

# ILLICIT CIGARETTES IN INDONESIA:

## A call for better enforcement and tax administration

### BACKGROUND

Illicit cigarettes pose a challenge to Indonesia's tobacco control efforts. Given their relatively lower prices (1,2), illicit cigarettes are attractive, particularly for young people and people with lower socioeconomic backgrounds (3). This perpetuates broader public health issues, hindering the country's efforts to reduce its high smoking prevalence (27.3% across all age groups, according to the 2023 Indonesia Health Survey). Illicit cigarettes may also cause unnecessary loss of cigarette excise tax revenue (4). Illicit cigarettes are often a byproduct of ineffective tobacco tax administration, which provides loopholes for tax evasion and avoidance (1).

In combating the illicit cigarette trade in Indonesia, it is highly important to understand the prevalence of illegal cigarettes in a country.

This information will enable the government to adopt and implement the most appropriate enforcement measures. However, the evidence in this area is limited, and this research will augment what is available using a different methodology that collects some additional useful information, particularly about brands registration status and appropriate tax stamps.

This policy brief is based on CISDI's recent study (2025), which estimates the size and nature of illicit cigarettes in six major Indonesian cities. The study provides robust evidence that serves as a foundation for policymakers, supporting efforts to strengthen enforcement measures, enhance tax compliance, and reduce the distribution of illicit cigarettes in Indonesia.

### APPROACH

The consumption size of illicit cigarettes is estimated by conducting a littered empty-pack survey in six Indonesian cities: Jakarta, Bandung, Semarang, Surabaya, Medan, and Makassar. These cities were selected based on a systematic multi-criteria approach to ensure a reasonably representative demographic and geographic distribution of illicit cigarettes across Indonesia's cities. Note, however, that the estimate cannot be interpreted as nationally representative, but rather the results from the individual cities

should be considered carefully on their own. The design and the data collection process followed international best practices, specifically following the toolkit on measuring illicit trade in tobacco products developed by the Economics for Health program at Johns Hopkins University (5). The collected empty packs were inspected and analyzed based on their compliance with Indonesia's tax stamp and pictorial health warning (PHW) regulations to identify illicit and/or non-compliant packs.

### KEY FINDINGS

#### ► The size of illicit cigarette consumption is significant

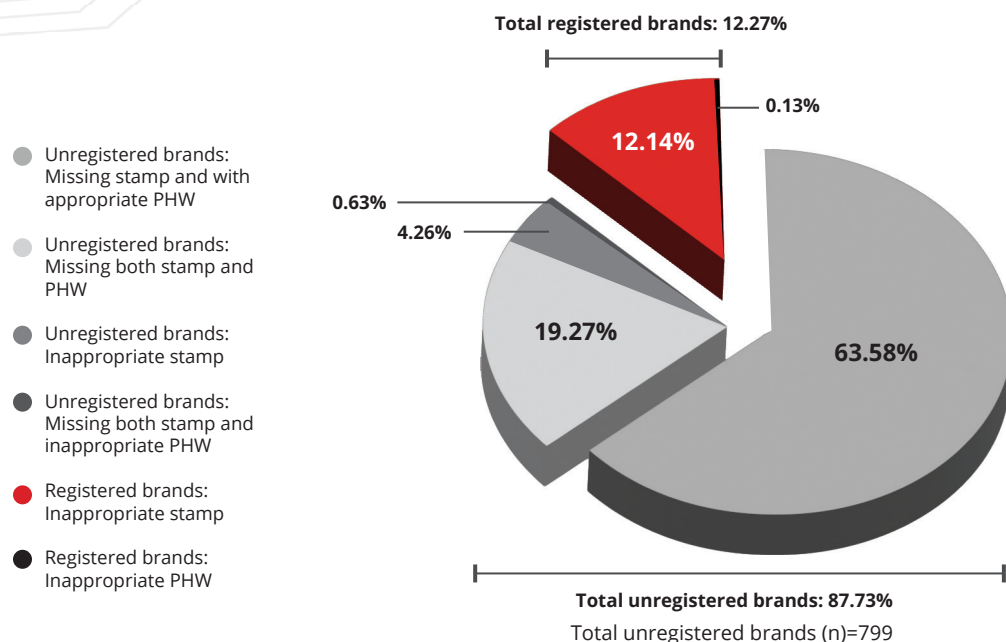
The prevalence of illicit packs is found to be 10.77% across six major Indonesian cities, highlighting a challenge that potentially undermines tobacco control efforts, reduces the impact of public health initiatives aimed at reducing smoking rates, and diminishes government revenue collection through lost taxation opportunities. These findings reinforce that there is a need for more robust measures to secure the tobacco supply chain and curb illicit cigarette trade.



► **The unregistered brand packs are the most dominant type of illicit cigarette packs**

Unregistered brands constitute the predominant form of illicit cigarettes (87.73%) (Figure 1). These unregistered products are likely manufactured by micro- or small-scale producers operating without legal registration. Since Indonesia does not restrict ownership of cigarette-rolling machines, starting small tobacco businesses is relatively easy (6). Further analysis found that 63.58% of the unregistered brand illicit packs have no tax stamp but display correct PHW, indicating that manufacturers can print proper health warnings on their products, making them less obviously illicit to the average consumer while avoiding tax obligations.

**Figure 1. Illicit packs by compliance category**



► **Makassar and Surabaya are the cities with a higher proportion of illicit cigarettes.**

Makassar and Surabaya recorded the highest prevalence of illicit cigarettes, with 21.48% and 20.61%, respectively (Figure 2). These high rates likely stem from Surabaya's location in East Java province, which hosts Indonesia's largest tobacco plantation area and the highest concentration of tobacco factories (7,8). Moreover, Surabaya and Makassar serve as major port cities connecting central and eastern Indonesia, potentially facilitating illicit cigarette flow from Surabaya to Makassar— a city located in South Sulawesi, a province with small areas of tobacco plantations and a small number of cigarette factories (8). Notably, only a short distance from Surabaya, the estimate for Semarang was less than two percent, which further reinforces the localized nature of the challenge. Future research should investigate the role of existing distribution networks within the supply chain.

**Figure 2. Illicit packs prevalence by city**





# POLICY RECOMMENDATIONS

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## 1 Secure large ports and potential high-risk areas

Large ports that are present in cities such as Makassar and Surabaya facilitate the flow of illicit cigarette distribution in the country. Therefore, the government should immediately increase the monitoring and enforcement in these transportation hubs. Moreover, free-trade-zone (FTZ) areas should be closely monitored, as emerging evidence suggests they may also serve as channels for the illicit cigarette trades (9,10).

## 2 Strengthen the oversight on micro- and small-scale cigarette manufacturers

Strengthening oversight on micro- and small-scale cigarette manufacturers and shutting down those who are operating without legal permits should be a policy priority. Furthermore, regulating the sale and ownership of cigarette-making machinery to prevent misuse is essential.

## 3 Implement trace and track system

The government should not rely solely on tax stamps and field enforcement operations. A track and trace system should be established to combat illicit cigarette circulation. Such a system is specifically designed to monitor the movement of tobacco products through all stages of the supply chain in real-time (11). Implementing the system would enable the Ministry of Finance to identify and trace illicit cigarettes to minimize them from reaching end consumers. Furthermore, this system would ensure that legitimate tobacco manufacturers fulfill their tax obligations on the products they manufacture (12).

## 4 Ratify the WHO Framework Convention on Tobacco Control (FCTC)

The government of Indonesia should ratify the WHO Framework Convention on Tobacco Control (FCTC) and the Protocol to Eliminate Illicit Trade in Tobacco Products. Ratifying the Protocol is imperative for safeguarding public health, reducing tobacco product consumption, aligning national policies with global efforts to combat the tobacco epidemic, and granting Indonesia access to technical assistance in implementing the Protocol as well as in establishing a track and trace system (3). Additionally, the implementation of Article 15 of the Protocol (13) is crucial to securing the tobacco products supply chain, particularly by licensing micro- and small-scale cigarette manufacturers to restrict them from producing illicit cigarettes.





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