


TOBACCO OVERSUPPLY IN PARAGUAY AND ITS CROSS-BORDER IMPACTS

POLICY BRIEF

June 2021



Key Messages

Tobacco consumption in Paraguay has consistently decreased over the last twenty years.

Between 2008 and 2019 the estimated net supply of cigarettes is about seven times larger than estimated domestic consumption. This large gap suggests significant illicit exports of cigarettes to Brazil and other neighboring countries.

Official and independent data are necessary to implement informed public policies to reduce tobacco consumption and illicit flows.

More coordination between Paraguay, Brazil, and other neighboring countries is needed to effectively implement tobacco control policies and increase control along the tobacco supply chain.

Introduction

Historically, Paraguay has been viewed as a hub for illegally penetrating markets in neighboring countries through operations of triangulation and re-exporting of cigarettes. Recent studies (Gomis et al., 2018; Iglesias et al., 2018) have indicated Paraguay's changing role in legal and illegal tobacco trade flows in the MERCOSUR region.¹ Paraguay has experienced a boom in tobacco production since the beginning of the 2000s, and this is accompanied by estimates of increasing illegal exports of cigarettes to the Brazilian market.

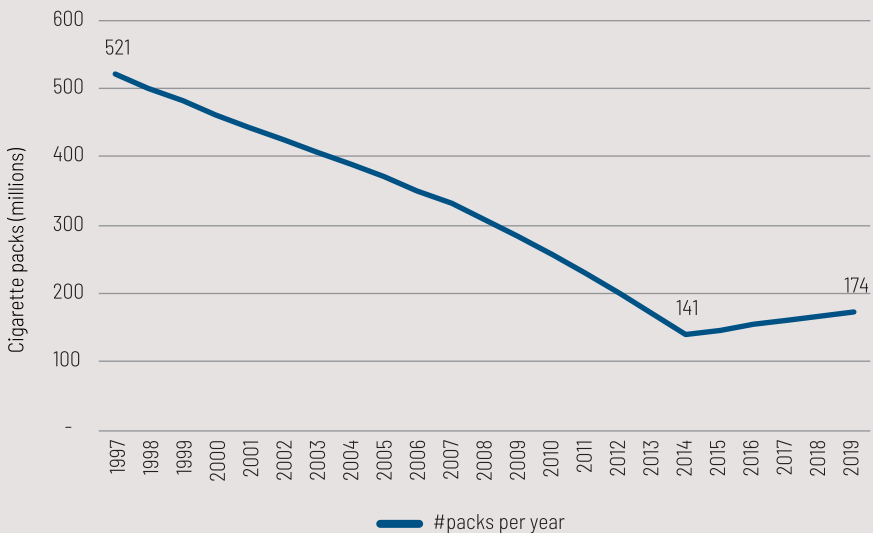
This Policy Brief provides evidence on the decreasing trend in domestic tobacco consumption and the increasing trend of the supply of cigarettes in Paraguay. This uncontrolled overproduction seems to be fueling illicit trade in Brazil and other countries. More control along the domestic and transborder tobacco supply chain would result in more effective tobacco control policies in Paraguay and the region.

1 MERCOSUR is an economic integration bloc composed of four countries: Argentina, Brazil, Paraguay, and Uruguay.

Tobacco consumption in Paraguay

In Paraguay, there are no systematic studies on the evolution of consumption of tobacco products over time. To address this research gap, CADEP combined available data from the 1997-1998 National Integrated Household Survey (EIH),² the 2011 National Survey of Income and Expenditures (EIG&CV), and the Global Youth Tobacco Use Survey (GYTS) (2003, 2008, 2014, and 2019) to estimate domestic demand of cigarettes. The data show that consumption of tobacco products in Paraguay decreased from 521 million cigarette packs in 1997 to 174 million cigarette packs in 2019.

Figure 1.
Estimation of domestic cigarette consumption (1997-2019)

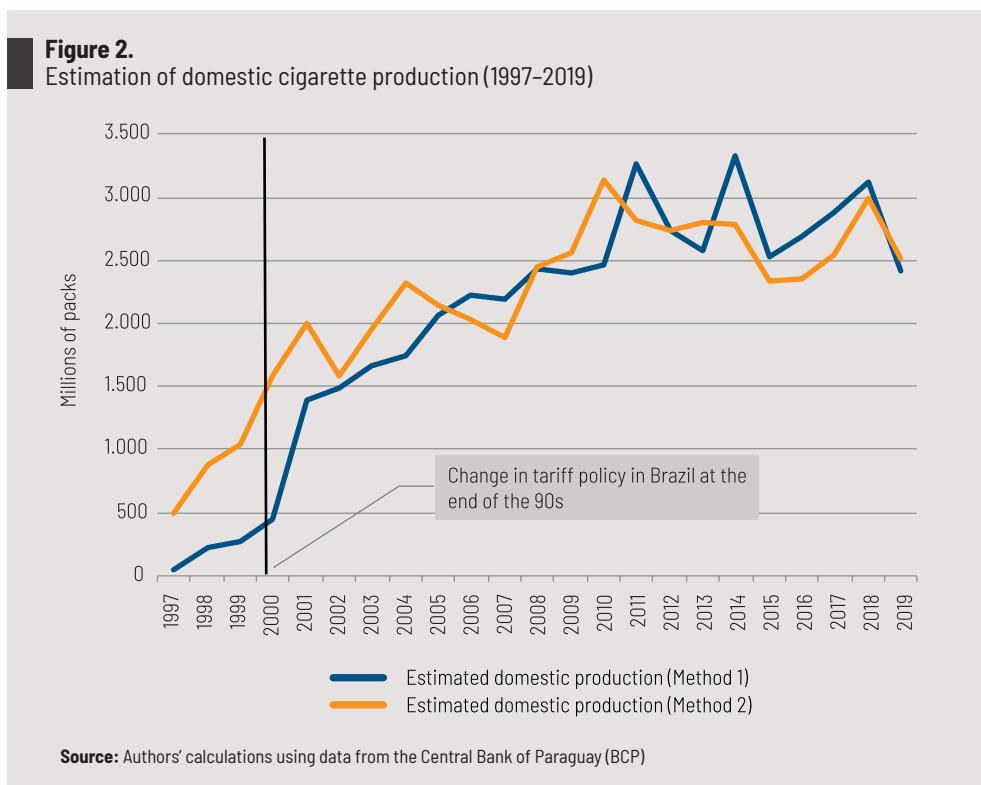


Source: Authors' calculations using data from different surveys (EIH, EIGyCV, GTYS)

² Request for Access to Public Data, tobacco consumption from the EIH 1997/1998 and 2000/2001: <https://informacionpublica.paraguay.gov.py/portal/#!/ciudadano/solicitud/30254>

Tobacco production in Paraguay

CADEP estimated production of cigarettes based on available information regarding cigarette inputs: i) imports of artificial cables or filaments for cigarette filters and ii) raw material of tobacco both imported and domestically produced. Technical coefficients that determine the proportion or quantity of cigarettes that can be obtained from available inputs are used to convert available quantities of filters and raw tobacco into cigarettes for consumption. Both methods show increases in cigarette production in Paraguay (Figure 2).



Overproduction of Cigarettes

Over the last two decades, Paraguay increased the net supply of cigarettes, as a result of:

- i. accelerated growth in domestic cigarette production;
- ii. a steep drop in cigarette imports; and

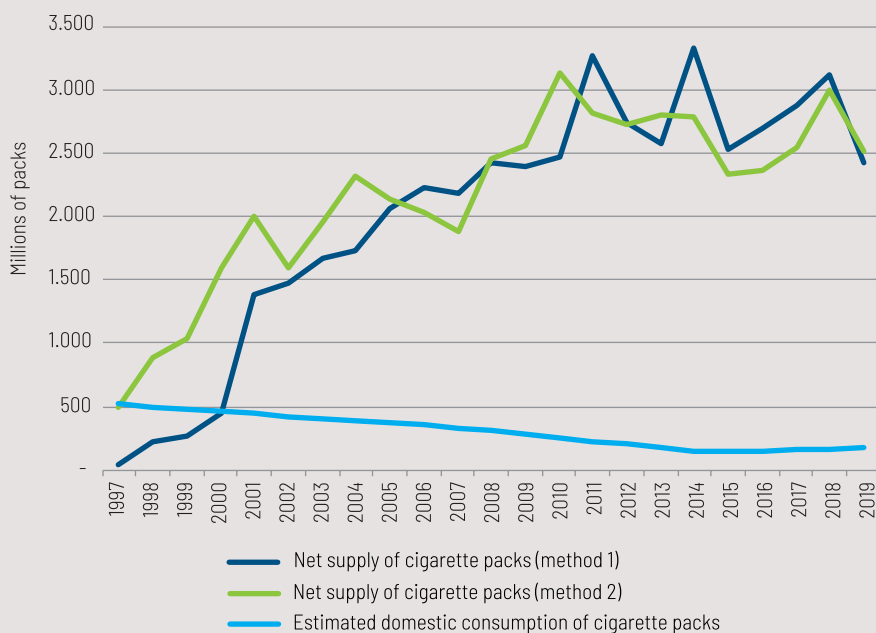
iii. a relatively unchanged trend in registered cigarette exports.

Figure 3 combines available data on the estimated net supply of cigarettes and the estimated domestic cigarette consumption (only available between 2008 and 2019).

The differential between domestic consumption and the net supply of cigarettes for the 2008-2019 is estimated at 2.5 billion packs, on average, annually.

The domestic production of cigarettes (net of exports and imports) that are not consumed in Paraguay results in overproduction that may have been channeled illegally to other countries.

Figure 3.
Net supply and estimated domestic consumption of cigarette packs (1997-2018)



Source: Authors' calculations using data from the BCP, National Customs (DNA) and surveys on tobacco consumption.
Note: Data are in millions of cigarette packs (20 units each).

Conclusion and policy recommendations

For Paraguay, the lack of data on cigarette consumption and production results in serious challenges for public health and economics as well as foreign affairs. New evidence shows that Paraguayans consume around 199 million cigarette packs annually. However, the estimated net supply of tobacco products in Paraguay averages 2.7 billion cigarette packs annually. Consequently, an annual gap of 2.5 billion cigarette packs, on average, has emerged as an excess supply of cigarette packs in Paraguay, and emerging research from Brazil demonstrates that most of these packs currently end up in the Brazilian illicit market (Szklo et al., 2020). More control along the tobacco supply chain and official and independent data is needed to implement informed policies to reduce tobacco consumption and illicit flows.

Cigarette consumption is decreasing in Paraguay. However, the Paraguayan government should take a more active role implementing effective tobacco control policies. Taxing tobacco is the most effective public policy to reduce tobacco consumption, yet Paraguay's taxes on tobacco are among the lowest in the region and the world. Increasing prices of tobacco through taxes reduces consumption of cigarettes and provides additional resources to strengthen the tobacco tax administrators' capacity to monitor tobacco production.

To reduce illicit flows, Paraguay and neighboring countries need to coordinate regulations, in particular tobacco control policies. Paraguay and bordering countries need to direct public efforts towards stricter regulation and monitoring of the transborder tobacco markets. MERCOSUR and the FCTC provide an appropriate framework for coordination at regional level.

The following policy actions are recommended:

1. Paraguay must generate official and independent data on consumption and on production of cigarettes.
2. Increase taxes on tobacco. Introducing higher cigarette taxes will decrease cigarette consumption and increase revenue collection.
3. Strengthen tobacco tax administration. Good tax administration requires strong technical capacity by the administrative agency. Compliance can be strengthened by adopting independent tracking and tracing systems combined with enforcement. Investing in good administration pays off higher income.
4. The government should retool policies that better enforce the regulation of the tobacco industry. Tobacco tax administrators' capacity to monitor tobacco production should be strengthened, along with coordination between tax authorities from neighboring countries. Regional and global cooperation is key to reducing illicit trade.

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© Centro de Análisis y Difusión de la Economía Paraguaya (CADEP)
Piribebuy 1058. Asunción - Paraguay
Phones: 595-21 496813/494140/ 452520
cadep@cadep.org.py
www.cadep.org.py

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