

# Asia Illicit Tobacco Indicator 2016: Malaysia

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Prepared by Oxford Economics  
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# Disclaimer

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# Malaysia: Legal Domestic Sales

- Malaysia Legal Domestic Sales are estimated at 8.4 billion cigarettes for 2016, down by 24.6% compared with 2015. Legal Domestic Sales have declined every year since the first Asia Illicit Tobacco Indicator Report, and in 2016 were just 57.5% of the level recorded in the 2012 Report.
- According to Retail Audit data, BAT (55%), JTI (22%), and PM (19%) account for nearly all Legal Domestic Sales in Malaysia.
- Several new regulatory measures have been introduced in recent years. In November 2015, the Excise Tax on cigarettes was increased by the equivalent of 34.8%. And in November 2016, additional restrictions were placed on Duty-Free sales of cigarettes brought from Labuan, Langkawi, and Tioman. Furthermore, a universal Goods and Services Tax (GST) of 6% was introduced April 2015, replacing the previous sales tax in operation in Malaysia.
- The nominal price of cigarettes in Malaysia is higher than most neighbouring markets. At USD 4.16 per pack of 20 for the Most Sold Brand (up from USD 3.29 a year earlier), the price of cigarettes remains lower than in Singapore (USD 9.57), but substantially higher than in emerging ASEAN economies such as Indonesia (USD 1.78 per pack), Thailand (USD 1.47), and Vietnam (USD 0.45).<sup>1</sup>
- The Deputy Health Minister announced in March 2017 plans to raise the average cost of legally sold domestic cigarettes by a further 25%, and will consider increasing the minimum age of purchasing tobacco from 18 to 21. Both measures will be considered as part of a new bill on tobacco control to be put before Parliament in 2018.<sup>2</sup>
- A large price differential exists between legal and illicit cigarettes in Malaysia. Minimum price regulation is in operation, and was raised from MYR 9.0 per pack in August 2015 of cigarettes to MYR 10.0 in August 2016. Meanwhile, according to the Royal Malaysian Customs Department, illicit cigarettes can reportedly sell for as low as MYR 3.5 per pack.<sup>3</sup> Retailing at MYR 17.0 per pack, the Most Sold Brand of cigarettes costs up to five times more than a pack of illicit cigarettes.

## Malaysia

Legal Domestic Sales:

**8.4 bn**  
cigarettes

Price:

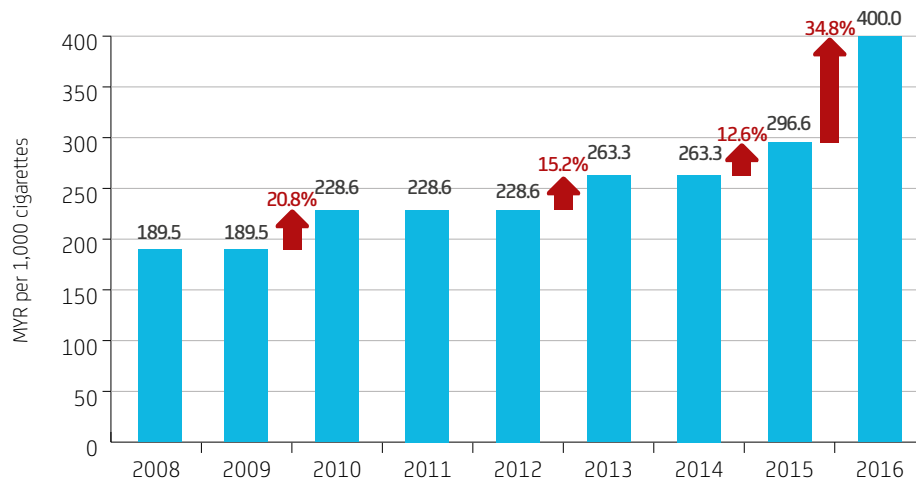
MYR **17.0**  
USD **4.16**

<sup>1</sup>Price per pack of 20 of the Most Sold Brand in October 2016, based on PM data.

<sup>2</sup><http://www.thestar.com.my/news/nation/2017/03/28/plan-to-hike-up-cigarette-prices/>

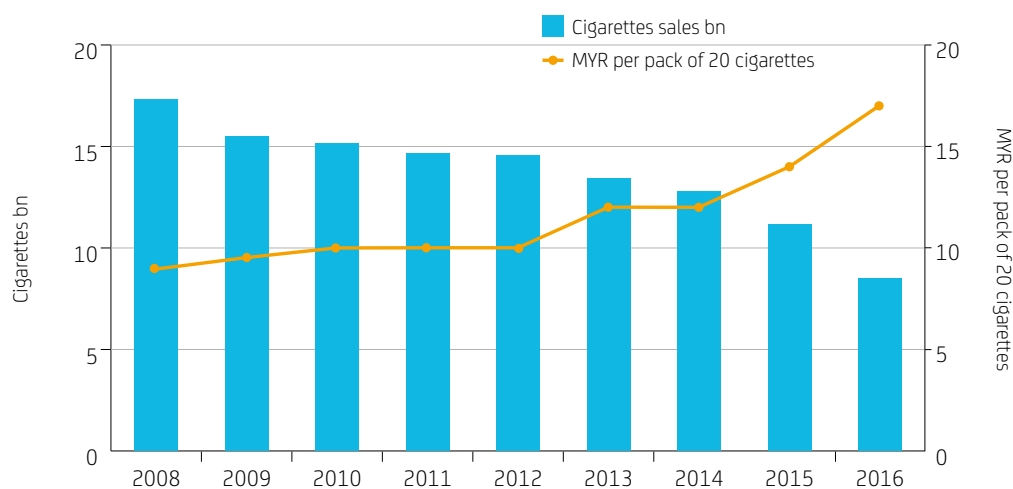
<sup>3</sup><https://www.nst.com.my/news/exclusive/2017/05/238994/customs-dept-wages-all-out-war-against-illicit-trade>

## Malaysia: Excise duty applied to cigarettes<sup>3</sup>



Source: Malaysia Customs & Excise Department and Oxford Economics based on PM data  
<sup>3</sup>Rate applied to the Most Sold Brand in October of each year.

## Malaysia: Legal Domestic Sales and prices<sup>4</sup>



Source: Oxford Economics based on PM data  
<sup>4</sup>Price of the Most Sold Brand in October of each year.

# Malaysia: Cigarette Consumption

- The results of three Empty Pack Surveys and IMS data on Legal Domestic Sales were used to estimate Total Consumption of cigarettes in Malaysia.<sup>1</sup>
- Total Consumption (legal and illicit) is estimated at 18.3 billion cigarettes in 2016, up 3.1% from 2015, and the first increase in Total Consumption recorded during the years for which Malaysia has been covered in the Asia Illicit Tobacco Indicator Report. However, Total Consumption in 2016 was still an estimated 8% lower than in 2014, and 20% lower than in 2012.
- An estimated 45% or 8.2 billion cigarettes of Total Consumption is Legal Domestic Consumption, and 55% (equivalent to 10.1 billion cigarettes) is Non-Domestic Consumption.
- Within Non-Domestic Consumption, an estimated 9.6 billion cigarettes were Non-Domestic Illicit, and 0.5 billion were Non-Domestic Legal.<sup>2</sup>
- Legal Domestic Consumption was an estimated 2.7 billion lower in 2016 than 2015, which was more than offset by an increase in Non-Domestic Inflows – through a combination of an increase of 0.2 billion Non-Domestic Legal cigarettes and 3.0 billion more Non-Domestic Illicit cigarettes.
- With Legal Domestic Consumption falling by nearly one quarter, the rise in Total Consumption in 2016 was driven by an increase in Non-Domestic Inflows, and in particular, Non-Domestic Illicit Inflows.
- The increase in Illicit Consumption in 2016 reverses a trend decline in Illicit Consumption seen over the history of the Asia Illicit Tobacco Indicator Report covering 2012-2015. Overall, the volume of Illicit Consumption is 46% higher than in 2015, and more than 20% higher than in 2012.
- A more detailed breakdown of the Empty Pack Survey results indicate a significant rise of smuggled Contraband Whites in 2016. In terms of location, the largest increases in Illicit Incidence were found in the South and East Coast states of Malaysia, which saw rises of more than 20pp in comparison with 2015.

## Malaysia: Composition of cigarette consumption

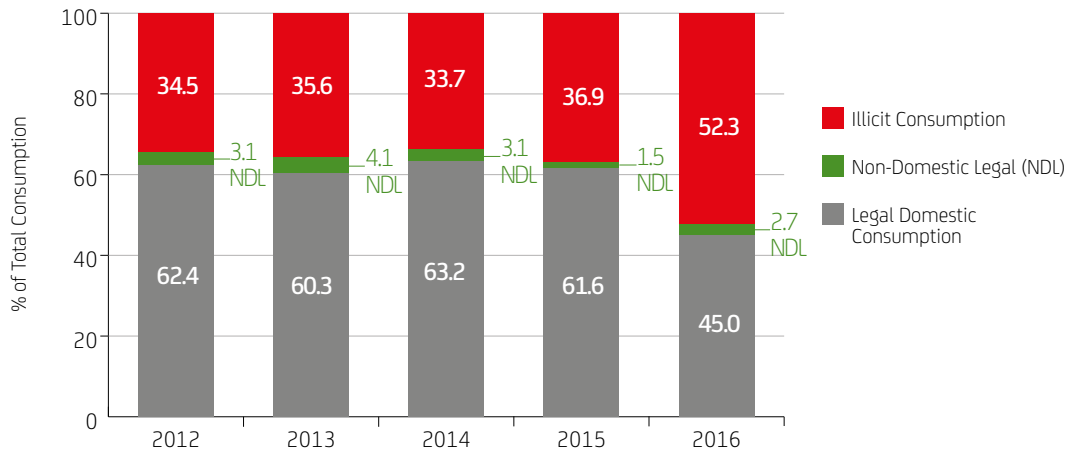
	2012		2013		2014		2015		2016		% change 2015-16
	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	
<b>Legal Domestic Consumption (LDC)</b>	<b>14.3</b>	<b>62.4</b>	<b>13.2</b>	<b>60.3</b>	<b>12.6</b>	<b>63.2</b>	<b>10.9</b>	<b>61.6</b>	<b>8.2</b>	<b>45.0</b>	<b>-24.6</b>
Legal Domestic Sales (LDS)	14.6	–	13.4	–	12.8	–	11.1	–	8.4	–	-24.6
Outflows of domestic duty-paid cigarettes	-0.2	–	-0.2	–	-0.2	–	-0.2	–	-0.2	–	-24.4
<b>Total Non-Domestic Inflows (ND)</b>	<b>8.6</b>	<b>37.6</b>	<b>8.7</b>	<b>39.7</b>	<b>7.3</b>	<b>36.8</b>	<b>6.8</b>	<b>38.4</b>	<b>10.1</b>	<b>55.0</b>	<b>47.6</b>
Non-Domestic Legal (NDL)	0.7	3.1	0.9	4.1	0.6	3.1	0.3	1.5	0.5	2.7	81.6
Non-Domestic Illicit	7.9	34.5	7.8	35.6	6.7	33.7	6.6	36.9	9.6	52.3	46.1
<b>Domestic Illicit</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>n/a</b>
<b>Total Consumption</b>	<b>22.9</b>	<b>100.0</b>	<b>21.9</b>	<b>100.0</b>	<b>19.9</b>	<b>100.0</b>	<b>17.8</b>	<b>100.0</b>	<b>18.3</b>	<b>100.0</b>	<b>3.1</b>
<b>Total Illicit Consumption</b>	<b>7.9</b>	<b>34.6</b>	<b>7.8</b>	<b>35.6</b>	<b>6.7</b>	<b>33.7</b>	<b>6.6</b>	<b>36.9</b>	<b>9.6</b>	<b>52.3</b>	<b>46.1</b>

Source: Oxford Economics

<sup>1</sup>Empty Pack Surveys were undertaken in 2016 March-May, 2016 June-August, and 2016 October-December (see Report methodology for more details).

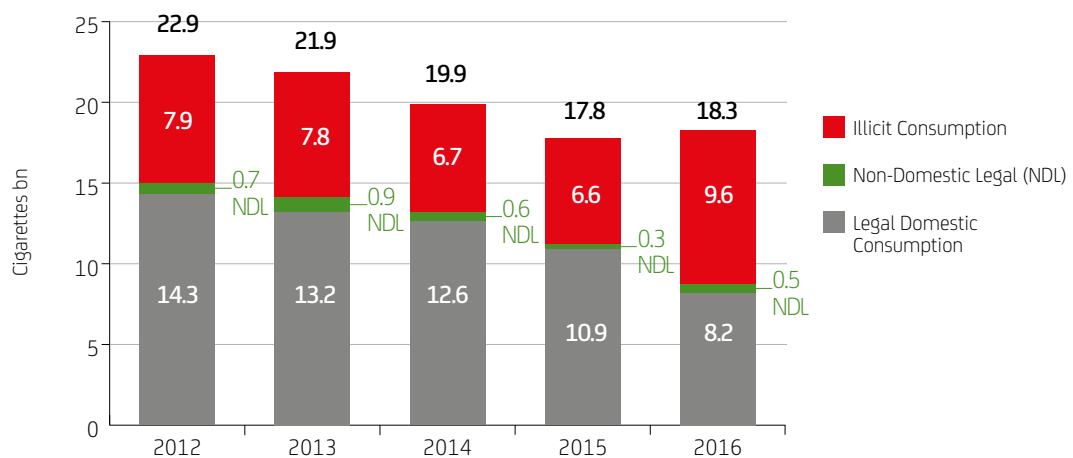
<sup>2</sup>Empty Pack Survey: 2.7% of total cigarettes identified as Malaysia Duty Non Paid (MDNP) with genuine Pink Banderol (a security feature for imported packs of Duty-Free).

## Malaysia: Composition of cigarette consumption (% of Total Consumption)



Source: Oxford Economics

## Malaysia: Composition of cigarette consumption (number of cigarettes)



Source: Oxford Economics

# Malaysia: Government Finances

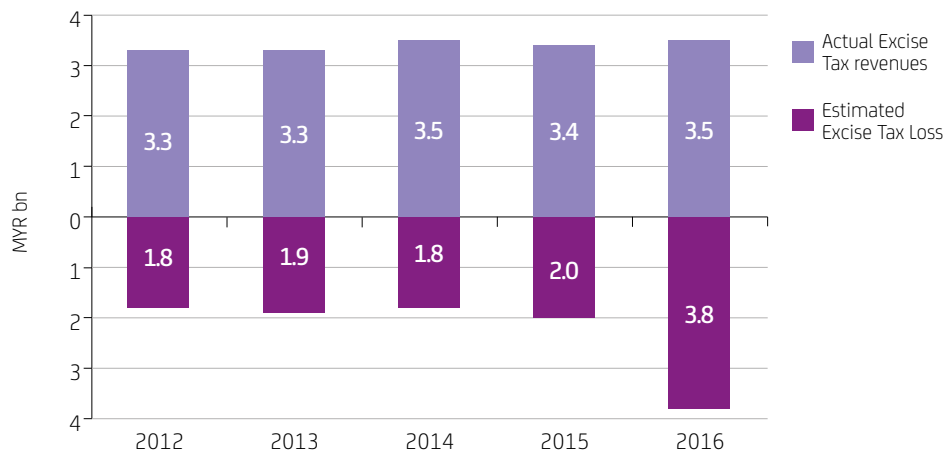
- Malaysia applies a single-rate, unit-specific Excise Tax rate of MYR 400 per thousand cigarettes following an Excise Tax hike implemented in November 2015. Before this, a specific Excise Tax rate of MYR 280 per thousand cigarettes was applied, as well as an ad valorem rate of 20%.
- A General Sales Tax of 6% also applies to cigarettes, in common with other goods and services, after Malaysia introduced a universal rate in April 2015.
- The 25% decline in Legal Domestic Sales in Malaysia in 2016 meant that, despite the sizeable increase in Excise Tax rates (equivalent to 34.8%), actual government revenues from Excise Taxes rose by just 4.5%.
- Meanwhile, the 46.1% increase in Illicit Consumption resulted in our estimate of the Tax Loss from Illicit Consumption of cigarettes almost doubling to MYR 4.3 billion (USD 1 billion) in 2016.
- The estimated Excise Tax Loss due to Illicit Consumption is more than half of the total potential government revenues from Excise Taxes.
- Losses to Illicit Consumption rose from USD 562 million in 2015 to over USD 1 billion in 2016. 90% of this Tax Loss is accounted for by unpaid Excise Tax duties, with the remainder accounted for by lower sales tax.

## Malaysia: Actual government revenues and estimated Tax Loss

	2012		2013		2014		2015		2016		% change in local currency 2015-2016
	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	
Actual revenue from excise duties on tobacco	3.3	1,074	3.4	1,076	3.5	1,055	3.4	911	3.5	847	4.5%
Estimated number of illicit cigarettes purchased (cigarettes bn)	7.9		7.8		6.7		6.6		9.6		46.1%
<b>Estimated Tax Loss from Illicit Consumption</b>	<b>1.9</b>	<b>622</b>	<b>2.0</b>	<b>624</b>	<b>1.9</b>	<b>577</b>	<b>2.2</b>	<b>562</b>	<b>4.3</b>	<b>1,028</b>	<b>94.4%</b>
Lost excise revenue	1.8	587	1.9	587	1.8	545	2.0	507	3.8	923	93.5%
Lost GST revenue	0.1	35	0.1	36	0.1	32	0.2	55	0.4	105	103.6%
<b>Excise Tax Loss as % of potential total Excise Tax revenues</b>	<b>35.3%</b>		<b>35.3%</b>		<b>34.1%</b>		<b>37.1%</b>		<b>52.2%</b>		

Source: Malaysian Ministry of Finance and Oxford Economics based on PM data

## Malaysia: Actual government revenues and estimated Tax Loss

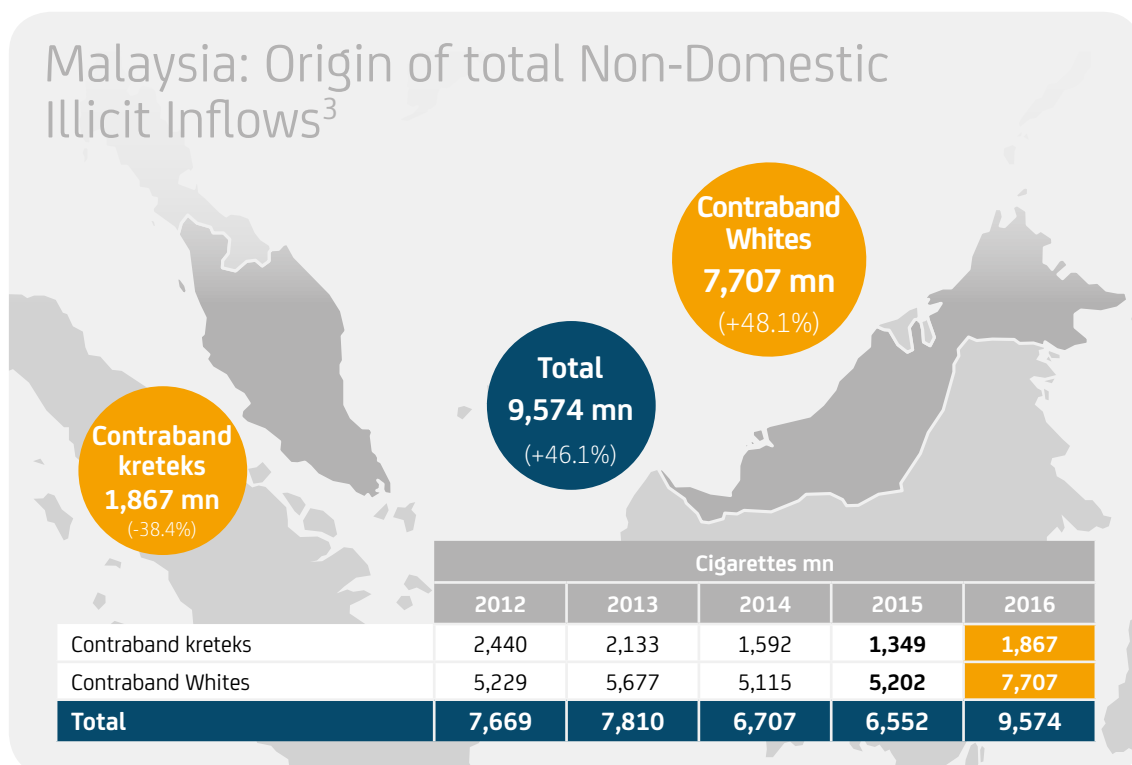


Source: Malaysian Ministry of Finance and Oxford Economics based on PM data



# Malaysia: Trade Flows

- Consumption of Non-Domestic Illicit cigarettes has been on a steady downward trend through the first four years covered by Asia Illicit Tobacco Indicator research, but this ended in 2016, when there was a 46.1% increase in illicit Inflows.
- The rise in Illicit Consumption was underpinned by a rise in Contraband Whites,<sup>2</sup> the share of which rose from 29.3% of Total Consumption in 2015 to 42.1% in 2016 (an increase of 48.1% in volume terms). This was driven by a 15.1pp rise in the share of smuggled cigarettes (i.e., non-domestic manufacturers), as well as the emergence of local brands with fake security stamps applied (e.g., Manchester, A380, and 9th Century). The use of fake security stamps is a new phenomenon for 2016, with estimates derived from the Empty Pack Surveys suggesting that they composed 4.0% of Total Consumption.
- Outflows of domestic duty-paid cigarettes to the other markets covered in this Report are estimated at 158 million cigarettes in 2016, around 25% down versus 2015.<sup>1</sup> Two-thirds of these cigarettes were destined for Singapore, where nominal cigarette prices are more than twice as high as in Malaysia.
- The Royal Malaysian Customs department has actively sought to curtail illicit Inflows in Malaysia. In mid-2016, the department embarked on a new strategy that targeted the entry-point of illicit cigarettes - ports and coastal areas - by tightening security at the borders and collaborating with other agencies such as the Marine Police. This new focus on the supply of illicit cigarettes has yielded instant results. In 2016, around 828.2 million cigarettes worth MYR 82.7 million and with an Excise Tax duty value of MYR 648.9 million were seized, a significant improvement from the 584.2 million cigarettes seized in 2015 with half the tax value. Furthermore, the department is pushing to amend Section 135(1)(d) of the Customs Act 1967 for harsher penalties for smuggling cigarettes.
- Initial data for 2017 suggest that these efforts have helped to curtail the recent growth in Illicit Consumption in Malaysia. The Empty Pack Survey conducted over the period March-May 2017 found an Illicit Incidence of 55.8%, representing a decline of 0.3pp in comparison with the October-December 2016 Empty Pack Survey.



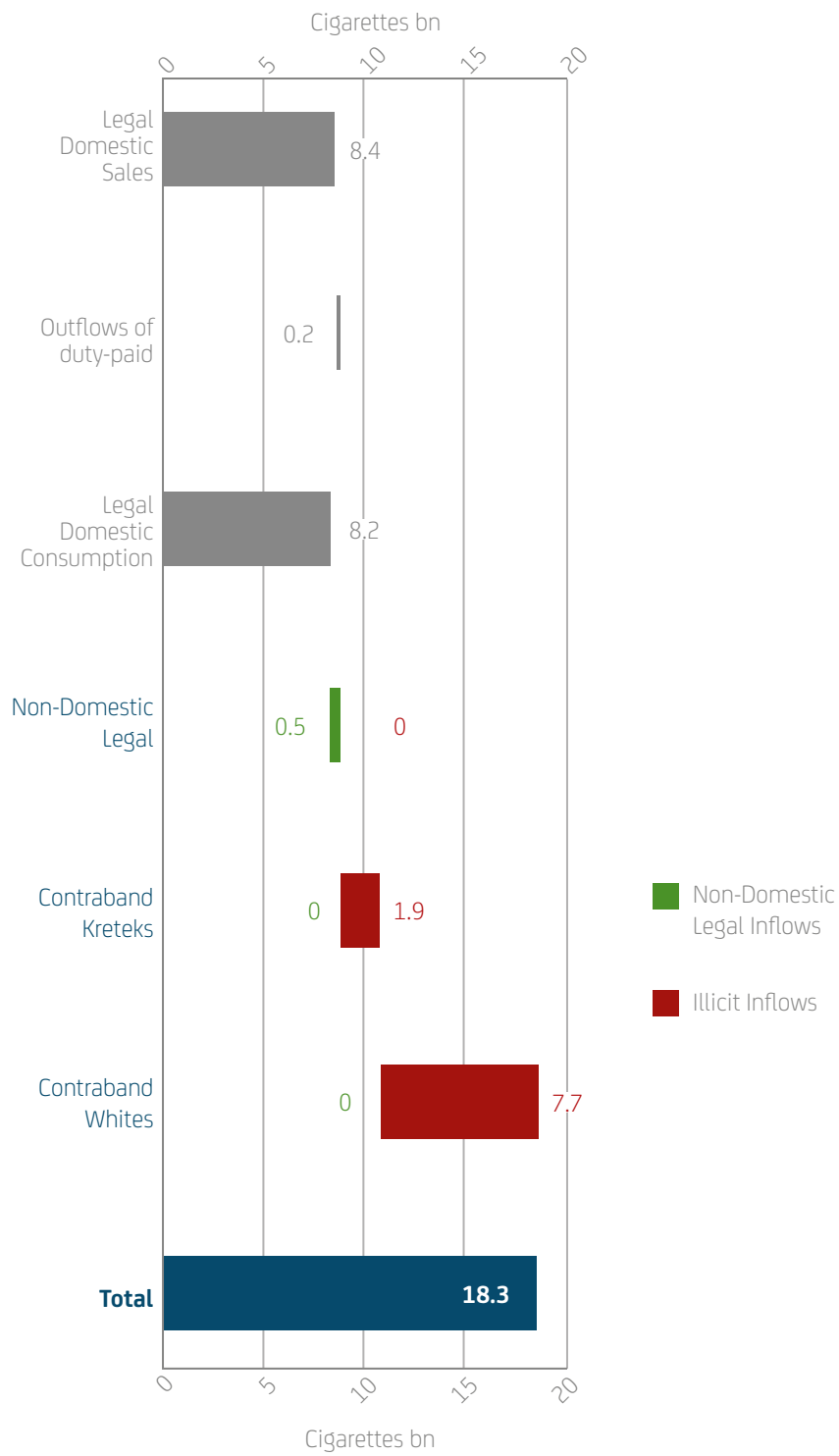
Source: IT Flows Model and Oxford Economics

<sup>1</sup>Note that estimated Outflows of duty-paid cigarettes are based only on identified Inflows in the other markets covered in this Report and may therefore be an underestimate.

<sup>2</sup>Contraband Whites refer to locally manufactured/imported cigarettes with at least one Contraband feature e.g., importer/manufacture not registered with Royal Malaysian Customs, fake or absent security mark or stamp, non-compliance with Ministry of Health regulations, etc.

<sup>3</sup>Figures in brackets reflect % change from 2015.

# Malaysia: Consumption breakdown 2016

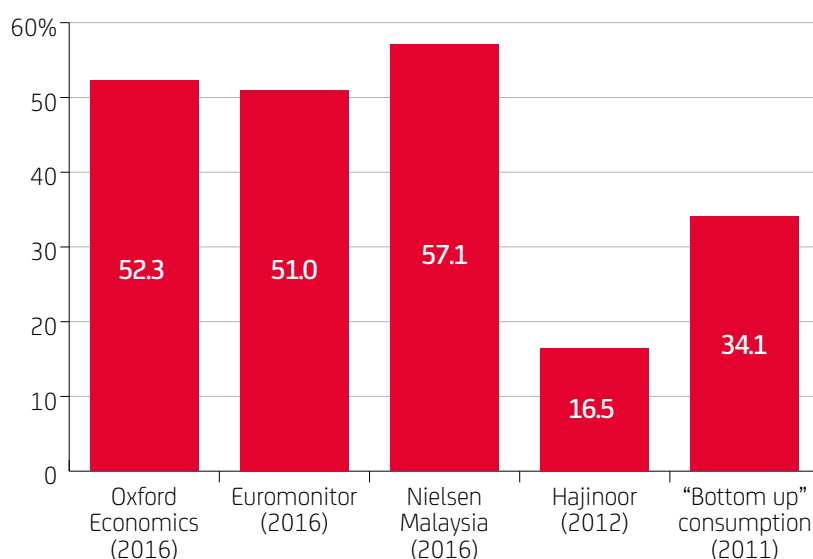


Source: IT Flows Model and Oxford Economics

# Malaysia: Other Estimates

Source	Comment
Nielsen Malaysia, Illicit Tobacco Study, December 2016	The report finds that 57% of cigarettes smoked in Malaysia were illicit – a few percentage points more than in our study (52%) but the results are nevertheless clearly in the same ballpark.
National Kenaf and Tobacco Board (NKTB), June 2017	Evidence from tobacco industry stakeholders was combined by NKTB to estimate the incidence of illicit tobacco amongst smokers, and a revenue loss estimate of MYR 2.5 billion was produced, referring to 2016. This is significantly lower than our estimate, at MYR 4.3 billion.
Comparing consumption estimates with LDC (“bottom up” approach)	Using data on average annual cigarette consumption per adult (age 15 and above), plus UN population data, a “bottom up” estimate of cigarette consumption can be made, which can then be compared with LDC. This approach yields an estimate for the Illicit Incidence of 1.7%, or around 221 million cigarettes (based on 2014 LDC). The source for annual cigarette consumption per adult is Euromonitor (available via <a href="http://www.tobaccoatlas.org">www.tobaccoatlas.org</a> ).
Hajinoor, M S. (2012). Under-invoicing of Cigarette Imports in Malaysia: A good Indicator for Smuggling? Retrieved via <a href="http://www.ukm.my/fep/perkem/pdf/perkemVII/PKEM2012_4B6.pdf">http://www.ukm.my/fep/perkem/pdf/perkemVII/PKEM2012_4B6.pdf</a>	An academic estimate by Hajinoor (2012) using a “bottom up” approach to compare consumption estimates with legal sales suggests an Illicit Incidence of 16.5% (2.9 billion cigarettes), but the data used are much older (to 2006) and the share of illicit trade is believed to have increased since then. The industry estimate for illicit trade quoted in this article for 2006 was 21%.
Euromonitor Passport, 2017	Euromonitor estimates an Illicit Incidence of 51.0% in 2016. The methodology, sampling and coverage are unknown, so it is difficult to assess the robustness of this estimate.

## Malaysia: Alternative estimates of Illicit Consumption



# Malaysia: Data Sources

	Primary source	Calculation	Comments
<b>Legal Domestic Sales (LDS)</b>	Distributor to trade volume based on Confederation of Malaysian Tobacco Manufacturers (CMTM) for top 3 companies (PM, BAT, and JTI), and PM estimates on others based on Nielsen Retail Audit.	—	—
<b>Outflows of domestic duty-paid cigarettes</b>	Empty Pack Survey data in other markets covered in this Report.	Empty Pack Survey data in other markets used to identify the presence of packs bearing Malaysian market-specific labelling (e.g., health warnings, tax stamps, etc.).	Outflows of domestic duty-paid cigarettes to other markets are estimated at around 158 million cigarettes, with a large share going to Singapore.
<b>Legal Domestic Consumption (LDC)</b>	—	Legal Domestic Sales minus Outflows of legal sales.	Outflows of duty-paid cigarettes refer only to Outflows to other markets covered in this Report.
<b>Total Non-Domestic Inflows (ND)</b>	—	Sum of Non-Domestic Legal and Non-Domestic Illicit.	—
<b>Non-Domestic Legal (NDL)</b>	—	Based on Empty Pack Surveys.	2.7% total sticks identified in the Empty Pack Survey as Malaysia Duty Non Paid (MDNP) with genuine Pink Banderol present (a security feature for imported packs of Duty-Free).
<b>Non-Domestic Illicit</b>	Empty Pack Surveys.	Based on Empty Pack Surveys plus OE estimates.	Estimate derived from the average of three waves of Empty Pack Survey conducted in 2016. See Report methodology for more details.
<b>Domestic Illicit</b>	—	Zero under-declaration of domestically produced cigarettes.	There is assumed to be no under-declaration of domestically produced cigarettes. Anecdotal evidence suggests the Counterfeit domestic brand cigarettes identified are produced outside Malaysia.
<b>Total Illicit Consumption</b>	—	Sum of Non-Domestic Illicit and Domestic Illicit.	—
<b>Total Consumption</b>	—	Legal Domestic Sales minus Outflows of domestic duty-paid cigarettes, plus estimated Non-Domestic Legal consumption, plus estimated Illicit Consumption.	The IT Flows Model estimate of consumption is 18.3 billion cigarettes for 2016.
<b>Total Tax Loss</b>	—	Total Illicit Consumption multiplied by the weighted average tax rates (Excise Tax and GST).	See Report methodology for more details.

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