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Research paper:

Did the tobacco industry inflate estimates of illicit cigarette consumption in Asia? An empirical analysis

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Tobacco industry peddling overestimates of illicit cigarettes to dampen tax increase

Online Response

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Online Response letter

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NOT PEER REVIEWED

We refer to the article, "Did the tobacco industry inflate estimates of illicit cigarette consumption in Asia? An empirical analysis" Chen J, et al. published in *Tobacco Control* on November 25, 2014 (*Tob Control* 2015;0:1-7) and concur with the important points raised in this article. While the article focuses on Hong Kong, other countries in South East Asia also faced a similar experience. The authors revealed that the tobacco industry-funded study on the illicit trade of cigarettes in Asia, "Asia-11 Illicit Tobacco Indicator 2012" by the International Tax and Investment Center (ITIC) and Oxford Economics (OE) inflated the extent of illicit consumption in Hong Kong by 133-337 percent. Similarly, other scholars have also questioned the methodology applied in this report. For example, Dr. Frank Chaloupka, Distinguished Professor of Economics at the University of Illinois at Chicago, criticized the reliability of the study's estimates in using an inconsistent approach and the lack of details about the empty pack surveys, the main source of data for the estimates. In June 2014, the South East Asia Tobacco Control Alliance (SEATCA) released a critique of the "Asia-11 Illicit Tobacco Indicator 2012" showing how its estimates are being used to rescind tobacco tax policies. As illustrated in Hong Kong's experience, the SEATCA critique revealed that the ITIC-OE report overestimated the total illegal consumption in other countries in South East Asia. In the case of Vietnam, it claimed that in 2012 about 103.3 billion cigarettes consumed in Vietnam were illegal, which amounted to 19.4% of total cigarette consumption. The estimate was based primarily on the data of a tobacco industry group, the Vietnam Tobacco Association (VTA), and the full details of the methodology were not disclosed. The report admitted that data were collected only in urban areas, but it failed to mention that 68.3% of the Vietnamese population live in rural areas. This means that the findings are not representative of the Vietnamese population and are very likely biased since illicit cigarettes consumption is concentrated in big cities and near borders.

Unfortunately, as in Hong Kong, the glossy ITIC-OE study took its toll on tobacco tax policy in Vietnam. The Government of Vietnam considered the results of the study and opted for a less than ambitious tobacco tax rate increase. When the Ministry of Finance proposed a rather moderate tobacco tax roadmap in March 2014 (an increase from 65% to 75% in July 2015 and to 85% in January 2018), they noted that their decision was influenced by the illicit cigarette issue. The scope of illicit cigarettes consumption and the associated government revenue loss continued to be highlighted both in the press and during the policy debates until November 2014, when the National Assembly adopted an even weaker excise tax law: an increase to 70% in Jan 2016, and to 75% in 2019. Since these taxes are based on ex-factory price, and the tobacco industry is in full control of that price, the full impact on cigarette retail prices and tax revenue is likely to be minuscule. The average real retail cigarettes prices are expected to increase by less than 1% per year in the period from 2015 to 2020 (5.8% in 6 years), which, given

the 5-6% annually per capita real income grows, is insufficient to prevent cigarette consumption from rising. In summary, the Asia-Illicit Tobacco Indicator 2012 report was as non-transparent in Hong Kong as it was in Vietnam and nine other countries covered by the report. It was used to undermine a pro-health tobacco tax policy supported both by public health advocates as well as the general public. We thank Tobacco Control for publishing the findings of Hong Kong colleagues, which successfully challenged the invalid evidence and arguments supported by the tobacco industry. We hope that other countries in Asia and elsewhere will follow Hong Kong's initiative and expose the tobacco industry's tactic to undermine pro-health tobacco tax policies that signatories to the WHO FCTC are committed to under Article 6 of the Convention.

Thank you

Sincerely, Son Dao , Hana Ross and Sophapan Ratanachena

Conflict of Interest:

None declared

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