

Illicit Tobacco in South East London: A Survey of Smokers

*'Tobacco, Crime and Health Inequalities in
South East London'*

April 2013

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Foreword

The illicit tobacco trade is often seen as a 'Robin Hood' type enterprise with a few locals smuggling cigarettes for their friends so they can enjoy an otherwise expensive luxury. However, if this was ever true, the reality of this trade is now is very different. Criminal gangs are very heavily involved in the illicit tobacco trade and the majority of the illicit cigarettes sold are counterfeits manufactured outside the EU specifically to be smuggled into the UK in bulk. ^{1, 2} One sea container full of counterfeit cigarettes can generate well over a million pounds in profit for a gang. ³

Also heavy tobacco consumption is now strongly associated with deprivation rather than being a luxury enjoyed by richer communities. This can be seen in all six South East London Boroughs where smoking rates for routine and manual workers within boroughs are consistently much higher than the borough averages. ⁴ Furthermore, as national and regional levels of smoking and smoking related diseases fall as a result of taxation, education, support in quitting and laws limiting where people can smoke, illicit tobacco has the potential to maintain health inequalities in communities.

In recognition of this Health and Trading Standards Teams have been working together in South East London as part of an initiative to reduce the harm done by illegal tobacco in these communities. This work is aimed at joining up health and trading standards enforcement work to get the best outcomes for communities. In simple terms, if the supply of cheap illicit tobacco into a community can be stemmed, then the investments in health and education work produce a far better set of outcomes. Limiting the trade also limits the presence of the criminal gangs that manage it. This survey of one thousand seven hundred smokers within the boroughs of Bexley, Bromley, Greenwich, Lambeth, Lewisham and Southwark was part of that joint work and aims to better understand the illicit tobacco trade and help in finding better ways of dealing with it.

¹ Tackling Tobacco Smuggling- Building on our success, HMRC, April 2011.

² ASH Fact sheet, Tobacco Smuggling, April 2011.

³ Evidence from EU Anti-Fraud Office to House of Commons Cross Party Committee on Smoking and Health.

⁴ This can be clearly seen in the London Health Observatory Tobacco Profile data statistics for the six boroughs.

Key Findings

This report presents the findings from street interviews with 1,700 smokers in the South East London Boroughs of Bexley, Bromley, Greenwich, Lambeth, Lewisham and Southwark which took place at 40 different survey locations between June and November 2012. It describes the findings of a survey which sought insights into the market in 'illicit' smuggled and counterfeit cigarettes and Hand Rolling Tobacco (HRT) and its key findings are as follows:

- It is estimated that **in excess of 114 million illicit cigarettes with a street value of over £22 million are sold each year in the area.**⁵
- **40% of the smokers interviewed indicated that they had bought illicit tobacco** at least once in the last year and in total around **15% of the tobacco consumed by those surveyed was illicit.**
- **80% of the smokers who bought illicit tobacco reported they were known to or introduced to the seller.**
- **Buying from someone's home** now appears to be the most significant source of illicit tobacco in South East London.
- **Illicit cigarettes were available at an average price of around £4.00 per pack of 20 cigarettes** although often the price was much lower if larger quantities were bought.
- Within the communities where the trade is most prevalent we believe it will be **seriously undermining public health work** and providing a major source of revenue to criminal gangs.

⁵ See Annex A for calculation and assumptions used.

Recommendations

Enforcement

This report provides evidence that the illicit market has evolved and adapted to previous enforcement work, becoming much more covert and the following actions are suggested:

- i) The prevalence of the trade and the obvious involvement of criminal networks supplying counterfeit products emphasises the need for **cross-borough and ideally regional level multi-agency cooperation** to tackle the trade.
- ii) The concentration of the trade in specific areas and the local variation in the supply routes implies a **strong need for local knowledge and local interventions tailored to specific communities and problems by Trading Standards teams**.
- iii) The covert nature of the trade implies that **better methods of breaking into closed supply networks are required**.
- iv) The **high prevalence of counterfeit product** implies that current measures such as pack branding, pack numbering and pack readers are failing to curb the counterfeit trade and better methods for identifying counterfeit product are required.

Education and Social Marketing

In any area of policing and enforcement work success ultimately depends on the cooperation of the community. If a significant proportion of a community is willing to buy illicit tobacco and unwilling to report its sale, enforcement is unlikely to be successful and the following actions are suggested to compliment enforcement work:

- i) **Raising awareness of the impact** of illicit tobacco and the **responsibilities of retailers and individuals** within communities to preserve the quality of life of that community will we believe be key in reducing the illicit tobacco trade.
- ii) **Using Social marketing to change beliefs and perceptions** regarding illicit tobacco and begin a process of de-normalising the trade.⁶
- iii) **Education of retailers**, particularly small shops, is we believe also essential in changing their behaviour and removing the excuse of ignorance if they should face enforcement action or prosecution.

⁶ The work of [tobacco free futures](#) in the North West and its award winning communication projects has demonstrated the value of social marketing in tobacco harm reduction.

Key Statistics

How common is it to be offered illicit tobacco in SE London?

Approximately 60% of the smokers surveyed had been offered illicit tobacco at least once in the last year and 11% were offered it about once every week. The highest percentage of smokers offered illicit tobacco at least once in the last year was 95% for smokers surveyed in Peckham Rye in Southwark.

How often do smokers buy illicit?

Of all the smokers surveyed around 40% had bought illicit tobacco on at least one occasion in the last year implying a very high level of tolerance of the trade. However, in 'hot spot' areas within Greenwich and Southwark around 80% of smokers reported that they had bought illicit tobacco at least once in the last year.

The Tobacco Supply

The survey results implied that overall about 15% of the tobacco consumed within survey group was illicit. However, as would be implied from the above, the consumption figures varied very significantly. In Southwark and Greenwich there were several areas where the survey implied that as much as 30% of the tobacco consumed was illicit. Even within boroughs with overall low prevalence such as Bromley and Bexley there were still areas where over 16% of the tobacco market was illicit.

Knowing the supplier- Covert Networks

In approximately 80% of cases where a smoker reported buying illicit tobacco, they stated that they were either know by or introduced to the seller. This supports anecdotal evidence⁷ that the market is largely covert and that buyers and sellers are part of 'supply networks' of individuals known to each other.

Cost of Illicit Tobacco – Undermining pricing

The mean average price reported in South East London for 20 cigarettes was £4.00, but the most common price was between £3.50 and £4.00. HRT was available at an average cost of around £6.70 for 50g and in both cases prices fell if buyers bought larger quantities.

⁷ Interviews with local trading standards teams confirmed this was their view on the illicit tobacco market and that officers often found it difficult to break into these covert network.

Illicit Tobacco Smoker Survey - Background and Objectives

This survey was sponsored by a cluster of Trading Standards and Health teams from the six South East London Boroughs of Bexley, Bromley, Greenwich, Lambeth, Lewisham and Southwark. It was intended to provide actionable insights into the trade in illicit cigarettes and Hand Rolling Tobacco (HRT). It is we believe the most detailed survey of smokers and their buying habits carried out in London and possibly the UK and was intended to provide quantitative evidence and actionable insights regarding the illicit tobacco trade in South East London.

Illicit Tobacco in the UK

In its 2012 Tax Gap report HMRC stated that around 9% of all cigarettes and 38% of HRT consumed in the UK were estimated to be illicit in 2010/11⁸. The evasion of duty is estimated to cost HMRC around £2 Billion per year in lost revenue and that nearly half of illicit cigarettes are counterfeits produced for this illicit market. While HMRC believes it has demonstrated significant success in reducing the supply of illicit tobacco, the market is still significant.⁹

Illicit Tobacco in South East London

The aim of the survey was to establish the actual levels of sale and consumption of illicit cigarettes at the borough level or lower in order to inform enforcement and health priorities and strategies on illicit tobacco. Although national statistics implied it was a significant problem, without data specific to local Boroughs it was difficult to justify use of resources to address the issue of illicit tobacco. Before attempting to do this we believed it was necessary to establish the likely scale of the local trade using national statistics for illicit tobacco and known borough population sizes. Using such data it was possible to estimate that in the region of 114 million illicit cigarettes are sold within South East London each year if illicit local cigarette purchase levels are similar to nationally reported levels. These figures are consistent with the study produced by South West Trading Standards in July 2011 for their region¹⁰ and based on the assumption that illicit cigarettes are sold at £4.00 for 20 cigarettes implies a trade with a turnover of over £22 million p.a. in South East London.

⁸ HMRC Measuring the tax gaps 2012.

⁹ Tackling Tobacco Smuggling- Building on our success, HMRC, April 2011.

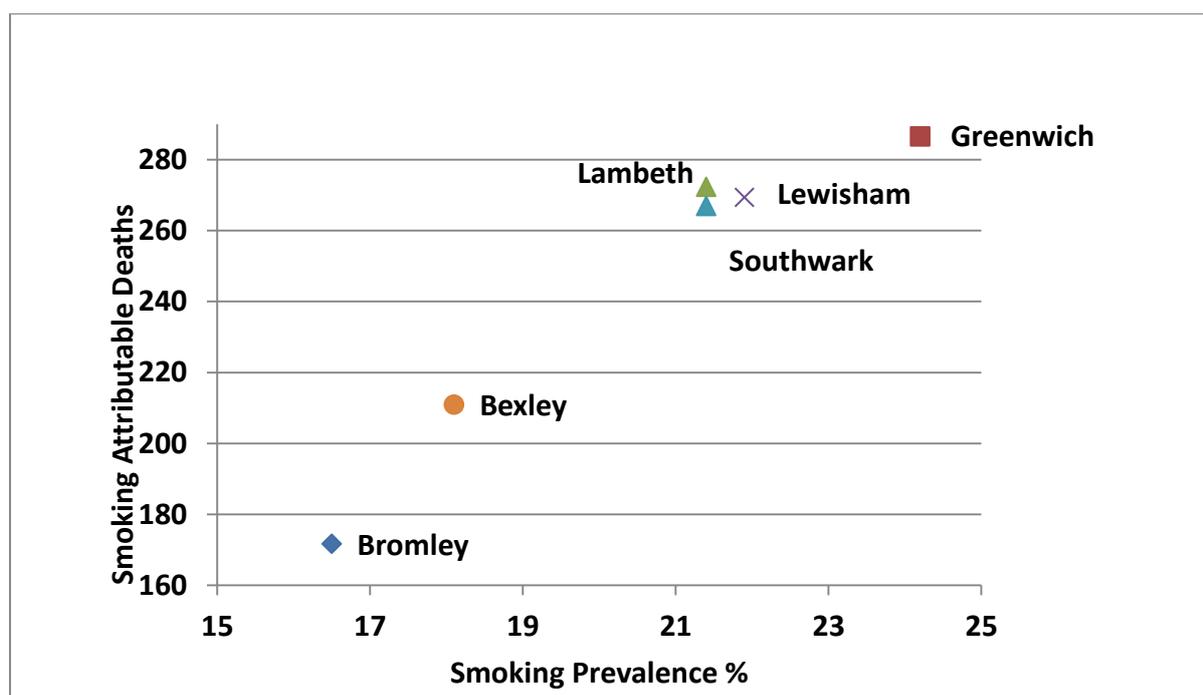
¹⁰ Problem Profile Baseline Assessment-Extent and Nature of Illegal Tobacco in the South West. V2. July 2011. South West Trading Standards Regional Intelligence Unit.

Health Impacts of Tobacco in South East London

Ultimately it is the impact of tobacco on health that has driven UK tobacco control policy for the last decade or more and the objective of increasing its price through duties and taxes has been to discourage consumption not raise revenue. In this context it was essential to understand the impact of the illicit tobacco trade in South East London in the context of the health and health inequalities of its citizens and communities.

The prevalence of smoking and smoking-attributable deaths within each of the six boroughs along with regional and English comparators are shown in shown in Annex B. The linkage between smoking and premature death is well known and has also been shown in Annex B for the six boroughs surveyed for all smoking related deaths and lung cancer registrations. Some of these figures are shown graphically in Figure [1] below and provide a stark reminder of the direct link between smoking and premature death and how this varies between the boroughs.

Figure [1]: Smoking attributable deaths¹¹ 2007-09 and Smoking Rates 18+ SE London



While we have not been able to carry out the necessary analysis work, we believe there may be correlation between consistently high rates of smoking in routine and

¹¹ Directly age-standardised rate of smoking attributable deaths per 100,000 population aged 35 years and over from London Health Observatory Tobacco Control Toolkit data.

manual workers across five of the six boroughs - approximately 30% - and the communities where the illicit tobacco trade is most prevalent and accepted. See Annex B, Figure 2.

Tobacco Price and Smoking

Research into the effect of raising prices on the behaviour of smokers has shown that consumption decreases by 5 to 7% for a 10% increase in the real price of cigarettes and strongly supports an inverse association between price and cigarette smoking.^{12, 13} One of the objectives of the survey was to confirm the price paid by smokers for illicit tobacco and the purpose of this was twofold; to confirm the tobacco was indeed illicit and could not have been supplied legitimately at that price and to imply from the price the potential impact on tobacco consumption. If cheap illicit tobacco is easily available within communities it is likely to change smoking behaviours and encourage people to start and continue smoking. If these communities are poor then the effect is likely to be even greater.

Illicit Tobacco and Criminality

In its 2011 report on the trade in illicit tobacco HMRC stated that organised criminal gangs play a key role in the supply of illicit tobacco and that this trade is a 'pillar or organised criminal activity in the UK'. In particular organised crime was associated with counterfeit and smuggled cigarettes. Thus the trade does damage well beyond the impact of the tobacco and loss of revenue as it supports other activity such as the supply of controlled drugs, weapons and human trafficking.¹⁴

While a smoker survey cannot directly provide evidence to the level of involvement of criminal gangs it can provide some indirect evidence. Firstly, the size of the trade in terms of market volume share can imply whether low level 'bootlegging' by individuals could supply it or whether an organised trade would be required to meet demand. Secondly, the supply routes will give some information on whether the origin is again individuals engaged in boot-legging or criminal gangs. Finally the level of counterfeit product will give some indication of the involvement of criminal gangs who have access to counterfeit product through their supply networks.

¹² Tobacco Control 2006;15:114-119 doi:10.1136/tc.2005.012468. Esteve Fernandez MD, PhD, Cancer Prevention and Control Unit, Institut Català d'Oncologia, Av. Gran Via s/n, Km 2.7, 08907 L'Hospitalet, Spain; efernandez@iconcologia.net.

¹³ American Journal of Public Health. June 2005. Adult Tobacco Use Levels After Intensive Tobacco Control Measures: New York City, 2002–2003. Thomas R. Frieden, MD, MPH, Farzad Mostashari, MD, MSPH, Bonnie D. Kerker, PhD, Nancy Miller, PhD, Anjum Hajat, MPH, and Martin Frankel, PhD.

¹⁴ Tackling Tobacco Smuggling- Building on our success, HMRC, April 2011.

A Covert Market

Although HMRC reported seizing 1.75 billion cigarettes and 390 tonnes of HRT in 2010/11 it does not report seizures at a regional level and no set of figures that combines HMRC, Police and Trading Standards seizures at a local level is available. The estimates for the scale and value of the illicit tobacco trade shown in Annex A contrast markedly with local confirmed reports of illicit tobacco seizures at the level of local Trading Standards teams.

However, some limited data was available from London Trading Standards (LoTSA) coordinated and DH funded enforcement visits that took place between 2010 and 2012 in the London area. Out of a total of 983 Trading Standards visits, on only 41 occasions were illicit cigarettes or HRT found, but on 7 of these occasions over 2000 packs were found and on 21 of these occasions over 200 packs were found. Although the size of individual seizures was often large –implying a significant trade - the overall volumes seized were low in comparison to estimate that around one in ten packs consumed in the UK (9%) is illicit.

This apparent paradox may be explained by the effect of over a decade of concerted work by HMRC nationally and Trading Standards teams locally to reduce illicit tobacco sales. It implies that supply networks have changed and are now much more discrete in terms of who they supply to and how the supply chain works. It can also be explained by the increasing number of reports of sellers finding ingenious ways to hide illicit tobacco within otherwise legitimate businesses ranging from corner shops and supermarkets to fast food retailers. The survey was designed to directly test the suggestion that the reason for low levels of seizures and detection was that the market was operating in a covert manner with sellers tending to sell to customers they knew or had been introduced to. This is something that local Trading Standards officers believed was the case prior to the survey and has previously been explored in survey work by NEMS in the SW and North of England.

Counterfeit Products

The kinds of illicit cigarettes available have also changed markedly over the last decade from a simple picture of products smuggled in to avoid duty to a more complex mosaic of products¹⁵. The result from an enforcement perspective is a confusing mixture of real, smuggled and counterfeits of both UK and EU packaged products that cannot be easily distinguished from each other. Given that counterfeits are hard for even Tobacco Manufacturers to spot, a buyer will not **know** if a product is a counterfeit and the survey gave the option of indicating that they believed it to be fake/counterfeit. Along with information on price and the route of supply we feel that this gives some indication of the prevalence of counterfeit product.

¹⁵ Tackling Tobacco Smuggling- Building on our success, HMRC, April 2011.

Survey Results

In total just over 1,700 street surveys were conducted with smokers across 40 sites in six boroughs. This represents a large quantity of information; it is not possible to present all of it in this report and it has not been possible to carry out a full analysis to explore all aspects of the data. What is offered is an analysis of the answers the survey data suggests for the key questions set out in terms of the prevalence of the trade and the nature of supply routes. The raw data set will be made available to those who wish to carry out their own analysis of it and we would welcome such support.

One aspect we particularly wish to explore is correlations between local illicit tobacco markets, smoker behaviour and health. This should be possible using the survey locations and the postcodes of respondents where they have been provided. There is a compelling argument that easy availability of low cost tobacco, without normal controls on age of sale, will increase smoking prevalence and encourage young people to start smoking. Similarly there is an argument that the known link between cost and smoking levels will be strongest in communities where incomes are low. However, we have not yet been able to test these linkages using this data set.

Being Offered Illicit, Buying Illicit and the Tobacco Supply

Offers and Buying

Prior to this survey there was a lack of clear evidence regarding the prevalence of the illicit tobacco trade within SE London. While it was the belief of many Trading Standards officers that the trade was significant - and this belief was supported by occasional major seizures - the level of complaints, seizures and prosecutions by Trading Standards teams was low across the SE London area in comparison to the size of the trade estimated from HMRC figures. The smoker survey provides evidence that the trade in the survey area is at or above the 114 million illicit cigarettes each year predicted at Annex A.

Table [1] below shows how often the smokers surveyed were offered illicit cigarettes or HRT and how many of them bought it at least once in the last year. It is clear from this table that if you are a smoker in SE London you are likely to be offered illicit tobacco at least once each year. It is also clear from the table that a smoker in Greenwich or Southwark is twice as likely as a smoker living in Bexley or Bromley to be offered or to buy illicit tobacco.

Table [1]: Being offered and Buying Illicit Tobacco

Borough	%Smokers offered illicit in Last Year	% Smokers who Bought illicit in the last year
Bexley	47.8	27.6
Bromley	32.8	22.0
Greenwich	69.8	50.9
Lambeth	56.9	36.2
Lewisham	65.0	32.1
Southwark	73.0	56.4
Total for all six boroughs	57.6	37.4

Buying

In order to form an estimate of how significant a proportion of the tobacco supply the illicit market represents requires analysis of how often people bought it and how much of their consumption was met by illicit tobacco. This is inherently a difficult statistic to capture as it relies on smokers accurately remembering and reporting their buying habits. The survey set out to estimate it with a simple question 'overall how much of what you buy is illicit, answers to this are shown in Table [2] below. This data set shows that among the 40% of smokers who bought some illicit it was uncommon to buy most or all of their tobacco as illicit, however in areas such as Greenwich and Southwark¹⁶ large numbers of smokers were buying up to half of their tobacco as illicit product.

¹⁶ Southwark was the pilot area for the survey and the surveys used in this borough did not include the question about overall consumption. However, analysis of the detailed data for Southwark implies the size of the market is similar to or larger than Greenwich.

Anecdotally the reason people were not buying more illicit tobacco was that they perceived it as a 'poor quality product' and smokers would buy legitimate tobacco when they could afford it.¹⁷ This is potentially significant in two regards; firstly it implied that if cheap tobacco was not available the individual might smoke less and secondly it implies a conscious decision was made to buy a product that the buyer knew was potentially counterfeit, and did not like, based on its low price.

Looking deeper again into the data showed that there were also large variations within boroughs and in Southwark and Greenwich there were several areas where more than half of smokers indicated that illicit represented half of their tobacco consumption. Furthermore, even within boroughs with overall low prevalence such as Bromley and Bexley there were still areas where over 16% of the market share was illicit. This data is provided in the detailed borough level data in the supporting spread sheets and a detailed explanation of how the proportion of the tobacco supply which was illicit was calculated is provided at Annex C.

Table [2]: Proportion of Tobacco Consumed which is Illicit

Borough	How Much of What You Smoke is Illicit? Respondents %				Calculated Illicit Market Share%
	A Little	About Half	Most	All	
Bromley	11.6	4.8	2.4	3.6	10.7
Bexley	15.4	4.6	1.6	2.4	9.8
Greenwich	27.5	22.7	1.0	0.7	19.7
Lambeth	17.9	4.5	6.9	2.8	14.7
Lewisham	22.7	5.8	1.1	0.4	9.7
Southwark	NA	NA	NA	Na	21.0 ¹⁸
Total					14.7

¹⁷ This is based on feedback from the interviewers carrying out the survey work.

¹⁸ Estimate based on projections of buying and offers of illicit, shown in the excel spread sheet 'buying summary 6 boroughs'.

Sources of Illicit Tobacco – Where are Smokers Buying Illicit Tobacco

Another key area where the survey sought to replace anecdote with quantitative evidence was in determining what the most prevalent and significant sources of illicit tobacco were. At the outset of the work it was recognised that the most apparent or traditional sources – such as street sellers or pubs - might not now be the most significant. Asking smokers where they bought their illicit tobacco as part of an anonymous survey was the most obvious way a gaining insight. Although we felt that smokers might be reluctant to divulge this information, in practice by emphasising the anonymous nature of the survey and not seeking information on specific source or sellers, the smokers were willing to provide this information in some detail.¹⁹

Overall the sources of illicit tobacco were as would have been anticipated from similar work carried out in the North and South West of England and were; pubs, social clubs, shops, street sellers, supermarkets, car boot sales, markets, people's homes and the workplace and the survey did not expose any new sources. However, it did show large differences between boroughs and within boroughs in the frequency with which smokers reporting buying from each source. It also showed that the traditional sources of pubs and social clubs were not as important in the supply of illicit tobacco as had been anticipated.

The survey was structured in such a way as to request information on how much was bought from each source. This survey structure allows the results to be viewed in two different ways, simple frequency of reports of buying and in terms of the significance of the source using the amount bought to weight the scoring. The data for the whole area is displayed in Figure [2] below. This clearly shows the significance of buying from someone's home which has a comparable frequency in terms of purchasing reported to pubs shops or street sellers, but is much more significant when weighted for the amount of tobacco people buy.

In Figure [3] below the frequency and volumes of purchasing from each source are shown for each of the boroughs. While the weighted data does not provide a truly quantitative measure of the volumes sold it does provide insight into the relative importance of the sources in supplying illicit tobacco and from this some observations can be made:

- i) **Selling from Home.** In all boroughs tobacco buying from someone's home was a significant element in the supply. In Lambeth and Lewisham it was the most significant source both in weighted and un-weighted terms. In Southwark and Greenwich it was very significant and represented one of the three largest sources. This reflects results seen in some other parts of the UK and creates a new challenge for Trading Standards and Customs Officers in enforcement work.

¹⁹This was also the reason that the participants were not asked their views on the acceptability of the illicit trade or its negative impacts as it was felt this would prejudice honest disclosure of buying behaviour.

- ii) **Street Sellers.** Street sellers were a significant part of the trade three of the six boroughs and where they were present they were a significant source, in Greenwich and Southwark, the boroughs with the biggest trade, this was the biggest single source of illicit tobacco. This association between a large 'endemic' trade and street selling may relate to the economics of the market and the need for high levels of buyers to make street selling viable.
- iii) **Shops.** The significance of shops varied very widely, overall they were not the most significant source of illicit tobacco, with the exception of Southwark where they appears to the third most significant source. It is possible this variation in the importance of shops may be due to demographic and cultural factors. Analysis of the data implies that younger people are more likely to use shops to buy illicit. It also implies that communities that are mainly white British will frequent pubs and buy tobacco there; other ethnic communities will use shops.
- iv) **Pubs.** These were significant sources in Southwark, Greenwich and Lewisham, but represented a smaller part of the supply than had been anticipated. There may be a demographic linkage to the importance of pubs in that to be an effective supply route the community needs to have a 'pub culture' *and* a demand for cheap tobacco. This may create a linkage between pubs and shops with one or the other predominating depending on the community demographic.

Figure [2] Sources of illicit tobacco in SE London

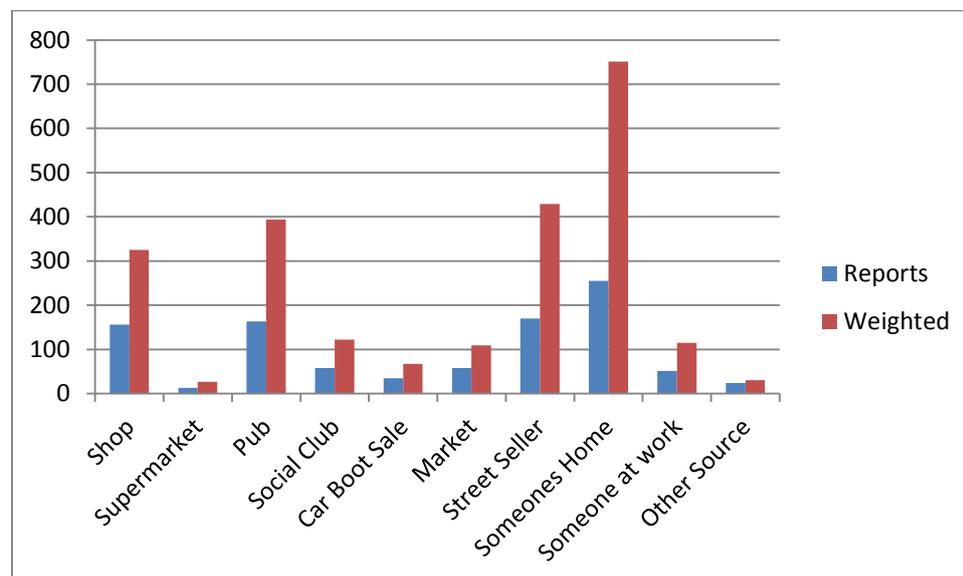
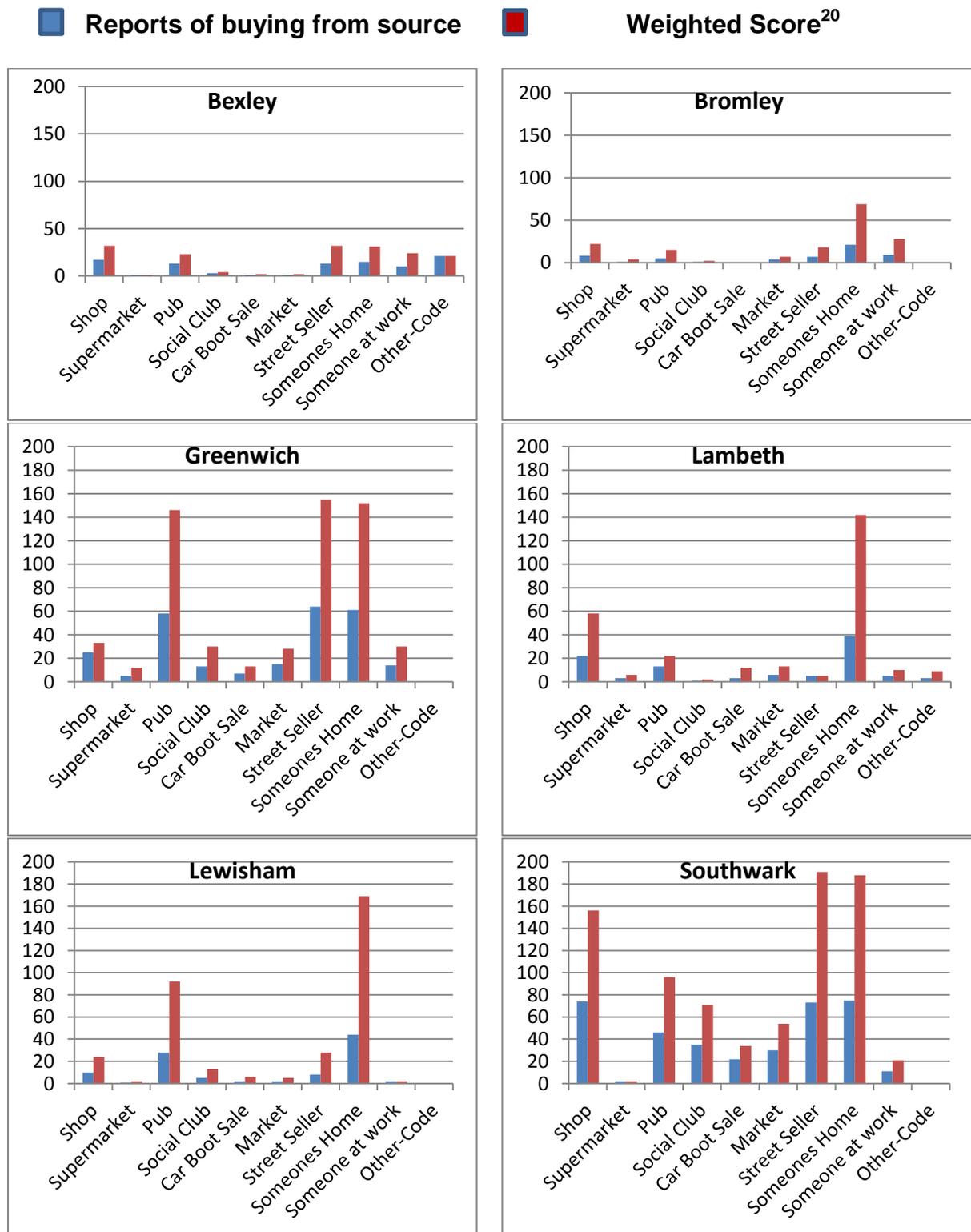


Figure [3] Sources of Tobacco by Borough



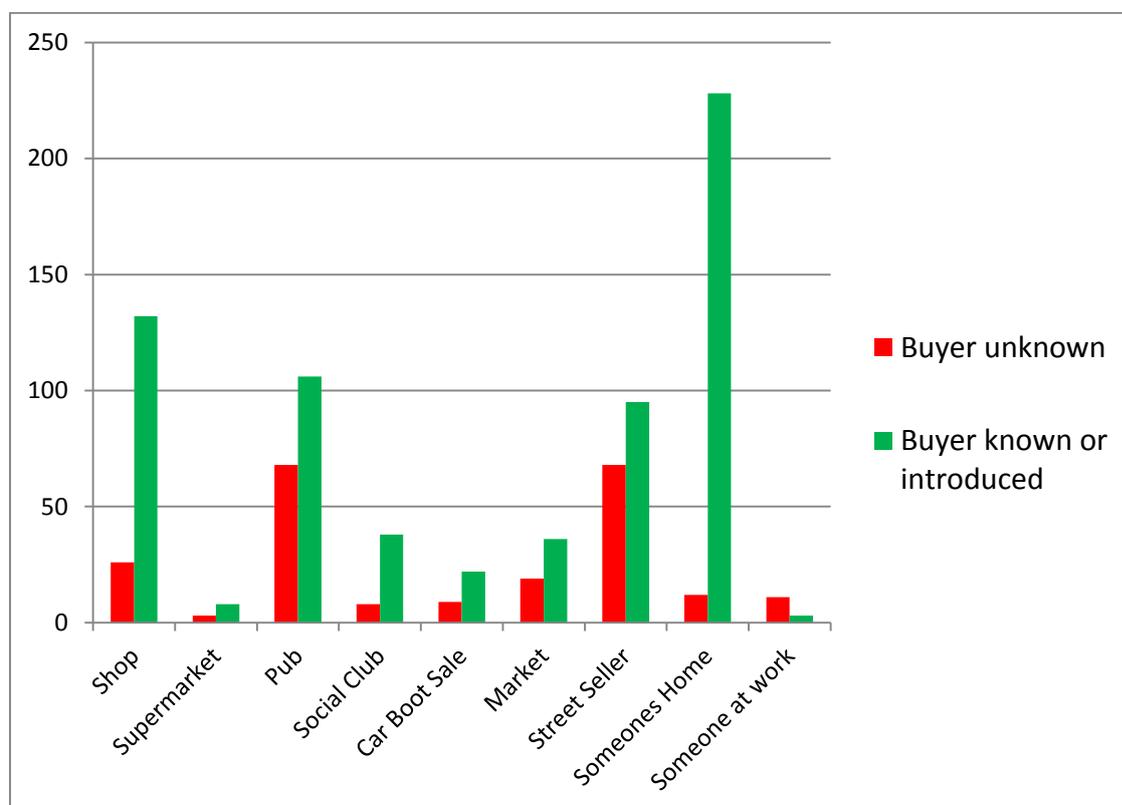
²⁰ The weighted score is the number of reports multiplied by a factor representing how much the buyer reports buying i.e. ‘some’=1, ‘about half’ = 2, ‘most’ = 3, ‘all’ = 4.

Knowing the Supplier- Overt vs. Covert Markets

Another key question the survey sought to answer was the degree to which the market in illicit tobacco was covert as anecdotal evidence was mixed and potentially contradictory. There was significant evidence of street sellers operating in some areas of London selling to strangers in the street or in pubs, clubs or workplaces. Conversely, attempts by Trading Standards officers to purchase illicit cigarettes from shops had not met with much success implying a closed trade. The evidence from the survey was very clear with approximately 80% of smokers that bought illicit tobacco reporting that they were either know by or introduced to the seller.

The structure of the survey prevents direct analysis of the relationship of the buyer with the seller by each source individually as smokers often bought from several sources this would have created a very unwieldy survey. However, it was possible to look for correlations between how much was bought from a source and what the relationship between the buyer and seller was. This was done by looking at the total number of reports of buying from each source and then applying a filter. First only instances where the subject said they were not know to or introduced to the seller were totalled, then only instances where the buyer was unknown. The sensitivity of the totals to this 'filter' was taken as an indication of how covert the trade was from that source, this is shown in Figure [4] below.

Figure [4] Sources of illicit and knowing the seller



It must be noted that this is a **correlation** not a clear linkage, but it does show significant changes in the relative numbers of reports of buying where the smokers indicated the seller knows them or has been introduced to them. However, the difference between 'known' and 'unknown' is so significant for shops and selling from people's homes that it does imply these sources are particularly selective in who they sell to.

The apparently covert nature of the market supports anecdotal reports from Trading Standards and HMRC teams of elaborate schemes for hiding cigarettes within retail premises ranging from false and hidden cupboards to secret spaces in fridges and adapted manhole covers with baskets to store cigarettes. It can be seen as a sign of the success of more than a decade of work by HMRC and Trading Standards teams, but does represent a challenge in terms of future enforcement.

Test Purchasing

The survey results clearly show that test purchasing is likely to be challenging as around 80% of the smokers who bought illicit reported that they were known to the seller and the sensitivity analysis also implies that shops will tend not to sell to unknown customers. Similarly the survey implies that selling from people's homes is a major source and where strangers are unlikely to be welcome and where the Regulation of Investigative Powers Act (RIPA) and guidelines covering the use of Covert Human Intelligence Sources (CHIS) will come into play.

Although the obvious approach would be to attempt more covert work and use CHIS this will always be limited in what it can achieve and need to be used very selectively. It is expensive, has obvious risks associated and requires significant effort to ensure compliance with relevant legislation and guidance on the rights of the vendor and safety of any personnel involved. In reality what is more likely is that Officers will need to approach test purchasing in new ways and use intelligence to target high risk sources and attempt to 'look like' typical purchasers.

Social Marketing

While the closed nature of the trade presents a barrier to Trading Standards teams gaining access to illicit tobacco it does offer some potential secondary benefits. If buyers and sellers know each other and are part of wider family and social groups they may be sensitive to social marketing. If such social marketing can change the perceptions of a high enough proportion of individuals within communities, peer pressure could be a powerful tool in dissuading people from buying and selling illicit tobacco. Given the strong links the trade has to organised crime, the large proportion of counterfeit goods and its obvious health impact there are several messages that could be used to make the trade less acceptable. This marketing also had the potential to generate intelligence that can be used to target enforcement work. Although this would not have much impact on the hard core of criminals further up the supply chain, it could have impact on the large number of otherwise law abiding people involved at the lowest tier of the supply chain.

The Price and Product Type of Illicit Tobacco

Determining the price of illicit tobacco was an important element of the survey for two reasons; firstly it provided insight into the pricing incentive smokers have to buy illicit, secondly it offers a way to confirm the product being reported as illicit. In any survey there can be ambiguity regarding what the respondent understands from the questions asked and it was possible that the smokers could confuse 'cheap' but legitimate UK brands such as Pall Mall, Stirling and Mayfair that retail at just over £6.00 per pack of 20 sticks with illicit. While the survey did return reports of smokers paying prices at or above the minimum price for legitimate UK cigarette brands, the large majority reported prices that were clearly only possible with illicit product.

In the introduction to this work it was stated that the illicit tobacco trade is complex in terms of the variety of products available and their provenance. This complexity means that to form an understanding of pricing some understanding of the products and market are also needed, simply looking at the mean average cost is potentially misleading. In particular mean prices for cigarettes can be misleading as there is a strong inverse relationship between the quantity purchased and the cost, with cost per stick falling with larger purchases. In the tables and figures below the price of illicit tobacco has been broken down in detail to provide insight into how prices may affect purchasing decisions.

Cigarettes

The mean average cost of illicit cigarettes is shown in Table [3A] below and needs to be compared to a minimum legitimate price of around 31p per stick with minimal reduction for volume purchases. In comparing average prices it must be noted that there was a wide spread in prices reported in all cases and although these mean prices are useful, there were significant numbers of reports of lower prices.

Table [3A] Average cost of illicit cigarettes by pack size

Pack Size	Number of Reports	Pack Price (Price per stick)
10	81	£2.64 (26.4)
20	284	£3.97 (20p)
200	71	£23 (11.5p)

It should be noted that while these mean prices are consistent with those reported from other regions, there are significant variations in the prices reported. This is shown in Figure [5] below which plots the reported price for 20 cigarettes, in 50p price bands, against frequency of reports of buying at this price. The figure clearly shows that although the average price does correspond to the median, there are a large number of reports of cigarettes being bought at significantly below this mean and above the average price. The same trend is seen across all pack sizes for cigarettes and HRT with a fairly wide distribution of cost around the mean average or median values.

While it might be logical to assume that these price differences were linked to the different types of cigarettes available, this did not appear to be the case. From the Table [3B] below it can be seen that there was surprisingly little difference in the mean average price of 20 sticks across the different types and it should also be noted that the majority of reports were for cigarettes in ‘normal UK packaging’ (149 of 268 reported purchases).

Figure [5] Profile of price/£ and frequency for a pack of 20 Cigarettes

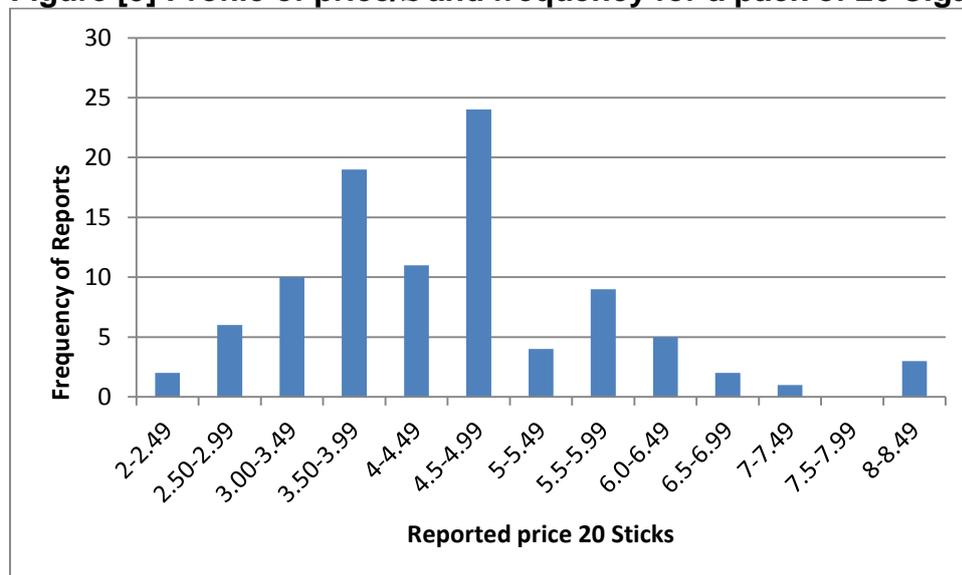


Table [3B] Average cost of illicit cigarettes by type (pack of 20 sticks)

Type	Number of Reports	Average Price
It was a Foreign Brand	22	£3.89
It was a UK Brand that looked like a normal pack	77	£3.98
It was a UK Brand but I think it was fake	72	£4.22
It was a UK Brand but with foreign labels	97	£3.84

It should also be noted that if the prices reported are compared to typical prices for duty paid product in other EU countries, shown in Annex D, the margin for profit per pack is not large. In comparison counterfeit are potentially very cheap to produce costing potentially as little as 15p to 20p per pack²¹ and offering a much larger profit margin. This would explain why counterfeit product is apparently so prevalent and so attractive to criminal gangs which can access them.

²¹ Cancer Research UK press-release Friday 23 November 2012 ‘Tobacco industry claims on cigarette packaging are nonsense’.

Hand Rolling Tobacco(HRT)

The mean average cost of HRT by pack size and type is shown in Table [4] and Table [5] below respectively and need to be compared to a legitimate price of around 21p per gram for a 50g pack. As with cigarettes the price of HRT initially drops with bigger purchases, but appears to stop dropping at about 50g where the price is about £6.70.

Table [4] Average cost of illicit HRT by pack size

Pack Size	Number of Reports	Average Price (Price per gram)
12.5g	19	£3.42 (27.4p)
25g	41	£3.93 (15.7p)
50g	42	£6.70 (13.4p)
200g	19	£27.50(13.75p)

While the sample is smaller, there did appear to be bigger differences in price for HRT with product type, foreign brands and UK brands with foreign labelling being cheaper than HRT in UK packaging.

Table [5] Average cost of illicit HRT by type (25g Pack)

Type	Number of Reports	Average Price
It was a Foreign Brand	6	£3.26
It was a UK Brand that looked like a normal pack	11	£4.51
It was a UK Brand but I think it was fake	15	£4.26
It was a UK Brand but with foreign labels	8	£2.87

Confirming that the products in question were well below the lowest legitimate price and so definitely 'illicit' was an important element of the survey. The price that these products were sold at was also of interest in terms of establishing whether products were counterfeits or duty paid products smuggled from a country of lower excise duty. The implication being that many of the foreign labelled products may in fact be counterfeit.

It should also be noted that the studies quoted earlier relating to pricing and consumption of tobacco imply that if cigarettes are available at around £4.00 for 20 cigarettes, or 50% below the normal cheapest legitimate brand, it is likely to significantly increase consumption levels.

Litter Picking

In parallel with the survey work a pilot project was undertaken that involved separating out and analysing cigarette pack and HRT tobacco packaging from street litter. The aim was to test the technique and to provide additional quantitative evidence of the prevalence of illicit tobacco to test the smoker survey results. There are a lot of statistical and practical complications and considerations involved in litter picking as a survey method. But, if the smoker survey data is accurate regarding what people were buying it should be reflected to some degree in what was being found on the streets.

In total 652 items of pack litter were sampled from eight sites across three boroughs - Lambeth, Greenwich and Southwark- the summary breakdown is shown in Table[6] below. The sample was almost entirely cigarette packs, few if any HRT pouches were present in the sample. While this sample may seem like a large number of packs it represents a relatively small sample if we assume around 15% of the cigarette supply is illicit and of that only a proportion will be in non UK packs.

Table [6] Litter Pick Pack Types and Quantities

Pack Type	Quantity	%
UK	567	87
Foreign-EU	45	7
Foreign Non-EU	32	5
Duty Free ²²	7	1

The analysis of this data is complicated by the presence of packs from legitimate cross-border shopping e.g. holiday travel and purchases of duty paid products within the EU or duty free from outside the EU. However, in 2010 HMRC estimated that cross border shopping accounted for around 5% of cigarettes consumed in the UK came from cross border shopping²³. The presence of around 12% of non UK packs is more than double what would be anticipated from this HMRC work. If we subtract the 5% of anticipated legitimate cross border shopping from the total of 12% we get a total of 7% which we can assume to be illicit. There are obviously other potential explanations such a higher than average cross border shopping rate or a statistical anomaly created by the small sample. But, this figure is consistent with the value of 6.5%²⁴ from the smoker survey and offers evidence to support the conclusion that the trade in illicit tobacco in South East London is significant.

²² This refers to packs carrying markings that indicate they are for duty free sale only.

²³ Econometric Analysis of Cigarette Consumption in the UK, Magdalena Czubek, Surjinder Johal, December 2010, HMRC Working Paper Number 9.

²⁴ This is based on 43% of smokers who bought cigarettes buying products in non UK packaging and around 15% of the market being illicit.

Although the small sample size does limit detailed interpretation of the results, the full results are provided below in Table [7] below as they are of potential interest. In particular these figures show large variations in the percentage of non UK packs present, as would be predicted from the smoker survey results.

Extending the survey to cover a wider number of boroughs and routes and extending it over several weeks has the potential to provide more insight and reduce potential sources of error. It is worth noting that in the sample analysed over 20% of the packs were Polish and 7.5% from Nepal with each associated with a specific litter pick route (Brixton and Plumstead High St. respectively). This implies illicit supply routes into specific communities in these areas, but larger samples over longer time periods would be needed to prove this conclusively.

Table [7] Litter Pick results by Borough and Sample Area

Borough	Area	%UK	%Foreign EU	%Foreign Non EU	% Duty Free
Greenwich	Plumstead High Street	80.6	2.8	16.7	0.0
	Eltham High Street	95.3	0.0	4.7	0.0
Lambeth	Clapham	87.2	5.1	7.7	0.0
	Brixton	91.4	5.7	1.4	1.4
Southwark	Bermondsey	67.9	12.5	17.0	2.7
	Borough & Bankside	87.6	8.3	4.1	0.0
	Rotherhithe	89.4	6.7	1.9	1.9
	Peckham	91.2	5.5	2.2	1.1

Counterfeits

From HMRC figures and the smoker survey we would have anticipated that at least fifty counterfeit packs would be present in the sample of 652 packs, in reality only two potential counterfeits were identified by small printing errors/inconsistencies. Although it had been hoped that counterfeit products could be identified from low quality printing, failure to apply UK warnings, errors in printing or use of batch codes, none of this proved useful in practice. In practice the standard of printing was always high and no obvious errors were present in the way the packs had statutory warnings and notifications applied. This is perhaps not surprising given the improvements in digital scanning technology and the quality of package manufacturing equipment available to counterfeiters.

Furthermore, although in principle the batch codes embossed on pack bases might have allowed identification of counterfeits, in reality the codes were often illegible, even at magnification, and lists of numbers for known counterfeit batches were very limited in the brands covered and known to be out of date. In addition it was obvious that a very large number of brands and brand variations are being sold in the area which created the problem of knowing exactly what a legitimate pack should look like.

Annex A: Projections of Illicit Cigarette Market based on HMRC Estimates

Estimated volumes of illicit cigarettes in the survey area based on population and smoking rates.

Borough	Adult Population²⁵	%Smokers²⁶	Number of Smokers²⁷	Cigarettes consumed p.a.²⁸ (sticks)	Illicit cigarettes @ 9% of total consumed²⁹	'Street' Value of illicit cigarettes³⁰ /£
Bexley	182,000	18.1	32,900	156,310,000	14,067,900	2,813,580
Bromley	255,000	16.5	42,075	199,645,875	17,968,129	3,593,626
Greenwich	182,000	24.2	44,044	208,988,780	18,808,990	3,761,798
Lambeth	237,000	21.4	50,718	240,656,910	21,659,122	4,331,824
Lewisham	210,000	21.9	46,000	218,270,000	19,644,300	3,928,860
Southwark	240,000	21.4	51,400	243,893,000	21,950,370	4,390,074
Totals	1,306,000	123.5	267,137	1,267,764,565	114,098,811	22,819,762

²⁵ From ONS mid 2010 population survey of England and Wales based on citizens over 15 years of age.

²⁶ From London health Observatory figures April 10 to March 11, smokers over 18 years old.

²⁷ Estimate rounded to nearest 100.

²⁸ Based on ASH August 2011 fact sheet estimating consumption per smoker per day of manufactured cigarettes, using a value of 4745 'sticks' per year (13 per day) and rounding to nearest 10,000.

²⁹ The figure of 9% is a UK wide figure taken from HMRC Tax Gap Report 2012.

³⁰ Based on a price of £4 per pack of 20 sticks which is consistent with the survey findings and work done by NEMS market research in London and the North of England.

Annex B: Smoking and Health

Figure 1. Differences in smoking within the borough populations

	Bexley	Bromley	Greenwich	Lambeth	Lewisham	Southwark
Smoking prevalence all adults 18+ %	18.1	16.5	24.2	21.4	21.9	21.4
	Regional average = 19.8, England average = 20.7 England worst = 33.5, England best = 8.9					
Routine and manual worker smoking prevalence 18+ %	22.7	28.3	29.7	31	27	28.3
	Regional Average = 26.9, England Average = 30.0 England Worst = 43.3, England Best = 11.6					
Difference between 18+ and routine and manual worker %	4.6	11.8	5.5	9.6	5.1	6.9

Data from period April 2010 to March 2011 London Health Observatory

Figure 2: Smoking Attributable Deaths and Lung Cancer Registrations by Borough³¹

	Bexley	Bromley	Greenwich	Lambeth	Lewisham	Southwark
Smoking Attributable Deaths 2007-09	210.9	171.6	286.6	272.3	269.4	266.9
Comparisons Smoking Attributable Deaths	Regional average = 207.9, England average = 216.0					
Lung Cancer Registrations 2006-08 Index values	51.8	40.1	62.2	64.9	59.7	64.3
Comparisons Lung Cancer	Regional average = 47.9, England average = 48.3					

³¹ From London health Observatory figures.

Annex C: Prevalence Calculation

Prevalence and the proportion of the tobacco supply that is illicit was calculated from answers to the question 'overall how much of what you smoke is illicit'. This was a question added after the pilot survey and so there are no responses to this question for Southwark. However, based on the linkage between buying patterns and answers to this question it can be assumed that Southwark is likely to follow Greenwich in terms of prevalence rates.

The calculation is based on attributing a percentage value to the responses to the consumption question as follows:

Response	Assumed Illicit Tobacco Consumption
None	Zero
A Little	25%
About half	50%
Most	75%
All	100%

The total proportion of illicit was then calculated using the formula:

$$PI = B \times 0.25 + C \times 0.5 + D \times 0.75 + E$$

Where,

PI = Percentage of tobacco that is illicit

B = Percentage of smokers reporting 'a little' of what they consume is illicit.

C = Percentage of smokers reporting 'about half' of what they consume is illicit.

D = Percentage of smokers reporting 'most' of what they consume is illicit.

E = Percentage of smokers reporting 'all' of what they consume is illicit.

The resulting figure is an approximation, but as any such survey depends on individuals estimating their consumption accurately and reporting it honestly, this was considered the best that was likely to be possible. However, the fact that it is consistent with HMRC UK estimates and the litter pick study carried out we believe it is an accurate estimate.

Annex D: EU Cigarette Prices 2011

	RRP
	£ per 20
Ireland	7.41
UK	6.95
Sweden	5.71
France	5.12
Finland	5.03
Denmark	4.97
Germany	4.47
Netherlands	4.38
Belgium	4.29
Italy	3.99
Austria	3.81
Malta	3.47
Luxembourg	3.47
Portugal	3.47
Spain	3.47
Czech	3.44
Cyprus	3.34
Greece	3.29
Latvia	2.94
Poland	2.84
Slovenia	2.77
Slovakia	2.74
Romania	2.69
Bulgaria	2.65
Lithuania	2.41
Hungary	2.40
Estonia	2.38

This table shows the price and tax burden of 20 cigarettes in the premium cigarette price category in each of the 27 Member States. The price shown is primarily based on Tobacco Industry sources and information contained in the European Commission's publication *Excise Duty Tables. Part III – Manufactured Tobacco, July 2011*

<http://www.the-tma.org.uk/tma-publications-research/facts-figures/eu-cigarette-prices/>

Annex E: Survey Design and Implementation

Actionable Insight

The objective of the survey was primarily to gain actionable insight into illicit tobacco, the demand for it and its supply. While efforts were made to acquire a data set that was statistically valid and could be compared to other national or regional surveys relating to illicit tobacco, its primary aim was understanding supply and demand.

Targeting Smokers

In many similar surveys both smokers and non-smokers have been surveyed to assess the degree to which the illicit trade has penetrated communities. In this survey only smokers were interviewed on the basis that they would provide a much richer and more accurate source of intelligence per interview than non-smokers.

Measuring Sentiment

In many previous studies the subjects have been asked about their feelings regarding the negative impacts of illicit tobacco with regard to crime, health and under-age smoking. These surveys have provided valuable insights into how smokers and non-smokers perceive illicit tobacco and help in social marketing design. However, it was also felt that in asking these questions the surveyor was potentially biasing the survey and making the subjects less likely to be honest regarding their buying habits. They also made the survey much longer and our initial feedback from groups working with the communities we were attempting to survey implied many potential participants would not cooperate if the survey was too long or invasive.

Length of Survey

One of the early decisions regarding the survey was that it should be as short as possible in order to encourage the maximum number of people to complete it and allow surveyors with minimal training to deliver it. Testing early versions of the survey with the Southwark Young Advisors confirmed this and resulted in it being simplified further until it could fit on three sides of A4 and be completed in between three and five minutes.

Anonymity and Demographic Information

In order to encourage honesty the survey was designed as an anonymous one from the outset and this plus the desire for brevity meant that only very basic demographic information was gathered. However, subjects were asked for full or part post codes for their home address in order to allow some anonymous demographic profiling and associate behaviours with home addresses not just the survey sites which might be some distance away.

Surveyors

The surveys were delivered mainly by the community advocate/worker groups the Southwark Young Advisors or Charlton Athletic Community Trust, one area was surveyed by the market research company One Deep Breath(ODB).

Annex F: Survey Data Weighting Issues

Sample Size

Overall the sample size of over 1700 smokers across the six SE London boroughs represents the most detailed survey of illicit tobacco to date in SE London and potentially in the UK. However, it must be noted that one of the findings of the survey is that illicit markets operate at a very local level and caution needs to be used in interpreting the data as, in a statistical sense, the borough level and survey site level samples are small.

Age and Sex Bias in the Sample

Given the resources available it was not considered viable to achieve a fully age and sex representative sample of borough populations. Analysis of the surveys against ONS population data clearly shows a positive bias towards younger smokers and underrepresentation of older smokers.

Age Bias in the Sample

Age	ONS Group %	Survey Group %	Survey Bias%
14 to17	6.3	8.9	+2.7
18 to 24	8.2	22.9	+14.7
25 to 34	19.2	24.2	+5.0
35 to 44	18.8	19.2	+0.4
45 to 54	17.4	15.1	-2.2
55 to 64	15.3	6.2	-9.1
65 +	14.9	3.5	-11.4

Impact of Age Bias

Analysis of buying patterns by age implies that the age groups that buy the largest amount of illicit tobacco per individual are the 35-44 and 45-54 years old age groups. The survey results imply that younger and older age groups buy less per individual and the net effect of the bias will be to reduce the apparent levels of illicit consumption. When tested by applying weighting factors to the data and calculating a new estimated percentage of illicit tobacco for the data set as a whole the result was 0.55% higher than the un-weighted value implying that overall the bias is small and negative. This may not be the case at Borough level, but it was not considered sensible to apply weightings to individual borough data sets.

Variations in Buying with Age

Age Group	Sample Size ³²	None%	Little%	Half%	Most%	All%	Illicit Market Share ³³
14-17	87	75	16	8	-	1	9.20
18-24	255	60	29	7	3	0	13.43
25-34	276	66	24	7	3	0	11.96
35-44	234	62	23	12	1	2	14.53
45-54	192	63	17	17	1	4	16.54
55-64	80	68	15	15	-	3	13.75
65+	48	75	13	4	2	6	13.02
Total	1172						

Sex Bias

Analysis of the sample implies that men are more likely to buy illicit tobacco than women. Overall the sex bias in the sample was towards men, but was a small bias overall unlikely to affect the end results. However, in some survey areas there was a more significant bias that is worth noting.

Sex and buying Illicit Tobacco

Sex	Sample Size across all Boroughs	Estimated % of Tobacco Consumed which is Illicit
Female	806	8.7%
Male	940	13.3

³² These figures are for surveys where respondents answered the question on overall consumption, this was not in the Southwark pilot and so the total here is lower than the overall number of surveys completed.

³³ Estimated percentage of tobacco consumed by this age group which is illicit based on the buying patterns reported in the survey.

Selecting Street Surveys

Street survey was employed as it was considered most likely to put us into contact with people that were buying illicit and also allowed interviews to build a degree of rapport with subjects while asking potentially difficult questions regarding illicit tobacco. While this probably does bias the survey towards buyers, it was felt there was no ideal approach to surveying accurately on this issue. Using landline telephones will bias towards higher socio-economic groups and there will inherently be a bias simply based on willingness to participate.

Site Selection

The survey sampled a minimum of five sites in each borough and attempted to achieve a minimum of forty surveys per sample site, selection of sites was based on the following criteria:

- i) Will it offer a high enough foot fall to make surveying viable.
- ii) Is it a safe environment for the surveyors to work in.
- iii) Does the set of sites offer a reasonable cross section of the communities present within the borough.
- iv) Does it avoid major national transport hubs or tourist attractions that would skew the sample with non-residents.

Post Code Data

It is inherent in the nature of street surveys that you are likely to be surveying at a local 'hub' such as a high street rather than the neighbourhood they live in. As part of the survey respondents were asked for a full or part post code to allow the results to be analysed by where they lived rather than where they were surveyed. This data has not yet been fully analysed, initial analysis implies that the variations in market prevalence are even more acute when examined by post code rather than survey site.