

## LCQ6: Combating activities of selling duty-not-paid cigarettes

Following is a question by Dr the Hon Kennedy Wong and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 31):

Question:

It has been reported that following the proposal in this year's Budget that the tobacco duty be increased starting from February 22 this year, the price of each pack of mainstream cigarettes has risen to \$74. On combating activities of selling duty-not-paid cigarettes (illicit cigarettes), will the Government inform this Council:

(1) as it has been reported that the number of illicit cigarettes seized by the Customs and Excise Department (C&ED) was on the rise in the past five years, and 732 million sticks of illicit cigarettes were seized last year, representing an increase of 12.7 times over the 53.4 million sticks seized in 2018, whether it has gained an understanding of the reasons for that, and set out the number of illicit cigarettes seized by major place of origin;

(2) as it has been reported that recently, some lawbreakers first used a small quantity of "assorted brands cigarettes" from Southeast Asian countries for customs declaration and paid relevant taxes and excise duties to obtain the relevant import permit, and then took advantage of the loophole that no consignment of cigarettes was specified in the relevant permit to smuggle a large quantity of cheap cigarettes with duty not paid (commonly known as "Cheap Whites") into Hong Kong, whether the C&ED has noticed if such operations involved organised crimes, and whether it has plans to plug the loophole concerned; if it has plans, of the details; if not, the reasons for that; and

(3) whether the C&ED will step up its anti-smuggling operations in response to the myriad tactics of smuggling illicit cigarettes and counterfeit cigarettes, and what effective measures are in place to prevent illicit cigarette syndicates from recruiting distribution intermediaries, commonly known as "agents", to peddle illicit cigarettes in the market?

Reply:

President,

Today is the World No Tobacco Day, an apposite occasion to discuss today's topic. Our statistics indicate that the smoking prevalence rate in Hong Kong has dropped continuously from 23.3 per cent in the early 1980s to 9.5 per cent in 2021. Revenue from tobacco duty has nonetheless been on a rising trend from \$7.05 billion in 2019-20 to \$7.9 billion in 2021-22, which, to a certain extent, reflects the effectiveness of our enforcement work

against illicit cigarettes.

Having consulted the Commerce and Economic Development Bureau, our consolidated reply to the question raised by Dr the Hon Wong is set out below:

(1) Tobacco products are dutiable commodities and should be subject to tobacco duty according to the specified rates under the Dutiable Commodities Ordinance (Cap. 109). The Hong Kong Customs and Excise Department (C&ED) is committed to combating smuggling and trading activities of illicit cigarettes, and has stepped up efforts to combat illicit cigarettes on different fronts in order to protect Government revenue. In response to the switch by illicit cigarette syndicates to smuggling large quantities of illicit cigarettes into Hong Kong by sea in recent years, the C&ED has strengthened intelligence analysis and adopted the enforcement strategy of tackling cigarette smuggling at source for appropriate operational deployment. Such enforcement strategies have proved to be effective, and the cigarette syndicates were repeatedly intercepted when they were replenishing their supplies or re-exporting the illicit cigarettes to other overseas regions, resulting in a significant increase in the quantity of illicit cigarettes seized in recent years. In 2022 alone, the C&ED detected a total of 28 large-scale imported cigarette smuggling cases (involving more than 500 000 sticks of cigarettes) and seized about 585 million sticks of illicit cigarettes, which represented an increase of 1.3 times and 2.2 times respectively compared with the corresponding numbers in 2021 (12 cases and 185 million sticks). However, the C&ED does not maintain a breakdown of the figures by origin in respect of the illicit cigarettes seized, hence, we are unable to provide the relevant breakdown.

(2) There is no legal definition of "Cheap Whites". In the industry, "Cheap Whites" generally refer to cigarette brands that are not popularly recognisable in the market. Their packaging is no different from ordinary duty-paid cigarettes, including the health warning markings. Illicit cigarette syndicates may pass off illicit cigarettes for sale at retail level as duty-paid cigarettes which are covered by permits.

The C&ED has been closely monitoring the latest development in the market to strengthen intelligence gathering and investigate into the sale of cigarettes at abnormal prices (even lower than the tobacco duty of \$50.12 per pack of cigarettes). Whenever retailers are found to be selling duty-not-paid cigarettes, the C&ED will take resolute enforcement actions regardless of whether "Cheap Whites" are involved.

In order to step up enforcement action against illicit cigarette activities at retail level, the C&ED has been keeping a close watch on technologies applied by other regions to identify the source and trade flow of cigarettes and to verify their duty status. Field visits to other regions and experience sharing with the Mainland and overseas law enforcement agencies are also arranged with a view to studying the effectiveness of similar measures and policies. The C&ED is actively exploring feasible options that can be applicable to Hong Kong.

Besides, given that most cigarette smuggling activities involve syndicated operations, the C&ED will continue to strengthen intelligence analysis and co-operate with the Mainland and overseas law enforcement agencies to crack down on related crimes.

(3) Apart from intercepting illicit cigarettes at various entry and exit points, the C&ED is also committed to combating the storage, distribution and peddling (including telephone ordering) of illicit cigarettes. The C&ED will continue to step up risk assessment and intelligence analysis, and adopt a holistic enforcement strategy in combating illicit cigarette activities, namely intercepting smuggling in upper stream, smashing storage in mid-stream, and raiding peddling activities in lower stream.

In view of the increase in tobacco duty announced in the Budget, the C&ED is monitoring the control points and illicit cigarette activities closely, and has strengthened intelligence exchange with the Mainland and overseas law enforcement agencies. At the same time, in response to the potential impact of the increase in tobacco duty on illicit cigarette activities, the C&ED has immediately deployed its internal resources in a flexible manner and mounted territory-wide large-scale special operations against illicit cigarettes.

No counterfeit cigarettes were found by the C&ED in anti-illicit cigarettes operations in recent years. If the C&ED suspects that any cigarettes seized or sold in the market are counterfeits, it will invite the relevant trademark owners to verify and take immediate enforcement action if the C&ED identifies any acts in breach of law.

Apart from proceeding with stringent law enforcement actions, the C&ED will step up publicity and promotion activities with regard to newsstands and small-sized retail outlet operators to prevent them from falling foul of the law inadvertently. Besides, in order to further promote the message against illicit cigarettes across different levels of the community, the C&ED collaborates with government agencies and relevant stakeholders from time to time, and enhances publicity through holding talks and by displaying posters and banners, etc. Besides, the Health Bureau will launch a consultation document on tobacco control strategies, in which certain enforcement arrangements will be reviewed.

Thank you, President.