

Best practices around the world

Fact sheet 6

A coordinated set of interventions that includes international collaboration, strengthened tax administration, increased enforcement and swift, severe penalties reduces illicit trade in tobacco products.¹

Countries have successfully reduced illicit trade in tobacco products through strong and coordinated multilateral efforts. However, relatively few countries have adopted comprehensive interventions and their longer term impact is not known or difficult to assess given that forms of tax avoidance/evasion can adapt/change in response to interventions to crack down on them.²

Experience from Brazil and the United Kingdom has shown that policies against illicit trade can reduce illicit manufacturing or the illicit cigarette market.

Brazil: reducing illicit manufacturing

To tackle illicit domestic manufacturing, Brazil mandated licensing of its manufacturers. Non-compliance with the law or failure to pay taxes could lead to withdrawal of a license and closure of a factory. In addition, an integrated control and monitoring system for cigarette production became obligatory and has been operating since December 2007. The Ministry of Finance implemented installation of automatic cigarette production counters at each production line. It mandated the launching of a digital tax stamp system, with capabilities for identifying each individual pack. This kind of stamp uses invisible ink and features a unique, covert code with data for each pack (containing 20 cigarettes).

The purpose of the control and monitoring system was to ensure that all taxes due were collected on cigarettes produced in Brazil. In addition, under the new system it is possible to quickly distinguish genuine

from counterfeit cigarettes and to verify the authenticity of the tax stamps applied on the packs by manufacturers. The automatic production counters in combination with the high-tech tax stamps also allow the government to establish exactly how many cigarettes Brazilian manufacturers produce.

The Brazilian control and monitoring system was updated in 2011. A federal law (number 12402) required that every pack of cigarettes produced in Brazil for export must be marked with a unique identification code at the production lines to determine the origin of the products and to control their movement. The marking regime applied to cigarettes for export is a visible two-dimensional matrix code (instead of an invisible code for the domestic products) on the packs and the cartons. In addition, enforcement officials will be able to see a numeric code on the packs with a reader. At the end of the numeric code the letters BR will be added, indicating that the cigarettes were produced in Brazil. Through a link with internet, enforcement officials will have access to information (such as date and place of manufacturing and country of destination) to trace the pack by introducing the numeric code of the pack.

The Brazilian system was in place in 2007 to tackle the domestic problem of illicit manufacturing and was successful in this respect. Its objective was not to control cigarette smuggling, which mainly originates from its neighbour Paraguay. Installation of cigarette production counters, the high-tech tax stamp system and licensing of the manufacturers were part of a programme developed primarily to address the illicit domestic trade generated by Brazil's small national manufacturers. According to the Brazilian Ministry of Finance,



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implementation of the programme led to the reduction of illegal production by the small manufacturers from 19 billion cigarettes in 2007 to 4 billion cigarettes in 2013.³

The United Kingdom: reducing illicit trade through more law enforcement capacity, higher penalties, intelligence and supply chain legislation⁴

The illicit cigarette trade was at very high level in the United Kingdom in 2000. British customs officials estimated that the illicit cigarette market reached 21% of the total market. In the same year, the Government of the United Kingdom announced a package of measures designed to curb illicit trade. These included: the deployment of 1 000 additional customs officers; additional specialist investigators and intelligence staff; additional X-ray scanners; tougher sanctions and penalties; and a public awareness campaign.

In 2006 the strategy was reinforced by supply chain legislation, making it a legal duty for manufacturers not to facilitate smuggling, with fines of up to £5 million if they failed to comply.

In 2008 and 2011 HM Revenue and Customs (HMRC) and the United Kingdom Border

Agency coordinated and strengthened their strategy to tackle tobacco smuggling which included: increasing criminal intelligence and investigation resources deployed on tobacco fraud by 20% to prosecute more of those involved in smuggling at all levels; introducing new technology, intelligence and detection capability; pursuing proceeds of crime and applying new powers of assessment and penalties; and reducing the minimum indicative levels for personal imports to 800 cigarettes and 1 kg hand-rolling tobacco.

International cooperation is a key element of the British strategy. According to a report of the National Audit Service, HMRC's focus on building overseas intelligence is yielding success. 28 overseas intelligence officers work with host countries to gather and exchange information on criminal activity including customs fraud. HMRC estimates that its intelligence officers worked with overseas authorities to seize goods equivalent to preventing a revenue loss of US\$ 1 billion between 2011 and 2013.

Data from HMRC show that the illicit cigarette market in the United Kingdom decreased from 21% in 2000 to 9% in 2012.

- ¹ IARC handbooks of cancer prevention: tobacco control, volume 14. Effectiveness of price and tax policies for control of tobacco. Lyon: International Agency for Research on Cancer; 2011.
- ² Sweeting J, Johnson T, Schwartz R. Anti-contraband policy measures: evidence for better practice – summary report. Toronto: The Ontario Tobacco Research Unit; 2009.
- ³ Federal Revenue Secretariat, Brazil. Production control, track and trace system cigarettes, 2014.
- ⁴ Tackling tobacco smuggling. London: HM Treasury, 2000. Illicit trade in tobacco. Fact sheet 17. London: Action on Smoking and Health; October 2014 (http://www.ash.org.uk/files/documents/ASH_122.pdf, accessed 5 April 2015). Inquiry into the illicit trade in tobacco products. London: All Party Parliamentary Group on Smoking and Health; 2013 (<http://www.ash.org.uk/APPGillicit2013>, accessed 5 April 2015). Progress in tackling tobacco smuggling. London: National Audit Service; 2013. Measuring tax gaps, 2014 edition. London: HM Revenue & Customs; 2014.

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