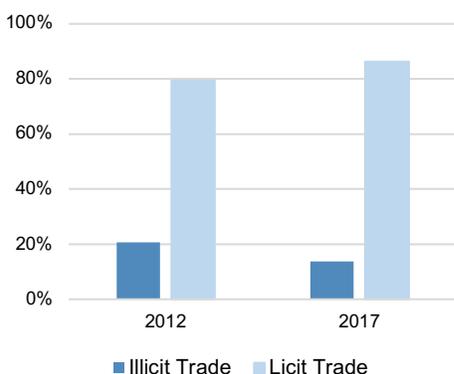


This policy brief is based on a research study entitled *Illicit Cigarette Trade Study in Vietnam* conducted by the Development and Policies Research Center (DEPOCEN)

The Illicit Trade in Cigarettes in Vietnam

Smoking remains a serious public health problem in Vietnam despite the various measures the country has taken to implement its obligations under the WHO Framework Convention on Tobacco Control (FCTC). These measures include public education, prohibitions on tobacco advertising, promotion and sponsorship, health warnings, tax and price, and restrictions on public smoking. The country is ranked among those with the highest smoking prevalence worldwide. According to the World Health Organization (WHO), more than 15 million Vietnamese people smoke, and 40,000 people die from smoking-related diseases each year. Without proper measures, it is estimated deaths from smoking will reach 70,000 per year by 2030.¹

Figure 1. Prevalence of Illicit Trade in Vietnam in the Years 2012 & 2017



Raising taxes on tobacco has proven to be the most effective and cost-effective method of reducing smoking worldwide. The WHO recommends that the tobacco excise tax should account for at least 70 percent of the retail prices for tobacco products. Unfortunately, the current total tobacco tax in Vietnam accounts for only 36% of the retail price of the most widely sold cigarette brand in the country.² One of the most significant barriers to tax reform is the threat of illicit trade which is promulgated by the tobacco industry. They argue that raising the taxes

imposed on tobacco products would increase consumption of illicit cigarettes, thereby undermining the tax policy objectives and impairing legal domestic manufacturing.

Contrary to the tobacco industry’s predictions, the level of the illicit trade declined even after the increase of taxes imposed on tobacco products in Vietnam. The Government of Vietnam increased excise ad valorem tobacco taxes from 65% of the ex-factory price to 70% in January 2016.³ Based on nationally representative household-level data, the study finds that the share of total cigarette consumption accounted by illicit products dropped to 13.72% in 2017 from 20.68% in 2012 (See Figure 1). This decrease in illicit trade implies that raising taxes does not necessarily result in higher illicit consumption in Vietnam, as alleged by the tobacco industry.

Figure 2. Comparison between Prices of the Most Popular Illicit and Licit Cigarette Brands in 2017⁴

Illicit	Price (\$)	Licit	Price (\$)
SE555	2.10	SE555	1.24
Esse	0.97	Seven Diamonds	0.54
Jet	0.89	Thang Long	0.43
Hero	0.73	Tourism	0.28
Craven A	0.80	Hong Ha	0.33

Interestingly, illicit cigarettes are more expensive than the licit ones in Vietnam, unlike in many other countries where the opposite is true. The average price of illicit products in Vietnam is estimated to be twice as much as licit ones, and the prices of the

¹ WHO. Tobacco Fact Sheet. [www.wpro.who.int](http://www.wpro.who.int/vietnam/topics/tobacco/factsheet/en/)

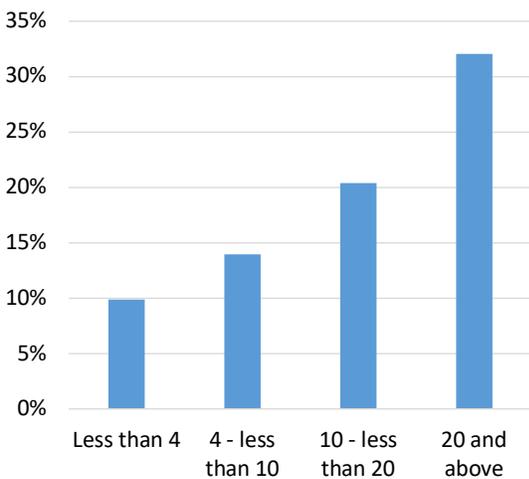
² WHO. 2017. Report on the Global Tobacco Epidemic 2017

³ The Amended Law on Special Consumption Tax No. 70/214/QH13 approved in 2014

⁴ The licit SE555 is not one of five most popular licit brands, but is included to compare with the illicit SE555

most popular illicit brands far exceed those of the most popular licit ones in 2017 (Figure 2). In particular, the illicit variety of SE555 has much higher prices than does the licit SE555. Furthermore, due to the high prices of illicit cigarettes, wealth becomes one of the most important factors driving the illicit trade in the country. The study finds a significantly higher share of illicit cigarette consumption among smokers with higher income levels, indicating that the more affluent the smokers are, the more likely they are to smoke the illicit cigarettes. These figures together contribute to an explanation of why raising taxes on tobacco products in 2016 did not incentivize the smokers to switch to illegal products, and thus did not result in the higher level of illicit trade in 2017.

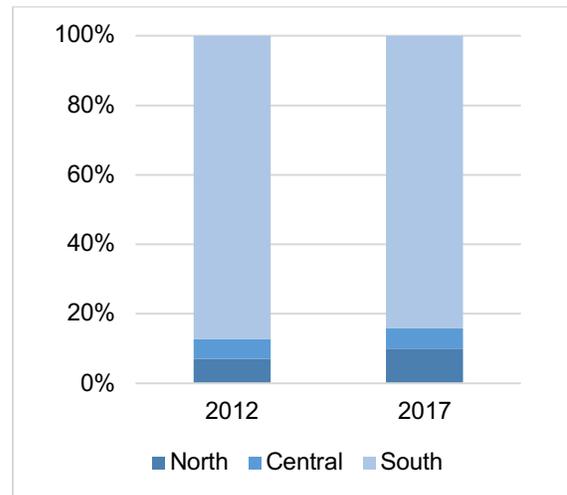
Figure 3. Prevalence of Illicit Consumption in 2017 by Income Levels (in million Dong).



Apart from income, geography and accessibility are two other crucial determinants of the prevalence of illicit cigarette trade in Vietnam. First, the study finds that rather than being evenly distributed, the illicit trade is extremely concentrated in the southern region of the country, where over 80% of total illegal cigarettes are consumed. Second, smokers purchase illicit products primarily in grocery venues, which are highly prevalent, easily accessed, and legally operated in this region. In other words, illicit trade seems to be more likely a location-specific issue and tightening domestic retail market

surveillance could contribute significantly to tackling it.

Figure 4. Regional Distribution of Illicit Cigarettes in the Years 2012 & 2017



In conclusion, the Government of Vietnam should recognize tax policy as the most effective and cost-effective tobacco control measure and should establish a clear roadmap of progressive tobacco excise tax increases to reach the 70% of retail price level, as suggested by the WHO. The reasons are twofold: First, there is no evidence to support the tobacco industry's argument that raising cigarette taxes will necessarily increase illicit trade in Vietnam. Second, raising tobacco taxes to reduce the affordability of tobacco products in Vietnam is essentially good for public health. It will spur smokers to quit smoking and prevent non-smokers, especially youth, from starting.

To address illicit trade, more comprehensive monitoring and surveillance measures should be deployed. In addition to tightening border-crossing inspections, the Government of Vietnam should make additional efforts to closely monitor tobacco retailing in the domestic market, particularly in the Southern region and in economic centers where smokers earn relatively high incomes. The government should also employ a strong tracking and tracing system for tobacco products.

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