FAQs for SUN report

This page is designed to answer some of the simple questions associated with the SUN methodology and approach used in the report. A detailed overview of the SUN methodology, providing data sources and detailed approaches to each individual component of the methodology, is available on the SUN webpage.

What are the objectives of the report?

Project SUN provides an estimate of the size of the illicit cigarette market in the EU, Norway and Switzerland. The report presents the results of a range of statistical analyses conducted and follows an established quantitative methodology. Please see the methodology section for full detail.

What data sources are used for Project SUN?

Project SUN bases its methodology on two core data sources: Legal Domestic Sales (the total cigarette sales in a specific market) and Empty Pack Surveys. These data sources enable KPMG to estimate the volume of cigarette consumption, brands and countries of origin across the countries of study. Legal Domestic Sales are generally publicly known as they are often reported by governments. The manufacturers provide the LDS data.

To distinguish and cross-check these flows KPMG uses smoking prevalence figures provided by Euromonitor, travel statistics from national statistics offices and the United Nations World Tourism Organisation and Point-of-Sale data provided by wholesalers along with retailers to help to determine cross border sales volumes.

KPMG triangulates this approach with sources such as customs reports, legislation, macroeconomic indicators and other independent studies to help to verify our assumptions.

The 'RUSI Analysis' sections of the Project SUN report draw on research conducted by RUSI to form the basis of the Occasional Paper due for publication in October 2018. They also draw on

research conducted between 2015 and 2017 as part of the On Tap series on the role of organised crime in the illicit trade in tobacco, as well as alcohol and pharmaceuticals across Europe. In all cases, research drew on wide-reaching reviews of relevant academic literature, government policy documents, law enforcement strategies and private sector reports, as well as operational research and semi-structured interviews with experts from the private sector, academia and law enforcement. More detailed descriptions of the methodologies employed by RUSI can be found in the On Tap series, available at rusi.org/projects/illicittrade, and in the October 2018 RUSI Occasional Paper available at rusi.org/illicittrade2018.

How does the SUN report calculate illicit trade?

Illicit trade is defined as both counterfeit and contraband cigarettes. To calculate it, firstly KPMG need to estimate the total level of non-domestic cigarette consumption in each market. KPMG do this by applying the percentages of non-domestic cigarettes (by brand and country of origin) identified in the Empty Pack Surveys to the known Legal Domestic Sales volume (see worked example in the methodology section on page 2). Outflows to other EU countries are subtracted. This gives the total volume of consumption and the volume of non-domestic consumption.

The non-domestic consumption is then split into non-domestic legal and contraband. This is done by looking at each individual flow and working out the proportion of that flow that is legally purchased, with the remainder being assigned as contraband.

How does the report distinguish illicit cigarettes vs legally sold and bought in other countries (ND(L))?

KPMG use traveller numbers between countries to determine the volume of cigarettes bought back into a country legally from another specific country. This is normally done by calculating the percentage of adults who smoke cigarettes and assuming that each of these smokers will bring back the legal allowance of cigarettes from another country (assuming it is cheaper). If all cigarettes are more expensive then the entire flow is assumed to be legal.

How is counterfeit determined?

Counterfeit is reviewed through the packs collected in the Empty Pack Survey. Each of the four major tobacco manufacturers receive their own packs collected by the agency commissioned to carry out the Empty Pack Survey in each market. They analyse those packs to determine if they are counterfeit or not.

How is an Empty Pack Survey conducted?

Empty Pack Surveys are conducted several times a year (depending on the size of market). Pack collectors are given a pre-defined route to cover and collect cigarette packets off the street and from easy access bins. The surveys are designed to cover a large and varied sample of the population across multiple cities and areas within cities. Pack collections can range from 6,000 packs in smaller markets to over 50,000 in larger markets.

How is the 'tax-loss' calculated?

The tax loss described in the SUN report is the tax revenue that would have been collected had the identified cigarettes been purchased legally. Therefore it is calculated by multiplying the total C&C identified by the Weighted Average Price per cigarette and tax percentage (as defined in EU tax tables).

What research is undertaken to explain changes in illicit cigarette consumption?

KPMG's research is factual and does not define an econometric relationship between illicit cigarette consumption and other factors or causality. Therefore when identifying the factors which may help to explain increases or decreases in illicit cigarette consumption, facts are stated such as changes in price, traveller numbers or macroeconomic indicators which changed during the year. The RUSI contributions included in the report are designed to provide information on accompanying trends and background context, rather than to establish causality.

What are Illicit Whites and how are they measured?

Illicit Whites are defined as cigarettes that are usually manufactured legally in one country but which the evidence suggests have been smuggled across borders during their transit to the destination market under review where they have limited or no legal distribution and are sold without payment of tax. KPMG analyse the brands which have no legal distribution to categorise them as Illicit Whites, along with those brands with no legal labelling or tax stamps. There is more information on how KPMG evaluates Illicit Whites flows in the methodology on page 32.

Are changes made to the approach where there may be anomalies in the data collected?

In any data collection exercise it is possible for mistakes or inconsistencies to occur. KPMG evaluates those inconsistencies and the reasons behind them and makes appropriate adjustments based on alternative data sources and key facts. These adjustments control for specific issues such as the over-sampling of a brand, the lack of sampling in rural areas or the under-estimation of a specific flow that is overwhelmingly consumed in one area but isn't sampled in large volumes. KPMG lists any adjustments made and the reasoning behind them in the methodology on page 12.

What involvement does the industry have in the construction of this report?

Both PMI and BAT input into the report. They review the draft results in order to provide factual accuracy comments to KPMG. The content of the report is KPMG research and analysis and is published as an independent report.

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