Open Letter to Financial Secretary, Hong Kong SAR Government
Raising Tobacco Tax Substantially to Lower Smoking Prevalence

Since the enactment of the Smoking (Public Health) Ordinance in 1982, Hong Kong Government has adopted multi-pronged tobacco control measures to safeguard public health. Daily smoking prevalence of Hong Kong has reached its lowest record of 10.7% in 2012. But there are still 645,000 daily smokers and slight increase in certain groups, such as middle-aged people and women, as reflected in the Thematic Household Survey Report No.53.

Tobacco use is a huge burden to individuals as well as the whole society. Smoking not only causes about 7,000 loss of lives to Hong Kong every year, but also incurs considerable medical expenses and loss of productivity (Annex A). The World Health Organization (WHO) states clearly that at least one out of two smokers will be killed by tobacco. Recent evidence further proved that it could be two out of three. A reduction of tobacco use would mean saving significant number of lives.

In response to the tobacco epidemic, WHO suggests six tobacco control measures, MPOWER, as a guideline for the parties of Framework Convention on Tobacco Control (FCTC). Raising tobacco tax is highlighted as one of the most effective measures to decrease tobacco use and encourage smoking cessation.
Preventing Children and Youth from Smoking

With concerted efforts of the community on smoking preventive education and publicity programmes, smoking prevalence of youth in Hong Kong has been keeping at a low level. However, Thematic Household Survey in 2012 found out that the smoking prevalence of primary school students has slightly increased.

The World Bank proved that youth are very sensitive to the price of cigarette. According to the research study of the School of Public Health, Li Ka Shing Faculty of Medicine, The University of Hong Kong (HKU), smoking among adolescents had dropped by from 6.9% in 2008 to 3.4% in 2010 after the tobacco tax increase in 2009 and to 3.0% in 2012 after the increase in 2011, which meant about 13,000 and 3,000 adolescents were prevented from or had quit smoking in 2010 and 2012 respectively. It demonstrated clearly that tax increase brings positive effect to deter youth and teenagers from taking up smoking.

Strengthening Determination to Quit Smoking

Increase of cigarette price can also reduce tobacco consumption and encourage smoking cessation. Upon the announcement of tobacco tax increase in the 2009 and 2011 Budgets, the Integrated Smoking Cessation Hotline of Department of Health had received over 15,000 and 20,000 calls of assistance for smoking cessation in the respective years, which were annual increases of 258% and 49%.

According to our “Tobacco Control Policy-related Survey 2014”, the overall respondents opined that the cigarette retail price should reach HK$106 per pack on average to effectively motivate smokers to quit, which is HK$51 higher than the current retail price. The current smokers even thought that the price should be increased to HK$171 on average, which was much higher than the ex-smokers (HK$123) and never smokers (HK$98). These figures reflect that there is huge space for cigarette price increment. The government should substantially increase the price through raising tobacco tax in order to effectively motivate smokers to quit.

Public Support for Increasing Tobacco Tax and Cigarette Price

Most respondents (65.3%) of the “Tobacco Control Policy-related Survey 2014” expressed that the mild increment of tobacco tax in 2014 (HK$4 per pack) was not effective to help smokers to quit smoking. Most of them (72.9%) supported to increase tobacco tax annually, which 48.1% thought that it should be higher than the inflation rate in order to maintain the pricing effect on tobacco demand.

Cigarette price in Hong Kong is low compared to the other developed regions such as Australia (HK$132 for a 25-stick pack), New Zealand (HK$106), United Kingdom (HK$105) and Singapore (HK$70). According to the calculation of Dr Hana Ross, an international expert of tobacco control economics, the real price of Hong Kong cigarette has increased by only 25% from 1989 to 2013, which is far outweighed by the inflation rate. The real income price (cigarette price in terms of
income) had even decreased by 14%. Affordability of Hong Kong smokers on cigarettes is high compared to many countries in the Western Pacific region, e.g. Australia, Malaysia, Singapore and Thailand.

No Causal Relationship with Illicit Cigarettes

Tobacco companies claimed that raising tobacco tax would cause illicit cigarettes and oppose to it. Philip Morris Asia Limited has commissioned the Oxford Economics and International Investment and Tax Center (ITIC) to conduct researches on illicit tobacco consumption in Asian countries (“OE report”) in 2012 and 2013. The OE reports claimed that consumption of illicit cigarette accounted for about one third of total cigarette consumption in Hong Kong. However, it was skewed by the tobacco companies and the research method was doubtful. Dr Margaret CHAN, WHO Director-General revealed in October 2014 that ITIC is a tobacco industry-funded lobby group to undermine nations’ tax sovereignty and effort on tobacco control (Annex B). Parties should be cautious to and reject the misleading information of ICTC and any other tobacco industry-funded groups.

With transparent assumptions and reliable data from the government departments, Hong Kong Council on Smoking and Health and HKU found the estimates of OE reports were highly inflated. The realistic illicit cigarette consumption in Hong Kong should range from 8.2% to 15.4% of total cigarette consumption in 2012, with a mid-point estimate of 11.9%. The estimates have been peer reviewed by the British Medical Journal and published in their publication Tobacco Control in January 2015 entitled “Did the tobacco industry inflate estimates of illicit cigarette consumption in Asia? An empirical analysis”. (Annex C).

Furthermore, WHO has proved that there is no causal relationship between raising tobacco tax and illicit cigarettes. In fact, illicit cigarette also persists in countries with low tobacco tax whereas is trifling in countries with high tobacco tax. The purpose and effectiveness of tobacco tax is to deter smoking. It is unjustified to link tobacco tax together with illicit cigarettes. It is also unreasonable and ineffective to solve the smuggling problem by freezing tobacco tax. According to the statement of Hong Kong Customs & Excise Department in the Legislative Council meeting on 8 April 2011 (LC Paper No. CB(2)1419/10-11(01)), “there was no sign that the situation in respect of the illicit cigarette market had deteriorated as a result of the increase in tobacco duty rates”. The effective method to combat smuggling and illicit tobacco use is to strengthen enforcement.

We urge the Government to respond to the aspiration of the general public and raise tobacco tax by 100% in 2015-2016 for the purposes of effectively encouraging smokers to quit and reducing the smoking prevalence to single digit in 1-2 years.

In order to reduce the smoking prevalence to 5% or below and achieve a smoke-free Hong Kong by 2022, the Government should also formulate a proactive and long-term policy on raising tobacco tax and allocate more resources on tobacco control, such as smoke-free education, smoking cessation services and enforcement to
combat smuggling.

c.c. to: Chief Executive, HKSAR Government
        Secretary for Food and Health, HKSAR Government
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Hong Kong College of Education & Research in Nursing
Hong Kong College of Emergency Nursing
Hong Kong College of Gerontology Nursing
Hong Kong College of Medical Nursing
Hong Kong College of Mental Health Nursing
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SMOKING COSTS HONG KONG OVER $5 BILLION EVERY YEAR
FIRST REPORT OF A COMPREHENSIVE ASSESSMENT IN ASIA

A new study estimating the costs of disease caused by tobacco in Hong Kong was announced today by the Department of Community Medicine and School of Public Health, Faculty of Medicine, The University of Hong Kong.

Research Background
Dr Sarah McGhee, Associate Professor, Department of Community Medicine and Project Leader, said that the report focuses on mortality and morbidity costs due to active smoking and passive smoking, including increased health care use and productivity losses from time off work and premature deaths.

Research Method
A wide range of information from special local studies (mostly previous University of Hong Kong’s studies) and routine government statistics were used by the research team. These data included the specific health risks of active and passive smoking, days spent in hospital for specific causes, visits to clinics and general practitioners, time taken off work due to illness and long term care.

Research Findings

Lives Lost
The results revealed that:
1. A large proportion of the costs were associated with the total of 6,920 deaths (aged 35 years and over) in Hong Kong in 1998 which were attributable to active or passive smoking;
2. 3,927 (57%) of these are premature deaths (<75 years);
3. 19% of the total deaths due to tobacco (i.e. 1,324) were caused by passive smoking.

Productivity Loss
1. The total number of deaths occurring while smokers or passive smokers were in their productive years (<65 years) was 1,707 and is valued at $1.4 billion per year due to total lost working years.
2. Illnesses from active and passive smoking, leading to time off work, cost the private and public sectors $420 million per year.

Health Care Costs
Dr McGhee pointed out that:
1. Direct health care costs due to active and passive smoking included hospital care for adults at $1.9 billion and extra visits to doctors cost $710 million;
2. Health care for children exposed to passive smoking cost $33 million;
3. The long term care in nursing homes and at home for diseases caused by tobacco cost $920 million per year.
According to the study, the overall estimate of the costs of direct health care for disease caused by active and passive smoking was:

1. **$2.6 billion** for acute and chronic health care;
2. **$0.9 billion** for long term care (mainly in nursing homes);
3. **$1.8 billion** for the productivity losses each year.

Of the health care costs, 82% fell on the public sector. Passive smoking accounted for 28% of the total costs, and 26% of the productivity losses.

**Economic Loss of Hong Kong**
The authors of the report concluded that the total cost of active and passive smoking in Hong Kong was **$5.3 billion** (at 1998 prices). This has taken into account costs for health care, residential care and lost working time for both active and passive smoking. To this figure should be added the value of the lives of the 6,920 (3,927 premature) deaths, which has not been added.

*Dr McGhee emphasised that the figures did not include intangible costs such as those due to pain and suffering.*

**Conclusion**
Professor Helen Lapsley, Research Professor, Centre of National Research on Disability and Rehabilitation Medicine, The University of Queensland, said that the identification of costs was an essential step in the prevention of harm caused by tobacco and that the Hong Kong findings were valid and plausible. Comprehensive studies in Australia have produced entirely comparable results allowing for the fact that Australia had a higher prevalence of smoking and a more mature epidemic of diseases caused by tobacco.

Professor Lapsley emphasised that the estimates of health costs of tobacco in Australia and Hong Kong strongly pointed to the need for increased expenditure on effective preventive interventions. An extrapolation of the Australian costs to Hong Kong would justify an annual expenditure of at least HK$50 million per annum on interventions.

Professor Anthony Johnson Hedley, Chair Professor, Department of Community Medicine, said “The findings of high social costs of tobacco is a clear demonstration that tobacco products cannot any longer be regarded as ordinary commodities.” The tobacco epidemic had it origins in nicotine addiction among young people and no studies have demonstrated any social benefits from the marketing of tobacco. The results are entirely consistent with the World Bank’s view that tobacco leads to a net loss to the community. He said “We should not allow any further delay in measures which would help to reduce the consumption of scarce resources in the health sector.”

Professor Tai-hing Lam, Head and Chair Professor, Department of Community Medicine, called for the findings of the study to be examined carefully by all government departments, legislators and health care providers. He said the information provides strong support for policy decision-making to prevent both acute and chronic diseases and health care costs at all ages. Professor Lam reinforced the need for urgent investment in professional smoking cessation services and smoke-free policies as rapid steps towards the reduction in health care costs in Hong Kong.
The research team’s acknowledgements include the Hong Kong Hospital Authority for providing essential data for this costing. The authors also thanked the HKSAR Department of Health and BUPA (Asia) Limited for information.

The study was funded by the Health Care and Promotion Fund of the Health, Welfare and Food Bureau of the Government of the Hong Kong SAR (#212919). The Lifestyle and Mortality study (LIMOR) was funded by the Hong Kong Health Services Research Committee (#631012) and the Hong Kong Council on Smoking and Health.

For media enquiries, please contact Ms Janet Yeung (Tel:2819-5505/9107-1676) or Ms Candice Koon (Tel:2819-9305/9408-3169) of Faculty of Medicine, The University of Hong Kong.

Please visit the website at http://www.hku.hk/facmed/press/ for supplementary information.

February 24, 2005
Address by Dr Margaret Chan, Director-General of WHO

13 October 2014

Thank you, Professor Chang-jin Moon, President of COP6. Thank you also, Minister Veronika Skvortsova, my dear sister.

Honourable ministers, distinguished delegates, colleagues and friends in public health and in the UN. I see many old friends in the audience. So good to see so many of you.

Ladies and gentlemen, good morning.

First, allow me to thank the government of the Russian Federation for hosting this Sixth Session of the Conference of the Parties to the WHO Framework Convention on Tobacco Control. I have to say, personally, I have witnessed the commitment of this government, led by President Putin himself and of course you, Sister Veronika, for overcoming very tough challenges to push through a very comprehensive law to control tobacco.

The law came into full force on the 1st of June this year. I want to thank you for your leadership. Many people told me years ago this will never happen in the Russian Federation. Thank you for proving them wrong.

Speculation is a very interesting hobby for many people. Some people speculated that I would not attend this meeting because I am so busy with so many other outbreaks of communicable diseases.

No. No. No. I will not cancel my attendance at this meeting because it is too important.

On the subject of communicable diseases, I do need to make a few comments.
In just the past few days, the volatile microbial world has delivered some sharp reminders of its power. Egypt confirmed a case of H5N1 avian influenza in an infant. Austria reported its first imported case of the MERS coronavirus. The US confirmed its first two Ebola cases. And Spain confirmed the first instance of Ebola transmission on its soil.

Ladies and gentlemen.

In a world replete with so many new and old threats, we turn to tobacco control. Tobacco control unquestionably is our biggest, surest, and best opportunity to save some millions of lives. I am very pleased to be with you today to see this meeting off to a very good start.

As you all know, I have never shied away from embracing WHO’s position as the tobacco industry’s number one enemy. I regard this as a badge of honour. It is in this spirit that WHO lends the voice of public health, and the power of peer-reviewed evidence, to countries that are facing predictable and forceful opposition from the industry.

As implementation of the Framework Convention reaches new heights, the tobacco industry fights back, harder and through every possible channel, no matter how devious those channels and practices are. Litigation brought against governments in national courts has been common, especially against the approval of large pictorial warnings on tobacco product packages.

In an especially worrisome trend, the tobacco industry is using bilateral investment treaties to try to deter governments from protecting the health of their citizens through strong tobacco control measures that are known to work. This has been the case with claims filed against Uruguay’s warning labels and branding measures, and this is also true because of the robust and courageous actions taken by Australia in plain packaging.

Australia’s plain packaging is also the object of a dispute at the World Trade Organization. All eyes are on this case. There are more third parties to the dispute than ever before in WTO history.

Most recently, and in a particularly brazen move, the tobacco industry brought its agenda and its voice here to the heart of tobacco control. Yesterday, the International Tax and Investment Centre, whose board of directors includes several tobacco companies, convened Parties and Observers to discuss tobacco tax and price policies without fully disclosing their vested interests.

Please, do not be fooled by them.

Their agenda, at least, is easy to see: to undermine your power, your efforts to adopt the robust, expert-driven proposed guidelines on tobacco tax and price policy. These guidelines, when used to implement the treaty’s Article 6, will protect children and young people, in particular, from initiating tobacco use.

There is an exchange of views recorded in the mountains of internal industry documents that are now in the public domain. Let me share with you one such document. It records a discussion – an internal discussion – about whether the industry should consider children as part of its market. I remember very well one reply, which I would like to quote directly: “They got lips? We want them.”

So ladies and gentlemen, this is the kind of tobacco industry tactic. They just want more and more market share. They could not care less if they are killing children.
Again, don’t be fooled by them.

What is the next challenge? The next challenge is that the tobacco industry is increasing its dominance over the market for electronic cigarettes. This should not come as a surprise. One company used this year’s World No Tobacco Day to call on WHO, and call on all of your governments, to promote electronic cigarettes as a way of protecting some of the lives that they themselves are killing with the other products they sell.

We also heard a familiar argument. That company insists that it “can and should be a part of this debate and possible solutions.”

No way. As I have said before, giving any tobacco company a place at the negotiating table is akin to appointing a committee of foxes to take care of your chickens.

Ladies and gentlemen,

We have abundant evidence from multiple sources that implementation of the Framework Convention brings both immediate and long-term improvements for health. As I said in 2011, when the UN General Assembly – your governments – issued its landmark resolution on noncommunicable diseases, let me quote: “Full implementation of the WHO Framework Convention on Tobacco Control would deal the greatest single preventive blow to all of these diseases.”

As time has shown, the tobacco treaty is important for a second reason. It is a model of how multiple sectors of government, and multiple UN agencies, can work together seamlessly and in tandem, united by a most worthy shared goal. The importance of this model continues to grow as more and more of the century’s biggest threats to health have multiple root causes and as the countries in this world are doing their utmost to fully implement the treaty, and the Articles in the Convention.

Ladies and gentlemen,

Let me wish you a most productive session here in Moscow as you move through a heavy but vitally important agenda.
Did the tobacco industry inflate estimates of illicit cigarette consumption in Asia? An empirical analysis

Jing Chen,1 Sarah M McGhee,1 Joy Townsend,2 Tai Hing Lam,1 Anthony J Hedley1

ABSTRACT

Objective Estimates of illicit cigarette consumption are limited and the data obtained from studies funded by the tobacco industry have a tendency to inflate them. This study aimed to validate an industry-funded estimate of 35.9% for Hong Kong using a framework taken from an industry-funded report, but with more transparent data sources.

Methods Illicit cigarette consumption was estimated as the difference between total cigarette consumption and the sum of legal domestic sales and legal personal imports (duty-free consumption). Reliable data from government reports and scientifically valid routine sources were used to estimate the total cigarette consumption by Hong Kong smokers and legal domestic sales in Hong Kong. Consumption by visitors and legal duty-free consumption by Hong Kong passengers were estimated under three scenarios for the assumptions to examine the uncertainty around the estimate. A two-way sensitivity analysis was conducted using different levels of possible undeclared smoking and under-reporting of self-reported daily consumption.

Results Illicit cigarette consumption was estimated to be about 8.2–15.4% of the total cigarette consumption in Hong Kong in 2012 with a midpoint estimate of 11.9%, as compared with the industry-funded estimate of 35.9% of cigarette consumption. The industry-funded estimate was inflated by 133–337% of the probable true value. Only with significant levels of under-reporting of daily cigarette consumption and undeclared smoking could we approximate the value reported in the industry-funded study.

Conclusions The industry-funded estimate inflates the likely levels of illicit cigarette consumption.

INTRODUCTION

Article 6 of the WHO Framework Convention on Tobacco Control (FCTC) recommends the use of taxation and pricing policies on tobacco products to decrease tobacco use.1 Increasing tax that results in an increase in cigarette prices is considered to be an effective policy to reduce tobacco consumption, induce smokers to quit and, in particular, reduce an effective policy to reduce tobacco consumption,4 the result of price rise is often raised by tobacco companies, sometimes successfully, to oppose tobacco tax increases.4 The tobacco companies themselves,7 on the other hand, are the major beneficiaries of illicit trade and have been found to facilitate smuggling so that cigarettes penetrate youth markets.4

Data on illicit cigarette consumption are limited and not available in many countries.7 The available data, often provided by industry-funded studies, have an incentive to inflate the extent of illicit cigarette consumption to oppose tobacco tax increases. Joossens et al8 showed that estimates from Project Star, which was commissioned by Philip Morris International (PMI) and compiled by Klynveld Peat Marwick Goerdeler (KPMG), were higher than the estimates based on a study among a sample of representative smokers in 11 of 18 European countries. Stoklosa and Ross9 showed that the industry estimate in Poland (22.9%) was higher than their estimates based on survey data (14.6%) or based on representative-discarded pack data (15.6%). van Walbeek8 compared the estimates presented by the Tobacco Institute of Southern Africa (30%), a body representing the interests of large cigarette companies, with estimates based on rigorous econometric methods (6.1%) and showed again that the industry-funded data were not reliable.

Another more recent example is the report, “Asia-Illlicit Tobacco Indicator 2012”.9 This study was funded by PMI and compiled by Oxford Economics (OE) and the International Tax and Investment Center (ITIC). The ITIC itself is funded by major transnational tobacco companies. In the report, illicit cigarette consumption in 11 Asian markets was estimated and claims were made that in 2012, illicit consumption comprised 35.9% of total cigarette consumption in Hong Kong. This estimate lacked rigorous validation, and the methods by which it had been obtained were not clearly described. The Southeast Asia Tobacco Control Alliance raised many questions about the sources of data, analytic methods and conclusions of this report.10 Nonetheless, the OE estimates for Hong Kong have been used to oppose tax increases.

In Hong Kong, stopping the illicit trade of tobacco, especially cigarette smuggling, has always been a priority of the Customs and Excise Department (CED). The drop in the number of seized cigarettes in the past decade, from 153 million sticks in 2003 to 39 million sticks in 2012, indicates that more stringent enforcement by the CED along with better cooperation with counterparts in bordering countries, primarily Mainland China and other local enforcement agencies, has deterred smuggling activities.11 In the meantime, in February 2009 and February 2011, the Hong Kong Government increased tobacco tax by 50% and 41.5%, respectively. Tobacco tax revenue increased from HK$2.8 billion in 2007 to HK$5.0 billion in 2012,11 while the prevalence of smoking declined from 11.8% in 2007 to 10.7% in 2012.12,13 The number of seized cigarettes in 2009 (29 million sticks) and 2011 (57 million sticks) did not increase as compared to the previous years of 2008.
Accessory C

(81.6 million sticks) and 2010 (57 million sticks). However, when tobacco control and public health professionals in Hong Kong pressed the government to increase tobacco tax by 100% in 2013 and when the Bill to increase tax on tobacco was introduced in the Legislative Council in 2014, the OE estimate of 35.9% of cigarette consumption being illicit, which had been presented to the mass media in Hong Kong in 2013, was repeatedly used by opponents to assert that tobacco taxation was unhelpful to public health. Finally, in 2014, the Hong Kong Government increased the tax by only 11.7%.

Therefore, the current study aimed to estimate illicit cigarette consumption in Hong Kong in 2012 and to validate the estimate published by OE. To do this, we used a comparable estimation framework, including local consumption by Hong Kong residents and visitors, but our data came from more reliable and transparent sources.

**METHODS**

**Estimation framework**

Approach adopted by ITIC and OE

The report by ITIC and OE (OE Report) describes their estimation framework as:

\[
\text{Total cigarette consumption} = \text{legal domestic consumption} + \text{legal non-domestic consumption} + \text{illicit domestic consumption} + \text{illicit non-domestic consumption}
\]

The OE Report used a bottom-up approach to estimate total cigarette consumption. The report estimated the legal domestic consumption from the legal domestic sales data from the Hong Kong CED minus the outflows of duty-paid cigarettes to other countries based on the ‘empty pack surveys’ (EPS) in other countries, legal non-domestic consumption from EPS plus ‘OE estimates’, and illicit non-domestic consumption based on EPS plus ‘OE estimates’ (Annexe A, Page 94). The total consumption was then the sum total of the above three components and the EPS plus OE estimates (Annexe A, page 94).

OE estimates for Hong Kong were mostly based on the EPS for which previous studies have raised serious concerns and no details were disclosed anywhere as to how the survey was carried out. There are many questions about this approach in the case of Hong Kong, the answers to which could greatly affect the results of the survey and interpretation of those data. For example: (1) How did they identify any empty pack that was duty-paid, smuggled or duty-free, since this information is usually not available on the pack in Hong Kong? (2) Could the sampled sites and timings yield a representative sample of all packs discarded in Hong Kong? (3) What was the final sample size with regard to the number of packs picked up from different bins and locations at different times? For example, how many packs were picked up on weekdays or weekends or holidays (such as ‘Golden Week’ holidays)? How replicable were the data? (4) How can we interpret these data in terms of consumers (local residents or visitors) who had smoked the cigarettes from the empty packs? The answers to these questions are the minimum information we would need to determine the validity and reliability of the survey methods used; and hence, the likely accuracy and representativeness of the results presented.

In our estimate, we used the same overall framework described above, but included only data from known sources and methods that are reproducible. We used a top-down approach where we first estimated the total cigarette consumption and then, legal domestic and non-domestic consumption. The difference between the total consumption and the legal domestic and non-domestic consumption were the illicit cigarette consumption. Our methods are described below.

**Estimation of illicit cigarette consumption**

Hong Kong, as an international metropolis, attracts tourists and business personnel from all over the world. In 2012, visitor-arrivals amounted to 48.6 million. Using the same framework as in the OE Report, we summarised and labelled the different types and sources of cigarette consumption in Hong Kong (table 1).

We estimated illicit cigarette consumption by Hong Kong smokers and visiting smokers, using the following formulae:

Illicit consumption by Hong Kong smokers (\(I_h\))

\[
\begin{align*}
I_h &= \text{annual illegal consumption by Hong Kong smokers (A_h)} \\
&= \text{annual legal consumption by Hong Kong smokers (A_{lh})} \\
&\quad + \text{annual personal imports by Hong Kong smokers (C_h)} \\
&\quad + \text{illegal consumption in Hong Kong smokers (I_{lh})}
\end{align*}
\]

Illicit consumption by visitors (\(I_v\))

\[
\begin{align*}
I_v &= \text{total cigarette consumption by visiting smokers (A_v)} \\
&= \text{total legal consumption by visiting smokers (B_v)} \\
&\quad + \text{total legal personal imports by visiting smokers (C_v)}
\end{align*}
\]

We calculated the total annual cigarette consumption (legal plus illicit) by summing the annual cigarette consumption by Hong Kong smokers (\(A_h\)) and by visiting smokers (\(A_v\)). The illicit consumption was estimated as this total minus the legal domestic consumption (\(B_h\)), legal personal imports (\(C_h\)), legal non-domestic consumption (\(B_v\)) and legal personal imports by visitors (\(C_v\)). The illicit consumption could be summarised thus:

\[
I = I_h + I_v = (A_h + A_v) - (B_h + B_v) - (C_h + C_v).
\]

Our data sources are detailed below.

**Parameters and data sources**

Annual cigarette consumption by Hong Kong smokers (\(A_h\))

This was estimated from the Hong Kong Thematic Household Survey 2012 (THS No. 53). THS is a population-based household survey conducted regularly by the Census and Statistics Department. THS No. 53 provided the smoking prevalence by age group and sex, and the average daily consumption of current smokers in each group in 2012. \(A_h\) was calculated by multiplying the average daily consumption of each smoker by age group and the number of smokers in each group, and then grossing up to a year (366 days in 2012). The estimated \(A_h\) was 3227 million sticks, which included legal and illicit

<table>
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<th>Table 1 Composition of cigarette consumption in Hong Kong, 2012</th>
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<td><strong>Type of consumption</strong></td>
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</tr>
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<td>Legal personal imports</td>
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consumption. Consumption by occasional smokers (prevalence was 1% in 2012) was not counted in this calculation because the smoking intensity by occasional smokers had not been captured in THS No. 53 and their contribution to the estimated annual cigarette consumption was not likely to be significant.

Annual cigarette consumption by visiting smokers ($A_v$)

This was estimated from the product of the number of overnight visitors, the smoking prevalence in the visitors’ original countries, the average length of stay in Hong Kong of overnight visitors, and the average daily consumption of visiting smokers. Among the 48.6 million visitors in 2012, 23.7 million stayed overnight and the other 24.8 million were 1-day visitors. The 1-day visitors were assumed to bring cigarettes within the duty-free allowance (19 sticks) for a day visit, given the fact that smokers usually carry cigarettes with them when they are going out. So consumption by 1-day visiting smokers was removed from this calculation. An estimated 4.1 million overnight visiting smokers arrived in Hong Kong in 2012 (table 2). We estimated $A_v$ from these 4.1 million overnight visiting smokers under several scenarios, which have been described in Alternative Scenarios.

Annual legal consumption by Hong Kong smokers and visiting smokers ($B_{h}+B_{v}$)

This is equal to the annual legal domestic sales of cigarettes in Hong Kong estimated by dividing the total cigarette tax revenue by the tax rate per stick. In 2012, the tax revenue was HK$5024 million. According to THS No. 53, 99.4% of current smokers consumed cigarettes and only 0.8% consumed other forms of tobacco. We assumed that 99% (HK$4974 million) of the tobacco tax revenue was from cigarettes. Hong Kong estimated by dividing the total cigarette tax revenue by the tax rate per stick. In 2012, the tax revenue was HK$4974 million × 20 sticks (HK$34) in 2012. These legal duty-paid sales of cigarettes would be consumed by Hong Kong or visiting smokers ($B_{h}+B_{v}$).

Legal personal imports for Hong Kong smokers and visiting smokers ($C_{h}+C_{v}$)

These were estimated based on the number of incoming smokers to Hong Kong using data on the number of incoming passengers into Hong Kong and the smoking prevalence of Hong Kong residents aged 15 or above, and the number of incoming visitors, their countries of origin and smoking prevalence in their home countries for those aged 15 or above. Several assumptions were made regarding the total number of duty-free cigarettes brought by the incoming smokers and these are described below.

Alternative scenarios for estimating $A_v$ and $C_{h}+C_{v}$

There is uncertainty around the average daily consumption of visiting smokers since passengers may temporarily change their smoking habits during a trip, and also around the amount of legal personal imports (duty-free consumption) by Hong Kong smokers and visiting smokers, since they may or may not bring cigarettes with them. Thus, three scenarios were examined to show how the different possible magnitudes of these parameters would influence illicit cigarette consumption estimates (I) (table 3).

Midpoint estimate

Among the overnight visitors, 15.1 million (63.6%) were from Mainland China and the rest were mainly from other Asian countries (22.1%), Europe (6.7%), the Americas (5.2%) and Australia (2.4%). The average daily consumption reported by smokers in China was 17 sticks, in the US 16 sticks, in Australia 14 sticks and in the UK 12 sticks. The mean (15 sticks) reported daily consumption was used in the calculation for this scenario, assuming that visitors would not change their smoking habits during a trip. During a typical 4-day visit (average length of stay of overnight visitors was 3.5 nights) to Hong Kong, one visiting smoker would smoke 60 cigarettes.

The total cigarette consumption of smoking visitors ($A_v$) was estimated to be 245.7 million sticks (4.1 million visiting smokers × 15 sticks per day × 4 days). There were 133.9 million passengers who arrived in Hong Kong in 2012 including Hong Kong or visiting smokers (Bh+Bv).

### Table 2 Estimated number of smokers among visitors in Hong Kong, 2012

<table>
<thead>
<tr>
<th>Country of residence</th>
<th>Number of overnight visitors</th>
<th>Proportion of people aged 15+</th>
<th>Smoking prevalence of those aged 15+</th>
<th>Number of visiting smokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland China</td>
<td>15 110 372</td>
<td>82.0%</td>
<td>52.9%</td>
<td>2 621 831</td>
</tr>
<tr>
<td>Male (40.0%)</td>
<td>6 044 149</td>
<td>82.0%</td>
<td>2.4%</td>
<td>178 423</td>
</tr>
<tr>
<td>Female (60.0%)</td>
<td>9 066 223</td>
<td>73.6%</td>
<td>36.0%†</td>
<td>1 009 583</td>
</tr>
<tr>
<td>Other places</td>
<td>8 659 823</td>
<td>73.6%</td>
<td>8.0%†</td>
<td>285 539</td>
</tr>
<tr>
<td>Male (44.0%)</td>
<td>3 810 322</td>
<td>73.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female (56.0%)</td>
<td>4 849 501</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of smokers among visitors</td>
<td>4 095 376</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Smoking prevalence in 2010. 
†Prevalence of smoking any tobacco product among adults aged ≥15 years in 2009.

### Table 3 Scenarios for the estimation of illicit cigarette consumption in Hong Kong

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Average daily consumption by visiting smokers</th>
<th>Number of smokers (million) among Hong Kong passengers who bring duty-free cigarettes (%)</th>
<th>Number of visiting smokers (million) who bring duty-free cigarettes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper bound</td>
<td>17</td>
<td>0 (0)</td>
<td>2.05 (50)</td>
</tr>
<tr>
<td>Midpoint bound</td>
<td>15</td>
<td>4.04 (50)</td>
<td>3.07 (75)</td>
</tr>
<tr>
<td>Lower bound</td>
<td>13</td>
<td>8.09 (100)</td>
<td>4.1 (100)</td>
</tr>
</tbody>
</table>

that is, 0.3%, 0.6% and 0.94%, would in 15% and 20%, and values of undeclared smoking prevalence, how levels of under-reporting of consumption, that is, 10%, 15% and 20%. It is also claimed that some smokers might under-report their daily consumption.27–29 We have no estimate of what this proportion might be in Hong Kong but we tested the impact on the results of under-reporting of consumption by 10%, 15% and 20%. It is also claimed that some smokers might not admit to smoking at all. However, Yeager and Krosnick carefully assessed the reasons for apparent differences between self-reported and biochemically-validated prevalence and concluded that there was little evidence of deliberate misreporting of smoking habits.30 They were investigating face-to-face self-reported and biochemically-validated prevalence and concluded they smoked. We used a two-way sensitivity analysis, testing maximum estimate of up to 0.94% of smokers denying that they smoked. We used a two-way sensitivity analysis, testing maximum estimate of up to 0.94% of smokers denying that they smoked. We used a two-way sensitivity analysis, testing maximum estimate of up to 0.94% of smokers denying that they smoked. We used a two-way sensitivity analysis, testing maximum estimate of up to 0.94% of smokers denying that they smoked. We used a two-way sensitivity analysis, testing maximum estimate of up to 0.94% of smokers denying that they smoked.

**DISCUSSION**

Our study, using a framework comparable to the one used in a recent industry-funded report but based on data in the public domain from verifiable sources, showed that illicit consumption in 2012 in Hong Kong ranged from 8.2% to 15.4% with a midpoint estimate of 11.9%. The estimate in the OE Report (35.9%), funded by Philip Morris, inflated the illicit cigarette consumption estimate by 203% (range 133–337%). Only if there had been a significant under-reporting of daily cigarette consumption and undeclared smoking prevalence, could our estimate approach the values reported in the industry-funded study.

Research on the global illicit cigarette trade has estimated that illicit cigarettes account for 11.6% of the total market: 16.8% in low-income and 9.8% in high-income countries.3 The estimate for Hong Kong (midpoint 11.9%) is comparable to this global estimate. Our findings are consistent with a growing body of other overseas academic studies, which report that industry-funded studies tend to exaggerate illicit consumption. Such exaggeration has been found in tobacco industry backed reports on the West European,6 East European7 and African markets8 and now Asian markets as well. A recent empirical analysis in Vietnam used two methods: the difference between legal sales and domestic tobacco consumption from surveys, and the trade difference between Vietnam and trade partners; both were based on publicly available data and showed that illicit consumption in Vietnam ranged from 0.7% to 6%.31 This was much lower than the estimate for Vietnam (19.4%9) in the same OE Report that we have described in this paper. The similarly-generated estimates for the other markets covered in the OE Report may also be substantially inflated. Scientific studies for other markets are needed to refute the dubious industry-funded estimates.

The tobacco industry has also manipulated the historical data to create an impression that illicit trade has been increasing dramatically. Blecher et al.10 identified inconsistencies between estimates of illicit trade for the same years released in successive editions of the Euromonitor reports for countries such as South Africa, Mexico and Bulgaria. Rowell et al.11, after closely examining the media coverage of illicit trade in the UK, showed that the claim of the tobacco industry on the rapidly increased illicit trade in the UK was inconsistent with historical trends and the industry data on illicit trade were unreliable. Apart from exaggerating levels of illicit trade and manipulating the historical data to lobby against tobacco tax increases, the tobacco industry has been complicit in smuggling all over the world, a practice that has been exposed and sometimes brought to trial.12 For example, in July 2008, in Canada, two tobacco companies pleaded guilty and admitted to having aided people to sell or keep tobacco products manufactured in Canada, but not packaged or stamped in conformity with the Excise Act, between 1989 and 1994.13 In Vietnam, even after British American Tobacco (BAT) signed a licensing agreement with Vinataba, the...
state tobacco monopoly, to produce and sell its State Express (SE) 555 cigarettes locally, BAT continued to supply traders smuggling UK made SE 555 into the country, apparently well aware of the illicit trade.35

The available evidence shows that illicit trade in the form of smuggling between jurisdictions with different levels of tobacco duty is linked, not primarily to the levels of tax but to the extent of corruption and criminality in individual jurisdictions.36 The solution to this would be to deal firmly with the illegal activities, corruption and criminality associated with them, and to raise tobacco tax to provide more revenue for disciplined services to combat illicit trade.

Our estimate was validated using survey data in Hong Kong. In a recent population-based telephone survey in Hong Kong, among all randomly sampled current smokers (n=800) aged 15–65, 8.8% claimed that they had often bought cigarettes far cheaper than the regular prices in the past 6 months.37 Of those who had bought the low-cost cigarettes, 28.5% believed that the cigarettes had been smuggled from other places. The survey did not record the number of illicit cigarettes consumed. The daily consumption of smokers who often bought low-cost cigarettes was 16.3 sticks as compared to 14.1 of the average daily consumption from the above survey. If the smokers who often bought low-cost cigarettes only smoked low-cost cigarettes and if all of the low-cost cigarettes had been smuggled, then the proportion of illicit consumption from this survey would be 10.2% (8.8% x 16.3/14.1), which is within the range of our current estimates of 8.2–15.4%.

Our estimate was based on different assumptions but we always used the more conservative ones. We assumed the visiting smokers smoked the same amount of cigarettes as they did in their home countries (average daily consumption of 13, 15 and 17 in lower, midpoint and upper bound estimates, respectively). Hong Kong has a very comprehensive smoke-free law where almost all public places are smoke-free. Visitors during a trip may involuntarily reduce their cigarette consumption. One study in Thailand showed that the average daily consumption of a visiting smoker was 7.8.38 If we applied this value, the illicit consumption as the percentage of total consumption would be 5.9–11.6%. We assumed at least 50% of visiting smokers would bring cigarettes with them when entering Hong Kong. Almost 70% of the visiting smokers were from Mainland China in 2012. Smokers from Mainland China predominantly smoke China-made cigarettes of Chinese brands, which are quite different from those smoked by Hong Kong smokers. There are over 200 domestic cigarette brands in the Chinese market.39 It seems unlikely that most of these smokers would purchase cigarettes in Hong Kong, not only because prices are much more expensive40 but primarily because Chinese smokers are not used to the taste of foreign brands of cigarettes such as Marlboro and Mild Seven, which are widely sold in Hong Kong.

There are smokers who do not admit their smoking status (undeclared smokers) and under-report their cigarette consumption for whatever reasons. One study in the UK used an uplift factor correcting for this bias to estimate the illicit market for tobacco.41 It calculated the uplift factor in a year in which the
illicit market was estimated by other sources and believed to be small by comparing total consumption based on self-reported data with total consumption based on actual clearance and estimate of legal cigarettes brought from abroad. We are unable to do the same because such data were not available, but overseas studies showed that self-reports of smoking were accurate with minimal response bias, especially in nationally representative surveys in adult populations.40–42

This study is subject to several limitations that should be addressed in future work. The study provides a point estimate of illicit cigarette consumption in 2012 with a plausible range but cannot demonstrate that tax increases will not increase illicit cigarette consumption. For this, along with longitudinal survey data that can validly and directly monitor the changes of illicit consumption over time, we also need multiple methods to cross-validate different estimates, which should be considered in future work. Different methods of assessment may provide different estimates of illicit consumption.44 The method used in our estimate (difference between total consumption and legal market) was a gap method that was used in studies in South Africa,8 Vietnam31 and the UK.45 We cannot be certain whether our report overestimates or underestimates the true magnitude of illicit consumption. However, we have cross-validated our estimates using a different method and an entirely different data source. We also sought to use conservative assumptions as explained above in order to avoid underestimation. Our study provides a replicable model for estimating illicit cigarette consumption using scientifically valid data sources along with transparent and testable assumptions.

All the industry effort is to lobby decision-makers not to increase tax, undermine the effects of tobacco control policies and to eventually significantly benefit from it. The industry-funded estimate of 35.9% of consumption in Hong Kong being illicit, for example, was repeatedly used by opponents to argue against a tobacco tax increase in 2014 and the HK Government, instead of increasing the tax 100% as advocated by tobacco control professionals, finally only increased it 11.7%. By the time this paper was under revision, the ITIC and OE had already held two press conferences in Hong Kong to report their estimates of illicit cigarettes, which drew substantial attention from the public. Given the need for reliable data in order to inform local policies and to counter false arguments against the essential public health need to raise tobacco taxes, territories such as Hong Kong and the neighbouring regions need regular monitoring and continuous data collection on illicit consumption. Hong Kong should also ensure active co-operation from all its neighbours to reduce illicit trade while maintaining and increasing tobacco tax.

What this paper adds

► This is the first study to directly validate an industry-funded estimate of illicit cigarette consumption, using a comparable estimation framework employed by the industry but with reliable and transparent data sources.
► This estimate is based on the tobacco usage of residents and visitors who are smokers, to include all possible sources of illicit trade.
► Compared with our estimate, the industry-funded estimate of illicit cigarette consumption for Hong Kong had been inflated by at least 133%.

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Contributors JC, SMM and THL designed the study. JC and SMM analysed the data and drafted the manuscript. All authors revised the manuscript.

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