Briefer: Illicit Tobacco Trafficking

Summarized from the United Nations Office on Drugs and Crime 2026 report: An Interconnected Criminal Ecosystem: Transnational Organized Crime Threat Assessment for South-East Asia.

Illicit tobacco trafficking, pp. 205–220

What does this chapter tell us?

- **The illicit market is primarily supplied by the legal industry.** UNODC finds that most illicit cigarettes in South-East Asia appear to originate from legal factories operating openly. Products are legally exported before being diverted or smuggled into destination markets.
- **The illicit cigarette market in South-East Asia occurs mostly within the region.** Regional manufacturing hubs reduce the need for inter-regional trade: in 2024, 75% of ASEAN cigarette trade was within ASEAN. Major trade-data anomalies point to diversion within the region. Cigarettes may be legally produced and exported, moved through transit countries or free zones, and then diverted into illicit markets or even re-imported into their country of origin. UNODC identifies significant discrepancies between reported exports, imports, supply, and consumption. For example, Indonesia reported almost US$380 million in cigarette exports to the Philippines in 2024, while the Philippines reported only about US$4 million in imports from Indonesia.
- **Non-compliant packaging is a clue to intended product diversion.** A large share of illicit packs lacks destination-compliant graphic health warnings and tax markings. UNODC argues that packs with no lawful destination should trigger scrutiny at manufacture and export.
- **Illicit trade should not be used to justify lower tobacco taxes.** Cigarettes are very cheap to produce, and both licit and illicit products are sold for substantial profit. This large margin allows trafficking to remain profitable despite successful seizures of illicit products and/or even major tax reductions. This weakens claims that cutting or keeping excise taxes low is an effective solution to illicit trade. Instead, it supports maintaining strong tobacco taxation alongside tighter licensing, tracking, export controls, law enforcement, and tackling corruption.
- **The Philippines is a major concern, particularly Mindanao.** A 2025 study cited by UNODC found that more than 80% of cigarettes at monitored Mindanao sites were illicit; UNODC interviews also indicate that some non-state armed groups may benefit from the trade.
- **UNODC's policy recommendation: Control the entire supply chain.** It recommends licensing and tracking for all stages of tobacco production and trade, stronger export/re-export controls, destination compliance checks, deterrent sanctions for suppliers of illicit markets, corporate accountability, and wider participation in the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

The report confirms that illicit trade is a governance and supply-chain issue, not a tax increase issue.

Illicit trade is increasing across countries with different tax systems. Regional illicit growth cannot be explained by tax levels alone because of major inconsistencies in reported data for legal production, exports, and imports. Policy direction recommends maintaining strong excise policy while securing production, export, transit, and distribution to prevent leakage and diversion.

How the illicit cigarette market works

UNODC describes a distinctive regional model: Many illicit cigarettes are not made in clandestine factories. They are often produced by licensed manufacturers, exported through legal channels, moved through transit jurisdictions or free zones, and later enter a destination market without valid import authorization, tax payment, tax stamps, and health warnings.

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1 LEGAL FACTORY → 2 EXPORT / FREE ZONE → 3 TRANSIT / REROUTING → 4 ILLICIT RETAIL

Country findings across South-East Asia

COUNTRY	UNODC ILLICIT-TOBACCO FINDINGS
Brunei Darussalam	**Possible transit/overflow market.** Viet Nam shipped 498,410 master cases of "ERA"-branded cigarettes to Brunei in 2024, totalling just under 5 billion sticks. UNODC estimates that even if Brunei's estimated 46,000 smokers each consumed one pack per day, this would account for only about 336 million sticks, leaving about 4.6 billion unaccounted for. "ERA" is also reported as illicitly sold in Brunei and neighbouring Malaysia.
Cambodia	**Origin, transit and counterfeit-production concern.** UNODC describes Cambodia as a source and transit point for cigarettes smuggled into Viet Nam. Its 2024 supply-demand analysis leaves at least 26 billion cigarettes unaccounted for. Enforcement has also detected large factories producing high-quality counterfeit brands for regional markets.
Indonesia	**Major production/export node with large trade anomalies.** The estimated illicit share rose from under 2% in 2019 to about 11% in a 2025 study. Indonesia reported US$1.3 billion in cigarette exports in 2024. It reported almost US$380 million in exports to the Philippines, while the Philippines reported only about US$4million in imports from Indonesia. UNODC also raises possible export-and-reimport and circular-trafficking schemes.

Country findings across South-East Asia (cont.)

COUNTRY	UNODC ILLICIT-TOBACCO FINDINGS
Malaysia	**One of the region's largest documented illicit markets.** UNODC cites a 2025 estimate that 55% of cigarette consumption was illicit and estimates the market at roughly US$1 billion annually. ERA-branded cigarettes are prominent in Sarawak, Sabah and Labuan, and UNODC points to possible flows through Brunei. The Philippines warehouse case also involved one million illegitimate Malaysian tax stamps.
Philippines	**Highest-risk country discussed in the chapter.** A 2018 national estimate put the illicit share at 16%; a 2025 six-site study found over 80% illicit market share at monitored Mindanao sites (not a national estimate). Indonesian records show large flows to Tawi-Tawi, Jolo and Zamboanga. UNODC interviews in Zamboanga indicate that some non-state armed groups may benefit from tobacco trafficking revenues and report violence and alleged local-government corruption. An April 2026 Mactan Export Processing Zone warehouse raid found over PHP 1 billion in illicit cigarettes/equipment and one million illegitimate Malaysian tax stamps.
Singapore	**Appears mainly as a trade/transit node.** Indonesia reported importing more than 7,500 tons of cigarettes from Singapore in 2024 as part of UNODC's circular-trafficking discussion. In the Mactan warehouse case, the Philippine producer was licensed to export implicated brands to Viet Nam and Singapore. UNODC also notes that the cheapest pack sold in Singapore in 2024 was US$ 11.90 (compared to US$0.24 in Cambodia), illustrating the region's extreme price/profit differentials.
Thailand	**Rapid increase in illicit shares.** Surveys cited by UNODC indicate an increase from 5.2% at the end of 2018 to 25.5% at the beginning of 2024. Thailand's cigarette production has declined over the past decade, while some prominent brands illicitly sold in Thailand appear in shipping records as products exported by producers in Viet Nam, supporting UNODC's assessment of a supply-driven regional market.
Viet Nam	Major production, **import-record and re-export anomalies.** Production increased from 109 billion cigarettes in 2015 to 144 billion in 2024 despite broadly stable domestic demand and modest legal exports. Viet Nam reported only US$18,000 in cigarette imports in 2024 while 23 partner countries reported more than US$900 million in exports to Viet Nam. UNODC's illustrative reconciliation leaves more than 100 billion cigarettes without a clear legal consumer market and identifies Vietnamese-origin brands in illicit markets across the region.

Policy implications

- **Protect excise policy.** UNODC's findings support addressing illicit trade through entire supply-chain control rather than weakening tobacco taxes. The analysis shows illicit markets expanding across diverse tax regimes regardless of price levels. High criminal profit margins absorb tax shifts, meaning tax cuts reduce public revenue without stopping illicit supply.
- **Regulate upstream, not only at the border.** Effective supply chain control requires licensing and tracking of raw materials and ingredients prior to manufacture and of manufactured products from manufacturer to retailer, including verification of destination-market packaging compliance and tax compliance before export and re-export. UNODC specifically recommends tighter controls at export and re-export points and stronger monitoring of cigarette exports.
- **Strengthen due diligence, accountability and cooperation.** UNODC recommends proof of lawful destination, licensing sanctions for systematic suppliers of illicit markets, potential liability for manufacturers/logistics/free-zone operators, inter-agency information sharing, and wider participation in the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products
- **Monitor and reconcile regional trade data.** Complemented by a government-controlled track-and-trace system, authorities should regularly compare production, excise removals, exports, imports, shipping records, seizures and pack surveys to identify unexplained supply and inconsistencies in one country's export data with the destination country's import data.
- **Strengthen governance and security.** Beyond fiscal leakage, illicit tobacco is embedded in wider smuggling and (potentially armed) organized-crime networks, involving corruption among government officials. The policy response should focus on potential corruption at customs, ports, free zones, export processing zones, and logistics channels, requiring stronger accountability mechanisms for officials involved in suspicious or non-compliant shipments.

Reference

UN Office on Drugs and Crime. (2026). An Interconnected Criminal Ecosystem: Transnational Organized Crime Threat Assessment for South-East Asia. Available at: https://www.unodc.org/roseap/uploads/documents/Publications/2026/TOCTA_South-East_Asia_2026.pdf