 billion over 11 years and agreeing to large fines in future if significant quantities of their products were seized as contraband. Japan Tobacco International signed a similar deal in 2007.
- There is now a legal duty for tobacco manufacturers to help control smuggling but genuine brands, particularly of hand-rolled tobacco still form a significant part of the illicit market. Action at international level is essential to control this.

### Co-ordinating government action

The falls in market share since 2000-01 followed £209m of funding for 1,000 customs staff and new equipment. Effective action requires government agencies to work together:

- HM Revenue and Customs has overall responsibility for collection and enforcement
- The UK Borders Agency detects and seizes smuggled tobacco at the UK border
  - HMRC and UKBA work together on risk and intelligence
- The police and local authorities work with the HMRC to tackle local supply of illicit tobacco products. Regional communications campaigns are used to reduce demand.
- A series of national goals have helped to drive progress in this area but have now been achieved - new more stretching outcomes should be aimed for.

**Cancer Research UK asks for:** Based on the falls in the last decade the aim should be to reduce illicit cigarettes to 3% of market share and hand-rolled tobacco to 33% by 2015.

### The need for international action

Experience shows that the source and routes of illicit tobacco respond flexibly to government clampdowns. Therefore, truly successful action must be at the international level:

- High income countries with high levels of tobacco taxation have lower rates of smuggling, averaging 9.8%, than low and middle income countries who have lower tobacco taxes but average smuggling rates of 11.8% and 16.8% respectively.<sup>10</sup>
  - Contrary to the tobacco industry's claim that the smuggling is dependent on price, this suggests the quality of anti-smuggling measures are the key driver.

### WHO's Framework Convention on Tobacco Control

- This is the first public health treaty in which countries commit to action against tobacco - it has driven worldwide change on tobacco policies.
- A protocol to the convention is now being drafted on smuggling. Former Treasury economist Paul Johnson has quantified potential costs and benefits for the UK. If there was wide international take-up of the protocol, the central estimate of the monetary net benefits to the UK was £5.7bn over 50 years at net present value and 760 premature deaths averted annually.<sup>11</sup>

**Cancer Research UK asks for:** Steadfast UK support for a strong protocol could bring great benefits. The UK should argue for the protocol to:

- Ensure tobacco companies take reasonable steps to prevent their products being smuggled by knowing who they are selling to
- Include markings on packets so they can be tracked and traced.
- Direct cigarette machine manufacturers to put unique marks on their equipment to deter illicit use.

#### **Duty free and cross-border shopping in the EU**

- Legal cross-border shopping accounts for approximately 10% of UK cigarette consumption<sup>12</sup> – this blunts the health benefits of high prices and accounts for a revenue loss of £1bn-£1.1bn.
- Guide levels for how much could be brought from other EU member states were increased in 2002 from 800 to 3,200 cigarettes and from 1kg to 3kg of hand-rolled tobacco. These amounts represent 6 months supply for a 20-a-day smoker.

**Cancer Research UK asks for:** Action to reduce access to cheap cigarettes:

- Personal allowances for EU cross border shopping should be reduced to the lowest legal level.

#### References

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