

Estimates of Illicit Cigarette Consumption in **INDONESIA** : An Analysis of Trade and Consumption Data

Country-Level Results from the Regional Study
“**The Political Economy of Tobacco Control in Southeast Asia**”
June 2011

Abdillah Ahsan
Nur Hadi Wiyono
Diahadi Setyonaluri

Demographic Institute
Faculty of Economics University of Indonesia

This project is supported in part by Grant Number R01TW007924 from the Fogarty International Centre (FIC) and National Cancer Institute (NCI) at the U.S. National Institutes of Health. The content is solely the responsibility of the presenters and does not necessarily represent the official views of the FIC, NCI, or the U.S. National Institutes of Health.



DEMOGRAPHIC INSTITUTE
FACULTY OF ECONOMICS UNIVERSITY OF INDONESIA



SEATCA

Overview

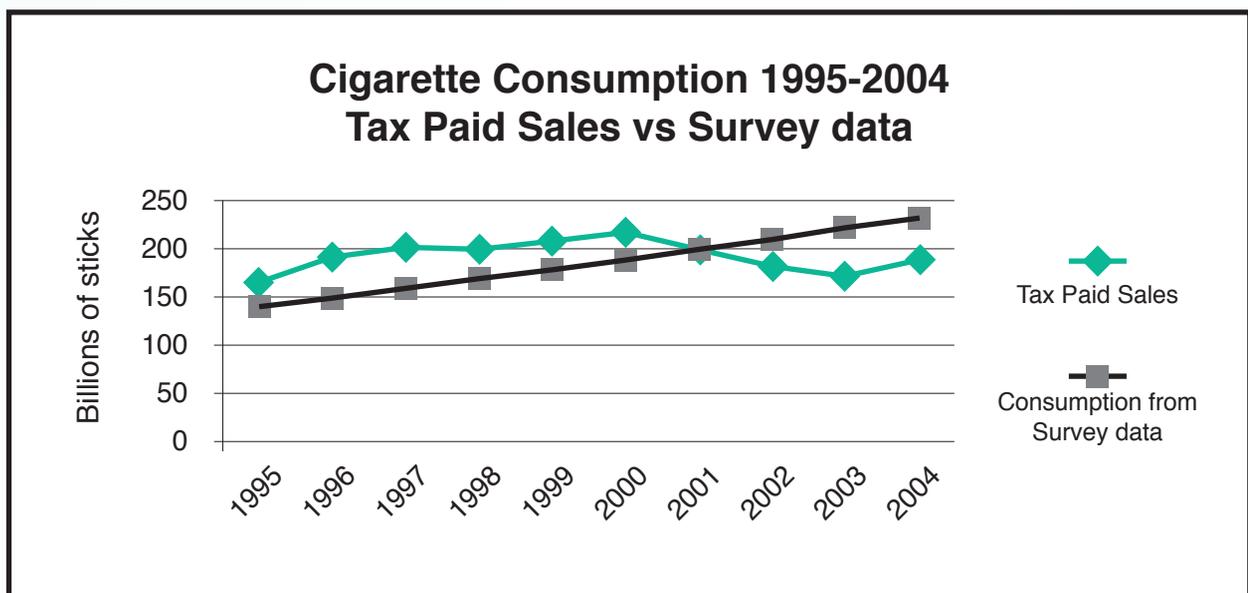
Data from trade and consumption surveys indicate that cigarette consumption is increasing in Indonesia, with illicit consumption estimated at approximately 12% of overall consumption for the years 2002-2004. Illicit consumption resulted in government revenue losses of approximately one trillion Rp per year during those years. The government should increase cigarette taxes in order to curb rising rates of cigarette consumption and to increase government revenue, and should enforce anti smuggling laws to curb illicit consumption and protect government revenue.

Methods

Two methods were used to measure illicit smuggling into the country and illicit domestic consumption of cigarettes. To measure the level of illicit smuggling into the country, UNCOMTRADE data on other countries' cigarette exports to Indonesia were compared against Indonesian customs import data. To calculate illicit consumption, legal sales were compared against reported survey consumption. Legal cigarette sales were calculated by adding domestic production and imports of cigarettes, and subtracting exports.

Key Findings

- Before 2002, legal cigarette sales actually exceeded reported domestic consumption. This could be due to a combination of underreporting and/or smuggling out. After 2002, the data flip; survey-reported consumption exceeds tax paid sales. These trends indicate that illicit domestic production and consumption likely began increasing after 2001; the chart below shows a steady, constant increase in level of cigarette consumption, but wavering trends in tax paid sales of cigarettes.



- From 2002 - 2004, reported cigarette consumption exceeded legal cigarette sales by 11%-15% each year.
- Almost all of the illicitly consumed cigarettes appear to have been domestically produced, as the trade data show that imports of cigarettes into Indonesia were negligible compared to domestic production. Almost all of the cigarettes imported into Indonesia bypassed customs, though the tax revenue from these cigarettes would only have accounted for approximately 1% of total revenue from cigarette taxes.
- The loss in government revenue from 2002-2004 for all illicitly consumed cigarettes ranges from Rp 900 million per year to Rp 1.17 trillion per year

Other key issues

- Underreporting in this survey was conservatively estimated to fall between 0% and 15%, although underreporting data from other countries suggests that underreporting may be higher. A higher level of underreporting translates into higher levels of illicitly consumed cigarettes and government revenue losses.
- The discrepancies between sales and reported consumption may be due to smuggling out and/or underreporting. Thus, illicit exports might be a significant issue to study in future analyses of the cigarette trade in Indonesia. Higher rates of smuggling out would also mean more government revenue losses.

Policy Recommendations

- 1. Raise the tax on cigarettes.** Indonesia's cigarette tax is among the lowest in the region, while cigarette consumption in Indonesia is on the rise, increasing by 75% in the period between 1995 and 2005. Taxes would increase government revenue while curbing the rise in cigarette consumption. It is highly unlikely that increased taxes would increase the rate of smuggling, as Indonesian smokers prefer domestically-produced kreteks over imported white cigarettes.
- 2. Improve enforcement of cigarette tax laws and reduce illegal exports.** This would safeguard government revenues that are otherwise lost from illicitly smuggled exports and illicit consumption of domestically produced tobacco.
- 3. Impose requirements for using special labels and packages to distinguish legal packs from illicit packs, and impose stronger penalties for using counterfeit excise stamps.** It is unclear if consumers are aware they are consuming illicit cigarettes, and distinguishing these packs will help consumers and officials to follow and enforce the law.
- 4. Impose stronger penalties on illicit domestic cigarette manufacturers.** Domestic production is concentrated in a few provinces, and focusing efforts in these areas may yield better results. These suppliers are the main source for illicit consumption, and targeting them will reduce the supply of illicit cigarettes.
- 5. Create regulations that require licenses** and impose standards for manufacturers, importers, exporters, wholesalers, transporters, warehouses, retailers and anyone else who is actively engaged in the production and distribution of tobacco products.

“

Working together for
effective evidence-based
tobacco control measures
in Southeast Asia

”



Southeast Asia Tobacco Control Alliance

Thakolsuk Place, Room 2 B, 115 Thoddamri Road, Dusit, Bangkok, Thailand 10300

www.seatca.org