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For How Long Are We Going to Tolerate the Illicit Smoke Trade?

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Key points

It is a fact that tax-free tobacco¹ trafficking is a criminal activity which is known to have a great prosperity in Greece. More specifically, the illicit smoke trade concerns tobacco products which are produced most of the time in third-world countries and illegally imported into Greece by avoiding high taxes while being easily distributed to the public. It is therefore logical for the consumers to prefer, for economic reasons mainly, untaxed tobacco instead of those who have undergone all the necessary customs and health controls and are taxed based on their value. However, most consumers overlook the fact that by buying tax-free tobacco they are harming at the same time the economy of the country as well as their health. Hence, purpose of this policy brief is to illustrate the devastating consequences of the illicit smoke trade both in the Greek economy and in the health of the consumers and finally to put forward the suitable recommendations for the mitigation of the phenomenon:

- Cooperation with Interpol to identify the origin of illicit smoke products.
- Collaboration with specialized departments of OECD to understand the problem.
- More consistent application of the WHO articles on tobacco control, which have been ratified by Greece.
- Cooperation with OLAF to arrest the responsible ones.

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¹ In this policy brief tobacco and cigarettes have the same meaning to avoid repetition.



Introduction

Illicit trade of cigarettes is undoubtedly part of the organized crime and is a form of terrorism (Combating illicit trade). According to a survey, about 10% of the cigarettes available on the market are sold illegally in several countries of the world and Greece is no exception. In fact, according to KPMG-Project Sun's data, Greece was ranked second among other European countries for the highest rate of illicit smoke consumption in 2016 (Organised Crime and the Illicit Cigarette Trade in Europe, 2016). That being said, it is obvious that the measures taken are inadequate as the penalties are lenient and do not sufficiently cover the extent of the problem. The government loses annually about € 10 billion of its revenue by the illegal smoke trade which has significant effects on the country's economy. Meanwhile, the consequences are equally catastrophic for the consumer's health as illegal cigarettes contain substances which are prohibited by the European Union itself.

Smoke that destroys the economy of Greece

Despite the efforts of the government to increase its revenues by imposing more and more taxes on the market of tobacco the results were insufficient as the consumers turned into their unlawful acquisition. Greece is now more accessible for those who want to sell or buy tax-free cigarettes. According to Euromonitor, in 2014 the trafficking of illegal cigarettes reached 18% while in 2013 about € 3 billion cheap/white cigarettes were sold (Gordon, 2015). The suppliers for the country are mainly the United Arab Emirates and Eastern Europe. Based on Euromonitor's information in 2014 more than € 229 millions untaxed tobacco products were consumed, as a result the Greek state had a lack of € 740 million of revenue. In 2019 the illicit sale of tobacco is expected to exceed 25% as the taxes for its elimination increase while Greece continues to be the first choice for the illegal penetration of this product. Therefore, the government is losing each year millions of tax revenues that could be used for the improvement and the development of the country (Luna, 2012). Therefore, in order to cover the tax gap created by the smuggling of tobacco, the state is imposing even more taxes; as a result smuggling in the sector of tobacco is increasing more and more. Additionally, as the state does not receive the estimated rate of its taxes, the government led to fallible financial management that causes inflationary pressures. The design, thus, of the macroeconomic policy is disorientated. (Alderman, 2012) (EFSYN.GR, 2018)

Furthermore, illicit economics activities, and in particular those relating to the illegal trafficking of smoke products, affect negatively both fiscal and monetary policies. Companies which take part in the underground economy maintain some links with the financial and fiscal system as they do not submit their taxes; consequently the potential of these two policies is not able to tackle the illicit trade in tobacco products. Except from the above effects, the dimension of the illegal trade in tobacco affects the foreign



direct investments as well. As the government cannot control the extent of illicit smoke trade, it is obvious to business world that Greece is not capable of creating a healthy competitive environment that will support and protect businesses from the unfair competition. As for the domestic companies, smuggling of tobacco discourages them from making the necessary investments that will contribute to the economic development of the country, as they lose annually money because of the existence of illegal tobacco products. (ΠΑΡΑΟΙΚΟΝΟΜΙΑ: ΕΝΝΟΙΑ ΚΑΙ ΕΠΙΠΤΩΣΕΙΣ) (Buchanan, 2015)

Undoubtedly, the extent of the illegal smoke trade influences those who work for the legitimate cigarette industry. Manufactures are harmed economically as their trademarks, which they have created with hard work, undergo damages over the years. Since the demand for legitimate smoke products does not have the same response that once had to consumers, it leads to a reduction in production of tobacco products by the industries, which has as an effect the economic difficulty of wholesalers, distributors and retailers. (Consequences of illicit trade)

In conclusion, due to the illicit smoke trade, there is a shortage of public funds, market mechanisms are malfunctioning, state's financial goals are not going to be fulfilled soon and legal manufactures, suppliers and distributors cannot contribute to the country's economic expansion proactively.

Why illegal smoke products are dangerous for consumer's health?

There is no doubt that, the illicit smoke trade is supported mostly by the consumers themselves. In particular, the majority of smokers prefers to buy smuggled or even counterfeited smoke products, as their price range is much lower than those which are lawful since they are not subject to any taxation, or even buy the original products which are cheaper either because they have been stolen or because they have been illegally imported to the country. In case of Greece, as in other countries, consumers do not perceive this act as a criminal one. On the contrary, they are keen on these cheap cigarettes due to their affordable cost which makes them even more active in the illegal market of tobacco. The continuing increase in the prize of tobacco is another reason why the consumers are choosing its unlawful acquisition. The government in its attempt to make smokers quit smoking leads to the imposition of high taxes, which pushes consumers to the illicit market for tax-free smoke products. Therefore, the illegal cigarette market is mainly attracted by young people who are forbidden to buy cigarettes and those who, for financial reasons, have the need or desire to save money. (Public perception of illicit tobacco trade, 2016)

Although, the best option for the consumers would be to quit smoking, for what reason they should prefer legitimate cigarettes instead of illegal?



Admittedly, tobacco products sold on the black market are uncomformable with the Ministry of Health's prohibitions; as a result public health goals cannot be accomplished easily. According to research, smuggled cigarettes contain twice as much nicotine and tar in comparison to legal, sixfold lead and sometimes double arsenic. Furthermore, in a lot of smokes there have been found rat and insect droppings, animal bristles, pieces of plastic and heavy metals which are clearly disastrous for the consumers' health (SIGANOS, 2014). More specifically, heavy metals have a significant impact on health

as they accrete gradually, while carcinogens and toxic gases are the ones causing higher rates of mortality and morbidity. (Avoidance and evasion of taxes on tobacco products) Based on reports by the Shandong Provincial Tobacco Monopoly Bureau, smuggled cigarettes may contain even more infected sewage in relation to legal products that can create serious complications in the nervous system such as brain death. Problems can also be occurred to the reproduction and vision of smokers. Therefore, if legitimate cigarettes or bulk tobacco are already causing severe health problems, smuggled ones are even more harmful for health. However, consumers are not in a position to know the aforementioned as producers of illicit smoke trade do not place warnings or they put labels in another language in order to mislead consumers, as their products do not follow the hygiene rules nor are qualitative (How illicit cigarette trade dents the socio-economic fabric, 2013). At the same time, smokers are drawn by the low prices of these products, which are effortlessly available, without considering the way they have been made, their place of origin and the harmful effects on their health. (Noncommunicable diseases)

Recommendations

In order to tackle illicit tobacco trade, Greece could seek to cooperate with Interpol, so that the international organization can offer its service for the monitoring and verification of these illegal products. Additionally, it can guide the government and law enforcements authorities through its manual on how to deal with the problem effectively. (THE GLOBAL ILLICIT TRADE IN TOBACCO:, 2015)

As the country is member of the Organization for Economic Co-operation and Development (OECD), could work with one of its specific subgroups and particularly with the department of << Task Force on Charting Illicit Trade >> to indentify, understand and address the roots of illicit smoke trafficking and to protect the economic and social integrity of the nation.

As it is known, since 2006, Greece has ratified the << WHO Framework Convention on Tobacco Control>>, which is a global treaty concerning the protection of people's health. However, the country continues to suffer from the extent of the illegal tobacco trade. Therefore, the government should proceed to the strictly abidance of the treaty's articles. Especially, it should strengthen the penalties against smugglers in order to reduce tobacco smuggling and to redefine the tracking and tracing system. Undoubtedly,



unexpected physical controls should be carried out to confirm that all products are legally imported and exported and that they are in conformity with the legislation. It should require all packaging to indicate the ingredients of the product, to have the industry's tobacco label and to be subject to strict controls before placing on the market otherwise they will be penalized. The state has also the obligation to inform the public and to raise awareness about illegal smoke products through systematic informational campaigns and programs. (The WHO Framework Convention on Tobacco Control: an overview, 2015)

Finally, following the example of the European Commission and the USA, the government could work with the European Anti-Fraud Office (OLAF) to investigate the illicit routes of tobacco trade and collect evidences in order to punish the responsible. For example, when USA co-operated with OLAF they withdrew 43 million illicit smoke products.



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