

MARKET STUDY REPORT IN ILLICIT TOBACCO CIGARETTES AND OTHER SECONDARY PRODUCTS IN MALAWI

Submitted to:

TOBACCO CONTROL COMMISSION

by:



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Acronyms

FGD	Focus Group Discussions
KII	Key Informant Interviews
MRA	Malawi Revenue Authority
TCC	Tobacco Control Commission
WHO	World Health Organization

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Executive Summary

Introduction

This report documents the results of a market study of illicit cigarettes in Malawi. The study was commissioned by the Tobacco Control Commission of Malawi with the aim of investigating the structure and conduct of illicit trade in cigarettes. Specifically the study was to come up with the relevant statistical information on the nature and extent of the illicit trade in cigarettes and other tobacco secondary products.

Data and Methods

The study employed both a quantitative and qualitative approach. Data was collected from various groups of respondents in Mzuzu, Lilongwe and Blantyre. Personal interviews with key informants were also conducted with the manufacturers and distributors /wholesalers of cigarettes. In addition, the study team visited several drinking joints to interview consumers (i.e. smokers) to solicit information on consumer preferences on cigarette brands, buying behaviour, awareness of the dangers of smoking and smoking illicit cigarettes. The team further analyzed cigarettes tubs and empty packets that customers through into the bins at the drinking joints to characterize consumer preferences.

Study Findings

To address the objectives of the study, several different aspects were analyzed and they included, (a) the key players and their roles along the illicit cigarettes market (b) the entry routes of illicit cigarettes in Malawi (c) Consumer awareness of the availability and dangers of such cigarettes, (d) Consumer preferences of different brands and blends of cigarettes, (e) factors influencing the prevalence of illicit trade, (f) the pricing dynamics of illicit cigarettes.

Key Findings

The study has established that illicit trade in cigarettes is active in Malawi. Some of the illicit cigarettes are produced within Malawi whilst others are imported or smuggled into the country. The structure of the market for such products involves a number of players including transporters, itinerant vendors, illegal manufacturers and even retail shops. The study established that major blends of cigarettes available on the local markets were Virginia (72.8%) and American (27.2%).

However, some respondents even the traders (33.7%) were unable to mention the blend of the cigarettes they were selling. This was the case because of the educational levels of the respondents and possibly the will to know the blends. The preference towards the brands widely varied among smokers, with the majority (37.7%) of the respondents preferring Embassy Menthol (Pall Mall Green) and Embassy Kings (Pall Mall Red) (29.9%). 2010 brand was preferred by 17.4% of the respondents and Life was at 3.6%, while Laif was 7.2%.

Most of the buyers (59%) get cigarettes from the vendors on the streets or on local markets, while others (24%) get them from groceries and 11% of the buyers get the cigarettes from the bars/ pubs.

Most buyers get the cigarettes from the vendors because it is easy to access and are able to buy the cigarettes in single sticks or packets. The most preferred units are single sticks and packets. Most buyers/smokers (42%) smoked on average five (5) cigarettes per day and 39% smoked three cigarettes / sticks per day whilst 19% smoked at least 10 sticks per day.

Most smokers (56.7%) indicated that the prices for cigarettes were affordable whilst the remaining indicated that the prices were high but still they would continue smoking. This means demand for cigarettes is inelastic to the price increases.

Most cigarettes respondents (93%; n=132) mentioned that they knew the market had illicit cigarettes. The cigarettes they considered illicit were laif, Boston and Ralli Kings, TomTom, Ascot, Brothers, 2010 and Blakasi white and Brown. Laif is the most mentioned brand considered illicit. Most smokers (76.4% N= 202) and traders (67% N=125) knew how to identify the cigarettes that are counterfeits. Majority smokers (68.3% N=202) indicated that they would identify counterfeits by colour. Other attributes they used to identify the counterfeits are: having foreign country stamps (2.4%); low flavor (7.3%); lining on the filter (2.4%); taste (8.5%); lack of MBS label (7.5%); taking long time to last (3.7%).

Both traders and smokers were able to mention the origins of the counterfeits. Majority of traders (70.1% N=125) mentioned countries around Malawi like Mozambique, Zambia and Tanzania, others (21.2% N=121) mentioned Malawi as the origin of counterfeits. Others (5%) mentioned Kenya and India as origins of counterfeits.

It has been estimated that Malawi is losing at least 10% in cigarettes revenue to illicit trade against the 30% of KPMG estimated at the world scale. Other studies have estimated 11% loss of revenues in Southern Africa.

In view of the foregoing findings a number of lessons were identified as follows:

- i. Illicit cigarettes trade is thriving in Malawi and the sources of such cigarettes are both local and international.
- ii. The major entry points include formal Malawi borders and other smuggling routes, including international transporters.
- iii. Illicit cigarettes are also produced in Malawi by some unscrupulous manufacturers who imitate the packaging of genuine brands. Such manufacturers have inordinate access to the genuine labels and packaging, implying inadequate inventory control systems in the local manufacturing companies that allow the pilferage of genuine packages to flourish and filling of such packages with illicit tobacco, thus deceiving and endangering the lives of innocent consumers
- iv. Consumers have specific factors that influence their choice of brands to smoke and they include taste, pricing, availability and flavor (smell)
- v. There are several factors that are influencing the prevalence of illicit trade and they include poverty, the desire to make more money and weak control measures to curb the trade in the country.
- vi. Illicit cigarettes come mainly from neighboring countries, such as Mozambique, Zambia and Tanzania. Some of them come from as far as India and Kenya.

- vii. Many consumers do know the dangers of illicit cigarettes and were able to cite health related issues. Despite this knowledge, they still buy such cigarettes because they are cheaper than genuine ones. This is against the consumer protection laws of the country.
- viii. The major blends available in Malawi are the American and Virginia blends and the most prevalent is the Virginia blend
- ix. Illicit cigarettes have specific characteristics – such as longer time to smoke, bad taste, hard to sense of touch and poor labeling.
- x. The law enforcing agencies have inadequate information about the illicit trade and there is no adequate interaction with manufacturers on uprooting the illicit trade.

The study therefore recommends the following:

- 1) There should be awareness campaigns on the dangers of illicit cigarettes.
- 2) The law enforcement agencies should work together to identify and prosecute the culprits of illicit cigarette trade. In this way, all shops that sell such cigarettes should be closed. The destruction of confiscated manufacturing equipment, tobacco, non-tobacco materials and illicit tobacco products is essential to prevent these items from finding their way back into the illicit trade or being used to produce additional illicit products.
- 3) Malawi Revenue Authority should keep *well defined records* of all seized illicit cigarettes so that the TCC and its stakeholder can monitor the pattern of trade. This also means that Malawi Borders must be strengthened to close any loop holes.
- 4) There is need for international collaboration on the control of flow of illicit cigarettes since this trade is also across the borders
- 5) Introduce the electronic identification devices for the stickers' authenticity verification purposes. This can be done by MRA.
- 6) Introduce whistle blowing mechanism for active participation of the citizenry
- 7) Collaborate with manufacturing companies in fighting the illicit trade
- 8) Studies of this nature should be conducted regularly to provide updated information on the market trends. The study areas should include both the rural and urban plus the border districts. There should be multiple methods of data collection to improve and perfect the quality of data collected.
- 9) The fact that the respondents mentioned some legally produced cigarettes as counterfeits suggest two things: firstly, the organisations should be encouraged to tighten security issues so that their materials are not stolen for counterfeits productions and secondly, the organisations should be properly launched on the markets so that citizenry are well aware of the newly introduced companies.
- 10) In future studies, all relevant stakeholders such as Law Enforcement Agencies, MRA, Government, cigarette manufacturers, Consumer Association of Malawi should be sensitized beforehand so as to build trust that will facilitate the smooth implementation of such studies.

1. CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 Introduction

Tobacco is among Malawi's export commodity that is exported in raw form. Production of tobacco has steadily increased over the years and it accounts for over 60% of Malawi's export earnings annually. The importance of the Agriculture Sector in Malawi cannot be overemphasized. The sector in Malawi largely contributes to the component of *sustainable economic growth and development* of the Malawi Growth and Development Strategy (MGDS). In order to effectively achieve the MGDS targets in the agricultural sector, The Ministry of Agriculture, Irrigation and Water Development (MAIWD) designed a novel priority investment framework known as ASWAp (**Agricultural Sector Wide Approach Support Project**), whose goal is to improve food security and nutrition, increase agricultural incomes and ensure sustainable use of natural resources. One of the notable objectives of ASWAp has been to *promote commercial production and agro-processing for market development*. To achieve commercial production, agro-processing and access to viable agricultural markets there is need to have a clear understanding of agricultural value chains consisting of agricultural research to develop agricultural exports of different high value commodities, input logistics, primary production, agro-processing for value addition and import substitution marketing (trade) development for input and outputs through Public/private sector partnerships.

Considering tobacco is Malawi's principal export commodity and is likely to remain so in the short to medium term, there is need to enshrine production enhancing strategies, processing, value addition and export promotion of the crop.

Malawi based companies, however, continue to face challenges in marketing manufactured cigarettes and other secondary tobacco products due to the influx of illegal cigarettes on the market. The challenge also applies to potential investors in cigarette manufacturing who are key in ensuring that there are:

- i. Improved foreign exchange capacity of the country
- ii. Improved job opportunities through job creation
- iii. Promotion of import substitution
- iv. Enhanced tax revenue base
- v. Increased production and productivity to satisfy increased demand for tobacco

It is with these benefits in mind that the Government of Malawi is seeking for potential investors in cigarette manufacturing. It is also against this back ground that a study was commissioned by the Tobacco Control Commission (TCC) to investigate the structure and conduct of illicit cigarettes trade in Malawi and the impact thereof on the economy.

1.2 Objective of The Assignment

The market study aimed to come up with the relevant statistical information on the nature and extent, of the illicit trade in cigarettes and other tobacco secondary products.

1.3 Scope of The Assignment

The study investigated the following:

- i. Source of the illicit cigarettes, country of origin, producers and brands and size of investments
- ii. Trade routes and contacts
- iii. The nature and structure of the local market distribution outlets and scheme, market size and brands
- iv. The trade and pricing mechanism in practice
- v. Market share by producers, band, flavor, size or shape
- vi. Retail price segmentation
- vii. The consumer and supplier knowledge of illicit trade
- viii. Factors that affect the illicit trade prevalence

1.4 Study Questions

In line with the specific objectives of the study, the following questions were dealt with in the study (Table 1):

Table 1: Study Questions

Specific Objective	Study questions based on the specific objectives
To establish the sources of the illicit cigarettes, country of origin, producers and brands and size of investments	What are the sources of the cigarettes? What are the brands? Who are the producers of such brands How much is the market share of each brand?
To establish trade routes and contacts	What are the trade routes and contacts for the cigarettes?
To check the nature and structure of the local market distribution outlets and scheme, market size and brands	What are the distribution outlets? What are the markets sizes for each brand?
To determine the trade and pricing mechanism in practice	What are the pricing strategies? What is the structure and conduct of the illicit tobacco trade? How different is the trade and retail pricing? What are the motivations for the type of pricing?

Specific Objective	Study questions based on the specific objectives
To establish the market share by producers, brand, flavor, size or shape	What are the market shares of the respective brands?
To establish the consumer and supplier knowledge of illicit trade	What is the current knowledge about illicit cigarettes?
To examine the factors that affect the illicit trade prevalence	What are factors fuelling the illicit trade? What actions should be taken to minimize or eliminate the trade?

2. ILLICIT TRADE IN TOBACCO

The illicit trade in tobacco products is defined in Article 1 of the WHO FCTC 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.*” According to Elizabeth Allen (2014), the illicit trade in cigarettes and other tobacco products exists in three broad forms as described below:

- i. Smuggled: the unlawful movement of tobacco products (genuine or counterfeit) from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting its import or export.
- ii. Counterfeit: illegal manufacturing in which a product bears a trademark without the owner’s consent. Illegally manufactured products can be sold in the source country or smuggled into another country. Excise tax is rarely, if ever, paid on counterfeit products.
- iii. Local Tax Evasion: cigarettes manufactured for consumption in the same jurisdiction, which are not declared to the tax authorities. These cigarettes are sold without tax and may be manufactured in approved factories or illegal covert operations.

These categories are interrelated and show that the illicit trade in tobacco products is a global phenomenon, covering all continents and high and low income countries alike. Cigarettes, being highly taxed, easy to transport and possessing a lucrative risk to reward ratio, are among the most illegally trafficked goods in the world. Illicit trade has a huge impact on the economic and social fabric of society. In addition to vast amounts of lost revenue which undermines the tax base of economies, it obstructs economic development, undermines government policy objectives and the rule of law, supports corrupt practices, funds organized crime and terrorism and encourages the expansion of criminal activity. It undermines investment in manufacturing, innovation, trade and distribution by legitimate industry and negatively impacts employment.

Recent studies (Shelley, 2009) estimate that approximately 11% of the world cigarette market is illicit, representing over 600 billion cigarettes a year and resulting in annual government revenue losses of over US\$40 billion. The primary drivers for this illicit trade are twofold: ***Consumers to save money; and Criminals to make money.*** Factors contributing to the problem include an unbalanced fiscal policy, disparities in tax driven prices between jurisdictions, protectionist policy measures, corruption, and weak enforcement, lack of official controls in free zones, inadequate legislation and sanctions, growth in illegal distribution networks and public tolerance of the illicit trade in tobacco products. This calls for robust global and regional policies that could significantly reduce illicit trade in cigarettes.

Joossens and Law (2011) argue that tax policy is the most effective strategy to reduce tobacco consumption and prevalence. Tax avoidance and tax evasion therefore undermine the effectiveness of tax policies and result in less revenue for governments, cheaper prices for smokers and increased tobacco use. Tobacco smuggling and illicit tobacco trade have probably always existed since tobacco's introduction as a valuable product from the New World, but the nature of the trade has changed over time. Major international tobacco companies in Europe and the Americas reviewed their export practices due to tax regulations, investigations and lawsuits by the authorities. This

influenced the emergence of illicit trade such as illegal manufacturing, including counterfeiting and the emergence of new cigarette brands, produced in a rather open manner at well known locations, which are only or mainly intended for the illegal market of another country.

Measuring the illicit cigarette trade is methodologically challenging for many reasons. It is an illegal activity and *illegal traders are unlikely to record their activity as legal traders do*. For security reasons data on illicit trade is usually difficult to collect, as law enforcement agencies often prefer not publicize the scope of their activity.

One of the reasons why the illegal cigarette trade provides an interesting object of study is the diversity of the players involved in illicit activities. Three aspects have received particular attention: the level of involvement of criminal groups, and the involvement of terrorist groups, and the complicity of the tobacco industry (Lampe, 2011). It has often been alleged that the illegal cigarette trade is the domain of well-organized criminal groups who have previously been active in other areas of crime like drug trafficking. However, research in Europe has found that the illegal cigarette trade is primarily run not by known criminals but by individuals without a previous criminal record (see, e.g., Van Duyne, 2003). Likewise, the involvement of terrorist groups who trade in illegal cigarettes to raise funds (see Shelley & Melzer, 2008) seems to be the exception rather than the rule.

The above literature appears to indicate that illicit cigarette trade is a global problem that requires global solutions. Malawi, being part of the global community is affected by this type of trade. The question is, to what extent is this trade prevalent in Malawi? What is the structure of illicit cigarettes trade in Malawi? What should be done to curb this malpractice? It was for these reasons that TCC commissioned this study.

3. SUBJECTS AND METHODS

3.1 Study design

The study employed both a quantitative and qualitative approach. Data was collected from various groups of respondents in Mzuzu, Lilongwe and Blantyre. Personal interviews with key informants were also conducted with the manufacturers and distributors /wholesalers of cigarettes.

3.2 Study sites

The study started with understanding the context by way of reviewing the literature (appendix 1). The literature included illicit trade related materials and some trade patterns of cigarettes.

The study was conducted in Mzuzu, Lilongwe and Blantyre cities where the primary participants of the study were drawn (Table 2). In the cities some participants were identified in pre-selected townships/locations/areas whilst others were from the manufacturers places (appendix 2).

Table 2: Sampling Frame

Selected districts	Population	Proportion	Planned Sample	Actual sample	Traders	Manufacturers	Regulatory Body
Karonga	269890	0.11	22.44				
Mzuzu	133968	0.05	11.14	56	32		
Mchinji	456516	0.18	37.95				
Lilongwe	674448	0.27	56.07	61	38	Vision International Sinoma	Ministry of Trade and Industry Tobacco Control Commission
Mulanje	521391	0.21	43.35				
Blantyre	340728	0.14	28.33	85	55	BAT Nyasa Tobacco Manufacturers	Malawi Bureau of Standards Malawi Revenue Authority
Mwanza	92947	0.04	7.73				
	2,489,888.00	1	207	202	125		

3.3 Population

The study population included the cigarettes smokers in the sampled areas, the retailers, distributors and manufacturers.

3.4 Sample size

In total the study had 202 individual respondents, 125 traders that include retailers (84.8%), Wholesalers (10.4%), distributors (4.8%). Of these trader respondents 73.6% were males and 26.4% were females

Table 3: Traders' distribution by gender

		Mode of selling			Percentage
		Distributor	retailer	wholesaler	
Gender of respondent	male	5	78	9	73.6
	female	1	28	4	26.4
Percentage		4.8	84.8	10.4	100

In-depth interviews were also held with 5 manufacturers (see Table 2 above).

3.5 Data Collection

Data collection was conducted using Key informant Interview (KII) guides and semi-structured questionnaire (appendix 3) . During the interviews questions were asked by the interviewer and recorded the responses. The data collectors sampled some smokers who were found in bottle stores, bars and markets. The person was only sampled if he or she was smoking at the time of the visit to a particular place.. A request was made to interview the person. In some cases the data collectors visited the drinking joints early in the morning. They collected the cigarettes bats and or the empty cigarettes packets. The purpose was to check the brands being consumed in the given areas. The sampled places for this form of data collection were as presented in Table 3 below.

Table 4: Areas visited for bats and empty packets

Mzuzu	Lilongwe	Blantyre
Chibanja	Bwandro	Ndirande
Luwinga	Chinsapo	Zingwangwa
Chengautuwa	Area18 A	Blantyre Main
Katawa	Seti	Limbe Market
	Area 25	Kachere
	Area 22	
	Biwi	

3.6 Data Analysis

Data collected were analyzed. The qualitative data was transcribed verbatim and organized in pre-prepared data template according to themes drawn from the assessment objectives and sub-themes drawn from questions. Direct quotes as appropriate have been used to add a voice to the findings.

3.7 Study Limitations

The study team faced a number of hurdles in the course of the study. The study was supposed to quantify the volumes and values of illicit cigarettes that were being shipped into Malawi. Such information should have been available with relevant organizations such as MRA and / or Ministry of Trade and Industry. However, it was indicated that consolidated data of such trade was not available at least by the time this study was conducted. Such information could have enabled the team to precisely estimate the revenues lost by the nation through illicit trade.

Collection of data from traders and consumers/smokers had also own challenges. The challenges included being chased by the traders on suspicion that the data collectors were from MRA and could report them on possibly malpractices. In places in Ndirande and Limbe the data collectors were roughed up again in suspecting that the data collectors were police officers. In some cases some respondents denied to provide answers for unspecified answers.

Another challenge of the study is the study areas, study in the cities in the locations limited the presentation of data as the traders kept on saying that illicit cigarettes are found mostly in borders and are hardly sold in the open as other cigarettes when they reach the cities.

4. MAIN FINDINGS AND DISCUSSION

This chapter presents main findings of the study. The findings are presented per specific objectives and are in themes or sub-themes. Following each finding is the discussion.

4.1 General Findings

4.1.1 Socio-economic Characteristics of Study respondents

The study targeted consumers, traders and manufacturers of cigarettes. The consumer respondents (99%) of the study smoker respondents were males, implying that the cigarettes consumption is male dominated. Figure 1 below shows the percentage distribution of study respondents (traders and consumers) to the study across the major cities in Malawi. Appendix 2 shows the specific townships that were visited during the study.

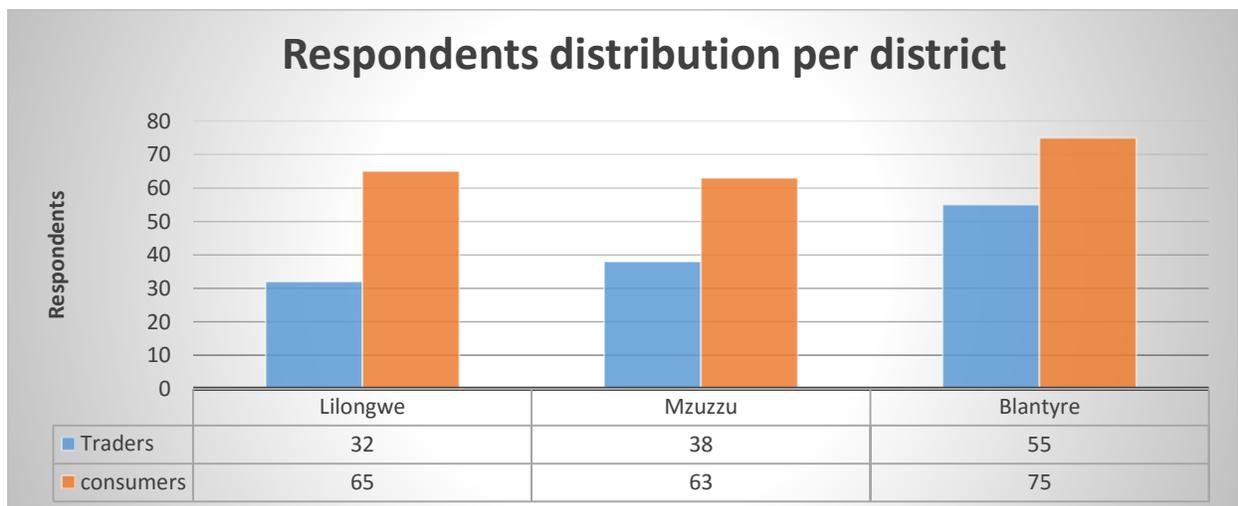


Figure 1: Distribution of study respondents across the major cities

4.1.2 Cigarettes Available on Malawi Market

There are different brands of cigarettes on the Malawi market as indicated in table 4. The main manufacturers or marketers of cigarettes in Malawi are British America Tobacco, Vision International, Sinoma Tobacco Manufacturers, and Nyasa Tobacco Manufacturers. These companies are based in the Country. Other cigarettes are only imported into the country from manufacturers like Fumar Prejudica A Saude from Mozambique

Table 5 Cigarettes on Malawi Market

	Manufacturer	Nicotine (mg) Level	Tar (mg) Level	Blend	Length	Selling Price
DunHill Red	British America Tobacco	1,2	12	Virginia	King Size	11,680
DunHill Blue	British America Tobacco	0.9	9	Virginia	King Size	11,680
Peter Stuyvesant	British America Tobacco	0.8	9	Virginia	King Size	10,800
Pall Mall Red	British America Tobacco	1.2	14	Virginia	King Size	6,060
Pall Mall Green	British America Tobacco	1.2	14	Virginia	King Size	6,060
Ascot	British America Tobacco	1.0	14	Virginia	King Size	4,250
Brothers	Vision International	1.2	14	Virginia	King size	2700
Mamuth	Vision International	1.2	14	Virginia	King size	3560
Firelion	Vision International	1.2	14	America	King size	4200
2010	Nyasa Tobacco Manufacturers			Oriental	King size	5100
Life	Life Zambia	1.0	12	Virginia	King size	
Laifa	Fumar Prejudica A Saude				King size	3700
Sport		1.2	14	Oriental	King size	-
Lay		1.2	14	Oriental	King size	-
Jade leaf	Sinoma Manufacturers	1.2	14	Virginia	King size	4500
Sinoma Gold	Sinoma Manufacturers	1.2	14	Virginia	King size	15300
Sinoma white	Sinoma Manufacturers	1.2	14	Virginia	King size	6000

4.1.3 Nicotine and Tar content

Cigarette tar is a term adopted to describe the toxic chemical particles left behind from burning cigarettes. This substance forms a tacky brown or yellow residue (refer figure 2). Nicotine is the addictive stimulant that gives the craving to smoke. In both cases the respondents mentioned various levels of tar and nicotine although majority mentioned the right values (figure 3).



Figure 2: Tar



Figure 3: Levels of Nicotine and Tar in cigarettes

The Nicotine and tar levels are indicated on the cigarettes packets except on some laif packets found in Blantyre. The different levels mentioned for either Nicotine or tar on particular brand was largely to low literacy of some traders or consumers. Most of the cigarettes on the market have Nicotine level of 1.2mg and Tar level of 14mg. The official respective nicotine and tar levels of the cigarettes are as depicted on Table 4. According to E-Cigarettes Foundation, the lower tar and nicotine levels the smoother and better the cigarettes are healthwise. Tar levels of 9mg are recommended at the global levels.

4.1.4 Blends and Lengths of Cigarettes on the Market

The study established that major blends of cigarettes available on the local markets were American and Virginia. Further, the majority of the blends were Virginia (72.8%) and the rest (27.2%) were American. However, some respondents even the traders were unable to mention the blend of the cigarettes they were selling as figure 2 shows. The traders (33.7%) were unable to mention the right blend of the cigarettes they were selling. This was the case because of the educational levels of the respondents and possibly the will to know the blends.

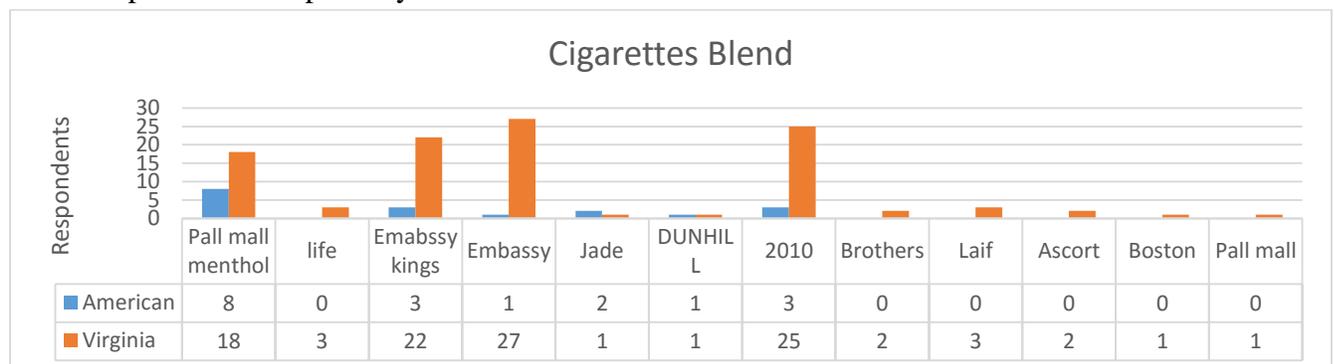


Figure 4: Cigarettes blends

The study established also that majority of the cigarette lengths were king size (88.9%) and the rest were 100's (Table 4)

4.1.5 Brand Preference

A brand is connected or associated with certain quality, attributes and offerings perceived in the consumer's mind. According to Kotler 2000, brand represents everything that a product or service means to consumers hence brands are valuable assets to a manufacturer. Brand preference refers to a customer's devotion or faithfulness to a particular brand. It is a pattern of consumer behaviour where consumers become committed to brands and likely make repeat purchases from the same brands over time.

In this study, the preference towards the brands widely varied with the majority (37.7%) of the respondents preferred Embassy Menthol (Pall Mall Green) and Embassy Kings (Pall Mall Red) (29.9%). 2010 brand was preferred by 17.4% of the respondents and Life was at 3.6%, while Laif was 7.2%. The rest did not register significant levels of preference by the respondents of the study as figure 5 below shows the results for the preference of the brands.

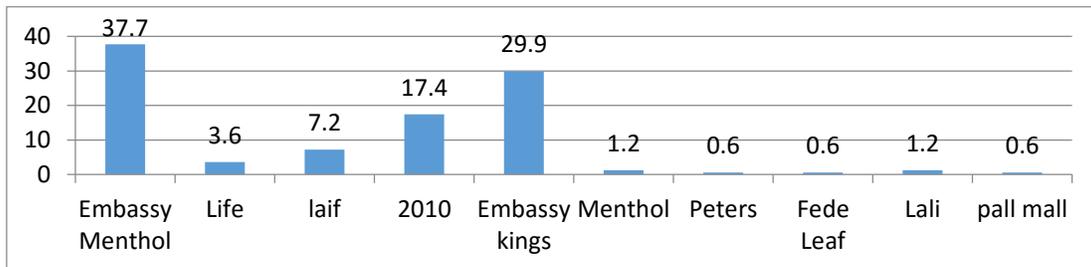


Figure 5: Cigarette Brand Preferences

4.1.6 Traders Perceptions on Cigarette Brands

The term perception pertains to the consumers' beliefs concerning the received or experience with the product (Brown et al 1989).

Traders were asked about their perceptions about the different cigarette brands on the market. Based on their interactions with consumers, traders were able to present a wide range of attributes for each of the brands that were on the market. Table 5 below presents the results. As can be observed from the list, such attributes as taste, pricing, demand were the main ones.

Table 6: Available Cigarettes Brands Perceptions

Brand	Frequency		Perception
	Traders	Consumers	
Pall Mall Green (Embassy Menthol)	26	59	-Good taste
			-High demand
			-Cheaper
2010	29	25	-Good taste
			-Cheaper
Life	7	12	-Old model
			-Many people don't like it
Pall Mall Red (Embassy kings)	20	42	-High demand
			-Consumer like
			-Expensive
			-Feel good when smocking
Dunhill	2	5	-Expensive
Peters	5	2	-Expensive
			-Not liked by consumers
Laifa	4	11	-Cheapest cigarette
Brothers	5	10	-Good quality
			-Cheaper
			-Sweet smell
Ascort	12	23	-Scarce in the market
			-Cheaper
Sport	4	-	-
Lay	2	-	-People like it
Jade leaf	8	4	-Cheaper
			-Now on market
Pall mall	1	9	-Good taste
Total	125	202	

4.1.7 Markets/Places cigarettes are bought

Markets are defined according to Gilligan 2007 as the any place where a transaction takes place between the seller and buyer. In this study, cigarettes are bought from various places. Most of the buyers (59%) get cigarettes from the vendors on the streets or on local markets as figure 2 below shows; others 24% get them from groceries and 11% of the buyers get the cigarettes from the bars/pubs. Most buyers get the cigarettes from the vendors because it is easy to access and are able to buy the cigarettes in single sticks or packets.

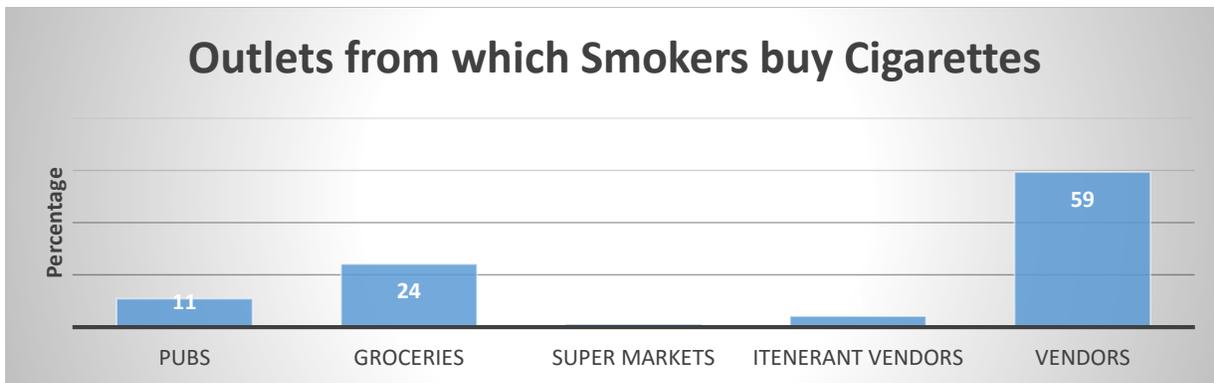


Figure 6: Smokers buying outlets

4.1.8 Sales units.

Figure 3 below shows the units in which the cigarettes are normally sold. As can be seen, the most preferred units are single sticks and packets as observed by the sellers.

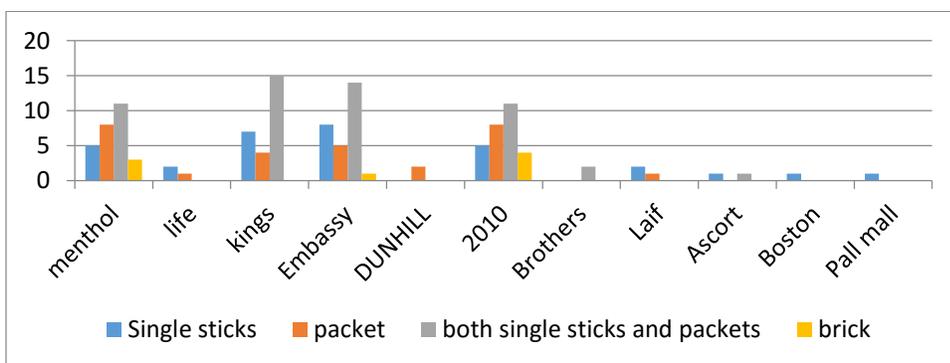


Figure 7: Units of Cigarettes Sales

4.1.9 Quantities smoked in a day

The respondents were also asked on the number of cigarettes per day. Table 7 below shows the mean number of cigarettes smoked per day. The mean across the study areas was estimated at 9.5 cigarettes.

Most buyers/smokers (42%) smoked on average five (5) cigarettes per day and 39% smoked three cigarettes / sticks per day whilst 19% smoked at least 10 sticks per day (figure 7).

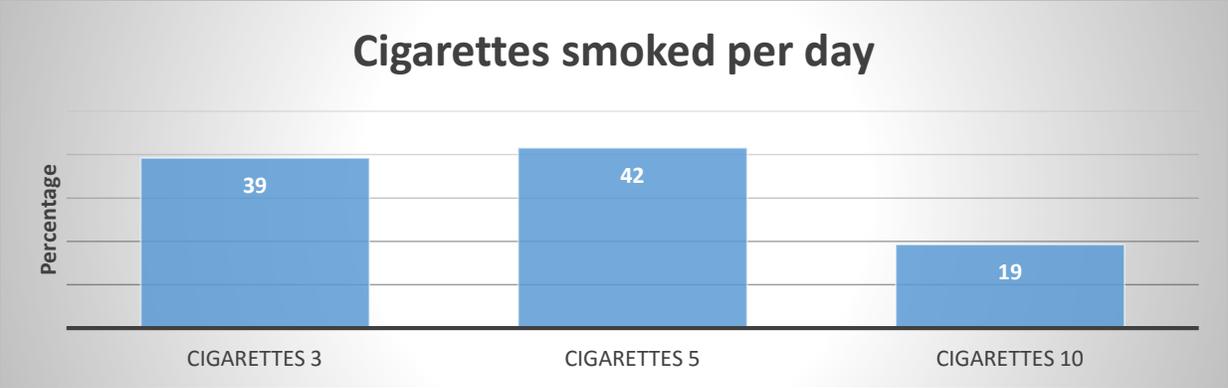


Figure 8: Sticks of cigarettes smoked per person per day

4.1.10 Affordability

Most smokers (56.7%) indicated that the prices for cigarettes were affordable whilst the remaining indicated that the prices were high but still they would continue smoking. This means demand for cigarettes is inelastic to the price increases.

4.1.11 Mean Prices per Cigarette Brand

A comparative analysis of prices across different cigarette brands in Malawi was done. Figure 4 below shows the results of the analysis. From the figure it is quite clear that Dunhill has the highest mean price across the country, thus reflecting its value, seconded by Menthol and 2010. This analysis should be linked with consumer preferences in section 4.1.5 of the report. Notably the most preferred brand is Embassy Menthol (Pall Mall Green) and Embassy Kings (Pall Mall Red), which have relatively higher mean prices than most of the other brands – except Dunhill and 2010. This means that Embassy brands stand out despite relatively higher prices. But, the most expensive in the market is Dunhill which is 28% higher in prices than Embassy. This finding is in line with consumer preferences in Table 5 above.

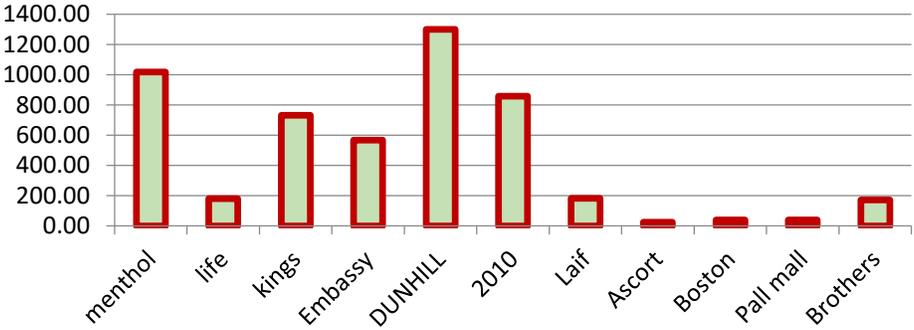


Figure 9: Comparative mean prices of different cigarette prices (MK)

4.2 Findings specific to the objectives

4.2.1 Knowledge about counterfeit

Most cigarettes respondents (93%; n=132) mentioned that they knew the market had illicit cigarettes. The cigarettes they considered illicit were laif, Boston and Ralli Kings, TomTom, Ascot, Brothers, 2010 and Blakasi white and Brown as indicated in figure 8 below. Laif is the most mentioned brand considered illicit. The respondents might have listed some products as illicit because of lack of knowledge but also because other practices on the markets that are confusing the identity of the genuine cigarettes.

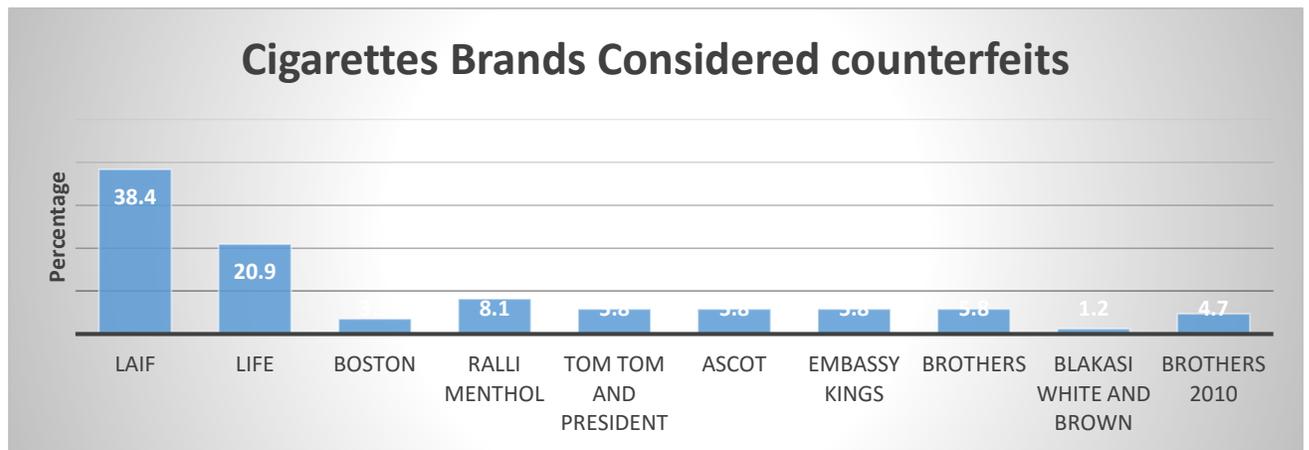


Figure 10: Perceived Illicit cigarettes

Most smokers (76.4% N= 202) and traders (67% N=125) knew how to identify the cigarettes that are counterfeits. Majority smokers (68.3% N=202) indicated that they would identify counterfeits by colour (figure 9). Other attributes they used to identify the counterfeits are: having foreign county stamps (2.4%); low flavor (7.3%); lining on the filter (2.4%); taste (8.5%); lack of MBS label (7.5%); taking long time to last (3.7%).

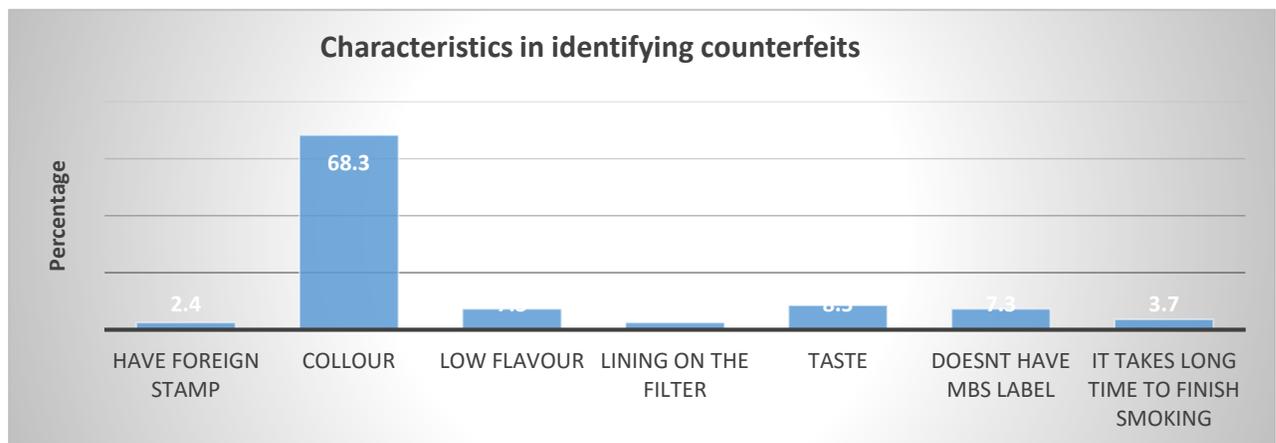


Figure 11: Characteristics in identifying the counterfeits

In terms of the taste of genuine brands vis a vis counterfeit ones, most (79.8%) of the respondents indicated that counterfeit cigarettes had bad taste and the rest (20.2%) indicated that such cigarettes were tasteless. All respondents indicated that counterfeit cigarettes had serious health implications to the consumers as they caused diseases and serious fits of sneezing. Some of them specifically mentioned cancer as one of the diseases that could be caused by such cigarettes.

4.2.2 Origin of counterfeits

Both traders and smokers were able to mention the origins of the counterfeits. Majority of traders (70.1% N=125) mentioned countries around Malawi like Mozambique, Zambia and Tanzania, others (21.2% N=121) mentioned Malawi as the origin of counterfeits. Others (5%) mentioned Kenya and India as origins of counterfeits.

4.2.3 Involvement in the illicit cigarettes trade

The traders (65% N=125) and smokers (76% N=202) indicated that the street and market vendors were greatly involved in the illicit cigarettes trade as they in most cases knowingly got involved for purposes of increasing profit margins by invading applicable taxes and also procuring the cigarettes at lower prices. Other individuals involved in the illicit trade are truck drivers (7.4% N= 125) and individuals crossing borders for other reasons (3.1% N= 125). This truck drivers mostly sale these illicit cigarettes at the borders.

At the selling points, illicit cigarettes are not overtly displayed by the vendors. Customers who cannot buy the normal legal brands are introduced to the illicit ones and are sold at relatively low prices. The relatively low prices for such cigarettes constitute one of the drivers for the consumers/smokers to go into the trade.

4.2.4 Effects of Counterfeits

The traders (65% n=122), inclusive of legitimate manufacturers and other suppliers of tobacco products indicated that illicit tobacco resulted in lost income. The traders (47% n = 122) said that illicit trade distorted the competition in the market. The traders particularly in Blantyre, estimated that at least one of every ten packets of cigarettes is illicit. It can be estimated that Malawi therefore is losing at least 10% in cigarettes revenue to illicit trade against the 30% of KPMG estimated at the world scale where legitimate manufacturers lose about 30% (KPMG, 2011) and it is estimated to be 11% in the southern part of Africa. Ndirande was mentioned as the main hub of illicit cigarettes production and/or distribution.

4.2.5 Trade Routes and Contacts

Cigarettes trade routes are three and these are as follows:

(i) Local production and distribution.

The cigarettes are produced and marketed within the country. Organisations namely Nyasa Tobacco manufacturers, Vision International and Sinoma Tobacco Manufacturers produce and market the cigarettes in the country. The companies either use distributors who eventually sell to retailers to access the smokers or the producers sell direct to the retailers (figure 10).

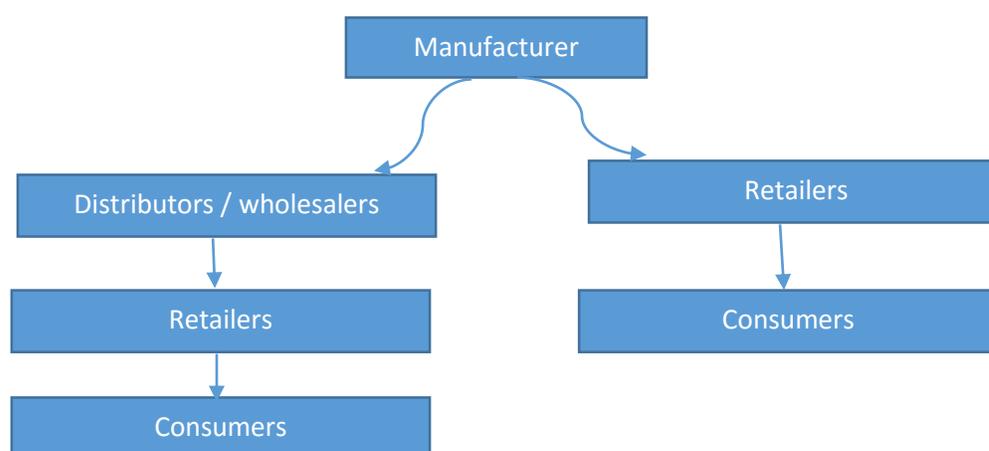


Figure 12: Distribution outlets

The organisations producing cigarettes in the country require a capital investment of US\$50,000 whilst importers or distributors require by law an investment of US\$250,000. The operation of these companies are monitored by government agencies that include Ministry of Industry, Trade and Tourism licensing and providing operational standards. Malawi Bureau of Standards monitors and enforces quality of the cigarettes and Malawi Revenue Authority whilst collects the taxes, it also curbs illicit trading by way halting smuggling the cigarettes into the country.

(ii) Unregistered production houses

There are some individuals or ‘house based’ organisations that are also producing cigarettes but are not registered. These are organisations that are involved in counterfeit or illicit trade. In this case the product may be packaged in genuine packets that are stolen from legitimate manufacturers or the packages are imitated.

The respondents mentioned Ndirande as the hub for counterfeit cigarettes. They indicated manufacturing plants are accommodated in houses. The operators get the proper packaging materials from the genuine companies mostly through ex-employees. They also indicated that the manufacturers could get MRA stickers fraudulently and place them on cigarettes. This means

cigarettes of various organisations / manufacturers were imitated. These producers sell the cigarettes to their own identified networks and selected retailers.

(iii) Smuggling and Bootlegging

The data collectors checked availability of MRA stickers on the packets. Absence of the stickers was considered that the cigarettes were smuggled into the country. The cigarettes that had absence of MRA stickers were relatively low but these included Laif and Brothers but in small quantities (3.1%). Another type of smuggling called ‘bootlegging’ was said to be done in the borders of Mwanza, Mulanje and Karonga. Bootlegging involves individuals or small groups who smuggle lesser quantities of cigarettes, taking advantage of their frequent travels across the borders. These then sell to local retailers or organized groups who do the packaging to sell to cities of Lilongwe, Mzuzu and Blantyre and surrounding towns. The people involved in bootlegging were said to operate and sell the products mostly at the borders.

4.2.6 Nature and Structure of the Local Market Distribution Outlets.

One issue that was investigated during the study was the nature and structure of the local markets for illicit cigarettes. This section discusses this issue in terms of the major local inlets and outlets for such cigarettes in Malawi; market size and brands on the market.

4.2.7 Market Shares of different Cigarettes Brands

Analysis of the cigarettes bats and /or empty cigarettes packets collected from drinking joints revealed the major cigarettes brands were Embassy Menthol (50% and 48%) for puffs and pockets respectively and Embassy King (36% and 29% for puffs and empty pocket). Figure 11 below shows the distribution of the market share of the brands.

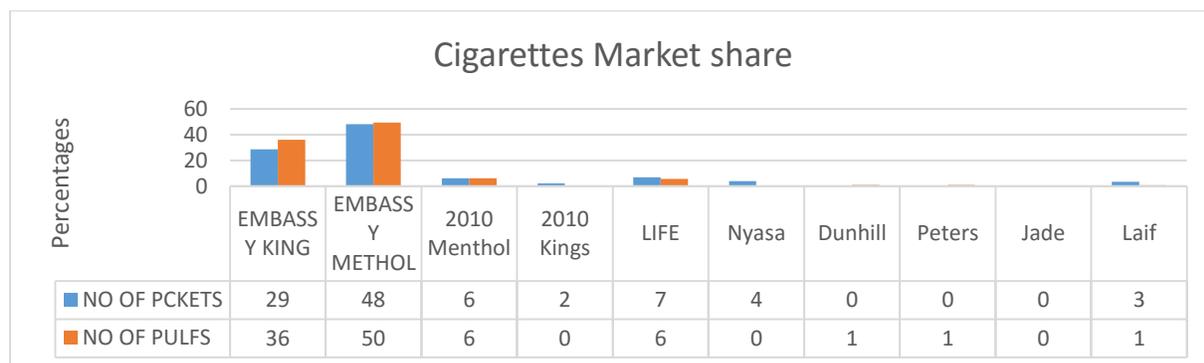


Figure 13: Cigarettes Market Share

4.2.8 Sources of Illicit Cigarettes

Illicit cigarettes mainly come from neighboring countries. Figure 12 below shows the major sources of illicit cigarettes that come into Malawi. The major supplying countries include Mozambique (32.6% N=121), Zambia (26.7% N=121) and Malawi (33.7% N=120). Some brands come from as far away as India and Kenya. Based on the traders reporting, largest portion of the illicit cigarettes are produced within the country. This could be the case of some ‘housed based’ manufacturing entities where they also get genuine packaging locally (as described above).

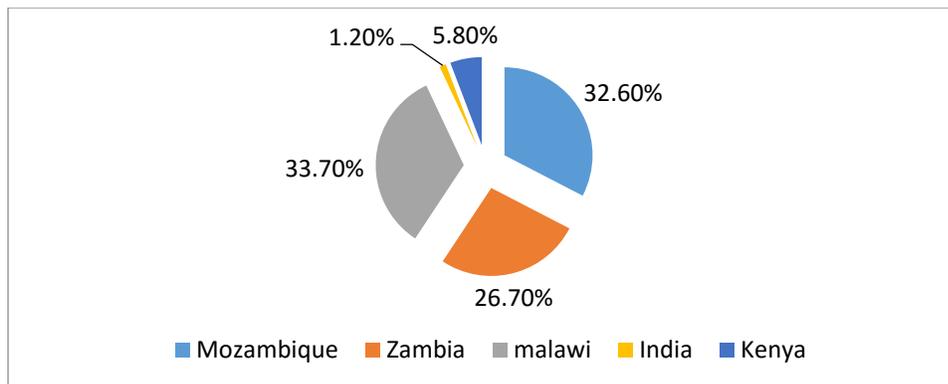


Figure 14: Sources of Illicit Cigarettes

4.2.9 Factors that Affect the Illicit Trade Prevalence

The study has revealed multiple factors (figure13) that affect the prevalence of illicit trade in cigarettes in Malawi. The major factors identified in the study included the following:

- i. Shortage of companies that make good cigarettes (10.5% N=125): The traders believe that the number of companies are few hence not offering good competition and at the same time they are producing the cigarettes that are easy to be imitated. As mentioned above for the distributor to legally operate needs an investment of US250,000 which some distributors find high and they indulge in illicit trading.
- ii. Interest to maximize the profits (32.4% N=121). This was the major reasons for being involved in illicit trade. This is compounded by the economic status of the retailers which is largely low. This is explained by the fact that most of the distributors are itinerant vendors who are driven by economic hardships to engage in commercial activities in urban centers. When an opportunity to trade in such relatively cheap brands arises, the temptation is too much to bear, so they go for it. On the demand side, some consumers (smokers) are low-resource endowed people and yet they have a craving to smoke. The easy way is to buy cheap brands that may as well be counterfeits. Such conduct exposes the consumers to various dangers to their health.

- iii. High import taxes (24.1% N=125). The traders indicated that there is high taxes levelled as such they opt for the illicit trade cigarettes selling. The taxes that were mentioned were Valued added taxes (VAT) whose rate was 16.5%
- iv. Lack of civic education on the dangers of such cigarettes (15% N=125). The traders mentioned that both manufacturers and government are not doing much in informing the public of the illicit cigarettes identification and dangers for consuming such cigarettes.
- v. Lack of reporting format (15.0% N=125). The traders indicated that although they knew the existence of illicit trade, they were not conversant with how to report such trade to the authorities. As such the government agencies that are supported to uproot the illicit trade are not informed by the traders or local producers or smokers of the illicit trade for them to act.

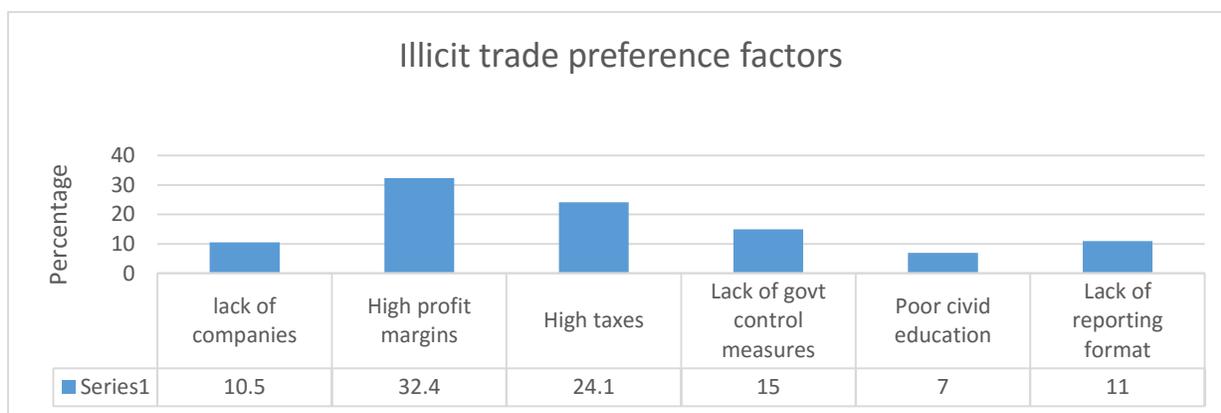


Figure 15: Factors influencing prevalence of illicit cigarettes in Malawi

5. Conclusion and Recommendations

The study has established that illicit trade in cigarettes is active in Malawi. Some of the illicit cigarettes are produced within Malawi whilst others are imported or smuggled into the country. The structure of the market for such products involves a number of players including transporters, itinerant vendors, illegal manufacturers and even retail shops. A number of issues were investigated in the study such as the brands and blends of cigarettes available in Malawi, customer preferences, sources of different brands, factors influencing illicit trade in cigarettes, customer and supplier knowledge of illicit cigarettes and the pricing mechanism of such cigarettes. The study has therefore elicited a number of lessons as follows:

- xi. Illicit cigarettes trade is thriving in Malawi and the sources of such cigarettes are both local and international.
- xii. The major entry points include formal Malawi borders and other smuggling routes, including international transporters.
- xiii. Illicit cigarettes are also produced in Malawi by some unscrupulous manufacturers who imitate the packaging of genuine brands. Such manufacturers have inappropriate access to the genuine labels and packaging, implying inadequate inventory control systems in the local manufacturing companies that allow the pilferage of genuine packages to flourish and filling of such packages with illicit tobacco, thus deceiving and endangering the lives of innocent consumers
- xiv. Consumers have specific factors that influence their choice of brands to smoke and they include taste, pricing, availability and flavor (smell)
- xv. There are several factors that are influencing the prevalence of illicit trade and they include poverty, the desire to make more money and weak control measures to curb the trade in the country.
- xvi. Illicit cigarettes come mainly from neighboring countries, such as Mozambique, Zambia and Tanzania. Some of them come from as far as India and Kenya.
- xvii. Many consumer do know the dangers of illicit cigarettes and were able to cite health related issues. Despite this knowledge, they still buy such cigarettes because they are cheaper than genuine ones. This is against the consumer protection laws of the country.
- xviii. The major blends available in Malawi are the American and Virginia blends and the most prevalent is the Virginia blend
- xix. Illicit cigarettes have specific characteristics – such as longer time to smoke, bad taste, hard to sense of touch and poor labeling.
- xx. The law enforcing agencies have inadequate information about the illicit trade and there is no adequate interaction with manufacturers on uprooting the illicit trade.

In view of the findings, the study recommends the following:

- i. There should be awareness campaigns on the dangers of illicit cigarettes.

- ii. The law enforcement agencies should work together to identify and prosecute the culprits of illicit cigarette trade. In this way, all shops that sell such cigarettes should be closed. The destruction of confiscated manufacturing equipment, tobacco, non-tobacco materials and illicit tobacco products is essential to prevent these items from finding their way back into the illicit trade or being used to produce additional illicit products.
- iii. Malawi Revenue Authority should keep *well defined records* of all seized illicit cigarettes so that the TCC and its stakeholder can monitor the pattern of trade. This also means that Malawi Borders must be strengthened to close any loop holes.
- iv. There is need for international collaboration on the control of flow of illicit cigarettes since this trade is also across the borders
- v. Introduce the electronic identification devices for the stickers' authenticity verification purposes. This can be done by MRA.
- vi. Introduce whistle blowing mechanism for active participation of the citizenry
- vii. Collaborate with manufacturing companies in fighting the illicit trade
- viii. Studies of this nature should be conducted regularly to provide updated information on the market trends. The study areas should include both the rural and urban plus the border districts. There should be multiple methods of data collection to improve and perfect the quality of data collected.
- ix. The fact that the respondents mentioned some legally produced cigarettes as counterfeits suggest two things: firstly, the organisations should be encouraged to tighten security issues so that their materials are not stolen for counterfeits productions and secondly, the organisations should be properly launched on the markets so that citizenry are well aware of the newly introduced companies.
- x. In future studies all relevant stakeholders, such as Law Enforcement Agencies, MRA, Government, cigarette manufacturers, Consumer Association of Malawi should be sensitized beforehand so as to build trust that will facilitate the smooth implementation of such studies.

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Appendix 1: **Specific townships where study was conducted**

Area25
Chilinde
Chinsapo
Biwi
area 23
Area 22
Chibanja
Chibavi
Mzuzu market
Mzuz xx
Bangwe
Limbe
ndirande
Zingwangwa
Lunzu
Blantyre market
Area 49
Senti
kachere
kanengo
chiwanje
Chigwili
mataifa market
bwaila

chibanja
Deport
chasefu
Katoto
Area 3
Luwinga
Chasefu
Old town
Kanjeza
Total

Appendix 2: Key interview informants consulted

Name	Title	Organisation
Dr. Changaya	Chief Executive Officer	Tobacco Control Commission
Mr. Luka	Deputy Chief Executive Officer	Tobacco Control Commission
Mr. Kamala	Head of Human Resources and Administration	Tobacco Control Commission
Mr. Nasoni	Monitoring Manager	Tobacco Control Commission
Mr. Kanthiti	Trade Specialist	Ministry of Trade, Industry and Tourism
	General Manager	Vision Tobacco International
	Marketing Manager	SINOMA
Mr. Nyabazi	Legal and administration Manager	BAT Zimbabwe
	Chief Executive Officer	Malawi Trade and Investment Centre