Illicit Tobacco Trade in the Philippines: Findings from Sari-Sari Store Surveys and Empty Pack Audits

Executive summary

The illicit trade of tobacco has recently become a larger challenge for both public health and revenue generation in the Philippines. The government missed its tobacco tax revenue targets, as excise tax collections declined between 2022 and 2024.[1] Furthermore, adult smoking prevalence rose disturbingly from 18.5% in 2021 to 23.2% in 2023. This twin problem—the rise in smoking rates and the drop in excise tax revenues—has raised concerns about the growing presence of illicit tobacco trade in the country.

This study examines the characteristics and prevalence of illicit tobacco trade in eight major urban centers, including those in Metro Manila, across the country's three main island groups. It attempts to capture the dynamics of illicit tobacco trade, taking into consideration both the common and diverse contexts of the selected eight locations.

The study sites are: Navotas City, Pasay City, and Quezon City in Metro Manila; Batangas City and Dagupan City in Luzon; Mega Cebu in the Visayas; and General Santos City and Zamboanga City in Mindanao. These cities were strategically selected for their population density and the presence of commercial ports or major transport networks that serve as entry points and distribution hubs of traded goods for outlying provinces. They likewise represent large consumer markets.

A mixed-method approach was employed, consisting mainly of a randomized audit of *sari-sari* stores with a 14-day cigarette sales inventory and empty pack collection, complemented by methods to triangulate the data and capture different dimensions of illicit tobacco trade. The complementing measures included (1) a cigarette price survey on select formal retail establishments; and (2) focus group discussions (FGDs) and key informant interviews (KIIs) with actors engaged in or affected by illicit tobacco trade, including retailers, local distributors, regulators and enforcers, and community members.

The study established three forms of illicit trade observed across the eight cities:

(1) **Pricing below the sum of excise and value added taxes** – Cigarette packs were sold below the combined excise and value-added taxes. In other words, tax evasion (illegal non-payment of required taxes). Violations were relatively low in most of the surveyed sites (in Luzon, Batangas had the highest percentage of violations, at 7.5%). Violations, however, were much more pronounced in Mindanao cities, reported at 38.5% in General Santos and 79.5% in Zamboanga.

(2) **Tax stamp violations** – In the Metro Manila cities covered by the study, 7.2% of tested packs bearing the labels of Japan Tobacco International brands were found

[1] Tobacco excise tax collections have been on the rebound as of the first half of 2025.

with counterfeit tax stamps. Further, 5.3% of PMFTC-branded packs (the local affiliate of Philip Morris International) had counterfeit tax stamps. In Mindanao cities, packs bearing labels of registered brands *Cannon Menthol 100s* and *Fort Menthol 100s* entirely had missing tax stamps. Both brands were among the top-selling cigarettes in the cities of Zamboanga and General Santos.

(3) **Smuggling of unregistered brands** – Cigarette packs not declared to the Bureau of Internal Revenue (BIR) by any registered manufacturer, importer, or exporter were found particularly in Mindanao cities. These unregistered brands of foreign origin had companies supposedly located in Indonesia, Thailand, South Korea, the United Arab Emirates, and England, among others. In General Santos and Zamboanga, smuggled unregistered brands constituted 58.6% and 47.5% of all collected packs, respectively.

Table 1 below summarizes the types and prevalence of illicit cigarette trade across surveyed cities, highlighting Mindanao cities as hotspots.

Table 1. Estimated prevalence of illicit cigarette trade by city and indicator

	Pricing Below the Sum of Excise and Value Added Taxes	Tax Stamp Violation	Smuggling
	% of packs sold below the total applicable taxes (Php 71.42)	% of packs with fake and/or missing tax stamps	% of packs of unregistered brands
Navotas	0.2%	8.8%	0.8%
Pasay	-	2.3%	-
Quezon City	-	8.6%	0.2%
Batangas	7.5%	8.4%	8.4%
Dagupan	0.7%	2.9%	-
Mega Cebu	1.8%	1.2%	0.8%
General Santos	38.5%	85.4%	58.6%
Zamboanga	79.5%	96.3%	47.5%

Based on the survey results and stakeholder consultations, the main driver of illicit tobacco trade in the Philippines is weak enforcement, and not high tax rates. The wide variation in the degree of illicit trade between surveyed cities in Southern Mindanao and the rest of the cities in Luzon and Mega Cebu, despite the uniform application of a unitary tax rate throughout the country, suggests that outlying or peculiar factors explain the abnormally high level of illicit trade in the cities of General Santos and Zamboanga. For one thing, the maritime area where the surveyed port cities are located has been the route of free trade and open borders for centuries. Thus, what modern law treats as illicit, tradition recognizes as normal. This tension creates an opening for illicit trade to thrive. For another thing, and a more important factor, the historically weak institutions and poor enforcement of rules in these areas enable illicit trade to gain ground.

It is common to have a noticeable variation in illicit trade shares among areas in a country, often higher near borders or ports of entry. But comparing the results in the surveyed cities in Luzon and Mega Cebu with those in Mindanao, we observe that the substantial difference, apart from southern Mindanao's cultural and historical context, can be explained by enforcement intensity, local governance practices, and political will. And when local governance fails, or when local chief executives are complicit in illicit tobacco trade, the political will of the national government, specifically the President, would become decisive.

The issue of registered cigarette brands that are priced below the legal floor price or with counterfeit or missing tax stamps can be addressed by upgrading the current tax stamp system, specifically having a transparent and accessible track-and-trace system that covers the entire tobacco supply chain.

On the legal floor price, the national government must review and subsequently improve the mechanism through which the legal floor price is set. Simpler, clearer, and more transparent rules and regulations on floor price are the way forward.

Strengthening retail-level regulation is also critical. This includes implementing a nationwide licensing system requiring all tobacco retailers–-including *sari-sari* stores—to obtain permits and amending the National Internal Revenue Code to empower the BIR to suspend or close business operations of stores caught selling illicit cigarettes. The data from the track and trace system linked with the geographical information from the licensing can help tax authorities quickly identify anomalies in the legal market.

To enhance enforcement, the government should deputize local police to conduct raids and strengthen coordination between local government units (LGUs) and national enforcement agencies. To secure coastal entry points and prevent maritime smuggling, a vessel monitoring system should be established and implemented along critical border zones.

The government should also intensify international cooperation with neighboring countries through bilateral and multilateral initiatives to address smuggling at its source. Finally, regular surveys should be conducted by tax authorities to monitor the scale and dynamics of the illicit tobacco trade.

I. Introduction

The illicit trade of tobacco products[2] has recently become a larger challenge to both public health and revenue mobilization in the Philippines. A review of contemporary Philippine economic history shows the persistence of illicit tobacco trade across periods, regardless of the prevailing tax policy. Lessons have been learned to effectively fight illicit tobacco trade, even when tobacco tax rates are increased.

In the Philippines, a series of legislative reforms has institutionalized tobacco taxation to serve both public health and fiscal policy objectives. The Sin Tax Reform Act of 2012 (Republic Act No. 10351) marked a turning point as it reformed the tax structure (unitary taxation and automatic inflation indexing) and substantially increased excise taxes on tobacco and alcohol products. This was followed by Republic Act No. 10963 in 2017, Republic Act No. 11346 in 2019, and Republic Act No. 11467 in 2020, which raised tobacco taxes further, and expanded the tax base to include heated tobacco products (HTPs) and e-cigarettes.

By 2023, the excise tax on cigarettes was Php 60 per pack (in contrast, the tax rate for the cheapest cigarette brand prior to the 2012 Sin Tax Reform Law was Php 2.72 per pack). And beginning in 2024, the tobacco tax has been subject to an automatic 5% annual increase.

These reforms have expanded fiscal space. Health has been the biggest beneficiary, with the Department of Health's (DOH) budget rising from Php 42.2 billion in 2012 to Php 209.1 billion in 2023.[3] Tobacco taxes provide critical funding for the Universal Health Care (UHC) Law, particularly in subsidizing the contributions to PhilHealth (social health insurance) of those who do not have the ability to pay, expanding the health benefits, and upgrading health infrastructure facilities.

The health gains from the series of tobacco tax increases are not limited to budget increases for health programs and expansion of universal health coverage. Equally important, between 2008 and 2021, smoking prevalence[4] dramatically declined from 31.0% to 18.5%.

However, these gains were disrupted. In 2023, adult smoking prevalence rose to 23.2%, from 18.5% in 2021. This number captures the users of tobacco and nicotine products, including e-cigarettes and HTPs. Among users of tobacco and nicotine products, 86.4%

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[2] Illicit tobacco trade is defined by the World Health Organization Framework Convention on Tobacco Control (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." It encompasses a wide spectrum of unlawful activities. These include counterfeit cigarettes (unauthorized reproductions of branded products); smuggled products such as contraband (genuine products smuggled to evade taxes) and illicit whites (brands produced legally in another country for export but then diverted to markets where they are not declared or registered and do not pay excise taxes); unbranded or "chop-chop" tobacco (loose tobacco lacking official tax stamps or packaging), and unauthorized domestic manufacturing. These practices erode the integrity of tax systems, distort market competition, and significantly undermine the effectiveness of tobacco control policies.

[3] The values (Php 42.2 billion in 2012 and Php 209.1 billion in 2023) reflect the actual peso amounts allocated in each year's General Appropriations Act (GAA) and are not adjusted for inflation.

[4] This includes individuals aged 20 and above and accounts for all types of cigarettes - manufactured cigarettes, hand-rolled cigarettes, pipes full of tobacco, cigars, cheroots, cigarillos, e-cigarettes, and vapes.

smoked manufactured cigarettes in 2021. This increased to 88.6% in 2023. Meanwhile, 1.4% of Filipino tobacco and nicotine users used e-cigarettes in 2021. This increased to 9.9% in 2023.[5] This development, coupled with the decline in tobacco excise tax revenues, has prompted concerns about the increase in illicit tobacco trade. The government estimated losing about Php 52 billion worth of revenues to illicit tobacco trade per year,[6] while excise tax collections declined and the government missed its tobacco tax revenue targets from 2022 to 2024.[7]

Also worrisome, the tobacco industry is using illicit trade as an argument to undermine the Philippines' gains in tobacco taxation. The tobacco industry claims that aggressive tobacco excise tax increases fuel illicit markets and undermine both health and revenue objectives. This claim is based on a 2024 study done by Kantar, a consultancy commissioned by Philip Morris and Japan Tobacco International.[8] In January 2025, Congress, using the justification of curbing illicit tobacco trade, passed on third reading House Bill 11360, a bill effectively lowering tobacco tax rates. In the face of opposition from civil society organizations as well as from some Senators, the Senate Ways and Means Committee discarded the bill.

Yet, the industry's claim that "high taxation causes a decline in the legal consumption and, at the same time, increases the illicit consumption of tobacco products in the Philippines" is a dubious one.[9] Studies commissioned by the tobacco industry or those involving the industry in verifying the authenticity of tax stamps present potential conflicts of interest.

On the other hand, the most recent independent study on illicit tobacco trade in the Philippines was conducted in 2021,[10] and hence does not capture the trend of declining tobacco tax revenues between 2022 and 2024.

Given that illicit trade has been raised as an issue against tobacco tax increases and the need to address research gaps and obtain new information, this new study, mainly through a survey and price audit, is apropos. The data, information, and insights from this study will hopefully inform effective and timely policy responses.

This report provides evidence to better understand recent trends in illicit trade, which have implications for both smoking prevalence and government revenue. The objectives of the study are: (1) to determine the extent and nature of the illicit trade of tobacco products in a selection of major urban centers in the Philippines, based on surveys and complementary methodologies; (2) to identify the sources, types, and features of illicit tobacco trade in these central locations; and (3) to understand how illicit trade is conducted, particularly how it reaches the mass market.

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[5] Data from the National Nutrition and Expanded National Nutrition Surveys conducted by the Department of Science and Technology - Food and Nutrition Research Institute in 2008, 2021 and 2023.
[6] Department of Finance (2025), *Tax recalibration urged amid record rise in illegal cigarette trade, Manila Bulletin*.
[7] Tobacco excise tax collections have been on the rebound as of the first half of 2025.
[8] As presented in the Senate Ways and Means Committee Hearing held on January 22, 2025.
[9] JTI lobbying for tweak in cigarette tax policy. BusinessMirror. August 12, 2025. https://businessmirror.com.ph/2025/08/12/jti-lobbying-for-tweak-in-cigarette-tax-policy/
[10] Austria and Villanueva (2021).

The research finds that levels of illicit trade in the Philippines vary considerably, depending on the study sites. In most of the studied sites, specifically in Luzon and Cebu, illicit tobacco trade is low. The outlier is found in the Southern Mindanao cities of Zamboanga and General Santos. The abnormally high levels of illicit trade in these locations distort the overall picture. The wide disparity in the illicit trade numbers between the centers in Luzon and Cebu on the one hand and the two cities in Southern Mindanao on the other hand strongly suggests that the tobacco excise taxes, applied uniformly and nationally, cannot be the main driver of illicit tobacco trade in the country.

This report explores other plausible explanations by examining how illicit trade operates in differing local environments.

A key consideration is how illicit trade is influenced by the interaction of the archipelagic nature of the Philippines, history and path dependence, institutions, and the political economy at the national and local government levels. All this contributes to a nuanced understanding of illicit trade.

Beyond its implications for tobacco control, this study informs broader policy debates around the regulation of informal markets and the practical challenges of tax enforcement in a society where the informal economy (in terms of contribution to employment and output) is large.

The remainder of this paper is organized as follows: Section II reviews measurement approaches for assessing illicit tobacco trade and describes the study's approach and indicators. Section III outlines the methodology. Section IV presents the results. Section V discusses key findings and insights. And Section VI provides policy implications and recommendations. Section VII concludes.

II. Illicit tobacco trade measurement approaches and indicators

Globally, various methodologies are used to estimate the scale and dynamics of illicit tobacco trade. Among the most commonly applied techniques are gap analysis and littered pack studies. These methods differ significantly in their analytical complexity, data requirements, and applicability to specific country contexts.

Gap analysis involves estimating the difference between legally reported, tax-paid cigarette sales and total smoking consumption derived from household-based surveys. Some local studies independent from the tobacco industry, including Austria & Villanueva (2021) and Lavares (2021), employed gap analysis. Austria & Villanueva (2021) conducted a trade gap analysis between the recorded value of exports from the Philippines' trade partners and the value of imports as recorded by the country, a comparison between survey-based estimates of consumption from the Global Adult Tobacco Survey (GATS) and tax-paid cigarette sales from the Bureau of Internal Revenue's (BIR) removal records, and a comparison between tax-paid cigarette sales and predicted changes in cigarette consumption.

While gap analysis can provide broad estimates of the scale of illicit trade, its accuracy is limited in data-poor settings, proving less reliable in most low- and middle-income countries. Its value lies in conducting repeated analyses over time, which are more effective for identifying trends.

But gap analysis does not distinguish among the multiple forms of illicit trade, such as counterfeit production, illicit manufacturing, or smuggling of unregistered brands. Gap analysis presumes that the unaccounted portion of consumption represents illicit trade. It is vulnerable to either under- or over-estimation.

Survey-based consumption estimates suffer from underreporting due to recall bias, social desirability, and non-disclosure, among others. Further, tax-paid sales data may not accurately reflect actual legal consumption as the gap may include legal tax avoidance strategies such as front loading to avoid tax hikes or cross-border shopping. Since the method includes legal tax avoidance in the gap, it tends to overestimate tax evasion.

Despite the growing literature on illicit trade, significant information gaps remain. Research in general is constrained by incomplete or inaccurate data owing to the illegal nature of the trade. And even with respect to the legal and formal market, researchers contend with the poor quality and limited availability of data.

Further, gap analysis does not capture the diverse and unique contexts in local settings, particularly in an archipelago like the Philippines. The richness of findings is limited. The generality of findings from gap analysis cannot properly inform the appropriate policy interventions at a more localized level.

Littered pack analysis is also widely used in illicit tobacco trade studies and involves collecting discarded cigarette packaging in public spaces to identify brands that lack proper tax stamps or exhibit characteristics of illicit products. However, the methodology has its limitations. If sound and careful sampling is not employed, the method may over-represent areas with higher litter density, potentially skewing results towards a disproportionately higher level of illicit trade. This limits the generalizability of the results across varied socio-economic and geographical contexts.

A random survey on littered packs that is truly nationally representative is also difficult to conduct administratively and geographically. This makes the method unable to account for a fuller scope of the tobacco market.

A related approach, proven effective in countries with high volumes of single-stick sales, involves conducting a survey of smokers, requesting them to present their current pack and/or report the brand and price paid. This is often paired with surveys of single-stick vendors, with a target proportion of these vendors asked to provide empty packs for analysis. While worth doing, this method requires huge resources. Our study could not pursue this method because of the budget constraint.

Within the resource constraint, this study adopted mixed methods to address the limitations of any single method and strengthen the robustness of findings. Our approach combined quantitative and qualitative analyses, observing patterns of cigarette retail sales and pricing, understanding consumer behavior and exposing regulatory gaps in the supply chain.[11] The mixed-method design triangulates data from (1) *sari-sari* store surveys, (2) audit of empty packs collected from these stores, (3) purposive price survey of formal retail outlets, and (4) qualitative interviews.

The study leverages the neighborhood-based operations and dense clustering of *sari-sari* stores to assess the street-level availability and circulation of suspected illicit cigarettes. Small, informal neighborhood variety stores called *sari-sari* stores are the primary channel for cigarette sales. In 2024, per Euromonitor, *sari-sari* stores accounted for 87.8% of the retail volume in the Philippines. Large cigarette manufacturers such as Philip Morris Fortune Tobacco Corporation (PMFTC) and JT International (Philippines) Inc. are able to directly supply and provide support to these stores.

Notably, the *sari-sari* stores are able to sell cigarettes as individual sticks or *tingi*. Selling by the stick or *tingi* to consumers who cannot afford buying a pack is the comparative advantage that *sari-sari* stores have that larger channels like supermarkets do not have.

In contrast, according to Euromonitor, only about 5.6% of the retail volume of cigarettes is sold in supermarkets and hypermarkets. Food/drink/tobacco specialists, defined as chained or independent retail outlets with a primary focus on selling mainly one category of food, drinks, or tobacco products, account for 4.4% of retail volume. Meanwhile convenience retailers, such as 7-Eleven,[12] have a 1.5% share. Non-retail channels account for around 0.8% of the retail volume.

The breakdown of the data above illustrates the overwhelming dominance of *sari-sari* stores as the distribution channel of cigarette sales in the Philippines.[13]

Their ubiquity, particularly in low-income and remote areas, makes *sari-sari* stores ideal for examining illicit tobacco dynamics. Often located in close proximity, sometimes side-by-side or separated by a single household,[14] *sari-sari* stores are an abundant source of information of highly localized sales patterns, including illicit activity. Their accessibility, informal practices, and diverse clientele enable insights into supply chains, retail pricing, consumer preferences, and brand perceptions, making them critical for understanding neighborhood-level tobacco markets.

Indicators of illicit tobacco trade

Illicit tobacco trade is inherently complex and cannot be captured by a single metric. It encompasses an array of non-compliant practices—from the sale of entirely unregistered brands to the underpricing of registered brands and the circulation of cigarette packs with tax stamp violations. To reflect the multifaceted nature of this phenomenon and capture both the scale and the types of illicit activity observed across various locations, the study evaluated the prevalence of illicit tobacco trade using three indicators focused on product-level characteristics:

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[11] Geroy & Encarnacion (2021), qualitative study involving FGDs, KIIs, and policy reviews on tobacco regulation.
[12] Euromonitor International (2025). Tobacco Definitions by Distribution. https://www.euromonitor.com/definitions
[13] Euromonitor International (2025), *Cigarettes in the Philippines*.
[14] As noted by Silverio (1982) and Bonnin (2004) in Malapit, *The Filipino sari-sari store*, 2007.

(1) **Share of cigarette products purchased by sari-sari stores priced below the sum of applicable taxes.** In the Philippines, the Bureau of Internal Revenue (BIR) enforces cigarette tax compliance by setting a floor price. Revenue Memorandum Circular No. 49-2023 and Revenue Resolution No. 016-2024 define the floor price as "the minimum retail price set by the BIR at which cigarettes may be sold, taking into account the sum of their excise tax, value-added tax, and reasonable production cost." Under BIR regulations, the sale of tobacco products below the floor price is prohibited, and consistent or patterned violations may trigger an investigation for potential willful underpayment or non-payment of taxes. Where retail prices fall below the sum of the combined excise and value-added taxes, such transactions constitute an explicit violation—a definitive indicator of tax evasion. The amount of applicable taxes to assess the occurrence of such violations was established during the data collection period. The BIR's floor price for cigarettes was set at Php 114.60 (approximately, \$2.05) per pack, computed as the sum of Php 43.32 (≈ \$0.77) from tobacco industry's declared lowest production cost, Php 60.00 (≈ \$1.07) in excise taxes, and Php 12.28 (≈ \$0.22) in VAT.[15] Following the 5% annual indexation applied in January 2024, the excise tax increased to Php 63 (≈ \$1.13). The applicable VAT for that period was estimated at Php 8.42 (≈ \$0.15), based on the rates prescribed in Revenue Regulation No. 16-2024 (September 2024). Accordingly, the minimum applicable taxes—defined as the sum of excise tax and VAT—was Php 71.42 (≈ \$1.28) per pack.

(2) **Share of registered brands found to bear counterfeit or missing tax stamps**. BIR Revenue Regulations No. 09-2015, issued on September 2, 2015, requires all imported and locally produced cigarettes to bear internal revenue stamps and mandates the use of the Internal Revenue Stamp Integrated System (IRSIS). The presence of counterfeit tax stamps indicates tax evasion. Missing tax stamps, however, offer a more ambiguous signal of non-compliance. The absence of tax stamps on packs with labels of registered brands can result from deliberate non-affixture or technical issues related to material or placement, rather than intentional evasion. For unregistered brands, the absence of stamps is expected, given their illicit nature. In this study, each pack was assessed to confirm the affixture of the tax stamp and verify its authenticity following the classification guidelines provided in BIR Revenue Memorandum Circular (RMC) No. 40-2024.

(3) **Share of total cigarette products sold that are unregistered with the BIR**. Any brand and product variant of cigarettes that were not declared to the BIR by any registered manufacturer, importer, or exporter for local production, domestic circulation, export, or import is classified as unregistered and is therefore considered illicit. According to the BIR Revenue Regulation (RR) No. 7-2021, as of March 8, 2024, the BIR recognizes 146 domestic brands from eight licensed manufacturers and 321 brands registered under 13 companies with Philippine

[15] Under Revenue Memorandum Circular No. 49-2023 (April 2023), which remained in effect until September 2024 (when a new regulation was issued). The VAT amount was derived by the BIR as the difference between the VAT-inclusive and VAT-exclusive prices. The assumed VAT-inclusive price is Php 114.60, corresponding to the lowest allowable retail price (floor price). The VAT-exclusive price was calculated as Php 114.60 / 1.12 = Php 102.32. Therefore, the VAT component is Php 12.28.

Economic Zone Authority (PEZA) accreditation. The full and detailed list of registered brands and the corresponding taxpayers is available in Annex A.

III. Methodology

At the core of the study's methodology is the randomized survey of *sari-sari* stores (small neighborhood grocers selling a variety of household goods) with accompanying collection and audit of empty cigarette packs. To cross-verify or triangulate data from multiple sources and capture different dimensions of illicit tobacco trade and to ground findings in the realities of local retail market dynamics, a supplementary cigarette price and pack survey on formal retail outlets was conducted, along with qualitative data collection through focus group discussions (FGDs) and key informant interviews (KIIs) with stakeholders.

Sari-sari store survey and empty pack audit

The *sari-sari* store surveys were implemented by the Professional Institute for Management Advancement, Inc. (PIMA Foundation). It employed a multi-stage cluster sampling design with purposive selection at the first stage. In the first stage, the eight cities across Luzon, Visayas, and Mindanao including Metro Manila were selected. These urban centers were chosen based on two primary criteria: the presence of commercial ports or major transport networks (which function as entry points and distribution hubs for outlying provinces) and high population density (large consumer markets). The selected sites were Quezon City, Pasay City, and Navotas City in Metro Manila; Batangas City and Dagupan City in Luzon; Mega Cebu in the Visayas; and Zamboanga City and General Santos City in Mindanao. These cities reflect the heterogeneity of the urban Philippine landscape, encompassing both administrative capitals and commercial trade hubs.

As of 2020 (census data), the selected metropolitan areas for this study accounted for approximately 8% of the national population, totaling around nine million people. Navotas City, Pasay City, and Quezon City represented 27% of Metro Manila’s urban population.

Dagupan City, a commercial and economic center in northern Luzon, is the second most populous city in the Ilocos region. Its population in 2020 was about 4% of the population of the Ilocos region.

Batangas City is a major industrial port city and is the most populous city in the whole province of Batangas. The city had a population share of 12.08% of the total population in the province, according to the 2020 census data.

Mega Cebu has the characteristic of being a “city-region.” In 2020, its population comprised 28% of the Visayas’ urban population.

The port cities of General Santos and Zamboanga made up 13% of Mindanao’s urban population, including cities and municipalities within the Bangsamoro Autonomous Region in Muslim Mindanao.

With respect to contribution to the economy, the Gross Domestic Product (GDP) of the eight study sites and the household consumption of each province where the sites are located as of 2023, are presented in Table 2.

Table 2. 2023 GDP and household consumption in study sites

Area	2023 Provincial/Highly Urbanized City GDP	2023 Provincial Household Consumption
Navotas City	39.95B	4.15B
Pasay City	336.76B	
Quezon City	1.27T	
Dagupan City	375.31B	804.2M
Batangas City	645.78B	3.09B
Cebu City	312.71B	1.05B
Mega Cebu	411.32B	
General Santos City	132.17B	536.72M
Zamboanga City	144.33B	404.08M
Philippines	24.276T	18.6B

Source: PSA Provincial & Highly Urbanized City Accounts

The second stage of the cluster sampling involved the selection of barangays (the smallest administrative unit in the Philippines) within each study city. This method assumes that more populous barangays are likely to have more *sari-sari* stores and greater consumer exposure to tobacco products, making them key areas for evaluating illicit trade activity. To ensure representativeness, population size was used as a proxy for retail density and potential market size. Therefore, the barangays were selected using probability proportional to size (PPS) sampling based on the latest Census of Population and Housing by the PSA. In cases where necessary, for example, when the target number of respondents for a barangay was not met, pre-identified replacement barangays with similar characteristics were utilized to preserve sampling integrity.

Within each selected barangay, *sari-sari* stores were identified through systematic random walk procedures. Starting from a central point, typically the barangay hall, field enumerators proceeded using a fixed rightward walking pattern. A defined skipping interval was applied, adjusted by region to account for differences in retail density to minimize clustering effects and ensure broad coverage within barangays: five-store skips in Metro Manila, four-store skips in Luzon, and three-store skips in Visayas and Mindanao. A target number of stores was set per barangay, and when unmet, a substitute barangay was drawn to fulfill the quota. The final dataset comprises 1,000 sari-sari stores from eight study sites in the Philippines: Batangas (150 stores) and Dagupan (150) in Luzon; Navotas (100), Pasay (100), and Quezon City (100) in Metro Manila; General Santos (100) and Zamboanga (100) in Mindanao; and Mega Cebu (200) in the Visayas, which includes Cebu City and neighboring municipalities such as Lapu-Lapu, Mandaue, Toledo, Carcar, Talisay, Argao, and Danao.

The *sari-sari* store survey served as the primary data collection instrument to document the availability and pricing of tobacco products. A structured questionnaire was administered in face-to-face interviews that typically lasted 20 minutes (Annex B). The survey instrument was developed in collaboration with the BIR and pilot-tested prior to deployment. Core survey domains included: inventory of cigarette brands sold; sales format (whether by stick or by pack); typical price points; and source and frequency of cigarette restocking. Verbal informed consent was obtained from all participants. Each participating store was given Php 100 as compensation; this was disclosed only after the interview to avoid influencing responses.

A crucial component of the methodology is the empty pack audit, designed to generate physical evidence of authenticity of cigarette products. A target of 30% random subsample of *sari-sari* stores per barangay was invited to participate in the empty pack audit. These stores received an empty pack audit kit, which included daily sales logs, secure packaging for empty packs, and guidance materials. The audit was conducted over a 14-day period. Field teams conducted two follow-up visits per store to reinforce compliance and provide technical assistance. The collected packs were used to cross-check self-reported brand data, identify unregistered products, and verify tax compliance. Field teams collected survey data and cigarette packs across the eight cities from May to June 2024: Quezon City (13 May – 03 June 2024), Pasay City (11 May – 08 June 2024), Navotas City (13 May – 02 June 2024), Batangas City (12 May – 12 June 2024), Dagupan City (11 May – 14 June 2024), Mega Cebu (25 May – 26 June 2024), General Santos City (29 May – 28 June 2024), and Zamboanga City (28 May – 17 June 2024).

Each collected cigarette pack was assessed to verify the authenticity of the pack and its affixed internal revenue tax stamps in accordance with regulatory standards. The empty pack audit had two components: one conducted by the research team and another by APO Production Unit, Inc. (APO), the BIR's authorized partner for implementing the IRSIS. The assessments targeted indicators of illicit trade, such as: (1) brands not registered with the BIR, and (2) cigarettes with fake, missing, or incorrect tax stamps. The research team assessed only brands and packaging compliance, while APO expanded verification to identify fake, missing, or incorrect tax stamps.

Three key procedures were employed by APO. First, taggant verification used handheld devices to detect chemical markers embedded in genuine stamps. Second, microtext and image magnification enabled the identification of deviations in font, print quality, and alignment—common indicators of counterfeit production. Third, ultraviolet light inspection was applied to confirm the presence of security inks and holographic features. This multi-layered verification process represents the most comprehensive tax stamp authentication available in the country to date.

Price and pack survey on formal retail outlets

To complement the findings from the *sari-sari* store survey and empty pack audit, a supplementary price and pack survey was conducted in formal retail outlets to benchmark cigarette pricing patterns in regulated settings. The outlets surveyed included three types: chain supermarkets, convenience stores, and local groceries. Chain supermarkets represent large, franchised outlets typically found in shopping malls or major commercial districts. Convenience stores, such as 7-Eleven or Lawson, are smaller, standardized chains that operate under corporate management and are subject to stricter regulatory oversight. Local groceries are defined as independently run large groceries operating within a specific city, municipality, or region, without national presence, often located near

residential areas or public markets. These grocery stores have a much larger variety of goods compared to *sari-sari* stores and sometimes act as wholesalers of cigarettes and other products. The selection of store types aimed to capture pricing and product offerings across these store categories.
In each city, at least two establishments for each store type were selected. If a store type was unavailable, for example, convenience stores in smaller cities, then they were simply omitted from the sample. The choice of outlets was purposive, given the study's resource constraint. The objective was to have coverage of other store types, other than the *sari-sari* store and have a sense of the penetration of illicit trade in more formal retail establishments. For this, representativeness of the sample is not necessary. As such, the sample size for formal retail stores covered by the study is not statistically representative of the broader formal retail market. The price survey followed a protocol similar to a mystery shopper approach, with enumerators (study team) discreetly recording the prices and availability of commonly sold cigarette brands. When necessary, to verify unclear prices, confirm brand identification, or inspect unfamiliar products, cigarette packs were purchased, which were subsequently included in the tax stamp audit.

Focus group discussions and key informant interviews

To complement the quantitative findings and contextualize the operational mechanisms behind illicit tobacco trade, the study incorporated a qualitative component through focus group discussions (FGDs) and key informant interviews (KIIs). The FGDs and KIIs were designed to explore the perceptions, motivations, and practices of various actors engaged in or affected by the tobacco trade. The participants included retailers, local distributors, former and current local government officials, regulatory officials, and community members. KIIs and FGDs were primarily conducted by the study team only in cities with a high observed incidence of illicit trade, particularly unregistered brands, as identified through the *sari-sari* store survey and empty pack audit.

In Tawi-Tawi, faculty members of Mindanao State University–Tawi-Tawi, members of the Sangguniang Bayan, representatives from the Chamber of Commerce, the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and the Coast Guard, and other community stakeholders participated in the FGD.

The FGDs probed issues such as awareness of tobacco regulations, enforcement visibility, sourcing behavior, and the economic rationale for stocking specific brands. The FGD lasted between 60 and 90 minutes. The discussions focused on institutional enforcement capacity, inter-agency coordination, supply chain surveillance, and policy gaps. The qualitative data collected were used to validate field observations and provide policy-relevant insights grounded in the lived realities of enforcement and retail behavior.

Ethical considerations

Enumerators underwent training that emphasized research ethics, proper engagement with informal workers and retailers, and procedures for handling sensitive disclosures. All participants were informed that the study was for academic and policy research purposes, and that their identities and store information would remain confidential. Data collection adhered to secure protocols, with personal identifiers removed prior to analysis to ensure anonymity.

Limitations

Mobile vendors were excluded from the sample due to the lack of stable inventory, limited traceability, and the challenges they pose to audit-based methodologies. By law, mobile vendors are required to register their business operations. However, actual compliance is low. This contributes to their higher degree of informality, compared to *sari-sari* stores. Mobile vendors are thus subject to little or no regulatory monitoring, a situation that illicit trade exploits. In areas known as hotspots of illicit trade, mobile vendors are likely used to distribute illicit cigarettes. Similarly, online cigarette sellers were not included in this study.

Moreover, the study focuses exclusively on cigarettes and does not cover other tobacco products, including e-cigarettes, vapes, heated tobacco products (HTPs), or similar alternatives. These exclusions result in some underestimation of overall illicit tobacco product sales in the surveyed areas. But the expressed coverage of this illicit trade study concerns commercial cigarettes. The main consideration here, apart from the complexity of gathering data for vapes or e-cigarettes, which have numerous variants and divergent price structures, is that *sari-sari* stores account for only a 5% share of purchases of such electronic devices.[16]

Another limitation of this study is that the unit of analysis is not national, but each surveyed city. That said each selected city has a truly randomized representative sample of sari-sari stores.

While the sample is not nationally representative, the randomized sample for each city is designed to allow inference on patterns of illicit trade within this unit of analysis. While findings are specific for surveyed areas, combining the distinctive characteristics and commonalities across the selected cities provides valuable insights into the broader state of illicit tobacco trade in the Philippines.

Lastly, although triangulation and audit methods were employed to enhance data reliability, the survey's self-reported information—particularly regarding sourcing and sales practices—may still be affected by social desirability bias or underreporting.

Despite these constraints, the integration of sari-sari store surveys, pack audits, validation, and qualitative inquiry is sufficient to safeguard and enhance credibility and robustness of the study's findings with respect to the retail sale of commercial cigarettes.

IV. Results

The survey covered a total of 1,000 sari-sari stores across 115 barangays in eight cities in the Philippines. In Luzon, 150 stores each were surveyed in Batangas and Dagupan. In Metro Manila, surveys were conducted in Navotas (100 stores), Pasay (100), and Quezon

[16] Institute for Global Tobacco Control, *E-cigarette Use Among Filipino Adults Who Smoke* (Baltimore, MD: Johns Hopkins Bloomberg School of Public Health, April 2024), https://www.globaltobaccocontrol.org/sites/default/files/2024-04/PH-Fact-Sheet-E-cig-Use-Behaviors-2024-FINAL.pdf

City (100). In Mindanao, 100 stores each were covered in General Santos and Zamboanga. In the Visayas, Mega Cebu was surveyed with 200 stores, covering Cebu City and neighboring cities and municipalities, to wit: Lapu-Lapu, Mandaue, Toledo, Carcar, Talisay, Argao, and Danao.

Approximately 41.5% of the surveyed stores were classified as large, with reported sales exceeding Php 8,400; 19.1% were medium-sized, with sales between Php 5,600 and Php 8,400; and 39.4% were small, with sales below Php 5,000 (see Table 3). Store size distribution varied across cities: Large stores predominated in Batangas (52.7%), Dagupan (58.7%), Pasay (42.0%), and Navotas (45.0%), while small stores were more common in General Santos (56.0%), Zamboanga (43.0%), Mega Cebu (42.5%), and Quezon City (54.0%).

Table 3. Store distribution for the sari-sari store survey and empty pack audit

Geographic Area	City	Store Class*	Sari-Sari Store Survey: Total Stores	Sari-Sari Store Survey: No. of Stores (%)	Empty Packs Audit: No. of Stores (%)	Empty Packs Audit: Total Stores (%)	No. of Barangays
Metro Manila (3)	Navotas	Large	**100**	45 (45.0)	12 (36.4)	**33 (33.0)**	10
		Medium		20 (20.0)	9 (27.3)		
		Small		35 (35.0)	12 (36.4)		
	Pasay	Large	**100**	42 (42.0)	10 (30.3)	**33 (33.0)**	18
		Medium		18 (18.0)	8 (24.2)		
		Small		40 (40.0)	15 (45.5)		
	Quezon City	Large	**100**	25 (25.0)	12 (35.3)	**34 (34.0)**	9
		Medium		21 (21.0)	7 (20.6)		
		Small		54 (54.0)	15 (44.1)		
Luzon (2)	Batangas	Large	**150**	79 (52.7)	31 (62.0)	**50 (33.0)**	15
		Medium		24 (16.0)	7 (14.0)		
		Small		47 (31.3)	12 (24.0)		
	Dagupan	Large	**150**	88 (58.7)	33 (66.0)	**50 (33.0)**	17
		Medium		28 (18.7)	10 (20.0)		
		Small		34 (22.7)	7 (14.0)		
Visayas (1)	Mega Cebu	Large	**200**	79 (39.5)	25 (41.7)	**60 (30.0)**	26
		Medium		36 (18.0)	10 (16.7)		
		Small		85 (42.5)	25 (41.7)		
Mindanao (2)	General San	Large	**100**	28 (28.0)	9 (27.3)	**33 (33.0)**	10
		Medium		16 (16.0)	5 (15.2)		
		Small		56 (56.0)	19 (57.6)		
	Zamboanga	Large	**100**	29 (29.0)	9 (27.3)	**33 (33.0)**	10
		Medium		28 (28.0)	6 (18.2)		
		Small		43 (43.0)	18 (54.5)		
Total			**1,000 (100)**			**326 (32.6)**	**115**

** Store class: Large = total weekly sales > Php 8,400; Medium = Php 5,600 < sales ≤ Php 8,400; Small = sales < Php 5,600.*

Cigarettes are a major source of income for sari-sari stores, as shown in Table 4. They consistently ranked among the top-selling products across all eight cities. Dependence on cigarette sales among sari-sari stores was highest in Navotas, where 65% of stores reported that cigarettes accounted for at least 30% of their total weekly sales. The corresponding shares were as follows: 58% in Quezon City, 57% in Batangas City, and 55% in Mega Cebu. On average, cigarette sales madeřp up 35.66% of total store income in Navotas, 30.94% in Mega Cebu, 30.87% in Batangas City, and 30.32% in Quezon City.

In General Santos and Zamboanga, cigarettes ranked second only to instant coffee among the top-selling products in sari-sari stores. In these cities, reported weekly cigarette sales were lower compared to other areas. In Zamboanga, cigarette sales accounted for an average of just 18.68% of total weekly revenue, while in General Santos, the share was 26.84%.

Table 4. Store characteristics and best-selling product

City	Best-selling Product (Top 3)	Total Stores	Avg. Weekly Cigarettes Sales	Avg. Weekly Total Store Sales	% Cigarette Sales (% of Total Sales)	Avg. Years in Cigarette Sales	Source of Cigarettes (Top 3)
	Cigarettes	**100**	Php 4,419.56	Php 12,387.34	*35.66*	**8**	Grocery Store
Navotas	Soft drinks						Supermarket
	Snacks & Biscuits						Wholesaler
	Cigarettes	**100**	2,420.00	8,425.00	*26.90*	**7**	Wholesaler
Pasay	Soft drinks						Grocery Store
	Snacks & Biscuits						Supermarket
	Cigarettes	**100**	2,558.82	8,268.83	*30.32*	**10**	Wholesaler
Quezon City	Instant coffee						Grocery Store
	Soft drinks						Direct Seller
	Cigarettes	**150**	3,712.25	11,669.77	*30.87*	**6**	Wholesaler
Batangas	Soft drinks						Supermarket
	Snacks & Biscuits						Direct Seller
	Cigarettes	**150**	3,606.71	12,881.27	*26.97*	**7**	Supermarket
Dagupan	Soft drinks						Direct Seller
	Instant coffee						Wholesaler
	Cigarettes	**200**	3,291.50	9,539.68	*30.94*	**7**	Wholesaler
Mega Cebu	Instant coffee						Supermarket
	Soft drinks						Direct Seller
General Santos	Instant coffee	**100**	2,808.25	7,852.50	*26.84*	**6**	Wholesaler
	Cigarettes						Direct Seller
	Soft drinks						Market Stores
Zamboanga	Instant coffee	**100**	1,601.27	7,591.82	*18.68*	**5**	Market Stores
	Cigarettes						Wholesaler
	Soft drinks						Supermarket
Total		**1,000**					

A total of 326 stores (32.6%) participated in the empty pack audit. The size distribution of these stores—large: 43.3%, medium: 19.0%, small: 37.7%—closely mirrors that of the survey sample. The stores that participated in the empty pack audit reported cigarette stick sales during the 14-day inventory period as shown in Table 5. The most widely consumed brands were *Marlboro*, *Mighty*, *Camel*, *Fortune*, *Chesterfield*, and *Winston*. *Marlboro*, manufactured and distributed by PMFTC Inc. (Philip Morris Fortune Tobacco Corporation), the Philippine affiliate of Philip Morris International (PMI), emerged as the leading brand in both market share and geographic presence. It accounted for 114,180 sticks, or about 30% of total recorded sales. Another PMFTC brand, *Fortune*, ranked as a popular mid-priced option. Over the 14-day period, *Fortune* recorded 15,385 sticks in sales.

Table 5. Cigarette sales per stick based on inventory for empty pack audit participants (14-day period)

City	Total Sales	City	Total Sales	City	Total Sales	City	Total Sales	City	Total Sales	City	Total Sales	City	Total Sales	City	Total Sales
Registered Brands (Total: 334,714 sticks)															
Navotas	**41,532**	**Pasay**	**39,716**	**Quezon City**	**42,483**	**Batangas**	**52,658**	**Dagupan**	**72,230**	**Mega Cebu**	**44,158**	**General Santos**	**23,511**	**Zamboanga**	**18,426**
Marlboro	20,336	Marlboro	20,508	Marlboro	16,807	Marlboro	20,710	Mighty	22,668	Mighty	21,131	Marlboro	9,232	Cannon	10,385
Camel	9,422	Camel	9,990	Camel	12,031	Camel	18,595	Camel	20,725	Winston	13,957	Cannon	5,275	Fort	6,068
Mighty	6,438	Mighty	3,152	Mighty	4,337	Mighty	7,870	Marlboro	19,384	Marlboro	5,326	Fort	3,853	Marlboro	1,877
Fortune	2,919	Fortune	2,693	Fortune	4,004	Chesterfield	2,466	Fortune	4,391	Chesterfield	2,414	Mighty	2,535	Mighty	86
Chesterfield	1,231	Winston	2,698	Winston	3,068	Fortune	1,338	Chesterfield	5,020	Hope	679	Chesterfield	1,042	Astro	10
Winston	1,186	Chesterfield	675	Chesterfield	2,236	Winnsboro	1,149	Winston	42	Camel	455	Winston	664		
						Winston	530			Cannon	156	More	804		
										Jackpot	40	Camel	66		
												Fortune	40		
Unregistered Brands (Total: 43,209 sticks)															
Navotas	**160**					**Batangas**	**5,436**			**Mega Cebu**	**719**	**General Santos**	**18,126**	**Zamboanga**	**18,768**
President	160					Carnival	963			Brighton	40	Duo	620	Alpha	135
						HP	3,447			D&J	451	Famous	831	Bravo	10,159
						New Orleans	1,026			Dunston	40	Gajah Baru	4,117	Brons	725
										Globe	188	Green Hills	140	Casa Blanca	1,854
										Vess	0	Gudang	435	Impala	1,225
										Warrior	0	King Perfect	6,520	L3	119
												New Berlin	4,267	LS	49
												Tabaco	1,196	Nelson	1,288
														Platinum	2,152
														RS	18
														San Marino	1,044

Camel, *Mighty,* and *Winston*, are brands registered under Japan Tobacco International (JTI). They accounted for 161,646 sticks, or 43% of total cigarette sales across the eight study sites. *Camel* was the second most popular brand overall, with 71,284 sticks sold or

18.9% of the total sales. *Mighty,* while less popular nationwide, was a top-selling brand in both Dagupan and Mega Cebu.

Other notable registered brands include *Cannon* and *Fort. Cannon Menthol 100s* is a product registered under Telengtan Brothers and Sons Inc. (La Suerte Cigar and Cigarette Factory), a manufacturer of locally produced cigarettes for both domestic sale and export. During the inventory period, *Cannon Menthol 100s* sold 10,385 sticks in Zamboanga and 5,275 sticks in General Santos. *Fort Menthol 100s* is also popular in Zamboanga. It is registered in the Philippines under TM8 Enterprises which is a Philippine Economic Zone Authority (PEZA)-registered entity, and Vidda Resources Inc., which is registered as a cigarette importer in the Philippines. Both products recorded significant sales only in the Mindanao sites.

For the supplementary price and pack survey on formal retail outlets, a total of 60 stores across cities were surveyed. In Navotas, only four stores were included—two supermarkets, one local store, and one convenience store. In Pasay and Quezon City, five stores were surveyed in each city, consisting of two supermarkets, two convenience stores, and one local store. In Batangas, Dagupan, and General Santos, eight stores were surveyed per city: two supermarkets, two convenience stores, and four local stores. Zamboanga, being a relatively small city, had only four stores surveyed: one supermarket, one convenience store, and two local stores. In Mega Cebu, 18 stores were surveyed: two supermarkets and two convenience stores in Cebu City and 14 local stores—four in Cebu City and 10 in nearby cities.

Analysis of cigarette pricing, packaging features, and brand registration status identified three primary typologies of illicit trade across all study sites: (1) **pricing below the combined excise and value-added taxes**, (2) **tax stamp violations**, and (3) **smuggling of unregistered brands**. A caveat should be noted: the mention of brand names is based solely on their registration in the BIR listings. Brands not listed with the BIR are classified as unregistered. When violations are associated with a specific brand, the results report the brand, variant, and manufacturer exactly as they appear in the BIR registry. Whether the cigarette packs came from legitimate manufacturers or counterfeit sources falls beyond the scope of this study.

Pricing below the combined excise and value-added taxes

By design, the floor price applies to all distributors of cigarettes in the Philippines. The BIR assumes that, if manufacturers have fully paid all applicable taxes and aim to earn a profit, no cigarettes would be sold below the floor price once they leave the place of manufacture. The floor price therefore establishes the minimum legal selling price for all transactions across the entire supply chain, covering both wholesale and retail.

Table 6 presents the total volume of reported cigarette packs purchased by *sari-sari* stores, along with the volume sold below the floor price. As expected, all packs of unregistered brands were purchased below the legal floor price of Php 114.60. But, below-floor pricing extends not only to unregistered products but also to legally registered cigarettes.

In Zamboanga the incidence of below-floor pricing was highest with 80.2% of all reported packs purchased below this threshold. In General Santos, 49.3% of packs fell short of the floor price, still a high number. For cities outside Mindanao, below-floor pricing occurred at lower rates, ranging from 10.3% of packs in Mega Cebu to 35.6% in Batangas.

Table 6. Total cigarette packs purchased by *sari-sari* stores and number of packs below the floor price threshold

	Total Packs		% of Packs Below Legal Floor Price (Php 114.60)	Total Packs (Registered Brands Only)						Total Packs (Unregistered Brands)		% of Packs Below the total applicable tax (Php 71.42)
	Total Packs	Packs Below Floor Price		Packs priced below the total applicable taxes (Php71.42)	% of Packs	Packs priced above the Total Tax (Php71.42) but below 20% off (Php91.68) of LFP	% of Packs	Packs priced above 20% off the LFP (Php91.68) but below the LFP of Php114.60	% of Packs	Total Packs	Packs Below Floor Price	
Navotas	597	95	**15.9%**	-	-	1	**0.2%**	93	**15.6%**	1	1	**0.2%**
Pasay	666	111	**16.7%**	-	-	-	-	111	**16.7%**	-	-	-
Quezon City	626	124	**19.8%**	-	-	-	-	124	**19.8%**	-	-	-
Batangas	693	247	**35.6%**	-	-	-	-	195	**28.1%**	52	52	**7.5%**
Dagupan	720	190	**26.4%**	-	-	5	**0.7%**	180	**25.0%**	5	5	**0.7%**
Mega Cebu	882	91	**10.3%**	2	**0.2%**	-	-	75	**8.5%**	14	14	**1.8%**
General Santos	475	234	**49.3%**	87	**18.3%**	2	**0.4%**	49	**10.3%**	96	96	**38.5%**
Zamboanga	414	332	**80.2%**	145	**35.0%**	-	-	3	**0.7%**	184	184	**79.5%**
Total	5,073	1,424		234		8		830		352	352	

** The prevailing total applicable tax at the time of data collection was assumed at Php71.42 per pack (Php63.00 excise tax starting 2024 and Php8.42 VAT), based on BIR RMC No. 16-2024.*

The phenomenon of selling below the floor price among registered cigarettes requires further investigation and nuancing. While below-floor pricing can be an indicator of tax evasion, it is not, by itself, sufficient to conclude tax evasion has occurred. There are three cases of below-floor pricing derived from the data that are worth examining in detail:

a. **Case 1: Below-floor pricing of cigarettes possibly tied to competitive discounting practices.** Selling cigarettes below the legal floor price is a regulatory breach, though it does not necessarily imply deliberate tax evasion when all statutory taxes have been paid. In a competitive tobacco market, manufacturers and retailers often adopt price-based strategies such as promotional discounts, rebates, or retailer incentives to attract customers, maintain market share, or clear excess or near-expiry inventory. These strategies, commonly referred to in the industry as "back support," can result in transactions priced below the mandated floor, not as an attempt to evade taxes but as part of aggressive marketing practices.

   To examine whether these below-floor price transactions align with typical discounting practices, the study used a 20% discount as a reference point, which is commonly observed in retail promotions in the Philippines. Applying this benchmark to the legal floor price of Php 114.60 results in a discounted price of Php 91.68 per pack. Table 6 shows that nearly all below-floor-price packs with registered labels fell within this range, between Php 91.68 and Php 114.60. This pattern consistently appeared in all surveyed cities outside Mindanao, suggesting that the observed pricing in these areas was more indicative of promotional or competitive discounting rather than systematic tax evasion. However, the possibility of willful non-payment of taxes cannot be entirely ruled out.

   On average, across all study sites, *Camel*- and *Chesterfield*-labeled packs were priced below the legal floor price, though still above Php 91.68 (Table 7). Approximately, 90% of *Camel*-branded cigarette packs purchased by *sari-sari* stores were not in compliance with the floor price. The lowest reported wholesale price for Camel was Php 90 in Navotas. *Chesterfield* was also frequently non-compliant with the floor price; approximately 86% of packs bearing Chesterfield labels were sold to sari-sari stores below the legal minimum. Its average purchase prices ranged from Php 107.55 to Php 114.48, and its lowest reported price was just Php 45 in Zamboanga.

b. **Case 2: Pricing of cigarettes below the sum of applicable taxes, indicating outright tax evasion.** When cigarette prices fall below the combined excise and value-added taxes, the sale constitutes outright tax evasion.[17] In this case, the applicable sum of taxes is determined to be Php 71.42.

   The price violations among registered brands in Mindanao cities cannot be attributed to promotional discounting but rather to sales below the floor tax threshold. As shown in Table 6, 148 packs (35.7%) of registered brands in Zamboanga were sold below the legal floor price, with 145 of these priced below the applicable taxes. Of these, 142 packs were labeled *Cannon Menthol 100s* and *Fort Menthol 100s*. A similar pattern was observed in General Santos, where 138 packs (29.1%) were sold below the floor price, including 87 priced below the applicable taxes—all carrying the same two brand-variant labels. Even outside Mindanao, the only two packs of registered cigarettes that had selling prices below the tax rates were the same *Cannon* and *Fort* products (purchased in Mega Cebu).

   Overall, violations involving prices below the applicable taxes rates among registered brands were concentrated between two products—*Cannon Menthol 100s* and *Fort Menthol 100s.*

c. **Case 3: Pricing cigarettes significantly below the floor price but above the sum of applicable taxes.** Instances of cigarettes of registered brands priced between Php 71.42 (combined excise and value-added taxes) and Php 91.68 (the price for that is 20% below the floor price) were negligible (Table 6). Although products in this range technically have prices above the applicable taxes, they still violate the floor price regulation. Moreover, these cases likely mean tax evasion because it makes no commercial sense for business to pay full taxes and bear the production costs but without having a modicum of profit. Based on the study team's ocular survey in Zamboanga, illicit cigarettes were sold for as low as Php 20. Using that as reference, we can calculate that this price range for Case 3, assuming taxes are paid, would mean taking a loss. The only way that selling at this price range could be profitable is when the business is evading taxes. This indicates that production costs can be extremely low in certain circumstances. Notwithstanding low production costs, pricing just marginally above the applicable tax rates would not break even (that is, the sum of production costs and applicable taxes exceed sales revenues).

Where cigarettes were priced below the combined excise and value-added taxes, accounting for both registered and unregistered brands, the estimated prevalence of illicit cigarette sales was 79.5% in Zamboanga and 38.5% in General Santos (Table 6). In these cities, the packs priced below the combined applicable taxes were commonly reported as sourced from market stalls/peddlers and wholesalers. In Zamboanga, 60% of such packs were from

[17] Revenue Memorandum Circular No. 49-2023 and Revenue Resolution No. 016-2024 provide that selling of tobacco products at a price lower than the combined excise and value-added taxes imposed under the law is prohibited.

market stalls and 30.3% from wholesalers. In General Santos, 50.6% of the packs priced below the tax rates came from market stalls or peddlers and 33% from wholesalers.

In cities outside Mindanao, the highest prevalence of illicit tobacco sales (prices below the tax rates) reached only 7.5% in Batangas, with all cases involving unregistered brands. The dominant sources of these illicit products, as reported by *sari-sari* stores, varied by city. In Batangas, wholesalers (45.1%) and supermarkets (31.3%) were the most common sources. In Dagupan, supermarkets (49.2%) and direct sellers (31.9%) were the main channels of non-compliant packs. In Mega Cebu, wholesalers (37.7%) and direct sellers (32.1%) were the dominant sources of packs sold below the tax rates. In Navotas, neighborhood grocery stores accounted for 59.6% of packs sold below the applicable tax rates, while in Pasay and Quezon City, wholesalers were the main source of illicit packs, at 44.1% and 37.9%, respectively. Store owners or operators in the surveyed cities described wholesalers as large neighborhood groceries or commercial establishments selling a wide range of goods in bulk. They are typically located in public markets or downtown commercial areas.

Table 7. Average buying and selling prices of top 5 cigarette brands sold by *sari-sari* stores, by city

Cigarette Brands		Minimum Price	Maximum Price	Average Price							
				Navotas	Pasay	Quezon City	Batangas	Dagupan	Mega Cebu	General Santos	Zamboanga
Astro	buy	30	35	-	-	-	-	-	-	-	32.50
	sell	50	60	-	-	-	-	-	-	-	55
Camel	buy	90	168	107.79	110.02	109.51	107.09	109.33	110.33	109.41	131.33
	sell	120	200	132.7536	135.14	134.42	136.84	138.37	-	131.43	140.00
Cannon	buy	23	60	-	-	37.05	50.00	-	-	-	34.82
	sell	40	120	-	-	-	-	-	100.00	59.20	65.91
Champion	buy	106	106	106.00							
	sell	-	-	-	-	-	-	-	-	-	-
Chesterfield	buy	45	180	107.55	107.67	112.00	109.06	109.42	109.73	114.48	45.00
	sell	100	200	129.2308	132.00	135.79	130.00	134.09	133.33	-	-
Concord	buy	95	95	-	-	-	-	-	95.00	-	-
	sell	-	-	-	-	-	-	-	-	-	-
Fort	buy	20	64			36.22	60.00	-	-		28.47
	sell	40	100	-	-	-	-	-	60.00	36.20	28.50
Fortune	buy	107	166	127.33	126.26	125.00	124.00	126.52	128.15	129.56	
	sell	120	200	153.0435	156.25	152.92	151.43	155.22	150.00	-	-
Hope	buy	120	155	-	155.00	-	139.25	-	-	-	-
	sell	160	180	-	-	-	-	155.00	168.00	-	-
Jackpot	buy	126	126				126.00	-	-	-	-
	sell	-	160	-	-	-	-	-	160.00	-	-
Marlboro	buy	105.50	200	154.32	154.78	150.27	154.70	154.59	153.57	155.24	157.00
	sell	120	220	187.451	190.10	188.12	192.03	190.87	194.29	175.60	193.57
Mighty	buy	76	178	126.66	125.89	127.48	126.98	125.84	125.14	124.70	129.64
	sell	100	200	150.2857	150.44	147.44	153.98	153.85	157.22	144.88	148.33
More	buy	103	190	-	-	126.11	-	-	-	-	-
	sell	120	180	-	-	-	-	-	-	140.00	-
Philip Morris	buy	150	155	155.00		150.00	-	-	-	-	-
	sell	180	180	-	-	-	180.00	-	-	-	-
Winnsboro	buy	100	120	108.77	100.00	-	-	-	-	-	-
	sell	150	140	-	-	-	140.00	140.00		-	-
Winston	buy	72	198	126.80	136.50	133.93	144.87	142.13	139.53	138.69	136.56
	sell	120	200	173.0435	165.93	167.56	160.00	170.00	178.42	148.57	154.29
Average Price				131.09	131.41	131.00	120.47	127.31	134.88	78.21	54.95
Minimum Price				60	95	100	35	44	50	25	20
Maximum Price				170	165	180	166	168	200	190	180

Observations of cigarette pricing in 60 formal retail outlets across the eight study sites showed that 31 stores (51.7%) sold packs below the mandated floor price. Table 8 summarizes the minimum, maximum, and average cigarette prices recorded. The local stores (or independently run large groceries operating in the cities or regions only, and not connected with a national chain, often located near public markets and sometimes serving as "wholesalers") had the highest non-compliance, with 74% of outlets pricing below the legal threshold, while convenience stores had the highest compliance. Although the survey for formal establishments (in other words, not the *sari-sari* stores) was purposive and the sample size was limited, the findings were consistent with reports from *sari-sari* stores.

Table 8. Summary of minimum, maximum, and mean cigarette prices in formal stores

	Convenience Store						Local Store						Supermarket						Total		
	Total	No. of Store (below SRP)	% of Total Stores	Avg. Price	Min. Price	Max. Price	Total	No. of Store (below SRP)	% of Total Stores	Avg. Price	Min. Price	Max. Price	Total	No. of Store (below SRP)	% of Total Stores	Avg. Price	Min. Price	Max. Price	Total	No. of Store (below SRP)	% of Total Stores
Navotas	1			153	120	206	1	1	100%	134	**106**	156	2			154	116	179	4	1	25%
Pasay	2			163	120	220	1	1	100%	137	**112**	155	2	1	50%	159	**109**	355	5	2	40%
Quezon City	2			166	120	215	1			169	146	179	2	1	50%	146	**109**	179	5	1	20%
Batangas	2			145	120	170	4	4	100%	117	**105**	145	2	2	100%	124	**107**	155	8	6	75%
Dagupan	2			160	120	205	4	3	75%	138	**107**	175	2	2	100%	150	**109**	183	8	5	63%
Mega Cebu	2			179	120	209	14	10	71%	135	**81**	165	2	1	50%	161	**109**	189	18	11	61%
General Santos	2			163	115	205	4	3	75%	135	**107**	167	2			153	120	183	8	3	38%
Zamboanga	1	1	100%	156	**50**	194	2	1	50%	149	**114**	167	1			158	121	176	4	2	50%
Total	**14**	**1**	**7%**				**31**	**23**	**74%**				**15**	**7**	**47%**				**60**	**31**	**52%**

Tax stamp violations

Table 9 presents the results of the empty pack audit for all cigarette packs collected from *sari-sari* stores across the study sites. The audits showed that registered brands had missing tax stamps. Missing tax stamps as an indicator of non-payment of taxes, however, can be ambiguous, as their absence may result from material defects or improper placement, rather than deliberate non-compliance. Still, an analysis of this type of violation offers valuable insights. The audits revealed different scenarios of missing tax stamps, which help trace and better understand patterns of illicit trade.

In Navotas City, 16 of the 1,169 collected packs of registered brands—*Camel* (7), *Marlboro* (6), *Mighty* (2), and *Fortune* (1)—were observed without tax stamps. All packs remained intact, with no torn or damaged components, making it unclear whether the tax stamps were deliberately removed or had simply fallen off after the pack was opened.

In Dagupan, of the 37 packs that had missing tax stamps, 11 packs had labels of *Chesterfield*, 10 of which had the top portion of the pack (where the stamp is typically affixed) missing. For other packs with missing stamps that had brand labels—*Camel* (8), *Mighty* (12), and *Fortune* (1)—all packs were intact. It could not be ascertained whether the stamps were removed or detached. Five packs with the *Marlboro* brand label also had missing stamps- two had the top flap removed, while three packs were intact.

Table 9. Cigarette packs with missing tax stamps based on the empty pack audit results for the empty cigarette packs collected from *sari-sari* stores

City	Total Collected Packs	Registered Pack	Registered with No Tax Stamp/ No GHW	Illicit		% Illicit
				Registered	Unregistered	
Navotas	1,178	1,169	*Camel (7), Marlboro(6), Mighty (2), Fortune (1)*	16	9	2.1%
Pasay	973	973				
Quezon City	897	895			2	0.2%
Batangas	991	908			83	8.4%
Dagupan	1,298	1,298	*Chesterfield (11), Mighty (12), Camel (8), Marlboro (5), Fortune (1)*	37		2.9%
Mega Cebu	970	962	*Cannon (4)*	4	8	1.2%
General Santos	561	232	*Cannon (83), Fort (67)*	150	329	85.4%
Zamboanga	674	354	*Cannon (207), Fort (122)*	329	320	96.3%
Total	**7,542**	**6,791**		**520**	**751**	

* Note: Based on computations and assessment by the study team

Cannon Menthol 100s cigarette packs were identified as potentially illicit due to missing tax stamps. In Mega Cebu, the study observed four packs without tax stamps. Notably, all packs with labels of *Cannon Menthol 100s* lacked the required graphic health warnings, despite being a registered brand/variant. In the Philippines, all cigarette packs sold are mandated to display graphic health warnings in accordance with Republic Act No. 10643, the 2016 Health Warning Label Codebook, Department of Health Administrative Orders No. 2021-0030 and 2023-0012, and BIR Revenue Memorandum Circular No. 23-2016.

In General Santos and Zamboanga, all packs with labels of *Cannon Menthol 100s* collected were found without tax stamps and graphic health warnings. Specifically, the study identified 83 *Cannon Menthol 100s* packs in General Santos and 207 in Zamboanga as having no tax stamps and no graphic health warnings.

Similarly, packs from registered brand *Fort Menthol 100s* lacked these regulatory features, with 67 packs in General Santos and 112 packs in Zamboanga having no tax stamps and no graphic health warnings. These illicit packs accounted for 26.7% and 48.8% of the total packs collected in General Santos and Zamboanga, respectively.

The BIR further assessed the validity of tax stamps. All empty packs collected in the study underwent the full range of procedures available to determine whether the stamps were genuine or counterfeit. At present, only the government, through the BIR, has the technology to verify the authenticity of tax stamps using its IRSIS. However, the system has limitations, as it cannot ascertain whether a particular registered pack affixed with a fake stamp is counterfeit or manufactured by the registered manufacturer. Tracing the source of illicit cigarettes, including those produced by registered brands, requires a coordinated set of enforcement measures across the cigarette supply chain.

The APO-BIR tested a total of 7,851 cigarette packs, of which 7,542 were collected from *sari-sari* stores and the remainder from a mystery shopping exercise in formal retail outlets. Among Metro Manila cities, the highest rate of counterfeit tax stamps was recorded in Quezon City, where 8.4% of registered-brand packs were found to bear counterfeit stamps (Table 10). In particular, 8.8% of the tested packs that had labels of JTI brands and 8% of packs that had labels of PMFTC brands were found to have counterfeit tax stamps. Navotas had a 6.7% overall share of counterfeit stamps. Of the total packs with counterfeit stamps, 10.5% had JTI brand labels and 3.8% had PMFTC brand labels. Pasay had the lowest observed share of packs, at 2.3%, that had labels of registered brands but with fake stamps.

Table 10. Results of BIR's tax stamp validation of empty cigarette packs for Metro Manila

City	% with Fake Stamps		
	Total	JTI	PMFTC
Navotas	6.7%	10.5%	3.8%
Pasay	2.3%	1.0%	3.7%
Quezon City	8.4%	8.8%	8.0%
Metro Manila	6.2%	7.2%	5.3%

* Note: Total empty packs analyzed through tax stamp verification conducted by APO and the BIR

Unfortunately, the results for the packs collected from cities outside Metro Manila (Batangas, Dagupan, Mega Cebu, General Santos, and Zamboanga) were not disaggregated by city. This limits the city-level analysis of tax stamp violation attributable to counterfeiting tax stamps for these areas. However, this limitation is unlikely to be consequential, as the overall incidence of counterfeit stamps in these five sites was low, at just 2% of all tested packs (Table 11).

Table 11. Results of APO-BIR's tax stamp validation of empty cigarette packs for non-Metro Manila

Non-Metro Manila Cities	% of Illicit Packs (Fake + No Stamps)	% with Fake Stamps	% with No Stamps
Registered Brands	14.1%	2.0%	12.1%
JT International	4.5%	2.1%	2.4%
PMFTC Inc.	8.3%	2.6%	5.7%
Telengtan Brothers & Sons Inc. (La Suerte Cigar and Cigarette Factory)	100.0%		100.0%
TM8 Enterprises, Inc. - Fort	100.0%		100.0%

* Note: Total empty packs analyzed through tax stamp verification conducted by APO and the BIR

The primary form of tax stamp violations observed in non-Metro Manila cities was the missing tax stamps. In aggregate, approximately 12.1% of tested packs bearing registered brand labels did not have tax stamps. APO-BIR validation confirmed that all collected packs of *Cannon Menthol 100s* and *Fort Menthol 100s* were missing tax stamps, consistent with observations made by the study team. These brands were predominantly found in Mindanao cities.

All in all, the majority of tax stamp violations among registered brands in non-Metro Manila areas can be attributed to the findings in General Santos and Zamboanga.

Smuggling of unregistered brands

Table 5 shows that 11.4% of total cigarette sales during the 14-day period, equivalent to 43,209 sticks, are associated with 27 brands not registered for sale in the Philippines. The empty pack audit provides information on these unregistered brands. Table 9 shows their volumes per city. In Metro Manila, 9 out of 1,178 collected packs in Navotas (approximately 0.7%) and 2 out of 897 (0.2%) in Quezon City were unregistered. The unregistered brands identified were *President, Carnival,* and *New Two Moon.*

Batangas accounted for 8.4% of all collected packs classified as illicit for being smuggled, unregistered brands. The most common unregistered brand found in the city was *H&P*, which even ranked among the top five brands sold. Other unregistered brands identified were *New Orleans*, *Carnival*, *Two Moon*, *D&J*, and *Modern*.

In Dagupan, no empty pack of unregistered brands was collected. However, survey data provide four stores purchasing the unregistered brand *Modern.*

In Mega Cebu, unregistered cigarette brands in circulation included *United*, *Dunston*, *Globe*, *D&J*, *Warrior*, *Vess*, *Brighton*, *San Marino*, *Alpha*, and *Titan*. The empty pack audit found 8 out of 970 collected packs (0.8%) to be unregistered.

General Santos and Zamboanga were the hotspots for smuggled unregistered brands. In General Santos, unregistered brands accounted for 18,126 of 41,637 sticks or 43.5% of total sales over a 14-day period. Among the popular brands were *Duo*, *Famous*, *Gajah Baru*, *Greenhills*, *Gudang*, *King Perfect*, *New Berlin*, and *Tabaco One*. The empty pack audit found that 58.6% of the packs were unregistered brands.

In Zamboanga, sales of unregistered brand cigarettes during the 14-day period accounted for 18,768 of 37,194 sticks (50.5%). From the empty pack audit, 320 of 674 collected packs (47.5%) were unregistered. The popular brands were *Bravo*, *Casablanca*, *San Marino*, *Nelson*, and *Platinum Seven*, among others.

APO-BIR testing identified several unregistered brands as originating from countries such as Indonesia, Thailand, South Korea, the United Arab Emirates, Germany, the United Kingdom, and Switzerland. Some brands were of unknown origin, but key informant interviews with local stakeholders suggested these were also foreign-sourced. Specifically, *Gajah Baru, New Berlin, Gudang,* and *Duo* are brands from Indonesia; *New Two Moon* from Thailand; *New Orleans, Carnival,* and *President* from South Korea; *Dunston* from the United Arab Emirates; *D&J* from Germany; *H&P, Bravo,* and *Nelson* from the United Kingdom; and *Casablanca* from Switzerland. Brands associated with the UK, Germany, and the UAE were more commonly found in Batangas and Mega Cebu, whereas Indonesian brands circulated predominantly in Mindanao cities. Although the *Bravo* brand's label claims it is "made under authority of Hudson Tobacco Co. Ltd., London, England, and The Trademark Owner," the FGD in Zamboanga revealed that the *Bravo* cigarettes were allegedly sourced from Indonesia and smuggled into the Philippines through Zamboanga and other entry points in Mindanao.[18]

City-Level Estimates of Illicit Tobacco Trade

Table 12 presents estimates of illicit trade prevalence by indicator or type of violation for each city. Overall, illicit trade in Metro Manila was low. Unregistered brands accounted for 0.8% of packs in Navotas and 0.2% in Quezon City, but no prices were reported for unregistered brands in Quezon City. Pricing below the combined excise and value-added taxes was observed only in Navotas, at 0.2%, corresponding to the unregistered brand. Tax stamp violations, involving both cases of counterfeit and missing stamps, were recorded at 8.8% in Navotas, 8.6% in Quezon City, and 2.3% in Pasay.

[18] Key informant interview with a local enforcement officer, Zamboanga City, Philippines, May 28, 2024.

Table 12. Estimated prevalence of illicit cigarettes by city and indicator

	Pricing Below the Sum of Excise and Value Added Taxes	Tax Stamp Violation	Smuggling of Unregistered Brands
	% of packs sold below the total applicable taxes (Php 71.42)	% of packs with fake and/or missing tax stamps	% of packs of unregistered brands
Navotas	0.2%	8.8%	0.8%
Pasay	-	2.3%	-
Quezon City	-	8.6%	0.2%
Batangas	7.5%	8.4%	8.4%
Dagupan	0.7%	2.9%	-
Mega Cebu	1.8%	1.2%	0.8%
General Santos	38.5%	85.4%	58.6%
Zamboanga	79.5%	96.3%	47.5%

In non–Metro Manila cities, pricing below the combined excise and value-added taxes was observed. In Batangas, 7.5% of surveyed packs had prices below the applicable tax rates. In Dagupan and Mega Cebu, the figures were much lower, at 0.7% and 1.8%, respectively.

As noted earlier, for non-Metro Manila cities, the incidence of counterfeit tax stamps could not be disaggregated by city but was minimal. Missing tax stamps were the most common form of tax stamp violation in these cities. The estimated share of packs with missing tax stamps was 8.4% in Batangas (all packs of unregistered brands), 2.9% in Dagupan (all packs of registered brands), and 1.2% in Mega Cebu (both registered and unregistered brands).

Pricing below the combined applicable tax rates and tax stamp violations were extremely high in Mindanao cities, largely driven by the smuggling of unregistered brands. Estimates of cigarette packs priced below the sum of applicable taxes, including both registered and unregistered brands, were 38.5% in General Santos and 79.5% in Zamboanga. Tax stamp violations reached 85.4% in General Santos and 96.3% in Zamboanga.

V. Discussion

The results of the study provide the following key insights.

The first main insight is that for the surveyed sari-sari stores in Navotas City, Pasay City, Quezon City, Dagupan City, Batangas City, and Mega Cebu—six of the eight study sites—illicit trade was at low or manageable levels. Furthermore, much of the illicit trade that exists in these parts of the country likely involves actors in the formal supply chain, including potentially some of the largest producers. The presence of unregistered brands is low in these areas, although smuggled cigarettes from Southern Mindanao can make their way to Visayas and Luzon. Unregistered brands accounted for between 0.2% (Quezon City) and 8.4% percent (Batangas City) of the surveyed packs.

Illicit tobacco trade is present in surveyed port cities outside Mindanao, which are farther from international borders, but the incidence of unregistered brands is much lower. The relatively low incidence of unregistered brands can be attributed to the consistent, if not relentless, enforcement efforts by the BIR in Luzon. Take Batangas City as an illustration. According to Jethro Sabariaga, BIR Assistant Commissioner, the agency regularly conducts raids and monitoring operations in the area.[19] *Sari-sari* store owners corroborated this during field interviews, noting that routine inspections by BIR personnel have made it more difficult to sell illicit products. This suggests strongly that enforcement efforts lead to far higher compliance compared to areas like Mindanao with weak institutions and poor enforcement.

The second insight is that illicit trade in the form of smuggling of unregistered brands is overwhelmingly common in Mindanao. The ocular visit and field interviews in Zamboanga City and Tawi-Tawi, the Philippines' southernmost province, confirmed the gravity of illicit trade in Southern Mindanao. Unregistered brands, prices lower than the applicable tax rates, and tax stamp violations were extremely high.

The FGD in Tawi-Tawi, which shares sea borders with Malaysia and Indonesia, yielded multi-faceted insights into the lucrative illicit tobacco trade in southern Mindanao. The FGD participants noted that tobacco trading is an entrenched economic activity. They said that the illicit tobacco trade is flourishing because of systemic and structural problems, including high regulatory costs, complex port regulations, and complicity of national and local government agencies. Smuggled goods are difficult to detect; they are concealed among legitimate shipments.

Zamboanga and General Santos are especially vulnerable to smuggling penetration. These are port cities with weak customs monitoring and enforcement, inadequate logistics, and erratic border controls. Zamboanga and General Santos have become critical entry points and distribution hubs for illicit tobacco, clearing the way for the widespread availability of smuggled cigarettes in local markets.

Historically, Zamboanga has served as a transit hub for all kinds of smuggled goods, including cigarettes, often transported via small fast boats (*jungkung*) from neighboring countries. General Santos, as a major tuna export port, handles diverse cargo traffic, creating conditions that can obscure the entry of contraband products. From these entry points in Zamboanga and General Santos, illicit products easily spread to other areas in Mindanao and beyond. Some smuggled cigarettes make their way to ports in Luzon and Visayas. Private ports are often utilized to accommodate large shipments.

From a historical and cultural perspective, what the law regards as smuggling is often perceived by locals in Southern Mindanao as "backdoor trading" and colloquially referred to as "legal smuggling." The natives have openly traded various products with neighboring Malaysia since pre-colonial times. Doing business along these natural trade routes has become a stable source of livelihood for locals. Cigarette smuggling in this area is part of the informal maritime trade interactions and arrangements, especially within the Malay Archipelago, which borders the Philippines, Malaysia, and Indonesia.

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[19] Mentioned during a technical meeting with the Bureau of Internal Revenue (BIR), March 5, 2025, in Quezon City.

According to a key informant in Mindanao familiar with illicit tobacco trade, illicit cigarettes are allegedly produced in Indonesia and then shipped to Malaysia. From Malaysia, the smuggled cigarettes are transported to Jolo, Sulu, or General Santos City, and shipped through fast boats to Zamboanga and other parts of Mindanao.

Given this peculiar context, legal frameworks, national, top-down reforms, and maritime regulations are difficult to enforce consistently. The situation is further worsened by local governance challenges that get pronounced in geographically remote and underdeveloped areas. The problems include limited resources, selective apprehension, and the involvement of officials, including local government executives, in illicit trade. Only those small-time smugglers who are not connected to higher government authorities face the higher risk of being caught. All the above factors help explain the high prevalence of illicit trade in these areas of Mindanao.[20]

It is said that the tobacco smuggling supply chain is an “unbroken line” in Mindanao. That means anyone, even small players, can invest in the lucrative illicit tobacco trade. Entry to the illicit tobacco trade has a low barrier. According to a source familiar with illicit trade, it allegedly takes less than $500,000 worth of capital to have a cigarette brand and run a business. With this amount, one can choose the name of the cigarette brand, design the packaging, and customize the product’s flavors and variants. The logistics of the business are likewise taken care of. These illicit cigarettes are manufactured by registered cigarette companies in Indonesia.

From a key informant interview, the story of the illicit brand, *Bravo*, the second-best selling cigarette brand in Zamboanga City, paints a clear picture of how illicit brands thrive. *Bravo* was allegedly created to imitate the taste and packaging of Marlboro cigarettes. It appeals to consumers loyal to the Marlboro brand. When it first started out, *Bravo* was being sold at a price of less than Php 50. Later, the price of the original *Bravo* brand increased to Php 80 due to high demand. Its success in the Mindanao cigarette market led to the introduction of another brand, called *Bravo class A*. Thus, an illicit brand was copied or counterfeited to compete with it, but sold at a cheaper price.

The third insight is that in the non-Mindanao cities surveyed (Dagupan City, Navotas City, Pasay City, Batangas City, and Mega Cebu), pricing below the legal floor price of cigarettes was noticeable. A layered analysis shows that nearly all such violations likely reflect competitive discounting. Prices of surveyed registered brands were significantly above the combined excise and value-added taxes, thus suggesting tax compliance. Yet the prices were below the floor price that the BIR set. The industry resorts to practices called “back support” like having promotional pricing strategies. These downward pricing strategies would violate the law’s provision on a floor price. While a violation of the floor price is established, the violation is inconclusive insofar as establishing the registered brands’ evasion of excise and value-added taxes.

The determination of the floor price and its implementing rules are likewise complicated. The BIR sets the floor price based on sworn statements from tobacco companies. The registered tobacco companies are required to report the retail prices of their lowest-priced

[20] Focus group discussion, Tawi-tawi, June 3, 2024.

products. The lowest retail price reported to the BIR becomes the basis of the floor price. The declared retail prices are comfortably above the applicable tax rates, allowing some room for price downshifting as part of marketing strategies.

Moreover, it is difficult to determine whether promotional pricing is fully permissible under the current floor price framework, since such pricing would result in retail prices falling below the legal floor. It is even more challenging to differentiate legitimate promotional practices from those that may conceal underreporting of production or sales.

The leeway given to the tobacco industry to influence the floor price set by the BIR weakens the effectiveness of the policy. The arbitrariness or lack of rigor is exemplified by the wild fluctuations in the floor price. In April 2023, the BIR set the floor price of cigarettes at Php 114.60 per pack, comprising Php 42.32 of production costs, Php 60 excise taxes, and Php 12.28 VAT.[21] The next year, in September 2024, the floor price significantly dropped to Php 58 per pack. While excise taxes increased to Php 63, production costs dropped dramatically to Php 7.16 and VAT dropped to Php 8.42.[22] Given the fluctuations in a short period, it is incumbent upon the tobacco industry to be transparent and explain the volatile changes in the floor price. It is implausible for production costs to fall more than 80% in one year. Other countries have legal structures wherein even modest changes in production costs need to be justified strongly by the tax authority, and they are most commonly calibrated to changes in inflation in the input sectors and employment costs (both of which typically increase each year).

The fourth insight is the finding that some cigarette packs with labels of registered brands either had counterfeit stamps or had no tax stamps. Although the percentage of cigarette packs with counterfeit stamps seems small, it is still critical to determine the source of such illicit products, whether they are counterfeit, or produced by registered manufacturers. A growing body of independent research suggests that counterfeit packs account for only a very small portion of all illicit cigarettes. Counterfeiting of registered brands is much more rare than producing counterfeit stamps to affix on registered brands. For example, a regional review of illicit trade studies in Latin America found that only a tiny percentage of illicit packs were counterfeit.[23] Even tobacco industry-funded studies which often have incentives to exaggerate the scale of illicit trade report that the volume of counterfeit cigarettes is minimal. In Australia, recent analyses estimate that counterfeit products make up a single-digit share of illicit cigarettes and less than 1% of all cigarette packs sold.[24] Similarly, in Europe, annual estimates funded by Philip Morris claim that counterfeits comprise just 3–4% of illicit cigarettes—a relatively small share, even by the industry's own account.[25]

The circulation, especially in Mindanao, of registered brands such as *Cannon Menthol 100s* and *Fort Menthol 100s* without tax stamps and graphic health warnings is disturbing. An

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[21] Bureau of Internal Revenue (2023), Revenue Memorandum Circular No. 49-2023.
[22] Bureau of Internal Revenue (2024), Revenue Regulation No. 16-2024.
[23] Drope et al., *Revista Panamericana de Salud Pública* 46 (2022): e111.
[24] Cho, Bayly, and Scollo, “Industry Estimates of Illicit Trade,” *Tobacco in Australia*, 2025; FTI Consulting (2024).
[25] KPMG, *Illicit Cigarette Consumption in Europe 2023*, report for Philip Morris, 2024.
[23] Key informant interview conducted in Zamboanga with a source closely involved in illicit tobacco trade.

investigation has to be pursued to determine whether the violations were indeed committed by the registered manufacturers.

VI. Policy Implications and Recommendations

Evidence shows that in areas with frequent enforcement measures such as monitoring the supply and value chains closely and conducting raids appropriately, illicit cigarettes are less prevalent. Exercising political will by the national leadership, by no less than the President, is a decisive factor in defeating illicit trade. The Chief Executive has the greatest power to discipline and punish those officials who enable illicit trade and who benefit from it. Many actors—especially local government executives, military, and police officers, together with accomplices in various government agencies—are involved in the lucrative illicit tobacco trade, especially in Mindanao. Only the national leadership can neutralize this web of forces.

On the issue of tax stamp violations and the violations of the floor price, the BIR recognizes its role to conduct investigations, pursue legal action, and strengthen regulation. Facing political constraints, the BIR can do these tasks effectively with strong backing from the Executive and Congress. As for the tax stamp violations, the challenge for BIR is to seek the evidence in determining the origin of fake tax stamps: whether the packs with fake stamps originated from registered manufacturers or from counterfeiters. International evidence suggests it is far more likely that the packs come from registered manufacturers. With regard to the violations on the floor price, the apt response at this time is to review the concept and design of the regulation towards making the rules transparent and simple and easier to understand and enforce.

Another issue is the diversion of cigarette packs for export registered under Philippine Economic Zone Authority (PEZA), which seeks to facilitate easier and tax-free export. For instance, in Mindanao, packs bearing the labels of *Cannon Menthol 100s*, a brand registered for both domestic sale and export and *Fort Menthol 100s*, a brand whose manufacturer is registered under PEZA, were found to have no tax stamps, no graphic health warnings, and no label that says "for export only." Understanding how cigarettes registered for export re-enter the domestic market is essential for enabling authorities to effectively address such illicit diversion.

According to an informant from Tawi-tawi,[26] there are reports of some registered cigarette brands conducting self-smuggling, in which cigarette companies declare a product for export, thereby evading tax payment, only to have the shipment brought to the country's border then sent back to another island, usually Cebu or another island in the Visayas. There are also reports of brands registered with the BIR taking advantage of special economic zones (SEZs), which have tax incentives or tax breaks, to produce cigarettes with no tax stamps that are sold across the country. Although economic zones administered by PEZA offer certain privileges and more flexible regulations to encourage investment, the BIR should still retain full regulatory authority and jurisdiction within these areas. No area of economic activity in the country should fall beyond the reach of the BIR.

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[26] Key informant interview, Tawi-Tawi, May 28, 2025.

Further, the high prevalence of unregistered brands in Mindanao is corroding tobacco control, public health, and government revenue. The problem is exacerbated when illicit cigarettes coming from Mindanao spread to the Visayas and Luzon, reaching vulnerable populations, including the poor and youth.

Still, the glaring disparity between the magnitude of illicit tobacco in Mindanao and in other parts of the country—Visayas, Metro Manila, and Luzon—suggests that the situation in parts of Mindanao is an outlier, which is causing the national average on the magnitude of illicit tobacco trade to look considerably higher. The survey's results show that illicit trade is low in Luzon and the Visayas.

Importantly, the low level of illicit trade outside of Mindanao suggests that factors outside of high taxes are driving illicit trade. The results do not support the tobacco industry's claim of a causal link between high tax rates and illicit tobacco trade. Comparing the outcome between the Mindanao cities and the cities for the rest of the Philippines that the survey covered, the study shows clearly that better tax administration and enforcement in Luzon and Visayas would explain the contrasting results.

Greater and special attention must be given to combating illicit trade in Mindanao, which the BIR and other government agencies have begun doing.

Overall, fighting illicit trade has different dimensions. The key is credible, consistent, and tough enforcement of rules.

The prevalence of unregistered brands, registered cigarette brands with packs bearing counterfeit tax stamps, missing tax stamps, or priced lower than the legal floor price, makes a case for having a comprehensive, independent, and transparent track-and-trace system which captures the movement of tobacco products throughout the supply chain. The data that such systems generate can also be used by tax authorities to quickly pinpoint geographical problem areas and assign enforcement officers to investigate in a timely manner. The participation of retailers and ordinary citizens in the tracking and tracing by making the technology accessible and user-friendly would make the system stronger. It would even help the tax authority enforce VAT collection better.

An ideal track-and-trace system should have the complete set of physical and digital markers elucidated in the WHO Protocol to Eliminate Illicit Trade in Tobacco Products. Packs should be verifiable by citizens on the ground through a mobile application. If citizens have access to this application, they could take part in the reporting process in real time, providing rich information to tax authorities. The BIR is in the process of bidding with a private supplier to provide the end-to-end track-and-trace solution for cigarettes.

Further, the provider of this track and trace solution must be independent from the tobacco industry, to prevent conflict of interest and to check industry interference. The system is essentially designed to ensure the payment of taxes. The international best practice is that fees paid by the industry will fund the system in its entirety, so that it is not a fiscal burden on the government.

Following the discussion above, we offer the following policy recommendations:

- Invest in upgrading the existing tax stamp into a comprehensive, robust, user-friendly track-and trace system, independent from the tobacco industry, with full physical and digital markers to control the whole supply chain of tobacco products.
- Provide adequate resources to analyze and use the data from the track-and-trace system to aid authorities in pinpointing and addressing problem areas in the supply chain.
- Stem illicit trade at the source by further strengthening cooperation especially with neighboring countries through multilateral and bilateral means.
- Implement a nationwide licensing system which will require all stores, including sari-sari stores, to apply for permits to sell tobacco products.
- Expand the BIR Commissioner's authority to suspend or close businesses for tax violations on all excisable products through an amendment to Section 6 of the National Internal Revenue Code (Power of the Commissioner to Make Assessments and Prescribe Additional Requirements for Tax Administration and Enforcement).
- Enable the BIR to exercise its full regulatory authority and jurisdiction within PEZA zones to ensure compliance with tax and tobacco regulations.
- Strengthen governance by deputizing trusted local police to conduct raids and by sharpening coordination among local government units (LGUs) and national enforcement agencies.
- Implement a vessel monitoring system to securely monitor all ports along the coast.
- Conduct regular randomized surveys—including pack collections—to estimate the magnitude and size of the illicit tobacco trade market.
- Review and revise how the legal floor price for cigarettes is set and how the regulation is implemented.
- Reject any attempt to pass legislation that lowers tobacco tax rates.

VI. Conclusion

Our most important messages, drawn from the results of the survey and study and the corresponding insights and policy recommendations, are:

1. Illicit trade in the Philippines is low or manageable in most parts of the country, as observed in the surveyed cities of Navotas, Quezon City, and Pasay in Metro Manila, as well as in Dagupan and Batangas in Luzon, and in Mega Cebu in the Visayas. The gravity of the illicit trade problem has been overexaggerated by the tobacco industry to suit its self-interests. The nature of the illicit problems is well indicated and addressable through policy and enforcement.
2. This illicit trade takes different forms. In particular: the presence in the market of unregistered brands, the non-payment of the excise and value-added taxes, the absence of tax stamps or the use of fake stamps, and violations of the floor price for cigarettes.
3. Southern Mindanao is the outlier, with 79.5% of cigarette packs in Zamboanga City being sold at prices below the combined excise and value-added taxes. This outlier effect skews the average national prevalence rate of illicit tobacco trade, thus distorting the real picture. Correct the outlier, and the gravity of the problem subsides.

4. The extreme cases of illicit trade in some Mindanao cities are explained by a mix of factors: a) the peculiar history and geography, wherein open trade with neighboring countries existed even before pre-colonial times; b) a political economy characterized by the control of deeply entrenched political clans; and c) poor enforcement of rules against a background of weak and informal institutions.
5. The sharp contrast between the results of the survey in Mindanao cities and the survey conducted in cities in Luzon, Metro Manila, and Mega Cebu dispels the contention that the higher taxes are the cause of the rise in illicit trade. Illicit trade outside of Mindanao is quite low.
6. The much lower prevalence of illicit cigarettes in the areas surveyed outside Mindanao, the BIR explains, is a result of its relentless anti-illicit trade drive, particularly the successive raids and apprehensions it has done. In short, illicit trade is contained through consistent and tough enforcement.
7. A set of policy recommendations is proposed: 1) a user-friendly track-and-trace system containing physical and digital markers; 2) further empowering BIR to fight illicit trade by amending the Tax Code; 3) stronger coordination of government agencies and between national and local governments; and 4) closer regional cooperation, especially with neighboring countries. The policy framework must also be explicit about opposing any reduction of tobacco tax rates ostensibly to address illicit trade.

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