

Understanding the U.S. Illicit Tobacco Market

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ISSUE BRIEF

For Researchers

Although tobacco use has declined in recent decades, worldwide more than one billion people still regularly use tobacco, including many who purchase cigarettes outside legal markets. Illicit tobacco markets can deprive governments of tax revenue and undermine public health efforts to reduce tobacco use. To answer a number of questions about the illicit tobacco market, a committee of experts appointed by the National Research Council and Institute of Medicine conducted a study and released its findings in the report *Understanding the U.S. Illicit Tobacco Market*.

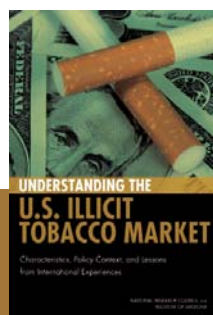
Among the topics discussed in the report are areas where further research is needed to better understand existing illicit markets, how markets may involve in the future, and the effectiveness of enforcement interventions.



The Existing Illicit Tobacco Market

To aid understanding of current illicit tobacco markets in the United States, additional research and improved data are needed across a broad range of areas.

- Better information is needed to more accurately measure the profits of smugglers. For example, data could be systematically collected on the prices at which untaxed cigarettes are sold on the wholesale and retail levels.
- Research and data are needed about the individuals and criminal networks who traffic in illicit tobacco in the United States. A deeper understanding of these would provide valuable knowledge about the supply chain and illicit procurement paths and how they may evolve in the future.
- A large-scale pack swap survey that is representative of the U.S. population should be conducted. Such a survey would allow researchers to examine stamps and markings to determine if appropriate taxes were paid and to analyze the products' design characteristics and chemistry to determine if counterfeits or illicit whites had entered the market.
- Methodologies should be improved to better differentiate between tax evasion and tax avoidance. More accurate estimates of the extent of these activities could be made by collecting more systematic data on discarded packs in states with significant illicit trade, expanding the number and specificity of questions asked in population surveys on tobacco use and illicit market participation, and conducting the large-scale pack swap survey described above.



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Characteristics, Policy Context, and Lessons from
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- The scarcity of studies on the supply side of the illicit tobacco market presents challenges for research, and creative methodologies will be needed. One potential source of information may come from reviews of analogous markets, perhaps in other countries, where products have been removed from the market but where similar products continue to be legal, to determine what factors influenced the emergence of illegal supply.

Consumer Preferences and Behavior

One factor driving illicit markets is consumer behavior and preferences. Research on these can aid understanding of why current illicit markets operate as they do and of how those markets might change if regulations modify cigarettes in ways that affect their appeal for consumers.

- Research is needed on the extent to which consumer preferences explain why the United States appears to be less affected than other countries by large-scale smuggling of brand cigarettes, counterfeit cigarettes, and illicit whites. Research that directly tests the appeal of a representative selection of non-American blend cigarettes among U.S. consumers would shed light on this issue.
- Research is needed to examine how smokers respond to the permanent loss of specific product features they have previously found desirable—for example, bans and restrictions on key ingredients and additives and changes to packaging. Researchers should assess consumer inclination to seek products with banned features via the illicit market in comparison to other options like quitting and using alternative products.
- Research is needed on the relationship between e-cigarette use and the use of conventional tobacco products and on the role of e-cigarettes as an alternative to participation in the illicit tobacco market.
- The Tobacco Use Supplement to the Current Population Survey should be expanded in both the number and specificity of questions about tobacco use and participation in the illicit tobacco market. Questions should be added about factors that contribute to consumers' seeking out lower-priced products and what price levels might influence their decisions to switch between the legal and illegal markets.
- Because youths under age 18 are of particular concern to policy makers, research is needed about the extent to which they purchase cigarettes in the illicit market and how easily they do so.

Interventions and Enforcement

Appropriately scaled and well-targeted enforcement efforts against the illicit tobacco trade in the United States require systematic data on the array of efforts currently under way.

- The federal government should assemble and publish an annual report on indicators of the extent of international smuggling, bootlegging, and illicit production, together with indicators of enforcement activities by federal agencies. The federal government should also consider developing a voluntary reporting system by state and local governments.
- Systematic evaluations should be conducted of existing and future enforcement interventions on the illicit tobacco trade in the United States. State- and local-level efforts should be evaluated by independent researchers.

A more in-depth discussion of needed research can be found in the report *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, available from the National Academies Press (<http://www.nap.edu>). The study was sponsored by the U.S. Food and Drug Administration. Any findings, conclusions, or recommendations expressed in this publication are those of the study committee and do not necessarily reflect those of the sponsor.