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Buying illegal ciggies more difficult now

Environment for the black market must be made prohibitive and hostile by authorities, says expert

by MARK RAO

A SMOKER complains about the difficulty of getting illegal cigarettes. Shops that were traditionally the suppliers have all but stopped selling contraband ciggies.

"I have to buy the expensive cigarettes now," said the smoker who declined to be named.

Over the last couple of months, consumers were finding it difficult to buy contraband cigarettes as small retailers shunned selling the ciggies, deterred by the prospect of a RM100,000 fine if caught by the authorities.

These stores had been the haven to smokers who wanted to find cheap cigarettes. But as these establishments are

not typically high-volume or big-money businesses, being forced to pay a RM100,000 fine made them think twice.

Well-known illegal brands such as John, Canyon and Luffman are typically hidden either in opaque boxes, shelves or underneath tables by small retailers, and are sold to consumers upon asking, according to the Centre for Public Policy Studies' report last year.

The centre also highlighted that the information gap between lesser-known illicit brands and legal brands are essentially negligible as both carry the same health and graphic warnings, and are stacked next to each other.

Illicit cigarette consumption rose to a staggering 64% of total consumption in the fourth quarter of 2018, according to a report cited by British American Tobacco (M) Bhd (BAT).

This means that close to two out of every three cigarettes smoked in Malaysia are illegal. With the government need-

ing higher revenues to plug the huge financial hole, it has promised stricter enforcement while plugging the leaks, especially from high-taxed items like cigarettes and liquor.

These two product categories contribute billions to the government's coffers. But smuggled and unpaid duties left billions stolen from the country.

The government is aiming to recover some RM1 billion in revenue lost to the black market and enforce a minimum of RM100,000 in fines and six months' jail time for individuals caught dealing with smuggled cigarettes and liquor.

The Royal Malaysian Customs Department and other relevant agencies had increased their preventive measures since January this year.

BAT MD Erik Stoel said the government's intent is there and important regulatory steps have been taken, but enforcement intensity is still not at the level to make a significant impact.

"It is early days, but we believe it is critical that more focus is put on enforcement and more law enforcement agencies (should) join the party," he told *The Malaysian Reserve*.

He said changing the law dealing with illicit cigarette trade cannot be the sole option, and urged a unified front between the relevant authorities to tackle the issue.

"Critically, all parts of the government and related agencies need to come together cohesively to evaluate other new solutions that can help with addressing the flow of illegal cigarettes into the country."

The illicit cigarette consumption numbers this year will provide a better gauge of whether enforcement activities, coupled with stricter punitive measures, are sufficient.

Galen Centre for Health and Social Policy CEO Azrul Mohd Khalib said the environment for the black market for cigarettes and tobacco products

must be made hostile, intimidating and prohibitive by the authorities.

"One way to do this is to threaten and enforce severe penalties for small retailers and traders for carrying these products," he said, citing the termination of business licences as an effective deterrent.

"This is where most of the demand resides. Investment in public campaigns must be made."

Utilising prohibitive prices via high excise duties can only succeed in curbing cigarette consumption, if effective enforcement is in place to clamp down on contraband cigarettes, which threaten to nullify the government's best intentions.

"When the majority of cigarettes sold in the country continue to be illicit cigarettes, it is clear that current enforcement efforts are inadequate to the task," Azrul said.

He said consumption of contraband cigarettes will continue to increase until the

illicit tobacco market is effectively dealt with. As it stands, illicit cigarettes — whether smuggled, counterfeit, bootlegged or quasi-legal — exist as an actual retail choice for Malaysian consumers, he said.

Cigarette excise duties in Malaysia rose 110% from 2011 to November 2015, while the Sales and Services Tax last year resulted in an increase of up to 4% in retail cigarette prices.

The current tax structure, which sees excise duties at 40 sen per stick, has put significant pressure on the profit margins of the leading tobacco firms in Malaysia, namely BAT, JT International Bhd and Philip Morris (M) Sdn Bhd.

Market research agency Kantar TNS said illicit consumption comprised 58.3% of the total 12 billion sticks estimated to have been consumed in 2017. On paper, this meant a RM2.8 billion loss in excise revenue to the government that year based on a 40 sen per stick excise duty.