

Asia Illicit Tobacco Indicator 2017: Thailand

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Thailand: Legal Domestic Sales

- Legal Domestic Sales continued to decline in Thailand in 2017, falling by 3.3% to 30.9 billion cigarettes. Since the beginning of the Asia Illicit Tobacco Indicator in 2012, Legal Domestic Sales have now fallen by more than 20%.
- The Thailand Tobacco Monopoly retained the largest market share in 2017, accounting for nearly 70% of Legal Domestic Sales, a similar share to the previous year. The second largest market participant was PM, with a share of 19% of legal sales.
- The decline in Legal Domestic Sales in recent years has coincided with a series of measures implemented by the government explicitly targeting a reduction in tobacco consumption in Thailand.
- In July 2017, the Tobacco Products Control Act was implemented, introducing new measures such as a ban on single cigarette sales, a product display ban, consumer engagement restrictions, and increases in the minimum age for buying tobacco and the minimum age for selling tobacco to 20 years and 18 years respectively. This is in addition to an existing ban on tobacco advertising and marketing.
- In September 2017, a revised Excise Tax law (the Excise Act 2017) was implemented that both changed the structure of Excise Tax in Thailand and increased the applicable tax rates. The Excise Act 2017 also introduced a municipality tax of 10% on the amount of Excise Tax paid on tobacco products. The combined impact was to increase the price of the Most Sold Brand of cigarettes by 17.6% to THB 60 per pack of 20 cigarettes (previously THB 51).¹ By contrast, illicit cigarettes typically retailed at around THB 20-30 per pack of 20 cigarettes, while some reportedly sold for as little as THB 10 per pack.²
- In October 2017, a ban on tobacco consumption on the main tourism beaches of Thailand was introduced.
- At USD 1.81 per pack of 20 cigarettes (THB 60.0), cigarettes prices in Thailand remained higher than in most neighbouring markets in 2017, including Cambodia (USD 0.49), Laos (USD 0.84), and Myanmar (USD 0.63). However, cigarette prices were substantially below those in Malaysia, where the Most Sold Brand of cigarettes cost USD 4.02 per pack of 20 cigarettes in 2017.

Thailand

Legal Domestic Sales:

30.9 bn
cigarettes

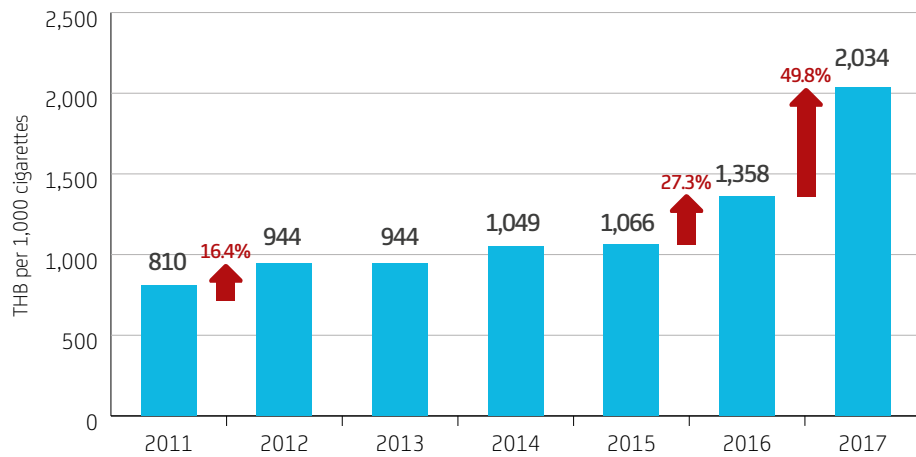
Price:

THB **60.0**
USD **1.81**

¹Price per pack of 20 cigarettes of the Most Sold Brand in October 2017, based on PM data.

²See <http://www.nationmultimedia.com/detail/breakingnews/30345522>

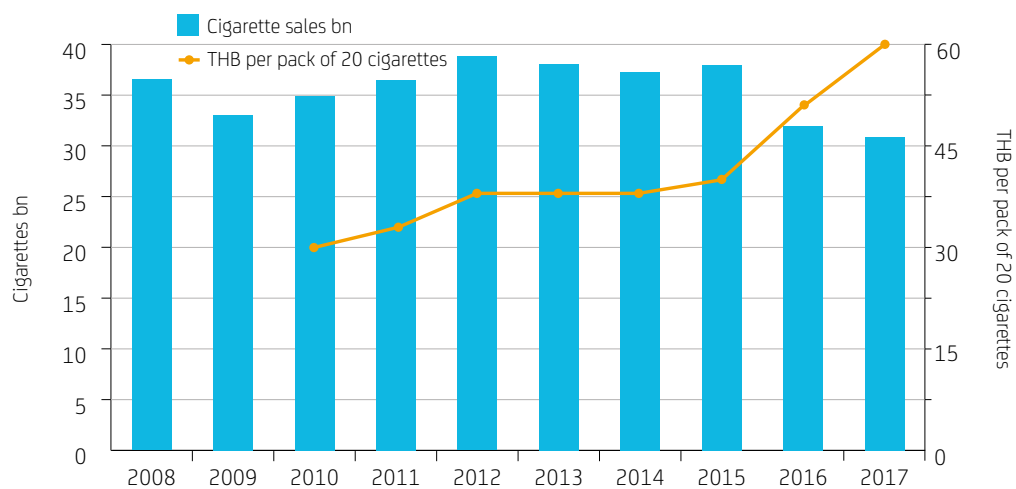
Thailand: Tobacco Tax applied to cigarettes³



Source: Thailand Excise Department and Oxford Economics

³Rate applied in October of each year to SMS (Most Sold Brand from 2013). Includes Earmarked Taxes and municipality tax, but excludes VAT.

Thailand: Legal Domestic Sales and prices⁴



Source: Oxford Economics based on PM data

⁴Price of SMS (Most Sold Brand from 2013) in October of each year.

Thailand: Cigarette Consumption

- The results from the Empty Pack Survey and IMS data on Legal Domestic Sales were used to estimate Total Consumption of cigarettes in Thailand.¹
- Total Consumption (legal and illicit) was estimated at 33.1 billion cigarettes in 2017. Of this, an estimated 93.4% or 30.9 billion cigarettes was Legal Domestic Consumption, 1.1% was Non-Domestic Legal Consumption, and the remaining 5.5% was Illicit Consumption.
- Despite registering a 3.3% decline in Legal Domestic Consumption, Total Consumption rose by 0.5% in comparison with 2016 as a result of a sharp increase in Non-Domestic Inflows, which more than offset the decline in Legal Domestic Consumption in 2017.
- In total, Non-Domestic Inflows more than doubled to 2.2 billion cigarettes in 2017, equivalent to 6.6% of Total Consumption. This represented the highest incidence recorded since the Asia Illicit Tobacco Indicator research programme began.
- Nearly 85% of Non-Domestic Inflows were estimated to be illicit, amounting to 1.8 billion cigarettes. This equates to an increase of 120.7% or 1 billion cigarettes in comparison to 2016, and represented the highest volume of Illicit Consumption recorded by the Asia Illicit Tobacco Indicator.²
- The increase in Illicit Consumption based on analysis of the Empty Pack Survey is consistent with a survey conducted by the Thai Tobacco Trade Association in March 2018, which found that nearly 53% of retailers in seven southern provinces of Thailand agreed that Illicit Consumption had increased in severity over the previous 12 months, compared with 23% of retailers who reported that Illicit Consumption had decreased in severity.³

Thailand: 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	%	
Legal Domestic Consumption (LDC)	38.8	95.7	38.0	96.4	37.2	99.0	37.7	97.6	31.9	97.1	30.9	93.4	-3.3
Legal Domestic Sales (LDS)	38.8	—	38.0	—	37.3	—	37.7	—	32.0	—	30.9	—	-3.3
Outflows of domestic duty-paid cigarettes	-0.0	—	-0.0	—	-0.1	—	-0.0	—	-0.0	—	-0.0	—	-25.6
Total Non-Domestic Inflows (ND)	1.7	4.3	1.4	3.6	0.4	1.0	0.9	2.4	1.0	2.9	2.2	6.6	128.9
Non-Domestic Legal (NDL)	0.6	1.4	0.5	1.3	0.1	0.3	0.2	0.5	0.1	0.4	0.4	1.1	184.1
Non-Domestic Illicit	1.2	2.9	0.9	2.3	0.2	0.7	0.7	1.9	0.8	2.5	1.8	5.5	120.7
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	40.5	100.0	39.4	100.0	37.6	100.0	38.6	100.0	32.9	100.0	33.1	100.0	0.5
Total Illicit Consumption	1.2	2.9	0.9	2.3	0.2	0.7	0.7	1.9	0.8	2.5	1.8	5.5	120.7

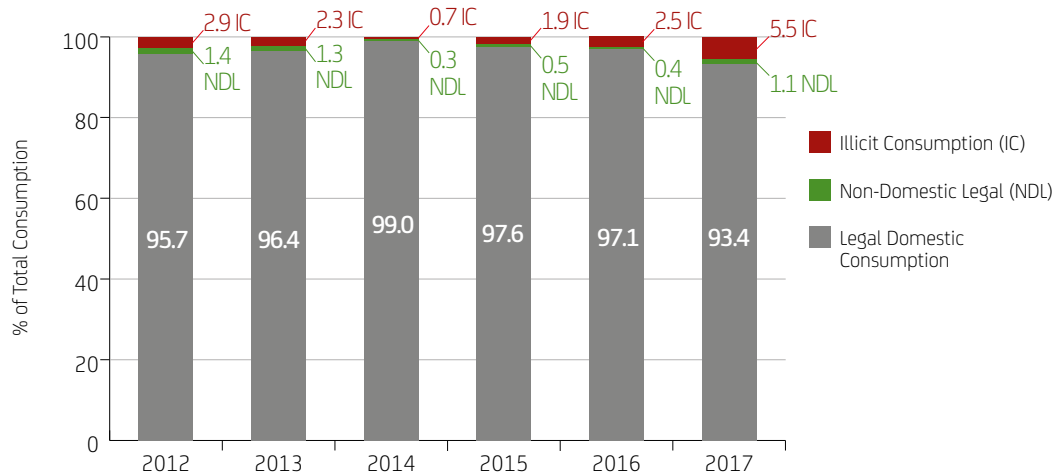
Source: Oxford Economics

¹The Empty Pack Survey was undertaken in 2017 Q4. See Report methodology for more details.

²Given that the Empty Pack Survey was undertaken after the revised Excise Tax law was implemented, estimates presented in this report may overstate the true incidence of Illicit Consumption for the full year 2017 to the extent that an increase in the retail price of legal cigarettes may have contributed towards rising Illicit Consumption.

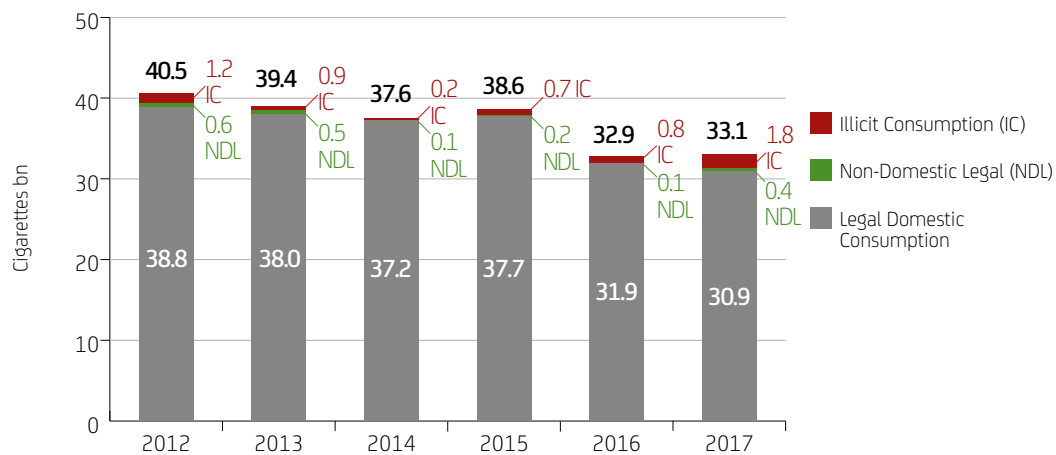
³Thai Tobacco Trade Association.

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



Source: Oxford Economics

Thailand: Composition of cigarette consumption (number of cigarettes)



Source: Oxford Economics

Thailand: Government Finances

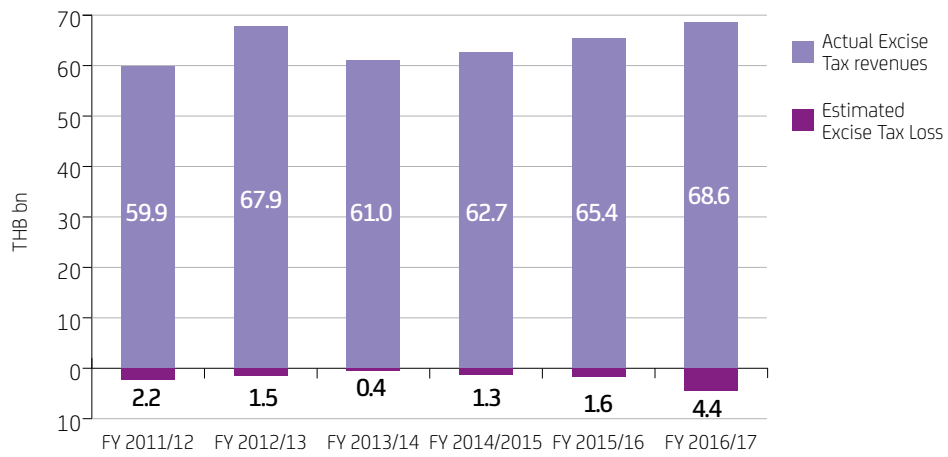
- In September 2017, a revised Excise Tax law came into force that both increased the Excise Tax rate and changed the structure of Excise Taxes in Thailand (including a change to the tax base).
- Previously, Thailand applied the greater of an ad valorem rate of 90% on the excise-inclusive net ex-factory price for locally manufactured cigarettes and the excise-inclusive CIF plus import duty for imports, or a specific rate of THB 1.1 per gram (whichever was greater).
- The new system is a mixed system that combines a single specific rate of THB 1.2 per cigarette with a two-tiered ad valorem component consisting of a rate of either 20% of the retail price (excluding VAT) for cigarettes priced at THB 60 per pack of 20 cigarettes and below, or 40% for cigarettes costing more than THB 60 per pack.
- From October 2019, the Excise Tax structure will be simplified further by replacing the two-tiered ad valorem rate with a single rate of 40%, while the specific rate of THB 1.2 per cigarette will remain.
- The revised Excise Tax law also introduced a municipality tax of 10% of the Excise Tax paid on all tobacco products.
- Furthermore, in 2017 cigarettes were subject to an Earmarked Tax equivalent to 5.5% of the Excise Tax paid, otherwise known locally as the "sin tax". This Earmarked Tax is split between a 2% contribution towards the Thai Health Promotion Foundation, 1.5% to support public television broadcasting, and 2% to promote sports participation through the National Sports Development Fund. From January 2018, the sin tax rose to 7.5%, earmarking an additional 2% for the Elderly Fund to go towards increasing monthly allowances for the elderly. There is also a provincial tax that equates to THB 1.86 per pack of 20 cigarettes sold outside of Bangkok.
- The Bangkok Metropolitan Administration (BMA) is in the process of amending the BMA Act to allow for a levy of provincial tax on cigarettes sold in Bangkok at a rate not exceeding THB 0.1 per stick (or THB 2 per pack), expected to take effect in early 2019.
- Imported cigarettes are also subject to customs duties, ranging from zero for origin markets covered by the ASEAN or ASEAN-Korea Free Trade Agreement, to 60% for markets covered by the WTO Most Favoured Nation status.
- A value-added tax of 7% of the retail price is also applied to cigarettes. This is set to increase to 10% in October 2018 unless the government agrees to a further extension to the reduced rate.
- Actual revenues from Excise Tax rose by 4.8% in the fiscal year 2016/17, despite a decline in Legal Domestic Sales. This is likely underpinned by the Excise Tax hike implemented in February 2016, with the fiscal year 2016/17 representing the first full fiscal year for which this higher tax rate applied.
- We estimate that the Tax Loss associated with Illicit Consumption rose by 172.0% in the fiscal year 2016/17 – driven higher by both the increase in Excise Tax rate and the increase in Illicit Consumption. The estimated Excise Tax Loss as a share of total potential Excise Tax revenues more than doubled to 6.1% at the same time, the highest level recorded since the beginning of the Asia Illicit Tobacco Indicator research programme.

Thailand: Actual government revenues and estimated Tax Loss

	2011/12 fiscal year		2012/13 fiscal year		2013/14 fiscal year		2014/15 fiscal year		2015/16 fiscal year		2016/17 fiscal year		% change in local currency 2015/16- 2016/17
	THB bn	USD mn	THB bn	USD mn	THB bn	USD mn	THB bn	USD mn	THB bn	USD mn	THB bn	USD mn	
Actual revenue from excise duties on tobacco	59.9	1,922	67.9	2,229	61.0	1,892	62.7	1,875	65.4	1,848	68.6	1,986	4.8%
Estimated number of illicit cigarettes purchased (cigarettes bn)	1.2		0.9		0.2		0.8		0.8		1.9		147.7%
Estimated Tax Loss from Illicit Consumption	2.4	75.8	1.7	56.0	0.4	13.4	1.5	43.7	1.8	50.2	4.8	140.0	172.0%
Lost excise revenue	2.2	68.7	1.5	50.7	0.4	12.1	1.3	39.8	1.6	45.8	4.4	128.2	173.3%
Lost VAT revenue	0.2	7.1	0.2	5.4	0.0	1.3	0.1	3.9	0.2	4.4	0.4	11.8	159.3%
Excise Tax Loss as % of potential total Excise Tax revenues	3.5%		2.2%		0.6%		2.1%		2.4%		6.1%		

Source: Thailand Fiscal Policy Office and Oxford Economics based on PM data
 Estimated number of illicit cigarettes purchased adjusted for fiscal year.
 Fiscal years run from October to September.
 Includes Earmarked Taxes.

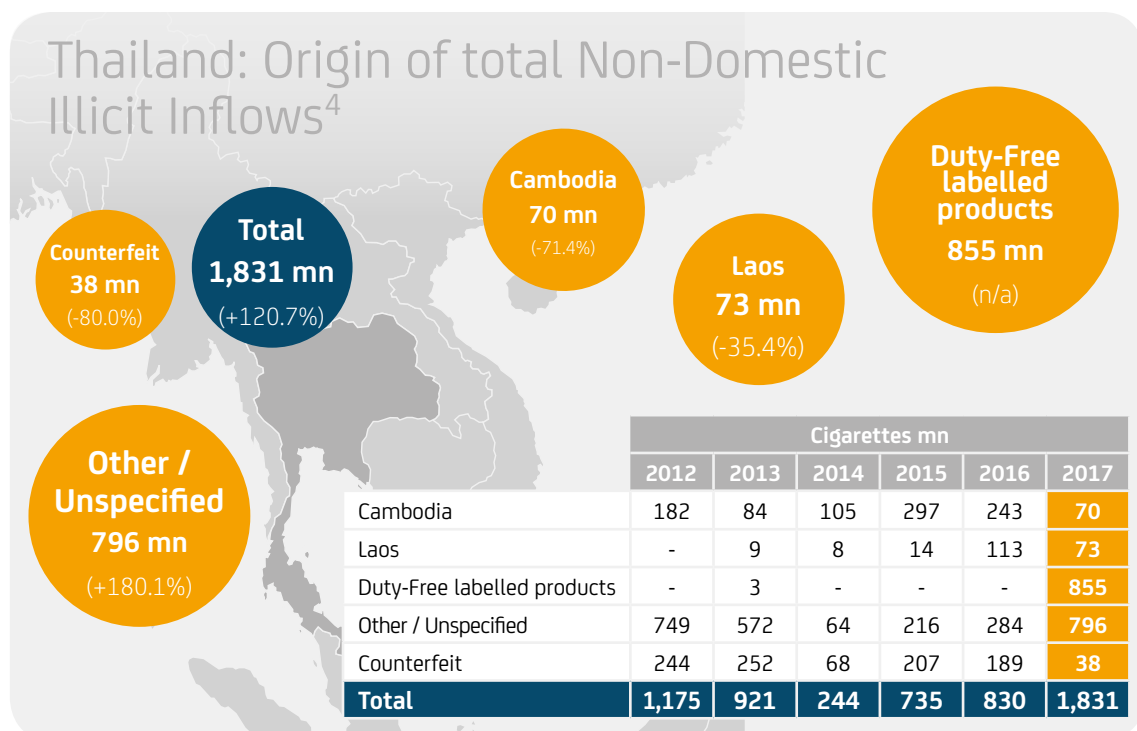
Thailand: Actual government revenues and estimated Excise Tax Loss



Source: Thailand Fiscal Policy Office and Oxford Economics based on PM data

Thailand: Trade Flows

- Non-Domestic Inflows of cigarettes more than doubled in 2017, rising by more than 120% in comparison with 2016. In total, an estimated 2.2 billion Non-Domestic cigarettes were consumed during the year. Of this, an estimated 0.4 billion cigarettes were estimated to have originated through legal channels.¹
- The remaining 1.8 billion of Inflows of Non-Domestic cigarettes, equivalent to 5.5% to Total Consumption, was estimated to have been illicit. The sharp rise in Illicit Consumption – up 120.7% in comparison with 2016 – was underpinned by both an influx of Duty-Free labelled products and a rise in Unspecified Market Variant products.²
- An estimated 855 million illicit Duty-Free labelled products were identified in 2017, compared with negligible volumes in previous years. The largest Duty-Free labelled product identified in the Empty Pack Survey was “John”.
- Consumption of Unspecified Market Variant cigarettes meanwhile increased by an estimated 180.1% to 796 million cigarettes in 2017. The largest brand of Unspecified Market Variant cigarettes was “Gold Mount”, followed by “Texas 5”, and “Gudang Garam”.²
- Duty-Free labelled products were almost exclusively present in the southern region, whereas Unspecified Market Variant products were more geographically dispersed.
- Consumption of Counterfeit products declined by 80% in 2017 to just 38 million cigarettes.³
- Consistent with a trend observed in 2016, the presence of Non-Domestic cigarettes was much higher in the southern provinces of Thailand. In total, there were seven provinces that registered a Non-Domestic Incidence above the national average – all double-digit rates – of which five were in the south, including Satul (76.6% Non-Domestic Incidence), Songkhla (66.9%), Pattalung (46%), Nakhon Si Thammarat (26.9%), and Ranong (15.0%).
- Rising Non-Domestic Incidence in the south was the primary driver behind the higher national average in 2017. Major cities in the other regions of Thailand indicated no obvious or significant pattern in comparison with the 2016 Empty Pack Survey results, including Bangkok (1.4% Non-Domestic Incidence in 2017, up from 1.1%), Nakhom Pathom (1.4%, up from 0.8%), Phitsanulok (1.1%, down from 4.3%), and Nakhon Ratchasima (6.2%, down from 7.7%).



Source: IT Flows Model and Oxford Economics

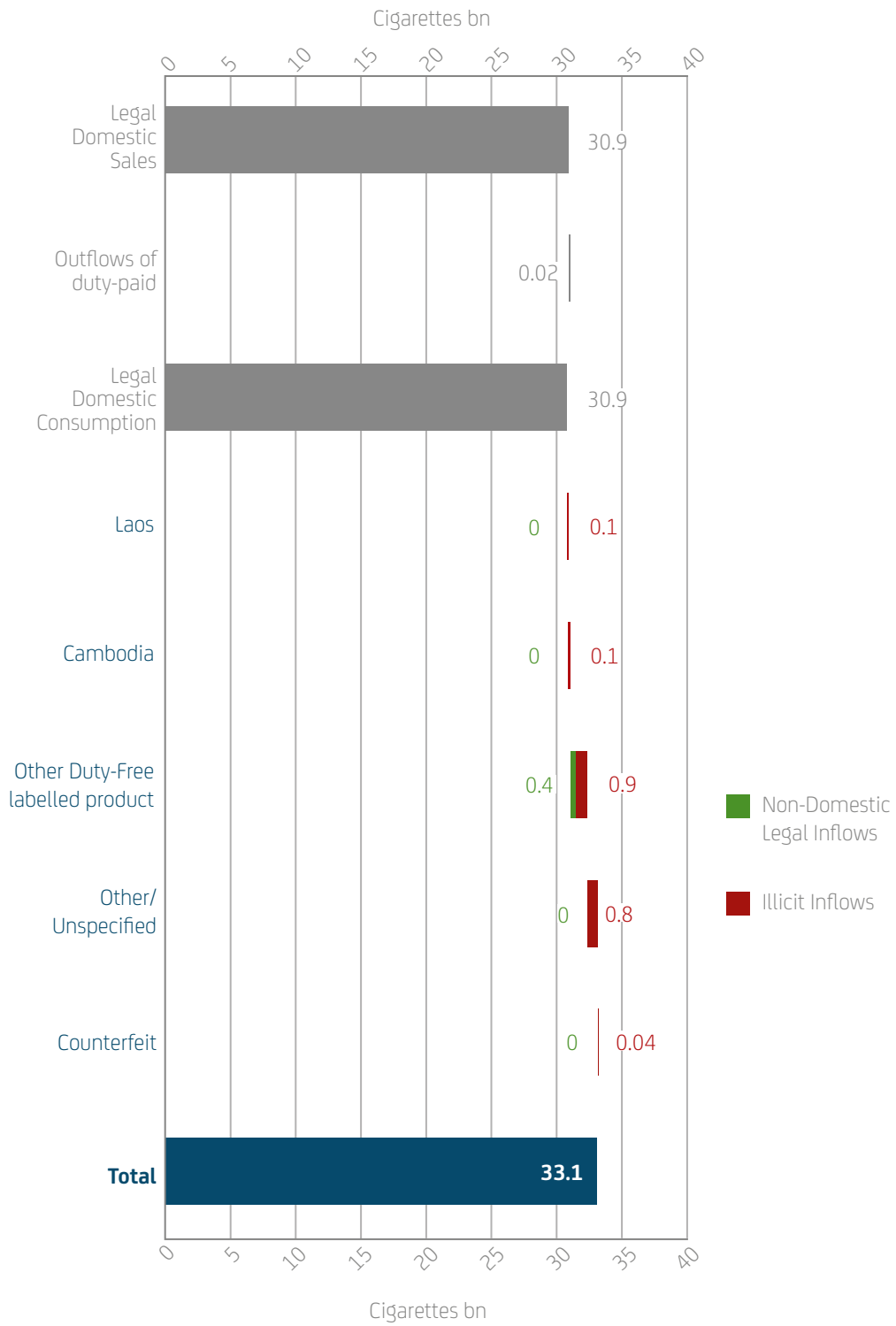
¹Estimated using passenger data, Smoking Prevalence in tourists' country/market of origin, and the passenger duty-free personal import allowance limit.

²Unspecified Market Variant refers to cigarette packs that do not bear specific market labelling or Duty-Free labelling. As such, the intended market is not known.

³Based on a forensic analysis of the Empty Pack Survey covering PM brands only (i.e., the participating company).

⁴Figures in brackets reflect % change from 2016.

Thailand: Consumption breakdown 2017

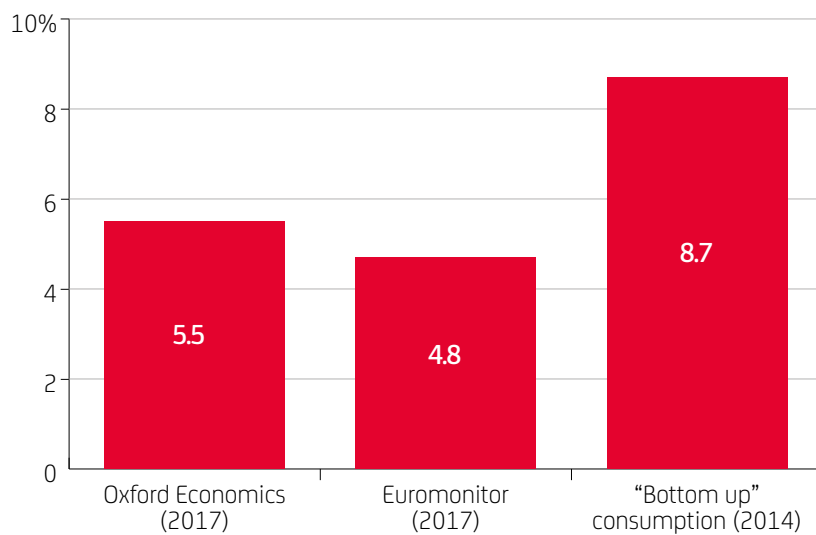


Source: IT Flows Model and Oxford Economics

Thailand: Other Estimates

Source	Comment
Comparing consumption estimates with LDC (“bottom up” approach)	Using data on Smoking Prevalence and average daily consumption of cigarettes, 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 8.7%, or around 3.6 billion cigarettes (based on 2014 LDC). The data on Smoking Prevalence and average daily consumption both come from the WHO FCTC 2016 report (based on the Smoking and Drinking Behaviour Survey 2014).
Euromonitor Passport, 2018	Euromonitor estimates an Illicit Incidence of 4.8% in 2017. The methodology, sampling, and coverage are unknown, so it is difficult to assess the robustness of this estimate.

Thailand: Alternative estimates of Illicit Consumption



Thailand: Data Sources

	Primary source	Calculation	Comments
Legal Domestic Sales (LDS)	Actual shipments for PM brands and PM estimates for other manufacturers.	—	—
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 Thailand market-specific labelling (e.g., health warnings, tax stamps, etc.).	Limited number of Thai domestic Market Variant cigarettes identified in other markets.
Legal Domestic Consumption (LDC)	—	Legal Domestic Sales minus Outflows of legal sales.	Limited estimated 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 Ministry of Tourism and Sports, UNWTO, and OE Tourism Model.
Non-Domestic Illicit	Empty Pack Survey.	Based on Empty Pack Survey plus OE estimates.	Estimate derived from the 2017 Q4 Empty Pack Survey. Counterfeit products are assumed to be produced abroad. 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 anecdotal evidence, illicit production is more likely to take place across the border than in Thailand.
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 33.1 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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