

The Economics of Tobacco and Tobacco Control in Latin America

Based on U.S. National Cancer Institute & World Health Organization's The Economics of Tobacco and Tobacco Control, 2016.¹

Introduction

Nearly 80% of the world's smokers live in low- and middle-income countries (LMICs), including 127 million in the Region of the Americas (North, Central and South America).² Annually, tobacco use causes 1 million deaths in the Region of the Americas and that number is expected to increase significantly in the coming years.³

The economic burden of smoking to Latin American health systems in 2015 was US\$ 34 billion, approximately 8% of regional health expenditures.⁴

In Latin America, as in other parts of the world, common knowledge of the impact of tobacco use on health, and the costs of tobacco use borne by tobacco users and non-users, is not widespread. There is even the basic lack of understanding of the addictive and harmful nature of tobacco products. This represents a failure of the market for tobacco and provides a rationale for governments to intervene in the tobacco market.

This Policy Brief addresses the challenges and opportunities for comprehensive tobacco control policies in Latin America, with a special focus on tobacco taxes.

Tobacco Control Programs Work in Latin America and Globally

Comprehensive, well-designed, and well-implemented programs and campaigns can help improve knowledge about tobacco use and prevent tobacco use. These programs and campaigns can make quitting tobacco use, or never starting to use tobacco, the “normal” behavior and “denormalize” any form of tobacco use. Graphic warning labels are especially crucial for communicating tobacco's health risks.

Evidence from Uruguay, Brazil, and Mexico shows that health warning labels have the most impact when they are prominent and include emotionally engaging imagery.¹ Smoke-free policies protect non-smokers from harmful exposure to tobacco smoke, and evidence from Mexico shows that these policies do not have a negative impact on restaurants and other establishments covered by smoke-free policies.¹

In countries where governments have implemented aggressive, comprehensive tobacco control strategies, smoking prevalence has declined rapidly. In Uruguay, for example, adult smoking prevalence rates declined from 39% to 29.7% for males, and from 28% to 19.1% for females, between 2003 and 2011.⁵

Tobacco Control Policies are Highly Cost Effective

Tobacco control policies, such as significant tobacco tax and price increases, marketing bans, graphic warning labels, smoke-free air policies, and population-wide cessation programs, not only work to reduce demand for tobacco, they also save or generate exponentially more than they cost. In 2013–2014, tobacco excise taxes brought in nearly US\$ 269 billion for

governments worldwide while they spent less than US\$ 1 billion on tobacco control.¹

Significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use. For example, in Brazil⁶ and Mexico⁷, increases in taxes and prices led to significant reductions in smoking prevalence and total cigarettes sales (Figures 1 & 2).

Figure 1

Price and Prevalence of Adult Smokers, Brazil, 2006–2013 (adjusted for inflation)



Sources: Ministry of Health, Brazil; EIU and World Bank

Raising Tobacco Tax Rates Generate Extra Tax Revenues

Recent projections show that raising cigarette taxes globally by one international dollar per pack of 20 cigarettes would increase average cigarette prices by 42%, reduce smoking prevalence by 9%, and prevent 15 million smoking-attributable deaths among adults alive in 2014. At the same time, this would increase tax revenues by 190 billion international dollars, a 47% increase in revenues.⁸ (*International dollar is a measure that is used to provide an accurate comparison of cigarette prices between countries, after taking into account differences in the purchasing power of countries at different levels of income and development*).

Likewise, estimates also show that raising tobacco taxes in the Latin America and Caribbean (LAC) region would generate higher tax revenue. A 50% increase in excise taxes would raise cigarette prices by an average of 28% across the region. ***This would reduce cigarette sales by 7% while cigarette tax revenues would increase by 32%, generating more than US\$ 7 billion in revenue.***⁹ At current levels of tobacco taxes in Latin America, there is enough room to increase tobacco excise taxes and generate even more tax revenues.

Illicit Trade in Tobacco Can be Controlled

In many countries, cultural and governmental acceptance of smuggling contributes to the problem of illicit tobacco trade. Effective measures exist for preventing and reducing illicit tobacco trade, but implementing them requires political will. Brazil serves as an example that tax evasion from illegal manufacturing can successfully be reduced through implementation of a combination of policies including a control and monitoring system, licensing of manufacturers, and strict enforcement.¹⁰

Tobacco Use Results in a Disproportionate Burden on the Poor

Tobacco use is concentrated among the most vulnerable groups, especially the poor. In Mexico, for example, the percentage of total expenditures allocated to tobacco is highest among the poorest population, and smoking households in general spend less on food, health, and education, than nonsmoking households.¹¹ Consumption is associated with lower budget shares allocated to healthcare, education and housing expenses, especially for poorer households. On the other hand, not consuming tobacco is related to higher expenditures on health and education.¹²

As higher taxes and prices discourage tobacco use, they also reduce expenditure on some of the most adverse effects of tobacco use, including higher medical expenses. In addition, smoking results in lower life expectancy at birth, added years of disability among smokers, and reductions in the quality of life. A recent study in Chile found that tobacco taxes actually lead to income growth, when factoring in the lower long-term health costs and increased working years that result from reduced consumption.¹³

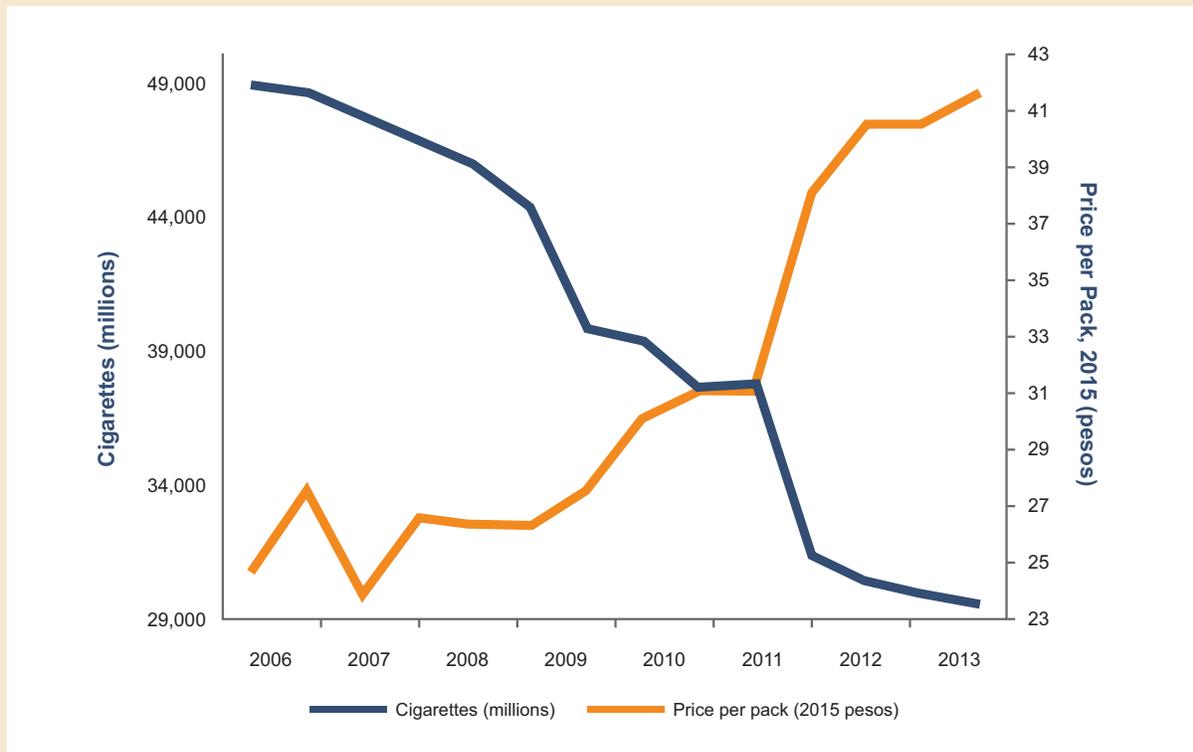
Once the impact on health care spending and incomes is factored in, tax increases can be financially progressive for low-income populations across Latin America and other parts of the world, and even more so if a sizeable portion of the revenue raised by tax increases is reinvested in cessation support for these low-income populations.¹⁴

Tobacco Control Does Not Harm Economies

The tobacco industry often claims that efforts to reduce tobacco use will harm economies, but the evidence shows that is not the case. On the one hand, implementation of smoke-free policies does not result in negative economic consequences for businesses, including

Figure 2

**Price and Cigarette Consumption, Mexico, 2001–2014
(adjusted for inflation)**



Sources: EIU, Euromonitor, and World Bank

hospitality venues such as bars and restaurants. Evidence from Mexico¹⁵ and Argentina¹⁶ finds that smoke-free policies do not affect restaurant income, employee wages, or employment. On the other hand, the number of jobs that depend on tobacco has been falling in most countries, largely because of technological innovations, the shift from state-owned to private ownership of tobacco manufacturing, and globalization, all of which have facilitated efficiencies in tobacco growing and manufacturing. For the few countries particularly dependent on tobacco growing and tobacco leaf exports, job losses due to global tobacco control efforts are likely to be gradual, predictable, and far enough in the future to have little effect on the current generation of

tobacco farmers, and programs could be implemented that help tobacco farmers make the transition to alternative livelihoods.¹

Brazil and Argentina are among the top ten tobacco growers worldwide, with most of the tobacco leaf being exported. Replacing tobacco-growing with another crop or another industry is a challenge for Brazil and other countries, but that challenge should not be discussed in isolation from the current costs and benefits of tobacco. Policies that support economically viable alternatives can help tobacco-related workers transition to alternative livelihoods. Significant increases in tobacco taxes can generate substantial revenue for governments, that can then be used to fund these programs.¹

Conclusion

The global burden of diseases caused by tobacco consumption is extremely high, and that burden falls heavily on low- and middle-income countries and their people. Latin America shows how comprehensive, aggressive, well-designed, and well-implemented tobacco control programs and campaigns can cause rapid declines in smoking prevalence. Experience in Latin America also highlights the fact that tobacco control policies are highly cost effective in reducing demand for tobacco and generating exponentially more revenue than they cost through significant increases in tobacco taxes.

Political will is necessary for raising tobacco tax rates, while preventing and reducing illicit

tobacco trade. The tobacco industry claims that higher tobacco taxes are bad for national economies, unfair to vulnerable groups and result in illicit trade. Economic evidence from Latin America and other parts of the world shows that these claims are untrue, yet they are used to influence policy makers.

In fact, evidence across Latin America shows that increasing tobacco taxes does not harm economies. The evidence also shows that raising taxes and prices of tobacco is not unfair to vulnerable or poor populations because smokers who quit have reduced long-term health care costs, and enjoy longer lives and higher income producing years.

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Tobacconomics is a collaboration of leading researchers who have been studying the economics of tobacco control policy for nearly 30 years. The team is dedicated to helping researchers, advocates and policymakers access the latest and best research about what's working—or not working—to curb tobacco consumption and the impact it has on our economy. As a program of the University of Illinois at Chicago, Tobacconomics is not affiliated with any tobacco manufacturer. Visit

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