

Asia Illicit Tobacco Indicator 2017: Taiwan

Prepared by Oxford Economics
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Disclaimer

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Taiwan: Legal Domestic Sales

- Legal Domestic Sales for 2017 were estimated at 32.1 billion cigarettes, following a decline of 6.2% in comparison with 2016. This represented the lowest level recorded since the Asia Illicit Tobacco Indicator research programme began in 2012.
- JTI retained the largest market share in 2017, accounting for over 40% of total legal sales. A further 25% of Legal Domestic Sales were composed of cigarettes manufactured by the Taiwan Tobacco & Liquor Corporation (TTL), with Imperial Tobacco, BAT, and PMI accounting for almost all of the remainder of the market.
- Excise Tax on tobacco was increased in June 2017 to TWD 31.8 per pack of 20 cigarettes—an increase equivalent to TWD 20 per pack—following an amendment to the Tobacco and Alcohol Tax Act. However, given the tax increase applied only to cigarettes manufactured after the implementation date, it was not fully reflected in the market until later in the year as manufacturers depleted their existing inventory stocks.
- The price of the Most Sold Brand of cigarettes in Taiwan was TWD 125 (USD 4.15) per pack of 20 cigarettes in 2017 (post Excise Tax hike).¹ This represents an increase of more than 30% in comparison with 2016.
- This price rise increased the disparity with Mainland China, where the price of a pack of 20 cigarettes of the Most Sold Brand remained broadly unchanged in 2017 at USD 1.52. Prices also rose above South Korea (USD 3.99), while narrowing the gap with other North Asian markets such as Macao (USD 6.21) and Hong Kong (USD 7.29).

Taiwan

Legal Domestic Sales:

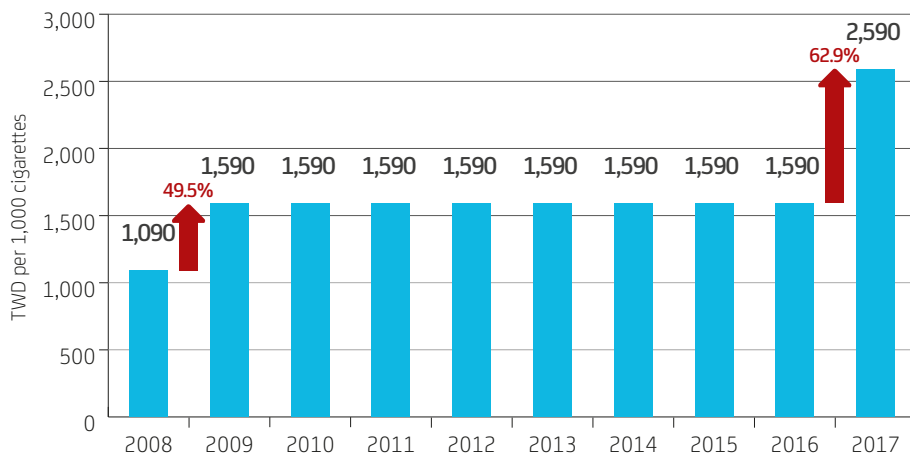
32.1 bn
cigarettes

Price:

TWD **125.0**
USD **4.15**

¹Price per pack of 20 of the Most Sold Brand in October of each year, based on industry data.

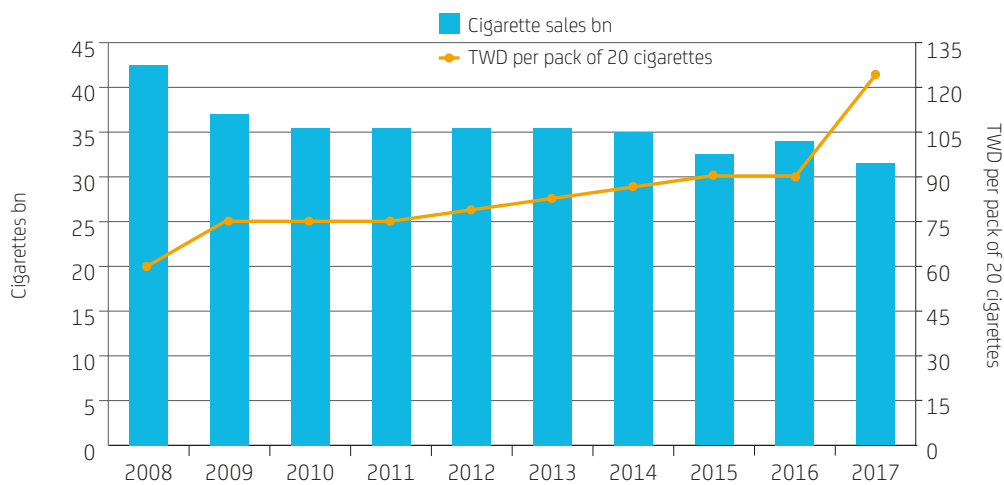
Taiwan: Tobacco tax applied to cigarettes²



Source: Taiwanese Ministry of Finance

²Rate applied in October of each year to the Most Sold Brand, including Earmarked Tax.

Taiwan: Legal Domestic Sales and prices³



Source: Oxford Economics based on industry data

³Price of the Most Sold Brand in October of each year.

Taiwan: Cigarette Consumption

- Two Consumer Panel Surveys (CPS) were combined with IMS data on Legal Domestic Sales in Taiwan to estimate Total Consumption of cigarettes in 2017.¹
- Total Consumption (legal and illicit) was estimated at 34.9 billion in 2017. Of this, an estimated 91.9% or 32.1 billion cigarettes was Legal Domestic Consumption, 2.0% was Non-Domestic Legal Consumption, and 6.2% or 2.2 billion cigarettes was Illicit Consumption.
- Illicit Consumption increased for the second consecutive year in 2017, rising by 6.7% in comparison with 2016. Despite this, the volume of illicit cigarettes consumed in 2017 remained below the peak of 3.5 billion recorded in 2013 (the highest level recorded since the beginning of the Asia Illicit Tobacco Indicator research programme).
- The increase in Illicit Consumption partially offset the impact of declining Legal Domestic Sales on Total Consumption in Taiwan. As a consequence, despite a 6.2% decline in Legal Domestic Sales, Total Consumption fell by a more modest 4.9% in 2017.
- The two CPSs undertaken in 2017 exhibit a significant disparity in the level of Non-Domestic Inflows recorded. The wave one CPS, compiled in the period March-May, indicated a Non-Domestic Incidence (including both legal and illicit Inflows) of 5.0%. This increased to 11.5% in the wave two CPS, which was conducted towards the end of 2017 in the period November-December. The wave two CPS was conducted following implementation of the new Excise Tax rate, which may have contributed to the increase in Non-Domestic Inflows into Taiwan in the second half of the year.

Taiwan: Composition of cigarette consumption²

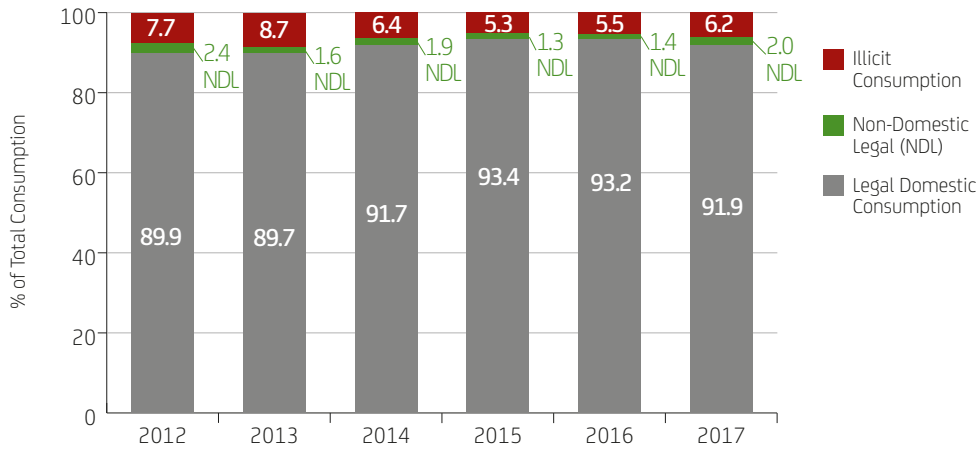
	2012		2013		2014		2015		2016		2017		% change 2016-17
	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	Cigarettes bn	%	
Legal Domestic Consumption (LDC)	35.5	89.9	35.5	89.7	35.0	91.7	32.9	93.4	34.2	93.2	32.1	91.9	-6.2
Legal Domestic Sales (LDS)	35.5	—	35.5	—	35.1	—	33.0	—	34.2	—	32.1	—	-6.2
Outflows of domestic duty-paid cigarettes	-0.0	—	-0.0	—	-0.0	—	-0.0	—	-0.0	—	-0.0	—	30.2
Total Non-Domestic Inflows (ND)	4.0	10.1	4.1	10.3	3.2	8.3	2.3	6.6	2.5	6.8	2.8	8.1	12.9
Non-Domestic Legal (NDL)	1.0	2.4	0.6	1.6	0.7	1.9	0.5	1.3	0.5	1.4	0.7	2.0	38.2
Non-Domestic Illicit	3.0	7.7	3.5	8.7	2.5	6.4	1.9	5.3	2.0	5.5	2.2	6.2	6.7
Domestic Illicit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
Total Consumption	39.5	100.0	39.6	100.0	38.2	100.0	35.3	100.0	36.7	100.0	34.9	100.0	-4.9
Total Illicit Consumption	3.0	7.7	3.5	8.7	2.5	6.4	1.9	5.3	2.0	5.5	2.2	6.2	6.7

Source: Oxford Economics

¹The Consumer Panel Surveys were undertaken in 2017 H1 and 2017 H2. The topography of Taiwan (with 70% of the land mass covered by mountainous terrain) makes it difficult to undertake an Empty Pack Survey that can be considered representative of the market. As such, a Consumer Panel Survey is employed to ensure a more complete coverage of the market. See Report methodology for more details.

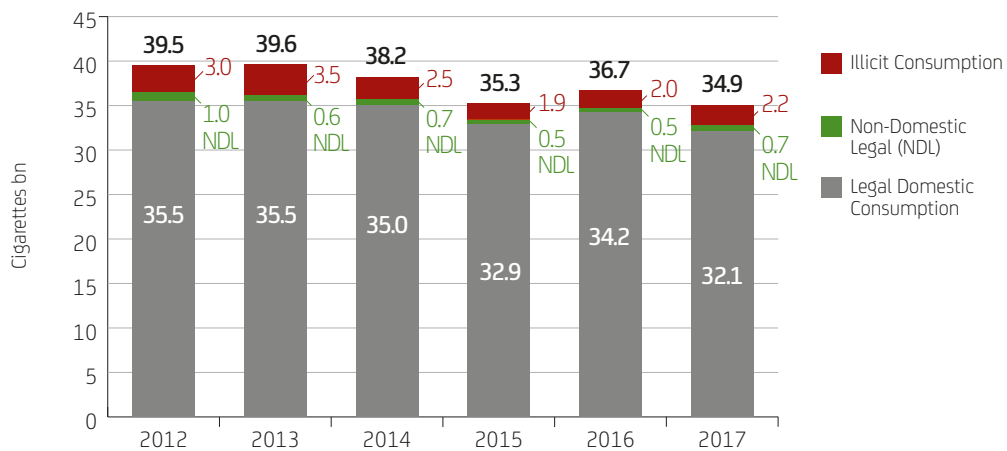
²2016 results have been restated due to updated data on Legal Domestic Sales.

Taiwan: Composition of cigarette consumption (% of Total Consumption)



Source: Oxford Economics

Taiwan: Composition of cigarette consumption (number of cigarettes)



Source: Oxford Economics

Taiwan: Government Finances

- Taiwan applies a single-rate, unit-specific Excise Tax rate of TWD 1,590 per 1,000 cigarettes or kilogram of tobacco. This is equivalent to a rate of TWD 31.8 per pack of 20 cigarettes.
- In June 2017, the Excise Tax rate was increased from TWD 590 per 1,000 cigarettes to the current rate of TWD 1,590 (equivalent to an increase of 169.5%). The additional funds raised by the tax hike—anticipated to amount to around TWD 23.3 billion per annum according to Ministry of Finance estimates—are earmarked for an Elderly Fund used to help fund long-term care services in Taiwan.¹
- Given that the Excise Tax hike was applied to newly manufactured cigarettes only, the impact was effectively phased in over the course of 2017 H2 as the major manufacturers ran down existing inventories.
- In addition to Excise Tax, a tobacco health and welfare surcharge of TWD 1,000 per 1,000 cigarettes or kilogram of tobacco (equivalent to a rate of TWD 20 per pack of 20 cigarettes) is also levied in Taiwan. This was last raised in 2009.
- VAT is applicable and levied at a rate of 5% on sales.
- Tobacco tax revenues rose by 4.2% in 2017 to TWD 56.9 billion, with the Excise Tax hike implemented in 2017, more than offsetting the fall in Legal Domestic Sales. Revenues have now increased for three consecutive years in Taiwan.
- Our estimates indicate that the Tax Loss associated with Illicit Consumption was TWD 4.1 billion (USD 136 million) in 2017. This represented an increase of 16.0% in comparison with 2016. This was driven by a combination of both the higher Excise Tax rate and an increase in the estimated volume of illicit cigarettes consumed.
- The Excise Tax Loss as a share of total revenues rose to 6.2%, the highest level recorded for the past three years, but still some way below the peak of 9.0% seen in 2013.

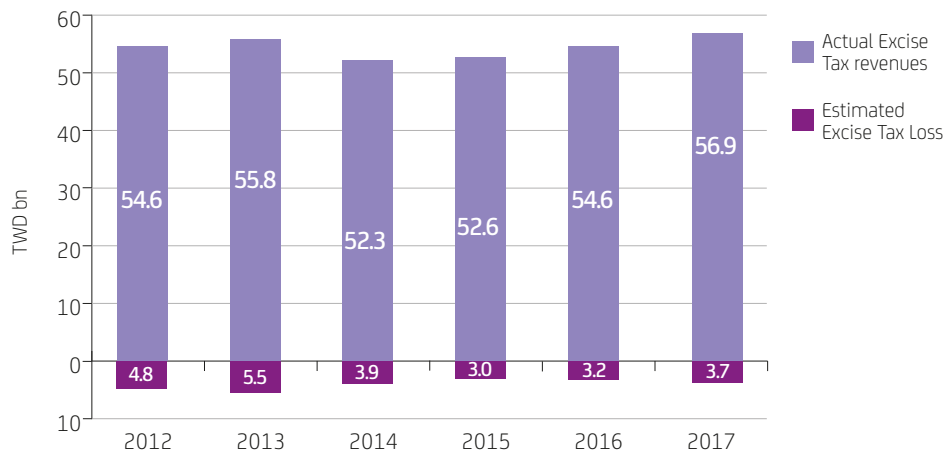
Taiwan: Actual government revenues and estimated Tax Loss

	2012		2013		2014		2015		2016		2017		% change in local currency 2016-17
	TWD bn	USD mn	TWD bn	USD mn	TWD bn	USD mn	TWD bn	USD mn	TWD bn	USD mn	TWD bn	USD mn	
Actual revenue from excise duties on tobacco	54.6	1,844	55.8	1,873	52.3	1,722	52.6	1,649	54.6	1,689	56.9	1,868	4.2%
Estimated number of illicit cigarettes purchased (cigarettes bn)	3.0		3.5		2.0		1.9		2.0		2.2		6.7%
Estimated Tax Loss from Illicit Consumption	5.4	183	6.1	205	4.3	143	3.3	104	3.6	111	4.1	136	16.0%
Lost excise revenue	4.8	163	5.5	185	3.9	129	3.0	93	3.2	99	3.7	123	16.5%
Lost VAT revenue	0.6	20	0.6	20	0.4	14	0.3	11	0.4	11	0.4	14	12.0%
Excise Tax Loss as % of potential total Excise Tax revenues	8.1%		9.0%		7.0%		5.3%		5.5%		6.2%		

Source: Taiwanese Ministry of Finance and Oxford Economics based on industry data
Includes Earmarked Taxes.

¹See <https://www.taiwannews.com.tw/en/news/3146107>

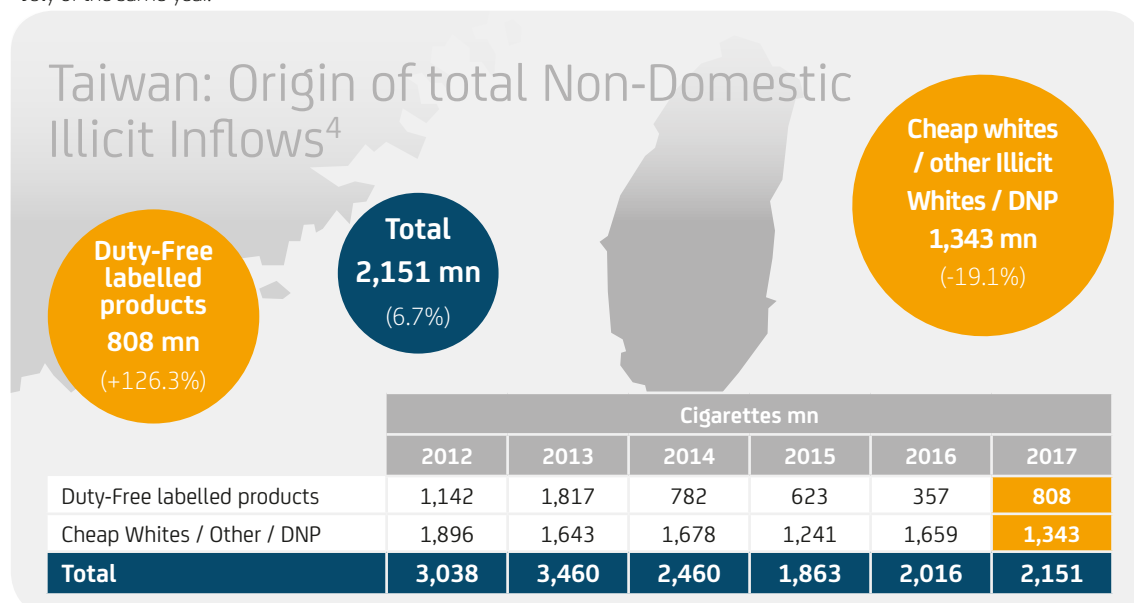
Taiwan: Actual government revenues and estimated Excise Tax Loss



Source: Taiwanese Ministry of Finance and Oxford Economics based on industry data

Taiwan: Trade Flows

- Illicit cigarettes consumed in Taiwan consist primarily of cheap whites and other Illicit Whites, together accounting for over 60% of total illicit Inflows in 2017.¹ However, this represents a decline in share compared with 2016—down from 82.5%—with the remainder of illicit Inflows consisting of duty-non-paid (DNP) products, experiencing notable growth in 2017. There were no Counterfeit cigarettes in Taiwan based on analysis of the CPSs.
- Nevertheless, the incidence of cheap whites rose to 2.2% of Total Consumption in 2017, up 0.5 percentage points compared with 2016.² Rising consumption of cheap whites was underpinned by an increase in market share in Northern and Eastern Taiwan, particularly in the wave two CPS, where cheap white incidence rose to 3.8% at the national level (up from 0.7% in the wave one CPS). In Southern Taiwan, cheap white incidence remained broadly stable by comparison. The largest cheap white brands identified in 2017 include “Syabas”—accounting for one-third of cheap white consumption—and “M.M”.
- Rising consumption of cheap whites in the wave two CPS coincided with an increase in the price differential between legal and illicit cigarettes. In the wave one CPS, the majority of cheap whites were identified as retailing between TWD 41 and TWD 45 per pack, around 43%-47% of the retail price of the Most Sold Brand of legal cigarettes at the time. This ratio declined to 37%-40% in the wave two CPS, with cheap whites typically retailing between TWD 46 and TWD 50 per pack, compared with the Most Sold Brand, which cost TWD 125 per pack of 20 cigarettes.
- DNP cigarettes increased in incidence to 4.3% in 2017, up from 2.3% previously. Again, there was a disparity between CPS waves, with the wave two CPS registering a much higher incidence of 5.9% compared with the wave one CPS (2.7%). Taiwan Duty Free products continue to dominate the share of DNP products identified, a consistent observation with previous years. In the wave two CPS, DNP incidence rose to the highest level since 2013, driven by increased consumption in Central Taiwan.
- After rising in 2016, the share of other Illicit Whites declined by 1.1 percentage points to 1.7% in 2017. The decline is primarily attributed to reduced consumption in central Taiwan. The main brands in this category include “Bohem” and “Esse”.
- Since October 2016, the Ministry of Finance, in conjunction with other law enforcement agencies, have adopted tougher measures to combat illicit tobacco consumption, in anticipation of the 2017 Excise Tax increase. This included legislation expanding the range of smuggling inspections off the coast of Taiwan, as well as a crackdown on suspicious practises. Furthermore, 1% of funds raised by the tobacco health and welfare surcharge is allocated to central and local agencies responsible for investigating and handling of cases of tobacco smuggling.
- Significant seizures reported in 2017 include an 18.6-tonne seizure of tobacco in June at the port of Taichung, worth around TWD 75 billion in government revenues, and a 15.6-tonne seizure of undeclared tobacco intercepted by Kaohsiung Customs in July of the same year.³



Source: IT Flows Model and Oxford Economics

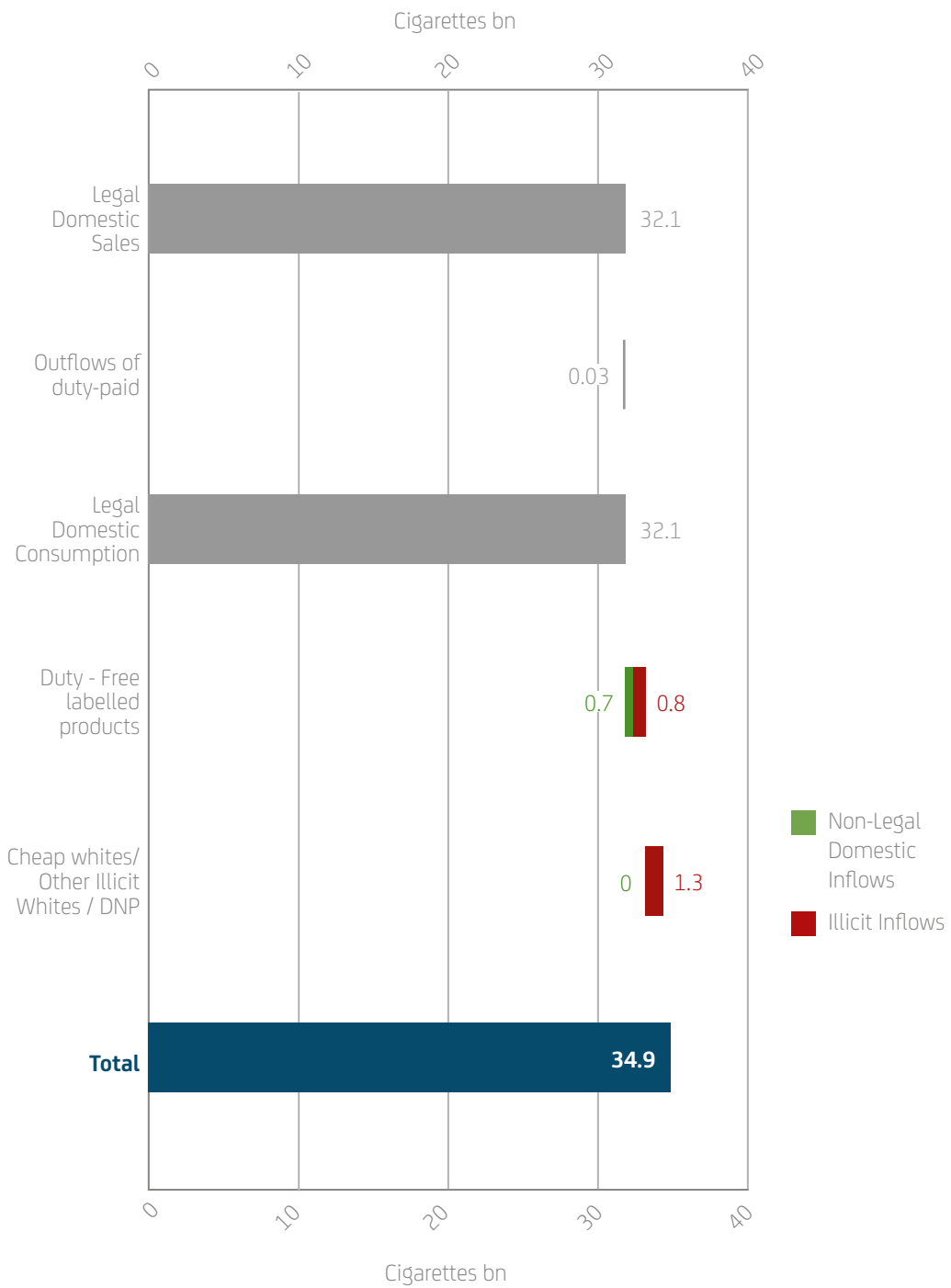
¹Cheap whites are defined as cigarettes that do not belong to the major tobacco companies or other legal brands sold in the Taiwan market, with a retail selling price below TWD 45 per pack (pre-tax hike) or TWD 65 per pack (post-tax hike), and not available for purchase in the major retail stores. DNP products include Duty-Free and other products identifiable by market of intended final retail sale but that have not paid the relevant tobacco taxes. Other whites include all remaining cigarettes that cannot be categorised as either of domestic origin, DNP, Counterfeit, or cheap whites.

²For the purposes of the Consumer Panel Survey, the definition of cheap whites was changed to incorporate the impact of an increase in the Excise Tax rate on the retail price of cigarettes. While the wave one survey considered, amongst other factors, cigarettes with a retail selling price below TWD 45 per pack of 20 cigarettes, this was increased to TWD 65 per pack in the wave two survey.

³See <https://www.mof.gov.tw/Eng/Detail/Index?nodeid=318&pid=75130>.

⁴Figures in brackets reflect % change from 2016.

Taiwan: Consumption breakdown 2017

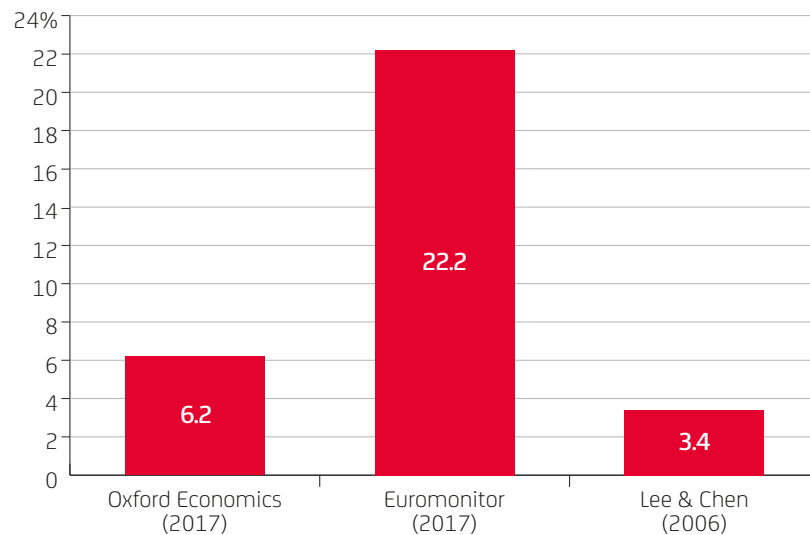


Source: IT Flows Model and Oxford Economics

Taiwan: Other Estimates

Source	Comment
Euromonitor Passport, 2018	Euromonitor estimates an Illicit Incidence of 22.2% in 2017. The methodology, sampling and coverage are unknown, so it is difficult to assess the robustness of this estimate.
Lee & Chen survey (2006). Retrieved via http://eurpub.oxfordjournals.org/content/19/1/23	A consumer survey by Lee & Chen (2006) suggested one-third of respondents had used illicit cigarettes, and 20% used them regularly. Applying the average daily consumption of 15 cigarettes produces an Illicit Incidence of 3.4% or 1.3 billion cigarettes. This estimate is based on much older data than the Consumer Panel Survey that forms the basis of the OE estimate of Illicit Consumption.

Taiwan: Alternative estimates of Illicit Consumption



Taiwan: Data Sources

	Primary source	Calculation	Comments
Legal Domestic Sales (LDS)	Actual shipments for PMI brands and PMI estimates for other companies based on Nielsen Retail Audit.	—	—
Outflows of domestic duty-paid cigarettes	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 Taiwanese market-specific labelling (e.g., health warnings, tax stamps, etc.).	Limited number of Taiwan domestic Market Variant cigarettes identified in other markets.
Legal Domestic Consumption (LDC)	—	Legal Domestic Sales minus Outflows of legal sales.	Limited Outflows of duty-paid cigarettes so Legal Domestic Sales and Legal Domestic Consumption closely aligned.
Total Non-Domestic Inflows (ND)	—	Sum of Non-Domestic Legal and Non-Domestic Illicit.	—
Non-Domestic Legal (NDL)	—	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 Tourism Bureau, M.O.T.C Republic of China (Taiwan).
Non-Domestic Illicit	Consumer Panel Surveys.	Based on two Consumer Panel Surveys conducted in 2017.	Estimates derived from the 2017 H1 and 2017 H2 Consumer Panel Surveys. Illicit cigarettes in Taiwan consist mostly of cheap white cigarettes (believed to smuggled in from neighbouring markets), but Taiwan Duty-Free are also significant. See Report methodology for more details.
Domestic Illicit	—	Zero under-declaration of domestically produced cigarettes.	There is assumed to be no under-declaration of domestically produced cigarettes. Based on market intelligence, cheap cigarettes identified in Taiwan are assumed to be produced abroad.
Total Illicit Consumption	—	Sum of Non-Domestic Illicit and Domestic Illicit.	—
Total Consumption	—	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 34.9 billion cigarettes for 2017.
Total Tax Loss	—	Total Illicit Consumption multiplied by the weighted average tax rates (Excise Tax, GST, and Earmarked Taxes).	See Report methodology for more details.

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