

# Asia Illicit Tobacco Indicator 2017: Malaysia

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Prepared by Oxford Economics  
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# Disclaimer

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The Asia Illicit Tobacco Indicator 2017 Report (the “Report”) on the illicit tobacco trade in selected Asian markets (including Australia and New Zealand) has been prepared by Oxford Economics (OE). OE enjoyed academic freedom and full editorial control of the Report. We are grateful for the inputs and data received from public sector and industry stakeholders.

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# Malaysia: Legal Domestic Sales

- In 2017, Legal Domestic Sales were estimated at 7.7 billion cigarettes in Malaysia. Legal Domestic Sales continued to decline in 2017 – consistent with a trend observed since the beginning of the Asia Illicit Tobacco Indicator research programme in 2012 – falling by a further 8.4% in comparison with 2016. Since 2012, Legal Domestic Sales have almost halved in volume.
- BAT retained the largest market share in 2017, accounting for 52% of all Legal Domestic Sales. JTI (22%) and PMI (21%) dominated the remainder of the market. The remaining 5% of the market is composed of local trademark owners.
- As part of the National Strategic Plan for Tobacco Control 2015-20, authorities are targeting a reduction in Smoking Prevalence from 20.5% in 2015 to below 15% by 2025.<sup>1</sup>
- In November 2015, the Excise Tax rate on cigarettes was increased by the equivalent of 34.8%, while in November 2016, restrictions were placed on Duty-Free sales of cigarettes bought from Labuan, Langkawi, and Tioman. And in 2017, public and national parks were designated as no-smoking zones.
- The nominal price of cigarettes in Malaysia is higher than most neighbouring markets. At USD 4.02, the price of a pack of 20 of the Most Sold Brand of cigarettes in 2017 was lower than in Singapore (USD 9.62), but higher than in other ASEAN markets including Indonesia (USD 1.90), Thailand (USD 1.81), and Vietnam (USD 0.88).<sup>2</sup>
- A large price differential exists between legal and illicit cigarettes in Malaysia. Minimum price regulation is in operation, and was raised in August 2016 to MYR 10.0 per pack of 20 cigarettes from MYR 9.0. Meanwhile, illicit cigarettes were reportedly being sold for as little as MYR 3.5 per pack of 20 cigarettes in 2017, according to the Royal Malaysian Customs Department.<sup>3</sup> Retailing at MYR 17.0 per pack, the Most Sold Brand of cigarettes were nearly five times more expensive.

## Malaysia

Legal Domestic Sales:

**7.7 bn**  
cigarettes

Price:

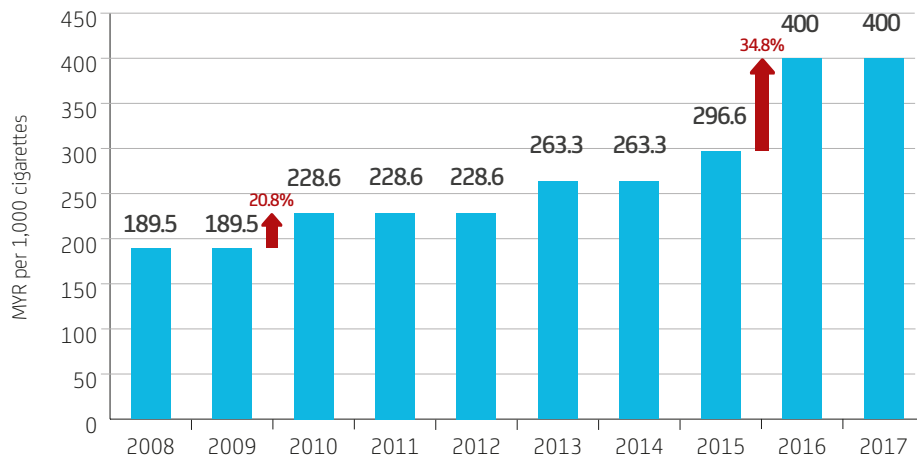
MYR **17.0**  
USD **4.02**

<sup>1</sup>2015 Smoking Prevalence data based on the National Health Morbidity Survey 2015, obtained via the WHO FCTC 2018 report.

<sup>2</sup>Price per pack of 20 of the Most Sold Brand in October 2017, based on PM data.

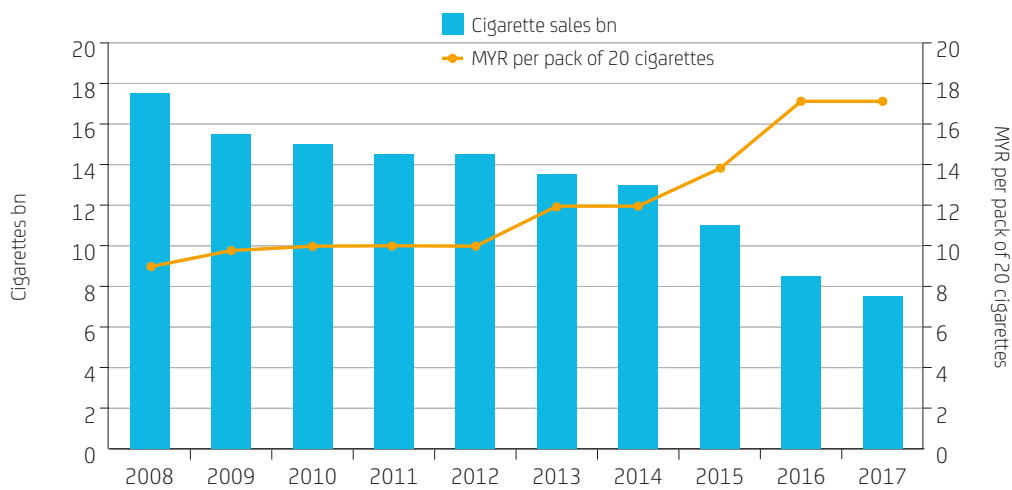
<sup>3</sup>See <https://www.nst.com.my/news/exclusive/2017/05/238994/customs-dept-wages-all-out-war-against-illicit-trade>

## Malaysia: Excise duty applied to cigarettes<sup>4</sup>



Source: Malaysia Customs & Excise Department and Oxford Economics based on PM data  
<sup>4</sup>Rate applied to the Most Sold Brand in October of each year.

## Malaysia: Legal Domestic Sales and prices<sup>5</sup>



Source: Oxford Economics based on PM data  
<sup>5</sup>Price of the Most Sold Brand in October of each year.

# Malaysia: Cigarette Consumption

- The results from 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) was estimated at 19.1 billion cigarettes in 2017, an increase of 4.3% in comparison with 2016. An estimated 39.3% or 7.5 billion cigarettes was Legal Domestic Consumption, 5.1% was Non-Domestic Legal Consumption, and the remaining 55.5% was composed of Non-Domestic Illicit Consumption.
- The total volume of illicit cigarettes consumed rose to 10.6 billion in 2017, representing a 10.7% increase in comparison to 2016 (equivalent to nearly an additional 1 billion illicit cigarettes consumed).
- The sharp rise in Illicit Consumption in the last two years has undermined efforts to reduce tobacco consumption in Malaysia. Despite a trend decline in Legal Domestic Sales, Total Consumption has now increased over two consecutive years, by 3.1% in 2016 and 4.3% in 2017, driven by the increase in illicit Inflows.
- In response to the rapid growth in Illicit Consumption in recent years, the Royal Malaysian Customs (RMC) department has been very active in efforts to reduce illicit Inflows. This is demonstrated by the acceleration in the volume of seizures in recent years. In 2017, the value of illicit cigarettes seized rose to a reported MYR 120.7 million – worth nearly MYR 1 billion in tax revenues – representing a 46% increase in comparison with 2016.<sup>2</sup>
- According to the former Deputy Finance Minister, this success was partly attributable to better collaboration between enforcement bodies – such as the police, immigration, and the armed forces – as part of the wider “National Blue Ocean Strategy”.<sup>3</sup> RMC officials have also targeted forwarding agents, recently suspending the licences of over 30 agents due to suspected involvement in illicit activities, and introducing a points based demerit system to punish repeat offenders in free trade zones.<sup>4</sup>

## Malaysia: Composition of cigarette consumption

	2012		2013		2014		2015		2016		2017		% change 2016-17
	Cigarettes bn	%	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>7.5</b>	<b>39.3</b>	<b>-8.8</b>
Legal Domestic Sales (LDS)	14.6	—	13.4	—	12.8	—	11.1	—	8.4	—	7.7	—	-8.4
Outflows of domestic duty-paid cigarettes	-0.2	—	-0.2	—	-0.2	—	-0.2	—	-0.2	—	-0.2	—	14.8
<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>11.6</b>	<b>60.7</b>	<b>15.0</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	1.0	5.1	97.5
Non-Domestic Illicit	7.9	34.5	7.8	35.6	6.7	33.7	6.6	36.9	9.6	52.3	10.6	55.5	10.7
<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>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>19.1</b>	<b>100.0</b>	<b>4.3</b>
<b>Total Illicit Consumption</b>	<b>7.9</b>	<b>34.5</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>10.6</b>	<b>55.5</b>	<b>10.7</b>

Source: Oxford Economics

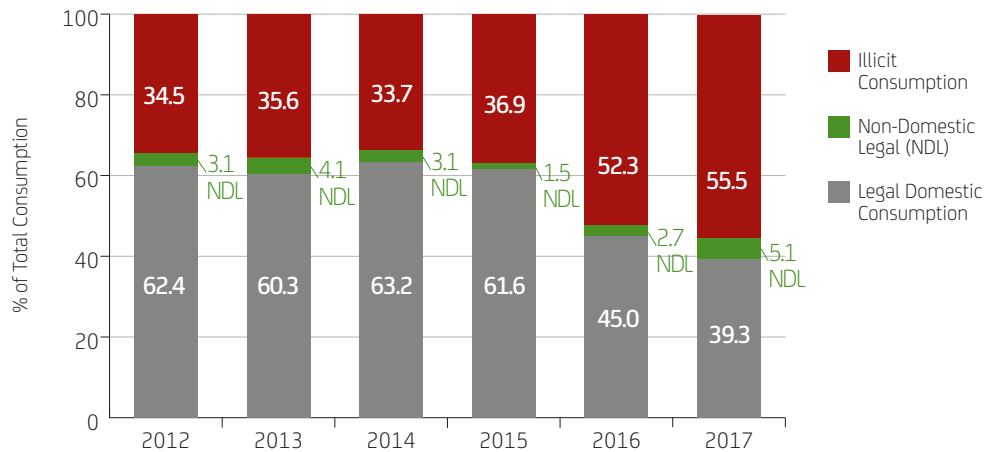
<sup>1</sup>The 2017 Empty Pack Surveys were undertaken in March-May, June-August, and October-December. See Report methodology for more details.

<sup>2</sup>See <http://www.freemalaysiatoday.com/category/nation/2018/03/29/rm120-mil-smuggled-cigarettes-seized-last-year/>

<sup>3</sup>ibid.

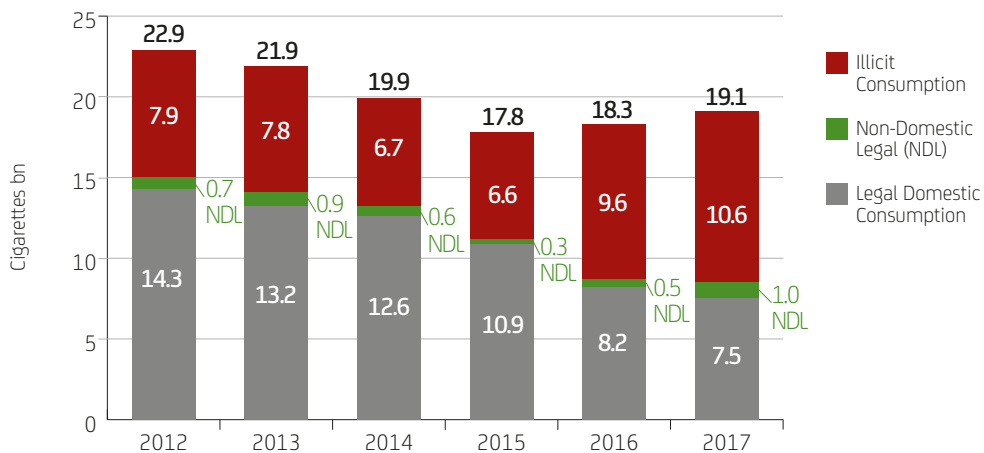
<sup>4</sup>See <https://www.malaymail.com/s/1570121/customs-dept-suspends-31-forwarding-agents-for-fraud-and-smuggling-activiti> and <http://www.thesundaily.my/news/2017/12/27/customs-suspend-licences-20-forwarding-agents-under-demerit-system>

## 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

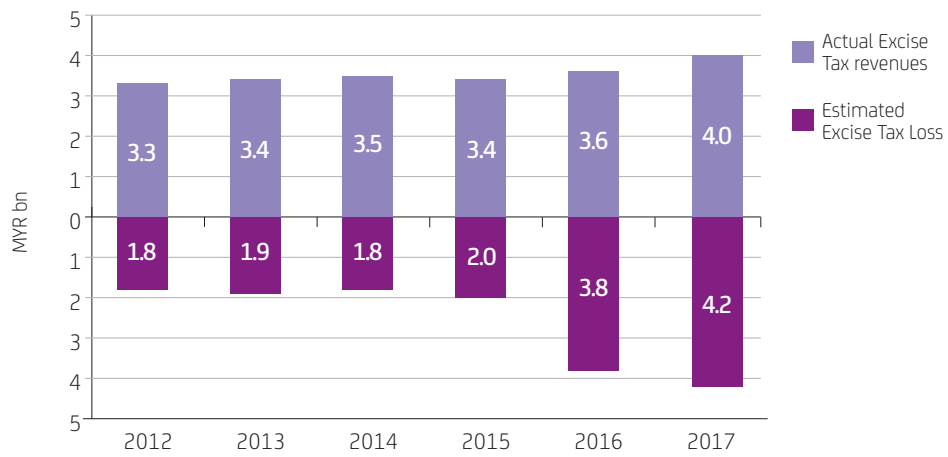
- Malaysia applies a single-rate, unit-specific Excise Tax rate of MYR 400 per 1,000 cigarettes following an Excise Tax hike implemented in November 2015. Prior to this, a mixed Excise Tax system was in operation which included both a specific rate equal to MYR 280 per 1,000 cigarettes, and an ad valorem rate of 20% of the ex-factory price.
- A General Sales Tax of 6% was also applied to cigarettes in 2017, in common with other goods and services, after Malaysia introduced a universal rate in April 2015.
- Actual revenues from tobacco consumption were estimated to have increased by 10.9% to MYR 4.0 billion in 2017, according to Ministry of Finance data. Actual revenues from tobacco consumption have now increased for two consecutive years.
- The estimated Tax Loss associated with Illicit Consumption was MYR 4.7 billion in 2017, rising by 10.6% in comparison to 2016, underpinned by an increase in the volume of Illicit Consumption over the same period.
- The Excise Tax Loss as a share of total potential Excise Tax revenues remained at 51.6% in 2017, unchanged from 2016.

## Malaysia: Actual government revenues and estimated Tax Loss

	2012		2013		2014		2015		2016		2017		% change in local currency 2016-17
	MYR bn	USD mn	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	3.6	865	4.0	925	10.9%
Estimated number of illicit cigarettes purchased (cigarettes bn)	7.9		7.8		6.7		6.6		9.6		10.6		10.7%
<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>4.7</b>	<b>1,097</b>	<b>10.6%</b>
Lost excise revenue	1.8	587	1.9	587	1.8	545	2.0	507	3.8	923	4.2	986	10.7%
Lost GST tax revenue	0.1	35	0.1	36	0.1	32	0.2	55	0.4	105	0.5	111	9.5%
<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>51.6%</b>		<b>51.6%</b>		

Source: Malaysia Ministry of Finance and Oxford Economics based on PM data  
 Revenues from excise duties on tobacco based on "revised estimates" presented in the Ministry of Finance publication "Estimates of Federal Government Revenue for the year 2018". 2016 data has been updated to reflect actual revenues.

## Malaysia: Actual government revenues and estimated Excise Tax Loss

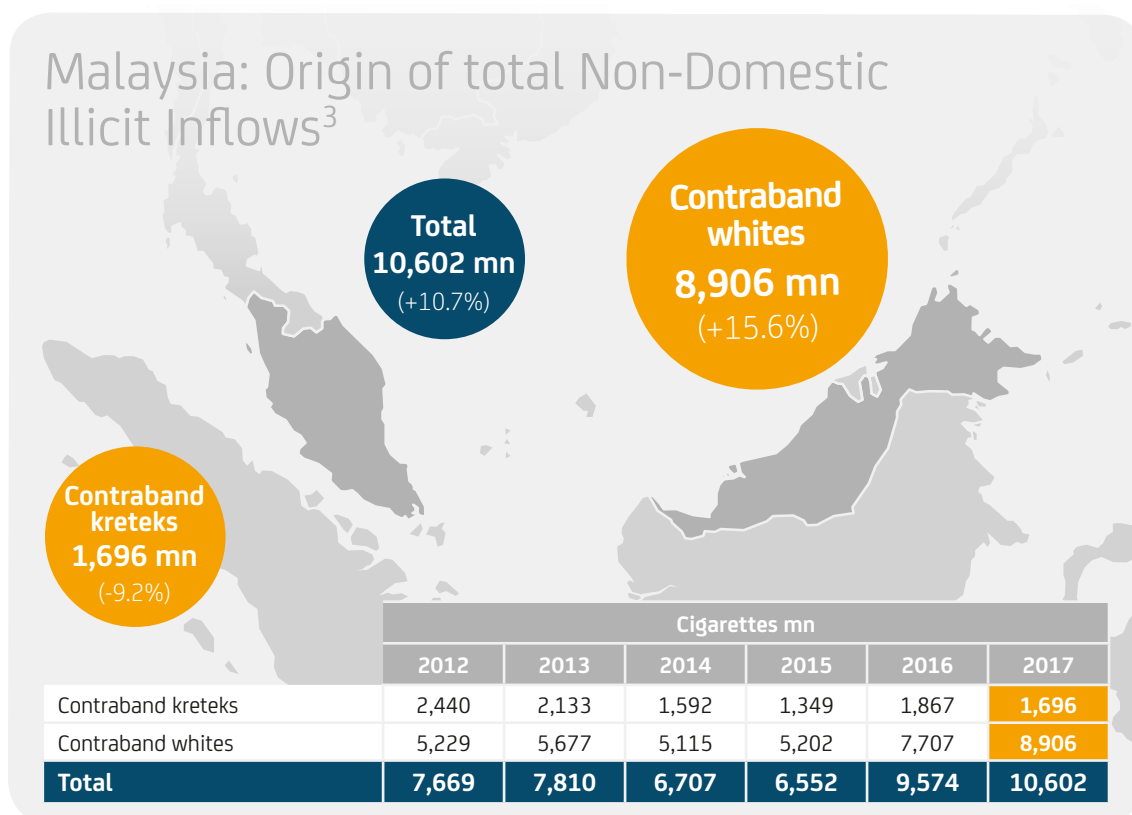


Source: Malaysian Ministry of Finance and Oxford Economics based on PM data



# Malaysia: Trade Flows

- The growth in Illicit Consumption in 2017 marked the second consecutive year that illicit Inflows have risen in Malaysia. The 10.7% increase in total illicit Inflows was underpinned by a rise in consumption of Contraband whites (e.g., “John”, “Saat”, and “U2”), which rose by a further 15.6% in 2017, after posting growth of 48.2% in 2016.<sup>1</sup>
- Overall, Contraband whites accounted for an estimated 46.6% of Total Consumption in 2017, increasing by 4.5 percentage points from 2016. Within this, smuggled whites (i.e., white cigarettes produced by a non-domestic manufacturer identified with Contraband features) remained the dominant component, accounting for nearly 90% of total Contraband whites, equivalent to an estimated 7.8 billion cigarettes.
- A relatively new phenomenon, which first emerged in 2016, of Contraband whites known as “Quasi Legal” cigarettes, consisting of local brands with fake tax stamps, rose in prominence in 2017. Such Quasi Legal cigarette brands identified in the Empty Pack Surveys included “9th Century”, “Manchester”, and “A380”. Estimates derived from the Empty Pack Surveys suggest that they represented 5.7% of Total Consumption in 2017, more than double the equivalent share of 2.8% observed in 2016.<sup>2</sup>
- The overall rise in Contraband whites more than offset a decline of 9.2% in consumption of Contraband or smuggled kreteks in 2017.
- On peninsular Malaysia, the highest levels of Illicit Incidence were found in the central and east coast states of Kelantan, Pahang, and Terengganu, where Illicit Consumption in each accounted for around three-quarters of Total Consumption. Sabah and Sarawak in East Malaysia also displayed high levels of Illicit Incidence, above the national average (69.3% and 76.2% respectively).



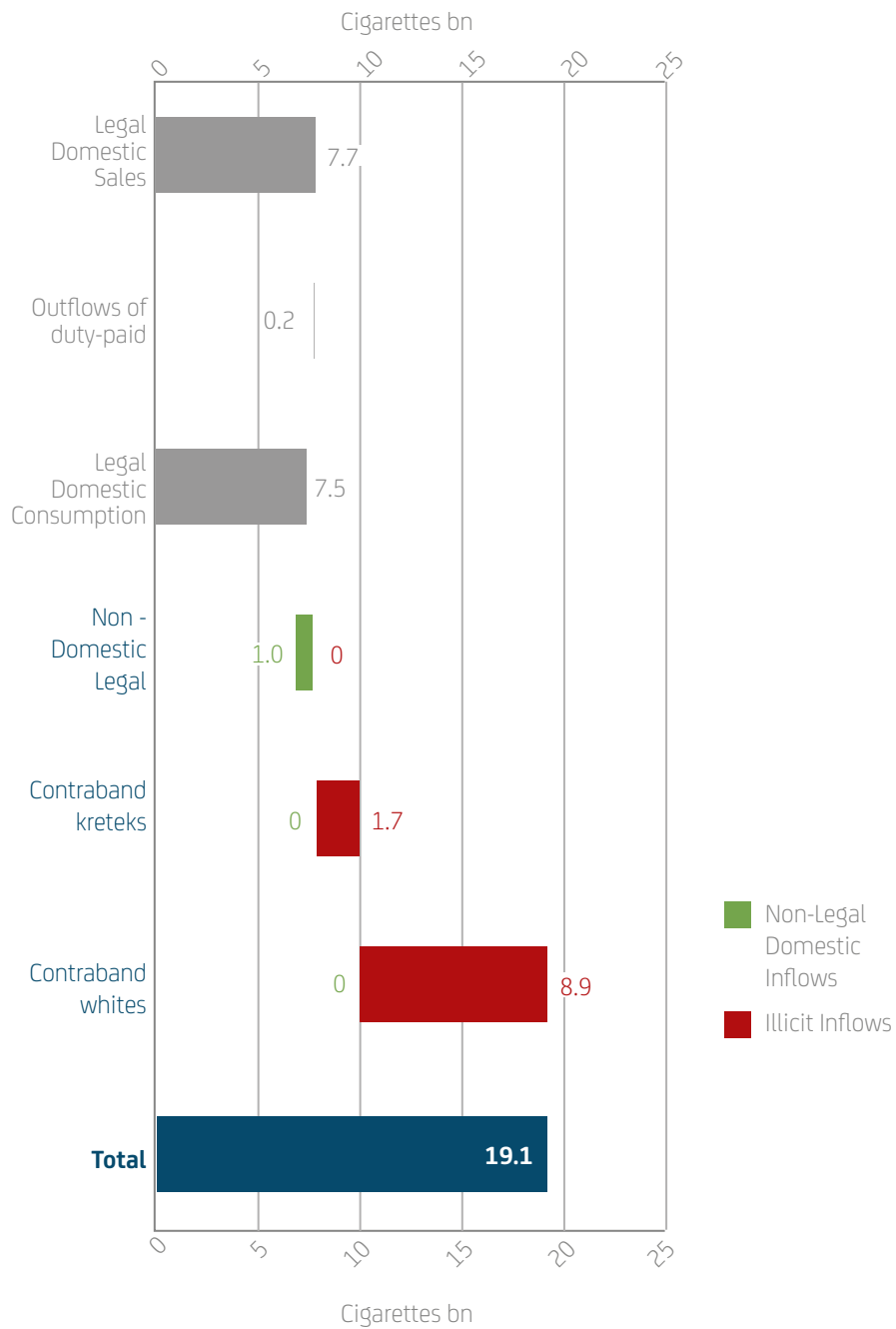
Source: IT Flows Model and Oxford Economics

<sup>1</sup> Contraband whites refer to locally manufactured/imported cigarettes with at least one Contraband feature, e.g., importer/manufacturer not registered with Royal Malaysian Customs, fake or absent security mark or stamp, non-compliance with Ministry of Health regulations, etc.

<sup>2</sup> While aggregate figures remain consistent, the share of illegal Contraband whites consisting of local brands with fake security stamps in 2016 has been revised in the 2017 annualised Empty Pack Survey report produced by Nielsen.

<sup>3</sup> Figures in brackets reflect % change from 2016.

## Malaysia: Consumption breakdown 2017

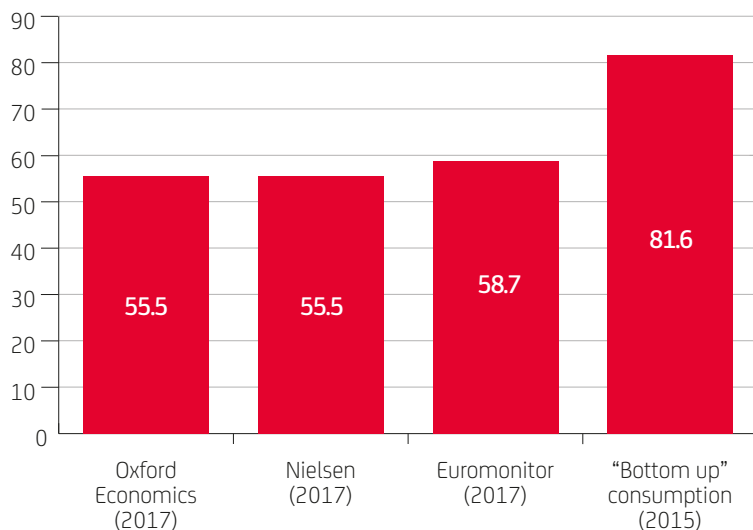


Source: IT Flows Model and Oxford Economics

# Malaysia: Other Estimates

Source	Comment
Nielsen Malaysia, Illicit Cigarettes Study (ICS) In Malaysia 2017 (Annual) Report, 2017	The Nielsen research, which forms the basis of this Report, estimates that 11 billion illicit cigarettes were consumed in 2017. This compares with our estimate of 10.6 billion illicit cigarettes. The variation is underpinned by different estimates of Legal Domestic Consumption. While both use in-market sales data from the Confederation of Malaysian Tobacco Manufacturers companies (PM, BAT, and JTI), estimates for other local manufacturers differ, resulting in a slightly lower estimate for Legal Domestic Sales in this Report compared with Nielsen. Furthermore, this Report uses Empty Pack Survey data in other markets used to identify the presence of packs bearing Malaysian market-specific labelling, and adjusts Legal Domestic Sales accordingly to estimate Legal Domestic Consumption.
National Kenaf and Tobacco Board, June 2017	Evidence from tobacco industry stakeholders was combined by NKTB to estimate the incidence of illicit tobacco amongst smokers, resulting in a revenue loss estimate of MYR 2.5 billion for 2016. This is somewhat lower than our estimate for 2016 of 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 81.6%, or around 48.5 billion cigarettes (based on 2015 LDC). The source of Smoking Prevalence and average daily consumption come from WHO FCTC 2018 (based on the National Health Morbidity Survey 2015).
Euromonitor Passport, 2018	Euromonitor estimates an Illicit Incidence of 58.7% in 2017. 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 181 million cigarettes, with a significant share destined for 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.
<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.	5.1% 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 2017. 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 19.1 billion cigarettes for 2017.
<b>Total Consumption</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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