

# Asia Illicit Tobacco Indicator 2017: Philippines

Prepared by Oxford Economics  
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ECONOMICS

# 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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# Philippines: Legal Domestic Sales

- Legal Domestic Sales were estimated at 75.5 billion cigarettes in 2017, representing a decline of more than 25% in comparison with 2012.
- PM is the largest manufacturer in the Philippines, retaining a two-thirds market share in 2017. JTI is the second largest manufacturer, accounting for a further 30% of Legal Domestic Sales, following their acquisition of Mighty Corporation in September 2017.
- Cigarette prices have consistently increased in recent years following the implementation of the Sin Tax Reform Law in 2012, which legislated a series of Excise Tax hikes (as well as simplifying the Excise Tax structure), thus allowing the Philippines to comply with commitments to the World Health Organisation (WHO) Framework Convention on Tobacco Control.
- The last scheduled Excise Tax hike as part of the Sin Tax Reform Law was implemented on 1st January 2017, when the two-tiered specific system was replaced with a single unitary rate of PHP 30 per pack of 20 cigarettes.
- This is due to rise to PHP 40 by 2022 under package 1 of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, which was signed by the President on December 19, 2017. The first Excise Tax hike under TRAIN was implemented on January 1, 2018, when the Excise Tax on a pack of 20 cigarettes rose to PHP 32.5.
- The price of a pack of 20 cigarettes rose by 15% in 2017 to PHP 46 (USD 0.90).<sup>1</sup>

## Philippines

Legal Domestic Sales:

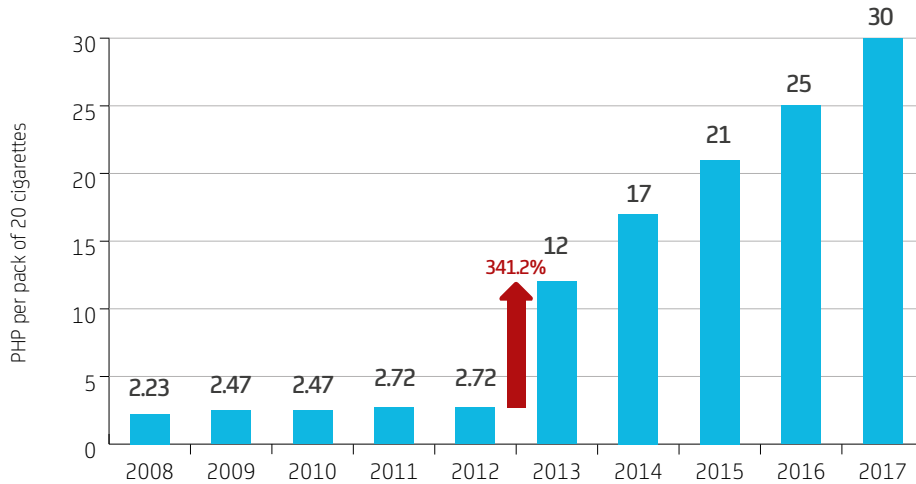
**75.5 bn**  
cigarettes

Price:

PHP **46.0**  
USD **0.90**

<sup>1</sup>Price per pack of 20 of Fortune (the Most Sold Brand until 2015) in October 2017, based on PM data.

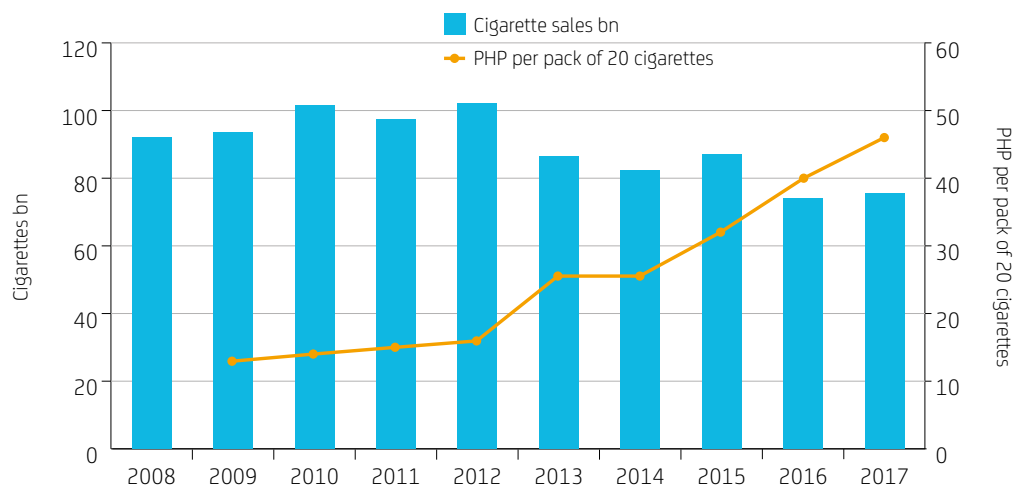
## Philippines: Excise duty applied to cigarettes<sup>2</sup>



Source: Philippines Senate Tax Study and Research Office

<sup>2</sup>Rate applied in October of each year to Fortune (the Most Sold Brand until 2015).

## Philippines: Legal Domestic Sales and prices<sup>3</sup>



Source: Philippines Bureau of Internal Revenue and Oxford Economics based on PM data and Nielsen Retail Audit

<sup>3</sup>Price of Fortune (the Most Sold Brand until 2015) in October of each year.

# Philippines: Cigarette Consumption

- The results from an Empty Pack Survey and the Nielsen Retail Audit, combined with data on withdrawals from the Bureau of Internal Revenue (BIR) and actual shipments data from PM, were used to estimate Total Consumption of cigarettes in the Philippines.<sup>1</sup>
- Total Consumption was estimated at 80.8 billion cigarettes in 2017. Of this, an estimated 75.5 billion was Legal Domestic Consumption, while Illicit Consumption was estimated at 5.3 billion cigarettes. There was a negligible volume of Non-Domestic Legal cigarettes present in the Philippines, equivalent to less than 0.1% of Total Consumption.
- Total Consumption has consistently trended downwards since the beginning of the Asia Illicit Tobacco Indicator research programme in 2012, falling by a further 3.6% in 2017. In total, nearly 28 billion fewer cigarettes were consumed in 2017 compared with 2012, representing a decline of 25.7%.
- Illicit Incidence more than halved in 2017, falling to 6.5%, down from 13.1% in 2016. This was underpinned by a sharp decline in Domestic Illicit Consumption, which fell by more than two-thirds in volume from 2016.
- At 3.6 billion cigarettes, Domestic Illicit Consumption was the lowest recorded since the start of the Asia Illicit Tobacco Indicator.
- Although cigarettes of domestic market variant remained the primary source of illicit cigarettes in 2017, Non-Domestic Illicit Consumption – which rose to 1.7 billion – partially offset the decline in Domestic Illicit Consumption, rising by 64.8% in comparison with 2016.
- The decline in Domestic Illicit Consumption coincided with the government indictment of Mighty Corporation for tax fraud. This development was preceded by a series of raids jointly conducted by the BIR and Bureau of Customs (BOC) in early 2017, and subsequent filing of criminal complaints with the Department of Justice for tax evasion, amounting to a combined value of PHP 37.9 billion (representing more than one-third of the annual BIR revenues from Excise Tax on cigarettes). The case was subsequently settled in September after Mighty agreed to pay over PHP 30 billion and exit the tobacco industry, ultimately selling their business to JTI.<sup>2</sup>
- These events followed a directive from the Department of Finance – issued at the beginning of 2017 – instructing the BIR to tighten monitoring and enforcement, which included a wider investigation into the use of fake tax stamps. Over the course of 2017, there were numerous cases of large seizures, including both domestic and non-domestic illicit cigarettes, the results of which are borne out in the findings of this Report.

## Philippines: Composition of cigarette consumption

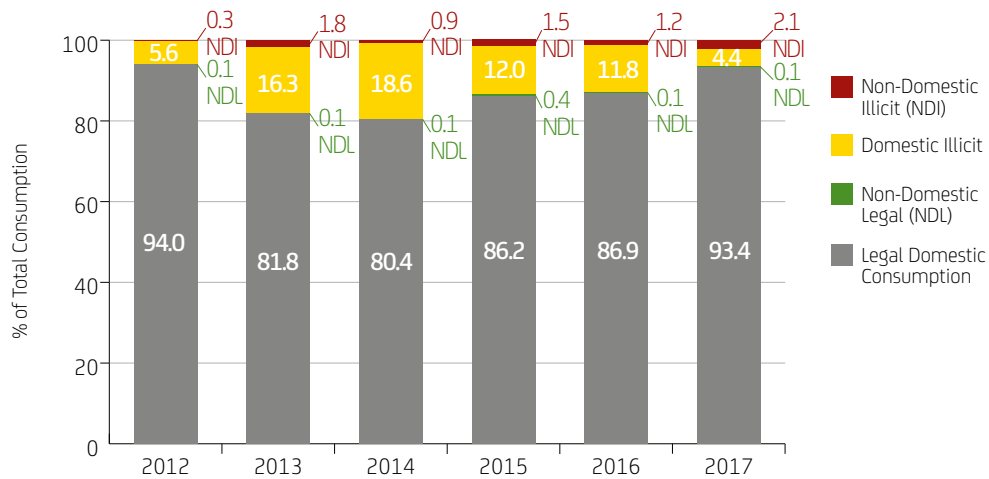
	2012		2013		2014		2015		2016		2017		% change 2016-17
	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	
<b>Legal Domestic Consumption (LDC)</b>	<b>102.2</b>	<b>94.0</b>	<b>86.3</b>	<b>81.8</b>	<b>82.3</b>	<b>80.4</b>	<b>83.3</b>	<b>86.2</b>	<b>72.8</b>	<b>86.9</b>	<b>75.5</b>	<b>93.4</b>	<b>3.6</b>
Legal Domestic Sales (LDS)	102.2	—	86.3	—	82.3	—	83.5	—	72.9	—	75.5	—	3.6
Outflows of domestic duty-paid cigarettes	-0.1	—	-0.1	—	-0.1	—	-0.2	—	-0.1	—	-0.0	—	-61.4
<b>Total Non-Domestic Inflows (ND)</b>	<b>0.4</b>	<b>0.4</b>	<b>2.1</b>	<b>2.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.8</b>	<b>1.9</b>	<b>1.1</b>	<b>1.3</b>	<b>1.8</b>	<b>2.2</b>	<b>59.5</b>
Non-Domestic Legal (NDL)	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.4	0.1	0.1	0.1	0.1	-18.6
Non-Domestic Illicit	0.3	0.3	1.9	1.8	0.9	0.9	1.5	1.5	1.0	1.2	1.7	2.1	64.8
<b>Domestic Illicit</b>	<b>6.1</b>	<b>5.6</b>	<b>17.1</b>	<b>16.3</b>	<b>19.0</b>	<b>18.6</b>	<b>11.6</b>	<b>12.0</b>	<b>9.9</b>	<b>11.8</b>	<b>3.6</b>	<b>4.4</b>	<b>-64.1</b>
<b>Total Consumption</b>	<b>108.7</b>	<b>100.0</b>	<b>105.5</b>	<b>100.0</b>	<b>102.3</b>	<b>100.0</b>	<b>96.7</b>	<b>100.0</b>	<b>83.9</b>	<b>100.0</b>	<b>80.8</b>	<b>100.0</b>	<b>-3.6</b>
<b>Total Illicit Consumption</b>	<b>6.4</b>	<b>5.9</b>	<b>19.1</b>	<b>18.1</b>	<b>19.9</b>	<b>19.4</b>	<b>13.0</b>	<b>13.5</b>	<b>10.9</b>	<b>13.1</b>	<b>5.3</b>	<b>6.5</b>	<b>-51.8</b>

Source: Oxford Economics

<sup>1</sup>The Empty Pack Survey was undertaken in 2017 Q3, while the retail audit provides monthly data in 2017. By comparing sales based on the retail audit with manufacturers' withdrawals sourced from the Philippines Bureau of Internal Revenue (domestic manufacturers' withdrawals concerns domestic duty-paid cigarettes), this Report estimated the volume of domestically produced cigarettes where the appropriate Excise Tax rates were not paid. (Nielsen SoM CONFIDENTIAL. COPYRIGHT NIELSEN). 2012 results based on 2011 Q4 Empty Pack Survey. See Report methodology for more details.

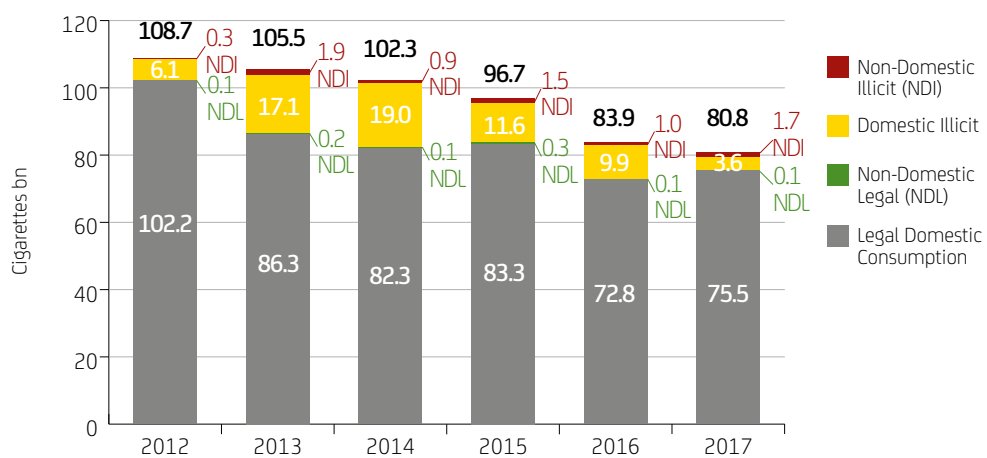
<sup>2</sup>See <https://www.dof.gov.ph/index.php/p30-b-haul-from-mighty-tops-dof-drive-vs-tax-fraud/>

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



Source: Oxford Economics

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



Source: Oxford Economics

# Philippines: Government Finances

- In 2017, Philippines applied a single-rate, unit-specific Excise Tax rate of PHP 30 per pack.
- Pursuant to the Sin Tax Reform Law or Republic Act (RA) 10351 – implemented in December 2012 – the Excise Tax system had already been simplified, through a reduction in the number of tiers from four to two, with the Excise Tax rates set at PHP 12 per pack of 20 cigarettes with net retail price<sup>1</sup> (NRP) not exceeding PHP 11.50 (Low-tax-tier cigarettes) and PHP 25 per pack with a NRP above PHP 11.50 (High-tax-tier cigarettes).
- Excise Taxes were subsequently increased every year from 2013 to 2017, with the single-rate, unit-specific system introduced on January 1, 2017. This effectively increased the Excise Tax applied on a pack of Low-tax-tier cigarettes by the equivalent of 20% and that applied on a pack of High-tax-tier cigarettes by 3.4%.
- The Sin Tax Law subsequently provided for an annual 4% increase in the Excise Tax rate thereafter. However, following the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, or RA 10963, the Excise Tax rate will be subject to incremental rises to reach PHP 40 per pack by 1st January 2022, before the annual 4% rises kick in from 2024.
- In addition, VAT is levied at a rate of 12% on the retail price of cigarettes.
- Actual revenues from Excise Taxes on cigarettes were relatively stable at PHP 94.4 billion in 2017, falling by just 0.7% in comparison with the previous year. This represents the second consecutive year that government revenues from tobacco have declined.
- The more-than-50% decline in Illicit Consumption led to an almost proportional decline in Estimated Tax Loss in 2017. Overall, the estimated Tax Loss was PHP 9.4 billion in 2017, PHP 8 billion lower than 2016, equivalent to a decline of 46.3%.
- As a share of total potential tax revenues, the Excise Tax Loss declined to 7.7% in 2017, dropping into single-digit figures for the first time since 2012.

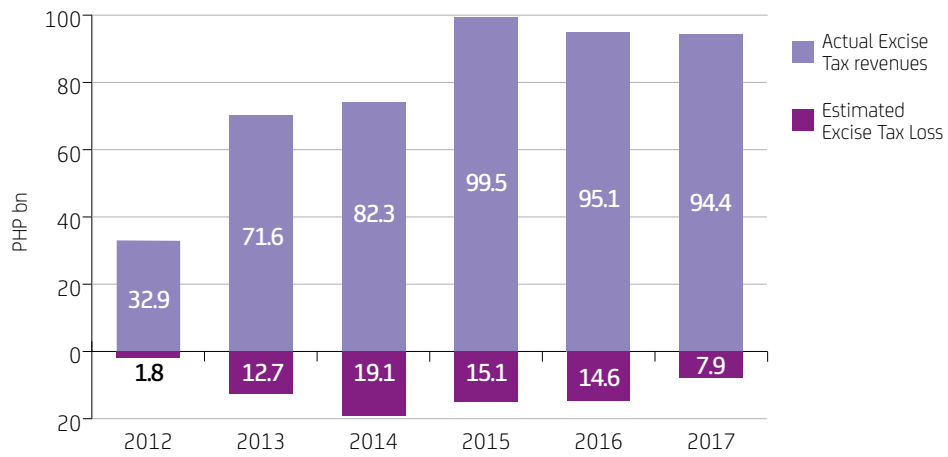
## Philippines: Actual government revenues and estimated Tax Loss

	2012		2013		2014		2015		2016		2017		% change in local currency 2016-17
	PHP bn	USD mn	PHP bn	USD mn	PHP bn	USD mn	PHP bn	USD mn	PHP bn	USD mn	PHP bn	USD mn	
Actual revenue from excise duties on tobacco	32.9	780	71.6	1,687	82.3	1,855	99.5	2,187	95.1	2,001	94.4	1,872	-0.7%
Estimated number of illicit cigarettes purchased (cigarettes bn)	6.4		19.1		19.9		13.0		10.9		5.3		-51.8%
<b>Estimated Tax Loss from Illicit Consumption</b>	<b>2.6</b>	<b>62</b>	<b>15.6</b>	<b>368</b>	<b>22.5</b>	<b>506</b>	<b>17.9</b>	<b>394</b>	<b>17.4</b>	<b>367</b>	<b>9.4</b>	<b>186</b>	<b>-46.3%</b>
Lost excise revenue	1.8	42	12.7	300	19.1	431	15.1	332	14.6	308	7.9	157	-45.9%
Lost VAT revenue	0.8	19	2.9	68	3.3	75	2.8	62	2.8	59	1.5	29	-48.5%
<b>Excise Tax Loss as % of potential total Excise Tax revenues</b>	<b>5.2%</b>		<b>15.1%</b>		<b>18.9%</b>		<b>13.2%</b>		<b>13.3%</b>		<b>7.7%</b>		

Source for government revenue data: Philippines Bureau of Internal Revenue and Oxford Economics  
Excludes import duties.

<sup>1</sup>Retail selling price net of excise and VAT.

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

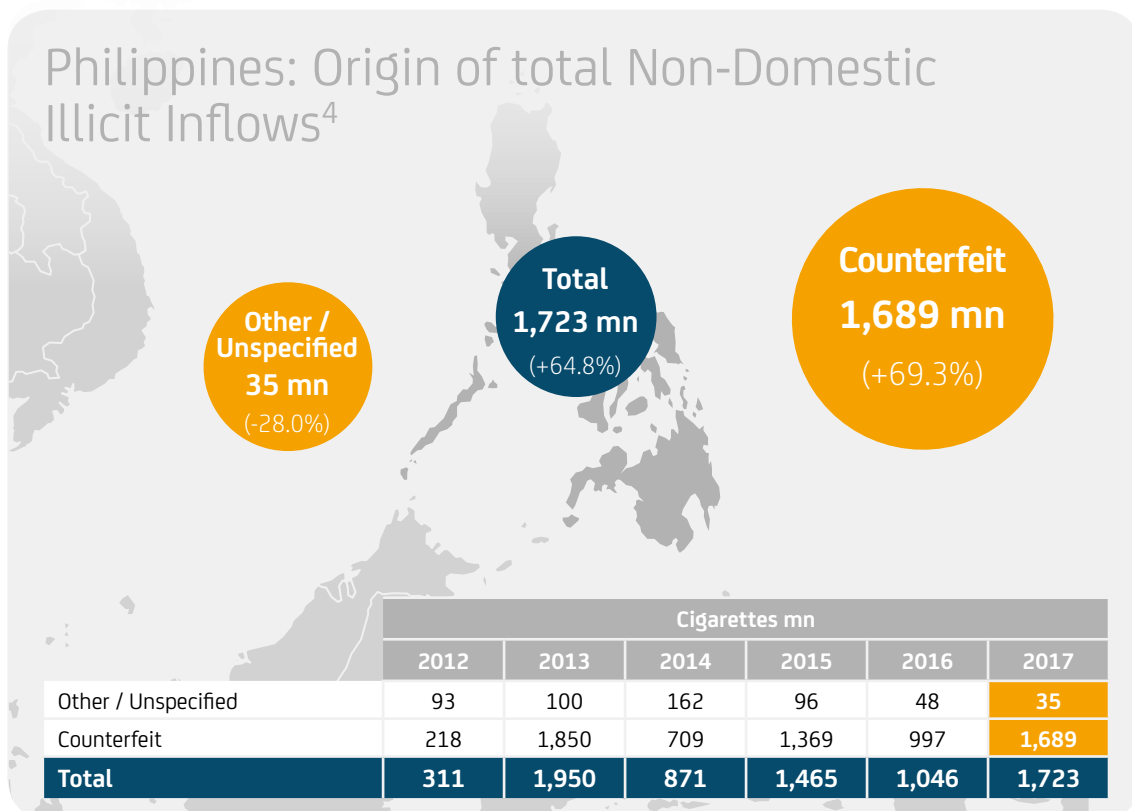


Source: Philippines Bureau of Internal Revenue and Oxford Economics based on PM data



# Philippines: Trade Flows

- Illicit cigarettes consumed in the Philippines consist primarily of domestic non-tax paid cigarettes. Over two-thirds of Illicit Consumption consisted of domestic market variant products in 2017, although this share declined from 90% in 2016, with the volume of Domestic Illicit Consumption falling by 64.1% in 2017.
- Partially offsetting this decline in Domestic Illicit Consumption was a 64.8% increase in consumption of Non-Domestic Illicit cigarettes. In total, an estimated 1.7 billion Non-Domestic Illicit cigarettes were consumed in 2017, up from 1.0 billion in 2016.
- Almost all Non-Domestic Illicit cigarettes are Counterfeit, and there was a near 70% rise in Counterfeit volumes in 2017.<sup>1</sup> In total, nearly 700 million additional Counterfeit cigarettes were consumed in 2017 compared with the previous year, based on analysis of the Empty Pack Survey. This was the highest volume of Counterfeit cigarettes present in the Philippines market since 2013.
- While the sharp decline in Domestic Illicit Consumption in 2017 can be largely attributed to the prosecution of Mighty Corporation – who retained a market share of nearly 23% in 2016 – Department of Finance secretary Carlos G. Dominguez III recognises the need for continued strong enforcement to prevent the emergence of new manufacturers to fill the void.<sup>2</sup> Notable seizures towards the end of 2017 confirm the presence of other domestic non-tax paid cigarettes in the Philippines market, such as a raid in Nueva Ecija that uncovered illicit brands including “Two Moon”, “RGD”, “Black Bat”, and “Twin Star”.
- Ongoing efforts to reduce the prevalence of illicit tobacco in the Philippines have generated greater inter-departmental cooperation at both a national and regional level. In early 2018, the BIR and BOC signed a memorandum of agreement on information sharing and cooperation to strengthen the campaign against smuggling and counterfeiting, establishing a dedicated “strike team” to spearhead efforts going forward.<sup>3</sup> This has yielded early successes, including seizures of around PHP 80 million worth of Counterfeit cigarettes in just one week of raids in Malabon and Manila in April.



Source: IT Flows Model and Oxford Economics

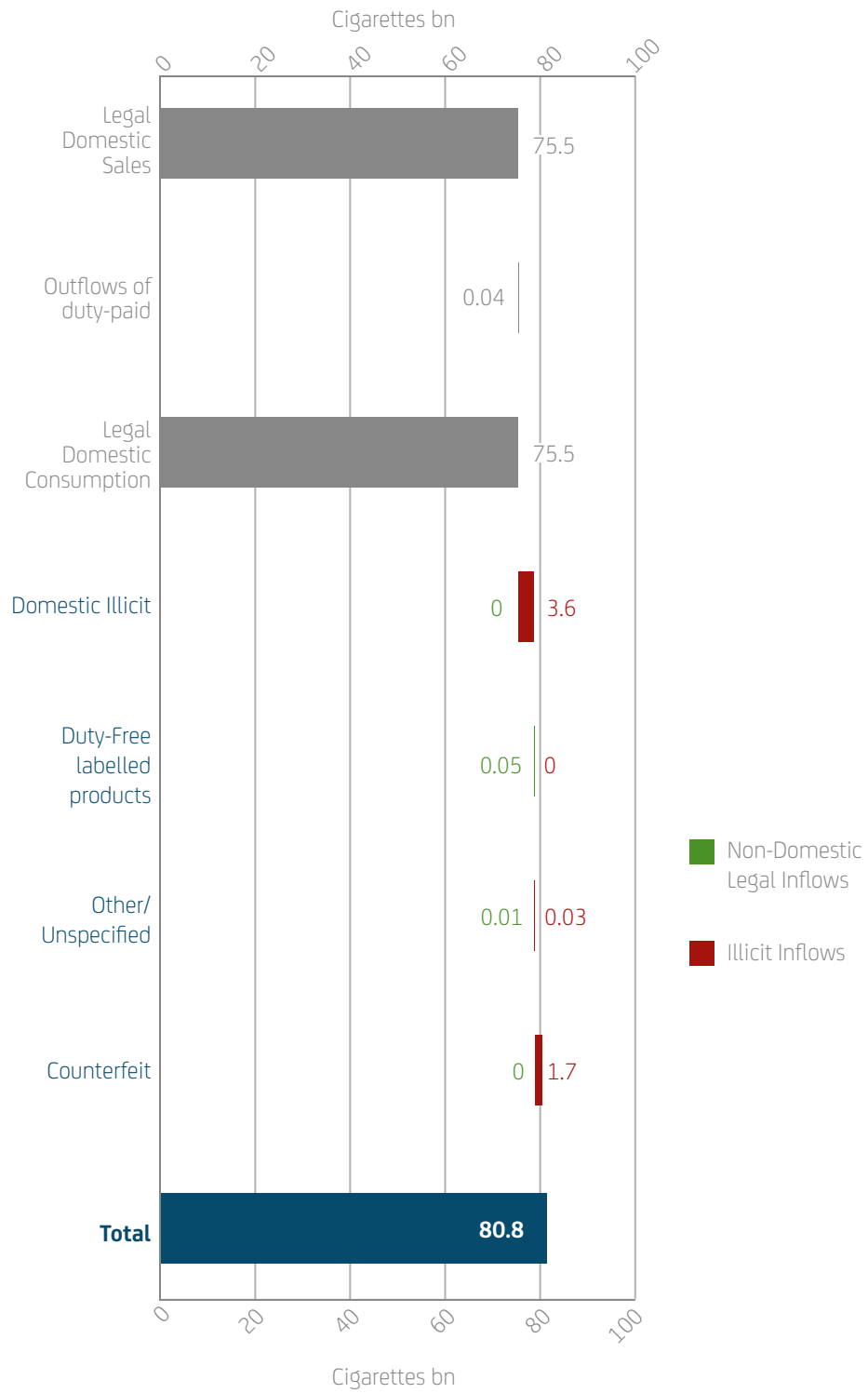
<sup>1</sup>The Empty Pack Survey identifies all Counterfeit cigarettes as of Philippines market variant. However, for the purposes of this Report, we classify Counterfeit cigarettes as of Non-Domestic origin.

<sup>2</sup>See <http://business.inquirer.net/250123/drive-vs-fake-cigarettes-stepped>. Mighty Corporation market share based on the Nielsen Retail Audit data (Nielsen SoM CONFIDENTIAL. COPYRIGHT NIELSEN).

<sup>3</sup>See <https://www.dof.gov.ph/index.php/bir-boc-to-enter-agreement-on-info-sharing-coordination-vs-smuggling/>

<sup>4</sup>Figures in brackets reflect % change from 2016.

# Philippines: Consumption breakdown 2017

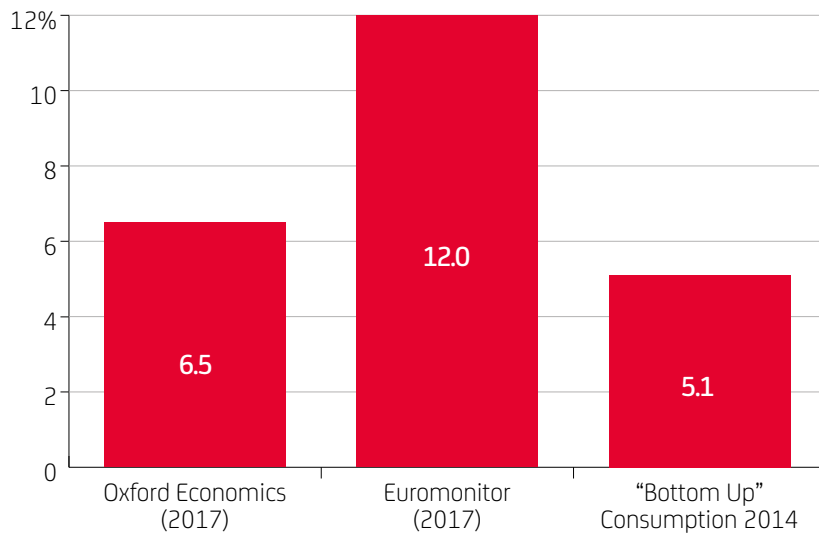


Source: IT Flows Model and Oxford Economics

# Philippines: Other Estimates

Source	Comment
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 5.1%, or around 4.4 billion 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> ).
Euromonitor Passport, 2018	Euromonitor estimates an Illicit Incidence of 12.0% in 2017. The methodology, sampling, and coverage are unknown, so it is difficult to assess the robustness of this estimate.

## Philippines: Alternative estimates of Illicit Consumption



# Philippines: Data Sources

	Primary source	Calculation	Comments
<b>Legal Domestic Sales (LDS)</b>	Industry volume based on Bureau of Internal Revenue Statement of Manufactures' Ex-factory Withdrawals, adjusted for actual shipments for PM.	—	—
<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 Philippine domestic variant cigarettes based on market-specific labelling (e.g., health warnings, tax stamps, etc.).	Outflows of domestic duty-paid cigarettes to other markets are estimated at around 38 million cigarettes.
<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 included 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>	—	Estimated using passenger data, smoking rates, and passenger duty-free personal import allowance.	Maximum theoretical amount an individual can carry across a border. Passenger data from the Philippines Department of Tourism, UNWTO, and OE Tourism Model.
<b>Non-Domestic Illicit</b>	Empty Pack Survey.	Based on Empty Pack Surveys plus OE estimates.	Estimates derived from the Empty Pack Surveys conducted in 2017 Q3. Estimates of illicitly imported Non-Domestic cigarettes are relatively low in comparison with Domestic Illicit. See Report methodology for more details.
<b>Domestic Illicit</b>	Nielsen Retail Audit.	Estimate derived from a comparison of market shares of domestic producers in the retail audit and BIR withdrawals data.	Illicit cigarettes in the Philippines are believed to be mostly domestically produced.
<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 80.8 billion cigarettes for 2017.
<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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