

The Illicit Tobacco Market and Tobacco Control: Balancing the Response

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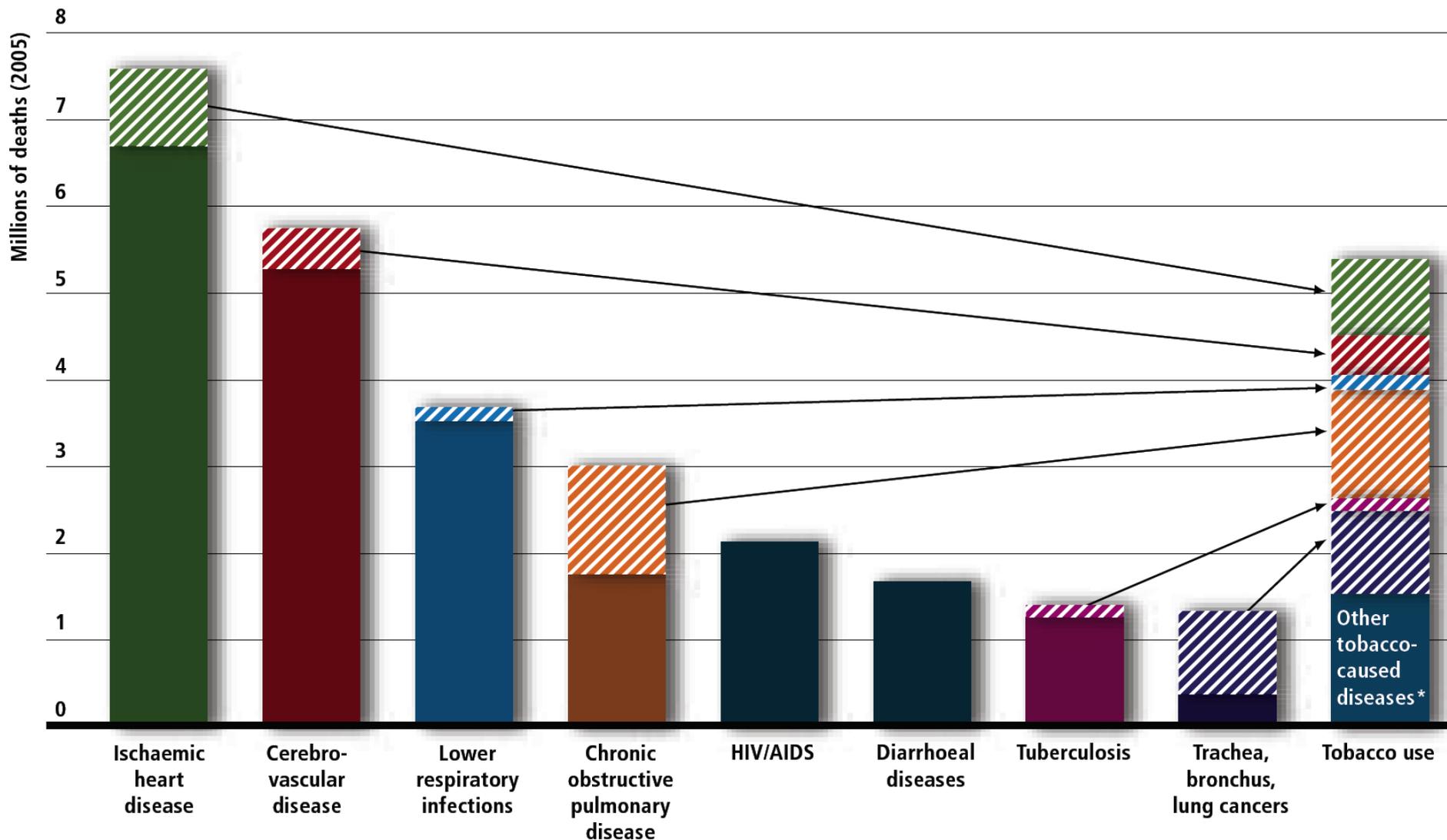


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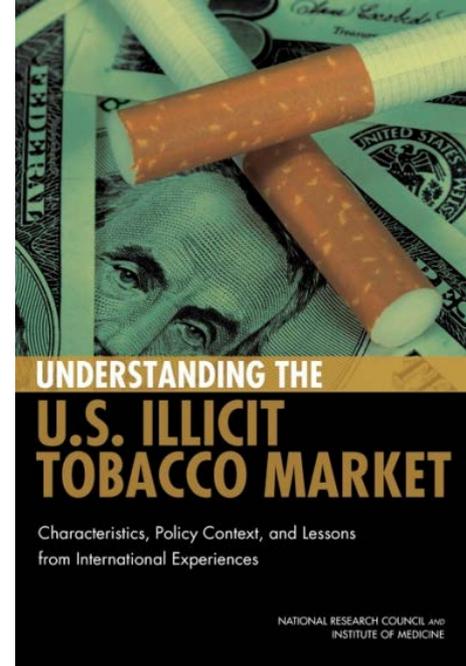
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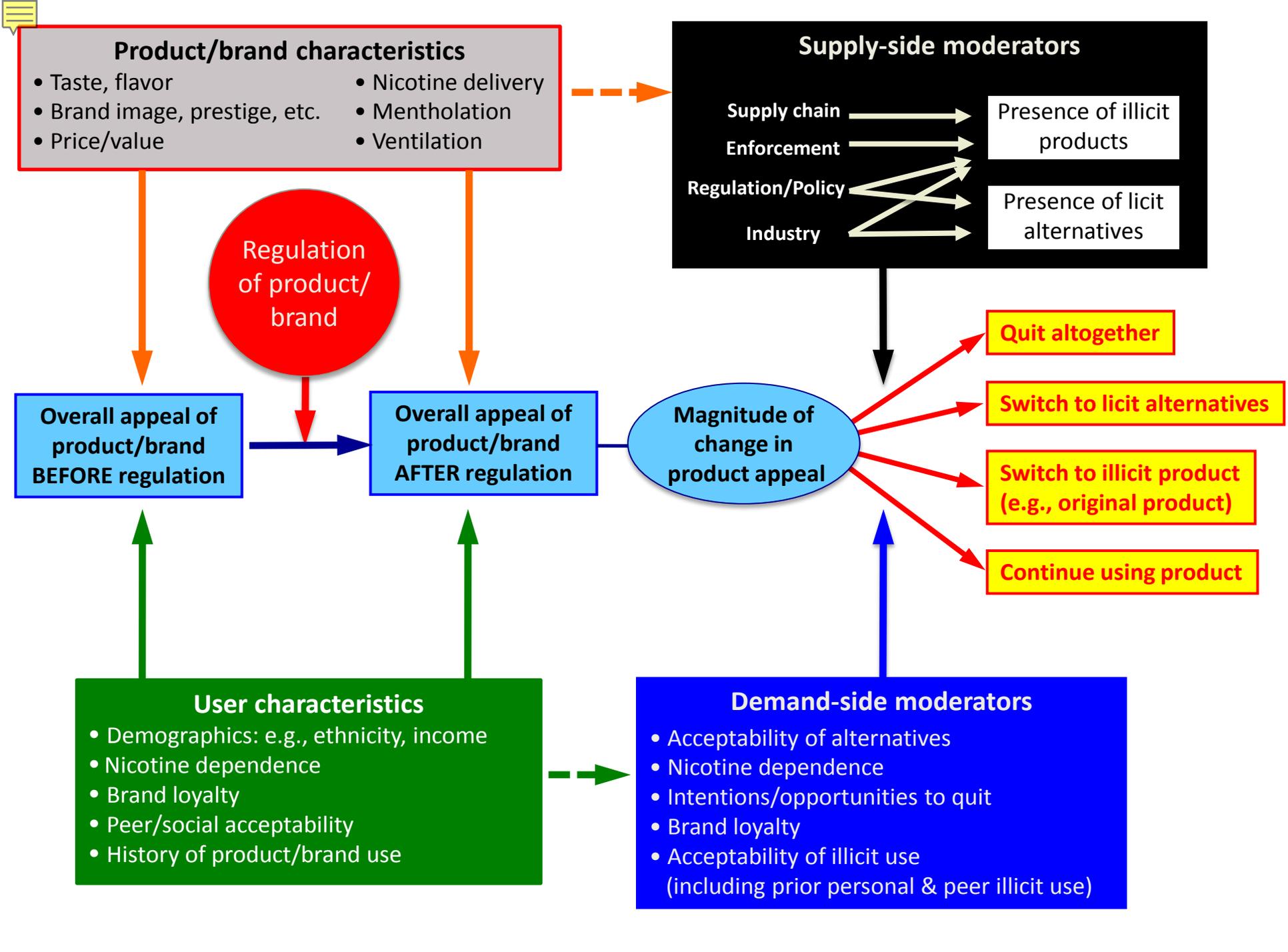
Tobacco a Risk Factor for 6 of the World's 8 Leading Causes of Death



Institute of Medicine, 2015: *Understanding the Illicit Tobacco Market*

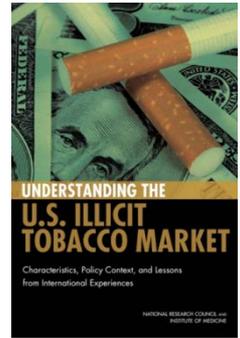
- Congressionally mandated report from the National Research Council and Institute of Medicine
- Took an international perspective
- Experts from economics, criminology, law enforcement, sociology, public policy & public health
- Held public meetings & assessed available evidence
- Interest in effect on illicit market of a potential regulatory approaches



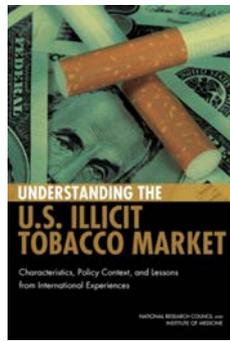


Major Conclusions

- 4 main schemes:
 - Bootlegging
 - Large-scale smuggling
 - Illicit whites
 - Illegal production
- Bootlegging driven by price factors
- U.S. illicit tobacco market:
 - Estimated range = 8.5 – 21% of market
 - = 1.24 – 2.91 billion packs
 - = \$2.95 – \$6.92 billion lost state / local tax revenue
- Committee's estimate is 8.5% (up from 3.25 in 1992/3)
- Massachusetts a net *importer* of illicit tobacco

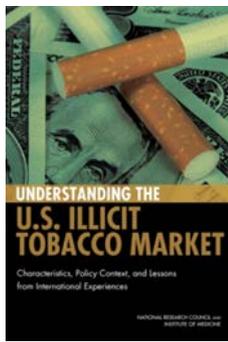


Major Conclusions



- Future product regulations unlikely to have major impact on illicit market
 - Fire-safer cigarettes in Massachusetts
 - Possible future regulations on:
 - Menthol
 - Flavors
 - Nicotine level
 - Graphic health warnings

Major Recommendations



- Opportunities exist at multiple levels to control bootlegging:
 - Digital tax stamps with encrypted information
 - Track & trace technologies implemented across state borders
 - Tax harmonization program
 - Appropriate tobacco-specific law enforcement response
 - Collaboration across jurisdictions
 - Agreements with tobacco manufacturers
 - Public education



Illicit market response must be balanced with tobacco control measures

- Tobacco perpetuates poverty, impedes economic development
- Globally, > 1 billion deaths projected for this century (8 million/year by 2030)*
- Each smoker loses 13.2 – 14.5 years of life*
- Globally, members of poorer communities have highest smoking rates
- Vicious cycle of poverty and tobacco use

Productivity loss and healthcare costs undermine the economy

United States

\$6000

Excess cost per smoker

US smokers cost their employers an excess of \$6000 per smoker, due to lower on the job productivity, higher absences and increased health costs

Economic impact in Massachusetts

\$4.08 billion

Annual cost to the health system from smoking

\$1.26 billion of these costs met by Medicare

\$1,065 per household

Residents' state & federal tax burden from smoking-caused government expenditures

\$240 billion

Smoking caused productivity losses

The tobacco burden is concentrated on the poor

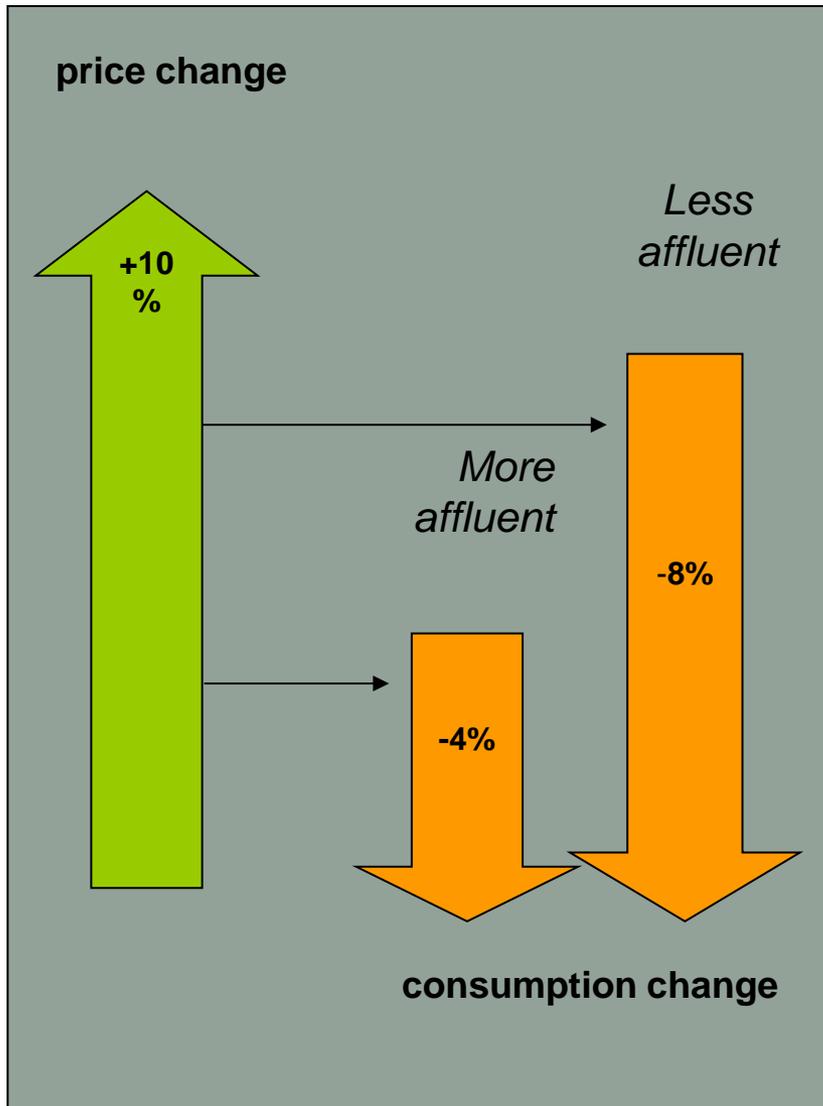
| City | Adult Smoking Rate | Difference from MA average |
|---------------------|---------------------------|-----------------------------------|
| Boston | 14.4% | -0.6% |
| Brockton | 28.6% | +13.6% |
| Chicopee | 23.6% | +8.6% |
| Fall River* | 23.2% | +8.2% |
| Holyoke* | 20.9% | +5.2% |
| Lynn* | 25.2% | +10.2% |
| New Bedford* | 29.2% | +14.2% |
| Springfield* | 20.3% | +5.2% |
| Taunton* | 24.2% | +9.2% |

*** Have 15% - 65% more retailers per 1,000 adults than state average**

Tobacco Control in Massachusetts

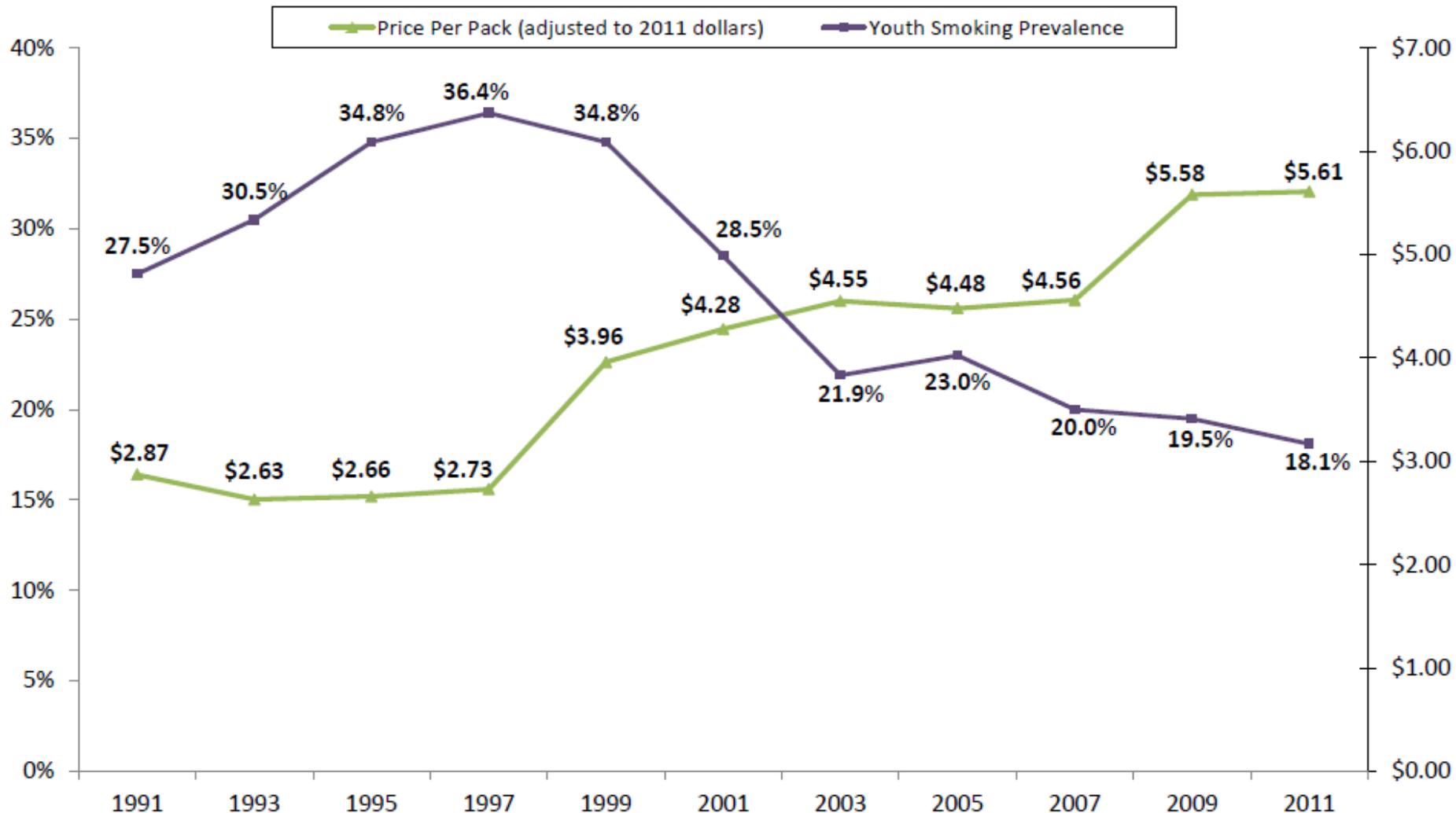
- Progressive tobacco tax
- Policies to protect youth
- Communication campaigns
- Youth-related tobacco industry tactics
- Support for cessation
- State and local laws

Tobacco price lowers consumption



- 10% price increase reduces tobacco use rates by about 8% among the poor and around 4% among the better off
- Poor and young respond more to higher prices than the more affluent and old
- Higher price also reduces consumption among those who continue to smoke
- = Improved health

U.S. Youth Smoking Prevalence vs. Cigarette Pack Price, 1991-2011



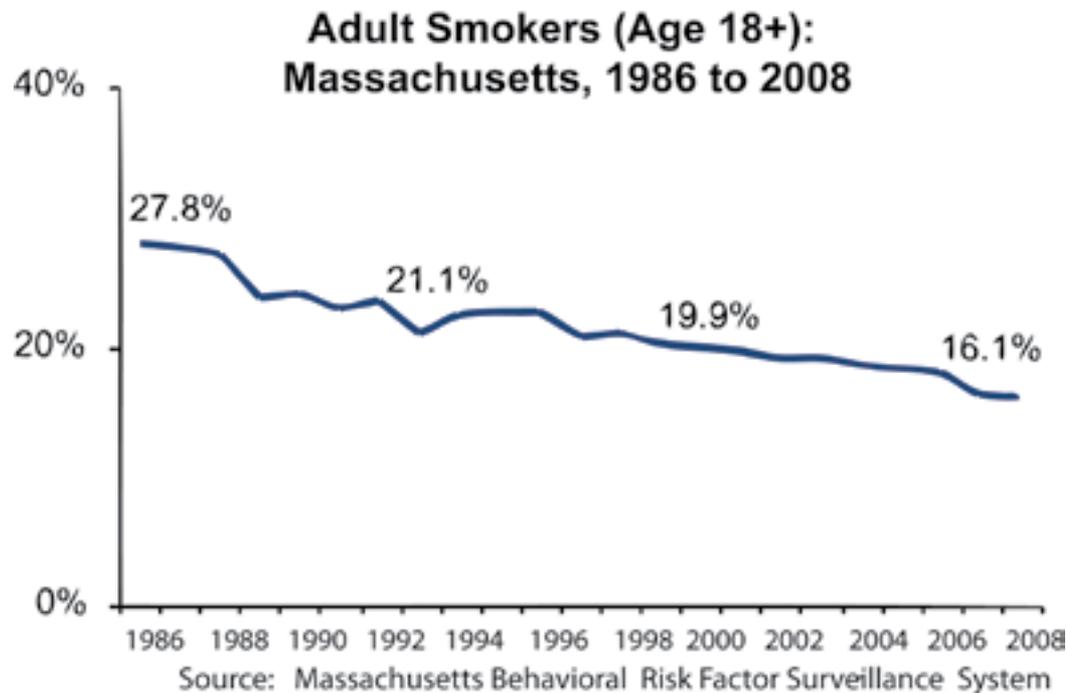
Sources: *The Tax Burden on Tobacco*, 2011; CDC, Youth Risk Behavior Survey, 2011.

Note: Pack prices are from November 1, each year.

Obstacles to Tobacco Taxes?

- Will reduce government revenues
- Smuggling (illicit trade)
- Difficult to collect and implement
- Regressive (against poor)
- Will destroy jobs / hurt farmers

Impact of Massachusetts tobacco control program



In 2013:

- **Adult smoking: 16.6%** (national = 16.8%)
- **Youth smoking: 10.7%** (national = 15.7%)

BRFSS 2013 data; Reported by Campaign for Tobacco Free Kids, 2015

Need to maintain strong tobacco control

- Of all children alive in Massachusetts today, 103,000 will be killed by tobacco
- Particular concerns for low income communities, women, youth
- Undermines socioeconomic growth, health costs, productivity

Care is needed to balance revenue protection & law enforcement with public health goals

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