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Malaysia has world's highest incidence of illegal tobacco use

Illicit tobacco trade reaches unprecedented levels – a government action plan is urgently needed to address the blatant epidemic

Malaysia has the highest illegal cigarette incidence in the world and loses almost RM100 million every week to criminal smugglers and sellers, according to a major new report released last month.

The study shows that sales of illegal cigarettes have soared since the government of Datuk Najib Razak introduced a surprise 40% excise tax increase on tobacco in late 2015, a report by Oxford Economics, titled "The Economics of the Illicit Tobacco Trade in Malaysia" says.

Criminal cigarette sales now dominate the country with one thousand packs of illegal cigarettes being bought every single minute across Malaysia.

Six out of ten cigarettes consumed now deliver no tax to the Malaysian government. This equates to 12 billion illegal cigarettes being smoked every year and RM5.1 billion in lost taxes. The loss of revenue then in turn impacts the resources available for Malaysia to provide public services.

Just over one third of cigarettes sold in Malaysia before the 2015 excise increase were illegal. But the Oxford Economics study shows that not only is this figure now well in excess of 50% but that consumption of tobacco has actually risen in the country in the past four years.

The UK-based economists found that despite strong economic growth, Malaysia experienced a real decline in tax collected between 2018 (RM174.7 billion) and 2017 (RM179.5 billion), a difference of RM4.8 billion.

The report, commissioned by British American Tobacco (BAT), estimates that the Malaysian Government collected just RM3 billion in excise duties from legal cigarette sales in 2018.

The government, however, is also losing other significant taxes as a result of illegal cigarettes now being widely available at just one third of the price of legal packets.

Two major legitimate and tax compliant tobacco companies – British American Tobacco (Malaysia) Bhd (BAT) and Japan Tobacco International (JTI) – closed their Malaysian factories in 2017.

The report finds that at their peak of production in 2013, these two factories supported 5,750 jobs for people throughout Malaysia.

The factories made a combined contribution to the economy of RM831 million that year, and generated tax revenues of RM161 million – all of which has been lost with



(from left) Inland Revenue Services (IRS) - Criminal Investigation US Consulate Hong Kong attache David Lum, Transparency International Malaysia past chairman Datuk Seri Akhbar Sattar, Collings, former IMF AFRITAC South Kenneth Head and MIDF Group MD Datuk Charon Wardini

The illegal trade in cigarettes is a major problem in Malaysia.
— Collings

their closure. Both companies cited the large spike in the illegal trade of cigarettes when announcing the closures.

"The illegal trade in cigarettes is a major problem in Malaysia. With nearly 60% of consumption falling outside of legitimate channels, the government's ability to achieve its revenue and health targets is being severely compromised. But the damage caused by the illicit tobacco trade goes far beyond unpaid excise duties and sales taxes. The illegal trade, and the syndicates that prosper from it, spreads further illegal activity within Malaysia, encouraging corruption and discouraging legitimate business practices throughout the economy," Oxford Economics Europe and Middle East economic impact consulting director Pete Collings.

Oxford Economics has a long history of assessing the economics of the illicit trade in tobacco products. Its annual estimates of the scale of the illicit trade in key Asian markets are published in the Asia Illicit

Tobacco Indicator series of reports.

RM5 billion up in smoke due to corruption

"Illicit tobacco trade negatively impacts the government's revenues, fuels criminal syndicates and erodes Malaysia's positive reputation as a country for foreign investment" says BAT managing director Erik Stool.

His statement echoes the findings of Oxford Economics on the broader impact of the illicit tobacco trade in Malaysia. The report highlighted that since this black economy

gained a foothold, the country's GDP, economy, public health agenda, reputation and legal employment opportunities have been undermined. More disturbing is the fact that these criminal syndicates have blatantly been using and fuelling a culture of organised corruption that has entrenched itself across all levels of Malaysian society. This revelation comes at a time where corruption in Malaysia has already reached critical levels.

"The findings of the report highlight that this black economy

country of more than just vital revenue. It is a threat to the nation's sovereignty, fuels corruption and erodes the integrity of its people. These criminals will do all they can to ensure that the levels of corruption in Malaysia is kept at an all-time high," Stool states.

"Unfortunately, we are a first-hand witness of how uncontrolled corruption has eroded a legitimate industry. In just four years, the industry now comprises a market majority that does not and will not comply to any form of regulation or taxation. Clearly, this is a low-

risk, high-reward activity because these criminal syndicates have no reservations paying off corrupt officials to avoid detection or to evade enforcement."

Stool adds, these syndicates utilise sophisticated hi-tech tactics such as selling illegal cigarettes online, providing home delivery services and placing GPS trackers on law enforcement vehicles to outpace enforcement agencies.

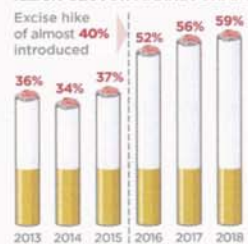
"We have constantly appealed for serious action to be taken. This issue can no longer be ignored. A cross government action plan must be developed and deployed – all key ministries have a role to play: The Ministry of Health's Tobacco Control Sector, the Ministry of Domestic Trade and Consumer Affairs, Ministry of Home Affairs and the Ministry of Primary Industries.

As the legal industry leader, we are very willing to provide resources and to support a cross government effort to curtail this menace – international experience tells us that a joint collaboration between the private and public sector can work," he says.

BAT is the leading tobacco company in Malaysia. Its portfolio includes world-famous brands like Dunhill, Kent, Peter Stuyvesant, Pall Mall and Rothmans. The company is part of the British American Tobacco group, which is the world's most international tobacco group and the second largest stock market listed tobacco group by global market share. [MSM](#)

MALAYSIA'S ILLICIT TOBACCO TRADE

ILLICIT SECTOR MARKET SHARE



Since the excise hike...
5% increase in overall cigarette consumption
32% decrease in legal cigarette sales



PERCENTAGE ILLICIT INCIDENCE (TOP FIVE COUNTRIES, 2018)



LOST TAXES IN 2018

