

Despite Industry Claims, Tobacco Taxes Do Not Cause Illicit Trade

According to the Institute of Medicine, the U.S. Surgeon General, and the World Health Organization, tobacco¹ tax increases are a highly effective means of reducing tobacco use.^{ii, iii, iv} Increasing the price of tobacco products through significant state excise tax increases improves health outcomes by preventing smoking initiation, promoting smoking cessation, and reducing the prevalence and intensity of tobacco use by teens and adults.^{v, vi, vii, viii} In fact, tobacco companies have repeatedly admitted in their own corporate documents that tobacco taxes are a significant deterrent to youth consumption and an incentive to adult quitting and therefore pose a serious external threat to tobacco industry sales volumes and profits.^{ix, x, xi, xii}

When faced with mounting evidence that tobacco tax increases effectively reduce tobacco use, tobacco manufacturers will try to distract policymakers from the material facts by invoking dire warnings of reduced revenue due to increased illicit activity including widespread smuggling and other organized crime that they claim will result from increased taxes on cigarettes and other tobacco products.

The tobacco industry and its allies are being intellectually dishonest when they say tobacco tax increases will lead to reduced state revenues because of widespread cigarette smuggling or other black-market activity. Consider the facts: every state that has significantly increased its state cigarette tax has also boosted its state revenue, despite the beneficial reduction in smoking resulting from the tax increase, regardless of any related tax avoidance, tax evasion, or illicit activity.^{xiii}

The Tobacco Industry and Cigarette Smuggling

The tobacco industry has shown an historical interest in increased cigarette smuggling. Major multinational tobacco corporations including Philip Morris International, Japan Tobacco International, British American Tobacco, and RJ Reynolds have been implicated in various smuggling allegations in both Europe and North America. Some of these companies have pled guilty and been convicted of criminal violations, while others have chosen to settle lawsuits.^{xiv, xv} The tobacco industry's interest in cigarette smuggling is self-serving, particularly since the industry benefits from smuggling in the following ways:^{xvi}

- Tobacco companies get paid for products that enter the illegal distribution chain just the same as they do with their products sold through legal markets.

Who Benefits the Most from Cigarette Smuggling?

“Tobacco companies are among the main stakeholders benefiting from illicit cigarette trade. Smuggling helps these companies generate higher profits by enabling them to pay tobacco taxes in jurisdictions with lower levies, or to not pay taxes at all. It has been well documented that the tobacco industry’s various business strategies to expand tobacco sales facilitated the illicit cigarette trade. Worldwide, transnational tobacco companies have been found guilty of organizing illicit tobacco trade and have paid billions of dollars in fines and penalties in compensation.”

Excerpted from *The Tobacco Atlas*, a publication of the American Cancer Society and the World Lung Foundation.

- Tobacco companies enjoy lower tobacco prices and increased demand as a result of smuggling.
- Tobacco companies often use the threat of increased smuggling to argue against increased excise taxes, leading to higher consumer demand in legal markets.

Tobacco companies typically overstate the illicit trade problem when it benefits them.

Although a small amount of cigarette smuggling does occur and benefits the tobacco industry, peer-reviewed research independent of tobacco industry influence estimates that a relatively small proportion (11.6%) of the global cigarette market is the result of some form of illicit trade.^{xvii} Estimates of the scope of

Less Demand, Less Illicit Trade

“The most effective way to reduce illicit trade is to reduce the demand for all tobacco products, legal or illicit.”

Excerpted from *The Tobacco Atlas*, a publication of the American Cancer Society and the World Lung Foundation.

the problem in the United States have similarly concluded that only a fraction of the 264 billion cigarettes consumed in the U.S. each year evade taxes, using a variety of legal and illicit means.^{xviii} Apart from smuggling and tax avoidance, the tobacco industry and its allies often seek to generate concerns about cigarette counterfeiting operations. A 2016 analysis of recent data suggests that counterfeit and pirated goods of different types only comprise 2.5% of the global imports market.^{xix} For Philip Morris

International, the rate is comparatively smaller: the company reported to its own investors that only 0.22% — less than one percent — of the total global cigarette market was manufactured by illegal counterfeiters.^{xx} Nevertheless, because of the known health risks at stake, significant tobacco tax increases are urgently needed to help curb the strong consumer demand that drives the market for illicit trade, despite tobacco companies’ opposition at various levels of government.^{xxi}

Common-sense measures are available to states to further minimize black market sales.

Many options exist for state officials to crack down on cigarette smuggling and counterfeiting. The recommended measures intended to minimize illicit activity may also help reinforce the positive health outcomes and decreased health care costs attributed to reduced tobacco consumption.^{xxii} States should be wary of tobacco industry efforts to block tobacco tax increases that it knows will decrease tobacco consumption and save lives while maximizing state revenues.^{xxiii}

A Call to Action

“Governments should not heed tobacco industry threats of rising illicit trade as an excuse to postpone or avoid implementing strong tobacco control measures . . . the existence of illicit trade should never distract us from the critical job of implementing strong tobacco control policies and saving lives.”

Excerpted from *The Tobacco Atlas*, a publication of the American Cancer Society and the World Lung Foundation.

Significant tobacco tax increases are effective in reducing tobacco consumption while also generating new revenue, even when states are surrounded by other states with lower tobacco excise taxes.

While it is true that any tax evasion and smuggling that does occur will tend to reduce some revenue gains, these types of illicit activities do not come close to eliminating all the new revenues or seriously impacting the health gains that are achieved when states increase tobacco taxes by significant amounts.^{xxiv}

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Significant tobacco tax increases are one of the most effective ways to reduce tobacco use, and the tobacco industry knows it.

Robust evidence now exists that tobacco tax increases produce major benefits from the health and revenue perspective.^{xxv} Since the beginning of 2000, 48 U.S. states and the District of Columbia have passed 149 state cigarette tax increases.^{xxvi} Additionally, people who use tobacco consistently seek increased help from state tobacco cessation quitlines in the weeks and months following significant cigarette tax increases.^{xxvii,xxviii,xxix,xxx} The tobacco industry cannot erase the historical truth and hard evidence that tobacco taxes save lives, save taxpayers money, and generate millions of dollars in predictable new revenue for states.

ⁱ ACS CAN recognizes the important role of ceremonial tobacco for many indigenous communities. This term is intended to address commercial tobacco, not the provision, possession, or use of tobacco products as part of an indigenous practice or other recognized religious or spiritual ceremony or practice. All references to tobacco and tobacco products in this fact sheet refer to commercial tobacco.

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^x Ellen Merlo, Senior Vice President of Corporate Affairs, Philip Morris, 1994 draft speech to the Philip Morris USA Trade Council, January 11, 1994, Bates No. 2022811708/1755.

^{xi} R.J. Reynolds Executive D. S. Burrows. Estimated Change in Industry Trend Following Federal Excise Tax Increase. September 20, 1982, Bates No. 501988846/8849.

^{xii} Philip Morris Executive Claude Schwab. Cigarette Attributes and Quitting. March 4, 1993, Bates No. 2045447810.

^{xiii} Campaign for Tobacco-Free Kids. Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking). Updated January 19, 2021 Available at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

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^{xv} Los Angeles Times. Tobacco Company Affiliate Pleads Guilty in Smuggling. <http://articles.latimes.com/1998/dec/23/news/mn-56927>. Accessed December 12, 2016.

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