



ILLICIT TOBACCO IN PAPUA NEW GUINEA

AN FTI CONSULTING REPORT

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ILLICIT TOBACCO IN PAPUA NEW GUINEA

ACKNOWLEDGEMENTS

In 2018, the Government of Papua New Guinea (PNG) expressed an interest in a comprehensive and independent market study being undertaken to examine the level of illicit tobacco trade in PNG. It sought to develop a better understanding of the magnitude of the problem to enable it to make well informed and economically sound decisions to prevent the illicit tobacco trade. As a result, British American Tobacco (PNG) commissioned FTI Consulting to undertake this Study.

We would like to sincerely acknowledge the significant contributions that have been made to this Study.

BAT PNG provided relevant contextual information and its own anecdotal and other evidence of the presence of illicit tobacco, industry dynamics and supply chains.

We also appreciate the input and insights of the Manufacturers Council of PNG, the Business Council of PNG and Mr Rohan Pike (former Australian Federal Police and Australian Border Force, and expert on illicit trade).

We have partnered with relevant experts with experience and intimate knowledge of conditions and issues in the PNG tobacco market. This has included key partnerships with:

- Anglo Pacific Research and Strategy (APR) who developed and conducted all in country survey work in PNG and provided key input data used to estimate the size of the PNG tobacco market including illicit tobacco
- Associate Professor John Asafu-Adjaye who provided us with exclusive access to the PNG specific Computable General Equilibrium Model (PNGGEM-Regional) and analysis of the economy-wide and regional impacts of the illicit tobacco market in PNG.

Recognising the PNG Government's range of interests in this important issue, we consulted with a range of key departments and agencies to source information for this Study and to test the approach. This included meetings with the PNG Government's Anti-Ilicit Tobacco Taskforce, the PNG National Research Institute (NRI), PNG Customs and the Department of Treasury.

The NRI also peer reviewed a draft of FTI Consulting's reports focusing on research methodology, analysis and results. We thank the NRI for its detailed comments and thoughtful approach, which provide increased confidence in the methodology, analysis and results and have strengthened the clarity and quality of our findings, conclusions and recommendations.

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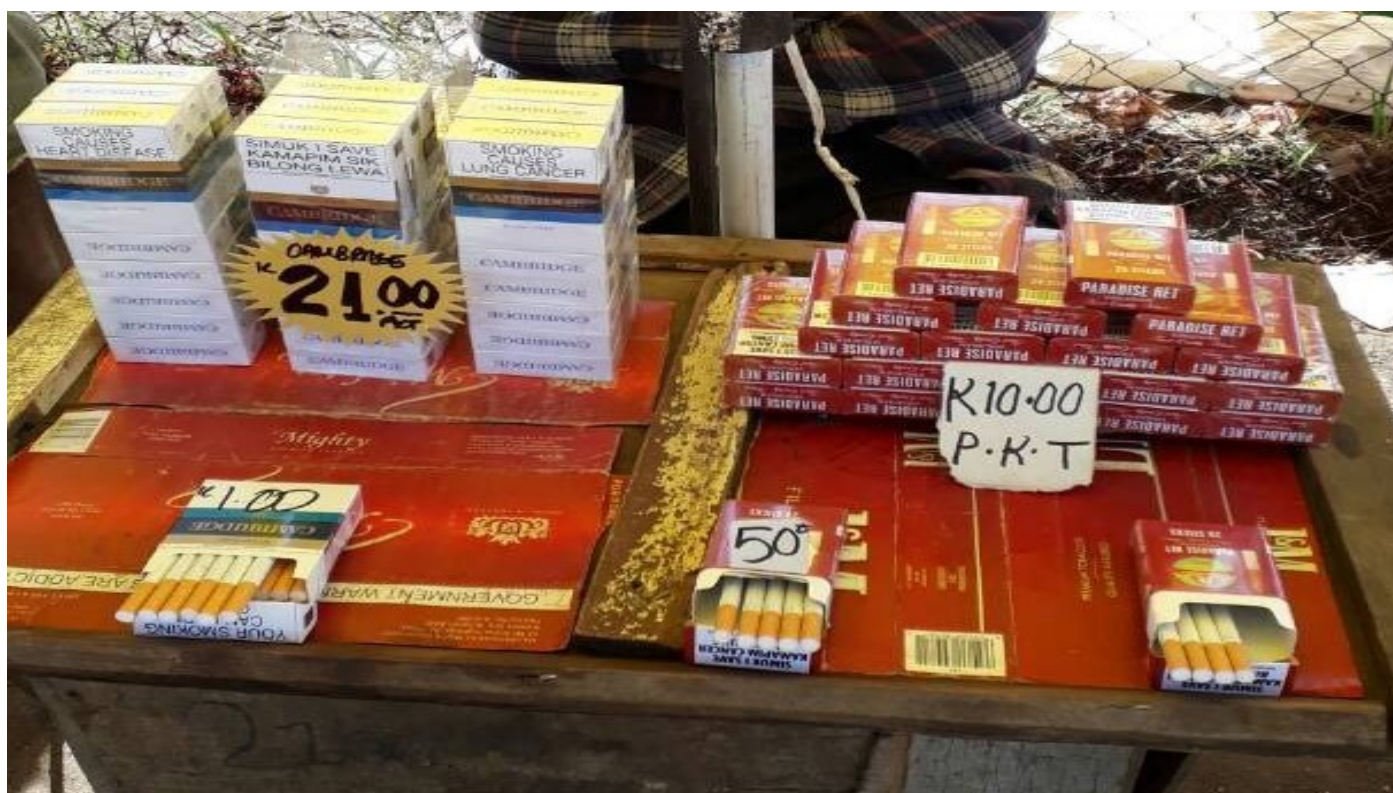
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GLOSSARY AND ABBREVIATIONS

BAT	British American Tobacco (PNG) Limited
Brus	An unbranded loose tobacco grown in PNG and sold either in loose, packaged or stick form. Brus is not an excisable material under the <i>Excise Tariff Act 1956</i> . Sellers of brus must be registered under the <i>Tobacco Control Act 2016</i> .
Cigarette	A tobacco product comprising a roll of cut tobacco enclosed in paper, which is typically sold in packs or individual sticks. This includes domestic and non-domestic cigarettes.
Coarse cut cigarillo	A machine-made coarse cut tobacco roll that is shorter and narrower than a traditional cigar but larger than cigarettes.
Community Perception Survey	A survey undertaken as part of this Study in September/October 2018 of more than 2000 purchasers of tobacco products across PNG.
Convenience store	Small retailers that are typically privately owned and either operate independently or belong to a chain.
Counterfeit	Cigarettes that are manufactured illegally and carry the trademark and/or branding of a brand sold legally without the consent of the trademark owner (also known as fake cigarettes).
GDP	Gross Domestic Product
GRP	Gross Regional Product
HIES	Household Income and Expenditure Survey undertaken by PNG's National Statistical Office
Hot spot	Urban and rural areas of PNG that are considered to have very high rates of illicit tobacco.
Illicit tobacco	Cigarettes, coarse cut cigarillos, brus, rolling tobacco and other tobacco products, that do not comply with PNG tobacco laws and/or are sold without paying the applicable PNG excise and customs duties.
Legal tobacco	Cigarettes, coarse cut cigarillos, brus, rolling tobacco and other tobacco products, that comply with PNG tobacco laws and have paid PNG excise and customs duties as applicable.
PNG	Papua New Guinea
Retail street vendor	Standalone street vendor typically operating in the area immediately adjacent to their place of residence.
Sub wholesaler	Typically serviced by wholesalers and more prevalent in rural areas or in regions where wholesalers do not exist.
Vendor Turnover Survey	A survey of more than 200 vendors across channels (street vendors, grocery stores, markets, trade stores, etc) undertaken as part of this Study in September/October 2018.
Wholesaler	Major distributors of tobacco products servicing the main regions of PNG who may also act as independent distributors and importers of tobacco products.
Wholesale vendor	Vendor at a main market who will supply retail vendors either in the same main market or at an adjoining cluster market.

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Packs of illicit Paradise selling at prices that are too low to cover PNG excise, duties and taxes – Kainantu in the Highlands, October 2018.

1. ABOUT THIS STUDY

Around the world, the illicit trade of tobacco products is prolific. Cigarettes are among the most commonly traded commodities on the black market due to high profit margins, relative ease of production and movement, and low detection rates and penalties.

Trading illicit tobacco is a crime that cheats governments out of significant revenue each year because of avoiding tobacco excises, duties and taxes. It also has broader impacts on the economy and the community. However, many governments are unaware of how significant the problem and impact of illicit tobacco is – in terms of avoided tax, the range of direct and indirect economic costs and wider societal impacts.

Papua New Guinea (PNG) has a rate of smoking among the highest in the world and it is widely acknowledged that illicit trade of tobacco and other goods in PNG has been a significant and growing problem. There is a great deal of photographic and other evidence of illicit cigarettes available for sale in vendor stores and at markets at prices that are insufficient to cover the costs of excise and other taxes.

While in recent times the PNG Government has made efforts to address the illicit tobacco trade, the full suite of actions that it has previously committed to have not been implemented, and the actions that have been taken have not had enough of an impact on PNG's growing illicit tobacco problem.

Addressing illicit tobacco in PNG requires a solid understanding of the existing tobacco market, supply chains and the size of impacts of the problem. It also requires strong leadership, effective coordination between agencies and a focused effort of well targeted actions.

The purpose of this Study was to provide an independent evidence-based analysis aimed at:

- Estimating the size of the PNG tobacco market and the proportion of illicit tobacco in PNG
- Identifying the economic impact that illicit tobacco has on government revenues and the broader national and regional economy
- Recommending a series of actions that are likely to have the best chance of addressing illicit tobacco in the short term.

This Study represents the most comprehensive and robust evidence-based study of the illicit tobacco in PNG to date.

This report provides a concise summary of the Study's overall findings. A more comprehensive report has also been prepared which sets out this Study's approach, analysis and findings in more detail.

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2. EXTENT OF ILLICIT TOBACCO IN THE PNG TOBACCO MARKET

We have used a *consumption model approach* to estimate the proportion of total tobacco consumption in PNG that is represented by illicit tobacco products. This approach has been used in other illicit tobacco studies including the 2013 KPMG PNG study and is considered *'the best approach to measure the market.'*¹ Adopting this approach involves forming a view about the size of the market with reference to core survey data about the tobacco purchasing habits of PNG consumers.

Our consumption model has been informed by two surveys undertaken in September/October 2018:

- *Community Perception Survey (CPS)* – focused on surveying tobacco usage and purchasing habits of more than 2000 PNG consumers
- *Vendor Turnover Survey (VTS)* – focused on surveying vendors' tobacco sales at different types of outlets (street vendors, grocery stores, markets, trade stores, etc.), brands available for sale, country of origin, pricing and sales for more than 200 vendors.

Our survey sample is nationally representative and covers urban, peri-urban and rural accessible zones in each of PNG's four socio-cultural regions. We also surveyed Vanimo and surrounds in the West Sepik Province of Momase on the basis that it is considered a 'hot spot' for illicit tobacco.

We have used the data from these surveys and other external sources together with various assumptions to identify the proportion of tobacco products that is likely to be illicit.

Overall, PNG's total tobacco consumption in 2018 is estimated at around 4.65 billion sticks

We estimate that the overall level of tobacco consumption in PNG was approximately 4.65 billion sticks in 2018. Cigarettes accounted for around 50 per cent of reported total consumption, followed by brus (almost 42 per cent) and then coarse cut cigarillos (almost 8 per cent).

Our estimate of total tobacco consumption is much higher than the previous 2013 KPMG estimate of nearly three billion sticks, and the proportion that is represented by cigarettes is also higher (50 per cent compared to 34 per cent).

Around 55 per cent of the estimated total tobacco consumed in PNG in 2018 is illicit product

We estimate that around 55 per cent (around 2.54 billion sticks) of total tobacco consumption in 2018 is illicit product. This is made up of illicit cigarettes and brus that is commercially sold without a permit.

Within each tobacco product category, we estimate that:

- 32.41 per cent of all cigarettes purchased are illicit
- 91.76 per cent of the total brus consumed is illicit because it is sold commercially without a permit, rather than grown for personal use (which is legal).

Figure 1 summarises our overall results.

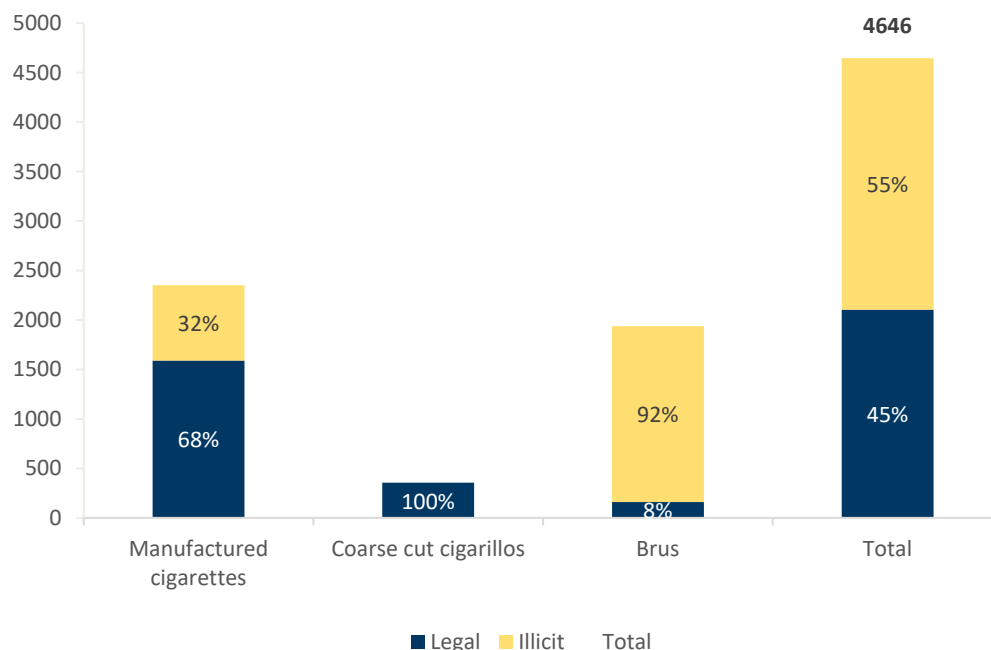


Street vendors selling cigarettes illegally as sticks and small sized illicit Paradise Grin packs (far right) at Kamkumung market in Lae, October 2018.

¹ KPMG 2015, *Illicit tobacco in Papua New Guinea*, 24 April, p.24.

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FIGURE 1: ESTIMATED LEGAL AND ILLICIT TOBACCO CONSUMPTION IN PNG (million sticks)



Source: FTI Consulting

We do not believe that there is definitive evidence of illicit coarse cut cigarillos in PNG. These cigarillos are a special type of tobacco product manufactured exclusively for the PNG market. They are not readily found in other international markets, and hence are difficult to counterfeit. The previous 2013 KPMG study of illicit tobacco in PNG also did not find evidence of illicit coarse cut cigarillos.

Brus is becoming increasingly commercialised

Brus is an unbranded loose tobacco grown in PNG and sold either in loose, packaged or stick form. However, under the *Tobacco Control Act 2016* sellers of brus must be registered. We understand that to date no one has been registered to sell brus. As a result, we have assumed that all brus that is sold rather than grown for personal use is illicit.

Our survey results identified that brus is a significant component of the tobacco market. Consumers reported that brus accounts for almost 42 per cent of the total tobacco market in PNG and almost 92 per cent of brus is sold and hence illicit. The amount of brus that consumers reported purchasing suggests that brus is being grown, distributed and sold in significant quantities. There is concern from some stakeholders that brus is becoming a ‘cash crop’ and that this may contribute to growing food security issues.² Yet little is known about how the market for brus operates in PNG and

the opportunities and implications of increasing commercialisation of brus for employment, agriculture and broader economic and regional development.

The proportion of illicit cigarettes varies significantly across the regions

As Figure 2 shows, the mainland regions of Momase and Southern show high rates of illicit cigarettes – around 86 per cent and 57 per cent respectively. By comparison, the Islands and Highlands regions have much more modest rates of illicit cigarettes – around 11 per cent and 7 per cent respectively – reflecting the added difficulty of transportation to these areas.

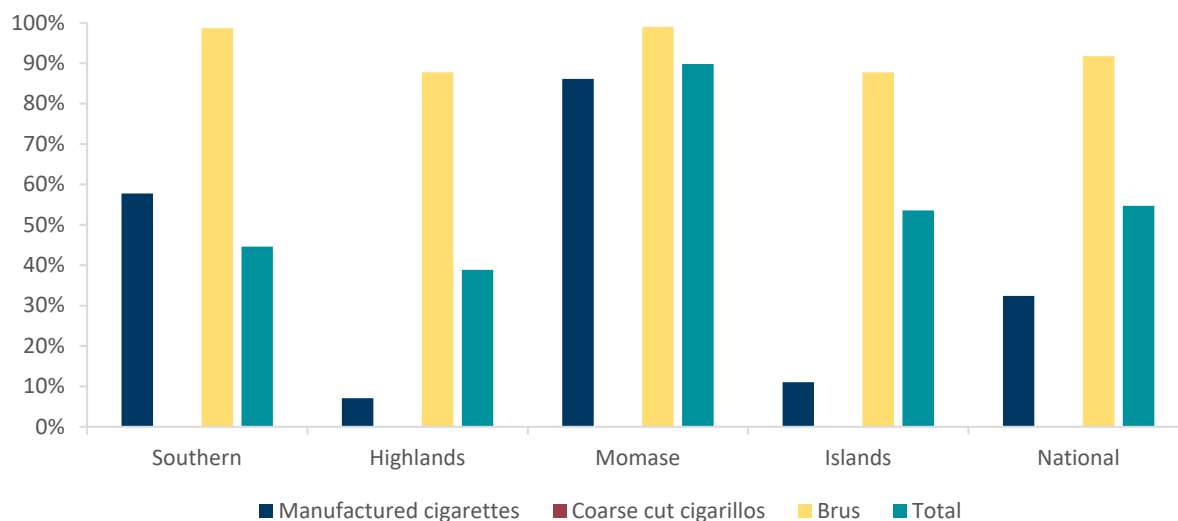
Our results for Vanimo (in the West Sepik Province of Momase) near the Indonesian border reaffirm its status as a known ‘hot spot’ of illicit tobacco trade. In contrast to other regions, we estimate that almost all the reported consumption of tobacco products in Vanimo is illicit:

- More than 98 per cent of cigarettes reportedly purchased in Vanimo are illicit products
- All the brus consumed in Vanimo is reportedly purchased rather than grown for personal use, and hence is illicit.

² As expressed by the Manufacturers Council of PNG.

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FIGURE 2: ILLICIT TOBACCO CONSUMPTION BY REGION (%)

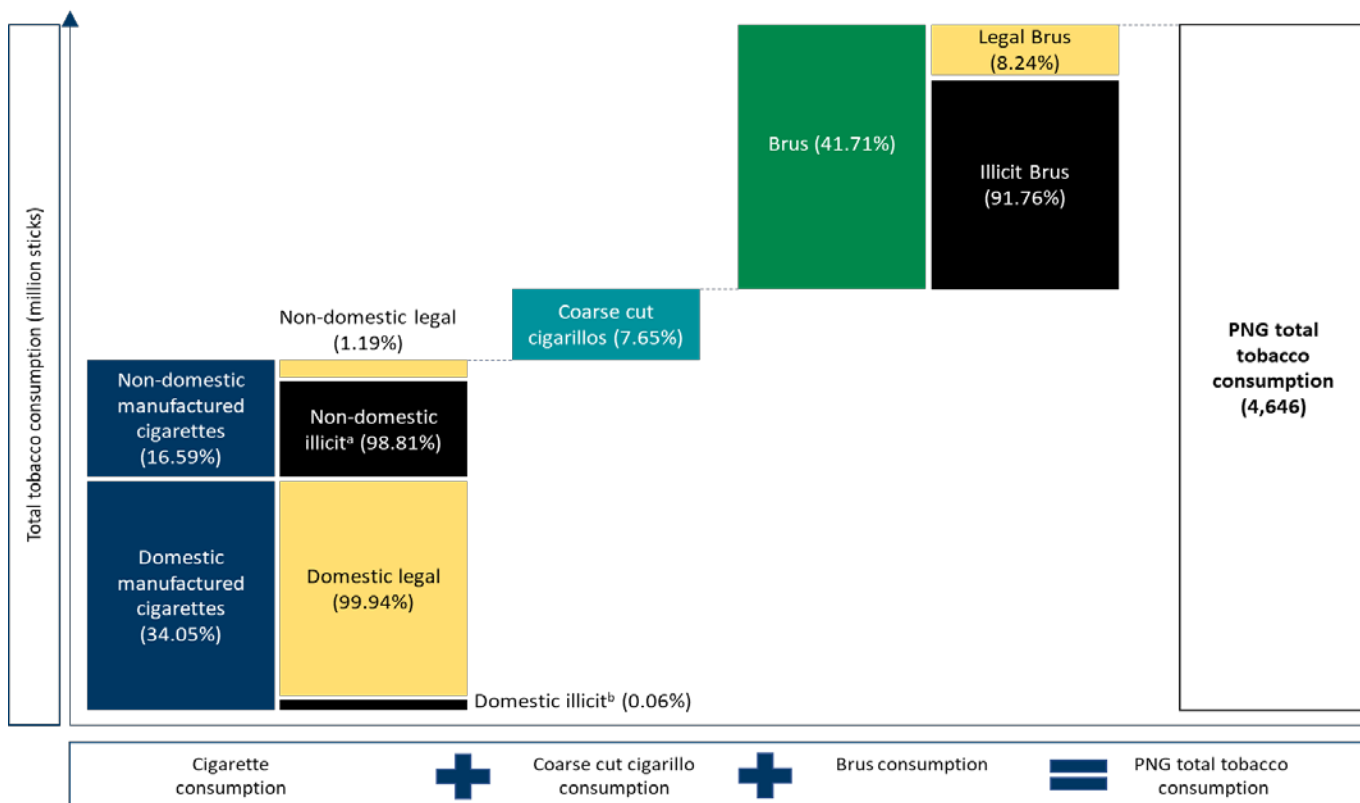


Source: FTI Consulting

Note: Assumes that there is no illicit consumption of coarse cut cigarillos.

Figure 3 summarises our overall results estimating the total amount of tobacco consumed in 2018 across each category – cigarettes, coarse cut cigarillos and brus – in cigarette stick equivalent units.

FIGURE 3: ESTIMATED TOTAL LEGAL AND ILLICIT TOBACCO CONSUMPTION BY CATEGORY (%)



Source: FTI Consulting

a Non-domestic illicit comprises all Cambridge products determined to be counterfeit, plus illicit brands and non-domestic brands sold below K0.90 per stick.

b Domestic illicit comprises domestic brands sold at K0.90 per stick or less in September/October 2018 other than Cambridge.

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Our survey findings provide insights into the habits of PNG consumers, and the extent of illicit tobacco use

Our survey findings provide key insights into the reported consumption habits of PNG consumers, including how much they typically purchase, the types of tobacco products they purchase (ie. cigarettes, coarse cut cigarillos or brus), the extent to which they purchase domestically produced or imported cigarettes, the price they pay and their awareness and use of counterfeit tobacco products.

Based on survey responses:

- Most consumers purchased cigarettes as sticks rather than packs (92 per cent) – despite new regulations prohibiting the sale of cigarettes in packs of less than 25-sticks. Purchasing cigarettes on a stick rather than pack basis increases the difficulty of detecting counterfeit products and allows illicit cigarettes to be substituted for genuine cigarettes
- Most consumers reported that they purchased domestically produced cigarettes (90-99 per cent), and favoured Cambridge (around 98 per cent in Momase, 90 per cent in Highlands, 70 per cent in Southern, 45 per cent in Islands)
- A very small proportion of PNG consumers paid less than K1.00 per stick for cigarettes despite various reports and photographic evidence that there is widespread availability of imported cigarettes for sale at around K0.50 per stick.

The reported results for Vanimo provide a stark contrast to these PNG regional results:

- More than 98 per cent of cigarettes purchased are illicit, and all the brus consumed in Vanimo is purchased and is hence is illicit
- More than 95 per cent of Vanimo consumers reported paying K0.50 per stick or less (which is less than the full cost of excise, duties and taxes)
- Vanimo consumers reported purchasing Cambridge only 1.5 per cent of the time.

Our survey results suggest a few dynamics may be at play:

- Most cigarette consumers are unlikely to be able to distinguish between genuine and illicit products as the differences between the two types of products are very minor, even on a pack basis
- Most consumers are even less likely to know whether they are purchasing genuine products because they typically purchase cigarette sticks rather than packs
- There appears to be strong preference or brand loyalty for domestically produced tobacco products, and more specifically Cambridge, throughout most PNG regions
- Vendors may be pricing illicit cigarettes at or near the price for genuine domestically produced products to maximise profits rather than sales and to avoid any suspicion (by both consumers and enforcement agencies) that the products that are being sold are not genuine
- While there is often a wide variety of cigarette packs available for sale (including known illicit brands or cigarettes at significantly lower prices than domestically produced cigarettes), consumers reported that they are not often purchasing those brands or paying those very low prices (except in Vanimo).

These factors taken together suggest that it is possible that illicit cigarette sticks are being substituted into open genuine packs and sold as Cambridge. Consumers may be unknowingly purchasing illicit cigarettes but paying almost the same price as genuine products. Consequently:

- PNG Government is losing a significant amount of revenue because of not collecting the excises, duties and taxes associated with these sales
- Producers of legal tobacco products are losing market share and revenue despite consumers preferring or seeking to purchase their genuine products
- Consumers are not getting what they have paid for in many cases.

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3. IMPACT OF ILLICIT TOBACCO ON THE PNG ECONOMY

The tobacco industry has links with other sectors in the economy including government and households. As a result, any shrinkage of the tobacco sector due to the presence of illicit tobacco will have repercussions across the entire economy.

We have used a model of the PNG economy called PNGGEM-Regional to estimate the economic impact of illicit cigarettes on government revenues and the broader national and regional economies.

We have limited our focus to illicit cigarettes only since brus is part of the subsistence economy and not currently subject to any form of PNG Government taxes. For simplicity, we have presented the impacts at various points over a ten-year period – 2019, 2023 and 2028.

It is important to recognise that the results presented here do not include the broader social, health and community impacts of illicit cigarettes. While these are discussed in international literature, we were unable to obtain enough reliable data and information in a PNG context to assess the magnitude of these potential broader impacts.

Impact of illicit cigarettes on government revenues

Consistent with the international literature, our economic modelling reveals that illicit cigarettes have a significant

impact on government revenues (see Figure 4). The PNG Government levies direct taxes on tobacco products such as excise taxes, customs duties and a 10 per cent value added tax. However, there are also broader economy-wide (indirect or flow on) losses across all tax categories including tariffs, excise duties, export tax, income tax, production tax and company tax.

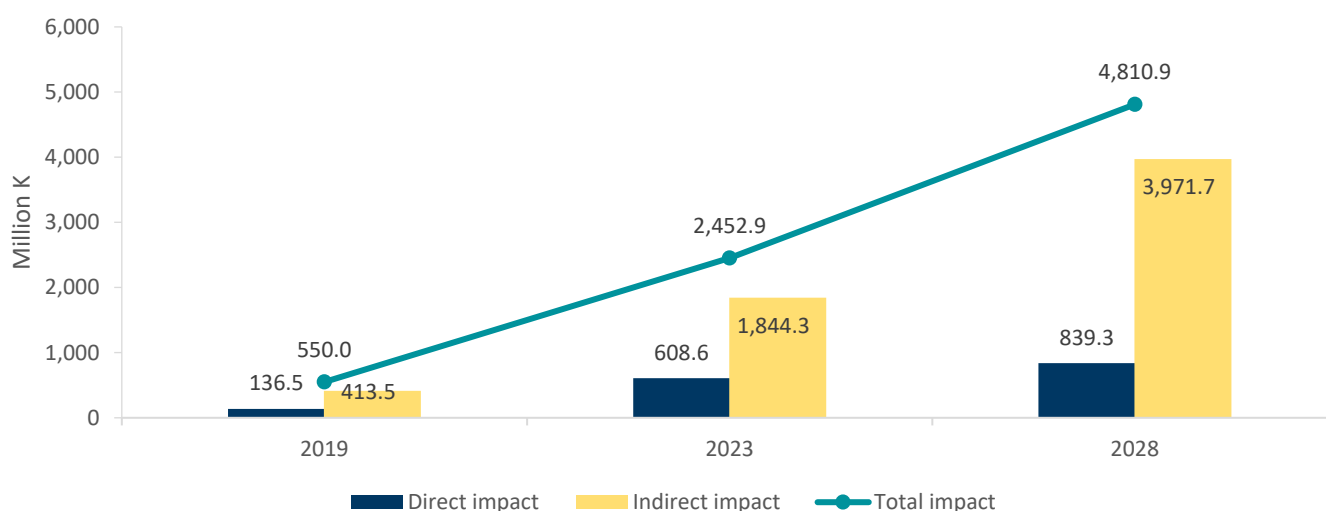
Based on our estimated proportion of illicit cigarettes in the PNG tobacco market, we project that the PNG Government stands to lose K136 million in 2019 through direct tax losses associated with illicit cigarettes and that this will grow to around K608 million by 2023, and K839 million by 2028.

Our model estimates that the indirect losses to the PNG Government account for a further K413 million in 2019 and these are expected to increase significantly to around K1.84 billion by 2023, and K3.97 billion by 2028.

Adding the direct and indirect impacts together means that the PNG Government faces total revenue losses from illicit cigarettes of around K550 million in 2019. This then increases significantly to K2.45 billion by 2023 and is expected to total K4.8 billion by 2028.

These results underscore the importance of taking swift and deliberate action to tackle illicit cigarettes in PNG. This scale of lost revenue has significant implications for the PNG Government's ability to deliver broader economic and social outcomes to benefit the PNG people.

FIGURE 4: IMPACT OF ILLICIT CIGARETTES ON TAX REVENUES (K millions)



Source: FTI Consulting model simulation results and author's computations for the direct impacts.

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National economic impacts

The tobacco industry is a significant component of the PNG economy. As a result, our modelling indicates that illicit cigarettes have an overall negative impact on PNG's economy. The negative impact on the economy is caused by the flow on effects arising from reduced output and employment across the economy, which in turn reduces household income and consumption. The fall in employment also results in a decline in household income, which in turn reduces national welfare.

Our modelling indicates that all key macroeconomic indicators – Gross Domestic Product, Total Employment, Total Output and National Welfare – are negatively impacted and these negative impacts intensify over time (see Table 1):

- Real GDP decreases by -0.3 per cent in 2019 and rapidly decreases to -4.4 per cent by 2028
- Total Employment decreases by -0.4 per cent in 2019 and then declines to -4 per cent by 2028
- Total Output initially declines by -0.2 per cent in 2019 but falls further to -3.1 per cent by 2028
- National Welfare declines by -0.5 per cent in 2019 and to -4.1 per cent by 2028.



Wholesale street vendor selling cigarettes in packs and sticks, including unbranded sticks, October 2018.

TABLE 1: MACROECONOMIC IMPACTS OF ILLICIT CIGARETTES (% CHANGES)

Variable	2019	2023	2028
Real GDP	-0.3	-0.9	-4.4
Total Employment	-0.4	-1.1	-4.0
Total Output	-0.2	-0.8	-3.1
National Welfare	-0.5	-1.7	-4.1

Source: FTI Consulting model simulation results.

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Regional economic impacts

The economic impacts are also felt at a regional level. As with the national level results, the impacts on each of the regions are generally modest initially but increase significantly over time.

In 2019, the impacts on regional growth (measured by Gross Regional Product or GRP, in real terms) range from -0.5 per

cent in the Southern region to -0.2 per cent in the Highlands region (see Table 2). By 2023, we see more pronounced impacts ranging from -0.5 per cent in the Highlands region to -1.5 per cent in the Southern region. Real GRP reduces further by 2028, with the largest decline in the Highlands (-4.8 per cent) and other regions experiencing relatively lower but still significant declines ranging from -2.1 to -2.5 per cent respectively.

TABLE 2: IMPACTS ON REAL GROSS REGIONAL PRODUCT (GRP) (% CHANGES)

Region	2019	2023	2028
Southern	-0.5	-1.5	-2.5
Highlands	-0.2	-0.5	-4.8
Momase	-0.3	-0.9	-2.2
Islands	-0.3	-1.3	-2.1

Source: FTI Consulting model simulation results.

There are also adverse impacts on regional employment as shown in Table 3. Although the initial employment impacts in 2019 are small, with zero impacts in the Highlands and

Islands, by 2028 the employment losses are as high as -3.1 per cent in the Southern region.

TABLE 3: IMPACTS ON REGIONAL EMPLOYMENT (% CHANGES)

Region	2019	2023	2028
Southern	-0.7	-1.6	-3.1
Highlands	0.0	-0.5	-2.2
Momase	-0.1	-0.2	-0.2
Islands	0.0	-0.1	-1.8

Source: FTI Consulting model simulation results.



Wholesale street vendor selling mostly illicit cigarettes including variants of Marlboro Red and Marlboro Blue. Only eight packets of Cambridge King Size are legal, Kamkumung in Lae, October 2018.

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4. ADDRESSING PNG'S ILLICIT TOBACCO PROBLEM

Addressing illicit tobacco in PNG requires strong leadership, effective coordination between agencies and a focused effort of well targeted actions. We have identified a series of actions aimed at severely hampering the flow of illicit tobacco products in PNG.

The clear focus is on adopting a more targeted approach and significantly enhancing the effectiveness of detection and enforcement. If implemented, these actions should result in increased seizure and destruction of illicit tobacco, increased government revenue associated with tobacco excises and duties as well as broader government taxes.

1. A Taskforce should be established to focus PNG Government efforts on improved detection and enforcement of illicit tobacco (and other illicit goods)

A Taskforce should be established which meets the following principles:

- **Independent** – be independently led and ideally have bipartisan support
- **Dedicated resources and powers** – have dedicated resources that can be directed by the Taskforce and legislative powers that enable it to take direct action
- **Accountability** – have clear objectives and measurable outcomes to guide the Taskforce's activities
- **Transparency** – report and be transparent about the Taskforce's success in addressing illicit tobacco, both to highlight the effectiveness of its efforts and to further discourage illicit behaviour.

The Taskforce should include resources from the key enforcement agencies responsible for tackling illicit tobacco and other goods. At a minimum, this should include dedicated Customs, Police, Armed Forces and Border Control staff. Other relevant government entities should also be engaged such as PNG Ports and Post PNG.

The primary focus of the Taskforce should be increased detection of illicit products resulting in:

- Increased revenue collection (from excise taxes and import duties) particularly where tobacco products otherwise meet the packaging and health warning legislative requirements
- Increased seizure and destruction of tobacco products that do not meet the legislative requirements
- Prosecution of offending companies and individuals.



A retail outlet selling five domestically produced brands (right) and seven illicit imported brands (left), Kimbe October 2018.

The Taskforce should be broadly focused on identifying the range of illicit products, as the trade of illicit tobacco often coincides with the trade of other illicit and excisable products. Various sub-committees should be established targeting different types of illicit products, with one of those sub-committees clearly focused on tobacco.



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Having a dedicated sub-committee for tobacco balances the need for focused resources and outcomes related to tobacco with the benefits of sharing of information about supply chains, importation methods and other intelligence across other illicit products and activities.

While a range of models for the Taskforce's operations are possible, the Taskforce should be chaired by an independent person appointed by Government, ideally with bipartisan support. The Taskforce should not include representatives of industry, but it is important that the Taskforce works closely with industry. This could be achieved either by including industry representatives on an Advisory Committee or establishing agreements or Memoranda of Understanding – to share information that may assist it in identifying illicit tobacco sources and implement joint initiatives such as public education and awareness campaigns.

The Taskforce should be vested with the appropriate legislative powers to support its inspection, seizure, enforcement and prosecution activities. It needs to be able to direct relevant staff, and to operationalise system and procedural changes to respond quickly to market intelligence and analysis, which is likely to change quickly as illicit traders respond to increased enforcement efforts. It should not report to or be subject to the direction of other agencies.

The initial resources for the Taskforce should comprise existing staff resources from within Customs, Police, Immigration, Health and Armed Forces, and could also include representation (or alternatively close consultation) from PNG Ports and Post PNG. It is not clear whether these resources need to be supplemented to maximise effectiveness of the enforcement effort. However, this could be informed by the initial success of the Taskforce's activities and funded if required from the additional excise and import duties collected.

Accountability for results is important. The Taskforce's outcomes need to be clearly measured and reported publicly to provide confidence that it is operating effectively and making progress towards eliminating illicit tobacco.

The key performance indicators or measures of success should include the following:

- Value of excise and import duties collected from imported tobacco products
- Quantity and value of illicit tobacco products seized and destroyed

- Successful prosecutions for importation of illicit tobacco products.

The Taskforce should report regularly to the National Executive Council on its activities, effectiveness and emerging issues.

The information collected should be verified independently and made publicly available to enhance confidence of the effectiveness of the PNG Government's efforts in tackling illicit tobacco, and to further deter the importation of illicit tobacco products.

2. Detection and enforcement should primarily focus on key entry points for illicit tobacco

Enforcement should be focused on the key entry points for illicit tobacco products. These are primarily major seaports (Lae, Motukea and other larger coastal ports), road border cross points with Indonesia and larger air and mail cargo.

The high rates of illicit cigarettes at Vanimo suggest that effective detection and enforcement along the land and sea border with Indonesia is critical to being able control the entry of illicit tobacco and other products into PNG.

Entry via major ports such as Motukea and Lae needs to be carefully monitored and controlled, and there should also be an increased focus at secondary ports such as Kokopo, Madang and Kimbe to ensure that illicit products are not diverted.

The PNG Government should work closely with PNG Ports to monitor changing trends in trade volumes and declared products at all ports to identify any diversion strategies of illicit tobacco importers.

Ongoing training should be provided to enforcement officers on detection of illicit tobacco at all locations.

The PNG Government should review existing guidelines dealing with the disposal and destruction of seized tobacco to ensure that the procedures are efficient, effective and secure.

Destruction of illicit tobacco seized should be conducted by an entity that is separate from the detection and seizure entity to provide a check on any tobacco products that are illegal syphoned after being seized.

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3. *Government should invest in additional detection at Lae and other major ports*

As a starting point, PNG Government should enhance its detection and enforcement efforts by:

- Enacting existing provisions under the Tobacco Control Act declaring enforcement officers
- Drawing together existing staffing and other resources to provide specific focus on targeting illicit tobacco through a Taskforce (as recommended above).

Additional resources will enable the Taskforce to achieve more effective detection and enforcement.

PNG Government needs to significantly enhance detection and examination equipment at Lae and other secondary ports. Additional information should also be collected to:

- Assess the extent to which the equipment is being efficiently used (i.e. the number of inspections conducted as a proportion of total containers imported)
- Monitor any increases in trade volumes which may signal a movement of illicit tobacco products through different ports.

4. *Importers of tobacco products should be licensed or require a permit*

The PNG Government should make Regulations to require permits for all tobacco imports (except for tobacco imported by travelers within duty free limits). This would make it easier to take enforcement action and seize tobacco where no duty has been paid, increasing the deterrent against illicit tobacco smuggling.

An appropriate prescribed fee could be levied for the tobacco importation licences or permits which could help to fund the ongoing cost of tackling illicit tobacco in PNG.

5. *Prohibitions on selling illicit cigarettes and cigarette sticks should be actively enforced*

Allowing cigarettes to be sold as sticks rather than packs reduces confidence that cigarettes meet regulatory requirements and provides the opportunity for illicit cigarettes to be sold as genuine products.

Enforcement officers should increase their efforts at enforcing existing laws including by confiscating from vendors any cigarettes that do not meet PNG packaging laws including health warnings, language requirements or are sold individually or in packs of less than 25 sticks. Vendors who continue to sell illicit cigarettes should lose their retail licences.

From an illicit tobacco point of view, the PNG Government may wish to consider whether to allow a smaller and more affordable pack size to balance affordability and enforceability of tobacco legislation. Smaller pack sizes have previously been trialed in PNG and other countries.

Irrespective of whether the PNG Government chooses to review existing pack sizes, it is critical that enforcement officers actively enforce existing laws to prevent the widespread availability of illicit tobacco products.

6. *Government should review existing legislation against best practice, and ensure that existing penalties and sanctions provide appropriate deterrence*

The PNG Government should undertake a legislative gap analysis to ensure that existing tobacco laws remain current and reflect best practice. The gap analysis should involve:

- Enacting all existing legislative provisions to ensure that illicit tobacco is subject to the full force of existing laws
- Extending the range and level of existing penalties as recommended above
- Enhancing existing legislation to reflect international best practice.

The system of penalties and sanctions in relevant legislation should be expanded to include:

- Seizure of goods, vehicles and vessels
- Seizure of cash and assets as part of the proceeds of crime
- Criminal prosecution with significant custodial sentences
- Financial wrongdoing penalties up to the value of the excise and import duties due (i.e. doubling the cost of duties for a false declaration)
- Civil action
- Prohibition of the importation or sale of tobacco products for a defined period
- Withdrawal of any applicable importation, manufacturing or retailing licences
- Immigration sanctions to refuse entry to PNG for tobacco smuggling
- Public naming and shaming.

The level of penalties should recognise the economy-wide impact and harm created by illicit tobacco and be consistent with penalties for drug dealing and other serious crimes.

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7. *Additional enforcement should be accompanied by a public education and awareness campaign*

Public education campaigns should be conducted to better inform the community about illicit tobacco and enhance their awareness of the following:

- How to recognise a genuine tobacco product from an illicit tobacco product (e.g. cigarette and package markings)
- The adverse economic, health and community impacts of illicit tobacco in PNG – which could draw on the results of this Study
- The general tax and legal requirements related to tobacco in PNG, and importance of collecting appropriate excise and duties on imported goods to benefit PNG people.

These campaigns could be funded and administered jointly by the PNG Government and industry, including through funds generated by more effective collection of excise taxes and import duties on imported tobacco products.

8. *Cooperative bilateral agreements should be pursued*

The PNG Government should pursue cooperative bilateral agreements with neighbouring countries focused on sharing information and coordinating enforcement actions among customs, tax and other authorities.

Key tobacco importing countries such as Indonesia and China should be considered, as well as other transit countries such as Malaysia, Philippines and Vietnam.

There may also be opportunities to enhance surveillance, enforcement and intelligence gathering efforts through greater cooperation and collaboration with provincial governments.

9. *The Government should develop a better understanding of the market for brus*

The PNG Government should commission a review of the market for brus to develop a better understanding of:

- How brus is being grown, distributed and sold
- How the commercialisation of brus contributes to employment, and economic and regional development
- The impact of commercial brus growing on agriculture and food production
- The health and other impacts of brus compared to manufactured tobacco products.

Undertaking such research will enable the PNG Government to take a more considered approach to the development of the market for brus and the approach to regulation.

10. *The Government should review the effectiveness of policy measures in three years and further adapt its strategies to deal with a changing market*

The PNG Government should fully implement previous commitments made under the Medium Term Review Strategy 2018-2022 to address smuggling and improve excise revenue collection for goods, including tobacco.

Through the Taskforce, it should also enhance its data collection, monitoring and review of existing measures. More focused data collection will support the measures outlined above by:

- Focusing and redirecting resources if required to reflect changes in how the market responds to the implementation of new initiatives
- Facilitating evaluation of the effectiveness of these measures and whether they should be adapted based on changes in illicit markets
- Enabling alternative approaches to be used to estimate the extent of illicit tobacco in PNG in future.

In three years' time, the PNG Government should review the effectiveness of actions taken to address illicit tobacco, and further develop its longer-term strategy and approach.

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