



Proceeding – ICOBIS
INTERNATIONAL CONFERENCE ON GLOBAL INNOVATION AND TRENDS IN ECONOMICS
(ICOBIS)

Effectiveness of Customs Policy in Controlling Illegal Cigarette Circulation: A State Revenue Perspective

Lutfi Afifah

*Department of Tax Management, Faculty of Economics and Business
Universitas Pancasila Tegal
Tegal, Indonesia
lutfiafifah3011@gmail.com*

Amirah

*Department of Tax Management, Faculty of Economics and Business
Universitas Pancasila Tegal
Tegal, Indonesia
amirah@gmail.com*

Abstract— Illegal cigarette circulation poses a significant challenge to tobacco excise administration and the protection of state revenue in Indonesia. This study aims to examine the effectiveness of customs policy in controlling illegal cigarette circulation from a state revenue perspective. A descriptive qualitative approach was employed, with data collected through literature review, observation, and documentation. The analysis focused on the legal framework governing tobacco excise, the implementation of preventive supervision and repressive enforcement by the Directorate General of Customs and Excise, and the fiscal implications of enforcement activities. The findings indicate that customs policy is implemented through inspections, the seizure of illegal cigarettes, investigations, and legal action against violations of excise regulations. Data provided for the Customs and Excise Supervision and Service Office Type Madya Pabean C Tegal (KPPBC TMP C Tegal) for 2023–2025 indicate that enforcement activities were associated with approximately IDR 10 billion in potential tobacco excise revenue protected annually. This figure highlights the potential fiscal contribution of enforcement activities, although it should be distinguished from actual revenue collected by the state. Despite these efforts, illegal cigarette circulation remains a persistent challenge requiring continuous improvement in supervision, intelligence capabilities, inter-agency coordination, and regulatory compliance. This study emphasizes the importance of evaluating customs policy not only through enforcement outputs but also through its contribution to reducing illegal cigarette circulation and safeguarding sustainable state revenue.

Keywords — *Customs Policy; Illegal Cigarettes; Tobacco Excise; State Revenue; Law Enforcement.*

I. INTRODUCTION

State revenue plays a fundamental role in financing government expenditure, providing public services, and supporting national development. An effective revenue system enables governments to finance infrastructure, education, healthcare, and other public priorities while maintaining fiscal stability. In Indonesia, taxation and excise

duties constitute important components of domestic revenue, making effective revenue collection and enforcement essential to the sustainability of public finance. Within this framework, tobacco excise represents a particularly significant fiscal instrument because of the substantial contribution of tobacco products to government revenue (Ardana et al., 2025).

In addition to its fiscal function, tobacco excise serves as a regulatory instrument intended to influence tobacco consumption and support public health objectives. By imposing excise duties on tobacco products, the government seeks to ensure that producers and distributors comply with their financial and administrative obligations. Tobacco taxation can also influence retail prices and consumer behavior, making it an important component of broader tobacco-control policies (Chaloupka et al., 2012). Nevertheless, the effectiveness of this instrument depends not only on the design of excise tariffs but also on the government's ability to ensure compliance throughout the tobacco supply chain.

One of the major challenges to tobacco excise administration is the circulation of illegal cigarettes. In general, illegal cigarettes refer to tobacco products manufactured, distributed, or sold in violation of applicable excise requirements. These products may include cigarettes without excise stamps, cigarettes bearing counterfeit or improperly used stamps, products distributed without the required excise authorization, and cigarettes associated with other forms of excise violations. Such practices undermine the integrity of the excise system because products can enter the market without fulfilling the obligations imposed on legitimate businesses. The existence of an illegal market therefore creates a gap between potential and actual government revenue (Joossens & Raw, 2012).

The fiscal consequences of illegal cigarette circulation can be substantial. When cigarettes are produced or sold without fulfilling the applicable excise obligations, the government loses revenue that would otherwise be collected from compliant transactions. Research by Ahsan et al. (2014) estimated that illegal cigarette consumption in Indonesia resulted in significant excise revenue losses during the period examined. More recent evidence from Kasri et al. (2021) identified a considerable increase in estimated illegal cigarette consumption in 2018 compared with earlier observations, with corresponding losses in government revenue. These findings demonstrate that illegal cigarette circulation is not merely a law enforcement issue but also a fiscal concern that can weaken the government's revenue-collection capacity.

Illegal cigarette circulation also creates an uneven competitive environment for legitimate manufacturers, distributors, and retailers. Businesses that comply with excise requirements must incorporate the applicable tax burden and administrative costs into their operations, whereas illegal operators may avoid some or all of these obligations. This difference can create an artificial price advantage for illegal products and weaken the competitiveness of compliant businesses. Research on illicit tobacco markets has also emphasized that illegal trade can undermine tobacco-control measures by making lower-priced products more accessible and reducing the effectiveness of price-based policy interventions (Joossens et al., 2010). Consequently, controlling illegal cigarettes is relevant to fiscal fairness, market integrity, and the enforcement of public policy.

In Indonesia, the Directorate General of Customs and Excise (DGCE) is a central institution responsible for administering excise regulations and enforcing compliance with the applicable legal framework. Its responsibilities include supervision, inspection, investigation, and enforcement against violations involving excisable goods. These functions are important for detecting illegal cigarette production and distribution, preventing the movement of non-compliant products, and ensuring that businesses meet their excise obligations. Hamid and Samuel (2022) examined the legal authority of customs and excise officers in Indonesia and highlighted the importance of exercising enforcement powers within the boundaries established by law. Accordingly, effective enforcement requires not only operational capacity but also legal certainty, procedural consistency, and accountability.

Customs policy for controlling illegal cigarettes encompasses several complementary measures. These may include risk-based inspections, market surveillance, intelligence-led operations, seizure of illegal products, investigation of suspected violations, administrative sanctions, and criminal proceedings where applicable. The effectiveness of these measures depends on their implementation, the availability of personnel and operational resources, the quality of intelligence, and coordination among relevant institutions. International research has emphasized that the illicit tobacco trade cannot be addressed through isolated enforcement activities alone; effective responses also require supply-chain controls, reliable information, and cooperation among public authorities (Joossens & Raw, 2012). In Indonesia, this means that enforcement strategies should address both the availability of illegal products and the networks responsible for their production and distribution.

However, the relationship between excise policy, cigarette prices, and illegal trade is complex. Differences in prices and tax burdens may influence incentives for evasion, but the existence of illegal markets cannot automatically be attributed to excise rates alone. The organization of distribution networks, the probability of detection, the severity and certainty of sanctions, and the capacity of enforcement institutions can also affect the decisions of illegal operators. Evidence from Colombia suggests that the relationship between tobacco tax increases and illicit cigarette trade should be evaluated empirically rather than assumed to be uniform across jurisdictions (Tobacco Taxes and Illicit Cigarette Trade in Colombia, 2020). Therefore, an assessment of Indonesian customs policy needs to consider the interaction between regulatory design, enforcement implementation, and market conditions.

Previous studies have examined illegal cigarette circulation from several perspectives. Ahsan et al. (2014) estimated the scale of illegal cigarette consumption and associated government revenue losses in Indonesia, while Kasri et al. (2021) provided updated estimates using national survey and administrative data. At the international level, Joossens et al. (2010) estimated the fiscal consequences of the global illicit cigarette trade and discussed the potential benefits of eliminating it. Joossens and Raw (2012) further examined the changing nature of illicit tobacco trade and the policy challenges associated with its control. Collectively, these studies establish that illegal cigarette circulation has important fiscal implications and that its measurement requires careful consideration of available data and estimation methods.

More recent Indonesian research has begun to investigate the relationship between enforcement activities and revenue outcomes more directly. Ardana et al. (2025), using panel data from seven customs offices in East Java for 2019–2023, reported a positive and statistically significant relationship between the number of illicit cigarettes seized and tobacco excise revenue in their model. Their findings provide empirical support for examining enforcement as a fiscal instrument, although the relationship should be interpreted in light of the study's data, model specification, and measurement of enforcement activity. Other research has investigated the legal authority of customs and excise officers and the application of excise law in controlling illegal cigarette distribution (Hamid & Samuel, 2022). These studies offer useful foundations for evaluating the institutional and fiscal dimensions of enforcement policy.

Despite these contributions, further research is needed to assess customs policy in terms of its overall effectiveness in controlling illegal cigarette circulation and protecting state revenue. Enforcement outputs, such as the number of operations, cases handled, or cigarettes seized, are important indicators of institutional activity, but they do not independently demonstrate a sustained reduction in illegal market activity. Similarly, an increase in excise revenue may be influenced by several factors, including changes in legal sales, tariff structures, economic conditions, and compliance behavior. A comprehensive assessment should therefore distinguish between enforcement outputs, compliance outcomes, and fiscal outcomes. This distinction is necessary to determine whether customs policy merely increases the detection of illegal products or contributes to a more durable improvement in revenue protection.

Based on this research gap, this study examines the effectiveness of customs policy in controlling illegal cigarette circulation from a state revenue perspective. It focuses on the relationship between the implementation of enforcement measures, the control of illegal cigarette distribution, and the protection of tobacco excise revenue in Indonesia. The study considers the legal and administrative framework governing excise enforcement, the implementation of supervision and enforcement activities, and the extent to which available evidence indicates improvements in compliance and revenue protection. By integrating the regulatory and fiscal perspectives, the research seeks to provide a more comprehensive understanding of how customs policy contributes to addressing illegal cigarette circulation.

The findings are expected to contribute to academic discussions on excise administration, illicit trade, and public revenue protection, while also providing practical insights for policymakers and enforcement institutions. In particular, the study may help identify areas in which supervision, intelligence, inter-agency coordination, data integration, and evaluation mechanisms can be strengthened. Ultimately, the effectiveness of customs policy should be assessed not solely by the volume of illegal cigarettes seized but also by its contribution to reducing opportunities for excise evasion, improving compliance among market participants, and safeguarding sustainable state revenue.

II. METHOD

This study applies a descriptive qualitative approach to examine the effectiveness of customs policy in controlling illegal cigarette circulation from a state revenue perspective. This approach was selected because it enables an in-depth examination of the legal framework, enforcement practices, and institutional measures implemented to address violations of tobacco excise regulations. The research focuses on understanding how customs policies are implemented

and how these measures contribute to controlling illegal cigarette distribution and protecting state revenue in Indonesia.

Data were collected through a literature review, observation, and documentation. The literature review involved examining relevant academic publications, legal regulations, government reports, and other authoritative sources concerning tobacco excise, illegal cigarette circulation, customs supervision, and state revenue. Observation was directed toward understanding relevant supervision and enforcement practices, where access was available. Documentation involved reviewing relevant records, reports, statistical data, and policy documents that provide information about illegal cigarette enforcement and tobacco excise administration.

The analysis focused on three principal aspects: the legal basis of customs policy, the implementation of supervision and enforcement, and the effectiveness of these policies in controlling illegal cigarette circulation. The legal analysis examined the relevant statutory and regulatory provisions governing tobacco excise obligations, prohibited practices, enforcement authority, and applicable sanctions. The implementation analysis considered the forms of supervision and enforcement undertaken by the Directorate General of Customs and Excise, including inspection activities, the seizure of illegal cigarettes, investigations, and coordination with other relevant institutions, insofar as these activities were documented in the sources examined.

The collected data were analyzed using descriptive qualitative analysis through data reduction, data organization, comparison, and interpretation. Information from academic literature, regulatory documents, and official reports was classified according to the research objectives and the three analytical aspects. The findings were then compared to identify consistency between the intended objectives of customs policy, the legal framework, and the reported implementation of enforcement measures. This process was intended to identify the strengths, limitations, and potential implementation gaps in efforts to control illegal cigarette circulation.

To assess policy effectiveness from a state revenue perspective, the study considered the relationship between enforcement activities, the control of illegal cigarette distribution, and the protection of tobacco excise revenue. Indicators such as reported enforcement operations, the quantity of illegal cigarettes seized, identified regulatory violations, and available excise revenue data were considered where reliable information was available. The analysis distinguished enforcement outputs from broader policy outcomes because an increase in seizures may reflect more intensive enforcement rather than an actual increase in illegal circulation. By interpreting these indicators alongside the legal and institutional context, the study sought to develop a balanced assessment of customs policy effectiveness and identify opportunities to strengthen supervision, inter-agency coordination, and sustainable state revenue protection.

III. RESULTS AND DISCUSSION

The control of illegal cigarette circulation in Indonesia is primarily governed by Law Number 11 of 1995 concerning Excise, as amended by Law Number 39 of 2007. This legal framework establishes the basis for excise administration, supervision, and enforcement against violations involving excisable goods, including tobacco products. The regulatory framework is intended to ensure that cigarette manufacturers and distributors fulfill their excise obligations and that tobacco products circulating in the domestic market comply with applicable provisions. From a state revenue perspective, effective implementation of these regulations is essential to minimize excise evasion and protect government revenue.

The Directorate General of Customs and Excise (DGCE) implements customs and excise policies through preventive supervision and repressive enforcement. Preventive measures include monitoring the distribution of tobacco products, conducting inspections, and identifying potential violations before they cause further fiscal losses. Repressive measures include the confiscation of illegal cigarettes, investigation of suspected violations, and the application of administrative or criminal legal procedures in accordance with the applicable regulations. These complementary approaches are intended to disrupt the distribution of illegal cigarettes, increase compliance among market participants, and strengthen the enforcement of tobacco excise obligations.

At the local level, the Customs and Excise Supervision and Service Office Type Madya Pabean C Tegal (KPPBC TMP C Tegal) plays an important role in implementing these policies within its area of supervision. Enforcement activities conducted during 2023–2025, according to the data provided for this study, reportedly secured potential tobacco excise revenue of approximately Rp10 billion annually. This figure indicates the fiscal significance attributed to enforcement activities in the effort to address illegal cigarette circulation. However, the amount should be interpreted according to the definition used in the underlying records, particularly whether it represents estimated potential

revenue protected, the estimated excise value associated with seized products, or revenue actually recovered by the government.

The reported enforcement outcomes suggest that customs operations can contribute to protecting state revenue by identifying and removing cigarettes that do not comply with excise requirements. The seizure of illegal products can prevent their continued distribution and provide a basis for further legal action against the parties involved. These activities may also strengthen deterrence by increasing the perceived risk of detection and sanctions among individuals or businesses engaged in excise violations. Nevertheless, the fiscal contribution of enforcement should be distinguished from direct revenue collection because the value of seized goods does not necessarily equal the amount of tax revenue ultimately received by the state.

From an implementation perspective, the effectiveness of customs policy depends on the consistency of supervision, the availability of enforcement resources, the quality of intelligence, and coordination with other relevant institutions. Illegal cigarette distribution may involve multiple stages, from production and storage to transportation and retail distribution. Consequently, enforcement activities targeting only one stage of the supply chain may not be sufficient to eliminate the circulation of illegal products. Sustained monitoring, risk-based inspections, reliable information exchange, and appropriate follow-up investigations are therefore important components of a comprehensive strategy to control excise violations.

Despite the reported enforcement achievements, illegal cigarette circulation remains a continuing challenge. The existence of illegal products in the market indicates that enforcement activities must be accompanied by measures that strengthen compliance and reduce opportunities for evasion. These measures may include improving market surveillance, increasing public awareness of excise violations, strengthening cooperation with local authorities, and enhancing the use of data to identify high-risk distribution channels. Regular evaluation is also necessary to determine whether enforcement activities produce sustained improvements in compliance rather than temporary increases in seizures.

Overall, the findings indicate that customs policy provides an important institutional mechanism for controlling illegal cigarette circulation and supporting the protection of tobacco excise revenue. The reported potential revenue of approximately Rp10 billion annually associated with enforcement activities at KPPBC TMP C Tegal during 2023–2025 highlights the potential fiscal importance of these operations. However, a definitive assessment of policy effectiveness requires the reported enforcement data to be examined alongside trends in illegal cigarette circulation, the number and outcomes of enforcement cases, and actual tobacco excise revenue. Such an assessment would help distinguish enforcement outputs from longer-term outcomes and provide a stronger empirical basis for improving customs policy and safeguarding sustainable state revenue.

IV. CONCLUSIONS

This study concludes that customs policy plays an important role in controlling illegal cigarette circulation and supporting the protection of state revenue in Indonesia. Implemented under the excise regulatory framework, including Law Number 11 of 1995 concerning Excise, as amended by Law Number 39 of 2007, the policy combines preventive supervision and repressive enforcement to address violations of tobacco excise obligations. These measures include inspections, the seizure of illegal cigarettes, investigations, and legal action against parties involved in excise violations.

The findings based on the information provided by the Customs and Excise Supervision and Service Office Type Madya Pabean C Tegal (KPPBC TMP C Tegal) indicate that enforcement activities during 2023–2025 were associated with approximately Rp10 billion in potential tobacco excise revenue protected annually. This figure highlights the potential fiscal significance of enforcement operations in addressing illegal cigarette circulation. However, the amount should be interpreted according to the underlying data definition and distinguished from actual revenue collected by the state. Therefore, the reported figure indicates the potential contribution of enforcement activities rather than independently establishing the overall effectiveness of customs policy.

Despite these enforcement efforts, illegal cigarette circulation remains a challenge that requires continuous supervision and policy improvement. The effectiveness of customs policy depends not only on the number of enforcement operations and the quantity of illegal cigarettes seized but also on its ability to improve compliance, disrupt illegal distribution networks, and reduce opportunities for excise evasion. Accordingly, the Directorate

General of Customs and Excise should continue strengthening risk-based supervision, intelligence capabilities, inter-agency coordination, and the use of reliable data to support enforcement decisions.

This study recommends that future policy evaluations integrate enforcement statistics with data on illegal cigarette prevalence, excise compliance, and actual tobacco excise revenue. Such an approach would provide a more comprehensive basis for assessing whether enforcement activities produce sustainable fiscal outcomes. Further research could also compare enforcement performance across different customs offices and periods to identify the factors associated with variations in policy outcomes. Ultimately, a combination of consistent law enforcement, effective administrative controls, and evidence-based evaluation is essential to strengthen tobacco excise compliance and protect Indonesia's state revenue.

REFERENCES

- Ahsan, A., Wiyono, N. H., Setyonaluri, D., Denniston, R., & So, A. D. (2014). Illicit cigarette consumption and government revenue loss in Indonesia. *Globalization and Health*, 10, Article 75. <https://doi.org/10.1186/s12992-014-0075-7>
- Ardana, B. Y., Ananda, C. F., & Bintoro, N. S. (2025). Enforcement of illicit cigarettes increases excise revenue in Indonesia. *World Customs Journal*, 19(2), 68–81. <https://doi.org/10.55596/001c.144234>
- Hamid, A., & Samuel, S. (2022). Customs and excise officers authority on illegal cigarette in Indonesia. *Kanun Jurnal Ilmu Hukum*, 24(3).
- Kasri, R. A., Ahsan, A., Wiyono, N. H., Jacinda, A. R., & Kusuma, D. (2021). New evidence of illicit cigarette consumption and government revenue loss in Indonesia. *Tobacco Induced Diseases*. <https://doi.org/10.18332/tid/142778>
- Joossens, L., Merriman, D., Ross, H., & Raw, M. (2010). The impact of eliminating the global illicit cigarette trade on health and revenue. *Addiction*, 105(9), 1640–1649. <https://doi.org/10.1111/j.1360-0443.2010.03018.x>
- Joossens, L., & Raw, M. (2012). From cigarette smuggling to illicit tobacco trade. *Tobacco Control*, 21(2), 230–234.
- Chaloupka, F. J., Yurekli, A., & Fong, G. T. (2012). Tobacco taxes as a tobacco control strategy. *Tobacco Control*, 21(2), 172–180.
- Blecher, E. H., & van Walbeek, C. P. (2004). An international analysis of cigarette affordability. *Tobacco Control*, 13(4), 339–346.
- Stoklosa, M., & Ross, H. (2014). Contrasting academic and tobacco industry estimates of illicit cigarette trade: Evidence from Warsaw, Poland. *Tobacco Control*, 23, e30–e34.
- Yurekli, A. A., & Sayginsoy, O. (2010). Worldwide organized cigarette smuggling: An empirical analysis. *Applied Economics*, 42(5), 545–561.
- Goodchild, M., Perucic, A.-M., & Nargis, N. (2016). Modelling the impact of raising tobacco taxes on public health and finance. *Bulletin of the World Health Organization*, 94, 250–257.
- West, R., Townsend, J., Joossens, L., Arnott, D., & Lewis, S. (2008). Why combating tobacco smuggling is a priority. *BMJ*, 337, a1028.
- Smith, K. E., Savell, E., & Gilmore, A. B. (2013). What is known about tobacco industry efforts to influence tobacco tax? A systematic review of empirical studies. *Tobacco Control*.
- Tobacco Taxes and Illicit Cigarette Trade in Colombia. (2020). *Economics & Human Biology*, 39, Article 100902. <https://doi.org/10.1016/j.ehb.2020.100902>
- Suarda, I. G. W., Hamman, E., Anggono, B. D., Setyawan, F., Taufiqurohman, M. M., & Priambudi, Z. (2024). Illicit cigarette trade in Indonesia: Trends and analysis from the recent judgments. *Sriwijaya Law Review*, 8(1), 38–59. <https://doi.org/10.28946/slrev.Vol8.Iss1.2726>