

Vijayan & Chethiyar, 2020

Volume 6 Issue 3, pp. 09-17

Date of Publication: 13th November 2020

DOI- <https://doi.org/10.20319/pijss.2020.63.0917>

This paper can be cited as Vijayan, K. & Chethiyar, S. D. M. (2020). *Explorative Study on the Phenomenon of Contraband Cigarettes in Northern Malaysia*. PEOPLE: International Journal of Social Sciences, 6(3), 09-17.

This work is licensed under the Creative Commons Attribution-NonCommercial 4.0 International License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc/4.0/> or send a letter to Creative Commons, PO Box 1866, Mountain View, CA 94042, USA.

EXPLORATIVE STUDY ON THE PHENOMENON OF CONTRABAND CIGARETTES IN NORTHERN MALAYSIA

Kamalahasan Vijayan

Master's student of Science (Science Correctional), School of Applied Psychology, Social Work and Policy, College of Arts and Sciences, Universiti Utara Malaysia, Malaysia
rvkamal79@gmail.com

Saralah Devi Mariamdarani Chethiyar

Senior Lecturer, Psychology & Counselling Program, School of Applied Psychology, Social Work and Policy, College of Arts and Sciences, Universiti Utara Malaysia, Malaysia
devi@uum.edu.my

Abstract

Contraband or smuggled cigarettes have caused socio-economy devastation and loss of revenue for this country. These cigarettes are sold at a lower price compared to the original cigarettes thus; attention is shifted to obtain the cheaper product. Law and law enforcement actions have been well defined; thus, such a phenomenon continues to occur. This study aims to explore the phenomenon of cigarette smuggling in Northern Malaysia and establish that attention is required to unearth the contributing factors and implement effective measures. This study was conducted using library design with reference materials derived from various resources related to the study. Based on the study conducted, contraband cigarettes impose a negative impact on the country, and identifying the contributing factors and combating this phenomenon is imperative. Combating this phenomenon requires close collaboration between the public, traders, and government.

Keywords

Cigarette, Contraband Cigarettes, Malaysia, Smuggled Cigarettes, Phenomenon

1. Introduction

Contraband cigarettes can be defined as cigarettes smuggled from abroad without domestic taxes paid or cigarettes manufactured without authorization to deceive consumers and to avoid paying the defined government taxes (Yeoh, 2013). Malaysia ranks among the top for smuggled cigarettes with 58.9% of the local market share or about RM12 billion sales from smuggled cigarettes (Bernama, 2018; CodeBlue, 2019; CodeBlue, 2020; MyMetro, 2019a). Based on the Malaysian Smuggled Cigarette Study (ICS) 2018, the phenomenon of contraband cigarettes will result in Malaysia losing up to RM5 billion in tax revenue not collected in a year (CodeBlue, 2020). A study conducted by the Coalition of Malaysian Tobacco Manufacturers (CMTM) an independent research agency, The Nielsen Company (Malaysia) Sdn Bhd shows that the problem of illegal cigarettes in Malaysia is still ongoing. Despite existing enforcement action, the influx of contraband cigarette sales still occurs (CMTM, 2019).



Figure 1: *Contraband Cigarettes*

Cigarette sellers have been tactical in selling smuggled cigarettes by using name codes or secret codes, which have made the detection and the eradication difficult. Geographical factors between Malaysia and neighbouring countries are also another factor for the smuggling to occur. Malaysia and Thailand are separated by a river, which is a few meters wide and many rat lanes are not covered by authorities. A cigarette is also smuggled in from the duty-free island of Langkawi by misusing the facilities provided by the government.



Figure 2: *Contraband Cigarettes were Confiscated*

The Kedah Customs Department takes seriously the issue related to cigarette smuggling activities carried out by *tekong* and its members orchestrated by illegal smuggling groups and local thugs. To combat the selling of contraband cigarettes, customs works with local authorities and inspect local traders and any violation will result in a business license to be revoked. An important point to note, an increase in the price of cigarettes has increased the demand for contraband cigarettes in the market (Mymetro, 2018).

According to a study by a UK-based advisory firm Oxford Economics, Illegal cigarettes being smuggled into Malaysia has cost the Government RM5.1 billion losses in cigarette import duty and excise duty every year. In another study commissioned by British American Tobacco (BAT), revealed that Malaysia has the highest illegal cigarette incidence in the world and loses almost RM100 million every week to criminal smugglers and sellers. In a joint-statement, BAT and Oxford Economics said six out of 10 cigarettes consumed in the country deliver no tax to the Malaysian Government. The illegal cigarettes sales in Malaysia reach an uncontrollable level and effect two major legitimate and tax compliant tobacco companies. British American Tobacco Japan Tobacco International (JTI) closed their Malaysian factories in 2017. The reports show that their peak of production in 2013, these two factories supported 5,750 jobs for people throughout Malaysia (Liber et al., 2015).

Deputy Director General (Enforcement and Compliance Division) of the Royal Malaysian Customs Department, Datuk Matrang Suhaili said cigarettes are the most frequently smuggled goods as the tax imposed on them is quite high. Cigarette smuggling activities remain

a crime that is difficult to investigate. There are many factories set up in the corners of the world with weak controls and high levels of corruption, such as in Kaliningrad, Russia, Guangdong province in China, and the famous South American region on the border between three countries namely Argentina, Brazil, and Paraguay. (Organised Crime and Corruption Reporting Project, n.d). The distribution system is complex, the smuggling route is very convoluted and difficult to detect.

By 2030, that figure will reach 8 million deaths a year, and with smuggled cigarettes widely marketed in poor countries, 80 percentages of the total deaths will be in these countries. Since the 21st century, it is estimated that one billion people can die from tobacco use. In Malaysia, the Royal Malaysian Customs Department (JKDM) this year is targeting 2,000 arrests nationwide on cigarette and alcohol smuggling offenders through Operation Outlet Version 2.0. Therefore, this study aims to identify factors that led to the rampant smuggling of cigarettes in Malaysia and strategies to resolve it.

1.1 Research Scope

The scope of this study focuses on four factors that need to be studied about the behaviour and perception by traders and suppliers of contraband cigarettes and the impact on the leakage of national revenue as well as solutions to curb contraband cigarettes.

- 1) This study focuses on the behaviour and role of contraband cigarette traders and suppliers who have been arrested by the authorities.
- 2) Data collection will be done in the states of Peninsular Malaysia.
- 3) Contraband cigarette users will be sampled in this study to get consumer perceptions.
- 4) *Ampoma* (Malaysian Royal Customs registered informers) or whistle-blower will be allowed to share their opinions.

1.2 Problem Statement

The smuggling and sales of contract cigarettes have been identified as an emerging phenomenon. The increasing demand for contraband cigarettes requires serious attention and related actions. This study establishes that contraband cigarettes are a phenomenon that highly affects the country's economy that requires further studies and analysis.

2. Literature Review

Those who buy contraband cigarettes may not be aware of the fact that they are part of a network of organized crime that can cause misery to the world's population. A recent study

by Oxford Economics, The Economics of the Illicit Tobacco Trade in Malaysia found that Malaysians buy 1,000 smuggled cigarettes per minute MyMetro. (2019b).

In the study of Joossens & Raw (1998) on a cigarette, smuggling in Europe discusses who can benefit from such smuggled cigarettes. The study stated that the smuggling of cigarettes is increasing widely and regularly so that it poses a serious threat to public health. The threat comes from two important directions.

Firstly, smuggling makes cigarettes cheap, thus increasing their consumption. Smuggled cigarettes are sold on the black market, which has a huge impact on consumption and thus causes an increase in the burden of disease, especially in poor countries. It also cost the government treasury thousands of dollars in lost tax revenue. Secondly, the tobacco industry uses smuggling politically, lobbying the government to lower taxes, arguing that smuggling is caused by price differences. This paper shows that the claimed correlation between high prices and high levels of smuggling does not exist in Western Europe (Joossens & Raw, 2008).

Countries like Norway and Sweden even with expensive cigarettes do not have large smuggling but it is a problem in countries in southern Europe. The study states that cigarette smuggling is not due to market demand, but it is due to fraud by some parties to avoid duty or tax to reap more profits. Cigarettes involved are not cheap brands from southern European countries, for which there is no international market. It is a well-known international brand like Marlboro and Winston. In this study were given recommendations to tighten regulations, control cigarette transit, trade transit ban, and sale by manufacturers to smugglers or dealers directly. (Joossens & Raw, 2008).

Overall, the study of Joossens & Raw (1998) focused on European countries and the situation in Malaysia is different because contraband cigarettes in Malaysia are in high demand due to the economic gap among Malaysian society. The study discusses the smuggling of legal cigarettes in European countries such as Marlboro and Winston cigarettes smuggled to avoid duty or tax but does not discuss but contraband cigarettes.

Discuss the arrest and value involved in the arrest. Amendments to the Customs Act 1967 and the Excise Act 1976, to curb activities smuggling and evasion of illegal cigarette and illegal alcohol beverage duties have been effective January 2, 2019. For offenses involving smuggling, avoidance of duty, and fraud under Section 135 of the Customs Act 1967, higher punishment imposed on offenders. Following the implementation of this amendment, the Royal Malaysian Customs Department (JKDM) has managed to make an arrest and bring two Pakistani offenders to Kota Bharu Magistrate Court, Kelantan. Both offenders have prohibited

goods imported (cigarettes) under Section 135 (1) (d) of the Customs Act 1967 with a case value of RM152.00 and the tax involved RM1,010.04. The offenders have pleaded guilty to the above charges and fined RM100,000.00. If failure to pay the fine will result in a 12-month jail term. The amendment to the Customs Act was made to combat the smuggling of contraband cigarettes and liquor, which eliminates the country's revenue. Since the amendment of this act in the first four months, from January 2019 to April 2019, a total of 603 cases involving contraband cigarettes were arrested nationwide through these cases, a total of 201 million cigarettes were confiscated worth RM148 million (Ibrahim, 2019).

According to Malaysia Royal Customs Department (JKDM) Director General Dato Seri Subromaniam Tholasy in his press releases dated 7 January 2019, announced that the department also establishes a Special Internal Investigation Branch with the purpose to address the issue of integrity involving department officials. This is in line with the provisions of section 137, Customs Act 1967 that empowers to investigate any customs officers suspected of offering or accepting bribes when performing official duties. This amendment to section 137 came into effect on 2 January 2019. Any officer convicted of an offense under section this is punishable by imprisonment of not more than five years or no fine more than RM500,000 or both. JKDM took proactive steps to establish an Investigation Branch Special in each state and headquarters with a strength of 27 member people to ensure the level of compliance and integrity of officers are at the proper level for restoring the confidence of outsiders who consider Customs as an agency dealing with the issue of abuse power and corruption. (Jabatan Kastam DiRaja Malaysia, 2019).

3. Research Methodology

In this study, the Library Research method has been employed where data and related statistics are obtained from various resources. Review and analysis of existing literature enable why, what, and how questions to be derived along with the explanation and evidence. As this study involves law enforcement action, data for the research can be obtained from the newspaper or internet-based media. The process of obtaining information focuses on reading and reference from books, journals, papers, and articles on cigarette smuggling. The researcher to write his study will use all the information obtained. Researchers use the library method by examining reading materials and past studies related to code conversion.

4. Conclusion and Discussion

Based on the statistics reviewed and literature discussed, contraband cigarette sales in Malaysia already reach an uncontrollable level. The government has passed laws (amended Customs Act 1967) starting from 2 January 2019 for heavier penalties against contraband cigarette and require strong action and enforcement at ground level. With heavier penalties introduced, contraband trade was in a reverse mode where the sales increased. Japan Tobacco xxx (JTI) is Malaysia's second-largest tobacco company has called for an excise tax moratorium to reduce the legal cigarette price to prevent from pushing smokers to switch to illegal cigarettes. The current tax imposes for cigarettes are RM0.20 Import duty per stick, RM0.40 excise duty, and 10% of sales tax resulting in a 20-stick pack of legal cigarettes can cost up to RM17.40, compared to contraband packs that purportedly cost between RM3 and RM5. (The Star, 2017).

In conclusion, contraband cigarettes have emerged as a phenomenon influencing the socio-economy of the country. As the demand for cigarettes is high, smuggled cigarettes receive attention from the consumers that make the small traders in the housing area and outside school compound to facilitate such sales. The incremental pattern of cases every year has evinced the contraband cigarettes is setting a challenge for lawmakers and law enforcement to curb this crime. This phenomenon should be seen from the price, tax, demands, and availability of cigarettes in fulfilling the demands. In the study that has been conducted it can be seen that the prices of contraband cigarettes and legal cigarettes in Malaysia have a threefold difference. (The Star, 2017). The government should also consider increasing the rewards for whistleblowers who provide information on smuggled cigarettes. The limitation of the study is the study only focuses on Northern Malaysia and the data of this study only can generalized in Malaysian.

5. Acknowledgment

I would like to thank Dr. Saralah Devi Mariamdarani for the advice, guidance, and knowledge sharing throughout the journey of this study. I also would like to thank my colleagues and family members for their encouragement and support.

REFERENCES

- Bernama. (2018). Kerajaan hilang hingga RM5 bilion akibat rokok seludup. *Berita Harian*.
<https://www.bharian.com.my/bisnes/lain-lain/2018/04/414248/kerajaan-hilang-hingga-rm5-bilion-akibat-rokok-seludup>
- By CodeBlu. <https://codeblue.galencentre.org/2020/02/19/over-12bil-illegal-cigarettes-sold-in-malaysia-in-2019-study/>
- CMTM. (2019). *Illicit cigarettes study (ICS) in malaysia 2018 (annualised) report*.
[http://www.batmalaysia.com/group/sites/bat_ap6d2l.nsf/vwPagesWebLive/DOALBJUB/\\$FILE/medMDBEUCGZ.pdf?openelement](http://www.batmalaysia.com/group/sites/bat_ap6d2l.nsf/vwPagesWebLive/DOALBJUB/$FILE/medMDBEUCGZ.pdf?openelement)
- CodeBlue. (2019). Study: Malaysia's Illicit Cigarette Trade Highest Globally.
<https://codeblue.galencentre.org/2019/06/20/study-malaysias-illicit-cigarette-trade-highest-globally/>
- CodeBlue. (2020). *Over 12Bil Illegal Cigarettes Sold In Malaysia In 2019: Study* Ibrahim, M.F. (2019). Kita terus dakwa tiada lagi kompaun. *MyMetro*.
<https://www.hmetro.com.my/utama/2019/06/465691/kita-terus-dakwa-tiada-lagi-kompaun>
- Jabatan Kastam DiRaja Malaysia. (2019). *Siaran media*.
<http://www.customs.gov.my/ms/Documents/Kenyataan%20Media%20KPK%20-%20ILKAP%2002012019.pdf>
- Joossens L, Raw M. (1998). Cigarette smuggling in Europe: who really benefits? *Tob Control* 7:66–71. <https://doi.org/10.1136/tc.7.1.66>
- Joossens, L., & Raw, M. (2008). Progress in combating cigarette smuggling: controlling the supply chain. *Tob. Control* 17, 399-404. *Tobacco control*. 17. 399-404.
<https://doi.org/10.1136/tc.2008.026567>
- Liber, A. C., Ross, H., Omar, M., & Chaloupka, F. J. (2015). The impact of the Malaysian minimum cigarette price law: findings from the ITC Malaysia Survey. *Tobacco control*, 24(Suppl 3), iii83-iii87.
- MyMetro. (2018). Rokok seludup mudah.
<https://www.hmetro.com.my/utama/2018/04/328853/rokok-seludup-mudah>
- MyMetro. (2019a). Malaysia juara pasaran rokok seludup dunia. *Harian Metro*.
<https://www.hmetro.com.my/mutakhir/2019/06/467274/malaysia-juara-pasaran-rokok-seludup-dunia-metrotv>

MyMetro. (2019b). Balaci kartel. *Harian Metro*

<https://www.hmetro.com.my/utama/2019/07/475011/balaci-kartel-metrotv>

The Star. (2017). *Tiada cadangan kotak rokok mini.*

https://www.mstar.com.my/lokal/semasa/2017/09/07/pek-kotak-rokok?itm_source=parsely-api

Yeoh, J. (2013). *11 Perkara Semua Orang Mesti Tahu Tentang Rokok Tak Sah.*

<https://says.com/my/seismik/terbongkar-perkara-semua-orang-mesti-tahu-tentang-rokok-haram>.