

The Commercialization of Illegal and Semi-Legal Cigarettes in Mexico

Principal Investigators: Dr. Manuel Pérez Aguirre and Mtro. Roberto Roldán

General Research Coordination: Dr. Sergio Aguayo

1. General Introduction

All cigarettes, regardless of their origin, have the capacity to generate addiction and cause serious health problems. Among the principal consequences are cardiovascular and respiratory diseases, as well as chronic conditions such as diabetes and various forms of cancer (SSA, 2015). However, the consumption of illegal products (cigarettes that substantially and deliberately fail to comply with the Mexican regulatory framework) exacerbates these consequences as it affects not only the economy and the legality of the market but also public health. Thus, the consumption of illicit tobacco neither eliminates nor reduces the risks associated with smoking. It causes just as much harm as legal products (cigarettes that fully and verifiably comply with fiscal, sanitary, and commercial regulations) while intensifying its negative impact on individuals and society as a whole

First, because these products are manufactured and distributed outside the regulatory framework, they do not feel a need to comply with the minimum quality standards established by current legislation. It is therefore reasonable to assume that the health risks derived from their consumption may be even greater than those associated with regulated products. In this sense, the absence of oversight and control mechanisms opens up the possibility that manufacturers may incorporate unidentified toxic substances, thereby increasing consumers' exposure to harmful compounds without any possibility of sanitary verification. Consequently, the clandestine nature of the production and distribution of these cigarettes heightens uncertainty concerning the real risks faced by smokers.

Second, by operating entirely outside the law, those who participate in this market evade taxes and other fiscal obligations imposed on the legal tobacco industry. According to estimates, tax losses may reach 13 billion pesos solely due to evasion of the Special Tax on Production and Services (Spanish acronym IEPS) (Esquivel, 2025). This noncompliance prevents a portion of the profits generated from being allocated to programs and public policies aimed at mitigating the effects of smoking, thereby exacerbating the social costs of tobacco addiction. In addition to breaking the law, this practice increases smoking's harmful effects on health and encourages people to take it up at a younger age which, in turn, increases the likelihood of addiction and disease occurring early in life. The combination of tax evasion, lack of health protection, and unrestricted access to vulnerable populations turns this phenomenon into a multidimensional threat. This is particularly concerning if one considers (as will be shown later in interviews) that the commercialization of tobacco represents organized crime's "petty cash": a relatively simple, highly profitable, and low-penalty source of income.

This research forms part of ongoing efforts to analyze the underexplored relationship between the illegal tobacco market and organized crime in Mexico. Although records of this relationship date back to 2012, it has not been well researched and its complexity is only beginning to be recognized. While available figures are not conclusive, existing data show sustained growth, with the commercialization of illegal products increasing from 8% in 2017 to 18% in the current decade (Oxford Economics, 2021; INSP, 2023). This would imply tax losses exceeding 13.5 billion pesos (Esquivel, 2025) and potentially reaching 30 billion pesos under the new IEPS scheme, according to our estimates.

In Mexico, illegal tobacco sales primarily come from two sources, which are now recognized as being complementary: the smuggling of cigarettes manufactured abroad and domestic production that fails to comply with regulations. The criminal ecosystem sustaining this market is characterized by pragmatism: smuggling and local production working together in response to opportunities and local conditions. This flexibility enables the illegal tobacco sector to grow significantly, thereby increasing both public health risks and fiscal costs for the country.

1.1 Research Design

This project builds on research done by the Seminar on Violence and Peace at El Colegio de México on criminal groups becoming involved in selling illegal tobacco and the effects of this on the country. Previous studies have shown that the illicit tobacco economy carries not only fiscal and public health implications but also repercussions for the configuration and fortification of criminal networks, which see this market as a profitable and relatively low-risk space when compared to other illegal activities.

Accordingly, our principal objective is to study the link between illegal tobacco and organized crime in Mexico, paying particular attention to the mechanisms that allow formal and informal actors to coexist within the same value chain.

To this end, we have focused on analyzing “mixed cigarettes”: those that appear to comply with formal manufacturing requirements (such as packaging bearing tax stamps or health warnings) but do so incompletely, irregularly, or fraudulently. These products occupy a gray zone between legality and illegality as they manage to enter both formal and informal distribution networks while generating uncertainty regarding the state’s actual capacity to guarantee traceability, quality, and authenticity in the market.

The importance of taking an in-depth look at this segment lies in the fact that “mixed” brands are not a marginal phenomenon, but have become a recurring adaptive strategy among actors involved in the illicit tobacco economy and represent the evident convergence of smuggling and local illegal cigarette manufacturing. On the one hand, these brands offer lower prices than legal products, which makes them extremely attractive to underage consumers and lower-income groups. On the other hand, they allow manufacturers and distributors to construct a façade of partial legality to reduce the risks of criminal or administrative prosecution. Consequently, studying how mixed brands operate in the marketplace becomes synonymous with examining the limits of state regulation and the institutional fissures that enable the expansion of illegality in the guise of legality.

Two secondary objectives guiding empirical research are derived from this central approach:

1. In-depth analysis of mixed-brand operations from production and distribution processes to entry mechanisms into local and national markets.
2. Precise specification of how these brands fail to comply with Mexican legislation in order to identify both regulatory shortcomings and the evasion strategies employed by criminal and business actors participating in this segment.

1.2 Research Techniques Employed

This study deepens our understanding of the illegal tobacco-trafficking ecosystem in Mexico by using a mixed methodology combining qualitative research techniques, social network analysis, and legal analysis. This approach seeks to address the multiple dimensions of the phenomenon comprehensively from its commercial operations to its legal implications and its ties to organized crime. Fieldwork was concentrated in Greater Mexico City (the Valley of Mexico Metropolitan Area) and the Puebla–Tlaxcala Metropolitan Area under the assumption that organized crime tends to operate along borders between states where local police forces are easier to avoid.

The techniques employed include:

1. **Automated hemerographic analysis** to identify illegal-cigarette seizures and possible violent events associated with their sale. This involved an online data-collection methodology based on algorithms designed to filter, systematize, and classify news from diverse journalistic sources. This exercise made it possible not only to identify critical sales points and transportation routes but also to observe how national and local press address the phenomenon in terms of criminality, public security, and state regulation.
2. **Comparative graphic analysis of cigarette packaging** to identify key aspects of product presentation. We compared the designs of different brands to verify whether they actually comply or just simulate compliance with current regulations. This analysis made it possible to identify certain evasion or legal simulation strategies employed by illegal and mixed brands, such as the partial imitation of tax stamps, deficient health warnings, or visual manipulation of colors and typography to create an appearance of legitimacy.
3. **Legal analysis of the current regulatory framework** with emphasis on identifying legal loopholes that facilitate the existence and persistence of “mixed” brands. This analysis detected weaknesses in regulation design and implementation, particularly in tobacco production, importation, and distribution oversight.
4. **Qualitative analysis based on semi-structured interviews** with key actors within the illegal tobacco commercialization ecosystem including consumers, distributors, shopkeepers, authorities, tobacco company executives, customs agents, and civil society organizations. The objective was to get diverse perspectives on the record so as to better understand the motivations driving illegal-cigarette consumption and distribution, as well as the practices that enable sales to flourish.

With security and confidentiality in mind, we have omitted interviewees’ names, genders, institutional affiliations, and workplaces and have referred only to their roles within the ecosystem.

1.3 Document Structure

This document is laid out in five sections addressing the phenomenon of the illegal tobacco trade in Mexico from different perspectives. Following an introduction, the second section presents an analytical illegal-market framework, its interconnectivity, and the positioning of the tobacco trade within the broader range of organized crime activities. The third section analyzes the role of consumers based on interviews and a cigarette-pack review. The fourth section examines the applicable regulatory framework, commercialization costs, legal loopholes, seizures, tax evasion strategies, and cases of corruption. Finally, the fifth section presents general conclusions and recommendations aimed at bolstering the institutional response to this phenomenon.

2. Analytical Approaches to the Relationship Between the Illegal Tobacco Trade and Organized Crime in Mexico

The illegal tobacco trade in Mexico cannot be understood in isolation but rather as part of a broader web of illicit markets and criminal dynamics. This section proposes an analytical framework to examine this relationship and outlines the economic and social logic of illegal markets, the diversification of criminal activities, and the coexistence of legal and illegal actors within this market.

2.1 The Logic of Illegal Markets and Their Relationship with Tobacco

How and why did cigarettes become attractive to organized crime? Illegal markets encompass the trade of prohibited goods and services; irregular sales of regulated goods; goods that evade standards or infringe intellectual property; tax-evading placement of goods in destination markets; and commercialization of stolen goods (Williams, 2015). Cigarettes fit into this framework as a regulated and heavily taxed product whose distribution, counterfeiting, or smuggling makes it possible to evade controls and taxes and generates attractive margins with comparatively lower risks than other criminal economies.

Radisch (2016) argues that black markets tend to emerge when governments impose price caps or when regulatory environments create insurmountable barriers to formal commerce. In the context of globalization, illicit tobacco trading is multifaceted; it involves counterfeiting, cross-border smuggling, and tax evasion and serves as a source of financing for other illegal activities due to high profit margins and relatively low detection rates.

2.2 Links Between Organized Crime and the Illegal Tobacco Market in Mexico

Over the past four decades, Mexican organized crime has evolved from local trafficking gangs under the watchful eye of state security forces into transnational organizations (Astorga, 2015) capable of disrupting state authority and controlling broad territories (Lessing, 2015). Alongside drug trafficking, these organizations obtain resources from various illegal and legal activities.

In this historical context, the illegal tobacco trade is no longer marginal and has become an important component of the criminal landscape due to three factors: (a) diversification into activities perceived as less risky than drug trafficking; (b) structural conditions facilitating operation in fiscally attractive and weakly regulated markets; and (c) high profit margins. According to the National Customs Agency of Mexico (Spanish acronym ANAM) in 2023, nearly one in five cigarettes circulating in the country is illegal.

This organizational architecture fosters expansion while establishing its own regulatory mechanisms: price fixing, territorial control, selective coercion, and exploitation of regulatory loopholes, including the distribution of “mixed brands” that simulate partial compliance with fiscal or health norms.

2.3 The Logic of Illegal Tobacco Commercialization in Mexico

The illegal cigarette trade is not new in Mexico. A significant turning point occurred in January 2011 when the Ministry of Finance increased tobacco taxes by 30%. According to some analyses, this tax hike made cigarettes unaffordable for certain sectors of the population, thereby incentivizing consumers to turn to cheaper illicit alternatives and opening up a new business niche for organized crime.

Criminal organizations appear to have made rational adjustments in response to changing costs and risks. Diversification towards markets such as illicit tobacco characterized by lower technical barriers, relatively lower legal risks, and simpler logistics offered an attractive cost-benefit ratio.

We identify two major models in Mexico’s illegal tobacco trade:

1. **Irregular domestic production** carried out by legally constituted companies that simulate compliance while evading fiscal or health regulations.
2. **International smuggling** involving cigarettes made abroad, often by companies such as China National Tobacco Corporation, and brought into the country through ports or border crossings with lax controls.

The models may operate independently or together, which reflects the pragmatic and adaptive logic of criminal organizations, and share common features: high profit margins, low operational costs, and a broad consumer base (including minors) primarily from lower-income sectors unable to afford legal products.

2.4 Regulatory Violence in the Illegal Tobacco Trade

One of the aspects of the illegal tobacco trade in Mexico that has received scant attention from researchers is the role played by violence as a market regulation mechanism. Violence is not merely an incidental resource but is used to exert control, impose rules, punish those who fail to comply, and guarantee the supremacy of specific actors over particular segments of the distribution and consumption chain. In this regard, the Seminar on Violence and Peace has been particularly interested in investigating these dynamics of violence within what might initially appear to be a low-profile and relatively “peaceful” crime.

Two research techniques were combined to tackle this phenomenon: systematic hemerographic review and semi-structured interviews with actors with ties to the illegal tobacco market. The results of the hemerographic review were limited since few journalistic reports explicitly document the connection between illegal cigarette distribution and the use of violence. However, far from implying that the phenomenon does not exist, this scarcity of information suggests that it is often rendered invisible or relegated in public records. In contrast, the interviews yielded much richer and more nuanced material, which provided direct testimonies of how coercion, threat, and sanction mechanisms operate in this illicit market. The triangulation of both sources made it possible to construct a broader and more grounded analysis that highlights the centrality of violence as a structural and control instrument in a business that, beneath its apparent everyday normalcy, engages in coercion and power-wielding practices characteristic of organized crime.

This violence takes multiple forms, the most common of which is the direct intimidation of retailers. As documented by *Milenio* (Puig and García Palafox, 2018a), criminal groups in states like Jalisco and Michoacán distribute lists of authorized or prohibited brands; anyone who sells products not itemized on these lists faces reprisals ranging from confiscation to death threats. A tobacco company executive explained that although legal products are widely available, there are regions where they cannot be sold: interviewees gave the examples of Aguascalientes, Guanajuato, Michoacán, San Luis Potosí, Sinaloa, Durango, northern Veracruz, Tabasco, Chiapas, and Guerrero. In these regions, illegal or smuggled products directly displace legal brands. Moreover, police authorities themselves acknowledge that small-scale retailers are the most vulnerable because they have to deal with pressure, extortion payments (“cobro de piso”), and restrictions on selling merchandise (whether legal or mixed) since certain groups prohibit competitors from entering their territory.

Another strategy used is corrective physical violence, such as beatings (“tablazos”) or corporal punishment to deter disobedience. In more extreme cases, retailers have been tortured with blowtorches or murdered, as occurred in the case of Brandon, a young man executed in Tepito following a dispute over the sale of Chinese cigarettes (Jiménez, 2024). This type of violence is directed not only at the victim but also serves as a public demonstration that noncompliance may lead to immediate and brutal consequences.

A third form of coercion involves the simulation of legal sanctions. Criminal groups have reportedly used falsified documents bearing SAT (Tax Administration Service) logos or the now-defunct PGR (Attorney General’s Office) to threaten retailers, claiming that certain brands are prohibited and that legal consequences may follow (Puig and García, 2018b). This strategy seeks not only to intimidate but also to exploit retailers’ limited legal knowledge to legitimize criminal control. According to estimates, up to 90% of small shopkeepers are subject to extortion. The Council for the Development of Small Commerce (Concomercio) website currently warns of a dangerous corridor along Mexico’s northern border, where nine out of ten businesses face intimidation with direct threats to their safety or property to force them to sell illegal cigarettes.

Finally, highway control practices have been reported along distribution routes: trucks transporting legal merchandise are intercepted, products confiscated, and drivers threatened. These actions are not driven by destructive intent but rather by market strategy: eliminate legal competition and increase illegal distribution. According to interviewees, approximately 400 documented cases of

interference with distribution chains exist, many involving the burning of delivery vehicles. The dynamic is progressive: first small retailers are extorted, then wholesalers, and eventually tobacco companies abandon these routes as they are unable to negotiate with criminal organizations, especially given their designation as “terrorist organizations” by the United States government. Because these criminal groups are also involved in drug trafficking and are considered terrorist organizations by the U.S., any negotiation with them or with intermediaries with ties to them would create significant global, legal and reputational risks for corporations.

In sum, what emerges is a pattern of functional violence: it does not seek to annihilate adversaries but to impose rules and maintain order in an informal market. In the absence of effective state regulation, criminal actors become de facto regulators and employ violence as an instrument of governance. This phenomenon aligns with what Lessing (2015) describes as criminal coercive authority: a form of control based on the selective use of force and local monopoly of violence.

3. Consumers and their Place in the Illegal Market

To understand how the illegal tobacco trade is run in Mexico on a daily basis, this section focuses on consumers and other key actors in the informal distribution network. Using process-tracing methodology, an empirical strategy was implemented based on the direct identification of brands available in informal commercial spaces. We pretended to be consumers looking for cigarettes outside traditional channels like convenience stores or supermarkets to enable us to document available brands and compare them with the official list of 192 illegal brands published by COFEPRIS in 2018.

This exercise made it possible for us to detect not only the presence of illicit brands but also distribution mechanisms, alternative points of sale, and the ambiguity surrounding many “mixed” brands that appear to comply with regulations without fully doing so. As will be discussed in the recommendations section, this is a task that COFEPRIS should perform systematically.

Image 1. Types of Cigarettes, Pack Fronts

The first comparison clearly shows the difference between cigarettes with information left out (right) and traditional cigarettes (left). The latter complies with regulations by presenting essential information, whereas the former lacks basic data such as place of origin, manufacturer, or means of importation. The difference becomes more evident when compared to packs from the so-called “mixed zone” (center), which are almost exact imitations of traditional packs. At first glance, they may even appear more formal as they include more apparently fiscal elements than conventional brands.

Although this will be analyzed in greater detail in the discussion on tax evasion strategies, it is worth emphasizing that Mexican regulation assumes consumers will automatically choose compliant products over non-compliant ones. The evidence shows that this logic is flawed as it overlooks the economic conditions influencing consumer choice and simultaneously absolves the

Mexican state of its responsibility to guarantee legal compliance, sanction irregular tobacco trading, and draw up clear and accessible regulation.

Image 2. Types of Cigarettes, Pack Backs

As observed, the difference is even more noticeable on the back of imported products (right), which differ significantly from traditional packs (left). Unlike mixed products (center), which often closely resemble conventional ones, these packs display warning messages in English but lack the mandatory health warnings and images required under Mexican law. They also provide little or no information concerning the importer's tax status. Consequently, they are less likely to be confused with traditional packs.

Image 3. Types of Cigarettes, Pack Spines

The most significant differences between legal, mixed, and illegal cigarettes can be appreciated on the pack spines. In traditional products (left), the spine bears clear health warnings and tax data. In contrast, cigarettes with no such information (right) and several mixed brands (center) display blank, incomplete, or barely legible sections, which further suggests they are not being legally distributed.

3.1 Price and Place of Purchase

The price of cigarettes in Mexico is closely linked to the place of purchase, which reflects market segmentation based on legality, regulation, and accessibility. Each point of sale constitutes its own universe in which cost, origin, quality, and regulatory compliance vary. This differentiation produces a complex map where consumers make their choices not only on smoking habits but also on affordability and product availability.

In formal spaces like convenience stores and supermarkets, legal cigarettes that comply with labeling, health warnings, and tax regulations predominate. Higher prices in this segment reflect the tax burden designed to discourage consumption and finance public health programs. While these outlets guarantee traceability and quality standards, they also reinforce access barriers for lower-income sectors, indirectly contributing to the expansion of alternative markets.

At an intermediate level, neighborhood stores and hard-discount supermarkets offer legal and mixed products at more accessible prices. This segment is ambiguous: some cigarettes comply with regulations while others do not. These spaces represent a "middle ground" where regulated tobacco at lower prices coexists with mixed products entering commercial networks through smuggling, tax evasion, or counterfeiting. Consumers cannot tell the difference as purchases occur in seemingly "normal" establishments. As one tobacco industry executive stated, some mixed brands "have to operate at a loss or be imported through complex international legal transit networks. Given Mexico's tax burden, they simply can't be that cheap".

The informal market dominates the cheapest segment with cigarettes sold in street and flea markets. These products, which neither pay taxes nor comply with health warning regulations, are significantly more accessible, especially to lower-income individuals and minors. Their low cost encourages consumption and increases risk because it is uncertain what the ingredients of smuggled products are. Consumers often perceive that “cigarette prices are too high” and justify purchases primarily for reasons of affordability: “Someone who smokes a full pack or half a pack a day will obviously prefer a fifty-peso to an eighty-peso pack,” particularly if they look similar.

Cloned products that imitate legal brands are also common and sold across a wide price range: “If you don’t negotiate, they’ll sell it at the normal price, but if you shop around, you can get them for half of that,” noted one consumer. According to tobacco companies, some of these packs can cost as little as three pesos and even less when purchased wholesale. This pricing structure translates into higher profit margins; while retailers earn around 10% selling legal products, they may earn up to 30% on illegal cigarettes; wholesalers earn approximately 5% on legal products and up to 15% on illegal cigarettes.

Retailers occupy the final link in the distribution chain and, although they may earn significant profits from illegal cigarette sales, they are also particularly vulnerable. The higher profit margin incentivizes them to stock unregulated products, enabling competition in price-sensitive neighborhoods. However, as the most visible actors, they are also the most exposed to inspections, sanctions and, wherever criminal gangs rule the roost, violent reprisals as mentioned above. This ambivalent position (economic benefit at high risk) demonstrates how the structure of the illegal tobacco market creates unequal incentives and makes small-scale vendors increasingly vulnerable.

The accompanying graph shows the price range of the seventy-two cigarette packs analyzed. Prices are clearly concentrated at lower values, which reflects accessibility and market structure. The most common price is twenty pesos (31.9%), followed by thirty pesos (20.8%), and fifteen pesos (13.9%). Approximately 87% of purchases fall within a narrow 15-35 peso range, thereby confirming that consumption relies on relatively accessible pricing as compared to legal cigarettes. Extreme prices (10–12 pesos and above fifty pesos) are rare and correspond to totally legal products.

3.2 Origin

Data on the place of manufacture reveal both diversity and concentration. Mexico accounts for 25% of all cases (eighteen packs) sold, which suggests that a significant amount of illegal tobacco is clandestinely produced in the country. The second largest group (19.4%) displays no manufacturing data, which is evidence of deliberate concealment strategies and weak traceability mechanisms.

Korea (15.3%) and China (11.1%) together account for over a quarter of all products, thereby confirming the importance of Asian supply chains. Other countries include the United States (5.6%); India, Paraguay, and Canada (4.2% each); Poland and Bangladesh (2.8%); and Vietnam, the United Arab Emirates, Malaysia, and Hong Kong with smaller shares (1.4% each). This pattern reveals unremitting domestic production and the significance of the global supply chain, particularly from Asia.

Triangulation (products passing through multiple countries before reaching Mexico) emerges as a recurrent mechanism that exploits regulatory gaps and transit regimes to evade controls. Production and packaging costs are relatively low in relation to profits. As industry executives note, what makes tobacco expensive in the formal market is taxation, not manufacturing costs. This creates structural incentives for illegal trade.

Furthermore, packaging information is unstable: a printed statement of origin may not give the actual place of manufacture as products may be repackaged or “cloned”. Tax control codes (like SAT codes) may be legally obtained and then reproduced at scale for illegal production. Such practices erode label reliability. Thus, while the information on the pack provides insight into routes and patterns, it does not always accurately reflect the underlying commercial production chain.

4. Regulatory Analysis

This section evaluates tobacco regulation in Mexico and the risks involved. First, it examines regulatory gaps that facilitate tax, health, and judicial evasion, particularly in the case of gray brands. Second, it analyzes the gray zone where state, business, and informal actors interact, showing how local tolerance, corruption at critical points, and high informality blur legal and illegal boundaries. It details introduction and production strategies exploiting these gaps (from international triangulation and differentiated regimes to customs rotation) to re-label and put merchandise on the domestic market. Finally, it analyzes seizure policy based on hemerographic evidence, comparing administrations and concentration zones to estimate realistic control capacities and suggest what improvements could be made.

This analysis enables us to identify where regulation fails, how it is exploited in practice, and the consequences for tax revenue, public health, and regulatory effectiveness, thereby laying the groundwork for estimating uncollected tax revenues.

4.1 Regulatory Gaps in the Regulation of Illegal Tobacco in Mexico

Specifically, our analysis explores the potential methods of tax, health, and judicial evasion that criminal groups may engage in to put gray brands onto Mexico’s domestic tobacco market. To this end, we examine the General Law for Tobacco Control (Ley General para el Control del Tabaco, **LGCT**), its Implementing Regulations, and the Special Tax on Production and Services Law (Ley del Impuesto Especial sobre Producción y Servicios). The final section includes a normative analysis of an additional dimension: customs in Mexico and the potential risk factors of smuggling illegal cigarettes under the premise that illegal tobacco sales operate “holistically” using a variety of strategies.

To begin with, it is important to note that the LGCT establishes only administrative sanctions for violations without prejudice to any penalties that may apply when a criminal offense is committed. In a context like the illegal tobacco market, where profits along production and distribution chains

can be substantial, these regulations may be insufficient for deterrence purposes. Actors with sufficient resources may absorb administrative penalties and yet stay in business.

Pursuant to Article 56 of the LGCT, there is an exception providing for a prison sentence of one to nine years and a fine of between one hundred and one thousand Measurement and Administration Units (*Unidad de Medida y Administración*). However, according to the statute, these sanctions apply only in cases of adulteration, counterfeiting, alteration, or contamination of tobacco products. Moreover, irregular production does not always fall within these assumptions. While counterfeiting legal cigarettes is one possible avenue for informal producers to put their products on the market, these economies operate primarily through informal sales channels. One consistent indicator is the distribution of apparently foreign cigarettes bearing the label “Duty Free only”, which is a recurring feature of illegal brands.

In the same vein, the LGCT does not establish follow-up mechanisms for individuals and/or legal entities sanctioned with administrative proceedings. Article 46 provides that administrative sanctions may include a warning with formal notice, a fine, temporary or permanent closure (partial or total), and/or arrest for up to thirty-six hours. However, as mentioned at the outset of this research, gray brands may be sold or transferred from one firm to another, which ensures they stay on the market. Consequently, the lack of follow-up for violations grants plenty of room for maneuver that does nothing to prevent repeated noncompliance.

Similarly, the imposition of fines on those who violate applicable regulations may present challenges for ensuring effective enforcement. Article 56 of the LGCT establishes a fine of one hundred to one thousand UMAs (Spanish initials: Unit of Measure and Update). As of October 2025, this unit has a value of **\$113.14 MXN**. Thus, under the LGCT, the sanction for a violation would range from **\$11,314.00 MXN** to **\$113,140.00 MXN**.

However, Article 22 of the Political Constitution of the United Mexican States prohibits the imposition of excessive fines. According to Thesis P.J.9/95, an “excessive” fine is assessed by considering various elements including: that it is not disproportionate to the offender’s economic capacity; that it does not exceed what is lawful and reasonable; whether the violation is serious; whether it constitutes recidivism; and any other element from which the severity or minor nature of the infraction can be inferred. Consequently, the way fines are set under the law provides multiple ways of reducing them: opportunities that criminal networks may exploit.

The Implementing Regulations of the LGCT address specific issues concerning sanitary licenses required for the sale of tobacco products. Article 13 provides that, when sold, products must not contain information referring to the sanitary license since this could misleadingly suggest endorsement by the Ministry of Health. Nevertheless, in the absence of transparent and accessible information, consumers have no way of knowing whether purchased products effectively comply with regulations. This situation even contradicts the regulations themselves, because Article 66 mandates that the Ministry of Health should promote public and civil society organization participation in both smoking prevention and product control by raising awareness and publishing health warnings.

Missing information affects consumers and producers alike. Pursuant to Article 14 of the Regulations, obtaining a sanitary license as a producer, manufacturer, or importer of tobacco products means satisfying series of administrative and technical requirements. However, the national administrative procedures portal is under constant maintenance and compliance data is not accessible. This not only hinders social participation but also excludes potential new ventures from accessing the information they need to complete administrative processes, which pushes them towards the informal marketplace.

In addition to the situations described above, adequate design and oversight of administrative procedures are required to improve tobacco product regulation. For example, firms may currently initiate productive activities with a notice of operation submitted to the Tax Administration Service (SAT). Thereafter, firms have a time limit to follow up on the sanitary license. For this reason, the overall regulatory framework is disordered: gray brands may exploit these legal gaps to create new companies to which they transfer their products, thereby continuing to evade applicable regulations.

Another important point for sanitary verification concerns the printing of security codes issued by SAT. This mechanism, which is regulated under the Special Tax on Production and Services Law, sometimes faces the same problems mentioned above. On the one hand, codes are not always printed in a visible location that would allow users to access the information. Moreover, consulting these codes requires a specialized application, raising yet another barrier to information access.

On the other hand, the way these codes are assigned could also be greatly improved. Currently, the process consists solely of payment of fees per code, which are then delivered in bulk. However, there is no control mechanism imposed by the relevant authorities to update and retire codes once used. This makes it easier for any producer to reuse purchased code data across multiple products without controls to prevent duplication or counterfeiting. In this regard, a possible area for improvement would be inter-institutional coordination between the Federal Commission for the Protection against Sanitary Risks (COFEPRIS) and SAT to establish a single code that certifies both the legal status of the cigarette manufacturer and its sanitary licenses.

These same codes have a supposed validity period of sixty days. If producers do not use assigned codes, they are obligated to report them as waste. However, no follow-up method has been identified to locate such “waste” codes or to identify them if they are used on cigarette packs that do not correspond to the producer who submitted the request. This makes it more difficult to turn codes into a tool that genuinely improves tobacco-product control.

One aspect that deserves special attention is the absence of a Mexican Official Standard (Norma Oficial Mexicana, NOM) for tobacco-product manufacturing. The Ministry of Health defines NOMs as mandatory technical regulations issued by competent agencies designed to establish the characteristics that processes or services must meet when they may pose risks to people’s safety or harm human health. Naturally, this should include the manufacturing processes of tobacco products. From the normative review conducted, we discovered that there is no specific NOM governing these products. Given their technical character and mandatory nature, such standards could represent a crucial step forward in protecting public health. While it is known that cigarettes

contain ingredients that produce addiction and subsequent disease, there is no clear limit for any additives a tobacco product may contain.

The absence of a NOM is particularly relevant given that Article 7 of the Implementing Regulations of the LGCT provides that when applying for a sanitary license, producers, manufacturers, or importers of tobacco products “must attach information about the ingredients, additives, residues, and other substances used in their manufacture [...], as well as their permitted limits and known or potential risks” even though there is no readily accessible regulatory framework specifying said limits.

4.2 The Gray Zone Between Legality and Illegality in the Tobacco Trade

One key to understanding the persistence and expansion of Mexico’s illegal tobacco market is the gray zone between legal and illegal endeavors where state, business, and informal actors converge. This hybridity produces a criminal ecology in which legal boundaries blur and impunity becomes structural.

Under the domestic production model, many companies operate under schemes of formal legality with tax registrations, labor contracts, and public presence. At the same time, they violate sanitary rules, fail to pay taxes, or indulge in systematic tax evasion. This ambivalence allows them to operate with relative legitimacy, fight for a market share with major tobacco companies, and evade the attention of authorities.

In the case of smuggling, illegal products often enter through ports or customs checkpoints with the complicity of officials. Multiple reports identify corruption as a key facilitator: without institutional protection, it would be impossible to introduce entire containers of cigarettes without detection. Collusion is also reflected in local permissiveness: many municipal authorities tolerate, or even protect, the sale of illegal products whether due to corruption, operational incapacity, or because they deem it low priority given that tobacco is ordinarily a legal product.

This phenomenon is exacerbated by the country’s structural informality. In contexts where 55% of the economically active population work in the informal economy and more than 60% of retail businesses are unregistered (INEGI, 2023), the state lacks the wherewithal to exercise effective control. In this environment, legality is not a binary condition but a continuum along which actors strategically shift between different forms and degrees of visibility.

The Seminar’s fieldwork made it possible to observe the variety of ways illegal tobacco distributors access the informal market, a clear example being the importance of the time factor. At one of the largest informal markets, cigarettes were conspicuously available on weekdays; we were even told openly where to find the places tobacco was sold; however, the dynamics changed at the weekend when there were many more people walking around and, consequently, surveillance of the market also increased. Coincidentally, informal tobacco stalls seemed to have disappeared, and nobody could tell us how to find them. This also reveals the existence of protection and intelligence networks operating within the markets themselves.

Finally, it is important to point out the presence of businesses who, while not criminals themselves, benefit from this market: retailers who sell illegal tobacco alongside legal products; transporters who charge special fees for “not seeing” certain goods; and officials who offer protection in exchange for bribes. This network of interests contributes to the normalization of the phenomenon and its systematic reproduction. We elaborate further below.

4.3 Strategies for the Introduction and Production of Illegal Tobacco in Mexico

As noted earlier, one of the research techniques used to better understand how organized crime exerts influence on the tobacco market was to hold interviews with key actors who could provide distinct perspectives.

Initially, one of the main problems state actors face when dealing with this reality is the lack of an internationally harmonized regulatory framework. According to tobacco industry executives and customs agents, in some cases illegal cigarettes come from South American producers who transport them the full length of the Americas. In this process, producers in countries such as Ecuador and Brazil take advantage of the fact that cigarette shipments are legal in those countries and manage to reach Belize and Central America legally. Once they enter Mexico, they become illegal due to noncompliance with applicable national regulations. In this regard, it is important to note that countries such as Brazil and Ecuador have an extremely high percentage of cigarette production that fails to meet Mexico’s standards; these products represent a significant percentage of illegal brands.

A similar case occurs in North America. For example, in Canada there are regulations that allow indigenous peoples to produce tobacco products freely. Naturally, these products do not comply with Mexican regulations, but take advantage of U.S. laws that authorize a “forward move”: the legal transit of goods that do not comply with U.S. regulations but are destined for sale in other markets. Thus, cigarettes that, at first glance, are not illegal in other jurisdictions can turn up at the Mexican border legally to be sold and/or brought into the country for distribution. Once in Mexican territory, they may be sold as contraband, re-labeled as a mixed brand, or treated as “clones” of a legal brand.

These triangulations are a recurring mechanism in the illegal tobacco trade: products are transported through different countries before reaching their final destination, all the while exploiting legal loopholes or regulatory differences. This type of operation allows goods to be declared “in transit”, thereby evading stricter controls. The cases of Belize and Guatemala illustrate this scheme well. Since they are “only cigarettes”, transit across those territories poses no major problem. The difficulty arises only when the products are intended for a third country. This turns these countries into an opportunistic staging area for moving shipments that are not necessarily sold there but are subsequently redirected to other markets. In this way, according to an interviewee familiar with customs trafficking, Belize is a good example of a triangulation port that allows cargo to be given the appearance of legality.

The economic incentive behind these triangulations is partly explained by enormous price differentials. Products originating in China are much cheaper than domestic products, which intensifies the pressure to bring them in through smuggling networks. A customs agent’s ultimate objective is to move the goods across, preserve their license, and avoid a PAMA (customs administrative procedure). Added to this is the structural weakness of Mexico’s customs institutions: the system is highly rotational with agents constantly circulating round the country. This rotation prevents stable teams from consolidating and generates discontinuity in surveillance strategies, facilitating triangulation operations and hindering long-term control efforts.

4.4 Seizure Policy in Mexico

A state’s capacity or, indeed, willingness to combat an illegal market is not limited to the legal sphere; it must also include concrete actions to reduce the commercialization of illegal goods. In this sense, illegal merchandise seizures as an evident visible state initiative may indicate how seriously subsequent administrations tackle the issue or the resources they allocate to combat such markets. For this reason, as explained in the research overview, we conducted a systematized hemerographic analysis of illegal tobacco seizures carried out in Mexico. This analysis included a review of journalistic notes on the topic, which were later cleaned up to remove duplicated observations. The results are presented below.

Regarding the timing of reports, it should be noted that there was a substantial increase in seizures as of 2007. This phenomenon follows the logic presented in the first stage of the research: there is a turning point after 2011, when tobacco product taxes increased by 30%. In 2012, the Confederation of Industrial Chambers (CONCAMIN) reported a burgeoning illicit cigarette market (CONCAMIN, 2021). The following graph shows that seizures were very scarce with only one recorded in 2007, but their frequency increased as of 2012.

The next graph compares the performance of recent federal administrations regarding illegal cigarettes seizures. It is important to note the substantial increase in seizures between the administration of Felipe Calderón Hinojosa and that of Enrique Peña Nieto. Consistent with the logic outlined above, the actions of prior administrations also responded to the sustained expansion of Mexico’s illegal tobacco market.

Graph 3. Seizures by Year
Source: Authors’ elaboration based on SVP’s automated hemerographic review.

This graph also shows a significant decline in reported seizures from the administration of Enrique Peña Nieto to that of Andrés Manuel López Obrador. This may be because between 2018 and 2019—the first years of the AMLO administration—no illegal tobacco seizures were reported in the country. However, there was an important rebound as of 2020 with seven seizures, a figure similar to the eight recorded in the most active year of the Peña Nieto administration. When specialists were interviewed about potential causes, they put forward a hypothesis: administrative restructuring during the early years of the AMLO term temporarily halted control and seizure operations for multiple illegal products. In other words, by breaking with previous administrative

control structures, the government of former President López Obrador reduced state capacities to prevent these types of illegal markets.

Graph 4. Seizures by Six-Year Administrations (Sexenio)

Source: Authors' elaboration based on SVP's automated hemerographic review.

Finally, one of the main findings of this hemerographic review is the identification of the federal entities with the highest number of seizures. The following graph presents these entities in descending order of frequency. Contrary to what one might expect, no port or border state ranks first; rather, Mexico City occupies the top position. Although states such as Baja California and Sinaloa reported significant numbers, Mexico City exceeds them by nearly 30%.

This suggests that attention must be paid not only to customs and borders but also to concentration and distribution points that may be subject to enforcement operations. In Mexico City, places such as Tepito and numerous warehouses are reported as storage and distribution hubs for illegal cigarettes. Operations carried out in these localities are therefore effective at stopping the flow of these products. It is also worth noting that news reports commonly include simultaneous seizures across different cities; consequently, the sum of incidents exceeds the total number of news items reviewed.

Graph 5. Seizures by Federal Entity

Source: Authors' elaboration based on SVP's automated hemerographic review.

Based on the above, the following table presents a possible distribution of responsibilities on the next page.

Federal Level

Ministry of Health

- Issue the Official Mexican Standard (NOM) establishing technical and sanitary limitations for tobacco products.
- Promote public participation and engagement of civil society organizations in both smoking prevention and tobacco product control.

COFEPRIS

- Oversee compliance with the NOM through inspection and verification visits.
- Coordinate efforts with SAT to establish a unified fiscal and sanitary identification system.

SAT (Tax Administration Service)

- Establish follow-up mechanisms to prevent individuals and/or legal entities sanctioned through administrative procedures from re-entering the tobacco market.
- Coordinate with SEDENA to ensure traceability of tobacco products.

SSPC (Secretariat of Security and Citizen Protection)

- Coordinate intelligence networks to determine operational and intellectual responsibility during seizure operations.

SEDENA (Ministry of National Defense)

- Strengthen customs control and prevent the entry of illicit goods.

State Level

State Ministries of Health

- Keep running warning, public-awareness, and prevention campaigns regarding the consumption of illegal tobacco products.

State Security Secretariats

- Coordinate with security agencies at other levels of government to counter violence associated with illegal tobacco trading.

Municipal Level

Municipal Police

- Coordinate with security agencies at other levels of government to counter violence associated with illegal tobacco trading.

5. Conclusions and Recommendations

5.1 Conclusions

1. **Illegal tobacco causes the same amount of harm as legal tobacco and introduces additional public health risks.** Illegal cigarettes contain the same addictive and carcinogenic substances as legal cigarettes, but they are produced without sanitary oversight. Manufacturing without standards or inspections increases smokers' exposure to unidentified toxic compounds with no verification mechanisms or traceability. Consequently, illegal tobacco consumption does not reduce the risks associated with smoking, but aggravates them and fuels uncertainty concerning its actual effects on public health.

2. **Tax losses associated with illegal tobacco are a structural problem.** The illicit tobacco market deprives the Mexican state of billions of pesos annually in IEPS revenue and other taxes. These losses not only reduce the budget available to finance public health programs and smoking prevention, but also enhance the income streams of criminal networks. By operating outside the tax system, illegal tobacco becomes a funding source that sustains broader illicit activities and perpetuates institutional weakness. In an illustrative estimation exercise, assuming that the price of a pack of mixed-brand cigarettes is approximately **\$40.00 MXN**, the tax to be collected pursuant to the Federal Fiscal Code would be **27.5 pesos** per pack of twenty cigarettes. This calculation includes **16% VAT, 160% IEPS**, and a fixed quota of **\$0.35 pesos per cigarette**, and it does not include any profit margin. Considering only the seizures reported in 2025, the tax loss from these packs would amount to **\$6,395,235.00 MXN**.
3. **The illegal tobacco market rests on two complementary business models.** On the one hand, irregular domestic production often based on companies that simulate regulatory compliance and, on the other, international smuggling, which brings in cigarettes across land borders and along maritime routes or triangulated pathways. These modalities are not mutually exclusive: they overlap, share logistical networks, and adapt readily to regional contexts. This flexibility enables the market to remain stable despite efforts at control and repression.
4. **The gray zone between legality and illegality is the space in which the system thrives.** In Mexico, many firms operate with one foot in legality (registered, licensed, and publicly present) and another in illegality through tax evasion, manipulation of records, or the commercialization of unverified products. This institutional ambiguity generates an environment in which the state cannot clearly distinguish compliance from simulation. The blurred boundary between these two worlds helps explain the persistence of the phenomenon and the difficulty of eradicating it.
5. **Weak traceability is the most vulnerable point in regulation.** Fiscal and sanitary codes are applied in a fragmented manner, are not coordinated between SAT and COFEPRIS, and lack public verification mechanisms. This opacity prevents consumers, authorities, or lawful competitors from distinguishing between legitimate and illegal products. Without full traceability, tax and health control becomes inoperative.
6. **The average consumer buys based on price, not legality.** Illegal or mixed cigarettes are often **30% to 50% cheaper** than legal products. This price differential, combined with the formal appearance of packaging, reduces incentives for consumers to seek regulated products. In low-income contexts, affordability outweighs health or legal concerns, thereby expanding the consumer base and normalizing consumption of illegal products.
7. **Small retailers are the most exposed link in the chain.** Corner-store owners and small-scale vendors operate under dual pressure: from criminal networks that compel them to sell certain brands or pay fees, and from authorities that should sanction them for selling illegal products. This vulnerability makes them the system's weakest link without sufficient institutional support or protection.
8. **Violence serves a regulatory function in the market.** Although lethal violence is not the predominant feature, other forms of violence operate as instruments of control to impose prices, punish disobedience, and secure local monopolies. Threats, beatings, and selective killings of retailers or distributors exemplify a form of "functional violence" that stabilizes criminal networks without requiring open conflict.

9. **International illegal tobacco trading exploits legal loopholes and regulatory differences.** Products may leave countries such as China, Ecuador, or Canada legally and come into Mexico through Belize or Guatemala, where they become illicit goods. These triangulations exploit permissive customs regimes, weak international coordination, and large price differentials.
 10. **Seizure policy is reactive and fragmented.** Data show increases in seizures following fiscal reforms or changes in government, but not a sustained strategy over time. Enforcement operations concentrate in certain periods and regions—primarily Mexico City—and lack continuity. This suggests a policy oriented towards symbolic actions rather than structural reduction of the phenomenon.
 11. **The success of the illegal market depends on its low visibility and low political priority.** Unlike other high-impact crimes, the illicit tobacco trade receives limited media attention and scant public debate. Its “low-risk” profile facilitates operation without confrontation or scandal, maintaining stable income flows for criminal groups and an appearance of normality in their daily business.
-

6.2 Recommendations

1. **Enhance tobacco product traceability.** It is essential to create a unified fiscal and sanitary identification system shared by SAT and COFEPRIS. Each pack should bear a unique, visible code that can be publicly verified through a mobile application or a website. This code should link the batch, manufacturer, sanitary licenses, and proof of IEPS payment. This would close the door to duplicated seals, false codes, or reused identifiers.
2. **Consolidate a permanent national program to combat the illicit tobacco trade.** The study underscores the absence of a sustained structure integrating the various government initiatives addressing this phenomenon. Therefore, it recommends a more robust national program to combat illicit trade and smuggling, coordinated by the Ministry of Economy, to align fiscal inspection, security, and customs tasks under a shared plan with verifiable goals and results. This would ensure institutional continuity, prioritize critical zones, and improve accountability.
3. **Create a public registry of administrative sanctions and repeat offenses.** The research shows that the mobility of firms and brands across corporate entities complicates the tracking of sanctions. An inter-institutional registry managed by competent authorities would enable continuity of control actions, reduce repeat offenses, and increase transparency in public administration without imposing new requirements on formal economic agents.
4. **Reform legislation to reduce normative ambiguity.** The LGCT and the IEPS Law should incorporate clear definitions of “mixed brands” and delineate responsibilities for each actor in the supply chain. Additionally, sanctions should be increased for serious repeat offenses, and follow-up mechanisms should be improved once sanctions are applied. A more precise framework would prevent firms from exploiting legal loopholes or institutional fragmentation.
5. **Issue a specific Mexican Official Standard (NOM) for tobacco manufacturing.** This standard should establish mandatory technical and sanitary limits for cigarette ingredients,

permitted additives, and manufacturing processes. It should also include verification protocols and sanctions for noncompliance. The absence of a NOM is one factor preventing effective product oversight.

6. **Establish an official indicator of tax losses derived from illicit trade.** While the study estimates significant tax losses, there is no consolidated official indicator. It is proposed that the Ministry of Finance and SAT develop an annual **Indicator of Uncollected Revenue from Illicit Tobacco Trade** to quantify fiscal impacts and enhance budget planning. This tool would make economic costs visible and guide resources toward the most vulnerable areas.
7. **Strengthen customs and enforcement capacities with a risk-based approach.** Mexican customs should strengthen its operational capacity by creating specific risk profiles for tobacco products and reducing the rotation of specialized personnel. Training and specialized units would increase efficiency and continuity of oversight. Allocating tax revenues to reinforce customs would impact not only the illegal cigarette trade, but also other security-related markets like arms trafficking. It is also a priority to improve global and regional cooperation on information exchange concerning irregular shipments, triangulation routes, and evasion practices. This approach should include training in economic intelligence and market analysis for SAT and ANAM officials to detect financial and logistical patterns in illicit trade without imposing additional regulatory burdens.
8. **Focus enforcement on logistical nodes and internal redistribution zones.** Field findings reveal that a significant portion of illicit sales depends on wholesale markets, urban warehouses, and regional corridors rather than border points alone. It is therefore recommended that competent authorities intensify operations in these areas in coordination with local governments to disrupt internal distribution chains and dismantle networks supplying the illicit nationwide market.
9. **Protect formal businesses from coercion by criminal networks.** The study documents that small retailers in various regions are victims of extortion or are forced to sell illegal products by organized crime. It is recommended to develop confidential reporting mechanisms and administrative support for affected shopkeepers and distributors, as well as coordination protocols between security and inspection authorities that allow them to operate without coercion or risk.
10. **Promote transparency and consumer information.** It is proposed to create a public dashboard containing information on seizures, sanctions, authorized brands, and sanitary alerts, in addition to public-awareness campaigns explaining the risks of the illicit tobacco trade. A national information campaign should clearly communicate the health, economic, and security risks associated with this parallel economy. These actions should foster a culture of legality and responsible consumption while warning of the consequences of illicit tobacco trading for public health and fiscal stability.
11. **Review and simplify administrative procedures.** Complex procedures and lack of accessible information for small producers and distributors encourage informality. It is proposed to simplify registration and licensing procedures, modernize digital portals, and publish clear guidance on response times. This measure should be complemented with training for public officials in economic analysis and enforcement so that simplification strengthens, as opposed to weakening, controls by making them more effective.
12. **Update the national diagnosis of the illicit tobacco trade's scale and its potential public health impacts.** Given that INSP studies constitute the primary statistical reference

on illicit cigarette trading in Mexico, it is recommended to periodically update this measurement to generate comparable data and track the phenomenon over time. This would bolster the state's capacity to design evidence-based policies and evaluate implemented actions. Coordination with academic institutions like El Colegio de México would integrate fiscal, economic, and security perspectives, complement the traditional sanitary approach, and produce a more comprehensive diagnosis. Likewise, physicochemical studies are needed to identify composition differences between legal, illegal, and mixed cigarettes. This broader understanding would help generate a positive thrust towards improved tobacco regulation in Mexico.