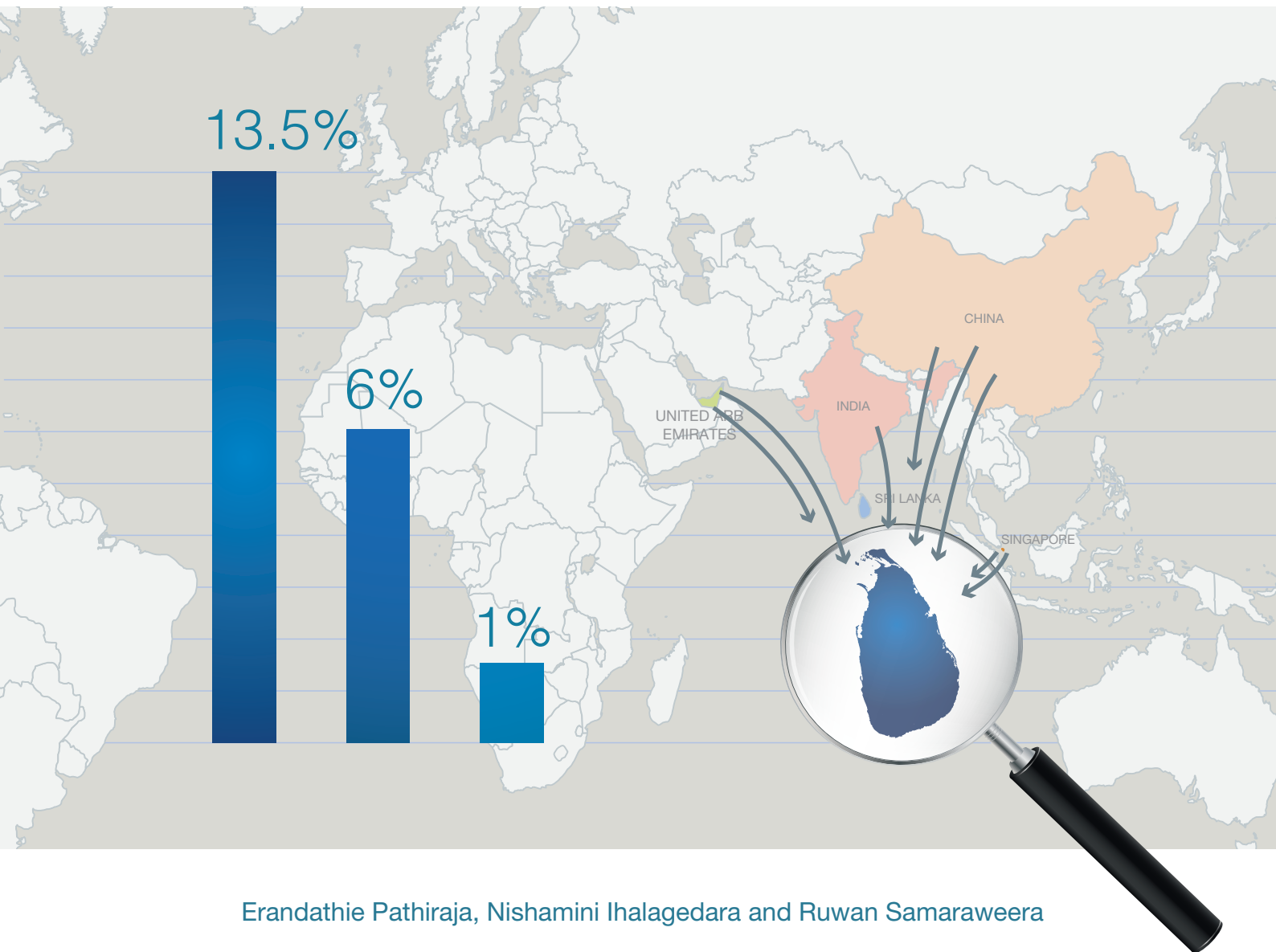


Tobacco Smuggling in Sri Lanka

- A Scoping Study -



Erandathie Pathiraja, Nishamini Ihalagedara and Ruwan Samaraweera

Occasional Paper Series No. 75

July 2025



INSTITUTE OF POLICY STUDIES OF SRI LANKA



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Acronyms

ADIC	Alcohol and Drug Information Centre
CPI	Corruption Perception Index
CTC	Ceylon Tobacco Company
DOE	Excise Department of Sri Lanka
EU	European Union
FCTC	Framework Convention on Tobacco Control
HIES	Household Income and Expenditure Survey
NATA	National Authority on Tobacco and Alcohol
SLC	Sri Lanka Customs
WHO	World Health Organization

Executive Summary

Maintaining a high tax rate (Excise Tax) is often regarded as a successful method for abating tobacco product consumption worldwide. The World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) recommends a minimum of 75% share of tax on the retail price.

Illegal tobacco trade arises when prices change significantly across borders due to disparities in government taxes or the availability of locally and globally produced illegal products for tax evasion. However, illicit trade is not only driven by financial opportunities created through high tax rates but also by affordability, the extent of corruption, enforcement efficacy, and cultural and sociological causes. The licit industry participants claim that elevated tax rates are the primary driver of increased contraband and thus advocate lower tax rates on tobacco products. Globally, studies on this reasoning have yielded conflicting results due to the diverse circumstances in which it is applied, erroneous calculations, industry-funded research, and direct and indirect involvement of the industry in smuggling.

Over 11% of the global cigarette market is considered illicit and operates as a worldwide industry. Smuggling allows selling the products at a rate lower than the market price, which hampers the effectiveness of local tobacco control policies. Low prices make products more affordable for consumers, particularly low-income individuals and youngsters. Furthermore, discouraging labelling and packaging standards, such as visual warnings, are ignored in smuggled products. It deprives the government of tax revenue and strains healthcare costs.

Evidence supports the smuggling of tobacco products and the existence of an illicit market for tobacco products in Sri Lanka. However, estimating the smuggled market share becomes difficult due to its illegal nature. Moreover, using an indirect method is constrained by the unavailability of a representative consumption estimate for the country and data discrepancies. The Household Income and Expenditure Survey (HIES) represents nearly 10% of the taxed and issued cigarettes by the Ceylon Tobacco Company (CTC) to their agents. Other consumption estimates from various surveys (ADIC, GATS, and STEPS) also underrepresent the consumption (49%, 57%, and 84%, respectively). The average seized volume reported by Customs is 0.12% of the legal supply. The tax saved from seized cigarettes is around 0.25% of the revenue collected. Industry statistics state a 6% market share for illicit cigarettes based on the drop in demand, and two other studies estimate 14%-22% market share using a cigarette butt analysis and assuming inelastic demand. However, the positive influence of various other tobacco control policies on curbing cigarette consumption should not be undermined in the absence of a local substitute in making these estimates. A tax gap analysis by the WHO has shown a 0.2% revenue gap due to smuggling.

The mirror statistics show reporting discrepancies, indicating possible smuggling with the involvement of Customs. Enhancing transparency through digitalisation would help to minimise corruption through these channels, as studies from other countries have shown a close relationship between corruption and smuggling. Additionally, Sri Lanka's Corruption Perception Index (CPI) is on the decline. The reported smuggled volume has declined, while the frequency of seizures has increased, possibly due to enhanced border protection.

Regardless of the tax rate, the revenue collected has been increasing in nominal terms while the real revenue has been on the decline. It shows the possibility of a further tax increase to influence affordability. However, high taxes should be complemented with the enforcement of anti-smuggling and anti-corruption regulations to increase the cost of smuggling. For instance, the cost of smuggling can be raised through higher penalty payments, prosecution, and reward mechanisms for the officers.

As the WHO-FCTC suggests, tracing and tracking mechanisms need improvement through new technology and regional cooperation. Most seized cigarettes are linked to tax-free zones of the region and international passenger transits. The possibility of concealing with other goods due to its low weight makes it harder to detect at ports.

Therefore, licensing the whole supply chain, including the retailers, and improving traceability and control over operations is crucial. Meanwhile, retail sales and transportation of illegal tobacco should be banned, with legal enforcement and a reward for the public for providing information to the relevant authorities. Introducing digital Excise Tax stamps for legal cigarettes would help detect illicit cigarettes. Demand for smuggled cigarettes can be lowered through public awareness of smuggled cigarettes and their health impacts.

Acknowledgements

This study was conducted as part of the Tobacco Control Programme, funded by Cancer Research UK (CRUK), and was continuously guided by KIVU International, UK.

The authors wish to express their sincere gratitude to Dr. Nisha Arunathilake, Director of Research at the IPS, and Dr. Sajeewa Ranaweera, a distinguished member of the Drug, Alcohol, and Tobacco Expert Committee of the Sri Lanka Medical Association (SLMA), for their unwavering guidance and review of the paper.

We express our profound gratitude to the Sri Lanka Customs and the Department of Excise for providing the requisite data and for their generous clarifications on numerous matters.

The support of the IPS publication team in producing this publication, along with the extensive assistance from the research and support staff, is greatly appreciated.

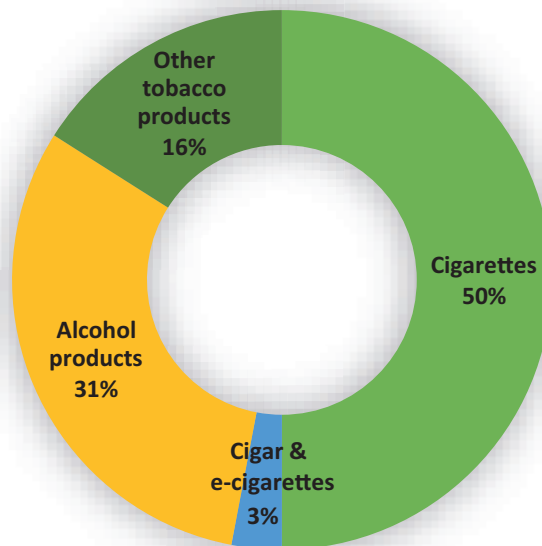
1. INTRODUCTION

1.1 Background

Smuggling is the illegal trade of specific goods across borders. Trade regulations, taxes, prohibitions, weak institutions, and poor infrastructure influence the movement costs of those goods across borders (Gallien & Weigand, 2021). Globally, the most frequently smuggled excise good is cigarettes, which constitute 50% of Customs seizures (Figure 1.1) (World Customs Organization, 2022). For instance, among 87 reporting countries, a total of 22,133 seizures were reported in 2022, which captured around 2.3 billion (Bn) pieces of cigarettes in total and is nearly 1.3% of global consumption. The prominent routes originate from the Middle East and Eastern and Central Europe. Over 11% of the worldwide cigarette market is considered illicit and operates as a global industry (Gallien & Weigand, 2021), which has repercussions on other illegal activities, government revenue losses, and the effectiveness of tobacco control policies. For example, cigarette smuggling is considered a threat to national security, given that it opens avenues for many illegal activities, such as expanding the black market, funding terrorism, committing crimes, laundering money, and corruption. Further, it is a form of transnationally organised crime (TOC) which extends financial assistance to many terrorist groups, leading to crimes. Therefore, the illicit trade of tobacco products is considered a global threat.

Figure 1.1

Percentage of Seizures of Excise Goods by Product Category, 2022-World



Source: World Customs Organization. (2022). Enforcement and Compliance. Illicit Trade Report 2022: Revenue. Brussels: World Customs Organization.

The World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) recommends a minimum of 75% share of tax on the retail price of tobacco products and the adoption of the WHO protocol to eliminate illicit trade in tobacco products by the treaty signed in Seoul on 12 November 2012. The treaty came into force in 2018, and as of currently, there are 54

The World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) recommends a minimum of 75% share of tax on the retail price of tobacco products.

signatories and 65 parties. Maintaining a high tax rate (Excise Tax) is often regarded as a successful method for significantly reducing tobacco product usage worldwide. Smuggling allows selling the products at a rate lower than the market price, which hampers the effectiveness of local tobacco control policies. Low prices make things more affordable for consumers, particularly low-income individuals and youngsters. Furthermore, discouraging labelling and packaging standards, such as visual warnings, are ignored in smuggled products. Illegal tobacco trade arises when the prices change significantly across borders due to differences in government taxes or the availability of illegally produced products globally and locally for tax evasion. Hence, it deprives the government of tax revenue and increases healthcare costs. Entering unsafe tobacco

products on the market further enhances the health risks to consumers. However, illicit trade is driven not only by financial opportunities created through high tax rates but also by affordability, the amount of corruption, enforcement efficacy, and cultural and sociological causes (Laffer, 2016).

The licit industry participants claim that elevated tax rates are the primary driver of increased contraband and thus advocate lower tax rates on tobacco products (Gallien & Occhiali, 2021; Nguyen & Nguyen, 2020). However, studies on this reasoning have yielded conflicting results due to the diverse circumstances in which it is applied, erroneous calculations, and industry-funded research.

For instance, a comparative study revealed that the prevalence of cigarette smuggling is lower in the European Union (EU) countries than in Sub-Saharan Africa, despite the EU's relatively higher taxes and tariffs (Boesen, 2019). A study in Vietnam shows that raising tobacco taxes does not necessarily increase illicit cigarette consumption (Nguyen & Nguyen, 2020). Another study conducted in 12 cities in various nations, using point-of-sale and discarded pack data, found an increase in the availability of illicit white cigarettes (Bate, Kallen, & Mathur, 2020). The study further suggests that policymakers should complement high taxes with enforcement of anti-smuggling and anti-corruption regulations to make tobacco control policies effective (Bate et al., 2020). Estimates have revealed that a 1% improvement in the Corruption Perception Index (CPI) is linked to a 2% reduction in tobacco smuggling (Merriman et al., 2013).

On the contrary, a study conducted in Sierra Leone has shown that the increase in the cigarette tax rate in the absence of other formal control policies has not increased smuggling (Gallien & Occhiali, 2021). Another study in the United Kingdom (UK) found that early tax spikes increased smuggling. However, it was eventually defeated by an ambitious tobacco control policy implemented in 2000, which resulted in a high tax rate while keeping smuggling minimal. Furthermore, a UK newspaper article review research based on quantitative content analysis revealed industry funding for studies and the use of media to highlight the significance of smuggling while linking it to tobacco control policies, such as boosting taxes and labelling (Evans-Reeves et al., 2020).

Tobacco smuggling is considered a way of tax evasion in many studies (Bensassi & Siu, 2021). However, it is found that contrary to the tobacco industry's arguments, taxes and prices have only a limited share in the illicit cigarette market at the country level, while taxes remain a highly effective policy tool in curtailing the adverse health effects of tobacco consumption (Chaloupka, Straif, & Leon, 2011). Most analyses have often focused on prices, taxes, and regulatory instruments, while the drivers of smuggling are much more diverse. The connection between the global cigarette industry and smuggling networks shows that these are unlikely to be isolated. Furthermore, tobacco product smuggling is the most prevalent, despite its modest returns relative to other valued items. As a result, policymakers and researchers are becoming increasingly concerned about the non-price drivers of smuggling (Gallien, 2021). The cost of smuggling, which includes transportation, reselling, risk of punishment such as fines and jail, bribing the Customs and border protection officers, evasive action to avoid detection, and selecting specific routes and precautions, are decisive factors for people to engage in smuggling which vary across borders (Merriman et al., 2013). Some research has highlighted that the level of corruption and tobacco smuggling in countries is interrelated, and the participation of state actors is prominent (Boseley, 2017; Gallien & Weigand, 2021; Heuser, 2019). Other than that, the direct and indirect involvement of the legal tobacco industry in smuggling is evident in some country-based research (Gallien & Weigand, 2021). However, in recent years, the industry has influenced tobacco control policymaking while "re-positioning" itself as a victim of smuggling. Some evidence from country studies has identified the industry funding for academics, think tanks, consultancies, and research institutions such as the International Tax and Investment Centre (ITIC), the Economist Intelligence Unit (EIU), and KPMG. In addition, some independent initiatives are evident in academic institutions, such as the University of Bath to make aware of the ethics of funding sources, study the tactics of the tobacco industry and refine methods for studying smuggling (Walton, Plonski, Yousef, Goodhand, & Meehan, 2018). Therefore, smuggling is a context-specific and complex area to study.

Sri Lanka is a party to the WHO protocol to "eliminate illicit trade in tobacco products" and has been at the accession level since 8 February 2016. Evidence supports the smuggling of tobacco products and the existence of an illicit market for tobacco products in Sri Lanka (Ada Derana, 2018; Ceylon Independent, 2018; Customs Today, 2017; Sri Lanka Navy, 2022)(Colombage et al., 2018).

However, due to data inadequacies, the context and scale of the illicit market are not adequately characterised or measured. Hence, the policy decisions are possibly misguided by speculations and industry arguments (Weerasekera, 2019). One perspective put forth by the tobacco industry is that imposing high taxes beyond the revenue maximisation point may result in diminished government revenues and could potentially encourage smuggling activities. However, it is evident that many countries are still below the threshold of revenue-maximising tax rates for tobacco products, while revenues are rising (Nor et al., 2013; Tobacconomics, 2018) and addictive behaviour slows down the consumer response rate with inelastic price demand across countries, including Sri Lanka (-0.53)(Laffer, 2016). Therefore, high tax rates are necessary to bring about major shifts in consumption across various income levels (Arunatilake & Opatha, 2004). Furthermore, increasing the Excise Tax has numerous aims, including promoting public health, preventing children from starting to smoke, and reducing externalities. This study seeks to address information gaps in the illicit trade of smoking tobacco products, which serves as a foundation for future research and tobacco sector policy formulation.

1.2 Objectives

This study aims to investigate the scope and causes of the illegal tobacco trade, laying the groundwork for future research and policymaking.

Specific objectives

The specific objectives of the research are to;

- a. Determine the extent and nature of tobacco smuggling.
- b. Identify major drivers of the illegal tobacco trade.
- c. Identify regulatory and enforcement methods.
- d. Provide recommendations for policy actions and further research.

2. LITERATURE REVIEW

As much as its importance, quantifying smuggling data has been a challenge for researchers due to its illegal nature. In general, five techniques are used for assessing smuggling: expert consultation, interviewing smokers, tobacco trade monitoring, and comparing consumption using surveys and econometric analysis (Merriman et al., 2013).

Quantification is necessary for policymakers to confront policy-related arguments that can impact governments' economic and social aspects. Despite other criteria, the accuracy of smuggling has become a major concern. This section explores the different methodologies adopted in smuggling-related research studies.

According to the literature, smuggling activities can be identified in two different forms: Missing Trade and Hidden Trade. Missing Trade is the declaration of goods correctly by the respective country but not in the Customs of the other country (Bensassi & Siu, 2021). Exporting countries are more transparent due to the unavailability of incentives to hide information from the export destination. However, the importing country's border and tobacco taxes incentivise tax evasion. Misclassification and under-invoicing are two causes of Missing Trade. The data related to Missing Trade can be accessed via the discrepancies in the Customs records of the two countries. Hidden Trade has become an extreme challenge in collecting data owing to the absence of records. However, excluding the Hidden Trade factor can underestimate the smuggling capacity (Gallien & Weigand, 2021).

$$\text{Smuggling} = \text{Missing Trade} + \text{Hidden Trade}$$

Bhagwati (1964) introduced the mirror statistics method for smuggling studies to estimate Missing Trade. Mirror statistics or trade gaps use publicly available data, such as the United Nations (UN) Comtrade or Trade Map databases. However, it is challenging to rule out other reasons causing data discrepancies, such as time differences in reporting and customs reporting errors. This method covers smuggling that happens with the involvement of Customs.

Bhagwati's method was further developed by Fisman & Wei (2004) and applied to econometric analysis. It helps to find tax evasion through underreporting of quantity and prices, as well as misclassification of products. Furthermore, this trade gap method was used in the studies to examine the relationship between the trade gap and corruption, trade agreements, and political contexts. The findings of those studies show that the trade gaps are impacted by the corruption of both the importing and the exporting country, and the tariff levels of the importing country.

Another method used in quantifying Missing Trade is the Price Filter method (Bensassi & Siu, 2021). The price filter method is used to capture the below-priced goods at customs. Here, the 'Recorded Price' and the 'Arm's Length Price' of a particular good are compared to identify the Missing Trade activities. However, none of those methods cover non-recorded trade from both countries, which is "Hidden Trade" or informal trade through informal border crossings.

$$\text{Total Trade} = \text{Reported Trade} + \text{Missing Trade} + \text{Hidden Trade}$$

In recent studies, researchers have emphasised the importance of considering both the data on Missing Trade and Hidden Trade when estimating smuggling activities. The assumption that this data are negligible significantly affects the outcome and reality.

Studies conducted in African regions have relied on surveys to collect data from traders involved in informal trade (Gallien & Weigand, 2021). Identifying the respondents and getting information from them is difficult, considering it is illegal. Hence, those studies do not accurately estimate the Hidden Trade. However, it helps to understand the mechanisms of smuggling and the incentives for diverse groups to get involved in it. Using custom-level transaction data improves the precision of mirror statistics when Customs have digitalised their operations. Therefore, complementing qualitative data with quantitative data and triangulating different data sources across disciplines will enhance the holistic picture of smuggling.

Most studies have used primary data collection approaches to estimate and better understand the context of smuggling. For example, research done in 13 cities in geographically distant nations and five locations in the Eastern United States employed three approaches to gather evidence for smuggled cigarettes, including point-of-sale interviews, smoker interviews, and a discarded pack analysis using convenience sampling (Bate et al., 2020). A study conducted in Vietnam used a household survey in two different periods to compare the impact of a tax increase on illicit cigarette purchasing behaviour. The survey included data on socioeconomic status, cigarette packs, prices, and brands collected from 2,700 smokers above 18 years of age using multistage classified cluster sampling (Nguyen & Nguyen, 2020). A study to estimate the levels and trends in cigarette contraband in Canada compared tax-paid sales with consumption estimates from survey data and individual interviews to understand smoking and purchasing behaviour (Guindon et al., 2017). Their study concluded that the contraband has reduced over time due to federal and provincial-level policy enforcement to control contraband. Similarly, the illicit tobacco trade trend was analysed using household survey data from 1998 to 2018 in the Philippines. This study estimated the gap between legal sales and consumption and concluded that the illicit market share is independent of the regular tax hikes (Lavares et al., 2022). Illicit cigarette trade in Thailand was analysed using the taxed sales and the estimated consumption from surveys, while the export-import reporting variances were used to estimate the illicit trade through borders (Bailey et al., 2013). However, the gap analysis was far from success due to the underestimation of consumption through surveys or hoarding from the industry, while the mirror statistics could be estimated.

A newspaper article analysis in the United Kingdom (UK) has shown that the tobacco industry's funding influences media coverage to emphasise that standardised packaging increases illicit trade. (Evans-Reeves et al., 2020).

A scoping literature assessment of research articles published in 2022-2024 on the influence of tobacco control policies on illegal tobacco trade found that most studies focused on Excise Tax policies, among other control measures (Banks et al., 2017). Half of the research found growth in the illegal tobacco trade, while the rest showed a neutral outcome.

Estimating the optimum Excise Tax rate for cigarettes using the Lafer Curve equation for Malaysia has found that the tax rates are still below the optimum, and these can be further increased to raise government revenue and curb consumption while simultaneously enforcing regulations against illegal cigarette trade (Nor et al., 2013). Although higher Excise Tax rates may contribute to short-term illegal cigarette trade, the long-term benefits include increased government revenue and reduced consumption rates (Merriman et al., 2013).

3. DATA AND METHODOLOGY

Several previous studies have attempted to identify the nature of smuggling and quantify the volumes using various direct and indirect methods based on data availability and reliability. This study attempted to analyse various secondary sources of data to understand the context, and conduct a gap analysis that indirectly estimates the illegal market size due to the disparities between total estimated consumption and the sum of legally produced and imported (taxed) quantities (Merriman et al., 2013).

Key industry statistics on the local level, such as production, sales, tax rates, and reported smuggled volumes, were collected from the Sri Lanka Customs (SLC) and the Excise Department of Sri Lanka (DOE). Global trade statistics were obtained from the trade databases, UN Comtrade and Trade Map. Statistics published in newspapers on seized tobacco products were gathered by reviewing English e-newspapers from 2017 to 2023. Regulations on tobacco control were also reviewed, which were available through the National Authority on Tobacco and Alcohol (NATA), the SLC, the DOE, and the WHO sources. Consumption data were available in the Household Income and Expenditure Survey (HIES) of the Department of Census and Statistics (DCS, 2019). Household surveys are considered more independent in estimating tobacco consumption. However, certain underreporting would occur due to its socially unacceptable nature, where underreporting patterns could be observed (Merriman et al., 2013). Therefore, other local and global survey data sources were also used to compare the consumption data estimates; the Global Adult Tobacco Survey (GATS) (DCS, 2020), the Global Youth Tobacco Survey (GYTS) (World Health Organization (WHO), 2016), WHO's STEPwise Approach to Surveillance (STEPS) Survey (Ministry of Health, 2021), and the Tobacco Trend Survey of Alcohol and Drug Information Centre (ADIC) (ADIC, 2019).

$$\text{Total Gap} = \text{Total Consumption} - (\text{Total Production} + \text{Total Imports})$$

The gap analysis was conducted annually for 10 years by deducting the annual sales and the annual imports from the estimated annual consumption. The calculated gap in cigarette quantity was compared with the records of smuggled cigarettes obtained from the SLC. It is supposed

to provide some insights into Hidden Trade and Missing Trade. Mirror statistics were used to understand the reporting disparities between exporting and importing countries, providing insight into Missing Trade or smuggling at Customs, where tobacco products are taxed. Importing countries tax tobacco products. There is an incentive for misreporting by Customs, with the potential for importers to bribe Customs officials. Data from the Trade Map database were compared for reporting disparities between countries.

Reported smuggling data from various sources were triangulated to check the disparities in reporting. Official data on seized smuggling were obtained from the SLC, while a review of English e-newspaper articles from 2009 to 2023 was conducted to capture the smuggling incidents reported in informal sources. However, e-newspaper articles on the illicit tobacco trade were mostly available starting from 2017 onwards, with one article dating back to 2009. A cross comparison was done with the Ceylon Tobacco Company (CTC) and the Research Intelligence Unit (RIUNIT) publication data on cigarette smuggling. Table 3.1 summarises the study's objectives, data, and methods.

Table 3.1

Proposed Study Objectives, Data Sources, and Methods

	Objective	Data/Methods
I.	Determine the extent and nature of tobacco smuggling	Review and triangulate secondary data sources (from various government authorities (Customs, Navy, Newspapers), identify the smuggling destinations, shipping and trade corridors, brands, and local regulations on tobacco products smuggling. Conduct a gap analysis.
II.	Identify major drivers of the illegal tobacco trade	Review of literature, secondary data sources/databases, key informant interviews, and making data requests for the relevant authorities.
III.	Identify current legal frameworks and enforcement methods	Review the regulations available from the official websites of the authorities.
IV.	Provide recommendations for policy actions and further research	

Source: Authors' compilation.

4. POLICIES AND ENFORCEMENT MEASURES

The evolution of tobacco control laws in Sri Lanka includes several key legislations enacted between 1999 and 2020. These laws seek to regulate various aspects of tobacco control, including taxation, packaging, and labelling, the establishment of regulatory authorities, and restrictions on tobacco promotion. The Tobacco Tax Act, No. 8 of 1999, imposed a tax on cigarettes, cigars, beedi, cigarette substitutes and every kilogramme (kg) of pipe tobacco manufactured in Sri Lanka. This legislation concentrated mainly on the financial aspect of tobacco control and sought to decrease affordability.

Aligning with global efforts, Sri Lanka ratified the WHO Framework Convention on Tobacco Control (WHO-FCTC) on 11 November 2003, being the fourth country globally and the first in the South Asia region. The treaty aimed to protect present and future generations from the consequences of tobacco consumption and exposure to smoke. Later, on 8 February 2016, Sri Lanka acceded to the Protocol to Eliminate Illicit Trade in Tobacco Products (the Protocol). This protocol complements Article 15 of the WHO-FCTC on illicit trade and is built upon the principles of the Article, offering a more comprehensive and legitimate framework. The Protocol was designed to combat the global illicit trade of tobacco products, which poses a significant threat to public health, losses to government revenue, and funding for transnational crimes.

The Protocol aims to eliminate all forms of illicit trade of tobacco products through supply chain securing. This requires developing a global tracing and tracking regime underpinned by a collaborative information sharing platform that links national and regional tracking and tracing systems. Key approaches for effective supply chain management include licensing manufacturers and traders, maintaining record-keeping, ensuring due diligence, and regulating internet sales, along with addressing duty-free zones and international transits. Handling offences with provisions for liabilities, sanctions, seizure payments, discarding and destruction of confiscated products, international cooperation, reporting obligations, and holding meetings to move forward are comprehensively discussed.

Therefore, several amendments and new regulations were introduced locally to support the implementation of the WHO-FCTC convention from 2004 onwards and the “Protocol” since its implementation in 2016.

In 2004, the Tobacco Tax (Amendment) Act, No. 9, was enacted to strengthen taxation provisions and address emerging tobacco control challenges.

The National Authority on Tobacco and Alcohol Act, No. 27 of 2006, established the NATA to regulate and control tobacco-related activities. This legislation aimed to provide a centralised authority with the power to enforce tobacco control measures.

The subsequent appointment of authorised officers in 2007, under Section 16(a) of the NATA Act, No. 27 of 2006, strengthened enforcement capabilities. This step aimed to ensure compliance with tobacco control measures.

In 2011, the NATA Act, No. 27 of 2006 issued instructions to TV channels regarding the airing of programmes depicting smoking and drinking scenes. This initiative targeted the promotion of tobacco use in the media.

The Tobacco Products (Labelling and Packaging) Regulations, No. 01 of 2012, mandated standardised packaging and health warnings on tobacco products. This legislation focused on raising awareness about the harmful effects of tobacco use through clear and prominent labelling.

In June 2016, the Centre for Combating Tobacco (CCT), a tobacco observatory was established at the Faculty of Medicine, University of Colombo. The Centre aims to inspect tobacco industry operations and execute Article 5.3 of the FCTC to protect public health policies from the tobacco industry's influence.

In Sri Lanka, various government authorities and agencies are mandated to implement the Protocol and enforce tobacco control measures. The primary regulatory body is the NATA, which enforces the NATA Act, No. 27 of 2006. NATA implements policies to regulate the tobacco market, including combating illicit trade, while collaborating with other government institutions to enhance enforcement measures. Sri Lanka Customs exercises border control measures to prevent the smuggling of illicit tobacco products under the governance of the Customs Ordinance, Tobacco Tax, Act No. 8 of 1999, and the NATA Act, No. 27 of 2006. They conduct raids to seize counterfeit and smuggled tobacco and impose penalty payments considering the product value, the evaded tax amount, and repeated practice. Additionally, Customs implements tracking and tracing systems to detect illegal trade. These are currently overseeing the local cigarette production and collection of Excise Taxes. The DOE regulates the manufacturing, distribution, and taxation of tobacco products. The DOE conducts inspections and enforcement measures to tackle illegal trade in the country under the provisions of the Tobacco Tax Act, No. 8 of 1999, the Excise Ordinance, and the NATA Act, No. 27 of 2006. The Ministry of Health collaborates with the WHO and other international organisations to ensure compliance with global tobacco control protocols and raise public awareness to discourage illicit tobacco consumption. The Sri Lanka Navy, Police, and Criminal Investigation Department (CID) collaborate on investigations and arrests concerning the illegal tobacco trade, partnering with SLC and the DOE to enforce the law. The Financial Intelligence Unit (FIU) at the Central Bank of Sri Lanka, which was set up in 2006, oversees transactions tied to the unlawful tobacco trade to prevent money laundering linked to illegal tobacco operations. The CCT monitors tobacco industry interference and trends in illicit trade while offering research-based insights to enhance enforcement efforts. The Inland Revenue Department (IRD) oversees the duly collection of taxes from legal tobacco businesses under the Inland Revenue Act, No. 24 of 2017.

Tracking and tracing systems is a crucial commitment for Sri Lanka, as a signatory to the Protocol.

Conducting regular raids and seizures at ports and borders is costly. However, establishing tracking and tracing systems is a crucial commitment for Sri Lanka, as a signatory to the Protocol aimed at eradicating illicit trade in tobacco products. Striving for digital tracking and tracing mechanisms to strengthen Customs controls, Sri Lanka has launched a new tracking system for Customs declarations and containers in 2024. This initiative aims to enhance the integrity of the supply chain and combat the challenges posed by unlawful trade practices.

Table 4.1 summarises the chronological order of tobacco control regulations and amendments.

Table 4.1
List of Tobacco Control Regulations in Sri Lanka

Legislation	Year	Objective
Tobacco Tax Act, No. 8 of 1999	1999	To increase the prices of tobacco products as a deterrent to consumption.
Tobacco Tax (Amendment) Act, No. 9 of 2004	2004	To strengthen taxation provisions and address emerging challenges in tobacco control.
Notification Establishing the Effective Date of the National Authority on Tobacco and Alcohol Act, No. 27 of 2006	2006	Effective Date notification for the regulation.
Act No. 27 of 2006 on the National Authority on Tobacco and Alcohol (NATA)	2006	To regulate and control tobacco-related activities.
Government Notification: Appointment of Authorised Officers under Section 16(a) of the National Authority on Tobacco and Alcohol Act	2007	To provide a centralised authority with the power to enforce tobacco control measures.
National Authority on Tobacco Control Instructions to TV Channels Regarding Airing of Programmes Depicting Smoking and Drinking Scenes	2011	To reduce tobacco consumption by controlling the promotion of tobacco use in the media.
Tobacco Products (Labelling and Packaging) Regulations, No. 01 of 2012	2012	To focus on raising awareness about the harmful effects of tobacco use through clear and prominent labelling.
Regulations Amending the Effective Date of the Tobacco Products (Labelling and Packaging) Regulations, No. 01 of 2012	2012	Effective date notification of the regulation.
Regulation Amending the Tobacco Products (Labelling and Packaging) Regulations, No. 01 of 2012	2013	Amendment: Displaying the pictorial health warning on the top surface area of both front and back sides of every cigarette packet, package or carton containing cigarette and shall cover an area of not less than 80% of the top surface area of both front and back sides of every cigarette packet, package, or a carton.

Regulation Amending the Tobacco Products (Labelling and Packaging) Regulations, No. 01 of 2012	2014	Amendment: Pictorial health warning shall be printed on the top surface area of both front and back sides of cigarette packets, package or cartons containing cigarette and shall cover an area of not less than 60% of the top surface area of both front and back sides of every cigarette packet, package, or a carton.
National Authority on Tobacco and Alcohol (Amendment) Act, No. 3 of 2015	2015	Replacement of section 34 of the Act, No. 27 of 2006, to the prohibition of the manufacture, sale, import, etc., of tobacco products without health warnings and a label or a statement of tar and nicotine content, and how to display health warnings.
Prohibited Tobacco Products Regulations, No. 1 of 2016	2016	No person shall manufacture, import, sell or offer for sale any tobacco product specified in Schedule I and II Schedule I (a) any smokeless tobacco product or mixture that contains tobacco. Schedule II (a) any flavoured, coloured or sweetened cigarette that contains tobacco. (b) any electronic cigarette that contains tobacco
Ministry of Education Circular No. 20/2020	2020	Making the premises of educational institutes, zones free from using and promoting tobacco-based products, alcohol, and other related substances.

Source: Authors' compilation.

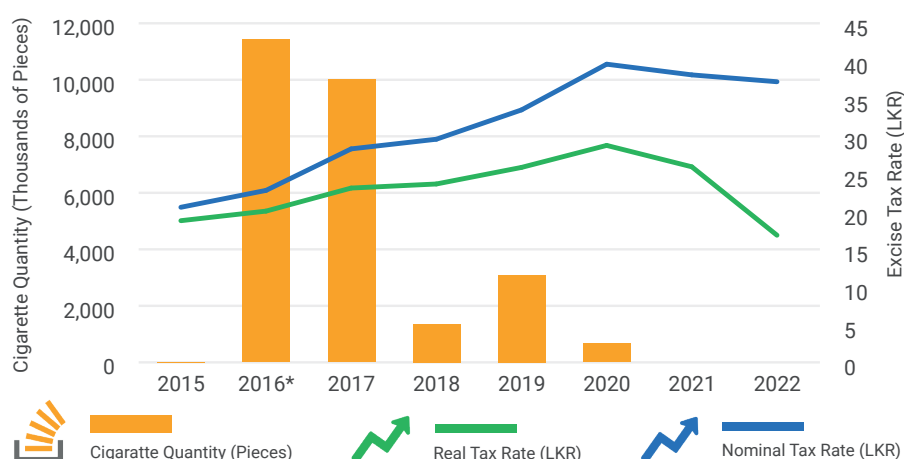
5. ILLICIT TRADE SCOPE AND ESTIMATION

This section presents statistics on smuggling from various sources and triangulates these for accuracy and consistency to better understand the country's illicit cigarette trade. According to the WHO-FCTC "Protocol", illicit trade is defined as "any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity" (WHO, 2013). Cigarettes are the main smoking-tobacco product, followed by beedi in the country. The CTC, part of the British American Tobacco Group (BAT) operating internationally, has the legal authority to import and manufacture cigarettes in Sri Lanka, which operates as a monopoly. Therefore, illegal cigarettes enter the local market through the borders due to no evidence of local manufacturing. In contrast, beedi is manufactured locally by 589 registered manufacturers, while 99% of the beedi wrapping leaves (Tendu) are imported. Hence, Tendu leaves are smuggled to avoid border charges and taxes. The industry claims that higher cigarette taxes primarily drive smuggling, highlighting the inadequacy of border control and enforcement mechanisms.

5.1 Illicit Trade Statistics of Tobacco Products

The SLC keeps records of illicit trade incidents of tobacco products seized at sea ports and airports. The other parties involved in the illegal trade seizure are the Sri Lanka Navy and the DOE. Infographic below shows the seized cigarette volume from 2015 to 2022 and the weighted average Excise Tax per stick. It highlights that the reported seizures were relatively high in 2016 and 2017, immediately before and after the increase in the tax rate. The reported seizures declined thereafter.

Sri Lanka Customs Reporting on Number of Illegal Cigarettes Seized vs Average Excise Tax Rate Per Year



Source: Author's Compilation based on data from Sri Lanka Customs.

According to the reported cases, the frequency of cigarette seizures grew from 2015 to 2020. However, no cases were reported in the following years, according to the SLC database, indicating improved monitoring at the border (Table 5.1). This may be attributed to the COVID-19-related travel bans, supply chain disruptions, and declining nominal and real tax rates in 2021 and 2022 (Infographic 1).

Table 5.1

Incidence of Cigarette Smuggling Seizures Reported by Sri Lanka Customs

Product	Year (Number of Seizures Reported)							
	2022	2021	2020	2019	2018	2017	2016	2015
Cigarettes	0	0	63	96	72	72	13	1

Source: Authors' compilation based on data from SLC.

Popular brands among the seized smuggled cigarettes are mentioned in Table 5.2. It does not display any pattern or preferred brand, although a range of brands appears. However, Business Royals, Top Mount, Gold Leaf, and Benson & Hedges are prominent in most years. Some of those brands are similar to the locally manufactured brands. The CTC brands are Dunhill, Benson & Hedges, John Player Gold Leaf, John Player Navy Cut, John Player Gold, State Express 555, Shuangxi International, Bristol and Capstan.

Table 5.2

Popular Smuggled Cigarette Brands based on Sri Lanka Customs Data

Year	Goods Description	Quantity (Pieces)	Value (LKR)
2022	Other smoking tobacco and tobacco substitute - No brand (Kg)	71,754	29,366,137
2021	n.a		
2020	Business Royals	463,000	13,922,901
	Gold Mount	289,960	17,001,600
	Gold Leaf*	246,300	14,633,200
	Benson & Hedges*	110,480	6,498,800
	Other (Business, Marlboro)	22,400	1,227,339
	Top Mountain	869,800	44,610,241
	Sovereign	866,800	12,111,050
2019	Jim Filter Kings	306,400	4,281,063
	Other (Gold Leaf, Benson & Hedges, Business Royals, Chinese, Platinum, Platinum Seven, Cavello, Seven Seas, John Player*, Marlboro, 303 Menthol, Zon King, Rothmans etc.)	1,037,720	84,805,740
	Gold Leaf	576,110	28,873,100

	Top Mountain	158,400	4,725,840
2018	Business Royals	117,720	6,120,000
	Other (Top Mountain, Benson & Hedges*, Gold Leaf*, Business Royals, Hongtashan, Lingun, Xiunshi, Yumyan, Hangtashan, Shuangshi*, Ninjing, Hungguashu etc.)	504,200	23,892,000
2017	Djarum	3,500,000	192,500,000
	Gold Leaf*, Luffman, Furongwang,	3,001,673	148,132,650
	Double Happiness, Hongtashan, Benson & Hedges* etc.	7,640,000	76,400,000
2016	Jim Filter King	3,780,800	36,360,000
2015	Mac, Chinese, Violet Slims Ultimate, Top Mountain etc.		
	Benson & Hedges*	3,600	139

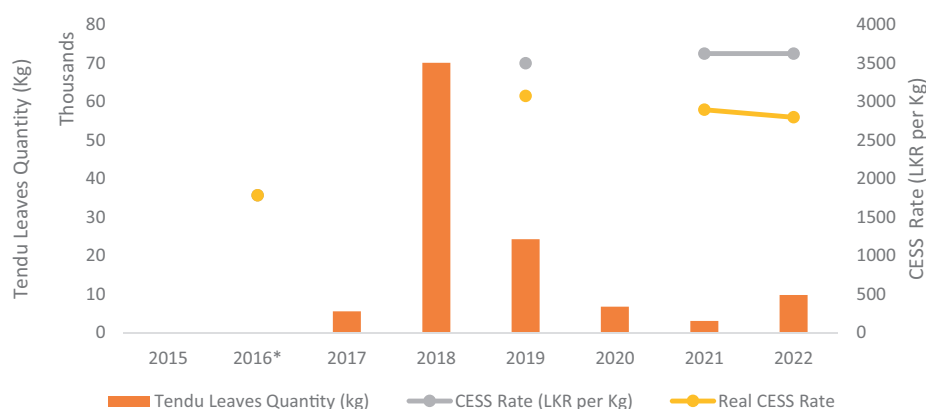
Note: *Similar to local brand names. N.a denotes not applicable.

Source: Authors' compilation based on data from SLC.

Beedi is mainly consumed by low-income groups. It is considered an unsafe tobacco smoking product that does not filter the smoke. Tendu leaf (Kendu) is used for beedi wrapping (rolling), which is imported mainly from India (99% of the requirement). Nearly 10 beedis can be wrapped with a single Tendu leaf of a Diospyros melanoxylon tree. Hence, it is not classified under Harmonised System (HS) codes for tobacco products or regulated as a tobacco product. It is regulated by an import CESS. Figure 5.1 illustrates the annual quantity of smuggled Tendu leaves (seized) and the annual CESS rate for Tendu leaves.

Figure 5.1

Annual Smuggled Tendu Leaves Reported by Sri Lanka Customs and the Annual CESS Rate



Note: 2016* - CESS Rate = On average, Sri Lankan Rupees (LKR) 350 per kg up until July 2016, LKR 2,000 in July 2016 and LKR 3,000 on September 30, 2016.

Source: Authors' compilation based on data from SLC.

Tendu leaves seizures were comparatively high during 2018 and 2019 (Table 5.3). The CESS rate for Tendu leaves remained at Sri Lankan Rupees (LKR) 350 per kg until July 2016. Thereafter, it increased to LKR 2,000 in July 2016 and to LKR 3,000 on September 30, 2016, LKR 3,500 in 2019, and LKR 3,625 in 2021 and 2022. The current CESS rate remains LKR 3,500 per kg (SLC, 2023). Similarly, the general duty grew from 15% or LKR 125 to 20% or LKR 1,500 per kg, while Value-added Tax (VAT) almost doubled from 8% to 15% from 2022 to 2023.

Table 5.3

Incidence of Tendu Leaves Seizures Reported by Sri Lanka Customs

Description	Year							
	2015	2016	2017	2018	2019	2020	2021	2022
Number of Seizures Reported	0	0	2	15	15	4	5	7
Quantity (Kg)	-	-	5,520	70,095.06	24,268.4	6,780	3,041.2	9,753.1
Value (LKR)			3,386,893	98,549,592	39,040,373	5,717,181	1,335,595	17,157,938

Source: Authors' compilation based on data from SLC.

5.2 Routes and Methods of Smuggling

According to the Illicit Trade Report 2022 of the World Customs Organisation (World Customs Organization, 2022), the most popular origin destinations are the Middle East, Eastern and Central Europe, and Western Europe. Flows starting in the Asia and Pacific region mainly go towards the Middle East, while the majority (95%) of the outflows from the Middle East are destined for countries within the Middle East region. Crossing the land borders with the gradual development of illegal factories and shipping is the main mode of trafficking. These routes have been recently diverted to Lithuania and the Polish-Belarusian border due to the Ukraine war. The trafficking instances were reported mostly in Saudi Arabia (12,701), Ireland (9,630), Kuwait (7,317), United Arab Emirates (UAE) (3,682), Türkiye (2,710), followed by Moldova (2,277) during 2022. The five countries with the highest incidents of outward flows were Kuwait, UAE, Türkiye, Moldova, and Spain. The highest inward flows were with Saudi Arabia, Ireland, and Austria. The popular routes were from Kuwait to Saudi Arabia and from Kuwait and the UAE, to Ireland.

In the local context, SLC plays a crucial role in apprehending smugglers and confiscating illegal shipments. Sri Lanka Navy's surveillance system facilitates the seizure of smuggled tobacco products and Tendu leaves through seaports. For instance, a review of newspaper articles from 2017 to 2023 on the smuggling of cigarettes and Tendu leaves (Annex I, Table 1) has revealed that cigarette smuggling occurs mainly via airports, whereas the Tendu leaves have been smuggled from India with the involvement of Indian fishermen along Northern, Northwestern and Western

coastal areas. The common routes for cigarette smuggling are Kuwait, Singapore, Hong Kong, India (Bangalore), Male, Abu Dhabi, Oman, and the UAE in passenger luggage and freight containers with false documents and hidden among other goods. These are partly connected to the duty-free zones and international transits.

5.3 Estimation of Smuggled Volumes

This study aimed to estimate the smuggled cigarette quantities that go unseen (Hidden Trade and Missing Trade) to the local consumption using a simple gap analysis and mirror statistics. Locally manufactured cigarettes are stored and issued by the SLC, where duties are levied. The annual production and sales volumes were gathered from the SLC. The CTC has the exclusive legal right to manufacture and import cigarettes in the country, and its involvement in the export market is minimal. For instance, according to Trade Map data, cigarette exports in 2022 and 2023 from Sri Lanka were United States Dollars (USD) 4.1 million (Mn) and USD 3.1 Mn, respectively. The CTC primarily imports cigarettes longer than 84 mm.

Consumption

According to the estimates, almost all the surveys show an under-representation of the consumption data compared to the CTC sales reported by the SLC.

Consumption data were estimated using the HIES data published by the Department of Census and Statistics (DCS) and triangulated with the Global Adult Tobacco Survey (GATS), WHO's STEPwise Approach to Surveillance (STEPS), and Tobacco Trend Survey of ADIC. The HIES survey is conducted once every three years using a sample of 25,000 households covering the entire country. The ADIC conducts an annual survey interviewing males in selected districts to represent provinces and age groups. Additionally, irregular global surveys are conducted by the WHO in collaboration with the DCS, which incorporate rural and urban classifications and age profiles.

Table 5.4 provides the latest statistics on cigarette consumption

and prevalence from various sources relative to the year 2019, considering the recent HIES survey year. According to the estimates, almost all the surveys show an under-representation of the consumption data compared to the CTC sales reported by the SLC. The representation is quite low in HIES (7.5%), whereas STEPS 2021 and the WHO estimates based on the STEPS 2015 surveys show 84% and 98% representation, respectively. The use of population-proportionate sampling in the HIES survey may cause the low representation rate in this survey. General population-based sampling can provide inaccurate consumption figures since cigarette consumption is concentrated in specific groups. A positive value was observed for the STEPS 2015 survey estimates when the daily-smokers' consumption rate was used for current smokers. The average daily consumption rate of a daily smoker (5.1 sticks per day), prevalence of 15.7%, and a higher population of aged 15+

The excess of 618 Mn sticks is nearly 13.5% of the consumption estimate for 2015, which is an upper-bound estimate for smuggling, simulated using the maximum consumption estimates available for smokers and prevalence .

were observed in 2015 compared to 2019. The excess of 618 Mn sticks is nearly 13.5% of the consumption estimate for 2015, which is an upper-bound estimate for smuggling, simulated using the maximum consumption estimates available for smokers and prevalence. However, these gaps from different consumer surveys show that the prevalence, the consumption rates, or both are underreported. A more accurate estimate of consumption will lower the smuggling estimate.

Table 5.4

Cigarette Consumption and Prevalence Statistics from Various Local and Global Sources for Sri Lanka

Consumption and Prevalence	HIES1	GATS2	STEPS 2013	ADIC4	GYTS5	WHO**	STEPS 20156
Current cigarette smokers (%)	4.6	6.2	10.31	16.9	1.5	9.50	15.70
Daily cigarette smokers (%)		3.7	6.41	11.5			7.9
Number of cigarette-smoking households (HHs)	271,064	n.a	n.a	n.a	n.a	n.a	n.a
Number of cigarette smokers	n.a	1,024,800	1,482,933	1,178,318	13,800	1,561,023	2,462,074
Average daily consumption of cigarettes by a smoker or smoking HH*	2.0	4	3.7	3.0	n.a	n.a	5.1
Average daily consumption of (weighted) cigarettes	n.a	5.2	n.a	1.37	n.a	n.a	n.a
Average monthly consumption of cigarettes per HH	2.79	n.a	n.a	n.a	n.a	n.a	n.a
Mid-year population 2019 (CBSL)	21,803,000						20,970,000
Average HH Size 2019 (HIES)	3.7						
Total HHs	5,892,703						
Smoking HHs	271,064						
Population aged 15+ (CBSL)	14,383,439						15,682,000
Male population aged 15+ (CBSL)	6,968,776						

Estimated Annual Cigarette Consumption1 (Mn sticks)	197	1,496	2,003	1,290	20	2,251	4,583
Estimated Annual Cigarette Consumption2 (Mn sticks)-using weighted average		1,946		589			2,306***
Cigarette Sales (Mn sticks issued)	2,622	2,622	2,384	2,622	3,965	2,287	3,965
Difference (Consumption1-Sales)	-2,425	-1,126	-381	-1,332	n.a	-36	618
Consumption as a % of sales	7.5	57.1	84.0	49.2	0.5	98.4	115.6
Difference (Consumption2-Sales) using weighted average		-676		-2,033			-1,659
Consumption2 as a % of sales		74.2		22.5			58.2
Sample size	19,911	6,770	6,267	2,963	1,818	n.a	n.a
Year of data collection/estimation	2019	2019/2020	2021	2019	2015	2020	2015
Smokers/smoking HHS interviewed	916	420	646	501	27	n.a	n.a
Gender	Both sexes	Both sexes	Both sexes	Males only	Both sexes	Both sexes	Both sexes
Coverage	Island wide	Island wide	Island wide	11 districts	Schools	Island wide	Island wide

Notes: HH=household; N.a=not applicable.

* HIES represents smoking households, and the other surveys represent individual smokers. The average daily smoking rate of a daily smoker was used for STEPS and GATS. For ADIC, the median monthly expenditure of a daily smoker was divided by the average JPGL price in 2019 (LKR 65 per stick).

** WHO shows estimates for 2020 based on the STEPS 2015 survey.

***Consumption by daily smokers, along with the daily consumption rate.

1-HIES survey data from 2019 were used. Mid-year population and average HH size were used to estimate the number of total HHs and smoking HHs.

2-GATS provided the number of smokers from the survey.

3-STEPS 2021 prevalence and 15+ population in 2019 were used to estimate the number of smokers.

4-Prevalence and 15+ male population data were used to estimate the number of smokers.

5-GYTS estimated the prevalence among the 13-15 age group by interviewing school children.

6-STEPS 2015 prevalence, mid-year population of 2015, and 15+ population were used to estimate the number of smokers.

Household surveys are considered to be more independent and representative. However, it is often observed that respondents during these surveys underestimate their usage due to the offensive nature of the product, flawed memory, and a preference for providing socially acceptable responses (Merriman et al., 2013). Therefore, the trend of smuggling can be identified through the pattern of underestimation over time. Table 5.5 shows the consumption estimates and sales statistics from 2012 to 2022. Consumption data represents nearly 10% of the sales, except in the year 2017, which shows a sharp sales drop with the imposition of a higher tax rate in contrast to the previous years. Excess production was reported in 2016 and 2017, with seized smuggled volumes being comparatively high during these years.

Table 5.5

Cigarette Consumption Estimation in HIES from 2012-2022 (Number of Sticks)

Year	Total Quantity Produced	Quantity Issued	Estimated Consumption	Difference (Consumption-Sales)	Consumption as a % of Sales	Sales as a % of Production
2012*	4,014.69	4,320.85	381.08	-3,939.78	9%	108%
2013	4,070.14	4,029.78	381.08	-3,648.70	9%	99%
2014	3,813.33	3,560.35	381.08	-3,179.27	11%	93%
2015	3,960.51	3,964.93	381.08	-3,583.85	10%	100%
2016*	4,742.22	3,789.52	368.37	-3,421.16	10%	80%
2017	2,996.29	656.97	368.37	-288.61	56%	22%
2018	3,189.71	3,150.15	368.37	-2,781.78	12%	99%
2019*	2,542.45	2,622.27	197.29	-2,424.98	8%	103%
2020	2,298.43	2,286.66	197.29	-2,089.37	9%	99%
2021	2,285.24	2,384.10	197.29	-2,186.81	8%	104%
2022	3,004.45	2,825.34	197.29	-2,628.05	7%	94%

Note: *Indicates HIES year.

Source: Authors' compilation using data from the SLC and the DCS.

Missing Trade (Mirror Statistics)

Mirror statistics were used to estimate Missing Trade volumes that indicate smuggling at the Customs. Statistics from the Trade Map and Comtrade databases were used to estimate Missing Trade. It is the difference between exports reported by the exporting country for Sri Lanka and the imports reported by SLC. Data were provided in USD value terms, while amounts in pieces were not available, but reported in kg. Estimating the number of sticks is challenging due to conversion constraints. However, the value mismatches indicate the presence of Missing Trade.

To get insights into mirror statistics, import and export data of five smuggling destinations impacting Sri Lanka, namely, the UAE, Singapore, India, Indonesia, and China were considered (Table 5.6). A positive value (Exports minus Imports) represents underreporting at the importing country's Customs. The UAE, India, and Singapore have displayed positive statistics over the recent years consecutively.

Table 5.6
Mirror Statistics of Cigarettes from 2015-2022 (Value)

Year	Value Difference in USD Thousands (Export Value- Import Value)				
	UAE	Singapore	India	Indonesia	China
2015	-40	1,913	2,930	1,524	-280
2016	-36	2,718	3,779	5	1,077
2017	3,086	317	900	0	2,995
2018	4,934	2,181	1,188	0	1,991
2019	8,766	1,556	593	0	562
2020	8,160	615	455	0	-153
2021	27,106	483	447	-6	-19
2022	9,021	40	1,543	0	-65

Source: Authors' compilation from ITC and COMTRADE databases.

Imports

Import statistics and reported smuggled data were gathered from the SLC. Cigarette imports are not significant in the country. The CTC holds the legal authority to import and manufacture cigarettes in Sri Lanka, operating as a monopoly. Table 5.7 below shows the local production, sales, imports, consumption, and reported smuggling volumes.

Estimation

It is assumed that consumption equals the sum of total sales out of production, imports, and smuggled volumes. Only the seized and reported cases by the SLC are included here, while other data from informal and industry sources were excluded. The Customs reported average smuggled volume is nearly 1.2% of the local consumption based on the average HIES consumption figure from 2015 to 2022 and 0.11% of the average annual issues (sales) by the CTC from 2015 to 2022 (Tables 5.7). The reported average seized volumes represent nearly 0.25% of the average tax income from cigarettes that could have been forgone if not traced. Therefore, tracing has saved

The Customs reported average smuggled volume is nearly 1.2% of the local consumption based on the average HIES consumption figure from 2015 to 2022 and 0.11% of the average annual issues (sales) by the CTC from 2015 to 2022.

nearly LKR 225 Mn annually from cigarettes. The tax gap estimated by the WHO (difference between tax owed and collected) for Sri Lanka in its publication on “Illicit Trade of Tobacco in Southeast Asia Region” is a mere 0.2% (WHO, 2023). However, the WHO study has slightly overestimated the number of smokers using the whole population for the estimation instead of the age 15+ population for prevalence, hence the consumption figure used for the calculation is less than the cigarettes issued by the CTC. The same report has underscored the underreporting of consumption in Sri Lanka. A study conducted using cigarette butt collection in six districts has shown that 15.57% of the consumption is illicit cigarettes, and the estimated annual revenue loss is LKR 17.98 Bn (Colombage et al., 2018). Their study mentions that the inelastic

nature of cigarette consumption in the absence of stringent border control measures enhances the illegal cigarette trade. However, high tax rates can curb cigarette consumption, especially among

low-income groups, if accompanied by strict border control measures (Arunatilake & Opatha, 2004), considering that beedi is not a substitute for cigarettes (Jayawardana et al, 2024).

The supply (sales) and consumption gap has been positive throughout the period, showing an excess supply in the local market. Nearly 10% of the sales are represented by the consumption estimates from the HIES, while 90% of the sales are underreported. In many countries, for instance, Canada, Vietnam, and the Philippines, consumption estimates from the household surveys surpass legal sales, and the gap analysis has been successfully employed to estimate illegal cigarette consumption (Guindon et al., 2017; Lavares et al., 2022; Nguyen & Nguyen, 2020). This may be attributed to the respondents' underestimation of consumption and the inadequate representativeness of the sample estimates. Hence, the consumption figures from the HIES survey are unlikely to estimate local consumption reasonably. This is evident in most household surveys estimating the consumption of socially unacceptable products like cigarettes (sin products) (Merriman et al., 2013). A study conducted in Thailand stated that 40% of cigarette consumption underreported in the household survey, was attributed to the exclusion of migrants and tourists and industry hoarding to benefit from tax increases in the following years (Bailey et al., 2013). However, a prominent lag effect in production is not observed in Sri Lanka, except in 2016 and 2017. Hoarding and smuggling by the industry (by CTC) have not been reported so far by any authority in Sri Lanka. Moreover, illegal cigarette consumption is considered restricted for certain consumer groups in pubs, workplaces, and geographical locations. Therefore, certain consumer groups might have been inadequately represented by the surveys.

Table 5.7

Annual Statistics of Cigarettes (Sticks) Production, Sales, Consumption, Imports and Seized

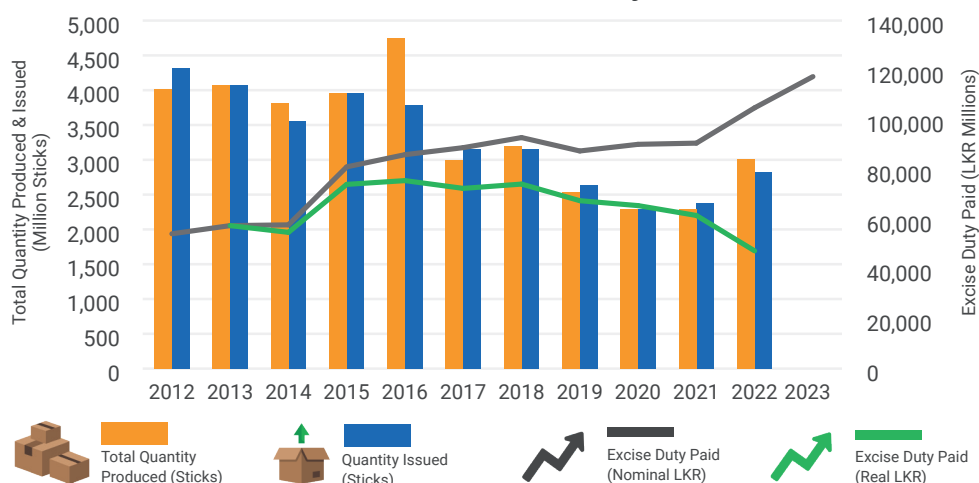
Year	Total Quantity Produced (CTC)	Quantity Issued (CTC Sales)	Estimate of Consumption (HIES)	Imports	Gap	SLC Reported Smuggled Sticks	
						Sticks (Number)	As a % of CTC Issued Sticks
2022	3,004,446,000	2,825,340,000	194,846,976.00	0	-2,630,493,024	0	0.00%
2021	2,285,236,000	2,384,100,000	194,846,976.00	0	-2,189,253,024	0	0.00%
2020	2,298,426,000	2,286,659,800	194,846,976.00	560	-2,091,813,384	669,140	0.03%
2019	2,542,451,000	2,622,265,600	194,846,976.00	5,500	-2,427,424,124	3,080,720	0.12%
2018	3,189,714,600	3,150,148,960	372,803,595.60	111,960	-2,777,457,324	1,386,430	0.04%
2017	2,996,285,360	3,150,000,000*	372,803,595.60	16,320	-284,184,724	10,007,193	0.32%
2016	4,742,218,538	3,789,524,960	372,803,595.60		-3,416,721,364	11,420,800	0.30%
2015	3,960,512,800	3,964,930,280	394,513,732.08		-3,570,416,548	3,600	0.00%
2014	3,813,325,320	3,560,346,520	394,513,732.08		-3,165,832,788	N.a	
2013	4,070,144,400	4,029,775,760	394,513,732.08		-3,635,262,028	N.a	
2012	4,014,687,220	4,320,853,360	394,513,732.08		-3,926,339,628	N.a	
Annual average percentage of seized cigarettes							0.1
Average smuggled volume as a percentage of average volume issued from 2015 to 2022							0.11

Note:* CTC Annual Report, 2017; N.a denotes not applicable.

Source: Authors' compilation based on SLC and HIES data.

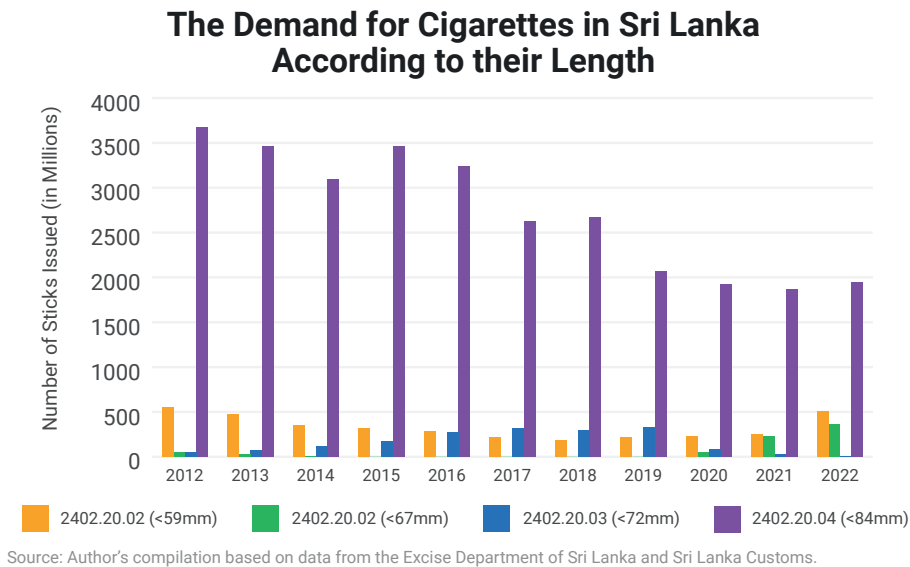
Smuggled volumes are available through several formal and informal sources. Table 5.8 shows the numbers stated by such sources annually. Data from SLC, CTC, RIUNIT, and newspaper articles are compared. Disparities remain in numbers among the sources. For example, the quantity reported (number of sticks) by the Customs and newspapers differs. The RIUNIT considered the consumption to be stable at around 3,150 Mn, with 14% illicit trade between 2017 and 2018. Thereafter, the gap between CTC sales and the 3,150 Mn has been assumed to be supplied through illicit trade, and the 2022 estimate was 22%. Another study shows that the illicit trade estimates for 2017 was around 15.57% (Colombage et al., 2018). The CTC indicated the country's illicit market share was 6% (CTC, 2022). Newspaper articles typically report the value of smuggled cigarettes, while the volumes are reported in different units (weights, packs, or pieces). Therefore, comparison with other sources has not been feasible. E-newspaper articles appeared around the year 2017 on the illicit cigarette trade with increased tax rates and reported smuggling incidents. In the UK, a newspaper article analysis has revealed that two-thirds of the articles were based on industry-funded, unrepresentative findings on illicit trade prevalence, to show that tobacco control policies on standardised packaging have worsened illicit trade (Evans-Reeves et al., 2020). The SLC database indicates the seizures reported for legal actions/settlements only. Table 5.8 shows data disparities between SLC reported statistics and the CTC statistics on seized volumes. Thus, some underreporting from the SLC and speculation or overestimations from other sources may be present. If the industry is already aware of the sources of smuggling, it is imperative to reveal these so the government can take necessary action. The industry's market share drop cannot be assumed to be substituted by the illicit market and beedi. Rather, it could be attributed to various other policy measures from the Ministry of Health that raise public awareness about the harmful impacts of smoking and preventive measures for the younger generation. Moreover, government revenue shows an increasing trend regardless of the concerns raised about high tax rates (see infographic). All in all, the trend in real value suggests increased affordability, highlighting the need for further tax increases.

How Many Cigarettes Does Sri Lanka Produce and What is the Excise Duty Paid?



Source: Author's compilation based on data from the Excise Department of Sri Lanka and Sri Lanka Customs.

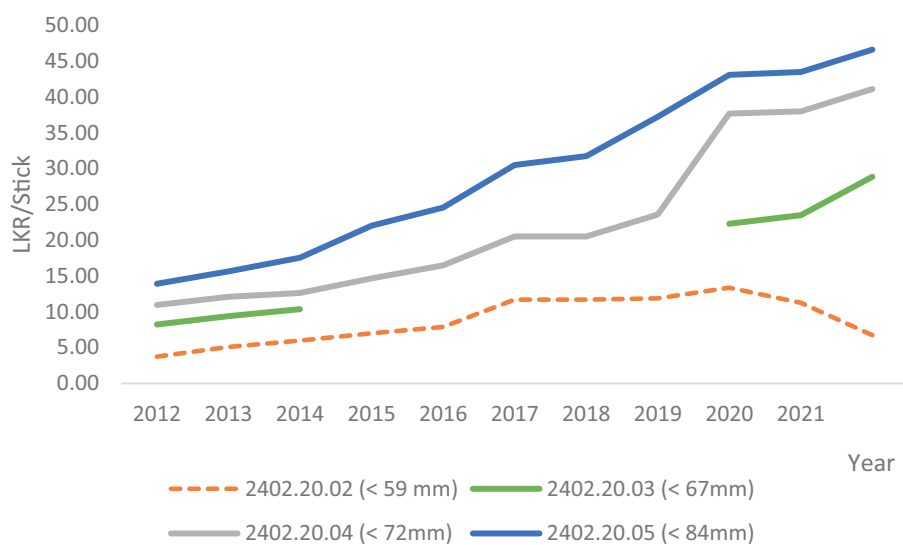
Cigarettes come under four length categories. The current tax rates are applied considering the length of the cigarettes and the sales rates. Infographic below shows the number of sticks sold under each length category. It shows that the most consumed sticks are in the <84mm category (HS Code 2402.20.05), followed by the <59mm category (HS Code 2402.20.02).



Similarly, Figure 5.2 illustrates the tax rate per stick under each category. The highest tax rate is on the <84 mm category, which is mostly sold. The tax rate follows the length of the stick, while consumption shows a slightly different pattern in the <59 mm category, perhaps as a response to the tax rate.

Figure 5.2

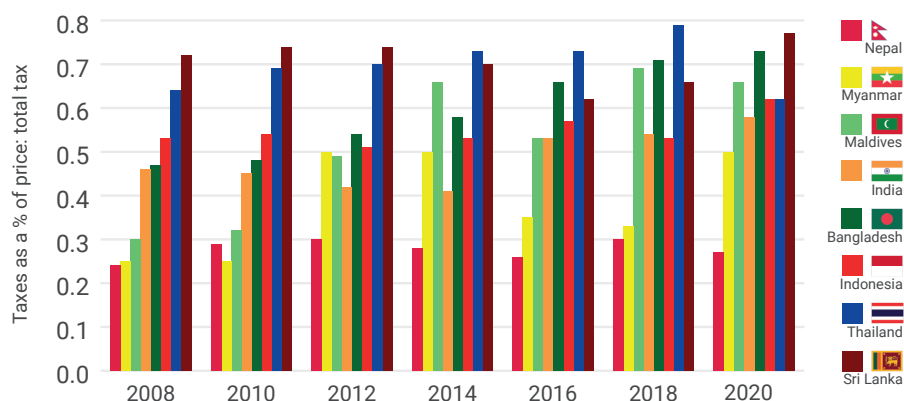
Tax Rate Per Stick Based on Length Category



Source: Authors' compilation based on data from the DOE and SLC.

Regional tobacco control tax policies have improved over the years, including in Sri Lanka. Infographic below shows the total tax as a percentage of each country's most-sold cigarette type. Thailand had the highest rate (79%), followed by Sri Lanka (77%) and Bangladesh (73%) in 2020.

How Much Tax Do Consumers pay for the Most Popular Cigarette Brands in South-East Asia?

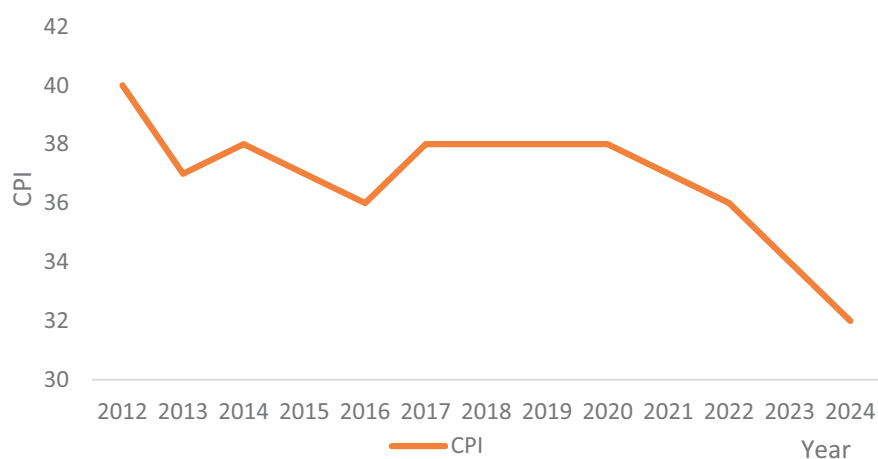


Source: Author's compilation using WHO's Global Health Observatory Data Repository (South-East Asia Region, 2022).

Source: Authors' compilation using WHO's Global Health Observatory Data Repository, South-East Asia Region (WHO, 2022). Sri Lanka's CPI has declined since 2012 (Figure 5.3). It reached a score of 32 in 2024 and ranked 120th among 180 countries, which is below the global average of 43. The above-mentioned countries in the South-East Asia region show a CPI below the global average (Transparency International, 2024).

Figure 5.3

Corruption Perception Index (CPI) of Sri Lanka (2012-2024)



Source: Corruption Perceptions Index, Transparency International, 2024.

Table 5.8**Annual Statistics of Smuggled Cigarettes from Various Sources**

Year	Customs ¹	CTC ²	RIUNIT ³	Informal -media ⁴		
	Volume (Pieces)	Volume (Mn Pieces)	Volume (Mn Pieces)	Volume (pieces/packs)	Value in Sri Lankan Rupees	Source
2015	3,600			-	-	-
2016	11,420,800	4		-	-	-
2017	10,007,193	51	602	-	1.8 Mn	Customs nab Sri Lankan smuggling illegal cigarettes worth LKR 1.8 Mn – Customs Today Newspaper Customs Today
2018	1,386,430	510	600	16,000 pieces	0.8 Mn	Cigarette smuggling attempt foiled - Hiru News – Sri Lanka's Number One News Portal, Most visited website in Sri Lanka Hiru News
				213 cartons	Over 2.1 Mn	Three arrested for smuggling foreign cigarettes worth over 2.1 Mn (adaderana.lk) Ada Derana
				318 cartons (including 63,600 pieces)	3.5 Mn	Customs arrests three Chinese nationals smuggling illegal cigarettes worth LKR. 3.5 Mn - Ceylon Independent Ceylon Independent
2020	1,132,140	730	722	287 cartons (including 59,980 pieces in 129 packs)	3.59 Mn	Customs nab two Sri Lankans smuggling illegal cigarettes worth LKR 3.5 Mn – Ficci Cascade CASCADE

1 Confiscation reported in SLC Database.

2 Ceylon Tobacco Company Annual Reports.

3 Research Intelligence Unit (RIUNIT, 2023).

4 Various newspaper articles.

2021	-	630	633	Around 8,000 cartons (more than 150,000 pieces)	Around LKR 9 Mn	Stock of smuggled cigarettes worth LKR 9 Mn apprehended - Gold FM News - Srilanka's Number One News Portal, Most visited website in Sri Lanka (hirunews.lk) Gold FM News
				200 Mn pieces	Over LKR 9 Bn	200 Mn foreign cigarettes worth LKR 9 Bn imported as 'Tea' History of Ceylon Tea Dilmah
2022	-	540	538	120 packets - 2,400	-	Sri Lanka Navy Sri Lanka Navy
				4 Mn pieces (in 200,000 packs)	Around	Sri Lanka : Customs nab two Sri Lankans smuggled foreign cigarettes worth over LKR 4 Mn (colombopage.com) Colombo Page
				250 cartons (containing 50,000 pieces)	Estimated LKR 4 Mn	Sri Lanka : Customs nab two Sri Lankans smuggled foreign cigarettes worth over LKR 4 Mn (colombopage.com) Colombo Page
				810 cartons	LKR 16 Mn	Sri Lanka Customs seizes LKR 16 Mn worth illegal cigarettes; five arrested EconomyNext Economy Next
2023			900			

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

This scoping study has investigated the current situation of tobacco products smuggling in Sri Lanka.

Consumption estimates derived from available secondary data cannot be used to evaluate smuggling since these differ from the sales (issued) volumes reported by the CTC and vary greatly among sources. According to SLC statistics, the annual average seized volume of smuggled cigarettes was nearly 3.4 Mn sticks from 2015 to 2022. Based on the HIES consumption statistics, this represents approximately 1.2% of the annual average consumption. However, it represents around 0.1% of the yearly average legal local supply to the market during the said period. The HIES survey represents 10% of the legal cigarette sales (taxed and issued to the agents) by the CTC. Other consumption estimates from various surveys (ADIC, GATS, STEPS) also represent less than the volume sold (issued to the CTC agents and taxed) by the CTC, however, with a higher level of representation (49%, 57%, and 84%, respectively). Underestimation by the respondents, underrepresentation of the smoking groups, and oversupply of CTC cigarettes in the market may restrict the ability to obtain reliable estimates for local consumption. For this reason, estimating illicit trade volume using a gap analysis (indirect method) became impossible.

Official data from SLC on seized cigarettes do not support the public narrative, which state that high taxes result in greater smuggling. Reported seized volumes do not show a pattern with the tax rate. The Excise Duty collected from cigarettes is increasing in nominal terms, while the real value is declining. It indicates that the tax is not adjusted for inflation, which can significantly impact affordability. The seized volumes have been falling despite the rising number of seizures since 2016. Favourably, it is a positive sign of the tightening of border protection measures and Customs inspections.

Results show that corruption also results in smuggling. The mirror statistics (Missing Trade USD values) of the main illicit trade destinations indicated that underreporting is evident at the Customs. Since Sri Lanka's CPI has been declining, anti-corruption policies and digitalisation would need to step to the fore to help improve transparency.

Much misinformation is available in the media based on unverified methodology and data. This study attempted to estimate smuggling based on internationally accepted methodology and reliable data sources. According to the authors' calculations for 2015, smuggling can be at most 13.5%, but is likely reported to be much less than that. The industry statistics (by CTC) state the illicit market share is about 6%, assuming one tenth of the smuggled cigarettes are detected, while the RIUNIT estimations show a 14% share in 2017/2018 to 22% share in 2022, assuming that illegal cigarettes substitute sales drop considering 3,150 Mn sticks of fixed consumption. Another study using a cigarette butt analysis shows that the illicit trade estimates for 2017 was high as 15.57%. A fixed consumption rate cannot be assumed in the presence of other public health policies, including awareness programmes, a declining working-age population, and improving border control measures. In some countries, industry involvement in smuggling is observed through hoarding and facilitating interstate smuggling for tax avoidance. However, CTC's involvement has

not been reported so far by any authorities in Sri Lanka. Hence, it is hard to differentiate oversupply (over issue to the agents at the current year tax) by CTC without a representative consumption estimate.

Smuggling occurs in various forms at the border; a greater understanding of these channels is needed to formulate policies to arrest smuggling at the border. Passenger luggage is a frequent mode of cigarette smuggling, and the routes are connected with duty-free zones and passenger transits. However, other wholesale smuggling is also reported through seaports and freight containers, indicating organised smuggling. Tendu leaves are smuggled with the involvement of Indian fishermen via Northern, Northwestern, and Western seaports. The Sri Lanka Navy operates in these borders to tackle smuggling. The seized volumes and incidents grew in 2018 and 2019 but declined thereafter. Smuggling results in revenue losses to the government, among other repercussions, but there is insufficient evidence to suggest that tax increases lead to greater smuggling. As described above, better border control and reduced corruption are important means of reducing smuggling.

6.2 Recommendations

To improve the effectiveness of tax policies, it is equally important to tighten the border control measures and law enforcement to combat smuggling. The cost of smuggling must be raised through higher penalty payments, prosecution, and reward mechanisms for the officers.

As the WHO-FCTC suggests, tracing and tracking mechanisms need improvement through cutting-edge technology and regional cooperation. Digitalisation of Customs procedures would enhance transaction transparency and thus gain better control over smuggling.

Retail sales and transportation of illegal tobacco should be banned with legal enforcement. Introducing digital Excise Tax stamps for legal cigarettes can help detect illegal cigarettes. These

stamps were effectively introduced in Ecuador, Indonesia, the Philippines, Ireland, and the EU. Introducing a reward system for the public for providing information on contraband cigarette sales would help control local retail sales.

The cost of smuggling must be raised through higher penalty payments, prosecution, and reward mechanisms for the officers.

The demand for smuggled cigarettes can be lowered through enhanced public awareness of smuggled cigarettes and its health impacts.

Prohibiting cigarette sales in duty-free zones would help cut down incentives for smuggling on a regional and global scale. The EU has implemented a track and trace system to combat illicit tobacco trade. Licensing the entire supply chain, encompassing

wholesalers and retailers, enhances traceability and control over operations.

Methods to improve the representativeness of the consumer surveys should be widely discussed and incorporated to get reasonable consumption estimates.

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8. ANNEX I

Table 8.1

Incidence of Tobacco Smuggling in Sri Lanka

Title	Publisher	Date	Key Takeaways	Source
Customs bust counterfeit cigarettes smuggling racket	Transparency International (TISL)	2009.10.22	A massive haul of illicit cigarettes, more than five million sticks in quantity worth over LKR 36 Mn was taken into custody during the last three months by the SLC. The Customs took into custody 4,853,000 cigarettes in 24,265 cartons worth LKR 36,397,500.	Customs bust counterfeit cigarettes smuggling racket – Transparency International Sri Lanka (tisrilanka.org)
Customs nab Sri Lankan smuggling illegal cigarettes worth LKR 1.8 Mn	Customs Today	2017.05.20	Sri Lanka Customs officials have arrested an individual at the Katunayake Airport this morning for attempting to illegally bring a stock of cigarettes worth LKR 1.8 Mn into the country from Kuwait.	Customs nab Sri Lankan smuggling illegal cigarettes worth LKR 1.8 Mn – Customs Today Newspaper
Cigarette Smuggling Attempt Foiled	Hiru News	2018.02.19	The Customs officials attached to the Bandaranayake International airport apprehended a Sri Lankan national returning from Singapore attempting to smuggle in 16,000 cigarette worth LKR 800,000.00	Cigarette smuggling attempt foiled - Hiru News - Srilanka's Number One News Portal, Most visited website in Sri Lanka

Three arrested for smuggling foreign cigarettes worth over LKR 2.1 Mn	Ada Derana	2018.08.28	Three individuals returning from Singapore and Bangalore, India have been apprehended by Customs officials at the Bandaranaike International Airport (BIA) for smuggling 213 cartons of foreign cigarettes valued over LKR 2.1 Mn, stated the Customs Media Spokesperson.	Three arrested for smuggling foreign cigarettes worth over 2.1 Mn (adaderana.lk)
Customs arrests three Chinese nationals smuggling illegal cigarettes worth LKR 3.5 Mn	Ceylon Independent	2018.12.09	Three Chinese nationals from Hong Kong who had attempted to smuggle in foreign cigarettes have been arrested by the SLC officers at the Bandaranaike International Airport (BIA) in Katunayake. According to the Customs officials, the haul of cigarettes included 318 cigarette cartons containing 63,600 cigarette sticks. The cigarettes were carefully concealed in the suspects' luggage.	Customs arrests three Chinese nationals smuggling illegal cigarettes worth LKR 3.5 Mn - Ceylon Independent

3 Maldivians arrested in Lanka over usage of smuggled cigarettes	The Edition	2019.05.05	Director of Communications at Minister of Foreign Affairs Mohamed Miuvan confirmed to local media Mihaaru that three Maldivians were arrested by Sri Lankan authorities on Saturday night over usage of cigarettes that were illegally smuggled into Lanka. According to the Customs regulations of Sri Lanka, it is illegal to import cigarettes into the country via passenger luggage(s). Contraband cigarettes are often brought into Lanka from the capital Male. If caught by Sri Lankan authority while smuggling in cigarettes, the individual must pay a fine of LKR 6,000 (MVR 522) per carton.	<u>3 Maldivians arrested in Lanka over usage of smuggled cigarettes - The Edition</u>
Cigarette Smuggling in Sri Lanka: Hype vs. Reality	IPS	2019.10.14	A 2019 study conducted in Colombia found that the tobacco industry's estimate of the illicit cigarette market is significantly exaggerated at 18%, when illicit cigarettes represented only 6.4% of total cigarette consumption in 2017. Following cigarette price increases, 87% reduced cigarette usage and 3% switched to low-price cigarettes.	<u>talkingeconomics - Cigarette Smuggling in Sri Lanka: Hype vs. Reality (ips.lk)</u>

Sri Lankan navy arrests three Indian fishermen for smuggling tobacco leaves	The Times of India	2019.11.14	The Sri Lankan Navy detained three fishermen, hailing from Tuticorin district of Tamil Nadu , for entering the territorial water of the island nation, with 1,000 kg of smuggled tobacco leaves .	Sri Lankan navy arrests three Indian fishermen for smuggling tobacco leaves Chennai News - Times of India (indiatimes.com)
Customs nab two Sri Lankans smuggling illegal cigarettes worth LKR 3.5 Mn	CASCADE	2020.01.04	Sri Lanka Customs officials have arrested two Sri Lankan passengers returning from Abu Dhabi at the Katunayake Airport early this morning for attempting to illegally bring a stock of cigarettes into the country. According to the Customs Media unit, there were 287 cartons containing 59980 cigarettes in 129 packs. According to the Customs officials the seized cigarettes are estimated to be worth LKR 3,598,800.	Customs nab two Sri Lankans smuggling illegal cigarettes worth LKR 3.5 Mn – Ficci Cascade

Stock of Smuggled Cigarettes Worth LKR 9 Mn Apprehended	Gold FM News	2021.05.05	A container containing more than 150,000 cigarettes manufactured in China were smuggled into the country and was found at the Grand Pass Customs yard The value was around LKR 9 Mn It contained around 8,000 cartons of cigarettes.	Stock of smuggled cigarettes worth LKR 9M apprehended - Gold FM News - Srilanka's Number One News Portal, Most visited website in Sri Lanka (hirunews.lk)
200 MN foreign cigarettes worth LKR 9 Bn imported as 'tea'	Dilmah	2021.05.13	200 million foreign cigarettes from the UAE valued at over LKR 9 Bn were seized by Sri Lanka customs after inspecting 21 suspicious freight containers in Colombo. The importers had prepared false documents and declared the items as 'Ceylon Black Tea' for re-export and used the name of a leading tea exporter in Sri Lanka.	200 million foreign cigarettes worth Rs. 09 Billion imported as 'Tea' History of Ceylon Tea
Navy renders assistance to apprehend foreign cigarettes and tobacco products made ready to be sold illegally	Sri Lanka Navy	2022.01.18	A coordinated search operation carried out by the Navy and the Office of Excise Department in Galle led to the apprehension of 02 suspects with 120 packets of foreign cigarettes, over 05 kg of tobacco powder and 2,400 cigarette filters in Ahangama.	Sri Lanka Navy

Impact of COVID-19 on the illicit tobacco market	Sunday Times	2022.03.27	In May 2021, Sri Lanka Customs made the largest ever detection of illicit cigarettes of over 200 Mn sticks with a street value of more than LKR 9 Bn.	Impact of COVID-19 on the illicit tobacco market Print Edition - The Sunday Times, Sri Lanka
STF seizes largest haul of smuggled cigarettes in Sri Lanka	News First: Sirasa TV	2022.04.01	Two containers with the same registration number plates of the same type and the same colour were utilised for smuggling and while inspecting a container with an import license, another vehicle similar to the same vehicle came out of the customs premises with illegally imposed cigarettes. 4 million cigarettes were found in 200,000 packs in the container truck and the total value of the stock of cigarettes has been found out to be around LKR 280 Mn.	STF seizes largest haul of smuggled cigarettes in Sri Lanka (newsfirst.lk)
Navy takes hold of smuggled stock of Kendu Leaves in Silawathura	Sri Lanka Navy	2022.06.16	A special foot patrol conducted by the Navy in Kondachchikuda beach area, Silawathura in the night of 16 June 2022 led to the seizure of a smuggled stock (about 490 kg) of Kendu leaves , which are being used for tobacco products.	Sri Lanka Navy

Navy seizes smuggled stock of Kendu Leaves in Kalpitiya	Sri Lanka Navy	2022.07.01	Sri Lanka Navy seized about 1,680 kg of Kendu Leaves, suspected an attempt to smuggle by sea routes, during a special operation mounted in the beach area of Keerimundalama in Kalpitiya on the night of 01 July 2022.	Sri Lanka Navy
Customs nab two Sri Lankans smuggled foreign cigarettes worth over LKR 4 Mn	Colombo Page	2022.08.11	Sri Lanka Customs officials have arrested two Sri Lankan passengers from Abu Dhabi at the Bandaranaike International Airport in Katunayake while attempting to illegally bring a stock of foreign cigarettes into the country. Customs officers say they have found 250 cartons containing 50,000 Manchester cigarettes hidden in the baggage of the suspects. The seized stock of cigarettes is estimated to worth LKR 4 Mn.	Sri Lanka : Customs nab two Sri Lankans smuggled foreign cigarettes worth over LKR 4 Mn (colombopage.com)
Sri Lanka Customs seizes LKR 16 Mn worth illegal cigarettes; five arrested	Economy Next	2022.08.27	Sri Lanka Customs has seized LKR 16 Mn worth 810 cartons of cigarettes and arrested five individuals for attempting to smuggle the illegal consignment from Oman, it said in a statement. The five arrested had travelled to Sri Lanka through Oman Airlines via Dubai.	Sri Lanka Customs seizes LKR 16 mln worth illegal cigarettes; five arrested EconomyNext

Navy takes hold of smuggled stock of Kendu leaves in Kalpitiya sea area	Sri Lanka Navy	2022.10.07	Sri Lanka Navy took hold of a smuggled consignment of Kendu leaves weighing over 427 kg (wet weight), during a patrol carried out in Paramunai sea area of Kalpitiya on 07 October 2022.	Sri Lanka Navy
Navy takes hold of over 2,448 Kg of smuggled Kendu Leaves in Negombo	Sri Lanka Navy	2022.11.08	A special search operation carried out by the Navy in the Duwa area, Negombo made way for the seizure of over 2,448 kg of smuggled Kendu leaves , 02 lorries, 01 dinghy and apprehension of 02 suspects.	Sri Lanka Navy
Navy intercepts 02 Indian fishing trawlers carrying over 4,000kg of Kendu Leaves in northwestern waters	Sri Lanka Navy	2022.12.05	A naval patrol conducted in Sri Lanka's waters northwest of the island during night led to the interception of 02 Indian fishing trawlers carrying over 4,000 kg of Kendu leaves . The Navy also took hold of 08 Indian nationals involved in this illegal act, along with a large consignment of contraband.	Sri Lanka Navy
Navy takes hold of over 1,797kg of smuggled Kendu Leaves in Negombo	Sri Lanka Navy	2022.12.30	A special search operation carried out by the Navy in Duwa area, Negombo led to the seizure of a lorry transferring over 1,797 kg of smuggled Kendu leaves and the apprehension of a suspect involved in the illegal act.	Sri Lanka Navy

Sri Lanka sees rising beedi leaf smuggling from India amid increase in tobacco taxes	Economy Next	2023.01.04	“There is a huge increment in the number of captures in 2022 compared to last year,” Navy Media Spokesman Gayan Wickremesuriya told EconomyNext. Sri Lanka navy has seized 14,983 kg of beedi leaves – mainly from Indian dinghy boats – in the last year, a 21.7 %jump compared to 12,310 kg in 2021, Wickremesuriya said. In 2020, the navy captured 5,340 kg. The Navy has a surveillance system and changes according to the intelligence received. Indian fishermen bring tendu leaves to the Sri Lankan border. This is commonly seen in Northern sea area, Mannar and Northwestern coastal area.	Sri Lanka sees rising beedi leaf smuggling from India amid increase in tobacco taxes EconomyNext
A smuggled consignment of Kendu Leaves seized in Chilaw Lagoon	Sri Lanka Navy	2023.01.18	A search operation carried out by the Sri Lanka Navy led to the apprehension of 03 dinghies loaded with over 2,468 kg (wet weight) of smuggled Kendu leaves in the lagoon area of Chilaw.	Sri Lanka Navy

Joint operation helps nab two suspects with illegal cigarettes	Daily News	2023.01.19	A coordinated search operation carried out by the Navy and the Officers of the DOE in Galle led to the apprehension of two suspects with 120 packets of illegal foreign cigarettes, over 5 kgs of tobacco powder and 2,400 cigarette filters in Ahangama.	Joint operation helps nab two suspects with illegal cigarettes Daily News
Two, including Lankan national, held with banned tobacco products	The Hindu	2023.01.23	The police have arrested two persons, including a Sri Lankan, S. Rajesh (31), for smuggling 13 kg of banned tobacco products on Friday. The police found 13 kg of gutka, which Rajesh, is said to have brought from Bengaluru, India .	Two, including Lankan national, held with banned tobacco products - The Hindu
Navy seizes over 1,105kg of smuggled Kendu leaves in Dungalpitiya Lagoon Area, Negombo	Sri Lanka Navy	2023.01.24	A special search operation conducted by the Navy in Dungalpitiya Lagoon area of Negombo today (24 January 2023) led to the seizure of over 1,105 kg of smuggled Kendu leaves . In addition, the Navy also nabbed 02 suspects and apprehended 02 dinghies used for smuggling.	Sri Lanka Navy
Navy seizes over 1,447kg of smuggled Kendu leaves in Negombo	Sri Lanka Navy	2023.01.26	Sri Lanka Navy took hold of over 1,447kg of smuggled Kendu leaves , during a special operation carried out in the lagoon and sea area of Negombo .	Sri Lanka Navy

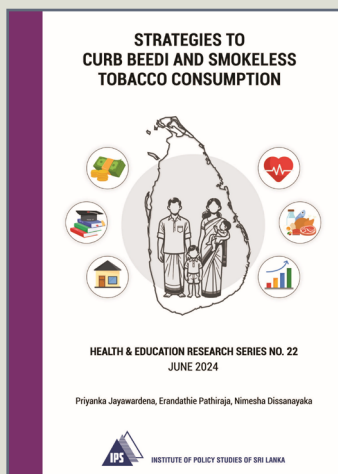
9. ANNEX II

Table 9.1:

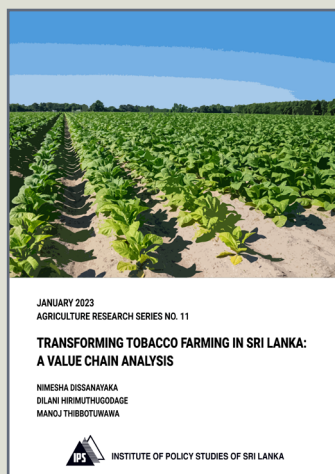
The Tax Structure of Cigarettes Over Time

HS Hdg	HS Code	Description	Unit	Gen Duty		VAT		PAL		Cess		Excise (S.P.D)	
				2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
24.02	2402.20	Cigarettes containing tobacco:											
	2402.20.10	Beedies	kg	75% or LKR 4,250/= per kg gross weight	75% or LKR 4,250/= per kg gross weight	8%	8%	10.0%	10.0%	30%	30%		
	2402.20.20	Cigarettes, each not exceeding 60 mm in length	kg	15%	15%	8%	8%	Ex	Ex	165%	165%	LKR 6,750/= per 1,000 cigarettes	LKR 6,750/= per 1,000 cigarettes
	2402.20.30	Cigarettes, each exceeding 60 mm but not exceeding 67 mm in length	kg	15%	15%	8%	8%	Ex	Ex	165%	165%	LKR 28,850/= per 1,000 cigarettes	LKR 28,850/= per 1,000 cigarettes
	2402.20.40	Cigarettes, each exceeding 67 mm but not exceeding 72 mm in length	kg	15%	15%	8%	8%	Ex	Ex	165%	165%	LKR 41,100/= per 1,000 cigarettes	LKR 41,100/= per 1,000 cigarettes
	2402.20.50	Cigarettes, each exceeding 72 mm but not exceeding 84 mm in length	kg	15%	15%	8%	8%	Ex	Ex	165%	165%	LKR 46,600/= per 1,000 cigarettes	LKR 46,600/= per 1,000 cigarettes
	2402.20.60	Cigarettes, each exceeding 84 mm in length	kg	15%	15%	8%	8%	Ex	Ex	165%	165%	LKR 51,800/= per 1,000 cigarettes	LKR 51,800/= per 1,000 cigarettes

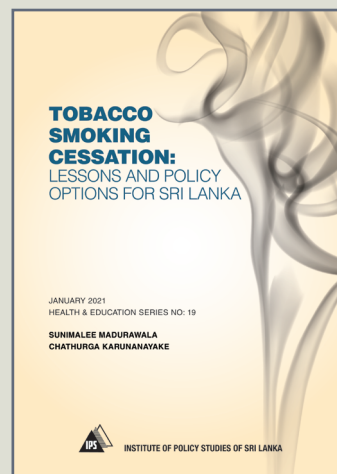
Related Publications



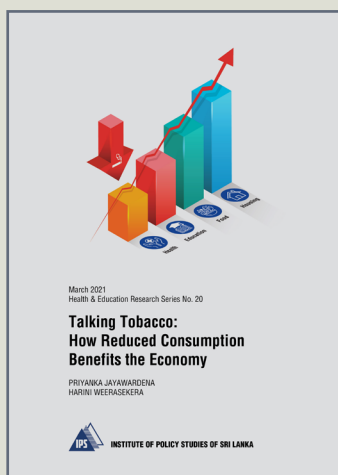
Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka



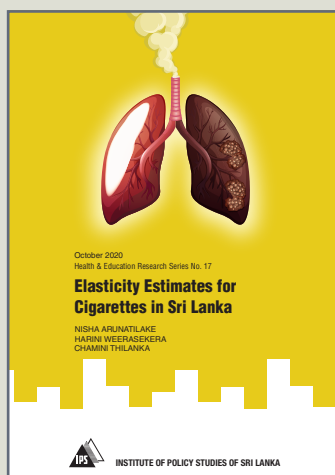
Transforming Tobacco Farming in Sri Lanka: A Value Chain Analysis



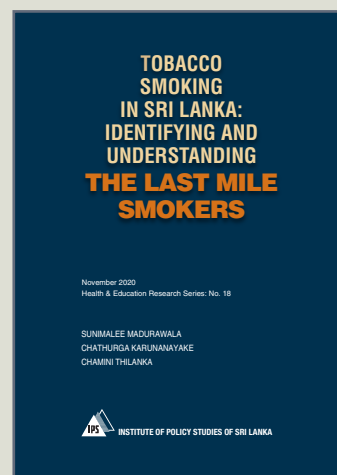
Tobacco Smoking Cessation: Lessons and Policy Options for Sri Lanka



Talking Tobacco: How Reduced Consumption Benefits the Economy



Elasticity Estimates for Cigarettes in Sri Lanka



Tobacco Smoking Cessation: Lessons and Policy Options for Sri Lanka



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